Macro-financial assistance to Bosnia and Herzegovina

2009/0166(CNS) - 29/10/2009 - Legislative proposal

PURPOSE: to provide macro-financial assistance of €100 million in the form of a loan to Bosnia and Herzogovina.

PROPOSED ACT: Council Decision

BACKGROUND: in 2008, real GDP growth fell to 5.4% from 6.8% recorded in 2007. The global economic and financial crisis started to reveal its impact on Bosnia and Herzegovina in the last quarter 2008. Trade dynamics slowed drastically and the financial stability was threatened in October 2008 when some 12% of deposits were withdrawn in only one month.

At the same time, the economic downturn continued in 2009, given the contraction of domestic demand, and the annual country-wide change of the consumer price index turned negative in May 2009 and fell to -1.8% in June.

Overall, economic prospects remain gloomy for this year and years to come and it is expected that the country’s GDP will contract by 3% in 2009, not to mention the rising trade deficit. Faced with the deteriorating economic environment and the legacy of poor fiscal policies, the authorities at all governmental levels, represented by the National Fiscal Council, therefore, in early May 2009, concluded negotiations with the International Monetary Fund on a Stand-By Arrangement that comprised commitments to a number of structural reforms and fiscal adjustment measures.

Bosnia and Herzegovina has, furthermore, requested additional Community macro-financial assistance in the form of a macro-financial loan, in view of the worsening economic situation and outlook, which is the subject of this proposed decision.

IMPACT ASSESSMENT: macro-financial assistance will have an immediate impact on Bosnia and Herzegovina's balance of payments and will, in this way, 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 in particular aims at improving the country's fiscal sustainability in the short- to medium-term.

EC assistance will also support the authorities' efforts to implement short- and medium-term policies identified in the European Partnership of the EU with Bosnia and Herzegovina.

CONTENT: the Community shall make available to Bosnia and Herzegovina **macro-financial assistance (MFA) in the form of a loan facility with a maximum principal amount of EUR 100 million** with a view to supporting Bosnia and Herzegovina's economic stabilisation and alleviating its balance of payments and budgetary needs as identified in the current IMF programme. It will contribute to helping Bosnia and Herzegovina to address the consequences of the global financial crisis.

Community MFA will be **exceptional and limited in time (15 years)**, 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 Bosnia and Herzegovina is disbursed **before the end of 2010**. To this end, the Commission shall be empowered to borrow up to EUR 100 million on the capital markets or from financial institutions.

The assistance will be managed by the Commission which shall 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.

The assistance will be fully consistent with the macroeconomic targets set in the IMF programme and Bosnia and Herzegovina's economic policy documents. It will also be consistent with longer-term policy objectives contemplated in the EU-Bosnia and Herzegovina European Partnership adopted in February 2008.

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.

FINANCIAL IMPACT: in line with the Guarantee Fund Regulation the provisioning of a EUR 100 million loan disbursed in 2010 would intervene in 2012 and amount to a maximum of EUR 9 million.