Macro-financial assistance to Moldova

2021/0438(COD) - 04/01/2022 - Legislative proposal

PURPOSE: to provide a further EUR 150 million in 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: the EU and the Republic of Moldova have developed a close political and economic relationship over the years. The last Association Agenda for 2017-2019 has been extended over the period of one year (due to the pandemic last year), whilst a new document is under preparation, covering the 2021-2027 period. Moldova's economic ties with the EU are also well developed. The EU continues to be Moldova’s largest trading partner, accounting for 52% of its total trade in 2020.

Moldova’s economy has been affected significantly by the 2020 recession caused by the COVID-19 pandemic, the protracted political stalemate in the country after the Presidential elections in November 2020, as well as the recent energy crisis. The situation contributed to Moldova’s sizable financing gap, deteriorating external position, and growing fiscal needs.

Following the election in July 2021, the new Moldovan government has demonstrated a strong commitment to further reforms, with an ambitious programme ‘Moldova in good times 2021-2025’, focusing on key policy areas including, among others, justice sector reforms, fight against corruption, good governance and the rule of law.

With the renewed reform-commitment and strong political will, the authorities have significantly accelerated on reform implementation, which has also allowed Moldova to successfully complete the COVID-19 macro-financial assistance operation.

In view of a worsening economic situation and outlook, Moldova requested a complementary macro-financial assistance from the Union in November 2021.

The proposed MFA would help Moldova cover part of its residual external financing needs, which are estimated at USD 480 million, in the context of the new IMF programme over the period of 2021-2025.

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

CONTENT: the Union will provide macro-financial assistance of a maximum amount of **EUR 150 million** available to Moldova, with a view to supporting Moldova's economic stabilisation and a substantive reform agenda. Of that maximum amount, up to **EUR 120 million will be provided in the form of loans** and up to **EUR 30 million in the form of grants**. The loans will have a maximum average maturity of 15 years. Moreover, the assistance will contribute to covering Moldova's balance of payments needs as identified in the IMF programme.

The Commission is considering releasing the assistance in three instalments:

- the disbursement of the first instalment is expected to take place mid-2022;

- the second instalment could be disbursed in early 2023;

- the third tranche could follow later that year or in the first half of 2024, provided that the policy measures attached to each instalment have been implemented in a timely manner.

It should be noted that a pre-condition for granting the Union's macro-financial assistance will be that Moldova respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.

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 financial programming of the EUR 150 million assistance over the 2022-2024 period allows for a grant component of EUR 30 million to be financed from the available budget on budget line 14 20 03 01 ‘Macro-financial assistance (MFA) – grants’'. For the loan component of EUR 120 million, the required provisioning at a rate of 9% of the External Action Guarantee will be programmed under the Neighbourhood, Development and International Cooperation Instrument (NDICI), for a total amount of EUR 10.8 million (budget line 14 02 01 70 ‘NDICI – Provisioning of the Common Provisioning Fund’).