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ADDENDUM
This document corrects document COM(2024) 240 final of 10.6.2024.
Concerns all language versions.
Insertion of the reference to the Staff Working Document SWD(2024) 150 final linked to this Report.
The text shall read as follows:

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of macro-financial assistance to third countries in 2023

{SWD(2024) 150 final}

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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the implementation of macro-financial assistance to third countries in 2023 ([1])

1. INTRODUCTION

Macro-financial assistance, or MFA, is an EU financial instrument ([2]) extended to partner countries experiencing a balance-of-payments crisis. Since its inception in 1990, MFA has helped to improve macroeconomic and financial stability, while encouraging structural reforms, in countries neighbouring or geographically close to the EU. It usually complements and is conditional on a non-precautionary credit arrangement agreed with the International Monetary Fund (IMF)([3]). Relieving the partner country of some pressure to address the underlying problems causing the stress in the balance of payments allows it to increase its fiscal space, improve its debt sustainability and focus on driving needed reforms. By smoothening the macroeconomic adjustment path, MFA operations can have positive social impacts, giving the country more time and scope to address the root causes of its crisis.

MFA most often takes the form of loans, whose funding the Commission borrows on capital markets and lends on to the beneficiary country. In exceptional cases, it takes the form of grants financed by the EU budget. Sometimes, it can be a combination of loans and grants.

MFA is released in instalments and only if all the specific structural reform criteria - agreed with the country - are fulfilled. Moreover, there is a political precondition for granting MFA, relating to democratic mechanisms, including having a multi-party parliamentary system and observing the rule of law, and the country's respect of human rights. In this way, MFA complements regular EU cooperation assistance and contributes to the wider goal of preserving stability and promoting prosperity and EU core values beyond its borders ([4]). This is supported by the findings of several independent evaluations of completed MFA operations ([5]) as well as the recent meta-evaluation of the last decade of operations ([6]).

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[1] This report is based on information available up to April 2024.

[2] The legal basis for macro-financial assistance to third countries other than developing countries is Article 212 of the Treaty on the Functioning of the European Union (TFEU). Article 213 TFEU may be used as a legal basis when the third country requires urgent financial assistance.

[3] An exception from this precondition was made in the set-up of the exceptional support provided to Ukraine following Russia's full-scale invasion in February 2022.

[4] MFA also complements other EU external actions or instruments for the Neighbourhood and the Western Balkans, including budget support for which a total of EUR 980 million in grants was provided to the regions in 2023. The latest budget support report is available at: [Budget support - Publications Office of the EU (europa.eu)](https://op.europa.eu).

[5] All evaluations are available on the Commission's website: https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en.

[6] COM(2023) 0016, final, Commission staff working document *Evaluation of Macro-financial assistance to third countries (Meta-evaluation of operations for 2010-2020).*

2023 was a remarkable year for the instrument due to the record level of funds mobilised as a result of the MFA+ operation to Ukraine in response to Russia's continued war of aggression. With this extraordinary effort, the EU has also demonstrated that its expressions of solidarity are reliably translated into deeds and has established itself as Ukraine's largest financial donor while also continuing to support other partners affected by the economic fallout of the war in Ukraine. In addition to the unprecedented quantitative dimension and the novel guarantee by the so called "headroom" (see Box 1), the support has also proven the agility and adaptability of MFA in response to challenges in exceptional crisis situations while keeping the instrument's core stabilising functions. In particular, the reforms brought forward by the MFA+ highlight the corresponding value added of MFA even in the most difficult war circumstances.

The 2023 report is prepared in accordance with the Commission's information obligations as laid down in the decisions by the European Parliament and the Council concerning MFA operations ([7]). It is accompanied by a Commission staff working document, which provides a more detailed analysis of the implementation of individual MFA operations.

2. MACROECONOMIC DEVELOPMENTS IN PARTNER COUNTRIES

In 2023, the EU Neighbourhood and enlargement countries continued to recover slowly from the economic impacts associated with the aftermath of the pandemic, Russia's full-scale invasion of Ukraine, and the ongoing challenges posed by the cost-of-living crisis.

Eastern Neighbourhood countries witnessed mixed economic trajectories in 2023. Inflation moderated throughout the year thanks to tighter monetary conditions and a decrease in commodity prices. However, persistent instability linked to Russia's war of aggression against Ukraine weighed on consumer and investor sentiment, with both Azerbaijan and Moldova experiencing sluggish economic growth. On the flipside, Armenia and Georgia registered stronger economic activity, fuelled by an influx of Russian migrants and a corresponding increase in monetary transfers. Ukraine rebounded more strongly than anticipated (from the slump of almost 30% of GDP in 2022), showing remarkable resilience among households and firms in adapting to the wartime conditions.

As regards the Southern Neighbourhood, the escalations in the Middle East have increased the geopolitical instability and tensions in the region since the last quarter of 2023. This has predominantly impacted the economies of Israel and Palestine, with neighbouring countries affected by the repercussions of the war, particularly on their tourism sectors. However, despite these challenges, the region's economy is expected to have continued recovering throughout 2023 along with a general slowdown in inflation across most countries.

In the Western Balkans, economic growth accelerated compared to 2022, propelled by robust domestic demand. This reflects in part how the region benefited from lower commodity prices, leading to a slowdown of inflation (and a corresponding increase in disposable income). This, in turn, enabled countries with monetary authority to ease the pace of monetary tightening.

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[7] Decision (EU) 2023/1165) Amending Decision (EU) 2022/563 ; Decision (EU) 2023/1461; Decision (EU) 2022/313; Decision (EU) 2022/1201; Decision (EU) 2022/1628; Decision (EU) 2022/2463; Decision (EU) 2022/563; Decision (EU) 2020/701; Decision (EU) 2020/33.

This section examines in more detail the regional challenges faced by the EU Neighbourhood countries and the Western Balkans.

2.1 Eastern Partnership

The economies of the Eastern Partnership countries continued their varying journey in 2023. Armenia and Georgia witnessed another strong economic expansion on the back of robust investment and domestic demand, with the latter supported by the inflow of migrants and monetary transfers related to Russia's continued war of aggression against Ukraine. After an unprecedented collapse in economic activity in the wake of the invasion in 2022, Ukraine's economy rebounded at a stronger pace than initially expected as both households and firms showed remarkable resilience and adaptability to the war environment. Belarus's economy bounced back amid buoyant industrial production and rising consumer demand. On the other side of the spectrum, economic activity was weak in Azerbaijan (GDP contraction) and Moldova (contraction in Q1-Q3 and slight recovery of 0.2% year-on-year in Q4), mostly as a result of muted domestic demand amid persistent inflation. Consumer price growth moderated sharply over the course of 2023 amid lower global commodity prices and tight monetary policies. In Armenia and Georgia, the sharp local currency appreciation also played a role in reducing imported inflation. Against this disinflation, central banks slowed down their earlier tightening cycle, albeit at different speeds, with the central bank of Azerbaijan being the most cautious.

With the exception of Ukraine and Moldova, public finances showed resilience as deficits narrowed, despite weaker demand and rising interest costs. Ukraine is estimated to have posted another huge budget deficit of 19.7% of GDP induced by the necessary massive defence spending (accounting for about 27% of GDP). On the back of weak growth and household support measures, Moldova's fiscal deficit widened as well. Both countries, however, continued to benefit from significant financial support from international partners. Benefiting from improved fiscal space, most Eastern Partnership countries increased their government expenditure, especially capital spending. On the external side, the current account positions weakened overall in the first 9 months of 2023 due to faster growth of imports than of exports, reflecting strong domestic demand. Furthermore, in some countries, there was a gradual decline of money transfers from Russia, especially where those had previously increased sharply directly after the latter's invasion of Ukraine. In Azerbaijan, the current account surplus decreased considerably, although from a very high level in 2022, due to a reversed terms of trade effect from lower oil and gas prices.

The regional outlook remains clouded by the extremely complex geopolitical situation. This includes Russia's war of aggression against Ukraine and Azerbaijan's military operation in Nagorno-Karabakh in September 2023, which came as another reminder of the region's vulnerability to the various lingering territorial conflicts. This instability could continue to hold back consumer and investor sentiment. Beyond the geopolitical tensions, the external environment remains unpropitious as tight international financing conditions could constrain foreign demand and limit access to external financing. The effect of these headwinds is expected to be largely offset by increasing purchasing power amid lower inflation and by the ongoing significant financial support from international partners (notably for Ukraine and Moldova). In the medium term, weak governance, a weak institutional framework, and an insufficient level playing field pose key challenges for the eastern neighbours. Other bottlenecks include weaknesses in the business environment, infrastructure gaps, an undiversified production base focused on low value-added sectors, a significant state footprint in the economy, and human capital weaknesses.

2.2 Southern Neighbourhood

Most Southern Neighbourhood economies expanded in 2023, albeit more slowly than during the post-pandemic rebound in 2021-2022. The consequences of 7 October 2023 Hamas´ terrorist attacks across Israel increased the risk of geopolitical instability in the region, affecting primarily the Israeli and Palestinian economies, which in 2023 are expected to have grown by 2% and contracted by 6.7%, respectively. Neighbouring countries have experienced a negative impact mainly on their tourism and trade sectors.

Economic growth in 2023 was initially driven by the continued recovery of the services sector, notably tourism, hospitality, and transport, as the number of visitor arrivals broadly recovered to pre-pandemic levels. However, the tourism sector in Israel, Palestine and to a lesser extent in neighbouring countries saw cancellations in Q4 following the attacks of 7 October 2023 and the ensuing conflict. While unemployment generally decreased, it remained high (exceeding 15% in Jordan, Palestine, and Tunisia), with women, young people and university graduates disproportionately affected. Consumer price inflation slowed in 2023 due to lower global energy prices (except for Lebanon and Egypt due to multiple crises and volatile, distortive parallel exchange rates). Central banks continued monetary tightening in the first half of 2023, in response to the rise in inflation in 2022 and in early 2023, driven by high commodity prices. Nevertheless, while food price inflation slowed down, it remains high. This is a particular challenge as southern neighbours rely heavily on food imports and have a significant share of their population living in or near poverty.

Fiscal balances improved in 2022-2023, despite increased fuel and food subsidies, while public debt levels remained above pre-pandemic levels. The rebound in tourism supported external balances along with the resilient inflow of remittances. However, for energy importers, higher energy prices at the beginning of 2023 led to pressures on the current account, which later eased with energy prices moderating throughout 2023. The region also continued to benefit from external support from international institutional lenders.

The outlook is for a continued expansion for most Southern Neighbourhood countries in 2024, as inflation pressures have eased, and monetary tightening has slowed. The escalations in the Middle East pose a significant risk in the region, as it not only directly impacts the Israeli and Palestinian* economies, but also affects the tourism sectors of neighbouring countries. In addition, it contributed to export and fiscal revenue losses related to the logistical challenges following the attacks on the Red Sea (Egypt, Jordan). Other risks to the outlook include a geographic spread of the conflict in the region, which could jeopardise domestic and regional political stability, and lead to elevated commodity prices. In the medium term, reforms remain key to modernise the economies, to strengthen private sector development and competitiveness, and to address public sector and governance inefficiencies to underpin a more sustainable and resilient economic growth model.

2.3 Western Balkans

In 2023, economic growth in the Western Balkans was driven by domestic demand, especially consumer spending, with the region's GDP growing by 3.3% year-on-year, compared to 2.1% in 2022. Average annual consumer price inflation slowed further to 8.1% in the third quarter of 2023 amid lower commodity prices and continued to fall beyond the third quarter in most economies. In countries with monetary autonomy, the pace of tightening slowed.

Trade dynamics were generally dragged down by weak and, in most cases, contracting goods exports, which were however offset by a robust increase in services exports, especially in tourism-dependent countries. Imports also shrank in most of the region's economies. The region's four-quarter moving average current account deficit continued its recovery in the first three quarters of 2023 and fell to 3.1% of GDP in September, less than half its rate a year earlier and the lowest level since 2021. This improvement, which was broad-based across countries, was mainly due to the continued growth in services exports, higher remittance inflows, and declining merchandise trade deficits, helped by moderating import prices.

The unemployment rate fell in most economies and is at historically low levels, although high compared with the EU. Average employment growth accelerated to 1.4% ([8]) year-on-year in the Western Balkans in the third quarter of 2023, while labour force participation increased in some countries.

Continued economic expansion supported the growth of budget revenues, and fiscal balances in the first 11 months of 2023 improved or remained at the same level as a year earlier in most economies in the region. The public debt-to-GDP ratio decreased in all economies in the third quarter of 2023 compared to end-2022, partly due to the robust rise in nominal GDP.

The Western Balkan's economy is poised for a moderate economic rebound, with growth expected to increase from around 2.5% in 2023, on average. Factors like weak external demand and high inflation are anticipated to fade, allowing countries to return to their higher growth potential. Tourism exports and stable worker remittances are set to contribute to growth. There are significant downside risks to the region's economic outlook due to the continuation of Russia's full-scale war of aggression against Ukraine, possibly impacting global commodity prices, as well as leading to potential supply chain disruptions, and renewed tightening of financing conditions. In the medium term, reforms are needed to boost productivity, modernise public infrastructure, reduce the size of the

[8] This figure does not include Kosovo for which Q3 data were not available by the cut-off date for this report.

informal economy, and accelerate the green and digital transitions. This is to underpin a more sustainable growth path.

3. MACRO-FINANCIAL ASSISTANCE OPERATIONS IN 2023

In 2023, amid the ongoing impacts of Russia's war of aggression on Ukraine, a new large and exceptional MFA operation, the MFA+, was implemented and successfully completed for Ukraine. At the same time, Moldova received supplementary support under its ongoing MFA operation. Jordan's MFA was successfully completed in 2023, with the disbursement of the final instalment in May.

In light of the prolonged war and the increased funding requirements of Ukraine, the European Council issued an instruction in October 2022 to devise a comprehensive solution for supporting the country in a more predictable and continuous manner. The Commission proposed a financial aid package totalling EUR 18 billion, structured as a highly concessional loan under a new MFA+ instrument, which was swiftly approved, using all procedural flexibilities, by the European Parliament and the Council in December 2022. The new MFA+ was designed to provide timely financing to help address Ukraine's immediate funding needs, critical infrastructure rehabilitation, and initial post-war reconstruction. This aligned with the country's path toward European integration while taking into account the country's extraordinarily challenging situation by incorporating additional flexibility in a number of dimensions compared to standard MFA operations. The Memorandum of Understanding (MoU), adopted in mid-January 2023, outlined 20 policy conditions that had been identified as both relevant and feasible in the exceptional war context. Reflecting overall good progress on the corresponding policy reforms, the full amount of the MFA+ was disbursed in six instalments between January and December 2023.

Russia's continued war in Ukraine also exacerbated Moldova's already challenging economic conditions. In response, in January 2023, the Commission adopted a proposal to increase the ongoing MFA to Moldova by EUR 145 million comprised of EUR 100 million loans and a EUR 45 million grants, increasing the total MFA operation to EUR 295 million. The Decision was adopted by the European Parliament and Council in June 2023, and the EU-Moldova MoU entered into force in September 2023. Following the fulfilment of the policy conditions agreed in Moldova's MoU that had been amended to this end, the first of two additional instalments was disbursed in October 2023.

In May 2023, following an overall positive assessment of the implementation of the associated policy conditionality, Jordan received the last instalment of the third MFA operation that had entered into force in January 2020, and which had subsequently been increased with a COVID-19 top-up in April 2020 (to EUR 700 million, overall) to support the country during the COVID-19 pandemic.

The implementation status of MFA operations in 2023 (by region)

3.1 Eastern Partnership

- **Moldova**

Moldova was hit hard by an energy crisis in 2021. Following a request by the country on 19 November 2021, the Commission adopted a proposal for macro-financial assistance of up to EUR 150 million, of which up to EUR 120 million in medium-term loans and a EUR 30 million grant component. The Decision of the European Parliament and Council was adopted on 6 April 2022. Following a positive opinion delivered by the Member State Committee on Macro-Financial Assistance on 12 June 2022, the MoU, the loan facility agreement and the grant agreement relating to this MFA were signed on 22 June 2022 and ratified by the Moldovan parliament on 14 July 2022. Following the fulfilment of the corresponding policy conditions agreed in the MoU, the first instalment of EUR 50 million was disbursed on 1 August 2022 (of which EUR 15 million in grants). The second instalment of EUR 50 million (of which EUR 10 million in grants) was disbursed on 5 April (for grants) and on 3 May (for loans).

As a response to the unfolding and intensifying direct and indirect impacts of Russia's war of aggression on Ukraine on Moldova's economy, on 24 January 2023, the Commission adopted a proposal to increase the ongoing MFA by EUR 145 million, of which up to EUR 100 million in loans and EUR 45 million in grants (additional MFA). The Decision was adopted by the European Parliament and Council on 14 June 2023 and entered into force on 5 September 2023. It increases the overall support provided through this MFA to EUR 295 million, of which EUR 75 million in grants. The additional financial assistance under the MFA comes as part of a larger EU support package to Moldova announced by the Commission President in November 2022, which also contained EUR 105 million of budget support. The additional MFA is to be disbursed in two additional instalments of equal size (EUR 50 million in loans and EUR 22.5 million in grants) falling between the second disbursement and the final instalment of the existing MFA operation. Following the fulfilment of the policy conditions agreed in the amended MoU, the first additional instalment of EUR 72.5 million was disbursed on 25 October (EUR 50 million in loans) and 27 October (EUR 22.5 million grants), respectively.

The regular MFA operation and the top-up remain subject to a positive track record under the IMF's Extended Credit Facility/Extended Fund Facility for Moldova, adopted in December 2021, and increased in May 2022. After the increase, the Fund's programme amounts to USD 815 million. In December 2023, the IMF successfully concluded its fourth review, assessing the overall progress on the programme as positive. In December 2023, the IMF Executive Board also approved an arrangement for Moldova under the Resilience and Sustainability Facility, for an amount equivalent to USD 173 million, to support Moldova's efforts to strengthen resilience against climate shocks, support energy sector reforms, enhance domestic financial sector preparedness, and mobilise sustainable finance. Following the abrupt dismissal of the Governor of the National Bank of Moldova in December 2023, technical discussions with the Moldovan authorities were held on the importance of good economic governance, strengthening central bank independence and following international good practice and due process in the context of a potential dismissal of the central bank Governor.

- **Ukraine: MFA+**

In response to the request by the European Council of 20-21 October 2022 to present a more structural solution for supporting Ukraine, the Commission, on 9 November 2022, adopted a proposal to provide EUR 18 billion of financial aid in the form of highly concessional loans to Ukraine for 2023 through the new MFA+ instrument. This was approved by the European Parliament and the Council on 14 December 2022 accompanied by a targeted revision of the MFF Regulation adopted on 15 December 2022 to guarantee such loans over and above the MFF ceilings ([9]). In light of the exceptional situation of providing unprecedented amounts of loans to a war-torn third country, the MFA+ instrument featured unique characteristics of greater flexibility ([10]). While not in itself creating a precedent for future MFA operations in a more standard setting, the increased flexibilities proved very useful for the country context of Ukraine. Notably, the design of conditionality based on progress towards implementation of the policy conditions, with only the final disbursement requiring their completion, and an only indicative timeline for reform implementation, enabled a sequencing of policy actions in a most uncertain environment, and the (ultimately not used) possibility to adapt the MoU following a mid-term review that adequately reflected the exceptional uncertainty. Fiscal pressures stemming from the loans under the MFA+ were significantly lessened thanks to highly concessional conditions such as long maturities of up to 35 years, a grace period of 10 years, and a subsidy on the interest rate at least until the end of 2027.

The MoU, which entered into force on 17 January 2023, featured 20 policy conditions in the areas of macro-financial stability, structural reforms and good governance, rule of law, and energy; the EU and the Ukrainian authorities had identified these as both relevant and feasible in the extraordinary war situation. The disbursement of the first instalment of EUR 3 billion took place on 17 January 2023 and was conditional on the continued fulfilment of the political precondition and the satisfactory implementation of the enhanced reporting requirements for the MFA+ set out in the MoU. The disbursement of the following instalments was additionally linked to progress in implementing the structural policy conditionality agreed in the MoU. The disbursement of the second instalment of EUR 1.5 billion took place on 21 March. The subsequent disbursements followed corresponding favourable assessments by the Commission of Ukraine's satisfactory progress toward implementing the agreed conditionality. The third instalment was provided in three tranches of EUR 1.5 billion that were disbursed on 25 April, 23 May and 22 June, respectively. In the same vein, the fourth instalment was disbursed in monthly tranches of EUR 1.5 billion each on 25 July, 22 August and 22 September.

[9] Regulation (EU) 2022/2463 of the European Parliament and of the Council of 14 December 2022 establishing an instrument for providing support to Ukraine for 2023 (macro-financial assistance +), OJ L 322, 16.12.2022, p. 1.

[10] An overview of the novel features that distinguish the MFA+ instrument from standard MFA operations can be found in SWD (2023) 24 final, page 16-17.

Lastly, the fifth and penultimate instalment provided for two monthly tranches of EUR 1.5 billion each with disbursements taking place on 23 October and 22 November.

As required by the underlying legislation, the final disbursement of the full amount of EUR 18 billion was conditional on the completion of all conditions agreed in the MoU (rather than on progress with their implementation, as had been the case for preceding instalments) notwithstanding the exceedingly difficult wartime environment. Indeed, the Commission concluded that Ukraine had fulfilled 11 conditions and broadly fulfilled 9 conditions ([11]). Consequently, the disbursement of the remaining EUR 1.5 billion associated with the final instalment took place on 21 December 2023. With this disbursement of the total amount of EUR 18 billion in highly concessional loans available under the MFA+ instrument, the EU has contributed crucially to the financing of Ukraine's substantial external funding gap in the current unprecedented circumstances. Indeed, in 2023, the EU was the country's international partner making the largest financing contribution. With the adoption of the Regulation establishing the Ukraine Facility ([12]), which entered into force on 1 March 2024, the EU has lived up to its promise to continue to provide Ukraine with a stable and predictable source of funding; the facility is set to provide up to EUR 50 billion through to 2027. This more encompassing instrument thus follows up on the successful implementation of the MFA+ instrument.

3.2 Southern Neighbourhood

- **Jordan**

In September 2019, the Commission proposed a third MFA to Jordan of EUR 500 million in loans, which the co-legislators adopted in January 2020. Following this, in April 2020, the Jordanian authorities requested additional assistance in the context of the COVID-19 pandemic. In May 2020, the EU agreed on a top-up MFA of EUR 200 million in loans as part of the COVID-19 MFA package for 10 countries. The policy conditionality of the combined MFA focuses primarily on improving public finance management, fighting corruption, and promoting reforms in the utilities sector, in social and labour market policy, and on governance.

The first instalment (EUR 100 million, plus EUR 150 million from the COVID-19 top-up) was disbursed on 25 November 2020. It was only subject to the general political precondition, under the MFA and the IMF programme, of remaining on track. The second and third instalments were, in addition, subject to the specific policy conditionality agreed between Jordan and the EU in the MoU. The second instalment (EUR 200 million and top-up of EUR 50 million) was disbursed on 20 July 2021, successfully concluding the

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[11] This assessment of overall good progress on the reform agenda is also consistent with the findings of the IMF in the context of the second review under the Extended Fund Arrangement of 11 December 2023, in which the IMF commended the Ukrainian authorities' programme performance and noted a sustained strong commitment to reforms. See IMF Executive Board Concludes the 2023 Article IV Consultation and the Second Review under the Extended Fund Facility Arrangement for Ukraine.

[12] Regulation (EU) 2024/792 of the European Parliament and of the Council of 29 February 2024 establishing the Ukraine Facility, OJ L, 2024/792, 29.2.2024

COVID-19-related part of the assistance. The third and final instalment of EUR 200 million was disbursed on 3 May 2023, again following a positive assessment of the policy conditionality relating to revenue mobilisation and procurement policies, and longer-term challenges such as improving the functioning of the water and electricity sectors or labour market policy to improve the education of young people.

The MFA support was provided in conjunction with resources from international financial institutions and bilateral donors, including the IMF. On 25 March 2020, the IMF approved a 4-year Extended Fund Facility (EFF) programme with Jordan, initially of USD 1.3 bn, which was increased twice in 2021-2022 to about USD 1.49 bn (334% of Jordan’s quota). Total IMF disbursements to Jordan for the period 2020-2023 amounted to about USD 1.7 bn, which included in May 2020 around USD 390 million in emergency assistance under the Rapid Financing Instrument to help Jordan deal with the impact of the pandemic. In late 2023, when only a small amount was left in the 2020 EFF following significant front-loading of disbursements, the IMF proposed to terminate the programme early and replace it with a new EFF.

In January 2024, the IMF Executive Board approved a new arrangement under the EFF for Jordan for USD 1.2 billion covering the period 2024-2027. In October 2023, in view of the increased regional uncertainty and challenging external environment, the Jordanian authorities sent a request for a follow-up MFA (see Section 5).

3.3 Western Balkans

- **North Macedonia**

On 6 February 2023, the Commission adopted a proposal to provide MFA to North Macedonia, for an amount of EUR 100 million in loans in two equal instalments. The proposal was adopted by the co-legislators in July 2023 and the MoU was agreed with the authorities in August 2023. The MoU contains 20 policy conditions (of which 8 relate to the first disbursement) in the following areas: public finance; business environment; education and labour market; energy; and judiciary, good governance and the fight against corruption. The Commission has assessed that all conditions in relation to the first instalment have been met and the release of the corresponding EUR 50 million disbursement was decided on the 22nd of April.

The MFA is contingent on a positive track record regarding the ongoing IMF programme. On 22 November 2022, following the authorities’ request and a staff-level agreement, the IMF Board adopted a 24-month arrangement under the Precautionary and Liquidity Line of EUR 530 million. Half of this amount is being disbursed and the rest precautionary. In January 2024, the IMF completed its first review under the Precautionary and Liquidity Line arrangement.

4. ENSURING THE PROPER USE OF MFA FUNDS: OPERATIONAL ASSESSMENTS, *EX POST* EVALUATIONS

4.1 Operational assessments

In line with the requirements of the EU Financial Regulation, the Commission carries out operational assessments with the help of external consultants to obtain reasonable assurances on the functioning of administrative procedures and financial circuits in beneficiary countries.

Operational assessments focus on public financial management systems, in particular how finance ministries and central banks are organised and what procedures they implement, and – more specifically – on how the accounts receiving EU funds are managed. Special attention is also paid to the functioning, independence and work programmes of external audit institutions, and how effective their checks are. Public procurement procedures at central level are also examined.

An operational assessment of Ukraine's administrative and financial circuits was conducted for the exceptional MFA support in 2022 ([13]) and the MFA+. It was the third such assessment undertaken in Ukraine, although this time conducted remotely due to wartime conditions. Overall, it concluded that considerable progress had been made in strengthening public financial management systems and other financial circuits since the last exercise of 2018. It also highlighted the ongoing commitment by Ukrainian authorities to continuous improvement. The assessment stressed the need to prioritise public financial management reforms in key priority areas, such as capacity building, and in clarifying roles in audit and internal control functions. Further momentum in these priority areas is recommended once the security situation allows for it and in view of the sizeable reconstruction efforts ahead.

In 2023, a new operational assessment of North Macedonia was initiated in the context of the new MFA operation. The external consultants concluded that the financial circuits and procedures of the country are deemed satisfactory for the purposes of MFA. They asserted that North Macedonia's public financial management system is generally sound and has made significant progress in recent years.

4.2 Evaluations

In line with the Financial Regulation and the corresponding MFA decisions, the Commission conducts evaluations ([14]) after the completion of MFA operations to assess their impact. The two main objectives of these evaluations are firstly to analyse the impact of MFA on the beneficiary country's economy, and in particular on the sustainability of its external position, and secondly to assess the added value of the EU action.

In 2023, the Commission launched the joint *ex post* evaluation of the operations to the Eastern Partnership countries of Moldova, Georgia and Ukraine (2017-2020). The

[13] Decisions (EU) 2022/1201 and (EU) 2022/1628.

[14] All evaluations are available on the Commission's website: https://ec.europa.eu/info/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities_en.

accompanying staff working document will be published in 2024. Across all three countries, the study's preliminary results concluded that operations had a positive impact on debt sustainability and the macroeconomic situation. This was particularly significant in the case of Ukraine, given the larger scale of the operation and the country's more challenging macroeconomic framework. Despite differing designs linked to distinct political contexts, the three operations were successful in fostering a positive change in a number of key reform areas. The operations were found to be consistent with the overall EU policy framework, aligning with authorities' reform agendas and other donors' programmes.

5. General developments related to the MFA instrument

5.1 Functioning of the MFA instrument

The 2013 Joint Declaration of the European Parliament and the Council on MFA ([15]) frames the assistance as being of a macroeconomic and financial nature and clearly states that its aim is 'to restore a sustainable external finance situation for eligible countries and territories facing external financing difficulties.' For MFA to be successful as an emergency instrument, it is therefore important to mobilise it effectively and in time. The decision-making involving the ordinary legislative procedure has often been identified as time-consuming and a major shortcoming for a crisis instrument that is meant to respond quickly to a balance-of-payments crisis ([16]).

However, recent experiences with the COVID-19 MFA package and the different MFA operations to Ukraine (emergency MFA, exceptional MFA, MFA+) showed that the current set-up of MFA can enable a very swift adoption, if all institutions make full use of the available procedural flexibilities at their disposal. In these cases, the Commission worked with Parliament and the Council to agree on the use of existing urgency procedures that made it possible for the corresponding assistance to be adopted by both co-legislators within 1 month of the Commission's respective proposals. Parliament invoked a specific clause (Rule 163) in their Rules of Procedure, which permitted it to adopt the proposal directly in its plenary, skipping the International Trade **(**INTA) Committee stage, which would have been involved as per the regular practice.

Thus, the Rules of Procedure of both the European Parliament and the Council provide for an accelerated procedure necessary for swift adoption in urgent situations. By having timely, constructive contacts, it proved possible to have a faster adoption process under the ordinary legislative procedure, with the full involvement of Parliament in those cases. Nevertheless, in view of the urgency of being in a position to provide support already in the second half of 2024, the Commission exceptionally decided in March 2024 to propose a first urgent, short-term MFA to Egypt on the basis of Article 213 TFEU (applicable for cases where urgent financial assistance is required and with only the Council adopting the MFA operation). Recognising the second-best nature of this option, the bulk of the MFA support for Egypt was proposed under a second, more medium-term

[15] Joint Declaration by the European Parliament and the Council adopted together with the decision providing further macro-financial assistance to Georgia (Decision No 778/2013/EU of 12 August 2013). Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D0778&from=EN

[16] A meta-evaluation of the last decade of operations was held in 2023 - COM(2023) 0016, final; Commission Staff Working document Evaluation of Macro financial assistance to third countries (Meta-evaluation of operations for 2010-2020).

MFA operation that will follow the normal procedures under Article 212 TFEU, duly involving both co-legislators.

The upcoming preparations for the next multiannual financial framework (MFF) will provide an opportunity to draw lessons from recent experiences with MFA. This could feed a reflection on the future of the MFA with the Parliament and the Council.

5.2 MFA in the 2021-2027 multiannual financial framework

The EU's partner countries continue to be vulnerable due to structural weaknesses in their economies. The region also remains exposed to high geopolitical uncertainty and continues to experience economic instability, further exacerbated by Russia's war of aggression against Ukraine, and most recently by the conflict in escalations in the Middle East. Given this situation, the need for the EU to consider providing MFA is likely to remain high in the years to come. It is therefore important to make sure that sufficient budgetary resources remain available for the MFA instrument in the coming years.

MFA loans are guaranteed by the External Action Guarantee under the NDICI-Global Europe Regulation, at a provisioning rate of 9% as was the case under previous MFFs ([17]). The total budget initially earmarked for the provisioning of MFA loans was fixed at around EUR 1 billion, which translates into a volume of loans of EUR 11 billion. Since the beginning of the current MFF in 2021, and in the context of the EU's sizeable support to Ukraine via MFA in 2022, around two thirds of the earmarked provisioning had already been used by the end of 2023. It is in this context that following the extraordinary European Council of 1 February 2024 on MFF mid-term review, around EUR 225 million of provisioning liabilities related to the exceptional MFA operation of EUR 5 billion to Ukraine disbursed in 2022 was transferred to the Ukraine Facility. Combined with reinforcements of the budget for the provisioning of MFA loans, this will allow to fund the proposed MFA package to Egypt of up to EUR 5 billion (see section 6 below) should it be adopted by the co-legislator(s), while leaving some room for other MFA operations until the end of 2027.

The significantly elevated risks associated with the support to Ukraine since the outbreak of the war warranted special treatment from a budgetary perspective. Box 1 provides some detail on this with a focus on 2023.

Box 1 – Budgetary treatment of support to Ukraine in 2023

In 2022, the EU's financial support to Ukraine in response to the Russian war of aggression evolved progressively, reflecting the country's evolving funding needs in a situation characterised by exceptional uncertainty. This resulted in the provision of three atypical MFA operations in 2022, with the introduction of several novel exceptional budgetary arrangements as compared to regular MFA operations. Drawing on the lessons of this piecemeal manner of support, the MFA+ instrument was designed to provide funding for the full year of 2023 in a more regular and predictable manner.

The emergency MFA to Ukraine of up to EUR 1.2 billion in loans was adopted on 28 February 2022 and followed the regular pattern of MFA operations (provisioned at 9% of the nominal value of the loan, in accordance with the NDICI-Global Europe

[17] The Regulation (EU) 2021/947 - NDICI-Global Europe instrument entered into force in June 2021, after its formal adoption by Parliament and the Council. While the Regulation therefore plays an important role in the budgetary set-up of MFA, the MFA instrument as such remains separate from NDICI-Global Europe, and specific MFA operations continue to be activated, as needed, by separate ad hoc decisions on the basis of the applicable Treaty legal basis.

Regulation). Nevertheless, the elevated risk in the exceptional war context for the increasing financing volumes required an adjustment in the budgetary risk coverage of the exceptional MFA operations of up to EUR 6 bn in loans ([18]) that followed. A coverage of 70% of their value was considered sufficient ([19]). Given the limited budgetary availability under the MFA, this translated into paid-in provisions under the EU's budget at the traditional 9% provisioning rate to the common provisioning fund and additional callable bilateral national guarantees by Member States for the remaining 61% of the amounts. Loans to Ukraine provided by the European Investment Bank under the External Lending Mandate were likewise subject to a 70% coverage to be fully paid into the common provisioning fund. The underlying legal base in Article 13 of Decision (EU) 2022/1628 of the European Parliament and of the Council of 20 September 2022 obliges the Commission to review the adequacy of the 70% rate every 6 months, starting on 30 June 2023, and on an ad hoc basis, should developments so require. When the Commission deems appropriate an increase or decrease of the provisioning rate, the Commission is empowered to adopt a delegated act to this effect. The Commission finalised its first review in July 2023 ([20]) and concluded that there were not sufficient new lasting and meaningful elements that would justify an upward or downward change of the provisioning rate of 70%. In its second assessment, the Commission informed the European Parliament and the Council in December 2023 that, while noting positive signals in the Ukrainian economy, there was not sufficiently materialised evidence that these developments can be considered to have a lasting and meaningful impact on the adequacy of this provisioning rate to warrant a departure from the findings of the first review. Against this background, the Commission suggests continuing to apply the 70% provisioning rate. It was decided that a more extensive assessment of the adequacy of the provisioning rate would be undertaken once more clarity was attained on developments and events with a significant bearing. These would notably include the evolution of the IMF programme and the materialisation of broad-based donor support for 2024 and later years, including the EU's Ukraine Facility.

As regards financial support for Ukraine in 2023, to limit the crowding out effect of the sizeable support to Ukraine via the EUR 18 bn MFA+ operation on future MFA operations in other partner countries, it was decided that the risks associated with this lending would be covered in a different manner than for the 2022 MFA packages to Ukraine. More precisely, the corresponding financial liability is guaranteed over and above the MFF ceilings by the so-called 'headroom'. The headroom is the difference between the own resources ceiling (i.e. the maximum amount of resources that Member States can be asked to contribute in a given year) and the funds that the Commission actually needs to cover the expenses foreseen by the budget. Such novel solution was agreed and implemented via a targeted amendment of the MFF Regulation in December 2022([21]). As a result of the MFA+ being backed by a guarantee from the EU budget headroom, which replaced the provisioning that the NDICI-Global Europe Regulation usually stipulates, the release of funds under the MFA+ is having no immediate impact on the overall amount of budgetary provisioning. Drawing on this experience, the

[18] This refers to the exceptional MFA operation of EUR 1 billion as adopted in Decision (EU) 2022/1201 of 12 July 2012 and the exceptional MFA operation of EUR 5 billion as adopted in Decision (EU) 2022/1628 of 20 September 2023.

[19] The Regulation also includes a review clause of the provisioning rate, every 6 months, given the exceptional uncertainty given the current war.

[20] Commission staff working document *First review of the 70% provisioning rate for Macro-financial Assistance (MFA) and certain EIB loan disbursements covered by the External Lending Mandate (ELM) to Ukraine*, SWD (2023) 264 final of 18.7.2023.

[21] OJ L 325, 20.12.2022, p. 11–12.

Ukraine Facility adopted by the EU's co-legislators on 29 February 2024 envisages a comparable guarantee from the headroom of the loans provided under this instrument. This was made possible via an amendment of the MFF Regulation 2021-2027[22] in the context of the MFF mid-term revision package, proposed by the Commission in June 2022, as agreed and adopted in February 2024. As part of the overall political agreement, the Ukraine Facility will also cover the interest rate subsidy and the paid-in provisioning of 9% for the exceptional MFA operations that had not yet been committed at the end of 2023 (around EUR 225 million).

6. Looking ahead - MFA operations and Budgetary situation in 2024

In light of the crisis-driven nature of MFA, it is impossible to provide with any degree of certainty an outlook of future operations for the remainder of this MFF. This section therefore describes operations already approved in 2024 or potential operations, illustrating the non-programmable feature of MFA initiatives.

On 8 October 2023, the Jordanian authorities requested a follow-up MFA operation of EUR 700 million. The call for further assistance came in a situation of increased uncertainty and regional instability, not least due to the escalations in the Middle East. In January 2024, the IMF Executive Board approved a new arrangement under the Extended Fund Facility for Jordan for USD 1.2 billion for 2024-2027. Jordan has structural economic weaknesses that translate into chronic fiscal and external deficits and is vulnerable to external shocks reflected in a high external financing gap, which is expected to persist in the current context of high downside risks to the tourism and trade sectors. Taking this into account, the Commission adopted a new MFA proposal on 8 April 2024[23] for an amount of up to EUR 500 million in loans to be disbursed in three instalments between 2024 and 2027.

On 12 March 2024, Egypt requested macro-financial assistance of EUR 5.5 billion following the signature of a new staff-level agreement with the IMF and an increase of the ongoing IMF programme from USD 3 billion to USD 8 billion. Egypt has similarly been affected by external shocks, notably Russia's continued war of aggression with Ukraine and spillovers from the escalations in the Middle East. Resulting portfolio outflows and falling foreign currency receipts from lower tourism and Suez Canal revenues contributed to a significant widening of the external financing gap, with continued downside risks due to the complex geopolitical situation. Therefore, the Commission has proposed an MFA package of up to EUR 5 billion, consisting of a short-term MFA operation of up to EUR 1 billion based on Article 213 TFEU for disbursement still in 2024 (adopted by the Council on the 12th of April), and the bulk of the MFA package, of up to EUR 4 billion for 2025-2027, under a regular operation under Article 212 TFEU. These operations will help to address urgent short-term needs for macroeconomic stabilisation at a crucial moment for Egypt and the wider region and, in the medium to long term, to support and complement the IMF's reform agenda by fostering a more resilient and sustainable growth model.

In November 2022, Tunisia requested additional EU macro-financial assistance of EUR 1.2 billion to support its financing needs in the context of the worsened global environment and high international commodity prices. This followed the staff-level

[22] OJ L, 2024/765, 29.2.2024.
[23] COM(2024) 159 final.

agreement reached with the IMF in October 2022 for a new Extended Fund Facility (4 years, USD 1.9 billion). However, the IMF Board has not yet adopted the programme as prior actions have not yet been implemented by Tunisia, notably regarding fuel subsidy reform. Thanks to buoyant tourism and steady remittances, Tunisia's external financing pressure has temporarily eased. Subject to a careful assessment of MFA preconditions and Tunisia's external financing needs, the Commission stands ready to prepare a proposal for a new MFA once the IMF programme is in place, as also confirmed in the framework of the comprehensive partnership between the EU and Tunisia, agreed in July 2023.

Similarly, in April 2022, Lebanon reached a staff-level agreement with the IMF (4 years, USD 3 billion) but has made only limited progress on its long list of prior actions. In the meanwhile, GDP has continued shrinking, many public institutions have stopped functioning, and the currency has lost value dramatically leading to broad-based dollarisation of the Lebanese economy. The Commission stands ready to support a comprehensive reform agenda with an MFA operation once the preconditions, including an on-track disbursing of the IMF programme, are fulfilled.

The Commission stands ready to consider any other forthcoming requests for MFA and, if appropriate, will propose new and/or follow-up MFA operations to eligible partners.

Table 1 provides an overview of commitments and payments of MFA grants and the disbursement of MFA loans for 2021, 2022, 2023 and (provisionally) 2024.

Table 1: Commitments and payments for MFA grants and disbursements of MFA loans 2021-2024 (EUR)([24])

	2021	2022	2023	2024
Commitment appropriations for grants in the budget	227 200	30 114 460	45 423 330	57 367 177
Operational assessments, *ex post* evaluations	227 200	114 460	423,330	750 000
Other possible MFA operations	-	30 000 000	45,000,000	56 617 177
Commitments, total	227 200	30 114 460	45,423,330	57 367 177
Payment appropriations for grants in the budget	362 400	20 868 187	39,880,000	57 367 177
Operational assessments, *ex post* evaluations	362 400	-	218,845	750 000
MFA Moldova (EU 2022/563)	-	15 000 000	10,000,000	5 000 000
MFA Moldova (top-up) (EU 2023/1165)			22,500,000	22 500 000
Other possible MFA operations	-	-	-	29 117 177
Payments, total	362 400	15 000 000	32,718,845	57 367 177
Unused allocations for grants payments		5 868 187	7,161,155	-
Disbursements of MFA loans				
MFA Jordan III (completed)	200 000 000	-	200 000 000	-
MFA Moldova	-	35 000 000	40 000 000	45 000 000
Emergency MFA Ukraine	-	1 200 000 000	-	-
Exceptional MFA Ukraine	-	6 000 000 000	-	-
MFA Moldova top-up	-	-	50 000 000	50 000 000
MFA+ Ukraine	-	-	18 000 000 000	-
MFA North Macedonia	-	-	-	100 000 000
MFA Egypt (in preparation)	-	-	-	1 000 000 000
Disbursements of MFA loans, total	**200 000 000**	**7 235 000 000**	**18 290 000 000**	**1 195 000 000**
COVID-19 MFA operations				
MFA Moldova (completed)	50 000 000	-	-	-
MFA Ukraine (completed)	600 000 000	-	-	-
MFA Jordan (completed)	50 000 000	-	-	-
MFA Tunisia (completed)	300 000 000	300 000 000	-	-
MFA Albania (completed)	180 000 000	-	-	-
MFA Bosnia and Herzegovina (partially disbursed)	125 000 000	-	-	-
MFA Kosovo (completed)	50 000 000	-	-	-

[24] The table does not take into account any proposal for new MFA operations after April 2024.

MFA Montenegro (completed)	30 000 000	-	-	-
MFA North Macedonia (completed)	80 000 000	-	-	-
Disbursements of COVID-19 MFA loans, total	**1 465 000 000**	**300 000 000**	**-**	**-**
Disbursements of all MFA loans, total	**1 665 000 000**	**7 535 000 000**	**18 290 000 000**	**1 195 000 000**