Dominican Republic

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This report does not constitute a rating action.

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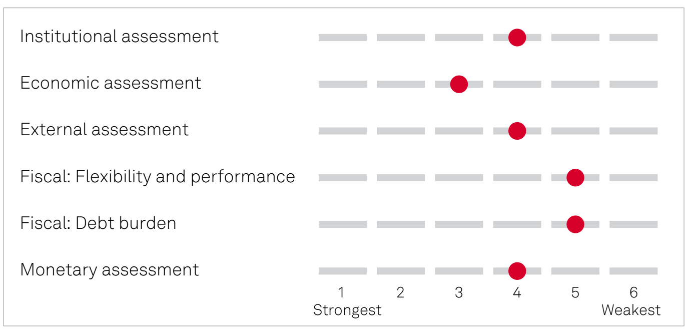
Ratings Score Snapshot



Sovereign credit rating

Foreign currency
BB/Stable/B

Local currency
BB/Stable/B

Credit Highlights

Overview

Institutional and economic profile	**Flexibility and performance profile**
The administration in office after the 2024 elections will face a long-standing challenge: passing structural reforms.	Budgetary rigidities highlight the need for fiscal reform, while the country remains vulnerable to external shocks.
--Economic growth slowed during 2023 because of subdued public investment and tight monetary policy, although we expect the country will return to its long-term growth trend on the back of its tourism sector.	--Robust tourism receipts and lower imports are narrowing current account deficits, although the country remains vulnerable to commodity price shocks since its energy matrix relies heavily on hydrocarbons.
--We expect policy continuity following the presidential election in May 2024 due to the country's broad consensus on macroeconomic policy and limited polarization between parties.	--The government has been able to keep its fiscal deficits relatively moderate and its debt level stable through relatively low execution of public infrastructure.
--The country has struggled to pass long-delayed, much-needed structural reforms, and the administration that is in office following the 2024 elections will face the test of doing so while navigating other social and political challenges.	--The central bank's tight monetary policy stance throughout 2023 led to a reduction in inflation to 4% annually, allowing for gradual monetary policy normalization more recently.

We expect overall policy continuity following the presidential and legislative elections in May 2024. Given the general consensus on macroeconomic policy and limited polarization across party lines, we expect the Dominican Republic to maintain its pro-business, market-friendly policies.

The administration in charge after the elections will confront the challenge of passing long-delayed structural reforms. Budgetary rigidities and a high interest burden are weighing on the government's fiscal flexibility; an inability or unwillingness to advance corrective policy measures could lead to structurally weaker fiscal and debt profiles.

Macroeconomic stability will continue to be the foundation of the Dominican Republic's creditworthiness. Despite a temporary economic slowdown, we project that the country's dynamic economy will return to its robust long-term economic growth rate, which would help stabilize its debt level and mitigate external vulnerabilities.

Outlook

The stable outlook reflects our expectation of continued favorable long-term GDP growth and policy continuity over the next 12-18 months amid the run-up to and aftermath of the presidential election in May 2024, along with a steady government debt burden and moderate fiscal results.

Downside scenario

We could lower the ratings over the next 12-18 months if economic growth loses momentum for structural reasons, potentially resulting in higher fiscal deficits and a worsening external profile. We could also lower the ratings if the current challenges in passing reforms translate into substantially higher fiscal deficits and debt.

Upside scenario

We could raise the ratings over the next 12-18 months if the Dominican Republic demonstrates a capacity to pass and implement reforms that improve its fiscal and debt planning, leading to lower government deficits.

Rationale

Institutional and economic profile: Policy continuity following the 2024 presidential election should allow for a quick return to the Dominican Republic's fast pace of economic growth

While the Dominican Republic's dynamic economy continues to be one of its main credit strengths, the country saw temporarily lower growth in 2023. The construction and manufacturing sectors slowed because of cuts to public investment and the central bank's tight monetary policy stance. As a result, we estimate that real GDP growth was 2% in 2023.

However, we expect that growth will quickly return to its long-term pace of about 5%, mainly backed by solid tourism prospects. International tourist arrivals reached a record-high 10 million passengers in 2023, with strong performance in the cruise sector. Effective coordination between the public and private sectors allows for strategic developments in the tourism sector, while new destinations within the country gain traction. As a result, we estimate GDP per capita will average US$11,800 over the next three years, nearly double the US$6,400 GDP per capita a decade ago.

Despite strong economic performance over the years, the country's social and educational indicators remain relatively weak. Poverty has been consistently declining over the past decade, but 20% of the population remains below the poverty line, while labor informality remains high, with about 60% of workers having an informal job.

We expect broad policy continuity following the May 2024 presidential election. Current President Luis Abinader enjoys high approval ratings and is running for reelection. On the other hand, the three main opposition parties have presented joint candidates for municipal and legislative elections. At this time, the leading opposition presidential candidates are former President Leonel Fernandez and Mayor Abel Martinez of the city of Santiago. It remains to be seen whether the opposition alliance will be unified enough to back a single presidential candidate in a potential run-off.

Having said that, our assessment is that there are limited policy differences across the country's relatively narrow political spectrum, and this provides some visibility on its economic policies, which are mostly pro-business and market-friendly, through the political cycle. Furthermore, the country has gradually strengthened its public institutions in past years. This in turn is reflected in its capacity to maintain high rates of economic growth and improve its fiscal planning and debt management.

However, different governments in the Dominican Republic have consistently faced challenges in passing and implementing structural reforms--such as modifications to the tax system, the electricity sector, pensions, or the labor system. The current government has been able to pass some complementary measures, but it remains to be seen whether more profound reforms will be approved and implemented after the presidential and legislative elections in May 2024. This will depend not only on the political landscape after the elections, but also on the administration’s willingness to tackle these long-standing issues.

Flexibility and performance profile: Fiscal deficits should remain moderate amid relatively low execution of public works while the Dominican Republic remains vulnerable to external shocks

Higher tourism receipts and lower imports as a result of the country’s economic slowdown have narrowed the country's current account deficits and contained exchange rate pressures. However, we expect the country to remain vulnerable to external shocks, such as swings in hydrocarbon prices. We expect current account deficits to narrow to approximately 3% of GDP over the next three years from 5.6% in 2022. External outflows will be entirely financed by foreign direct investment (FDI), projected to be 3% of GDP in 2023-2026.

Private-sector external debt issuance has fallen amid higher global interest rates while the government continues to take advantage of windows of opportunity to issue external bonds, as it did in February and September 2023. As a result, we project that narrow net external debt will decrease toward 63% of current account receipts in 2023-2026 from a peak of 114% in 2020.

Nonetheless, the Dominican Republic remains exposed to sudden changes in FDI flows since net external liabilities, which include the high inward stock of FDI, account for about 157% of current account receipts. External liquidity remains relatively strong as central bank foreign-exchange reserves currently exceed 13% of GDP. As a result, we expect that the country's gross external financing needs will remain at about 87% of current account receipts plus usable reserves in 2023-2026.

On the fiscal front, the government has been able to stabilize its moderate fiscal deficits mainly through relatively low execution of capital expenditures. We project that the general government deficit will slightly decrease to 3.7% of GDP, on average, over the next three years--with a change in net general government debt of approximately 4.7% of GDP over the same period--as a result of exchange-rate depreciation. (Our definition of the general government's fiscal balance includes the central government and the central bank quasi-fiscal deficit, which accounts for approximately 1% of GDP annually.)

We don't project a substantial increase in government revenue (currently equal to 15% of GDP) since we assume there will be no tax reform at least until after the administration that is in office following the 2024 elections announces its medium-term fiscal plans. Even if reforms were to be announced right after the election, most measures likely wouldn't be binding until 2025.

We expect the government to continue financing its fiscal deficits largely through external borrowings, mainly in international capital markets, but also in the local debt market and with official creditors. We expect the sovereign's net debt to stabilize at about 55% of GDP over the next three years, down from a peak of 65% in 2020. Despite some deepening in recent years, shallow domestic markets limit the government's capacity to raise debt internally, making it more vulnerable to currency depreciation as its debt in foreign currency is about 68% of total debt. Our measure of the net debt stock includes central bank certificates (approximately 14% of GDP) and excludes the bonds that the central government issued to capitalize the central bank (3% of GDP) following the 2003-2004 bailout for the country's banking sector.

In our opinion, the government's fiscal flexibility is somewhat limited. Higher-for-longer interest rates globally will continue to strain interest payments, which we expect will account for about 19% of general government revenue over the next three years.

On top of that, the government is committed to spending 4% of GDP on education, and it consistently provides subsidies to the electricity sector that are equal to approximately 1.3% of GDP and are subject to global hydrocarbon prices. This budgetary rigidity has led the government to maintain moderate deficits by cutting capital expenditures. This highlights the long-standing need for fiscal measures to improve the efficiency of expenditures, broaden the tax base, and reduce tax exemptions.

On the other hand, the government will feel less pressure from inflation, as the country’s tight monetary policy stance has quickly reduced inflation to about 4% annually. The central bank is now normalizing its monetary policy and has already started gradually lowering its monetary policy rate. In our opinion, the clear messaging from the central bank on curbing inflation will help anchor inflation expectations, keeping inflation within the central bank’s target (4%, plus or minus 1%).

The central bank's quasi-fiscal losses, a low level of domestic credit (about 30% of GDP), and the shallow domestic debt and capital markets constrain the effectiveness of monetary policy. An ongoing negotiation between the finance ministry and the central bank could allow for a gradual recapitalization of the bank, easing the central government's interest burden and strengthening its policy tools.

We think the banking sector's contingent liabilities are limited given its relatively small size, estimated to be approximately 55% of GDP. The financial sector is concentrated in a few large banks, which we consider to be systemically large and which have strong capital and liquidity ratios. Since the banking crisis in 2003, the central bank has improved regulation and financial sector oversight.

Dominican Republic--Selected Indicators

	2017	2018	2019	2020	2021	2022	2023bc	2024bc	2025bc	2026bc
Economic indicators (%)										
Nominal GDP (bil. DOP)	3,802.7	4,235.9	4,562.2	4,456.7	5,392.7	6,260.6	6,692.3	7,308.0	7,980.3	8,714.5
Nominal GDP (bil. $)	80.0	85.6	88.9	78.8	94.2	112.5	119.3	125.7	132.0	138.6
GDP per capita (000s $)	7.9	8.3	8.6	7.6	9.0	10.6	11.1	11.6	12.1	12.6
Real GDP growth	4.7	7.0	5.1	(6.7)	12.3	4.9	2.0	5.0	5.0	5.0
Real GDP per capita growth	3.7	6.0	4.1	(7.5)	11.3	4.0	1.2	4.2	4.2	4.2

Dominican Republic--Selected Indicators

Real investment growth	(0.3)	13.3	8.1	(12.1)	22.1	4.0	2.0	5.0	5.0	5.0
Investment/GDP	22.5	25.8	26.0	25.4	31.4	33.3	33.2	33.2	33.2	33.2
Savings/GDP	22.3	24.3	24.7	23.7	28.5	27.7	30.1	30.1	30.3	30.1
Exports/GDP	23.7	23.6	23.1	18.3	21.8	22.1	21.6	21.6	21.6	21.6
Real exports growth	4.9	6.1	1.5	(30.3)	36.2	13.7	1.0	5.0	5.0	5.0
Unemployment rate	12.7	11.2	10.8	15.0	14.3	12.2	12.0	11.0	11.0	11.0
External indicators (%)										
Current account balance/GDP	(0.2)	(1.5)	(1.3)	(1.7)	(2.9)	(5.6)	(3.1)	(3.1)	(2.9)	(3.1)
Current account balance/CARs	(0.5)	(4.7)	(4.1)	(5.5)	(8.3)	(17.1)	(9.6)	(9.6)	(9.0)	(9.6)
CARs/GDP	32.7	32.7	32.7	30.9	34.5	32.9	32.5	32.4	32.4	32.4
Trade balance/GDP	(9.5)	(11.2)	(10.2)	(8.6)	(12.5)	(15.1)	(13.2)	(13.1)	(12.7)	(12.6)
Net FDI/GDP	4.5	3.0	3.4	3.3	3.4	3.6	3.0	3.0	3.0	3.0
Net portfolio equity inflow/GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross external financing needs/CARs plus usable reserves	88.4	91.0	89.9	89.5	87.7	93.6	85.5	85.5	86.7	88.6
Narrow net external debt/CARs	83.9	78.7	85.2	114.2	84.4	70.5	67.7	64.6	61.2	58.7
Narrow net external debt/CAPs	83.4	75.2	81.9	108.3	78.0	60.2	61.8	58.9	56.2	53.5
Net external liabilities/CARs	197.4	187.9	194.0	244.5	187.7	169.1	171.1	172.1	172.9	174.3
Net external liabilities/CAPs	196.4	179.5	186.4	231.8	173.4	144.4	156.2	157.0	158.6	159.1
Short-term external debt by remaining maturity/CARs	4.1	4.0	4.8	10.4	3.2	3.9	2.6	3.1	5.9	8.9
Usable reserves/CAPs (months)	2.2	2.2	2.4	3.3	3.0	3.0	3.4	3.5	3.6	3.7
Usable reserves (Mil. $)	5,460.1	6,155.7	7,155.1	8,770.1	10,800.5	12,076.0	12,973.8	13,919.9	15,134.0	16,177.1
Fiscal indicators (general government %)										
Balance/GDP	(4.2)	(3.6)	(3.4)	(9.3)	(3.5)	(3.8)	(4.0)	(3.8)	(3.6)	(3.4)
Change in net debt/GDP	5.8	5.4	6.6	15.1	3.1	4.9	4.3	5.0	4.8	4.6
Primary balance/GDP	(1.7)	(1.0)	(0.7)	(6.1)	(0.4)	(0.9)	(1.1)	(0.9)	(0.7)	(0.5)
Revenue/GDP	14.0	14.2	14.4	14.2	15.6	15.3	15.0	15.0	15.0	15.0
Expenditures/GDP	18.2	17.7	17.8	23.5	19.1	19.0	19.0	18.7	18.5	18.3
Interest/revenues	18.2	18.3	19.1	22.9	20.0	18.7	19.5	19.3	19.3	19.2
Debt/GDP	46.7	48.1	51.6	70.8	62.0	58.5	59.1	59.1	58.9	58.5
Debt/revenues	333.1	339.8	358.7	498.8	397.6	383.2	394.6	394.6	393.3	390.8
Net debt/GDP	45.3	46.1	49.4	65.7	57.4	54.3	55.1	55.4	55.5	55.4
Liquid assets/GDP	1.3	2.0	2.2	5.1	4.7	4.2	4.0	3.6	3.3	3.0
Monetary indicators (%)										
CPI growth	3.3	3.6	1.8	3.8	8.2	8.8	4.8	4.0	4.0	4.0
GDP deflator growth	4.2	4.1	2.5	4.7	7.8	10.7	4.8	4.0	4.0	4.0
Exchange rate, year-end (DOP/$)	48.3	50.3	53.0	58.3	57.6	56.4	57.0	59.3	61.7	64.1
Banks' claims on resident non-gov't sector growth	8.5	11.3	10.7	2.8	12.3	16.5	15.9	9.2	9.2	9.2
Banks' claims on resident non-gov't sector/GDP	27.9	27.9	28.6	30.1	28.0	28.1	30.4	30.4	30.4	30.4
Foreign currency share of claims by banks on residents	21.5	22.4	21.7	17.7	18.6	20.2	19.74	19.74	19.74	19.74
Foreign currency share of residents' bank deposits	24.2	25.7	25.3	29.2	27.5	26.4	26.42	26.42	26.42	26.42
Real effective exchange rate growth	(3.1)	(3.3)	(1.2)	(6.7)	0.2	9.2	0	0	0	0

Sources: Central Bank of Dominican Republic (economic indicators, external indicators), Ministry of Finance and Central Bank of Dominican Republic (fiscal indicators), and International Monetary Fund (monetary indicators).

Adjustments: Our GG debt data includes debt issued by the central bank and excludes recapitalization bonds issued by the Ministry of Finance. Our fiscal data includes the quasi-fiscal deficit from the central bank

Dominican Republic--Selected Indicators

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. DOP--Dominican peso. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Rating Component Scores

Key rating factors	Score	Explanation
Institutional assessment	4	Somewhat predictable policies allow for balanced economic growth despite our view that policy choices may weaken support for sustainable public finances. A narrow political spectrum and limited polarization between parties allow for some visibility on economic policies.
Economic assessment	3	Based on GDP per capita and growth trends, per selected indicators in table 1.
		Weighted average real GDP per capita trend growth over a 10-year period is above those of sovereigns in the same GDP category.
External assessment	4	Based on narrow net external debt and the ratio of gross external financing needs to current account receipts plus usable reserves, per selected indicators in table 1.
		There is a risk of marked deterioration in the cost of or access to external financing, given that net external liabilities are significantly higher than narrow net external debt. The net external liability position is worse than the narrow net external debt position by over 100% of current account receipts, per selected indicators in table 1.
Fiscal assessment: flexibility and performance	5	Based on the change in net general government debt (% of GDP), per selected indicators in table 1.
Fiscal assessment: debt burden	5	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue), per selected indicators in table 1.
		Over 50% of gross government debt is denominated in foreign currency.
Monetary assessment	4	The exchange rate regime is a managed float, with the central bank intervening intermittently in foreign exchange markets.
		The central bank has a short track record of operational independence and uses market-based monetary instruments, such as open market operations. CPI as per selected indicators in table 1. The central bank has the ability to act as a lender of last resort for the financial system.
Indicative rating	bb	
Notches of supplemental adjustments and flexibility	0	
Final rating		
Foreign currency	BB	
Notches of uplift	0	Default risks do not apply differently to foreign-currency and local-currency debt.
Local currency	BB	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Risk Indicators, Dec. 11, 2023. An interactive version is available at www.spratings.com/sri
- Sovereign Ratings History, Dec. 7, 2023
- Dominican Republic's Bond Equivalent To $1.25 Billion Rated 'BB', Sept. 13, 2023
- Default, Transition, and Recovery: 2022 Annual Global Sovereign Default And Rating Transition Study, April 28, 2023
- Sovereign Debt 2023: Commercial Borrowing In The Americas Stabilizing At Higher Levels Than Pre-Pandemic Years, March 9, 2023
- Dominican Republic's Bonds Equivalent To US$1.8 Billion Rated 'BB', Feb. 1, 2023
- Research Update: Dominican Republic Long-Term Ratings Raised To 'BB' From 'BB-' On Stronger Institutions; Outlook Stable, Dec. 19, 2022

Ratings Detail (as of January 04, 2024)*

Dominican Republic	
Sovereign Credit Rating	BB/Stable/B
Transfer & Convertibility Assessment	BBB-
Senior Unsecured	BB
Sovereign Credit Ratings History	
19-Dec-2022	BB/Stable/B
02-Dec-2021	BB-/Stable/B
16-Apr-2020	BB-/Negative/B

Ratings Detail (as of January 04, 2024)*

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.