Macro-financial assistance to Moldova

2023/0018(COD) - 24/01/2023 - Legislative proposal

PURPOSE: to provide a further EUR 145 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: on 6 April 2022, the European Parliament and Council adopted Decision (EU) 2022 /563 providing new macro-financial assistance (MFA) to Moldova for an amount of EUR 150 million, in medium term-loans and through a grant element. The MFA entered into force on 18 July for two and a half years. On 1 August 2022, following successful fulfilment of all policy actions agreed with the Union in the Memorandum of Understanding, the first instalment of EUR 50 million was disbursed.

However, during 2022, the global economic situation deteriorated. The circumstances underlying Moldova’s first request for macro-financial assistance, made in 2022, further worsened with the country both directly and indirectly affected by Russia’s war of aggression against Ukraine, as well as the continuing energy crisis. Moreover, since the start of the war, over half a million people have crossed the Moldovan border, and about 90 000 remain in the country. This has put additional pressure on Moldova’s public finances. Therefore, the overall macroeconomic position weakened significantly in 2022.

Against this backdrop and in line with the principle of fair burden-sharing, the Commission submits to the Parliament and the Council a proposal to increase the ongoing MFA to Moldova by EUR 145 million, of which EUR 100 million in loans and EUR 45 million in grants.

This increase is, under the current exceptional circumstances, considered to be an appropriate response to Moldova's request for support to the economic stabilisation. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of Moldova, supplementing resources made available under the IMF's financial arrangement. Therefore, Decision (EU) 2022/563 should be amended accordingly.

CONTENT: with this proposed increase of EUR 145 million, the Union will make macro-financial assistance of a maximum amount of EUR 295 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 220 million will be provided in the form of loans and up to EUR 75 million in the form of grants. The assistance will contribute to covering Moldova's balance of payments needs as identified in the IMF programme.

The proposed MFA increase would support the resources allocated to Moldova under the existing operation. The additional conditions attached to the increased amount would build on the reform priorities outlined in the existing Memorandum of Understanding, keeping the focus on public finance governance, the rule of law, combating corruption, improving the business climate, and promoting further energy sector reforms.

The additional MFA assistance would be disbursed in two new instalments, linked to:

- additional policy conditionality;

- good progress in implementing the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA); and

- a positive track record in implementing the IMF programme. The policy conditions attached to the two new instalments would build on those agreed in the Memorandum of Understanding on the current MFA.

The policy conditions attached to the two new instalments would build on those agreed in the Memorandum of Understanding on the current MFA. This would strengthen the focus of the programme and ensure consistency with the EU-Moldova policy priorities and the Moldovan government agenda. The additional support is also in line with the strengthened EU-Moldova relationship under the candidate country status, which Moldova was granted on 23 June 2022.

Budgetary implications

The proposed increase of EUR 145 million in Moldova's ongoing MFA operation is planned to be disbursed in two equal instalments, to be released in 2023, if the conditions are fulfilled.

The financial programming over the 2022-2024 period provides that a grant component of EUR 45 million can be financed from the available budget under budget line 14 20 03 01 ‘Macro-financial assistance (MFA) - grants’. For the loan component of EUR 100 million, the required provisioning at a rate of 9% of the External Action Guarantee will be programmed under the NDICI, for a total amount of EUR 9 million (budget line 14 02 01 70 ‘NDICI – Provisioning of the Common Provisioning Fund’).