COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION REPORT TO THE BUDGETARY AUTHORITY ON GUARANTEES COVERED BY THE GENERAL BUDGET

SITUATION AT 30 JUNE 1996

REPORT ON GUARANTEES COVERED BY THE GENERAL BUDGET SITUATION AT 30 JUNE 1996

This report describes the situation as regards budget guarantees at 30 June 1996.

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(g) of the Financial Regulation applicable to the general budget of the European Communities.

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

The report is in two parts:

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

PART ONE:

EVENTS SINCE THE REPORT AT 31 DECEMBER 1995, 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 31 DECEMBER 1995

The main events in the first half of 1996 were as follows:

II.A. Further macrofinancial assistance for Moldova[1]

Moldova made considerable progress in financial stabilization and reform in 1994 and largely met the performance criteria laid down in the first IMF programme. In June 1994 the Council therefore decided to grant Moldova macrofinancial assistance up to a maximum of ECU 45 million in support of the country's stabilization and reform programme (see point II.C.2). The Moldovan authorities' new programme, which is backed by a new IMF stand-by agreement, covers the period March 1995-March 1996 and is intended to consolidate the progress made in stabilization and boost the structural reforms. This programme requires additional financing of around USD 50 million from the international community.

The Council has therefore decided to grant Moldova further assistance up to a maximum of ECU 15 million in the form of a loan to support its balance of payments (Decision 96/242/EC).

1 Council Decision 96/242/EC of 25 March 1996 providing further macrofinancial assistance for Moldova.

The Commission, on behalf of the Community, has been empowered to borrow this amount for a maximum period of ten years. The proceeds of this operation will be on-lent to Moldova in one tranche.

The loan had not yet been disbursed at 30 June 1996.

II.B. Macrofinancial assistance for the Slovak Republic[2]

As part of the financial assistance for the Slovak Republic, the Commission, on behalf of the Community, was empowered by Council Decision 94/939/EC of 22 December 1994 to borrow, in two tranches, ECU 130 million for a maximum period of seven years. The proceeds of this operation were to be on–lent on the same terms to Slovakia.

Because of the improvement in the macroeconomic situation and, in particular, the Slovak Republic's balance of payments and currency reserves and its access to international private capital markets, the Slovak authorities stated in April 1995 that they would no longer be calling on the aid granted by the IMF under the stand-by agreement to support the country's balance of payments.

With the IMF stand-by arrangement expiring and the Slovak authorities not being prepared to agree on the economic policy measures to be attached to the implementation of the EU loan facility, the Commission therefore submitted to the Council a proposal cancelling the Decision of 22 December 1994 in line with the conclusions to be drawn for the Community. This decision was repealed by the Council Decision of 25 July 1996

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 30 June 1996, 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[3] and exchange rates.[4]

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

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2 Council Decision of 25 July 1996 repealing Decision 94/939/EC of 22 December 1994 providing macrofinancial assistance for the Slovak Republic.

3 An average interest rate of 10% is assumed.

4 The exchange rate used for loans in currencies other than ecus are those of 30 June 1996.

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 30 June 1996

(see Table 1)

The total risk at 30 June 1996 came to ECU 11 705 million as against ECU 13 114 million at 31 December 1995, a fall of ECU 1 409 million.[5]

Amount outstanding at 31 December 1995	13 114
Loan repayments	
Greece	500
Italy	500
Euratom	32
NCI	179
Hungary	260
Former Soviet Union	204
EIB	121
Exchange rate differences between ecu and other currencies	20
Loans disbursed	
Former Soviet Union	1
EIB	406
Amount outstanding at 30 June 1996	11 705

The capital outstanding in respect of operations in the Member States was ECU 5 985 million at 30 June 1996, a fall of 17.6% compared with 31 December 1995.

This fall is mainly due to the repayment of ECU 1 000 million in balance-of-payments loans to Greece (ECU 500 million) and Italy (ECU 500 million).

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

The capital outstanding from non-member countries at 30 June 1996 was ECU 5 720 million, a fall of 2.2% compared with 31 December 1995.

III.B. Maximum annual risk borne by the Community budget: operations disbursed at 30 June 1996

(see Table 2)

The total risk, which comes to ECU 3 149 million in 1996, will steadily increase to around ECU 3 500 million in 2000, although the situation in 1999 is special in that there will be no capital

5 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.

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 1996 in respect of the Member States comes to ECU 2 068 million.

This figure changes in line with the capital repayments (every two years) on balance-of-payment loans to Greece and Italy. The maximum risk is highest in the even years up to 2000 when it will reach ECU 2 793 million.

The risk for 1996 in respect of non-member countries comes to ECU 1 081 million. The risk will increase in 1997 to ECU 1 617 million as the following payments fall due:

- ECU 80 million from Hungary;
- ECU 127 million from the Czech Republic;
- ECU 63 million from the Slovak Republic;
- ECU 140 million from Bulgaria;
- ECU 250 million from Algeria;
- ECU 160 million from Israel.
- ECU 143 million from the Republics of the former Soviet Union.

III.C. Maximum theoretical annual risk borne by the Community budget

(see Table 3)

This risk comes to ECU 3 490 million in 1996 and will increase regularly until 2000 (except in 1999 when it will total ECU 2 255 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 3 188 million. It will fall to ECU 2 370 million in 2002 and ECU 2 197 million in 2003.

The risk in respect of non–member countries will rise from ECU 1 253 million in 1996 to ECU 1 930 million in 1997. Compared with Table 2, the risk will increase from 1999, the date scheduled for the first repayments of the loans proposed for Turkey, Croatia and FYROM.

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(ECU million)

Operation	Authorized ceiling	Capital outstanding 31.12.95	Capital outstanding 30.06.96	Remainder to be disbursed 30.06.96
MEMBER STATES				
A.Balance of payments	14000			
1. Greece	2200	1000	500	1200 1)
2. Italy	8000	4045	3512	4000 2)
B.Others				
3. Euratom	4000	720	695	0
4. NCI and NCI earthquakes	6830	1113	932	0
5. EIB Mediterranean Spain, Greece, Port.	1500	385	346	0
MEMBER STATES - TOTAL	26330	7263	5985	5200
THIRD COUNTRIES				
A.Financial assistance				
1. Hungary	1050	440	180	260
2. Czech Republic	250	250	250	0
3. Slovak Republic	125	125	125	0
4. Bulgaria	400	360	360	40
5. Romania	580	510	510	70
6. Algeria	600	500	500	100
7. Israel	160	160	160	0
8. Baltic States	220	135	135	85
9. Moldova	60	45	45	15
10. Ukraine	285	85	85	200
11. Belarus	55	30	30	25
12. Former Soviet Union	1250	347	143	0
B.Other				
13. EIB Mediterranean	6362	1782	1981	3112
14. EIB Central & E. Europe I	1700	837	884	733
15. EIB Central & E. Europe II	3000	96	141	2865
16. EIB Asia, Latin America	750	149	191	548
17. EIB South Africa	300			300
THIRD COUNTRIES - TOTAL	17147	5851	5720	8353
GRAND TOTAL	43477	13114	11705	13553

1) No disbursement is planned.
2) The third and fourth tranches had still not been paid at 30.6.1996. So far, the Italian Government has not requested payment.

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (30.6.96)

Operations	Credit line authorized	Loans made available, minus cancellations	Initial disbursement	Amt outstnd. at 30.06.96
EIB Mediterranean Spain, Greece, Port.	1500	1465	1572	346
Third countries EIB Med.	6362	5128	2984	1981
Central & Eastern Europe I	1700	1647	914	884
Central & Eastern Europe II	3000	1999	141	141
Asia, Latin America	750	647	191	191
South Africa	300	101		

Note: The fact that the initial disbursement sometimes exceeds the authorized ceiling is due to differences in the ecu rate between the date on which the contracts were signed and 30.6.1996.

TABLE 2

MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET

(Estimate in ECU million based on all operators disbursed at 30.6.1996)

	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	500		500						1000
2. Italy	500		997		2514				4012
B. Structural loans									
3. Euratom	153	453	93	16	13				728
4. NCI and NCI EQ	306	541	91	41	41	71			1092
5. EIB Med. Old. Prot. Spain, Greece, Port.	73	70	56	50	45	21	23	21	359
Capital - subtotal	1533	1064	1738	107	2613	92	23	21	7190
INTEREST									
A. Balance of payments									
1. Greece	95	48	48						190
2. Italy	255	213	213	158	158				998
B. Structural loans									
3. Euratom	57	43	10	3	1				113
4. NCI and NCI EQ	95	69	21	12	10	7	2	2	216
5. EIB Med. Old. Prot. Spain, Greece, Port.	33	26	20	15	11	7	5	3	123
Interest - subtotal	535	398	311	189	180	14	7	5	1640
MEMBER STATES - TOTAL	2068	1462	2049	296	2793	106	30	27	8830
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
6. Hungary	260	80	100						440
7. Czech Republic		127	123						250
8. Slovak Republic		63	62						125
9. Bulgaria		140	150			70			360
10. Romania			185	190	80		55		510
11. Israel		160							160
12. Algeria		250				150	100		500
13. Ex USSR	204	143							347
14. Baltic States					110		25		135
15. Moldova					5	9	9	9	32
16. Ukraine						17	17	17	51
17. Belarus						6	6	6	18
B. Guarantees									
18. EIB Mediterranean	134	141	161	172	166	156	151	151	1233
19. EIB C+E Eur. I + II	30	46	67	88	96	97	96	90	611
20. EIB Asia Latin America		15	19	20	22	22	23	8	128
Capital - subtotal	628	1165	867	470	479	528	483	281	4901
INTEREST									
A. Financial assistance									
6. Hungary	26	18	10						54
7. Czech Republic	25	25	12						62
8. Slovak Republic	13	13	6						32
9. Bulgaria	36	36	22	7	7	7			115
10. Romania	51	51	51	33	14	6	6		210
11. Israel	16	16							32
12. Algeria	50	50	25	25	25	25	10		210
13. Ex USSR	14	7							21
14. Baltic States	14	14	14	14	14	3	3		73
15. Moldova	5	5	5	5	5	4	3	2	32
16. Ukraine	9	9	9	9	9	9	7	5	63
17. Belarus	3	3	3	3	3	3	2	2	22
B. Guarantees									
18. EIB Mediterranean	123	130	120	108	96	85	73	63	797
19. EIB C+E Eur. I + II	63	67	64	59	53	46	39	33	424
20. EIB Asia Latin America	6	9	9	8	7	7	6	5	57
Interest - subtotal	453	452	348	269	231	193	149	110	2203
NON-MEMB. CNTRIES - TOTAL	1081	1617	1215	738	710	720	631	390	7103
GRAND TOTAL	3149	3079	3264	1034	3503	827	661	417	15934
(Eastern Europe)	751	846	882	406	394	275	268	164	3986
(Other non-member countries)	330	771	333	332	316	445	364	226	3117

TABLE 3

MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET

(Estimate in ECU million based on all operations disbursed, adopted and proposed by the Commission)

	1996	1997	1998	1999	2000	2001	2002	2003	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	500		500						1000
2. Italy	500		997		2514		2000	2000	8012
B. Structural loans									
3. Euratom + NCI	459	994	184	57	54	71			1819
4. EIB Sp, Gr, Port	73	70	56	50	45	21	23	21	359
Capital - subtotal	1532	1064	1738	107	2613	92	2023	2021	11190
INTEREST									
A. Balance of payments									
1. Greece	95	48	48						190
2. Italy	425	553	638	553	553	340	340	170	3571
B. Structural loans									
3. Euratom + NCI	152	111	30	15	11	7	2	2	330
4. EIB Sp, Gr, Port	33	26	20	15	11	7	5	3	122
Interest - subtotal	705	738	736	583	575	354	347	175	4213
MEMBER STATES - TOTAL	2237	1802	2474	690	3188	446	2370	2197	15402
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
5. Hungary	260	80	100					260	700
6. Czech Republic		127	123						250
7. Slovak Republic		63	62						125
8. Bulgaria		140	150			70		80	440
9. Romania			185	190	80		55	70	580
10. Israel		160							160
11. Algeria		250				150	100	100	600
12. Ex USSR	204	143							347
13. Baltic States					110		25	85	220
14. Moldova					5	9	12	12	38
15. Ukraine						17	37	57	111
16. Belarus						6	11	11	28
17. Euratom, C+E Eur.						1	7	16	24
B. Guarantees									
18. EIB Mediterranean	134	141	161	216	260	318	392	431	2054
19. EIB C+E Eur. I and II	30	46	67	143	213	288	363	377	1527
20. EIB Asia Latin America		15	19	29	44	64	85	96	352
21. EIB South Africa				2	5	10	17	21	55
Capital - subtotal	628	1165	867	580	717	934	1103	1616	7611
INTEREST									
A. Financial assistance									
5. Hungary	57	44	36	26	26	26	26	26	267
6. Czech Republic	25	25	12						62
7. Slovak Republic	20	26	20	14	13	13	13		118
8. Bulgaria	40	44	30	15	15	15	8	8	175
9. Romania	55	58	58	40	21	13	13	7	263
10. Israel	16	16							32
11. Algeria	55	60	35	35	35	35	20	10	285
12. Ex USSR	14	7							21
13. Baltic States	18	22	22	22	22	11	11	11	139
14. Moldova	5	6	6	6	6	6	5	3	43
15. Ukraine	19	29	29	29	29	29	27	23	211
16. Belarus	5	8	8	8	8	8	7	6	55
17. Euratom, C+E Eur.	1	6	17	34	54	72	88	94	366
B. Guarantees									
18. EIB Mediterranean	168	213	274	345	394	411	409	383	2597
19. EIB C+E Eur. I + II	112	170	249	328	368	362	337	301	2227
20. EIB Asia Latin America	15	28	47	69	85	90	88	45	467
21. EIB South Africa	1	4	9	16	22	25	26	24	127
Interest - subtotal	625	765	851	985	1097	1114	1077	941	7454
NON-MEMB. CNTRIES - TOTAL	1253	1930	1718	1565	1814	2048	2180	2557	15065
GRAND TOTAL	3490	3731	4192	2255	5002	2494	4550	4753	30468
(Eastern Europe)	864	1043	1173	853	969	944	1043	1447	8336
(Other non-member countries)	389	887	545	712	845	1103	1137	1110	6729

IV. ACTIVATION OF BUDGET GUARANTEES

IV.A. EIB loans to non-member countries

On 7 March 1996 the EIB called on the budget guarantee in respect of loans of around ECU 6.4 million to the Republics of former Yugoslavia (the Former Yugoslav Republic of Macedonia - FYROM, Bosnia-Herzegovina and Serbia). The payment was made to the EIB on 11 June 1996.

On 2 July 1996 the EIB again called on the budget guarantee in respect of loans of around ECU 8.9 million to the Republics of former Yugoslavia (FYROM and Serbia). The payment was made to the EIB on 4 October 1996.

At 30 June 1996 the total amount of debts settled by the Community and not yet repaid by the defaulting debtors came to ECU 72.4 million. These debts were owed by all the Republics of former Yugoslavia with the exception of Slovenia and Croatia, which have no payments overdue.

Of the ECU 72.4 million due but not paid, ECU 28.6 million was entered in the budget in respect of the amount owed from before 1994 and a total of ECU 45.9 million was called in from the Guarantee Fund on 11 January 1995 (ECU 5.3 million), on 30 January 1995 (ECU 14.3 million), on 24 May 1995 (ECU 6.08 million), on 11 October 1995 (ECU 8.6 million), on 26 January 1996 (ECU 5.2 million) and on 11 June 1996 (ECU 6.4 million).

The Former Yugoslav Republic of Macedonia (FYROM) has repaid some of its arrears (ECU 2.1 million).

IV.B. Borrowing/lending operations or loan guarantees for non-member countries

IV.B.1. 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.2. 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 debtors:

Country	Date	Amount (principal + interest)
Georgia (loan of ECU 10 million)	15.4.1996	10 106 572.43
Georgia (loan of ECU 40 million)	15.4.1996	1 050 469.67
Armenia (loan of ECU 20 million)	15.4.1996	19 604 806.06
Total		30 761 848.16

IV.B.3. Late repayments

During the period covered by this report, the following country repaid debts on which it 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.

Country	Repayment date	Amount (principal + interest)
Turkmenistan (loan of ECU 45 million)	7.5.1996	15 279 824.71

IV.B.4. Situation as regards unpaid debts at 30 June 1996

The following amounts had not been paid at 30 June 1996:

Country	Amount (principal + interest)
Tajikistan	63 181 389.89
Georgia	92 463 958.04
Armenia	57 601 313.20
Turkmenistan[6]	30 570 321.40
Total	243 816 982.53

6 Two capital repayments totalling ECU 22.8 million have been made since 30 June 1996

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.[7]

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 1996-99 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[8] and decisions proposed and in preparation[9] (see Table 4), ECU 306 million is expected to be used from the guarantee reserve in 1996, leaving ECU 20 million available at the end of the year.

The Guarantee Fund could then amount to around ECU 620 million at the end of the year assuming:

- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries.

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 1997-99, the annual capacity available for loans varies:

- from ECU 1.8 billion to ECU 2 billion for loans with a 100% guarantee under the Community budget;
- from ECU 2.4 billion to ECU 2.7 billion for loans with a 75% guarantee (EIB loans to Mediterranean countries).

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7 ECU 300 million at 1992 prices.

8 Under transfer 5/96 the budgetary authority authorized the transfer of ECU 191.8 million from the guarantee reserve to the Guarantee Fund.

9 The loans proposed and being prepared by the Commission for 1996 will have an impact of ECU 114 million on the guarantee reserve.

VI. RELATIVE SOLIDITY OF THE GUARANTEE FUND

The ratio between the estimated amount in the Fund at the end of 1996 and the maximum annual risk (defined as the total amount falling due) shown for 1997 in Table 3 comes to 32%.

The Fund should then correspond to 7.5% of the total amount of guaranteed loans outstanding outside the Community.

The ratio between the amount in the Fund at the end of 1996 and the amount due in 1997 from countries which have defaulted in the past is 11:1.

TABLE 4

THE COMMUNITY'S THEORETICAL ESTIMATED LENDING & GUARANTEE CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1996-99

under the Guarantee Fund mechanism*

ECU million	1996	1997	1998	1999
Reserve for loan guarantees to non-member countries(1)	*326*	*329*	*337*	*346*
Bases for the calculation of the provisioning of the Guarantee Fund (2)				
- EIB loans				
- Mediterranean (a)	201	281,75	195,5	150
- countries of Central and Eastern Europe (b)	1114			
- Asia and Latin America (c)	521			
- South Africa (d)	120	55		
- EIB loans - total	*1956*	*336,75*	*195,5*	*150*
- Euratom loans (e)	0	200	200	150
- Macrofinancial assistance	165	-130		
Provisioning of the Guarantee Fund (3)	***306***	***60***	***57***	***44***
Margin remaining in the guarantee reserve (4)	*20*	*269*	*280*	*303*
Residual lending capacity (balance of payments loans, EIB loans and Euratom loans (5)				
- Minimum if used in full for 100% guarantee (e.g. BP loans)	134	1794	1865	2017
- Maximum if used in full for EIB loans (75% guarantee)	179	2393	2486	2689

(*) Assuming that the target amount is reached after 1999. For example, if the Fund reaches its target amount at 1 January 1999 and the rate of provisioning is cut to 10% after the review provided for in Article 4 of the Regulation establishing the Fund, the Union's lending capacity in respect of non-member countries would be increased by ECU 1 143 million a year for loans with a 100% guarantee and by ECU 1 524 million for loans with a 75% guarantee.

Description of the loans for which the Fund will be provisioned in the period 1996-99:

- **EIB**

a. Mediterranean:
- loans decided: 1994-96: ECU 115 million under the Fourth Financial Protocol with Syria.
1995-98: ECU 80 million under the Fourth Financial Protocol with Malta and Cyprus
- loans proposed or in preparation: 1996-2000: ECU 750 million for financial cooperation with Turkey and ECU 230 million for financial cooperation with Croatia. 1997-2000: ECU 150 million for financial cooperation with the Former Yugoslav Republic of Macedonia (FYROM).

b. Central and eastern Europe:
- loans decided: 1994-96: ECU 3 000 million

c. Asia and Latin America
- loans decided: 1993-96: ECU 750 million
- loans proposed or in preparation: 1996: ECU 410 million

d. South Africa
- loans decided: mid-1995 to mid-1997: ECU 300 million

e. - **Euratom**
- loans decided: 1994-99: ECU 1 100 million

f. - **Financial assistance**
- loans decided: 1996: ECU 15 million loan to Moldova; ECU 20 million loan to Belarus cancelled; ECU 130 million loan to Slovakia cancelled
- loans proposed or in preparation: 1996: ECU 170 million in loans to the Republics of Georgia, Armenia and Tajikistan

Part Two
Evaluation of potential risks: General Economic 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 is slightly different from previous reports. The present report is focusing more clearly on recent developments of direct relevance for the country risk evaluation in the respective countries. Less space is accordingly attributed to the more general description of economic developments in the countries concerned, which allows to shorten the text considerably. With that same goal in mind, some countries - where the overall risk level is considered low and recent developments not significant - are treated only summarily whereas countries where the financial exposure for the EU is great and/or a noteworthy change (deterioration or improvement) in the risk evaluation has taken place, are analysed more thoroughly.

As an important complement to the textual analysis, extensive country risk indicators for all relevant countries in Central and Eastern Europe, the NIS and in the Mediterranean area are provided in the form of a full-page table per country.

It may be noted that the evaluation does not cover EU exposure in other regions than those mentioned, mainly because this exposure (notably through guarantees of EIB lending) represents only a fraction of total exposure (less than 3%) and is also well diversified among countries.

Generally, developments since the latest report indicate that overall EU exposure in the regions concerned (CEEC, NIS, Med.) has fallen marginally. Increases in CEEC and the Mediterranean are more than offset by the decrease for NIS.

The development of risk associated with the three regions differs though. In Central and Eastern Europe risk levels are generally lower but with some important exceptions. The present uncertainties regarding future developments in Bulgaria seem particularly preoccupying but developments in Romania and Slovakia may also, although to a lesser extent, need close monitoring.

In the NIS, the Far Eastern nations continue to present generally considerable risk, with Uzbekistan as an exception. The situation is equally fragile in the Caucasian region whereas Belarus, Moldova and Ukraine fare marginally better.

In the Mediterranean area, finally, Algeria presents the most sensitive picture at this juncture.

II. CENTRAL AND EAST EUROPEAN COUNTRIES

BULGARIA

Bulgaria is in the middle of a serious economic and financial crisis. Progress in structural reform remains slow, in particular with respect to the closure of large loss-making state enterprises and restructuring of the severely hit banking sector. IMF has postponed and the World Bank has delayed further any additional financial assistance. GDP declined by 2.6 % in the first quarter of 1996, *before* the crisis came to a head. The currency continues to depreciate against the dollar. by mid-September it had reached 230 leva/USD, compared with about 80 in mid-April. Simultaneously, inflation has accelerated sharply. The key interest rate has been raised from 108 % to 300 % in September in a short-term effort to support the leva. However, confidence in the currency, and in the banks, continues to be extremely low. The current account has improved only very slowly and was still in deficit in 1995. The servicing of Bulgaria's external debt is substantial during the rest of 1996 and continues to be high in the coming years. Returning the Bulgarian economy to a path of macro-economic stabilisation and recovery hinges crucially on rapid success in implementing a revised economic programme in agreement with the IMF, without which Bulgaria would find itself effectively cut off from official credits. Presidential elections in October 1996 and parliamentary elections by the end of 1998 provide a rather short intermediate time span in which to implement strict economic policies.

CZECH REPUBLIC

Czech country risk has grown but remains very moderate relative to other transition countries. Real growth is high and driven by buoyant domestic investment. Unemployment is very low and inflation below 10%. However, the fiscal accounts have slipped into the red for the first time in years and the current account deficit remains sizeable. Financing the external disequilibrium will cause the net-debt ratio to rise from its very low level but the Czech Republic would have no problem raising the necessary finance on the international markets. Some macroeconomic adjustment may still be preferable but will be more difficult to deliver after the government lost its Parliamentary majority in the recent general elections

ESTONIA

Estonia's risk assessment has improved steadily over the last few years. The economy is recovering markedly as a consequence of sound policies pursued by the authorities and early liberalization and reform of the economy. Following the stabilization of GDP in 1994, it expanded by 3.2% in 1995 and is expected to grow a further 4% in 1996. Inflation has come down to 29% in 1995 from the hyperinflation experienced in 1992 (1000%). The exchange rate of the Estonian Kroon is fixed to the D-Mark (8EEK=1DM) through a currency board system that links money growth to the balance of payments. Despite a substantial current account deficit during the past years (8% in 1995 excluding official transfers) the overall balance was always positive thanks to capital inflows, including in particular strong foreign direct investment (in the order of US$ 200 million). Despite the real appreciation over the past years, the exchange rate is still competitive, given the highly competitive starting point. Therefore capital inflows can be expected to continue for a number of years, but would eventually stop, having in the context of the currency board system a contractionary effect on the economy.] Debt and debt service ratios remain relatively low.

HUNGARY

The overall risk assessment for Hungary has continued to improve, positive developments in the balance of payments and foreign debt indicators, a reduction in the budget deficit, the acceleration of the privatization process, and a relatively stable political context. In March 1996, the IMF approved a "precautionary" stand-by credit for Hungary and the economic programme remains on-track. Hungary's debt ratios however remain dangerously high, and further reductions in the current account and budget deficits are still needed. The forint was made fully convertible for current account purposes in January 1996. Hungary's international credit ratings remain stable at a sub-investment grade level.

LATVIA

Latvia's economy had just emerged from recession, showing positive GDP growth of 2% in 1994, when a major banking crisis emerged in Spring 1995, which contributed to a contraction of GDP (-1.6%) and a widening of the consolidated budget deficit to 3.3% of GDP (4.8% for the central government). As a consequence of the crisis, the SBA of April 1995 went off-track. Since May 1996 a new SBA is in place and the economy seems to recover, with trade and industrial production expanding. As a consequence of the crisis, international reserves declined in the course of 1995, reducing the level, in months of imports, from 4.5 to 3.2, which still seems fairly comfortable. The external debt and debt service ratios have remained relatively low.

LITHUANIA

In late 1995, Lithuania's economy was hit by a banking crisis. Economic growth that started to be positive in 1994 and accelerated in 1995 has slowed down in 1996 with unemployment rising above 8%. But the Lithuanian authorities reacted to the financial crisis by a mix of monetary relaxation and fiscal tightening thereby stabilizing financial conditions and preserving the currency board system that pegs the national currency, the Litas, to the US dollar. In addition, a plan has been developed with the support of IMF and World Bank to address the bad debt problem of the banking sector.
In the first quarter of 1996, the balance of payments went into deficit for the first time since early 1994. This is due to a sharp decrease in capital inflows and a worsening trade deficit which could be the result of the significant real appreciation of the Litas since April 1994. So far, Lithuania has not been very successful in attracting direct foreign investment, especially if compared to the smaller Estonia, the other Baltic country with a currency board arrangement, which obtains more than triple the amount of DFI each year. Steps are taken to create a more favourable and stable environment for DFI. The foreign debt and debt service ratios remain relatively low, but debt in terms of exports is rising steadily.

ROMANIA

Romania country risk has increased as the forthcoming general elections are influencing policy decisions. This may jeopardise the initially positive results achieved under the reform programme implemented with IMF support since 1994. Macroeconomic disequilibria are developing and timid microeconomic reforms have been halted and, at times, reversed. This was the case of the unification of the foreign exchange regime: a free interbank foreign exchange market was de facto abolished in March 1996 and state-run enterprises had their foreign earnings confiscated. As a consequence, Romania went off-track on its IMF stand-by and the disbursement of the second tranche of the EU balance-of-payments loan is delayed. Foreign liabilities do not yet raise any immediate concern but they present a very short-term structure and the debt-ratio has climbed up steeply. Access to the private international capital market may become difficult if the reform effort is not resumed after the elections.

SLOVAKIA

Slovakia's risk assessment has deteriorated reflecting the rapid worsening of the current account since early 1996 but remains relatively favourable. Against the background of prudent fiscal, monetary and exchange rate policies, most macroeconomic indicators continue to show a positive evolution. Real GDP grew by 7% in the first half of 1996; unemployment is going down; annual inflation has stabilized at below 6%, the lowest rate among transition countries; official reserves and debt indicators remain at comfortable levels; and the budget deficit has been contained at around 2% of GDP. On the negative side, the current account is projected to move from a surplus of 3.6% of GDP in 1995 to a deficit of more than 4% of GDP in 1996. Furthermore, the outlook continues to be marred by political tensions (including the persisting conflict between the Prime Minister and the President of the Republic, and the issue of the Hungarian minority) and by sluggish, or insufficiently transparent, structural reforms.

The worsening of the current account reflects the boom in domestic demand, weak economic activity in the EU, some accumulated appreciation of the real exchange rate and the reduction of duties on car imports. The current account deficit is being amply financed by strong capital inflows and, as a result, official reserves remain at a comfortable level (representing more than 4 months of imports in mid-September 1996). Slovakia reached Article VIII status at the IMF in October 1995. The import surcharge was reduced from 10% to 7.5% in July 1996 and the government intends to fully remove it by end-1996. The IMF stand-by arrangement expired in early 1996. The mid-term review of the stand-by programme was never completed, reflecting the failure of the government to implement commitments in the areas of privatization and banking sector reform. Slovakia's international ratings have remained stable since Moody's assigned to the country an investment grade mark in May 1995.

III. NEWLY INDEPENDENT STATES

ARMENIA

Armenia remains in the high-risk category of creditors. The economic recovery, which started in 1994 from a very low level, has continued in 1996 and inflation is under control. However, the slow pace of structural reforms - even though the privatization process started early after independence - has made Armenia largely dependent on external assistance. The external debt of the country had reached 25% of GDP in end 1995 and this ratio has increased in 1996 with drawings on credit lines from the IMF and the WB. Moreover, the country has been in arrears towards the EU since August 1995 and does not envisage a short-term solution to this problem on its own. The approval by the IMF Board in February 1996 of a 3-year ESAF-supported economic programme should however contribute to accelerate the pace of reforms and to improve the general economic situation in the medium-term. On the political side, the unsolved conflict with neighbouring Azerbaijan on the Nagorno Karabakh issue is a negative factor.

AZERBAIJAN

Risk assessment for Azerbaijan is the highest among the three Caucasian countries. GDP is estimated to have declined further in the first months of 1996, following a sharp decline of about 40% in 1994-1995. Growth is however expected to resume during the second part of the year. Inflation is under control and the fiscal deficit has also largely improved in the recent months. Concerning structural reforms, Azerbaijan is lagging well behind most other CIS countries. A series of areas have been identified where the authorities are committed to achieve important progress in the short run. The second review under the IMF 12-month stand-by arrangement approved in November 1995 took place in May 1996: performance criteria were met and the drawing of the third tranche authorised. The external debt of the country is estimated at some US$ 500 million (about 15% of GDP), mainly to Russia and Turkmenistan. Azerbaijan's medium-term perspectives are potentially favourable, owing mainly to its huge oil reserves. In the short run, however, the combination of a globally weak economic situation, slow structural reforms and the conflict with neighbouring Armenia on Nagorno Karabakh weighs markedly on the negative risk assessment.

BELARUS

A referendum to be held in Belarus in November 1996 is expected to settle the opposition between the Belarussian Parliament and the Presidency and decisively influence the pace of the structural reform process in the country. Since last year, as a result of inappropriate policies, the economic situation in Belarus has been deteriorating and several macroeconomic indicators performed worse than expected. So far, the authorities' main response has been to have recourse to command economy measures by increasing state intervention and controls, imposing trade and exchange market restrictions, increasing subsidization of the economy, and virtually slowing, halting or even reversing structural and institutional reforms. The IMF, World Bank and European Union disbursements have been suspended. The trade deficit level was sharply rising (US$ 750 million) in the first half of 1996 because of an unrealistic exchange rate level, while the capital account surplus was considerably reduced (US$ 100 million). As a result, foreign exchange reserves stood at the very low level of 3 weeks of imports in April 1996. However, the continuing nominal depreciation of the Belarussian currency (30 % from April 1996) is expected to restore some competitiveness. The stock of official debt increased to US$ 1.5 billion (15 % of GDP) at end-1995 and decreased to US$ 1 billion after claims cancellation by Russia in April 1996.

GEORGIA

Georgia's risk assessment has remained rather stable in recent months, at an uncomfortable level. After a very sharp decline of the economy from 1990 to 1994, signs of recovery appeared in the course of 1995 and economic growth is expected for 1996. Inflation is also under control and the exchange rate of the new currency has remained stable in 1996. This fragile progress is, however, threatened by the dramatic situation in public finances, caused by a collapse in revenues. Since its independence, mainly to finance imports, Georgia has accumulated a huge foreign debt, estimated at some US$ 1.2 billion by end 1995 (44.7% of GDP), the main part of which represents payments arrears. Being unable to honour its debt repayments, Georgia has reached rescheduling understandings with some of its creditors (mainly Turkmenistan). The country has also been in arrears on payments towards the EU since April 1994 and cannot envisage a solution to these arrears on its own. The approval by the IMF Board in February 1996 of a 3-year ESAF-supported economic programme should however contribute to accelerate the pace of reforms and to improve the general economic situation in the medium-term. On the political side, the Abkhazia problem is also a negative factor.

MOLDOVA

Having been considered for long as a relative success story, Moldova's economic and structural reforms performances have fallen short of expectations recently. If inflation remains under control (9% for the first 8 months of 1996), a modest growth in GDP of some 3% is expected for this year. The fiscal performance has been badly influenced by the weakness of tax collection, but several corrective measures have been implemented in 1996 to tackle this problem. Moldova's foreign debt is expected to reach some US$ 700 million by end-1996 (some 32% of GDP) and is mainly due to the IFI's. Important structural reforms are still expected in key sectors such as privatization of agriculture and restructuring of enterprise and energy sectors. The approval by the IMF Board in May 1996 of a 3-year EFF-supported economic programme, combined with a World Bank "Country assistance strategy" (CAS) programme, adopted in April 1996, should contribute to accelerate the pace of reforms and to improve the general economic situation in the medium-term. Politically, although the issue of the proclaimed Dniestr Republic - part of Moldova's territory - is complex, it does not considerably influence the overall risk assessment,

TAJIKISTAN

The security situation in Tajikistan seems to have deteriorated and the recent developments in Afghanistan could affect the Tajik Government's relations with the Tajik opposition based abroad. The 1996 macro-economic developments have been positive so far with fast reduction of monthly inflation (4 % in September), satisfactory budgetary revenues and credit and monetary policies still on-track, and slightly positive trade balance. However, GDP has continued to fall (around 10%). Moreover, the cotton harvest and budgetary expenditures (in particular defence and capital expenditures) are sources of concern. Enterprises privatization has been slow, but land reform has been proceeding faster. At end 1995, the external debt of Tajikistan (US$ 800 million) exceeded the country's GDP (150%), while foreign exchange reserves covered less than 1 week of imports. Several creditors have agreed to reschedule the debt falling due in 1996, while others are still negotiating. An additional rescheduling of debt service payments will be necessary to fill the residual financing gap projected for 1997. The conclusion of a Stand-By Arrangement in early 1997 will depend on the progress in the current IMF programme.

TURKMENISTAN

The political situation in Turkmenistan, although complex, seems stable. The country's economic development remains heavily influenced by the inability of its largest customers to pay and by Russia's and Iran's unwillingness with respect to the transportation of gas. Output is expected to increase strongly in 1996 owing to extra gas shipments but the overall economic situation remains weak. Monthly inflation, which fell from about 30 % in late 1995 to 3.5 % in July 1996, was picking up at a level of 10 % in August owing to excessive credit to the economy. The budget situation has not improved as a result of recurrent non-payments for gas deliveries. The large trade surplus of the balance of payments partly corresponds to credits to its customers. The still very high level of foreign exchange reserves (9 months of imports) can be used to meet the substantial external obligations falling due. Turkmenistan's government has been reluctant to move rapidly on structural reform, although recent declarations seem to indicate a change of attitude.

UKRAINE

Ukraine's risk is slowly diminishing, but it remains high. Economic conditions are improving gradually. Inflation has declined further in the course of 1996, but GDP continues to contract even if at a lower rate (estimated decline of 8% in 1996). Since the adoption of the new SBA in May of this year, financial policies have been relatively tight. This is especially true for monetary policy. However, there are strong pressures on the budget (important wage arrears, demands for support of coal mines, etc.), and a loosening of fiscal policies remains a major risk. On 2 September 1996 the new national currency, hryvnia, was introduced. Given the announcement of a number of restrictive measures in the context of the currency reform, the NBU had to intervene heavily in the foreign exchange market to keep the exchange rate stable, thereby loosing substantial reserves (the level is below 1 month of imports). The political risk remains high. On the one hand, there is an ongoing struggle between pro-reform forces in the government, also backed by the President, and conservative anti-reform forces, including the majority of the Ukrainian Parliament. On the other hand, there are unsolved issues with Russia regarding for instance the Black Sea Fleet and trade issues.

For next year, the external financial situation remains tight. Although the export performance is strong and the services balances positive the current account deficit is expected to remain at over US$ 1 bn and to decline somewhat in % of GDP. Capital inflows, investment and long-term credits are expected to leave a financing gap of almost US$ 2 bn that cannot fully be covered by IMF and World Bank financing (of some US$ 1.5 bn). No dramatic changes in debt and debt-service ratios are expected.

UZBEKISTAN

Provided new developments in Afghanistan do not significantly influence the Central Asian region, the Uzbek authorities, in spite of slow institutional reforms, are expected to maintain political and social stability and play a leading and constructive role in Central Asian politics. Bolstered by cotton, gold and oil revenues, Uzbek GDP in recent years has shrunk much less than in most CIS countries, and, with significant foreign investments and the energy sector still expanding, output is projected to stabilize in 1996. Fiscal and monetary tightening since mid-1994 brought about a sharp drop in monthly inflation from 100 % in 1994 to around 2 % in March 1996. The budget deficit, already smaller (4 % of GDP) in 1995, is expected to improve further in 1996. In 1995, the current account showed a deficit of 0.5 % of GDP, while the country was building up foreign exchange reserves (6 months' imports). The current account deficit is expected to widen slightly in 1996/1997 and to decline by 2000. The external debt service/exports ratio is expected to remain comfortable. While the Som remained stable for most 1995 and 1996, it has been under increasing pressure from August 1996 as a result of big rise in trade, fall in the price of cotton and bad harvests. As the Government has until now refused to use its sizeable hard currency reserves, Uzbekistan is hit by shortage of hard currency which could hamper further development of foreign trade. Economic and structural reforms in Uzbekistan, although introduced cautiously, have, with IMF and World Bank support, intensified lately, with progress in a wide range of areas: liberalization of prices, domestic trade, foreign trade and currency regime. The creation of SMEs has accelerated and the country is open to foreign investment.

IV. MEDITERRANEAN COUNTRIES

ALGERIA

Algerian country risk remains high. The political situation and the security problems continue to hinder the pace of structural reform and the development of a dynamic private economy. The macroeconomic improvement achieved under the IMF-supported programme implemented since 1994 has recently been strengthened by an up-swing in oil prices. However, unemployment remains above 20% and the most sensitive areas for crucial microeconomic reform (agriculture and public enterprise restructuring) still have to be tackled. Given limited structural change, both the fiscal and the external accounts remain vulnerable to the future vagaries of the oil price. The overall external position has improved but remains fragile with no access to the international capital market, negligible FDI and a persisting deficit in the overall balance of payments. External viability is achieved only through the support of the multilateral institutions and the debt rescheduling agreed with the London and Paris Clubs (ending in 1998).

ISRAEL

The risk assessment for Israel has deteriorated somewhat reflecting the stalemate in the Middle East peace process, rising budget and current account deficits and inflationary pressures in the context of an overheating economy. These negative developments are only compensated in part by the approval by the Netanyahu government of expenditure cuts of Sk 4.9 bn to the 1997 budget deficit, its simultaneous adoption of a stringent multi-year deficit reduction plan and its commitment to accelerate privatization and other structural reforms. While Israel has a high gross foreign debt and a considerable political risk, the country-risk evaluation benefits from the implicit guarantee provided by the US's economic and political support.

Annexe

ANNEXE

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. Authorized ceiling (Table 1)

This is the aggregate of the maximum amounts of capital authorized (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 authorized ceiling

Factors reducing the risk;

- limitation of the guarantee given to the EIB to 75% of the loans signed in the Mediterranean countries;
- operations already repaid, since the amounts concerned, except in the case of balance of payments support, are the maximum amount of loans granted and not outstanding amounts authorized;
- the amounts authorized 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 authorized 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

The budgetary authority authorized 31 headings with token entries in the 1996 budget to cover any payment of guarantees. These headings can be divided into three categories: borrowing and lending within the Community, borrowing and lending outside the Community and guarantees given to financial institutions.

I.B.1. Borrowings to be on-lent within the Community

I.B.1..1 Community borrowing operations to provide balance-of-payments support

The Community is authorized to borrow on the capital markets or from financial institutions and make the sums raised available to Member States experiencing temporary balance-of-payments difficulties.

The outstanding amount of loans granted to Member States for this purpose may not exceed ECU 14 billion in principal.

At 30 June 1996 there was one operation in respect of Greece under the decision of 4 March 1991 and one operation in respect of Italy under the decision of 18 January 1993.

I.B.1..2 Euratom borrowing operations

In 1977 the Commission was empowered to borrow funds to be used to help finance nuclear power stations.

Loans are made to electricity producers and carry the usual guarantee demanded by banks. Recipients are often State-owned companies or companies enjoying a State guarantee.

The maximum amount of borrowings authorized is ECU 4 billion, of which ECU 500 million was authorized by the 1977 decision, ECU 500 million in 1980, ECU 1 billion in 1982, ECU 1 billion in 1985 and ECU 1 billion in 1990. The amount borrowed comes to around ECU 2 900 million, leaving ECU 1 100 million which may still be raised.

On 9 December 1992 the Commission proposed that the balance of borrowings not used in the Member States could be used to finance the improvement of the degree of efficiency and safety of nuclear power stations in the countries of Central and Eastern Europe and in the CIS.

The Council adopted a decision to this effect on 21 March 1994 (see Part II - Loans raised for non-Community countries).

I.B.1..3 Borrowing operations for the promotion of investment in the Community

The Commission was empowered by a Council Decision of 16 October 1978 to borrow funds to be used to promote investment in the Community (New Community Instrument).

The authorized borrowing ceiling was fixed at ECU 1 billion by the Decision of 16 October 1978 and was then raised by ECU 1 billion by the Decision of 15 March 1982. The ceiling was further raised by ECU 3 billion by the Decision of 19 April 1983 and by ECU 750 million by the Decision of 9 March 1987.

The proceeds of the operations are paid out in the form of loans granted by the EIB, acting for the Commission, to finance investment projects which contribute to greater convergence and growing integration and are consistent with the priority Community objectives in the energy, industry and infrastructure sectors, taking account of such factors as the regional impact of the projects and the need to combat unemployment. Support for small businesses was also made a priority objective by the Decision of 26 April 1982.

A Decision of 20 January 1981 also empowered the Community to contract loans in order to provide exceptional aid of ECU 1 billion to the regions of Italy affected by the earthquake of November 1980. A similar decision involving ECU 80 million was adopted on 14 December 1981 for the regions affected by the earthquakes in Greece in February/March 1981.

The maximum amount of borrowings authorized thus comes to ECU 6 830 million.

The risk is spread over a large number of borrowers. In addition, most of the loans are global loans to financial institutions which guarantee repayment of the funds.

Every year the EIB provides the Commission with a list of debtors who, according to its information, risk defaulting in the coming year. So far, no names have appeared on this list.

I.B.2. Loans raised for on–lending to non-Community countries

I.B.2..1. Euratom borrowings for certain non-Community countries

On 21 March 1994 the Council decided to amend Decision 77/270/Euratom to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries.

This Decision will allow a considerable proportion of Euratom's available borrowing capacity (some ECU 1 100 million) to be used to finance projects. For these projects to be eligible, they must relate to:

- nuclear power stations or installations in the nuclear fuel cycle which are in service or under construction;

- or to the dismantling of installations which cannot be brought up to standard for technical or economic reasons.

The following non-member countries qualify:

Republic of Bulgaria
Republic of Hungary
Republic of Lithuania
Romania
Republic of Slovenia
Czech Republic
Slovak Republic
Russian Federation
Republic of Armenia
Ukraine

The idea of international financial aid for the closure of the Chernobyl nuclear power plant was entered in the conclusions of both the Corfu European Council of 24 and 25 June 1994 and the G7 summit at Naples on 7 and 8 July 1994.

I.B.2.2 Programme of borrowings contracted by the Community to provide macrofinancial assistance to the countries of Central and Eastern Europe

- Hungary

Hungary I

In 1990 the Community granted Hungary a medium-term loan of up to ECU 870 million in principal for a maximum of five years. The loan is intended to facilitate the adjustment of the Hungarian economy in a way which will enable it to derive all the benefits of a market–based economy. It is being made available in tranches.

The first tranche of ECU 350 million was paid on 20 April 1990. A second tranche of ECU 260 million was paid on 14 February 1991. The third tranche, which is not to exceed ECU 260 million, was planned for 1992 but has not been paid out as Hungary's balance of payments has been more favourable than expected. The tranches will be repaid in one instalment after five years and interest, which is at variable rates, is payable half-yearly.

Hungary repaid the first tranche of ECU 350 million in full on 20 April 1995. The second tranche of ECU 260 million was repaid on 20 April 1996.

Hungary II

As the break-up of the Council for Mutual Economic Assistance (Comecon) and the Gulf crisis threatened to compromise the initial encouraging results of the reforms undertaken, the Council decided in June 1991 to grant additional macrofinancial assistance to Hungary in the form of a loan of ECU 180 million under a general G-24 programme of financial assistance.

The first tranche of ECU 100 million was paid on 14 August 1991. It will be repaid in one instalment after seven years and interest, which is at variable rates, is payable half-yearly. The second tranche of ECU 80 million was paid on 15 January 1993. It will be repaid in January 1997 and interest, which is at a fixed rate, is payable annually.

• Czech Republic and Slovak Republic

- As part of G-24's overall financial assistance, the Commission, on behalf of the Community, was empowered to borrow, in two tranches, ECU 375 million for a period of seven years. The proceeds of this operation were to be on-lent on the same terms to the Czech and Slovak Federal Republic.

  The first tranche of ECU 185 million was paid on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half-yearly.

  The second tranche of ECU 190 million was paid on 2 March 1992 and will be repaid in one instalment after six years.

- Following the division of Czechoslovakia into the Czech Republic and the Slovak Republic on 1 January 1993, the Commission proposed that the loan be divided between the two Republics.

  Under the Council decision of 24 January 1994, two thirds of the loan - ECU 250 million - will be for the Czech Republic and one third - ECU 125 million - for the Slovak Republic.

- Slovak Republic

  As part of the financial assistance for the Slovak Republic, the Commission, on behalf of the Community, was empowered by a Council decision 94/939/EC of 22 December 1994 to borrow, in two tranches, ECU 130 million for a period of seven years. The proceeds of this operation were to be on-lent on the same terms to Slovakia.

Because of the improvement in the macroeconomic situation and, in particular, the Slovak Republic's balance of payments and currency reserves and its access to international private capital markets, the Slovak authorities stated in April 1995 that they would no longer be calling on the aid granted by the IMF under the stand-by agreement to support the country's balance of payments.

With the IMF stand-by arrangement expiring and the Slovak authorities not being prepared to agree on the economic policy measures to be attached to the implementation of the EU loan facility, the Commission therefore submitted to the Council a proposal cancelling Decision 94/939/EC of 22 December 1994 in line with the conclusions to be drawn for the Community. This decision was repealed by the Council Decision of 25 July 1996.

- Bulgaria

Bulgaria I

As part of G-24's overall financial assistance, the Commission, on behalf of the Community, was empowered to borrow, in two tranches, ECU 290 million for a period of seven years. The proceeds of this operation were to be on–lent on the same terms to Bulgaria.

The first tranche of ECU 150 million was paid to Bulgaria on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 140 million was paid on 2 March 1992 and will be repaid in one instalment after five years. Interest, which is at variable rates, is payable half-yearly.

Bulgaria II

As part of G–24's new aid for 1992 and 1993, the Commission, on behalf of the Community, was empowered to borrow ECU 110 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on-lent to Bulgaria. Because of delays in the process of economic reform in Bulgaria, implementation of this operation was deferred until December 1994 when the first tranche of ECU 70 million was finally paid. It will be repaid in one instalment on 7 December 2001 and the interest, which is at variable rates, is payable half-yearly.

- Romania

Romania I

As part of G–24's overall financial assistance, the Commission, on behalf of the Community, was empowered to borrow ECU 375 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on-lent on the same terms to Romania.

The first tranche of ECU 190 million for a term of seven years was paid on 22 January 1992. It will be repaid in one instalment on 1 February 1999, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 185 million for a term of six years was paid in April 1992 and will be repaid in one instalment on 18 March 1998. Interest, which is at variable rates, is payable half-yearly.

Romania II

As part of G-24's new aid, the Commission; on behalf of the Community, was empowered to borrow ECU 80 million for a maximum period of seven years. The proceeds of this operation were to be on–lent on the same terms to Romania.

The loan was paid out in a single tranche on 26 February 1993. It will be repaid in one instalment on 26 February 2000, and interest is payable half-yearly.

Romania III

As part of G-24's new overall macrofinancial aid, the Commission, on behalf of the Community, was empowered by the Council Decision of 20 June 1994 to borrow ECU 125 million in two tranches of ECU 90 million and ECU 35 million for a maximum period of seven years. The proceeds of this operation are to be on-lent on the same terms to Romania.

The first tranche of ECU 55 million for a term of seven years was paid on 20 November 1995. It will be repaid in one instalment on 20 November 2002, and interest, which is at variable rates, is payable half-yearly.

The second tranche had not yet been paid at 30 June 1996.

I.B.2.3 Borrowings contracted by the Community to grant macrofinancial assistance to the new independent States of the former Soviet Union

- Medium-term loan of ECU 1 250 million

In December 1991 the Council decided to grant a credit facility of up to ECU 1 250 million for the Soviet Union and its Republics in order to finance imports of agricultural products, foodstuffs and medicines from the Community and Eastern Europe for a maximum period of three years.

After the Soviet Union broke up, the loan was divided between the various new independent States at the beginning of 1992.

Loan contracts signed on the basis of the original breakdown

Most of the loan contracts were signed in the course of 1992:

- with Armenia (ECU 38 million), Kyrgyzstan (ECU 32 million), Turkmenistan (ECU 45 million) and Moldova (ECU 27 million) on 10 July 1992; the amount for Kyrgyzstan has since been reduced to ECU 23.7 million at the request of the Kyrgyzstan authorities;

- with Ukraine (ECU 130 million) on 13 July 1992;

- with Belarus (ECU 102 million), Tajikistan (ECU 55 million) and Georgia (ECU 70 million) on 24 July 1992;

- with Russia (ECU 150 million) on 9 September 1992;

- with Russia (ECU 349 million) on 9 December 1992;

- with Kazakhstan (ECU 25 million) on 15 December 1992.

Loan contracts signed on the basis of the amended breakdown

Some loan contracts were also signed in 1993 after the initial breakdown of the total amount of the loan had been changed:

- On 5 May 1993 two further contracts were signed with Armenia (ECU 20 million) and Georgia (ECU 10 million). The amount represented by these two loans had originally been allocated to Kazakhstan.

- On 6 December 1993 a further loan contract of ECU 40 million was signed with Georgia. This loan was financed by reducing Uzbekistan's allocation.

- On 14 September 1994 a contract for ECU 59 million was signed with Uzbekistan.

- On 12 October 1994 a contract for ECU 68 million was signed with Azerbaijan.

Utilization of the ECU 1 250 million loan

Loans	Initial breakdown (1992)	Breakdown at 30.6.1996	Actual utilization at 30.6.1996
Armenia a	38	38	37,9
Armenia b		20	19,6
Azerbaijan	68	68	50,3
Belarus	102	100,5	100,5
Georgia a	70	70	69,4
Georgia b		10	9,8
Georgia c		40	34,1
Kazakhstan a	55	25	24,9
Kazakhstan b		0	-
Kyrgyzstan	32	23,7	22,7
Moldova	27	27	27,0
Russia a	150	72,9	70,0
Russia b	349	349	299,7
Tajikistan	55	55	54,5
Turkmenistan	45	45	44,9
Ukraine	130	129,8	129,8
Uzbekistan	129	59	58,8
Total	1250	1132,9	1053,9

At 30 June 1996 the amount of loans actually being used came to ECU 1053.9 million.

Schedule for the repayment of capital and the payment of outstanding interest.

The schedules for the repayment of capital and the payment of outstanding interest for this operation vary according to the date on which the loan contract was signed and the amount of the loan:

- Georgia (ECU 40 million):
  - interest on 15 January 1997
  - capital on 15 January 1997.
- Azerbaijan and Uzbekistan:
  - interest on 28 March and 28 September
  - capital on 28 September 1997.

At 30 June 1996 Georgia, Armenia, Turkmenistan and Tajikistan had defaulted on principal and interest totalling ECU 243.81 million (see Part Two, Section IV - Activation of budget guarantees).

- Macrofinancial assistance for Moldova

As part of the Community's contribution to the international aid scheme for Moldova, the Commission, on behalf of the Community, was empowered by a decision of 13 June 1994 to borrow ECU 45 million in two tranches for a maximum period of ten years. The proceeds of this operation were to be on-lent on the same terms to Moldova.

The first tranche of ECU 25 million was paid to Moldova in December 1994. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 7 December 2004. The interest, which is at variable rates, is payable half-yearly.

The second tranche of ECU 20 million for a term of ten years was paid on 8 August 1995. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 8 August 2005. The interest, which is at variable rates, is payable half-yearly.

Macrofinancial assistance for Ukraine

As part of the overall aid programme for Ukraine, the Commission, on behalf of the Community, was empowered by the Council Decision of 22 December 1994 to borrow ECU 85 million for a maximum period of ten years. The proceeds of this operation are to be on-lent to Ukraine in one tranche.

The loan was paid in one tranche on 28 December 1995. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 28 December 2005. The interest, which is at variable rates, is payable half-yearly.

Ukraine II

As part of an overall aid programme for Ukraine, the Council Decision of 23 October 1995 empowered the Commission, on behalf of the Community, to borrow ECU 200 million for a

maximum period of ten years. The proceeds of this operation are to be on-lent to Ukraine in two tranches.
At 30 June 1996 the first tranche had not yet been paid.

- Macrofinancial assistance for Belarus

As part of the overall aid programme for Belarus, the Commission, on behalf of the Community, was empowered by the Council decision of 10 April 1995 to borrow up to ECU 75 million for a maximum period of ten years. The proceeds of this operation were to be on-lent in two tranches.

ECU 55 million of the ECU 75 million loan has been committed. As the country's economic situation is better than initially forecast by the IMF, the remaining ECU 20 million will not be paid.

The first tranche of ECU 30 million was paid on 28 December 1995 and is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 28 December 2005. The interest, which is at variable rates, is payable half-yearly.

I.B.2..4 <u>Borrowings contracted by the Community to grant macrofinancial assistance to the Baltic States</u>.

As part of the G-24's overall programme of financial assistance for these three countries, the Commission, on behalf of the Community, was empowered to borrow ECU 220 million for a period of seven years. The proceeds of this operation were to be on-lent on similar terms in two tranches:

- ECU 40 million for Estonia;
- ECU 80 million for Latvia;
- ECU 100 million for Lithuania.

The first tranches of the loan for Estonia (ECU 20 million) and for Latvia (ECU 40 million) were paid on 31 March 1993. The loans are to be repaid in one instalment on 31 March 2000 and interest, which is at variable rates, is payable half-yearly every 31 March and 30 September.

The first tranche of ECU 50 million for Lithuania was paid on 27 July 1993; it is to be repaid in one instalment on 27 July 2000 and interest, which is at a fixed rate, is payable annually every 27 July.

Half of the second tranche, i.e. ECU 25 million of the ECU 50 million planned, was paid to Lithuania on 16 August 1995; it is to be repaid in one instalment on 16 August 2002 and interest, which is at a variable rate, is payable half-yearly every 16 February and 16 August.

I.B.2..5 <u>Borrowings contracted by the Community to grant macrofinancial assistance to the Mediterranean countries</u>

- Israel

As part of the financial assistance agreed for Israel and the population of the occupied territories, the Commission was empowered in June 1991 to borrow, on behalf of the Community, ECU 160 million in one tranche for a period of seven years. The proceeds were to be paid out to Israel on the same terms and are accompanied by an interest subsidy of ECU 27.5 million paid from the Community budget.

This operation started on 2 March 1992. The borrowing is to be repaid in full on 15 December 1997.

At 30 June 1996 the amount outstanding on the borrowings for Israel came to ECU 160 million.

- Algeria

In September 1991 the Commission, on behalf of the Community, was empowered to borrow ECU 400 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on-lent on the same terms to Algeria.

A bridging loan was granted on 23 December 1991 to cover the first tranche of ECU 250 million and was repaid from the net proceeds of the borrowing contracted on 14 January 1992 for a period of six years.

The loan is to be repaid in one instalment on 15 December 1997 and interest is payable annually every 15 December.

Payment of the second tranche of ECU 150 million was deferred because of delays in Algeria's economic reform programme and was not made until August 1994 when the process of structural adjustment resumed. The loan is to be repaid in full on 17 August 2001 and interest is payable annually every 17 August.

In December 1994 the Council decided to grant Algeria further macrofinancial assistance. The Commission, on behalf of the Community, was empowered to borrow ECU 200 million for a maximum period of seven years. The proceeds of this operation are to be on-lent to Algeria in two tranches.

The first tranche of ECU 100 million for a term of seven years was paid on 27 November 1995. It is to be repaid in one instalment on 27 November 2002 and interest, which is at a variable rate, is payable half-yearly.

I.B.3. Community guarantee to non-Community countries

I.B.3..1 <u>Breakdown by geographical area</u>

- European Investment Bank loans to Mediterranean countries guaranteed by the general budget

Under the terms of the Council Decision of 8 March 1977, the Community guarantees loans to be granted by the European Investment Bank as part of the Community's financial commitments towards the Mediterranean countries.

This decision was the basis for the contract of guarantee signed by the European Economic Community and the European Investment Bank on 30 October 1978 in Brussels and 10 November 1978 in Luxembourg introducing a global guarantee of 75% on all credit lines made available for loans in the following countries: Portugal (Financial Protocol, pre-accession aid), Greece, Spain (financial cooperation), Malta, Tunisia, Algeria, Morocco, Turkey, Cyprus, Egypt, Jordan, Syria, Israel, Yugoslavia and Lebanon.

In addition, by way of exception, a 100% guarantee covers loans allocated for emergency aid to Portugal in accordance with the Council Decision of 7 October 1975.

A new extension of the contract of guarantee is established for each new Financial Protocol.

The loans authorized at 30 June 1996 total ECU 7 862 million, of which ECU 1 500 million is for Spain, Greece and Portugal and ECU 6 362 million for the non–member Mediterranean countries. At 30 June 1996 the total of outstanding loans came to ECU 2 066 million (taking account of the 75% limit), of which ECU 346 million was accounted for by Spain, Greece and Portugal and ECU 1 720 million by the non–member Mediterranean countries.

There is also provision for EIB loans outside these protocols under Council Regulation (EEC) No 1763/92 of 29 June 1992 concerning financial cooperation in respect of all Mediterranean non–member countries.

EIB loans under this operation must not exceed ECU 1 800 million. A 75% overall guarantee is provided.

At 30 June 1996 ECU 1 396.5 million had been made available; of this total, ECU 261 million had been paid; this figure corresponds to the amount currently outstanding.

At 30.06.96, the breakdown of authorizations by country (non–member countries only) was as follows:

ECU million

	Loans authorized
Algeria	640
Cyprus	142
Egypt	802
Israel	215
Jordan	198
Lebanon	222
Malta	85
Morocco	517
Slovenia	150
Syria	323
Tunisia	418
Turkey	90
Yugoslavia[10]	760
Protocols - Total	4 562
Horizontal financial cooperation	1 800
Mediterranean - Total	6 362

The loans are generally for 15 years with 3 to 4-year periods of grace on capital repayments.

- Loans granted by the European Investment Bank in countries of Central and Eastern Europe

In response to a call made by the Council on 9 October 1989, the Board of Governors of the European Investment Bank decided on 29 November 1989 to authorize the Bank to provide loans from its own resources to finance investment projects in Hungary and Poland for a total amount not exceeding ECU 1 billion. These loans are granted to finance investment projects which satisfy the Bank's usual requirements for loans from its own resources. The contract of guarantee covering 100% of the lending operations was signed on 24 April 1990 in Brussels and 14 May 1990 in Luxembourg.

On 14 May 1991 the budgetary authority extended this 100% guarantee to loans made in Czechoslovakia, Bulgaria and Romania up to a maximum of ECU 700 million.

The extension of the contract of guarantee was signed on 31 July 1991.

On 23 October 1992 the Commission presented a proposal for a Council Decision extending this 100% Community guarantee to losses incurred by the EIB as a result of loans granted to Estonia, Latvia and Lithuania; this was approved by the budgetary authority in its decision of 15 March 1993.

The overall ceiling on loans which the EIB may grant in these countries was set at ECU 200 million for a period of three years.

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10 The second protocol with Yugoslavia was suspended when ECU 100 million of credits could still be granted.

On 18 December 1992 the Commission also proposed the extension of this 100% guarantee to losses incurred by the EIB as a result of loans granted in Albania.

On 13 December 1993 the budgetary authority renewed the 100% Community guarantee for a period of three years for loans granted by the EIB in the countries of Central and Eastern Europe (including the Baltic States and Albania) up to a maximum of ECU 3 billion.

The contract of guarantee was signed on 22 July 1994 in Brussels and on 12 August 1994 in Luxembourg.

The loans are generally long-term: 15 years on average with 3 to 4-year periods of grace on capital repayments.

At 30 June 1996, ECU 3 646 million had been made available in the Central and Eastern European countries but only ECU 1 055 million had been disbursed.

- Loans granted by the European Investment Bank in other non–member countries

At its meeting of 19 May 1992 the Council (Economic and Financial Affairs) adopted the guidelines proposed by the Commission for the extension of EIB activities outside the Community and asked it to grant loans in accordance with its Statute and its usual criteria to projects of mutual interest in certain non-member countries (the developing countries of Asia and Latin America) with which the Community has concluded cooperation agreements.

An overall limit of ECU 250 million per year has been set for a 3–year period; this ceiling will be reviewed at the end of the period.

These loans benefit from 100% Community budget guarantees. The Commission presented a proposal for a decision to this effect on 3 June 1992. The formal Council Decision followed on 15 February 1993. The contract of guarantee between the Community and the EIB was signed on 4 November 1993 in Brussels and on 17 November 1993 in Luxembourg.

At 30 June 1996 credit lines of ECU 647 million had been signed but only ECU 191 million had been disbursed.

- Loans granted by the European Investment Bank in South Africa

At its meeting of 1 June 1995 the Council adopted the guidelines proposed by the Commission for the extension of EIB activities to South Africa and asked it to grant loans in accordance with its Statute and its usual criteria to projects of mutual interest in that country.

An overall limit of ECU 300 million has been set for a two–year period which could be extended to two and a half years.

These loans benefit from 100% Community budget guarantees. The Commission presented a proposal for a decision to this effect on 5 December 1994. The formal Council Decision followed on 1 June 1995. The contract of guarantee between the Community and the EIB was signed on 4 October 1995 in Brussels and on 16 October 1995 in Luxembourg.

At 30 June 1996 credit lines of ECU 101 million had been signed but no amounts had been disbursed.

I.B.3..2 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

Mediterranean countries

At 30 June 1996 a total of ECU 1 007.5 million was still awaiting signature under current and former mandates (ECU 1 234.5 million, less ECU 227 million for the remainder from the first and second protocols with Yugoslavia which will no longer be signed). Some ECU 460 million of this amount could be signed in the second half of 1996 and some ECU 320 million in 1997.

It is assumed that half of the ECU 225 million under the third and fourth protocols with Syria will be signed in 1996 and half in 1997; however, this assumption is very uncertain.

Central and Eastern Europe

At 30 June 1996 a total of ECU 1 054 million was still awaiting signature under current and former mandates, less ECU 52.8 million for the remainder from the first terms of reference which will no longer be signed, leaving ECU 1 001.2 million actually to be signed in the second half of 1996.

Asia and Latin America

At 30 June 1996 a total of ECU 98 million was still awaiting signature under the first mandates. Some ECU 45 million could be signed in the second half of 1996 and the remainder in 1997.

South Africa

At 30 June 1996 a total of ECU 199 million was still awaiting signature under the first mandates. Some ECU 120 million could be signed in the second half of 1996 and the remainder in 1997.

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 30 June 1996 ECU 5 252.4 million still had to be disbursed against loans signed at that date. The total breaks down as follows:[11]

Mediterranean	ECU 2 104.5 million
Central and Eastern Europe	ECU 2 596.7 million
Asia and Latin America	ECU 450.2 million
South Africa	ECU 101.0 million

I.C. Payment of the budget guarantee

I.C.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).

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 authorized 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.

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11 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.

I.C.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 in 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 authorize 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 1996-99 UNDER THE GUARANTEE FUND MECHANISM

II.A. Reserve for loan guarantees to non-member countries (1)

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 326 million in 1996 and ECU 329 million in 1997.

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 resource

II.B. Bases for the calculation of the provisioning of the Guarantee Fund (2)

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

- to the loan guarantees authorized 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) authorized 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 first half of 1996 the budgetary authority therefore adopted transfer 5/96 to adjust the amounts paid to the Fund and make the payments corresponding to the annual tranche provided for in the financial statements, as it does at the start of every financial year.

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 100% of the annual forecast of signatures up to a level of 75% of the total amount of operations authorized.

II.D. Provisioning of the Guarantee Fund (3)

The amounts paid into the Fund are obtained by applying the appropriate rate of provisioning (15% or 14%) to the calculation base set out above.

The 15% provisioning rate is applied to loans granted after guarantees under the Fund have been activated and until the amount involved in the default has been repaid to the Fund. Article 5 of the Regulation establishing the Guarantee Fund states, "If, as a result of the activation of guarantees following default, resources in the Fund stand below 75% of the target amount, the rate of provisioning on new operations shall be raised to 15% until the target amount has once more been reached or, if the default occurs before the target amount is reached, until the amount drawn under the activation of the guarantee has been fully restored".

A 14% provisioning rate is applied to other loans, i.e. the ECU 115 million loan to Syria, the ECU 750 million in loans to Asia and Latin America, the ECU 3 000 million in loans to Central and Eastern Europe and the Euratom loans. 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.

II.E. Margin remaining in the guarantee reserve (4)

The margin remaining in the guarantee reserve is equivalent to the difference between the reserve (1) and the heading for the provisioning of the Guarantee Fund (3).

II.F. Residual lending capacity (5)

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

	1993	1994	1995 Preliminary
Real GDP growth rate (in %)	-1,5	1,8	2,5
Industrial production (% change)	-11,8	7,8	8,6
Unemployment rate (end of period)	16,4	12,8	11,6
Inflation rate *(end of period)*	63,8	121,9	32,8
Exchange rate (Leva per USD) *(end of period)*	32,7	66,0	70,7
General government balance (as % of GDP)	-10,8	-5,8	-5,7
Balance of payments			
Exports of G&S (in bn USD)	5,0	5,3	7,0
Current account balance (in % of GDP)	-12,8	-2,0	-0,4
Net inflow of foreign direct investment (in mio USD)	40	105	82
Official reserves, including gold (end of period)			
in bn USD	1,0	1,3	1,5
in months of imports of G&S	2,0	3,0	2,8
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	12,5	10,3	9,4
Convertible debt service (in bn USD)	1,6	0,9	0,8
principal	1,1	0,5	0,2
interest	0,5	0,5	0,6
External debt/GDP (%)	120,5	130,2	76,3
External debt/exports of G&S (%)	266,5	194,3	134,3
Debt service/exports of G&S (%)	33,0	18,4	11,4
Arrears (on both interest and principal, in bn USD)	n.a.	17,6	0,0
Debt relief agreements and rescheduling	London Club (roll-overs, and DDSR agreed in principle)	London Club DDSR (July) Paris Club resched. (Apr)	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (1)	5,6	6,8	7,3
EU exposure/external debt (%)	2,8	4,6	5,7
EU exposure/exports of G & S (%)	7,1	8,9	7,7
IMF arrangements			
Type/no	-	SBA+STF	-
(Date / -)	-	(3/94-3/95)	-
On track/off track	-	SBA suspend.	-
(- / Date)	-	in Sep 94	
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	122 125	88 98	90 90
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	91 89	91 95	93 94
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	18.9 19.5	19.8 20.8	21.9 22.2

(1) 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, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country-risk indicators

Country: Czech Republic

	1993	1994	1995 Latest data or estimates (E)	
Real GDP growth rate (in %)	-0,9	2,6	4,8	
Industrial production (% change)	-5,3	2,1	9,2	(Nov)
Unemployment (% of labour force) (end of period)	3,5	3,2	2,9	
Inflation rate *(Dec/Dec)*	18,2	10,2	7,9	
Exchange rate (CK's per USD) *(end of period)*	29,9	28,2	26,3	(Oct)
General government balance (as % of GDP)	0,8	-0,3	-0,8	(E)
Balance of payments				
Exports of G&S (in mio USD)	13077	14295	17054	(E)
Current account balance (in % of GDP)	0,4	-0,1	-4,2	
Net inflow of foreign direct investment (in mio USD)	538	762	2547	
Official FX reserves (end of period)				
in bn USD	3,9	6,2	14,0	
in months of imports of G&S	2,8	4,2	7,9	
External debt (end of period)				
External debt *(in convertible currencies, in bn USD, end of period)*	8,5	10,7	16,5	(E)
Convertible debt service (in bn USD)	1,4	2,5	2,6	
principal	0,9	2,0	1,5	
interest	0,5	0,5	1,1	
External debt/GDP (%)	27,3	29,7	35,8	
External debt/exports of G&S (%)	65,0	74,8	96,7	
Debt service/exports of G&S (%)	7,0	12,6	15,2	(E)
Arrears (on both interest and principal, in mio USD)	No	No	No	
Debt relief agreements and rescheduling	No	No	No	
Indicators of EU exposures				
EU exposure/total EU exposure (%) (1)	4,6	5,2	5,8	
EU exposure/external debt (%)	3,4	3,4	2,6	
EU exposure/exports of G & S (%)	2,2	2,5	2,5	
IMF arrangements				
Type/no	SBA	SBA	-	
(Date / -)	(3/93-3/94)	(3/93-3/94)		
On track/off track	On-track	On-track	-	
(- / Date)		All debts to IMF paid ahead of schedule.		
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)	Baa3	Baa2 (Jun)	Baa1 (Sep)	
S&P long-term foreign currency rating (end of period)	BBB	BBB+ (Jul)	A (Nov)	
Euromoney	Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)	48 43	40 39	35 41	
(number of countries)	(169) (170)	(167) (167)	(187) (181)	
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep	
Position in the ranking (2)	42 40	40 39	33 30	
(number of countries)	(127) (133)	(135) (135)	(135) (135)	
Credit rating (3)	44.6 46.6	49.7 52.8	55.8 58.4	

(1) 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, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country-risk indicators

Country: Estonia

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-8,4	-0,1	3,2 (E)
Industrial production (% change)	-30,0	3,5	1,4
Unemployment rate (end of period)	3,9	4,5	4,1
Inflation rate *(end of period)*	35,7	41,6	28,8
Exchange rate (Kroons per USD) *(end of period)*	13,2	13,0	11,5
General government balance (as % of GDP)			
Financial balance (1)	1,6	2,9	-0,4
Fiscal balance (1)	-0,7	1,3	-0,8
Balance of payments			
Merchandise exports (in mio USD)	812	1329	1861
Current account balance (in % of GDP) (excl. official transfers)	-4,9	-12,3	-8,2
Net inflow of foreign direct investment (in mio USD)	154	212	202
Official FX reserves (end of period)			
in mio USD	388	447	583
in months of goods imports	4,9	3,2	2,7
External debt			
External debt (incl. to IMF) *(in convertible currencies, in mio USD, end of period)*	140,5	170,3	246,8
Convertible debt service (in mio USD)	16,2	8,1	12,8
principal	13,5	3,0	3,5
interest +charges to IMF	2,7	5,1	9,3
External debt/GDP (%)	8,4	7,5	7,1
External debt/merchandise exports (%)	17,3	12,8	13,3
Debt service/merchandise exports (%)	2,0	0,6	0,7
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (2)	0,4	0,4	0,5
EU exposure/external debt (%)	16,7	15,7	16,5
EU exposure/exports of G & S (%)	2,9	2,0	2,2
IMF arrangements			
Type/no	SBA/STF	SBA/STF	SBA
(Date / -)	(10/93-3/95	(10/93-3/95)	(4/95-6/96) (3)
On track/off track	On track	On track	On track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (4)	126 122	105 102	66 76
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (4)	81 84	88 86	79 79
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (5)	21.4 20.9	20.7 23.6	25.4 26.3

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) Only EIB and BOP loans (outstanding disbursements) to CEEC, NIS and MED
(3) The SBA (7/96-7/97) is also on track.
(4) The higher the ranking number, the lower the creditworthiness of the country.
(5) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country-risk indicators

Country: Hungary

	1993	1994	1995 Latest data
Real GDP growth rate (in %)	-0,8	2,9	1,5
Industrial production (% change)	4,0	9,0	6,0
Unemployment (% of labour force) (end of period)	12,1	10,9	10,4
Inflation rate *(Dec/Dec)*	21,1	21,2	28,5
Exchange rate (forints per USD) *(end of period)*	100,7	111,0	139,5
Consolidated state budget balance (as % of GDP) (GFS definition)	-7,6	-6,3	-3,8
Balance of payments			
Exports of G+S (in mio USD)	10371	10219	14667
Current account balance (in % of GDP)	-9,6	-9,5	-5,6
Net inflow of foreign direct investment (in mio USD)	2328	1100	4410
Official reserves (end of period)			
in bn USD	6,7	6,8	12,0
in months of imports of merchandises	7,1	7,2	9,5
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	24,6	28,5	31,7
Convertible debt service (in bn USD)	4,9	6,2	7,7
principal (1)	3,3	4,2	5,3
interest	1,6	2,0	2,4
External debt/GDP (%)	63,8	68,9	70,8
External debt/Exports of G+S (%)	237,2	278,9	189,2
Debt service/Exports of G+S (%)	47,4	60,8	52,5
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (2)	16,9	16,5	13,0
EU exposure/external debt (%)	4,3	4,0	3,1
EU exposure/exports of G & S (%)	10,3	11,3	6,6
IMF arrangements			
Type/no	SBA	SBA	-
(Date / -)	(9/93-12/94)	First review	-
On track/off track	On track	uncomple-	
(- / Date)	-	ted	
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Ba1	Ba1	Ba1
S&P long-term foreign currency rating (end of period)	BB+	BB+	BB+
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)	47 46	44 46	50 44
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)	43 43	43 44	45 48
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (4)	44.3 44.8	46.1 46.2	46.4 45.0

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

Country-risk indicators

Country: Latvia

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-16,0	2,0	-1,6 (E)
Industrial production (% change)	-32,6	-2,2	-6,3
Unemployment (end of period)	5,3	6,5	6,1
Inflation rate *(end of period)*	34,8	26,0	23,0
Exchange rate (Lats per USD) *(end of period)*	0,60	0,55	0,54
General government balance (as % of GDP)			
Financial balance (1)	1,0	-1,7	-2,7
Fiscal balance (1)	0,6	-4,0	-3,3
Balance of payments			
Exports (in mio USD)	998	997	1306
Current account balance, excl. official transfers (in % of GDP)	4,8	-3,4	-4,3
Net inflow of foreign direct investment (in mio USD)	51	155	165
Official FX reserves (end of period)			
in mio USD	510	545	527
in months of imports of G&S	4,4	4,5	3,2
External debt			
External debt *(in convertible currencies, in mio USD, end of period)*	225	359	423
Convertible debt service (in mio USD)	20,0	50,0	39,0
principal	n.a.	n.a.	n.a.
interest	n.a.	n.a.	n.a.
External debt/GDP (%)	10,0	10,0	9,0
External debt/merchandise exports (%)	22,5	36,0	32,4
Debt service/merchandise exports (%)	2,0	5,0	3,0
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (2)	0,7	0,7	0,7
EU exposure/external debt (%)	20,8	13,3	12,3
EU exposure/exports of G & S (%)	4,7	4,8	4,0
IMF arrangements			
Type/no	SBA/STF	SBA/STF	SBA
(Date / -)	(12/93-3/95)	(12/93-3/95)	(4/95-4/96)
On track/off track	On track	On track	Off track (3)
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (4)	133 132	104 125	106 116
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (4)	89 87	94 92	91 89
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (5)	19.5 20.0	19.6 21.3	22.6 23.4

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) Only EIB and BOP loans (outstanding disbursements) to CEEC, NIS and MED.
(3) The new SBA (5/96 - 8/97) is on track.
(4) The higher the ranking number, the lower the creditworthiness of the country.
(5) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country-risk indicators

Country: Lithuania

	1993	1994	1995 Latest data
Real GDP growth rate (in %)	-24,2	1,0	2,8
Industrial production (% change)	-29,8	-6,7	0,8
Unemployment rate (end of period)	4,4	3,8	7,3
Inflation rate *(end of period)*	188,7	45,1	35,7
Exchange rate (Litas per USD) *(end of period)*	3,6	4,3	4,5
General government balance (as % of GDP)			
Financial balance (1)	0,9	-1,5	-1,8
Fiscal balance (1)	-3,1	-4,2	-3,3
Balance of payments			
Exports (in mio USD)	1709	1930	2210
Current account balance (in % of GDP), without official transfers	-8,4	-4,2	-3,3
Net inflow of foreign direct investment (in mio USD)	23	60	55
Official FX reserves (end of period, gross foreign assets)			
in mio USD	412	587	819
in months of imports of G&S	2,5	3,1	3,9
External debt			
External debt *(in convertible currencies, in mio USD, end of period)*	281	448	757
Convertible debt service (in mio USD)	12	19	69
principal	n.a.	n.a.	n.a.
interest	n.a.	n.a.	n.a.
External debt/GDP (%)	9,8	7,5	9,8
External debt/exports of G&S (%)	16,4	23,2	34,3
Debt service/exports of G&S (%)	0,7	1,0	3,1
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (2)	0,9	0,9	0,9
EU exposure/external debt (%)	20,8	13,3	9,6
EU exposure/exports of G & S (%)	3,4	3,1	3,3
IMF arrangements			
Type/no	SBA/STF	STF (10/93-3/94)	EFF
(Date / -)	(10/93-3/94)	EFF (10/94-11/97	10/94-10/97)
On track/off track	On track	On track	On track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)	134 130	110 121	108 118
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)	91 93	97 96	95 90
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (4)	18.9 19.0	18.4 20.0	21.7 22.9

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) Only EIB and BOP loans (outstanding disbursements) to CEEC, NIS and MED
(3) The higher the ranking number, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country-risk indicators

Country: Romania

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	1,5	3,9	6,9
Industrial production (% change)	8,2	7,2	5,2
Unemployment rate (end of period)	10,2	10,9	8,9
Inflation rate *(Dec/Dec)*	295,5	61,7	27,8
Exchange rate (lei per USD) *(end of period)*	1276	1767	2578
General government balance (as % of GDP)	-0,1	-1,0	-2,5
Balance of payments			
Exports of G&S (in bn USD)	4,9	6,1	7,5
Current account balance (in % of GDP)	-4,6	-1,4	-3,6
Net inflow of foreign direct investment (in mio USD)	87	341	417
Official FX reserves (end of period)			
in mio USD	970	1596	1110
in months of imports of G&S	1,6	2,2	1,4
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	4,3	5,5	6,6 (E)
Convertible debt service (in mio USD)	323	589	1038 (E)
principal	146	313	462 (E)
interest	177	276	576 (E)
External debt/GDP (%)	16,1	18,3	18,7 (E)
External debt/exports of G&S (%)	87,7	90,1	88,0 (E)
Debt service/exports of G&S (%)	6,6	9,6	13,8 (E)
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (1)	8,7	8,4	10,2
EU exposure/external debt (%)	12,8	10,7	11,5
EU exposure/exports of G & S (%)	11,2	9,7	10,1
IMF arrangements			
Type/no	No	SBA/STF	SBA extended through 1997 and augmented
(Date / -)	-	(5/94-12/95)	
On track/off track	-	On track	On track
(- / Date)	-		(Off track in1996)
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	66 75	74 77	68 64
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	73 75	76 74	73 71
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	24.2 24.4	25.4 26.2	28.1 29.7

(1) 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, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country-risk indicators

Country: Slovak Republic

	1993	1994	1995 Latest data or estimates (E)
Real GDP growth rate (in %)	-4,1	4,8	7,4
Industrial production (% change)	-8,6	7,0	9,6
Unemployment (% of labour force) (end of period)	14,4	14,6	13,1
Inflation rate *(Dec/Dec)*	25,1	11,7	7,2
Exchange rate (SK's per USD) *(end of period)*	33,2	31,3	29,6
General government balance (as % of GDP)	-7,6	-2,7	0,4
Balance of payments			
Exports of G&S (in mio USD)	7568	8983	10921
Current account balance (in % of GDP)	-5,4	6,0	3,6
Net inflow of foreign direct investment (in mio USD)	134	184	157
Official FX reserves (end of period)			
in mio USD	416	1691	3400
in months of imports of G&S	0,6	2,3	4,1
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	3,4	3,9	5,8
Convertible debt service (in mio USD)	674	791	1045 (E)
principal	490	n.a.	n.a.
interest	184	n.a.	n.a.
External debt/GDP (%)	30,8	31,1	39,9
External debt/exports of G&S (%)	44,5	43,4	53,1
Debt service/exports of G&S (%)	8,9	8,8	9,5 (E)
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (1)	2,4	2,9	4,1
EU exposure/external debt (%)	4,5	5,3	5,2
EU exposure/exports of G & S (%)	2,0	2,3	2,8
IMF arrangements			
Type/no	STF	STF	SBA
(Date / -)	(7/93 - 7/94)	(7/93 - 7/94)	(7/94-3/96) (4)
On track/off track	On-track	SBA	
(- / Date)		(7/94-3/96)	
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Baa3 (May)	Baa3 (May)
S&P long-term foreign currency rating (end of period)	Not rated	BB- (Feb)	BB+ (Apr)
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	56 63	64 66	53 51
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar - Sep	Mar Sep	Mar Sep
Position in the ranking (2)	57 57	59 59	61 59
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	31 30.6	31.6 33.1	33.2 35.7

(1) 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, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.
(4) The mid-term review of the programme, which had been scheduled for February 1995, was not completed.

Country risk indicators

Country: Belarus

		1993	1994	1995
Real GDP growth rate (in %)		-10,6	-12,2	-10,2
Industrial production (% change)		-10,9	-19,3	-11,5
Unemployment rate (end of period)		1,4	2,1	2,7
Inflation rate	*(Dec/Dec)*	1994	1957	244
Exchange rate (Rbs per USD)	*(average)*	269	3651	11532
General government balance (as % of GDP)		-1,8	-2,6	-1,9
Balance of payments.				
Exports of G & S (in mio USD)		2941	2641	4621
Current account balance (in % of GDP)		-8,7	-12,4	-2,5
Net inflow of foreign direct investment (in mio USD)		18	10	7
Official FX reserves (end of period)	in mio USD	91,0	101,0	377,0
	in months of imports	0,3	0,3	0,7
External debt				
External debt *(in convertible currencies, in mio USD, end of period)*		964,0	1251,0	1513,0
Convertible debt service (in mio USD)		14,7	123,0	178,0
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		25,0	25,9	14,7
External debt/exports of G & S (%)		32,8	47,4	32,7
Debt service/exports of G & S (%)		0,5	4,3	3,4
Arrears (on both interest and principal, in bn USD)		n.a.	493	460
Debt rescheduling agreement			with Russia on gas arrears	ar. on Rus. gas cancel. agreem. 02/96 - 08/96
Indicators of EU exposure				
EU exposure/total EU exposure (%) (1)		1,9	0,9	0,5
EU exposure/external debt (%)		12,2	4,8	2,6
EU exposure/exports of G & S (%)		4,0	2,3	0,8
IMF arrangements				
Type/no		STF	STF	SBA
(Date / -)		(08.93 - 8.94)	(01.95)	(12.95 - 11.96)
On track/off track		Off track	See footnote	Off track
(- / Date)		See footnote (4)	(4)	(5)
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
Euromoney		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		148 139	145 138	135 134
(number of countries)		(169) (170)	(167) (167)	(187) (181)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		100	109 109	112 112
(number of countries)		(127) (133)	(135) (135)	(135) (135)
Credit rating (3)			15.5 15.7	15.2 15.5

(1) Only EIB, BoP and 1250 loans (outstanding disbursed)

(2) The higher the ranking number, the lower the creditworthiness of the country.

(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(4) IMF 1993 STF programme went off track in early 1994. However, IMF staff considered favourably the government programme adopted in Autumn 1994, which was supported with the second STF tranche by end-January 1995.

(5) The first quarterly review of the programme, initially scheduled for December 1995, has not been completed so far.

Country-risk indicators

Country: Moldova

	1993	1994	1995 Preliminary
Real GDP growth rate (in %)	-1,2	-31,2	-3,0
Industrial production (% change)	-7,2	-30,0	-10,0
Unemployment (% of labour force) (end of period)	n.a.	1,0	2,0
Inflation rate *(end of period)*	837	116	24
Exchange rate (leu per USD) *(end of period)*	3,64	4,27	4,50
General government balance (as % of GDP)	-6,8	-8,7	-5,5
Balance of payments			
Merchandise exports (in mio USD)	451	618	741
Current account balance (in % of GDP)	-9,3	-12,9	-6,8
Net inflow of foreign direct investment (in mio USD)	14,0	18,0	72,0
Official FX reserves (end of period)			
in mio USD	76,6	179	257
in months of imports of merchandises	1,4	2,9	3,2
External debt			
External debt *(in convertible currencies, in mio USD, end of period)*	168,0	343,0	675,0
Convertible debt service (in mio USD)	5,0	12,3	91,0
principal	n.a.	n.a.	n.a.
interest	n.a.	n.a.	n.a.
External debt/GDP (%)	23,0	30,0	38,0
External debt/ merchandise exports (%)	37,3	55,5	91,1
Debt service/ merchandise exports (%)	1,1	4,0	11,0
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposures			
EU exposure/total EU exposure (%) (1)	0,5	0,9	0,8
EU exposure/external debt (%)	17,7	18,0	8,7
EU exposure/merchandise exports (%)	6,6	10,0	7,9
IMF arrangements			
Type/no	SBA	SBA	SBA
(Date / -)	(3/93-3/94)	(12/93-3/95)	(3/95-3/96)
On track/off track	On-track	On-track	On-track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	159 160	148 155	157 141
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor			
Position in the ranking (2)	Not rated	Not rated	Not rated
(number of countries)			
Credit rating (3)			

(1) 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, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

Country risk indicators

Country: Ukraine

	1993	1994	1995 Estimates (E)
Real GDP growth (% change)	-17,1	23,0	-12,0
Industrial production (% change)	-25,1	-28,5	-11,7
Unemployment rate (end of period)	0,3	0,3	0.4 (E)
Inflation rate *(Dec/Dec)*	10155	401	182
Exchange rate (Krb per USD) *(end of period)*			
- auction / interbank	12610	108196	179400
- cash	25000	128000	186000
General government balance (as % of GDP)	-10,1	-8,2	-5,0
Balance of payments			
Exports of G&S (in bn USD)	14,4	14,8	15.1 (E)
Current account balance (excl. transfers) (in % of GDP)	-5,9	-6,0	-4,4
Net inflow of foreign direct investment (in bn USD)	0,2	0,09	0,27
Gross official FX reserves in mio USD	193	646	1100
in weeks of imports of G&S	0,8	2,3	3,7
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	4,1	7,2	8,1
Convertible debt service paid (in mio USD)	202	1794	1531
principal	n.a.	n.a.	986
interest	n.a.	n.a.	545
External debt/GDP (%)	12,1	29,2	23,3
External debt/exports of G&S (%)	28,5	48,0	53.6 (E)
Debt service/exports of G&S (%)	1,3	12,1	9,3
Arrears (on both interest and principal, in mio USD)	548	2722	236
Debt relief agreements and rescheduling		rescheduling of debt owed to Russia/Turkm.	rescheduling of debt owed to Russia/Turkm.
Indicators of EU exposure			
EU exposure/total EU exposure (%) (1)	2,3	1,6	1,5
EU exposure/external debt (%)	3,5	1,6	1,4
EU exposure/exports of G & S (%)	1,0	0,8	0,7
IMF arrangements			
Type/no	-	STF	SBA
(Date / -)		26 Oct 94	Dec. 1995
On track/off track		On track	Off track *
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	142 146	149 147	145 138
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	95 96	111 113	109 111
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	18.2 18.2	15.1 14.5	15.5 15.7

(1) Only EIB, BoP and 1250 loans (outstanding disbursed)
(2) The higher the ranking number, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.
* : New SBA approved in May 1996. On track.

Country risk indicators

Country: **Algeria**

	1993	1994	1995
Real GDP growth rate (in %)	-2,0	-0,2	4,3
Hydrocarbon production (% change)	-0,6	-2,5	3,5
Inflation rate *(Dec/Dec)*	16,1	38,6	21,9
Exchange rate *(end of period)*	24,0	42,9	52.2
General government balance (as % of GDP)	-8,7	-4,4	-1,4
Balance of payments			
Exports of G&S (in bn USD)	11,0	8,9	10,2
Current account balance (in % of GDP)	1,6	-4,34	-5,6
Net inflow of foreign direct investment (in mio USD)	0,0	0,0	0,0
Official FX reserves in bn USD	1,5	2,6	2,1
in months of imports of G&S	1,9	2,9	2,1
External debt			
External debt *(in convertible currencies, in bn USD, end of period)*	26,4	29,5	31,7
Convertible debt service (in bn USD)	8,7	5,1	3.8 (4)
principal	7,0	3,4	2.2 (4)
interest	1,7	1,7	1.6 (4)
External debt/GDP (%)	62,9	70,6	76,4
External debt/exports of G&S (%)	240,0	331,5	310,8
Debt service/exports of G&S (%)	82,2	48.6 (4)	43,8
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling (bln US$)	No	4,5	4,8
Indicators of EU exposure			
EU exposure/total EU exposure (%) (1)	7,4	9,9	12,2
EU exposure/external debt (%)	1,8	2,4	2,9
EU exposure/exports of G & S (%)	4,2	7,8	8,9
IMF arrangements			
Type/no	No	SBA	SBA
(Date / -)		(5. 94 - 5. 95)	(5. 94 - 5. 95)
On track/off track	-	On-track	EFF (5. 95 - 5. 98) On-track
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of per.)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	68 79	92 96	102 107
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	62 69	75 78	89 91
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	28.2 27.1	26.3 24.6	23.5 22.8

(1) Only EIB, BoP and 1250 loans (outstanding disbursed)
(2) The higher the ranking number, the lower the creditworthiness of the country.
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(4) After rescheduling.

Country risk indicators

Country: Israël

	1993	1994	1995 Estimates (E)
Real GDP growth rate (in %)	3,5	6,5	7,1
Industrial production (% change) (at constant 1990 prices)	6,5	7,2	8,4
Unemployment rate (average)	10,0	7.8	6,3
Consumer Price Index *(Dec/Dec)*	11,3	14,5	8,1
Exchange rate (shekel per USD) *(end of period)*	2,986	3,018	3,140
Central government overall deficit (as % of GDP)	-2,5	-2,0	-3,2
Balance of payments			
Exports of G & S (in bn USD)	22,1	24,2	25,9
Current account balance (in % of GDP)	-1,8	-3,0	-4,5
Net inflow of foreign direct investment (in mio USD)	-141	-357	806
Gross official FX reserves in billions US$	6,382	6,689	8,158
in months of imports of G&S	2,4	2,5	2,6
External debt			
External debt (gross external liabilities) *(in bn USD, end of period)*	36,1	41	44
Debt service (in bn USD)	4,1	4,6	3.9 (E)
principal	1,9	2,2	n.a.
interest (gross)	2,2	2,4	n.a.
External debt/GDP (%)	55,8	54,2	57
External debt/exports of G & S (%)	163,4	169,4	170,0
Debt service/exports of G & S (%)	14,0	14,9	15 (E)
Arrears (on both interest and principal, in mio USD)	No	No	No
Debt relief agreements and rescheduling	No	No	No
Indicators of EU exposure			
EU exposure/total EU exposure (%) (1)	4,7	4,4	4,4
EU exposure/external debt (%)	0,8	0,8	0,7
EU exposure/exports of G & S (%)	1,4	1,3	1,3
IMF arrangements			
Type/no	No	No	No
(Date / -)	-	-	-
On track/off track	-	-	-
(- / Date)	-	-	-
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	A3
S&P long-term foreign currency rating (end of period)	BBB+	BBB+	A-
Euromoney	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	29 29	30 33	31 31
(number of countries)	(169) (170)	(167) (167)	(187) (181)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	46 46	46 43	43 42
(number of countries)	(127) (133)	(135) (135)	(135) (135)
Credit rating (3)	39.6 40.5	43.4 46.5	47.9 49.2

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