

Providing macro-financial assistance to Ukraine

2022/0026(COD) - 01/02/2022 - Legislative proposal

PURPOSE: to provide macro-financial assistance (MFA) of EUR 1.2 billion to Ukraine with a view to supporting its resilience and stability.

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: EU-Ukraine relations continue to develop within the framework of the European Neighbourhood Policy and the Eastern Partnership. An Association Agreement between the EU and Ukraine, providing for a deep and comprehensive free trade area, entered into force on 1 September 2017.

Since spring 2014, Ukraine has been carrying out an ambitious reform programme aimed at stabilising its economy and improving the living conditions of its population. The fight against corruption as well as constitutional, electoral and judicial reforms are among the main priorities. The implementation of these reforms has been supported by five consecutive macro-financial assistance programmes, under which Ukraine has received loans totalling EUR 5 billion over the period 2014-2021.

In order to allow for greater policy flexibility in the context of the COVID-19 crisis, the International Monetary Fund (IMF) approved an 18-month Stand-By Arrangement with Ukraine in June 2020 for an amount equivalent to USD 5 billion.

The Ukrainian economy has been affected by the 2020 recession caused by the COVID-19 pandemic and by the persistent security threats on the country's border with Russia. Inflation accelerated and reached 10% by the end of 2021. The worsening geopolitical tensions on Ukraine's border with Russia have had a profound impact on confidence, particularly among foreign investors.

According to the latest IMF projections, the lack of access to capital markets is expected to widen the country's funding gap by at least USD 2.5 billion in 2022 and significantly increase risks to the country's macroeconomic outlook.

It is against this background of increased geopolitical uncertainty, which prevents Ukraine from accessing international capital markets and affects its economic situation, that the Commission is presenting a proposal to provide Ukraine with new MFA in the form of loans to foster stability in the country.

CONTENT: the Commission proposes that the EU makes available to Ukraine **macro-financial assistance (MFA) of up to EUR 1.2 billion** with a view to facilitating macroeconomic stabilisation and the implementation of a comprehensive reform programme.

The planned emergency MFA, put forward to provide swift support in a situation of acute crisis and to strengthen the resilience of the country, will have a duration of 12 months and include two disbursements:

- the release of the first tranche, subject to the political precondition and a satisfactory implementation of the IMF programme, would occur swiftly after the approval of this proposal, upon entry into force of the Memorandum of Understanding (MoU) on specific structural policy measures, agreed between the European Commission on behalf of the EU and Ukraine;

- the disbursement of the second tranche would be linked to the continuous satisfactory implementation of both an IMF programme and the policy measures agreed in the MoU. The MoU underpinning this emergency macro-financial assistance operation is likely to focus on a limited number of feasible, short-term policy actions in the most urgent priority areas, such as strengthening economic resilience and stability, governance and rule of law, and energy.

The implementation of the proposed operation is expected to go hand-in-hand with the **support under budgetary operations** financed by the Neighbourhood, Development and International Cooperation Instrument (NDICI). The announced additional allocation of EUR 120 million in NDICI grants will be important to further strengthen Ukraine's state-building and resilience efforts.

A **pre-condition** for granting the Union's macro-financial 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. In addition, the **specific objectives** of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems and promote structural reforms aimed at supporting sustainable and inclusive growth, decent employment creation and fiscal consolidation.

Both the fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service. In order for the European Parliament and the Council to follow the implementation of this decision, the Commission will have to inform them regularly on developments related to the assistance.

Budgetary implications

The proposed macro-financial assistance operation in favour of Ukraine would be disbursed in two equal instalments, to be disbursed over 12 months. These funds will be borrowed on the capital market and then lent to Ukraine. The loan will benefit from the external action guarantee.

The required provisioning (corresponding to 9% of the loan amount) will be provided under the Neighbourhood, Development Cooperation and International Cooperation Instrument (NDICI), for a total amount of EUR 108 million.