



COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION
TO THE BUDGETARY AUTHORITY**

**on guarantees covered by the general budget
- situation at 30 June 2000**

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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 eighteen 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 31 December 1999, the risk situation and activation of budget guarantees

1. 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.

1.1. 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 EUR 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.

1.2. 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 countries, central and eastern Europe, countries of Asia and Latin America, Republic of South Africa).

2. EVENTS SINCE THE REPORT AT 31 DECEMBER 1999

The main events in the first half of 2000 were as follows:

2.1. Tajikistan

On 26 July 1999 the Commission presented a proposal for a Council Decision amending Decision 97/787/EC providing exceptional financial assistance for Armenia and Georgia in order to extend it to Tajikistan. The amount to be granted is EUR 75 million in the form of a loan with a maximum maturity of fifteen years and EUR 35 million in the form of non-repayable grants. On 20 March 2000 the Council decided to amend Decision 97/787/EC providing exceptional financial assistance for Armenia and Georgia in order to extend it to Tajikistan. The amount to be granted is EUR 75 million in the form of a loan and EUR 35 million in the form of non-repayable grants.

2.2. Moldova

On 22 October 1999 the Commission presented a proposal for a Council Decision providing supplementary macro-financial assistance of EUR 15 million to Moldova in the form of a loan with a maximum maturity of ten years. On 10 July 2000 the Council decided to grant supplementary macro-financial assistance of up to EUR 15 million to Moldova in the form of a loan.

2.3. Community Guarantee to the European Investment Bank for loans for projects in Croatia

On 6 June 2000 the Commission presented a proposal for a Council Decision amending Decision 2000/24/EC to extend the Community guarantee to the European Investment Bank to projects in Croatia. The guarantee will be restricted to 65% of the aggregate amount of the credits opened, plus all related sums. The overall ceiling of the credits opened is increased by EUR 250 million to EUR 18 660 million. Croatia is added to the list of countries in Article 1(2) of Decision 2000/24/EC.

3. 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 situation described in table 1 below),
- 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 the date of the report, assuming that there are no early repayments (see Table 2 below showing the lower limit of this maximum risk to the Community budget);
- 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, assuming that the Commission's proposals are accepted (see Table 3 below showing the upper limit of this maximum risk borne by the Community budget).

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 and exchange rates.²

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 4.89188% has been applied for the new operations in Table 3.

² The exchange rates used for loans in currencies other than the euro are those of 30 June 2000.

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.

3.1. Amount outstanding at the date of the report

The amount outstanding is set out in Table 1.

The total risk at the date of the report came to EUR 13 783 million, as against EUR 14 524 million at the end of the previous semester, a reduction of 5%.³

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

EUR million	
Amount outstanding at 31 December 1999	14 524
Loan repayments	
Balance of payments: Italy	- 1 482.7
Euratom	- 10.9
NCI	- 12.6
Financial assistance	-135.0
Former Soviet Union	0.0
EIB	- 253.93
Loans disbursed	
Financial assistance	+ 100
EIB	+ 800.84
Exchange rate differences between euro and other currencies	+ 253.29
Amount outstanding at 30 June 2000	13 783

The capital outstanding in respect of operations in the Member States was EUR 1 182 million at the date of the report, a fall of 56% compared with 31 December 1999.

This fall is mainly due to the repayment of EUR 1 482.7 million in balance of payments loans for Italy.

The capital outstanding from non-member countries at the date of the report was EUR 12 602 million, an increase of 6.5% compared with 31 December 1999.

³ Part of the change over the past six months is due to exchange rate differences on loans in currencies other than the euro.

3.2. Maximum annual risk borne by the Community budget: operations disbursed at the date of the report

The maximum annual risk is set out in Table 2.

The total risk for the second half of 2000 comes to EUR 1 826 million.

- The risk in respect of the Member States comes to EUR 1 120 million, Italy's last repayment.
- The risk in respect of non-member countries comes to EUR 707 million.

The risk in respect of non-member countries will average EUR 1 484 million over the period 2001-2008.

3.3. Maximum theoretical annual risk borne by the Community budget

The situation is set out in Table 3.

This risk comes to EUR 1 864 million in the second half of 2000. It will increase from 2002 and reach EUR 4 017 million in 2008.

- The trend in the maximum risk in respect of the Member States is the same as in Table 2.
- The risk in respect of non-member countries amounts to EUR 745 million in the second half of 2000. The risk will increase by an average of 12.5% a year from 2001 until 2008.

TABLE 1
CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(EUR million)

Operation	Authorised ceiling	Capital outstanding at 31.12.99	Capital outstanding at 30.06.00	Remainder to be disbursed 30.06.00
MEMBER STATES				
A.Balance of payments	14000			
1. Italy		2483	1000	0
B.Others				
2. Euratom	4000	12	1	0
3. NCI and NCI earthquake	6830	130	118	0
4. EIB Mediterranean Spain, Greece, Portugal	1500	68	63	0
MEMBER STATES - TOTAL	26330	2694	1182	0
THIRD COUNTRIES				
A.Financial assistance				
1. Bulgaria	750	400	400	60
2. Romania	780	205	225	100
3. Algeria	600	250	250	100
4. FYROM	90	40	40	50
5. Bosnia-Herzegovina	20	10	10	10
6. Baltic States	220	120	75	85
7. Moldova	75	60	60	15
8. Ukraine	435	343	343	92
9. Belarus	55	30	30	25
10. Georgia	142	110	100	32
11. Armenia	28	23	23	0
12. Tajikistan	75			75
13. Former Soviet Union(*)		55	55	0
B.Other				
14. EIB Mediterranean(**)	15697	4614	4781	2526
15. EIB Central & Eastern Europe	17150	4152	4702	2782
16. EIB Asia, Latin America	4405	1035	1117	810
17. EIB South Africa	1500	383	391	280
THIRD COUNTRIES - TOTAL	42022	11830	12602	7042
GRAND TOTAL	68352	14524	13783	7042

(*) The EUR 54.5 million outstanding corresponds to the principal due but not paid at 30.06.00.

(**) The amount outstanding has been increased by EUR 51.35 million to take account of the principal due but not paid at 30.06.00.

ANNEX TO TABLE 1
SITUATION IN RESPECT OF EIB OPERATIONS (30.06.00)

Operations	Credit line authorised	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 30.06.00
Mediterranean Member States	1500	1465	1749	63
Third countries, old mandates				
Mediterranean Protocols	6362	5769	5809	3902
Central & Eastern Europe I and II	4700	4142	3728	3087
Asia, Latin America I and II	903	757	730	625
South Africa	300	300	280	280
Third countries, decision of 14.4.97				
Mediterranean	2310	2310	880	880
Central & Eastern Europe	3520	3440	1591	1577
Asia, Latin America	1022	1022	493	493
South Africa	375	375	126	111
FYROM, decision of 19.5.98	150	130	38	38
Bosnia, decision of 14.12.98	100	60	0	0
Turkey, decision of 29.11.99	600	225	0	0
Third countries, decision of 22.12.99				
Mediterranean	6425	160	0	0
Central & Eastern Europe	8680	0		
Asia, Latin America	2480	70	0	0
South Africa	825	0		
Total	40252	20224	15423	11054

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 EUR.

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in EUR million based on all operations disbursed at 30.06.00)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
MEMBER STATES										
CAPITAL										
A. Balance of payments										
1. Italy	1000									1000
B. Structural loans										
2. Euratom	1									1
3. NCI and NCI EQ	28	71			18					118
4. EIB Mediterranean Spain, Greece, Portugal	19	11	12	13	5	3				62
Capital - subtotal	1049	82	12	13	23	3				1182
INTEREST										
A. Balance of payments										
1. Italy	60									60
B. Structural loans										
2. Euratom	0									0
3. NCI and NCI EQ	8	7	2	2	2					21
4. EIB Mediterranean Spain, Greece, Portugal	3	3	2	1	0	0				9
Interest - subtotal	71	10	4	3	2	0				90
MEMBER STATES - TOTAL	1120	92	15	16	26	4				1272
NON-MEMBER COUNTRIES										
CAPITAL										
A. Financial assistance										
5. Bulgaria		70		40		63	73	73	73	390
6. Romania			55		70			25	25	175
7. Algeria		150	100							250
8. FYROM									5	5
9. Bosnia										0
10. Baltic States	50		25							75
11. Moldova	5	9	12	12	12	7	3			60
12. Ukraine		17	37	57	57	57	55	35	15	329
13. Belarus		6	6	6	6	6				30
14. Georgia										0
15. Armenia										0
B. Guarantees										
16. EIB Mediterranean	144	296	343	393	387	386	399	399	394	3140
17. EIB Central & Eastern Europe	128	322	376	433	522	475	406	344	293	3300
18. EIB Asia, Latin America	23	74	97	99	104	102	121	143	58	821
19. EIB South Africa	0	28	25	25	49	11	12	50	27	228
Capital - subtotal	350	973	1076	1066	1207	1106	1067	1068	890	8803
INTEREST										
A. Financial assistance										
5. Bulgaria	8	17	14	14	12	11	9	6	3	94
6. Romania	5	10	10	8	8	5	5	4	3	58
7. Algeria	13	15	5							33
8. FYROM	1	2	2	2	2	2	2	2	2	13
9. Bosnia	0	0	0	0	0	0	0	0	0	4
10. Baltic States	4	1	1							6
11. Moldova	1	2	2	1	1	0	0			8
12. Ukraine	7	14	13	12	9	7	4	2	1	70
13. Belarus	1	1	1	1	1	0				5
14. Georgia	2	4	4	4	4	4	4	4	4	30
15. Armenia	1	1	1	1	1	1	1	1	1	9
B. Guarantees										
16. EIB Mediterranean	138	254	236	215	193	171	150	128	107	1592
17. EIB Central & Eastern Europe	123	217	200	182	159	134	112	93	77	1298
18. EIB Asia, Latin America	32	47	44	41	37	33	29	25	22	309
19. EIB South Africa	20	39	35	32	30	24	24	24	18	246
Interest - subtotal	357	624	567	512	456	393	340	289	237	3774
NON-MEM. COUNTRIES - TOTAL	707	1597	1643	1577	1662	1499	1408	1357	1127	12577
GRAND TOTAL	1826	1689	1659	1593	1688	1503	1408	1357	1127	13849
(Eastern Europe)	320	640	683	678	773	689	607	546	481	5417
(Other non-member countries)	387	957	960	899	889	810	801	811	646	7160

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

	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
MEMBER STATES										
CAPITAL										
A. Balance of payments										
1. Italy	1000									1000
B. Structural loans										
2. Euratom and NCI	30	71			18					119
3. EIB Spain, Greece, Portugal	19	11	12	13	5	3				62
Capital - subtotal	1049	82	12	13	23	3				1182
INTEREST										
A. Balance of payments										
1. Italy	60									60
B. Structural loans										
2. Euratom and NCI	8	7	2	2	2					22
3. EIB Spain, Greece, Portugal	3	3	2	1	0	0				9
Interest - subtotal	71	10	4	3	2	0				90
MEMBER STATES - TOTAL	1120	92	15	16	26	4				1272
NON-MEMBER COUNTRIES										
CAPITAL										
A. Financial assistance										
4. Bulgaria		70		40		63	88	88	88	435
5. Romania			55		70			45	45	215
6. Algeria		150	100							250
7. FYROM									5	5
8. Bosnia										0
9. Baltic States	50		25							75
10. Moldova	5	9	12	12	12	10	6	3	3	72
11. Ukraine		17	37	57	57	65	73	53	33	392
12. Belarus		6	6	6	6	6				30
13. Georgia										0
14. Armenia										0
15. Albania										0
16. Tajikistan										0
17. Euratom C+E Europe							2	7	16	25
B. Guarantees										
18. EIB Mediterranean	144	296	343	417	466	538	642	730	802	4378
19. EIB C + E Europe	128	322	376	462	618	661	711	768	826	4872
20. EIB Asia, Latin America	23	74	97	107	132	159	213	270	213	1288
21. EIB South Africa	0	28	25	28	58	29	40	90	82	380
Capital - subtotal	350	972	1076	1129	1419	1531	1774	2053	2112	12417
INTEREST										
A. Financial assistance										
4. Bulgaria	8	20	17	16	15	14	12	8	4	115
5. Romania	5	13	15	13	13	10	10	9	7	93
6. Algeria	13	15	5							33
7. FYROM	1	4	4	4	4	4	4	4	4	32
8. Bosnia	0	1	1	1	1	1	1	1	1	8
9. Baltic States	4	1	1							6
10. Moldova	1	3	3	2	2	1	1	0	0	13
11. Ukraine	7	17	18	16	14	11	9	6	3	100
12. Belarus	1	1	1	1	1	0				5
13. Georgia	2	4	4	4	4	4	4	4	4	30
14. Armenia	1	1	1	1	1	1	1	1	1	9
15. Albania		1	1	1	1	1	1	1	1	8
16. Tajikistan		3	3	3	3	3	3	3	3	23
17. Euratom C+E Europe		1	7	17	33	53	72	88	98	369
B. Guarantees										
18. EIB Mediterranean	152	315	374	453	535	601	652	638	641	4361
19. EIB C + E Europe	141	292	369	473	584	677	757	758	766	4817
20. EIB Asia, Latin America	37	69	95	129	164	193	214	211	217	1329
21. EIB South Africa	22	46	51	60	70	78	101	126	154	708
Interest - subtotal	395	807	968	1194	1443	1652	1840	1858	1904	12061
THIRD COUNTRIES - TOTAL	745	1779	2044	2323	2862	3183	3615	3911	4017	24478
GRAND TOTAL	1864	1870	2060	2338	2888	3187	3615	3911	4017	25749
(Eastern Europe)	337	724	871	1027	1339	1483	1657	1777	1861	11075
(other non-member countries)	407	1055	1174	1296	1524	1700	1958	2134	2156	13403

4. ACTIVATION OF BUDGET GUARANTEES

4.1. Payments from cash resources

The Commission draws on its cash resources under Article 12 of Council Regulation No 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, 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.

4.2. 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	12.05.00	2 223 189.91
Serbia	12.05.00	2 832 264.09
Kosovo	12.05.00	15 572.92
Total		5 071 026.92

4.3. Arrears at the date of the report⁴

Arrears due from non-member countries at the date of the report

Non-member country	Guarantees activated (2)	Default interest (3)	Total
Tajikistan	63 181 389.89	12 912 155.77	76 093 545.66
Vojvodina (1)	29 746 944.88		
Serbia (1)	77 701 908.75		
Montenegro (1)	456 087.97		
Kosovo (1)	206 666.78		
Subtotal former Yugoslavia	108 111 608.38	25 987 206.91	134 098 815.74
Total	171 292 998.72	38 899 362.68	210 192 361.40

- (1) *The breakdown of unpaid amounts between the provinces and republics in 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) *Default interest entered in the accounts between the date on which the guarantee is activated and the date of the report. The amount shown is the total default interest for all the republics of former Yugoslavia.*

5. 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

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 1999-2001 compatible with the Guarantee Fund mechanism. The method of calculation and references to legal texts are set out in greater detail in the Annex.

⁴ Arrears due from Tajikistan on the EUR 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. The figures include defaults covered by the budget.

⁵ The figure entered in the 2000-2006 financial perspective is EUR 200 million at 1999 prices.

On the basis of the decisions adopted by the Council and decisions proposed and in preparation (see Table 4), EUR 44 million is expected to be used from the guarantee reserve in the second half of 2000, leaving EUR 8.8 million available at the end of the year.

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 2000, the annual capacity available for loans is as follows:

- EUR 98 million for loans with a 100% guarantee under the Community budget;
- EUR 151 million for loans with a 65% guarantee (in accordance with Council Decision 2000/24/EC of 22 December 1999).

The current estimates in Table 4 for the provisioning of the Fund in 2001 show that the remaining lending capacity is severely restricted.

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled EUR 12 862 million at 30 June 2000.

EUR million

	Situation at 30.06.00
1. Capital outstanding, borrowing and lending	1 556
2. Capital outstanding, EIB	10 940
3. Capital outstanding, payment defaults	172.09
4. Default interest	39
5. Unpaid interest due ⁶	155.20
TOTAL	12 862

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the Regulation establishing the Fund was 10.7%, which is higher than the target amount of 9% set as the target amount in Regulation No 1149/1999 amending Regulation No 2728/94 establishing the Fund.

The surplus of EUR 107.9 million recorded at the end of the 1999 financial year was repaid to the budget in the first half of 2000.

6. SITUATION OF THE GUARANTEE FUND AT 30 JUNE 2000

At 30 June 2000 the Guarantee Fund amounted to EUR 1 376 million. The following movements were recorded in the first half of 2000:

- EUR 150.4 million transferred from the reserve for 2000;
- EUR 5.1 million drawn from the Fund as a result of further defaults;

⁶ Unpaid interest due within the meaning of the Regulation establishing the Guarantee Fund.

- EUR 107.9 million repaid to the budget as Fund surplus at 31 December 1999;
- net revenue of EUR 25.5 million on investments from the Fund's assets.

The Guarantee Fund could amount to around EUR 1 448 million at the end of 2000 assuming:

- a transfer of EUR 44 million from the reserve in 2000;
- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries;
- net revenue of around EUR 28 million on investments from the Fund's assets in 2000.

TABLE 4
THE COMMUNITY'S THEORETICAL ESTIMATED LENDING & GUARANTEE CAPACITY
IN RESPECT OF NON-MEMBER COUNTRIES
OVER THE PERIOD 1999-2001
under the Guarantee Fund mechanism(*)

EUR million	Outturn 31.12.1999	Forecast 31.12.2000	Forecast 31.12.2001
Reserve for loan guarantees to non-member countries	346	203	208
Bases for the calculation of the provisioning of the Guarantee Fund			
- EIB loans			
- Mediterranean (a)	438,4	916,75	780
- Countries of Central and Eastern Europe (b)	953,4	786,15	876,5
- Asia, Latin America (c)	218,05	279,2	221
- South Africa (d)	143,5	83,5	63,7
- EIB loans - Total	1753,35	2065,6	1941,2
- Euratom loans	0	0	
- Macrofinancial assistance	390	250	
Provisioning of the Guarantee Fund	300	194	175
Margin remaining in the guarantee reserve	46	9	33
Residual lending capacity (balance of payments loans, EIB loans and Euratom loans)			
- Maximum if used in full for 100% guarantee (e.g. BP loans)		98	370
- Maximum if used in full for EIB loans (65% guarantee)		151	569

(*)The provisioning rate is 14% for 1999 and 9% from 1 January 2000 (Council Regulation No 1149/99 of 25 May 1999 amending Regulation No 2728/94 establishing a Guarantee Fund).

Description of the loans for which the Fund will be provisioned in the period 1999-2001:

- EIB

a. Mediterranean:

- loans decided: 1994-96: EUR 115 million under the Fourth Financial Protocol with Syria (overall 75% guarantee).
31.1.1997-31.1.2000: EUR 2 310 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
1999-2001: EUR 600 million in aid to Turkey for reconstruction after the earthquake which hit this country (overall 65% guarantee)
1 February 2000-31 January 2007: EUR 6 425 million under EIB mandate 2000-2007 (overall 65% guarantee)
loans proposed or in preparation
2000-2004: EUR 450 million in financial cooperation under the customs union with Turkey.

b. Central and Eastern Europe:

- loans decided: 31.1.1997-31.1.2000: EUR 3 520 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
1998-2000: EUR 150 million in EIB loans to the Former Yugoslav Republic of Macedonia (FYROM) (overall 70% guarantee).
1999-2000: EUR 100 million in EIB loans to Bosnia (overall 70% guarantee).
1 February 2000-31 January 2007: EUR 8 680 million under EIB mandate 2000-2007 (overall 65% guarantee)
- loans proposed or in preparation: 2000-2003: ECU 250 million for financial cooperation with Croatia.
2000-2001: EUR 50 million in EIB loans to Montenegro.

c. Asia and Latin America:

- loans decided: 31.1.1997-31.1.2000: EUR 900 million for renewal of the EIB mandate, covered by overall 70% guarantee.
1 February 2000-31 January 2007: EUR 2 480 million under EIB mandate 2000-2007 (overall 65% guarantee)

d. South Africa:

- loans decided: 1.7.1997-1.7.2000: EUR 375 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
1 July 2000-31 January 2007: EUR 825 million under EIB mandate 2000-2007 (overall 65% guarantee)

- Euratom

No further provisioning.

- Macrofinancial assistance

- loans decided: 1999: EUR 20 million in loans to Bosnia; EUR 20 million in loans to Albania, EUR 100 million in loans to Bulgaria, EUR 50 million in loans to FYROM and EUR 200 million in loans to Romania.
2000: EUR 75 million in loans to Tajikistan; EUR 15 million in loans to Moldova.
- loans proposed or in preparation:
2000: EUR 160 million in loans to the western Balkans, not including FR Yugoslavia.

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

1. 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 Part Two provides a set of country risk indicators, in the form of a full-page table per country (see Annexes), for all non-member countries that have been recipients of EC macro-financial assistance 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 last six months of 1999. 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 and is also well diversified among countries.

2. ACCESSION COUNTRIES

BULGARIA

Bulgaria has continued its stable economic performance with an acceleration of growth since Summer of 1999. Higher private consumption and vigorous investment activity mainly drove this resumption of growth. A major political objective was achieved in December 1999 when the European Council in Helsinki, invited Bulgaria to engage in negotiations for EU membership. This is expected to increase attention to the preparation of accession. Structural reform progresses within the framework and timetable set out by the medium term economic programme agreed with IMF.

While imports rose due to strong domestic demand for consumer goods and capital equipment, exports of goods fell significantly. The negative balance on goods (10% of GDP) was only partly offset by the strong performance on services, including a positive development in the tourism sector. Financial inflows in the form of capital transfers and direct investments were almost entirely able to finance the deficit and the level of foreign debts has continued to decrease. The current account, however, deteriorated to 5.5% of GDP in 1999.

Thanks to the stabilising effect of the currency board the underlying downward trend of inflation remained. Increases in oil prices and tariff increases for utilities produced some upward pressure on the CPI in the early Winter and increased the 1999 year-end inflation to 6.5 %.

Sound fiscal policies are essential for the credibility of the Currency Board. Bulgaria has already achieved remarkable progress in relation to budget control and managed to reduce the fiscal deficit from 12 percent of GDP in 1996 to a modest 0.9 percent in 1999. In 1999 revenues increased 14 percent in real terms, with non-tax revenues performing strongly. The stock of tax and social security arrears was reduced by 50 percent at the end of 1999 compared to the situation at the end of 1998; however, this was in large part achieved by tax "write-offs". Favourable developments in international interest rates and an active debt management strategy reduced interest payments to around 4 percent of GDP.

The Bulgarian authorities project a 1.4 percent general government deficit for 2000. This target is based upon an assumption of 4 percent GDP growth, and an inflation rate of 3.5 percent. Government expenditures are projected to fall to around 38 percent, a decrease of 3 percent from the level recorded in 1999 (IMF methodology). Interest payments will account for 12 percent of total expenditures.

Official unemployment increased throughout 1999 as a result of large-scale redundancies following the restructuring or liquidation of public sector enterprises. A substantial number of workers remains employed in industries and public utilities with low or negative profitability and hence an uncertain future. Unemployment rates have soared during the winter months. In February 2000, 693.531 unemployed were registered with the labour office, which corresponds with 18.1% of the labour force. This is an increase of more than a third compared with February 1999.

ESTONIA

In 1996-1999, the Estonian economy went through its first complete cycle: two years of strong economic growth were followed by a short but deep recession and a gradual recovery. In 1999, real GDP fell by 1.1%. Strong growth resumed in the first half of 2000, with real GDP growth estimated at 5.2% in the first quarter. The fall in interest rates, stronger growth in the EU, and higher confidence in general are the main factors explaining the revival of domestic demand. In addition, export growth increased strongly. The growth of retail sales, exports and investment suggests that the recovery is broad-based and sound.

Following the increase of the fiscal deficit in 1999, fiscal policy has been tightened in 2000. In the first half of the year, the deficit was contained within the agreed limits. Inflation picked up modestly at the end of 1999 and in early 2000 on account of the adjustment of administered prices, higher commodity prices (in particular oil) and the impact of the depreciation of the euro on the price of dollar-denominated imported goods. However, headline inflation went down again at the end of the first half and stabilised at modest levels (around 3% on a year on year basis).

While import growth picked up in 2000, export growth was even more impressive in early 2000, reaching 47% in the first four months of the year over the same period of 1999. This suggests that Estonia's external competitiveness remained good. In fact,

Estonia's risk assessment continues to be one of the best in the region. Macroeconomic stability improved and was reflected on historically low spreads between Kroon- and Deutsche Mark-denominated deposits. In addition, in the first half of 2000, debt creating capital inflows to banks, in particular liabilities to foreign credit institutions, continued to decrease and foreign exchange reserves increased, reducing external vulnerability. However, the gross external debt of residents increased as a percentage of GDP in 1999.

In the first half of 2000, Estonia signed a precautionary Stand-by arrangement with the International Monetary Fund and a Joint Assessment of Medium Term Economic Policies Priorities with the European Commission. Also, in March 2000, Estonia repaid the last tranche of the EC macro-financial loan, of Euro 20 million, that had been granted after the restoration of independence.

LATVIA

Latvia has been heavily affected by the Russian financial crisis of 1998. Growth of real GDP fell from 8.6% in 1997 to 3.6% in 1998 and came almost to a halt with 0.1% in 1999. However, since the second half of 1999 the Latvian economy has been slowly recovering. The last two quarters showed positive results with real GDP growth of 0.2% in the third quarter and 2.8% in the fourth quarter on a yearly basis. Overall, industrial production output fell by 8.8% year-on-year in 1999, but towards the end of the year production recovered to the levels of 1998. This trend could be maintained in the first quarter of 2000: industrial production output increased by 3.8% compared to the corresponding period of the previous year.

The official unemployment rate in Latvia stood at 9.1% at the end of 1999 (after having peaked at 10.2% in April) and remained at this level in the first two months of 2000. In March it decreased slightly to 9.0%.

In 1999 foreign trade at current prices decreased compared to 1998. Imports declined faster than exports. Total exports contracted by 5% and imports by 8.4% year-on-year, resulting in a high trade deficit. Throughout the year exports to the EU have been increasing, although not enough to compensate for the decline of exports to Russia and the CIS countries. However, at the end of 1999 foreign trade with the CIS countries began to recover. In the first two months of 2000, Latvia's foreign trade deficit at current prices began to increase again compared to the corresponding period of the previous year. Exports grew by 13.5%. Imports rose by 13.9% and exceeded exports by 47.2% in value.

Latvia's current account recorded a deficit of 10.2% of GDP in 1999, compared to 11.1% in the previous year. As export growth is set to improve and imports are expected to grow more slowly, the current account deficit should decline further in 2000.

The IMF approved a 16-month stand-by arrangement for Latvia in December 1999. Against this background, the Latvian government had agreed on a reform agenda, which includes some hard-hitting measures in the public sector. The programme focuses on reducing the consolidated budget deficit from 3.8 % of GDP in 1999 to about 2% in 2000. As the social insurance sector accounts for nearly one third of the consolidated general government budget, the new government has announced that it will also take measures to curb the deficits in the social insurance budget.

The restructuring of the Latvian banking sector is nearly complete: almost all banks are privatised. Only *Latvijas hipoteku un zemes banka* is still state-owned and the privatisation of the state share of *Latvijas Krajbanka* is underway.

LITHUANIA

Due to the Russian crisis, the Lithuanian economy experienced a sharp recession in 1999, with GDP declining by 4.1%, while industrial output dropped by nearly 10%. The main driving factor for this decline has been the loss of traditional export markets in the former Soviet Union, accounting for 36% of total exports in 1998 and declining to 18% in 1999. Unstable supply for the region's only oil refinery added a further stroke to output growth. Furthermore, the fixed peg of the litas to the US dollar led to a marked appreciation of the litas against the euro, impeding the redirection of trade to more stable markets. However, according to data from the first quarter of this year the economy seems to recover. Real GDP rose by 4.2% in the first quarter, and industrial production rose by 4.5%, after the strong decline in 1999. The recovery is largely driven by external demand, although the 8% rise in retail sales in the first quarter indicates a pick-up of domestic demand.

Consumer price inflation has been declining significantly. In addition to the appreciation of the litas, low prices for imported commodities and the surplus supply of agricultural goods on the domestic market contributed to the decrease in consumer price inflation from 2.4% in 1998 to 0.3% in 1999. In the first quarter Consumer Price Inflation accelerated slightly to 0.8% year-on-year. Despite some inflationary effects of price liberation and increasing world prices for raw materials, inflation is seen to remain on a low level in the near future.

As a result of declining growth and economic restructuring, unemployment rose throughout the year, from 6.9% in December 1998 to 10% in December 1999. The average rate rose to 8.4% for the whole year of 1999 compared to 6.4% in 1998. In April, the unemployment rate reached a level of 11.2%. Since the labour shedding effect of restructuring continues the unemployment rate might rise further.

Public finances deteriorated significantly when the effects of the Russian crisis reached the Lithuanian economy. Current revenues fell short of their target as the tax base eroded and expenditures rose in order to support affected companies. As a result, the general government financial deficit increased from below 1% of GDP in 1997 to estimated 8.5% in 1999. In November 1999, the parliament approved an "anti-crisis" programme, which incorporated a significant tightening of the fiscal stance, in order to correct the fiscal and the external imbalances. The main elements of this programme are front-loaded expenditures cuts, the postponement of the last tranche of the savings restitution and medium-term structural measures, like stabilising the social security system. In early March, a pre-cautionary IMF stand-by agreement has been signed in order to avoid potential liquidity constraints. During the first 4 months of the year, public finances were largely in line with the programme targets. The programme intends to bring down the general government deficit to 2.8% this year and close to balance next year.

External accounts worsened markedly in the wake of the Russian crisis, when export markets eroded, while imports remained relatively strong due to the growth stabilising approach of the Lithuanian government and the ongoing import needs for modernising and restructuring of the economy. However, during the first 4 months of the year, the

recovery of external demand and the demand dampening effects of the anti-crisis programme led to a marked improvement in the trade account, which will also have positive effects on the current account.

Foreign direct investment remained relatively unaffected by the economic slowdown and helped to finance a considerable part of the Current Account deficit.

The process of privatisation has continued to move forward. On 3 April, Lithuania announced the launching of the privatisation tender for *Agriculture Bank (AG)*. On 3 May, the Government approved the timetable for the sale of the remaining 35% stake of the *Lithuanian Telekom*. Expected revenues from the sale of the telecommunication company are about 1.2 billion litas, which is about 3% of GDP. In addition, the Lithuanian Railway Company is in the process of being split up in various different independent entities. With respect to social security, the Lithuanian government took a key decision by approving a pension reform plan on 12 April, setting up a 3-pillar pension system.

ROMANIA

While there were some modest signs of improvement of Romania's macroeconomic situation in the first half of 2000, the overall economic situation remained fragile. The revival of exports in the first quarter of 2000 was the most encouraging sign that efforts made in recent years might have started to have an impact on the supply side of the economy. However, the gains achieved in macroeconomic stabilisation remained fragile, notably because of the absence of significant progress on structural reforms and troubles in the financial sector. Also, Romania's economic outlook was negatively affected because of the uncertainty linked to a possible change of economic policy orientation after the next general elections in the autumn 2000.

In the first quarter of 2000, exports increased faster than expected and reached levels not seen since the beginning of the transition. Imports also increased, albeit more modestly. The growth of exports had a favourable impact on industrial production. In this context, it is possible that real GDP growth will resume this year. On the basis of data for the first half of 2000, this remained uncertain given very weak internal demand and the high level of interest rates. The revival of exports, which reached levels not seen since the beginning of the transition, led to a further reduction in the trade and current account deficit.

With elections coming, it proved more difficult to continue with strict fiscal policies in 2000: the 2000 budget, which was approved in early May, provided for a slight increase in the headline deficit and a decline in the primary surplus. In the first three months of the year, the deficit increased more than expected, notably because of the strong growth in interest charges on public debt, which accounted for 42% of the State budget expenditures. The reliance on the domestic markets to finance the budget deficit continued to cast doubt on the sustainability of the fiscal position, given the short maturities and high real yields on internal debt.

The evolution of the capital account of the balance of payments was worrying. Reflecting the very weak confidence of international investors, FDI inflows fell heavily and there was a large net outflow of portfolio investments in the first half of 2000. On the more positive note, however, foreign exchange reserves remained stable. External debt

declined modestly and short-term external debt remained very low. However, external obligations falling due in 2000 remained relatively high.

On 7 June 2000, the Romanian authorities reached agreement with the International Monetary Fund on the completion of the first review and on the extension of the Stand-by arrangement. The agreement with the IMF led to a resumption of official lending, including in particular the release of large funds from the World Bank's structural adjustment loans and the first tranche (EURO 100 million) from the EC macro-financial assistance granted by the Council in November 1999.

3. WESTERN BALKANS

BOSNIA AND HERZEGOVINA

During the period 1996-98, Bosnia and Herzegovina has managed to sustain an average growth rate of about 35 percent. These high growth rates have been achieved from very low initial GDP levels and in the context of the externally financed US\$ 5.1 billion Economic Recovery and Reconstruction Programme (1996-1999) for BiH supported by the international donor community. Despite these high rates of growth, inflation has come down rapidly to country-wide single digit levels, supported by a strict adherence to rules of the currency board arrangement (CBA) and prudent fiscal policies implemented as part of a country-wide macro economic programme supported by the IMF under a Stand-By Arrangement (SBA). The exchange rate of the Konvertible Marka (KM) remains pegged on a 1:1 basis against the Deutsche Mark (euro) in the context of the CBA. In 1999, real GDP growth is estimated to have decelerated to 12% compared to a projection of 16%, largely as a result of the impact of the Kosovo crisis on trade and domestic investment earlier in the year. Unemployment remains high in both Entities, hovering around a level of 40%. In 2000, the overall deficit-to-GDP ratios (before grants) in the Federation and the RS are projected to be 1.6% and 3.4%, respectively, slightly lower than those estimated for 1999. Adopted budgets for 2000 are broadly in line with IMF recommendations.

The current account continues to show a very large deficit (of about 22 percent of GDP in 1999), mainly financed by donor assistance and reflecting high levels of reconstruction-related imports. However, the deficit is expected to narrow from US\$ 950 million to US\$ 900 million by 2000 thanks to an improved trade balance. Gross official foreign exchange reserves stand at about 3 months of imports or around 600 million KM, having recorded a significant increase during the last half of 1999, reflecting the increased acceptance of the KM in both Entities. The foreign debt of BiH remains at high levels (73 percent of GDP in 1999), partly reflecting a substantial debt burden inherited from the former Yugoslavia. Debt service as a percentage of exports of goods and services, however, is low relative to the debt-over-GDP ratio, reflecting the concessional nature of much of the debt and favourable debt rescheduling agreements with the London Club and Paris Club. These factors also explain why debt and debt service ratios are projected to continue declining in the coming years despite substantial reconstruction-related foreign borrowing. In BiH, the Entities are responsible (based on a formula of 61:39 for the Federation and the RS, respectively) for providing the State with the necessary resources enabling it to service the foreign debt.

In May 1998, the IMF approved the SBA (US\$ 81 million). In June 1999, the IMF decided to augment its assistance by US\$23 million as a result of the adverse impact of the Kosovo crisis. Following some delays in policy implementation, the second and third IMF reviews were completed on March 30, 2000, and the programme was extended to April 2001. The World Bank is currently implementing two policy-based operations in support of public finance reforms and privatisation and banking sector reforms, which amount to US\$72 million, and US\$50 million, respectively. As far as country risk indicators for BiH are concerned, there is no specific information available as institutions do not provide with any ratings for the country. The general risk perception of undertaking investment in the country remains high.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

The risk that the Community budget guarantees for loans to the country fell slightly in the first half of 2000.

Earlier indications of a rebound in economic activity during the second half of 1999 have now been confirmed and currently the Former Yugoslav Republic of Macedonia is witnessing healthy economic growth. For 1999 as a whole, real GDP growth of 2.7% was recorded. In the first half of 1999 production and trade were significantly below the levels of previous years, due to the disruptions of the Kosovo conflict. In the second half of the year, however, the reconstruction of Kosovo proved to be a very important positive factor of economic growth, which is, however, expected to level off during 2000. While for 1999 as a whole both imports and exports were lower than in 1998, exports to FRY/Kosovo grew significantly in the second half of 1999, contributing to growth and to a significant reduction of the current account deficit from 8.8% of GDP to 4.0% of GDP. Furthermore, the presence of international personnel on the ground in the former Yugoslav Republic of Macedonia itself added further to aggregate domestic demand.

However, due to the lower level of exports, higher interest rates and other factors, further growth in the debt service ratio to 13% of exports from around 10% of exports was recorded. Furthermore, the debt to GDP ratio grew by over two percentage points to 43.3% of GDP while on the other hand official reserves increased further to just over three months of imports.

The ESAF arrangement agreed with the IMF in April 1997 expired in April 2000 after having been off track for an extended period, partly due to the economic disruptions of the Kosovo conflict and a rather lax budgetary stance. Since the turn of this year negotiations between the authorities and the IMF have been ongoing and could now finally be completed in summer or fall. In parallel, negotiations are taking place with the World Bank with a view to agreeing on a second Financial and Enterprise Structural Adjustment Loan (FESAL II) before winter.

4. NEWLY INDEPENDENT STATES

ARMENIA

Mainly as a result of domestic political instability, Armenia experienced a GDP growth of only 3.3 % last year and the production picture worsened further with a year on year GDP growth lower than 2 % in the first months of 2000. Industrial output grew only by

0.3 % in the first quarter. The budget deficit, which was already high in 1999, widened further in the first quarter of 2000. On the positive side, it should be noted that consumer prices rose only 0.8 % over the first five months of the year, which is substantially less than last year in the same period. The Armenian currency remained stable with a depreciation of only 2 % since December 1999.

The trade and current account deficits deteriorated in the first quarter of 2000, with imports picking up by 17 %. The difficult political climate which has prevailed in Armenia in recent months has slowed down the privatisation process, and badly needed foreign direct investment flows have decreased.

Foreign exchange reserves substantially exceeded 3 months of imports in early 2000, but the foreign debt was high (at least 47 % of GDP) and was still on the rise. In this respect, it is worth noting that the World Bank decided in April 2000 to consider Armenia eligible to HIPC treatment. Beforehand, the country should try to achieve debt sustainability through negotiations with the Paris Club which are expected to provide reductions of up to 67 % in the net present value of its debts.

The Armenian authorities are expected to reach a formal understanding with the IMF on an new three year programme (PRGF - Poverty Reduction and Growth Facility) before the end of 2000. Difficulties have appeared with the World Bank concerning the privatisation of Armenia's power distribution sector.

BELARUS

Economic and political developments in Belarus continue to give rise to serious concerns. In 1999, falling demand combined with a severe terms of trade shock resulted in a substantial slowdown in economic activity. Growth slowed from 8,3% in 1998 to 3,4% in 1999, mainly driven by declines in agricultural production and fixed investment by 8,6% and 5,4% respectively. Unexpectedly, the industry proved more resilient to the impact of Russia's crisis, since manufacturing output slowed from 12,0% to a still-high 9.7%.

Largely as a result of the improvements on the Russian markets, the picture has improved slightly in 2000: GDP grew 5,0% year-on-year in the first four months, despite deceleration of industrial growth to 6,1% and a steeper 8,5% fall in agricultural production.

Fiscal and monetary policies failed to correct the substantial imbalances the country is suffering from: In December 1999, inflation stood at 251,3% from 181,7% one year earlier, whereas the budget deficit doubled to 2,9% of GDP from 1,5% in 1998.

The default risk remains substantial, owing to the government's continuous problems to generate sufficient hard currency to service its debt. Although the stock of external debt is estimated at a mere 25% of GDP, the cash-strapped government already had to restructure loans under state guarantee and continued to accumulate arrears on electricity and gas payments with Russia and Lithuania.

GEORGIA

Year on year GDP growth in Georgia accelerated to 4.4 % in the first quarter of 2000. Industrial output surged by 14.1 %, one of the highest rates in the CIS. Georgia's Central

Bank proved capable of controlling inflation, with a price decrease of 0.1 % in the first four months of 2000. However, state revenues fell short of the official targets by about a third in 1999 and early 2000. In 1999, expenditures were badly prioritised and led to substantial arrears, in particular, on wages, pensions and social benefits. The Government will have to sequester expenditure again in 2000, but social expenditure and external debt service will not be affected. The very low tax collection levels result from weak administration, low public wages, corruption, a non-payment culture and wide scale contraband in a divided country.

After having contracted to 10 % of GDP in 1999, the current account is expected to widen again in 2000 as a result of renewed investment activity and higher domestic demand. Exports will nevertheless benefit from a recovery in Russian demand. The currency (Lari) has been relatively stable for most of 1999 and in 2000 (decline of only 1 % this year).

Official foreign exchange reserves are lower than 2.5 months of imports. However, by the end of 2000, the foreign debt may exceed 40 % of GDP and its service will require a substantial part of the State expenditure. In this respect, it is worth noting that the World Bank decided in April 2000 to consider Georgia eligible to HIPC treatment. Beforehand, the country should try to achieve debt sustainability through negotiations with the Paris Club which are expected to provide reductions of up to 67 % in the net present value of its debts. Given Georgia's heavy external debt burden and its limited debt service capacity, substantial deficits, both internal and external, will persist over the next few years. Consequently, the IMF fully supports the country's request to bilateral creditors for exceptional financing in the form of a multilateral rescheduling.

The country is expected to benefit from a new three year programme (Poverty Reduction and Growth Facility) with the IMF in the course of the year 2000. While the IMF is broadly satisfied with Georgia's prudent monetary policy, it is concerned by the country's fiscal policy, in particular its chronic shortfall in revenue which, combined with inadequate spending priorities, has led to further accumulation of expenditure arrears (mostly social arrears). With regard to structural reform, Georgia should press ahead with its agenda for large-scale infrastructure privatisation. It should also tackle corruption and improve governance to attract the long-term capital needed for restructuring its economy.

MOLDOVA

Moldova's economy contracted by 4,4% in 1999, following a 6,5% drop in 1998. Such substantial recession was triggered by the Russian crisis. Falling exports to Russia, which accounted for roughly half of total exports, resulted in a massive drop in output, while an ensuing balance-of-payments crisis ignited inflation, causing real wages and domestic demand to plummet. Russia's recovering economy, which began in the fourth quarter of 1999, has increased demand for Moldavian exports and is now driving Moldova's nascent but fragile, economic growth. The fiscal situation has also been improving: in 1999, the budget deficit decreased to 3,0% of GDP from 3,4% in 1998, and in the first quarter of 2000, the deficit was the same as in the corresponding period last year in nominal terms and about a quarter less in real terms.

Foreign debt servicing remains one of the main trouble spots. At the end of September 1999, the external debt stood at \$1462 million, up \$10 million from the end of 1998. The debt-to-GDP ratio, however, surged from 86% in 1998 to an estimated 126% last year.

In light of the political uncertainty currently gripping Moldova, the country's difficulties in servicing its large foreign debt, the economic outlook is unpromising despite the few positive signs. The government's and parliament's unwillingness to implement economic reforms required for assistance from the IMF and World Bank has resulted in the indefinite suspension of foreign multilateral financing of Moldova's budget and current account deficits. Unable to finance imports of raw materials and capital goods, growth in gross industrial output and transportation activity will likely falter if IMF and World Bank credits are not forthcoming. Without foreign financing, the risk of default on Moldova's US\$100 million in debt servicing payments due this year increases substantially.

TAJIKISTAN

Tajikistan's GDP growth slowed down to around 3.5 % in 1999. It is expected to accelerate to 5 % in 2000. The budget deficit is expected to contract from 3.1 % of GDP in 1999 to 2.2 % of GDP in 2000. In 1999, the external shock of the Russian crisis and the resulting Tajik rouble depreciation induced a sharp acceleration of inflation (31 % dec./dec.). The relaxation of monetary and fiscal policies in the summer of 1999 also contributed considerably to further exchange rate depreciation and inflation. In total, the Tajik rouble depreciated by about 50 % against the US\$ from August 1998 to August 1999. A dramatic tightening of policies (both monetary and fiscal policy) took place in September 1999 and restored macro-economic stability.

The current account deficit (excluding transfers) contracted from 13.7 % of GDP in 1998 to 7.2 % of GDP in 1999. This contraction resulted from a reduction in imports in the wake of a rationing of credit to the cotton sector and a substantial real exchange rate depreciation. Exports grew by 14 %. The deficit is expected to widen slightly to 7.7 % of GDP in 2000.

International reserves, which covered 1.7 months of imports at end-1999, are expected to increase to 2.2 months of imports towards the end of the year. By end-2000, the external debt of Tajikistan is expected to increase to USD 1,177 million or 118 % of GDP. In this respect, it is worth noting that the World Bank has decided to consider Tajikistan eligible to HIPC treatment. Beforehand, the country should try to achieve debt sustainability through negotiations with the Paris Club which are expected to provide reductions of up to 67 % in the net present value of its debts.

In early 2000, the IMF was concerned by the continuation of direct credits from the National Bank to various sectors of the economy. These credits have been granted without resorting to the agreed credit auction mechanism. Moreover, the large amounts of these credits have undermined the macro-economic stabilisation implemented through tightened monetary and fiscal policies since August 1999. Consequently, the IMF decided in March 2000 to send a strong signal to the Tajik authorities through the loss of loan tranches. The third annual arrangement under the three-year PRGF programme will be presented to the IMF Board in September 2000, as soon as a sufficient informal track record will have been registered.

UKRAINE

Real GDP fell by 0.4 percent in 1999, although output bottomed out in the second half of the year and, since then, there have been some recovery signs, particularly in the

industrial sector. CPI inflation accelerated in late 1999 and early 2000, reflecting the easing of monetary and fiscal policy rate around the Presidential elections of October-November 1999, the sharp depreciation of the exchange between mid-1999 and January 2000, and higher oil prices. Annual CPI inflation rose from 18.4 percent in October 1999 to 25 percent in February 2000. Despite the slippages of the second half of the year, the consolidated government deficit was cut from 3 percent of GDP in 1998 to 1.1 percent of GDP in 1999. The parliament has adopted a balanced budget for 2000.

The current account deficit is estimated to have swung from a deficit of 3 percent of GDP in 1998 to a small surplus last year, as the negative effect of shrinking output on imports amply offset a new drop in exports. Partly reflecting the improved current account position, the exchange rate has recovered moderately since mid-February 2000, with the central bank having bought foreign exchange reserves on several occasions since then. Also, in April 2000, some US\$2.6 billion of foreign debt, mostly eurobonds held by private investors, were swapped into 7-year bonds denominated in euros or dollars. Despite these positive developments, the balance of payments remains vulnerable. Even after the rescheduling, debt service obligations in 2000-2001 remain high. Moreover, official foreign exchange reserves stand at only about 1 month of imports.

Progress towards structural reform has been slow and disappointing, particularly in the agricultural and energy sectors. Since late 1999, however, the re-elected President and the new government led by Mr. Yushchenko have taken some encouraging measures. In particular, in December 1999, the President passed a decree allowing the effective sale of individual plots from the collective agricultural enterprises and laying the ground for the development of a land market. Also, the government has put together an ambitious privatisation programme for the next three years that includes the sale of big companies such as Ukrtelecom, the state telecommunications monopoly. A new privatisation law defining more transparent rules for tenders has been submitted to parliament.

In September 1998, the IMF approved an EFF for Ukraine in the amount of US\$2.2 billion, later augmented to US\$ 2.6 billion. The EFF ran off-track for a second time in the autumn of 1999 reflecting non-compliance with the programme's fiscal and structural targets and the impasse created by the Presidential election. The IMF resumed discussions on a new economic programme following the appointment of Mr. Yushchenko as Prime Minister but allegations about a possible irregular use of IMF funds by the central bank during 1997-98 and disagreement over some fiscal and structural measures are complicating the reactivation of IMF lending. Agreement on a new programme with the IMF would allow the Commission to resume discussions on the conditions related to the disbursement of the second tranche of the €150 million macro-financial assistance approved by the Council in October 1998. Reflecting what it perceives as an increased risk of default, Moody's downgraded in early January 2000 Ukraine's long-term foreign currency rating from B3 to Caal (a default grade rating).

5. OTHER NON-MEMBER COUNTRIES

ALGERIA

Rising oil and gas prices are likely to have a positive impact on Algerian economy and country risk. Rising revenue from the oil and gas industry will help to restore a surplus on both the fiscal and current accounts. The government aims at ending political unrest

and restoring peace. Prospects for a lasting peace increase international confidence in Algeria.

On April 15, 1999, Algerians voted Abdelaziz Bouteflika as President for a 5-year term. Ahmed Benbitour was selected as Prime Minister. Bouteflika is trying to implement plans for national reconciliation and economic reforms. An estimated 100,000 people have died in Algeria's civil war since 1992. President Bouteflika offered amnesty to rebel groups which was approved by the people in a referendum and accepted by most of the rebels.

The Algerian economy is heavily dependent on oil and gas production. Following the collapse in oil prices in early 1998, OPEC agreed to reduce output by 2.6 million bbl/d; Algeria's crude oil quota was reduced by 80,000 bbl/d to 731,000 bbl/d. Algeria's average crude oil production in 1999 was 772,301 bbl/d. In 1999, Algeria produced 1.36 million bbl/d of total oils. The production of hydrocarbons increased only 2.6% in 1999, which is partly due to the OPEC quota. In 2000, Algeria is expected to produce 1.4 million barrels per day.

GDP grew 3.5% in 1999 due to a 6.0% growth in exports. The average oil prices increased 39.5% in 1999; and this trend has continued in 2000. The economic outlook is positive. Exports are expected to grow due to strong demand for oil and other hydrocarbons. The annual inflation rate has been under control over the last few years, and the CPI inflation was 2.6 % in 1999 despite a nominal depreciation of the Dinar of 13.3% against the dollar. However, inflation is forecast to pick up.

Algeria's current external account swung from a surplus of over 7% of GDP (1997) to a deficit of almost 2% in 1998 bouncing to balance in 1999. Algeria's current external account is likely to have a surplus in 2000 given the higher crude oil prices and Algeria's heavy reliance on hydrocarbons which account for 95% of total external revenues.

The stock of medium- and long-term credit decreased slowly in 1999 and lowered debt service costs in USD marginally. Due to the rebound in oil prices, total foreign debt fell from 64.8% of GDP in 1998 to around 58.9% in 1999. Algeria has tried to convert debt into equity with some success. Nevertheless, the debt service burden remains heavy: the debt service ratio, which temporarily fell below 30% in 1996/97, as a consequence of a debt rescheduling agreement with the Paris Club, was 39.05% in 1999 after having been 47.5% in 1998.

The adverse impact of low oil prices on foreign exchange reserves – which fell from USD 6.8 to USD 4.4 billion at the end of 1999 - has been cushioned by mobilisation of balance of payments assistance from the Arab Currency Fund (USD 80 million) and a USD 300 million CCF from the IMF last May. The most recent EFF IMF-supported programme expired in May 1998.

List of abbreviations

CBA	Currency Board Arrangement
CCFF	Compensatory and Contingency Financing Facility
DM	Deutsche Mark
EC	European Community
EFF	Extended Fund Facility
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EUR	Euro
FESAL	Financial and Enterprise Structural Adjustment Loan
FDI	Foreign Direct Investments
FYROM	Former Yugoslav Republic of Macedonia
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IFIs	International Financial Institutions
IMF	International Monetary Fund
SAF	Structural Adjustment Facility
SBA	Stand-By Arrangement
USD	Dollar of the United States of America
VAT	Value Added Tax
WTO	World Trade Organisation

ANNEX

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

1.1. 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.

1.1.1. *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;
 - limitation of the guarantee given to the EIB to 65% of the loans signed as part of lending operations with certain non-member countries authorised by the Council Decision of 22 December 1999 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.

1.1.2. *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.

1.1.3. 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.

1.2. Loan operations covered by a budget guarantee

TABLE 5a
Borrowing and lending operations: Member States
Changes in amounts outstanding during six-month period

EUR 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 01.01.00	Operations in six-month period		Amount outstanding at 30.06.00	
							Amounts disbursed	Amounts repaid		
ITALY	93/67/CEE	18.01.93	6	(c)	8.000,00	2.482,70		1.482,70	1.000,00	
			6	(c)	2.000,00					
			-	(d)	2.000,00					
			-	(d)	2.000,00					
EURATOM	77/270-271/Euratom	29.3.77	(3)	(c)	4.000,00	12,20		10,90	1,30	
				(c)	500,00					
				(c)	500,00					
				(c)	1.000,00					
				(b)(4)	1.000,00					
	(d)(4)	1.000,00								
NCI	78/870/EEC	16.10.78	(3)	(c)	6.830,00	130,20		12,60	117,70	
					(c)					1.000,00
					(c)					1.000,00
					(c)					80,00
					(c)					1.000,00
					(c)					3.000,00
	(c)	750,00								
TOTAL					18.830,00	2.625,10	0,00	1.506,20	1.119,00 (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.

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

TABLE 5b (1)

Financial assistance to non-member countries
Changes in amounts outstanding during six-month period, broken down by countries and tranche

EUR million

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 01.01.00	Operations in six-month period		Amount outstanding at 30.06.00
								Amounts disbursed	Amounts repaid	
BULGARIA II	92/511/EEC	19.10.92				110,00				
1st tranche			7	07.12.2001	(c)	70,00	70,00			70,00
2nd tranche			7	29.08.2003	(c)	40,00	40,00			40,00
BULGARIA III	97/472/EC	22.07.97				250,00				
1st tranche			10	10.02.2008	(c)	125,00	125,00			125,00
2nd tranche			10	22.12.2008	(c)	125,00	125,00			125,00
BULGARIA IV	99/731/EC	08.11.99				100,00				
1st tranche			10	21.12.2009	(c)	40,00	40,00			40,00
2nd tranche			-	-	(d)	60,00	0,00			0,00
ROMANIAE II	92/551/EEC	27.11.92	7	26.02.2000	(c)	80,00	80,00		80,00	0,00
ROMANIA III	94/369/EC	20.06.94				125,00				
1st tranche			7	20.11.2002	(c)	55,00	55,00			55,00
2nd tranche			7	20.11.2004	(c)	70,00	70,00			70,00
ROMANIA IV	99/732/EC	08.11.99				200,00				
1st tranche			10	29.06.2010	(c)	100,00		100,00		100,00
2nd tranche			-	-	(d)	100,00	0,00			0,00
BALTIC STATES	92/542/EEC	23.11.92				220,00				
ESTONIA						40,00				
1st tranche			7	31.03.2000	(c)	20,00	5,00		5,00	0,00
2nd tranche			-	-	(d)	20,00	0,00			0,00
LATVIA						80,00				
1st tranche			7	31.03.2000	(c)	40,00	40,00		40,00	0,00
2nd tranche			-	-	(d)	40,00	0,00			0,00
LITHUANIA						100,00				
1st tranche			7	27.07.2000	(c)	50,00	50,00			50,00
2nd tranche			7	16.08.2002	(b)	50,00	25,00			25,00
FYROM	97/471/EC	22.07.97				40,00				
1st tranche			15	27.09.2012	(c)	25,00	25,00			25,00
2nd tranche			15	13.02.2008	(c)	15,00	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

EUR million

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 01.01.00	Operations in six-month period		Amount outstanding at 30.06.00
								Amounts disbursed	Amounts repaid	
BOSNIA	99/325/EC	10.05.99				20,00				
1st tranche			15	22.12.2014	(c)	10,00	10,00			10,00
2nd tranche			-	-	(d)	10,00	0,00			0,00
MOLDOVA I	94/346/EC	13.06.94				45,00				
1st tranche			10	07.12.2004	(c)	25,00	25,00			25,00
2nd tranche			10	08.08.2005	(c)	20,00	20,00			20,00
MOLDOVA II	96/242/EC	25.03.96	10	30.10.2006	(c)	15,00	15,00			15,00
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				200,00				
1/2 tranche			10	29.08.2006	(c)	50,00	50,00			50,00
1/2 tranche			10	30.10.2006	(c)	50,00	50,00			50,00
2nd tranche			10	30.10.2008	(c)	100,00	100,00			100,00
UKRAINE III	98/592/EC	15.10.98				150,00				
1st tranche			10	30.07.2009	(c)	58,00	58,00			58,00
2nd tranche			-	-	(d)	92,00	0,00			0,00
BELARUS	95/132/EC	10.04.95				55,00				
1st tranche			10	28.12.2005	(c)	30,00	30,00			30,00
2nd tranche			-	-	(d)	25,00	0,00			0,00
ALGERIA I	91/510/EEC	23.09.91				400,00				
1st tranche			5	15.12.97	(a)	250,00	0,00			0,00
2nd tranche			7	17.08.2001	(c)	150,00	150,00			150,00
ALGERIA II	94/938/EC	22.12.94				200,00				
1st tranche			7	27.11.2002	(c)	100,00	100,00			100,00
2nd tranche			-	-	(d)	100,00	0,00			0,00
GEORGIA	97/787/EC	17.11.97	15	24.07.2013	(c)	110,00	110,00		10,00	100,00
ARMENIA	97/787/EC	17.11.97	15	30.12.2013	(c)	28,00	23,00			23,00
REPS FORMER USSR(*)	91/658/EEC	16.12.91	3	28.09.97	-	1.250,00	54,50			54,50
TOTAL						3.683,00	1.645,50	100,00	135,00	1.610,50

(*) The EUR 54.5 million outstanding corresponds to the principal due but not paid at 30.06.00.

TABLE 6
LOAN GUARANTEES TO EIB

EUR million

GEOGRAPHICAL AREA	Decision	Date of decision	Rate of guarantee	Date of guarantee contract	Amount decided	Loans signed		Amount outstanding	
						at 01.01.00	during six-month period	at 01.01.00	at 30.06.00
MED. Financial protocols(1)		8.03.77	75% (2)	30.10.78/10.11.78	6062	5514	0	2444	2416
MED. Horizontal cooperation	R/1762/92/EEC	29.06.92	75% (2)	09.11.92/18.11.92	1800	1768	0	1453	1548
TOTAL MED.					7862	7282	0	3897	3964
						(3)			(*)
C and E Europe I	90/62/EEC(4)	12.2.90	100%	24.04.90/14.05.90	1000	912		741	705
	91/252/EEC(5)	14.5.91	100%	19.01.93/04.02.93	700	498	-	398	383
C and E Europe II	93/696/EC(6)	13.12.93	100%	22.07.94/12.08.94	3000	2792	-	1649	1999
Asia, Latin America I	93/115/EEC	15.2.93	100%	04.11.93/17.11.93	750	621	-	465	477
Asia, Latin America II	96/723/EC	12.12.96	100%	18.03.97/26.03.97	153	153	-	144	147
Asia, Latin America II	96/723/EC	12.12.96	70%	21.10.97	122	122	-	97	102
South Africa	95/207/EC	01.6.95	100%	04.10.95/16.10.95	300	300	-	285	280
New mandates	97/256/EC(7)	14.4.97	70%	25.07.97/29.07.97	7105	6575	323	2539	2958
FYROM	98/348/EC	19.5.98	70%	29.07.98/07.08.98	150	130	0	38	38
Bosnia	98/729/CE	14.12.98	70%	16.06.99/22.06.99	100	0	60	0	0
Turkey	99/786/EC	29.11.99	65%	18.04.00/23.05.00	600	0	225	0	0
Mandates 2000-2007	2000/24/EC(8)	22.12.99	65%	19.07.00/24.07.00	18410	0	230	0	0
TOTAL					40252	19386	838	10253	11054

(1) Including EUR 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 EUR 5 497 million, of which EUR 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.

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

(*) The amount outstanding has been increased by EUR 51.35 million to take account of the principal due and not paid at 30.06.00.

1.3. 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 the date of the report a total of EUR 250 million was still to be signed. The total breaks down as follows:

Mediterranean: former mandates (4th protocol with Syria)	EUR 115 million
Mediterranean countries	EUR 0 million
Central and eastern Europe (1)	EUR 75 million
Asia and Latin America	EUR 0 million
South Africa	EUR 0 million
FYROM	EUR 20 million
Bosnia	EUR 40 million

(1) *The amount still to be signed for central and eastern Europe under the Decision of 14 April 1997*

The foreseeable timetable for loan signatures under the new mandate of EIB loans (2000-2007) adopted by the Council on 22 December 1999 is shown in the financial statement attached to the Commission proposal.

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 the date of the report EUR 6 398 million still had to be disbursed against loans signed at that date. The total breaks down as follows:⁷

Mediterranean countries	EUR 2 526 million
Central and eastern Europe	EUR 2 630 million
Asia and Latin America	EUR 810 million
South Africa	EUR 280 million
FYROM	EUR 92 million
Bosnia	EUR 60 million

It is assumed that the rate of disbursement for the new mandate (2000-2007) will be the same as that set out above.

⁷ 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.

1.4. Payment of the budget guarantee

1.4.1. 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 1150/2000 of 22 May 2000 implementing Decision 94/728/EC, 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.

1.4.2. 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.

2. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1999-2001 UNDER THE GUARANTEE FUND MECHANISM (TABLE 4)

2.1. 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 for 2000-2006, viz. EUR 200 million at 1999 prices. The amount in the reserve comes to EUR 203 million in 2000.

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.

2.2. 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 (65%, 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 first half of 2000, as at the start of every financial year, the budgetary authority accordingly adopted transfer 6/2000 to correct the amounts paid to the Fund and pay the annual tranches provided for in the financial statements for EIB loans for projects outside the Community (central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa, Former Yugoslav Republic of Macedonia (FYROM), Bosnia-Herzegovina and reconstruction of the earthquake-hit regions of Turkey).

2.3. 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, 19 May 1998 and 14 December 1998 is limited to 70% of the total amount of credits opened. The basis for provisioning is 70% of the annual forecast of signatures.

The guarantee on the EIB loans authorised by the Council on 29 November 1999 and 22 December 1999 is limited to 65% of the total amount of credits opened. The basis for provisioning is 65% of the annual forecast of signatures.

2.4. 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). Regulation No 2728/94 establishing a

Guarantee Fund for external action has been amended by Council Regulation (EC, Euratom) No 1149/1999 of 25 May 1999 under which the provisioning rate for the Fund and the target amount is fixed at 9% from 1 January 2000.

2.5. 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.

2.6. 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.

3. Tables: country-risk indicators

Country-risk indicators					
Country: Bulgaria					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		-7,0	3,5	2,5
Industrial production	(% change)		-11,5	-9,4	-5,0
Unemployment (end of period)	(% of labour force)		13,7	12,2	14,7
Inflation rate (CPI) (Dec/Dec)	(% change)		578	1,0	6,5
Exchange rate (end of period)	(Leva per USD)		1792	1670	1947
General government balance	(% of GDP)		-2,9	1,1	-0,9
Balance of payments					
Exports of goods and services	(m USD)		6300	6297	5740
Current account balance	(% of GDP)		4,2	-1,8	-5,5
Net inflow of foreign direct investment	(m USD)		498	364,0	739
Official reserves, including gold (end of period)	m USD		2468	3056	3222
months' imports of goods and services			4,8	5,8	6,4
External debt					
Convertible currency external debt (end of period)	(m USD)		9700	10072	9980
Convertible currency debt service principal	(m USD)		1100	1098,9	975,0
interest	(m USD)		600	625,9	495,0
External debt/GDP	(%)		500	469,1	480,0
External debt/exports of goods and services	(%)		96	83,7	81,3
Debt service/exports of goods and services	(%)		156	182	174
Arrears (on both interest and principal)	(m USD)		14	19,8	17,0
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	5,7	6,2	6,0
EU exposure/external debt	(%)		4,7	6,2	6,5
EU exposure/exports of goods and services	(%)		7,4	9,5	12,1
IMF arrangements					
Type			SBA	EFF	EFF
(Date)			(06/97-05/98)	(06/98-06/01)	(06/98-06/01)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			B3	B2	B2
S&P long-term foreign currency rating (end of period)			none	B	B
Euromoney			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)	(2)		111 96	93	84
			(179) (180)	(180)	(180)
The Institutional Investor			03/97 09/97	03/98 09/98	03/2000
Position in the ranking (number of countries)	(2)		97 99	100 92	76
			(135) (135)	(136) (136)	(145)
Credit rating	(3)		22.5 22.2	22.9 26.3	32,5

Footnotes

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

Country-risk indicators					
Country: Estonia					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		10,6	4,7	-1,1
Industrial production	(% change)		15,2	3,2	-3,8
Unemployment (end of period)	(% of labour force)		9,7	9,9	11,7
Inflation rate (CPI) (Dec/Dec)	(% change)		12,5	4,3	3,9
Exchange rate (end of period)	(Kroons per USD)		14,3	13,4	15,6
General government balance	(% of GDP)	(5)	2,2	-0,3	-4,7
Balance of payments					
Exports of goods and services	(m USD)		3613	4170	3938
Current account balance	(% of GDP)		-12,1	-9,2	-6,2
Net inflow of foreign direct investment	(m USD)		130	575	233
Official reserves, including gold (end of period)					
m USD			823	879	946
months' imports of goods and services			2,5	2,1	2,8
External debt					
Convertible currency external debt (end of period)	(m USD)	(4)	2564,4	2899,8	2816,7
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	(%)		57,2	53,0	58,2
External debt/exports of goods and services	(%)		73,2	66,4	75,6
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)	0,6	0,6	0,6
EU exposure/external debt	(%)		1,7	1,6	2,3
EU exposure/exports of goods and services	(%)		1,2	1,2	3,7
IMF arrangements					
Type			SBA	SBA	SBA
(Date)			(12/97-03/99)	(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)			Baa1		Baa1
S&P long-term foreign currency rating (end of period)			BBB+		BBB+
Euromoney			03/97 09/97		03/2000
Position in the ranking (number of countries)	(2)		69 63		55
			(179) (180)		(180)
The Institutional Investor			03/97 09/97		03/2000
Position in the ranking (number of countries)	(2)		65 63		49
			(135) (135)		(145)
Credit rating	(3)		33.6 36.9		49,4

Footnotes

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

(4) Gross total external liabilities of Estonian residents.

Official external debt is much lower.

(5) For 1999, data is an estimate

Country-risk indicators					
Country: Latvia					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		8.6	3.6	0.1
Industrial production	(% change)		6.1	2.0	-8.8
Unemployment (end of period)	(% of labour force)		7.0	9.2	9.1
Inflation rate (CPI) (Dec/Dec)	(% change)		8.4	4.7	2.4
Exchange rate (end of period)	(Lats per USD)		0.590	0.569	0.583
General government balance	(% of GDP)		0.1	-0.8	-3.8
Balance of payments					
Exports of goods and services	(m USD)		2871	3053	2704
Current account balance	(% of GDP)		-6.1	-11.1	-10.2
Net inflow of foreign direct investment	(m USD)		522	356	300
Official reserves, including gold (end of period)	(m USD)		778.09	805.14	912.58
months' imports of goods, services & income			2.4	2.2	2.6*
External debt					
Convertible currency external debt (end of period)	(m USD)		370.2	407.0	615.8
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	(%)		6.6	6.7	9.8
External debt/exports of goods and services	(%)		12.9	13.3	22.8
Debt service/exports of goods and services	(%)				
Arrears (on both interest and principal)	(m USD)		no	no	no
Debt relief agreements and rescheduling	(m USD)		no	no	no
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,7	0,8	0,7
EU exposure/external debt	(%)		7,5	6,9	n.a.
EU exposure/exports of goods and services	(%)		2,0	2,4	6,3
IMF arrangements					
Type			Stand-by	Stand-by	Stand-by
(Date)			(5/96-8/97)	(10/97-4/99)	(12/99-4/01)
On track			no	no	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	Baa2	Baa2
S&P long-term foreign currency rating (end of period)			BBB	BBB	BBB
Euromoney			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)	(2)		63 59	57	59
			(179) (180)	(180)	(180)
The Institutional Investor			03/97 09/97	03/98 09/98	03/2000
Position in the ranking (number of countries)	(2)		79 74	71 68	59
			(135) (135)	(136) (136)	(145)
Credit rating	(3)		29,1 32,6	34,0 36,3	43,4

* estimate

Footnotes

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

Country-risk indicators					
Country: Lithuania					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		7,3	5,1	-4,1
Industrial production	(% change)		3,3	7,0	-9,9
Unemployment (end of period)	(% of labour force)	Dec.	6,7	6,9	10,0
Inflation rate (CPI) (Dec/Dec)	(% change)	Dec.	8,4	5,1	0,3
Exchange rate (end of period)	(Litas per USD)	Dec.	4,0	4,0	4,0
General government balance	(% of GDP)		-1,8	-5,8	-8,5
Balance of payments					
Exports of goods and services	(m USD)		5224	5071	4238,2
Current account balance	(% of GDP)		-10,3	-12,1	-11,2
Net inflow of foreign direct investment	(m USD)		328	921	477,8
Official reserves, including gold (end of period)	m USD	Dec.	1063	1460	1242
months' imports of goods and services		Dec.	2,1	2,7	2,7
External debt					
Convertible currency external debt (end of period)	(m USD)		1400	1684	2428,8
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	(%)		15,4	15,7	22,8
External debt/exports of goods and services	(%)		26,8	32,1	57,3
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)	1,6	1,7	1,8
EU exposure/external debt	(%)		9,4	9,9	9,5
EU exposure/exports of goods and services	(%)		2,5	3,3	6,1
IMF arrangements					
Type			EFF	-	pre-cautionary stand-by
(Date)			(10/94-10/97)	-	(1/2000-3/2001)
On track			yes	-	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			Ba1	Ba1	Ba1
S&P long-term foreign currency rating (end of period)			BBB-	BBB+	BBB-
Euro money			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)	(2)		72 62	62	61
			(179) (180)	(180)	(180)
The Institutional Investor			03/97 09/97	03/98 09/98	03/2000
Position in the ranking (number of countries)	(2)		85 80	77 71	66
			(135) (135)	(136) (136)	(145)
Credit rating	(3)		27.4 31.1	32.9 34.5	40,8

Footnotes

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

Country-risk indicators					
Country: Romania					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		-6,1	-5,4	-3,2
Industrial production	(% change)		-7,3	-16,7	-8,0
Unemployment (end of period)	(% of labour force)		8,9	10,3	11,5
Inflation rate (CPI) (Dec/Dec)	(% change)		151,4	40,6	54,9
Exchange rate (end of period)	(Lei per USD)		8023	10951	18255
General government balance	(% of GDP)	(4)	-4,6	-5,0	-3,4
Balance of payments					
Exports of goods and services	(m USD)		9955	9519	9862
Current account balance	(% of GDP)		-6,1	-7,2	-3,8
Net inflow of foreign direct investment	(m USD)		1224	2040	949
Official reserves, including gold (end of period)	m USD		3061	2299	2498
months' imports of goods and services			3,0	2,2	2,6
External debt					
Convertible currency external debt (end of period)	(m USD)		9503	9808	8589
Convertible currency debt service	(m USD)		2582	3451	3415
principal	(m USD)		2080	2897	2948
interest	(m USD)		502	554	467
External debt/GDP	(%)		26,9	23,6	25,2
External debt/exports of goods and services	(%)		95,5	103,0	87,1
Debt service/exports of goods and services	(%)		25,9	36,3	34,6
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)	11,0	7,8	4,1
EU exposure/external debt	(%)		8,4	7,1	5,3
EU exposure/exports of goods and services	(%)		7,9	7,1	10,3
IMF arrangements					
Type			SBA	SBA	SBA
(Date)			(4/97-5/98)	(4/97-5/98)	(8/99-3/00)
On track			no (5)	no (6)	yes (7)
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			Ba3		B3
S&P long-term foreign currency rating (end of period)			BB-		B-
Euromoney			03/97 09/97		03/2000
Position in the ranking	(2)		75 75		107
(number of countries)			(179) (180)		(180)
The Institutional Investor			03/97 09/97		03/2000
Position in the ranking	(2)		64 67		92
(number of countries)			(135) (135)		(145)
Credit rating	(3)		32.7 34.1		27,5

Footnotes

- (1) (2) (3) See explanatory notes.
(4) Consolidated general government deficit, excluding privatisation revenues
(5) Off track in September 1997
(6) Cancelled with only two (out of five) tranches disbursed
(7) Completion of first review and extension of the SBA until 02/2001 approved by the IMF in early June 2000.

Country-risk indicators					
Country: Bosnia and Herzegovina (4)					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		30,0	18,0	10,0
Industrial production	(% change)				
Unemployment			34,0	24,0	n.a.
Republika Srpska			31,0	22,0	n.a.
Unemployment (end of period) (5)	(% of labour force)				
Federation			33,0	n.a.	n.a.
Republika Srpska			36,0	47,0	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)				
Federation (in KM terms)			14	5,0	3,0
Republika Srpska (DEM based index) (6)			-7	2,0	5,0
Exchange rate (end of period)					
			KM per DEM	1,0	1,0
			YUD per DEM (7)	3,9	6,4
			Croatian Kuna per DEM	3,5	3,3
			KM per EURO	2,0	2,0
General government balance	(% of Entity GDP)				
Federation			-1,9	-1,7	-1,7
Republika Srpska			0,0	-5,2	-3,5
Balance of payments					
Exports of goods and services	(m EUR)		575	816	972
Current account balance (8)	(% of GDP)		-43,3	-31,5	-22,0
Net inflow of foreign direct investment	(m EUR)		0	89	56
Official reserves, including gold (end of period) (9)					
m EUR			253	290	647
months' imports of goods and services			1,3	1,4	3,0
External debt					
Convertible currency external debt (end of period)	(m EUR)		3280	2229	3041
Convertible currency debt service	(m EUR)		38	44,5	62,9
principal	(m EUR)		n.a.	n.a.	n.a.
interest	(m EUR)		n.a.	n.a.	n.a.
External debt/GDP	(%)		119,0	71,0	73,0
External debt/exports of goods and services	(%)		674	352	319
Debt service/exports of goods and services	(%)		16,0	17,0	8,0
Arrears (on both interest and principal)	(m EUR)		2106	726	n.a.
Debt relief agreements and rescheduling (10)	(m EUR)		653	727	-
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)			0,1
EU exposure/external debt	(%)				0,3
EU exposure/exports of goods and services	(%)				1,1
IMF arrangements					
Type			-	SBA	SBA
(Date)				(5/98)	
On track					extended to Apr.2001
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					
Position in the ranking (number of countries)		(2)	None	None	None
The Institutional Investor					
Position in the ranking (number of countries)		(2)	None	None	None
Credit rating		(3)			

Footnotes

- (1) (2) (3) See explanatory notes.
(4) Data refer to the entire country unless otherwise indicated.
(5) World Bank estimates, adjusted unemployment figures. Official figures are somewhat higher as there is a general tendency of over reporting.
(6) Measured in DM using the RS parallel market exchange rate for FR Yugoslavia dinar (YUD)
(7) YUD/DM exchange rate in the parallel market in the Belgrade area, as reported by the National Bank of FR Yugoslavia.
(8) Excluding official transfers.
(9) Foreign assets of the monetary authorities, excluding earmarked funds and blocked accounts; including foreign exchange held by the payments bureaus.
(10) London Club in 1997, Paris Club in 1998.

Country-risk indicators					
Country: Former Yugoslav Republic of Macedonia					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		1,4	2,9	2,7
Industrial production	(% change)		2,9	4,5	-2,5
Unemployment	(% of labour force)		36,0	34,5	32,4
Inflation rate (CPI) (Dec/Dec)	(% change)		3,2	-3,1	2,4
Exchange rate (end of period)	(Denar per USD)		55,4	51,8	60,3
	(Denar per EURO)		61,2	60,4	60,6
General government balance	(% of GDP)		-0,4	-1,8	-2,1
Balance of payments					
Exports of goods and services	(m EUR)	(4)	1091	1152	1118
Current account balance	(% of GDP)	(5)	-7,4	-8,8	-4,0
Net inflow of foreign direct investment	(m EUR)		12	152	23
Official reserves, including gold (end of period)					
m EUR			246	298	430
months' imports of goods and services			1,9	2,1	3,1
External debt					
Convertible currency external debt (end of period)	(m EUR)		1032	1232	1477
Convertible currency debt service principal	(m EUR)		109	128	172
interest	(m EUR)		43	78	115
External debt/GDP	(%)		65	50	57
External debt/exports of goods and services	(%)		31,5	41,1	43,3
Debt service/exports of goods and services	(%)	(6)	94,6	106,1	132,1
Arrears (on both interest and principal)	(m EUR)		8,7	10,1	13,0
Debt relief agreements and rescheduling	(m EUR)		-106,0	none	1,0
			80	0	24
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,3	0,6	0,7
EU exposure/external debt	(%)		2,4	4,4	5,3
EU exposure/exports of goods and services	(%)		2,1	4,7	5,8
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(04/97-04/00)	(04/97-04/00)	(04/97-04/00)
On track			yes	no	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			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)	(2)		107 151	143	120
			(179) (180)	(180)	(180)
The Institutional Investor					
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.

Country-risk indicators					
Country: Armenia					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		3,1	7,2	3,3
Industrial production	(% change)		0,9	-2,5	5,2
Unemployment (end of period)	(% of labour force)		10,6	9,3	11,0
Inflation rate (CPI) (Dec/Dec)	(% change)		21,9	-1,3	2,0
Exchange rate (end of period)	(Dram per USD)		495	522	524
	(Dram per EURO)		560	586	532
General government balance	(% of GDP)		-5,8	-4,8	-5,5
Balance of payments					
Exports of goods and services	(m EUR)		206	204	234
Current account balance	(% of GDP)		-28,0	-27,3	-25,0
Net inflow of foreign direct investment	(m EUR)		46	197	140
Official reserves, including gold (end of period)					
m EUR			243	298	331
months' imports of goods and services			3,1	3,6	4,0
External debt					
Convertible currency external debt (end of period)	(m EUR)		730	710	862
Convertible currency debt service	(m EUR)		42,3	54,4	61,0
principal	(m EUR)		n.a.	n.a.	n.a.
interest	(m EUR)		n.a.	n.a.	n.a.
External debt/GDP	(%)		49,5	43,9	48,0
External debt/exports of goods and services	(%)		244,0	230,0	n.a.
Debt service/exports of goods and services	(%)		14,6	13,4	n.a.
Arrears (on both interest and principal)	(m EUR)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,7	0,3	0,2
EU exposure/external debt	(%)		7,0	3,8	2,6
EU exposure/exports of goods and services	(%)		24,2	13,1	10,8
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(07/97-06/98)	(12/98-11/99)	(12/98-11/99)
On track			yes	no	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			03/97 09/97	09/98	03/2000
Position in the ranking		(2)	141 136	137	144
(number of countries)			(179) (180)	(180)	(180)
The Institutional Investor					
Position in the ranking		(2)	none	none	none
(number of countries)					
Credit rating		(3)	none	none	none

Footnotes

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

Country-risk indicators					
Country: Belarus					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		10,0	8,3	3,4
Industrial production	(% change)		17,6	12,0	9,7
Unemployment (end of period)	(% of labour force)		3,4	2,4	2,0
Inflation rate (CPI) (Dec/Dec)	(% change)		63,4	181,7	251,3
Exchange rate (end of period)	(Rbs per USD)		30798	220000	320000
General government balance	(% of GDP)		-0,7	-1,5	-2,9
Balance of payments					
Exports of goods and services	(m USD)		7400	7100	5949
Current account balance	(% of GDP)		-6,0	-6,1	-2,7
Net inflow of foreign direct investment	(m USD)		197,9	141,5	150,0
Official reserves, including gold (end of period)	m USD		393,7	230,0	102,0
months' imports of goods and services			0,5	0,2	0,2
External debt					
Convertible currency external debt (end of period)	(m USD)		1303	1854	1900
Convertible currency debt service	(m USD)		170	185	195
principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		15,2	18,5	22,9
External debt/exports of goods and services	(%)		17,6	26,1	31,9
Debt service/exports of goods and services	(%)		2,3	2,6	3,3
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)	0,4	0,3	0,3
EU exposure/external debt	(%)		3,8	2,8	2,7
EU exposure/exports of goods and services	(%)		0,5	0,5	0,5
IMF arrangements					
Type			-	-	
(Date)					
On track					
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			03/97 09/97	09/98	03/2000
Position in the ranking		(2)	154 131	144	140
(number of countries)			(179) (180)	(180)	(180)
The Institutional Investor			03/97 09/97	03/98 09/98	03/2000
Position in the ranking		(2)	118 121	122 121	129
(number of countries)			(135) (135)	(136) (136)	(145)
Credit rating		(3)	14.5 14.2	12.9 14.6	12.7

Footnotes

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

Country-risk indicators					
Country: Georgia					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		10,9	2,8	2,2
Industrial production	(% change)		8,1	-2,7	4,4
Unemployment (end of period)	(% of labour force)		5,0	4,3	5,4
Inflation rate (CPI) (Dec/Dec)	(% change)		7,3	10,6	10,9
Exchange rate (end of period)	(Lari per USD)		1,3	1,8	2,0
	(Lari per EURO)		1,5	1,7	2,1
General government balance	(% of GDP)		-7,0	-6,5	-6,7
Balance of payments					
Exports of goods and services	(m EUR)		494	478	477
Current account balance	(% of GDP)		-16,5	-17,5	-14,4
Net inflow of foreign direct investment	(m EUR)		208	221	62
Official reserves, including gold (end of period)					
m EUR			157	118	132
months' imports of goods and services			2,0	1,2	1,6
External debt					
Convertible currency external debt (end of period)	(m EUR)		1338,9	1872,9	1228,0
Convertible currency debt service principal	(m EUR)		87	127	154
interest	(m EUR)		n.a.	n.a.	n.a.
External debt/GDP	(%)		n.a.	47,9	61,6
External debt/exports of goods and services	(%)		271,3	391,8	257,5
Debt service/exports of goods and services	(%)		n.a.	17,0	22,0
Arrears (on both interest and principal)	(m EUR)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	1,8	1,3	1,1
EU exposure/external debt	(%)		9,6	7,3	5,8
EU exposure/exports of goods and services	(%)		22,4	17,5	n.a.
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(02/97-03/98)	(07/98-06/99)	(07/98-06/99)
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			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)	(2)		173 163	134	155
			(179) (180)	(180)	(180)
The Institutional Investor					03/2000
Position in the ranking (number of countries)	(2)		none	none	134
					(145)
Credit rating	(3)		none	none	11,1

Footnotes

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

Country-risk indicators					
Country: Moldova					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		1,3	-8,6	-4,4
Industrial production	(% change)		-2,3	-11,0	-9,9
Unemployment (end of period)	(% of labour force)		1,6	1,9	2,0
Inflation rate (CPI) (Dec/Dec)	(% change)		11,2	18,2	43,8
Exchange rate (end of period)	(Leu per USD)		4,67	8,32	11,59
General government balance	(% of GDP)		-6,7	-3,4	-3,0
Balance of payments					
Exports of goods and services	(m USD)		823	644	471
Current account balance	(% of GDP)		-13,0	-19,7	-0,5
Net inflow of foreign direct investment	(m USD)		64,0	81,0	30,5
Official reserves, including gold (end of period)					
m USD			366	167	202
months' imports of goods and services			3,1	1,5	3,2
External debt					
Convertible currency external debt (end of period)	(m USD)		1286	1452	1465
Convertible currency debt service	(m USD)		163,0	244,0	178,0
principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		55,0	86,0	126,5
External debt/exports of goods and services	(%)		156,3	225,5	311,0
Debt service/exports of goods and services	(%)		16,6	30,3	27,7
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)	0,8	0,7	0,6
EU exposure/external debt	(%)		5,3	4,6	6,7
EU exposure/exports of goods and services	(%)		8,3	10,4	15,8
IMF arrangements					
Type			EFF	EFF	
(Date)			(05/96-05/99)	(05/96-05/99)	
On track			no	yes	
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			Ba2	B2	B3
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)	(2)		113 104	142	142
The Institutional Investor			(179) (180)	(180)	(180)
Position in the ranking (number of countries)			none	none	122
Credit rating	(3)		none	none	(145)
					16,0

Footnotes

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

Country-risk indicators					
Country: Tajikistan					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		1,7	5,3	3,7
Industrial production	(% change)			8,2	5,0
Unemployment (end of period)	(% of labour force)		2,8	3,0	3,1
Inflation rate (CPI) (Dec/Dec)	(% change)		163,6	2,7	31,3
Exchange rate (end of period)	(Lari per USD)		748,0	977,0	1436,0
	(Lari per EURO)		824,0	1118,0	1446,0
General government balance	(% of GDP)		-3,3	-3,8	-3,1
Balance of payments					
Exports of goods and services	(m EUR)		n.a.	512	661
Current account balance	(% of GDP)		-9,2	-13,7	-7,2
Net inflow of foreign direct investment	(m EUR)		10	21	21
Official reserves, including gold (end of period)					
m EUR			27	57	58
months' imports of goods and services			0,6	1,5	1,7
External debt					
Convertible currency external debt (end of period)	(m EUR)		943	1043	1060
Convertible currency debt service principal	(m EUR)		n.a.	58	48
interest	(m EUR)		n.a.	n.a.	n.a.
External debt/GDP	(%)		95,6	93,0	103,0
External debt/exports of goods and services	(%)		n.a.	203,6	160,2
Debt service/exports of goods and services	(%)		n.a.	16,0	12,0
Arrears (on both interest and principal)	(m EUR)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m EUR)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,8	0,6	0,5
EU exposure/external debt	(%)		5,8	5,4	n.a.
EU exposure/exports of goods and services	(%)		8,4	9,7	9,1
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(02/97-03/98)	(07/98-06/99)	(07/98-06/99)
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			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)		(2)	173 163 (179) (180)	134 (180)	172 (180)
The Institutional Investor					36586
Position in the ranking (number of countries)		(2)	none	none	128
Credit rating		(3)	none	none	-
					12,9

Footnotes

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

Country-risk indicators					
Country: Ukraine					
		footnotes	1997	1998	1999
Real GDP growth rate	(%)		-3,0	-1,7	-0,4
Industrial production	(% change)		-0,4	-1,4	4,3
Unemployment	(% of labour force)		1,6	2,9	4,6
Inflation rate (CPI) (Dec/Dec)	(% change)		10,1	20,0	19,1
Exchange rate (end of period)	(Hryvnia per USD)		1,9	3,4	5,2
General government balance	(% of GDP)		-5,2	-3,0	-1,1
Balance of payments					
Exports of goods and services	(m USD)		20355	17621	16230
Current account balance	(% of GDP)		-2,7	-3,0	0,3
Net inflow of foreign direct investment	(m USD)		581	747	489
Official reserves, including gold (end of period)					
m USD			2375	782	1090
months' imports of goods and services			1,5	0,6	0,8
External debt					
Convertible currency external debt (end of period)	(m USD)		11807	11700	11879
Convertible currency debt service	(m USD)		1109	2449	1964
principal	(m USD)		651	934	860
interest	(m USD)		458	1515	1104
External debt/GDP	(%)		23,8	27,4	39,0
External debt/exports of goods and services	(%)		58,0	66,4	73,2
Debt service/exports of goods and services	(%)		9,4	19,7	12,1
Arrears (on both interest and principal)	(m USD)		n.a	none	none
Debt relief agreements and rescheduling	(m USD)		none	yes	yes
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	4,0	3,3	3,3
EU exposure/external debt	(%)		2,7	2,7	3,0
EU exposure/exports of goods and services	(%)		1,6	1,8	2,2
IMF arrangements					
Type			SBA	EFF	EFF
(Date)			(08/97-08/98)	(09/98-03/01)	(09/98-03/01)
On track			yes	no	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	B3	Caa1
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/97 09/97	09/98	03/2000
Position in the ranking		(2)	136 129	118	134
(number of countries)			(179) (180)	(180)	(180)
The Institutional Investor			03/97 09/97	03/98 09/98	03/2000
Position in the ranking		(2)	109 105	105 108	113
(number of countries)			(135) (135)	(136) (136)	(145)
Credit rating		(3)	17.6 19.8	20.5 19.8	18,1

Footnotes

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

Country-risk indicators					
Country: Algeria					
		footnotes	1997	1998	1999 (4)
Real GDP growth rate	(%)		1,0	5,5	3,5
Industrial production	(% change)		n.a.	n.a.	0,6
Unemployment	(% of labour force)		28,0	30,0	28,4
Inflation rate (CPI) (Dec/Dec)	(% change)		6,0	4,5	2,6
Exchange rate (end of period)	(Dinars per USD)		57,7	58,7	66,5
	(Dinars per EURO)		64,0	65,8	70,9
General government balance	(% of GDP)		2,4	-3,9	-0,5
Balance of payments					
Exports of goods and services	(m EUR)		12187	8387	8598
Current account balance	(% of GDP)		7,4	-1,9	0,6
Net inflow of foreign direct investment	(m EUR)		229	455	450
Official reserves, including gold (end of period)					
m EUR			7090	6101	4138
months' imports of goods and services			9,0	7,4	4,6
External debt					
Convertible currency external debt (end of period)	(m EUR)		27.532	27.182	26.567
Convertible currency debt service	(m EUR)		3937	4621	4800
principal	(m EUR)		2076	2856	n.a.
interest	(m EUR)		1861	1764	n.a.
External debt/GDP	(%)		66,4	64,8	58,9
External debt/exports of goods and services	(%)		273,5	324,1	309,0
Debt service/exports of goods and services	(%)		30,3	47,5	39,1
Arrears (on both interest and principal)	(m EUR)		none	none	none
Debt relief agreements and rescheduling	(m EUR)		1940	455	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	7,7	8,7	8,7
EU exposure/external debt	(%)		2,1	2,6	3,2
EU exposure/exports of goods and services	(%)		4,6	7,5	8,5
IMF arrangements					
Type			EFF	EFF	CCFF
(Date)			(05/95-05/98)	(05/95-05/98)	(05/1999)
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			03/97 09/97	09/98	03/2000
Position in the ranking (number of countries)		(2)	102 97	103	99
			(179) (180)	(180)	(180)
The Institutional Investor			03/97 09/97	03/98 09/98	03/2000
Position in the ranking (number of countries)		(2)	96 96	97 96	92
			(135) (135)	(136) (136)	(136)
Credit rating		(3)	23,2 24,5	25,1 25,8	27,7

Footnotes

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

(4) Preliminary estimates.

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

(see also List of Abbreviations at the end of Part Two of this report)

S&P	Standard and Poor's
CCFF=	Compensatory and Contingency Financing Facility
EFF=	Extended Financing Facility
ESAF=	Enhanced Structural Adjustment Facility
SBA =	Stand-By Arrangement
STF=	Systemic Transformation Facility
est.=	estimates
n.a. =	not available
prelim.=	preliminary
m EUR =	million of Euro
no	
none	
yes	