

GOVERNMENT DEBT

06

According to Ministry of Finance and Social Welfare data, the *gross government debt*³⁷ of Montenegro amounted to 4,076.2 million euros or 83.5% of estimated GDP at end-September 2021 (4,881.3 million euros), being lower by 254.6 million euros, or 5.9% compared to end-2020 (Table 6.1). The reduction of government debt during the first nine months of 2021 was mostly affected by the reduction of domestic debt, i.e. the settlement of liabilities arising from treasury bills, as well as debt repayment on the basis of Eurobonds issued in 2016 .

Out of the total amount of gross government debt, 3,658.9 million euros or 89.8% referred to external debt, while the remaining 417.3 million euros or 10.2% referred to domestic debt.

When we exclude deposits of the Ministry of Finance and Social Welfare along with 38.477 ounces of gold, the *net government debt* of Montenegro amounted to 3,555.6 million euros or 72.8% of GDP at end-September 2021. Compared to end-2020, it increased by 2.8%, as a result of a decrease in state deposits by 40.3%, arising from the government debt repayment, as explained above.

Table 6.1

Structure of the government debt of Montenegro on a quarterly level, in the period September 2020 - September 2021, in million euros						
	September 2020	December 2020	March 2021	June 2021	September 2021	Change in % September 2021 December 2020
Domestic debt	570.5	495.5	454.7	426.6	417.3	-15.8%
External debt	3,089.8	3,835.3	3,642.7	3,652.6	3,658.9	-4.6%
Government debt (gross)	3,660.3	4,330.8	4,097.4	4,079.2	4,076.2	-5.9%
Share of gross government debt in GDP (in %)	87.5	103.5	83.9	83.6	83.5	
Deposits of Ministry of Finance and Social Welfare, including 38,477 ounces of gold	271.8	872.4	527.2	428.8	520.6	-40.3%
Government debt (net)	3,388.5	3,458.4	3,570.2	3,650.4	3,555.6	2.8%
Share of gross government debt in GDP (in %)	81.0	82.6	73.1	74.8	72.8	
GDP	4,185.6	4,185.6	4,881.3	4,881.3	4,881.3	

Source: Ministry of Finance and Social Welfare

³⁷ Pursuant to the new Law on Budget and Fiscal Accountability, quarterly reports present state debt, while annual report publishes public debt. The Law defines public debt as a debt of the Central Government Level (government debt) and debt of the Local Government Level (debt of local self-government). Government debt includes central government debt and debt of state companies. Unlike previous periods, government debt does not include debt of local self-governments.

The currency structure of the government debt is relatively favourable. The total domestic debt is in euros, while 97.1% of the total external debt is in euros, 0.6% in U.S. dollars, and 2.3% in other currencies. The lower share of the dollar in external debt is attributed to the conversion of the dollar into euro debt to China's Exim Bank, as a result of the signed hedging arrangement between the Ministry of Finance and Social Welfare and four renowned global banks.³⁸

Most government debt is serviced at fixed interest rates (74.3%), so that the interest rate structure of government debt can be assessed as relatively favourable.

6.1. Domestic public debt

At end-September 2021, domestic debt amounted to 417.3 million euros or 8.5% of the estimated GDP (Table 6.2). Compared to end-2020, the domestic debt was lower by 78.2 million euros or 15.8%, which was mostly affected by the repayment of treasury bills (41.7 million euros), i.e. loans to commercial banks (28.6 million euros).

Table 6.2

Structure and changes of the Montenegrin domestic debt in the period 30 September 2020 - 30 September 2021								
Domestic debt structure	Debt balance 30 Sep 2020	Debt balance 31 Dec 2020	Debt balance 30 Sep 2021	Change in relation to 31 Dec 2020	Change in relation to 30 Sep 2020	Change in relation to 31 Dec 2020	Change in relation to 30 Sep 2020	Share in domestic debt as at 30 Sep 2021
	1	2	3	4 (3-2)	5 (3-1)	6 (3/2)	7 (3/1)	8
	million euros					%		%
Foreign currency deposits	10.6	10.5	10.3	-0.2	-0.3	-1.9	-2.8	2.5
Restitution	83.0	83.5	80.2	-3.3	-2.8	-3.9	-3.4	19.2
Loans with commercial banks	169.3	174.3	145.7	-28.6	-23.6	-16.4	-13.9	34.9
Accrued pensions	1.9	1.9	1.9	0.0	0.0	0.0	0.0	0.5
T-bills	41.7	41.7	0.0	-41.7	-41.7	-100.0	-100.0	0.0
Government bonds	222.8	142.4	142.4	0.0	-80.4	0.0	-36.1	34.1
Legal persons and companies	41.2	41.2	36.8	-4.4	-4.4	-10.7	-10.7	8.8
TOTAL	570.5	495.5	417.3	-78.2	-153.2	-15.8	-26.8	100.0

Source: Ministry of Finance and Social Welfare

In the structure of domestic debt at end-September 2021, the largest share was recorded by loans payable with commercial banks (34.9%), followed by liabilities on the basis of issued government bonds (34.1%), restitution (19.2%), while the share of liabilities to legal persons and corporate sector amounted to 8.8% (Table 6.2).

³⁸ As at the day of the hedging transaction, in the amount of some 818 million U.S. dollars, according to the agreed euro/dollar exchange rate of about 1.18, a fixed average weighted interest rate of 0.88% was agreed.

6.2. External public debt

According to the Ministry of Finance and Social Welfare data, external debt amounted to 3,658.9 million euros or 75% of GDP at end-September 2021, recording a decrease of 176.4 million euros or 4.6% compared to end-2020.

In Q3 2021, there were the following withdrawals of funds arising from loan arrangements with international institutions, in the total amount of 124.97 million euros:

- Withdrawal of 33.46 million euros from the Chinese Exim Bank (for the construction of the priority highway section);
- Withdrawal of 30 million euros from the European Commission (second tranche within the macro-financial assistance programme to Montenegro in the form of a loan);
- Withdrawal of 30 million euros from the Council of Europe Development Bank (to mitigate the economic impact of the COVID-19 pandemic on micro, small and medium-sized enterprises);
- Withdrawals from the IBRD in the amount of 13.98 million euros (for the projects „Tax Administration“, „Tax Administration - additional“, „Industrial Waste Management“, „Energy Efficiency in Montenegro - MEEP2“, „MIDAS 2“, and „SAVA AND DRINA“);
- Withdrawal of the EBRD funds in the amount of 9.38 million euros (for the needs of reconstruction of local and main roads);
- Withdrawals of KfW funds in the amount 6 million euros (for the projects “Water supply and waste water treatment - Phase III, V and the Phase V of the Component 2“, “Construction of waste water treatment plants - PG Standard and PG Promo“ and “Energy efficiency programme in public buildings - phase II and III“);
- Withdrawal of funds from the Export Development Canada (EDC) in the amount of 1.49 million euros (for the purchase of a helicopter);
- Withdrawal of funds from the International Fund for Agricultural Development (IFAD) in the amount of 0.66 million euros (for the project “Cluster Development and Transformation of Rural Areas“).

The structure of external debt shows that the highest share belongs to liabilities arising from issued Eurobonds (47.8% of external debt), while the Chinese Exim Bank stands as the largest individual creditor with a share of external debt of 18.4% (Table 6.3).

Table 6.3

External debt of Montenegro as at 30 September 2021; balance, structure and share in government debt and GDP				
Creditor	Debt balance	External debt GDP	Share in external debt	Share in government debt (4,076.2 million euros)
	Million euros	%		
International Bank for Reconstruction and Development (IBRD)	187.0	3.8%	5.1%	4.6%
Member countries of the Paris Club of Creditors	62.6	1.3%	1.7%	1.5%
International Development Association (IDA)	20.6	0.4%	0.6%	0.5%
European Investment Bank (EIB) ¹	104.6	2.1%	2.9%	2.6%
EBRD	45.4	0.9%	1.2%	1.1%
Council of Europe Development Bank	59.8	1.2%	1.6%	1.5%
European Commission ²	60.0	1.2%	1.6%	1.5%
Kreditanstalt für Wiederaufbau – Germany (KfW) ³	39.8	0.8%	1.1%	1.0%
Loan from Hungary	0.6	0.0%	0.0%	0.0%
Loan from Poland	3.8	0.1%	0.1%	0.1%
Loan from France - Natixi ⁴	1.7	0.0%	0.0%	0.0%
Steiermarkische Bank und Sparkassen AG ⁵	0.0	0.0%	0.0%	0.0%
Credit Suisse Bank	30.0	0.6%	0.8%	0.7%
Chinese EXIM Bank ⁶	674.3	13.8%	18.4%	16.5%
Loan from Spain for the construction of landfill	1.8	0.0%	0.0%	0.0%
Loan from Austria (Erste Bank) ⁷	0.0	0.0%	0.0%	0.0%
EUROBOND	1,750.0	35.9%	47.8%	42.9%
Banca Intesa	6.7	0.1%	0.2%	0.2%
IFAD	3.0	0.1%	0.1%	0.1%
Syndicated loan (OTP, Zagrebačka Bank, Erste Bank)	16.2	0.3%	0.4%	0.4%
Export Development Canada (EDC) ⁸	13.5	0.3%	0.4%	0.3%
Syndicated loan - PBG ⁹	250.0	5.1%	6.8%	6.1%
Syndicated loan – PBG 2	250.0	5.1%	6.8%	6.1%
HAPOALIM - Armoured vehicles	3.9	0.1%	0.1%	0.1%
Rapid Financing Instrument - IMF	73.6	1.5%	2.0%	1.8%
TOTAL	3,658.9	75.0%	100.0%	89.8%

¹ EIB loans amounting to 47 million euros in total servicing state 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 Assistance Programme, 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 Merchandise loan - EPCG

⁵ Loan for financing the purchase of fire engines for the Ministry of Interior.

⁶ Loan for construction of a section of highway „Bar-Boljari“.

⁷ Loan for financing a project of the Health Insurance Fund.

⁸ Loan 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 worth 80 million euros for the needs of state budget financing.

Source: Ministry of Finance and Social Welfare

It should be noted that there are granted credit line funds, but were not withdrawn (Table 6.4). Total amount of available non-withdrawn funds amounted to 497.8 million euros (of which 118.1 million euros refers to KfW, while 113.5 million euros refers to the European Investment Bank).

Table 6.4

Structure of external debt of Montenegro and non-withdrawn funds as at 30 September 2021, in million euros		
Creditor	Debt balance	Amount of non-withdrawn funds
million euros		
International Bank for Reconstruction and Development (IBRD)	187.0	72.9
Member countries of the Paris Club of Creditors	62.6	
International Development Association (IDA)	20.6	
European Investment Bank (EIB)	104.6	113.5
EBRD	45.4	44.7
Council of Europe Development Bank	59.8	22.3
European Commission	60.0	
Kreditanstalt für Wiederaufbau – Germany (KfW)	39.8	118.1
Loan from Hungary	0.6	
Loan from Poland	3.8	
Loan from France - Natixis	1.7	
Steiermarkische Bank und Sparkassen AG	0.0	
Credit Suisse Bank	30.0	
Chinese EXIM Bank	674.3	101.5
Loan from Spain for the construction of landfill	1.8	
Loan from Austria (Erste Bank)	0.0	
EUROBOND	1,750.0	
Banca Intesa	6.7	
IFAD	3.0	0.8
Syndicated loan (OTP, Zagrebačka Bank, Erste Bank)	16.2	
Export Development Canada (EDC)	13.5	
Syndicated loan - PBG	250.0	
Syndicated loan – PBG 2	250.0	
HAPOALIM - Armoured vehicles	3.9	24.0
Rapid Financing Instrument - IMF	73.6	
TOTAL	3,658.9	497.8

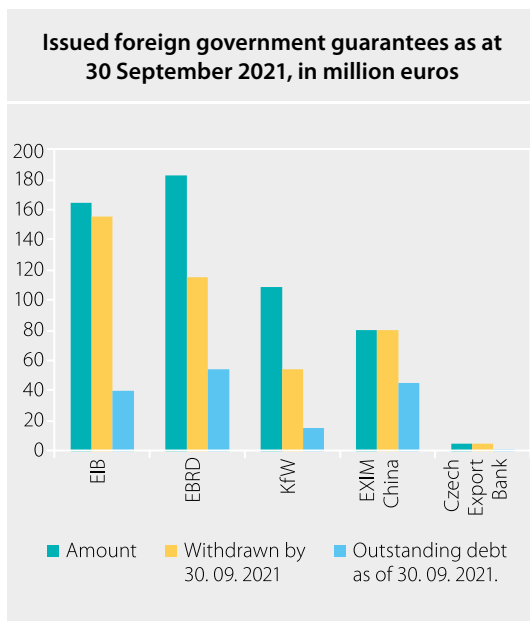
Source: Ministry of Finance and Social Welfare

6.3. Issued government guarantees

At end-September 2021, total government guarantees amounted to 191.9 million euros and were 9.5% lower than at end-2020, i.e. they participated with 3.9% in the GDP structure, recording a decrease of 1.1 pp in relation to end-2020. With the inclusion of issued government guarantees, Montenegro's government debt amounts to 4,268.1 million euros, which is 87.4% of GDP.

Foreign government guarantees amounted to 155.1 million euros (Graph 6.1) and were 9.7% lower than at end-2020, i.e. they participated with 3.2% in the GDP structure, recording a decrease of 0.9 pp in relation to end-2020. If foreign guarantees were included into the external debt, the external debt of Montenegro would amount to 78.1% of GDP. It should be noted that the above amount of

Graph 6.1



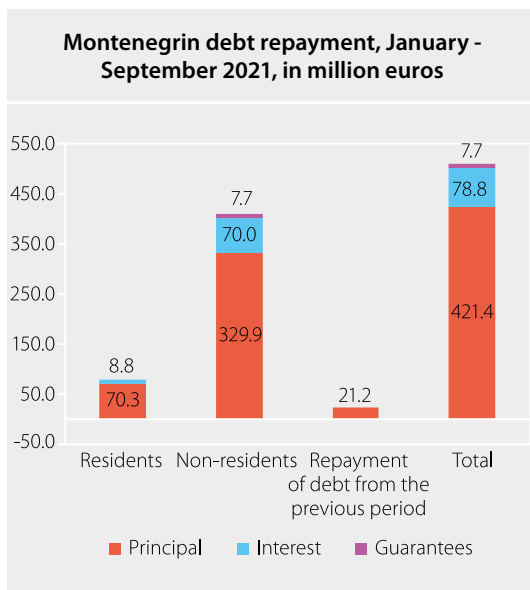
Source: Ministry of Finance and Social Welfare

foreign guarantees refers to withdrawn credit assets. Considering the total underwritten amount, foreign guarantees reached the amount of 541 million euros.

At end-September 2021, total domestic guarantees amounted to 36.8 million euros (0.8% of GDP). Domestic debt together with the guarantees amounted to 9.3% of GDP. In the total amount of domestic guarantees, 20.4 million euros referred to the guarantees issued to municipalities for loans with various commercial banks for the implementation of the resolution plan³⁹.

During the first nine months of 2021, 7.7 million euros government guarantees were called and paid, based on the loan arrangement of Barska plovidba and Crnogorska plovidba with the Chinese Exim Bank.

Graph 6.2



Source: Ministry of Finance and Social Welfare

6.4. Government debt repayment

In the first nine months of 2021, total government debt repayment⁴⁰ amounted to 507.9 million euros or 10.4% of the estimated GDP. In total amount of debt repayment, the main share referred to repayment of debt principal to residents and non-residents in the amount of 400.2 million euros and to repayment of interest arising from loan arrangements to residents and non-residents in the amount of 78.8 million euros (Graph 6.2). Repayment of debt from the previous period amounted to 21.2 million euros, of which frozen foreign currency deposits accounted for 20.2 thousand euros. Repayment of guarantees, based on the called government guarantee for the loan arrangement with non-residents, amounted to 7.7 million euros.

³⁹ The total underwritten amount of guarantees for loans used by municipalities for the resolution plan implementation totalled 40.55 million euros. The objective of the rehabilitation plan is to overcome the financial difficulties faced by local self-government units, which include refinancing tax and other debt as well as outstanding liabilities, implementation of a social programme to optimize the number of employees in local government bodies and public services founded by the municipality.

⁴⁰ Total debt repayment includes repayment of debt arising from principal, interest repayment, as well as debt repayment from previous years, and repayment of guarantees.