



COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMISSION REPORT TO THE BUDGETARY AUTHORITY
ON GUARANTEES COVERED BY THE GENERAL BUDGET -
SITUATION AT 30 JUNE 1999**

This report describes the situation as regards budget guarantees at the date of the report.

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

This report is presented in accordance with Article 134 of the Financial Regulation applicable to the general budget of the European Communities.

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

The report is in two parts with an annex:

- 1) Events since the last report, the risk situation and the activation of budget guarantees.
- 2) Evaluation of potential risks. Economic and financial situation of non-Community countries benefiting from the most important operations.

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PART ONE
EVENTS SINCE THE REPORT AT 31 DECEMBER 1998, THE RISK SITUATION
AND ACTIVATION OF BUDGET GUARANTEES

I. INTRODUCTION: TYPES OF OPERATION

The risks covered by the Community budget derive from a variety of lending and guarantee operations which can be divided into two categories: loans with macroeconomic objectives and loans with microeconomic objectives.

I.A Operations with macroeconomic objectives

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

This category includes the loan of EUR 1 250 million to finance imports of agricultural products and foodstuffs into the former Soviet Union, since the risk involved in this operation depends to a large extent on macroeconomic and political developments in the recipient countries.

I.B Operations with microeconomic objectives

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

This covers Euratom and NCI loans in Member States and the Euratom and EIB loans outside the Community (Mediterranean, Central and Eastern Europe, certain non-member countries - developing countries of Asia and Latin America, South Africa, the former Yugoslav Republic of Macedonia and Bosnia-Herzegovina).

II. EVENTS SINCE THE REPORT AT 31 DECEMBER 1998

The main events in the first half of 1999 were as follows:

II.A Bosnia-Herzegovina

On 13 November 1998 the Commission presented a proposal for a Council Decision providing macro-financial assistance of EUR 30 million to Bosnia-Herzegovina in the form of a loan with a maximum maturity of fifteen years and EUR 30 million in the form of donations. On 10 May 1999 the Council decided to grant macro-financial assistance of EUR 20 million to Bosnia in the form of a loan and EUR 40 million in the form of donations.

II.B Albania

On 3 September 1998 the Commission presented a proposal for a Council Decision providing macro-financial assistance of EUR 20 million to Albania in the form of a loan with a maximum maturity of fifteen years. On 22 April 1999 the Council decided to grant macro-financial assistance of EUR 20 million to Albania in the form of a loan.

II.C Community Guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe and Western Balkans, Mediterranean countries, Latin America and Asia, and the Republic of South Africa)

On 23 April 1999 the Commission presented a proposal for a Council Decision granting a Community guarantee to the European Investment Bank against losses under loans for projects outside the Community (Central and Eastern Europe and Western Balkans, Mediterranean countries, Latin America and Asia, and the Republic of South Africa).

The proposal concerns the renewal of the budget guarantee which the Community granted to the EIB on 14 April 1997.

This guarantee is restricted to 60% of the aggregate amount of the credits opened, plus all related sums. The overall ceiling of the credits opened is equivalent to EUR 9 475 million, broken down as follows:

- Central and Eastern Europe and Western Balkans: EUR 4 725 million
- Mediterranean countries: EUR 3 100 million
- Latin America and Asia: EUR 1 225 million
- Republic of South Africa: EUR 425 million,

and covers a period of three and a half years beginning on 31 January 2000 for Central and Eastern Europe and Western Balkans, Mediterranean, Asian and Latin American countries and a period beginning on 1 July 2000 and ending on 31 July 2003 for the Republic of South Africa. At the end of this period, the guarantee will be automatically extended to cover an additional overall ceiling of EUR 9 475 million with the same regional distribution until 31 December 2006 unless the Council decides otherwise on a proposal from the Commission before the beginning of the second lending period on 31 July 2003.

The European Investment Bank is invited to aim to cover the commercial risk on 30% of its lending under this decision from non-sovereign guarantees to be expanded upon whenever possible insofar as the market permits on an individual regional mandate basis.

The Council had not adopted any formal decision at the time this report was drawn up.

III. RISK SITUATION

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

- the method, often used by bankers, of the total amount of capital outstanding for the operations concerned on a given date (the situation described in table 1 below),
- the more budgetary approach of calculating the maximum amount which the Community could have to pay out in each financial year.

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

- by reference only to actual disbursements at 30 June 1999, assuming that there are no early repayments (see Table 2 below showing the lower limit of this maximum risk to the Community budget);
- on a more forward-looking basis, by reference to all the operations decided by the Council or proposed by the Commission in order to estimate the impact on future budgets, assuming that the Commission's proposals are accepted (see Table 3 below showing the upper limit of this maximum risk borne by the Community budget).

The latter exercise gives some idea about the future level of risks connected with the proposals made. However, a number of assumptions have to be made about dates of disbursement and terms of repayment (details are given in the annex) as well as interest¹ and exchange rates.²

The results are shown in Tables 1 to 3 which assess the risk relating to countries inside the Community and countries outside the Community.

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

The following analysis distinguishes between total risk, the risk in respect of Member States and the risk in respect of non-member countries.

III.A Amount outstanding at 30 June 1999 (Table 1)

The total risk at 30 June 1999 came to EUR 13 088 million as against EUR 12 253 million at 31 December 1998, an increase of 6.8%.³

¹ An average interest rate of 10% is assumed for EIB loans. The average interest rate assumed for borrowing and lending operations is 4.4%. An interest rate of 2.93188% has been applied for the new operations in Table 3.

² The exchange rates used for loans in currencies other than the euro are those of 30 June 1999.

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

EUR million

Amount outstanding at 31 December 1998	12253
Loan repayments	
Balance of payments: Italy	0,0
Euratom	- 14,2
NCI	- 12,6
Financial assistance	-190,0
Former Soviet Union	0,0
EIB	- 151,8
Loans disbursed	
Financial assistance	+ 0,0
EIB	+ 1051,0
Exchange rate differences between euro and other currencies	+ 152,6
Amount outstanding at 30 June 1999	13088

The capital outstanding in respect of operations in the Member States was EUR 2 739 million at 30 June 1999, a fall of 1.2% compared with 31 December 1998.

The capital outstanding from non-member countries at 30 June 1999 was EUR 10 350 million, an increase of 9.2% compared with 31 December 1998.

III.B Maximum annual risk borne by the Community budget: operations disbursed at 30 June 1999 (see Table 2)

The total annual risk comes to EUR 1 322 million in 1999⁴ and will increase to EUR 3 895 million in 2000.

- The risk for 1999 in respect of the Member States comes to EUR 261 million. The risk will reach EUR 2 732 million in 2000 when Italy's last repayment is due.
- The risk for 1999 in respect of non-member countries comes to EUR 1 061 million.

From 1999 the amount of capital repayments on borrowing and lending operations will fall. The risk in respect of non-member countries will then average EUR 1 160 million over the period 2000-2007.

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

⁴ In view of the repayments made in the first half of 1999, the residual risk for 1999 in table 2 at 30 June 1999 was EUR 626 million.

**III.C Maximum theoretical annual risk borne by the Community budget
(see Table 3)**

This risk comes to EUR 1 411 million in 1999⁵ and will increase to EUR 4 215 million in 2000, before stabilising at an average of EUR 2 400 million between 2001 and 2007.

- The trend in the maximum risk in respect of the Member States is the same as in Table 2.
- The risk in respect of non-member countries amounts to EUR 1 150 million in 1999. The risk will increase by an average of 12% a year from 2000 until 2005.

⁵ In view of the repayments made in the first half of 1999, the residual risk for 1999 in table 3 at 30 June 1999 was EUR 741 million.

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

Operation	Authorised ceiling	Capital outstanding at 31.12.98	Capital outstanding at 30.06.99	Remainder to be disbursed 30.06.99
MEMBER STATES				
A. Balance of payments	14000			
1. Italy		2483	2483	0
B. Others				
2. Euratom	4000	28	14	0
3. NCI and NCI earthquake	6830	168	157	0
4. EIB Mediterranean Spain, Greece, Portugal	1500	94	85	0
MEMBER STATES - TOTAL	26330	2772	2739	0
THIRD COUNTRIES				
A. Financial assistance				
1. Bulgaria	650	360	360	0
2. Romania	580	395	205	0
3. Algeria	600	250	250	100
4. FYROM	40	40	40	0
5. Baltic States	220	125	125	85
6. Moldova	60	60	60	0
7. Ukraine	435	285	285	150
8. Belarus	55	30	30	25
9. Georgia	142	110	110	32
10. Armenia	28	28	28	0
11. Former Soviet Union(*)	1250	55	55	0
B. Other				
12. EIB Mediterranean(**)	8672	3878	4264	2339
13. EIB Central & Eastern Europe	8220	3060	3406	3220
14. EIB Asia, Latin America	1925	638	808	611
15. EIB South Africa	675	151	291	155
16. EIB FYROM	150	15	33	37
17. EIB Bosnia	100	0	0	
THIRD COUNTRIES - TOTAL	23802	9481	10350	6754
GRAND TOTAL	50132	12253	13088	6754

(*) The € 54.5 million outstanding corresponds to the principal due but not paid at 30.06.1999.

(**) The amount outstanding has been increased by € 36.4 million to take account of the principal due but not paid at 30.06.1999.

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (30.06.99)

Operations	Credit line authorised	Loans made available minus cancellations	Amounts disbursed	Amounts outstanding at 30.06.99
Mediterranean Member States	1500	1323	1323	85
Third countries, old mandates				
Mediterranean Protocols	6362	5983	4922	3678
Central & Eastern Europe I	1700	1410	1376	1173
Central & Eastern Europe II	3000	2843	1317	1341
Asia, Latin America I	750	621	424	430
Asia, Latin America II	153	153	114	125
South Africa	300	300	270	267
Third countries, decision of 14.4.97				
Mediterranean	2310	1962	543	586
Central & Eastern Europe	3520	2543	882	892
Asia, Latin America	1022	576	237	253
South Africa	375	150	24	24
FYROM, decision of 19.5.98	150	70	33	33
Bosnia, decision of 14.12.98	100			
Total	21242	17934	11466	8888

NB: As the loans are disbursed in national currencies, the loan ceiling may be exceeded when the amount disbursed up to the date of the report are converted into €.

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
 (Estimate in EUR million based on all operations disbursed at 30.06.1999)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL
MEMBER STATES										
CAPITAL										
A. Balance of payments										
1. Italy		2483								2483
B. Structural loans										
2. Euratom	16	12								28
3. NCI and NCI EQ	40	40	71			18				169
4. EIB Med. Old. Prot. Spain, Greece, Portugal	28	25	10	11	12	5	3			95
Capital - subtotal	84	2560	82	11	12	22	3			2775
INTEREST										
A. Balance of payments										
1. Italy	156	156								313
B. Structural loans										
2. Euratom	3	1								4
3. NCI and NCI EQ	12	10	7	2	2	2				35
4. EIB Med. Old. Prot. Spain, Greece, Portugal	6	4	2	2	1	0	0			16
Interest - subtotal	178	172	9	4	3	2	0			368
MEMBER STATES - TOTAL	261	2732	91	15	15	25	4			3142
NON-MEMBER COUNTRIES										
CAPITAL										
A. Financial assistance										
5. Bulgaria			70		40		63	63	63	298
6. Romania	190	80		55		70				395
7. Algeria			150	100						250
8. FYROM										0
9. Baltic States	5	95		25						125
10. Moldova		5	9	12	12	12	7	3		60
11. Ukraine			17	37	57	57	57	40	20	285
12. Belarus			6	6	6	6	6			30
13. Georgia										
14. Armenia										
B. Guarantees										
15. EIB Mediterranean	198	217	262	300	335	273	266	276	273	2401
16. EIB Central & Eastern Europe	145	217	262	287	325	350	296	280	229	2391
17. EIB Asia, Latin America	27	41	64	83	77	79	81	81	59	591
18. EIB South Africa			30	25	25	49	9	9	49	198
19. EIB FYROM					1	2,2	2,2	2,2	2,2	10
Capital - subtotal	563	655	870	929	879	898	789	754	696	7033
INTEREST										
A. Financial assistance										
5. Bulgaria	13	11	11	9	9	8	7	5	3	77
6. Romania	12	5	3	3	2	2				27
7. Algeria	15	13	13	3						44
8. FYROM	2	1	1	1	1	1	1	1	1	11
9. Baltic States	6	5	1	1						13
10. Moldova	2	2	2	1	1	1	0	0		9
11. Ukraine	11	8	8	8	7	5	3	2	1	53
12. Belarus	1	1	1	1	1	0	0			5
13. Georgia	5	3	3	3	3	3	3	3	3	31
14. Armenia	1	1	1	1	1	1	1	1	1	8
B. Guarantees										
15. EIB Mediterranean	220	216	208	192	174	133	117	102	85	1446
16. EIB Central & Eastern Europe	165	174	161	147	131	113	95	79	64	1126
17. EIB Asia, Latin America	30	35	34	31	29	26	22	19	16	242
18. EIB South Africa	17	31	31	27	25	22	16	16	16	202
19. EIB FYROM	0	1	1	1	1	1	1	1	1	7
Interest - subtotal	498	506	480	429	383	316	268	229	192	3304
NON-MEM. COUNTRIES - TOTAL	1061	1183	1350	1358	1262	1214	1057	983	888	10337
GRAND TOTAL	1322	3895	1441	1373	1277	1239	1060	983	888	13479
(Eastern Europe)	537	588	510	527	508	544	462	427	360	4465
(Other non-member countries)	523	575	840	831	754	671	595	556	527	5872

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

	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL
MEMBER STATES										
CAPITAL										
A. Balance of payments										
1. Italy		2483								2483
B. Structural loans										
2. Euratom and NCI	56	53	71			18				197
3. EIB Spain, Greece, Portugal	28	25	10	11	12	5	3			95
Capital - subtotal	84	2560	82	11	12	22	3			2775
INTEREST										
A. Balance of payments										
1. Italy	156	156								313
B. Structural loans										
2. Euratom and NCI	15	11	7	2	2	2				39
3. EIB Spain, Greece, Portugal	6	4	2	2	1	0	0			16
Interest - subtotal	178	172	10	4	3	2	0			368
MEMBER STATES - TOTAL	261	2732	91	15	15	25	4			3143
NON-MEMBER COUNTRIES										
CAPITAL										
A. Financial assistance										
4. Bulgaria			70		40		63	63	63	298
5. Romania	190	80		55		70	40	40	40	515
6. Algeria			150	100						250
7. FYROM										0
8. Baltic States	5	95		25						125
9. Moldova		5	9	12	12	12	7	3		60
10. Ukraine			17	37	57	87	87	70	50	405
11. Belarus			6	6	6	6	6			30
12. Georgia										0
13. Armenia										0
14. Bosnia										0
15. Albania										0
16. Euratom C+E Europe							1	6	14	21
B. Guarantees										
17. EIB Mediterranean	196	217	262	324	414	416	475	522	529	3355
18. EIB C + E Europe	145	217	262	354	470	588	628	638	587	3889
19. EIB Asia, Latin America	27	41	64	99	115	139	164	169	147	965
20. EIB South Africa			30	28	36	68	36	36	79	315
21. EIB FYROM				1	3	6	9	11	12	42
22. EIB Bosnia					1	3	5	7	8	24
Capital - subtotal	563	655	870	1040	1155	1395	1521	1565	1530	10294
INTEREST										
A. Financial assistance										
4. Bulgaria	13	14	14	12	12	11	10	8	5	99
5. Romania	12	11	9	9	8	8	8	5	4	71
6. Algeria	15	13	13	3						44
7. FYROM	2	1	1	1	1	1	1	1	1	11
8. Baltic States	6	5	1	1						13
9. Moldova	2	2	2	1	1	1	0	0		9
10. Ukraine	15	13	13	12	11	10	8	5	3	90
11. Belarus	1	1	1	1	1	0	0			5
12. Georgia	5	3	3	3	3	3	3	3	3	31
13. Armenia	1	1	1	1	1	1	1	1	1	8
14. Bosnia	1	1	1	1	1	1	1	1	1	8
15. Albania	1	1	1	1	1	1	1	1	1	5
16. Euratom C+E Europe		1	6	15	30	48	68	87	106	361
B. Guarantees										
17. EIB Mediterranean	247	349	418	462	465	415	378	339	296	3368
18. EIB C + E Europe	209	301	391	482	524	498	447	395	344	3590
19. EIB Asia, Latin America	37	68	93	115	128	120	108	96	84	847
20. EIB South Africa	20	40	50	54	39	35	28	27	26	320
21. EIB FYROM	1	2	5	8	10	11	11	10	9	68
22. EIB Bosnia		1	2	5	7	9	9	8	8	49
Interest - subtotal	587	628	1024	1186	1239	1172	1080	986	892	8994
THIRD COUNTRIES - TOTAL	1150	1483	1894	2226	2393	2566	2601	2551	2422	19288
GRAND TOTAL	1411	4215	1985	2242	2409	2591	2605	2551	2422	22431
(Eastern Europe)	584	730	763	968	1107	1253	1299	1278	1202	9185
(other non-member countries)	565	754	1131	1258	1286	1313	1302	1273	1220	10103

IV. ACTIVATION OF BUDGET GUARANTEES

IV.A Payments from cash resources

The Commission draws on 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 to avoid delays and resulting costs in servicing its borrowing operations when a debtor is late in paying.

IV.B Activation of the Guarantee Fund

Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 established a Guarantee Fund for external action. In the event of late payment by a recipient of a loan granted by the Community, the Guarantee Fund is called on to cover the default within three months of the date on which payment is due. If a borrower defaults on an EIB loan guaranteed by the Community budget, the Community will act within three months of receiving a letter from the Bank calling for the guarantee to be activated. The Commission will then authorise the Bank to take the corresponding amounts from the Guarantee Fund.

Penalty interest for the time between the date on which cash resources are made available and the date of activation of the Fund is drawn from the Fund and repaid to the cash resources.

In the last six months the Fund has been called on to honour guarantees for the following debtors:

Non-member country	Date	Amount (principal + interest)
Former Yugoslavia		
Vojvodina	09.03.99	1.961.666,18
Serbia	09.03.99	2.491.737,72
Bosnia-Herzegovina	09.03.99	287.146,96
Kosovo	09.03.99	14.065,51
Total		4.754.616,37

IV.C Arrears at 30 June 1999⁶

Arrears due from non-member countries

Non-member country	Guarantees activated (2)	Guarantees called in (3)	Default interest (4)	Total
Tajikistan	63.181.839,89		10.411.744,88	73.593.584,77
Bosnia (1)	4.432.086,56	292.367,95		
Vojvodina (1)	26.171.224,64	1.152.976,38		
Serbia (1)	68.384.813,61	2.755.094,35		
Montenegro (1)	456.087,97	0		
Kosovo (1)	322.467,89	14.321,25		
Subtotal former Yugoslavia	99.766.680,67	4.214.759,93	18.500.498,71	122.481.939,31
Total	162.948.520,56	4.214.759,93	28.912.243,59	196.075.524,08

- (1) *The breakdown of unpaid amounts between the republics of former Yugoslavia is intended as a guide*
- (2) *The guarantees activated in respect of EIB operations include amounts not paid on time and the default interest incurred when the Community guarantee enters into force.*
- (3) *EIB guarantees not covered by guarantee operations at 30 June 1999. The Community has three months to intervene. The Fund has to be activated on 26 August 1999.*
- (4) *Default interest entered in the accounts between the date on which the operation is covered by the guarantee and the date of the report. The total default interest for all the republics of former Yugoslavia is shown.*

V. ANALYSIS OF THE COMMUNITY'S THEORETICAL LENDING AND GUARANTEE CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES

In practice, the Guarantee Fund and reserve facility limits the Community's lending and guarantee capacity to non-member countries since the appropriations available for provisioning the Fund whenever a new lending decision is adopted (or any annual tranche in the case of guarantees for multiannual operations) are limited by the amount entered for the guarantee reserve in the financial perspective.⁷

At any given time, lending capacity corresponds to the margin remaining in the guarantee reserve. This margin is equal to the difference between the reserve and the estimated amount needed to provision the Guarantee Fund for operations which have already been adopted and which are in preparation.

⁶ Arrears due from Tajikistan on the EUR 1 250 million loan which the Community granted to the former Soviet Union and its republics and arrears on the EIB loan granted to former Yugoslavia under the Mediterranean protocols. The figures include defaults covered by the budget.

⁷ EUR 300 million at 1992 prices.

Table 4 contains an estimate of the Community's lending capacity in respect of non-member countries over the period 1997-99 compatible with the Guarantee Fund mechanism. The method of calculation and references to legal texts are set out in greater detail in the Annex.

On the basis of the decisions adopted by the Council and decisions proposed and in preparation (see Table 4), EUR 316 million is expected to be used from the guarantee reserve in 1999, leaving EUR 30 million available at the end of the year.

If account is taken of the effect on the guarantee reserve of the provisioning of the Fund in respect of loans already decided and loans proposed and in preparation for 1999, the annual capacity available for loans is as follows:

- EUR 215 million for loans with a 100% guarantee under the Community budget;
- EUR 307 million for loans with a 70% guarantee (in accordance with the contract of guarantee between the Commission and the EIB signed on 25 and 29 July 1997).

The estimates in Table 4 for the provisioning of the Fund in 1999 show that the remaining lending capacity is severely restricted.

VI. SITUATION OF THE GUARANTEE FUND AT 30 JUNE 1999

Outstanding lending and loan guarantee operations for non-member countries plus unpaid interest due totalled EUR 10 732 million at 30 June 1999.

The ratio between the Fund's resources and outstanding capital liabilities within the meaning of the Regulation establishing the Fund was 11.4%, which is higher than the target amount of 10%. The rules state that "at the end of a year ... the surplus shall be paid back to a special heading in the statement of revenue in the general budget of the European Communities". The surplus of EUR 297.8 million at the end of the 1998 financial year was repaid to the budget in the first half of 1999.

The Guarantee Fund could amount to around EUR 1 344 million at the end of 1999 assuming:

- a transfer of EUR 316 million from the reserve in 1999;
- no further defaults requiring activation of the Fund;
- no late repayment of arrears by defaulting countries;
- revenue of around EUR 45 million on investments from the Fund's assets in 1999.

VII. RELATIVE SOLIDITY OF THE GUARANTEE FUND

The ratio between the amount in the Fund at 30 June 1999 (EUR 1 229 million) and the maximum annual risk for loans to non-member countries (defined as the total amount falling due) shown for 1999 in Table 3 (EUR 1 150 million) comes to 107%.

TABLE 4

**THE COMMUNITY'S THEORETICAL ESTIMATED LENDING & GUARANTEE CAPACITY
IN RESPECT OF NON-MEMBER COUNTRIES
OVER THE PERIOD 1997-1999
under the Guarantee Fund mechanism(*)**

EUR million	Outturn	Outturn	Forecast
	31.12.1997	31.12.1999	1999
Reserve for loan guarantees to non-member countries	329	338	346
Bases for the calculation of the provisioning of the Guarantee Fund			
- EIB loans			
- Mediterranean (a)	553	896,6	461,4
- Countries of Central and Eastern Europe (b)	850,5	665,7	872,9
- Asia, Latin America (c)	60	190,55	218,05
- South Africa (d)	125	17,5	143,5
- FYROM (e)		42	38,5
- Bosnia (f)			42
- EIB loans - Total	1588,5	1812,35	1776,35
- Euratom loans	0	260	
- Macrofinancial assistance	305	170	480
Provisioning of the Guarantee Fund	286	313	316
Margin remaining in the guarantee reserve	43	25	30
Residual lending capacity (balance of payments loans, EIB loans and Euratom loans)			
- Maximum if used in full for 100% guarantee (e.g. BP loans)	286	181	215
- Maximum if used in full for EIB loans (70% guarantee)	409	258	307

(*) The provisioning rate for 1998 and 1999 is 14%, the Fund having reached its target amount at the end of 1997. (see Council recommendations of 2 December 1996 and 27 January 1997)

Description of the loans for which the Fund will be provisioned in the period 1997-1999:

- EIB

a. Mediterranean:

- loans decided: 1994-96: EUR 115 million under the Fourth Financial Protocol with Syria (overall 75% guarantee). 31.1.1997-31.1.2000: EUR 2 310 million for the renewal of the EIB mandate, covered by overall 70% guarantee.
- loans proposed or in preparation: 1999-2003: EUR 750 million for financial cooperation with Turkey. 1999-2002: EUR 230 million for financial cooperation with Croatia.

b. Central and Eastern Europe:

- loans decided: 31.1.1997-31.1.2000: EUR 3 520 million for the renewal of the EIB mandate, covered by overall 70% guarantee.

c. Asia and Latin America:

- loans decided: 1993-1996: EUR 750 million. Loans of EUR 54.6 million cancelled. 1996: EUR 275 million (100% guarantee). EUR 122 million still to be signed when the decision of 14.4.1997 was adopted is now covered by the overall 70% guarantee. 31.1.1997-31.1.2000: EUR 900 million for renewal of the EIB mandate, covered by overall 70% guarantee.

d. South Africa:

- loans decided: 1.7.1997-1.7.2000: EUR 375 million for the renewal of the EIB mandate, covered by overall 70% guarantee.

e. Former Yugoslav Republic of Macedonia (FYROM)

- loans decided: 1998-2000: EUR 150 million in EIB loans (overall 70% guarantee).

f. Bosnia

- loans decided: 1999-2000: EUR 100 million in EIB loans (overall 70% guarantee).

- Euratom

No further provisioning.

- Macrofinancial assistance

- loans decided: 1997: loans of EUR 25 million to Belarus released; loans of EUR 130 million to Slovakia cancelled. 1998: loans of EUR 100 million to Algeria released; EUR 150 million in loans to Ukraine adopted.
- loans decided: 1999: EUR 20 million in loans to Bosnia; EUR 20 million in loans to Albania
- loans proposed or in preparation: 1999: EUR 100 million in loans to Bulgaria. EUR 50 million in loans to FYROM. EUR 200 million in loans to Romania. EUR 75 million in loans to Tajikistan. EUR 15 million in loans to Moldova.

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

I. INTRODUCTION

The figures given in the previous parts provide information on the quantitative aspects of the risks borne by the general budget. However, these data should be weighted in accordance with aspects relating to the quality of the risk, which depend on the type of operation and the standing of the borrower. Recent events which may influence the portfolio country risk are analysed below.

The country risk evaluation presented in this chapter provides a set of country risk indicators, in the form of a full-page table per country, for all countries that have been recipients of EC macro-financial assistance in Central and Eastern Europe, the NIS and the Mediterranean area and which still have outstanding debts towards the EC. To complement this, textual analysis is provided for those countries where significant new information influencing the risk evaluation has become available since the previous report covering the last six months of 1998. Brief textual analysis is also provided for the countries which have still to repay loans outstanding in the context of the ECU 1250 million commercial credits made available to the then Soviet Union in 1991.

The evaluation in this section does not deal with other regions than those mentioned, mainly because Community exposure elsewhere (notably through guarantees of EIB lending) represents only a small fraction of total exposure and is also well diversified among countries.

II. CENTRAL AND EAST EUROPEAN COUNTRIES

BULGARIA

Although Bulgaria's economy has been showing signs of fragility in recent months, the risk assessment of the country remains broadly positive. In the first half of 1999, macroeconomic developments in Bulgaria were largely driven by the weak external environment. Inflation declined further, in part due to the fall in international energy and commodity prices. The downward trend in industrial and retail sales continued in early 1999, pointing to a stagnation of GDP growth. Developments on the external accounts continued to be negative, as exports contracted further as a result of the downturn in world markets and the ongoing restructuring of the manufacturing sector. On the positive side, fiscal performance continued to be strong and despite a small fall in dollar terms, official reserves remained sufficient to ensure the normal functioning of the currency board arrangement.

Despite difficult external conditions, further accentuated by the Kosovo conflict, the reform programme agreed with the IMF under the extended arrangement remains on track. Bulgaria met almost all the performance criteria set for end-March. Subsequently, the Bulgarian authorities took action to correct the slippages observed in some areas, in particular with regard to the reduction of tax arrears, wage developments in the hundred companies making the most serious losses and the liquidation of closed banks. The Kosovo crisis, although recently resolved, will affect growth prospects this year and lead to a wider-than-expected balance of payments gap. However, the Bulgarian economy may benefit from some positive spillover effects of reconstruction in South-Eastern Europe. Moreover, at the G-24/Consultative Group meeting for Bulgaria on 21 April, the EU and other official creditors pledged complementary financial support which will broadly cover the external financing needs estimated before the onset of the Kosovo crisis.

ESTONIA

Since late 1998, Estonia is experiencing a sharp slowdown in economic activity caused by the fall in foreign and domestic demand. Preliminary estimates show that real GDP fell by 5.8% in the first quarter of 1999 compared to the same period of 1998. However, there are indications that it will rebound in the second half of the year. The worse than expected deterioration of growth and of the fiscal situation (the deficit is expected to increase to 3-4% of GDP in spite of a negative supplementary budget passed by the new government) suggests that the authorities must take additional measures to maintain a sound fiscal balance in coming years.

Estonia's risk assessment continues to be one of the best in the region. Macroeconomic indicators suggests that the country's capacity to honour its external obligations has improved: the gross external debt of residents and the gross official external debt fell as a percentage of GDP in 1998, the external deficits and inflation have continued to decline rapidly in the first months of 1999, while FDI inflows have remained high. In addition, debt creating capital inflows to banks, in particular liabilities to foreign credit institutions, have continued to decrease. Foreign exchange reserves have remained broadly at the same level in the first five months of 1999, although there have been ample monthly fluctuations.

The sharp fall in foreign demand has had a very negative impact on exports, which have declined by 14% in the first quarter of 1999 compared to the same period of 1998. Because imports have declined even more rapidly, this has not led to a worsening of external imbalances. However, the fall in exports suggests that the authorities must accelerate structural reforms, further improve the business environment and strive to widen and diversify the export base. In addition, prudent macroeconomic policies, in particular tight fiscal policy, will ensure that the country maintains its high international credibility and continues to attract large inflows of foreign investments to modernise the economy and sustain productivity increase.

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Since 1994 the former Yugoslav Republic of Macedonia (FYROM) has taken significant steps towards macroeconomic stabilisation with support from the international

community. It also engaged in a number of economic reforms, although there has been a slowdown in recent years; in particular, large scale privatisation still needs to be achieved. More recently, in the early months of 1999, industrial output and the total volume of foreign trade contracted sharply. This deterioration was mainly a result of increased tensions in the region. The outbreak of the Kosovo crisis added significantly to the existing difficulties, with FYROM's economy and its country risk profile, at least in the short run, being negatively affected. The crisis is expected to impact on the economy through various channels: a deterioration in trade relations, transit transport, and investment flows together with indirect effects on the budget and employment. The IMF has projected in May 1999 that as a consequence of the crisis, economic growth will contract by 8% this year rather than the expected 5% growth. However, with the speedy refugee return and expected positive spillover effects of reconstruction in the region, the economic impact of the crisis could be less severe than envisaged.

Direct trade with and transit trade through the Former Republic of Yugoslavia represented nearly 70% of FYROM's exports in 1998. Already in 1998, a USD 470 million trade deficit and a current account deficit of USD 236 million were recorded. As a consequence of the crisis, the total current account deficit is likely to reach USD 495 million (14.7% of GDP) in 1999, which is less than earlier estimates due to weaker import demand. Official reserves remain stable at a level corresponding to 2.2 months of imports at the end of June 1999. FYROM's external debt amounted to USD 1400 million in 1998, representing 39% of GDP, with repayments scheduled for 1999 amounting to USD 188.3 million. This represents a considerable increase compared to 1997 when the debt level stood at USD 1100 (34% of GDP).

According to the estimates presented by the IMF at the last emergency donors Conference held in Paris on May 5, 1999, the economic programme showed a residual financing gap for this year of about USD 372 million, after taking into account the contributions from the IMF and World Bank. At this meeting, bilateral pledges of financial assistance amounted to USD 130 million. This does not yet include a possible second EU macro-financial assistance to the country which is now being proposed by the Commission. Moreover, there are indications that the financing gap may be further reduced, given the recent import contraction.

LATVIA

The recent financial crisis in Russia has had a significant impact on Latvia's short-term economic outlook. Growth of real GDP has stalled in Latvia, falling from 8.6% in 1997 to only 3.6% in 1998. Moreover, the average growth figure for 1998 masks a strong downwards trend throughout the year – by the final quarter real GDP was contracting on a year-on-year basis. This slowdown in economic growth reflects the direct impact of the decline in goods and service exports to the East, whilst domestic demand remained robust. However, the Russian crisis has led to the scaling down of operations by many firms, and to the laying-off of workers – the official unemployment rate has jumped, and real wage growth has been slowing. These factors point to a slowing of domestic demand in 1999.

As a result of the deterioration of trade links the external accounts worsened sharply in 1998. The trade deficit ballooned to 17.6% of GDP, and the current account deficit

doubled from its 1997 level to 11.1% of GDP in 1998. Foreign direct investment in 1998 halved from its levels in 1997, although the overall balance of payments ended in surplus due to a large positive errors and omissions item. Official debt and foreign debt of Latvia remain low.

The problems in Russia have also had a significant impact on the financial sector through the commercial banks, and three banks with a high exposure to Russia (and in particular to GKO's) were closed. However, a rehabilitation for the largest of these banks has recently been agreed by the central bank.

LITHUANIA

In spite of the external shock induced by the Russian crisis, orderly macroeconomic conditions have been preserved in Lithuania. Economic recovery has come to an abrupt halt, unemployment rose and deflationary trends in some markets favoured a sharp fall in inflation. Nominal and real wage growth has been steadily climbing down, albeit from very high levels. The current account deficit worsened in 1998 but as a sharp reduction in domestic demand limited its deterioration in the last quarter. Preliminary data for the first quarter of 1999 indicate a slight year-on-year improvement in the current account deficit. Financing the external imbalance has not been problematic so far thanks to sizeable privatisation deals which boosted the inflows foreign direct investment in 1998 as well as the placement of Lithuania's first Eurobond issue in 1999. After peaking in July 1998, official reserves have been declining but continue to cover more than three months of import. At the end of 1998, foreign debt as a proportion of GDP was nearly unchanged compared to a year earlier. During the first five months of 1999, however, Lithuania's foreign debt increased by more than 25% in nominal terms.

Fiscal policy was loosened significantly in the second half of 1998 when expenditures were increased as a result of one-off outlays linked to the authorities' programme for the restitution of savings lost at the beginning of the decade. One-off privatisation revenues provided the immediate source of financing. In 1999, the government aims at achieving a zero deficit net of on-lending and savings restitution but slower-than-planned growth has so far caused revenues to fall short of target. This loosening of fiscal policy is aimed at picking up the slack in domestic demand. It could be justified if the crisis turned out to be a temporary negative disturbance and if the fiscal expansion could be financed without impairing the long-run sustainability of the public accounts. While using privatisation receipts to cover one-off expenditures linked to savings restitution does not cause any immediate financing problem, it reduces the net worth of the public sector, affecting the future path of fiscal policy. In addition, as growth slows down, the amount of new debt which can be raised without increasing the debt-to-GDP ratio is diminished accordingly. Finally, the exact extent of the fiscal stimulus arising from the savings restitution scheme as well as the speed with which it feeds through to consumption are difficult to determine, raising the risk of an excessive, or simply untimely, demand boost. The authorities should take all of these factors into account in order to avoid losing the confidence of the international financial markets. In the shorter term, this implies adopting an economic policy stance continuing to ensure that the pace of import growth remains in line with the reduced rate of export expansion. In the longer term, it will be important to advance structural reforms in order to support the incipient re-orientation of

trade towards the more dynamic EU markets and to stop the causes for below-the-line debt accumulation.

ROMANIA

In the first half of 1999, Romania's country risk has deteriorated further as the country is confronted with increasingly serious economic difficulties. As in the past, restrictive macroeconomic policies are being undermined by timid restructuring of the public enterprise sector. Weak corporate governance, the widespread accumulation of tax arrears, slow privatisation, pervasive political and administrative uncertainty, and the weaknesses of the financial sector, are putting increased pressure on the budget and deterring foreign direct investment.

Real GDP fell by 7.3% in 1998, after a 6.9% decline in 1997. In the first quarter, it fell by 4.6%. Short-term indicators suggest that the fall in GDP has continued in the second quarter. At the same time, both consumer and producer price inflation have increased in recent months, notably because the acceleration in the depreciation of the currency since the beginning of the year has rekindled inflationary expectations. At the end of June, the leu had fallen by 43% against the US dollar).

Despite the contraction of GDP and consumption, the current account deficit increased by 40% in 1998, to USD 3 billion (or 7.9% of GDP). In the first months of 1999, the depreciation of the leu has led to a sharp reversal of import growth, which is now negative. This has been accompanied by a faster rate of decline of exports, which for the first quarter have been 9% lower than in the same period of 1998.

Fiscal discipline has not made much progress at the local level and in the area of social security, because enterprises have been able to build up further their social security arrears. The growth of the interest charges has become problematic and casts doubts on the sustainability of the fiscal situation; they have become the largest expenditure item for the State budget, accounting for 21% of total expenditures at the end of 1998 and 34% at the end of May 1999. The high cost and the short-term maturity of domestic debt, which has been the main source of financing, have been two important factors explaining this rapid increase.

Official foreign exchange reserves have declined further and have reached a low level – less than a month of imports. This is largely due to the fact that the large external debt service payments made in the first semester were financed by drawing down the level of official reserves. Indeed, Romania's low international credibility has held back foreign capital inflows.

The precarious external situation led the Romanian authorities to resume active negotiations with the International Financial Institutions (IFIs). A preliminary agreement on a programme of measures to achieve macroeconomic stabilisation and structural reforms was reached in April. The programme was to be supported by a new SDR 400 million stand-by arrangement from the IMF and a new USD 300 million structural adjustment loan from the World Bank. However, repeated problems in the implementation of the prior conditions agreed with the IFIs have delayed the approval by the Executive Boards and the release of the assistance.

III. NEWLY INDEPENDENT STATES

ARMENIA

The economy of Armenia is expected to recover for a sixth consecutive year in 1999. However, GDP is expected to increase by only 4% after a growth of 7% in 1998. The budget deficit would increase to 7% of GDP in 1999 (5% in 1998), while, in recent months, the country experienced difficulties in collecting taxes and accumulated arrears on core budgetary expenditures. Average annual inflation is expected to decline from 9% in 1998 to 3% in 1999. The external accounts which remained heavily constrained in 1998 (at about 26% of GDP) as a result of the commercial blockade imposed on the country, the loss of market shares in Russia and the fall in remittances from workers abroad would improve somewhat in 1999. In 1999, the country would benefit from lower, although still substantial (USD 120 million), amounts of FDI. External debt is still equivalent to some 44% of GDP, while the country remains heavily dependent on foreign financing on concessional terms. The level of gross foreign exchange reserves can still be considered as satisfactory (above 3 months of imports). On the structural reform side, important progress was made in price and trade liberalisation in 1998, while Armenian accession to WTO is expected for 1999. With regard to privatisation, the Government made significant progress regarding medium- and large-scale enterprises in 1998. Progress were also made in the restructuring of the banking sector with adoption of international accounting standards and writing off of all pre-1997 non-performing loans. However, progress in privatisation, reform in the electricity sector and implementation of the prudential indicators in the banking sector have been somewhat disappointing in recent months. As a result of recent clashes between Armenian and Azeri military forces and of recent efforts in building armaments from both sides, the country risk of Armenia remains high.

BELARUS

Since the hopes for a loan from the International Monetary Fund (IMF) worth USD 100 million have been dashed, the country-risk, which was already very high, has further increased. The negative impact of the Russian crisis has been dramatic for Belarus due to its high level of dependence on the Russian economy. However, the main cause of the crisis lays in the unsustainable growth policy pursued by the authorities based on subsidizing the industrial sector in order to increase exports. Economic growth has been kept artificially high in 1998, at 8.3%, at the cost of soaring levels of unsold stocks. Inventories have grown to unsustainable levels as Russian demand for exports has declined sharply. No growth in real output can be expected in 1999, as a result of low domestic demand and continued recession in Russia.

Inflation further accelerated to exceed 100% in the year to May 1999. The government's aversion to reform and reliance on growth through credit expansion is not expected to ease inflationary pressures. Rampant inflation and the low credibility record of the government policy stances have triggered a dramatic collapse of the Belarus rouble.

As a result of the steep fall in exports to Russia in the second half of 1998 the current account deficit is reported to have increased from USD 799 million in 1997 to USD 947 million in 1998 (about 7% of GDP). The country does not have any foreign reserves to

serve the external debt becoming due. Given such a substantial liquidity problem, it is hard to see how Belarus can avoid a default. In mid- 1999, external debt is estimated at USD 0.9 billion.

GEORGIA

GDP growth severely declined from 11% in 1997 to 2.9% in 1998. A similar growth is expected in 1999. Fiscal difficulties worsened in the second half of 1998. The fiscal deficit remained, however, relatively low, thanks to budget sequestration (reduced vital energy imports, etc...) and expanded public and social security arrears. Between August and November 1998, the Central Bank intervened heavily in the foreign exchange market, reducing the country's reserves by around 50%. When the Central Bank ceased its interventions in December, the currency depreciated sharply against the USD. In recent months, the currency has stabilized (at around 2 Lari against 1 USD), a depreciation of 55% with respect to its end-1997 value. The inflationary pressures of the depreciation seem to have waned: after a rise in late 1998 - early 1999 (17% from April 1998 to March 1999), inflation is now declining. Thanks to foreign assistance and privatisation receipts, foreign exchange reserves have partially recovered, reaching USD 115 million, or 1-2 months of imports, at the end of January 1999. In November 1998, an IMF mission was not in a position to conclude favourably the mid-term review under the third ESAF arrangement, owing to Georgia's low fiscal revenue collection rate and inappropriate exchange rate policy. After the sharp depreciation of Georgia's currency in late 1998, the IMF is now expected to release the last ESAF tranche on the basis of improved fiscal collection results for the first six months of 1999. A positive IMF decision is expected before the summer recess. As a result, the country risk is now more favourable than it was six months ago.

MOLDOVA

By passing an austere budget for 1999 that opened the way for resumed multilateral lending, the government has been able to avoid a default. However, Moldova's financing needs are expected to increase further and the country risk remains high.

In the run-up to the elections in March 1998, a loosening of fiscal policy created major macro-financial imbalances, which in turn began to affect the real economy and to threaten the still very vulnerable stabilization. The financial crisis in Russia dramatically exacerbated these problems. The industrial and agricultural sectors lost their traditional markets in the Newly Independent States and experienced a substantial output decline (reportedly, industrial and agricultural output fell by 11% and 7% respectively in 1998). Hence, Moldova's growth performance was affected profoundly as GDP is estimated to have fallen 8.6% in 1998 and by over 10% in the first quarter of 1999 compared to the same period of 1998 (in this period, industrial output declined by 40% and exports by almost 50%).

The Moldovan leu has been depreciating dramatically: in the six months to May 1999, it lost over 70% of its value vis-à-vis the USD. Moldova's high dependence on energy imports, mainly priced in USD, makes the entire economy extremely vulnerable to these recent exchange rate developments. Continued depreciation is expected to result in high

levels of inflation this year. Consumer price inflation rose to a year-end level of 18.2% in 1998, and accelerated further to over 40% in the year to May 1999.

Largely as a result of the collapse of the Russian export market, Moldova's external accounts have been deteriorating since over a year. The resulting decline in export revenue exceeds the drop in import demand brought on by currency devaluation and reduced domestic demand, so as to lead to high trade and current account deficits in 1999. The worsening investment climate in a context of high real interest rates will further complicate Moldova's covering of its financing needs, in a year when over USD 200 million external commitments have to be repaid.

TAJIKISTAN

Notwithstanding two external shocks (continued fall in world commodity prices - in particular cotton and aluminium - and financial crisis in Russia), output expanded remarkably by about 5.3% in Tajikistan in 1998, and similar growth is expected in 1999. Despite credit expansion to the cotton sector and a sharp depreciation of the currency against the USD (by 33% from August 1998 to mid-March 1999), annual inflation fell below 3% in December 1998. Monthly inflation was, however, rising at 7.3% in April 1999. Fiscal/quasi-fiscal difficulties continued in early 1999, as the Government failed to collect satisfactory revenue levels, while the Central Bank continued to provide some direct credits to the illiquid cotton sector.

In 1998, the current account deficit expanded from 5.5% to 15.2% of GDP (without official transfers), as export revenues declined and remittances from Russia, likely, diminished. At end-1998, gross foreign exchange reserves were equivalent to USD 65 million only or 1.4 months of imports. Tajikistan's balance of payments position is expected to remain fragile in the medium term. At the end of 1998, the external debt of Tajikistan was still equivalent to USD 1,263 million and represented 98% of GDP. The level of external indebtedness is expected to rise further to 130% of GDP in 1999, but at more concessional terms.

Structural reforms in key areas appear to be proceeding satisfactorily, progress having been reported in areas where delays had been registered: credit auctions, privatisation, banking sector reform, land distribution and tariff adjustments in the electricity sector. As a result, the conclusions of the recent IMF review mission in the country were encouraging and a positive decision on a second annual programme under the three-year ESAF Facility is expected shortly. With regard to the security situation, progress in the peace process remains slow and arduous. The risk assessment is still high.

UKRAINE

Ukraine has made significant macro economic stabilisation progress in recent years (inflation was reduced from 400% in 1994 to 20% in 1998 and the annual contraction of real GDP has decelerated from 23% in 1994 to 1.7% in 1998). The general economic situation however remains fragile due to delays in the implementation of key structural reforms which would permit the country to fully develop its economic potential, improve its public finances (the budget deficit was 2.7% in 1998) and get onto the path of sustainable growth.

Some positive trends established in the first half of 1998 were reversed in the aftermath of the Russian crisis. The authorities agreed with the IMF on a three-year economic programme covering the period July 1998-June 2001, supported by a USD 2.2 billion Extended Fund Facility (EFF). The programme aims at reducing the 12-month average inflation rate to 7% and raising real GDP growth to 4% by 2001. Fundamental structural reforms would accompany the macroeconomic stabilisation, including measures to reduce the role of the government in the economy, further deregulation and accelerated privatisation. Ukraine has also lowered twice Hryvna's trading band vis-à-vis the dollar and successfully rescheduled a large part of their short-term external and internal debt in the context of a scheme, agreed with the creditors.

The EFF had been suspended from October 1998 to March 1999, due to fiscal and structural slippages. However, the disbursement of the EFF tranches has resumed since late March 1999 as Ukraine made progress in fiscal adjustment and structural reform and fulfilled the relevant conditions. In late May, the IMF disbursed the accumulated amount of April and May tranches. Moreover, it increased the amount of the EFF in response to the adverse external conditions facing the Ukrainian economy. The World Bank is also likely to resume its programs. Ukraine's overall risk, albeit somewhat improving, remains high.

List of abbreviations

BOP	Balance of payments
CCFF	Compensatory and Contingency Financing Facility
CEEC	Central and East European Countries
DDSR	Debt and Debt Service Restructuring
DM	Deutsche Mark
EC	European Community
ECU	European Currency Unit
EFF	Extended Financing Facility
EIB	European Investment Bank
ESAF	Extended Structural Adjustment Facility
EU	European Union
EUR	Euro
FDI	Foreign Direct Investments
FESAL	Financial and Enterprise Sector Adjustment Loan
G&S	Goods and Services
GDP	Gross Domestic Product
IMF	International Monetary Fund
MED	Mediterranean countries
NIS	Newly Independent States
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
STF	Systemic Transformation Facility
USD	Dollar of the United States of America

ANNEX

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

I.A Tables 1 to 3

The purpose of Tables 1 to 3 is to show the outstanding amount of guarantees and annual repayments of capital and interest in respect of borrowing and lending operations for which the risk is covered by the Community budget. The figures show the maximum possible risk for the Community in respect of these operations and must not be read as meaning that these amounts will actually be drawn from the budget. In the case of Table 3, in particular, it is not certain that all the operations described will actually be disbursed.

I.A.1 Authorised ceiling (Table 1)

This is the aggregate of the maximum amounts of capital authorised (ceilings) for each operation decided by the Council.

In order to relate it to the risk which the budget might have to cover, account should be taken of the following factors which could affect it:

- Factor increasing the risk: the interest on the loans must be added to the authorised ceiling
- Factors reducing the risk:
 - limitation of the guarantee given to the EIB to 75% of the loans signed in the Mediterranean countries;
 - limitation of the guarantee given to the EIB to 70% of the loans signed as part of lending operations with certain non-member countries authorised by the Council Decision of 14 April 1997 and a sharing of risk between the Community and the EIB as the budget guarantee covers only political risks in some cases;
 - operations already repaid, since the amounts concerned, except in the case of balance of payments support (Member States), are the maximum amount of loans granted and not outstanding amounts authorised;
 - the amounts authorised are not necessarily taken up in full.

I.A.2 Capital outstanding (Table 1)

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

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

I.A.3 Annual risk (Tables 2 and 3)

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

- a) disbursements alone (Table 2), in which case the capital to be repaid corresponds to the amount outstanding;
- b) disbursements, decisions still awaiting disbursement and Commission proposals still awaiting decisions (Table 3), in which case the capital to be repaid corresponds to the ceiling on loans authorised plus, where applicable, the amounts in respect of operations proposed by the Commission and not yet decided.

I.B. Loan operations covered by a budget guarantee

TABLE 5a

Borrowing and lending operations: Member States

Changes in amounts outstanding during six-month period

EUR million

COUNTRY	Decision	Date of decision	Loan term (years)	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.1.99	Operations in six-month period		Amount outstanding at 30.06.99	
							Amounts disbursed	Amounts repaid		
ITALY	93/67/CEE	18.01.93	6	(c)	8.000,00	2.482,70			2.482,70	
			6	(c)	2.000,00					
			-	(d)	2.000,00					
			-	(d)	2.000,00					
EURATOM	77/270-271/Euratom 80/29/Euratom 82/170/Euratom 85/537/Euratom 90/212/Euratom	29.3.77 20.12.79 15.3.82 05.12.85 23.4.90	(3)	(c)	4.000,00	27,70		14,20	13,60	
				(c)	500,00					
				(c)	500,00					
				(c)	1.000,00					
				(b)(4)	1.000,00					
				(d)(4)	1.000,00					
NCI	78/870/EEC 81/19/EEC(1) 81/1013/EEC(2) 82/169/EEC 83/200/EEC 87/182/EEC	16.10.78 20.1.81 14.12.81 15.3.82 19.4.83 09.3.87	(3)	(c)	6.830,00	168,30		12,60	156,90	
					(c)					1.000,00
					(c)					1.000,00
					(c)					80,00
					(c)					1.000,00
					(c)					3.000,00
					(c)					750,00
TOTAL					18.830,90	2.678,70	0,00	28,80	2.653,20 ⁽⁵⁾	

(1) Exceptional aid for the reconstruction of areas hit by the earthquake in Italy in 1980.

(2) Exceptional aid for the reconstruction of areas hit by the earthquake in Greece in 1981.

(3) Long-term loans for which the schedule of repayments depend on the dates of disbursement.

(4) By Decision 94/179/Euratom of 21 March 1994 the Council decided to extend Euratom loans to the financing of projects in certain non-member countries.

At 31 December 1998 no loans had yet been granted in non-member countries.

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

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TABLE 5b (1)

Financial assistance to non-member countries

Changes in amounts outstanding during six-month period, broken down by countries and tranche

EUR million

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.1.99	Operations in six-month period		Amount outstanding at 30.06.99
								Amounts disbursed	Amounts repaid	
BULGARIA II	92/511/EEC	19.10.92				110,00				
1st tranche			7	07.12.2001	(c)	70,00	70,00			70,00
2nd tranche			7	29.08.2003	(c)	40,00	40,00			40,00
BULGARIA III	97/472/EC	22.07.97				250,00				
1st tranche			10	10.02.2008	(c)	125,00	125,00			125,00
2nd tranche			-	-	(c)	125,00	125,00			125,00
ROMANIA I	91/384/EEC	22.07.91				375,00				
1st tranche			7	01.02.99	(a)	190,00	190,00		190,00	0,00
2nd tranche			6	18.03.98	(a)	185,00	0,00			0,00
ROMANIAE II	92/551/EEC	27.11.92				80,00	80,00			80,00
ROMANIA III	94/369/EC	20.06.94				125,00				
1st tranche			7	20.11.2002	(c)	55,00	55,00			55,00
2nd tranche			7	20.11.2004	(c)	70,00	70,00			70,00
BALTIC STATES	92/542/EEC	23.11.92				220,00				
ESTONIA						40,00				
1st tranche			7	31.03.2000	(c)	20,00	10,00			10,00
2nd tranche			-	-	(d)	20,00	0,00			0,00
LATVIA						80,00				
1st tranche			7	31.03.2000	(c)	40,00	40,00			40,00
2nd tranche			-	-	(d)	40,00	0,00			0,00
LITHUANIA						100,00				
1st tranche			7	27.07.2000	(c)	50,00	50,00			50,00
2nd tranche			7	16.08.2002	(b)	50,00	25,00			25,00
MOLDOVA I	94/346/EC	13.06.94				45,00				
1st tranche			10	07.12.2004	(c)	25,00	25,00			25,00
2nd tranche			10	08.08.2005	(c)	20,00	20,00			20,00
MOLDOVA II	96/242/EC	25.03.96				15,00	15,00			15,00

TABLE 5b (2)

Financial assistance to non-member countries

Changes in amounts outstanding during six-month period, broken down by countries and tranche

EUR million

COUNTRY	Decision	Date of decision	Loan term (years)	Expiry date	Loan situation - closed (a) - partially disbursed (b) - disbursed in full (c) - not yet disbursed (d)	Amount decided	Amount outstanding at 1.1.99	Operations in six-month period		Amount outstanding at 30.06.99
								Amounts disbursed	Amounts repaid	
UKRAINE I	94/940/EC	22.12.94	10	28.12.2005	(c)	85,00	85,00			85,00
UKRAINE II	95/442/EC	23.10.95				200,00				
1/2 tranche			10	29.08.2006	(c)		50,00			50,00
1/2 tranche			10	30.10.2006	(c)		50,00			50,00
2nd tranche			10	30.10.2008	(c)		100,00			100,00
BELARUS	95/132/EC	10.04.95				55,00				
1st tranche			10	28.12.2005	(c)	30,00	30,00			30,00
2nd tranche			-	-	(d)	25,00	0,00			0,00
FYROM	97/471/EC	22.07.97				40,00				
1st tranche			15	27.09.2012	(c)	25,00	25,00			25,00
2nd tranche			15	13.02.2008	(c)	15,00	15,00			15,00
ALGERIA I	91/510/EEC	23.09.91				400,00				
1st tranche			5	15.12.97	(a)	250,00	0,00			0,00
2nd tranche			7	17.08.2001	(c)	150,00	150,00			150,00
ALGERIA II	94/938/EC	22.12.94				200,00				
1st tranche			7	27.11.2002	(c)	100,00	100,00			100,00
2nd tranche			-	-	(d)	100,00	0,00			0,00
GEORGIA	97/787/EC	17.11.97	15	24.07.2013	(c)	110,00	110,00			110,00
ARMENIA	97/787/EC	17.11.97	15	30.12.2013	(c)	28,00	28,00			28,00
REPS FORMER USSR(*)	91/656/EEC	16.12.91	3	28.09.97	-	1.250,00	54,50			54,50
TOTAL						3.588,00	1.737,50	0,00	190,00	1.547,50

(*) The EUR 54.5 million outstanding corresponds to the principal due but not paid at 30.06.1999.

TABLE 6

LOAN GUARANTEES TO EIB

GEOGRAPHICAL AREA	Decision	Date of decision	Rate of guarantee	Loan term (years)	Date of guarantee contract	Amount decided	Loans signed		Amount outstanding	
							at 1.1.99	during six-month period	at 1.1.99	at 30.06.99
MED. Financial protocols(1)		8.03.77	75% (2)	15	30.10.78/10.11.78	6062	5506	0	2377	2402
MED. Horizontal cooperation	R/1762/92/EEC	29.06.92	75% (2)	15	09.11.92/18.11.92	1800	1800	0	1207	1361
TOTAL MED.						7862	7306 (3)	0	3584	3763 (*)
C and E Europe I	90/62/EEC(4)	12.2.90	100%	15	24.4.90/14.5.90	1000	912	-	726	753
	91/252/EEC(5)	14.5.91	100%	15	19.1.93/4.2.93	700	498	-	422	420
C and E Europe II	93/696/EC(6)	13.12.93	100%	15	22.7.94/12.8.94	3000	2843	-	1133	1341
Asia, Latin America I	93/115/EEC	15.2.93	100%	15	4.11.93/17.11.93	750	621	-	362	430
Asia, Latin America II	96/723/EC	12.12.96	100%	15	18.3.97/26.3.97	153	153	-	125	125
Asia, Latin America II	96/723/EC	12.12.96	70%	15	21.10.97	122	52	70	0	86
South Africa	95/207/EC	01.6.95	100%	15	04.10.95/16.10.95	300	300	-	151	267
New mandates	97/256/EC(7)	14.4.97	70%	15	25.7.97/29.7.97	7105	3438	1671	1294	1689
FYROM	98/348/EC	19.5.98	70%	15	29.07.98/07/08/98	150	0	70	15	33
Bosnia	98/729/CE	14.12.98	70%	15	16.06.99/22/06/99		0			
TOTAL						21142	16123	1811	7812	8888

(1) Including EUR 1 500 million for Spain, Greece and Portugal.

(2) General guarantee of 75% for all credits made available under lending operations under a guarantee contract signed between the Community and the EIB on 30.10.78 and 10.11.78. By way of exception, a 100% guarantee applies to the emergency aid granted to Portugal in accordance with the Council Decision of 7 October 1975.

(3) The Community has guaranteed EUR 5 515 million, of which EUR 141.5 million is covered by a 100% guarantee for Portugal.

(4) Non-member countries: Poland, Hungary.

(5) Non-member countries: Czech Republic and Slovak Republic, Bulgaria, Romania.

(6) Non-member countries: Poland, Hungary, Czech Republic and Slovak Republic, Bulgaria, Romania, Baltic States and Albania.

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

(*) The amount outstanding has been increased by EUR 36.4 million to take account of the principal due and not paid at 30.06.99.

I.C Expected signature and disbursement of EIB loans

The EIB has supplied the figures used for calculation of the assumptions made for drawing up Table 3 (EIB loans to non-member countries from its own resources).

Expected signatures

At 30 June 1999 a total of EUR 2 947 million was still to be signed:

Mediterranean: former mandates (protocols with Syria and Malta)	EUR 255 million
Mediterranean countries	EUR 348 million
Central and Eastern Europe	EUR 977 million
Asia and Latin America	EUR 446 million (1)
South Africa	EUR 225 million
FYROM	EUR 80 million
Bosnia	EUR 100 million

(1) The amount still to be signed for Asia and Latin America under the Decision of 14 April 1997

Disbursement forecasts

As regards disbursement of the loans still awaiting signature, it is assumed that nothing will be paid in the year of signature, 10% in the second year, 25% a year between the third and fifth years and 15% in the sixth year.

At 30 June 1999 EUR 6 362 million still had to be disbursed against loans signed at that date. The total breaks down as follows:⁸

Mediterranean	EUR 2339 million
Central and Eastern Europe	EUR 3220 million
Asia and Latin America	EUR 611 million
South Africa	EUR 155 million
FYROM	EUR 37 million

I.D Payment of the budget guarantee

I.D.1 Borrowing/lending operations

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

⁸ Based on a working assumption that 25% of the loan will be disbursed every year for four years and that the average term will be fifteen years with a three-year period of grace.

The loan repayments are scheduled to match the repayments of the borrowings due from the Community. If the recipient of the loan is late in making a repayment, the Commission must draw on its resources to repay the borrowing on the due date.

The funds needed to pay the budget guarantee in the event of late payment by the recipient of a loan granted by the Community are raised as follows:

- a) The amount required may be taken provisionally from cash resources in accordance with Article 12 of Council Regulation No 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources. This method is used so that the Community can immediately repay the borrowing on the date scheduled in the event of late payment by the recipient of the loan.
- b) If the delay extends to three months after the due date, the Commission draws on the Guarantee Fund to cover the default. The funds obtained are used to replenish the Commission's cash resources.
- c) The transfer procedure can be used to provide the budget heading with the appropriations needed to cover the default; any margin available in the guarantee reserve is drawn on first. This method is used when there are insufficient appropriations in the Guarantee Fund and must be authorised in advance by the budgetary authority.
- d) The re-use of amounts repaid by debtors who have defaulted, leading to activation of the Community guarantee, allows payments to be made within a short period of time always providing, of course, that there are recovered funds available.

I.D.2 Guarantees given to third parties

The loan guarantee is in respect of loans granted by a financial institution such as the European Investment Bank (EIB). When the recipient of a guaranteed loan fails to make a payment on the due date, the EIB asks the Community to pay the amounts owed by the defaulter in accordance with the contract of guarantee. The guarantee must be paid within three months of receiving the EIB's request. The EIB administers the loan with all the care required by banking practice and is obliged to demand the payments due after the guarantee has been activated.

Since the entry into force of the Regulation establishing a Guarantee Fund for external action, the provisions of the Agreement between the Community and the EIB on management of the Fund state that, after the EIB calls in the guarantee in the event of a default, the Commission must authorise the Bank to withdraw the corresponding amounts from the Guarantee Fund within three months.

If there are insufficient resources in the Fund, the procedure used for activating the guarantee is the same as for borrowing/lending operations.

An implementation agreement was concluded between the Community and the EIB on 20 and 22 January 1999 to determine payment and repayment procedures in connection with Community guarantees to the EIB.

II. METHODOLOGICAL NOTE ON THE ANALYSIS OF THE COMMUNITY'S ESTIMATED LENDING CAPACITY IN RESPECT OF NON-MEMBER COUNTRIES OVER THE PERIOD 1997-99 UNDER THE GUARANTEE FUND MECHANISM (TABLE 4)

II.A Reserve for loan guarantees to non-member countries

As agreed at the Edinburgh European Council, the Interinstitutional Agreement of 29 October 1993 on budgetary discipline and improvement of the budgetary procedure provided for the entry of a reserve for loan guarantees to non-member countries as a provision in the general budget of the European Communities. This reserve is intended to cover the requirements of the Guarantee Fund and, where necessary, activated guarantees exceeding the amount available in the Fund, so that these amounts may be charged to the budget.

The amount of the guarantee reserve is the same as in the financial perspective, viz. EUR 300 million at 1992 prices. The amount in the reserve comes to EUR 346 million in 1999.

The conditions for the entry, use and financing of the guarantee reserve are laid down in the following decisions:

- Council Decision 94/729/EC of 31 October 1994 on budgetary discipline
- Council Regulation (ECSC, EC, Euratom) No 2730/94 of 31 October 1994 amending the Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities
- Council Decision 94/728/EC of 31 October 1994 on the system of the Communities' own resources.

II.B Bases for the calculation of the provisioning of the Guarantee Fund

The bases for the provisioning of the Fund are calculated by applying the appropriate rate of guarantee (70%, 75% or 100%):

- to the loan guarantees authorised by the Council and to the loan guarantees proposed or being prepared by the Commission on the basis of the estimates of loan signatures contained in the financial statements (EIB and Euratom loans);
- to the loans (for financial assistance) authorised by the Council and to the loans proposed or being prepared by the Commission.

The annex to Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions, which relates to the arrangements for payments into the Guarantee Fund, states that, in the case of borrowing/lending operations or guarantees to financial bodies under a framework facility spread over a number of years and with a microeconomic and structural purpose, payments into the Fund will be made in annual tranches calculated on the basis of the annual amounts

indicated in the financial statement attached to the Commission proposal, adapted where appropriate in the light of the Council decision.

For other Community borrowing/lending operations, such as loans for the balance of payments of third countries, whether made in one or more than one tranche, payments into the Fund are calculated on the basis of the total amount for the operation decided on by the Council.

The annex to the Regulation establishing the Guarantee Fund states that, as from the second year (in the case of operations spread over a number of years), the amounts to be paid into the Fund will be corrected by the difference recorded on 31 December of the previous year between the estimates that were taken as a basis for the previous payment and the actual figure for the loans signed during that year. Any difference relating to the previous year will give rise to a payment in the following year.

The annex states that, when it starts a payment procedure, the Commission will check the situation with regard to the performance of the operations which were the subject of previous payments and, where the commitment deadlines originally laid down have not been met, will propose that this will be taken into account in calculating the first payment to be made at the start of the following financial year for operations already under way.

In the first half of 1999, as at the start of every financial year, the budgetary authority accordingly adopted transfer 5/99 to correct the amounts paid to the Fund and pay the annual tranches provided for in the financial statements for EIB loans for projects outside the Community (central and Eastern Europe, Mediterranean, Asia and Latin America, South Africa, Former Yugoslav Republic of Macedonia (FYROM) and Bosnia-Herzegovina).

II.C Basis for the provisioning of the Fund in the event of a part guarantee

For EIB loans covered by an aggregate 75% guarantee, the Fund is provisioned on the basis of 75% of the total amount of operations authorised.

The guarantee on the EIB loans authorised by the Council on 14 April 1997, 19 May 1998 and 14 December 1998 is limited to 70% of the total amount of credits opened. The basis for provisioning is 70% of the annual forecast of signatures.

II.D Provisioning of the Guarantee Fund

The amounts paid into the Fund are obtained by applying the rate of provisioning (14%) to the calculation base set out above.

Pursuant to Articles 2 and 4 of the Regulation establishing the Guarantee Fund, the Fund is endowed by payments from the general budget equivalent to 14% of the capital value of the operations until it reaches the target amount. As the target amount was reached at 31 December 1997, the Commission, in accordance with the Regulation, submitted proposals to review the rate of provisioning. These proposals appear in the comprehensive report on the functioning of the Fund which the Commission drew up in accordance with Article 3 of the Regulation (COM(1998) 168 final of 18 March 1998). Regulation No 2728/94 establishing a Guarantee Fund for external action has been

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

II.E Margin remaining in the guarantee reserve

The margin remaining in the guarantee reserve is equivalent to the difference between the reserve and the heading for the provisioning of the Guarantee Fund.

II.F Residual lending capacity

The residual lending capacity is the loan equivalent of the margin left in the reserve, allowing for the guarantee rates in force.

III. TABLES: COUNTRY-RISK INDICATORS

Country-risk indicators					
Country: Bulgaria					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		-10,1	-7,0	3,5
Industrial production	(% change)		-8,3	-11,5	-9,4
Unemployment (end of period)	(% of labour force)		12,5	13,7	12,2
Inflation rate (CPI) (Dec/Dec)	(% change)		311	578	1,0
Exchange rate (end of period)	(Leva per USD)		487	1792	1670
General government balance	(% of GDP)		-10,3	-2,9	1,1
Balance of payments					
Exports of goods and services	(m USD)		6300	6300	5548
Current account balance	(% of GDP)		0,8	4,6	-2,2
Net inflow of foreign direct investment	(m USD)		109	498	401
Official reserves, including gold (end of period)	m USD		800	2500	2991
months' imports of goods and services			1,6	4,8	6,6
External debt					
Convertible currency external debt (end of period)	(m USD)		9600	9700	10072
Convertible currency debt service principal	(m USD)		1000	1100	1098,9
interest	(m USD)		400	600	625,9
External debt/GDP	(%)		600	500	469,1
External debt/exports of goods and services	(%)		103	97	95,6
Debt service/exports of goods and services	(%)		153	156	182
Arrears (on both interest and principal)	(m USD)		17	14	19,8
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	8,1	5,7	6,2
EU exposure/external debt	(%)		6,5	4,8	6,0
EU exposure/exports of goods and services	(%)		10,0	7,4	10,8
IMF arrangements					
Type			SBA	SBA	EFF
(Date)			(07/96-02/98)	(06/97-05/98)	(06/98-06/01)
On track			no (4)	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	B3	B2
S&P long-term foreign currency rating (end of period)			none	none	B
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		99 92 (178) (178)	111 96 (179) (180)	93 (180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking (number of countries)	(2)		92 93 (135) (135)	97 99 (135) (135)	100 92 (136) (136)
Credit rating	(3)		23.1 23.5	22.5 22.2	22.9 26.3

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) SBA suspended in 09/96.
 (5) Receipts from industrial sales

Country-risk indicators					
Country: Estonia					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		3,9	10,8	4,0
Industrial production	(% change)		3,5	15,2	0,5
Unemployment (end of period)	(% of labour force)		10,0	9,7	9,6 (6/98)
Inflation rate (CPI) (Dec/Dec)	(% change)		14,8	12,5	4,3
Exchange rate (end of period)	(Kroons per USD)		12,4	14,3	13,4
General government balance	(% of GDP)		-1,9	2,2	-0,3
Balance of payments					
Exports of goods and services	(m USD)		2921	3614	4155
Current account balance	(% of GDP)		-9,2	-12,1	-8,6
Net inflow of foreign direct investment	(m USD)		110	130	565
Official reserves, including gold (end of period)	m USD		706	823	879
months' imports of goods and services			2,6	2,5	2,2
External debt					
Convertible currency external debt (end of period)	(m USD)	(4)	n.a.	2564	3028
Convertible currency debt service	(m USD)		n.a.	n.a.	n.a.
principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		n.a.	57,2	55,5
External debt/exports of goods and services	(%)		n.a.	73,2	69,5
Debt service/exports of goods and services	(%)		n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,5	0,6	0,6
EU exposure/external debt	(%)		13,8	1,7	1,6
EU exposure/exports of goods and services	(%)		2,0	1,2	1,2
IMF arrangements					
Type			SBA	SBA	SBA
(Date)			(07/96-08/97)	(12/97-03/99)	(12/97-03/99)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	Baa1	Baa1
S&P long-term foreign currency rating (end of period)			none	BBB+	A-
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking	(2)		73 71	69 63	51
(number of countries)			(178) (178)	(179) (180)	(180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking	(2)		76 71	65 63	61 60
(number of countries)			(135) (135)	(135) (135)	(136) (136)
Credit rating	(3)		28.9 31.1	33.6 36.9	38.9 40.8

Footnotes

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

(4) Gross total external liabilities of Estonian residents. Data available only since 1997

Official external debt is much lower. Since 1996, the government has repaid foreign loans in advance.

Country-risk indicators					
Country: FYROM					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		0,8	1,5	5,0
Industrial production	(% change)		3,4	0,0	4,5
Unemployment (end of period)	(% of labour force)		24,9	26,3	36,0
Inflation rate (CPI) (Dec/Dec)	(% change)		-0,7	2,7	0,6
Exchange rate (end of period)	(Denar per USD)		41,3	55,4	54,9
General government balance	(% of GDP)		-0,5	-0,4	-1,7
Balance of payments					
Exports of goods and services	(m USD)	(4)	1100	1200	1325
Current account balance	(% of GDP)	(5)	-7,3	-8,3	-8,2
Net inflow of foreign direct investment	(m USD)		12	18	50
Official reserves, including gold (end of period)	m USD		267	280	333,5
months' imports of goods and services			2,0	1,9	2,3
External debt					
Convertible currency external debt (end of period)	(m USD)		1200	1100	1398
Convertible currency debt service	(m USD)		124	117	129,1
principal	(m USD)		70	47	65,8
interest	(m USD)		54	69	63,3
External debt/GDP	(%)		31,9	35,9	43,0
External debt/exports of goods and services	(%)		102,5	92,3	84,9
Debt service/exports of goods and services	(%)	(6)	10,8	9,2	8,5
Arrears (on both interest and principal)	(m USD)		34,0	none	none
Debt relief agreements and rescheduling	(m USD)		37	87	25,0
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)		0,3	0,6
EU exposure/external debt	(%)			2,6	4,4
EU exposure/exports of goods and services	(%)			2,4	4,7
IMF arrangements					
Type			SBA	ESAF	ESAF
(Date)			(05/95-04/96)	(04/97-04/00)	(04/97-04/00)
On track			yes	yes	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		85 59	107 151	143
			(178) (178)	(179) (180)	(180)
The Institutional Investor					
Position in the ranking (number of countries)	(2)		none	none	none
Credit rating	(3)		none	none	none

Footnotes

- (1) (2) (3) See explanatory notes.
 (4) Discontinuities in the trade series due to changes in the coverage of trade data, particularly in 1996.
 (5) The current account deficit may be overestimated due to unreported remittances.
 (6) Debt service excluding IMF; it includes an estimate of debt service due to commercial creditors.

Country-risk indicators					
Country: Latvia					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		3,3	8,6	3,6
Industrial production	(% change)		1,4	6,1	1,9
Unemployment (end of period)	(% of labour force)		7,2	7,0	9,2
Inflation rate (CPI) (Dec/Dec)	(% change)		13,1	7,0	2,8
Exchange rate (end of period)	(Lats per USD)		0,56	0,59	0,59
General government balance	(% of GDP)		-1,1	1,8	1,0
Balance of payments					
Exports of goods and services	(m USD)		2613	2871	3051
Current account balance	(% of GDP)		-5,5	-6,1	-11,1
Net inflow of foreign direct investment	(m USD)		379	515	220
Official reserves, including gold (end of period)	m USD		729	778	805
months' imports of goods and services			2,9	2,8	2,5
External debt					
Convertible currency external debt (end of period)	(m USD)		727	776	1081
Convertible currency debt service principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		14,6	14,0	16,3
External debt/exports of goods and services	(%)		27,8	27,0	35,4
Debt service/exports of goods and services	(%)		n.a.	n.a.	n.a.
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,7	0,7	0,8
EU exposure/external debt	(%)		7,0	7,5	6,9
EU exposure/exports of goods and services	(%)		1,9	2,0	2,4
IMF arrangements					
Type			SBA	SBA	SBA
(Date)			(05/96-08/97)	(10/97-03/99)	(10/97-03/99)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	Baa2
S&P long-term foreign currency rating (end of period)			none	BBB	A-
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		89 75 (178) (178)	63 59 (179) (180)	57 (180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking (number of countries)	(2)		86 88 (135) (135)	79 74 (135) (135)	71 68 (136) (136)
Credit rating	(3)		24.7 25.7	29.1 32.6	34.0 36.3

Footnotes

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

Country-risk indicators					
Country: Lithuania					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		4,7	7,3	5,1
Industrial production	(% change)		5,0	3,3	7,0
Unemployment (end of period)	(% of labour force)		6,2	6,7	6,9
Inflation rate (CPI) (Dec/Dec)	(% change)		13,1	8,4	5,1
Exchange rate (end of period)	(Litas per USD)		4,0	4,0	4,0
General government balance	(% of GDP)		-4,5	-1,8	-5,8
Balance of payments					
Exports of goods and services	(m USD)		4211	5224	5071
Current account balance	(% of GDP)		-9,2	-10,3	-12,1
Net inflow of foreign direct investment	(m USD)		153	328	966
Official reserves, including gold (end of period)					
m USD			834	1063	1430
months' imports of goods and services			2,4	2,1	2,7
External debt					
Convertible currency external debt (end of period)	(m USD)		1200	1400	1682
Convertible currency debt service principal	(m USD)		120	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		15,3	15,4	15,7
External debt/exports of goods and services	(%)		28,5	26,8	32,1
Debt service/exports of goods and services	(%)		3,6	n.a.	n.a.
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	1,4	1,6	1,7
EU exposure/external debt	(%)		9,1	9,4	9,9
EU exposure/exports of goods and services	(%)		2,6	2,5	3,3
IMF arrangements					
Type			EFF	EFF	-
(Date)			(10/94-10/97)	(10/94-10/97)	-
On track			yes	yes	-
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			Ba2	Ba1	Ba1
S&P long-term foreign currency rating (end of period)			none	BBB-	BBB+
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking		(2)	85 59	72 62	62
(number of countries)			(178) (178)	(179) (180)	(180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking		(2)	89 90	85 80	77 71
(number of countries)			(135) (135)	(135) (135)	(136) (136)
Credit rating		(3)	23.8 25.3	27.4 31.1	32.9 34.5

Footnotes

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

Country-risk indicators					
Country: Romania					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		3,9	-6,9	-7,3
Industrial production	(% change)		9,9	-5,9	-17,0
Unemployment (end of period)	(% of labour force)		6,6	8,9	10,3
Inflation rate (CPI) (Dec/Dec)	(% change)		56,9	151,4	40,6
Exchange rate (end of period)	(Lei per USD)		4035	8023	10951
General government balance	(% of GDP)		-3,9	-3,6	-4,0
Balance of payments					
Exports of goods and services	(m USD)		9648	9955	9508
Current account balance	(% of GDP)		-7,3	-6,1	-7,9
Net inflow of foreign direct investment	(m USD)		283	1224	2040
Official reserves, including gold (end of period)			3144	4671	3789
m USD			3,0	4,5	3,6
months' imports of goods and services					
External debt					
Convertible currency external debt (end of period)	(m USD)		8613	9363	9545
Convertible currency debt service	(m USD)		1527	2582	3289
principal	(m USD)		1159	2080	2759
interest	(m USD)		368	502	530
External debt/GDP	(%)		24,5	27,3	25,3
External debt/exports of goods and services	(%)		89,3	95,5	101,4
Debt service/exports of goods and services	(%)		15,8	25,9	34,6
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	10,2	11,0	7,8
EU exposure/external debt	(%)		9,1	8,4	7,1
EU exposure/exports of goods and services	(%)		12,5	7,9	7,1
IMF arrangements					
Type			SBA	SBA	SBA
(Date)			(4)	(04/97-05/98)	(04/97-05/98)
On track			no (5)	no (6)	no (7)
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			Ba3	Ba3	B3
S&P long-term foreign currency rating (end of period)			BB-	BB-	B+
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking	(2)		67 61	75 75	82
(number of countries)			(178) (178)	(179) (180)	(180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking	(2)		68 72	64 67	70 72
(number of countries)			(135) (135)	(135) (135)	(136) (136)
Credit rating	(3)		30.9 31.0	32.7 34.1	34.5 33.8

Footnotes

- (1) (2) (3) See explanatory notes.
- (4) The SBA approved in May 1994 was augmented and extended through 1997.
- (5) Suspended in March 1996. New SBA approved by IMF Board on 22 April 1997
- (6) Off track in September 1997
- (7) Cancelled with only two (out of five) tranches disbursed

Country-risk indicators					
Country: Armenia					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		5,8	3,1	7,2
Industrial production	(% change)		1,2	0,9	-2,5
Unemployment (end of period)	(% of labour force)		9,7	11,0	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)		5,8	21,9	-1,3
Exchange rate (end of period)	(Dram per USD)		435	495	522
General government balance	(% of GDP)		-9,3	-5,9	-4,9
Balance of payments					
Exports of goods and services	(m USD)		290	262	239
Current account balance	(% of GDP)		-26,9	-28,5	-26,7
Net inflow of foreign direct investment	(m USD)		22	52	221
Official reserves, including gold (end of period)					
m USD			168	243	298
months' imports of goods and services			2,2	3,1	3,6
External debt					
Convertible currency external debt (end of period)	(m USD)		614	796	819
Convertible currency debt service principal	(m USD)		74,7	49,0	61,0
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		38,0	48,9	43,4
External debt/exports of goods and services	(%)		2,1	3,0	3,4
Debt service/exports of goods and services	(%)		20,3	14,8	13,4
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m USD)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,8	0,7	0,3
EU exposure/external debt	(%)		10,3	7,1	3,8
EU exposure/exports of goods and services	(%)		21,9	21,6	13,1
IMF arrangements					
Type (Date)			ESAF (02/96-01/97)	ESAF (07/97-06/98)	ESAF (12/98-11/99)
On track			yes	yes	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		150 137 (178) (178)	141 136 (179) (180)	137 (180)
The Institutional Investor					
Position in the ranking (number of countries)	(2)		none	none	none
Credit rating	(3)		none	none	none

Footnotes

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

Country-risk indicators					
Country: Belarus					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		2,6	10,0	8,3
Industrial production	(% change)		3,2	17,6	11,0
Unemployment (end of period)	(% of labour force)		3,9	2,8	2,3
Inflation rate (CPI) (Dec/Dec)	(% change)		39,3	63,4	181,7
Exchange rate (end of period)	(Rbs per USD)		13400	30798	107000
General government balance	(% of GDP)		-1,6	-2,1	-1,1
Balance of payments					
Exports of goods and services	(m USD)		5800	7400	7000
Current account balance	(% of GDP)		-3,7	-6,0	-6,6
Net inflow of foreign direct investment	(m USD)		6	n.a.	n.a.
Official reserves, including gold (end of period)			469,2	393,7	50,0
m USD			0,8	0,5	0,1
months' imports of goods and services					
External debt					
Convertible currency external debt (end of period)	(m USD)		1071	900	1200
Convertible currency debt service principal	(m USD)		163	170	185
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		7,8	6,7	7,1
External debt/exports of goods and services	(%)		18,5	12,2	17,1
Debt service/exports of goods and services	(%)		2,8	2,3	2,6
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	0,5	0,4	0,3
EU exposure/external debt	(%)		3,6	3,8	2,8
EU exposure/exports of goods and services	(%)		0,7	0,5	0,5
IMF arrangements					
Type			SBA		
(Date)			(12/95-11/96)		
On track			no		
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		128 142	154 131	144
			(178) (178)	(179) (180)	(180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking (number of countries)	(2)		116 118	118 121	122 121
			(135) (135)	(135) (135)	(136) (136)
Credit rating	(3)		14.5 14.6	14.5 14.2	12.9 14.6

Footnotes

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

Country-risk indicators					
Country: Georgia					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		10,5	11,0	2,9
Industrial production	(% change)		6,7	8,1	-2,7
Unemployment (end of period)	(% of labour force)		2,3	2,6	n.a.
Inflation rate (CPI) (Dec/Dec)	(% change)		13,7	7,3	10,6
Exchange rate (end of period)	(Lari per USD)		1,3	1,3	2,0
General government balance	(% of GDP)		-5,7	-4,8	-4,9
Balance of payments					
Exports of goods and services	(m USD)		511	661	705
Current account balance	(% of GDP)		-9,1	-10,9	-12,0
Net inflow of foreign direct investment	(m USD)		54	238	221
Official reserves, including gold (end of period)					
m USD			158	173	115
months' imports of goods and services			2,5	2,0	1,2
External debt					
Convertible currency external debt (end of period)	(m USD)		1369	1542	1682
Convertible currency debt service principal	(m USD)		78	99	128
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		29,9	29,4	32,8
External debt/exports of goods and services	(%)		2,7	2,3	2,4
Debt service/exports of goods and services	(%)		15,0	11,6	14,2
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	n.a.
Debt relief agreements and rescheduling	(m USD)		n.a.	n.a.	n.a.
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	2,1	1,8	1,3
EU exposure/external debt	(%)		12,1	9,6	7,3
EU exposure/exports of goods and services	(%)		32,4	22,4	17,5
IMF arrangements					
Type			ESAF	ESAF	ESAF
(Date)			(02/96-01/97)	(02/97-03/98)	(07/98-06/99)
On track			yes	yes	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	none
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)	(2)		153 153 (178) (178)	173 163 (179) (180)	134 (180)
The Institutional Investor					
Position in the ranking (number of countries)	(2)		none	none	none
Credit rating	(3)		none	none	none

Footnotes

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

Country-risk indicators					
Country: Moldova					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		-8,0	1,3	-8,6
Industrial production	(% change)		-5,1	-2,3	-11,0
Unemployment (end of period)	(% of labour force)		1,8	1,6	2,0
Inflation rate (CPI) (Dec/Dec)	(% change)		15,1	11,2	18,2
Exchange rate (end of period)	(Leu per USD)		4,60	4,62	8,70
General government balance	(% of GDP)		-9,8	-6,7	-3,1
Balance of payments					
Exports of goods and services	(m USD)		822	823	633
Current account balance	(% of GDP)		-12,9	-13,0	-19,8
Net inflow of foreign direct investment	(m USD)		56,0	64,0	81,0
Official reserves, including gold (end of period)					
m USD			314	366	167
months' imports of goods and services			3,0	3,1	1,5
External debt					
Convertible currency external debt (end of period)	(m USD)		821	1037	1059
Convertible currency debt service	(m USD)		58,0	183,0	244,0
principal	(m USD)		n.a.	n.a.	n.a.
interest	(m USD)		n.a.	n.a.	n.a.
External debt/GDP	(%)		50,2	55,0	65,8
External debt/exports of goods and services	(%)		99,9	126,0	167,3
Debt service/exports of goods and services	(%)		6,0	16,8	30,3
Arrears (on both interest and principal)	(m USD)		none	none	none
Debt relief agreements and rescheduling	(m USD)		none	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	1,0	0,8	0,7
EU exposure/external debt	(%)		9,3	6,8	6,4
EU exposure/exports of goods and services	(%)		9,3	8,3	10,6
IMF arrangements					
Type			EFF	EFF	EFF
(Date)			(05/96-05/99)	(05/96-05/99)	(05/96-05/99)
On track			yes	no	yes
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	Ba2	B2
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking (number of countries)		(2)	134 125 (178) (178)	113 104 (179) (180)	142 (180)
The Institutional Investor					
Position in the ranking (number of countries)			none	none	none
Credit rating		(3)	none	none	none

Footnotes

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

Country-risk indicators					
Country: Ukraine					
		footnotes	1996	1997	1998
Real GDP growth rate	(%)		-10,0	-3,0	-1,7
Industrial production	(% change)		-5,1	-1,8	-4,0
Unemployment (end of period)	(% of labour force)		1,3	1,9	3,0
Inflation rate (CPI) (Dec/Dec)	(% change)		40,0	10,0	20,0
Exchange rate (end of period)	(Hyrvnia per USD)		1,9	1,9	3,4
General government balance	(% of GDP)		-3,2	-5,6	-2,1
Balance of payments					
Exports of goods and services	(m USD)		20300	20355	17621
Current account balance	(% of GDP)		-2,7	-2,6	-3,1
Net inflow of foreign direct investment	(m USD)		520	581	747
Official reserves, including gold (end of period)			1994	2375	960
m USD					
months' imports of goods and services			5,2	6,3	0,7
External debt					
Convertible currency external debt (end of period)	(m USD)		9200	11807	12286
Convertible currency debt service	(m USD)		1221	1109	2449
principal	(m USD)		716	651	934
interest	(m USD)		505	458	1515
External debt/GDP	(%)		21,2	23,8	23,7
External debt/exports of goods and services	(%)		45,3	58,0	69,7
Debt service/exports of goods and services	(%)		6,6	9,4	21,4
Arrears (on both interest and principal)	(m USD)		n.a.	n.a.	none
Debt relief agreements and rescheduling	(m USD)		(4)	none	none
Indicators of EU exposure					
EU exposure/total EU exposure	(%)	(1)	3,0	4,0	3,3
EU exposure/external debt	(%)		2,6	2,7	2,6
EU exposure/exports of goods and services	(%)		1,2	1,6	1,8
IMF arrangements					
Type			SBA	SBA	EFF
(Date)			(05/96-02/97)	(07/97-06/98)	(07/98-06/01)
On track			yes	yes	no
Indicators of market's perception of creditworthiness					
Moody's long-term foreign currency rating (end of period)			none	none	B3
S&P long-term foreign currency rating (end of period)			none	none	none
Euromoney			03/96 09/96	03/97 09/97	09/98
Position in the ranking		(2)	136 135	136 129	118
(number of countries)			(178) (178)	(179) (180)	(180)
The Institutional Investor			03/96 09/96	03/97 09/97	03/98 09/98
Position in the ranking		(2)	107 111	109 105	105 108
(number of countries)			(135) (135)	(135) (135)	(136) (136)
Credit rating		(3)	16.7 16.6	17.6 19.8	20.5 19.8

Footnotes

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

(4) Rescheduling of debt owed to Russia and Turkmenistan.

Explanatory notes for country-risk indicators

Standard footnotes

- (1) Includes only EC and EIB loans (outstanding disbursements) to CEEC, NIS and MED
- (2) The higher the ranking number, the lower the creditworthiness of the country. No ranking was published by Euromoney in March 1998.
- (3) Countries are rated on a scale of zero to 100; 100 represents the least chance of default. A given country may improve its rating and still fall in the ranking if the average global rating for all rated countries improves.

Abbreviations and English words used in tables

S&P	Standard and Poor's
CCFF=	Compensatory and Contingency Financing Facility
EFF=	Extended Financing Facility
SBA =	Stand-By Arrangement
STF=	Systemic Transformation Facility
est.=	estimates
n.a. =	not available
prelim.=	preliminary

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