Further macro-financial assistance to Tunisia

2016/0039(COD) - 12/02/2016 - Legislative proposal

PURPOSE: to providing further macro-financial assistance to Tunisia in order to strengthen its economy and implement a structural reform programme.

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: Tunisia was the first Mediterranean country to sign an Association Agreement with the EU on 17 July 1995, which came into force on 1 March 1998.

Tunisia is a country covered by the **European Neighbourhood Policy** (ENP) and it should be considered to be eligible to receive macro-financial assistance from the Union.

In parallel to this political transition process, the Tunisian economy has suffered from continuous domestic unrest, regional instability (including the impact of the Libyan conflicts) and a weak international environment (particularly in the Union, Tunisia’s main trading partner). These unfavourable developments substantially weakened its growth performance, as well as its fiscal and balance of payments positions.

Since 2011, the **Union has expressed its unequivocal commitment to supporting Tunisia in its economic and political reform process**. It has increased its financial support to Tunisia, strengthening its cooperation in many fields, including the civil society the electoral system, security, regional development and social and economic reforms. And it has offered the possibility of concluding a Deep and Comprehensive Free Trade Area agreement, the negotiations of which were launched in October 2014.

Tunisia reached in mid-April 2013 an agreement with the International Monetary Fund (IMF) on a 24-month Stand-By Arrangement (SBA) in the amount of USD 1.75 billion, which was approved by the IMF Board on June 2013, and which was subsequently extended until December 2015. It also requested in August 2013 complementary Macro-Financial Assistance (MFA) from the EU. In response, the European Commission proposed **a MFA of EUR 250 million in December 2013 in the form of loans** (MFA-I), which the co-legislators raised to EUR 300 million and approved in May 2014 (Decision No 534/2014/EU). This amount is being successfully implemented.

Following the completion of the 6th review of the IMF programme last September, Tunisia requested a successor arrangement with the IMF, probably of a 4-year duration. The new IMF programme is still under negotiation but expected to be sent for IMF Board approval in the spring of 2016.

In 2015, the Tunisia's economy has been significantly affected by several terrorist attacks that have targeted key economic industries like tourism and transport as well as aiming to disrupt the consolidation of its political transition. In this context, **Tunisia requested a second MFA operation from the EU in the amount of EUR 500 million, which would accompany the successor IMF programme.**

CONTENT: the proposal seeks to make MFA available to Tunisia for a total maximum amount of EUR 500 million, provided in the form of a medium term loan. The assistance will contribute to cover Tunisia's residual external financing needs in 2016-17, as identified by the Commission based on the estimates of the IMF.

The assistance, to be disbursed in **three instalments** (EUR 200 million, EUR 150 million and EUR 150 million, respectively), should help the country overcome its difficult economic and balance of payments situation it is experiencing, which has been exacerbated by the terrorist attacks it suffered in 2015 and by persistent domestic and regional unrest. It will also promote structural reforms aimed at raising sustainable economic growth and improving public finance management.

The assistance will be **managed by the Commission**. The disbursements would be conditional on successful programme reviews under the new IMF's financial arrangement. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

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).

In addition, the Commission and the Tunisian authorities would agree on specific **structural reform measures** in a Memorandum of Understanding.

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 2016 for a total amount of EUR 350 million and the third loan disbursement in 2017 for the amount of EUR 150 million, and according to the rules governing the guarantee fund mechanism, the provisioning will take place in the 2018-2019 budgets.

The implications on expenditure (including human resources and administrative costs) are estimated at EUR 45.295 million for 2016-2019.