COMMISSION OF THE EUROPEAN COMMUNITIES

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**REPORT FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT AND TO THE COUNCIL**

**ON THE IMPLEMENTATION OF MACRO-FINANCIAL ASSISTANCE
TO THIRD COUNTRIES IN 1999**

List of abbreviations

CBA	Currency Board Arrangement
CPI	Consumer Price Index
DM	German Mark
EC	European Community
EFF	Extended Fund Facility
EIB	European Investment Bank
ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EUR	Euro
FDI	Foreign Direct Investments
FESAL	Financial and Enterprise Structural Adjustment Loan
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

I. INTRODUCTION

The present report assesses the economic situation, the progress of reforms and the prospects of the countries recipient of macro-financial assistance in 1999, with particular reference to the implementation of the conditions attached to it.

Chapter II provides an overview of the EC macroeconomic assistance to third countries, with an historical background, a summary of the operations in 1999, and an analysis of the burden-sharing among the international donors community.

The following chapters discuss relevant aspects of the transition process in the countries for which either new macro-financial assistance operations have been decided by the Council or disbursements of previously decided operations have been made in 1999.

The present report is submitted in accordance with the Council Decisions regarding Community macro-financial assistance to third countries and follows on from the reports presented in previous years[1].

The complete list of macro-financial assistance operations decided by the Council with the corresponding disbursements up to the end of 1999 appears in Annex 1. Annex 2 summarises the macro-financial assistance provided by bilateral and multilateral donors in favour of the countries recipient of EC macro-financial assistance. Finally, selected macroeconomic indicators are summarized in Annex 3.

II. OVERVIEW

1. Background

Initially conceived for intra-Community balance-of-payment support, macro-financial assistance from the Community has been extended since 1990 to third countries, mainly those of Central and Eastern Europe, but progressively also to other countries in the former Soviet Union and in the Mediterranean area, with a view to supporting their political and economic reform efforts.

Early in the 1990s, the European Community decided to extend macro-financial assistance to the Central and East European Countries (CEECs) with a view to support their process of transition to a market economy. It was also decided that, in the context of the assistance co-ordination process agreed among the 24 industrial countries (G-24), the Commission should enlist other donors to contribute in a similar way to support the economic programmes that the CEECs were implementing in agreement with the International Monetary Fund (IMF) and the World Bank.

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1 See the following Communications from the Commission to the Council and the European Parliament with the title 'Report on the implementation of macro-financial assistance to third countries':
COM(92)400 of 16 September 1992
COM(94)229 of 7 June 1994
COM(95)572 of 27 November 1995
COM(96)695 of 8 January 1997
COM(98)3 of 13 January 1998
COM(1999)580 of 15 November 1999.

A number of balance-of-payment support operations by the EC and the G-24 took place between 1990 and 1994 covering most CEECs. Since then, EC macro-financial assistance in the region has been mainly concentrated in the Balkan countries, and more particularly in the countries formally part of Yugoslavia. Outside the region of Central and Eastern Europe, several other operations in favour of some Newly Independent States and few Mediterranean countries have been decided by the Council since the beginning of the 1990s. They also support the political and economic reform efforts of the beneficiary countries and are to be implemented in connection with support programmes from the IMF and the World Bank. Community operations have continued to incorporate the set of principles applying to this type of assistance. These principles underline the exceptional character of this assistance, its complementarity to financing from the IFIs and its macroeconomic conditionality. In particular, Community macro-financial assistance has supported efforts by recipient countries to bring about economic reforms and structural changes. In close co-ordination with the IMF and the World Bank, it has promoted policies that are tailored to specific country needs with the overall objective of stabilizing the financial situation and establishing market-oriented economies. The Commission implements the assistance in consultation with the Economic and Financial Committee.

2. Macro-financial assistance in 1999

a) New decisions

The enhanced macro-financial assistance to Balkan countries already evidenced in 1998, has been confirmed during the year 1999. Five operations for a maximum amount of **EUR 460 million have been decided by the Council** in favour of Albania, Bosnia and Herzegovina, Bulgaria, the former Yugolsav Republic of Macedonia (FYROM) and Romania.

In April 1999, a third macro-financial assistance operation in favour of **Albania** has been decided, consisting of a long-term loan facility of a maximum principal amount of up to EUR 20 million with a maximum maturity of 15 years and a grace period of 10 years. The assistance is made available with a view to ensuring a sustainable balance of payments situation and consolidating the country's reserve position. Contrary to previous operations, this assistance would take the form of a loan. Albania is undertaking fundamental actions to promote economic reform and to build modern institutions, supported by the IMF and the World Bank. The macro-financial assistance adopted is consistent and in line with the macroeconomic and reform programmes agreed by the Albanian authorities with the IMF and the World Bank.

Bosnia and Herzegovina has achieved some progress in the implementation of structural reforms and in improving the economic policy framework. Macroeconomic stability has been achieved, and for the first time, the Council has decided an exceptional macro-financial assistance operation, totalling EUR 60 million in favour of Bosnia and Herzegovina. The loan component of the assistance shall amount to a maximum of EUR 20 million, while the grant component shall amount to a maximum of EUR 40 million. The implementation of the assistance is conditional upon the full clearance of its outstanding due obligations to the Community and the EIB. Following the Community already disbursed a first tranche of EUR 25 million in December 1999.

The fourth macro-financial assistance operation in favour of **Bulgaria** has been decided by the Council in November 1999. It consists of a long-term loan facility of a maximum of EUR 100 million (maximum maturity of 10 years) with a view to ensuring a sustainable balance-of-payment situation. The loan is to be made available to Bulgaria in two instalments. The first instalment has been released on the basis of the satisfactory track record of Bulgaria's macroeconomic programme, as agreed with the IMF. The second instalment is linked with the continuation of Bulgaria's adjustment and reform programme.

FYROM had undertaken fundamental political and economic reforms. An economic programme had been adopted by its authorities with strong support from the IMF and the World Bank. In order to support the balance of payments and help ease the country's external financial constraints and social consequences of the economic disruptions caused by the conflict in Kosovo, the Council has decided in November 1999 to provide the country with macro-financial assistance in the form of a loan of up to EUR 50 million (with a grace period of 10 years and a maximum maturity of 15 years), and a grant amounting to a maximum of EUR 30 million for the 1999 to 2000 period.

In 1999, **Romania** was still facing economic problems but has nevertheless undertaken fundamental economic reforms and made substantial efforts to establish a well-functioning market economy with a view to increasing employment and living standards. In November 1999, the Community decided to provide Romania with a fourth macro-financial assistance, consisting on a long term loan facility of a maximum amount of EUR 200 million (maximum maturity of 10 years), with a view to ensuring a sustainable balance of payments situation. The loan is to be made available to Romania in two tranches.

b) *Disbursements*

Disbursements of macro-financial assistance to third countries have amounted to a total of **EUR 136 million in 1999**. These disbursements consisted of EUR 25 million in favour of Bosnia and Herzegovina, EUR 40 million in favour of Bulgaria, EUR 4 million for Armenia, EUR 9 million in favour of Georgia and EUR 58 million for Ukraine. The latter three operations were part of previously decided operations. Disbursements made to Bosnia and Herzegovina and Bulgaria related to newly decided operations during 1999.

Out of the total EUR 136 million disbursed, EUR 28 million have taken the form of straight grants financed from the general budget (articles B7-531 and B7-532). These have been in favour of Bosnia and Herzegovina (EUR 15 million), Georgia (EUR 9 million) and Armenia (EUR 4 million). The bulk of the assistance has, as usual, taken the form of long-term loans (Bosnia and Herzegovina, EUR 10 million; Bulgaria, EUR 40 million; Ukraine, EUR 58 million).

c) *Repayments and undisbursed operations*

During 1999, the only macro-financial assistance loan falling due has been honoured by Romania related to the second repayment of assistance decided in January 1992. Estonia and Armenia have repaid in advance EUR 5 million each corresponding to the loans of 1993 and 1998 respectively.

Some operations decided in the first half of the 1990s have not been fully disbursed as initially foreseen. This has been the result either of improved external financial conditions, mainly in terms of balance of payments and external debt position as was the case for the Baltic countries (1992), Hungary (1990) and Slovakia (1994) or of worsening of the political climate and/or the slowing-down of the reform process as in the cases of Belarus (1995) and Algeria (1994). These operations are not programmed anymore. The last column of Annex 1 shows the undisbursed amounts. The operations for Albania, Bosnia and Herzegovina, Bulgaria, FYROM, Romania, Armenia and Georgia and Ukraine III are likely to be implemented as planned.

d) Other

By the end of 1999, three Commission proposals were waiting for a decision by the Council. The first one concerned Tadjikistan - for which the Commission had proposed in July 1999 a possible aid of up to EUR 110 million in the framework of the operation in favour of Armenia and Georgia.

The second proposal concerns the third macro-financial assistance in favour of Moldova, consisting of a loan amounting to a maximum of EUR 15 million.

Finally, the Commission proposed in November an exceptional financial grant assistance in favour of Kosovo of up to EUR 35 million.

3. Trends and tendencies in macro-financial assistance

The Community's macro-financial assistance was originally intended to support macroeconomic stabilization and the balance of payments. Over the years the number of countries to which it was appropriate for the Community to extend such support expanded, as a growing number of countries neighbouring the Community committed themselves to rigorous programmes of economic reform. This led to a change in the geographic balance of assistance from the early years, when most beneficiary countries were in the immediate vicinity of the Community. As a result of the conflicts in the Western Balkans and in particular the Kosovo conflict of 1999, a tendency for enhanced macro-financial assistance to the countries of the Balkans in general is been confirmed as demonstrated by last years' Council decisions.

It also became clear that, while macro-financial assistance geared to the original objective of supporting macroeconomic stabilization and the balance of payments was still necessary for some countries, in the case of others macro-financial assistance could more usefully be directed to supporting the government's programme of structural reform. This tendency emerged first in some Central and East European countries, where macro-financial assistance for structural reform could be effectively combined with technical assistance from the Phare programme to strengthen the capacity of institutions that were essential to the success of the structural reform programmes. The complementarity of the different forms of Community assistance was enhanced by broadening the dialogue with each beneficiary country to encompass the totality of assistance to reform efforts. This approach has been confirmed in the context of assistance to some NIS and to the Western Balkan countries. A comparable evolution has taken place in the programmes supported by the IMF and the World Bank, and this has led to closer co-operation between the Commission and these institutions.

Tables 1 and 2, and its accompanying Graphs 1a and 2a show well the exceptional character of the EC macro-financial assistance. The highest volumes of macro-financial assistance operations were decided and disbursed in the immediate years after the changes in the political and economic systems of the countries of Central and Eastern Europe. Since then, the fluctuations registered in macro-financial assistance to third countries reflect the application of the principle of decisions taken on a case-by-case basis after an assessment of the macro-economic situation and external financing needs of the potential beneficiary countries.

Graph 1a for operations decided and Graph 2a for actual amounts disbursed show the important concentration of the assistance in the countries candidate to EU accession, thus reflecting the guiding principle of assisting the neighbouring countries with whom political and economic relations with the EU are particularly close. Around two thirds of macro-financial assistance has been geared over the last decade to EU accession countries. Some New Independent States and some Mediterranean countries share an equal ratio of around 16% of the total assistance since 1990, while the Western Balkan countries account for 6% of operations decided, the half of it in 1999.

TABLE 1 - MACRO-FINANCIAL ASSISTANCE, 1990-1999

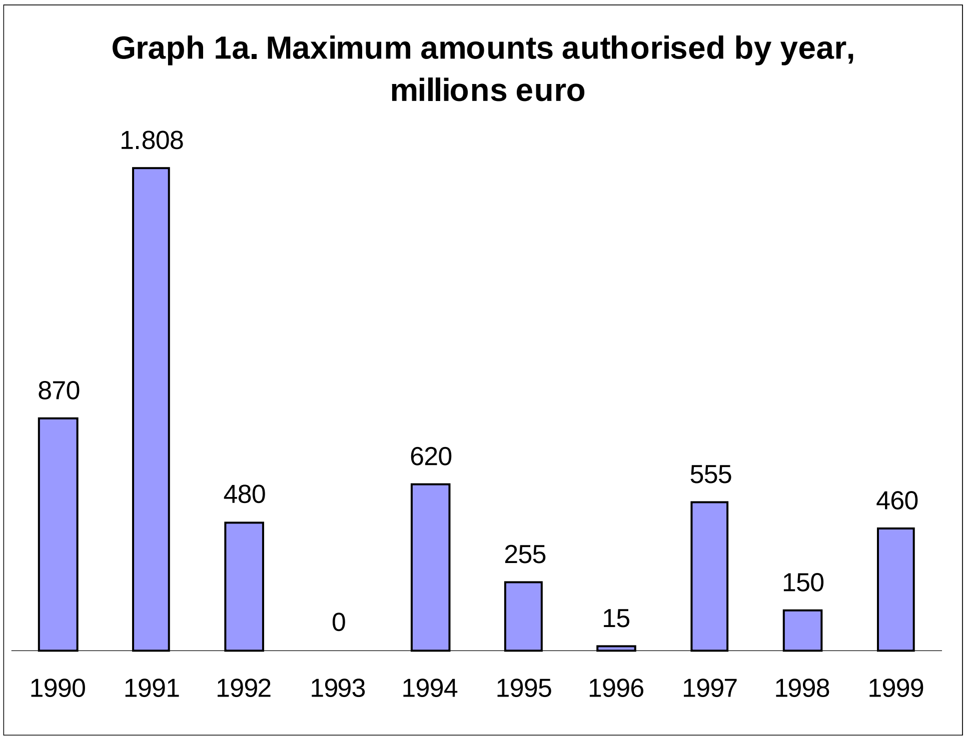
MAXIMUM AMOUNTS AUTHORISED, MILLIONS EURO

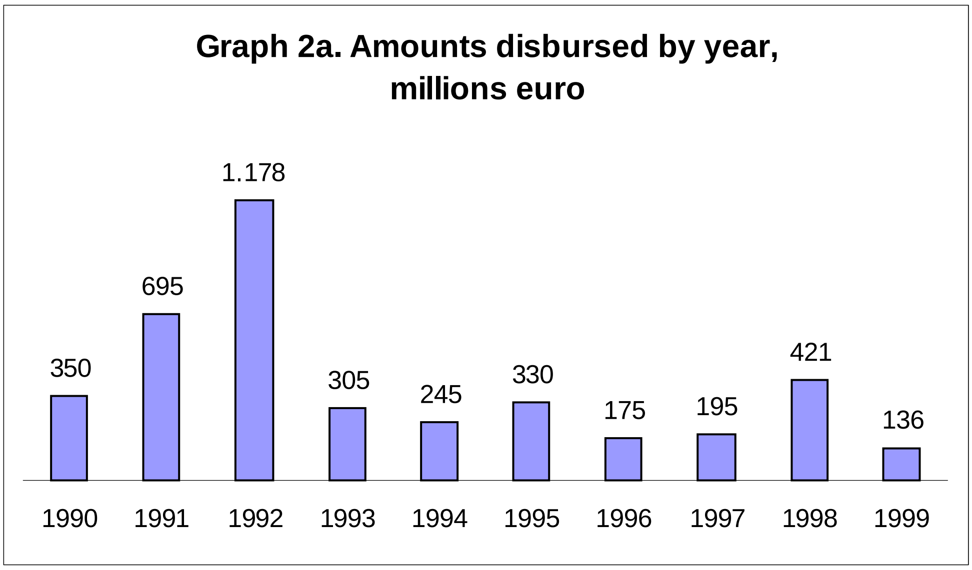
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Totals
By region											
EU Accession Countries	870	1.220	410		255			250		300	**3.305**
Western Balkans			70		35			40		160	**305**
NIS					130	255	15	265	150		**815**
Mediterranean		588			200						**788**
Total amounts authorised	**870**	**1.808**	**480**	**0**	**620**	**255**	**15**	**555**	**150**	**460**	**5.213**
out of which, straight grants		28	70		35			95		70	**298**

TABLE 2 - MACRO-FINANCIAL OPERATIONS, 1990-1999

DISBURSEMENTS, MILLIONS EURO

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Totals
By region											
EU Accession Countries	350	695	705	270	70	80	40	70	250	40	**2.570**
Western Balkans			35	35		15	20	25	15	25	**170**
NIS					25	135	115	100	156	71	**602**
Mediterranean			438		150	100					**688**
Total amounts disbursed	**350**	**695**	**1.178**	**305**	**245**	**330**	**175**	**195**	**421**	**136**	**4.030**
out of which, straight grants			63	35		15	20		18	28	**179**


Graph 1a. Maximum amounts authorised by year, millions euro
1.808
870
480
0
620
255
15
555
150
460
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999


Graph 2a. Amounts disbursed by year, millions euro
350
695
1.178
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245
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421
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1990
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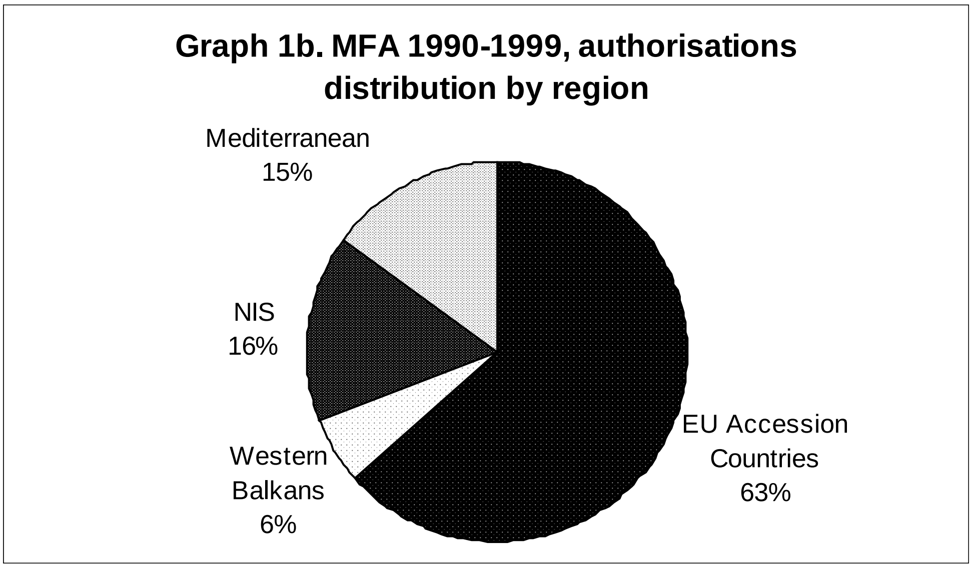
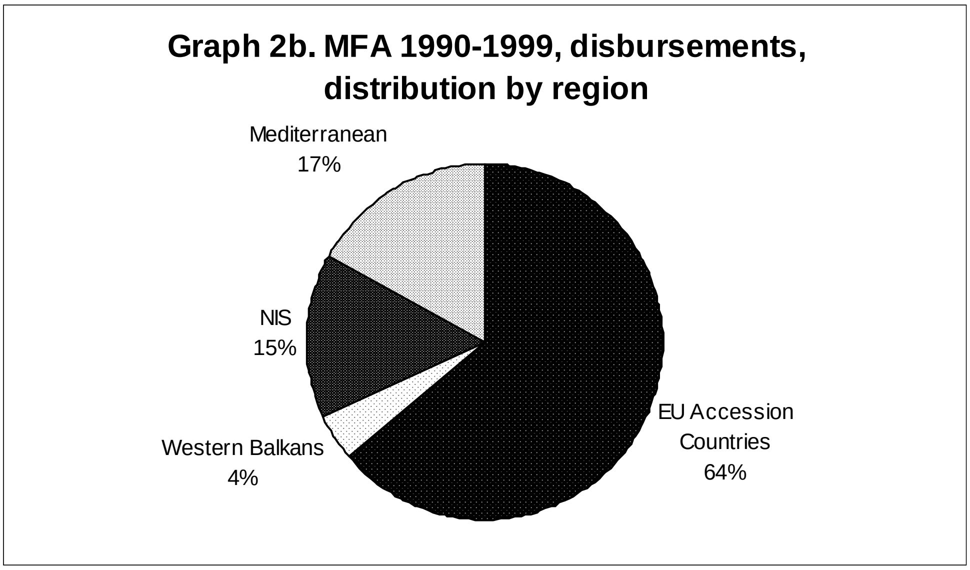

Graph 1b. MFA 1990-1999, authorisations distribution by region
Mediterranean 15%
NIS 16%
Western Balkans 6%
EU Accession Countries 63%


Graph 2b. MFA 1990-1999, disbursements, distribution by region
Mediterranean 17%
NIS 15%
Western Balkans 4%
EU Accession Countries 64%

4. Burden-sharing

In the context of the G-24 assistance coordination process, the European Commission in liaison with the World Bank organises donor's conferences for support to CEECs where the needs of resources are assessed and the contributions from the IFIs and bilateral donors -including the EC- are agreed in principle. For other potential recipient countries, a similar approach is followed through Consultative Group meetings convened at the initiative of the World Bank.

The resources provided by different contributors to support the balance-of-payment needs of the countries recipient of EC macro-financial assistance are summarised in Annex 2. Details by recipient country for the year 1999 are provided in Annex 2.1.

Since the inception of macro-financial assistance, the absolute amounts committed by the EC have fluctuated substantially, in parallel with the balance-of-payment support provided by the international community (see Annex 2 and similar tables in previous macro-financial assistance reports).

Initially, an important feature of Community assistance was that very large sums of funds were made available to support the programmes of the IFIs. The Community played a key role, both as a major provider of these funds and from 1991 as the co-ordinator of bilateral assistance for the CEECs through the G-24.

However, as the IFIs were progressively able to mobilize more resources through new instruments, their share in the financing packages has risen substantially, in particular when referring only to mobilisation of new funds.

At the same time, contributions by external creditors, both public and private, were mobilized in the form of debt-relief and debt-reduction operations which were particularly important in 1994, 1995 and 1999. The countries concerned by these debt-relief and similar operations amongst those receiving EC macro-financial assistance have been: Algeria in 1991 and 1994; Bulgaria in 1991, 1994 and 1997; Moldova in 1996; Ukraine in 1994, 1995 and 1999, and fYROM, Bosnia & Herzegovina and Albania in 1999.

III. ALBANIA

1. Executive summary

Under the IMF 3-year programme adopted in May 1998, and despite the Kosovo crisis, the Albanian authorities managed to maintain macroeconomic stabilisation: GDP growth for 1999 should have reached 8%, in line with the 1998 figure, the fiscal deficit was kept under control, the exchange rate of the Lek has remained strong against the dollar, annual inflation was less than 1% and the current account deficit widened much less than expected (from 6% to 8.5% of GDP).

On the structural reform side, progress was registered, generally at a slower pace than expected, partly linked to the Kosovo crisis. In the area of financial sector reform, privatisation of the two remaining state-owned banks is under way, the legislative framework and the banking supervision have been significantly improved and the liquidation of the pyramid schemes is close to its end. The privatisation of SMEs is almost finished, but the results are less satisfactory for large enterprises in strategic sectors. The adoption by Parliament in 1999 of both the revised Civil Service Law and the new Customs Code has constituted very important steps in the reform of the public administration and the customs administration, respectively. Finally, significant progress was also registered in the strengthening of tax collection.

The Council decided in April 1999 to make available a long term loan facility of a maximum principal amount fo up to EUR 20 million.

2. Macroeconomic performance

Between 1993 and 1996, Albania made important progress in the stabilisation and liberalisation of its economy and in implementation of structural reforms, supported by substantial international assistance. After a period of unrest in 1997, following the collapse of the pyramid schemes, the new government managed to restore macro-economic stability.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation
Prices mostly market-determined, with the exception of public transport, rail fares, postal tariffs, electricity and the rural water supply.
2. Trade liberalisation
No quantitative restrictions on imports and last remaining export bans removed in September 1999. Four different levels of tariff rates (0, 5, 10 and 20%). Accession to WTO close to completion.
3. Exchange regime
Since July 1992 free floating exchange rate. Exchange system largely free of restrictions on current account transactions, including profit repatriation. Controls remain on outflows of capital transactions by residents.
4. Foreign direct investment
Liberal legislation. Sale of land to foreigners permitted. Land registration completed in most accessible areas.
5. Monetary policy
Bank-by-bank credit ceilings removed in November 1999. Banks free to determine lending rates, but central bank sets minimum deposit rates to ensure that real interest rates remain positive. Treasury bill auctions (3, 6, 12 months).
6. Public finances
VAT introduced in July 1996. Budgetary revenue estimated at 20.4% of GDP in 1999; expenditure estimated at 31.4% of GDP (including Kosovo-related expenditures and interests).
7. Privatisation and enterprise restructuring
Privatisation of arable land largely completed. Privatisation of some 470 SMEs almost finished (complete privatisation is a prior action for January 2000 IMF programme review). No large state-owned enterprises active in strategic sectors privatised so far. Stock exchange set up in March 1996.
8. Financial sector reform
Two-tier banking system dominated by the two remaining large state-owned banks. Adoption of new law on secured transactions and of new Companies and Bankruptcy laws in 1999. Liquidation of pyramid schemes almost finished.

Following a six-monthly emergency programme, the Albanian authorities implemented a comprehensive medium-term macroeconomic and structural adjustment programme supported by the IMF under an ESAF[2]. As a result, GDP growth rebounded to 8% in 1998 (following a 7% decline in 1997), inflation slowed to single digit level, the domestically financed budget deficit was largely reduced, and the current account deficit was halved to 6% of GDP.

Despite the Kosovo crisis, the authorities have shown continued commitment to macroeconomic stabilisation. According to preliminary estimates, GDP growth should reach the targeted 8% in 1999 and can mainly be attributed to strong growth in the construction, transport and services sectors. The Kosovo crisis partly contributed to the increase in the last two sectors. Unemployment is estimated at about 18%. Price and monetary stability has been remarkable in 1999: the Lek remained stable against the USD and annual inflation was at 0.5% at the end of the year, a figure to be compared to a 7% target. This remarkable result must, however, be partly attributed to the Kosovo crisis, as a part of the huge quantity of humanitarian aid was sold on local markets and depressed food prices, the core of the CPI in Albania. While the Kosovo crisis has had a rather strong impact on the fiscal situation[3], the latter is nevertheless less critical than anticipated. The 1999 overall budget deficit, which includes Kosovo-related direct expenditures now estimated at about 2% of GDP, should reach some 11% of GDP (to be compared with a May 1999 revised target of 13.8% and a 10.4% outturn in 1998), while the domestically financed budget deficit should be close to 5%, slightly lower than the 5.5% target included in the IMF programme. Still, it is to be noted that, even if the deficit target was reached, the revenue and expenditure targets were not. The balance of payments situation is stronger than expected. The current account deficit, which was expected to sharply increase as a consequence of the Kosovo crisis, was finally limited to 8.5% of GDP (6% in 1998). External reserves reached USD 475 million, equivalent to over 4 months of imports.

3. Structural reforms

In the area of financial sector reform, progress in privatisation of the two remaining state-owned banks was mitigated. Indeed, if privatisation of the National Commercial Bank is expected before end-June 2000, the law aiming at privatising the Savings Bank has still to be adopted by Parliament. The legislative framework has been improved with the adoption by Parliament of the new Law on Secured Transactions, the submission to Parliament of a new draft law on money laundering and improvements in the enforcement of the recently adopted Companies and Bankruptcy laws. Significant progress has also been made in the area of banking supervision, while the liquidation of the pyramid schemes is close to its end.

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2 In November 1999, the Enhanced Structural Adjustment Facility (ESAF) - the IMF concessional facility for low-income countries - was renamed the Poverty Reduction and Growth Facility (PRGF) and its purposes were redefined: the PRGF-supported programmes will be based on country-owned poverty reduction strategies and will be consistent with a comprehensive framework for macroeconomic, structural and social policies to foster growth and reduce poverty.

3 The impact on the 1999 budget has now been estimated at some USD 85 million, equivalent to about 2% of GDP. Most of these expenditures have been financed by external donors, including the EU, in the form of grants or loans with largely concessional terms.

Some delays appeared in the privatisation programme. The sale or liquidation of the remaining state-owned small and medium-sized enterprises was not achieved and became a prior action for completion of IMF programme mid-term review expected in January 2000. Privatisation of enterprises in strategic sectors has also been delayed but the Government has committed itself to make significant progress in 2000.

The adoption by Parliament in 1999 of both the revised Civil Service Law and the new Customs Code has constituted very important steps in the reform of the public administration and the customs administration, respectively. Significant progress was also registered in the strengthening of tax collection: 10,000 companies with a turn-over of more than 35,000 EUR have been defined as big taxpayers and charged with a 30% tax on net profit, while 27,000 taxpayers representing SME's were charged with a moderate lump sum tax. Private income tax is calculated according to a progressive rate system ranging from 5 to 30%. Also the law on fiscal procedures, aiming at regulating relations between taxpayers and tax authorities, has been adopted by Parliament in December 1999. Some progress was registered in reform of the judiciary.

4. Implementation of the exceptional financial assistance

In the context of the IMF 3-year ESAF-supported programme, approved in May 1998, the Council decided on 22 April 1999 to provide to Albania a macro-financial assistance facility of up to EUR 20 million. Contrary to the previous two macro-financial assistance operations (EUR 70 million grant decided in 1992 and EUR 35 million grant decided in 1994), this assistance would take the form of a loan.

In December 1999, a first Commission staff mission was carried out with a view to negotiate a Memorandum of Understanding (MoU), setting out the conditions for the release of the first and second tranches of the assistance, consistent economic policy conditionality agreed with the IMF and the World Bank. At that point, however, the Albanian authorities were not ready to commit on a specific set of policy conditions. In Spring 2000, however, the authorities have indicated their readiness to negotiate the conditionality to be attached to the Community loan.

On 14 June 1999, the IMF approved the second annual PRGF arrangement covering the period April 1999-March 2000 and agreed to augment Albania's access of SDR 35.3 million for the programme under the ESAF by SDR 9.74 million. The mid-term review of this second year arrangement is expected to be completed in January 2000. In the framework of the Country Assistance Strategy for Albania for the period 1998-2001, the World Bank approved in June 1999 a USD 20 million Structural Adjustment Credit (SAC), which was increased to USD 45 million in the context of the Kosovo crisis.

IV. ARMENIA

1. Executive summary

Armenia's economy expanded 3% only in 1999, as the negative impact of the Russian crisis appeared stronger than anticipated. End year annual inflation was only 2%. The large budget and current account deficits remained sources of concern and Armenia will continue to rely on international assistance for financing the gaps.

In December 1998, the IMF Board approved a third annual arrangement under the three year Enhanced Structural Adjustment Facility (ESAF) of some USD 150 million facility adopted in February 1996 in favour of Armenia. On 8 October 1999, the IMF completed the midterm review under this third annual arrangement.

Under the exceptional financial assistance adopted on 17 November 1997[4], the Community disbursed a second grant tranche of EUR 4 million.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices liberalised and consumer subsidies sharply reduced. Prices of very few items subject to regulation.
2. Trade liberalisation Liberal trade policy. Simple and relatively open import regime with a low tariff structure. No quantitative restrictions. Accession to the WTO expected in 2000.
3. Exchange regime Floating exchange rate. Limited official intervention. Very liberal exchange system. Access to foreign exchange unrestricted. Interbank market dominant for foreign exchange.
4. Foreign direct investment Liberal policy towards foreign direct investment, notably absence of restrictions on repatriation of profits and capital.
5. Monetary policy In the first half of 1999, excessive intervention in the foreign exchange market and attempts to control the interest rate in the securities market. Afterwards, tightening of the financial policies and increased reliance on market forces.
6. Public finances Budgetary revenue (including grants) estimated at around 22.5% of GDP; total expenditure estimated at about 28.7% of GDP.
7. Privatisation and enterprise restructuring The privatisation process continued (chemical plant, precious stone processing company, brandy producing company, hotel, bakeries and mills…), albeit at a rather slow pace, both for medium and large sized enterprises. While there were some efficiency gains in the energy sector, the Government was in the process of privatising the power distribution companies, which will help to solve the cash collection problems.
8. Financial sector reform The banking system consists of the Central Bank of Armenia and 31 commercial banks, of which three foreign owned. The Government sold its residual shares in Ardshinbank, while the privatisation of the Savings Bank has been postponed because of its high political sensitivity. Increased penalties for failure to adhere to reserve requirements and automatic penalties for violation of prudential regulations. All banks adhere to International Accounting Standards.

2. Macroeconomic performance

GDP rose by 7.2% in 1998 and by 3% in 1999. GDP was boosted by a substantial increase in fixed capital investment and a resulting rise (45%) in construction. However, growth depended substantially on foreign financing, in particular from the World Bank and IMF, allowing Armenia to run large current account and budget deficits.

The Government's return to tighter fiscal and monetary policies brought inflation down to -1.3% in 1998. Inflation was not expected to exceed 2% for 1999 as a whole.

In the first seven months of 1999, the state budget showed a deficit equivalent to 4.5% of GDP, compared with 1.4% in the corresponding period of 1998 and 4.7% for 1998 as a whole.

[4] Council Decision 97/787/EC – OJ L 322 of 25.11.1997.

Central government budget revenue in the first six months of 1999 was only 87.3% of the projected level, while accumulated tax arrears grew alarmingly. However, the Government adopted a package of austerity measures comprising higher taxes on tobacco products, petroleum, and cut in non-core expenditure in the health and education sectors. As a result, a steady improvement in tax collection was registered and budget revenue targets for 1999 were expected to be met. This improvement enabled the Government to resume payments of family benefits in October.

In 1998, Armenia's current account deficit (excluding official transfers) was equivalent to 27.3% of GDP, as a result of the commercial blockade imposed on the country, the financial crisis in Russia and the relative strength of the Dram. Imports were more than triple the value of exports. The trade deficit, however, shrank by 9.2% to 28% of GDP in January-June 1999, as a result of a steeper drop in imports relative to exports. Inflows from expatriated nationals, international financial institutions and bilateral donors (in particular the US) as well as substantial amounts of foreign direct investment (about USD 100 million) have prevented these imbalances from destabilising Armenia's economy. These deficits are, however, clearly unsustainable in the long run. In 1999, the country's stock of external debt was growing and expected to be around 47% of GDP (USD 870 million) at the end of the year. Gross foreign exchange reserves, bolstered by privatisation receipts, were still comfortable with an imports coverage ratio of around 3.7 months. After a slight depreciation in the wake of the Russian crisis, the currency appreciated somewhat in recent months to a level of around Dram 519/USD at the end of December 1999.

3. Structural reforms

The speed and continuity of the structural reform process weakened in the first half of 1999, in particular in privatising state owned enterprises and in rehabilitating the energy sector as well as in implementing reforms and enforcing prudential regulations in the banking sector. Nevertheless, for 1999 as a whole, the authorities maintained a liberal trade and exchange system amidst severe difficulties (blockade, Russian crisis, political crisis,...) and pursued resolutely a WTO membership. The Government reported successes in reducing the technical losses and energy theft and in raising electricity tariffs in the energy sector, while progress was made in rehabilitating the sector in the second half of the year. With regard to the banking sector, the Ardshinbank was fully privatized. The authorities are expected to initiate the privatisation/restructuring of the Savings Bank with the assistance of the World Bank in the coming months. The Civil Service reform strategy will be supported by the World Bank SAC 4 programme in 2000.

The IMF expressed concern about the policy setbacks and a loss of momentum in the implementation of the structural reforms in late 1998 and the first half of 1999, in particular in implementing the financial rehabilitation plan for the energy sector. It welcomed recent corrective actions by the new Government, in particular the authorities' decision to undertake strong corrective fiscal measures and efforts to restore the momentum of privatisation. It also welcomed the authorities' commitment to strengthening monetary control and the enforcement of the banking system's prudential and regulatory requirements. The IMF finally stressed the importance of developing and adopting a comprehensive external debt strategy for the medium term, including using privatisation proceeds to improve the external debt profile.

The World Bank postponed to 2000 the disbursement of a fourth tranche under its SAC 3 (Structural Adjustment Credit) programme because of Armenia's low tariff collection level in the irrigation sector, because of delays in proceeding with audits of the power sector companies and of slow progress in privatising the electricity distribution network. The World Bank is considering the possibility of granting a SAC 4 programme to Armenia in 2000. This programme is expected to focus on reforming the State sector and promoting the private sector development. It would also include elements aimed at social welfare, education and health.

4. Implementation of the exceptional financial assistance

Under the EUR 1250 million Community trade credit facility made available to the NIS in 1992, Armenia benefited from some EUR 58 million in the form of loans. However, owing to difficult political, economic and financial conditions, the country was unable to properly service its external financial obligations including those towards the Community. In order to facilitate the settlement of this debt problem, the Council adopted in November 1997 a Commission proposal to provide Armenia (and Georgia) with exceptional financial assistance in the form of a combination of loans and straight grants.

The implementation of this assistance is subject to Armenia remaining on track with its IMF programme and proceeding with structural reforms in accordance with successive Memoranda of Understanding to be agreed with the Commission. The country is also required to proceed with regular principal repayments, so as to reduce the financial exposure of the Community in this high risk region as fast as possible.

In December 1998, with Armenia having fully settled its arrears towards the Community (EUR 51 million) and its IMF programme being back on track, the Commission disbursed the first tranche of the exceptional financial assistance (EUR 28 million in loan and EUR 8 million in grant). The second tranche (EUR 4 million of grant) under this assistance was disbursed in early December 1999. This tranche was subject to a EUR 5 million reduction by Armenia in its outstanding financial obligations towards the Community (EUR 28 million) and to the country implementing forcefully its macro-economic programme supported by the IMF three year ESAF.

In July 1999, an agreement in principle has been reached between the Armenian authorities and the Commission Services on the structural conditionality attached to the disbursement of the third tranche of the assistance scheduled for 2000. However, the Armenian authorities have failed to ratify this agreement. A new negotiating mission might be necessary in the coming months to elaborate a new Supplemental Memorandum of Understanding, in parallel with the future World Bank SAC 4 programme.

V. BOSNIA AND HERZEGOVINA

1. Executive summary

Under the IMF-supported Stand-By Arrangement, which was concluded in May 1998, macroeconomic stability has been maintained in Bosnia and Herzegovina. GDP growth for 1999, however, is estimated to have decelerated from a projected 16% to 10% largely as a result of the adverse impact of the Kosovo crisis. Progress has been made in improving the country-wide economic policy framework. In particular, significant progress has been made with regard to key economic measures: (a) a common currency, the Konvertible Marka, has been adopted which has brought monetary stability under the operations of the Currency Board Arrangement; (b) a common State budget ensuring transfers from the entities is in place; (c) a new uniform Customs Code, consistent with EU standards came into effect on 1st of January 1999 and in May 1999 the Entities eliminated in practice the preferential trading agreements with neighbouring countries. Finally, there are agreements between Bosnia and Herzegovina and its bilateral creditors within the framework of the Paris Club and London Club. The IMF thus completed its first review on June 28, 1999 and decided to extend the Stand-By Arrangement.

As far as structural reforms are concerned, progress has been made in implementation by the entities of Bosnia and Herzegovina of reforms of the payments system and small-scale enterprise privatisation. However, progress has been slower in some other areas such as banking sector reform and privatisation, large scale enterprise privatisation and tax and customs reforms. Key to continued progress in the areas of economic reform lies in strengthened inter-entity co-operation in order to ensure a country-wide process of self-sustained growth as donor assistance is expected to be gradually phased out in the coming years.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices have been liberalised with the exception of a few selected public services
2. Trade liberalisation Both Entities have effectively dismantled the preferential trading arrangements (in May 1999) with Croatia and the FRY. A uniform customs code is in place since January 1999 with a common tariff regime comprising four product categories, in the range of 0-15%. BiH is yet not member of the WTO.
3. Exchange regime The common currency, KM, is pegged to the DM at parity under the currency board arrangement since June 1998.
4. Foreign direct investment Highly unfavourable environment resulting from perceived high risks and intransparent policies. Entities still need to fully implement the State Law on FDI.
5. Monetary policy The Central Bank of BiH is responsible for operating the Currency Board Arrangement. The CBBH and other banks are prohibited from lending money to the government.
6. Public finances Entities were forced to compress budgets by some 30% in 1999 due to weak revenue performance. Further reforms are needed, in particular tax harmonisation between the Entities in order to ensure an efficient and transparent tax system.
7. Privatisation and enterprise restructuring While the small-scale privatisation program has been a success in the Federation, it has yet to be initiated in the RS. Large scale privatisation has not been seriously considered as yet.
8. Financial sector reform Banking sector reform has progressed in both Entities with the introduction of prudential regulations. Privatisation of a couple of the few solvent Banks is expected shortly. Payments system reforms are also being implemented with a view to terminate the monopoly of the Payments Bureaux by end-2000.

The Council decided a macro-financial assistance of up to EUR 60 million in May 1999.

2. Macroeconomic performance

During the period 1996-98, Bosnia and Herzegovina (BiH) has managed to sustain an average growth rate of about 35%. These high growth rates have been achieved from very low initial GDP levels and in the context of the externally financed USD 5.1 billion Economic Recovery and Reconstruction Programme (1996-1999) for BiH supported by the international donor community. For 1999, real GDP growth is estimated to have decelerated to 10% compared to a pre-crisis projection of 16%, largely as a result of the impact of the Kosovo crisis on trade and domestic investment earlier in the year. 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 german mark (euro) in the context of the CBA. Unemployment remains high in both Entities, hovering around a level of 40%. In 1999, both Entities were forced to rebalance their budgets and compress expenditures by some 30%, notably as a result of the adverse effects of the Kosovo crisis in the first half of 1999.

The current account continues to show a very large deficit (of about 22% of GDP in 1999), mainly financed by donor assistance. Gross official foreign exchange reserves stood at around DEM 877 million in end-1999 – three times as high as in the beginning of the year - having recorded a spectacular 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 (about 70% of GDP at end-1998), 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.

3. Structural reforms

In the fiscal area, regular transfers from the entity budgets to the state budgets have been adhered to although frequent delays have caused problems in promptly servicing BiH's external debt. It is important that both Entities balance their budgets limiting expenditure to available resources. Furthermore, fiscal activities hitherto treated as off-budget items should be included in the draft budgets. On the positive front, the draft budget for fiscal year 2000 foresees a reduction in military expenditure. The legal framework for Entity-level Supreme Audit Institutions has been created. Although the ground work for establishing Treasury systems at the State and Entity levels has been laid, there is now need to ensure the proper functioning of these institutions. The Federation government has adopted the legislative changes required for the financial and administrative merger of the two existing pension funds, and it now needs to be passed in the parliament.

Despite numerous difficulties, including popular misgivings about the common BiH currency, the KM has increasingly won confidence. In the Republika Srpska, the acceptance of the KM has gained rapidly over the last half year and it is estimated that the KM is used for more than 70 per cent of government payments and revenues. The Federation finally passed a law in October which prohibits the use of the DM and the Kuna for non-cash payments through the payments bureaux (ZPP and SAP). All taxes and wages are now to be paid in KM.

Overall, good progress has been made in the reform of the payment system and in the preparations for eliminating the Payment Bureau by December 2000, the deadline agreed with donors. The Federation adopted an amended law in September that abolishes the monopoly position of the Payment Bureaux over domestic payment transactions, and provides a legal basis for a governing board that will guarantee transparency in the transformation process. Subsequently, governing boards have been formed in both Entities charged with reform of the payments systems

The regulatory framework for banking sector reform has been put in place by and large and the privatisation process is moving forward with the anticipated liquidation of several insolvent banks to take place in the near term. The Federation has adopted a plan for the Federation Investment Bank (consistent with the WB prescription) and the privatisation is expected early next year. The Republika Srpska (RS) passed the Law on Commercial Banks in July 1999. In the RS, privatisation plans are expected to be announced soon for at least two of the larger state banks. While expected to become functional soon in the Federation, in the RS, the government needs to establish an autonomous and self-financing deposit insurance scheme before privatisation can be started in earnest.

In the area of privatisation, the Federation began selling off small and medium sized enterprises in May 1999, and the process was expected to be completed in end 1999. All cantons but Mostar have held open auctions. In the case of the RS progress has been slower. Only 9 of the 23 enterprises announced for sale since July have been sold due to limited interest. In the RS, small scale privatisation has not taken off mainly because of lack of interest (in the RS, citizens eligible for taking part in the privatisation are supposed to register themselves as opposed to in the Federation, where citizens receive vouchers automatically) and/or because of technical matters (companies failing to submit audits and opening balance sheets to the RS Privatisation Agency).

On 8 June 1999, both Entities reached an agreement that would harmonise excise rates for seven commodity groups across Entities and mandate the unification of all excise tax rates on imported and domestic goods by 15 July 1999. However, both Entities still need to ensure the full implementation of this agreement. A formal agreement on co-operation between the entities on tax administration is also still missing. The BiH authorities need to undertake further steps to harmonise tax systems between the entities, and to bring the legal framework for commercial activities in line with EU standards. The Entities have drafted new regulations concerning sub-laws on customs powers, penalties and offences with the assistance of CAFAO. The drafts have now been finalised, and have been submitted for a legal opinion. Finally, progress with regard to the elimination of parallel structures in the customs and tax services of the Federation, as assessed by the CAFAO program, has been slow.

4. Implementation of the exceptional financial assistance

The Council adopted on 10 May 1999, a decision providing for exceptional macro-financial assistance to Bosnia and Herzegovina. This assistance amounts to a maximum of EUR 60 million, comprising a significant grant element of up to EUR 40 million, and a long-term loan element of up to EUR 20 million. The effective implementation of the assistance has been conditional upon the full clearance by BiH of its outstanding due obligations to the Community and the EIB. Following the fulfilment of this condition, and other prior actions, the Community disbursed a first tranche totalling EUR 25 million in December, comprising a EUR 15 million grant element, and a EUR 10 million loan element. The disbursement of the second tranche is linked to satisfactory progress under the current IMF programme as well as progress with regard to a set of specific Community conditions attached to the implementation of the assistance.

In May 1998, the IMF approved a SBA (USD 81 million). In June 1999, the IMF decided to augment its assistance by USD 23 million as a result of the adverse impact of the Kosovo crisis. The World Bank runs two policy based aid programmes in BiH in support of public finance reform and enterprise and banking sector privatisation. These are financially supported by two IDA credits amounting to a total of USD 134 million on a concessional basis, including an augmentation in the amount of USD 28 million to take into account the adverse impact of the Kosovo crisis.

VI. BULGARIA

1. Executive summary

The economic stabilisation of Bulgaria was confirmed in 1999, despite a difficult external environment. The year was marked by the Kosovo crisis which had both an immediate and a medium term impact on trade flows in the region. While the crisis contributed to prolong the mini-recession of the winter 1998-1999, other factors were also to blame. In particular, the economic restructuring of the manufacturing sector which lead to a decrease in output and a rise in unemployment rates. The second half of 1999 was marked by an increase in economic activity, including renewed interest from foreign investors. A main event was the invitation to open accession negotiations confirmed by the Helsinki Summit. This should provide further incentive for investments in the country.

The political stability of Bulgaria was confirmed by the local elections which were interpreted as a renewed mandate to pursue the reform policy supported by International Financial Institutions and the EU. As a consequence of its determination to pursue reform, Bulgaria stayed on track with its commitments under the medium term economic programme agreed with IMF. Bulgaria is now halfway through the programme which is a condition for using the Extended Fund Facility of in total SDR 627.62 million (USD 858 million/ EUR 820 million).

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation The share of administrated prices in the CPI basket stood at 17.4% in 1999. The prices of energy products and in particularly heating are progressively liberalised.
2. Trade liberalisation The regime is largely liberalised.
3. Exchange regime Lev pegged to the euro since January 1999, under a currency board arrangement. Denominated 5 July 1999 by removing three zeros so 1 Lev now equals one german mark.
4. Foreign direct investment Foreign investors can freely repatriate profits and proceeds.
5. Monetary policy Central bank responsible for operating the currency board, which have remained credible and supported by high reserves.
6. Public finances The fiscal stance has consistently been tighter than programmed and tax collection has improved. IMF imposed discipline to balance upwards pressure on expenditure on the level of public wages.
7. Privatisation and enterprise restructuring From the beginning of the process in 1992 to October 1999, about 40% of long-term assets have been privatised. 1998 and 1999 was marked by a certain slowdown in the pace of privatisation but sustained progress was achieved.
8. Financial sector reform The financial position of the banking sector has improved substantially since the crisis in 1996. Main problems are reluctance to lend to a still weak private sector and delayed privatisation.

The Council on 8 November 1999 decided on a Macro-financial assistance loan of EUR 100 million in favour of Bulgaria – the fourth of its kind. A first tranche of EUR 40 million was disbursed in December.

Also the World Bank has released a new adjustment loan during 1999. EU assistance will increase from year 2000 onwards as thepre-accession instruments ISPA and SAPARD are put in place. Total grant assistance is expected to reach a yearly 256 in the 2000-2006 period.

2. Macroeconomic performance

The recovery of economic activity observed in early 1998 faded towards the end of the same year. Together with the Kosovo crisis this depressed trade and the investment climate in the first half of 1999. Weaker European demand and the crisis in Russia played an important role for the slowdown, but the ongoing reform-driven restructuring of the industrial sector further reduced industrial output. Sales in the manufacturing sector declined by 12.8% on average in the first eight months of 1999 compared with the same period in 1998, with a particularly strong decline in activity in sectors such as vehicles and chemicals. All these factors contributed to weak GDP growth in the first half of 1999. However, recovery gained considerable pace in the second half of 1999 and latest forecasts points to GDP growth of around 2.5% for the whole year, although industrial production fell 5%.

Unemployment increased in 1999, as a result of large-scale redundancies following the restructuring or liquidation of public sector enterprises. A renewed increase in employment is expected as soon as the privatisation of industries and the development of small and medium-sized enterprises improve profitability in the sector.

In 1998 and 1999, a dramatic reduction of inflation was achieved thanks to the stabilising effect of the currency board and the fall in international commodity prices. The end-year inflation rate was 1% in 1998, far below the 16% forecast underlying the government's budget. Inflation has since remained low despite increases in administered prices which accounted for temporary surges in inflation in January and July 1999. The year-on-year inflation rate by end 1999 was 6.2%. Further increases in international and domestic energy prices and tariff increases for utilities will add upwards pressure on the CPI over the winter.

Total exports declined by more than 10% in 1999. The first signs of recovery emerged mid-1999 but the disruption of traffic through the Federal Republic of Yugoslavia and the blockage of the Danube river continue to have a negative impact on trade. The composition of exports in value terms is gradually changing: the share of raw materials decreases while the share of consumer goods including food increases.

Imports remained in 1999 slightly above the previous year's level due to a strong demand for consumer goods and capital equipment. Combined with falling exports this had a negative impact on the current account, where a deficit of around 5.2% of GDP is foreseen for 1999. For the coming years, deficit levels are expected to remain the same as a result of real wage increases and the need for capital equipment in the restructuring industries. The development of international energy prices will have an important impact too.

A surplus on the capital account contributes to the financing of the current account deficit. Inflows of foreign direct investment amounted to EUR 358 million in 1998 or about three quarters of the amount recorded in 1997. The latest figures indicate a substantial increase to over EUR 600 million in 1999. Cumulative FDI inflows are still low on a per capita basis in comparison with other transition economies. Official external sources including IMF support and macro-financial assistance from the European Union helps to reinforce Bulgaria's external financing capacity

In 1998, the fiscal performance was better than expected and the consolidated budget recorded a surplus of 1.1% of GDP. The 1999 budget originally provided for an overall deficit of 2.8% of GDP. However, a higher-than-programmed surplus was recorded in the first half of the year and the deficit for 1999 will settle around 0.9% of GDP.

The operation of the currency board arrangement has been satisfactory. In 1998, large disbursements from official creditors contributed to a further rise in the reserves of the central bank. They stood at EUR 2.7 billion at the end of 1998, which is equivalent to 6 months of imports of goods and services. By the end of 1999 they corresponded to 6.4 months of imports and are adequate to cover the central bank’s liabilities under the currency board. On 1 January 1999, the euro replaced the german mark as peg currency. The lev was re-denominated on 5 July 1999 removing three zeros; one lev now equals one german mark. The base interest rate which fluctuated between 5.2% and 6.2% throughout 1998 was reduced to 5% early in 1999 and to 4.42% in January 2000.

3. Structural reforms

While the privatisation of state-owned enterprises in terms of the number of units sold has been progressing in both 1998 and 1999, there was a slowdown in terms of the total value of the assets sold. The privatisation process is expected to come to an end around 2002 and many of the most valuable enterprises have been – or will soon be – sold. The importance in terms of budget revenue will decrease accordingly.

Measures have been taken to strengthen financial discipline in the remaining state-owned enterprises. To obtain subsidies during a transition period the enterprises were obliged to present financial recovery plans on how to eliminate losses and enable subsidy-free operation from 2002. In addition, 154 state owned enterprises have been singled out for financial monitoring to avoid that new arrears are building up.

Substantial progress has been achieved on the privatisation of banks. Three banks have been privatised and the three remaining state banks are expected to follow in first half of 2000. Preparations to privatise the State Savings Bank have been launched. At the end of 1998 all banks met the minimum capital adequacy ratio of 10%. In fact, the system-wide average ratio reached 41% in June 1999. This is an illustration of the risk-averse lending policy which may hamper the ability to finance the restructuring efforts.

While the government attaches importance to the development of the stock market, trade in equities remains very low and the market is as a consequence not liquid. As the level of economic development increases, this may become a serious impediment in attracting private capital.

4. Implementation of macro-financial assistance

Discussions on the present macro-financial assistance to Bulgaria (the fourth since 1991[5]) were launched in late 1998. The Kosovo conflict's impact on the current account led to an increase in the financing gap and the Commission proposal in July 1999 a EUR 100 million macro-financial assistance loan. The Council adopted this proposal on 8 November 1999 (Decision 1999/731/EC). The Commission shortly after finalised the negotiation of the conditions attached to the loan, which consists of two tranches. Disbursement of the first tranche was made conditional on a successful second review of the IMF medium term program. As this was confirmed late November it was possible to disburse a first instalment of EUR 40 million in December 1999. The second instalment is conditional on Bulgaria's performance in relation to a number of structural reform measures. The loan conditions are consistent with the conditionality framework of the Medium Term Programme (IMF) and a World Bank's structural adjustment loan (FESAL). They emphasise, however, reforms that are of particular importance to the accession process. Provided that Bulgaria stay on track with its reform program the Commission intends to proceed with the release of the second tranche in the third quarter of 2000.

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[5] Previous macro-financial assistance loans have been approved by the Council in:
June 1991 (EUR 290 million disbursed in August 1991 and March 1992),
October 1992 (EUR 110 million disbursed in December 1994 and August 1996), and
July 1997 (EUR 250 million disbursed in February 1998 and December 1998).

VII. THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

1. Executive summary

Since the creation of the former Yugoslav Republic of Macedonia (fYROM) in 1992 the country initially suffered a significant fall in GDP followed by several years of steady if modest GDP growth. Thus, by 1999 it is estimated that the level of GDP is still well below that recorded by the time of the establishment of the independent republic.

1999 was marked by the Kosovo crisis, which gave rise to a massive refugee influx, a disruption of trade patterns and a fall in FDI. The reconstruction of Kosovo is now turning into a major source of economic growth in fYROM. Since 1992, fYROM has undertaken an encouraging economic reform programme. In 1999, however, the programme was not implemented as planned and in particular major state owned loss-making enterprises were not restructured or sold as planned. Accordingly, the IMF programme is now off track. Negotiations with the IMF are ongoing and it is expected that the new government will recreate the momentum in the reform process.

The Kosovo crisis gave rise to a large increase in refugee related government expenditure. The international community, including the European Union, reacted promptly and has undertaken to provide important amounts of macro-financial support for fYROM.

The Council decided a macro-financial assistance operation of up to EUR 80 million in November 1999.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Price liberalisation has been essentially completed. Price controls exist for only very few products.
2. Trade liberalisation A small number of tariff and non-tariff barriers remain in place. Most temporary safeguard measures introduced in the wake of the Kosovo conflict have been removed again, but important duties remains for sugar imports. The average tariff rate is 15%. Revised customs code approved by government.
3. Exchange regime From early 1994, de facto peg of the denar to the Euro; since the devaluation of July 1997 it stands at some 60.5 denar for one Euro.
4. Foreign direct investment The environment for FDI has improved. However, approval from the government is still requested to carry out some types of foreign direct investments, while the absence of a properly functioning market for land are also hampering the FDI inflows. FDI inflows increased substantially in 1998 as the authorities have been more open to FDI. Overall, the capital account remains largely regulated.
5. Monetary policy Monetary policy essentially based on the exchange rate anchor.
6. Public finances Tight fiscal policies continued in 1999, (although public expenditure increased strongly as a result of refugee related expenditure in 1999). A deficit of some 3-4% of GDP is expected.
7. Privatisation and enterprise restructuring Privatisation programme begun in 1993; some 1200 out of 1216 enterprises have finalised privatisation though only some have been restructured. Private sector accounts for more than two-thirds of GDP. Slow progress in privatisation and restructuring of agro-industrial conglomerates.
8. Financial sector reform Two-tier banking system. There are 20 banks, one branch of a foreign bank and 19 savings banks. The sector is dominated by Stopanska Banka, which has been restructured and is now being sold to the National Bank of Greece. Banking supervision through National Bank. Lending to 22 largest debtor enterprises closely monitored.

2. Macroeconomic performance

In early 1999 expectations regarding economic growth were gloomy: the Kosovo crisis was having a marked negative effect on economic activity in fYROM due to disruption of trade, fall-out of FDI and the massive influx of refugees.

However, the end of the Kosovo conflict and the quick return of most of the refugees was followed by a pickup in economic activity in fYROM, as the international relief efforts in Kosovo boosted exports and as the presence of foreign relief and military personnel in the area supported demand in fYROM. Therefore, in spite of the fall of output in spring, it is now expected that real GDP growth could be around 2.5% for the year 1999.

As for the current account deficit, it also turned out better than feared early in the year at 4.0% of GDP. As noted above, a pickup in exports linked to the reconstruction of Kosovo were instrumental in this. Still, for the year as a whole, exports are expected to have declined by just over 1% while imports may have fallen by over 7%.

Government finances have been developing broadly satisfactory. Since 1995, the government deficit has been between 0 and 2% of GDP each year. A deficit of 1.5% is likely to materialise for 1999. The refugees from Kosovo gave rise to a marked increase in public expenditure on accommodation, food, health, etc. However, an important share of this extra expenditure was covered by emergency budgetary assistance from bilateral donors and international organisations, including the European Community.

The unemployment rate remained at a very high level even if it fell slightly, compared with 1998. Thus, a labour force survey conducted in spring 1999 showed an unemployment rate of 32.4%, slightly lower than the registered average unemployment rate in 1998 of around 36%. Fears of an increased number of unemployed persons over the short term appears to slow down the necessary economic restructuring of large state-owned loss-making companies, thereby continuing a misallocation of resources in the economy (see below).

3. Structural reform

In many areas structural reform is quite advanced in fYROM. Price liberalisation and institution building are areas in which important progress has been made at an early stage of the economic transition process. Also, trade liberalisation is advanced, even if the Kosovo crisis triggered the introduction of temporary safeguard measures and an import license system in 1999. After the crisis, most measures were abolished, but a number of safeguard measures remain in place and specific duties for sugar imports have been introduced.

With respect to privatisation of large state-owned and often loss-making companies (most often agro-industrial conglomerates), progress in the past two years has been unsatisfactory. As a direct result of the reluctance on the part of the government to conduct the necessary restructuring through sale, closing, privatisation or a combination hereof the ESAF programme agreed with the IMF is now off track. This three-year programme will expire in April 2000 and negotiations between the Fund and the newly formed government are currently ongoing with a view to establishing a new IMF programme. It is to be expected that the negotiations will involve conditionality regarding at least some of the 12 state owned loss-making enterprises, which should have been closed by now.

The continuously loss-making companies are likely to constitute a constant capital drain on the economy, thus hampering more innovative and efficient companies' access to the necessary capital via the domestic capital market. A constant misallocation of resources is the result, reducing both economic output and employment.

Earlier, an attempt to privatise the largest bank (the Stopanska Banka) had failed. Currently, however, it appears that the sale of this bank will go through in 2000. If successfully completed, this could constitute an important step towards the creation of a functioning, market based financial sector in fYROM.

4. Implementation of macro-financial assistance

As a direct result of the Kosovo conflict and the high resulting refugee related expenditure, the European Commission and the World Bank organised a joint G-24/Consultative Group meeting on 5 May. At the meeting donors pledged close to USD 250 million in total. The Community pledged up to EUR 25 million of exceptional budgetary support to help the country cope with the costs related to the inflow of refugees and indicated its willingness to consider further exceptional macro-financial assistance. The first tranche of the assistance of EUR 12.2 million was disbursed on 16 June.

On 8 November the Council decided to provide up to EUR 80 million of supplementary macro-financial assistance to fYROM. Exceptionally, in view of the fragile economic situation in fYROM, in particular with regard to foreign debt levels (around 40% of GDP), the Council decided to provide part of the macro-financial assistance (up to EUR 30 million) in the form of grants.

One essential condition for the implementation of this supplementary macro-financial assistance is the establishment of a new IMF programme. As mentioned, negotiations are ongoing and agreement on a new programme is expected to be reached by mid-2000.

In August 1998, the World Bank endorsed a new Country Assistance Strategy (CAS) for FYROM from mid-1998 to mid-2001, which supports the government's national development strategy. This CAS outlines a USD 200 million programme of new lending to facilitate reforms and economic development and in order to reduce unemployment and poverty. However, the lending programme is currently stalled due to fYROM’s non-compliance with the attached conditionality. To date, the World Bank has made four adjustment operations totalling USD 254 million.

VIII. GEORGIA

1. Executive summary

Georgia's economy was expected to expand by 2-3% in 1999. While the negative impact of the Russian crisis seemed to have been partly overcome, low internal demand, resulting from social arrears linked to fiscal shortcomings, continued to impede economic growth. Provided a new three year agreement is signed with the IMF, growth is expected to accelerate in 2000.

On 28 July 1998, the IMF Board approved a third annual arrangement under the ESAF programme in favour of Georgia. In November 1998, January and May 1999, IMF missions were not in a position to favourably conclude the mid-term review under this third ESAF arrangement, as a result of low revenue collection rates. Finally, the IMF released its next ESAF tranche in July 1999. A new three year agreement with the IMF is being discussed. However, a favourable outcome was not expected before April 2000.

Under the exceptional financial assistance adopted on 17 November 1997[6], the Community disbursed a second grant tranche of EUR 9 million in September 1999. This disbursement was subject to a EUR 10 million reduction by Georgia in its outstanding financial obligations towards the Community (EUR 110 million) and to the implementation of the macro-economic programme supported by the IMF.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices have been liberalised.
2. Trade liberalisation Liberal international trade policy. Most import and export restrictions have been eliminated. Georgia's Parliament is expected to ratify the WTO Protocol Accession soon.
3. Exchange regime The lari is not subject to exchange restrictions. Auctions at the Tiblisi Interbank Currency Exchange (TICEX).
4. Foreign direct investment Adequate overall legislation. Unlimited repatriation of capital and profits and no limitations on holding foreign currency bank accounts. Foreign investors are not allowed to own agricultural land, only to lease it. However, they are allowed to buy buildings and to lease land in the same way as domestic residents.
5. Monetary policy Appropriate. However, indirect monetary instruments limited to National Bank of Georgia (NBG) interventions in the inter-bank credit auctions and to the use of banks' reserve requirements. After a suspension in the wake of the Russian crisis, issuance of Treasury bills resumed in small amounts in August 1999.
6. Public finances Budgetary revenue (excluding grants) estimated at 14.7% of GDP; expenditure estimated at 21.5% of GDP.
7. Privatisation and enterprise restructuring In the energy sector, privatisation has made good progress. Progress has also been registered in billing, metering, tariff increases and tariff collection. Privatisation of the telecommunications sector is going ahead.
8. Financial sector reform NBG is tightening prudential regulations and strengthening banking supervision. However, most of the 37 commercial banks of the country are still small and undercapitalised, while level of bank deposit is low and level of dollarisation high.

6 Council Decision 97/787/EC – OJ L 322 of 25.11.1997.

2. Macroeconomic performance[7]

Georgia's GDP rose by just 2.9% in 1998, far below projections of 11%, and slowed further to 1.7% in the first half of 1999. A growth of 3% was reached for 1999 as a whole. The moderate growth largely reflects a collapse in exports to Russia, Ukraine and Moldova in the wake of the Russian rouble's devaluation. The budget crisis' impact on domestic demand compounded this situation. The rapid depreciation of the Lari associated with the National Bank's decision to cease foreign exchange interventions induced an inflation increase in December 1998. However, thanks to a relatively stringent monetary policy, inflation tempered from April 1999 and consumer prices grew only 9.6% during the first eleven months of 1999. Annual inflation (Dec/Dec) was expected to reach a maximum of 11% in 1999.

The budget deficit (on a commitment basis) represented 6.5% of GDP in 1998. It was likely to remain high, even to grow up, due to the economic growth deceleration, weak tax collection inadequate spending priorities, financial problems of many large enterprises and high cost of debt servicing. It was finally equivalent to 6.7% of GDP for 1999 as a whole. In the first half of 1999, although the State Tax Service collected more than was planned, shortfalls were registered in several areas: excise duties and VAT on domestic goods, corporate income tax (in real terms), taxes for Special State Funds, payments of tax arrears. In 1999, expenditure arrears, in particular social arrears, built up to a level of 4.2% of GDP, instead of being eliminated as planned.

In 1998, largely as a result of the collapse of exports to Russia during the final quarter, the current account deficit (excluding official transfers) surged to a level of 17.5% of GDP. It was however smaller in 1999 (14% of GDP), as a result of subdued domestic demand for imports. Georgia benefited from substantial amounts of foreign direct investment in 1998 (above USD 200 million). FDI decreased substantially in 1999, in particular because of the completion of the Baku-Supsa pipeline rehabilitation. The external deficits were covered mainly with foreign loans. Consequently, but also as a result of the Lari depreciation of December 1998, Georgia's foreign debt, which represented 48% of GDP in late 1998, was on the rise and was expected to represent 63% of GDP at the end of 1999. Gross foreign exchange reserves represented an import coverage ratio of 1.5 only. The exchange rate has now stabilised at a level of 2 Laris for 1 USD, but a persistent inflation could weaken the currency in the coming months.

The country was expected to benefit from a new three year ESAF arrangement with the IMF before the end of 1999. However, the IMF did not consider the current draft budget for 2000 as fully satisfactory. Moreover, it remained concerned by the interrelated problems of corruption and insufficient tax revenue, as well as by the relatively low priority given so far to the payment of public-sector salaries and pensions.

3. Structural reforms

The authorities continued to make progress on structural reform. With the elimination of the export tax on scrap metal, the trade regime became fairly liberal, while the exchange system remained free of restrictions. The negotiation process for WTO accession was successfully concluded in October 1999. Even if progress were registered in the judiciary system, law implementation, in particular the Bankruptcy Law, remained rather deficient.

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[7] The authorities have recently revised the nominal GDP data. The new estimates of nominal GDP are about 34% lower than the previously published data, mainly because of a revision of the estimates for informal activities.

With regard to privatisation, the tenders for the energy distribution and generation companies were leading to contracts with foreign companies (Itera, AES,...). The privatisation of the telecommunication companies and ports is expected to take place in 2000.

With regard to reform in tax administration, little progress was reached in strengthening the public finance situation in 1999. The country needs to focus in particular on the effectiveness of revenue collection, to implement sustained efforts to prevent corruption as well as to improve its expenditure management.

Georgia's National Bank continued to consolidate the commercial banking sector. As a result, the number of banks was reduced to 37 at end-September 1999. Thanks to international audits, the large former state banks improved their financial position, except the Agrobank which remained in a weak financial condition. Most commercial banks were, however, still small and undercapitalised. Public confidence in the strength of the financial system remained rather low, as evidenced by the low level of bank deposits and the high level of dollarization.

The legal environment allowing urban and industrial land privatisation was in place. The development of the agricultural sector was still hindered by the slow emergence of a land market.

4. Implementation of exceptional financial assistance

Under the EUR 1250 million Community trade credit facility made available to the NIS in 1992, Georgia benefited from some EUR 113 million in the form of loans. However, owing to difficult political, economic and financial conditions, the country was unable to properly service its external financial obligations including those towards the Community. In order to facilitate the settlement of this debt problem, the Council adopted in November 1997 a Commission proposal to provide Georgia (and Armenia) with exceptional financial assistance in the form of a combination of loans and grants.

The disbursement of this assistance is subject to Georgia remaining on track with its IMF programme and proceeding with structural reforms in accordance with successive Memoranda of Understanding to be agreed with the Commission. The country is also required to proceed with regular principal repayments, so as to reduce the financial exposure of the Community in this high risk region as fast as possible.

In July 1998, with Georgia having fully settled its arrears towards the Community (EUR 131 million) and its IMF programme being back on track, the Commission disbursed the first tranche of the exceptional financial assistance (EUR 110 million in loans and EUR 10 million in grants). The second tranche (EUR 9 million of grants) under this assistance was disbursed in September 1999, soon after a principal repayment by Georgia of EUR 10 million of the EUR 110 million loan provided in 1998.

The disbursement of the third tranche of the exceptional financial assistance is scheduled to take place later this year following satisfactory implementation of the agreed structural policy conditions.

IX. ROMANIA

1. Executive summary

Romania continued to be confronted with serious economic difficulties in 1999. In a context of widespread financing problems, macroeconomic imbalances, low capital inflows, rising unemployment, and timid restructuring of large loss-making companies, limited progress was made in consolidating macroeconomic stability and restoring market confidence. Macroeconomic policies continued to be undermined by the financial losses of the state-owned enterprises, the accumulation of tax and inter-enterprise arrears, timid restructuring and a weak financial sector.

At the beginning of the year, the country's low international credibility cast doubts on its ability to repay its external obligations and reduced private capital inflows. This confidence crisis precipitated a sharp fall of the currency. Nevertheless, Romania successfully repaid all its external debt and rebuilt its depleted foreign exchange reserves. The low level of external financing, combined with the weakness of domestic savings, led to a sharp adjustment of the current account deficit, which had reached a very high level in 1998.

In the face of serious balance of payments problems, the government accelerated reforms and reached agreement with the International Financial Institutions on new structural adjustment loans. In support of these efforts, the Council of the European Union adopted an EUR 200 million macro-financial assistance loan to Romania. The release of the EUR 100 million first tranche of this loan is tied to a review by the IMF of satisfactory implementation of its agreement. Because this review could not take place in 1999, the first payment under the EC assistance has been delayed.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation The number of controlled prices (essentially public utilities and energy), represented about 7% of the CPI basket at the end of 1999.
2. Trade liberalisation In 1999, average applied MFN rate was about 16% for industrial products and about 34% for agricultural products. Romania has signed a Europe Agreement with the EU and free trade agreements with CEFTA, EFTA, Moldova and Turkey. An import surcharge was introduced in 1998 and stood at 4% in 1999.
3. Exchange regime The leu freely floats, but the central bank intervenes frequently on the market. There is full current account convertibility.
4. Foreign direct investment The FDI regime is open and non-discriminatory; profit may be freely repatriated. Since early 1997, foreign investors can own land necessary to carry out their activities. Portfolio investment by non-residents in fixed income securities was not possible in 1999. Laws regulating FDI and portfolio investment were repeatedly modified in 1997-99, creating legal uncertainty.
5. Monetary policy The National Bank of Romania is independent. The Law on the central bank restricts its mandate to ensuring price stability and limits the amount of financing that it can grant to the government. The effectiveness of monetary policy remained hampered by the absence of a secondary market for government securities.
6. Public finances Basic tax reform already completed, but major steps to consolidate public finances remain to be implemented, including pension and health reforms, strengthening financial discipline, tackling unfunded liabilities and improving budgeting and expenditures control.
7. Privatisation and enterprise restructuring By the end of 1999, most small and medium sized companies had been privatised, but most large-scale companies remained public. Large utilities were reorganised in 1998-99 and privatisation was initiated. Corporate governance and financial discipline of mostly large and loss-making public companies remained weak.
8. Financial sector reform Reform of the banking sector was slow in the first years, leading to strong difficulties in 1997 and 1999. Public banks continued to account for the majority of banking assets at the end of 1999. Capital markets remained small and underdeveloped.

2. Macroeconomic performance

In 1999, economic activity continued to contract and GDP is estimated to have fallen by 3.2% in real terms for the year as a whole. On the expenditure side, investment registered a strong decline, reflecting weak aggregate demand, the impact of prolonged high interest rates, and the difficulties to raise outside financing. The crisis in Kosovo had a further, albeit modest, negative impact. However, there has been a modest revival of exports and retail sales.

At the beginning of 1999, weak domestic and international confidence and the strong financing difficulties of the financial system led to very high levels of interest rates, both in nominal and real terms. This strongly affected investment and consumption, as well as the fiscal situation. Interest charges became the largest expenditure item for the State budget, casting doubts on the sustainability of the fiscal situation. The high cost and the short-term maturity of domestic debt, which was the main source of financing in 1999, were two important factors explaining this rapid increase.

The fall in nominal and real interest rates that took place in the second half of 1999, as well as the availability of some official external financing allowed the government to reduce its borrowings on the domestic markets and control better its expenditures. In fact, the implementation of the budget proved better in the second half of the year, allowing the government to meet its fiscal targets. Overall, the fiscal position remained fragile, notably because of the importance of privatisation revenues.

Higher liquidity, combined with the strong impact of the depreciation of the currency, led to an acceleration of consumer prices inflation, which jumped from 32% at the beginning of the year to more than 55% at the end of the year. In fact, monetary policy continued to be over-burdened as monetary authorities have tried to pursue many objectives at the same time: strengthening credibility of the national currency; increasing the level of foreign exchange reserves; controlling liquidity and reducing inflation; and ensuring some real depreciation of the currency to support exports.

Unemployment has increased rapidly and reached more than 11% of the labour force at the end of 1999. It could still continue to rise as enterprise restructuring accelerates. The social situation was also a serious cause of concern, with poverty growing steadily and health conditions deteriorating.

One of Romania's main economic problems since the beginning of transition has been its relatively weak external position. The absence of meaningful restructuring in most of the public sector and a non-friendly business environment has resulted in a weak export sector. In addition, the low level of foreign direct investment and other form of long term capital has led to a build-up of external debt - mostly of a relatively short term nature - and large fluctuations in foreign exchange reserves.

These vulnerabilities were fully exposed in 1999, when the country had to make large external debt repayments, at a time when its low credibility led to a dramatic reduction in foreign financing. In early 1999, the precarious situation of the balance of payments raised doubts about the country's capacity to service its external debt. Speculative pressures precipitated a sharp fall of the currency in March, while foreign exchange reserves fell to less than one month of imports at the end of June. However, the authorities stabilised the currency market and avoided a full-blown financial crisis. They also repaid on time and in full all of their external debt obligations.

The current account adjusted strongly in 1999; it is estimated that the deficit will be reduced to USD 1.2 billion, from USD 3 billion in the previous year. The main factors have been the fall in domestic demand and difficulties to raise trade financing, which have reduced imports by about 15%.

3. Structural reforms

To a large extent, Romania's macroeconomic problems stem from timid and sometimes incoherent structural reforms. In 1999, significant progress was made in tackling the problems of the financial sector and accelerating privatisation. However, weak corporate governance and a not hospitable and transparent business environment remained sources of concern.

Privatisation accelerated. A few landmark deals were announced in the first months of the year, including the sales of a controlling stake in the Telecommunication Company and the largest car manufacturer. Many other ambitious privatisation operations were initiated, although most will not be finalised until the middle of 2000 or thereafter. The decentralisation of the privatisation process has speeded up the sale of small and medium sized companies. However, the overall performance remained disappointing; due to significant and frequent changes in the legal framework for privatisation and investment; many tenders generated insufficient interest or had to be cancelled, including an important deal for the largest oil refinery. Uncertainties linked to the new legal framework brought the privatisation of large enterprises almost to a complete halt in the second half of 1999. One of the consequences of the slowdown in large-scale privatisation was the reduction in FDI inflows.

Privatisation of banks continued: one small bank was sold in spring 1999 and the government initiated privatisation procedures for two other large banks. In the context of the prior actions agreed with the IFIs, the government took important measures to restructure the ailing public banks, which were confronted to serious problems due to the high share of non-performing assets. A special agency to recover bad assets was created. The licence of Bancorex, the largest public bank, was revoked at the end of July and its remaining assets transferred to another public bank.

The lack of financial discipline continued to be a serious problems, increasing the amount of inter-enterprises arrears, in particular for the large state-owned utilities providers, and causing interruption of basic services.

Important measures were taken in the agricultural field, in particular an ordinance on restitution of State land and forests as well as privatisation of State farms.

4. Implementation of macro-financial assistance

At the end of 1998, the Romanian authorities started negotiations on a new programme of macroeconomic stabilisation and structural reforms, to be supported by new loans from the IMF and the World Bank. On 10 June 1999, the World Bank approved credits worth USD 325 million (including a new USD 300 million Private Sector Adjustment Loan) and on 5 August, the IMF executive Board approved a SDR 400 million (USD 550 million) new Stand-by arrangement (SBA). In 1999, the World Bank released USD 150 million under the PSAL, while the IMF made a first payment of USD 73 million. However, the release of the second instalment could not be made in October, as originally scheduled.

Following the signature of a letter of intent between the Romanian authorities and the IMF, the Commission adopted on 28 July 1999 a proposal for a Council decision to grant a new balance of payments loan to Romania. On 8 November, the Council decided to grant to Romania a new long-term balance of payments loan of up to EUR 200 million. This is the fourth such loan since 1992.

At the end of 1999, the Commission and the Romanian authorities reached agreement on the conditions for the release of the assistance which will be released in two equal instalments. The release of the first tranche is subject to the successful conclusion of the first review under the stand-by arrangement with the IMF. The second tranche will be released subject to continued satisfactory implementation of the IMF programme and progress with respect to a selected number of structural reforms.

On 1 February 1999, Romania repaid on time the second tranche of ECU 190 million of the first EU macro-financial loan.

X. UKRAINE

1. Executive summary

1999 was another year of economic decline for Ukraine, although output bottomed out in the second half of the year. Reflecting the easing of macroeconomic policies and the sharp depreciation of the exchange rate around the Presidential elections of October/November, inflation accelerated in late 1999. On a more positive note, despite the slippages of the second half of the year, the consolidated government deficit was cut from 3% of GDP in 1998 to 1.1% of GDP in 1999. Also, the current account deficit declined reflecting the negative effect of shrinking output on imports.

Yet, Ukraine's external financial situation remains critical. The government must make substantial payments to foreign creditors in 2000, usable official foreign exchange reserves remain very low, and the country was downgraded to a default grade rating in early 2000 by a major international rating agency. The government announced in early 2000 a deal to restructure some of its foreign debt, mostly bond debt owed to the private sector but also part of Ukraine's debt to the Russian gas company Gazprom.

Progress with structural reforms has been mixed. There has been some progress in areas such as privatisation, deregulation, and fiscal and public administration reform. However, reforms in other areas, especially the agricultural and energy sectors, have been very disappointing, and private enterprises continue to face an unstable and often unfriendly regulatory environment. Although banking supervision has been strengthened, the banking system remains weak. In the trade area, Ukraine has introduced since 1998 a number of restrictions that are incompatible with its Partnership and Cooperation Agreement (PCA) with the EU.

SUMMARY STATUS OF ECONOMIC REFORM
1. Price liberalisation Most prices have been liberalised. Communal services tariffs (such as gas, electricity, heating, and rents) are subject to administrative control and tend to be below full-cost recovery.
2. Trade liberalisation Import regime free of quantitative restrictions, with a few exceptions for health and safety reasons. Trade-weighted average import tariff was 7.5% in mid-1999. A uniform 2% import surcharge was imposed in July 1999 for six months. Few export restrictions (there are export duties on hides and skins and on sunflower seeds). PCA with EU entered into force on 1 March 1998. In 1999, Ukraine introduce several trade restrictions that were incompatible with the PCA.
3. Foreign exchange regime Full current account convertibility (Article VIII status at the IMF) since September 1996. Certain foreign exchange restrictions on current transactions were reintroduced between September 1998 and August 1999 to defend the currency.
4. Foreign direct investment Tax relief granted to some investments constituting at least 20% of an enterprise's capital and to investments in the automobile industry above USD 100 million. FDI inflows have remained very low on a per capita basis (they reached only USD 747 million, or USD 15 per capita, in 1998).
5. Monetary policy Increasing reliance on indirect monetary instruments. Central bank credit to commercial banks allocated mostly through the Lombard facility, credit auctions and repos. Reserve requirements were unified in April 1997 at 11%, raised to 16.5% during 1997-98, and cut back to 15% in January 1999.
6. Public finances General government expenditure reduced from about 70% of GDP in 1992 to some 38% in 1998. Public employment cut by 1 million (to 4.7 million) between 1994 and 1998. Consolidated government deficit reduced from 5.2% of GDP in 1997 to 1.1% of GDP in 1999. Social security contributions, the VAT and the profit tax are the main sources of revenue, accounting together for about 70% of consolidated government tax revenues.
7. Privatisation and enterprise restructuring Small-scale privatisation virtually completed. Over 9,500 enterprises privatised through a mass (voucher) privatisation scheme launched in early 1995. Over a quarter of 200 large enterprises privatised. Limited involvement of foreign or strategic investors. According to the government, private sector accounted for about 60% of industrial output in 1998.
8. Financial sector reform Significant efforts made since 1997 to strengthen banking supervision and regulation, including the adoption of new law on the central bank in July 1999, the introduction of the International Accounting Standards, and the establishment of a new reporting system for banks. Most banks are privately owned. The banking system, however, remains weak, with several of the largest banks being in poor condition. Capital markets remain underdeveloped.

In October 1998, the EU Council decided to grant to Ukraine a third macro-financial loan in the amount of up to EUR 150 million. The first tranche of the loan was disbursed in July 1999.

The disbursement of the second tranche has been delayed, partly reflecting the interruption of purchases under the EFF in the autumn of 1999. Discussions with the authorities on the conditions for the implementation of the undisbursed part of the EU loan are expected to resume as soon as the EFF is put back on track

2. Macroeconomic performance

The loss of confidence in emerging markets and, especially, the Russian crisis had a serious negative effect on the Ukrainian economy in 1998, with real GDP declining by about 2%, the currency depreciating sharply, and inflation accelerating from 10% at end-1997 to 20% at end-1998. Ukraine was, however, able to avert a Russian-type of crisis and, in particular, did not default on its foreign debt.

Real GDP fell by 0.4% in 1999, although its rate of decline seems to have slowed in the second half of the year, with some sectors showing signs of recovery. Reflecting the easing of monetary and fiscal policies and the sharp depreciation of the exchange rate around the Presidential elections of October/November 1999, inflation accelerated again in late 1999, with the CPI jumping by 4.1% in December. Average CPI inflation in 1999 was 19.2%. Despite the slippages of the second half of the year, the consolidated government deficit was cut from 3% of GDP in 1998 to 1.1% of GDP in 1999. The Parliament has adopted a revised draft budget for 2000 aiming at a zero deficit.

The current account deficit is estimated to have swung from a deficit of 3% of GDP in 1998 to a small surplus in 1999, reflecting the negative effect of shrinking output on imports, which amply offset a new drop in exports from their already depressed, Russian-crisis related, 1998 levels. But the balance of payments position remains very vulnerable. The government must pay about USD 3 billion to foreign creditors in 2000. Usable official foreign exchange reserves stood at only about USD 1.1 billion at end-1999, or the equivalent of 3.5 weeks of imports. Reflecting what it perceives as an increased risk of default, Moody's downgraded in early January Ukraine's long-term foreign currency rating from B3 to Caa1 (a default grade rating).

The government announced in early 2000 a deal to restructure some USD 2 billion of foreign debt, mostly bond debt owed to the private sector but also part of Ukraine's debt to the Russian gas company Gazprom. These debts will be swapped into 7-year maturity euro- and dollar-denominated bonds, with the deal being managed by a syndicate of international investment banks. There authorities may also approach the Paris Club to ask for a rescheduling of Ukraine's Paris Club obligations. A satisfactory rescheduling of Ukraine's foreign debt is a key element of the new programme being discussed with the IMF. It should be noted that, although Ukraine has a debt service problem in 2000-2001, its foreign debt is not high for international standards, amounting to about 40% of GDP at end-1999.

3. Structural reforms

Progress with structural reforms has been mixed. There has been some progress with privatisation, deregulation, fiscal and public administration reform, and banking supervision. However, reforms in other areas, especially the agriculture and energy sectors, have been very disappointing, and private enterprises continue to face an unstable and often unfriendly regulatory environment. In the trade area, Ukraine has introduced in recent years a number of restrictions that violate PCA rules.

The government has undertaken a number of *structural improvements in the fiscal field* in recent years. Significant improvements to the VAT regime were introduced in 1998 and, in order to reduce the excessively high payroll taxation, the special payroll tax used to finance the Chernobyl Fund was eliminated in 1999. In the area of administrative reform, public sector employment was reduced by 1 million between 1994 and 1998, and measures are being taken to reorganise and downsize certain Ministries. The Parliament, however, has blocked some fiscal reforms recommended by the IMF. Also, there have been delays in pension reform and in implementing the project to establish a modern treasury system.

Privatisation has predominantly taken the form of sales to management and employees and voucher privatisation, leaving industry with little access to new capital. Small-scale privatisation is virtually complete, a mass (voucher) privatisation scheme has been implemented, and over a quarter of the 200 larger enterprises have been sold (although relatively few foreign or strategic investors have participated owing to a lack of transparency in the procedures). The government intends to accelerate in 2000-2001 the privatisation of large companies, including the state telephone monopoly Ukrtelekom, partly in order to raise budget revenues and obtain the foreign exchange with which to meet its large foreign debt obligations.

While there has been some progress with demonopolisation, deregulation and bankruptcy legislation, the regulatory environment is not particularly conducive to the *promotion of private enterprise activity*. Enterprises are subject to a relatively high tax burden, and tax regulations are changed frequently. This has encouraged the emergence of a large underground economy. The economic environment is also characterised by a lack of financial discipline, with the government often running significant expenditure arrears and inter-enterprise arrears having increased in recent years to worrying levels. Reflecting the increase in inter-enterprise arrears and, in some cases, the desire to escape tax control, barter transactions have grown strongly. A difficult business environment has continued to discourage FDI inflows, which remain among the lowest in the region on a per capita basis.

Substantial progress has been made since 1997 in strengthening *banking supervision and regulation* and, despite persistent weakness in the seven major banks (which continue to dominate the banking system), Ukraine was able to avoid a banking crisis in the wake of the Russian crisis of August 1998. Banking supervision has been strengthened through the reorganisation of the Banking Supervision Department of the National Bank of Ukraine (NBU). Also, since 1 January 1998, banks have been obliged to report their balance sheets according to the International Accounting Standards (IAS), although the changeover to the IAS is taking place only gradually. Despite these positive developments, the banking system remains weak. Banks' capitalisation levels are low and the share of non-performing loans is high, having increased in the aftermath of the Russian crisis.

Reforms in the *agricultural sector* have been very slow. Agriculture continues to be hampered by delays in privatising the enterprises of the agro-industrial complex, monopolistic practices, and the absence of a functioning land market. All this has contributed to a decline in agricultural output, whose share in GDP has consistently fallen since independence.

Reforms in the *energy sector* have also been disappointing. In the electricity sector, customer arrears are widespread, cash collection rates remain very low, and there have been delays with the privatisation of the regional power distribution companies. Further privatisation, improved management, reduced costs, higher tariffs, and an increase in cash collection rates are essential to make the sector profitable.

While most *prices* have been liberalised, a number of administered prices remain. Some of these administrated prices, in particular tariffs for communal services, remain below cost-recovery levels.

Finally, regarding *trade liberalisation*, although Ukraine has few export restrictions and its average import tariff is not high by regional standards, companies exporting to Ukraine face a number of non-tariff barriers and discriminatory practices. Moreover, trade regulations are subject to frequent changes, introducing an undesirable element of instability for foreign companies trading with Ukraine. Since the entry into force of the PCA (1 March 1998), Ukraine has introduced a number of trade restrictions that are in violation of its provisions. A temporary 2% import surcharge was imposed in July 1999. Ukraine has applied for WTO membership but accession is not expected to happen before 2001 at the earliest.

4. Implementation of macro-financial assistance

In October 1998, the *EU* Council decided to grant to Ukraine a third macro-financial loan in the amount of up to EUR 150 million[8] The loan is to be disbursed in at least two tranches and has a maximum maturity of 10 years. The disbursement of the first tranche was delayed reflecting initial problems with the IMF's EFF (see below). Following the resumption of purchases under the EFF and the implementation of a number conditions agreed between the Commission and Ukraine, the first tranche of the loan (EUR 58 million) was disbursed in July 1999[9]. At the same time, the Commission agreed with the authorities on conditions attached to the release of a second tranche of EUR 42 million. The release of the second tranche, however, was delayed owing to policy slippages and the interruption of the EFF. Discussions between the Commission and the Ukrainian authorities are expected to resume as soon as the EFF is put back on track.

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8 Council Decision 98/592/EC of 15 October 1998. The first and second macro-financial assistance operations had been approved by the Council in December 1994 and October 1995. The first loan, amounting to EUR 85 million was disbursed during 1995. The second one, amounting to EUR 200 million, was disbursed in 1996 and 1997.

9 The economic policy conditionality for the first tranche focused on: trade liberalisation (in particular the removal of a number of trade obstacles judged to be inconsistent with the provisions of the PCA); financial sector reform; the treatment of foreign investors; and energy sector reforms.

In September 1998, the *IMF* approved an EFF for Ukraine in the amount of USD 2.2 billion, which was later augmented to USD 2.6 billion. The EFF ran off-track soon after its approval because of fiscal and structural slippages but resumed under a revised economic programme in the spring of 1999. The easing of macroeconomic policies, the failure to implement a number of structural reforms and the impasse created by the Presidential election, however, led to a second interruption of purchases under the EFF in the autumn of 1999. Following the appointment of a new government led by Mr. Yuschenko in January 2000, the IMF has been negotiating with Ukraine a new economic programme to be supported by a resumption of purchases under the EFF. The resumption of IMF lending, however, has been complicated by allegations about a possible irregular use of IMF funds by the NBU during 1997-1998. At the request of the IMF, the government has commissioned an independent audit of the NBU's reserve transactions. The IMF is expected to wait for the full results of this audit before approving any new programme.

World Bank lending has focused on public sector reform, the agriculture and energy sectors, and privatisation and financial sector reform. In this last area, three adjustment operations (the EDAL I and II and the FSAL) have been approved since 1996, for a total of USD 910 million. While the EDAL loans have been fully disbursed, the disbursement of the third tranche of the FSAL (USD 100 million) has been delayed due to the lack of implementation of some measures agreed under the loan and the interruption of the EFF.

ANNEX 1 A: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY DATE OF COUNCIL DECISIONS

Status of effective disbursements as of December 1999 (in millions of euro)

Country	Authorisations: Date of Council Decision	Authorisations: Reference of Council Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	Disbursements: Totals	Undisbursed
Hungary I (Structural adjustment loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260** **(Suspended)**
Czech and Slovak Federal Republic (BOP loan)	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary II (BOP loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Bulgaria I (BOP loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Romania I (BOP loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Israel[10] (structural adjustment soft loan)	22.07.91	91/408/EC	**188**	Mar. 1992	188	**188**	
Algeria I (BOP loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Albania I (BOP grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Bulgaria II (BOP loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug .1996	70 40	**110**	
Baltics (BOP loans) of which :	23.11.92	92/542/EC	**220**	 Mar. 1993		**135**	**85** **(Suspended)**
Estonia			**(40)**	Mar. 1993	20	**(20)**	**(20)**
Latvia			**(80)**	Jul. 1993	40	**(40)**	**(40)**
Lithuania			**(100)**	Jul. 1993 Aug. 1995	50 25	**(75)**	**(25)**
Romania II (BOP loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Moldova I (BOP loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Romania III (BOP loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec 1997	55 40 30	**125**	
Albania II (BOP grant)	28.11.94	94/773/EC	**35**	Jun. 1995 Oct. 1996	15 20	**35**	
Algeria II (BOP loan)	22.12.94	94/936/EC	**200**	Nov. 1995	100	**100**	**100** **(Suspended)**
Slovakia (BOP loan)	22.12.94	94/939/EC	**130**			**Cancelled** (Jul. 1996)	**130** **Cancelled**
Ukraine I (BOP loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Belarus (BOP grant)	10.04.95	95/132/EC	**55**	Dec. 1995	30	**30**	**25** **(Suspended)**
Ukraine II (BOP loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sept. 1997	50 50 100	**200**	
Moldova II (BOP loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	

10 Assistance to Israël includes a loan principal amount of ECU 160 million and grants of ECU 27.5 million in the form of interest rates subsidies.

ANNEX 1 A: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY DATE OF COUNCIL DECISIONS

CONTINUED

Country	Authorisations: Date of Council Decision	Authorisations: Reference of Council Decision	Authorisations: **Maximum amount**	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	**Disbursed**	**Undisbursed**
FYROM (BOP loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Bulgaria III (BOP loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Armenia and Georgia[11] (Structural adjustment loans and grants) of which:	17.11.97	97/787/EC	**265**			**169**	**96**
Armenia			**(58)**	Dec. 1998 Dec. 1998 Dec. 1999	28 8 4	**(40)**	**(18)**
Georgia			**(165)**	Jul. 1998 Aug. 1998 Sep. 1999	110 10 9	**(129)**	**(36)**
Ukraine III (BOP loan)	15.10.98	98/592/EC	**150**	Jul. 1999		**58**	**92**
Albania III (BOP loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia I[12] (BOP loan and grant)	10.05.99	99/325/EC	**60**	Dec. 1999 Dec. 1999	15 (grant) 10 (loan)	**25**	**35**
Bulgaria IV (BOP loan)	08.11.99	99/731/EC	**100**	Dec. 1999		**40**	**60**
FYROM II[13] (BOP loan and grant)	08.11.99	99/733/EC	**80**				**80**
Romania IV (BOP loan)	08.11.99	99/732/EC	**200**				**200**
TOTAL			**5213**			**4030**	**1183**

11 Exceptional financial assistance, which includes loans for a maximum amount of ECU 170 million and grants for a maximum amount of ECU 95 million. Disbursements include an ECU 28 million loan and an ECU 8 million grant for Armenia, and an ECU 110 million loan and an ECU 10 million grant for Georgia.

12 Includes a loan principal amount of EUR 20 million and grants of EUR 40 million.

13 Includes a loan principal amount of up to EUR 50 million and grants of up to EUR 30 million.

ANNEX 1 B: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY REGION

Status of effective disbursements as of December 1999 (in millions of euro)

Country	Authorisations: Date of Council Decision	Authorisations: Reference of Council Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	Disbursed	Undisbursed
A. EU Accession Countries							
Baltics (BOP loans) of which :	23.11.92	92/542/EC	**220**	Mar. 1993		**135**	**85 (Suspended)**
Estonia			**(40)**	Mar. 1993		**(20)**	**(20)**
Latvia			**(80)**	Jul. 1993	50	**(40)**	**(40)**
Lithuania			**(100)**	Aug. 1995	25	**(75)**	**(25)**
Bulgaria I (BOP loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Bulgaria II (BOP loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug .1996	70 40	**110**	
Bulgaria III (BOP loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Bulgaria IV (BOP loan)	08.11.99	99/731/EC	**100**	Dec. 1999		**40**	**60**
Czech and Slovak Federal Republic (BOP loan)	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary I (Structural adjustment loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260 (Suspended)**
Hungary II (BOP loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Romania I (BOP loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Romania II (BOP loan)	27.11.92	92/551/EC	**80**	Feb. 1993		**80**	
Romania III (BOP loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec 1997	55 40 30	**125**	
Romania IV (BOP loan)	08.11.99	99/732/EC	**200**				**200**
Slovakia (BOP loan)	22.12.94	94/939/EC	**130**			**Cancelled** (Jul. 1996)	**130 Cancelled**
TOTAL A			**3305**			**2570**	**735**
B. Western Balkans							
Albania I (BOP grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Albania II (BOP grant)	28.11.94	94/773/EC	**35**	Jun. 1995 Oct. 1996	15 20	**35**	
Albania III (BOP loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia I[14] (BOP loan and grant)	10.05.99	99/325/EC	**60**	Dec. 1999 Dec. 1999	15 (grant) 10 (loan)	**25**	**35**
FYROM (BOP loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
FYROM II[15] (BOP loan and grant)	08.11.99	99/733/EC	**80**				**80**
TOTAL B			**305**			**170**	**135**

14 Includes a loan principal amount of EUR 20 million and grants of EUR 40 million.

15 Includes a loan principal amount of up to EUR 50 million and grants of up to EUR 30 million.

ANNEX 1 B: COMMUNITY MACRO-FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY REGION

CONTINUED

	Authorisations			Disbursements			
Country	Date of Council Decision	Reference of Council Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Disbursed**	**Undisbursed**
C. New Independent States (NIS)							
Armenia and Georgia[16] (Structural adjustment loans and grants) of which:	17.11.97	97/787/EC	**265**			**169**	**96**
Armenia			**(58)**	Dec. 1998 Dec. 1998 Dec. 1999	28 8 4	**(40)**	**(18)**
Georgia			**(165)**	Jul. 1998 Aug. 1998 Sep. 1999	110 10 9	**(129)**	**(36)**
Belarus (BOP grant)	10.04.95	95/132/EC	**55**	Dec. 1995		**30**	**25** **(Suspended)**
Moldova I (BOP loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Moldova II (BOP loan)	25.03.96	96/242/EC	**15**	Dec. 1996		**15**	
Ukraine I (BOP loan)	22.12.94	94/940/EC	**85**	Dec. 1995	Dec. 1995	**85**	
Ukraine II (BOP loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sept. 1997	50 50 100	**200**	
Ukraine III (BOP loan)	15.10.98	98/592/EC	**150**	Jul. 1999		**58**	**92**
TOTAL C			**815**			**602**	**213**
D. Mediterranean Countries							
Algeria I (BOP loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Algeria II (BOP loan)	22.12.94	94/936/EC	**200**	Nov. 1995		**100**	**100** **(Suspended)**
Israel[17] (structural adjustment soft loan)	22.07.91	91/408/EC	**188**	Mar. 1992		**187.5**	
TOTAL D			**788**			**688**	**100**
TOTAL A+B+C+D			**5213**			**4030**	**1183**

16 Exceptional financial assistance, which includes loans for a maximum amount of ECU 170 million and grants for a maximum amount of ECU 95 million. Disbursements include an ECU 28 million loan and an ECU 8 million grant for Armenia, and an ECU 110 million loan and an ECU 10 million grant for Georgia.

17 Assistance to Israël includes a loan principal amount of ECU 160 million and grants of ECU 27.5 million in the form of interest rates subsidies.

ANNEX 2 - BALANCE OF PAYMENTS SUPPORT TO RECIPIENTS OF EU MACRO-FINANCIAL ASSISTANCE BY CONTRIBUTOR, 1990-1999 ([18])

2a. In millions US$

	1990	1991	1992	1994	1995	1996	1997	1998	1999
IFI's	**419**	**5607**	**1564**	**4086**	**1877**	**250**	**732**	**2800**	**1691**
IMF	219	4177	909	3206	1477	195	584	2200	949
World Bank	200	1430	655	880	400	55	148	600	742
Bilaterals	**1618**	**5600**	**708**	**11202**	**3885**	**67**	**582**	**336**	**738**
EU ([19])	1108	2190	423	855	330	19	329	168	422
Other bilaterals ([20]) of which	511	1406	285	702	150	10	73		264
USA		35		100		10	15		75
Japan	200	850	120	350	150		54		22
Debt relief		2004		9645	3405	38	180		52
Paris Club		554		4920					52
London Club				4380					
Other ([21])		1450		345	3405	38	180		

2.b In percent of total commitments, including debt relief

	1990	1991	1992	1994	1995	1996	1997	1998	1999
IFI's	**21**	**50**	**69**	**27**	**33**	**79**	**56**	**94**	**70**
IMF	11	37	40	21	26	62	44	74	39
World Bank	10	13	29	6	7	17	11	20	31
Bilaterals	**79**	**50**	**31**	**73**	**67**	**21**	**44**	**6**	**30**
EU ([17])	54	20	19	6	6	6	25	6	17
Other bilaterals ([18])	25	13	13	5	3	3	5		11
of which									
USA		0		1		3	1		3
Japan	10	8	5	2	3		4		1
Debt relief		18		63	59	12	14		2
Paris Club		5		32					2
London Club				29					
Other ([19])		13		2	59	12	14		

2c. In percent of total commitments, excluding debt relief

	1990	1991	1992	1994	1995	1996	1997	1998	1999
IFI's	**21**	**61**	**69**	**72**	**80**	**90**	**65**	**92**	**71**
IMF	11	45	40	57	63	70	52	59	40
World Bank	10	16	29	16	17	20	13	33	31
Bilaterals	**79**	**39**	**31**	**28**	**20**	**10**	**35**	**8**	**31**
EU ([17])	54	24	19	15	14	7	29	8	18
Other bilaterals ([18])	25	15	13	12	6	4	7		11
of which									
USA		0		2		4	1		3
Japan	10	9	5	6	6		5		1

18 For the purpose of these table recipients of EC MFA means all countries listed in Table 1. No operation was decided in 1993.

19 EU macro-financial assistance.

20 Including EU Member States.

21 Syndicated commercial banks loan in favour of Algeria in 1991,
- debt relief in favour of Ukraine by Russia and Turkmenistan in 1994 and 1995, and rescheduling agreements with international banks in 1998 and 1999;
- debt rescheduling in favour of Moldova by Russia in 1996;
- debt rescheduling in favour of Bulgaria and FYROM in 1997.

ANNEX 2.1: BALANCE OF PAYMENT SUPPORT TO RECIPIENTS OF EC MACRO-FINANCIAL ASSISTANCE BY CONTRIBUTOR, 1998-1999[22]

(in millions of USD and in percent of total commitments and disbursements)

Balance of payments support 1998

	Total				Ukraine III			
	Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's	**2800**	**94**	**673**	**100**	**2800**	**94**	**673**	**100**
IMF	2200	74	333	49	2200	74	333	49
WB (policy based)	600	20	340	51	600	20	340	51
Bilaterals	**168**	**6**			**168**	**6**		
EU	168	6			168	6		
USA								
Japan								
Other bilaterals								
Debt relief								
London Club								
Paris Club								
Other								
Total	**2968**	**100**	**673**	**100**	**2968**	**100**	**673**	**100**

Balance of payments support 1999

	Total				Albania III				Bosnia I			
	Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's	**1691**	**70**	**890**	**80**	**71**	**70**	**71**	**88**	**183**	**60**	**77**	**67**
IMF	949	**39**	438	40	21	21	21	26	61	20	39	34
WB (policy based)	742	**31**	452	41	50	50	50	62	122	40	38	33
Bilaterals	**738**	**30**	**218**	**20**	**30**	**30**	**10**	**12**	**124**	**40**	**39**	**33**
EU	422	**17**	80	7	20	20			60	20	25	22
USA	75	**3**	28	3					22	7	9.5	8
Japan	22	**1**										
Other bilaterals	167	**7**	76	7	4	4	4	5	38	12		
Debt relief	52	**2**	34	3	6	6	6	7	4	1	4	3
London Club												
Paris Club	52	**2**	34	3	6	6	6	7	4	1	4	3
Other												
Total	**2429**	**100**	**1107**	**100**	**101**	**100**	**81**	**100**	**307**	**100**	**115.5**	**100**

	Bulgaria IV				FYROM II				Romania IV			
	Commitments		Disbursements		Commitments		Disbursements		Commitments		Disbursements	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
IFI's	**465**		**461**		**125**	**34**	**59**	**47**	**847**	**81**	**223**	**100**
IMF	290		286		30	8	19	15	547	52	73	33
WB (policy based)	175		175		95	26	40	32	300	29	150	67
Bilaterals	**210**		**91**		**247**	**66**	**66**	**53**	**205**	**19**		
EU	110		40		105	28	15	12	205	19		
USA	25				28	8	6	5				
Japan					22	6						
Other bilaterals	75		51		50	13	21	17				
Debt relief					42	11	24	19				
London Club												
Paris Club					42	11	24	19				
Other												
Total	**675**		**551**		**372**	**100**	**125**	**100**	**1052**	**100**	**223**	**100**

[22] Disbursements are shown under the year of corresponding commitments.

ANNEX 3: SELECTED ECONOMIC INDICATORS

		1996	1997	1998	1999 Programme[23]	1999 Estimates
GDP at constant prices	(Percent change)					
Albania		9.1	-7.0	8.0	8.0	8.0
Armenia		5.8	3.1	7.2	4.0	3.1
Bosnia-Herzegovina		69.0	30.0	18.0	16.0	2.5
Bulgaria		-10.9	-7.4	4.5	1.5	2.5
FYROM		1.2	1.4	2.9	5.0	2.7
Georgia		10.5	11.0	2.9	2.0	3.0
Romania		3.9	-6.1	-5.4	-3.5	-3.2
Ukraine		-10.0	-3.0	-1.7	-3.0	-0.4
Consumer price (end year)	(Percent change)					
Albania		17.4	42.1	8.7	7.0	0.5
Armenia		5.7	21.9	-1.3	9.9	2.0
Bosnia-Herzegovina						
Federation			14.0	5.0	3.0	
Republika Srpska			3.0	38.0		
Bulgaria		310.8	579.7	1.0	2.8	6.2
FYROM		0.2	4.5	-1.0	1.0	0.7
Georgia		13.7	7.3	10.6	12.9	10.9
Romania		56.9	151.4	40.6	38.3	54.9
Ukraine		39.7	10.0	22.0	21.0	19.1
Fiscal balance	(Percent of GDP)					
Albania		-11.7	-12.6	-10.4	-13.8	-11.0
Armenia[24]		-9.3	-5.8	-4.8	-6.1	-5.4
Bosnia-Herzegovina						
Federation		-3.0	-1.9	-1.7	-1.6	
Republika Srpska		0.0	0.0	-5.2	-3.3	
Bulgaria		-13.4	-2.6	1.3	-1.5	-0.9
FYROM		-0.3	-0.4	-1.6	-2.1	0.0
Georgia		–7.4	-7.0	-6.5	-2.8	-6.7
Romania		-4.0	-3.6	-4.0	-2.7	-4.1
Ukraine		-3.2	-5.6	-3.5	-1.3	-1.1
Current account	(Percent of GDP)					
Albania		-9.1	-12.1	-6.1	-9.6	-8.5
Armenia[25]		-27.9	-28.0	-27.3	-21.8	19.0
Bosnia-Herzegovina		-0.5	-43.3	-31.5	-22.0	-4.5
Bulgaria		1.3	4.4	-0.6	-5.6	-5.2
FYROM		-6.5	-7.4	-8.9	-6.7	-4.0
Georgia[25]		–13.8	-16.5	-17.5	-15.7	-14.1
Romania		-7.3	-6.1	-7.2	-7.5	-3.8
Ukraine		-2.7	-3.4	-1.2	-2.1	0.5
Official foreign exchange reserves (end year)	(Months of imports)					
Albania		3.1	4.5	4.7	3.9	4.5
Armenia		2.2	3.1	3.6	3.6	4.0
Bosnia-Herzegovina		2.4	1.3	1.4	2.2	4.0
Bulgaria		1.6	4.0	5.7	-	6.4
FYROM		1.7	1.7	1.9	2.8	3.4
Georgia		2.7	2.4	1.2	2.5	1.5
Romania		2.1	3.6	3.6	7.1	6.4
Ukraine		5.2	5.6	0.9	0.8	0.8

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[23] Programme targets as set in:
May 1999 for Albania (approval of the second-year ESAF programme),
for Armenia,
for Bosnia-Herzegovina,
Programme revised in September 1999 for Bulgaria,
for FYROM,
for Georgia,
For Ukraine, revised targets set in August 1999 under the extended arrangement approved by the IMF in September 1998.
For Romania, no target for 1998 were included in the last IMF programme, approved in 1997 and which expired in May 1998. Figures are IMF Staff estimates prepared for the last Article IV consultations.

[24] On a cash basis.

[25] Excluding offical transfers.
Sources: National authorities and IMF