Fitch Revises Dominican Republic's Outlook to Positive; Affirms 'B' IDRs

27 de septiembre de 2006

Fitch Ratings-New York-26 September 2006: Fitch Ratings has today revised the Rating Outlook on the Dominican Republic's foreign currency and local currency Issuer Default ratings (IDRs) to Positive from Stable. Fitch also affirms both IDRs at 'B'. The Outlook revision reflects the continued strength of the economic recovery and the expectation that the government will have more success in implementing its structural reform agenda now that it has a majority in Congress. Since the new Congress took office on Aug., 16, 2006, the Progressive Bloc coalition (led by the president's party, Partido de la Liberacion Dominicana) now has a majority in both houses of Congress, which should enhance govern ability during the second half of this administration. According to Theresa Paiz Fredel, Director and lead analyst, 'The Dominican Republic's ratings continue to be supported by the country's comparably low external and public debt burdens and a manageable debt service profile.' Nevertheless, in spite of achieving macroeconomic stability, a still fragile liquidity position that can be exacerbated by a loss of confidence and ensuing capital flight constrains the ratings to current levels at this time. In this respect, continued progress under the IMF program could be important for minimizing sudden shifts in confidence and avoiding another liquidity crunch. The vigorous pace of economic growth continued in the first half of 2006, reaching 11.7%, while inflation continued to decline. A favorable balance of payments performance, underpinned by remittances, tourism receipts, as well as reduced debt service outflows as a result of the debt restructurings and a reversal of capital flight, has led to a steady recuperation of foreign reserves and an improvement in the country's liquidity position. The country's liquidity ratio has increased to 157% in 2006 from 47% in 2004. Scheduled amortizations for the non-financial public sector are almost entirely with official creditors this year and are covered by substantial commitments from multilateral and bilateral sources as well as treasury deposits. However, external amortizations will increase in 2007 as restructured bonds begin to amortize, potentially putting downward pressure on the country's liquidity ratio going forward. While the authorities achieved a significant fiscal adjustment last year, with the consolidated public sector deficit declining to 3.3% of GDP in 2005 from 6.6% of GDP in 2004, the pace of adjustment is expected to slow reflecting the cost of the ongoing electricity sector crisis and the recent banking system bailout. The country's external and public debt ratios compare favorably with other speculative grade sovereigns, returning to pre-crisis levels following the increase in debt in 2003 related to the bailout of several local banks and currency weakness. As a proportion of current external receipts (CXR), the Dominican Republic's net external debt is forecast to reach 35% in 2006, slightly lower than pre-crisis levels, and equivalent to the median for sovereigns rated in the 'B' category. After peaking at 50% in 2003, Fitch expects consolidated public sector debt to reach a projected 32.5% of GDP by the end of 2006, similar to pre-crisis levels and lower than most similarly rated sovereigns. Continued currency stability and the strong economic rebound, combined with a low government financing requirement and low net multilateral disbursements, will contribute to the improvement in debt ratios this year. Looking ahead, future ratings upgrades could be underpinned by a further strengthening of international liquidity and/or progress on the implementation of the country's structural reform agenda. Fulfillment of the structural performance criteria required by the IMF program would bolster the government's efforts to improve the country's institutional framework in order to avoid the recurrence of the type of crisis that occurred in 2003. Furthermore, the implementation of DR-CAFTA could improve the country's export prospects, which in turn could strengthen the Dominican Republic's balance of payments performance in the future. Contact: Theresa Paiz Fredel +1-212-908-0534 or Shelly Shetty +1-212-908-0324, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.