

Exceptional macro-financial assistance to Ukraine

2022/0213(COD) - 01/07/2022 - Legislative proposal

PURPOSE: to provide EUR 1 billion exceptional macro-financial assistance (MFA) to Ukraine with a view to supporting, in particular, its economic 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: in spring 2014, Ukraine embarked on an ambitious reform programme with the aim of stabilising its economy and improving the livelihoods of its citizens. The fight against corruption as well as constitutional, electoral and judicial reforms are among the top priorities on the agenda.

The implementation of those reforms was supported by six consecutive macro-financial assistance programmes, under which Ukraine has received assistance in the form of loans for a total of EUR 6.2 billion. The latest emergency macro-financial assistance, which was made available in the context of mounting tensions at the border with Russia pursuant to Decision (EU) 2022/313 of the European Parliament and of the Council provided EUR 1.2 billion in loans to Ukraine, disbursed in two instalments of EUR 600 million in March and May 2022.

The economic situation of Ukraine has deteriorated dramatically following Russia's war of aggression. Ukraine's GDP is unofficially estimated to have decreased by 35-40% in March-April year-on-year. Inflation increased to 18.0% year-on-year in May. Russia's war of aggression triggered sizable funding needs for the Ukrainian budget that reflect into a substantial external funding gap. The resulting overall balance-of-payments funding gap is estimated by the authorities and the IMF to reach around USD 39 billion for the whole of 2022.

In order to make a contribution toward financing the remaining estimated funding gap of Ukraine for the whole of 2022 of about USD 10 billion, the Commission intends to present a proposal for an exceptional MFA operation of up to EUR 9 billion to Ukraine. This proposal for additional MFA of up to EUR 1 billion constitutes the first part of the exceptional MFA aims to provide swift financial support in a situation of **acute funding needs** and to ensure the continued functioning of the most critical functions of the Ukrainian state.

CONTENT: in order to address the immediate and most urgent funding needs of Ukraine, as a first step, the Commission is submitting to the European Parliament and the Council this proposal for a decision to provide **additional MFA of up to EUR 1 billion to Ukraine**, in the form of a highly concessional long-term loan.

Together with the emergency MFA of EUR 1.2 billion disbursed earlier this year, the total macro-financial support from the EU to Ukraine since the start of the war would reach EUR 2.2 billion. This additional MFA, of up to EUR 1 billion, **is seen as the first part** and the Commission intends to come forward with a proposal for the second part of the exceptional MFA as soon as feasible.

The provision of further support to Ukraine in the form of a highly concessional long-term loan, at this juncture, can assist the Ukrainian authorities in overcoming significant funding challenges arising from the conduct and impact of the Russian war of aggression.

A precondition for granting the Union's macro-financial assistance should be that Ukraine **respects effective democratic mechanisms**, including a multi-party parliamentary system, and the rule of law, and guarantees respect for human rights. The Commission services and the European External Action Service should work closely together throughout the life cycle of the Union's macro-financial assistance, in particular before disbursements are made, also taking into account the circumstances on the ground and the consequences of the application of martial law.

The Commission should agree with Ukraine on clearly defined reporting requirements to which the Union's macro-financial assistance is to be linked. The reporting requirements should be set out in a Memorandum of Understanding. The reporting requirements should ensure, in particular, the efficiency, transparency and accountability of the use of the Union's macro-financial assistance. The Commission should regularly monitor the implementation of these reporting requirements. The financial arrangements for MFA should be laid down in a loan agreement to be concluded between the Commission and Ukraine.

BUDGETARY IMPLICATIONS: the funds for this additional MFA to Ukraine of up to EUR 1 billion should be borrowed on the capital markets and then lent to Ukraine. The **elevated provisioning at a rate of 70%**, that is needed to reflect the higher risks associated with this loan should be applied, which deviates from Regulation (EU) 2021/947.

The relevant provisions should be earmarked under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe), for a total amount of EUR 700 million.