S&P Global Ratings

RatingsDirect®

Research Update:

Dominican Republic 'BB/B' Ratings Affirmed; Outlook Remains Stable

December 3, 2024

PRIMARY CREDIT ANALYST

Patricio E Vimberg
Mexico City
+52 55 1037 5288
patricio.vimberg@spglobal.com

SECONDARY CONTACTS

Sebastian Briozzo
Buenos Aires
+ 54 11 4891 2185
sebastian.briozzo@spglobal.com

Omar A De la Torre Ponce De Leon
Mexico City
+ 52 55 5081 2870
omar.delatorre@spglobal.com

Overview

- A long history of pro-business and market-friendly policies continues to support strong private investment and remarkable economic dynamism for the Dominican Republic.
- Despite President's Abinader reelection and very strong legislative support, the decision to withdraw a long-delayed fiscal reform will, in our view, perpetuate the country's structural fiscal and debt vulnerabilities.
- We affirmed our 'BB/B' sovereign credit ratings on the Dominican Republic.
- The outlook remains stable, incorporating our view that the fast-growing economy mitigates the risks of moderate fiscal deficits and limited budgetary flexibility.

Rating Action

On Dec. 3, 2024, S&P Global Ratings affirmed its 'BB' long-term foreign and local currency sovereign credit ratings on the Dominican Republic. The outlook remains stable. We also affirmed our 'B' short-term sovereign credit ratings and kept the transfer and convertibility (T&C) assessment unchanged at 'BBB-'.

Outlook

The stable outlook reflects our expectation that the very dynamic economy and policy continuity in the next 12-18 months will mitigate the risks of moderate fiscal deficits and limited budgetary flexibility.

Downside scenario

We could lower the ratings in the next 12-18 months if the inability to pass fiscal reforms exacerbates fiscal risks, leading to wider-than-expected government deficits or an increasing debt burden. We could also lower the ratings if medium-term economic growth were to lose momentum.

Upside scenario

We could raise the ratings in the next 12-18 months if the Dominican Republic improves its fiscal and debt planning, narrowing government deficits, reducing its interest burden, and improving its fiscal flexibility. We could also raise the ratings if the country displays stronger resilience to international shocks, through the buildup of external buffers.

Rationale

Our 'BB' credit ratings reflect the country's fast-growing economy, which despite its vulnerability to external shocks, has proven to recover quickly in the aftermath. The ratings also incorporate the Dominican Republic's historical challenges in passing structural reforms to reduce fiscal deficits, as seen in the decision to withdraw a proposed fiscal reform in October 2024.

The rating weaknesses are relatively high debt (around 55% of GDP in net terms), a hefty interest burden (20% of the government revenue), and limited monetary policy flexibility.

Institutional and economic profile: Remarkable economic dynamism mitigates, at the current rating level, the risk from not passing structural fiscal reforms

- The president's reelection with a very strong mandate created a window of opportunity to pass reforms.
- However, a decision to withdraw a long-delayed fiscal reform highlights the persistent challenges in approving unpopular, but needed, legislation.
- The Dominican Republic will remain one of the fastest-growing economies in the region, on the back of the tourism sector and dynamic investment.

President Luis Abinader (from the PRM party) was reelected in the first round of elections in May 2024 with 57% of the votes, garnering a very strong mandate. The party also achieved absolute majorities in both legislative chambers (with 29 seats out of 32 in Senate, and 147 seats out of 190 in the Lower House). It had also won 120 out of the 142 municipalities in February local elections, including the largest districts.

This unprecedented support created a window of opportunity for the approval of legislation. Only four months after starting its second term, the government was able to advance:

- A constitutional reform to strengthen the presidential election rules and bolster the judiciary, among other modifications;
- A Fiscal Responsibility Law to limit government expenditure growth and establish a debt ceiling;
- A law to reduce spending by reorganizing the public sector; and
- A reform to update the labor code.

However, the government withdrew the long-delayed (and already watered-down) fiscal reform, which aimed to collect 1.5% of GDP in tax revenue by broadening the tax base and eliminating tax exemptions. This policy setback happened only weeks after the reform was presented, after facing opposition from society and some sectors of the business community. As a result, we consider the reform momentum has stalled, and we do not expect a fiscal reform to be presented in the short term.

Nevertheless, the Dominican economy has continued to show remarkable dynamism. The tourism sector remains one of the key drivers of economic growth, and the country is expected to receive around 11.5 million stayovers and cruise arrivals in 2024 (an increase of 12% over 2023).

A long history of pro-business and market-friendly policies has allowed the country to maintain very high investment, estimated at about 32% of GDP in 2024. Furthermore, the lack of political polarization provides some visibility in terms of broad macroeconomic policies, regardless of electoral outcomes.

As a result, we expect real GDP growth of about 5% for the next four years, keeping the Dominican Republic among the fastest-growing economies in Latin America and the Caribbean. Continued economic growth has raised per capita GDP to about $11,500 in 2024, nearly doubling from $6,400 a decade ago.

However, favorable macroeconomic results have not trickled down to the economy as a whole. While the poverty rate has declined consistently over the years, it remains high at about 23% of the population, while other social indicators remain weak. For example, about 60% of employment is in the informal sector, and education results remain well behind those of peers, according to international tests.

Flexibility and performance profile: Fiscal and debt risks will continue to weigh on creditworthiness, while the country remains vulnerable to external shocks

- We project moderate fiscal deficits of about 4% of GDP, which should keep net general government debt stable at 57% of GDP, as long as the economy continues growing.
- External debt will remain high, as the government will continue to finance deficits with external debt issuances.
- Monetary policy flexibility will remain limited due to shallow domestic markets and the central bank's large debt.

We expect the government to continue to run moderate fiscal deficits, averaging 3.8% of GDP in 2024-2027. Headline deficits would not have materially changed even if the proposed fiscal reform had been approved, as the latter incorporated some spending commitments. For example, a significant portion of the additional revenue would have been used to finance urban transportation and energy infrastructure, and to gradually recapitalize the central bank.

However, unwillingness to pass a meaningful fiscal reform will, in our view, perpetuate the sovereign's structural fiscal rigidities. Government revenue will remain one of the lowest in the region, at about 15% of GDP, while tax exemptions will remain high, at about 4.5% of GDP. Furthermore, deficits in the electricity sector and the central bank (each estimated at about 1% of GDP every year) will continue to weigh on the government's fiscal performance. The government's approval of the Electricity Pact in 2021 allowed for some rate increases, although energy losses in the grid remain very high, at about 37%.

The government is aiming to improve spending efficiency and has reorganized some public-sector entities, although this could only free up to 0.3% of GDP. Faced with these budgetary rigidities, the administration has resorted to cuts in capital expenditure, keeping public investment below 3% of GDP in the past six years. It has also aimed to collect one-off revenue over the past years, such as the airport concession extension for Aeropuertos Dominicanos Siglo XXI S.A. for another 30 years (0.7% of GDP in 2024).

The approval of the Fiscal Responsibility Law could limit the increase in government expenditure over the medium term, although it might also further constrain its capacity to finance important infrastructure projects.

As a result, we forecast the change in net general government debt to average 5% in 2024-2027. As long as the economy grows 5% over the medium term, we estimate net debt will remain stable at about 57% of GDP.

However, the debt profile remains vulnerable to exchange-rate and interest-rate shocks, as about 67% of central government debt is denominated in foreign currency, and interest payments already account for more than 20% of government revenue. Our measure of the net debt stock includes the central bank's certificates (approximately 14% of GDP) and excludes the bonds that the government issued to capitalize the central bank (3% of GDP) following the 2003-2004 bailout of the country's banking sector.

We expect the country to remain vulnerable to external shocks, such as natural disasters or changes in global energy prices. We project current account deficits to narrow to about 3% of GDP on the back of strong tourism and remittance inflows. This deficit will be fully covered by foreign direct investment (FDI), which we estimate at about 3.6% of GDP for the next three years.

However, net external debt will likely remain high at about 72% of current account receipts (CARs) in 2024-2027, as the government will continue covering its fiscal deficits with external debt issuances. We expect the country to maintain good access to international markets, as it is gradually becoming a more frequent issuer. The government last issued external debt in June 2024 for the equivalent of $3 billion, $750 million of which was related to its first-ever green bond (see "Second Party Opinion: The Dominican Republic's Green, Social, And Sustainable Bond Framework", published June 17, 2024).

We expect the country to remain vulnerable to sudden shifts in FDI and external shocks. However, external liquidity remains relatively strong as the central bank's international reserves currently exceed 11% of GDP. As a result, we expect that the country's gross external financing needs will remain at about 90% of CARs plus usable reserves in 2024-2027.

Tight monetary policy has enabled a quick reduction in inflation, which we expect to average 3.3% at the end of 2024, the lower end of the central bank's target (4% +/- 1%). As a result, the central bank has been easing its monetary policy rate to 6.0% in October 2024 from 8.5% in April 2023. We expect inflation to converge to the middle of the inflation target by 2025. However, we believe that persistent quasi-fiscal deficits, a low level of domestic credit (about 31% of GDP), and the shallow domestic debt and capital markets constrain the effectiveness of monetary policy.

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 mainly consists of a few banks that we consider to be systemically large. The central bank's monetary policy easing has bolstered credit growth, which we expect to be about 15% at the end of 2024, while banks have kept strong capitalization and liquidity ratios.

Key Statistics

Table 1

Selected indicators

	2017	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F
(Mil. DOP)											
Economic indicators (%)											
Nominal GDP (bil. LC)	3,802.66	4,235.85	4,562.24	4,456.66	5,392.71	6,260.56	6,820.02	7,397.33	8,077.89	8,821.05	9,632.59
Nominal GDP (bil. $)	80.00	85.56	88.94	78.84	94.24	112.48	121.44	124.61	130.97	137.51	144.39
GDP per capita (000s $)	7.9	8.3	8.6	7.5	8.9	10.6	11.3	11.5	12.0	12.5	13.0
Real GDP growth	4.7	7.0	5.1	(6.7)	12.3	4.9	2.4	5.0	5.0	5.0	5.0
Real GDP per capita growth	3.7	6.0	4.1	(7.5)	11.3	4.0	1.5	4.1	4.1	4.1	4.1
Real investment growth	(0.3)	13.3	8.1	(12.1)	22.1	4.0	2.0	5.0	5.0	5.0	5.0
Investment/GDP	22.5	25.8	26.0	25.4	31.4	33.3	31.3	32.2	32.2	32.2	32.2
Savings/GDP	22.3	24.3	24.7	23.7	28.5	27.5	27.7	29.2	29.2	29.2	29.1
Exports/GDP	23.7	23.6	23.1	18.3	21.8	22.1	21.1	22.4	22.4	22.4	22.4
Real exports growth	4.9	6.1	1.5	(30.3)	36.2	13.7	(0.5)	8.0	5.0	5.0	5.0
Unemployment rate	12.7	11.2	10.8	15.0	14.3	12.2	11.5	11.0	11.0	11.0	11.0
External indicators (%)											
Current account balance/GDP	(0.2)	(1.5)	(1.3)	(1.7)	(2.8)	(5.8)	(3.6)	(3.0)	(3.0)	(3.0)	(3.1)
Current account balance/CARs	(0.5)	(4.7)	(4.1)	(5.5)	(8.3)	(17.7)	(11.3)	(9.1)	(9.1)	(9.2)	(9.3)
CARs/GDP	32.7	32.7	32.7	30.9	34.5	32.9	31.8	33.1	33.0	33.0	33.0
Trade balance/GDP	(9.5)	(11.2)	(10.2)	(8.6)	(12.5)	(15.3)	(13.1)	(13.1)	(13.3)	(13.4)	(13.5)
Net FDI/GDP	4.5	3.0	3.4	3.2	3.4	3.6	3.6	3.6	3.6	3.6	3.6
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	0.0
Gross external financing needs/CARs plus usable reserves	89.4	91.5	90.9	90.2	89.0	95.3	90.3	86.7	91.0	92.2	89.4
Narrow net external debt/CARs	83.8	78.7	85.2	114.3	82.9	68.5	79.2	75.3	73.0	70.7	68.9

Table 1

Selected indicators (cont.)

	2017	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F
Narrow net external debt/CAPs	83.4	75.2	81.9	108.4	76.6	58.2	71.1	69.0	66.9	64.7	63.0
Net external liabilities/CARs	197.4	187.9	194.0	244.6	186.3	167.5	180.0	180.6	184.4	187.8	191.5
Net external liabilities/CAPs	196.4	179.5	186.4	231.9	172.1	142.3	161.7	165.5	169.1	172.0	175.2
Short-term external debt by remaining maturity/CARs	4.1	4.0	4.8	10.4	2.3	4.1	6.2	3.5	5.7	8.0	5.4
Usable reserves/CAPs (months)	2.0	2.2	2.3	3.2	2.7	2.8	3.3	3.3	2.9	3.0	3.1
Usable reserves (mil. $)	5,287	5,750	6,911	7,869	10,305	11,650	12,277	11,287	12,328	13,421	14,569
Fiscal indicators (general government; %)											
Balance/GDP	(4.2)	(3.6)	(3.4)	(9.3)	(3.5)	(3.8)	(4.0)	(4.2)	(4.0)	(3.7)	(3.4)
Change in net debt/GDP	5.8	5.4	6.6	15.1	3.1	4.9	5.6	5.4	5.2	4.9	4.6
Primary balance/GDP	(1.7)	(1.0)	(0.7)	(6.1)	(0.4)	(0.9)	(0.9)	(0.9)	(0.7)	(0.4)	(0.2)
Revenue/GDP	14.0	14.2	14.4	14.2	15.6	15.3	15.7	16.4	15.3	15.3	15.3
Expenditures/GDP	18.2	17.7	17.8	23.5	19.1	19.0	19.8	20.6	19.3	19.0	18.7
Interest/revenues	18.2	18.3	19.1	22.8	20.0	18.7	19.9	20.2	21.5	21.3	21.0
Debt/GDP	46.7	48.1	51.6	70.8	62.0	58.5	59.0	59.8	59.9	59.8	59.3
Debt/revenues	333.1	339.8	358.7	498.7	397.6	383.2	375.3	364.4	391.8	390.7	387.8
Net debt/GDP	45.3	46.1	49.4	65.7	57.4	54.3	55.4	56.5	56.9	57.0	56.8
Liquid assets/GDP	1.3	2.0	2.2	5.1	4.7	4.2	3.6	3.3	3.0	2.8	2.5
Monetary indicators (%)											
CPI growth	3.3	3.6	1.8	3.8	8.2	8.8	4.8	3.3	4.0	4.0	4.0
GDP deflator growth	4.2	4.1	2.5	4.7	7.8	10.7	6.4	3.3	4.0	4.0	4.0
Exchange rate, year-end (LC/$)	48.30	50.28	52.96	58.33	57.55	56.41	58.26	60.47	62.89	65.40	68.02
Banks' claims on resident non-gov't sector growth	8.5	11.3	10.7	2.8	12.3	16.5	19.2	9.5	10.2	10.2	10.2
Banks' claims on resident non-gov't sector/GDP	27.9	27.9	28.6	30.1	28.0	28.1	30.7	31.0	31.3	31.6	31.9

Table 1

Selected indicators (cont.)

	2017	2018	2019	2020	2021	2022	2023	2024F	2025F	2026F	2027F
Foreign currency share of claims by banks on residents	21.5	22.4	21.7	17.7	18.6	20.2	19.6	19.6	19.6	19.6	19.6
Foreign currency share of residents' bank deposits	24.2	25.7	25.3	29.1	27.5	26.4	25.8	25.8	25.8	25.8	25.8
Real effective exchange rate growth	(3.1)	(3.3)	(1.2)	(6.7)	0.2	9.2	(0.3)	0.0	0.0	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. 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. F--forecast. LC--Local currency. 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.

Ratings Score Snapshot

Table 2

Dominican Republic--Ratings score snapshot

Key rating factor	Score	Explanation
Institutional ass+A4:C12essment	4	Somewhat predictable policies allow for balanced economic growth, despite policy choices may weaken support for sustainable public finances. Narrow political spectrum and limited polarization between parties allow for some visibility in 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 sovereigns' in the same GDP category.
External assessment	4	Based on narrow net external debt and gross external financing needs/(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.

Table 2

Dominican Republic--Ratings score snapshot (cont.)

Key rating factor	Score	Explanation
		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 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

- Economic Outlook Emerging Markets Q1 2025: Trade Uncertainty Threatens Growth, Nov. 26, 2024
- Sovereign Ratings History, Nov. 20, 2024
- Sovereign Risk Indicators, Oct. 7, 2024
- Dominican Republic's Bonds Equivalent To US$3 Billion Rated 'BB' , June 26, 2024
- Second Party Opinion: The Dominican Republic's Green, Social, And Sustainable Bond

Framework, June 17, 2024

- Credit FAQ: What Does The Dominican Republic’s Presidential Reelection Imply For Our Sovereign Credit Rating?, May 21, 2024
- 2023 Annual Global Sovereign Default And Rating Transition Study, March 27, 2024
- Dominican Republic, Jan. 4, 2024

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed	
Dominican Republic	
Sovereign Credit Rating	BB/Stable/B
Transfer & Convertibility Assessment	
Local Currency	BBB-
Dominican Republic	
Senior Secured	BB
Senior Unsecured	BB