

GOVERNMENT DEBT

06

According to preliminary data from the Ministry of Finance from end-June 2023, the *gross national debt*⁴⁵ of Montenegro amounted to 4,024.47 million euros or 62.42% of the estimated GDP (Table 6.1). Compared to the end of the previous year, the state debt decreased slightly, while compared to the end of the second quarter of the current year it decreased by 56.09 million euros or 1.37%, due to the repayment of Treasury bills and regular repayment of debt liabilities.

Government debt structure reveals that the external debt accounted for 3,613.40 million euros (88.79%), while the domestic debt accounted for 411.07 million euros (10.21%).

When we excluded deposits of the Ministry of Finance along with 38.477 ounces of gold, the *net government debt* of Montenegro amounted to 3,751.25 million euros at end-June 2023 or 58.19% of the estimated GDP. Compared to end-2022, net government debt decreased by 4.17%.

Table 6.1

Structure of the government debt of Montenegro on quarterly level, in million euros						
	June 2022	September 2022	December 2022	March 2023	June 2023	Change in % (June 2023 - December 2022)
Domestic debt	382.69	375.25	468.77	461.00	411.07	-12.31%
External debt	3,632.18	3,624.50	3,557.56	3,619.56	3,613.40	1.57%
Government debt (gross)	4,014.87	3,999.75	4,026.33	4,080.56	4,024.47	-0.05%
Share of gross government debt in GDP	67.77	67.52	67.97	63.29	62.42	
Deposits of Ministry of Finance, including 38,477 ounces of gold	351.92	306.55	111.75	278.78	273.22	144.49%
Government debt (net)	3,662.95	3,693.20	3,914.58	3,801.78	3,751.25	-4.17%
Share of net government debt in GDP	61.83	62.34	66.08	58.97	58.19	
NOTE: Montenegro's GDP (estimate)	5,924.02	5,924.02	5,924.02	6,447.10	6,447.10	

Source: Ministry of Finance

The currency structure of the national debt is relatively favourable, although, due to the termination of the hedging arrangement concluded between the Ministry of Finance and four renowned global banks, the share of euro debt has decreased. Thus, indebtedness in euros accounted for 79.68% of the total currency structure of the national debt, while 18.24% of the debt was in US dollars, and 2.08% in other currencies (NOK, CHF and SDR).

⁴⁵ In accordance with the Law on Budget and Fiscal Responsibility from 2014, the quarterly reports show the government debt, while the annual report shows the public debt. According to this Law, public debt is defined as debt of the central level of the state (government debt) and debt of the local level (debt of local self-government). The government debt includes the debt of the central government and the debt of companies in majority state ownership, that is, it no longer includes the debt of local governments as in the period before the adoption of this Law.

Box 6.1 – Hedging arrangement termination

The dominance of the euro in the total government debt is the result of the use of the euro as the domicile currency, as well as the resulting preference and external borrowing in euros. The only exception to this principle was the loan from the Chinese Exim Bank, granted to Montenegro in USD in 2014 to finance the construction of the Bar-Boljare highway in the amount of 944 million US dollars. This loan was subsequently converted into euros in 2021, through a hedging arrangement between the Ministry of Finance and international banks (Goldman Sachs International, Merrill Lynch International, Societe Generale and Deutsche Bank AG)⁴⁶, with the aim of protecting public finances from currency risk, with the possibility of its termination after two years.

Savings of 23.71 million euros were achieved through hedging, but due to the external instability of financial markets, as well as the unstable relationship of currencies in the world, the Ministry of Finance of Montenegro decided to use the contracted option, that is, it proposed to the Government in June 2023 to terminate the hedging arrangement, which, as mentioned, affected in the currency structure of the government debt.

At the same time, by exiting the hedging arrangement, budget revenues increased through the increase of the budget item "other revenues" by about 60 million euros, considering that the earnings from hedging amounted to about 64 million US dollars. Of that amount, 40.69 million US dollars should be used to pay the fifth instalment of the loan to China's Exim Bank, with principal and interest due in July, so there is no need to secure dollars in the market.

As four instalments of the highway loan in the total amount of 157.79 million US dollars have been repaid so far, the remaining credit liabilities towards the Chinese Exim Bank amount to 786.86 million US dollars, and will be expressed in real terms of dollars and euros ratio, i.e. at the current exchange rate. on the reporting date with the initial interest rate (2%).

The interest rate structure is favourable considering that more than three quarters of the government debt (loans and bonds) are serviced at fixed interest rates (77.91% of the government debt).

6.1. Domestic government debt

At the end of June 2023, the domestic debt amounted to 411.07 million euros (6.37% of GDP) and, compared to the end of the previous year, it is lower by 57.70 million euros or 12.31%. Repayment of Treasury bills is the main reason for the reduction of debt to residents in this period (table 6.2).

In the structure of internal debt, the largest share was recorded by liabilities based on issued domestic bonds (34.65%), followed by liabilities based on loans from commercial banks (33.79%), as well as the share of liabilities based on restitution in internal debt (20.21%). The remaining 11.35% refers to liabilities to legal persons and companies (8.42%), liabilities based on old foreign currency savings (2.47%) and liabilities based on accrued pensions (0.46%).

⁴⁶ As at the hedging transaction date, a fixed average weighted interest rate of 0.88% was agreed as per the agreed dollar/euro exchange rate of 1.18 for the amount of about 818 million US dollars.

Table 6.2

Structure and changes of the domestic debt of Montenegro at end-June 2023 compared to the end-June and December 2022								
Domestic debt structure	Debt balance 30 June 2022	Debt balance 31 December 2022	Debt balance 30 June 2023	Change in relation to 30 June 2022	Change in relation to 31 December 2022	Change in relation to 30 June 2022	Change in relation to 31 December 2022	Share in domestic debt 30 June 2023
	1	2	3	4 (3-1)	5 (3-2)	6 (3/1)	7 (3/2)	8
	million euros					%		
Foreign currency deposits	10.34	10.24	10.17	-0.17	-0.07	-1.64	-0.68	2.47
Restitution	81.79	81.59	83.07	1.28	1.48	1.56	1.81	20.21
Loans with commercial banks	108.77	156.24	138.88	30.11	-17.36	27.68	-11.11	33.79
Accrued pensions	1.89	1.89	1.89	0.00	0.00	0.00	0.00	0.46
Treasury bills	0.00	39.00	00.00	0.00	-39.00	0.00	-100.00	0.00
Domestic bonds	142.44	142.44	142.44	0.00	0.00	0.00	0.00	34.65
Legal persons and companies	37.46	37.37	34.62	-2.84	-2.75	-7.58	-7.36	8.42
TOTAL	382.69	468.77	411.07	28.38	-57.70	7.42	-12.31	100.0

Source: Ministry of Finance

6.2. External public debt

According to Ministry of Finance data, external debt of Montenegro amounted to 3,613.40 million euros or 56.05% of GDP and compared to the end of the previous year, it recorded an increase of 55.84 million euros or 1.57%. This increase is largely the result of signing a credit arrangement with Deutsche Bank in the amount of 100 million euros.⁴⁷

In H1 2023, there were the following withdrawals of funds arising from loan arrangements with international institutions, in the total amount of 115.38 million euros:

- Withdrawals of funds from Deutsche Bank in the amount of 100 million euros (to finance budget liabilities in the current year),
- Withdrawals of KfW funds in the amount 4.94 million euros (for the projects “Water supply and waste water treatment - Pg Promo and Phase V, and Phase V component 2”, and “Energy efficiency program in public buildings - phases II and III”);
- Withdrawal from the IBRD funds in the amount of 3.81 million euros (for projects “Industrial Waste Management”, “Tax Administration Reform” and “Institutional Development and Agriculture Strengthening - MIDAS 2”);
- Withdrawal of funds from Hapoalim Bank in the amount of 1.97 million euros (for equipping armoured vehicles);
- Withdrawals of CEB funds in the amount of 1.81 million euros (for the projects “Preschool infrastructure in Montenegro - 2” and “1000+”)
- Withdrawal of EIB funds in the amount of 1.80 million euros (for the project “Program for the improvement of Montenegrin education”),
- Withdrawal of EBRD funds in the amount of 0.92 million euros (for the purposes of local and main roads reconstruction); and

⁴⁷ The contract with the bank was concluded for a period of three years, with a grace period of 12 months and a variable interest rate consisting of the six-month Euribor plus a margin of 5.9%.

- Withdrawal of funds from the International Fund for Agricultural Development (IFAD) in the amount of 0.13 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 of 48.43%, while the Chinese Exim Bank stands as the largest individual creditor with a share in the external debt of 19.91% (table 6.3).

Table 6.3

Structure of Montenegro's external debt as of 30 June 2023				
Creditor	Debt balance	External debt	Share in	Share in government
	million euros	GDP	external debt	debt (4,024.47 million euros)
			%	
International Bank for Reconstruction and Development (IBRD)	179.47	2.78	4.97	4.46
Member countries of the Paris Club of creditors	50.40	0.78	1.39	1.25
International Development Association (IDA)	9.15	0.14	0.25	0.23
European Investment Bank (EIB) ¹	89.62	1.39	2.48	2.23
EBRD	57.74	0.90	1.60	1.43
Council of Europe Development Bank	75.92	1.18	2.10	1.89
European Commission ²	60.00	0.93	1.66	1.49
Kreditanstalt für Wiederaufbau – Germany (KfW) ³	36.48	0.57	1.01	0.91
Loan from Hungary ⁴	0.00	0.00	0.00	0.00
Loan from Poland ⁵	2.40	0.04	0.07	0.06
Loan from France - Natixis ⁶	0.14	0.00	0.00	0.00
Chinese EXIM Bank ⁷	719.38	11.16	19.91	17.88
Loan from Spain for the construction of landfill	0.90	0.01	0.02	0.02
EUROBONDS	1,750.00	27.14	48.43	43.48
IFAD	3.02	0.05	0.08	0.08
Export Development Canada (EDC) ⁸	1.55	0.02	0.04	0.04
Syndicated loan - PBG ⁹	177.14	2.75	4.90	4.40
Syndicated loans – PBG 2	203.64	3.16	5.64	5.06
HAPOALIM - armoured vehicles	22.39	0.35	0.62	0.56
Rapid Financing Instrument - IMF	74.06	1.15	2.05	1.84
Deutsche Bank	100.00	1.55	2.77	2.48
TOTAL	3,613.40	56.05	100.00	89.79

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

² Loan for limiting the economic consequences of the COVID-19 pandemic under the Macro-Financial Support Program, totalling 60 million euros.

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

⁴ Loan with Hungarian Export Import bank for the construction of school and preschool facilities.

⁵ Loan agreement signed with the Government of Poland for the needs of the Railway Infrastructure of Montenegro

⁶ Merchandise loan - EPCG

⁷ Loan for construction of a Bar-Bioljare highway section

⁸ Credit for the purchase of three helicopters.

⁹ Loan arrangement with the Trade Union 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 for certain contracted credit lines there are funds that have not been withdrawn (table 6.4). The total amount of available and non-withdrawn funds amounts to 302.76 million euros, where the largest part refers to the funds of the European Investment Bank (111.70 million euros) and the KfW (98.28 million euros).

Table 6.4

Structure of external debt of Montenegro and non-withdrawn funds, in million euros		
Creditor	Debt balance at end-June 2023	Amount of unwithdrawn funds
	million euros	
International Bank for Reconstruction and Development (IBRD)	179.47	54.39
Member countries of the Paris Club of creditors	50.40	
International Development Association (IDA)	9.15	
European Investment Bank (EIB)	89.62	111.70
EBRD	57.74	23.66
Council of Europe Development Bank	75.92	11.29
European Commission	60.00	
Kreditanstalt für Wiederaufbau – Germany (KfW)	36.48	98.28
Loan from Hungary	0.00	
Loan from Poland	2.40	
Loan from France - Natixis	0.14	
Chinese EXIM Bank	719.38	
Loan from Spain for the construction of landfill	0.90	
EUROBONDS	1,750.00	
IFAD	3.02	0.05
Export Development Canada (EDC)	1.55	
Syndicated loan - PBG	177.14	
Syndicated loan – PBG 2	203.64	
HAPOALIM - armoured vehicles	22.39	3.39
Rapid Financing Instrument - IMF	74.06	
Deutsche Bank	100.00	
TOTAL	3,613.40	302.76

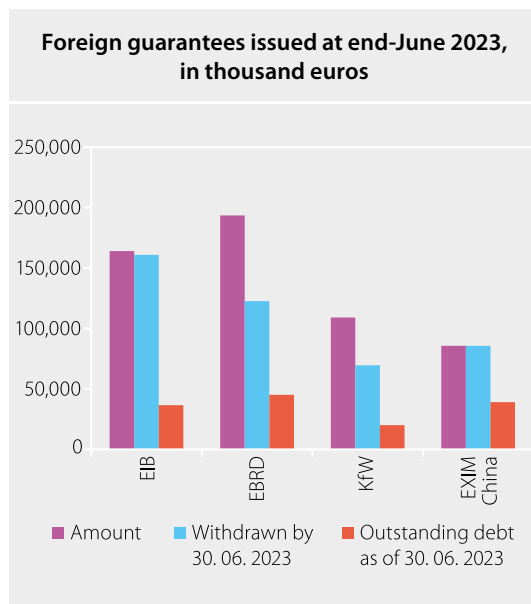
Source: Ministry of Finance

6.3. Issued government guarantees

At the end-June 2023, state guarantees amounted to 168.75 million euros and were lower compared to the end of the previous year by 4.39%, i.e. they participated with 2.62% in the GDP structure, which represents a decrease of 0.36 pp relative to end-2022. If we include issued state guarantees, the government debt of Montenegro, at the end of June 2023, amounted to 4,193.22 million euros, or 65.04% of GDP.

In the structure of the total issued guarantees, foreign guarantees at the end of June 2023 amounted to 140.98 million euros (Graph 6.1) and compared to the end of the previous year they were lower by 3.50%, i.e. they participated with 2.18% in structure of GDP, which represents a decrease of 0.29

Graph 6.1



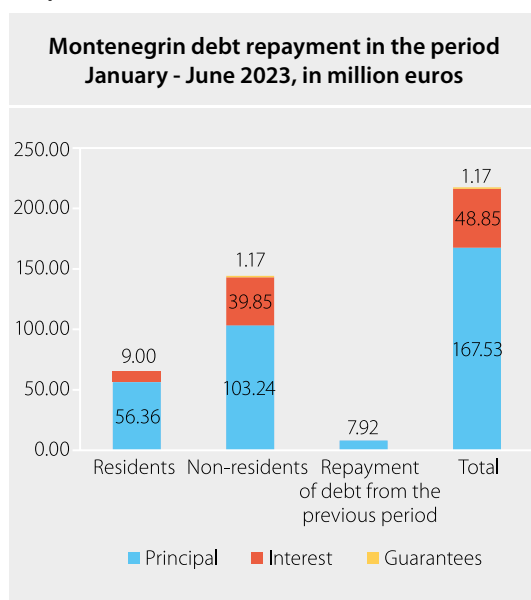
Source: Ministry of Finance

pp compared to the end of the previous year. If we include foreign guarantees in the amount of external government debt, it would amount to 58.23% of GDP. It is important to point out that the mentioned amount of foreign guarantees refers only to withdrawn credit funds. When taking into account the total contracted amounts of loans, for which guarantees have been agreed, foreign guarantees reach the level of 552.30 million euros or 8.57% of GDP.

The total amount of domestic guarantees at the end-June 2023 was 27.77 million euros (0.43% of GDP). Internal debt with guarantees amounted to 6.80% of GDP. Of the total amount of domestic guarantees, 13.83 million euros refers to guarantees given to municipalities for loans from several domestic commercial banks, for the implementation of the resolution plan.⁴⁸

6.4. Debt repayment

Graph 6.2



Source: Ministry of Finance

According to preliminary data from the Ministry of Finance, the total repayment of the government debt⁴⁹ during the first half of 2023 amounted to 217.54 million euros or 3.37% of the estimated GDP. Of the total amount of debt repayment, the largest part refers to principal repayment to residents and non-residents, in the amount of 159.60 million euros, while 48.85 million euros refers to the repayment of interest based on credit arrangements, to residents and non-residents (Graph 6.2). Repayment of liabilities from the earlier period amounted to 7.92 million euros, of which 0.07 million euros related to the frozen foreign currency deposits repayment (0.07 million euros).

⁴⁸ Total underwritten amount of guarantees for loans used by municipalities for the resolution plan implementation is 40.55 million euros.

⁴⁹ Total debt repayment includes the repayment of debt arising from principal, interest and guarantees repayment due in the reporting year, as well as the repayment of debt from previous years.