COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 23.01.1996
COM(96) 9 final

96/0018 (CNS)

Proposal for a

COUNCIL DECISION

repealing Decision 94/939/EC

providing further macro-financial assistance

for the Slovak Republic

(presented by the Commission)

EXPLANATORY MEMORANDUM

1. In June 1994, the Slovak government requested macro-financial assistance from the EU and other members of the Group of Twenty-Four in the amount of US$ 300 million. This assistance was to complement the resources that the IMF and the World Bank were to provide to the Slovak Republic in support of a stabilization and structural reform programme for the second half of 1994 and 1995. In response to this request, the EU Council approved on 22 December 1994, by Decision 94/939/EC, a loan facility to the Slovak Republic of up to ECU 130 million.

2. With a view to implementing this Decision, the Commission services held in May 1995 discussions in Bratislava with the Slovak authorities on the economic policy conditions to be attached to the loan facility. During the discussions, however, insufficient progress was made by the Slovak authorities with respect to several of the policy measures considered by the Commission to be essential, including in particular the early phasing out of the 10% import surcharge introduced in March 1994.

3. The resumption of the discussions on the implementation of this assistance was complicated by the decision taken by the Slovak government in June 1995 to cancel the shares-for-vouchers privatization scheme, which was also considered by the Commission to be an important step in the transition of the Slovak Republic towards a fully-fledged market economy. Instead of shares in state enterprises, the 3.5 million citizens that bought vouchers in 1995 will be given 5-year interest bearing bonds issued by the National Property Fund. The privatization process has been further weakened by the Government's decision (incorporated into legislation passed in July 1995) to maintain controlling stakes in a significant number of "important" and "strategic" enterprises.

   The new bonds-for-voucher scheme not only has implied a new delay in the privatization process but risks having negative fiscal implications and could undermine foreign investor confidence in the government's commitment to the reform process. Partly reflecting the slow formulation and instability of privatisation and other structural policies, the World Bank interrupted between April and October 1995 discussions on any new operation with the Slovak Republic (including on a Enterprise and Financial Sector Adjustment Loan). Also, IMF concern about the repercussions (including its fiscal effects) of the shift in privatization policy has been one of the factors preventing the completion of the mid-term review of the stand-by programme.

4. Meanwhile, the Slovak Republic's macroeconomic situation has experienced an impressive turnaround. Following four consecutive years of recession, real GDP grew by 4.8% in 1994 and by 6.1% (year-on-year) in the first half of 1995. Inflation has fallen from 25% at end-1993 to 7.9% in October 1995. The deficit of the general government has declined from 7.6% of GDP in 1993 to only 1.4% of GDP in 1994, and showed a small surplus in the first half of 1995.

   Most importantly, the balance of payments has strengthened considerably. The current account swung from a deficit of 5.4% of GDP in 1993 to a surplus of almost 6% of

GDP in 1994, and is estimated to have deteriorated but to have remained in surplus in 1995. Official foreign exchange reserves, for their part, have risen from only US$ 0.5 bn at end-1993 to US$ 2.9 bn (or 3.2 months of imports) at end-September 1995, well above the target for end-1995 contained in the government's initial programme for 1994-95. The Slovak Republic's access to the international capital markets has been reinforced by the upgrading of its ratings, including the assignment by a leading international rating agency of an investment grade mark in May 1995. The National Bank of the Slovak Republic has successfully placed two issues of international bonds of about US$ 250 mio each in September 1993 and July 1994, respectively, and, at the end of 1994, the Slovak Republic received its first syndicated bank loan commitment since independence.

The strengthening of the balance of payments has allowed the authorities to remove as of 1 October 1995 (that is, three months before the date foreseen in the IMF programme) all remaining restrictions on the convertibility of the Slovak crown for current account purposes. The Slovak Republic has thus achieved Article VIII status at the IMF.

In view of the improvement in the country's external position, the Slovak government announced in April 1995 that it would not draw on the remaining tranches of the IMF stand-by credit.

5. In the circumstances, the Commission is proposing the cancellation of the Community balance of payments loan facility for the Slovak Republic.

   In accordance with the provisions of the Guarantee Fund mechanism, the adoption of a decision cancelling macro-financial assistance of up to ECU 130 million for the Slovak Republic would imply a definitive reduction by ECU 18 million of the payments to be made in 1996 to the Guarantee Fund for new operations of loans and loan guarantees to third countries.

Proposal for a

COUNCIL DECISION

repealing Decision 94/939/EC of 22 December 1994 [1]

providing further macro-financial assistance

for the Slovak Republic

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 235 thereof,

Having regard to the proposal of the Commission[2] submitted after consulting the Monetary Committee,

Having regard to the opinion of the European Parliament[3],

Whereas, by Decision 94/939/EC, the Council approved further macro-financial assistance for the Slovak Republic of up to ECU 130 million in the form of a medium-term loan facility;

Whereas however the Commission and the Slovak authorities have not made sufficient progress in agreeing on the economic policy conditions to be attached to this facility, in particular on an early removal of the 10% surcharge on imports of consumer goods introduced by the Slovak Republic in March 1994;

Whereas furthermore the Slovak government decided in June 1995 to cancel the shares-for-vouchers mass privatization scheme, and whereas this and other decisions of the government have resulted in a slow formulation and implementation of privatization and other key structural reform policies;

Whereas the mid-term review of the economic programme agreed between the Slovak government and the IMF and supported by a "stand-by arrangement" has not been completed, and whereas discussions between the Slovak authorities and the World Bank on an "Enterprise and Financial Sector Adjustment Loan" have been discontinued;

Whereas the balance of payments situation and foreign exchange reserve position of the Slovak Republic have strengthened substantially and whereas the Slovak Republic's access to the international private capital markets has considerably improved;

---

1 OJ N° L366, 31.12.94, p.30.

2

3

Whereas the strengthening of the country's external financial position has allowed the Slovak Republic to stop making purchases under the "stand-by arrangement" approved by the IMF on 22 July 1994;

Whereas, in these circumstances, there is no ground for the implementation of Community macro-financial assistance for the Slovak Republic and whereas this assistance should therefore be discontinued;

Whereas the Treaty does not provide, for the adoption of this Decision, powers other than those of Article 235,

HAS DECIDED AS FOLLOWS :

Sole article

Decision 94/939/EC is hereby repealed.

Done at ....,

For the Council

The President

FINANCIAL RECORD

1. Budget line concerned

   Article (BO-2122), reflecting the budget guarantee for the Community loan facility to the Slovak Republic, is to be repealed through amending and/or a supplementary budget.

2. References (legal base)

   Article 235 of the Treaty

3. Classification of the Expenditure

   Obligatory

4. Description and Justification for the action

   a) Description of the action

      Repeal of the budget entry reflecting the commitment of the budget guarantee associated with the Community medium-term facility to the Slovak Republic made available by Council Decision 94/939/EC and aimed at strengthening the balance of payments and foreign exchange reserve position of the country.

   b) Justification for the action

      Given the lack of agreement between the Commission and the Slovak authorities on the economic policy conditions to be attached to the loan and in view of the improvement in the country's balance of payments and reserve position, the loan facility is to be cancelled.

5. Nature of the expenditure and method of calculation

   a) Nature of the expenditure

      Guarantee for the Community loan to the Slovak Republic.

   b) Method of calculation

      Given that the amount and timing of any call on this budget line cannot be calculated in advance and because it was expected that this budget guarantee would not be called, a token entry had been used. This token entry is now to be repealed.

6. Effect of the action on intervention credits

   The potential risks borne by the Budget are reduced accordingly.

ISSN 0254-1475

COM(96) 9 final

DOCUMENTS

EN

11

Catalogue number : CB-CO-96-013-EN-C

ISBN 92-77-99569-6

Office for Official Publications of the European Communities

L-2985 Luxembourg

7