

Public Disclosure Authorized

OFFICIAL
DOCUMENTS

LOAN NUMBER 9010-MK

Loan Agreement

(Public Finance and Competitiveness Development Policy Loan)

between

REPUBLIC OF NORTH MACEDONIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF NORTH MACEDONIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Borrower has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower the amount of one hundred and twenty-five million Euro (EUR 125,000,000), as such amount may be converted from time to time through a Currency Conversion ("Loan").
- 2.02. The Front-end Fee is one-quarter of one percent (0.25%) of the Loan amount.
- 2.03. The Commitment Charge is one-quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.04. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with Schedule 2 to this Agreement.
- 2.07. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program; and
 - (b) without limitation upon paragraph (a) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.
- 6.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower's address is:

Ministry of Finance
Dame Gruev 12
Skopje, 1000
Republic of North Macedonia

(b) the Borrower's Electronic Address is:

Facsimile:
+ 389 2 3255-721

E-mail:
cabinet@finance.gov.mk

- 6.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank's address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank's Electronic Address is:

Telex:

Facsimile:

E-mail:

248423(MCI) or
64145(MCI)

1-202-477-6391

mmantovanelli@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF NORTH MACEDONIA

By



Authorized Representative

Name: NIVKA ANGELICOVSKA

Title: MINISTER OF FINANCE

Date: OCTOBER 18, 2019

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By



Authorized Representative

Name: CYRIL MULLER

Title: VICE PRESIDENT

Date: OCTOBER 18, 2019

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

- A. The actions taken by the Borrower under the Program include the following, namely the Borrower has:
1. Enacted amendments to the Law on Pension and Disability Insurance, the amendments to the Law on Compulsory Capitally Funded Pension Insurance, and the amendments to the Law on Compulsory Social Insurance Contributions to introduce price indexation of benefits, harmonize the accrual rates, and introduce a higher pension contribution rate to improve fiscal and social sustainability of the multi-pillar pension system as evidenced by Official Gazette No. 245/18 dated December 28, 2018 and Official Gazette No. 247/18 dated December 31, 2018.
 2. Enacted the Law on Social Protection and the amendments to the Law on Child Protection to consolidate social assistance benefits, expand the coverage of the bottom quintile and protect the energy poor, while maintaining good targeting accuracy, through the introduction of a guaranteed minimum assistance program, as evidenced by Official Gazette No. 104/2019 dated May 23, 2019.
 3. Enacted the Law on Reporting and Monitoring the Liabilities to effectively identify and monitor arrears of the Borrower's general government as evidenced by Official Gazette No. 64/2018 dated April 11, 2018 and launched the quarterly publication of reported arrears from September 2018 as evidenced at the Ministry of Finance website link: <https://finance.gov.mk/mk/node/7317>.
 4. Enacted the Law on Personal Income Tax to introduce progressive rate of 18 percent, remove exemption on capital income taxation and increase the rate to 15 percent, and reduce the allowed tax deductions, while increasing the personal tax allowance to protect the low-income households, as evidenced by Official Gazette No 241/18 dated December 26, 2018.
 5. Enacted Law on Excises that introduces excises on coal, gas and electricity, as evidenced by Official Gazette No. 108/19 dated May 28, 2019.
 6. Enacted the Energy Law to deregulate electricity generation, open the

electricity supply market for all customers, and introduce competitive-based support mechanism for renewable energy generation, as evidenced by Official Gazette No. 96/2018 dated May 28, 2018.

7. Enacted the Public Procurement Law to strengthen transparency and increase private sector competition in public procurement, as evidenced by Official Gazette No. 24/2019 dated February 1, 2019.
8. Enacted the Inspection Supervision Law to introduce: (a) risk-based inspections, (b) a provision for inspectors to issue warnings, and (c) a grace period for businesses to correct first-time infractions, as evidenced by Official Gazette No. 102/2019 dated May 22, 2019.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Euro)
(1) Single Withdrawal Tranche	124,687,500
(2) Front-end Fee	312,500
(3) Amount due pursuant to Section 4.05 (c) of the General Conditions	0
TOTAL AMOUNT	125,000,000

C. Deposit of Loan Amounts

1. Notwithstanding the provisions of Section 2.03 of the General Conditions,

- (a) the Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain a dedicated account in Euro ("Foreign Currency Dedicated Account"); and
 - (b) all withdrawals from the Loan Account shall be deposited by the Bank into the Foreign Currency Dedicated Account.
 - 2. The Borrower, within fifteen (15) days after the withdrawal of the Loan from the Loan Account, shall report to the Bank: (a) the exact sum received into the Foreign Currency Dedicated Account opened in the National Bank of the Republic of North Macedonia; (b) the details of the account to which the Macedonian Denars equivalent of the Loan proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Borrower's budget management systems; and (d) the statement of receipts and disbursement of the Foreign Currency Dedicated Account.
- D. Closing Date.** The Closing Date is May 31, 2020.

SCHEDULE 2

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

Level Principal Repayments

Principal Payment Date	Installment Share
On each May 15 and November 15 Beginning November 15, 2023 through May 15, 2031	6.25%

APPENDIX

Definitions

1. "Dedicated Account" means the Foreign Currency Dedicated Account.
2. "Foreign Currency Dedicated Account" means the account referred to in Part C.1(a) of Section II of Schedule 1 to this Agreement.
3. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing", dated December 14, 2018.
4. "Macedonian Denars" mean the Borrower's local currency.
5. "Program" means: the program of objectives, policies, and actions set forth or referred to in the letter dated August 14, 2019 from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program's objectives.
6. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions.
7. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.