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LIST OF ABBREVIATIONS

CEFTA	Central European Free Trade Agreement
CPI	Consumer Price Index
DCFTA	Deep and Comprehensive Free Trade Area
EC	European Community
EFC	Economic and Financial Committee
EIB	European Investment Bank
EPCA	Emergency Post-Conflict Assistance
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession
MFA	Macro-Financial Assistance
MoU	Memorandum of Understanding
PIFC	Public Internal Financial Control
SDR	Special Drawing Rights
SBA	Stand-By Arrangement of the IMF
SME	Small and Medium-sized Enterprises
USD	Dollar of the United States of America
VAT	Value Added Tax
WTO	World Trade Organisation

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INTRODUCTION

This working document is published in parallel with the Report from the Commission to the Council and to the European Parliament on the implementation of macro-financial assistance (MFA) to third countries in 2011. It provides economic and financial information regarding the situation of the beneficiary countries as well as more detailed information on the implementation of MFA operations in those countries. Statistical data on the different macro-financial assistance decisions adopted since 1990, by date and by regions, are included in the annex.

WESTERN BALKANS

1. BOSNIA AND HERZEGOVINA

1.1. Executive summary

In 2011, the economy of Bosnia and Herzegovina continued its recovery, with a real GDP growth of 1.6%, driven primarily by external demand and slightly increasing domestic demand. The external imbalances have been growing again after a decrease in the earlier crisis period. The current account deficit reached an estimated 8.7% of GDP, mainly triggered by the recovery of imports of goods. Further fiscal consolidation took place, both on the revenue and expenditure side. However, no agreement was reached on the Global Framework of Fiscal Policies 2012-2014 between the entities and the state level[1], thus weakening the soundness and credibility of the fiscal policy outlook.

No funds were disbursed in 2011 under the current EU MFA to Bosnia and Herzegovina (a loan facility of up to EUR 100 million, Council Decision 2009/891/EC of 30 November 2009). The political stalemate which followed the October 2010 general elections did not allow for programme discussions under the IMF Stand-By Arrangement, to which the MFA is linked. The Stand-By Arrangement, even if not officially declared by the IMF as being off-track, has in fact been non-functional since 15 October 2010, when the last programme review was made. The disbursement of the EU MFA can take place in 2012, under the conditions that the IMF programme is being re-launched and that the specific policy conditions under the Memorandum of Understanding are being met.

1.2. Macroeconomic performance

The economic recovery, which started in 2010 with a real GDP growth of 0.7%, accelerated slightly in the course of 2011 and GDP growth has reached 1.6%. Rising external demand remained a key contributor to the expansion of the economy, but the growth of exports slowed down towards the end of the year, reflecting the economic downturn in some of Bosnia and Herzegovina's main trading partners. In 2011, domestic demand also picked up, supported by a stable inflow of remittances and an accelerated growth of private credits. Industrial production soared by 5.6% in 2011 due to the

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[1] Bosnia and Herzegovina is composed of two first-order administrative divisions (entities) - the Federation of Bosnia and Herzegovina and Republika Srpska, each having its own (entity) government, linked by a federal government.

excellent performance of the mining sector (15.6%) and the manufacturing industry (5%), while the energy sector expanded at a lower rate (2%). Despite the economic recovery, unemployment grew to 43.8% at the end of 2011, due to some labour shedding in the private sector, most notably in construction.

After the improvements registered in the previous couple of years, the current account deficit surged by 58.8% in 2011, reaching an estimated 8.7% of GDP. The deterioration was mainly driven by the expansion of the trade deficit (+12.3%) and, to a lesser extent, by the falling surpluses in the income and services balances. Imports of goods soared by 14% caused by the recovery of domestic demand. The expansion of the trade deficit was only partially offset by a slight increase in the surplus of current transfers (+2.5%). Net FDI inflows more than doubled in 2011, even though from an extremely low basis, reaching an estimated 2.3% of GDP, thus being insufficient to cover the current account deficit. Official foreign exchange reserves fell marginally by 0.5%, covering around five months of imports.

Annual inflation accelerated to 3.7% in 2011, as compared to 2.1% in the previous year. The major contributors to the acceleration of the consumer price growth were the food (6%) and transport (7.5%) prices, reflecting the rising food and crude oil prices on the global markets. Inflation in 2011 was also driven by a hike in the excise duty on tobacco. The monetary policy of the Central Bank continued to be conducted under a currency board arrangement, with the euro as the anchor currency, enjoying a high level of confidence and credibility. As of February 2011, the minimum reserve requirement for short-term deposits was lowered from 14% to 10% in order to boost the liquidity of the banking sector.

The consolidated budget posted a marginal deficit of 0.4% of GDP in 2011 against a deficit of 2.5% of GDP a year earlier. Consolidated revenues increased by 2.5% on the higher collection of tax revenues (+3.6%) and social contributions (+4.1%). In Republika Srpska, the (flat) income tax rate was increased from 8% to 10% as of 2011, the non-taxable income threshold was abolished, while the overall social contribution rate was increased from 30.6% to 33% of the gross salary. Consolidated expenditures fell by 1.6%, mainly due to the contraction of capital expenses (-31.4%) and purchases of goods and services (-20.2%). At the same time, the wage bill and expenditures for subsidies and transfers (mainly social benefits) expanded by 5% and 14%, accounting for 29% and 44.4% of the overall expenditures, respectively.

1.3. Structural reforms

After gaining momentum in 2009 and early 2010 at the recommendation of the international financial institutions (IMF, WB) and agreed structural reform conditionality linked to the budgetary support, the pace of structural reforms slowed down in 2011, partly because of the lengthy government formation after the October 2010 general elections. Some structural reforms were implemented in order to strengthen the public finance management. However, the quality of public finances remained low with a high and further rising share of current expenditures, at the expense of growth-triggering capital expenditures. High labour taxation continued to hamper job creation and labour market participation, while increasing the incentives for grey job market.

The private sector's share in GDP has remained stable at around 60% of GDP in 2011. The privatisation process, which stalled even before the crisis period, did not advance in

the course of 2011. In Republika Srpska, slightly over two-thirds of the initial stock of state-owned capital intended for privatisation had been denationalised by end-2011, broadly unchanged from a year earlier. In the Federation, several attempts to privatise some of the companies, which had been included in the revised denationalisation plan, failed because of lack of investors' interest. Less than 45% of the Federation's state-owned capital initially foreseen for privatisation had been sold by end-2011. The planned restructuring and liquidation of socially-owned enterprises made slow progress. Most prices are liberalised, even though a number of administered prices remain (e.g. for utilities, including electricity and gas).

In the World Bank's 2012 Doing Business Report, Bosnia and Herzegovina ranks 125th in terms of ease of doing business (127th in the previous year), out of 183 countries covered, lagging well behind its neighbours. Main obstacles identified are in dealing with construction permits, starting a business and enforcing contracts. In the Global Competitiveness Report of the World Economic Forum, Bosnia and Herzegovina ranks 100th (climbing two places in a year) among 142 countries. Access to financing, tax rates and inefficient government bureaucracy are named as the most problematic factors for doing business in the country.

1.4. Implementation of macro-financial assistance

The political stalemate which followed the October 2010 general elections did not allow for programme discussions under the IMF Stand-By Arrangement[2], to which the MFA is linked. The Stand-By Arrangement, even if not officially declared by the IMF as being off-track, has in fact been non-functional since 15 October 2010, when the last programme review was made. A total amount of around EUR 385 million was disbursed under the IMF programme back in 2009-2010, with 100% of these funds transferred to the entity budgets.

In November 2009, the EU Council approved a MFA of up to EUR 100 million in the form of loans. The assistance aims at alleviating the impact that the economic crisis had on Bosnia and Herzegovina's stressed budgetary and external position and at contributing to fill the remainder of the external and budgetary financing gap as identified in the IMF programme. The European Commission agreed the economic policy conditions with the Bosnian authorities in a Memorandum of Understanding (MoU) that was signed in November 2010. The disbursement is conditional upon a satisfactory track record in the implementation of the current Stand-By Arrangement with the IMF, as well as upon a positive evaluation by the European Commission of progress made with respect to a number of structural reforms. The specific policy conditions stressed public finance management issues, statistics and budgetary procedures. The detailed financial terms of the assistance were spelled out in a Loan Agreement which was signed in November 2010 and ratified by the Bosnia and Herzegovina's Presidency in August 2011.

No MFA funds were disbursed during 2011 as the conditions for the release of funds were not met: The IMF programme turned into a non-disbursing one since October 2010. What is more, one of the two policy conditions attached to the disbursement of the first MFA tranche - the approval of the Global Framework of Fiscal Policies by the Fiscal Council of Bosnia and Herzegovina - was not met. This Framework is a key instrument

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[2] EUR 1.15 billion loan (13% of GDP; 600% of the quota) for a three-year period, approved by the Fund on 8 July 2009.

for medium-term budgetary planning and an indispensable element of the annual budgetary process, of particular relevance in Bosnia and Herzegovina given the federal structure of the country.

Some progress was, however, made in the fulfilment of policy conditions in the area of public finance management. These conditions were mostly derived from the findings of the operational assessment of financial circuits and procedures in Bosnia and Herzegovina carried out in November 2009, for example as regards the full functioning of the Central Harmonisation Unit and the management of public domestic debt.

Provided that the IMF programme becomes functional again and that all policy conditions as laid down in the MoU for the first tranche are fulfilled, the first disbursement of the EU MFA could take effect in 2012.

SUMMARY STATUS OF ECONOMIC REFORM
BOSNIA AND HERZEGOVINA (BIH)

1. Price liberalisation

Most prices are liberalised even though a number of administered prices remain, for example for utilities, including electricity and gas.

2. Trade liberalisation

BiH started WTO accession negotiations in 1999. In July 2008, the Stabilisation and Association Agreement with the EU was signed and the Interim Agreement entered into force. BiH is part of the CEFTA agreement.

3. Exchange rate regime

In 1997, the Central Bank of Bosnia and Herzegovina established a currency board with the Deutsche Mark as the anchor currency which has functioned smoothly since then. With the introduction of the euro, the Bosnian Convertible Mark was pegged at 1.95583 to the euro and has remained unchanged since then.

4. Foreign direct investment

Net FDI reached a peak in 2007 (when the telecommunications company of Republika Srpska was privatised), followed a downward trend in the next couple of years (with the net FDI even becoming negative in the first half of 2010) and slightly recovered in 2011, reaching around 2.3% of GDP. FDI has been mainly related to privatisation transactions, as green-field investment is still hampered by a difficult business environment.

5. Monetary policy

The Central Bank of Bosnia and Herzegovina is responsible for operating the currency board arrangement which limits the scope of monetary policy basically to adjustments of minimum reserve requirements.

6. Public finances

The quality of public finances in Bosnia and Herzegovina remains low. The ratio of general government expenditure to GDP continuously increased in recent years from 37.1% in 2005 to 44.4% in 2010. Moreover, expenditure remained concentrated in current expenditure, in particular on wages and social benefits and was not shifted towards growth-enhancing areas. The fiscal balance of the general government was positive until 2007, but high fiscal deficits materialised in 2008 and 2009, while some fiscal consolidation was evident in the last couple of years. The bulk of the public expenditures are spent at entity level, while the federal government accounts for about 9% of the consolidated expenditures.

7. Privatisation and enterprise restructuring

Progress in privatisation and enterprise restructuring has remained limited, especially in the Federation.

8. Financial sector reform

The financial sector is dominated by banks. The sector remained overall sound and stable despite the continuing deterioration of loan portfolio's quality over the last couple of years.

2. SERBIA

1.5. Executive summary

In 2011, the economic recovery continued, with GDP growth of 1.6% fuelled by a surge in investment activity. However, towards the end of the year Serbia's recovery came under pressure, as a result of the difficult international economic environment. Faced by slowing export growth, the current account deficit widened to around 9.5% of GDP. Moreover, the budgetary deficit approached 5% of GDP and turned out to be higher than initially targeted, due to revenue shortfalls. With the aim of anchoring macroeconomic stability as well as the structural reform commitments during the forthcoming election cycle, Serbia signed in September 2011 a follow-up precautionary Stand-By Arrangement (SBA) with the IMF in the total amount of EUR 1.1 billion, covering 18 months, effective from 1 October. The European Commission assessed in its opinion on Serbia's application for EU membership of 12 October that the country had taken important steps towards establishing a stable and viable market economy, but further efforts would be necessary for restructuring the economy and improving the business environment. Serbia was granted candidate country status by the European Council on 1 March 2012.

In November 2009, a macro-financial assistance loan facility of up to EUR 200 million was made available to Serbia under the Council Decision 2009/892/EC, in view of the adverse effects of the global crisis. The objective of this assistance was to complement the resources from International Financial Institutions in helping the government address the external financing gap. Conditions for disbursements included establishment of quantitative fiscal rules and provisions regarding Public Internal Financial Control. In light of the gradual economic recovery, lower foreign financing needs and the scaling down of the IMF assistance by half, the European Commission decided to disburse only 50% of the available MFA amount, i.e. EUR 100 million on 12 July 2011, which completed the MFA programme.

1.6. Macroeconomic performance

Serbia's economy has recovered from the 2009 recession, with GDP up by 1% in 2010 and strengthening further by 1.6% in 2011. However, the export-driven recovery began to lose momentum in the second quarter of 2011 amid the progressive downturn in Serbia's main trading partners. Private consumption remained constrained by eroded disposable incomes due to a jobless recovery and high inflation. Yet, overall the stimulus from domestic demand strengthened owing to a surge in investment, mainly based on a revival of construction, the first time since 2009. Industrial production growth decelerated during 2011 in the light of the deteriorating economic outlook, to 1.8%, down from 3% a year earlier.

Driven by imports of intermediate and capital goods in support of a rally in investment activity, import growth rebounded towards the end of 2011. At the same time, export expansion withered with softening external demand despite the depreciation of the dinar (RSD) later in the year, which led to an increase of the current account deficit to around 9.5% of GDP, up from around 7.5% in the two preceding years, but still well below the levels of over 20% before 2009. However, dependence on external financing remained high. In 2011, foreign currency inflows picked up and the quality of external financing

improved. FDI increased more than twofold, reaching almost EUR 1.6 billion. Portfolio investment of the same amount was also considerably higher compared to the previous year, but was almost entirely related to inflows into debt securities. The private sector's external liabilities halved, as companies and banks continued to deleverage during the year. By the end of the year, foreign exchange reserves with the National Bank of Serbia (NBS) increased to EUR 12 billion, sufficient to cover more than 10 months of imports. Serbia's total external debt remained relatively stable at close to EUR 24 billion, accounting for around ¾ of GDP.

Inflationary pressures, which had been building up from the middle of 2010 and peaked in April 2011 at close to 15%, subsided thanks to easing of commodity and food prices, the limited impact of hikes in administered prices and subdued private consumption. By the end of 2011, CPI inflation declined to 7% from 10.3% in 2010, but was still well above the upper boundary of the 3-6% target band for the end of the year, set by the NBS. Although the dinar was on a depreciating trend in the second half of 2011, over the year the RSD/EUR exchange rate strengthened by about 1.5%, also as result of higher capital inflows. As inflation was subsiding and the dinar was strengthening, the NBS abandoned the tightening of monetary conditions. The reference interest rate, which had been hiked to 12.5% in April 2011, was slashed to 9.75% by the end of the year.

Despite an economic upswing in 2011, the situation on the labour market deteriorated further. The unemployment rate soared to 24.4%. Following a two-year nominal freeze, indexation of public sector salaries (and pensions) was re-introduced as of January 2011, and three adjustments were carried out during the year. Nevertheless, overall growth of net wages remained contained at 0.2% in real terms.

In 2011, public finances were under pressure, as revenues underperformed given the slower-than-expected economic upturn, the elimination of an ad-hoc 10% tax on mobile services and the ongoing lowering of customs tariffs, in line with the trade agreement under the Stability and Association Agreement with the EU. The situation remained tense also on the expenditure side, as a two-year temporary nominal freeze of public administration salaries and pensions came to an end. The automatic stabilisers were allowed to act fully through social assistance spending and subsidies, which were provided in response to the weak labour market performance and poor living conditions. A supplementary budget, adopted in October, allowed for an increase in the planned deficit by 0.3 percentage points, to 4.5% of GDP, based on the fiscal rule which determines the deficit target according to expected GDP growth. Revisions of the budget were also prompted by the adoption of the bill on the financing of local governments, which *inter alia* increased the share of income tax that municipalities retain from 40% to 80%. The government secured budgetary financing by raising USD 1 billion through an issuance of the first 10-year eurobond in the international market. The budget deficit in 2011 was close to 5% of GDP and the government debt-to-GDP ratio went above the threshold of 45%. After parliamentary elections in May 2012, the new government will need to present a fully-fledged programme of fiscal consolidation in order to reduce the level of government debt below 45% of GDP.

1.7. Structural reforms

Serbia has taken important steps towards transforming its economy, but structural rigidities persist and mar the economic performance. Market mechanisms remain

hampered by legal uncertainty, red tape, heavy state involvement, and insufficient competition.

Substantial progress has already been made towards improving the quality of public finances. With the aim of strengthening fiscal discipline, the government adopted amendments to the budget system law in late September 2010, which also constituted a structural reform measure under the MFA. In this context, a multi-annual budgetary process, which is supposed to underpin a more rigorous and efficient medium-term planning, has been formalised. The established numerical fiscal rules and procedures determine the path of expenditure-driven fiscal consolidation, while improved procedures and the setting-up of a fiscal council are deemed to anchor fiscal responsibility. Together with the new pension law, which extends the working period and age for assuming pension rights, tightens up the rules on early retirement and adjusts the indexation mechanism, this may enhance the long-term sustainability of public finances.

State influence remains high, with the private sector currently accounting for around 60% of GDP and total employment. It is largely a consequence of the unfinished privatisation and/or liquidation of socially and state owned enterprises and local utilities, which has been ongoing since 2001. Moreover, a wave of renationalisations has been underway recently. While important steps were taken towards establishing legal predictability, including by the recent adoption of a law on restitution, the business environment continues to be constrained by weak enforcement of the rule of law. Complex legislation and lengthy procedures for enforcing court decisions, in particular, undermine confidence among economic investors and hinder investment. A number of barriers to doing business persist, due to the delays or flaws in the implementation of a comprehensive regulatory reform, dubbed the "regulatory guillotine". Lack of competition in certain sectors and significant infrastructure bottlenecks are a further challenge for Serbia's economic potential. Structural rigidities also inhibit the functioning of the labour market, reflected in high unemployment and the very low participation rate, as well as the major mismatch between demand for and supply of a skilled workforce.

1.8. Implementation of macro-financial assistance

A loan facility of up to EUR 200 million was made available to Serbia under the Council Decision 2009/892/EC, granting MFA in view of the adverse effects of the global crisis. The objective of this assistance was to complement the resources from International Financial Institutions in helping the government address the external financing gap. The availability of MFA funds was originally ensured for a two-year period from the first day after the entry into force of a Memorandum of Understanding (MoU), signed on 5 July 2010, detailing a set of economic policy conditions for the disbursement of assistance.

The MoU stipulates that the loan would be released in two equal instalments of EUR 100 million each upon a satisfactory track record in the implementation of the economic recovery programme supported under the IMF Stand-By Arrangement (SBA), as well as upon the fulfilment of specific conditions related to each tranche. The disbursement of the first instalment was conditional on strengthening the fiscal responsibility, notably through the establishment of quantitative fiscal rules and provisions regarding Public Internal Financial Control. In light of the gradual economic recovery, lower foreign financing needs and the scaling down of the planned IMF assistance by half, the Commission decided to disburse accordingly only 50% of available MFA amount, i.e.

the first EUR 100 million tranche, subject to compliance with conditionality requirements.

On 15 April 2011, Serbia submitted to the European Commission a request to consider the release of the first MFA loan instalment, accompanied by a Report on the fulfilment of the structural reform criteria related to the first tranche. Subsequently, the Commission reviewed the compliance with conditionality requirements, deemed that Serbia provided reasoned justification of progress, and released EUR 100 million under the MFA loan facility to Serbia on 12 July 2011. The SBA agreement with the IMF remained on track throughout the programme period. Between January 2009 and April 2011, Serbia maintained a satisfactory fulfilment of the performance criteria and structural benchmarks, leading the IMF to conclude seven programme reviews with the recommendation for a release of the planned instalments. However, starting from the third review in March 2010, the Serbian authorities drew upon the available amounts only partially as they managed to maintain foreign exchange reserves at a comfortable level. By the expiry of the SBA on 15 April, the total disbursements under the SBA amounted to EUR 1.51 billion, i.e. roughly half of the programme's funds. Accordingly, with the disbursement of half of the originally foreseen MFA funds in July 2011, the operation was completed.

Summary Status of Economic Reform - Serbia

1. Price liberalisation

Administered prices account for more than 20% of the CPI inflation basket, with regulated energy prices accounting for around half of this share. The government continues to control prices of public utilities, either through government bodies or sectoral regulators. The government also sets the limit on increases in the price of communal and public city transport services, which are under the control of the local authorities.

2. Trade liberalisation

In December 2009, the EU unblocked the Interim Agreement which Serbia had been implementing unilaterally since January 2009. Since 2010, the ratification process of the Stabilisation and Association Agreement signed in April 2008 has been underway. By the end of 2011, 24 Member States have ratified the Agreement.

3. Exchange rate regime

The monetary policy setting fosters a managed float of the dinar. Nevertheless, the National Bank of Serbia (NBS) has been intervening regularly in the interbank market.

4. Foreign direct investment

There are no controls on inward direct investment. By end-2011, net FDI inflows reached EUR 1.6 billion (EUR 860 million in 2010).

5. Monetary policy

The NBS has been committed to inflationary targeting since 2006. It sets a broad band around the targeted CPI inflation rate. The main policy instrument is the two-week repo interest rate. From mid-2011, the stance has been relaxed, as the NBS abandoned tightening of monetary conditions in the face of signs that inflation is slowing and the dinar is strengthening. The reference interest rate, which had been hiked to 12.5% in April 2011, was slashed to 9.75% by the end of the year.

6. Public finance

In 2011, the slow and fragile economic recovery prompted the adoption of a supplementary budget. The revised Law on the budget system and the amendments to the pension law, adopted in 2010, which aimed at improving the quality of public finances, are in line with the MFA conditionality requirements.

7. Privatisation and enterprise restructuring

Privatisation and/or liquidation of socially and state owned enterprises and local utilities has stalled or even gone backwards, against the background of unfavourable market conditions. Economic restructuring remains a major challenge in Serbia's transition to a market economy.

8. Financial sector reform

The banking sector is generally sound, but vigilance is required due to the impaired loan portfolio of the banks and a considerable exposure to exchange rate risks. Non-banking financial institutions and capital markets play a limited role in the financing of domestic companies.

EASTERN NEIGHBOURHOOD COUNTRIES

3. ARMENIA

1.9. Executive summary

In 2011, the Armenian economy continued to recover: real GDP grew by 4.6% driven by a recovery in remittances and exports. The fiscal deficit was narrowed to 3.1% of GDP from 4.9% of GDP in 2010. However, the inflow of investments continued to weaken, due to the difficult global financial environment. Thus, despite an improvement in the current account deficit, the bulk of the external financing needs continued to be covered by the international community.

In December 2011, the Executive Board of the International Monetary Fund (IMF) successfully completed its third review of Armenia's economic performance under a programme supported by Extended Fund Facility– and Extended Credit Facility arrangements. The decision enabled the authorities to draw an additional SDR 36.2 million (about EUR 42 million), bringing total disbursements under the arrangements to SDR 144.8 million (about EUR 168 million).[3]

In 2011 and early 2012, the Commission implemented the macro-financial assistance programme, approved back in 2009. The MFA to Armenia, consisting of a loan of EUR 65 million and of a grant of EUR 35 million, was released in two instalments: the first instalment in July 2011; the second instalment in December 2011 (grant component) and in February 2012 (loan component). The conditions linked to the MFA contributed to reforms in the areas of public debt, pensions, tax systems and public finance management.

1.10. Macroeconomic performance

The current macroeconomic situation has greatly improved compared to the 2009 crisis. After a modest rebound in 2010 (2.1%) the GDP growth rate reached 4.6% in 2011, reflecting improved conditions in mining, manufacturing and services, as well as a rebound in agriculture. The recovery in the Russian economy, albeit slowing, added to the growth rates, as Russia was an important source of investments and remittances. However, the recovery remained fragile as Armenia depended strongly on remittances (of around 7% of GDP) and may therefore, in the future, suffer from activity difficult international economic environment, in particular in the EU. In 2011, the average inflation rate was 7.7%, slightly lower than in 2010 (8.2%). The headline inflation reached its peak of 11.5% in March 2011 mostly due to the global price movements. Reacting to the soaring inflation rates in the beginning of 2011, the Central Bank of Armenia (CBA) increased the policy rates. The rates where again cut in September as the inflation pressures receded, mostly due to a recovery in agriculture, diminishing global price pressures and limited private spending. Twelve-month inflation was 4.7% in December 2011.

[3] The three-year SDR 266.8 million (about EUR 309.2 million) EFF and ECF arrangement with Armenia was approved by the IMF's Executive Board on 28 June 2010

The central government fiscal deficit in 2011 was 3.1% of GDP, well below the initial target of 3.9% of GDP. The tax-to-GDP ratio remained low, at 16.4%, indicating high tax evasion and problems in the tax and customs administration. The public debt-to-GDP ratio increased to 42% in 2011 (from 39.2% in 2010), as a result of counter-cyclical measures and the flow of financial assistance in the form of loans from the international community. The external debt represented around 88% of the total public debt, thus creating important exchange rate vulnerabilities.

Driven by the relatively strong export growth along with growth in remittances (27.7% and 26.2% respectively), the current account deficit is expected to narrow to 10.9% of GDP in 2011 from 14.7% of GDP in 2010. Foreign direct investment continued to decrease and reached 4.4% of GDP (from 6% in 2010), or EUR 321 million for the full year. Net international reserves slightly increased (by 3.7%) in comparison with 2010 and reached EUR 862 million. Gross international reserves represented about 4.5 months of imports of goods and services. The capital adequacy ratios remained high, around 20%. The credit growth accelerated along with the recovery. In 2011 credit grew by 37.1%, though the credit-to-GDP ratio stayed low – 30%. Foreign currency credit growth was particularly high – 46.7%, increasing further the already high dollarization rate; in 2011, 61% of outstanding credits were denominated in foreign currency.

The global slowdown is expected to impact Armenia's economy through slowing growth in remittances, diminishing export demand, lower resource prices, diminishing fiscal revenues and declining capital inflows.

1.11. Structural reforms

Armenia has implemented significant structural reforms, which resulted in high growth rates for a series of years prior to the economic crisis, but important challenges remain. Current government's priorities in structural reforms are improving the business climate, poverty reduction, fiscal and debt sustainability and financial stability.

The structural reform process has gained momentum in the context of the financial assistance by the international community that linked its support to reforms in areas like business environment, tax administration, social policy, public finances and financial sector stability. For example, conditions for the disbursement of MFA tranches included specific policy measures in the areas of public debt management, pension system, public internal financial control, external audit, public procurement, tax policy and tax administration, and customs policy.

In the area of business environment, several important pieces of legislation were adopted. A new law reorients the inspection agencies to risk-based oversight, at the same time increasing transparency and decreasing corruption opportunities. Legislation that increases the power of the competition committee was adopted in 2011. An electronic system has been established in business registration, tax filing and legal proceedings, inter alia.

To ensure fiscal consolidation and place the debt on a downward path, the authorities have strengthened the Medium Term Expenditure Framework and reinforced the new debt management strategy by introducing Debt Management and Financial Analysis System software. In collaboration with the World Bank, the authorities have undertaken the restructuring of the Finance Ministry's Public Debt Management Department.

In the area of tax administration, measures have been taken to reduce corruption and increase tax compliance by simplifying and streamlining reporting requirements and by applying regulation consistently to all taxpayers through published normative acts. The frequency of tax reporting and payments has been decreased and an e-filing system and call and service centres for taxpayers have been established.

In the area of social policies, the government is developing, in collaboration with the World Bank, an integrated system for the provision of social services**.** Also, it is implementing a pension reform: a new legal framework including the compulsory and voluntary funded pensions has been adopted.

One source of vulnerability of the banking sector is foreign currency lending whose growth continues to exceed the overall credit growth (see above). The authorities have taken steps to manage the credit risks, i.e. in raising risk weights and provisioning for foreign currency loans, improving the stress testing methodology and developing a credit risk model.

1.12. Implementation of macro-financial assistance

The EU MFA programme, put in place in close coordination with the IMF, was conceived as part of the external financing provided to Armenia to cover the country's balance of payments needs in 2010-2011. It was also aimed at supporting the economic adjustment and reform programme of the Armenian authorities designed to achieve sustainable medium-term growth. The assistance consisted of a loan of EUR 65 million and of a grant of EUR 35 million, to be disbursed in two tranches. Owing to delays in the finalisation of negotiations between the Commission and the Armenian authorities on the conditions for the release of the assistance[4] and of the ratification of the Memorandum of Understanding and the Loan and Grant Agreements (the process was only completed in May 2011), the implementation of the assistance did not start before summer 2011. The first instalment of the assistance, amounting to EUR 40 million (a grant of EUR 14 million and a loan of EUR 26 million), was released in July 2011. The second instalment, amounting to EUR 60 million (a grant of EUR 21 million and a loan of EUR 39 million), took place in December 2011 for the grant part and in February 2012 for the loan part.

The release of the second tranche was conditional on the respect of the economic programme agreed between the Armenia and the IMF and on the completion of economic policy measured laid down in the Memorandum of Understanding. As mentioned above, the conditions included specific policy measures in the areas of public debt management, pension system, public internal financial control, external audit, public procurement, tax policy and tax administration, and customs policy. The Commission conducted a conditionality review mission in October 2011 and concluded that all the conditions for the release of the assistance were met.

In the area of debt management, the authorities progressed in developing a debt strategy and putting to place a modern debt recording service in the Ministry of Finance. In the area of internal audit, the Central Harmonisation Department, established in August 2010 and responsible for development and monitoring of financial management, control and

[4] The agreement on the conditions was reached in late 2010 but the Memorandum of Understanding was signed only in February 2011.

internal audit, was strengthened. In the area of external audit, the MFA supported the adoption of an Action Plan 2011-2016 by the Chamber of Control aiming at bringing its working methods closer to international standards.

In 2011, the government adopted a tax System Reform Programme for 2011-2013. The programme includes numerous measures improving the tax administration in the areas of risk-based tax audits, development of economic databases, e-filing, human resource management, combating of the tax evasion. The measures are expected to improve the tax collection for fiscal consolidation and debt sustainability purposes.

The MFA programme targeted two measures supporting Armenia's efforts to create an open and transparent trading environment, in the areas of taxation of imports and customs valuation.

SUMMARY STATUS OF ECONOMIC REFORM - ARMENIA
1. Price liberalisation Prices are largely free but there are oligopolistic conditions in many sectors of the economy.
2. Trade regime Armenia is a WTO member since 2003. The tariff structure is simple, all tariffs are bound and the applied average tariff is 2.7%. In 2009, Armenia qualified for the EU GSP+. In March 2012 the EU launched DCFTA negotiations with Armenia. Although sufficient progress has been achieved by Armenia in order to start DCFTA negotiations, trade and trade-related reforms should be continued, in particular the adoption and implementation of relevant horizontal or vertical legislation in the key regulatory areas of Technical Barriers to Trade (TBT), Sanitary and Phytosanitary Standards (SPS) and Intellectual Property Rights (IPR). Armenia has made progress in the application of the WTO compliant customs valuation methods, which was a condition in the MFA operation. Monitoring of effective application will be continued in this area.
3. Exchange rate regime After the March 2009 devaluation of the Armenian dram, the central bank announced the adoption of a free floating exchange rate regime. However, the exchange rate market is small and highly volatile, and the central bank often undertakes foreign exchange interventions to limit exchange rate volatility.
4. Foreign direct investment Overall, Armenia has a liberal trade and investment regime. The country's land-locked geographical position with two closed boarders and the oligarchic structure of the private sector hampers growth potential and competitiveness which slightly improved in 2011. Investor's protection, payment of taxes, access to finance and corruption appear as points of concern.
5. Monetary policy The Central Bank of Armenia follows an inflation targeting regime to conduct the monetary policy. The impact of monetary policy decisions on the economy is limited because the domestic money market is not sufficiently developed and the rate of dollarization of deposits is close to 63%.
6. Public Finances and Taxation The public debt management has been strengthened (also as an effect of MFA conditionalites) but there is room for improvement. The government has created a Central Harmonisation Unit that provides monitoring of financial management and control functions and internal audit. Efforts have also been made to strengthen tax and customs administration by simplifying the taxpayer reporting system.
7. Privatisation and enterprise restructuring Armenia has shown an important progress in privatisation and some progress in competition policy. According to the EBRD the privatisation in the industry sector is complete, and enterprises face very few market distortions from government subsidies or formal trade barriers. The authorities continue to introduce various measures to eliminate excessive regulation (reduction of required licences, initiative of regulatory guillotine initiative that was launched in November 2011).
8. Financial Sector The banking sector in Armenia is relatively small (banking assets represent around 50% of GDP) but well capitalised and deposit-funded. It consists mainly of private banks. The authorities have enhanced the risk management and supervisory frameworks in the banking sector, including contingency planning. Prudential regulations on higher capital and provisioning requirements on foreign currency loans were issued. Future efforts should focus not only on enhancing financial stability but also on reducing obstacles to credit growth and financial intermediation.

4. GEORGIA

1.13. Executive summary

Following the double shock of the military conflict with Russia of August 2008 and the 2008-2009 global crisis, the Georgian economy recovered strongly in both 2010 and 2011. In line with its commitments, the country has maintained a prudent fiscal and monetary policy stance, increased the flexibility of its exchange rate and continued to make progress with its structural reform agenda. The fiscal deficit was reduced from 9.2% of GDP in 2009 to 3.6% of GDP in 2011. Although the current account deficit as a share of GDP has halved compared to the pre-crisis period, it remains large at 11.7% of GDP in 2011.

Between September 2008 and June 2011, Georgia implemented an economic adjustment programme agreed with the IMF and supported by IMF funding (under a SBA). The programme was completed successfully and until July 2010 an amount equivalent to SDR 577.1 million (about EUR 640 million) was disbursed. After July 2010, the authorities treated the arrangement as precautionary and did not draw the installments that became available. In March 2012, the Georgian authorities agreed on a two-year, precautionary programme with the IMF that will enable Georgia to draw up to SDR 250mn (EUR 290mn), if needed.

The Commission adopted a proposal for MFA to Georgia on 13 January 2011 amounting to EUR 46 million, half in grants and half in loans. The assistance was part of a pledge of two possible MFA operations of the same amount made by the European Commission at the International Donors' Conference of October 2008. The first MFA operation was successfully implemented in 2009-10. Since the adoption by the European Parliament of its position at first reading in May 2011, the inter-institutional discussions between the Council and the Parliament have not made progress, reflecting a difference of views regarding a question of procedure, namely on whether the consultation on the draft MoU of the Committee of Member States should be done under the examination or the advisory procedure.

1.14. Macroeconomic performance

Following the double shock of the military conflict with Russia of August 2008 and the 2008-2009 global economic crisis, the years 2010 and 2011 witnessed a revival of the economic activity. After a contraction of the economy by 3.8% in 2009, real GDP grew by 6.3% in 2010 and by 7% in 2011. However, the economic recovery has had only limited impact on the labour market, with unemployment rate – the highest in the region – remaining above 16% in 2010.

Inflation (7.1 % in 2010) accelerated in 2011 due to increased international prices for food and gas and reached 8.5%. On the back of the economic recovery, the government tightened its budgetary and monetary policies. In line with the government commitment in the framework of the IMF Stand-By Arrangement and of the ENP Action Plan, the fiscal deficit was reduced from 9.2% of GDP in 2009 to 3.6% in 2011. A 2012 budget entailing a deficit of 3.5% of GDP was approved in December 2011.

Georgia's external sector remains fragile due to a large – and widening – current account deficit: it was estimated at 11.7% of GDP in 2011, against 10.3% of GDP in 2010. The trade deficit, at 22.2% of GDP in 2010, further increased in 2011 to 23.7% of GDP.

Georgia's exports continue to suffer from the trade embargo imposed by Russia in 2006. The high trade deficit was partly offset by growing tourism revenues and current transfers (remittances). Recovering FDI and official assistance also helped financing the current account deficit. In 2011, FDI was estimated to reach EUR 650 million (around 6.3% of GDP), against EUR 440 million (5% of GDP) in 2010. However, FDI remains well below the levels that it had reached before the 2008 conflict with Russia.

Official reserves increased from USD 2.3 billion (EUR 1.75 billion) at end-2010, to USD 2.8 billion (EUR 2.25 billion) at end-2011 (around 4 months of imports). Gross external debt increased rather markedly in 2009-10, reaching almost 85% of GDP at the end of 2010 before retreating to 77.7% of GDP at the end of 2011. The authorities reduced the sovereign debt amortization burden for 2013 through the placement of a USD 500mn Eurobond in April 2011 that was used to redeem the bulk of a maturing bond in the same amount issued in 2008. Still, external debt payments will grow significantly in 2012-14 to reflect the repurchases under the IMF's Stand-By Agreement.

The IMF Stand-By Arrangement that ran from November 2008 expired in June 2011. The IMF SBA contributed to fiscal consolidation, progress with structural reforms and return to growth. The programme was completed successfully. In January 2011 the IMF Executive Board completed successfully the seventh and the eighth programme reviews and in June 2011 the ninth and final review, but the authorities did not draw the instalments that became available, treating the programme as precautionary since July 2010. In March 2012, the authorities reached an agreement with the IMF on a new 24-month Stand-By Arrangement and Standby Credit Facility. The programme, approved by the IMF's Board in April, enables Georgia to borrow up to SDR 250mn (EUR 290mn), evenly divided between the two arrangements. For the time being, the authorities will treat the agreement as precautionary. While the existence of a disbursing IMF programme is a precondition for the activation of the EU MFA operation, there is a probability that IMF funds could still be used over the duration of the programme, given the still vulnerable balance of payments position and the difficult international financial environment. The pre-condition for a MFA payment would then be fulfilled.

1.15. Structural reforms

Since the 2003 Rose Revolution Georgia has made significant progress in a number of legal and regulatory reforms. Georgia is well advanced towards a functioning market economy with liberalised price setting and free capital and trade flows. The tax system has been simplified and public finance management brought closer to international practices. The customs regime has been liberalised, while important anti-corruption measures have been taken and the regulatory business environment has substantially improved.

As far as the business climate is concerned, the country showed an impressive performance. Its anti-corruption and pro-business policy efforts were again recognised by the World Bank's Doing Business Report: Georgia's overall ranking improved from 17th to 16th, in particular due to improvement in starting a business, access to credit, investor protection and paying taxes. The country also continued implementing a new tax code approved in September 2010 that simplified taxation regime for SMEs. In addition, the Economic Liberty Act, adopted in 2011, but scheduled to come into force in 2014, introduces a several fiscal rules: the budget deficit is limited to 3% of GDP, public debt to 60% of GDP and public spending is capped at 30% of GDP.

The country is about to adopt a new strategy for its future economic development. A ten-point strategic economic plan presented by the government in October 2011 sets out major policy objectives to improve economic and business climate. Infrastructure, educational system and agriculture were pointed out as main policy priorities. The proposed MFA with Georgia envisages supporting reform efforts in the areas of public finance management, trade, energy and the financial sector. The National Bank of Georgia continued to strengthen its monetary policy and introduced tighter prudential regulations. Several large investments in the country's infrastructure, in particular in energy and transport, are being pursued. At the same time, the country continues to face challenges such as ensuring compliance with core ILO conventions. Progress in strenghtening labour rights is also relevant for the recently initiated talks on a deep and comprehensive free trade area with the EU.

1.16. Implementation of macro-financial assistance

The comprehensive EU package of up to EUR 500 million to support Georgia's economic recovery, pledged at the October 2008 International Donor Conference in Brussels, in the aftermath of the August 2008 conflict with Russia, included two potential MFA operations, amounting to EUR 46 million each. The first part was successfully implemented during 2009-2010. The implementation of this operation as part of a wider package of international assistance, including in particular the IMF financial arrangement, supported the successful macroeconomic adjustment and recovery experienced by Georgia during this period, while fostering progress in PFM reforms based on the agenda of the government.

For the second part, the Commission adopted a proposal for further MFA to Georgia on 13 January 2011. The European Parliament's plenary voted on the proposal on 10 May 2011 and adopted a legislative resolution with amendments which were fully accepted by the Commission and incorporated in the text. These amendments primarily aimed at reflecting the entry into force of the new "comitology" regulation in March 2011[5]. Since the adoption by the European Parliament of its position, the inter-institutional discussions between the Council and the Parliament have not been concluded due to a difference of views regarding a question of procedure. This reflects different interpretations of how the comitology regulation adopted in March 2011 should be applied to the MFA operation. While the Parliament favors the use of the advisory procedure for the consultation of the Committee of Member States on the MoU, as originally proposed by the Commission, the Council argues that, in principle, the examination should apply.

The proposed assistance would be provided half in grants and half in loans. The new MFA will support the economic reform agenda of the government. It would promote policy measures to strengthen public finance management (building on those of the previous operation and of the EU's sectoral budgetary support operation), as well as measures to foster economic and financial integration with the EU, in particular by exploiting the potential offered by the future Association Agreement, which aims at concluding a Deep and Comprehensive Free Trade Agreement between the two parties. It would also promote reforms in the energy and financial sectors.

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[5] Regulation (EC) No 182/2011 of the European Parliament and of the Council of 16 February 2011.

In the context of the preparation of the new MFA operation, the Commission conducted at the end of 2010 an operational assessment (OA) of the financial procedures and circuits. Its findings suggest that significant efforts have been made in Georgia since the OA conducted in 2004-2005 to build a functional and transparent public finance management system, compliant with international standards. This reform, which was supported, as noted, by the conditionality of the MFA operation implemented in 2009-2010, has translated in progress in the areas of public procurement, programme-based budgeting as well as external audit. Also, the customs and tax environment has been simplified. Yet, the OA report noted a need for further measures in areas including budget planning, debt management, public internal financial control, external audit and public procurement.

SUMMARY STATUS OF ECONOMIC REFORM - GEORGIA
1. Price liberalisation Prices are largely free.
2. Trade regime Georgia has a liberal trade policy. Import tariffs have been abolished on around 90% of products. In September 2006, the number of tariff bands on imported goods was reduced from 16 to three. The maximum tariff of 12% is applied to those agricultural products and building materials which compete with domestic goods. The average weighted tariff is estimated to be 1.5%. Non-tariff barriers are allowed for environmental, security and health reasons only. There are no quantitative restrictions on imports and exports. Since December 2005, under the EU Generalised System of Preferences (GSP), Georgia benefits from the generous tariff preferences of the special incentive arrangement for sustainable development and good governance covering 7200 items, the GSP+. However, Georgia's GSP+ utilisation rate has been declining. In May 2010, the mandate for the negotiations of the Association Agreement between the EU and Georgia was approved. In the area of trade, the new agreement would foresee the establishment of a deep and comprehensive free trade area and negotiations were started in February 2012.
3. Exchange regime Floating exchange rate of the lari with limited official intervention by the National Bank of Georgia. There are no restrictions on current international transactions in conformity with Article VIII of the IMF's Articles of Agreement.
4. Foreign direct investment Adequate overall legislation. Unlimited repatriation of capital and profits.
5. Monetary policy Central Bank's main policy objective is price stability. The stated inflation target of the monetary authorities is 6%. In practice, the stability of the exchange rate of the lari against the USD seems to take precedence over the aim of domestic inflation control.
6. Public finances and taxation The public finance management system is essentially sound and transparent, although further progress is still needed in some areas such as internal financial control and audit and external audit. A new tax and customs code was introduced as well as a number of reforms in external and internal audit, programme-based budgeting and public procurement. New legislation to come into force in 2014 limits the budget deficit to 3% of GDP, public debt to 60% of GDP and public spending to 30% of GDP.
7. Privatisation and enterprise restructuring The majority of state-owned enterprises have been privatised. Privatisation receipts amounted to 1.1% of GDP in 2010 and increased to estimated 1.6% in 2011.
8. Financial Sector There are 19 banks in Georgia with foreign investors holding significant stakes in the Georgian banking industry. The share of non-performing loans, defined as loans in substandard, doubtful, and loss loan categories, declined to 8.6% at the end of 2011 from 12.5% of total loans at the end of 2010. Capital adequacy and provisioning rules in Georgia are more conservative than Basel standards. The capital adequacy ratio stood at 17% and the return on assets improved to a comfortable 2.9% at the end of 2011. Domestic credit grew by close to 24% during 2011.

5. MOLDOVA

1.17. Executive summary

After a severe downturn in 2009, the economy staged a robust recovery and grew by 7.1% in 2010 and by 6.4% in 2011. The expected slowdown in global economic activity is likely to bring growth down to about 3.5% in 2012.

In 2011, several structural reforms were implemented in order to improve the business climate, strengthen the public finance management and reduce state presence in the economy. Moldova came second among the top ten global reformers in the World Bank's "Doing Business Report 2012", rising from 99th to 81st in the global ranking.

A Legislative Decision (938/2010/EU) to provide EUR 90 million of MFA in grant aid to Moldova was adopted on 20 October 2010. The EU MFA was disbursed in three tranches in December 2010, September 2011 and April 2012. The MFA helped trigger reforms in the areas of budget preparation and execution, optimisation of public finances and public debt management, financial stability and financial sector reform, public procurement and central bank legislation.

1.18. Macroeconomic performance

The global crisis in 2008/09 hit the Moldovan economy hard. GDP contracted by 6% in 2009. The sharp fall in external financing sources exposed a severe external financing gap. Helped by the IMF financing arrangement and exceptional donor assistance including the EU MFA, the economy staged a robust recovery and grew by 7.1% in 2010 and by 6.4% in 2011. In 2011, growth was driven both by strong domestic demand and booming exports. Domestic demand was fuelled by remittances growing at around 18% y-o-y and domestic credit rising at about 27% y-o-y. Industrial production grew by 7.4% in 2011 and the economic activity recovered in all sectors to its pre-crisis levels, except for construction and transport of goods. Exports increased by 44% aided by new production capacities and better access to the EU and CIS markets. The average unemployment rate declined from 7.4% in 2010 to 6.7% in 2011, below its long term average. However, Moldova experienced a slowdown in economic activity in the fourth quarter of 2011 and real GDP growth is projected to decelerate to around 3.5% in 2012.

Average inflation inched up to 7.6% in 2011 driven by the increase in administered and food prices. Inflation peaked in the middle of the year and the National Bank of Moldova (NBM) hiked the policy rate by 3 percentage points and the reserve requirement ratio by 6 percentage points in response to rising inflationary pressures. In late 2011, the inflation outlook improved[6] and the NBM eased again the policy stance by cutting its key policy rate by 550 basis points (in several steps) until February 2012 from a peak of 10% to 4.5%. The fiscal consolidation process continued in 2011 with a budget deficit of 2.4% of GDP that is envisaged to be further reduced to 0.9% of GDP in 2012. The current account deficit rose by around 3% of GDP to 11.4% of GDP in 2011. In particular, the deficit of external trade in goods and services widened by about 25% from 2010 and reached close to USD 2.9 billion in 2011. However, the financing of the current account deficit improved due to higher net FDI and better access to external finance by the

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[6] According to the NBM's projections, inflation may subside below the official target of 5+/- 1% in 2012.

private sector, which was complemented by official inflows, primarily from the IMF. As a consequence, the level of international reserves reached about USD 2 billion at the end of 2011, covering around 4.5 months of imports.

The NBM intervened occasionally in the foreign exchange market to smooth the appreciation of the leu and replenish the official reserves. The leu appreciated by 3.6% against the USD and by 6.4% against the EUR in nominal terms in 2011. The real effective exchange rate appreciated by about 10 percentage points (using December 2000 as the base period). The banking system remained stable and well capitalised with a capital adequacy ratio at a high level above 30%. The large amount of non-performing loans declined from 16.4% of all loans in 2009 to 9.7% as of October 2011, but balance sheet vulnerabilities still remain.

On 29 January 2010, the IMF agreed to provide financial assistance of SDR 369.6 million (EUR 420 million) spread over three years under the Fund's Extended Fund Facility (EFF) and the concessional Extended Credit Facility (ECF). The IMF programme remained on track and the IMF Executive Board completed the fourth reviews of the EFF and ECF arrangements in February 2012.

1.19. Structural reforms

In 2011, several structural reforms were implemented in order to improve the business climate, strengthen the public finance management and reduce state presence in the economy. MFA conditionality helped in this context to push through some structural reforms in the areas of public finance reforms, financial stability and financial sector reforms, and legislative and regulatory convergence with the EU.

Moldova came second among the top ten global reformers in the World Bank's "Doing Business Report 2012", rising from 99th to 81st in the global ranking. Starting a business became easier with the establishment of a one-stop shop at the State Registration Chamber; enforcement of judgments became more efficient with the introduction of private bailiffs; insolvency law was amended in order to grant priority to secured creditors; and the establishment of the country’s first private credit bureau improved its credit information system. Moldova still ranks poorly in the areas of construction permits, cross-border trading and protecting investors. However, the one-stop shop legislative package includes also measures to improve the issuance of construction permits and a working group is currently developing a building code. The reform of the judiciary with the help of the EU sector budget support will contribute to the strengthening of the rule of law in Moldova.

In the area of public finance management, Moldova passed legislation to improve the budget preparation and execution and is implementing a new financial management system. The reform of the loss-making energy sector advanced as the energy regulator brought retail energy tariffs in line with costs and as measures were taken to strengthen payment discipline in the sector, including a new policy on bill collection. However, the Chisinau municipality continued to accumulate arrears to the heating supplier which is nearly bankrupt. The energy sector reform framework (developed together with the World Bank) was adopted and it is at the implementation phase now. The reform of the education sector aiming at optimizing the number of schools and pupils per class continued with legislative amendments that are now awaiting adoption in the Parliament.

The privatisation process continued with a number of small companies; revenues from privatisation amounted to around MDL 118 million in 2011. The list of assets not subject to privatisation was reduced from 165 to 107 companies. Large privatisations in the telecommunication (Moldtelecom), transport (Air Moldova) and financial sectors (Banca de Economii) are under preparation. The NBM established new reporting requirements – as a result of the transition to International Financial Reporting Standards IFRS starting from 2012 – and set new prudential limits for the banking sector. A gradual increase of the minimum capital adequacy ratio will take place from the current 12% to 16% as of June 2012, 18% as of June 2013 and 20% as of June 2014.

1.20. Implementation of macro-financial assistance

A Legislative Decision (938/2010/EU) to provide EUR 90 million of MFA in grant aid to Moldova was adopted on 20 October 2010. The EU MFA was disbursed in three tranches in 2010, 2011 and early 2012. The first tranche of EUR 40 million was disbursed at the end of December 2010. The second MFA tranche of EUR 20 million was disbursed in September 2011, after the Commission had assessed compliance with the conditionality in June. The payment of the third MFA tranche could not be done until the end of the 2011, as originally planned, because progress in complying with the conditions of the third tranche had been deemed as insufficient. However, a new assessment made by the Commission in February 2012 found that compliance with the conditionality reached a satisfactory level, which allowed the Commission to disburse the third and last MFA tranche of EUR 30 million in April 2012.

The objective of EU MFA was to help bridge the external financing gap and to bring about structural reforms which will stabilise the Moldovan economy and raise potential growth. In this respect, EU MFA was tied to a number of structural reform criteria in the areas of public finance reforms, financial stability and financial sector reforms, and legislative and regulatory convergence with the EU.

EU MFA led to the preparation of a new law on public finances, the improvement of budget planning, preparation and execution, and the preparation of a census of all public sector employees in order to optimize public sector employment and its wage bill. The Public Procurement Agency received new powers and put forward legislation to bring public procurement closer to EU standards. The financial sector stability improved as the government introduced legislation to define the regulatory and supervisory responsibilities for leasing and micro-credit institutions. The government proposed Central Bank legislation closer to the principles of the Treaty on the Functioning of the European Union, in particular with respect to central bank independence and restriction on monetary financing.

SUMMARY STATUS OF ECONOMIC REFORM - MOLDOVA
1. Price Liberalisation Prices are regulated on utilities and some public services. There are price controls on electricity, natural gas, water supply and sanitation, housing and medical services, rail and urban passenger transport, and postal services.
2. Trade regime Moldova (a WTO member since 2001) has a liberal trade regime. Since 2006, Moldova has been a member of the Central European Free Trade Agreement; it has also concluded bilateral free trade agreements with all CIS countries but Tajikistan. Since March 1, 2008 Moldova has benefited from Autonomous Trade Preferences (ATP+) with the EU as a result of the implementation of policies in the areas of sustainable development, good governance and customs administration. Moldova started negotiations with the EU on an Association Agreement in January 2010 and the negotiations for the creation of a deep and comprehensive free trade area in February 2012.
3. Exchange regime The exchange rate regime has been a managed float since 2008. The National Bank of Moldova (NBM) intervenes in the domestic foreign exchange interbank market in order to smooth out sharp fluctuations of the Moldovan leu against the US dollar. The NBM publishes information on its interventions.
4. Foreign Direct Investment There are no controls on inward investment. Net FDI inflows amounted to 3.9% of GDP in 2011, up from 3.4% of GDP in 2010.
5. Monetary policy The primary objective of monetary policy is price stability. The central bank adopts an annual inflation target and uses the base interest rate as the main policy instrument. The NBM announced an inflation target of 5 percent with a narrow ±1 percent deviation band.
6. Public Finances The Moldovan government is implementing several measures to consolidate public finances, in particular to reduce public expenditure and increase its efficiency and to increase tax revenue, notably by improving public finance management and rationalising public sector employment. Public expenditure has been reduced from 45.3% of GDP in 2009 to 38.7% of GDP in 2011. In 2012, the corporate income tax was reintroduced at a rate of 12% and some excise duty rates were increased.
7. Privatisation and enterprise restructuring Moldova has gradually sought to privatize state owned assets and enterprises. The private sector accounts for around 60% of GDP. Privatisation revenues amounted to only about 0.2% of GDP in 2011. Large privatisations in the areas of telecommunication (Moldtelecom), transport (Air Moldova) and finance (Banca de Economii) are under preparation.
8. Financial sector Moldova's bank-based financial system remains generally sound. The sector was largely insulated from the global financial crisis due to limited access of local banks to international capital markets, but deposits fell and the asset quality deteriorated at the beginning of the crisis. Currently, the banking sector enjoys a capital adequacy ratio at a high level, above 30%. The large amount of non-performing loans declined from 16.4% of all loans in 2009 to 9.7% as of October 2011, but balance-sheet vulnerabilities still remain. Recently the NBM established new reporting requirements – as a result of the transition to the International Financial Reporting Standards (IFRS) starting from 2012 – and set new prudential limits for the banking sector.

6. UKRAINE

1.21. Executive summary

In 2011, Ukraine's economic recovery continued, with a relatively strong growth performance and inflation largely under control. Foreign exchange reserves are still at comfortable levels, despite having decreased in the second half of 2011, and the National Bank managed to further stabilise the exchange rate. However, risks for the economic outlook for 2012 are on the downside as the balance of payments has weakened significantly since mid-2011 and the unwillingness of delays in the adjustment of domestic energy prices pose serious risks in the fiscal policy area. Moreover, the IMF programme has gone off-track and access to international capital markets has become much more difficult.

Ukraine's progress in achieving important structural reforms and implementing the Association Agenda priorities remained limited, despite some progress in public procurement and gas sector legislation, pension reform and the stabilisation of the banking sector. The government failed to increase retail energy prices towards cost recovery levels and thus meet the IMF's conditions for a resumption of disbursements under the Stand-By Arrangement. The operating environment for businesses, which is hampered by non-transparent bureaucratic procedures, a lack of administrative implementation and enforcement capacity and continued constraints in companies' access to credit, deteriorated further.

Against the backdrop of a persistent external financing gap and in order to support the economic reform process in the country, the EU adopted in July 2010 a decision providing up to EUR 610 million of MFA to Ukraine. In combination with the EUR 110 million still available from the MFA decision of 2002, this implied a potential MFA package of up to EUR610 million. The European Commission started to negotiate with the Ukrainian authorities in July 2010 the policy conditions related to the release of this assistance. Unfortunately, progress in these negotiations has been slow and difficult. The draft Memorandum of Understanding (MoU) contains policy measures in the key areas of public finance management, trade and taxation, energy sector reform the harmonisation of financial regulation. While there has been substantial progress in the negotiations on the MoU, there are still some key points of divergence, notably in the areas of external audit and the energy sector. Disbursements of MFA in 2012 are conditional on the successful conclusion of these negotiations, as well as a resumption of drawings on IMF support by Ukraine under its current Stand-By Arrangement on the basis of positive assessments by the IMF of the country's reform progress.

1.22. Macroeconomic performance

Ukraine's economy performed well in regional comparison in 2011, with real GDP growth reaching 5.2%, after 4.2% in 2010. It thus continued its recovery after the parallel balance of payments and banking crises of 2009, when output contracted by nearly 15%. Growth in 2010 and 2011 was initially export-led but was increasingly fuelled by stronger domestic demand. However, real growth is expected to slow as a consequence of the more challenging global economic environment and of the worsening domestic business climate. The IMF decreased its growth forecast to 3% for 2012, with the World Bank expecting a mere 2.5% and risks being on the downside.

Positively, the National Bank of Ukraine (NBU) managed to control inflation well in 2010 and 2011. Following three years of double-digit increases in consumer prices, year-on-year headline inflation came down from 9.1% in December 2010 to 4.6% in December 2011, mainly due to falling food prices as international commodity prices dropped and Ukraine benefitting from a good harvest.

Regarding fiscal policy, the general government deficit (excluding the deficit of the state-owned oil and gas company Naftogas) was brought down to 2.7% of GDP in 2011 after 5.7% in 2010 and 6.3% in 2009, supported by a strong revenue performance, while budget spending remained cautious. However, the deficit of Naftogas continues to represent a major risk for the budget, since some of the gas tariff increases for households and utilities foreseen in the IMF programme have yet to be implemented. Naftogas' deficit reached 1.6% of GDP in 2011 (after 1.4% of GDP in 2010), bringing the overall general government deficit to 4.3% of GDP, thus exceeding the 3.5% deficit target initially foreseen by agreements with the IMF. General government debt increased further in 2011, reaching 35.3% of GDP at the end of the year.

The current account deficit widened in 2011, reaching USD 9.3 billion or 5.6% of GDP, reflecting higher prices for imported energy and the strength of domestic demand in the face of a slowdown in global demand. The deficit is only partially covered by foreign direct investment (FDI), which only improved marginally in 2011 despite capital inflows following the privatisation of the telecommunications company Ukrtelecom and increased investment in preparation of the European football championship in summer 2012. Moreover, Ukraine's access to the international capital markets has become much more difficult since the middle of 2011, reflecting the worsening global financial environment and doubts about Ukraine's macroeconomic and structural reform outlook. While Ukraine had managed to raise a combined USD 4.8 billion through sovereign Eurobonds between September 2010 and June 2011 in a context of declining sovereign spreads, it has not issued any new international bonds since then. In the absence of IMF funding and of a favourable gas deal with Russia, Ukraine is likely to face difficulties in raising external funding to cover its financing needs in 2012. On top of government financing needs (to cover the deficit plus the scheduled debt amortisations) of an estimated USD 13.2 billion, the private sector will have to redeem approximately USD 45 billion in foreign debt in 2012.

Doubts about the balance of payments led to some speculation on a devaluation of the currency in the third quarter of 2011. As a result, the NBU had to intervene substantially to defend the currency, losing USD 6.2 billion of its reserves between August and December. In 2011 as a whole, currency reserves decreased from USD 34.6 billion to USD 31.8 billion at year end, which cover about four months of imports. Recent trends point to renewed net currency outflows as European banks decrease their exposure to risk as a result of the sovereign debt crisis.

1.23. Structural reforms

Ukraine's progress in implementing structural reforms remained below expectations in 2011. Important pieces of legislation in the areas of the judiciary, public procurement, civil service and fight against corruption were adopted, although not all legislation was drafted taking into account European standards. Despite the ambitious Programme for Economic Reforms for 2010-2014 (PER), which aims at unlocking Ukraine's long-term growth potential through structural reforms in most sectors of the economy, the

investment climate deteriorated further. Ukraine's ratings in the World Bank's Doing Business report (153rd place in the 2012 ranking, 7 places worse than in 2011) and other international rankings, such as the Transparency International Corruption Perception index (152nd rank in 2011 after 134th a year before), worsened.

Insufficient progress has been achieved in the area of public finance management. In particular, the remit and technical capacity of the Supreme Audit Institution (the Accounting Chamber of Ukraine) is insufficient to ensure an appropriate level of control over public spending. Moreover, there is a need to address deficiencies in the public procurement system. While the public procurement law adopted in July 2010 was a step in the right direction, it has yet to be complemented by appropriate legislation and the number of exceptions to the rule of using competitive tender procedures was excessive. Also, recent announcements by the government could endanger the independence of the Anti-Monopoly Committee as an appeals body for public procurement. More work also needs to be done to create an effective system of public internal financial control and to improve the budgeting system. In the area of the fight against corruption, new pieces of legislation were adopted in 2011. However, anti-corruption legislation is still not in line with European and international standards, and Ukraine continues to lack an independent anti-corruption body. Some progress was made to deal with the substantial arrears on VAT refunds, including by increasing the number of companies receiving automatic refunds and gradually applying a risk-based refund system. However, the problem of significant arrears in VAT refunds persists, and the targets for their elimination that had been included in the IMF programme have not been met.

Lack of progress in public finance management, together with uncertainties over the macroeconomic framework (including the off-track status of the IMF programme), led the European Commission to delay the disbursement of direct budgetary support operations at the end of 2011.

Another important area where progress has been insufficient is energy sector reform, as domestic gas prices remain significantly below cost recovery levels. Moreover, the energy sector as a whole is dominated by large state-owned operators, most notably oil and gas monopolist Naftogas, entailing significant problems of governance and transparency. In July 2010, Ukraine adopted a new gas law, which was followed by its accession to the European Energy Community Treaty (ECT) in December 2010. However, little progress has been made so far towards implementing key obligations under the ECT, notably the implementation of EU Directive 55/2004, foreseeing the unbundling of the production, transport and delivery of natural gas. A law allowing for the unbundling to take place was adopted in April 2012; however, progress towards the implementation of obligations in line with this law is still pending.

A positive step was the adoption of a Pension Reform Law in summer 2011. The main measures aimed at lowering the Pension Fund's deficit are: increase in the retirement age, limiting maximum amounts paid in special pensions, and increase in the minimum number of years worked to qualify for pensions. Once these measures are implemented, the government aims to introduce the second pillar of the pension reform.

The banking sector is in better shape than in 2008, when the economic downturn and simultaneous credit crunch forced several banks out of business. Further progress has been made with the recapitalisation and rehabilitation of the banks affected by the 2009 crisis. The average capital adequacy ratio has thus far been relatively high at 18 %, and the deposit base resilient, albeit with some evidence of switching from local currency to

US dollars. One issue of concern is the high percentage of non-performing loans, which are at 17% officially, although analysts estimate them to be over 30% of total loans.

Positively, the EU and Ukraine concluded the technical part of negotiations on an Association Agreement (AA), which includes a Deep and Comprehensive Free Trade Area. The AA contains an ambitious reform agenda, foreseeing the approximation to the EU acquis in a number of areas.

1.24. Implementation of macro-financial assistance

In reaction to the deterioration of the economic and balance of payments situation, Ukraine requested MFA from the EU in February 2009. In response, the European Parliament and the Council adopted Decision 646/2010/EU on the provision of MFA of up to EUR 500 million in July 2010. Together with the EUR 110m loan available from Council Decision 2002/639/EC, this leaves, as noted, a total amount of up to EUR 610 million.

The first tranche (EUR 100 million) is conditional on the IMF programme being on track. The disbursement of the second and third tranches, of EUR 260 million and 250 million respectively, will be subject to fulfilment of a set of policy conditions as per the proposed MoU, which, as noted, fall into four thematic areas: public finance management (PFM); trade and taxation; energy; and the harmonisation of financial sector regulation with that of the EU.

Discussion on the MoU and Loan Agreement (LA) were launched in July 2010 by a Commission staff mission to Ukraine. Negotiations have taken longer than expected and were continued throughout 2011, with the latest round of negotiations taking place in November 2011 in Kiev. Although substantial progress has been made, some fundamental disagreements remain in the PFM and energy reform areas. In parallel, talks on the Loan Agreement have been virtually concluded.

Conditions related to PFM play a key role in the proposed conditionality of this MFA operation. This is in line with the provisions of Decision 388/2010/EU, stipulating that the conditions of this operation shall aim at "strengthening the efficiency, transparency and accountability of the assistance, including in particular public finance management systems in Ukraine" and that "specific measures [are] to be implemented by Ukraine in relation to the prevention of, and the fight against, fraud, corruption and other irregularities affecting the assistance". Within the broad area of PFM, the focus is on internal and external financial control, the fight against corruption, as well as public procurement (an area which has also an important trade dimension).

The PFM area has turned out to be a main stumbling block in negotiations on the MoU. The main problem is Ukraine's legislation on external audit, which is not in line with generally accepted international practices and the Mexico Declaration of the International Organisation of Supreme Audit Institutions (INTOSAI). In particular, Ukraine's Accounting Chamber (ACU) has no right to audit government revenue, nor local governments, extra-budgetary funds and state-owned enterprises. Although constitutional amendments adopted in 2004 gave the Accounting Chamber the right to audit government revenue, the necessary amendments to the laws on the ACU were never adopted and the constitutional amendments were cancelled in 2010.

The other area of the conditionality proposed in the MoU where no agreement has been reached is, as noted, energy sector reform. One key aspect of this area concerns the reform of the gas sector. Although Ukraine committed to fully implementing EU Directive 2004/55 by 1 January 2012 when joining the ECT, there is little evidence of progress towards unbundling the production, transport and delivery segments of gas sector as stipulated by the Directive. There is currently no agreement on the Commission's proposal to include a policy condition related to the need to implement above mentioned Directive.

A key focus of the envisaged measures in the area of taxation is addressing the substantial arrears accumulated on VAT refunds. They include measures to eliminate these arrears, which hurt the affected exporters and contribute to weaken the overall investment climate, as well as improvements in tax administration to prevent a recurrence of the problem in the future. The proposed measures would also commit the Ukrainian authorities to clearing any arrears on VAT refunds either in cash or by netting them out against obligations of the tax payers, thus avoiding the unorthodox clearance through the issuance of VAT bonds, as it was done in 2010.

The implementation of the MFA package for Ukraine has been delayed not only because of the slow progress in the negotiations on the MoU but also because of the fact that the IMF programme remains, as noted, off-track.

SUMMARY STATUS OF ECONOMIC REFORM - UKRAINE
1. **Price liberalisation** Most prices are free, but regulated prices prevail for some utilities, notably gas, and in some other areas, including agricultural products and medicines (so called socially-sensitive goods).
2. **Trade liberalisation** Ukraine joined the WTO in May 2008. However, export duties and quotas for individual products remain in force, and often create an unlevel playing field and opportunities for rent-seeking, notably in the agricultural sector. Technical and administrative barriers to trade remain an obstacle for importers. Positively, negotiations on a deep and comprehensive free trade area with the EU were technically concluded in 2011.
3. **Exchange rate regime** The National Bank of Ukraine (NBU) sustains its de-facto peg of the Grivnya against the US dollar, maintaining an exchange rate close to UAH 8:1 USD throughout 2011. The IMF has been requesting Ukrainian authorities to gradually introduce a floating exchange rate.
4. **Foreign direct investment** FDI-related flows are largely liberalised. Some sectors, however, remain closed to foreign ownership, i.e. the gas transmission system and agricultural land market.
5. **Monetary policy** The National Bank of Ukraine is responsible for controlling the domestic money supply. In order to stabilize the exchange rate, the NBU implemented a tight monetary policy especially in the second half of 2011.
6. **Public finances** General government expenditure made up an estimated 45% of GDP in 2011. Nearly three-quarters of Ukraine's government expenditure goes towards wages and social transfers. As domestic gas prices for households and utilities are kept at an artificially low level of about 20% of import prices, the finances of state oil-and gas monopolist Naftogas are in dire straits, leading to a higher fiscal deficit. Ukraine still needs to implement key reforms in the public finance management sector, in including in the areas of public procurement, public internal financial control, external audit and VAT refunds, which are crucial elements of the Memorandum of Understanding of the MFA programme.
7. **Privatisation and enterprise restructuring** State-owned companies, which are insufficiently controlled and not subject to external audit by the supreme audit institution, continue to dominate certain sectors, in particular utilities. Some utility companies and the telecommunications company Ukrtelecom were privatised in 2011, although there are questions concerning the transparency of the auctions.
8. **Financial sector reform** At the end of 2011, 176 banks were operating in Ukraine, including 22 foreign-owned ones. Consolidation and recapitalisation of the banking sector remain key priorities for Ukraine. The amount of non-performing loans is high at around 30-40%.

7. THE KYRGYZ REPUBLIC

1.25. Executive summary

In 2011, economic growth of the Kyrgyz Republic recovered to 5.7% from the sharp slowdown in 2009 and 2010 caused by global recession and internal political and ethnic conflicts. The current account deficit decreased to an estimated 3.1% of GDP (or 4.8% of GDP excluding official transfers) in 2011. Inflation was brought down from over 20% (y-o-y) in mid-2011 to 5.7% by the end of 2011 on account of the monetary tightening, rebound in domestic agricultural production and easing of global food prices. The Government managed to out-perform fiscal targets for 2011 bringing down the fiscal deficit in 2011 to an estimated 4.1% of GDP (excluding energy infrastructure projects), mostly due to a stronger revenue collection.

On 20 December 2011, the Commission adopted a proposal for a Decision by the European Parliament and the Council to provide MFA of up to EUR 30 million to the Kyrgyz Republic. The assistance will support the macroeconomic adjustment programme agreed between the Kyrgyz Republic and the IMF in June 2011, which is supported by a USD 106 million Extended Credit Facility (ECF). It will also support implementation of a number of reform measures to be agreed between the EU and the Kyrgyz Republic.

The political events experienced by the Kyrgyz Republic in 2010, and in particular the inter-ethnic violence of June 2010, disrupted the Kyrgyz economy by affecting trade, tourism flows and agricultural production. The EU's MFA will contribute to covering the Kyrgyz Republic's external financing needs in 2012 and 2013, which are partly due to the economic disruptions and the social and reconstruction expenditure for alleviating the consequences of the 2010 political event, while supporting reform measures aimed at achieving a more sustainable balance of payments and budgetary situation over the medium-term. While the Kyrgyz Republic is out of the normal geographical scope of the EU's MFA instrument, the exceptional circumstances, including EU political support to the Kyrgyz Republic’s incipient parliamentary democracy, argue in favour of such an operation. The proposed MFA would complement the funds pledged by the international community at the donors conference organised in Bishkek in June 2010 in support of Kyrgyzstan's democratisation, reconstruction and social assistance policies, to which the EU was a major contributor.

Progress under the ECF programme has been strong so far, with Kyrgyzstan meeting all programme targets in the framework of the first review of the programme, conducted at the end of 2011, and completing successfully the second review in April 2012. The MFA proposal adopted by the Commission in December 2011 is being discussed by the Parliament and Council under the legislative co-decision procedure.

1.26. Macroeconomic performance

The marked deceleration in growth experienced by the Kyrgyz economy in 2009 (GDP growth slowed from an average rate of 8.5% in 2007-8 to 2.3% in 2009) was a consequence of several external shocks linked to the global recession, including a fall in remittances from migrant workers, disruptions to trade flows and shrinking foreign

investments. The popular revolt in April 2010 and, more importantly, the escalation of the ethnic conflict in June 2010 led to a contraction of the economic activity by 10% in the second quarter of 2010. Economic growth recovered in the second half of 2010, however, limiting the decline in real GDP to only 0.5% in 2010 as a whole. In 2011, real GDP expanded by 5.7%, supported by a more stable political situation, and the recovery of the agricultural and mining sectors as well as of remittances. Real GDP is projected to increase by around 5% in 2012 and by 5.5% in 2013.

Year-on-year inflation spiked from 0% at the end of 2009 to 22.7% in June 2011, mostly due to a sharp increase in the global prices of fuel and food, with price pressures spilling over to other products. In response, the central bank has tightened monetary policy in several steps since mid-2010. It increased its sales of short-term notes in order to mop-up excess liquidity, increased reserve requirements by 1 p.p. to 9% in March 2011 and rose the discount rate from 2.7% in mid-2010 to 13.4% in the third quarter of 2011. This monetary tightening, but also the rebound in domestic agricultural production and the easing of global food prices, resulted in a drop of year-on-year inflation to 5.7% by the end of 2011. For 2012, the inflation is expected to reach around 8%, as strong remittances and increased government spending exert upward pressure on prices.

In 2010, the fiscal deficit rose from 3.5% of GDP in 2009 to 6.3% of GDP, reflecting the budgetary cost of the crisis-related measures and the negative effect of weaker economic activity on tax revenues. However, this deficit was almost half of the one originally budgeted due to the slow implementation of post-conflict reconstruction projects. In 2011, stronger revenue collection and further delays in implementing development projects led to a decrease of the budget deficit (excluding energy infrastructure projects) to an estimated 4.1% of GDP. Tax collection increased by 34% (y-o-y) in 2011, reflecting stronger economic activity, high gold prices and improvements in tax administration and customs valuation. For 2012, the projected slight increase of the deficit to 4.8% is largely caused by the government's decision to increase pensions and wages for teachers and health care employees from below the subsistence levels. The Kyrgyz Republic's external public debt rose from about 41% of GDP at end-2008 to over 57% of GDP at end-2010, reflecting the disbursement of loans by the international financial institutions and other donors. This level fell to 48.1% of GDP by the end of 2011 due to debt forgiveness by some creditors and strong GDP growth.

Balance of payments difficulties had emerged already in 2008, when the current account deficit temporarily reached 8.1% of GDP because of a hike in commodity prices of imports (by 20% in 2007-2008) and a drop in electricity exports, reflecting a major shortfall in the domestic hydro-power capacity. After declining during the global financial crisis of 2009, prices of imported commodities went up again in 2010 (by 25%). Moreover, in 2010, agricultural exports and services such as tourism and transit transportation were hit by the shutdown of the borders by the neighbouring countries due to security concerns. In addition, the value of oil imports was driven up by a 100% temporary export tax on oil products imposed by Russia in April 2010 (and abolished in February 2011). Consequently, in 2010 the current account experienced a marked deterioration, moving from a temporary surplus of 0.7% of GDP in 2009 to a deficit of 7.2% of GDP. In 2011, the deficit eased to 3.1% of GDP, since the current account benefitted from strong remittances and the increase in the price of gold exports. On the other hand, imports grew strongly due to increased domestic demand and large energy and mining projects. For 2012, the current account deficit is expected to widen again to 4.8% of GDP as the difficult global economic environment will have a negative impact

on remittances and exports. Overall, the current account position remains vulnerable to possible terms of trade shocks, including an increase in prices for imported energy products.

Foreign direct investment and other private capital inflows were negatively affected by the 2009 global crisis but began to recover in 2010, despite the political crisis. In 2012, the capital account is expected to show an average annual surplus of more than USD 400 million, reflecting sizeable external loans for public investment projects and increasing FDI. However, vulnerabilities persist as for example the soft loan of USD107 million from the EurAsEC Anti-Crisis Fund, which was planned for 2011, has not yet been granted.

Official foreign exchange reserves reached USD 1.85 billion (EUR 1.33 billion) by the end of 2011, and the import coverage ratio by the foreign exchange reserves declined from 4.9 months in 2009 to an estimated 3.8 months end-2011, as the nominal value of imports grew faster than the official foreign exchange reserves.

1.27. Structural reforms

The Kyrgyz authorities have made serious efforts to improve the business climate, becoming one of the most advanced countries in Central Asia in terms of economic reforms. The 2012 World Bank/IFC Doing Business survey ranks the Kyrgyz Republic at 70th place out of 183 with regard to the ease of doing business, while the regional average of Eastern Europe and Central Asia stands at 77. Over the last couple of years, improvements were made in easing business creation, obtaining credit for businesses, dealing with construction permits, registering property and employing workers. Cross border trading, collecting taxes and access to the reliable and affordable electricity still remained very problematic areas. Despite progress with reforms, Kyrgyzstan still faces serious structural weaknesses, such as widespread unemployment and under-employment, particularly of the youth.

The banking system was severely affected by the crisis. The level of nonperforming loans was almost 16% at the beginning of 2011, but declined to 10% at the end-2011. In April 2010, seven banks were put under temporary administration. Subsequently, two banks were released from temporary administration, four were placed under conservatorship and the biggest one - Asia Universal Bank - was nationalised and separated into a "bad bank" and a "good bank" (called Zalkar Bank). The Zalkar Bank was confirmed to be solvent by the auditors and the authorities continue in their efforts to privatise the bank. The domestic financial sector remains underdeveloped, lending interest rates are high and about 50% of loans and deposits are denominated in foreign currency. The banking crisis has revealed deficiencies in the bank resolution powers and a lack of de facto independence of the central bank, including its exposure to interference by the government and the courts. Consequently, banking regulations are being upgraded to a Banking Code to strengthen the central bank’s early intervention and resolution powers and to guarantee its independence.

The political events of 2010 hindered progress in public finance management (PFM) reforms, but this situation has been reversed. One of the main weaknesses in PFM is the system of external audit and this area requires longer term support in capacity building. The Law on the Chamber of Accounts (supreme audit institutions) is broadly adequate but the capacities of this institution need to be developed. The World Bank is providing

technical assistance in this area. Public procurement is another source of concern. While there has been tangible progress on internal audit in some line ministries (notably in the Ministry of Health supported by the World Bank's Health and Social Protection project), there remains significant room for improvement.

Kyrgyzstan is a member of the WTO and is a very open economy, with a trade-to-GDP ratio of almost 140%. The bulk (40% in 2010) of its exports goes to Kazakhstan and Russia – which are members of a trilateral customs union (CU), also including Belarus. In April 2011, Kyrgyzstan applied for membership of this CU. However, the negotiations over the terms of joining CU may take quite some time (from two to five years). The main benefits Kyrgyzstan expects to obtain from entering this CU, apart from possible foreign policy considerations, is to preserve the supply of oil supplies from Russia and Kazakhstan at favourable prices and to limit the risk of disruptions in trade flows with those important trading partners (such as the temporary border closure with Kazakhstan during the political events of 2010). Entering the CU would entail a number of significant costs, however. First, since the CU has relatively high Common External Tariff (CET), Kyrgyzstan might have to compensate other WTO members (possibly in the form of a reduction in certain tariff lines). More importantly, joining the CU would restrict the important transit trade with China, which provides employment to thousands of people in Kyrgyzstan.

1.28. Implementation of macro-financial assistance

The sharp drop of economic growth and the worsening of the external position in 2010, which were caused by the above described external shocks and internal political and ethnic conflicts, led to a sizable external financing gap. In an international donor conference in July 2010, the EU pledged to support the recovery after the end of the ethnic conflict. In June 2011, the IMF agreed with the Kyrgyz authorities on a three-year programme, to be supported by an ECF arrangement (about USD 106 million). The ECF established a framework for medium-term economic policy and reforms with adequate conditionality and monitoring by the IMF Executive Board. However, the external position remained vulnerable and the existence of a considerable residual external financing gap for 2011-2013 was confirmed by the IMF and the Commission.

The Kyrgyz government requested EU MFA support in October 2010 asking for a grant in the order of EUR 30 million to cover part of the external financing gap. On 20 December 2011, the Commission submitted to the European Parliament and to the Council a proposal for a MFA to the Kyrgyz Republic on an exceptional basis, proposing EUR 15 million in grants and EUR 15 million in loans.

In addition to the economic justifications above, the exceptional MFA operation, i.e. outside the normal geographical scope of MFA, was justified by the strength of the pro-democratic political and economic reform momentum in the country and by its position in a region of economic and political importance for the EU. By supporting the adoption of an appropriate macroeconomic and structural reform framework, MFA can both underpin economic and political stability and increase the effectiveness of interventions through other EU support instruments

The disbursement of MFA will also be conditional on the implementation of a series of policy measures to be agreed with the Commission in a Memorandum of Understanding (MoU). The MoU conditions are expected to focus on PFM reforms, coherent with the

PFM conditions attached to the budget support programme provided under the Development Cooperation Instrument, as well as measures in other key structural reform areas, including the banking sector and, possibly, taxation.

In terms of other sources of financing the residual financing gap, the World Bank, the Asian Development Bank and also the bilateral EU programme, the latter through sector budget support, will provide funds which will help covering the external financing needs of the Kyrgyz Republic in 2012/13.

SUMMARY STATUS OF ECONOMIC REFORM - KYRGYZ REPUBLIC
1. **Price liberalisation**
Most prices are liberalised while administered prices are maintained for some utilities.
2. **Trade liberalisation**
The Kyrgyz Republic is a member of the WTO since 1998 and is a very open economy, with a trade-to-GDP ratio of almost 140%. The bulk of its non-gold exports goes to Kazakhstan and Russia – which are members of a trilateral customs union (CU), also including Belarus. In April 2011, the Kyrgyz Republic applied for membership of this CU. However, entering the CU may clash with some of the Kyrgyz Republic's WTO commitments, since the CU has currently partly higher tariffs than the once bound by the Kyrgyz Republic in its WTO commitments.
3. **Exchange rate regime**
The central bank operates a managed floating exchange rate regime, allowing the exchange rate to adjust in case of substantial pressures or shocks while aiming at maintaining a competitive exchange rate.
4. **Foreign direct investment**
Foreign direct investment and other private capital inflows were negatively affected by the global recession, but began to recover in 2010. In the coming years, FDI is expected to increase steadily, partly reflecting foreign financed energy investment projects.
5. **Monetary policy**
The main target of the activities of the central bank is to guarantee price stability, while in practice it has to balance this with its task of maintaining the purchasing power of the national currency, i.e. maintaining a competitive exchange rate.
6. **Public finances**
The IMF programme assumes a considerable effort of fiscal consolidation for the remainder of the programme period, with the fiscal deficit (excluding energy infrastructure projects) targeted to decline gradually to 3.8% of GDP by 2014. In particular, tax collection is planned to be strengthened by removing some tax exemptions, strengthening customs administration, shifting from weight-based to price-based customs valuation and reforming excise taxation on tobacco and alcohol.
7. **Privatisation and enterprise restructuring**
The political change in 2010 led to the reversal of some privatisation deals in the energy and telecommunication sectors, made under the previous regime, due to allegations of nepotism and corruption. In 2011, government initiated privatisation in telecommunication and banking sectors.
8. **Financial sector reform**
The banking crisis in 2010 revealed deficiencies in the resolution powers and degree of de facto independence of the central bank, including its exposure to interference by the government and the courts. Consequently, banking regulations are being amended and upgraded to a Banking Code to strengthen the central bank’s early intervention and resolution powers.

Annex 1A - COMMUNITY MACRO-FINANCIAL AND EXCEPTIONAL FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY DATES OF COUNCIL DECISIONS

Status of effective disbursements as of end-December 2011 (in millions of €)

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

Country	Date of Decision	Reference of Decision	Maximum amount	Dates of disbursements	Amounts of disbursements	Totals disbursed	Undisbursed
	Authorisations			**Disbursements**			
Albania II (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	
Algeria II (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100** **(cancelled)**
Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130** **(cancelled)**
Ukraine I (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** **(cancelled)**
Ukraine II (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sep. 1997	50 50 100	**200**	
Moldova II (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	
Former Yugoslav Republic of Macedonia I (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Bulgaria III (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Armenia, Georgia and Tajikistan[2] (Loans and grants)	17.11.97 modified by 28.3.00	97/787/EC 00/244/EC	**375**			**294,5**	**80,5**
Agreed amounts with the recipent countires:			**(328)**				
Armenia (Loan and grant)			**(58)**	Dec. 1998 (loan) Dec. 1998 (grant) Dec. 1999 (grant) Feb. 2002 (grant) Dec. 2002 (grant) June 2004 (grant) Dec. 2005 (grant)	28 8 4 5,5 5,5 5,5 1,5	**(58)**	
Georgia (Loan and grant)			**(175)**	Jul. 1998 (loan) Aug. 1998 (grant) Sep. 1999 (grant) Dec. 2001 (grant) Dec. 2004 (grant)	110 10 9 6 6,5	**(141,5)**	**(33,5)**
Tajikistan (Loan and grant)			**(95)**	Mar. 2001 (loan) Mar. 2001 (grant) Dec. 2001 (grant) Feb. 2003 (grant) May. 2005 (grant) Oct. 2007 (grant)	60 7 7 7 7 7	**(95)**	

Country	Date of Decision	Reference of Decision	Maximum amount	Dates of disbursements	Amounts of disbursements	Totals disbursed	Undisbursed
	Authorisations			Disbursements			
Ukraine III (Loan)	15.10.98 12.07.02	98/592/EC 02/639/EC	**150**	July 1999	58	**58**	**92** **(cancelled)**
Albania III (Loan)	22.04.99	99/282/EC	**20**				**20**
Bosnia I[3] (Loan and grant)	10.05.99 modified 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 IV (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Former Yugoslav Republic of Macedonia II[4] (Loan and grant)	08.11.99 modified 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 IV (Loan)	08.11.99	99/732/EC	**200**	June 2000 July 2003	100 50	**150**	**50**
Kosovo* I[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 III (Loan)	10.07.00 19.12.02	00/452/EC 02/1006/EC	**15**				**15** **(cancelled)**
Kosovo II[3] (Grant)	27.06.01	01/511/EC	**30**	Sep. 2001 Dec. 2002	15 15	**30**	
Serbia and Montenegro I[6] **(ex FRY)** (Loan and grant)	16.07.01 modified 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 IV (Loan) Modification of Decision 98/592/EC	12.07.02	02/639/EC	**110**				**110**

Authorisations				Disbursements			
Country	Date of Decision	Reference of Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Totals disbursed**	**Undisbursed**
Serbia and Montenegro II[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 II[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 IV (Grant)	19.12.02	02/1006/EC	**15**				**15**
Serbia and Montenegro II[7] **(ex FRY)** Modification Decision 02/882/EC (grant)	25.11.03	03/825/EC	**70**	Dec. 2004 (grant)	10	**10**	**20** the rest was paid under 04/862/EC
Albania IV[9] (Loan and grant)	29.04.04	04/580/EC	**25**	Nov. 2005 (grant) March 2006 (loan) July 2006 (grant)	3 9 13	**25**	
Bosnia II[8] Modification Decision 02/883/EC (grant and loan)	7/12/2004	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 II[7] (ex FRY) Modification Decision 02/882/EC (Grant and loan)	07.12.2004	04/862/EC	the balance of 03/825/EC	April 2005 (loan) Dec. 2005 (grant)	15 25	**40**	
Georgia II (Grant)	24.01.06	06/41/EC	**33,5**	August 2006 (grant) Dec. 2006 (grant)	11 11	**22**	**11,5**
Kosovo (Grant)	30.11.06	06/880/EC	**50**	Sept. 2010 (grant)	30	**30**	**20** **(expired)**
Moldova (Grant)	16.04.07	07/259/EC	**45**	Oct. 2007 (grant) June 2008 (grant) Dec. 2008 (grant)	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 (grant) Jan. 2010 (grant) August 2010 (grant)	15,3 7,7 23	**46**	

	Authorisations			Disbursements			
Country	Date of Decision	Reference of Decision	**Maximum amount**	Dates of disbursements	Amounts of disbursements	**Totals disbursed**	**Undisbursed**
Armenia[11] (Loan and grant)	30.11.09	09/890/EC	**100**	June 2011 (grant) July 2011 (loan) Dec. 2011 (grant)	14 26 21	**61**	**39**
Bosnia and Herzegovina (Loan)	30.11.09	09/891/EC	**100**				**100**
Serbia (Loan)	30.11.09	09/892/EC	**200**	July 2011 (loan)	100	**100**	**100 (cancelled)**
Ukraine (Loan)	29.06.10	338/2010/EU	**500**				**500**
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 (grant) Sept. 2011 (grant)	40 20	**60**	**30**
TOTAL			**7440**			**5572**	**1868**

[1] Assistance to Israel includes a loan principal amount of € 160 million and grants of € 27.5 million in the form of interest subsidies
[2] Exceptional financial assistance, which includes a ceiling of € 245 million for the loans and a ceiling of € 130 million for the grants
Out of the global amount of € 375 million, maximum amounts of € 58 million, € 175 million and € 95 million
were actually agreed with the beneficiary countries
[3] Includes a loan principal amount of up to € 20 million and grants of up to € 40 million
[4] Includes a loan principal amount of up to € 50 million and grants of up to € 48 million
[5] Exceptional financial assistance
[6] Includes a loan principal amount of € 225 million and grants of € 120 million
[7] Includes a loan principal amount of € 55 million and grants of € 75 million
[8] Includes a loan principal amount of € 20 million and grants of € 40 million
[9] Includes a loan principal amount of € 9 million and grants of € 16 million
[10] Includes a loan principal amount of € 50 million and grants of € 30 million
[11] Includes a loan principal amount of € 65 million and grants of € 35 million
* This designation is without prejudice to positions on status, and in line with UNSCR 1244 and the ICJ Opinion on
the Kosovo Declaration of Independence.

Annex 1B - COMMUNITY MACRO-FINANCIAL AND EXCEPTIONAL FINANCIAL ASSISTANCE TO THIRD COUNTRIES BY REGION

Status of effective disbursements as of end-December 2011 (in millions of €)

Country	Authorisations: Date of Decision	Authorisations: Reference of Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	Totals	Undisbursed
A. EU Accession countries							
Baltics (Loans) of which :	23.11.92	92/542/EC	**220**			**135**	**85 (cancelled)**
Estonia			**(40)**	March 1993	20	**(20)**	**(20)**
Latvia			**(80)**	March 1993	40	**(40)**	**(40)**
Lithuania			**(100)**	July 1993 Aug. 1995	50 25	**(75)**	**(25)**
Bulgaria I (Loan)	24.06.91	91/311/EC	**290**	Aug. 1991 March 1992	150 140	**290**	
Bulgaria II (Loan)	19.10.92	92/511/EC	**110**	Dec. 1994 Aug. 1996	70 40	**110**	
Bulgaria III (Loan)	22.07.97	97/472/EC	**250**	Feb. 1998 Dec. 1998	125 125	**250**	
Bulgaria IV (Loan)	08.11.99	99/731/EC	**100**	Dec. 1999 Sep. 2000	40 60	**100**	
Czech and Slovak Federal Republic (Loan)	25.02.91	91/106/EC	**375**	March 1991 March 1992	185 190	**375**	
Hungary I (Structural adjustment loan)	22.02.90	90/83/EC	**870**	Apr. 1990 Feb. 1991	350 260	**610**	**260 (cancelled)**
Hungary II (loan)	24.06.91	91/310/EC	**180**	Aug. 1991 Jan. 1993	100 80	**180**	
Romania I (Loan)	22.07.91	91/384/EC	**375**	Jan. 1992 Apr. 1992	190 185	**375**	
Romania II (Loan)	27.11.92	92/551/EC	**80**	Feb. 1993	80	**80**	
Romania III (Loan)	20.06.94	94/369/EC	**125**	Nov. 1995 Sep. 1997 Dec. 1997	55 40 30	**125**	
Romania IV (Loan)	08.11.99	99/732/EC	**200**	June 2000 July 2003	100 50	**150**	**50**
Slovakia (Loan)	22.12.94	94/939/EC	**130**	July 1996			**130 (cancelled)**
TOTAL A			**3305**			**2780**	**525**

Country	Authorisations: Date of Decision	Authorisations: Reference of Decision	Authorisations: Maximum amount	Disbursements: Dates of disbursements	Disbursements: Amounts of disbursements	Totals	Undisbursed
B. Western Balkans							
Albania I (Grant)	28.09.92	92/482/EC	**70**	Dec. 1992 Aug. 1993	35 35	**70**	
Albania II (Grant)	28.11.94	94/773/EC	**35**	June 1995 Oct. 1996	15 20	**35**	
Albania III (Loan)	22.04.99	99/282/EC	**20**				**20** **(cancelled)**
Bosnia I[1] (Loan and grant)	10.05.99 modified 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**	
Former Yugoslav Republic of Macedonia I (Loan)	22.07.97	97/471/EC	**40**	Sep. 1997 Feb. 1998	25 15	**40**	
Former Yugoslav Republic of Macedonia II[2] (Loan and grant)	08.11.99 modified by 10.12.2001	99/733/EC 01/900/EC	**80** **18**	Dec. 2000 (grant) Dec. 2000 (loan) Dec. 2001 (loan) Dec. 2001 (grant) May 2003 (grant) June 2003 (loan) Dec. 2003 (loan) Dec. 2003 (grant)	20 10 12 10 10 10 18 8	**98**	
Kosovo I[3] (Grant)	19.02.00	00/140/EC	**35**	March 2000 Aug. 2000	20 15	**35**	
Kosovo II[3] (Grant)	27.06.01	01/511/EC	**30**	Sep. 2001 Dec. 2002	15 15	**30**	
Montenegro[3] (Grant budgetary support)	22.05.00	00/355/EC	**20**	Aug. 2000 Dec. 2000	7 13	**20**	
Serbia and Montenegro I[4] (ex FRY)	16.07.01 10.12.2001	01/549/EC modified by 01/901/EC	**345**	Oct. 2001 (grant) Oct. 2001 (loan) Jan. 2002 (grant) Aug.2002 (grant)	35 225 40 45	**345**	
Serbia and Montenegro II[5] (ex FRY) (Loan and grant)	05.11.02	02/882/EC	**130**	Dec. 2002 (grant) Feb. 2003 (loan) Aug. 2003 (grant) Aug. 2003 (loan)	30 10 35 30	**105**	**25**
	modified by 25.11.03 07.12.04	 03/825/EC (7) 04/862/EC	 **70**	 Dec. 2004 (grant) April 2005 (loan) Dec. 2005 (grant)	 10 15 25	 **50**	 **20**
Bosnia II[6] (Loan and grant)	05.11.02 modified by 07.12.04	02/883/EC 04/861/EC	**60**	Feb. 2003 (grant) Dec. 2003 (grant) Dec 2004 (loan) June 2005 (grant) Feb. 2006 (loan)	15 10 10 15 10	**60**	

Country	Date of Decision	Reference of Decision	Maximum amount	Dates of disbursements	Amounts of disbursements	Totals	Undisbursed
	Authorisations			Disbursements			
Albania IV[8] (Loan and grant)	29.04.04	04/580/EC	**25**	Nov 2005 (grant) Mar 2006 (loan) Jul 2006 (grant)	3 9 13	**25**	
Kosovo (Grant)	30.11.06	06/880/EC	**50**	Sept. 2010	30	**30**	**20** **(expired)**
Bosnia-Herzegoviona (Loan)	30.11.09	09/891/EC	**100**				**100**
Serbia (Loan)	30.11.09	09/892/EC	**200**	July 2011 (loan)	100	**100**	**100** **(cancelled)**
TOTAL B			**1388**			**1103**	**285**

C. New Independent States (NIS)

Country	Date of Decision	Reference of Decision	Maximum amount	Dates of disbursements	Amounts of disbursements	Totals	Undisbursed
Armenia, Georgia and Tajikistan[9] (Loans and grants) Agreed amounts with the recipent countires:	17.11.97 modified by 28.3.00	97/787/EC 00/244/EC	**375** downsized to **(328)**			**294,5**	**80,5**
Armenia			**(58)**	Dec. 1998 (loan) Dec. 1998 (grant) Dec. 1999 (grant) Feb. 2002 (grant) Dec. 2002 (grant) June 2004(grant) Dec. 2005(grant)	28 8 4 5,5 5,5 5,5 1,5	**(58)**	
Georgia			**(175)**	July 1998 (loan) Aug. 1998 (grant) Sep. 1999 (grant) Dec. 2001 (grant) Dec. 2004 (grant)	110 10 9 6 6,5	**(141,5)**	**(33,5)**
Tajikistan			**(95)**	March 2001 (loan) March 2001 (grant) Dec. 2001 (grant) Feb. 2003 (grant) May 2005 (grant) Oct 2006 (grant)	60 7 7 7 7 7	**(95)**	
Belarus (Loan)	10.04.95	95/132/EC	**55**	Dec. 1995	30	**30**	**25** **(cancelled)**
Moldova I (Loan)	13.06.94	94/346/EC	**45**	Dec. 1994 Aug. 1995	25 20	**45**	
Moldova II (Loan)	25.03.96	96/242/EC	**15**	Dec. 1996	15	**15**	
Moldova III (Loan)	10.07.00 19.12.02	00/452/EC 02/1006 EC	**15**				**15** **(cancelled)**
Moldova IV (Grant)	19.12.02	02/1006/EC	**15**				**15**

Country	Authorisations Date of Decision	 Reference of Decision	 **Maximum amount**	Disbursements Dates of disbursements	 **Amounts of disbursements**	 **Totals**	 **Undisbursed**
Ukraine I (Loan)	22.12.94	94/940/EC	**85**	Dec. 1995	85	**85**	
Ukraine II (Loan)	23.10.95	95/442/EC	**200**	Aug. 1996 Oct. 1996 Sep. 1997	50 50 100	**200**	
Ukraine III (Loan)	15.10.98	98/592/EC	**150**	July 1999	58	**58**	**92 (cancelled)**
Ukraine IV (Loan) Modification of decision 98/592/EC	12.07.02	02/639/EC	**110**				**110**
Georgia II	21.01.06	06/41/EC	**33,5**	Aug. 2006 Dec 2006	11 11	**22**	**11,5**
Moldova	16.04.07	07/259/EC	**45**	Oct. 2007 June 2008 Dec. 2008	20 10 15	**45**	
Georgia	30.11.09	09/889/EC	**46**	Dec. 2009 (grant) Jan. 2009 (grant) Aug. 2010 (grant)	15,3 7,7 23	**46**	
Armenia[10] (Loan and grant)	30.11.09	09/890/EC	**100**	June 2011 (grant) July 2011 (loan) Dec. 2011 (grant)	14 26 21	**61**	**39**
Ukraine (Loan)	29.06.10	388/10//EU	**500**				**500**
Moldova (Grant)	20.10.10	938/2010/EU	**90**	Dec. 2010 (grant) Sept. 2011 (grant)	40 20	**60**	**30**
TOTAL C			**1879,5**			**961,5**	**918,0**

D. Mediterranean countries

Country	Date of Decision	Reference of Decision	Maximum amount	Dates of disbursements	Amounts of disbursements	Totals	Undisbursed
Israel[11] (Structural adjustment soft loan)	22.07.91	91/408/EC	**187,5**	March 1992	187,5	**187,5**	
Algeria I (Loan)	23.09.91	91/510/EC	**400**	Jan. 1992 Aug. 1994	250 150	**400**	
Algeria II (Loan)	22.12.94	94/938/EC	**200**	Nov. 1995	100	**100**	**100 (cancelled)**
Lebanon[12]	10.12.07	07/860/EC	**80**	Dec. 2008 June 2009	15 25	**40**	**40**
TOTAL D			**867,5**			**727,5**	**140**

TOTAL A+B+C+D			**7440**			**5572**	**1868**

[1] Includes a loan principal amount of € 20 million and grants of € 40 million.
[2] Includes a loan principal amount of up to € 50 million and grants of up to € 48 million.
[3] Exceptional financial assistance.
[4] Includes a loan principal amount of € 225 million and grants of € 120 million.
[5] Includes a loan principal amount of € 55 million and grants of € 75 million
[5] Includes a loan principal amount of € 20 million and grants of € 40 million
[6] Includes a loan principal amount of € 25 million and grants of € 45 million
[8] Includes a loan principal amount of € 9 million and grants of € 16 million
[9] Exceptional financial assistance, which includes a ceiling of € 245 million for the loans and a ceiling of € 130 million for the grants
Out of the global amount of € 375 million, maximum amounts of € 58 million, € 175 million and € 95 million were
actually agreed with the beneficiary countries
[10] Includes a loan principal amount of € 65 million and grants of € 35 million
[11] Assistance to Israel includes a loan principal amount of ECU 160 million and grants of ECU 27,5 million in the form of interest subsidies.
[12] Includes a loan principal amount of € 50 million and grants of € 30 million