



**COUNCIL OF
THE EUROPEAN UNION**

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DRAFT STATEMENT OF THE COUNCIL'S REASONS

Subject: Position of the Council at first reading with a view to the adoption of a
Decision of the European Parliament and of the Council providing macro-
financial assistance to the Kyrgyz Republic

I. INTRODUCTION

1. On 21 December 2011, the Commission transmitted to the Council its proposal for a decision of the European Parliament and of the Council providing macro-financial assistance to the Kyrgyz Republic (doc. 5075/12).
2. The European Parliament adopted its position at first reading at its plenary session on 11 December 2012 (doc. 17476/12). The European Parliament adopted one amendment.
3. On ... 2013 the Council adopted its position at first reading in accordance with Article 294(5).
4. The Council position at first reading is the result of informal contacts between the European Parliament, the Commission and the Council as foreseen by the Joint declaration on practical arrangements for the co-decision procedure¹.

¹ OJ C 145, 30.6.2007, p. 5.

II. OBJECTIVE

5. The Kyrgyz economy has been affected in 2009 by the international financial crisis and by ethnic violence in June 2010, which disrupted economic activities, creating substantial public expenditure needs for reconstruction and social assistance, and resulted in important external and budgetary financial gaps.
6. In response to those 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 EUR 117.9 million for support in a number of critical areas.
7. The IMF extended help to the Kyrgyz Republic in 2010 with a three-month Rapid Credit Facility. In June 2011, the IMF agreed with the Kyrgyz Republic authorities on a follow-up arrangement in the amount of USD 106 million in support of a comprehensive economic adjustment and reform programme for the period mid-2011 to mid-2014. 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.
8. Given that there is still a significant residual external financing gap in the balance of payments of the Kyrgyz Republic over and above the resources provided by IMF and other multilateral institutions, and despite the implementation of strong economic stabilisation and reform programmes by the Kyrgyz Republic, the Union macro-financial assistance to be provided to the Kyrgyz Republic is under the current exceptional circumstances considered an appropriate response to the Kyrgyz Republic's request to support economic stabilisation in conjunction with the IMF programme.

III. ANALYSIS OF THE COUNCIL'S POSITION AT FIRST READING

General

9. On 9 July 2013, the European Parliament and the Council adopted Decision 778/2013/EU² providing further macro-financial assistance to Georgia.
10. In a joint Declaration adopted together with the above decision, the European Parliament and the Council:
 - agreed that the adoption of the decision on providing further macro-financial assistance to Georgia should be seen in the wider context of the need for a framework that should secure sound and effective decisions on providing macro-financial assistance to third countries;
 - agreed that the adoption of decisions on macro-financial assistance operations should be based on the considerations and the principles set out in the joint Declaration for the granting of Union macro-financial assistance to eligible third countries and territories, without prejudice to the right of legislative initiative and the legal form that a future instrument formalising these considerations and principles might take;
 - committed to fully reflect these considerations and principles in the future individual decisions on granting the Union's macro-financial assistance.
11. In that context, amendments have been introduced in the proposal for a decision providing macro-financial assistance to the Kyrgyz Republic to fully reflect the considerations and principles set out in the joint Declaration.

² OJ L 218, 14.8.2013, p. 15.

Key issues

Geographic scope

12. The Kyrgyz Republic is not a candidate or potential candidate country nor a country or territory covered by the European Neighbourhood Policy. Recital (10) underlines however that given its strategic importance for the Union, as well as the determining role it plays in regional stability, the Kyrgyz Republic should exceptionally be considered eligible to receive Union macro-financial assistance.

Amount and form of the assistance

13. Recital (13), recital (14) and article 1 of the Council position at first reading deal with the determination of the amount of the assistance to be provided and its form (loans and grants). While there are no changes to the amounts proposed by the Commission (up to EUR 15 million in the form of loans and up to EUR 15 million in the form of grants), the Council Position specifies the criteria for the determination of the amount of the assistance and its form in loans and grants. Article 1 also introduces a clause whereby the Commission, acting in accordance with the advisory procedure, shall reduce the amount of the assistance or suspend or cancel it, where the financing needs of the Kyrgyz Republic decrease fundamentally during the period of disbursement of the Union's macro-financial assistance compared to the initial projections.

Conditionality

14. Recital (18) and article 2 specify the pre-condition for the assistance, namely that the Kyrgyz Republic respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law and guarantees respect for human rights. Article 1a introduces the requirement for the Commission to monitor the fulfillment of this pre-condition throughout the life cycle of the assistance.
15. Article 3 deals with the conditions to which the assistance should be subject, which are to be laid out in a Memorandum of Understanding.
16. Article 4 introduces the obligation for the Commission to temporarily suspend or cancel the disbursement of the assistance when the relevant conditions are not met.

Committee

17. For the adoption of the Memorandum of Understanding referred to in Article 3 and for the decision to reduce, suspend or cancel the assistance referred to in Article 1, the Commission is to be assisted by a Committee (recital (23) and (24), article 7). The Commission is to act in accordance with the advisory procedure. The choice of procedure is explained in recital (24).

Reporting

18. Article 8 specifies the reporting requirements for the Commission to European Parliament and to the Council.

IV. CONCLUSION

19. The Council position at first reading reflects the compromise reached in negotiations between the Council and the European Parliament, facilitated by the Commission.

This compromise was endorsed through the adoption of a political agreement by Coreper on 18 July 2013 and by the Council on 27 July 2013. The Chair of the Committee on International Trade sent a letter to the Chair of Coreper indicating that, should the Council transmit its position as attached to the letter of the Committee, he would recommend to the plenary that Parliament, in its second reading, accept the Council position without any amendments, subject to verification by the lawyer linguists of both institutions (12285/13).
