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Background Analysis per beneficiary country

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of macro-financial assistance to third countries in 2022

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LIST OF ABBREVIATIONS

AA	Association agreement
CPI	Consumer price index
DCFTA	Deep and Comprehensive Free Trade Area
ECF	Extended credit facility
EFF	Extended fund facility
EU	European Union
EUR	Euro
FDI	Foreign direct investment
IFI	International Financial Institution
IMF	International Monetary Fund
LFA	Loan facility agreement
MFA	Macro-financial assistance
MoU	Memorandum of understanding
OJ	Official Journal of the European Union
PFM	Public finance management
PPP	Public-private partnership
pps	Percentage points
SME	Small and medium-sized enterprises
SOB	State-owned bank
SOE	State-owned enterprise
SWD	Staff working document
USD	United States dollar
WIIW	Vienna Institute for International Economic Studies
y-o-y	Year-on-year

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INTRODUCTION

This Staff Working Document complements the Commission's report to the European Parliament and the Council on the implementation of macro-financial assistance (MFA) to third countries in 2022 [1].

In 2022, the two remaining MFA operations under Decision (EU) 2020/701, which aimed to support 10 partner countries in dealing with the economic fallout from the COVID-19 crisis, were concluded. Tunisia received the second disbursement on 25 May 2022, thus successfully finishing the operation upon fulfilment of the policy conditions agreed in the Memorandum of Understanding (MoU). However, the second instalment for Bosnia and Herzegovina was not disbursed due to limited reform implementation by the end of the availability period.

Besides the financial assistance planned in the context of the COVID-19 pandemic, the implementation of the third regular MFA programme for Jordan was also carried out. The third and final instalment remained available until April 2023 and the programme was successfully completed by then.

After the completion of all the 10 operations under the COVID-19 MFA package, the focus shifted to the support provided in the context of Russia's war of aggression against Ukraine in 2022, notably to Ukraine itself but also to Moldova. Financial support to North Macedonia was also considered and was later proposed at the start of 2023. In these extraordinary circumstances, MFA forcefully demonstrated its continuing relevance and flexibility in allowing the EU to extend sizeable short-term financial support to countries in the EU Neighbourhood that have been strongly affected by the war or its economic fallout.

For each beneficiary country, the report provides more detailed information on: (i) their macroeconomic and financial situation; (ii) the implementation of their MFA operations; and (iii) the policy conditionality attached to the MFA operations under analysis.

The annexes include overview tables detailing the effective disbursements of MFA operations since 1990 by date of adoption of the related decisions, as well as tables detailing MFA commitment and payment amounts in 2006-2021, by year and by region [2].

[1] This document is based on information available up to 5 May 2023.

[2] The document and the annexes distinguish between authorised amounts (the amounts made available to the beneficiary country as stated in the decisions providing MFA) and disbursed amounts (the amounts actually paid to the beneficiary country).

BACKGROUND ANALYSIS OF BENEFICIARIES OF MACRO-FINANCIAL ASSISTANCE [3]

1. MOLDOVA

The Moldovan economy has been severely affected by Russia's invasion of Ukraine, as well as the protracted energy crisis and a drought in the summer. These caused a deep recession in 2022. Spiking inflation eroded households' disposable income and loss of confidence due to the war significantly reduced investment. On the fiscal side, the high energy prices necessitated further spending on subsidies to the most vulnerable consumers and increased the budget deficit. The current account deficit also increased, driven by a sizeable negative trade balance. In light of these developments, Moldova received increased financial support from its international partners, including the EU via MFA. The EU also granted Moldova candidate status on 23 June 2022, thus supporting its ambition of further deepening Moldova's political association and economic integration with the EU.

1.1 Macroeconomic performance

Following a significant post-pandemic recovery of real GDP by 13.9% in 2021, the Moldovan economy was severely impacted by Russia's invasion of Ukraine. Real GDP plummeted by 5.9% in 2022. The recession was driven by 4% and 6% falls in household consumption and investment respectively. On the production side, a drought in the summer caused agricultural output (which accounts for about 10% of Moldova's GDP) to decline by 25%. Despite a relatively strong export performance, high import prices contributed to an overall negative contribution of net exports to growth.

Inflation in Moldova accelerated markedly in 2022 and peaked at 34.6% in October compared to 5.1% in 2021. This was driven by high energy and food prices. Demand-side pressures eased somewhat in the second half of 2022, but high credit growth in the first half also contributed to the accelerating inflation. Strong inflationary pressures caused the central bank to tighten its monetary policy stance with three upward revisions of the key interest rate (by a cumulative 15 pps) in 2022 to 21.5%. Inflation had slowed (albeit moderately) by the end of the year to 30.2% and this allowed the base rate to be reduced to 20%.

On the fiscal side, Moldova's budget deficit widened to 5.2% of GDP in 2022 (1.9% in 2021) but remained below the 6.2% of GDP that was anticipated in the budgetary revision in August. Revenues and international support (including in the form of grants) were better than projected, but the increased spending on energy (through subsidies for the most vulnerable households) had a marked impact on Moldova's public finances. The authorities expect the budget deficit to widen to 6% of GDP in 2023 due to energy support via the Energy Vulnerability Reduction Fund as well as public salary and pensions increases, which are deemed necessary to partly cushion the effects of high inflation.

Moldova's public debt-to-GDP ratio is lower than that of most of its regional peers, but it did increase by 4 pps to 36.3% of GDP in 2022. The latest IMF programme review (April 2023) states that there is still a moderate risk of debt distress in Moldova due to high sensitivity to external shocks. About 95% of Moldova's public external debt is owed to multilateral creditors on concessional terms. Moldova not only has limited access to international debt markets but has also found it increasingly difficult to borrow on the

[3] This section quotes statistics supplied by national authorities and other relevant sources.

domestic market. Moldova has only been able to borrow at very short maturities and at historically high nominal interest rates (in the range of 20% to 22% per annum as of November 2022), increasing the roll-over risks of the debt.

On the external side, the current account deficit remained high in 2022 at 15.7% of GDP. This was largely driven by a high negative trade balance of 34.5% of GDP. However, remittances remained broadly stable at 13.7% of GDP despite initial fears that transfers from abroad (especially Russia and the Commonwealth of Independent States) would fall markedly. Notwithstanding the war-related uncertainty, net FDI (at 3.7% of GDP for 2022 as a whole) returned to its pre-pandemic levels, when much of it was due to reinvested earnings and carry-over effects from the previous year.

After some volatility in the foreign exchange market due to Russia's invasion of Ukraine, Moldova's foreign currency reserves have been rebuilt to high levels (USD 4.5 billion in February 2023, which corresponds to 5 months of imports).

The economy is set to make a moderate recovery in 2023 with a stronger rebound expected in 2024. This is likely to be underpinned by an increase in agricultural output (although subject to weather-related risks) as well as higher investment and stronger household consumption as real incomes increase due to falling inflation. The planned high budget deficit also suggests that the government will increase fiscal support (including continuing to support the most vulnerable in society but a gradual reorientation of government resources towards infrastructure projects). The positive impact of war-fleeing migrants on the employment rate in 2022 is likely to fade away in the coming years. Moldova's trade activity is set to be further affected by regional disturbances. However, lower energy import prices, increased long-term energy security thanks to solid reform implementation and the projected recovery of economic activity among key trading partners suggest that the country's high current account deficit will gradually narrow in the future.

Moldova – macroeconomic indicators

Moldova	2018	2019	2020	2021	2022
Nominal GDP, millions, USD	11 252	11 737	11 530	13 669	14 087
Nominal GDP per capita, USD	4 142	4 458	4 366	5 249	5 473
Real GDP, % change	4.3	3.6	-7.0	13.9	-5.9
Consumer price inflation, %, end of period	0.9	7.5	0.4	13.9	30.2
Consumer price inflation, %, average	3.1	4.8	3.8	5.1	28.6
Key monetary policy rate, %, end of period	6.5	5.5	2.7	6.5	20.0
Unemployment rate, LFS, %	2.8	4.3	3.4	2.6	3.2
General government balance, % of GDP	-0.8	-1.4	-5.1	-1.9	-5.2
Public expenditure, % of GDP	29.3	29.8	29.3	34.0	31.2
Public debt, % of GDP	30.1	27.4	33.1	32.6	36.3
Current account balance, % of GDP	-11.8	-9.5	-7.9	-11.7	-15.7
International reserves, USD billion	3.0	3.1	3.8	3.9	4.4
International reserves, months of imports	5.4	6.2	7.6	8.0	5.0
Gross external debt, % of GDP	65.1	63.2	72.5	64.1	67.0
Net FDI, % of GDP	2.3	3.9	1.2	1.7	3.7

Source: national authorities and Commission calculations

1.2 Implementation of macro-financial assistance

1.2.1 Recent macro-financial assistance operations

Moldova has benefited from 3 MFA operations since 2014. The EU approved a total of EUR 350 million under these MFAs for Moldova, of which EUR 260 million has been disbursed so far. Overall progress has been positive, but the challenging political situation has hindered full implementation of, and disbursements under, the 2017-2020 operation[4], for which the third and final instalment was cancelled because the conditions agreed in the MoU were not fulfilled before the MFA's availability period ended. After the outbreak of the COVID-19 pandemic, Moldova also benefited from the EU's EUR 3 billion COVID-19 MFA package to 10 enlargement and neighbourhood countries, of which EUR 100 million in loans was allocated to Moldova. Currently, in the context of a protracted energy crisis and challenging geopolitical situation, which has put additional pressure on Moldova's macroeconomic stability, the country continues to benefit from an ongoing MFA, which is well on track, and a proposal has been made to increase it (approval by the European Parliament and Council is pending).

The authorities officially requested a new MFA in November 2021 in response to the gas crisis in Moldova during which the price of gas imported from Russia increased by 5 to 6 times compared to the previous import price, heavily impacting the economy and contributing to higher financing needs. The EU agreed to a new operation for Moldova of EUR 150 million (EUR 120 million in loans and EUR 30 million in grants). The European Parliament and Council adopted this new MFA on 6 April 2022[5] and the MoU entered into force on 18 July 2022 after its ratification by the Moldovan parliament. Moldova's successful completion of the corresponding policy conditions (concerning the rule of law and fight against corruption, financial sector governance and energy sector reforms) allowed the first instalment to be disbursed on 1 August 2022.

On 9 March 2023, the authorities submitted to the Commission a compliance statement on the progress made in meeting the conditions for the second instalment of the ongoing MFA. The Commission assessed that four of the six actions have been fully completed and the other two have been broadly fulfilled. These two concern Action 8 on the assessment of the judiciary and prosecution self-administration bodies (pre-vetting) and Action 9 on the new customs code.[6] Based on an overall positive assessment, the Commission disbursed the grant and loan components in April and early May respectively. The final instalment is expected to be disbursed in 2024.

Russia's war on Ukraine and its severe impact on the Moldovan economy (particularly its aggravation of the ongoing energy crisis and the large inflow of war-fleeing migrants) prompted Moldova to request an increase in the ongoing operation on 11 March 2022. The Commission has responded to this request for additional assistance (especially in the form of grants) by supplementing the existing MFA with a further EUR 75 million via

[4] Decision (EU) 2017/1565 of the European Parliament and of the Council of 13 September 2017 on providing macro-financial assistance to the Republic of Moldova (OJ L 242, 20.9.2017, p. 14–21)

[5] Decision (EU) 2022/563 of the European Parliament and of the Council of 6 April 2022 providing macro-financial assistance to the Republic of Moldova (OJ L 109, 8.4.2022, p. 6–12)

[6] The four actions assessed as fulfilled were Action 4 (establishing a procedure to identify eligible public investment projects for funding), Action 5 (new Public Finance Management Reform Strategy), Action 6 (selection process for vacancies in anti-corruption and anti-money laundering institutions) and Action 7 (national programme on asset recovery)

budget support under an existing state-building and resilience contract (disbursed in July 2022).

However, despite the additional assistance, the Moldovan economy continued to face considerable challenges at the end of 2022 due, in particular, to the energy crisis. The supply and affordability of energy as well as a deteriorating external position (including volatility in the foreign currency reserves throughout 2022) caused Moldova's external financing needs to increase considerably. On 23 January 2023 and after careful assessment of Moldova's macroeconomic position, the Commission adopted a proposal for an increase of the MFA for Moldova by an additional EUR 145 million (EUR 100 million in loans and EUR 45 million in grants). This increment is to be disbursed in two additional instalments (ideally in the third and fourth quarters of 2023) subject to the fulfilment of new policy conditions to be added to the existing MoU. The European Parliament and Council adopted this additional MFA assistance on 14 June 2023.

This MFA support is provided in conjunction with the resources from international financial institutions and bilateral donors, including the IMF. On 21 December 2021, the IMF approved a new programme for Moldova of USD 558 million under the Extended Credit Facility/Extended Fund Facility (ECF/EFF). Further to the significant impact of Russia's war on Ukraine on the Moldovan economy, the ECF/EFF arrangement was increased by USD 260 million on 11 May 2022. In April 2023, the IMF concluded its third programme review, in which it assessed overall progress as positive (while granting a waiver on one performance criteria related to the accumulation of external arrears due to the temporary nature of the breach and corrective measures that had been put in place). The IMF notes the authorities' strong ownership of, and firm commitment to reforms, which justifies the IMF's further support.

1.2.2 Policy conditionality

In line with the broad objectives of cooperation between the EU and Moldova under the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA) Agreement[7] (provisionally applied from 1 September 2014, fully applied from 1 July 2016), the ongoing MFA operation has focused on several key areas of reform (e.g. the fight against corruption and the rule of law, public finance management and financial sector governance, strengthening the business climate and – in view of the energy crisis – important energy sector reforms). The Moldovan authorities have been making good progress on meeting the policy conditions so far, thus allowing two subsequent MFA disbursements.

The Moldovan authorities have made significant progress in a number of areas, such as criminal **asset recovery**, following the bank fraud crisis in 2014 (including by improving international cooperation and adopting a new asset recovery programme). This was an important set of conditions, particularly given that a waiver had been granted to Moldova under the previous COVID-19-related MFA operation for a condition on updating the previous 2018 asset recovery strategy. Moreover, further conditions under the MFA call on the Moldovan authorities to improve the institutional structure of the various anti-corruption agencies, including a clear delimitation of competences between the Anti-Corruption Prosecutors Office and the National Anti-Corruption Agency.

[7] EUR-Lex - 22014A0830(01) - EN - EUR-Lex (europa.eu)

Moldova has made significant progress in terms of **public finance management** (PFM) and a new PFM strategy is now in place. This was based on an extensive assessment process in close cooperation with international partners and followed by an open public consultation process. As regards public finances, the authorities have sought to address the chronic issue of budget execution by adopting new legislation on public investment projects, which should help Moldova improve its planning of capital budgets.

The **rule of law and justice sector** reforms are long-standing priorities for EU-Moldova cooperation and are also supported by the MFA. Moldova has scored poorly for judicial independence and transparency in the past. Therefore and in line with recommendations by the Venice Commission and best international practices, the authorities have launched a comprehensive assessment for members of the judiciary and prosecution self-administration bodies (pre-vetting). This process has not yet been finalised, but significant progress has been made with the assessment of the Superior Council of Magistracy and the Superior Council of Prosecutors. The pre-vetting process will continue in accordance with a new vetting concept adopted by the Ministry of Justice in February 2023.

Important progress has also been made in improving Moldova's medium- to long-term **energy security**. The protracted energy crisis that began in October 2021 exposed several structural weaknesses in the energy sector in Moldova and these were aggravated when energy deliveries (of both gas and electricity) were cut due to Russia's invasion of Ukraine. The Moldovan authorities have significantly increased the country's gas storage capacity and have made a commitment to make further progress towards transposing the unbundling regulations (Moldova's key commitment under the Energy Security Secretariat).

Finally and in line with the DCFTA, the authorities have also implemented important amendments to the new customs code and have adopted an implementing regulation that permits it to enter into force (this has been postponed to 2024).

The increase of the ongoing MFA will further support reform implementation, taking stock of the progress already made and identifying areas for improvement. The accompanying policy conditions will aim to ensure further effort on the pre-vetting process as well as continuation of the important work on the customs code to take all the measures necessary for its entry into force on 1 January 2024. The conditions will also be closely aligned with Moldova's efforts in relation to its candidate status (i.e. the nine agreed steps spelled out in the Opinion on Moldova's application for membership of the EU [8]). Further progress on this is expected on a number of points, such as the rule of law and good governance, and anti-corruption). The MFA also remains consistent with the government's long-term objectives.

[8] Commission Opinion on the Republic of Moldova's application for membership of the European Union, 17 June 2022. Opinion on Moldova's application for membership of the European Union (europa.eu)

MFA MOLDOVA (ENTRY INTO FORCE 18 JULY 2022 - END OF AVAILABILITY PERIOD 18 JANUARY 2025)			
Decision (EU) 2022/563	**First instalment**	**Second instalment**	**Third instalment**
Amount (EUR million)	EUR 50 million (15 grants; 35 loans)	EUR 50 million (10 grants; 40 loans)	EUR 50 million (5 grants; 45 loans)
Implementation	Disbursed	Disbursed	Pending
Policy conditions (total number)	3	6	6
Rule of law and fight against corruption	Reform on adopting legislative amendments related to asset recovery, especially the aspect of international cooperation: **fulfilled.**	Reform on appointment of vacant management positions in several anti-corruption institutions: **fulfilled**. Reform on adopting a new asset recovery programme: **fulfilled.** Reform on assessment of candidates for the judiciary and prosecution self-administration bodies (pre-vetting): **broadly fulfilled.**	Reform on delineating competences between the Anti-Corruption prosecutors Office and the National Anti-Corruption Centre (with clear division of tasks between high level and petty corruption cases): **pending**.
Financial sector governance	Reform on legislative amendments concerning the electronic payment system: **fulfilled**.		
Energy sector	Reform on establishing gas storage capacity: **fulfilled.**		Reform on increasing the capacity of the Energy Efficiency Agency and Energocom: **pending.** Reform on ensuring progress towards full transposition of the Energy Community *acquis*, especially as

			regards unbundling: **pending.**
Public sector governance		Reform on legislation concerning public investment projects: **fulfilled.** Reform on adopting a new public finance management strategy: **fulfilled.**	Reform on adoption of a new public procurement programme: **pending.**
Business environment		Reform on legislative amendments to the new customs code, its implementing regulation and entry into force: **broadly fulfilled.**	Reform on amending the law on free economic zones: **pending.** Reform on adopting a new strategy for combating undeclared work: **pending.**
Remarks	The political precondition [9] for granting the EU's MFA has been respected; Moldova has a positive track record with the ongoing IMF programme.		The disbursement of the third and final instalment is expected to be made in 2024, subject to a continuing positive track record with the IMF programme and fulfilment of the political precondition and of the policy conditions.

1. UKRAINE

Russia's war of aggression is taking a heavy toll on Ukraine, whose macroeconomic performance was muted already in peace times. In these unprecedented circumstances, the international community, including the EU and its Member States, has affirmed its solidarity and ensured the provision of adequate resources so that Ukraine can maintain its core state functions and macroeconomic stability. The EU's MFA to Ukraine in 2022 has been generous with a commitment of EUR 7.2 billion of highly concessional loans (including a subsidy on interest rate payments under its emergency and exceptional MFA packages). This support has been provided on an ad hoc basis, so the Commission

[9] A precondition for granting MFA is the beneficiary country's adherence to effective democratic mechanisms. These include having a multi-party parliamentary system, observing the rule of law and respecting human rights.

proposed the establishment of the MFA+ instrument for Ukraine (adopted by the EU's co-legislators on 14 December 2022) to provide the financial support in 2023 in a more structured and predictable manner. The candidate status granted by the European Council on 23 June 2022 anchors Ukraine firmly to its path to join the EU.

2.1 Macroeconomic performance

Beyond the human suffering it is causing, Russia's war of aggression is inflicting profound damage on Ukraine's society and economic potential. The destruction of physical capital and infrastructure will seriously hamper future economic growth. The massive human exodus of about 7 million people abroad (more than 4 million have sought temporary protection status) and the equally massive internal displacement of more than 6.5 million people within Ukraine has a dire impact on the labour market and the country's potential output. The prolongation and recent intensification of the war has caused further capital depletion and increased the extent of reconstruction that will be required in the future.

After a milder-than-expected COVID-19 recession in 2020 (when GDP fell by 3.8%) and an incomplete rebound in 2021 (when real GDP rose by 3.4%), the economy contracted by 29.1% in 2022. The fall in output was particularly severe in the first half of 2022, but there was some relative stabilisation in the second half of the year. The yearly contraction was somewhat less severe than initially expected, but it was still the sharpest fall since the country became independent in 1991. The economy has proved more resilient than expected to Russian attacks on the power grid in late 2022 and early 2023, which destroyed or seriously damaged half of the country's electricity infrastructure. It is estimated that population displacement, high inflation and soaring unemployment (due to an overall subdued business activity and severe output contraction in active conflict regions) have caused private consumption and investment to fall by around 30% and 35% respectively. A net fall in exports caused about a third of the GDP contraction. Logistical difficulties had a heavier impact on exports than on imports, which were also boosted by refugees' consumption abroad. Public consumption, which was stimulated by the war-related expenditure, made a small positive contribution.

Economic contraction has had a considerable impact on the labour market. The unemployment rate had oscillated around 10% before 2022, but is expected to have increased to around 25% at the end of 2022. This deterioration will have been partly mitigated by the combined impact of war mobilisation and of population decline due to large-scale emigration. Nominal wages are expected to have fallen slightly in 2022, leading to a decline in real wages of about 30%, which would be consistent with the extent of the fall in private consumption.

The National Bank of Ukraine (NBU) has partly financed the war by suspending the inflation-targeting framework, fixing and devaluing the exchange rate, and raising its main refinancing rate. Official reserves suffered a depletion of almost USD 9 billion in the first months of the war, but the subsequent sizeable international financial support helped build them back up to almost USD 35.9 billion (4.7 months of imports) by the end of April 2023 (i.e. a third higher than a year earlier and the highest level for the last 11 years). This allowed the NBU to refrain from a further increase in its policy rate beyond 25% (last hike in June 2022) or from further devaluation (beyond the 25% in July 2022). Confidence in the hryvnia strengthened further in early 2023, when the spread between the market and official rates narrowed down to a rather marginal 5 pps.

The banking sector has remained stable and maintained ample liquidity, but its loan portfolio is expected to deteriorate. Its solvency, which has been supported by the temporary supervisory forbearance measures, will be assessed in the context of an asset-quality review and a stress test to be carried out later in 2023 (if the situation permits). The share of non-performing loans has been rising since the start of the war and the aggregate ratio had more than doubled to 23% in the retail portfolio by October 2022 and increased by one third to almost 50% in the corporate loans segment.

Accelerating money supply and an increase in the relative scarcity of goods together mean that the hryvnia's purchasing power is expected to continue falling. Consumer price inflation reached 26.6% in December 2022 but eased to 21.3% in March 2023 (slightly below expectations). The growth of the money supply in the broad sense (aggregate M3) accelerated to 23.9% in February 2023, which was significantly above the 10.5% increase a year earlier. These expansionary dynamics reflect the substantial role of money printing in financing the war, especially during the first 9 months. It can be expected to underpin continued high inflation of around 20% this year.

The state of public finances has deteriorated markedly due to the duration and cost of the conflict and its impact on the economic activity. The 2022 budget deficit reached 26.5% of GDP if foreign grants are excluded. Foreign grants, which represented around 10% of GDP, made it possible to limit general government borrowing to 16.7% of GDP in 2022. Skyrocketing expenditure on defence and public order increased overall public expenditure by 65% in 2022. Tax revenues contracted by almost 8% in 2022, but total public revenues increased by 32%, thanks mainly to the massive foreign grants. All in all, the war is expected to completely reverse the impressive fiscal consolidation that had been achieved since 2017 (public debt decreased from around 80% of GDP at the end of 2016 to 49% of GDP at the end of 2021). Sizeable borrowing and the steep decline in nominal GDP caused total public debt to reach 78.5% of GDP at the end of 2022.

The loss of access to international debt markets means that Ukraine is now entirely reliant on foreign assistance and monetary financing. Banks' demand for domestic government bonds plummeted just after the Russian offensive of March 2022 but recovered in the second half of 2022. This was partly due to the NBU's decision to recognise treasury notes as eligible for the minimum liquidity reserve requirement. In 2022, the roll-over rates in the primary (domestic) government bond market reached 192%, 67% and 106% for UAH-, USD- and EUR-denominated bonds respectively – even though the average hryvnia yield of 18.3% was well below the yearly inflation and the main refinancing rate. While domestic investors continue to support the war effort, the latest market data imply expected losses of around 85% for foreign Eurobond holders.

The sizeable positive net income from abroad was responsible for a recorded current account surplus of 5.4% of GDP in 2022. The trade deficit widened to 15.6% of GDP, driven by a strong contraction in the exports of goods (-35.2%) due to production disruptions as well as transport and supply chain difficulties. Imports of goods also contracted (-19.5%), but imports of services increased by 75.8% to 16.2% of GDP, primarily driven by refugees' personal expenditure abroad. Primary and secondary income balances taken together registered a net inflow of 21% of GDP, thereby accounting for the overall current account surplus. This sizeable net positive income from abroad was sustained by the substantial foreign grants as well as the stable remittances of 8.6% of GDP.

After a significant recovery in 2021, foreign direct investment has collapsed since the outbreak of the war. Inward FDI shrank by 93% in 2022. Portfolio investment in Ukraine registered an outflow of 1.4% of GDP in 2022 and other investment in the country was 8.6% of GDP, driven primarily by the increase in government borrowing. However, the financial account registered an aggregate outflow of almost 7.1% of GDP in 2022 due to the additional hoarding of foreign cash to a total value of USD 10.8 billion (6.8% of GDP) and the exceptional accumulation of trade credits with the rest of the world of more than USD 11.3 billion (7.1% of GDP). The gap in the current account inflow of USD 8.4 billion was financed through a USD 2.9 billion drawdown on the official international reserves.

Under the assumption that the combat eases and becomes more localised in the course of

2024, which is the basis for most available forecasts, real GDP is expected to stabilise in 2023 and rebound moderately in 2024. Inflation is likely to remain high throughout 2023 and to decline progressively in 2024, continuing to erode real incomes and wealth. The government plans a fiscal deficit (excluding grants) of 28.2% of GDP in 2023, resulting in a projected public debt of 85.3% of GDP at the end of 2023. Unemployment is projected to stay at around 15% in 2023 (with a labour force that is still reduced) and to improve in 2024 as reconstruction activity picks up. The current account is projected to remain positive at 1.7% of GDP in 2023 before returning to a deficit in 2024.

Ukraine – macroeconomic indicators

Ukraine	2018	2019	2020	2021	2022
Nominal GDP, USD millions	130 891	153 947	156 624	200 126	160 000
Nominal GDP per capita, USD	3 088	3 652	3 738	4 812	4 305
Real GDP, % change	3.5	3.2	-3.8	3.4	-29.1
Consumer price inflation, %, end of period	9.8	4.1	5.0	10.0	26.6
Consumer price inflation, %, average	11.0	7.9	2.7	9.3	20.2
Key monetary policy rate, %, end of period	18.0	13.5	6.0	9.0	25.0
Growth rate of the money supply, M3	5.7	12.6	28.6	12.0	20.8
Unemployment rate, LFS, %	8.8	8.2	9.5	9.9	25.1
General government borrowing, % of GDP	-1.9	-2.1	-5.2	-3.3	-16.7
Public expenditure, % of GDP	35.1	34.5	38.0	33.8	60.4
Gross public debt, % of GDP	60.9	50.2	60.4	48.9	82.1
Current account balance, % of GDP	-4.9	-2.7	3.4	-1.6	5.2
Official international reserves, USD billion	20.8	25.3	29.1	30.9	28.5
International reserves, months of imports	3.5	4.0	5.5	4.4	4.2
Gross external debt, % of GDP	87.6	79.1	80.2	64.8	95.1
FDI, liabilities net of reinvested earnings % of GDP	2.0	1.8	1.7	0.5	-0.0

Sources: national authorities and Commission calculations

2.2 Implementation of macro-financial assistance

2.2.1 Recent macro-financial assistance operations

Between 2014 and 2021, five consecutive MFA operations provided a total of EUR 5.6 billion to Ukraine, out of which EUR 5.0 billion was disbursed effectively [10]. In response to economic and social challenges arising from the geopolitical tensions in late 2021 / early 2022 and the security threats on the border between Ukraine and Russia which subsequently escalated in the latter's unjustified war of aggression against Ukraine, the Commission tabled a proposal for a sixth, emergency, MFA to Ukraine of up to EUR 1.2 billion on 1 February 2022. The Decision granting this **emergency MFA**[11] operation entered into force on 3 March 2022 and the first instalment of EUR 600 million was disbursed in two tranches on 11 and 18 March 2022. The second instalment of EUR 600 million followed in mid-May. In the context of the disbursement of this instalment, the Commission concluded that the Ukrainian authorities had, overall, taken action to implement the agreed conditionality. However, the war constitutes *force*

[10] The third EUR 600 million instalment of MFA-III could not be disbursed because 4 of the 21 structural policy conditions had not been implemented when the availability period expired in January 2018.

[11] Decision (EU) 2022/313 of the European Parliament and the Council of 24 February 2022 providing macro-financial assistance to Ukraine, OJ L 55, 28.2.2022, p. 4–11.

majeure that impeded the effective and full completion of the structural policy measures. The Commission, as an exceptional response to Ukraine's acute financing needs and since the conditionality was not achievable at that stage for reasons of *force majeure*, and having consulted the Member States' Committee for Macro-financial Assistance, nonetheless decided to proceed with the disbursement of the second instalment as a matter of urgency.

As a part of the EU's extraordinary support to Ukraine, namely to make a sizeable contribution to the financing of Ukraine's immediate funding needs in the context of Russia's unprovoked and unjustified war of aggression, the Commission proposed on 1 July 2022 a new EUR 1 billion MFA operation for Ukraine in the form of a highly concessional long-term loan. This proposal was the first part of the **exceptional MFA** support of up to EUR 9 billion announced in the Commission's Communication on Ukraine Relief and Reconstruction of 18 May 2022[12] and endorsed by the European Council of 23-24 June 2022[13]. The exceptional MFA aimed to provide immediate financial assistance in a situation of acute funding needs and to ensure macroeconomic stability and the continued functioning of the most critical functions of the Ukrainian state, which had to increasingly resort to printing money and drawing down its foreign reserves in the second quarter of 2022. The European Parliament and the Council swiftly adopted the Decision to grant Exeptional MFA over EUR 1 billion on 12 July 2022[14], making use of all available procedural flexibilities that could speed up the process. The Commission and Ukraine signed the related MoU on 19 July, which made it possible to disburse the whole of this first part of the exceptional MFA support in two tranches in early August 2022.

On 7 September 2022, the Commission proposed a second MFA operation of EUR 5 billion in loans under the exceptional MFA package. The European Parliament and the Council adopted the MFA Decision on 20 September 2022[15], once again using all available procedural opportunities to speed up the process. After the entry into force of the MoU on 4 October, a first instalment of EUR 2 billion was disbursed to Ukraine on 18 October. The second disbursement of EUR 2.5 billion followed on 22 November 2022. The third and final payment of EUR 500 million took place on 14 December 2022. The exceptional MFA operations, which brought the EU's support to Ukraine since the beginning of the war up to a total of EUR 7.2 billion, were vital to maintaining macroeconomic stability in the country.

Some changes have been introduced to the support under the exceptional MFA package relative to the standard MFA set-up, in order to adapt the instrument to the immense

[12] Communication from the European Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee, and the Council of the Regions – Ukraine Relief and Reconstruction, EUR-Lex - 52022DC0233 - EN - EUR-Lex (europa.eu)

[13] Conclusions of the European Council meeting of 23 and 24 June 2022, pdf (europa.eu)

[14] Decision (EU) 2022/1201 of the European Parliament and of the Council of 12 July 2022 providing exceptional macro-financial assistance to Ukraine OJ L 186, 13.7.2022, p. 1–7

[15] Decision (EU) 2022/1628 of the European Parliament and of the Council of 20 September 2022 providing exceptional macro-financial assistance to Ukraine, reinforcing the common provisioning fund by guarantees by Member States and by specific provisioning for some financial liabilities related to Ukraine guaranteed under Decision No 466/2014/EU, and amending Decision (EU) 2022/1201, OJ L 245, 22.9.2022, p. 1–13

uncertainty and extraordinarily challenging war environment. First, a dedicated reporting system to ensure the efficient, transparent and accountable use of MFA funds was set up with the first part of the exceptional MFA support and has been used in the operations since then. In a departure from the usual practice of conducting an operational assessment (OA) of the country's financial and administrative circuits before the conclusion of the MoU, the OA for this operation was conducted during the implementation of the operation and jointly with the following second part of the exceptional MFA support and for the MFA+ instrument. Second, as regards structural policy conditionality, no requirements (other than the set-up of the reporting system) were attached to the first exceptional MFA operation because the disbursement was made in a single instalment and given the urgency of the financing needs. The release of the funds under the second part of the exceptional MFA support was subject to a carefully chosen and limited set of relevant and feasible policy conditionality aiming at strengthening the country's resilience and economic stability, improving the business climate, reinforcing the rule of law and governance, and ensuring Ukraine's energy security. To reflect the extraordinarily challenging war environment, the full completion of policy actions attached to the disbursements was required only for the final instalment, with previous disbursements being only subject to satisfactory progress towards the implementation of those actions. Third, both exceptional MFA operations were not conditional on the presence of a disbursing IMF arrangement, because such support was not possible in the condition then prevailing. However, the MFA was provided in very close coordination with the IMF and other IFIs on support to Ukraine. Moreover, the successful implementation of the reform agenda underpinning the exceptional MFA demonstrated the authorities' resumed ability to implement targeted policy measures despite the adverse circumstances. The IMF Executive Board was later in a position to approve the Ukrainian authorities' request for programme monitoring with board involvement (PMB) on 19 December 2022. This four-month PMB, a non-disbursing programme, was tailored to Ukraine's exceptional war circumstances, with a view to helping the authorities implement prudent macroeconomic policies during this particularly difficult period and catalysing donor-financing. Fourth, setting up the exceptional MFA operations in a highly concessional manner has reduced the impact on the country's debt sustainability. Exceptionally, an interest rate subsidy and a waiver of administrative costs have been granted to relieve the country of interest rate repayments. In conjunction with a maximum average maturity of 25 years, the EU has made every effort to ensure the most favourable terms and conditions for the loan in order to alleviate the fiscal burden on the country, thus making the support as grant-like as possible. Fifth, taking into account the exceptionally high level of risk and uncertainty in the war context, the provisioning rate of 9% generally applied for MFA loans to countries addressing a balance of payment crisis has been considered to be inadequate for the exceptional MFA support. A coverage rate of 70% was therefore set in order to contain the risk implied by this additional MFA to Ukraine, in line with the principles of sound financial management. The composition of this coverage was allocated to paid-in provisioning of 9% from the EU budget and callable guarantees from Member States for a further 61% of the outstanding loan amounts.

On 9 November 2022, in view of the ongoing war and Ukraine's continuing external financing needs, the Commission presented a proposal for a new instrument, **Macro-Financial Assistance+**, to channel up to EUR 18 billion in highly concessional loans to Ukraine in 2023 in a predictable, continuous, orderly and timely manner. The European

Parliament and Council swiftly approved the MFA+ Regulation on 14 December 2022[16]. Unlike standard MFA operations, and to reflect the war circumstances in Ukraine, this MFA+ instrument provides several layers of further increased flexibility. Reflecting the realities of the war, the instrument drew on the design of conditionality under the second exceptional MFA operation, so that full completion of policy actions attached to the disbursements will be required only for the final instalment, with previous disbursements requiring satisfactory progress towards the implementation of those actions. Again, the implementation of the reporting system introduced with the first exceptional MFA is continued. Moreover, the MoU and its conditionality could be reviewed and, if necessary, amended at mid-term (summer 2023) if the war's continuing development so requires. Furthermore, the MFA+ instrument is likewise not conditional on a disbursing programme by the IMF, but close cooperation with the IMF on the economic analysis and consistency of policy actions with those recommended by the IMF will continue. The concessional nature of the support is strengthened through longer maturities of up to 35 years and an interest rate subsidy. Finally, the loans to Ukraine are being covered by a guarantee from the headroom of the EU's budget, instead of by guarantees from the EU budget or the Member States (as was the case for previous MFA operations to Ukraine since the outbreak of the war).

The following table gives an overview of the various flexibility elements of the two exceptional MFA operations and the MFA+ instrument and contrasts them with the standard elements that typically apply to MFA operations.

<table>
<tr><th>Element</th><th>Exceptional MFA</th><th>MFA+</th><th>Standard MFA</th></tr>
<tr><td>Link to the IMF</td><td colspan="2">Not subject to the existence of a disbursing IMF programme but close cooperation with the IMF (particularly on the analysis of financing needs and the broader macroeconomic situation)</td><td>Subject to the existence of a disbursing IMF programme and a continuous satisfactory track record of implementing it</td></tr>
<tr><td>Financial terms and conditions</td><td colspan="2">Maximum average maturities of up to 25 years (35 years for MFA+) as well as a subsidy for the interest costs and a waiver of administrative costs</td><td>Typically a maximum average maturity of 15 years and pass-through of interest costs borne by the EU's borrowing</td></tr>
<tr><td>Budgetary coverage of contingent liabilities</td><td>70% budgetary coverage, of which 9% is paid-in provisioning to the Common Provisioning Fund (CPF) and 61% is Member State guarantees.</td><td>Backed up by a guarantee from the EU budget headroom (i.e. the budgetary space above the ceiling for payments of the multiannual financial framework (MFF) up to the limits of the own resources</td><td>9% paid-in provisioning to the CPF</td></tr>
</table>

[16] Regulation (EU) 2022/2463 of the European Parliament and of the Council of 14 December 2022 establishing an instrument for providing support to Ukraine for 2023 (macro-financial assistance +), OJ L 322, 16.12.2022, p. 1–14.

		ceiling).	
Conditionality	No conditionality apart from reporting requirements for exceptional MFA-I. In addition, for exceptional MFA-II, full completion of policy actions was required only for the final instalment and previous disbursements were only subject to satisfactory progress towards the implementation of those actions.	Full completion of policy actions required only for the final instalment, with previous disbursements only subject to satisfactory progress towards the implementation of those actions and of the reporting requirements.	Satisfactory implementation of the policy conditions is required and defined for every instalment in the MoU.
Operational assessment	Conducted during the implementation of the MFA operation.		Carried out before the conclusion of the MoU.

2.2.2 Policy conditionality

Before Russia's war of aggression against Ukraine, the emergency MFA identified four priority policy areas for reform: PFM, governance and the rule of law, improving the business climate, and sector reforms and SOEs. The eight policy measures underpinning the operation, which have been identified as feasible in the short term, are aimed at completing the governance reform of SOEs, improving the business environment for small and medium-sized enterprises, completing the anti-corruption infrastructure and ensuring functioning market mechanisms in the energy sector. The emergency MFA has clearly shown the limitations imposed by the war but there is also ongoing acknowledgement of the importance of a relevant reform agenda in order to underpin the financial assistance. The exceptional MFA therefore focused on a more limited list of particularly pressing policy objectives: economic resilience and stability, governance and the rule of law, and energy. The seven policy measures are considered to be not only highly relevant in the war context and for the preparation of the country's recovery and reconstruction but also achievable even in the current extremely challenging circumstances. They are aimed at guaranteeing the continuous functioning of the most critical state functions. These policy actions remain relevant and have been expanded into 20 structural measures in four areas under the MFA+ instrument for support to Ukraine in 2023 (macro-financial stability, structural reforms and good governance, rule of law, and energy), but the post-war reconstruction phase will involve a much wider range of priorities.

This conditionality should be seen against the backdrop of the ambitious and wide-ranging reform programme that Ukraine embarked upon after the political transition in 2014. This programme was guided by continuous implementation of the association agreement with the EU and supported by large-scale financial and technical assistance provided by the EU and other multilateral and bilateral partners. Ukraine managed to make progress with reforms in a variety of sectors, although overall progress has been uneven. The main obstacles to faster reform implementation before the war were the complex domestic political environment; the lack of political will to implement ambitious reforms in certain sectors; and opposition from vested interests, some of which continue to influence policymaking in the country. Strong ownership of the reconstruction efforts combined with a firm wish to join the EU are providing an opportunity to tackle these challenges and to enable Ukraine to ‘build back better’.

In the area of **public finance management**, the track record of reforms supported by MFA operations is rather favourable. New laws have improved fiscal governance by introducing medium-term budgeting and by strengthening programme-based budgeting. The reorganised State Tax Service and Customs Service are now fully operational. More recent actions in this area have included enhancing the VAT-monitoring system based on risk management, developing the electronic tax audit methodology and using new IT solutions in the customs service. To improve tax compliance, the authorities started the gradual deployment of electronic software tax registrars in 2020. In addition, the State Fiscal Service, which was seen as an old-style tax police that disrupted business activity, has been replaced by the recently established Bureau for Economic Security.

Governance reforms have resulted in the setting up of new anti-corruption institutions: the National Anti-Corruption Bureau (NABU), the National Agency for the Prevention of Corruption (NAPC), the Specialised Anti-Corruption Prosecutor Office (SAPO) and the High Anti-Corruption Court (HACC). After a difficult start, these institutions have started to prove their effectiveness: in the last 2 years, the HACC has issued 45 decisions in cases that had been investigated and prosecuted by either NABU and SAPO. 80% of these decisions have led to convictions for bribery, embezzlement of public funds, abuse of office and other corruption offences. The most recent legislative changes in this field are underpinned by the MFA and are aimed at strengthening the institutional independence of NABU and enhancing the credibility of the selection process of its head. However, although the anti-corruption infrastructure is functioning, it remains fragile and prone to political attacks. For instance, disputes prevented the nomination of the SAPO’s head until summer 2022, thereby depriving the institution of stable strategic management.

In spite of reform efforts since 2016, the current **judicial system** suffers from very low levels of public trust due to systemic corruption, the low efficiency of the courts, poor management of resources and insufficient transparency. This is considered to be a key impediment to investment and economic growth. The recently adopted laws address two key judicial self-governance bodies: the High Council of Judges (through integrity vetting) and the High Qualification Commission of Judges, which preselects judges. Challenges nevertheless remain, including in the Constitutional Court. The attestation of prosecutors at both regional and local levels was completed in 2021. Nevertheless, around 2 000 challenges to the attestation are pending in various courts.

Important measures have been launched in order to improve the corporate governance and transparency of **state-owned enterprises and banks**. For instance, their supervisory boards have been granted appropriate powers and are required to have a majority of independent members, who are to be selected on a competitive and transparent basis. However, adherence to the corporate governance framework worsened in 2021 and its strict implementation has become practically impossible in the context of the war. In line with OECD guidelines, the Ministry of Economy drafted and sent to the parliament a draft law on the corporate governance of SOEs in the second half of 2021, but its adoption is still pending.

The **energy sector** has also undergone comprehensive reform aimed at introducing the liberalised gas and electricity market model inspired by the EU’s Third Energy Package.

Ukraine transposed most of the relevant EU gas and electricity-related sector *acquis* in 2015-17. This legislation provided, inter alia, for a stronger role of the market in the energy sector; for unbundling generation and supply from its transmission and distribution; and for strengthening the energy regulator. A number of issues are still hampering the functioning of, and competition in, the market. In view of the international energy price hikes, mounting debts and payment arrears in both the gas and electricity sectors are of particular concern. Secure, competitive and sustainable provision of energy, which is of key importance for the resilience of the economy, has improved since Ukraine joined the EU grid in late February 2022.

Given the mixed progress made with reform implementation, major challenges remain in relation to further reform of the judicial system, corporate governance, energy and reducing the regulatory burden. Addressing these remaining challenges as part of a comprehensive effort to tackle the multiple challenges resulting from the ongoing war and its destructive impact on Ukraine's productive capacity and economic structures, once the situation stabilises, will be crucial to rebuilding the economy better and attracting investors to underpin a sustainable economic recovery.

EMERGENCY MFA UKRAINE (ENTRY INTO FORCE 3 MARCH 2022 - END OF AVAILABILITY PERIOD 4 MARCH 2023)		
Decision (EU) 2022/313	**First instalment**	**Second instalment**
Amount (EUR million)	EUR 600 million (loans)	EUR 600 million (loans)
Implementation	Disbursed	Disbursed
Policy conditions (total number)		7 Assessed together as **not achievable for reasons of *force majeure.***
Economic resilience and stability		Ensure the reappointment or transparent and merit-based selection of high-quality independent professionals as members of the supervisory boards of the state-owned banks (SOBs) by the end of June 2022: **not achievable for reasons of *force majeure.*** Continue to work on the corporate governance reform of SOEs in line with the OECD Guidelines: **not achievable for reasons of *force majeure.*** Develop an action plan to identify

		the crucial obstacles for SME development: **not achievable for reasons of *force majeure.***
Governance and rule of law		Integrity vetting of candidates to the vacant High Council of Justice and selection of candidates to the High Qualification Commission of Judges of Ukraine: **not achievable for reasons of *force majeure.*** Complete the selection of a new head of the Specialised Anti-corruption Prosecutor's Office (SAPO): **not achievable for reasons of *force majeure***.
Energy		Appointment of the Supervisory Board of NJSC Naftogaz and approval of a plan for gas purchases and storage: **not achievable for reasons of *force majeure***. Increasing and keeping the tariff for electricity transmission serves at the level of full recovery of economically justified costs: **not achievable for reasons of *force majeure***.
Remarks	The political precondition for granting the EU's MFA was respected. The second review of the IMF's Stand-by Arrangement (SBA) programme approved in 2020 could not be concluded due to the start of Russia's invasion of Ukraine. Instead, the IMF Board approved emergency financing under the Rapid Financing Instrument (RFI) on 9 March 2022 and suspended the SBA. As an exceptional response to Ukraine's acute financing needs and since the conditionality could not be achieved at this stage for reasons of *force majeure*, the Commission decided (after consulting the Member States Committee on MFA) to proceed with the disbursement of the second tranche as a matter of urgency. The conditions that could not be met at the time of this operation due to *force majeure* were (partly adapted to the evolving situation) incorporated in the conditionality underlying the subsequent exceptional MFA operation and/or the MFA+ instrument.	

EXCEPTIONAL MFA-I UKRAINE **(ENTRY INTO FORCE 19 JULY 2022 - END OF AVAILABILITY PERIOD 18 JULY 2023)**	
Decision (EU) 2022/1201	**Single instalment**
Amount (EUR million)	EUR 1 000 million (loans)
Implementation	Disbursed
Remarks	The political precondition for granting the EU's MFA was respected. This operation was not made conditional on a disbursing IMF programme or on the implementation of policy reforms. The authorities undertook to set up and implement a reporting system on the use of the fund.

EXCEPTIONAL MFA-II UKRAINE **(ENTRY INTO FORCE 4 OCTOBER 2022 - END OF AVAILABILITY PERIOD 3 OCTOBER 2023)**			
Decision (EU) 2022/1628	**First instalment**	**Second instalment**	**Third instalment**
Amount (EUR million)	EUR 2 000 million (loans)	EUR 2 500 million (loans)	EUR 500 million (loans)
Implementation	Disbursed	Disbursed	Disbursed
Policy conditions **(total number)**		7	6
Economic resilience and stability		Prepare a roadmap for phasing out the temporary emergency economic and financial measures imposed for the duration of the war: **fulfilled.** Develop an action plan to identify the crucial obstacles for SME development: **progress**	Develop an action plan to identify the crucial obstacles for SME development: **broadly fulfilled.** Methodology and criteria for selection of supervisory board members of state-owned banks: **broadly fulfilled.**

		made in in implementing. Methodology and criteria for selection of supervisory board members of state-owned banks: **progress made in implementing.**	
Governance and rule of law		Integrity vetting of candidates to the vacant High Council of Justice and selection of candidates to the High Qualification Commission of Judges of Ukraine: **progress made in implementing**. Increase institutional independence and operational effectiveness of the Specialised Anti-Corruption Prosecutor's Office: **progress made in implementing.**	Integrity vetting of candidates to the vacant High Council of Justice and selection of candidates to the High Qualification Commission of Judges of Ukraine: **broadly fulfilled.** Increase institutional independence and operational effectiveness of the Specialised Anti-Corruption Prosecutor's Office: **fulfilled.**
Energy		Develop a plan for gas purchasing and storage: **progress made in implementing.** Develop a plan to ensure settlements with producers of electricity from renewable energy sources and adjust the electricity transmission tariff: **progress made in implementing.**	Develop a plan for gas purchasing and storage: **fulfilled.** Develop a plan to ensure settlements with producers of electricity from renewable energy sources and adjust the electricity transmission tariff: **fulfilled.**
Remarks	The political precondition for granting the EU's MFA was respected.		

	This operation was not conditional on a disbursing IMF programme. First instalment conditional on satisfactory implementation of the reporting system on the use of funds.	Conditional on satisfactory implementation of a reporting system on the use of funds and satisfactory progress towards the implementation of the policy conditions.	Conditional on satisfactory implementation of a reporting system on the use of funds and the policy conditions.

2. JORDAN

GDP growth was resilient in 2022 and is projected to remain solid in 2023/2024, driven by the recovering tourism sector. Inflation has remained contained, but high unemployment persists. The budget deficit narrowed slightly in 2022 on the back of fiscal consolidation measures, but public debt remains high. Progress with reforms was recorded for several action points of the MFA conditionality. The MFA to Jordan was successfully concluded in 2023, with the disbursement of the third and final instalment in May 2023.

3.1 Macroeconomic performance

Jordan continues to be partly shielded from the immediate effects of Russia's war of aggression against Ukraine because it has long-term gas supply agreements with Egypt and large cereal reserves. Wheat and barley reserves are sufficient for more than 12 months and no shortage has been recorded. Jordan's reliance on multiple suppliers assures its food security.

Economic growth stabilised at 2.7% y-o-y during the first three quarters of 2022; the same growth rate is also expected to have been recorded for the whole year (after 3.1% in 2021). Growth was mainly driven by the strong improvement in external sector factors, such as tourism income and total exports. Jordan benefited in particular from higher demand for its phosphate and potash products following Russia's invasion of Ukraine; both are used in the production of fertilisers.

Activity in the tourism sector recovered to pre-pandemic levels. Tourism revenue increased by 110% y-o-y to reach USD 5.8 billion (12% of GDP) in 2022, thereby surpassing the pre-pandemic level of 2019. The number of tourists grew by 90% y-o-y, reaching 1.4 million visitors in 2022.

The unemployment rate remained stable at a very high 23.1% in Q3-2022. Women's unemployment rate increased from 30.8% in Q3-2021 to 33.1% in Q3-2022, while men's unemployment rate decreased from 21.2% to 20.5% during the same period. Youth unemployment (for the 15-24 age group) remains a challenge, as the rate reached 46.9% in Q3-2022. Unemployment also remains high among university graduates (29.3% in the same period).

Inflation as measured by the Consumer Price Index (CPI) was a comparatively limited 4.4% in 2022 (up from 1.3% in 2021). The increase was mainly driven by price hikes for fuel and lighting (25.6%) and transportation (5.6%) due to the increase in global energy prices in 2022. Following Russia's invasion of Ukraine, the Jordanian authorities temporarily froze local petrol prices in February 2022. The later removal of these subsidies (in response to an IMF demand) triggered widespread and violent protests. The King responded by instructing the government to freeze the kerosene tax during the winter 2022/23, in an effort to ease the financial burden on the population. Food price inflation remained contained at 3.5% in 2022. The greatest increases were recorded for oils at 8.5%, vegetables and legumes at 5.4% and cereal at 4.3%. The increase for cereals was relatively low thanks to Jordan's large cereal stocks and bread subsidies.

In view of the international monetary tightening throughout 2022 and into 2023, the Central Bank of Jordan (CBJ) raised its interest rates on all monetary policy instruments by 425 basis points in eight steps. The most recent hike at the beginning of 2023 brought the main rate up to 6.75%. Given the Jordanian dinar's peg to the USD, the CBJ's decision to raise the interest rate was necessary (even if inflationary pressures were relatively limited) in order to be in line with the US Federal Reserve's monetary policy tightening and to avoid pressures on capital flows.

The budget deficit (including foreign grants) was 4.2% of GDP during the first 11 months of 2022 (5.3% of GDP in 2021). Excluding grants, it was 6.6% of GDP (7.8% of GDP in 2021). Domestic revenue increased by 9.0%, mainly thanks to higher revenues from the income and value added taxes and from mining. Expenditure increased by 6.8%, in particular due to an increase in interest payments, military expenditures and compensation of civil servants. Military expenditure continued to be the largest current expenditure item (32% of total expenditure), followed by the salaries and wages of civil servants (21%) and pensions and transfers (19%). The temporary freeze in local petrol prices cost USD 635 million (1.3% of GDP).

Public debt remained stable at 110.9% of GDP in November 2022 (110.2% of GDP in 2021). When excluding the funds borrowed from the Social Security Investment Fund (SSIF), total public debt stood at 88.2 % of GDP in November (88.6% of GDP in 2021). The authorities are committed to reducing the latter ratio to 80% of GDP by 2027. The IMF assessed the debt ratio (excluding the funds borrowed from the SSIF) as sustainable in its most recent report from December 2022.

The current account deficit widened to 12.7% of GDP during the first three quarters of 2022 (8.5% of GDP during the same period of 2021), driven by a strong increase in imports of goods in value terms (in particular of energy and cereals) that brought the deficit in trade in goods to 25.9% of GDP. The strong recovery of the tourism sector boosted the balance in trade in services to a surplus of 4.2% of GDP, thus mitigating the impact of the trade balance on the overall current account balance.

Remittances by Jordanians abroad mitigated the current account deficit. During the first three quarters of 2022, they amounted to roughly USD 3 billion (8.4% of GDP), 10% more than the pre-pandemic level. An estimated 790 000 Jordanians live abroad, roughly one third in Saudi Arabia, followed by the United Arab Emirates, the United States, Kuwait, Qatar and the rest of the world.

Economic growth is projected to remain solid at 2.7% in 2023 (IMF projection in December 2022), the same rate as in 2022, as the continuing post-pandemic recovery is expected to offset slower global growth and tighter global financial conditions. Fiscal policy is expected to continue its consolidation course, narrowing the budget deficit by broadening the tax base and improving the efficiency and targeting of social measures. The consolidation is nevertheless planned to be very gradual, in light of the challenging global economic environment and the very high unemployment, in order to protect the fragile recovery and avoid further social tensions.

Jordan - macroeconomic indicators

Jordan	2018	2019	2020	2021	2022	Latest dates
Nominal GDP, USD million	43 465	43 830	44 196	44 561	35 307	Q1-Q3
Nominal GDP per capita, USD	4 314	4 412	4 289	4 412	4 666	
Real GDP, % change	1.9	1.9	-1.6	2.2	2.7	Q1-Q3
Consumer price inflation, %, end of period	3.9	0.8	-0.2	2.4	4.4	
Consumer price inflation, %, average	4.5	0.8	0.3	1.3	4.2	
Key monetary policy rate, %, end of period	5.75	4.0	2.5	2.50	6.75	Mar 23
Unemployment rate, LFS, %	18.6	19.1	22.7	24.1	23.1	Q3
General government balance, % of GDP	-2.4	-3.3	-7.0	-5.3	-4.2	Nov 22
Public expenditure, % of GDP	27.8	27.6	29.4	30.4	30.0	Q3
Gross public debt, % of GDP	92.5	94.5	105.3	110.2	110.9	Nov 22
Current account balance, % of GDP	-6.8	-1.7	-5.7	-8.2	-12.7	Q1-Q3
International reserves, USD billion	12.9	13.9	15.5	17.9	17.5	
International reserves, months of imports	6.8	7.6	10.1	9.2	9.1	
Gross external debt, % of GDP	72.2	71.4	81.2	85.7	81.0	Q3
Net FDI, % of GDP	2.2	1.6	1.7	1.4	1.9	Q1-Q3

Sources: national authorities and Commission calculations

3.2 Implementation of macro-financial assistance

3.2.1 Recent macro-financial assistance operations

Between 2014 and 2022, three consecutive MFA operations provided a total of EUR 880 million in loans to Jordan. The EU has maintained its support to Jordan throughout the difficult years of the pandemic. Indeed, following Jordan's request for further MFA on 11 July 2019, on 6 September 2019 the Commission adopted a proposal for a new, follow-up MFA to Jordan to the amount of EUR 500 million in loans. The co-legislators adopted the proposal on 15 January 2020. The assistance was disbursed in three instalments over 2020-2023.

Later, when the COVID-19 pandemic hit the already struggling Jordanian economy, the authorities requested further MFA on 21 April 2020. In turn, as part of the COVID-19 MFA package adopted on 25 May 2020, the co-legislators agreed to a top-up MFA programme of EUR 200 million for Jordan, in addition to the EUR 500 million made available under the MFA-III programme.

The new (combined) MFA comes on top of the EUR 380 million of MFA provided to Jordan since 2014 under Decisions (EU) 2013/1351 and 2016/2371. The MoU between the EU and Jordan, which underpins the recent MFA operation and its top-up, was endorsed by the Member States Committee for MFA on 27 July 2020. It entered into force on 2 October 2020.

The first instalment (EUR 250 million in loans) was subject to the general political precondition for MFA and the IMF programme remaining on track. It was disbursed on 25 November 2020. The second and third instalments were also subject to the implementation of specific policy conditionality agreed between Jordan and the EU in the MoU. The programme's policy conditionality focused primarily on improving PFM and fighting corruption, and on reforms in the utilities sector, social and labour market policy and governance. The second instalment (EUR 250 million in loans) was disbursed on 20 July 2021. A waiver was granted for one condition (relating to steps to implement of an electronic invoicing system to fight tax evasion), following consultation of the Member States Committee for Macro-financial Assistance and with the expectation that this condition would be fulfilled once the reforms required for the third instalment had been implemented (as turned out to be the case). The decision to disburse the third and final instalment (EUR 200 million in loans) was adopted by the Commission on 31 March 2023. A waiver was granted for one condition (relating to amendments to the Illicit Enrichment Law) following consultation of the Member States Committee for Macro-financial Assistance because only the fourth sub-action was carried out by the end of the MFA availability period. However, given the progress made and ongoing process, the Commission considered that it was justified to grant a waiver for this condition. The third instalment was disbursed on 3 May 2023.

The support under these MFA operations is provided in conjunction with the resources from international financial institutions and bilateral donors, including the IMF. On 25 March 2020, the IMF approved a four-year Extended Fund Facility (EFF) programme with Jordan. This was initially for roughly USD 1.3 billion (270% of Jordan's quota) but was augmented twice in 2021-2022 to about USD 1.49 billion (334% of Jordan's quota). The IMF approved the fifth review of the EFF in December 2022, making about USD 343 million immediately available. This brings total IMF disbursements to Jordan since the start of 2020 to about USD 1.7 billion (including around EUR 366 million in emergency assistance to Jordan under the Rapid Financing Instrument to help the country deal with the impact of the COVID-19 pandemic in May 2020). Jordan's public debt remained high at 113.2% of GDP in 2022, but it was assessed as sustainable by the IMF in December 2022.

3.2.2 Policy conditionality

The policy actions included in the MoU are in line with the reform commitments taken by Jordan in the context of the EU-Jordan Partnership Priorities and other EU support instruments, as well as the adjustment programmes agreed with the IMF and the World Bank. Taking Jordan's **Five-year Reform and Growth Matrix** as a guideline for the design of the policy programme in the MoU ensured that the Jordanian authorities owned the reform process and avoided overburdening their (limited) administrative capacities.

The MFA's policy conditionality falls into the following thematic areas: public finance management (PFM); reforms in the utilities sector; social and labour market policy; and governance. The conditions aim to address key weaknesses of the Jordanian economy, as well as to mitigate the economic and social impact stemming from regional conflicts and the presence of a large number of Syrian refugees in the country. The conditionality was also chosen in order to build on the reform progress of the two previous MFA operations. For the disbursement of the third and final instalment, 14 conditions needed to be fulfilled. The Jordanian authorities (broadly) fulfilled all but one condition, for which a waiver was granted.

Jordan made significant progress with respect to **PFM**, in particular by continuing the work on the electronic invoicing system, in order to improve tax compliance. The e-invoicing system was developed by a contractor in 2022 and launched in January 2023. Another achievement was the launch of the National Registry of Investment Projects (NRIP), which became operational in June 2022, after the handover from the developer. The NRIP was introduced to increase the transparency and efficiency of public investments.

Progress was also recorded on **utilities reforms**. With the aim of improving transparency and promoting functional unbundling of the government-owned National Electric Power Company (NEPCO) and also supporting its financial sustainability, NEPCO started publishing annual financial statements in 2022 for the accounting year 2021, based on separate and independent accounting for each area of operations. Jordan also made progress in identifying water leakages and reducing losses from non-revenue water, as it launched projects – in close cooperation with international aid and donor organisations – to increase accounting for water usage.

Social and labour market policies were advanced under the MFA with the installation of small solar energy stations in at least 4 000 economically vulnerable households and extending the social assistance programme. With a view to developing the digital skills of youth and improve their employment prospects, the government adopted a national plan for digital skills training.

The authorities have advanced some **governance** reforms in line with the MFA conditionality, but important challenges remain in order to reduce corruption. Amendments to the Investment Law were adopted in 2022 to increase the transparency of tax incentives to businesses. The amendments also simplify administrative and governance structures, in particular the duties and authorities of the Ministry of Finance. The authorities did not fulfil the condition on the Illicit Enrichment Law. Amendments to the Law were adopted in 2021, but these did not include all the points of the MFA condition and a waiver was therefore granted in March 2023, before the end of the availability period.

Besides the MFA conditionality, the government has launched important reform projects. In June 2022, the government laid out its **Economic Modernisation Vision**. The plan envisions creating a million new jobs, raising the standard of living and boosting economic growth over the next 10 years.

Jordan's reform agenda is underpinned by the Government's Economic Priorities Programme (GEPP) 2021-2023, the comprehensive Five-Year Reform Matrix 2018-2022, which was extended to 2025, and the Government's Indicative Executive Programme (GIEP). The GEPP addresses key challenges in the labour market and private sector, with 53 targets mainly derived from the Matrix and the GIEP.

MFA JORDAN III [AND COVID-19 TOP-UP] **(ENTRY INTO FORCE: 3 OCTOBER 2020 - END OF AVAILABILITY PERIOD 2 APRIL 2023; END OF AVAILABILITY PERIOD OF COVID-19 TOP-UP: 2 OCTOBER 2021)**			
Decision (EU) 2020/33 **Decision (EU) 2020/ 701**	**First instalment**	**Second instalment**	**Third instalment**
Amount (EUR million)	EUR 250 million (loans). EUR 100 million under Decision (EU) 2020/33;	EUR 250 million (loans) EUR 200 million under Decision (EU) 2020/33;	EUR 200 million (loans)

	EUR 150 million under Decision (EU) 2020/701	EUR 50 million under Decision (EU) 2020/701	
Implementation	Disbursed	Disbursed	Decision adopted on 31 March 2023; disbursed on 3 May 2023
Policy conditions (total number)	Not applicable	8	14
Public finance management		Reform on the draft framework law on PFM: **fulfilled.** Reform on the development of the electronic invoicing system: **waived**[17]. Reform on secondary legislation to the Public Private Partnerships (PPP) legislation: **fulfilled.** Reform on the electronic tendering system: **fulfilled.**	Reform on roll-out electronic invoicing system: **broadly fulfilled.** Reform on establishing the National Registry of Investment Projects: **fulfilled.** Reform on dedicated PPP Unit: **fulfilled.** Reform on expanding the use of the electronic tendering system: **fulfilled.** Reform on the submission of annual procurement plans: **broadly fulfilled.**
Utilities		Reform on water smart meters in Amman and Irbid: **fulfilled.**	Reform on extending smart water meters to other cities/areas: **broadly fulfilled.** Reform on the publication of NEPCO's annual financial statements: **fulfilled.**

[17] A waiver was granted for Action 2 in 2021, as the project had run into initial difficulties because tenders could not be awarded due to insufficient technical capacity on the part of domestic contenders for developing the system. Action 2 would implicitly be later fulfilled by Action 9, which aims at the full roll-out of the electronic invoicing system.

Social and labour market policy		Reform on e-licensing 40 nurseries: **fulfilled.**	Reform on installing small solar energy stations: **fulfilled.** Reform on expanding the Takaful social assistance programme: **fulfilled**. Reform on adopting a national plan for digital skills training: **fulfilled.** Reform on developing an electronic inspection management system for labour inspections: **fulfilled.**
Governance		Reform on expanding the operation of the single window for customs clearance: **fulfilled.** Reform on signing the Convention on Mutual Administrative Assistance in Tax Matters: **fulfilled.**	Reform on enacting amendments to the Illicit Enrichment Law: **waived** [18]. Reform on amendments to the Investment Law: **fulfilled.** Reform on ratifying the Convention on Mutual Administrative Assistance in Tax Matters: **fulfilled.**
Remarks	The political precondition for granting the EU's MFA was respected; a positive track record on the ongoing IMF programme was ensured.		

[18] The adopted amendments to the Illicit Enrichment Law of 2021 do not sufficiently address the measures included under the MFA condition; only one out of four sub-actions was fulfilled by the end of the MFA availability period. However, given that the process is ongoing and given the progress made with the Illicit Enrichment Law (as compared with its previous unamended version), the Commission considered that it was justified to grant a waiver for this condition.

3. TUNISIA

Economic growth slowed due to Russia's war of aggression against Ukraine and rising commodity prices exacerbated economic vulnerabilities in a challenging political context. This was compounded by rising inflation, worsening budget and trade deficits and balance of payment pressures. The implementation of COVID-19 MFA conditionality and subsequent disbursement of the final EUR 300 million helped address macroeconomic imbalances. Delivering on the prior actions required to obtain a new IMF programme remains paramount in order to restore macroeconomic stability and encourage donor assistance, including additional MFA.

4.1 Macroeconomic performance

Growth slowed in 2022 to 2.5% from a relatively mild post-pandemic rebound of 4.4% in 2021. Real GDP grew by 1.8% in Q4 2022 on an annual basis and Tunisia is not expected to regain its 2019-output level before 2024, reflecting the weakness in domestic consumption and investment, amid rising prices and uncertainty regarding the socio-economic situation. Private investment remains subdued, with confidence impacted by the complex political situation, sluggish domestic demand, and limited export demand for Tunisian products. Declared investment projects in industry and services fell by 4.8% in 2022.

Growth in 2022 remained subdued in several sectors. It was driven by a partial recovery in domestic and tourism but there were strong declines in key areas such as construction (-10%), oil and gas extraction (-10.5%) and bad harvests leading to lacklustre growth in agriculture (2%). Economic activity benefited from a growth in manufacturing (6.6%) combined with more moderate increases in services (2.6%). External demand, notably from Europe, continued to support the mechanical, electrical and textile industries, with increases also in the sectors linked to tourism (hotels and transport).

The weak recovery in the economy brought a slight decrease in unemployment, which fell to 15.2% in Q4 2022, from 15.3% in Q3 2022 and 16.2% in Q4 2021, but remained particularly high for university graduates (24%), youth (38.8%) and women (20.1%). Employment remains concentrated in the services sector (53%), manufacturing industries (20%) and agriculture (14%). The participation rate went up slightly to 46.5% in Q4 2022 but remained below pre-pandemic levels. It remains significantly lower for women (28.2%) than for men (65.7%).

Inflation has risen noticeably, with higher international commodity prices and depreciation exacerbating supply bottlenecks. It reached 10.4% in February 2023 (the highest in almost two decades), speeding up across product groups and eroding the purchasing power of households and investment. Core inflation (excluding food and energy) increased to 8.1% at the end of 2022, while prices rose at double digit rates not only for food (14.6%) but also for transport and services. Inflation is expected to ease as commodity prices decelerate but will probably remain high due to the weakness of the Tunisian dinar, supply bottlenecks and expected tax increases combined with lower food and energy subsidies.

Monetary policy has tightened in line with global trends. High inflationary pressures caused the central bank to increase its key policy rate by 75 basis points to 8.0% in December 2022. Credit growth slowed in 2022 and remains driven by loans to the State (12.1%), while credit to private sector grew by 4.7%. The banking sector remained stable and profitability rebounded to near pre-pandemic levels in the first half of 2022. The average non-performing ratio of the nine largest banks increased by 150 basis points y-o-y to 11.7% at the end of Q2 2022. The sector average also increased to 13.1%. Banks remain highly exposed to government debt, with regulatory capital requirements that permit limited absorption in a high sovereign risk environment. Given the lack of access to international markets, monetary financing might pose a risk in 2023 and exacerbate financial sector threats by increasing holdings of public debt securities and SOE debt, unless swift progress is made in securing support from international partners.

The dinar has been depreciating against the dollar and the euro since early 2021. This trend accelerated in 2022 (-9% against the USD) but was partly reversed in early 2023. Pressures on hard currency liquidity due to increases in the energy and import bill were still partly eased by reserves and a strong inflow of remittances.

The budget deficit remained stable at high levels in 2022 and amounted to 7.6% of GDP. Revenues increased sizably (22.2%) – partly due to higher taxes (16.6%) helped by inflation, excise duties and grants, and partly due to high oil and pipeline revenues (234%). This was in a context of ongoing increases in public expenditure (16.4%), notably in financial charges (26%) but also in transfers (42.4%). These, together with wages (4.7%), represent over 77% of expenditure. The 2023 budget assumes a slowdown in real GDP growth to 1.8% and an average price of USD 89 per barrel of oil. The 2023 budget also projects a budget deficit of around 5.2% of GDP on the back of strong reductions in subsidies and the public sector wage bill (as agreed with the IMF) as well as a move to raise revenue by 12.5% through large tax increases (including a new tax on high-end real estate).

Tunisia’s limited access to external financing puts additional pressure on public finances. The budget foresees financing needs of over 17% of GDP in 2023, including external borrowing of about EUR 4 billion, at a time when the country might still find it difficult to access international markets and the domestic market is stretched by the State crowding out private investment. The main external financing alternatives (mostly from Gulf countries) also come with unfavourable conditions. Monetising the financing gap would potentially fuel inflation and the drawdown in foreign reserves.

Public debt remains high amid rising concerns about its level. It reached 79.4% of GDP in 2022, slightly down on the back of nominal growth. External debt, mostly concessional, still represents around 58% of the total public debt. In January 2023, Moody’s downgraded Tunisia’s rating to Caa2 with a negative outlook because the current absence of comprehensive financing to meet the government’s large funding needs raises the default risk.

The current account deficit deteriorated markedly due to high commodity prices in 2022. The trade deficit increased by 40% to the highest value in more than two decades due to a very high energy bill. The impact on the current account balance was partly offset by the recovery in tourist receipts (up 83.1%). Both exports and imports rose significantly (23.4% and 31.7% respectively), but the rise in commodity prices and the profound impact of the war in Ukraine on oil and food import prices put pressure on the balance of payments. As a result, the current account deficit increased to an estimated 8.6% of GDP at the end of 2022 (6.1% a year earlier), despite the strong growth in remittances (12.3%). FDI increased by 18.4% to an estimated 1.2% of GDP in 2022 but remained below pre-pandemic levels.

Foreign reserves decreased despite strong remittance inflows. They went down to around 3.1 months of imports in January 2023 (compared with 4 months a year earlier and 5.5 months at the end of 2020). This weakened confidence and reduced the buffer in the context of Tunisia's large external imbalances and dependence on foreign inflows. The pressure on the dinar against the dollar, a tight external debt repayment schedule and the rising import bill increased pressure on the reserves, despite higher tourism revenues and relatively resilient external capital flows.

Downside risks loom large for the Tunisian economy. The economic outlook has deteriorated, prompting questions about debt sustainability and reflecting heightened fiscal and external liquidity risks. Tunisia's growth rate is expected to remain among the region's weakest in 2023. The slowdown in Europe will hit exports growth and inflationary pressures are likely to remain as the authorities gradually reduce food and fuel subsidies and international prices remain high. This might in turn place further pressure on private spending and fuel rising social tensions.

The urgent implementation of a reform plan supported by the IMF is necessary to restore macroeconomic stability and foster sustainable growth. The authorities' reform plan aims to address key structural challenges, including better targeting of subsidies, the high public sector wage bill, a fairer tax system and reforming SOEs. It requires a new IMF programme as an anchor to facilitate additional international assistance (including EU MFA). Broad-based support by key domestic stakeholders would ensure a more inclusive and sustainable growth path and thus facilitate further external support. However, unless reform implementation is stepped up, further protracted delays in securing a new IMF programme during the year will probably continue to put pressure on public finances and erode foreign exchange reserves, exacerbating existing risks.

Tunisia - macroeconomic indicators

Tunisia	2018	2019	2020	2021	2022	Last	Date
Nominal GDP, USD billion	42.7	41.9	42.5	46.7	46.6		
Nominal GDP per capita, USD	3 702	3 601	3 628	3 962	3 842		
Real GDP, % change	2.6	1.6	-8.8	4.4	2.5		
Consumer price inflation %, end of period	7.1	5.9	4.9	6.7	10.2	10.4	Feb 23
Key monetary policy rate %, end of period	6.8	7.8	6.3	6.3	7.3	8.0	Feb 23
Unemployment rate, LFS, %	15.5	14.9	17.4	16.2	15.2	15.2	
General government balance, % of GDP	-4.3	-3.6	-9.0	-7.6	-7.6		
Gross public debt, % of GDP	72.9	67.3	77.6	79.9	79.4		
Current account balance, % of GDP	-10.4	-7.8	-5.9	-6.0	-8.6		
International reserves, USD billion	5.2	7.3	9.1	8.6	7.8	7.7	Jan 23
International reserves, months of imports	2.5	3.7	5.5	4.2	3.4	3.1	Jan 23
Gross external debt, % of GDP	92.9	91.0	93.0	94.9	n.a.	91.5	Sep 22
Net FDI, % of GDP	2.3	1.9	1.4	1.1	1.2		

Source: national authorities, Commission calculations and the IMF

4.2 Implementation of macro-financial assistance

4.2.1 Recent macro-financial assistance operations

Since 2014, a total of EUR 1.4 billion in highly concessional loans has been made available to Tunisia under three MFA programmes: MFA-I (2015-2017, EUR 300 million), MFA-II (2017-2019, EUR 500 million) and, as part of the MFA package adopted in the context of COVID-19, the latest MFA-III programme of EUR 600 million, with a duration of 1 year from entry into force. The MoU and the LFA were signed on 24 November 2020, ratified by the Tunisian Parliament on 15 April 2021 and entered into force on 11 May 2021, upon publication in the Tunisian Official Gazette.

The programme's policy conditionality focused primarily on four thematic areas: (i) PFM and civil sector reform; (ii) reforms in SOEs; (iii) social protection; and (iv) investment climate.

The MFA was provided in two instalments of EUR 300 million each. The first instalment was subject to the general political precondition for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and was disbursed on 1 June 2021. The required policy reforms for the disbursement of the second instalment were either fulfilled or at least broadly fulfilled in the first months of 2022. Notwithstanding concerns in relation to the political precondition, following a careful assessment of the situation and a letter from the authorities providing assurances and setting out commitments on a political calendar, the second and final instalments were disbursed on 25 May 2022.

The assistance was meant to complement resources made available by other donors, including the IMF under its EUR 685 million Rapid Financing Facility programme with Tunisia approved on 10 April 2020.

Tunisia requested additional EU MFA of EUR 1.2 billion in November 2022 to support financing needs in the context of a slow post-pandemic recovery and the impact of Russia's aggression against Ukraine. This followed the staff level agreement reached with the IMF for a new EFF (4 years, USD 1.9 billion) in October 2022. However, the IMF programme had not yet been adopted at the end of April 2023 due to the need for additional financing assurances and completion of prior actions. Due to the escalating crisis, the country's external residual financing gap is very sizeable and the implementation of reforms to address the country's vulnerabilities has become even more urgent. Based on a careful assessment of MFA pre-conditions and Tunisia's external financing needs, the Commission is preparing a possible proposal for a new MFA to be adopted in 2023 once the IMF programme is in place.

4.2.2 Policy conditionality

The policy conditions contained in the MoU of the latest MFA operation, adopted as part of the MFA package adopted in the context of COVID-19, aimed to address key structural weaknesses of the Tunisian economy, as well as to mitigate the economic and social impact of the COVID-19 emergency. These reforms were all the more important as reform implementation had been very limited in recent years, mostly due to the country's challenging political situation [19] and the effects of the COVID-19 pandemic. These led to an increasingly deteriorating socio-economic situation and serious macroeconomic imbalances that have now been aggravated by the impact of Russia's war of aggression against Ukraine, notably in terms of energy and food security. Notwithstanding these challenges, the authorities hurried through the reforms agreed under the MFA in early 2022.

[19] Following the controversial seizure of power by President Saied in 2021 and the publication of a political roadmap in early 2022, a new constitution was adopted through a referendum in July 2022 and two rounds of parliamentary elections took place in December 2022 and January 2023. However, the votes were characterised by the boycott of opposition parties and very low participation rates, reconfirming Tunisians' disinterest and prompting doubts regarding the legitimacy of both the Tunisian parliament and the President's authority.

Progress on **public financial management and civil service reform** was achieved by freezing recruitment in the public sector and putting in place a scheme to make it easier for civil servants to change posts within the public sector. Regarding the commitment to cap wage increases, the total payroll cost was fixed at a level that corresponds to a 5.7% increase – i.e. below inflation. Furthermore, a regime of remote working for State, local authority and establishment agencies, public companies and bodies was implemented. A study on the evaluation of the administrative timetable was launched and finalised, proposing the options of continuous schedules with and without reducing annual working time. Tax audits were strengthened by the introduction of spot checks. With a view to phasing out energy subsidies, a technical committee was set up to design and implement the mechanisms and propose adjustments. A ministerial order was issued to improve and control LPG distribution channels. Finally, the fuel price adjustment mechanism was reactivated, followed by upward price revisions in February and March 2022.

Regarding the **governance of state-owned enterprises**, progress towards a merit-based appointment system has been made by fixing the principles relating to the choice, performance evaluation and dismissal of administrators. An SOE director's guide has been developed to improve the directors' performance and professionalism. Moreover, a decree has been prepared for the appointment of business leaders based on the principles of transparency and equality of choice between candidates and taking gender equality into consideration. Finally, the government has published a report on the financial situation of SOEs appended to the 2022 finance law, as well as the relevant audited financial statements.

On **social protection**, the authorities established the Higher Council for Social Development, setting out its powers, composition and operating methods. A unified multisectoral action plan has been developed, covering the roles and responsibilities for the development of ID documents and digital authentication. Finally, new digital health cards for beneficiaries of assistance programmes have been printed and distributed.

Regarding the **investment climate**, facilitating the digitalisation of the legal constitution of private limited liability companies has advanced considerably, in parallel with ongoing work on the investment platform. A new portal has been developed and validated. The government has also developed and adopted an action plan outlining the stages and timetable to harmonise the classification of economic activities.

1. Box – relevant challenges in the context of a potential new MFA programme
The new government has been working on an economic reform plan that would underpin the IMF programme, including some of the expected key axes: a) improve tax equity by taking steps to bring the informal sector into the tax net and broadening the tax base to ensure equitable contributions from all professions; b) contain expenditures and create fiscal space for social support (including measures to contain the civil service wage bill and reform the subsidy system, while providing adequate targeted protection to vulnerable segments); c) strengthen the social safety net by increasing cash transfers and expanding the coverage of social safety nets to compensate vulnerable households for the impact of higher prices; d) embark on a comprehensive agenda to reform SOEs, starting with the enactment of a new SOE law; e) step up structural reforms to enhance competition and create a transparent and level-playing field for investors by streamlining and simplifying investment incentives; f) strengthen governance and transparency in the public sector, including with a comprehensive governance diagnostic to establish a

roadmap for reforms; and g) adapt and build resilience to climate change by promoting investment in renewable energy and (waste) water management.

However, the plan has encountered domestic resistance (for example, there are no official public discussions on the reform plan with social partners) and the final approval of the IMF programme is still pending. In this uncertain context, the country's vulnerabilities will probably persist in the coming years, due to subdued growth, vast structural weaknesses, high financing needs, reliance on external funding, and the risk of domestic and external shocks. Reforms should aim to restore sustainable macroeconomic positions and address relevant items for public expenditure such as the exceptionally high civil service wage bill, the targeting of energy subsidies and SOE liabilities that appear to crowd out much-needed social expenditure and growth-enhancing public investment. Other remaining challenges include addressing vested interests, improving governance and the business environment, as well as increasing competition across the economy to attract private investors (including in emerging sectors such as digitalisation and renewable energies).

MFA TUNISIA **(ENTRY INTO FORCE ON 11 MAY 2021 - END OF AVAILABILITY PERIOD 11 MAY 2022)**		
Decision (EU) 2020/701	**First instalment**	**Second instalment**
Amount (EUR million)	EUR 300 million (loans)	EUR 300 million (loans)
Implementation	Disbursed	Disbursed
Policy conditions (total number)	not applicable	17
Public financial management and civil service reform		Reform of the civil service: **fulfilled.** Reform of remote working: **fulfilled.** Reform of the administrative timetable: **fulfilled.** Reform of tax audits: **fulfilled.** Reform of energy subsidies: **fulfilled.** Reform of LPG distribution: **fulfilled.** Reform of fuel price revision: **broadly fulfilled.**

State-owned enterprises		Reform of SOE governance: **fulfilled.** Reform of SOE director's guide: **fulfilled.** Reform of SOE business leader appointments: **broadly fulfilled.** Publication of SOE report: **fulfilled**. Publication of audited financial statements: **fulfilled.**
Social protection		Reform of the Higher Council for Social Development: **fulfilled.** Adoption of an action plan for IDs and digital authentication: **fulfilled.** Issuance of new digital health cards: **fulfilled.**
Investment climate		Reform of digitisation of investment platform, investment declaration and building permits: **broadly fulfilled.** Elaboration of an action plan on the classification of economic activities: **broadly fulfilled.**
Remarks	The political precondition for granting the EU's MFA was respected. The emergency IMF programme was fully disbursed in April 2020.	The political precondition for granting the EU's MFA was broadly fulfilled, despite concerns that will require careful monitoring. The emergency IMF programme was fully disbursed in April 2020.

4. BOSNIA & HERZEGOVINA

After a post-pandemic rebound in 2021, economic activity decelerated in 2022 while higher import prices caused inflationary pressures to rise markedly. The labour market and the financial sector remained resilient, however. On 15 December 2022, the EU's Member States approved the Commission's recommendation [20] to grant candidate country status to Bosnia and Herzegovina, on the understanding that the steps specified in the Commission's recommendation are taken in

[20] Council Conclusion on enlargement and the stabilisation and association process, European Council Conclusions, 15 December 2022.

order to strengthen the rule of law, the fight against corruption and organised crime, migration management and fundamental rights.

5.1 Macroeconomic performance

Economic activity slowed down during 2022 from 7.1% in 2021 to 4.0% in 2022. The main drivers of growth were exports, gross investment (including inventories) and private consumption. Due to strong imports and decelerating exports, the growth contribution of net exports continued to be negative. On the production side, the main sources of growth were services (particularly trade, transport and tourism), as well as IT and communication and manufacturing. High-frequency data indicate that the deceleration of economic activity during the second half of 2022 also continued in the first months of 2023.

Tourism continued to recover from the COVID-19-related decline. By the end of 2022, the number of arrivals and overnight stays had nearly reached pre-COVID-19 levels.

The labour market remained resilient in 2022. According to labour market surveys, unemployment dropped to 14.9% in the third quarter of 2022, compared with 16.4% in the same period of 2021. Youth unemployment (for the 15-24 age group) fell to 36.2% in the third quarter of 2022 from 37.8% a year earlier. The current level is therefore similar to youth unemployment rates before the COVID-19 pandemic. The number of registered employed continued to increase during most of 2022, although at a decelerating pace, growing by 2.4% y-o-y in the first 11 months of 2022. The main job-creating sectors continued to be wholesale and retail trade as well as manufacturing.

Consumer price inflation continued to increase in 2022, reaching 14% on average during the year, compared with an annual average of 2% in 2021. However, after reaching a peak of 17.4% in October, inflation abated slightly in the last 2 months of 2022. The main inflation drivers were higher prices for food and non-alcoholic beverages, which account for one third of the consumer basket and are responsible for around half of the CPI increase. Price rises for transport, which accounts for nearly 13% of the basket, were responsible for around 20% of the CPI increase.

The country’s external accounts deteriorated slightly during 2022, largely due to higher import prices for energy and decelerating export growth. In 2022, the current account deficit increased to 4.3% of GDP (2.4% in 2021). Trade in commodities trade remained strong in nominal terms, with the value of goods exports being 25.9% higher in 2022 than a year earlier while imports increased by 32.6%. The main export destinations continued to be Germany, Croatia, Serbia, Austria and Italy, which together account for about two thirds of total exports. Net FDI inflows remained low at 2.5% of GDP in 2022 (2.3% in 2021). A large part of those FDI inflows is reinvested earnings. Official foreign exchange reserves remained high in 2022, but their coverage of imports of goods and services dropped to 7.2 months in December, mainly due to the higher value of imports.

The financial sector has remained stable. Annual credit growth continued to accelerate slightly in Q3-2022, reaching 4.5% y-o-y (4.3% in Q2-2022). In October and November, lending continued to increase by 4.5% and 4.3%, -mainly driven by bank loans to households and to private companies, which account for 50% and 40% of total loans respectively. Bank deposit growth recovered from a sharp drop of 4.4% in Q2 and accelerated to 5.5% in Q3, mainly due to deposit increases by the public sector, while household deposits continued to decline. The ratio of non-performing loans to total loans continued to decline to 4.9% at the end of Q3 (5.5% a year earlier). The ratio of non-performing loans covered by loan-loss provisions stood at 79.6% in Q3 (77.7% in Q2 and

80.2% in Q3-2021). Banking sector profitability continued to improve. The return-on-equity (ROE) ratio rose to 12.6% in Q3 (11.8% in Q2). The return on assets (ROA) ratio also improved in Q3 marginally to 1.6%. The banking system's overall capital-adequacy ratio remained high at 19.2% in Q3 (19.3% in Q2). This continues to be well above the regulatory minimum of 12%. However, there are sizeable differences among the country's 21 banks and pockets of vulnerability remain.

The country's nominal effective exchange rate has appreciated markedly during the last 5 years, mainly due to exchange rate movements of the euro vis-à-vis the US dollar, the Turkish lira and the Russian rouble. However, the effective exchange rate has remained more stable in real terms, benefiting from the country's so far relatively low inflation rate, with headline inflation of 0.8% on average in the five-year period 2017-2021. However, headline inflation rose to 14% in 2022, reflecting not only high import prices but also steep increases in domestic food prices. As for other Western Balkan countries, the degree of euroisation is rather high (35% of deposits and 41% of loans were denominated in euro in December 2022).

The general government's fiscal position improved from a deficit of 5.3% of GDP in 2020 to a deficit of 0.3% in 2021, largely reflecting the post-pandemic economic recovery. For 2022, no annual consolidated general government data have been published so far. The spending structure is still dominated by the public sector's wage bill and transfer payments, while the level of public investment remained very low, reflecting a number of factors such as administrative weaknesses in implementing planned investment projects. During the first 11 months of 2022, revenue from countrywide-collected indirect taxes registered high nominal growth (+14.7% y-o-y), largely reflecting high inflation. This revenue category accounts for nearly half of total revenues. Preliminary entity-level expenditure data point to a strong increase in 2022 for public sector wages, pensions and social transfers.

The public debt-to-GDP ratio stood at 30% at the end of September 2022 (34.4% at the end of 2021). An important reason for the fall in the ratio was strong nominal GDP growth, while the absolute level of public debt continued to increase slightly. Headline public debt is low, but there are sizeable contingent liabilities (particularly in the area of public enterprises). Moreover, there is a significant degree of non-alignment with EU public sector accounting standards, which makes it very difficult to assess the country's actual fiscal position. As a result, both the deficit and debt ratio could be significantly higher than reported.

In February 2023, the rating agency Standard & Poor's affirmed its sovereign credit rating of Bosnia and Herzegovina at 'B' and upgraded the outlook from stable' to 'positive', citing the recent relatively swift government formation process as an important factor for this more positive assessment. Moody's latest rating from July 2022 remained at 'B3, with a stable outlook'.

In its latest outlook from April 2023, the IMF has maintained its rather low GDP growth projection for 2023 of 2.0%. As a result of an expected only moderate recovery of the global economy, Bosnia-Herzegovina's growth outlook is subdued –particularly if the newly elected governments do not manage to overcome their persistent internal political stalemates, which are preventing the country from agreement and implementation long overdue structural reforms, such as strengthening the rule of law and improving the business environment.

Bosnia & Herzegovina - macroeconomic indicators

Bosnia and Herzegovina	2018	2019	2020	2021	2022	Latest dates
Real GDP, % change	4.6	2.9	-3.3	7.1	4.0	
Consumer price inflation, %, end of period	1.6	0.3	-1.6	6.3	14.8	Dec 22
Key monetary policy rate, %, end of period*	n.a.	n.a.	n.a.	n.a.	n.a.	
Unemployment rate, LFS, %	18.4	15.7	15.9	17.4	14.3	Q4
General government balance, % of GDP	2.2	1.9	-5.3	-0.3	n.a.	
Gross public debt, % of GDP	34.1	32.7	36.6	34.4	30.0	Q3
Current account balance, % of GDP**	-3.3	-2.6	-3.3	-2.4	-4.3	
Official international reserves, USD billion	6.6	7.0	8.4	9.3	8.2	Dec 22
International reserves, months of imports	7.3	7.8	10.0	9.3	7.2	Dec 22
Gross external debt, % of GDP	65.6	63.4	64.7	59.0	51.3	Q3
Net FDI, % of GDP**	2.9	2.1	1.8	2.3	2.5	Dec 22

* Banks use the Euribor as a reference

** Q figures refer to a four-quarters moving average

Sources: WIIW, Bosnia & Herzegovina's central bank and the Bosnia & Herzegovina Agency for Statistics

5.2 Implementation of macro-financial assistance

5.2.1 Recent macro-financial assistance operations

Following an official request for MFA from Bosnia and Herzegovina on 14 April 2020 in the context of the COVID-19 pandemic, the European Parliament and the Council approved in May 2020 the COVID-19 MFA package, including a new MFA programme of EUR 250 million in loans for Bosnia and Herzegovina. The MoU and the LFA were signed on 15 January 2021 and entered into force on 9 June 2021.

The MFA was to be provided in two instalments. The first instalment (EUR 125 million) was subject to the general political precondition for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and was disbursed on 7 October 2021. The second instalment (EUR 125 million) was subject to the fulfilment of a set of policy conditions agreed in the MoU. The policy measures fell into the following four thematic areas: economic governance and institution building, financial sector stability, transparency and fight against corruption and better functioning of the labour market. Given the limited implementation of reforms (Bosnia and Herzegovina had implemented only two of the nine reforms agreed in the MoU), the second instalment of the operation was not disbursed by the end of the availability period in mid-June 2022 and was cancelled through a Commission Decision[21] adopted on 6 July 2022.
The MFA assistance was meant to complement resources made available by other donors, including the IMF, under its Rapid Financing Facility programme of EUR 330 million approved on 20 April 2020.

[21] Commission implementing decision of 6.7.2022 on the cancellation by the European Union of macro-financial assistance to Bosnia and Herzegovina in the amount of EUR 125 million, SJ-031 C(2022) 4866 final.

5.2.2 Policy conditionality

During 2022, political disputes continued to paralyse political decision taking, leading to a further deterioration in cooperation at entity level and to disagreements on implementing countrywide reforms in line with EU-accession requirements. As a result, economic reforms in general remained blocked, including those which had been agreed in the context of the MFA operation. This particularly affected agreed policy conditions that either required improved cooperation and coordination among the country's stakeholders or tried to strengthen the functioning of countrywide institutions. As a result, even simple requirements, such as organising regular meetings of already existing countrywide institutions, were not fulfilled. In the area of financial markets, the authorities adopted the required deposit insurance law, which will strengthen the sector's shock resilience in times of stress in the financial markets. With respect to maintaining the central bank's independence and the integrity of the currency board, some high-ranking politicians proposed measures which would have undermined this requirement. However, the central bank's independence and the integrity of the currency board arrangement were ultimately not touched. The functioning of the central bank's governing board was impeded by delays to the appointment of crucial board members that forced the central bank to function with a temporary technical mandate. The MFA operation also included a requirement to develop and discuss in the parliament amendments to the current law on the High Judicial and Prosecutorial Council (HJPC), with a view to establishing a system of verification of asset declarations of judges and prosecutors and members of the HJPC. If adopted, those amendments would have improved the country's alignment with the EU *acquis* in the judicial area, which would have improved the judiciary's resilience against corruption. Here too, the country's authorities failed to present the required amendments to the parliament. The requirements to lower the tax wedge in the Federation entity, which could have helped to lower the costs of labour and thus helped to stimulate employment, were not adopted by the entity's parliament. In addition, agreed measures to improve the capacity of the country's employment office, which would have helped to reduce chronically high unemployment, were not carried out. Overall, of the nine agreed policy measures under the MFA operation, only one was fully implemented and one was partially implemented.

MFA COUNTRY BOSNIA AND HERZEGOVINA (ENTRY INTO FORCE ON 9 JUNE 2021 - END OF AVAILABILITY PERIOD 10 JUNE 2022)		
Decision (EU) 2020/701	**First instalment**	**Second instalment**
Amount (EUR million)	EUR 125 million (loans)	EUR 125 million (loans)
Implementation	Disbursed	Cancelled on 6 July 2022
Policy conditions (total number)	Not applicable.	9

Institutional framework		Holding of regular meetings of the Socio-Economic Task Force: **not fulfilled.** Strengthening the coordination role of the Directorate for Economic Planning for the preparation of the countrywide Economic Reform Programme and ensure that it has the necessary resources: **not fulfilled.**
Financial sector		Ensuring the proper functioning of the new Banking Deposit Insurance Scheme, including its underlying backstop financing: **fulfilled.** Maintaining the independence of the central bank and the integrity of the currency board arrangement: **broadly fulfilled.** Monitoring financial stability through regular (at least quarterly) meetings of the Standing Committee for Financial Stability: **not fulfilled.**
Governance and anti-corruption		Publication of regular, quarterly comprehensive information on the adoption and implementation of the COVID-19 emergency support measures, as well as the conditions and allocation criteria for support: **not fulfilled.** Develop and table before the Parliamentary Assembly amendments to the Law on the High Judicial and Prosecutorial Council (HJPC), with a view to establishing a system of verification of asset declarations of judges and prosecutors and members of the HJPC: **not fulfilled.**

<table>
<tr><td>Economic recovery and employment</td><td></td><td>Reform of the Law on Personal Income tax and the Law on Social Contributions in the Federation of Bosnia and Herzegovina: not fulfilled.

Reform to increase the capacity of employment offices: not fulfilled.</td></tr>
<tr><td rowspan="2">Remarks</td><td colspan="2">The political precondition for granting the EU’s MFA was respected; a positive track record on the ongoing IMF programme was ensured.</td></tr>
<tr><td>The first instalment was released after the MoU and the Loan Facility Agreement (LFA) entered into force. The second instalment was set to be released upon completion of a set of policy conditions, laid down in the MoU.</td><td>With a number of important measures remaining outstanding, the Commission decided on 6 July 2022 to cancel the second instalment of MFA to Bosnia and Herzegovina.</td></tr>
</table>

Annex 1: MFA operations by date of decision, 1990-2022[22]

MFA Operations 1990 - 2022 by Date of Decision (amounts in million EUR)

	Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	Number of operations
Current Member States*	Bulgaria		290	110					250		100																								750	4
	Czech & Slovak Fed. Rep.		375																																375	1
	Estonia			40																															40	1
	Hungary	870	180																																1050	2
	Latvia			80																															80	1
	Lithuania			100																															100	1
	Romania		375	80		125					200																								780	4
	Slovakia					130																													130	1
Neighbourhood South	Algeria		400			200																													600	2
	Israel		188																																187.5	1
	Jordan																								180			200				700			1080	3
	Lebanon																		80																80	1
	Tunisia																									300		500				600			1400	3
Neighbourhood East	Armenia								58												100														158	2
	Belarus						55																												55	1
	Georgia								175									33.5			46				46					45		150			495.5	6
	Moldova					45		15				15		15					45			90							100			100		150	575	9
	Ukraine					85	200			150				110								500				1000	1800			1000		1200		25200	31245	10
Accession and Pre-Accession	Albania			70		35					20					25																180			330	5
	Bosnia & Herzegovina										60			60							100											250			470	4
	Kosovo (UNSCR 1244)											35	30					50														100			215	4
	North Macedonia								40		80		18																			160			298	4
	Montenegro											20																				60			80	2
	Serbia																				200														200	1
	Serbia & Montenegro												345	130	70																				545	3
Other	Tajikistan											95																							95	1
	Kyrgyz Republic																								30										30	1
	Amount approved	870	1808	480	0	620	255	15	523	150	460	165	393	315	70	25	0	83.5	125	0	446	590	0	0	256	1300	1800	700	100	1045	0	3500	0	25350	**41444**	**41444**
	No. of operations approved	1	6	6	0	6	2	1	4	1	5	4	3	4	1	1	0	2	2	0	4	2	0	0	3	2	1	2	1	2	0	10	0	2	**78**	**78**

* MFA received before becoming EU Member State

[22] MFA+ statistics also included in the year 2022.

Annex 2: Status of disbursements made by date of decision at end-December 2022[23]

EU MACRO-FINANCIAL AND EXCEPTIONAL FINANCIAL ASSISTANCE
TO THIRD COUNTRIES BY DATE OF DECISION

Status of effective disbursements as of end-December 2021 (in millions of €)

	Authorisations			Disbursements			
Country	Date of Decision	Reference of Decision	Maximum amount	Dates of disbursements	Amounts of disbursements	Totals disbursed	Undisbursed
Hungary (Loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260**
Czech and Slovak Federal Republic	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary (Loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Bulgaria (Loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Romania (Loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Israel[1] (Loan)	22.07.91	91/408/EC	**187.5**	Mar. 1992	187.5	**187.5**	
Algeria (Loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Albania (Grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Bulgaria (Loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug .1996	70 40	**110**	
Baltics (Loans); of which:	23.11.92	92/542/EC	**220**			**135**	**85**
Estonia **Latvia** **Lithuania**			**(40)** **(80)** **(100)**	Mar. 1993 Mar. 1993 July 1993 Aug. 1995	20 40 50 25	**(20)** **(40)** **(75)**	**(20)** **(40)** **(25)**
Romania (Loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Moldova (Loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Romania (Loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec. 1997	55 40 30	**125**	
Albania (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	

[23] MFA+ statistics included in the year 2022, for information only.

Algeria (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100**
Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130**
Ukraine (Loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Belarus (Loan)	10.04.95	95/132/EC	**55**	Dec. 1995	30	**30**	**25**
Ukraine (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sep. 1997	50 50 100	**200**	
Moldova (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	
Former Yugoslav Republic of Macedonia (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Bulgaria (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Armenia, Georgia and Tajikistan[2] (Loans and Grants)	17.11.97 amended by 28.3.00	97/787/EC 00/244/EC	**(375)**			**(294.5)**	
Agreed amounts with the recipent countires:			**328**			**294.5**	**33.5**
Armenia (Loan and Grant)			**(58)**	Dec. 1998 (Loan) Dec. 1998 (Grant) Dec. 1999 (Grant) Feb. 2002 (Grant) Dec. 2002 (Grant) June 2004 (Grant) Dec. 2005 (Grant)	28 8 4 5.5 5.5 5.5 1.5	**(58)**	
Georgia (Loan and Grant)			**(175)**	Jul. 1998 (Loan) Aug. 1998 (Grant) Sep. 1999 (Grant) Dec. 2001 (Grant) Dec. 2004 (Grant)	110 10 9 6 6.5	**(141.5)**	**(33.5)**
Tajikistan (Loan and Grant)			**(95)**	Mar. 2001 (Loan) Mar. 2001 (Grant) Dec. 2001 (Grant) Feb. 2003 (Grant) May. 2005 (Grant) Oct. 2007 (Grant)	60 7 7 7 7 7	**(95)**	

Ukraine (Loan)	15.10.98 12.07.02	98/592/EC 02/639/EC	**150**	July 1999	58	**58**	**92**
Albania (Loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia[3] (Loan and Grant)	10.05.99 amended by 10.12.01	99/325/EC 01/899/EC	**60**	Dec. 1999 (Grant) Dec. 1999 (Loan) Dec. 2000 (Grant) Dec. 2000 (Loan) Dec. 2001 (Grant)	15 10 10 10 15	**60**	
Bulgaria (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Former Yugoslav Republic of Macedonia[4] (Loan and Grant)	08.11.99 amended by 10.12.01	99/733/EC 01/900/EC	**80** **18**	Dec. 2000 (Grant) Dec. 2000 (Loan) Dec. 2001 (Loan) Dec. 2001 (Grant) May 2003 (Grant) June 2003 (Loan) Dec. 2003 (Loan) Dec. 2003 (Grant)	20 10 12 10 10 10 18 8	**98**	
Romania (Loan)	08.11.99	99/732/EC	**200**	June 2000 July 2003	100 50	**150**	**50**
Kosovo[5] (Grant)	19.02.00	00/140/EC	**35**	Mar. 2000 Aug. 2000	20 15	**35**	
Montenegro[5] (Grant)	22.05.00	00/355/EC	**20**	Aug. 2000 Dec. 2000	7 13	**20**	
Moldova (Loan)	10.07.00 19.12.02	00/452/EC 02/1006/EC	**15**				**15**
Kosovo[3] (Grant)	27.06.01	01/511/EC	**30**	Sep. 2001 Dec. 2002	15 15	**30**	
Serbia and Montenegro[6] **(ex FRY)** (Loan and Grant)	16.07.01 amended by 10.12.01	01/549/EC 01/901/EC	**345**	Oct. 2001 (Loan) Oct. 2001 (Grant) Jan. 2002 (Grant) Aug. 2002 (Grant)	225 35 40 45	**345**	
Ukraine (Loan) Amendment of Decision 98/592/EC	12.07.02	02/639/EC	**110**	May. 2014 Nov. 2014	100 10	**110**	

Serbia and Montenegro[7] **(ex FRY)** (Loan and Grant)	05.11.02	02/882/EC	**130**	Dec. 2002 (Grant) Feb. 2003 (Loan) Aug. 2003 (Grant) Aug. 2003 (Loan)	30 10 35 30	**105**	**25**
Bosnia[8] (Loan and Grant)	05.11.02	02/883/EC	**60**	Feb. 2003 (Grant) Dec. 2003 (Grant)	15 10	**25**	the rest was paid under 04/861/EC
Moldova (Grant)	19.12.02	02/1006/EC	**15**				**15**
Serbia and Montenegro[7] **(ex FRY)** Amendment of Decision 02/882/EC (Grant)	25.11.03	03/825/EC	**70**	Dec. 2004	10	**10**	**20** the rest was paid under 04/862/EC
Albania[9] (Loan and Grant)	29.04.04	04/580/EC	**25**	Nov. 2005 (Grant) Mar. 2006 (Loan) July 2006 (Grant)	3 9 13	**25**	
Bosnia[8] Amendment of Decision 02/883/EC (Loan and Grant)	07-12-2004	04/861/EC	the balance of 02/883/EC	Dec. 2004 (Loan) June 2005 (Grant) Feb. 2006 (Loan)	10 15 10	**35**	
Serbia and Montenegro[7] **(ex FRY)** Amendment of Decision 02/882/EC (Loan and Grant)	07.12.2004	04/862/EC	the balance of 03/825/EC	Apr. 2005 (Loan) Dec. 2005 (Grant)	15 25	**40**	
Georgia (Grant)	24.01.06	06/41/EC	**33.5**	Aug. 2006 Dec. 2006	11 11	**22**	**11.5**
Kosovo (Grant)	30.11.06	06/880/EC	**50**	Sep. 2010	30	**30**	**20**
Moldova (Grant)	16.04.07	07/259/EC	**45**	Oct. 2007 Jun. 2008 Dec. 2008	20 10 15	**45**	
Lebanon[10] (Loan and Grant)	10.12.07	07/860/EC	**80**	Dec. 2008 (Grant) June 2009 (Loan)	15 25	**40**	**40**
Georgia (Grant)	30.11.09	09/889/EC	**46**	Dec. 2009 Jan. 2010 Aug. 2010	15.3 7.7 23	**46**	
Armenia[11] (Loan and Grant)	30.11.09	09/890/EC	**100**	June 2011 (Grant) July 2011 (Loan) Dec. 2011 (Grant) Feb. 2012 (Loan)	14 26 21 39	**100**	
Bosnia and Herzegovina (Loan)	30.11.09	09/891/EC	**100**	Feb. 2013 Oct. 2013	50 50	**100**	
Serbia (Loan)	30.11.09	09/892/EC	**200**	July 2011	100	**100**	**100**

Ukraine (Loan)	29.06.10	646/2010/EU	**500**	Nov. 2014 Apr. 2015	250 250	**500**	
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 Sep. 2011 Apr. 2012	40 20 30	**90**	
Georgia (Loan and Grant)	12.08.13	778/2013/EU	**46**	Jan. 2015 (Gran Apr. 2015 (Loar May 2017 (Gran May 2017 (Loar	13 10 10 13	**46**	
Kyrgyz Republic (Loan and Grant)	22.10.13	1025/2013/EU	**30**	Jun. 2015 (Gran Oct. 2015 (Loar Feb. 2016 (Gran Apr. 2016 (Loar	10 5 5 10	**30**	
Jordan (Loan)	11.12.13	1351/2013/EU	**180**	Feb. 2015 Oct. 2015	100 80	**180**	
Tunisia (Loan)	15.5.14	534/2014/EU	**300**	May 2015 Dec. 2015 July 2017	100 100 100	**300**	
Ukraine (Loan)	14.04.14	2014/215/EU	**1 000.0**	June 2014 Dec. 2014	500 500	**1 000.0**	
Ukraine (Loan)	15.04.15	2015/601/EU	**1 800.0**	July 2015 Apr. 2017	600 600	**1 200.0**	**600.0**
Tunisia (Loan)	06.07.16	2016/1112/EU	**500.0**	Oct. 2017 June 2019 Oct. 2019	200 150 150	**500.0**	
Jordan (Loan)	14.12.16	2016/2371/EU	**200.0**	Oct. 2017 July 2019	100 100	**200.0**	
Moldova (Loan and Grant)	13.09.17	2017/1565/EU	**100.0**	Oct. 2019 July 2020	30 30	**60.0**	**40.0**
Georgia (Loan and Grant)	18.04.2018	2018/598/EU	**45.0**	Dec. 2018 Nov. 2020	20 25	**45.0**	
Ukraine (Loan)	04.07.2018	2018/947/EU	**1 000.0**	Dec. 2018 May. 2020	500 500	**1 000.0**	
Jordan (Loan)	17.01.2020	2020/33/EU	**500.0**	Nov. 2020 Jul. 2021 May 2023	100 200 200	**500.0**	
Moldova (Loan and Grant)	06.04.22	2022/563/EU	**150.0**	Aug 2022 May 2023	50 50	**100.0**	**50.0** **(ongoing)**

COVID-19 MFA Package:							
Jordan (Loan)	25.05.2020	2020/701/EU	**200.0**	Nov. 2020 Jul. 2021	150 50	**200.0**	
Tunisia (Loan)	25.05.2020	2020/701/EU	**600.0**	Ju. 2021 May 2022	300 300	**600.0**	
Georgia (Loan)	25.05.2020	2020/701/EU	**150.0**	Nov. 2020	75	**75.0**	**75.0 (cancelled)**
Moldova (Loan)	25.05.2020	2020/701/EU	**100.0**	Nov. 2020 Oct. 2021	50 50	**100.0**	
Ukraine (Loan)	25.05.2020	2020/701/EU	**1 200.0**	Dec. 2020 Oct. 2021	600 600	**1 200.0**	
Albania (Loan)	25.05.2020	2020/701/EU	**180.0**	Mar. 2021 Nov. 2021	90 90	**180.0**	
Bosnia and Herzeg (Loan)	25.05.2020	2020/701/EU	**250.0**	Oct. 2021	125	**125.0**	**125.0 (cancelled)**
Kosovo (Loan)	25.05.2020	2020/701/EU	**100.0**	Oct. 2020 Jun. 2021	50 50	**100.0**	
Montenegro (Loan)	25.05.2020	2020/701/EU	**60.0**	Oct. 2020 Jun. 2021	30 30	**60.0**	
North Macedonia (Loan)	25.05.2020	2020/701/EU	**160.0**	Oct. 2020 Jun. 2021	80 80	**160.0**	
Focus: Ukraine new MFAs							
Ukraine (Loan)	28.02.2022	2022/313/EU	**1 200.0**	Mar. 2022 May 2022	600 600	**1 200.0**	
Ukraine (Loan)	12.07.2022	2022/1201/EU	**1 000.0**	Aug. 2022	1000	**1 000.0**	
Ukraine (Loan)	20.09.2022	2022/1628/EU	**5 000.0**	Oct. 2022 Nov. 2022 Dec. 2022	2000 2500 500	**5 000.0**	
Ukraine (Loan)	14.12.2022	2022/2463/EU	**18 000.0**				**18 000.0 (for 2023)**

Annex 3: MFA amounts authorised* by year, 2006-2022 (EUR million)[24]

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
By region																		
Accession and Pre-Accession	50.0			300.0											750.0			**1 100.0**
Neighbourhood East	33.5	45.0		146.0	590.0			46.0	1 000.0	1 800.0		100.0	1 045.0		1 450.0		25 350.0	**31 605.5**
Neighbourhood South		80.0						180.0	300.0		700.0				1 300.0			**2 560.0**
Other								30.0										**30.0**
Total amounts authorised	**83.5**	**125.0**	**0.0**	**446.0**	**590.0**	**0.0**	**0.0**	**256.0**	**1 300.0**	**1 800.0**	**700.0**	**100.0**	**1 045.0**	**0.0**	**3 500.0**	**0.0**	**25 350.0**	**35 295.5**
Loans	0.0	50.0	0.0	365.0	500.0			218.0	1 300.0	1 800.0	700.0	60.0	1 035.0		3 500.0		25 320.0	**34 848.0**
Grants	83.5	75.0	0.0	81.0	90.0			38.0				40.0	10.0		0.0		30.0	**447.5**

[1] More detailed information is available in the statistical data of the staff working document

*Authorised amounts refer to the amounts agreed to in the MFA decisions, which may differ from the disbursed amounts (Annex 4).

Chart 3A: MFA amounts authorised by year, 2014-2022 (EUR million)

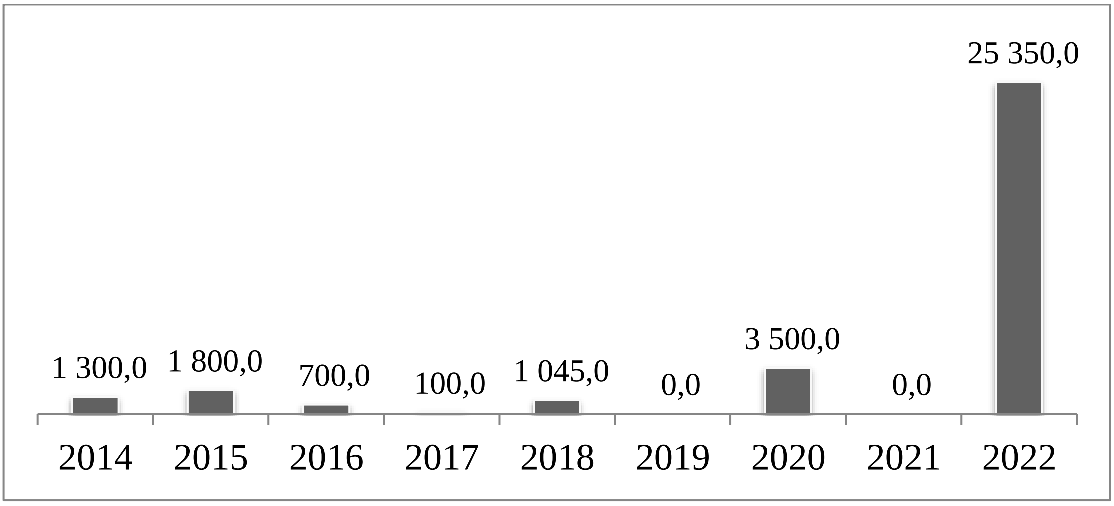
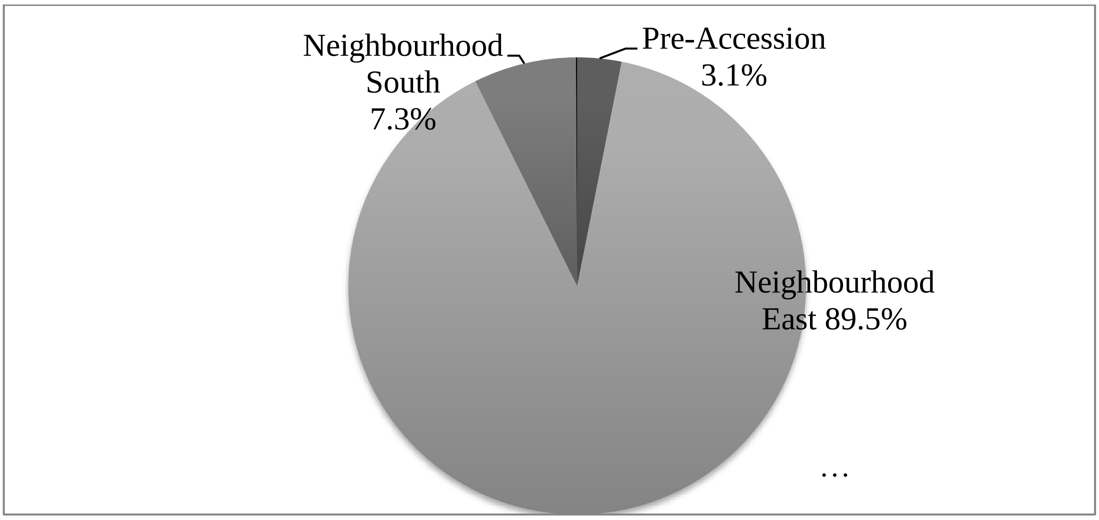


Chart 3B: MFA amounts authorised by region, 2006-2022 (%)



[24] MFA+ statistics also included in the year 2022.

Annex 4: MFA amounts disbursed by year, 2006-2022 (EUR million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
By region																		
Accession and Pre-Accession	32.0				30.0	100.0		100.0							160.0	465.0		887.0
Neighbourhood East	29.0	20.0	25.0	15.3	70.7	81.0	69.0		1 360.0	873.0		623.0	520.0	30.0	1 280.0	650.0	7 250.0	12 896.0
Neighbourhood South			15.0	25.0						380.0		400.0		400.0	250.0	550.0	300.0	2 320.0
Other										15.0	15.0							30.0
Total amounts disbursed	**61.0**	**20.0**	**40.0**	**40.3**	**100.7**	**181.0**	**69.0**	**100.0**	**1 360.0**	**1 268.0**	**15.0**	**1 023.0**	**520.0**	**430.0**	**1 690.0**	**1 665.0**	**7 550.0**	**16 133.0**
Loans	19.0	0.0	0.0	25.0	0.0	126.0	39.0	100.0	1 360.0	1 245.0	10.0	1 013.0	515.0	420.0	1 170.0	1 665.0	7 535.0	15 242.0
Grants	42.0	20.0	40.0	15.3	100.7	55.0	30.0			23.0	5.0	10.0	5.0	10.0	15.0	0.0	15.0	386.0

[1] More detailed information is available in the statistical data of the staff working document

Chart 4A: MFA amounts disbursed by year, 2014-2022 (EUR million)

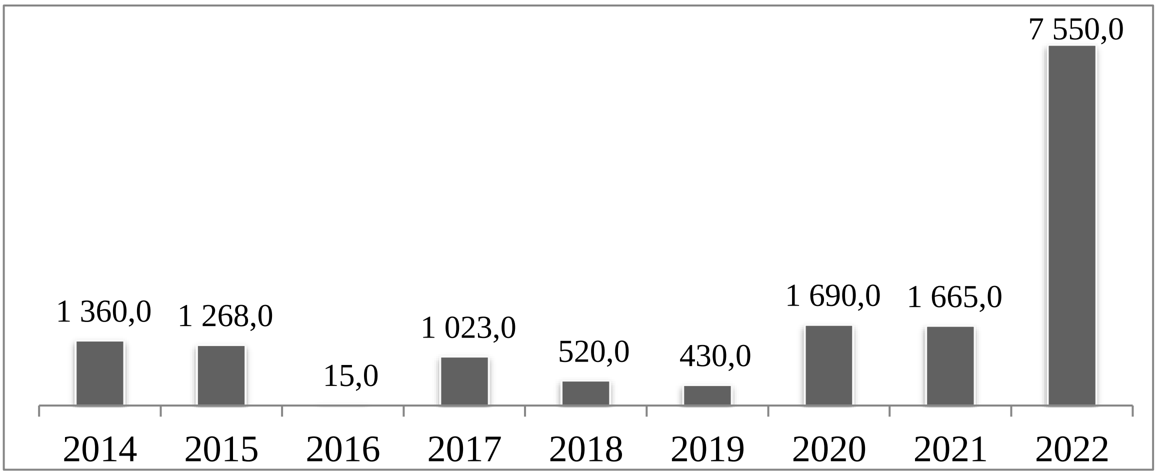


Chart 4B: MFA amounts disbursed by region, 2006-2022 (%)