Fitch Revises Outlook to Positive for Dominican Republic's Rtgs
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FITCH REVISES OUTLOOK TO POSITIVE FOR DOMINICAN REPUBLIC'S RATINGS; AFFIRMS L-T IDRS AT 'B'

Fitch Ratings-New York-05 January 2011: Fitch Ratings has affirmed the Dominican Republic's ratings as follows:

--Foreign currency Issuer Default Rating (IDR) at 'B';

--Local currency IDR at 'B';

--Country ceiling at 'B+';

--Short-term foreign currency IDR at 'B'.

The Outlook on both the Foreign and Local currency IDRs has been revised to Positive from Stable.

The Outlook revision reflects the Dominican economy's resilience during the global financial crisis, which was supported by a Stand-by Arrangement (SBA) with the IMF, improving export prospects and structural improvements in debt management. Fitch believes these developments will support the maintenance of macroeconomic stability within an environment of robust growth of around 6% over the medium-term.

'The Dominican Republic's rapid recovery following the global financial crisis within the context of moderate inflation highlights the authorities' commitment to maintaining macroeconomic stability,' says Theresa Paiz Fredel, Senior Director in Fitch's sovereign group.

Approval of the SBA and multilateral disbursements allowed the government to implement a strong counter-cycle fiscal response starting in the last quarter of
2009 to complement more accommodative monetary policies initiated earlier in the year. This contributed to a rapid recovery of growth, which reached 3.5% in 2009, among the highest rates of growth in Latin America and the Caribbean.

Despite the strong economic recovery and higher commodity prices, the central bank met its inflation target of between 6% and 7% in 2010, which bodes well for enhancing monetary policy credibility. The economic recovery exceeded both Fitch's and the market's expectations, with growth estimated at 7.8% in 2010.

Increased domestic demand and a recovery of oil prices led to a notable deterioration in the Dominican Republic's current account deficit and increased the island's external financing needs in 2010. Although gross external financing requirements/reserves increased to almost 200% last year and are among the highest for sovereigns rated in the 'B' category, unlike prior episodes of increased financing needs, the peso remained relatively stable, while the erosion of reserves during the year was muted.

Nevertheless, Fitch expects the Dominican Republic's external financing needs to decline over the forecast horizon with the resumption of nickel exports and the initiation of gold exports later this year.

With the passage of a 2011 budget in line with the quantitative performance criteria of a non-financial fiscal deficit of 1.6% of GDP under the IMF SBA authorities are on track to withdraw fiscal stimulus this year. Progress with respect to the management of electricity distributors and the implementation tariff increases will help reduce transfers to the electricity sector, an important factor that has prevented a sustained fiscal consolidation in recent years. Despite fiscal challenges, improvements in debt management and a favorable maturity profile support the island's creditworthiness. In 2009, the government began a program of monthly auctions with local-currency bonds issued at two-, three- and five-year maturities as the initial steps toward building a yield curve. This year has seen the placement of seven- and 10-year bonds that have extended the curve into 2020.

'While still in its initial phase, the development of a domestic debt market provides greater fiscal financing flexibility, which supports the sovereign's credit profile,' says Paiz Fredel.

High per capita income, as well as stronger social and business environment indicators relative to 'B' peers continue to support the sovereign's ratings.
However, the country's weak liquidity position relative to 'B' peers remains a credit weakness, which exposes the Dominican Republic's vulnerability to shocks.

Looking ahead, the Dominican Republic's ratings would benefit from reduced external vulnerabilities and the continued consolidation of macroeconomic stability. Although not Fitch's base case scenario, a sharp decline in non-debt creating capital inflows or a return of capital flight which results in downward pressures on the peso and a sustained erosion of international reserves would be negative for the ratings.

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Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:

'Sovereign Rating Methodology', dated Aug. 13, 2010.

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Sovereign Rating Methodology

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=547765

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