

Macro-financial assistance to Kyrgyzstan

2011/0458(COD) - 20/12/2011 - Legislative proposal

PURPOSE: to provide a macro-financial assistance to the Kyrgyz Republic for an amount of €30 million.

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

BACKGROUND: the marked deceleration in growth experienced by the Kyrgyz economy in 2009 (GDP slowed down from an average rate of 8.5% in 2007-08 to 2.3% in 2009) was a consequence of several external shocks, including a fall in remittances from migrant workers, lower demand for exports and shrinking direct and other foreign investments.

Before the dramatic events of 2010, economic growth was expected to rebound in 2010 to 4.5-5.5%. However, the **2010 April popular revolt** and, more importantly, the escalation of the ethnic conflict in June led to a serious deterioration in the economic outlook. Economic activity contracted by 10% in the second quarter of 2010.

In response to last year's political events and their economic implications, the international community organised a High Level Donors Meeting for the Kyrgyz Republic on 27 July 2010 in Bishkek. At this conference, donors committed to provide USD 1.1 billion in emergency support by the end of 2011. The EU was among the major donors, pledging €117.9 million for support in a number of critical areas.

The IMF in June 2011 agreed with the Kyrgyz authorities on an Extended Credit Facility (ECF) of SDR 66.6 million (USD 106 million) in support of a three-year programme of macroeconomic adjustment and structural reforms. In 2010, the President and the Minister of Finance of the Kyrgyz Republic **formally requested the EU macro-financial assistance (MFA) to complement the support from the IMF**. In this context, the Commission has assessed the macroeconomic situation and financing needs of the Kyrgyz Republic. The main conclusions of the assessment are that last year's tragic political events and the related social and reconstruction expenditure have left important external and fiscal financing needs for the period 2011-12. While these needs are being partly covered by the international community, there are still substantial residual needs. In order to supplement the resources made available by the IMF, the Commission proposes providing a MFA in the amount of up to EUR 30 million to the Kyrgyz Republic to be disbursed half in loans and half in grants.

IMPACT ASSESSMENT: according to the impact assessment, the MFA and the economic adjustment and reform programme attached to it will help alleviate the Kyrgyz Republic's short-term financing needs while supporting policy measures aimed at strengthening medium-term balance of payments and fiscal sustainability and raising sustainable growth as agreed with the IMF. It will notably help improve the efficiency and transparency of public finance management.

LEGAL BASIS: Article 209 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: it is proposed that the European Union shall make macro-financial assistance available to the Kyrgyz Republic for a maximum amount of **€30 million** with a view to supporting the country's economic stabilisation and covering its balance of payments needs as identified in the current IMF programme. Of this amount, up to €15 million shall be provided in the form of loans and up to €15 million in the form of grants. The release of the proposed macro-financial assistance is subject to the approval of the 2012 Budget by the budgetary authority.

The conditions attached the granting of the macro-financial assistance shall be consistent with the principles and fundamental objectives of the Union policy as regards this country. These are as follows:

- the Commission is empowered to borrow the necessary resources on behalf of the European Union in order to finance the loan component of the Union's macro-financial assistance;
- the loan shall have a maximum maturity of 15 years;
- the assistance shall be made available for two years;
- the release of the Union's financial assistance shall be managed by the Commission;
- specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable;
- the disbursement of the first instalment is expected to take place in the first semester of 2012. The second instalment, conditional on a number of policy measures, could be disbursed in the second semester of 2012;
- the disbursements would be conditional on successful programme reviews under the IMF's financial arrangement (the ECF);
- the Commission and the Kyrgyz authorities would agree on specific structural reform measures in a Memorandum of Understanding.

It should be noted that the decision to disburse half of the proposed assistance in grants and the other half in loans is justified by Kyrgyz level of development (as measured by its per-capita income) and debt indicators.

BUDGETARY IMPLICATIONS: the grant element of the assistance (€15 million) would be financed from commitment appropriations of the 2012 budget, under the budget line 01 03 02 (Macroeconomic assistance), with payments taking place in 2012. In line with the Guarantee Fund Regulation, the provisioning of the Guarantee Fund is expected to take place in 2014 and to amount to a maximum of €1.35 million. This corresponds to 9% of the €15 million loan expected to be disbursed in 2012.