# Serbia and Montenegro: further macro-financial assistance

2003/0190(CNS) - 18/08/2003 - Legislative proposal

PURPOSE : to increase Community financial assistance to Serbia and Montenegro and amend Decision 2002/882/EC providing financial assistance to FRY. CONTENT : the process of economic reform and stabilisation in Serbia and Montenegro has been supported through the provision of EC macro-financial assistance. A first package of EUR 345 million was implemented in 2001/2002. Council Decision 2002 /882/EC provided further macro-financial assistance of up to EUR 130 million, comprising a loan element of up to EUR 55 million and a grant element of up to EUR 75 million. The main objective of this assistance is to ensure a sustainable balance of payments situation and to strengthen the country's foreign reserve position. A first tranche of this assistance amounting to EUR 40 million was disbursed in December 2002 (grant part of EUR 30 million) and February 2003 (loan part of EUR 10 million). Following the assassination of the Serbian Prime Minister on 11/03/03, the Serbian Finance Minister requested additional macrofinancial support. The Commission expects that the second tranche of EUR 65 million, comprising a grant element of EUR 35 million and a loan element of EUR 30 million, will be disbursed in August 2003. This would leave an amount of EUR 25 million for the third tranche, including a grant element of EUR 10 million. Following the assassination of the Serbian Prime Minister, the external outlook of the country appears to be more uncertain. There are considerable downside risks with regard to balance of payments developments and in particular with respect to the size of private capital inflows, including foreign direct investments, while important financing needs continue to put a heavy strain on the economy. Additional external financial support seems essential to reach the agreed macro-economic targets with respect to growth, inflation, fiscal and current account balances for 2003. According to the revised IMF projections, there is now a higher residual external financing gap of some $321 million. Out of this gap, an amount of around $200 million has already been committed, including an equivalent of $113 million under the current EC macro-financial assistance package. Against this background, it seems appropriate for the Community to help comforting the identified additional balance of payments needs by amending Council Decision 2002/882/EC, thereby augmenting the total amount by EUR 70 million to up to EUR 200 million. It is expected that the remaining gap could be filled through additional bilateral assistance. The additional amount could be used to top up the third tranche which could be disbursed in two sub-tranches, subject to an agreement on a Supplemental Memorandum of Understanding specifying appropriate conditionality to support specific reforms, which could include enterprise and banking sector restructuring and economic harmonisation. In view of the exceptional circumstances, the high level of indebtedness of Serbia and Montenegro in comparison with other countries of the region and its limited borrowing capacity, it is proposed to provide a significant share (EUR 45 million) of this additional amount in the form of a grants and the remainder (EUR 25 million) in the form of a loan. The latter would carry a maturity of 15 years and a grace period of 10 years as foreseen in the original package. The corresponding increase of the Community assistance will be based on the understanding that other donors will undertake similar efforts to providecomplementary financial support. FINANCIAL STATEMENT: - Budget lines: B7-548 (grant) and BO-215 (loan component). - total allocation for commitments appropriations and payment appropriations: 45 000 000 (grant) and recourse to the Guarantee Fund established by Council Regulation 2728/94/EC. - impact on human resources: the action will not involve an increase in the number of Commission staff. - financial impact on human resources: none - other administrative expenditure: none.