EUROPEAN
COMMISSION

Brussels, 8.7.2021
SWD(2021) 178 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 2020

{COM(2021) 375 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

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 2020.[1]

2020 was an exceptional year for MFA. The year was firstly characterised by the conclusion of three MFA operations in the Eastern neighbourhood: Ukraine MFA-IV, Georgia MFA-III and Moldova, as well as the adoption of a new, follow-up operation with Jordan (MFA-III) in the Southern neighbourhood. Furthermore, in the context of the COVID-19 pandemic, on 25 May 2020 the European Parliament and the Council adopted a EUR 3 billion MFA package to 10 enlargement and neighbourhood partners to help them to limit the economic fallout of the coronavirus pandemic[2]. Implementation is ongoing.

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 2006-2020, by year and by region.[3]

1 This document is based on information available up to May 2021.

2 Decision (EU) 2020/701, OJ L 165, 27.5.2020, p. 31–37

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

Georgia's GDP contracted by 6.2% in 2020. The outbreak of the coronavirus brought a severe recession from the second quarter of the year. GDP declined by 12.3% year-on-year in Q2, followed by a smaller contraction by 5.6% year-on-year in Q3. The situation deteriorated again due to a new wave of COVID-19 cases and the reintroduction of restrictions in November. All sectors of the economy apart from agriculture and mining contracted in 2020, with the most severe drop in the sector of hotels and restaurants. The unemployment rate in Georgia increased to 20.4% in the fourth quarter of 2020, up by 3.6 percentage points compared to the same period of 2019.

Consumer price inflation decreased to 2.4% year-on-year in December 2020 from 7% in December 2019 but then resurged to 7.2% in March 2021. Despite falling inflation and taking into account the uncertain economic outlook, the central bank cut the refinancing rate only slightly in the course of 2020, from 9% to 8% and more recently raised it to 8.5% in March 2021. This reflects, inter alia, pressures stemming from the Georgian currency, the lari, depreciating by 20% against the euro and by 13% against the US dollar in 2020.

The general government deficit reached 9.3% of GDP in 2020, slightly higher than the 8.5% of GDP foreseen in the revised budget law. The difference is due to the additional support package announced in response to the new containment measures in the last weeks of the year. The ratio of public debt to GDP increased to 62% at the end of 2020 from 41% at end-2019.

Georgia's balance-of-payments position deteriorated in 2020. The current account deficit increased from USD 1 billion in 2019 to USD 1.97 billion in 2020, corresponding to 12.4% of GDP. The factor that had the strongest impact on the current account position was a dramatic fall in revenues from tourism, which had amounted to over USD 3 billion in 2019 and dropped to USD 0.5 billion in 2020. On the other hand, Georgia's merchandise trade deficit narrowed. The increased current account deficit was financed by continuing (albeit slower) inflow of foreign direct investment and, most importantly, by increased volumes of grants and concessional loans from the international partners, including the EU.

Georgia's international reserves remained broadly stable in recent months, totalling USD 3.9 billion at the end of October 2020 (corresponding to around 5 months of imports), having increased from USD 3.5 billion at end-2019.

For 2021, most forecasts envisage a GDP recovery by 3.5-4%, but this outlook is highly uncertain. It depends notably on the evolution of the pandemic in Georgia and in other countries, on the continuation of the fiscal stimulus in 2021, and on the size of financial inflows from abroad, especially revenues from tourism and remittances.

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

Georgia - Macro-Economic Indicators

Georgia	2016	2017	2018	2019	2020
Real GDP, % change	2,9	4,8	4,9	5,0	-6,2
Consumer price inflation, %, end of period	1,8	6,7	1,5	7,0	2,4
Key monetary policy rate, %, end of period	6,5	7,3	7,0	9,0	8,0
Unemployment rate, LFS, %	21,7	21,6	19,2	17,6	18,5
General government balance, % of GDP	-1,3	-0,8	-0,7	-2,7	-9,3
Gross public debt, % of GDP	40,3	39,9	39,9	41,2	62,2
Current account balance, % of GDP	-12,5	-8,0	-6,8	-5,5	-12,4
Official international reserves, USD billion	2,8	3,0	3,3	3,5	3,9
International reserves, months of imports	3,5	3,4	3,6	4,7	5,2
Gross external debt, % of GDP	105,3	106,6	101,3	106,6	127,7
Net foreign direct investment, % of GDP	8,2	10,5	5,5	5,9	3,7

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

1.2. Implementation of macro-financial assistance

The MFA-III operation launched in 2018 was completed with disbursement of the second and last tranche in November 2020. The amount of this tranche was EUR 25 million, including EUR 5 million in the form of grants and EUR 20 million in loans.

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 is 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 will additionally be 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.

These MFA programmes are provided in conjunction with the resources from international financial institutions and bilateral donors including the IMF[5], under its four-year Extended Fund Facility (EFF) programme with Georgia approved in April 2017 and

[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 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.

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 most recent, eighth and final one in April 2021.

1.3. Structural Reforms

Georgia's structural reform agenda focuses in particular on improving the business environment, labour market, energy and transport. The Georgian authorities intend to complement structural reforms with fiscal reforms, strengthening of the financial sector, as well as continuous implementation of the Association Agreement with the EU.

In terms of improving the business environment, the Georgian Parliament adopted in September 2020 a new insolvency law supporting adequate protection of creditor rights and timely and efficient insolvency processes in line with international standards. A new company law, aimed at regulating corporate relations and approximating the legislation to the EU directives, has been submitted to the Parliament. The authorities have continued improving the revenue administration, e.g. by automatic refund of VAT credits (since November 2020), development of IT strategy and a risk-based approach.

Regarding the labour market, Georgia implemented several policy actions from the National Strategy of Labour and Employment Policy, adopted in December 2019. This included the adoption of the Law on Employment Services in July 2020, adoption of substantial amendments to the Labour Code in September 2020 and strengthening of the labour inspection.

In the field of energy, the Georgian Parliament adopted in May 2020 laws on energy efficiency and on energy performance of buildings, implementing the EU acquis in this area. Despite the pandemic, the authorities have advanced their infrastructure development plans. As regards transport, several new sections of the East-West Highway were completed in 2020, while the construction on the remaining sections is underway.

In the financial sector, the National Bank of Georgia is strengthening the regulatory and supervisory framework. In particular, the implementation of the resolution framework for financial institution advanced in 2020, with adoption of the relevant secondary legislation.

Georgia continues to implement the measures and obligations resulting from the Association Agreement with the EU, including the Deep and Comprehensive Free Trade Area (DCFTA). The recent Association Implementation Report of February 2021 concludes that while alignment to the EU acquis and European standards has broadly continued, further efforts are needed in particular to consolidate democracy after the recent elections and to advance the reform of the judiciary.

Georgia's national reform agenda is supported by MFA conditionality. For example, conditions of the current MFA operation notably require an adoption of the company law, improvements of the judicial system, as well as reforms in the field of the labour market, energy efficiency, governance of state-owned enterprises public procurement and pension system.

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% of GDP in 2020.
5. Monetary policy The main monetary policy objective of the Central Bank of Georgiais price stability. The Bank is currently applying an inflation-targeting regime, with a target of 3% for 2019-2022. The effectiveness of monetary policy is significantly constrained by the high level of dollarisation: as of end-2020, 55% of loans and 61% of deposits were denominated in foreign currency.
6. Public finances and taxation The public finance management system is essentially sound and transparent. Further needed 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 (Article 94), while the budget deficit, public debt and public spending are capped by the Liberty Act, in force since January 2014, at 3%, 60% and 30% of GDP, respectively.
7. Privatisation and enterprise restructuring Most state-owned enterprises (SOEs) have been privatised, with their number falling from around 1,300 in 2009 to around 350 currently, including some 50 public corporationa and some 300 government entities. The government, with support of the IMF and the World bank, has recently started a reform of 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 concentrated, with the two largest banks, out of 16 in total, holding around two thirds 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 17.6% in December 2020. The share of nonperforming loans to total gross loans was very low at 2.3% at the end of 2020 (by IMF's methodology).

2. MOLDOVA

1.4. Macroeconomic performance

On the back of the pandemic and drought in the summer, Moldova's economy contracted by 7% in 2020. Much of it can be accounted for by the fall in final consumption (significantly affected by the household sector), with an effect of -5.8 percentage points on the GDP. Gross capital formation also contracted, although less profoundly by 2.1% and with relatively low impact on the GDP (-0.5 percentage points). On the supply side, due to the extreme weather conditions, agriculture was among the most affected sectors, with output down by over a quarter compared to 2019, followed by wholesale and retail trade. The government introduced a series of measures to mitigate the effects of the pandemic-induced crisis, including increases in social spending, temporary tax deferrals and monetary easing. However, the overall level of support was rather moderate, accounting for about 1% of GDP.

In 2020 inflation continued to moderate in Moldova. While in January, the annual inflation rate stood at 6.8%, it decreased significantly throughout the year, reaching 0.4% by December, therefore, falling below the target level set by the National Bank of Moldova at 5% ±1.5 percentage points. The strong disinflationary trend was a result of the global recession, including the falling oil prices, as well as a sharp decline in domestic demand. In response to this, and to cushion the economic fallout of the pandemic, the central bank cut the base rate five times in 2020, such that in November it reached a historic low of 2.7%.

Owing to increased spending on pandemic-related measures, the initial budget for 2020, projected at 3% of GDP, was amended several times throughout last year, up to 8% with the September revision. However, because of underspending (annulment, optimization or underperformance of several spending programmes), by the end of 2020, the fiscal deficit narrowed to 5.3%. In December, the Moldovan authorities passed a new budget law for 2021, albeit in a manner that led to domestic controversies, without proper consultation and lack of a transparent approval process. The 2021 state budget projects an increase of the deficit to 6.5% of GDP, over half of which (58%) is to be financed with the support from International Financial Institutions.

As a result of import compression and lower energy prices, the current account deficit narrowed to 6.6% of GDP, compared to 9.3% in 2019. Moreover, as the value of imports is almost double, the sharp, but similar decrease of both imports (-7.3%) and exports (-10.6%) during the COVID-19 pandemic contributed to a contraction of the trade deficit.

An improved current account balance, in addition to financial assistance from the EU and the IMF, as well as central bank interventions, resulted in a significant increase of international reserves by nearly 24%, reaching 3.8 billion at the end of the year. Total external debt has accelerated in 2020 to 69.7% of GDP, up from 61.7% in 2019.

In 2020, despite the shock, the fall in remittances (which make about 15% of Moldova's GDP) was relatively low by 2.4%. FDI, which has been at low levels since the bank fraud crisis in 2014, further declined last year, reaching 0.6% of GDP.

The economy is expected to recover modestly in 2021 (GDP is forecast to grow by about 4.5% according to the IMF). However, the macroeconomic performance of Molodva this year will largely depend on the epidemiological situation, including the vaccine rollout, and external support.

Moldova - Macro-Economic Indicators

Moldova	2016	2017	2018	2019	2020
Real GDP, % change	4,4	4,7	4,3	3,6	-7,0
Consumer price inflation, %, end of period	2,4	7,3	0,9	7,5	0,4
Key monetary policy rate, %, end of period	9,0	6,5	6,5	5,5	2,7
Unemployment rate, LFS, %	4,1	4,0	3,0	5,1	3,8
General government balance, % of GDP	-1,6	-0,6	-0,8	-1,5	-5,3 (est)
Gross public debt, % of GDP	36,9	32,7	30,1	27,4	32,9
Current account balance, % of GDP	-3,5	-5,7	-10,3	-9,3	-6,6
Official international reserves, USD billion	2,2	2,8	3,0	3,1	3,8
International reserves, months of imports	4,9	5,3	5,4	6,2	n.a.
Gross external debt, % of GDP	74,8	70,4	63,8	61,7	69,7
Net foreign direct investment, % of GDP	0,9	1,4	2,2	3,8	0,6

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

1.5. Implementation of macro-financial assistance

In September 2017, the European Parlament and the Council adopted the decision to provide EUR 100 million of Macro-financial Assistance (MFA) to the Republic of Moldova. The EU-Moldova MoU was signed on 24 November 2017, outlining a series of economic policy conditions attached to the assistance. The MoU and related documents (LFA, grant agreement) entered into force on 18 January 2018.

The first disbursement of EUR 30 million (out of which EUR 20 million in loans and EUR 10 million in grants) was initially put on hold, due to challenging polticial situation, and it was only paid in October 2019, following a change of government and a renewed reform effort. Similarly, the second instalment was made available to Moldova after some disucssions with regard to the political pre-conditions. To that end, a letter was handed over the Moldovan Prime Minister in February 2020 with eight short-term actions to be implemented by the authorities and help assess the political pre-conditions in a favourable manner. After a positive opinion, the decision for the second disbursement was made on 9 June 2020. The payment proceeded in two parts, on 16 July a EUR 20 million loan, and on 1 August a EUR 10 million grant component. The third and final tranche of the programme was cancelled because not all related policy conditions were satisfied before 18 July 2020, when the MFA expired. The MFA was linked to a four-year IMF programme of Extended Credit Facility/Extended Fund Fcaility (ECF/EFF) in the amount of SDR 129.4 million (about USD 178.7 million). The final sixth review of the programme, togther with article IV consultations, was successfully concluded in March 2020.

In 2020, as part of the COVID-19 MFA package adopted in May 2020, the European Parliament and the Council agreed on a new one-year MFA programme of EUR 100 million to Moldova. The first instalment (EUR 50 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 25 November 2020. The second disbursement is conditional on Moldova successfully fulfilling all policy conditions agreed with the EU in the MoU. The conditionality focuses in particular on reforms in the area of public finance management, good governance and fight against corruption, as well as on improving the business climate.

In addition, the Moldovan authorities need to ensure a positive dialogue with the IMF and possible adoption of a new reform programme. In July 2020, a staff-level agreement was signed for a three-year ECF/EFF programme of USD 558 million. The IMF Executive Board decision was expected in September, however, it has been repeatedly postponed due to significant delays in the implementation of the programme's prior actions, as well as worrying political developments (such as the uncertainty around the 11 July 2021 snap-elections and backsliding on some key economic reforms). Discussions might have to start about a new IMF programme, yet little progress has been made so far.

1.6. Structural Reforms

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 Agreement.

Due to the pandemic, the reform progress in 2020 has been moderate, and towards the end of the year it was marked by some worrying developments in the Moldovan parliament, as well as the resignation of the government in December. The outlook remains mixed as political instability in Moldova continues to weigh on the country's capacity to undertake reforms, where a way forward could be the formation of a new Parliament through possible snap-elections.

However, Moldova continues to benefit from the effects of the reform progress achieved over the past few years. Monetary and fiscal policies had been strengthened and substantial structural economic reforms had been carried out.

The banking sector in Moldova has been going through a major restructuring since the banking crisis triggered by large-scale money laundering and bank fraud in 2014-2015. Unfit shareholders have been removed from a large number of banks and the control of the three remaining systemic banks has been taken over by international actors. A new banking law entered into force on 1 January 2018. The law introduced an updated regulatory and supervision framework in line with Basel III standards. In 2019, new capital adequacy requirements in line with the EU's CRDIV/CRR package were approved. As a result of the banking sector reforms, including in particular the regulatory and supervisory framework, Moldovan banks have become more resilient and safe.

Some positive developments related to the fight against corruption were noted in 2020, including the increase of the annual budget of its anti-corruption institutions such as the National Integrity Authority, the Criminal Asset Recovery Agency and the Financial Investigation Unit; as well as the adoption of the new Strategy for Ensuring the Independence and Integrity of the Justice Sector 2021-2024; and the adoption of the law on Anti-Money Laundering sanctions. In addition, on 28 May 2020, Moldova joined the Istanbul Anti-Corruptuon Action Plan of the Anti-Corruption Netowork of the OECD. Nonetheless, as regards the recovery of the assets involved in the 2014 bank fraud, legal proceedings against key actors continue to be slow, and progress in recovering assets, in particular from outside of Moldova, has been limited.

Moldova's reform efforts are further supported by the MFA conditionality. The COVID-19 MFA in place focuses in particular on actions related public finance management, good governance and the fight against corruption as well as improving the business climate. Under the MoU, the Moldovan authorities agreed, among others, to update the bank fraud criminal asset recovery strategy. improve the efficiency of the National Integrity Authority, and make amendments to the Moldovan Consitution regarding the selection of the lay members to the Superior Council of Magistracy (in line with recommendations from the Venice Commission).

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, inclding the hotel industry and restuarants were lowered from 15% to 12%, with possible further reductions in the future.
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 2020.
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.

3. UKRAINE

1.7. Macroeconomic performance

The COVID19-related economic crisis hit Ukraine less severely than earlier expected. After a y-o-y plunge by 11.4% in the second quarter of 2020, the decline in real GDP moderated to 3.5% and 3% in the third and fourth quarters, respectively. Overall, the economy shrank by 4.0% in 2020. The recession did not affect all sectors equally. Over 2020, the contraction was strongest in agriculture (-11.5%) and in industry (-4.5%). Retail and construction continued to expand by 8.4% and 5.6% respectively.

The social impact of the economic recession, especially on the labour market, has been contained so far. The rate of unemployment increased from 8.2% in 2019 to 9.5% at the end of 2020. Annual nominal wage growth slowed down to almost zero in April 2020 before rebounding to 15.6% in December. In light of the 5% consumer prices inflation in 2020, this implies a rather sustained catching-up in real terms. The average wage reached about EUR 430 in December 2020. Even though part of that increase is due to exceptional year-end benefits, its contribution to better standards of living is also evident.

The COVID19-related crisis reversed the achievements in the area of fiscal consolidation. Ukraine had managed to bring its fiscal deficit below or around 2% of GDP consistently over the previous three years. Total government expenditure increased by 16.2% in 2020, which combined with an expansion of revenues by 6.5% only led to the significant deterioration of the deficit to 5.3% of GDP. Although expenditure increases affected all areas, they were strongest in public support to economic activity (+70%), healthcare (+37%) and defence (+13%). These developments challenge the medium-term sustainability of public finances.

To finance the deficit, Ukraine received support from the international financial institutions of about USD 3.3 billion in 2020 (USD 2.1 billion from the IMF and EUR 1.1 billion from the EU). The government also borrowed record amounts from the international markets last year – EUR 1.25 billion in January and USD 2.6 billion in July. In addition to these sources of financing, the Treasury issued the equivalent of €7.7 billion in domestic hryvna-denominated bonds (17% above the 2019 volumes) at an average yield of 10.2%, i.e. 673 basis points below the cost of new domestic debt in 2019.

Although monetary policy has remained unchanged since the appointment of a new Governor of the National Bank of Ukraine (NBU) in mid-2020, money supply started to expand and inflation is accelerating. The NBU responded by increasing its key policy rate by 50 basis points to 6% since mid-June 2020. Consumer price inflation decelerated to below 3% from February to October, before increasing steeply to 5% in December 2020 and 8.5% in March 2021, thereby missing again the mid-term y-o-y inflation target of 5%. Base money and the broader aggregate M3 increased by a staggering 24.8% and 28.6%, respectively, much above the 2019 figures. Simultaneously, the hryvna, which had appreciated by 14.7% against the USA dollar in 2019, depreciated by almost 19% in 2020. The depreciation took place in the context of a rather non-interventionist policy by the central bank, which bought only $1 billion in 2020, as opposed to $7.9 billion the year before. Going forward, these monetary developments pose risks to price stability.

The crisis-driven contraction of economic activity resulted in imports declining significantly stronger than exports. As a result, the current account has moved from a deficit of 2.7% of GDP in 2019 to a sizable surplus in 2020 (4.3% of GDP). Fresh incoming foreign direct investment, i.e. excluding reinvested earnings, notoriously low already prior to the crisis, further declined to around 0.5% of GDP in 2020. Confidence in the domestic currency remained broadly stable, as evidenced by the record year-end level of the official international reserves (above USD 28 billion, representing more than five months of imports). Going forward, three main risks might challenge the government's forecast of economic growth in excess of 4% in 2021. First, difficulties to rein in government spending, over-inflated beyond the increase in revenues in 2020, might distort economic growth. Second, monetary funding of the government deficit, coupled with a revival of credit expansion to the private sector, could lead to mounting inflationary pressures, thereby suggesting that economic growth might be nominal only, without a real positive effect on standards of living. Third, long-term growth depends crucially on stable flows of domestic and foreign investment that depend crucially on much needed structural reforms – to fight corruption and to improve the judiciary and the business climate – which the government, though committed, struggles to implement.

Ukraine - Macro-Economic Indicators

Ukraine	2016	2017	2018	2019	2020
Real GDP, % change	2,4	2,5	3,4	3,2	-4,0
Consumer price inflation, %, end of period	12,4	13,7	9,8	4,1	5,0
Key monetary policy rate, %, end of period	14,0	14,5	18,0	13,5	6,0
Unemployment rate, LFS, %	9,3	9,5	8,8	8,2	9,5
General government balance, % of GDP	-2,3	-1,4	-1,9	-2,2	-5,3
Gross public debt, % of GDP	80,9	71,8	60,9	50,2	60,8
Current account balance, % of GDP	-1,5	-2,2	-3,3	-2,7	4,3
Official international reserves, USD billion	15,5	18,8	20,8	25,3	29,1
International reserves, months of imports	3,0	3,2	3,3	4,9	5,6
Gross external debt, % of GDP	120,7	102,9	87,7	79,0	80,8
Net foreign direct investment, % of GDP	4,1	3,3	3,4	3,4	-0,7

Source: National authorities

1.8. Implementation of macro-financial assistance

Since 2014, a total of EUR 4.4 billion was disbursed to Ukraine under five MFA operations.

The fourth MFA operation (MFA IV) of EUR 1 billion in loans was adopted by the European Parliament and the Council in July 2018, and was successfully completed in May 2020. The MoU and the Loan Agreement were signed in September 2018, and ratified by Ukraine in November 2018. The first disbursement under MFA IV (EUR 500 million) was made in December 2018 after Ukraine fulfilled the policy conditions, which covered the areas of fight against corruption, public finance management, governance of state-owned companies and privatisation of small companies. Notably, as part of the implementation effort of MFA IV first tranche conditions, Ukraine made significant progress in the areas of anti-corruption policy that had blocked the planned third disbursement under MFA III. The second instalment (EUR 500 million) was disbursed in May 2020, after the single outstanding prior action (on strengthening financial sector safeguards from the December 2019 staff-level agreement reached between the Ukrainian authorities and the IMF on a new EFF programme) had been implemented.

In 2020, as part of the COVID19 MFA package adopted in May 2020, Ukraine became eligible for a fifth MFA programme of up to EUR 1.2 billion. The MoU was negotiated during the summer and entered into force on 14 September 2020, after ratification by the national parliament and signature by the President. The first instalment (EUR 600 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 was disbursed on 9 December 2020. The disbursement of the second tranche, is also conditioned on the successful implementation of the eight structural policy measures to which Ukraine has committed in the MoU, covering the four areas of public finance management, fight against corruption, improvement of the business climate, and sectoral policies and governance of state-owned enterprises.

These MFA programmes are provided in conjunction with the resources from the IMF. In October 2018, Ukraine and the IMF agreed at staff level on a 14-month Stand-By Arrangement of USD 3.9 billion. The SBA replaced Ukraine's previous Extended Fund Facility (EFF) programme to provide an anchor for economic policies during 2019 (an election year). The IMF Board approved the Stand-by Arrangement in December 2018, with a first disbursement of USD 1.4 billion. To help Ukraine pursue its reform programme, especially given the COVID19-related challenges, the IMF Board approved a new 18-month USD 5 billion Stand-By Arrangement on 9 June 2020, out of which USD 2.1 billion were disbursed immediately.

1.9. Structural Reforms

With the political transition in 2014, Ukraine embarked on an ambitious and wide-ranging reform programme. Despite the difficult external environment and significant internal challenges, Ukraine managed to push through reforms in a variety of sectors, notably as part of the policy programmes attached to the EU MFA, the IMF and the World Bank assistance. Following a slowdown in reform momentum in 2016-17, the year 2019 saw renewed reform activity. The need for the authorities to provide a quick response to the COVID19-related crisis, together with political dissensions in the first months of 2020, slowed down the implementation of reforms. In addition to headwinds resulting from relevant decisions by the Supreme Court and volatile political support in the Parliament, the government seems to have lost the reform momentum, which impacts negatively its compliance record with commitments to the IMF and the EU.

In the field of public financial management, the track record is rather favourable. New laws adopted in 2018 improved the fiscal governance by introducing medium-term budgeting and by strengthening programme-based budgeting. The State Tax Service and Customs Service, created in 2018 and effectively reorganised in 2019 and early 2020, are now fully operational, even though the quarantine conditions have not allowed yet for an open and transparent selection of their senior management. To improve tax compliance, the authorities started the gradual deployment of electronic software tax registrars in 2020, to be fully adopted by all businesses by 2025. However, the initially successful example of transparent public procurement by the Health Ministry proved unsustainable during the response to the COVID-19 crisis and have, so far, failed to stimulate a positive impetus to other line ministries.

As regards the fight against corruption, the 2020 achievements are rather meager. The Supreme Court declared the compulsory electronic asset declaration system for public officials in breach of data protection requirements and anti-constitutional. Its operation has therefore been suspended. The Court also declared anti-constitutional the presidential appointment of the head of the National Anti-Corruption Bureau of Ukraine (NABU). This created legal uncertainty with respect to NABU's operation. Moreover, no progress has been made with strengthening the judiciary and the effectiveness of fighting corruption, despite non-negligible progress with the attestation of prosecutors at regional and local level. On the way to dismantling the tax police, a modern bureau for economic and financial investigations was created in early 2021 and awaits operationalisation.

In order to improve corporate governance of Ukrainian state-owned enterprises, independent supervisory boards have been established at least in the ten largest enterprises and further supervisory board members are being selected. Successful consultations with the OECD led to draft amendemnts, pending parliamentary approval, to the legal framework of corporate governance for state-owned enterprises. Also, the state ownership policies have been reviewed and updated for the ten largest state-owned companies. In the absence of successful large-scale privatisations, Ukraine has improved its legal framework for privatisation and has launched a successful electronic platform of sales of small companies and assets, ProZorro.Sale.

In the energy sector, the authorities and the energy regulator progressed on implementation of the electricity market law. The electricity retail market was opened to large consumers from January 2019 and the wholesale electricity market was opened from July 2019, although a number of issues hamper the functioning of and competition in the market. Although the government removed the public sector obligation in the retail gas market for households in 2020, a price cap was introduced as of February 2021 for the duration of the heating season. Despite the removal of penalties and charges that were hampering the free choice of a gas provider, the market is far from being liberalised, with one single provider controlling more than 90% of the supply to final consumers.

Finally, given the limited progress in 2020 with reform implementation, major challenges remain related to demonopolisation, impartial protection of property rights, cutting vested oligarchic interests and reducing the regulatory burden. Addressing these remaining challenges is crucial to improve the business climate and to attract and retain investors. The sustainability and inclusiveness of economic growth in Ukraine depend on the extent to which these remaining structural bottlenecks to investment are successfully removed.

STATUS OF ECONOMIC REFORMS — UKRAINE
1. Price liberalisation Prices are largely market driven. Regulated prives 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.
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.
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 targetting framework. NBU interventions on the foreign exchange market aim at reducing exchange rate volatility and influence the country's stock of official reserves.
4. Foreign direct investment (FDI) Some restrictions on FDI-related flows exist, such as a ban on the purchase of agricultural land to foreigners, in spite of farmland sales reform started in 2020. Capital controls that affect foreign investment activity persist, despite steps towards their gradual elimination. The net inflow of FDI amounted to 3-4% of GDP in previous years but turned negative in 2020.
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 2020 consumer price inflation reached precisely 5% but subsequently increased to 8.5% in March 2021 under the influence of a significant increase in the supply of money. The cenytral bank increased its key policy rate by 50 basis points in March 2021.
6. Public finances and taxation Public revenues reached 32.8% of the Ukrainian GDP in 2020. Prior to the COVID19-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 5.3% in 2020 and is expected to remain around 5% in the coming years due to the permanent nature of the pension and wage increases. Thus, fiscal consolidation remains a priority to alleviate risks to medium-term sustainability.
7. Privatisation and enterprise restructuring Despite ambitious privatisation plans, no major sales of state assets took place in 2020. A number of independent supervisory boards have been established in major enterprises, for which updated ownership policies have been adopted. The government prepares legal amendments to align SOE framework in line with the OECD Guidelines on Corporate Governance of SOEs.
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 remains comfortable, despite significant purchases of domestic government bonds to finance the 2020 public deficit. The very high share of non-performing loans, above 45% on average, and the governance of state-owned banks remain two major challenges.

4. JORDAN

1.1. Macroeconomic performance

The COVID-19 pandemic is severely affecting an already struggling Jordanian economy. The strict containment measures imposed by the authorities in March 2020 helped to contain the health crisis, but the social and economic costs have been high. To support the economy, the authorities implemented a timely package of growth-friendly policy measures, including reducing temporarily the tax-burden on businesses and individuals and the Central Bank of Jordan’s (CBJ) move to increase liquidity for commercial banks, ease debt burdens and support SMEs. A phased reopening of the society started in April 2020, but the second surge in COVID-19 cases since autumn 2020 led to more restrictive measures again.

In 2020, real GDP contraction in 2020 was limited to 1.6%, after years of only subdued 2% growth. The fall in GDP is explained by a negative (yet divergent) performance in the majority of the sectors, particularly: Hotel and Restaurants (-8.2%), Transport, Storage & Communications (-5.2%), Construction (-3.8%) and Social & Personal Services (-3.3%). The economic downturn caused unemployment to spike to a record 24.7% in the fourth quarter of 2020, up from 19.3% in the first quarter. Unemployment remains highest amongst youth of 15-19 years (62.1%) and youth of 20-24 years (47.9%), women (32.8%) and university degree holders (27.8%).

The monetary environment has been resilient, supported by a sizable and timely stimulus enacted by the CBJ early on in the crisis to support credit to the economy and support SMEs and individuals. The CBJ's gross foreign reserves (including gold and SDRs) have remained strong, amounting to USD 15.6 billion, covering around 11 months of the Kingdom's imports as at end-2020. Inflation dropped to historic lows, particularly during the lockdown period in Q2 2020. Indeed, the consumer price index increased by only 0.1% in 2020, down from 0.6% recorded in 2019.

Fiscal slippages continue and were further amplified by the pandemic. The general budget deficit (including grants) deteriorated to 5.8% of GDP in the first ten months of 2020 (from 4.3% in the same period of 2019), as the lockdown and restrictions imposed to contain the virus translated into lower domestic revenues (-11.6%) and higher total expenditures (+2.7%). Jordan’s gross public debt stood at 105.1% of GDP at the end of November 2020, up from 95.2% of GDP at the end of 2019. The National Electricity Company (NEPCO) and Water Authority (WAJ) remain highly indebted. Although the increase is a certain source of concern, the IMF assessed Jordan’s public debt as being sustainable in December 2020.

The current account deficit increased to 8% of GDP in 2020 (from 2.1% of GDP in 2019), and becomes more pronounced without grants. The trade deficit decreased by a significant 16.5% in 2020 when compared to 2019, as imports slummed (-11.3%). Exports decreased by 4.5% during 2020, as the increase in national exports was more than offset by the decline in re-exports. The important tourism sector was hit the hardest. The thriving sector (which accounted for 18% of GDP and employment in 2019), was closed to wiped out during the pandemic. Despite the supportive measures taken by the authorities (e.g. temporarily reduced consumption tax rates on tourism), international travel receipts decreased by 72.5% during the first three quarters of 2020 compared to the same period of 2019. Furthermore, remittances decreased by 9.7% over the same period. Foreign Direct Investment (FDI) remained low at 1.6% of GDP in 2020, well below the 12.7% average that prevailed over 2005-2010, before the onset of the Syrian crisis.

Notwithstanding significant uncertainty surrounding the evolution of the pandemic, the economy is expected to gradually recover in 2021 (latest IMF forecast: +2%), except for tourism and remittances, for which recovery is expected to take longer.

Jordan - Macro-Economic Indicators

Jordan	2016	2017	2018	2019	2020	2020 Ref
Real GDP, % change	2,0	2,0	1,9	2,0	-1,6	
Consumer price inflation, %, end of period	0,8	3,2	3,7	0,6	0,1	
Key monetary policy rate, %, end of period	3,8	5,0	5,8	5,0	3,5	
Unemployment rate, LFS, %	15,3	18,3	18,6	19,1	24,7	Q4-2020
General government balance, % of GDP	-3,2	-2,5	-2,4	-3,3	-5,8	oct-20
Gross public debt, % of GDP	92,0	92,8	92,9	95,2	105,1	nov-20
Current account balance, % of GDP	-9,6	-10,6	-6,9	-2,1	-8,0	
Official international reserves, USD billion	14,8	15,0	12,9	13,9	15,6	
International reserves, months of imports	8,1	7,8	6,8	9,8	11,0	
Gross external debt, % of GDP	68,2	71,1	72,9	72,1	82,9	
Net foreign direct investment, % of GDP	3,9	4,9	2,2	1,5	1,6	

Sources: National authorities; IMF; World Bank

1.2. Implementation of macro-financial assistance

The EU has maintained its support to Jordan throughout the difficult year 2020. Indeed, following the Kingdom's request for further MFA on 11 July 2019, the Commission adopted on 6 September 2019 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 to be implemented in three instalments over 2020 and 2021.

Later in 2020, 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 MFA programme of EUR 200 million to Jordan (reinforcing the resources 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 on 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 instalment (EUR 250 million in loans) and the third instalment (EUR 200 million in loans) 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 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. The impact of the COVID-19 pandemic on implementation timelines is reflected in the fact that the second tranche of the assistance is linked to a more limited set of conditions that are achievable in a short(er) time period under a still challenging context.

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 1.2 billion, 270% of 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. The IMF Board completed the first review under the EFF in December 2020, releasing around USD 148 million immediately, and bringing total IMF disbursements to Jordan in 2020 to USD 689 million. A staff level agreement on the second review was reached in March 2021, with the IMF noting that the "program remains firmly on track, with strong progress on key reforms". Under this review, the authorities have requested an augmentation of Fund access of USD 200 million. The agreement is subject to the approval of the IMF's Board.

1.3. Structural reforms

In 2020, the short-term policy priorities of the Kingdom 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 (see Section 1.2). At the same time, 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.

The Kingdom's reform agenda is underpinned by a number of strategies, namely Vision 2025, the Jordan Economic Growth Plan, and the comprehensive Five-Year Reform Matrix (2018-2022). The Matrix prioritises deep structural reforms needed to stimulate inclusive and sustainable growth and job creation, and achieve fiscal stability. Despite a delayed start, Jordan is progressing well with the implementation of the Reform Matrix. By end-2020, the implementation rate stood at 47%. Delayed implementation is concentrated in four sectors, namely water, public transport, energy and agriculture. In 2020, the Jordanians launched the mid-term review of the Matrix, aiming to update it for the years 2021-2022 and prioritise new areas. The priorities moving forward are in the areas of trade facilitation, investments, export, water, agriculture, tourism and transportation. The Reform Matrix is being consulted with different stakeholders, and should be approved by government sometime during 2021.

Despite the setbacks brought along by the pandemic, and the uneven success in implementing reforms, the Kingdom still achieved important milestones in 2020. These include (but are not limited to) the following steps taken by the Jordanian Government: i) submitted to parliament an amended draft organic budget law, to improve the fiscal framework, ii) submitted to parliament amendments to the Illicit Enrichment Law, to tackle corruption, iii) requested a comprehensive Fiscal Transparency Evaluation, to enhance fiscal transparency, and iv) approved amendments that enhance Anti-Money Laundering/Combating the Financing of Terrorism. Furthermore, in the area of taxation, Jordan maintained efforts to strengthen tax administration (including tax compliance), successfully shifted the majority of tax services online, enhanced coordination and data sharing between tax and customs agencies, and established a "gold list" of tax compliant companies. On top, in September 2020, Jordan signed the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (to tackle cross-border tax evasion and avoidance), and is in the process of ratifying it.

At the same time, progress in other crucial reform areas was less visible. These include delays in the submission to parliament of amendments to the Investment Law to address tax arbitrage and transfer pricing abuses, the adoption of a plan to reform electricity tariffs and the implementation of a digital track-and-trace monitoring system to reduce cigarette smuggling.

Going forward, the tasks of the new government (ushered in October 2020) will be to address Jordan's pre-existing vulnerabilities, namely debt sustainability, energy tariff reform (where a complex web of cross-subsidisation distorts incentives); labour market reform (in particular to promote youth and female labour participation); and improve competition, governance and transparency.

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), 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

The taxation system shows a number of structural weaknesses which limit tax revenue mobilisation, including: a number of differentiated corporate tax segments, widespread 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

1.4. Macroeconomic performance

Tunisia's economic performance severely deteriorated in 2020 following the outbreak of COVID-19 and the related lockdown measures imposed by the authorities to halt the spread of the pandemic. Several fiscal and monetary measures were adopted to mitigate the economic impact, including fiscal stimulus measures (representing around 2.3% of GDP, with another 2% in off-budget measures and guarantees) and the easing of monetary policy, in an attempt to bolster activity, protect businesses and employment while ensure additional financing for healthcare needs. The country faced the recession with limited policy buffers and the downturn has put severe pressure on employment and social stability.

In 2020, GDP declined by 8.8% driven by sharp contractions in private consumption and investment, in addition to the drop in trade volumes. Almost all sectors contracted, notably those linked to external demand and global value chains such as tourism (hotel & catering -43.6% yoy), transport (-28%) or manufacturing (-9.3%) with only agriculture and fisheries making small positive contributions to growth. Tourism collapsed due to mobility restrictions, with revenues down by 64% y-o-y, in line with the over 80% decrease in overnight stays, underlining the country's vulnerability to the pandemic. The economic downturn also caused a sharp increase in the unemployment rate to 17.4% in December 2020, with women particularly affected (24.9%).

Monetary policy eased further, as the central bank lowered its key interest rate by 125 basis points to 6.25% in two steps (March and October 2020), in an attempt to bolster activity. The banking sector remains stable but suffers from low liquidity and the central bank supported the sector, introducing additional refinancing instruments elligible collaterals. It also supported the private sector, requesting banks to defer loan repayments or suspend a number of payments and fees. In October 2020, the parliament allowed a direct monetary financing plan from the central bank to the government budget. Inflation remains high but on a downward trend, at 5.7% on yearly average and 4.9% year-on-year in December 2020. Core inflation, excluding food and energy, decelerated slightly but remained at persistently high levels (+4.3%) notwithstanding the slump in demand.

The fiscal stance has deteriorated markedly in 2020, with the fiscal deficit widening to 10.4% of GDP (with the IMF estimating a higher 11.5%), as revenues collapsed (-5.3%) and social expenditure increased. Provisional data show that the impact of reduced activity was particularly negative on VAT collection (-7.6%) and corporate taxes (-18.6%). Public expenditure increased by 15.5%, due to the growth in current expenditure, notably in salaries (+14.5%) and debt service (+16.6%). Wage expenditure (around 17.4% of GDP) will remain critical to control the deficit ahead. This was partly compensated by the moderation in transfers, mostly falling fuel subsidies (-42%) given lower oil prices. Public debt has subsequently increased to 83.5% of GDP in 2020 (with the IMF posting 87.6%, up almost 16 pps from last year) and debt service costs increased significantly (+15.9%). The deficit has been increasingly covered though domestic borrowing (over four times that of 2019) and to a lesser extent by external financing. However, external debt still represents 66% of the total debt stock, but mainly from international partners at concessional rates. The IMF considers Tunisia's public debt as sustainable, given continued strong policy implementation, although sustainability risks increased substantially in 2020.

The current account deficit narrowed but remained elevated at around 6.8% of GDP in 2020. Its main determinant was the narrowing of the trade deficit (-34.4%) following the slump in imports at a faster pace than that of exports (-18.7% and -11.7%, respectively). This reflects lower domestic demand and global energy prices, with a weaker external demand hitting exports. External imbalances persist and record remittances (+13%) only compensated partly the substantial drop in tourism revenues (-64% compared to 2019). There was a substantial drop in foreign direct investment inflows (-28.8% compared to 2019, to around 1.5% of GDP). At the end of the 2020, foreign reserves stood at USD 8.5 billion, equivalent to around 5.2 months of imports.

The economy is expected to recover modestly in 2021 (latest IMF forecast: 3.8%), dependent on the evolution of the pandemic in the country and its major partners, with some rebound in domestic demand and most sectors hit by the crisis.

Tunisia - Macro-Economic Indicators

Tunisia	2016	2017	2018	2019	2020
Real GDP, % change	1,2	1,9	2,7	1,0	-8,8
Consumer price inflation, %, end of period	4,2	6,2	7,5	6,0	4,9
Key monetary policy rate, %, end of period	4,3	5,0	6,8	7,8	6,3
Unemployment rate, LFS, %	15,5	15,4	15,5	15,2	17,6
General government balance, % of GDP	-6,1	-6,2	-4,8	-3,5	-10,4
Gross public debt, % of GDP	62,3	70,8	77,9	72,5	83,5
Current account balance, % of GDP	-8,8	-10,3	-11,1	-8,4	-6,8
Official international reserves, USD billion	6,0	5,6	5,3	7,5	9,2
International reserves, months of imports	3,0	2,5	2,7	4,5	5,2
Gross external debt, % of GDP	75,2	86,6	98,8	97,4	*98,7
Net foreign direct investment, % of GDP	1,5	2,0	2,5	2,1	1,5

*Source: National authorities; Commission staff calculations; *Latest available-Q2*

1.5. Implementation of macro-financial assistance

Since 2014, a total of EUR 800 million have been made available to Tunisia under two MFA operations, MFA-I (2015-2017, EUR 300 million) and MFA-II (2017-2019, EUR 500 million). Moreover, as part of the MFA package adopted in the context of COVID-19, the European Parliament and the Council agreed on a new MFA programme of EUR 600 million to Tunisia. 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 is to be 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 second instalment is expected to be disbursed in the second half of 2021, once the policy conditions are met.

The assistance is 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.

1.6. Structural Reforms

Reform implementation had very limited progress in 2020, mostly due to the effects of the COVID-19 pandemic and the country's challenging political situation following the 2019 presidential and parliamentary elections that resulted in a fragmented political landscape. The protracted formation of a new government, that only took office at the end of February 2020, was followed by continued instability and additional government changes in September 2020 and January 2021, which de facto halted the long-term reform agenda.

In 2020, the short-term policy priorities of the country focused on pandemic response. The government approved some fiscal stimulus measures to try to mitigate the negative impact of the crisis, in an exceptional effort to protect businesses and employment, while ensuring additional financing for healthcare needs. The Central Bank eased monetary policy and liquidity management, while the parliament approved a direct monetary financing plan from the Central Bank to the government budget. It also announced a package to support the private sector, requesting banks to defer payments on existing loans and suspend any fees for electronic payments and withdrawals. Over the reform agenda, the authorities have also continued work to set up a national digital registry of needy families, a key component to establish a better-targeted cash transfer system and reforming subsidies. At the end of 2020, the government also introduced a number of fiscal measures in the 2021 Finance Law, including the amendment of the transfer pricing rules and the establishment of a single standard corporate tax rate of 15%.

The crisis has exacerbated Tunisia's reform paralysis, in a context of rising structural challenges and deep imbalances between regions and sectors. A strong and credible reform plan is needed to foster growth and restore a sustainable fiscal and external financial situation, without which the IMF now assesses 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. A perceived excess of bureaucracy also 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 will likely remain in a vulnerable position over the coming years, due to 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 coming years.

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 in 2018 and 2019. Additional reforms are expected, 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. Technical contacts took place in 2020 on the possible accession to the revised rules of the Pan-Euro-Med convention on rules of origin. Tunisia ratified the African Continental Free Trade Area Free on 30 November 2020.

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 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 2021 Budget 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 system could also benefit from enhanced international information exchanges and 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. 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, which were exacerbated by the pandemic.

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**

1.7. Macroeconomic performance

Albania was hit by two major shocks in quick succession: after a strong earthquake in November 2019, the first COVID-19 infections were discovered in early March 2020. In 2020, Albania managed the COVID-19 pandemic with a short strict lockdown and a rapid expansion of its very limited hospital capacity. However, due to rising infections since February 2021, the Government tightened restrictions again. The vaccination campaign is ongoing since January 2021.

The Albanian government and the Bank of Albania took swift actions to support business and households, which prevented an increase in unemployment and kept the external position and the financial sector relatively stable. The government disbursed direct assistance of 1% of GDP, in addition to providing sovereign guarantees of about 1.65% of GDP to affected businesses, while the Bank of Albania lowered its policy rate, provided liquidity and faciliated loan payment deferrals and loan restructurings.

In 2020, Albania's GDP contracted by 3.3%, as the pandemic-related domestic and international restrictions caused large losses in tourism and manufacturing. The good performance of the large agricultural and construction sectors buffered the downturn of the economy, which began showing signs of a moderate recovery in the last quarter of 2020. Unemployment (15-65) increased slightly from 12% at the end of 2019 to 12.3% by the end of 2020 and labour market participation decreased to 68.3%, with women having been more affected than men on both accounts.

In addition to lowering the policy rate to 0.5% in March 2020, the Bank of Albania (BoA) provided liquidity to the banking system to keep up lending to the private sector, enhanced its operational capacities to guarantee a sufficient cash supply to the economy, suspended banks' dividend payments until end-2021 and facilitated electronic payments. Between March and August 2020, the BoA temporarily facilitated the deferral of loan instalments to help borrowers hit by the crisis and allowed banks to restructure loans without additional provisioning, but accompanied by increased reporting requirements. The still high non-performing loans ratio continued to decrease, to 8.1% by the end of 2020, even after the moratorium of loan repayments ended, a sign for the sector's stability and the prudent loan restructuring. Inflation rose slightly from 1.4% in 2019 to an average of 1.6% in 2020.

The government revised the 2020 budget four times to accommodate the revenue losses from a 8.5% drop in tax revenue and a 9.1% expenditure increase for the support packages, additional funding for the health sector and post-earthquake reconstruction. Compared with 2019, the revenue ratio decreased from 27.4% to 26.5% of GDP, while the expenditure ratio climbed from 29.3% in 2019 to 33.4% of GDP. Overall the fiscal deficit increased sharply from 1.9% of GDP in 2019 to 6.9% of GDP in 2020 and the public debt ratio climbed by about 10 pps to 76.1% of GDP, including the actual provision of the sovereign guarantees of the government (about EUR 110 million or 1.65% of GDP foreseen) for loans to enterprises affected by the pandemic.

The current account deficit widened by about 1 pp. to 8.9% of GDP at the end of 2020, due to the strong contraction of typical inflows from tourism, exports of goods as well as a significant decline in remittances, all reflecting the pandemic impact. However, as imports dropped for the same reasons as exports, the trade balance improved slightly (the trade deficit decreased 16% y-o-y). Capital inflows from a Eurobond issue and concessional loans have helped to finance the external shortfall even as FDI inflows dropped. Overall, the exchange rate depreciated only 1.6%. Gross external debt is estimated at 65.8% of GDP at end-2020, up from 60.4% one year earlier, but Albania's vulnerability from an increasing external debt ratio is mitigated by solid forex reserves and dominance of concessional debt.

In 2021, a recovery of private consumption, investment and exports from a low base, coupled with an exceptionally high level of public investment in post-earthquake reconstruction, are expected to boost real GDP growth to some 5.5%. The government plans for a limited reduction of the fiscal deficit and public debt to support the economic recovery and address the elevated needs for health care, vaccination and social assistance.

Albania - Macro-Economic Indicators

Albania	2016	2017	2018	2019	2020	2020 Ref
Real GDP, % change	3,3	3,8	4,1	2,2	-3,3	
Consumer price inflation, %, end of period	2,2	1,8	1,8	1,1	1,1	December
Key monetary policy rate, %, end of period	1,3	1,3	1,0	1,0	0,5	December
Unemployment rate (15-65), LFS, %	15.6	14.1	12.8	12.0	12.3	
General government balance, % of GDP	-1,8	-2,0	-1,6	-1,9	-6,90	
Gross public debt, % of GDP	72,4	70,2	67,7	66,3	76,1	
Current account balance, % of GDP	-7,6	-7,5	-6,8	-8,0	-8,9	Q4-2020
Official international reserves, USD billion	2,9	3,3	3,7	3,5	4,4	December
International reserves, months of imports	7,2	6,7	7,0	6,5	9,7	Q4-2020
Gross external debt, % of GDP	73,5	68,8	65,2	60,4	65,8	
Net foreign direct investment, % of GDP	9,3	8,8	8,5	8,4	7,1	Q4-2020

Sources: WIIW, National authorities

1.8. Implementation of macro-financial assistance

Following the powerful earthquakes in November 2019 and the challenges brought along by the COVID-19 pandemic, Albania oficially requested MFA on on 15 April 2020. In response, as part of the COVID19-MFA package adopted May 2020, the European Parliament and the Council agreed on an MFA programme to Albania of EUR 180 million.

The Member States Committee on MFA delivered a positive opinion on 24 June 2020 on the MoU. However, the Albanian legislation requires a lengthy authorisation and ratification process of these kind of loan agreements, which delayed the signature of MoU and the LFA to 3 November 2020. While the MoU entered into force upon signature on 3 November, the LFA had to be ratified by the Albanian parliament and entered into force on 26 January 2021. The programme's policy conditions aim to address some of the weaknesses in public finance management, the financial sector, good governance and fight against corruption and social protection policies.

The MFA is to be 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 in March 2021. The second instalment is expected to be disbursed in the second half of 2021, once the policy conditions are met.

The assistance is 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.

1.9. 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, including the adoption of electoral reform, continued implementation of judicial reform, and strengthening the fight against corruption and organised crime. These key priorities for Albania have been integrated into the draft negotiating framework, which 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 2020 Albania Report and the 19 May 2020 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. The delivery of public services and the administrative burden on business continued to improve with the expansion of e-services, VAT refunds were disbursed fully and in time to SMEs and the overall stock of arrears did not increase. Preparation continued for introducing the "fiscalization" in 2021, obliging business to use electronic invoicing and registration of sales, which will directly help the Tax Administration to obtain real-time and accurate data and lower informal transactions. The reform of the Public Finance Management (PFM) system (since 2014) continued with the implementation of the updated PFM reform strategy for 2020-2022, albeit taking into account the negative impact of the earthquake and the COVID-19 pandemic without changing the objectives.

As the previous Business and Investment Development Strategy (BIDS) has expired in 2020, the Ministry of Finance and Economy (MOFE) is designing a new BIDS and Action Plan for the period 2021-2027, for the development of SMEs and investment. End of 2020, the Albanian government began to consult on the draft start-up law and develop the concept of a new "Online Ecosystem Portal" to facilitate access to financing for start-ups and innovations. However, 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.

Efforts should be stepped up to combat informality and level the playing field for private companies by improving public investment management, simplifying tax system and procedures and strengthening the capacity of the public administration. Further reforms are also needed to enhance legal enforcement of contracts by resolving issues with property rights and the bailiff system.

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 state aid commission needs more independence. Electricity prices are regulated by the energy regulator, and in May 2020, the country amended the Power Sector Law with a view to improving compliance with the EU energy legislation and allowing for effective unbundling of the distribution system operator.
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 necessaray 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 2020 to 2021.
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, it still needs additional capacity and to continue addressing persisting weaknesses (eg: low revenue mobilisation and intransparent 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 SOE`s 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

1.1. Macroeconomic performance

When the COVID-19 pandemic hit Bosnia and Herzegovina in early March 2020, its economy was already in a phase of a slowdown, with GDP growth having decelerated from 3.3% in 2018 to 2.8% in 2019. This was largely the result of a deteriorating external environment and a sustained domestic political stalemate, delaying overdue structural reforms and investment. During 2020 and in response to the COVID-19 crisis, the authorities adopted supplementary budgets, envisaging additional spending of up to 2½% of GDP, providing additional health spending but also tax relief and income support to households and enterprises.

Due to the COVID-19 crisis, economic output dropped by 4.5% y-o-y in 2020. The main factors behind the economic contraction were declining tourism revenues, lower private consumption and investment due to lockdown measures and decreasing remittances, and weaker external demand. The unemployment rate had been on a downward trend since 2014, dropping from 27.5% to 15.7% in 2019. Due to the COVID-19 pandemic, unemployment rose again, but so far only slightly, reaching 16.6% in the fourth quarter of 2020. Unemployment remains an important challenge, in particular for young people (around 23% unemployment in the age group of 15-24 years). There is also a substantial brain drain, with a high share of the qualified and mobile labour force leaving for job opportunities abroad, which has a negative impact on the country's growth potential in the medium-term. Annual consumer price inflation turned negative during 2020, largely due to low domestic price pressures as well as decreasing prices of energy imports. Average inflation decreased from 1.4% in 2018 to 0.6% in 2019 and to -1.1% in 2020. International institutions expect only a moderate GDP recovery in the post-crisis years, of some 3.5% and 3.25% in 2021 and 2022, respectively.

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. In response to the COVID-19 crisis, the banking agencies adopted a loan repayment moratorium for restructuring credit arrangements for individuals and legal entities that were severely affected by the pandemic. This moratorium expired on December 31, 2020. Banking Agencies also asked banks to closely monitor portfolios' exposures and to consider additional customer relief. Furthermore, a temporary suspension of dividends or bonuses was applied to all banks, although the restriction on bonuses was relaxed at end-2020. 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 low inflation rate. Like in the case of other Western Balkan countries, the degree of euroisation is rather high (39% of deposits and 51% of private sector loans were denominated in euro as of January 2021).

Public finances benefitted in recent years from strong revenue growth, but also repeated delays in implementing investment spending due to political stalemates. This resulted in fiscal surpluses, reaching some 2% of GDP in 2018 and 2019. 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. 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. Due to the COVID-19 crisis, the deficit is estimated to have increased markedly, reaching 4%-5% of GDP in 2020. In 2021, the deficit could come back to about 2½% of GDP. According to the IMF, 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.

Bosnia and Herzegovina's balance-of-payments position remained largely unchanged in 2020, as lower exports, in particular of tourism services, and a sharp drop in workers' remittances, which in recent years amounted to some 10% of GDP, were more than compensated by lower imports. Nevertheless, remittances provided substantial support to household incomes, in particular in the lower income groups. As a result, the trade deficit of goods and services remained at some 15% of GDP. Net foreign direct investment remained low at some 2% of GDP in 2020, largely consisting of reinvested earnings.

Bosnia & Herzegovina - Macro-Economic Indicators

Bosnia and Herzegovina	2016	2017	2018	2019	2020	2020 Ref
Real GDP, % change	3,1	3,2	3,7	2,8	-4,5	
Consumer price inflation, %, end of period	-0,5	0,7	1,6	0,2	-1,6	December
Key monetary policy rate, %, end of period*	n.a.	n.a.	n.a.	n.a.	n.a.	
Unemployment rate, LFS, %	25,4	20,5	18,4	15,7	18	
General government balance, % of GDP	1,2	2,6	2,2	1,9	4,0	estimate
Gross public debt, % of GDP	40,4	36,1	34,2	32,8	36,4	Q3-2020
Current account balance, % of GDP	-4,8	-4,8	-3,3	-3,1	-3,2	
Official international reserves, USD billion	5,0	6,3	6,6	7,0	8,4	December
International reserves, months of imports	7,2	7,1	7,3	7,8	9,4	Q3-2020
Gross external debt, % of GDP	71.2	66.8	66.0	63.6	66.9	
Net foreign direct investment, % of GDP	2,1	2,7	2,8	2,0	1,90	

** Banks use the Euribor as a reference*
Sources: WIIW, Central Bank, BiH Agency for Statistics

1.2. 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 to Bosnia and Herzegovina. The MoU and the LFA were signed on 15 January 2021, and will enter into force once the ratification process in the country is complete and upon publication in the Official Gazette.

The MFA will be provided in two instalments. The first instalment (EUR 125 million) is 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 could be released after the MoU enters into force. The second tranche (EUR 125 million) will be released not earlier than three months after the release of the first tranche and is 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.

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 9 April 2020.

1.3. 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.

The authorities continued their efforts to address structural obstacles highlighted in the European Commission's Bosnia and Herzegovina 2020 Report and the 19 May 2020 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. Notwithstanding some progress on improving the financing of the pension system, the overall quality of public finances remained very low, with substantial spending inefficiencies, particularly in the health sector, and a poor targeting of social transfers. The level of public investment remained very low, largely due to administrative weaknesses, such as inadequate project appraisal, weak project management and lack of transparency during execution. Some progress has been made in preparing the restructuring of the railway company in the Republika Srpska entity, which could reduce the fiscal burden of this company to the country's taxpayers.

Efforts continued to facilitate business registration while some steps have been taken to strengthen the support for foreign investors. Improvements in the area of rule of law and the functioning of the judiciary have remained very limited. Despite the improved degree of registration in the labour market by increasing labour market controls, the informal economy remains large, at some 25-35% of GDP. Although official data on recorded state aid points to a relatively low and declining level of support of some 0.9% of GDP in 2019, a number of public and private companies benefit indirectly from the accumulation of payment arrears of taxes and, in particular social security contributions. Draft legislation on the Personal Income Tax as well as on social security contributions with a view to reduce the tax wedge has been prepared, but has not been adopted yet.

The country participated for the first time in the 2018 PISA study and the results indicate that the students' performance ranks not only well below the OECD average, but is also low when compared with some countries in the Western Balkan region. Political uncertainties negatively affected transport and energy infrastructure investment while necessary steps for modernising 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.

The privatisation and/or restructuring of state-owned enterprises (SOEs) would reduce the fiscal burden and have positive effects on other businesses and competition. A further movement to overcome 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. Also, simplifying business registration, licensing and permitting, introducing e-signatures and improving bankruptcy laws would support the post-COVID-19 economic recovery.

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 hygenic articles, but also oil products. There is no information available on the weight of administrated prices in the country’s consumer basket.
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. A countrywide strategic framework to encourage foreign direct investments is not yet in place. The Republika Srpska entity adopted procedures for granting direct investments incentives and transferred the responsibility for foreign direct investments to the Ministry of Economy and Entrepreneurship in order to better connect foreign investors with domestic firms.
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 weaknesses of country-wide fiscal data, the country’s overall fiscal position is 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 very low. Fiscal rules remain at the level of one of country’s two entities and there is still no independent fiscal institution to monitor and coordinate fiscal policy of the various stakeholders. The medium-term budgetary framework remains insufficiently developed and underused as a policy-guiding instrument. In the taxation area, some progress was made with the signing of the OECD/Council of Europe Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MAC). The Parliament of Bosnia and Herzegovina ratified the MAC in June 2020.
7. Privatisation and enterprise restructuring The privatisation process is still not complete and restructuring efforts have made little progress. Attempts to sell earmarked public companies have been largely unsuccessful. The due diligence procedures for two local telecommunication companies have been completed. 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

The COVID-19 pandemic took a heavy toll on Kosovo's macroeconomic performance in 2020. Sluggish growth at the beginning of the year evolved into a recession due to the pandemic-related lockdown and travel restrictions. Based on quarterly data for 2020, the provisional estimate of annual GDP contraction is 3.9%. The main drivers of the contraction were severely falling service exports and investment. The IMF estimates an annual contraction of 6% in 2020. The recession was somewhat mitigated by rising government spending and faltering imports.

In response to the crisis, the government adopted an emergency package in spring, which was later enlarged to the Economic Recovery Programme, amounting in total to 5.2% of the 2020 GDP. The main measures were increased allocations for the health system, higher wages for medical and emergency workers, higher social transfers and subsidies for vulnerable households, support for formal and informal employment and support to firms in the form of salary subsidies and easier access to borrowing. The labour market situation, which had been a concern already before the outbreak of COVID-19, deteriorated in the second quarter, but rebounded somewhat in summer with the unemployment rate standing at a similar level (24.6%) compared to the same period of 2019. Employment and labour force participation rates declined slightly to 30% and 40%, respectively.

Despite the COVID-19 crisis, the mostly foreign-owned banking sector remained stable in 2020. In response to the crisis, the Central Bank of Kosovo (CBK) allowed for a 3-month loan repayment moratorium in spring and loan restructurings of up to one year in June-September. These measures helped contain the need for banks' loan-loss provisions and supported credit growth, which has decelerated, but remained at 7.1% y-o-y in December as compared to an average of 10.8% over the previous two years. The growth of deposits declined to 8.6% y-o-y in September, but rebounded to 11.5% in December, which is in line with the average of 10.9% over the previous two years. Financial soundness indicators in the banking sector remained satisfactory. For the banking system as a whole, the ratio of liquid assets to short-term liabilities stood at 36.1% in October and the capital adequacy ratio was at 16.9%, both standing well above the regulatory minima of 25% and 12%, respectively. Despite lower bank profitability, with the average return-on-equity ratio declining to 14% in 2020 from 18.9% in 2019, the risks in the banking sector seem contained.

In line with contracting economic activity, average annual inflation declined to 0.2% in 2020 with negative monthly readings since July. A positive contribution to inflation came from food prices while negative contributions came from energy prices and the elimination of import tariffs on goods from Serbia and Bosnia and Herzegovina in April 2020.

Falling tax revenues and rising public spending led to a deteriorating fiscal outcome in Kosovo. The headline deficit widened to 7% of GDP in 2020 from 2.9% in the previous year. Tax revenue contracted by 9.3% while the public spending rose by 6.5% as compared to the outcome of 2019. The large deficit resulted in a steep increase in the public debt-to-GDP ratio, which is estimated to have reached 21.8% in 2020 from 17.5% in the previous year. The IMF assesses public debt as sustainable but points to relatively

* 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.

large financing needs and vulnerabilities arising from the absence of external market access.

The current account deficit is estimated to have widened to 7.1% of GDP in 2020 from 5.6% in 2019. The main driver was a severe decline in service exports, which considerably outweighed an increase in exports of goods and led to overall exports contracting to 25.4% of GDP from 29.3% in 2019. Due to travelling restrictions, workers' remittances, which were sent via official channels, increased by 15.4% and stood at 13.9% of GDP in 2020, partly offsetting the trade deficit. On the financing side, net inflows of FDI increased to 5% of GDP due to lower profit repatriation in the financial sector. In contrast, gross FDI declined by 10% in 2020. Official reserves were covering 3.2 months of imports at the end of 2020.

While the outlook is surrounded by high uncertainties related to the evolution of the pandemic, the IMF projects economic growth to recover to 4.5% in 2021, which is in line with the average growth rate observed over the past five years.

Kosovo - Macro-Economic Indicators

Kosovo	2016	2017	2018	2019	2020	2020 Ref
Real GDP, % change	4.1	4.2	3.8	4.9	-3.9	
Consumer price inflation, %, end of period	1.3	0.5	2.9	1.1	0.1	December
Key monetary policy rate, %, end of period	7.2	6.8	6.0	6.4	6.0	December
Unemployment rate, LFS, %	27.5	30.5	29.6	25.7	24.6	Q3-2020
General government balance, % of GDP	-1.1	-1.3	-2.9	-2.9	-7.0	
Gross public debt, % of GDP	14.4	16.6	16.9	17.5	21.8	
Current account balance, % of GDP	-7.9	-5.4	-7.6	-5.6	-7.1	
Official international reserves, USD billion	0.6	0.7	0.8	0.9	1.0	December
International reserves, months of imports	3.5	3.3	2.9	2.8	3.2	
Gross external debt, % of GDP	33.2	32.6	30.3	31.0	35.0	
Net foreign direct investment, % of GDP	3.6	4.0	4.0	3.6	5.0	

Sources: WIIW, National authorities

1.5. 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 to Kosovo. The MoU and the LFA entered into force on 8 September 2020.

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

The MFA is to be 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 instalment was disbursed on 1 June 2021, after Kosovo fulfilled the attached policy conditions.

The assistance is 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 acknowledges the urgency of external and fiscal financing gaps and points to Kosovo’s commitment to macroeconomic stability. COVID-19 mitigation measures, including a temporary suspension of the fiscal rule, are deemed as appropriate, given Kosovo’s commitment to reinstate the fiscal rule once the pandemic recedes.

1.6. Structural reforms

Despite the challenges posed by the pandemic, the country's authorities continued their efforts to tackle structural obstacles highlighted in the European Commission's 2020 Kosovo Report and the 19 May 2020 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 in streamlining business registration as the implementation of the unique identifier number (UIN) for enterprises started in February 2020. A general inspection reform is ongoing with the aim of reducing the number of (overlapping) inspections from 36 to 15. The central register for permits and licences is still being updated. The adoption of the Law on voluntary mediation (2019) contributed to the progress of contract enforcement while some progress was achieved in bringing the procedures for notification of State aid closer to the EU acquis and in staffing the state aid department.

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. Kosovo made some progress in improving road infrastructure, but there are large gaps in railway and energy infrastructure. In April 2020, the approval of the connection agreement between the European Network of Transmission Systems Operators of electricity (Entso-e) and Kosovo's transmission system operator (KOSTT) marked a major development towards Kosovo's integration in regional energy networks. Although investments in renewables are gradually increasing, Kosovo remains reliant on a predominantly coal-based, outdated and unreliable energy production system. The digitalisation of the economy is gradually advancing as Kosovo achieved the mid-term targets of its 2013-2020 digital agenda.

Going forward, Kosovo faces the challenge to streamline its social security system and revise the war veteran pension scheme in order to address concerns related to its fairness and fiscal sustainability. Improving the governance and economic performance of publicly owned enterprises (POEs) 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 and increase labour force participation, coupled with stronger incentives for workers to join formal employment. Accelerating sustainable investments in infrastructure and energy 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. In June 2020 Kosovo completely abolished the 100% tariffs on goods imports originating in Serbia and Bosnia and Herzegovina, which were in violation of the Central European Free Trade Agreement (CEFTA) and hampered the development of a regional economic area (REA) in the Western Balkans.
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 showed resilience in 2020, partly as a result of decreased profit repatriation of the financial sector.
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 is rather low, at 26.5% of GDP in 2019, relying mainly on indirect taxes. 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. The Privatisation Agency (PAK) in 2019 sold 222 of 400 planned SOE assets to the value of EUR32 million. Since the PAK board began operating, 48 of 589 SOEs have been put into liquidation, while 15 liquidation proceedings were 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 2.7% in October 2020. Banks continued to be financed by deposits, predominantly from households.

9. **MONTENEGRO**

1.7. Macroeconomic performance

After a relatively soft first wave of COVID-19 infections in spring 2020, a much bigger and extended second wave followed soon after. The shock had widespread effects across the economy, depressing not only tourism and retail services, but also trade, investment and public finances. As a result, the economy plunged by 15.2% y-o-y in 2020. The labour market is recording growing unemployment as well as an increasing share of economically inactive population. As a result, the unemployment rate reached 21.5% at the end of December 2020, compared to 16.1% a year earlier. To support the households and the economy, the authorities have implemented –so far– five economic support packages, 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.

Credit growth kept decelerating due to increased COVID-19 related uncertainties and growing unemployment. Although the central bank of Montenegro cut the minimum reserve requirement ratio by 2 pps. to help banks increase their liquidity and boost their lending potential, bank lending growth eased to 3.2% y-o-y in December from 4.5% a year before. Overall, the banking sector has so far proved resilient to the COVID-19 crisis, with banks' capital adequacy ratio comfortably above the regulatory minimum and the level of impaired loans stabilised thanks to payment deferrals and loan restructuring. The deflationary trend which commenced in March 2020 persisted during the rest of the year. Consequently, the decline in consumer prices (HICP) averaged 0.8% in 2020, compared to an increase by 0.5% a year earlier. Lower oil prices, combined with subdued domestic demand related to the coronavirus were the key disinflationary factors.

The combination of the pandemic-induced decline in tax revenues and higher COVID-19-related spending deepened Montenegro's budget deficit. Thus, in 2020, the general government registered a cash deficit of 11.0% of GDP, compared to the revised budget plan's deficit target of 7.2% of GDP for the whole year. The deficit expansion came after budget revenues fell by 13.1% y-o-y in 2020, while expenditures rose by 4.8% y-o-y. Revenues in nearly all categories, except for corporate tax income, were lower compared to the same period of 2019. The spending increase was driven by higher expenditure in the health sector, as well as spending on wage subsidies. In contrast, capital expenditure fell by 30.6% y-o-y. The stock of public debt surged to 105.1% of GDP in 2020, up from 76.5% of GDP a year before. On 9 December, the government issued a EUR 750 million (or 16% of GDP) seven-year Eurobond with an interest rate of 2.875%. The bond issue aims to help the government cover its financing needs for 2021 and 2022.

The current account usually posts strong surpluses in Q3 due the tourism receipts generated during the peak of the summer tourist season. However, due to the COVID-19 pandemic revenues from tourism fell sharply, which meant that the usual inflows to partly offset the chronically large merchandise trade deficit did not materialise. Consequently, Montenegro's current account deficit jumped to 26% of GDP in 2020, compared to 15% of GDP in the same period one year earlier. The increase in the deficit was mainly due to the much lower surplus in the services account. Moreover, the surplus in the secondary account also contracted as the coronavirus crisis negatively affected remittances. The primary account recorded some moderate increase. The merchandise trade deficit contracted by 2.6 pps. y-o-y to 39% of GDP in 2020, due to the sharp import decline in the period. Foreign direct investment inflows remained resilient, with a net inflow of EUR 468 million (corresponding to 11.0% of GDP) during 2020 compared to 7.5% of GDP in 2019. In December 2020, gross foreign currency reserves (including gold and SDRs) stood at EUR 1.7 billion, which is equivalent to around 8 months of imports of goods and services.

Montenegro - Macro-Economic Indicators

Montenegro	2016	2017	2018	2019	2020	2020 Ref
Real GDP, % change	2.9	4.7	5.1	4.1	-15.2	
Consumer price inflation, %, end of period	1.0	1.9	1.6	1.0	-0.9	December
Key monetary policy rate, %, end of period	6.7	6.2	5.8	5.5	5.8	December
Unemployment rate, LFS, %	17.7	16.1	15.2	15.1	18.4	
General government balance, % of GDP	-3.6	-5.3	-3.9	-2.0	-11.0	
Gross public debt, % of GDP*	64.4	64.2	70.1	76.5	105.1	
Current account balance, % of GDP	-16.2	-16.1	-17.0	-15.0	-26.0	
Official international reserves, USD billion	0.7	1.0	1.1	1.5	2.1	December
International reserves, months of imports	3.6	3.7	4.0	5.1	8.2	
Gross external debt, % of GDP	162.6	160.6	163.2	167.9	199.0	
Net foreign direct investment, % of GDP	5.2	11.5	8.9	7.5	11.0	

** Gross external public debt*
Sources: WIIW, National authorities

1.8. 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 to 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 is to be 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 instalment was disbursed on 1 June 2021, after Montenegro fulfilled the attached policy conditions.

The assistance is 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 acknowledges that given the current health emergency the authorities are not in a position to design or implement a Fund-supported programme at this time, and points 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.

1.9. Structural reforms

Despite the challenges posed by the COVID-19 pandemic, Montenegro has continued to show its commitment to its accession path and delivered further tangible results in key areas. On 30 June 2020, eight years after the launch of accession negotiations with

Montenegro, the EU opened the last negotiating chapter (competition policy). At present, all 33 chapters are opened for negotiation, 3 of which have already been provisionally closed. Montenegro continued to implement the action plans for rule of law (chapters 23 and 24) and other strategic documents in this area. It worked towards addressing the outstanding challenges highlighted in the European Commission's 2020 Montenegro Report, and the 19 May 2020 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey.

As regards specific structural reforms, the main challenges posed by COVID-19 highlighted the need to strengthen the public health sector, preserving employment and improving social protection, enhancing the business environment and providing support to the private sector. The pandemic put the health system under stress, revealing persistent under-funding and weak capacities to cope with the crisis. Following improvements in the labour market in the pre-crisis years, the pandemic also put jobs at risk, including in the informal sector. Underfunded, inadequate and insufficiently targeted social assistance and unemployment benefit schemes became further stretched. The crisis also underlined the need to review the social protection system with the aim of improving its coordination with employment activation and its capacity to reduce social exclusion and poverty. Businesses, in particular SMEs, self-employed and small family enterprises were considerably affected by the pandemic, requiring urgent support, such as provision of liquidity and further easing the regulatory and tax burdens.

The effectiveness of support measures depends on good governance, coordination and inclusiveness, taking into consideration the large informal sector. Work on legislative alignment with EU acquis and institution-building continued across the board, with certain remaining challenges, including in the area of judicial reform. The COVID-19 pandemic created additional challenges in this area and contributed to certain objective delays in Montenegro's work on its rule of law agenda. Concerning judicial reform, Montenegro is making further progress to develop and promote the system of alternative dispute settlement resolution and on the judiciary's IT system. An analysis to feed into the new strategy for rationalisation of the judicial network is underway. 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 large net external liability position and persistent current account deficits. FDI flows showed resilience in 2020, and supported the continuation of ongoing investments, in particular within the energy sector.

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 43.5% in the period 2007-2019. 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.

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.

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 introduced several moratoria on the repayment of loans and cut the rates on the reserve requirement by 2 pps. 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**

1.10. Macroeconomic performance

In 2020, North Macedonia's accelerating economic growth and positive outlook were brought to an abrupt halt by the COVID-19 pandemic. The number of cases went up rapidly, and wide-ranging containment measures, including shop closures and curfews, dampened domestic demand. Lower foreign demand due to the global recession and supply chain disruptions affecting the production of automotive components hit the external sector. As a result, real GDP dropped by an estimated 4.5% in 2020. Beginning in March, the government has adopted five packages of support measures so far, which include wage subsidies, tax deferrals, and interest-free loans. The labour market held up well, supported by government support to employers. In the third quarter, employment dropped by 1.8% y-o-y, while the labour force diminished by 2.4% y-o-y, reflecting discouraged workers and transition to the informal economy. The unemployment rate declined to 16.5%. The activity rate (15-64 years) decreased slightly, to 65%, backtracking on the gradual increases of past years.

The central bank supported bank lending and asset quality through regulatory easing and gradual cuts in the policy rate to the historic low of 1.5%. In March, the bank lowered reserve requirements for loans to the most affected sectors, and in May it expanded the range of securities accepted from banks as collateral in liquidity-increasing operations. It also allowed commercial banks to temporarily ease credit standards, including two moratoriums allowing for temporary deferral of loan repayments. In addition, banks could raise the threshold for loans to reach non-performing status (from 90 to 150 days). These measures helped to sustain credit growth to the non-governmental sector, which attained 6.5% on average in 2020, and to further lower the non-performing loan (NPL) ratio, to 3.4% at end-2020. Banks remain well-capitalised, as own funds were bolstered through reinvestment of earnings throughout 2020. Capital adequacy increased to 15.5% at end-2020. Annual inflation amounted to 1.1% on average. Moderate pressures arose from food prices and core inflation, while energy prices acted in the opposite direction.

The crisis left a deep mark on public finances in 2020. The general government fiscal deficit almost quadrupled, to 8.2% of GDP, given the decline in economic activity and additional expenditure and foregone revenue from anti-crisis measures. Government revenue declined by 6.9% y-o-y, while current expenditure increased by 13.9%. The strongest drop in revenue came from VAT income, while revenue from social contributions was boosted by government subsidies to employers' contributions. Financing needs for the government's four support packages in 2020 necessitated a budget reallocation in April, cutting the originally planned amount for capital expenditure by 15%, and two budget revisions, in May and October, which raised allocations for transfer payments by cumulatively 13%. On account of heavy external funding to bridge the government's crisis-induced financing gap in 2020, the general government debt level has increased sharply to 51% of GDP (+10.4 pps y-o-y). Public debt, which additionally includes the borrowing of the heavily indebted Public Enterprise for State Roads, amounted to 61% of GDP.

The current account deficit increased slightly in 2020, to 3.5% of GDP, as the merchandise trade deficit widened and private transfers from abroad declined. The shortfall was not covered by FDI inflows, which were some 40% lower y-o-y, on account of significant outflows of intercompany debt, and amounted to only 1.9% of GDP, compared to 3.1% one year earlier. External debt rose to 81% of GDP at end-2020, mainly on account of the heavy government borrowing abroad. Apart from assistance provided by the IMF, the World Bank, and the EU, foreign financing includes a six-year

EUR 700 million Eurobond issued in May 2020. These inflows bolstered foreign exchange reserves, which covered some 4.6 months' worth of prospective imports at end-2020. The share of intercompany debt and trade credits, which are less volatile components of foreign debt, remained high, at some 40% of total external debt.

Provided the pandemic is receding and no new containment measures are introduced in the country, the economy is expected to recover in 2021 (latest IMF forecast for real GDP growth in 2021: 5.5%), based on a rebound of domestic demand. Households' disposable income would be bolstered by the recovery of remittances, and public investment is projected to increase significantly.

North Macedonia - Macro-Economic Indicators

North Macedonia	2016	2017	2018	2019	2020	2020 Ref
Real GDP, % change	2,8	1,1	2,9	3,2	-4,5	
Consumer price inflation, %, end of period	-0,3	2,4	0,8	0,4	2,3	December
Key monetary policy rate, %, end of period	3,8	3,3	2,5	2,3	1,5	December
Unemployment rate, LFS, %	23,7	22,4	20,7	17,3	16,5	Q3-2020
General government balance, % of GDP	-2,7	-2,8	-1,1	-2,2	-8,1	
Gross public debt, % of GDP	48,8	47,7	48,4	49,4	61,1	Q3-2020
Current account balance, % of GDP	-2,9	-1,0	-0,1	-3,3	-3,5	
Official international reserves, USD billion	2,5	2,5	3,0	3,3	3,7	December
International reserves, months of imports	4,9	4,1	4,4	4,6	5,3	
Gross external debt, % of GDP	74,7	73,4	73,0	72,7	N/A	
Net foreign direct investment, % of GDP	3,5	1,8	5,7	3,6	1,9	

Sources: WIIW, National authorities

1.11. 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 COVID19-MFA package adopted 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 focuses primarily on strengthening public finance and the fight against corruption, enhancing financial stability, improving the business environment, and reforming social protection.

The MFA is 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 is was disbursed on 1 June 2021, after North Macedonia fulfilled the attached policy conditions.

The assistance is 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 acknowledges that given the current health emergency the authorities are not in a position to design or implement a Fund-supported programme at this time, and points 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.

1.12. 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 pandemic, the country's authorities continued to tackle structural obstacles highlighted in the European Commission's 2020 North Macedonia Report and the 19 May 2020 Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. The work on sound budgetary policies and further alignment of fiscal policy with the EU Directive on Requirements for Budgetary Frameworks has advanced with the adoption of the draft organic budget law by the government in December 2020, which is currently discussed in the Parliament. The draft organic budget law provides for, inter alia, the introduction of fiscal rules, the establishment of an independent fiscal council, and a medium-term budgetary framework. The transparency of public finances was further improved through the introduction of the new web platform 'Open Finances', which documents budget transactions of central level budget users; the quarterly publication of budget execution of municipalities, at consolidated level; as well as revenue and expenditure of central level public enterprises. The government adopted an action plan to improve the management of public investment, and, in the framework of the 2021 budget, introduced a capital expenditure rule, which allows for reallocation of unused funds of users at specific intervals, in order to improve the execution of budgeted capital expenditure. Also in December, the government adopted the Tax System Reform Strategy, which aims, inter alia, at improving revenue collection.

In the context of improving the business environment, in 2019, an amendment to the Law on Financial Discipline to further align it with the respective EU Directive on combatting late payment in commercial transactions as well as the new Law on business inspections to ensure transparent unselective inspections, were adopted. The national e-services portal became operational at the end of 2019 and a register of parafiscal charges was established in 2020. The new bankruptcy law, intended to facilitate market exit by reducing the cost and time of procedures, is still under preparation. The Energy Law, in force since January 2019, liberalised the electricity market for micro and small companies and households. In February 2020, the country adopted a comprehensive Law on Energy Efficiency, transposing the relevant EU directives.

Shortcomings in the rules and institutions of state aid, including the lack of a proper state aid registry, have not been addressed, amplifying existing concerns about its efficiency and transparency. There are still significant infrastructure and private sector productivity gaps that could be narrowed through higher public investments in transport, energy, education and sustainable environmental infrastructure (for example, water and wastewater treatment, and solid waste management), along with improved planning and implementation. The persistently high level of youth unemployment 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

Tariffs for electricity and gas are set by the Energy Regulatory Commission. In 2019, the regulation of electricity prices for the main electricity producer (state-owned company ELEM) was abolished. However, based on the number of customers eligible to choose a supplier, liberalisation amounts to roughly half of total. By the end of November 2019 there were 35 licensed electricity suppliers and 61 licensed electricity 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 1.9% of GDP in 2020, lower than one year earlier (3.2%). FDI flows are mainly channeled 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 30.7% 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. The range of tax expenditures is large and the government has recently undertaken a stocktaking, including a fiscal impact calculation. In December, it adopted the Tax System Reform Strategy, which contains a number of revenue-raising initiatives. The structure of public finances is heavily tilted towards current expenditure, notably transfer payments. Budgeted capital expenditure is regularly cut in mid-year to make room for further current spending. There has been some progress in increasing the transparency of public finances in recent years.

7. Privatisation and enterprise restructuring

The number of companies in which the government held a stake remained the same in 2019 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 GDP, according to government data.

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 3.4% at the end of 2020, while 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. However, a rise in non-performing loans is likely once these measures are phased out.

Annex 1: MFA operations by date of decision, 1990-2020

MFA Operations 1990 - 2020 by Date of Decision

	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	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	**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	**77**	**77**

* MFA received before becoming EU Member State

Annex 2: Status of disbursements made by date of decision at end-December 2020

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

Status of effective disbursements as of end-December 2020 (in millions of €)

Country	Authorisations: Date of Decision	Authorisations: Reference of Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	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 countries:	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	100	**100,0**	**400,0** **(ongoing)**

COVID-19 MFA Package:							
Jordan (Loan)	25.05.2020	2020/701/EU	**200,0**	Nov. 2020	150	**150,0**	**50,0 (ongoing)**
Tunisia (Loan)	25.05.2020	2020/701/EU	**600,0**				**600,0 (ongoing)**
Georgia (Loan)	25.05.2020	2020/701/EU	**150,0**	Nov. 2020	75	**75,0**	**75,0 (ongoing)**
Moldova (Loan)	25.05.2020	2020/701/EU	**100,0**	Nov. 2020	50	**50,0**	**50,0 (ongoing)**
Ukraine (Loan)	25.05.2020	2020/701/EU	**1 200,0**	Dec. 2020	600	**600,0**	**600,0 (ongoing)**
Albania (Loan)	25.05.2020	2020/701/EU	**180,0**	Mar. 2021	90	**90,0**	**90,0 (ongoing)**
Bosnia and Herzegovin (Loan)	25.05.2020	2020/701/EU	**250,0**				**250,0 (ongoing)**
Kosovo (Loan)	25.05.2020	2020/701/EU	**100,0**	Oct. 2020	50	**50,0**	**50,0 (ongoing)**
Montenegro (Loan)	25.05.2020	2020/701/EU	**60,0**	Oct. 2020	30	**30,0**	**30,0 (ongoing)**
North Macedonia (Loan)	25.05.2020	2020/701/EU	**160,0**	Oct. 2020	80	**80,0**	**80,0 (ongoing)**

Annex 3: MFA amounts authorised* by year, 2005-2020 (EUR million)

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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	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**	**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

Chart 3A: MFA amounts authorised by year, 2006-2020(EUR million)

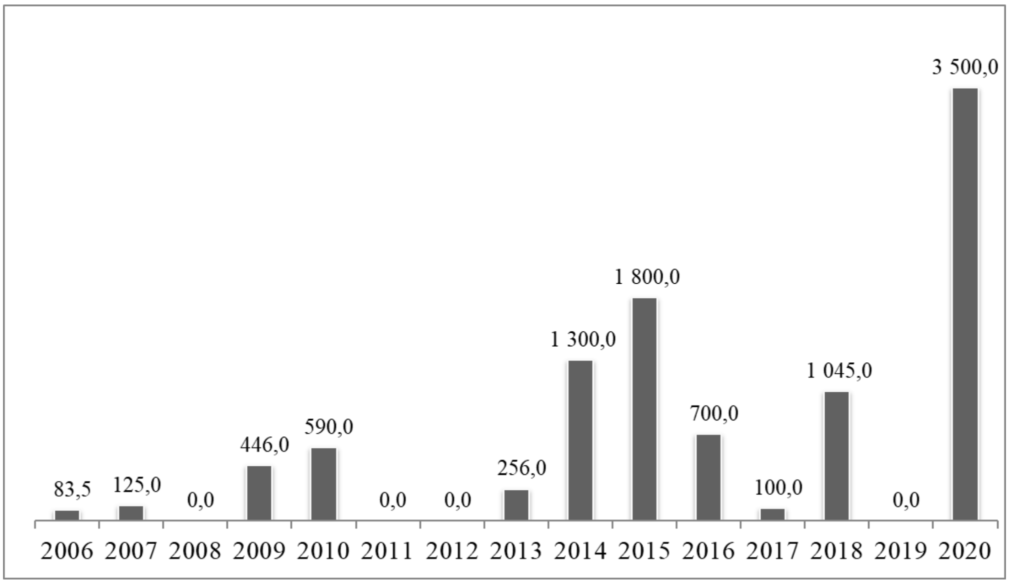
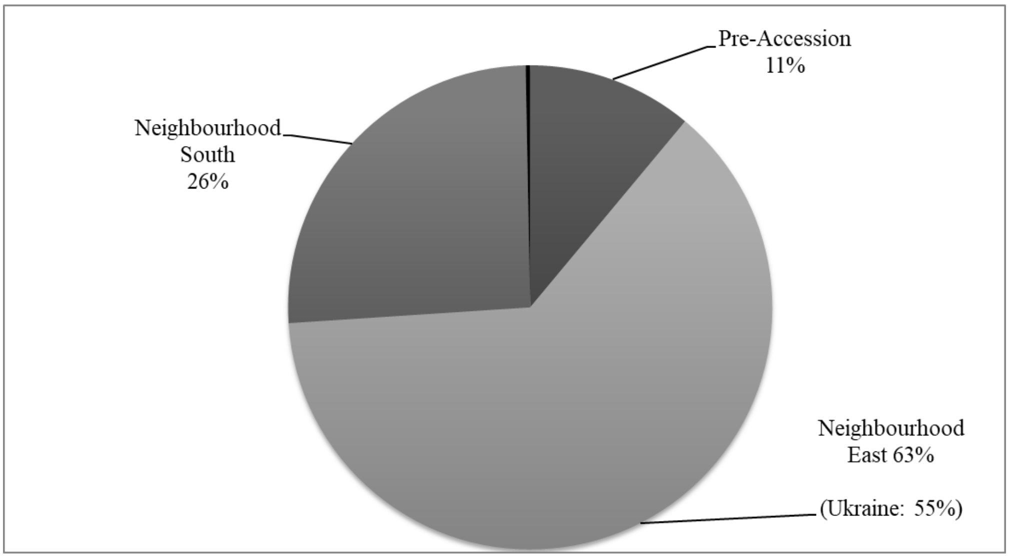


Chart 3B: MFA amounts authorised by region, 2006-2020 (%)



Annex 4: MFA amounts disbursed by year, 2006-2020 (EUR million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
By region																
Accession and Pre-Accession	32,0				30,0	100,0		100,0							160,0	422,0
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	4 996,0
Neighbourhood South			15,0	25,0						380,0		400,0		400,0	250,0	1 470,0
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**	**6 918,0**
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	1 675,0	**6 547,0**
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	**371,0**

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

Chart 4A: MFA amounts disbursed by year, 2006-2020 (EUR million)

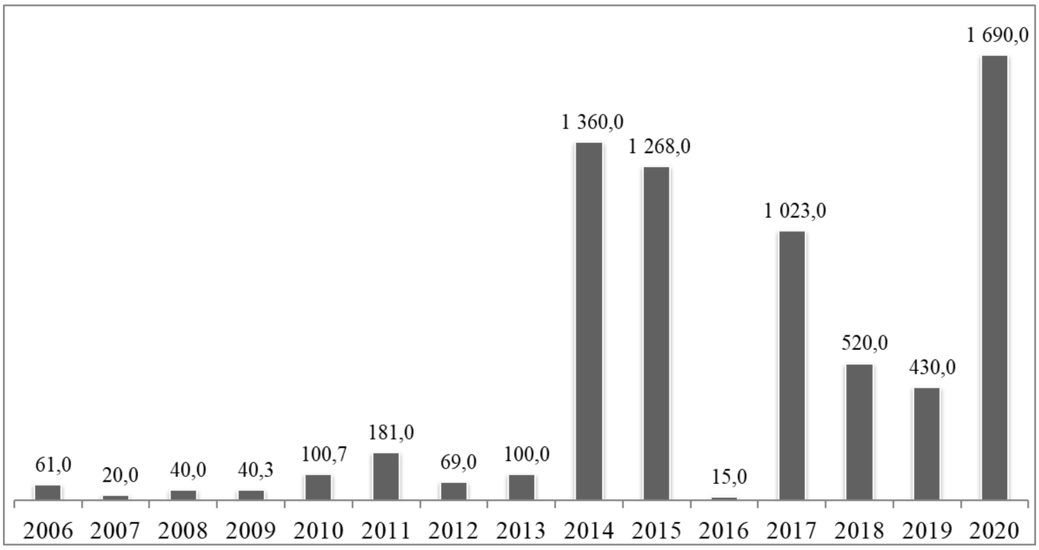
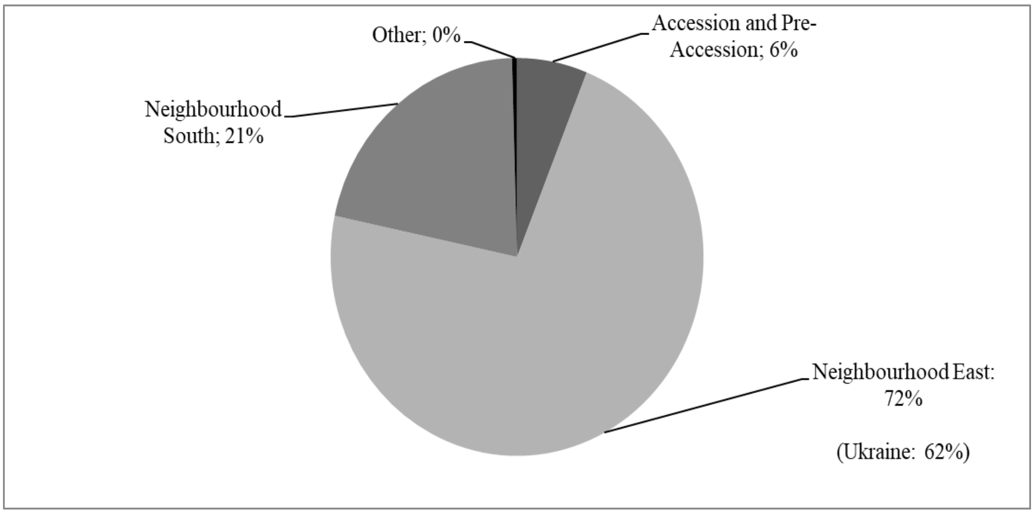


Chart 4B: MFA amounts disbursed by region, 2006-2020 (%)



Annex 5: Outstanding amounts in respect of MFA operations disbursed (as at 31 December 2020)

Country	**Outstanding capital in respect of MFA operations disbursed (in EUR millions)**	***% of Total***
Ukraine	3.810,0	*65,8%*
Tunisia	800,0	*13,8%*
Jordan	630,0	*10,9%*
Georgia	133,0	*2,3%*
Moldova	90,0	*1,6%*
Bosnia and Herzegovina	82,0	*1,4%*
fYRoM	80,0	*1,4%*
Armenia	65,0	*1,1%*
Kosovo	50,0	*0,9%*
Montenegro	30,0	*0,5%*
Kyrgyzstan	15,0	*0,3%*
Albania	1,8	*0,0%*
Total	**5.786,80**	

Chart 5B: Country share of outstanding capital in respect of MFA operations disbursed