

# Report on the General Government Debt of Montenegro as of 31 December 2015

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## **INTRODUCTION**

Provisions of the Law on Budget and Fiscal Responsibility (Official Gazette of Montenegro, No 20/14) define the legislation governing the matter of the public debt of Montenegro.

According to the above-mentioned Law, the public debt is defined as a debt of the Central Government Level and Local Government Level, precisely of the General Government Level. The Central Government Level are the State authorities and State administration authorities, legal persons and business organisations predominantly providing services of public interest which are controlled and mostly financed by the State. The Local Government Level are the municipal authorities, legal persons and business organisations predominantly providing services of local interest and which are controlled and mostly financed by the municipalities.

Pursuant to provision of the Law, the Ministry of Finance manages the Central Government debt and keeps the records of the existing State debt, taken long-term and short-term borrowings and issued guarantees.

A competent authority in the municipality keeps records on existing municipal debt, taken long-term and short-term borrowings and issued guarantees, and submits to the Ministry of Finance a quarterly report thereof, within 30 days as of the lapse of the quarter.

The Ministry of Finance consolidates the records on the General Government debt and submits the annual report on the General Government debt to the Government of Montenegro within 90 days as of the lapse of the fiscal year.

### **1. General Government Debt of Montenegro Stock and Flow**

The net General Government debt of Montenegro, as of 31 December 2015, taking into account deposits of the Ministry of Finance, including also 38,477 ounces of gold, was **2.361,58 million euro**.

If observing the net amount of the General Government debt as share of the gross domestic product (GDP), at the end of 2015 the General Government debt was **64.61% of GDP**.

**Table 1: General Government Debt as of 31 December 2015**

<b>Foreign Debt</b>				
<b>Creditor</b>	<b>Debt stock in mil euro</b>	<b>% of GDP</b>	<b>% of Foreign Debt</b>	<b>% of Total General Government Debt</b>
		3.655,00		
International Bank for Reconstruction and Development (IBRD)	220,93	6,04	11,29	9,13
Member states of the Paris Club of Creditors	98,53	2,70	5,04	4,07
International Development Association (IDA)	59,97	1,52	3,07	2,48
European Investment Bank (EIB)	105,37	2,88	5,39	4,36
European Bank for Reconstruction and Development (EBRD)	12,79	0,35	0,65	0,53
Council of Europe Development Bank (CEB)	12,83	0,35	0,66	0,53
European Commission	3,90	0,11	0,20	0,16
Reconstruction Credit Bank (KfW) – Germany	33,59	0,92	1,72	1,39
Hungarian loan	8,02	0,22	0,41	0,33
Polish loan	7,63	0,21	0,39	0,32
French loan – NATIXIS	6,41	0,18	0,33	0,27
EUROFIMA	15,72	0,43	0,80	0,65
Czech EXIM Bank	9,48	0,26	0,48	0,39
Steiermarkische Bank und Sparkassen AG	12,10	0,33	0,62	0,50
Erste Bank	12,00	0,33	0,61	0,50
Credit Suisse Bank	166,00	4,54	8,49	6,86
China EXIM Bank	172,80	4,73	8,83	7,14
Instituto del credito oficial (ICO) - Spanish loan	4,30	0,12	0,22	0,18
Erste Bank – Health Insurance Fund	6,19	0,17	0,32	0,26
EUROBOND	957,80	26,21	48,96	39,60
Deutsche Bank	30,00	0,82	1,53	1,24
<b>TOTAL Foreign debt</b>	<b>1.956,36</b>	<b>53,53</b>	<b>100,00</b>	<b>80,88</b>
<b>Domestic Debt</b>				
<b>Creditor</b>	<b>Debt Stock</b>	<b>% of GDP</b>	<b>% of Domestic Debt</b>	<b>% of Total General Debt</b>
Foreign currency savings	43,14	1,18	13,47	1,78
Restitution	93,14	2,55	29,08	3,85
Loans from commercial banks	36,58	1,00	11,42	1,51

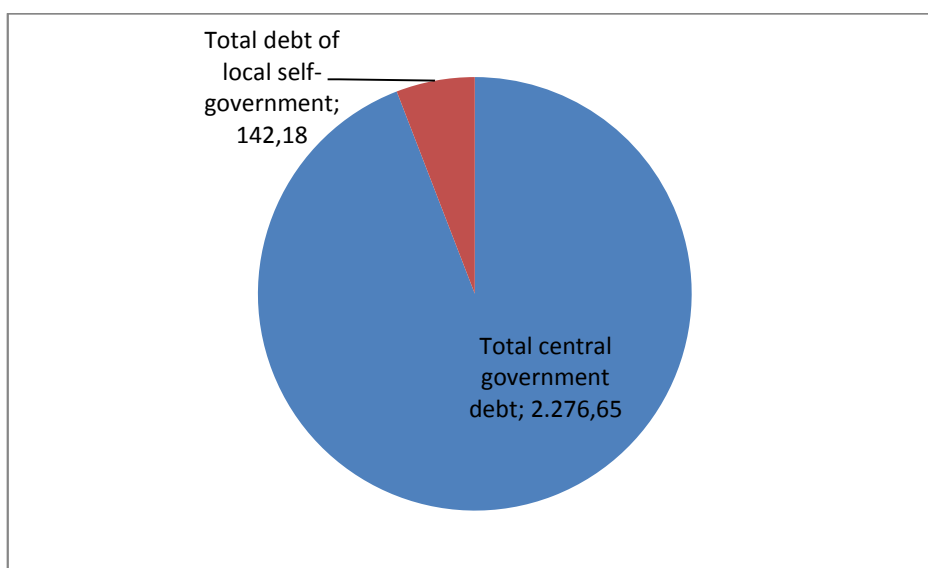
Pensions in arrear	1,79	0,05	0,56	0,07
Treasury bills	77,71	2,13	24,26	3,21
Government bonds for the Labour Fund – OBFR	2,64	0,07	0,82	0,11
Domestic bonds – GB14	27,95	0,76	8,73	1,16
Legal persons and business organisations	37,34	1,02	11,66	1,64
<b>TOTAL Domestic Debt</b>	<b>320,29</b>	<b>8,76</b>	<b>100,00</b>	<b>13,24</b>
<b>Total Central Government debt</b>	<b>2.276,65</b>	<b>62,29</b>		<b>94,12</b>

#### Local self-government debt stock as of 31-Dec-2015

Name of the Municipality	Debt stock	% of GDP	% of Local Debt	% of Total General Debt
		3.655,00		
Andrijevica	0,00	0,00	0,00	0,00
Bar	0,00	0,00	0,00	0,00
Berane	4,88	0,13	3,43	0,20
Bijelo Polje	14,28	0,39	10,04	0,59
Budva	60,59	1,67	42,61	2,50
Cetinje	10,49	0,29	7,38	0,43
Danilovgrad	2,96	0,08	2,08	0,12
Gusinje	0,00	0,00	0,00	0,00
Herceg Novi	0,82	0,02	0,58	0,03
Kolašin	6,65	0,18	4,68	0,27
Kotor	0,00	0,00	0,00	0,00
Mojkovac	0,65	0,02	0,46	0,03
Nikšić	6,15	0,17	4,33	0,25
Petnjica	0,00	0,00	0,00	0,00
Plav	0,59	0,02	0,41	0,02
Plužine	0,28	0,01	0,20	0,01
Pljevlja	4,22	0,12	2,97	0,17
Podgorica	22,98	0,63	16,16	0,95
Rožaje	3,15	0,09	2,22	0,13
Šavnik	0,35	0,01	0,25	0,01
Tivat	0,00	0,00	0,00	0,00
Ulcinj	3,03	0,08	2,13	0,13
Žabljak	0,11	0,00	0,08	0,00
<b>Total debt of local self-government</b>	<b>142,18</b>	<b>3,89</b>	<b>100,00</b>	<b>5,88</b>

	Debt stock	% GDP
<b>TOTAL General Government debt:</b>	<b>2.418,83</b>	<b>66,18</b>
<b>Government Debt + Local Self-Government Debt</b>		
<b>DEPOSITS of the Ministry of Finance, including also 38,477 ounces of gold</b>	<b>57,25</b>	

<b>TOTAL: GENERAL GOVERNMENT DEBT – DEPOSITS</b>	<b>2.361,58</b>	<b>64,61</b>
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**Figure 1: Graph on share of the central government debt and local self-government debt as of 31-Dec-2015**

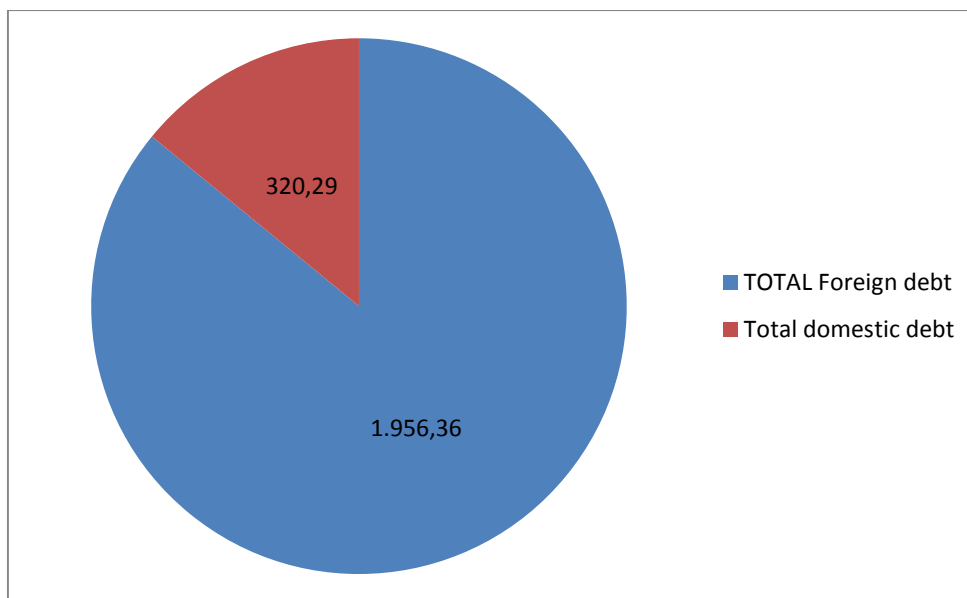
The General Government debt of Montenegro as of 31 December 2015, without deposits, was 2,418.83 million euro and consisted of the Government debt of 2,276.65 million euro (which includes part of the local self-government debt of 35.33 million euro under contracts signed by the Ministry of Finance with foreign creditors and where on-lending contracts were signed with municipalities, since the Ministry of Finance is a direct borrower, the abovementioned amount is included in the Government debt stock) and local self-government debt of 142.18 million euro (Table No 1 and Figure No 1).

When we observe the amount of general government debt without deposits as share of the gross domestic product (GDP), at the end of 2015 the public debt was 66,18% of GDP of which the central government debt makes 62,29% of GDP while the local self-government debt make 3,89% of GDP. The foreign debt amounts to around 1,956.36 million euro and its majority and its majority are Eurobonds in the amount

of around 957.80 million euro, the project loans with the International Bank for Reconstruction and Development in the amount of around 220.93 million euro, the China EXIM loan for construction of the highway section Smokovac-Mateševo in the amount of around 172.80 million euro, project loans of the European Investment Bank in the amount of around 105.37 million euro and other. The majority of the domestic debt is made of the debt resulting from restitution in the amount of around 93.14 million euro, Treasury bills in the amount of 77.71 million euro, debt resulting from foreign currency savings in amount of 43.14 million euro and other.

## 2. Central Government Debt Trend during 2015

The Central Government debt of Montenegro, as of 31 December 2015, was 2,276.65 million euro and it was composed of the domestic debt of 320.29 million euro and the foreign debt of 1,956.36 million euro (Table No 1 and Figure No 2).



**Figure 2: Graph on share of foreign and domestic debt as of 31-Dec-2015**

### 2.1 Foreign debt

The external debt, as of end 2015, was 1,956.36 million euro and increased by 394,67 million euro if compared to the end 2014. Majority of the external debt are the Eurobonds in the amount of around 957.80 million euro, the project loans with the International Bank for Reconstruction and Development in the amount of around 220.93 million euro, the China EXIM loan for construction of the highway section Smokovac-Mateševo in the amount of around 172.80 million euro, project loans of the European Investment Bank in the amount of around 105.37million euro,

Credit Suisse bank in the amount of around 166.00 million euro, the German Development Bank – KfW in the amount of around 33.59 million euro, the member states of the Paris Club of Creditors in the amount of around 98.53 million euro and Deutsche bank in amount of 30.00 million euro.

The foreign debt stock was increased, mainly as a result of issue of Eurobond of 500 million euro. Proceeds from the Eurobond issue are intended for the budget deficit financing, debt repayment and to create a fiscal reserve

Following loan facilities were signed during 2015, in addition to those already mentioned:

- Loan of Council of Europe Development Bank (CEB) for the Project “Social Housing Project” in the amount of 10.0 million euro;
- European Investment Bank loan for the project “Water supply and wastewaters D”, in the total amount of 10.0 million euro;
- KfW loan for the Project “Water supply and wastewaters disposal” (phase V-component 2) – total amount of around 28.8 million euro;

Furthermore, 206.77 million euro was disbursed during 2015 and so as follows, from:

- the World Bank Project “Energy Efficiency – additional financing” – amount of around 1.8 million euro;
- the World Bank Project LAMP– amount of around 1.5 million euro;
- the World Bank Project MIDAS – amount of 1.8 million euro;
- the World Bank Project “Industrial Waste Water Management” – amount of 1.13 million;
- the World Bank Project Higher Education and Research for Innovation and Competitiveness– amount of 1.34 million euro;
- from the KfW loan for the Project “Water supply and wastewaters disposal” (phase III, phase IV and phase V) – total amount of around 9.15 million euro;
- from the KfW loan for the Project “Energy Efficiency in Public Buildings” (phase I and phase II) – amount of around 5.9 million euro;
- from the Council Europe Development Bank loan for the Project “Social Housing Project” in the amount of 3.75 million euro;
- from the European Investment Bank loan for the project “Road Rehabilitation and City By-pass” in the total amount of 7.6 million euro;
- from the China EXIM bank loan for the Project of “Financing Bar–Boljare Highway (Smokovac-Mateševo)” in the amount of 172.8 million euro.

The repayment of foreign debt in 2015 was 320.03 million euro, of which reduction and repayment of the foreign debt accounted for 100.47 million euro, while the remaining amount of 219.56 million euro is for foreign debt repayment resulting from Eurobonds.

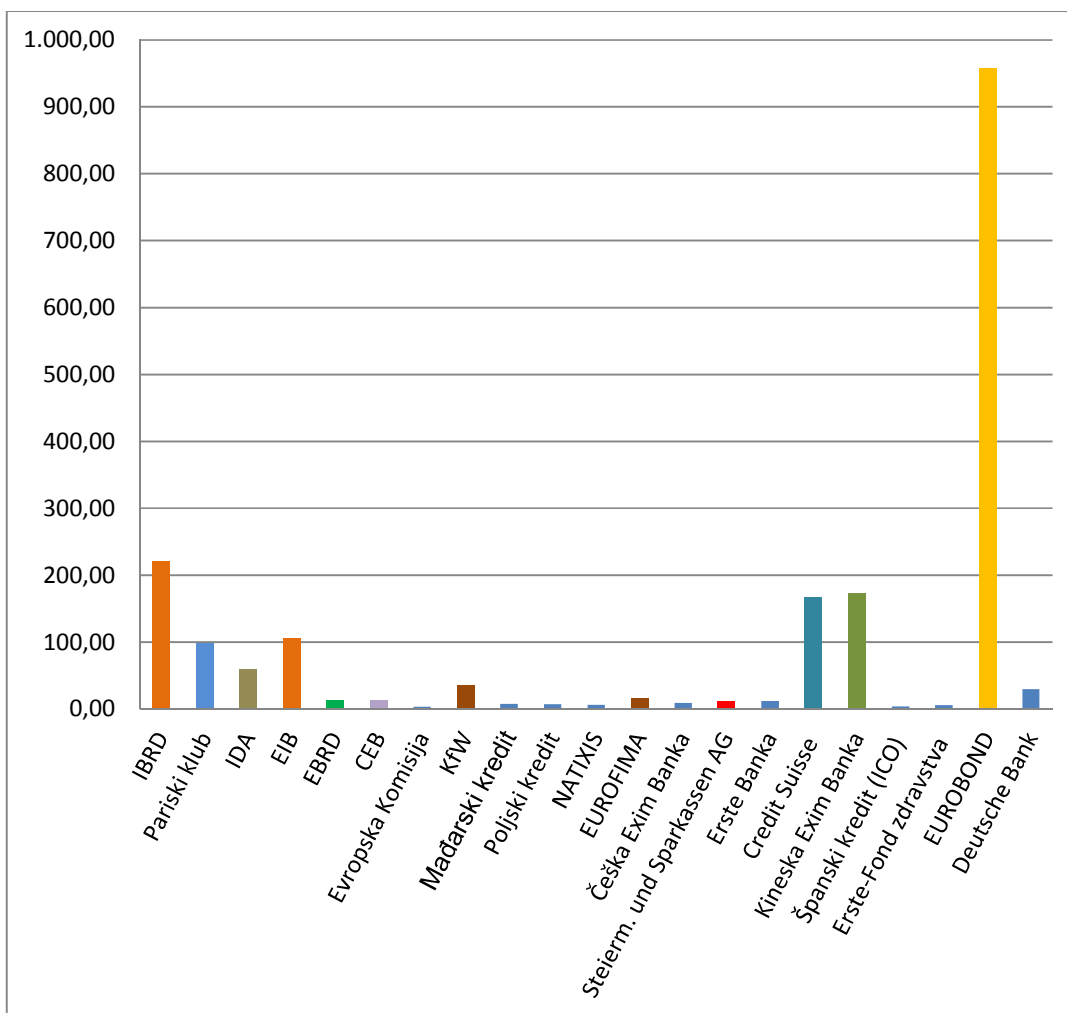
Foreign debt amount does not include liabilities arising from unresolved debt-related issues with Libya, Kuwait, Czech Republic, and Slovakia, which amount to approximately 1% of GDP. Montenegro inherited the debt towards the governments of these four countries as a result of the division of non-allocated debt (5.88% out of 38% for Serbia and Montenegro) and in accordance with the Agreement on Succession Issues from Vienna dated 29 June 2001, which are being resolved applying positions agreed within the Committee for Division of Financial Assets and Liabilities of the former SFRY.

The data on the foreign debt stock includes amounts of disbursed loan funds by specific loans (Table No 2 and Figure No 3), as well as data on undisbursed funds (Table No 2).

**Table 2: Data on Foreign Debt Stock and Amount of Undisbursed Loan Funds  
(in million euro)**

<b>Foreign Debt</b>	31.12.2015.	31.12.2015.
<b>Creditor</b>	<b>Debt stock in million euro</b>	<b>Undisbursed fund</b>
International Bank for Reconstruction and Development (IBRD)	220,93	58,57
Member states of the Paris Club of Creditors	98,53	0,00
International Development Association (IDA)	59,97	0,00
European Investment Bank (EIB)	105,37	60,41
European Bank for Reconstruction and Development (EBRD)	12,79	13,61
Council of Europe Development Bank (CEB)	12,83	16,25
European Commission	3,90	0,00
Reconstruction Credit Bank (KFW) - Germany	33,59	99,26
Hungarian loan	8,02	0,00
Polish loan	7,63	0,00
French loan – NATIXIS	6,41	0,00
EUROFIMA	15,72	0,00
Czech EXIM Bank	9,48	0,00
Steiermarkische Bank und Sparkassen AG	12,10	0,00
Erste Bank	12,00	0,00
Credit Suisse Bank	166,00	0,00
China EXIM Bank	172,80	691,19
Instituto del credito oficial (ICO) - Spanish loan	4,30	0,00
Erste Bank – Health Insurance Fund	6,19	0,00
EUROBOND	957,80	0,00
Deutsche Bank	30,00	0,00
<b>TOTAL Foreign Debt</b>	<b>1.956,36</b>	<b>939,29</b>





**Figure 3: Graph on Foreign Debt in million euro as of 31-Dec-2015**

Based on the above stated data, the debt with international financial institutions (World Bank and its affiliates – IBRD, IDA; Paris club; EIB, EBRD; CEB; European Commission; and KfW) amounts to around 14,99% of GDP, debt under bilateral (soft) loans (contracts with the Governments of Austria, Hungary, Poland, France, Spain, EUROFIMA, Czech EXIM bank, China EXIM bank, and Steiermarkische Bank und Sparkassen AG) amounts to around 6,64% of GDP, while the debt under loan facilities for the Budget financing (Eurobond, Credit Suisse, and Erste Bank) amounts to around 31,90% of GDP.

## 2.2 Domestic Debt

During 2015, the domestic debt was decreased by 60.93 million euro if compared to the end of 2014 and amounts to 320.29 million euro (Table No 3 and Figure No 4).

Majority of domestic debt is the debt for restitution in the amount of 93.14 million euro, Treasury bills in the amount of 77.71 million euro, old foreign currency savings of 43,14 mil. euro and other.

Primary cause for the internal debt decrease is the repayment of debt based on the issue of domestic bonds and loans with domestic commercial banks.

During 2015, following debt repayments were made: repayment of 34.79 million euro of loans with commercial banks, repayment of debt based on bonds issued by Montenegro for payment of unpaid claims of redundant employees of around 1.19 million euro; repayment of around 6.66 mil. euro of loans to non-financial institutions due to the continuation of the implementation of the projects of the Directorate for Transport; repayment of regular instalment for restitution of around 2.23 million euro; repayment of domestic bonds in the amount of 10.26 million euro; as well as repayment of regular instalment for foreign currency savings of around 13.50 million euro. Borrowings under Treasury bills were made during the year, which were refinanced and used for current liquidity during the year in the amount of around 175.25 million euro.

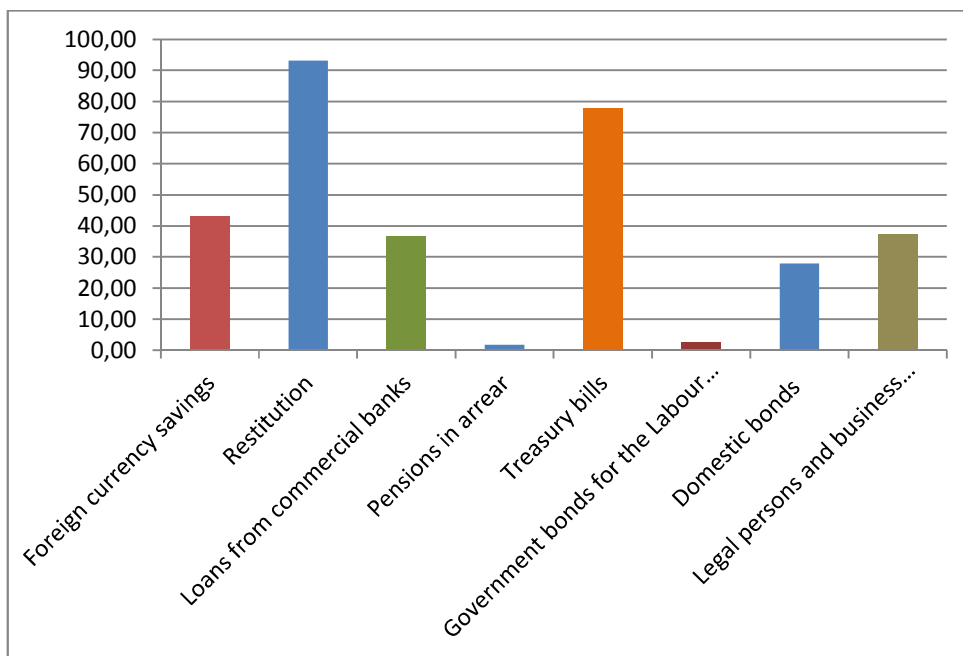
Total liability resulting from restitution was around 93.14 million euro and was increased by 3.24 million euro if compared to the end of 2014. An increase of the amount for the debt for restitution resulted from making new decisions on restitution of taken-away property-based rights.

Total liability resulting from old foreign currency savings at the end of 2015 was 43.14 million euro, which is 12.56 million euro less if compared to the end of 2014.

The domestic debt stock includes also debt of legal persons and business organisation predominantly providing services of public interest which are under management control and with majority financing from the central government budget in the amount of around 37.34 million euro. The majority of this debt includes the debt of the Railway Infrastructure (*Željeznička infrastruktura*) in the amount of around 24.34 million euro, the Railway Transport (*Željeznički prevoz*) in the amount of around 10.73 million euro, debt of the Public Broadcasting Services of Montenegro (*Radio televizija Crne Gore*) in the amount of around 1.78 million euro, and other.

**Table 3: Data on Domestic Debt Stock (in million euro)**

Creditor	Domestic debt Stock as of 31-Dec-2015
Foreign currency savings	43,14
Restitution	93,14
Loans from commercial banks	36,58
Pensions in arrear	1,79
Treasury bills	77,71
Government bonds for the Labour Fund - OBFR	2,64
Domestic bonds	27,95
Legal persons and business organisations	37,34
<b>Total domestic debt</b>	<b>320,29</b>



**Figure 4: Domestic Debt in million euro, as of 31-Dec-2015**

### 3. Local Self-Government Debt

Consolidated debt of municipalities was around 177.51 million euro, according to the latest data provided by municipalities as of end 2015, as well as according to the Ministry of Finance data, which is around 10.57 million euro more if compared to the end of 2014, and is presented in the government debt table in two manners:

- Under the central government debt stock, which includes the debt of municipalities under contracts signed by the Government of Montenegro with foreign creditors, and on-lending agreements with municipalities in the amount of around 35.33 million euro (amount of disbursed and not-repaid funds);
- Under the local self-government debt stock, of around 142.18 million euro.

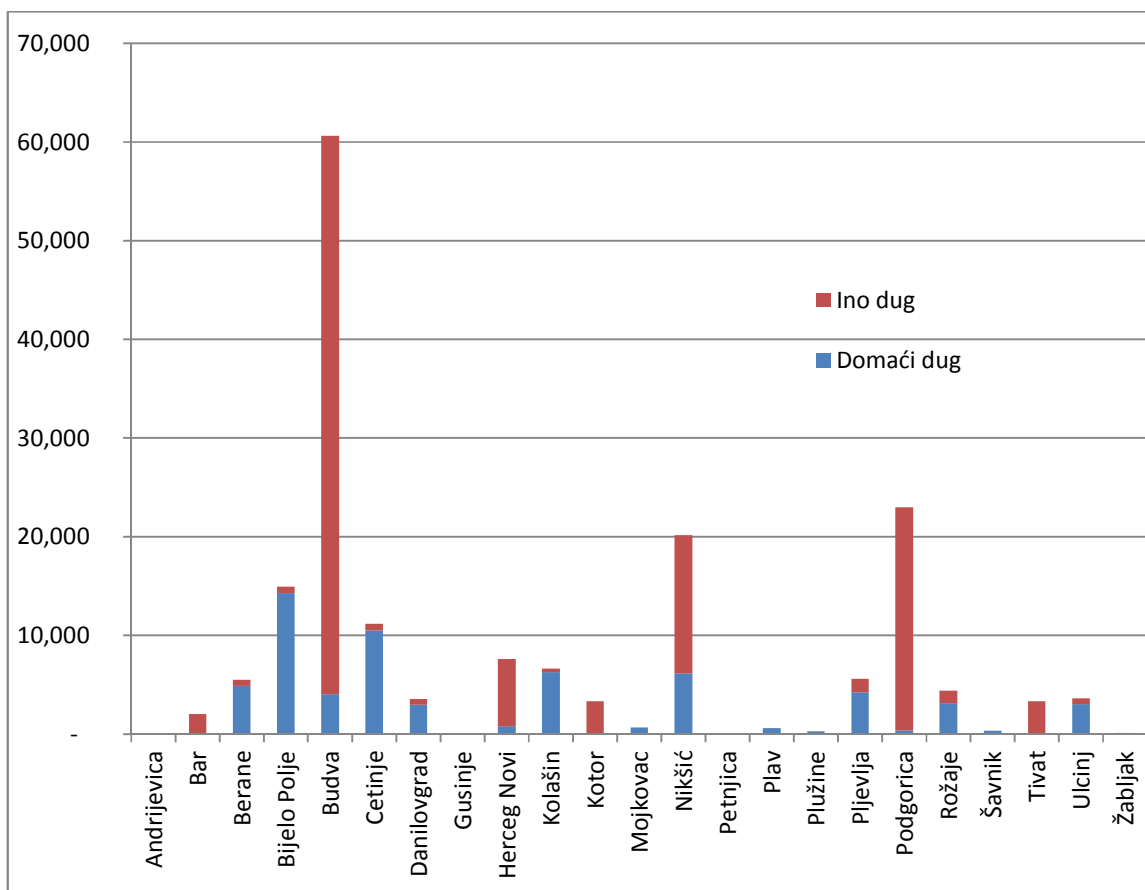
We note that local government debt, in amount of 43.80 million euro, is repaying from the Equalization Fund.

The following table presents the consolidated debt of local self-government at the end of 2015.

**Table 4: Consolidated Local Self-government Debt**

Municipality	Domestic debt	Foreign debt	Total
Andrijevisa	-	-	-
Bar	-	2,04	2,04
Berane	4,88	0,64	5,52
Bijelo Polje	14,28	0,64	14,92
Budva	4,02	56,61	60,63
Cetinje	10,49	0,68	11,17
Danilovgrad	2,96	0,59	3,55
Gusinje	-	-	-
Herceg Novi	0,82	6,78	7,60
Kolašin	6,27	0,38	6,65
Kotor		3,33	3,33
Mojkovac	0,65		0,65
Nikšić	6,15	14,00	20,15
Petnjica	-	-	-
Plav	0,59	-	0,59

Plužine	0,28	-	0,28
Pljevlja	4,22	1,40	5,62
Podgorica	0,36	22,61	22,97
Rožaje	3,15	1,26	4,41
Šavnik	0,35	-	0,35
Tivat	-	3,35	3,35
Ulcinj	3,03	0,59	3,62
Žabljak	0,11	-	0,11
<b>TOTAL</b>	<b>62,61</b>	<b>114,90</b>	<b>177,51</b>



**Figure 5: Graph representing share of consolidated domestic debt and foreign debt of local self-government, as of 31-Dec-2015**

#### 4. Debt Repayment

During 2015, the government debt repayment of principal to residents and non-resident was 541,742,968.76 euro; repayment of debt from previous period for old foreign currency savings was 18,899,061.49 euro; while the repayment of interest to residents and non-residents was in total 81,691,925.21 euro.

The repayment of liabilities from the previous period in total amount of 18.90 million euro, from the positions of Ministry of finance, is used for following purposes: repayment of old foreign currency savings in amount of 13.55 million euro, repayment according to the Conclusions of the Government of Montenegro in amount of 0.45 million euro, repayment of take over debt for Montenegroairlines in amount of 3.67 million euro, according to court decisions in amount of 1.28 million euro.

Repayment breakdown is presented in the following table:

**Table 5: Government Debt Servicing in 2015**

<b>Budget line item</b>	<b>2015</b>
4611 – repayment of principal to residents	221.709.652,12*
4612 – repayment of principal to non-residents	320.033.316,64
4630 – repayment of liabilities from previous years	18.899.061,49
4161 – repayment of interest to residents	6.167.762,35
4162 – repayment of interest to non-residents	75.524.162,86
<b>TOTAL</b>	<b>642.333.955,46</b>

\* Treasury Bills for approximately 175.25 million euro were refinanced during the year