Macro-financial assistance to Lebanon

2007/0172(CNS) - 20/08/2007 - Legislative proposal

PURPOSE: to provide Community macro-financial assistance to Lebanon.

PROPOSED ACT: Council Decision

BACKGROUND: Lebanon remains one of the world's most indebted countries. The impact of the 2006 summer conflict with Israel and the cumulative effects of past economic policies have led to a severe economic crisis that requires urgent action. Within the context of the "European Neighbourhood Policy" (ENP) the Community signed, in January 2007, an EU Lebanon Action Plan, making Lebanon one of the EU partner countries. This includes a comprehensive programme of socio-economic reforms and setting medium-term priorities for government action. For more information on the ENP see: INI/2004/2166 and INI/2007/2088. Further, the "Emergency Post-Conflict Arrangement" (EPCA), which is supported by the IMF, commits Lebanon to economic stabilisation and structural reforms. Throughout the 2006 Israel /Lebanon conflict, the EU confirmed its strong commitment toward supporting the Lebanese State.

CONTENT: the purpose of this proposal, therefore is to strengthen the Lebanese state by providing macro-financial assistance to Lebanon in the form of firstly, a grant and secondly, a loan. These two macro-financial instruments should help support Lebanon's public finances as well as helping to settle its balance of payments. In addition such assistance, will go toward implementing those measures identified under the EU-Lebanon European Neighbourhood Policy Action Plan.

Given that macro-financial assistance is a policy-based instrument, it is particularly well-suited to support Lebanon's efforts to improve the fiscal sustainability in the short-to-medium run. Further, it will have an immediate impact on Lebanon's balance of payments.

In summary, the main elements of the proposal are:

- to make EUR 80 million available to Lebanon with a view to supporting its domestic efforts of post-war reconstruction and sustainable economic recovery. This amount should also help alleviate the financial constraints on implementing the government's economic programme;

- EUR 50 million will be in the form of loans and up to EUR 30 million will be in the form of grants;

- the Community's financial assistance will be managed by the Commission in consultation with the Economic and Financial Committee. It will be consistent with IMF-Lebanon Agreements;

- to make the assistance available for two years starting from the first day after the entry into force of the proposed Decision. This may, under certain conditions, be extend by a maximum of one year;

- the Commission will be responsible for monitoring the soundness of Lebanon's financial arrangements and it will regularly verify that Lebanon's economic policy conforms with the economic objectives agreed;

- the contribution will be made available in a maximum of three instalments with the second and third instalments only being released on condition that there has been a satisfactory implementation of the economic programme as supported by the IMF and EU-Lebanon European Neighbourhood Policy Action Plan.