

Conference

Macro- and Micro-Economic Forecasting



Friday May 24th 1991

The conference on "Macro- and Micro-Economic Forecasting" is meant for practitioners and academicians. We have tried to bring together theoreticians and users of forecasting methods and forecasting results, either as a speaker or as a discussant, in three main areas of the economy:

- i) on the economic level of a country (Belgium, The Netherlands) or of the European Community;
- ii) on the sectoral level (building, pharmaceutical industry and electricity);
- iii) on national and international financial markets.

Speakers/discussants (a.o.):

F. Bossier (Planning Bureau), G. D'Alcantara (K.U. Leuven and UFSIA), P. De Grauwe (K.U. Leuven), J. Dekeveler (Electrabel), H. Delebeck (UFSIA), F. den Butter (Free Univ. Amsterdam), M. Dombrecht (N.B.B. and UFSIA), F. Don (Central Planning Bureau), E. Gijsbrechts (UFSIA), A. Italianer (EC-DGII), H. Meersman (UFSIA), P. Naert (INSEAD), J. Plasmans (UFSIA and K.U. Brabant), H. Sneessens (U.C.L.), A. Van Poeck (UFSIA), R. Van Straelen (UFSIA), A. Verbruggen (UFSIA), J. Verfinden (Planning Bureau)

Members of Round Table Discussion (in Dutch language):

P. Coene (DRI), P. De Gerssem (GOM-Antwerpen), J. Plasmans, A. Verplaetse (N.B.B.), A. Vleminckx (Generale Bank)

For information: please contact SESO-secretariat:

SESO, Prinsstraat 13, B 2000 Antwerpen (Belgium)
tel.: 03/220.49.94 - fax: 03/220.44.20

Andrea Mogni *

Structural Adjustment, Market-Oriented Reforms and Foreign Debt in Central and Eastern Europe: An Overview

The strategy of extensive economic development on the basis of centrally directed mobilisation of resources permitted Central-Eastern European countries to reach a very high growth rate in the early years of central planning. Over the past years, however, both the scope for growth and the ability to direct increasingly complex economies have diminished. This has resulted in waste of resources, slow technological progress and an inadequate growth rate and, together with the desire for political freedom and free enterprise, has given birth to a strong impetus for political and economic reforms in Eastern Europe. During the 80s, largely due to relaxed bank rules and rather optimistic approaches from official creditors, the external hard currency debt of Central and Eastern European countries has expanded dramatically. The casting off of communist party rule has not automatically unlocked doors to new money in the form of private debt finance without Western official guarantee. Nonetheless banks are currently under pressure to release new money or to reduce existing claims. On the other hand official creditors are considering further rescheduling and at the same time stabilisation and restructuring programmes should continue. Each country in this region should give full priority to financial stabilisation, a more effective monetary policy and new mechanisms to address the external debt problem in order to maintain an overall acceptable degree of creditworthiness on the international capital markets.

* EC Commission. The author wishes to acknowledge the useful advice and suggestions made by Mr J.F. Pons, Director of Monetary Affairs, Mr E. Larsen, Head of Division, International Financial Affairs and Mr de Largentaye, Economist, EC Commission. Of course, the author is solely responsible for the content of this paper. The views expressed do not necessarily reflect the official EEC position on this issue.

I. Introduction

Starting from the mid-70s but more clearly during the 80s the overall economic inefficiency and mismanagement in Central and Eastern European countries became more and more evident with a sluggish economic growth rate, a steady decline in capital and labour productivity, growing balance of payments difficulties, insufficient investment/GDP ratios, improper use of funds (often mobilized to finance unproductive and uneconomic initiatives), a low degree of technological innovation associated with a progressive erosion in international competitiveness¹.

As a result of these constraints in the 80s standards of living and social conditions of the local population have fallen remarkably, to reach in some cases even critical levels.

One of the most worrisome aspects of the stagnation and crisis of the economic systems in Central and Eastern Europe is represented by the considerable expansion in the level of hard currency foreign debt². This negative trend, which has accelerated over the past few years, now obliges each country in the region to divert larger and larger amounts of hard currency reserves from badly needed investment to debt servicing purposes.

To cope with these constraints mainly of structural and "systemic" nature, almost all the Central-Eastern European countries started or in some cases accelerated the economic reform and adjustment process aimed at meeting the most compelling needs. Main medium term strategies adopted over the past few years by each country with, however, different intensities, include the following:

- a scrapping of the central planning mechanism with a decentralisation in decision making, essentially as regards resources allocation mechanisms and management in industry and public services;

¹ Excluding USSR and Albania, the combined population in Central-Eastern Europe currently amounts to 136 million, 2.5% of the world total. According to some estimates formulated by the Institute of International Finance, their aggregate output in 1989, valued at official exchange rate, was 425 bn US\$. This represents less than 10% of the output of the European Community. The economies of the region are poorly integrated into the world economy (in 1988 their total trade was about 4% of the total world exports and imports). The convertible currency trade of these countries accounts for less than 40% of their combined total.

² These countries also have important ruble-denominated debit-credit relations, for which it is difficult to gather reliable data. For sake of convenience our analysis will examine only the Central-Eastern European foreign debt denominated in hard currency.

- b progressive introduction of a market-determined price structure and market-based economic principles with progressive reduction of subsidies at production, consumption and import-export levels;
- c progressive privatisation of state properties;
- d sectoral restructuring and adjustment (finance, industry, banking, transports, social services etc.);
- e macroeconomic stabilisation;
- f reorientation of foreign trade from Comecon to Western markets;
- g political reforms aimed at introducing Western-style pluralism and democracy.

In some countries such as Poland, Hungary, and Yugoslavia these reforms have already been worked out and are currently under implementation with first positive effects. In the case of Czechoslovakia and Bulgaria they have been just announced for possible implementation in 1991. In the case of Rumania and USSR itself the debate among the economic reformers and the local political leadership is currently still under way.

Against this general background the main objective of this paper is to examine in particular the external debt constraint of the various Central-Eastern European countries, to identify the main causes of its expansion over the past few years and at last to assess its impact on the overall reserve and liquidity position in each country in the region in the next few years, i.e. during the most delicate phase of transition and adjustment towards the establishment of a market economy.

As regards the statistical base available, great care must be taken in selecting and interpreting the economic data of the region. Many figures in fact remain classified or simply need to be estimated due to the improper and unstandardised coverage and methodology used.

In this respect and with particular reference to the debt situation in the region, this analysis is based upon estimates formulated by Plan. Econ. Institute, Washington D.C., in January 1990³. This Institute specialises in economic analysis of Eastern Europe and provides regular estimates on major macroeconomic indicators using modelling and simulation techniques. Its estimates and forecasts are regularly updated, to take into consideration the local changing economic environment. However, medium term projections provided by this Institute should be taken

³ Plan. Econ., *Centrally Planned Economies - outlook for foreign trade and finance*, Washington D.C., January 1990.

with prudence. They only indicate a likely trend on medium term basis. In perspective more uniform and acceptable figures will be provided by the IMF, since Czechoslovakia and Bulgaria also joined this Institution, late September 1990.

For sake of convenience it is also probably worth mentioning that statistics on hard currency debt in Central-Eastern Europe in general include figures on credits from Western commercial banks (reporting to the Bank for International Settlements – BIS) net of Eastern assets with Western banks, official government guaranteed export credits (the intra-German “swing” credit facility is included in Plan. Econ. statistics), the so-called “unguaranteed supplier credits”, credits extended by the IMF and World Bank to its member countries in the region, bonds issued on international capital markets as well as minor intra Comecon trade credit-debit positions settled in convertible currency.

II. Recent Debt Evolution in Central and Eastern European Countries

During the 1980s the *total external hard currency debt stock* in Central-Eastern European countries (USSR included) expanded significantly, from 97.3 bn USD in 1984 to 167.2 bn as of end of 1989. If USSR is excluded the total debt stock of Central-Eastern European countries increased from 74.8 bn US\$ in 1984 to 115.3 bn in 1989. However, if reserves are considered, the *net debt* of the area (including USSR) increased from 72.8 bn in 1984 (61.6 bn without USSR) to 126.9 bn in 1989 (91.5 bn without USSR).

The total *debt service/export ratio* in Central-Eastern Europe (with USSR) shifted from 30.0% in 1984 (45.4% if USSR is excluded) to 31.6% in 1989 (39.2% without USSR). On the other hand the *gross debt / export ratio* of the area (including USSR) expanded from 131.8 % in 1984 (189.9% without USSR) to 205.2% in 1989 (238.7% if USSR is excluded)⁴.

As regards the *debt structure* of the area as of end of 1989; some 80.7% of the total gross debt, including USSR, was a medium-long term one (87.1% without USSR) and the 19.3% balance (12.9% without USSR) a short term one. In terms of *breakdown by creditors* to Eastern Europe (me-

⁴ These figures show just a trend and have to be taken prudently due to devaluation policies under way in almost all Eastern European countries as well as the several debt reschedulings of the past few years.

dium long term debt only), as of end of 1989 some 51.1% of debt was owed to private creditors (61.7% without USSR), 37.3% (35.0% without USSR) to official creditors (essentially bilaterals), the balance being represented by private (non-guaranteed) debt.

In terms of *currency composition*, almost all the Central and Eastern European countries over the past few years have shown the tendency to reduce their debt denominated in USD and to increase the one denominated in yen and in European currencies.

As regards *interest arrears*, the countries in the region, as of end of 1989, did not record interest arrears, with the exception of Poland. Despite a growing debt burden, Hungary, Yugoslavia and Czechoslovakia have been able so far to stay current on their debt related financial obligations⁵. On the other hand Bulgaria's debt situation worsened so much that a few months ago this country was obliged to request a moratorium on its commercial debt due from March 1990 to March 1991.

Among the smaller countries in the region *Poland* is the most indebted (38.8 bn US\$ as of end of 1989) followed by *Yugoslavia* (20.1 bn), *GDR* (19.9 bn, inter-German debt included), *Hungary* (19.7 bn), *Bulgaria* (8.1 bn) and *Czechoslovakia* (6.9 bn). On the other hand *Rumania*, with a total gross debt stock of 1.6 bn, is the least indebted country in Eastern Europe. Hungary has the highest debt per capita in the region.

As of end of 1989 the East European gross debt stock (excluding USSR) represented some 8.9% of the total debt of developing countries as a whole, estimated worth 1290 bn USD at the same date. This percentage increases to about 13% if USSR is included.

If a *comparison by region* or group of countries is made, the total gross debt stock of Central-Eastern Europe (USSR included) as of the end of 1989 was of the same order of magnitude as that of the sub-Saharan African countries, about 80% of the total debt of East Asia and Pacific and about 38.5% of the total debt stock of Latin American and Caribbean countries⁶.

⁵ It is probably worth recalling that in the early 1980s, due to the combined impact of several unfavourable exogenous and endogenous factors, a number of indebted countries were on the verge of collapse. In particular Poland de facto defaulted for two years (1982-84). In 1982 Rumania requested its creditors to reschedule some 2 bn US\$ worth reimbursements. A further rescheduling request was put forward by Rumania in 1983 (600 mio US\$). Also Yugoslavia starting from 1983 negotiated some debt rescheduling programmes both with official bilateral creditors and with commercial banks.

⁶ World Bank, *External debt of developing countries 1989-90*.

If compared with the most indebted middle income countries, the overall Central-Eastern European debt as of end of 1989 was of the same order of magnitude of that of Brasil.

III. Reasons for Debt Expansion and Debt Crisis during the 1980s

The debt expansion during the 1980s was essentially the consequence of a mix of both international and domestic factors. In particular as long as the supply of liquidity was abundant and costs were kept low, many countries had access to credit markets without difficulty. Starting from 1982-83 such favourable conditions came to an end. A rising demand for credits worldwide was not matched by an equally high supply of financial resources available for this purpose. On the other hand anti-inflationary policies and monetary squeezes in many industrialised countries during the first half of the 80s led to higher interest rates in real terms with an immediate negative impact on the indebted countries of the region. Their debt position further deteriorated since over the past few years debt service of dollar, DM and sterling dominated loans became more expensive due to the progressive strengthening of these three currencies. In this financial environment made progressively more and more uncertain and volatile, western private commercial banks, which played an important role during the 1970s in the expansion of the eurodollar market and in recycling OPEC financial surpluses, became more cautious in lending particularly after the eruption of the Polish debt crisis in 1982/83. The fall in private loans has been only partly matched by an increase in assistance from international financial institutions. On the other hand, official bilateral aid (government to government loans) rose somewhat as well to compensate at least in part for the progressive withdrawal of private lending.

International financial support was also hampered by the fact that Central-Eastern European countries only lately joined the IMF and World Bank. Therefore these countries have not been able to take advantage of low cost bridging loans that are generally made available by these institutions to assist these countries which face balance of payment difficulties during adjustment programmes.

In this context these countries after having financed a quantitative economic growth, from the early 1980s started, to some extent, the implementation of the economic and industrial policies based upon intensification in the use of available resources associated with a more wide-

spread use of modern technologies, in a situation of growing trade imbalances and balance of payments constraints. In parallel with this and in order to meet a growing domestic demand of basic and consumer goods and to raise living standards of the population, these countries were obliged to finance the import of larger amounts of commodities and manufactured goods. At first the mobilisation of further external financial resources for these purposes was eased by the satisfactory financial creditworthiness particularly as regards their ability to regularly service the foreign debt. The Polish debt crisis, however, occurred either in the early 1980s and again in more recent times, obfuscated the Western perception of the global creditworthiness of the system⁷.

IV. The Debt Situation by Country

A. USSR

Soviet *gross debt* increased from 22.5 bn US\$ in 1984 to 51.8 bn as of end of 1989. Some 22.8 bn USD (66.1%) of the total Soviet medium long term debt as of end of 1989 was public or publicly guaranteed with the balance worth 11.7 bn (33.9%) consisting of private non guaranteed debt. It is worth noting that the non guaranteed component of the USSR medium long term debt almost doubled in recent times (from 3.8 bn in 1984 to 11.7 bn as of end of 1989). The fast expansion of non guaranteed debt, stemming from trade decentralisation and growing trade autonomy conceded to several sectoral trading Agencies in the framework of the restructuring and decentralisation process promoted by the Soviet leadership in most recent times, is regarded more and more anxiously by the Western financial institutions.

As of end of 1989 the country's *net debt* was at 35.4 bn USD (11.2 bn in 1984). The total *debt service/export ratio* in 1989 (including the servicing of short term debt) reached 56.9% (22.2% as of end of 1984). On the other hand the total *debt stock/exports ratio* in 1989 reached 129 % (56.4% in 1984).

The financial problems of USSR in most recent times have become worse. In order to obtain badly needed hard currency on international financial markets over the past few months USSR was obliged to in-

⁷ Currently Western financial institutions have the feeling that East European countries are no longer financially "protected" by the "umbrella" of the USSR economic potential.

crease its gold sales or to deposit it in Western banking institutions, in the framework of "swap" operations.

The debate on internal economic reforms is still under way with various schools of thought discussing appropriate ways and means to introduce into the economy some market oriented principles. In this still uncertain scenario the country's gross debt is projected to increase to 58 bn USD by 1992 and to 60.4 bn by 1994. On the other hand, the USSR net debt is expected to expand to 41.2 bn by 1992 and to 44.5 bn by 1994. Total debt service is expected to reach 11.1 bn by 1992 and 13.7 bn by 1994. Debt service ratio is expected to increase to 59.9% by 1992 and then slightly decline to 57.6 % by 1994. As regards the debt structure, the private non guaranteed debt is foreseen to expand dangerously, to reach 37 % of the total in 1992 and 40 % by 1994.

B. Poland

The debt situation of Poland is viewed as the *most serious one* among all the Comecon countries. About two thirds of Poland's convertible currency debt is owed to official bilateral creditors, the balance being owed to commercial banks and other creditors. Over the past five years the Polish *gross debt* almost doubled (from 22.8 bn USD in 1984 to 38.9 bn in 1989). All the medium long term debt is public or publicly guaranteed. The total *debt service/exports ratio* in 1989 was 74.7 % (86.1% in 1984) and the total debt stock/exports ratio reached 320.1 % (315.8 % in 1984).

Since 1981 Poland has run substantial interest arrears with official creditor countries (grouped in the so-called "Paris Club"), despite frequent rescheduling. As regards Polish relations with private creditors (commercial banks) these lending institutions have rescheduled their principal seven times since 1982. In September 1989 the country's new government stopped most interest payments on its medium long term obligations to commercial banks and official creditors.

From January 1990 the country started a quite radical macroeconomic stabilisation and adjustment programme, aimed at controlling inflationary pressures, stabilising the balance of payments, introducing a Current Account zloty convertibility, liberalising the economy, introducing free market mechanisms and implementing a wide privatisation programme and industrial restructuring. After some months of implementation, the plan, despite an evident hardship caused to the Polish population, is now bringing some first positive results.

The country's main objective is to reduce as soon as possible its global debt service in order to have hard currency resources available to finance the reform process and to regain creditworthiness on international financial markets.

Following a stand-by agreement with the IMF worth 715 million US\$ and the Special Stabilisation Loan of 1 bn US\$ from Western countries the *Paris Club* creditor countries reached an agreement in February 1990 aimed at rescheduling an official debt portion of 9.4 bn US\$. This includes 3.4 bn US\$ of arrears that Poland owed to Western official creditors as of end of 1989 as well as 100% of principal and interest payments falling due up to March 1991. Payments that are being postponed are rescheduled over 14 years with a grace period of 8 years.

On the other hand a new round of talks between Polish authorities and the *commercial banks' Steering Committee* led by Barclay's Bank is currently under way. Commercial banks have asked Poland to pay 15% of the total interest due in 1990, amounting to some 750 mio US\$; on the other hand Poland is asking commercial banks to be dispensed for the whole amount of interest due up to March 1991. In addition Poland is asking for an 83% debt reduction in the form of a buy-back at 17% of face value. No agreement has been reached so far on this issue.

The country's overall financial situation, despite the latest agreement for official debt rescheduling, is foreseen to remain very precarious in the next few years. In fact, Poland's gross debt is projected to increase to 43.2 bn USD by 1992 and to further expand to 44.7 bn by the end of 1994. On the other hand, due to the slight increase in the national hard currency reserves expected during the medium term forecast period, the net debt will increase to 39 bn by 1992 and then is projected to remain almost stable (39.8 bn by the end of 1994). The total debt service is expected to decline to 73.9% by 1992 and to 70.6% by 1994 mainly as the result of a planned export expansion drive. Unless other major debt reduction/debt cancellation programmes are agreed upon, the country's total debt disbursements in 1994 are projected to be 11.3 bn USD (8.8 bn as principal and 2.5 bn as interest).

C. Hungary

Together with Poland, Hungary's external debt is regarded as *most critical*. Hungary has actually in fact the *highest debt per capita* among Central-Eastern European countries. From 1984 to 1989 its *gross debt* almost

doubled (from 10.1 bn USD to 19.7 bn). All its medium long term debt is public and publicly guaranteed. As of end of 1989 some 81% of the medium long term was vis-à-vis private creditors, the balance being with official bilaterals, the IMF and other multilaterals. As of end of 1989 the country's *net debt* amounted to 18.6 bn USD; the total *debt service/exports ratio* was 82.9% (93.9% in 1984) and the *total debt stock/exports ratio* was 271.7% (174.2% in 1984).

Hungary has a long experience in economic reform. In more recent times and particularly from late 1989, Hungary undertook a medium term economic stabilisation programme supported by the IMF and the EEC. The aim of this programme is to introduce free market mechanisms, a re-orientation in foreign trade, the Current Account convertibility of the domestic currency and the privatisation of state property associated with a wide range of sectoral restructuring. Like in Poland, Hungary's overall financial situation in years to come will necessarily deserve particular attention. The economic policy of the recently elected new leadership in the next few years will be to keep the foreign debt under control while continuing to service it (the country's total gross debt stock is projected to reach 21.9 bn USD in 1992 and 22.9 bn in 1994). Net debt is projected to expand to 20.9 bn USD in 1992 and to 22 bn by 1994. The debt service ratio is expected to rise substantially to 84.5% in 1992 and to 91.6% by 1994.

D. Czechoslovakia

Also the Czechs' *total gross debt stock* more than doubled from 1984 to 1989 (from 3.1 bn USD to 6.9 bn). As of end of 1989, some 73.5% of the country's gross debt was owed to private lending institutions, 22% with official bilaterals and the balance consisted of private non guaranteed debt. As of end of 1989 the *net debt* amounted to 5 bn USD (2.1 bn in 1984). The total *debt service/export ratio* was 93.3% (32.2% in 1984) and the total *debt stock/exports ratio* was 120.5% (66% in 1984).

Even though the Czech revolution was driven more by political and less by economic issues, however, the country's new leadership last May announced a comprehensive programme of economic reform due to be implemented late in 1990/beginning of 1991 and essentially focusing on price liberalisation, introduction of market economy, reduction of its trade dependency on USSR, achievement of the convertibility of crown, industrial rationalisation and environmental control. Against this background Czechoslovakia will require in the next few years some

substantial additional external resources to finance its transition towards a free market economy. The country's gross debt is projected to increase to 9.6 bn US \$ in 1992 and to 14.0 bn by 1994. By that year, on the basis of East European standards, the country will become critically indebted.

Net debt is expected to jump to 7.2 bn in 1992 and to 11.1 bn in 1994. Debt service ratio is expected to decline moderately to 47.2% in 1992 and then to increase again to 51.7% in 1994. As regards the debt structure, by 1994 the private debt portion is expected to decline to 68% of the total with official bilateral debt in the area of 20%.

E. Rumania

Unlike all the other Central and Eastern European countries Rumania's *gross hard currency debt* declined substantially from 1984 to 1989 (from 7.1 bn US \$ to 1.6 bn). Following the implementation of a forced reserve build up programme, the country's *net debt* during the same period was reduced almost to nil (from 6.5 bn in 1984 to 279 million in 1989).

About 58% of the total gross debt in 1989 was owed to multilateral institutions, 21.7% to commercial private lending institutions and 20% to official bilaterals (creditor governments). The country has no private non-guaranteed debt. The *total debt service/export ratio* as of end of 1989 was 40.3% (33.3% in 1984) and the *total debt stock/export ratio* was 22.6% (96.0% in 1984).

The country is slowly moving towards market oriented reforms and economic liberalisation. A programme of economic adjustment is being formulated in Bucarest for a possible implementation in 1991. In this context, the country's total gross debt stock is projected to remain stable at 219 million US \$ in 1992 and then to increase moderately to 305 million in 1994. On the other hand, owing to positive changes expected to occur in the country's reserves during the period, the net debt is projected to disappear starting from this year. However, after the recent events in the country it is likely that in the near future the new government will make more use of external financing in order to expand the procurement of foreign made consumer and capital goods both to satisfy the local demand and to encourage sectoral restructuring.

As a consequence of this evolution the debt service ratio is expected to decrease substantially to 3.7% in 1992 and to 3.3% in 1994.

F. Bulgaria

Over the past few years, Bulgaria's debt position has become more and more serious: from 1984 to 1989 the country's total *gross debt stock* in fact expanded fourfold, from 2.2 bn US \$ to 8.2 bn, mainly as a consequence of a sharp increase in imports.

On the other hand, due to the progressive erosion in its reserves, the country's *net debt* during the same period increased almost ten times (from 0.7 bn in 1984 to 6.7 bn in 1989).

As of end of 1989 about 86% of the total gross debt was owed to private lending institutions, 6% to official bilaterals and 8% balance owed to other private institutions as private non-guaranteed debt. (The non-guaranteed private debt component expanded over the past few years from 2% of the total in 1984 to 8% currently.)

As of end of 1989 the *total debt service/export ratio* was 63.0% (45.1% in 1984) whilst the *total debt stock/exports ratio* reached 302.2% (57.3% in 1984).

Bulgaria, one of the most backward countries in Eastern Europe, is currently finalising a programme of stabilisation and economic reforms, which should be implemented by the new leadership in 1991.

In this context the financial situation of the country is expected to worsen in the next few years. Bulgaria's gross debt stock is projected to increase dangerously, to reach 10.2 bn US\$ in 1992 and 10.8 bn in 1994. Probably more worrisome, the net debt is expected to expand to 9.9 bn in 1992 (+ 46.6% vis-à-vis 1989) and to 10.1 bn by 1994 (+ 49.5% vis-à-vis 1989). The country's reserves are projected to decline sharply. However, due to the planned new export efforts the debt service ratio is expected to decline to 40.6% by 1992 and then to increase again vigorously to reach 50.0% in 1994.

In the next few years the country's gross debt will continue to be owed in great part (85-86%) to private lending institutions. The private non-guaranteed debt is expected to reach 9% of the total.

G. Yugoslavia

The country's overall debt position is quite precarious with a total *gross debt stock* increasing from 18.1 bn US \$ in 1984 to 20.1 bn in 1989.

On the other hand *net debt* increased from 15.5 bn in 1984 to 16.5 bn in 1989. As of end of 1989 about 43% of the total debt was owed to private lending institutions, some 23.7% to the IMF and other multilateral institutions and 18% to official bilaterals. Some 15.3% of the total was represented by a private non-guaranteed debt.

As of the end of 1989 the *total debt service/export ratio* was 46.9% (81.4% in 1984), whilst the *total debt stock/export ratio* declined to 133% (184.6% in 1984).

The Yugoslav official debt has already been rescheduled several times over the past few years in the framework of Paris Club negotiations.

The country, together with Hungary, has a long experience of economic reforms and sectoral adjustment. Following an economic and administrative decentralisation associated with a rather expansive monetary policy, the country experienced a situation of hyperinflation in 1988 and 1989. This obliged the central government to launch, early in 1990, with the IMF support, a quite radical stabilisation programme focusing on control of inflation, market liberalisation, sectoral restructuring and a further decentralisation in decision making. The first results of this programme seem to be quite encouraging.

However, several political, administrative and financial constraints are expected to continue to condition the country's capability to speed up its economic reform and liberalisation process. In the next few years the Yugoslav gross debt is expected to remain stable (18.7 bn in 1992 and 18.0 bn in 1994). On the other hand, due to the expansion of national reserves, the country's net debt is expected to contract significantly (13.8 bn in 1992 and 11.8 bn in 1994).

The debt service ratio is consequently projected to decline to 24.8 % by 1992 and to 23.6 % by 1994. In the next few years the private debt portion is expected to expand as a percentage of the total gross exposure, to reach 47 % of the total in 1994. The private non-guaranteed debt, too, is expected to expand, to reach 17.8 % of the total in the same year.

V. Conclusions

In most recent times the Central-Eastern European countries as well as USSR entered into a very delicate phase of *macroeconomic stabilisation, sectoral adjustment and economic and institutional reforms*, leading possibly to the establishment of a market oriented economy associated with a decentralisation in decision making, more autonomy for the economic institutions and more political freedom. To achieve these broad objectives, these countries, on medium term basis, will face economic recession, demand squeezing, a deep reorientation in their production and trade, which is likely to generate a decline in their real growth rate. On the other hand, the adjustment process underway will need a flow of additional (external) financial resources to import badly needed consumer and capital goods, raw materials, more modern technologies and know-how and to improve the quantity and the quality of export-bound productions.

This already difficult situation will be complicated by additional external shocks represented on one side by the negative economic consequences stemming from the Gulf crisis (trade and workers' remittance losses, higher oil prices etc.) and from the shift to hard currency in trade related payment settlements with USSR starting from the beginning of 1991. In this context on medium term basis the demand for foreign hard currency on the part of Central-Eastern European countries is likely to increase in a general economic and financial climate characterised by *growing risks, financial volatility and general economic uncertainties*. The lending issue will be made more complex by the already very high foreign debt level reached by those countries such as Poland, Hungary, Yugoslavia and Czechoslovakia, which only in recent times started a radical adjustment and now need a substantial extra support for the implementation in months to come of the reforming process aiming at the introduction of a market economy, higher productivity, competitiveness and macroeconomic stabilisation. On the other hand, there is a real risk that these already highly indebted countries, unless something is done by creditors to reduce or eventually write off their debt, will be obliged to allocate in years to come some considerably high amounts of badly needed hard currency resources to service their debt (in terms of principal and interest) and, by doing so, to *divert important resources away from more productive and reform oriented uses*. Therefore, in this global debt context that may become more and more unsustainable in the near future, at least in the most debt exposed countries (and in this sense Czechoslovakia and Bulgaria may soon join the list of critical cases), a *close monitoring* will be necessary as regards, in particular, the im-

plementation of the adjustment process in each country and its likely impact on investment programmes, trade relations and liberalisation, the privatisation process and the role of foreign joint ventures and capitals, the level of hard currency reserves, the global financial requirements of each country, and the possible insurgence of a sudden liquidity crisis. In this respect, *the tendency in some East European countries towards the expansion of the non-guaranteed private debt should be viewed as the most dangerous development* from the creditor's viewpoint. The decentralisation and growing autonomy in foreign trade decisions in many of these countries may well lead in fact to the expansion of this kind of private trade related credit/debit relations that may well provoke some liquidity crisis of quite important size (the USSR current situation in this respect is significant).

In particular, a major effort should be made by creditors (official or private commercial banks) towards a *net reduction* of a part of the Polish debt (the recently signed official rescheduling agreement with creditor governments in fact postpones the problem but does not solve it). In addition, the application of a "Brady Plan" type set of measures to the Polish Commercial debt probably needs to be worked out with utmost urgency⁸. As regards *Hungary, Czechoslovakia and Yugoslavia*, even though they have been able so far to stay current in their debt related financial obligations, some *appropriate debt reduction/cancellation schemes*

⁸ Early 1989 the international Community reached a consensus on the need to *strengthen* the debt strategy by putting great emphasis on debt service reduction. Following some suggestions from American, Japanese and French authorities a new plan was proposed by the US Treasury Minister Mr. Brady, focusing on ways and means to reduce the commercial debt owed, in particular, by middle-income highly indebted developing countries. The reinforced debt reduction strategy is based upon the following main principles:

- debt problems of these countries need to be dealt with on a *case by case* basis;
- *direct* and *voluntary* negotiations between creditor banks and borrowing countries are necessary to achieve a fair settlement;
- *international financial institutions* as well as governments bilaterally may provide assistance, if necessary, to facilitate the conclusion of fair debt agreements;
- some new debt reduction techniques have been introduced in order to minimise the banks' financial risks and on the other hand to reduce the debt service burden;
- in parallel with this, indebted countries should commit themselves to introduce in their economies some stabilisation and adjustment programmes (agreed upon with the IMF) in order to reduce in the years to come the need for further loans, to encourage the repatriation of "flight capitals" and to facilitate foreign private investment for growth/development purposes.

After more than one year of implementation five final agreements for commercial debt reduction have been reached, namely with Mexico, Costa Rica, the Philippines, Venezuela and Morocco. Some other highly indebted countries such as Argentina, Nigeria etc. have started contacts with their commercial creditor banks in the framework of the Plan provisions.

(supplemented by various types of new mechanisms such as debt-for-equity or debt-for-environment "swaps" etc.) should also be considered on medium term basis to allow them to implement successfully the adjustment process already under way.

Despite all uncertainties, it will probably be necessary in the near future that private banks, creditor countries and official lending institutions consider providing some additional new financial resources due to be used, however, on a sound and economically justified basis, either to support the balance of payments of these countries or to finance sectorial programmes or specific projects. In this respect it will be in the interest of Western countries to allow Central-Eastern European indebted countries to maintain their *creditworthiness* on international financial markets and *not to "bail out"* potential private lending institutions. The main precondition for such a new lending, however, is the agreement with the IMF on stabilisation programmes due to be supported possibly by a stand-by arrangement.

Of course Western private venture capital may well contribute to finance and support the overall adjustment and transformation process underway. However, in order to accelerate its inflow, the definition of property rights, the approval of a legislation to protect foreign investment as well as the establishment of a stock exchange will certainly represent a necessary precondition.

References

- ANDREFF, W. (1990), "Crise, régulation et réformes dans les économies socialistes" (2 parts), *Revue d'Economie Politique*, no. 1 and 2.
- CHAPMAN, A. Sh. (1983), *Eastern hard currency debt 1970-83: An overview*, Florence, European University Institute, working paper no. 75, December.
- GAJDECZKA, P. (1990), "Credit worthiness of Eastern Europe", *Financial Times Survey*, March 12.
- KOHN J. M. (1989), "A comparative assessment of East-European and third world debt", in: *Pressure for reform in the East-European currencies* (study paper submitted to the US Congress, Joint Economic Committee), Washington, October.
- WOLF A. Th. (1990), *Macroeconomic adjustment and reform in planned economies*, working paper, Washington, IMF.
- IMF *Annual Report (1988-1990)*, Washington.
- Building free market economics in Central and Eastern Europe: challenges and realities* (1990), Washington, Institute for International Finance, April.
- Centrally planned economies outlook: The WEEA group* (1989), University of Pennsylvania, October.

Economic Bulletin for Europe (1989), Geneva, UN Economic Commission for Europe, vol. 41, November.

"Economic Transformation in Hungary and Poland" (1990), *European Economy*, Brussels, no. 43, March.

"The Soviet Union" (1990), *Financial Times Survey*, March 12.

Trade and development report (1989), Geneva, UNCTAD.

World Economic Outlook (1990), Washington, IMF, May.

Annex 1
East European Countries: Debt Structure (end of 1989) (million of current US \$)

	USSR	Poland	Hung.	Czech.	GDR	Rum.	Bulg.	Yugos.	total E. Eur. (excl. USSR)	total E. Eur. (incl. USSR)
A) Gross debt stock	51,821	38,878	19,707	6,896	19,941	1,633	8,161	20,123	167,160	115,339
• short term	17,304	2,668	1,650	1,835	6,075	568	552	1,592	32,243	14,939
• medium-long term	34,516	36,210	18,057	5,061	13,866	1,065	7,609	18,533	134,917	100,400
B) Reserves (BIS only)	16,418	4,307	1,133	1,903	10,084	1,354	1,398	3,627	40,224	23,806
C) Net debt	35,402	34,571	18,574	4,992	9,858	279	6,764	16,496	126,936	91,533
D) Debt service:										
• Interest payments	4,117	2,641	1,398	506	1,401	165	436	1,737	12,401	8,284
(short-medium-long term debt)										
• Principal repayments	18,742	5,210	4,612	3,076	7,341	2,745	1,265	2,943	45,934	27,192
(short-medium-long term debt)										
Total	22,859	7,851	6,010	3,582	8,742	2,910	1,701	4,680	58,335	35,476
E) Gold reserves (market value)	34,932	182	899	n.a.	n.a.	1,158	n.a.	733	n.a.	n.a.
F) Gross financial requirements	26,855	6,784	5,433	3,520	7,512	767	2,038	2,127	55,036	28,181
MEMORANDUM										
1. Total debt service/export ratio (%)	56.9	74.7	82.9	53.3	76.7	40.3	63.0	30.9	31.6	39.2
2. Total debt/exports (%)	129.0	370.1	271.7	102.5	175.0	22.6	302.2	133.0	205.2	238.7
3. Interest/exports (%)	10.3	25.1	19.3	7.5	12.3	2.3	16.1	11.5	12.1	14.6

Source: Plan Econ, January 1990.
N.B. Figures on foreign debt of Albania are not available.

Annex 2
Debt Situation in Eastern Europe: Medium Term Projections (1990-1994) (bn of current US \$)

	1990		1991		1992		1993		1994	
	E.E.+USSR	E.E.	E.E.+USSR	E.E.	E.E.+USSR	E.E.	E.E.+USSR	E.E.	E.E.+USSR	E.E.
A) Gross debt stock	174.0	119.9	181.0	124.2	186.4	128.4	192.0	132.8	197.9	137.4
• short term	33.0	15.1	34.2	16.4	37.1	17.8	40.3	19.6	42.1	21.4
• medium-long term	141.0	104.8	156.8	107.8	149.3	110.6	151.7	113.2	153.8	114.0
B) Reserves	41.2	24.7	45.2	27.7	47.2	30.4	48.9	35.6	51.0	35.1
(BIS banks only)										
Net debt	132.8	95.2	136.8	96.5	139.2	98.0	143.1	100.2	146.9	102.3
C) Debt servicing (M-LT debt)	27.7	19.6	29.9	20.3	33.0	21.9	36.4	24.1	41.0	27.2
• interest payments	10.0	7.0	9.7	6.5	9.8	6.5	9.8	6.6	9.5	6.6
• principal	17.7	12.6	20.2	13.8	23.2	15.4	26.4	17.5	31.5	20.6
D) Debt ratios (%)										
1) Total debt service/ export ratio (%)	32.9	38.5	33.1	36.8	32.6	37.1	32.6	37.8	33.5	39.4
2) Total debt/exports (%)	206.3	235.0	194.4	225.8	183.9	216.9	172.1	208.6	161.9	198.7
3) Interest/exports (%)	11.9	13.6	10.5	11.9	9.7	11.0	8.8	10.4	7.8	9.5

Source: Plan Econ, January 1990.

Samenvatting

Structurele aanpassing, marktgerichte hervormingen en buitenlandse schuld in Centraal- en Oost-Europa: een overzicht

In de beginjaren van de centrale planning slaagden de Centraal- en Oosteuropese landen erin een hoge groei te bereiken op basis van een strategie van expansieve economische ontwikkeling. Recent zijn zowel de perspectieven voor een verdere snelle groei als de mogelijkheid om de steeds complexere economische organisatie te dirigeren, verslechterd. Dat resulteerde in verspilling van grondstoffen, trage technologische vooruitgang en een te lage economische groei. Gecombineerd met het verlangen naar politieke vrijheid en vrij ondernemerschap, lag deze evolutie aan de basis van de drang naar politieke en economische hervormingen in Oost-Europa. Tijdens de jaren tachtig nam de buitenlandse schuld in harde valuta van de Centraal- en Oosteuropese landen enorm toe, vooral ten gevolge van een laks bankgedrag en van een te positieve benadering van officiële crediteuren. Het opgeven van de overheersing van de communistische partij heeft niet automatisch geleid tot het aantrekken van privé-geld naar de regio zonder waarborg van westerse officiële instanties. De banken staan nu onder toenemende druk om nieuw geld ter beschikking te stellen of om bestaande vorderingen te verminderen. Anderzijds overwegen officiële schuldeisers om nieuwe schuldherschikkingen toe te staan. Terzelfder tijd moeten de programma's voor stabilisatie en herstructurering in de landen met de hoogste schuld verder worden uitgewerkt en zo mogelijk versneld. Prioritair moet aandacht worden geschonken aan financiële stabiliteit, een meer doeltreffend geldbeleid en nieuwe instrumenten om het schuldprobleem aan te pakken, zodat een aanvaardbaar niveau van kredietwaardigheid op de internationale kapitaalmarkten kan worden bereikt.

DE ABB-AGENT

Een zelfstandig beroep in de financiële sector

Bij de onderhandelingen tussen maatschappij en cliënt neemt de ABB-agent een spilpositie in.

Taak van de ABB-agent

Hij heeft het statuut van zelfstandige en beheert zijn eigen verzekeringskantoor. Hij is in zijn regio de vertrouwenspersoon voor particulieren en ondernemingen. Hij geeft voor elke situatie een correct en passend verzekeringsadvies en helpt zijn cliënten de juiste verzekering kopen. Hij regelt courante schadegevallen. Bij de commerciële uitbouw en het beheer van zijn kantoor krijgt hij alle steun en begeleiding van een gespecialiseerd inspectie-team. Vanuit het regionale ABB-kantoor en het hoofdkantoor van ABB te Leuven krijgt hij logistieke steun op het gebied van administratie, boekhouding, publiciteit, informatica. ABB biedt hem een volledige opleiding van vier maanden en zorgt daarna voor permanente bijscholing.

Profiel van de ABB-agent

Gezien de evolutie in het verzekeringswezen heeft de ABB-agent best een basisopleiding van universitair niveau. Voor de stabiele uitbouw van zijn agentschap kan hij zich flexibel bewegen op alle niveaus van zijn cliënteel. Hij streeft steeds naar eerlijke oplossingen en heeft zin voor orde en werkorganisatie. Bovenal heeft hij een grote dosis inzet, commerciële feeling en werkracht nodig. Onder het motto 'deskundig en dienstvaardig' levert de ABB-agent een optimale service. Hij sluit aan bij de algemene doelstelling van ABB, namelijk samenwerken om als verzekeraar aan de cliënten veiligheid en service te blijven aanbieden.

Hebt u interesse voor de functie van ABB-agent?

Stuur uw sollicitatiebrief en uw curriculum vitae naar het hoofdkantoor of één van de regionale kantoren van ABB:

ABB-hoofdkantoor,

Minderbroedersstraat 8, 3000 Leuven, ter attentie van Guido Smets,

ABB-Antwerpen,

Lange Nieuwstraat 32, 2000 Antwerpen, ter attentie van Ludo Meynckens, 03/223 62 11

ABB garandeert u een correcte, discrete en snelle behandeling van uw kandidatuur.

Aan geschikte kandidaten biedt ABB van bij de start een degelijk inkomen en een bestaand cliënteel. Verder kunnen doorzetters, met de kracht van ABB en met hun zelfstandig werk, deze aantrekkelijke en winstgevende verzekeringsportefeuille verder uitbouwen.

ABB is Belgisch en financieel onafhankelijk.

ABB is de verzekeringsmaatschappij van de groep Belgische Boerenbond.

ABB werd opgericht in 1922 en behoort al vele tientallen jaren tot de vijf grootste verzekeringsmaatschappijen in België.

Het succes van ABB steunt op de doeltreffende combinatie van drie factoren:

1. Een cliëntvriendelijke bedrijfsfilosofie,
2. Voortdurende investeringen in vernieuwend produktonderzoek,
3. 1.600 zelfstandige agenten, verspreid over heel België.

Door die beleidskeuze kan ABB aan particulieren en aan ondernemingen een volledig en concurrentieel verzekeringspakket op maat aanbieden.