
LOAN NUMBER 97280-ME

Loan Agreement

**(Montenegro First Resilient Fiscal and Sustainable Development -
Development Policy Loan)**

between

MONTENEGRO

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between MONTENEGRO (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Borrower’s maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower the amount of Euro eighty million (EUR 80,000,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”).
- 2.02. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
- 2.03. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.04. The interest rate is the Reference Rate plus the Variable Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.
- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. Except as provided Section in 2.07 below, the principal amount of the Loan shall be repaid in accordance with Section 3.03 of the General Conditions and Schedule 2 to this Agreement.
- 2.07. (a) Upon occurrence of an Eligible Event and issuance of government declaration of national emergency, the Borrower may request the Bank to activate: (i) the Principal Payment Deferral in respect of a portion or all of the Withdrawn Loan Balance; and/or (ii) Interest Payment Deferral; for the Deferral Period, provided that such request shall be made no earlier than in respect of the first Principal Payment Date and no later than the fifth anniversary prior to the final maturity of the Loan. Such request and any activation shall be made in accordance with the CRDC Terms and Conditions in effect at the time of the submission of the request, the provisions of which are hereby incorporated by reference

and form an integral part of this Agreement. The activation of the Payment Deferral may occur only once during the term of the Loan.

(b) At the time of requesting the Principal Payment Deferral pursuant to the provisions of paragraph (a) of this Section 2.07, the Borrower may also request repayment provisions different from those set out in Schedule 2 to this Agreement for a portion or all of the Withdrawn Loan Balance for which Principal Payment Deferral is requested, provided that (i) the average maturity of the Withdrawn Loan Balance after the Deferral Period equals the original average maturity of such Withdrawn Loan Balance prior to the Principal Payment Deferral request and the final maturity of the Withdrawn Loan Balance after the Deferral Period will not exceed the original final maturity of such Withdrawn Loan Balance prior to the Principal Payment Deferral request; and (ii) such repayment provisions have been agreed between the Borrower and the Bank.

(c) Upon verification by the Bank of the occurrence of the applicable Payment Deferral Trigger, the Bank shall take such actions as necessary to implement the Payment Deferral in accordance with the terms of this Agreement and the CRDC Terms and Conditions. Effective the date of the activation of the Payment Deferral as notified by the Bank to the Borrower, the provisions of this Agreement providing for repayment of the proceeds of the Loan, including the provisions of Schedule 2, shall be deemed to have been modified, as applicable. The Bank shall notify the Borrower of the applicable financial terms of the Loan, including any revised amortization provisions, if applicable, at the time of the Payment Deferral activation or promptly thereafter.

(d) In the event the Interest Payment Deferral is activated, the Borrower shall pay to the Bank interest on any such deferred amount at the rate set forth in Section 2.04 of this Agreement until such time as the deferred amount is fully paid to the Bank. Such interest shall accrue from the respective dates when the relevant amounts are deferred after the Interest Payment Deferral is activated and shall be payable on the remaining Payment Dates after the Deferral Period.

(e) The Payment Deferral shall not be activated, if either of the events specified in Section 7.02 (a) or 7.06 (a) of the General Conditions occurs and is continuing, provided, however, that the Payment Deferral itself, upon its activation, shall not constitute an event described in Sections 7.02 (a) or 7.06 (a) of the General Conditions. Furthermore, the Borrower shall continue to pay all applicable and accrued Loan Payments during the Deferral Period, except the amounts that have been deferred pursuant to the activated Payment Deferral as described herein.

(f) If the Withdrawn Loan Balance or any interest and other applicable Loan charges, to which the request for Payment Deferral relates, is subject to a Currency Conversion then in effect, the Borrower and the Bank shall agree to amend or terminate such Currency Conversion. In the event of an early termination of such Currency Conversion prior to the end of its Conversion Period as a result of the Payment Deferral, the provisions of Section 4.06 (b) of the General Conditions shall apply.

- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon paragraph (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date sixty (60) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.
- 6.02. For purposes of Section 10.01 of the General Conditions:
- (a) the Borrower's address is:

Ministry of Finance
Stanka Dragojevicica 2
Podgorica, Montenegro; and

(b) the Borrower's Electronic Address is:

Telex:	Facsimile:	E-mail:
+38220242835	+38282224450	mf@mif.gov.me

6.03. For purposes of Section 10.01 of the General Conditions:

(a) the Bank's address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

(b) the Bank's Electronic Address is:

Telex:	Facsimile:
248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED as of the Signature Date.

MONTENEGRO

By

Novica Vuković

Authorized Representative

Name: Novica Vuković

Title: Minister of Finance

18-Oct-2024

Date: _____

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By

C. Sheldon

Authorized Representative

Name: Christopher Gilbert Sheldon

Title: Country Manager

18-Oct-2024

Date: _____

SCHEDULE 1**Program Actions; Availability of Loan Proceeds****Section I. Actions under the Program**

- A. Actions Taken Under the Program.** The actions taken by the Borrower under the Program include the following:

Pillar 1. Strengthening fiscal sustainability

1. To increase revenues, the Borrower has:
 - (a) adopted amendments to the Law on Excise Taxes to (i) increase the minimum excise tax on tobacco to EUR 89 per 1,000 cigarettes from July 1st, 2024; and (ii) introduce excise taxes on products made of sugar, cocoa, ice cream, and non-carbonated water with added sugar, as evidenced by Law No. 411, published in the Borrower's Official Gazette No. 27/2023 on March 8, 2023, and Law No. 1952, published in the Borrower's Official Gazette No. 125/2023 on December 31, 2023; and
 - (b) adopted amendments to the Law on Games of Chances to increase concessionaires' fees on online games of chance by introducing a variable component, as evidenced by Law No. 1956 and published in the Borrower's Official Gazette No. 125/2023 on December 31, 2023.
2. To increase the efficiency of pharmaceutical spending and improve transparency of decision-making, the Borrower has (i) increased the frequency of revising the Positive Drug List to expand the use of generics included in the Positive Drug List; (ii) introduced a requirement to review and revise prescribing restrictions in the Positive Drug List; (iii) mandated publishing the rationale for decisions to include or exclude certain drugs in the Positive Drug List on the website of the Ministry of Health, as evidenced by Government Regulation 08-040/23-6217 dated December 27, 2023 and published in the Borrower's Official Gazette No. 123/2023 on December 30, 2023 and (iv) mandated quarterly clinical reevaluation of treatments not included in the Positive Drug List but approved by the Ministry of Health Commission, as evidenced by the Ministry of Health's Rulebook No. 2-504/24-149/2 dated February 27, 2024.
3. To improve fiscal oversight, the Borrower has adopted amendments to the Law on Budget and Fiscal Responsibility to establish an independent Fiscal Council to monitor the implementation of fiscal rules and assess credibility and sustainability of fiscal policy, as evidenced by the Law No. 413 published in the Borrower's Official Gazette No. 27/2023 on March 8, 2023.
4. To increase transparency of the financial position of state-owned enterprises (SOEs), the Borrower has: (i) taken measures to establish a register of SOEs, including detailed information on their financial performance, as evidenced by the Government's Conclusions No. 08-040/24-929/2 dated March 1, 2024 and Government's Conclusions No. 08-430/24-3378/2 dated June 20, 2024, and (ii) published a list of SOEs on the Ministry of Finance website, as evidenced by the MoF webpage at

<https://www.gov.me/clanak/registar-javnih-preduzeca-i-privrednih-drustava-u-vecinskom-vlasnistvu-drzave>.

Pillar 2. Enabling sustainable development

5. To strengthen waste management and foster the circular economy and green growth, the Borrower has enacted the Law on Waste Management to introduce: (i) an extended producer responsibility scheme, and (ii) a ban of selected single-use plastic products, as evidenced by the Law No. 546 published in the Borrower's Official Gazette No. 34/2024 on April 12, 2024.
6. To improve sustainable forest management and enhance climate change adaptation and mitigation, the Borrower has enacted the Law on Forests to strengthen the institutional set-up for forest management and for development of the wood industry, as evidenced by the Law No. 1171, published in the Borrower's Official Gazette No. 77/2024 on August 8, 2024.
7. To create a market mechanism for the supply of renewable energy sources and facilitate investment in renewable energy, the Borrower has enacted the Law on Renewable Energy to enable the implementation of auctions for renewable energy capacity, as evidenced by the Law No.1257 published in the Borrower's Official Gazette No.82/2024 on August 23, 2024.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan is allocated in: (a) a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds; and (b) the amounts requested by the Borrower to pay each Interest Rate Cap or Interest Rate Collar premium. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Tranche Allocated (expressed in EUR)
(1) Single Withdrawal Tranche	80,000,000
(2) Amount due pursuant to Section 4.05 (c) of the General Conditions	0
TOTAL AMOUNT	80,000,000

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

D. Deposit of Loan Amounts.

The Borrower, within thirty (30) days after the withdrawal of the Loan from the Loan Account, shall report to the Bank: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Loan proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Borrower's budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Closing Date. The Closing Date is March 31, 2026.

SCHEDULE 2**Commitment-Linked Amortization Repayment Schedule**

Subject to Section 2.07 of this Agreement, the Borrower shall repay the principal amount of the Loan in accordance with the following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”).

Level Principal Repayments

Principal Payment Date	Installment Share
On each January 15 and July 15 Beginning July 15, 2026 Through January 15, 2034	5.88%
On July 15, 2034	5.92%

APPENDIX**Section I. Definitions**

1. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Development Policy Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
2. “Government’s Conclusions No. 08-040/24-929/2” means the Borrower’s Government’ conclusions of the same number dated March 1, 2024.
3. “Government’s Conclusions No. 08-430/24-3378/2” means Government’s regulation of the same number dated June 20, 2024.
4. “Government Regulation 08-040/23-6217“ means the Borrower’s Government’ regulation of the same number dated December 27, 2023 and published in the Borrower’s Official Gazette No. 123/2023 on December 30, 2023 “On the amendment of the regulation on the criteria for adding or removing drugs from the basic and supplementary list of medicines“.
5. “Law No. 411“ means the Borrower’s law of the same number published in the Borrower’s Official Gazette No. 27 on March 8, 2023 “On Amendments to the Law on Excise Taxes.
6. “Law No. 413” means the Borrower’s law of the same number published in the Borrower’s Official Gazette No. 27/2023 on March 8, 2023 “On Amendments to the Law on Budget and Fiscal Responsibility”.
7. “Law No. 546“ means the Borrower’s law of the same number published in the Borrower’s Official Gazette No. 34/2024 on April 12, 2024 „On Waste Management“.
8. “Law No. 1171” means the Borrower’s law of the same number, published in the Borrower’s Official Gazette No. 77/2024 on August 8, 2024 “On Forests”.
9. “Law No. 1257” means the Borrower’s law of the same number published in the Borrower’s Official Gazette No. 82/2024 on August 23, 2024 “On Renewable Energy”.
10. “Law No. 1952“ means the Borrower’s law of the same number published in the Borrower’s Official Gazette No. 125/2023 on December 31, 2023 “On Amendments to the Law on Excise Taxes“.
11. “Law No. 1956“ means the Borrower’s law of the same number published in the Borrower’s Official Gazette No. 125/2023 on December 31, 2023 „On Amendments to the Law on Games of Chance“.
12. “Law on Budget and Fiscal Responsibility” means the Borrower’s Law on Budget and Fiscal Responsibility No. 509, published in the Borrower’s Official Gazette No. 20/2014 on 25 April 2014, as amended.
13. “Law on Excise Taxes” means the Borrower’s Law on Excise Taxes No. 664, published in the Borrower’s Official Gazette No. 65/2001 on December 31, 2001, as amended.

14. “Law on Forests” means the Borrower’s Law on Forests No. 1171, published in the Borrower’s Official Gazette No. 77/2024 on August 8, 2024.
15. “Law on Games of Chance” means the Borrower’s Law on Games of Chances No. 480 published in the Borrower’s Official Gazette No. 52/2004 on August 2, 2004, as amended.
16. “Law on Renewable Energy” means the Borrower’s Law on the Use of Energy from Renewable Sources No. 1257 published in the Borrower’s Official Gazette No. 82/2024 on August 23, 2024.
17. “Law on Waste Management” means the Borrower’s Law on Waste Management No. 546 published in the Borrower’s Official Gazette No. 34/2024 on April 12, 2024.
18. “Ministry of Finance” or “MoF” means the Borrower’s Ministry of Finance, or any successor thereto.
19. “Ministry of Health” or “MoH” means the Borrower’s Ministry of Health, or any successor thereto.
20. “Ministry of Health Commission” means the Borrower’s Ministry of Health Commission in charge with approving the use of drugs outside the Positive List of Drugs.
21. “Positive Drug List” means a list of drugs that are covered by the state health insurance and are eligible for reimbursement.
22. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated August 26, 2024 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
23. “Rulebook No. 2-504/24-149/2” means the MoH’s Rulebook dated February 27, 2024.
24. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.
25. “SOEs” means State-owned enterprise with a State-majority shareholder.
26. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Section 3.01 (*Front-end Fee; Commitment Charge*) is modified to read as follows:

“Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a Front-end Fee on the Loan amount at the rate specified in the Loan Agreement. Except as otherwise provided in Section 2.05 (b), the Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.

(b) The Borrower shall pay the Bank a Commitment Charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement. The Commitment Charge shall accrue from a date sixty (60) days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. Except as otherwise provided in Section 2.05 (c), the Borrower shall pay the Commitment Charge semi-annually in arrears on each Payment Date.”

2. The following definitions are inserted in the Appendix in alphabetical order as paragraphs [#]-[#], and the remaining definitions and paragraphs (as the case may be) renumbered accordingly:

“[#]. “CRDC” or “Climate Resilient Debt Clause” means a mechanism established in the Loan Agreement allowing the eligible Borrower to defer certain payments of principal and/or interest (and other Loan charges) during a Deferral Period upon occurrence of an Eligible Event.

“[#]. “CRDC Terms and Conditions” means the Climate Resilient Debt Clause terms and conditions, as issued and revised from time to time, by the Bank, in effect at the time of the Payment Deferral request.”

“[#]. “Deferral Period” means the period of up to 24 (twenty-four) months, during which the Payment Deferral is activated pursuant to the provisions of the Loan Agreement.”

“[#]. “Eligible Event” means (i) an earthquake; and/or (ii) a tropical cyclone affecting the Borrower, corresponding to the parameters established by the Bank in the CRDC Terms and Conditions, which may constitute a Payment Deferral Trigger.”

“[#]. “Interest Payment Deferral” means a one-time temporary deferral of payment of Interest and other applicable Loan charges during a Deferral Period, requested by the Borrower and activated by the Bank pursuant to the provisions of the Loan Agreement.”

“[#]. “Payment Deferral” means a Principal Payment Deferral and/or Interest Payment Deferral, requested by the Borrower and activated by the Bank pursuant to the provisions of the Loan Agreement.”

“[#]. “Payment Deferral Triggers” means the set of primary and secondary triggers based on the Eligible Events established by the Bank in the CRDC Terms and Conditions, which, upon verification by the Bank in accordance with the CRDC Terms and Conditions, serve as the basis for an activation of a Payment Deferral.”

“[#]. “Principal Payment Deferral” means the one-time temporary deferral of repayments of the Withdrawn Loan Balance during a Deferral Period, requested by the Borrower and activated by the Bank pursuant to the provisions of the Loan Agreement.”

3. In paragraph originally numbered 79 of the Appendix, the term "Payment Date" is modified to read as follows:

"79. "Payment Date" means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest, Commitment Charge and other Loan charges and fees (other than the Front-end Fee) are payable, as applicable."

4. The definitions in paragraphs originally numbered 4 (Allocated Excess Exposure Amount); 51 (Exposure Surcharge); 93 (Standard Exposure Limit) and 99 (Total Exposure) in the Appendix are all deleted in their entirety and the remaining definitions and paragraphs (as the case may be) renumbered accordingly.