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INFORMATION NOTE

From: General Secretariat of the Council
To: Permanent Representatives Committee/Council

Subject: Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on providing macro-financial assistance to the Republic of North Macedonia
- Outcome of the European Parliament's first reading
(Strasbourg, 12 to 15 June 2023)

I. INTRODUCTION

On 31 May 2023, the Permanent Representatives Committee confirmed that should the European Parliament approve the abovementioned Commission's proposal without amendments, the Council would approve the European Parliament's position.

On 30 May 2023, the rapporteur, Angelika WINZIG (EPP, AT), presented a report on behalf of the Committee on International Trade on the proposal for a decision of the European Parliament and of the Council on providing macro-financial assistance to the Republic of North Macedonia, aiming at taking over the Commission proposal.

II. VOTE

The Parliament adopted its first-reading position on 13 June 2023 by taking over the Commission proposal. This position is contained in its legislative resolution.

The Council should therefore be in a position to approve the European Parliament's position as set out in the Annex hereto, thus bringing to a close the first reading for both Institutions.

The legislative act would then be adopted in the wording which corresponds to the European Parliament's position.

P9_TA(2023)0221

Macro-financial assistance to North Macedonia

European Parliament legislative resolution of 13 June 2023 on the proposal for a decision of the European Parliament and of the Council on providing macro-financial assistance to the Republic of North Macedonia (COM(2023)0074 – C9-0015/2023 – 2023/0034(COD))

(Ordinary legislative procedure: first reading)

The European Parliament,

- having regard to the Commission proposal to Parliament and the Council (COM(2023)0074),
 - having regard to Article 294(2) and Article 212 of the Treaty on the Functioning of the European Union, pursuant to which the Commission submitted the proposal to Parliament (C9-0015/2023),
 - having regard to Article 294(3) of the Treaty on the Functioning of the European Union,
 - having regard to the undertaking given by the Council representative by letter of 31 May 2023 to approve Parliament’s position, in accordance with Article 294(4) of the Treaty on the Functioning of the European Union,
 - having regard to Rule 59 of its Rules of Procedure,
 - having regard to the letter from the Committee on Budgets,
 - having regard to the report of the Committee on International Trade (A9-0203/2023),
1. Adopts its position at first reading hereinafter set out;
 2. Calls on the Commission to refer the matter to Parliament again if it replaces, substantially amends or intends to substantially amend its proposal;
 3. Instructs its President to forward its position to the Council, the Commission, the national parliaments and the government and the parliament of the Republic of North Macedonia.

P9_TC1-COD(2023)0034

Position of the European Parliament adopted at first reading on 13 June 2023 with a view to the adoption of Decision (EU) 2023/... of the European Parliament and of the Council 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(2) 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 procedure¹,

¹ Position of the European Parliament of 13 June 2023.

Whereas:

- (1) Relations between the Union and the Republic of North Macedonia (North Macedonia) continue to develop within the framework of the Stabilisation and Association Agreement between the European Communities and their Member States, of the one part, and the former Yugoslav Republic of Macedonia, of the other part² (the ‘Stabilisation and Association Agreement’). Accession negotiations between the Union and North Macedonia were launched on 19 July 2022.
- (2) The economy of North Macedonia has been significantly affected by the recession in 2020, which was caused by the COVID-19 pandemic, as well as by the recent energy crisis. Those circumstances have 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 implementing further reforms, focusing on key policy areas identified in the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of 24 May 2022 and including fundamental areas 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 macro-financial assistance operation in the context of the COVID-19 pandemic pursuant to Decision (EU) 2020/701 of the European Parliament and of the Council³, as all reform actions agreed with the Union in the Memorandum of Understanding referred to in that Decision have been carried out.
- (5) In April 2022, the government of North Macedonia and the International Monetary Fund (IMF) reached a staff-level agreement on a 24-month precautionary and liquidity line for up to EUR 530 000 000, which was officially approved by the IMF Executive Board on 22 November 2022. The IMF programme aims to mitigate the worsening external situation,

² OJ L 84, 20.3.2004, p. 13.

³ 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).

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 macro-financial assistance from the Union to complement the IMF programme, in April 2022. However, the Commission put that request on hold because the country's economy was still proving quite resilient at that time and there were some other financing options available to meet the 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 a candidate country and has begun accession negotiations, it is considered eligible to receive macro-financial assistance from the Union.
- (8) The Union's macro-financial assistance to North Macedonia should be an exceptional financial instrument of untied and undesignated balance-of-payments support which aims to address North Macedonia's immediate external financing needs, and it should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve North Macedonia's balance-of-payments position in the short term.
- (9) Given that there are still significant residual external financing needs in North Macedonia's balance of payments, beyond the needs met by the resources provided by the IMF, the Union's macro-financial assistance 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 budget support operations under the Instrument for Pre-Accession

Assistance pursuant to Regulation (EU) 2021/1529 of the European Parliament and of the Council⁴.

- (12) The determination of the amount of the Union's macro-financial assistance to North Macedonia should be based on a quantitative assessment of the residual external financing needs of North Macedonia and takes into account the country's capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance to North Macedonia should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance should also take 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 Union's overall involvement in North Macedonia.
- (13) The Commission should ensure that the Union's macro-financial assistance to North Macedonia is legally and substantially in accordance with the key principles and objectives of the different areas of external action, with the measures taken in respect of those areas, and with 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 European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and ensure the consistency of, 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, rule-based and fair trade.
- (16) A precondition for granting the Union's macro-financial assistance should be that North Macedonia respect effective democratic mechanisms, including a multi-party parliamentary system, and the rule of law, and guarantee respect for human rights. In

⁴ Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III) (OJ L 330, 20.9.2021, p. 1).

addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems, as well as of the governance and supervision of the financial sector, in North Macedonia and should promote structural reforms that aim to support sustainable and inclusive growth, decent employment creation and fiscal consolidation. The Commission should regularly monitor the North Macedonia's fulfilment of that precondition and the achievement of those objectives.

- (17) In order to ensure that the Union's financial interests linked to its 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 that assistance. In addition, provision should be made for the Commission to carry out checks, for the Court of Auditors to carry out audits and for the European Public Prosecutor's Office to exercise its competences with regard to the provision of the Union's macro-financial assistance to North Macedonia.
- (18) The release of the Union's macro-financial assistance to North Macedonia is without prejudice to the powers of the European Parliament and the Council as budgetary authority.
- (19) The amounts of the Union's macro-financial assistance to North Macedonia provided 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 to North Macedonia 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 that assistance and provide them with the 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 Council⁵.

⁵ 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).

- (22) The Union's macro-financial assistance to North Macedonia should be subject to economic policy conditions, to be set out in a memorandum of understanding (MoU). 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 significant impact of assistance of more than EUR 90 000 000, it is appropriate that the examination procedure as specified in Regulation (EU) No 182/2011 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 MoU, and to any reduction, suspension or cancellation of that assistance.
- (23) Given the limited amount of the financial assistance, namely EUR 100 000 000, its one-off nature, and the desired time frame of the disbursement, a back-to-back funding approach would ensure more flexibility and efficiency of the borrowing operations compared to the diversified funding strategy. Therefore, by way of exception, the Commission should fund the loan instalments on the capital market back-to-back rather than by means of the diversified funding strategy provided for in Article 220a of Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council⁶. It is therefore appropriate to fund the macro-financial assistance to North Macedonia through individual financial transactions,

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of EUR 100 000 000 available to North Macedonia (the 'Union's macro-financial assistance'), with a view

⁶ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012 (OJ L 193, 30.7.2018, p. 1).

to supporting North Macedonia's economic stabilisation and substantive reform agenda. The entire amount of the assistance shall be provided in the form of loans. The release of the Union's macro-financial assistance is subject to the adoption 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 the corresponding amounts to North Macedonia under the conditions applicable to the borrowings. The loans shall have a maximum average maturity of 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 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 MoU referred to in Article 3(1).
5. If 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 precondition for granting the Union's macro-financial assistance shall be that North Macedonia respect effective democratic mechanisms, including a multi-party parliamentary system, and the rule of law, and guarantee respect for human rights.

2. The Commission shall monitor North Macedonia's fulfilment of the precondition set out in paragraph 1 throughout the life-cycle of the Union's macro-financial assistance.
3. Paragraphs 1 and 2 of this Article shall apply in accordance with Council Decision 2010/427/EU⁷.

Article 3

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall 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. Those economic policy and financial conditions shall be set out in a memorandum of understanding (MoU) which shall include a time frame for the fulfilment of those conditions. Those economic policy and financial conditions shall be consistent with the agreements or understandings referred to in Article 1(3), including the macro-economic 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, to enhance 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 rule-based and fair trade, and other priorities in the context of the Union's external policy shall also be duly taken into account when designing the policy measures. The Commission shall regularly monitor North Macedonia's progress in attaining those objectives.
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 the purposes of that verification, the Commission shall coordinate closely with the IMF

⁷ 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).

and the World Bank, and, where necessary, with the European Parliament and with the Council.

Article 4

1. Subject to the conditions referred to 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 Council⁸.
3. The Commission shall decide on the release of the instalments, subject to the fulfilment of the following conditions:
 - (a) the precondition set out in Article 2(1);
 - (b) a continuous satisfactory track record of implementing a policy programme that contains strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement;
 - (c) the satisfactory implementation of the economic policy and financial conditions agreed in the MoU.
4. The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.
5. Where the conditions referred to 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 the suspension or cancellation.

⁸ Regulation (EU) 2021/947 of the European Parliament and of the Council of 9 June 2021 establishing the Neighbourhood, Development and International Cooperation Instrument – Global Europe, amending and repealing Decision No 466/2014/EU of the European Parliament and of the Council and repealing Regulation (EU) 2017/1601 of the European Parliament and of the Council and Council Regulation (EC, Euratom) No 480/2009 (OJ L 209, 14.6.2021, p. 1).

6. The Union's macro-financial assistance shall be disbursed to the National Bank of North Macedonia. Subject to the agreed provisions set out in the MoU, 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 the Union 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 an improvement of the interest rate of the loan, 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 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 regarding 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) 2018/1046.
2. The Union's macro-financial assistance shall be implemented under direct management.

3. The loan agreement to be agreed with the authorities of North Macedonia shall contain all of the following provisions:
- (a) ensuring that North Macedonia regularly checks that financing provided from the general budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud and, where 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 Regulations (EC, Euratom) No 2988/95⁹ and (Euratom, EC) No 2185/96¹⁰, Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council¹¹ and, for those Member States participating in enhanced cooperation regarding the European Public Prosecutor's Office, also in accordance with Council Regulation (EU) 2017/1939¹²;
 - (c) expressly authorising the European Anti-Fraud Office to carry out investigations, including on-the-spot checks and inspections including digital forensic operations and interviews;
 - (d) expressly authorising the Commission or its representatives to carry out checks, including on-the-spot checks and inspections;

⁹ 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).

¹⁰ Council Regulation (Euratom, EC) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

¹¹ 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).

¹² 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).

- (e) 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;
 - (f) 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;
 - (g) ensuring that North Macedonia is to bear all costs incurred by the Union that relate to the borrowing and lending operations under this Decision.
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, administrative procedures and 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. That report shall:
 - (a) examine 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 set out in the MoU, 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 two 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 completed Union's 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 following that of its publication in the *Official Journal of the European Union*.

Done at ...,

For the European Parliament

For the Council

The President

The President
