COMMISSION OF THE EUROPEAN COMMUNITIES

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REPORT FROM THE COMMISSION TO THE COUNCIL

ON GUARANTEES

COVERED BY THE GENERAL BUDGET -

SITUATION AT 30 JUNE 1995

REPORT ON GUARANTEES COVERED BY THE GENERAL BUDGET SITUATION AT 30 JUNE 1995

This report describes the situation as regards budget guarantees at 30 June 1995.

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

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

The report is in three parts:

1. Events since the last report, the risk situation and the activation of budget guarantees.

2. Description of operations entered in the budget.

3. Assessment of the economic and financial situation of non-Community countries benefiting from the most important operations.

PART ONE: EVENTS SINCE THE REPORT AT 31 DECEMBER 1994, THE RISK SITUATION AND ACTIVATION OF BUDGET GUARANTEES

I. EVENTS SINCE THE REPO3RT AT 31 DECEMBER 1994

A. MACROFINANCIAL ASSISTANCE TO BELARUS

As part of an overall aid programme for Belarus, the Council Decision of 10 April 1995 empowered the Commission, on behalf of the Community, to borrow ECU 75 million for a maximum period of ten years. The proceeds of this operation are to be on–lent to Belarus in two tranches of ECU 40 million and ECU 35 million respectively. At 30 June 1995 the first tranche had not yet been paid to Belarus.

B. LOANS GRANTED BY THE EUROPEAN INVESTMENT BANK TO SOUTH AFRICA

On 1 June 1995 the Council adopted the guidelines proposed by the Commission for the extension of the EIB's activities to South Africa and asked it to grant loans, in accordance with its Statute and its usual criteria, for projects of mutual interest in that country.

An overall ceiling of ECU 300 million has been set for a two-year period, which may be extended to two and a half years.

These loans are covered by a 100% Community budget guarantee. The Commission presented a proposal for a decision to this effect on 5 December 1994 and the formal Council Decision followed on 1 June 1995. The contract of guarantee between the Community and the EIB will be signed during the second half of 1995.

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

At 30 June 1995 this loan had been repaid in full.

II. RISK SITUATION

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

- the method, often used by bankers, of the total amount of capital outstanding for the operations concerned on a given date;

- the more budgetary approach of calculating the maximum amount which the Community could have to pay out in each financial year.

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

- by reference only to actual disbursements at 30 June 1995, giving the minimum level of risk to the Community assuming that there are no early repayments (see Table 2);

- 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, giving the maximum risk borne by the Community assuming that the Commission's proposals are accepted (see Table 3).

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

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

The overall figures quoted cover risks of different types; loans to one country in the case of 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.

A. TOTAL RISK

1. *AMOUNT OUTSTANDING AT 30 JUNE 1995 (see Table 1)*

The total risk at 30 June 1995 came to ECU 13 111 million, 4.78% less than at 31 December 1994.

2. *MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1995 (see Table 2)*

The total risk, which came to ECU 2 916 million in 1995, will develop as follows:

Year	1996	1997	1998	1999*	2000	2001	2002
Annual risk (ECU million)	3119	3006	3180	918	3418	661	324
% change	+ 7%	- 4%	+ 6%	-71%	+272%	-81%	-51%

* No capital repayments for the balance-of-payments loans to the Member States; capital repayments on loans to Hungary, the Czech and Slovak Republics and Bulgaria end in 1998.

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

This risk comes to ECU 3 203 million in 1995 and will increase regularly until 2000 (except in 1999 when it will total ECU 2 645 million) as follows:

Years	1996	1997	1998	1999	2000	2001	2002
Annual risk (ECU million)	3870	4119	4635	2645	5416	4764	5128
% change	+21%	+ 6%	+13%	-43%	+104%	-12%	+ 8%

B. RISK IN RESPECT OF THE MEMBER STATES

1. *AMOUNT OUTSTANDING AT 30 JUNE 1995 (see Table 1)*

The capital outstanding in respect of operations in the Member States was ECU 7 540 million at 30 June 1995, a fall of 3.8% compared with 31 December 1994.

This fall is mainly due to the reduction in outstanding loans to Greece, Euratom loans and NCI loans.

The amount outstanding from the other operations has remained stable.

2. *MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1995 (see Table 2)*

The risk for 1995 comes to ECU 1 173 million.

The total maximum annual risk to the Community budget in relation to disbursements (Table 2) changes in line with the capital repayments (every two years) on balance-of-payment loans to Greece and Italy. The maximum risk is highest in the even years up to 2000 when it will reach ECU 2 843 million.

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

The trend is much the same as in Table 2 up to 2000 when the risk will amount to ECU 3 235 million. It will fall to ECU 2 446 million in 2001 and ECU 2 200 million in 2002.

C. RISK IN RESPECT OF NON-MEMBER COUNTRIES

1. *AMOUNT OUTSTANDING AT 30 JUNE 1995 (see Table 1)*

The capital outstanding at 30 June 1995 was ECU 5 572 million, a fall of 6% compared with 31 December 1994.

2. *MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET: OPERATIONS DISBURSED AT 30 JUNE 1995 (see Table 2)*

The risk for 1995 comes to ECU 1 744 million and will fall to ECU 1 045 million in 1996, mainly because two repayments of principal then fall due:

- ECU 260 million from Hungary;

- ECU 205 million from the Republics of the former Soviet Union.

The risk will increase in 1997 to ECU 1 543 million as the following payments fall due:

- ECU 80 million from Hungary;

- ECU 127 million from the Czech Republic;

- ECU 63 million from the Slovak Republic;

- ECU 140 million from Bulgaria;

- ECU 250 million from Algeria;

- ECU 160 million from Israel.

- ECU 161 million from the Republics of the former Soviet Union.

At ECU 1 110 million, the risk will be smaller but still at a high level in 1998, but should fall to ECU 616 million in 1999, ECU 575 million in 2000, ECU 555 million in 2001 and ECU 294 million in 2002.

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

The risk will fall from ECU 1 901 million in 1995 to ECU 1 459 million in 1996; in particular, the Republics of the former Soviet Union are to repay principal of ECU 205 million that year.

The risk will rise again to ECU 2 235 million in 1997, ECU 2 143 million in 1998, ECU 1 951 million in 1999, ECU 2 181 million in 2000, ECU 2 318 million in 2001 and ECU 2 928 million in 2002.

III. ACTIVATION OF BUDGET GUARANTEES

A. EIB LOANS TO NON-MEMBER COUNTRIES

On 22 February 1995, the EIB again called on the budget guarantee in respect of loans of around ECU 6.08 million to the Republics of former Yugoslavia (Macedonia and Serbia). The payment was made to the EIB on 24 May 1995.

On 5 July 1995, the EIB again called on the budget guarantee in respect of loans of ECU 8.6 million to the Republics of former Yugoslavia (Macedonia and Serbia). The payment should be made to the EIB on 11 October 1995.

At 30 June 1995 the total amount of debts settled by the Community and not yet repaid by the defaulting debtors came to ECU 54.4 million. These debts were owed by all the Republics of former Yugoslavia with the exception of Slovenia and Croatia, which have no payments overdue.

Of the ECU 54.4 million due but not paid, ECU 28.6 million was entered in the budget in respect of the amount owed from before 1994 and a total of ECU 25.8 million was called in from the Guarantee Fund on 11 January 1995 (ECU 5.3 million), on 30 January 1995 (ECU 14.3 million) and on 24 May 1995 (ECU 6.08 million).

B. BORROWING/LENDING OPERATIONS OR LOAN GUARANTEES FOR NON-MEMBER COUNTRIES

1. *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 in servicing its borrowing operations when a debtor is late in paying.

2. *ACTIVATION OF THE GUARANTEE FUND*

In the event of late payment by a recipient of a loan granted or guaranteed by the Community, the Guarantee Fund is called on to cover the default within three months of the date on which is payment is due.

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:

Country	Date	Amount
Tajikistan	20.01.95	1 688 215.50
Georgia	20.01.95	2 150 162.28
Kyrgyzstan	20.01.95	704 696.46
Tajikistan	30.01.95	4 087 082.35
Georgia	30.01.95	3 204 927.24
Ukraine	30.01.95	31 925 800.00
Georgia	12.04.95	1 366 392.43
Kazakhstan	12.04.95	776 033.13

3. *LATE REPAYMENTS*

During the period covered by this report the following countries repaid debts on which they had defaulted and for which the Guarantee Fund had already been activated. The amounts recovered are repaid to the Fund under Article 2 of Council Regulation (EC) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external action.

Country	Repayment date	Amount
Kyrgyzstan	23.02.95	704 696.46
Ukraine	16.03.95	31 925 800.00
Kazakhstan	28.04.95	776 033.13

4. *SITUATION AS REGARDS UNPAID DEBTS AT 30 JUNE 1995*

The following amounts had not been paid at 30 June 1995:

Country	Amount
Tajikistan	5 775 297.85
Georgia	6 721 481.95

PART TWO: OPERATIONS ALREADY ENTERED IN THE BUDGET

The budgetary authority authorized 29 headings with token entries in the 1995 budget to cover any payment of guarantees. These headings can be divided into three categories: borrowing and lending within the Community, borrowing and lending outside the Community and guarantees given to financial institutions.

I. BORROWINGS TO BE ON–LENT WITHIN THE COMMUNITY

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

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

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

At 30 June 1995 there was one operation in respect of Greece under the decision of 4 March 1991 and one operation in respect of Italy under the decision of 18 January 1993.

At 30 June 1995 the amount outstanding was ECU 1 000 million in loans to Greece and ECU 4 071 million in loans to Italy (Table 1).

B. EURATOM BORROWING OPERATIONS

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

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

The maximum amount of borrowings authorized is ECU 4 billion, of which ECU 500 million was authorized by the 1977 decision, ECU 500 million in 1980, ECU 1 billion in 1982, ECU 1 billion in 1985 and ECU 1 billion in 1990. The amount borrowed comes to around ECU 2 900 million, leaving ECU 1 100 million which may still be raised.

At 30 June 1995 the total outstanding was ECU 740.5 million.

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

The Council adopted a decision to this effect on 21 March 1994 (see Part II - Loans raised for non-Community countries).

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

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

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

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

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

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

At 30 June 1995 the total outstanding was ECU 1 289.2 million, 31.43% less than on 30 June 1994.

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

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

II. LOANS RAISED FOR ON-LENDING TO NON-COMMUNITY COUNTRIES

A. EURATOM BORROWINGS FOR CERTAIN NON-COMMUNITY COUNTRIES

On 21 March 1994 the Council decided to amend Decision 77/270/Euratom to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries.

This Decision will allow a considerable proportion of Euratom's available borrowing capacity (some ECU 1 100 million) to be used to finance projects. For these projects to be eligible they must relate to:

- nuclear power stations or installations in the nuclear fuel cycle which are in service, or under construction;

- or to the dismantling of installations which cannot be brought up to standard for technical or economic reasons.

The following non-member countries qualify:

Republic of Bulgaria
Republic of Hungary
Republic of Lithuania
Romania
Republic of Slovenia
Czech Republic
Slovak Republic
Russian Federation
Republic of Armenia
Ukraine

The idea of international financial aid for the closure of the Chernobyl nuclear power plant was entered in the conclusions of both the Corfu European Council of 24 and 25 June 1994 and the G7 summit at Naples on 7 and 8 July 1994.

B. PROGRAMME OF BORROWINGS CONTRACTED BY THE COMMUNITY TO PROVIDE MACROFINANCIAL ASSISTANCE TO THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

1. HUNGARY

(a) Hungary I

In 1990 the Community granted Hungary a medium-term loan of up to ECU 870 million in principal for a maximum of five years. The loan is intended to facilitate the adjustment of the Hungarian economy in a way which will enable it to derive all the benefits of a market–based economy. It is being made available in tranches.

The first tranche of ECU 350 million was paid on 20 April 1990. A second tranche of ECU 260 million was paid on 14 February 1991. The third tranche, which is not to exceed ECU 260 million, was planned for 1992 but has not yet been paid out as Hungary's balance of payments has been more favourable than expected. The tranches will be repaid in one instalment after five years and interest, which is at variable rates, is payable half–yearly.

Hungary repaid the first tranche of ECU 350 million in full on 20 April 1995.

(b) Hungary II

As the break-up of the Council for Mutual Economic Assistance (Comecon) and the Gulf crisis threatened to compromise the initial encouraging results of the reforms undertaken, the Council decided to grant additional macrofinancial assistance to Hungary in the form of a loan of ECU 180 million under a general G-24 programme of financial assistance.

The first tranche of ECU 100 million was paid on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half–yearly. The second tranche of ECU 80 million was paid on 15 January 1993. It will be repaid in January 1997 and interest, which is at a fixed rate, is payable annually.

At 30 June 1995 the amount outstanding on borrowings for Hungary came to ECU 440 million.

2. *CZECH REPUBLIC AND SLOVAK REPUBLIC*

- As part of G–24's overall financial assistance, the Commission, on behalf of the Community, was empowered to borrow, in two tranches, ECU 375 million for a period of seven years. The proceeds of this operation were to be on–lent on the same terms to the Czech and Slovak Federal Republic.

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

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

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

  Under the Council decision of 24 January 1994, two thirds of the loan - ECU 250 million - will be for the Czech Republic and one third - ECU 125 million - for the Slovak Republic.

  At 30 June 1995 the amount outstanding on borrowings for the two republics came to ECU 375 million.

- Slovak republic

  As part of the new financial assistance to the Slovak Republic, the Commission, on behalf of the Community, was empowered by a Council decision of 22 December 1994 to borrow, in two tranches, ECU 130 million for a period of seven years. The proceeds of this operation were to be on–lent on the same terms to Slovakia.

  No tranche had been paid at 30 June 1995.

3. *BULGARIA*

(a) Bulgaria I

As part of G-24's overall financial assistance, the Commission, on behalf of the Community, was empowered to borrow, in two tranches, ECU 290 million for a period of seven years. The proceeds of this operation were to be on–lent on the same terms to Bulgaria.

The first tranche of ECU 150 million was paid to Bulgaria on 14 August 1991. It will be repaid in one instalment after seven years, and interest, which is at variable rates, is payable half-yearly.

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

(b) Bulgaria II

As part of G–24's new aid for 1992 and 1993, the Commission, on behalf of the Community, was empowered to borrow ECU 110 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on–lent to Bulgaria. Because of delays in the process of economic reform in Bulgaria, this operation was deferred.

The first tranche of ECU 70 million was finally paid to Bulgaria on 7 December 1994. It will be repaid in one instalment on 7 December 2001 and the interest, which is at variable rates, is payable half-yearly.

At 30 June 1995 the amount outstanding on borrowings for Bulgaria came to ECU 360 million.

4. *ROMANIA*

(a) Romania I

As part of G–24's overall financial assistance, the Commission, on behalf of the Community, was empowered to borrow ECU 375 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on–lent on the same terms to Romania.

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

The second tranche of ECU 185 million for a term of six years was paid in April 1992 and will be repaid in one instalment on 18 March 1998. Interest, which is at variable rates, is payable half-yearly.

(b) Romania II

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

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

(c) Romania III

As part of G-24's new overall macrofinancial aid, the Commission, on behalf of the Community, was empowered by the Council Decision of 20 June 1994 to borrow ECU 125 million in two tranches of ECU 90 million and ECU 35 million for a maximum period of seven years. The proceeds of this operation are to be on –lent on the same terms to Romania.

No tranche had been paid at 30 June 1995.

At 30 June 1995 the amount outstanding on borrowings for Romania came to ECU 455 million.

C. BORROWINGS CONTRACTED BY THE COMMUNITY TO GRANT MACROFINANCIAL ASSISTANCE TO THE NEW INDEPENDENT STATES OF THE FORMER SOVIET UNION

- **Medium-term loan of ECU 1 250 million**

In December 1991 the Council decided to grant a credit facility of up to ECU 1 250 million for the Soviet Union and its Republics in order to finance imports of agricultural products, foodstuffs and medicines from the Community and Eastern Europe for a maximum period of three years.

After the Soviet Union broke up, the loan was divided between the various new independent States at the beginning of 1992.

1. Loan contracts signed on the basis of the original breakdown

Most of the loan contracts were signed in the course of 1992:

- with Armenia (ECU 38 million), Kyrgyzstan (ECU 32 million), Turkmenistan (ECU 45 million) and Moldova (ECU 27 million) on 10 July 1992; the amount for Kyrgyzstan has since been reduced to ECU 23.7 million at the request of the Kyrgyzstan authorities;

- with Ukraine (ECU 130 million) on 13 July 1992;
- with Belarus (ECU 102 million), Tajikistan (ECU 55 million) and Georgia (ECU 70 million) on 24 July 1992;
- with Russia (ECU 150 million) on 9 September 1992;
- with Russia (ECU 349 million) on 9 December 1992;
- with Kazakhstan (ECU 25 million) on 15 December 1992;

2. *Loan contracts signed on the basis of the amended breakdown*

Some loan contracts were also signed in 1993 after the initial breakdown of the total amount of the loan had been changed:

- On 5 May 1993 two further contracts were signed with Armenia (ECU 20 million) and Georgia (ECU 10 million). The amount represented by these two loans had originally been allocated to Kazakhstan.
- On 6 December 1993 a further loan contract of ECU 40 million was signed with Georgia. This loan was financed by reducing Uzbekistan's allocation.
- On 14 September 1994 a contract for ECU 59 million was signed with Uzbekistan.
- On 12 October 1994 a contract for ECU 68 million was signed with Azerbaijan.

3. *Loan contracts not yet signed*

At 30 June 1995 one new loan contract for Kazakhstan (ECU 30 million) had still not been signed.

4. *Utilization of the ECU 1 250 million loan*

Republic	Initial breakdown (1992)	Breakdown at 30.06.1995	Actual utilization at 30.06.1995
Armenia a	38	38	37.9
Armenia b	68	20	19.6
Azerbaijan	102	68	28.2
Belarus	70	100.5	100.5
Georgia a		70	69.4
Georgia b	55	10	9.8
Georgia c	32	40	34.1
Kazakhstan a	27	25	24.9
Kazakhstan b	150	30	22.7
Kyrgyzstan	349	23.7	27.0
Moldova	55	27	70.0
Russia a	45	72.9	299.7
Russia b	130	349	54.5
Tajikistan	129	55	44.9
Turkmenistan		45	129.8
Ukraine		129.8	43.5
Uzbekistan		59	
Total	1250	1162.9	1016.8

At 30 June 1995 the amount of loans actually being used came to ECU 1016.8 million.

5. *Capital repayment and interest payment dates*

The capital repayment and interest payment dates for this operation vary depending on the date on which the loan contract was signed and the amount of the loan:

- Armenia (ECU 38 million), Belarus, Georgia (ECU 70 million), Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Ukraine, Russia (ECU 150 million):
  - interest on 20 April and 20 October
  - capital on 20 August 1995 (half on 20 August 1994 and half on 20 August 1995 for Belarus, Ukraine and Russia)

- Armenia (ECU 20 million), Kazakhstan, Russia (ECU 349 million), Georgia (ECU 10 million and ECU 40 million):
  - interest on 15 January and 15 July

- capital on 15 January 1996 (half on 15 January 1995 and half on 15 January 1996 for Russia and 15 January 1997 for Georgia (ECU 40 million)).

- Azerbaijan and Uzbekistan:
  - interest on 28 March and 28 September
  - capital on 28 September 1997.

At 30 June 1995 Georgia and Tajikistan had defaulted on interest totalling ECU 16.39 million (see Part Two, Section IV - Activation of budget guarantees).

- **Macrofinancial assistance for Moldova**

As part of the Community's contribution to the international aid scheme for Moldova, the Commission, on behalf of the Community, was empowered by a decision of 13 June 1994 to borrow ECU 45 million in two tranches for a maximum period of ten years. The proceeds of this operation were to be on–lent on the same terms to Moldova.

The first tranche of ECU 25 million was paid to Moldova in December 1994. The loan is to be repaid in five equal annual instalments from the sixth year onwards. The full loan will have been paid by 7 December 2004. The interest, which is at variable rates, is payable half-yearly.

At 30 June 1995 the amount outstanding on borrowings for Moldova came to ECU 25 million.

- **Macrofinancial assistance for Ukraine**

As part of the overall aid programme for Ukraine, the Commission, on behalf of the Community, was empowered by the Council Decision of 22 December 1994 to borrow ECU 85 million for a maximum period of ten years. The proceeds of this operation are to be on–lent to Ukraine in one tranche.

The loan had not been paid at 30 June 1995.

D. BORROWINGS CONTRACTED BY THE COMMUNITY TO GRANT MACROFINANCIAL ASSISTANCE TO THE BALTIC STATES

As part of the G-24's overall programme of financial assistance for these three countries, the Commission, on behalf of the Community, was empowered to borrow ECU 220 million for a period of seven years. The proceeds of this operation were to be on–lent on similar terms in two tranches:

- ECU 40 million for Estonia;
- ECU 80 million for Latvia;
- ECU 100 million for Lithuania.

The first tranches of the loan for Estonia (ECU 20 million) and for Latvia (ECU 40 million) were paid on 31 March 1993. The loans are to be repaid in one instalment on 31 March 2000 and interest, which is at variable rates, is payable half–yearly every 31 March and 30 September.

The first tranche for Lithuania was paid on 27 July 1993; it is to be repaid in one instalment on 27 July 2000 and interest, which is at a fixed rate, is payable annually every 27 July.

At 30 June 1995 the amount outstanding on the borrowings for the Baltic States came to ECU 110 million.

E. BORROWINGS CONTRACTED BY THE COMMUNITY TO GRANT MACROFINANCIAL ASSISTANCE TO THE MEDITERRANEAN COUNTRIES

1. *ISRAEL*

As part of the financial assistance agreed for Israel and the population of the occupied territories, the Commission was empowered in June 1991 to borrow, on behalf of the Community, ECU 160 million in one tranche for a period of seven years. The proceeds were to be paid out to Israel on the same terms and are accompanied by an interest subsidy of ECU 27.5 million paid from the Community budget.

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

At 30 June 1995 the amount outstanding on the borrowings for Israel came to ECU 160 million.

2. *ALGERIA*

In September 1991 the Commission, on behalf of the Community, was empowered to borrow ECU 400 million in two tranches for a maximum period of seven years. The proceeds of this operation were to be on–lent on the same terms to Algeria.

A bridging loan was granted on 23 December 1991 to cover the first tranche of ECU 250 million and was repaid from the net proceeds of the borrowing contracted on 14 January 1992 for a period of six years.

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

Payment of the second tranche of ECU 150 million was deferred because of delays in Algeria's economic reform programme and was not made until August 1994 when the process of structural adjustment resumed. The loan is to be repaid in full on 17 August 2001 and interest is payable annually every 17 August.

In December 1994 the Council decided to grant Algeria further macrofinancial assistance. The Commission, on behalf of the Community, was empowered to borrow ECU 200 million for a maximum period of seven years. The proceeds of this operation are to be on–lent to Algeria in two tranches.

No tranche had yet been paid at 30 June 1995.

At 30 June 1995 the amount outstanding on the loans raised for Algeria came to ECU 400 million.

III. COMMUNITY GUARANTEE TO NON-COMMUNITY COUNTRIES

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

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

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

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

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

The loans authorized at 30 June 1995 total ECU 7 782 million, of which ECU 1 500 million is for Spain, Greece and Portugal and ECU 6 282 million for the non–member Mediterranean countries. At 30 June 1995 the total of outstanding loans came to ECU 2 195 million (taking account of the 75% limit), of which ECU 439 million was accounted for by Spain, Greece and Portugal and ECU 1 756 million by the non–member Mediterranean countries.

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

EIB loans under this operation must not exceed ECU 1 800 million. A 75% overall guarantee is provided.

At 30 June 1995 ECU 695 million had been made available; of this total, ECU 62 million had been paid; this figure corresponds to the amount currently outstanding.

At 30 June 1995, the breakdown of authorizations by country (non–member countries only) was as follows:

	Loans authorized
Algeria	640
Cyprus	92
Egypt	802
Israel	215
Jordan	198
Lebanon	222
Malta	55
Morocco	517
Slovenia	150
Syria	323
Tunisia	418
Turkey	90
Yugoslavia[1]	760
Protocols - Total	4 482
Horizontal financial cooperation	1 800
Mediterranean - Total	6 282

1 The second protocol with Yugoslavia was suspended when ECU 100 million of credits could still be granted.

The loans are generally for 15 years with 3 to 4-year periods of grace on capital repayments.

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

In response to a call made by the Council on 9 October 1989, the Board of Governors of the European Investment Bank decided on 29 November 1989 to authorize the Bank to provide loans from its own resources to finance investment projects in Hungary and Poland for a total amount not exceeding ECU 1 billion. These loans are granted to finance investment projects which satisfy the Bank's usual requirements for loans from its own resources. The contract of guarantee covering 100% of the lending operations was signed on 24 April 1990 in Brussels and 14 May 1990 in Luxembourg.

On 14 May 1991 the budgetary authority extended this 100% guarantee to loans made in Czechoslovakia, Bulgaria and Romania up to a maximum of ECU 700 million.

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

On 23 October 1992 the Commission presented a proposal for a Council Decision extending this 100% Community guarantee to losses incurred by the EIB as a result of loans granted to Estonia, Latvia and Lithuania; this was approved by the budgetary authority in its decision of 15 March 1993.

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

On 18 December 1992 the Commission also proposed the extension of this 100% guarantee to losses incurred by the EIB as a result of loans granted in Albania.

On 13 December 1993 the budgetary authority renewed the 100% Community guarantee for a period of three years for loans granted by the EIB in the countries of Central and Eastern Europe (including the Baltic States and Albania) up to a maximum of ECU 3 billion.

The contract of guarantee was signed on 22 July 1994 in Brussels and on 12 August 1994 in Luxembourg.

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

At 30 June 1995, ECU 2 698 million had been made available in the Central and Eastern European countries but only ECU 689 million had been disbursed.

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

At its meeting of 19 May 1992 the Council (Economic and Financial Affairs) adopted the guidelines proposed by the Commission for the extension of EIB activities outside the Community and asked it to grant loans in accordance with its Statute and its usual criteria to projects of mutual interest in certain non-member countries (the developing countries of Asia and Latin America) with which the Community has concluded cooperation agreements.

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

These loans benefit from 100% Community budget guarantees. The Commission presented a proposal for a decision to this effect on 3 June 1992. The formal Council Decision followed on 15 February 1993. The contract of guarantee between the Community and the EIB was signed on 4 November 1993 in Brussels and on 17 November 1993 in Luxembourg.

At 30 June 1995 credit lines of ECU 344 million had been signed but only ECU 107 million had been disbursed.

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

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

The Community guarantee covers 98%, up to a maximum of ECU 500 million, of any losses in principal (around ECU 408 million) and interest (around ECU 92 million).

As the credit line has not been used in full and as the time limit for use has not been extended, the amount guaranteed comes to only ECU 375.5 million in principal and ECU 80.3 million in interest.

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

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

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

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

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

Interest payments up to 30 June 1995:

	Payment due	Actual date of payment
1st	9.9.1992	25.9.1992
2nd	9.3.1993	2.4.1993
3rd	9.9.1993	18.11.1993
4th	9.3.1994	24.3.1994
5th	9.9.1994	9.9.1994
6th	9.3.1995	9.3.1995

Capital repayments up to 30 June 1995:

	Payment due	Actual date of payment
1st	26.7.1993	18.11.1993
2nd	26.6.1994	14.7.1994
3rd	30.5.1995	30.5.1995

All the default interest has been paid on late payments up to 26 June 1994.

PART THREE: CHANGES IN POTENTIAL RISKS

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

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

I. TYPES OF OPERATION

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

A. OPERATIONS WITH MACROECONOMIC OBJECTIVES

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

Macrofinancial assistance operations are similar in nature but are intended for non–member countries.

Finally, this category includes the credit guarantee of ECU 500 million and the loan of ECU 1 250 million to finance imports of agricultural products and foodstuffs into the former Soviet Union, since the risk involved in these two operations depends to a large extent on macroeconomic and political developments in the recipient countries.

B. OPERATIONS WITH MICROECONOMIC OBJECTIVES

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

They are the Euratom and NCI loans in Member States and the Euratom and EIB loans outside the Community (Mediterranean and Central and Eastern Europe, certain non-member countries - developing countries of Asia and Latin America and South Africa).

A. ALGERIA

1. GENERAL ECONOMIC SITUATION

Since 1994, progress with respect to macro-economic stabilisation under the stand-by programme with the IMF has been impressive. The fiscal deficit was halved from 8.7% of GDP in 1993 to 4.4% in 1994. Monetary policy was tightened and nominal interest rates increased, though not to a positive level in real terms. Inflation initially accelerated before slowing down again to 34% by April 1995 (last 12 months), which is not excessive, considering the depreciation of the dinar and price increases triggered by price liberalisation and reductions in consumer subsidies.

Price are liberalised, except for a few (subsidised) staple foods, medical drugs, energy products and rental rates for public housing. Imports were completely liberalised and government import monopolies are being phased out. The Bank of Algeria switched from a fixed to a managed floating exchange rate with the aim of stabilising the real effective exchange rate. Foreign exchange is now available for all bona fide and visible current account transactions. The gap between the official and parallel market exchange rate was reduced from over 250% at the end of 1993 to less than 50% in the second quarter of 1995.

Financial restructuring of non-autonomous public enterprises has accelerated, a draft privatisation law has been adopted by the government and a pilot privatisation programme was launched in early 1995. The Bank of Algeria started auctioning off refinancing credits and the Treasury introduced an auction mechanism and a secondary market for Treasury bills.

In May 1995, the stand-by arrangement with the IMF was followed up by a 3-year (1995-98) Extended Fund Facility for an amount of approximately US$ 1.75 billion.

Continued political and security problems weaken consumer and investor confidence and may even affect hydrocarbon export capacity. GDP growth in 1994 is estimated at zero and prospects for 1995 are not significantly better in the present circumstances. Social safety net reforms are in progress but still insufficient to effectively improve the situation of the poor.

2. THE BALANCE OF PAYMENTS

Substantial liberalisation of the imports and foreign exchange regimes resulted in a worsening of the current account position, from a 1.6% of GDP surplus in 1993 to a 4.3% deficit in 1994. Imports increased substantially in the second half of 1994, thereby eliminating shortages of consumer goods and much needed spare parts and inputs in industries and the construction sector. Export revenue decreased in 1994, reflecting both a decline in hydrocarbon export prices and reductions in the quantities exported. A further worsening of the current account is expected in 1995.

The overall balance of payments position improved because of external debt reschedulings which provided some US$ 4.4 billion in exceptional financing in 1994. Further exceptional financing was provided by the IMF and other multilateral balance of payments support programmes, including from the EU, for an amount of US$ 1.25 billion in 1994, and more is expected in 1995.

3. EXTERNAL DEBT

Algeria's external debt situation has been stabilised, largely due to the bilateral debt rescheduling arrangements with the Paris Club, which are likely to be continued under the new programme with the IMF. The Algerian authorities also reached an agreement ad referendum with the commercial banks in the London Club to reschedule US$ 3.2 billion commercial debt service due between 1 March 1994 and 31 December 1997, including US$ 1.1 billion due under the 1992 "re profiling operation" (the Credit Lyonnais agreement). Rescheduling is done in three tranches, over a period ranging from 11.5 to 16 years and 4.5 to 6.5 years grace, at existing interest rates until expire of the initial contracts and Libor+13/16 thereafter.

The debt stock-to-GDP ratio stood at 71% end 1994 and is not expected to undergo substantial changes in the next few years. The debt service-to-exports ratio, on the other hand, declined from 82% of export revenue in 1993 to below 50% in 1994 and is expected to decline further over the next three years as a result of the extensive debt reschedulings in the Paris and London Clubs.

B. BELARUS

1. General Economic situation

Until 1994 reforms in Belarus were slow. A large part of the command system remained in place (trade administered, subsidies high). GDP fell by about 10% per year in 1992 and 1993, less than in Russia. However the recession in 1994, with a 20% drop of GDP, was one of the most severe of the countries in transition.

One of the main reasons of delays in stabilising the economy was the absence of a clear autonomous monetary policy in Belarus. Until early 1994, despite the introduction of a temporary local rouble in 1992, the prospect of monetary union with Russia remained strong. In May 1994 the Belarussian rubel was declared the only legal tender in the country. After the presidential election held in July, the newly formed government has adopted a reformist stance and an ambitious programme of reforms, under the assumption that the monetary policy remains under national control. In January 1995, Belarus signed with Russia a customs union agreement.

Economic stabilisation is the immediate priority. In 1994 monetary expansion remained high and average inflation was over 30% per month. After July 1994 monetary expansion limits were set. Inflation in early 1995 was down to 20% per month over the first quarter and an estimated 5% per month over the second quarter. The authorities' goal is to bring it down to a monthly 1% level by the end of the year. The budget performance improved in 1994 with a deficit of about 2% of GDP, against 8% in 1993. The 1995 budget envisages a deficit of 3.2 % of GDP.

Core structural reforms have been slow and remain the weak point which delayed the approval of a stand-by arrangement with the IMF. Prices were liberalised in June 1993, but subsidies on basic foodstuffs were maintained until late 1994, and rents and utility prices remained controlled at very low levels. Until 1994, no proper two-tier banking system existed, with the established practice of direct central bank lending, and even subsidising, to enterprises. Enterprise restructuring has made little progress. Privatisation was until this year delayed by the resistance of enterprises and sectoral ministries. Although a privatisation law was approved in July 1993, by the end of 1994 the private sector accounted for only a minor part of economic activity. Bankruptcy legislation, which had been enacted already in 1992 is still far from being effective. Neither is a law on commercial paper and stock exchanges passed in 1992.

2. The Balance of payments

While the country suffered from disruptions of trade and payments in the FSU, it has been so far unable to redirect its trade to the west. It has furthermore been adversely affected by the deterioration of its terms of trade, with an increasing cost of energy imports which are now close to world market prices. As a result, the trade balance, which was positive in 1991 (mainly inter-FSU republics trade) is now negative and registered a deficit of about US$ 600 million in 1994, most of which is due to energy imports from Russia which account for more than 50% of total imports. As Belarus lacks the currency reserves to pay for this, net interstate arrears increased and reached almost US$ 0.5 billion by the end of 1994, mainly on Russian gas deliveries.

The current account deficit reached about US$ 545 million in 1994 (about 11% of GDP). Taking a moderation of imports and slow growth of exports into account, the current account deficit in 1995 could amount to about US$ 360 million. Hard currency reserves, which were almost non existent by end 1994, are reported to have significantly increased over the first half of 1995.

The IMF disbursed in January the second tranche, worth US$ 100 million, of the Systemic Transformation Facility (STF) approved in 1993, and intends to further support the country with a 12 month stand-by arrangement from mid-1995 to mid-1996, provided prior structural reforms are implemented. The World Bank is likely to approve a policy loan of about US$ 100-120 million, out of which some 60 million US dollars could already be disbursed in the second semester of 1995.

3. FOREIGN DEBT

Under the "zero option" agreement between Russia and the other new independent states, Russia took over the external assets and liabilities of the ex-USSR. Thus, Belarus' external debt stock is recent (post 1992).

The estimated external debt of the country was standing at about 1.5 billion US dollars by the end of 1994. This estimate takes into account a rescheduling of gas arrears towards Russia, for an equivalent of about US$ 0.5 billion, which have been converted into medium and long term debts. The external debt service on exports ratio averaged only 6% in 1994 but this actually represents a heavy burden owing to the very limited hard currency resources of the country. In 1995, assuming the approval of the IMF stand-by arrangement and complementary financing from international donors, the external debt could increase up to almost two billion US dollars, i.e. about 40% of GDP.

C. BULGARIA

1. GENERAL ECONOMIC SITUATION

In 1994 the Bulgarian economy stopped shrinking. Real GDP increased by 1.4%, reflecting a more favourable business climate, new export opportunities and increased domestic demand. Unemployment declined from 16% in 1993 to around 13% in 1994, partly reflecting the economic turnaround. By end of first quarter of 1995, it further contracted to 12%.

Significant price fluctuations occurred in 1994 as a result of the introduction of VAT, a sharp lev devaluation and policy slippages. In 1994, year-on-year CPI inflation reached 121.9%, which negatively compares with the rate recorded in 1993 (63.8%). The government projects an inflation rate of around 50% in 1995 but this target seems to be over-ambitious. In April 1995, year-on-year CPI inflation stood at 106.6%.

In 1994, the government aimed at implementing tight monetary and credit policies with a view to curbing inflationary pressures. Essential conditions of it were also exchange rate stability, the hardening of enterprises' budget constraints and a sharp reduction of the state's budgetary requirements. The implementation of fiscal policy was rather successful (in 1994 budget deficit/GDP ratio edged down to 6.6% from 13.6% in 1993) and the government's incomes policy has been moderately restrictive. During the second half of the year it became, however, more difficult to implement a tight monetary policy.

In May 1995, the government approved a new policy programme which envisages for 1995 a decline in the budget deficit to 5.5% of GDP and moderate real money supply growth (5%). Direct financing of the budget by the Bulgarian National Bank is expected to increase and this is a source for concern.

As for structural reforms, in 1994 main loss-making enterprises worked out rationalisation plans. The government intends to issue long-term bonds worth US$ 1.8 billion. aimed at replacing banks' bad loans and interest arrears. Banking supervision has been strengthened. A bank consolidation programme has been completed; mass privatization of 500 companies has been postponed; standard (market-based) privatization proceeded only slowly.

2. THE BALANCE OF PAYMENTS

As regards Bulgaria's external developments in 1994, the structural shift in foreign trade towards OECD and other third markets was further consolidated, reflecting the positive impact of association and trade agreements with EU and EFTA, the lev devaluation and low labour costs. In 1993, the trade balance and the current account witnessed deficits of respectively US$ 0.9 billion and US$ 1.4 billion. In 1994, the trade balance turned into a surplus of US$ 200 million while the current account was balanced.

In 1994, the capital account benefited from new external financial support made available by the IMF (stand-by and Systemic Transformation Facility), the World Bank, EU and other bilateral donors, in the framework of the G-24 initiative in favour of Bulgaria. Foreign direct investment remained extremely low despite a liberal legislation passed in 1992. Short-term capital inflows were equally modest.

In 1994 gross official reserves (including gold) were replenished to US$ 1.3 billion or about 2.7 months of imports. By end-May 1995, they had increased to US$ 1.6 bn (3.3 months of imports).

3 FOREIGN DEBT

The agreement in principle reached in November 1993 with the London Club commercial creditors on a debt and debt service reduction programme (DDSR) was finalized in July 1994. Overall, it is estimated that the agreement reduced Bulgaria's US$ 8.2 billion eligible debt to western commercial banks by around 46%. The up-front cost of the operation (US$ 715 million) was partly covered by the country's hard currency international reserves and partly by exceptional external financing made available by the Fund and the World Bank in September 1994. In April 1994, a third Paris Club debt rescheduling arrangement was reached between Bulgaria and its official creditors, covering all obligations falling due from the previous rescheduling until April 30, 1995.

By restoring Bulgaria's external viability, these debt agreements should help the country attract further FDI and regain access to the international financial markets. At end 1994 the external debt/GDP ratio was 117% (144% in 1992) and the debt service ratio was reduced to 19% (39% in 1992).

D. THE CZECH REPUBLIC

1. GENERAL ECONOMIC SITUATION

After a sharp decline in 1990-92 and stagnation in 1993, the Czech economy grew by 2.6% in 1994, reflecting a strong recovery of private consumption and investment. Industrial production rose by 2.3% and the unemployment rate continued to edge down, reaching 2.8% in May 1995. The tightness of the labour market remains an extraordinary feature of the Czech transformation process. Indicators for the first quarter of 1995 suggest an acceleration of growth.

Inflationary pressures were subdued in the first half of 1994, with annual inflation falling to 9.2% in May 1994. Since then, however, inflation has been on an upward trend as a result of the rapid expansion of the money supply and domestic demand. Annual inflation stood at 10.2% in May 1995.

Money supply (M2) grew by 22% in 1994, well above the 12% original target. This rapid growth of liquidity reflects the impact of the strong foreign capital inflows, which the Czech National Bank (CNB) has only been able to sterilize partially through open market operations and the increase in the banks' minimum reserve requirements. Regarding fiscal policy, the state budget ended 1994 with a surplus of Ck 11.2 billion (about US$ 336 million) and the Parliament has approved a balanced budget for 1995.

As far as structural reform is concerned, the second wave of large-scale voucher privatization, involving assets in 861 enterprises with a book value of Ck 155 billion (US$ 4.7 billion), has been concluded in November 1994. About 80% of the productive capacity of the economy is estimated to be now in private hands.

2. THE BALANCE OF PAYMENTS

Reflecting the acceleration of domestic demand, the real appreciation of the Czech crown and trade restrictions introduced by Slovakia, the current account moved from a US$ 115 million (0.5% of GDP) surplus in 1993 to small deficit (US$ 16 million) in 1994. The deficit has continued to increase in the first quarter of 1995 and is expected to reach about 1.5-2% of GDP for the whole year.

The balanced current account result achieved in 1994 hides a very large trade deficit (US$ 865 million) offset by a US$ 766 million surplus in the services balance (largely due to revenues from tourism and transportation) and a US$ surplus in net unrequited transfers. The deterioration of the bilateral current account with Slovakia has led the Czech Republic to consistently exceed the ECU 130 million credit ceiling agreed under the Czech-Slovak clearing system. Following the official request by the Czech government, this clearing system is expected to be terminated in October 1995.

The net inflow of FDI slowed down considerably in 1993 (declining to US$ 552 million from US$ 983 million in 1992) but recovered partly in 1994 (to US$ 749 million). Furthermore, the Czech Republic has been experiencing a surge in other capital inflows since the third quarter of 1993. Thus, in 1994, gross portfolio investment (mostly equity investment in the Prague Stock Exchange and foreign acquisition of Czech issues of international bonds) reached US$ 901 million, Czech enterprises took financial credits abroad in the amount of US$ 1378 million. Also, Czech banks have been borrowing significant amounts in the international market for syndicated loans. The Czech Republic's access to the international capital markets has been reinforced by successive upgradings of the country's rating. In June 1994, Moody's upgraded again the Czech Republic's rating (from Baa3 to Baa2), and in July 1994 S & P's upgraded its rating from BBB to BBB^{+}.

The combination of a healthy current account and a strong capital inflow has put upward pressure on the nominal exchange rate and has resulted in a rapid growth of official foreign exchange reserves, which stood at US$ 8.6 billion (or about 7 months of imports) at end-April 1995, compared to only US$ 0.7 billion at end-1992. In order to offset or restrict part of the capital inflows, the authorities have repaid ahead of schedule all the remaining IMF loans (worth US$ 1.1 billion), have approved a draft Foreign Exchange Act which provides for the gradual introduction of the full convertibility of the crown, and have imposed in late June 1995 limits on the total amount of short-term foreign credits Czech banks may take. Also, the CNB is considering possible options to increase the flexibility of their exchange rate policy, including the widening of the fluctuation band around the D-mark/US$ peg, the revaluation of the central rate and the move to a floating exchange rate regime.

3. FOREIGN DEBT

Despite a significant growth of convertible debt in 1993 and 1994, mostly associated with strong foreign borrowing by Czech companies and banks, the Czech Republic continues to enjoy a low foreign debt burden. Total convertible debt increased from US$ 6.9 billion at end-1992 to US$ 10.3 billion at end-1994, but this still implied a relatively low debt/GDP ratio of 29%. The debt service ratio has increased between 1992 and 1994 but, at 13% in 1994, it remains moderate. While projections for 1995 and 1996 point towards an increase in the debt and debt service indicators, they are expected to remain at reasonable levels.

E. ESTONIA

1. GENERAL ECONOMIC SITUATION

The Estonian economy emerged from recession by the end of 1993 and GDP grew by 4% in 1994, despite a severe drought which hampered the agricultural production. Since 1993 services account for more than half of GDP. Growth mainly relies on the development of the private sector.

The currency board arrangement introduced in 1992 (under which the kroon is pegged to the DM at a fixed 8 to 1 rate, and the monetary base limited by the amount of hard currencies and gold detained by the central bank) proved successful in stabilising the economy. However, inflationary pressures, fuelled by sharp increases of energy imports prices, resumed at the end of 1993 and early 1994. Prices increased by more than 40% in 1994, well over target, but the latest recorded monthly price increases in late 1994 and early 1995 were more moderate (2.4% in March, 1% in April) although, still, irregular. Under the currency board arrangement central bank lending to the state is prohibited, which contributed to budgetary discipline. The general government budget was in balance in 1994, against a 1.8% deficit in 1993, reflecting improvements of revenue performance, and despite increases of public investment. The 1995 budget envisages a GDP 1% deficit.

Estonia has made continuing progress on structural reform. In 1994, Estonia advanced further in the area of privatisation (80% of small enterprises and more than 258 large state owned firms have now been sold to private owners)and in some cases bankruptcy law was applied. Banking supervision was improved and following the banking crisis of 1993, the banking system was restructured. The number of commercial banks was reduced to 21, mostly through mergers. Estonia maintains liberal foreign trade and investment laws. The Estonian kroon is fully convertible.

2. THE BALANCE OF PAYMENTS

Estonia's current account situation became tight in 1994. The excess of domestic inflation over international price increases has reduced the country's international competitiveness, and, in combination with the resumption of domestic demand, has resulted in higher imports. As a result, the current account deficit which stood at 5.7% of GDP in 1993 reached an estimated 9% level of GDP (excluding official transfers) in 1994.

The IMF programme under the stand-by arrangement for the period October 1993 to March 1995 remained on-track and in March 1995 the IMF approved a new fifteen-month stand-by arrangement for an amount of SDR 14 million (US$ 20 million). The inflow of foreign direct investment remained high for the third consecutive year, (worth some US$ 253 million). Official foreign exchange reserves continued to grow and, at US dollars 450 million at end-1994, covered approximately 3 months of imports.

3. FOREIGN DEBT

Estonia has no legacy of foreign debts from the ex-USSR. In 1994 the stock of external debts increased from US dollar 135 million to an estimated US dollar 170 million level (or 6.5% of GDP). External debt service remained low in 1994 with a ratio to exports of goods and non-factor services below 1%. A substantial part of Estonia's foreign debt is owed to international financial institutions.

F. HUNGARY

1. GENERAL ECONOMIC SITUATION

The Hungarian economy recovered in 1994, with real GDP growing by an estimated 2% and industrial production by 9%. Following a peak of 11.8% of the labour force in early 1993, the unemployment rate has declined to 10.1% in the first quarter of 1995. Growth, however, is expected to slow down in 1995, reflecting the effect of the "austerity package" adopted by the government in March 1995 to reduce the country's high budget and current account deficits.

The "austerity package" includes: 1) the introduction of an 8% temporary surcharge on imports, excluding primary energy products, investment goods and outward-processing trade; 2) an 8.3% devaluation of the forint combined with the switch to a pre-announced crawling-peg system implying a monthly devaluation of 1.9% during the second quarter of 1995 and of 1.3% in the second half of the year; 3) a range of expenditure cuts and measures to increase revenues including the reform of the social welfare system, cuts in public sector employment and real wages, the increase in the consumption tax on automobiles and improvements in tax administration.

The fiscal measures included in the package are estimated to yield about 3% of GDP in 1995, in spite of which the consolidated state budget deficit (excluding privatization revenues) is expected to fall only from 6.9% of GDP in 1994 to 6% in 1995.

In 1994, consumer prices rose by a little over 19%, continuing the gradual moderation in inflation which has taken place since 1992, when the end-of-year increase in the CPI reached 24.7%. However, the combined effects of a faster forint devaluation, the import surcharge, an increase in the VAT and higher charges for utilities are likely to push inflation to 28-30% in 1995. Year-on-year inflation stood at 30.8% in May 1995. After four years of decline, real wages grew by 8% in 1994 but have been declining in the first months of 1995.

Disagreements within the government coalition that took office in July 1994 initially resulted in a deadlock of the privatization process. Although a new impulse to this process was announced, few sales of enterprises have taken place until now. The government is, therefore, unlikely to meet its ambitious target of raising Ft 150 billion (3% of GDP) in privatization revenues in 1995. The bulk of these revenues were expected to come from the sale of several large enterprises in the energy sector, telecommunications and, to a lesser extent, the banking sector.

2. THE BALANCE OF PAYMENTS

After reaching a deficit of US$ 3.9 billion (9.5% of GDP) in 1994, no correction in the current account was recorded in the first quarter of 1995. The authorities, however, expect that the stabilization package will result in a reduction of the current account deficit to about US$ 2.5 billion (6% of GDP) in 1995.

Foreign Direct Investment (FDI) declined from US$ 2.3 billion in 1993 to US 1.1 billion in 1994. The authorities hope that the planned acceleration of privatization, which is expected to rely to a significant extent in the sale of enterprises to foreign investors, will increase FDI inflows to about US$ 2.5 billion. But, given the delay in the implementation of the privatization programme, FDI is likely to fall substantially short of this figure. This would mean that non-debt creating inflows will again fail to match the size of the current account deficit, thus resulting in a new increase in both gross and net foreign debt.

In spite of the high current account deficit, the slowdown in FDI inflows and substantial debt repayments, official foreign exchange reserves remained at relatively high levels throughout 1994, and stood at US$ 6.8 billion at end-February 1995 (7 months of imports). This is basically explained by the substantial foreign borrowing undertaken by Hungarian banks and enterprises and by the continued recourse by the National Bank of Hungary (NBH) to the international capital markets. In the first five months of 1995, and despite increasing concerns in the markets about Hungary's economic prospects, the NBH managed to place international bonds in the amount of US$ 1 billion.

The 18-month stand-by facility granted by the IMF to Hungary in September 1993 was interrupted owing to slippages with respect to some of the programme targets. However, the government's austerity package and the likely approval of a restrictive budget for 1996 should pave the way for the resumption of IMF lending by the end of 1995.

3. FOREIGN DEBT

With the current account deficit considerably exceeding the net inflow of FDI since 1993, both gross and net foreign debt have been rising rapidly, and from already high levels. Gross convertible foreign debt has increased from US$ 21.5 at end-1992 to US$ 31.7 billion (77% of GDP) billion at end-March 1995. Net foreign debt, for its part, has increased from US$ 13.1 billion to US$ 21.4 billion over the same period. After increasing in previous years, the proportion of medium- and long-term debt has remained practically unchanged at around 91%.

Total debt service has been consistently increasing since 1992, reaching an estimated 61% of exports of goods and non-factor services in 1994 (against 35% in 1991). The early repayments made by the NBH in 1994 have significantly reduced the expected concentration of repayments in 1995 and 1996. Repayments are now projected to amount to about US$ 3.4 billion in both 1995 and 1996.

G. ISRAEL

1. GENERAL ECONOMIC SITUATION

Annual GDP growth slowed down to 5.5% in the last quarter of 1994 and 2.6% in the first quarter of 1995. The official forecast for 1995 has been lowered to 4%. Unemployment continued to fall, from 9% end 1993 to 7.8% end 1994, as the wave of immigration from Eastern Europe and the ex-Soviet Union of the early 1990s came to an end and the repeated closure of the Occupied Territories accelerated the replacement of Palestinian workers with immigrants.

Inflation accelerated significantly in the last quarter of 1994 to 14.5% (last 12 months) but has slowed down again recently to 10.8% in May 1995. Still, underlying inflation remains high, fuelled by buoyant consumer demand and considerable increases in public sector real wages. The authorities are sticking to the announced inflation target zone of 8 to 11% for end-1995.

The inflation differential was not entirely matched by the nominal depreciation of the shekel, thereby pushing the real exchange rate up and widening the current account deficit to over US$ 3 billion at the end of 1994. This has put downward pressure on the shekel. As a result, the Bank of Israel has slowed down the trend towards lower interest rates. The key refinancing rate stood at 13.5% end May 1995.

The government budget deficit was further reduced from 2.5% of GDP in 1993 to 2% in 1994 reflecting curbs in the housing programme and other subsidies for immigrants, including unemployment benefits, and tax increases, especially on capital gains. Revenue from privatisation reached US$ 700 million in 1994 and is expected to increase to US$ 1.5 billion in 1995, in spite of a slow-down in the privatisation process.

2. THE BALANCE OF PAYMENTS

Recent developments in the trade balance are a cause for concern. Export growth remained strong at close to 11% over the first five months of 1995, compared to 10.4% in 1994. But imports are even more buoyant with growth estimated at 15.6% (in US$ terms) over the same period. The cumulative trade deficit over that period reached US$ 4.3 billion, up from US$ 3.5 billion over the corresponding period last year.

Capital inflows have soared in the first quarter of 1995 to US$ 2.6 billion, compared to US$ 2.3 billion in all of 1994, driven by the increasing gap between interest rates on the domestic and international capital markets. Capital inflows have also increased inflationary pressure.

The Bank of Israel maintains a "crawling peg" exchange rate regime with an announced annual target depreciation rate of 6%. The variation band allowed around the targeted exchange rate was recently increased to 7%. Official foreign exchange reserves reached a satisfying level of US$ 6.7 billion at the end of 1994 and continued to grow to over US$ 8 billion in the first quarter of 1995, equivalent to 3.5 months of imports, and still rising in the wake of strong capital inflows.

3. FOREIGN DEBT

The US$ 10 billion credit guarantees obtained from the US government in 1992 have enabled the authorities to draw on medium and long-term credit lines for investment projects. By end 1994, some US$ 4.4 billion had effectively been drawn, mostly by the government and a few public sector enterprises, allowing them to establish a presence and building an image in international markets. Most of the funds have resulted in a strengthening of the reserve position of the Bank of Israel. Private sector borrowers find these loans too costly, at 30-year interest rates around 7.3%, while short-term US$ interest rates have stood at 5%.

Israel has a BBB+ rating on international capital markets, which may be sufficient to get unguaranteed access. The authorities are likely to announce their intention to launch a bonds issue in the second half of 1995, to finance the Treasury deficit and to test their access to the international capital markets.

H. LATVIA

1. GENERAL ECONOMIC SITUATION

Latvia is emerging out of the recession which saw GDP fall by 45% between 1991 and 1993. Growth in 1994 was a moderate 2%, partly because of the adverse impact of the drought which affects the whole region. Unemployment is already substantial, with an estimated 7% level at the end of 1994, one of the highest levels of the former Soviet countries.

The Latvian national currency, the lat, was introduced in 1993 under a floating exchange rate regime but the authorities have actually pursued a policy of stable exchange rate with an informal peg to the SDR. They further tightened monetary policy in 1994, limiting the growth of broad money to 48%. As a result, inflation, which had reached hyper-inflationary levels in 1992, continued to slow down, falling from 35% at end-1993 to 26% at end-1994.

The government financial deficit remained in 1994 within the initial 2% of GDP target. The total deficit (including net government lending), about 4% of GDP, was mainly financed through external borrowing. In 1995, both government expenditures (in particular social benefits) and revenues would increase significantly, and a comparable financial deficit (1.7% of GDP) is expected, without taking into account public investment financed by external borrowings. Most of the deficit should be financed by issuing treasury bills.

Structural reforms continued in 1994. The State Property Fund in charge of public assets started its activities in September. Privatisation, which had been initiated at a slow pace in 1992-1993, accelerated since November 1994 after the government announced an international tender of 45 medium and large size firms. The Privatisation Agency is now fully operational and intends to privatise 50 firms by tender each year in 1995 and 1996. The financial sector was shaken in early 1995 by the crisis of the main commercial bank of Latvia, Baltija Bank, which triggered a government action to guarantee deposits. Two other important Banks, Universal Bank of Latvia (UBL) and Latvian Savings Bank are engaged in the restructuring process, their portfolios have been strengthened and UBL might be ready for privatisation by the end of 1995. A new tariff law on external trade enacted in September introduced flat ad valorem import tariffs except for a limited number of goods (mainly agricultural products and cars). The free trade agreement signed with the European Union came into force on 1 January 1995.

2. THE BALANCE OF PAYMENTS

The current account, which had recorded a substantial surplus in 1993, became negative in 1994 (-160 million US dollars without the official transfers, i.e. 4.6% of GDP) mainly because imports grew significantly while exports decreased. This is the result of the upsurge of economic activity which lead to a substantial increase of investment-related imports.

Important official transfers, foreign direct investment (US$ 155 million) and disbursements from the international financial institutions contributed to finance this deficit. Latvia's hard currency reserves continued to grow in 1994 and, with a US dollar 620 million level at year-end, covered about 5 months of imports. Foreign direct investment is reported to have further increased in early 1995. However, private capital inflows could drop substantially in the coming months as a result of the present banking crisis in Latvia.

The IMF confirmed in April 1995 its support to the authorities' policies by renewing the stand-by arrangement for a 13-month period. It is however expected that the authorities will not draw on this facility (about 44 million US$) unless the country's level of foreign exchange reserves significantly drops.

3. FOREIGN DEBT

Latvia has no legacy of foreign debts of the ex-USSR, and the country's external debt is thus recent. In 1994 the external debt stock increased from $ 240 million to $ 370 million, or 11% of GDP. The external debt service ratio presently remains moderate at 5%. More than 50% of Latvia's foreign debt is owed to the international financial institutions.

I. LITHUANIA

1. GENERAL ECONOMIC SITUATION

After a sharp decline of about 55% between 1989 and 1993, Lithuania's GDP stabilised in 1994 with an estimated 2% growth. Unemployment, which reached 2% of the active population by the end of the 1994, is reported to have significantly risen in early 1995.

Inflation, which had peaked in 1992 at hyper-inflationary levels, slowed down in 1993 and early 1994. An important step in the stabilisation process of the economy was the introduction, on April 1, 1994, of a currency board arrangement under which central bank lending to the government is not allowed, and the monetary base limited to the market value of gold and hard currencies detained in the Bank of Lithuania. The litas became pegged to the US dollar at a rate of LTL 4 to US$ 1. Monetary expansion dropped in 1994. In the months following the introduction of the currency board arrangement, inflation dropped down to a level of less than 3% per month, and the state budget deficit was substantially reduced. For the whole year 1994, consumer prices increased by 45% (Dec. to Dec.).

In early 1994 the authorities adopted austerity budgetary measures, including the phasing out of public subsidies, which fell below 1% of GDP in 1994 (against 5.5% in 1991). Revenue performance increased over the second semester, allowing for a moderate deficit of 3% of GDP. The deficit target is 1.5% of GDP for 1995 and 2% for 1996. A three-year macro-economic programme, covering the period October 1994 - September 1997, has now been adopted by the Government. It envisages tight budgetary policies under the existing currency board arrangement and a sustained effort to maintain the momentum of structural reforms.

Progress has also been registered with respect to structural reforms. Prices liberalization is almost completed and the only items with administered prices relate to cases of monopolistic situations. The government continued also to progress with privatisation and restitution. By September 1994, 76% of all companies eligible for privatisation, or 30% of all state assets, had been privatised through vouchers, public share subscription and auctions. In December the central bank law was enacted, and was followed by the adoption of the commercial banking law in early 1995. Enterprise restructuring was however slow and the implementation of the bankruptcy law was delayed until appropriate courts were designated to deal with cases.

2. THE BALANCE OF PAYMENTS

The share of the west in the country's external trade is continuing to increase. About 50% of Lithuania's exports were directed to western markets in 1994. On 1 January 1995, the Free Trade Agreement with the European Union entered into force. The trade balance, which recorded a surplus until 1992, became negative in

1993 and 1994 (US$ 200 million deficit last year) owing to the sharp increase of energy imports from Russia, which are now close to world market prices, and account for about 50% of the country's imports. According to national data, the current account of the country registered a US$ 90 million deficit in 1994 (1.6% of GDP), which was however compensated by significant private capital inflows. Following the approval of the government autumn three-year programme, the IMF approved an SDR 134.55 million (about US$ 200 million) extended facility in October. This would allow Lithuania to build up the necessary reserves and would help financing key energy and investment related imports.

The growth trend is expected to remain robust, and investment related imports would grow substantially. The country would remain therefore in current account deficit over the next few years, and is expected to heavily rely on private capital inflows and the support of international financial institutions.

3. FOREIGN DEBT

Lithuania has no legacy of sovereign debts of the ex-USSR. In 1994, the outstanding external debts increased by almost 200 million US$, reaching a level of 530 million US$. As a percentage of GDP this level is however moderate (10%) as is the country's external debt service over exports ratio (at about 1%).

J. MOLDOVA

1. GENERAL ECONOMIC SITUATION

Moldova's real GDP declined by some 22% in 1994, owing to the continuing disruptions to output and trade associated with the collapse of central planning, but also to severe weather conditions. Industrial production remains depressed in 1995. However, agricultural production is expected to rebound from its 1994 level, which should lead to a modest recovery of GDP in the remainder of 1995. Official unemployment remains low (at some 2% in early 1995) but some 17% of labour force are on long-term unpaid leave.

Inflation decelerated sharply in 1994: the average annual CPI inflation went down from 788.5% in 1993 to 329.6% in 1994 and, in the course of the year, the quarter-on-quarter average inflation rate decreased from 83% in the first quarter to about 9% in the fourth quarter. In early 1995, new inflationary pressures emerged and had to be contained through a tightening of credit policy by the central bank. The monthly inflation rate was 0.7% in March, down from 2.9% in January and 2.3% in February.

Fiscal deficit for 1994 was contained to 8% of GDP, despite the greater-than-envisaged decline in real output and inflation. However, expenditure arrears rose by some 1.5% of GDP, including arrears on wages, as a result of the application of a strict cash management system. In the first quarter of 1995, important efforts were made to collect 1994 tax arrears, which were allocated to liquidate 1994 expenditure arrears. Although government current expenditure remained subject to severe control, arrears continued to accumulate in the first months of 1995: wage arrears of both central and local governments stood, at the end of March, at about 1.3% of quarterly GDP.

Although important measures were initiated in the first quarter of 1995, structural reforms have not matched the gains made with respect to financial stabilisation. More particularly, the pace of privatisation process slowed again, partly owing to a "wait-and-see" attitude of enterprise managers with respect to the new 1995/96 Privatisation Programme, finally approved by Parliament on 15 March 1995. Important progress were however registered in enterprise restructuring, with the liquidation of three state enterprises and the revision of the bankruptcy legislation.

2. THE BALANCE OF PAYMENTS

The balance of payments remained under severe pressure throughout 1994, primarily as a result of higher prices for imported energy and the effects of natural disasters. Based on preliminary data, the current account deficit was equivalent to 9.6 % of GDP (US$ 183 million). Both exports and imports have been weak in 1994. Exports have been negatively affected by the continuing economic contraction in Moldova's main trading partners and by increased transport costs. Imports, for their part, have been severely compressed by the slow pace of disbursements of foreign assistance and the collapse of domestic demand. The first quarter of 1995 shows a current account deficit of US$ 53 million. This relatively good result is partly explained by the strong growth registered in exports to non-FSU countries (US 75 million, compared to US$ 27 million in the same period of 1993).

Preliminary indications about the capital account show a surplus of some US$ 300 million for the whole year 1994, compared to 117 million in 1993. At an estimated US$ 23 million in 1994, direct investment remained low, while medium-and long-term loans represented the main part of capital inflows, with an estimated amount of US$ 163 million for 1994. With the pace of disbursements in foreign assistance increasing in the last months of the year, gross reserves of the central bank reached the equivalent of 3 months of imports at end-1994 (up from 1.4 months at end-93) and were still at this level by end-March 1995.

3. FOREIGN DEBT

Moldova agreed to the zero option with the Russian Federation and so has no responsibility for the external debt of the ex-USSR. The total external debt of the country is estimated at US$ 343 million by end 1994 (or around 26% of GDP), and is owed mainly to Russia, the IMF and the World Bank. This compares to US$ 168 million in 1993 (about 23% of GDP). The external debt service as a percentage of exports is estimated to have increased from around 1% in 1993 to some 2% in 1994 and is expected to increase substantially (to between 12 and 15%) in 1995.

K. ROMANIA

1. General economic situation

Economic growth in Romania continued to pick up slowly, driven mainly by exports that benefited from a strong depreciation of the exchange rate in early 1994. Real GDP growth is estimated at 3% in 1994 and is expected to accelerate in 1995. However, consumer confidence remained weak as households attached priority to restoring their savings, which continue to grow strongly. Annual inflation slowed down from nearly 300% in early 1994 to under 50% by mid-1995.

The fiscal deficit was kept under control at 4.4% of GDP in 1994 and is expected to decrease further in 1995. Tighter monetary policy and the increase in interest rates to strongly positive levels in real terms renewed confidence in the leu in the course of 1994 and fuelled household savings.

A floating exchange rate regime and an interbank foreign exchange market were introduced in 1994. However, at the end of 1994 and early 1995, a significant differential between official and private bureaux exchange rates re-emerged, indicating that the foreign exchange market was not functioning in a fully transparent way.

Structural reforms are making slow progress. The authorities have tried to impose financial discipline on loss-making state-owned enterprises with large payments arrears, but inter-enterprise arrears continued to increase to some 14% of GDP by end 1994. Parliamentary approval of the long-overdue bankruptcy law, an essential piece in the transition towards a market economy, took place only in March 1995. Privatisation of state-owned enterprises also remains slow. By mid 1995, 3 years after the approval of the privatisation law, only around 1,000 out of nearly 6,300 state-owned companies had been fully transferred to private ownership. A new Mass Privatisation Programme took nearly one year to gain Parliamentary approval.

2. The balance of payments

The current account deficit was considerably reduced, from US$ 1.2 billion in 1993 to US$ 0.3 billion in 1994. This was due to a strong export performance (+23% in dollar terms), driven mainly by the depreciation of the leu in early 1994. Furthermore, substantial payment arrears and delays in the domestic market encouraged enterprises to sell on export markets were more immediate payments could be expected. Imports increased by about 5% only. Towards the end of 1994 and in early 1995, current account pressures re-emerged, partly as a result of seasonal fluctuations (winter energy imports). The association agreement with the EU, facilitating Romania's access to the EU market, came into force on 1 February 1995.

The capital account showed an increase in private direct and portfolio investments, reaching US$ 414 million in 1994, compared to only US$ 14 million in 1993. Despite this increase, the inflow of foreign direct investments remains very low as a percentage of GDP. A slow-down has been registered in official loan disbursements, but these remain the principal source of external finance.

Official foreign exchange reserves, that were almost depleted in early 1994, increased to more than US$ 620 million (1.2 months of imports) by mid-October 1994. However, in the wake of the re-emergence of exchange rate differentials and the authorities' apparent willingness to keep the official exchange rate below the market-clearing level, the National Bank sold part of its reserves. They fell to less than US$ 407 million at the end of February 1995, when the National Bank resumed the purchase of foreign exchange. Foreign exchange holdings in the overall banking system increased from US$ 0.9 billion in January to US$ 2 billion in December 1994.

3. External debt

Total external debt increased rapidly from virtually zero in 1989 to US$ 4.7 billion or 16% of GDP at end-1994 and external debt service accounted for some 6% of current receipts. The external debt service ratio is expected to increase to close to 20% in 1999. Despite this rapid increase, debt and debt service ratios remain relatively low.

Recently, Romania has been able to raise US$ 150 million in the international financial markets, at interest rates around Libor+275 base points, to strengthen the reserves of the National Bank. More operations of this type are planned in the course of 1995.

L. RUSSIA

1. GENERAL ECONOMIC SITUATION

After failure of stabilisation policies over the last few years, the evolution of Russia's economic policies remained uncertain until early 1995. Recent developments, in particular the tightening of macro-economic policies, the vote of an austerity 1995 budget in March and the agreement with the IMF on a stand-by arrangement in April, suggest that the authorities now have a strong commitment and the needed support to implement long-needed stabilisation policies.

GDP continued to decline in 1994, by 15%, after an already sharp decrease in the previous years. In 1994 industrial production was reported at less than 45% of its 1991 level. However, during the second semester 1994 output stabilised. Early 1995 figures suggest that a resumption of growth, which had been anticipated by the end of 1994, is still very uncertain. In May, industrial output increased for the first time on a year-on-year basis (by 1%). The unemployment rate grew up to 7.1% compared with 5.5% by end-1993.

The deficit of the enlarged government was initially targeted at 6.5% of GDP for 1994. However, after a relatively satisfactory performance over the first semester, the budget implementation went off-track in the summer after the government increased expenditure in favour of the Northern Territories and agriculture. For the whole year the budget deficit, at 10% of GDP, was higher than expected. The acceleration of monetary growth over the third quarter led to a resumption of inflation at the end of the year, to over 15% per month. For the whole year, consumer prices grew by about 10% per month (300% Dec. to Dec.).

In early 1995 negotiations with the IMF on a stand-by programme resumed. The authorities tightened their budgetary and monetary policies. The monetary base rose by only 1% over the first quarter and the budget fiscal deficit was about 3.5% of quarterly GDP. The 1995 budget adopted in March targets a deficit of 5.5% of GDP. However the decline of inflation remained slower than expected, with a 7.9% level in May down from about 18% in January. In April the IMF board approved a 12 month stand-by arrangement, which aims at bringing monthly inflation down to 1% over the second semester, mainly through a further tightening of monetary policy. Monetary financing of the deficit is to be reduced below 3% of GDP, compared with about 8% in 1994. The IMF and the authorities agreed on a tight monthly monitoring of the programme, which was broadly on-track after the first April review.

Structural reforms are in many respects well advanced in Russia. Price liberalisation is almost completed, and remaining controls should be eliminated in 1995, except for clearly-identified monopolies. Trade restrictions, which had adversely affected the oil exports, have been eliminated in April as a prior action to the stand-by arrangement. Privatisation is well advanced with already about 85% of workers employed in privatised enterprises by the end of 1994. Its pace is to be invigorated by the sale of large enterprises for cash. A lot remains however to be done in other areas such as land reform, strengthening the financial sector, or building up an efficient social security system.

2. THE BALANCE OF PAYMENTS

The assessment of the balance of payments of Russia is made difficult by the poor quality of the data. For instance, there is wide evidence that unrecorded capital flight has been significant since the early 1990s.

In 1994, Russia recorded a significant trade surplus, estimated at about US$ 12 bn, compared with a surplus of US$ 14 bn in 1993. This amount, however, may be greatly over-estimated, as a part of imports go unrecorded in order to escape tax payments. By regions, the shift of the trade to the West is significant. Industrialised countries accounted for 69% of the total volume of imports in 1994, compared to 60% in 1993, while imports from former-CMEA countries continued to decline.

After a surplus of US$ 2.5 bn in 1993, the current account was again reported in slight surplus, of about US$ 3.6 bn in 1994 (1.4% of GDP). However, the balance of payments situation of Russia remained extremely weak, owing to the high level of debt service obligations of the country which would require large current account surpluses in the range of US$ 15 bn every year. This situation is expected to further deteriorate in the late 1990s. The country will therefore heavily rely on debt restructuring, foreign direct investments to finance the private sector's external needs and loans from the international financial institutions.

Net official reserves increased by US$ 4 bn, of which US$ 1.5 bn resulted from IMF disbursements under the Systemic Transformation Facility. The bulk of IMF disbursements under the new US$ 6.5 bn stand-by programme adopted in April will be disbursed in 1995 (US$ 5.2 bn), provided the programme remains on-track.

3. FOREIGN DEBT

According to the agreements reached with the New Independent States, Russia is the successor state for the assets and liabilities of the former Soviet Union. The level of the Russian debt represents an increasing burden for the country, in a context of recession and with the capitalisation of accumulated arrears. In 1994, foreign debt, at an estimated US $ 119 billion, represented 40% of GDP. The service of the debt represented 42% of the country's exports. Most of this debt is owed to official bilaterals (about US$ 75 billion), a substantial part to commercial banks (about US$ 30 billion) and a growing part to the international financial institutions (about US$ 6 billion). The bulk of the Russian debt represents the outstanding amounts of ex-USSR debts (US dollars 108 billion).

Russia's inability to service its debts already triggered several Paris Club rounds since 1992. On 3 June 1995, Russia reached an agreement with its Paris Club creditors on a new rescheduling for debt maturities falling due in 1995. Accordingly, it is now expected that the debt service in 1995 will amount to US$ 7.9 billion, about 11% of projected exports, and some US$ 1.1 billion more than initially set aside in the 1995 general government budget. Paris Club creditors also agreed to start discussions in Autumn 1995 on a wider rescheduling of the Russian debt, in order to bring debt service down to sustainable levels for the coming years. A similar wide agreement with London Club creditors is expected by the end of 1995.

M. THE SLOVAK REPUBLIC

1. GENERAL ECONOMIC SITUATION

Following four consecutive years of recession, the Slovak economy recovered strongly in 1994, with real GDP growing by 4.8% and industrial production by 6.4%. Unemployment seems to have stabilized at around 14.5%. After accelerating to 25.1% in 1993, CPI inflation has been on a downward trend since the beginning of 1994, falling to about 11.2% in May 1995.

The reduction in inflation has been supported by tight macroeconomic policies. The general government deficit was reduced from 7.6% of GDP in 1993 to 2.7% in 1994, and the state budget for 1995 is consistent with a general government deficit of around 3% of GDP. Regarding monetary policy, the net domestic assets of the banking system expanded by only 2% in 1994, down from 11.1% in 1993. The National Bank of Slovakia (NBS) is expected to continue conducting a prudent monetary policy in 1995. It has decided to maintain until end-1995 the individual credit ceilings on banks introduced in February 1994, and will aim at a 4.5% growth of net domestic assets and a 12.3% growth of M2 in 1995.

The new government formed in December 1994 decided in June 1995 to cancel the voucher privatization scheme launched by the previous government. Instead of shares in state enterprises, the 3.5 million Slovak citizens that bought vouchers last year will initially be given 5-year interest-bearing bonds issued by the National Property Fund. In the area of banking sector reform, stricter regulations on the classification and provisioning of bad loans came into force in March 1995, and the Parliament is expected to pass by mid-1995 amendments granting full tax deductibility for bad-loan provisions made during 1995-97 by banks presenting appropriate restructuring plans.

2. THE BALANCE OF PAYMENTS

The balance of payments has experienced a clear improvement since the second quarter of 1994. The current account swung from a deficit of US$ 0.6 billion (5.4% of GDP) in 1993 to a surplus of US$ 0.7 billion (6% of GDP) in 1994. The improvement in the current account has been particularly marked vis-à-vis the Czech Republic, with the bilateral balance reaching a US$ 0.8 billion surplus in 1994.

The capital account has also improved. About US$ 295 million of official macro-financial assistance (IMF, World Bank's Economic Recovery Loan and Japan Exim Bank) have been disbursed since mid-1994. In addition, the NBS issued in July 1994 a US$ 250 million bond in the Samurai market. FDI increased from US$ 134 million in 1993 to US$ 184 million in 1994, although it remains low (1.5% of GDP). Finally, the tight management of inter-bank liquidity by the NBS, in combination with the perceived stability of the Slovak crown (and, in the first half of 1995, the expectation of a revaluation against the Czech crown), has led to some short-term capital inflows.

These favourable trends in both the current and the capital account have been translated into a substantial increase in reserves. Official foreign exchange reserves have risen from US$ 415 million at end-1993 to US$ 2.2 billion in April 1995, or 3 months of imports. Following a 10% devaluation in July 1993, the exchange rate of the crown has been kept stable against a basket of Western currencies. In July 1994, the number of currencies in the basket was reduced from five to two (the Deutschmark and the US dollar).

Despite the clear improvement of the current account and balance of payments, the Slovak authorities intend to maintain until end-1996 the import surcharge introduced in March 1994. The surcharge, however, is expected to be reduced from 10% to 7.5% by end-1995. Foreign exchange travel allowances were increased as of 1 January 1995. The authorities intend to make the crown fully convertible for current account purposes by 1 January 1996, and also plan to liberalize some capital flows. Following the official request by the Czech government, the Czech-Slovak clearing system is expected to be eliminated by October 1995.

In April 1995, the US rating agency Standard & Poor's upgraded Slovakia's rating from BB^- to BB^+, and in May 1995 Moody's assigned to Slovakia an investment grade rating (Baa3). All this should have a positive impact on the country's access to the international capital markets.

3. FOREIGN DEBT

Slovakia inherited from the Czechoslovak federation a very low external debt. Although debt and debt service ratios have deteriorated since the country's independence, they remain at relatively low levels. The foreign debt/GDP ratio has increased from 25.7% at end-1992 to 31.1% at end-1994. Debt service as a percentage of exports, for its part, has risen from 3.3% in 1992 to 8.8% in 1994.

N. CENTRAL ASIAN AND TRANSCAUCASIAN REPUBLICS

1. GENERAL ECONOMIC SITUATION

The situation among the Transcaucasian and Asian Newly Independent States (NIS) varies considerably. All the former soviet republics suffered in 1992-1993 from the weakening of socialist structures and the collapse of inter-republican trade links. The drop in trade among the NIS (probably 20-30% a year since 1992) has had serious knock-on effects on output. The dismantling of the rouble area led to a payments crisis in 1993 which aggravated the situation and led to considerable inter-enterprises arrears. Loose financial policies in many NIS compounded the adverse effects of the external shocks. Price increases reached hyperinflationary levels in 1993. Political and military conflicts in Tajikistan and the Transcaucasian republics dramatically aggravated the situation in these countries.

Far-reaching economic reform however already begun in several NIS in 1993. Some republics like Kyrgyzstan have already made considerable progress in the transition to a market-based system while implementing more strict financial policies. 1994 has been a year of acceleration of reforms in Georgia and Armenia. While a hyper-inflationary situation had prevailed in most republics in 1993, inflation generally decreased in 1994. In early 1995 Azerbaijan and Tajikistan also engaged in the way of economic stabilisation. Most countries however continue to suffer from high government budget deficits.

Kyrgyzstan and Kazakhstan are the most advanced countries in the way of stabilisation and reforms and already benefited from the IMF support (presently in the form of a stand-by arrangement for Kazakhstan and an enhanced structural adjustment facility in the case of Kyrgyzstan). Turkmenistan delayed the implementation of core structural reforms but has a stronger external position owing to its oil and gas exports. Tajikistan, where reforms had been delayed in the context of civil war and political instability, initiated in early 1995 stabilisation measures and is presently preparing a new package of reforms. In 1995, Uzbekistan launched a programme of reforms which benefited from IMF support under the Systemic Transformation Facility (STF).

In the Transcaucasian republics, civil and regional conflicts led to severe drops of output (about 70% from 1991 to 1994) and delayed reforms. Armenia initiated reforms in early 1994 which already had a positive effect over the year, with GDP growing in 1994 for the first time since 1991. Georgia engaged in reforms in late 1994. Reforms in both countries were supported in late 1994 by the IMF through STF and discussions are presently underway with a view to concluding stand-by arrangements. Azerbaijan started implementing stabilisation and reform measures only in early 1995, with IMF support under the STF. The country also recently signed an agreement with major international oil companies which is expected to trigger inflows of foreign investments.

2. THE BALANCE OF PAYMENTS

The balance of payments situation of the area is extremely weak, with the exception of Turkmenistan and Uzbekistan. Large trade deficits with Russia and Turkmenistan, linked primarily to higher prices for energy and raw materials make the current account position of the other countries particularly precarious. The financial credibility of most countries is further aggravated by lack of international reserves, so that current account deficits tend to degenerate into crisis of payments and the piling up of arrears.

From a longer-term perspective, the new states present variable profiles. Some have an important hard currency earning potential (Kazakhstan, Uzbekistan, Azerbaijan) and a significant industrial productive capacity. Others are much less developed and strongly rely on external assistance. Armenia, Georgia, Azerbaijan, Kyrgyzstan and Tajikistan have already been made eligible to highly concessional lending from the Bretton Woods institutions.

3. FOREIGN DEBT

The NIS made in 1993 substantial progress in clarifying their position regarding the former Soviet Union's debt legacy. The April 1993 Paris Club agreement with Russia was accompanied by a change in legal arrangements on debt servicing within the ex-USSR in effect making Russia the sole actual manager of the debt. The creditors acknowledged that the so-called "zero-option" agreements concluded by Russia with other former republics (by virtue of which Russia takes over the full amount of the ex-Soviet debt, in exchange for the full amount of the ex-Soviet external assets) discharge them of any servicing of such debt.

Only Kazakhstan and a few other NIS have attracted new credits from the West since their independence. The bulk of the NIS external debt is owed to Russia and Turkmenistan. This debt mainly results from balances of the republics' central banks with the central bank of Russia and from arrears on energy shipments. Russia has awarded bilateral loans to several countries (Armenia, Georgia, Uzbekistan, Kyrgyzstan) and already concluded several agreements rescheduling its claims. Trade arrears have however continued to build up with the two energy-exporting NIS in 1994. Turkmenistan agreed in early 1995 with Ukraine and Georgia on substantial deferrals of arrears.

The Community has provided significant amounts of three-year commercial credits to all the NIS under the ECU 1250 million loan facility made available in 1992 for food and medical supplies. As already noted, some of these countries are presently facing difficulties in ensuring a timely servicing of their debts towards the Community. Georgia and Tajikistan are already in arrears on interest payments. Armenia, Georgia and Tajikistan, which in a context of civil or regional war have suffered the sharpest economic decline, have made clear that a lack of hard currency reserves could lead to problems in securing forthcoming payments.

O. UKRAINE

1. GENERAL ECONOMIC SITUATION

Following an accumulated output contraction of 38% from 1990 to 1993, and of another 23% in 1994, GDP decline slowed down markedly in the first quarter of 1995 to some 10% over the first quarter of 1994. Industrial production is estimated to have increased moderately in the second quarter. The official unemployment figure of 0.3% does not at all reflect the protracted fall in output. The International Labour Organization estimated in autumn 1994 that 12% of Ukraine's workers were already on long-term unpaid leave, and estimates of hidden unemployment reach as much as 20%.

Following a stop and go pattern, the National Bank of Ukraine (NBU) tightened monetary policy considerably in autumn 1994 as part of Ukraine's comprehensive stabilization and reform programme supported by an IMF Systemic Transformation Facility (STF) since October 1994 and by an IMF stand-by arrangement since April 1994. At first, the relaxation of credit policy in summer 1994 and the price liberalization in autumn contributed to a surge of inflation. But since November 1994, inflation has declined steadily from a monthly rate of 72% to 4.6% in May 1995. If the NBU were to give in to the mounting pressures to extend credits to the agricultural sector for the harvest, inflation would be likely to increase again.

Following a sharp decline of the budget deficit in 1993 (10% of GDP, after 29% in 1992) the authorities managed to bring the deficit further down to 8.6% of GDP in 1994 and to limit monetary financing of the government to 5% of GDP in the fourth quarter. The bulk of fiscal adjustment relied on cuts in expenditures, in particular in subsidies to coal mines, agriculture and communal services. In April 1995, the Parliament adopted the budget proposal for 1995 limiting the expected deficit to 3.3% of GDP.

Since September 1994, a number of important reforms have been undertaken. The authorities advanced rapidly towards full price liberalization, including with the elimination of controls on profit margins, and raised administered prices set by the state. The government also took a number of steps towards reducing the role of the government. In early 1995, it started to implement the mass privatization programme formulated in late 1994. On 1 January 1995, it eliminated the old system of state orders and state contracts, other than to meet the government's needs which are narrowly defined and now have to be provided for through competitive bidding. The change is particularly important in the area of agricultural procurement. The government also undertook important steps to liberalize the foreign trade regime and the foreign exchange market including the unification of the exchange rate. To shelter vulnerable groups from the impact of the adjustment measures, minimum pensions and social benefits were raised.

2. THE BALANCE OF PAYMENTS

Given the heavy dependence of the Ukrainian economy on energy, the price of which has been adjusted towards world market levels since 1992, the balance of payments remains very constrained. The current account deficit is estimated to have widened further in 1994 to US$ 1.6 billion (some 6% of GDP). Against the background of capital flight, low foreign direct investment and the need to amortize medium- and long-term credits not matched by new credits, Ukraine accumulated important external arrears in the first three quarters of 1994 (more than US$ 2 billion).

To strengthen its balance of payments and support its stabilization and reform programme, Ukraine received in autumn 1994 the first tranche (US$ 271 million) of the STF from the IMF and the first tranche (US$ 100 million) of a rehabilitation loan from the World Bank (totalling US$ 500 million). In the course of 1994, official foreign exchange reserves increased from 0.2 to 0.6 months of imports.

At the beginning of 1995, the Ukrainian balance of payments seemed to be improving somewhat with more than expected foreign exchange being accumulated by the NBU. However, this appears to be largely linked to the payment delays with respect to gas supplies from Russia. Altogether, the balance of payments situation in 1995 remains tight, leaving residual financing needs of some US$ 3.5 billion after contributions of over US$ 2 billion by the international financial institutions. After rescheduling of arrears towards Russia and Turkmenistan a gap of US$ 900 million remains to be filled by complementary financing from the European Union (some ECU 285 million) and other bilateral donors.

3. EXTERNAL DEBT

In 1994, Ukraine's external debt stock increased from US$ 4.1 billion in 1993 to US$ 7.1 billion. In percent of GDP, this represents an increase from 12% to 29%. The ratio of external debt service to exports of goods and services rose from 1% to 12%. In November 1994, Ukraine reached an agreement with Turkmenistan to clear arrears of US$ 300 million on gas and to reschedule the remaining arrears. In April 1995, Russia agreed to reschedule some US$ 2.5 billion on Ukrainian debt, including those accumulated in 1994 on account of gas.

II-F-3
Last update
22.06.95

Country risk indicators

Country: Algeria

		1992	1993	1994
Real GDP growth rate (in %)		2.2	-2.0	-0.2
Hydrocarbon production (% change)		2.6	-0.6	-2.5
Inflation rate	*(Dec/Dec)*	28.0	16.1	38.6
Exchange rate (dinars per USD)	*(end of period)*	22.8	24.0	42.9
Nominal effective exchange rate	*(change Q4/Q4) (- = depreciation)*	-1.0	-7.9	-78.6
Real effective exchange rate	*(change Q4/Q4) (- = depreciation)*	20.7	12.8	-40.4
General government balance (as % of GDP)		-1.3	-8.7	-4.4
Balance of payments				
Exports of G&S (in bn USD)		12.1	10.9	8.9
Current account balance (in % of GDP)		2.9	1.6	-4.3
Net inflow of foreign direct investment (in mio USD)		30.0	0.0	0.0
Official FX reserves (end of period)				
in bn USD		1.5	1.5	2.6
in months of imports of G&S		2.0	1.9	2.9
External debt				
External debt		26.3	25.4	26.3
(in convertible currencies, in bn USD, end of period)				
medium and long-term (> 1 year)		25.2	24.6	25.6
short-term (=< 1 year)		1.2	0.8	0.7
Convertible debt service (in bn USD)		9.1	9.1	8.9
principal		6.8	7.0	7.1
interest		2.3	2.1	1.8
External debt/GDP (%)		58.6	53.4	71.0
External debt/exports of G&S (%)		215.6	240.2	312.4
Debt service/exports of G&S (%)		75.0	82.2	49.7
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling (bln US$)		No	No	5.2
IMF arrangements				
Type/no		No	No	- SBA
(Date / -)				(6/94-6/95)
On track/off track				On-Track
				3-year EFF (since May 1995)
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of per.)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
Euromoney			Mar Sep	Mar Sep
Position in the ranking (2)		66	68 79	92 96
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		53 57	62 69	75 78
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (3)		33.1 28.9	28.2 27.1	26.3 24.6

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3
Last update:
27/06/95

Country risk indicators

Country: Belarus

		1992	1993	1994
Real GDP growth rate (in %)		-9.6	-11.6	-20.0
Industrial production (% change)		-10.0	-10.0	-35.0
Unemployment rate (end of period)		0.6	1.5	2.0
Inflation rate	*(Dec/Dec)*	1560	1990	2220
Exchange rate (Rbs per USD)	*(average)*	226	269	3650
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)		-4.5	-8.3	-1.9
Balance of payments.				
Exports (in mio USD)		3580	2941	3073
Current account balance (in % of GDP)		0.7	-8.7	-11.4
Net inflow of foreign direct investment (in mio USD)		na.	18	10
Official FX reserves (end of period)				
in mio USD		8.0	75.0	99.0
in months of imports		na	0.3	0.3
External debt				
External debt		338.0	964.0	1500.0
(in convertible currencies, in mio USD, end of period)				
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service (in mio USD)		n.a.	2.9	197.0
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		7.3	25.0	20.0
External debt/exports of G&S (%)		11.1	33.0	32.0
Debt service/exports of G&S (%)		n.a.	0.1	6.5
Arrears (on both interest and principal, in bn USD)		n.a.	n.a.	493
Debt rescheduling agreement				with Russia on gas arrears
IMF arrangements				
Type/no		-	STF	STF
(Date / -)			(08.93 - 8.94)	(01.95)
On track/off track			Off track	See footnote
(- / Date)			See footnote (4)	(4)
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (1)				
Score (end of period)		Not rated	Not rated	Not rated
Rating (end of period)		Not rated	Not rated	Not rated
Euromoney			Mar Sep	Mar Sep
Position in the ranking (2)		132	148 139	145 138
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)			100	109 109
(number of countries)		– (126)	(127) (133)	(135) (135)
Credit rating (3)				15.5 15.7

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.

(2) The higher the score in the ranking, the lower the creditworthiness of the country.

(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

(4) IMF 1993 STF programme went off track in early 1994. However, IMF staff considered favourably the government programme adopted in Autumn 1994, which it supported with the second STF tranche by end-January 1995 and intends to further support with a stand-by arrangement later in 1995.

II-F-3 Country-risk indicators

Last update: 30-Jun-95

Country: Bulgaria

		1992	1993	1994 Latest data or estimates (E)
Real GDP growth rate (in %)		-7.3	-2.4	1.4
Industrial production (% change)		-11.0	-8.5	4.0
Unemployment rate (end of period)		15.3	16.3	12.9
Inflation rate	*(end of period)*	79.4	63.8	121.9
Exchange rate (Leva per USD)	*(end of period)*	24.5	33.3	66.5
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-15.7	-3.1	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	43.6	59.2	n.a.
General government balance (as % of GDP)		-15.0	-15.7	-6.7
Balance of payments				
Exports of G&S (in bn USD)		4.0	3.7	4.2
Current account balance (in % of GDP)		-9.2	-7.9	2.0 (E)
Net inflow of foreign direct investment (in mio USD)		42	55	n.a.
Official reserves, including gold (end of period)				
in bn USD		1.2	1.0	1.3
in months of imports of G&S		2.8	2.1	2.7
External debt				
External debt		12.5	12.8	10.8
(in convertible currencies, in bn USD, end of period)				
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service (in bn USD)		2.0	1.7	1.0
principal		1.4	1.1	0.5
interest		0.6	0.6	0.4 (E)
External debt/GDP (%)		144.0	124.0	117.0 (E)
External debt/exports of G&S (%)		248.0	249.0	204.6 (E)
Debt service/exports of G&S (%)		39.0	32.0	19.0 (E)
Arrears (on both interest and principal, in bn USD)		6.1	n.a.	n.a.
Debt relief agreements and rescheduling		Paris Club (resched.) London Cl. (roll-overs)	London Club (roll-overs, and DDSR agreed in principle)	London Club DDSR (July) Paris Club resched. (Apr)
IMF arrangements				
Type/no		SBA	No	SBA+STF
(Date / -)		(4/92-4/93)	-	(3/94-3/95)
On track/off track		Off-track	-	
(- / Date)			-	
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (1)				
Score (end of period)		80	80	80 (Aug)
Rating (end of period)		E	E	E (Aug)
Euromoney		Sep	Mar Sep	Mar Sep
Position in the ranking (2)		91	122 125	88 98
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		81 86	91 89	91 95
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (3)		21.1 19.8	18.9 19.5	19.8 20.8

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3 Country-risk indicators
Last update:
30-Jun-95
Country: Czech Republic

		1992	1993	1994
Real GDP growth rate (in %)		-7.1	-0.9	2.6
Industrial production (% change)		-10.6	-5.4	2.3
Unemployment (% of labour force) (end of period)		3.1	3.5	2.8
Inflation rate	*(Dec/Dec)*	12.7	18.2	10.2
Exchange rate (CK's per USD)	*(end of period)*	28.9	29.9	28.2
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-0.1	4.2	0.0
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	14.7	19.3	n.a.
General government balance (as % of GDP)		0.7	0.5	0.1
Balance of payments				
Exports of G&S (in mio USD)		14800	16728	18837
Current account balance (in % of GDP)		0.4	0.5	0.0
Net inflow of foreign direct investment (in mio USD)		983	552	748
Official FX reserves (end of period)				
in bn USD		0.7	3.9	6.2
in months of imports of G&S		1.1	2.8	4.2
External debt (end of period)				
External debt *(in convertible currencies, in bn USD, end of period)*		6.9	8.7	10.3
medium and long-term (> 1 year)		5.1	6.6	7.6
short-term (=< 1 year)		1.8	2.1	2.7
Convertible debt service (in bn USD)		1.4	1.4	2.5
principal		0.8	0.9	n.a.
interest		0.5	0.5	n.a.
External debt/GDP (%)		25.4	27.4	28.5
External debt/exports of G&S (%)		46.8	52.0	54.7
Debt service/exports of G&S (%)		9.1	8.4	13.0
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		SBA	SBA	SBA
(Date / -)		(4/92-4/93)	(3/93-3/94)	
On track/off track		on-track but	On-track	On-track
(- / Date)		expired with dissolution of CSFR		All debts to IMF paid ahead of schedule.
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period) (1)		Ba1	Baa3	Baa2 (Jun)
S&P long-term foreign currency rating (end of period)		Not rated	BBB	BBB+ (Jul)
EIU country risk service (2)				
Score (end of period)		30	25	25 (Aug)
Rating (end of period)		B	B	B (Aug)
Euromoney			Mar Sep	Mar Sep
Position in the ranking (3)		49	48 43	40 39
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor (1)		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)		37 39	42 40	40 39
(number of countries)		(119) (125)	(127) (133)	(135) (135)
Credit rating (4)		47.1 46.1	44.6 46.6	49.7 52.8

(1) For 1992, rating or position in the ranking assigned to the former CSFR.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3 Country-risk indicators

Last update: 30-Jun-95

Country: Estonia

		1992	1993	1994
Real GDP growth rate (in %)		-19.0	-3.5	6.0
Industrial production (% change)		-38.7	-27.0	10.0
Unemployment rate (end of period)		2.0	1.7	4.0
Inflation rate	*(end of period)*	953.5	35.7	41.6
Exchange rate (Krons per USD)	*(end of period)*	11.7	13.2	13.0
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)				
Financial balance (1)		0.8	1.4	0.9
Fiscal balance (1)		-0.3	-0.7	0.0
Balance of payments				
Exports of goods (in mio USD)		446.0	801.0	881.0
Current account balance (in % of GDP) (excl. official transfers)		-0.7	-5.7	-9.0
Net inflow of foreign direct investment (in mio USD)		57.9	160.0	253.0
Official FX reserves (end of period)				
in mio USD		195.2	388	447
in months of goods imports		4.5	4.0	2.8
External debt				
External debt		27	135.5	228.1
(in convertible currencies, in mio USD, end of period)				
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service (in mio USD)		0.3	13.5	10.2
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		4.2	8.6	6.5
External debt/exports of G&S (%)		3.2	1.7	0.5
Debt service/exports of G&S (%)		0.0	1.2	0.7
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		SBA	SBA/STF	SBA/STF
(Date / -)		(9/92-9/93)	(10/93-3/95)	(10/93-3/95
On track/off track		On track	On track	On track
(- / Date)				
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (2)				
Score (end of period)		80	75	70 (Aug)
Rating (end of period)		E	D	D (Aug)
Euromoney		Sep	Mar Sep	Mar Sep
Position in the ranking (3)		117	126 122	105 102
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)		68 74	81 84	88 86
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (4)		25.7 22.1	21.4 20.9	20.7 23.6

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3 Country-risk indicators

Last update: 30-Jun-95

Country: Hungary

		1992	1993	1994
Real GDP growth rate (in %)		-4.4	-2.3	2.0
Industrial production (% change)		-9.8	4.0	9
Unemployment (% of labour force) (end of period)		12.3	12.1	10.9
Inflation rate	*(Dec/Dec)*	24.7	21.1	21.2
Exchange rate (forints per USD)	*(end of period)*	84.0	100.7	111.0
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-5.4	-3.1	-14.3
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	7.9	10.2	0.0
Consolidated state budget balance (as % of GDP) (GFS definition)		-6.6	-7.5	-6.1
Balance of payments				
Exports of G+S (in mio USD)		12300	10371	10219
Current account balance (in % of GDP)		0.9	-9.6	-9.5
Net inflow of foreign direct investment (in mio USD)		1471	2328	1100
Official reserves (end of period)				
in bn USD		4.5	6.7	7.0
in months of imports of merchandises		5.2	7.1	7.4
External debt				
External debt *(in convertible currencies, in bn USD, end of period)*		21.5	24.6	28.5
medium and long-term (> 1 year)		19.2	22.6	26.1
short-term (=< 1 year)		2.3	2.0	2.4
Convertible debt service (in bn USD)		4.7	4.9	6.2
principal (1)		3.1	3.3	4.3
interest		1.6	1.6	1.9
External debt/GDP (%)		58.7	68.0	69.5
External debt/Exports of G+S (%)		174.8	237.2	278.9
Debt service/Exports of G+S (%)		35.0	47.4	60.8
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		EFF	SBA	SBA
(Date / -)		(2/91-2/94)	(9/93-12/94)	First review
On track/off track		Off track	On track	uncompleted
(- / Date)		Summer	-	
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Ba1	Ba1	Ba1
S&P long-term foreign currency rating (end of period)		BB+	BB+	BB+
EIU country risk service (2)				
Score (end of period)		40	50	50 (Aug)
Rating (end of period)		B	C	C (Aug)
Euromoney			Mar Sep	Mar Sep
Position in the ranking (3)		46	47 46	44 46
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)		42 43	43 43	43 44
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (4)		41.7 42.3	44.3 44.8	46.1 46.2

(1) Including early repayments.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3 | Country risk indicators
Last update: 21.06.95
Country: Israël

		1992	1993	1994
Real GDP growth rate (in %)		6.6	3.5	6.5
Industrial production (% change) (at constant 1990 prices)		8.2	6.5	4.7
Unemployment rate (average)		11.2	10.0	7.8
Consumer Price Index	*(Dec/Dec)*	9.4	11.3	14.5
Exchange rate (sheqalim per USD)	*(end of period)*	2.764	2.986	3.018
Nominal effective exchange rate	*(change, Q4/Q4) (- = deprec.)*	-9.7	-6.1	-1.1
Real effective exchange rate	*(change, Q4/Q4) (- = deprec.)*	-4.9	1.8	n.a.
Central government overall deficit (as % of GDP)		-2.4	-2.5	-2.0
Balance of payments				
Exports (in bn USD)		13.3	14.9	14.8
Current account balance (in % of GDP)		0.1	-1.8	3.0
Net inflow of foreign direct investment (in mio USD)		-340	0	156
Gross official FX reserves (end of period) (in months of total imports)				
in billions US$		5.127	6.382	6.689
in months of imports of G&S		2.2	2.4	2.5
External debt				
External debt (gross external liabilities) *(in bn USD, end of period)*		33.6	36.1	37.4
medium and long-term (> 1 year)		23.2	n.a.	n.a.
short-term (=< 1 year)		10.4	n.a.	n.a.
Debt service (in bn USD)		6.5	6.4	n.a.
principal		4.2	4.1	n.a.
interest (gross)		2.3	2.3	n.a.
External debt/GDP (%)		52.3	55.8	n.a.
External debt/exports (%)		252.6	242.3	226.7
Debt service/exports of goods and services (%)		31.0	29.0	n.a.
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		CCFF	No	No
(Date / -)		(3/92-3/93)	-	-
On track/off track		On-track	-	-
(- / Date)		-	-	-
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		BBB-	BBB+	BBB+
Euromoney			Mar Sep	Mar Sep
Position in the ranking (2)		32	29 29	30 00
(number of countries)		(169)	(169) (170)	(167) (000)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		50 52	46 46	46 43
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (3)		37.1 35.1	39.6 40.5	43.4 46.5

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3
Last update:
30-Jun-95

Country-risk indicators

Country: Latvia

		1992	1993	1994
Real GDP growth rate (in %)		-33.8	-12.0	2.0
Industrial production (% change)		-35.1	-32.6	-2.2
Unemployment (end of period)		2.3	5.8	7.0
Inflation rate		958.1	34.8	26.0
Exchange rate (Lats per USD)	*(end of period)*	0.843	0.595	0.548
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)				
Financial balance (1)		0.0	1.0	-1.7
Fiscal balance (1)		-0.8	0.6	-4.1
Balance of payments				
Exports (in mio USD)		825	998	951
Current account balance, excl. official transfers (in % of GDP)		2.3	4.6	-4.6
Net inflow of foreign direct investment (in mio USD)		14	51	155
Official FX reserves (end of period)				
in mio USD		156	510	620
in months of imports of G&S		2.0	5.6	5.5
External debt				
External debt				
(in convertible currencies, in mio USD, end of period)		58	240	370
medium and long-term (> 1 year)		58	240	370
short-term (=< 1 year)		0.0	0.0	0.0
Convertible debt service (in mio USD)		0	20	48.0
principal		0	n.a.	n.a.
interest		0	n.a.	n.a.
External debt/GDP (%)		4.7	11.0	11.0
External debt/merchandise exports (%)		7.0	24.0	38.0
Debt service/merchandise exports (%)		0.0	2.0	5.0
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		SBA	SBA/STF	SBA/STF
(Date / -)		(9/92-9/93)	(12/93-3/95)	(12/93-3/95)
On track/off track		On track	On track	On track
(- / Date)				
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (2)				
Score (end of period)		80	75	75 (Aug)
Rating (end of period)		E	D	D (Aug)
Euromoney		Sep	Mar Sep	Mar Sep
Position in the ranking (3)		123	133 132	104 125
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)		72 77	89 87	94 92
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (4)		23.9 21.4	19.5 20.0	19.6 21.3

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3 Country-risk indicators
Last update: 30-Jun-95
Country: Lithuania

		1992	1993	1994
Real GDP growth rate (in %)		-37.7	-16.2	1.5
Industrial production (% change)		-51.6	-47.0	1.0
Unemployment rate (end of period)		1.3	1.6	2.0
Inflation rate	*(end of period)*	1161.1	188.6	45.0
Exchange rate (Litas per USD)	*(end of period; for 1994, fixed as of 1.4.94)*	1.8	3.9	4.0
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)				
Financial balance (1)		0.6	0.9	-3.0
Fiscal balance (1)		0.7	-4.6	-3.0
Balance of payments				
Exports (in mio USD)		1145	1877	2220
Current account balance (in % of GDP)		3.4	-6.2	-1.6
Net inflow of foreign direct investment (in mio USD)		10	23	60
Official FX reserves (end of period)				
in mio USD		106	410	650
in months of imports of G&S		2.6	2.4	3.5
External debt				
External debt *(in convertible currencies, in mio USD, end of period)*		98.8	345.3	530
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service (in mio USD)		2.0	15.0	25.4
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		5.4	11.2	9.7
External debt/exports of G&S (%)		7.8	16.3	25.0
Debt service/exports of G&S (%)		0.2	0.7	1.0
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		SBA	SBA/STF	STF (10/93-3/94)
(Date / -)		(10/92-9/93)	(10/93-3/94)	EFF (10/94-11/95)
On track/off track		On track	On track	On track
(- / Date)				
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (2)				
Score (end of period)		80	75	75 (Aug)
Rating (end of period)		E	D	D (Aug)
Euromoney		Sep	Mar Sep	Mar Sep
Position in the ranking (3)		118	134 130	110 121
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)		73 80	91 93	97 96
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (4)		23.7 20.7	18.9 19.0	18.4 20.0

(1) Financial balance does not take into account government net lending, whereas fiscal balance does.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3
Last update:
29-Jun-95

Country-risk indicators

Country: Moldova

		1992	1993	1994
Real GDP growth rate (in %)		-29.1	-8.7	-22.2
Industrial production (% change)		-27.10	-7.20	-30.0
Unemployment (% of labour force) (end of period)		n.a.	n.a.	1.0
Inflation rate	*(end of period)*	2198.0	837	116.0
Exchange rate (leu per USD)	*(end of period)*	0.19	3.64	4.27
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)		-23.4	-6.8	-8.1
Balance of payments				
Merchandise exports (in mio USD)		n.a.	451	617
Current account balance (in % of GDP)		-3.4	-9.3	-9.6
Net inflow of foreign direct investment (in mio USD)		n.a.	14.0	23.0
Official FX reserves (end of period)				
in mio USD		2.5	76.6	178.8
in months of imports of merchandises		0.0	1.4	3.0
External debt				
External debt		n.a.	168.0	343.0
(in convertible currencies, in mio USD, end of period)				
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service (in mio USD)		n.a.	5.0	12.3
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		n.a.	23.0	26.0
External debt/ merchandise exports (%)		n.a.	37.3	55.6
Debt service/ merchandise exports (%)		n.a.	1.1	2.0
Arrears (on both interest and principal, in mio USD)		n.a.	No	No
Debt relief agreements and rescheduling		n.a.	No	No
IMF arrangements				
Type/no			SBA	SBA
(Date / -)			(3/93-3/94)	(12/93-3/95)
On track/off track			On-track	On-track
(- / Date)				
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (1)				
Score (end of period)		Not rated	Not rated	Not rated
Rating (end of period)				
Euromoney		Sep	Mar Sep	Mar Sep
Position in the ranking (2)		156	159 160	148 155
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor				
Position in the ranking (2)		Not rated	Not rated	Not rated
(number of countries)				
Credit rating (3)				

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3 Last update: 26-Jun-95

Country-risk indicators

Country: Romania

		1992	1993	1994
Real GDP growth rate (in %)		-13.6	1.3	3.4
Industrial production (% change)		-22.1	7.7	9.9
Unemployment rate (end of period)		8.4	9.9	10.9
Inflation rate	*(Dec/Dec)*	198.5	295.5	61.7
Exchange rate (lei per USD)	*(end of period)*	460	1276	1767
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-74.6	-56.9	-29.4
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	-24.0	39.7	n.a.
General government balance (as % of GDP)		-4.8	-0.1	-4.4
Balance of payments				
Exports of G&S (in mio USD)		4299	4882	5998
Current account balance (in % of GDP)		-8.8	-5.5	-3.5
Net inflow of foreign direct investment (in mio USD)		73	48	340
Official FX reserves (end of period)				
in mio USD		93	52	591
in months of imports of G&S		0.2	0.1	1.5
External debt				
External debt		3.5	4.7	4.9
(in convertible currencies, in bn USD, end of period)				
medium and long-term (> 1 year)		2.4	3.3	4.5
short-term (=< 1 year)		1.1	1.4	0.4
Convertible debt service (in mio USD)		176	312	449.0
principal		85	147	224.0
interest		91	165	225.0
External debt/GDP (%)		18.1	21.4	23.5
External debt/exports of G&S (%)		95.1	129.6	81.7
Debt service/exports of G&S (%)		4.1	6.4	10.0
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		SBA	No	SBA/STF
(Date / -)		(5/92-3/93)	-	(5/94-12/95)
On track/off track		Off track	-	On track
(- / Date)		Dec 92	-	
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (1)				
Score (end of period)		60	65	65 (Aug)
Rating (end of period)		D	D	D (Aug)
Euromoney			Mar Sep	Mar Sep
Position in the ranking (2)		72	66 75	74 77
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)		69 68	73 75	76 74
(number of countries)		(119) (126)	(127) (133)	(135) (135)
Credit rating (3)		25.6 24.8	24.2 24.4	25.4 26.2

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

II-F-3
Last update:
30.06.95

Country risk indicators

Country: Russia

	1992	1993	1994
Real GDP growth rate (in %)	-19.0	-12.0	-15.3
Industrial production (% change)	-18.4	-16.4	-21.0
Unemployment rate (end of period)	n.a.	5.1	7.1
Inflation rate *(Dec/Dec)*	2300	840	203
Exchange rate (Rbs per USD) *(end of period)*	414.5	1247	3571
Nominal exchange rate *(change, Q4/Q4) (- = depreciation)*	(Q4/Q1) -55.6	-62.5	n.a.
Real exchange rate (5) *(change, Dec./Dec.) (- = depreciation)*	-68.7	-66.9	-2.2
General government balance (as % of GDP)	-18.8	-7.7	-11.5
Balance of payments (6)			
Exports of G&S (in bn USD)	57	58	66
Current account balance (in % of GDP)	-1.2	1.6	-0.4
Net inflow of foreign direct investment (in bn USD)	0.7	0.7	-0.2
Official FX reserves (end of period) (excluding gold) (net figures)			
in mio USD	2.0	6.4	2.3
in months of imports of G&S	0.5	1.3	0.4
External debt (7)			
External debt *(in convertible currencies, in bn USD, end of period)*	78.7	104.0	119.0
medium and long-term (> 1 year)	65.7	n.a.	n.a.
short-term (=< 1 year)	13.0	n.a.	n.a.
Convertible debt service (in bn USD) (before rescheduling)	15.6	19.4	19.9
principal	10.4	14.7	14.2
interest	5.2	4.7	5.7
External debt/GDP (%)	24.0	31.0	40.0
External debt/exports of G&S (%)	137.0	178.0	180.0
Debt service/exports of G&S (%) (before rescheduling)	25.0	34.0	31.0
Arrears (on both interest and principal, in bn USD)	11.8	11.0	n.a.
Debt relief agreements and rescheduling	Paris Club (deferrals) London Club (roll-overs)	Paris Club (resched.) (roll-overs)	Paris Club (resched.) (roll-overs)
IMF arrangements			
Type/no	1st credit tranche	STF	STF (4)
(Date / -)		(07.93 - 07.94)	(07.93 - 07.94)
On track/off track		Off track	Off track
(- / Date)			
Indicators of market's perceived creditworthiness			
Moody's long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)	Not rated	Not rated	Not rated
EIU country risk service (1)			
Score (end of period)	95	95	90 (Aug)
Rating (end of period)	E	E	E (Aug)
Euromoney		Mar Sep	Mar Sep
Position in the ranking (2)	129	141 137	138 136
(number of countries)	(169)	(169) (170)	(167) (167)
The Institutional Investor	Mar Sep	Mar Sep	Mar Sep
Position in the ranking (2)	– 73	87 92	98 100
(number of countries)	– (126)	(127) (133)	(135) (135)
Credit rating (3)	– 23.6	20.2 19.0	18.1 18.4

(1) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk
(2) The higher the score in the ranking, the lower the creditworthiness of the country.
(3) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.
(4) Second tranche (1.5 bn USS) disbursed in April 94.
(5) Real exchange rate: (USD/rouble rate x US price level) / (Russian price level)
(6) 1992 excluding FSU transactions, 1993-1994 including FSU transactions
(7) 1993 and 1994 data are not comparable with 1992 data. 1992 data do not include debts to former socialist countries

II-F-3 Country-risk indicators

Last update: 30-Jun-95

Country: Slovak Republic

		1992	1993	1994
Real GDP growth rate (in %)		-7.0	-4.1	4.8
Industrial production (% change)		-12.8	-8.6	7.0
Unemployment (% of labour force) (end of period)		10.4	14.4	14.6
Inflation rate	*(Dec/Dec)*	9.1	25.1	11.7
Exchange rate (SK's per USD)	*(end of period)*	28.9	33.2	31.3
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	0.5	-1.8	2.4
General government balance (as % of GDP)		-13.1	-7.6	-2.7
Balance of payments				
Exports of G&S (in mio USD)		8219	7568	8983
Current account balance (in % of GDP)		-0.4 (5)	-5.4	6.0
Net inflow of foreign direct investment (in mio USD)		100	134	184
Official FX reserves (end of period)				
in mio USD		356	395	1725
in months of imports of G&S		0.5	0.6	0.4
External debt				
External debt		2.8	3.4	3.9
(in convertible currencies, in bn USD, end of period)				
medium and long-term (> 1 year)		2.1	n.a.	n.a.
short-term (=< 1 year)		0.4	n.a.	n.a.
Convertible debt service (in mio USD)		271	674	791
principal		167	490	n.a.
interest		104	184	n.a.
External debt/GDP (%)		25.7	30.8	31.1
External debt/exports of G&S (%)		31.2	44.5	43.4
Debt service/exports of G&S (%)		3.3	8.9	8.8
Arrears (on both interest and principal, in mio USD)		No	No	No
Debt relief agreements and rescheduling		No	No	No
IMF arrangements				
Type/no		SBA	STF	STF
(Date / -)		(4/92-4/93)	(7/93 -)	(- 7/94)
On track/off track		on-track but expired with dissolution of CSFR	On-track	
(- / Date)				SBA (7/94-3/96) On-track (6)
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period) (1)		Ba1	Not rated	Baa3 (May)
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	BB+ (Apr)
EIU country risk service (2)				
Score (end of period)		Not rated	Not rated	50 (Aug)
Rating (end of period)		Not rated	Not rated	C (Aug)
Euromoney			Mar Sep	Mar Sep
Position in the ranking (3)		58	56 63	64 66
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor (1)		Mar - Sep	Mar - Sep	Mar Sep
Position in the ranking (3)		37 39	57 57	59 59
(number of countries)		(119) (125)	(127) (133)	(135) (135)
Credit rating (4)		47.1 46.1	31 30.6	31.6 33.1

(1) For 1992, rating or position in the ranking assigned to the former CSFR.
(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk.
(3) The higher the score in the ranking, the lower the creditworthiness of the country.
(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.
(5) After fiscal transfers from the Czech lands, estimated at about 7% of Slovak GDP.
(6) The mid-term review of the programme, which began in February 1995, has not been completed yet.

II-F-3 Last update: 23.06.95	Country risk indicators	Country: Ukraine		
		1992	1993	1994
Real GDP growth (% change)		-17.0	-17.1	23.0
Industrial production (% change)		-6.5	-8.5	-35.6
Unemployment rate (end of period)		0	0.3	0.3
Inflation rate	*(Dec/Dec)*	2000	10155	401
Exchange rate (Krb per USD)	*(end of period)*			
- auction / interbank		638	12610	108196
- cash		749	25000	128000
Nominal effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
Real effective exchange rate	*(change, Q4/Q4) (- = depreciation)*	n.a.	n.a.	n.a.
General government balance (as % of GDP)		-30.4	-10.1	-8.6
Balance of payments				
Exports of G&S (in bn USD)		15.9	14.4	14.8
Current account balance (excl. transfers) (in % of GDP)		-3.5	-5.9	-6.0
Net inflow of foreign direct investment (in bn USD)		n.a.	0.2	0.09
Gross official FX reserves (end of period)	in mio USD	-	193	646
	in months of imports of G&S	-	0.2	0.6
External debt				
External debt				
(in convertible currencies, in bn USD, end of period)		3.5	4.1	7.1
medium and long-term (> 1 year)		n.a.	n.a.	n.a.
short-term (=< 1 year)		n.a.	n.a.	n.a.
Convertible debt service paid (in mio USD)		14	202	1794
principal		n.a.	n.a.	n.a.
interest		n.a.	n.a.	n.a.
External debt/GDP (%)		17.2	12.1	29.2
External debt/exports of G&S (%)		22.0	28.5	48.0
Debt service/exports of G&S (%)		0.1	1.3	12.4
Arrears (on both interest and principal, in mio USD)		264	548	2722
Debt relief agreements and rescheduling				rescheduling of debt owed to Turkmenistan
IMF arrangements				
Type/no		-	-	STF (1)
(Date / -)				26 Oct 94
On track/off track				On track
(- / Date)				
Indicators of market's perceived creditworthiness				
Moody's long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
S&P long-term foreign currency rating (end of period)		Not rated	Not rated	Not rated
EIU country risk service (2)				
Score (end of period)		100	100	100 (Aug)
Rating (end of period)		E	E	E (Aug)
Euromoney			Mar Sep	Mar Sep
Position in the ranking (3)		122	142 146	149 147
(number of countries)		(169)	(169) (170)	(167) (167)
The Institutional Investor		Mar Sep	Mar Sep	Mar Sep
Position in the ranking (3)		– 79	95 96	111 113
(number of countries)		– (126)	(127) (133)	(135) (135)
Credit rating (4)		– 21.1	18.2 18.2	15.1 14.5

(1) In April 1995 complemented by a stand-by arrangement.

(2) Countries are given a rating between A - E and a score between 1 - 100, with E and 100 representing the highest risk

(3) The higher the score in the ranking, the lower the creditworthiness of the country.

(4) Countries are rated on a scale of zero to 100, with 100 representing the least chance of default. A given country may improve its rating and still fall in the ranking if also the average global rating for all rated countries improves.

TABLE 1

CAPITAL OUTSTANDING IN RESPECT OF OPERATIONS DISBURSED
(ECU million)

Operation	Authorized ceiling	Capital outstanding 31.12.94	Capital outstanding 30.06.95	Remainder to be disbursed 30.06.95
MEMBER STATES				
A. Balance of payments	14000			
1. Greece I	1750			0
2. Greece II	2200	1000	1000	1200 1)
3. Italy	8000	4022	4071	4000 2)
B. Others				
4. Euratom	4000	779	741	0
5. NCI and NCI earthquakes	6830	1570	1289	0
6. EIB Mediterranean, Spain, Greece, Port.	1500	473	439	0
MEMBER STATES - TOTAL	26330	7843	7540	5200
THIRD COUNTRIES				
A. Financial assistance				
1. Hungary	1050	790	440	260
2. Czech Republic	250	250	250	0
3. Slovak Republic	255	125	125	130
4. Bulgaria	400	360	360	40
5. Romania	580	455	455	125
6. Algeria	600	400	400	200
7. Israel	160	160	160	0
8. Baltic States	220	110	110	110
9. Moldova	45	25	25	20
10. Ukraine	85			85
11.Belarus	75			75
12. Former Soviet Union	1250	810	702	233
B. Other				
13. EIB Mediterranean	6282	1688	1756	3645
14. EIB Central & E. Europe I	1700	572	658	1035
15. EIB Central & E. Europe II	3000	2	24	2976
16. EIB Asia, Latin America	750	46	107	643
17.South Africa	300			300
18. Guarantee, CIS	500	133	0	
THIRD COUNTRIES - TOTAL	17502	5925	5572	9877
GRAND TOTAL	43832	13769	13111	15077

1) No disbursement is planned.
2) The third and fourth tranches had still not been paid at 30.06.95. So far, the Italian Government has not requested payment.

ANNEX TO TABLE 1

SITUATION IN RESPECT OF EIB OPERATIONS (30.06.95)

Operations	Credit line authorized	Loans made available, minus cancellations	Initial disbursement	Amount outstanding at 30.06.1995
EIB Mediterranean, Spain, Greece, Port.	1500	1465	1612	439
Third countries EIB Med.	6282	4287	2637	1756
Central & Eastern Europe I	1700	1647	665	658
Central & Eastern Europe II	3000	1051	24	24
Asia, Latin America	750	344	107	107

NB: The fact that the initial disbursement sometimes exceeds the authorized ceiling is due to differences in the ecu rate between the date on which the contracts were signed and 30.06.95.

TABLE 2
MAXIMUM ANNUAL RISK BORNE BY THE COMMUNITY BUDGET
(Estimate in ECU million based on all operations disbursed at 30.06.1995)

	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece		500		500					1000
2. Italy		500		1012		2559			4071
B. Structural loans									
3. Euratom	47	154	440	93	16	13			763
4. NCI and NCI EQ	458	305	545	90	42	42	71		1554
5. EIB Med. Old. Prot. Sp. Gr. Port	81	76	75	59	52	46	21	23	432
Capital - subtotal	587	1535	1060	1754	110	2659	92	23	7820
INTEREST									
A. Balance of payments									
1. Greece	95	95	48	48					285
2. Italy	254	257	216	216	161	161			1266
B. Structural loans									
3. Euratom	62	57	41	10	3	1			175
4. NCI and NCI EQ	133	96	70	21	13	10	7	2	352
5. EIB Med. Old. Prot. Sp. Gr. Port	41	34	27	21	15	11	7	6	163
Interest - subtotal	586	539	403	316	192	184	14	7	2240
MEMBER STATES - TOTAL	1173	2073	1463	2070	303	2843	106	30	10060
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
6. Hungary	350	260	80	100					790
7. Czech Republic			127	123					250
8. Slovak Republic			63	62					125
9. Bulgaria			140	150			70		360
10. Romania				185	190	80			455
11. Israel			160						160
12. Algeria			250				150		400
13. Ex USSR	556	205	161						922
14. Baltic States						110			110
15. Moldova						5	5	5	15
B. Guarantees									
16. EIB Mediterranean	139	137	143	157	158	148	136	128	1146
17. EIB C+E Eur. I + II	14	27	36	50	63	63	63	63	379
18. EIB Asia Latin America			11	14	14	15	15	15	84
19. Aid, Russia 500m	133								133
Capital - subtotal	1192	628	1171	841	426	420	439	211	5329
INTEREST									
A. Financial assistance									
6. Hungary	79	44	18	10					151
7. Czech Republic	25	25	25	13					88
8. Slovak Republic	13	13	13	6					45
9. Bulgaria	36	36	36	22	7	7	7		151
10. Romania	46	46	46	46	27	8			219
11. Israel	16	16	16						48
12. Algeria	40	40	40	15	15	15	10		175
13. Ex USSR	112	15	9						136
14. Baltic States	11	11	11	11	11	11			66
15. Moldova	3	3	3	3	3	3	2	2	25
B. Guarantees									
16. EIB Mediterranean	120	118	108	97	86	75	65	55	724
17. EIB C+E Eur. I + II	39	47	45	42	38	34	29	25	300
18. EIB Asia Latin America	3	3	3	3	3	3	2	2	23
19. Aid, Russia 500m	9								9
Interest - subtotal	552	417	373	268	190	155	116	83	2159
NON-MEMBER COUNTRIES - TOTAL	1744	1045	1543	1110	616	575	555	294	7488
GRAND TOTAL	2916	3119	3006	3180	918	3418	661	324	17549
(Eastern Europe)	1426	731	812	823	339	320	177	94	4727
(Other non-member countries)	318	314	732	287	277	256	378	200	2761

TABLE 3

MAXIMUM THEORETICAL ANNUAL RISK BORNE BY THE COMMUNITY BUDGET

(Estimate in ECU million based on all operations disbursed, adopted and proposed by the Commission)

	1995	1996	1997	1998	1999	2000	2001	2002	TOTAL
MEMBER STATES									
CAPITAL									
A. Balance of payments									
1. Greece		500		500					1000
2. Italy		500		1012		2559	2000	2000	8071
B. Structural loans									
3. Euratom + NCI	505	459	985	183	59	55	71		2317
4. EIB Sp,Gr,Port	81	76	75	59	52	46	21	23	432
Capital - subtotal	587	1535	1060	1754	110	2659	2092	2023	11820
INTEREST									
A. Balance of payments									
1. Greece	95	95	48	48					285
2. Italy	383	595	638	638	553	553	340	170	3869
B. Structural loans									
3. Euratom + NCI	196	153	112	31	16	11	7	2	527
4. EIB Sp,Gr,Port	41	34	27	21	15	11	7	6	163
Interest - subtotal	715	877	824	737	584	575	354	177	4843
MEMBER STATES - TOTAL	1302	2411	1884	2492	694	3235	2446	2200	16663
NON-MEMBER COUNTRIES									
CAPITAL									
A. Financial assistance									
5. Hungary	350	260	80	100				260	1050
6. Czech Republic			127	123					250
7. Slovak Republic			63	62				65	190
8. Bulgaria			140	150			70	80	440
9. Romania				185	190	80		125	580
10. Israel			160						160
11. Algeria			250				150	200	600
12. Ex USSR	556	205	161						922
13. Baltic States						110		110	220
14. Moldova						5	9	9	23
15. Ukraine							37	57	94
16.Belarus							8	15	23
17. Euratom, C+E Eur.						10	23	40	73
B. Guarantees									
18. EIB Mediterranean	139	137	143	210	292	386	439	477	2223
19. EIB C+E Eur. I + II	14	27	36	112	210	315	366	397	1477
20. EIB Asia Latin America			11	22	35	52	62	69	251
21.South Africa				1	6	13	21	25	66
22. Aid, Russia 500m	133								133
Capital - subtotal	1192	629	1171	965	733	971	1185	1929	8775
INTEREST									
A. Financial assistance									
5. Hungary	92	70	44	36	26	26	26		320
6. Czech Republic	25	25	25	12					87
7. Slovak Republic	16	22	26	20	14	13	13	13	136
8. Bulgaria	40	44	44	30	15	15	15	8	211
9. Romania	52	58	58	58	40	21	13	13	311
10. Israel	16	16	16						48
11. Algeria	50	60	60	35	35	35	35	20	330
12. Ex USSR	127	24	18						169
13. Baltic States	17	22	22	22	22	22	11	11	149
14. Moldova	4	5	5	5	5	5	4	3	33
15. Ukraine	7	24	29	29	29	29	29	25	198
16.Belarus	2	8	8	8	8	8	8	7	54
17. Euratom, C+E Eur.	10	30	50	70	88	101	106	102	557
B. Guarantees									
18. EIB Mediterranean	153	230	331	416	458	461	440	408	2897
19. EIB C+E Eur. I + II	85	172	284	369	399	389	354	316	2368
20. EIB Asia Latin America	5	17	35	50	58	58	53	48	324
21.South Africa	1	4	11	20	23	29	28	26	142
22. Aid, Russia 500m	9								9
Interest - subtotal	709	830	1064	1178	1218	1210	1134	999	8342
NON-MEMBER COUNTRIES - TOTAL	1901	1459	2235	2143	1951	2181	2318	2928	17116
GRAND TOTAL	3203	3870	4119	4635	2645	5416	4764	5128	33779
(Eastern Europe)	1537	995	1218	1389	1044	1147	1090	1655	10075
(Other non-member countries)	364	464	1017	754	907	1034	1228	1273	7041

EXPLANATORY NOTES

The purpose of these tables is to show the annual repayments of capital and interest in respect of borrowing and lending operations for which the risk is covered by the Community budget. The figures show the maximum possible risk for the Community in respect of these operations and must not be read as meaning that these amounts will actually be drawn from the budget. In the case of Table 3, it is not certain that all the operations described will actually be disbursed. No account has been taken of interest on late payment or any additional costs such as lawyers' fees.

I. TYPES OF OPERATION AND PAYMENT OF THE BUDGET GUARANTEE

A. TYPES OF OPERATION

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

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

(a) 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).

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.

(b) Guarantees given to third parties

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

B. MOBILIZATION OF FUNDS FOR GUARANTEE PAYMENTS

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

(a) Borrowing/lending operations

1. The amount required may be taken provisionally from cash resources in accordance with Article 12 of the Financial Regulation. 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.

2. 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.

3. The transfer procedure can be used to provide the budget heading with the appropriations needed to cover the default. This method is used when there are insufficient appropriations in the Guarantee Fund and must be authorized in advance by the budgetary authority.

4. 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.

(b) Community guarantees for loans from the EIB's own resources

Since the entry in 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 authorize 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.

II. CALCULATION

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

Generally speaking, the exchange rates for loans in currencies other than the ecu are assumed to have been stable since 30 June 1995. However, borrowing and lending operations should not involve exchange risks for the Community. Unless otherwise stated, the average rate of interest is estimated at 10%. This rate is probably a little high for EIB loans, which often attract interest subsidies under the protocols.

A. MEMBER STATES

1. Greece: A balance-of-payments loan of ECU 2 200 million has been authorized. ECU 1 000 million of this amount has been disbursed in two tranches of ECU 500 million to be repaid in 1996 and 1998 respectively. It is assumed that the remaining ECU 1 200 million will not be disbursed.

2. Italy: The Council decision of 18 January 1993 granted a ECU 8 000 million balance-of-payments loan to Italy. The loan is to be made available in four instalments amounting to ECU 2 000 million each and - with the exception of the first instalment - is conditional on the attainment of agreed targets on Italy's public debt and deficit.

   The first two instalments were released in 1993. Concerning the coming period, the Council Decision states that the third instalment could be released as of 1 February 1995 (but the Italian Government has not yet applied for it). The fourth instalment may be released not earlier than 1 February 1996.

   If the Italian Government decides to apply for the release of the third and fourth instalments and the conditions are deemed to be fulfilled ECU 2 000 million in 1995 and ECU 2 000 million in 1996 will be disbursed to the Italian Republic.

3. EIB, Mediterranean, old protocols: Spain, Greece, Portugal: These are Community guarantees for EIB operations in these countries prior to accession. The amounts are now final, since all the loans authorized have been disbursed.

B. NON-MEMBER COUNTRIES

A. FINANCIAL ASSISTANCE

1. Hungary I: The amounts of the first two tranches are final and certain. The third tranche of the macrofinancial assistance decided in 1990 could be disbursed in the second half of 1995. The first tranche was repaid by Hungary in full on 20 April 1995.

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

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

   ECU 130 million has been granted to Slovakia in two tranches for a maximum term of seven years (bullet). It is assumed that the full ECU 130 million will be disbursed in 1995.

   No tranche had been paid at 30 June 1995.

4. Bulgaria I: ECU 290 million has been granted in two tranches for a maximum term of seven years (bullet), with a first tranche of ECU 150 million for a term of seven years and a second tranche of ECU 140 million for a term of five years.

5. Bulgaria II: The financial assistance of ECU 110 million over a maximum period of seven years decided in 1992 is being granted in two tranches. The first tranche of ECU 70 million was paid on 7 December 1994. The second tranche could be paid in the course of 1995.

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

7. Romania II: The new operation involving ECU 80 million for a maximum term of seven years was disbursed in 1993.

8. Romania III: This is a seven-year loan of ECU 125 million to be disbursed in two tranches. No tranche had been disbursed at 30 June 1995. It is assumed that ECU 55 million and ECU 70 million will be paid out.

9. Moldova: This is a ten-year loan of ECU 45 million to be disbursed in two tranches. The first tranche of ECU 25 million was disbursed on 7 December 1994. The second tranche of ECU 20 million could be paid to Moldova in the second half of 1995.

10. Ukraine: ECU 85 million is to be lent in one tranche for a maximum term of ten years. At 30 June 1995 the loan had still not been paid out.

11. Baltic States: The first tranche (ECU 110 million) of a loan of ECU 220 million was paid in 1993. The second should be paid in

1995. The two tranches would then be due for repayment in 2000 and 2002 respectively.

12. Algeria: ECU 400 million has been granted in two tranches of ECU 250 million and ECU 150 million. The first was paid in December 1991 for a term of six years.

    The second tranche of ECU 400 million was paid on 17 August 1994.

13. Algeria II: ECU 200 million has been granted in two tranches for a maximum term of seven years (bullet). It is assumed that the full ECU 200 million will be disbursed in 1995. No tranche had been paid at 30 June 1995.

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

B. *GUARANTEES*

1. EIB

   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).

   In the case of loans not disbursed, we have assumed that an average of 10% of the loan will be disbursed in the year of signature and 30% in each of the three following years.

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

2. Food aid for the former Soviet Union

   (a) Guarantee

   This is a guarantee for a bank loan of ECU 500 million, with principal and interest fully covered by the budget, for a term of three and a half years with three repayments at intervals of eleven months starting from the twentieth month. ECU 375 million has been used.

   (b) Borrowing/lending

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

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

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

The balance still to be used at 30 June 1995 came to ECU 233 million.

3. <u>Euratom, countries of Central and Eastern Europe</u>

Of the ECU 1 100 million involved, it is assumed that ECU 200 million will be disbursed in 1995, ECU 200 million in each of the three following years and ECU 150 million in 1999 and 2000.

It is assumed that the loans will be for an average term of twenty years with a five–year period of grace.

ANNEX

DEFINITION OF FIGURES USED IN THE REPORT

A. AUTHORIZED CEILING

This is the aggregate of the maximum amounts of capital authorized (ceilings) for each operation decided by the Council (see Table 1).

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

The breakdown of authorizations is as follows:

Member States

Balance of payments	14 000	2
NCI	6 830	
Euratom	4 000	3
EIB; Spain, Greece, Portugal	1 500	
Member States - total	26 330	

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

3 Including ECU 1 100 million which may be granted to the countries of Eastern Europe and the CIS.

Non-member countries

Hungary I	870
Hungary II	180
Czech Republic	250
Slovak Republic I	125
Slovak Republic II	130
Bulgaria I	290
Bulgaria II	110
Romania I	375
Romania II	80
Romania III	125
Israel	160
Algeria I	400
Algeria II	200
former Soviet Union I	408
former Soviet Union II	1 250
Baltic States	220
Moldova	45
Ukraine	85
Belarus	75
EIB, old protocols	3 032
EIB, Eastern and Central Europe I	1 700
EIB, Eastern and Central Europe II	3 000
EIB, new protocols	1 450
EIB, horizontal financial cooperation	1 800
South Africa	300
Other non-member countries	750
Non-member countries - total	17 410
Grand total	43 740

B. CAPITAL OUTSTANDING

This is the amount of capital still to be repaid on a given date in respect of operations disbursed (see Table 1).

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

C. ANNUAL RISK

Estimated amount of principal and interest due each financial year.

This amount is calculated for:

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

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