

Macro-financial assistance to Ukraine

2015/0005(COD) - 08/01/2015 - Legislative proposal

PURPOSE: to grant macro-financial assistance (MFA) to Ukraine of a maximum amount of EUR 1.8 billion.

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

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

BACKGROUND: the EU is seeking an increasingly close relationship with Ukraine that goes beyond mere bilateral cooperation, encompassing **gradual political association and economic integration**.

The EU signed a Partnership and Cooperation Agreement (PCA) with Ukraine in 1998 that outlines the framework of cooperation in all key areas of reform and continues to be the legal basis of relations between the two parties. Relations were further reinforced in November 2009 when the EU-Ukraine Association Agenda was adopted, which was updated in 2011 (endorsed by the EU-Ukraine Cooperation Council in June 2013).

On 21 March and 27 June 2014, the EU and Ukraine signed an Association Agreement, which will establish a deep political association and economic integration between the EU and Ukraine.

The Ukrainian economy is experiencing a deep recession that is the result of long-standing macroeconomic imbalances and structural problems. **The eruption of an armed conflict in the East aggravated the situation through sizable losses of productive capacity and reduced confidence** which had a heavy toll on the economy.

The new government appointed in Ukraine following the political change in February 2014 envisaged the implementation of an ambitious reform Action Plan. These efforts have been seriously complicated, however, by the armed conflict in the East, growing trade restrictions from Russia, and the escalation of a natural gas dispute between the two countries.

As a result, the **economic recession in Ukraine has become more severe** than initially expected by international donors. In the current situation, Ukraine does not have access to international debt markets and is not expected to regain it in the short term.

This is why the Ukrainian authorities requested MFA from the EU of EUR 2 billion on 9 September 2014.

The European Commission is submitting to the European Parliament and the Council a proposal to grant MFA to Ukraine of maximum EUR 1.8 billion in the form of medium-term loans.

CONTENT: the proposal aims to grant MFA to Ukraine of a maximum amount of **EUR 1.8 billion**, with a view to supporting Ukraine's economic stabilisation and a substantive reform agenda. The assistance will contribute to cover Ukraine's residual external financing needs in 2015-16, as identified by the Commission based on the estimates of the IMF.

The assistance shall be made available for a period of two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding foreseen by the proposal.

Conditions for granting the assistance: the Commission and the Ukrainian authorities would agree on a **Memorandum of Understanding** setting out the structural reform measures associated with the proposed MFA operation, including aspects of timing and sequencing.

These measures will support the authorities' reform agenda, including relevant elements of the aforementioned forthcoming National Reform Strategy for 2015-17, and the implementation of the EU-Ukraine Association Agreement, as well as complementing the programmes agreed with the IMF, the World Bank and other multilateral and bilateral donors.

A pre-condition for granting the assistance shall be that Ukraine respects effective democratic mechanisms - including a multi-party parliamentary system - and the rule of law, and guarantees respect for human rights.

Reform strategy: the Commission will seek consensus with the Ukrainian authorities on the expected National Reform Strategy, so as to facilitate smooth implementation also of the conditionality to be agreed in the proposed Memorandum of Understanding.

These policy conditions should address some of the fundamental weaknesses accumulated over the years by the Ukrainian economy. Possible areas of conditionality could in principle include:

- public finance management;
- anti-corruption;
- tax administration;
- reforms in the energy sector;
- financial sector reforms;
- and measures to improve the business environment.

Aid instalments: the assistance will be disbursed in three loan instalments:

- the 1st instalment is expected to take place in the middle of 2015;
- the 2nd instalment could be disbursed in the 4th quarter of 2015;
- the 3rd and last instalment could be made available towards the end of the 1st quarter of 2016.

The disbursements would inter alia be conditional on satisfactory reviews under the IMF programme and the continued drawing by Ukraine on IMF funds.

Management of the assistance: 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.

Where the circumstances permit, and if Ukraine 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 the inclusion of a corresponding clause in the conditions of the borrowing operations;
- decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions.

Implementing powers: implementing powers shall be conferred on the Commission in line with [\(EU\) No 182/2011 of the European Parliament and the Council](#). The fact that the assistance is of a substantial amount and therefore has a **potentially significant impact, justifies the use of the examination procedure**, in this context.

Report: 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, examining the progress made in implementing the Union's macro-financial assistance, the economic situation and prospects of Ukraine, as well as progress made in implementing the policy measures, indicating the connection between the economic policy conditions laid down in the Memorandum of Understanding, Ukraine's on-going economic and fiscal performance and the Commission's decisions to release the instalments of the Union's macro-financial assistance.

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 into the guarantee fund for external lending of the EU from budget line 01 03 06 ("Provisioning of the Guarantee Fund").

Assuming that the first and second loan disbursements will be made in 2015 for a total amount of EUR 1,200 million and the third loan disbursement in 2016 for the amount of EUR 600 million, the provisioning will take place in the budgets for 2017 (for EUR 108 million) and 2018 (EUR 54 million).