Fitch Upgrades Dominican Republic's L-T F-C IDR to 'B'; Outlook Stable

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Click Here for Printer-Friendly Version Tagging Info Fitch Upgrades Dominican Republic's L-T F-C IDR to 'B'; Outlook Stable Ratings 05 May 2006 4:16 PM (EDT) -- Fitch Ratings-New York-05 May 2006: Fitch Ratings has upgraded the debt and issuer Default Ratings (IDRs) of the Dominican Republic as follows: --Long-term foreign currency Issuer Default Rating (IDR) to 'B' from 'B-'; --Country ceiling upgraded to 'B+' from 'B-' --Foreign currency bonds due 2006 to 'B-/RR4' from 'CCC+/RR4' --Foreign currency Brady bonds due 2009 to 'B/RR4' from 'B-/RR4' --Foreign currency bonds due 2011 to 'B/RR4' from 'B-/RR4' --Foreign currency bonds due 2013 to 'B-/RR4' from 'CCC+/RR4' --Foreign currency bonds due 2018 to 'B/RR4' from 'B-/RR4' --Foreign currency collateralized Brady bonds due 2024 to 'B+/RR3' from 'B/RR3' Fitch has also affirmed the following ratings: --Long-term local currency Issuer Default Rating (IDR) 'B'; --Short-term Issuer Default Rating (IDR) 'B'. Additionally, Fitch has assigned a debt and Recovery Rating (RR) to the following issue: --Foreign currency bonds due 2027 'B/RR4'. The Rating Outlook for the long-term foreign and local currency IDRs is Stable. 'The Dominican Republic's rating upgrades are supported by the country's comparably low external and public debt burdens, manageable debt service profile, as well as a consolidation of the economic recovery,' said Theresa Paiz-Fredel, Director and lead analyst for the Dominican Republic for Fitch. 'Nevertheless, in spite of recent improvements, a still fragile liquidity position constrains the ratings to current levels at this time.' The Dominican Republic's economic recovery consolidated last year, in part reflecting prompt actions by the Fernandez Administration to achieve a substantial fiscal adjustment and the resulting improved domestic and foreign confidence. Economic growth was broad based and reached a vigorous 9.3% in 2005, one of the strongest rates of growth in Latin America and the Caribbean, while inflation continued to decline. A favorable balance of payments performance, underpinned by remittances, tourism receipts, as well as reduced debt service outflows as a result of the debt restructurings, has led to a steady recuperation of foreign reserves and an improvement in the country's liquidity position. Additionally, the authorities achieved a significant fiscal adjustment in 2005, with the consolidated public sector deficit declining to 3.3% of GDP in 2005 from 7.7% of GDP in 2004. An increase in revenue due to the tax reform implemented by the new government and the economic recovery as well as expenditure constraint and a reduction in interest rates on the central bank's debt drove fiscal performance. Scheduled amortizations for the non-financial public sector are almost entirely with official creditors this year and appear to be covered by substantial commitments from multilateral and bilateral disbursements as well as treasury deposits. The country's external and public debt ratios compare favorably with other speculative grade sovereigns, returning to pre-crisis levels following the increase in debt in 2003 related to the bailout of several local banks and currency weakness. The Banco Central de la Republica Dominicana absorbed most of the increase in debt since 2002 due to domestic issuance of securities to address the banking crisis and increased IMF borrowing for balance of payment support. As a proportion of current external receipts (CXR), the Dominican Republic's net external debt is forecast to reach 33.9% in 2006, slightly lower than pre-crisis levels, and significantly below the 49.9% median for sovereigns rated in the 'B' category. After peaking at 46.9% in 2003, Fitch expects consolidated central government debt to reach a projected 26.7% of GDP by the end of 2006, similar to pre-crisis levels and considerably less than the median of 47.1% of GDP for similarly rated sovereigns. As the central bank experienced most of the increase in debt related to the crisis, consolidated public sector debt is much higher and is forecast to reach 38.6% of GDP in 2006 from a peak of 59.8% in 2003, which is still low relative to similarly rated sovereigns. Continued currency stability and the strong economic rebound, combined with a reduced government financing requirement and low net multilateral disbursements, will contribute to the improvement in debt ratios this year. In spite of comparably favorable debt ratios, the Dominican Republic's credit profile has always been constrained by low liquidity, a situation that can be exacerbated by a loss of confidence and ensuing capital flight. Although the Dominican Republic's liquidity position remains tight relative to peers, the results of the exchange as well as Paris Club and commercial bank reschedulings combined with a recovery of private capital inflows, imply a substantial improvement. International reserve growth and reduced amortizations increased the country's liquidity ratio to 159% at the beginning of 2006 from 102% in 2004. While this ratio has exceeded 100% for two consecutive years now, it is still substantially below the 'B' median of 190%. Furthermore, when adjusting the liquidity ratio to exclude banks' foreign assets and include banks' resident foreign currency deposits, the ratio declines significantly to 57%, highlighting the vulnerabilities associated with high, albeit declining dollarization. In addition to the structural performance criteria required by the IMF program, the implementation of DR-CAFTA would also bolster the government's efforts to improve the country's institutional framework in order to avoid the recurrence of the type of crisis that occurred in 2003 and could be positive for creditworthiness. Further improvements in liquidity would also be viewed favorably. Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. A broad overview of Fitch's RR methodology as it relates to specific sectors, including a Case Study webcast, can be found at 'www.fitchratings.com/recovery'. Contact: Theresa Paiz-Fredel +1-212-908-0534 or Shelly Shetty +1-212-908-0324, New York. Media Relations: Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. 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