

Fitch Affirms Dominican Republic at 'BB-'; Outlook Positive

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Fitch Ratings has affirmed Dominican Republic's Long-Term Foreign-Currency Issuer Default Rating (IDR) at 'BB-' with a Positive Outlook.

A full list of rating actions is at the end of this rating action commentary.

Key Rating Drivers

Ratings Affirmed: The Dominican Republic's ratings are supported by a track record of robust economic growth, a diversified export structure, high per-capita GDP and social indicators that compare favorably to peers. They are constrained by a weak revenue base, budgetary rigidities including a high interest burden and subsidization of a loss-making electricity sector, heavy sovereign reliance on external bond market financing, and lingering weaknesses in the policy framework related to a large central-bank quasi-fiscal deficit and relatively modest external liquidity buffers in the context of a heavily managed exchange-rate.

The Positive Outlook reflects our expectation that the economy can return to strong growth after a recent slowdown, and the potential for the Dominican Republic to stabilize government debt/GDP over the medium term through disciplined fiscal policy supported by institutional improvements and possible expansion of the revenue base.

Wider Deficit Despite Fiscal Rule Compliance: The revised 2025 budget envisions a wider fiscal deficit of 3.5% of GDP, compared to 3.1% in 2024, due to higher capital spending in the face of an economic slowdown. Total revenue growth through August was modest at 1.5%, though this was largely anticipated given the loss of last year's one-off revenues from the Aerodom airport concession (0.8% of GDP). Primary spending growth is on track to be below a 3% cap (in real terms) set by the new fiscal rule despite the budget reformulation. Meeting the originally budgeted 3% of GDP deficit this year would have required a significant overcompliance with the fiscal rule.

Gradual Fiscal Consolidation in 2026: The 2026 budget targets a deficit of 3.2% of GDP (slightly below Fitch's 3.4% forecast), driven by spending restraint far greater than required to comply with the fiscal rule (-0.6% real primary spending growth versus the 3% permitted). It remains to be seen if the new fiscal rule will help serve as an anchor for

fiscal consolidation over the medium-term, as so far compliance with the spending cap has allowed for wider deficits.

Renewed government efforts to raise additional revenues, after the withdrawal of last year's reform, would help address weak fiscal metrics. Even though most of the yield of any such revenue efforts is likely to be spent, it would help to improve Dominican Republic's high interest-to-revenue ratio (forecast to reach 22.5% in 2025, the highest in the 'BB' category and compare to a 'BB' median of 9.6%) and provide scope to tackle infrastructure and social needs.

2025 Financing Needs Met in External Market: The government returned to international markets for a second time this year in October, issuing USD1.6 billion, with a 5.75% coupon and a historically low spread. Most financing needs were met this year in the external market, with only one auction in the local market in July (for DOP20 billion). The foreign currency share of debt is expected to rise slightly this year to 68%, from 67% in 2024, compared to the 'BB' median of 55%. In light of the wider deficit and second issuance this year, and the weakening exchange rate, we forecast government debt to rise to 50.7% of GDP this year from 47.7% in 2024, and to 51.6% by 2027.

Cyclical Slowdown, Stimulus Measures: We forecast growth to slow to 2.5% in 2025, down from last year's 5%, which was in line with the Dominican Republic's historically strong average growth rate. Sustained high lending rates, despite lower central bank policy rates, and external and domestic uncertainty weighed on the economy this year. The government has announced fiscal and monetary stimulus measures to address the economic slowdown, similar to those taken in 2023, including central bank liquidity injections, of DOP81 billion (1% of GDP). We expect growth to recover to 4% in 2026 and 4.5% in 2027, as a result of stimulus measures and falling interest rates.

Stable Inflation, FX Movements: Inflation has been low and stable, averaging 3.6% through September, below the 4% midpoint of the central bank's target range. The central bank (BCRD) began its third cycle of rate cuts in October, cutting the policy rate by a cumulative 50bps to 5.25% in October and November, following renewed Fed rate cuts. The exchange rate has experienced greater volatility this year and depreciated despite a favourable external position, reflecting strong FX demand. The BCRD relied heavily on FX intervention to limit depreciation pressures last year, but this year has relied more on macroprudential measures, such as those introduced in March to limit foreign currency loan exposure for entities not generating FX. However, the impact of such measures has largely since reversed.

Robust External Inflows, Lower CAD: External inflows have been robust, with tourism, remittances, exports and FDI all up year to date. We forecast the current account deficit to narrow to 2.4% of GDP in 2025, from 3.4% last year. Tourism growth has slowed but it still up 3% through September, and tourist arrivals are at record highs. Exports are up 10% yoy in 1H25 despite global trade uncertainty, and remittances rose 11% through September given uncertainty over trade and immigration policies in the US. We expect FDI flows to more than finance the current account deficit this year (CAD + FDI of 1.1% of GDP).

External Issuance Boosts Reserves: International reserves rose to USD14.6 billion in October, following the issuance of USD1.6bn in government bonds. Prior to the issuance, reserve levels were broadly in line with end-2024. Heavy BCRD FX intervention last year led to a 20% fall in reserves, but lower intervention in 2025 and greater sovereign borrowing should support an increase this year. We expect reserves to cover 3.6 months of current external payments in 2025, roughly in line with 3.5 months in 2024.

ESG-Governance: Dominican Republic has ESG Relevance Scores (RS) of '5'[+] for Political Stability and Rights and for the Rule of Law, Institutional and Regulatory Quality, and Control of Corruption. These scores reflect the high weight that the World Governance Indicator (WGI) have in our proprietary Sovereign Rating Model (SRM).

Dominican Republic has a medium WGI ranking at the 51.9 percentile, reflecting a recent track record of peaceful political transitions, a moderate level of rights for participation in the political process, moderate institutional capacity and rule of law and a fairly high degree of corruption.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Public Finances: Reduced confidence that debt to GDP will stabilize over the medium-term, for example, through the significant loosening of fiscal policy, sustained low growth, or higher financial losses of the public electric utilities;

--Macro: Reduced confidence in the ability of the economy to maintain relatively strong growth rates;

--External Finances: Sharp deterioration of the external liquidity position that increases external vulnerability

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Macro: A recovery in economic growth to higher levels in the context of broad macroeconomic stability.

--Public finances/Structural: Confidence in the authorities' ability to maintain moderate fiscal deficits and/or efforts to improve the revenue base.

Sovereign Rating Model (SRM) and Qualitative Overlay (QO)

Fitch's proprietary SRM assigns Dominican Republic a score equivalent to a rating of 'BB+' on the Long-Term Foreign-Currency IDR scale.

Fitch's sovereign rating committee adjusted the output from the SRM to arrive at the final Long-Term Foreign Currency IDR by applying its Qualitative Overlay (QO), relative to SRM data and output, as follows:

--Structural: -1 notch to reflect a potential inconsistency between improvements in governance indicators and the government's ability to enact key policy measures.

--Public Finances: -1 notch to reflect structural fiscal vulnerabilities stemming from a relatively low tax take, budgetary rigidity and vulnerability posed by a heavily-subsidized electricity sector, and contingent liabilities related to the large market debt and sizeable quasi-fiscal deficit of the central bank.

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Debt Instruments: Key Rating Drivers

Senior Unsecured Debt Equalised: The senior unsecured long-term debt ratings are equalised with the applicable long-term IDR, as Fitch assumes recoveries will be 'average' when the sovereign's long-term IDRs is 'BB-' and above. No Recovery Ratings are assigned at this rating level.

Country Ceiling

The Country Ceiling for the Dominican Republic is in line with the Long-Term Foreign Currency IDR. This reflects no material constraints and incentives, relative to the IDR, against capital or exchange controls being imposed that would prevent or significantly impede the private sector from converting local currency into foreign currency and transferring the proceeds to non-resident creditors to service debt payments.

Fitch's Country Ceiling Model produced a starting point uplift of +1 notch above the IDR. Fitch's rating committee applied an offsetting -1 notch qualitative adjustment to this, under the Macro-Financial Stability Risks and Exchange Rate pillar. Membership in the CAFTA-DR trade agreement puts some limits on incentives for the use of transfer-and-convertibility restrictions, but this is balanced by a managed exchange-rate regime and fairly low international financial integration.

Climate Vulnerability Signals

The results of our Climate.VS screener did not indicate an elevated risk for Dominican Republic.

ESG Considerations

Dominican Republic has an ESG Relevance Score of '5[+]' for Political Stability and Rights as the WGs have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and a key rating driver with a high weight. As Dominican Republic has a percentile rank above 50 for the respective Governance Indicator, this has a positive impact on the credit profile.





Dominican Republic has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as the WGs have the highest weight in Fitch's SRM and are therefore highly relevant to the rating and are a key rating driver with a high weight. As Dominican Republic has a percentile rank above 50 for the respective WGs, this has a positive impact on the credit profile.

Dominican Republic has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WGs is relevant to the rating and a rating driver. As Dominican Republic has a percentile rank above 50 for the respective WGI, this has a positive impact on the credit profile.

Dominican Republic has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Dominican Republic, as for all sovereigns. As Dominican Republic has track record of 20+ years without a restructuring of public debt as captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

RATING ACTIONS

ENTITY	RATING			PRIOR
Dominican Republic	LT IDR	BB- 	Affirmed	BB- 
	ST IDR	B	Affirmed	B
	LC LT IDR	BB- 	Affirmed	BB- 
	LC ST IDR	B	Affirmed	B
	Country Ceiling	BB-	Affirmed	BB-
senior unsecured	LT	BB-	Affirmed	BB-

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Applicable Criteria

Country Ceiling Criteria (pub.24-Jul-2023)

Sovereign Rating Criteria (pub.15-Sep-2025)(includes rating assumption sensitivity)

Applicable Models

Country Ceiling Model, v2.0.3 (1)

Debt Dynamics Model, v1.3.2 (1)

Macro-Prudential Indicator Model, v1.5.0 (1)

Sovereign Climate Risk Model, v1.0.0 (1)

Sovereign Rating Model, v3.14.4 (1)

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