Scotia Investments

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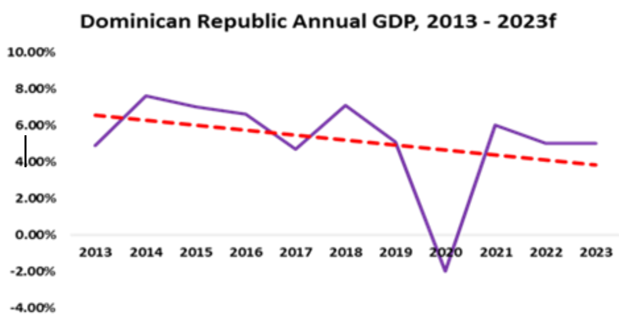
Sovereign (Ticker) (S&P / Moody's / Fitch)	Major Issues / Risks	Major Developments	Credit Outlook

Dominican Republic (DomRep/DR) (BB-/Ba3/BB-)

Economic Growth prior to the outbreak of the coronavirus the DR boasted one of the highest GDP growth rates in the LATAM and Caribbean region. Economic growth for CY2019 was estimated at 5.1% and was primarily driven by the construction, free-trade zone manufacturing and tourism sectors. However, drastic measures taken by the government to stem the spread of the virus has brought economic activity to a halt. These measures include country-wide curfews, the closure of borders, schools and businesses. These measures may be intensified if the trajectory of the virus remains unfavourable. It is against this backdrop that S&P is forecasting a stark contraction in economic growth for the DR in 2020, with GDP expected to contract by -2%. Nevertheless, it is worth noting that the amongst its Caribbean peers the DR's economy is considered one of the most dynamic and as such is expected to have one of the strongest growth recoveries in 2021.



Economic Statistics						
Date	2017	2018	2019	2020	2021	2022
Real GDP growth (%)	4.70	7	5.1	-2	6	5
Fiscal Balance (% of GDP)	-4.3	-3.7	-3.4	-6.9	-4.9	-3.9
Inflation (%)	1.7	4.2	1.2	3.7	3	4
Unemployment rate (%)	13.3	10	10.3	15	15	15
LC/USD, eop % y-o-y	-0.5	-3.1	-3.3	-1.2		
Current Acc. Balance	-1.1	-0.2	-1.4	-1.4	-5.2	-2.5

Strengths/ Opportunities

- Diversified economy
- Competitive labour force
- Improved international reserves levels.
- Emergence of diplomatic arrangements with China.
- Higher trending gold prices could prove some economic relief.

Weaknesses /Threats

- High unemployment rate
- Persistent Fiscal Deficit
- Susceptibility of external position to oil price shocks
- Vulnerability to hurricanes and climate change
- Political tension arising from constitutionally due elections may threaten policy continuity.

COVID 19 to disrupt growth trajectory and increase political tension

Political uncertainty and instability is likely to persist in the near term as presidential elections slated to kick off in May 2020 have been be delayed due to the threat of the coronavirus. The ruling government continues to be shrouded in allegations of corruption which has severely influenced sentiments surrounding their re-election. These allegations have also inhibited their ability to introduce much need structural policy reforms.

Unemployment for CY2019 stood at 15%, up from the 10.3% in 2018. Despite experiencing robust economic growth over the past few years the DR has struggled with reducing its unemployment rate to single digits, a struggle that is slated to continue in the near term. Unemployment is likely to continue hovering at these levels driven by the rerouting of government spending which was intended to improve public infrastructure, compounded by the expected fallout from the tourism industry. This may result in increased civil unrest and could ultimately impact crime levels in the short term.

Current Account Deficit is likely to widen as a result of a significant decline in tourism and remittance receipts which collectively account for approximately 50% of current account receipts. The widening of the deficit will be partially tempered by lower energy prices in the medium term. S&P forecasts a current account deficit of 5% of GDP in 2020 which reflects an increase of ~4% over the deficit levels in 2019. However, the deficit is expected to gradually narrow to approximately 2% in 2021-2023.

Negative

The outlook has been revised from stable to negative in the context of uncertainty surrounding the duration of the pandemic and the strength and timing of the recovery. If the impact is more prolonged and the crisis extends beyond Q2 2020 then the DR may be susceptible to further rating revisions.

Fiscal Deficit: Further weakening of the fiscal position is likely to persist in the near term as Government revenues are expected to wane due to the disruption in economic activity. Whilst expenditure is likely to increase due to government support of social initiatives aimed at softening the economic and social impact of COVID-19.

The country's debt stock has increased steadily over the past four years moving from 45.5% of GDP in 2016 to 51.6% in 2019. The debt profile is forecasted to worsen in the medium term as the government is expected to increase borrowing to fund the deficit, S&P forecasts Debt to GDP of 59% for 2021 to 2023.

Outlook: Economic conditions in the DR are expected to weaken in 2020 but the situation remains fluid as the depth and severity of the economic fallout continues to hinge on how prolonged this exogenous shock lasts. Despite the dynamism of the DR's economy, like most countries in the Caribbean their economic recovery trajectory will rely heavily on the recovery of the USA. However, the DR is still expected to have one of the strongest recovery trajectory in the Caribbean and LATAM region.

Recommendation: Based on the foregoing considerations we recommend that clients reduce their exposure to the DR in the short term.

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