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STANDARD & POOR'S ANNOUNCES RATING UPGRADE FOR DOMINICAN REPUBLIC

US rating agency Standard & Poor's has upgraded the Dominican Republic's long-term sovereign ratings to "B+" from "B" to reflect the positive fiscal impact of the passage and implementation of structural reforms by the government. "Structural reforms under the auspices of the stand-by agreement with the International Monetary Fund will improve policy formulation and oversight, as well as the government's policy framework and institutional capacity", the ratings agency said. Key reforms approved include laws that criminalise electricity theft and a plan to recapitalise the central bank over a 10-year period. It also welcomed the creation of a new ministry of finance, responsible for all aspects of budget and debt management. "Further improvements in governance, along with sustained economic growth and further fiscal measures to contain the fiscal deficit could lead to improved ratings", the ratings agency said. But it warned that political problems ahead of the May 2008 presidential elections could have a negative impact on the country's credit-worthiness. S&P predicts that the budget deficit will shrink to 2.5% of GDP this year from 3.6% in 2006, while the country's debt will drop to 39% of GDP in 2007 from almost 60% in 2003. Fitch Ratings, meanwhile, has affirmed the Dominican Republic's ratings with a positive outlook. "The Dominican Republic's ratings are supported by the strength of the economic recovery, progress on the structural reform front, as well as a manageable debt service profile", says Fitch. "Nevertheless, in spite of achieving macroeconomic stability, a still fragile liquidity position that can be exacerbated by a less benign external environment or a loss of confidence and ensuing capital flight constrains the ratings to current levels at this time", it added. As the IMF stand-by arrangement expires in January 2008.

IN BRIEF

- The IMF has approved the disbursement of US$118.3m to the Dominican Republic under a US$672.2m IMF loan programme. This brings the total disbursements under the arrangement to US$553.9m. The Stand-By Arrangement with the Dominican Republic was approved on 31 January 2005. "Macroeconomic performance under the Dominican Republic's economic program has continued to be commendable", said Mr. Murilo Portugal, the IMF's Deputy Managing Director and Acting Chairman. "Prudent policies in a generally favourable external environment have restored confidence and resulted in high growth, single-digit inflation, declining public debt ratios, and a robust external position". The IMF statement added that fiscal policy has helped contain the public-debt-to-GDP ratio, improving the outlook for public-debt sustainability, and described revenue growth since early 2007 as "robust, in large part reflecting revenue administration improvements and gains from record-high nickel prices". The challenge ahead, it says, is to "persevere with fiscal consolidation during the upcoming electoral period, which will require firm control of public spending".

- The economy expanded by 7.9% in the first half of the year, according to Bear Stearns, which is forecasting growth for the full year of between 7.5%-8.5%.

- The Dominican Republic and the US have signed a US$35m agreement aimed at improving the quality of governance, economic growth, health and education.

- According to US International Trade Commission, US exports to the Dominican Republic jumped by 12.67% in the first six months of the year, to US$2,802.6m from US$2,487.5m in the same period in 2006. But Dominican Republic exports to the US declined by 4.7% to RD$2,060.2m. The Dominican Republic recorded a negative balance of US$742.3m with the US for the first half of the year, up from US$325m for the first half of 2006. In 2004, the Dominican Republic had a favourable trade balance of US$185.5m with the US. This turned into a negative balance of US$104.9m in 2005 and US$818.8m for all of 2006.

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- The state-owned power company CDEEE has received a US$200m credit line from Colombia's foreign trade bank Bancoldex to purchase Colombian coal for two planned power plants. The seven-year credit facility would finance the purchase of 4m tonnes/yr of coal for up to 10 years. One 660MW plant will be built by China's Sichuan Machinery and Equipment (SME), in Pepillo Salcedo in Monte Cristi province. The contract for a 600MW plant, which will be located in Puerto Viejo in Azua province, is held by Seaboard of the US and the local financial services and agro-industrial conglomerate Vicini Group.

- Officials reported on 5 September that they had arrested several people and seized 322lbs of cocaine near the wreckage of a Cessna plane emblazoned with a Venezuelan flag. About a third of Colombian cocaine is estimated to be smuggled into Venezuela and flown to Hispaniola, where it is put aboard other planes and boats or given to smugglers boarding commercial flights to Europe and the US.

- The opposition Dominican Revolutionary Party (PRD) has accused President Leonel Fernandez of misusing public funds and inappropriately creating new government positions to improve his chances of winning re-election next year. The complaint, filed with the Organisation of American States, alleges that President Fernandez misused US$30,000 in government publicity by attaching his campaign slogan to official advertisements and appointed opposition members to government posts to win their support. The PRD has asked the OAS to open an investigation. President Fernandez, of the Dominican Liberation Party, is seeking re-election on 16 May.

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