Macro-financial assistance to Jordan

2013/0128(COD) - 29/04/2013 - Legislative proposal

PURPOSE: to provide EUR 180 million in macro-financial assistance (MFA) to Jordan.

PROPOSED ACT: Decision of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: since 2011, Jordan's economy has been significantly affected by the domestic events related to the **Arab Spring** and the ongoing regional unrest. Combined with a weaker global environment, the political transition of Jordan has taken a heavy toll on external receipts and has strained public finances.

Jordan has also been affected by the intensification of the **Syria crisis**, notably through the inflow of refugees and its fiscal implications (about 1000 Syrians crossing Jordanian borders every day). It has welcomed about 180 000 refugees since January 2013. While Jordan has so far managed to date to maintain macroeconomic stability, including through substantial fiscal consolidation efforts and financial support from foreign donors, there are significant balance of payments and financing needs.

Under the pressure of a sharp drop of international reserves in the first half of 2012, the Jordanian authorities have agreed on a USD 2 billion (800% of quota), 36-month Stand-By Arrangement (SBA) with the International Monetary Fund, approved on August 2012.

In this context, the Jordanian government requested Macro-Financial Assistance (MFA) from the EU in the amount of EUR 200 million in December 2012.

Consequently, the Commission presents this proposal for MFA to the benefit of Jordan amounting to a maximum of EUR 180 million in the form of loans.

LEGAL BASIS: Article 212 of the Treaty on the Functioning of the European Union (TFEU).

CONTENT: it is proposed that the Union shall make available to Jordan macro-financial assistance of a maximum amount of **EUR 180 million**, with a view to supporting Jordan's economic stabilisation and reforms. The assistance shall contribute to covering Jordan's balance of payments needs as identified in the current IMF programme. The full amount of the macro-financial assistance shall be provided to Jordan in the form of **loans** which shall have a maximum maturity of **15 years**. The Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions in order to lend them to Jordan.

Objective of the loan: the EU's MFA would contribute towards covering Jordan's residual external financing needs in 2013 and 2014, in the context of the IMF programme. It would help Jordan address the lingering economic consequences of the Arab Spring and the external shocks of its energy sector. It would reduce the economy's short-term balance of payments and fiscal vulnerabilities, while supporting the adjustment and reform programmes agreed with the IMF and the World Bank, as well as the reforms agreed under the EU's budgetary support operations.

The proposed assistance would:

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promote policy measures to improve public financial management and tax reform while strengthening the social safety net (including through a better targeting of the cash transfers system);
- measures to improve the regulatory framework and climate for investment; and reforms to reduce unemployment and encourage participation in the labour market, notably among women.

Release measures: the Commission:

- shall manage the provision of the assistance in a manner **consistent with the agreements or understandings reached between the IMF and Jordan** and with the key principles and objectives of economic reforms set out in the EU-Jordan Association Agreement and the EU-Jordan Action Plan for 2010-2015agreed under the European Neighbourhood Policy;
- shall regularly inform the European Parliament and the Economic and Financial Committee of developments in the management of the Union macro-financial assistance and provide them with relevant documents.

The Union macro-financial assistance shall be made available for a period of **two years** from the first day after the entry into force of the Memorandum of Understanding referred to the proposal.

Other implementing measures:

- **instalments**: the assistance is planned to be disbursed in two loan instalments and to allow some frontloading given the urgency of the financing needs. The disbursement of the first instalment is expected to take place in the second half of 2013. The second instalment, conditional on a number of policy measures, could be disbursed in the first half of 2014;
- **disbursement**: this assistance is of macroeconomic nature and its design is consistent with the IMF-supported economic programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the SBA and specific reform measures to be agreed with the Jordanian authorities in a Memorandum of Understanding. The Commission will target structural reforms aimed at improving the overall macroeconomic management and the conditions for sustainable growth (e.g. targeting the transparency and efficiency of public finance management; fiscal reforms; reforms to strengthen the social safety net; labour market reforms; and reforms to improve the regulatory framework for trade and investment);
- **management**: the assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

Implementing powers: in order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission in accordance with Regulation (EU) No 182 /2011 of the European Parliament and of the Council. The fact that the assistance is of a substantial amount and, therefore, has a potentially important impact, **justifies the use of the examination procedure** .

BUDGETARY IMPLICATION: the MFA would be provided in the form of a loan and should be financed through a borrowing operation that the Commission will conduct on behalf of the EU. The budgetary costs of the assistance will correspond to the provisioning, at a rate of 9%, of the amounts disbursed in the guarantee fund for external lending of the EU, from budget line 01 04 01 14. Assuming that the first loan disbursement will be made in 2013 for the amount of EUR 100 million and the second loan disbursement in 2014 for the amount of EUR 80 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the 2015-16 budgets.