Macro-financial assistance to Yugoslavia

2001/0258(CNS) - 29/10/2001 - Legislative proposal

PURPOSE : to provide additional macro-financial assistance to the Federal Republic of Yugoslavia.
CONTENT : on 16 July 2001, the Council of the European Union decided to provide to the Federal Republic of Yugoslavia (FRY) a macro-financial assistance of up to EUR 300 million, comprising a loan element of up to EUR 225 million and a grant element of up to EUR 75 million (Council Decision 2001 /549/EC). The main objective of this assistance is to contribute to bolstering the country's economic, social and political stability, as well as enhancing its important role as a factor of stability in the region after the political and democratic changes that occurred in the FRY in the last quarter of 2000. However, the financial situation in the FRY in the second half of 2001 appears to be more constrained than previously envisaged. This is largely due to delays in the Serbian privatisation process. The delay is mainly linked to the need to implement a new transparent framework for privatisation agreed with the World Bank, as well as to the postponement of the privatisation of one cement company due to the opposition by workers. As a result, previously budgeted estimated privatisation receipts in the Serbian budget have been revised downwards substantially under the IMF programme which will reduce expected FDI receipts and will put additional strain on the balance of payments. Based on revised estimates of the Serbian budget, the IMF has identified a fiscal gap of around YuD 9 billion (around EUR 150 million or 1.3% of GDP) in 2001. This comes on top of the part of the budgeted deficit that is expected to be covered by foreign grants and loans (some EUR 150 million that have largely been firmly committed in the context of the FRY Donors Conference in June 2001). The IMF has therefore agreed with the authorities that, on top of the external financing needs already identified under the programme, additional foreign financing will be required to close the new financing gap in the second half of 2001. Against this background, it seems appropriate for the Community to help easing the new financial constraints that the FRY is facing at this crucial juncture by amending Council Decision 2001/549/EC, thereby augmenting the total amount by EUR 45 million to up to EUR 345 million. In view of the high indebtedness of the FRY (above 140% of GDP) and its limited borrowing capacity, it is proposed to provide this additional amount in the form of a grant, raising the overall grant component of this assistance to up to EUR 120 million.