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The Myth of the "Debt-Trap" in China-CEEC Cooperation: A Fact Check

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The Myth of the "Debt-Trap" in China-CEEC Cooperation: A Fact Check

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Summary

According to some, China has been trapping its borrowers in debt. China's collaboration with Central and Eastern European countries has also been criticized for the same reason for projects in Montenegro, North Macedonia, and Hungary. According to publicly available data, the public debt levels in Montenegro, North Macedonia, and Hungary have not been inflated by Chinese loans, and the prospects for economic recovery in the three countries are favorable. Along with the politicization of the debt issue, the author argues there are two previously overlooked explanations. To begin, China has disrupted the existing foreign creditor system in all three nations, further reducing the share of debt owed to Western financial institutions. Second, financing activities in China and large Western financial institutions are quite distinct. The experience of the EIB, World Bank, and EBRD is instructive in terms of widening financing channels and introducing private capital in order to further develop China-CEEC and China-EU collaboration.

Keywords: China-CEEC Cooperation, Debt Trap, Public Debt, Infrastructure Financing

Since its launch in 2013, the Belt and Road Initiative has faced criticism. "Divide and Conquer," “Debt Trap” , "Environmental Pollution," "Trade Imbalance," and other negative arguments emerge one after the other. Among them, the “Debt Trap” has become the major tool for criticizing China-related infrastructure projects. In March 2018, Center for Global Development raised the first public awareness of Montenegro's “Debt Trap” in a paper titled by “Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective”. According to the research, “there are 10-15 (countries) that could suffer from debt distress due to future BRI-related financing, with eight countries of particular concern. These countries are Djibouti, the Kyrgyz Republic (Kyrgyzstan), Lao People’s Democratic Republic (Laos), the

Maldives, Mongolia, Montenegro, Pakistan, and Tajikistan."[1] Since then, Montenegrin "Debt Trap" has become a synonym for the infrastructure projects involving China in Europe. In addition to the Montenegrin Mateševo-Smokovac highway, Hungary-Serbia Railway, Pelješac Bridge in Croatia and the two North Macedonian highways are also criticized.

This research will evaluate public debt, the public sector's surplus capacity, and the foreign creditor structure in these three nations in order to re-analyse the "Debt Trap" argument using hard data. Additionally, the paper will examine the financing activities and characteristics of major western financial institutions in these countries, including the European Investment Bank, the World Bank Group, and the European Bank for Reconstruction and Development, in order to provide a comparison of the Chinese and Western models.

1. Attitudes to China-financed Infrastructure Projects

According to some, China increases its partners' overall debt level through loan issuance, compelling debtor countries to make concessions on a variety of sensitive China-related problems or sell strategic assets. In Europe, the Montenegrin Mateševo-Smokovac highway, the Hungary-Serbia railway, and the two North Macedonian highways are the primary targets of these detractors. As a result, EU officials have targeted actions to prevent China's expanding influence in Central and Eastern Europe.

In the case of Montenegro, the Center for Global Development cites the Mateševo-Smokovac section project as the primary reason for the country's public debt being unsustainable, stating that " "The World Bank estimates that public debt (including guarantees) as a share of GDP will climb to 83 percent in 2018 in the absence of fiscal adjustment. The source of the problem is one very large infrastructure project, a motorway linking the port of Bar with Serbia that would integrate the Montenegrin transport network with those of other Balkan countries". Its report also referenced the IMF as a rationale, stating that "the IMF believes the second and third parts of the highway should only go forward with highly

[1] John Hurley, Scott Morris and Gailyn Portelance, Examining the Debt Implications of the Belt and Road Initiative from a Policy Perspective, CGD Policy Paper 121, Center for Global Development, March 2018, https://www.cgdev.org/sites/default/files/examining-debt-implications-belt-and-road-initiative-policy-perspective.pdf, last accessed: 2021.03.17

concessional funds because non-concessional terms would likely result in debt default." [2] Similar views are held by Center for Strategic and International Studies.[3] Europe is more worried about the long-term implications, such as Montenegro's failure to repay China's loan. According to some, "It is unclear what exactly will happen if Montenegro continues to fall further into China's debt trap. In the past, China has used its leverage to seize control of the asset it was initially contracted to construct, as it did in Sri Lanka, and it has also forced countries to adopt more pro-China foreign policy positions, as it did with Panama. Regardless of China's intentions for Montenegro, the EU will be hesitant to adopt a new member state that is both in a position to be exploited by China on a host of issues and has an ever-worsening debt situation."[4] On July 18, 2018, an EU official speaking on condition of anonymity told Reuters, "Their fiscal space has shrunk enormously. They have strangled themselves. And for the time being this is a highway to nowhere."[5] Even in February 2020, a French lawmaker in the European Parliament is still debating this subject.[6]

Additionally, the North Macedonian motorway and the Hungary-Serbia railway have gained interest. Balkan Insight notes that " "Macedonia ranks second in relative indebtedness to China. A fifth of its external debt comes from loans from China."[7] According to a report

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[2] Ibid.

[3] Dylan Gerstel, It's a (Debt) Trap! Managing China-IMF Cooperation across the Belt and Road, https://www.csis.org/npfp/its-debt-trap-managing-china-imf-cooperation-across-belt-and-road, last accessed: 2021.03.17

[4] Austin Doehler, How China Challenges the EU in the Western Balkans, https://thediplomat.com/2019/09/how-china-challenges-the-eu-in-the-western-balkans/, last accessed: 2021.03.17

[5] Chinese 'Highway to Nowhere' haunts Montenegro, https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K60QX, last accessed: 2021.03.17

[6] European Parliament, Parliamentary Questions, https://www.europarl.europa.eu/doceo/document/E-9-2020-000942_EN.html#def1, last accessed: 2021.01.25

[7] Martin Dimitrov, China's Influence in Balkans Poses Risks, Report Warns, https://balkaninsight.com/2019/02/11/chinas-influence-in-balkans-poses-risks-report-warns/, last accessed: 2021.01.24

published by Bertelsmann Stiftung, “Beijing does not deliberately make unsustainable loans for the purpose of ensnaring countries in debt traps, but Exim does have a greater appetite for commercially dubious projects than IFIs like the European Bank for Reconstruction and Development (EBRD)”.[8] Concerns concerning the Hungary-Serbia railway project are primarily about debt repayment schedules. According to some Hungarian media, based on current passenger and freight traffic on existing railway lines and taxation levels, the Hungarian government would require 2,400 years to repay China's loans, while others thought it would take 130 years.[9]

Since 2018, the EU has received official responses on these infrastructure projects. As is customary, the European Parliament set the tone. In a September 2018 resolution on the state of EU-China relations, the EP urged members to ensure that their involvement in this format enables the EU to speak with a unified voice in its dealings with China. It urged these Member States to conduct thorough analyses of proposed infrastructure projects to ensure that they do not jeopardize national and European interests in exchange for financial support and long-term commitments to Chinese involvement in strategic infrastructure projects and potential political influence, undermining the EU's common positions on China.[10] In the same year, an EP briefing named “Prospects for EU-Asia connectivity: The 'European way to connectivity' reaffirmed the financial viability of the project, stating that “sustainable finance ensured through diverse financial tools and improved mobilization of resources, reinforced leveraging of EU financial

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[8] Jacob Mardell, China's Economic Footprint in the Western Balkans, https://www.bertelsmann-stiftung.de/en/publications/publication/did/chinas-economic-footprint-in-the-western-balkans/, last accessed: 2021.01.24

[9] Index, 130 Év alatt Térülhet meg a Méregdrága Kínai Vasút, https://index.hu/gazdasag/2017/12/01/budapest_belgrad_megterules_vam_kereskedelem_pireusz_kina_131_ev/; 2400 Év alatt Térül meg, Több Százmilliárdba Kerül, Szóval kell Orbánnak, https://index.hu/gazdasag/2016/09/12/2400_ev_alatt_terul_meg_tobb_szaz_milliardba_kerul_ezert_kell_nekunk/; Zelki Benjámin, Csak Kínának Éri meg a 750 Milliárdos Budapest–Belgrád-Vasútvonal, https://hvg.hu/gazdasag/20170518_budapest_belgrad_vasutvonal_750_milliard, last accessed: 2021.01.24

[10] European Parliament, A Resolution on the State of EU-China Relations, https://oeil.secure.europarl.europa.eu/oeil/popups/summary.do?id=1552113&t=d&l=en, last accessed: 2021.03.17

resources and strengthened international partnerships, to address a significant investment gap and create fair terms for business."[11] European think tanks immediately follow. Friends of Europe emphasizes Europe's quality edge, arguing that "while Europe may never match China in terms of investment quantity, it can lead the way on investment quality".[12] Carnegie Endowment for International Peace advocated for "multilateral arrangements that take debt sustainability into account, and resorts to both public and private funding mechanisms."[13] Finally, in 2019, the EU and Japan jointly announced the EU version of the connectivity with a high-profile event. Under Connectivity Partnership, the EU and Japan "intend to promote free, open, rules-based, fair, non-discriminatory and predictable regional and international trade and investment, transparent procurement practices, the ensuring of debt sustainability and the high standards of economic, fiscal, financial, social and environmental sustainability…recognize the importance of mobilizing levers and tools to spur private investment and intend to cooperate to facilitate financing of sustainable connectivity, including through possible joint projects, with the engagement of private sector."[14]

2. Reactions of the Chinese Academic Sector to the "Debt Trap"

Domestic papers tend to focus on relevant situations in Asia-Pacific and Africa in order to disprove the "Debt trap," rather than the cases above. Domestic research indicates that the

[11] European Union, Prospects for EU-Asia connectivity-The 'European way to connectivity, http://www.europarl.europa.eu/RegData/etudes/BRIE/2018/628265/EPRS_BRI(2018)628265_EN.pdf, last accessed: 2021.02.19

[12] Mikaela Gavas and Hannah Timmis, What does China's investment in Africa mean for Europe ?, https://www.friendsofeurope.org/insights/what-does-chinas-investment-in-africa-mean-for-europe/, last accessed: 2021.02.01

[13] Erik Brattberg and Etienne Soula, Europe's Emerging Approach to China's Belt and Road Initiative, https://carnegieendowment.org/2018/10/19/europe-s-emerging-approach-to-china-s-belt-and-road-initiative-pub-77536, last accessed: 2021.03.17

[14] EEAS, The Partnership on Sustainable Connectivity and Quality Infrastructure between the European Union and Japan, https://eeas.europa.eu/headquarters/headquarters-homepage/68018/partnership-sustainable-connectivity-and-quality-infrastructure-between-european-union-and_en, last accessed: 2021.01.24

"Debt Trap" is a result of realpolitik considerations, not economic reality. The West exploits one-sided data to create the appearance that Montenegro and other nations are locked in a "Debt Trap" particularly for geopolitical reasons. Rather than being a burden, the Chinese fund contributes to the sustainable growth of debtor countries.

(1) About the "Debt Trap" in General

The initial source of the term "Debt Trap" is political. According to some studies, the "Debt Trap" is the outcome of India's interaction with the West, which derives from the tradition of power politics. The truth takes a back place in this case. [15] The case study of Sri Lanka demonstrates that, despite the fact that the majority of unfavorable statements are unfounded, the "Debt Trap" trend has persisted due to the involvement of specific actors such as the United States..[16] Malaysia's case study demonstrates that both the politicization of the debt issue and the politicization of the relationship between debtor and creditor countries have compelled the country's public debt to be covered by political implication, which transcends economics.[17]

The second source is economic ignorance. According to certain assessments, the terms of China's loan are not burdensome. Long before the Belt and Road Initiative, a huge number of low- and middle-income nations' debt burdens had been steadily increasing. While the Belt and Road plan has increased Chinese investment in certain countries, it has not resulted in a large increase in the percentage of Chinese firms in these projects, nor has it exacerbated the their public debt growth.[18] Others even argue that, on the contrary, since the Belt and Road initiative's launch, debtor countries' public debt has been greatly reduced. The Belt and Road

[15] 杨思灵、高会平：《"债务陷阱论"：印度的权力政治逻辑及其影响》，《南亚研究》2019年第1期，第55-81页。

[16] 宋颖慧、王瑟、赵亮：《中国"债务陷阱论"剖析——以斯里兰卡政府债务问题为视角》，《现代国际关系》2019年第6期，第1-9页。

[17] 张应进：《马来西亚债务问题政治化："债务陷阱论"凸显的根源》，《国际展望》2020年第12期，第131-152页。

[18] 金刚、沈坤荣：《中国企业对"一带一路"沿线国家的交通投资效应：发展效应还是债务陷阱》，《中国工业经济》，2019第9期，第79-97页。

Initiative's implementation has aided in the reduction of public debt in nations along the route with lower income levels, weaker financial development, and stronger linkages to China.[19]

(2) About the "Debt Trap" in Montenegro, North Macedonia and Hungary

In general, public opinion maintains that the West purposefully emphasizes Montenegro's uniqueness while obscuring the universality of debt and Montenegro's own need. According to certain studies, all countries in the world are in debt to develop, and the amount borrowed is chosen by the government of each country. Montenegro has desired this motorway for over a decade and has conducted numerous international tenders. It is undeniable that developing countries along the Belt and Road have occasionally faced the dilemma of "drinking poison to quench their thirst," i.e., continuing to pursue flawed fiscal and monetary policies in order to prevent a short-term economic depression. Additionally, under the influence of global populism, political movements emphasizing welfare are more likely to secure public support, making it more difficult for some developing countries to reduce fiscal spending.[20]

Another inescapable factor is the EU. According to some, Central and Eastern European countries are often modest in size. If these governments wish to attract Chinese investment, they must provide sovereign guarantees. However, the relevant EU legislation requires that the public debt ratio of EU member states not exceed 60% and that the budget deficit as a percentage of GDP not exceed 3%. Once Central and Eastern European countries give sovereign guarantees, their debt to GDP and budget deficit to GDP ratios may surpass the norm, which the EU will use to accuse China of violating EU regulations. However, European powers are truly concerned that Central and Eastern European countries may surrender their vital assets to China due to their inability to repay Chinese loans and will then be "governed" by China.[21]

Additionally, Western literature is biased and selective in its data utilization. Although the World Bank believes that Montenegro's debt is worrisome in a study released on February

[19] 鲍洋：《“一带一路”倡议会引发“债务陷阱”吗——基于中国对外投资合作的视角》，《经济学家》，2020年第3期，第45-55页。

[20] 宋颖慧、王瑟、赵亮：《中国“债务陷阱论”剖析—以斯里兰卡政府债务问题为视角》，《现代国际关系》2019年第6期，第1-9页。

[21] 吴孟克：《如何应对“16+1合作”面临的挑战——专访中国社科院欧洲研究所中东欧研究室主任刘作奎研究员》，《世界知识》2018年第15期，第14-17页。

6, 2017. However, in October of same year, the World Bank modified its position in another assessment, and prospects for Montenegro's financial situation improved. Furthermore, even at the height of its debt crisis, Montenegro was barely keeping up with the EU average and falling short of the euro zone norm.[22]

3. A Fact-check on Montenegro, North Macedonia, and Hungary's Public Debt

Comparing the aforementioned Western and Chinese literature, Western literature uses statistics and interview methods to establish their "Debt Trap" conclusion. Chinese literature is less focused on analogous efforts in Central and Eastern Europe and on the target nations themselves. This "incompatibility" between the West and China results in a single, one-sided voice on this subject. As a result, it is required to conduct a thorough examination of public debt, the public sector's surplus capacity, and the creditor structure of Montenegro, North Macedonia and Hungary.

(1) A Brief Overview of the Projects

The Montenegrin government offered sovereign guarantees for two ship repair and acquisition projects in 2010 and 2013, as well as for the Mateševo-Smokovac highway project in 2014. Montenegrin state-owned firms Montenegrin Maritime Transport Company and Bar Maritime Transport Company borrowed 39 million euros and 38 million euros, respectively, from China's Export-Import Bank for the previous two projects.[23] The China Road and Bridge Corporation is undertaking the Mateševo -Smokovac highway project, which is being financed by a 687 million-euro loan from the Export-Import Bank of China to the Montenegrin government. The Export-Import Bank of China and Montenegro's Ministry of Finance signed

[22] 王子辰：《如何有效驳斥债务陷阱论—以“一带一路”标志性项目黑山高速公路报道为例》，《对外传播》，2019年第5期，第68-69页。

[23] Milenko Popović, Public Debt in Montenegro, Institute for Socio Economic Analyses, Working Paper, Podgorica, January 2016.

the financing agreement in September 2014.[24] The loan is subject to a 20-year payback period, five-year grace period, and 2% of fixed interest rate.[25]

According to the loan arrangement, the grace period on the loan expired in July 2021, at which point Montenegro should require to return the first-term debt. The Montenegrin administration was in contact with the Chinese authorities over the possibility of extending the grace period. And during a meeting of the European Parliament's Foreign Affairs Committee in March 2021, Montenegrin Deputy Prime Minister Dritan Abazović publicly requested assistance from the EU in order to in order to “replace that bad loan with a new, more favourable one, which would be easier for Montenegro to deliver.”[26] But the EU refused. Peter Stano, EU foreign policy spokesperson stated at a regular press briefing “ The EU is already the largest provider of financial assistance to Montenegro, the largest investor and the largest trade partner…We continue to stand by them, but we are not repaying the loans they are taking from third parties.”[27]

In 2014, as part of the cooperation between China and North Macedonia, the North Macedonian government guaranteed the Miladinovci-Stip and Kicevo-Ohrid road projects with a sovereign guarantee. In the former case, the country's state-owned firm, Public Enterprise for State Roads, borrowed $280 million at a 2% interest rate from the Export-Import Bank of China. The loan term is 20 years with a five-year grace period. The latter project requires a loan of $500 million, with the same interest rate, loan duration, and grace period as the previous ones.[28]

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[24] 中国驻黑山大使馆，《我向黑山南北高速公路提供信用贷款》，http://me.chineseembassy.org/chn/sghd/t1205885.htm，访问时间：2021年1月25日。

[25] Government of Montenegro, Loan agreement on financing construction of priority part of Montenegro's first highway signed, https://www.gov.me/en/News/143139/Loan-agreement-on.html, last accessed: 2021.01.25

[26] Zeljko Trkanjec, Montenegro asks EU for help against China, https://www.euractiv.com/section/politics/short_news/montenegro-asks-eu-for-help-against-china/, last accessed: 2021.06.07

[27] Hans von der Burchard, EU rebuffs Montenegro plea to help repay $1B Chinese highway loan, https://www.politico.eu/article/eu-montenegro-billion-dollar-china-unfinished-highway-loan/, last accessed on: 2021.06.07

[28] Ministry of Finance of the Republic of Macedonia, Annual Report on Public Debt Management of the Republic of Macedonia of Macedonia for 2014, https://finance.gov.mk/wp-

However, the EBRD is financing Sinohydro's Kocani-Krupiste highway project (Kocani-Krupiste). Sinohydro won this tender in 2019 against six other bidders.[29] The EBRD loan amounted to 21 million euros, and the interest rate is six-month EURIBOR + 1% margin. The loan term is 15 years with a grace period of 4 years.[30]

In April 2020, as part of the cooperation between China and Hungary, the Hungarian Ministry of Finance signed a credit deal with China's Export-Import Bank. Varga Mihály, Hungary's Finance Minister, cautioned following the agreement's signing that the loan's interest rate is fixed and reasonably favorable, and would not be impacted by market changes.[31] He later disclosed the details in an interview with Reuters. The loan amount for the project is 1.855 billion US dollars, the interest rate is 2.5 percent, and the term of the loan is 20 years with a five-year grace period. Additionally, the arrangement provides for early payback.[32] It is worth noting that, according Hungary Act No. 29 of 2020 (On the Development, Construction, and Financing of the Hungarian Section of the Hungary-Serbia Railway), financing this project is a matter of national economic importance and a significant public-interest project. If the loan deal and related government decision-making documents become public, they will jeopardize Hungary's diplomacy and foreign economy, as well as expose the country to outsider influences.

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content/uploads/2009/05/Annual-Report-on-Public-Debt-Managemnt-of-the-Republic-of-Macedonia-for-2014x.pdf, last accessed: 2021.01.21

[29] EBRD, Notification of Contract Award for Construction of Expressway A3, Section: Kocani – Krupiste, https://www.ebrd.com/documents/procurement/45987-fyr-macedonia-national-roads-programme-section-kocanikrupiste.pdf?blobnocache=true, last accessed on: 2021.06.07

[30] Ministry of Finance of the Republic of Macedonia, Annual Report on Public Debt Management of the Republic of Macedonia of Macedonia for 2015, https://finance.gov.mk/wp-content/uploads/2009/05/https___mail.finance.gov__0.pdf, last accessed: 2021.06.07

[31] Magyarország Kormánya, Aláírták a Budapest-Belgrád Vasútvonalról Szóló Hitelszerződést, https://2015-2019.kormany.hu/hu/nemzetgazdasagi-miniszterium/hirek/alairtak-a-budapest-belgrad-vasutvonalrol-szolo-hitelszerzodest, last accessed: 2021.01.22

[32] Krisztina Than, Anita Komuves, China sign loan deal for Budapest-Belgrade Chinese rail project, https://www.reuters.com/article/hungary-china-railway-loan/update-3-hungary-china-sign-loan-deal-for-budapest-belgrade-chinese-rail-project-idUSL5N2CC6A0, last accessed: 2021.01.25.

As a result, the government will seal relevant documents for a period of ten years. The minister in charge of foreign affairs in the government shall be responsible.[33]

(2) Public Debt

Montenegro, North Macedonia, and Hungary all have state debt-to-GDP ratios below the EU and Eurozone average. Even in the pandemic, there is no indication of a large increase in their public debt. And, historically, this ratio has rarely exceeded the average of the EU and eurozone. Hungary is the one exception. Following the international financial crisis, its public debt ratio exceeded that of non-euro member states of the EU.[34]

While the COVID-19 pandemic poses enormous challenges to global public finances, Montenegro, North Macedonia, and Hungary have not seen substantial increases in public debt. According to the most recent Eurostat data, the average ratio of public debt to GDP in the 27 EU member states reached 87.8 percent in the second quarter of 2020, while the ratio in euro

[33] 2020. évi XXIX. Törvény a Budapest-Belgrád vasútvonal újjáépítési beruházás magyarországi szakaszának fejlesztéséről, kivitelezéséről és finanszírozásáról, https://net.jogtar.hu/jogszabaly?docid=A2000029.TV, last accessed: 2021.01.21

[34] Since Montenegro and Macedonia are not members of the European Union, the three countries have different statistical standards for public debt. According to definition of the State Debt from Ministry of Finance and Social Welfare of Montenegro, state debt includes the debt of the central and local governments. The Ministry of Finance of Macedonia defines government debt (including central and local governments) and general public debt separately. The latter also includes the debt of state-owned enterprises. Hungary adopts the Eurostat standard, and only the debt of the central government and local governments is included in the General Government Gross Debt. Therefore, in order to unify the definition and data in this paper, the public debt in this paper refers only to the debt of the central government and local governments.

area nations reached 95.1 percent. [35] Montenegro's ratio was 79.54 percent during the same period. North Macedonia has a 59.5 percent percentage. [36] Hungary's is 74.3 percent. [37]

The public debt levels of the three countries are always lower than the EU average in 10 years between 2010 and 2019. The EU's public debt-to-GDP ratio averaged 82.7%, compared with 59% in Montenegro, 35.4% in North Macedonia.[38] The Hungarian case is more unique. While the public debt-to-GDP ratio peaked in 2011 and has been dropping since then, Hungary's ratio has remained high for nearly a decade, and only Croatia's is higher. At the end of 2019, the average for non-Euro member states in the EU was 43.2 percent, whereas Hungary had a rate of 75.1 percent.[39]

Table 1: Public debt to GDP ratios of Montenegro, North Macedonia and Hungary from 2010 to 2019 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average during 10-year period

[35] Eurostat, General government gross debt, https://ec.europa.eu/eurostat/databrowser/view/teina230/default/table?lang=en, last accessed: 2021.01.18

[36] Republic of North Macedonia Ministry of Finance, Open Finance, https://javendolg.open.finance.gov.mk/en, last accessed: 2021.01.19

[37] Államadósság Kezelési Központ, az államháztartás adóssága, https://www.akk.hu/statisztika/allamadossag-finanszirozas/allamhaztartas-maastrichti-adossaga, last accessed: 2021.01.21

[38] Republic of North Macedonia Ministry of Finance, Open Finance, https://javendolg.open.finance.gov.mk/en, last accessed: 2021.01.19

[39] Eurostat, General government gross debt, https://ec.europa.eu/eurostat/databrowser/view/teina230/default/table?lang=en, last accessed: 2021.01.18

EU27	80.5	81.8	84.7	86.4	86.6	84.8	84.0	81.5	79.5	77.6	82.7
Euro19	85.8	87.7	90.7	92.6	92.8	90.9	90.1	87.7	85.8	84.0	88.8
Montenegro	42.0	44.6	45.3	58.0	58.5	64.6	64.4	65.7	70.1	76.5	59.0
North Macedoni	24.1	27.7	33.7	34.0	38.1	38.1	39.9	39.4	40.6	40.6	35.6
Hungary	80.2	80.4	78.4	77.4	76.7	75.8	74.9	72.2	69.1	65.4	75.1

Source：Montenegro Ministry of Finance and Social Welfare, State Debt, https://mif.gov.me/en/sections/state-debt/; https://javendolg.open.finance.gov.mk/en;

Republic of North Macedonia Ministry of Finance, Open Finance, https://javendolg.open.finance.gov.mk/en;

Eurostat, General government gross debt, https://ec.europa.eu/eurostat/databrowser/view/teina230/default/table?lang=en, last accessed: 2021.01.18

The EU and IMF believe that Montenegro, North Macedonia, and Hungary's public debt default risk is manageable. Regarding Montenegro's public debt, the European Commission took a cautious stance in its two assessments, but concluded that Montenegro did not pose a significant concern. According to the European Commission's Spring 2020 Economic Forecast, Montenegro's public debt would face a difficulty due to the interruption of economic activity. The European Commission made no changes to its next assessment in the Autumn 2020 Economic Forecast. It did, however, emphasize that the completion of the first phase of the highway project will assist Montenegro in alleviating its debt burden in 2022.[40] North

[40] European Commission, Spring 2020 Economic Forecast, https://ec.europa.eu/economy_finance/forecasts/2020/spring/ecfin_forecast_spring_2020_me_en.pdf; Autumn 2020 Economic Forecast,

Macedonia's public debt is sustainable, the IMF concluded in an April 2020 assessment. While there are some hazards, the repayment capability is adequate. “Public debt is projected to stabilize at about 55 percent of GDP in the medium term and remain below the high-risk threshold also in the stress tests,” the IMF stated.[41] The European Commission has expressed some confidence in Hungary's public debt. The report argues that a better labor market, more consumption, and high tax rates on cigarettes have all contributed to increased tax collections. Simultaneously, the consumption effect of salary growth, VAT reductions, and exemptions is evident..[42]

(3) Repayment Capacity

Montenegro, North Macedonia, and Hungary's ability to repay remains an open question. Before the pandemic, the three countries' economic growth rates above the EU average, indicating that they have a strong economic growth momentum. Although all three economies dropped during the pandemic, the recovery prospects are relatively bright. However, the three governments' diminished surplus capacity may become a negative factor hurting their ability to repay.

In recent years, the economic growth levels of Montenegro, North Macedonia and Hungary have been stable. Their economic growth rates before the pandemic exceeded the EU average and even took the lead. Between 2010 and 2019, the average GDP growth rate of the EU-27 was only 1.6%, and the average growth rate of the eurozone was 1.4%. During the same period, Montenegro grew by 2.9%, North Macedonia by 2.5% and Hungary by 2.8%. Except for 2012, Montenegro's GDP growth rate is always higher than the EU average level. In 2018, it even reached 5.1%, second only to Ireland (8.5%), which ranks first in the EU. In addition to

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https://ec.europa.eu/economy_finance/forecasts/2020/autumn/ecfin_forecast_autumn_2020_me_en.pdf, last accessed: 2021.01.18

[41] IMF, North Macedonia, IMF Country Report No. 20/113, 2020 April, https://www.imf.org/~/media/Files/Publications/CR/2020/English/1MKDEA2020003.ashx, last accessed: 2022.02.02

[42] European Commission, Autumn 2020 Economic Forecast, https://ec.europa.eu/economy_finance/forecasts/2020/autumn/ecfin_forecast_autumn_2020_hu_en.pdf, last accessed: 2021.01.18

2017, North Macedonia's annual growth rate has also exceeded the EU average for that year. Since 2013, Hungary's GDP growth rate has been always higher than the EU average. The 4.6% GDP growth rate in 2019 was the third highest among the EU-27, after Ireland (5.9%) and Malta (5.5%).

Table 2: GDP growth ratios of Montenegro, North Macedonia and Hungary between 2010 and 2019 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average during 10-year period
EU27	2.2	1.8	-0.7	0	1.6	2.3	2	2.8	2.1	1.6	1.6
Euro19	2.1	1.7	-0.9	-0.2	1.4	2	1.9	2.6	1.9	1.3	1.4
Montenegro	2.7	3.2	-2.7	3.5	1.8	3.4	2.9	4.7	5.1	4.1	2.9
North Macedoni	3.4	2.3	-0.5	2.9	3.6	3.9	2.8	1.1	2.7	3.2	2.5
Hungary	1.1	1.9	-1.4	1.9	4.2	3.8	2.1	4.3	5.4	4.6	2.8

Source: Eurostat, Real GDP Growth Rate, https://ec.europa.eu/eurostat/databrowser/view/tec00115/default/table?lang=en;

Republic of North Macedonia State Statistical Office, Gross domestic product in the Republic of North Macedonia in 2019, http://www.stat.gov.mk/pdf/2020/3.1.20.16_mk.pdf;

Statistical Office of Montenegro, Gross domestic product and main aggregates, https://www.monstat.org/eng/page.php?id=19&pageid=19, last accessed: 2021.01.26.

The prospects for economic recovery in the three countries affected by the pandemic are encouraging. According to the European Commission's Autumn 2020 economic forecast, while Montenegro's economy will contract by 14.3 percent in 2020, if the pandemic is contained, the country's economy will expand by 6.8 percent in 2021, owing primarily to the recovery of construction and tourism, which results in an increase in domestic consumption.[43] The Commission predicted that Hungarian economic growth could resume in 2021-2022 with the help of economic policy support. Real GDP is forecast to increase by 4 percent in 2021 and 4.5 percent in 2022. It is set to reach its pre-recession level in 2022.[44] According to the National Bank of North Macedonia's November 2020 forecast, GDP will contract by 4.9 percent in 2020 due to weak domestic demand, before growing by 3.9 percent in 2021 and 3.6 percent in 2022. According to the European Commission's study, private credit remains relatively active as a result of the National Bank of North Macedonia's stimulus measures, and the strength of Germany's automobile manufacturing industry also ensures the export sector's success.[45]

However, the three governments' surplus capacity is lower than the EU average. Fiscal deficits as a percentage of GDP in the three countries have continued to climb in recent years, greatly above the norm for the EU and eurozone. Although the three countries performed better than the average in 2010 and 2011, following the international financial crisis, their fiscal deficits have exacerbated since then, while the EU and euro area have seen significant relief. The growing deficit is due to the fact that government revenue is limited in comparison to expenditure. The ratio of government spending to GDP in the three countries is nearly identical to that of the EU or eurozone, although the ratio of income to GDP has been significantly lower over a lengthy period of time. As early as 2015, the World Bank stated

[43] European Commission, Autumn 2020 Economic Forecast, https://ec.europa.eu/economy_finance/forecasts/2020/autumn/ecfin_forecast_autumn_2020_me_en.pdf, last accessed: 2021.01.18

[44] European Commission, Autumn 2020 Economic Forecast, https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en_2.pdf, last accessed: 2021.01.21

[45] National Bank of the Republic of North Macedonia, Macroeconomic forecasts and risks - Quarterly Report, November 2020, https://www.nbrm.mk/content/Macroeconomic%20forecasts%20and%20risks%20-%20Quarterly%20Report,%20November%202020.pdf, last accessed: 2021.01.19

that North Macedonia's management capacity and efficiency in the utilization of public finances must be significantly enhanced.[46]

Table 3: Government surplus/deficit as a percentage of GDP in Montenegro, North Macedonia and Hungary from 2010 to 2019 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU27	-6.0	-4.1	-3.6	-2.9	-2.4	-1.9	-1.4	-0.8	-0.4	-0.5
Euro19	-6.3	-4.2	-3.7	-3.0	-2.5	-2.0	-1.5	-0.9	-0.5	-0.6
Montenegro	-3.8	-5.4	-5.5	-5.3	-3.1	-7.4	-2.8	-5.7	-3.9	-2.0
North Macedoni	-2.4	-2.5	-3.8	-3.8	-4.2	-3.5	-2.7	-2.7	-1.8	-2.0
Hungary	-4.4	-5.2	-2.3	-2.6	-2.8	-2.0	-1.8	-2.4	-2.1	-2.1

Source: Eurostat, Government deficit/surplus, debt and associated data, https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1/default/table?lang=en; Enlargement countries - finance statistics, https://ec.europa.eu/eurostat/statistics-explained/index.php/Enlargement_countries_-_finance_statistics#Government_deficit_and_debt;

Montenegro Ministry of Finance and Social Welfare, General Government, https://mf.gov.me/en/organization/sector-for-economic-policy-and-development-/general_government/;

International Monetary Fund, World Economic Outlook Database, https://www.imf.org/en/Publications/WEO/weo-database/2020/October, last accessed on: 2021.03.04.

[46] World Bank Group, FYR Macedonia Public Finance Review: Fiscal Policy for Growth, https://www.worldbank.org/en/country/northmacedonia/publication/macedonia-public-finance-review-2016, last accessed on: 2021.03.16

Table 4: Government expenditure as a percentage of GDP in Montenegro, North Macedonia and Hungary from 2010 to 2019 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU27	50.5	49.1	49.7	49.6	49.0	48.1	47.3	46.7	46.6	46.6
Euro19	50.9	49.4	50.0	49.9	49.3	48.4	47.7	47.2	46.9	47.0
Montenegro	46.6	45.3	45.7	45.8	44.2	46.4	47.5	47.2	47.2	45.0
North Macedoni	32.5	31.9	33.3	31.7	31.7	32.2	31.1	31.8	30.4	31.2
Hungary	48.9	49.1	49.2	50.2	50.1	50.4	46.8	46.5	45.9	45.6

Source: Eurostat, Government revenue, expenditure and main aggregates, https://ec.europa.eu/eurostat/databrowser/view/gov_10a_main/default/table?lang=en; International Monetary Fund, World Economic Outlook Database, https://www.imf.org/en/Publications/WEO/weo-database/2020/October, last accessed on: 2021.03.04.

Table 5: Government revenue as a percentage of GDP in Montenegro, North Macedonia and Hungary from 2010 to 2019 (%)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EU27	44.6	45.1	46.1	46.6	46.6	46.2	46.0	45.9	46.2	46.1
Euro19	44.6	45.2	46.3	46.9	46.8	46.5	46.3	46.2	46.5	46.4
Montenegro	41.8	38.6	39.9	41.3	43.5	40.4	41.3	40.3	41.0	42.6
North Macedoni	32.5	31.9	33.3	31.7	31.7	32.2	31.1	31.8	30.4	31.2
Hungary	44.5	43.9	46.9	47.6	47.4	48.4	45.0	44.1	43.8	43.5

Source: Eurostat, Government revenue, expenditure and main aggregates, https://ec.europa.eu/eurostat/databrowser/view/gov_10a_main/default/table?lang=en; International Monetary Fund, World Economic Outlook Database, https://www.imf.org/en/Publications/WEO/weo-database/2020/October, last accessed on: 2021.03.04.

4. Reason One Behind the "Debt Trap": Changes in the Creditor Structure

While the size of Chinese loans as a percentage of public debt differs in Montenegro, North Macedonia, and Hungary, the common thread is that China, as a latecomer, deconstructs these countries' previous creditor composition. Montenegro has seen a dramatic decline in the debt levels of traditional Western financial institutions and the Paris Club. Simultaneously, China has become the second largest foreign creditor of its public debt. Chinese loans have been the main foreign creditor in North Macedonia in recent years. The combined value of China's two loans to North Macedonia exceeds the total debt of other Western creditors. Chinese loans are quite little in Hungary, as Russia has the greatest external debts.

(1) Creditors in Montenegro's Public Debt

At present, Montenegro's public debt is dominated by external debt. The debt scale of local creditors accounts for 16% and has continued to decline in recent years. Up to the third quarter of 2020, there were 25 foreign creditors in Montenegro's public debt, including various policy banks, commercial banks, EU member state governments, international financial institutions and private creditors. The only creditor from the Asia-Pacific region is the Export-Import Bank of China.[47] At the moment, China Exim Bank loans are the second largest one after Eurobonds, accounting for 21.49 percent of total public debt and 18.1 percent of external debt. Montenegro's creditor structure and external debt have been transformed by the international financial crisis. Eurobonds swiftly became the largest external debt component of Montenegro's public debt following the crisis, reaching nearly 50% in 2015. Since 2010, loans from the World Bank Group's International Bank for Reconstruction and Development and the Paris Club have also increased in proportion. As a result, Montenegro's external debt as a percentage of public debt was just 0.9 billion euros in 2010, but has increased to 3.1 billion euros in 2019.[48] Clearly, Montenegro's public debt has been pushed up since the financial crisis by Western creditors' debt, not by Chinese loans that were just accounted for in 2015.

[47] Montenegro Ministry of Finance and Social Welfare, Report on the Central Government debt, https://www.mif.gov.me/en/sections/state-debt/235626/Report-on-the-Central-Government-debt-as-of-30-September-2020.html, last accessed: 2021.01.18

[48] Montenegro Ministry of Finance and Social Welfare, State Debt, https://mif.gov.me/en/sections/state-debt/, last accessed: 2021.01.27

Table 6: Major foreign creditors in Montenegro's public debt as share of external debt (%)

Major foreign creditors	2010	2015	2020 (until the third quarter)
EUROBOND	21.92	48.96	39.73
China EXIM Bank	-	8.83	21.49
Syndicated loan - PBG	-	-	8.09
Syndicated loan - PBG2	-	-	8.09
International Bank for Reconstruction and Development	19.36	11.29	5.95
European Investment Bank	7.87	5.39	3.65
Rapid Financing Instrument -IMF	-	-	2.35
Member states of Paris Club of Creditors	13.62	5.04	2.27
Credit Suisse Bank	8.27	8.49	1.36
German Development Bank	1.34	1.72	1.32
Syndicated loan-OTP-Erste Group-Zagrebacka Bank	-	-	1.05
European Bank for Reconstruction and Development	2.17	0.65	1.04
Council of European Development bank	0.05	0.66	1.02
International Development Association	6.57	3.07	0.88
Export Development Canada	-	-	0.57
Banka Intesa	-	-	0.43
HAPOALIM	-	-	0.20
Loan from Government of Poland	1.24	0.39	0.15
French loan-NATIXIS	0.93	0.33	0.08
International Fund for Agriculture Development (IFAD)	-	-	0.08
Instituto del credito oficial - Spanish loan	0.49	0.22	0.07

Loan from Government of Hungary	1.53	0.41	0.06
Steiermarkische Bank und Sparkassen AG	2.41	0.62	0.04
Loan from Government of Austria	1.11	-	0.02
European Commission	0.60	0.20	-
EUROFIMA	3.02	0.80	-
Czech EXIM	3.85	0.48	-
Erste Bank	2.88	0.93	-
Deutsche Bank	-	1.53	-
International Financial Corporation	0.62	-	-
Societe Generale	0.11	-	-
Exim Bank Hungary	0.01	-	-

Source: The author calculated based on Montenegro Ministry of Finance and Social Welfare, State Debt, https://mif.gov.me/en/sections/state-debt/, last accessed: 2021.01.27

(2) Creditors in North Macedonia's Public Debt

North Macedonia's public debt is relatively balanced in terms of external and domestic debt. As of the second quarter of 2020, the two sectors accounted for 46.9 percent and 35.4% of total public debt, respectively. Eurobonds are the most significant external debt, accounting for 62.5 percent of total external debt. Loans from China's Export-Import Bank accounted for 4.7 percent of the country's external debt but just 2.2 percent of total governmental debt.[49] This is in contrast to Montenegro, where Chinese loans account for a substantially higher proportion of both external and total governmental debt. However, similar to Montenegro, Eurobonds have long been Macedonia's primary source of external debt. Eurobonds have grown in size significantly over the last decade, from 150 million euros in 2013 to 1.628 billion euros in the second quarter of 2020. Eurobonds became North Macedonia's largest creditor of public debt

[49] Republic of North Macedonia Ministry of Finance, Open Finance, https://javendolg.open.finance.gov.mk/en, last accessed: 2021.01.27

in 2015. The rapid growth of Eurobonds is precisely why the size of external debt increased from EUR1.48 billion in 2010 to EUR2.6 billion in the second quarter of 2020.[50]

The North Macedonian government does not release detailed information about bilateral creditors by year or amount. However, according to the Ministry of Finance of North Macedonia, the country's primary bilateral creditors are Germany, Japan, France, and the United States. China, Spain, and Italy have fewer cooperation projects and have lower debts. Cooperation with Germany, France, and other countries is mainly focused on infrastructure development (water supply, wastewater treatment, environmental protection, and energy), as well as technical assistance (tax reform, regional economic development, and export promotion), whereas cooperation with China is concentrated on infrastructure development.

Table 7: Major foreign creditors in North Macedonia's public debt as share of external debt (%)

Major foreign creditors	2010	2015	2019
EUROBOND	21.89	36.72	58.92
International Bank for Reconstruction and Development	15.80	11.73	11.88
International Development Association	18.70	12.10	6.97
European Investment Bank	11.68	4.84	4.65
Council of European Development Bank	1.99	3.06	3.47
European Bank for Reconstruction and Development	4.29	3.08	3.31
Bilateral Creditors	10.44	4.46	2.48

[50] Republic of North Macedonia Ministry of Finance, Public Debt Reports, https://finance.gov.mk/public-debt-reports/?lang=en; https://finance.gov.mk/%d0%b8%d0%b7%d0%b2%d0%b5%d1%88%d1%82%d0%b0%d0%b8-%d0%b7%d0%b0-%d1%98%d0%b0%d0%b2%d0%b5%d0%bd-%d0%b4%d0%be%d0%bb%d0%b3/, last accessed: 2021.01.19

International Fund for Agriculture Development	0.86	0.54	0.33
European Union	4.65	1.13	-
International Monetary Fund	5.15	-	-
EUROFIMA	0.25	-	-

Source: The author calculated based on Republic of North Macedonia Ministry of Finance, Public Debt Reports, https://finance.gov.mk/public-debt-reports/?lang=en; https://finance.gov.mk/%d0%b8%d0%b7%d0%b2%d0%b5%d1%88%d1%82%d0%b0%d0%b8-%d0%b7%d0%b0-%d1%98%d0%b0%d0%b2%d0%b5%d0%bd-%d0%b4%d0%be%d0%bb%d0%b3/, last accessed: 2021.01.27

Table 8: Cooperation of major bilateral creditors in North Macedonia's public debt (hundred million euro)

Major bilateral creditors	Total amount of financing (loan, aid etc.)
China EXIM bank	6.7
United States Agency for International Development	5.5
German Development Bank	1.8
Japanese International Cooperation Agency	0.71
Instituto del credito oficial	0.098
French Development Agency	-

Source: The author calculated based on Republic of North Macedonia Ministry of Finance, International Financial Relations, https://finance.gov.mk/international-financial-relations/?lang=en, last accessed: 2021.01.27

(3) Creditors in Hungary's Public Debt

Unlike Montenegro and North Macedonia, the size of external debt in Hungary's public debt is much smaller than domestic debt. External debt was 20.2 percent of total state debt in the third quarter of 2020. This public debt structure has benefited from the Orban government's post-2014 changes. This reform is largely intended to encourage commercial banks, domestic institutions, and citizens to purchase government bonds in order to mitigate the risk associated with external loans and bonds in both the public and private sectors.[51]

According to the data from the Hungarian National Debt Management Center, European and Russian creditors accounted for the majority of external debts as of the third quarter of 2020. During the international financial crisis, the loan scale of the EU and IMF once accounted for 20% of Hungary's external debt.[52] Hungarian external debt is mostly composed of loans and government securities, but loans account for a negligible part of total debt. Foreign loans constituted only 3.1 percent of Hungary's overall public debt.[53] The increase in loan size in recent years is largely due to a loan from the local government to the central government and a loan from Russia for the Paksi nuclear power plant project (the total loan amount is approximately 10 billion euros, but it is paid in installments), while the loan amount for the Hungary-Serbia railway project is significantly less than the loans from the above creditors. China also participates in the market for government securities. In 2016, 2017, and 2018, the Hungarian government issued RMB securities for three consecutive years. Securities that have not yet matured account for only 1.6 percent of all foreign currency government bonds, which is significantly less than the size of euro, dollar, and yen bonds..[54]

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[51] Zsuzsanna Novák, Public Debt in the CEECs: Is the Sovereign Debt Crisis over?, Conference Paper, Dubrovnik International Economic Meeting, 2015, https://hrcak.srce.hr/161670, last accessed: 2021.01.22

[52] Államadósság Kezelési Központ, Központi Költségvetés Adóssága, https://www.akk.hu/statisztika/allamadossag-finanszirozas/kozponti-koltsegvetes-adossaga, last accessed: 2021.01.21

[53] Ibid.

[54] Államadósság Kezelési Központ, Devizakötvények Adatai, https://www.akk.hu/content/path=devizakotvenyek-adatai, last accessed: 2021.01.21

Table 9: Major foreign creditors in Hungary's public debt as share of external debt (%)

Major foreign creditors	2010	2015	2020 (until the third quarter)
European Investment Bank	6.38	10.22	11.57
Council of European Development Bank	1.39	1.98	2.25
International Monetary Fund	22.55	-	-
European Union	17.34	6.07	-
German Development Bank	0.07	-	-
Vynesheconombank	-	-	0.42

Source: The author calculated based on Államadósság Kezelési Központ, Központi Költségvetés Adóssága, https://www.akk.hu/statisztika/allamadossag-finanszirozas/kozponti-koltsegvetes-adossaga;

A Központi Költségvetés Devizahitel Adósságnak Állomámya, https://www.akk.hu/statisztika/allamadossag-finanszirozas/kozponti-koltsegvetes-devizahitel-adossaganak-allomanya, last accessed: 2021.01.27

5. Reason Two Behind the "Debt Trap": Differences in Financing Activities

As can be seen from the creditor structure study above, the European Investment Bank, the World Bank Group, the European Bank for Reconstruction and Development, and other Western financial institutions are the leading creditors of Montenegro, North Macedonia, and Hungary's public debt. In comparison to China's funding activities in Central and Eastern Europe, these financial institutions are more proactive, employ a broader range of lending instruments, and target a broader range of sectors. This distinction has also become one of the driving forces behind the "Debt Trap."

(1) Characteristics of Financing Activities of the Major Western Creditors

In Hungary, North Macedonia, and Montenegro, the European Investment Bank, the World Bank Group, and the European Bank for Reconstruction and Development all have a first mover advantage, with distinct investment priorities and a more balanced mix of public and private sector finance. To begin, the European Investment Bank collaborated with North

Macedonia and Montenegro during the Yugoslav era, while the World Bank Group entered the Hungarian infrastructure sector before the transition. However, since Hungary became a member of the EU, the European Investment Bank, the EU's primary financial institution, has increased its activity dramatically. At the moment, the World Bank Group and the European Bank for Reconstruction and Development focus mostly on southeastern Europe's relatively backward countries. The magnitude of financing confirms this as well. The European Investment Bank has a far larger funding footprint in Hungary than the other two banks. The World Bank Group and the European Bank for Reconstruction and Development are the key sources of finance in Montenegro and North Macedonia. Second, the World Bank Group and the European Bank for Reconstruction and Development balance financing between the public and private sectors. Although the European Investment Bank's data have not been made public in full, as a bank charged with executing EU policy, its large-scale financing activities are always co-financed with EU funds. As a result, the EIB's financing of member states' public sectors should not be insignificant.[55]

Table 10: Information on financing activities of major western policy banks in Montenegro, North Macedonia and Hungary from 2010 to present

Institutions	Countries	Year of the first project	Total number of projects	Total amount of financing
European Investment Bank	Hungary	1990	306	22.08 billion euros
	Montenegro	1977	63	1 billion euros
	North Macedonia	1977	32	0.97 billion euros
World Bank Group	Hungary	1983	49	5.69 billion US Dollar
	Montenegro	2002	36	0.834 billion US Dollar
	North Macedonia	1980	82	2.88 billion US Dollar

[55] The European Bank for Reconstruction and Development revised its rules on disclosure in 2019. According to the new rules, only project information related to the pandemic and economic and social recovery will be disclosed in the project database. Therefore, the relevant ratios in the following table are calculated based on the project information disclosed. European Bank for Reconstruction and Development, Access to Information Policy, https://www.ebrd.com/what-we-do/strategies-and-policies/access-to-information-policy.html, last accessed: 2021.03.15

European Bank for Reconstruction and Development	Hungary	1991	189	3.21 billion euros
	Montenegro	2002	75	0.735 billion euros
	North Macedonia	1993	140	2.07 billion euros

Source: European Investment Bank, https://www.eib.org/en/projects/regions/european-union/hungary/index.htm; https://www.eib.org/en/projects/regions/enlargement/the-western-balkans/north-macedonia/index.htm; https://www.eib.org/en/projects/regions/enlargement/the-western-balkans/montenegro/index.htm;

European Bank for Reconstruction and Development, https://www.ebrd.com/hungary.html; https://www.ebrd.com/north-macedonia.html; https://www.ebrd.com/montenegro-country.html;

World Bank Group, https://www.worldbank.org/en/country/montenegro; https://www.worldbank.org/en/country/northmacedonia; https://www.worldbank.org/en/country/eu, last accessed: 2021.03.15

Table 11: Proportion of Public Sector Financing by the World Bank Group and the European Bank for Reconstruction and Development in Montenegro, North Macedonia and Hungary to Total Amount of Financing from 2010 to Present (%)

Institutions	Countries	Proportion
World Bank Group	Hungary	55.14
	Montenegro	29.85
	North Macedonia	45.16
European Bank for Reconstruction and Development	Hungary	3.25
	Montenegro	67.41
	North Macedonia	64.39

Source: The author calculated based on European Bank for Reconstruction and Development, Project Summary Documents, https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html;

World Bank Group, Projects & Operations, https://projects.worldbank.org/en/projects-operations/projects-home, last accessed: 2021.03.15

(2) Financing Priorities

The European Investment Bank, the World Bank Group, and the European Bank for Reconstruction and Development all finance activities in Hungary, North Macedonia, and Montenegro in a variety of sectors, which vary according to the changing international political and economic environment. Agriculture, industry, and service industries are all covered by the financing activities of the three major banks. Medical care and education programs have also attracted attention in recent years. SMEs, banks, national and local governments, and others are also among the financing objectives. However, the three institutions' businesses both overlap and diverge. For instance, the European Investment Bank concentrates on SMEs and transportation infrastructure. The World Bank Group focuses on the most complex aspects of daily living and the public sector's fiscal sustainability. The European Bank for Reconstruction and Development is particularly concerned with infrastructure and financial institutions financing. Moreover, the financing priorities of the three largest banks vary over time. For example, the World Bank Group focused on infrastructure funding for more than a decade prior to and following Hungary's transition, but turned its attention to public finance during the international financial crisis.

Table 12: Top Five Priorities of major western policy banks in Montenegro, North Macedonia and Hungary from 2010 to present (%)

Institution	Countries	Top five financing areas and their share in total amount				
European Investment Bank	Hungary	Credit lines for SMEs	Infrastructure	Service	Education	Energy
		23.67	23.64	10.62	8.18	6.07
	Montenegro	Credit lines for SMEs	Infrastructure	Water, sewerage	Service	Education
		61.37	25.15	6.94	1.81	1.31
	North Macedonia	Credit lines for SMEs	Infrastructure	Water, sewerage	Energy	Service
		55.21	28.59	13.21	2.37	0.62
Institution	Countries	Top five financing areas and their share in total amount				

World Bank Group	Hungary	Regulation and Competition Policy	Debt Management and Fiscal Sustainability	Public Expenditure, Financial Management and Procurement	Macroeconomic Management	Infrastructure Services for Private Sector Development
		39.51	38.41	13.61	11.56	10.30
	Montenegro	Regulation and Competition Policy	Pollution Management and Environmental Health	Health System Performance	Regional Integration	Administrative and Civil Service Reform
		19.68	10.95	9.85	4.04	3.60
	North Macedonia	Public Expenditure, Financial Management and Procurement	Health System Performance	Social Safety Nets/Social Assistance & Social Care Service	Trade Facilitation	Debt Management and Fiscal Sustainability
		20.97	18.32	14.96	12.56	12.22
Institution	Countries	Top five financing areas and their share in total amount				
European Bank for Reconstruction and Development	Hungary	Transport	Financial institutions	Natural resources	ICT	Municipal and environmental infrastructure
		48.91	33.20	8.73	3.89	2.96
	Montenegro	Energy	Transport	Financial institutions	Toursim	Municipal and environmental infrastructure
		36.05	29.9	18.64	16.40	6.97
	North Macedonia	Municipal and environmental infrastructure	Tourism	Financial institutions	Energy	Transport
		40.98	17.46	17.41	16.68	7.32

Source: The author calculated based on European Investment Bank, https://www.eib.org/en/projects/regions/european-union/hungary/index.htm

European Bank for Reconstruction and Development, Project Summary Documents, https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html;

World Bank Group, Projects & Operations, https://projects.worldbank.org/en/projects-operations/projects-home, last accessed: 2021.03.15

(3) Infrastructure Financing

The European Investment Bank is the three countries' largest financing institution in the infrastructure sector. Its project portfolio and size of finance greatly outstrip those of the World Bank Group and the European Bank for Reconstruction and Development. It predominantly finances transportation, clean energy, healthcare, and water resource management infrastructure. In 2020, the European Investment Bank's overall financing exceeded 15 billion euros. The bank is the primary financial entity for the construction of pan-European transport and energy networks in the European Union and Southeast Europe.[56]

Table 13: Infrastructure projects of major western policy banks in Montenegro, North Macedonia and Hungary from 2010 to present

Institutions	Countries	Total number of Infrastructure projects	Project with the largest financing amount
European Investment Bank	Hungary	46	Budapest' Metro Line 4 (M4) Construction
	Montenegro	63	Main Roads Rehabilitation Program
	North Macedonia	10	Corridor X Road Project
World Bank Group	Hungary	6	Telecommunications Project (02)
	Montenegro	1	Energy Community of South East Europe APL 3 - Montenegro Project
	North Macedonia	11	Local Roads Connectivity Project - Additional Financing

[56] European Investment Bank, Infrastructure and the EIB, https://www.eib.org/en/about/priorities/infrastructure/index.htm, last accessed: 2021.03.15

European Bank for Reconstruction and Development	Hungary	9	M5 Motorway Phase II
	Montenegro	12	Main Roads Reconstruction Project
	North Macedonia	2	Highway Tolling

Source: The author calculated based on European Bank for Reconstruction and Development, Project Summary Documents, https://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html;

World Bank Group, Projects & Operations, https://projects.worldbank.org/en/projects-operations/projects-home

European Investment Bank, Infrastructure and the EIB, https://www.eib.org/en/about/priorities/infrastructure/index.htm, last accessed: 2021.03.15

(4) Most Recent Finance Directions and Models for Hungary, Montenegro and North Macedonia

In the backdrop of Europe's green and digital economy transformation, the European Investment Bank, the World Bank Group, and the European Bank for Reconstruction and Development all prioritize sustainable development in their lending to EU member states and Southeastern European countries. As a bank charged with executing EU policies, the European Investment Bank's financing strategy is more aligned with recent EU policies, most notably those relating to the green economy, health care, and education. The European Bank for Reconstruction and Development and the World Bank Group target sectors are markedly different in three countries. The two banks' primary financing sector in Hungary, an EU member state, is aligned with the EU, with a concentration on green economy funding. The World Bank maintains its usual lending strategy for Montenegro and North Macedonia, two non-EU member states, focusing on public sector reform. The European Bank for Reconstruction and Development highlights the region's connectivity in terms of transportation and energy.

Table 14: Most Recent Financing Directions from the European Investment Bank, the World Bank Group, and the European Bank for Reconstruction and Development for Hungary, Montenegro and North Macedonia

Institutions	Countries	Most Recent Financing Directions
European Investment Bank	Hungary	Aiming at the implementation of EU policies, comprehensively promote sustainable growth and employment in the fields of climate and green economy, innovation and skills, infrastructure, SMEs, etc.
	Montenegro	Based on the traditional task of rehabilitation and reconstruction of public infrastructure, expand into the fields of medical care, research and development, education and SME development
	North Macedonia	Same as Montenegro's
World Bank Group	Hungary	Provid consultancy services within the EU framework, such as technical assistance or economic analysis
	Montenegro	Enhance macroeconomic and fiscal sustainability, improve labor skills
	North Macedonia	Strengthen the private sector business environment and export-oriented economy, improv workforce skills, and increase the efficiency of public funds in the energy sector
European Bank for Reconstruction and Development	Hungary	Develop capital markets and provide innovative and green products to support projects that improve energy and resource efficiency, decarbonization and renewable energy
	Montenegro	Improve competitiveness of agriculture and tourism, promote regional integration through cross-border transport and energy, transition to a green economy
	North Macedonia	Improve competitiveness by strengthening industrial chains and labor skills, promote regional integration through infrastructure development, and transition to a green economy

Source: European Investment Bank, The EIB in the European Union, https://www.eib.org/en/projects/regions/european-union/index.htm; The EIB in the Enlargement countries, https://www.eib.org/en/projects/regions/enlargement/index.htm;

European Bank for Reconstruction and Development, EBRD strategies and policies, https://www.ebrd.com/what-we-do/strategies-and-policies.html;

World Bank Group, The World Bank in the European Union, https://www.worldbank.org/en/country/eu/overview; The World Bank in Montenegro, https://www.worldbank.org/en/country/montenegro/overview#1; The World Bank in North Macedonia, https://www.worldbank.org/en/country/northmacedonia/overview, last accessed: 2021.03.16

Currently, the European Investment Bank, the World Bank Group, and the European Bank for Reconstruction and Development all emphasize the importance of public-private partnerships. According to the EBRD, "private participation in infrastructure provision can promote new technologies, deliver higher accountability, establish more cost-effective operations and achieve financial sustainability for infrastructure undertakings. Under the right conditions, PPPs deliver a higher quality service at a lower cost."[57] The European Investment Bank established the European PPP Expertise Centre as early as 2008 to help the public sector in the 42 member states of the Centre with PPP legislation and project preparation.[58] In 2014, the EBRD established the Infrastructure Project Preparation Facility. The mechanism's objective is to prepare bankable infrastructure projects, to streamline public investment, to increase the public sector's institutional ability, and to attract further private investment into the infrastructure sector.[59] The World Bank Group has developed seven tools to carry out PPP projects in terms of fiscal risk assessment, contractual provisions, readiness diagnosis etc. Naturally, this device is not without flaws. According to the World Bank, while PPPs are appropriate in some contexts, they may not be the best option for delivering infrastructure

[57] European Bank for Reconstruction and Development, Public-Private Partnerships, https://www.ebrd.com/infrastructure/infrastructure-ppp.html, last accessed on: 2021.03.16

[58] European Investment Bank, EPEC, https://www.eib.org/epec/, last accessed: 2021.03.15

[59] European Bank for Reconstruction and Development, The EBRD's Infrastructure Project Preparation Facility, https://www.ebrd.com/infrastructure/infrastructure-ppf.html, last accessed on: 2021.03.16

services in others.[60] According to a 2018 study by the European Court of Auditors, audited projects were not always efficiently managed and did not deliver appropriate value for money.[61]

6. Conclusion

This paper demonstrates that the arguments advanced in "Debt Trap" are inconsistent with basic facts. Montenegro, North Macedonia, and Hungary's public debt-to-GDP ratios have mainly remained within the EU and eurozone averages over the last decade. Prior to the pandemic, the three countries' economies were booming, with growth rates above the EU average. Even under the pandemic, the three countries' public debt levels have not increased, and economic recovery is projected. However, the three governments' surplus capacity is lower than the EU average.

The three countries' public debt has neither increased as a result of Chinese loans, nor have Chinese loans compressed the credit space of Western countries. Various financial institutions, including the EIB, the EBRD, and the World Bank, have historically been the three countries' largest foreign borrowers. Eurobonds, on the other hand, have expanded significantly in size and proportion to external debt since the international financial crisis. China has surpassed these traditional creditors only in Montenegro and North Macedonia. Therefore, as a latecomer to the Central and Eastern European region, China has broken the previous composition of foreign creditors in these countries. Besides, the financing activities of major financial institutions in Hungary, Montenegro and North Macedonia are mainly characterized by the following three features: early start-up time, balanced ratio of public and private sector financing, and wide financing fields. In recent years, they also vigorously promote the public-private sector cooperation. These features are different from Chinese one, which also result in misjudgment of "Debt Trap".

Translated by Ronghao Zhang

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[60] World Bank Group, Public-Private Partnerships (PPPs) – Tools, https://www.worldbank.org/en/topic/publicprivatepartnerships/brief/ppp-tools, last accessed on: 2021.03.16

[61] European Court of Auditors, Public Private Partnerships in the EU: Widespread Shortcomings and Limited Benefits, https://op.europa.eu/webpub/eca/special-reports/ppp-9-2018/en/#chapter10, last accessed on: 2021.03.16