THE WORLD BANK
Treasury

CASE STUDY

Accessing New Financial Markets and Improving Borrowing Terms in Serbia

OVERVIEW

Despite high financing requirements, Serbia has accessed the international markets only once, as Serbia and Montenegro. An IBRD Policy-Based Guarantee helped Serbia raise EUR 292.6 million from a global lender. This transaction signaled to the markets about Serbia's access to diversified sources of capital, which may reduce perceived credit risk over time.

Background

After transition-related declines in GDP and an armed conflict in the 1990s, Serbia has restored macroeconomic stability and achieved high growth. Aided by stabilization measures and structural reforms in public and financial sectors, Serbia is today on sound footing and taking steps to improve its debt management capacity.

Despite high financing requirements, Serbia accessed the international markets only once, as Serbia and Montenegro. After the 20-year Eurobond issue in 2005, which raised US$1 billion, Serbia did not return to the global capital market independently. Instead, it tapped the local capital market and domestic banking sector. Diversifying sources of funding could help Serbia reduce cost over time and avoid crowding out private sector financing.

Supporting the government's efforts to promote private sector-led growth and strengthening the Serbian financial sector through a series of development policy operations was an important element of the World Bank's FY 2008-2011 Country Partnership Strategy for Serbia. In this context, Serbia requested an IBRD Policy-Based Guarantee rather than an IBRD loan to help access the international loan market to fund one of these operations.

Financing Objectives

Serbia needed sound financing to further advance its strong track record in structural reforms and improve its business environment, strengthen financial discipline in the non-private enterprise sector, and build a stable and more efficient financial sector. It also faced large liabilities from debt maturing in the next five years and was therefore seeking funding with a tenor longer than the 3-year average life possible in the local market. Furthermore, Serbia's 2011-2013 debt management strategy aimed to access new sources of financing in global markets and reduce roll-over risk in the public debt portfolio.

IBRD Financial Solution

In February 2011, the World Bank approved a Policy Based Guarantee to help Serbia access international markets, and support its reform program. The guarantee covers the principal repayment risk of a 6-year commercial bank loan of EUR292.6 million (approximately US$400 million) with bullet maturity, on a non-accelerable basis. The guarantee does not guarantee interest payments.

Outcome

The transaction initiated Serbia's return to the international financial market and helped mobilize EUR292.6 million. The guarantee allowed the government to double the average life of market borrowing at a markedly reduced cost of funding as the result of financial bidding by a number of international banks. Figure 1 compares Serbia's potential financing in the local market without a guarantee to an international commercial bank loan with the IBRD guarantee. The longer maturity is expected to strengthen Serbia's debt portfolio by reducing refinancing risks, particularly given uncertainty in the financial markets in the short-term. At a borrowing spread of 100 basis points above EURIBOR, the transaction has resulted in roughly US$80 million in net present value savings for Serbia.

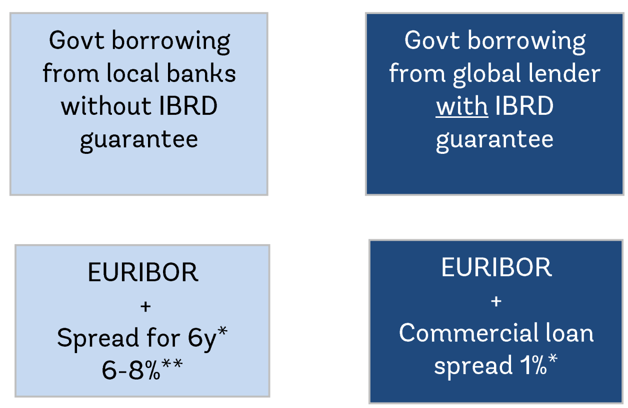
Another important benefit of this transaction for Serbia was the experience gained through engagement with global lenders. International banks had the opportunity to familiarize themselves with the Serbian credit story through due diligence activities. Ten banks submitted proposals for the transaction. With the IBRD guarantee, Serbia re-established itself as a global borrower, which could help improve terms for future market borrowings. This transaction has also provided positive signals to the financial markets on Serbia's access to diversified sources of capital, which may reduce perceived credit risk over time.

Terms & Conditions

Table 1: Summary of Financial Terms for Policy Based Guarantee

Closing Date	April 2011
Type of Guarantee	IBRD Policy Based Guarantee
Coverage	100% of principal at maturity on a non-accelerable basis
Amount	EUR 292.6 million
Term	6 years
Structure	Bullet payment

Figure 1: Cost comparison: Serbia borrowing with and without IBRD guarantee



* Excludes arrangement fees and IBRD fees; actual interest rate was fixed for the loan.
** Indicative spreads were extrapolated from the Serbian Government's last borrowing at an average life of three years around the time of the transaction.

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