



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMISSION REPORT TO THE BUDGETARY AUTHORITY
ON GUARANTEES COVERED BY THE GENERAL BUDGET -
SITUATION AT 31 DECEMBER 1998**

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

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

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

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

The report is in two parts with an annex:

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

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PART ONE: EVENTS SINCE THE REPORT AT 30 JUNE 1998, 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, South Africa, the former Yugoslav Republic of Macedonia and Bosnia-Herzegovina).

II. EVENTS SINCE THE REPORT AT 30 JUNE 1998

The main events in the second half of 1998 were as follows:

II.A Ukraine

As part of an overall aid programme for Ukraine, on 12 November 1997 the Commission presented a proposal for a Council Decision providing additional macro-financial assistance of ECU 150 million to Ukraine in the form of a loan with a maximum maturity of ten years. On 15 October 1998 the Council decided to grant additional macro-financial assistance of ECU 150 million to Ukraine in the form of a loan.

II.B Loans granted by the European Investment Bank for investment projects in Bosnia-Herzegovina

On 18 May 1998 the Commission presented a proposal for a Council Decision granting a Community guarantee in respect of loans for investment projects in Bosnia-Herzegovina. This guarantee is limited to a maximum of ECU 100 million over a period of two years. On 14 December 1998 the Council decided to grant a Community guarantee in respect of these loans.

II.C Bosnia-Herzegovina

On 13 November 1998 the Commission presented a proposal for a Council Decision providing macro-financial assistance of ECU 30 million to Bosnia-Herzegovina in the form of a loan with a maximum maturity of fifteen years and ECU 30 million in the form of donations. The Council had not adopted any formal decision at the time this report was drawn up.

III. RISK SITUATION

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

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

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

- by reference only to actual disbursements at 31 December 1998, 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 interest¹

¹ An average interest rate of 10% is assumed for EIB loans. The average interest rate assumed for borrowing and lending operations is 4.4%. An interest rate of 3.02% has been applied for the new operations in Table 3.

and exchange rates.²

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

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

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

III.A Amount outstanding at 31 December 1998 (Table 1)

The total risk at 31 December 1998 came to ECU 12 253 million as against ECU 11 821 million at 30 June 1998, an increase of 3.6%.³

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

	ECU million
Amount outstanding at 30 June 1998	11821
Loan repayments	
Balance of payments: Italy	- 986,3
Euratom	- 2,3
NCI	- 27,9
Financial assistance	- 5,00
Former Soviet Union	- 48,19
EIB	- 246,00
Exchange rate differences between ecu and other currencies	+ 24,69
Loans disbursed	
Financial assistance	+ 263,00
EIB	+ 1460,00
Amount outstanding at 31 December 1998	12253

The capital outstanding in respect of operations in the Member States was ECU 2 772 million at 31 December 1998, a fall of 28.2% compared with 30 June 1998.

² The exchange rates used for loans in currencies other than the ecu are those of 31 December 1998.

³ 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.

This fall is mainly due to the repayment of ECU 1 016.5 million in balance of payments loans for Italy and Euratom and NCI loans.

The amount outstanding from the balance of payments loan for Italy has been reduced to ECU 2 482.7 million.

The capital outstanding from non-member countries at 31 December 1998 was ECU 9 481 million, an increase of 19.11% compared with 30 June 1998.

III.B Maximum annual risk borne by the Community budget: operations disbursed at 31 December 1998 (see Table 2)

The total annual risk comes to ECU 1 322 million in 1999 and will increase to around ECU 3 838 million in 2000.

- The risk for 1999 in respect of the Member States comes to ECU 261 million. The risk will reach ECU 2 731 million in 2000 when Italy's last repayment is due.
- The risk for 1999 in respect of non-member countries comes to ECU 1 061 million as the following capital payments fall due:
 - ECU 190 million from Romania;
 - ECU 368 million from EIB loans.

From 1999 the amount of capital repayments on borrowing and lending operations will fall. The risk in respect of non-member countries will then average ECU 1 080 million over the period 1999-2007.

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

This risk comes to ECU 1 411 million in 1999 and will increase to ECU 4 109 million in 2000, before stabilising at an average of ECU 2 327 million between 2001 and 2007.

- The trend in the maximum risk in respect of the Member States is much the same as in Table 2 up to 2000 when the risk will amount to ECU 2 731 million.
 - The risk in respect of non-member countries amounts to ECU 1 150 million in 1999. The risk will increase by an average of 12% a year from 2000 until 2005.
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TABLE 1
CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(ECU million)

Operation	Authorised ceiling	Capital outstanding at 30.6.98	Capital outstanding at 31.12.98	Remainder to be disbursed 31.12.98
MEMBER STATES				
A. Balance of payments	14000			
1. Italy		3447	2483	0
B. Others				
2. Euratom	4000	29	28	0
3. NCI and NCI earthquake	6830	195	168	0
4. EIB Mediterranean Spain, Greece, Portugal	1500	191	94	0
MEMBER STATES - TOTAL	26330	3861	2772	0
THIRD COUNTRIES				
A. Financial assistance				
1. Bulgaria	650	235	360	0
2. Romania	580	395	395	0
3. Algeria	600	250	250	100
4. FYROM	40	40	40	0
5. Baltic States	220	130	125	85
6. Moldova	60	60	60	0
7. Ukraine	435	285	285	0
8. Belarus	55	30	30	25
9. Georgia	142		110	32
10. Armenia	28		28	0
11. Former Soviet Union(*)	1250	103	55	0
B. Other				
12. EIB Mediterranean(**)	8672	3407	3878	1801
13. EIB Central & Eastern Europe	8220	2448	3060	3505
14. EIB Asia, Latin America	1925	494	638	640
15. EIB South Africa	675	83	151	284
16. EIB FYROM	150	0	15	55
17. EIB Bosnia	100	0	0	
THIRD COUNTRIES - TOTAL	23802	7960	9481	6472
GRAND TOTAL	50132	11821	12253	6472

(*) The ECU 55 million outstanding corresponds to the principal due but not paid at 31.12.1998.

(**) The amount outstanding has been increased by ECU 34.8 million to take account of the principal due but not paid at 31.12.1998.

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (31.12.98)

Operations	Credit line authorised	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 31.12.98
Mediterranean Member States	1500	1465	1624	94
Third countries, old mandates				
Mediterranean Protocols	6362	5854	4924	3490
Central & Eastern Europe I	1700	1410	1288	1148
Central & Eastern Europe II	3000	2843	1144	1133
Asia, Latin America I	750	657	399	362
Asia, Latin America II	153	153	150	150
South Africa	300	300	151	151
Third countries, decision of 14.4.97				
Mediterranean	2310	1611	388	388
Central & Eastern Europe	3520	2463	779	779
Asia, Latin America	1022	506	127	127
South Africa	375	135	0	0
FYROM, decision of 19.5.98	150	70	15	15
Bosnia, decision of 14.12.98	100			
Total	21242	17467	10987	7837

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

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
 (Estimate in ECU million based on all operations disbursed at 31.12.1998)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL
MEMBER STATES										
CAPITAL										
A. Balance of payments										2483
1. Italy		2483								
B. Structural loans										28
2. Euratom	16	12								168
3. NCI and NCI EQ	40	40	71			16				
4. EIB Med. Old. Prot. Spain, Greece, Portugal	28	24	10	11	12	5	3			94
Capital - subtotal	84	2559	81	11	12	21	3			2772
INTEREST										
A. Balance of payments										313
1. Italy	156	156								
B. Structural loans										4
2. Euratom	3	1								35
3. NCI and NCI EQ	12	10	7	2	2	2				
4. EIB Med. Old. Prot. Spain, Greece, Portugal	6	4	2	2	1	0	0			15
Interest - subtotal	178	172	9	4	3	2	0			367
MEMBER STATES - TOTAL	261	2731	91	15	15	23	4			3140
NON-MEMBER COUNTRIES										
CAPITAL										
A. Financial assistance										298
5. Bulgaria			70		40		63	63	63	395
6. Romania	190	80		55		70				250
7. Algeria			150	100						0
8. FYROM				25						125
9. Baltic States	5	95		12	12	12	7	3		60
10. Moldova		5	9	12	12	12	7	3		285
11. Ukraine			17	37	57	57	57	40	20	30
12. Belarus			6	6	6	6	6			
13. Georgia										
14. Armenia										
B. Guarantees										2447
15. EIB Mediterranean	196	220	252	280	308	297	293	302	299	2167
16. EIB Central & Eastern Europe	145	207	247	265	299	286	268	250	201	477
17. EIB Asia, Latin America	27	36	54	69	82	56	58	55	41	130
18. EIB South Africa			27	21	21	6	6	6	43	5
19. EIB FYROM					1	1	1	1	1	
Capital - subtotal	563	642	832	870	826	791	758	720	668	6669
INTEREST										
A. Financial assistance										88
5. Bulgaria	13	13	13	11	11	9	8	6	4	32
6. Romania	12	6	5	5	3	3				47
7. Algeria	15	15	15	4						14
8. FYROM	2	2	2	2	2	2	2	2	2	14
9. Baltic States	6	5	1	1	1					11
10. Moldova	2	2	2	2	1	1	0	0		64
11. Ukraine	11	11	11	10	9	7	4	2	1	5
12. Belarus	1	1	1	1	1	0	0			41
13. Georgia	5	5	5	5	5	5	5	5	5	8
14. Armenia	1	1	1	1	1	1	1	1	1	
B. Guarantees										1422
15. EIB Mediterranean	220	207	192	177	160	142	124	109	91	1011
16. EIB Central & Eastern Europe	165	154	143	129	114	99	84	69	56	190
17. EIB Asia, Latin America	30	27	26	24	22	19	17	14	12	103
18. EIB South Africa	17	16	16	12	10	8	8	8	8	3
19. EIB FYROM	0	0	0	0	0	0	0	0	0	
Interest - subtotal	498	465	432	382	337	295	253	215	178	3054
NON-MEM. COUNTRIES - TOTAL	1061	1107	1263	1251	1163	1086	1011	935	845	9724
GRAND TOTAL	1322	3838	1354	1266	1178	1109	1015	935	845	12863
(Eastern Europe)	536	561	479	489	466	466	423	387	323	4585
(Other non-member countries)	525	547	785	762	697	620	589	547	523	5138

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)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL
MEMBER STATES										
CAPITAL										
A. Balance of payments										
1. Italy		2483								2483
B. Structural loans										
2. Euratom and NCI	56	53	71			16				196
3. EIB Spain, Greece, Portugal	28	24	10	11	12	5	3			94
Capital - subtotal	84	2559	81	11	12	21	3			2772
INTEREST										
A. Balance of payments										
1. Italy	156	156								313
B. Structural loans										
2. Euratom and NCI	15	11	7	2	2	2				39
3. EIB Spain, Greece, Portugal	6	4	2	2	1	0	0			16
Interest - subtotal	178	172	10	4	3	2	0			367
MEMBER STATES - TOTAL	261	2731	91	15	15	23	4			3140
NON-MEMBER COUNTRIES										
CAPITAL										
A. Financial assistance										
4. Bulgaria			70							298
5. Romania					40					395
6. Algeria	190	80		55		70	63	63	63	250
7. FYROM			150	100						0
8. Baltic States	5	95		25						125
9. Moldova		5		12		12	7			60
10. Ukraine			9	37	12	87	87	3		405
11. Belarus			17	6	57	6	6	70	50	30
12. Georgia			6		6					0
13. Armenia										0
14. Bosnia										0
15. Albania										0
16. Euratom C+E Europe							1	6	14	21
B. Guarantees										
17. EIB Mediterranean	196	220	252	325	405	457	519	550	562	3486
18. EIB C + E Europe	145	207	247	338	454	536	615	620	585	3747
19. EIB Asia, Latin America	27	36	53	82	110	106	132	141	127	814
20. EIB South Africa			27	27	34	30	41	46	86	291
21. EIB FYROM				1	3	6	9	11	11	41
22. EIB Bosnia					1	2	4	6	8	21
Capital - subtotal	563	643	831	1008	1122	1312	1484	1516	1506	9984
INTEREST										
A. Financial assistance										
4. Bulgaria	13	13	13	11	11	9	8	6	4	88
5. Romania	12	6	5	5	3	3				32
6. Algeria	15	15	15	4						47
7. FYROM	2	2	2	2	2	2	2	2	2	14
8. Baltic States	6	5	1	1						14
9. Moldova	2	2	2	2	1	1	0	0		11
10. Ukraine	15	15	15	15	13	10	7	4	2	96
11. Belarus	1	1	1	1	1	0	0			5
12. Georgia	5	5	5	5	5	5	5	5	5	41
13. Armenia	1	1	1	1	1	1	1	1	1	8
14. Bosnia	1	1	1	1	1	1	1	1	1	8
15. Albania	1	1	1	1	1	1	1	1	1	5
16. Euratom C+E Europe			6	15	30	48	68	87	106	361
B. Guarantees										
17. EIB Mediterranean	247	295	353	401	415	400	367	279	265	3022
18. EIB C + E Europe	209	291	385	479	521	503	463	412	360	3623
19. EIB Asia, Latin America	37	51	73	97	113	118	115	105	94	803
20. EIB South Africa	20	28	39	47	53	53	52	48	50	390
21. EIB FYROM	1	3	5	8	10	12	12	11	10	71
22. EIB Bosnia		0	2	4	6	8	9	9	8	46
Interest - subtotal	587	735	923	1097	1185	1173	1110	970	907	8687
THIRD COUNTRIES - TOTAL	1150	1378	1754	2105	2307	2485	2594	2485	2412	18671
GRAND TOTAL	1411	4109	1845	2119	2322	2509	2598	2485	2412	21811
(Eastern Europe)	581	699	727	929	1059	1169	1219	1194	1132	8710
(other non-member countries)	569	679	1027	1176	1248	1316	1375	1291	1280	9961

IV. ACTIVATION OF BUDGET GUARANTEES

IV.A Payments from cash resources

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

IV.B Activation of the Guarantee Fund

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 established a Guarantee Fund for external action. In the event of late payment by a recipient of a loan granted 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. If a borrower defaults on an EIB loan guaranteed by the Community budget, the Community will act within three months of receiving a letter from the Bank calling for the guarantee to be activated. The Commission will then authorise the Bank to take the corresponding amounts from the Guarantee Fund.

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:

Non-member country	Date	Amount (principal + interest)
Former Yugoslavia		
Vojvodina	11.09.98	987 671.24
Serbia	11.09.98	5 363 957.13
Total		6 351 628.37

IV.C Late repayments

On 17 December 1998 Armenia repaid all its arrears of ECU 50 887 451.69 million for which the Guarantee Fund had already been activated. This late repayment is therefore 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.

IV.D Arrears at 31 December 1998⁴

Arrears due from non-member countries

Non-member country	Guarantees activated (2)	Guarantees called in (3)	Default interest (4)	Total
Tajikistan	63 181 839.89		9 196 106.76	72 377 946.65
Bosnia (1)	4 144 939.60	285 814.72		
Vojvodina (1)	23 056 582.08	1 912 569.27		
Serbia (1)	63 146 331.41	2 443 171.22		
Montenegro (1)	456 087.97	0		
Kosovo (1)	308 402.38	14 000.25		
Subtotal former Yugoslavia	91 112 343.44	4 655 555.44	18 500 498.71	114 268 397.59
Total	154 294 183.33	4 655 555.44	27 696 605.47	186 646 344.24

- (1) *The breakdown of unpaid amounts between the republics of former Yugoslavia is intended as a guide.*
- (2) *The guarantees activated in respect of EIB operations include amounts not paid on time and the default interest incurred when the Community guarantee enters into force.*
- (3) *EIB guarantees not covered by the Community guarantee at 31 December 1998. The Community has three months to intervene.*
- (4) *Default interest entered in the accounts between the date on which the operation is covered by the guarantee and the date of the report. The total default interest for all the republics of former Yugoslavia is shown.*

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.⁵

⁴ Arrears due from Tajikistan on the ECU 1 250 million loan which the Community granted to the former Soviet Union and its republics and arrears on the EIB loan granted to former Yugoslavia under the Mediterranean protocols.

⁵ ECU 300 million at 1992 prices.

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

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

On the basis of the decisions adopted by the Council and decisions proposed and in preparation (see Table 4), ECU 310 million is expected to be used from the guarantee reserve in 1999, leaving ECU 36 million available at the end of the year.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled ECU 9 834 million at 31 December 1998.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the Regulation establishing the Fund was 13%, which is higher than the target amount of 10%. The rules state that "the surplus shall be paid back to a special heading in the statement of revenue in the general budget of the European Communities". The surplus of ECU 297,8 million at the end of the 1998 financial year will be repaid to the budget in the first quarter of 1999.

The Guarantee Fund could amount to around ECU 1 318 million at the end of 1999 assuming:

- a transfer of ECU 310 million from the reserve in 1999;
- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries;
- revenue of around ECU 60 million on investments from the Fund's assets in 1999.

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 1999, the annual capacity available for loans is as follows:

- ECU 255 million for loans with a 100% guarantee under the Community budget;
- ECU 364 million for loans with a 70% guarantee (in accordance with the contract of guarantee between the Commission and the EIB signed on 25 and 29 July 1997).

The estimates in Table 4 for the provisioning of the Fund in 1999 show that the remaining lending capacity is severely restricted.

VI. RELATIVE SOLIDITY OF THE GUARANTEE FUND

The ratio between the amount in the Fund at 31 December 1998 (ECU 1 280 million) and the maximum annual risk for loans to non-member countries (defined as the total amount falling due) shown for 1999 in Table 3 (ECU 1 149 million) comes to 90%.

TABLE 4
THE COMMUNITY'S THEORETICAL ESTIMATED LENDING & GUARANTEE CAPACITY
IN RESPECT OF NON-MEMBER COUNTRIES
OVER THE PERIOD 1997-1999
 under the Guarantee Fund mechanism(*)

ECU million	Outturn 31.12.1997	Outturn 31.12.1998	Forecast 1999
Reserve for loan guarantees to non-member countries	329	338	346
Bases for the calculation of the provisioning of the Guarantee Fund			
- EIB loans			
- Mediterranean (a)	553	896,6	461,4
- Countries of Central and Eastern Europe (b)	850,5	665,7	872,9
- Asia, Latin America (c)	60	190,55	218,05
- South Africa (d)	125	17,5	143,5
- FYROM (e)		42	38,5
- Bosnia (f)			42
- EIB loans - Total	1588,5	1812,35	1776,35
- Euratom loans	0	260	
- Macrofinancial assistance	305	170	440
Provisioning of the Guarantee Fund	286	313	310
Margin remaining in the guarantee reserve	43	25	36
Residual lending capacity (balance of payments loans, EIB loans and Euratom loans)			
- Maximum if used in full for 100% guarantee (e.g. BP loans)	286	181	255
- Maximum if used in full for EIB loans (70% guarantee)	409	258	364

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

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

- **EIB**
 - a. Mediterranean:
 - loans decided: 1994-96: ECU 115 million under the Fourth Financial Protocol with Syria (overall 75% guarantee). 31.1.1997-31.1.2000: ECU 2 310 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
 - loans proposed or in preparation: 1998-2002: ECU 750 million for financial cooperation with Turkey. 1998-2001: ECU 230 million for financial cooperation with Croatia.
 - b. Central and Eastern Europe:
 - loans decided: 31.1.1997-31.1.2000: ECU 3 520 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
 - c. Asia and Latin America:
 - loans decided: 1993-1996: ECU 750 million. Loans of ECU 54.6 million cancelled. 1996: ECU 275 million (100% guarantee). ECU 122 million still to be signed when the decision of 14.4.1997 was adopted is now covered by the overall 70% guarantee. 31.1.1997-31.1.2000: ECU 900 million for renewal of the EIB mandate, covered by overall 70% guarantee.
 - d. South Africa:
 - loans decided: 1.7.1997-1.7.2000: ECU 375 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
 - e. Former Yugoslav Republic of Macedonia (FYROM)
 - loans decided: 1998-2000: ECU 150 million in EIB loans (overall 70% guarantee).
 - f. Bosnia
 - loans decided: 1999-2000: ECU 100 million in EIB loans (overall 70% guarantee).
- **Euratom**
 - No further provisioning.
- **Macrofinancial assistance**
 - loans decided: 1997: loans of ECU 25 million to Belarus released; loans of ECU 130 million to Slovakia cancelled. 1998: loans of ECU 100 million to Algeria released; ECU 150 million in loans to Ukraine adopted.
 - loans proposed or in preparation: 1999: ECU 80 million in loans to Bulgaria. ECU 30 million in loans to Bosnia. ECU 20 million in loans to Albania. ECU 20 million in loans to FYROM. ECU 200 million in loans to Romania. ECU 70 million in loans to Tajikistan. ECU 20 million in loans to Moldova.

PART TWO

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

I. INTRODUCTION

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

The country risk evaluation presented in this chapter provides a set of country risk indicators, in the form of a full-page table per country, for all countries that have been recipients of EC macro-financial assistance in Central and Eastern Europe, the NIS and the Mediterranean area and which still have outstanding debts towards the EC. To complement this, textual analysis is provided for those countries where significant new information influencing the risk evaluation has become available since the previous report covering the first six months of 1998. Brief textual analysis is also provided for the countries which have still to repay loans outstanding in the context of the ECU 1250 million commercial credits made available to the then Soviet Union in 1991.

The evaluation in this section does *not* deal with other regions than those mentioned, mainly because Community exposure elsewhere (notably through guarantees of EIB lending) represents only a small fraction of total exposure (less than 9 %) and is also well diversified among countries.

II. CENTRAL AND EAST EUROPEAN COUNTRIES

BULGARIA

Despite the adverse effects of the recent turmoil in emerging markets, Bulgaria's risk assessment remains favourable. In the second half of 1998, further progress in macroeconomic stabilisation was achieved. Inflation declined further and fiscal performance continued to be strong. However, developments on the external accounts were a cause for concern. The current account balance deteriorated, as a result of a recovery in imports and weaker foreign demand. On the capital account, foreign investment inflows tapered off during 1998, reflecting the less positive investor sentiment towards emerging markets and a slower than expected pace of privatisation. Nevertheless, this was partially compensated by disbursements of balance-of-payments loans from official creditors, which contributed to a further increase in the central bank's reserves. Against the background of these macroeconomic achievements,

Standard and Poor's gave Bulgaria a B rating with a positive outlook in November 1998.

After the successful completion of the stand-by agreement with the IMF in June 1998, the Bulgarian authorities adopted a comprehensive economic adjustment and reform programme to advance Bulgaria's transformation into a competitive market economy. In support of this programme, they concluded with the Fund an Extended Fund Facility arrangement in September. The economic prospects for Bulgaria largely depend on the Government's ability to implement this ambitious reform agenda and on developments in the external environment. Although the Government's commitment to structural reform appears strong, it has not proved easy to translate this political commitment into rapid implementation. Moreover, given Bulgaria's high external indebtedness, persistence with structural reform is essential to attract adequate financial support from the international community and large FDI inflows.

In December 1998, the Community disbursed ECU 125 million, representing the second and last tranche of the ECU 250 million macro-financial assistance loan granted by the Community in July 1997.

ESTONIA

The Estonian economy is currently experiencing a sharp slowdown in economic activity, mainly caused by the implementation of the authorities' restrictive packages of November 1997 and June 1998. This slow-down has also been exacerbated by the consequences of the Asian and Russian financial crises, which hurt exports to Russia and other NIS markets and made access to international financing more difficult and costly. However, Estonia's risk assessment continues to be one of the best in the region.

Indeed, in many respects, the economic situation has improved over the past six months: the external deficits and inflation went down faster than anticipated, export growth continued to be rapid and stronger than that of imports, credit expansion reached a more normal rate, FDI and productivity were still increasing quite rapidly and the government accounts were in surplus. In addition, the foreign debt of the public sector continued to fall. More importantly, the banking sector, which had been largely responsible for the debt-creating capital inflows, has gone through very rapid changes and has emerged stronger and fitter, in particular because Swedish banks, international financial institutions and the central bank acquired large controlling stakes in the three largest Estonian banks in the last two months of 1998.

Of course, given that the current account deficit remains large (estimated at around 10% of GDP in 1998), there is still a need for strict and prudent macroeconomic policies, supported by continuous structural reforms. This will allow for an increase in domestic savings and continuing large inflows of FDI and other long-term capital.

LATVIA

Despite the negative impact of the Russian crisis on the economic prospects of the country, Latvia's risk assessment remains extremely favourable. In the second half of

1998 the economy grew rapidly, inflation continued to fall, and the public finances continued to strengthen. Faster growth led to a widening of the current account deficit, but this was still fully covered by strong inflows of capital, and particularly by strong inflows of foreign direct investment. The fixed exchange rate peg for the currency was maintained, and official reserves continued to grow. Foreign debt remained at low levels. The Government's reform programme continued to be supported by a Stand-by Agreement with the IMF – the latest 18-month programme has been in place since October 1997 and remains firmly on track.

However, the difficulties in Russia are likely to have a somewhat negative impact on Latvia's economic performance. Latvia sends a significant share of its exports to NIS markets, and some sectors are especially vulnerable to a downturn in demand. The second source of exposure for Latvia is its transit sector which is dependent on East-West trade, but this sector could benefit from the current Russian crisis, if the Russian authorities decide to step up the volume of Russian oil shipped through Latvian ports. The final and most important linkage so far has been through Latvia's banking sector – although the sector as a whole remains safe, some banks were heavily exposed to Russian sovereign debt. Two small banks were forced to close and some of the larger ones will take large dents in their profits.

LITHUANIA

Lithuania's macroeconomic performance continued to be strong: growth accelerated in the first half of 1998 and inflation fell to historically low levels. Moreover, the authorities once again showed their readiness to cut public expenditure to make up for a moderate shortfall in fiscal revenue. Two worrying features, however, were rapid wage growth and a high and increasing current account deficit, though during the period under review this was easily financed by the rise in foreign direct investment triggered by noticeable advances in large-scale privatisation. However, a worsening current account is to be expected as the restructuring of the Lithuanian economy deepens; plans to achieve a balanced budget in 1999 and to keep a stricter control on public sector wages will help limit any further deterioration. Also, large privatisation deals will continue to cover a large part of Lithuania's external financing needs.

None the less, this situation needs to be very carefully monitored, especially in the light of the Russian crisis. Russia is Lithuania's main trade partner, still accounting for some 20% of total exports of goods. Second, the cost and availability of external finance could significantly change if the flight of investors from emerging markets proves lengthy. Finally, demands for compensation from the hardest hit sectors may lead to undue pressure on the fiscal accounts. In the medium term, the impact of the Russian crisis on Lithuania will largely depend upon the capacity of local producers to penetrate western markets and to reach barter agreements with Russian importers. While the prospects for the time being remain uncertain, there are two countervailing factors. First, the expected increase in Russian oil exports could significantly benefit the Lithuanian oil refining industry, which accounts for roughly one quarter of total manufacturing production. Second, thanks to much improved supervision, the Lithuanian banking sector was little exposed to the recent financial turmoil. While a deterioration of exporters' financial performance could negatively affect the loan portfolio of

commercial banks, their reserve positions should be more than sufficient to make provisions for such a deterioration.

The Russian crisis will test the authorities' capacity to preserve a sustainable policy stance in the face of a deteriorating external environment. In this context, the decision to put on hold the planned unpegging of the litas from the dollar and maintain the currency board until at least the year 2000 should be regarded as a positive evolution. The straitjacket imposed by such an arrangement on policy-making increases the authorities' credibility and reduces the possibility of speculative attacks against the litas.

ROMANIA

In the second half of 1998, Romania's country risk deteriorated further. Indeed, the country was confronted with increasingly serious economic difficulties. As in the past, restrictive macroeconomic policies were being undermined by timid restructuring of the public enterprise sector. Weak corporate governance, the widespread accumulation of tax arrears, slow privatisation, pervasive political and administrative uncertainty, and the weaknesses of the financial sector, were increasing demands on the budget, deterring foreign direct investment and affecting the country's international credibility. The current policy mix did not support the resumption of sustainable growth and the widening external imbalances posed serious risks.

In the second half of 1998, economic activity continued to contract, and GDP is estimated to have fallen by approximately 5% in real terms for 1998 as a whole. On the output side, industrial production in particular was affected by the fall in aggregate demand. The National Bank of Romania (NBR) continued to implement a restrictive monetary policy, which resulted in high real interest rates. The fiscal position remained fragile because of sharply lower revenues, which were mainly due to the slow pace of privatisation and tax arrears.

Despite the on-going recession, the demand for imports increased while exports fell. As a result of these trends, the trade deficit increased sharply, which led in turn to a significant worsening of the current account deficit. Combined with large external debt repayments, the deterioration of Romania's external accounts became worrying. Indeed, because of low international credibility and much more risk-averse international financial markets, attracting international capital to finance the external financing needs was more difficult: inflows of long-term investments were moderate and vastly inferior to the corresponding period of 1997, while net inflows of portfolio investments dried up. Foreign exchange reserves fell.

The depreciation of the national currency accelerated and the authorities introduced a 6% import surcharge designed to provide some short-term relief on the balance of payments. However, this did not tackle the underlying causes, which were linked essentially to structural factors, in particular the weakness of the Romanian enterprise sector. Faced with mounting difficulties, the authorities tried to accelerate structural reforms. They succeeded in selling a large controlling stake in the national Telecommunication Company and one of the small public banks. However, privatisation receipts fell far short of the expected amounts.

Romania has not made progress on a new agreement with the IMF. Following the expiry of the SBA in May 1998 (off track since September 1997), negotiations did not resume, as the IMF waited for a coherent package of macroeconomic policies and structural reforms to be decided by the authorities. Also, the World Bank could not disburse the last tranche of its Agricultural Structural Adjustment Loan because of policy slippage. The deterioration of economic conditions was reflected in a wave of downgrading of the country's sovereign credit rating by the major rating agencies and an acceleration of the depreciation of the currency in the second half of 1998. The increased risk of Romanian assets has also been manifest in the increase in short-term money market rates and the systematic under-subscription of T-bills issues in the last months of 1998.

III. NEWLY INDEPENDENT STATES

ARMENIA

The Armenian economy recovered for a fifth consecutive year in 1998, growing by 5 % despite the impact of the Russian crisis. The average inflation rate fell further in 1998 to about 9 %. As a result of the crisis, the T-Bill market contracted and interest rates were very high, making it more difficult for the Government to obtain financing. However, thanks to the implementation of appropriate monetary, fiscal and structural policies, the country coped satisfactorily with the crisis. The government's refusal to support the Dram led to a slight currency depreciation against the US\$. Moreover, in 1998, despite the blockade imposed on the country, the current account deficit narrowed to about 24 % of GDP; the level of FDI increased, as a result of rapid progress in the privatisation programme; gross international reserves improved further; and external debt was reduced to less than 45 % of GDP. The country remains, however, heavily dependent on foreign financing on concessional terms. The IMF approved a third annual arrangement under the ESAF facility in December 1998. No positive steps were made with regard to the unresolved Nagorno Karabakh conflict with Azerbaijan. The country risk remains high.

BELARUS

The economic situation in Belarus deteriorated substantially as a result of the poor economic record of the government and of the negative impact of the Russian crisis, which has been sizeable for Belarus, because of its high level of dependence on the Russian economy.

The macroeconomic policy stance has been characterised by large monetary emission, either direct or via state-owned banks, which have been used to fund new public investment, especially in housing. Because such spending is off-budget, the fiscal deficit remains low. However, the inflationary impact is considerable. Despite state price controls on virtually all consumer goods, during the first three weeks of November consumer prices rose by 22 per cent. Shortages of basic goods, such as butter and eggs, forced the introduction of rationing. Restrictions were imposed on exports of foodstuffs, medicines and other goods.

The exchange rate was in free fall and an enormous spread appeared in the market between the official rate, still subject to severe administrative interference, and the bureaux rate. GDP and industrial production declined fast. The precise measurement of the decline is made difficult by the fact that official statistics are still lagging several months behind. The country risk remains high.

GEORGIA

As a result of the Russian financial crisis (Russia accounts for about 30 % of exports of goods and also significant inward remittances - US\$ 200 million a year) and bad results in the agricultural sector (drought), GDP growth declined to below 5 % in 1998. Fiscal difficulties, already significant before the crisis, worsened in the second half of 1998, because of slower growth and increasing tax evasion. Public sector salary and social security arrears accumulated further, and the current account deficit deteriorated. In the second half of 1998, the currency depreciated sharply against the US\$. The central bank intervened heavily in the foreign exchange market, reducing the country's reserves by around 50 %. In November 1998, an IMF mission was not in a position to conclude favourably the third review under the ESAF, as a result of the very low revenue collection and the inappropriate exchange rate policy. In the political field, the Abkhazian problem is still unresolved, while political unrest might occur if the economic situation worsens further before the parliamentary elections of 1999. As a result, the country risk is higher than it was six months ago.

MOLDOVA

After several years of decline, Moldova's GDP recorded some positive, albeit modest (1.3%), growth in 1997. In June 1998, the authorities set a target for GDP growth of 3%. This forecast now appears unrealistic, since the economy contracted dramatically because of the financial crisis in Russia, which accounts for two thirds of Moldova's external trade. It is estimated that the country experienced a fall in GDP of 5-8% for the year as a whole.

As a result of a relaxation of economic policies at the time of the electoral campaign, signs of a worsening economic situation emerged in August 1998 in the form of an acceleration of inflation and increased pressure on the exchange rate. These developments, compounded by the Russian crisis, gave cause for serious concern. The Russian crisis provoked capital flight from the leu, bringing an end to the exchange rate stability which had characterised the country for several years. The leu, established in 1993 at just under 4 lei to the dollar, had fallen only to 5 lei to the dollar by October 1998, having mildly appreciated in real terms. Although this stability was somewhat artificial, since the central bank often intervened to prop up the leu when it was threatened, it undoubtedly contributed to containing inflation. On 2 November, the central bank announced that it would limit its intervention in the currency market and would set the official exchange rate according to a daily market average, rather than on the basis of an interbank auction. Following the announcement, the leu fell sharply and depreciated by more than 50% by mid-November, before stabilising at around 8.5 in December.

Following the exchange rate deterioration, prices of petrol and other basic goods increased rapidly. Such an increase, if sustained, might jeopardise the positive results obtained so far in containing inflation. Inflation was 15.1 per cent in 1996, 11.2 per cent in 1997 and remained below 10 per cent during the period January-October. The recent burst of inflation made it impossible to meet the target set at the beginning of 1998 for a reduction to below 7%, and average inflation for 1998 was about 20 per cent.

The continuous need for the central bank to support the declining leu severely diminished foreign currency reserves, which fell by half between August and December, to 167 million dollars, or about one and a half month's imports.

Since the second half of 1997, fiscal policy has been substantially relaxed, leading to a general government deficit estimated at 7.3% of GDP at the end of 1998, despite stronger than expected tax revenues. The deficit was due partly to the faster clearance of budgetary arrears (pensions and wages) but also to higher spending commitments on education, public administration and net lending to enterprises. The deficit was covered by greater recourse to external financing as well as domestic monetary financing.

The widening budget deficit has put pressure on the current account deficit, presently estimated at 17% of GDP. Until recently the current account deficit was financed by a strong increase in capital inflows. This increased reliance on external financing contributed to a steady increase of the country's external debt. Although not particularly high in absolute terms, the debt has risen at a very rapid pace, almost doubling every year since 1993. Total external debt was estimated at nearly 60% of GDP at the end of 1997 and continued to rise in 1998. Under the current circumstances, the government will find it difficult to honour debt service obligations estimated at \$244 million. Moldova is reported to have begun debt-rescheduling talks with some of its main creditors.

On the structural front, the overall picture is relatively encouraging, particularly in the key sectors of energy and agriculture. The government is now implementing the third privatisation programme, which is aimed at finalising the privatisation of public property and reforming the agrarian sector, although some privatisation still continues under the two previous programmes. In the energy sector, the authorities are preparing for privatisation. Moldenergo, the energy supplier has been broken up into production, transmission and distribution companies, with assistance from the World Bank.

TAJIKISTAN

Notwithstanding two external shocks during 1998 (fall in the world market prices of cotton and financial crisis in Russia), output expanded by about 3 % in 1998. Despite the sharp nominal depreciation of the currency against the US\$, annual average inflation fell below 50 %. The adverse effects of the Russian crisis were felt on the current account deficit as exports declined and remittances from Russia diminished. Nevertheless, gross foreign exchange reserves increased to two months' imports in 1998. The external debt of Tajikistan was still equivalent to the country's GDP. Tajikistan's achievements in the liberalisation of the trade and foreign exchange regimes were encouraging. Structural reforms in key areas proceeded satisfactorily, although

efforts were still needed in the privatisation of medium-sized and large enterprises, in distributing land and land ownership certificates to private farmers, and in liquidating banks that were not complying with prudential regulations. A three-year Enhanced Structural Adjustment Facility with the IMF was concluded in July 1998, but weak implementation was a source of concern. Despite recent adverse security developments, security improved. The situation remained, however, unpredictable. The risk assessment is still high.

UKRAINE

Despite significant progress in macroeconomic stabilisation achieved in Ukraine in recent years (inflation was reduced from 400% in 1994 to 10% in 1997 and the contraction of real GDP was scaled down from 23% in 1994 to 3% in 1997), the general economic situation remains fragile because of delays in implementing key structural reforms which would permit the country fully to develop its economic potential, improve its public finances (the budget deficit was 5.6% in 1997) and get onto the path of sustainable growth.

Some positive trends established in the first eight months of 1998 were reversed following the Russian crisis when international investors reassessed the risks of investment in neighbouring countries, triggering large withdrawals of portfolio investment from Ukraine's financial markets. The authorities took two measures to contain the crisis. They first lowered the Hryvna's trading band against the dollar and, second, successfully rescheduled a large part of their short-term external and internal debt in the context of a scheme agreed with the creditors. Furthermore, they approved a three-year economic programme covering the period July 1998-June 2001, supported by a \$ 2.2 billion Extended Fund Facility (EFF) from the IMF. The programme aims at reducing the 12-month average inflation rate to 7% and raising real GDP growth to 4% by 2001. Fundamental structural reforms will be undertaken to accompany the macroeconomic stabilisation, including measures to reduce the role of the government in the economy, further deregulation and accelerated privatisation.

The EFF is currently suspended due to both fiscal and structural slippages. The Fund intends, however, to review the situation soon in order to assess compliance with the programme, with a view to possibly resuming disbursements. Ukraine's overall risk assessment remains unfavourable.

List of abbreviations

BOP	Balance of payments
CCFF	Compensatory and Contingency Financing Facility
CEEC	Central and East European Countries
DDSR	Debt and Debt Service Restructuring
DM	Deutsche Mark
EC	European Community
ECU	European Currency Unit
EFF	Extended Financing Facility
EIB	European Investment Bank
ESAF	Extended Structural Adjustment Facility
EU	European Union
FDI	Foreign Direct Investment
FESAL	Financial and Enterprise Sector Adjustment Loan
G&S	Goods and Services
GDP	Gross Domestic Product
IMF	International Monetary Fund
MED	Mediterranean countries
NIS	Newly Independent States
SBA	Stand-By Arrangement
STF	Systemic Transformation Facility
USD or US\$	Dollar of the United States of America

ANNEX

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

I.A Tables 1 to 3

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

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

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

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

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

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

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

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

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

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

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

I.B Loan operations covered by a budget guarantee

TABLE 5a

Borrowing and lending operations: Member States

Changes in amounts outstanding during six-month period

ECU million

COUNTRY	Decision	Date of decision	Loan term (years)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.7.98	Operations in six-month period		Amount outstanding at 31.12.98
							Amounts disbursed	Amounts repaid	
ITALY	93/67/CEE	18.01.93	6	(c)	8 000,00	3 446,60		986,30	2 482,70
EURATOM	77/270-271/Euratom	29.3.77	(3)	(c)	2 000,00				
	80/29/Euratom	20.12.79		(c)	2 000,00				
	82/170/Euratom	15.3.82		(d)	2 000,00				
	85/537/Euratom	05.12.85		(d)	2 000,00				
	90/212/Euratom	23.4.90		(c)	4 000,00	28,70		2,30	27,70
NCI	78/870/EEC	16.10.78	(3)	(c)	6 830,00	194,80		27,90	168,30
	81/19/EEC(1)	20.1.81		(c)	1 000,00				
	81/1013/EEC(2)	14.12.81		(c)	1 000,00				
	82/169/EEC	15.3.82		(c)	80,00				
	83/200/EEC	19.4.83		(c)	1 000,00				
	87/182/EEC	09.3.87		(c)	750,00				
TOTAL					18 830,00	3 670,10	0,00	1 016,50	2 678,70 (5)

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

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

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

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

At 31 December 1998 no loans had yet been granted in non-member countries.

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

TABLE 5b (1)

Financial assistance to non-member countries

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

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.7.98	Operations in six-month period		Amount outstanding at 31.12.98
								Amounts disbursed	Amounts repaid	
								ECU million		
BULGARIA II 1st tranche	92/511/EEC	19.10.92	7	07.12.2001	(c)	110,00	70,00			70,00
2nd tranche			7	29.08.2003	(c)	40,00	40,00			40,00
BULGARIA III 1st tranche	97/472/EC	22.07.97	10	10.02.2008	(c)	250,00	125,00			125,00
2nd tranche			-	-	(c)	125,00	125,00	125,00		125,00
ROMANIA I 1st tranche	91/384/EEC	22.07.91	7	01.02.99	(c)	375,00	190,00			190,00
2nd tranche			6	18.03.98	(a)	185,00	0,00			0,00
ROMANIAE II 1st tranche	92/551/EEC	27.11.92	7	26.02.2000	(c)	80,00	80,00			80,00
2nd tranche	94/369/EC	20.06.94	7	20.11.2002	(c)	125,00	55,00			55,00
BALTIC STATES 1st tranche	92/542/EEC	23.11.92	7	20.11.2004	(c)	70,00	70,00			70,00
2nd tranche			7	31.03.2000	(c)	220,00	15,00			10,00
ESTONIA 1st tranche			-	-	(d)	20,00	0,00		5,00	0,00
2nd tranche			7	31.03.2000	(c)	80,00	40,00			40,00
LATVIA 1st tranche			-	-	(d)	40,00	0,00			0,00
2nd tranche			7	27.07.2000	(c)	100,00	50,00			50,00
LITHUANIA 1st tranche			7	16.08.2002	(b)	50,00	25,00			25,00
2nd tranche	94/346/EC	13.06.94	7	07.12.2004	(c)	45,00	25,00			25,00
MOLDOVA I 1st tranche			10	08.08.2005	(c)	25,00	20,00			20,00
2nd tranche	96/242/EC	25.03.96	10	30.10.2006	(c)	20,00	15,00			15,00
MOLDOVA II						15,00				15,00

TABLE 5b (2)

Financial assistance to non-member countries

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

1
3
2
1

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.7.98	Operations in six-month period		Amount outstanding at 31.12.98
								Amounts disbursed	Amounts repaid	
UKRAINE I	94/940/EC	22.12.94	10	28.12.2005	(c)	85,00	85,00			85,00
UKRAINE II	95/442/EC	23.10.95	10	29.08.2006	(c)	200,00	50,00			50,00
1/2 tranche			10	30.10.2006	(c)		50,00			50,00
2nd tranche			10	30.10.2008	(c)		100,00			100,00
BELARUS	95/132/EC	10.04.95	10	28.12.2005	(c)	55,00	30,00			30,00
1st tranche			10		(d)	25,00	0,00			0,00
2nd tranche	97/471/EC	22.07.97	15	27.09.2012	(c)	40,00	25,00			25,00
FYROM			15	13.02.2008	(c)	15,00	15,00			15,00
1st tranche			5	15.12.97	(a)	400,00	0,00			0,00
2nd tranche	91/510/EEC	23.09.91	7	17.08.2001	(c)	250,00	150,00			150,00
ALGERIA I			7	27.11.2002	(c)	100,00	100,00			100,00
1st tranche	94/938/EC	22.12.94	7		(d)	100,00	0,00			0,00
2nd tranche			15	24.07.2013	(c)	110,00	110,00			110,00
ALGERIA II			15	30.12.2013	(c)	28,00	28,00			28,00
1st tranche	97/787/EC	17.11.97	3	28.09.97	-	1.250,00	102,69			54,50
2nd tranche	97/787/EC	17.11.97						110,00		
GEORGIA	97/787/EC	17.11.97						28,00		
ARMENIA	91/658/EEC	16.12.91							48,19	
REPS FORMER USSR(*)										
TOTAL						3.588,00	1.527,69	263,00		1.737,50

(*) The ECU 54.5 million outstanding corresponds to the principal due but not paid at 31.12.1998.

TABLE 6

LOAN GUARANTEES TO EIB

GEOGRAPHICAL AREA	Decision	Date of decision	Rate of guarantee	Loan term (years)	Date of guarantee contract	Amount decided	Loans signed		Amount outstanding	
							at 1.7.98	during six-month period	at 1.7.98	at 31.12.98
MED. Financial protocols(1)		8.03.77	75% (2)	15	30.10.78/10.11.78	6062	5515	0	2415	2377
MED. Horizontal cooperation	R/1762/92/EEC	29.06.92	75% (2)	15	09.11.92/18.11.92	1800	1800	0	1027	1207
TOTAL MED.						7862	7315 (3)	0 (3)	3442	3584 (*)
C and E Europe I	90/62/EEC(4)	12.2.90	100%	15	24.4.90/14.5.90	1000	928	0	688	726
	91/252/EEC(5)	14.5.91	100%	15	19.1.93/4.2.93	700	700	-	438	422
C and E Europe II	93/696/EC(6)	13.12.93	100%	15	22.7.94/12.8.94	3000	3000	-	903	1133
Asia, Latin America I	93/115/EEC	15.2.93	100%	15	4.11.93/17.11.93	750	657	-	364	362
Asia, Latin America II	96/723/EC	12.12.96	100%	15	18.3.97/26.3.97	153	153	-	78	150
Asia, Latin America II	96/723/EC	12.12.96	70%	15	21.10.97	122	52	0	0	0
South Africa	95/207/EC	01.6.95	100%	15	04.10.95/16.10.95	300	300	-	83	151
New mandates	97/256/EC(7)	14.4.97	70%	15	25.7.97/29.7.97	7105	3438	925	626	1294
FYROM	98/348/EC	19.5.98	70%	15		150	0	70	0	15
TOTAL						21142	16542	995	6623	7837

(1) Including ECU 1 500 million for Spain, Greece and Portugal.
 (2) General guarantee of 75% for all credits made available under lending operations under a guarantee contract signed between the Community and the EIB on 30.10.78 and 10.11.78. By way of exception, a 100% guarantee applies to the emergency aid granted to Portugal in accordance with the Council Decision of 7 October 1975.
 (3) The Community has guaranteed ECU 5 524.3 million, of which ECU 141.5 million is covered by a 100% guarantee for Portugal.
 (4) Non-member countries: Poland, Hungary.
 (5) Non-member countries: Czech Republic and Slovak Republic, Bulgaria, Romania.
 (6) Non-member countries: Poland, Hungary, Czech Republic and Slovak Republic, Bulgaria, Romania, Baltic States and Albania.
 (7) Non-member countries: Central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa.
 (*) The amount outstanding has been increased by ECU 34.8 million to take account of the principal due and not paid at 31 December 1998.

I.C Expected signature and disbursement of EIB loans

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

Expected signatures

At 31 December 1998 a total of ECU 2 947 million was still to be signed:

Mediterranean: former mandates (protocols with Syria and Malta)	ECU 255 million
Mediterranean countries	ECU 699 million
Central and Eastern Europe	ECU 1 057 million
Asia and Latin America	ECU 516 million ¹
South Africa	ECU 240 million
FYROM	ECU 80 million
Bosnia	ECU 100 million

¹ The amount still to be signed for Asia and Latin America breaks down into ECU 446 million under the Decision of 14 April 1997 and ECU 70 million under the Decision of 31 December 1996.

Disbursement forecasts

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

At 31 December 1998 ECU 6 637 million still had to be disbursed against loans signed at that date. The total breaks down as follows:⁶

Mediterranean	ECU 2 153 million
Central and Eastern Europe	ECU 3 505 million
Asia and Latin America	ECU 640 million
South Africa	ECU 284 million
FYROM	ECU 55 million

⁶ 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.D Payment of the budget guarantee

I.D.1 Borrowing/lending operations

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

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

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

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

I.D.2 Guarantees given to third parties

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

Since the entry into force of the Regulation establishing a Guarantee Fund for external action, the provisions of the Agreement between the Community and the EIB on management of the Fund state that, after the EIB calls in the guarantee in the event of a

default, the Commission must authorise the Bank to withdraw the corresponding amounts from the Guarantee Fund within three months.

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

An implementation agreement was concluded between the Community and the EIB on 20 and 22 January 1999 to determine payment and repayment procedures in connection with Community guarantees to the EIB.

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

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

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

The amount of the guarantee reserve is the same as in the financial perspective, viz. ECU 300 million at 1992 prices. The amount in the reserve comes to ECU 346 million in 1999.

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

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

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

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

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

- to the loans (for financial assistance) authorised by the Council and to the loans proposed or being prepared by the Commission.

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

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

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

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

In the second half of 1998 the budgetary authority accordingly adopted transfer 50/98 so that payments could be made into the Guarantee Fund in respect of loans to non-member countries (Ukraine) and the payment of the annual tranche provided for in the financial statement for the EIB loan for projects in the Former Yugoslav Republic of Macedonia.

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

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

The guarantee on the EIB loans authorised by the Council on 14 April 1997 and 19 May 1998 is limited to 70% of the total amount of credits opened. The basis for provisioning is 70% of the annual forecast of signatures.

II.D Provisioning of the Guarantee Fund

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

Pursuant to Articles 2 and 4 of the Regulation establishing the Guarantee Fund, the Fund is endowed by payments from the general budget equivalent to 14% of the capital value

of the operations until it reaches the target amount. As the target amount was reached at 31 December 1997, the Commission, in accordance with the Regulation, submitted proposals to review the rate of provisioning. These proposals appear in the comprehensive report on the functioning of the Fund which the Commission drew up in accordance with Article 3 of the Regulation (COM(1998) 168 final of 18 March 1998). The Council (Ecofin) of 1 December 1998 reached a political agreement on the draft regulation amending Regulation No 2728/94 establishing a Guarantee Fund for external action. Under this agreement, the provisioning rate for the Fund and the target amount is fixed at 9% from 1 January 2000. The regulation will be formally adopted once agreement is reached on the new financial perspective for 2000-2006.

II.E Margin remaining in the guarantee reserve

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

II.F Residual lending capacity

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

III. TABLES: COUNTRY-RISK INDICATORS

Country-risk indicators						
Country: Bulgaria						
		footnotes	1996	1997	1998	
Real GDP growth rate	(%)		-10,9	-6,9	4,3	(5)
Industrial production	(% change)		-8,3	-11,5	-9,0	(6) (11/98)
Unemployment (end of period)	(% of labour force)		12,5	13,7	11,8	(11/98)
Inflation rate (CPI) (Dec/Dec)	(% change)		311	578	1,0	
Exchange rate (end of period)	(Leva per USD)		487	1792	1639	(10/98)
General government balance	(% of GDP)		-11,0	-2,6	0,9	(7)
Balance of payments						
Exports of goods and services	(m USD)		6300	6300	4193	(9/98)
Current account balance	(% of GDP)		0,8	4,4	n.a.	
Net inflow of foreign direct investment	(m USD)		109	498	152	(9/98)
Official reserves, including gold (end of period)			800	2500	2991	
m USD			1,6	4,8	6,6	
External debt						
Convertible currency external debt (end of period)	(m USD)		9600	9700	9895	(9/98)
Convertible currency debt service	(m USD)		1000	1100	923	(9/98)
principal	(m USD)		400	600	492	(9/98)
interest	(m USD)		600	500	431	(9/98)
External debt/GDP	(%)		103	97	n.a.	
External debt/exports of goods and services	(%)		152	154	177	(9/98)
Debt service/exports of goods and services	(%)		16	17	22	(9/98)
Arrears (on both interest and principal)	(m USD)		none	none	n.a.	
Debt relief agreements and rescheduling	(m USD)		none	none	n.a.	
Indicators of EU exposure						
EU exposure/total EU exposure	(%)	(1)	8,1	5,7	6,2	
EU exposure/external debt	(%)		6,5	4,8	6,1	
EU exposure/exports of goods and services	(%)		10,0	7,4	14,3	
IMF arrangements						
Type			SBA	SBA	EFF	
(Date)			(07/96-02/98)	(06/97-05/98)	(06/98-06/01)	
On track			no (4)	yes	yes	
Indicators of market's perception of creditworthiness						
Moody's long-term foreign currency rating (end of period)			none	B3	B2	
S&P long-term foreign currency rating (end of period)			none	none	B	
Euro money			03/96 09/96	03/97 09/97	09/98	
Position in the ranking (number of countries)	(2)		99 92	111 96	93	
The Institutional Investor			(178) (178)	(179) (180)	(180)	
Position in the ranking (number of countries)	(2)		03/96 09/96	03/97 09/97	03/98 09/98	
Credit rating	(3)		92 93	97 99	100 92	
			(135) (135)	(135) (135)	(136) (136)	
			23.1 23.5	22.5 22.2	22.9 26.3	

Footnotes

- (1) (2) (3) See explanatory notes.
(4) SBA suspended in 09/96.
(5) First nine months of 1998 compared to the same period of 1997.
(6) Receipts from industrial sales.
(7) Government forecasts.

Country-risk indicators						
Country: Estonia						
		footnotes	1996	1997	1998	
Real GDP growth rate	(%)		4,0	11,4	7,4	(6)
Industrial production	(% change)		3,4	13,0	-13,7	(7)
Unemployment (end of period)	(% of labour force)		10,0	9,7	9,6	(6/98)
Inflation rate (CPI) (Dec/Dec)	(% change)		14,8	12,5	6,5	
Exchange rate (end of period)	(Kroons per USD)	(5)	12,4	14,2	13,3	
General government balance	(% of GDP)		-1,5	2,1	1,2	(8)
Balance of payments						
Exports of goods and services	(m USD)		2924	3623	3045	(9/98)
Current account balance	(% of GDP)		-9,2	-12,0	-8,6	(6/98)
Net inflow of foreign direct investment	(m USD)		111	128	131	(9/98)
Official reserves, including gold (end of period)			707	830	883	
m USD			2,5	2,4	2,8	(9/98)
months' imports of goods and services						
External debt						
Convertible currency external debt (end of period)	(m USD)	(4)	1018	2586	3093	(9/98)
Convertible currency debt service principal	(m USD)		n.a.	n.a.	n.a.	
interest	(m USD)		n.a.	n.a.	n.a.	
External debt/GDP	(%)		24,1	56,5	57,7	(6/98)
External debt/exports of goods and services	(%)		34,8	71,4	76,2	(9/98)
Debt service/exports of goods and services	(%)		n.a.	n.a.	n.a.	
Arrears (on both interest and principal)	(m USD)		none	none	none	
Debt relief agreements and rescheduling	(m USD)		none	none	none	
Indicators of EU exposure						
EU exposure/total EU exposure	(%)	(1)	0,5	0,6	0,6	
EU exposure/external debt	(%)		13,8	1,7	1,6	
EU exposure/exports of goods and services	(%)		2,0	1,2	1,6	
IMF arrangements						
Type			SBA	SBA	SBA	
(Date)			(07/96-08/97)	(12/97-03/99)	(12/97-03/99)	
On track			yes	yes	yes	
Indicators of market's perception of creditworthiness						
Moody's long-term foreign currency rating (end of period)			none	Baa1	Baa1	
S&P long-term foreign currency rating (end of period)			none	BBB+	A-	
Euromoney			03/96 09/96	03/97 09/97	09/98	
Position in the ranking (number of countries)	(2)		73 71	69 63	51	
			(178) (178)	(179) (180)	(180)	
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98	
Position in the ranking (number of countries)	(2)		76 71	65 63	61 60	
			(135) (135)	(135) (135)	(136) (136)	
Credit rating	(3)		28.9 31.1	33.6 36.9	38.9 40.8	

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) Gross total external liabilities of Estonian residents.
 Official external debt is much lower. Since 1996, the government has repaid foreign loans in advance.
 (5) December monthly average
 (6) First six months of 1998 compared to same period of 1997
 (7) First ten months of 1998 compared to same period of 1997
 (8) Estimates.

Country-risk indicators					
Country: FYROM					
		footnotes	1996	1997	1998
					(7)
Real GDP growth rate	(%)		0,8	1,5	5,0
Industrial production	(% change)		3,4	0,0	6,0
Unemployment (end of period)	(% of labour force)		31,9	36,0	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)		-0,7	2,7	-2,3
Exchange rate (end of period)	(Denar per USD)		41,3	55,4	54,9
General government balance	(% of GDP)		-0,5	-0,4	-2,0
Balance of payments					
Exports of goods and services	(m USD)	(4)	1147	1201	1322
Current account balance	(% of GDP)	(5)	-7,3	-8,2	-9,1
Net inflow of foreign direct investment	(m USD)		12	18	70
Official reserves, including gold (end of period)	m USD		267	280	304
months' imports of goods and services			2,0	1,9	2,1
External debt					
Convertible currency external debt (end of period)	(m USD)		1200	1100	1100
Convertible currency debt service principal	(m USD)		124	104	127
interest	(m USD)		70	47	66
External debt/GDP	(%)		54	69	63
External debt/exports of goods and services	(%)		28,5	33,9	38,4
Debt service/exports of goods and services	(%)		104,6	91,6	83,2
Arrears (on both interest and principal)	(m USD)	(6)	10,8	8,7	9,6
Debt relief agreements and rescheduling	(m USD)		34	none	none
			37	87	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)		0,3	0,6
EU exposure/external debt	(%)			2,6	5,6
EU exposure/exports of goods and services	(%)			2,4	4,7
IMF arrangements					
Type			SBA	ESAF	ESAF
(Date)			(05/95-04/96)	(04/97-04/00)	(04/97-04/00)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		85 59	107 151	143
The Institutional Investor			(178) (178)	(179) (180)	(180)
Position in the ranking (number of countries)	(2)		none	none	none
Credit rating	(3)		none	none	none

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) Discontinuities in the trade series due to changes in the coverage of trade data, particularly in 1996.
 (5) The current account deficit may be overestimated due to unreported remittances.
 (6) Debt service excluding IMF; it includes an estimate of debt service due to commercial creditors.
 (7) Estimates.

Country-risk indicators						
Country: Latvia						
		footnotes	1996	1997	1998	
Real GDP growth rate	(%)		3,3	6,5	6,4	(4)
Industrial production	(% change)		1,4	6,1	3,6	(5)
Unemployment (end of period)	(% of labour force)		7,2	7,0	7,6	(9/98)
Inflation rate (CPI) (Dec/Dec)	(% change)		13,1	7,0	2,9	(10/98)
Exchange rate (end of period)	(Lats per USD)		0,56	0,59	0,59	
General government balance	(% of GDP)		-1,1	1,8	n.a.	
Balance of payments						
Exports of goods and services	(m USD)		2613	2789	1564	(6)
Current account balance	(% of GDP)		-5,5	-6,3	-7,2	(6)
Net inflow of foreign direct investment	(m USD)		378	515	131	(6)
Official reserves, including gold (end of period)			729	778	878	(6/98)
m USD			3,3	3,3	3,4	(6/98)
months' imports of goods and services						
External debt						
Convertible currency external debt (end of period)	(m USD)		727	776	982	(6/98)
Convertible currency debt service principal	(m USD)		n.a.	n.a.	n.a.	
interest	(m USD)		n.a.	n.a.	n.a.	
External debt/GDP	(%)		14,3	14,3	16,2	(6/98)
External debt/exports of goods and services	(%)		27,8	27,8	31,4	(6/98)
Debt service/exports of goods and services	(%)		n.a.	n.a.	n.a.	
Arrears (on both interest and principal)	(m USD)		none	none	none	
Debt relief agreements and rescheduling	(m USD)		none	none	none	
Indicators of EU exposure						
EU exposure/total EU exposure	(%)	(1)	0,7	0,7	0,8	
EU exposure/external debt	(%)		7,0	7,5	7,6	
EU exposure/exports of goods and services	(%)		1,9	2,1	4,8	
IMF arrangements						
Type			SBA	SBA	SBA	
(Date)			(05/96-08/97)	(10/97-03/99)	(10/97-03/99)	
On track			yes	yes	yes	
Indicators of market's perception of creditworthiness						
Moody's long-term foreign currency rating (end of period)			none	none	Baa2	
S&P long-term foreign currency rating (end of period)			none	BBB	A-	
Euromoney			03/96 09/96	03/97 09/97	09/98	
Position in the ranking (number of countries)		(2)	89 75	63 59	57	
The Institutional Investor			(178) (178)	(179) (180)	(180)	
Position in the ranking (number of countries)		(2)	03/96 09/96	03/97 09/97	03/98 09/98	
Credit rating		(3)	86 88	79 74	71 68	
			(135) (135)	(135) (135)	(136) (136)	
			24.7 25.7	29.1 32.6	34.0 36.3	

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) First six months of 1998 compared to same period of 1997
 (5) First ten months of 1998 compared to same period of 1997
 (6) First six months of 1998.

Country-risk indicators					
Country: Lithuania					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		4,7	5,7	5,7 (4)
Industrial production	(% change)		5,0	0,7	7,0
Unemployment (end of period)	(% of labour force)		16,4	14,1	6,9
Inflation rate (CPI) (Dec/Dec)	(% change)		13,1	8,4	2,4
Exchange rate (end of period)	(Litas per USD)		4,0	4,0	4,0
General government balance	(% of GDP)		-2,7	-0,5	n.a.
Balance of payments					
Exports of goods and services	(m USD)		4211	5224	3993 (9/98)
Current account balance	(% of GDP)		-9,2	-10,3	n.a.
Net inflow of foreign direct investment	(m USD)		153	328	806 (9/98)
Official reserves, including gold (end of period)	m USD		834	1063	1430
months' imports of goods and services			2,4	2,1	n.a.
External debt					
Convertible currency external debt (end of period)	(m USD)		1200	1400	1682
Convertible currency debt service principal	(m USD)		120	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		n.a.	n.a.	n.a.
External debt/exports of goods and services	(%)		15,3	15,4	n.a.
Debt service/exports of goods and services	(%)		28,5	26,8	n.a.
Arrears (on both interest and principal)	(m USD)		3,6	n.a.	n.a.
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	1,4	1,6	1,7
EU exposure/external debt	(%)		9,1	9,4	9,9
EU exposure/exports of goods and services	(%)		2,6	2,5	4,2
IMF arrangements					
Type			EFF	EFF	-
(Date)			(10/94-10/97)	(10/94-10/97)	-
On track			yes	yes	-
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			Ba2	Ba1	Ba1
S&P long-term foreign currency rating (end of period)			none	BBB-	BBB+
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		85 59	72 62	62
The Institutional Investor			(178) (178)	(179) (180)	(180)
Position in the ranking (number of countries)	(2)		03/96 09/96	03/97 09/97	03/98 09/98
Credit rating	(3)		89 90	85 80	77 71
			(135) (135)	(135) (135)	(136) (136)
			23.8 25.3	27.4 31.1	32.9 34.5

Footnotes

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

(4) First nine months of 1998 compared to same period of 1997

Country-risk indicators						
Country: Romania						
		footnotes	1996	1997	1998	
Real GDP growth rate	(%)		4,1	-6,6	-5,2	(8)
Industrial production	(% change)		9,9	-5,9	-13,9	(9)
Unemployment (end of period)	(% of labour force)		6,3	8,8	9,7	
Inflation rate (CPI) (Dec/Dec)	(% change)		56,9	151,4	43,8	(11/98)
Exchange rate (end of period)	(Lei per USD)		4035	8023	10951	
General government balance	(% of GDP)		-3,9	-3,7	-4,0	(10)
Balance of payments						
Exports of goods and services	(m USD)		9648	9853	6244	(8/98)
Current account balance	(% of GDP)		-7,4	-6,7	-7,2	(10)
Net inflow of foreign direct investment	(m USD)		263	1224	697	(8/98)
Official reserves, including gold (end of period)			3144	4671	4014	(8/98)
m USD			3,0	4,5	4,1	(8/98)
months' imports of goods and services						
External debt						
Convertible currency external debt (end of period)	(m USD)		8345	9310	8479	(3/98)
Convertible currency debt service	(m USD)		1527	2582	970	(3/98)
principal	(m USD)		1159	2080	862	(3/98)
interest	(m USD)		368	502	108	(3/98)
External debt/GDP	(%)		23,7	26,8	n.a.	
External debt/exports of goods and services	(%)		86,5	94,5	n.a.	
Debt service/exports of goods and services	(%)		15,8	26,2	45,2	(3/98)
Arrears (on both interest and principal)	(m USD)		none	none	none	
Debt relief agreements and rescheduling	(m USD)		none	none	none	
Indicators of EU exposure						
EU exposure/total EU exposure	(%)	(1)	10,2	11,0	7,8	
EU exposure/external debt	(%)		9,1	8,5	8,0	
EU exposure/exports of goods and services	(%)		12,5	8,0	10,9	
IMF arrangements						
Type			SBA	SBA	SBA	
(Date)			(4)	(04/97-05/98)	(04/97-05/98)	
On track			no (5)	no (6)	no (7)	
Indicators of market's perception of creditworthiness						
Moody's long-term foreign currency rating (end of period)			Ba3	Ba3	B3	
S&P long-term foreign currency rating (end of period)			BB-	BB-	B+	
Euromoney			03/96 09/96	03/97 09/97	09/98	
Position in the ranking (number of countries)	(2)		67 61	75 75	82	
			(178) (178)	(179) (180)	(180)	
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98	
Position in the ranking (number of countries)	(2)		68 72	64 67	70 72	
			(135) (135)	(135) (135)	(136) (136)	
Credit rating	(3)		30.9 31.0	32.7 34.1	34.5 33.8	

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) The SBA approved in May 1994 was augmented and extended through 1997.
 (5) Suspended in March 1996. New SBA approved by IMF Board on 22 April 1997
 (6) Off track in September 1997
 (7) Cancelled with only two (out of five) tranches disbursed
 (8) First six months of 1998 compared to the same period of 1997.
 (9) October 98 compared to October 1997.
 (10) Estimates.

Country-risk indicators					
Country: Armenia					
		footnotes	1996	1997	1998 (4)
Real GDP growth rate	(%)		5,8	3,1	5,5
Industrial production	(% change)		1,2	0,9	n.a.
Unemployment (end of period)	(% of labour force)		9,7	11,0	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)		5,8	21,9	3,8
Exchange rate (end of period)	(Dram per USD)		435	495	520
General government balance	(% of GDP)		-9,3	-5,9	-5,9
Balance of payments					
Exports of goods and services	(m USD)		290	239	249
Current account balance	(% of GDP)		-26,9	-29,0	-24,0
Net inflow of foreign direct investment	(m USD)		22	51	140
Official reserves, including gold (end of period)	m USD		168	240	290
months' imports of goods and services			2,2	2,8	3,6
External debt					
Convertible currency external debt (end of period)	(m USD)		614	786	801
Convertible currency debt service	(m USD)		75	54	45
principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		38,0	48,3	43,0
External debt/exports of goods and services	(%)		211,7	328,9	321,7
Debt service/exports of goods and services	(%)		25,8	22,7	18,1
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m USD)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,8	0,7	0,3
EU exposure/external debt	(%)		10,3	7,2	3,9
EU exposure/exports of goods and services	(%)		21,9	23,7	12,6
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(02/96-01/97)	(07/97-06/98)	(12/98-11/99)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		150 137	141 136	137
The Institutional Investor			(178) (178)	(179) (180)	(180)
Position in the ranking (number of countries)	(2)		none	none	none
Credit rating	(3)		none	none	none

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) Projections.

Country-risk indicators					
Country: Belarus					
		footnotes	1996	1997	1998 (4)
Real GDP growth rate	(%)		2,6	10,0	3,0
Industrial production	(% change)		3,2	17,6	0,5
Unemployment (end of period)	(% of labour force)		3,9	2,8	2,6
Inflation rate (CPI) (Dec/Dec)	(% change)		39,3	63,4	182,0
Exchange rate (end of period)	(Rbs per USD)		13400	30798	90000
General government balance	(% of GDP)		-2,0	-2,1	-2,8
Balance of payments					
Exports of goods and services	(m USD)		5800	7400	6909
Current account balance	(% of GDP)		-3,7	-6,0	-7,5
Net inflow of foreign direct investment	(m USD)		6	n.a.	n.a.
Official reserves, including gold (end of period)			469,2	393,7	50,0
m USD			0,8	0,5	0,1
months' imports of goods and services					
External debt					
Convertible currency external debt (end of period)	(m USD)		1071	900	1010
Convertible currency debt service principal	(m USD)		163	170	175
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		7,8	6,7	7,1
External debt/exports of goods and services	(%)		18,5	12,2	14,6
Debt service/exports of goods and services	(%)		2,8	2,3	2,5
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,5	0,4	0,3
EU exposure/external debt	(%)		3,6	3,8	3,3
EU exposure/exports of goods and services	(%)		0,7	0,5	0,5
IMF arrangements					
Type			SBA		
(Date)			(12/95-11/96)		
On track			no		
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		128 142	154 131	144
			(178) (178)	(179) (180)	(180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking (number of countries)	(2)		116 118	118 121	122 121
			(135) (135)	(135) (135)	(136) (136)
Credit rating	(3)		14.5 14.6	14.5 14.2	12.9 14.6

Footnotes

(1) (2) (3) See explanatory notes.
 (4) Projections

Country-risk indicators					
Country: Georgia					
		footnotes	1996	1997	1998 (4)
Real GDP growth rate	(%)		11,0	11,0	5,0
Industrial production	(% change)		6,7	8,1	n.a.
Unemployment (end of period)	(% of labour force)		2,3	2,6	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)		13,7	7,3	12,9
Exchange rate (end of period)	(Lari per USD)		1,3	1,3	1,8
General government balance	(% of GDP)		-4,5	-4,1	n.a.
Balance of payments					
Exports of goods and services	(m USD)		415	452	507
Current account balance	(% of GDP)		-9,0	-10,0	-12,7
Net inflow of foreign direct investment	(m USD)		54	189	244
Official reserves, including gold (end of period)					
m USD			158	173	59
months' imports of goods and services			2,5	2,2	0,6
External debt					
Convertible currency external debt (end of period)	(m USD)		1373	1565	1621
Convertible currency debt service principal	(m USD)		50	53	155
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(m USD)		n.a.	n.a.	n.a.
External debt/exports of goods and services	(%)		30,0	29,9	31,5
Debt service/exports of goods and services	(%)		330,8	346,2	319,8
Arrears (on both interest and principal)	(%)		12,0	11,7	30,7
Debt relief agreements and rescheduling	(m USD)		n.a.	n.a.	n.a.
	(m USD)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	2,1	1,8	1,3
EU exposure/external debt	(%)		12,1	9,5	7,6
EU exposure/exports of goods and services	(%)		39,9	32,7	24,3
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(02/96-01/97)	(02/97-03/98)	(07/98-06/99)
On track			yes	yes	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		153 153	173 163	134
The Institutional Investor			(178) (178)	(179) (180)	(180)
Position in the ranking (number of countries)	(2)		none	none	none
Credit rating	(3)		none	none	none

Footnotes

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

(4) Projections.

Country-risk indicators

Country: Moldova

		footnotes	1996	1997	1998 (4)
Real GDP growth rate	(%)		-8,0	1,3	-5,0
Industrial production	(% change)		-5,1	-2,3	-7,0
Unemployment (end of period)	(% of labour force)		1,8	1,6	2,0
Inflation rate (CPI) (Dec/Dec)	(% change)		15,1	11,2	18,8
Exchange rate (end of period)	(Leu per USD)		4,60	4,62	8,50
General government balance	(% of GDP)		-9,8	-6,7	-7,3
Balance of payments					
Exports of goods and services	(m USD)		822	823	695
Current account balance	(% of GDP)		-12,9	-13,0	-16,7
Net inflow of foreign direct investment	(m USD)		53,0	79,0	81,0
Official reserves, including gold (end of period)					
m USD			314	366	167
months' imports of goods and services			3,0	3,1	1,5
External debt					
Convertible currency external debt (end of period)	(m USD)		821	1037	1059
Convertible currency debt service	(m USD)		58,0	163,0	244,0
principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		50,2	55,0	65,8
External debt/exports of goods and services	(%)		99,9	126,0	152,4
Debt service/exports of goods and services	(%)		6,0	16,6	30,3
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	1,0	0,8	0,7
EU exposure/external debt	(%)		9,3	6,6	6,4
EU exposure/exports of goods and services	(%)		9,3	8,3	9,7
IMF arrangements					
Type			EFF	EFF	EFF
(Date)			(05/96-05/99)	(05/96-05/99)	(05/96-05/99)
On track			yes	no	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	Ba2	B2
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		134 125 (178) (178)	113 104 (179) (180)	142 (180)
The Institutional Investor					
Position in the ranking (number of countries)			none	none	none
Credit rating	(3)		none	none	none

Footnotes

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

(4) Projections

Country-risk indicators					
Country: Ukraine					
		footnotes	1996	1997	1998 (5)
Real GDP growth rate	(%)		-10,0	-3,0	-2,0
Industrial production	(% change)		-5,1	-1,6	0,0
Unemployment (end of period)	(% of labour force)		1,3	1,9	3,0
Inflation rate (CPI) (Dec/Dec)	(% change)		40,0	10,0	27,0
Exchange rate (end of period)	(Hyrvnia per USD)		1,9	1,9	3,0
General government balance	(% of GDP)		-3,2	-5,6	-2,8
Balance of payments					
Exports of goods and services	(m USD)		20300	20355	17637
Current account balance	(% of GDP)		-2,7	-2,6	-2,8
Net inflow of foreign direct investment	(m USD)		520	581	609
Official reserves, including gold (end of period)	m USD		1994	2375	1240
months' imports of goods and services			5,2	6,3	1,0
External debt					
Convertible currency external debt (end of period)	(m USD)		9200	11807	12286
Convertible currency debt service	(m USD)		1221	1109	2449
principal	(m USD)		716	651	934
interest	(m USD)		505	458	1515
External debt/GDP	(%)		21,2	23,8	23,7
External debt/exports of goods and services	(%)		45,3	58,0	69,7
Debt service/exports of goods and services	(%)		6,6	9,4	21,4
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	none
Debt relief agreements and rescheduling	(m USD)		(4)	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	3,0	4,0	3,3
EU exposure/external debt	(%)		2,6	2,7	2,6
EU exposure/exports of goods and services	(%)		1,2	1,6	1,8
IMF arrangements					
Type			SBA	SBA	EFF
(Date)			(05/96-02/97)	(07/97-06/98)	(07/98-06/01)
On track			yes	yes	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	B3
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		136 135	136 129	118
The Institutional Investor			(178) (178)	(179) (180)	(180)
Position in the ranking (number of countries)	(2)		03/96 09/96	03/97 09/97	03/98 09/98
Credit rating	(3)		107 111	109 105	105 108
			(135) (135)	(135) (135)	(136) (136)
			16.7 16.6	17.6 19.8	20.5 19.8

Footnotes

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

(4) Rescheduling of debt owed to Russia and Turkmenistan.

(5) Projections

Country-risk indicators					
Country: Algeria					
		footnotes	1996	1997	1998 (4)
Real GDP growth rate	(%)		3,8	1,3	3,5
Industrial production	(% change)		n.a.	n.a.	n.a.
Unemployment (end of period)	(% of labour force)		28,0	28,0	29,0
Inflation rate (CPI) (Dec/Dec)	(% change)		15,1	6,0	5,8
Exchange rate (end of period)	(Dinars per USD)		56,2	58,0	58,3
General government balance	(% of GDP)		3,0	2,4	-1,9
Balance of payments					
Exports of goods and services	(m USD)		13210	13820	11380
Current account balance	(% of GDP)		2,7	7,2	-2,1
Net inflow of foreign direct investment	(m USD)		270	260	430
Official reserves, including gold (end of period)			4230	8040	6700
m USD			4,5	9,4	7,1
months' imports of goods and services					
External debt					
Convertible currency external debt (end of period)	(m USD)		33500	30000	32500
Convertible currency debt service	(m USD)		7400	6300	n.a.
principal	(m USD)		5200	4200	n.a.
interest	(m USD)		2200	2100	n.a.
External debt/GDP	(%)		73,4	67,8	66,1
External debt/exports of goods and services	(%)		240,1	219,5	265,0
Debt service/exports of goods and services	(%)		29,2	29,8	45,6
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		3500	2200	2200
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	11,6	7,7	8,7
EU exposure/external debt	(%)		2,7	2,1	2,6
EU exposure/exports of goods and services	(%)		6,8	4,6	7,5
IMF arrangements					
Type			EFF/CCFF	EFF	EFF
(Date)			(05/95-05/98)	(05/95-05/98)	(05/95-05/98)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euro money			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		109 97	102 97	103
The Institutional Investor			(178) (178)	(179) (180)	(180)
Position in the ranking (number of countries)	(2)		03/96 09/96	03/97 09/97	03/98 09/98
Credit rating	(3)		95 95	96 96	97 96
			(135) (135)	(135) (135)	(136) (136)
			21.5 22.8	23.2 24.5	25.1 25.8

Footnotes

(1) (2) (3) See explanatory notes.
 (4) Projections.

Explanatory notes for country-risk indicators

Standard footnotes

- (1) Includes only EC and EIB loans (outstanding disbursements) to CEEC, NIS and MED
- (2) The higher the ranking number, the lower the creditworthiness of the country. No ranking was published by Euromoney in March 1998.
- (3) Countries are rated on a scale of zero to 100; 100 represents the least chance of default. A given country may improve its rating and still fall in the ranking if the average global rating for all rated countries improves.

Abbreviations and English words used in tables

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