

**Macro-financial assistance to the Republic of North Macedonia
of up to EUR 160 million**

MEMORANDUM OF UNDERSTANDING

between

**The European Union
as Lender**

and

**The Republic of North Macedonia
as Borrower**

MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND THE REPUBLIC OF NORTH MACEDONIA

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 the Republic of North Macedonia (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 160 mn 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 80 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 an implementation of Rapid Financing Instrument agreed between the Country and 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 second 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 the instalments in question. Upon receipt of the compliance statement by the authorities of the Country, the Commission will

¹ OJ L 165, 27.5.2020, p. 31.

evaluate, based on consultations 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 Management, good governance and the fight against corruption, to strengthen the financial sector, and the business environment. 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 Republic of North Macedonia (hereafter referred to as "the Recipient") at the National Bank of the Republic of North Macedonia (hereafter referred to as "the Agent"). Given the substantial budgetary and external debt financing needs faced by the Country, the proceeds of the loan will be used to finance the Country's budget and for refinancing 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 the Republic of North Macedonia

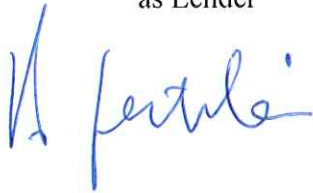
Ministry of Finance
Dame Gruev 12
1000 Skopje, North Macedonia

With copy to:
Central Bank of the Republic of North
Macedonia
Kuzman Josifovski Pitu 1
1000 Skopje, North Macedonia

16. The present MoU shall enter into force following the signature by the European Union and the Republic of North Macedonia.
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 Brussels on 13/07/20 in four originals in the English language.

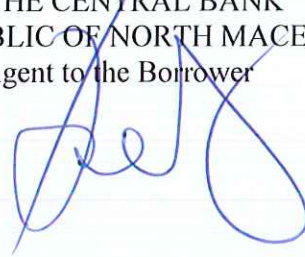
FOR THE EUROPEAN UNION
as Lender



FOR THE REPUBLIC OF NORTH MACEDONIA
as Borrower



FOR THE CENTRAL BANK
OF THE REPUBLIC OF NORTH MACEDONIA
as Agent to the Borrower



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. Send draft Organic Budget Law to Single National Electronic Registry Of Regulations (ENER) of the Republic of North Macedonia for public consultation. The draft law envisages the establishment of fiscal rules and a fiscal council with a view to strengthening fiscal sustainability in the medium term.
2. With a view to improving revenue mobilisation, conduct a comprehensive review of foregone revenues from tax deductions in personal and corporate income taxation and preferential VAT rates, in line with the draft Tax System Reform Strategy 2020-2023.
3. Progress with the preparation of amendments to the law on public-private partnerships with a view to improving prioritisation and selection of projects as well as fiscal risk management.
4. To enhance fiscal transparency, publish on a quarterly basis on the Ministry of Finance website: a) quarterly income and expenses statements of all state-owned and public enterprises on central level with a three to four months lag; b) consolidated data of municipalities' budget execution of revenues and expenditures.

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 support, in line with national legal requirements on confidentiality.
6. Prepare a Human Resources Strategy for the Judiciary and Prosecution.

Financial Sector

7. Ensure regular meetings of the Financial Stability Committee and prepare a Draft Law clarifying the central bank's macroprudential mandate.

Business environment

8. Publish on a designated web page a list of parafiscal charges on central and local level, including their value.

Social policy

9. Establish a Youth Employment Unit within the Department for Active Employment Measures of the Employment Agency to coordinate and monitor all activities related to inclusion of young people in the labour market.

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, on a quarterly basis.

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- 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 for central government (quarterly)
- Domestic public debt stock and (interest and principal) payments for central government (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external debt for central government for the years 2020-2021 (quarterly)
- Consumer and producer prices (monthly)
- Interest rates (yields) on government bonds at public debt (primary) auctions (monthly)

b) Information submitted by the Central Bank of the Republic of North Macedonia

- Interbank interest rates at benchmark maturities (monthly)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (monthly)
- Nominal bilateral exchange rates against the euro and the USD (monthly)

2. Monitoring of policy measures specified in Annex I

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 OBL sent to ENER for public consultation; Fiscal Strategy 2021 – 2023 with a comprehensive medium term fiscal framework.
- Preliminary analysis of existing tax deductions and preferential tax rates, and assessment of their impact on public revenue and their economic significance.
- Report on the progress with drafting legal amendments to the law on public private partnerships (PPP law).

- Publication of quarterly income and expenses statements of SOEs and public enterprises at central government level on the MoF website. Publication of consolidated data of municipalities' quarterly execution of revenue and expenditure on the MoF website.
- Publication of comprehensive information on a designated website on the adoption and implementation of the COVID-19 emergency support measures, including quarterly reports on the amounts of aid by category of beneficiaries, as well as the conditions and allocation criteria for support. The identity of and the amounts allocated to the 50 largest beneficiaries of aid, in each quarter should also be included.
- Human Resources Strategies for the Judiciary and Prosecution.
- Public announcements from Financial Stability Committee meetings, Draft Law for clarifying the Central Bank's macroprudential mandate.
- Publication of the list of parafiscal charges on central and local level including their value on a designated web page.

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