

CASE STUDY

# Montenegro: Mobilizing Private Financing with Policy-Based Guarantees

## OVERVIEW

An €80 million policy-based guarantee (PBG) from the World Bank helped Montenegro mobilize €250 million from a syndicate of offshore banks.

The transaction helped finance the public sector budget gap with low-cost, long-term funding. The policy operation and market transaction also set the stage for a liability management operation that allowed Montenegro to exchange a large share of external debt for longer-maturity and less costly obligations.

## Background

Close to a decade after the global financial crisis, Montenegro still faced fiscal and financial sector vulnerabilities that hampered its economic growth prospects. In 2017, the country undertook a series of reforms, which provided for orderly fiscal adjustment and support to the financial sector, and strengthened public financial management and macro-financial supervision.

Due to a high funding requirement, the Government of Montenegro needed additional financing in 2017, yet traditional lenders had limited appetite to provide budget financing. Local and foreign banks revealed that few institutions were willing to lend to the



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Government at reasonable maturities and manageable costs without some form of credit enhancement.

## Financing Objective

- Strengthen the fiscal sustainability and support the stabilization of public debt
- Diversify Montenegro's funding sources by crowding in external private sector financing from commercial markets
- Achieve lower cost funds at long maturities
- Bolster market confidence in advance of liability management

## Policy-Based Guarantees (PBGs)

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.

This type of Guarantee is intended to provide risk mitigation to commercial lenders with respect to debt service payment defaults by government, when the proceeds of the financing are applied to budgetary support in the context of development policy operations.

This type of guarantee can only be used by governments to access budgetary support in the context of a specific program of policy and institutional actions.

## Financial Solution and Outcome

In consultation with the Government of Montenegro, the World Bank Treasury Banking Products team identified that a Policy-Based Guarantee (PBG) was the most appropriate financial solution. An €80 million PBG was arranged by the Treasury Banking Products team in collaboration with many partners across the World Bank to mobilize €250 million of private capital from a syndicate of three offshore banks; Credit Suisse, Société Générale, and OTP Bank Group. The transaction achieved a 12-year maturity, which would not have been possible without the backing of the World Bank and its partners. Through the support of the PBG, Montenegro was able to meet its financing needs in 2018, reduce borrowing costs, and support the refinancing of liabilities due in 2019-2021.

Reducing the deficit and stabilizing debt was of utmost urgency given the need to reassure financial markets with existing annual financial obligations, amounting to 12 percent of GDP in 2019-2021.

The PBG was anchored to reform priorities for

an orderly fiscal adjustment through (i) increasing tax revenues; (ii) lowering public spending; (iii) strengthening medium-term and capital budget process to address external imbalances and rapidly rising public debt level. The transaction further supported the overhaul of the financial sector legislation to accelerate the resolution of non-performing assets, expand and strengthen the supervisory powers of the Central Bank, and enable proactive restructuring or resolution of ailing banks.

## World Bank Treasury's Role

The transaction was made possible by using the backing of the World Bank's (IBRD) balance sheet. IBRD's Triple-A credit rating and its partnership role in the transaction significantly improved Montenegro's borrowing terms.

The World Bank Treasury Banking Products team structured the financing to optimize the objectives of the Ministry of Finance in line with appetite identified by offshore lenders. The team supported Montenegro in the dialogue with financial partners, design of the tender, negotiation of competitive terms, and execution of the market transaction.

By supporting the issuance of policy-based guarantees and advising clients on loans, the World Bank can help member countries become more resilient to economic shocks. The IBRD's Triple-A credit rating, market presence, and convening power enable Treasury's Banking team to develop innovative new products that help clients to maximize financing and mitigate various kinds of macro-financial risk.



World Bank Treasury helped Montenegro mobilize EUR250 million with a EUR80 million Policy Based Guarantee (PBG)