Macro-financial assistance to Serbia

2009/0145(CNS) - 08/10/2009 - Legislative proposal

PURPOSE: to make available to Serbia macro-financial assistance in the form of a loan facility with a maximum principal amount of EUR 200 million.

PROPOSED ACT: Council Decision.

BACKGROUND: the global economic crisis started to affect Serbia in mid-2008. The outlook for the current year and beyond remains difficult. Growth was already expected by the IMF in March to contract substantially, from 5.4% in 2008 to -2% in 2009. However latest data suggest that the economic downturn will be even more severe, and that GDP may decrease by several percentage points in 2009.

In March 2009, the Serbian authorities and IMF agreed an overhaul of the current Standby Arrangement programme turning it into a EUR 3 billion disbursing programme. The Government agreed on a 2009 budget rebalancing targeting a fiscal deficit of 3% of GDP for 2009, instead of the 6% deficit estimated in the absence of rebalancing measures. The latest indications as of early July suggest that that economic downturn is even more severe than foreseen in the revised March assumptions, and revenue performance has been very poor in the first five months of the year. As the public deficit is now expected to exceed the target projected under the programme for the first half of 2009, this situation will require further fiscal adjustments in the form of additional expenditure cuts and revenue enhancing measures.

IMPACT ASSESSMENT: macro-financial assistance will have an immediate impact on Serbia's balance of payments and will contribute to the alleviation of financial constraints on the implementation of the authorities' economic programme and to financing the budget deficit. Macro-financial assistance will further support the general objectives of the stabilisation programme agreed with the IMF, which aims at improving the country's fiscal sustainability in the short- to medium-term. Project finance and/or technical assistance would not be suitable to address these macroeconomic objectives. EC assistance will also support the authorities' efforts to implement policies identified in the EU-Serbian European Partnership.

CONTENT: the Community will make available to Serbia macro-financial assistance in the form of a loan. To this end, the Commission will be empowered to borrow up to **EUR 200 million** on the capital markets or from financial institutions.

The assistance will be made available in two instalments. The **maximum average loan maturity shall not exceed 15 years**. The assistance will be managed by the Commission which will agree with the authorities the specific economic policy and financial conditions attached to the payment of the loan instalments. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, will be duly taken into account.

Community macro-financial assistance will be **exceptional and limited in time**, and will be conditional, in particular, on progress in the implementation of the current IMF programme and on the successful fulfilment of economic policy conditions that will be attached to this assistance.

In view of the financing needs identified for 2010, it is important that the Community macro-financial assistance to Serbia is disbursed **before the end of 2010**.

The assistance will be fully consistent with the macroeconomic targets already set in Serbia's economic policy documents, such as the 2009 Budget Memorandum and the Memorandum of Economic and Fiscal Policies agreed with the IMF. It will be also consistent with longer-term policy objectives contemplated in

the EU-Serbia European Partnership adopted in December 2007. As regards specific economic policy conditions attached to the disbursement of the loan instalments, the Commission intends to focus on a limited number of areas, including in particular public finance management. Also, the Commission may consider targeting specific policies of particular importance, such as priorities identified in the context of the EU-Serbia European Partnership and the 2009 Progress Report scheduled for adoption in October 2009, or measures deemed appropriate following the Operational Assessment.

BUDGETARY IMPLICATIONS: in line with the Guarantee Fund Regulation the provisioning of a EUR 200 million loan disbursed in 2010 would intervene in 2012 and amount to a maximum of **EUR 18 million** .