Fitch Baja a 'B' la calificación de República Dominicana

27 de octubre de 2003

Fitch Ratings-New York-October 24, 2003: Fitch Ratings, the international rating agency, today downgraded the ratings on the Dominican Republic's foreign and local currency obligations to 'B' from 'B+'. The rating remains on Rating Watch Negative. The action reflects liquidity concerns due to continued pressures on the sovereign's slim foreign exchange reserve position. In addition, Fitch remains concerned about the availability of multilateral funding over the coming year due to unresolved issues in the electricity sector. Foreign exchange reserves have fallen to US$520.8 million as of the end of September 2003 from US$583.1 million as of end July, in spite of an infusion of US$123.5 million from the IMF in early September as part of its US$618 million two-year Stand-By Arrangement approved on Aug. 29. The Dominican authorities have reportedly agreed to an initial US$15 million payment (in addition to future payments) to Spanish electricity company Union Fenosa to repurchase electricity distribution companies Edesur and Edenorte, a transaction which would further pressure external liquidity and public finances, and perhaps put at risk future IMF and related multilateral disbursements that are dependent upon IMF support. Already, it appears that this transaction has resulted in a delay in the Stand-by review and a disbursement of US$61.7 million which was supposed to have occurred on Oct. 15. With US$504.3 million in public sector medium and long-term debt amortizations due next year, the Dominican Republic can ill afford to lose multilateral financing. Disputes involving government entities in the power sector could potentially result in other contingent liabilities to the sovereign. The Compania de Electricidad de San Pedro de Macoris project involves a political risk guarantee (PRG) from the Inter-American Development Bank, which if activated because of a failure of the government to meet its guarantee of the power purchase agreement, would compromise sovereign creditworthiness. In the event the PRG is activated, US$70 million would become immediately payable to the IDB. If the IDB does not convert this amount into a loan, the Dominican government would have 30 days to make the payment to the IDB. In the event the government fails to make payment, it would be in non-accrual status with the IDB and all new financing as well as amounts pending disbursement under the existing portfolio would cease. When the sovereign's ratings were initially assigned, Fitch warned that continued financial system weakness, combined with a lack of progress on the reform front and further pressure on the Dominican Republic's modest foreign exchange reserves, could have a negative impact on the country's sovereign ratings. In spite of a long period of strong economic growth, which resulted in comparatively strong external and public sector debt indicators, the Dominican Republic's ratings reflected Fitch's concerns about the deterioration of the financial system's operating environment due to the collapse of Banco Intercontinental. While it appears that the government has made some progress in addressing financial system weaknesses, new concerns have arisen due to electricity sector issues. Fitch is concerned that these problems have the potential to disrupt the availability of multilateral financing as well as create other contingent liabilities to the sovereign. Although public sector and external debt (including private sector) are expected to increase to 50% of GDP and 41% of GDP, respectively, by the end of 2003, this is still low relative to other sovereigns in the 'B' rating category. In addition, debt service is low relative to peers as more than 70% of the debt is due to multilateral and bilateral creditors and benefits from concessional terms, which leaves Fitch to believe that meeting the sovereign's financial requirements is manageable as long as multilateral support continues. In the coming days and weeks, Fitch will continue to monitor the Dominican Republic's discussions with the IMF, including additional delays in future disbursements, as well as developments in the electricity sector that could result in additional public finance pressures. The loss of multilateral support would be an immediate cause for a downgrade. Contact: Theresa Paiz Fredel +1-212-908-0534 or Roger M. Scher +1-212-908-0240, New York. Media Relations: Matt Burkhard +1-212-908-0540, New York.