

## Moody's downgrades Montenegro gov't bond to Ba2

BBN correspondent - 01.05.2009

Moody's Investors Service has cut Montenegro's government bond rating from Ba2 to Ba3 and kept the outlook as 'negative', due to worsening macroeconomic data and renewed tensions surrounding key industries. Citing falling state revenues and high volume of debt, the agency noted no immediate silver lining in Montenegro's financial sector, or its real economy, particularly in view of the government's continuing support for loss-making companies. A focal point of much of Montenegro's economic turmoil has been the aluminum smelter Kombinat Aluminijuma Podgorica (KAP), whose Russian investors have effectively abandoned their acquisition amid falling commodity prices. Also, Moody's forecasts indicate at least a 3.5% contraction in the country's GDP, along with remaining difficulties with falling property prices on which the tiny country's crucial tourism industry heavily relied on. Also, Moody's noted the government's emergency loan to the second-largest bank last year, which may be converted into equity. Possible financial support by the IMF and the European Union (EU), would relieve some of the immediate or mid-term issues, but only a positive outcome of EU evaluation of Montenegro's membership application could result in substantial upgrades, Moody's noted. Debt-wise, Montenegro's debt/GDP ratio could increase to almost 50% in 2010 from under 30% in 2007-08, while future economic growth rates will probably be lower than in recent years, the agency added