Fitch coloca la 'B+' de República Dominicana en Rating Watch Negativo

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Fitch Ratings-New York-October 8, 2003: Fitch Ratings, the international rating agency, today placed the 'B+' rating on foreign and local currency obligations of the Dominican Republic on Rating Watch Negative. The action reflects continued pressure on the sovereign's slim foreign exchange reserve position and concerns about the availability of multilateral funding over the coming year, given the government's recent decision to renationalize an electricity company as well as other potential contingent liabilities to the government, stemming from disputes 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$120 million from the IMF in early September as part of its US$600 million two-year Stand-By Arrangement approved on August 29. In addition, 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, a transaction which would further pressure external liquidity and public finances, and perhaps put at risk future IMF and related multilateral disbursements. Disputes involving government entities in the power sector could potentially result in other contingent liabilities to the sovereign. The La Compania de Electricidad de San Pedro de Macoris project involves a political risk guarantee 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. 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. In spite of a long period of strong economic growth, which has resulted in comparatively strong external and public sector debt indicators, the Dominican Republic's ratings reflect Fitch's concerns about a deterioration of the financial system's operating environment, evidenced by the collapse of the second largest private commercial bank, Banco Intercontinental (BanInter) as a result of fraudulent transactions. The situation remains fragile, as two other commercial banks have required liquidity assistance. Fitch is concerned that in the event of the discovery of additional problems, the potential for a further loss of confidence in the banking system remains, requiring additional government support. Thus far, the BanInter failure has had serious ramifications to the economy, contributing to currency weakness, higher inflation and a recession. The government estimates that the central bank has provided assistance to BanInter equivalent to 13.5% of GDP. The authorities have since dissolved BanInter and are in the process of recovering some of its cost. They have successfully sold a portion of BanInter's assets to an international bank. Of the other two banks that have experienced problems, one has been sold and the other bank is being restructured and recapitalized. Further weakness in sovereign creditworthiness could likewise undermine depositor confidence in the banking system, raising the risk of systemic deterioration. Although public sector and external debt (including private sector) are expected to increase to 47% of GDP and 40% 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. Fitch estimates that the public sector's financing requirement will reach 7.5% of GDP in 2003. Nevertheless, the recent problems with BanInter underscore the importance of pressing ahead with a comprehensive reform agenda, including enhancing economic policy transparency and improving governance. Maintaining strong relations with the IMF and other multilateral creditors would help ensure that the government successfully implements its reform program. Presidential elections in May 2003 could slow reform momentum. In the coming days and weeks, Fitch will closely monitor the Dominican Republic's discussions with the IMF, including any delay in future disbursements, as well as developments in the electricity sector that could result in additional public finance pressures. 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. Contact: Roger M. Scher +1-212-908-0240, New York. Media Relations: Matt Burkhard +1-212-908-0540, New York