Macro-financial assistance to Serbia and Montenegro and further macro-financial assistance to Yugoslavia

2004/0204(CNS) - 21/09/2004 - Legislative proposal

PURPOSE: to revise the expiry date for the release of the third tranche of funding under Council Decision 2002/882/EC.

PROPOSED ACT: Council Decision.

CONTENT: following the political changes in Serbia and Montenegro (SCG, the former "Federal Republic of Yugoslavia") in late 2000, the authorities of the country achieved remarkable results in economic reform and stabilisation. To recall, a first package of EUR 345 million was decided in July and December 2001 and implemented in 2001/2002. In November 2002, the Council decided to provide SCG with further Community macro-financial assistance of up to EUR 130 million to underpin economic policies in the context of the three-year IMF Extended Arrangement (2002-2005) approved in May 2002 and to support the balance of payments. A Memorandum of Understanding (MoU) signed in December 2002 specifies the economic policy conditions and structural measures for the release of the second and the third tranches of this assistance.

So far, the first and the second tranches of the original package of EUR 130 million, totaling EUR 105 million, have been released successfully. However, the implementation of the remaining third tranche (EUR 25 million) has been substantially delayed.

In November 2003, the Council decided to increase the current EC macro-financial assistance to up to EUR 200 million to help addressing additional financing needs identified by the IMF. The modalities of this additional assistance of up to EUR 70 million, including the precise tranching and attached conditionality, still remain to be negotiated with the authorities, once progress has been made with third tranche conditionality.

Serbia and Montenegro requires continued external financial support from the Community and other donors in support of its economic stabilisation and reform programme agreed with the IMF. Subject to further progress in meeting conditionality, the remaining third tranche of EC macro-financial assistance under Decision 2002/882/EC could help addressing the financing needs in 2004. However, the current legal base for this assistance provides for an expiry date of 9 November 2004. Furthermore, the topping up of up to EUR 70 million was decided by an amendment of Council Decision 2002/882/EC. It will hence not be possible to implement this additional assistance after the expiry of the current legal base. In conclusion, the current legal base does no longer provide for a full implementation of EC macro-financial assistance.

Against this background, it appears appropriate for the Community to modify the expiry date by amending Council Decision 2002/882/EC. It is suggested to change the expiry date to 30 June 2006. This would allow for a smooth and full implementation of this assistance, including of the topping up of up to EUR 70 million, based on appropriate conditionality to be fulfilled by the authorities of Serbia and Montenegro before the subsequent release of tranches.

FINANCIAL IMPLICATIONS:

- Budget line : 01 03 02 02 (Grant component of the assistance) EUR 45 million in commitment appropriations in 2004. Payment appropriations EUR 10 million and EUR 45 million in 2005.

This action is exceptional by nature and will not involve an increase in the number of Commission staff.