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(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 24 June 1991

providing further medium-term financial assistance for Hungary

(91/310/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 235 thereof,

Having regard to the proposal from the Commission⁽¹⁾, submitted following consultation with the Monetary Committee,

Having regard to the opinion of the European Parliament⁽²⁾,

Whereas Hungary is undertaking fundamental political and economic reforms and has decided to adopt a market economy model;

Whereas the said reforms are already under implementation with the financial support from the Community and will strengthen mutual confidence and bring Hungary closer to the Community;

Whereas Hungary and the Community have entered into negotiations for the conclusion of European Agreements establishing a relationship of association;

Whereas, by Decision 90/83/EEC⁽³⁾, the Council decided to grant Hungary a medium-term loan facility of a maximum amount of ECU 870 million in order to permit that country to overcome the difficulties of structural adjustment of its economy;

Whereas, however, following the changes in the international environment, Hungary, like other Central and Eastern European countries is now facing additional external shocks which might jeopardize its financial stability and cause its balance of payments to deteriorate sharply;

Whereas the Hungarian authorities have requested financial assistance from the International Monetary Fund (IMF), the Group of 24 industrial countries and the Community; whereas, over and above the estimated financing which could be provided by the IMF, the World Bank and official bilateral creditors, a financial gap of some ECU 360 million remains to be covered in 1991, in order to prevent a further erosion of Hungary's reserve position and avoid an additional degree of import compression, which could seriously jeopardize the achievement of the policy objectives underlying the Government's reform effort;

Whereas the Commission, as coordinator of assistance from the Group of 24 has invited them and other third countries to provide medium-term financial assistance to Hungary to support that country's balance of payments and strengthen its reserve position;

Whereas the question of the risks associated with guarantees from the general budget of the European Communities will be examined in the context of the renewal in 1992 of the Interinstitutional Agreement on budgetary discipline and improvement of the budgetary procedure;

Whereas the Community loan should be managed by the Commission;

Whereas the Treaty does not provide, for the adoption of this Decision, powers other than those of Article 235,

⁽¹⁾ OJ No C 97, 13. 4. 1991, p. 8.

⁽²⁾ OJ No C 158, 17. 6. 1991.

⁽³⁾ OJ No L 58, 7. 3. 1990, p. 7.

HAS DECIDED AS FOLLOWS:

Article 1

1. The Community shall grant to Hungary a medium-term loan facility of a maximum amount of ECU 180 million in principal, with a maximum average duration of seven years, with a view to ensuring a sustainable balance-of-payments situation and strengthening the reserve position.
2. To this end, the Commission is empowered to borrow, on behalf of the Community, the necessary resources that will be placed at the disposal of Hungary in the form of a loan.
3. This loan will be managed by the Commission in full consultation with the Monetary Committee and in a manner consistent with any Agreement reached between the IMF and Hungary.

Article 2

1. The Commission is empowered to negotiate with the Hungarian authorities, after consultation with the Monetary Committee, the economic policy conditions attached to the loan. These conditions shall be consistent with any agreement as referred to in Article 1 (3) and with arrangements made by the Group of 24.
2. The Commission shall verify at regular intervals, in collaboration with the Monetary Committee and in close coordination with the Group of 24 and the IMF, that the economic policy in Hungary is in accordance with the objectives of this loan and that its conditions are being fulfilled.

Article 3

1. The loan shall be made available to Hungary in two instalments. The first instalment shall be released as soon as an Extended Arrangement has been concluded between Hungary and the IMF and the second instalment after a period of at least two quarters, subject to Article 2 (2).
2. The funds shall be paid to the National Bank of Hungary.

Article 4

1. The borrowing and lending operations referred to in Article 1 shall be carried out using the same value date and must not involve the Community in the transformation of maturities, in any exchange or interest-rate risk, or in any other commercial risk.
2. The Commission shall take the necessary steps, if Hungary so decides, to include in the loan conditions, and also to exercise, an early repayment clause.
3. At the request of Hungary, and where circumstances permit an improvement in the interest rate on the loans, the Commission may refinance all or part of its initial borrowings or restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with the conditions set out in paragraph 1 and shall not have the effect of extending the average duration of the borrowing concerned or increasing the amount, expressed at the current exchange rate, of capital outstanding at the date of the refinancing or restructuring.
4. All related costs incurred by the Community in concluding and carrying out the operation under this Decision shall be borne by Hungary.
5. The Monetary Committee shall be kept informed of developments in the operations referred to in paragraphs 2 and 3 at least once a year.

Article 5

At least once a year the Commission shall address to the European Parliament and to the Council a report, which will include an evaluation, on the implementation of this Decision.

Done at Luxembourg, 24 June 1991.

For the Council
The President
J.-C. JUNCKER