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Rating Action: Moody's upgrades the Dominican Republic's government bond rating to B1

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New York, April 22, 2010 -- Moody's Investors Service upgrade of the Dominican Republic's government bond ratings to B1 from B2 reflects a reassessment of the country's overall credit resilience after the global financial crisis.

"Despite being a small open economy with close ties to the U.S., the Dominican Republic demonstrated a higher-than-expected level of economic and financial resilience to external shocks," said Mauro Leos, vice president and senior credit officer in Moody's Sovereign Risk Group. "As a result, Moody's has repositioned the country's sovereign ratings, even as they remain at the lower end of the rating scale for now."

In addition to the Dominican Republic's long-term track record as a high-growth economy, its ability to post positive GDP growth last year denoted an increased ability to overcome external shocks relative to the past, said the analyst. This observation has been reinforced by recent indications that growth is resuming at a higher-than-expected pace.

"Even though fiscal policy flexibility remains limited, events last year confirmed an increased ability of monetary and exchange rate policies to manage external shocks and to mitigate the impact of adverse external conditions on domestic economic activity," said Leos.

Leos indicated that the decision to move the rating was reinforced by favorable developments in the country's institutional framework that, over time, could result in improved credit prospects. For example, strengthened bank supervision and effective enforcement of prudential regulations have significantly reduced risks derived from contingent liabilities in the banking system. Official efforts that were effective in developing a domestic market for government bonds were also cited by Moody's as contributing to the upgrade.

"The creation of a domestic market for government bonds, while still in an early stage, is a relevant credit event as it will progressively provide the government with access to longer-term local-currency financing," said Leos. "Over time, this should allow the government to reduce the share of foreign currency-denominated debt, a vulnerability still present in the government balance sheet."

According to Leos, consideration of further upgrades would require: (i) confirmation that the phase of fiscal consolidation contemplated in the IMF program is moving forward, (ii) indications of continued expansion and financial deepening in the domestic market for government bonds, and (iii) evidence of tangible progress in the reform of the electricity sector.

In addition to the upgrade in the Dominican Republic's government bond rating, Moody's upgraded the country ceiling for foreign currency bank deposits to B2 from B3 and the country ceiling for foreign currency bonds to Ba2 from Ba3. The local currency country ceilings remain at A1. The outlook for all ratings is stable.

The last rating action on the Dominican Republic was implemented on May 2, 2007, when Moody's upgraded the sovereign rating to B2 from B3 with a stable outlook.

The principal methodology used in rating the government of the Dominican Republic is Moody's Sovereign Bond Methodology, published in 2008, which can be found at www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's webs.

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