Dominican Republic

The economy of the Dominican Republic is estimated to have grown by 4.5% in 2008. While this is the lowest figure in four years, it still exceeds the rate of demographic growth, producing a 3% rise in per capita GDP. Annual inflation is estimated at 7% and the deficits of the non-financial public sector (NFPS) and the current account are equivalent to 3.2% and 12.6% of GDP, respectively. Against the background of international financial crisis and the contraction of the world economy, the growth rate of the country's GDP is expected to fall to 1.5% in 2009. The annual inflation rate is expected to decline because of slower economic growth and falling international oil prices.

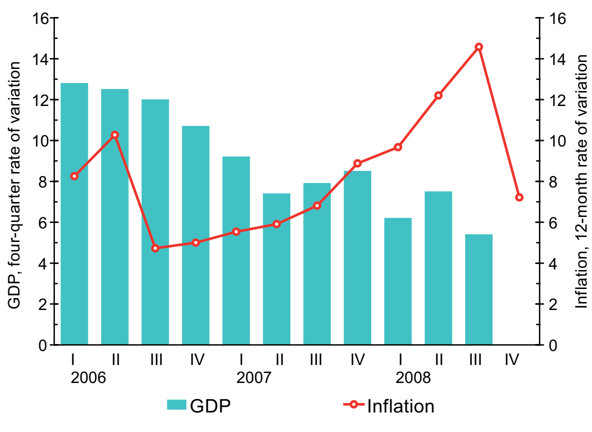
As in 2007, GDP growth in 2008 was mainly driven by internal demand. It was particularly strong in the first half of the year, with annualized real growth of 13%. Over the year as a whole, private consumption and gross fixed investment were the main engines of growth.

The growth of public spending is estimated to have picked up in 2008, with an annual expansion of 18.6% in real terms. As a result, it is expected to be equivalent to 20.3% of GDP, an increase of about three percentage points over 2007; this represents a considerable change in the country's fiscal situation. The factors underlying this trend include higher central government spending in the context of the electoral process which culminated with the presidential election in May and, above all, increased subsidies granted to several productive and social sectors to mitigate the effects of rising world prices of foodstuffs and fuels and the impacts of tropical storm Hanna and hurricane Ike. During the period from January to November 2008, the real value of central government transfers was 32% above the level recorded a year earlier.

As a proportion of GDP, total central government revenue were down about one percentage point, from 17.9% to 17.1%, as a result of a fall in receipts caused by slower economic growth. By the end of 2008, the real value of tax revenue was around 5.6% lower than in 2007. Corporate income taxes, the second-largest component of tax revenue, showed a real-terms fall of 15% against the previous year's figure, and receipts from the Tax on the Transfer of Industrialized Goods and Services (ITBIS), which generates a quarter of the total tax take, were stalled in real terms. Tax receipts from personal incomes, property taxes and oil taxes were expected to be higher.

As a result, the fiscal situation of the non-financial public sector in the Dominican Republic experienced a drastic change in 2008, with a deficit equivalent to 3.2% of GDP compared with a surplus of 0.4% in 2007. Together with the quasi-fiscal deficit inherited from the banking collapse of 2003, the consolidated public-sector deficit at the end of 2008 is forecast at 5.3% of GDP.

DOMINICAN REPUBLIC: GDP AND INFLATION



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

External inflationary pressures forced the monetary authorities to cut back on liquidity in order to reduce the impact of the external shock on the levels of domestic prices. The interest rate for interest-bearing short-term deposits, which stood at 7% in January 2008, was gradually adjusted upwards, reaching 9.5% in November. These changes were gradually passed on to other interest rates in the financial system from the second quarter of 2008. Furthermore, beginning in the second half of the year, the monetary authorities decided that commercial banks must keep 20% of their deposits in their central-bank accounts as part of the reserve requirement. The interest rate on three-year non-redeemable bonds issued by the central bank was increased to 18%, two points above its initial level.

The nominal exchange rate remained stable in 2008. Its level in late November was 6.2% higher than the average rate in late December 2007. Deteriorating fiscal balances and the worsening international situation, as well as rising domestic inflation, have put some pressure on the currency market, but this has been effectively defused by the monetary authorities thanks to the managed-float policy followed since 2004.

In the first half of the year, productive activity continued the upward trend seen over the previous three years (with an annualized growth rate of 7.5%), but from July onwards there were clear signs that growth was slowing. It is estimated that at the end of the year, above-average rates of growth will be recorded in energy and water production (9%), transport, storage and communications (10%), commerce, hotels and restaurants (6%) and financial and business services (5.5%). Growth in construction (2%), manufacturing (1%) and community, social and personal services (2%) is expected to lag behind that of the economy as a whole, while the agricultural sector and mining will experience negative growth of 7% and 9%, respectively.

The continuing price rises for food and oil in the world market, as well as the impacts of tropical storms on the prices of various staple foods, had a considerable effect on inflation. In the last quarter of 2008, external inflationary pressures trended downwards because world oil prices began to fall.

Against a background of continuing strong economic growth, the broad unemployment rate fell again in the first half of 2008. The April figures from the National Labour Force Survey showed a fall of 1.6 percentage points against the October 2007 figure. As of October 2008, the rate is estimated to have remained at the same level (14%), the lowest since 2000. In accordance with labour laws, the minimum wage is reviewed every two years, so no upward adjustment is expected before the first quarter of 2009.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2006	2007	2008 [a]
	Annual growth rates		
Gross domestic product	10.7	8.5	4.5
Per capita gross domestic product	9.0	6.9	3.0
Consumer prices	5.0	8.9	7.2 [b]
Real minimun wage	-7.1	4.8	-7.3
Money (M1)	10.0	26.9	...
Terms of trade	-1.0	3.3	-5.6
	Annual average percentages		
Urban unemployment rate [c]	16.2	15.6	14.0 [d]
Central government overall balance / GDP	-1.1	0.6	-3.2
Nominal deposit rate [e]	9.8	7.0	10.4 [f]
Nominal lending rate [g]	15.7	11.7	15.5 [h]
	Millions of dollars		
Exports of goods and services	11 153	11 927	12 162
Imports of goods and services	13 731	15 540	19 442
Current account	-1 262	-2 231	-5 824
Capital and financial account	1 452	2 888	5 508
Overall balance	190	657	-316

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 2008.
[c] Includes hidden unemployment.
[d] Figure for April.
[e] 90-day certificates of deposit.
[f] Average from January to October, annualized.
[g] Prime rate.
[h] Average from January to November, annualized.

The value of total goods exports will remain at the 2007 level. The main factor in this result has been the sharp decline in the value of ferronickel exports which resulted from a 38.3% nosedive in world prices for that product. Exports from the free trade zones fell once more, although less steeply than in 2007 (-1.5%), owing to a further steep fall in textile manufactures (-19%). The value of imports saw another annual increase (27%). This was mostly due to the country's growing oil bill, which rose by a cumulative 58.5% over the first three quarters compared with the same period in 2007. The balance-of-payments current account deficit is estimated at US$ 5.8 billion, and as a proportion of GDP, it grew considerably in 2008, from 5.3% to 12.6%.

The net current transfers of the balance of payments are estimated at almost 4% more than those in 2007. Family remittances during the period will come in at close to US$ 3.1 billion, a 5% increase. The balance-of-payments capital account was positive. The cumulative figure for foreign direct investment (FDI) to September stood at US$ 2.353 billion, 133% above the figure for the same period in 2007. External investment flows were mostly focused on new projects in manufacturing and telecommunications. At the end of the third quarter, available net reserves stood at US$ 2.088 billion, equivalent to 1.5 months' worth of goods imports.