

Regional Economic Newsflash August 2008

Central-America: Costa Rica, Guatemala, Nicaragua, El Salvador, Honduras, and Dominican Republic



The regional newsflash is a publication composed by the Embassies of the Kingdom of the Netherlands in Costa Rica, Guatemala, Nicaragua and Dominican Republic. The newsflash provides an update in terms of imperative economical developments, the most important tenders and a selection of other relevant business news to do with region. This newsflash is shared with a distinctive group of Dutch businesses with special interests in the region or a specific country within. It is put together on basis of publicly available information from various sources such as news articles, press releases, and third party information. The Embassies of the Kingdom of the Netherlands in San José, Guatemala, Nicaragua and Dominican Republic are not responsible for the accuracy of the published information. If you do not want to receive the regional newsflash, or wish to add a person to the distribution list or desire to send a observation, please feel free to forward a message to nltrade@racsa.co.cr. A separate newsletter is published for Panama.

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Central-America region

Hortifair Seminar: Central America, your nearest production site for both North America and Europe

Central America is closer to and has bigger access to the European market than the US and many other Asian countries. Central America is therefore perfectly located to supply both Europe and Northern America,. Furthermore, there are many more features that make Central America attractive to investors such as:

- the good business climate,
- its economic growth in recent years,
- its experience as a horticultural producer
- low production costs,
- the upcoming association agreements with the EU

These factors should turn Central America into a horticultural giant in the near future. Investors should jump on board and make use of this opportunity. Ideavelop is presently organizing a seminar during the Hortifair in Amsterdam. During this prestigious event a comprehensive analysis and investment opportunities will be shared with participants . The seminar starts October 15 between 1.30 PM and 5 PM in the RAI building in Amsterdam. For additional information please contact Edwin Smit at ideas@ideavelop.biz or 00506-227309781.

Central America begins construction of dry Canal

With the support of the Central American Bank for Economic Integration (BCIE), several Central American countries have begun the construction of the dry canal, an inter-oceanic

route that will allow freight transportation by land, connecting the ports of El Salvador, Honduras and Nicaragua in the Pacific, with ports of Honduras and Guatemala in the Caribbean. The first tranche of 50 Km will join Honduras and El Salvador.

Central American countries receive the highest FDI per GDP in Latin America

Foreign Direct Investment (FDI) in El Salvador exploded in 2007 - going from \$219 million in 2006 to \$1.5 billion last year. As a result, El Salvador now has Latin America's third-highest FDI per GDP. Its FDI represents 7.4 percent of the country's GDP of \$20.4 billion. Costa Rica also did well; its FDI represents 7.3 percent of its GDP of \$26.2 billion. FDI to Costa Rica reached \$1.9 billion last year, a 29 percent increase. Honduras and Nicaragua came in fifth and sixth place on the FDI-GDP ranking, thanks to percentages of 6.5 and 5.3, respectively. It should be noted, however, that both countries have small economies. Honduras and Nicaragua ranks as the fourth- and second-smallest economies in Latin America, respectively. The Dominican Republic also did well; it boosted foreign direct investment last year by 16 percent to \$1.7 billion. That represents 4.7 percent of its 2007 GDP of \$36.4 billion.

LATIN AMERICA'S FDI-GDP RANKING (2007 figures in millions of US dollars)

Rank	Country	FDI	GDP	%
1	Panamá	\$1,825	\$19,740	9.1%
2	Chile	\$14,457	\$163,792	8.9%
3	El Salvador	\$1,526	\$20,373	7.4%
4	Costa Rica	\$1,889	\$26,238	7.3%
5	Honduras	\$816	\$12,279	6.5%
6	Nicaragua	\$335	\$5,723	5.3%
7	Colombia	\$9,028	\$171,607	5.2%
8	Perú	\$5,343	\$109,069	4.9%
9	Dom. Rep.	\$1,698	\$36,396	4.7%
10	Uruguay	\$879	\$22,951	3.9%
11	Brazil	\$34,585	\$1,313,590	2.6%
12	México	\$23,230	\$893,365	2.6%
13	Argentina	\$5,720	\$259,999	2.2%
14	Bolivia	\$164	\$13,192	1.5%
15	Guatemala	\$536	\$33,694	1.5%
16	Paraguay	\$106	\$10,870	0.9%
17	Ecuador	\$179	\$44,184	0.5%
18	Venezuela	\$646	\$236,390	0.3%
Tot/av LatAm/Caribb.		\$105,925	\$3,449,900	3.1%

Sources: ECLAC (FDI), IMF (GDP), Latin Business Chronicle

Violence in Central America taking toll on government spending

In an effort to curb violence, Central American governments spent some US\$6.5 billion in 2006, or nearly 7.7% of the sub-region's GDP. The highest spending rates are in Guatemala, with a bill of US\$2.29 billion, followed by El Salvador with US\$2.10 billion. Costa Rica and Nicaragua registered significantly less with US\$ 791 million and US\$529 million respectively. When measuring costs in relation to GDP in each country, these numbers represent a surprisingly high portion of GDP, with some 11% for El Salvador, with 10% in Nicaragua, and 3.6% for Costa Rica. There is hardly any international aid focusing on increasing security for people. However, insecurity remains a main contributor to poverty, lack of human rights and economic decline. As part of Plan Merida, the United States' most recent anti-drugs trafficking legislation, Central America will receive US\$150 million in the next two years. Experts claim that this contributions still falls short of making a real impact in the region. El Salvador spends some 11% of its GDP on security, yet spends only 2.7% on education, reflecting an increasing problem.



Costa Rica



German Juwi will build the largest wind farm in Central America

The project, known as the Proyecto Eolico Guanacaste (PEG), will be constructed by the local company Saret and German-based Enercon. These two companies will supply 55 turbines, 55E-44 models of 9000KW each with a capacity of 49.5 megawatts. Construction is planned to conclude this year and the wind farm should start generating energy by the end of 2008, latest beginning of 2009. This project is a solution to the seasonal dependency of electricity generated by water. The new wind farm will produce electricity from December to May, during the dry season, when hydropower is poor. Today most of the energy covering this low energy period has to be imported at a very high cost.

Instituto Costarricense de Electricidad re-tender 3G network

Costa Rica's monopoly GSM network operator, Instituto Costarricense de Electricidad (ICE) has decided not to accept a sole bid from China's Huawei for the supply of a 3G network - and will consider retendering the project. Both Nokia and ZTE withdrew from the tender process and Huawei's own bid was roughly double the estimate that ICE had proposed. ICE had expected to spend around US\$225 million on the 3G upgrade - but Huawei offered nearly US\$583 million for 1.5 million 3G lines. The project will be re-tendering in the next couple of months. The recent passage of the General Telecommunications Law (LGT - Ley General de Telecomunicaciones) has also cleared the way for the participation of new competitors.

Costa Rica's improves fiscal position

Risk-analysis firm Moody's Investors Service has revised Costa Rica's fiscal key ratings. The rating changed from stable to positive. Costa Rica has made significant improvement in the country's fiscal performance and debt positions. These improvement are expected to be continuing despite ongoing global economic turbulence. Costa Rica's remarkable fiscal performance over the past few years has been driven by reducing expenditure and an improvement in collecting revenues. Costa Rica last year has obtained unprecedented amounts of foreign direct investment, contributing to reducing current account deficits, This positive trend has not been affected by delay in joining Central American Free Trade Agreement (CAFTA).

Costa Rica will request second extension to ratify the CAFTA

Costa Rica has to pass two bills (amendments bill for early entering and strengthening property rights) before an Oct. 1 deadline. The Constitutional Chamber of the Supreme Court (Sala IV) claims that the process of approval related to the intellectual property bill was unconstitutional. Costa Rica will therefore miss its deadline. The amendments bill, enabling Costa Rica to enter CAFTA 90 days earlier than the treaty now allows, was approved by the Sala IV this month. The next step is a second debate in the Legislative Assembly. CAFTA was ratified in a referendum last October, and lawmakers have passed 11 of the 13 bills required to implement the pact. The initial deadline for implementing CAFTA was Feb. 29, but President Oscar Arias had to request for an extension.

Costa Rica continues to attract tourists

Costa Rica still remains one of the preferred tourism destinations of the world despite the current economic global crisis. During the first semester of 2008 there was an increase of 13 percent of tourists compared to the same period last year. In terms of the world average tourism growth, Costa Rica has tripled its volume. Today Costa Rica continues to experience

a satisfactory increase of tourists. The country is doing well compared to tourists growth rates to other important destinations in Latin America: El Salvador, 11.4 percent; Guatemala, 6.3 percent; Nicaragua, 7.1 percent;; Mexico, 2.3 percent; the Dominican Republic, 6 percent. Panama has had the largest increase, 24 percent

Banana Exports Drop

Costa Rican banana exports decreased 136,800 tons (11.6%) during this year's first six months, compared with the same period a year ago.

INS Seeks To Boost Pension Fund Management Unit

Costa Rica's Instituto Nacional de Seguros (INS) will be working on boosting its pension fund management unit INS Pensiones. The measures taken are: improving areas such as client service and product offering, reported Guillermo Constenla, executive president of the state-run insurer.



Inversiones Zuraya S.A. from Costa Rica looking for strategic export partners

The firm Inversiones Zuraya S.A, located in Bagaces, Costa Rica, has invested in the market of Costa Rica since 1986. Since 1998 they started with the production of lemon (Persian variety), with more than 200 hectares of cultivated area (the biggest in all Central America).

Today they have decided to look for strategic alliances with recognized firms.

In addition to the main products such as fresh juice and lemon, the firm is now adding pasteurized juice, processed pineapple, plantain and fresh-cut vegetables for restaurants. Always with the highest quality. All products are certified by the standards and regulations of the Costa Rican Ministry of Health and all the governmental requirements for processing and exporting. There is a wish from the Inversiones Zuraya representatives to open markets and broaden products offer maintaining the highest quality.



Guatemala

President presents tax reform proposal to Congress

The first part of a tax reform proposal was sent to Congress by the President. This project aims to strengthen especially the indirect tax recollection. Tax revenues in Guatemala are among the lowest in Latin America. Tax reform proposals under the former government of Berger were rejected by Congress.

A key element of the original proposals consisted of a new income tax. But during initial negotiations with Congress and the private sector it became clear that this wouldn't receive sufficient support and this part was withdrawn. After dealing with this big disappointment, the Minister of Finance, Juan Alberto Fuentes Knight, added another initiative to the proposals, a so-called Solidarity Tax (ISO), which will replace the Temporary and Extraordinary Support for Peace Accord Tax (IETAAP). The Solidarity Tax will be in force until there is a consensus about reforms in the Income Tax.

The tax reforms will be executed during a two year period and comprise reforms in public spending, the creation of a citizens monitoring unit, new laws for trust administration, the creation of a Transparency Vice Ministry, real estate, vehicles, customs, among others.

Furthermore, the Interamerican Development Bank (IDB) will grant a US\$400 million loan to Guatemala for the improvement of tax recollection. This fund will finance a program for supporting a stable macroeconomic policy and improving administration and tax collection. The objective is to give both, enterprises and individuals, a fair deal in tax payments and to

improve transparency in public spending. The loan will have a variable interest rate for 20 years.

Guatemala dealing with high inflation and recession

The Guatemalan economy is caught between recession and inflation. Inflation reached 14.16%, its highest level in 15 years, and the Monthly Index of Economic Activity, which comprises exports, imports, sales and production of seven productive sectors, presented a decline that has been present for the last 12 consecutive months.

Some analysts fear that the economy is about to fall into crisis, due to a contraction in consumption/production and an increase in unemployment. In its effort to control inflation, The Guatemalan National Bank has withdrawn Q4.3 million from the economy; this has restricted and increased the prices of credit for enterprises and individuals.

Current growth in exports lower than in 2007

Guatemalan exports to the world market reached US\$3.996 million up to June 30th 2008, an increase of 12.9% compared to an increase of 26.1% during the same period in 2007, according to the Guatemalan National Bank (Banguat). The report also indicates that Guatemala has been able to diversify its markets internationally: exports to the US represent 41.2% (US\$1.646 million); the Central American market has 29% of exports, European Union 5.2% and the rest of the world 24.7%.

North American bio-fuel company to invest in Guatemala

SSTP Central America Guatemala, part of the Sustainable Power Corp, announced that they will acquire a 405 hectare property in Guatemala where they will build a bio fuel plant and a gig watt reactor. The initial investment will reach around US\$4 million.

Sustainable Power Corp President, John Rivera announced that they intend to reach a production capacity of 30 million bio fuel gallons a day and 7 gig watts of electricity, enough to supply all of Central America.

United Airlines and US Airways cancel all flights to Guatemala

United Airlines and US Airways will cancel their flights to Guatemala beginning on September 2, because of the increase in fuel prices and decrease in demand. United Airlines had 3 weekly flights to Los Angeles, and US Airways two weekly flights to North Carolina. In less than one year, 5 airlines have cancelled their flights to Guatemala.

Remittances increased 3% up to July 2008

Remittances to Guatemala reached US\$2,550.57 during the first seven months of 2008, an increase of 8.5% compared to 2007. Guatemalan National Bank (Banguat) informed that during the month of July, immigrants sent US\$409.66 million, compared to US\$28.51 million during the same month in 2007, this is a record sum. Remittances are the second most important income source for Guatemala after exports



Nicaragua

The Grupo Pellas looks for ethanol production in Panamá and

Honduras

The Nicaraguan Grupo Pellas, an important ethanol producer (sugar cane), said is looking to expand its bio-fuel production to Honduras and Panama to help to reduce the oil dependence in Central America. The group is expecting to export this year 18 million liters of ethanol

from its Nicaraguan industrial plant. Carlos Pellas, CEO, said the group is expecting to increase the exported ethanol volume to 100 millions liters in three years, with an investment of US \$30 millions. “We are investing in Nicaragua in ethanol production, we also are developing an ethanol project in Honduras and we are looking for a new project in Panama”, said Mr. Pellas. He also pointed out that Brazilian businessmen are interested in doing business with Nicaraguan ethanol producers and he will be travelling to Brazil in September to strengthen these ties.

Nicaraguan exports continues increasing

The Nicaraguan exports increased 29.7 % during the first seven months in 2008, vis-à-vis the same period during 2007 according to the *Centro de Trámites de Exportaciones* (Cetrex). Total exports from January to July 2008 reached US\$ 970 million compared to US\$ 748 million during the same period in 2007. Coffee beans and beef were the most important export products. During 2008, coffee bean exports reached US\$ 200 million and beef US\$ 117 million in comparison with US \$125 millions and US\$ 105 million respectively in 2007. The increase in coffee beans export is 59% and beef 6% in that order.

Nicaragua factory rolls cigar of the year

The best-tasting cigar in the world last year was rolled in the Padrón factory in Estelí in northern Nicaragua, according to the most recent rankings from Cigar Aficionado magazine. The magazine named the Padrón Serie 1926 No. 9 the best smoke in 2007 in its most recent top-25 cigar ranking.

The cigar is rolled under the supervision of José Orlando Padrón, who started making cigars for fellow Cubans in Miami after fleeing his native Cuba. The Cuban guru began growing tobacco in Nicaragua in the 1960s when he could not find the blend he was looking for in the United States, says Padrón’s spokesman César Gadea. “It’s the blend, the construction, quality control. That’s what it is. There are a lot of other companies in Nicaragua that make cigars, but we are still the only one that has been chosen for the No. 1 cigar,” Gadea said. The Padróns have never finished outside the top three in Cigar Aficionado’s Top 25 tastings, and this is the second time one of their cigars has been named the No. 1 cigar of the year. “They are clearly at the top of their game,” Cigar Aficionado said of the Padróns.

Monkey Point Port (Atlantic Ocean Port) promoted in Washington D.C.

In a joint effort, the National Port Company (NPC) and ProNicaragua, the Nicaraguan investment promotion agency, presented the Monkey Point Port construction project to a select group of potential investors in the city of Washington D.C. The presentation, offered by Virgilio Silva, President of the NPC, was held at offices of CG/LA INFRASTRUCTURE, a company that is working on an initiative called *Infrastructure Laboratory*; which aims to support countries in the development of infrastructure projects by contacting them with potential investors and financial institutions in these short-term, high impact projects, that promote the host country’s development. Important contacts were made at this meeting and essential recommendations were received to maximize the proposal strategy for this public-private investment project.

Nicaragua and WB Sign Landmark Agreement to Improve Water and Sanitation in Rural Areas and to Enhance the Business Climate

Nicaraguan Minister of Finance Alberto Guevara and World Bank Country Director for Central America Laura Frigenti signed two loan agreements which will support the country’s efforts to improve water and sanitation in rural areas and to enhance the business climate for micro, small and medium enterprises.

The two agreements, which amount to \$40 million in credits from the International Development Association (IDA), were signed at the Nicaraguan Embassy in Washington D.C. The first of the two agreements signed is for a \$20 million zero-interest credit to support the government of Nicaragua to improve water and sanitation services in rural areas. The second agreement is for a \$20 million zero-interest credit to enhance the competitiveness of micro, small, and medium enterprises (MSMEs) and the business climate that affects those firms.

“The financing provided by the World Bank to support micro, small and medium enterprises is essential to our economy and will help provide for a healthier business climate,” said Alberto Guevara, Nicaragua Minister of Finance at the signing ceremony. “Improving basic water and sanitation services for people in rural areas is one of the key aims of Nicaragua’s National Development Plan. The program supported by this new financing will help, improve access to water services, and will target rural and indigenous communities. In particular, this program is expected to have a positive impact on women and children because they traditionally are tasked with fetching water from and washing clothes and children in far-located water sources,” Minister Guevara added.

Seaside Mariana Project Raises the Bar with a Nicklaus golf course and 25 projects in the works, Mariana breaks the mould

On most tourist maps of Nicaragua, the 2-kilometer stretch of central Pacific coastline between Pochomil and La Boquita appears as unmarked beachfront. But that didn't keep developer Kevin Fleming from finding this “undiscovered” beach and charting it for what will be the largest and most ambitious tourism-development in Nicaragua's history: The Seaside Mariana Spa & Golf Resort. The project not only aims to put this beach on the Nicaraguan map, but put Nicaragua on the world tourism map.

Even before breaking ground, Seaside Mariana, which will be home to Central America's first Jack Nicklaus signature golf course, is already causing a buzz in the golf world. Industry insiders say the Nicklaus team is already touting Seaside Mariana as one of the new projects they are most excited about in the world. The course is expected to have an enormous draw for international golfers looking for a tropical, oceanfront course that's design by the leading name in the sport.

Nicklaus, who visited Nicaragua last year to scout out the terrain and design the holes, later gushed about what a special and unique course it would be – no small claim for someone who has designed more than 300 courses around the world. The golf buzz is also translating into excitement about the project's real estate potential and its prospects of franchising the Grupo Mariana brand across the country to develop a national chain of world-class tourism destinations in Nicaragua, Fleming said.



El Salvador

New ethanol production facility almost ready

Southridge Enterprises Inc. will complete the El Salvador-based ethanol production facility sooner than expected. The new plant will have a maximum annual capacity of 20 million-gallons-per-year (MGY). The company has recently signed several purchasing agreements with major local sugar cane growers to supply feedstock. The plant's first phase aims at producing 15 MGY of hydrous ethanol to be exported to the United States. The second phase includes upgrading of the plant with 5 MGY of ethanol. Bagasse, the fibrous material that remains from sugar cane, will be used as burning fuel for the plant cutting down energy costs by 60 percent.

Frontier airlines to outsource maintenance work

Frontier Airlines wants to outsource its heavy maintenance work to El Salvador. The airline would save \$5.6 million a year, which would help Frontier gain “more financial footing”.



Honduras

Honduras joins ALBA

Honduras officially joined the Bolivarian Alternative for the People of our America (ALBA), amid criticism from the business community and different political sectors. They claim this agreement is not transparent and did not obtain results in those countries already member of ALBA. It also puts Honduras in a difficult position due to the political conditions that could be imposed by Chavez. Honduran President Manuel Zelaya and Venezuelan President Hugo Chávez signed the membership document in the presence of Presidents Evo Morales of Bolivia and Daniel Ortega of Nicaragua, and Cuban Vice President Carlos Lage. Chávez initially promoted ALBA, which now has six members -- Bolivia, Cuba, Dominica, Honduras, Nicaragua and Venezuela -- to counteract the U.S.- led plan to create a Free Trade Area of the Americas (FTAA). The ALBA agreement still needs to be approved by congress in Honduras. It is not clear yet what kind of projects will be funded.

Honduras to end diplomatic snub of U.S. over Bolivia

Honduras, told a U.S. envoy on Tuesday to present his credentials as ambassador later this week, ending a diplomatic snub in support of Bolivia. "President Manuel Zelaya will receive the letter of credentials of U.S. Ambassador Hugo Llorens on Friday," Honduran deputy foreign minister Eduardo Rosales told reporters after meeting with the U.S. envoy. The move followed an announcement by Zelaya's government last Friday that it would temporarily suspend acceptance of the new U.S. ambassador's credentials in solidarity with Bolivian President Evo Morales. Bolivia and the United States expelled their respective ambassadors last week after Morales accused Washington of supporting the opposition in the Andean country, which has been wracked by violent anti-government protests. Morales and Venezuelan President Hugo Chavez are in a fight with Washington over what they see as U.S. support for the protests. The United States has imposed sanctions on Chavez aides in retaliation for the Venezuelan leader's expulsion of the U.S. ambassador to Caracas. Zelaya has moved Honduras closer to Chavez.

Honduras request temporary protection status extension

The Honduran government requested the US to allow a new extension of the Temporary Protection Status to guarantee the continuance of more than 76,000 Honduran citizens who are living in the US illegally, said the Honduran Foreign Ministry. The request of increasing the time limit in favour of Honduran illegal residents in the US in 18 months is the eighth since 1998. Honduran newspaper Tiempo Digital remembered that TPS expires on January 5, 2009, and if the widening request is not definitely accepted and approved, more than 76,000 Hondurans would be exposed to deportation.

Government lowers fuel prices

The Honduran government lowered the superior gasoline and the diesel in 12 and four dollar cents after facing criticism for not lowering the price of fuel to the consumers after the fall of the petroleum cost in the international market. The new price per gallon of the superior gasoline is of 89.93 lempira's (\$4.73) and 91.15 lempira's (\$4.79) per gallon of diesel in Tegucigalpa, according to information given from the Petroleum Administration Commission.

Digicel goes wireless in Honduras

Jamaica-based Caribbean mobile network operator Digicel, which currently provides mobile services in 23 countries and territories in the region and in Central America, has won a licence to offer WiMAX services in eight departments in Honduras. Digicel secured the concession with a bid of HNL36 million (USD1.86 million), beating off rival offers from Celtel, Sercom, Lumelsa, Autoconsa and Axioma Empresarial. In December last year it won a GSM licence in Honduras with a bid of USD80 million and hopes to launch commercial operations there before Christmas.

New FTA with Taiwan

A free trade agreement between Taiwan and Honduras, one of the ROC's 23 diplomatic allies, came into effect last July 15. Ambassador to Honduras Lai Chien-chung and Honduran Foreign Minister Angel Edmundo Orellana Mercado ratified the pact. Benefiting immediately from the FTA were 3,881 items exported from Taiwan, a figure that represents 61.9 percent of all exports to Honduras, most of which are industrial products. In return, Taiwan waived custom duties for 6,135 imported items, representing 69.4 percent of imports.

US lifts ban on Honduran melon import

Honduran officials reported that the United States has lifted the ban on cantaloupe imports from one of the country's biggest melon farmers. Agriculture Minister Hector Hernández said the Montelibano melon company was given "green light" to resume melon exports to the U.S. following a salmonella threat. The U.S. Food and Drug Administration gave their permission after investigating Montelibano's crops and facilities finding no evidence of contamination. The company has 5,000 employees. 75 percent of melon production consumed in the U.S. come from Mexico and Central America.



Dominican Republic

Dominican airports for sale ?

A local newspaper reports that Swiss and US investors are interested in purchasing a majority stake in the Aeropuertos Dominicanos (Aerodom). Airport Department director Andres Van der Horst confirmed that negotiations are taking place between Aerodom and Grupo Aeropuerto del Pacifico (GAP), based in Mexico. However he said that nothing has been formalized, but that negotiations have been under way for over a year. Currently Aerodom manages seven airports in the DR: Las Americas International, El Catey and Arroyo Barril in Samana, Maria Montez International in Barahona and Gregorio Luperon International in Puerto Plata.

President announces ambitious infrastructural plans

In his third inaugural address, President Leonel Fernandez set forth a long list of ambitious projects for his administration. Among these projects are a second north-south Metro line for Santo Domingo, and a train from Haina in the south to northcentral Santiago. He called for an alliance between the public and private sectors in order to construct the infrastructure needed that "will guarantee the transformation of the society." He also talked about a long list of elevated highways, tunnels, roadways in the National District and the remodelling of two maritime ports. Also he promised more projects for the UASD state university.

IMF Executive Board Decides Dominican Republic Expected to Engage in Post-Program Monitoring

The Executive Board of the International Monetary Fund has decided that the Dominican Republic is expected to engage in post-program monitoring with the Fund, following the completion of the three-year Stand-By Arrangement for SDR 437.8 million (about US\$688.6 million) in January. The Board's decision was adopted on a lapse of time basis on Friday, August 22.

At the time of expiration of the arrangement, the authorities had not decided whether they would seek a new arrangement with the Fund. As of late August, the Dominican Republic's outstanding credit to the Fund was SDR 350.2 million (about US\$550.8 million; more than 100 percent of quota). In such instances, it is expected that the Fund member will engage in post-program monitoring, and the authorities have expressed their willingness to do so.

Financial fears hit Central Bank

Fears for a potential economic downturn are motivating some investors to liquidate their Central Bank certificates of deposit. A local newspaper reports that this is one of the reasons why the US dollar has appreciated. The current dollar to peso exchange rate is on average RD\$35.20 per US\$1. For the first time since 2003 there has been a decrease in certificates of deposit issued by the Central Bank, which now total about RD\$6 billion. This shift has caused the Central Bank to increase interest rates.

Accordingly, at the beginning of the year a certificate stock in the Central Bank totalled RD\$191.4 billion. This decreased to RD\$185.6 billion by 21 August, a 3% decrease totalling RD\$5.8 billion. Between August and December RD\$35 billion in certificates will expire and economists are concerned that there will be fewer renewals.

High hopes for the Economic Partnership Agreement (EPA) with the EU

Although negotiations and signing of the Economic Partnership Agreement (EPA) have hit obstacles in the last two years, the Caribbean-European treaty is due to be signed in Barbados on 2 September. The agreement provides development funding for Caribbean Community nations and the Dominican Republic and is expected to ease intra-Caribbean trade barriers and those between the Caribbean and Europe.

However, not all parties involved are supporting the agreement and argue that the EPA was signed in haste, without full consideration of the consequences. Critics have claimed that negotiators were bullied into the agreement, but as has been explained, the current version of the EPA is considered the best agreement the region could get.

The liberalization scale for goods in services is unparalleled in a trade agreement and the inclusion of services in the agreement is a first for an accord of this type. The EPA also includes special exemptions for Haiti.

Still on the agenda are details about the regulation of banana, rum and sugar and whether or not there should be a quota system. However, this must pass to the World Trade Organization for discussion, as the current standard is now considered illegal under WTO rules.

Another concern voiced by smaller nations is that the EPA would reduce tariff revenues. The concern is well founded, considering that many smaller Caribbean nations depend on these revenues since they lack an organized domestic tax structure. Supporters of the agreement argue that the gradual liberalization will allow for smaller economies to adapt. Despite dissident opinions the EPA brings high hopes of increased exports by regional players to Europe, which has a consumer base market of 400 million people, with unparalleled purchasing power.



EVD country webpage

The EVD has Central American country web pages where you can find up to date information, such as: business news, economical developments, tenders, country information (incl. fact sheet and laws), interesting sectors, activities, important documents and the business country guide from the Embassy of the Kingdom of the Netherlands. More information please visit website: www.evd.nl/landen. More information can be obtained from Marjolein Steinebach,

country manager Central America, thru email steinebach@evd.nl or by phone (0031) 070-778 8731.



Ambassade van het
Koninkrijk der Nederlanden

Embassy of the Kingdom of the Netherlands as information source

On the internet site from the Embassy of the Kingdom of the Netherlands in San José (for countries Panama, Costa Rica, Honduras and El Salvador) you can find general information on these countries in our resort but also specific commercial information. Our 'handelswijzers' business trade guides entails broad and up-to-date information on how to do business in each of the four countries, as a tool/guide for Dutch exporters and investors. Visit: www.holanda.or.cr or www.handelswijzer.com For more information you can contact our commercial department at the Dutch Embassy in San José thru email nltrade@racsa.co.cr or by phone (00506) 2296 1490 (Carel Richter, Hans Buhrs or Monique van Hussen). You can also contact our Consulaat-Generaal in Panama (Dieter Ploeger), Phone: (00507) 263 6494 or (00507) 264 7257. Email: consuladonl@cwpanama.net

For more information on Guatemala you can contact the commercial department of the Dutch Embassy in Guatemala City by email; nlezgov@intelnet.net.gt or by telephone (00502) 2381 4300 (Harman Idema, Susana Azurdia). More information on website: www.embajadaholanda-gua.org .

For more information on Nicaragua you can contact the commercial department of the Dutch Embassy in Managua by email mng@minbuza.nl or by telephone (00505) 276 8630 (Jan Bauer, Luis Bravo) More information on website: www.embajadaholanda-nic.com .

For more information on Dominican Republic you can contact the commercial department of the Dutch Embassy in Santo Domingo by email std-ea@minbuza.nl or by telephone (00 1 809) 262 0320 (Reinier Davina) More information on website: www.holanda.org.do