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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of macro-financial assistance to third countries in 2014

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LIST OF ABBREVIATIONS

AA	Association Agreement
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DCFTA	Deep and Comprehensive Free Trade Area
EC	European Community
ECF	Extended Credit Facility
EEU	Eurasia Economic Union
EFF	Extended Fund Facility
EFTA	European Free Trade Association
EIB	European Investment Bank
ENP	European Neighbourhood Policy
ENI	European Neighbourhood Instrument
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GAFTA	Great Arabic Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
IMF	International Monetary Fund
MFA	Macro-Financial Assistance
MoU	Memorandum of Understanding
OECD	Organisation for Economic Co-operation and Development
OJ	Official Journal of the European Union
PFM	Public Finance Management
PPP	Public Private Partnership
SBA	Stand-By Arrangement
USD	Dollar of the United States of America
TFEU	Treaty on the Functioning of the European Union
VAT	Value Added Tax
WTO	World Trade Organisation

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INTRODUCTION

This staff working document is published in parallel with the Report from the Commission to the European Parliament and the Council on the implementation of macro-financial assistance (MFA) to third countries in 2014. It provides economic and financial information regarding the situation of countries having benefitted from MFA in 2014, as well as more detailed information on the implementation of MFA operations in those countries. Statistical data on the different macro-financial assistance decisions adopted since 1990, by date and by regions, are included in annexes. Total amounts of MFA commitments and payments over the period 2004-2014, by year and by region, are also provided.

BACKGROUND ANALYSIS OF BENEFICIARIES OF MACRO-FINANCIAL ASSISTANCE

1. GEORGIA

1.1. Executive summary

Georgia's economic activity picked up from 3.2% in 2013 to 4.7% in 2014 due to the buoyant consumption and a rebound in private investment. In line with growth, inflation accelerated to 3.1% in 2014 despite the mitigating effect of the falling oil prices. Following the adverse exchange rate developments in Russia and other CIS countries since November 2014, the lari depreciated sharply against the dollar fuelling inflation expectations. In response, the central bank increased its key policy rate to 4.5% in February 2015. External pressures have intensified in 2014. The current account deficit is expected to reach 8.5% of GDP, up from 5.9% of GDP in 2013, as imports increased on the back of the economic growth and exports and remittances suffered from the unfavourable external environment. The level of external debt is expected to remain stable at about 82% of GDP.

Following the expiry of the last IMF programme in April 2014, the authorities agreed on a new three-year programme of USD 154 million in July 2014. 80% of the funds were already disbursed in 2014. The first review concluded that the program performance was on track.

In 2013, a decision on a MFA programme to Georgia was adopted for a total of EUR 46 million, to be provided equally in loans and grants and disbursed in two tranches[1]. After Georgia concluded a new disbursing programme with the IMF in July 2014, the negotiations on the MFA were reactivated (they had been put on hold since 2011 because Georgia did not draw on the existing IMF programme). The MFA documents were signed and, where appropriate, ratified by the Georgian Parliament in December 2014. The grant part of the first tranche (EUR 13 million) was disbursed in January 2015 and the loan part (EUR 10 million) in April 2015. The disbursment of the second MFA tranche (a total of EUR 23 million) is planned for the second half of 2015, conditional upon the IMF programme staying on track and Georgia fulfilling the measures agreed in the Memorandum of Understanding (MoU) listing the policy conditions for the disbursement of MFA funds.

The EU's MFA to Georgia complements the substantial financial assistance the EU provided through other instruments, including the European Investment Bank (EIB), which between 2010 and 2013 signed new loans for a total of about EUR 500 million, and the European Neighbourhood Instrument (ENI), which allocated more than EUR 300 million in grants over the 2007-2013 period. Moreover, following the war with Russia, over EUR 100 million in grants were mobilised in 2008-2009 to help the authorities assist the large population of internally displaced people resulting from the conflict. Georgia also benefited from the “more for more principle” in recognition of its progress in the fields of democracy and respect for human rights, for which it received additional grants of EUR 50 million in 2012-2103.

1.2. Macroeconomic performance

After slowing sharply between mid-2012 and the third quarter of 2013 as a result of post-election uncertainties and a decline in government spending, real GDP growth started to recover in the last quarter of 2013, on the back of a strong fiscal stimulus, and reached

[1] Decision No 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia (OJ L 218, 14.8.2013).

3.2% for the year as a whole. The recovery continued in 2014 when the economy grew by 4.7%, supported by buoyant consumption and a rebound in private investment as business confidence continued to improve. However, due to increasing geopolitical risks and bleak prospects for Russia and the rest of the CIS countries, the growth forecast for 2015 has been significantly revised downward to 2-2.5%, from the previously envisaged 5%.

After a deflation of 0.5% on average in 2013, the recovery of economic activity, supported by an accommodative monetary policy, coupled with the increases in food prices, pushed the consumer price inflation to 3.1% in 2014. In response to the rising inflation, the National Bank of Georgia increased the key policy rate to 4% in February 2014. After a period of relative stability throughout 2014, the lari started to depreciate sharply in November following a sharp depreciation of the Russian rouble and other CIS currencies. From 1 November 2014 to 26 February 2015, the lari lost 29% of its value against the USD and 16% against the euro. In order to fight inflation expectations resulting from lari depreciation, notwithstanding the falling oil prices, central bank increased its policy rate further to 4.5% in February 2015.

The fiscal deficit widened from 2.6% of GDP in 2013 to 2.9% of GDP in 2014, well below the target of 3.7% of GDP set by the IMF programme, as a result of better-than-expected revenue collection. In 2014, the budget was under pressure from increases in social spending introduced in 2013. At the same time, the room for increasing revenues was constrained by the *Liberty Act* (in force since January 2014), which does not allow for any tax increases, except excises, without approval by referendum.

After a significant improvement in 2013, the current account deficit widened again in 2014 and reached 9.6% of GDP, up from 5.7% of GDP in 2013. The deterioration was due to (i) an increase in imports driven by the economic recovery, and (ii) a decrease in exports and remittances, which suffered from an unfavourable external environment, mainly in Russia and Ukraine. The external debt remained stable in 2014 at 81% of GDP. Foreign exchange reserves somewhat recovered after falling by almost 20% between October 2013 and January 2014 due to a sudden fiscal expansion in the last quarter of 2013. In December 2014, foreign exchange reserves stood at USD 2.7 billion, covering over three months of next year's imports.

The financial sector remains sound. Banks are sufficiently capitalized, with a capital adequacy ratio of 17.4% and non-performing loans representing 4.7% of total loans as of December 2014. Risks in the system refer mostly to the still high levels of dollarization (especially in light of the recent lari depreciation) and the high concentration in the banking sector.

1.3. Structural reforms

Georgia has implemented a series of important structural reforms and has substantially improved its business environment in the past few years. In 2014, Georgia ranked 15th out of 189 countries in the World Bank Doing Business report. It is considered one of the best countries when it comes to starting a business, registering property and dealing with construction permits. Nevertheless, there is room for improvement in areas such as paying taxes, protection of minority investors, access to electricity and resolving insolvency.

However, the benefits of economic growth and structural reforms have not yet reached the wider population. The unemployment rate remains very high (14.6% in 2013). Poverty rates stayed high in 2014, in particular in the rural parts of the country, where subsistence farming is predominant. Inequality is slightly improving but is still among the highest in the region, with a GINI coefficient of 0.4. In an effort to make economic

growth more inclusive, in 2013, the government started establishing an universal healthcare system and increasing pensions, social assistance and education spending. During 2014, all beneficiaries, including the socially vulnerable, were transferred to the universal heath scheme.

In June 2014, Georgia signed an Association Agreement (AA) with the EU, including a Deep and Comprehensive Free Trade Area (DCFTA) agreement, which entered into force in September 2014. DCFTA is likely to enhance Georgia's trade prospects and boost economic growth by enhancing the country's export potential, especially to developed markets. In line with the DCFTA requirements, a Law on Competition and relevant secondary legislation were adopted in 2014, providing for the anti-trust framework and enabling the Competition Agency to become fully operational.

Georgia has made a lot of progress in increasing fiscal transparency over the last year, also as part of the measures agreed under the IMF programme. The government has issued, for the first time, a fiscal risk statement together with the 2015 budget, which discloses macroeconomic and debt-related risks. This risk analysis will be further expanded in 2015 by including risks stemming from large state-owned enterprises and quasi-fiscal activities. In addition, from 2015 onwards, budgets of all central and local units (except schools) will be included in the single treasury account. Georgia has also increased the efficiency of its tax administration by strengthening the tax audit capacity, improving filing compliance and making progress with management of tax arrears. A decision to abolish the alternative tax audit programme came in force in early 2015. With support from USAID, Georgia is developing its cadastre and has prepared a package of draft laws which will increase the quality of ownership rights registration and ensure better protection of property rights.

Regarding the financial sector, substantial progress was made in developing risk-based supervision and adapting regulations to the Basel II guidelines on capital adequacy and the new Basel requirements on liquidity ratios. In 2014, banks in Georgia undertook the Internal Capital Adequacy Assessment Process to determine the level of capital they need in order to guard against overall credit risks. Based on this, the central bank plans to provide to the two largest banks (holding 60% of total banking assets) assessments and recommendations in the context of the Supervisory Review and Evaluation Process of 2015. The preparation of new legislation on liquidity ratios is in its final stage, but the banks already comply with the 100% liquidity coverage requirement. This effectively makes Georgia the first country to implement the Basel III requirements in this area. Also, positive steps have been taken to discourage financial dollarization, improve the Anti-Money Laundering law and the institutional setup of the Financial Monitoring Service (which was moved from the central bank to an independent body). Still, Georgia needs to introduce a deposit guarantee scheme and develop the non-banking financial sector.

1.4. Implementation of macro-financial assistance

The EU pledged up to EUR 500 million of support for Georgia's economic recovery at a International Donor Conference in Brussels in October 2008, in the aftermath of the military conflict with Russia. The pledge included two potential MFA operations, amounting to EUR 46 million each. The first MFA operation was successfully implemented in 2009-2010.

The second MFA programme, also amounting to EUR 46 million, is being provided evenly in grants and loans. It was proposed by the Commission in January 2011 but the adoption of the decision was delayed reflecting procedural disagreements between the European Parliament and the Council. The decision was finally adopted in August 2013 following a formal conciliation process, as part of a more general agreement that also

included a Joint Declaration of the co-legislators on the principles and rules applicable to all MFA operations.

The negotiations on the MoU started in 2011 but were then interrupted because the authorities decided not to draw on the existing IMF programme. As Georgia concluded a new, this time disbursing programme with the IMF in July 2014, MFA negotiations with the Georgian authorities were reactivated and concluded in October 2014. The MoU, the Loan Facility Agreement and the Grant Agreement were signed by both parties and, where appropriate, ratified by the Georgian Parliament in December 2014.

The assistance will be disbursed in two equal tranches of EUR 23 million each. The condition for the disbursement of the first tranche of the MFA assistance, in addition to fulfilment of general political preconditions, is the IMF programme being on track. In December 2014, the IMF Executive Board completed the first review of the ongoing Stand-By Arrangement with Georgia, stating that the programme was on track. This allowed the European Commission to proceed with the first disbursement of the MFA assistance. The grant element of this tranche was disbursed in January 2015, and the loan part in April 2015.

As there must be a time lag of at least three months between disbursements, the disbursement of the second tranche will be in summer or early fall 2015, subject to policy conditions defined in the MoU being met and the IMF programme remaining on track. Policy conditions under the MoU fall into the following four thematic areas: improving public finance management; strengthening the social safety net; strengthening banking regulation; and promoting trade and competitiveness.

SUMMARY STATUS OF ECONOMIC REFORM - GEORGIA
1. Price liberalisation Prices are largely free.
2. Trade regime Georgia has a liberal trade policy. There are no quantitative restrictions on imports or exports. In June 2014, Georgia signed an Association Agreement (AA) with the EU, including a Deep and Comprehensive Free Trade Area (DCFTA) agreement, which entered into force in September 2014.
3. Exchange regime There is a floating exchange rate of the lari with limited official intervention by the National Bank of Georgia. There are no restrictions on current international transactions, in conformity with Article VIII of the IMF's Articles of Agreement.
4. Foreign direct investment Adequate overall legislation. Unlimited repatriation of capital and profits.
5. Monetary policy The main monetary policy objective of the National Bank of Georgia is price stability. The Bank is currently applying an inflation-targeting regime. The price growth target is set at 5% for 2015. The effectiveness of the monetary policy is significantly constrained by the high level of dollarization of the economy, as FX loans respresented 61% of total loans stood at the end of 2014, a slight decrease from 63% a year earlier.
6. Public finances and taxation The public finance management system is essentially sound and transparent, although further reforms are still needed in areas such as internal financial control and audit. New legislation limiting the budget deficit to 3% of GDP, public debt to 60% of GDP and public spending to 30% of GDP came into force in January 2014.
7. Privatisation and enterprise restructuring Most state-owned enterprises have been privatised. Privatisation receipts are expected to have declined to 0.6% of GDP in 2013 from an estimated 1% in 2012.
8. Financial Sector There were 20 banks at end January 2015, including 16 foreign-controlled banks and two branches of non-resident banks. The share of foreign capital in banks' total paid-in capital was 69.6 %. The five largest banks represented 77.5 % of the total assets. The share of non-performing loans increased marginally from 4.6% at the end of 2013 to 4.7% at the end of 2014. The capital adequacy ratio (Basel II definition) increased slightly from 17.2% at the end of 2013 to 17.4% at the end of 2014. The return on assets also increased from 2.9% in 2013 to 3.0% in 2014, while the return on equity increased from 16.6% in 2013 to 17.5% in 2014. In 2014, the volume of loans increased by 24% (18% excluding FX effect) and deposits by 20% (16% excluding FX effect), both a slight increase from 2013.

2. JORDAN

2.1. Executive summary

Despite its exposure to heightened regional instability (including the persistence of the Syrian conflict and terrorist activity in the Sinai Peninsula which continued to affect the supply of gas from Egypt), the Jordanian economy expanded in 2014. Real GDP growth reached 3.1% compared with 2.8% in 2013, driven by the recovery in mining, construction, utilities and tourism, as well as by a strong inflow of foreign grants. Inflation was contained at low levels, allowing a more accommodative monetary policy stance in 2014. The balance of payments improved on the back of substantial inflows of official grants and capital inflows, notably from Gulf Cooperation Council (GCC) countries. Indeed, total foreign grants are estimated to have risen to 7% of GDP in 2014, up from 2.7% of GDP in 2013. Progress in public finances was also significant. Progress with structural reforms has been mixed, with the adoption of a revised income tax law, in particular, having been significantly delayed.

Macroeconomic stability was underpinned by a 36-month, USD 2 billion Stand-By Arrangement (SBA) agreed with the IMF in August 2012. The fifth programme review, which was completed on 10 November 2014, concluded that the program continued to be broadly on track. Following this fifth programme review, Jordan made a new purchase of USD 129 million, bringing the total accumulated purchases since the start of the programme to about USD 1.4 billion.

Following an official request for MFA in December 2012, the Commission adopted in April 2013 a proposal for a decision providing MFA of up to EUR 180 million to Jordan in the form of a medium-term loan. The decision was adopted by the Parliament and the Council on 11 December 2013[2]. The negotiations on the Memorandum of Understanding listing the economic policy measures to be undertaken by the Jordanian authorities and the Loan Facility Agreement related to this MFA operation were concluded in early 2014, and the two documents were signed in March 2014. The MFA to Jordan is meant to complement the funds provided by the IMF under the SBA. The first installment (EUR 100 million) took place in February 2015, while the second installment is envisaged to be released in mid-2015.

The EU's MFA to Jordan complements other substantial financial assistance the EU provided through other instruments, including the EIB (which allocated between 2011 and 2014 around EUR 150 million for new lending commitments) and the ENI (which allocated around EUR 330 million over the 2011-2014 period). In addition, MFA complements the EUR 40 million Good Governance and Development Contract, which focused on issues such as tax reform, public private partnerships, audit reform and investment facilitation.

2.2. Macroeconomic performance

The Jordanian economy faced an increasingly difficult external environment in 2014, including persistent disruptions in gas flows from Egypt (which required Jordan to replace gas with alternative, more expensive fuels) and the continuation of the conflict in Syria and its extension to Iraq, with its implications on the Jordanian economy, including through an important inflow of Syrian refugees. However, despite these negative developments, the economy showed significant resilience. Indeed, driven by the recovery in mining, construction, utilities and tourism, as well as by a strong inflow of foreign

[2] Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 providing macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 341, 18.12.2013).

grants, GDP growth is estimated to have accelerated to 3.1% in 2014 from 2.8% in 2013. This is the first year with growth above 3% since 2009 and compares with an average growth of about 5.4% in the previous decade. This trend is expected to continue in 2015, with a growth rate expected at 3.7%. However, unemployment remained persistently high at 12% in 2014.

Aided by the decline in food and oil prices, average headline inflation moderated to around 2.9% in 2014 compared to 5.6% in 2013, when the government removed fuel subsidies. However, average core inflation has been exceeding 5% since the summer of 2014, reflecting the increased demand by the Syrian refugees.

Fiscal trends have been mixed in 2014 and the deficit remains high. Domestic revenue has increased, partly reflecting higher tax receipts, keeping pace with rapidly rising current and capital spending. At the same time, foreign grant inflows are estimated at 7% of GDP in 2014, up from 2.7% of GDP in 2013. This led to a decrease of the combined fiscal deficit (including foreign grants as well as transfers to the national electricity company, NEPCO) to 10% of GDP in 2014, from 11.5% of GDP in 2013. However, when excluding foreign grants, the fiscal deficit (including transfers to NEPCO) actually rose from 15.4% of GDP in 2013 to 17.1% of GDP in 2014. Public debt has also grown rapidly in recent years: it stood at 90% of GDP at the end of 2014, compared to 80% of GDP at end-2012. The external component of the public debt was estimated to amount to 30.6% of GDP in 2014. However, based on the programmed fiscal consolidation, the debt to GDP ratio is expected to remain around 90% in 2015 before starting a downward trend in 2016.

The current account deficit (including grants) is estimated to have narrowed to 7% of GDP in 2014 from 10.3% of GDP in 2013, reflecting higher than expected grants and strong performance in potash and fertilisers' exports, which offset higher energy imports. Excluding grants, the current account deficit is estimated at 13.3% of GDP in 2014, compared to 17.1% of GDP in 2013. International reserves were at comfortable at year-end 2014 at USD 14 billion or the equivalent of 6.2 months of imports, reflecting significant inflows of foreign grants and other official assistance.

2.3. Structural reforms

The authorities continued to implement an ambitious structural reform agenda aimed at correcting macroeconomic imbalances and at contributing to more inclusive and sustainable growth. Progress with structural reforms in 2014 was underpinned by Jordan's various programmes with its international donors, and in particular the arrangement with the IMF and the MFA programme with the EU. Reforms broadly focused on the improvement of the investment and trade framework, public finance management and the fight against corruption, tax policy and administration, policies to foster employment, and the restructuring of the energy sector, including through the elimination of fuel subdidies and the introduction of a system of cash transfers to compensate households.

Efforts to reduce the operating loss of the national electricity company (NEPCO), continued throughout 2014 in line with the IMF programme. However, NEPCO losses are estimated at 4.5% of GDP in 2014 (0.7% higher than planned), as higher import costs due to gas shortfalls were only partly offset by savings from two new energy-efficient power plants.

The reform of energy subsidies has progressed swiftly. Electricity tariff adjustments took place in August 2013 and January 2014, as part of the authorities' medium-term energy strategy to bring NEPCO to cost recovery by 2017. At the end of 2012, Jordan fully eliminated fuel subsidies and replaced them with a cash transfer scheme, with the

combined reforms having a positive impact on fiscal consolidation. While the creation of this cash transfer programme is a step in the right direction, the programme covers about 80% of the affected households and tends to over-compensate many households, especially those with relatively low income and fuel consumption levels. There is therefore substantial scope for a better targeting of this scheme, which should help produce additional fiscal savings. To address this issue, and in line with the relevant MFA condition, the Jordanian authorities advanced preparations in 2014 for the set-up of a National Unified Registry for a better targeting of cash transfer to beneficiaries.

As part of Jordan's efforts to diversify energy sources, a new Liquefied Natural Gas (LNG) terminal will become operational by June 2015, while a number of renewable energy plants are to start operations between 2015 and 2016, covering altogether 30% of Jordan's energy consumption. This policy is consistent with the MFA condition related to the National Energy Efficiency Action Plan.

A new Investment Law, which aims at bringing the various organisations involved in investment under a new umbrella body, was adopted in October 2014. A new PPP law was also voted by the Parliament in 2014. It removes the obligation of the government to obtain parliamentary approval on all PPP contracts agreed with the private sector, so as to expedite the procedure of approval of PPPs. It also provides for a dedicated unit that will evaluate the feasibility of each PPP project. Other provisions foresee the extension of PPP contracts from 15 tot a total of 35 years and the abolition of profit-sharing rights for the government in case profits exceed an agreed amount. Both laws were supported by conditions of the MFA programme.

Tax administration reforms have also made progress. The authorities strengthened the capacity of the central refund unit to coordinate the audits of refund claims, and preparations for the set-up of a taxpayer database advanced. All general sales tax refund claimants are now submitting the list of their transactions electronically to the income and sales tax department, in line with international best practice.

In the area of public finance management and in line with relevant MFA conditions, the government has prepared a draft new law on the Audit Bureau, the supreme external audit institution, which strengthens its financial independence and shifts the focus from ex-ante to ex-post auditing, aligning the role of the external auditor with international best practice. However, the law had not yet been adopted by Parliament at the end of 2014.

Regarding the fight against corruption, the law regulating the Anti-Corruption Commission was amended to make it more effective. The management of corruption cases is also being modernised with improved IT tools. Legislation regarding anti-money laundering and combating the financing of terrorism was also enhanced.

Employment-related reforms, also underpinned by MFA conditionality, have advanced in the context of the National Employment Strategy. These include upgrading vocational training programs to match more closely private sector needs, carrying out several jobs matching campaigns, and giving financial incentives to export-oriented firms.

Despite these welcome reform efforts, slippages have been reported in several areas. The submission of the revised income tax law to the Parliament (a condition for the release of the second tranche of MFA funds), which was scheduled for September 2013, only took place at the end of 2014. The draft law, which brings the corporate income tax and personal income tax rates closer to Jordan's regional peers, is estimated to boost revenue by 0.3% of GDP in 2015 and by 0.6% of GDP from 2016 onwards. However, the submitted draft will raise tax collections and improve the progressivity of the tax less than initially planned.

In order to maintain a high growth rate in an unfavourable external environment, the authorities should build on the sustained pace of structural reforms and pursue an even more ambitious agenda to further improve the business environment and enhance competitiveness.

2.4. Implementation of macro-financial assistance

Following an official request for MFA in December 2012, the Commission adopted on 29 April 2013 a proposal for a decision providing MFA of up to EUR 180 million to Jordan in the form of a medium-term loan. The decision was adopted by the Parliament and the Council on 11 December 2013[3] . The assistance is meant to complement the funds provided by the IMF under the SBA and is envisaged to be disbursed in two tranches, of EUR 100 million and EUR 80 million respectively.

The Memorandum of Understanding listing the economic policy measures to be undertaken by the Jordanian authorities and the Loan Facility Agreement were signed in March 2014. These MFA conditions aim to support reforms in the areas of public finance management and taxation, social security, labour markets, investment and trade framework, and the energy sector.

The disbursement of the first tranche was delayed, reflecting the need to amend certain aspects of Jordan's public debt legislation. These amendments were adopted on 26 November 2014. A few days earlier, on 10 November 2014, the IMF Executive Board completed the fifth review of the programme for Jordan, concluding that the programme remained broadly on track. The European Commission therefore proceeded with the disbursement of the first tranche of the MFA assistance in February 2015. The disbursement of the second tranche is conditional on the IMF programme remaining on track and the fulfilment of a set of agreed upon policy conditions.

[3] Decision No 1351/2013/EU of the European Parliament and of the Council of 11 December 2013 on providing macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 341, 18.12.2013).

SUMMARY STATUS OF ECONOMIC REFORM – JORDAN
1. Price liberalisation Prices are largely free but there are oligopolistic practices in several economic sectors. Electricity tariffs and prices for some basic foodstuffs are still subject to administrative controls.
2. Trade regime Jordan has a relatively liberal trade regime. It acceded to the WTO in 2000 and ratified an association agreement with the EU in 2002. Jordan is also one of the EU's partners countries that could benefit from an agreement on a Deep Comprehensive Free Trade Area (DCFTA). Jordan is a member of both the Great Arabic Free Trade Area (GAFTA) and the Agadir Agreement and has also concluded FTAs with the US, Turkey, Syria, the European Free Trade Association (EFTA), and Singapore.
3. Exchange rate regime Since October 1995, Jordan has had the pegged exchange rate system, whereby the Jordanian Dinar is pegged to the USD.
4. Foreign direct investment Despite Jordan's adherence to the OECD's Declaration on International Investment and Multinational Enterprises in 2013, a number of restrictions on foreign investment remain, notably in the sectors of telecommunications, transport, wholesale trade and retail, and construction. Jordan’s overall scoring under the OECD's FDI Regulatory Restrictiveness Index is significantly higher than the average of countries having signed the declaration. A new Investment Law, aimed at clarifying, unifying and streamlining the investment institutional framework was adopted in October 2014.
5. Monetary policy The independence of the Central Bank of Jordan has been enhanced. Its main monetary policy tools are the Certificates of Deposits (CD) through which the bank impacts the retail interest rates in the banking system. The Central Bank of Jordan has built a credible track-record in ensuring price stability, maintaining exchange rate stability and promoting growth.
6. Public Finances and Taxation A draft Income Tax Law aimed at boosting tax collections while increasing the progressivity of taxation has been submitted to Parliament, although its adoption has been delayed. Efforts to improve tax administration, including through the modernisation of the tax management system, have continued. A revised Audit Bureau law (which awaits approval by Parliament) represents another positive step in the area of PFM.
7. Privatisation and enterprise restructuring Privatization in Jordan started in 1986 in the aftermath of an economic crisis and has significantly progressed since then. Direct state ownership nevertheless remains significant in the mining sector and in public utilities. The authorities continue to introduce various measures to eliminate excessive regulation.
8. Financial Sector The financial sector is relatively well developed and dominated by banks, which are overall profitable and well-capitalised. Banks have already implemented Basel II and the authorities are now testing their capacity to implement Basel III. However, the narrow and shallow institutional investors' base limits the development of the domestic capital markets. In 2012 Jordan adopted an Islamic (Sukuk) Financing Law.

3. THE KYRGYZ REPUBLIC

3.1. Executive summary

After a strong year in 2013, when GDP grew by 10.5% as a result of a re-bound in gold production, the economy slowed down in 2014, with GDP growth estimated at 3.6%. This is due to a slowdown in foreign trade and reduced remittances (linked to the recession in Russia and the economic slowdown in other main trading partners, in particular CIS countries), and a reduced gold production. As the local currency depreciated by 16.3% against the USD in 2014, annual inflation reached 10.9% in February 2015. With the central bank intervening in the foreign exchange market to fend off depreciation pressures, its reserves decreased by 17.1% between July 2014 and January 2015. The fiscal deficit is estimated at 3.7% of GDP in 2014, and public debt at 54.1% of GDP. The current account deficit remained large in 2014, at an estimated 13.7% of GDP.

In the wake of ethnic and political violence which resulted in a sharp drop in economic activity and a sizable external financing gap, the EU pledged to support the recovery of the Kyrgyz Republic at an international donor conference in Bishkek in July 2010. This led to the adoption by the Commission of a proposal for a decision to provide to the Kyrgyz Republic MFA of up to EUR 30 million (EUR 15 million in loans and EUR 15 million in grants) in December 2011. This exceptional MFA operation, i.e. outside the normal geographical scope of the MFA instrument, was justified by the strength of the pro-democratic political and economic reform momentum in the country and by its position in a region of economic and political importance for the EU. The MFA decision was adopted in October 2013. MFA documents were signed in late 2014 and ratified by the Kyrgyz Parliament in February 2015. A new three-year programme under the Extended Credit Facility (ECF) was agreed with the IMF in April 2015.

The MFA complements EU bilateral development programmes provided over 2011-2013 for a a total of EUR 51 million in the following areas: social protection, governance, education, agriculture and rural performance. The country also benefits from the EU's thematic programmes: the European Initiative for Democracy and Human Rights (EIDHR); support to non-state actors; investing in people; environmental programmes and the food facility.

3.2. Macroeconomic performance

After a strong year in 2013, when GDP grew by 10.5% as a result of a re-bound in gold production, the economy slowed down in 2014. Real GDP growth is estimated at 3.6%. This is due to a slowdown in foreign trade and reduced remittances (linked to the recession in Russia and the economic slowdown in other main trading partners, in particular CIS countries), and a reduced gold production. Exports of the Kyrgyz Republic decreased by 6.3% to USD 2 billion in 2014 compared to the prior year, while imports fell by 4.3% to USD 6 billion. Remittances, which decreased by 5% in 2014 compared to 2013, dropped abruptly in December 2014 as a result of the sharp depreciation of the Russian ruble. The fiscal deficit is estimated at 3.7% of GDP in 2014. Public debt has been slowly but steadily increasing over the last couple of years, reaching USD 3 647 million at year end 2014, or 54.1% of GDP (to compare with 47.7% in 2013), of which USD 3,437 million was held in foreign currency, the remainder being local debt denominated in Kyrgyz Soms.

The Kyrgyz som depreciated by 16.3% against the USD over 2014, notably as a result of the depreciation of the Russian rouble - the Kyrgyz economy being closely linked to the

Russian economy, notably through remittances and trade. As a result, annual inflation, after several years in low single digits, is estimated to have reached 10.9% in February 2015.

In order to fend off devaluation pressures, the National Bank of the Kyrgyz Republic (NBKR) intervened massively in the foreign exchange market in 2014, mostly towards the end of the year. As a result, the NBKR's gross international reserves decreased by 17.1% between July 2014 and January 2015 to USD 1 875 million, still covering about 5 months of imports. The NBKR's discount rate was also gradually increased from 4.5% in February 2014 to 11% in January 2015.

The balance of payments' situation of the country is made vulnerable by a structurally large current account deficit. It is estimated to have reached 13.7% of GDP in 2014, largely driven by the externally - financed investment projects underway. External debt was estimated at 51% of GDP at year-end 2014.

As regards the outlook for 2015, GDP growth is forecast to further decelerate to 1.7%. Gold production is expected to decrease, while the deepening economic crisis in Russia is likely to dampen remittances, trade and domestic demand. The fiscal deficit is forecast to widen to 8% of GDP, public debt to increase to 58% of GDP by year-end 2015, and external debt to 57% of GDP.

In general, the Kyrgyz economy remains vulnerable to:

- the economic recession in Russia, the depreciation of the Russian rouble, the economic slowdown in other main trade partners, and the ensuing lower revenues from trade and remittances (remittances accounted for 28% of GDP in 2014);
- unsteady revenues from the gold production (which accounted for 34% of Kyrgyz export revenues during 2001-2012), as a result of gold prices that can in some years by highly volatile (-25% in 2013) and a volatile gold production in the context of tensions between the Kyrgyz authorities and the main shareholder of the Kumtor gold mine, the Canadian company Centerra;
- some negative consequences on trade of the accession to the Eurasian Economic Union (EEU) – in particular as it would diminish the ability of Kyrgyzstan to import cheap goods from China and re-export them to CIS countries, a major activity which provides employment to thousands of people in Kyrgyzstan.

Still, according to the 2014 Income Classifications released in July 2014 by the World Bank, the Kyrgyz Republic was re-classified from a low income country to a lower-middle income country.

A three-year IMF programme in the form of an ECF of USD 102.3 million was succesfullly completed in July 2014. A new IMF programme, also in the form of a three-year ECF and in the amount of USD 92.4 million, was agreed in April 2015.

3.3. Structural reforms

The Kyrgyz Republic faces several structural weaknesses, in particular in the areas of taxes' collection, access to reliable electricity, cross border trading, access to finance, and insolvency resolution. Further efforts are also necessary to fight corruption.

In this context, the Kyrgyz parliament adopted a sustainable development programme in December 2013, which is a tool to implement the National Sustainable Development Strategy for 2013-2017. This strategy focuses on maintaining political stability, ensuring

rule of law, fighting corruption, increasing investment, improving energy supply, increasing access to finance, improving the education system as well as social development.

A major development in 2014 was the accession of the Kyrgyz Republic to the Russian-led Eurasia Economic Union (EEU), with the signature of an accession agreement on 23 December 2014. The new union, which is an expansion of the Customs Union grouping together Russia, Belarus, and Kazakhstan, also includes Armenia (which signed in October 2014), besides Kyrgyzstan. This accession requires significant legislative changes for the Kyrgyz Republic, including 112 legal acts that the country needs to implement for its harmonization with the EEU legal framework, covering nine areas – including customs management, sanitary and veterinary control, technical regulation, transport and infrastructure. Russia pledged to support the Kyrgyz accession by providing up to USD 1 billion in a special development fund, with the main of developing cooperation in the agro-industrial sector, the sewing and textile industries, processing, mining and metallurgical industries, transport, housing construction, development of entrepreneurship and infrastructure. The fund will include USD 500 million of capital from Russia (not to be repaid), the rest being provided in the form of loans. USD 100 million was already allocated to the fund in December 2014. The special development fund will be jointly managed by the Kyrgyz Republic and Russia.

As regards business climate, the Kyrgyz authorities have made significant efforts, notably for starting a business, registering property or dealing with construction permits. However, several major obstacles to investment remain: corruption, government instability and the associated unpredictability of rules, laws and regulation, weak enforcement of property rights and lack of consistency of court judgments. A persisting deterrent for potential investors is the example of the ongoing dispute between the Kyrgyz authorities and the Canadian company Centerra over the terms of the concession of Kumtor, the largest gold mine in the country. The Kumtor gold mine concession was already renegotiated twice during 2001-2010, and is again the subject of negotiations.

The banking system was severely affected by the crisis of 2010, which led the Kyrgyz authorities to put seven banks under temporary administration. Overall, the domestic financial sector remains underdeveloped and vulnerable, governance is weak, lending interest rates are high, the true quality of assets is questionable and a significant part of loans and deposits are denominated in foreign currency. The banking crisis of 2010 also revealed deficiencies in the resolution powers of the NBKR, and its exposure to interference by the government and the courts. Consequently, banking regulations were amended and upgraded to a Banking Code, to strengthen the NBKR's supervision, early intervention and resolution powers and to guarantee its independence. However, while submitted to the Parliament in September 2013, this Banking Code has not yet been adopted.

3.4. Implementation of macro-financial assistance

The sharp drop in economic growth and the worsening of the external position in 2010, which were caused by external shocks and internal political and ethnic conflicts, led to a sizable external financing gap. In an international donor conference in July 2010, the EU pledged to support the country's recovery. In June 2011, the IMF agreed with the Kyrgyz authorities on a three-year programme to be supported by an ECF of USD 102.3 million. The Kyrgyz government requested MFA support from the EU in October 2010, asking for a grant in the order of EUR 30 million to cover part of the external financing gap. On 20 December 2011, the Commission submitted to the European Parliament and to the Council a proposal for a decision to provide MFA to the Kyrgyz Republic, consisting for EUR 15 million of loans and for EUR 15 million of grants. Besides covering part of the

external financing gap, this exceptional MFA operation, i.e. outside the normal geographical scope of the MFA instrument, was justified by the strength of the pro-democratic political and economic reform momentum in the country and by its position in a region of economic and political importance for the EU.

However, the adoption of the MFA decision was delayed by a disagreement between the two co-legislators (European Parliament and Council) over the procedure to be used for the adoption of the Memorandum of Understanding (MoU), which lays down the economic policy measures to be undertaken by the country benefiting from the MFA. A compromise solution was finally found in the context of the negotiations on the MFA Framework Regulation and the conciliation procedure for the MFA decision for Georgia. The decision providing MFA to the Kyrgyz Republic was finally adopted on 22 October 2013[4].

The negotiation process of MFA documents (MoU, Loan Facility Agreement and Grant Agreement) was longer than usual as certain legal issues had to be adressed. MFA documents were finally signed in late 2014 and ratified by the Kyrgyz Parliament in February 2015. Disbursements of both the first and second tranches are planned in 2015.

[4] Decision No 1025/2013/EU of the European Parliament and of the Council of 22 October 2013 providing macro-financial assistance to the Kyrgyz Republic (OJ L 283, 25.10.2013).

SUMMARY STATUS OF ECONOMIC REFORM - KYRGYZ REPUBLIC

1. **Price liberalisation**

Most prices are liberalised while administered prices are maintained for some utilities.

2. **Trade liberalisation**

The Kyrgyz Republic is a member of the WTO since 1998 and is a very open economy, with a trade-to-GDP ratio of about 140%. The bulk of its non-gold exports goes to Kazakhstan and Russia. In December 2014, the Kyrgyz Republic signed an accession agreement with the Russian-led Eurasia Economic Union (EEU). The new union, which is an expansion of the Customs Union grouping togoether Russia, Belarus and Kazakhstan, also includes Armenia (which signed in October 2014), besides Kyrgyzstan.

3. **Exchange rate regime**

The National Bank of the Kyrgyz Republic (NBKR) operates a managed floating exchange rate regime allowing the exchange rate to adjust in case of substantial pressures or shocks, while aiming at maintaining a competitive exchange rate. However, in order to fend off devaluation pressures in 2014 notably associated with the depreciation of the Russian rouble, the NBKR intervened massively in the foreign exchange market in 2014.

4. **Foreign direct investment**

FDI in the country is mainly focused on large infrastructure projects, notably in the transport and energy sectors, which are mostly financed through concessional loans for public investment programs and FDI (notably from Russia and China).

5. **Monetary policy**

The main objective of the NBKR is to guarantee price stability, while maintaining the purchasing power of the national currency. The NBKR aims at maintaining the inflation range within 5 to 7% in the medium-term. The NBKR's discount rate was gradually increased from 4.5% in March 2014 to 11% in January 2015.

6. **Public finances**

Public finances suffer from corruption and a narrow tax base, as a result of a large informal economy (estimated at 20% of GDP by official statsitics, but potentially much larger). Fiscal deficit remain substantial in 2014 at 4.3% in 2014, even though decreasing from the 5.2% registered in 2013.

7. **Privatisation and enterprise restructuring**

The political change in 2010 led to the reversal of some privatisation deals in the energy and telecommunication sectors, made under the previous regime, due to allegations of nepotism and corruption. In 2011, government initiated privatisation in telecommunication and banking sectors. In the banking sector, after several failed attempts, the Kyrgyz authorities finally managed to privatise the large Zalkar Bank in late 2013.

8. **Financial sector reform**

The banking crisis in 2010 revealed deficiencies in the resolution powers and degree of independence of the NBKR. Consequently, banking regulations have been amended and upgraded to a Banking Code, which would strengthen the NBKR’s early intervention and resolution powers. However, while submitted to the Parliament in September 2013, this Banking Code has not yet been adopted.

4. TUNISIA

4.1. Executive summary

The Tunisian economy has been negatively affected by the domestic unrest that followed the 2011 revolution, regional instability (notably the war in Libya), and a weak international environment, particularly in the euro area, with which Tunisia maintains close trade and financial links. The economy experienced a recession in 2011 and, following the moderate economic recovery witnessed in 2012, when tourism and foreign direct investment rebounded and economic activity picked up, the macroeconomic situation worsened again in 2013 and remained relatively weak in 2014, with real GDP growth estimated to have reached only 2.3%. In particular, the fiscal and external imbalances remained large, generating important financing needs.

Against this background, the Tunisian authorities reached in mid-April 2013 an agreement with the International Monetary Fund (IMF) on a 24-month Stand-By Arrangement (SBA) in the amount of USD 1.75 billion, which was approved by the IMF Board in June 2013, and is expected to be extended until the end of 2015. In this context, the Tunisian government requested complementary MFA from the EU in August 2013, which was approved in May 2014 by Council and Parliament in the form of a EUR 300 million medium-term loan (to be disbursed in three equal tranches of EUR 100 million each). The Memorandum of Understanding and Loan Financing Agreement were agreed to and signed between July and September 2014, and were ratified by the Tunisian Parliament in March 2015. The disbursement of the first tranche is now expected for May 2015, while the disbursement of both the second and third tranches remains conditional on an IMF programme remaining on track and the Tunisian authorities complying with the MFA conditions spelled out in the MoU.

In December 2014, the IMF Board approved the completion of the 5th programme review of the SBA. The IMF noted that all performance criteria had been met and that an important number of structural reforms had advanced despite an adverse economic, social and security environment.

4.2. Macroeconomic performance

Real GDP growth remained subdued at 2.3% in 2014, compared to 2.4% in 2013. Political uncertainty and security tensions continued to weigh down on economic activity. Unemployment remains high at 15.3%, particularly among the young and graduates (over 30%). Inflation has averaged around 5.5% in 2014 and is on a downward trend.

The fiscal deficit (central government balance excluding grants) declined to 6.1% of GDP in 2013, compared to an IMF programme target of 7.3% of GDP. However, the main reasons behind this were the deferral of payments to state-owned enterprises (amounting to around 3% of GDP) to 2014, a lower than planned execution of the investment budget (which reached 4.5% of GDP compared to a target of 6.4%), as well as an estimated 1.6% of GDP which is considered by the IMF as a "float" or unidentified amount. Similarly, the fiscal deficit for 2014 will over-perform the IMF programme targets (amounting to 4.8% of GDP against an original forecast of 6.7% of GDP), but this is mainly due to an inadequate budget composition (bank recapitalisation operations have been postponed to 2015, and the capital budget will again be underspent). By contrast, the fiscal deficit for 2015 is now expected to jump to 6.2% of GDP instead of the originally forecasted 4.5% of GDP. General government debt continued to increase, reaching 50% of GDP in 2014, and is forecast to peak at 57% of GDP by the end of 2017

before the trend reverses. However, debt service remains at a manageable 6.2% of total budget expenditures, or 1.8% of GDP.

On the external side, the current account deficit remained large in 2014, at 8.9% of GDP compared to 8.3% of GDP in 2013. It is expected to improve in 2015 to 6.4% of GDP, on the back of lower commodity prices, improved price competitiveness and stronger exports and tourism growth. Some of the international aid disbursements foreseen for 2014 have been postponed and they are now expected to provide the bulk of the official external financing in 2015. In particular,financing from the World Bank has been lower in 2014 than expected due to poor implementation of the structural reforms that trigger the disbursements. Similarly, the issuance of Sukuk bonds, originally planed for 2012, did not take place in 2014 either. However, Tunisia did issue in 2014 a USD 500 million bond guaranteed by the US and a USD 464 million bond guaranteed by Japan. The disbursement of the EU's MFA, originially planned for 2014, was also delayed. This reflects, as noted, delays with the ratification of the related documents.

Reserves closed 2014 at USD 7.8 billion, or the equivalent of barely three months of imports, which compares to an initial target of USD 9.0 billion under the IMF programme. However, this still represents USD 1 billion more than the amount at end-2013. Regarding the exchange rate, greater flexibility has been observed in 2014, also reflecting reduced central bank interventions to smoothen excessive exchange rate fluctuations arising from large energy imports. The tunisian dinar has continued to depreciate against the USD (losing 13% of its value against the USD in 2014), although it ended the year almost unchanged against the euro. According to the IMF, the dinar still remains overvalued by about 5-10%.

External debt increased from 48% of GDP in 2011 to an estimated 54% of GDP in 2013, and it is expected to increase further to over 54% of GDP by end-2014 and to peak at 62% of GDP in 2016. Tunisia’s sovereign ratings were downgraded again in 2014 by both Moody’s (from Ba2 to Ba3) and Standard & Poor’s (from BB to BB-), but kept stable by Fitch (BB-).

4.3. Structural reforms

Key structural reforms were delayed in 2014, partly because the legislative calendar in the second half of the year was disrupted by the elections. Nevertheless, in the context of the 5th review of the SBA that was completed in December 2014, the IMF praised the reform efforts made by the interim government despite an adverse economic, social and security environment.

The reform of the tax system has advanced in some areas. Participatory working groups have been set up since June 2013, which concluded with a series of National Tax Consultations in November 2014. This should lead to the adoption of a comprehensive reform by the government, which is expected to be completed in 2015. In the meantime, tax administration reform has been progressing, and all tax provisions have been consolidated into one single code.

Financial sector reforms continue to face delays, and the IMF has highlighted the risks that the banking sector vulnerabilities pose to the economy. The recapitalisation of public banks has been further delayed, requiring a further extension of regulatory forbearance into mid-2015. The audits of the three public sector banks were finalised and restructuring plans were drawn up. They are expected to be implemented throughout 2015. Similarly, there have been delays in the creation of an Asset Management Company (AMC) supposed to take over banks' non-performing loans, particularly from the tourism sector. Although the AMC was already created by the 2014 revised budget law, an additional law and operational decrees needed to make the AMC fully

operational are still pending parliamentary approval. A revised banking law, including key aspects such as a banking resolution mechanism, new prudential regulations, improved governance, new bank bankruptcy provisions, and the creation of a deposit guarantee scheme was also submitted to the parliament for approval – a condition in the MoU.

The reform of the strongly regressive price subsidy system has been progressing but remains limited. The social safety net needed to compensate poorer households for the impact of the energy price subsidy reform is not yet in place, although, in the interim, provisional measures have been taken to strengthen the performance of the existing cash-transfer programmes. A more comprehensive and better targeted cash transfer compensation scheme is expected to be put in place once work on the development of a unified registry for users is completed.

Other economic reforms, particularly related to the business climate, have been hampered by delays in the legislative agenda. This affects in particular laws on competition, PPPs and bankruptcy procedures. Little progress has been achieved with the preparation of the new investment code since it was withdrawn from Parliament in early 2014 by the interim government.

4.4. Implementation of macro-financial assistance

Following the adoption by the Commission in December 2013 of a proposal for a decision granting MFA to Tunisia of EUR 250 million, the co-legislators decided, in agreement with the Commission, to amend the Commission's proposal and increase the assistance to EUR 300 million. The decision was approved in May 2014[5].

The Memorandum of Understanding and Loan Financing Agreement were agreed to and signed between July and September 2014, and were ratified by the Tunisian Parliament in March 2015, after a significant delay mainly due to the electoral process. This delay has inevitably pushed back the start of implementation of the MFA operation. The disbursement of the first tranche is now expected for May 2015, while the disbursement of both the second and third tranches will be conditional on an IMF programme remaining on track and the Tunisian authorities complying with the MFA conditions spelled out in the MoU.

The release the EU's MFA will be conditional on good progress under the IMF's SBA or a possible successor arrangement as well as on the implementation of a series of policy measures included in the MoU. These measures, which are consistent with those being supported bythe IMF and the World Bank, aim at: improving public finance management; better targeting the social safety net; increasing tax revenues while enhancing tax equity; strengthening banking regulation; promoting trade; and improving the governance of the national statistics system.

The EU's MFA is meant to complement other substantial financial assistance the EU provided through other instruments, including the EIB (over EUR 1 billion in the period 2011-2014), and over EUR 800 million in grants provided since 2011, largely under the ENPI/ENI (in the context of the "Programme d'appui a la reliance" budget support operations).

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[5] Decision No 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia (OJ L 151, 21.5.2013).

SUMMARY STATUS OF ECONOMIC REFORM – TUNISIA
1. Price liberalisation Most prices are free, but regulated prices prevail for some fuels, electricity, transport and food products.
2. Trade regime Tunisia joined the WTO in 1995 and was the first Mediterranean country to sign an Association Agreement with the EU, in July 1995. Tariff dismantling under the Agreement was completed in 2008.
3. Exchange rate regime The Central Bank of Tunisia changed its operational framework for exchange rate policy in 2012 to make the rate more flexible. The Tunisia Dinar is fully convertible for current account transactions but there are still limitations to its convertibility for capital account transactions.
4. Foreign direct investment Since 1972, FDI has benefited from the introduction of an offshore regime, offering incentives to exporting enterprises. This regime was reinforced by the promulgation of the Investment Incentives Code. This approach has, however, shown its limitations over the last decade, as the favourable treatment accorded to the offshore sector has come at the expense of other sectors subject to much heavier restrictions in 1993.
5. Monetary policy The Central Bank of Tunisia's mandate is to ensure price stability and inflation. It is an independent institution and since the revolution the government has undertaken a review of the legislation and regulations to strengthen its independence and good governance. It acts as regulator and supervisor of the financial sector; both functions are being currently strengthened under the IMF programme, and thanks to EU and World Bank support.
6. Public finances and taxation Central government expenditure made up nearly 28.8% of GDP in 2014. Nearly 45% of this was expenditure on wages and salaries. Transfers and subsidies represented around 7% of GDP, of which the bulk are energy and food subsidies. Both the subsidy system and the current complex and regressive tax system are undergoing a reform overhaul which should be detailed and approved throughout 2015.
7. Privatisation and enterprise restructuring Privatisation almost grinded to a halt following the 2011 revolution, partly reflecting the fact that it is associated with questionable practices and processes by the ancient regime. A process of repossession and sale of assets belonging to the previous ruling elite continues.
8. Financial sector The country’s three largest public banks, which represent 40% of total banking system assets, are hampered by weak lending practices, governance issues and an excessive exposure to the tourism sector, which has been severely impacted since the revolution. All this has increased vulnerabilities in the sector. An IMF/World Bank Financial System Stability Assessment carried out in 2012 alerted that the banking system had recapitalisation needs of around 2% of GDP, although authorities believe the needs are significantly smaller. While the authorities have made progress in conducting preparatory audits of these banks, progress with their recapitalisation and restructuring has been slow. A new banking law and a deposit guarantee scheme are also under preparation.

5. UKRAINE

5.1. Executive summary

Following two years of stagnation, Ukraine's economy entered a deep recession in 2014 due to a confidence crisis as a result of an armed conflict in the eastern part of the country. This crisis was reflected in a sharp currency depreciation, as well as lower investment and consumption activity. The conflict-driven loss of productive capacity in the East, Ukraine's industrial hub, further contributed to the 6.8% contraction of GDP in real terms in 2014.

The weaker currency, coupled with significant increases in administered prices, resulted in a strong acceleration of the CPI inflation, which reached 24.9% year-on-year in December 2014. At the same time, despite various corrective measures (on both the revenue and expenditure side), the fiscal position worsened as the overall deficit, including the deficit of the state-owned gas monopoly Naftogaz, rose to an estimated 10.3% of GDP in 2014. Public debt increased by around 30 percentage points in one year to an estimated 70.2% of GDP at the end of 2014 as a result of the depreciation of the local currency and the high fiscal deficit. On the external side, an adjustment of the current account deficit (to 4.0% of GDP from 8.7% in 2013) driven by reduced imports was accompanied by sizeable private-sector financial outflows and payments for gas arrears. As a result, Ukraine's gross international reserves fell by nearly 60% (EUR 10 billion) in 2014 to only EUR 6.2 billion at the end of the year.

In light of the rapidly deteriorating economic situation in early 2014 and the significant weakening of Ukraine's balance-of-payments situation, the Council adopted under the urgency procedure (Article 213 TFEU) a new MFA operation for Ukraine in April 2014. The programme consisted of a loan of up to EUR 1 billion to be extended in two tranches of EUR 500 million each. Its disbursement was conditional on an IMF arrangement being in place and on the implementation of a number of policy conditions agreed upon in a Memorandum of Understanding (MoU) that entered into force in May.

This arrangement added to another MFA facility, which represented a combination of two decisions (adopted respectively in 2002 and 2010) and was worth up to EUR 610 million to be disbursed in three tranches. As a result, a total of EUR 1.61 billion of MFA became available for Ukraine. The disbursements under the two programmes became possible following the approval of a new two-year Stand-By Arrangement by the IMF Board in April 2014. In 2014, Ukraine received EUR 1.36 billion of MFA financing, including the complete disbursement of EUR 1 billion under the MFA decision adopted in April. The final tranche of MFA I, amounting to EUR 250 million, was disbursed in April 2015.

Against the background of a further weakening of the economic activity and the worsening of the balance of payments situation, Ukraine requested a new MFA programme in September 2014. In view of the high additional external financing needs, as well as in order to support the ambitious reform programme of the authorities, the Commission adopted on 8 January 2015 a proposal for a new MFA programme for Ukraine of up to EUR 1.8 billion in loans. The decision for this new MFA programme was adopted by the co-legisltors on 15 April 2015[6], and is planned to be implemented in the course of 2015 and in early 2016.

[6] Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine (OJ L 100, 17.4.2015)

5.2. Macroeconomic performance

Following two years of stagnation, Ukraine's economy entered a deep recession in 2014 due to a confidence crisis as a result of an armed conflict in the eastern part of the country. This crisis was reflected in a sharp currency depreciation, as well as lower investment and consumption activity. The conflict-driven loss of productive capacity in the East, Ukraine's industrial hub, further contributed to the 6.8% contraction of GDP in real terms in 2014. The recession was particularly strong in the final quarter of the year, which witnessed a 14.8% year-on-year decline of output. The negative economic trends continued in early 2015 and, coupled with base effects, suggest another deep recession in 2015[7].

In February 2014, the National Bank of Ukraine decided to abandon the peg of its currency, the hryvnia, to the USD. The decision came after sustained competitive losses due to the currency overvaluation and a sizable depletion of international reserves in an attmept to ensure the exchange rate target. The floatation of the hryvnia led to its sharp depreciation, which intensified in the summer with the eruption of the armed conflict in the East. Despite foreign exchange interventions and numerous administrative measures by the central bank to stem the weakening of the currency, the official rate lost almost half of its value against the USD in 2014[8]. Further significant losses were recorded in early 2015, when a resumption of the armed activities contributed to a new sharp depreciation, prompting another round of administrative measures, in particular measures related to purchases of foreign currency by businesses.

The currency weakening was the key factor behind the acceleration of consumer price inflation over the course of the year to 24.9% year-on-year in December 2014, its highest level in six years. Inflationary pressures remained high in early 2015, mainly stemming from the ongoing currency depreciation. The planned rises of energy tariffs will be another major inflationary factor.

Despite the introduction of various corrective measures (both on the revenue and expenditure side), the fiscal position of the country worsened considerably in 2014 as the general government deficit, including the deficit of the state-owned gas monopoly Naftogaz, widened to 10.3% of GDP from 6.7% a year earlier. The main factor was the huge widening of the operational loss of Naftogaz (to an estimated 5.7% of GDP) despite numerous measures to stabilise the financial position of the company. Ukraine's public debt metrics worsened strongly, with the debt-to-GDP ratio soaring by more than 30 percentage points in a year to an estimated 70.2% at the end of 2014. This was mainly a result of the depreciating currency[9], the large fiscal deficit (including Naftogaz) and high recapitalisation needs of the banking sector.

On the external front, the current account deficit decreased significantly in 2014, to 4.0% of GDP from 8.7% in 2013, as a result of the import fall associated with the recession and the currency depreciation. Imports of goods and services plunged by 27% year-on-year in 2014, outpacing the 20% fall of exports. The downward current account adjustment was accompanied by sizeable private-sector financial outflows and payments for gas arrears. As a result, Ukraine's gross international reserves fell by nearly 60% (EUR 10 billion) in 2014 to only EUR 6.2 billion at the end of the year. The biggest drain

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7 In February 2015, the government revised downwards its forecast for the contraction of real GDP in the year to 5.5% from previous 4.3%. According to the March 2015 Inflation Report of the National Bank of Ukraine, the recession could reach 7.5% in 2015.

8 The depreciation against the USD in 2014 was around 60% if the market exchange rate is taken into consideration.

9 Nearly 63% of Ukraine's government debt was denominated in foreign currency at the end of 2014, making the country very vulnerable to shifts in exchange rate dynamics.

on reserves came from central bank's interventions to support the currency and payments for gas purchases and arrears made by Naftogaz. Significant debt repayments falling due in 2014 also contributed to the depletion of reserves.

The confidence-driven recession and currency depreciation have acted as a drag on the banking sector. Bank deposits, adjusted for foreign exchange effects, fell by nearly a quarter in 2014. Weak economic activity and significant capitalisation needs faced by commercial banks translated into a 16% fall in the stock of credits in the year. The banking sector finished 2014 with a loss of 53 billion Ukrainian Hryvnias, which resulted in a negative return on assets of 4.1%. The share of non-performing loans rose to 19% of total loans at the end of 2014.

5.3. Structural reforms

Progress with structural reforms in 2014 was underpinned by Ukraine's various programmes with its international donors, and in particular the arrangement with the IMF and the MFA programme with the EU. These reforms focused on the energy and banking sectors, public finance management and anti-corruption. Despite important steps taken in all these areas, the impact of the reforms on economic activity was limited due to the continuously deteriorating security and macroeconomic situation. In the second half of 2014, the reform drive of the authorities was impacted by the holding of an early parliamentary election on 26 October and the subsequent formation of a new government. Structural reform efforts were significantly accelerated once the new cabinet took office in early December.

In the area of public finance management, the authorities adopted in April 2014 amendments to the public procurement legislation that fostered the principles of transparency and non-discrimination and encouraged competition by reducing the procedures that are exempted from competitive bidding and extending the definition of procuring entities that allowed for a wider coverage of state-owned enterprises. In February 2015, the authorities submitted to parliament a draft law on the Accounting Chamber of Ukraine (ACU), which envisages an extension of the remit of the ACU to cover the revenue side of the budget as well as state-owned companies and local governments as far as the transfer of state budgetary funds are concerned.

Despite improving the reliability of its macroeconomic forecasts underpinning the 2015 budget law, the process of preparation and adoption of the budget was not sufficiently transparent. The cabinet failed to submit the draft budget law to the parliament by the legally-stipulated deadline (15 September 2014)[10]. In the area of taxation, efforts were focused on a tax reform that was introduced in 2015 and included a considerable reduction of the number of taxes. In the area of VAT refund settlement, the application of the automated procedure was significantly extended. However, in view of the difficult fiscal situation, the authorities accumulated new VAT refund arrears and resorted to bond issuance to cover approximately USD 7 billion of already accumulated VAT liabilities.

In 2014, the authorities introduced a comprehensive legal framework to combat corruption but have not yet made sufficient progress on the implementation side. In July, the government approved a list of short-term priority measures to combat corruption. As part of these measures, an anti-corruption strategy for 2014-17 was adopted. In October, the parliament approved a set of anti-corruption legislation that envisaged the establishment of a National Anti-Corruption Bureau and a National Agency for Corruption Prevention. Both bodies are planned to be set up in 2015 and there is sufficient allocation of funds for their activities in the budget.

[10] Thus, the authorities failed to meet one of the policy measures attached to the EU's MFA programmes.

In the energy sector, reform efforts focused on adjusting the unsustainable energy subsidy model with the objective of strengthening the financial position of Naftogaz and, in turn, public finances more generally. These included the launch of a long-delayed adjustment of residential gas and heating tariffs[11] as well as various steps to improve collection rates and reduce the arrears accumulated by the company's clients. At the same time, a targeted social safety scheme was introduced in July with the objective to compensate the most vulnerable from the higher energy prices. These measures did not yield results, however, as the increase of tariffs was completely offset by the plunging domestic currency. As a result, the operational deficit of Naftogaz widened strongly to an estimated 5.7% of the country's GDP in 2014. In order to stop this negative trend, the authorities committed to implement a comprehensive plan to improve the finances of Naftogaz by both re-enforcing efforts to improve collection and accelerating the adjustment of gas tariffs to cost recovery levels. At the same time, the social safety net will be strengthened to ensure targeted support for the most vulnerable to these increases.

Progress with the restructuring of Naftogaz, which will result in the unbundling of its activities, was slow. In February 2015, the cabinet adopted a draft gas law, whose forthcoming parliamentary adoption should provide for the unbundling of the gas conglomerate and thus strengthen competition in the energy market. In an important reversal in meeting its obligations under the Energy Community Treaty, the Cabinet of Ministers adopted in November 2014 a decision obliging the largest 150 industrial consumers of natural gas to purchase gas directly from Naftogaz and thus suspend their contracts with alternative, private suppliers. This measure, which aimed at improving the liquidity of the ailing gas producer but went against the principles of the Third Energy Package, expired in February 2015.

In an attempt to stabilise the banking sector, the National Bank of Ukraine (NBU) started a clean-up of unviable banks by introducing temporary administration in a number of them, while simultaneously improving the operational and financial capacity of the Deposit Guarantee Fund. Thus, the number of commercial banks operating in the highly-fragmented Ukrainian market decreased to 163 at the end of 2014 from 180 a year earlier. Based on the results of stress tests that were carried out for the 35 largest commercial banks in 2014, the NBU also launched a comprehensive recapitalisation exercise for the sector. However, in view of the combined confidence and real-sector crisis, it is likely that the sector will face significant additional capital needs in 2015.

5.4. Implementation of macro-financial assistance

In light of the rapidly deteriorating economic situation in early 2014 and the further deterioration of Ukraine's balance-of-payments situation, the Council adopted under the urgency procedure (Article 213 TFEU) a new MFA operation for Ukraine in April 2014 (hereinafter "MFA II")[12]. The programme consisted of a loan of up to EUR 1 billion to be extended in two tranches of EUR 500 million each. Its disbursement was conditional on an IMF arrangement being in place and on the implementation of a number of policy conditions agreed upon in a Memorandum of Understanding (MoU) that entered into force in May.

This arrangement added to another MFA facility, which represented a combination of two decisions (adopted respectively in 2002[13] and 2010[14]) and was worth up to EUR 610

[11] In May 2014, the authorities increased residential gas tariffs by 56%, while heating tariffs were raised by 40% as of July. A plan with tariff increases for 2015-2017 was also approved.

[12] Council Decision No 2014/215/EU of 14 April 2014 providing macro-financial assistance to Ukraine (OJ L 111, 14.4.2014).

[13] Council Decision 2002/639/EC of 12 July 2002 providing supplementary macro-financial assistance to Ukraine (OJ L 209, 6.8.2002).

million to be disbursed in three tranches ("MFA I"). The disbursement of the first tranches under the two programmes was conditional on the fulfilment of the political criteria for the provision of MFA and the existence of a disbursing programme with the IMF. For the subsequent tranches, a satisfactory implementation of the policy measures attached to the programmes was also needed.

On 30 April 2014, the Executive Board of the IMF approved a new two-year SBA for Ukraine and made the first tranche available[15]. This paved the way for the first disbursements under the two MFA programmes, which were made on 20 May (EUR 100 million under MFA I) and on 17 June (EUR 500 million under MFA II). The disbursement of the second tranches took place on 12 November (EUR 260 million under MFA I) and on 12 December (EUR 500 million under MFA II). As a result, a total of EUR 1.36 billion in loans was provided to Ukraine in 2014 under the MFA operations. The final tranche of MFA I of EUR 250 million was disbursed in April 2015.

The EU's MFA I and MFA II operations are part of the Commission's Support Package for the economic transformation of Ukraine that was approved by the Council in March 2014[16]. The two MFA programmes complemented financial assistance provided through other instruments such as EIB financing and budget support through the ENI. In line with the Support Package, the EIB signed new loan contracts with Ukraine of nearly EUR 1 billion in 2014. At the same time, the EU committed EUR 365 million under the ENI instrument in the form of grants to help stabilise the economic and financial situation in the country, including EUR 355 million under a State Building Contract. By supporting the Ukrainian authorities' efforts to establish a stable macroeconomic framework and implement an ambitious structural reform programme, MFA helped improve the effectiveness of this substantial EU financial support to Ukraine, in particular of budgetary support operations such as the State Building Contract.

Against the background of a further weakening of the economic activity and the worsening of the balance of payments situation, Ukraine requested a new MFA programme in September 2014 and reiterated this request in December 2014. In view of the high additional external financing needs, as well as in order to support the ambitious reform programme of the authorities, the Commission adopted on 8 January 2015 a proposal for a new MFA programme for Ukraine of up to EUR 1.8 billion in loans, to be disbursed in three tranches of EUR 600 million each. The decision for this new MFA programme was adopted by the co-legisltors on 15 April 2015, and is planned to be implemented in the course of 2015 and in early 2016.

[14] Decision No 646/2010/EU of the European Parliament and of the Council providing macro-financial assistance to Ukraine (OJ L 179, 14.7.2010).

[15] This programme was replaced on 11 March 2015 by a four-year Extended Fund Facility.

[16] http://europa.eu/rapid/press-release_IP-14-219_en.htm

SUMMARY STATUS OF ECONOMIC REFORM - UKRAINE

1. Price liberalisation

Most prices are free, but regulated prices prevail for some utilities, notably gas, heating and electricity, and in some other areas such as public transport.

2. Trade liberalisation

In March 2014, Ukraine signed the political part of the Association Agreement (AA) with the EU, while the remaining chapters, including a Deep and Comprehensive Free Trade Area (DCFTA) agreement, were signed in July. Following parliamentary ratification, the AA has been provisionally applied since 1 November, while the DCFTA is envisaged to enter into force in 2016. In the context of a worsening balance-of-payments situation, Ukraine approved in December 2014 the introduction of import surcharges on industrial (5%) and agricultural products (10%). The surcharge will be applied from February 2015 to December 2015.

3. Exchange rate regime

In February 2014, the National Bank of Ukraine (NBU) abandoned its peg against the USD and adopted a managed float regime instead. However, continuous weakening of the local currency, resulting from the economic and confidence crisis that unfolded in 2014, prompted the NBU to introduce various administrative measures in an attempt to stem the depreciation. In November, daily indicative currency auctions were introduced that aimed at stabilising the exchange rate. With the strong depletion of international reserves, these auctions were suspended in early February 2015.

4. Foreign direct investment

FDI-related flows are largely liberalised.

5. Monetary policy

In 2014, the NBU focused on providing liquidity to support the banking sector, encouraging the return of deposits to the banking system, and attempting to maintain foreign exchange market equilibrium in an environment of high market volatility.

6. Public finances

General government expenditure remains high and in need of additional significant streamlining. The high operational deficit of Naftogaz, which is largely related to highly-subsidised gas and heating tariffs, represents a major fiscal drag. Reforms in the public finance management sector, including in strengthening tax administration, are required to further improve public finances.

7. Privatisation and enterprise restructuring

State-owned companies, which are insufficiently controlled, continue to dominate certain sectors, in particular utilities.

8. Financial sector reform

At the end of 2014, 163 banks were operating in Ukraine. In 2014, the NBU started a comprehensive reform of the banking sector that included the closing of unviable banks while simultaneously improving the operational and financial capacity of the Deposit Guarantee Fund, strengthening the supervision capacity and restricting on related-party lending. Following stress tests conducted at the largest 35 commercial banks, a major recapitalisation exercise was launched.

ANNEXES

Annex 1A - EU MACRO-FINANCIAL AND EXCEPTIONAL FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY DATE OF DECISIONS

Status of effective disbursements as of end-December 2014 (in millions of €)

	Authorisations			**Disbursements**			
Country	Date of Decision	Reference of Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Totals disbursed**	**Undisbursed**
Hungary I (Loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260** **(expired)**
Czech and Slovak Federal Republic	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary II (Loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Bulgaria I (Loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Romania I (Loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Israel[1] (Loan)	22.07.91	91/408/EC	**187,5**	Mar. 1992	187,5	**187,5**	
Algeria I (Loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Albania I (Grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Bulgaria II (Loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug .1996	70 40	**110**	
Baltics (Loans); of which:	23.11.92	92/542/EC	**220**			**135**	**85** **(expired)**
Estonia **Latvia** **Lithuania**			**(40)** **(80)** **(100)**	March 1993 March 1993 July 1993 Aug. 1995	20 40 50 25	**(20)** **(40)** **(75)**	**(20)** **(40)** **(25)**
Romania II (Loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Moldova I (Loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Romania III (Loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec. 1997	55 40 30	**125**	
Albania II (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	

Algeria II (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100** **(cancelled)**
Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130** **(cancelled)**
Ukraine I (Loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Belarus (Loan)	10.04.95	95/132/EC	**55**	Dec. 1995	30	**30**	**25** **(cancelled)**
Ukraine II (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sep. 1997	50 50 100	**200**	
Moldova II (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	
Former Yugoslav Republic of Macedonia I (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Bulgaria III (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Armenia, Georgi and Tajikistan[2] (Loans and grants) Agreed amounts with the recipent countires:	17.11.97 modified by 28.3.00	97/787/EC 00/244/EC	**375** **(328)**			**294,5**	**80,5**
Armenia (Loan and grant)			**(58)**	Dec. 1998 (loan) Dec. 1998 (grant) Dec. 1999 (grant) Feb. 2002 (grant) Dec. 2002 (grant) June 2004 (grant) Dec. 2005 (grant)	28 8 4 5,5 5,5 5,5 1,5	**(58)**	
Georgia (Loan and grant)			**(175)**	Jul. 1998 (loan) Aug. 1998 (grant) Sep. 1999 (grant) Dec. 2001 (grant) Dec. 2004 (grant)	110 10 9 6 6,5	**(141,5)**	**(33,5)**

Tajikistan (Loan and grant)			**(95)**	Mar. 2001 (loan) Mar. 2001 (grant) Dec. 2001 (grant) Feb. 2003 (grant) May. 2005 (grant) Oct. 2007 (grant)	60 7 7 7 7 7	**(95)**	
Ukraine III (Loan)	15.10.98 12.07.02	98/592/EC 02/639/EC	**150**	July 1999	58	**58**	**92** **(cancelled)**
Albania III (Loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia I[3] (Loan and grant)	10.05.99 modified by 10.12.01	99/325/EC 01/899/EC	**60**	Dec. 1999 (grant) Dec. 1999 (loan) Dec. 2000 (grant) Dec. 2000 (loan) Dec. 2001 (grant)	15 10 10 10 15	**60**	
Bulgaria IV (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Former Yugoslav Republic of Macedonia II[4] (Loan and grant)	08.11.99 modified by 10.12.01	99/733/EC 01/900/EC	**80** **18**	Dec. 2000 (grant) Dec. 2000 (loan) Dec. 2001 (loan) Dec. 2001 (grant) May 2003 (grant) June 2003 (loan) Dec. 2003 (loan) Dec. 2003 (grant)	20 10 12 10 10 10 18 8	**98**	
Romania IV (Loan)	08.11.99	99/732/EC	**200**	June 2000 July 2003	100 50	**150**	**50**
Kosovo I[5] (Grant)	19.02.00	00/140/EC	**35**	Mar. 2000 Aug. 2000	20 15	**35**	
Montenegro[5] (Grant)	22.05.00	00/355/EC	**20**	Aug. 2000 Dec. 2000	7 13	**20**	
Moldova III (Loan)	10.07.00 19.12.02	00/452/EC 02/1006/EC	**15**				**15** **(cancelled)**
Kosovo II[3] (Grant)	27.06.01	01/511/EC	**30**	Sep. 2001 Dec. 2002	15 15	**30**	
Serbia and Montenegro I[6] **(ex FRY)** (Loan and grant)	16.07.01 modified by 10.12.01	01/549/EC 01/901/EC	**345**	Oct. 2001 (loan) Oct. 2001 (grant) Jan. 2002 (grant) Aug. 2002 (grant)	225 35 40 45	**345**	

Ukraine IV (Loan) Modification of Decision 98/592/EC	12.07.02	02/639/EC	**110**	May. 2014 (loan) Nov. 2014 (loan)	100 10	**110**	
Serbia and Montenegro II[7] **(ex FRY)** (Loan and grant)	05.11.02	02/882/EC	**130**	Dec. 2002 (grant) Feb. 2003 (loan) Aug. 2003 (grant) Aug. 2003 (loan)	30 10 35 30	**105**	**25**
Bosnia II[8] (Loan and grant)	05.11.02	02/883/EC	**60**	Feb. 2003 (grant) Dec. 2003 (grant)	15 10	**25**	the rest was paid under 04/861/EC
Moldova IV (Grant)	19.12.02	02/1006/EC	**15**				**15** **(cancelled)**
Serbia and Montenegro II[7] **(ex FRY)** Modification Decision 02/882/EC (grant)	25.11.03	03/825/EC	**70**	Dec. 2004 (grant)	10	**10**	**20** the rest was paid under 04/862/EC
Albania IV[9] (Loan and grant)	29.04.04	04/580/EC	**25**	Nov. 2005 (grant) March 2006 (loan) July 2006 (grant)	3 9 13	**25**	
Bosnia II[8] Modification Decision 02/883/EC (grant and loan)	07/12/2004	04/861/EC	the balance of 02/883/EC	Dec. 2004 (loan) June 2005 (grant) Feb. 2006 (loan)	10 15 10	**35**	
Serbia and Montenegro II[7] (ex FRY) Modification Decision 02/882/EC (Grant and loan)	07.12.2004	04/862/EC	the balance of 03/825/EC	April 2005 (loan) Dec. 2005 (grant)	15 25	**40**	
Georgia II (Grant)	24.01.06	06/41/EC	**33,5**	August 2006 (grant) Dec. 2006 (grant)	11 11	**22**	**11,5** **(expired)**
Kosovo (Grant)	30.11.06	06/880/EC	**50**	Sept. 2010 (grant)	30	**30**	**20** **(expired)**
Moldova (Grant)	16.04.07	07/259/EC	**45**	Oct. 2007 (grant) June 2008 (grant) Dec. 2008 (grant)	20 10 15	**45**	
Lebanon[10] (Loan and grant)	10.12.07	07/860/EC	**80**	Dec. 2008 (grant) June 2009 (loan)	15 25	**40**	**40** **(expired)**
Georgia (Grant)	30.11.09	09/889/EC	**46**	Dec. 2009 (grant) Jan. 2010 (grant) August 2010 (grant)	15,3 7,7 23	**46**	

Armenia[11] (Loan and grant)	30.11.09	09/890/EC	**100**	June 2011 (grant) July 2011 (loan) Dec. 2011 (grant) Feb. 2012 (loan)	14 26 21 39	**100**	
Bosnia and Herzegovina (Loan)	30.11.09	09/891/EC	**100**	Feb. 2013 (loan) Oct. 2013 (loan)	50 50	**100**	
Serbia (Loan)	30.11.09	09/892/EC	**200**	July 2011 (loan)	100	**100**	**100 (expired)**
Ukraine (Loan)	29.06.10	646/2010/EU	**500**	Nov. 2014 (loan)	250	**250**	**250 (ongoing)**
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 (grant) Sept. 2011 (grant) Apr. 2012 (grant)	40 20 30	**90**	
Georgia (Loan and grant)	12.08.13	778/2013/EU	**46**				**46 (ongoing)**
Kyrgyz Republic (Loan and grant)	22.10.13	1025/2013/EU	**30**				**30 (ongoing)**
Jordan (Loan)	11.12.13	1351/2013/EU	**180**				**180 (ongoing)**
Tunisia (Loan)	15.5.14	534/2014/EU	**300**				**300 (ongoing)**
Ukraine (Loan)	14.04.14	2014/215/EU	**1000**	Jun. 2014 Dec. 2014	500 500	**1000**	
TOTAL			**8.996**			**7.101**	**1.895**

[1] Assistance to Israel includes a loan principal amount of €160 million and grants of €27.5 million in the form of interest subsidie

[2] Exceptional financial assistance, which includes a ceiling of €245 million for the loans and a ceiling of €130 million for the gra
Out of the global amount of €375 million, maximum amounts of €58 million, €175 million and €95 million
were actually agreed with the beneficiary countries

[3] Includes a loan principal amount of up to €20 million and grants of up to €40 million

[4] Includes a loan principal amount of up to €50 million and grants of up to €48 million

[5] Exceptional financial assistance

[6] Includes a loan principal amount of €225 million and grants of €120 million

[7] Includes a loan principal amount of €55 million and grants of €75 million

[8] Includes a loan principal amount of €20 million and grants of €40 million

[9] Includes a loan principal amount of €9 million and grants of €16 million

[10] Includes a loan principal amount of €50 million and grants of €30 million

[11] Includes a loan principal amount of €65 million and grants of €35 million

Annex 1B - EU MACRO-FINANCIAL AND EXCEPTIONAL FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY REGION

Status of effective disbursements as of end-December 2014 (in millions of €)

	Authorisations			Disbursements			
Country	Date of Decision	Reference of Decision	**Maximum amount**	Dates of disbursements	**Amounts of disbursements**	**Totals**	**Undisbursed**
A. EU Accession countries							
Baltics (Loans) of which : **Estonia** **Latvia** **Lithuania**	23.11.92	92/542/EC	**220** **(40)** **(80)** **(100)**	 March 1993 March 1993 July 1993 Aug. 1995	 20 40 50 25	**135** **(20)** **(40)** **(75)**	**85** **(cancelled)** **(20)** **(40)** **(25)**
Bulgaria I (Loan)	24.06.91	91/311/EC	**290**	Aug. 1991 March 1992	150 140	**290**	
Bulgaria II (Loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug. 1996	70 40	**110**	
Bulgaria III (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Bulgaria IV (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Czech and Slovak Federal Republic (Loan)	25.02.91	91/106/EC	**375**	March 1991 March 1992	185 190	**375**	
Hungary I (Structural adjustment loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260** **(cancelled)**
Hungary II (loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Romania I (Loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Romania II (Loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Romania III (Loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec. 1997	55 40 30	**125**	
Romania IV (Loan)	08.11.99	99/732/EC	**200**	June 2000 July 2003	100 50	**150**	**50**

Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130** **(cancelled)**
TOTAL A			**3305**			**2780**	**525**
B. Western Balkans							
Albania I (Grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Albania II (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	
Albania III (Loan)	22.04.99	99/282/EC	**20**				**20** **(cancelled)**
Bosnia I[1] (Loan and grant)	10.05.99 modified by 10.12.01	99/325/EC 01/899/EC	**60**	Dec. 1999 (grant) Dec. 1999 (loan) Dec. 2000 (grant) Dec. 2000 (loan) Dec. 2001 (grant)	15 10 10 10 15	**60**	
Former Yugoslav Republic of Macedonia I (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Former Yugoslav Republic of Macedonia II[2] (Loan and grant)	08.11.99 modified by 10.12.2001	99/733/EC 01/900/EC	**80** **18**	Dec. 2000 (grant) Dec. 2000 (loan) Dec. 2001 (loan) Dec. 2001 (grant) May 2003 (grant) June 2003 (loan) Dec. 2003 (loan) Dec. 2003 (grant)	20 10 12 10 10 10 18 8	**98**	
Kosovo I[3] (Grant)	19.02.00	00/140/EC	**35**	March 2000 Aug. 2000	20 15	**35**	
Kosovo II[3] (Grant)	27.06.01	01/511/EC	**30**	Sep. 2001 Dec. 2002	15 15	**30**	
Montenegro[3] (Grant budgetary support)	22.05.00	00/355/EC	**20**	Aug. 2000 Dec. 2000	7 13	**20**	
Serbia and Montenegro I[4] (ex FRY)	16.07.01 10.12.2001	01/549/EC modified by 01/901/EC	**345**	Oct. 2001 (grant) Oct. 2001 (loan) Jan. 2002 (grant) Aug.2002 (grant)	35 225 40 45	**345**	
Serbia and Montenegro II[5] (ex FRY) (Loan and grant)	05.11.02 modified by 25.11.03 07.12.04	02/882/EC 03/825/EC (7) 04/862/EC	**130** **70**	Dec. 2002 (grant) Feb. 2003 (loan) Aug. 2003 (grant) Aug. 2003 (loan) Dec. 2004 (grant) April 2005 (loan) Dec. 2005 (grant)	30 10 35 30 10 15 25	**105** **50**	**25** **20**

Bosnia II[6] (Loan and grant)	05.11.02 modified by 07.12.04	02/883/EC 04/861/EC	**60**	Feb. 2003 (grant) Dec. 2003 (grant) Dec 2004 (loan) June 2005 (grant) Feb. 2006 (loan)	15 10 10 15 10	**60**	
Albania IV[8] (Loan and grant)	29.04.04	04/580/EC	**25**	Nov 2005 (grant) Mar 2006 (loan) Jul 2006 (grant)	3 9 13	**25**	
Kosovo (Grant)	30.11.06	06/880/EC	**50**	Sept. 2010	30	**30**	**20 (expired)**
Bosnia and Herzegovina (Loan)	30.11.09	09/891/EC	**100**	Feb. 2013 (loan) Oct. 2013 (loan)	50 50	**100**	
Serbia (Loan)	30.11.09	09/892/EC	**200**	July 2011 (loan)	100	**100**	**100 (expired)**
TOTAL B			**1388**			**1203**	**185**
C. New Independent States (NIS)							
Armenia, Georgia and Tajikistan[9] (Loans and grants) Agreed amounts with the recipent countires:	17.11.97 modified by 28.3.00	97/787/EC 00/244/EC	**375** downsized to **(328)**			**294,5**	**80,5**
Armenia			**(58)**	Dec. 1998 (loan) Dec. 1998 (grant) Dec. 1999 (grant) Feb. 2002 (grant) Dec. 2002 (grant) June 2004(grant) Dec. 2005(grant)	28 8 4 5,5 5,5 5,5 1,5	**(58)**	
Georgia			**(175)**	July 1998 (loan) Aug. 1998 (grant) Sep. 1999 (grant) Dec. 2001 (grant) Dec. 2004 (grant)	110 10 9 6 6,5	**(141,5)**	**(33,5)**
Tajikistan			**(95)**	March 2001 (loan) March 2001 (grant) Dec. 2001 (grant) Feb. 2003 (grant) May 2005 (grant) Oct 2006 (grant)	60 7 7 7 7 7	**(95)**	
Belarus (Loan)	10.04.95	95/132/EC	**55**	Dec. 1995 (loan)	30	**30**	**25 (cancelled)**
Moldova I (Loan)	13.06.94	94/346/EC	**45**	Dec. 1994 (loan) Aug. 1995 (loan)	25 20	**45**	
Moldova II (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996 (loan)	15	**15**	

Moldova III (Loan)	10.07.00 19.12.02	00/452/EC 02/1006 EC	**15**				**15** **(cancelled)**
Moldova IV (Grant)	19.12.02	02/1006/EC	**15**				**15** **(cancelled)**
Ukraine I (Loan)	22.12.94	94/940/EC	**85**	Dec. 1995 (loan)	85	**85**	
Ukraine II (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 (loan) Oct. 1996 (loan) Sep. 1997 (loan)	50 50 100	**200**	
Ukraine III (Loan)	15.10.98	98/592/EC	**150**	July 1999 (loan)	58	**58**	**92** **(cancelled)**
Ukraine IV (Loan) Modification of decision 98/592/EC	12.07.02	02/639/EC	**110**	May. 2014 (loan) Nov. 2014 (loan)	100 10	**110**	
Georgia II (Grant)	21.01.06	06/41/EC	**33,5**	Aug. 2006 (grant) Dec 2006 (grant)	11 11	**22**	**11,5** **(expired)**
Moldova (Grant)	16.04.07	07/259/EC	**45**	Oct. 2007 (grant) June 2008 (grant) Dec. 2008 (grant)	20 10 15	**45**	
Georgia	30.11.09	09/889/EC	**46**	Dec. 2009 (grant) Jan. 2009 (grant) Aug. 2010 (grant)	15,3 7,7 23	**46**	
Armenia[10] (Loan and grant)	30.11.09	09/890/EC	**100**	June 2011 (grant) July 2011 (loan) Dec. 2011 (grant) Feb. 2012 (loan)	14 26 21 39	**100**	
Ukraine (Loan)	29.06.10	646/2010/EU	**500**	Nov. 2014 (loan)	250	**250**	**250** **(ongoing)**
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 (grant) Sept. 2011 (grant) Apr. 2012 (grant)	40 20 30	**90**	
Georgia (Loan and grant)	12.08.13	778/2013/EU	**46**				**46** **(ongoing)**
Kyrgyz Republic (Loan and grant)	22.10.13	1025/2013/EU	**30**				**30** **(ongoing)**
Ukraine (Loan)	14.04.14	2014/215/EU	**1000**	Jun. 2014 Dec. 2014	500 500	**1000**	
TOTAL C			**2955,5**			**2390,5**	**565,0**

D. Mediterranean countries

Israel[11] (Structural adjustment soft loan)	22.07.91	91/408/EC	**187,5**	March 1992	187,5	**187,5**	
Algeria I (Loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Algeria II (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100** **(cancelled)**
Lebanon[12] **(Grant and Loan)**	10.12.07	07/860/EC	**80**	Dec. 2008 (grant) June 2009 (loan)	15 25	**40**	**40** **(expired)**
Jordan (Loan)	11.12.13	1351/2013/EU	**180**				**180** **(ongoing)**
Tunisia (Loan)	15.5.14	534/2014/EU	**300**				**300**
TOTAL D			**1347,5**			**727,5**	**620**
TOTAL A+B+C+D			**8.996**			**7.101**	**1.895**

[1] Includes a loan principal amount of €20 million and grants of €40 million.
[2] Includes a loan principal amount of up to €50 million and grants of up to €48 million.
[3] Exceptional financial assistance.
[4] Includes a loan principal amount of €225 million and grants of €120 million.
[5] Includes a loan principal amount of €55 million and grants of €75 million
[5] Includes a loan principal amount of €20 million and grants of €40 million
[6] Includes a loan principal amount of €25 million and grants of €45 million
[8] Includes a loan principal amount of €9 million and grants of €16 million
[9] Exceptional financial assistance, which includes a ceiling of €245 million for the loans and a ceiling of €130 million for the grants Out of the global amount of €375 million, maximum amounts of €58 million, €175 million and €95 million were actually agreed with the beneficiary countries
[10] Includes a loan principal amount of €65 million and grants of €35 million
[11] Assistance to Israel includes a loan principal amount of ECU 160 million and grants of ECU 27,5 million in the form of interest subsidies.
[12] Includes a loan principal amount of €50 million and grants of €30 million

Annex 2: MFA amounts authorised by year over 2004-2014 (in EUR million)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
By region												
Western Balkans	25		50			300						375
Newly Independent States (NIS)			33,5	45		146	590			76	1.000	1890,5
Mediterranean				80						180	300	560
Total amounts authorised	**25**	**0**	**83,5**	**125**	**0**	**446**	**590**	**0**	**0**	**256**	**1.300**	**2.825,5**
Loans	9		0	50	0	365	500			218	1300	2.442
Grants	16		83,5	75	0	81	90			38		383,5

Chart 2A: MFA amounts authorised by year over 2004-2014 (in EUR million)

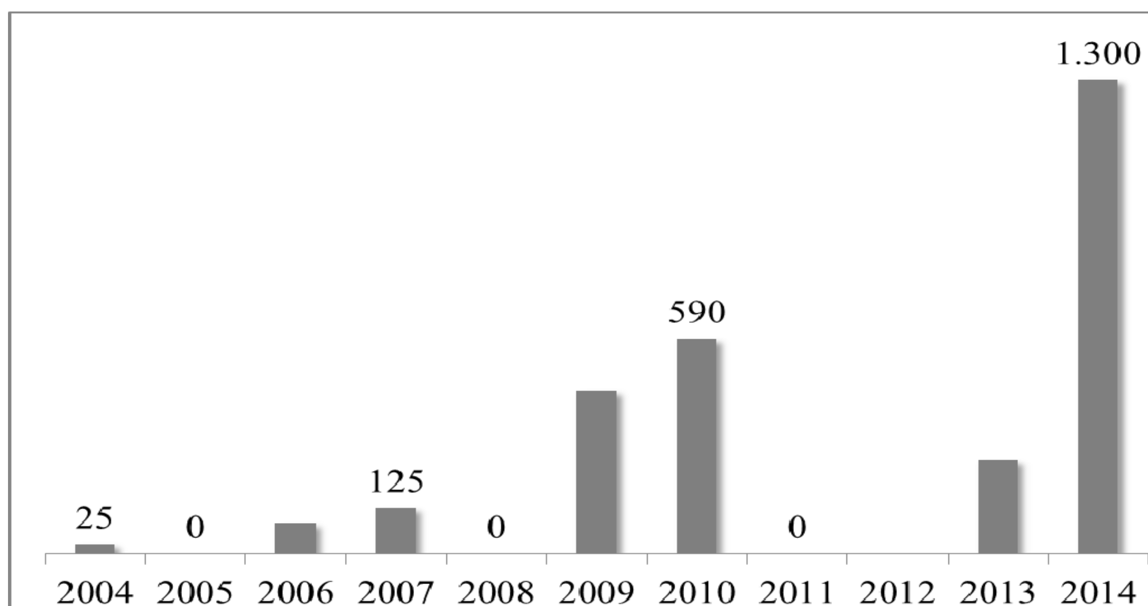
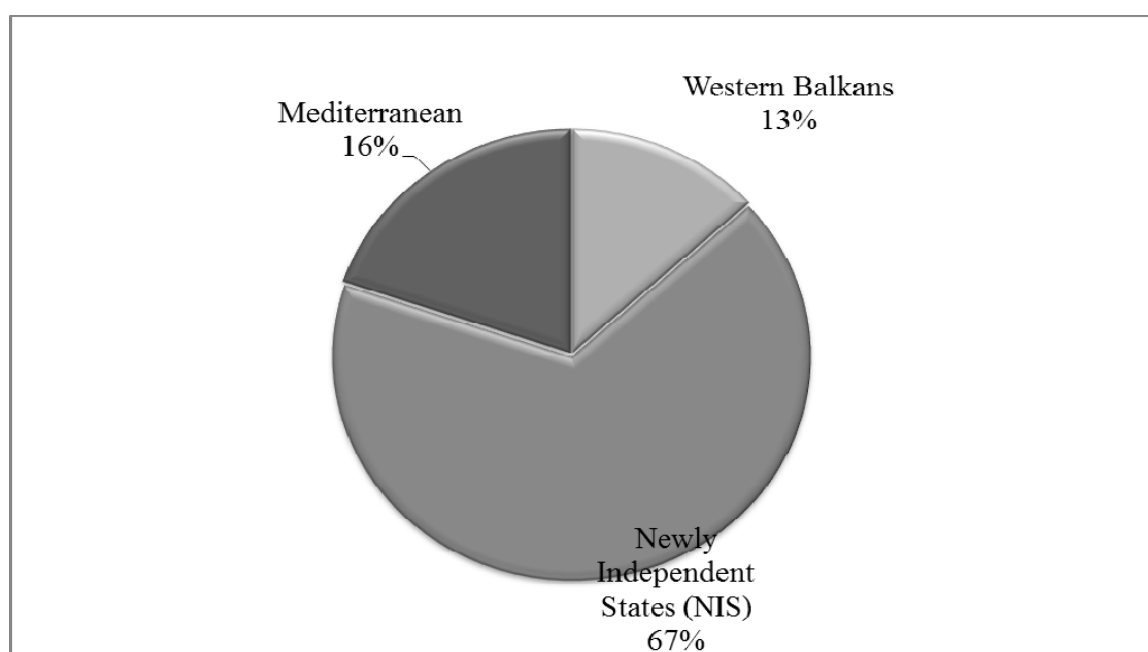


Chart 2B: MFA amounts authorised by regions over 2004-2014



Annex 3: MFA amounts disbursed by year over 2004-20114 (EUR million)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
By region												
Western Balkans	20	58	32				30	100		100		340
Newly Independent States (NIS)	12	8,5	29	20	25	15,3	70,7	81	69		1360	1690,5
Mediterranean					15	25						40
Total amounts disbursed	**32**	**66,5**	**61**	**20**	**40**	**40,3**	**100,7**	**181**	**69**	**100**	**1.360**	**2070,5**
Loans	10	15	19	0	0	25	0	126	39	100	1360	1694
Grants	22	51,5	42	20	40	15,3	100,7	55	30,0			377

Chart 3A: MFA amounts disbursed by year over 2004-2014 (in EUR million)

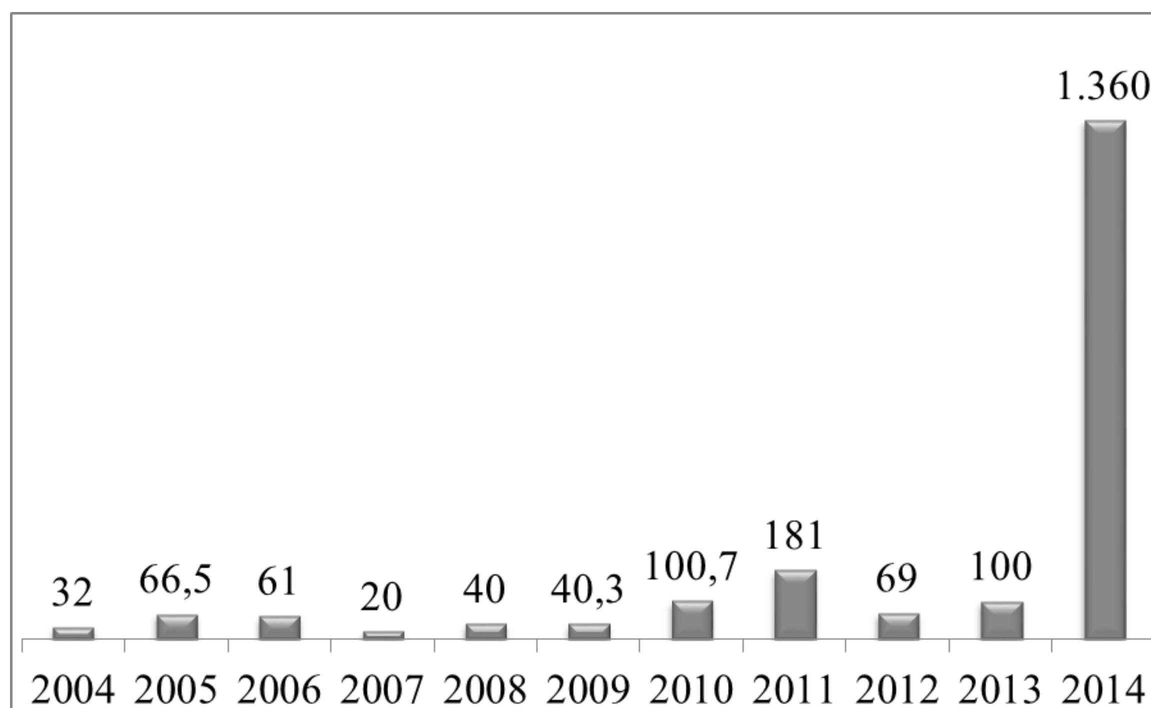


Chart 3B: MFA amounts disbursed by regions over 2004-2014