



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 27.04.1998  
COM(1998) 252 final

**COMMISSION REPORT TO THE BUDGETARY AUTHORITY  
ON GUARANTEES COVERED BY THE GENERAL BUDGET -  
SITUATION AT 31 DECEMBER 1997**

This report describes the situation as regards budget guarantees at the date of the report.

It is in response to the statement made by the Commission, when the vote was taken on supplementary and amending budget No 1/91, that it would report to the budgetary authority twice a year on budget guarantees and the corresponding risks.

This report is presented in accordance with Article 134 of the Financial Regulation applicable to the general budget of the European Communities.

The Commission has already presented thirteen reports to the budgetary authority.

The report is in two parts with an annex:

- 1) Events since the last report, the risk situation and the activation of budget guarantees.
- 2) Evaluation of potential risks. Economic and financial situation of non-Community countries benefiting from the most important operations.

## CONTENTS

<b>PART ONE: EVENTS SINCE THE REPORT AT 30 JUNE 1997, THE RISK SITUATION AND ACTIVATION OF BUDGET GUARANTEES .....</b>	<b>5</b>
<b>I. INTRODUCTION: TYPES OF OPERATION .....</b>	<b>5</b>
I.A. OPERATIONS WITH MACROECONOMIC OBJECTIVES .....	5
I.B. OPERATIONS WITH MICROECONOMIC OBJECTIVES .....	5
<b>II. EVENTS SINCE THE REPORT AT 30 JUNE 1997 .....</b>	<b>5</b>
II.A. GEORGIA, ARMENIA, TAJIKISTAN .....	5
II.B. UKRAINE .....	6
II.C. LOANS GRANTED BY THE EUROPEAN INVESTMENT BANK FOR INVESTMENT PROJECTS IN THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA .....	6
<b>III. RISK SITUATION .....</b>	<b>6</b>
III.A. AMOUNT OUTSTANDING AT 31 DECEMBER 1997 (TABLE 1) .....	7
III.B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 31 DECEMBER 1997 (SEE TABLE 2) .....	8
III.C. MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (SEE TABLE 3) .....	8
<b>IV. ACTIVATION OF BUDGET GUARANTEES .....</b>	<b>13</b>
IV.A. PAYMENTS FROM CASH RESOURCES .....	13
IV.B. ACTIVATION OF THE GUARANTEE FUND .....	13
IV.C. LATE REPAYMENTS .....	13
IV.D. SITUATION AS REGARDS UNPAID DEBTS AT 31 DECEMBER 1997 .....	14
<b>V. ANALYSIS OF THE COMMUNITY'S THEORETICAL LENDING AND GUARANTEE CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES .....</b>	<b>14</b>
<b>VI. RELATIVE SOLIDITY OF THE GUARANTEE FUND .....</b>	<b>15</b>
<b>PART TWO: EVALUATION OF POTENTIAL RISKS: ECONOMIC AND FINANCIAL SITUATION OF THE NON-MEMBER COUNTRIES BENEFITING FROM THE MOST IMPORTANT LOAN OPERATIONS .....</b>	<b>17</b>
<b>I. INTRODUCTION .....</b>	<b>17</b>
<b>II. CENTRAL AND EAST EUROPEAN COUNTRIES .....</b>	<b>17</b>
<b>III. NEWLY INDEPENDENT STATES .....</b>	<b>22</b>
<b>IV. MEDITERRANEAN COUNTRIES .....</b>	<b>25</b>

ANNEX

<b>I. EXPLANATORY NOTES ON THE SITUATION OF RISKS COVERED BY THE COMMUNITY BUDGET .....</b>	<b>28</b>
I.A. TABLES 1 TO 3 .....	28
I.A.1 <i>Authorised ceiling (Table 1)</i> .....	28
I.A.2 <i>Capital outstanding (Table 1)</i> .....	28
I.A.3 <i>Annual risk (Tables 2 and 3)</i> .....	29
I.B. LOAN OPERATIONS COVERED BY A BUDGET GUARANTEE .....	30
I.C. EXPECTED SIGNATURE AND DISBURSEMENT OF EIB LOANS .....	35
I.D. PAYMENT OF THE BUDGET GUARANTEE .....	35
I.D.1 <i>Borrowing/lending operations</i> .....	35
I.D.2 <i>Guarantees given to third parties</i> .....	36
<b>II. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1997-99 UNDER THE GUARANTEE FUND MECHANISM (TABLE 4) .....</b>	<b>37</b>
II.A. RESERVE FOR LOAN GUARANTEES TO NON-MEMBER COUNTRIES .....	37
II.B. BASES FOR THE CALCULATION OF THE PROVISIONING OF THE GUARANTEE FUND .....	37
II.C. BASIS FOR THE PROVISIONING OF THE FUND IN THE EVENT OF A PART GUARANTEE .....	38
II.D. PROVISIONING OF THE GUARANTEE FUND .....	38
II.E. MARGIN REMAINING IN THE GUARANTEE RESERVE .....	39
II.F. RESIDUAL LENDING CAPACITY .....	39
<b>III. TABLES: COUNTRY-RISK INDICATORS .....</b>	<b>40</b>

## **PART ONE: EVENTS SINCE THE REPORT AT 30 JUNE 1997, THE RISK SITUATION AND ACTIVATION OF BUDGET GUARANTEES**

### **I. INTRODUCTION: TYPES OF OPERATION**

The risks covered by the Community budget derive from a variety of lending and guarantee operations which can be divided into two categories: loans with macroeconomic objectives and loans with microeconomic objectives.

#### **I.A Operations with macroeconomic objectives**

The first of these are the balance of payments loans for Member States or non-member countries, normally carrying strict economic conditions and undertakings.

This category includes the loan of ECU 1 250 million to finance imports of agricultural products and foodstuffs into the former Soviet Union, since the risk involved in this operation depends to a large extent on macroeconomic and political developments in the recipient countries.

#### **I.B Operations with microeconomic objectives**

These are loans to finance projects which are usually repaid over the long term from funds which these projects are expected to generate; as a rule, they are granted to companies, financial institutions or non-member countries and, in addition to the Community guarantee, are covered by the usual guarantees demanded by banks.

This covers Euratom and NCI loans in Member States and the Euratom and EIB loans outside the Community (Mediterranean, Central and Eastern Europe, certain non-member countries - developing countries of Asia and Latin America and South Africa).

### **II. EVENTS SINCE THE REPORT AT 30 JUNE 1997**

The main events in the second half of 1997 were as follows:

#### **II.A Georgia, Armenia, Tajikistan**

Georgia, Armenia and Tajikistan were severely hit by the economic collapse resulting from the breaking up of the command economy and the disintegration of the Soviet Union.

Owing to the exceptionally harsh conditions presently faced by Armenia, Georgia and Tajikistan, the Commission considered that exceptional assistance was required to support the implementation of the stabilisation and structural reform programmes agreed with the IMF.

On 3 February 1997 the Commission therefore presented a proposal for a Council Decision providing exceptional financial assistance of ECU 170 million in the form of a

loan with a maximum maturity of fifteen years and of ECU 50 million in the form of grants to Armenia, Georgia and, if appropriate, Tajikistan.

On 17 November 1997 the Council decided to grant exceptional financial assistance of ECU 170 million in the form of long-term loans and of ECU 95 million in the form of grants to Armenia and Georgia.

## **II.B Ukraine**

As part of an overall aid programme for Ukraine, on 12 November 1997 the Commission presented a proposal for a Council Decision providing additional macro-financial assistance of ECU 150 million to Ukraine in the form of a loan with a maximum maturity of ten years. The Council had not adopted any formal decision at the time this report was drawn up.

## **II.C Loans granted by the European Investment Bank for investment projects in the former Yugoslav Republic of Macedonia**

On 13 January 1998 the Commission presented a proposal for a Council Decision granting a Community guarantee in respect of loans for investment projects in the former Yugoslav Republic of Macedonia. This guarantee is limited to a maximum of ECU 150 million in the period up to 31 December 2000. The Council had not adopted any formal decision at the time this report was drawn up.

## **III. RISK SITUATION**

There are two possible methods for evaluating the risks borne by the Community budget:

- the method, often used by bankers, of the total amount of capital outstanding for the operations concerned on a given date;
- the more budgetary approach of calculating the maximum amount which the Community could have to pay out in each financial year.

The second approach itself has been applied in two different ways:

- by reference only to actual disbursements at 31 December 1997, giving the minimum level of risk to the Community assuming that there are no early repayments (see Table 2 below);
- on a more forward-looking basis, by reference to all the operations decided by the Council or proposed by the Commission in order to estimate the impact on future budgets, giving the maximum risk borne by the Community assuming that the Commission's proposals are accepted (see Table 3 below).

The latter exercise gives some idea about the future level of risks connected with the proposals made. However, a number of assumptions have to be made about dates of

disbursement and terms of repayment (details are given in the annex) as well as interest<sup>1</sup> and exchange rates.<sup>2</sup>

The results are shown in Tables 1 to 3 which assess the risk relating to countries inside the Community and countries outside the Community.

The overall figures quoted cover risks of different types; loans to one country in the case of macrofinancial assistance and loans for projects guaranteed by the borrowers in the case of NCI and EIB operations, for example.

The following analysis distinguishes between total risk, the risk in respect of Member States and the risk in respect of non-member countries.

### III.A Amount outstanding at 31 December 1997 (Table 1)

The total risk at 31 December 1997 came to ECU 12 171 million as against ECU 11 941 million at 30 June 1997, an increase of 2%.<sup>3</sup>

The following table shows the operations which have had an effect on the amount outstanding since the last report.

<b>Amount outstanding at 30 June 1997</b>	11 941.00
<b>Loan repayments</b>	
Euratom	- 1.30
NCI	- 110.70
Financial assistance	- 825.00
Former Soviet Union	- 115.33
EIB	- 150.00
<b>Exchange rate differences between ecu and other currencies</b>	+ 6.33
<b>Loans disbursed</b>	
Financial assistance	+195.00
EIB	+ 1 231.00
<b>Amount outstanding at 31 December 1997</b>	12 171.00

<sup>1</sup> An average interest rate of 10% is assumed for EIB loans. The average interest rate assumed for borrowing and lending operations is 4.4%.

<sup>2</sup> The exchange rate used for loans in currencies other than the ecu are those of 31 December 1997.

<sup>3</sup> In the case of loans in currencies other than the ecu, part of the change over the past six months is due to exchange rate differences.

The capital outstanding in respect of operations in the Member States was ECU 4 497 million at 31 December 1997, a fall of 3.2% compared with 30 June 1997.

This fall is mainly due to the repayment of ECU 112 million in Euratom and NCI loans

The amount outstanding from other operations in the Member States has remained stable.

The capital outstanding from non-member countries at 31 December 1997 was ECU 7 674 million, an increase of 5.2% compared with 30 June 1997.

### **III.B Maximum annual risk borne by the Community budget: operations disbursed at 31 December 1997 (see Table 2)**

The total annual risk, which comes to ECU 3 289 million in 1998, will increase to around ECU 3 682 million in 2000, although the situation in 1999 is special in that there will be no capital repayments for the balance-of-payments loans to the Member States and in that capital repayments on loans to Hungary, the Czech and Slovak Republics and the ECU 290 million loan to Bulgaria end in 1998.

- The risk for 1998 in respect of the Member States comes to ECU 1 967 million. This figure changes in line with the capital repayments on balance-of-payment loans to Greece and Italy. The risk will reach ECU 2 734 million in 2000 when Italy's last repayment is due.
- The risk for 1998 in respect of non-member countries comes to ECU 1 323 million as the following capital payments fall due:
  - ECU 100 million from Hungary;
  - ECU 123 million from the Czech Republic;
  - ECU 62 million from the Slovak Republic;
  - ECU 150 million from Bulgaria;
  - ECU 185 million from Romania;
  - ECU 288 million from EIB loans.

From 1999 the amount of capital repayments on borrowing and lending operations will fall. The risk in respect of non-member countries will then average ECU 880 million over the period 1999-2005.

### **III.C Maximum theoretical annual risk borne by the Community budget (see Table 3)**

This risk comes to ECU 3 400 million in 1998 and will increase to ECU 4 266 million in 2000, before stabilising at an average of ECU 2 550 million between 2001 and 2005. The risk in 1999 will total ECU 1 544 million.



- The trend in the maximum risk in respect of the Member States is much the same as in Table 2 up to 2000 when the risk will amount to ECU 2 734 million.
- The risk in respect of non-member countries will rise from ECU 1 433 million in 1998 to ECU 1 263 million in 1999. The risk will increase by an average of 20% a year from 2000 until 2005.

**TABLE 1**

**CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED**  
(ECU million)

Operation	Authorised ceiling	Capital outstanding 30.06.97	Capital outstanding 31.12.97	Remainder to be disbursed 31.12.97
<b>MEMBER STATES</b>				
A. Balance of payments	14000			
1. Greece		500	500	0
2. Italy		3455	3448	0
<b>B. Others</b>				
3. Euratom	4000	120	118	0
4. NIC and NCI earthquake	6830	327	219	0
5. EIB Mediterranean				
Spain, Greece, Portugal	1500	246	212	0
<b>MEMBER STATES - TOTAL</b>	<b>26330</b>	<b>4648</b>	<b>4497</b>	<b>0</b>
<b>THIRD COUNTRIES</b>				
<b>A. Financial assistance</b>				
1. Hungary	180	180	100	0
2. Czech Republic	250	250	123	0
3. Slovak Republic	125	125	62	0
4. Bulgaria	650	400	260	250
5. Romania	580	510	580	0
6. Algeria	600	500	250	100
7. Israel (*)	160	160	0	0
8. FYROM	40	0	25	15
9. Baltic States	220	135	130	85
10. Moldova	60	60	60	0
11. Ukraine	285	185	285	0
12. Belarus	55	30	30	25
13. Georgia, Armenia	170	0	0	170
14. Former Soviet Union (**)	1250	331	218	0
<b>B. Other</b>				
15. EIB Mediterranean	8672	2541	3150	2513
16. EIB Central and Eastern Europe	8220	1631	1919	4052
17. EIB Asia, Latin America	1925	301	385	653
18. EIB South Africa	675	56	100	199
<b>THIRD COUNTRIES - TOTAL</b>	<b>24117</b>	<b>7294</b>	<b>7674</b>	<b>8062</b>
<b>GRAND TOTAL</b>	<b>50447</b>	<b>11941</b>	<b>12171</b>	<b>8062</b>

(\*) Loan repaid in full at 31.12.1997.

(\*\*) The ECU 216 million outstanding corresponds to the principal due but not paid at 31.12.1997

**ANNEX TO TABLE 1**

**SITUATION IN RESPECT OF EIB OPERATIONS (31.12.97)**

Operations	Credit line authorised	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 31.12.97
Mediterranean Member States	1500	1465	1590	212
Third countries, old mandates				
Mediterranean Protocols	6362	5736	4251	3036
Central and Eastern Europe I	1700	1628	1255	1128
Central and Eastern Europe II	3000	3000	762	761
Asia, Latin America I	750	657	324	307
Asia, Latin America II	275	153	78	78
South Africa	300	300	100	100
<b>Third countries, new mandates(*)</b>				
Mediterranean	2310	934	114	114
Central and Eastern Europe	3520	1466	30	30
Asia, Latin America	900	215	0	0
South Africa	375	0	0	0
<b>Total</b>	<b>20992</b>	<b>15553</b>	<b>8503</b>	<b>5765</b>

(\*) Council Decision of 14 April 1997

NB: As the loans are disbursed in national currencies, the loan ceiling may be exceeded when the amounts disbursed up to the date of the report are converted into ecus.

**TABLE 2**  
**MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET**  
 (Estimate in ECU million based on all operations disbursed at 31.12.97)

	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
<b>MEMBER STATES</b>									
<b>CAPITAL</b>									
A. Balance of payments									
1. Greece	500								500
2. Italy	981		2467						3448
B. Structural loans									
3. Euratom	91	15	12						118
4. NCI and NCI EQ	50	40	40	71			17		219
5. EIB Med. Old. Prot. Sp. Gr. Port	45	40	38	21	23	22	15	8	211
Capital - subtotal	1667	96	2557	92	23	22	32	8	4496
<b>INTEREST</b>									
A. Balance of payments									
1. Greece	48								48
2. Italy	209	155	155						519
B. Structural loans									
3. Euratom	10	3	1						13
4. NCI and NCI EQ	16	13	10	7	2	2	2		51
5. EIB Med. Old. Prot. - Sp. Gr. Port	18	14	11	7	6	3	2	1	62
Interest - subtotal	300	184	177	15	7	5	4	1	693
<b>MEMBER STATES - TOTAL</b>	<b>1967</b>	<b>280</b>	<b>2734</b>	<b>107</b>	<b>30</b>	<b>27</b>	<b>36</b>	<b>8</b>	<b>5189</b>
<b>NON-MEMBER COUNTRIES</b>									
<b>CAPITAL</b>									
A. Financial assistance									
6. Hungary	100								100
7. Czech Republic	123								123
8. Slovak Republic	62								62
9. Bulgaria	150			70		40			260
10. Romania	185	190	80		55		70		580
11. Algeria				150	100				250
12. FYROM									0
13. Baltic States	5	5	95		25				130
14. Moldova			5	9	12	12	12	7	57
15. Ukraine				17	37	57	57	57	225
16. Belarus				6	6	6	6	6	30
B. Guarantees									
17. EIB Mediterranean	174	200	215	233	243	250	236	226	1777
18. EIB C+E Eur.	92	134	172	183	182	175	172	164	1274
19. EIB Asia Latin America	22	27	34	40	43	50	22	23	260
20. EIB South Africa				34	19				53
Capital - subtotal	912	556	601	742	721	590	575	483	5180
<b>INTEREST</b>									
A. Financial assistance									
6. Hungary	2								2
7. Czech Republic	3								3
8. Slovak Republic	1								1
9. Bulgaria	8	5	5	5	2	2			27
10. Romania	22	14	8	6	6	3	3		62
11. Algeria	16	16	16	16	5				67
12. FYROM	1	1	1	1	1	1	1	1	9
13. Baltic States	7	7	6	1	1				21
14. Moldova	3	3	3	3	2	2	1	1	18
15. Ukraine	13	13	13	13	12	11	8	5	88
16. Belarus	2	2	2	2	1	1	1	1	13
B. Guarantees									
17. EIB Mediterranean	185	178	164	149	135	119	104	90	1124
18. EIB C+E Eur.	115	109	101	90	79	68	57	47	666
19. EIB Asia Latin America	18	15	15	14	12	11	10	9	104
20. EIB South Africa	15	15	15	15	9	7	7	7	88
Interest - subtotal	410	378	347	315	265	225	192	160	2292
<b>NON-MEMBER COUNTRIES - TOTAL</b>	<b>1323</b>	<b>933</b>	<b>948</b>	<b>1056</b>	<b>986</b>	<b>815</b>	<b>767</b>	<b>643</b>	<b>7472</b>
<b>GRAND TOTAL</b>	<b>3289</b>	<b>1213</b>	<b>3682</b>	<b>1163</b>	<b>1016</b>	<b>842</b>	<b>803</b>	<b>652</b>	<b>12661</b>
(Eastern Europe )	892	482	490	405	419	377	388	288	3741
(Other non-member countries)	430	451	459	651	566	438	380	356	3731

**TABLE 3**  
**MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET**  
 (Estimation in ECU million based on all operations disbursed, adopted and proposed by the Commission)

	1998	1999	2000	2001	2002	2003	2004	2005	TOTAL
<b>MEMBER STATES</b>									
<b>CAPITAL</b>									
A. Balance of payments									
1. Greece	500								500
2. Italy	981		2467						3448
B. Structural loans									
3. Euratom and NCI	141	55	52	71			17		337
4. EIB Spain, Greece, Portugal	45	40	38	21	23	22	15	8	211
Capital - subtotal	1667	96	2557	92	23	22	32	8	4496
<b>INTEREST</b>									
A. Balance of payments									
1. Greece	48								48
2. Italy	209	155	155						519
B. Structural loans									
3. Euratom and NCI	26	15	11	7	2	2	2		65
4. EIB Spain, Greece, Portugal	18	14	11	7	6	3	2	1	62
Interest - subtotal	300	184	177	15	7	5	4	1	693
<b>MEMBER STATES - TOTAL</b>	<b>1967</b>	<b>280</b>	<b>2734</b>	<b>107</b>	<b>30</b>	<b>27</b>	<b>36</b>	<b>8</b>	<b>5189</b>
<b>THIRD COUNTRIES</b>									
<b>CAPITAL</b>									
A. Financial assistance									
5. Hungary	100								100
6. Czech Republic	123								123
7. Slovak Republic	62								62
8. Bulgaria	150			70				31	251
9. Roumania	185	190	80		55		70		580
10. Algeria				150	100			100	350
11. FYROM									0
12. Baltic States	5	5	95		25			17	147
13. Moldova			5		9	12	12	7	57
14. Ukraine				17	37	37	72	87	250
15. Belarus				6	6	6	11	11	40
16. Georgia									0
17. Armenia									0
18. Euratom C+E Europe						1	5	14	20
B. Guarantees									
19. EIB Mediterranean	174	200	215	283	352	436	509	537	2706
20. EIB C+E Europe	92	134	172	267	360	470	596	631	2722
21. EIB Asia, Latin America	22	27	34	53	74	107	110	127	554
22. EIB South Africa				40	31	23	35	42	171
Capital - subtotal	913	556	601	895	1052	1092	1420	1604	8133
<b>INTEREST</b>									
A. Financial assistance									
5. Hungary	2								2
6. Czech Republic	3								3
7. Slovak Republic	1								1
8. Bulgaria	13	15	15	15	12	12	12	11	105
9. Romania	22	14	8	6	6	3	3		62
10. Algeria	21	21	21	21	14	9	9	4	120
11. FYROM	2	2	2	2	2	2	2	2	16
12. Baltic States	11	11	10	5	5	5	5	5	57
13. Moldova	3	3	3	3	2	2	1	1	18
14. Ukraine	16	19	19	19	18	17	14	11	133
15. Belarus	3	3	3	3	2	2	2	2	20
16. Georgia	5	5	5	5	5	5	5	5	39
17. Armenia	3	3	3	3	3	3	3	3	21
18. Euratom C+E Europe	1	5	14	30	49	69	86	98	352
B. Guarantees									
19. EIB Mediterranean	205	272	341	419	469	476	457	362	3001
20. EIB C+E Europe	166	267	385	513	587	593	569	519	3599
21. EIB Asia, Latin America	26	43	68	99	123	135	136	128	758
22. EIB South Africa	18	25	35	44	47	48	47	42	306
Interest - subtotal	520	707	931	1186	1343	1380	1350	1192	8613
<b>THIRD COUNTRIES - TOTAL</b>	<b>1433</b>	<b>1263</b>	<b>1532</b>	<b>2081</b>	<b>2395</b>	<b>2472</b>	<b>2771</b>	<b>2796</b>	<b>16746</b>
<b>GRAND TOTAL</b>	<b>3400</b>	<b>1544</b>	<b>4266</b>	<b>2188</b>	<b>2426</b>	<b>2500</b>	<b>2807</b>	<b>2805</b>	<b>21935</b>
(Eastern Europe) (other non-member countries)	965 468	673 590	816 716	970 1111	1183 1212	1236 1236	1466 1305	1452 1344	8764 7982

#### IV. ACTIVATION OF BUDGET GUARANTEES

##### IV.A Payments from cash resources

The Commission draws on its cash resources under Article 12 of Council Regulation No 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources to avoid delays and resulting costs in servicing its borrowing operations when a debtor is late in paying.

##### IV.B Activation of the Guarantee Fund

In the event of late payment by a recipient of a loan granted or guaranteed by the Community, the Guarantee Fund is called on to cover the default within three months of the date on which is payment is due.

Penalty interest for the time between the date on which cash resources are made available and the date of activation of the Fund is drawn from the Fund and repaid to the cash resources.

In the last six months the Fund has been called on to honour guarantees for the following debtor:

Non-member country	Date	Amount (principal + interest)
Former Yugoslavia	16.10.97	6 134 806.85

##### IV.C Late repayments

During the period covered by this report, the following non-member countries repaid debts on which they had defaulted and for which the Guarantee Fund had already been activated. The amounts recovered are repaid to the Fund under Article 2 of Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external action.

The former Yugoslav Republic of Macedonia (FYROM) has repaid all its arrears of ECU 19.7 million.

Non-member country	Repayment date	Amount (principal + interest + default interest)
Armenia	28.11.97	8 000 000.00
FYROM	3.11.97	16 509 236.82
FYROM	23.12.97	3 195 400.83
Total		27 704 637.65

#### IV.D Situation as regards unpaid debts at 31 December 1997

The following amounts had not been paid at 31 December 1997:

Non-member country	Amount (principal + interest + default interest)
Tajikistan	72 130 543.72
Georgia	127 912 418.30
Armenia	48 510 587.09
Former Yugoslavia	67 207 757.63
Total	315 761 306.74

#### V. ANALYSIS OF THE COMMUNITY'S THEORETICAL LENDING AND GUARANTEE CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES

In practice, the Guarantee Fund and reserve facility limits the Community's lending and guarantee capacity to non-member countries since the appropriations available for provisioning the Fund whenever a new lending decision is adopted (or any annual tranche in the case of guarantees for multiannual operations) are limited by the amount entered for the guarantee reserve in the financial perspective.<sup>4</sup>

At any given time, lending capacity corresponds to the margin remaining in the guarantee reserve. This margin is equal to the difference between the reserve and the estimated amount needed to provision the Guarantee Fund for operations which have already been adopted and which are in preparation.

Table 4 contains an estimate of the Community's lending capacity in respect of non-member countries over the period 1997-99 compatible with the Guarantee Fund mechanism. The method of calculation and references to legal texts are set out in greater detail in the Annex.

On the basis of the decisions adopted by the Council and decisions proposed and in preparation (see Table 4), ECU 259 million is expected to be used from the guarantee reserve in 1998, leaving ECU 79 million available at the end of the year.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled ECU 7 961 million at 31 December 1997.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the Regulation establishing the Fund was 10.83%. Since this is higher than the target amount of 10%, the surplus had to be "paid back to a special heading in the

---

<sup>4</sup> ECU 300 million at 1992 prices.

statement of revenue in the general budget of the Communities", as provided for in the Regulation. The surplus came to ECU 66 million at the end of the 1997 financial year.

The Guarantee Fund could amount to around ECU 1 100 million at the end of 1998 assuming:

- a transfer of ECU 259 million from the reserve in 1998;
- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries;
- revenue of around ECU 40 million on investments from the Fund's assets.

If account is taken of the effect on the guarantee reserve of the provisioning of the Fund in respect of loans already decided and loans proposed and in preparation for the period 1998-99, the annual capacity available for loans varies:

- from ECU 516 million to ECU 568 million for loans with a 100% guarantee under the Community budget;
- from ECU 688 million to ECU 757 million for loans with a 70% guarantee (in accordance with the contract of guarantee signed between the Community and the EIB on 25 and 29 July 1997).

## **VI. RELATIVE SOLIDITY OF THE GUARANTEE FUND**

The ratio between the amount in the Fund at 31 December 1997 (ECU 862 million) and the maximum annual risk for loans to non-member countries (defined as the total amount falling due) shown for 1998 in Table 3 (ECU 1 433 million) comes to 60%.

**TABLE 4**

**THE COMMUNITY'S THEORETICAL ESTIMATED LENDING & GUARANTEE CAPACITY  
IN RESPECT OF NON-MEMBER COUNTRIES  
OVER THE PERIOD 1997-1999  
under the Guarantee Fund mechanism(\*)**

ECU million	Outturn	Forecast	Forecast
	31.12.1997	1998	1999
<b>Reserve for loan guarantees to non-member countries</b>	329	338	346
<b>Bases for the calculation of the provisioning of the Guarantee Fund</b>			
- EIB loans			
- Mediterranean (a)	553	931,6	693,25
- Countries of Central and Eastern Europe (b)	850,5	665,7	710,5
- Asia, Latin America (c)	60	190,55	322
- South Africa (d)	125	17,5	105
- EIB loans - Total	1588,5	1805,35	1830,75
- Euratom loans	0	0	0
- Macrofinancial assistance	305	50	125
<b>Provisioning of the Guarantee Fund</b>	<b>286</b>	<b>259</b>	<b>274</b>
<b>Margin remaining in the guarantee reserve</b>	<b>43</b>	<b>79</b>	<b>72</b>
<b>Residual lending capacity (balance of payments loans, EIB loans and Euratom loans)</b>			
- Maximum if used in full for 100% guarantee (e.g. BP loans)	286	568	516
- Maximum if used in full for EIB loans (70% guarantee)	409	811	737

(\*) The provisioning rate for 1998 and 1999 is 14%, the Fund having reached its target amount at the end of 1997. (see Council recommendations of 2 December 1996 and 27 January 1997).

**Description of the loans for which the Fund will be provisioned in the period 1997-1999:**

**- EIB**

**a. Mediterranean:**

- loans decided: 1994-96: ECU 115 million under the Fourth Financial Protocol with Syria (overall 75% guarantee); 31.1.1997-31.1.2000: ECU 2 310 million for the renewal of the EIB mandate, covered by overall 70% guarantee
- loans proposed or in preparation: 1998-2002: ECU 750 million for financial cooperation with Turkey, 1998-2001: ECU 230 million for financial cooperation with Croatia, 1998-2000: ECU 150 million for financial cooperation with the Former Yugoslav Republic of Macedonia (FYROM).

**b. Central and Eastern Europe:**

- loans decided: 31.1.1997-31.1.2000: ECU 3 520 million for the renewal of the EIB mandate, covered by overall 70% guarantee.

**c. Asia and Latin America:**

- loans decided: 1993-1996: ECU 750 million. Loans of ECU 54.6 million cancelled. 1996: ECU 275 million (100% guarantee). ECU 122 million still to be signed when the decision of 14.4.1997 was adopted is now covered by the overall 70% guarantee. 31.1.1997-31.1.2000: ECU 900 million for renewal of the EIB mandate, covered by overall 70% guarantee.

**d. South Africa:**

- loans decided: 1.7.1997-1.7.2000: ECU 375 million for the renewal of the EIB mandate, covered by overall 70% guarantee.

**- Euratom**

No loans proposed.

**- Macrofinancial assistance**

- loans decided: 1997: loans of ECU 25 million to Belarus released and carried forward to 1999; loans of ECU 130 million to Slovakia cancelled.
- 1998: loans of ECU 100 million to Algeria released in 1998 and carried forward to 1999;
- loans proposed or in preparation: 1998: ECU 150 million in loans to Ukraine.



**PART TWO**  
**EVALUATION OF POTENTIAL RISKS: ECONOMIC AND FINANCIAL**  
**SITUATION OF THE NON-MEMBER COUNTRIES BENEFITING FROM**  
**THE MOST IMPORTANT LOAN OPERATIONS**

**I. INTRODUCTION**

The figures given in the previous parts provide information on the quantitative aspects of the risks borne by the general budget. However, these data should be weighted in accordance with aspects relating to the quality of the risk, which depend on the type of operation and the standing of the borrower. Recent events which may influence the portfolio country risk are analysed below.

The country risk evaluation presented in this chapter provides a set of country risk indicators for all countries that have been recipients of macro-financial assistance in Central and Eastern Europe, the NIS and the Mediterranean area, in the form of a full-page table per country. To complement this, textual analysis is provided for those countries where significant new information influencing the risk evaluation has become available since the previous report covering the first six months of 1997. Brief textual analysis is also provided for the countries which have still to repay loans outstanding in the context of the ECU 1250 million commercial credits made available to the then Soviet Union in 1991.

The evaluation in this section does *not* deal with other regions than those mentioned, mainly because Community exposure elsewhere (notably through guarantees of EIB lending) represents only a small fraction of total exposure (less than 3 %) and is also well diversified among countries. Israel will no longer be included in the next report, as the country repaid in December 1997 the ECU 160 million loan granted by the Community in 1991.

**II. CENTRAL AND EAST EUROPEAN COUNTRIES**

**BULGARIA**

Bulgaria's prospects continue to improve. The stand-by arrangement reached in Spring 1997 with the International Monetary Fund remains on track. Foreign reserves are more than adequate to cover the central bank's liabilities under the currency board arrangement introduced on 1 July.

The 1997 budget deficit was around 4% of GDP, some 2 percentage points smaller than the target agreed with the IMF. This is in part due to lower than expected interest rates, which reflect both successes in macroeconomic stabilisation and depressed demand for credit.

Structural reform has speeded up. Prices of all but a handful of basic foodstuffs have been liberalised. Widespread privatisation of large enterprises is under way, and the

pace should accelerate in 1998. One bank has been privatised, and others may be sold soon. Foreign direct investment inflows in the first half of 1997 were substantially greater than in the full years 1995 and 1996 combined.

Notwithstanding the progress which Bulgaria has made, its external finances are likely to remain somewhat fragile for some years to come: service on foreign debt continues to be substantial, at close to US\$1 billion per year. Important to note in this context is the ECU 140 million repayment made in December 1997 by Bulgaria to the Community, out of the ECU 400 million disbursed so far, in the framework of the Community macro-financial assistance to this country, as well as the July 1997 Council Decision to provide to Bulgaria new macro-financial assistance for a maximum amount of up to ECU 250 million. A sustained reform effort will ensure continued support from the IMF and other international institutions, and attract larger flows of foreign direct investment.

### CZECH REPUBLIC

Since the last report, the situation in the Czech Republic has remained unsettled. In the second half of 1997, growth slowed further to only 0.8% year-on-year. After poor output data for the first six months of the year, the Czech Republic suffered severe flooding over the summer, which dented hopes of a recovery of output in the third quarter. However, although many large industrial firms were forced to stop production for a few weeks, output in the third quarter, though not buoyant, was higher than for the same period of 1996. This slight improvement in the trend of industrial output continued into the final quarter, when some signs of a recovery appeared, led by manufacturing. Data on the construction sector, on the other hand, are not so encouraging: the sector is suffering badly from government investment expenditure cuts made in fiscal austerity packages earlier in the year.

On the external side, the continued poor growth combined with the devaluation of the currency in May, resulted in a marked improvement in the evolution of the trade balance in the second half of the year. Despite the improvement of the trade balance and the current account, the currency remained unsteady. The main source of continuing currency turbulence has been the political instability, which culminated with the resignation of the Czech government at the end of November. The political uncertainty is due to continue until the country has fresh elections which are likely to be in mid-1998 at the earliest.

In December 1997, the Czech Republic repaid some ECU 127 million to the Community, out of the ECU 250 million granted by the Community in the context of its macro-financial assistance to this country.

### ESTONIA

Despite recent financial turbulence, Estonia's risk assessment continues to be among the best in the region. The economy is expanding very rapidly (real GDP growth reached 11.7% on a year-on-year basis in the first half of 1997), exports are growing strongly (during the first ten months of 1997, they were 38% higher, in dollar terms, than in the corresponding period of 1996) and the country recorded a budget surplus in 1997.

Foreign debt remains small as a proportion of GDP. In September, the country's good economic performance was acknowledged by two favourable sovereign risk ratings. Moody's gave Estonia a Baa1, investment grade, long-term foreign currency rating, and ICBA gave a BBB, investment grade, long-term foreign currency rating. Moody's rating is the highest rating given to a country of the former Soviet Union and the same as that of the Czech Republic.

The multiplication of overheating signs, in particular the growth of the current account deficit and the very fast pace of expansion of bank lending, led the authorities to take a number of restrictive measures in the last quarter of 1997. Fiscal policy was tightened, notably by depositing abroad a large share of extra fiscal revenues (500 million kroons in 1997) and by increasing the planned surplus for 1998. Also, the capital adequacy ratio was raised from 8% to 10% on 1 October and reserve requirements for banks were tightened. While these measures will slow down growth in 1998, they will address some of Estonia's macroeconomic imbalances.

As a result of the difficult situation on the international financial markets and the authorities' measures to cool down the economy, Estonia experienced serious liquidity difficulties in the last quarter of 1997. This led to a significant increase in interbank interest rates and to massive selling on the stock market, which fell by more than 50% between end-August and end-November. These financial difficulties have dented banks' profit outlook, but have not prevented Estonian banks from continuing to tap the international financial markets. In November 1997, the authorities agreed with the IMF a new memorandum of economic policy but announced that they did not intend to make any purchase under the stand-by arrangement backing the memorandum.

#### **FYROM**

Since its independence in 1991, the former Yugoslav Republic of Macedonia has made substantial progress in economic stabilisation and liberalisation and has undertaken a number of structural measures to reform its economy. These efforts have reduced inflation to low single-digit rates, stabilised the exchange rate (except for a devaluation in July 1997), halted the output decline, and earned the former Yugoslav Republic of Macedonia a reputation for stability and willingness to reform. However, despite a resumption of GDP growth in 1996 of some 1 % and an increase of about 2 % in 1997, the output level is only 60 % of that prevailing in 1991, unemployment is very high, and the FYROM remains one of the poorest countries in Europe.

In 1997, the country continued its transition to a market economy in the framework of an IMF ESAF arrangement approved in April 1997. Following a programme adjustment in July (accompanying the 14% devaluation), the programme was implemented satisfactorily and is now on track. One important element of the programme has been the clearance of the country's arrears vis-à-vis the Community and the EIB, which took place on 10 September. In support of the IMF programme, the Council decided on a Community loan of up to 40 MECU, of which the first tranche (25 MECU) was disbursed on 30 September. The release of the second tranche is expected for early 1998.

The good track record of economic stabilisation and reform and the clearance of the last outstanding external arrears certainly are positive factors in the risk evaluation of the former Yugoslav Republic of Macedonia. In 1995 and 1996, the FYROM reached rescheduling agreements with the Paris and London Clubs respectively, and the last bilateral Paris Club agreements are being finalised. The country's debt increased to 38% of GDP in 1997, while the debt service fell to 8.7% of exports of goods and services, which is not overly high. However, the FYROM continues to have a relatively high risk. This is particularly due to the unstable political situation in the region, as well as to internal political difficulties related to the minority issue. Moreover, important progress in restructuring enterprises and strengthening the banking sector remains to be made.

#### LATVIA

The economic situation in Latvia remains favourable. In 1997, growth accelerated, reaching 4.6% in the first six months of the year. Moreover, inflation continued to fall, interest rates fell substantially throughout the year, and the fiscal position continued to improve – the budget outturn for 1997 showed a surplus. The imbalances on the external side continue to grow, but for the moment there is little threat to the stability of the currency.

#### LITHUANIA

During 1997, the Lithuanian economy continued to perform positively. GDP grew by 2.5% during the first half, driven by investment and consumption. Unemployment and inflation have stopped falling but remain relatively low, respectively at 5.9% and 9% year-on-year in October. Fiscal revenues have been higher than projected, and the budget deficit remained within the targeted 1.9% of GDP.

The trade balance has been deteriorating significantly as buoyant domestic demand has caused imports to grow faster than exports. As a result, the trade deficit for the first nine months of 1997 nearly equalled the deficit for the whole of 1996. Nevertheless, this increasing external imbalance was easily financed. Borrowing rates on the international capital market have continued to improve, and portfolio and foreign direct investment flows have been rising strongly. Official reserves increased during the first half of the year and provide more than two months of import coverage. The foreign debt grew rapidly in the first nine months of the year but remains low as a percentage of GDP. New regulations on external borrowing introduced a ceiling of 20% of GDP on total foreign debt.

The banking sector continues its recovery from the 1995 crisis. The authorities have strengthened regulation and taken a tougher stance against the weakest banks. This caused the bankruptcy of one of the banks to which the proceeds of Community macro-financial assistance were on-lent by the Lithuanian authorities at their own risk. In order to further the restructuring of the financial sector, the government is finalising plans for the privatisation of two of the three state-owned banks.

## ROMANIA

Romania's country risk, while still one of Eastern Europe's highest, continued to improve during the second half of 1997. A year after the Romanian authorities launched their radical and ambitious economic programme, much progress has been achieved in transforming the economy and accelerating the transition towards a functioning market economy. The implementation of the authorities' programme has continued to affect negatively the level of economic activity. GDP fell by about 6% in 1997. The macroeconomic framework continues to be fragile. After a period, during the summer, when inflation and interest rates fell to their lowest levels since the beginning of the year, inflation jumped in October to 6.5% on a monthly basis. Also, there have been delays in restructuring the large public sector enterprises and uncertainty with regard to the legal framework for foreign investment and privatisation.

However, there has been significant progress in key areas. Fiscal policy has been very tight, with the government strictly controlling expenditures. For example, by the end of November, the public sector work-force had shrunk by 10%. The external accounts clearly improved during 1997. Relatively high capital inflows more than offset the current account deficit, allowing the National Bank of Romania to build up its reserves, from \$700 million in February to \$2.6 billion in November, equivalent to more than three months' imports. The current account deficit for 1997 amounted to \$2 billion, a fall of almost 25% over 1996. Foreign investment, and in particular foreign direct investment (FDI), increased sharply in 1997, reflecting growing investor confidence. According to the Romanian Development Agency, FDI in the first nine months of 1997 totalled \$1.3 billion, which is about two thirds of the cumulative amount received between 1989 and 1996.

Romania has passed successfully the first IMF review under the SBA. Already, three tranches of the SBA have been disbursed. Romania is also on track with the World Bank on the various loans approved in June. The EC also disbursed in the second half of 1997 the remaining ECU 70 million, out of the ECU 125 million macro-financial assistance decided by the Council in 1994. Finally, the government reshuffle announced at the beginning of December 1997, and the nomination of reform-minded independent personalities at key economic ministries, is a positive sign of the authorities' strong determination to continue and accelerate economic restructuring.

## SLOVAKIA

Slovakia's country risk remains moderate, but external balances are still registering big deficits and foreign debt is increasing rapidly. Following the sharp deterioration of the current account in 1996, the external situation stabilised somewhat in 1997, but deficits remained high. After eight months, the current account deficit was reduced to about 8½% of GDP, compared to 10% in 1996. Nevertheless, external debt continued to rise rapidly to finance the external deficit.

The fast economic growth registered in 1995 and 1996 barely slowed down in the first half of 1997, which led to an overheating of the economy. Preliminary figures for the first two quarters of 1997 now show that economic activity was expanding by 6%,

compared to slightly below 7% in 1995 and 1996. Inflation has started to edge up after three years of uninterrupted decline.

Because fiscal policy became more expansionary, monetary policy had to be tightened gradually to preserve the attained level of macroeconomic stability. Especially after the attack on the currency in May and June 1997, monetary policy became very restrictive, with high interest rates and very limited liquidity. Without a significant reduction of the government budget deficit, no significant improvement of the current account balance can be expected, while pressures to depreciate the currency might intensify.

In December 1997, Slovakia repaid some ECU 63 million to the Community, out of the ECU 125 million granted by the Community in the context of its macro-financial assistance to this country.

### **III. NEWLY INDEPENDENT STATES**

#### **ARMENIA**

The Armenian economy continued to recover for a fourth consecutive year in 1997, but, it seems, at a slower pace than expected (3 % rise in GDP instead of the 6 % initially targeted). Although the average inflation rate fell further in 1997 to about 14 %, this is significantly above the Government's target of 9.5%. Moreover, partly because of the blockade imposed on the country, the current account deficit (excluding official transfers) widened in 1997 (to around US\$ 450 million or about 28 % of GDP), while the foreign debt increased to around 50 % of GDP at year-end. The level of foreign direct investment is still very low (around US\$ 25 million for 1997).

Important progress has been made in price and trade liberalisation and with privatisation. However, much remains to be done in large enterprise restructuring, and in the banking sector, which is still fragile (high levels of non-performing loans and inadequate capitalisation). In June, the IMF approved the second annual credit (US\$ 47 million) of an ESAF arrangement. In the political sphere, the recent resignation of the Armenian President has cast doubts on the prospects for a peaceful settlement of the Nagorno-Karabakh conflict. Moreover, the expected settlement of Armenia's outstanding debt arrears towards the Community has not yet taken place. For all these reasons, Armenia remains in the category of high-risk debtors.

#### **BELARUS**

The assessment of the economy of Belarus has not changed significantly since the last report. Current economic and political developments are a matter of grave concern. The lack of elementary political and economic freedom represents a major constraint on the development of a market economy.

Censorship and data manipulation prevent a proper evaluation of the real state of the economy. Real GDP is reported to have increased by 2.6% in 1996, and by more than 10% in the first half of 1997. Officially recorded growth of industrial production is particularly buoyant: above 18% in the first half of 1997 with respect to the

corresponding period of the previous year. However, this rise in output is unsustainable. It has been based exclusively on a policy of credit expansion and repayment of gas arrears to Gazprom through barter trade. Macroeconomic stability is in jeopardy. Monetary expansion has had an impact on inflation, which despite far-reaching price controls, was reported at 75% in October 1997 (year-on-year basis).

Implementation of structural reforms has been very slow. Very little has been done to liberalise domestic prices and trade, promote competition through the entry of foreign companies, improve corporate governance, accelerate the privatisation of state enterprises and housing, and begin the privatisation of land. Belarus remains highly dependent on imported energy. Its export structure has remained almost unaltered since the Soviet times. The official external debt, however, remains low, at US\$900 million or 6.9 per cent of GDP.

The overall risk remains high. Its reduction would require a major effort to tackle the fundamental disequilibria on the basis of a comprehensive blueprint encompassing macroeconomic, microeconomic, structural and institutional reforms.

#### **GEORGIA**

The growth of around 12 % achieved in 1997 continued the positive evolution registered in the Georgian economy since 1995. The tight monetary and credit policies resulted in a reduction in the state budget deficit to around 3.5 % of GDP (on a commitment basis) and end-of-period annual inflation rate declined to 8 % in 1997. The low level of budget revenue is, however, unsatisfactory. The level of foreign direct investment is still low (US\$ 70 million expected for 1997).

The implementation of structural reforms in line with IMF and World Bank expectations is encouraging. Very positive developments have occurred in privatisation and in bank restructuring. The energy sector, however, despite improvements, in particular with regard to the adoption of a sound legal and regulatory framework, remains a source of concern because of insufficient collection rates. The government is proceeding with the adoption of a market-oriented legal framework, and is now giving priority to the development of the enforcement capacity of the legal system. In October 1997, the IMF Board formally approved the completion of the second mid-term review under the ESAF. Georgia is expected to clear shortly all its outstanding debt arrears towards the Community. This would allow the normalisation of the country's financial cooperation with the EU. Political difficulties persist: the Abkhazian and South Ossetian problems are still unresolved. As a result, the country risk remains high.

#### **MOLDOVA**

Moldova has made considerable progress towards macroeconomic stabilisation, but achievements in carrying out robust and rigorous macroeconomic policy need to be consolidated. The sustainability of macroeconomic stabilisation cannot be taken for granted, as the financial situation remains fragile. Inflation has been substantially reduced, and trend inflation is now estimated at about 10%. The exchange rate of the leu has shown a remarkable stability since May 1995. However, a widening budget deficit

has put pressure on monetary policy and on the current account; tax collection remains inefficient; and wage, and especially pension, arrears are very large. There is also a lack of substantial progress in the process of agricultural reform, privatisation and restructuring. All this in a context of continuous output decline.

On the whole, data for the second half of 1997 confirm the previous assessment of a deterioration in the country's risk. In particular, increasing reliance on external financing has contributed to a steady increase of the external debt, now well above 50% of GDP. This level is not particularly high. However, the debt has been increasing at a very rapid pace, almost doubling every year since 1993, and about one third is short term. This component could prove highly sensitive to the conditions prevailing in the international financial markets for emerging economies. Minimising its potential volatility will require improvements in Moldova's fundamentals, especially in the fiscal stance and in the balance of payments. Equally important will be to make significant efforts to revive the agricultural sector through privatisation, farm restructuring and the creation of a land market.

#### TAJIKISTAN

Output expanded by 4 % in 1997, after the sharp decline (20.1 %) registered in 1996. Annual average inflation, which, as a result of tight credit and monetary policies, fell dramatically to 40 % in 1996, increased substantially in 1997 (80 % for the first seven months), because of directed credits from the National Bank and a large budget deficit (13 % of GDP in the first half of the year). However, the authorities implemented tighter monetary and fiscal policies for the remainder of 1997. The current account deficit improved slightly to 5 % of GDP in 1997, while the foreign exchange reserves increased to two weeks' imports. The external debt of Tajikistan amounts to 100% of GDP, but major creditors have agreed to reschedule the debt falling due in 1996 and 1997. Despite some minimum servicing of outstanding debts toward the Community, the country maintains important arrears.

The Government attempted to apply direct control on the foreign exchange and foreign trade markets, but, since July, foreign exchange auctions have been restarted and the exchange rate is once again largely market determined. Export taxes have been eliminated, while plans are being developed to adopt a low uniform import tariff and to unify excise taxes. Privatisation in the enterprise and agricultural sectors is proceeding well and reform of the banking system has begun. In December 1997, a post-conflict facility was approved by the IMF Board. Despite recent adverse security developments, the political situation continues to improve. The risk remains very high in absolute terms, but a positive trend has been recorded in recent months.

#### UKRAINE

Although the pace of economic decline is decelerating in Ukraine, with real GDP expected to fall by 3.4% in 1997 compared to a contraction of 10% in 1996, macro-economic stabilisation has slowed down considerably in recent months, as the country is entering a long pre-electoral campaign. Parliamentary elections are scheduled for March 1998 and presidential elections for mid-1999. Spending has rapidly increased, and the



cumulative budget deficit rose to 7.3% of GDP in the first nine months of 1997 compared to an overall 4.6% in 1996. The increased outlays led to the overshooting of the budget deficit targets of the stand-by arrangement with the IMF, but after revision the programme was put back on track in late November. The EC disbursed in the second half of 1997 the remaining ECU 100 million, out of the ECU 200 million macro-financial assistance decided by the Council in 1995. In November, the central bank was forced to raise key interest rates and to intervene heavily in both the foreign exchange and Treasury bill markets after the national currency, the hryvnia, repeatedly fell out of the announced exchange rate band vis-à-vis the dollar. The external balances are deteriorating: the merchandise trade and services deficit rose to US\$ 1.23 billion in the first half of 1997 compared to US\$ 1.1 billion for the whole of 1996. Structural adjustment, and in particular privatisation, has almost stagnated in recent months. The overall risk assessment is unfavourable.

#### IV. MEDITERRANEAN COUNTRIES

##### ALGERIA

While macro-economic stabilisation continued to be strong in 1997, Algeria's country risk remains high owing to the escalation of political violence and the vulnerable medium-term economic prospects. A key prerequisite for a more favourable outlook is the early establishment of a lasting civil peace. Despite the legislative and local elections in June and October 1997, respectively, and the announcement by the outlawed *Front Islamique du Salut (FIS)* of an end to its armed opposition, the security situation has deteriorated further in recent months.

Progress in implementing the stabilisation and structural reform programme supported by the IMF three-year arrangement continued during 1997. All IMF performance criteria for end-June and end-September were met. Owing to the impact of a severe drought on agricultural production, real GDP growth was revised downward to around 2.3% in 1997. While industrial production continued to decline in 1997, the hydrocarbon sector expanded by more than 8%. As a result of a tight monetary policy, the 12-month rate of increase in consumer prices fell from 15% in December 1996 to 3% in October 1997. Inflation was around 6% for the year as a whole. In September 1997, Algeria decided to establish the convertibility of the dinar for current account transactions and accepted the obligations of Article VIII of the IMF's Articles of Agreement. The external current account and fiscal balances registered large surpluses, equivalent to about 6.7% and 2.3% of GDP, respectively. Gross foreign exchange reserves, which already doubled to US\$ 4.2 billion in 1996, increased further in 1997 to reach about US\$ 7.5 billion at end-year, covering about 9 months' imports. Algeria's outstanding external debt declined from 73.2% of GDP in 1996 to below 70% of GDP at end-1997 and Algeria repaid in December 1997 ECU 250 million out of the ECU 500 million disbursed so far by the Community in the context of its macro-financial assistance to this country.

However, despite continued structural reforms in external trade and the financial sector, restructuring of public enterprises, and privatisation, the economy remains poorly

diversified and particularly vulnerable to the vagaries of world energy prices and weather conditions. Although the Algerian authorities have announced that they will not seek a new IMF arrangement when the current programme expires in June 1998, Algeria's balance-of-payments viability will remain vulnerable in view of the lack of diversification of the export base, limited foreign direct investment, and absence of access to international capital markets. If the oil prices remain depressed at their present nominal level in the coming years, Algeria's external financial situation could deteriorate significantly. Algeria needs social cohesion and public support to embark on a new critical stage of its reform process aimed at developing a dynamic private economy. However, growing unemployment (estimated at 28.3 per cent in 1996) and mounting social difficulties, including a housing shortage, have somewhat slowed the reform momentum.

## ANNEX

### ANNEX

<b>I. EXPLANATORY NOTES ON THE SITUATION OF RISKS COVERED BY THE COMMUNITY BUDGET .....</b>	<b>28</b>
<b>I.A TABLES 1 TO 3 .....</b>	<b>28</b>
<i>I.A.1 Authorised ceiling (Table 1).....</i>	<i>28</i>
<i>I.A.2 Capital outstanding ( Table 1) .....</i>	<i>28</i>
<i>I.A.3 Annual risk (Tables 2 and 3).....</i>	<i>29</i>
<b>I.B LOAN OPERATIONS COVERED BY A BUDGET GUARANTEE.....</b>	<b>30</b>
<b>I.C EXPECTED SIGNATURE AND DISBURSEMENT OF EIB LOANS .....</b>	<b>35</b>
<b>I.D PAYMENT OF THE BUDGET GUARANTEE.....</b>	<b>35</b>
<i>I.D.1 Borrowing/lending operations.....</i>	<i>35</i>
<i>I.D.2 Guarantees given to third parties.....</i>	<i>36</i>
<b>II. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1997-99 UNDER THE GUARANTEE FUND MECHANISM (TABLE 4) .....</b>	<b>37</b>
<b>II.A RESERVE FOR LOAN GUARANTEES TO NON-MEMBER COUNTRIES.....</b>	<b>37</b>
<b>II.B BASES FOR THE CALCULATION OF THE PROVISIONING OF THE GUARANTEE FUND .....</b>	<b>37</b>
<b>II.C BASIS FOR THE PROVISIONING OF THE FUND IN THE EVENT OF A PART GUARANTEE.....</b>	<b>38</b>
<b>II.D PROVISIONING OF THE GUARANTEE FUND .....</b>	<b>38</b>
<b>II.E MARGIN REMAINING IN THE GUARANTEE RESERVE.....</b>	<b>39</b>
<b>II.F RESIDUAL LENDING CAPACITY.....</b>	<b>39</b>
<b>III. TABLES: COUNTRY-RISK INDICATORS.....</b>	<b>40</b>

## I. EXPLANATORY NOTES ON THE SITUATION OF RISKS COVERED BY THE COMMUNITY BUDGET

### I.A Tables 1 to 3

The purpose of Tables-1 to 3 is to show the outstanding amount of guarantees and annual repayments of capital and interest in respect of borrowing and lending operations for which the risk is covered by the Community budget. The figures show the maximum possible risk for the Community in respect of these operations and must not be read as meaning that these amounts will actually be drawn from the budget. In the case of Table 3, in particular, it is not certain that all the operations described will actually be disbursed.

#### I.A.1 *Authorised ceiling (Table 1)*

This is the aggregate of the maximum amounts of capital authorised (ceilings) for each operation decided by the Council.

In order to relate it to the risk which the budget might have to cover, account should be taken of the following factors which could affect it:

Factor increasing the risk: the interest on the loans must be added to the authorised ceiling

Factors reducing the risk:

- limitation of the guarantee given to the EIB to 75% of the loans signed in the Mediterranean countries;
- limitation of the guarantee given to the EIB to 70% of the loans signed as part of lending operations with certain non-member countries authorised by the Council Decision of 14 April 1997 and a sharing of risk between the Community and the EIB as the budget guarantee covers only political risks in some cases;
- operations already repaid, since the amounts concerned, except in the case of balance of payments support (Member States), are the maximum amount of loans granted and not outstanding amounts authorised;
- the amounts authorised are not necessarily taken up in full.

#### I.A.2 *Capital outstanding (Table 1)*

This is the amount of capital still to be repaid on a given date in respect of operations disbursed.

Compared with the previous aggregate, the amount outstanding does not include loans which have not yet been disbursed nor the proportion of disbursed loans which have already been repaid. It may be described as the amount of loans which exist on a given date.

*I.A.3 Annual risk (Tables 2 and 3)*

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

- a) disbursements alone (Table 2), in which case the capital to be repaid corresponds to the amount outstanding;
- b) disbursements, decisions still awaiting disbursement and Commission proposals still awaiting decisions (Table 3), in which case the capital to be repaid corresponds to the ceiling on loans authorised plus, where applicable, the amounts in respect of operations proposed by the Commission and not yet decided.

**I.B Loan operations covered by a budget guarantee**

TABLE 5a

## Borrowing and lending operations: Member States

Changes in amounts outstanding during six-month period

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.7.97	Operations in six-month period		Amount outstanding at 31.12.97				
							Amounts disbursed	Amounts repaid					
GREECE	91/136/EEC	04.03.91	6	(c)	2 200,00	500,00			500,00				
				(d)	1 000,00								
				(d)	600,00								
ITALY	93/67/EEC	18.01.93	6	(c)	8 000,00	3 454,50			3 447,80				
				(c)	2 000,00								
				(d)	2 000,00								
				(d)	2 000,00								
EURATOM	77/270-271/Euratom 80/29/Euratom 82/170/Euratom 85/537/Euratom 90/212/Euratom	29.03.77 20.12.79 15.03.82 05.12.85 23.04.90	(3)	(c)	4 000,00	119,60		1,30	118,40				
				(c)	500,00								
				(c)	500,00								
				(b)(4)	1 000,00								
				(d)(4)	1 000,00								
NCI	78/870/EEC 81/19/EEC(1) 81/1013/EEC(2) 82/169/EEC 83/200/EEC 87/182/EEC	16.10.78 20.01.81 14.12.81 15.03.82 19.04.83 09.03.87	(3)	(c)	6 830,00	327,30		110,70	218,60				
				(c)	1 000,00								
				(c)	1 000,00								
				(c)	80,00								
				(c)	1 000,00								
				(c)	3 000,00								
TOTAL				(c)	750,00				21 030,00	4 401,40	0,00	112,00	4 284,80 (5)

(1) Exceptional aid for the reconstruction of areas hit by the earthquake in Italy in 1980.

(2) Exceptional aid for the reconstruction of areas hit by the earthquake in Greece in 1981.

(3) Long-term loans for which the schedule of repayments depend on the dates of disbursement.

(4) By Decision 94/179/Euratom of 21 March 1994 the Council decided to extend Euratom loans to the financing of projects in certain non-member countries.

At 31 December 1996 no loans had yet been granted in non-member countries.

(5) Discrepancy caused by change in the rates of the other currencies against the ecu.

TABLE 5b (1)

## Financial assistance to non-member countries

Changes in amounts outstanding during six-month period, broken down by countries and tranche

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partly disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.07.97	Operations in six-month period		Amount outstanding at 31.12.97
								Amounts disbursed	Amounts repaid	
<b>HUNGARY</b>	91/310/EEC	24.06.91				<b>180,00</b>				
1st tranche			7	18.03.98	(c)	100,00	100,00			100,00
2nd tranche			5	15.12.97	(a)	80,00	80,00	80,00		0,00
<b>CZECH REPUBLIC</b>	91/106/EEC	25.02.91				<b>250,00</b>				
1st tranche			7	18.03.98	(c)	123,30	123,30			123,30
2nd tranche			5	15.12.97	(a)	126,70	126,70	126,70		0,00
<b>SLOVAKIA</b>	91/106/EEC	25.02.91				<b>125,00</b>				
1st tranche			7	18.03.98	(c)	61,70	61,70			61,70
2nd tranche			5	15.12.97	(a)	63,30	63,30	63,30		0,00
<b>BULGARIA I</b>	91/311/EEC	24.06.91				<b>290,00</b>				
1st tranche			7	18.03.98	(c)	150,00	150,00			150,00
2nd tranche			5	15.12.97	(a)	140,00	140,00	140,00		0,00
<b>BULGARIA II</b>	92/511/EEC	19.10.92				<b>110,00</b>				
1st tranche			7	07.12.2001	(c)	70,00	70,00			70,00
2nd tranche			7	29.08.2003	(c)	40,00	40,00			40,00
<b>ROMANIA I</b>	91/384/EEC	22.07.91				<b>375,00</b>				
1st tranche			7	01.02.99	(c)	190,00	190,00			190,00
2nd tranche			6	18.03.98	(c)	185,00	185,00			185,00
<b>ROMANIA II</b>	92/551/EEC	27.11.92				<b>80,00</b>				
1st tranche			7	26.02.2000	(c)	80,00	80,00			80,00
<b>ROMANIA III</b>	94/369/EC	20.06.94				<b>125,00</b>				
1st tranche			7	20.11.2002	(c)	55,00	55,00			55,00
2nd tranche			-	-	(c)	70,00	0,00	70,00		70,00
<b>BALTIC STATES</b>	92/542/EEC	23.11.92				<b>220,00</b>				
<b>ESTONIA</b>						<b>40,00</b>				
1st tranche			7	31.03.2000	(c)	20,00	20,00		5,00	15,00
2nd tranche			-	-	(d)	20,00	0,00			0,00
<b>LATVIA</b>						<b>80,00</b>				
1st tranche			7	31.03.2000	(c)	40,00	40,00			40,00
2nd tranche			-	-	(d)	40,00	0,00			0,00

-38-



TABLE 5b (2)

## Financial assistance to non-member countries

Changes in amounts outstanding during six-month period, broken down by countries and tranche

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partly disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.07.97	Operations in six-month period		Amount outstanding at 31.12.97
								Amounts disbursed	Amounts repaid	
<b>LITHUANIA</b>						100,00				
1st tranche			7	27.07.2000	(c)	50,00	50,00			50,00
2nd tranche			7	16.08.2002	(b)	50,00	25,00			25,00
<b>MOLDOVA I</b>	94/346/EC	13.06.94				45,00				
1st tranche			10	07.12.2004	(c)	25,00	25,00			25,00
2nd tranche			10	08.08.2005	(c)	20,00	20,00			20,00
<b>MOLDOVA II</b>	96/242/EC	25.03.96	10	30.10.2006	(c)	15,00	15,00			15,00
<b>UKRAINE I</b>	94/940/EC	22.12.94	10	28.12.2005	(c)	85,00	85,00			85,00
<b>UKRAINE II</b>	95/442/EC	23.10.95				200,00				
1/2 tranche			10	29.08.2006	(c)		50,00			50,00
1/2 tranche			10	30.10.2006	(c)		50,00			50,00
2nd tranche					(c)		0,00	100,00		100,00
<b>BELARUS</b>	95/132/EC	10.04.95				55,00				
1st tranche			10	28.12.2005	(c)	30,00	30,00			30,00
2nd tranche			-	-	(d)	25,00	0,00			0,00
<b>FYROM</b>	97/471/EC	22.07.97				40,00				
1st tranche			15	27.09.2012	(c)	25,00	0,00	25,00		25,00
2nd tranche			-	-	(d)	15,00	0,00			0,00
<b>ALGERIA I</b>	91/510/EEC	23.09.91				400,00				
1st tranche			5	15.12.97	(a)	250,00	250,00		250,00	0,00
2nd tranche			7	17.08.2001	(c)	150,00	150,00			150,00
<b>ALGERIA II</b>	94/938/EC	22.12.94				200,00				
1st tranche			7	27.11.202	(c)	100,00	100,00			100,00
2nd tranche			-	-	(d)	100,00	0,00			0,00
<b>ISRAEL</b>	91/408/EEC	22.07.91	5	15.12.97	(a)	160,00	160,00		160,00	0,00
<b>REPS.OF FORMER USSR(*)</b>	91/658/EEC	16.12.91	3	28.09.97	-	1 250,00	331,30		115,30	216,00
<b>TOTAL</b>						4 205,00	2 866,30	195,00	940,30	2 121,00

(\*) The ECU 216 million outstanding corresponds to the principal due but not paid at 31.12.1997

- 33 -

**TABLE 6**  
**LOAN GUARANTEES TO EIB**

GEOGRAPHICAL AREA	Decision	Date of decision	Rate of guarantee	Loan term (years)	Date of guarantee contract	Amount decided	Loans signed		Amount outstanding	
							at 1.07.97	during six-month period	at 1.07.97	at 31.12.97
MED. financial protocols(1)		8.03.77	75% (2)	15	30.10.78/10.11.78	6062	5385	15	2321	2469
MED. horizontal coop.	R/1762/92/CEE	29.06.92	75% (2)	15	09.11.92/18.11.92	1800	1800	0	466	779
<b>TOTAL MED.</b>						<b>7862</b>	<b>7185</b> (3)	<b>15</b> (3)	<b>2787</b>	<b>3248</b>
<b>C and E Europe I</b>										
	90/62/CEE(4)	12.02.90	100%	15	24.04.90/14.05.90	1000	928	0	664	691
	91/252/CEE(5)	14.05.91	100%	15	19.01.93/04.02.93	700	700		380	437
<b>C and E Europe II</b>										
	93/696/CE(6)	13.12.93	100%	15	22.07.94/12.08.94	3000	3000		486	761
<b>Asia, Latin America I</b>										
	93/115/CEE	15.02.93	100%	15	04.11.93/17.11.93	750	647	10	250	307
<b>Asia, Latin America II</b>										
	96/723/CE	12.12.96	100%	15	18.03.97/26.03.97	153	50	103	51	78
<b>Asia, Latin America II</b>										
	96/723/CE	12.12.96	70%	15	21.10.97	122	0	52	0	0
<b>South Africa</b>										
	95/207/CE	01.06.95	100%	15	04.10.95/16.10.95	300	176	124	56	100
<b>New mandates</b>										
	97/256/CE(7)	14.04.97	70%	15	25.07.97/29.07.97	7105	75	2488	0	144
<b>TOTAL</b>						<b>20992</b>	<b>12761</b>	<b>2792</b>	<b>4674</b>	<b>5765</b>

(1) Including ECU 1 500 million for Spain, Greece and Portugal.

(2) General guarantee of 75% for all credits made available under lending operations under a guarantee contract signed between the Community and the EIB on 30.10.78 and 10.11.78.

By way of exception, a 100% guarantee applies to the emergency aid granted to Portugal in accordance with the Council Decision of 7 October 1975.

(3) The Community has guaranteed ECU 5 435.9 million, of which ECU 141.5 million is covered by a 100% guarantee for Portugal.

(4) Non-member countries: Poland, Hungary.

(5) Non-member countries: Czech Republic and Slovak Republic, Bulgaria, Romania.

(6) Non-member countries: Poland, Hungary, Czech Republic and Slovak Republic, Bulgaria, Romania, Baltic States and Albania.

(7) Non-member countries: Central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa.

## I.C Expected signature and disbursement of EIB loans

The EIB has supplied the figures used for calculation of the assumptions made for drawing up Table 3 (EIB loans to non-member countries from its own resources).

### Expected signatures

At 31 December 1997 a total of ECU 4 838 million was still to be signed:

Mediterranean: former mandates (protocols with Syria)	ECU 225 million
Mediterranean countries:	ECU 1 376 million
Central and Eastern Europe:	ECU 2 054 million
Asia and Latin America: Decision of December 1996	ECU 70 million
Asia and Latin America:	ECU 738 million
South Africa:	ECU 375 million

### Disbursement forecasts

As regards disbursement of the loans still awaiting signature, it is assumed that nothing will be paid in the year of signature, 10% in the second year, 25% a year between the third and fifth years and 15% in the sixth year.

At 31 December 1997 ECU 7 417 million still had to be disbursed against loans signed at that date. The total breaks down as follows:<sup>5</sup>

Mediterranean	ECU 2 513 million
Central and Eastern Europe	ECU 4 052 million
Asia and Latin America	ECU 653 million
South Africa	ECU 199 million

## I.D Payment of the budget guarantee

### *I.D.1 Borrowing/lending operations*

In this type of operation, the Community borrows on the financial market and on-lends the proceeds (at the same rate and for the same term) to Member States (balance of payments), non-member countries (medium-term financial assistance) or firms (NCI, Euratom).

---

<sup>5</sup> Based on a working assumption that 25% of the loan will be disbursed every year for four years and that the average term will be fifteen years with a three-year period of grace.

The loan repayments are scheduled to match the repayments of the borrowings due from the Community. If the recipient of the loan is late in making a repayment, the Commission must draw on its resources to repay the borrowing on the due date.

The funds needed to pay the budget guarantee in the event of late payment by the recipient of a loan granted by the Community are raised as follows:

- a) The amount required may be taken provisionally from cash resources in accordance with Article 12 of Council Regulation No 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources. This method is used so that the Community can immediately repay the borrowing on the date scheduled in the event of late payment by the recipient of the loan.
- b) If the delay extends to three months after the due date, the Commission draws on the Guarantee Fund to cover the default. The funds obtained are used to replenish the Commission's cash resources.
- c) The transfer procedure can be used to provide the budget heading with the appropriations needed to cover the default; any margin available in the guarantee reserve is drawn on first. This method is used when there are insufficient appropriations in the Guarantee Fund and must be authorised in advance by the budgetary authority.
- d) The re-use of amounts repaid by debtors who have defaulted, leading to activation of the Community guarantee, allows payments to be made within a short period of time always providing, of course, that there are recovered funds available.

#### *I.D.2 Guarantees given to third parties*

The loan guarantee is in respect of loans granted by a financial institution such as the European Investment Bank (EIB). When the recipient of a guaranteed loan fails to make a payment on the due date, the EIB asks the Community to pay the amounts owed by the defaulter in accordance with the contract of guarantee. The guarantee must be paid within three months of receiving the EIB's request. The EIB administers the loan with all the care required by banking practice and is obliged to demand the payments due after the guarantee has been activated.

Since the entry into force of the Regulation establishing a Guarantee Fund for external action, the provisions of the Agreement between the Community and the EIB on management of the Fund state that, after the EIB calls in the guarantee in the event of a default, the Commission must authorise the Bank to withdraw the corresponding amounts from the Guarantee Fund within three months.

If there are insufficient resources in the Fund, the procedure used for activating the guarantee is the same as for borrowing/lending operations.

## **II. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1997-99 UNDER THE GUARANTEE FUND MECHANISM (TABLE 4)**

### **II.A Reserve for loan guarantees to non-member countries**

As agreed at the Edinburgh European Council, the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure provided for the entry of a reserve for loan guarantees to non-member countries as a provision in the general budget of the European Communities. This reserve is intended to cover the requirements of the Guarantee Fund and, where necessary, activated guarantees exceeding the amount available in the Fund, so that these amounts may be charged to the budget.

The amount of the guarantee reserve is the same as in the financial perspective, viz. ECU 300 million at 1992 prices. The amount in the reserve comes to ECU 338 million in 1998.

The conditions for the entry, use and financing of the guarantee reserve are laid down in the following decisions:

- Council Decision 94/729/EC of 31 October 1994 on budgetary discipline
- Council Regulation (ECSC, EC, Euratom) No 2730/94 of 31 October 1994 amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities
- Council Decision 94/728/EC of 31 October 1994 on the system of the Communities' own resources.

### **II.B Bases for the calculation of the provisioning of the Guarantee Fund**

The bases for the provisioning of the Fund are calculated by applying the appropriate rate of guarantee (70%, 75% or 100%):

- to the loan guarantees authorised by the Council and to the loan guarantees proposed or being prepared by the Commission on the basis of the estimates of loan signatures contained in the financial statements (EIB and Euratom loans);
- to the loans (for financial assistance) authorised by the Council and to the loans proposed or being prepared by the Commission.

The annex to Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions, which relates to the arrangements for payments into the Guarantee Fund, states that, in the case of borrowing/lending operations or guarantees to financial bodies under a framework facility spread over a number of years and with a microeconomic and structural purpose, payments into the Fund will be made in annual tranches calculated on the basis of the annual amounts indicated in the financial

statement attached to the Commission proposal, adapted where appropriate in the light of the Council decision.

For other Community borrowing/lending operations, such as loans for the balance of payments of third countries, whether made in one or more than one tranche, payments into the Fund are calculated on the basis of the total amount for the operation decided on by the Council.

The annex to the Regulation establishing the Guarantee Fund states that, as from the second year (in the case of operations spread over a number of years), the amounts to be paid into the Fund will be corrected by the difference recorded on 31 December of the previous year between the estimates that were taken as a basis for the previous payment and the actual figure for the loans signed during that year. Any difference relating to the previous year will give rise to a payment in the following year.

The annex states that, when it starts a payment procedure, the Commission will check the situation with regard to the performance of the operations which were the subject of previous payments and, where the commitment deadlines originally laid down have not been met, will propose that this will be taken into account in calculating the first payment to be made at the start of the following financial year for operations already under way.

In the second half of 1997 the budgetary authority therefore adopted transfer 58/97 so that payments could be made into the Guarantee Fund in respect of loans to non-member countries (Bulgaria, the Former Yugoslav Republic of Macedonia, Georgia and Armenia).

### **II.C Basis for the provisioning of the Fund in the event of a part guarantee**

For EIB loans covered by an aggregate 75% guarantee, the Fund is provisioned on the basis of 75% of the total amount of operations authorised.

The guarantee on the EIB loans authorised by the Council on 14 April 1997 is limited to 70% of the total amount of credits opened. The basis for provisioning is 70% of the annual forecast of signatures.

### **II.D Provisioning of the Guarantee Fund**

The amounts paid into the Fund are obtained by applying the rate of provisioning (14%) to the calculation base set out above.

Pursuant to Articles 2 and 4 of the Regulation establishing the Guarantee Fund, the Fund is endowed by payments from the general budget equivalent to 14% of the capital value of the operations until it reaches the target amount. As the target amount was reached at 31 December 1997, the Commission, in accordance with the Regulation, will submit proposals reviewing the rate of provisioning. These proposals will appear in the comprehensive report on the functioning of the Fund which the Commission has to draw up in accordance with Article 3 of the Regulation.

**II.E Margin remaining in the guarantee reserve**

The margin remaining in the guarantee reserve is equivalent to the difference between the reserve and the heading for the provisioning of the Guarantee Fund.

**II.F Residual lending capacity**

The residual lending capacity is the loan equivalent of the margin left in the reserve, allowing for the guarantee rates in force.

**III. TABLES: COUNTRY-RISK INDICATORS**



Country-risk indicators					
Country: Bulgaria					
	footnotes	1995	1996	1997	
Real GDP growth rate (%)		2,1	-10,9	-7,4	(5)
Industrial production ( % change)		8,6	-8,3	-11,5	(6)
Unemployment (end of period)		11,6	12,5	13,7	
Inflation rate (Dec/Dec)		32,8	310,8	580	
Exchange rate (Leva per USD) (end of period)		71	487	1792	
<b>General government balance (as % of GDP)</b>		<b>-5,7</b>	<b>-11,0</b>	<b>-3,1</b>	<b>(5)</b>
<b>Balance of payments</b>					
Exports of goods and services (bn USD)		7,0	6,3	3,0	(01/97-06/97)
Current account balance (% of GDP)		-0,5	0,9	n.a.	
Net inflow of foreign direct investment (m USD)		90	115	328	(01/97-09/97)
Official reserves, including gold (end of period) bn USD		1,5	0,8	2,3	
months' imports of goods and services		2,8	1,6	4,6	
<b>External debt</b>					
Convertible currency external debt (bn USD, end of period.)		10,2	9,6	9,7	(06/97)
Convertible currency debt service (bn USD) principal		0,9	1,0	0,5	(06/97)
interest		0,3	0,4	0,3	(06/97)
External debt/GDP (%)		0,6	0,6	0,2	(06/97)
External debt/exports of goods and services (%)		79	99	n.a.	
Debt service/exports of goods and services (%)		151	159	n.a.	
Arrears (on both interest and principal, bn USD)		14	17	n.a.	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	7,3	8,1	5,7	
EU exposure/external debt (%)		5,7	6,5	4,8	(01/97-06/97)
EU exposure/exports of goods and services (%)		7,7	10,0	15,5	(01/97-06/97)
<b>IMF arrangements</b>					
Type			SBA	SBA	
(Date)			(7/96-2/98)	(6/97-5/98)	
On track			no (4)	yes	
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		none	none	B3	
S&P long-term foreign currency rating (end of period)		none	none	none	
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	90 90	99 92	111 96	
The Institutional Investor		(187) (181)	(178) (178)	(179) (180)	
Position in the ranking (number of countries)	(2)	03/95 09/95	03/96 09/96	03/97 09/97	
Credit rating	(3)	93 94	92 93	97 99	
		(135) (135)	(135) (135)	(135) (135)	
		21.9 22.2	23.1 23.5	22.5 22.2	

**Footnotes**

- (1) (2) (3) See explanatory notes.  
 (4) SBA suspended in 09/96.  
 (5) Preliminary  
 (6) First nine months of 1997 compared to same period of 1996

Country-risk indicators					
Country: Czech Republic					
	footnotes	1995	1996	1997	
Real GDP growth rate (%)		4,8	4,4	1,1	(4)
Industrial production (% change)		8,7	6,8	2,3	(5)
Unemployment (end of period)		2,9	3,5	5,2	
Inflation rate (Dec/Dec)		7,9	8,6	10,0	
Exchange rate (CK's per USD) (end of period)		26,6	27,1	34,4	
<b>General government balance (as % of GDP)</b>		0,3	-0,4	-1,7	(09/97)
<b>Balance of payments</b>					
Exports of goods and services (bn USD)		28,2	29,7	21,5	(01/97-09/97)
Current account balance (% of GDP)		-2,9	-8,6	-7,4	(01/97-06/97)
Net inflow of foreign direct investment (m USD)		2526	1388	845	(01/97-09/97)
Official foreign exchange reserves (end of period) bn USD		14,0	12,4	11,0	(10/97)
months' imports of goods and services		5,6	4,4	4,6	(10/97)
<b>External debt</b>					
Convertible currency external debt (bn USD, end of period.)		16,5	20,4	21,2	(06/97)
Convertible currency debt service (bn USD)		2,6	3,8	n.a.	
principal		2,0	3,0	n.a.	
interest		0,6	0,8	n.a.	
External debt/GDP (%)		35,1	39,2	41,3	(06/97)
External debt/exports of goods and services (%)		58,6	68,8	73,8	(06/97)
Debt service/exports of goods and services (%)		9,2	12,8	n.a.	
Arrears (on both interest and principal, m USD)		none	none	none	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	5,8	7,3	5,9	
EU exposure/external debt (%)		2,6	2,8	2,3	(06/97)
EU exposure/exports of goods and services (%)		2,5	1,9	2,2	(06/97)
<b>IMF arrangements</b>					
Type					
(Date)					
On track					
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		Baa1 (09/95)	Baa1	Baa1	
S&P long-term foreign currency rating (end of period)		A	A	A	
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking	(2)	35 41	36 35	37 37	
(number of countries)		(187) (181)	(178) (178)	(179) (180)	
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking	(2)	33 30	30 29	28 28	
(number of countries)		(135) (135)	(135) (135)	(135) (135)	
Credit rating	(3)	55.8 58.4	60.1 62.0	62.8 63.1	

**Footnotes**

(1) (2) (3) See explanatory notes

(4) First nine months of 1997 compared to same period of 1996.

(5) First eleven months of 1997 compared to same period of 1996.

Country-risk indicators					
Country: Estonia					
	footnotes	1995	1996	1997	
Real GDP growth rate (%)		4,3	4,0	11,7	(5)
Industrial production ( % change)		1,4	1,1	13,4	
Unemployment (end of period)		4,1	4,3	3,6	
Inflation rate (Dec/Dec)		28,9	14,8	12,5	
Exchange rate (Kroons per USD) (end of period)		11,5	12,0	13,9	
<b>General government balance (as % of GDP)</b>		-1,2	-1,5	0,4	est.
<b>Balance of payments</b>					
Exports of goods (m USD)		1838	2074	2892	
Current account balance (% of GDP), excl. official transfers		-7,4	-11,7	-12,0	(01/97-06/97)
Net inflow of foreign direct investment (m USD)		199	111	152	(01/97-09/97)
Official foreign exchange reserves (end of period) m USD		583	640	830	(12/97)
months' imports of goods		2,7	2,4	1,8	
<b>External debt</b>					
Convertible currency external debt (incl. to IMF) (m USD, end of period)		268,6	295,2	246,2	
Convertible currency debt service (m USD) principal	(4)	21,0	51,2	51,7	
interest + charges to IMF		6,0	27,5	40,1	
External debt/GDP (%)		15,0	23,7	11,6	
External debt/exports of goods (%)		7,5	6,8	5,3	
Debt service/exports of goods (%)		14,6	14,2	8,3	est.
Arrears (on both interest and principal, m USD)		1,1	2,5	1,8	est.
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	0,5	0,5	0,6	
EU exposure/external debt (%)		16,5	13,8	19,9	
EU exposure/exports of goods (%)		2,2	2,0	1,7	
<b>IMF arrangements</b>					
Type		SBA	SBA	SBA	
(Date)		(4/95-6/96)	(7/96-8/97)	(11/97-12/98)	
On track		yes	yes	yes	
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		none	none	Baa1	
S&P long-term foreign currency rating (end of period)		none	none	BBB+	
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	66 76 (187) (181)	73 71 (178) (178)	69 63 (179) (180)	
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	79 79 (135) (135)	76 71 (135) (135)	65 63 (135) (135)	
Credit rating	(3)	25.4 26.3	28.9 31.1	33.6 36.9	

**Footnotes**

- (1) (2) (3) See explanatory notes  
(4) Kroon figures have been converted using the yearly average exchange rate of the dollar.  
In 1996 and 1997, Estonia repaid foreign loans in advance.  
(5) First half of 1997 compared to same period of 1996, on an annual basis.

Country-risk indicators				
Country: FYROM				
	footnotes	1995	1996	1997 (8)
Real GDP growth rate (%)		1,6	0,9	2,0
Industrial production ( % change)		10,0	3,0	2,7
Unemployment (end of period)		23,7	24,9	27,0
Inflation rate (Dec/Dec)		8,6	0,7	5,0
Exchange rate (denar per USD) (end of period)		38,0	41,3	55,2
<b>General government balance (as % of GDP)</b>		-1,3	-0,4	-0,6
<b>Balance of payments</b>				
Exports of goods and services (bn USD)	(4)	1,2	1,1	1,2
Current account balance (% of GDP)	(5)	-6,2	-7,4	-8,4
Net inflow of foreign direct investment (m USD)		13	12	16
Official reserves, including gold (end of period) m USD		270,0	267,0	279,0
months' imports of goods and services		1,9	2,0	2,0
<b>External debt</b>				
Convertible currency external debt (bn USD, end of period.)		1,1	1,1	1,2
Convertible currency debt service (m USD)		141,0	124,0	117,0
principal		84,0	70,0	47,0
interest		57,0	54,0	69,0
External debt/GDP (%)		28,5	30,8	38,2
External debt/exports of goods and services (%)		78,0	86,1	88,6
Debt service/exports of goods and services (%)	(6)	10,4	9,5	8,7
Arrears (on both interest and principal, m USD)		n.a.	34,0	none
Debt relief agreements and rescheduling (m USD)		326,0	37,0	87,0
<b>Indicators of EU exposure</b>				
EU exposure/total EU exposure (%)	(1)			0,3
EU exposure/external debt (%)				2,4
EU exposure/exports of goods and services (%)				2,4
<b>IMF arrangements</b>				
Type		SBA	SBA	ESAF
(Date)		(05/95-04/96)	(05/95-04/96)	(04/97)
On track		yes	yes	yes (7)
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
<b>Euromoney</b>				
Position in the ranking (number of countries)	(2)	03/95 09/95 108 118	03/96 09/96 85 59	03/97 09/97 107 151
The Institutional Investor Position in the ranking (number of countries)	(2)	(187) (181)	(178) (178)	(179) (180)
Credit rating	(3)	none	none	none

**Footnotes**

- (1),(2) (3) See explanatory notes  
(4) Discontinuities in the trade series due to changes in the coverage of trade data, particularly in 1996.  
(5) The current account deficit may be overestimated due to unreported remittances.  
(6) Debt service excluding IMF; it includes an estimate of debt service due to commercial creditors.  
(7) Following a programme adjustment in July, the mid-term review was completed on 31 October 1997.  
(8) Projections.

Country-risk indicators

Country: Hungary

	footnotes	1995	1996	1997	
Real GDP growth rate (%)		1,5	1,3	4,0	(5)
Industrial production ( % change)		4,6	3,4	11,2	(5)
Unemployment (end of period)		10,4	10,5	10,4	
Inflation rate (Dec/Dec)		28,5	19,8	18,4	
Exchange rate (forints per USD) (end of period)		139,5	164,0	195,4	(08/97)
<b>Consolidated state budget balance (as % of GDP)</b>		-6,8	-3,3	-4,6	(5)
<b>Balance of payments</b>					
Exports of goods and services (bn USD)	(4)	12,8	14,2	22,2	(01/97-11/97)
Current account balance (% of GDP)		-5,8	-3,9	n.a.	
Net inflow of foreign direct investment (m USD)		- 4453	1987	1835	(01/97-11/97)
Official reserves (end of period)					
bn USD		12,0	9,7	8,7	(11/97)
months' imports of goods		9,5	6,9	5,0	(11/97)
<b>External debt</b>					
Convertible currency external debt (bn USD, end of period)		31,7	27,6	22,8	(11/97)
Convertible currency debt service (bn USD)		7,7	7,4	n.a.	
principal, including early repayments		5,3	5,1	n.a.	
interest		2,4	2,3	n.a.	
External debt/GDP (%)		72,3	63,6	n.a.	
External debt/exports of goods and services (%)		185,9	144,1	n.a.	
Debt service/exports of goods and services (%)		43,8	44,7	n.a.	
Arrears (on both interest and principal, m USD)		none	none	none	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	13,0	9,6	8,6	
EU exposure/external debt (%)		3,1	2,7	3,1	(11/97)
EU exposure/exports of goods and services (%)		6,6	5,2	3,2	(11/97)
<b>IMF arrangements</b>					
Type			SBA	SBA	
(Date)			(3/96-2/98)	(3/96-2/98)	
On track			yes	yes	
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		Ba1	Baa3	Baa3	
S&P long-term foreign currency rating (end of period)		BB+	BBB-	BBB-	
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking	(2)	50 44	44 44	46 41	
(number of countries)		(187) (181)	(178) (178)	(179) (180)	
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking	(2)	45 48	50 50	48 46	
(number of countries)		(135) (135)	(135) (135)	(135) (135)	
Credit rating	(3)	46.4 45.0	43.6 44.7	47.6 49.7	

Footnotes

(1) (2) (3) See explanatory notes

(4) For 1995 and 1996, goods only.

(5) Preliminary

Country-risk indicators				
Country: Latvia				
	footnotes	1995	1996	1997
Real GDP growth rate (%)		-0,8	2,8	5,6 (4)
Industrial production (% change)		-6,3	1,4	6,1
Unemployment (end of period)		6,1	7,2	6,7
Inflation rate (Dec/Dec)		23,1	13,0	7,0
Exchange rate (Lats per USD) (end of period)		0,54	0,56	0,59
<b>General government balance (as % of GDP)</b>		-3,4	-1,9	n.a.
<b>Balance of payments</b>				
Exports of goods & services (m USD)		2088	2628	1304 (01/97-06/97)
Current account balance (% of GDP)		-0,4	-8,3	-8,0 (01/97-06/97)
Net inflow of foreign direct investment (m USD)		180	288	165 (01/97-06/97)
Official foreign exchange reserves (end of period) m USD		527	652	n.a.
months' imports of goods and non-factor services		2,9	2,9	n.a.
<b>External debt</b>				
Convertible currency external debt (m USD, end of period)		403	409	394 (10/97)
Convertible currency debt service (m USD)		39,0	71,0	n.a.
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		9,2	8,2	7,5 (10/97)
External debt/exports of goods & services		19,3	15,6	15,1 (10/97)
Debt service/exports of goods & services		3,0	4,9	n.a.
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
<b>Indicators of EU exposure</b>				
EU exposure/total EU exposure (%)	(1)	0,7	0,7	0,7
EU exposure/external debt (%)		12,3	12,4	14,8 (10/97)
EU exposure/exports of goods (%)		4,0	1,9	4,5 (06/97)
<b>IMF arrangements</b>				
Type		SBA	SBA	SBA
(Date)		(4/95-4/96)	(5/96-8/97)	(9/97-2/99)
On track		no	yes	yes
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	BBB
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking	(2)	106 116	89 75	63 59
(number of countries)		(187) (181)	(178) (178)	(179) (180)
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking	(2)	91 89	86 88	79 74
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	22.6 23.4	24.7 25.7	29.1 32.6

**Footnotes**

(1) (2) (3) See explanatory notes

(4) First nine months of 1997 compared to same period of 1996.

Country-risk indicators					
Country: Lithuania					
	footnotes	1995	1996	1997	
Real GDP growth rate (%)		3.0	4.2	6.4	(5)
Industrial production (% change)		5.3	3.7	0.7	
Unemployment (end of period)		7.3	6.2	6.7	(11/97)
Inflation rate (Dec/Dec)		35.7	13.1	8.6	
Exchange rate (Litas per USD) (end of period)		4.0	4.0	4.0	
<b>General government balance (as % of GDP)</b>					
Financial balance	(4)	-1.8	-1.9	n.a.	
Fiscal balance	(4)	-3.3	-3.6	n.a.	
<b>Balance of payments</b>					
Exports of goods and services (bn USD)		3.2	4.2	3.7	(01/97-09/97)
Current account balance (% of GDP), excl. official transfers		-3.2	-2.7	n.a.	
Net inflow of foreign direct investment (m USD)		71	153	256	(01/97-09/97)
Official foreign exchange reserves (end of period, gross foreign assets) m USD		819	834	1063	
months' imports of goods and services		3.9	2.4	2.1	
<b>External debt</b>					
Convertible currency external debt (m USD, end of period)		757	1076	1407	
Convertible currency debt service (m USD)		69	120	n.a.	
principal		n.a.	n.a.	n.a.	
interest		n.a.	n.a.	n.a.	
External debt/GDP (%)		13.9	15.3	15.4	(6)
External debt/exports of goods and services (%)		34.3	32.7	n.a.	
Debt service/exports of goods and services (%)		3.1	3.6	n.a.	
Arrears (on both interest and principal, m USD)		none	none	none	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	1.4	1.4	1.6	
EU exposure/external debt (%)		13.9	10.2	9.4	(10/97)
EU exposure/exports of goods and services (%)		4.8	2.6	3.6	(06/97)
<b>IMF arrangements</b>					
Type		EFF	EFF	EFF	
(Date)		(10/94-10/97)	(10/94-10/97)	(10/94-10/97)	
On track		yes	yes	yes	
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		none	Ba2	Ba1	
S&P long-term foreign currency rating (end of period)		none	none	BBB-	
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	108 118 (187) (181)	85 59 (178) (178)	72 62 (179) (180)	
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	95 90 (135) (135)	89 90 (135) (135)	85 80 (135) (135)	
Credit rating	(3)	21.7 22.9	23.8 25.3	27.4 31.1	

**Footnotes**

(1) (2) (3) See explanatory notes

(4) Financial balance does not take into account government net lending, whereas fiscal balance does.

(5) First nine months of 1997 compared to same period of 1996.

(6) Preliminary.

Country-risk indicators					
Country: Romania					
	footnotes	1995	1996	1997	
Real GDP growth rate (%)		7,1	4,1	-6,5	(6)
Industrial production ( % change)		9,4	9,9	-8,2	(11/96-11/97)
Unemployment (end of period)		8,0	6,3	8,8	
Inflation rate (Dec/Dec)		27,8	56,9	151,4	
Exchange rate ( lei per USD) (end of period)		2760	4035	8023	
<b>General government balance (as % of GDP)</b>		-2,6	-3,9	-4,5	est.
<b>Balance of payments</b>					
Exports of goods and services (bn USD)		7,9	8,1	7,1	(01/97-10/97)
Current account balance (% of GDP)		-5,0	-7,2	-5,4	est.
Net inflow of foreign direct investment (m USD)		417	263	806	(01/97-09/97)
Official foreign exchange reserves (end of period) m USD		334	551	2555	(12/97)
months' imports of goods and services		0,4	0,6	2,8	(10/97)
<b>External debt</b>					
Convertible currency external debt, incl. short-term debt (bn USD, end of period)		6,5	8,2	8,8	(08/97)
Convertible currency debt service (m USD)		1366	2000	2600	est.
principal		1073	1632	1900	est.
interest		293	368	700	est.
External debt/GDP (%)		18,1	23,1	27,2	est.
External debt/exports of goods and services (%)		68,7	85,1	89,0	est.
Debt service/exports of goods and services (%)		14,5	20,7	23,8	est.
Arrears (on both interest and principal, m USD)		none	none	none	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	10,2	10,2	11,0	
EU exposure/external debt (%)		11,5	9,2	10,2	(08/97)
EU exposure/exports of goods and services (%)		10,1	12,5	12,6	(10/97)
<b>IMF arrangements</b>					
Type		SBA	SBA	SBA	
(Date)		(5/94-12/95)	(4)	(4/97-5/98)	
On track		yes	no (5)	yes	
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		none	Ba3	Ba3	
S&P long-term foreign currency rating (end of period)		none	BB-	BB-	
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	68 64 (187) (181)	67 61 (178) (178)	75 75 (179) (180)	
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	73 71 (135) (135)	68 72 (135) (135)	64 67 (135) (135)	
Credit rating	(3)	28.1 29.7	30.9 31.0	32.7 34.1	

**Footnotes**

(1) (2) (3) See explanatory notes

(4) The SBA approved in May 1994 was augmented and extended through 1997.

(5) Suspended in March 1996. New SBA approved by IMF Board on 22 April 1997

(6) First half of 1997 compared to same period of 1996.



Country-risk indicators					
Country: Slovak Republic					
	footnotes	1995	1996	1997	
Real GDP growth rate (%)		6,8	6,9	6,0	(5)
Industrial production ( % change)		8,3	2,5	2,0	
Unemployment (end of period)		13,1	12,8	12,5	
Inflation rate (Dec/Dec)		7,2	5,4	6,4	
Exchange rate (SK's per USD) (end of period)		29,6	31,9	34,8	
<b>General government balance (as % of GDP)</b>		0,1	-1,3	n.a.	
<b>Balance of payments</b>					
Exports of goods and services (bn USD)		11,0	10,9	9,2	(01/97-10/97)
Current account balance (% of GDP)		2,3	-10,1	8,4	(01/97-10/97)
Net inflow of foreign direct investment (m USD)		134	106	61	(01/97-10/97)
Official foreign exchange reserves (end of period) m USD		3418	3473	3299	
months' imports of goods and services		4,1	3,4	3,2	
<b>External debt</b>					
Convertible currency external debt (bn USD, end of period)		5,7	7,7	9,6	(01/97-09/97)
Convertible currency debt service (m USD)		1390	1444	n.a.	
principal		1130	1186	n.a.	
interest		260	258	n.a.	
External debt/GDP (%)		32,9	40,6	50,6	(01/97-09/97)
External debt/exports of goods and services (%)		52,0	70,6	87,4	(01/97-09/97)
Debt service/exports of goods and services (%)		12,7	13,3	n.a.	
Arrears (on both interest and principal, m USD)		none	none	none	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	4,1	4,5	4,3	
EU exposure/external debt (%)		5,2	4,5	3,6	(09/97)
EU exposure/exports of goods and services (%)		2,8	3,2	3,8	(09/97)
<b>IMF arrangements</b>					
Type		SBA			
(Date)		(7/94-3/96)			
On track		no (4)			
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		Baa3	Baa3	Baa3	
S&P long-term foreign currency rating (end of period)		BB+	BBB-	BBB-	
<b>Euromoney</b>		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	53 51 (187) (181)	48 49 (178) (178)	53 54 (179) (180)	
<b>The Institutional Investor</b>		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	61 59 (135) (135)	57 53 (135) (135)	52 52 (135) (135)	
Credit rating	(3)	33.2 35.7	38.6 41.2	43.9 44.8	

**Footnotes**

(1) (2) (3) See explanatory notes

(4) The mid-term review of the programme, which had been scheduled for February 1995, was not completed.

(5) First nine months of 1997 compared to same period of 1996.

Country-risk indicators				
Country: Moldova				
	footnotes	1995	1996	1997 (3)
Real GDP growth rate (%)		-1,9	-8,0	-0,5
Industrial production (% change)		-6,0	-5,1	n.a.
Unemployment (end of period)		1,4	1,8	1,6
Inflation rate (yearly average)		24	15	11
Exchange rate (leu per USD) (end of period)		4,50	4,59	4,68
<b>General government balance (as % of GDP)</b>		-5,9	-10,0	-4,5 est.
<b>Balance of payments</b>				
Exports of goods (m USD)		739	801	573,2 (01/97-09/97)
Current account balance (% of GDP)		-8,1	-18,8	n.a.
Net inflow of foreign direct investment (m USD)		63,7	40,0	15,7 (01/97-06/97)
Official foreign exchange reserves (end of period) m USD		257	315	358
months' imports of goods		3,2	4,1	n.a.
<b>External debt</b>				
Convertible currency external debt (m USD, end of period)		696,3	818,2	935,0
Convertible currency debt service (m USD) principal		91,0	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		38,0	57,6	n.a.
External debt/exports of goods (%)		91,1	102,1	n.a.
Debt service/exports of goods (%)		11,0	n.a.	n.a.
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling		none	none	none
<b>Indicators of EU exposure</b>				
EU exposure/total EU exposure (%)	(1)	0,8	1,0	0,8
EU exposure/external debt (%)		8,7	9,3	n.a.
EU exposure/exports of goods (%)		7,9	9,5	n.a.
<b>IMF arrangements</b>				
Type (Date)		SBA (3/95-3/96)	EFF (5/96-5/99)	EFF (5/96-5/99)
On track		yes	yes	no
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	Ba2
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking (number of countries)	(2)	157 141 (187) (181)	134 125 (178) (178)	113 104 (179) (180)
The Institutional Investor				
Position in the ranking (number of countries)		none	none	none
Credit rating		none	none	none

**Footnotes**

(1) (2) See explanatory notes

(3) Preliminary, unless otherwise indicated.

Country-risk indicators				
Country: Belarus				
	footnotes	1995	1996	1997
Real GDP growth rate (%)		-10,4	2,6	9,8
Industrial production (% change)		-11,5	3,3	17,6
Unemployment (end of period)		2,7	3,9	2,3
Inflation rate (yearly average)		244	39,3	63,8
Exchange rate ( Rbs per USD) (average)		11500	15500	31000
<b>General government balance (as % of GDP)</b>		-2,3	-1,8	-2,0 est.
<b>Balance of payments.</b>				
Exports of goods and services (bn USD)		4,7	5,4	6,4 (01/97-11/97)
Current account balance (% of GDP)		-4,7	-9,1	n.a.
Net inflow of foreign direct investment (m USD)		7	6	n.a.
Official foreign exchange reserves (end of period) m USD		377,0	10,0	n.a.
months' imports of goods and services		0,7	0,0	n.a.
<b>External debt</b>				
Convertible currency external debt (bn USD, end of period)		1,5	1,0	0,9
Convertible currency debt service (m USD)		178,0	163,2	170,4
- principal		n.a.	n.a.	n.a.
- interest		n.a.	n.a.	n.a.
External debt/GDP (%)		14,7	8,1	7,9
External debt/exports of goods and services (%)		32,7	17,6	n.a.
Debt service/exports of goods and services (%)		3,4	3,0	n.a.
Arrears (on both interest and principal, m USD)		460	n.a.	n.a.
Debt rescheduling agreement		none	none	none
<b>Indicators of EU exposure</b>				
EU exposure/total EU exposure (%)	(1)	0,5	0,5	0,4
EU exposure/external debt (%)		2,6	4,0	3,8
EU exposure/exports of goods and services (%)		0,8	0,7	n.a.
<b>IMF arrangements</b>				
Type (Date)		SBA (12/95 - 11/96)	SBA (12/95 - 11/96)	
On track		no (4)	no (4)	
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euromoney		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking (number of countries)	(2)	135 134 (187) (181)	128 142 (178) (178)	154 131 (179) (180)
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking (number of countries)	(2)	112 112 (135) (135)	116 118 (135) (135)	118 121 (135) (135)
Credit rating	(3)	15.2 15.5	14.5 14.6	14.5 14.2

**Footnotes**

(1) (2) (3) See explanatory notes

(4) The first quarterly review of the programme, initially scheduled for December 1995, has never been completed.

Country-risk indicators				
Country: Ukraine				
	footnotes	1995	1996	1997 (6)
Real GDP growth (%)		-11,8	-10,0	-3,0
Industrial production ( % change)		-11,7	-5,1	-1,9
Unemployment (end of period)		0,6	1,3	2,6
Inflation rate (Dec/Dec)		182,0	39,7	15,0
Exchange rate (Krb per USD) (Hrv per USD for 1996)				
- auction / interbank (end of period)		179400	1,9	1,7-1,9
- cash (end of period)		186000	1,9	1,7-1,9
<b>General government balance (as % of GDP)</b>		-5,0	-3,2	-4,6
<b>Balance of payments</b>				
Exports of goods and services (bn USD)		16,4	20,3	20,9
Current account balance (excl. transfers) (% of GDP)		-5,0	-3,9	-3,6
Net inflow of foreign direct investment (bn USD)		0,27	0,52	0,41
Gross official foreign exchange reserves m USD		1134	1994	2406
weeks' imports of goods and services		3,7	5,3	6,0
<b>External debt</b>				
Convertible currency external debt (bn USD, end of period)		8,1	9,2	10,3
Convertible currency debt service (m USD)		1531	1221	1500
principal		986	716	944
interest		545	505	556
External debt/GDP (%)		23,3	21,2	19,4
External debt/exports of goods and services (%)		53,6	45,3	49,2
Debt service/exports of goods and services (%)		9,3	6,0	7,1
Arrears (on both interest and principal; m USD)		236	n.a.	n.a.
Debt relief agreements and rescheduling		(4)	(4)	(4)
<b>Indicators of EU exposure</b>				
EU exposure/total EU exposure (%)	(1)	1,5	3,0	4,0
EU exposure/external debt (%)		1,4	2,6	3,1
EU exposure/exports of goods and services (%)		0,7	1,2	#VALUE!
<b>IMF arrangements</b>				
Type		SBA	SBA	SBA
(Date)		(04/95-04/96)	(05/96-02/97)	(07/97-06/98)
On track		no (5)	yes	yes
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of period)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
Euro money		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking	(2)	145 138	136 135	136 129
(number of countries)		(187) (181)	(178) (178)	(179) (180)
The Institutional Investor		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking	(2)	109 111	107 111	109 105
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	15.5 15.7	16.7 16.6	17.6 19.8

**Footnotes**

- (1) (2) (3) See explanatory notes  
 (4) Rescheduling of debt owed to Russia and Turkmenistan.  
 (5) Suspended in November 1995.  
 (6) IMF projections, unless otherwise indicated.  
 (7) Second quarter of 1997 compared to same period of 1996.

Country-risk indicators				
Country: Algeria				
	footnotes	1995	1996	1997 (4)
Real GDP growth rate (%)		3,9	3,8	2,3
Hydrocarbon production (% change)		4,4	6,3	8,3
Inflation rate (Dec/Dec)		21,9	15,1	6,1
Exchange rate (dinars per USD) (end of period)		52,2	56,2	58,0
<b>General government balance (as % of GDP)</b>		-1,4	3,0	2,3
<b>Balance of payments</b>				
Exports of goods and services (bn USD)		10,3	13,2	13,9
Current account balance (% of GDP)		-5,4	2,7	6,7
Net inflow of foreign direct investment (m USD)		0,0	0,3	0,4
Official foreign exchange reserves bn USD		2,1	4,2	7,6
months' imports of goods and services		2,1	4,5	9,0
<b>External debt</b>				
Convertible currency external debt (bn USD, end of period)		32,5	33,5	32,6
Convertible currency debt service (bn USD)		9,4	7,4	6,4
principal		7,1	5,2	4,2
interest		2,3	2,2	2,2
External debt/GDP (%)		78,6	73,2	69,5
External debt/exports of goods and services (%)		297,1	240,1	238,0
Debt service/exports of goods and services (%)		42,5	29,2	33,1
Arrears (on both interest and principal, m USD)		none	none	none
Debt relief agreements and rescheduling (bn US\$)		4,9	3,5	2,2
<b>Indicators of EU exposure</b>				
EU exposure/total EU exposure (%)	(1)	12,2	11,6	7,7
EU exposure/external debt (%)		2,8	2,7	1,9
EU exposure/exports of goods and services (%)		8,9	6,8	4,5
<b>IMF arrangements</b>				
Type		SBA/EFF	EFF/CCFF	EFF
(Date)		(5/94 - 5/95)	(5/95 - 5/98)	(5/95-5/98)
On track		yes	yes	yes
<b>Indicators of market's perception of creditworthiness</b>				
Moody's long-term foreign currency rating (end of per.)		none	none	none
S&P long-term foreign currency rating (end of period)		none	none	none
<b>Euromoney</b>		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking	(2)	102 107	109 97	102 97
(number of countries)		(187) (181)	(178) (178)	(179) (180)
<b>The Institutional Investor</b>		03/95 09/95	03/96 09/96	03/97 09/97
Position in the ranking	(2)	89 91	95 95	96 96
(number of countries)		(135) (135)	(135) (135)	(135) (135)
Credit rating	(3)	23.5 22.8	21.5 22.8	23.2 24.5

**Footnotes**

(1) (2) (3) See explanatory notes

(4) Projections.

Country-risk indicators					
Country: Israel					
	footnotes	1995	1996	1997 (6)	
Real GDP growth rate (%)		7,1	4,5	2,0	
Industrial production (% change)		8,4	5,4	3,2	(4)
Unemployment (yearly average)		6,9	6,7	8,1	(5)
Consumer Price Index (yearly average)		8,1	10,6	6,8	
Exchange rate (shekel per USD) (end of period)		3,12	3,24	3,53	
<b>Central government overall deficit (as % of GDP)</b>		<b>-3,1</b>	<b>-4,2</b>	<b>-3,2</b>	
<b>Balance of payments</b>					
Exports of goods (bn USD)		29,2	31,0	32,9	
Current account balance (% of GDP)		-4,4	-5,6	-3,6	
Net inflow of foreign direct investment (bn USD)		1,2	1,7	2,4	
Gross official foreign exchange reserves					
bn US\$		8,7	11,8	20,3	
months' imports of goods		2,6	3,6	6,3	
<b>External debt</b>					
Convertible currency external debt (bn USD, end of period)		45,2	48,1	50,8	(9/97)
Convertible currency debt service (bn USD)		5,6	5,5	6,8	
principal		2,5	2,2	3,4	
interest (gross)		3,1	3,3	3,4	
External debt/GDP (%)		51,2	49,3	50,7	
External debt/exports of goods and services (%)		155,9	155,2	154,4	
Debt service/exports of goods and services (%)		19,2	17,7	20,7	
Arrears (on both interest and principal, m USD)		none	none	none	
Debt relief agreements and rescheduling		none	none	none	
<b>Indicators of EU exposure</b>					
EU exposure/total EU exposure (%)	(1)	4,4	3,9	1,5	
EU exposure/external debt (%)		0,7	0,6	0,2	(9/97)
EU exposure/exports of goods (%)		1,7	1,6	0,4	
<b>IMF arrangements</b>					
Type					
(Date)					
On track					
<b>Indicators of market's perception of creditworthiness</b>					
Moody's long-term foreign currency rating (end of period)		A3	A3	A3	
S&P long-term foreign currency rating (end of period)		A-	A-	A-	
Euro money		03/95 09/95	03/96 09/96	03/97 09/97	
Position in the ranking (number of countries)	(2)	31 31	33 32	35 33	
The Institutional Investor		(187) (181)	(178) (178)	(179) (180)	
Position in the ranking (number of countries)	(2)	43 42	41 40	39 40	
Credit rating	(3)	(135) (135)	(135) (135)	(135) (135)	
		47.9 49.2	50.8 52.2	52.2 52.9	

**Footnotes**

- (1) (2) (3) See explanatory notes  
 (4) First nine months of 1997 compared to same period of 1996.  
 (5) Seasonally-adjusted data for the third quarter.  
 (6) Projections, unless otherwise indicated.

## Explanatory notes for country-risk indicators

### Standard footnotes

- (1) Includes only EIB and BOP loans (outstanding disbursements) to CEEC, NIS and MED
- (2) The higher the ranking number, the lower the creditworthiness of the country.
- (3) Countries are rated on a scale of zero to 100; 100 represents the least chance of default. A given country may improve its rating and still fall in the ranking if the average global rating for all rated countries improves.

### Abbreviations and English words used in tables

S&P	Standard and Poor's
CCFF=	Compensatory and Contingency Financing Facility
EFF=	Extended Financing Facility
SBA =	Stand-By Arrangement
STF=	Systemic Transformation Facility
est.=	estimates
n.a. =	not available
prelim.=	preliminary

COM(98) 252 final

# DOCUMENTS

EN

01 09 17

---

Catalogue number : CB-CO-98-271-EN-C

ISBN 92-78-35341-8

---

Office for Official Publications of the European Communities

L-2985 Luxembourg