Dominican Republic

1. General trends

Owing to the deceleration of worldwide economic activity observed during the second semester, the Dominican economy expanded by 5.3% in 2008, less than the 9.5% average recorded over the last three years. The inflation rate stood at 14.6% in September but, as a result of the monetary policies applied and the drop in commodity prices, inflation fell during the last quarter and closed the year at 4.5%.

In 2008, the non-financial public sector showed a deficit equivalent to 3.4% of GDP, compared to a 0.1% surplus in 2007, owing mainly to reduced revenue and increased spending on measures to address the damage caused by storms since late 2007 and to mitigate the effects of higher food and fuel prices.

The external balance worsened, owing in large measure to increases in the oil bill and a sharp drop in ferronickel exports. The current account deficit at the end of 2008 was equivalent to 9.7% of GDP, and was financed by an upswing in foreign direct investment (FDI) flows, which reached a record high of US$ 2.885 billion.

Presidential elections were held in May 2008 and President Leonel Fernández was re-elected. While the new government focused on constitutional reform during the first few months, public policy shifted towards addressing the international financial crisis in the last quarter of 2008. The impact on the Dominican economy was reflected in reduced flows of remittances and tourism, along with worsening financial conditions.

The economy recorded growth of 1% in the first quarter of 2009 in relation to the same period of the previous year. ECLAC predicts a growth rate of 1.0% for 2009. The 2009 budget projects a central government deficit of 1.7% of GDP.

2. Economic policy

(a) Fiscal policy

The central government recorded a 3.2% deficit in 2008, as compared with a surplus equivalent to 0.1% of GDP in 2007. This result is mainly due to a significant increase in current expenditure —particularly transfers and interest— and a drop in revenue in real terms stemming from less buoyant economic activity, as well as the granting of tax exemptions and tax cuts.

Total central government income contracted by 5.4% in 2008, following an average rate of over 16% during the previous two years. The reduction in tax revenue, which suffered a drop in real growth from 15.5% to -2.1%, can be attributed to the deceleration of economic activity, the granting of tax exemptions to the agricultural sector to help mitigate the effects of the storms in late 2007 and the lowering of the highest income-tax rate. Consequently, the tax burden fell from 16% to 15% of GDP.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
	Annual growth rates [b]								
Gross domestic product	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3
Per capita gross domestic product	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	6.9	3.8
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	4.2	9.5	2.5	1.8	-2.5	5.9	8.6	1.2	-3.4
Mining and quarrying	16.1	-13.5	7.7	8.8	5.8	-0.1	11.0	-1.4	-30.3
Manufacturing	3.7	-1.9	4.9	0.9	2.4	6.3	3.2	2.4	2.6
Electricity, gas and water	6.6	15.1	9.7	-6.9	-23.8	4.8	6.3	9.7	10.3
Construction	-4.0	-3.9	4.6	-17.1	-2.3	9.2	24.6	3.2	-0.4
Wholesale and retail commerce, restaurants and hotels	4.4	-1.0	4.5	-2.3	-1.2	12.5	8.3	9.3	4.3
Transport, storage and communications	9.6	19.8	15.1	5.7	6.5	18.9	17.8	12.5	15.5
Financial institutions, insurance, real estate and business services	2.4	7.4	7.7	3.9	-1.6	2.0	9.0	11.0	7.3
Community, social and personal services	6.3	2.1	4.1	3.5	2.7	-1.2	5.8	4.5	3.5
Gross domestic product, by type of expenditure									
Gasto de consumo final	4.7	3.5	5.7	-4.9	3.1	15.4	12.0	8.9	7.1
Consumo del gobierno	3.7	9.2	8.0	-12.6	3.8	10.2	11.0	10.0	7.7
Consumo privado	4.7	3.3	5.6	-4.6	3.1	15.7	12.0	8.9	7.1
Gross domestic investment	13.5	-4.0	5.0	-20.2	-1.8	13.3	21.3	12.5	9.2
Exports (goods and services)	8.7	-6.1	2.0	10.6	3.6	-1.2	0.7	3.2	-2.6
Imports (goods and services)	8.5	-4.7	1.5	-12.9	5.3	11.3	8.2	6.8	4.5
	Percentages of GDP								
Investment and saving [c]									
Gross domestic investment	23.3	21.1	21.2	15.0	14.9	16.5	18.4	18.9	18.3
National saving	18.9	18.0	18.0	20.1	19.7	15.1	14.8	13.8	8.6
External saving	4.3	3.0	3.2	-5.2	-4.8	1.4	3.6	5.1	9.7
	Millions of dollars								
Balance of payments									
Current account balance	-1 026	-741	-798	1 036	1 041	-473	-1 288	-2 096	-4 437
Goods balance	-3 742	-3 503	-3 673	-2 156	-1 952	-3 725	-5 564	-6 437	-9 147
Exports, f.o.b.	5 737	5 276	5 165	5 471	5 936	6 145	6 610	7 160	6 949
Imports, f.o.b.	9 479	8 779	8 838	7 627	7 888	9 869	12 174	13 597	16 095
Services trade balance	1 854	1 826	1 757	2 249	2 291	2 457	2 985	3 021	3 093
Income balance	-1 041	-1 092	-1 152	-1 393	-1 825	-1 902	-1 853	-2 081	-1 815
Net current transfers	1 902	2 028	2 269	2 336	2 528	2 697	3 144	3 401	3 432
Capital and financial balance [d]	978	1 256	243	-1 583	-862	1 178	1 452	2 716	4 117
Net foreign direct investment	953	1 079	917	613	909	1 123	1 528	1 579	2 885
Other capital movements	25	177	-674	-2 196	-1 771	55	-77	1 137	1 232
Overall balance	-48	515	-555	-546	179	705	164	620	-320
Variation in reserve assets [e]	70	-519	527	358	-542	-1 109	-314	-679	303
Other financing	-22	4	28	189	363	404	150	59	17
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [f]	100.0	96.5	98.5	131.3	125.5	87.4	95.7	95.9	98.4
Terms of trade for goods (index: 2000=100)	100.0	100.9	101.5	97.9	96.7	95.8	94.9	98.0	93.6
Net resource transfer (millions of dollars)	-85	168	-881	-2 787	-2 324	-321	-251	694	2 319
Total gross external debt (millions of dollars) [g]	3 679	4 176	4 536	5 987	6 380	5 847	6 296	6 556	7 220
	Average annual rates								
Employment									
Labour force participation rate [h]	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.1	55.6
Open unemployment rate [i]	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6	14.1
	Annual percentages								
Prices									
Variation in consumer prices (December-December)	9.0	4.4	10.5	42.7	28.7	7.5	5.0	8.9	4.5
Variation in nominal exchange rate (annual average)	2.4	3.3	9.8	65.7	36.6	-30.2	12.8	-0.3	4.3
Variation in real minimum wage	-0.4	5.7	-0.5	-9.2	-15.0	18.7	-7.1	4.8	-6.5
Nominal deposit rate [j]	18.6	16.1	16.4	20.6	21.1	12.7	9.8	7.0	10.3
Nominal lending rate [k]	23.6	20.0	21.3	27.8	30.3	21.4	15.7	11.7	16.0

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central government									
Total income [l]	13.3	14.5	14.6	13.2	14.0	15.7	16.1	17.7	15.9
Current income	13.2	14.4	14.3	13.1	13.9	15.4	15.9	17.3	15.7
Tax income	12.5	14.0	13.8	12.1	12.9	14.6	14.9	16.0	15.0
Capital income	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	12.9	15.6	16.2	16.1	16.6	16.8	17.2	17.6	19.6
Current expenditure	9.6	10.5	10.5	10.2	12.5	12.6	13.0	13.0	14.4
Interest	0.8	0.8	1.1	1.6	1.8	1.3	1.4	1.2	1.6
Capital expenditure	3.3	5.0	5.7	5.9	4.1	4.3	4.2	4.6	5.1
Primary balance	-1.0	-1.1	-0.2	-2.7	-1.6	0.7	0.3	1.4	-1.6
Overall balance [m]	-1.8	-1.9	-1.3	-4.3	-3.4	-0.6	-1.1	0.1	-3.2
Central-government debt	...	...	...	...	...	22.0	20.4	18.4	20.0
Domestic	...	...	...	...	...	3.3	2.6	2.0	3.8
External	...	...	...	...	...	18.6	17.7	16.4	16.2
Money and credit [n]									
Domestic credit [o]	23.8	24.7	28.7	35.3	23.1	19.4	17.0	16.6	17.5
To the public sector	2.9	1.6	10.4	1.5	6.4	10.2	17.7	17.2	18.3
To the private sector	21.1	24.5	26.5	26.8	18.0	17.5	17.2	19.0	17.9
Others	-0.3	-1.4	-8.2	7.0	-1.2	-8.3	-17.9	-19.6	-18.7
Liquidity (M3)	24.3	27.9	28.5	36.8	27.8	27.7	25.2	25.7	24.0
Currency outside banks and local-currency deposits (M2)	24.2	27.9	28.5	36.8	27.8	27.7	25.2	25.7	23.9
Foreign-currency deposits	0.1	-	-	0.1	-	-	-	-	-

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] A minus sign (-) denotes an increase in reserves.
[f] Annual average, weighted by the value of goods exports and imports. Owing to lack of data, the period 2002-2008 has been weighted using trade figures for 2001.
[g] Public and guaranteed private external debt.
[h] Economically active population as a percentage of the working-age population; nationwide total.
[i] Percentage of the economically active population; nationwide total.
[j] 90-day certificates of deposit.
[k] Average of the benchmark rate.
[l] Includes grants.
[m] Includes residuals and other payments (transfers).
[n] The monetary figures are end-of-year stocks.
[o] Includes securities issued for monetary regulation and short- and long-term external loans.

Non-tax revenues were down by 45.6% in real terms, owing to the temporary closure of the Falconbridge mining company in response to falling international prices for ferronickel.

Current expenditure grew by nearly 50 billion Dominican pesos, which translates into a real growth rate of 16.1%. Current transfers were up by almost 30%, mainly owing to subsidies to the electric power sector associated with rising oil prices.

Interest payments swelled by over 36.9%, chiefly from expenses incurred in the plan to recapitalize the central bank. For that purpose, the government issued debt instruments which were structured in such a way that the interest payments would recapitalize the central bank over an estimated ten-year period. As such, the central bank's quasi-fiscal deficit —equivalent to 1.3% of GDP in 2008— was taken over by the central government.

Capital expenditure —which makes up nearly 25% of total spending— fell slightly (15.9%) as compared with the 2007 figure (18.8%) owing to slower growth in fixed investment (22.9%) compared to the 2007 figure (23.5%).

The consolidated government deficit —taking into account donations, which dropped almost 3 billion pesos, and the rest of the non-financial public sector— was equivalent to 3.3% of GDP.

The central government is projected to run a deficit equivalent to 1.7% of GDP in 2009, which will be financed with approximately US$ 740 million from multilateral institutions. By May, the country's Congress had approved only US$ 200 million, which led to the domestic debt programme being moved up. This, in turn, delayed the implementation of some of the government's anti-crisis measures announced after the summit held by President Fernández in early 2009.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	9.2	5.5	8.9	10.3	5.7	9.6	-0.6	6.5	...	...
Goods exports, f.o.b. (millions of dollars)	1 721	1 879	1 749	1 812	1 694	1 853	1 836	1 566	1 285	...
Goods imports, f.o.b. (millions of dollars)	2 473	2 642	2 948	3 226	3 184	3 747	3 743	2 896	2 189	...
Gross international reserves (millions of dollars)	2 547	2 705	2 922	2 946	2 892	2 584	2 636	2 644	2 539	2 476 [c]
Real effective exchange rate (index: 2000=100) [d]	96.2	93.4	96.3	97.7	98.7	99.1	98.0	97.9	99.8	102.6 [e]
Consumer prices (12-month percentage variation)	5.5	5.9	6.8	8.9	9.7	12.2	14.6	4.5	2.4	0.3
Average nominal exchange rate (pesos per dollar)	33.3	32.2	33.1	33.5	33.8	34.1	34.7	35.2	35.6	36.0
Nominal interest rates (annualized percentages)										
Deposit rate [f]	7.7	7.2	6.4	6.6	6.7	8.5	12.5	13.7	12.0	7.9
Lending rate [g]	13.1	11.8	11.3	10.6	11.2	12.5	18.8	21.5	19.4	12.3
Interbank rate	9.1	8.2	7.8	7.9	9.0	10.4	14.1	15.5	11.5	7.6
Domestic credit (variation from same quarter of preceding year)	34.3	36.7	34.1	16.0	19.3	24.9	24.2	15.9	11.1	2.5 [c]
Non-performing loans as a percentage of total credit	5.5	5.4	5.0	4.3	4.3	3.8	3.9	3.5	4.4	4.8 [e]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1991 prices.
[c] Data to April.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] Data to May.
[f] 90-day certificates of deposit.
[g] Average of the benchmark rate.

(b) Monetary policy

During the first six months of 2008, monetary policy was focused on containing inflationary pressure caused by rising international food and fuel prices, along with the effects of election expenses.

Raising the benchmark interest rate on three occasions was the principal monetary policy tool used. As a result, the interest rate on short-term deposit earnings rose from 7% at the beginning of 2008 to 9% in August. Placement of debt instruments increased, more changes were made to the composition and calculation of the legal reserve requirement and reserves were used to contain the depreciation of the peso.

As a result of these measures, the real lending rate rose from 6.5% in December 2007 to 19.4% towards the end of 2008. While real deposit rates moved into positive territory, going from -2.2% to 9% during the same period, the financial intermediation margin widened by 175 basis points, closing at 10.5%.

Consequently, total lending by commercial banks to the private sector grew by only 3.7% in real terms in 2008, as compared with 20.7% recorded in 2007. The sectors most affected by the decrease in lending were agriculture (-30.8%) and commerce (-1.1%). The growth rate of consumer lending plummeted from 39.6% to 4.2% in real terms.

The increase in interest rates translated into a reallocation of portfolios whereby demand deposits were replaced with term deposits, which, in turn, caused a reduction in M1 of 8.4% and an increase in M2 of 7.8% in 2008.

During the second half of 2008, worsening expectations for worldwide growth owing to the financial crisis gave rise to falling international prices for practically all commodities. This, together with the delayed effects of the restrictive monetary policy maintained during the first half of the year, led the 12-month inflation rate to end the year at 4.5%.

The sudden drop in the inflation rate made room for a change of direction in monetary policy in order to address liquidity problems caused by the worsening financial crisis in the fourth quarter of 2008, and to stimulate domestic demand.

To that end, beginning in January 2009, the central bank significantly lowered benchmark rates. The rate for interest-bearing deposits went from 9.5% to 5% between December 2008 and May 2009, while the Lombard rate was lowered from 16% to 10% in the same period. Likewise, repurchasing of debt instruments was utilized as a means of boosting liquidity in the financial market and the definition and calculation of the legal reserve requirement were loosened, freeing almost 17 billion pesos (equivalent to approximately 1.1% of GDP) to inject liquidity into the economy. Additionally, the Inter-American Development Bank provided a loan of US$ 300 million, which will in turn be lent to the production sectors by commercial banks.

(c) Exchange-rate policy

Despite volatility in the financial markets, the Dominican peso depreciated only 5% in nominal terms, mainly owing to exceptional FDI flows in 2008 and the central bank's use of US$ 400 million in reserves to intervene in the currency market. Despite this nominal depreciation, the real bilateral exchange rate against the dollar appreciated at an average annual rate of 2.3%.

(d) Other policies

In January 2009 the Dominican government convened the Summit for National Unity in the Face of the International Economic Crisis. The first stage of the summit ended in February and focused on proposals for addressing the international crisis; the second stage ended in May and dealt with initiatives for medium-term development.

In the economic arena, beyond the monetary policy measures mentioned above, other measures included granting fiscal incentives to build affordable housing, creating a 1.5 billion peso fund to support small and medium-sized enterprises and the extension of tax exemptions for the agricultural sector.

Social policy focused on broadening coverage for the contributory family health insurance scheme, launching a pilot programme for subsidized contributory social security and increasing transfers to the Solidarity Programme, which includes subsidized food purchases, promoting school attendance and assistance to older adults.

3. The main variables

(a) Economic activity

GDP growth in 2008 stood at 5.3%, which represents a sizable slowdown with respect to the previous two-year period. During the first quarter of 2009, the economy grew by 1%, owing to a recovery in the agricultural sector as of the last quarter of 2008 and continued buoyancy in the communications and financial sectors. Consequently, ECLAC predicts a growth rate of 1.0% for 2009.

This sizable drop in real GDP growth in 2008 was driven by a contraction in exports (-2.6%) which was not sufficiently offset by vibrant domestic demand (7.5%). Private consumption slowed by almost two percentage points and stood at 7.1%. This result can be traced to the restrictive measures applied by the central bank and the sudden slowing in the growth of remittances (2.1% as compared with 11.2% in 2007). Public consumption, for its part, grew by 7.7%.

Following double-digit growth rates in the previous two years, gross capital formation was up 9.2% in real terms in 2008 owing to a contraction in the construction sector, which was offset by investments in machinery and equipment. Given the decline in demand growth, imports decelerated by more than two percentage points, growing by 4.5%.

The agricultural sector contracted by 3.4%, owing to damage caused by the six tropical storms that have hit since the end of 2007. Agricultural production contracted by 9.3% in 2008.

Mining suffered a significant contraction (-30.3%), affected by the temporary closure of the principal ferronickel production company. Construction also underwent a slight reduction (-0.4%), while manufacturing expanded by 2.6%.

The service sector grew by 8.3%. The most buoyant segments included communications (19.9%) and financial intermediation (13.7%), both of which kept up the favourable performance seen in recent years.

Commerce recorded growth of 5%, a steep deceleration in comparison with the vibrant expansion seen in this sector over the last three years (13.6%). This deceleration worsened as of the third quarter of 2008, owing to reduced availability of consumer credit associated with higher interest rates.

The number of visitors to the country was practically unchanged in 2008 with respect to 2007. A 5% increase in average spending by non-resident foreign visitors played a part in the 3.4% expansion of the hotels, bars and restaurants sector. Lastly, the community, social and personal services sector recorded 3.5% growth, one percentage point less than in 2007.

(b) Prices, wages and employment

In the first half of 2008, the consumer price index was affected by rising international prices for food and fuel, as well as pressure from buoyant domestic demand. Consequently, 12-month inflation hit 14.6% in September. As expected, food and transport were the areas that recorded the sharpest rise in prices, with average increases of over 14% throughout the year.

Given the disappearance of external inflationary pressures in the second half of the year and the effects of monetary policy measures, negative monthly inflation rates were observed in the last quarter. The 12-month rate in December 2008 was 4.5%, which was the target set in the monetary programme.

Although monthly inflation has been positive since January 2009, the cumulative increase in the consumer price index as of May was only 1%. As such, a low inflation rate is expected at year's end.

Despite the deceleration of economic activity, both the open unemployment and the broad unemployment rates showed significant improvement and stood at 4.2% and 14.1%, respectively. In 2008, 105,639 new jobs were created, which is equivalent to an increase of 3% and slightly lower than the figure for 2007 (3.3%). Nevertheless, the effects of the crisis were felt in terms of employment quality, as job creation fell by 0.4% in the formal sector and grew by 4.5% in the informal sector.

Nominal minimum wages in the private sector rose slightly in 2008, while those in the public sector grew significantly. Thus, taking into account the 12-month inflation rate, in real terms minimum wages fell 1.1% in the private sector, while wages in free-zone companies and the public sector rose by 5.4% and 32.8% respectively.

(c) The external sector

The current account deficit practically doubled in 2008 as a proportion of GDP (9.7%), as compared with the 2007 figure. Most of this deficit was financed by foreign direct investment, which reached a record high of US$ 2.885 billion. The widening of the deficit is attributable to an increase in imports (18%) —which reflects the rising oil bill— and a fall in exports (-3%), linked to the fall in ferronickel exports.

On the basis of data from the first quarter of 2009, a severe contraction is projected in external trade. Imports have fallen by almost 30% and exports by 24% with respect to the same period in 2008.

The service balance rose by 2.4% in 2008, recording a surplus of US$ 3.093 billion. The goods balance, on the other hand, shrank by 7% compared with the same period in 2007. This result reflects 5.3% fewer non-residential tourist arrivals than in the same period the year before.

The loss of buoyancy in the world economy was also felt in terms of a significant deceleration in remittances (2.1%). As a result, net current transfers grew by only 0.9% in 2008 compared with 8.9% the year before. This decline continued in the first quarter of 2009 and the year-on-year contraction topped 5%.

The increase in FDI flows in 2008 can be mainly attributed to the sale of shares of the spirits company Brugal. FDI flows are expected to reach close to US$ 1.5 billion in 2009, similar to the figure recorded in the period 2006-2007. Approximately US$ 1 billion of that amount corresponds to investments announced by the mining company Barrick Gold in its development of the Pueblo Viejo mine.

The financial account balance stood at US$ 3.832 billion, while the balance-of-payments deficit —including errors and omissions— was US$ 319.7 billion (0.7% of GDP).

International reserves were used in 2008 to boost liquidity in the financial markets and prevent further depreciation of the peso. Towards the end of November, net international reserves had fallen by US$ 400 million with respect to December 2007. This trend was reversed in December 2008 and by mid-May 2009, net international reserves reached US$ 2.117 billion, equivalent to nearly two months' worth of imports.