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**Fitch Affirms Dominican Republic's FC IDR at 'B'; Outlook Positive**

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Fitch Ratings-New York-04 January 2012: Fitch Ratings has affirmed the Issuer Default Ratings (IDRs) and Country Ceiling for the Dominican Republic as follows:

- Foreign currency IDR at 'B';
- Local currency IDR at 'B';
- Foreign currency short-term IDR at 'B';
- Country ceiling at 'B+'.

The Rating Outlook is maintained as Positive.

The Positive Outlook reflects the Dominican Republic's good macroeconomic performance, improving prospects for higher export earnings due to the development of the mining sector, and increased availability of external and domestic financing sources. However, Fitch notes that the uncertainty surrounding the IMF program and the upcoming electoral cycle, as well as risks stemming from the global economy presently detract from the sovereign's improving credit profile.

The Dominican Republic' ratings are underpinned by moderate debt levels, higher GDP per capita than peers, relatively strong social development indicators, and a competitive business environment that supports foreign direct investment inflows.

In spite of growth slowing down to an estimated 4.4% in 2011, the Dominican Republic's five-year average growth performance remains in line with peers. Inflation, averaging approximately 8.5% in 2011, is lower than the 'B' category median. The expected move to a formal inflation-targeting regime in 2012 could further enhance macroeconomic stability over the medium term.

'Rising mining export volumes are strengthening the capacity of the economy to generate larger and more resilient current external receipts, mitigating long-standing external balance sheet vulnerabilities,' said Cesar Arias, Associate Director in Fitch's Sovereign Group. As a result, Fitch expects the current account deficit to fall below the 'B' median of 5% of GDP by 2013.

'The sovereign has benefited from broad multilateral financial support, sustained access to international capital markets and the rapid development of the domestic bond market,' added Arias. Moreover, the Treasury has pre-funded its entire 2012 external market issuance program and secured USD1 billion in budget support and project financing for 2012.

Buoyed by multilateral disbursements, reserves remain at historic highs and above the adequacy targets agreed with the IMF, supporting the sustainability of the managed exchange rate. Nevertheless, external liquidity ratio, at 97% in 2012, is significantly weaker than peers, and the country's external financing needs are among the highest in the 'B' category.

Thus, Fitch notes that preserving macroeconomic stability and the continued support from multilaterals remains important for anchoring investor confidence and reducing external vulnerabilities.

A narrow revenue base and burdensome electricity subsidies have slowed fiscal consolidation and delayed the full implementation of the IMF's Stand-By Arrangement and the concomitant disbursements. Yet, Fitch estimates that fiscal deficit was moderate in 2011 owing to expenditure restraint and additional receipts from the tax reform. Moreover, government debt, at 29% of GDP, remains lower than peers, and amortization payments are manageable in comparison to 'B' and 'BB' peers.

Moving forward, greater confidence in the ability of the next government to maintain macroeconomic stability and broad multilateral financing support would be positive for creditworthiness. A sustained reduction in the country's external vulnerabilities would also put upward pressure on the ratings. On the other hand, a sharp decline in non-debt-creating capital inflows or a confidence shock as a result of the electoral process resulting in currency pressures and a marked erosion of international reserves would be negative for the ratings.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:--'Sovereign Rating Methodology' (Aug. 15, 2011).

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