

# COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL  
AND THE EUROPEAN PARLIAMENT

ON GUARANTEES

COVERED BY THE GENERAL BUDGET

NOT TO BE PUBLISHED

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In a statement made when the vote was taken on supplementary and amending budget No 1/91, the Commission undertook to report to the budgetary authority twice a year on budget guarantees and the corresponding risks.

This document is the response to that undertaking.

The report is in four parts:

1. Description of the risks covered by the budget at 30 June 1991.
2. Outline of operations not yet entered in the budget but for which proposals have been made by the Commission.
3. Situation as regards risks for the budget in future years and guarantees already activated.
4. Assessment of the situation of non-Community countries benefiting from operations guaranteed by the general budget.

## PART ONE: OPERATIONS ALREADY ENTERED IN THE BUDGET

At 30 June 1991 the budgetary authority had authorized fifteen headings with token entries in the 1991 budget which can be divided into three categories:

- Community borrowings to be onlent within the Community
- Community borrowings to be onlent outside the Community
- guarantees granted to third parties.

### I. BORROWINGS TO BE ONLENT WITHIN THE COMMUNITY

#### A. COMMUNITY BORROWING OPERATIONS TO PROVIDE BALANCE-OF-PAYMENTS SUPPORT

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

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

At 30 June 1991 these operations concerned:

- France (ECU 30 million remaining from an operation under the decision of 16 May 1983)<sup>(1)</sup>;
- Greece (two operations under decisions of 9 December 1985 and 4 March 1991).

At 30 June 1991 the amount outstanding in loans to Greece was ECU 2.543 billion.

#### B. EURATOM BORROWING OPERATIONS

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

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

The maximum amount of borrowings authorized is ECU 4 billion, of which ECU 500 million was authorized by the 1977 decision, ECU 500 million in 1980, ECU 1 billion in 1982, ECU 1 billion in 1985 and ECU 1 billion in 1990.

At 30 June 1991 the total of loans outstanding was ECU 1.681 billion.

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(1) France repaid this sum in full in July 1991

**C. BORROWING OPERATIONS FOR THE PROMOTION OF INVESTMENT IN THE COMMUNITY (NCI)**

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

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

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

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

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

At 30 June 1991 the total outstanding was ECU 4 466 million.

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

The EIB provides the Commission, yearly the list of debtors who, according to its information, risk defaulting in the coming year. Up to now, the list has always been empty.

**D. COMMUNITY BORROWINGS AND COMMUNITY GUARANTEE FOR EUROPEAN INVESTMENT BANK LOANS TO FINANCE LARGE-SCALE INFRASTRUCTURE PROJECTS OF COMMUNITY INTEREST**

Proposal for a Council Decision submitted by the Commission to the Council on 23 December 1986 on financing major Community infrastructure projects (OJ C 80, 27.3.1987, p.7), as amended on 7 January 1988 (OJ C 40, 12.2.1988, p.7). So far the Council has failed to adopt a decision on this proposal.

II. LOANS RAISED FOR ONLENDING TO NON-COMMUNITY COUNTRIES

A. PROGRAMME OF BORROWINGS CONTRACTED BY THE COMMUNITY TO PROVIDE MEDIUM-TERM FINANCIAL ASSISTANCE TO HUNGARY (Hungary I)

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

The first tranche of ECU 350 million was paid on 20 April 1990. A second tranche of ECU 260 million was paid on 14 February 1991. The third tranche, which is not to exceed ECU 260 million, will be paid in the course of 1992. The tranches paid will be repaid by a single repayment, and interest, which is at variable rates, is payable annually.

B. ADDITIONAL MEDIUM-TERM FINANCIAL ASSISTANCE TO HUNGARY (Hungary II)

As the break-up of the Council for Mutual Economic Assistance (Comecon) and the Gulf crisis threatened to compromise the initial encouraging results of the reforms undertaken, it was decided to launch a supplementary borrowing and lending operation for ECU 180 million under an overall ECU 360 million G-24 aid programme.

The first tranche of ECU 100 million was paid on 14 August 1991. It will be repaid by a single repayment, and interest, which is at variable rates, is payable annually.

C. BORROWING CONTRACTED BY THE COMMUNITY TO PROVIDE MEDIUM-TERM FINANCIAL ASSISTANCE FOR THE CZECH AND SLOVAK FEDERAL REPUBLIC

As part of G-24's total aid of around ECU 750 million, the Commission, on behalf of the Community, is empowered to borrow, in two tranches, ECU 375 million for a period of seven years. The proceeds of this operation will be onlent on the same terms to the Czech and Slovak Federal Republic.

The first tranche of ECU 180 million was paid on 14 August 1991. It will be repaid by a single repayment, and interest, which is at variable rates, is payable annually.

The second tranche should be paid before the end of the year.

D. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT BULGARIA MEDIUM-TERM FINANCIAL ASSISTANCE

As part of G-24's total aid of ECU 580 million, the Commission, on behalf of the Community, is empowered to borrow, in two tranches, ECU 290 million for a period of seven years. The proceeds of this operation will be lent on the same terms to Bulgaria.

The first tranche of ECU 150 million was paid to Bulgaria on 14 August 1991. It will be repaid by a single repayment, and interest, which is at variable rates, is payable annually.

E. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT ISRAEL A MEDIUM-TERM LOAN

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

This operation should start before the end of 1991.

III. COMMUNITY GUARANTEE TO NON-COMMUNITY COUNTRIES

A. EUROPEAN INVESTMENT BANK LOANS TO MEDITERRANEAN COUNTRIES GUARANTEED BY THE GENERAL BUDGET

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

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

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

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

At 30 June 1991 there was a ceiling of ECU 4.5 billion on authorized operations and the total of outstanding loans came to ECU 2.177 billion.

These amounts could be increased if the third protocols with Syria and Yugoslavia are signed, involving EIB loans of ECU 110 million and ECU 730 million respectively.

A fourth series of protocols are now being negotiated, or have already been signed, with a number of countries.

The risks are as follows, by country:

	<u>Old protocols</u> <u>Outstanding</u> <u>at 30.6.91</u>	<u>3rd protocols</u> <u>Authorizations</u>	<u>4th protocols</u> <u>Authorizations</u>	<u>Total</u>
Algeria	121		280	401
Cyprus	39			39
Egypt	183		310	493
Israel	105		82	187
Jordan	58		80	138
Lebanon	9		45	54
Malta	36			36
Morocco	168		220	388
Syria	60	110	115	285
Tunisia	142		168	310
Turkey	46			46
Yugoslavia	399	730		1 129
	1 366	840	1 300	3 506

The loans are generally long-term: 15 to 25 years with 3 to 5 years periods of grace on capital repayments.

B. LOANS GRANTED BY THE EUROPEAN INVESTMENT BANK IN COUNTRIES OF CENTRAL AND EASTERN EUROPE

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

On 14 May 1991 the Council decided to extend this guarantee to loans made in Czechoslovakia, Bulgaria and Romania over a period of two years up to a maximum of ECU 700 million.

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

The loans are generally long-term: 15 to 25 years with 3 to 5 years periods of grace on capital repayments.

At 30 June 1991, ECU 280 million had been committed in Poland and Hungary.

C. COMMUNITY CREDIT GUARANTEE FOR EXPORTS OF AGRICULTURAL PRODUCTS AND FOODSTUFFS FROM THE COMMUNITY TO THE SOVIET UNION

The Community has decided to guarantee loans granted to the Soviet Union by a pool of banks to finance imports of agricultural products and foodstuffs originating in the Community and the countries of Central and Eastern Europe.

The Community guarantee covers 98%, up to a maximum of ECU 500 million, of any losses in principal and interest.

The Community will receive a surety commission of 0.67% of the amount guaranteed in consideration for this guarantee.

An agreement between the Community and the borrower will lay down the terms of the loan and the arrangements for utilization of the funds. A contract of guarantee between the Community and the banks will also be signed.

The loan is for three and a half years.

Interest will be payable half-yearly and the principal will be repaid in three instalments, 20, 31 and 42 months after the agreement has been signed.



**PART TWO: OPERATIONS FOR WHICH THE COMMISSION HAS MADE A PROPOSAL AND WHICH LIKELY TO BE ENTERED IN THE BUDGET**

**I. MEDIUM-TERM FINANCIAL ASSISTANCE TO ROMANIA**

As part of G-24's total aid of ECU 750 million, the Commission has been empowered to borrow ECU 375 million for a maximum of seven years. The proceeds will be onlent on the same terms to Romania.

The first tranche of ECU 190 million will be paid by the end of 1991.

The proposal to enter the necessary budget headings was contained in preliminary draft supplementary and amending budget 2/91.

**II. MEDIUM-TERM FINANCIAL ASSISTANCE TO ALGERIA**

At the suggestion of the European Council of 29-30 June 1991, the Council decided on 9 September to grant medium-term financial assistance of ECU 400 million to Algeria in the form of a seven-year loan to be paid in two tranches and to be financed from borrowing operations.

The proposal to enter the necessary budget headings was contained in preliminary draft supplementary and amending budget 2/91.

### PART THREE: RISK SITUATION

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

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

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

- . by reference only to actual disbursements at 30 June 1991;
- . on a more forward-looking basis, by reference to all the operations proposed by the Commission in order to estimate the impact on future budgets, giving the maximum risk borne by the Community on operations already disbursed, plus credits authorized but not yet disbursed and interventions proposed by the Commission but not yet decided.

For the latter exercise a number of assumptions have to be made about dates of disbursement, terms of repayment, interest and exchange rates, etc; details are given in the annex. However, this method does give some idea about the future level of risks connected with the proposals made.

The results are shown in the attached tables, which assess the risk relating to countries inside the Community and countries outside the Community.

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

#### I. AMOUNT OUTSTANDING AT 30 JUNE 1991

The amount of capital outstanding on Community borrowings and guaranteed loans at 30 June 1991 can be broken down as follows (Table 1):

- ECU 9.531 billion for operations within the Community;
- ECU 1.982 billion for risks in non-Community countries;
- giving a total of ECU 11.513 billion.

**II. AMOUNTS WHICH COULD HAVE TO BE PAID OUT EACH YEAR IN CONNECTION WITH OPERATIONS DISBURSED AT 30 JUNE 1991 (Table 2)**

**A. Member States**

The annual risk will come to ECU 2.6 billion in 1992 and a maximum of ECU 3 billion in 1993 with large repayments of NCI borrowings, and the balance of payments borrowings for Greece falling due over these two years. This risk will decrease in the following years.

**B. Non-member countries**

The risks for 1991 and 1992 are not substantial: between ECU 225 and 300 million.

The risk in respect of non-member countries will increase sharply from just under ECU 300 million to ECU 642 million in 1995 and ECU 488 million in 1996 as a result of the scheduled repayment of the first two tranches of the medium-term financial assistance to Hungary, and will fall back afterwards to the 1991 level.

Repayments of capital and interest payments on EIB loans to the Mediterranean countries already disbursed will alone account for almost ECU 1.6 billion until 1998, over half the total risk in respect of non-member countries.

**C. Total**

The total risk in respect of both Member States and non-member countries will thus reach a maximum of ECU 3.3 billion in 1993 before dropping sharply and then rising slightly to ECU 1.8 billion in 1996.

**III. FORECAST OF ANNUAL MAXIMUM RISK, INCLUDING FUTURE OPERATIONS (Table 3)**

These figures cover all operations for which the Commission has made a proposal and, in the case of operations already started, takes account of the maximum amount authorized on the basis of the assumptions set out in the annex.

**A. Member States**

The main difference in relation to the figures mentioned above stems from the repayment in 1997 and 1998 of the second and third tranches not yet disbursed of the second loan to Greece in support of its balance of payments.

After peaking at ECU 3.1 billion in 1993, the risk falls to ECU 1 billion in 1995 before rising again to ECU 2 billion in 1997 and falling to less than ECU 1 billion in subsequent years.

B. Non-member countries

The immediate risk resulting from these operations should remain slight and will probably not exceed ECU 225 million in 1991. For 1992 as a whole, it should reach ECU 619 million, mainly in interest payments.

Risks will then increase almost constantly to between ECU 1.2 and 1.4 billion between 1995 and 1997, before rising to ECU 2.3 billion in 1998. This is due to the number of operations with a seven-year term to be repaid by a single repayment that year.

For 1999 a risk of ECU 1.6 billion already derives from current and proposed operations.

It should also be pointed out that from 1993 onwards, the risk relates mainly to the countries of Central and Eastern Europe.

C. Total risk

The Community will be assuming aggregate risks of ECU 26.1 billion between 1991 and 1999.

The peak will be reached in 1992 with around ECU 4 billion, of which almost 80% will be on operations involving the Member States.

The risk will also be high in 1998 - over ECU 3.2 billion - but the proportions accounted for by Community and non-Community countries will have been reversed, with the latter accounting for the major part.

IV. ACTIVATION OF GUARANTEES

The Community guarantee was first activated on 5 February 1988 to repay loans granted to Lebanon by the EIB.

Since then, the Community guarantee has been activated thirteen times: eight times for Lebanon and five times for Syria.

The total amount paid out comes to ECU 33.182 million, of which ECU 25.110 million was for Lebanon and ECU 8 072 million for Syria.

These two countries have since repaid ECU 18 715 million (Lebanon ECU 10 758 and Syria ECU 7 957 million). ECU 14.423 million still has to be recovered, virtually all of it from Lebanon (ECU 14.352 million).

The guarantees paid out were financed by re-utilizing funds received and, for the most part, by means of transfers from the budget headings for the Mediterranean protocols.

#### **PART FOUR: CHANGES IN POTENTIAL RISKS**

The figures given in the previous parts provide information on the quantitative aspects of the risks borne by the general budget.

However, these data should be weighted in accordance with aspects relating to the quality of the risk, which depend on the type of operation and the standing of the borrower.

##### **I. TYPES OF OPERATION**

The risks to which the above figures relate derive from a variety of operations which can be divided into two categories: operations with macroeconomic objectives and those with microeconomic objectives.

##### **A. OPERATIONS WITH MACROECONOMIC OBJECTIVES**

The first of these are the balance of payments loans for Member States, normally carrying strict economic conditions and undertakings.

Financial assistance operations are similar in nature but are intended for non-member countries.

Finally, this category includes the credit guarantee for imports of agricultural products and foodstuffs into the Soviet Union, since the risk involved in this operation depends to a large extent on macroeconomic and political developments in the country.

##### **B. OPERATIONS WITH MICROECONOMIC OBJECTIVES**

These are loans to finance specific projects which are usually repaid over the long term from funds which projects are expected to generate; as a rule they are granted to State companies or financial institutions and, in addition to the Community guarantee, are covered by the usual guarantees demanded by banks.

They are the Euratom and NCI loans in Member States and EIB loans outside the Community (Mediterranean and Central and Eastern Europe).

For the latter category, experience would suggest that cases of default are linked to the political situation (Syria and Lebanon) rather than to poor economic performance (trade deficit, debt burden, etc). This situation could, however, change in the future.

II. ECONOMIC AND FINANCIAL SITUATION OF NON-MEMBER COUNTRIES RECEIVING ASSISTANCE UNDER OPERATIONS WITH MACROECONOMIC OBJECTIVES

On the whole, the countries of Central and Eastern Europe have launched major programmes of internal adjustment and reform. Their external situation has suffered from the collapse of Comecon and the Gulf crisis.

Israel, although it too has particularly suffered from the Gulf crisis, is mainly confronted by the financial consequences of the influx of immigrants from the Soviet Union.

A. HUNGARY

General encouraging trend, despite external and domestic difficulties.

Current balance of payments surplus of USD 127 million in 1990. The 1991 deficit will be lower than expected: between USD 600 and 800 million instead of USD 1 200 million.

The value of the country's debt on the secondary market has levelled off at around 90% as a result of the efforts made by the Hungarian Government to honour its financial commitments.

B. CZECHOSLOVAKIA

Country particularly affected by the Gulf crisis in view of the high level of claims it has in respect of Iraq.

Monetary and fiscal policies are traditionally restrictive and there is little recourse to borrowing abroad: gross foreign debt comes to around 30% of GNP and the debt service ratio should be 12% at the end of 1991. The balance of payments deficit should be USD 1 700 million for 1991.

C. BULGARIA

Since February 1991 Bulgaria has undergone a rigorous adjustment programme which has revealed greater imbalances than initially estimated and led to a substantial fall in production.

The scale of initial difficulties and the lack of private finance are giving rise to considerable medium-term financing requirements, especially in the public sector.

The balance of payments deficit could be USD 2 000 million in 1991.

Bulgaria's external debt will probably reach USD 12 billion at the end of 1991 and the debt service ratio 41% of exports in convertible currencies.

The price of debt on the secondary market has dropped from 30-50% in September 1990 to 15-16% today.

Bulgaria is seeking to reorganize its debt. An agreement was recently reached under the auspices of the Paris Club to reschedule all its debts to official bodies falling due in 1991, including short-term debts. Negotiations are also continuing with the commercial banks, which are Bulgaria's main creditors.

#### D. ISRAEL

In 1985 Israel launched a stabilization programme which has reduced the rate of inflation from 400% to 20% a year. However, the economy is still faced with low growth and high unemployment.

The influx of immigrants from the Soviet Union is expected to lead to external financing requirements of around USD 3 billion a year over a period of seven years.

External debt, which fell from 80% of GNP in 1985 to 33% in 1990, would therefore probably rise again in future years. The debt service ratio, which fell to 26% in 1990, would also be considerably higher.

The balance of payments deficit should be USD 2 000 million in 1991.

#### E. SOVIET UNION

Even before the recent failed coup and the growing fragmentation of the Soviet economic area which has followed, the Soviet economy was caught up in a process of rapidly declining activity and accelerating inflation with persistent shortages. In the first half of 1991 GNP was 10% lower than in the corresponding period of 1990. Wholesale and retail prices have virtually doubled since they were partly freed in January and April respectively. The stagflationary spiral (the fall in production could be higher than 15% and the current rate of inflation is probably higher than 200%) is fuelled by the public finance crisis - the accumulated deficit of the budget of the Union and the Republics could exceed 20% of GNP.

At the same time, the country's external financial situation has deteriorated considerably. Although low compared with the size of the country's economy, external debt in convertible currency (around USD 56 billion at the end of 1990 and probably more than USD 60 billion at present) far outstrips export revenue in convertible currency (estimated at a maximum of USD 50 billion for 1991) and is becoming increasingly difficult to service (around USD 20 billion in 1990 and 1991). Since 1990 Soviet firms have gone into arrears with some of the credits granted and this has radically changed the attitude of commercial banks in the industrialized countries towards the Soviet Union. The banks no longer grant new credits without an official guarantee from their country and have virtually closed all lines of short-term finance. So far, it has been possible to avoid an acute cash-flow crisis by running down official currency reserves (now probably around USD 5-6 billion) and cutting back imports.

Until now, the Soviet authorities have always stated that they will scrupulously service their debt but the uncertainty on how this debt will be dealt with (by the Union or by the sovereign Republics) will not disappear until the current political situation is clarified. The value of Soviet debt on the extremely restricted secondary market had already started to fall at the end of 1990. In July, medium-term debt was already being traded at 60% (in September 1990 it had still been virtually at par).

#### F. ROMANIA

In 1990 Romania launched a programme of economic reform involving the partial liberalization of prices and adjustment of prices still controlled, separation of the central bank and commercial bank functions of the Romanian National Bank, devaluation of the leu by 60% in terms of currency, preparations for privatization and tax reform.

The 1991 stabilization programme is intended to arrest the fall in output, cut inflation to 15% at the end of the year and replenish reserves so that they reach USD 1 billion.

The balance of payments deficit should be around USD 1.7 billion in 1991 and the financing requirement should total USD 2.7 billion; the IMF and the World Bank will cover USD 1.1 billion and the G-24 USD 1 billion.



G. ALGERIA

Algeria is faced with economic difficulties resulting from a drop in its oil revenue and a delicate social and political situation.

GNP increased by only 1.1% in 1990 following the drought and the drop in industrial production caused by a decline in productivity.

The current balance of payments should be in surplus in 1991 and 1992, but the country is burdened with considerable external debt servicing requirements (USD 7 and 6 billion for each of these years, i.e. around 60-70% of the value of exports).

Outstanding external debt comes to USD 26 billion, i.e. 50% of GNP and twice the value of goods and services exported. Algeria has always honoured its commitment to service its debt, the value of which on the secondary market has now stabilized at around 78-80%. Algeria has a confirmation agreement with the IMF and has begun negotiations with its private bank creditors to review the terms of the commercial part of its debt (some two thirds of the total).

TABLE 1  
CAPITAL OUTSTANDING AT 30 JUNE 1991  
IN RESPECT OF OPERATIONS DISBURSED

(ECU millions)

Operation	Authorized ceiling	Amount outstanding 30.6.1991
<b>MEMBER STATES</b>		
A. Balance of payments	14 000	
1. France		30
2. Greece I		1 543
3. Greece II		1 000
B. Other		
4. Euratom	4 000	1 681
5. NCI and NCI earthquakes	6 830	4 487
6. EIB Mediterranean, Spain, Greece, Portugal	1 500	811
<b>NON-MEMBER STATES</b>		
A. Financial assistance	870	
1. Hungary I		350
2		260
B. Other		
2. EIB Mediterranean Old protocols	3 022	1 366
3. EIB Central and Eastern Europe	1 700	6
<b>TOTAL</b>	<b>31 922</b>	<b>11 534</b>

(Community)	26 330	9 552
(non-Community)	5 592	1 982

TABLE 3

## MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET

(Estimate in ECU million based on all operations - disbursements, decisions and Commission proposals)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	TOTAL
<b>MEMBER STATES</b>										
<b>CAPITAL</b>										
A. Balance of payments										
1. France	30									30
2. Greece I	210	640	615	200						1665
3. Greece II						500	600	500	600	2200
B. Structural Loans										
4. Euratom and NCI	726	1116	1534	705	545	477	1093	185	60	6441
5. EIB Med. Old Protocols. Spain, Greece, Port.	108	107	98	86	79	73	72	55	40	718
Capital sub-total	1074	1863	2247	991	624	1050	1765	740	700	11054
<b>INTEREST</b>										
A. Balance of payments										
1. France	3									3
2. Greece I	115	89	201	15						420
3. Greece II		155	185	215	215	215	166	106	56	1313
B. Structural Loans										
4. Euratom and NCI	568	502	410	268	205	159	119	27	10	2268
5. EIB Med. Old Protocols. Spain, Greece, Port.	77	67	57	48	41	34	27	20	13	384
Interest sub-total	763	813	853	546	461	408	312	153	79	4388
<b>MEMBER STATES - TOTAL</b>	<b>1837</b>	<b>2676</b>	<b>3100</b>	<b>1537</b>	<b>1085</b>	<b>1458</b>	<b>2077</b>	<b>893</b>	<b>779</b>	<b>15442</b>
<b>NON-MEMBER COUNTRIES</b>										
<b>CAPITAL</b>										
A. Financial Assistance										
6. Hungary I 1					350	260	260			870
7. Hungary II								100	80	180
8. CSFR								375		375
9. Bulgaria								150	140	290
10. Rumania								190	185	375
11. Israel								160		160
12. Algeria								250	150	400
B. Guarantees										
13. EIB Med.	81	96	105	96	121	164	241	276	320	1500
14. EIB East. Eur.						40	110	170	170	490
15. Guarantee USSR			136	136	136					408
Capital sub-total	81	96	241	232	607	464	611	1671	1045	5048
<b>INTEREST</b>										
A. Financial Assistance										
6. Hungary I 1	37	63	89	89	89	52	26			445
7. Hungary II		18	18	18	18	18	18	18	8	134
8. CSFR		38	38	38	38	38	38	38		266
9. Bulgaria		29	29	29	29	29	29	29	14	217
10. Rumania		38	38	38	38	38	38	38	19	285
11. Israel		16	16	16	16	16	16	16		112
12. Algeria		40	40	40	40	40	40	40	15	295
B. Guarantees										
13. EIB Med.	107	200	288	322	352	378	356	336	318	2657
14. EIB East. Eur.		40	110	170	170	170	166	155	138	1119
15. Guarantee USSR		41	31	17	3					92
Interest sub-total	144	523	697	777	793	779	727	670	512	5622
<b>NON-MEMBER COUNTRIES TOTAL</b>	<b>225</b>	<b>619</b>	<b>938</b>	<b>1009</b>	<b>1400</b>	<b>1243</b>	<b>1338</b>	<b>2341</b>	<b>1557</b>	<b>10670</b>
<b>GRAND TOTAL</b>	<b>2062</b>	<b>3295</b>	<b>4038</b>	<b>2546</b>	<b>2485</b>	<b>2701</b>	<b>3415</b>	<b>3234</b>	<b>2336</b>	<b>26112</b>
(Eastern Europe)	37	267	489	535	871	645	685	1263	754	5546
(Other non-Member countries)	188	352	449	474	529	598	653	1078	803	5124

TABLE 2

MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET

(Estimate in ECU million based on all operations - disbursed at 30 June 1991)

	1991	1992	1993	1994	1995	1996	1997	1998	TOTAL
<b>MEMBER STATES</b>									
<b>CAPITAL</b>									
A. Balance of payments									
1. France	30								30
2. Greece I	210	640	615	200					1665
3. Greece II 1						500		500	1000
B. Structural Loans									
4. Euratom	142	289	336	97	43	150	583	87	1727
5. NCI and NCI BQ	584	827	1198	608	502	327	510	98	4654
6. EIB Med. Old Protocols. Spain, Greece, Port.	108	107	98	86	79	73	72	55	678
Capital sub-total	1074	1863	2247	991	624	1050	1165	740	9754
<b>INTEREST</b>									
A. Balance of payments									
1. France	3								3
2. Greece I	115	89	201	15					420
3. Greece II 1		95	95	95	95	95	46	46	567
B. Structural Loans									
4. Euratom	151	137	109	79	71	67	55	9	678
5. NCI and NCI BQ	417	365	301	189	134	92	64	18	1580
6. EIB Med. Old Protocols Spain, Greece, Port.	77	67	57	48	41	34	27	20	371
Interest sub-total	763	753	763	426	341	288	192	93	3619
<b>MEMBER STATES - TOTAL</b>	<b>1837</b>	<b>2616</b>	<b>3010</b>	<b>1417</b>	<b>965</b>	<b>1338</b>	<b>1357</b>	<b>833</b>	<b>13373</b>
<b>NON-MEMBER COUNTRIES</b>									
<b>CAPITAL</b>									
A. Financial Assistance									
7. Hungary I 1					350				350
2						260			260
B. Guarantees									
8. EIB Med. Old Protocols.	81	96	105	96	116	98	109	110	811
9. EIB Cent. & East. Eur. Poland, Hungary						1	1	1	4
Capital sub-total	81	96	105	96	467	359	110	111	1425
<b>INTEREST</b>									
A. Financial Assistance									
7. Hungary I 1		60	60	60	60	60	60		360
2	37	37	37	37	37				185
B. Guarantees									
8. EIB Med. Old Protocols.	107	104	95	88	77	68	57	51	647
9. EIB Cent. & East. Eur. Poland, Hungary			1	1	1	1	1	1	6
Interest sub-total	144	201	193	186	175	129	118	52	1198
<b>NON-MEMBER COUNTRIES TOTAL</b>	<b>225</b>	<b>297</b>	<b>298</b>	<b>282</b>	<b>642</b>	<b>488</b>	<b>228</b>	<b>163</b>	<b>2623</b>
<b>GRAND TOTAL</b>	<b>2062</b>	<b>2913</b>	<b>3308</b>	<b>1699</b>	<b>1607</b>	<b>1826</b>	<b>1585</b>	<b>996</b>	<b>15996</b>
{ Eastern Europe)	37	97	98	98	449	322	62	2	1165
{ Other non-Member countries	188	200	200	184	193	166	166	161	1458

## EXPLANATIONS

The purpose of this table is to show the annual repayments of capital and interest in respect of borrowing and lending operations for which the risk is covered by the Community budget. The figures show the maximum possible risk for the Community in respect of these operations and must not be read as meaning that these amounts will actually be drawn from the budget.

### I. TYPES OF OPERATION AND PAYMENT OF THE BUDGET GUARANTEE

#### A. Types of operation

The risk covered by the Community budget results from two types of operation:

- borrowing/lending operations;
- guarantees given to third parties.

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

The loan repayments are scheduled to match the repayments of the borrowings due from the Community. If the recipient of the loan defaults, the Commission must draw on its budgetary resources to repay the borrowing on the due date.

The loan guarantee is in respect of loans granted by a financial institution (EIB or commercial banks in the case of the Soviet Union). When the recipient of a guaranteed loan fails to make a payment on the due date, the bank asks the Commission to pay the amounts owed by the defaulter.

#### B. Mobilization of funds

The funds needed can be raised by re-using amounts repaid or by means of transfers.

The re-use of amounts repaid by debtors for which the Community guarantee has already been activated allows payments to be made within a short period of time always providing, of course, that there are funds available for re-use.

Where there are insufficient funds for re-use or insufficient time for a transfer, the amount required will be taken provisionally from cash resources with an adjustment being made later by means of a transfer and/or a supplementary and/or amending budget as appropriate.

## II. CALCULATION

Some of the amounts indicated are the result of estimates made on the basis of the following assumptions.

Generally speaking, the exchange rates for loans in currencies other than the ecu were assumed to be stable at 30 June 1991. Unless otherwise stated, the average rate of interest is estimated at 10%.

### A. Member States

1. France: France repaid this loan in advance in July 1991.
2. Greece I: The figures for repayments of capital and fixed-rate interest are final and certain.
3. Greece II: A total of ECU 2.2 billion has been granted with a first tranche of ECU 1 billion. This first tranche is repayable as follows: ECU 500 million in 1996 and ECU 500 million in 1998. It is assumed that the second tranche of ECU 600 million will be paid out in 1992 with a term of six years. It is assumed that the third tranche of ECU 600 million will be paid out in 1993 and will also run for a term of six years.
4. EIB, Mediterranean, old protocols: Spain, Greece, Portugal: These are Community guarantees for EIB operations in these countries prior to accession. The amounts are now final, since all the loans authorized have been disbursed.

### B. Non-member countries

#### a. Financial assistance

1. Hungary I: The amounts and rates for the first two tranches are final and certain. The figures for the third tranche represent a maximum.
2. Hungary II: ECU 180 million has been granted in two tranches for a term of seven years (bullet), with a first tranche of ECU 100 million.
3. Czechoslovakia: ECU 375 million has been granted in two equal tranches for a term of seven years (bullet).
4. Bulgaria: ECU 290 million has been granted in two tranches for a term of seven years (bullet).

5. Romania: An estimated ECU 375 million in two tranches for a term of seven years (bullet).
6. Israel: A Council Decision has been taken on a borrowing/lending operation for ECU 160 million. The loan will be paid in one tranche for a maximum term of seven years.
7. Algeria: ECU 400 million has been granted in two tranches of ECU 250 million and ECU 150 million for a term of seven years (bullet).

b. Guarantees

1. EIB Mediterranean

a) Old protocols

Figures provided by the EIB for loans disbursed at 30 June 1991. For the others, it is assumed that all the loans authorized under the protocols will be used in two years and will have an average term of 20 years with a five-year period of grace.

b) Third protocol with Yugoslavia

EIB loans of ECU 730 million for a term of twenty years, with a five-year period of grace; it is assumed that the loans will be paid out evenly over a period of five years.

c) Third protocol with Syria

This protocol was signed in February. It involves ECU 110 million in EIB loans which should be paid out soon (an assumed ECU 60 million in 1992 and ECU 50 million in 1993) provided that Syria settles its debts with the Community. It is cautiously assumed that the average term will be fifteen years with a three-year period of grace.

d) Fourth protocol with the Mediterranean countries

A fourth series of protocols is now being negotiated with the following countries:

Egypt	ECU	310 million
Morocco	ECU	220 million
Algeria	ECU	280 million
Tunisia	ECU	168 million
Syria	ECU	115 million
Israel	ECU	82 million
Jordan	ECU	80 million
Lebanon	ECU	45 million
	ECU	<u>1 300 million</u>

The EIB loans will thus total ECU 1 300 million. These loans will generally run for a minimum of fifteen years with a four-year period of grace.

2. EIB, Central and Eastern Europe

a) Poland, Hungary

Since the weighted average term of the first loans signed by the EIB is around fifteen years, with a five-year period of grace, this is the assumption which has been used.

The figures known in 1990 and the forecasts supplied by the EIB suggest that ECU 300 million will be paid out in 1991, ECU 300 million in 1992 and ECU 400 million in 1993.

b) Czechoslovakia, Bulgaria, Romania

It has been decided in principle, to grant ECU 700 million over two years and it is assumed that ECU 100 million will be paid out in 1991, ECU 400 million in 1992 and ECU 200 million in 1993. The rate and average term are assumed to be the same as for Poland and Hungary.

3. Food aid for the Soviet Union

This is a guarantee for a bank loan of ECU 500 million, fully covered by the budget, with a term of three and a half years with three repayments at intervals of eleven months starting from the twentieth month.