Macro-financial assistance to Bosnia and Herzegovina
of up to EUR 250 million

MEMORANDUM OF UNDERSTANDING

between

The European Union
as Lender

and

Bosnia and Herzegovina
as Borrower
1. On 25 May, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701) to make available macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic crisis. The Decision makes available to Bosnia and Herzegovina (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 250 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 overall 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 Country’s economic stabilisation and reform programme.

3. The assistance shall be disbursed in two instalments of up to EUR 125 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 policy guidance jointly agreed between the EU and the Country authorities at the Economic and Financial Dialogue on 19 May 2020. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the Country 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 Ministry of Finance and Treasury on behalf of the Country shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to it. Upon receipt of the compliance statement, the Commission will evaluate, based on consultations with the relevant 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 strengthen the institutional framework for macroeconomic analysis and
planning on all levels of governance, to improve the shock resistance of the financial sector, to support good governance and fight against corruption and to support the economic recovery and employment generation. 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 overall 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 and Treasury of the Country at the Central Bank of Bosnia and Herzegovina (hereafter referred to as “the Agent”). Given the substantial overall budgetary and external financing needs faced by the Country, the proceeds of the loan will be used to finance the Country’s budgets and to refinance existing external debt. Their countervalue in local currency will be transferred by the Agent to the Treasuries of the entities (the Federation of Bosnia and Herzegovina and the Republika Srpska) and the Brčko district of Bosnia and Herzegovina, applying a distribution key which has been agreed among the beneficiaries. Such transfers will be allocated in accordance with the following key: 61.5 per cent will be allocated to the Federation of Bosnia and Herzegovina, 37.5 per cent will be allocated to the Republika Srpska, and 1.0 per cent will be allocated to the Brčko District of Bosnia and Herzegovina.

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 and audits performed by the Commission, including the European Anti-Fraud Office and the European Court of Auditors. 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 Bosnia and Herzegovina
Ministry of Finance and Treasury
1 Trg BiH Street,
71 000 Sarajevo

With copy to:
Central Bank of Bosnia and Herzegovina
25 Maršala Tita Street,
71 000, Sarajevo

16. The present MoU shall enter into force following its signature by the European Union and Bosnia and Herzegovina and on the date on which Bosnia and Herzegovina notifies the European Union, by means of the Legal Opinion referred to in clause 15(1) (Annex IV) of the Loan Facility Agreement, that the internal legal requirements for its entry into force have been completed.

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 Bunads on 15.01.2021 in four originals in the English language.

FOR THE EUROPEAN UNION
as Lender

FOR BOSNIA AND HERZEGOVINA
as Borrower

FOR THE CENTRAL BANK
OF BOSNIA AND HERZEGOVINA
as Agent to the Borrower

Acknowledged and endorsed by the Country’s entities and the Brčko district:

Federal Minister of Finance of Bosnia and Herzegovina

Minister of Finance of the Republika Srpska

Mayor of the
Brčko district of Bosnia and Herzegovina
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 Bosnia and Herzegovina are committed to have accomplished the following actions:

Strengthen the institutional framework for macroeconomic analysis and planning

1. On the basis of the Council of Ministers’ decision of 5 May 2020, establishing the Socio-Economic Task Force, and with a view to improving the coherence and efficiency of socio-economic reforms, the Socio-Economic Task Force will be convened regularly by the chair of the Council of Ministers.

In order to improve the socio-economic response to the crisis caused by Covid-19 pandemic, the responsibilities of this Task Force are to:

a) coordinate activities of all government levels related to defining appropriate socio-economic measures;

b) analyse the situation regarding socio-economic consequences of the Covid-19 pandemic, as well as to harmonise and coordinate the implementation of measures;

c) coordinate activities of all government levels aimed at the provision of funding for all government levels through mobilisation of national funds and international financial assistance, including the European Union’s assistance.

2. In order to improve the coherence, consistency and jointly agreed prioritisation of the country-wide Economic Reform Programme, strengthen the coordination role of the Directorate for Economic Planning for the preparation of the country-wide Economic Reform Programme and ensure that it has the necessary resources.

Financial sector

3. Ensure the proper functioning of the new Banking Deposit Insurance Scheme, including its underlying backstop financing.

4. Maintain the independence of the Central Bank and the integrity of the currency board arrangement.

5. Closely monitor financial stability through regular, at least quarterly meetings of the Standing Committee for Financial Stability.

Good governance and fight against corruption

6. 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 the national legal requirements on confidentiality.
7. Develop (in line with the relevant recommendations by the European Commission) and table before the Parliamentary Assembly of Bosnia and Herzegovina, amendments to the current Law on the High Judicial and Prosecutorial Council (HJPC), with a view to establishing a system of verification of asset declarations of judges and prosecutors and members of the HJPC.

**Support economic recovery and employment**

8. Reduce the labour tax wedge for low-wage earners while increasing their take-home pay by amendments to the Law on Personal Income tax and the Law on Social Contributions in the FBiH, also aiming to increase the degree of harmonization between the two Entities.

9. Start increasing the capacity of employment offices with a view to ensuring more active support to the unemployed.
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 Bosnia and Herzegovina's Ministry of Finance and Treasury:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly, according to LFS)
- Consumer and producer prices (monthly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)
- Domestic public debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external public debt for the years 2020-2022 (quarterly)

b) Information submitted by the Central Bank of Bosnia and Herzegovina

- 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)
- Level and composition of general and lower-level government revenue and expenditure as well as general and lower-level government payment arrears (quarterly)
- Concerning general government finances, provide in particular ESA table 25 (for taxes and social contributions), and table 28, in addition to annual tables 2, 9 and the National Tax List.
- Fiscal balance of the general and lower-level governments (annual and quarterly)
- External public debt stock and (interest and principal) payments (quarterly)

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 Bosnia and Herzegovina’s Ministry of Finance and Treasury, based on the contributions from relevant authorities of the Country, on request from the Commission, notably:

- Present measures to strengthen the DEP’s coordinating capacities and to ensure the necessary resources.
- Report on measures to ensure the proper functioning of new Banking Deposit Insurance Scheme, including its underlying backstop financing.
• Provide the requested quarterly reports with comprehensive information on the adoption and implementation of the COVID-19 emergency support measures,
• Report on the adopted amendments to the Law on Personal Income tax and the Law on Social Contributions in the FBiH, reducing the labour tax wedge for low-wage earners while increasing their take-home pay by amendments.
• Report on measures, which started to increasing the capacity of employment offices with a view to ensuring more active support to the unemployed.

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1 The Institutions of Bosnia and Herzegovina, the entities (The Federation of Bosnia and Herzegovina and the Republika Srpska) and the Brčko District of Bosnia and Herzegovina.