EUROPEAN
COMMISSION

Brussels, 16.6.2017
SWD(2017) 233 final

COMMISSION STAFF WORKING DOCUMENT

Background Analysis per beneficiary country

Accompanying the document

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of macro-financial assistance to third countries in 2016

{COM(2017) 321 final}

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
FATF	Financial Action Task Force
FDI	Foreign direct investment
FSAP	Financial Sector Assessment Programme
GAFTA	Greater 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 Cooperation and Development
OJ	Official Journal of the European Union
PFM	Public finance management
PPP	Public-private partnership
SBA	Stand-By Arrangement
SDR	Special drawing rights
SOE	State-owned enterprise
SREP	Supervisory review and evaluation process
USD	United States dollar
TFEU	Treaty on the Functioning of the European Union
VAT	Value added tax
WTO	World Trade Organization
y-o-y	year-on-year

CONTENTS

PREFACE

This staff working document is published in parallel with the Commission's Report to the European Parliament and the Council on the implementation of macro-financial assistance (MFA) to third countries in 2016. It provides economic and financial information on the situation of the beneficiary countries and more detailed information on the implementation of MFA operations in those countries. Statistical data on the MFA decisions adopted since 1990, by date and by region, are set out in the annexes, as are total MFA commitment and payment amounts in 2005-2016, by year and by region.

BACKGROUND ANALYSIS OF BENEFICIARIES OF MACRO-FINANCIAL ASSISTANCE

1. GEORGIA

1.1. Executive summary

In 2016, Georgia continued to face a weak external environment, which, through reduced exports and remittances, contributed to relatively subdued GDP growth (estimated at 2.7 %). In this context, Georgia's fiscal deficit widened, reflecting weaker-than-expected revenues and spending increases ahead of the October 2016 parliamentary elections.

With 80 % of public debt denominated in foreign currency, the sharp lari depreciation over the past 2 years has resulted in an increase in the public debt-to-GDP ratio, although public debt has remained broadly unchanged in US dollar terms. The level of foreign exchange reserves has also been stable, reaching USD 2.6 billion at end December 2016 (slightly up from USD 2.5 billion in December 2014), covering about 4 months of projected 2017 imports. High external debt and current account deficits, however, remain sources of vulnerability.

On 12 April 2017, the IMF Executive Board approved a new USD 285 million arrangement for Georgia under the Extended Fund Facility (EFF). This programme follows a USD 154 million Stand-By Arrangement which Georgia concluded with the IMF in July 2014, from which 80 % of the funds were disbursed in 2014. The remaining 20 % could not be released due to disagreements between the IMF and Georgia on the measures needed to conclude the remaining reviews under this programme. This has also delayed the disbursement of the second tranche worth EUR 23 million under the EU macro-financial assistance (MFA) programme approved in August 2013, although all policy conditions attached to this tranche had been met by Georgia. With the new EFF approved by the IMF, the Commission has decided to proceed with the disbursement of the second tranche of MFA in May 2017.

1.2. Macroeconomic performance

The economic slowdown in the region and sharp currency depreciations in Georgia's major trading partners since end-2014 have led to reduced exports and reduced inflows of remittances. This contributed to a deceleration of economic growth from 4.6 % in 2014 to 2.9 % in 2015 and down to an estimated 2.7 % in 2016. Following a long period of fiscal consolidation since 2009, the fiscal deficit started to widen in 2015, reaching 3.5 % of GDP. This partly reflects a welcome increase in social spending aimed at addressing the country's persistently high levels of poverty and inequality. The budgetary position further deteriorated in 2016, with the government deficit estimated to have reached 3.0 % of GDP. Meanwhile, the public debt ratio also increased to an estimated 44.6 % of GDP in 2016 (from 35.6 % in 2014).

After picking up in 2015 (to 6.3 % in November) as a result of the lari depreciation and increases in electricity tariffs, consumer price inflation decelerated in 2016 (down to 1.8 % in December), before picking up again in early 2017 (to 5.5 % in February) in line with the increase in excise duties introduced in January. In order to keep monetary targets under control, the National Bank of Georgia increased the refinancing rate eight times in 2015, up to 8 %. In 2016, as a result of reduced inflationary pressure, the central bank gradually reduced the key policy rate to 6.5 % in September 2016, before raising it again to 6.75 % in January 2017, particularly in reaction to rising inflation expectations.

The current account deficit is estimated to have further deteriorated, reaching 13.3 % of GDP in 2016 (from 12.1 % of GDP in 2015). This has been partly compensated by a significant recovery of foreign direct investment (FDI) since 2014. FDI in Georgia totalled USD 1.4 billion as of end 2016, up 13 % from end 2015.

After hovering around 80 % of GDP since 2008 (81.5 % at end-2014), external debt has increased quite markedly in the past 2 years and was estimated to amount to 108 % of GDP at the end of 2016. This mainly reflects the depreciation of the lari, which lost 50 % of its value against the US dollar between November 2014 and December 2016. In spite of the steep currency depreciation, the central bank has generally refrained from large interventions in the foreign exchange market.

Due to prudent supervision by the central bank, the financial system remains sound and well capitalised overall. The liquidity ratio is reported to exceed 40 % and the capital adequacy ratio stands at 18 %. However, the steep lari depreciation against the US dollar represents a challenge, as 65.4 % of loans and 71.3 % of deposits were denominated in US dollars at end-2016. This pushed the central bank to announce in December 2016 a series of de-dollarisation measures which should help contain currency-induced credit risk.

In September 2015 the Georgian Parliament adopted amendments to the Organic Law on the National Bank of Georgia to transfer banking supervision functions from the central bank to a new Financial Supervisory Agency. The entry into force of the amended law was, however, suspended in October 2015, pending a ruling by the Constitutional Court on the constitutionality of the law. This issue is in the process of being solved, as the government submitted a legislative proposal in February 2017 whereby the law on the Financial Supervisory Agency is amended, to ensure that the financial supervisory function remains with the central bank regardless of the Court's judgment.

1.3. Structural reforms

Georgia has implemented a series of important structural reforms and substantially improved its business environment in the past few years. In January 2017, it ranked 16th out of 190 countries in the World Bank's Doing Business report. It is considered one of the top performing countries when it comes to starting a business, registering property, dealing with construction permits, getting credit and enforcing contracts. Nevertheless, there is room for improvement in areas such as access to electricity, resolving insolvency and trading across borders.

The unemployment rate has been on a continuous downward trend since 2009, falling to 12 % at end-2015 (compared to 16.9 % at end-2009). Nevertheless, high unemployment remains a significant challenge. While employment opportunities have been created in new growth sectors, especially in tourism and other services, high unemployment persists due to challenges associated with skills mismatches and large regional disparities. In this context, the creation of an unemployment benefit scheme would be a welcome development provided sufficient fiscal revenues can be secured to finance the measure.

There has been significant progress in poverty reduction and shared prosperity in recent years, although this has been driven by factors other than net job creation (government transfers, food disinflation and increased earnings). The measures implemented by the government since 2013 to reform the social security system have been instrumental in fighting poverty, in particular the introduction of a universal healthcare system as well as increases in pension allowances. As a result, the share of people living on less than USD 1.9 per day has been halved from 19.6 % in 2010 to 9.8 % in 2014. Nevertheless, inequality in Georgia remains relatively high, with a Gini coefficient of 40.1 in 2014. While the strengthening of social safety nets has been a welcome development, it has also put pressure on public expenditure. In 4 years, spending on health has doubled, from 1.6 % of GDP in 2012 to over 3 % in 2016. This would warrant measures to increase efficiency, particularly in the heath sector, to limit the rise in costs. In cooperation with the World Bank, a number of options are being considered, including introducing contributions (the system is currently exclusively financed from the budget), strengthening cost-effectiveness and applying some degree of beneficiary targeting.

Georgia's public pension scheme remains basic, with pensions being paid as a lump sum allocation to all citizens aged over 60 (women) or 65 (men), regardless of the number of years worked. In March 2016, the Ministry of Economy and Sustainable Development published a report outlining the reform of the universal pension benefit and the introduction of a pay-as-you-go public pension scheme which would be earnings-related. Funding of the transition cost of this pension reform will be an important challenge: the government faces substantial limitations as revenue collections are constrained by the Constitution, which does not allow the introduction of any new tax or any increase in the existing tax rates, except for excise duties, without approval by referendum. The government envisages the introduction of social contributions, financed in equal shares by the government, employees and employers.

Georgia has also made progress on public finance management, including as part of the conditions it has to meet to receive MFA, for example by establishing a training centre to make the public agencies in charge of organising tenders and potential bidders more aware of public procurement legislation and procedures. In addition, the Law on the State Audit Office was amended to protect its operational independence.

1.4. Implementation of macro-financial assistance

The EU pledged up to EUR 500 million of support for Georgia's economic recovery at an international donor conference held in Brussels in October 2008 in the aftermath of the military conflict with Russia. The pledge included two potential MFA operations, for EUR 46 million each, the first of which was successfully implemented in 2009-2010. The second MFA programme is ongoing and the support is being provided in the form of grants and loans (in even proportions). The second programme was proposed by the Commission in January 2011, but procedural disagreements between the co-legislators resulted in adoption being delayed until August 2013. The memorandum of understanding (MoU), the loan facility agreement (LFA) and the grant agreement were signed and, where necessary, ratified by the Georgian Parliament in December 2014.

The first MFA tranche was disbursed in January 2015 (EUR 13 million in grants) and April 2015 (EUR 10 million in loans), based on Georgia's good track record with the IMF programme. The Georgian authorities have implemented all relevant policy measures outlined in the MoU to receive the second tranche (EUR 10 million in grants and EUR 13 million in loans), as noted by the Commission during a compliance review mission conducted in November 2015. The disbursement of this tranche was due to take place in 2016, but was delayed due to problems implementing the IMF Stand-By Arrangement approved in July 2014, under which 20 % of the funds remained to be disbursed. On 12 April 2017, the IMF Executive Board approved a new USD 285 million arrangement under the Extended Fund Facility for Georgia. In this context, the Commission has decided to proceed with the disbursement of the second tranche of MFA in May 2017.

STATUS OF ECONOMIC REFORM — GEORGIA

1. Price liberalisation

Prices are largely free.

2. Trade regime

Georgia has a liberal trade policy, with no quantitative restrictions on imports or exports. In June 2014, it signed an Association Agreement with the EU, including a deep and comprehensive free trade area (DCFTA) agreement, which entered into force in September 2014.

3. Exchange-rate regime

There is a floating exchange rate for the lari, with limited official intervention by the National Bank of Georgia. There are no restrictions on current international transactions, in accordance with Article VIII of the IMF's Articles of Agreement.

4. Foreign direct investment

Georgia has a liberal regime for FDI and unlimited repatriation of capital and profits. FDI has increased substantially in the past few years, from 5.1 % of GDP in 2013 to an estimated 10 % of GDP in 2016.

5. Monetary policy

The central bank's main monetary policy objective is price stability. The bank is currently applying an inflation-targeting regime, with a target of 4 % for 2017. The effectiveness of monetary policy is significantly constrained by the high level of dollarisation: as of December 2016, 65.4 % of loans and 71.3 % of deposits were denominated in US dollars.

6. Public finances and taxation

The PFM system is essentially sound and transparent, although further reforms are still needed in areas such as internal financial control and audit. Public revenues are constrained by the Constitution (Article 94), while the budget deficit, public debt and public spending are capped by the Liberty Act, in force since January 2014, at 3 %, 60 % and 30 % of GDP respectively.

7. Privatisation and enterprise restructuring

Most state-owned enterprises have been privatised.

8. Financial sector

As of February 2017, there were 16 banks operating in Georgia, most of them foreign-controlled. Foreign capital accounted for about 80 % of banks' total paid-in capital. Amendments to the Organic Law on the National Bank of Georgia, aimed at transferring banking supervision functions from the central bank to a newly established Financial Supervisory Agency, were adopted by the Georgian Parliament in September 2015 but suspended by the Constitutional Court in October 2015. Pending a final verdict, banking supervision has remained a function of the central bank. In February 2017, the government submitted a legislative proposal whereby the law on the Financial Supervisory Agency is amended, to ensure that the financial supervisory function remains with the central bank regardless of the Court's ruling.

2. JORDAN

2.1. Executive summary

The Jordanian economy slowed down to 2.1 % in 2016 on the back of continuing conflicts in Iraq and Syria affecting tourism, exports and business confidence. Consumer prices fell by 0.8 % in 2016, reflecting sharp declines in fuel and transport prices. Helped by lower oil prices, the primary government deficit is estimated at around 3.6 % of GDP in 2016, down from 5.2 % of GDP in 2015 (excluding grants and transfers to the national electric power company, NEPCO, and the Water Authority of Jordan, WAJ). Despite low oil prices the current account deficit (excluding grants) increased slightly to 12.6% of GDP in 2016 compared to 12 % in 2015, as exports and tourism inflows continue to be weak.

Macroeconomic stability was underpinned by a new three-year IMF Extended Fund Facility (EFF) programme of USD 723 million agreed in August 2016. Following a request from the Jordanian authorities, a new MFA programme in the amount of EUR 200 million was approved on 14 December 2016.

2.2. Macroeconomic performance

Despite several exogenous shocks (major disruptions in gas flows from Egypt, deep conflicts in Syria and Iraq), the Jordanian economy has proven resilient in recent years, reflecting prudent macroeconomic policies and substantial financial support from the international community. However, with continuing conflicts in Iraq and Syria affecting tourism, exports and business confidence, GDP growth is estimated to have slowed down to 2.1 % in 2016, from 2.4 % in 2015. Meanwhile, unemployment increased again: after declining to 11.9 % in 2014, it rose to 13.1 % in 2015 and 15.3 % by the end of 2016. Unemployment remains particularly high among young people and women (35.5 % and 25.2 % respectively in the third quarter of 2016, compared to 13.8 % for men).

Deflationary trends persisted in 2016 on the back of a fall in prices for fuels, transport and some food products. On average, consumer prices dropped by 0.8 % in 2016, following a 0.9 % drop in 2015. Core inflation, partly reflecting the demand from Syrian refugees, fell to 2.9 % in 2016 from 3.3 % in 2015.

Despite the economic slowdown, fiscal consolidation advanced, reflecting low oil prices and responding to a set of fiscal measures (amounting to 0.8 % of GDP) that the authorities took in 2016 to reduce the public deficit and limit the increase in public debt. Thus, the overall fiscal deficit (including transfers to NEPCO and WAJ, as well as grants) is estimated to have improved to 3.6 % of GDP in 2016 from 5.4 % in 2015. These figures are well below the peak level of about 11 % of GDP reached in 2013.

The primary deficit of the central government (excluding grants and transfers to NEPCO and to WAJ) improved from 5.2 % in 2015 to 3.7 % of GDP in 2016. The combined deficit of the central government (including NEPCO's and WAJ's operating balance) declined to 5 % of GDP in 2016, down from 7.2 % of GDP of 2015, mainly as a result of NEPCO's operations coming into balance. Despite these improvements, Jordan's fiscal position continues to be fragile and heavily dependent on foreign grants, which amounted to around 3 % of GDP in 2016.

Reflecting substantial borrowing from foreign donors and the issuance of international bonds, Jordan's gross public debt increased in November 2016 to 95.6 % of GDP from 93.4 % at the end of 2015. However, the IMF considers Jordan's public debt dynamics to be sustainable, provided that the country continues to deliver on further medium-term fiscal adjustments and is supported by the international community. On 25 October 2016, Jordan issued a 10-year Eurobond of USD 1 billion (without guarantees) with a 5.75% coupon on the international markets.

The conflicts of 2016 in Syria and Iraq continued to weigh on exports, tourism and investors' confidence. The current account deficit (excluding grants) is estimated to have increased to 12.6 % of GDP in 2016, compared to 12 % of GDP in 2015.

Including grants, the current account deficit increased to 9.3 % of GDP in 2016 from 9 % of GDP in 2015, reflecting a slight increase in foreign grants. While there has been quite an impressive adjustment in the current account since 2012, the deficit remains very large, especially if foreign grants are excluded. This trend is worrying considering the low oil price level, indicating the vulnerability of the external position. In December 2016, international reserves in foreign currency stood at a comfortable USD 12.8 billion, equivalent to 7.2 months of projected next year's imports.

2.3. Structural reforms

The authorities continued to implement an ambitious structural reform agenda aimed at correcting macroeconomic imbalances and contributing to more inclusive and sustainable growth. The reform agenda draws mainly from 'Jordan 2025' - a 10-year economic blueprint published in in May 2015 - as well as from agreed programmes with international donors (in particular, the IMF and the World Bank) and the EU (in the context of the Partnership Priorities and the Jordan Compact). The Jordan Compact, agreed in July 2016, contains precise commitments on both sides (including financial assistance from the EU in return for increasing the employment of the Syrian refugees in Jordan) to address a number of policy priorities. The main priorities are: maintaining macroeconomic stability; developing the private sector; improving the business environment; improving living conditions for Syrian refugees and their access to formal employment and education; and promoting the sustainable management of natural resources.

In 2016, the authorities increased indirect taxation (in tobacco, fuels and spirits and others) and changed certain tax exemptions (for clothes and others) to boost tax revenues by 0.8 % of GDP while providing for an increase in capital spending and a gradual clearance of energy arrears. The authorities also reversed the reduction in fees and taxes on land purchases that was decided in June 2016.

Efforts to reduce NEPCO's operating loss paid off as the company reached operating balance in 2016, after losses of 0.9 % and 4.6 % of GDP in 2015 and 2014 respectively. Helped by lower oil prices, this positive result was also achieved thanks to the reduction of costs, a switch in the primary source of energy from fuel to LNG and to renewables, and by increasing tariffs on average by 3.2 %, while exempting the most vulnerable households.

Similarly, the authorities advanced in the preparation of a medium-term strategy to bring WAJ to operational balance by 2020 and to increase the share of foreign grants and concessional loans in the financing of its capital expenditures. In this respect, a debt strategy and a borrowing plan to help WAJ manage its debt (of 5.3 % of GDP at end-2015) was developed in September 2016.

Progress was achieved on public finance management, as stipulated by the relevant IMF conditions. The authorities re-configured the Government Financial Management Information System to better monitor arrears, including in the health sector. In June 2016, they also established a central Public Investment Management (PIM) Unit at the Ministry of Planning and International Cooperation, and drafted an action plan to make it gradually operational (following technical advice from the World Bank and USAID) and manage all investments according to standards set by the new PIM framework. Another step in this direction was the re-organisation of the Macro-fiscal Unit in the Ministry of Finance. This enabled the publication of consolidated fiscal accounts for 2015 covering the central government, independent own budget institutions, NEPCO and WAJ.

On debt management, the authorities published the central government indicative bond issuance plan for 2016. From June 2016 the authorities started to prepare quarterly financing plans for the following 12 months, taking into account the total financing needs of the central government as well as those of NEPCO and WAJ. This plan will ensure that government borrowing is done in a coordinated manner, improving borrowing terms overall.

Other reform efforts include: (i) the establishment of the Credit Bureau in January 2016 which will facilitate credit to SMEs; (ii) the streamlining of rules on inspecting businesses; (iii) revisions made in September 2016 to the 2011 National Employment Strategy, based on the recommendations by the International Labour Organization.

2.4. Implementation of macro-financial assistance

As regional instability deepened, with negative repercussions for the economy, on 3 March 2016 the Jordanian authorities requested a second MFA programme. In line with the EUR 2.4 billion pledge made by the Commission at the ‘Supporting Syria and the Region’ conference held in London on 4 February 2016, the Commission adopted on 29 June 2016 a proposal for a decision on a second MFA operation to Jordan worth EUR 200 million in loans. The new MFA programme, which was approved on 14 December 2016, follows the successful implementation of the first MFA operation of EUR 180 million in loans, which was fully disbursed in 2015. The new assistance is envisaged to be released in two equal tranches in 2017. Negotiations are ongoing on the draft memorandum of understanding and the loan facility agreement.

Delays have been observed in the implementation of the three-year programme supported by the USD 723 million Extended Fund Facility arrangement, approved by the IMF in August 2016. Indeed, the first IMF programme review (initially planned for December 2016) was not completed until the end of April 2017, reflecting compliance delays in the area of tax reform.

A joint declaration adopted by European Parliament, the Council and the Commission in the context of the decision approving the second MFA operation, committed the Commission to submitting a proposal for a third MFA operation of a larger amount after the successful conclusion of the second MFA and provided that the usual preconditions for this type of assistance, including an updated assessment by the Commission of Jordan’s external financing needs, are met.

STATUS OF ECONOMIC REFORM — JORDAN
1. Price liberalisation Prices are largely free, but there are oligopolistic conditions in several sectors. Fuel subsidies have been eliminated since November 2012. Electricity tariffs and prices for some basic foodstuffs are still subject to administrative controls. The government is considering the adoption of an automatic adjustment of electricity tariffs based on fuel prices.
2. Trade regime Jordan has a relatively liberal trade regime. It joined the WTO in 2000 and ratified an association agreement with the EU in 2002. It is also one of the EU's partner countries that could potentially benefit from a DCFTA agreement. It is a member of both the Greater Arabic Free Trade Area (GAFTA) and the Agadir Agreement and has also concluded FTAs with the USA, Turkey, Syria, the European Free Trade Association (EFTA) and Singapore. On 19 July 2016, the EU approved a 10-year significant relaxation of rules of origin for a wide range of industrial products produced in 18 selected special economic zones, provided that a minimum percentage of Syrian refugee labour is used in the production by each company.
3. Exchange-rate regime Since October 1995, the dinar has been pegged to the US dollar.
4. Foreign direct investment Jordan is largely open to foreign investment. It signed the OECD's Declaration on International Investment and Multinational Enterprises in 2013. However, there are still significant land ownership restrictions, minimum capital requirements and restrictions on foreign investment in certain sectors, such as the wholesale and retail trade.
5. Monetary policy The Central Bank of Jordan has become more independent. Its main monetary policy tools are the certificates of deposits, through which it influences retail interest rates in the banking system. The central bank has developed a credible track record of ensuring price stability, maintaining exchange-rate stability and promoting growth.
6. Public finances and taxation Between 2007 and 2015, Jordan's tax-to-GDP ratio dropped from 20.4 % to 15.9 %, reflecting structural weaknesses in the taxation system such as the high exemption threshold in income tax and the granting of widespread tax exemptions. There is scope for enhancing public debt management, including developing the domestic bond market. The public procurement system is fragmented and is not in line with international standards.
7. Privatisation and enterprise restructuring Privatisation started in 1986 in the aftermath of an economic crisis and has made significant progress since then. Nevertheless, direct state ownership in certain sectors such as mining and public utilities remains significant.
8. Financial sector The financial sector is relatively well developed and dominated by banks, which are generally 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 restricts the development of domestic capital markets. In 2012, Jordan adopted an Islamic (sukuk) financing law.

3. KYRGYZ REPUBLIC

3.1. Executive summary

The Kyrgyz economy is holding up relatively well and is exhibiting resilience in the face of adverse external economic circumstances, particularly in the CIS region. GDP has grown by 3.8 % in 2016 and is forecast to grow by 3.1 % in 2017. Despite a shortfall in tax revenue, the 2016 budget deficit decreased to 4.5 % of GDP. In 2016, the current account deficit is expected to remain substantial at around 9.6 % of GDP. Improved balance-of-payments enabled total international reserves to increase by 10 % in 2016.

On 8 April 2015, the IMF Executive Board approved a three-year arrangement under the Extended Credit Facility (ECF) for a sum equivalent to about USD 92.4 million (75 % of the quota). This followed a three-year arrangement under the ECF, approved on 20 June 2011, for a sum equivalent to about USD 106.6 million. On 14 December 2016, the IMF Executive Board completed the third review of the new programme, allowing the immediate disbursement of about USD 12.9 million to the Kyrgyz Republic.

On 22 October 2013, the European Parliament and the Council adopted a decision to provide the Kyrgyz Republic with MFA of up to EUR 30 million (EUR 15 million in loans and EUR 15 million in grants). This exceptional MFA operation, i.e. outside the normal geographical scope of the MFA instrument, was justified by the strength of pro-democratic political and economic reform momentum in the country and by the economic and political importance of the region for the EU. The first tranche of EUR 15 million was disbursed in two instalments: EUR 10 million in grants on 11 June 2015 and EUR 5 million in loans on 15 October 2015. The second tranche was disbursed on 10 February 2016 (grant element of EUR 5 million) and on 13 April 2016 (loan element of EUR 10 million).

3.2. Macroeconomic performance

After growing by 3.6 % in 2014 and 3.5 % in 2015, Kyrgyz GDP increased by 3.8 % in 2016 but is expected to decelerate to 3.1 % in 2017. Over the corresponding period, economies in the CIS region recorded weak economic performance, with GDP growth reaching 1.3 % in 2014, followed by a 2.0 % recession in 2015 and only a 0.1 % increase in 2016. The Kyrgyz economy has demonstrated its resilience to the regional slowdown, partly due to positive effects experienced from its accession to the Eurasian Economic Union.

The annual CPI inflation rate fell to 0.4 % in 2016, down from 7.6 % in 2015, largely due to weak domestic demand, decreasing commodity prices and the som's appreciation. It is expected that inflationary pressures will increase in 2017, moving closer to the central bank's annual inflation target rate of 5 % as a result of a modest recovery in domestic demand and higher commodity prices.

The 2016 budget deficit decreased to 4.5 % of GDP from 7.9 % in 2015 despite a shortfall in tax revenue. Spending on non-priority items was kept under control and capital expenditure was rescheduled, although the investments aimed at poverty reduction and critical infrastructures were implemented as planned. Improved management of public spending and a positive exchange-rate effect helped to stabilise the public debt at 60.7 % of GDP at the end of 2016. Almost all of the public debt was held in foreign currency, albeit owed to official creditors at long maturities and concessional interest rates.

Monetary policy was reverted to a loosening stance during 2016. As foreign exchange market pressures eased, the central bank started to lower its policy rate from 10 % in

March 2016 to 5 % in December 2016. The combination of the recent rouble appreciation, tight som liquidity and an increase in remittances helped the som to appreciate by 13 % against the US dollar during 2016, and allowed the National Bank of the Kyrgyz Republic to purchase about USD 190 million.

The country's balance-of-payments situation remains vulnerable, reflecting a structurally large current account deficit. As CIS countries account for around 80 % of the Kyrgyz Republic's non-gold exports, the weak regional economic environment in Russia and in other CIS countries is constraining growth in exports. Joining the Eurasian Economic Union eased access to the Russian labour market and resulted in increasing transfers of remittances, which are estimated to have grown by about 20 % on a y-o-y basis in dollar terms during 2016. Thus, the current account balance deficit is estimated to have improved to 9.6 % of GDP in 2016, compared to 10.9 % of GDP in 2015. The large current account deficit is mainly financed by foreign direct investment, including large energy investments financed by China. Improved balance-of-payments dynamics enabled total international reserves to increase to USD 1.97 billion by the end of 2016, or 3.8 months of forecast imports, up from USD 1.78 billion or 3.7 months, at the end of 2015.

3.3. Structural reforms

The 2013-2017 National Strategy for Sustainable Development and the government's 2013-2017 programme and plan on the transition of the Kyrgyz Republic to sustainable development focus on improving the business environment, reforming the public sector, strengthening the financial system and addressing infrastructure development needs. The overarching aims are to achieve high, broad-based and inclusive growth and reduce poverty.

Strengthening public financial management remains a priority. Improved efficiency of the payment system through savings in procurement operations contributed to the reduced fiscal gap in 2016. Going forward, it is critical to strengthen the budget process through better coordination between the Ministry of Finance, which prepares the budget and is in charge of current spending, the Ministry of Economy, which designs tax policies and selects investments projects, and the State Tax Service, which reports to the Prime Minister and acts as the tax collecting agency. It is also important to continue to implement the revenue and expenditure measures announced in 2016, including eliminating VAT exemptions, rationalising the public-sector wage bill and streamlining spending on goods and services.

The authorities continue implementing measures to strengthen the banking system in accordance with the 2013 FSAP update. These include a decision to harmonise minimum capital requirements by raising banks' paid-in capital in three steps by 2017, and the adoption of a new Banking Code, which builds on the policy measures included in the EU's MFA. While the adopted banking law includes some improvements, some further amendments would be needed to increase central bank independence, further strengthen the resolution framework and preserve financial-sector stability. Moreover, following the completion in 2016 of the audits of the Debt Resolution Agency (DEBRA)[1] and the banks under its management, as well as the liquidation of the first two banks, it is important to complete the liquidation of all the remaining banks under the management of the agency without delay.

---

1 In the aftermath of the Russian financial crisis, which led to bank failures in the Kyrgyz Republic, the monetary authorities set up this agency as the liquidator of failed banks.

The passage of the Anti-Money Laundering and Counter-Financing of Terrorism (AML/CFT) law is vital for the stability of the financial sector. The law is necessary to keep the Kyrgyz Republic on the white list of the Eurasian Group on AML/CFT. Failure to pass the law could lead to loss of correspondent banking relations and cut the financial sector off from the outside world.

The Private Sector Development Strategy, approved in February 2015, targets the removal of impediments to business activities and aims to improve the investment climate. It also reinforces current reforms in the financial sector, such as the introduction of a credit registry system, private-public partnerships, and inspections as part of regulatory reform.

In line with the policy measures included in the EU's MFA, enhancing the business environment remains a top government priority. The authorities identified key measures to improve the institutional and regulatory environment and lower the perception of corruption by addressing key weaknesses identified by the World Bank's latest Doing Business report. The areas where improvements are needed include starting a business, streamlining the licencing process, inspection regimes, registering property and protecting investors.

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 sizeable external financing gap. At an international donor conference in July 2010, the EU pledged to support the country's recovery. The Kyrgyz authorities formally requested MFA support from the EU in October 2010. Following agreement in June 2011 on an IMF programme, on 20 December 2011 the Commission adopted a MFA proposal for a maximum of EUR 30 million (EUR 15 million in grants and EUR 15 million in loans), to be disbursed in two tranches.

The adoption of the MFA decision was delayed due to a disagreement between the European Parliament and Council over the procedure to be used to adopt the MoU. A compromise was found in June 2013 and the decision was formally adopted on 22 October 2013. The MoU, grant agreement and LFA were signed in October 2014 and ratified by the Kyrgyz Parliament in February 2015.

On 22 May 2015, following agreement in April on a new IMF programme under the ECF, the Commission adopted a decision to release the first MFA tranche. The first grant instalment of EUR 10 million was disbursed on 11 June and the first loan instalment of EUR 5 million on 15 October of the same year. The Commission approved the release of the second tranche (grant of EUR 5 million and loan of EUR 10 million) on 25 January 2016. Its decision came in response to the Kyrgyz authorities' satisfactory progress on implementing the policies needed to meet the conditions for the MFA programme and their satisfactory track record on implementing the IMF programme (as confirmed by the successful first programme review completed on 4 December 2015). The grant element of the second tranche was disbursed on 10 February 2016 and the loan element was disbursed on 13 April 2016.

The implemented MFA supported the government's economic reform agenda as agreed with the international donor community. It helped to reduce the short-term financial vulnerability faced by the economy, while supporting reform measures aimed at achieving a more sustainable balance of payments and budgetary situation. The assistance also promoted policy measures to strengthen public finance management, reforms in the financial sector, trade policy measures in line with WTO commitments and measures to improve the business environment.

STATUS OF ECONOMIC REFORM — KYRGYZ REPUBLIC
1. Price liberalisation Most prices are liberalised, but administered prices are maintained for some utilities.
2. Trade regime The Kyrgyz Republic has been a member of the WTO since 1998 and has a very open economy, with a trade-to-GDP ratio of about 140 %. The bulk of its non-gold exports go to Kazakhstan and Russia. On 12 August 2015, the Kyrgyz Republic formally joined the Eurasian Economic Union (EEU), which currently also includes Russia, Belarus, Kazakhstan and Armenia.
3. Exchange-rate regime The National Bank of the Kyrgyz Republic operates a managed floating exchange-rate regime allowing the exchange rate to adjust to substantial pressures or shocks while aiming to maintain a competitive exchange rate.
4. Foreign direct investment FDI is focused mainly on large infrastructure projects, particularly in the transport and energy sectors, which are mostly financed through concessional loans for public investment programmes and FDI (particularly from Russia and China).
5. Monetary policy The central bank's main objective is to guarantee price stability, while maintaining the purchasing power of the national currency. It aims to keep the inflation range within 5 to 7 % in the medium term. The central bank has planned a gradual transition to inflation targeting.
6. Public finances and taxation Public finances suffer from corruption and a narrow tax base, partly as a result of a large informal economy (estimated in official statistics at 20 % of GDP, but potentially much larger).
7. Privatisation and enterprise restructuring Political change in 2010 led to the reversal of some of the previous administration's privatisation deals in the energy and telecommunications sectors, due to allegations of nepotism and corruption. In 2011, the government launched privatisations in the telecommunications and banking sectors. After several failed attempts, the authorities finally managed to privatise the large Zalkar Bank in late 2013.
8. Financial sector The 2010 banking crisis revealed deficiencies in the central bank's resolution powers and independence. Consequently, banking regulations have been amended and upgraded in the adopted Banking Code, which has strengthened the central bank's powers of early intervention and resolution. However, the passage of AML/CFT law is vital for the stability of the financial sector. The law is necessary to keep the Kyrgyz Republic on the white list of the Eurasian Group on AML/CFT.

4. MOLDOVA

4.1. Executive summary

The Republic of Moldova has faced a difficult period after a major banking fraud scandal erupted in November 2014, exposing severe governance problems that were accompanied by political instability and street protests. Economic difficulties have been exacerbated by a recession or weak economic activity in some of Moldova´s key regional trading partners (notably Russia, but also Belarus and Ukraine), developments which negatively impacted exports and remittances. These developments resulted in a deceleration in economic growth, the suspension of budget support by Moldova's international partners and a weakening of its fiscal and balance-of-payments position. However, following the January 2016 appointment of a new government led by Prime Minister Filip, there has been substantial progress on implementing the reform agenda and stabilisation on both the economic and political fronts.

In this context, in July 2016 the authorities reached agreement with the IMF on a programme to be supported by a three-year Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangement. The financial arrangement agreed with the IMF would represent 75 % of Moldova's quota in the IMF (SDR 129.4 million, or about EUR 161 million). The agreement was approved by the IMF Board on 7 November 2016 and the first programme review was completed on 28 April 2017.

Following a request from the Moldovan Government, on 13 January 2017 the European Commission adopted and submitted to the European Parliament and the Council a proposal for a decision providing MFA to Moldova of up to EUR 100 million. Of this amount, EUR 60 million would be in the form of loans and EUR 40 million in the form of grants.

4.2. Macroeconomic performance

Moldova's GDP grew by about 2 % in 2016, emerging from the 2015 recession when GDP decreased by 0.5 %. The rise in GDP was mostly due to an increase in agricultural activity. Growth in 2016 was constrained by budget cuts and tight credit conditions as well as by lower remittance flows and higher local energy tariffs, which kept private consumption subdued. Meanwhile, the improvements in trade relations, which the DCFTA agreement signed with the EU supports, will take time and require investment. Moldova's growth is expected to reach around 3 % in 2017-2018, assuming a recovery in major trading partners (including Russia), improved consumer and investor confidence and continued support by the IMF programme and other international donor financing.

After accelerating to 13.5 % in December 2015, consumer price inflation has been on a downward trend, reaching 2.4 % by the end of 2016. The IMF projects annual inflation to start accelerating closer to the 5 % rate targeted by the National Bank of Moldova, reaching 4.9 % by the end of 2017.

The government has been experiencing substantial fiscal pressures due to lower budget revenues resulting from weaker economic activity and the interruption of budget support from international institutions. These factors contributed to the increase in the budget deficit from 2.3 % of GDP in 2015 to 3.2 % of GDP in 2016. However, the deficit was still in line with fiscal framework agreed with the IMF. The overall budget deficit for 2017 is targeted at 3.0 % of GDP. The proportion of general government debt to GDP stabilised at 45.7 % by the end of 2016. Given the gradual decline of the fiscal deficit in 2017-2018, the debt-to-GDP ratio is projected to remain below 50 %.

On the external side, in 2015 the current account deficit decreased to EUR 293 million (by 40 % year-on-year) due to a marked drop in imported energy prices and the weakness of domestic demand, which depressed imports. The external debt is composed mostly of medium- and long-term debt owed to multilateral and bilateral creditors on concessional terms.

As a percentage of GDP, the current account deficit declined from 6.7 % in 2014 to 5.0 % in 2015. The same developments are expected to have contributed to a further decline of the current account deficit in 2016.

As a result of the crisis in the financial sector, international reserves fell by 35 % between September 2014 and February 2015, to USD 1.7 billion, or about 4.3 months of imports. However, by end-December 2016, reflecting the stabilisation and recovery in the foreign exchange market, the central bank had accumulated USD 2.1 billion in foreign reserves, which represents an estimated 5.1 months of projected imports.

4.3. Structural reforms

Following the Foreign Affairs Council conclusions of 15 February 2016, a roadmap for priority reforms was agreed between the EU and the Moldovan authorities. The aim was to re-launch key structural reforms, particularly in the areas of good governance and the rule of law and economic development and functioning of the market economy.

Despite substantial progress achieved in 2016 on implementing this agenda, not all the EU concerns expressed in the February 2016 Council conclusions have been addressed. The new EU-Moldova Association agenda for 2017-2019 will continue to monitor the implementation of key reforms.

The reform of the financial sector is one of the key challenges Moldova faces as it tries to improve economic governance, ensure macroeconomic stability and restore the credibility of the authorities. The Moldovan authorities are implementing measures to strengthen governance in the banking sector on issues such as shareholder transparency and related-party lending and to bring the banking regulatory and supervisory framework in line with international standards (Basel III).

In the non-banking financial sector, more actions are called for, including: (i) strengthening the regulatory and supervisory powers of the National Commission of Financial Markets and appointing its President and Board; (ii) adopting legislation on non-banking credit organisations and the insurance sector; (iii) creating a single state register of corporate shareholders.

On public-sector governance, a key priority is to implement the new public administration reform strategy adopted by the government in July 2016. Important reforms are also envisaged as part of the 2016-2020 strategy for public procurement reform. A new complaint settlement body was created in December 2016 and will become operational in 2017.

The Moldovan authorities have put forward an ambitious set of priorities on the fight against corruption and money laundering, where a number of new institutions have been created (the Anticorruption Prosecutor's Office, the National Integrity Commission) or strengthened (the National Anticorruption Centre). To achieve credible results, it is crucial that these institutions can operate effectively and independently. Further new legislative initiatives on anti-corruption and the prevention and combating of money laundering and terrorism financing will be actively supported.

Key reform challenges in the energy sector are: (i) improving energy security through increased diversification; (ii) establishing a competitive energy market in Moldova and fully integrating it into the EU's energy market; (iii) achieving greater energy efficiency and use of renewable energy.

A number of other government initiatives focus on the business and investment climate and further implementation of the DCFTA. These initiatives include: (i) proposing new laws reducing the number of permits and restrictions; (ii) reducing the burden of reporting; (iii) simplifying procedures for opening and closing businesses.

4.4. Implementation of macro-financial assistance

The Moldovan Government requested MFA from the EU in August 2015 and reiterated this request in March 2016. As a result of the request and in the context of the political and economic developments described above, on 13 January 2017 the European Commission adopted a proposal for a decision providing MFA to the Republic of Moldova of up to EUR 100 million. Of this amount, EUR 60 million will be in the form of loans and EUR 40 million in the form of grants. The proposed amount is justified based on the assessment of the country's external financing needs, the size of the IMF programme, burden-sharing considerations and the room for manoeuvre available in the EU budget.

The inclusion of a grant element is consistent with the methodology for determining the use of grants and loans in EU MFA, as endorsed by the Economic and Financial Committee in January 2011 and as mentioned in the Joint Declaration by the European Parliament and the Council adopted together with the decision providing further macro-financial assistance to Georgia[2], which takes into account the following criteria:

a) Moldova is a lower middle-income country with a relatively low per capita income level;
b) while Moldova's public debt dynamics are judged to be sustainable by the IMF, Moldova's public debt ratios have significantly increased following the banking crisis and the depreciation of the leu;
c) Moldova is eligible for concessional financing from both the IMF's Poverty Reduction and Growth Trust (PRGT) and the World Bank's International Development Association (IDA).

The MFA programme will aim to support the reform agenda, which will focus on strengthening economic governance. In particular, the MFA programme will focus on the following areas: i) governance in the financial sector; ii) public-sector governance; iii) the fight against corruption and anti-money laundering; iv) the energy sector; v) the business and investment climate, including by supporting the implementation of the DCFTA agreement. Strict conditions for disbursements of MFA will be included in the memorandum of understanding, with each tranche, including the first one, conditional on good progress on both the IMF programme and specific policy conditionality.

[2] OJ L 218, 14.8.2013, p. 18.

STATUS OF ECONOMIC REFORM — REPUBLIC OF MOLDOVA
1. Price liberalisation Most prices are free, but regulated prices continue to exist for electricity, natural gas, water supply and sanitation, housing and medical services, and rail and urban passenger transport.
2. Trade regime Moldova (a WTO member since 2001) has a liberal trade regime. The EU and the Republic of Moldova have developed a close trade relationship over the years. This led to the conclusion of an Association Agreement, including a DCFTA, which was signed on 27 June 2014 and entered fully into force on 1 July 2016.
3. Exchange-rate regime Moldova's vulnerability to external shocks requires having a flexible exchange-rate arrangement that serves as an efficient absorber of such shocks. In this context, the National Bank of Moldova follows flexible exchange-rate policies and intervenes on the market to smooth sporadic volatility.
4. Foreign direct investment There are no controls on inward investment. Despite the turbulent economic and political developments in Moldova, net FDI inflows are projected to remain moderate, averaging USD 142 million per year during the 2016-2018 period, compared to USD 165 million for 2015.
5. Monetary policy As part of the medium-term monetary policy strategy adopted in December 2010, the central bank targets inflation of 5 % annually (measured by the consumer price index), with a possible deviation of ± 1.5 percentage points. This is considered to be optimal for the growth and development of Moldova's economy over the medium term.
6. Public finances and taxation The Moldovan Government is implementing several measures to consolidate public finances, in particular to reduce public expenditure, increase its efficiency and increase tax revenue, notably by improving public finance management and rationalising public-sector employment. The 2017 budget is planned to have aggregate revenue of MDL 51.6 billion or 36.1 % of GDP. Total expenditure is planned at MDL 57.1 billion or 40 % of GDP. The overall deficit is 3 % of GDP, whereas augmented deficit (including on-lending to state-owned enterprises, at the request of the IMF) is set at 3.8 % of GDP.
7. Privatisation and enterprise restructuring Moldova has gradually sought to privatise state-owned assets and enterprises. In 2016, a producer of alcoholic beverages, a cigarette manufacturer, a carpet manufacturer, a shopping centre, an airport catering company and an agricultural company were successfully privatised. Large privatisations in the areas of telecommunication (Moldtelecom) and transport (Air Moldova) are under preparation.
8. Financial sector Financial-sector reform is one of the key challenges for Moldova. The agenda of financial-sector reform has a number of inter-connected but separate strands, including: i) completing the liquidation of the three banks involved in the 2014 bank fraud and pursuing investigations; ii) dealing with the governance or solvency problems in the three banks put under special supervision by the central bank in June 2015; iii) strengthening the regulatory and supervisory framework, also part of Moldova's regulatory convergence commitments under its Association Agreement with the EU; iv) strengthening the regulatory framework and oversight of non-financial institutions, particularly of the insurance sector.

5. TUNISIA

5.1. Executive summary

In parallel with a protracted and fragile political transition since the 2011 revolution, the Tunisian economy has suffered from continual domestic unrest, regional instability (including the impact of the Libyan conflicts) and a weak international environment (particularly in the euro area). These unfavourable developments substantially weakened its growth performance and its fiscal and balance-of-payments positions. In 2016, Tunisia showed some timid signs of recovery from the preceding year, when the economy was hit hard by a series of terrorist attacks. However, the balance of payments and fiscal position remain vulnerable, and endure the country's significant financing needs.

In May 2014, the EU approved complementary MFA of EUR 300 million in the form of loans, of which EUR 200 million was disbursed in two equal tranches in May and December 2015 respectively. The disbursement of the remaining EUR 100 million has been delayed because the measures attached to this tranche have not been fully implemented, and due to problems with the IMF programme.

In August 2015, in the context of a worsening economic and balance-of-payments position characterised by growing financial needs, Tunisia asked the EU for additional MFA support. In response to this request, in July 2016 the EU approved a new MFA operation of EUR 500 million in loans.

In May 2016, Tunisia and the IMF entered into a four-year USD 2.9 billion Extended Fund Facility (EFF) arrangement. This followed a USD 1.75 billion Stand-By Arrangement approved by the IMF in June 2013 and concluded in December 2015.

5.2. Macroeconomic performance

Following 2 years of stable but low growth (2.3 % in 2013 and 2014), GDP growth decelerated to 0.8 % in 2015, compared to a forecast of 3 % at the beginning of the year. This was largely a result of the negative economic impact of the terrorist attacks of that year (tourism, the transport sector and investment were particularly hard hit). GDP growth in 2016 is estimated to have reached 1.1 %, according to the Tunisian National Institute of Statistics. This is an acceleration compared to 2015 but lower than the 2.5 % initially targeted in the context of the IMF programme. Unemployment remains high (15.5 %), particularly among the young and graduates (about 35 %) and women (23.2 %).

Inflation has gone down to an average 3.7 % in 2016, from 5 % in 2015, and is projected to remain relatively stable in 2017 (3.9 % on average). After tightening monetary policy between 2012 and mid-2014 in response to inflationary pressures and the deterioration in external and fiscal balances, in October 2015 the central bank cut its benchmark rate by 50 basis points to 4.25 % in order to stimulate growth and dampen CPI inflation.

The fiscal deficit reached 6 % of GDP in 2016, slightly higher than the 5.5 % of GDP achieved in 2015. Factors contributing to this state of affairs include substantially lower tax collection due to the slower than assumed recovery of economic activity, higher debt service costs (partly reflecting the depreciation of the dinar) and the increase in the public wage bill. Reflecting the relatively large fiscal deficit, central government debt is estimated to have increased to 63 % of GDP in 2016, from 55 % of GDP in 2015. Also, Tunisia is scheduled to have to pay off a substantially higher amount of public debt in the next 2 years (up from about USD 600 million in 2015 to over USD 1.4 billion in 2017 and almost USD 1.2 billion in 2018).

The balance-of-payments situation remains vulnerable. The current account deficit is estimated to have remained at the unsustainably high level of 9 % of GDP in 2016, slightly higher than the level seen in 2015 (about 8.9 % of GDP). However, the deficit is projected to fall to 8.1 % of GDP in 2017, supported by planned tax measures to curb luxury imports and by the depreciation of the dinar. Foreign direct investment, which averaged almost 5 % of GDP during 2005-2010, has fallen to just over 2 % of GDP in the last 2 years.

Official foreign exchange reserves ended 2016 at USD 6.1 billion, or about 4.3 months of imports, and are expected to gradually increase towards 5 months of import cover in the next 3 years. External debt is estimated to have reached 78 % of GDP in 2016, almost 10 percentage points higher than IMF projections. Tunisia's sovereign ratings have been downgraded several times since 2011, the last time on 3 February 2017 (from BB- to B+ by Fitch), and in November 2016 Moody's changed the outlook from 'stable' to 'negative'.

5.3. Structural reforms

Tunisia continues to face significant structural reform challenges. While it enjoyed a period of relatively high per capita economic growth in 2000-2010 (one of the highest among the oil importers in the Middle East and north Africa), it continues to suffer from a number of structural deficiencies. In particular, it relies excessively on export-oriented, low value-added industry located near the coast, which contributes to an unbalanced pattern of regional economic development, and suffers from rigid labour markets and skills mismatches, which contribute to high unemployment, particularly among young people.

A number of important structural reforms were adopted in 2016, part of which had been carried over from the preceding year.

Regarding the financial sector, in April 2016 Parliament approved the new law on the central bank, which strengthens its governance and lender of last resort function. Additionally, in May 2016 the new banking law was passed, introducing a banking resolution mechanism, improving prudential regulations and governance, and making provision for the creation of a deposit guarantee scheme (the latter being part of the conditions Tunisia has to meet to obtain the second MFA package).

On fiscal policy, a comprehensive tax reform strategy was adopted in June 2016, with the aim to increase tax collection, while moving to a more neutral and equitable tax system.

As regards the business environment, an Investment Law was approved in September 2016, including a series of provisions aimed at improving the private investment attractiveness of the country.

Progress was also made on social policy, particularly with the pilot launch in January 2016 of the FORSATI programme, an initiative to help unemployed people access the labour market.

To foster the recovery of the tourism sector, negotiations between the EU and Tunisia on a Euro-Mediterranean Aviation Agreement made significant progress and are expected to be concluded in the first half of 2017.

Despite the above achievements, delays persist in the approval and implementation of much needed structural reforms, including some which have to be carried out to meet the conditions for receiving MFA.

5.4. Implementation of macro-financial assistance

The Commission was able to proceed with launching the EUR 300 million MFA-I operation[3] once the Tunisian Parliament ratified the legal documents on 4 March 2015. The assistance is being disbursed in three equal tranches of EUR 100 million. The first tranche, disbursed in May 2015, was conditional on good progress under the IMF's SBA. The Commission disbursed the second tranche of the assistance in December 2015 after the conditions in the MoU had been satisfied and the sixth review of the IMF programme had been successfully completed on 30 September 2015. Disbursement of the third and final tranche of EUR 100 million is awaiting compliance with three of the policy conditions: two referring to the Agreement on Conformity Assessment and Acceptance of industrial products, and one on the adoption of a targeted cash support programme to compensate vulnerable households for the reduction in energy price subsidies. The delay in the disbursement of the third tranche also reflects the delays in the completion of the first review of the IMF programme, originally scheduled for September and agreed upon at staff level in April 2017.

In February 2016, following a request from Tunisia, the Commission submitted to the European Parliament and the Council a proposal to grant a second MFA operation to Tunisia for a maximum of EUR 500 million, in the form of medium-term loans. The legislative decision on this new operation was adopted in July 2016[4] and the draft MoU was agreed on with the Tunisian authorities in December. The MoU and the loan facility agreement were signed on 27 April 2017.

---

[3] 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).

[4] Decision No 1112/2016/EU of the European Parliament and of the Council of 6 July 2016 providing further macro-financial assistance to Tunisia (OJ L186, 9.7.2016).

STATUS OF ECONOMIC REFORM — TUNISIA
1. Price liberalisation Most prices are free, but regulated prices exist 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 1995. Tariff dismantling under the Agreement was completed in 2008. In April 2016, negotiations started for an EU-Tunisia DCFTA aimed at further developing Tunisia's economic integration into the EU single market.
3. Exchange-rate regime The Central Bank of Tunisia changed its operational framework for exchange-rate policy in 2012 to make rates more flexible. The Tunisian dinar is fully convertible for current account transactions but there are still limitations on its convertibility for capital account transactions.
4. Foreign direct investment Since 1972, FDI has benefited from offshore arrangements offering incentives to exporting enterprises. These arrangements were reinforced with the promulgation of the Investment Incentives Code. The approach has shown its limitations over the last decade, however, as the favourable treatment accorded to the offshore sector has come at the expense of other sectors subject to much heavier restrictions imposed in 1993.
5. Monetary policy The central bank is an independent institution and its mandate is to ensure price stability. Since the revolution, the government has undertaken a review of the relevant legislation and regulations to strengthen the bank's independence and good governance. It acts as regulator and supervisor of the financial sector; both functions are currently being strengthened under the IMF programme and thanks to EU and World Bank support. A new law adopted in April 2016 is set to strengthen the central bank's governance and establish its function as a lender of last resort.
6. Public finances and taxation Central government expenditure made up nearly 30 % of GDP in 2016. About half of this was expenditure on wages and salaries. Transfers and subsidies, of which the bulk is energy and food, represented around 5 % of GDP. Both the subsidy system and the current complex and regressive tax system are undergoing protracted reform.
7. Privatisation and enterprise restructuring Privatisation almost ground to a halt following the 2011 revolution, partly because it is associated with questionable practices and processes under the previous administration. The repossession and sale of assets belonging to the previous ruling elite are ongoing.
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 excessive exposure to the tourism sector. This has increased vulnerabilities in the sector. An IMF/World Bank financial system stability assessment in 2012 warned that the banking system had recapitalisation needs of around 2 % of GDP; the recapitalisation carried out in 2015 amounted to 1 %. Given the negative impact of the 2015 terrorist attacks on the tourism sector, additional financing needs for these banks are likely to arise in the short to medium term. A new banking law, including aspects such as a banking resolution mechanism, prudential regulations, and improved governance and bank bankruptcy provisions, was adopted in May 2016.

6. UKRAINE

6.1. Executive summary

Ukraine's economy stabilised in 2016. This was achieved by a strong policy response designed to address long-term imbalances and ongoing international financial and technical support that helped to rein in the confidence crisis that unfolded with the armed conflict in the east. As a result, the economy expanded in real terms for the first time in 4 years. GDP growth amounted to 2.3 % in 2016, benefiting from rising household demand following an increase in real incomes and from a rebound in investment activity.

The economic stabilisation was also reflected in the considerable moderation of inflation (12.4 % at end-2016 from 43.4 % at end-2015) and reduced volatility on the foreign exchange market. These developments enabled the central bank to gradually ease many of its administrative controls to support the local currency and further reduce the key policy rate. The prudent fiscal policies, and in particular the elimination of the operational deficits of the oil and gas company Naftogaz, were important in containing the increase of the debt-to-GDP ratio despite the costs associated with nationalising PrivatBank, the biggest commercial lender, in December.

The pick-up in investment activity in 2016 contributed to the widening of the current account deficit to 4.1 % of GDP. Another factor was weak export performance due to low commodity prices and additional impediments to trade imposed by Russia in the form of a ban on transit exports to Central Asia. The current account gap, however, was entirely covered by capital inflows. While international financial assistance came below expectations in 2016, it continued supporting international reserves, which rose to USD 15.5 billion at the end of 2016, or 3.5 months of next year's imports.

In 2016, the Commission did not disburse any tranches under the EUR 1.8 billion MFA operation for Ukraine approved by the European Parliament and the Council in April 2015. This was because the Ukrainian authorities did not implement some of the policy reforms specified in the MoU linked to the programme. After the authorities took action to address the outstanding issues, the Commission, on behalf of the EU, disbursed the second tranche of EUR 600 million in April 2017.

6.2. Macroeconomic performance

Ukraine's economy stabilised in 2016 due to a strong policy response to address long-term imbalances and ongoing international financial and technical support that helped to rein in the confidence crisis that unfolded with the armed conflict in the east in 2014 and in early 2015. As a result, the economy expanded in real terms for the first time in 4 years. GDP growth amounted to 2.3 % in 2016 (compared to a 9.8 % contraction in 2015), benefiting from rising household demand following considerable growth in real incomes and from a rebound in investment activity. On the supply side, the economy benefited from a bumper harvest, increased retail activity as a result of improving consumer confidence and a strong pick-up in construction. Industrial production also rose in 2016, although moderately by 2.4 %, after contracting in each of the previous 4 years. The pick-up in economic activity did not feed into the labour market as the unemployment rate remained largely stable over the year.

With no significant demand-side pressures and reduced volatility on the foreign exchange market, consumer price inflation moderated significantly to 12.4 % at the end of 2016 from 43.4 % at end-2015. Prudent monetary and fiscal policies, coupled with weak commodity prices, were also conducive to disinflation. Similar to 2015, price growth in 2016 was largely the result of increases of administratively-regulated prices, in particular gas tariffs, and core inflation stood at only 5.8 % at the end of the year. The stable inflationary environment and exchange market situation enabled the central bank to gradually ease many of its currency and capital controls and further reduce the key policy rate — by a cumulative 8 percentage points over the course of the year to 14 %.

Fiscal prudence largely remained in place in 2016. Ongoing strong tax collection enabled the authorities to finish the year with a consolidated government deficit of 2.3 % of GDP compared with the 3.7 % deficit target agreed under the IMF programme. In annual terms, however, the deficit widened from the 1.6 %-of-GDP gap recorded in 2015. The increase reflects the halving of the social payroll tax as of 2016 and the absence of one-off revenues that positively affected the 2015 budget performance. Prudent fiscal policies, and in particular the elimination of the operational deficits of the oil and gas company Naftogaz, were important in containing the increase of the debt-to-GDP ratio despite the costs (4.5 % of GDP) associated with nationalising PrivatBank, the biggest commercial lender, in December. The general government debt, including state guarantees, inched up to 81.0 % of GDP at the end of 2016 from 79.1 % a year earlier.

The pick-up in investment activity in 2016 contributed to widening of the current account deficit to 4.1 % of GDP from 0.2 % a year earlier. Another factor behind the increase was weak export performance due to low commodity prices and additional impediments to trade imposed by Russia in the form of a ban on transit exports to Central Asia. The current account gap was entirely covered by capital inflows despite pressures arising from the resumption of dividend payments abroad as part of the moves of the central bank to gradually ease capital controls and improve the business environment. While international financial assistance came below expectations in 2016, it supported the ongoing build-up of international reserves, which reached USD 15.5 billion at the end of 2016, or 3.5 months of next year's imports.

In the financial sector, the authorities continued implementing ambitious measures coordinated with the IMF to strengthen confidence in the system. The measures included improving supervision, ensuring the recapitalisation of commercial banks and resolving related-party lending. In an important move to safeguard the stability of the financial system, in December 2016 the authorities nationalised PrivatBank, the biggest commercial lender. This move was needed because of: (i) the large capital shortfalls identified in the bank, related to the poor quality of the credit portfolio (nearly all of it is estimated to be related to companies associated with the former owners of the bank); (ii) an inability of the previous owners (some of the biggest Ukrainian businessmen) to attract fresh private capital; and (iii) the systemic nature of the bank (PrivatBank accounts for 36 % of all household savings). While the nationalisation of the bank was rather smooth, as evidenced by its limited impact on the local currency and deposits, the recovery of PrivatBank's assets and ensuring a viable business model for the bank will be a major challenge for the authorities.

In February 2016, the authorities approved a strategy for reforming the state-owned banks. The aim is to make them more efficient by improving management and reducing political influence through strengthening corporate governance and eventual privatisation. The strategy provides for specialisation of the two major state-owned banks, Oschadbank and Ukreximbank. The former should specialise in dealing with households and SMEs, while Ukreximbank would focus on foreign trade financing in the future. The government has also committed to attracting investors to buy at least 20 % stakes in these lenders by 2018.

In parallel to the ongoing reforms of the banking sector, the National Bank of Ukraine continued its in-depth internal restructuring to improve its efficiency, supervision capacity and monetary policy implementation. Overall, reform steps in the banking sector seem to be yielding results, as reflected by the ongoing recovery in confidence demonstrated by the continuous increase of deposits. At the same time, despite high liquidity in the banking system, credit activity remains weak. This is due to the debt overhang and the fact that legal impediments for the resolution of non-performing loans remain despite some measures to address the problem, such as the entry into force in October of a new out-of-court resolution framework.

6.3. Structural reforms

In 2016, Ukraine made further progress on its wide-ranging reform agenda, even though sometimes with a significant delay from the timeline it committed to with its international partners. The pace of the reforms was held back by the complex domestic political environment — a two-month political stalemate in early 2016 ended with the formation of a new cabinet with a slim parliamentary majority. Vested interests continued to impact on the speed of reforms as well. For the time being, the authorities have successfully managed to withstand pressures for reform reversal.

In 2016, progress continued on the fight against corruption. The three newly established anti-corruption institutions[5] became fully operational over the course of the year. The National Anti-Corruption Bureau had investigated more than 200 cases and forwarded more than 30 indictments to courts. In September 2016, the National Agency for Prevention of Corruption (NAPC) launched Ukraine's new electronic asset declaration system as a tool to increase transparency and curb corruption. With more than 100 000 declarations having been submitted, the effective capacity of the NAPC to verify e-declarations has now become crucial. Ukraine has amended the legal and institutional framework for asset recovery. The law on the Asset Management and Recovery Office, which entered into force in June 2016, set up mechanisms for identifying, tracing and recovering assets derived from corruption and other crime.

Public administration reform is also advancing at a good pace. The new civil service law, which conforms to the OECD principles of public administration, entered into force on 1 May 2016. Since then, several hundred competitive selection procedures to various civil service positions have taken place. In June, the 2016-2020 strategy for public administration reform and a corresponding implementation plan were adopted. Reform support teams are being set up across various ministries with the objective to accelerate the reform.

In the justice sector, constitutional amendments and legislation on the judiciary were adopted in June 2016 to strengthen judicial independence. Another objective of the reform is to reorganise the court system by reducing the number of layers of courts (from four to three) and by requiring sitting judges to take examinations and provide mandatory electronic asset declarations. The changes also provide for the creation of a new Supreme Court. The selection process for judges for this new Court is ongoing. Legislation to reform the enforcement of court decisions was also adopted in June.

In 2016, the authorities made good progress in bringing the budgetary process in line with the legislative requirements. The design and submission to Parliament of the draft budget followed the timeline specified in the Constitution and the Budget Code, thus

[5] The National Anti-Corruption Bureau, the Specialised Anti-Corruption Prosecution Office and the National Agency for Prevention of Corruption.

leaving sufficient time for discussions. Reform steps in the area of tax administration included the introduction of electronic VAT administration and of e-services for taxpayers. The reform of the State Fiscal Services was also initiated.

Efforts to strengthen public finance management led to the approval of a PFM strategy in February 2017. The document envisages the introduction of medium-term budgetary planning and provides for strengthening the oversight and independence of macroeconomic and budget revenue forecasting. On public procurement, a new law regulating the transition of public procurement to an e-procurement system (ProZorro) entered into force in February 2016. In the same month, a reform strategy was adopted to harmonise Ukrainian public procurement legislation with the EU body of law.

Energy reforms are progressing, although at an uneven pace. Following prolonged discussions, the new law on the energy regulator entered into force in December 2016. In the gas sector, the government approved an unbundling plan for the state-owned oil and gas company Naftogaz, which would separate its transmission and gas storage activities in line with the requirements of the Third Energy Package. In addition, gas tariffs were brought to market levels one year ahead of the plan agreed with the IMF, which contributed to reducing gas consumption and supported competitiveness. At the same time, several key energy acts are still pending approval despite having been submitted to Parliament. The acts in question are: the new electricity market law, the law on the heat metering and billing, and the law on energy performance in buildings.

Important areas that saw little or no progress in 2016 included pension and land reforms. Pension reform is of critical importance for ensuring medium-term fiscal sustainability, in particular as the deficit of the Pension Fund is high and growing following the halving of social security contributions as of 2016. As for land reform, the authorities extended the moratorium on the sale of agricultural land by one more year to end 2017. The ability to sell agricultural land is seen as a key pre-requisite to raise productivity in the sector and make it internationally competitive. Another area where the authorities have failed to deliver on their ambitious plans is privatisation. This process did not kick off in 2016 following two unsuccessful attempts to sell the Odessa Port Plant chemical company.

6.4. Implementation of macro-financial assistance

In January 2015, in view of Ukraine's rapidly deteriorating economic situation and weak balance-of-payments position as a result of the armed conflict in the eastern part of the country, the Commission proposed a new MFA operation (the third in a row) consisting of loans of up to EUR 1.8 billion, to be made available in three equal tranches of EUR 600 million. The co-legislators adopted the proposal in April 2015. In July 2015, the Commission (on behalf of the EU) made the first disbursement of EUR 600 million.

In 2016, the Commission did not disburse any tranches under the MFA operation. This was because the Ukrainian authorities did not implement some of the policy reforms specified in the MoU. In response to measures adopted by the authorities at the end of 2016 and in early 2017 and the overall satisfactory implementation of the MFA programme, the Commission disbursed the second tranche of EUR 600 million in April 2017. Ukraine can still access a further EUR 600 million from MFA III. This assistance is conditional on successful implementation of the policy measures in the MoU and continuous progress with the IMF programme for Ukraine — a four-year Extended Fund Facility of around USD 17.5 billion that was approved in March 2015. The most recent tranche (USD 1 billion) under the IMF programme was made available in April 2017, bringing total disbursements under this arrangement to around USD 8.5 billion.

STATUS OF ECONOMIC REFORM — UKRAINE
1. Price liberalisation While most prices are determined freely, regulated prices remain for utilities (particularly gas and electricity) and public transport. In 2016, utility prices (electricity and gas) were further increased to bring them close to cost-recovery levels.
2. Trade regime Ukraine joined the WTO in May 2008. A DCFTA agreement with the EU provisionally entered into force in 2016. November 2015 saw the entry into force of an export ban on wood that is considered inconsistent with both WTO and DCFTA provisions.
3. Exchange-rate regime Following the decision to abandon the currency peg in February 2014, the central bank has implemented a managed float regime. In 2016, the central bank significantly eased the various administrative measures that were introduced to contain the currency crises from 2014 and early 2015. The central bank intervenes regularly on the foreign exchange market to ease exchange-rate volatility and to replenish its reserves.
4. Foreign direct investment Some restrictions on FDI-related flows exist, such as a ban on the purchase of agricultural land, which in 2016 was extended by one year, to the end of December 2017. Capital controls that affect foreign investment activity exist despite being gradually reduced.
5. Monetary policy The central bank's primary objective is to achieve and maintain price stability under an inflation targeting framework. The inflation target for end-2017 is 8 % plus/minus 2 percentage points.
6. Public finances and taxation General government expenditures remain high. However, measures are being implemented to streamline outlays and improve control over them. On the revenue side, the tax base has been gradually widened. Naftogaz's operational deficit was eliminated in 2016, one year ahead of the schedule agreed with the IMF. Major risks for public finances stem from the rapidly increasing financing gap for the pension system and the still weak tax base.
7. Privatisation and enterprise restructuring Despite ambitious privatisation plans, no major sales of state assets took place in 2016 as the flagship sale of the Odessa Port Plant failed to attract bidders. In December, PrivatBank, the country's biggest commercial lender, was nationalised due to the inability of its private owners to increase capital in line with the minimum requirements for the system set by the central bank.
8. Financial sector The authorities continued implementing ambitious measures coordinated with the IMF to strengthen confidence in the system, including by improving supervision, ensuring the recapitalisation of commercial banks and resolving related-party lending. A development strategy for state-owned banks that was approved in February 2016 will have to be amended to take into account the impact from the nationalisation of PrivatBank at end-2016.

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

Status of effective disbursements as of end-December 2016 (in millions of €)

	Authorisations			Disbursements			
Country	Date of Decision	Reference of Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Totals disbursed**	**Undisbursed**
Hungary (Loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260**
Czech and Slovak Federal Republic	25.02.91	91/106/EC	**375**	Mar. 1991 Mar. 1992	185 190	**375**	
Hungary (Loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Bulgaria (Loan)	24.06.91	91/311/EC	**290**	Aug. 1991 Mar. 1992	150 140	**290**	
Romania (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 (Loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Albania (Grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Bulgaria (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**
Estonia **Latvia** **Lithuania**			**(40)** **(80)** **(100)**	Mar. 1993 Mar. 1993 July 1993 Aug. 1995	20 40 50 25	**(20)** **(40)** **(75)**	**(20)** **(40)** **(25)**
Romania (Loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Moldova (Loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Romania (Loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec. 1997	55 40 30	**125**	
Albania (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	

Algeria (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100**
Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130**
Ukraine (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**
Ukraine (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sep. 1997	50 50 100	**200**	
Moldova (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	
Former Yugoslav Republic of Macedonia (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Bulgaria (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Armenia, Georgia and Tajikistan[2] (Loans and Grants	17.11.97 amended by 28.3.00	97/787/EC 00/244/EC	**375**			**294.5**	**80.5**
Agreed amounts with the recipent countries:			**(328)**				
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 (Loan)	15.10.98 12.07.02	98/592/EC 02/639/EC	**150**	July 1999	58	**58**	**92**
Albania (Loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia[3] (Loan and Grant)	10.05.99 amended 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 (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Former Yugoslav Republic of Macedonia[4] (Loan and Grant)	08.11.99 amended 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 (Loan)	08.11.99	99/732/EC	**200**	June 2000 July 2003	100 50	**150**	**50**
Kosovo[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 (Loan)	10.07.00 19.12.02	00/452/EC 02/1006/EC	**15**				**15**
Kosovo[3] (Grant)	27.06.01	01/511/EC	**30**	Sep. 2001 Dec. 2002	15 15	**30**	
Serbia and Montenegro[6] **(ex FRY)** (Loan and Grant)	16.07.01 amended 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 (Loan) Amendment of Decision 98/592/EC	12.07.02	02/639/EC	**110**	May. 2014 Nov. 2014	100 10	**110**	
Serbia and Montenegro[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[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 (Grant)	19.12.02	02/1006/EC	**15**				**15**
Serbia and Montenegro[7] **(ex FRY)** Amendment of Decision 02/882/EC (Grant)	25.11.03	03/825/EC	**70**	Dec. 2004	10	**10**	**20** the rest was paid under 04/862/EC
Albania[9] (Loan and Grant)	29.04.04	04/580/EC	**25**	Nov. 2005 (Grant) Mar. 2006 (Loan) July 2006 (Grant)	3 9 13	**25**	
Bosnia[8] Amendment of Decision 02/883/EC (Loan and Grant)	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[7] **(ex FRY)** Amendment of Decision 02/882/EC (Loan and Grant)	07.12.2004	04/862/EC	the balance of 03/825/EC	Apr. 2005 (Loan) Dec. 2005 (Grant)	15 25	**40**	
Georgia (Grant)	24.01.06	06/41/EC	**33.5**	Aug. 2006 Dec. 2006	11 11	**22**	**11.5**
Kosovo (Grant)	30.11.06	06/880/EC	**50**	Sep. 2010	30	**30**	**20**
Moldova (Grant)	16.04.07	07/259/EC	**45**	Oct. 2007 Jun. 2008 Dec. 2008	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**
Georgia (Grant)	30.11.09	09/889/EC	**46**	Dec. 2009 Jan. 2010 Aug. 2010	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 Oct. 2013	50 50	**100**	
Serbia (Loan)	30.11.09	09/892/EC	**200**	July 2011	100	**100**	**100**
Ukraine (Loan)	29.06.10	646/2010/EU	**500**	Nov. 2014 Apr. 2015	250 250	**500**	
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 Sep. 2011 Apr. 2012	40 20 30	**90**	
Georgia (Loan and Grant)	12.08.13	778/2013/EU	**46**	Jan. 2015 (Grant) Apr. 2015 (Loan)	13 10	**23**	**23** **(ongoing)**
Kyrgyz Republic (Loan and Grant)	22.10.13	1025/2013/EU	**30**	Jun. 2015 (Grant) Oct. 2015 (Loan) Feb. 2016 (Grant) Apr. 2016 (Loan)	10 5 5 10	**30**	
Jordan (Loan)	11.12.13	1351/2013/EU	**180**	Feb. 2015 Oct. 2015	100 80	**180**	
Tunisia (Loan)	15.5.14	534/2014/EU	**300**	May 2015 Dec. 2015	100 100	**200**	**100** **(ongoing)**
Ukraine (Loan)	14.04.14	2014/215/EU	**1 000.0**	June 2014 Dec. 2014	500 500	**1 000.0**	
Ukraine (Loan)	15.04.15	2015/601/EU	**1 800.0**	July 2015	600	**600.0**	**1 200.0** **(ongoing)**
Tunisia (Loan)	06.07.16	2016/1112/EU	**500.0**				**500.0** **(ongoing)**
Jordan (Loan)	14.12.16	2016/2371/EU	**200.0**				**200.0** **(ongoing)**
TOTAL			**11 496.0**			**8 345.0**	**3 151.0**

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

[2] 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

[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 2016 (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	23.11.92	92/542/EC	**220**			**135**	**85**
(Loans) of which :							
Estonia			**(40)**	March 1993	20	**(20)**	**(20)**
Latvia			**(80)**	March 1993	40	**(40)**	**(40)**
Lithuania			**(100)**	July 1993	50	**(75)**	**(25)**
				Aug. 1995	25		
Bulgaria (Loan)	24.06.91	91/311/EC	**290**	Aug. 1991	150	**290**	
				March 1992	140		
Bulgaria (Loan)	19.10.92	92/511/EC	**110**	Dec. 1994	70	**110**	
				Aug. 1996	40		
Bulgaria (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998	125	**250**	
				Dec. 1998	125		
Bulgaria (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999	40	**100**	
				Sep. 2000	60		
Czech and Slovak Federal Republic (Loan)	25.02.91	91/106/EC	**375**	March 1991	185	**375**	
				March 1992	190		
Hungary (Structural Adjustment Loan)	22.02.90	90/83/EC	**870**	Apr. 1990	350	**610**	**260**
				Feb. 1991	260		
Hungary (Loan)	24.06.91	91/310/EC	**180**	Aug. 1991	100	**180**	
				Jan. 1993	80		
Romania (Loan)	22.07.91	91/384/EC	**375**	Jan. 1992	190	**375**	
				Apr. 1992	185		
Romania (Loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Romania (Loan)	20.06.94	94/369/EC	**125**	Nov. 1995	55	**125**	
				Sep. 1997	40		
				Dec. 1997	30		
Romania (Loan)	08.11.99	99/732/EC	**200**	June 2000	100	**150**	**50**
				July 2003	50		

Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130**
TOTAL A			**3 305.0**			**2 780.0**	**525.0**
B. Western Balkans							
Albania (Grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Albania (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	
Albania (Loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia[1] (Loan and Grant)	10.05.99 amended by 10.12.01	99/325/EC 01/899/EC	**60**	Dec. 1999 (Grant) Dec. 1999 (Goan) Dec. 2000 (Grant) Dec. 2000 (Loan) Dec. 2001 (Grant)	15 10 10 10 15	**60**	
Former Yugoslav Republic of Macedonia (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Former Yugoslav Republic of Macedonia[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[3] (Grant)	19.02.00	00/140/EC	**35**	Mar. 2000 Aug. 2000	20 15	**35**	
Kosovo[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[4] **(ex FRY)** (Loan and Grant)	16.07.01 10.12.2001	01/549/EC amended 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[5] **(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**
	amended by 25.11.03 07.12.04	 03/825/EC (7) 04/862/EC	**70**	Dec. 2004 (Grant) Apr. 2005 (Loan) Dec. 2005 (Grant)	10 15 25	**50**	**20**

Bosnia[6] (Loan and Grant)	05.11.02 amended 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[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**	Sep. 2010	30	**30**	**20**
Bosnia and Herzegovina (Loan)	30.11.09	09/891/EC	**100**	Feb. 2013 Oct. 2013	50 50	**100**	
Serbia (Loan)	30.11.09	09/892/EC	**200**	Jul-11	100	**100**	**100**
TOTAL B			**1 388.0**			**1 203.0**	**185.0**
C. Newly Independent States (NIS)							
Armenia, Georgia and Tajikistan[9] (Loans and Grants) Agreed amounts with the recipent countires:	17.11.97 amended 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)**	Mar. 2001 (Loan) Mar. 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	30	**30**	**25**
Moldova (Loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Moldova (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	

Moldova (Loan)	10.07.00 19.12.02	00/452/EC 02/1006 EC	**15**				**15**
Moldova (Grant)	19.12.02	02/1006/EC	**15**				**15**
Ukraine (Loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Ukraine (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sep. 1997	50 50 100	**200**	
Ukraine (Loan)	15.10.98	98/592/EC	**150**	July 1999	58	**58**	**92**
Ukraine (Loan) Amendment of Decision 98/592/EC	12.07.02	02/639/EC	**110**	May-14 Nov. 2014	100 10	**110**	
Georgia (Grant)	21.01.06	06/41/EC	**33.5**	Aug. 2006 Dec. 2006	11 11	**22**	**11.5**
Moldova (Grant)	16.04.07	07/259/EC	**45**	Oct. 2007 June 2008 Dec. 2008	20 10 15	**45**	
Georgia (Grant)	30.11.09	09/889/EC	**46**	Dec. 2009 Jan. 2009 Aug. 2010	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	**61**	**39**
Ukraine (Loan)	29.06.10	646/2010/EU	**500**	Nov. 2014 Apr. 2015	250 250	**500**	
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 Sep. 2011 Apr. 2012	40 20 30	**90**	
Georgia (Loan and Grant)	12.08.13	778/2013/EU	**46**	Jan. 2015 (Grant) Apr. 2015 (Loan)	13 10	**23**	**23** **(ongoing)**
Kyrgyz Republic (Loan and Grant)	22.10.13	1025/2013/EU	**30**	Jun. 2015 (Grant) Oct. 2015 (Loan) Feb. 2016 (Grant) Apr. 2016 (Loan)	10 5 5 10	**30**	
Ukraine (Loan)	14.04.14	2014/215/EU	**1000**	June 2014 Dec. 2014	500 500	**1000**	
Ukraine (Loan)	15.04.15	2015/601/EU	**1800**	July 2015	600	**600**	**1200** **(ongoing)**
TOTAL C			**4 755.5**			**3 254.5**	**1 501.0**

D. Mediterranean countries

Israel[11] (Structural Adjustment Soft Loan)	22.07.91	91/408/EC	**187.5**	Mar. 1992	187.5	**187.5**	
Algeria (Loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Algeria (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100**
Lebanon[12] (Grant and Loan)	10.12.07	07/860/EC	**80**	Dec. 2008 (Grant) June 2009 (Loan)	15 25	**40**	**40**
Jordan (Loan)	11.12.13	1351/2013/EU	**180**	Feb. 2015 Oct. 2015	100 80	**180**	
Tunisia (Loan)	15.5.14	534/2014/EU	**300**	May 2015 Dec. 2015	100 100	**200**	**100** **(ongoing)**
Tunisia (Loan)	06.07.16	2016/1112/EU	**500.0**				**500.0** **(ongoing)**
Jordan (Loan)	14.12.16	2016/2371/EU	**200.0**				**200.0** **(ongoing)**
TOTAL D			**2 047.5**			**1 107.5**	**940.0**
TOTAL A+B+C+D			**11 496.0**			**8 345.0**	**3 151.0**

[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 total 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, 2005-2016 (EUR million)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
By region													
Western Balkans		50.0			300.0								**350.0**
Newly Independent States (NIS)		33.5	45.0		146.0	590.0			76.0	1 000.0	1 800.0		**3 690.5**
Mediterranean			80.0						180.0	300.0		700.0	**1 260.0**
Total amounts	**0.0**	**83.5**	**125.0**	**0.0**	**446.0**	**590.0**	**0.0**	**0.0**	**256.0**	**1 300.0**	**1 800.0**	**700.0**	**5 300.5**
Loans		0.0	50.0	0.0	365.0	500.0			218.0	1 300.0	1 800.0	700.0	**4 233.0**
Grants		83.5	75.0	0.0	81.0	90.0			38.0				**367.5**

Chart 2A: MFA amounts authorised by year, 2005-2016 (EUR million)

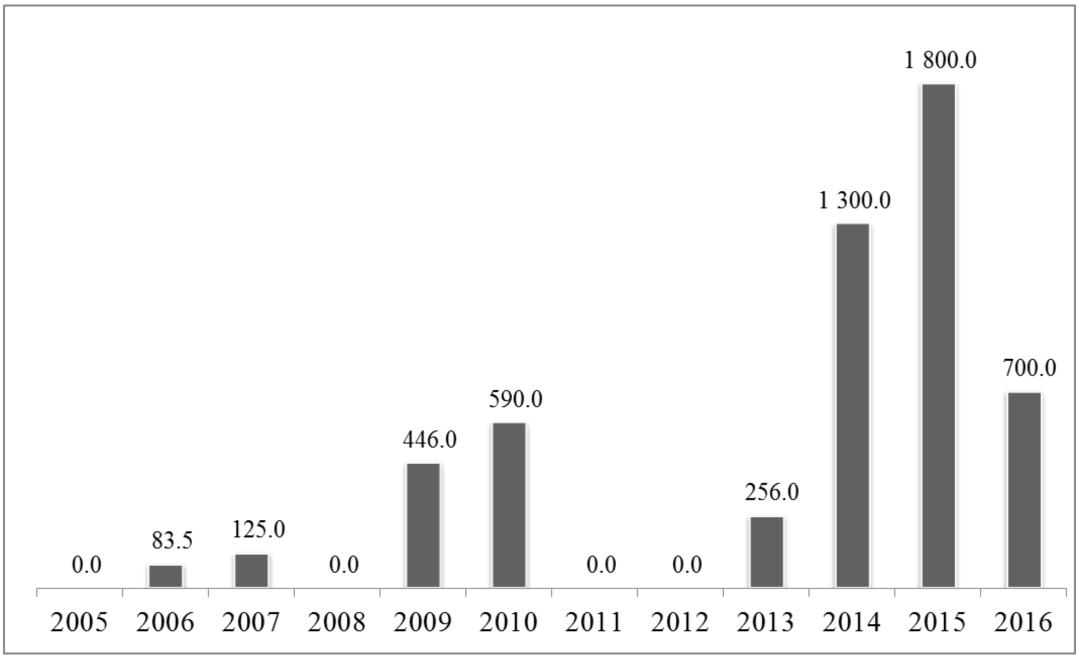
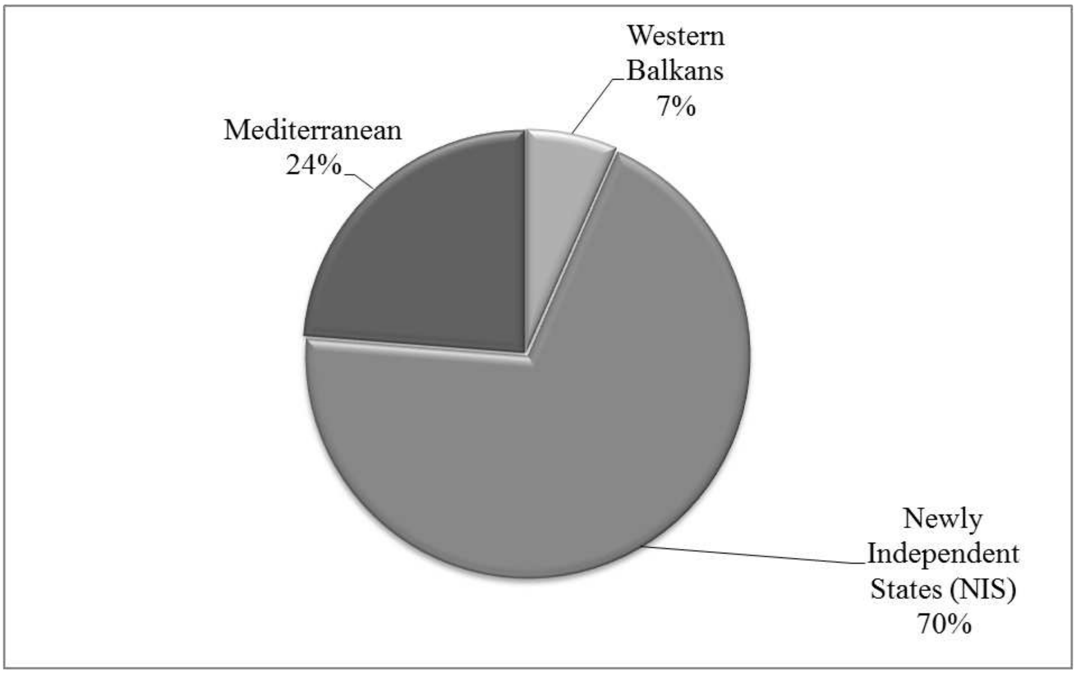


Chart 2B: MFA amounts authorised by region, 2005-2016 (%)



Annex 3: MFA amounts disbursed by year, 2005-2016 (EUR million)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
By region													
Central European candidate countries													0.0
Western Balkans	58.0	32.0				30.0	100.0		100.0				320.0
Newly Independent States (NIS)	8.5	29.0	20.0	25.0	15.3	70.7	81.0	69.0		1 360.0	888.0	15.0	318.5
Mediterranean				15.0	25.0						380.0		420.0
Total amounts disbursed	**66.5**	**61.0**	**20.0**	**40.0**	**40.3**	**100.7**	**181.0**	**69.0**	**100.0**	**1 360.0**	**1 268.0**	**15.0**	**3 321.5**
Loans	15.0	19.0	0.0	0.0	25.0	0.0	126.0	39.0	100.0	1 360.0	1 245.0	10.0	2 939.0
Grants	51.5	42.0	20.0	40.0	15.3	100.7	55.0	30.0			23.0	5.0	382.5

Chart 3A: MFA amounts disbursed by year, 2005-2016 (EUR million)

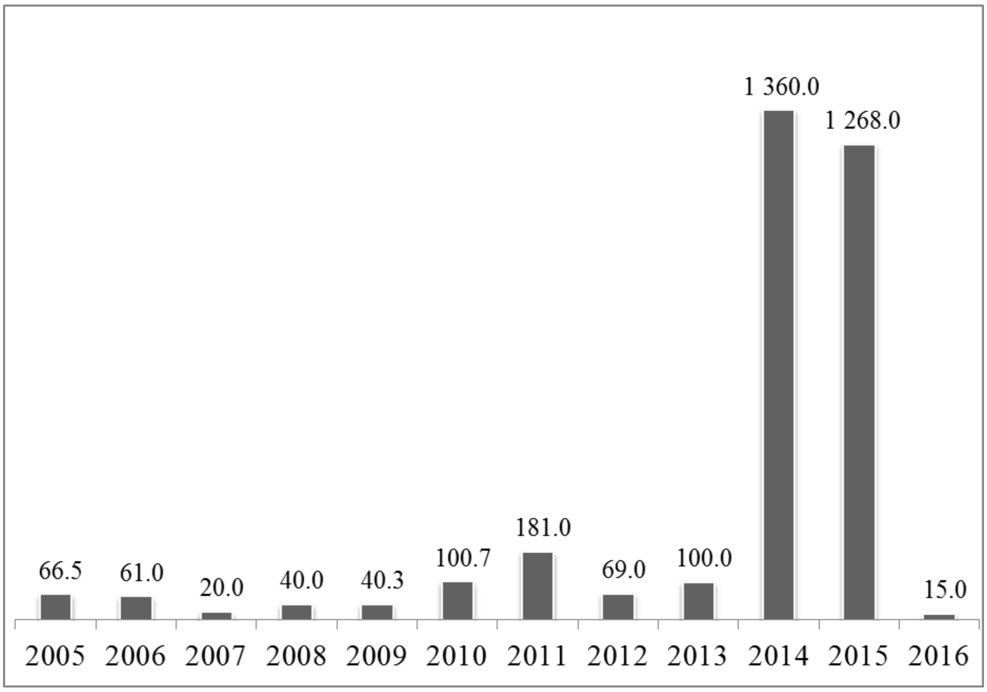


Chart 3B: MFA amounts disbursed by region, 2005-2016 (%)