Council of the European Union

Brussels, 20 July 2022
(OR. en)

11538/22
ADD 1

ECOFIN 753
RELEX 1056
NIS 19
MED 37
COEST 594

COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	19 July 2022
To:	General Secretariat of the Council
No. Cion doc.:	SWD(2022) 192 final
Subject:	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 2021

Delegations will find attached document SWD(2022) 192 final.

Encl.: SWD(2022) 192 final

EUROPEAN
COMMISSION

Brussels, 19.7.2022
SWD(2022) 192 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 2021

{COM(2022) 341 final}

LIST OF ABBREVIATIONS

AA	Association Agreement
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
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
TFEU	Treaty on the Functioning of the European Union
VAT	Value added tax
WTO	World Trade Organisation
y-o-y	year-on-year

CONTENTS

[1] This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

INTRODUCTION

This Staff Working Document complements the Commission's report to the European Parliament and the Council on the implementation of macro-financial assistance (MFA) to third countries in 2021.[2]

In 2021, MFA operations under Decision (EU) 2020/701, which aimed to support partners with the economic fallout from the COVID crisis, were further implemented. Seven of the programmes launched between 2020 and 2021 were successfully completed, with the disbursement of the second and final tranche for the following countries: North Macedonia, Kosovo, Montenegro, Jordan, Moldova, Ukraine and Albania. On the other hand, the MFA operation for Georgia, was only partially disbursed, with the cancellation by the Commission of the second tranche.

The two remaining programmes for Bosnia and Herzegovina and Tunisia were started in 2021. Tunisia received the second disbursement on 25 May 2022, thus successfully completing the operation upon completion of the policy conditions agreed in the MoU. On the other hand, the second tranche for Bosnia and Herzegovina was not disbursed due to limited reform implementation at the end of the availability period.

Besides the financial assistance foreseen in context of the COVID-19 pandemic, the implementation of a third regular MFA programme for Jordan was also taken forward, with the release of the second tranche on 20 July 2021.

In 2021, the Commission also received two official requests for new MFA operations to Moldova and Ukraine, that materialised in 2022.

For each beneficiary country, the report provides more detailed information on: (i) their macroeconomic and financial situation; (ii) implementation of their MFA operations, and (iii) progress in accomplishing their structural reforms agenda.

The annexes include overview tables on the effective disbursements of MFA operations since 1990 by date of adoption of the decisions, as well as tables on MFA commitment and payment amounts in 2006-2021, by year and by region.[3]

---

2 This document is based on information available up to June 2022.

3 The document and the annexes distinguish between authorised amounts, which refer to the amounts made available to the beneficiary country as per the MFA Decision, and disbursed amounts, which refer to the amounts actually extended to the beneficiary country.

BACKGROUND ANALYSIS OF BENEFICIARIES OF MACRO-FINANCIAL ASSISTANCE[4]

1. GEORGIA

1.1. Macroeconomic performance

Following a year of pandemic-related contraction, the economy started to rebound strongly since April 2021. GDP rose by an estimated 10.4% in 2021. The recovery has been driven by household consumption and exports. On the supply side, the rebound is the strongest in services, while agricultural output has declined. The unemployment rate in Georgia decreased to 19% in the fourth quarter of 2021, down by 1.4 percentage points compared to the same period of 2020.

Consumer price inflation accelerated to 13.9% in December 2021, which was the highest monthly figure since 2011, and then eased to 11.8% in March 2022. Inflation was largely driven by high global energy prices, rising food prices and increased utility costs after the removal of subsidies. The central bank increased the policy rate by 250 basis points in the course of 2021, from 8% to 10.5%. The Georgian currency, the lari, appreciated in the course of 2021 by 14% against the euro and 6% against the US dollar, after a depreciation by respectively 20% and 13% in 2020.

The general government deficit has reached 6.3% of GDP in 2021, slightly lower than 7% of GDP foreseen in the revised budget law, thanks to stronger-than-projected tax revenues. The ratio of public debt to GDP decreased to 52% of GDP at the end of 2021 from 62% at end-2020.

Georgia's balance-of-payments position remains negative. The current account deficit remains high, although it has slightly improved to an equivalent of 9.8% of GDP in 2021 from 12.5% of GDP in 2020. Among its main components, very high merchandise trade deficit (almost 20% of GDP) was partially counterbalanced by a record high inflow of remittances – 13% of GDP (USD 2.4 billion in 2021) and improved balance of services thanks to partial recovery of tourism, which is an important sector in Georgia (corresponding to 8% of GDP in the pre COVID context). High current account deficit is financed by continuing (albeit slow) inflow of foreign direct investment and, most importantly, by high volumes of grants and concessional loans committed by the international partners.

Georgia's international reserves have increased from USD 3.9 billion at the end of 2020 to USD 4.3 billion at end-2021 (4.5 months of imports cover), partially thanks to an allocation of USD 286 million from the IMF as part the global allocation of Special Drawing Rights.

For 2022, Georgia's GDP growth for 2022 was revised downwards following Russia's invasion of Ukraine and is now forecast between 3% and 5%. The war in Ukraine affects Georgia through several channels including increased geopolitical risk in the whole region, trade disruptions, inflationary pressures, lower inflow of tourists and dwindling remittances.

The National Bank of Georgia expects that consumer price inflation will moderate gradually from the second quarter of 2022 as the impact of the temporary factors diminishes and that it will approach the 3% target in the first half of 2023. Depending on the pace with which the economy recovers, the authorities intend to bring the fiscal

[4] This section quotes statistics supplied by national authorities and other relevant sources.

deficit down by unwinding the temporary COVID-19 support and containing current spending pressures. The 2022 budget envisages the deficit of 4.3% of GDP; from 2023, the deficit is to be brought down below 3%, in line with Georgia's fiscal rule.

Georgia - Macro-Economic Indicators

Georgia	2017	2018	2019	2020	2021 latest	2021 Ref
Real GDP, % change	4.8	4.8	5.0	-6.8	10.4	end-21
Consumer price inflation, %, end of period	6.7	1.5	7.0	2.4	13.9	end-21
Key monetary policy rate, %, end of period	7.3	7.0	9.0	8.0	10.5	end-21
Unemployment rate, LFS, %	21.6	19.2	17.6	18.5	20.6	Q4
General government balance, % of GDP	-0.5	-0.8	-1.8	-9.2	-6.3	end-21
Gross public debt, % of GDP	39.9	39.9	41.2	62.2	52.0	end-21
Current account balance, % of GDP	-8.1	-6.8	-5.5	-12.5	-9.8	end-21
Official international reserves, USD billion	3.0	3.3	3.5	3.9	4.3	end-21
International reserves, months of imports	3.4	3.6	4.7	4.6	4.6	end-21
Gross external debt, % of GDP	106.6	101.3	106.6	129.5	117.0	end-21
Net foreign direct investment, % of GDP	10.5	5.5	5.9	3.7	4.4	end-21

Sources: National authorities; Commission staff calculations

1.2. Implementation of macro-financial assistance

Following an official request from Georgia for a new MFA in the context of the COVID-19 pandemic crisis, the European Parliament and the Council approved a EUR 3 billion COVID-19 MFA package in May 2020, including up to EUR 150 million for Georgia. The Memorandum of Understanding (MoU) and the Loan Facility Agreement (LFA) relating to this MFA operation were signed and ratified by the Georgian Parliament on 30 September 2020. The MoU entered into force on 30 September 2020, and the LFA entered into force on 20 October 2020.

In accordance with the MoU, the assistance was to be provided in two instalments. The first instalment (EUR 75 million) was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and the IMF programme remaining on track, and it was disbursed in November 2020.

The second instalment of EUR 75 million was additionally subject to fulfilment of a set of policy conditions laid down in the MoU in the field of public procurement, pension system, company law, governance of state-owned enterprises, judicial system, energy efficiency and the labour market. Several structural reforms have been implemented as conditions of the MFA. However, the second instalment was cancelled by the Commission following the decision of Georgia to refrain from requesting it, and in view of the non-fulfilment of one of the most important policy conditions related to the judicial system.

The MFA programme was provided in conjunction with the resources from international financial institutions and bilateral donors including the IMF[5], under its four-year

[5] MFA is always subject to a disbursing IMF programme. Beneficiary countries with an IMF Stand-by Arrangement or a programme under the Extended Fund Facility (or similar arrangement with an IMF-accompanied adjustment and reform programme) must in principle keep their IMF programme on track, as indicated by successful reviews. In the context of the COVID-19 crisis, MFA is exceptionally available

Extended Fund Facility (EFF) programme with Georgia approved in April 2017 and augmented in 2020 (to a total of approx. EUR 690 million). All reviews under this programme have been successfully approved by the IMF Board, including the final one in April 2021. In April 2022 the IMF has reached a staff-level agreement with the Georgian authorities on a new three-year Stand-by Arrangement (SBA) in the amount of about $290 million.

1.3. Structural Reforms

Georgia's structural reform agenda focuses in particular on the continuous implementation of the Association Agreement with the EU, conditionalities agreed with its international partners such as the IMF, the World Bank and the EU, as well as on the domestic development agenda. The implementation record in 2021 was good in some areas, such as corporate governance, energy and labour market (with all these three areas supported by the MFA conditionalities) as well as in public financial management, while setbacks took place in the judicial reform.

In terms of improving the corporate governance, the Georgian Parliament adopted in August 2021 a new comprehensive company law, aimed at regulating corporate relations and approximating the legislation to the EU directives. Corporate governance standards for state-owned enterprises (SOEs) have been developed by the Ministry of Finance with support of the IMF and the World Bank and adopted in September. The Ministry of Finance has also published a report on implementation of the OECD SOE guidelines by 10 major SOEs.

Regarding the labour market, the amended Labour Code entered into force from the beginning of 2021. The amendments concern, inter alia, the scope of labour rights, occupational health and safety, collective redundancies, anti-discrimination and gender equality. Also from 2021, the law on Labour Inspectorate changed the latter's status to an agency, with increased number of staff and expanded mandate.

In the field of energy, following the adoption of the laws on energy efficiency and on energy performance of buildings in 2020, the government adopted in 2021 the secondary laws on minimum energy efficiency requirements and on the methodology for calculating energy performance of buildings, implementing the EU acquis in this area. However, the start of enforcement of energy efficiency in buildings was postponed to July 2022 and the launch of organised power market was pushed back to March 2022.

In public financial management (PFM), Georgia has successfully implemented its PFM strategy for 2019-22. The key achievements include the introduction of medium-term budget framework, application of IPSAS standards in financial statements, reforms of tax and customs, with introduction of automatic VAT refund and a risk-based approach. The methodology of internal audit has been elaborated according to the IIA standards, and capacity building of audit units is ongoing, especially in municipalities.

In the area of justice, some setbacks for reforms took place. Notably, two successive legislative amendments on Supreme Court appointments did not fully comply with the corresponding Venice Commission recommendation, notably as concerns the lack of a meaningful right of appeal. In spite of these procedural shortcomings, 11 (out of 28) Supreme Court judges were appointed in 2021 and for lifetime tenures. The amendments to the Law on Common Courts adopted in December 2021 restrict the independence of judges by making it easier to remove judges from cases, by restoring the possibility to

---

also to countries that benefit from emergency funding from the IMF, such as through the Rapid Financing Instrument (RFI), which comes in a single IMF disbursement.

transfer a judge to another court without his/her consent and by the adding new formal grounds for disciplinary liability.

STATUS OF ECONOMIC REFORMS — GEORGIA
1. Price liberalisation Prices are largely market-driven.
2. Trade regime Georgia (a WTO member since 2000) 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. Georgia also has FTAs with its other key trading partners such as Turkey and China.
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 and Georgia does not operate capital controls.
4. Foreign direct investment Georgia has a liberal regime for FDI and unlimited repatriation of capital and profits. FDI inflows in recent years have consistently been among the highest in the region, although they declined to some 4-5% of GDP in 2020-21.
5. Monetary policy The main monetary policy objective of the National Bank of Georgia is price stability. The Bank is applying an inflation-targeting regime, with a target of 3%. The effectiveness of monetary policy is significantly constrained by the high level of dollarization: as of end-2021, 51% of loans and 60% of deposits were denominated in foreign currency.
6. Public finances and taxation The public finance management system is essentially sound and transparent. Reforms are ongoing to strengthen public investment management and manage contingent liabilities from state-owned companies and public-private partnerships. Public revenues are constrained by the Constitution, which prescribes a referendum for the introduction of new taxes or the raising of tax rates, 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 (SOEs) have been privatised, with their number falling from around 1300 in 2009 to a still sizeable number of around 350 currently, including some 50 public corporations and some 300 government entities. The government, with support of the IMF and the World Bank, has started a reform of the remaining SOEs aimed at improving their transparency and efficiency.
8. Financial sector Georgia's financial sector is small and dominated by banks, which hold more than 90% of total financial sector assets. However, banking sector credit to the economy amounts to only around 60% of GDP. The sector is highly concentrated, with the two largest banks, out of 16 in total, holding around three quarters of the assets. Georgia's banking sector has a low-risk profile and has generally remained resilient, reporting sufficient capital and liquidity. The capital adequacy ratio stood at 19.6% at the end of 2021. The share of nonperforming loans in total gross loans was very low at 5% at the end of 2021.

2. MOLDOVA

2.1 Macroeconomic performance

In 2021, the Moldovan economy marked a strong recovery after a recession caused by the pandemic. Real GDP growth amounted to 13.9% in 2021, much of it, however, reflecting the low base effect. The recovery was driven, in particular, by a strong rebound in household consumption, supported by higher credit and wage growth, as well as stable remittances. On the supply side, most sectors expanded compared to 2020, excluding construction. Agriculture, as well as wholesale and retail trade, marked the strongest contribution to growth. The employment rate remained low in 2021, at 41%, reflecting the relatively high level of inactivity and the prevalence of the informal sector.

On the back of growing food and energy prices, inflation surged in 2021. It finished at 14% by the end of the year, and further accelerated to 22% by end-Q1 2022. In response to strong inflationary pressure, the National Bank of Moldova raised its key policy rate, up to 12.5% in March 2022. As result of the Russian invasion on Ukraine, inflation is forecast to further rise, prompting the central bank to continue with the monetary tightening. The persistently high energy prices and supply chain disruptions (in particular, for food and agricultural products) are assumed to have the strongest effect on inflation going forward.

Moldova's fiscal deficit came in better than projected, at 1.9% of GDP, in 2021. This is broadly comparable to the pre-pandemic level. The low budget deficit can be accounted for underspending and some optimisation measures introduced by the government, as well as higher revenues, driven by the recovery (up by 23% compared to 2020). However, in 2022, Moldova's fiscal position is set to deteriorate. As a result of slower growth, revenues are expected to fall, while the high inflow of refugees suggests higher expenditures. Tentative forecasts project a deficit of 8% of GDP, compared to 6% of GDP adopted under the Budget Law 2022 last year. The bulk of the widening deficit reflects Moldova's effort to mitigate the current crisis, while possible further tensions over gas supply (resulting in increasing prices and further compensations to the most vulnerable consumers) may exercise additional pressure.

Public debt remained broadly unchanged in 2021, at 32.6% of GDP. However, on the back of increased borrowing from its international partners in the face of the current crisis and growing liquidity pressures on the domestic market, public debt is forecast to grow considerably, exceeding 40% of GDP in 2022.

Moldova's external position deteriorated considerably last year. The current account deficit almost doubled to 11.3% of GDP from 6.6% in 2020. The growing trade deficit was the key driver, with imports (+ 32.5%) outpacing exports (+ 27.5%). Going forward, the deficit will be further impacted by the ongoing Russian invasion on Ukraine. With disruptions to supplies from Russia, Ukraine and the region overall, prices for imports will grow. Much will also depend on Moldova's ability to redirect some of its exports to the EU market.

In 2021, foreign exchange reserves remained broadly stable and high at USD 3.9 billion by end-year, supported by the allocation of the IMF special drawing rights in August 2021. However, after some initial volatility in the exchange markets and the central banks intervention, international reserves declined, down to USD 3.6 billion in February 2022 (or 8 months worth of imports), limiting Moldova's buffers to respond to the growing economic pressure.

As a result of the Russian invasion of Ukraine, growth in Moldova is projected to slow down considerably. Tentative estimates by the authorities indicate a GDP at 0.3% in 2022, with some risk of a recession if the war drags on. With low growth and rising inflation Moldova is also set for a possible prolonged stagflation going forward. Key downside risks also include growing fiscal pressure, as well as further disruptions to trade and remittances, in particular, from Russia and the CIS region. Moldova is currently the highest per capita recipient of the war refugees, which puts significant pressure on public finances, while growing tensions around southern Ukraine (especially around the city of Odessa) and possible spill over effects to Moldova may further aggravate the country's stability. Therefore, to restore confidence and provide for an additional boost to the Moldovan economy, an international support conference was organised in early April 2021, where the participants pledged over EUR 600 million of funds to increase the country's financial resilience.

Moldova - Macro-Economic Indicators

Moldova	2017	2018	2019	2020	2021 latest	2021 Ref
Real GDP, % change	4.7	4.3	3.6	-7.0	13.9	end-21
Consumer price inflation, %, end of period	7.3	0.9	7.5	0.4	13.9	end-21
Key monetary policy rate, %, end of period	6.5	6.5	5.5	2.7	10.5	end-21
Unemployment rate, LFS, %	3.2	2.8	4.3	3.4	2.6	end-21
General government balance, % of GDP	-0.6	-0.8	-1.4	-5.1	-1.9	end-21
Gross public debt, % of GDP	32.7	30.1	27.4	33.1	32.6	end-21
Current account balance, % of GDP	-5.7	-10.3	-9.3	-6.6	-11.3	end-21
Official international reserves, USD billion	2.8	3.0	3.1	3.8	3.9	end-21
International reserves, months of imports	5.3	5.4	6.2	7.6	8.0	end-21
Gross external debt, % of GDP	70.4	63.8	61.7	69.7	64.1	end-21
Net foreign direct investment, % of GDP	1.4	2.2	3.8	0.6	0.3	end-21

Sources: National authorities; IMF; World Bank; Commission staff calculations

2.2 Implementation of macro-financial assistance

As part of the COVID-19 MFA package adopted in May 2020, the EU agreed on a new EUR 100 million MFA programme for Moldova, complementing the IMF emergency programme of USD 235 million (adopted in April 2020). Given the emergency context, the first instalment was not attached to any policy conditions, with the exception of the political pre-condition of respect for democratic mechanisms, the rule of law and human rights as well as further progress in the implementation of the Association Agreement and the Deep and Comprehensive Free Trade Area (DCFTA) agreement. The first disbursement of EUR 50 million was made on 25 November 2020.

Following the elections in July 2021, and given the renewed reform momentum, Moldova successfully fulfilled the policy actions for the second disbursement, with the exception of one condition, on asset recovery, which required a waiver (and on which the Commission consulted with the Member States Committee for Macro-Financial Assistance, receiving no objections). The second instalment was disbursed on 8 October 2021.

Following the energy crisis that began in October 2021, and given the on-going post-pandemic recovery, on 19 November 2021, the Moldovan authorities requested a new MFA operation. After careful assessment of the financing needs, the Commission prepared a proposal for a new MFA of up to EUR 150 million, with EUR 120 million in medium-term loans, and a EUR 30 million grants component. The proposal was adopted by the Commission on 4 January 2021. The European Parliament and the Council finally adopted the Decision providing macro-financial assistance to the Republic of Moldova on 6 April 2022. The MFA will be disbursed in three instalments following the implementation of policy actions in the field of good governance, rule of law, fight against corruption, energy sector reforms and further progress on asset recovery (following up on previous MFA operations). In view of the increased pressure on the Moldavian economy from Russia's invasion of Ukraine, Moldova requested further support from the EU, especially in the form of grants. The Commission had considered to complement the standing MFA with additional assistance via budget support in the amount of EUR 53 million.

The MFA will come in conjunction with the IMF programme adopted in December 2021 of Extended Credit Facility/Extended Fund Facility USD 558.3 million. The programme will aim to further strengthen Moldova's reform effort in some of the key areas, including the rule of law and fight against corruption and it will focus on fiscal and financial governance.

2.3 Structural Reforms

In 2021, reform implementation in Moldova has been mixed. Due to a political stalemate in the first half of the year, progress on reforms has been slow or fragmented. However, following the parliamentary elections in July, the authorities have considerably increased their efforts. A new ambitious reform agenda was put in place "Moldova in the good times, 2021-2025" with key objectives including fight against corruption and the rule of law, good governance, economic development as well as strong commitment to asset recovery and the investigation of the 2014 bank fraud.

With all political branches in the country aligned (including the Presidency, the Parliament, and the Government) Moldova was also able to successfully fulfil the policy conditions agreed under the COVID-19 MFA programme, with the exception of one action – on asset recovery, which required a waiver. Nonetheless, good progress was achieved in several sectors, including public procurement, anti-corruption, customs and smuggling as well as further justice sector reforms.

In addition, the overall framework guiding the process of structural reforms in Moldova is set out in the commitments made under the Association Agreement with the European Union, including the Deep and Comprehensive Free Trade Area agreement (DCFTA). The last Association Council meeting took place on 28 October 2021, and it concluded that Moldova has made some, albeit moderate progress, yet, with a clear "window of opportunity" for further action.

Among others, Moldova remains committed to the implementation of the Public Finance Management Strategy (PFM) 2013-2020 (which has been extended last year) and the authorities have made some important reforms including on increasing the accuracy of revenue projections, mid-term budgetary framework process, regulatory framework for financial management and internal control. Some important steps were also made as regards Public Administration Reform (PAR), especially on salary management and policy coordination by the State Chancellery. Nonetheless, the institutional step-up and administrative capacity remains an urgent issue.

Moldova has also advanced on the fight against corruption. For example, the annual budget of its anti-corruption institutions, including the National Integrity Authority (NIA), the Criminal Asset Recovery Agency and the Financial Investigation Unit has been increased. Moreover, in line with the COVID-19 MFA conditionality, the authorities have made adjustments to the assets- and conflict-of-interest declarations.

On financial sector stability, in September 2020, Parliament adopted the Law providing for a transfer of supervision powers from the National Commission for Financial Markets to the National Bank of Moldova, taking effect as of 2023. The legislation was adopted in the context of a constantly increasing credit portfolio of non-banking and credit institutions combined with a weak supervision of the insurance market. The Parliament also adopted the long-awaited changes to the Law on insurance, transposing to some of the EU Solvency II Directive. Nonetheless, the financial stability of the insurance sector remains generally at risk. For example, the authorities have not advanced on the implementation of proper supervisory audits by international auditors or on fixing shareholders transparency in several systemic insurance companies.

Moldova's reform implementation will also be further supported by the IMF programme and the new MFA operation. In particular, the MFA will seek to target several key sectors, notably, including the rule of law and fight against corruption, financial sector stability, improving the business climate, as well as the much needed energy sector reforms, given the on-going gas crisis.

STATUS OF ECONOMIC REFORMS — REPUBLIC OF MOLDOVA
1. Price liberalisation Most prices are market-driven, but regulated prices continue to exist for electricity, natural gas, water 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 trading 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 The National Bank of Moldova follows a flexible exchange rate policy and intervenes on the market to smooth excessive volatility, while letting the exchange rate operate to help absorb external shocks.
4. Foreign direct investment There are no controls on inward investment. Some efforts have been made to stimulate FDI, notably through the creation of Free Economic Zones. The DCFTA has created further stimulus to FDI from the EU. Some positive examples of progress exist, primarily in the automotive sector.
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. The Central Bank considers this optimal in its efforts to maintain price-stability, while supporting the growth performance over the medium term.
6. Public finances and taxation In 2018, a 12% flat rate income tax was introduced (the earlier system had two rates: 7% and 18%) and the social contribution rate was decreased from 23% to 18%. To compensate for these changes, a set of measures to strengthen revenue was introduced in 2019, including an increase in VAT rates. However, in the context of the COVID-19 pandemic VAT levels for some key sectors, including the hotel industry and restaurants were lowered from 15% to 12%, with possible further reductions in the future. In line with the Association Agreement, Moldova is to align VAT regulations with the EU VAT Directives.
7. Privatisation and enterprise restructuring In the past few years, Moldova has gradually sought to privatise state-owned assets and enterprises. In 2018, the national airline Air Moldova, the gas transmission company Vestmoldtransgaz, a tobacco producer and a number of other smaller properties were privatised. Additionally, the Law on State-Owned Enterprise and Municipal Enterprise adopted in late 2017 aims to strengthen governance and transparency of SOEs. However, limited progress was noted on the privatization agenda in since then.
8. Financial sector The financial sector reform is one of the major successes of the last period. Major achievements include the liquidation of the three banks involved in the 2014 bank fraud (while investigation and asset recovery of the fraud has been less successful), strengthened governance and increased international ownership in remaining systemic banks, and an introduction of a strengthened regulatory and supervisory framework for banks (aligning with Basel III standards) and non-financial institutions, particularly in the insurance sector. However, further progress on the

recovery of the stolen assets is missing, with overall few proceedings and trials completed.

3. UKRAINE

3.1 Macroeconomic performance

Even before the war, the macroeconomic performance of Ukraine had been disappointing. The 2021 real GDP still lagged 6 percent behind the 2012 level. Following a milder than expected recession of 4% in 2020, the overall disappointing annual growth of 3.4% in 2021 kept the economy below its pre-pandemic size. The index of key sectors' output slowed down its recovery in the second half of 2021 and exhibited high volatility towards year-end. Industry stagnated (+1.9%) in 2021, while construction (+6.8%), retail (+10.7%) and agriculture (+14.4%) were the main drivers of growth. Gross fixed capital formation declined to 12.4% of GDP, which is less than half the investment effort in peer economies. Bringing investment to sustainably higher levels will be among the formidable challenges of the reconstruction period.

After an initial deterioration during the recession, unemployment started to decrease in 2021. The return to economic growth brought about a reduction of the unemployment rate from 10.5% in Q1 2021 to 9.7% in Q3. The annual growth of real wages accelerated in the first half of the year before slowing down (from 16.5% in Q2 to 7.9% in Q4) under the combined effect of high inflation and low investment. The future level and dynamics of wages will be determined by the net effect of the war-driven capital destruction and the exodus-driven labour scarcity. The longer-term impact of the war on the labour market will depend on the success of the refugees' integration abroad and on their willingness to return to their home country. The extent of the capital destruction and the prospects for reconstruction, which will drive labour productivity, and hence wages, will play a key role.

In an attempt to conserve the stock of foreign reserves for the war mobilisation effort, the NBU declared the hryvnia unconvertible on 24 February and suspended the inflation-targeting framework for the duration of the conflict. The NBU prohibited private transactions in foreign exchange (forex), suspended its sales of forex, and fixed its forex purchase rate at the last pre-invasion exchange rate of hryvnia 29.15 for one USD with a view to reducing the uncertainty around the foreign exchange rate. To ease the hindrance on imports, some restrictions on the use of forex bank accounts were lifted in early March. In the new war context, two factors drive monetary policy, namely the unlimited liquidity provision to banks, aimed at continuing to preserve financial sector stability, and the standing promise to acquire war government bonds in case of insufficient private interest. The NBU announced its intention to keep its main refinancing rate at 10% until the end of the war.

Inflation is expected to deviate further from its pre-war target of 4% to 6%. The growth rate of the money supply in the broad sense (aggregate M3) had accelerated to 32.7% in November 2020, before slowing down to 12.0% in December 2021, thanks to the cumulative policy rate hikes of 400 basis points. Yearly consumer and producer prices inflation reached 10% and 69% respectively in December 2021. Inflation is set to accelerate in the war context of worsened scarcity of goods and services and accommodative monetary policy. Due to growing loss of confidence, official international reserves contracted by more than 11% from USD 30.9 billion in December 2021 to USD 27.5 billion (3.9 months of 2021 imports) in February 2022. However, the progressive disbursement of the almost USD 3 billion of overall pledged financial support to Ukraine by IFIs and bilateral donors as of March 2022 should help mitigate the reduction of the official international reserves as a result of the war effort.

Having lost access to international capital markets, Ukraine has to rely on official foreign support and monetary financing. The government Eurobond yields reached prohibitive levels already in mid-January. In the first two months of 2022, the issuance of new bonds in the domestic market barely reached a roll-over rate of 23% in hryvnia and 4% in foreign currency. In the current situation of martial law, the government plans to issue war bonds for the equivalent of USD 13.7 billion in 2022, with maturities between 1 and 15 years, with a targeted yield of 11%. The treasury issued bonds for USD 1.7 billion in March, compared to scheduled redemptions of USD 0.7 billion, implying a net issuance of USD 1 billion. Domestic banks, acting as primary dealers, bought about USD 1.0 billion of the war bonds. The NBU acquired the remaining USD 0.7 billion.

The scale of the deterioration of the fiscal outlook depends on the duration of the conflict and its impact on economic activity. The invasion set an end to previous consolidation gains, which were already compromised by the response to the Covid crisis. The 2021 public deficit stood at 3.4% of GDP, which is 1.7 percentage points better than initially planned. Public revenues and expenditure increased by 20.7% and 15.6% respectively in 2021. The consolidated public debt decreased to 55% of GDP from 61% in 2020 (reflecting the 30% growth in the nominal GDP). These debt dynamics are set to reverse in the context of the war. The significant military, humanitarian and other expenses put additional pressure on government expenditure, while tax collection is about to contract significantly (reportedly by one third in March; and about 50% in April and May). In an effort to hold back the increase in the deficit, expenditures are carefully prioritised, which cause a different composition of spending, with further expected reduction in capital expenditure (investment), whilst the government continues to provide basic social spending as well as service its foreign debt obligations, e.g. paying a EUR 300 million coupon on its Eurobonds in early March.

The current account recorded a deficit in 2021 and the outlook is uncertain. After a surplus of USD 5.3 billion in 2020, the current account registered a deficit of USD 2.6 billion, or 1.3% of GDP, in 2021. Future developments are extremely uncertain. Exports are set to suffer from activity interruptions, legislative bans and transport and supply chain difficulties. Population outflows and purchasing power erosion might compress imports. As regards remittances, the dramatic changes in population make them unpredictable, with more than 12 million having fled their homes and about 5.5 million left the country by end April. The stock of foreign direct investment recovered notably in 2021, with reinvested earnings being the primary driver. New incoming FDI reached USD 2.6 billion, complemented by reinvested earnings of USD 4.2 billion. Portfolio investments by foreigners also contributed towards a net capital inflow of USD 1.0 billion, which is matched by an increase in corporate indebtedness. Other investments, mostly driven by the hoarding of foreign cash and by trade credits abroad, contributed to a net capital outflow by USD 6.0 billion.

After having increased in 2021, international reserves has come under moderate pressure since the war started, which has so far been offset by official foreign support. The overall balance of payments implied an increase in the official international reserves by USD 2.5 billion in 2021 (after a rise by USD 3.0 billion in 2020). The annual change in the stock of reserves is attributable primarily to the extraordinary allocation of additional SDRs by the IMF for USD 2.73 billion in August 2021. In the first two months of 2022, the official international reserves declined by more than USD 3 billion, which was later compensated for in March thanks to the disbursement of official foreign support.

Notwithstanding a remarkable macroeconomic stability in the context of the war, future challenges relate to its immediate impact and the post-war reconstruction of the country. Inflation is expected to become a significant challenge, due to direct monetary financing of wartime public spending, soaring energy and food-price inflation, hindrances on foreign trade and capital movement, and worsened scarcity of resources. It could reach several multiples of the Central Bank's pre-war medium-term target level of 5%, which was missed already prior to the conflict. In addition to the severe human suffering caused by the Russian invasion, the war will inevitably also leave deep economic scars. Estimates of the final permanent loss of productive capacity (capital and infrastructure) and durable goods (housing) depend on the duration and extent of the conflict and range already in between 150-600 billions of US dollars. The many difficulties with carrying out economic transactions in the context of martial law, including numerous export bans and price controls, will amplify the short-term impact on economic activity, with GDP set to decline steeply (available forecasts ranging between 25% and 50%, crucially depending on the underlying assumption of the length and possible (de)escalation of the war).

Ukraine - Macro-Economic Indicators

Ukraine	2017	2018	2019	2020	2021 latest	2021 Ref
Real GDP, % change	2.5	3.4	3.2	-4.0	3.4	end-21
Consumer price inflation, %, end of period	13.7	9.8	4.1	5.0	10.0	end-21
Key monetary policy rate, %, end of period	14.5	18.0	13.5	6.0	10.0	end-21
Unemployment rate, LFS, %	9.5	8.8	8.2	10.1	9.7	Q3
General government balance, % of GDP	-1.4	-1.9	-2.2	-5.4	-3.4	end-21
Gross public debt, % of GDP	71.8	60.9	50.2	60.8	55.4	end-21
Current account balance, % of GDP	-2.2	-3.3	-2.7	3.4	-1.3	2021
Official international reserves, USD billion	18.8	20.8	25.3	29.1	27.5	Feb-2022
International reserves, months of imports	3.2	3.3	4.8	4.9	6.1	Dec-2021
Gross external debt, % of GDP	102.9	87.7	79.0	80.8	69.3	2021
Net foreign direct investment, % of GDP	2.3	1.8	1.5	0.1	1.3	2021

Sources: National authorities; Commission staff calculations

3.2 Implementation of macro-financial assistance

Between 2014 and 2021, five consecutive MFA operations provided a total of EUR 5.6 billion to Ukraine, out of which EUR 5.0 billion were disbursed effectively.[6] In response to economic and social challenges arising from the geopolitical tensions in late 2021/early 2022 and the security threats at the border between Ukraine and Russia which subsequently culminated in the latter's unjustified invasion of Ukraine, the Commission tabled a proposal for a sixth, emergency, MFA to Ukraine of up to EUR 1.2 billion on 1 February 2022. The Decision granting this emergency MFA entered into force on 3 March and the first instalment of EUR 600 million was disbursed in two tranches on 11 and 18 March. The second instalment followed in mid-May.

This emergency MFA was provided in conjunction with the resources from international financial institutions and bilateral donors that stepped up their support to Ukraine in a closely coordinated manner since the invasion. In a joint statement from 1 March, the

[6] The third EUR 600 million tranche of MFA III could not be disbursed due to the expiration of its availability period in January 2018 with four structural policy conditions, our of 21, having not been implemented.

World Bank and the IMF announced the preparation of additional support packages of USD 3 billion and USD 1 billion, respectively, to be disbursed swiftly within two weeks. Subsequently, to be able to access the maximum possible emergency financing of USD 1.4 billion (50% of its quota in the IMF) through the Rapid Financing Instrument, Ukraine requested the suspension of its current Stand-By-Arrangement. Other IFIs and bilateral donors have also come forward. In March, the EIB disbursed a budgetary loan of EUR 668 million, and the EBRD allocated a resilience package of EUR 2 billion. The total volume of pledged official international support, excluding humanitarian and military aid, reached USD 15.5 billion as of early May, albeit most taking time to become available (around USD 4.6 billion disbursed thus far).

3.3 Structural Reforms

Prior to the invasion of Ukraine by Russia on 24 February 2022, the emergency MFA identified three priority policy areas: economic resilience and stability, governance and rule of law, and energy. The seven policy measures, identified as feasible in the short term, aim at completing the governance reform of state-owned enterprises, improving the business environment for small and medium enterprises, finalising the anti-corruption infrastructure and ensuring functioning market mechanisms in the energy sector. While these reforms remain relevant, the post-war reconstruction phase will face a much wider range of priorities.

Since the political transition in 2014, Ukraine embarked on an ambitious and wide-ranging reform programme. This programme has been guided by continuous implementation of the Association Agreement with the EU and supported by large-scale financial and technical assistance provided by the EU and other multilateral and bilateral partners. Ukraine managed to push through reforms in a variety of sectors, although overall progress has been uneven. The main obstacles to faster reform implementation were the complex domestic political environment, the lack of political will to implement ambitious reforms in certain sectors, and the opposition by vested interests, some of which continue to exert influence on policy-making in the country. Combining a strong ownership of the reconstruction efforts with a firm wish to join the EU, provides an opportunity to tackle these challenges and enable Ukraine to 'build back better'.

In the area of public finance management, the track record is rather favourable. New laws improved the fiscal governance by introducing medium-term budgeting and by strengthening programme-based budgeting. The reorganised State Tax Service and Customs Service are now fully operational. More recent actions in this area included, inter alia, enhancing the VAT monitoring system based on risk management, developing the methodology of electronic tax audit and the use of new IT solutions in customs. To improve tax compliance, the authorities started the gradual deployment of electronic software tax registrars in 2020. At the same time, the State Fiscal Service, considered as an old-style tax police with a disruptive effect on business, has been replaced by the recently established Bureau for Economic Security.

Governance reforms resulted in the set-up of new anti-corruption institutions: the National Anti-Corruption Bureau (NABU), the National Agency for the Prevention of Corruption (NAPC), the Specialised Anti-Corruption Prosecutor Office (SAPO) and the High Anti-Corruption Court (HACC). After a difficult start, these institutions have started to prove their effectiveness: in the last two years, the HACC issued 45 decisions in cases investigated and prosecuted by NABU and SAPO respectively, 80% of which led to convictions for bribery, embezzlement of public funds, abuse of office and other corruption offenses. The most recent legislative changes in this field aimed at strengthening the institutional independence of NABU and enhancing the credibility of the selection process of its head. However, the anti-corruption infrastructure, though functioning, remains fragile and prone to political attacks. For instance, disputes prevented the nomination of the SAPO's head, thereby depriving the institution from a stable strategic management.

In spite of reform efforts since 2016, the current judicial system suffers from very low levels of public trust due to systemic corruption, low efficiency of the courts, poor management of resources and insufficient transparency. This is considered as a key impediment to investment and economic growth. The recently adopted laws address two key judicial self-governance bodies, namely the High Council of Judges (through integrity vetting) and the High Qualification Commission of Judges that pre-selects judges for Ukrainian courts. However, challenges remain, including in the Constitutional Court. The attestation of prosecutors at both regional and local levels was completed in 2021. Nevertheless, some 2000 cases challenging the attestation are pending in various courts.

Important measures were launched in order to improve corporate governance and transparency of state-owned companies and banks. For instance, their supervisory boards have been granted appropriate powers and are required to have a majority of independent members, to be selected on a competitive and transparent basis. However, the adherence to the corporate governance framework worsened in 2021, while its strict implementation has become practically impossible in the context of the war. The Ministry of Economy drafted in the second half of 2021 and sent to the Parliament a draft law on corporate governance of state-owned enterprises in line with the OECD guidelines, but its adoption is still pending.

The energy sector also witnessed comprehensive reforms, aimed at introducing the liberalised gas and electricity market model inspired by the EU Third Energy Package. Ukraine transposed the majority of the relevant EU gas and electricity-related sector acquis in 2015-17. This legislation provided, inter alia, for a stronger role of the market in the energy sector, for unbundling generation and supply from its transmission and distribution and for strengthening of the energy regulator. A number of issues hamper the functioning of and competition in the market. In view of the international energy price hikes, mounting debts and payment arrears in both gas and electricity sector are of particular concern. Secure, competitive and sustainable provision of energy, which is of key importance for the resilience of the economy, has improved since Ukraine has joined the EU grid in late February 2022.

Given the mixed progress with reform implementation, major challenges remain in relation to further reform of the judicial system, corporate governance, energy and reducing the regulatory burden. Addressing these remaining challenges as part of a comprehensive effort to tackle the multiple challenges resulting from the ongoing war and its destructive impact on Ukraine's productive capacity and economic structures, once the situation stabilises, will be crucial to rebuild the economy better and attract investors to underpin a sustainable economic recovery.

STATUS OF ECONOMIC REFORMS — UKRAINE
1. Price liberalisation Prices are largely market driven. Regulated prices for gas and electricity for households were abolished in 2020, although price caps on gas for households were temporarily re-introduced for the duration of the 2021 heating season. In the war context, the government has introduced price caps for essential goods.
2. Trade regime Ukraine joined the WTO in May 2008. The EU-Ukraine Association Agreement entered into force on 1 September 2017. The respective provisions as regards the Deep and Comprehensive Free Trade Area (DCFTA) have been in application since January 2016. In the war context, the government introduced export bans on essential goods.
3. Exchange rate regime Since the decision to abandon the currency peg in February 2014, the National Bank of Ukraine (NBU) has been implementing a managed float regime within an inflation-targeting framework. NBU interventions on the foreign exchange market aim at reducing exchange rate volatility and influence the country's stock of official reserves. In the war context, the NBU introduced stringent capital controls that it has released partially, which resulted in the de facto inconvertibility of the hryvnia.
4. Foreign direct investment (FDI) Some restrictions on FDI-related flows exist, such as a ban on the purchase of agricultural land by foreigners, despite progress with the farmland sales reform that started in 2020. Capital controls that affect foreign investment activity persist, despite steps towards their gradual elimination. The net inflow of FDI amounted to around 3-4% of GDP in the years 2016-2019, turned slightly negative in 2020, but recovered to 3.6% in 2021.
5. Monetary policy The central bank's primary objective is to achieve and maintain price stability under an inflation-targeting framework (5% +/- 1 percentage point). The end-year 2021 consumer price inflation increased to 10% from 5% a year before, due to rising global energy prices, strong consumer demand and increases in production costs. The central bank increased its key policy rate to 10% in January 2022. In the war context, the NBU suspended the operation of the inflation-targeting framework and subjected monetary policy to the twin objectives of ensuring full liquidity of the banking sector and purchasing war bonds that have remained unsubscribed by banks.
6. Public finances and taxation Prior to the COVID-19-related crisis, Ukraine had made significant progress in the consolidation of its public finances, and managed to bring its fiscal deficit persistently below 2% of GDP since 2017. However, due to the stabilisation policy response, the deficit reached 5.4% of GDP in 2020 and 3.4% of GDP in 2021. In the war context, due to public revenue contraction and mounting military spending, public deficit is set to increase substantially.
7. Privatisation and enterprise restructuring Despite ambitious privatisation plans, no major sales of state assets took place in 2021. A number of independent supervisory boards have been established in major enterprises, for which updated ownership policies have been adopted. The legal amendments to align the SOE framework with the OECD Guidelines on Corporate Governance of SOEs have been submitted to the Parliament, but not adopted yet.

8. Financial sector

The NBU has significantly improved its supervisory standards over the last years. The soundness of the banking sector has been strengthened, with an aggregate capital adequacy ratio above 20%. Banks' liquidity remained comfortable before the war, despite significant purchases of domestic government bonds to finance the public deficit. The very high (although decreasing) share of non-performing loans, above 30%, and the governance of state-owned banks remain two major challenges. In the war context, banks continue to function normally without any negative impact from a higher liquidity risk. The war-driven economic destruction and recession will result in a significant build-up of non-performing loans, which will seriously challenge banks' capital buffers.

4. JORDAN

4.1 Macroeconomic performance

Jordan remains relatively stable in an otherwise turbulent region. The impact of the COVID-19 pandemic has been somewhat cushioned by the authorities' measures to save lives, protect the vulnerable and safeguard jobs, but the social and economic costs have been high. Successive COVID-19 waves and the wipe-out of tourism have taken a significant human and economic toll, with unemployment rising to record highs and fiscal and external deficits widening further.

Tentative signs of economic recovery showed throughout 2021, as real GDP increased by 2.2% compared to -1.6% in 2020. Economic growth was driven by recovering domestic demand and higher government expenditure. The gradual return to work in all economic sectors supported the expansion. For the external sector, tourism income and total exports contributed to growth. In absolute terms, the strongest recovery was observed in the finance, real estate and business services sector as well as in manufacturing. The tourism sector is recovering, but was still operating below pre-pandemic level in 2021. Unemployment spiked to 25% at the in the first quarter of 2021 (19% in 2019) and decreased to 23.2% by Q3 2021. Unemployment remains particularly high for women and youth.

The pandemic is delaying fiscal consolidation, and although improvements are starting to be visible in 2021, the fiscal deficit and public debt remain elevated. The fiscal deficit (including foreign grants) stood at 5.1% of GDP by November 2021, an improvement over the 7% of GDP in 2020. The narrowing of the deficit was due to the pickup in domestic revenues, including higher tax revenues, which outpaced the increase in expenses.

Total public sector debt reached 110.3% of GDP by the end of November 2021, compared to 94% of GDP in 2019 (105.2% of GDP in 2020). When excluding the debt holding by the Social Security Investment Fund, public debt stood at 88.5% of GDP in November 2021. The National Electricity Company (NEPCO) and Water Authority (WAJ) remain highly indebted. Although the increase in debt is a source of concern, the IMF assessed Jordan's public debt as being sustainable in December 2021. Most of Jordan's external public debt was denominated in USD to which the Jordanian currency is pegged.

On the external side, the current account deficit widened to 12.1% of GDP in the first three quarters of 2021 (after 7.8% of GDP during the same period in 2020), with the recovery in merchandised imports outpacing the recovery in exports. Higher imports were observed in particular for transport equipment & spare parts, crude oil and petroleum product, the latter two being imported mainly from Saudi Arabia, UAE and Iraq. Higher prices for fuel imports also contributed to the current account deficit, even though partly offset by price increases for fertilizer and phosphate exports. For services, the important tourism receipts recovered, but stayed below their pre-pandemic levels. Foreign direct investment picked up slightly to 2.3% of GDP in 2021, reaching the pre-pandemic level again.

The monetary environment has been resilient, supported by the sizeable stimulus enacted by the Central Bank of Jordan (CBJ) early on in the crisis. The support continued over 2021, when in March 2021 the CBJ expanded the size of its subsidised lending scheme for SMEs and extended the deferment on debt repayments by affected borrowers to banks. The CBJ's gross foreign reserves (including gold and SDRs) have remained strong, amounting to USD 18 billion at the end of 2021, covering an estimated 8.2 months of Jordan's imports of goods and services. Inflation measured by the consumer price index increased to 2.4% y-o-y in December 2021, with an average inflation of slightly above 1 for the whole year 2021. Price increases towards the end of the year were observed in particular for food, meat and poultry, and transportation.

As the uncertainty surrounding the evolution of the pandemic declines, the economic recovery is expected to strengthen in 2022 (latest IMF forecast: +2.4%), also on the back of stronger growth in export markets and a continued recovery in tourism.

Russia's war on Ukraine has mainly indirect effects on Jordan. The direct trade exposure is limited as only 1.1% of all goods exports go to Russia and Ukraine and 3.3% of Jordan's goods imports come from Russia and Ukraine. The government stated that it had wheat stock sufficient to cover the local demand for 14 months and barley reserves to cover more than ten months. By contrast, Jordan being an energy importer, global price pressures on energy commodities will have negative repercussions on the country.

Jordan - Macro-Economic Indicators

Jordan	2017	2018	2019	2020	2021 latest	2021 Ref
Real GDP, % change	2.0	1.9	2.0	-1.6	2.2	end-21
Consumer price inflation, %, end of period	3.2	3.7	0.6	0.1	2.4	end-21
Key monetary policy rate, %, end of period	5.0	5.75	4.0	2.5	2.75	Mar-2022
Unemployment rate, LFS, %	18.3	18.6	19.1	22.7	23.2	end-21
General government balance, % of GDP	-2.5	-2.4	-3.3	-7.0	-5.1	Jan-Nov
Gross public debt, % of GDP	92.8	92.9	95.2	106.5	110.3	Nov-2021
Current account balance, % of GDP	-10.6	-6.9	-2.1	-8.0	-12.1	Jan-Sep
Official international reserves, USD billion	15.0	12.9	13.9	15.6	18.0	end-21
International reserves, months of imports	7.8	6.8	9.8	11.0	9.5	end-21
Gross external debt, % of GDP	71.1	72.9	72.1	82.1	85.5	est. 2021
Net foreign direct investment, % of GDP	4.9	2.2	1.5	1.6	0.9	est. 2021

Sources: National authorities; Commission staff calculations

4.2 Implementation of macro-financial assistance

The EU has maintained its support to Jordan throughout the difficult years of the pandemic. Indeed, following Jordan's request for further MFA on 11 July 2019, on 6 September 2019 the Commission adopted a proposal for a new, follow-up MFA to Jordan in the amount of EUR 500 million in loans. The proposal was adopted by co-legislators on 15 January 2020. The assistance is being implemented in three instalments over 2020-2023.

Later, when the COVID-19 pandemic hit the already struggling Jordanian economy, the authorities requested further MFA on 21 April 2020. In turn, as part of the COVID-19-MFA package adopted on 25 May 2020, the European Parliament and the Council agreed on a top-up MFA programme of EUR 200 million to Jordan, in addition to the EUR 500 million made available under MFA-III.

The new (combined) MFA comes on top of the EUR 380 million of MFA provided to Jordan since 2014, under Decisions (EU) 2013/1351 and 2016/2371. The MoU between the EU and Jordan, which oversees both MFA operations, was endorsed by the Member States Committee for MFA on 27 July 2020. It then entered into force on 2 October 2020 upon signature, whilst the LFA entered into force on 7 October 2020.

The first instalment (EUR 250 million in loans) was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and the IMF programme remaining on track. It was disbursed on 25 November 2020. The second and third instalments are, in addition, subject to the specific policy conditionality agreed between Jordan and the EU in the MoU. The programme's policy conditionality focuses primarily on improving public finance management, fighting corruption, and on reforms in the utilities sector, social and labour market policy, and governance. The second tranche (EUR 250 million in loans) was disbursed on 20 July 2021. A waiver was granted for one condition (relating to steps towards the implementation of an electronic invoicing system to fight tax evasion) following consultation of the Member States Committee for Macro-financial Assistance; yet, this condition would be fulfilled if all reforms for the third tranche are implemented. The third tranche (EUR 200 million in loans) remains available until April 2023.

The policy actions included in the MoU are in line with the reform commitments taken by Jordan in the context of the EU-Jordan Partnership Priorities and other EU support instruments, as well as the adjustment programmes agreed with the IMF and the World Bank. Taking Jordan's *Five-Year Reform and Growth Matrix* as a guideline for the design of the policy programme in the MoU ensures ownership of the reform process by the Jordanian authorities and avoids overburdening of (limited) administrative capacities.

These MFA programmes are provided in conjunction with the resources from the IMF under its four-year Extended Fund Facility (EFF) programme with Jordan approved on 25 March 2020 (EUR 1.1 billion, 270% of quota), which was later increased to around EUR 1.3 billion (equivalent to 312 % of Jordan's quota). On 20 May 2020, the IMF also made available around EUR 366 million in emergency assistance to Jordan under the Rapid Financing Instrument to help the country deal with the impact of the pandemic. By December 2021, the IMF's total disbursement to Jordan since the start of 2020 were brought to around EUR 1 billion. The EFF programme remains on track, with the third review completed on time in December 2021. In the context of that review, the IMF assessed Jordan's public debt as sustainable.

4.3 Structural reforms

During the pandemic, Jordan's short-term policy priorities were shifted to health and social protection, as the authorities sought to mitigate the effects of the pandemic. The government implemented a timely package of growth-friendly policy measures, including reducing temporarily the tax burden on businesses and individuals and the Central Bank's move to increase liquidity for commercial banks, ease debt burdens and support SMEs. Yet, despite the sizeable challenges brought by the COVID-19 pandemic and the ongoing Syrian crisis, the Jordanian authorities remain committed to their structural reform agenda and the conditionality in the MFA programme.

Jordan's reform agenda is underpinned by Government's Economic Priorities Program (GEPP) 2021-2023, the comprehensive Five-Year Reform Matrix 2018-2022, which was extended to 2024, and the Government's Indicative Executive Program (GIEP). The GEPP addresses key challenges in the labour market and private sector, with 53 targets mainly derived from the Matrix and the GIEP. The Matrix prioritises deep structural reforms needed to stimulate inclusive and sustainable growth and job creation, and achieve fiscal stability. Its pillars comprise reforms in the areas of revenue mobilization and debt management, public sector efficiency, private sector development, labour markets. social safety, infrastructure, utilities and tourism. The mid-term review in 2020 revealed that 46% of reforms had been implemented, yet delays were observed in particular for the transport and utilities pillars. In parallel, the GIEP includes the government's vision for political, social and economic development that targets economic growth, employment creating and poverty reduction. It goes beyond the Matrix in the areas of fighting corruption and the green and digital agenda.

Despite the setbacks brought along by the pandemic and the uneven success in implementing reforms, Jordan still achieved important milestones in 2021. These include (but are not limited to) the following steps taken by the Jordanian government: i) adopting the amendments to the organic budget law, to improve the fiscal framework, ii) issuing secondary legislation to accompany the implementation of the Public Private Partnership legislation, iii) adopting an electricity tariff reform, and iv) adopting the income tax system in development zones. Furthermore, in the area of taxation, Jordan continued to strengthen tax administration (including tax compliance), to enhance the capacity of the ISTD and to shift the important tax services online. On top, Jordan ratified the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (to tackle cross-border tax evasion and avoidance) in 2021. Yet, progress in other crucial reform areas was less visible, for instance the still pending adoption of amendments to the Investment Law to address tax arbitrage and transfer pricing abuses. Furthermore, amendments to the Illicit Enrichment Law have been adopted, but important elements relevant to the MFA conditionality were not included in the final version.

STATUS OF ECONOMIC REFORMS — JORDAN
1. Price liberalisation Prices are largely market-driven, but there are oligopolistic conditions in several sectors. Fuel subsidies were eliminated in November 2012. Electricity tariffs and prices for some basic foodstuffs are still subject to administrative controls. In 2017 the government adopted an automatic adjustment of electricity tariffs based on fuel prices and abolished subsidies on bread.
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 United States, Syria, the European Free Trade Association (EFTA) and Singapore. On 19 July 2016, the EU approved a 10-year relaxation of rules of origin for a wide range of industrial products produced in 18 selected special economic zones in Jordan, provided that each company uses a minimum share of Syrian refugee labour in the production.
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. As part of the Five-Year Reform Matrix (2018-2022; now extended to 2018-2024), Jordan made good progress in adopting progressive economic liberalisation policy that favours foreign investment (e.g.: opening of 22 service sectors to full foreign ownership in 2019 and implementation of the Jordan Customs National Single Window System).
5. Monetary policy The CBJ enjoys an independent and autonomous corporate identity, although its capital is owned entirely by the government. Its main monetary policy tools are fixing the interest on monetary policy instruments and open market operations. The CBJ has developed a credible track record of maintaining exchange rate stability, while also ensuring price stability and promoting growth.
6. Public finances and taxation While Jordan has taken efforts to broaden the tax base, there remain structural weaknesses which limit tax revenue mobilisation, including: a number of differentiated corporate tax segments, tax exemptions, a narrow general sales tax base and capacity constraints in tax administration. There is scope for revenue mobilisation policies including strengthening tax administration and digitising tax collection.
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 started implementing Basel III. However, the narrow and shallow institutional investor base restricts the development of domestic capital markets. The Central Bank implements a financial inclusion strategy to increase access to and the use and quality of financial services.

5. TUNISIA

5.1 Macroeconomic performance

The economy saw only a partial recovery in 2021 following the deep recession, with GDP growth reaching 3.1% in 2021 after an 8.7% contraction in 2020. Activity remained negatively affected, across sectors, by the effect of containment measures and the only partial recovery in domestic and global demand, including tourism, which remained far below pre-pandemic levels (-3.9% in 2021, after plummeting over 39% in 2020) amid pandemic waves and political instability. The rebound has been more subdued than expected, partly due to a decline in agricultural output (-4.6% in 2021, mostly due to the poor olive harvest) and lacklustre growth in services. With some exceptions (energy (+21.7%) and mining (+19.6%)), output in most sectors remains behind its pre-pandemic level despite growth in the textile and clothing (+7.7%), electrical and mechanical (+10.9%) and construction (+7.2%). Overall, the country is unlikely to regain its 2019-output level before 2023. Investment is down, with confidence impacted by the complex political situation, sluggish domestic demand and limited export demand from Tunisian products. Declared investment projects in industry and services fell by 42% in 2021 (-26% compared to 2019). GDP at the end-year was still 4.6 percentage points lower than that of the last quarter of 2019.

The improving demand benefited the mechanical, electrical and textile industry, mostly back to pre-pandemic output, with substantial increases also in the mining and oil sectors. Agriculture contracted, partially under the base effects of the excellent harvest in 2020, while transport and tourism services (notably hotel and restaurants) only experienced a partial recovery, underlining the country's vulnerability to the pandemic. In addition to the limited policy buffers, the complex political situation has exacerbated vulnerabilities in the economy. The downturn continued to put severe pressure on employment (up to 18.4% in Q3 2021, but much higher for youth, university graduates and women), as well as on social stability.

Monetary policy conditions remained stable, with the key policy rate at 6.25%, amid sustained high inflationary pressures. Inflation increased sizably, in line with global trends, and reached 6.6% year-on-year in December 2021. It should remain high in 2022 due to stronger demand, the ongoing depreciation of the dinar and the effects of the monetary financing of the fiscal deficit. Credit growth has accelerated but almost entirely driven by loans to the State (+41.2%) that are probably crowding out credit to private sector (+5.9%, considerably lower than in previous years). The banking sector remained stable, with improvements in liquidity levels, although the non-performing loans ratio for the ten largest banks deteriorated slightly to 11% at end-H1 (10.7% end-2020) and will likely weaken further with the expiry of some COVID support measures by end-2021.

Following the sharp increases in fiscal deficit and public debt in 2020, the deficit remained high, estimated at 8.3% of GDP in 2021 but contracted slightly as revenues increased sizably (+12%), mostly due to the good performance of indirect taxes. The fiscal stance redress was also partly due to more limited increases in public expenditure (+6.3%), despite a significant rise in wages (5.2%) which represent over half of total expenditure outside debt service. The deficit has been mostly financed through domestic borrowing and Central Bank purchases, thus likely contributing to inflation and crowding out credit to the private sector. Public debt kept increasing to an estimated 86% of GDP and sovereign credit ratings have further deteriorated. Debt service costs also increased significantly (over 12% of GDP) and a tight refinancing calendar put further pressure on debt sustainability, emphasizing the need for fiscal consolidation. The country's sovereign debt rating has further deteriorated, downgraded to Caa level by Moody's in 2021, its second downgrade in a year, maintaining a negative outlook).

The 2022 budget assumes a growth assumption of 2.6% and an average price of 75 dollars per barrel of oil. The budget deficit in 2022 would be 8.5 MTD, around 6.2% of GDP. The budget also foresees financing needs of nearly 20 MTD to cover budgetary and cash requirements. This will be in the form of external borrowing of about 12.6 MTD (3.9 billion euros, above 10% of GDP) and internal borrowings of 7.3 MTD (2.3 billion euros). Monetizing the financing gap would considerably increase the pace of central bank financing and accelerate the drawdown in foreign reserves.

Tunisia's balance-of-payments position remains negative, although the current account pressure lessened in the first nine months of 2021, mostly due to the increase in income transfers from Tunisians residing abroad (+45%) and the increase in tourism receipts (+6.5%). This allowed the reduction of external financing needs despite the worsening of the trade deficit (+18%, consistent with higher energy prices and weak demand for exports) and the drop in services exports, set to continue in the final quarter. The dinar depreciated slightly against the euro in 2021 (under 1%), while Tunisia's international reserves dropped from EUR 8 billion at the end of 2020 to EUR 7 billion at end-2021 (around 4.2 months of imports), partially sustained through the IMF SDR allocation of around USD 650 million in 2021.

Tunisia's economic outlook remains highly vulnerable, in a context of still high political uncertainty, limited policy space and sizeable macroeconomic imbalances due to long-term structural issues intensified by the economic impact of COVID-19 and, more recently, the indirect impact of Russia's invasion of Ukraine. In addition, the country needs to address the social impact of these events and the continuous impact of the pandemic, as well as the structural problems underpinning its low growth rate (low investment, low productivity, rigid business environment). The adopted budget and current economic plans do not yet reflect a structured response to the acute fiscal and public debt distress that the country is facing. Given the large financing needs estimated in the 2022 budget (around EUR 5.6 billion, including almost EUR 4 billion in external financing) the country will need a new IMF programme, accompanied by a reform program and additional bilateral and multilateral financing.

Tunisia - Macro-Economic Indicators

Tunisia	2017	2018	2019	2020	2021 latest	2021 Ref
Real GDP, % change	1.9	2.6	1.3	-8.7	3.1	end-21
Consumer price inflation, %, end of period	6.2	7.5	6.0	4.9	6.6	end-21
Key monetary policy rate, %, end of period	5.0	6.8	7.8	6.3	6.3	end-21
Unemployment rate, LFS, %	15.5	15.5	14.9	17.4	18.4*	Q3
General government balance, % of GDP	-6.2	-4.8	-3.3	-9.7	-8.3*	end-21
Gross public debt, % of GDP	70.4	77.9	67.9	77.8	85.6*	end-21
Current account balance, % of GDP	-10.3	-11.2	-8.4	-6.5	-6.3*	end-21
Official international reserves, USD billion	5.6	5.3	7.5	9.2	8.0	end-21
International reserves, months of imports	2.5	2.7	4.5	5.4	4.4	end-21
Gross external debt, % of GDP	86.2	99.7	97.3	100.9	96.3*	end-21
Net foreign direct investment, % of GDP	2.0	2.5	2.1	1.5	1.2*	Nov-2021

*Sources: National authorities; IMF; WB; Commission staff calculations; *Latest available or forecast*

5.2 Implementation of macro-financial assistance

Since 2014, a total of EUR 1.4 billion have been made available to Tunisia under three MFA operations, MFA-I (2015-2017, EUR 300 million), MFA-II (2017-2019, EUR 500 million) and, as part of the MFA package adopted in the context of COVID-19, the latest MFA-III programme of EUR 600 million, with a duration of one year since entry into force. The MoU and the LFA were signed on 24 November 2020, ratified by the Tunisian Parliament on 15 April 2021 and entered into force on 11 May 2021, upon publication in the Tunisian Official Gazette.

The programme's policy conditionality focuses primarily on four thematic areas: (i) public finance management and civil sector reform; (ii) reforms in state-owned enterprises; (iii) social protection; (iv) and investment climate.

The MFA was provided in two tranches of EUR 300 million each. The first instalment, subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) was disbursed on 1 June 2021. The Tunisian authorities have clearly accelerated efforts to comply with the agreed conditions in the late stages of the programme to successfully conclude the pending reforms, with all conditions either fulfilled or broadly fulfilled. Notwithstanding some concerns in relation to the political precondition, a letter from the authorities setting out commitments on a political calendar this year enabled the second tranche to be disbursed on 25 May 2022.

The assistance was meant to complement resources made available by other donors including the IMF, under its Rapid Financing Facility programme with Tunisia of USD745 million (around 685 million) approved on 10 April 2020.

5.3 Structural Reforms

Reform implementation had very limited progress in the past years, mostly due to the country's challenging political situation and the effects of the COVID-19 pandemic, which came at a time when Tunisia was already facing serious macroeconomic imbalances. After the 2019 presidential and legislative elections, a fragmented political landscape, continued instability and frequent government changes, already halted the implementation of the reform agenda. In 2021, following this period of protracted institutional crisis, President Kaïs Saïed controversially invoked Art. 80 of the constitution to seize emergency powers at the end of July, suspended parliament and dismissed the Prime Minister. Following the publication of a political roadmap in December 2021, a new Constitution should be adopted through referendum (expected in July 2022), while legislative elections should take place in December 2022.

The absence of a clear economic plan has increased uncertainty around reforms, with downcast prospects on the broad consensus needed to implement them. Additionally, the ongoing pandemic has shifted both the attention and the country's limited capacities to short-term response. A nationwide Covid-19 vaccination campaign was launched in March 2021, but the health infrastructure remained overloaded throughout the year in most regions, while lock downs and travel restriction were still prevalent, notably during the first half of the 2021.

Notwithstanding these challenges, the authorities have hastened the reforms agreed under the MFA over the past months and consistently underlined, e.g. during the visits to Tunisia by Commissioner Vàrhelyi and the European Parliament Committee on Foreign Affairs' members in early 2022, the country's firm commitment to democratic values and respect for human rights and to implementing the announced political calendar for 2022.

The policy conditions contained in the MFA MoU aimed to address key structural weaknesses of the Tunisian economy, as well as to mitigate the economic and social impact stemming from the COVID-19 emergency. These reforms are ever more important as Tunisia is suffering from an increasingly deteriorating socio-economic situation which, after the shock of the COVID crisis is now further aggravated by the impact of Russia's aggression against Ukraine, notably in terms of energy and food security. Tunisia therefore requires urgent assistance in order to mitigate the economic fall-out, the ultimate goal being to support the Tunisian people at this particularly delicate moment and thus contribute to stabilising the country. The EU's macro-financial assistance is intended to contribute exactly to this objective.

The government approved some fiscal stimulus measures to try to mitigate the negative impact of the crisis in 2020, with some additional measures in the 2021 budget to support the most affected enterprises and sectors, especially the tourism, as well as the most vulnerable. The Central Bank continued its accommodative monetary policy and liquidity management, also extending the deferral of loan repayments for the tourism sector. The Central Bank also continued with the monetary financing approved at the end of 2020 (a TND 2.8 billion direct monetary financing plan from the CBT to the government budget).

The government did not introduce major reforms in either the complementary budget law for 2021 or the 2022 budget law. Both laws were adopted by Presidential decree; in absence of a Parliament, with little to no formal consultation with social partners. The 2021 Budget had introduced some fiscal measures, including the amendment of the transfer pricing rules and a single standard corporate tax rate but further reforms are needed to widen the base, improve collection, reduce evasion and rebalance the tax burden. The 2022 budget law approved more targeted fiscal audits and a new "tax amnesty" provision, as a way to reduce the very substantial backlog of unpaid tax debt. Additionally, in early 2022, a number of timid reform measures were taken up, including the resumption of price adjustments for fuel and energy (not applied since April 2021) and the adoption of a timeline and mechanism for further subsidy adjustments. In addition, the budget law includes a number of measures to encourage early retirement and extended leave for civil servants, in view of a medium-term reduction of the payroll, although previous versions of similar measures had little impact.

The economic, political and sanitary crises have aggravated Tunisia's reform paralysis, in a context of deep structural challenges and rising macroeconomic imbalances. The new government has been working on an economic reform plan that would underpin the IMF programme. A strong and credible reform plan is needed to foster growth and restore a sustainable fiscal and external financial situation, without which the IMF already assessed that public debt would become unsustainable. Debt sustainability risks are compounded by real exchange rate and financing risks, as well as SOE contingent liabilities and guarantees, so an ambitious medium-term reform programme is absolutely essential to support recovery and inclusive growth, foster subdued investment and guarantee fiscal and external sustainability.

However, while a broad concept note on reforms has been prepared, including some of the expected reform axes (public payroll, subsidies, SOEs, tax policy and administration efficiency), negotiations with the IMF have not officially started and no information is available on its possible implementation. Also, no formal discussions on the reform plan with social partners have taken place publicly. In this uncertain context, the perceived excess of bureaucracy and lack of capacity in the public sector continue acts as a discouraging factor to private investment and limited measures have been also taken to combat informality. Other remaining challenges include addressing vested interests, improving governance and the business environment, as well as increasing competition across the economy in order to attract private investors, including in emerging sectors such as digitalization and renewable energies.

The country's vulnerabilities will likely linger over the coming years, due to the subdued growth, vast structural weaknesses, high financing needs, reliance on external funding, and risk of domestic and external shocks. Reforms should aim to restore sustainable macroeconomic positions and address relevant items for public expenditure such as the exceptionally high civil service wage bill, the targeting of energy subsidies and SOE liabilities that appear to crowd out much-needed social expenditure and growth-enhancing public investment. Such reforms should also aim to foster inclusive growth through private sector initiative and competition, in a context where the country will probably still need substantial support from external partners in the near future.

STATUS OF ECONOMIC REFORMS — TUNISIA
1. Price liberalisation Most prices are market-driven, but regulated prices exist for fuel, electricity, transport and food products. The government started reducing its energy subsidies in 2017 and some minor changes took place between 2018-2020. Additional reforms are ongoing, while preserving social tariffs for poor households and improving social safety nets, where better targeting is also needed.
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. The negotiations for an EU-Tunisia DCFTA started in 2016 but have been shown little progress since 2019. The African Continental Free Trade Area officially entered into force on January 1, 2021, but a lot of technical work is still required for its implementation. The revised rules of the Pan-Euro-Med convention on rules of origin started to be applied in September 2021.
3. Exchange rate regime The Central Bank of Tunisia changed its operational framework for exchange rate policy in 2012 to make rates more flexible, providing multiple-price foreign exchange auctions since August 2018 and net foreign exchange purchases since May 2019. Despite officially floating, the IMF classifies the de facto exchange rate arrangement as crawl-like.
4. Foreign direct investment The implementation of the 2016 investment law continued in 2018/19, namely through the operationalisation of the Investment Authority, reforms for the off-shore regime and legislation to improve the business climate and investment attractiveness, although the process was interrupted by the outbreak of the Covid-19 pandemic. Tunisia was officially removed from the list of “gray” jurisdictions of the Financial Action Task Force (FATF) in October 2019.
5. Monetary policy The Central Bank of Tunisia is independent and its mandate is to ensure price stability. However, the parliament approved a derogation of the article 25 of the CBT statutes in October 2020, allowing for the first time a direct monetary financing plan to the government budget, interest-free facility for a maturity up to 5 years, of which one year’s grace.
6. Public finances and taxation Public expenditure is mostly devoted to salaries and subsidies, crowding out investment and other budget priorities. Efforts will be needed to restrain the wage bill, untargeted subsidies and SOEs liabilities, while expanding and better targeting social expenditure. The 2022 Budget introduced some minor fiscal measures, including more targeted fiscal audits (*verification ponctuelle*) and a new “tax amnesty” provision, as a way to reduce the very substantial backlog of unpaid tax debt. However, further reforms are needed to widen the base, improve collection, reduce evasion and rebalance the tax burden. The system could also benefit from enhanced international information exchanges and further elimination of distortions with the off-shore sector.
7. Privatisation and enterprise restructuring The privatisation and restructuring of public banks and SOEs has long been under discussion but little progress has been made, faced with strong opposition from vested interests. Despite some progress with transparency, significant governance and financial challenges remain. Additional work ongoing on some corporate governance reforms, with few actual achievements. There are over 100 SOEs (including seven of the ten largest firms in the country) covering most sectors and often with a monopoly position. The sector remains burdened with debt (around 40% of GDP in 2019 for the 30 major ones), government guarantees, and arrears, exacerbated by the crisis.
8. Financial sector The financial sector has been supported by accommodating policies from the CBT and relief in prudential provisions, but the full impact of the pandemic is yet to be observed. The sector entered

the crisis with some underlying vulnerabilities, including high non-performing loans, substantial exposure to credit risk to affected sectors and SOEs, relatively shallow capital buffers and tight liquidity. Strengthening its resilience and broaden access to finance remain key challenges.

6. ALBANIA

6.1 Macroeconomic performance

Albania was hit less hard by the crisis in 2020 than feared, by 3.5%, about half of what the government had expected at the beginning of the pandemic. The drop was less strong because of a relative increase in regional tourism and supportive fiscal and monetary policies, namely financial support to business and households, a record low policy rate and temporary measures to support the financial sector's liquidity and stability. In 2021, the economic rebound has been stronger than expected, the economy grew by 8.5% and recovered above pre-crisis levels in most segments. A strong rebound of exports including tourism, high public investment including post-earthquake reconstruction and the continued accommodative policy, all supported the recovery. This helped the labour market to recover almost all of the ground lost during the COVID-19 crisis and the unemployment rate decreased to 11.6% in 2021.

Strong increases of domestic and international food prices in addition to increasing energy prices in the second half of 2021 pushed the annual inflation rate to 2% in 2021, and above 4% in the early months of 2022. In response to the rising inflation, the Bank of Albania (BoA) raised its record-low policy rate of 0.5% to 1% in March 2022 for the first time since it was lowered in March 2020. It continued to provide liquidity to the economy throughout 2021, but terminated most of its temporary measures, aimed at supporting lending activities. The financial market remained stable, lending activity picked up and portfolio quality improved as the ratio of non-performing loans to total loans, dropped to 6.2% at the end of 2021.

The fiscal deficit, at 4.5% of GDP, was 2.3 percentage points lower than planned because of strong revenue growth, underspending of the capital budget and a substantially higher nominal GDP than projected. Notwithstanding a Eurobond issuance to pre-finance the 2022 balance, and additional public guarantees for the state-owned electricity distributor, this led to a decrease in the debt-to-GDP ratio to 73.2%, much below the earlier estimate of 80.1%. In 2022, the government continues to provide substantial support to the state-owned electricity distributor to shield households and SMEs from the impact of the spike in international electricity prices.

The external position of the economy has strongly improved in 2021. The current account shortfall decreased from 8.7% of GDP in 2020 to 7.7% of GDP in 2021, supported by the recovery of the services balance. FDI inflows in terms of GDP remained below pre-crisis level, but still financed about 80% of the current account deficit, while financial inflows from the MFA, budget support and other soft loans in addition to a new Eurobond of EUR 650 million provided additional external financing. External debt, mostly consisting of long-term government debt decreased slightly from 64.3% of GDP in 2020 to 63.1% in 2021, mainly due to the expanded GDP denominator. Foreign exchange reserves continued to increase to USD 5.1 billion in 2021, equivalent to almost 9 months of imports, and to provide an adequate safeguard against adverse shocks. The stability of the external position of the economy was also reflected in the foreign exchange market, where the exchange rate of ALL against major currencies returned to its pre-2020 trend of continuous gradual appreciation in 2021.

Russia's invasion of Ukraine is affecting import prices and supply of certain staple foods, which depend heavily on Russian and Ukrainian sources, while in other respects Albania's economic relations with that region are very limited. However, the uncertainty and impact on the external economic environment are likely to dampen investment and consumption, which reduces growth expectations from about 4% to about 3% in 2022 and 2023. The government plans a provision of around EUR 230 million (called "Social Resistance Package" of ALL 26 billion, 1.8% of GDP) to keep administered electricity prices stable for households and SMEs, as prices for imported electricity are rising, and to provide additional support to vulnerable households and farmers for facing the increasing fuel and food prices.

Growth expectations for 2022 and 2023 are dampened by the mainly indirect impact of Russia's war against Ukraine, because Albania has little direct exposure to both countries. Uncertainty, the impact on EU growth and its effects on Albania's trade with the EU and rising food and energy prices are the key factors of the European Commission's downward revision of its forecasts for Albania's economy to between 2.7% and 3.2% growth in 2022 and 2023, respectively. In addition, the increasing food and energy prices have prompted the government to provide additional support to households and SMEs, which is set to postpone to 2023 a more significant improvement in government finances.

Albania - Macro-Economic Indicators

Albania	2017	2018	2019	2020	2021	2021 Ref
Real GDP, % change	3.8	4.0	2.1	-3.5	8.5	2021
Consumer price inflation, %, end of period	1.8	1.8	1.2	1.1	3.7	December
Key monetary policy rate, %, end of period	1.3	1.0	1.0	0.5	0.5	December
Unemployment rate, LFS, %	13.7	12.3	11.5	11.7	11.6	2021
General government balance, % of GDP	-2.0	-1.6	-1.9	-6.7	-4.5	2021
Gross public debt, % of GDP	70.2	67.7	65.8	74.5	73.2	2021
Current account balance, % of GDP	-7.5	-6.8	-7.9	-8.7	-7.7	2021
Official international reserves, USD billion	3.3	3.7	3.5	4.4	5.1	December
International reserves, months of imports	6.7	7.0	6.5	9.6	8.8	December
Gross external debt, % of GDP	68.8	65.1	60.0	64.3	63.1	December
Net foreign direct investment, % of GDP	8.6	8.0	7.5	6.7	6.6	2021

Sources: WIIW, National authorities

6.2 Implementation of macro-financial assistance

Following the powerful earthquakes in November 2019 and the challenges brought along by the COVID-19 pandemic, Albania officially requested MFA on 15 April 2020. In response, as part of the COVID-19 MFA package adopted in May 2020, the European Parliament and the Council agreed on an MFA programme for Albania of EUR 180 million. The MoU and the LFA were signed on 3 November 2020 and entered into force on 3 November 2020 and on 26 January 2021, respectively.

The programme's policy conditions aimed to address some of the weaknesses in public finance management, the financial sector, good governance and the fight against corruption and social protection policies.

The MFA was provided in two tranches of EUR 90 million each. The first instalment was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights), and was disbursed on 31 March 2021. The second and final instalment was disbursed on 5 November 2021, after Albania had fulfilled the attached policy conditions.

The assistance was meant to complement resources made available by other donors including the IMF, under its Rapid Financing Facility programme RFI with Albania of EUR 174 million, approved on 10 April 2020. The IMF deemed important that Albania maintains an adequate reserve coverage, given its vulnerability to external shocks and endorsed the government's policy measures and the related increase of the fiscal deficit and public debt as adequate in view of the reduced revenues and additional spending needs on reconstruction of earthquake damages and to limit the impact of COVID-19.

6.3 Structural reforms

In March 2020, the European Council decided to open accession negotiations with Albania, but before formally launching negotiations with the first intergovernmental conference, Albania ought to implement a number of specific conditions. The latter had been integrated into the draft negotiating framework that the European Commission presented to Member States on 1 July 2020. The EU-Albania Stabilisation and Association Council of 1 March 2021 noted that Albania fulfilled the specific conditions and is ready to hold the first intergovernmental conference.

The Albanian authorities continued their efforts to address structural obstacles highlighted in the European Commission's 2021 Albania Report. They partially implemented the recommendations of the 12 July 2021 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, which reflected some of the MFA policy conditions: (i) the development of the MTRS progressed and some of its taxation measures are to be implemented in 2022 (ii) reporting and clearance of arrears progressed; (iii) effective measures and close supervision preserved financial sector stability and the NPL-ratio decreased substantially.

The government aligned the AML/CFT legislation with EU requirements as agreed, but Albania needs to improve the enforcement of the legislation before FATF will take it out of its close monitoring. The reform of the Public Finance Management (PFM) system (since 2014) continued. The extended PFM strategy for 2019-2022 was revised to address the impact of the pandemic and to gradually return, in the medium-term, to the original reform path. The revised strategy was approved and published in March 2021. Despite continuing training and assistance to improve public investment management, long-agreed institutional reforms like the unification of the selection and approval process of public investment projects were not implemented.

The government took temporary measures to increase benefits under the Economic Aid scheme and began a process to review their adequacy with a view to adjusting them. A recent initiative aims to foster social inclusion and labour market integration of the scheme's beneficiaries, but social services are scarce. Albania established an inter-ministerial task force to develop a Youth Guarantee implementation plan and started developing tools to regularly monitor the labour market and skills needs. There was only limited progress made on increasing the capacities of municipalities for social services. The government took steps to increase healthcare coverage for the sizeable number of uninsured people in the country, but access to healthcare is still limited due to high out-of-pocket payments and a shortage of doctors, especially in rural and remote areas.

Good progress was made with the continued implementation of judicial reform and the vetting process, which advanced steadily, despite the impact of the COVID-19 pandemic.

A strategic, comprehensive approach to reducing informality is still to be developed but on-line tax payments reduced opportunities for corruption while the implementation of electronic invoicing ("Fiscalisation") since 2021 helps to reduce informality. Business support services suffer from limited funding, but Albania has continued to facilitate business registration procedures and licensing through the e-government portal. The 2021-2027 Business and Investment Development Strategy (BIDS) was adopted in 2021 as well as an Action Plan covering SME skills development, innovation, sustainable growth, and conditions for attracting foreign investment. The adoption of the draft Unified Law on Investment, which will align Albanian legislation with international standards, is postponed to 2022 and despite recent institutional changes in the state cadastre, only limited progress has been made in clearing ownership conflicts over land titles.

STATUS OF ECONOMIC REFORMS — ALBANIA
1. Price liberalisation The vast majority of prices are not subject to regulation and Albania reports very low levels of state aid, but the operational independence of the State aid Commission (SAC) has not yet been ensured. Electricity prices are not yet fully liberalised. Since 1 January 2021, all distribution customers connected to 35kV, but only part of those supplied at 20 kV level benefit from an unregulated market. Albania's government established in March 2022 a "Transparency Board", which sets retail commodity prices based on fixed profit margins in an effort to curb speculation with international commodity prices.
2. Trade regime Albania joined the WTO in 2000. In 2006, Albania signed the Stabilization and Association Agreement (SAA) with the EU. The agreement, which was ratified in 2009, liberalized trade relations between the EU and Albania in terms of tariff barriers for agricultural and industrial goods. Since 2007 the country is a member of the multilateral Central European Free Trade Agreement (CEFTA).
3. Exchange rate regime The Bank of Albania commits to a free-floating exchange rate regime, where supply and demand movements in the foreign exchange markets determine the value of the domestic currency against other currencies. The Bank intervenes regularly in the markets with the purpose of maintaining adequate levels of foreign reserves on a pre-set schedule of auctions.
4. Foreign direct investment Overall, foreign and domestic investors are treated equally in Albania, with the exception of the acquisition of real estate, which the government has committed to address, but the necessary legislative adjustment is still pending. A new "unified investment law" has been drafted, which will improve the protection of foreign and domestic investors in line with Albania's international investment agreements and ensures that investors' rights can be enforced through courts and international arbitration. The government postponed the adoption of the law from 2021 to 2022.
5. Monetary policy The primary objective of the central bank, as set out in the Law on the Bank of Albania (BoA), is to achieve and maintain price stability. BoA is financially independent and has sufficient instruments, competence and administrative capacity to function effectively and to conduct an efficient monetary policy. The monetary policy is conducted with a standard set of instruments: i) open market operations; ii) standing facilities; iii) required minimum reserves and within a free-floating exchange rate regime.
6. Public finances and taxation Albania follows an orderly budget preparation cycle, publishes timely relevant data and its public finance management has all main components in place. Since 2014, the PFM reform strategy, which has been extended to 2022, addresses weaknesses and progress was achieved with regard to transparency, arrears, tax administration and monitoring of fiscal risks. However, the country still needs to increase its administrative capacity and to continue addressing persisting weaknesses (e.g. low revenue mobilisation and non-transparent public investment management).
7. Privatisation and enterprise restructuring Overall state-owned enterprises (SOEs) are not dominant in the Albanian economy and concentrated in the energy sector but lack transparency and effective oversight, and rely on state funding. Monitoring of the sector improved with the growing capacity of the Ministry of Finance and Economy's fiscal risk unit but still needs to expand to cover the large number of Public-Private-Partnerships (PPPs) and SOEs in the energy and water sector.
8. Financial sector Albania's banking sector is well capitalized, liquid and profitable. Banks' relatively large exposure to government securities (averaging 25% of their assets) and the high use of Euro in the economy (half of all bank loans and deposits are denominated in euro), continue to pose risks to

the banking sector and complicate the transmission of monetary policy.

7. **BOSNIA & HERZEGOVINA**

7.1 Macroeconomic performance

Economic output recovered in 2021, increasing by 7.1% y-o-y, mainly thanks to stronger external demand, private consumption, but also support from significant external financing. However, investment growth remained muted, reflecting COVID-19-related uncertainties, but also persistent domestic political tensions. On the production side, the main drivers of the recovery were services, in particular accommodation and food services, as well as transportation and storage and trade. Backed by strengthening growth and governmental support measures, employment recovered in the second half of 2021, but still reached 17.4% of the labour force when looking at the whole year. However, in the fourth quarter of 2021, the unemployment rate had dropped to 16.1%. The overall labour force continued to decline, partly as a result of a persistent brain drain. The sizeable informal sector has probably been much more affected by the pandemic than administrative data suggests.

After a drop in the overall price level by 1.1% in 2020, annual consumer price inflation turned positive in the second quarter of 2021 (1.4% on average), reaching 6.3% in December, which brought the average CPI increase to 2% for the whole of 2021. In January and February, 12-months inflation accelerated further to 7.0% and 8.1%, respectively. The main factors for the acceleration were higher costs for transport and to an increasing extent rising prices for food and non-alcoholic beverages. International institutions expect only a moderate GDP recovery in the post-crisis years, of some 2½%-3%, arguing that the post-Covid crisis recovery is going to fade out while persistent political tensions have a negative bearing on the domestic growth dynamics, in particular on (foreign and domestic) investment.

The country's monetary regime is defined since 1997 by the country's exchange rate peg to the euro as the anchor currency. This approach has served the economy well so far. However, it also implies that the burden of adjustment to external shocks has to be accommodated by other policy areas, in particular fiscal policy, necessitating the build-up of sufficient fiscal buffers and a stronger emphasis on medium-term stability, and structural reforms to improve the functioning of markets. The country's nominal effective exchange rate appreciated markedly during the last 5 years, mainly due to exchange rate movements of the euro vis-à-vis the US dollar, the Turkish lira and the Russian rouble. However, in real terms, the effective exchange rate remained more stable, benefitting from the country's so far low inflation rate. Like in the case of other Western Balkan countries, the degree of euroisation is rather high (37% of deposits and 47% of private sector loans were denominated in euro as of December 2021).

The general government's fiscal position deteriorated from a surplus of 1.9% of GDP in 2019 to a deficit of 5.3% of GDP in 2020, reflecting the economic impact of the COVID-19 crisis as well as additional governmental anti-crisis measures amounting to some 4% of GDP. For 2021, no consolidated general government data have been published so far. The spending structure still is dominated by the public sector's wage bill and transfer payments, while the level of public investment remained very low, reflecting among others administrative weaknesses in implementing planned investment projects. Public debt ratio rose from 32% of GDP at the beginning of the COVID-19 crisis to some 35% in the second half of 2020 and has largely remained on this level since then. The country's public debt can be considered to be sustainable, although there are downside risks, such as contingent liabilities, in particular in the area of public enterprises. There is a significant degree of non-alignment with EU public sector accounting standards, which strongly impedes the assessment of the country's actual fiscal position. As a result, both the deficit and debt ratio could be significantly higher than reported.

The current account deficit narrowed from 3.8% in 2020 to 2.1% of GDP in 2021, largely thanks to an improvement in the trade balance of goods and services, as export revenues increased more substantially than the value of imports. Workers' remittances, accounting for up to 12% of GDP, remained stable throughout the crisis. Net FDI inflows increased to 2.1% of GDP in 2021, still largely consisting of reinvested earnings. The foreign exchange reserves continued to increase, partly reflecting the inflow of foreign COVID-19 related financial assistance. This led to an increase in the reserve coverage to more than 9 months' worth of imports of goods and services, by end-2021. The 3-year IMF EFF agreement, agreed in 2016 but on hold since 2018, has been terminated. Instead, in April 2020, the IMF provided a EUR 333 million loan through its Rapid Financing Instrument (RFI). Furthermore, in August 2021, the IMF agreed to increase its SDR allocations, which added EUR 305 million to Bosnia and Herzegovina's envelope. In February 2022, the rating agency Standard & Poor's affirmed its sovereign credit rating of Bosnia and Herzegovina as "B with stable outlook". Moody's rating from August 2020 is "B3, with a stable outlook".

The outlook is surrounded by high uncertainties related to the evolution of the pandemic as well as high food and energy prices, stemming from the spillovers of Russia's invasion of Ukraine. In its spring forecast, the IMF has revised downwards economic growth rate to 2.5% and 2.3% in 2022 and 2023, respectively.

Bosnia & Herzegovina - Macro-Economic Indicators

Bosnia and Herzegovina	2017	2018	2019	2020	2021	2021 Ref
Real GDP, % change	3.2	3.7	2.8	-3.1	7.1	2021
Consumer price inflation, %, end of period	0.7	1.6	0.3	-1.6	6.3	December
Key monetary policy rate, %, end of period*	n.a.	n.a.	n.a.	n.a.	n.a.	
Unemployment rate, LFS, %	20.5	18.4	15.7	15.9	17.4	2021
General government balance, % of GDP	2.6	2.2	1.9	-5.3	n.a.	
Gross public debt, % of GDP	34.2	32.7	31.7	35.4	35.5	2021
Current account balance, % of GDP	-4.8	-3.3	-2.8	-3.8	-2.1	2021
Official international reserves, USD billion	6.3	6.6	7.0	8.4	9.3	December
International reserves, months of imports	7.1	7.3	7.8	10.0	9.3	December
Gross external debt, % of GDP	66.8	65.6	63.1	64.3	60.1	December
Net foreign direct investment, % of GDP	2.3	2.9	1.5	1.7	2.1	2021

** Banks use the Euribor as a reference*

Sources: WIIW, Central Bank, Bosnia & Herzegovina Agency for Statistics

7.2 Implementation of macro-financial assistance

Following an official request for MFA from Bosnia and Herzegovina on 14 April 2020 in the context of the COVID-19 pandemic, the European Parliament and the Council approved in May 2020 the COVID-19 MFA package, including a new MFA programme of EUR 250 million for Bosnia and Herzegovina. The MoU and the LFA were signed on 15 January 2021 and entered into force on 9 June 2021.

The MFA was to be provided in two instalments. The first instalment (EUR 125 million) was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and was disbursed on 7 October 2021. The second tranche (EUR 125 million) was subject to the fulfilment of a set of policy conditions agreed in the MoU. The policy measures fall into the following four thematic areas: economic governance and institution building, financial sector stability, transparency and fight against corruption and a better functioning of the labour market. Given the limited reform implementation, with only two out of nine reforms foreseen in the MoU implemented by Bosnia and Herzegovina, the second tranche of the operation was not disbursed by the end of the availability period.

The assistance is meant to complement resources made available by other donors including the IMF, under its Rapid Financing Facility programme of EUR 330 million approved on 20 April 2020.

7.3 Structural reforms

The country submitted an EU membership application in February 2016. In May 2019 the European Commission issued the Opinion on the application, which was subsequently endorsed by the Council in December 2019. The Opinion identifies 14 key priorities for the country to fulfil in order to be recommended for the status of EU candidate country. These priorities lie in the areas of democracy and functionality of institutions, rule of law, fundamental rights and public administration reform.

Economic policy suffered from a further deteriorating cooperation at entity level and disagreements on implementing country-wide reforms in line with EU-accession requirements. In terms of quality of public finances, policy decisions are primarily focused on short-term issues, while the spending structure is still plagued by a strong emphasis on current spending for wages and transfers, and investment continued to be neglected. The country's business environment is still hampered by numerous and lengthy procedures, political interference, corruption and diverging rules in different parts of the country, complicating the operation of companies and creating additional costs. Despite some progress in improving the degree of registration in the labour market by increasing labour market controls, the informal sector may still account for up to one third of GDP. In 2021, as part of the COVID-19 crisis support package, many companies benefitted from discretionary state assistance. In combination with the accumulation of payment arrears of taxes and, in particular social security contributions, the level of de-facto state aid appears to have been significant.

Teaching curricula still continue to be outdated and are still not sufficiently aligned with the country’s needs. The country participated for the first time in the 2018 PISA study and the results indicate that the students’ performance ranks well below the OECD average, in particular with respect to the minimum skills, which is a clear impediment for the country’s competitiveness and growth potential. COVID-19, as well as delays in the implementation of investment projects due to political disputes, had a negative impact on investment in transport and energy infrastructure while necessary steps for updating the regulation of the energy and transport markets were further delayed. As a result, the markets for electricity and gas remain fragmented and dominated by key incumbent companies.

Establishing an effective governance system would improve the performance of state-owned enterprises (SOEs), with positive spill-over effects to the private sector and whole economy. Overcoming the country’s internal institutional and economic fragmentation by strengthening a common internal market within Bosnia and Herzegovina would help improve the quality of the business environment. Ensuring an effective exchange of taxpayer information between the country’s tax authorities, and in particular creating in line with the EU acquis a central (i.e. country-wide) registry of bank accounts of private individuals would improve the efficiency of tax collection.

STATUS OF ECONOMIC REFORMS — BOSNIA & HERZEGOVINA
1. Price liberalisation There is a wide range of administrated prices in Bosnia and Herzegovina. During the COVID-19 pandemic, the authorities introduced temporary price freezes and "fair" profit margins for certain commodities, such as food and hygienic articles, but also oil products.
2. Trade regime In December 2006, Bosnia and Herzegovina signed the Central European Free Trade Agreement (CEFTA), which became operational in November 2007. In June 2008, the country signed the Stabilization and Association Agreement (SAA) with the European Union which officially entered into force on June 1, 2015.
3. Exchange rate regime Bosnia and Herzegovina runs a currency board arrangement, with the convertible mark pegged to the euro at an exchange rate fixed by the Law on the Central Bank.
4. Foreign direct investment About two thirds of the country's stock in FDI is originating from EU countries. Bosnia and Herzegovina is still lacking a countrywide strategic framework to encourage foreign direct investments and to improve the business environment.
5. Monetary policy The Central Bank's objective is to keep the domestic currency stable which is in contrast with the primary objective of monetary policy in the EU, price stability. This approach has served the economy well so far. However, it also implies that the burden of adjustment to external shocks has to be accommodated by other policy areas, in particular a responsible fiscal policy, necessitating the build-up of sufficient fiscal buffers and a stronger emphasis on medium-term stability, and structural reforms to improve the functioning of markets.
6. Public finances and taxation Due to the poor quality of country-wide fiscal data, the country's overall fiscal position is still difficult to assess. The reporting of public sector data in line with the European System of National and Regional Accounts (ESA 2010) remains very limited and the alignment of the underlying statistical framework with ESA 2010 requirements and definitions is still limited. Fiscal rules remain at the level of one of the country's two entities and there is still no independent fiscal institution to monitor and enforce compliance with countrywide fiscal rules. The medium-term budgetary framework remains insufficiently developed and underused as a policy-guiding instrument. In the taxation area, Bosnia and Herzegovina ratified the OECD/Council of Europe Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC) and deposited the instrument of ratification in September 2020. The convention entered into force on 1 January 2021.
7. Privatisation and enterprise restructuring No significant progress was achieved in proceeding with the privatisation process. Due to the COVID-19 crisis, measures to restructure or to dissolve public enterprises remained very limited. Strategic sectors such as transport and energy are still dominated by poorly managed and often inefficient state-owned companies.
8. Financial sector The financial sector has remained largely stable despite some negative effects from COVID-19, but a high degree of complexity and fragmentation in the institutional and regulatory set-up is hampering banking supervision. The sector consists of a few large, mainly foreign owned banks, accounting for some two thirds of the sector, a limited number of smaller, local banks and two state-owned development banks. The number of banks (23) is high in relation to the market size.

8. KOSOVO*

8.1 Macroeconomic performance

Following a deep recession in 2020, Kosovo's economy rebounded sharply in 2021 due to renewed travel mobility and immense support from the diaspora. Based on quarterly data, the provisional estimate of annual GDP growth is 10.5%. Growth was driven by a rebound of financial flows from diaspora through tourism services, remittances and real estate investment. Further stimulus came from government consumption due to the implementation of COVID-19 related measures. The unemployment rate stood at 25.8% in the first quarter of 2021, which is similar to the annual average of 25.9% in 2020. The Labour Force Survey did not release the data on further quarters, but tax administration data suggest employment gains in line with the recovery.

In February 2021, the Central Bank of Kosovo (CBK) issued a third guide on loan restructuring in nine months, which helped banks to avoid increasing provisions. Timely regulatory forbearance and large inflows from the diaspora supported rapid credit growth, in particular to households. Bank loan growth accelerated to 11.2% in 2021 from 7.1% a year earlier. Deposit growth picked up to 13.8% from 12.2% in 2020. Financial soundness indicators have remained satisfactory, e.g., the loan-to-deposit and the non-performing loans (NPLs) ratios stood at 79% and 2.3% respectively, in November. The largely foreign-owned banking sector remains stable and profitable.

During 2021 inflation was on a rising trend from 0.6% y-o-y in the first quarter to 6.7% in December. The main drivers were rising food and energy prices. Most energy prices are regulated in Kosovo, while domestic production is not sufficient to cover the demand. High electricity prices in Europe have severely affected export-oriented mining enterprises and other consumers. High import costs, increased electricity consumption and insufficient domestic power generation, exacerbated by the partial shutdown of Kosovo B power plant, resulted in daily power cuts in December.

In line with the recovery, in 2021 the headline budget deficit narrowed to 1.4% of GDP, on the back of an extraordinary increase in government revenues, estimated to have grown by 26.8% as compared to the 2020 outcome. Public spending increased by a moderate 2.5%. The execution of capital spending reached 75.8% of the revised allocation, while the recurrent expenditure was roughly in line with the revised budget. In 2021, the debt-to-GDP ratio is estimated to have increased to 23.4% from 22.4% a year earlier. The IMF assesses public debt as sustainable, but points to a narrow base of domestic investors and vulnerabilities arising from the absence of external market access.

The current account deficit is estimated to have widened to 9.2% of GDP in 2021 from 7% in 2020. The main driver was a large surge in goods imports, which offset good export performance and led the merchandise trade deficit to widen to 53% of GDP. The key factor offsetting the merchandise trade deficit is remittances, which increased by 20% in 2021 and amounted to 15.8% of GDP. Further unofficial remittances are reflected in larger errors and omissions (2.5% of GDP) in 2021. On the financing side, net inflows of FDI performed well and amounted to 5% of GDP, which was partially supported by the ban on dividend distribution. The reserve assets covered 3 months of imports in the third quarter of 2021, down from 3.2 at end-2020.

[*] This designation is without prejudice to positions on status, and is in line with UNSCR 1244(1999) and the ICJ Opinion on the Kosovo declaration of independence.

The outlook is surrounded by high uncertainties related to the evolution of the pandemic as well as high food and energy prices, stemming from the spillovers of Russia's invasion of Ukraine. In its spring forecast, the IMF has revised downwards economic growth rate to 2.8% in 2022.

Kosovo - Macro-Economic Indicators

Kosovo	2017	2018	2019	2020	2021 latest	2021 Ref
Real GDP, % change	4.8	3.4	4.8	-5.3	10.5	2021
Consumer price inflation, %, end of period	0.5	2.9	1.1	0.1	6.7	December
Key monetary policy rate, %, end of period	6.8	6.0	6.4	6.0	5.8	December
Unemployment rate, LFS, %	30.5	29.6	25.7	25.9	25.8	Q1
General government balance, % of GDP	-1.3	-2.9	-2.9	-7.6	-1.4	December
Gross public debt, % of GDP	16.4	17.0	17.6	22.4	22.5	December
Current account balance, % of GDP	-5.5	-7.6	-5.7	-7.0	-9.2	2021
Official international reserves, USD billion	0.7	0.8	0.9	1.0	0.8	December
International reserves, months of imports	3.3	2.9	2.8	3.2	3.0	Q3
Gross external debt, % of GDP	32.9	30.5	31.2	37.2	37.0	December
Net foreign direct investment, % of GDP	4.0	4.1	3.6	5.1	5.0	Q3*

** figures refer to a 4 quarters moving average*

Sources: WIIW, National authorities

8.2 Implementation of macro-financial assistance

Following an official request for MFA from Kosovo on 8 April 2020 in the context of the COVID-19 pandemic, the European Parliament and the Council approved in May 2020 the COVID-19 MFA package, including a new MFA programme of EUR 100 million for Kosovo. The MoU and the LFA entered into force on 8 September 2020.

The programme's policy conditionality focused primarily on strengthening public finance, enhancing financial stability, tackling informality, advancing the rule of law strategy, and improving employment prospects for the youth.

The MFA was provided in two tranches of EUR 50 million each. The first instalment was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and was disbursed on 6 October 2020. The second and final instalment was disbursed on 1 June 2021, after Kosovo had fulfilled the attached policy conditions.

The assistance was meant to complement IMF funds (EUR 52 million) under the Rapid Financing Facility (RFI) (50% of Kosovo quota in the Fund), approved on 10 April 2020. The IMF acknowledged the urgency of external and fiscal financing gaps and pointed to Kosovo's commitment to macroeconomic stability. COVID-19 mitigation measures, including a temporary suspension of the fiscal rule, were deemed as appropriate, given Kosovo's commitment to reinstate the fiscal rule once the pandemic recedes.

8.3 Structural reforms

Despite the challenges posed by the ongoing pandemic, the country's authorities continued their efforts to tackle structural obstacles highlighted in the European Commission's 2021 Kosovo Report and the 12 July 2021 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. With respect to the business environment, progress has been made to achieve 30% reduction of the administrative burden over the next eight years, as Kosovo initiated a baseline measurement identifying all administrative burdens on businesses. A general inspection reform is ongoing with the aim of reducing the number of (overlapping) inspections from 36 to 15. There was some success in tackling informality and improving voluntary compliance, as the number of registered workers increased in the construction sector due to financial incentives to join formal employment. The authorities have established an inventory of aid schemes, as provided in the Stabilisation and Association Agreement (SAA) while in response to the COVID-19 crisis, state aid to public and private companies increased.

The quality of education remains a concern, as it does not provide students with the skills currently required by the labour market, which translates into very long school-to-work transitions and intermittent or permanent periods of informal employment. There are still large gaps in road, railway and energy infrastructure. Kosovo made some progress in improving road infrastructure while the country achieved a significant decline in road fatalities (53.7%) in 2010-2020. As the country remains reliant on a predominantly coal-based, outdated and unreliable energy production system, further options are explored in order to diversify energy supply. Preparatory work is continuing for the connection and expansion of the Trans-Adriatic gas pipeline. Assessment of the interconnection between Kosovo and Albania has been already completed, while a pre-feasibility study for the Kosovo-North Macedonia pipeline is still ongoing. Some progress was made in renewables as in 2020 Kosovo achieved its target share of energy from renewable sources, which rose to 25.7% in gross final energy consumption. Following the appointment of the boards of directors, the Energy Efficiency (EE) fund became operational while some progress was made in extending EE support schemes in private and public buildings. The digitalisation of the economy is progressing as after achieving the mid-term targets of its 2013-2020 digital agenda, Kosovo is preparing a new strategy for 2021-2030. The implementation of a 5-year project, aiming to bridge the urban-rural digital infrastructure divide, and investing in the remote areas which are not attractive for private investors, is continuing.

Going forward, Kosovo faces the challenge to revise the war veteran pension scheme in order to improve the cost-efficiency and fairness of the social security schemes. Improving the quality of public spending by reforming the public wage system and addressing bottlenecks in the management of capital investment would reduce fiscal risks. The business environment would benefit from advancing reforms related to the functioning of the judicial system and from further steps on the fight against widespread corruption, informality and tax evasion. Active labour market measures seem essential to support employment, increase labour force participation and motivate workers to join formal employment. Accelerating sustainable investments in energy infrastructure would enable Kosovo to improve the reliability of energy supply, reduce pollution and speed up its green transition.

STATUS OF ECONOMIC REFORMS — KOSOVO

1. Price liberalisation

Price formation is liberalised with a few exceptions. Administrative prices are limited to public utilities, medical services co-payments, parking, driving lessons, some postal services, national parks, school textbooks, pre-primary education, public kindergarten, motor vehicle insurance and administrative fees. The regulatory agency sets electricity prices for households using as a reference the Hungarian energy exchange HUDEX. Fuel prices are updated in accordance with their fluctuations on international oil market and the euro/dollar exchange rate.

2. Trade regime

Kosovo is a small and open import-dependent economy. Exports are dominated by tourism services to the diaspora. Kosovo's Stabilisation and Association Agreement with the EU entered into force in 2016. Kosovo is at an early stage of preparation for applying for WTO observer status. Trade under free trade agreements (FTAs) accounts for about 80% of foreign trade.

3. Exchange rate regime

Kosovo unilaterally introduced the Deutsche Mark in 1999, and subsequently the euro in 2002, as sole legal tender.

4. Foreign direct investment

Kosovo is open to FDI; its only FDI restrictions relate to acquiring and exchange of property and agricultural land. The economy relies on net inflows of foreign direct investment (FDI), which finance a large share of persistent current account deficit. Net FDI inflows increased in 2021, on the back of the diaspora investment in real estate.

5. Monetary policy

The Central Bank of Kosovo was established in 2008 with functions mostly related to banking supervision and running the payment system, the only effective monetary instrument being its reserve requirement policy.

6. Public finances and taxation

Kosovo's total revenue-to-GDP ratio, relying mainly on indirect taxes, increased to 28.7% of GDP in 2021, due to strong economic performance and some formalisation gains. Reforms to modernise and digitalise the tax administration are progressing. The Tax Administration has developed a good taxpayer service focus, in particular with the widespread use of e-filing and e-payment. However, most of the adjustment needs to happen on the spending side by making social spending more efficient and improving the implementation of capital projects.

7. Privatisation and enterprise restructuring

The privatisation process of socially-owned enterprises is advancing very slowly. In 2020, the Privatisation Agency (PAK) sold only 93 SOE assets in the value of around EUR 8 million, compared to 222 sold assets in 2019, in the value of EUR 32 million. During 2020, 36 of 589 SOEs have been put into liquidation, while only one liquidation proceeding dated from 2014 was concluded.

8. Financial sector

Overall, the financial sector remains stable with adequate capitalisation and comfortable liquidity buffers. Due to the reprogramming measures undertaken by the CBK, the ratio of non-performing loans remained low at 2.3% at end-2021. Banks continued to be financed by deposits, predominantly from households.

9. MONTENEGRO

9.1 Macroeconomic performance

Montenegro's economy recorded very strong growth in 2021 without fully recovering its pre-pandemic level. The rebound was driven by a robust revival of tourism and its positive spill over effects across the economy. Consequently, in 2021, real GDP soared by 12.4% y-o-y, compared to a contraction of 15.3% a year earlier. Net exports were by far the main driver of growth. The extraordinary (81% y-o-y) increase in exports came mainly on the back of surging tourism revenue, boosting private consumption but also imports, given the strong dependency of the Montenegrin economy on foreign goods. Government consumption growth increased to 1.5% in 2021, from 0.8% the year before, even as some COVID-19 economic support measures started to expire. However, investment activity remained weak, declining by 10% y-o-y, after contracting by 12% a year earlier.

The labour market has particularly suffered from the negative effects of the pandemic. Despite several state-support packages to preserve jobs, employment kept contracting since the outbreak of the pandemic in March 2020 until June 2021, when the trend reversed. Thus, in 2021, the average unemployment rate declined to 16.9%, down from 18.4% a year earlier. So far, the authorities have implemented five economic support packages to support the households and the economy, including wage subsidies and temporary tax reductions for businesses and individuals while the Central Bank introduced several measures to support banking-sector liquidity and facilitate loan restructuring for both households and businesses.

The stability of the banking system has been reinforced compared to the pre-pandemic levels. The Central Bank of Montenegro carried out an asset quality review (AQR) for all domestic banks according to the ECB methodology. Results confirmed the stability of the domestic banking system. During the COVID-19 pandemic, the central bank adopted ten packages of temporary measures aimed at preserving the liquidity and solvency of domestic banks. As a result, the balance sheets of domestic banks recorded significant growth in 2021. Bank lending and deposits grew strongly, by 9.8% and 20.9% y-o-y respectively, at the end of 2021. The solvency ratio totalled 18.5% in 2021, well above the statutory minimum of 10%. However, there are risks from a possible increase of non-performing loans (NPLs) as a consequence of the COVID-19 crisis on corporates and households, as loan moratorium expired in December 2021. The share of non-performing loans in total loans increased to 6.2% at the end of 2021, compared to 5.5% the year before.

Higher food and energy prices kept generating inflationary pressures. Consequently, the rate of inflation rose further to 4.6% y-o-y in December 2021, in contrast to 0.9% price contraction a year earlier. To reduce the impact of high electricity prices, the Montenegrin state power company (EPCG) prepared a EUR 4.5 million plan to lower households' electricity bills by offering a 12.5% discount in the first half of 2022.

The strong recovery of economic activity helped improving budget performance too. In 2021, the general government deficit declined by 57% y-o-y, to 1.9% of GDP, reflecting a strong recovery of tax revenue, a sharp reduction in capital spending, and somewhat lower current expenditure. As a result, the budget deficit remained 48% below the plan in 2021. The improved fiscal performance and repayment of maturing Eurobonds helped reducing noticeably the public debt stock to 83.3% of GDP in 2021, compared to 105.3% of GDP at the end of 2020. The structure of the public debt remains favourable, with

97% in euros and 2.3% in US dollars. Moreover, 74.3% of total debt presents fixed interest rates.

The recovery of the tourism sector brought a sharp reduction of Montenegro's external imbalances. The distribution of COVID-19 vaccines and the reopening of borders in early 2021 were key factors for achieving a successful tourism season. The increase in the number of visitors boosted the export of services, giving rise to a surplus in the services account of 19.5% of GDP in 2021, compared to 4.2% a year before. The primary and secondary income accounts also recorded surpluses, thanks in particular to a stronger inflow of remittances from abroad. The merchandise trade deficit contracted marginally to 39.0% of GDP, compared to 39.2% of GDP a year earlier, in spite of a strong rebound of imports. Overall, the current account deficit recorded a significant decline to 9.2% of GDP in 2021, compared to a 26.1% gap a year earlier. For the same period, net FDI inflows totalled 11.2% of GDP, covering the current account deficit. Repayment of government maturing debt in 2021 reduced the foreign debt stock as well as foreign exchange reserves. At the end of 2021, international reserves totalled 36.9% of GDP, equivalent to 7.3 months of prospective imports of goods and services.

The outlook is surrounded by high uncertainties related to the evolution of the pandemic as well as high food and energy prices, and the impact on the tourism sector stemming from the spillovers of Russia's invasion of Ukraine. In its spring forecast, the Commission has revised downwards Montenegro's economic growth rate to 3.8% in 2022.

Montenegro - Macro-Economic Indicators

Montenegro	2017	2018	2019	2020	2021	2021 Ref
Real GDP, % change	4.7	5.1	4.1	-15.3	12.4	2021
Consumer price inflation, %, end of period	1.9	1.6	1.0	-0.9	4.6	December
Key monetary policy rate, %, end of period	6.2	5.8	5.5	5.3	5.2	December
Unemployment rate, LFS, %	16.1	15.2	15.1	17.9	16.9	2021
General government balance, % of GDP	-5.3	-3.9	-2.0	-11.1	-1.9	2021
Gross public debt, % of GDP*	64.2	70.1	76.5	105.3	83.3	2021
Current account balance, % of GDP	-16.1	-17.0	-14.3	-26.1	-9.2	2021
Official international reserves, USD billion	1.0	1.1	1.5	2.1	1.9	December
International reserves, months of imports	3.7	4.0	5.1	8.2	7.3	December
Gross external debt, % of GDP	160.6	163.7	169.0	224.1	188.0	December
Net foreign direct investment, % of GDP	11.5	8.9	7.5	11.1	11.2	2021

** Gross external public debt*

Sources: WIIW, National authorities

9.2 Implementation of macro-financial assistance

Following an official request for MFA from Montenegro on 15 April 2020, the European Parliament and the Council agreed on an MFA programme for Montenegro of EUR 60 million in loans, as part of the COVID-19 MFA package adopted in May 2020. The MoU and the LFA were signed on 28 August 2020 and entered into force on 28 August 2020 and on 15 September 2020, respectively.

The programme's policy conditionality focuses primarily on strengthening public finance and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection.

The MFA was provided in two tranches of EUR 30 million each. The first instalment was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and was disbursed on 6 October 2020. The second and final instalment was disbursed on 1 June 2021, after Montenegro had fulfilled the attached policy conditions.

The assistance was meant to complement IMF funds (EUR 75 million) under the Rapid Financing Facility (RFI) (100% of Montenegro's quota in the Fund), approved on 24 June 2020. The IMF acknowledged that given the health emergency the authorities were not in a position to design or implement a Fund-supported programme at that time, and pointed to the country's intentions to pursue sound fiscal and economic policies, as well as its track record of cooperation with the Fund, of servicing its obligations and its access to international capital markets.

9.3 Structural reforms

Despite the challenges posed by the ongoing COVID-19 pandemic, Montenegro has continued to show its commitment to its accession path and delivered further tangible results in key areas. At present, 33 negotiating chapters have been opened, of which three have been provisionally closed. Overall progress in the accession negotiations depends on progress in the area of rule of law, as per the requirements set out in the Negotiating Framework as well as the revised methodology formally accepted by Montenegro in the Intergovernmental Conference held on 22 June 2021. Progress towards meeting the interim benchmarks set in the rule of law Chapters 23 and 24 will be key to achieve further progress in the negotiations overall, no further chapters will be provisionally closed before this milestone is reached.

Montenegro worked towards addressing the outstanding challenges highlighted in the European Commission's 2021 Montenegro Report, and the 12 July 2021 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. In August 2021 the government decided to establish a company – Montenegro Works – whose task will be to oversee and analyse the financial performance of SOEs and to ensure that reforms to increase their efficiency are properly implemented. In the context of improving the business environment the number of local taxes and fees has been cut. In addition, a registry of fiscal and para-fiscal charges on state and local level was established in March 2021, facilitating business processes and increasing transparency. The first electronic public procurement system was launched in January 2021. The government's fight against wide spread informality continued in 2021 with the deployment of new systems of electronic fiscal invoices and for electronic management and security printing of excise stamps. In order to enhance the transparency of public support granted to businesses and employees and prevent undue state aid, the government set up in November 2020 a public register of COVID-19 related measures.

Montenegro's education system is facing numerous challenges. Schoolchildren lag behind international peers according to numerous ratings. There is a chronic occupational mismatch in relation to labour market opportunities while the COVID-19 pandemic contributed to a rapid development of the digitalisation of the education system but not of its quality. Concerning judicial reform, Montenegro continues to make efforts towards the development and promotion of alternative dispute settlement as well as on the judiciary's IT system. The Ministry of Justice has published an analysis which should serve as a basis for preparation of a new strategy for rationalisation of the judicial network. However, no concrete steps have been taken in this respect yet. It remains important that Montenegro does not reverse earlier achievements on judicial reform and that it continues building track records, in particular on the fight against corruption and organised crime, while ensuring genuine independence of all the respective institutions.

STATUS OF ECONOMIC REFORMS — MONTENEGRO
1. Price liberalisation Price formation is liberalised with a few exceptions. Administrative prices are limited to public utilities, maintenance charges in buildings, medical services co-payments, parking, driving lessons, postal services, national parks, school textbooks, pre-primary education, public kindergarten, motor vehicle insurance and administrative fees. The regulatory agency sets electricity prices for households using as a reference the Hungarian energy exchange HUDEX. Fuel prices are updated in accordance with their fluctuations on international oil market and the euro/dollar exchange rate.
2. Trade regime Montenegro is a small and open import-dependent and services-orientated economy. The country ratified a Stabilisation and Association Agreement with the EU in 2007, entering into force in 2010. In 2012, Montenegro joined the WTO. Trade under regional trade agreements (RTAs) continues to account for more than 80% of total foreign trade. Montenegro participates in five RTAs with a total of 41 economies. Montenegro does not apply any export duties.
3. Exchange rate regime Montenegro unilaterally introduced the Deutsche Mark in 1999, and subsequently the euro in 2002, as sole legal tender.
4. Foreign direct investment Montenegro is open to FDI; its only FDI restrictions relate to the ownership of land and assets within one kilometre of the border line and agricultural land. The economy relies substantially on net inflows of foreign direct investment, given its persistent current account deficits. Investments remained resilient, recording double-digit levels during the pandemic.
5. Monetary policy The Central Bank of Montenegro was established in 2000 with functions mostly related to banking supervision and running the payment system, the only effective monetary instrument being its reserve requirement policy.
6. Public finances and taxation Montenegro's total revenue-to-GDP ratio is relatively high, averaging 43.7% in the period 2007-2021. Reforms to modernise and digitalise the tax administration are well advanced, with the introduction of fiscal electronic invoices since January 2021. Most of the fiscal adjustment needs to happen on the spending side, by reducing the size of the state (local as well as national) and making social and health spending more efficient. The ongoing merger of the tax, customs, and games of chance administrations into a single Revenue Administration entity has faced challenges, including organizational and staffing issues.
7. Privatisation and enterprise restructuring The privatisation process is practically completed, with only a few companies in transport, tourism and utilities sectors still under state ownership. At present, there are around 40 state-owned enterprises in Montenegro, with fixed assets estimated between 70 to 100% of GDP. Authorities envisage strong reforms to the SOE sector through 'Montenegro Works', a new holding company to effectively manage performance and the privatization agenda of the sector.
8. Financial sector Overall, the sector appears stable, liquid and well capitalised. The strong liquidity position of the banks before the COVID-19 crisis helped mitigate some of the negative effects from the decline of liquid assets. The Central Bank of Montenegro adopted nine packages of temporary measures, including several loan moratoria, reduction in reserve requirement rates and a ban on dividends to help banks increase their potential liquidity and boost their lending potential. However, the very shallow institutional investor base restricts the development of domestic capital markets.

10. NORTH MACEDONIA

10.1 Macroeconomic performance

Bolstered by government support, the economy embarked on a solid recovery, amidst accelerating inflationary pressures in 2021. After a major economic recession in 2020, real output increased by 4% y-o-y in 2021 driven by domestic demand. Strong real wage growth, stable inflows from remittances and cash exchanges as well as substantial governmental support measures, bolstered household's disposable incomes. However, investment remained below the pre-COVID level. Both, exports, benefitting from the recovery of foreign demand, and imports, driven by firming domestic demand, surged. The labour market proved resilient, benefitting from government measures, such as wage subsidies. Employment increased, and the unemployment rate dropped further, partly because of a continued drop in the labour force. The Central Bank maintained its accommodative monetary stance throughout 2021, keeping the key policy rate at 1.25% to which it had lowered in March 2021. Inflation picked up gradually during 2021, reaching 4.9% y-o-y in December 2021. As a result, annual average inflation rose to 3.2% in 2021, compared to 1.2% the year before, driven by rising prices for energy and food. In April 2022, the Central Bank started monetary tightening by raising the key policy rate by 25bps to 1.5%.

In March, the Bank adjusted reserve requirements on liabilities in local and foreign currency, effective as of June, to counteract the build-up of euro deposits. Credit growth to the non-governmental sector attained 5.8% on average in 2021. Notwithstanding the phasing out of regulatory mitigation measures, such as loan moratoria, asset quality improved throughout the year, with the non-performing loan (NPL) ratio dropping to 3.1% at end-2021. Banks remain well-capitalised, as own funds were bolstered through reinvestment of earnings also throughout 2021. Capital adequacy, at 15.8% at end-2021, was above its level from one year earlier.

The fiscal deficit narrowed in 2021, turning out lower than budgeted in the revised plan, according to preliminary data from the Finance Ministry (5.4% of projected GDP compared to an expected 6.5%). This came on account of income from taxes and contributions exceeding the plan by 2%, but also as capital expenditure execution reached only 79% of the budget – the latter had been raised by 24% in the July budget revision, when the government also raised the deficit target from 4.9% to 6.5% of projected GDP. Still, compared to 2020, capex execution was higher by 45.2%. Compared to the 2020 outcome, revenue was higher by 15.3% y-o-y, and expenditure increased by 5.7% y-o-y. General government debt amounted to 51.9% of projected full-year GDP, the same level as one year earlier. The public debt level (which includes the debt of public enterprises) stood at 60.9%, also about the same as at end-2020.

External vulnerabilities increased somewhat as of Q4 in light of the deteriorating energy trade balance. The current account deficit amounted to 3.5% of GDP in 2021, marginally above the previous year's level, but widened in the first quarter of 2022 due to an increasing merchandise trade deficit. Private transfers regained their pre-COVID levels in 2021, bringing total secondary income to 17.2% of GDP. The primary income deficit remained at 4.8% of GDP. Net FDI inflows amounted to 3.7% of GDP in 2021, higher than one year earlier (1.5%). In July 2021, the government repaid the 2014 Eurobond worth EUR 500 million, which it had refinanced through a new, its 8th Eurobond (EUR 700 million) issued in March. The government received the second tranche of MFA from the EU (EUR 80 million), as well as special SDRs from the IMF totalling some EUR 160 million. This, in addition to domestic sources, largely covered 2021 financing needs. It also contributed to the rise in gross external debt, which, excluding central bank transactions amounted to 82% of GDP at end-year. Financing operations also bolstered foreign exchange reserves, which covered some 4.6 months of prospective imports at the end of 2021.

Given larger than previously expected energy imports and downward revisions to foreign effective demand, the economic recovery is likely to progress less vigorously than projected in the autumn. Following downward revisions of 2022 real GDP growth by IFIs (World Bank: 2.7%; IMF: 3.2%), COM is also likely to revise its previous (autumn 2021) projections. Domestic demand would be driving growth in 2022, with private consumption, in spite of price pressures weighing on purchasing power, sustained by rising wages (minimum wage rise of 18% as of March 2022) and pensions (new indexation to pensions increase taking into account wage developments).

The outlook is surrounded by high uncertainties related to the evolution of the pandemic as well as high food and energy prices, stemming from the spillovers of Russia's invasion of Ukraine. In its spring forecast, the Commission has revised downwards its projection for GDP growth in 2022 to 3.0% from 3.9% in the autumn forecast.

North Macedonia - Macro-Economic Indicators

North Macedonia	2017	2018	2019	2020	2021	2021 Ref
Real GDP, % change	1.1	2.9	3.9	-6.1	4.2	2021
Consumer price inflation, %, end of period	2.4	0.8	0.4	2.3	4.9	December
Key monetary policy rate, %, end of period	3.3	2.5	2.3	1.5	1.3	December
Unemployment rate, LFS, %	22.4	20.7	17.3	16.4	15.8	2021
General government balance, % of GDP	-2.8	-1.1	-2.1	-8.3	-5.4	2021
Gross public debt, % of GDP	47.7	48.4	49.4	59.9	60.9	December
Current account balance, % of GDP	-1.0	-0.1	-3.3	-3.4	-3.5	2021
Official international reserves, USD billion	2.5	3.0	3.3	3.7	3.7	December
International reserves, months of imports	4.1	4.4	4.6	5.3	4.5	December
Gross external debt, % of GDP	73.4	73.0	72.4	80.3	81.4	December
Net foreign direct investment, % of GDP	1.8	5.7	3.5	1.9	3.7	2021

Sources: WIIW, National authorities

10.2 Implementation of macro-financial assistance

Following an official request for MFA from the authorities on 15 April 2020, the European Parliament and the Council agreed on an MFA programme to North Macedonia of EUR 160 million in loans, as part of the COVID-19 MFA package adopted in May 2020. The MoU and the LFA were signed on 17 July 2020, and entered into force on 20 July 2020 and on 15 September 2020, respectively.

The programme's policy conditionality focused primarily on strengthening public finance and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection.

The MFA was to be provided in two tranches of EUR 80 million each. The first instalment was subject to the general political pre-conditions for MFA (respect for effective democratic mechanisms, including a multi-party parliamentary system, the rule of law and human rights) and was disbursed on 6 October 2020. The second instalment was disbursed on 1 June 2021, after North Macedonia had fulfilled the attached policy conditions.

The assistance was meant to complement IMF funds (EUR 176 million) under the Rapid Financing Facility (RFI) (100% of North Macedonia's quota in the Fund), approved on

10 April 2020. The IMF acknowledged that given the health emergency the authorities were not in a position to design or implement a Fund-supported programme at that time, and pointed to the country's intentions to pursue sound fiscal and economic policies, as well as its track record of cooperation with the Fund, of servicing its obligations and its access to international capital markets.

10.3 Structural reforms

In March 2020, the European Council decided to open EU accession negotiations with North Macedonia and on 1 July 2020 the European Commission presented to Member States a draft of the negotiating framework. Once the latter is adopted by the Council, the first intergovernmental conference (the formal start of the negotiations) will follow.

Despite the challenges posed by the ongoing pandemic, the country's authorities continued to tackle structural obstacles highlighted in the European Commission's 2021 North Macedonia Report and the 12 July 2021 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. The government improved fiscal transparency, notably by enhancing the reporting on the finances of public enterprises and municipalities. In addition, the authorities set up a dedicated website for information on the implementation of COVID-19 related support measures, including the main beneficiaries. However, the most important measure to improve fiscal governance, the new Organic Budget Law, which contains provisions for fiscal rules and a fiscal council, was adopted by the government in December 2020, but has not yet been adopted by Parliament. Moreover, its implementation depends heavily on the introduction of the new Integrated Financial Management Information System (IFMIS), which is delayed. With a view to improving revenue mobilisation, the government conducted a review of foregone revenues from tax deductions in direct income taxation and preferential VAT rates, in line with the 2020-2023 Tax System Reform Strategy adopted in December 2020. Moreover, the authorities adopted an Action Plan for improving public investment management, based on the recommendations of the respective 2020 IMF report. The government has also started work on strengthening the framework for public private partnerships (PPP).

In the context of improving the business environment authorities started streamlining the large array of parafiscal fees imposed on businesses by publishing, on a designated web page, a list containing 377 parafiscal charges at central and local level including their value. The new bankruptcy law, intended to facilitate market exit by reducing the cost and time of procedures, is still under preparation while the implementation of the 2019 Law on business inspections to ensure transparent unselective inspections, is protracted. The country adopted a comprehensive Law on Energy Efficiency, transposing the relevant EU directives, however the implementation is lacking. Shortcomings in the rules and institutions of state aid, including the lack of an updated state aid registry, have not been addressed, amplifying existing concerns about its efficiency and transparency.

The need to modernise the country's capital stock is increasing. Significant infrastructure and private sector productivity gaps could be narrowed through higher public investments in transport, energy, education and sustainable environmental infrastructure along with improved planning and implementation. Although a significant reduction (about 10pps) has been achieved since 2018, more recently supported by the government's Youth Guarantee scheme, youth unemployment remains high. The latter indicates that the education system does not meet the needs of businesses. Ongoing reforms in education, if stepped up, can help improve the situation.

STATUS OF ECONOMIC REFORMS — NORTH MACEDONIA
1. Price liberalisation In early 2020, the electricity market was fully liberalised, in line with the 2019 Law. Retail prices have been deregulated, except for the universal supplier for which the regulator (ERC) sets the price. Over 16,000 retail customers switched suppliers in 2020, more than twice than in the same period one year earlier. The natural gas market was liberalised in 2015. At the end of 2020, there were six licensed active natural gas suppliers and natural gas traders.
2. Trade regime North Macedonia became a member of the Central European Trade Agreement (CEFTA) in 2000. In February 2001, the country signed a Stabilization and Association Agreement (SAA) with the EU. A critical component of the SAA is a preferential trade agreement that allows products from North Macedonia to enter the European Union duty free. The agreement also provides for a gradual reduction of duty rates for EU products entering North Macedonia. North Macedonia has been a member of WTO since 4 April 2003.
3. Exchange rate regime There is a pegged exchange rate system to the euro.
4. Foreign direct investment Large current account deficits are predominantly financed by net FDI inflows which amounted to 2.3% of GDP in the third quarter of 2021, slightly lower than one year earlier (2.8%). FDI flows are mainly channelled to the production of machinery and transport equipment, including automotive supplies.
5. Monetary policy The primary objective of the National Bank of the Republic of North Macedonia (NBRNM) is to achieve and maintain price stability. It shall support the general economic policies without jeopardizing the achievement of primary objective and in conformity with the principle of open market economy and free competition. The NBRNM conducts an efficient monetary policy with a standard set of instruments within a stable exchange rate of the denar against the euro.
6. Public finances and taxation At 30.6% of GDP on average over the past 5 years, the revenue ratio is low by regional comparison. VAT typically accounts for about one fourth of total revenue. There has been little progress made in improving revenue mobilisation and collection in line with the 2020-2023 Tax System Reform Strategy adopted in December 2020. Due to the ongoing crisis, the structure of public finances remained heavily tilted towards current expenditure, notably transfer payments. Capital expenditure was raised in a budget revision, but it was heavily under-executed, even though, in the 2021 budget, the government had introduced a new mechanism for budget users to improve capital expenditure execution. There has been some progress in increasing the transparency of public finances in recent years, in particular with regard to municipalities and public enterprises.
7. Privatisation and enterprise restructuring In 2020, the number of companies in which the government held a stake remained the same as in the three preceding years (16 companies in full state ownership and 40 companies in partial ownership, most of these with a state ownership share of below 1% of issued capital). The total value of state ownership in enterprises remained at 10.7% of the GDP.
8. Financial sector The banking sector remains well capitalised and liquid. The quality of the loan portfolio has been improving gradually since end-2014, with the ratio of non-performing to total loans dropping to 3.1% at the end of 2021. Provisioning for loan losses remains high. Regulatory easing, including the possibility for banks to delay debtors' due loan payments, bolstered bank lending and asset quality. These measures were gradually phased out during 2021.

11. Ex post evaluations of Macro-Financial Assistance operations

In line with the EU Financial Regulation and the corresponding MFA decisions, the Commission conducts ex post evaluations[7] after the completion of MFA operations to assess their impact. The two main objectives of these evaluations are to:

i. analyse the impact of MFA on the beneficiary country's economy, and in particular on the sustainability of its external position; and

ii. assess the added value of the EU action.

In January and April 2021, the Commission published the staff working documents for the ex post evaluations of MFA-I to Tunisia and MFA-III to Ukraine respectively.

- **MFA-I to Tunisia**: The evaluation found that MFA-I was effective in helping to improve Tunisia's Balance of Payments position, as well as supporting fiscal consolidation through highly concessional financial terms and policy conditions. The MFA covered around 11.3% of the residual financing gap for the period 2015-2016 and increased confidence in the Tunisian economy (by decreasing the market-based financing cost, and by helping to stabilise the national currency).

  MFA policy conditionality covered the most relevant reform challenges in Tunisia, namely: taxation; public-finance management; social-safety net (SSN); financial sector; public statistical system; trade. While the country successfully delivered on all the agreed reform conditions, difficulties were encountered in the field of SSN and trade reforms. The fact that many conditions under MFA-I (in the tax, public-finance management, social-safety net and financial sectors) were subsequently taken further as part of MFA-II underlines the shared intention, by the EU and Tunisian Government, to concentrate efforts on pushing for steady progress in these critical reform areas.

- **MFA-III to Ukraine**: The evaluation found that MFA-III was highly relevant in terms of its objectives, financial envelope and policy conditions. MFA conditionality addressed the main reform challenges in Ukraine, namely: public-finance management; energy sector; business environment; governance and transparency; social-safety net; and financial sector. Although the number of conditions in MFA-III reflects the exceptional size of the assistance (more money for more reforms), a smaller number may have helped the authorities focus on key priorities and keep ownership high. In line with this insight, the Commission chose a more focused approach to the conditionality in the subsequent MFA-IV operation.

  Nonetheless, MFA-III proved to be effective in supporting fiscal consolidation and helping Ukraine to improve its balance-of-payments position. The magnitude and favourable terms of the intervention allowed for fiscal savings, necessary for the implementation of structural reforms, and increased confidence in the Ukrainian economy. The MFA intervention had both direct and indirect positive social impacts on Ukrainian population, strengthening the social safety net and protecting low-income households against higher prices resulting from energy reforms, through compensation schemes. Overall, the majority of social indicators has improved in the concerned period. Finally, MFA-III had a crucial role in the sustainability of Ukraine's public debt through a variety of channels, including a

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

signalling effect that acted as a catalyst for additional financial support and investor confidence. The programme allowed for fiscal savings, stemming from the highly favourable loan terms, helping Ukraine to smooth its adjustment path and create fiscal space for reforms and sustained social spending.

Furthermore, in 2021, the joint ex post evaluation of MFA-II interventions to Tunisia and Jordan was completed, as well as the meta-evaluation of 15 MFA operations[8] concerning the period 2010-2020. The meta-evaluation assessed the principles and characteristics governing the MFA instrument and aimed to provide input on how to improve its relevance, effectiveness, efficiency, value added and its ability to respond to the priorities of EU external action. The accompanying staff working documents of the two evaluations are expected to be published in the first half of 2022.

- **MFA-II to Tunisia and Jordan**: the external study concludes that the size, form and timing of the operations were relevant and appropriate to the countries' financing needs, providing EU added value. In both countries, the MFA had a positive impact on debt sustainability and played a positive role in promoting macroeconomic stabilisation. The conditionality was relevant, focused on key reform areas. The operations supported positive change in some reform areas, despite mixed progress in some other specific reforms. From a regional perspective, it can be reasonably assumed that the positive impact and spill overs on the MENA region of the two MFAs were relatively limited and mostly associated with less measurable channels (confidence effect).
- **The meta-evaluation of MFA operations 2010-2020**: MFA was found to be overall effective in stabilising the beneficiaries' (external) macroeconomic environment, especially in the short and medium-term. Notably, hard data in the individual ex-post evaluations show that:

  1. Despite a challenging external environment at the inception of the respective MFA operations, market access could be maintained or regained in all cases;
  2. Reserve adequacy and current accounts mostly improved during MFA operations, while inflation subsided.

  Larger support and the complementarity of expertise and policy conditions between the Commission and the IMF in synchronised operations made the overall assistance more impactful. Also, the cooperation increased the Union's leverage to push for reforms.

  Some design features of MFA reinforce its effectiveness.

    1. The focus on countries in the Union's direct vicinity and the strong ties with those countries help ensure that MFA policy conditions are relevant, can be met and that the instrument reaches its goals;
    2. Moreover, the preference for loans and the standard availability period of 2.5 years provide for an overall framework conducive to reform incentives and implementation.

[8] MFAs to: Armenia (2011-2012); Bosnia and Herzegovina (2009-2013); Georgia (2006-2008); Georgia (2009-2010); Georgia II (2013-2017); Jordan (2014-2015); Kosovo (2006-2010); Kyrgyz Republic (2013-2016); Lebanon (2007-2010); Moldova (2007-2008); Moldova (2010-2012); Serbia (2009-2011); Tunisia I (2014-2017); Ukraine I and II (2014-2015); Ukraine III (2015-2017).

At the same time, some factors appear to have reduced the MFA's effectiveness, notably the long procedure for authorising MFA operations (both as regards lengthy ratification procedures in beneficiary countries and inefficiencies relating to the standard ordinary legislative procedure on the EU side), the inflexibility of the MoU and its conditionality in the course of an operation (esp. in times of significant economic and political change in the beneficiary country) and the limited size of some operations .

MFA has been also a relatively (cost-)efficient instrument. For the Union, the historical absence of defaults during its more than 30 year long history allowed the 9% of loan provisioning to be routinely returned to the budget. For beneficiary countries, the high degree of loan concessionality provides substantial savings in comparison to market funding.

The evaluation indicated a need to strengthen the visibility of the MFA in beneficiary countries. In this respect, the event organised by the Commission on 16 November 2021, on the occasion of the 30th anniversary of the instrument, provided an important showcase to consolidate the awareness around the instrument also outside the European Union. High-level representatives from beneficiary countries, consultancy firms, EU delegations and Member States took part in the debate on what the MFA has achieved so far and possible strategies for the future.

The design and implementation of the MFA were complementary and consistent with other Union initiatives and IMF-operations providing financial support to beneficiaries. Continuous demand for MFA operations from beneficiaries and evaluation reports demonstrate the persistent relevance of the instrument (in the past and present) and the reforms it promotes. However, there is scope for increasing the visibility of the instrument.

Finally, the framework for MFA evaluations was found to be appropriate and useful.

Annex 1: MFA operations by date of decision, 1990-2021

MFA Operations 1990 - 2020 by Date of Decision (amounts in million EUR)

	Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total	Number of operations
Current Member States*	Bulgaria		290	110					250		100																							750	4
	Czech & Slovak Fed. Rep.		375																															375	1
	Estonia			40																														40	1
	Hungary	870	180																															1050	2
	Latvia			80																														80	1
	Lithuania			100																														100	1
	Romania		375	80		125					200																							780	4
	Slovakia					130																												130	1
Neighbourhood South	Algeria		400			200																												600	2
	Israel		187.5																															187.5	1
	Jordan																								180			200				700		1080	4
	Lebanon																		80															80	1
	Tunisia																									300		500				600		1400	3
Neighbourhood East	Armenia								58												100													158	2
	Belarus						55																											55	1
	Georgia								175									33.5			46				46					45		150		495.5	6
	Moldova					45		15				15		15					45			90							100			100		425	8
	Ukraine					85	200			150				110								500				1000	1800			1000		1200		6045	9
Acecssion and Pre-Accession	Albania			70		35					20					25																180		330	5
	Bosnia & Herzegovina										60			60							100											250		470	4
	Kosovo (UNSCR 1244)											35	30					50														100		215	4
	North Macedonia								40		80		18																			160		298	4
	Montenegro											20																				60		80	2
	Serbia																				200													200	1
	Serbia & Montenegro												345	130	70																			545	3
Other	Tajikistan											95																						95	1
	Kyrgyz Republic																								30									30	1
	Amount approved	870	1808	480	0	620	255	15	523	150	460	165	393	315	70	25	0	83.5	125	0	446	590	0	0	256	1300	1800	700	100	1045	0	3500	0	16094	16094
	No. of operations approved	1	6	6	0	6	2	1	4	1	5	4	3	4	1	1	0	2	2	0	4	2	0	0	3	2	1	2	1	2	0	11	0	77	77

* MFA received before becoming EU Member State

Annex 2: Status of disbursements made by date of decision at end-December 2021

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

Status of effective disbursements as of end-December 2021 (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) Agreed amounts with the recipent countires:	17.11.97 amended by 28.3.00	97/787/EC 00/244/EC	**(375)** **328**			**(294.5)** **294.5**	 **33.5**
Armenia (Loan and Grant)			**(58)**	Dec. 1998 (Loan) Dec. 1998 (Grant) Dec. 1999 (Grant) Feb. 2002 (Grant) Dec. 2002 (Grant) June 2004 (Grant) Dec. 2005 (Grant)	28 8 4 5.5 5.5 5.5 1.5	**(58)**	
Georgia (Loan and Grant)			**(175)**	Jul. 1998 (Loan) Aug. 1998 (Grant) Sep. 1999 (Grant) Dec. 2001 (Grant) Dec. 2004 (Grant)	110 10 9 6 6.5	**(141.5)**	**(33.5)**
Tajikistan (Loan and Grant)			**(95)**	Mar. 2001 (Loan) Mar. 2001 (Grant) Dec. 2001 (Grant) Feb. 2003 (Grant) May. 2005 (Grant) Oct. 2007 (Grant)	60 7 7 7 7 7	**(95)**	

Ukraine (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) May 2017 (Grant) May 2017 (Loan)	13 10 10 13	**46**	
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 July 2017	100 100 100	**300**	
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 Apr. 2017	600 600	**1 200.0**	**600.0**
Tunisia (Loan)	06.07.16	2016/1112/EU	**500.0**	Oct. 2017 June 2019 Oct. 2019	200 150 150	**500.0**	
Jordan (Loan)	14.12.16	2016/2371/EU	**200.0**	Oct. 2017 July 2019	100 100	**200.0**	
Moldova (Loan and Grant)	13.09.17	2017/1565/EU	**100.0**	Oct. 2019 July 2020	30 30	**60.0**	**40.0**
Georgia (Loan and Grant)	18.04.2018	2018/598/EU	**45.0**	Dec. 2018 Nov. 2020	20 25	**45.0**	
Ukraine (Loan)	04.07.2018	2018/947/EU	**1 000.0**	Dec. 2018 May. 2020	500 500	**1 000.0**	
Jordan (Loan)	17.01.2020	2020/33/EU	**500.0**	Nov. 2020 Jul. 2021	100 200	**300.0**	**200.0** **(ongoing)**

COVID-19 MFA Package:

Jordan (Loan)	25.05.2020	2020/701/EU	**200.0**	Nov. 2020 Jul. 2021	150 50	**200.0**	
Tunisia (Loan)	25.05.2020	2020/701/EU	**600.0**	Ju. 2021 May 2022	300 300	**600.0**	
Georgia (Loan)	25.05.2020	2020/701/EU	**150.0**	Nov. 2020	75	**75.0**	**75.0** **(cancelled**
Moldova (Loan)	25.05.2020	2020/701/EU	**100.0**	Nov. 2020 Oct. 2021	50 50	**100.0**	
Ukraine (Loan)	25.05.2020	2020/701/EU	**1 200.0**	Dec. 2020 Oct. 2021	600 600	**1 200.0**	
Albania (Loan)	25.05.2020	2020/701/EU	**180.0**	Mar. 2021 Nov. 2021	90 90	**180.0**	
Bosnia and Herze (Loan)	25.05.2020	2020/701/EU	**250.0**	Oct. 2021	125	**125.0**	**125.0** **(cancelled**
Kosovo (Loan)	25.05.2020	2020/701/EU	**100.0**	Oct. 2020 Jun. 2021	50 50	**100.0**	
Montenegro (Loan)	25.05.2020	2020/701/EU	**60.0**	Oct. 2020 Jun. 2021	30 30	**60.0**	
North Macedonia (Loan)	25.05.2020	2020/701/EU	**160.0**	Oct. 2020 Jun. 2021	80 80	**160.0**	

Annex 3: MFA amounts authorised* by year, 2005-2021 (EUR million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
By region																	
Accession and Pre-Accession	50.0			300.0											750.0		**1 100.0**
Neighbourhood East	33.5	45.0		146.0	590.0			46.0	1 000.0	1 800.0		100.0	1 045.0		1 450.0		**6 255.5**
Neighbourhood South		80.0						180.0	300.0		700.0				1 300.0		**2 560.0**
Other								30.0									**30.0**
Total amounts authorised	**83.5**	**125.0**	**0.0**	**446.0**	**590.0**	**0.0**	**0.0**	**256.0**	**1 300.0**	**1 800.0**	**700.0**	**100.0**	**1 045.0**	**0.0**	**3 500.0**	**0.0**	**9 945.5**
Loans	0.0	50.0	0.0	365.0	500.0			218.0	1 300.0	1 800.0	700.0	60.0	1 035.0		3 500.0		**9 528.0**
Grants	83.5	75.0	0.0	81.0	90.0			38.0				40.0	10.0		0.0		**417.5**

[1] More detailed information is available in the statistical data of the staff working document

*Authorised amounts refer to the amounts agreed to in the MFA Decisions, which may differ from the disbursed amounts (Annex 4).

Chart 3A: MFA amounts authorised by year, 2006-2021(EUR million)

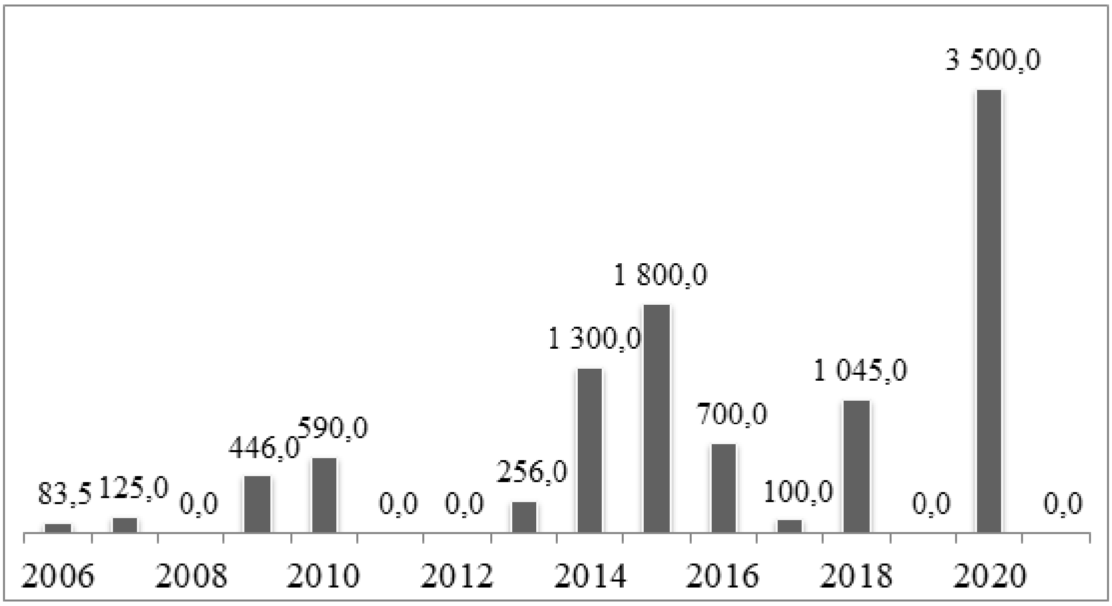
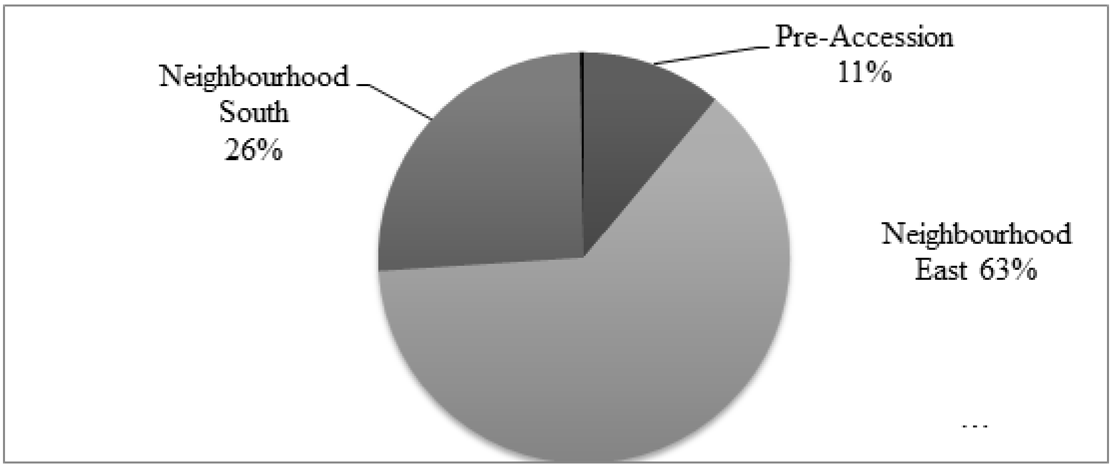


Chart 3B: MFA amounts authorised by region, 2006-2021 (%)



Annex 4: MFA amounts disbursed by year, 2006-2021 (EUR million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
By region																	
Accession and Pre-Accession	32.0				30.0	100.0		100.0							160.0	465.0	887.0
Neighbourhood East	29.0	20.0	25.0	15.3	70.7	81.0	69.0		1 360.0	873.0		623.0	520.0	30.0	1 280.0	650.0	5 646.0
Neighbourhood South			15.0	25.0						380.0		400.0		400.0	250.0	550.0	2 020.0
Other										15.0	15.0						30.0
Total amounts disbursed	**61.0**	**20.0**	**40.0**	**40.3**	**100.7**	**181.0**	**69.0**	**100.0**	**1 360.0**	**1 268.0**	**15.0**	**1 023.0**	**520.0**	**430.0**	**1 690.0**	**1 665.0**	**8 583.0**
Loans	19.0	0.0	0.0	25.0	0.0	126.0	39.0	100.0	1 360.0	1 245.0	10.0	1 013.0	515.0	420.0	1 170.0	1 665.0	**7 707.0**
Grants	42.0	20.0	40.0	15.3	100.7	55.0	30.0			23.0	5.0	10.0	5.0	10.0	15.0	0.0	**371.0**

[1] More detailed information is available in the statistical data of the staff working document

Chart 4A: MFA amounts disbursed by year, 2006-2021 (EUR million)

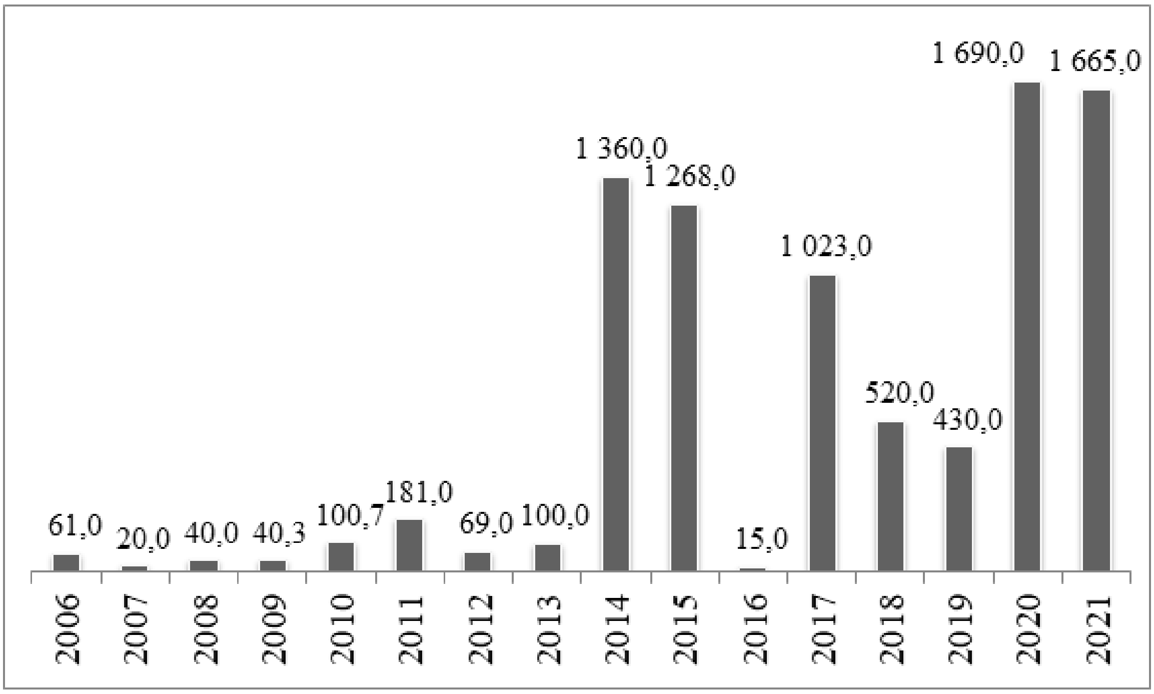


Chart 4B: MFA amounts disbursed by region, 2006-2021 (%)