Macro-financial assistance to Moldova

2017/0007(COD) - 13/01/2017 - Legislative proposal

PURPOSE: to provide macro-financial assistance to Moldova.

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: relations between the European Union (EU) and Moldova continue to develop within the framework of the European Neighbourhood Policy (ENP) and the Eastern Partnership. The EU-Moldova Association Agreement, which includes the gradual introduction of a Deep and Comprehensive Free Trade Area (DCFTA), was signed in June 2014 and entered into force on 1 July 2016.

Moldova's economy has been affected significantly by the political instability experienced in the period between the elections of November 2014 and January 2016, as well as by a banking fraud scandal, weak economic activity in the region, and import bans imposed by Russia. That situation contributed to producing a recession, a growing trade deficit and a significant decline of the foreign exchange reserves over the last year.

In a context of political transition and economic difficulties, in July 2016 the Moldovan authorities and the International Monetary Fund (IMF) agreed on a three-year Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangement in the amount of USD 178.7 million. The arrangement was approved by the IMF Board on 7 November 2016.

In view of the worsening economic situation and outlook, Moldova requested complementary macro-financial assistance (MFA) from the Union in August 2015 and reiterated that request in March 2016.

The Union's indicative allocation for Moldova under the **European Neighbourhood Instrument** (ENI) is EUR 610-746 million, including budgetary support and technical assistance.

Given that Moldova is a country covered by the ENP, it should be considered to be eligible to receive macro-financial assistance from the Union.

The EUs macro-financial assistance is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in third countries.

Given that there is still a significant residual external financing gap in Moldova's balance of payments over and above the resources provided by IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Moldova is, under the current exceptional circumstances, considered to be an appropriate response to Moldova's request for support to the economic stabilisation, in conjunction with the IMF programme.

CONTENT: the Union shall make macro-financial assistance of a maximum amount of **EUR 100 million available to Moldova**, with a view to supporting Moldova's economic stabilisation and a substantive reform agenda.

The Commission proposes to provide the amount of the assistance in the form of a **medium-term loan of up to EUR 60 million and in grants of up to EUR 40 million**. The assistance will contribute to cover

Moldova's residual external financing needs in 2016-18, as identified by the Commission based on the estimates of the IMF.

The Commission is considering releasing the assistance in three instalments:

- the first two instalments, composed each of a grant element of EUR 10 million and a loan part of EUR 20 million, would be disbursed in 2017;
- the third one, composed of a grant element of EUR 20 million and a loan part of EUR 20 million, in the first half of 2018.

Strict conditions will be attached to the disbursements under the MFA, with each tranche, including the first one, conditional on good progress with both the IMF programme and the specific policy conditionality agreed with the EU in the Memorandum of Understanding attached to this operation.

Possible areas of **conditionality could include reforms** to strengthen governance in the financial sector, public finance management, energy sector reform, and accompanying measures to strengthen the social safety net, improving the investment climate and supporting the implementation of the Deep and Comprehensive Free Trade Area agreement (DCFTA).

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. They Commission should regularly inform the European Parliament and the Council of developments relating to MFA.

BUDGETARY IMPLICATIONS: the planned assistance would be provided in the form of a loan and a grant.

The loan would be financed through a borrowing operation that the Commission will conduct on behalf of the EU. The budgetary impact of the loan assistance will correspond to the provisioning of the EU's Guarantee Fund for external actions, at a rate of 9% of the amounts disbursed, from budget line 01 03 06 ("Provisioning of the Guarantee Fund").

Assuming that the first two loan disbursements (of EUR 20 million each) will be made in 2017 and the third loan disbursement (of EUR 20 million) in 2018, the provisioning will take place in the 2019-2020 budgets, for an amount of EUR 3.6 million and EUR 1.8 million, respectively.