Dominican Republic

Full Rating Report

Ratings

Foreign Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Local Currency	
Long-Term IDR	BB-
Short-Term IDR	B
Country Ceiling	
Country Ceiling	BB-

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Rating Derivation

Component	Outcome
Sovereign Rating Model (SRM)	BB+
Qualitative Overlay (QO)	-2
Macroeconomic	0
Structural features	0
Public finances	-1
External finances	-1
Long-Term Foreign-Currency IDR (SRM + QO)	BB-

Source: Fitch Ratings

Related Research

Global Economic Outlook (June 2019)

Fitch Affirms Dominican Republic at 'BB-'; Outlook Stable (June 2019)

Analysts

Kelli Bissett-Tom
+1 212 908 0564
kelli.bissett-tom@fitchratings.com

Charles Seville
+1 212 908 0277
charles.seville@fitchratings.com

Key Rating Drivers

Stable Outlook: The ratings balance Dominican Republic’s macroeconomic performance and narrow current account deficit with its rising government debt and off-balance-sheet liabilities, higher net external debt than ‘BB’ peers, and limited monetary policy effectiveness.

Supportive Macro Performance: Dominican Republic's five-year average real GDP growth of 6.1% outpaces the current ‘BB’ median of 4.2%, while its five-year average inflation of 2.4% has been lower than the current median of 5.6%. (The central bank released a GDP series update subsequent to our review, which the figures of the report reflect.)

Rising Debt Ratio: The GG deficit narrowed to 2.7% in 2018, supported by tax administration gains, but it averaged 3.5% of GDP during 2014-2017 and Fitch expects spending pressures to keep it near 3.1% of GDP during elections in 2019-2020. Dominican Republic’s general government (GG) debt/revenue and interest/revenue ratios (2019: 275% and 17.1%) are high relative to the current ‘BB’ medians (2019: 156% and 9.2%).

Off-Balance-Sheet Public Sector Liabilities: Central bank securities (2018: 13.7% of GDP) are rising due to operational losses (averaging 1.3% of GDP a year during 2014-2018). Further off-balance-sheet non-financial public-sector (NFPS) liabilities are growing from electricity system losses, recurrent supplier arrears, and government trust liabilities.

2020 Congressional and Presidential Elections: Presidential and congressional elections are scheduled for May 2020. Fitch expects policy continuity, but some past elections have led to fiscal slippage. The post-electoral period offers a policy window to legislate key reforms. Three reforms – of public finances, reduction of financial losses in the electricity system, and a second-phase central bank recapitalisation plan – have stalled since 2016.

External Flows Improve: The current account deficit (CAD) is small (2018: 1.4% of GDP in 2018) and financed by net foreign direct investment (FDI). Current external receipt (CXR) sources are relatively diversified, oil import prices are moderate, and commodity export dependence is low. External interest service (4.9% of CXR in 2018) is in line with the category, and external liquidity is gradually improving (2018: international liquidity ratio above 160%).

Weaker External Balance Sheet: Higher net external debt/current external receipts (CXR; 2018: 55.5%) results in a weaker external balance sheet than the current ‘BB’ median (30.2%), with limited exchange-rate absorption capacity.

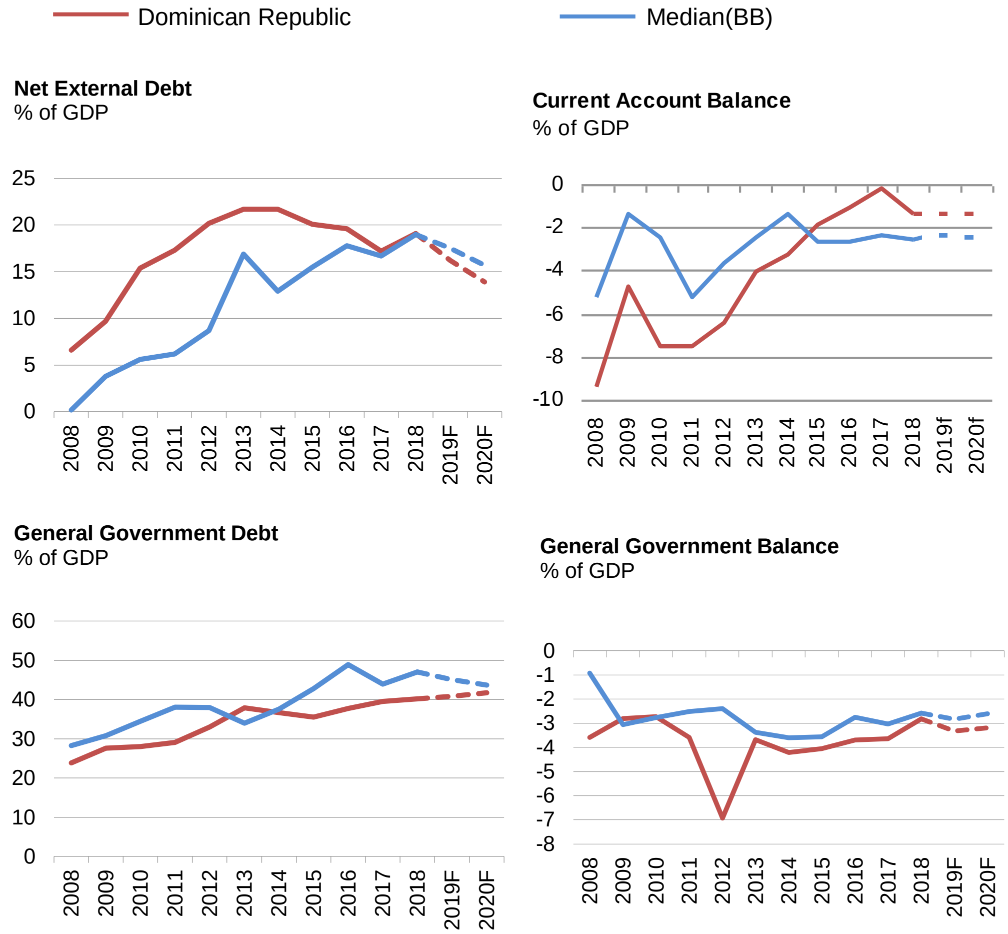
Structural Factors Closer to 'BB' Median: Dominican Republic's per capita income (2019: USD8,697) exceeds the current 'BB' median (USD6,189). The sovereign's governance, social and ease-of-doing-business percentile rankings are just below the 'BB' median.

Rating Sensitivities

Stronger Revenue, Fiscal Consolidation: A stronger government revenue base and/or fiscal consolidation leading to public debt reduction, international reserves, or central bank inflation-targeting regime and monetary policy effectiveness could generate positive rating pressure.

Weaker Metrics: Deterioration of the public debt dynamics, fiscal financing capacity, or of international reserves and CAD could generate negative rating pressure.

Peer Comparison



Note: Medians based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Related Criteria

Sovereign Ratings (May 2019)
Country Ceilings (July 2019)

Peer Group

Rating	Country
BB	Georgia
	Guatemala
	Serbia
	Seychelles
	Vietnam
BB-	**Dominican Republic**
	Bahrain
	Bangladesh
	Bolivia
	Brazil
	Greece
	Jordan
	Turkey
	Uzbekistan
B+	Armenia
	Costa Rica
	Cote d'Ivoire
	Egypt
	Jamaica
	Kenya
	Lesotho
	Maldives
	Nigeria
	Rwanda
	Tunisia
	Uganda

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
18 Nov 16	BB−	BB−
21 Nov 14	B+	B+
5 May 06	B	B
19 Jul 05	B−	B
11 May 05	DDD	B
5 May 05	DDD	CCC+
21 Apr 05	C	CCC+
30 Jan 04	CCC+	CCC+
24 Oct 03	B	B
11 Aug 03	B+	B+

Rating Factors

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Weakness	Weakness	Neutral
Trend	Stable	Negative	Stable	Stable

Note: relative to 'BB' category
Source: Fitch Ratings

Strengths

Macro performance – higher GDP growth and lower consumer price inflation over five years – is a strength relative to the 'BB' median.

Dominican Republic's current account deficit is narrower than the 'BB' median and is financed by FDI. The sources of CXR are diversified, although sensitive to the US economic cycle. The economy is less commodity-export dependent than peers but sensitive to oil import prices.

Dominican Republic's GDP per capita is close to the 'BB' median.

Weaknesses

Weak public finances stem from the low tax base, rising interest burden, recurrent electricity utility losses, and rising off-balance-sheet liabilities.

Dominican Republic's government debt and interest/revenue burdens surpass the 'BB' median signalling debt tolerance limits, although debt/GDP is at the 'BB' median.

The government's domestic financing flexibility is less robust than that of many higher-rated sovereigns, due to the lower domestic savings base and high Dominican Republic peso interest rates.

Inflation and inflation volatility are lower than peers. However, the central bank's monetary policy flexibility is limited, a characteristic common to 'BB' peers, and the Dominican Republic peso to US dollar exchange rate plays a prominent role in forming inflation expectations.

Dominican Republic's net external debt/CXR is large. External liquidity is gradually improving, supported by the smooth external amortisation schedule and gradual international reserve accumulation.

Local-Currency Rating

Dominican Republic's Long-Term Local-Currency IDR at 'BB−' is aligned with its Foreign-Currency IDR, as its public finance fundamentals are not stronger than its external finance fundamentals and there is no record of preferred treatment of local-currency creditors.

Country Ceiling

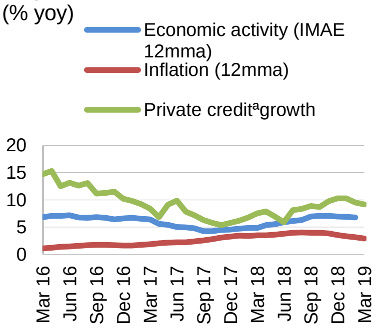
The Country Ceiling is 'BB−', aligned with the Long-Term Foreign-Currency IDR, in accordance with Fitch's Country Ceiling model. Dominican Republic is an open, trade-dependent economy with low inflation volatility, and adheres to the DR-CAFTA and WTO trade accords. The crawl-like exchange rate regime lessens currency volatility to private transactions. However, the country is less internationally financially integrated and employs some categories of capital account restrictions according to IMF AREAER reports.

Strengths and Weaknesses: Comparative Analysis

2019	Dominican Republic BB-	BB median[a]	B median[a]	Georgia BB	Bolivia BB-	Costa Rica B+
Macroeconomic performance and policies						
Real GDP (5yr average % change)	6.1	4.2	4.6	4.0	4.3	3.3
Volatility of GDP (10yr rolling SD)	1.8	2.5	2.7	1.5	0.9	0.9
Consumer prices (5yr average)	2.4	5.6	7.7	3.6	3.1	1.3
Volatility of CPI (10yr rolling SD)	2.2	3.3	4.4	3.1	2.3	2.0
Unemployment rate (%)	6.0	9.0	9.1	13.7	4.1	11.5
Type of exchange rate regime	Crawl-like arrangement	n.a.	n.a.	Floating	Stabilised arrangement	Crawl-like arrangement
Dollarisation ratio (% of deposits, latest avail.)	24.8	39.8	32.7	63.3	12.8	43.8
REER volatility (10yr rolling SD)	1.9	6.2	6.5	4.8	5.5	5.3
Structural features						
GDP per capita (USD, mkt. exchange rates)	8,697	6,189	3,391	4,451	3,775	12,175
GNI per capita (PPP, USD, latest)	15,290	14,875	8,690	10,120	7,330	16,100
GDP (USDbn)	89.8	n.a.	n.a.	16.5	43.0	60.9
Human development index (percentile, latest)	50.5	51.3	37.2	62.7	37.7	67.0
Governance indicator (percentile, latest)[b]	42.8	44.2	38.6	63.5	28.4	69.1
Broad money (% GDP)	33.4	47.8	37.5	53.5	72.6	50.0
Default record (year cured)[c]	2005	n.a.	n.a.	2004	2006	1993
Ease of doing business (percentile, latest)	46.6	52.2	38.7	97.4	18.0	65.1
Trade openness (avg. of CXR + CXP % GDP)	32.8	46.5	40.0	77.2	30.7	40.1
Gross domestic savings (% GDP)	21.0	17.9	15.5	23.5	14.6	19.9
Gross domestic investment (% GDP)	25.7	21.8	22.9	35.6	20.6	17.9
Private credit (% GDP)	24.1	37.3	25.1	70.4	61.4	62.4
Bank systemic risk indicators[d]	b/1	n.a.	n.a.	bb/-	bb/1	bb/1
Bank system capital ratio (% assets, latest av.)	17.0	15.7	15.7	18.4	12.3	14.1
Foreign bank ownership (% assets, latest av.)	8.3	35.2	36.4	88.5	12.5	31.4
Public bank ownership (% assets, latest av.)	27.5	16.5	18.9	0.0	11.9	47.9
External finances						
Current account balance + net FDI (% GDP)	1.7	0.8	-1.4	-0.3	-5.2	0.7
Current account balance (% GDP)	-1.4	-2.7	-4.5	-8.1	-6.0	-3.1
Net external debt (% GDP)	15.6	9.7	16.4	62.1	-3.6	0.9
Gross external debt (% CXR)	125.4	114.0	135.7	149.8	115.5	127.8
Gross sovereign external debt (% GXD)	70.8	47.2	63.1	31.1	81.5	34.9
Sovereign net foreign assets (% GDP)	-20.0	-2.4	-14.5	-13.6	-8.5	-2.6
Ext. interest service ratio (% CXR)	5.7	3.9	3.8	5.4	3.2	4.0
Ext. debt service ratio (% CXR)	12.8	13.8	11.8	18.9	10.6	18.5
Foreign exchange reserves (months of CXP)	3.1	4.3	3.8	3.0	6.2	3.7
Liquidity ratio (latest)[e]	169.6	150.4	174.8	99.8	589.8	126.0
Share of currency in global reserves (%)	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	16.4	21.5	32.6	28.1	70.3	20.2
Sovereign net foreign currency debt (% GDP)	17.8	2.2	15.0	13.1	8.0	4.4
Public finances[f]						
Budget balance (% GDP)	-3.2	-2.8	-3.8	-2.6	-6.4	-5.0
Primary balance (% GDP)	-0.7	-0.6	-1.1	-1.2	-5.5	-0.7
Gross debt (% revenue)	274.8	155.9	213.6	151.8	154.9	207.2
Gross debt (% GDP)	39.2	39.4	49.7	42.8	42.4	50.4
Net debt (% GDP)	37.3	33.1	42.6	38.5	32.7	50.0
Foreign currency debt (% total debt)	67.5	60.7	68.0	77.9	59.9	39.8
Interest payments (% revenue)	17.1	9.2	8.6	5.0	3.3	17.5
Revenues and grants (% GDP)	14.3	25.0	23.4	28.2	27.4	24.3
Volatility of revenues/GDP ratio	3.6	6.2	8.8	1.4	13.6	0.5
Central govt. debt maturities (% GDP)	2.8	5.2	5.6	4.9	1.6	7.1

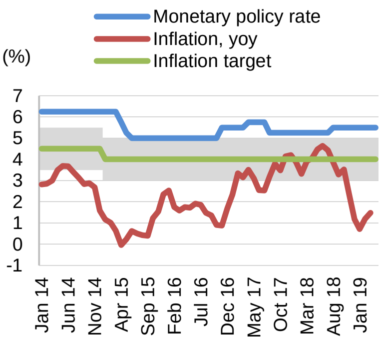
[a] Medians based on actual data since 2000 (excl. forecasts) for all sovereign-year observations where the sovereign was in the respective rating category at year-end. Three-year centred averages are used for the more dynamic variables (e.g. current account and fiscal balance)
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Modern (ie. since 1980) rescheduling history: Official rescheduling (1985, 1986, 1991, 1992); restructuring by private creditors (1983, 1986, 2005); Brady initiative (1994); Paris Club rescheduling (2004, 2005); bond restructuring (2005)
[d] Bank systemic indicator, which equates to a weighted average Viability Rating; and macro prudential indicator, with 1 'low' systemic risk through to 3 'high'
[e] Ratio of liquid external assets, defined as the stock of official FX reserves including gold at the end of the previous calendar year plus banks' liquid external assets, to liquid external liabilities, defined as scheduled external debt service in the current year, plus the stock of short-term external debt and all non-resident holdings of marketable medium- and long-term local-currency debt at the end of the previous calendar year
[f] General government unless stated
Note: Acronyms used: Consumer Price Inflation (CPI), Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Gross National Income (GNI), Purchasing Power Parity (PPP), Standard Deviation (SD), Foreign Direct Investment (FDI)
Source: Fitch Ratings

High Economic Growth
(% yoy)



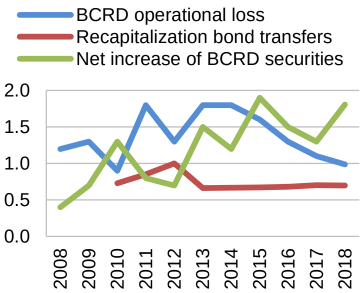
[a] Includes Banreservas credit portfolio.
Source: Fitch Ratings, BCRD

Inflation Targeting Progress



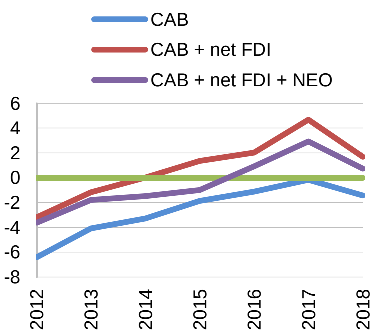
Source: Fitch Ratings, BCRD

BCRD Operational Losses
(% GDP)



Source: Fitch, BCRD, Hacienda

Narrow Current Account Deficit
(% GDP)



Source: Fitch Ratings, BCRD

Key Credit Developments

Macro Performance Above 'BB' Median

Dominican Republic's five-year average real GDP growth of 6.1% outpaces the current 'BB' median of 4.2% for 2014-2018. Real GDP growth returned to a high 7% in 2018, powered by investment and consumption, after the slowdown of investment during 2H16-1H17 dented growth to 4.7% in 2017. The central bank released a GDP series update subsequent to our June review. The historical GDP figures of our report are updated in line with the official statistical revision (an upward revision of the 2018 nominal GDP); our GDP, inflation, exchange rate and short-term interest rate forecasts are updated in line with the central bank's macro expectations survey as of July.

Fitch expects a rally of consumption, due to central bank (BCRD) stimulus via reductions of the peso required reserve rate in June and July and cumulative interest rate cuts of 75bps in 2019 to 4.75%, to partially offset a dip in private investment (which triggered the stimulus), resulting in 5.3% growth in 2019. (This reflects a downward revision of local economists' expectations from the 5.8% we expected at May-June.) Real GDP rose 4.7% yoy during January-June. Fitch expects 5.3% average real GDP growth during 2020-2021 (based on local market expectations). The economic forecasts are sensitive to private investment, fiscal policy, external financing conditions, and global trade headwinds.

The Dominican economy has tended to grow above the BCRD's 5% potential estimate since 2014 when oil prices moderated. Real credit growth (averaging 9.7% a year in 2014-2018) is high, but tourism investment and other sectors have also been supportive.

Inflation averaged 3.6% yoy in 2018, within the BCRD's target band, supported by relative peso-dollar exchange rate stability and moderate fuel import prices. Inflation (0.9% in June) has fallen below the lower threshold of BCRD's target band (4%+/-1%) in the last six months. The public expectations are for inflation to rise from below target (1.2% yoy) at December 2018 to 2.8% yoy at end-2019 and 3.6% and 2020, respectively, remaining near the target band and supported by 3%-4% annual peso-dollar depreciation median forecasts.

Central Bank Recapitalization Issue Moves to the Policy Forefront

A new Central Bank recapitalization strategy has been under negotiation during 2017-2019, but restricted budget space has delayed matters. The original 2008-2017 recapitalization period expired, although the government continues transfers (2018: 0.7% of GDP) to the BCRD under the existing statute. Mounting BCRD securities liabilities (13.1% of GDP in June 2019), make BCRD the largest local issuer with more than half of standardized local market securities.

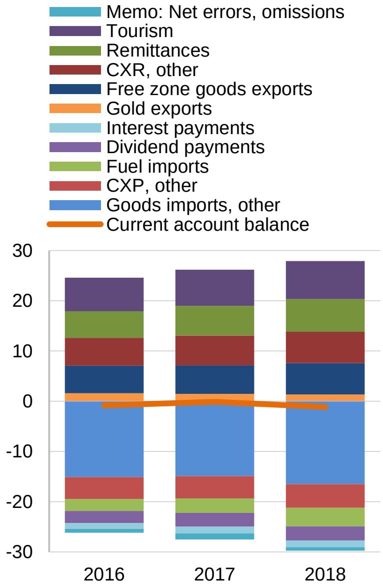
BCRD runs operational losses (averaging 1.3% of GDP per year during 2014-2018) incurred sterilizing forex market interventions (at a 13.9% effective interest rate in 2018) and rolling over the securities (originated from insuring deposits amid the 2003 banking crisis).

BCRD has been slowly transitioning toward an inflation-targeting regime since 2012, and it expanded on its communication tools during 2018-2019 to that end. Semi-annual monetary policy reports and inflation performance relative to the central bank's target are more prominent on its website, and surveys of public macro expectations are now published. However, the peso-dollar exchange rate continues to play a sizeable role in forming public inflation expectations, hampering the central bank's exercise of greater exchange-rate flexibility (the Dominican peso depreciates 3%-4% per year).

Current Account in Narrow Deficit, Financed by net FDI

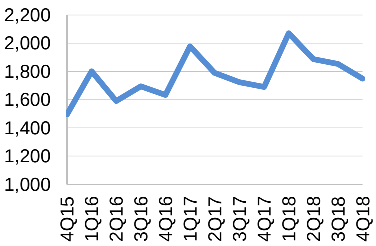
The current account widened in 2018 but remained in a small deficit (1.4% of GDP), fully financed by net FDI. Fitch expects the CAD to remain less than 2% of GDP during 2019-2021, supported by moderate oil import prices.

Current Account
(USDm)



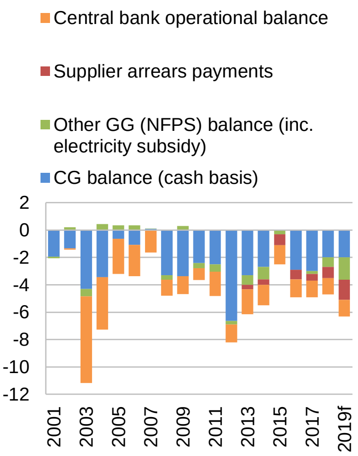
Source: Fitch Ratings, BCRD

Tourism Receipts
(USDm)



Source: Fitch Ratings, BCRD

Public Operations Greater than CG Budget
(% GDP)



Source: BCRD, MHCP, IMF, Fitch

CXR grew by 7% to USD27.9 billion supported by US economic growth while current external payments (CXP) rose by 11% to USD29 billion in 2018. CXR sources – tourism (the largest tradable sector, although tourism growth cooled to 5% yoy in 2018 from 10% in 2016), remittances, free zone manufactures (anchored by DR-CAFTA), and gold exports – are diversified and growing or stable, although synchronized with the US economic cycle.

The compression of fuel imports (due to oil price moderation and a shift toward renewable and coal-powered electricity with the opening of the Punta Catalina plant) drives our low CAD forecasts for 2019-2021. Non-fuel imports are largest (USD16.5 billion in 2018), but relatively stable. Dividends (USD2.8 billion in 2018) and interest payments (USD1.4 billion) are also important, bringing primary income outflows to 5.4% of GDP last year.

Dominican Republic's tourism industry (8.8% of GDP, 22% of CXR in 2018) could face challenges during 2H19. Arrivals by air were up 2.5% in the first half. Early data by ForwardKeys from June showed airline reservations were down and cancellations higher for July-August for travel originating from the US, after well-publicised health incidents involving US tourists. Dominican Republic received 6.6 million non-resident visitors by air in 2018 and 3 million January-May 2019. Hotel occupancy averaged 81% in 2018.

Rising Government Debt and Off-Balance-Sheet Liabilities

Dominican Republic's GG (NFPS basis) debt/GDP rose over the past five years to 38.1% in 2018 (40.2% prior to the GDP revision) from 36.0% in 2014 (36.7% pre-revision). Fitch expects the GG debt/GDP to complete 2019 at 39.2% in line with the current 'BB' median of 39.4% (previously slightly above). Maturities (medium to long term) are 2.8% of GDP for 2019.

The island economy's small government revenue base restricts its debt tolerance. Dominican Republic's debt and interest burdens (2019: 275% and 17.1%, respectively) relative to the small GG revenue base (2019: 14.3% of GDP) are reaching sustainable limits well above the current 'BB' medians (2019: 156% and 9.2%).

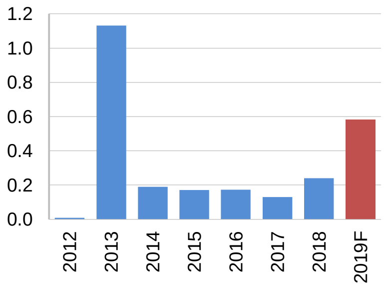
Fitch's Qualitative Overlay analysis considers some public-sector off-balance-sheet liabilities. On a flow basis and according to figures provided by MHCP, the consolidated public-sector deficit (including off-balance-sheet items) was 4.7% of GDP in 2018 and averaged 4.5% during 2014-2018. This includes the central government balance (2018: -2% of GDP, cash basis published by the central bank), the other public-sector balance (including the electricity subsidy (-0.7% of GDP), supplier arrears payments (-0.80% of GDP), and BCRD operational balance (-1.2% of GDP). This is more expansive than the consolidated public-sector operations figure (NFPS+BCRD) the central bank publishes.

The stock of off-balance-sheet NFPS liabilities include recurrent electricity distributor losses (the stock of arrears averaged [0.5% of GDP] a year during 2015-April 2019 and the stock was USD455 million [0.5% of GDP] at April 2019), supplier arrears (the stock of which we estimate averaged 1.5% of GDP during 2016-2018 but includes some electricity-related amounts), and two government trusts, (the largest of which, RDVial, had market debt at 0.7% of GDP at end-2018). Sustainability of the central bank's financial position is also bringing the recapitalization question to the fore.

Fitch estimates, based on information from MHCP, that the consolidated public-sector debt and liabilities – GG (NFPS) excluding recapitalization bonds, accrued supplier arrears, RDVial, securitized electricity debt, electricity arrears at year-end, and BCRD securities – totalled 51.3% of GDP in 2018 (13pp above GG debt, mostly attributable to the central bank securities) (This figure is updated since our rating action commentary June 27 reflecting: more accurate data from national authorities, a focus on BCRD market securities rather than gross BCRD debt [which includes long-term Special Drawing Rights], and the GDP revision.)

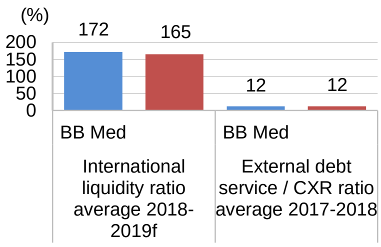
Tax Administration Gains

(Tax admin. yields for CG revenues/GDP, +/- %)



CG--Central government.
Source: Fitch Ratings, MHCP fiscal results and 2019 budget

Improving External Liquidity, External Debt Service in Line with 'BB' Peers



Source: Fitch Ratings, National authorities

Tax Administration Efforts Yield Gains, But Budget Gap Remains

The GG (NFPS) deficit narrowed to 2.7% of GDP in 2018 from 3.5% of GDP in 2017, resulting from tax administration gains, lower current transfers (including for BCRD recapitalization) and lower capital spending. Gains from reducing sales and fuel tax evasion reversed the previous fall of GG revenue/GDP, but are insufficient to close the budget gap.

Fitch expects higher 3.1% of GDP average deficits in 2019-2020. The forecasts assume additional 0.1pp GDP a year gains from tax administration measures (reflecting further enforcement of fuel taxes, reduction of sales tax evasion and introduction of electronic filing), but that greater interest expense and a slight rise in other spending during the 2019-2020 electoral period (relative to 2018) will more than offset the tax yields.

Fiscal slippage is a risk ahead of elections in 2020. Pre-election spending in 2012 (for the presidency, congressional and municipal offices) contributed to the unexpectedly large government deficit (6.9% of GDP) that year. These pressures were absent in 2016. The fiscal restraint was a factor in the subsequent upgrade of the Foreign Currency Long-Term IDR to ‘BB-’.

Net External Debt Remains High, External Liquidity Ratios Improve

Dominican Republic’s external balance sheet remains weak, reflecting rising public external debt. Net external debt/CXR (55.5% in 2018) exceeds the current ‘BB’ median (30.2%). Non-resident holdings of treasury instruments (including auctioned bonds and other negotiable treasury instruments by Fitch’s calculation; 16% at year-end) reverted during 2018 to their 2015-2016 levels from a peak of 21% at end-2017. Non-resident holdings of BCRD securities were less than USD250 million at end-2018, continuing a steady decline.

However, external liquidity metrics are now moving in line with the current ‘BB’ medians. BCRD continues to gradually accumulate international reserves. The stock covers 3.1 months of CXP (4.3 for the median) in 2019, and the broader international liquidity ratio (2019: 169.6%) was above the median (150.4%), further supported by the external debt maturity profile.

Key Reforms Stalled as National Elections Approach in May 2020

Presidential and congressional elections will be held in May 2020, preceded for the first time by municipal elections on a separate date in February 2020. Subsequent to our ratings affirmation, current President Medina decided on July 22 not to stand for a third consecutive term, a step that would have required a constitutional amendment to lift the prohibition. Polls signalled a rising rate (77% in July) of popular rejection of modifying the constitution despite Medina’s high personal popularity.

Political tension between President Medina and former President Fernandez, divided the governing PLD loyalties during 1H19 and created some political uncertainty. The main contenders for the next presidency include former PLD President Fernandez who is a candidate for a fourth non-consecutive presidential term; a list of younger PLD pre-candidates who will challenge Fernandez in the October PLD party primary; and Luis Abinader (PRM), among others. Fitch expects continuity of macro policies through the election, as minority opposition candidates maintain similar support for Dominican Republic’s open, free-market economy as the PLD.

Post-election fiscal reform prospects are uncertain. It is unclear whether a PLD-led executive and congress could garner sufficient internal party support. A minority-party president and/or a fragmented congress could encounter difficulty passing major legislation. Three reforms – of public finances, reduction of financial losses in the electricity system, and central bank recapitalization – have made limited progress despite the PLD’s strong position in Congress since 2016.

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Public Debt Dynamics

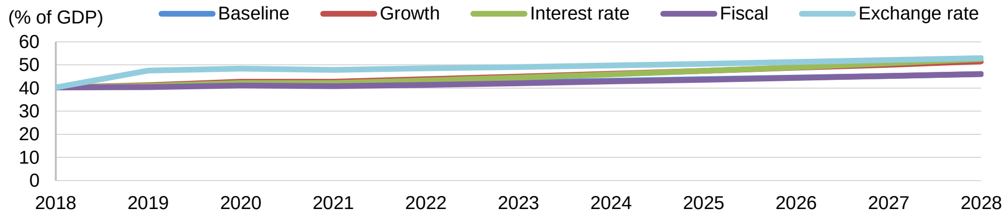
According to Fitch's baseline projections, GG debt will continue gradually rising to 44.8% of GDP in 2028. The main risks to debt sustainability are negative economic shocks, growth of off-balance-sheet liabilities, exchange rate movements, and an external financing shock.

Debt Dynamics: Fitch's Baseline Assumptions

	2018	2019	2020	2021	2022	2023	2028
Gross General Government Debt (% of GDP)	38.1	39.2	39.8	40.1	40.7	41.3	44.8
Primary Balance (% of GDP)	-0.4	-0.7	-0.6	-0.2	-0.3	-0.3	-0.3
Real GDP Growth (%)	7.0	5.3	5.5	5.3	5.0	5.0	5.0
Avg. Nominal Effective Interest Rate (%)	8.2	7.8	7.7	7.6	7.6	7.7	7.9
Local Currency/USD (Annual Avg)	49.5	51.0	52.7	54.6	56.6	58.9	71.6
GDP Deflator	4.1	2.6	3.5	3.7	4.0	4.0	4.0

Sensitivity Analysis

Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 1.2% lower (half standard deviation lower)
Interest rate	Marginal interest rate 250bp higher
Fiscal	No change in primary balance from 2018 level
Exchange rate	25% devaluation at end-2019

Forecast Summary

	2015	2016	2017	2018	2019[f]	2020[f]	2021[f]
Macroeconomic indicators and policy							
Real GDP growth (%)	6.9	6.7	4.7	7.0	5.3	5.5	5.3
Unemployment (%)	7.6	7.3	5.9	5.9	6.0	6.0	6.0
Consumer prices (annual average % change)	0.8	1.6	3.3	3.6	2.8	3.6	3.7
Short-term interest rate (bank policy annual avg.) (%)	5.4	5.1	5.5	5.4	5.0	5.2	5.2
General government balance (% of GDP)	-3.9	-3.5	-3.5	-2.7	-3.2	-3.0	-2.7
General government debt (% of GDP)	34.3	36.0	37.4	38.1	39.2	39.8	40.1
DOP per USD (annual average)	45.05	46.06	47.53	49.51	50.97	52.69	54.57
Real effective exchange rate (2000 = 100)	96.4	95.9	92.9	89.8	89.5	3.8	3.8
Real private sector credit growth (%)	11.7	10.2	6.5	2.8	3.1	2.4	2.2
External finance							
Current account balance (% of GDP)	-1.8	-1.1	-0.2	-1.4	-1.4	-1.4	-1.4
Current account balance plus net FDI (% of GDP)	1.3	1.9	4.4	1.6	1.7	1.5	1.4
Net external debt (% of GDP)	19.4	18.8	16.3	18.1	15.6	13.2	11.2
Net external debt (% of CXR)	59.7	57.7	49.9	55.5	48.6	42.3	36.5
Official international reserves including gold (USDbn)	5.3	6.1	6.9	7.7	7.8	7.8	7.9
Official international reserves (months of CXP cover)	2.6	2.9	3.1	3.2	3.1	3.0	2.9
External interest service (% of CXR)	4.3	4.6	5.1	4.9	5.7	6.2	6.7
Gross external financing requirement (% int. reserves)	104.4	45.3	31.6	38.1	43.0	41.4	41.9
Real GDP growth (%)							
US	2.9	1.6	2.2	2.9	2.3	1.8	1.7
China	6.9	6.7	6.9	6.6	6.2	6.0	5.8
Eurozone	2.1	2.0	2.4	1.9	1.2	1.3	1.2
World	2.8	2.6	3.3	3.2	2.8	2.7	2.7
Oil (USD/barrel)	52.4	45.1	54.9	71.6	65.0	62.5	60.0

Note: The central bank revised the nominal GDP upward in July 2019, which our report reflects. Our real GDP growth forecasts are revised in line with the central bank's macro expectations survey as of July 2019.
Source: Fitch Ratings

Fiscal Accounts Summary

(% of GDP)	2016	2017	2018	2019f	2020f	2021f
General government (NFPS, calendar-year)						
Revenue	**13.9**	**14.0**	**14.2**	**14.3**	**14.4**	**14.4**
Expenditure	**17.4**	**17.5**	**16.8**	**17.4**	**17.4**	**17.1**
O/w interest payments	1.7	2.2	2.3	2.4	2.5	2.5
Primary balance	-1.8	-1.2	-0.4	-0.7	-0.6	-0.2
Overall balance	**-3.5**	**-3.5**	**-2.7**	**-3.2**	**-3.0**	**-2.7**
General government debt	**36.0**	**37.4**	**38.1**	**39.2**	**39.8**	**40.1**
% of general government revenue	259.4	267.1	269.2	274.8	277.4	279.6
Central government deposits	1.4	1.3	2.0	1.9	1.7	1.6
Net general government debt	34.6	36.1	36.1	37.3	38.1	38.6
Central government						
Revenue	**13.9**	**14.0**	**14.2**	**-**	**-**	**-**
O/w grants	0.0	0.1	0.0	-	-	-
Expenditure and net lending	**17.6**	**17.7**	**16.6**	**-**	**-**	**-**
O/w current expenditure and transfers	14.2	13.7	12.8	-	-	-
- Interest	1.7	2.2	2.3	-	-	-
O/w capital expenditure	1.7	1.8	1.5	-	-	-
Current balance	-0.4	0.3	1.3	-	-	-
Primary balance	-2.0	-1.5	-0.2	-	-	-
Overall balance	**-3.8**	**-3.7**	**-2.5**	**-**	**-**	**-**
Central government debt	36.0	37.4	38.1	39.2	39.8	40.1
% of central government revenues	259.4	267.1	269.2	-	-	-
Central government debt (DOPbn)	**1254.9**	**1423.5**	**1614.1**	**1792.9**	**1990.6**	**2190.1**
By residency of holder						
Domestic	398.2	450.9	482.2	496.9	486.2	453.0
Foreign	856.7	972.7	1132.0	1296.0	1504.3	1737.1
By currency denomination						
Local currency	385.3	458.4	505.2	564.8	627.0	689.9
Foreign currency	869.6	965.2	1108.9	1228.2	1363.5	1500.2
In USD equivalent (eop exchange rate)	18.7	20.0	22.1	23.7	25.4	27.0
Average maturity (years)	9.4	9.0	9.5	12.7	14.9	17.1
Memo						
Nominal GDP (DOPbn)	3487.3	3802.7	4235.8	4576.4	4998.4	5456.1

Memo: General government operations and debt reflect the NFPS accounts reported by (operations) BCRD and (debt) MHCP. Interest expense excludes the recapitalization transfers to BCRD in line with MHCP's new treatment and reflects the interest payments recorded in the Public Credit NFPS debt service accounts. Fitch accounts for the CG statistical discrepancy and other NFPS balance in GG (NFPS) expenditure. Fitch's external debt metrics are calculated by residency, according to our sovereign rating criteria.

Source: Ministry of Finance, Central Bank, and Fitch Ratings estimates and forecasts

External Debt and Assets

(USDbn)	2014	2015	2016	2017	2018	2019f
Gross external debt	**27.7**	**27.3**	**29.2**	**28.8**	**33.5**	**36.1**
% of GDP	41.2	38.3	38.5	36.0	39.1	40.2
% of CXR	121.9	117.8	118.6	110.2	119.9	125.4
By maturity						
Medium- and long-term	26.9	26.5	28.4	28.2	33.1	35.7
Short -term	0.8	0.8	0.8	0.6	0.4	0.4
% of total debt	2.9	2.9	2.7	2.0	1.2	1.2
By debtor						
Sovereign	**17.8**	**17.6**	**19.3**	**20.8**	**23.1**	**25.6**
Monetary authorities	1.2	1.0	0.9	0.6	0.5	0.5
General government	16.6	16.6	18.4	20.2	22.6	25.1
O/w central government	16.6	16.6	18.4	20.2	22.5	25.0
Banks	**2.2**	**2.3**	**2.6**	**2.0**	**2.2**	**2.4**
Other sectors	**7.7**	**7.3**	**7.2**	**6.0**	**8.1**	**8.1**
Gross external assets (non-equity)	**13.8**	**13.5**	**14.9**	**17.0**	**18.3**	**22.4**
International reserves, incl. gold	4.9	5.3	6.1	6.9	7.7	7.8
Other sovereign assets nes	0.3	0.3	0.3	0.1	0.1	0.1
Deposit money banks' foreign assets	1.5	0.9	1.0	0.9	1.0	1.0
Other sector foreign assets	7.1	7.0	7.6	9.2	9.5	13.5
Net external debt	**14.3**	**13.8**	**14.2**	**13.0**	**15.5**	**14.0**
% of GDP	21.4	19.4	18.8	16.3	18.1	15.6
Net sovereign external debt	13.1	12.1	12.9	15.2	15.7	18.0
Net bank external debt	0.6	1.4	1.6	1.0	1.2	1.4
Net other external debt	0.6	0.3	-0.3	-3.2	-1.4	-5.4
Net international investment position	**-39.5**	**-41.2**	**-44.0**	**-46.5**	**-51.7**	**-53.1**
% of GDP	-58.8	-57.9	-58.1	-58.1	-60.4	-59.1
Sovereign net foreign assets	**-13.1**	**-12.1**	**-12.9**	**-15.2**	**-15.7**	**-18.0**
% of GDP	-19.5	-17.0	-17.1	-19.0	-18.3	-20.0
Debt service (principal & interest)	**3.2**	**4.8**	**2.7**	**3.1**	**2.8**	**3.7**
Debt service (% of CXR)	14.0	20.6	10.9	12.0	10.2	12.8
Interest (% of CXR)	4.0	4.3	4.6	5.1	4.9	5.7
Liquidity ratio (%)	122.1	97.6	137.3	138.9	162.6	169.6
Net sovereign FX debt (% of GDP)	18.5	16.8	16.5	16.4	16.8	17.8
Memo						
Nominal GDP	67.2	71.2	75.7	80.0	85.6	89.8
Inter-company loans	-	-	-	-	-	-

Note: Data reflects Dominican Republic's international investment position (IIP). External debt includes non-resident participation in locally issued MHCP and BCRD securities.
Source: Fitch Ratings estimates and forecasts and Central Bank, MHCP, IMF, World Bank

Schedule of NFPS Medium- and Long-Term External Debt at 2019 Budget

(USDm)	2018	2019	2020	2021	2022	2023	2024
NFPS: Total debt service	**3,008**	**4,020**	**3,470**	**3,502**	**3,465**	**5,747**	**4,094**
External (USDm)	**1,569**	**2,627**	**2,509**	**2,592**	**2,439**	**4,227**	**2,633**
Amortisation (NFPS)	547	1,250	1,105	1,109	933	2,783	1,375
Interest (incl. commissions)	1,022	1,377	1,404	1,483	1,505	1,444	1,258
Domestic (DOPm)	**71,241**	**71,373**	**51,221**	**50,374**	**59,155**	**91,059**	**91,059**
Amortisation (NFPS)	18,945	20,231	11,480	13,499	26,019	62,667	62,667
Interest	52,296	51,142	39,741	36,875	33,136	28,392	28,392
Memo: Average DOP/USD exchange rate	49.51	51.25	53.27	55.39	57.61	59.91	62.31

Data as of 26 June 2019
Source: Fitch Ratings and Central Bank Ministry of Finance

Balance of Payments

(USDbn)	2016	2017	2018	2019f	2020f	2021f
Current account balance	**-0.8**	**-0.1**	**-1.2**	**-1.3**	**-1.3**	**-1.4**
% of GDP	-1.1	-0.2	-1.4	-1.4	-1.4	-1.4
% of CXR	-3.3	-0.5	-4.2	-4.4	-4.4	-4.5
Trade balance	**-7.6**	**-7.6**	**-9.3**	**-9.9**	**-10.4**	**-11.0**
Exports, fob	9.8	10.1	10.9	11.0	11.0	11.1
Imports, fob	17.4	17.7	20.2	20.8	21.4	22.1
Services, net	**4.9**	**5.5**	**5.9**	**6.2**	**6.6**	**6.9**
Services, credit	8.3	8.9	9.3	9.7	10.2	10.6
Services, debit	3.4	3.3	3.4	3.5	3.6	3.7
Income, net	**-3.3**	**-3.8**	**-3.8**	**-4.1**	**-4.2**	**-4.4**
Income, credit	0.5	0.5	0.5	0.5	0.6	0.6
Income, debit	3.7	4.3	4.3	4.6	4.8	5.0
O/w: Interest payments	1.1	1.3	1.4	1.6	1.9	2.1
Current transfers, net	**5.1**	**5.7**	**6.1**	**6.4**	**6.8**	**7.1**
Capital and financial accounts						
Non-debt-creating inflows (net)	2.3	3.7	2.5	2.7	2.7	2.7
O/w equity FDI	2.3	3.7	2.5	2.7	2.7	2.7
O/w portfolio equity	0.0	0.0	0.0	0.0	0.0	0.0
O/w other flows	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves	0.9	0.7	0.8	0.1	0.1	0.1
Gross external financing requirement	2.4	1.9	2.6	3.3	3.2	3.3
Stock of international reserves, incl. gold	6.1	6.9	7.7	7.8	7.8	7.9

Data as of 26 June 2019
Source: Fitch Ratings estimates and forecasts and IMF

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.