Macro-financial assistance to Tunisia

2013/0416(COD) - 05/12/2013 - Legislative proposal

PURPOSE: to provide macro-financial assistance to the Republic of Tunisia for an amount of EUR 250 million.

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: the Tunisian economy has been negatively affected by the domestic unrest that followed the 2011 revolution, regional instability (notably the war in Libya). In particular, the fiscal and balance of payments situation has deteriorated quite markedly, generating important financing needs.

At the same time, following the ousting of President Ben Ali on 14 January 2011, the country is taking significant steps towards the establishment of democratic mechanisms. However, the political transition has not been without difficulties and episodes of instability.

Against this background, the Tunisian authorities reached in mid-April 2013 an agreement with the International Monetary Fund (IMF) staff on a 24-month Stand-By Arrangement (SBA) in the amount of USD 1.75 billion (400% of quota), which was approved by the IMF Board in June. The aim of the SBA is to support the government’s economic reform programme, reduce economic vulnerabilities and foster sustainable and inclusive growth.

In this context, the Tunisian government requested Macro-Financial Assistance (MFA) from the EU in the amount of EUR 500 million on 28 August 2013, with a portion in the form of a grant. The European Commission submits to the European Parliament and the Council a proposal to grant a MFA to the Republic of Tunisia amounting to a maximum of EUR 250 million. The assistance would take the form of medium-term loans, with no grant component being envisaged given that Tunisia does not meet the eligibility criteria for the use of grants in MFA operations.

CONTENT: the proposal seeks to make available to Tunisia MFA for a total maximum amount of **EUR 250 million** in order to:

- contribute to cover Tunisia's residual external financing needs in 2014-15;
- support the fiscal consolidation effort and external stabilisation in the context of the IMF programme;
- facilitate and encourage efforts of the authorities of Tunisia to implement measures identified under the EU-Tunisia ENP Action Plan, and;
- support structural reform efforts aimed at improving the overall macroeconomic management, strengthening economic governance and transparency, and improving conditions for sustainable growth.

The full amount of the Union's macro-financial assistance shall be provided to Tunisia in the form of **loans** . The loans 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 and to on-lend them to Tunisia.

Disbursement of assistance: the assistance is planned to be disbursed in three loan instalments:

- the disbursement of the first instalment (EUR 90 million) is expected to take place in mid-2014;

- the second instalment (EUR 80 million), conditional on a number of policy measures, could be disbursed towards the end of 2014;

- the third and last instalment (EUR 80 million) could be made available, provided the policy measures are met, during the first half of 2015.

Implementing conditions:

- **respects effective democratic mechanisms**: a pre-condition for granting the Union's macro-financial assistance should be that Tunisia respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights. Both fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission;
- **release of the Union's macro-financial assistance**: this shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the IMF and Tunisia;
- **implementing reforms**: the Commission and the Tunisian authorities would agree on specific structural reform measures 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).

The proposed MFA would be made available for **two and a half years**, starting from the first day after the entry into force of the Memorandum of Understanding.

Decreased assistance: where the financing needs of Tunisia decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure, shall reduce the amount of the assistance or suspend or cancel it.

Where the circumstances permit, and if Tunisia so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.

Implementing conditions: in order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Tunisian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than

EUR 90 million, it is appropriate that the **examination procedure** be used for operations above that threshold as well as to any reduction, suspension or cancellation of the assistance.

Reports: by 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation.

Not later than two years after the expiry of the availability period, the Commission shall submit to the European Parliament and to the Council an ex post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

BUDGETARY IMPLICATIONS: the planned assistance 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 03 06 ("the provisioning of the Guarantee Fund").

Assuming that the first and second loan disbursements will be made in 2014 for a total amount of EUR 170 million and the third loan disbursement in 2015 for the amount of EUR 80 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the 2016-17 budgets.