

# Montenegro: Mobilizing Long-Term Private Financing at a Lower Cost During the COVID-19 Crisis

## OVERVIEW

In a volatile financial climate, fueled by an unprecedented world wide pandemic, Montenegro mobilized €250 million from the private sector with the help of an €80 million Policy-based Guarantee (PBG) from the World Bank.

The 12-year facility, arranged with support from the World Bank Treasury, achieved reduced financing costs that will help Montenegro meet the unexpected fiscal challenges created by COVID-19, particularly the pandemic's unfavorable impact on tourism and service industries.

This is the second PBG in a series of two that will strengthen Montenegro's macro-fiscal sustainability and financial sector resilience.

## Background

In 2017, Montenegro undertook a series of reforms that targeted consolidation of fiscal adjustment measures that fortify the financial sector, strengthen public financial management, and improve macro-financial supervision.

In May 2018, the World Bank helped Montenegro to mobilize €250 million in private financing with the first [policy-based guarantee \(PBG1\) of the two-part series](#). Through the support of the PBG1, the Government was able to meet its 2018 financing needs, lower borrowing costs, and support the refinancing of liabilities due in 2019-2021.

Since then and until the onset of COVID-19, Montenegro's economic performance was strong: the construction of the first section of the Bar-Boljare highway, and substantial private



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investment in tourism and energy, drove the GDP to reach a 10-year high of 5.1 percent in 2018. Nevertheless, financial sector vulnerabilities, including elevated public debt levels, constrained GDP from growing further to a higher potential. In addition, the country also faced rollover risks in the external bond market in 2020-21.

Montenegro, along with other counterparts in the Western Balkans region, is expected to enter a recession in 2020, as travel restrictions and social distancing required to stem the spread of the COVID-19 pandemic are expected to have a profoundly negative impact on tourism and services industries, the latter accounting for 75 percent of total employment in Montenegro.

As a single-B rated country, whose credit outlook was recently downgraded by Standard & Poor's (May 2020), Montenegro needed access to financing but was facing short maturities and higher costs. At the onset of the COVID-19 pandemic, liquidity dried up in both in international loan and capital markets, and borrowing spreads widened considerably.

## Financing and Project Objectives

- Mobilize US\$250 million international financing using the US\$80 million PBG to manage financing needs in 2020-21
- Help the Government optimize its debt in line with its debt management strategy by achieving lower costs and long maturities
- Design and execute the financing facility against a backdrop of the global COVID-19 pandemic, in which capital markets for emerging countries dramatically tightened

## Financial Solution and Outcome

On June 12, 2020, the World Bank approved the second €80 million PBG (PBG2) for Montenegro, mobilizing another €250 million of private capital, or 3 Euros for every Euro of IBRD balance sheet committed. A syndicate of three global banks: Credit Suisse, Société Générale, and OTP Bank Group, the same group of investors that funded the PBG1 operation in 2018, also provided the most optimal choice for PBG2.

The transaction achieved a 12-year maturity, a term Montenegro could not have achieved without the World Bank guarantee, especially given the state of capital markets during the prevailing pandemic where similarly rated sovereigns could only achieve shorter tenors. Moreover, the guarantee reduced the interest cost for Montenegro to a fraction compared to similarly rated borrowers' estimated cost.

## World Bank Treasury's Role

### Design of the facility

- Internal evaluation: Worked closely with the Ministry of Finance and World Bank's Macroeconomics, Trade & Investment Global Practice, as well as the International Monetary Fund to understand Montenegro's debt management strategy. Assessed short and medium-term financing needs, analyzed options for meeting impending foreign obligations. Evaluated access to offshore bond market, global lenders, and local markets, in addition to other multilateral and bilateral support. Agreed on an optimal transaction volume and structure.

- External Evaluation: Assessed capital market conditions, analyzing capacity of bond, bank, and insurance markets. Gauged investor appetite. Tested new and existing lender willingness to extend financing in a volatile market.

### Arrangement of the bank syndicate and negotiation of terms

- Helped the government manage the bidding process: Supported the Ministry of Finance in creating a competitive tender with global lenders. Directly engaged with a range of potential new and existing bank partners the process. Negotiated terms of the World Bank guarantee and of the loan market financing. Supported the Ministry of Finance to evaluate the proposals, and to further tighten the financing terms with the lending syndicate.
- Finalized the documentation process with internal and external legal teams and executed the Facility Agreement with the client and lenders.



## Policy Based Guarantees

Policy-based Guarantees are applied in the context of development policy operations where the World Bank supports a member country with their program of policy and institutional actions that promote growth and sustainable poverty reduction.