

PUBLIC DEBT

06

According to the Ministry of Finance data, at the end of 2022, the gross government debt of Montenegro amounted to 4,102.22 million euros or 70.77% of GDP. At the annual level, the public debt recorded a decrease of 1.45%, due to the regular settlement of credit obligations. On the other hand, a significant growth of GDP due to the recovery of economic activity meant that the gross public debt amounted to 70.77% of the estimated GDP at the end of 2022, which represents the annual decrease of 13.24 pp.

The public debt structure reveals that the government debt accounted for 4,026.33 million euros (98.15%), while the local self-governments' debt accounted for 75.89 million euros (1.85%).

When we exclude deposits of the Ministry of Finance along with 38,477 ounces of gold, the *net public debt* of Montenegro amounted to 3,990.47 million euros or 68.84% of estimated GDP. Compared to end-2021, this is an increase of 7.91%.

Table 6.1

| Structure of the public debt of Montenegro at the annual level, in thousand euros | | | | | | | | |
|---|----------|----------|----------|----------|----------|----------|----------|----------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Domestic debt | 320.29 | 400.20 | 413.89 | 392.98 | 579.96 | 495.56 | 401.54 | 468.77 |
| External debt | 1,956.36 | 2,002.76 | 2,213.97 | 2,760.00 | 3,128.47 | 3,835.27 | 3,688.48 | 3,557.56 |
| Government debt | 2,276.65 | 2,402.96 | 2,627.86 | 3,152.98 | 3,708.42 | 4,330.83 | 4,090.02 | 4,026.33 |
| Local self-government debt | 142.18 | 143.09 | 130.97 | 115.58 | 80.40 | 78.12 | 72.77 | 75.89 |
| Total public debt (gross) | 2,418.83 | 2,546.05 | 2,758.83 | 3,268.56 | 3,788.82 | 4,408.95 | 4,162.79 | 4,102.22 |
| Share of total (gross) public debt in GDP | 66.19% | 64.39% | 64.17% | 70.09% | 76.53% | 105.34% | 84.01% | 70.09% |
| Deposits of Ministry of Finance, including 38,477 ounces of gold | 57.25 | 47.36 | 70.90 | 276.83 | 597.13 | 872.43 | 464.83 | 111.75 |
| Total public debt (net) | 2,361.58 | 2,498.69 | 2,687.93 | 2,991.73 | 3,191.69 | 3,536.52 | 3,697.96 | 3,990.47 |
| Share of public (net) debt in GDP | 64.62% | 63.19% | 62.52% | 64.16% | 64.47% | 84.49% | 74.63% | 0.84 |
| NOTE: | | | | | | | | |
| Montenegro's GDP (for 2022; estimation) | 3,654.51 | 3,954.20 | 4,299.09 | 4,663.13 | 4,950.72 | 4,185.55 | 4,955.12 | 5,796.76 |

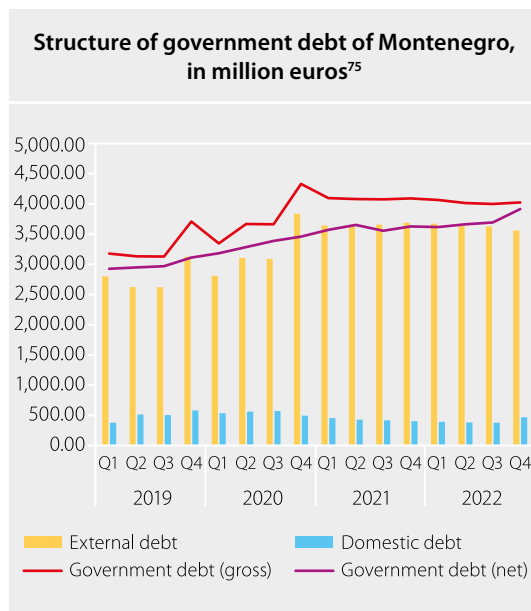
Source: Ministry of Finance

Planned shortfall in the budget for 2023, as well as liabilities based on Eurobonds due for collection in the following years, indicate that borrowing will be necessary in the future as well. Therefore, in the domain of fiscal policy, a responsible public debt management strategy will be needed, which will clearly define models for cautious conclusion of optimal future credit arrangements, bearing in mind that turbulence on the international financial market will negatively affect future borrowing conditions.

6.1. Government debt

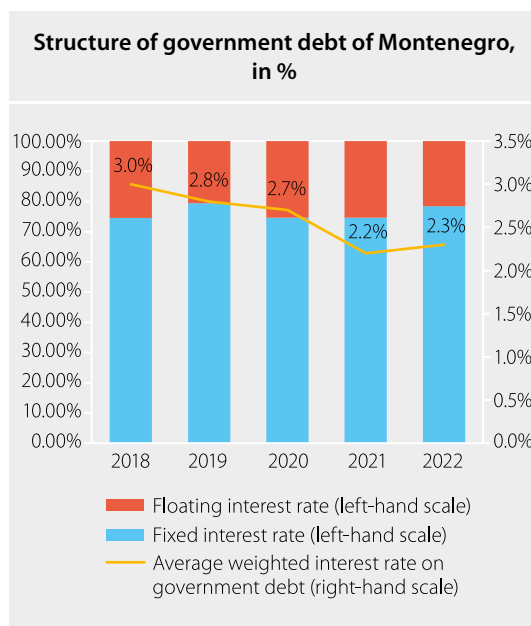
At the end of 2022, the gross government debt amounted to 4,026.33 million euros or 69.46% of GDP, which represents a decrease of 63.69 million euros or 1.56% year-over-year.

Graph 6.1



Source: Ministry of Finance

Graph 6.2



Source: Ministry of Finance

Of the total amount of gross government debt, 3,557.56 million euros or 88.36% referred to external debt, while the remaining 468.77 million euros or 11.64% referred to domestic debt.

If we exclude the deposits of the Ministry of Finance from the gross government debt together with 38,477 ounces of gold, the net government debt of Montenegro was 3,914.58 million euros or 67.53% of GDP at the end of 2022. Compared to the end of 2021, net government debt increased by 7.98%, due to a decrease in government deposits by 75.96%, based on the repayment of government debt, as explained above.

The currency structure of the government debt is relatively favourable. The share of euro debt was 95.32%, 2.49% of the debt was in USD, while 2.19% was in other currencies (NOK, CHF and SDR). Reduced share of US dollars in external debt is attributed to the conversion of the USD debt to the Chinese Exim Bank into the EUR debt, due to the hedging arrangement concluded between the Ministry of Finance and four renowned foreign banks.

The interest rate structure can also be evaluated as favourable. The majority of the government debt (loans and bonds) is serviced at flat interest rates (78.46% of the debt). The structure of the government debt had the real weighted average interest rate of 2.3% at the end of 2022, which means that the cost of borrowing increased by 0.1 pp compared to the end of the previous year. In the period 2018-2022, there was a noticeable drop in the average weighted interest rate, with the exception of 2022 due to a slight increase in the cost of borrowing caused by trends on the international financial market (graph 6.2).

⁷⁵ Quarterly data represents the amount of debt at the end of the quarter.

6.1.1. Domestic debt

At end-2022, domestic debt amounted to 468.77 million euros or 8.09% of GDP, being 67.23 million euros or 16.74% lower than at end-2021. The issuance of Treasury bills, as well as loans from domestic commercial banks (debt from Universal Capital Bank, Erste Bank and Crnogorska komercijalna banka), are the main reasons for the increase in debt to residents in 2022 (table 6.2).

Table 6.2

| Structure and changes of the domestic debt of Montenegro at end-2022 compared to end-2021 | | | | | |
|---|-------------------------------|-------------------------------|----------------------------------|----------------------------------|------------------------------------|
| Domestic debt structure | Debt balance as at 31/12/2021 | Debt balance as at 31/12/2022 | Change In relation to 31/12/2021 | Change in relation to 31/12/2021 | Share in domestic debt, 31/12/2022 |
| | 1 | 2 | 3 (2-1) | 4 (2/1) | 5 |
| | million euros | | | % | % |
| Foreign currency deposits | 10.35 | | -0.11 | -1.06 | 2.18 |
| Restitution | 79.35 | | 2.24 | 2.82 | 17.41 |
| Loans with commercial banks | 130.74 | | 25.50 | 19.50 | 33.33 |
| Accrued pensions | 1.90 | | -0.01 | -0.53 | 0.40 |
| T-bills | 0.00 | | 39.00 | | 8.32 |
| Government bonds | 142.44 | | 0.00 | 0.00 | 30.39 |
| Legal persons and companies ⁷⁶ | 36.77 | | 0.59 | 1.60 | 7.97 |
| TOTAL | 401.54 | | 67.23 | 16.74 | 100.00 |

Source: Ministry of Finance

In the structure of domestic debt, at the end of 2022, the largest share is recorded by liabilities based on loans with domestic banks (33.33%), followed by liabilities based on bonds issued on the domestic market (30.39%), as well as the share of liabilities based on restitution in the domestic debt, which amounted to 17.41%.

6.1.2. External debt

According to the Ministry of Finance data, the external debt of Montenegro amounted to 3,557.56 million euros or 61.37% of GDP at end-2022, recording decrease of 130.92 million euros or 3.55% compared to end-2021. The main reason for this reduction is the regular settlement of overdue credit liabilities and the absence of new debt.

On the other hand, during 2022, funds from signed credit arrangements with international financial institutions were withdrawn in the total amount of 116.80 million euros, namely:

- Withdrawal of 63.19 million euros from the Chinese Exim Bank (for the construction of the „Bar - Boljare“ highway priority section);
- Withdrawal of EBRD funds in the amount of 12.60 million euros (for the purposes of local and main roads reconstruction);
- Withdrawal of funds from the Development Bank of the Council of Europe in the amount of 12.35 million euros (to mitigate the economic impact of the COVID-19 virus pandemic on micro, small and medium-sized enterprises, as well as for the 1000+ project);
- Withdrawals of KfW funds in the amount 12.07 million euros (for the projects „Water supply and waste water treatment - Phases V, component 2“, „Construction of waste water treat-

⁷⁶ Legal entities and business organisations predominantly providing services of public interest which are controlled and mostly financed by the State.

ment plants -Pg Promo“ and „Energy efficiency program in public buildings - phases II and III“);

- Withdrawals from the IBRD in the amount of 10.36 million euros (for projects „Tax Administration Reform“, „Industrial Waste Management“, „Energy Efficiency in Montenegro - MEEP2“, „MIDAS 2“ and „Sava and Drina“);
- Withdrawal of funds from Hapoalim Bank in the amount of 5.64 million euros (for equipping armoured vehicles);
- Withdrawal of funds from the International Fund for Agricultural Development (IFAD) in the amount of 0.59 million euros (for the project *Creation of Clusters and Transformation of Rural Areas*).

The structure of external debt shows that the highest share belongs to liabilities arising from issued Eurobonds (49.19% of external debt), while the Chinese Exim Bank stands as the largest individual creditor with a share of external debt of 19.73% (table 6.3).

Table 6.3

| Structure of Montenegro's external debt as of 31 December 2022 | | | | |
|--|-----------------|---------------|----------------|-------------------------------|
| Creditor | Debt balance | External debt | Share in | Share in government |
| | million euros | GDP | external debt | debt (4,026.33 million euros) |
| | | | % | |
| International Bank for Reconstruction and Development (IBRD) | 183.12 | 3.16% | 5.15% | 4.55% |
| Member countries of the Paris Club of creditors | 55.59 | 0.96% | 1.56% | 1.38% |
| International Development Association (IDA) | 11.89 | 0.21% | 0.33% | 0.30% |
| European Investment Bank (EIB) ¹ | 92.26 | 1.59% | 2.59% | 2.29% |
| EBRD | 59.18 | 1.02% | 1.66% | 1.47% |
| Council of Europe Development Bank | 75.86 | 1.31% | 2.13% | 1.88% |
| European Commission ² | 60.00 | 1.04% | 1.69% | 1.49% |
| Kreditanstalt für Wiederaufbau – Germany (KfW) ³ | 38.79 | 0.67% | 1.09% | 0.96% |
| Loan from Hungary ⁴ | 0.15 | 0.00% | 0.00% | 0.00% |
| Loan from Poland ⁵ | 2.75 | 0.05% | 0.08% | 0.07% |
| Loan from France - Natixis ⁶ | 0.48 | 0.01% | 0.01% | 0.01% |
| Chinese EXIM Bank ⁷ | 701.99 | 12.11% | 19.73% | 17.65% |
| Loan from Spain for the construction of landfill | 1.13 | 0.02% | 0.03% | 0.03% |
| EUROBOND | 1,750.00 | 30.19% | 49.19% | 43.46% |
| IFAD | 3.05 | 0.05% | 0.09% | 0.08% |
| Export Development Canada (EDC) ⁸ | 4.58 | 0.08% | 0.13% | 0.11% |
| Syndicated loan - PBG ⁹ | 201.43 | 3.47% | 5.66% | 5.00% |
| Syndicated loans – PBG 2 | 219.09 | 3.78% | 6.16% | 5.44% |
| HAPOALIM - armored vehicles | 20.42 | 0.35% | 0.57% | 0.51% |
| Rapid Financing Instrument - IMF | 75.80 | 1.31% | 2.13% | 1.88% |
| TOTAL | 3,557.56 | 61.37% | 100.00% | 88.36% |

¹ EIB loans amounting to 47 million euros in total servicing public enterprises (“Monteput”, “Airports of Montenegro” and “EPCG”) are not calculated in external debt, but are treated as guarantees.

² A loan intended to limit the economic consequences of the COVID 19 pandemic under the Macro-Financial Support Program, totalling 60 million euros.

³ Loans with KfW for the needs of water supplies are used by municipalities, but they are considered a part of external debt.

⁴ Loan concluded with *Hungarian Export Import* bank for the construction of school and preschool institutions.

⁵ A loan concluded with the Government of Poland for the needs of the Railway infrastructure of Montenegro.

⁶ Merchandise loan - EPCG

⁷ Loan for construction of part of the highway „Bar - Boljari“

⁸ Credit for the purchase of three helicopters.

⁹ Loan arrangement with unions of banks (OTP, Credit Suisse, CKB and Societe Generale) with the World Bank guarantee with the value of 80 million euros for the needs of state budget financing.

Source: Ministry of Finance

It should be noted that there are granted credit line funds which have not been withdrawn. The total amount of available non-withdrawn funds amounts to 339.21 million euros (table 6.4).

Table 6.4

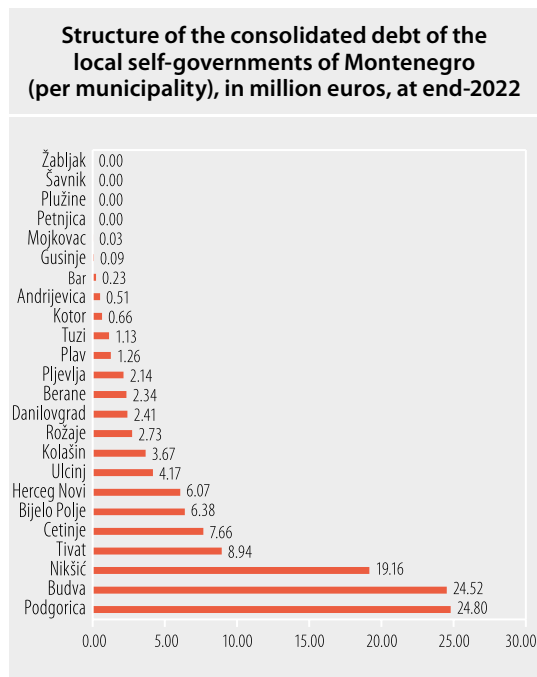
| Structure of external debt of Montenegro and non-withdrawn funds, in million euros | | |
|---|--------------------------|-------------------------------|
| Creditor | Debt balance at end-2022 | Amount of non-withdrawn funds |
| | million euros | |
| International Bank for Reconstruction and Development (IBRD) | 183.12 | 58.20 |
| Member countries of the Paris Club of creditors | 55.59 | |
| International Development Association (IDA) | 11.89 | |
| European Investment Bank (EIB) | 92.26 | 113.50 |
| EBRD | 59.18 | 25.41 |
| Council of Europe Development Bank | 75.86 | 3.11 |
| European Commission | 60.00 | |
| Kreditanstalt für Wiederaufbau – Germany (KfW) | 38.79 | 103.22 |
| Loan from Hungary | 0.15 | |
| Loan from Poland | 2.75 | |
| Loan from France - Natixis | 0.48 | |
| Chinese EXIM Bank | 701.99 | 30.24 |
| Loan from Spain for the construction of landfill | 1.13 | |
| EUROBOND | 1,750.00 | |
| IFAD | 3.05 | 0.18 |
| Export Development Canada (EDC) | 4.58 | |
| Syndicated loan - PBG | 201.43 | |
| Syndicated loans – PBG 2 | 219.09 | |
| HAPOALIM - armored vehicles | 20.42 | 5.36 |
| Rapid Financing Instrument - IMF | 75.80 | |
| TOTAL | 3,557.56 | 339.21 |

Source: Ministry of Finance

6.2. Local self-government debt

Total consolidated debt of local self-government amounted to 118.89 million euros at end-2022, recording the year-on-year growth of 3.71%. In the total amount of consolidated debt, 80.69 million euros (67.87%) referred to external debt, while the remaining 38.20 million euros (32.13%) referred to debt towards residents.

Graph 6.3

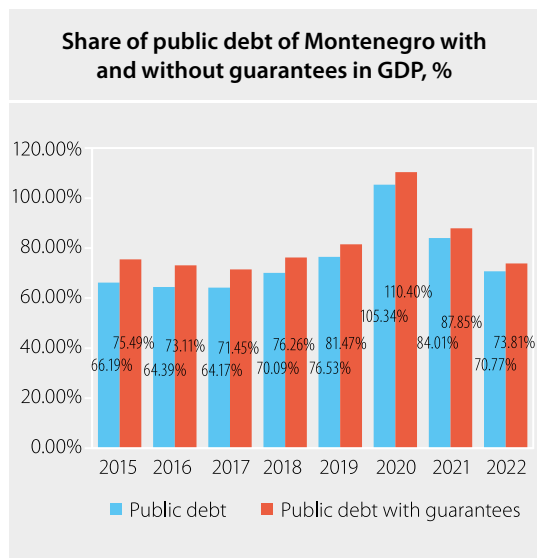


Source: Ministry of Finance

Observation of consolidated debt structure reveals that the capital city of Podgorica is the largest debtor with the debt of 24.80 million euros (20.86% of total consolidated debt). After Podgorica, the biggest debtors are the municipalities of Budva (20.63%) and Nikšić (16.12%), while the municipalities of Petnjica, Plužine, Šavnik and Žabljak had no debts (graph 6.3).

Of the total amount of consolidated debt of local self-governments, 38.73 million euros are already included in the external government debt, 2.3 million euros refer to debt based on loans from the state budget, while 1.56 million euros represent a loan from the Fund for support to municipalities for financing donor projects, and 0.41 million euros debt to the Equalization Fund. Consequently, at the end of 2022, local self-government debt amounted to 75.89 million euros. Compared to the end of the previous year, local self-government debt represents growth of 4.29%.

Graph 6.4



Source: Ministry of Finance

6.3. Issued government guarantees

State guarantees amounted to 176.50 million euros at the end of 2022 and they were lower than the end of the previous year by 7.13%, i.e. they accounted for 3.05% in the GDP structure, which represents a decrease of 0.79 pp on the annual basis. With the inclusion of issued government guarantees, Montenegro's government's debt amounts to 4,278.72 million euros or 73.81% of GDP (graph 6.4).

Foreign state guarantees, amounted to 146.09 million euros at the end of 2022, and compared to the end of the previous year they were 5.65% lower. They participated with 2.52% in the GDP structure, which represents a decrease of 0.61 pp y-o-y.

If foreign guarantees were included into the external debt, the external debt of Montenegro would amount to 63.89% of GDP. It should be noted that the amount of foreign guarantees refers to withdrawn credit funds. Considering the total underwritten amount, foreign guarantees reached the amount of 559.49 million euros or 9.65% of GDP.

The total amount of domestic guarantees at the end of 2022 amounted to 30.41 million euros (0.52% of GDP), while the domestic debt together with guarantees amounted to 8.61% of GDP. In the total amount of domestic guarantees, 15.70 million euros referred to the guarantees issued to municipalities for loans with various commercial banks for the implementation of the resolution plan⁷⁷. Also, the mentioned amount of domestic guarantees refers to withdrawn credit funds, while the total contracted amount is 66.04 million euros.

During 2022, state guarantees in the amount of 500 thousand euros were activated and paid.

6.4. Debt repayment

According to preliminary data from the Ministry of Finance, the total debt repayment⁷⁸ amounted to 419.28 million euros or 7.23% of the estimated GDP in 2022. In total amount of debt repayment, the main share referred to repayment of principal of debt to residents and non-residents in the amount of 291.58 million euros and to repayment of interest arising from loan arrangements to residents and non-residents in the amount of 91.83 million euros. Repayment of debt from the previous period amounted to 35.38 million euros, in which the repayment of obligations arising from frozen foreign currency deposits accounted for 0.11 million euros, and 2.20 million euros was the repayment of liabilities based on restitution.

⁷⁷ Total underwritten amount of guarantees for loans used by municipalities for the resolution plan implementation is 40.54 million euros.

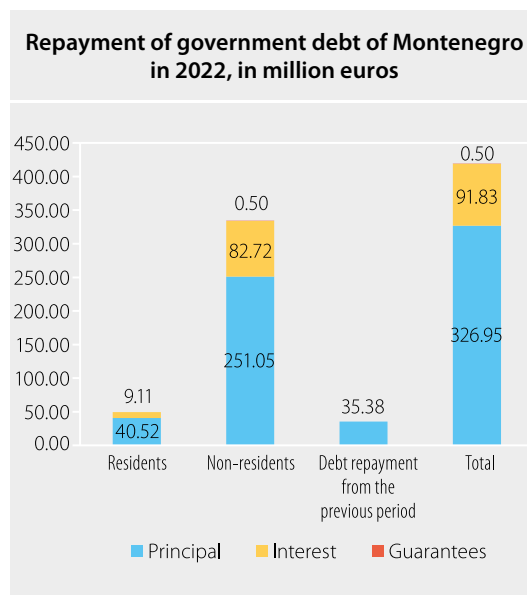
⁷⁸ Total debt repayment includes repayment of debt arising from principal, interest and guarantees repayment, as well as repayment of debt from previous years.

Graph 6.5



Source: Ministry of Finance

Graph 6.6



Source: Ministry of Finance