

Macro-financial assistance to Ukraine

2009/0162(COD) - 29/10/2009 - Legislative proposal

PURPOSE: to provide macro-financial assistance of €500 million to Ukraine in the form of a loan.

PROPOSED ACT: Council Decision.

BACKGROUND: since the onset of the global crisis, the economic situation of the country has deteriorated dramatically. In 2008, Ukraine's real GDP growth was just 2.5%, and, in the first quarter of 2009, GDP is estimated to have contracted by around 20% year-on-year. The latest IMF projections for the current year point to a drop of real GDP by as much as 14%.

At the same time, even though the current account balance is projected to achieve a small surplus in 2009, Ukraine has suffered a capital account deficit: a loss of confidence meant capital flight, reversal of capital inflows and a reduction in foreign direct investment. Strong pressures on the capital account produced strong pressures on international reserves that could only be kept at an appropriate level due to the financing provided by the IMF under the Stand-By Arrangement (SBA). The slowdown in economic activity is also resulting in a significant shortfall in fiscal revenue resulting in the widening budget deficit.

The two-year IMF programme is considerably frontloaded. A large part of the loan (USD 1.9 billion) was channelled directly to the budget to help Ukraine meet its external debt obligations. This is why Ukraine has requested macro-financial assistance from the Community, the subject of this proposal for a Decision.

IMPACT ASSESSMENT: macro-financial assistance will have an immediate impact on Ukraine's balance of payments and the State budget and will in this way contribute to the alleviation of financial constraints on the implementation of the authorities' economic programme. Macro-financial assistance will further support the general objectives of the stabilisation programme agreed with the IMF.

CONTENT: the Commission is proposing the Community makes available **macro-financial assistance (MFA) in the form of a loan facility with a maximum principal amount of EUR 500 million** with a view to supporting Ukraine's balance of payments and external budgetary needs. It will also support the authorities' stabilisation programme with a view to ensuring sustainable fiscal and external accounts, and will thus help Ukraine address the consequences of the global financial crisis.

The proposed Community macro-financial assistance will complement support from the IMF foreseen under the SBA agreed by the IMF board in November 2008. It will also complement Community macro-financial assistance to Ukraine of up to EUR 110 million granted by the Council in 2002 which has not yet been implemented (see [Council Decision 2002/639/EC](#)).

Community MFA will be **exceptional and limited in time** (15 years), and will be conditional, in particular, on progress in the implementation of the current IMF programme and on the successful fulfilment of economic policy conditions that will be attached to this assistance. To this end, the Commission shall be empowered to borrow the relevant amount on the capital markets or from financial institutions.

The assistance will be provided in two tranches and will be managed by the Commission which shall agree with the authorities the specific economic policy and financial conditions attached to the payment of the loan instalments. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, will be duly taken into account. As regards specific economic policy conditions attached to the disbursement of the loan instalments, the Commission intends to focus on a

limited number of areas including public finance management and social safety net reforms related to energy sector reforms.

FINANCIAL IMPACT: in line with the Guarantee Fund Regulation, the provisioning of the Guarantee Fund is expected to take place in 2012 and to amount to a maximum of EUR 45 million. This corresponds to 9% of the EUR 500 million loan expected to be disbursed in 2010.