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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 2016

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1. INTRODUCTION

Macro-financial assistance, or MFA, is an EU financial instrument[1] designed to address exceptional external financing needs of countries that are geographically, economically and politically close to the EU. Its objective is to restore macroeconomic and financial stability in candidate and potential candidate countries and in countries in the European neighbourhood, while encouraging macroeconomic adjustment and structural reforms.

MFA is a balance-of-payments support instrument, which complements and is conditional on the existence of an adjustment and reform programme agreed with the International Monetary Fund (IMF). It takes the form either of loans, for which the Commission borrows the necessary funds in capital markets and on-lends them to the beneficiary country, or, under certain circumstances, grants financed by the EU budget.

MFA is conditional on respect for human rights and effective democratic mechanisms in the beneficiary country. It is released in tranches strictly tied to the successful implementation of strong reform measures aimed at returning the beneficiary country's economy to a long-term sustainable path. In this way, MFA complements regular EU cooperation assistance and contributes to the wider goal of preserving stability and promoting prosperity beyond the EU.

2016 was characterised by progress in the implementation of existing MFA programmes for Georgia, the Kyrgyz Republic, Tunisia and Ukraine, although a number of disbursements had to be delayed for reasons beyond the EU's control. In addition, the continuing difficult political and economic situation in some of the neighbourhood countries triggered the approval of two follow-up operations in Tunisia and Jordan, and a new operation in Moldova, proposed by the Commission on 13 January 2017. The new operation in Moldova is included in this report because of the substantial preparatory work carried out on it in 2016.

This annual report is prepared in accordance with the Commission's information obligations as laid down in the various Council and joint European Parliament and Council decisions on MFA operations. It is accompanied by a Commission staff working document providing more detailed information on, and analysis of, the macroeconomic context and implementation of individual MFA operations.

[1] The legal basis for macro-financial assistance to third countries other than developing countries is Article 212 TFEU.

2. BACKGROUND

2.1. Developments over the last few years

Over the past years, MFA has become an increasingly prominent instrument in the EU's external toolbox. Indeed, in a context of persisting macroeconomic and political instability in the EU's neighbourhood, MFA has been widely recognised as an effective crisis response instrument, enabling the EU to intervene in a visible and flexible manner and with considerable policy leverage. This is confirmed by the increasingly high demand for MFA over the past 8 years and the consequent surge in MFA volumes, which have increased from EUR 1.5 billion in commitments for the period 2000-2008 to EUR 5.1 billion since 2009.

Following a first increase in the number and volume of operations after the 2008-2009 global economic and financial crisis[2], an even greater use of MFA has been made from 2013 onwards. The political and economic upheavals in the Arab Mediterranean partner countries have led to increased demand for MFA since 2012, with requests for support from Egypt, Jordan and Tunisia. Meanwhile in 2014, the conflict in eastern Ukraine and the marked deterioration of the country's economic and financial situation triggered MFA support at an unprecedented level. Indeed, between 2014 and 2015, a total of EUR 3.4 billion was made available to Ukraine under three MFA operations, which represents the largest financial assistance ever granted to a non-EU country in such a short period of time.

2.2. Improving the functioning of the MFA instrument

As the geopolitical and economic instability of the EU's neighbourhood persists, the need for EU macro-financial support is likely to remain high in the years to come. In this setting, as part of the mid-term review of the 2014-2020 Multiannual Financial Framework, the Commission has proposed a more powerful instrument of macro-financial support[3]. This proposal, put forward by the Commission on 14 September 2016, aims at enhancing the annual lending capacity of the MFA from currently EUR 500 million to EUR 2 000 million, by increasing the provisioning of the Guarantee Fund for External Actions[4].

Moreover, recent experience, in particular the need to swiftly launch new MFA operations in Ukraine in 2014 and 2015, has again underlined the need to ensure that MFA, as an emergency instrument, can be mobilised rapidly in reaction to crisis situations. Expediting decision-making was one of the main objectives of the proposal for a Framework Regulation laying down general provisions for MFA to third countries,

[2] This resulted in six new MFA operations in support of Armenia, Bosnia and Herzegovina, Georgia, Moldova, Serbia and Ukraine, accounting for a total of EUR 1.3 billion.

[3] SWD(2016) 299 final.

[4] The Guarantee Fund for External Action bears the EU's overall exposure to the risk on non-repayment by countries benefiting from MFA as well as from EIB and Euratom external lending operations. It is provisioned at a rate of 9 % of the total outstanding liabilities under EU budget guarantee at the end of each year, with a two-year lag. To reach a lending capacity of EUR 2 000 million per year, an additional provisioning of EUR 135 million will be required annually.

presented by the Commission in 2011[5]. However, the proposal was not approved by the European Parliament and Council (the co-legislators) and was subsequently withdrawn by the Commission. As a result, decisions on MFA continue to be made under the ordinary legislative procedure (OLP). The co-legislators have made efforts to speed up decision-making under the OLP. This was particularly true in the case of the last MFA operation in Ukraine, which was adopted within a little more than 3 months in 2015. Nevertheless, the margin for accelerating the adoption of MFA decisions under the ordinary legislative procedure remains limited.

In its proposal for a decision of the European Parliament and of the Council providing further macro-financial assistance to Tunisia of 12 February 2016, the Commission inserted seven technical, non-country-specific changes into the text of its previous proposals. The co-legislators accepted five of the seven technical changes which concern the following five specific aspects of implementation of MFA decisions by the Commission:

- the maximum average maturity of MFA loans;
- the fulfilment of MFA conditionality;
- the release of MFA disbursements;
- the protection of the EU's financial interests;
- operational assessments.

The changes do not alter the main characteristics of the MFA instrument, but rather build on the experience the Commission has gathered and broadly aim to align the technical wording of decisions with the established and agreed practice of managing MFA operations. The changes also seek to word specific provisions more clearly or in line with specific recommendations from the Court of Auditors. Discussions with the Council and Parliament led to an agreement to introduce the five changes into the MFA Jordan Decision of 14 December 2016[6], which now forms the basis for future MFA decisions.

The Commission will continue to liaise with the co-legislators and explore ways of improving the effectiveness and efficiency of the current decision-making process.

3. MACRO-FINANCIAL ASSISTANCE OPERATIONS IN 2016

3.1. Overview

As of end 2016, the status of implementation of MFA programmes was the following:

- **Georgia**: In August 2013, the EU approved an MFA operation of up to EUR 46 million for Georgia[7], to be disbursed in two equal tranches of EUR 23 million. The disbursement of the first tranche took place in 2015: EUR 13 million in grants in January and EUR 10 million in loans in April. The

[5] COM(2011) 396 final, 4.7.2011.

[6] Decision (EU) 2016/2371 of the European Parliament and of the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 352, 23.12.2016, p. 18).

[7] Decision No 778/2013/EU of the European Parliament and of the Council of 12 August 2013 providing further macro-financial assistance to Georgia (OJ L 218, 14.8.2013, p. 15).

disbursement of the second tranche (EUR 10 million in grants and EUR 13 million in loans) was delayed due to the lack of progress under the programme agreed with the IMF in July 2014. With the approval by the IMF Executive Board of a new USD 285 million Extended Fund Facility programme on 12 April 2017, the Commission proceeded to disburse the second tranche of MFA in May 2017.

- **Jordan II**: On 14 December 2016, the co-legislators adopted a decision[8] to provide additional MFA to Jordan (MFA II) of up to EUR 200 million, entirely in loans, as a follow-up to the EUR 180 million operation completed in 2015. The assistance is planned to be disbursed in two equal tranches during 2017.
- **Kyrgyz Republic**: This MFA operation, approved in October 2013[9], consisted of EUR 15 million in loans and EUR 15 million in grants. The operation was completed in 2016 following the disbursement of the second tranche in two instalments: EUR 5 million in grants in February 2016 and EUR 10 million in loans in April 2016.
- **Tunisia I and II**: In December 2013, the Commission presented a proposal to provide MFA to Tunisia (MFA I) of up to EUR 250 million in loans. The co-legislators amended the proposal, however, increasing the amount of the assistance to EUR 300 million, and adopted the decision in May 2014[10]. Following disbursement of the first two tranches worth EUR 100 million each in 2015, delays by the Tunisian authorities over the implementation of the agreed policy measures prevented the EU from disbursing the third and last tranche of the programme in 2016 as originally planned. On 6 July 2016, the EU approved an additional MFA to Tunisia of up to EUR 500 million in the form of loans[11] . Following the Member States' endorsement, the memorandum of understanding (MoU) and the loan facility agreement were signed on 27 April 2017.
- **Ukraine III:** This is the third operation to be implemented in Ukraine since 2014, accounting for up to EUR 1.8 billion in loans. It was approved by the co-legislators in April 2015. Together with the two operations implemented between May 2014 and April 2015[12], the third MFA operation brought the total EU MFA made available to Ukraine since the onset of the crisis to EUR 3.4 billion. Following disbursement of the first tranche (EUR 600 million) in July 2015, the second EUR 600 million tranche of the operation was long on hold due to insufficient progress on a number of agreed reform measures. However, it was disbursed in April 2017 in response to the measures adopted by the authorities at

[8] Decision (EU) 2016/2371 of the European Parliament and of the Council of 14 December 2016 providing further macro-financial assistance to the Hashemite Kingdom of Jordan (OJ L 352, 23.12.2016, p. 18).

[9] Decision No 1025/2013/EU of the European Parliament and of the Council of 22 October 2013 providing macro-financial assistance to the Kyrgyz Republic (OJ L 283, 14.8.2013, p. 1).

[10] 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, 21.5.2014, p. 9).

[11] Decision (EU) 2016/1112 of the European Parliament and of the Council of 6 July 2016 providing further macro-financial assistance to Tunisia (OJ L 186, 9.7.2016, p. 1).

[12] Decision (EU) 2015/601 of the European Parliament and of the Council of 15 April 2015 providing macro-financial assistance to Ukraine (OJ L 100, 15.4.2015, p. 1).

the end of 2016 and in early 2017 to address some outstanding issues and Ukraine's overall satisfactory implementation of the MFA programme. The third tranche of EUR 600 million is expected to be made available in the course of 2017.

In addition, following a request by the **Republic of Moldova**, the Commission adopted on 13 January 2017 a proposal for an MFA programme of up to EUR 100 million to support the country, which had been facing increasingly difficult economic and financial conditions. The proposed EU MFA, which is expected to be adopted by the European Parliament and the Council in mid-2017, consists of EUR 40 million in grants and EUR 60 million in loans, to be disbursed in three tranches in 2017-2018. Disbursement will be strictly conditional on Moldova making good progress with the IMF programme and implementing specific policy conditionality to be agreed with the EU in a memorandum of understanding.

3.2. Individual operations in the beneficiary countries in 2016

3.2.1. Georgia

In August 2013, the EU adopted an MFA programme for Georgia of up to EUR 46 million, half in grants and half in loans, to be provided in two equal tranches. Following the conclusion of a Stand-by Arrangement of USD 154 million between Georgia and the IMF in July 2014, the MoU, the loan facility agreement and the grant agreement were signed in December 2014 and where necessary ratified by the Georgian Parliament.

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 implemented all relevant policy measures outlined in the MoU for the second tranche of EUR 10 million in grants and EUR 13 million in loans, but disbursement had been delayed due to problems over implementation of the IMF programme. However, on 12 April 2017 the IMF Executive Board approved a new USD 285 million Extended Fund Facility arrangement for Georgia. Therefore, the Commission has decided to proceed with the disbursement of the second tranche of MFA in May 2017. The authorities have also expressed their interest in a possible follow-up MFA operation to complement the IMF.

In 2016, Georgia continued to face a weak external environment, which, through reduced exports and remittances, contributed to a relatively subdued GDP growth estimated at 2.7 %. In this context, Georgia's fiscal deficit has widened, reflecting both weaker-than-expected revenues and spending increases ahead of the October 2016 parliamentary elections. The lari has depreciated sharply over the past 2 years, losing 50 % of its value against the US dollar between November 2014 and December 2016. External vulnerabilities have increased, with the current account deficit estimated to have reached 13.3 % of GDP at end-2016 and external debt estimated at 108 % of GDP. With 80 % of public debt denominated in foreign currency, the lari depreciation has also resulted in a rise in the public debt-to-GDP ratio, although public debt has remained broadly unchanged in US dollar terms. The level of foreign exchange reserves was relatively stable at USD 2.8 billion at end-December 2016 (up from USD 2.7 billion in December

2014), covering about 4 months of 2017 projected imports. Georgia’s financial system remains sound and well capitalised overall, particularly thanks to prudent supervision and regulation by the central bank.

3.2.2. Jordan

As regional instability deepened, with negative repercussions for the economy, the Jordanian authorities requested on 3 March 2016 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 for EUR 200 million in loans. The assistance is envisaged to be released in two equal tranches in 2017. 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. Some delays were observed in the implementation of the USD 723 million three-year IMF programme under the EFF, which was approved in August 2016, mainly in the area of tax reform.

In 2016, on the back of the continuing conflicts in Iraq and Syria, Jordan’s GDP growth slowed down to an estimated 2.1 % from 2.4 % in 2015. The unemployment rate increased to 15.3 % in 2016, from 13.1 % in 2015. Helped by the sharp decline in fuel and transportation prices, inflation fell by 0.8 % in 2016, continuing its negative trend from 2015.

Despite the slowdown in the economy, the overall fiscal deficit is estimated to have improved to around 3.6 % of GDP in 2016 from 5.4 % in 2015. Jordan’s gross public debt increased in November 2016 to 95.6 % of GDP from 93.4 % of GDP at the end of 2015. The public-debt dynamics are, however, judged by the IMF to be sustainable if the country continues to deliver on further medium-term fiscal adjustment and is supported by the international community. The current account deficit (excluding grants) is estimated to have increased to 12.6 % of GDP for 2016 compared with 12 % of GDP in 2015. In December 2016, net international reserves in foreign currency stood at USD 12.8 billion, equivalent to 7.2 months of projected imports.

A joint statement adopted by the 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, if appropriate, 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.

3.2.3. Kyrgyz Republic

In the wake of ethnic and political violence that resulted in a sharp drop in economic activity and a sizeable external financing gap, the EU pledged to support the recovery of the Kyrgyz Republic at an international donor conference in Bishkek in July 2010. This led to a Commission proposal in December 2011 to provide the Kyrgyz Republic with MFA of up to EUR 30 million (EUR 15 million in loans and EUR 15 million in grants). The MFA decision was adopted by the European Parliament and the Council on

22 October 2013. The MoU and loan facility agreement were signed in late 2014 and ratified by the Kyrgyz Parliament in February 2015.

This MFA operation was exceptional in that the Kyrgyz Republic lies outside the normal geographical scope of MFA. However, it 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 was disbursed in 2015, consisting of a EUR 10 million grant in June 2015 and a EUR 5 million loan in October 2015. Following the satisfactory completion of the compliance review for the second tranche, the Commission disbursed the grant element of this tranche (EUR 5 million) to the Kyrgyz authorities on 10 February 2016. The loan element (EUR 10 million) was disbursed on 13 April 2016.

The Kyrgyz economy has been holding up relatively well since the regional slowdown and in particular the recession in Russia that started in 2014. After growing by 3.6 % in 2014 and 3.5 % in 2015, Kyrgyz GDP increased by 3.8 % in 2016 thanks to the solid performance of the country's agricultural and services sectors. The 2016 budget deficit decreased to 4.5 % of GDP from 7.9 % of GDP in 2015 due to reduced spending and the postponement of the completion of some investment projects. The impact of the som's appreciation in 2016 (13 % in dollar terms) on import prices and its partial knock-on effect on domestic prices has been strengthened by a tight monetary stance and the impact of higher remittance inflows on household consumption. This had a welcome effect on inflation, which dropped to -0.4 % in 2016.

The country's balance-of-payments situation remains vulnerable, however, reflecting a structurally large current account deficit, which is estimated to have improved only marginally to 9.6 % of GDP in 2016 from 10.9 % of GDP in 2015. Total international reserves stood at USD 1.97 billion by the end of 2016, or 3.8 months of forecast imports.

3.2.4. Moldova

The Republic of Moldova has faced a difficult period over the last few years on both the economic and political fronts. A major banking fraud scandal erupted in November 2014, exposing severe governance problems that were accompanied by political instability. These developments also led to a deceleration in economic growth and to the suspension of budget support by Moldova's international partners.

Moldova entered a recession in 2015, with its GDP decreasing by 0.5 %. In 2016, GDP grew by about 2 %, mostly due to an increase in agricultural activity. Consumer price inflation was on a downward trend, reaching 2.4 % by the end of 2016 from 13.5 % in 2015.

The government has been experiencing substantial fiscal pressures due to lower budget revenues and the interruption of budget support from donors. These factors contributed to the increase in the budget deficit to 3.2 % of GDP. Government debt increased to 45.7 % of GDP in 2016, as a result of the emergency loans with state guarantees issued by the central bank to the three banks under liquidation in 2015. As a result of the crisis in the financial sector, international reserves declined by 35 % between September 2014 and February 2015 to USD 1.7 billion, or about 4.3 months of imports. Since then, reflecting the stabilisation and recovery in the foreign exchange market, the central bank accumulated USD 2.1 billion in foreign reserves by December 2016, which represents an estimated 5.1 months of projected imports.

In this context, in July 2016 the authorities finally reached an agreement with the IMF on a programme to be supported by a three-year Extended Credit Facility and Extended Fund Facility (ECF/EFF) arrangement worth USD 179 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 the request from the Moldovan Government and in the context of the above-mentioned political and economic developments, on 13 January 2017 the Commission submitted to the European Parliament and the Council a proposal for a decision providing MFA to the Republic of Moldova of up to EUR 100 million, of which EUR 60 million in loans and EUR 40 million in grants. The proposed amount is justified based on an 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 grant element is justified by Moldova's low level of economic development and eligibility for concessional financing from the IMF and the World Bank.

3.2.5. Tunisia

In May 2016, Tunisia and the IMF entered a USD 2.9 billion Extended Fund Facility arrangement expiring in May 2020, aimed at supporting the country's five-year economic programme (2016-2020). The EFF follows an IMF 24-month Stand-By Arrangement amounting to USD 1.75 billion approved by the IMF in June 2013 and concluded in December 2015. Tunisia obtained complementary MFA from the EU for an amount of EUR 300 million in loans. This operation was approved in May 2014 and partly disbursed (first two tranches, totalling EUR 200 million) in the course of 2015. The disbursement of the last tranche (EUR 100 million) of this operation has been delayed, reflecting insufficient implementation of some of the agreed policy measures and difficulties with the IMF programme. In view of the continuing economic difficulties, exacerbated by the 2015 terrorist attacks and the overall regional instability, on 6 July 2016 additional MFA to Tunisia of up to EUR 500 million in loans was approved by the co-legislators. Following the conclusion of the negotiations between the Commission and the Tunisian authorities in December 2016, the MoU and the loan facility agreement were signed on 27 April 2017.

Tunisia's GDP growth rate for 2016 is estimated to have reached 1.1 %, a slight acceleration from the 0.8 % recorded in 2015. The unemployment rate stands at 15.5 %. Inflation averaged around 3.7 % in 2016, down from 5 % in 2015, and is expected to reach an average of 3.9 % in 2017.

On public finances, the government deficit is estimated to have reached 6 % of GDP in 2016 (against the 4.6 % agreed under the IMF programme). This is due to a variety of factors, including lower than expected tax collections, higher debt service costs (partly driven by the depreciation of the Tunisian dinar) and an increased public wage bill. The debt of the central government has continued to increase, reaching 63 % of GDP in 2016, up from 55 % of GDP in 2015. In addition, Tunisia is scheduled to pay back a substantially larger amount of its public debt in the next 2 years.

Despite the decline in oil prices, weaker domestic economic activity and improved export performance, the negative effects on tourism of the terrorist attacks have contributed to keeping the current account at an unsustainably high level of 9% of GDP in 2016. Reserves are estimated to be close to USD 6.1 billion, or about 4.3 months of imports.

3.2.6. Ukraine

In response to Ukraine's rapidly deteriorating economic situation and weak balance-of-payments position, the Commission proposed in January 2015 a new MFA operation of up to EUR 1.8 billion in loans, to be disbursed in three equal tranches of EUR 600 million. The first tranche under the new operation (MFA III) was provided in July 2015[13]. The Commission did not disburse any tranches under its MFA operation in 2016, reflecting insufficient implementation by the Ukrainian authorities of some of the policy reforms specified in the MoU. However, the Commission disbursed the second tranche of EUR 600 million in April 2017 in response to the measures adopted by the authorities at the end of 2016 and in early 2017 to address some outstanding issues and the country's overall satisfactory implementation of the MFA programme. Ukraine can in principle still access a further EUR 600 million from MFA III. This assistance is conditional on Ukraine successfully implementing the policy measures in the MoU and continuous progress on its IMF programme, a four-year EFF of around USD 17.5 billion that was approved in March 2015. The most recent release of a tranche (USD 1 billion) under the IMF programme took place in April 2017, bringing total disbursements to USD 8.5 billion since 2015.

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

The economic stabilisation was also reflected in a considerable easing off of inflation (12.4 % at end-2016, down from 43.4 % at end-2015) and reduced volatility on the foreign exchange market. As a result of the prudent fiscal policy, the consolidated general government deficit was 2.3 % of GDP in 2016, well below the 3.7 % initial target. Fiscal consolidation, coupled with the elimination of the operational deficit of the company Naftogaz, played an important role in containing the increase of the debt-to-GDP ratio, which stood at 81.0 % at the end of 2016, slightly up from 79.1 % a year earlier. This was achieved despite the costs associated with the nationalisation of PrivatBank, the biggest commercial lender.

The pick-up in investment activity in 2016 contributed to a 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, remained below its peak of 8.7 % of GDP in 2013 and was entirely covered by capital inflows. While international financial assistance was below expectations in 2016, it

[13] This proposal followed two MFA programmes (MFA I and MFA II) worth a combined EUR 1.61 billion that were implemented in 2014 and in early 2015.

continued supporting international reserves, which rose to USD 15.5 billion at the end of 2016, or 3.5 months of next year's projected imports.

4. Ensuring the proper use of MFA funds: operational assessments and *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 finance management systems, in particular on the procedures and organisation of finance ministries and central banks and, more specifically, on the management of accounts receiving EU funds. In addition, special attention is given to how external audit institutions function, their independence, their work programmes and the effectiveness of their controls. Public procurement procedures at central level are also examined.

In 2016, the Commission carried out operational assessments on Moldova and Jordan in preparation for the new MFA operations in these countries. The assessments were completed in February and September 2016 respectively. Both concluded that the procedures in the two countries provided sufficient guarantees to move ahead with the envisaged MFA operations.

4.2. *Ex post* evaluations

In line with the EU Financial Regulation, the Commission conducts *ex post* evaluations[14] after completion of MFA programmes to assess their impact. The main objectives are:

i. to analyse the impact on the economy of the beneficiary country and in particular on the sustainability of its external position;

ii. to assess the added value of the EU action.

The *ex post* evaluations for the MFA I and MFA II operations to Ukraine and the MFA I operation to Jordan were launched at the end of 2016 and are expected to be completed in 2017.

5. Requests for assistance and future Commission proposals — budgetary situation

The programme of MFA operations for 2017 is as follows:

i. implementation of ongoing MFA operations, as described above. These include disbursement of the last tranches for Georgia and Tunisia I, the

[14] All *ex post* evaluations are available on the DG ECFIN website: http://ec.europa.eu/dgs/economy_finance/evaluation/completed/index_en.htm.

last two tranches for the third operation for Ukraine and all tranches for the follow-up operations for Tunisia and Jordan;

ii. approval and implementation of the Moldova operation, with the expected disbursement of the first two tranches of the assistance;

iii. approval of possible new programmes, based on requests received to date from Armenia, Georgia and Egypt, and the possible follow-up operation in Jordan.

The above programme of MFA operations for 2017 will bring annual MFA disbursements to EUR 1.9 billion. While this reflects the increasing weight and relevance of the MFA instrument, it is also partly due to the postponement of a number of disbursements originally scheduled for 2016. This shift of disbursements is due to different reasons, having to do mainly with delays by the national authorities in fulfilling the agreed policy measures, delays in the negotiations of memorandum of understanding, or difficulties with the relevant IMF programme.

The table below provides an overview of commitments and payments of MFA grants for 2015, 2016 and (provisionally) 2017. The forecast for 2017 is preliminary and includes only those MFA operations for which a decision has been approved by the co-legislators or proposed by the Commission.

In addition to the MFA operations which are ongoing or under preparation, requests for EU macro-financial support have been received to date also from Armenia, Georgia and Egypt:

- In February 2014, the Commission received a request for MFA support from **Armenia.** The country's balance-of-payments situation was, however, not deemed sufficiently critical to warrant a Commission proposal for MFA, despite the approval of a financing arrangement with the IMF. Nevertheless, the Commission continues to monitor the economic and financial situation in Armenia. As the IMF EFF programme is expiring in 2017, any reconsideration will also depend on the launch of a new IMF plan.

- In February 2017, the Georgian authorities expressed interest in a successor MFA operation. As the new IMF programme has been duly approved by the Executive Board, the Commission is open to considering a successor MFA operation for **Georgia** based on the country's external financing needs.

- In November 2012, **Egypt** renewed a MFA request for a total of EUR 500 million; the Commission considered submitting a proposal, possibly consisting of a loan of EUR 450 million coupled with a grant of EUR 50 million. However, the MFA proposal was put on hold pending the conclusion of an IMF programme for Egypt and in response to the political developments in the country from July 2013 onwards. In November 2016, the IMF Executive Board approved a three-year programme under the EFF for about USD 12 billion. For the first year of the programme, the financing gap was closed with contributions from the IMF and other multilateral and bilateral donors. However, it cannot be excluded that if there are residual financing needs, the EU will be requested to consider an MFA operation for Egypt.

Commitments and payments for MFA grants, disbursements of MFA loans 2015-2017 (EUR)

	2015	**2016**	**2017 (provisional)**
Commitment appropriations for grants in the budget	77 995 000	79 669 000	45 828 000
Operational assessments, PEFA studies, *Ex post* evaluations	62 900	331 822	400 000
MFA Kyrgyz Republic (decision adopted)			
MFA Georgia (decision adopted)			
MFA Moldova (proposal adopted)*			40 000 000
Other possible MFA operations			TBD
Commitments, total	**62 900**	**331 822**	**40 400 000**
Uncommitted budget allocations	77 932 100	79 337 178	5 428 000
Payment appropriations for grants in the budget	74 218 061	79 669 000	45 828 000
Operational assessments, PEFA studies, *Ex post* evaluations	29 806	131 195	260 736
MFA Kyrgyz Republic (decision adopted)	10 000 000	5 000 000	
MFA Georgia (decision adopted)	13 000 000		10 000 000
MFA Moldova (proposal adopted)*			20 000 000
Other possible MFA operations			TBD
Payments, total	**23 029 806**	**5 131 195**	**30 260 736**
Unused allocations for grant payments	51 188 255	74 537 805	15 567 264
Disbursements of MFA loans	-	-	-
MFA Ukraine I (decision adopted)	250 000 000		
MFA Ukraine II (decision adopted)			
MFA Georgia (decision adopted)	10 000 000		13 000 000
MFA Jordan I (decision adopted)	180 000 000		
MFA Tunisia I (decision adopted)	200 000 000		100 000 000
MFA Kyrgyz Republic (decision adopted)	5 000 000	10 000 000	
MFA Ukraine III (decision adopted)	600 000 000		1200 000 000
MFA Tunisia II (decision adopted)			350 000 000
MFA Jordan II (decision adopted)			200 000 000
MFA Moldova (proposal adopted)*			40 000 000
Other possible MFA operations			TBD
Disbursements of MFA loans, total	**1245 000 000**	**10 000 000**	**1903 000 000**

* The operation is expected to be approved in the course of 2017. Only two out of the three tranches are due to be disbursed in 2017. Disbursement of the final tranche is planned for 2018.