



**Macro-financial assistance to Montenegro
of up to EUR 60 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**Montenegro
as Borrower**

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MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND MONTENEGRO

1. On 25 May 2020, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701¹) on providing macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic. The Decision makes available to Montenegro (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 60 million in the form of a loan. The assistance shall be made available for one year starting from the first day after the entry into force of this Memorandum of Understanding (hereafter referred to as “the MoU”).
2. The objective of this assistance is to ease the Country’s external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position and help the Country address the current external and financial vulnerabilities. This assistance from the European Union is complementary to the resources provided to the Country by international financial institutions and bilateral donors in support of the authorities’ economic stabilisation and reform programme.
3. The assistance shall be disbursed in two instalments of up to EUR 30 million each.
4. The first instalment of the assistance shall be released upon the signature and entry into force of this MoU and the accompanying Loan Facility Agreement and shall be conditional upon the implementation of a “Rapid Financing Instrument” of the International Monetary Fund (hereafter referred to as “the IMF”).

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.

The disbursement of the second instalment of the assistance will be conditional on both a positive assessment by the European Commission (hereafter referred to as “the Commission”) on behalf of the European Union, of progress made with respect to a number of macroeconomic and structural adjustment measures and, if applicable a satisfactory track record in the implementation of the commitments agreed with the IMF. The policy conditions attached to this assistance are based on the Economic Reform Programme endorsed by the authorities of the Country. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the national authorities, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

5. Prior to the release of the second instalment by the Commission, the Country’s authorities shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to it. Upon receipt of the compliance statement by the authorities of the Country, the Commission will evaluate, based on consultations

¹ OJ L 165, 27.5.2020, p. 31.

with the authorities of the Country, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms to improve public finance, financial stability, good governance and fight against corruption, business environment, and social protection. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of a negative evaluation, the Commission may withhold the disbursement of the instalments until the Country proves the compliance with the conditionality. If necessary, Annex I may be amended upon mutual agreement, following the completion of the respective approval processes of the European Union and the Country.

6. The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel the assistance in case the financing needs of the Country have decreased fundamentally during the period of disbursement compared to the initial projections.
7. The Commission shall transfer the instalments to a euro account of the Ministry of Finance of the Country (hereafter referred to as "the Recipient") at the Central Bank of Montenegro (hereafter referred to as "the Agent"). Given the substantial budgetary and external financing needs faced by the Country, the proceeds of the loan will be used to finance the Country's budget and to refinance existing external debt.
8. During the implementation of the assistance, the Country's authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
9. With a view to preventing irregularities and fraud related to the use of the assistance and ensuring the protection of the EU's financial interests, the relevant provisions of the Loan Facility Agreement will apply, notably those regarding regular checks by the Country on the use of European Union assistance, and checks, audits and investigations performed by the Commission, including the European Anti-Fraud Office and the European Court of Auditors and the European Public Prosecutor's Office. Also, the provisions of the Loan Facility Agreement on early repayment will apply in case it has been established that the Country has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.
10. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of European Union macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
11. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supplying all necessary information to the Commission, represented by its own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.
12. The authorities will ensure, as appropriate, close co-operation with the European Commission.

13. This assistance is implemented on the understanding that the authorities of the Country will continue to respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and to guarantee the respect for human rights.
14. Annexes I and II are an integral part of this MoU.
15. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the European Union

European Commission
Directorate General for
Economic and Financial Affairs
CHAR 11/248
B-1049 Brussels, Belgium

For Montenegro

Ministry of Finance
Stanka Dragojevic Str. No 2,
81 000 Podgorica, Montenegro

With copy to:

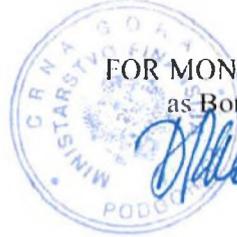
Central Bank of Montenegro
Bulevar Sv. Petra Cetinjskog 6
81000 Podgorica

16. The present MoU shall enter into force following the signature by the European Union and the Country.
17. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

Done in *Burgh* on *28/8/20* in four originals in the English language.

FOR THE EUROPEAN UNION
as Lender

A. Ferrero



FOR MONTENEGRO
as Borrower

M. M. M. M. M.

FOR THE CENTRAL BANK
OF MONTENEGRO
as Agent to the Borrower

D. M. M.

ANNEX I

STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the second instalment, the authorities of the Country are committed to have accomplished the following actions:

Public Finance

1. Adopt the government proposal providing for the establishment of an independent fiscal council with adequate capacity to conduct independent scrutiny over fiscal policies, plans and performance.
2. Link the central personnel record and payroll systems in order to establish a fully-fledged centralised public sector employment payroll system.
3. Request a public investment management assessment (PIMA) in order to identify reform priorities and improve the return on public investment.

Financial stability

4. Progress with the asset quality review of the banking system.

Good governance and fight against corruption

5. Publish on a quarterly basis comprehensive information on the adoption and implementation of the COVID-19 emergency support measures, including the amounts of aid by category of beneficiaries, the identity of and the amounts allocated to the 50 largest beneficiaries of aid, as well as the conditions and allocation criteria for the support in line with the national legal requirements on confidentiality.
6. Publish an analysis containing recommendations for the rationalisation of the judicial network. This analysis should be based on data and conclusions concerning both the previous and planned reforms in this area.

Business environment

7. Update and expand the functions of a registry of para-fiscal charges at both local and national levels, in order to strengthen the investment climate and the predictability of the regulatory environment.

Social protection

8. Finalize the review of the social protection system and prepare an outline for concrete implementation of social protection reforms on the basis of the review.

ANNEX II

MONITORING SYSTEM

1. Monitoring of macro-economic and financial developments and policies

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be published or provided to the Commission by the relevant authorities of the Country:

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- Consumer and producer prices (monthly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- External public debt stock and (interest and principal) payments (quarterly)
- Central Government public debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external Central Government public debt for the years 2020-2022 (quarterly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the Central Bank of Montenegro

- Weighted average interest rate of banks by sectors and maturity (monthly)
- Balance-of-payments and main components (quarterly)
- Claims on non-residents (monthly)

2. Monitoring of structural policies

During the implementation of the European Union macro-financial assistance, data and/or information relating to the implementation of policy measures specified in Annex I shall be provided to the Commission by the relevant authorities of the Country, on request from the Commission, notably:

- Draft Budget proposal and medium term expenditure framework planning for 2021;
- Copy of the official proposal to amend the Law on budget and fiscal responsibility, providing for the establishment of an independent fiscal council;
- Interim report on progress establishing a centralised public sector employment payroll system;
- Copy of the request for technical assistance to the IMF for the elaboration of a public investment management assessment (PIMA);
- Interim report on the implementation of the asset quality review of the banking system;
- Report on the implementation of the COVID-19 emergency support measures, including on categories and amounts of aid, as well as the conditions and allocation criteria for support;

- Copy of the registry of para-fiscal charges at both local and national levels;
- Report on the review of the social protection system and draft outline for concrete implementation of its reform.