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## Republic of Montenegro Outlook Revised To Positive On Reform Progress; 'BB' LT Rating Affirmed

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LONDON (Standard & Poor's) Dec. 21, 2005--Standard & Poor's Ratings Serv said today it revised its outlook on the Republic of Montenegro to posit from stable. At the same time, the 'BB' long-term and 'B' short-term for and local currency ratings were affirmed.

The outlook change is based on Montenegro's good progress on econor political reforms. There is strong political support for the Stabilizati Association Agreement (SAA) with the EU (the first step toward eventual membership).

"The referendum for independence from the Union of Serbia and Monte scheduled for April 2006, is not expected to affect political and econon stability, or the medium-term policy agenda," said Standard & Poor's cre analyst Sladana Tepic. "In this regard, the Montenegrin government made significant progress with its structural reform agenda in 2005, in parti through large privatizations in key economic sectors."

In the medium term, further structural reforms, the completion of privatization of the few remaining state-owned companies, in particular energy sector, and the upgrade of infrastructure are expected to sustain annual GDP growth rates of between 4% and 5%. Montenegro's government is committed to providing more capital investment, downsizing the large puk administration, and tackling reforms to the social security system, as w setting up an investor-friendly business environment. The government's commitment to fiscal consolidation should bring deficits below 2% of GDF the medium term. The public sector debt-to-GDP ratio is on a declining p at projected 44% of GDP in 2006, and will continue to benefit from concessional loans, keeping interest payments low.

The ratings are constrained by the vulnerability of Montenegro's op undiversified economy, which makes its economic performance subject to external shocks, in particular on aluminum prices and tourism inflows. I current account deficit remains large, at estimated 8.5% in 2005, althou will narrow somewhat to 7.0% in 2007, benefiting from tourism receipts. Euroization of Montenegrin economy, however, provides protection from a classic balance of payments crisis.

"Further progress on implementing Montenegro's challenging economic fiscal reform agenda, unless significantly affected by the upcoming refe for independence and political developments in the region, would lead tc upgrade of the ratings on Montenegro in medium term," said Ms. Tepic. "E contrast, any significant shift away from Montenegro's economic and fisc reform agenda, leading to rising debt and interest burdens, would endang economic prospects and fiscal sustainability, and put downward pressure ratings."

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