

DOMINICAN REPUBLIC

1. General trends

The economy of the Dominican Republic grew by 7.0% in 2015, compared with 7.3% in 2014. That growth is driven by buoyant domestic demand and favourable external conditions, including the sharp fall in oil prices and economic growth in the United States. The upswing in the United States economy is driving up Dominican exports (chiefly from free zones) and inflows from tourism, remittances and investment. On the demand side, investment contributed significantly (5.2%) to that growth, while public and private consumption contributed 1.0% and 3.4%, respectively. Net exports had a negative impact (-2.6%).

The central government posted its first surplus since 2007 at the end of 2015 (0.1% of GDP), representing a significant improvement on the 2014 deficit of 2.8% of GDP. This positive result was due largely to a one-off transaction to buy back, at a discount, PetroCaribe debt. Meanwhile, the decline in oil imports, together with significant increases in tourist arrivals, remittance flows and free zone exports, led to a reduction in the current account deficit, from 3.3% of GDP in 2014 to 1.9% in 2015. Inflation was 2.3% at the end of 2015, below the floor of the central bank's target range (between 3.0% and 5.0%).

Presidential elections were held in May 2016. With the re-election of President Danilo Medina, the national economic policy stance is expected to remain unchanged.

According to ECLAC estimates for 2016, the economy of the Dominican Republic is expected to grow at a pace commensurate with the country's potential output, at around 5.5%. Growth in the construction sector, though expected to continue having the greatest influence on overall economic growth of any sector, will slow down from the double-digit rates of the past two years. Other factors driving growth will depend on the continuation of favourable external conditions—with the expectation that the United States economy will continue to perform well and that fuel prices will remain low—and the strong performance of the tourism and mining sectors. In accordance with the fiscal consolidation programme, the central government deficit is expected to be 2.3% of GDP at the end of 2016, which would mean a primary surplus of close to 0.6% of GDP. Such a result would be in line with the downward trend that has been seen in the public deficit since 2012 (excluding the surplus recorded in 2015, which was the temporary effect of the aforementioned one-off transaction). With regard to the external accounts, increasing tourist and remittance inflows, together with the uptick in mining exports and low oil prices, will be enough to offset the rise in imports of consumer and capital goods caused by buoyant domestic demand. As a result, the current account deficit should be around 2.0% of GDP by the end of 2016. Inflation is expected to hit the lower limit of the central bank's target range towards the end of the year.

2. Economic policy

(a) Fiscal policy

The authorities' efforts to increase tax receipts and establish greater control over current expenditure were reflected in the central government's public accounts for 2015. Current revenue was up by 5.7% in real terms, owing largely to the 9.4% rise in indirect tax revenues. Meanwhile, total

expenditure increased by 6.4% in real terms, as current spending edged up by 3.4%. Spending on wages and salaries climbed by 19.4% and debt interest by 13.5%, while current transfers were down by 14.0%, thanks to a sharp fall in oil prices, which led to a significant improvement in the accounts of State-owned energy companies. The savings made in current transfers were channelled largely into capital transfers, which jumped by 35.1% in real terms in 2015. A further significant factor in the 21.4% rise in capital spending was the 16.6% growth in fixed investment as a result of government efforts to close national infrastructure gaps, mainly through road infrastructure projects.

In the light of these variations in revenue and expenditure flows, the central government fiscal balance at the end of 2015 would have been similar to that of 2014, that is, with a deficit of around 2.9% of GDP (implying a primary deficit of 0.3% of GDP), had it not been for a one-off transaction to buy back PetroCaribe debt (at a discount of 52% of face value), which generated savings of approximately US\$ 2.1 billion. That transaction was recorded as a capital grant (in line with the internationally established accounting standards for this type of operation) and, as a result, the central government posted a surplus of 0.1% of GDP in 2015.

At the end of 2015, the public debt balance stood at 35.9% of GDP (compared with 37.2% of GDP in 2014). Of this, external debt accounted for 66.4% and domestic debt for 33.6%. Decreasing debt levels were mainly driven by savings generated by the aforementioned debt buy-back, which was partially offset by issuing bonds in international markets (worth US\$ 3.5 billion) and the deficit balance of the regular central government operations. Meanwhile, improvements in public sector finances were reflected in upgrades of the country's sovereign credit ratings, with the credit rating agency, Standard & Poor's, raising its assessment from B+ to BB-, while Fitch Ratings revised the country's rating outlook from stable to positive.

In 2016, in line with efforts to balance the public accounts, revenues are expected to increase slightly more than expenditure. In January 2016, bonds worth US\$ 1 billion were issued on the international market. Public debt reached US\$ 25.391 billion in May 2016, representing an increase of US\$ 1.237 billion since the close of 2015.

(b) Monetary policy

In a climate of low inflationary pressure, the central bank adopted an expansionary monetary policy in 2015. The base rate was cut on three occasions between March and May, bringing it down from 6.25% to 5.0%. In March the central bank also authorized the release of up to 10 billion pesos from commercial banks' reserve requirements, on the condition that they increased lending for construction and home mortgages.

As regards interest rates in the financial system, the lowering of the monetary policy rate in the first half of 2015 was reflected in a downward trend in both nominal lending and deposit rates during this period. The average nominal lending rate fell from 15.55% in January to 14.28% in June. However, this trend had been reversed by the third quarter and the rate edged back up to 15.50% at the end of the year. The average nominal deposit rate also dropped from 6.56% in January to 5.45% in July, but then increased consistently over several months to reach 7.34% in December. The average real interest rates followed a similar trajectory. The real deposit rates of commercial banks fell from 3.27% in January to 2.53% in July, but then increased to reach 4.10% in December. Meanwhile, the real lending rate fell by 1.34 percentage points over the first half of the year to 10.78% in July, but then rose to 13.13% by the end of the year. The uptick in interest rates during the second half of 2015 was consistent with the tighter liquidity in the market during this period.

As a result of the measures adopted and robust domestic demand, total lending to the private sector saw nominal growth of 12.6% in 2015. Foreign-currency lending expanded by slightly more than national-currency lending (14.8% as against 12.1%). Contributing factors were the low levels of inflation in 2015, which kept real, national-currency interest rates high. The sectors with the highest growth in borrowing were the mining industry (55.9%), micro-businesses (33.7%), and hotels and restaurants (23.8%).

During the first months of 2016, the central bank maintained its neutral monetary policy stance and held the base rate at 5.00%. In June 2016, the year-on-year increase in total lending was 14.4%, with the greater share going to the electricity, gas and water, mining, hotel and restaurant sectors. Moderate credit growth is expected during the second half of 2016, rising to around 10.0% by the end of the year.

(c) Exchange-rate policy

The Dominican peso depreciated by 3.0% in nominal terms against the United States dollar in December 2015, compared with its value at the end of 2014. The moderate changes seen in the exchange rate in 2015 were attributable to the improved terms of trade and, in particular, the lower oil bill.

Moreover, the real effective exchange rate calculated by ECLAC, expressed as an index,¹ increased from 97.6 at the end of 2014 to 99.3 in the last quarter of 2015, representing a real depreciation of the peso and revealing that nominal variation was enough to offset the relative rise in domestic prices.

Between year-end 2015 and May 2016, the peso depreciated by 0.8%.

(d) Other policies

In July 2015, the Dominican and Puerto Rican authorities signed a bilateral cooperation agreement to expand and strengthen mutually beneficial activities in the agricultural sector, and to promote cooperation on training and knowledge- and information-sharing in that sector.

The securities market bill was submitted to Congress in March 2016. The main objective of the bill is to reform the existing law (in force since 2000) by updating the legal framework—including by imposing more severe penalties for abusive or fraudulent practices, offering greater protection for investors and harmonizing local regulations with international standards—and promoting the country's capital market.

3. The main variables

(a) The external sector

In 2015, exports and imports contracted by 3.8% and 2.4%, respectively. Most notably, national exports fell by 13.5% as a result of the falling prices of many export commodities (particularly gold and silver); the temporary cessation of operations by one of the country's largest mining companies during the first half of the year; the ban imposed by the United States on 18 Dominican agricultural products after the Mediterranean fruit fly was detected in the Dominican Republic; and the ban introduced by Haiti (the Dominican Republic's second largest trading partner) on land-based trade in 23 products. This decline in exports was offset partly by the rise in shipments from free zones, which increased by 4.8%, particularly

¹ This index corresponds to the real effective bilateral exchange rate with the United States.

as a result of the greater volume of exports of tobacco products (16.1%) and medical and surgical equipment (8.1%).

The modest growth in imports corresponded to the sharp fall in the cost of fuel (34.9%), thanks to the drop in oil prices. Non-oil imports were up by 7.0%, on the back of a 23.8% rise in capital goods imports, reflecting the country's buoyant economy.

In contrast with the sluggish growth in flows of goods, tourist arrivals and remittances increased significantly in 2015, by 8.9% and 8.5%, respectively, owing to economic growth in the United States, which is the leading source of tourists and the main destination country for Dominican migrant workers. As a result of the upswing in these two inflows, both the services balance surplus and transfers surplus increased markedly, which led to a narrowing of the current account deficit for the fifth year in a row, from 3.3% in 2014 to 1.9% in 2015.

Meanwhile, foreign direct investment flows totalled US\$ 2.222 billion, up by 0.6% on the figure for 2014. The highest growth was seen in inflows to tourism, real estate and free zones. Net international reserves amounted to US\$ 5.195 billion at the end of 2015, US\$ 545 million more than in 2014.

In the first quarter of 2016, exports contracted by 2.1%, as the 4.6% fall in exports from free zones was partly offset by the 1.1% rise in national exports, owing in particular to the sound performance of gold and copper exports during this period. On the other hand, imports contracted by 2.2%, owing to the decline in oil prices in the first months of the year. Following the trend set in 2015, both remittances and tourism revenues surged in the first quarter of 2016, by 7.4% and 7.6%, respectively.

(b) Economic activity

In 2015, economic expansion in the Dominican Republic continued to outpace the long-term potential growth rate, as total consumption grew by a robust 5.1% and gross fixed capital formation swelled by 20.4%, stemming from large-scale investment in both public (roads, hospitals, schools) and private (low-cost housing, hotels) construction projects.

The most buoyant sector in 2015 was construction (19.1%), followed by financial intermediation (9.3%), commerce (8.6%) and education (8.4%). At the same time, the hotel, bar and restaurant sector grew by 6.3%, reflecting the importance of the tourism industry for the country. It should be noted that the mining sector contracted by 10.0% as a result of the aforementioned temporary cessation of operations by a mining company.

In the first quarter of 2016, the Dominican economy saw year-on-year growth of 6.1%. This was attributable mainly to the rebound in the mining sector (33.8%) and the sustained expansion of the construction (8.8%) and financial intermediation (12.0%) sectors.

(c) Prices, wages and employment

While year-on-year inflation in 2015 was higher than the year before (2.3% versus 1.6% in 2014), it remained below the floor of the central bank's target range of 4.0%, with a 1-percentage-point margin in either direction. This low rate was due to the easing of external inflationary pressures over the course of the year as oil prices fell sharply. The slump in fuel prices was partly offset by higher food prices, as a result of the drought that hurt food production in some parts of the country in 2015.

As for the employment situation, 173,402 net new jobs were created between April 2015 and April 2016 thanks to economic expansion.² Meanwhile, the open unemployment rate decreased from an average of 6.4% in 2014 to 5.9% in 2015. The open unemployment rate for men fell from 4.5% to 4.0%, while for women it dropped from 9.5% to 9.0%.

Minimum wages paid by private sector companies were up by 11.4% in real terms, while overall real wages rose by 6.3% on average over the course of 2015.

The downtrend in fuel prices is keeping inflation low and, in April 2016, year-on-year inflation was 1.8%, well below the floor of the target range, which was set at between 3.0% and 5.0% for 2016.

² According to data from the National Workforce Survey.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
	Annual growth rates b/								
Gross domestic product	8.5	3.2	0.9	8.3	3.1	2.8	4.7	7.6	7.0
Per capita gross domestic product	7.0	1.8	-0.4	6.9	1.8	1.5	3.5	6.3	5.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	1.2	-2.7	10.2	7.0	7.8	2.7	2.5	3.2	1.2
Mining and quarrying	-1.4	-29.1	-37.8	2.4	99.4	12.4	145.5	22.3	-10.0
Manufacturing	2.4	5.0	-5.2	8.7	3.7	0.5	3.3	5.1	5.5
Electricity, gas and water	9.7	3.9	-6.2	14.3	3.5	2.5	-0.1	4.7	7.5
Construction	3.2	1.8	-3.0	11.6	-3.9	-6.0	8.0	14.5	19.8
Wholesale and retail commerce, restaurants and hotels	9.3	3.5	1.4	7.3	3.7	4.6	3.5	6.7	6.2
Transport, storage and communications	12.5	7.8	5.4	9.6	4.2	7.7	4.4	6.8	8.1
Financial institutions, insurance, real estate and business services	11.0	4.5	5.9	4.5	2.8	2.5	3.6	4.8	5.4
Community, social and personal services	4.5	6.7	4.6	6.8	3.5	5.5	4.2	4.8	4.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	8.9	3.0	4.8	5.8	-1.8	6.2	-4.9	6.4	7.3
Government consumption	10.0	5.4	5.6	7.0	4.4	1.9	2.3	3.6	4.8
Private consumption	8.9	2.7	4.7	5.6	-2.7	6.8	-5.9	6.8	7.7
Gross capital formation	12.4	13.9	-14.8	22.1	9.5	-8.7	18.7	7.2	14.0
Exports (goods and services)	3.2	-4.6	-8.5	15.9	7.3	5.8	8.5	7.3	2.5
Imports (goods and services)	6.8	5.5	-10.5	18.4	0.0	1.9	-3.6	4.1	11.0
Investment and saving c/	Percentajes of GDP								
Gross capital formation	28.4	30.0	23.6	26.2	24.8	24.2	23.7	23.9	23.5
National saving	23.4	20.6	18.7	18.7	17.2	17.6	19.6	20.6	21.6
External saving	4.9	9.4	4.8	7.5	7.5	6.6	4.1	3.3	1.9
Balance of payments	Millions of dollars								
Current account balance	-2,166	-4,519	-2,331	-4,006	-4,359	-3,971	-2,537	-2,141	-1,307
Goods balance	-6,437	-9,245	-6,813	-8,395	-8,940	-8,738	-7,377	-7,374	-7,340
Exports, f.o.b.	7,160	6,748	5,483	6,815	8,362	8,936	9,424	9,899	9,523
Imports, f.o.b.	13,597	15,993	12,296	15,210	17,302	17,673	16,801	17,273	16,863
Services trade balance	3,053	2,962	2,987	2,244	2,924	3,202	3,688	4,190	4,398
Income balance	-2,183	-1,748	-1,721	-1,306	-2,176	-2,344	-2,994	-3,265	-3,045
Net current transfers	-2,183	-1,748	-1,721	-1,306	-2,176	-2,344	-2,994	-3,265	-3,045
Capital and financial balance d/	2,793	4,193	2,737	4,077	4,521	3,530	3,877	2,789	2,077
Net foreign direct investment	1,667	2,870	2,165	1,622	2,277	3,142	1,990	2,209	2,222
Other capital movements	1,125	1,323	572	2,455	2,245	388	1,887	580	-145
Overall balance	626	-326	406	71	163	440	1,341	648	770
Variation in reserve assets e/	-682	309	-638	-466	-339	548	-1,146	-195	-407
Other financing	56	17	232	396	177	-108	-197	-455	-365
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	105.0	105.9	110.5	108.9	110.3	112.3	115.8	120.7	124.1
Terms of trade for goods (index: 2010=100)	100.5	96.0	103.8	100.0	94.7	93.8	91.5	93.4	101.0
Net resource transfer (millions of dollars)	665	2,462	1,248	3,167	2,522	1,079	686	-931	-1,333
Gross external public debt (millions of dollars)	6,556	7,219	8,215	9,947	11,625	12,872	14,919	16,074	16,029
Employment	Average annual rates								
Labour force participation rate g/	57.1	57.4	55.2	56.5	57.8	59.0	58.7	59.1	59.3
Open unemployment rate h/	5.4	5.3	5.8	5.7	6.7	7.2	7.9	7.2	6.9

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	8.9	4.5	5.7	6.3	7.8	3.9	3.9	1.6	2.3
Variation in nominal exchange rate (annual average)	-0.3	4.3	4.3	2.5	3.3	3.1	6.3	4.1	3.5
Variation in minimum real wage	4.8	-6.5	7.0	-0.4	1.2	2.8	3.1	2.3	7.2
Nominal deposit rate i/	7.0	10.3	7.8	4.9	7.9	7.5	6.0	6.7	6.6
Nominal lending rate j/	15.5	13.6	13.9	14.9
Central government	Percentajes of GDP								
Total revenue k/	16.6	15.0	13.2	13.1	12.9	13.6	14.4	14.8	14.8
Tax revenue	14.9	14.2	12.7	12.3	12.4	13.1	13.7	13.8	13.9
Total expenditure	16.0	18.6	16.3	15.7	15.0	18.8	17.1	17.3	17.3
Current expenditure	12.1	13.8	12.8	12.1	12.0	13.2	13.8	14.6	14.7
Interest	1.5	1.6	1.8	1.9	2.0	2.4	2.3	2.5	2.9
Capital expenditure	3.9	4.9	3.5	3.6	3.1	5.6	3.3	2.7	2.6
Primary balance	2.1	-2.0	-1.3	-0.7	-0.1	-2.8	-0.4	-0.1	0.5
Overall balance l/	0.6	-3.6	-3.0	-2.6	-2.1	-5.2	-2.7	-2.6	-2.4
Central government public debt	16.9	23.2	27.1	27.6	28.8	31.7	37.7	37.1	35.1
Domestic	1.9	7.8	10.0	8.8	8.5	10.4	13.4	12.0	11.4
External	15.1	15.4	17.1	18.8	20.4	21.3	24.4	25.1	23.8
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	37.4	37.7	38.1	37.2	37.7	39.5	39.5	40.9	44.6
To the public sector	17.3	18.8	20.6	19.0	19.0	22.6	23.4	23.5	26.8
To the private sector	20.7	20.7	21.5	22.7	22.9	22.5	23.7	26.0	27.1
Others	-0.7	-1.8	-4.1	-4.5	-4.3	-5.6	-7.6	-8.5	-9.4
Monetary base	8.4	8.1	8.0	7.3	7.0	7.0	6.5	0.1	7.2
Money (M1)	9.6	7.7	8.8	8.4	7.9	8.1	8.6	8.6	8.9
M2	26.7	24.5	26.9	25.9	25.6	25.9	26.4	26.5	27.4
Foreign-currency deposits	6.1	5.8	6.1	6.6	7.2	7.5	8.0	7.7	8.1

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 2007 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Nationwide total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

i/ 90-day fixed-term certificates of deposit, weighted average..

j/ Prime lending rate.

k/ Includes grants.

l/ The overall balance includes the residue.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	7.6	7.8	7.8	7.3	6.9	7.5	7.9	6.0	6.1	...
Gross international reserves (millions of dollars)	3,903	5,096	4,539	4,575	4,751	4,957	4,884	4,972	5,327	5,038 c/
Real effective exchange rate (index: 2005=100) d/	119.1	120.5	121.5	121.7	122.3	124.3	124.4	125.2	125.5	127.2 c/
Consumer prices (12-month percentage variation)	3.0	3.7	2.8	1.6	0.6	0.6	0.4	2.3	1.6	1.7 c/
Average nominal exchange rate (pesos per dollar)	43.1	43.2	43.6	44.0	44.7	44.8	45.1	45.4	45.7	45.9
Nominal interest rates (average annualized percentages)										
Deposit rate e/	7.3	7.1	5.3	7.2	7.1	6.1	6.0	7.1	7.2	7.2
Lending rate f/	14.7	13.8	13.1	14.0	15.1	14.6	14.3	15.6	15.5	15.0
Interbank rate	6.4	6.5	6.4	6.5	6.5	5.8	5.6	5.8	6.1	6.0
Monetary policy rates	6.3	6.3	6.3	6.3	6.1	5.3	5.0	5.0	5.0	5.0
Sovereign bond spread, Embi Global (basis points to end of period) g/	330	326	351	381	379	351	437	421	434	428
International bond issues (millions of dollars)	-	1250	250	-	2,500	1,000	-	-	1,000	870
Domestic credit (variation from same quarter of preceding year)	12.5	10.8	9.4	13.8	10.2	15.3	16.5	17.6	15.4	17.2 c/
Non-performing loans as a percentage of total credit	2.2	2.2	2.0	1.7	1.6	1.6	1.7	1.7	1.8	1.8

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 2007 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ 90-day fixed-term certificates of deposit, weighted average.

f/ Prime lending rate.

g/ Measured by J.P.Morgan.