

Dominican Republic

In accordance with the targets agreed with the International Monetary Fund, macroeconomic policy in 2011 was characterized by a withdrawal of the fiscal stimulus that was introduced in the first half of 2010, a shift from generalized subsidies to targeted ones, and monetary policy benchmark rate increases with a view to moderating the expansion of lending to the private sector.

These changes slowed the GDP growth rate from 7.8% in 2010 to 4.2% in the period January-September 2011; it is expected to stand at 4.5% for the year as a whole. Domestic prices have rebounded since late 2010, pushing up the annualized inflation rate to 10% in July 2011. Nevertheless, inflationary pressures began to subside as of the third quarter; year-on-year inflation of 8% is projected for the end of the year, compared with 6.3% for 2010.

Transfers to the electricity sector were scaled back by less than the expected amount in the face of rising international oil prices, forcing the government to reduce its current budget, excluding social services, by 12%. This, in addition to a 2.2% contraction in capital spending, made it possible to bring down total spending by 1 percentage point of GDP to close 2011 at 15.4%.

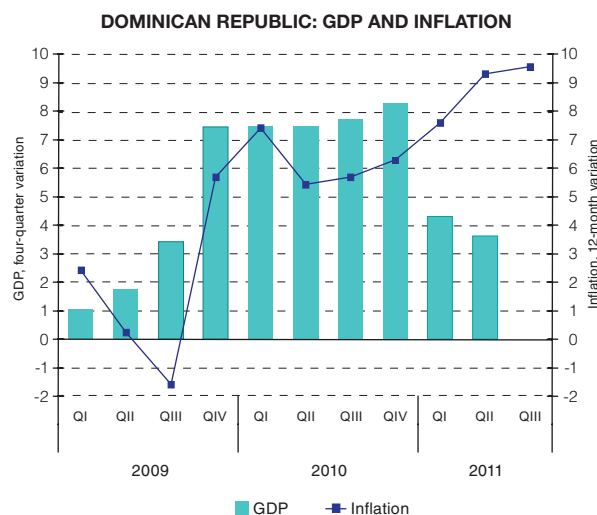
The government introduced new levies and took various measures to increase tax revenues with a view to ensuring that the central government deficit target agreed with the IMF (equivalent to 1.6% of GDP as against 2.5% in 2010) was met. This will make it possible to trim non-financial public sector debt by an amount equivalent to 0.7% of GDP, to stand at 28.5% of GDP. As in 2010, the debt mix continued to shift in favour of external debt in 2011.

In order to curb the expansion of bank credit to the private sector, the central bank continued raising its benchmark rate during the first few months of the year. The overnight rate went from 4% in September 2010 to 6.75% in May 2011, where it has remained since then. The result was an increase in the rates offered by financial intermediaries to the public, which slowed the expansion of credit to the private sector. In nominal terms, credit expansion slackened from a 12-month rate of 23% at the end of 2010 to 15.4% in October 2011, which translates into a deceleration from 15.8% to 6% in real terms.

No significant changes are expected in the monetary policy benchmark rate for the rest of 2011. However, given that the overnight rate is negative in real terms, additional increments are expected in 2012, when the central bank will complete the transition to an inflation-targeting regime.

The financial sector is maintaining adequate solvency and liquidity levels. Efforts to enhance risk management made significant headway in 2011; for example, a bill was introduced to establish a regulatory framework for the consolidated oversight of financial groups and the prevention of systemic risk.

According to official data, by the third quarter of 2011 economic activity had expanded by 4.2%, significantly slower than the 7.6% recorded for the same period in 2010. Although production for the domestic market slowed at a similar pace, the sectors oriented towards external demand



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

showed a solid performance. Notable among them were free-zone manufacturing, mining (which has benefited from the resumption of ferronickel mining) and tourism (where the declining number of European tourists was offset by increased tourist arrivals from the United States and South America).

Growth in private consumption slowed from 7.2% to 4.4% in the first six months of 2011 owing to a relative deterioration in working conditions and a slower expansion of household credit. Gross fixed capital formation contracted by 2.1% after burgeoning by 21.3% in 2010; this led to slower growth in imports, which went from 12.6% to 4.2% between January and June 2011. Taking into account the 6.9% rise in exports during the period (compared with 7.2% in 2010), the overall result was a net decline in imports in real terms.

Reflecting in part the higher international food and fuel prices, the annual consumer price index variation rose from 5.4% in November 2010 to 10.2% in August 2011, at which point it began to ease back gradually. Total year-on-year core inflation was 5.4% in October. Year-on-year inflation is projected to close 2011 at 8%. Annual inflation for 2012 is likely to be about 5% following an expected drop in international commodity prices associated with a global economic slowdown.

Almost 120,000 jobs were created (mainly in the commerce sector) during the first half of 2011, owing in part to the rise in the overall participation rate, which stood at 56.2%. But this uptick was not sufficient to avoid an increase in the open unemployment rate, which went up by more than 1 percentage point during the first half of the year, to 5.6%.

Nominal minimum wages in the private sector increased by between 9.9% and 12.4% (between 1.3% and 3.6% in real terms). However, with nominal minimum wages in the public sector remaining unchanged, workers in that sector saw wages fall in real terms for the second year in a row.

Despite the worsening and uncertain international economic outlook, goods exports jumped up by 24.4% in the first three quarters, driven by the strong performance of free zones and non-traditional exports. That strong performance was not enough, however, to offset the rise

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2009	2010	2011 ^a
Annual growth rates			
Gross domestic product	3.5	7.8	4.5
Per capita gross domestic product	2.1	6.3	3.2
Consumer prices	5.7	6.3	8.6 ^b
Real minimum wage	7.0	-0.4	1.2
Money (M1)	18.7	9.2	5.3 ^b
Real effective exchange rate ^c	2.0	-2.0	1.1 ^d
Terms of trade	8.1	-3.7	-5.3
Annual average percentages			
Unemployment rate ^e	14.9	14.3	14.6 ^f
Central government			
overall balance / GDP	-3.5	-2.5	-1.6
Nominal deposit rate ^g	7.8	4.9	7.7 ^h
Nominal lending rate ⁱ	12.9	8.3	11.2 ^h
Millions of dollars			
Exports of goods and services	10 295	11 671	13 554
Imports of goods and services	14 120	17 436	19 965
Current account balance	-2 331	-4 435	-5 196
Capital and financial balance ^j	2 737	4 493	4 601
Overall balance	406	58	-595

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

^a Preliminary estimates.

^b Twelve-month variation to November 2011.

^c A negative rate indicates an appreciation of the currency in real terms.

^d January to October average, year-on-year variation.

^e Includes hidden unemployment.

^f Figure for April.

^g 90-day certificates of deposit.

^h January-November average.

ⁱ Prime rate.

^j Includes errors and omissions.

in the oil bill, which therefore led to a widening of the goods trade balance deficit. Taking into account a 4.6% increase in tourist arrivals, a 7% upturn in remittance inflows and foreign direct investment flows of close to US\$ 2 billion (3.6% of GDP), the current account deficit is expected to be equivalent to 8% of GDP at the end of the year—a slight improvement over the 8.6% recorded in 2010.

Deteriorating external conditions translated into a decline of more than US\$ 700 million in international reserves in the first half of 2011. This situation was partially reversed in July, when the government committed to keeping the proceeds from bond placements on external markets in the central bank. Through October 2011 the average real effective exchange rate held steady, in contrast with the 1.6% depreciation posted in 2010.