Macro-financial assistance to Moldova

2010/0162(COD) - 09/06/2010 - Legislative proposal

PURPOSE: to provide to the Republic of Moldova macro-financial assistance (MFA) in the form of a grant of up to EUR 90 million.

PROPOSED ACT: Decision of the European Parliament and of the Council.

BACKGROUND: Moldova is one of the countries in the European Union's eastern neighbourhood most heavily affected by the global crisis. Despite high average economic growth rates in the years leading up to the crisis, Moldova's income level per capita remains by far the lowest in the region. The policy response to the economic crisis was delayed first by the preparation for parliamentary elections in Spring 2009 and later by internal political tensions over the election results. The repeat elections that had to be organised in the Autumn of 2009 brought a coalition government into power on a reform agenda that seeks closer approximation to the EU and aims at turning around the previous growth model which relies heavily on the inflow of remittances. These political developments have created a new momentum in the scaling up of bilateral relations with the EU, culminating in the opening of formal negotiations on a new Association Agreement on 12 January 2010.

In parallel, the new Prime Minister formally requested EU financial support, which is the subject of this proposal.

IMPACT ASSESSMENT: macro-financial assistance will have an immediate impact on the balance of payments and the State budget of the Republic of Moldova and will in this way contribute to the alleviation of financial constraints on the implementation of the authorities' economic programme. Macro-financial assistance will further support the general objectives of the stabilisation programme agreed with the IMF. European Union assistance will also support the authorities' efforts to implement short-and medium-term policies identified in the EU-Republic of Moldova Action Plan agreed in the context of the European Neighbourhood Policy.

LEGAL BASIS: Article 212 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: the Commission proposes to provide to the Republic of Moldova macro-financial assistance (MFA) in the form of a grant of up to EUR 90 million. The proposed assistance is intended to contribute to covering Moldova's general balance-of-payments needs and the financing needs of the State budget identified by the International Monetary Fund (IMF). It will support the authorities' stabilisation programme with a view to ensuring sustainable fiscal and external accounts, and will thus help the country address the consequences of the global financial crisis.

The proposed European Union macro-financial assistance will complement support from the IMF foreseen under the financing arrangement agreed by the IMF board on 29 January 2010. EU MFA is aimed at contributing to covering the country's external financing needs in 2010 and 2011.

The proposed assistance will also strengthen the reform momentum in Moldova in supporting the government's economic programme and its efforts towards integration with the EU. It will also contribute to the implementation of the European Union's cooperation strategy towards Moldova and, more generally, towards the countries of the Eastern Partnership.

EU MFA will be exceptional and limited in time, and will be conditional 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.

Management of assistance: the assistance will be made available in three or four instalments: in principle, two instalments in 2010 and one or two instalments in 2011. The assistance will be managed by the Commission. The Commission will agree with the authorities the specific economic policy and financial conditions attached to the payment of each instalment. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, will be included as necessary.

Provisions are also provided as regards the definition of technical conditions as well as monitoring and evaluation.

BUDGETARY IMPLICATION:the assistance will be financed from commitment appropriations in 2010 and 2011 under budget line 01 03 02 (Macroeconomic assistance); the payments will also take place in 2010 and 2011.