COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMISSION REPORT ON GUARANTEES COVERED BY THE GENERAL BUDGET - SITUATION AT 30 JUNE 1993

REPORT ON GUARANTEES COVERED BY THE GENERAL BUDGET SITUATION AT 30 JUNE 1993

This report describes the situation as regards budget guarantees at 30 June 1993.

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

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

The report is in three parts:

1. Description of operations entered in the budget and events since the last report.
2. Situation at 30 June 1993 as regards risks for the budget in future years and guarantees already activated.
3. Assessment of the economic and financial situation of non-Community countries benefiting from the most important operations.

PART ONE: OPERATIONS ALREADY ENTERED IN THE BUDGET

At 30 June 1993 the budgetary authority had authorized 21 headings with token entries in the 1993 budget, including six new headings for operations in favour of Bulgaria, Romania, Latvia, Estonia and Lithuania and EIB loans in non-member countries. These headings can be divided into three categories: borrowing and lending within the Community, borrowing and lending outside the Community and guarantees given to financial institutions.

I. BORROWINGS TO BE ON-LENT 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 1993 there were two operations in respect of Greece under the decisions of 9 December 1985 and 4 March 1991 and one operation in respect of Italy under the decision of 18 January 1993.

At 30 June 1993 the amount outstanding was ECU 1.200 million in loans to Greece and ECU 1 979 million in loans to Italy (Table 1).

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 1993 the amount of loans granted came to around ECU 2 900 million.

At 31 June 1993 the total of loans outstanding was ECU 1 144 million.

On 9 December 1992 the Commission proposed that the balance of borrowings not used in the Member States could be used to finance the improvement of the degree of efficiency and safety of nuclear power stations in the countries of Central and Eastern Europe and in the CIS.

Some ECU 1 100 million could be allocated.

C. BORROWING OPERATIONS FOR THE PROMOTION OF INVESTMENT IN THE COMMUNITY

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

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 granted by the EIB, acting for the Commission, 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 1993 the total outstanding was ECU 2 813 million, 15.4% less than on 31 December 1992.

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.

Every year the EIB provides the Commission with a list of debtors who, according to its information, risk defaulting in the coming year. So far, no names have been recorded on this list.

II. LOANS RAISED FOR ON-LENDING 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 is being 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, was planned for 1992 but will probably not be paid out now that Hungary's balance of payments is more favourable than expected. The tranches will be repaid in one instalment after five years and interest, which is at variable rates, is payable half-yearly.

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 in one instalment after seven years, and interest, which is at variable rates, is payable half-yearly. The second tranche of ECU 80 million was due paid on 15 January 1993. It will be repaid in January 1997 and interest, which is at a fixed rate, 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 were to be on-lent on the same terms to the Czech and Slovak Federal Republic.

The first tranche of ECU 185 million was paid on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half-yearly.

The second tranche of ECU 190 million was paid on 2 March 1992 and will be repaid in one instalment after six years.

Following the division of Czechoslovakia into the Czech Republic and the Slovak Republic on 1 January 1993, the Commission proposed that the loan be divided between the two Republics.

Two thirds of the loan - ECU 250 million - would be for the Czech Republic and one third - ECU 125 million - for the Slovak Republic.

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 were to be on-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 in one instalment after seven years, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 140 million was paid on 2 March 1992 and will be repaid in one instalment after six years. Interest, which is at variable rates, is payable quarterly.

E. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT BULGARIA ADDITIONAL MEDIUM–TERM FINANCIAL ASSISTANCE

As part of G–24's total aid of ECU 220 million, the Commission, on behalf of the Community, is empowered to borrow, in two tranches,

ECU 110 million for a period of seven years. The proceeds of this operation are to be on–lent to Bulgaria.

The first tranche will probably be paid in thee second half of 1993 and the second in early 1994.

F. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT ISRAEL MEDIUM–TERM FINANCIAL ASSISTANCE

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

This operation started on 2 March 1992. The borrowing is to be repaid in full on 15 December 1997.

G. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT ROMANIA MEDIUM-TERM FINANCIAL ASSISTANCE

As part of G–24's total aid of 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 were to be on-lent on the same terms to Romania.

The first tranche of ECU 190 million for a term of seven years was paid on 22 January 1992. It will be repaid in one instalment on 1 February 1999, and interest, which is at variable rates, is payable half–yearly.

The second tranche of ECU 185 million for a term of six years was paid on 1 April 1992 and will be repaid in one instalment on 18 March 1999. Interest, which is at variable rates, is payable half-yearly.

H. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT ROMANIA ADDITIONAL MEDIUM–TERM FINANCIAL ASSISTANCE

As part of G-24's total aid of ECU 160 million, the Commission, on behalf of the Community, is empowered to borrow ECU 80 million for a maximum period of seven years. The proceeds of this operation are to be on–lent on the same terms to Romania.

In view of its size, the loan was paid out in a single tranche on 26 February 1993. It will be repaid in one instalment on 26 February 2000, and interest is payable half–yearly.

I. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT ALGERIA MEDIUM-TERM FINANCIAL ASSISTANCE

The Commission, on behalf of the Community, was empowered to borrow ECU 400 million for a maximum period of seven years in two tranches of ECU 250 million and ECU 150 million. The proceeds of this operation were to be on–lent on the same terms to Algeria.

A bridging loan was granted on 23 December 1991 to cover the first tranche and was repaid from the net proceeds of thee borrowing contracted on 14 January 1992 for a period of six years.

The loan is to be repaid in one instalment on 15 december 1997 and interest is payable annually every 15 December.

The second tranche has not yet been paid.

J. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT MEDIUM-TERM FINANCIAL ASSISTANCE TO THE SOVIET UNION AND/OR ITS REPUBLICS

The Commission has proposed a medium-term loan of up to ECU 1 250 million for the Soviet Union and/or its Republics in order to finance imports of agricultural products, foodstuffs and medicines from the Community and Eastern Europe.

Parliament delivered a favourable opinion and the Council adopted its formal decision on 16 December 1991. The guarantee heading was set up when the 1992 budget was adopted in December 1991.

The loan will be divided between the various Republics of the former Soviet Union for a maximum period of three years.

The loan contracts were signed in the course of 1992:
- with Armenia (ECU 38 million), Kyrgyzstan (ECU 32 million), Turkmenistan (ECU 45 million) and Moldova (ECU 27 million) on 10 July 1992;
- with Ukraine (ECU 130 million) on 13 July 1992;
- with Belarus (ECU 102 million), Tajikistan (ECU 55 million) and Georgia (ECU 70 million) on 24 July 1992;
- with Russia (ECU 150 million) on 9 September 1992;
- with Russia (ECU 349 million) on 9 December 1992;
- with Kazakhstan (ECU 25 million) on 15 December 1992;

The amounts allocated to certain Republics have since been revised and agreements supplementary to the initial contracts were signed on 5 May 1993:
- the amount for Armenia was increased from ECU 38 million to ECU 58 million;
- the amount for Georgia was increased from ECU 70 million to ECU 80 million;

These increases were covered by the reallocation of ECU 30 million originally intended for Kazakhstan which stated that it would not use all this amount since ECU 25 million was sufficient.

The total outstanding at 30 June 1993 was ECU 616 million.

So far, contracts have been signed for only ECU 1 023 million since Uzbekistan (ECU 129 million) and Azeerbaijan (ECU 68 million) do not satisfy one of the criteria for eligibility - they do not accept joint and several responsibility for the debt of the former Soviet Union.

The capital repayment and interest payment dates for this operation vary depending on the amount of the loan and on the Republic:
- Armenia (ECU 38 million), Belarus, Georgia, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Russia (ECU 150 million):
  - interest on 20 April and 20 October
  - capital on 20 August 1995 (20 August 1994 and 1995 for Belarus, Ukraine and Russia)
- Armenia (ECU 20 million), Kazakhstan, Russia (ECU 349 million):
  - interest on 15 January and 15 July
  - capital on 15 January 1996 (15 January 1995 and 1996 for Russia).

K. BORROWING CONTRACTED BY THE COMMUNITY TO GRANT MEDIUM-TERM FINANCIAL ASSISTANCE TO ESTONIA, LATVIA AND LITHUNIA

As part of the G-24's total aid of ECU 440 million for these three countries, the Commission, on behalf of the Community, is empowered to borrow ECU 220 million for a period of seven years. The proceeds of this operation are to be on-lent on the same terms in two tranches:
- ECU 40 million for Estonia;
- ECU 80 million for Latvia;
- ECU 100 million for Lithuania.

The first tranches of the loan for Estonia (ECU 20 million) and for Latvia (ECU 40 million) were paid on 31 March 1993. The loans are to be paid in one instalment on 31 March 2000 and interst is repayable half-yearly every 31 March and 30 September.

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% on all credit lines made available for loans in the following countries: Portugal (Financial Protocol, pre-accession aid), Greece, Spain (financial cooperation), Malta, Tunisia, Algeria, Morocco, Turkey, Cyprus, Egypt, Jordan, Syria, Israel, 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.

The loans authorized at 30 June 1993 total ECU 7 517 million, of which ECU 1 500 million is for Spain, Greece and Portugal and ECU 6 017 million for the non-member Mediterranean countries. At 30 June 1993 the total of outstanding loans came to ECU 2 161 million (taking account of the 75% limit), of which ECU 629 million was accounted for by Spain, Greece and Portugal and ECU 1 532 million by the non-member Mediterranean countries.

With the signature of a fourth series of protocols, the breakdown of authorizations by country (non-member countries only) is as follows:

	Old protocols	4th protocols Authorizations	Total
Algeria	360	280	640
Cyprus	92		92
Egypt	492	310	802
Israel	133	82	215
Jordan	118	80	198
Lebanon	177	45	222
Malta	55		55
Morocco	297	220	517
Syria	208		208
Tunisia	250	168	418
Turkey	90		90
Yugoslavia [1]	760		760
	3 032	1 185	4 217

The second protocol with Yugoslavia was suspended on 25 November 1991 but as part of the programme of positive measures for Bosnia–Hercegovina, the former Yugoslav Republic of Macedonia, Slovenia and Coratia, the EIB was asked to resume payments for projects covered by contracts signed before 8 November 1991 (ECU 290 million is still to be disbursed) as far as circumstances permit. At 31 December 1992 the Bank had resumed payments in Slovenia and Croatia.

There is also provision for EIB loans outside these protocols under Council Regulation (EEC) No 1763/92 of 29 June 1992 concerning financial cooperation in respect of all Mediterranean non–member countries.

1 The second protocol with Yugoslavia was suspended when ECU 100 million of credits were still to be agreed.

At 30 June 1993 ECU 297 million had been made available but no disbursements had taken place.

The loans are generally for 15 years with 3 to 4-year 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 budgetary authority extended this guarantee to loans made in Czechoslovakia, Bulgaria and Romania up to a maximum of ECU 700 million.

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

On 23 October 1992 the Commission presented a proposal for a Council Decision extending this Community guarantee to losses incurred by the EIB as a result of loans granted to Estonia, Latvia and Lithuania; this has been approved by the budgetary authority.

The overall ceiling on loans which the EIB may grant in these countries was set at ECU 200 million for a period of three years.

On 18 December 1992 the Commission also proposed the extension of this guarantee to losses incurred by the EIB as a result of loans granted in Albania.

The overall ceiling on loans which the EIB may grant in Albania was set at ECU 50 million for a period of three years.

The loans are generally long-term: 15 years on average with 3 to 4-year periods of grace on capital repayments.

At 30 June 1993, ECU 1 090 million had been made available in these six Eastern European countries but only ECU 178.8 million had been disbursed.

On 17 May 1993 the Commission presented a proposal for a Council Decision renewing the Community guarantee for a period of three years for loans granted by the EIB in the countries of Central and Eastern Europe (including the Baltic States and Albania) up to a maximum of ECU 3 billion.

C. LOANS GRANTED BY THE EUROPEAN INVESTMENT BANK IN NON-MEMBER COUNTRIES

At its meeting of 19 May 1992 the Council (Economic and Financial Affairs) adopted the guidelines proposed by the Commission for thee extension of EIB activities outside the Community and asked it to grant loans in accordance with its statutes and its usual critria to projects of mutual interest in countries with which the Community has concluded cooperation agreements.

An overall limite of ECU 250 million per year has been set for a 3-year period; this ceiling will be reviewed at the end of the period.

These loans benefit from Community budget guarantees. The Commission presented a proposal for a decision to this effect on 3 June 1992. The formam Council Decision followed on 15 February 1993.

The budgetary authority set up a heading for this purpose in the 1993 budget.

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

The Community has decided to guarantee loans granted to the former 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 (around ECU 408 million) and interest (around ECU 92 million).

As the credit line has not been used in full and as the time limit for use has not been extended, the amount guaranteed comes to only ECU 375 million in principal and ECU 52 million in interest.

The Community will receive a surety commission of 0.67% of the amount guaranteed in consideration for this guarantee. Half of this commission was paid on 26 December 1991 under the terms of the contract. The balance was paid on 28 January 1993; the reduction in the Community guaranteee was taken into account.

On 26 November 1991 the terms of the loan and the arrangements for the utilization of the funds were laid down in an exchange of letters between the Commission and the Soviet authorities. On the same day the Community and the banks signed a contract of guarantee.

Following the disappearance of the Soviet Union, it has been decided that the funds will be used by the Russian Republic.

The loan is for three and a half years from the date of signature.

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.

The first repayment of capital is due on 26 July 1993.

The first interest payment was due on 9 September 1992 and was made on 25 September 1992.

The second interest payment was due on 9 March 1993 and was made on 2 April 1993 together with the interest for late payment of the September instalment.

PART TWO: 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 1993, giving the minimum level of risk to the Community assuming that there are no early repayments;
- 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 assuming that the Commission's proposals are accepted.

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.

The following analysis distinguishes btween total risk, the risk in rspect of Member States and the risk in respect of non–member countries.

I. TOTAL RISK

A. MOUNT OUTSTANDING AT 30 JUNE 1993 (Table 1)

The total risk at 30 June 1993 came to ECU 12 834 million, 14.4% more than at 31 December 1992.

B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1993 (Table 2)

The total risk comes to ECU 3 270 million in 1993 and will drop sharply to ECU 2 412 million in 1994 after which it will rise to ECU 2 832 million in 1996 and then fall again before increasing to ECU 2 038 million in 2000.

C. MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (Table 3)

This risk comes to ECU 3 394 million in 1993 and will fall to ECU 2 990 million in 1994 before increasing gradually to ECU 4 333 million in 1997; it will fall to ECU 4 103 million in 1998 and increase to ECU 5 488 million in 1999 and ECU 7 154 million in 2000.

II. RISK IN RESPECT OF THE MEMBER STATES

A. AMOUNT OUTSTANDING AT 30 JUNE 1993 (Table 1)

The amount of capital outstanding in respect of operations in the Member States came to ECU 7 764 million at 30 June 1993, an increase of 10.7% compared with 31 December 1992.

This increase is mainly due to to the operation in Italy which accounts for ECU 1 979 million.

The amount outstanding from the other operations has continued to fall; in particular, part of the first borrowing granted to Greece has been repaid.

B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1993 (Table 2)

The risk for 1993 comes to ECU 2 744 million. Of this total, Greece has already repaid ECU 569 million in principal in the first half of 1993 and ECU 541 million in NCI loans.

The risk will then drop to ECU 1 974 million in 1996 and will again fall to a very low level in 1999 (ECU 228 million) before rising to ECU 1 688 million in 2000 when part of the loan granted to Italy falls due (ECU 1 575 million in principal and interest).

C. MAXIMUM THEEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (Table 3)

The trend is the same as in the previous case up to 1996 when the risk will amount to EECU 2 694 million. It will then drop by ECU 500 million in both 1997 and 1998 and increase to ECU 3 547 million in 1999 before reaching a peak of ECU 4 749 million in 2000, most of it accounted for by Italy (ECU 3 975 million) and, to a lesser extent, Greece (ECU 660 million).

III. RISK IN RESPECT OF NON-MEMBER COUNTRIES

A. AMOUNT OUTSTANDING AT 30 JUNE 1993 (Table 1)

The amount of capital outstanding at 30 June 1993 came to ECU 5 070 million, an increease of 20.5% compared with 31 December 1992.

Thee countries of Central and Eastern Europe accounted for 60% of the risk and the Mediterranean countries for 40%.

At 31 December 1992 the proportion had been 55% for the countries of Central and Eastern Europee and 45% for the Mediterranean countries.

B. MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1993 (Table 2)

The risk for 1993 comes to ECU 526 million and will increase to ECU 1 433 million in 1995, mainly because two repayments of principal then fall due:
- ECU 350 million from Hungary;
- ECU 393 million from the Republics of the former Soviet Union.

The risk will then drop in 1996 and increase again in 1997 to ECU 1 245 million as the following payments fall due:
- ECU 80 million from Hungary;
- ECU 190 million from the Czech and Slovak Republics;
- ECU 140 million from Bulgaria;
- ECU 250 million from Algeria;
- ECU 160 million from Israel.

At ECU 954 million, the risk will drop but still be at a high level in 1998, but should fall to less than ECU 500 million in 1999 and 2000.

C. MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET (Table 3)

The risk for 1995 should come to ECU 2 366 million; in particular, the Republics of the former Soviet Union are to repay principal of ECU 929 million that year.

The risk will drop to ECU 1 488 million in 1996, rise again to ECU 2 135 million in 1997, ECU 2 454 million in 1998 and, after a fall to ECU 1 941 million in 1999, to ECU 2 405 million in 2000.

IV. ACTIVATION OF GUARANTEES

In the first half of 1993, the EIB again called on the budget guarantee in respect of loans of around ECU 6.7 million to the Republics of former Yugoslavia (Bosnia–Hercegovina, Macedonia and Serbia). This was paid from the budget on 19 May 1993.

At 30 June the Republics of former Yugoslavia still had to repay ECU 15.2 million in reespect of debts paid by the Community.

The Commission also made payments from its cash resources under Article 12 of Council Regulation No 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources.

This possibility was used for the payment of interest:

- due from Russia on 9 March 1993 in respect of a loan granted by a consortium of banks and guaranteed by the Community;
- due from nine Republics of the former Soviet Union on 20 April 1993 in respect of the borrowing and lending operation of ECU 1 250 million for these Republics.

This interest was eventually paid by the debtors concerned after a delay.

PART THREE: 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 of ECU 500 million and the loan of ECU 1 250 million to finance imports of agricultural products and foodstuffs into the Soviet Union, since the risk involved in these two operations 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 these 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 the Euratom and EIB loans outside the Community (Mediterranean and Central and Eastern Europe).

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

All countries receiving assistance under operations with macroeconomic objectives have been implementing stabilization and reform programmes. The economic and financial performance of these countries largely depends on the degree of progress with the far-reaching structural reforms that the assistance supports.

This section also provides information on a number of countries of Central and Easter Europe that are not receiving this type of assistance - the successor States to Yugoslavia and the ex–Soviet Republics.

A. HUNGARY

The Hungarian economy has suffered a severe contraction during the last three years. After a fall of 5% in 1992, real GDP is expected to decline between 0% and 3% this year. Prices increased by 10.8% in the first five months of 1993, in line with the annual target of 20-22% and just slightly below last year's 23%. Unemployment stabilized at 677,000 (or 13.0% of the workforce) by the end of May 1993, after having dropped for three straight months.

In 1993, the government intends to generate an income of Ft 105 bn (some 3.3% of GDP) from privatization. In 1992, companies to remain permanently state-owned have been selected and screening of the companies up for privatization has started. Within this framework, 16 companies have been chosen for short-term relief.

The financial sector reform is underway. Measures to clear-off banks' bad debts were implemented in 1992 and further steps are expected in 1993. Financial support is needed in agriculture, which has suffered from disorganisation and recession.

The government intends to proceed with the public finance reform by increasing tax revenues and streamlining expenditures, especially those connected with social security. In July 1993, Parliament approved a supplementary budget which brings the deficit this year to Ft 213.3 bn, corresponding to 6.8% of GDP. Within the framework of a 3-year deficit consolidation programme and as part of its recent commitments with the IMF, the government plans to reduce the deficit in 1994 to around 5.5% of GDP.

In 1992 the current account showed another (moderate) improvement with the surplus increasing from $ 267 mio to $ 325. This improvement in 1992 as a whole, however, hides a significant and rapid deterioration of the current account in the second half of the year, a deterioration that has continued in the first half of 1993. The worsening of the Hungarian current account since last summer reflects both a sharp fall of exports and an acceleration of imports. While the deterioration of the trade balance is no doubt exaggerated by some special transitory factors (the negative effect on agricultural exports of the recent draught, "leads and lags" behaviour of importers and exporters on the expectation of a more rapid depreciation of the forint, etc.), it basically reflects two underlying problems : first, while domestic demand started a mild recovery in the middle of 1992, demand in Hungary's main trading partners (and, in particular Germany, Austria and Italy) has weakened considerably. Secondly, Hungary has suffered a severe loss of international competitiveness since 1990, as reflected in the dramatic appreciation of the real exchange rate of the forint.

In this context, a substantial deterioration of the current account is forecasted for this year and next, which could lead to deficits of around $ 0.9 bn and $ 1.7 bn in to be high in the next two years (at between $ 1 bn and $ 1.4 bn per year), and the country has a quite comfortable foreign exchange reserve cushion (some $ 5 bn in March 1993). Also, with around $ 2 bn raised in the first half of 1993 through issues of international public bonds, Hungary has confirmed that it continues to enjoy rather easy access to the international capital markets. In this respect, both Moody's and Standard and Poor's have maintained Hungary's long-term foreign currency bond ratings at Ba1 and BB+, respectively. Finally, Hungary has agreed in principle with the IMF on a 18-month stand-by credit out of which the first drawing is expected in fall.

The country's gross external debt in convertible currencies amounted to $ 21.4 bn at the end of 1992 (65% of GDP), down from $ 22.3 bn at the end of 1991. However, the structure of the debt, which had improved significantly in recent years, deteriorated somewhat in 1992, as the proportion of short-term loans increased from 9.6 to 10.7%. Total debt service amounted to $ 4.4 bn in 1992, an increase from $ 4 bn in 1991, but was little changed as a percentage of exports of goods and services (about 34%). Principal repayments ($ 2.8 bn in 1992) are projected to decline to around $ 2.2 bn in 1993 and 1994 but will rise sharply to $ 3 bn and 3.5 bn in 1995 and 1996, respectively. In view of the present deterioration of the current account, this could increase the pressure on Hungary's balance of payments in the coming years.

B. CZECH AND SLOVAK REPUBLICS

Real GDP in the whole of the former Czech and Slovak Federal Republic (CSFR) fell again by an estimated 7% in 1992, after having decreased by 15% in the previous year. However, over the year the decline in output was partially halted and at the end of 1992 some sectors began to show sings of recovery. The authorities of the CSFR continued to implement tight monetary and fiscal policies, and inflation, having increased by 58.7% in 1991 in the wake of the liberalization of prices, slowed down to 12% in 1992. The introduction of a VAT in January of 1993 has, however, pushed year-on-year inflation in the new independent republics again above 20%.

The split of the federation has so far had quite unfavourable economic repercussions for the successor republics, particularly for Slovakia which has lost a large fiscal transfer from the Czech Republic and is confronted with the need to finance an important trade deficit vis-à-vis the latter. Both countries agreed on the creation of a customs and monetary union after the dissolution of the CSFR. But uncertainty about the consequences of the break-up of the federation and speculation about the future of the monetary union (which was seen as a transitory arrangement), gave rise to a strong capital flight, produced large losses of reserves in both republics and provoked the collapse of the monetary union only one month after it was set up. Although the custom union remains in force and a clearing system has been agreed between both republics, inter-republican trade has dropped sharply since the currency split. Initially, Slovakia tried to keep its currency at parity with the Czech crown but it finally accepted the IMF recommendations and devalued by 10% its currency against the Czech unit last July.

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The Czech and Slovak republics face quite different economic situations and prospects. While Czech real GDP may grow by 0-3% in 1993, Slovak output is expected to decline this year by another 3-6%. Also, unemployment is much higher in Slovakia (12% of the labour force) than in the Czech Republic (less than 3%) and Slovakia has a weaker industrial structure and a greater share of the defence and heavy industries where CMEA markets have collapsed. In addition, while after the VAT-induced price "jump" of last January prices have been quite stable in the Czech Republic and may show at the end of 1993 a year-on-year increase of around 16% (9-10% excluding the VAT effect), the recent devaluation of the Slovak crown may put Slovak inflation at 25-30% by the end of the year.

Although the dissolution of the CSFR has since last summer tended to dominate the political debate and has diverted some attention from structural reforms, progress in some areas has continued to be made. Thus, the bidding rounds of the first wave of large-scale "voucher privatisation", involving 1,500 companies, were completed in December 1992. The Czech Republic has already announced plans for a second wave of large-scale voucher-based privatisation, which is expected to begin in the second half of 1993 and should affect over 2,000 additional firms. Meanwhile, the Slovak republic is planning to privatise around 500 enterprises in the second wave although instead of voucher-based methods the Slovak government intends to rely more on traditional privatisation methods, such as direct sales to foreign investors, "management bug-outs" and tenders. Other recent noteworthy structural reform measures are the new, quite tough, Czech bankruptcy law that came into effect last April, the opening last June of the Prague Stock Exchange and the comprehensive tax reform implemented by both republics in January 1993.

The convertible trade balance of the CSFR suffered an important deterioration in 1992, with the deficit increasing from $ 0.4 bn to $1.6 bn. The deterioration occurred entirely in the second half of the year and, particularly, in the last months of the year as consumers anticipated imports ahead of the introduction of the VAT and companies accelerated import payments fearing a devaluation or a restriction of currency convertibility after the split of the federation. Therefore, part of the worsening of the trade balance reflected transitory factors, but was also due to the recovery of domestic demand as the economy started to, slowly and unevenly, move out of recession. Strengthened net invisible receipts, however, offset to a large extent the trade deterioration, with the result that the convertible current account surplus of the CSFR fell only moderately (from $ 0.4 bn to $ 0.2 bn). Furthermore, the net inflow of foreign direct investment (FDI) increased dramatically (from $ 0.6 bn in 1991 to $ 1.1bn) despite a very weak fourth quarter due to the uncertainties caused by the upcoming division of the country.

Balance of payments prospects for 1993 and 1994 differ substantially between the Czech and the Slovak republics. The Czech Republic is likely to see its trade surplus turn into a growing deficit as domestic demand continues to recover and Slovakia struggles to reduce its bilateral trade deficit. However, the Czech Republic should have no problems in the next two years to finance the resulting current account deficit. The deterioration of the current account will actually occur from a very comfortable initial position and should not be dramatic since the Czech Republic continues to enjoy a competitive real exchange rate. Furthermore, the Czech Republic, which in the last 2 years has received about 90% of the total amount of FDI flowing into the former CSFR, should continue to attract in the coming years a net inflow of FDI of between $ 0.8 bn and $ 1 bn per annum. Finally, the Czech Republic has already recovered much of the foreign exchange reserves lost in the months that preceded the collapse of the monetary union with Slovakia; it has signed last March a 12-month $ 250 mio stand-by credit with the IMF; and enjoys good access to the international capital markets. The Czech government has, in effect, inherited (and reinforced) the CSFR federal government's solid reputation for sound and orthodox macroeconomic policies and is perceived by the markets to be strongly committed to market-oriented reforms. This has been reflected in the upgrading to an "investment grade" of Moody's rating (from the Ba1 previously assigned to the CSFR to Aa3).

The balance of payments situation and prospects in Slovakia are more difficult. Slovakia has lost the large fiscal transfer from the Czech side, a transfer that more than financed its trade deficit vis-à-vis the Czech Republic in 1992. Its current account will probably improve this year and next owing to the continuing recession which depresses imports and the expected effects of recent devaluation of the Slovak crown and the import surcharge on consumer goods to be shortly introduced. But Slovakia has a vulnerable foreign exchange reserves position and the risk of balance of payments difficulties provoked by capital flight has not entirely disappeared, even after the 10% devaluation of the Slovak crown. Furthermore, and in contrast with the Czech Republic, the Slovak authorities can no longer benefit from the international reputation that the federal government had built up over the last three years. Accordingly, its sovereign rating and its degree of access to the international capital markets are much lower than those of the Czech Republic (Moody's has not yet reassigned a rating to Slovakia as an independent country but, when and if it does, it will probably be slightly below the Ba1 rating the CSFR used to have).

The devaluation and the $ 90 mio loan agreed in principle last June with the IMF under the newly created "Systemic Transformation Facility" should help ease the balance of payments situation and will contribute to restore confidence in the Slovak economy. The devaluation, in particular, will allow to reduce the trade deficit vis-à-vis the Czech Republic without having to rely only on import compression. But if a re-emergence of balance of payments pressure is to be avoided, the Slovak government must apply the right macro-economic stabilization policies (in particular a restrictive fiscal policy) and press ahead with structural reform.

Regarding foreign debt, the former CSFR had a low foreign debt burden. Convertible currency external debt amounted to only $ 9.4 bn in 1991 and fell further to $ 9.2 bn (or 26% of GDP) at the end of 1992. At the 2:1 ratio at which the Czech and Slovak authorities have agreed to split most of the former CSFR outstanding liabilities, the convertible debt of the Czech Republic totalled $ 6.2 bn at the start of 1993 (24% of Czech GDP) and that of the Slovak Republic $3.1 bn (30% of Slovak GDP). Total debt service (interest and repayments) in the CSFR amounted last year to $ 1.9 bn (12.2% of exports of goods and services). If the total debt service is allocated between the successor republics at the 2:1 ratio, this results in total debt services of $1.3 bn and $ 0.7 bn in the Czech Republic and Slovakia, respectively, or 11.6% and 12.6% of the estimated values of their respective exports of goods and services. Principal repayments associated with the total foreign obligations of the former CSFR are expected to rise gradually from 1992 ($ 1.3 bn) to 1994 ($1.5 bn), increase quite sharply in 1995 (to $ 1.2 bn) and, then, fall even more sharply in 1996 (to $1.2 bn) and 1997 (to $870 bn). While the sharp increase in debt repayments of 1995 should create no particular problems for the Czech Republic, it could add some pressure to the more fragile balance of payments of Slovakia.

C. BULGARIA

Bulgaria's economic performance has been worse than that of most other countries of the region. In 1991 real GDP fell by 17%, real wages fell by about half, and inflation was close to 300%. The decline continued in 1992, with GDP falling by a further 8% in real terms; industrial output is down about 20% over 1991, with only tentative signs of recovery; inflation remains high at 4-6% per month (80% overall in 1992), and unemployment is over 15% of the labour force. External factors have exacerbated the crisis : the debt problem (Bulgaria has been cut off from foreign credits since 1990 when it declared a unilateral moratorium on debt-servicing); the collapse of the ex-USSR, on which Bulgaria was more dependent than other countries; large uncollectable claims on Libya and Iraq; and most recently, the embargo against Serbia, which was a major export market.

Economic reform has so far mainly consisted of liberalization and stabilisation measures. In particular, cautious macroeconomic policies and an early introduction of internal convertibility allowed most domestic prices to adjust to market-clearing levels without triggering an inflationary spiral. Structural reform has proceeded more slowly, in part because of inadequate political consensus during 1991 and 1992. However, considerable legislative progress on privatization and other structural measures has been made and small-scale privatization and restitution are advancing well. On the other hand, there have been considerable delays in large-scale privatization. For medium-term prospects, much will depend on how vigorously the legislation is implemented. A resumption of growth will need to be export-led - there is no room for monetary or fiscal stimuli. This requires that the debt crisis be resolved, and that export markets, especially in Europe, be sufficiently open.

After the end of the political crisis, Bulgaria resumed its relations with the IMF in the framework of the stand-by arrangement with the Fund that expired in April 1993. The government is at present negotiating a new programme, to be supported by a new SBA.

The improvement of the external financial situation of the country continued in 1992. The trade balance was slightly positive, following a bigger increase of exports than that of imports (imports are still low, mainly due to shortfalls in external financing). International reserves are close to $ 1 billion or three months' imports (they were over US$ 1.1 billion in the end of October 1992). They remain, however, weak in view of the likely needs that may arise in the context of the settlement of Bulgaria's commercial debt. The negotiations with the commercial banks on this issue have recently progressed and there are some reasons to believe that a generous debt reduction agreement may be reached by the end of 1993 (in November 1992, the two parties had reached an agreement on the main principles for a future debt and debt service reduction package). In December 1992, Bulgaria secured a further debt relief from its official creditors. The new Paris Club agreement reschedules the debt servicing due up to April 1993 together with the arrears incurred since the expiry of the consolidation period covered by the previous agreement (concluded in April 1991). As soon as a new stand-by arrangement with the IMF is concluded, a new round of discussions with the official creditors will take place with a view to reaching a further debt rescheduling agreement. Overall, the external debt is estimated to US$ 12 billion (some 126% of GDP and 280% of exports) including some $ 9.3 billion owed to commercial creditors. About half of this debt is made up of arrears on short-term deposits and letters of credit. The debt has been increasing in 1992 since Bulgaria is still accumulating arrears (the interest payments that were resumed in September 1992 - but suspended temporarily in June this year - amounted to only 20% of current interest falling due). The debt-service ratio is estimated at some 50% of convertible currency export earnings, and would reach 150% if principal and interest arrears are taken into consideration. The price of this debt on the secondary market has fluctuated around 20%.

D. ROMANIA

Romania has embarked since 1991 on comprehensive programmes aimed at restructuring the economy and eliminating major economic imbalances. Despite initial progress in liberalizing the economy, stabilization has yet to be achieved. Output declined substantially by 13 and 15% respectively in 1991 and 1992; inflation has remained high (at some 200% per year); and official foreign exchange reserves were depleted by the end of 1992.

The Romanian authorities strived to maintain prudent fiscal and monetary policies during most of the period, and exercised wage restraint. However, owing to policy shortcomings in the implementation of the reform programme (price liberalization, restructuring of enterprises and exchange rate policy), monetary and fiscal restraint failed to contain inflation and stabilize the exchange rate. On the fiscal side, despite a dramatic decline in government revenues and an initial increase in current transfers (in connection to price liberalization), the budget deficit narrowly defined was contained to 2% of GDP in 1991, owing in part to a compression of investment expenditure. In 1992, the budget deficit increased to 5% of GDP, due to growing consumer subsidies. However, the budget deficit does not accurately reflect the true fiscal stance, as extra-budgetary expenditure remained substantial.

In the context of a shortage of foreign exchange, the authorities have pursued conflicting exchange rate policies. In principle, the exchange rate is determined by market forces since June 1992. However, the authorities have attempted to slow the devaluation process in step-wise adjustments in the hope of containing inflation. The exchange rate has been pegged at an unsustainable level in view of the prevailing inflation over long periods of time. This has resulted in large discounts on the parallel market, the rationing of imports and, following the elimination of surrender requirement for exporters in June 1992, in the build up of deposits in foreign currencies by exporters whereas official reserves were depleted. This policy has failed to contain inflation; but it has generated speculation against the leu. Thus, the leu remained pegged to the dollar at the increasingly overvalued rate of leu 430 per dollar during the last three months of 1992. Since then, the authorities have let the rate slip and at mid-June 1993, it was standing at leu 694 per dollar.

One of the purposes of the exchange rate policy pursued has been to contain imports through rationing without hindering exports (the proceeds of which could be kept in foreign exchange). However, large public sector imports of grain (Romania experienced a severe draught in 1992) and energy products effected by end-1992 resulted in a large deterioration of the current account deficit for 1992 to some 8 1/2% of GDP (5% in 1991). Substantial capital inflows, reflecting the disbursement of foreign assistance, more than compensated current account deficit. However, whereas the external position of commercial banks improved substantially, official foreign reserves were depleted by end-1992. External debt increased substantially from 4% of GDP at the end of 1991 to over 13% by the end of 1992. Debt service ratio, however, remained below 10% of exports of goods and services.

The Romanian authorities designed a reform strategy to transform the economy rapidly into a market-based system. To this end, the government developed and implemented a legal and institutional framework to establish the central role of private ownership and decision-making. The reform programme has achieved significant progress. Most consumer prices have been liberalized. Quantitative restrictions on imports have been removed, and tariffs used to protect domestic industries have been reduced to low levels. Wage determination has been freed, with the institution of collective bargaining. The financial system has been deregulated. Citizens have been given the right to establish businesses, to compete freely in the market, and to acquire, retain and dispose of property. Finally, the Government has proceeded to transfer state assets to the population.

The reforms have also met with some setbacks. The exchange rate system has not been functioning as envisaged. Price liberalization has not been completed, with administrative intervention in price setting persisting for some goods at the wholesale levels. Enterprise restructuring has not been as rapid as hoped and the government has not been able to impose strict financial discipline on enterprises.

The late Stand-By Arrangement with the IMF expired in March 1993. The Romanian authorities are currently negotiating a new programme, to be supported by a new Arrangement.

E. THE BALTIC STATES

The economies of the Baltic states were highly integrated within the Soviet Union economic system, from which they regained their independence in August 1991. All three countries have suffered a severe downturn in economic activity as trade with former Soviet republics, particularly Russia, has declined. The situation was exacerbated in 1992 by a terms of trade shock caused by Russia's move to market prices for exports. It now appears that the severe output declines have been halted.

Estonia

In the first half of 1993, output seems to have stabilized, following declines in the order of 27% in 1992 and 11.8% in 1991. Unemployment is increasing; in May 1993, registered unemployment stood at 21,733 (about 3.2% of the labour force), about double the level reached at the end of last year. But hidden unemployment is believed to be much higher. The budget for 1992 showed a surplus of 1.3% of GDP in 1992; the surplus even reached 5% in the first quarter of 1993, supported by a decline of tax arrears and continued reluctance of state enterprises to lay off employees. Inflation came down substantially at the end of last year and continued to decline in July; in the last couple of months, the monthly increase in the consumer price index stabilized at 2-3%.

Price liberalization has largely been completed, and the emergence of a rational price structure has been assisted by the introduction of Estonia's own convertible currency the kroon. Privatization was at first limited to small-scale enterprises, with over 40% sold into private ownership by the end of 1992. The government has made progress in 1993 towards accelerating the process of privatization. In response to a liquidity crisis in the banking system in late 1992, the Estonian authorities decided to liquidate one major bank and to recapitalize and merge two others. Recapitalization was affected by means of a bond issue and limited support from central bank reserves. One further bank has since been liquidated.

Negotiations on the sale of 25 out of 38 large enterprises offered for international tender last year are being finalized and the bids for another 52 large enterprises were received in Summer 1993. The government is also preparing legislation for creating a holding company that consolidates the ownership and sales of all state enterprises under a single agency. It is expected that the restitution process will accelerate now that the government has approved a final deadline of 1 April 1993 for filing claims.

In 1992, Estonia's current account, which had shown a substantial surplus in the previous year, deteriorated significantly as Russia started to charge world market prices for its exports to Estonia at the beginning of the year. However, contrary to earlier estimates, the current account recorded a small surplus, with exports and the services balance higher than expected and imports below programmed levels. There was as a result an unexpectedly high build-up of international reserves. The trade balance showed a small deficit in 1992, which seems to be increasing in 1993. Whereas trade with the FSU remained at low levels, it expanded rapidly with the West and now constitutes 70% of total trade.

In September 1992, IMF Board approved a one-year stand-by loan totalling about $39 mio for the period 1 July 1992 - 30 June 1993 backing the Estonian government's reform and stabilization programme. Estonia purchased the first tranche (about $ 11 mio) in September 1992 and the second tranche in January, but it decided not to purchase the third and fourth tranches because of the unexpectedly comfortable reserve position. The IMF expects that all outstanding tranches will have been requested by September. At the end of March 1993, Estonia's foreign debt amounted to $ 47 mio (about 4.5% of GDP).

Latvia

As a consequence of the substantial terms of trade loss and the general breakdown of traditional trading patterns, real GDP fell by about 30% in 1992, following an 8% decline in 1991. In May 1993, the unemployment rate stood at 5.2% of the workforce, more than double the rate at the end of 1992. Moreover, hidden unemployment is widespread and the government expects unemployment to increase to 12% by the end of 1993. The 1992 budget showed a deficit of about 1.4% of GDP, resulting from difficulties in the enterprise and the accumulation of tax arrears. The budget for 1993 envisages balance for current expenditures, but revenues have not matched expectations so far this year, leading the government to seek a further loan from the central bank. Inflation has come down substantially since the Latvian monetary reform in July 1992. For the first time since the price liberalization started, the retail price index fell in May.

Price liberalization has progressed well in Latvia; only a few items remain subject to control. Privatization, however, has so far been confined mainly to agricultural co-operatives, small shops and service establishments. By the end of 1992 about 60% of eligible enterprises in this group had been privatized either through sales or leases. For large-scale enterprises, 433 privatization projects (out of a total of 844 eligible enterprises) were received by branch ministries by end-December 1992 and are now being evaluated. The government is currently organizing a voucher system approved by parliament in November. A law adopted last August identifies an initial 25 large-scale enterprises suitable for early privatization.

Latvia's current account situation worsened significantly in 1992 owing to the substantial terms of trade shock which affected the economy at the beginning of the year when Russia started to charge market prices for its exports to Latvia.

Nevertheless, the deficit in the trade balance, which was incurred entirely with the FSU, was more than compensated by a surplus in the services balance resulting in a current account surplus and an increase by $ 52 mio of gross national reserves. However, as external financing has increased substantially in the first half of 1993 and economic activity is stabilizing, the current account seems now to have moved into deficit. Latvia's official external debt outstanding stood at $58 mio (about 5% of GDP) on 31 December 1992 and is likely to have increased considerably in the first half of 1993. Latvia never recognized the 1.14% share of the FSU debt it was assigned during the negotiations of the FSU. Negotiations on this issue with Russia are still under way.

Lithuania

Real GDP fell by about 35% in 1992, following a decline of about 13% in 1991. Registered unemployment more than doubled since the end of 1992 and stood at 29,000 in May 1993 (in the order of 1.5%). Contrary to the other two Baltic States, inflation remained high into 1993, but seems to finally be coming down (monthly rates of 25% in April, 13% in May, 6% in June) as monetary control is strengthened. The budget was in surplus (2% of GDP) in 1992 and for 1993 only a small deficit is expected.

Price liberalization has progressed to the extent that all goods and services except household energy products and monopoly products are de-controlled. Privatization has progressed relatively fast in Lithuania. Vouchers have been given to citizens, which can be used together with cash as payment for various acquisitions including for residential property, small firms and larger enterprises. The government is concerned that privatization has proceeded without sufficient attention to restructuring, thus hindering rationalization and labour shedding. It is, therefore, reviewing the privatization programme. Agrarian reform is also under review. Privatization of large collectives has resulted in production units which seem too small to be efficient.

In 1992, Lithuania's current account situation deteriorated considerably. Negative factors were the severe drought and the terms of trade shock induced by Russia whose export prices for Lithuania reached world market levels in Fall 1992. For the year as a whole, the current account was in surplus as was the trade balance. Gross national reserves increased by $75 mio in 1992, excluding the return of gold from the Bank of England, France and Switzerland (totalling about $ 63 mio). At the end of 1992, the stock of Lithuania's external debt represented some 8% of GDP but it is now likely to increase as assistance from EC/G-24 is flowing in. During the interstate negotiations on the FSU debt, Lithuania was assigned 1.41% of the overall debt (about $ 1 bn), which it never recognized. Negotiations are still under way with Russia on this issue.

F. ALGERIA

Algeria's external debt stands at US$ 25 billion, with a strong short-term component. Against the background of a heavy external debt service, equivalent to 70% of export revenues, the authorities introduced further import and foreign exchange restrictions in September 1992, combined with a series of domestic austerity measures. These have triggered a recession in output and rising unemployment. Real GDP rose by about 3% in 1992 but is expected to fall in 1993. Social tensions have been relieved by the agreement of a "pact" between the government and the unions, trading a wage freeze for security of employment and price increase restrictions.

Price liberalization measures and continued depreciation of the Dinar, fueled inflation in 1991 and early 1992. In the second half of 1992, the government stopped the gradual depreciation of the nominal exchange rate which, against the background of continuing strong inflation (over 30% in 1992), resulted in a real exchange rate appreciation (22% in 1992) and further loss of competitiveness of the Algerian economy. Since government revenue is heavily dependent upon taxes on oil exports, the real appreciation of the Dinar had a negative impact on fiscal revenues. Negative real interest rates have increased demand for credit, especially from public enterprises with access to financial institutions.

Since 1992, a growing budget deficit has become a major contributor to inflation. The overall fiscal balance deteriorated from a surplus of 4.3% of GDP in 1991 to a deficit of 1% in 1992, which is expected to further increase to nearly 10% of GDP in the first half of 1993.

Algeria is seeking bilateral financing agreements to meet growing external financing needs. This effort, however, might be complicated by the fact that the stand-by arrangement with the IMF went off-track in early 1992. Negotiations for a new programme have not so far been conclusive, as the new government's economic policy excludes any further nominal depreciation of the Dinar, advocates strict regulation of imports and foreign currency allocations, and leads to a slow-down in the economic reform and liberalization process in general.

G. ISRAEL

In 1992, Israel's macro-economic situation continued to improve. The country recorded a third year of strong growth, with real GDP increasing by 6.4% (5.8% in 1991). Growth was fuelled by an 8.5% increase in industrial production and a strong upswing in tourism (+39%), reflecting restored confidence after the Gulf War.

Although employment continued to grow, regular waves of immigration keep an upward pressure on the unemployment rate, which increased for the sixth consecutive year to 11% of the labour force. A change in social legislation which allows immigrants to benefit from income support schemes after a 12-month stay (instead of 24-months) caused a 158% increase in the number of beneficiaries.

In 1992, consumer price inflation fell, for the first time since 1969, to a single digit level of 9.8%, down from a peak level of 50% in 1990 and 18% in 1991. This allowed the Central Bank to relax monetary policy and interest rates declined from 28% at the end of 1991 to 19% at the end of 1992. The government budget deficit stood at 6.2% in 1992 and is expected to fall to 5.7% in 1993.

The downward trend in interest rates was temporarily reversed in January 1993 because of a large demand for foreign currency, fuelled by expectations of a further devaluation of the Shekel. In 1992, the Shekel depreciated by approximately 10% vis-à-vis a basket of currencies of major trading partners. For 1993, a further 9.5% nominal devaluation is forecasted.

The current account has turned from a $ 1.2 bn surplus in 1989 to an estimated $ 1.5 bn deficit in 1992. This is mainly due to a considerably worsening trade balance with fast rising imports and insufficient export growth. The trade balance deficit increased from $ 4.7 in 1991 to over 5 bn inn 1992. Towards the end of 1992, growth switched from the domestic market oriented construction sector (driven by housing needs of new immigrants) to the more export oriented manufacturing sector. This is likely to improve the trade balance in 1993.

To finance the investment effort necessary to absorb the recent wave of immigration, Israel received a $ 250 million Compensatory and Contingency Facility from the IMF in 1992. The USA authorised a $ 10 billion loan guarantee which removed the constraint of foreign exchange shortage and opened up the way for further foreign borrowing to finance investments and the overall external deficit. The need for such foreign borrowing highlights the problem of an insufficient export orientation of the economy.

Gross external debt stood at $ 3.8 billion (61% of GDP) end 1991. Debt service represented 27% of exports, down from 80% in 1985. This remains a relatively sound basis to attract further foreign borrowing to finance investment.

H. FORMER SOVIET UNION

The economic crisis in the former Soviet Union has grown increasingly acute during 1992 and early 1993. Central planning has collapsed in most of the newly independent states and trade between them has declined by an estimated 20-30%. Throughout most of the area, monetary conditions are chaotic, credit policy is lax and the financial system barely functions. Budgets are out of control, especially because of tax collection problems. Hard-currency exports have plummeted, resulting in external payments crises. As a result, output is declining rapidly (real GDP is likely to have fallen by roughly 20% in 1992), and inflation is very high. Industrial restructuring and labour shedding have not really started and unemployment is still low.

Far-reaching economic reform has begun in many republics, but progress has been uneven. At the beginning of 1992 Russia set the tone by launching a bold, if insufficiently comprehensive, reform programme. From the spring onwards, the pace of reform began to falter as domestic opposition mounted, in particular from the parliament and the powerful state enterprise sector. As a result, macroeconomic stabilization failed and inflation has remained very high. Legal, institutional and structural reform has advanced only slowly, although some progress was made with privatization. In Ukraine, economic policy has been determined mainly by nationalist forces intent on asserting independence from Moscow, who have neglected to introduce the legal and institutional framework necessary for a market economy. The goal of a separate Ukrainian currency and reticence towards the CIS should also be seen in this context. The government which came to power in October appears to be more strongly committed to reform but economic policy-making has been paralyzed by sharp political divisions on the course of reform. Several other republics have made considerable strides in the transition to market-based systems : Kyrgyzstan is probably the most advanced : it has recently concluded a stand-by arrangement with the IMF; Kazakhstan, Belarus and Moldova are close to concluding transitional arrangements with the Fund under the newly created Systemic Transformation Facility (Russia has already concluded such an arrangement). In other states, however, fewer efforts at reform have been made and either civil war or ethnic conflicts are disrupting the economy more than any attempt at transition.

The external financial situation of the area is extremely weak. This is particularly the case in the short run while in a longer term perspective the new states that have succeeded the Soviet Union present rather variable profiles. Some have considerable hard currency earning potential and industrial capacity; others are clearly close to developing countries and will therefore strongly depend on external assistance.

The external financial situation of the NIS is largely determined by the developments in the Soviet Union since the late eighties and, at present, by the questions related to the settlement of the external debt problem.

Since 1990, the only way the former Soviet Union was able to service its external debt, which was owed mainly to private creditors, was to cut back on imports and run down its gold and hard currency reserves. It made also an extensive use of official and officially guaranteed credits provided by the main industrialized countries. However, in view of the growing difficulties in collecting hard currency resources, and the withdrawal of credit lines with Western commercial banks, the Vneshekonombank of the USSR had virtually to suspend payments at the end of 1991. In December 1991-January 1992, the authorities of the new states concluded agreements with official and private creditors of the Soviet Union on deferral of principal repayments on medium- and long-term credits contracted prior to 1991. The agreements were based on the acceptance by the states of the principle of "joint and several liability" for the debt servicing.

Despite the deferrals, the former Soviet Union's liquidity crisis did not ease in 1992. Furthermore, the legal framework of the debt servicing based on the joint and several liability proved not workable (Russia was the only state to make actual payments), and significant arrears (some $ 12 billion, including over $ 4 billion in interest arrears) have accumulated on non-deferred debt. As a result, the debt outstanding approached by the end of 1992 $ 78 billion (some 194% of Russia's exports in 1992), up from $ 67 billion a year earlier. Following these developments, the case for a longer-term solution to the debt-servicing problem gained support. After lengthy negotiations, the Paris Club of official creditors agreed in early April 1993 on a comprehensive debt rescheduling package covering both principal and interest payments on virtually all the credits extended to the former Soviet Union up to its break-up at the end of 1991.

The package was negotiated with Russia which is now viewed by the creditors as virtually the sole successor of the Soviet Union, with respect to its foreign liabilities. For months, Russia has been seeking to take over all the former Soviet Union's foreign debt, in exchange of its assets, through the so-called "zero-option" arrangements. Ukraine, the second largest former Soviet republic, has not agreed so far with this solution, but this did not prevent the creditors to agree with Russia on a comprehensive debt rescheduling. The Paris Club agreement and anticipated similar agreements with the other former Soviet Union's official and private creditors (negotiations with the London Club are underway) are expected to provide an overall relief on debt servicing in 1993 of some $30 billion (including the refinancing of arrears), and thus reduce debt servicing by Russia to less than $3.5 billion, or just 9% of projected Russia's exports in 1993 (down from some 81% on due basis). Nevertheless, prospects for Russia's external situation in 1993 are still uncertain and strong domestic macro-economic policies are required to limit the large capital flight and to allow for a modest recovery of imports, necessary to slow down the output decline.

I. FORMER YUGOSLAVIA

All successor republics to the former Yugoslavia are confronted with comparable problems : the transition to a market economy and to international competition. Worsened by the collapse of former CMEA trade, the effects of the war and the boycott of their bilateral relations, have resulted in a contraction of output, of employment, and increased inflation. The trade and current account deterioration is marked by the sharp contraction of imports (resulting from the drop in domestic activity). Furthermore, the widespread DM-ization of these inflationary economies and the provision of large-scale humanitarian aid (in the case of Croatia and Bosnia) make it particularly difficult to interpret balance of payments developments.

The successor republics are in the process of discussing the division of internal and external assets and liabilities under the aegis of the Peace Conference in Geneva. These discussions were however progressively stalled at the beginning of 1993 as a result of the worsening of the polical and military situation.

Yugoslavia's external debt amounting to $ 16 bn has already been largely divided between the successor republics except for a federal part equal to $ 3.1 billion, guaranteed by the National Bank of Yugoslavia, and largely owed to commercial banks. (The debt owed to commercial banks is equal to $ 4.7 billion, to international organizations $ 3.2 billion and to governments $ 5.5 billion).

The Yugoslav debt was rescheduled in 1988 by the London and Paris Clubs. The agreements included grace periods through 1993 and 1994, respectively. Until March 1992, the entire debt was serviced by the National Bank of Yugoslavia and Slovenia for their respective parts in accordance with these agreements. Since then, only Slovenia is servicing its debt and the agreements will have to be renegotiated with each republic.

Yugoslavia (Serbia and Montenegro)

The Yugoslav economy and monetary system have practically collapsed due to the catastrophic effects of the civil war and sanctions. Real GPD is estimated to have fallen by 20% in 1992 and by 35% since 1989. The central bank funds nearly all the federal budget by money issue and has consequently lost control of the money supply; inflation in 1992 reached 20,000%.

During 1992, Yugoslav exports were approximately $2.5 bn (-46% over 1991) while imports reached $ 3.9 bn (-33% over 1991). However the bulk of this trade took place before July 1992, when most countries began to apply on sanctions. In the first quarter of 1993 imports amounted to $ 386 million and exports to $ 249 million. The value of the dinar has dwindled from YD 130/$ in May 1992 to YD 580,000/$ a year later. Only one quarter of the labour force is employed full-time.

The combined foreign debt of the new republic is US$ 5.5 bn plus its share of the federal debt. In June 1992, the National Bank stopped servicing its debt to commercial banks. It continued however to make small payments to the IMF.

Slovenia

Slovenia was Yugoslavia's wealthiest and most industrialized republic. Output fell by 6.5% in 1992 (9.3% in 1991), mostly due to a large drop in industrial production (-13.0%). However, production is expected to stabilize in 1993. Retail prices during 1992 rose by 200% over 1991 but the annual rate has now dropped to 47% during the first five months of 1993. Unemployment was 14% of the labour force in April 1993 (13% in October 1993).

Since independence, Slovenia has implemented drastic economic reforms. Prices and foreign exchange operations have been liberalized, the banking sector deregulated and the fiscal system completely restructured. Fiscal policy resulted in small surpluses in 1991 and 1992. Following a long debate in Parliament, a privatization law was passed in November 1992.

Slovenia has introduced its own currency and has maintained rigorous monetary and fiscal policies. Foreign currency reserves have more than tripled during 1992, reaching $ 1.2 bn in May 1993. The country has also minimized the negative consequences of the loss of the internal Yugoslav market by successfully reorienting its foreign trade activity. During 1992 there was a small trade surplus ($ 0.1 billion) and a current account surplus of $ 0.9 billion.

Slovenia's share of the Yugoslav foreign debt is $ 1.7 bn, not including its part of the federal debt. The republic had continued to service its debt without interruption until May 1992. In June it refused to make payments to banks as long as the latter were referring to payments by Yugoslavia as a whole and were not explicitly acknowledging that Slovenia had paid its own share in the debt by itself. In November 1992, Slovenia regularized its situation. Banks are now beginning to negotiate with Slovenia on the servicing of the latter's part in the federal debt on the basis of the allocation of a part of the Yugoslav quota in the IMF to Slovenia.

Croatia

Croatia's economic performance continues to be adversely affected by the civil war. One third of its territory is occupied and the country is flooded by Croatian and Bosnian refugees. The tourist industry has come to a standstill. Real GDP declined by 25% during 1992, following a 23.4% drop in 1991. This is mainly due to the fall in industrial production and in tourism. Retail prices rose by 665% in 1992 over 1991; recently inflation has been on an accelerating trend (1400% during the first four months of 1993). The rate of unemployment reached 18% in April 1993.

Economic reforms were at a very early stage when civil war broke out. The privatization law enacted in May 1991 has been widely criticized as inadequate, and there is an urgent need to streamlining the country's inefficient fiscal system.

Croatia showed a $ 0.3 bn trade deficit in 1992 ($ 0.5 bn in 1991) but a current account surplus of $ 329 million (against a deficit of $ 590 million in 1991). Foreign exchange reserves at the Central Bank stood at only $ 340 million in the end of May 1992 (against $ 170 million at the end of December 1992).

The external debt is valued at $ 2.7 bn plus Croatia's share in the $ 3.1 bn federal debt. As of May 1992, Croatia ceased to service its share of the debt, alleging that part of it had been purchased on the secondary market by Serbia. Croatia is presently trying to convince the commercial banks to form another consortium with a view to re-negotiating a restructuring of the outstanding debt and interest arrears.

The total debt attributable to the former yugoslav republic of Macedonia is valued at some $ 1 bn and that of Bosnia-Herzegovina at $ 2 bn.

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(in ECU million)

Operation	Authorized ceiling	Amount outstanding 31.12.1992	Amount outstanding 30.6.1993
MEMBER STATES			
A. Balance of payments	14000		
1. Greece I		721	200
2. Greece II		1000	1000
3. Italy			1979
B. Other			
4. Euratom	4000	1338	1144
5. NCI and NCI earthquakes	6830	3305	2813
6. EIB Mediterranean, Spain, Greece ,Port.	1500	645	629
MEMBER STATES - TOTAL	26330	7009	7764
THIRD COUNTRIES			
A. Financial assistance			
1. Hungary	1050	710	790
2. Czechoslovakia	375	375	375
3. Bulgaria	400	290	290
4. Romania	455	375	455
5. Algeria	400	250	250
6. Israel	160	160	160
7. Baltic States	220		60
8. Former Soviet Union	1250	93	616
B. Other			
9. EIB Mediterranean	6017	1444	1532
10. EIB Central and Eastern Europe	1700	147	179
11. Guarantee, CIS	500	363	363
THIRD COUNTRIES - TOTAL	12527	4207	5070
GRAND TOTAL	38857	11216	12834

TABLE 2

MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in ECU million based on all operations disbursed at 30 June 1993)

	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	569	200		500		500			1769
2. Italy				500				1479	1979
B. Structural loans									
3. Euratom	358	101	46	152	585	91	16	12	1361
4. NCI and NCI EQ	1177	657	484	321	528	92	39	39	3337
5. EIB Med. Old. Prot.									
Sp. Gr. Port.	54	90	83	77	76	58	51	45	534
Capital - subtotal	2158	1048	613	1550	1189	741	106	1575	8980
INTEREST									
A. Balance of payments									
1. Greece	147	110	95	95	46	46			539
2. Italy		136	136	136	96	96	96	96	792
B. Structural loans									
3. Euratom	112	80	72	68	55	10	3	1	401
4. NCI and NCI EQ	296	186	131	91	64	16	8	5	797
5. EIB Med. Old. Prot.									
Sp. Gr. Port.	31	50	42	34	27	21	15	11	231
Interest - subtotal	586	562	476	424	288	189	122	113	2760
MEMBER STATES - TOTAL	2744	1610	1089	1974	1477	929	228	1688	11740
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
6. Hungary			350	260	80	100			790
7. Czechoslovakia					190	185			375
8. Bulgaria					140	150			290
9. Romania						185	190	80	455
10. Algeria					250				250
11. Israel					160				160
12. Ex USSR		91	393	133					616
13. Baltic States								60	60
B. Guarantees									
14. EIB Med.	56	127	134	131	133	136	130	119	966
15. EIB C+E Eur.		2	11	18	20	21	19	17	108
16. Aid, Russia 500m	103	133	133						369
Capital - subtotal	159	353	1020	542	974	776	339	276	4439
INTEREST									
A. Financial assistance									
6. Hungary	81	81	81	44	18	10			315
7. Czechoslovakia	38	38	38	38	38	19			209
8. Bulgaria	29	29	29	29	29	15			160
9. Romania	42	46	46	46	46	46	27	8	307
10. Algeria	25	25	25	25	25				125
11. Israel	16	16	16	16	16				80
12. Ex USSR	30	57	46	7					140
13. Baltic States	3	6	6	6	6	6	6	6	45
B. Guarantees									
14. EIB Med.	61	112	102	92	82	72	62	52	635
15. EIB C+E Eur.	8	15	14	13	12	10	9	7	89
16. Aid, Russia 500m	34	24	9						67
Interest - subtotal	367	449	412	316	272	178	104	74	2171
NON-MEMBER COUNTRIES - TOTAL	526	802	1433	857	1245	954	443	350	6610
GRAND TOTAL	3270	2412	2522	2832	2723	1884	671	2038	18351
(Eastern Europe)	368	521	1156	594	579	747	251	179	4395
(Other non-member countries)	158	281	277	264	666	207	192	171	2216

TABLE 3

MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in ECU million based on all operations disbursements, decisions and Commission proposals)

	1993	1994	1995	1996	1997	1998	1999	2000	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece	569	200		600		500	600	600	2969
2. Italy				500			2000	3479	5979
B. Structural loans									
3. Euratom + NCI	1635	758	530	473	1113	183	55	52	4699
4. EIB Sp. Gr. Port.	54	90	83	77	76	58	51	45	534
Capital - subtotal	2158	1049	613	1550	1189	741	2706	4176	14181
INTEREST									
A. Balance of payments									
1. Greece	147	170	215	215	166	166	120	60	1259
2. Italy		336	536	736	696	696	696	496	4192
B. Structural loans									
3. Euratom + NCI	408	267	203	159	120	26	10	6	1199
4. EIB Sp. Gr. Port.	31	60	42	34	27	21	15	11	231
Interest - subtotal	586	823	996	1164	1009	909	841	573	6881
MEMBER STATES - TOTAL	2744	1871	1609	2694	2198	1649	3547	4749	21063
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
5. Hungary			350	260	80	360			1050
6. Czechoslovakia					190	185			375
7. Bulgaria					140	150		55	345
8. Romania						185	190	80	455
9. Israel					160				160
10. Algeria					250			150	400
11. Ex USSR		146	929	175					1250
12. Baltic States								220	220
13. Euratom, C+E Eur.						10	23	37	70
B. Guarantees									
14. EIB Med.	56	127	134	167	225	305	369	423	1806
15. EIB C+E Eur.		2	11	40	85	151	225	300	814
16. EIB, other third countries					3	10	23	40	76
17. Aid, Russia, Guar. 500m	103	133	133						369
Capital - subtotal	159	408	1557	642	1133	1356	830	1305	7390
INTEREST									
A. Financial assistance									
5. Hungary	81	107	107	70	44	36			445
6. Czechoslovakia	38	38	38	38	38	19			209
7. Bulgaria	35	40	40	40	40	26	11	11	243
8. Romania	42	46	46	46	46	46	27	8	307
9. Israel	16	16	16	16	16				80
10. Algeria	32	40	40	40	40	15	15	15	237
11. Ex USSR	30	125	110	9					274
12. Baltic States	11	22	22	22	22	22	22	22	165
13. Euratom, C+E Eur.		15	35	55	75	96	109	107	491
B. Guarantees									
14. EIB Med.	163	190	245	324	392	447	469	459	2679
15. EIB C+E Eur.	19	46	97	174	261	345	397	412	1751
16. EIB, other third countries		1	4	12	28	47	61	66	219
17. Aid, Russia, Guar. 500m	34	24	9						67
Interest - subtotal	491	710	809	846	1002	1098	1111	1100	7167
NON-MEMBER COUNTRIES - TOTAL	650	1118	2366	1488	2135	2454	1941	2405	14557
GRAND TOTAL	3394	2990	3975	4182	4333	4103	5488	7154	35620
(Eastern Europe)	393	744	1927	929	1021	1630	1004	1252	8900
(Other non-member countries)	257	374	439	559	1114	824	937	1153	5657

EXPLANATORY NOTES

The purpose of these tables 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. In the case of Table 3, it is not certain that all the operations described will actually be disbursed. No account has been taken of interest on late payment or any additional costs such as lawyers' fees.

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

The loan repayments are scheduled to match the repayments of the borrowings due from the Community. If the recipient of the loan 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 former 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 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/amending budget as appropriate.

II. CALCULATION

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

operations should not involve exchange risks for the Community. Unless otherwise stated, the average rate of interest is estimated at 10%. This rate is probably a little high for EIB loans, which often attract interest subsidies under the protocols.

A. Member States

1. Greece I: The figures for repayments of capital and fixed-rate interest are final and certain.

2. Greece II: A total of ECU 2.2 billion has been granted and the first tranche of ECU 1 billion has actually been disbursed. Half of this tranche is repayable in 1996 and the other half in 1998. The second and third tranches of ECU 600 million will be paid only if Greece makes a formal request for them and if the Council endorses the favourable conclusions of the Commission's examination of the outcome of the Government's economic programme. For the purposes of this exercise, however, it is assumed that the second tranche will be disbursed in 1993 and the third tranche in 1994, both with a term of six years. This assumption will have to be verified in due course.

3. Italy: The first tranche of ECU 2 billion out of the total of ECU 8 billion was paid out in the first half of 1993; ECU 500 million is repayable in 1996 and the equivalent of DM 2 900 million in 2000. It was assumed that the second tranche of ECU 2 billion would be paid in the second half of 1993, as indeed it was, to be repaid in 1999. The Council Decision granting the loan to Italy states that the third and fourth tranches of ECU 2 billion cannot be released before 1 February 1994 and 1 February 1995 respectively and then only if an examination by the Commission shows that the measures necessary to achieve the annual budget targets to be set have actually been implemented and if the Council endorses this conclusion. The uncertainties surrounding these procedures have not been taken into consideration for the purposes of this exercise and it is assumed that the third tranche will be paid in 1994, to be repaid in 2000, and that the fourth tranche will be paid in 1995, to be repaid in 2001. This assumption will have to be verified in due course.

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 of the first two tranches are final and certain. It is assumed that the third tranche will be paid in 1993 for a five-year term.

2. Hungary II: ECU 180 million has been granted in two tranches and paid out in full.

3. Czechoslovakia: ECU 375 million has been granted in two tranches for a maximum term of seven years (bullet), with a first tranche of ECU 185 million and a second tranche of ECU 190 million for a term of six years.

4. Bulgaria: ECU 290 million has been granted in two tranches for a maximum term of seven years (bullet), with a first tranche of ECU 150 million and a second tranche of ECU 140 million for a term of six years.
   The new operation involving ECU 110 million for a maximum term of seven years to be paid in two tranches in 1993 for a term of seven years and the second in 1994 with the same term.

5. Romania: An estimated ECU 375 million in two tranches for a maximum term of seven years (bullet). The first tranche of ECU 190 million was disbursed in 1992 with a term of seven years and the second was disbursed in 1992 with a term of six years.
   The new operation involving ECU 80 million for a maximum term of seven years was disbursed in 1993.

6. Baltic States
   It is assumed that this loan of ECU 220 million will be paid in full in two tranches in the course of 1993 and repaid in one tranche seven years later.

7. Algeria: ECU 400 million has been granted in two tranches of ECU 250 million and ECU 150 million. The first was paid in December 1991 for a term of six years: it is assumed that the second will be paid in 1993 for a term of six years.

8. Israel: A loan of ECU 160 million has been paid in full and is repayable in 1997.

b. Guarantees

1. EIB

Figures provided by the EIB for loans disbursed at 30 June 1993.

For the others, we have made the following assumptions concerning the signature of loans.

Year	1993	1994	1995	1996	TOTAL
Mediterranean countries	800	850	850	900	3400
Central and Eastern Europe [2]	800	765	965	1270	3800
Other non-member countries	50	150	250	250	700

In the case of these loans and those already signed at the end of June 1993 but not yet disbursed (ECU 1 043 million for the Mediterranean countries and ECU 566 million for the countries of Central and Eastern Europe), we have assumed that an average of 10% of the loan will be disbursed in the year of signature and 30% in each of the three following years. In the case of the new operations following the renewal of EIB loans of ECU 3 000 million in the countries of Central and Eastern Europe for a period of three years, it is assumed that the signatures will take place as indicated in the financial statement drawn up by the Commission.

It is estimated that the average term will be fifteen years with a three–year period of grace.

2. Food aid for the former Soviet Union

2 Including renewal from 1993.

(a) Guarantee

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.

(b) Borrowing/lending

An operation involving ECU 1 250 million for a maximum term of three years.

This borrowing will be divided between the various Republics of the former Soviet Union. Loans amounting to less than ECU 100 million will be repaid in one instalment three years after the start of the period in which the funds may be drawn. Borrowings exceeding ECU 100 million will be repaid in two instalments two years and three years after the start of the period in which the funds may be drawn.

Depending on the type of contract, there are two periods in which funds may be drawn; one starts on 20 August, the other on 15 January.

3. Euratom, countries of Central and Eastern Europe

Of the ECU 1 124 million involved, it is assumed that ECU 300 million will be disbursed in 1993, ECU 224 million in 1994 and ECU 200 million in each of the three following years.
It is assumed that the loans will be for an average term of twenty years with a five–year period of grace.

ANNEX

DEFINITION OF FIGURES USED IN THE REPORT

A. Authorized ceiling (Table 1)

This is the aggregate of the maximum amounts of capital authorized (ceilings) for each operation decided or of the amount proposed by the Commission for operations for which there has not yet been a Council decision.

In order to relate it to the risk which the budget might have to cover, account should be taken of the interest, which would increase the figure, and of three factors which would reduce it:

- limitation of the guarantee given to the EIB to 75% of the loans signed in the Mediterranean countries;
- operations already repaid, since the amounts concerned, except in the case of balance of payments support, are the maximum amount of loans granted and not outstanding amounts authorized;
- the amounts authorized are not necessarily taken up in full.

The breakdown of authorizations is as follows:

Member States

Balance of payments	14 000 [3]
NCI	6 830
Euratom	4 000 [4]
EIB; Spain, Greece, Portugal	1 500
Member States - total	26 330

3 Authorized amount outstanding: once this figure is reached, further loans may be granted as previous operations are repaid.

4 Including ECU 1 124 million which may be granted to the countries of Eastern Europe and the CIS.

Non-member countries

Hungary I	870
Hungary II	180
Czechoslovakia	375
Bulgaria I	290
Bulgaria II	110
Romania I	375
Romania II	80
Israel	160
Algeria	400
former Soviet Union I	408
former Soviet Union II	1 250
Baltic States	220
EIB, old protocols	3 032
EIB, Eastern Europe I	1 700
EIB, Eastern Europe II	2 750
EIB, Baltic States	200
EIB, Albania	50
EIB, new protocols	1 185
EIB, horizontal cooperation	1 800
Other non-member countries	750
Non-member countries - total	16 185
Grand total	42 515

B. Amount outstanding (Table 1)

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

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

C. Annual risk

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

- disbursements alone (Table 2), in which case the capital to be repaid corresponds to the amount outstanding;

- disbursements, decisions still awaiting disbursement and Commission proposals still awaiting decisions (Table 3), in which case the capital to be repaid corresponds to the ceiling on loans authorized plus, where applicable, the amounts in respect of operations proposed by the Commission and not yet decided and the amount still to be used for balance of payments operations which are much less likely to be called on than the other types of assistance.

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