



Brussels, 6.2.2023
COM(2023) 74 final

2023/0034 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on providing macro-financial assistance to the Republic of North Macedonia

{SWD(2023) 42 final}

EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

• Reasons for and objectives of the proposal

Given the strong dependence of North Macedonia on imported energy, soaring gas and electricity prices led to a significant deterioration of the external balances in 2022.

Underpinned by sound economic and monetary policy and committed reform implementation, the economy was on track to recover from the COVID-19 induced setback. However, the steep rise in global food and energy prices began to take its toll on domestic demand and the country's external balance. A significant widening of the country's trade and current account deficit has emerged since the beginning of 2022 despite strong inflows of remittances from abroad. Foreign reserves declined in the early months of 2022, mainly in response to rising import prices and external debt repayments, but have stabilised since the summer. Year-on-year GDP growth still averaged 2.6% in the first half of 2022 but slowed to 2% in the third quarter. High uncertainty over the economic fallout from Russia's war of aggression against Ukraine, rising inflation and tighter financing conditions are set to curtail domestic demand further. Exports are impacted by weaker external demand and by ongoing supply chain disruptions, particularly those affecting the production of automotive components, one of the country's main export sectors.

Against the backdrop of tighter global financial conditions, higher energy prices and higher-than-expected losses by the domestic state-owned electricity producer, the government of North Macedonia renewed its request for macro-financial assistance (MFA) on 18 October 2022. The Commission had put the government's initial request for MFA, submitted on 19 April 2022, on hold, mainly because the economy was still relatively resilient and because there were some other options to meet external financing needs in 2022. In April, the government had already secured Staff Approval from the International Monetary Fund (IMF) for a 24-month precautionary and liquidity line (PLL) of up to EUR 530 million, which was officially approved by the IMF Executive Board on 22 November 2022. The IMF estimates that the country's external financing needs in 2023 will amount to some EUR 1.5 billion, reflecting a large current account deficit and high repayments on external government debt (including a Eurobond that will mature in July 2023). Given significant uncertainties regarding the availability and costs of external market financing (which is assumed to cover over half of the country's 2023 external financing needs), the Commission is now submitting a proposal to the European Parliament and the Council to provide an MFA loan of up to EUR 100 million to North Macedonia. The proposed legal basis will be Article 212 of the Treaty on the Functioning of the European Union.

The proposed MFA would help North Macedonia to cover part of the country's residual external financing needs in 2023, which are estimated at EUR 800 million under the IMF's baseline scenario. The operation would reduce the economy's short-term balance of payments and fiscal vulnerabilities and demonstrate the EU's support for the country when addressing this challenging situation. Its design and implementation would take account of the policy guidance agreed in the Joint Conclusions of the Economic and Financial Dialogue

between the EU and the Western Balkans and Türkiye of 24 May 2022¹, as well as the programme North Macedonia has agreed with the IMF².

The disbursement would take place in two instalments. The release of each instalment would be conditional on progress being made with the implementation of a number of policy measures to be agreed between the Commission and the authorities and listed in a Memorandum of Understanding (MoU) as well as on a satisfactory track record implementing the IMF programme. The MoU is likely to focus on policy reforms addressing fiscal governance, tax policy, the management of public investment, public-private partnerships, business environment, transparency in state aid, energy efficiency, judiciary reform, and the fight against corruption. The policy measures will aim to address some of the most important weaknesses of the economy of North Macedonia and its economic governance system.

As further detailed in the Commission Staff Working Document accompanying this proposal, the Commission considers, based also on its assessment of the political situation, that the political and economic pre-conditions for the proposed MFA operation have been satisfied.

- **General context**

Following a partial recovery from the pandemic-induced recession, North Macedonia has been severely hit by the fallout from Russia's war of aggression against Ukraine. GDP dropped by 4.7% in 2020 but rebounded by 3.9% in 2021, driven by domestic demand. Remittances from abroad returned to pre-crisis levels and bolstered household's disposable income. COVID-19 containment measures were gradually lifted. Growth slowed towards the end of 2021 as external demand weakened, disruptions in global supply chains grew and global food and energy prices started to rise rapidly (fuelled further by the fallout from Russia's war of aggression against Ukraine in 2022). North Macedonia has limited direct exposure to Russia or Ukraine, but its economy is vulnerable to rising commodity prices. Government efforts to mitigate the impact on households and small business have caused fiscal spending to increase well above the initial budget. Sharply rising food and energy prices pushed inflation to almost 20% in the autumn of 2022. GDP grew by 2.6% in the first half of 2022, thanks in part to a rise in investment, but this rise was largely due to increases in companies' stocks. Annual growth slowed to 2% in the third quarter of 2022.

The external position started to deteriorate in late 2021 as import prices rose sharply. The current account deficit stood at 3.5% of GDP in 2021 (the same as in 2020). This was above the 2017-2019 average of 1.5%. However, the goods trade balance has deteriorated steadily since the last quarter of 2021, largely on account of rising energy prices and reflecting the country's high dependence on energy imports. The economy imports over 30% of its domestic energy needs and fully relies on imports for gas and oil. Driven by the sharply deteriorating energy balance, the four-quarter moving average current account deficit rose to 7.3% of GDP in the third quarter of 2022, compared to 1% in the third quarter of 2021. This was despite a marked increase in private transfers (remittances) and the services surplus, which was helped by a rebound in tourism. The external debt ratio had decreased each year between 2016 and 2019 but jumped by 7.3 percentage points (pps.) in 2020 to 80.3% of GDP

¹ <https://www.consilium.europa.eu/media/56385/st09459-en22.pdf>

² <https://www.imf.org/en/Publications/CR/Issues/2022/11/29/Republic-of-North-Macedonia-Request-for-an-Arrangement-under-the-Precautionary-and-525935>

and rose further to 81.4% in 2021, mainly as a result of continued foreign financing for crisis-induced needs.

Foreign reserves dropped heavily in the first half of 2022, mainly due to higher energy imports and external debt repayments. Foreign exchange reserves declined by over 14% in the first half of 2022 due to the increased conversion of domestic denar-denominated savings into euro; a surge in energy imports; external debt payments; and decreasing valuations of securities holdings. In early 2022, during a period of high energy imports, the central bank intervened in the foreign exchange market to support the de facto exchange rate peg to the euro. Forex markets stabilised somewhat over the summer due to seasonally high inflows of foreign currency that exceeded central bank expectations and supported by a EUR 250 million private placement of government securities in Germany in September. Foreign exchange reserves increased each month between July and December to reach 100% of the IMF's reserve adequacy metric and now correspond to 3.9 months of imports. However, reserves are expected to decline again as the heating season progresses and energy imports increase further.

The central bank has been tightening monetary policy to counter rising inflation expectations and protect the de facto exchange rate peg. Headline inflation rose to 19.8% in October 2022, reflecting the high pass-through of the global energy and food price shock, but abated somewhat in November and December. Since April 2022, the policy rate has been raised by 350 basis points in eight consecutive hikes to 4.75%, thereby increasing the spread to the European Central Bank (ECB). The central bank also adjusted reserve requirement rates in June and September to dis-incentivise the shift into euro deposits that was a significant factor behind the fall in reserves in early 2022. These actions have reduced inflation expectations and pressures on the exchange rate.

The authorities have responded to the external shocks with significant fiscal support. In addition to ongoing expenditures to support the energy sector and maintain subsidised electricity prices for households, the authorities of North Macedonia adopted a EUR 400 million package of measures in March 2022, and another one in October, worth EUR 350 million, to protect households from rising food and energy prices, and to help firms maintain liquidity. Largely on account of under-implementation of the capital expenditure budget, the fiscal deficit for the full year of 2022, at 4.3% of government-projected GDP, remained below the revised target (5.3%) and in line with the government's initial target. The government intends to continue supporting the loss-making domestic electricity producer and end customers also in 2023, yet in a more targeted fashion. The level of general government debt and public debt (including the debt of state-owned enterprises) remained moderate but rose markedly in 2020 and 2021, reflecting high fiscal deficits and, in 2020, the fall in GDP.

The 2023 budget, adopted by the Parliament in December 2022, raises the fiscal deficit target (compared with original plans outlined in the May 2022 medium-term fiscal strategy) from 4.2% to 4.6% of GDP. At the same time, the government lowered the real GDP growth projection for 2023, to 2.9%. The 2023 budget provides for a small consolidation effect from the withdrawal of some fiscal stimulus measures as well as a reduction in subsidies to the state-owned electricity company. It is based on a number of fiscal consolidation measures, in particular revenue-enhancing reforms of the tax system, which the government adopted in December 2022. In line with the policy guidance of the May 2022 Joint Conclusions, crisis-related fiscal support is projected to become better targeted to vulnerable groups.

The Commission's autumn forecast projects moderating growth and some decline in the fiscal deficit after 2022, while risks are clearly to the downside. GDP growth in 2022 and

2023 is set to slow to 2.3% and 2.5% respectively as high inflation weighs on domestic demand. The fiscal deficit is set to remain high in 2023 due to the continuing need to support the economy during the energy crisis. The government may therefore have to postpone its plans for fiscal consolidation by another year. At the same time, the government is committed to implementing its reform agenda in public financial management. The new organic budget law, adopted by the Parliament in July 2022, puts a cap on the fiscal deficit (3% of GDP in non-crisis times) and on general government debt (60% of GDP), and will, once applied, anchor fiscal policy in the medium term. The growth outlook could be challenged if geopolitical challenges lead to further energy and food price shocks, possibly in combination with a further tightening of global financial conditions and more difficult access to capital for emerging market economies. On the other hand, the EU accession process could bolster reforms, fiscal and external sustainability, including through the further strengthening of foreign direct investment inflows.

External financing needs are high in 2023 and market conditions remain volatile. The IMF has estimated the country's external gross financing needs in 2023 at EUR 1.5 billion. This includes high debt refinancing needs, which mainly result from the government's need to repay its 2016 Eurobond worth EUR 450 million. Overall, the IMF assumes that the government will raise EUR 800 million in external market borrowing. This may prove challenging, given current geopolitical uncertainties and a difficult financing environment. North Macedonia has a track record of steady sovereign access to international capital markets at favourable terms. Yet sovereign spreads have increased considerably over the past months, against the backdrop of the global tightening in financial conditions, and plans to issue Eurobonds have been put on hold across the Western Balkans. In this context, the proposed MFA would help North Macedonia meet its residual financing needs.

- **Consistency with existing policy provisions in the policy area**

The European Parliament and the Council adopted Decision (EU) 2020/701 on providing previous macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic on 25 May 2020. This provided North Macedonia with EUR 160 million in loans that were fully disbursed in 2020-2021.

- **Consistency with other EU policies**

The EU and North Macedonia concluded a stabilisation and association agreement in 2001, which entered into force in 2004. The Council granted candidate status to the country in 2005. Since October 2009, the Commission has continuously recommended to open accession negotiations with North Macedonia. In March 2020, the European Council endorsed the Council's decision to open accession negotiations with North Macedonia³. On 19 July 2022, the first Intergovernmental Conference on accession negotiations took place with North Macedonia, following the approval of the Negotiating Framework by the Council. The Commission immediately launched the analytical review of the EU *acquis* (screening) process, which is the first step in the negotiating process.

The EU is the most important trade partner for North Macedonia. In 2021, the EU accounted for 77.3% of the total exports and for 46.2% of the total imports of North Macedonia. EU countries are also the most important investors in North Macedonia, accounting for 56% of total FDI inflows in 2021 and for 62% of total FDI stock in 2020.

³ <https://www.consilium.europa.eu/media/43076/26-vc-euco-statement-en.pdf>

EU candidate countries are eligible for MFA if they fulfil certain conditions. The EU MFA would complement and enhance the effectiveness of other financial assistance to the country, such as that offered under Instrument for Pre-Accession (IPA) operations, including budget support. This includes EUR 80 million of EU budget support under the new EUR 1 billion EU Energy Support Package for the Western Balkans.

2. LEGAL BASIS, SUBSIDIARITY AND PROPORTIONALITY

- **Legal basis**

The legal basis for this proposal is Article 212 of the Treaty on the Functioning of the European Union (TFEU)

- **Subsidiarity (for non-exclusive competence)**

The proposal complies with the subsidiarity principle because the objective of stabilising the external position of North Macedonia cannot be sufficiently achieved by the Member States alone and can be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectiveness of the assistance.

- **Proportionality**

The proposal complies with the proportionality principle because it is limited to the minimum required in order to achieve the objectives of short-term macroeconomic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission, on the basis of IMF estimates in the context of the PLL, the amount of the proposed new MFA corresponds to about 12.5% of the government's external financing needs in 2023. Given the precautionary nature of the IMF programme (which is due to disburse support in 2023 and only 'if needed' in 2024), this is consistent with other MFA operations' burden-sharing practices.

- **Choice of instrument**

Project finance or technical assistance would not be suitable or sufficient to address the macroeconomic objectives. The key value added of the MFA in comparison with other EU instruments would be to alleviate the external financial constraints and to help create a stable macroeconomic framework (including by promoting a sustainable balance of payments and budgetary situation) and an appropriate framework for structural reforms. By helping to put in place an appropriate overall policy framework, MFA can increase the effectiveness of the actions financed in North Macedonia under other, more narrowly-focused, EU financial instruments.

3. RESULTS OF EX POST EVALUATIONS, STAKEHOLDER CONSULTATIONS AND IMPACT ASSESSMENTS

- **Stakeholder consultations**

MFA is provided as an integral part of the international support for the economic stabilisation of North Macedonia. The Commission services have consulted with the IMF and the World Bank when preparing this proposal. The Commission has also been in regular contact with the authorities of North Macedonia.

- **Collection and use of expertise**

In line with the requirements of the Financial Regulation, the Commission services carried out, in June 2020 and in the context of the COVID-19 MFA operation, an operational assessment of the financial and administrative processes of North Macedonia, in order to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The assessment was based on established methodology and drew on existing documentation from the Commission's budget support programmes with North Macedonia and its technical assistance for improving the public finance management (PFM) system. It found that North Macedonia meets the eligibility requirement to have a sufficiently credible and relevant programme to improve public finance management for budget support from the EU. The compliance of the country's PFM system with basic budget support requirements was confirmed by the latest PEFA report of May 2022. The Risk Management Framework 2021 evaluated the PFM risk of North Macedonia as moderate.

- **Impact assessment**

The EU's MFA is an exceptional emergency instrument aimed at addressing severe balance-of-payment difficulties in non-EU countries. This MFA proposal is exempted from the requirement to carry out an impact assessment in accordance with the Commission's better regulation guidelines⁴ because there is a political imperative to move ahead quickly in a situation that requires a rapid response.

More generally, the Commission's MFA proposals build on lessons learned from *ex post* evaluations carried out on past operations in EU candidate countries. The new MFA and the associated economic adjustment and reform programme will help alleviate the short-term financing needs of North Macedonia and support policy measures to strengthen the medium-term balance of payments, fiscal sustainability and sustainable growth, thus complementing the PLL programme adopted by the IMF's Executive Board in November 2022. The policy conditions should address some of the most important weaknesses of the country's economy and economic governance system. Possible areas of conditionality could in principle include reforms to strengthen fiscal governance, tax policy, the management of public investment, public-private partnerships, the business environment, transparency in state aid, energy efficiency, reform of the judiciary and the fight against corruption.

- **Fundamental rights**

EU candidate countries are eligible for MFA. A pre-condition for granting MFA is that the eligible country respects effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and guarantees respect for human rights.

As noted in the 2022 Commission Communication on EU Enlargement Policy⁵, the launch of the EU accession negotiations process with North Macedonia in 2022 was a major breakthrough and marked the beginning of a new phase in relations between the EU and North Macedonia. As also noted in the Communication, the legal framework on the protection of fundamental rights in North Macedonia is largely in line with EU standards, but implementation needs to be improved.

4. BUDGETARY IMPLICATIONS

The proposed MFA operation of up to EUR 100 million for North Macedonia is planned to be disbursed in two equal tranches to be released between 2023 and 2024. The required

⁴ SWD(2015) 111 final

⁵ COM(2022) 528 final

provisioning of the loan of EUR 100 million at a rate of 9% of the External Action Guarantee will be programmed under the IPA for a total amount of EUR 9 million (budget line 15.020203 IPA III – Provisioning of the Common Provisioning Fund (External Action Guarantee – MFA)).

5. OTHER ELEMENTS

- **Implementation plans and monitoring, evaluation and reporting arrangements**

The European Union will make the MFA available to North Macedonia for a total amount of up to EUR 100 million, which will be provided in the form of medium- to long-term loans and will help cover North Macedonia's residual financing needs in 2023-2024. The assistance is planned to be disbursed in two tranches at regular intervals during the MFA's duration, provided that the policy measures attached to each tranche have been fully implemented.

The Commission will manage the MFA. Specific provisions on the prevention of fraud and other irregularities that are consistent with the Financial Regulation are applicable.

The Commission and the authorities of North Macedonia will agree on an MoU setting out the structural reform measures associated with the proposed MFA operation, including aspects of timing and sequencing. Moreover, as is normally the case with MFA, the disbursements would be conditional on a number of points including satisfactory reviews under the IMF programme. The Commission will work closely with the authorities of North Macedonia to monitor progress on the policy actions and the preconditions that have been specified above.

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

on providing macro-financial assistance to the Republic of North Macedonia

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission,

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure,

Whereas:

- (1) Relations between the European Union ('the Union') and the Republic of North Macedonia ('North Macedonia') continue to develop within the framework of the EU Stabilisation Agreement and the EU accession negotiations launched in July 2022.
- (2) The economy of North Macedonia has been significantly affected by the 2020 recession caused by the COVID-19 pandemic, as well as by the recent energy crisis. The situation contributed to the country's sizeable financing gap, deteriorating external position, and growing fiscal needs.
- (3) The government of North Macedonia has demonstrated a strong commitment to further reforms, focusing on the key policy areas identified in the Joint Ministerial Conclusions of May 2022 and including areas of the fundamentals such as the judiciary, the fight against corruption and organised crime, good governance and the rule of law.
- (4) North Macedonia has successfully completed the COVID-19 macro-financial assistance operation⁶, because all the reform actions agreed with the Union in the Memorandum of Understanding have been carried out.
- (5) The government and the IMF reached staff-level agreement (in April 2022) on a 24-month precautionary and liquidity line (PLL) for up to EUR 530 million, which was officially approved by the IMF Executive Board on 22 November 2022. The IMF programme aims to mitigate the worsening external situation, support fiscal consolidation and accelerate structural reforms in a number of areas, including tax policy and public investment.
- (6) In view of the worsening economic situation and outlook, North Macedonia first requested complementary macro-financial assistance from the Union in April 2022. The Commission put the request on hold, however, because the economy of North Macedonia was still proving quite resilient at that time and there were some other

⁶ Decision (EU) 2020/701 of the European Parliament and of the Council of 25 May 2020 on providing macro-financial assistance to enlargement and neighbourhood partners in the context of the COVID-19 pandemic (OJ L 165, 27.5.2020, p. 31).

financing options available to meet 2022 external financing needs. The government of North Macedonia renewed its request for macro-financial assistance in October 2022.

- (7) Given that North Macedonia is an EU candidate country, which started the accession negotiations process in July 2022, the country is considered eligible to receive macro-financial assistance from the Union.
- (8) The Union's macro-financial assistance should be an exceptional financial instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary's immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position in the short term.
- (9) Given that there are still significant residual external financing needs in the country's balance of payments, beyond the needs met by the resources provided by the IMF, the macro-financial assistance to be provided to North Macedonia is, in the current exceptional circumstances, considered to be an appropriate response to the country's request for support in stabilising its economy, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of North Macedonia, supplementing resources made available under the IMF's financial arrangement.
- (10) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for North Macedonia thereby supporting its economic and social development.
- (11) The Union's macro-financial assistance is expected to go hand-in-hand with the implementation of disbursements of budget support operations under the Instrument for Pre-Accession.
- (12) The determination of the amount of the Union's macro-financial assistance is based on a quantitative assessment of the residual external financing needs of North Macedonia and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account expected financial contributions from multilateral donors and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in North Macedonia and the added value of the overall Union involvement.
- (13) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in line with the key principles, objectives and measures taken within the different areas of external action and other relevant Union policies.
- (14) The Union's macro-financial assistance should support the Union's external policy towards North Macedonia. The Commission and the High Representative should work closely together throughout the macro-financial assistance operation in order to coordinate and ensure the consistency of the Union's external policy.
- (15) The Union's macro-financial assistance should support the commitment of North Macedonia to values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rules-based and fair trade.

- (16) A pre-condition for granting the Union's macro-financial assistance should be that North Macedonia respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems, the governance and supervision of the financial sector and promote structural reforms aimed at supporting sustainable and inclusive growth, decent employment creation and fiscal consolidation. Both the fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission.
- (17) In order to ensure that the Union's financial interests linked to the Union's macro-financial assistance are protected efficiently, North Macedonia should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, provision should be made for the Commission to carry out checks and for the Court of Auditors to carry out audits.
- (18) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council as budgetary authority.
- (19) The amounts of the provision required for macro-financial assistance in the form of loans should be consistent with the budgetary appropriations provided for in the multiannual financial framework.
- (20) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.
- (21) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council⁷.
- (22) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the authorities of North Macedonia under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-financial assistance to North Macedonia, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,
- (23) Given the limited amount of the financial assistance (EUR 100 million), its one-off nature, and the desired time frame of the disbursement, the back-to-back funding approach would ensure more flexibility and efficiency of the borrowing operations

⁷ Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

compared to the diversified funding strategy. Therefore, as a way of exception the Commission should fund the loan instalments in the capital market back-to-back and not by using its diversified funding strategy provided for in Article 220a of the Financial Regulation. It is therefore appropriate to fund the financial assistance through individual financial transactions.

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of EUR 100 million available to North Macedonia ("the Union's macro-financial assistance"), with a view to supporting the country's economic stabilisation and a substantive reform agenda. The entire amount shall be provided in the form of loans. The release of the Union's macro-financial assistance is subject to the approval of the Union budget for the relevant year by the European Parliament and the Council. The assistance shall contribute to covering the balance of payments needs of North Macedonia as identified in the IMF programme.
2. In order to finance the loan, the Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions and to on-lend to North Macedonia the corresponding amounts under the conditions applicable to the borrowings. The loans shall have a maximum average maturity of up to 15 years.
3. The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the IMF and North Macedonia, and with the key principles and objectives of economic reforms set out in the EU-North Macedonia Stabilisation and Association Agreement.

The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.
4. The Union's macro-financial assistance shall be made available for a period of two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1).
5. Where the financing needs of North Macedonia decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

Article 2

1. A pre-condition for granting the Union's macro-financial assistance shall be that North Macedonia respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.

2. The Commission shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance.
3. Paragraphs 1 and 2 shall be applied in accordance with Council Decision 2010/427/EU⁸.

Article 3

1. The Commission shall, in accordance with the examination procedure referred to in Article 7(2), agree with the authorities of North Macedonia on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, that are to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding") which shall include a timeframe for the fulfilment of those conditions. The economic policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by North Macedonia with the support of the IMF.
2. The conditions referred to in paragraph 1 shall aim, in particular, at enhancing the efficiency, transparency and accountability of the public finance management systems in North Macedonia, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade, and other priorities in the context of the Union's external policy shall also be taken into due account when designing the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.
3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a Loan Agreement to be concluded between the Commission and North Macedonia.
4. The Commission shall verify, at regular intervals, that the conditions referred to in Article 4(3) continue to be met, including whether the economic policies of North Macedonia are in accordance with the objectives of the Union's macro-financial assistance. For that verification, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

Article 4

1. Subject to the conditions in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in two equal instalments.
2. The amounts of the Union's macro-financial assistance shall be provisioned, where required, in accordance with Regulation (EU) 2021/947 of the European Parliament and of the Council.
3. The Commission shall decide on the release of the instalments subject to the fulfilment of the following conditions:

⁸ Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).

- (a) the pre-condition set out in Article 2;
- (b) a continuous satisfactory track record of implementing a policy programme that contains strong adjustment and structural reform measures supported by a disbursing IMF credit arrangement;
- (c) the satisfactory implementation of the economic policy and financial conditions agreed in the Memorandum of Understanding.

The release of the second instalment shall not, in principle, take place earlier than 3 months after the release of the first instalment.

Where the conditions in paragraph 3 are not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for that suspension or cancellation.

- 4. The Union's macro-financial assistance shall be disbursed to the National Bank of North Macedonia. Subject to the provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred to the Ministry of Finance of North Macedonia as the final beneficiary.

Article 5

- 1. The borrowing and lending operations related to the Union's macro-financial assistance shall be carried out in euro using the same value date and shall not involve the Union in the transformation of maturities, or expose it to any exchange or interest rate risk, or to any other commercial risk.
- 2. Where the circumstances permit, and if North Macedonia so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.
- 3. Where circumstances permit the interest rate of the loan to be improved, and if North Macedonia so requests, the Commission may decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with paragraphs 1 and 4 and shall not have the effect of extending the maturity of the borrowings concerned or of increasing the amount of capital outstanding at the date of the refinancing or restructuring.
- 4. North Macedonia shall bear all the costs incurred by the Union which relate to the borrowing and lending operations under this Decision.
- 5. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraphs 2 and 3.

Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council⁹.
2. The implementation of the Union's macro-financial assistance shall be under direct management.
3. The loan agreement to be agreed with the authorities of North Macedonia shall contain provisions:
 - (a) ensuring that North Macedonia regularly checks that financing provided from the budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any funds provided under this Decision that have been misappropriated;
 - (b) ensuring the protection of the Union's financial interests, in particular providing for specific measures in relation to the prevention of, and fight against, fraud, corruption and any other irregularities affecting the Union's macro-financial assistance, in accordance with Council Regulation (EC, Euratom) No 2988/95¹⁰, Council Regulation (EC, Euratom) No 2185/96¹¹, Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council¹² and, for those Member States participating in enhanced cooperation regarding the European Public Prosecutor's Office, Council Regulation (EU) 2017/1939¹³; notably, to that end, the European Anti-Fraud Office (OLAF) shall be expressly authorised to carry out investigations, including in particular on-the-spot checks and inspections including digital forensic operations and interviews; expressly authorising the Commission, or its representatives to carry out checks, including on-the-spot checks and inspections;
 - (c) expressly authorising the Commission and the Court of Auditors to perform audits during and after the availability period of the Union's macro-financial assistance, including document audits and on-the-spot audits, such as operational assessments;
 - (d) ensuring that the Union is entitled to early repayment of the loan if it has been established that, in relation to the management of the Union's macro-financial assistance, North Macedonia has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.
 - (e) Ensuring that North Macedonia shall bear all costs incurred by the Union that relate to financial assistance.

⁹ Regulation (EU, Euratom) No 1046/2018 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union and repealing Regulation (EC, Euratom) No 966/2012 (OJ L 193, 30.07.2018, p. 1).

¹⁰ Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

¹¹ Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission to protect the Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

¹² Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

¹³ Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office ('the EPPO') (OJ L 283, 31.10.2017, p. 1).

4. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, the soundness of the country's financial arrangements, the administrative procedures, and the internal and external control mechanisms, which are relevant to the assistance.

Article 7

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.
2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Article 8

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:
 - (a) examine the progress made in implementing the Union's macro-financial assistance;
 - (b) assess the economic situation and prospects of North Macedonia, as well as progress made in implementing the policy measures referred to in Article 3(1);
 - (c) indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, the country's ongoing economic and fiscal performance and the Commission's decisions to release the instalments of the Union's macro-financial assistance.
2. Not later than 2 years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex-post evaluation report, assessing the results and efficiency of the Union's completed macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Article 9

This Decision shall enter into force on the third day after its publication in the Official Journal of the European Union.

Done at Brussels,

For the European Parliament
The President

For the Council
The President

LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Proposal for a Decision of the European Parliament and of the Council providing further Macro-financial assistance to the Republic of North Macedonia

1.2. Policy area(s) concerned in the ABM/ABB structure¹⁴

Policy area: Economic and Financial Affairs

Activity: International economic and financial affairs

1.3. Nature of the proposal/initiative

☒ The proposal/initiative relates to **a new action**

☐ The proposal/initiative relates to **a new action following a pilot project/preparatory action¹⁵**

☐ The proposal/initiative relates to **the extension of an existing action**

☐ The proposal/initiative relates to **an action redirected towards a new action**

1.4. Objective(s)

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

“An Economy that works for people”

“A stronger Europe in the world”

1.4.2. Specific objective(s)

(a) Supporting macro-financial stability and promoting growth-enhancing reforms outside the EU, including through regular economic dialogues with key partners and by providing macro-financial assistance; and

(b) Supporting the enlargement process and the implementation of the EU enlargement and neighbourhood policies and other EU priorities in partners by conducting economic analysis and providing policy assessments and advice.

1.4.3. Expected result(s) and impact

Specify the effects which the proposal/initiative should have on the beneficiaries/groups targeted.

- (1) Contribute to covering the external financing needs of North Macedonia in the context of a significant deterioration of their external accounts brought about by the on-going COVID-19 pandemic and the energy crisis.
- (2) Alleviate the budgetary financing needs of North Macedonia.
- (3) Support the fiscal consolidation effort and external stabilisation in the context of the IMF programme.
- (4) Support structural reforms aimed at improving the overall macroeconomic management, strengthening economic governance and transparency, and improving conditions for sustainable growth.

¹⁴ ABM: activity-based management; ABB: activity-based budgeting.

¹⁵ As referred to in Article 54(2)(a) or (b) of the Financial Regulation.

1.4.4. *Indicators of performance*

Specify the indicators for monitoring progress and achievements.

The authorities of North Macedonia will be required to report on a set of economic indicators to the Commission services on a regular basis and provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the instalments of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures in North Macedonia, that was delivered in July 2020. The EU Delegation in North Macedonia will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in North Macedonia.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, including an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. **Grounds for the proposal/initiative**

1.5.1. *Requirement(s) to be met in the short or long term including a detailed timeline for roll-out of the implementation of the initiative*

The disbursement of the assistance will be conditional on the fulfilment of the political pre-conditions and a satisfactory track record in the implementation of the economic programme between North Macedonia and the IMF, which was approved by the Board on 22 November 2022, following implementation by the authorities of North Macedonia of a number of prior actions. In addition, the Commission shall agree with the authorities of North Macedonia on specific policy conditions, listed in a Memorandum of Understanding.

The assistance is planned to be disbursed in two instalments. The disbursement of the first instalment is expected to take place in autumn 2023. The second instalment could be disbursed in early 2024, provided that the policy measures attached to each instalment have been implemented in a timely manner.

1.5.2. *Added value of Union involvement (it may result from different factors, e.g. coordination gains, legal certainty, greater effectiveness or complementarities). For the purposes of this point 'added value of Union involvement' is the value resulting from Union intervention which is additional to the value that would have been otherwise created by Member States alone.*

The instrument of macro-financial assistance is a policy-based instrument directed to alleviate short- and medium-term external financial needs. In the context of the ongoing energy crisis, MFA will help to provide economic and fiscal policy space for the authorities to mount an effective economic response to the crisis. By helping the partner overcome the economic difficulties amplified by the energy crisis and the COVID-19 pandemic, the proposed MFA will contribute to promoting macroeconomic and political stability in North Macedonia. MFA will complement the resources made available by the international financial institutions, bilateral donors and other EU financial institutions. In doing so, it will contribute to the overall effectiveness of the financial support provided by the international

community, as well as of other EU financial assistance, including budgetary support operations.

Furthermore, by providing long-term financing in highly concessional terms, usually lower than the rest of international or bilateral donors, the MFA programme is expected to help the government to execute its budget without fiscal deviations and to contribute to debt sustainability.

In addition to the financial impact of the MFA, the proposed programme will strengthen the government's reform commitment. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal that the EU is ready to support its partners in candidate countries and in the wider Eastern neighbourhood in moments of economic difficulties.

1.5.3. Lessons learned from similar experiences in the past

Macro-financial assistance operations in partners are subject to ex-post evaluation. Evaluations conducted thus far (on completed MFA programmes), conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the partner. In most cases, MFA operations had a positive effect on the balance of payments of the partner and helped to relax their budgetary constraints. They also led to somewhat higher economic growth.

1.5.4. Compatibility with the Multiannual Financial Framework and possible synergies with other appropriate instruments

Compatibility with the Multiannual Financial Framework

In the 2021-2027 multiannual financial framework, the provision of MFA loans will be covered by the External Action Guarantee within Global Europe (Neighbourhood, Development and International Cooperation Instrument). The (indicative) lending capacity foreseen for MFA is sufficient to cover this operation as well as other MFA operations being implemented.

Possible synergies with other appropriate instruments

The EU is among the major donors to North Macedonia, supporting its economic, structural and institutional reforms as well as civil society. In this context, this MFA programme complements other EU external actions or instruments, in particular the Instrument for Pre-accession assistance (IPA) operations, used to support North Macedonia.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a sustainable balance-of-payments and budgetary situation, and an appropriate framework for advancing structural reforms. MFA does not provide regular financial support and is to be discontinued as soon as the partner's external financial situation has been brought back onto a sustainable path.

MFA would also be complementary to interventions envisaged by the international community, in particular the adjustment and reform programmes supported by the IMF and the World Bank.

Assessment of the different available financing options, including scope for redeployment

By using loans, this MFA operation increases the effectiveness of the EU budget through the leverage effect and provides for the best cost-efficient option.

The Commission is empowered to borrow funds from capital markets on behalf of both the European Union and Euratom using the guarantee of the EU budget. The aim is to obtain funds from the market at the best available rates due to the top credit status (AAA-rated by Fitch, Moody's and DBRS, AA by S&P, all with stable outlook) of the EU/Euratom and then on-lend them to eligible borrowers in the context of lending under the EFSM, BoP, MFA and to Euratom projects. Borrowing and lending is conducted as a back-to-back operation, ensuring that the EU budget does not take any interest rate or foreign exchange risk. The target of obtaining funds at the best available rates for borrowing and lending activities has been achieved because those rates are in line with peer institutions (EIB, EFSM, and ESM).

1.6. Duration and financial impact of the proposal/initiative

☒ limited duration

- ☐ in effect from 2022 to 2024
- ☐ Financial impact from 2022 to 2024 for commitment appropriations and from 2022 to 2025 for payment appropriations.

☐ unlimited duration

- Implementation with a start-up period from YYYY to YYYY,
- followed by full-scale operation.

1.7. Management mode(s) planned¹⁶

☒ Direct management by the Commission

- ☒ by its departments, including by its staff in the Union delegations;
- ☐ by the executive agencies

☐ Shared management with the Member States

☐ Indirect management by entrusting budget implementation tasks to:

- ☐ third countries or the bodies they have designated;
- ☐ international organisations and their agencies (to be specified);
- ☐ the EIB and the European Investment Fund;
- ☐ bodies referred to in Articles 70 and 71 of the Financial Regulation;
- ☐ public law bodies;
- ☐ bodies governed by private law with a public service mission to the extent that they are provided with adequate financial guarantees;
- ☐ bodies governed by the private law of a Member State that are entrusted with the implementation of a public-private partnership and that are provided with adequate financial guarantees;
- ☐ persons entrusted with the implementation of specific actions in the CFSP pursuant to Title V of the TEU, and identified in the relevant basic act.
- *If more than one management mode is indicated, please provide details in the 'Comments' section.*

Comments

¹⁶ Details of management modes and references to the Financial Regulation may be found on the BudgWeb site:
<https://myintracomm.ec.europa.eu/budgweb/EN/man/budgmanag/Pages/budgmanag.aspx>

2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

Specify frequency and conditions.

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

This assistance is of macroeconomic nature and its design is consistent with the IMF-supported programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the IMF arrangement and the implementation of specific reform measures to be agreed with the authorities of the partners in a Memorandum of Understanding with a frequency that is consistent with the number of instalments (See also point 1.4.4).

2.2. Management and control system(s)

2.2.1. *Justification of the management mode(s), the funding implementation mechanism(s), the payment modalities and the control strategy proposed*

The actions to be financed under this Decision will be implemented under direct management by the Commission from headquarters and with support of the Union delegations.

MFA disbursements are dependent on successful reviews, and tied to the fulfilment of conditionality attached to each operation. The implementation of conditions is closely monitored by the Commission, in close coordination with the Union Delegations.

2.2.2. *Information concerning the risks identified and the internal control system(s) set up to mitigate them*

Risks identified

A reliable track record of repaying external obligations on time; good credit rankings; sound macrofiscal policies and moderate debt levels (as well as improvements in the structure of debt towards longer maturities) underline the country's capacity to service its debts, even against the background of increasing public debt levels and rising interest payments. Overall, North Macedonia has a track record of steady sovereign access to international capital markets at favorable terms. The country's debt is ranked BB-/B by Standard and Poor's (August 2022), with a stable outlook. Past progress in developing institutional capacities in public financial management and in the fight against corruption make it unlikely that the MFA, which is not dedicated to specific expenses (contrary to project financing, for example), could be used in a fraudulent way. Management systems in the central bank and the Ministry of Finance, administrative procedures, control and oversight functions, the security of IT systems and the appropriateness of internal and external audit capabilities are at a considerably advanced stage in North Macedonia. There are moderate external risks, stemming from a possible weakening of the European and global economic environment and from a significantly drawn-out war of aggression against Ukraine, impacting further on international energy prices (taking into account the dependence of North Macedonia on energy imports, including full reliance on Russia for gas imports, and the country's close trade links with the EU market).

Internal control systems

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and by the European Court of Auditors as foreseen by Article 129 of the Financial Regulation

Ex-ante: Commission assessment of management and control system in the beneficiary country. For each beneficiary country, an ex-ante operational assessment of the financial circuits and control environment is carried out by the Commission, if necessary, with technical support from consultants. An analysis of accounting procedures, segregation of duties and internal/external audit of the Central bank and the Ministry of Finance are carried out to ensure a reasonable level of assurance for sound financial management. Should weaknesses be identified, they are translated into conditions, which have to be implemented before the disbursement of the assistance. Also, when needed, specific arrangements for payments (e.g. ring-fenced accounts) are put in place.

During implementation: Commission checks of periodic partner declarations. The payment is subject to (1) monitoring by DG ECFIN staff, in close coordination with the EU Delegations and with the external stakeholders, like the IMF, of the implementation of the agreed conditionalities, and (2) the normal control procedure provided for by the financial circuit (model 2) used in DG ECFIN, including the verification by the financial unit of the fulfilment of conditions attached to the disbursement of the assistance mentioned above. The disbursement relating to MFA operations may be subject to additional independent ex-post (documentary and/or on-the-spot) verifications by officials of the ex-post control team of the DG. Such verifications may also be initiated at the request of the responsible AOSD. Interruptions and suspensions of payments, financial corrections (implemented by Commission), and recoveries may be practiced where needed (it has not occurred so far), and are explicitly foreseen in the financing agreements with the partner.

2.2.3. *Estimation and justification of the cost-effectiveness of the controls (ratio of "control costs ÷ value of the related funds managed"), and assessment of the expected levels of risk of error (at payment & at closure)*

The control systems in place, such as the ex-ante operational assessments or the ex-post assessments, ensured an effective error rate for the MFA payments of 0%. There are no known cases of fraud, corruption or illegal activity. MFA operations have a clear intervention logic, one that allows the Commission to evaluate their impact. The controls enable the confirmation of assurance and of attainment of policy objectives and priorities.

2.3. Measures to prevent fraud and irregularities

Specify existing or envisaged prevention and protection measures, e.g. from the Anti-Fraud Strategy.

To mitigate the risks of fraudulent use several measures have been and will be taken:

First, the Loan Agreement will comprise a set of provisions on inspection, fraud prevention, audits and recovery of funds in case of fraud or corruption. It is further envisaged that a number of specific policy conditions will be attached to the assistance, including in the area of public finance management, with a view to strengthening efficiency, transparency and accountability. Also, the assistance will be paid to a specific account of the Central Bank of the partner.

Moreover, in line with the requirements of the Financial Regulation, the Commission services have carried out an Operational Assessment of the financial and

administrative circuits of North Macedonia to ascertain that the procedures in place for the management of programme assistance, including MFA, provide adequate guarantees. The assessment was carried out in 2020, and covers areas such as budget preparation and execution, public internal financial control, internal and external audit, public procurement, cash and public debt management, as well as the independence of the central bank. Developments in that area will be further closely monitored by the EU Delegations in the respective partner. The Commission is also using budget support assistance to help the respective partners improve their PFM systems, and these efforts are strongly supported by other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Anti-Fraud Office (OLAF), and the European Court of Auditors as foreseen by Article 129 of the Financial Regulation.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

In order of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number	Diff./Non-diff. ¹⁷	from EFTA countries ¹⁸	from candidate countries ¹⁹	from third countries	within the meaning of Article 21(2)(b) of the Financial Regulation
	15.020203	Diff.	NO	NO	NO	NO

- New budget lines requested – Not applicable

¹⁷ Diff. = Differentiated appropriations / Non-diff. = Non-differentiated appropriations.

¹⁸ EFTA: European Free Trade Association.

¹⁹ Candidate countries and, where applicable, potential candidates from the Western Balkans.

3.2. Estimated financial impact of the proposal on appropriations

3.2.1. Summary of estimated impact on operational appropriations

- ☐ The proposal/initiative does not require the use of operational appropriations
- **X The proposal/initiative requires the use of operational appropriations, as explained below:**

EUR million (to three decimal places)

Heading of multiannual financial framework	6	Heading 6 - 'Neighbourhood and the World'
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DG: ECFIN			Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
• Operational appropriations									
Budget line ²⁰ 15.020203	Commitments	(1)						9	9
	Payments	(2)						9	9
Appropriations of an administrative nature financed from the envelope of specific programmes ²¹									
Budget line 14.20.03.01		(3)					0.15		0.15
TOTAL appropriations for DG ECFIN	Commitments	=1 +3					0.15	9	9.15
	Payments	=2 +3					0.15	9	9.15

²⁰ According to the official budget nomenclature.

²¹ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

• TOTAL operational appropriations	Commitments	(4)						9	9
	Payments	(5)						9	9
• TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)					0.15		0.15
TOTAL appropriations under HEADING 6 of the multiannual financial framework	Commitments	=4+ 6					0.15	9	9.15
	Payments	=5+ 6					0.15	9	9.15

If more than one operational heading is affected by the proposal / initiative, repeat the section above: (EUR million (to three decimal places))

Heading of multiannual financial framework	7	Heading 7 – ‘European public administration’
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This section should be filled in using the 'budget data of an administrative nature' to be firstly introduced in the [Annex to the Legislative Financial Statement](#) (Annex V to the internal rules), which is uploaded to DECIDE for interservice consultation purposes.

DG: ECFIN			Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	TOTAL
Human Resource				0.262	0.262		0.262	0.786
Other administrative expenditure				0.005	0.005			0.010
TOTAL appropriations under HEADING 7 of the multiannual financial framework	Appropriations			0.267	0.267		0.262	0.796
	(Total commitments = Total payments)			0.267	0.267		0.262	0.796

			Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027	TOTAL
TOTAL appropriations under HEADINGS 1 to 7 of the multiannual financial framework	Commitments	=4+ 6		0.267	0.267		0.417	9.000	9.951
	Payments	=5+ 6		0.267	0.267		0.417	9.000	9.951

(Reference amount)									
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– Estimated output funded with operational appropriations

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs ↓		Year 2022		Year 2023		Year 2024		Year 2026		Year 2027		TOTAL	
	Type ²²	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total cost
SPECIFIC OBJECTIVE NO 1 ²³													
- Output 1	Grant disbursements												
- Output 2	Provisioning of the External Action Guarantee									2	9	2	9
- Output 3	Ex-post evaluation							1	0.15			1	0.15
Subtotal for specific objective No 1		-	-	-	-	-	-	1	0.15	2	9	3	9.15
TOTAL COST		-	-	-	-	-	-	1	0.15	2	9	3	9.15

²² Outputs are products and services to be supplied (e.g.: number of student exchanges financed, number of km of roads built, etc.).

²³ As described in point 1.4.2. ‘Specific objective(s)...’

3.2.2. Summary of estimated impact on administrative appropriations

- **X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:**

EUR million (to three decimal places)

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026	TOTAL
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HEADING 7 of the multiannual financial framework						
Human resources		0.262	0.262		0.262	0.786
Other administrative expenditure		0.005	0.005			0.010
Subtotal HEADING 7 of the multiannual financial framework		0.267	0.267		0.262	0.796

Outside HEADING 7²⁴ of the multiannual financial framework						
Human resources						
Other expenditure of an administrative nature						
Subtotal outside HEADING 7 of the multiannual financial framework						

TOTAL		0.267	0.267		0.262	0.796
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The appropriations required for human resources and other expenditure of an administrative nature will be met by appropriations from the DG that are already assigned to management of the action and/or have been redeployed within the DG.

²⁴ Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

3.2.2.1. Estimated requirements of human resources

- **X The proposal/initiative requires the use of human resources, as explained below:**

Estimate to be expressed in full time equivalent units

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
• Establishment plan posts (officials and temporary staff)					
20 01 02 01 (Headquarters and Commission's Representation Offices)		0.171	0.171		0.171
20 01 02 03 (Delegations)					
01 01 01 01 (Indirect research)					
01 01 01 11 (Direct research)					
Other budget lines (specify)					
• External staff (in Full Time Equivalent unit: FTE)²⁵					
20 02 01 (AC, END, INT from the 'global envelope')		0.091	0.091		0.091
20 02 03 (AC, AL, END, INT and JPD in the delegations)					
XX 01 xx yy zz²⁶	- at Headquarters				
	- in Delegations				
01 01 01 02 (AC, END, INT - Indirect research)					
01 01 01 12 (AC, END, INT - Direct research)					
Other budget lines (specify)					
TOTAL		0.262	0.262		0.262

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Description of tasks to be carried out:

Officials and temporary staff	Director Dir. D: Supervise and manage the operation, liaise with Council and Parliament for the adoption of the Decision and the approval of the Memorandum of Understanding (MoU), negotiate the MoU with the authorities of North Macedonia, review reports, lead missions and assess progress with conditionality compliance. HoU/DHoU Dir. D: Assist the Director in managing the operation, liaising with Council and Parliament for the adoption of the Decision and the approval of the MoU, negotiating with the authorities of North Macedonia the MoU and Loan Facility Agreement (together with DG BUDGET), reviewing reports and assessing progress with conditionality compliance. DG BUDGET (Units E1, E3 under the supervision of the Director): Prepare the Loan Facility Agreement (LFA), negotiate it with the authorities of North Macedonia and have it approved by the responsible Commission services and signed by both parties. Follow up the entry into force of the LFA. Prepare the Commission decision(s) on the borrowing transaction(s), follow up the submission of the Request(s) for Funds, select
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²⁵ AC= Contract Staff; AL = Local Staff; END= Seconded National Expert; INT = agency staff; JPD= Junior Professionals in Delegations.

²⁶ Sub-ceiling for external staff covered by operational appropriations (former 'BA' lines).

	the banks, prepare and execute the funding transaction(s) and disburse the funds to the country. Carry out the back-office activities to follow up the reimbursement of the loan(s). Prepare the corresponding reports on these activities.
External staff	Desk economists, MFA Sector (Dir. D): Prepare the Decision and MoU, liaise with the authorities and the IFIs, conduct review missions, prepare Commission staff reports and Commission procedures related to the management of the assistance, liaise with external experts for the operational assessment and the ex-post evaluation.

3.2.3. *Compatibility with the current multiannual financial framework*

The proposal/initiative:

- **X can be fully financed through redeployment within the relevant heading of the Multiannual Financial Framework (MFF).**

3.2.4. *Third-party contributions*

The proposal/initiative:

- **X does not provide for co-financing by third parties**

3.3. Estimated impact on revenue

- **X The proposal/**
- **initiative has no financial impact on revenue.**
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