Dominican Republic

Full Rating Report

Ratings

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

Outlooks

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

Financial Data

Dominican Republic

(USDbn)	2014
GDP	64.4
GDP per head (USD 000)	6.1
Population (m)	10.6
International reserves	4.8
Net external debt (% GDP)	22.7
Central government total debt (% GDP)	39
CG foreign-currency debt	18.3
CG domestically issued debt (DOPbn)	368.9

Related Research

Global Economic Outlook (September 2014)
Latin America Sovereign Credit Review (September 2014)
2014 Latin American Government Financing Needs (February 2014)
Dominican Republic (December 2013)
Fiscal Rigidity: The Achilles Heel of LatAm Sovereigns (June 2013)

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Key Rating Drivers

Robust Growth, Diversified Economy: The Dominican Republic has demonstrated resilience through adverse domestic and external conditions. A diversified service-based economic structure and competitive business climate support medium-term growth and investment prospects. Fitch Ratings forecasts GDP growth of 6.2% in 2014 and 5% in 2015-2016, faster than the 'B' median five-year average of 4%. The country is well positioned to benefit from the recovery in the US, its main source market for remittances, exports and tourist arrivals.

Reduced External Vulnerabilities: Gold production and resilient tourism flows are expanding the country's export base. This, combined with the decline in the fuel import bill, should reduce the current account deficit (CAD) to an average of 3.3% of GDP in 2014-2016, compared with the average 6.8% in 2007-2012. A lower CAD fully financed by foreign direct investment (FDI) and debt disbursements will allow the central bank to meet its reserves target coverage threshold of three months of imports for the second consecutive year in 2014.

Fiscal Consolidation on Track: The authorities reduced the budget deficit to 2.8% of GDP in 2013-2014 from 6.7% in 2012, while honouring the legal mandate to allocate 4% of GDP to education spending. Signalling policy continuity, the 2015 budget calls for a reduction in the deficit to 2.4% and a primary surplus of 0.5%, the first surplus since 2007. The main downside risk to the fiscal outlook is a failure to contain spending in the run-up to the May 2016 elections.

Stable Inflation Outlook: Fitch expects inflation to fall to 3.4% in 2014 and hover around the mid-point of the 3%-5% target band in 2015-2016. The central bank has room to tighten policy rates in the event of external shocks given the pace of economic activity. Large quasi-fiscal losses at the central bank and active foreign exchange intervention constrain monetary policy.

Debt Build-Up Continues: Fitch forecasts that public debt will only stabilise at 41% of GDP by 2018, but is likely to stay below the 'B' median of 45% even if the government funds the construction of two coal-fired power generation plants through external borrowing in 2015-2016. Public debt is sensitive to devaluations, as 73% of it is foreign-currency denominated.

Sufficient Financing Flexibility: The Dominican Republic has placed USD4.5bn since its return to global markets in 2010 and plans to raise USD1.5bn in 2015. High levels of non-resident participation in the local bond market and preferential loans from Petrocaribe expose the sovereign to tighter global financing conditions and economic developments in Venezuela.

Structural Credit Strengths: The Dominican Republic has higher per capita income, social development and governance indicators than peers. The banking sector benefits from adequate capitalisation, liquidity and credit quality. High public-sector participation in the banking system increases the risks of contingent liabilities to the government.

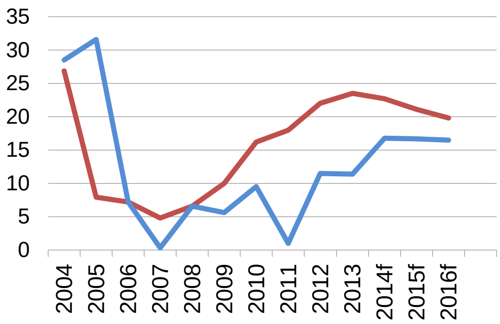
Rating Sensitivities

Higher Reserves, Stabilising Debt: The ratings could be positively affected by sustained improvements in external liquidity and solvency ratios; continued fiscal consolidation resulting in stabilising government debt ratios; and progress on reforms to address fiscal rigidities, electricity sector deficits and monetary policy constraints.

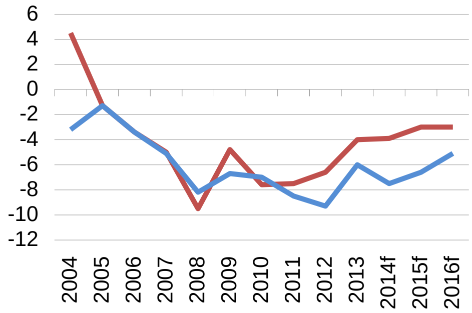
Fiscal Slippage, Financing Constraints: The ratings could be negatively affected by fiscal slippage and lower growth leading to a material increase in public debt; erosion of foreign reserves and increased macroeconomic instability; and emergence of financing constraints.

Peer Comparison

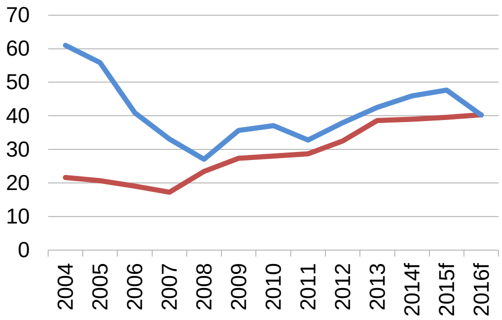
Net External Debt
% of GDP



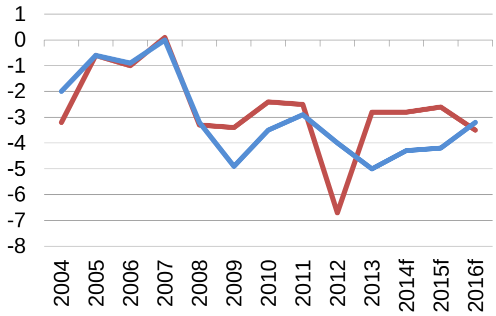
Current Account Balance
% of GDP



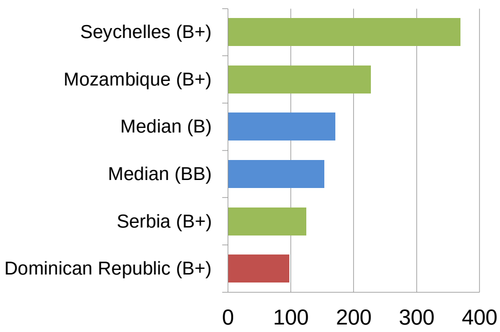
General Government Debt
% of GDP



General Government Balance
% of GDP

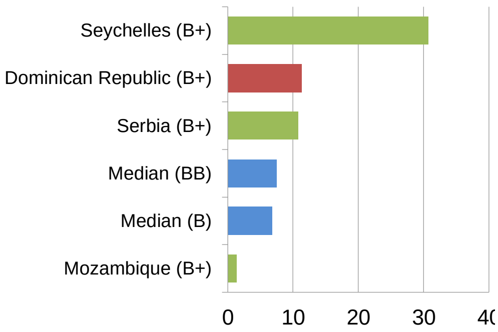


International Liquidity Ratio, 2015
%



GDP per capita Income, 2014e

At market exchange rates, USA=100



Dominican Republic — Medians

Related Criteria

Sovereign Rating Criteria (August 2014)
Country Ceilings (August 2014)

Peer Group

Rating	Country
BB−	Angola
	Armenia
	Bangladesh
	Bolivia
	El Salvador
	Gabon
	Georgia
	Lesotho
	Nigeria
	Paraguay
	Sri Lanka
	Suriname
	Tunisia
	Vietnam
B+	**Dominican Republic**
	Republic of Congo
	Kenya
	Mongolia
	Mozambique
	Rwanda
	Serbia
	Seychelles
B	Cabo Verde
	Cameroon
	Cote d'Ivoire
	Ecuador
	Ethiopia
	Ghana
	Greece (Hellenic Republic)
	Lebanon
	Uganda
	Venezuela
	Zambia

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
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	Neutral	Weakness	Strength
Trend	Stable	Stable	Positive	Stable

Note: Relative to ‘B’ category/sovereigns rated ‘B+’, ‘B’ and ‘B−’
Source: Fitch

Strengths

- The Dominican Republic’s increasingly diversified, service-based economy has a track record of dynamism and resilience. The country’s five-year average growth has been higher than the ‘B’ median, even during adverse external and domestic conditions.
- The Dominican Republic is richer than its peers, with higher GDP per capita and social development indicators. President Danilo Medina’s strong popular support and legislative majority could favour the adoption of additional fiscal consolidation measures.
- Gross and net government debt ratios as a percentage of GDP are lower than peers. Amortisation payments are manageable, mitigating interest rate and refinancing risks.
- Monetary authorities have kept inflation in single digits and maintained exchange-rate stability despite external market volatility and fiscal pressures. The banking sector benefits from adequate capitalisation, liquidity and credit quality. However, high public sector participation in the banking system increases the risks of contingent liabilities.
- A competitive business environment relative to similarly-rated and regional peers supports FDI and economic growth prospects.

Weaknesses

- The Dominican Republic is one of the few sovereigns in the ‘B’ category with a liquidity ratio lower than 100%. Reserves covered only 2.2 months of current external payments in 2014. This renders the economy vulnerable to external shocks and currency pressures.
- The Dominican Republic’s net external debtor position and external debt servicing ratios are weaker than the ‘B’ medians, increasing the importance of maintaining multilateral support and investor confidence.
- A narrow tax base and spending rigidities, chiefly energy subsidies, recapitalisation transfers to the central bank and government payroll, limit fiscal consolidation. Election spending has affected fiscal policy predictability and led to higher public debt.
- Debt and interest payments as a percentage of fiscal revenue significantly exceed the ‘B’ medians. Foreign currency liabilities represent 73% of public debt, one of the largest exposures to currency risk in the ‘B’ category.

Local Currency Rating

Fitch equalises the Long-Term Local- and Foreign-Currency Issuer Default Ratings (IDRs). A narrow tax base, developing local capital markets and a volatile inflation record compared with peers prevent any upward notching differential between the Local- and Foreign-Currency IDRs.

Country Ceiling

The Dominican Republic’s Country Ceiling is one notch above the Long-Term Foreign-Currency IDR. Membership of the World Trade Organisation, the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) with the US and the Economic Partnership Agreement with the EU underpins the country’s commitment to the free flow of capital and international trade. Limited capital transfers and convertibility restrictions also support the one-notch uplift of the Country Ceiling over the Long-Term Foreign-Currency IDR.

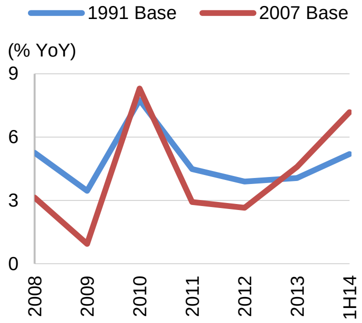
Figure 1

Strengths and Weaknesses: Comparative Analysis

2014	Dominican Republic B+	B median[a]	BB median[a]	Mozambique B+	Serbia B+	Seychelles B+
Macroeconomic performance and policies						
Real GDP (5yr average % change)	4.9	4.0	4.2	7.4	0.6	4.8
Volatility of GDP (10yr rolling SD)	3.3	2.6	2.2	0.7	3.0	4.4
Consumer prices (5yr average)	5.3	5.7	5.0	6.7	6.9	3.0
Volatility of CPI (10yr rolling SD)	2.7	3.4	2.7	4.6	4.5	13.7
Unemployment rate (%)	6.8	8.5	12.6	-	22.5	2.0
Type of exchange rate regime	Managed float	n.a.	n.a.	Free float	Managed float	Free float
Dollarisation ratio (% of bank deposits)	23.9	29.1	40.2	18.9	80.8	38.4
REER volatility (10yr rolling SD)	11.2	5.6	5.2	10.1	6.1	8.1
Structural features						
GDP per capita (USD, mkt. exchange rates)	6,104	3,928	4,363	730	5,910	16,752
GNI per capita (PPP, USD, latest)	11,150	8,810	7,890	1,040	12,020	23,270
GDP (USDbn)	64.4	n.a.	n.a.	17.5	42.3	1.6
Human development index (percentile, latest)	45.6	41.3	46.5	4.8	58.6	62.3
Governance indicator (percentile, latest)[b]	42.1	32.5	45.7	32.5	47.6	57.7
Broad money (% GDP)	35.6	42.3	49.3	48.3	48.4	53.5
Default record (year cured)[c]	2005	n.a.	n.a.	2001	2005	2010
Ease of doing business (percentile, latest)	55.9	41.0	46.3	26.6	51.1	58.0
Trade openness (CXR and CXP % GDP)	38.4	49.5	51.4	64.5	64.8	82.3
Gross domestic savings (% GDP)	17.7	13.4	19.0	21.7	8.1	16.9
Gross domestic investment (% GDP)	22.6	24.1	20.8	30.6	21.5	28.9
Private credit (% GDP)	24.5	28.8	44.4	29.7	46.6	21.4
Bank systemic risk indicators[d]	b / 1	n.a.	n.a.	- / 2	- / 1	- / 1
Bank system capital ratio (% assets)	15.4	14.8	15.0	15.1	20.4	26.9
Foreign bank ownership (% assets)	10.1	44.0	30.0	90.0	69.0	66.0
Public bank ownership (% assets)	32.8	20.2	20.0	5.0	17.1	34.0
External finances						
Current account balance + net FDI (% GDP)	-0.4	-2.3	-0.7	-7.3	-3.7	-1.8
Current account balance (% GDP)	-3.9	-7.2	-2.4	-44.4	-5.4	-17.4
Net external debt (% GDP)	22.7	16.7	15.0	43.7	105.5	-23.4
Gross external debt (% CXR)	120.7	120.2	109.9	191.1	264.9	69.9
Gross sovereign external debt (% GXD)	66.4	62.6	52.9	54.6	32.1	70.9
Sovereign net foreign assets (% GDP)	-21.8	-10.4	0.5	-22.4	-14.6	-7.3
Ext. interest service ratio (% CXR)	4.6	2.1	2.7	2.1	5.3	1.9
Ext. debt service ratio (% CXR)	15.3	9.8	8.4	5.0	36.0	3.7
Foreign exchange reserves (months of CXP)	2.2	3.3	4.2	3.0	6.8	3.8
Liquidity ratio (latest)[e]	98.1	179.7	145.1	227.2	125.1	369.5
Reserve currency flexibility	0	n.a.	n.a.	0	0	0
Commodity export dependence (% CXR, latest)	15.4	29.6	18.7	57.1	17.6	45.2
Sovereign net foreign currency debt (% GDP)	20.9	9.0	2.1	22.3	21.7	7.3
Public finances[f]						
Budget balance (% GDP)	-2.8	-4.7	-3.6	-7.5	-8.7	0.8
Primary balance (% GDP)	-0.5	-2.5	-1.2	-6.2	-5.9	4.0
Gross debt (% revenue)	259.0	188.4	166.4	140.1	188.3	183.6
Gross debt (% GDP)	39.0	45.4	39.5	45.4	74.4	59.7
Net debt (% GDP)	36.7	39.5	33.8	29.6	66.5	53.3
Foreign currency debt (% total debt)	72.7	63.4	52.1	97.2	80.5	61.1
Interest payments (% revenue)	16.9	8.5	7.3	4.0	7.1	9.8
Revenues and grants (% GDP)	15.0	26.0	25.0	32.4	39.5	32.5
Volatility of revenues/GDP ratio	8.2	7.9	6.0	12.9	3.7	4.4
Central govt. debt maturities (% GDP)	3.4	5.0	3.9	0.8	13.8	15.9

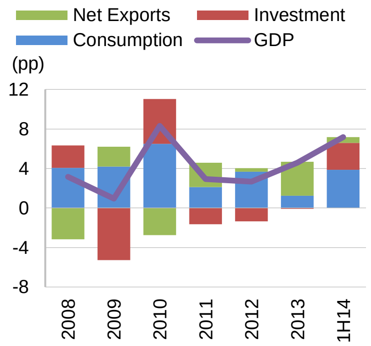
[a] Medians based on three-year centred averages
[b] Composite of six World Bank Governance Indicators used in the Sovereign Rating Model; Government Effectiveness; Rule of Law; Control of Corruption; Voice and Accountability; Regulatory Quality; and Political Stability and Absence of Violence
[c] Official rescheduling (1985, 1986, 1991, 1992); restructuring by private creditors (1983, 1986); Brady initiative (1994); Paris Club rescheduling (2004, 2005); bond restructuring (2005); restructuring by private creditors(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

Figure 2
Revised GDP Data



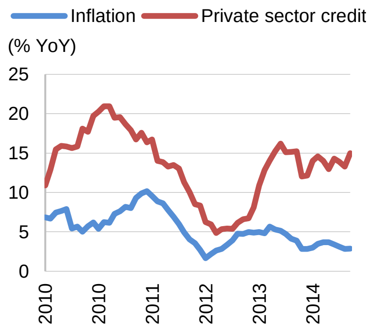
Source: Central Bank

Figure 3
GDP Growth Contributions



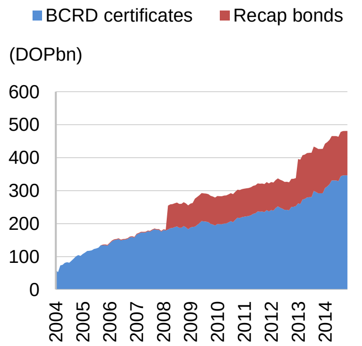
Source: Central Bank

Figure 4
Low Inflation, Credit Growth



Source: Central Bank

Figure 5
Central Bank Balance Sheet



Source: Central Bank

Key Credit Developments

Robust Economic Growth, Stable Inflation Outlook

The Dominican Republic is the largest and the second-most dynamic economy in Central America and the Caribbean, after Panama. Strong per capita income growth and a high share of services (62%) and local manufacturing (25%) in economic activity underpinned the island's resilience to various domestic and external shocks in 2008-2012. The start of Barrick Gold's large-scale mining operations in 2013 further enhanced economic diversification and contributed to mitigate near-term external and fiscal imbalances.

Growth has been robust and broad-based. New GDP data show real output expanding by 4.6% in 2013 and 7% in the first nine months of 2014, from a modest 2.7% in 2012[1]. Higher employment, growing remittances and low lending rates fuelled credit and domestic consumption. Investment benefited from increased construction activity in commercial and residential real estate and a country-wide programme to build schools in rural areas. External demand remained supportive of economic performance thanks to rising gold exports.

Fitch forecasts that growth will peak at 6.2% in 2014 and ease to 5% in 2015-2016, in line with the 'B' median and the country's estimated potential output of 4.9%. Increased competition in the banking sector and aggressive lending by the state-owned Banreservas is expected to keep private credit growing above nominal GDP in 2015-20162. The Dominican Republic is well positioned to benefit from the recovery in the US, the source market for 63% of remittances, 47% of exports, 41% of tourist arrivals and 19% of FDI in 2013. The country's business environment compares favourably with peers due to improvements in accessing credit, protecting investors and trading across borders under the DR-CAFTA agreement.

The economic expansion has not resulted in inflationary pressures. Average inflation fell to 3.3% in October 2014 from 4.8% in 2013. Lower imported food and fuel prices, slower exchange rate depreciation and a less accommodative fiscal stance have been the main drivers of the decline in consumer prices. The central bank has kept its policy rate at 6.25% since the last 200bp hike in August 2013 and has room to tighten further in the event of external shocks given the healthy pace of economic activity. In the absence of higher commodity prices or adjustments in administered prices, Fitch expects inflation to hover around the mid-point of the official target band of 3-5% in 2015-2016.

Central bank losses and active foreign exchange intervention constrain monetary policy. The government cut recapitalisation transfers by 40% for the second consecutive year in 2014[3]. As a result, the stock of central bank certificates climbed to 12.3% of GDP in October 2014 and the quasi-fiscal deficit could reach 1.4% of GDP by year-end. Despite current account deficits and high external amortisations, the Dominican peso only slipped 3% against the US dollar in January-October 2014. Reserves dropped USD263m during the same period, partly reflecting an increase in net US dollar sales. The International Monetary Fund's estimates point to a moderate misalignment of 1% in the real effective exchange rate.

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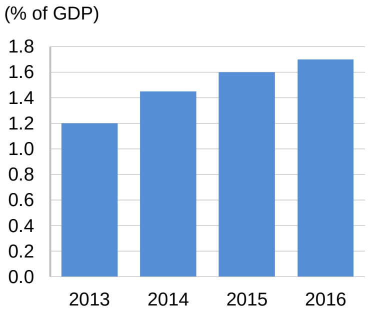
[1] New national accounts statistics rebased to 2007 will replace the old 1991-base series. Key changes include improved source data for some sectors and calculation of private consumption directly rather than as a residual. The new series show average growth of 3.8% in 2008-2013, down from 4.9% in the old series. The shares of some sectors rose considerably (construction, hotels/restaurants) at the expense of others (agriculture, local manufacturing). The domestic investment ratio increased to an average 24.6% from 15.7% in 2009-2013.

[2] Banreservas is the largest bank, with 36% of the assets in the banking system. In 2013, new management launched reforms to reduce its credit exposure to the public sector, which represents a third of all loans, mostly in US dollars. A reform to the bank's organic law could deliver greater operational autonomy, improve corporate governance, institutionalise capitalisation and dividend policies, and strengthen its role in providing finance to rural areas and small businesses.

[3] The 2007 law established a 10-year schedule of mandatory annual transfers to recapitalise the central bank. In 2013-2015, the government transferred an annual 0.7% of GDP to the central bank instead of the annual 1.2% of GDP originally stipulated in the law.

Figure 6

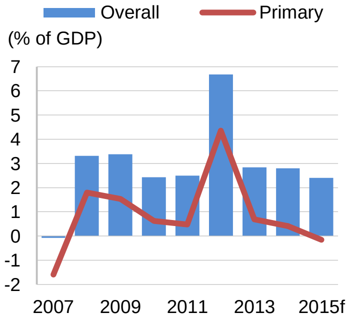
Marginal Tax Reform Yield



Source: Ministry of finance

Figure 7

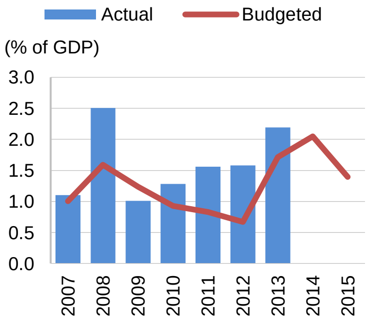
Lower Fiscal Deficits



Source: Ministry of finance and Fitch

Figure 8

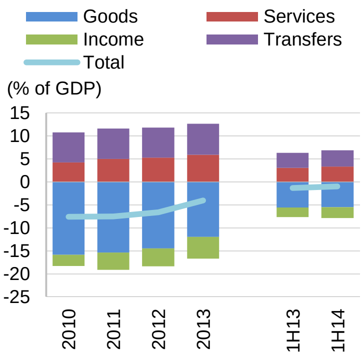
Transfers to Electricity Sector



Source: CDEEE, Ministry of finance

Figure 9

Reduced External Deficits



Source: Central Bank

Fiscal Adjustment on Track but Debt Build-Up Continues

The Medina administration delivered a fiscal adjustment in line with its original targets, bringing the government deficit down to 2.8% of GDP in 2013-2014 from the unprecedented 6.7% in the 2012 electoral year. The improvement was driven by a 3pp of GDP rollback in public investment and a tax reform that yielded 1.5% of GDP in additional income in 2013-2014. Royalties on mining production[4], capital gains levies on telecom transactions, the sale of cellular licenses and a tax amnesty generated 0.7% of GDP in extraordinary receipts in 2014.

The 2015 budget envisions a government deficit of 2.4% of GDP and a primary surplus of 0.5%, the first since 2007. To achieve further fiscal consolidation while honouring its legal mandate to invest 4% of GDP in pre-university education, the authorities will rely on stricter compliance, efficiency gains in tax administration, deferred revenue-enhancing measures from the 2012 tax package and additional cuts in capital expenditure.

Fitch forecasts that the budget deficit could moderate to 2.6% of GDP in 2015 and increase to 3.5% of GDP in the run-up to the general elections in 2016. A narrow revenue base and budget rigidities prevent a faster reduction in the fiscal deficit. Generalised exemptions (6.7% of GDP) and high labour informality (56%) are likely to keep the tax intake constant at 14% of GDP. Spending is inflexible due to legal earmarking, rising interest payments, burdensome electricity subsidies and a high public sector wage bill. Historically low public investment levels in 2014 (3.5% of GDP) narrow the scope to use this item as an adjustment variable in 2015-2016.

General government debt increased to an estimated 39% of GDP in 2014 from 32.5% in 2012 despite strong economic growth and the ongoing fiscal adjustment. Official projections suggest that the authorities will need to shift the current 0.4% of GDP primary fiscal deficit to a 1% surplus to put the public debt burden on a sustained downward trajectory. The construction of two coal-fired power generation plants[5] through USD2bn (3% of GDP) in turnkey contracts and the potential issuance of recapitalisation bonds to the central bank (4.8% of GDP outstanding) could increase non-deficit-driven borrowing requirements in 2015-2016.

Access to international and domestic capital markets provides sufficient financing flexibility. The Dominican Republic has placed USD4.5bn (7% of 2014 GDP) in global bonds since its return to the markets in 2010 and plans to raise an additional USD1.5bn in 2015. Excess liquidity in pension funds, high participation of non-resident investors and enhanced market infrastructure have improved the liquidity and absorption capacity of the local bond market. Issuance through domestic auctions is expected to increase to an annual USD911m (1.4% of GDP) and cover nearly 24% of the treasury's financing programme in 2015.

Public debt remains particularly vulnerable to exchange rate risks, with 73% of liabilities denominated in foreign currency. Interest payments have risen to 2.5% of GDP in 2014 from 1.5% in 2008, and could capture 21% of fiscal revenues by 2016, double the 'B' median. The country's debt tolerance is constrained by a narrow tax base, rapidly raising interest servicing cots, low domestic savings and the disruptive effect of electoral cycles on fiscal policy.

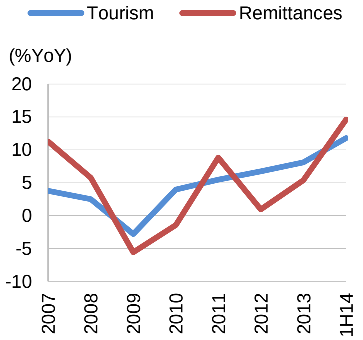
Reduced External Balance Sheet Vulnerabilities

Favourable balance of payments dynamics are improving the country's weak external liquidity. The current account deficit decreased to 4% in 2013 from 6.6% in 2012, mainly driven by a reduction in the trade deficit (12% of GDP in 2013). Gold exports by Barrick represented an

[4] An amendment to the mining lease agreement with Barrick Gold raised the government tax intake to 52% from 37% and brought forward an estimated USD1.4bn (2% of GDP) in fiscal revenue to 2013-2016. Mining royalties and taxes are expected to halve to an annual USD160m in 2017 from USD360m in 2015, as the company starts to factor in depreciation costs.

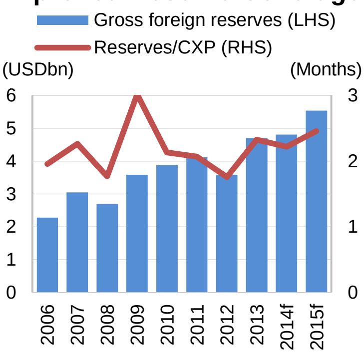
[5] The plants expect to expand power output capacity by 22% and reduce generation costs by 54%. Official estimates point to USD450m (0.7% of GDP) in annual fiscal savings after the plants are operational in 2017. Annual transfers to the electricity sector averaged 1.8% of GDP in 2011-2013.

Figure 10
Growing External Receipts



Source: Central Bank

Figure 11
Improved Reserve Coverage



Source: Central Bank and Fitch

annual boost of around 2% of GDP, with the mine expected to ramp up to full capacity in 2014[6]. Reduced capital imports due to public investment cuts and a falling fuel import bill also contributed to the narrowing of the high negative balance in the trade account.

Fitch expects the current account deficit to fall to an average 3.5% of GDP in 2014-2016 and be mostly financed by diversified FDI flows into energy, industry, commerce, tourism and real estate. Although external accounts are sensitive to swings in global demand and commodity prices, risks are well balanced. Lower oil prices (30% of imports) could help offset the impact of falling gold prices (14% of exports). Stronger US growth should continue to support tourism receipts (up 12% by 3Q14), remittances (up 11% by 3Q14) and free trade zone exports, offsetting the expected increase in profit repatriations and interest payments.

International reserves increased to USD4.4bn in October 2014 from USD3.3bn in October 2012. The accumulation of external assets will allow the central bank to meet its target coverage threshold of three months of imports for the second consecutive year in 2014. Fitch forecasts that external financing needs could fall to 79% of reserves in 2015-2016 from 107% in 2014 due to lower current account deficits and external amortisations. Continued support from official creditors and global bond placements should help bring the international liquidity ratio above 100% in 2015, although well below the ‘B’ median external cushion of 171%.

The key external risks going forward are a tightening of global financing conditions due to monetary normalisation in the US and the potential withdrawal of bilateral lending from Venezuela under the Petrocaribe agreement[7]. Non-resident participation in the domestic debt market has remained stable at about 18% through the US Fed tapering, but could decrease if interest rate differentials with the US narrow. The government expects to obtain USD650m in disbursements from Petrocaribe in 2015, representing 1% of GDP or 17% of external borrowing needs. This implies a significant financing gap that would need to be covered with alternative and more expensive sources should Venezuela decide to scale down the programme.

[6] Gold exports estimates assume that Barrick Gold sustains annual production at 1.1 million ounces and international prices average USD1250 per ounce in 2014-2016.

[7] Petrocaribe allows for purchases of oil at market value with a 30-50% upfront payment. The remaining 50-70% of the bill can be converted into a loan carrying a 1% interest and payable over 25 years with a two-year grace period. Debt with Petrocaribe reached USD4.1bn (6.3% of GDP) in September 2014, or 26% of total external debt.

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.

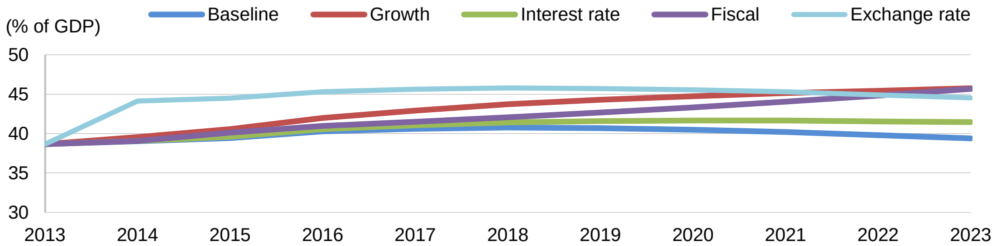
Public Debt Dynamics

Fitch forecasts that the public debt burden could remain below the 'B' median of 43% of GDP even if the sovereign funds the construction of two coal power generation plants through external borrowing in 2015-2016. The main risks to debt sustainability would be fiscal slippage, currency devaluation and growth underperformance. Lower borrowing costs and longer maturities on external debt make the projections less sensitive to interest rate shocks.

Debt Dynamics — Fitch's Baseline Assumptions

	2013	2014	2015	2016	2017	2018	2022
Gross general government debt (% GDP)	38.6	39.0	39.4	40.3	40.6	40.8	39.4
Primary balance (% of GDP)	-0.7	-0.5	0.1	-0.5	-0.3	-0.1	0.7
Real GDP growth (%)	4.6	6.2	5.0	5.0	4.1	4.1	4.1
Avg. nominal effective interest rate (%)	6.6	6.7	6.7	6.8	7.0	7.1	7.7
Local currency/USD (annual avg.)	41.8	43.5	44.6	45.7	46.8	48.0	54.3
GDP deflator (%)	3.1	3.3	4.2	4.2	4.5	4.5	4.5

Sensitivity Analysis
Gross general government debt



Source: Fitch estimates, national sources, IMF

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth 150bp lower
Interest rate	Marginal interest rate 100bp higher
Fiscal	Average primary fiscal deficit of 0.5% of GDP in 2014-2023
Exchange rate	25% devaluation at end-2014

Forecast Summary

	2010	2011	2012	2013	2014f	2015f	2016f
Macroeconomic indicators and policy							
Real GDP growth (%)	8.3	2.9	2.7	4.6	6.2	5.0	5.0
Unemployment (%)	5.0	5.6	5.9	7.0	6.8	6.5	6.5
Consumer prices (annual average % change)	6.3	8.5	3.7	4.8	3.4	4.3	4.3
Short-term interest rate (bank policy annual avg.) (%)	6.3	8.5	7.9	6.1	6.4	6.9	7.5
General government balance (% of GDP)	-2.4	-2.5	-6.7	-2.8	-2.8	-2.6	-3.5
General government debt (% of GDP)	28.0	28.7	32.5	38.6	39.0	39.5	40.3
DOP per USD (annual average)	37.31	38.23	39.34	41.81	43.54	45.28	47.21
Real effective exchange rate (2000 = 100)	100.0	100.7	100.9	98.5	96.4	94.6	92.7
Real private sector credit growth (%)	13.4	4.2	2.0	8.8	9.3	7.7	7.9
External finance							
Current account balance (% of GDP)	-7.6	-7.5	-6.6	-4.0	-3.9	-3.0	-3.0
Current account balance plus net FDI (% of GDP)	-4.5	-3.6	-1.4	-0.8	-0.4	0.4	0.4
Net external debt (% of GDP)	16.2	18.0	22.0	23.5	22.7	21.1	19.8
Net external debt (% of CXR)	48.4	53.5	65.0	65.9	62.2	57.3	53.3
Official international reserves including gold (USDbn)	3.9	4.1	3.6	4.7	4.8	5.5	6.1
Official international reserves (months of CXP cover)	2.1	2.1	1.8	2.3	2.2	2.5	2.6
External interest service (% of CXR)	3.8	4.1	4.3	5.3	4.6	4.8	4.8
Gross external financing requirement (% int. reserves)	151.1	150.4	134.2	126.7	107.1	84.7	72.3
Real GDP growth (%)							
US	2.5	1.6	2.3	2.2	2.2	3.1	3.0
China	10.4	9.3	7.7	7.7	7.2	6.8	6.5
Eurozone	2.0	1.6	-0.7	-0.5	0.9	1.3	1.5
World	4.0	3.2	2.4	2.5	2.6	3.0	3.1
Oil (USD/barrel)	79.6	111.0	112.0	108.8	105.0	100.0	95.0

Source: Fitch

Fiscal Accounts Summary

(% of GDP)	2011	2012	2013	2014f	2015f	2016f
General government						
Revenue	**12.8**	**13.6**	**14.6**	**15.0**	**15.0**	**15.0**
Expenditure	**15.3**	**20.3**	**17.4**	**17.9**	**17.6**	**18.4**
O/w interest payments	2.0	2.4	2.3	2.5	2.8	3.1
Primary balance	-0.5	-4.4	-0.7	-0.5	0.1	-0.5
Overall balance	**-2.5**	**-6.7**	**-2.8**	**-2.8**	**-2.6**	**-3.5**
General government debt	**28.7**	**32.5**	**38.6**	**39.0**	**39.5**	**40.3**
% of general government revenue	223.8	238.6	265.3	259.0	262.5	269.3
General government deposits	2.4	1.8	2.4	2.2	2.2	2.1
Net general government debt	26.3	30.8	36.3	36.7	37.3	38.2
Central government						
Revenue	**12.8**	**13.6**	**14.6**	**15.0**	**15.0**	**15.0**
O/w grants	0.2	0.2	0.1	0.2	0.2	0.2
Expenditure and net lending	**15.3**	**20.3**	**17.4**	**17.9**	**17.6**	**18.4**
O/w current expenditure and transfers	11.9	13.6	14.0	14.4	14.6	15.4
- Interest	2.0	2.4	2.3	2.5	2.8	3.1
O/w capital expenditure	3.4	6.4	3.7	3.5	3.0	3.1
Current balance	0.7	-0.2	0.5	0.5	0.2	-0.6
Primary balance	-0.5	-4.4	-0.7	-0.5	0.1	-0.5
Overall balance	**-2.5**	**-6.7**	**-2.8**	**-2.8**	**-2.6**	**-3.5**
Central government debt	28.7	32.5	38.6	39.0	39.5	40.3
% of central government revenues	223.8	238.6	265.3	259.0	262.5	269.3
Central government debt (DOPbn)	**637.9**	**771.8**	**988.2**	**1,092.5**	**1,210.7**	**1,353.8**
By residency of holder						
Domestic	187.2	252.5	350.0	368.9	378.7	399.6
Foreign	450.7	519.3	638.1	723.6	832.0	954.2
By currency denomination						
Local currency	175.4	204.5	269.8	284.1	314.8	352.0
Foreign currency	462.5	567.3	718.4	808.5	895.9	1,001.8
In USD equivalent (eop exchange rate)	11.9	14.1	16.8	18.3	19.4	20.8
Average maturity (years)	6.5	6.7	7.0	8.2	8.2	8.2
Memo						
Nominal GDP (DOPbn)	2,223.0	2,372.3	2,557.1	2,804.4	3,068.9	3,359.2

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2009	2010	2011	2012	2013	2014f
Gross external debt	**16.0**	**19.5**	**21.7**	**24.4**	**26.8**	**28.4**
% of GDP	33.4	36.7	37.3	40.5	43.8	44.0
% of CXR	133.9	109.6	110.9	119.4	122.9	120.7
By maturity						
Medium- and long-term	13.5	16.8	19.2	22.1	24.3	25.7
Short -term	2.5	2.7	2.4	2.3	2.5	2.6
% of total debt	15.8	13.7	11.3	9.4	9.3	9.3
By debtor						
Sovereign	**10.3**	**12.3**	**14.1**	**15.0**	**17.0**	**18.8**
Monetary authorities	2.1	2.4	2.5	2.2	2.0	1.9
General government	8.2	9.9	11.6	12.9	14.9	16.9
O/w central government	8.2	9.9	11.6	12.9	14.9	16.3
Banks	**0.6**	**1.0**	**0.8**	**0.9**	**1.3**	**1.1**
Other sectors	**5.1**	**6.1**	**6.7**	**8.5**	**8.5**	**8.4**
Gross external assets (non-equity)	**11.3**	**10.9**	**11.1**	**11.4**	**12.7**	**14.0**
International reserves, incl. gold	3.6	3.9	4.1	3.6	4.7	4.8
Other sovereign assets nes	0.3	0.3	0.3	0.3	0.3	0.3
Deposit money banks' foreign assets	1.0	0.8	0.7	0.9	1.2	1.4
Other sector foreign assets	6.7	6.0	6.1	6.7	6.5	7.5
Net external debt	**4.8**	**8.6**	**10.5**	**13.3**	**14.4**	**14.6**
% of GDP	10.0	16.2	18.0	22.0	23.5	22.7
Net sovereign external debt	6.8	8.3	9.7	11.5	12.3	14.0
Net bank external debt	-0.5	0.2	0.1	0.1	0.1	-0.3
Net other external debt	-1.6	0.1	0.6	1.7	2.0	0.9
Net international investment position	**-20.4**	**-25.9**	**-29.6**	**-34.2**	**-36.7**	**-38.2**
% of GDP	-42.6	-48.9	-50.8	-56.7	-60.0	-59.3
Sovereign net foreign assets	**-6.8**	**-8.3**	**-9.7**	**-11.5**	**-12.3**	**-14.0**
% of GDP	-14.3	-15.6	-16.6	-19.1	-20.1	-21.8
Debt service (principal & interest)	**2.0**	**2.1**	**2.3**	**2.4**	**3.2**	**3.6**
Debt service (% of CXR)	16.5	11.7	11.7	11.9	14.8	15.3
Interest (% of CXR)	5.5	3.8	4.1	4.3	5.3	4.6
Liquidity ratio (%)	68.9	100.2	94.9	98.6	80.4	98.1
Net sovereign FX debt (% of GDP)	10.5	12.2	13.4	17.4	19.8	20.9
Memo						
Nominal GDP	47.9	53.0	58.1	60.3	61.2	64.4
Inter-company loans	1.9	2.3	2.7	3.9	4.0	2.3

Source: Central Bank, IMF, World Bank and Fitch estimates and forecasts

External Debt Service Schedule on Medium- and Long-Term Debt at September 2014

(USDm)	2013	2014	2015	2016	2017	2018	2019
Sovereign: Total debt service	**1,560.8**	**2,135.5**	**1,691.2**	**1,489.0**	**1,368.1**	**1,223.0**	**16,433.5**
Amortisation	1,084.6	1,568.7	1,089.9	918.6	827.9	714.5	11,789.7
Official bilateral	429.8	472.3	469.5	473.9	457.6	422.7	4,371.9
Multilateral	500.5	896.4	440.6	241.6	214.8	227.7	2,605.8
O/w IMF	161.5	371.1	250.2	46.3	0	0	0
Other	76.7	71.8	51.7	75.0	27.3	0	0
Bonds placed in foreign markets	77.6	128.2	128.2	128.2	128.2	64.1	4,812.1
Interest	476.2	566.8	601.3	570.4	540.2	508.5	4,643.7

Source: Ministry of finance, Central Bank and Fitch

Balance of Payments

(USDbn)	2011	2012	2013	2014f	2015f	2016f
Current account balance	**-4.4**	**-4.0**	**-2.5**	**-2.5**	**-2.0**	**-2.1**
% of GDP	-7.5	-6.6	-4.0	-3.9	-3.0	-3.0
% of CXR	-22.3	-19.4	-11.3	-10.7	-8.1	-8.1
Trade balance	**-8.9**	**-8.7**	**-7.3**	**-7.6**	**-7.7**	**-8.2**
Exports, fob	8.4	8.9	9.5	10.1	10.5	10.9
Imports, fob	17.3	17.7	16.8	17.7	18.2	19.1
Services, net	**2.9**	**3.2**	**3.6**	**4.0**	**4.5**	**4.8**
Services, credit	5.8	6.1	6.5	7.1	7.6	8.1
Services, debit	2.9	2.9	2.9	3.1	3.2	3.3
Income, net	**-2.2**	**-2.3**	**-2.9**	**-3.5**	**-4.0**	**-4.4**
Income, credit	0.7	0.7	0.8	0.8	0.8	0.9
Income, debit	2.9	3.0	3.7	4.4	4.8	5.3
O/w: Interest payments	0.8	0.9	1.2	1.1	1.2	1.3
Current transfers, net	**3.8**	**3.9**	**4.1**	**4.7**	**5.2**	**5.6**
Capital and financial accounts						
Non-debt-creating inflows (net)	2.3	2.4	2.0	2.3	2.3	2.4
O/w equity FDI	2.3	3.1	2.0	2.3	2.3	2.4
O/w portfolio equity	0.0	-0.8	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	0.3	-0.9	1.3	0.1	0.7	0.6
Gross external financing requirement	5.8	5.5	4.5	5.0	4.1	4.0
Stock of international reserves, incl. gold	4.1	3.6	4.7	4.8	5.5	6.1

Sources: IMF and Fitch estimates and forecasts

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.