Macro-financial assistance to North Macedonia

2023/0034(COD) - 06/02/2023 - Legislative proposal

PURPOSE: to provide EUR 100 million in macro-financial assistance to the Republic of North Macedonia.

PROPOSED ACT: Decision of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: relations between the European Union and North Macedonia ('North Macedonia') continue to develop within the framework of the EU Stabilisation Agreement and the EU accession negotiations launched in July 2022. North Macedonia's economy has been significantly affected by the 2020 recession caused by the COVID-19 pandemic, as well as by the recent energy crisis.

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

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.

CONTENT: the Commission proposes to provide up to **EUR 100 million** in Macro-financial Assistance (MFA) to North Macedonia. 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.

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.

Budgetary implications

The proposed micro-financial 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 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).).