

Dominican Republic

1. General trends

Despite the international financial crisis, the Dominican economy grew by 3.5% in 2009 (2.1% per capita). This growth reflects a significant upturn in economic activity starting in the fourth quarter of 2009, associated with the fiscal impulse financed with multilateral resources under a new agreement signed with the International Monetary Fund (IMF).

In spite of the fiscal stimulus, and as a result of previous adjustments, the central government's primary deficit narrowed from 1.9% to 1.5% of GDP. Owing to higher spending on interest payments, however, the overall deficit remained at a similar level to that recorded in 2008, at 3.4%. Starting in the second half of 2010, the administration intends to implement a fiscal consolidation plan to lower the central government deficit to 2.6% of GDP.

The sharp deterioration in domestic demand, which grew by a mere 1.2%, compared with 8.1% in 2008, and the improvement seen in the terms of trade led to a drop in the current account deficit from 9.9% in 2008 to 5% in 2009.

With a view to mitigating the effects of the international financial crisis, the central bank significantly reduced its reference rate in 2009. However, 12-month inflation came in at 5.8%, lower than the target set forth in the monetary programme because of lower domestic demand and the drop in international food and fuel prices.

Although GDP grew by 7.5% during the first quarter of 2010, economic activity is projected to slow from the second half of the year as a result of fiscal consolidation. Consequently, ECLAC projects GDP growth of close to 6% for 2010.

2. Economic policy

(a) Fiscal policy

After a substantial increase in 2008, government spending decreased significantly in the first nine months of 2009 because of a loss of buoyancy in economic activity and difficulties in securing financing.

In October 2009, the government announced the signing of a 28-month, US\$ 1.7 billion drawing rights agreement with IMF. The agreement helped to provide a fiscal stimulus equivalent to approximately 1% of GDP from the fourth quarter, according to official estimates.

The central government's fiscal deficit was 3.4% of GDP, similar to that posted in 2008. The tax burden fell from 15% to 13.1% of GDP because of a 7.6% decline, in real terms, in indirect tax revenues. For the second consecutive year, non-tax revenue fell by more than 40% in real terms, owing to the sharp drop in ferronickel exports.

Current spending declined by 3.1% in real terms as a result of the 17.9% reduction in current transfers caused, in turn, by cuts in subsidies to the electricity sector and falling international fuel prices. Debt interest payments

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
Annual growth rates^b									
Gross domestic product	1.8	5.8	-0.3	1.3	9.3	10.7	8.5	5.3	3.5
Per capita gross domestic product	0.2	4.2	-1.8	-0.2	7.7	9.1	6.9	3.8	2.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	9.5	2.5	1.8	-2.5	5.9	8.6	1.2	-3.4	12.5
Mining and quarrying	-13.5	7.7	8.8	5.8	-0.1	11.0	-1.4	-30.3	-51.9
Manufacturing	-1.9	4.9	0.9	2.4	6.3	3.2	2.4	2.6	-1.2
Electricity, gas and water	15.1	9.7	-6.9	-23.8	4.8	6.3	9.7	10.3	3.0
Construction	-3.9	4.6	-17.1	-2.3	9.2	24.6	3.2	-0.4	-3.9
Wholesale and retail commerce, restaurants and hotels	-1.0	4.5	-2.3	-1.2	12.5	8.3	9.3	4.3	-3.1
Transport, storage and communications	19.8	15.1	5.7	6.5	18.9	17.8	12.5	15.5	10.6
Financial institutions, insurance, real estate and business services	7.4	7.7	3.9	-1.6	2.0	9.0	11.0	7.3	5.2
Community, social and personal services ^c	2.1	4.1	3.5	2.7	-1.2	5.8	4.5	3.5	5.7
Gross domestic product, by type of expenditure									
Gasto de consumo final	3.5	5.7	-4.9	3.1	15.4	12.0	8.9	7.8	4.9
Consumo del gobierno	9.2	8.0	-12.6	3.8	10.2	11.0	10.0	7.7	-3.4
Consumo privado	3.3	5.6	-4.6	3.1	15.7	12.0	8.9	7.8	5.2
Gross capital formation	-3.9	3.5	-28.0	-2.3	13.1	20.8	12.4	9.2	-14.7
Exports (goods and services)	-6.1	2.0	10.6	3.6	-1.2	0.7	3.2	-4.0	-7.4
Imports (goods and services)	-4.7	1.5	-12.9	5.3	11.3	8.2	6.8	4.7	-9.8
Percentages of GDP									
Investment and saving^d									
Gross capital formation	21.1	21.2	15.0	14.9	16.5	18.4	18.9	18.3	14.8
National saving	18.0	18.0	20.1	19.7	15.1	14.8	13.6	8.4	9.8
External saving	3.0	3.2	-5.2	-4.8	1.4	3.6	5.3	9.9	5.0
Millions of dollars									
Balance of payments									
Current account balance	-741	-798	1 036	1 041	-473	-1 288	-2 167	-4 529	-2 327
Goods balance	-3 503	-3 673	-2 156	-1 952	-3 725	-5 564	-6 437	-9 245	-6 820
Exports, f.o.b.	5 276	5 165	5 471	5 936	6 145	6 610	7 160	6 748	5 463
Imports, f.o.b.	8 779	8 838	7 627	7 888	9 869	12 174	13 597	15 993	12 283
Services trade balance	1 826	1 757	2 249	2 291	2 457	2 985	3 052	2 962	3 088
Income balance	-1 092	-1 152	-1 393	-1 825	-1 902	-1 853	-2 183	-1 759	-1 890
Net current transfers	2 028	2 269	2 336	2 528	2 697	3 144	3 401	3 513	3 296
Capital and financial balance ^e	1 256	243	-1 583	-862	1 178	1 482	2 794	4 203	2 736
Net foreign direct investment	1 079	917	613	909	1 123	1 085	1 563	2 971	2 158
Other capital movements	177	-674	-2 196	-1 771	55	397	1 231	1 232	578
Overall balance	515	-555	-546	179	705	194	627	-326	410
Variation in reserve assets ^f	-519	527	358	-542	-1 109	-344	-683	309	-641
Other financing	4	28	189	363	404	150	56	17	232
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) ^g	96.5	98.6	131.4	125.6	90.4	96.3	96.5	98.9	102.7
Terms of trade for goods (index: 2000=100)	100.9	101.5	97.9	96.7	95.8	94.9	98.0	93.6	101.3
Net resource transfer (millions of dollars)	168	-881	-2 787	-2 324	-321	-221	666	2 461	1 078
Total gross external debt (millions of dollars) ^h	4 176	4 536	5 987	6 380	5 847	6 296	6 556	7 226	8 200
Average annual rates									
Employment									
Labour force participation rate ⁱ	54.3	55.1	54.7	56.3	55.9	56.0	56.1	55.6	53.8
Open unemployment rate ^j	15.6	16.1	16.7	18.4	17.9	16.2	15.6	14.1	14.9
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.4	10.5	42.7	28.7	7.4	5.0	8.9	4.5	5.8
Variation in nominal exchange rate (annual average)	2.2	9.4	63.7	38.2	-26.9	12.4	-0.3	4.3	4.3
Variation in real minimum wage	5.7	-0.5	-9.2	-15.0	18.7	-7.1	4.8	-6.5	7.0
Nominal deposit rate ^k	16.1	16.4	20.6	21.1	12.7	9.8	7.0	10.3	8.1
Nominal lending rate ^l	20.0	21.3	27.8	30.3	21.4	15.7	11.7	16.0	12.9

Table 1 (concluded)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 ^a
	Percentages of GDP								
Central government									
Total revenue ^m	14.5	14.6	13.2	14.0	15.7	16.1	17.7	15.9	13.7
Current revenue	14.4	14.3	13.1	13.9	15.4	15.9	17.3	15.7	13.5
Tax revenue	14.0	13.8	12.1	12.9	14.6	14.9	16.0	15.0	13.1
Capital revenue	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	15.6	16.2	16.1	16.6	16.8	17.2	17.6	19.5	16.9
Current expenditure	10.5	10.5	10.2	12.5	12.6	13.0	13.0	14.4	13.3
Interest	0.8	1.1	1.6	1.8	1.3	1.4	1.2	1.6	1.9
Capital expenditure	5.0	5.7	5.9	4.1	4.3	4.2	4.6	5.1	3.6
Primary balance	-1.1	-0.2	-2.7	-1.6	0.7	0.3	1.4	-1.9	-1.5
Overall balance ⁿ	-1.9	-1.3	-4.3	-3.4	-0.6	-1.1	0.1	-3.5	-3.4
Central-government debt	...	...	...	...	22.0	20.4	18.4	24.4	28.0
Domestic	...	...	...	...	3.3	2.6	2.0	8.2	10.3
External	...	...	...	...	18.6	17.7	16.4	16.2	17.7
Money and credit^o									
Domestic credit ^p	37.0	36.9	51.3	36.3	30.6	26.7	26.2	24.8	26.2
To the public sector	1.0	1.5	1.6	5.9	10.4	17.9	17.4	18.0	19.1
To the private sector	32.7	33.6	37.1	23.4	23.3	19.6	21.6	20.9	21.3
Others	3.3	1.8	12.6	7.0	-3.2	-10.8	-12.8	-14.1	-14.2
Liquidity (M3)	37.9	35.7	49.8	39.1	37.3	33.8	34.5	31.4	33.4
Currency outside banks and local-currency deposits (M2)	32.1	28.2	40.2	32.5	30.0	27.3	28.0	25.3	27.1
Foreign-currency deposits	5.8	7.5	9.6	6.6	7.3	6.5	6.5	6.1	6.3

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 Includes gas supply and business services.

^d Based on figures in local currency expressed in dollars at current prices.

^e Includes errors and omissions.

^f A minus sign (-) denotes an increase in reserves.

^g Annual average, weighted by the value of goods exports and imports. Owing to lack of data, the period 2002-2009 has been weighted using trade figures for 2001.

^h Public and guaranteed private external debt.

ⁱ Economically active population as a percentage of the working-age population; nationwide total.

^j Percentage of the economically active population; nationwide total.

^k 90-day certificates of deposit.

^l Average of the benchmark rate.

^m Includes grants.

ⁿ Includes residuals.

^o The monetary figures are end-of-year stocks.

^p Figures refers to the Harmonized monetary and banking indicators.

rose by 24.9% in real terms, owing in part to the need to borrow on the domestic market in the first nine months of the year.

Despite the strong economic upturn in the fourth quarter, capital expenditures declined by 26.8% in real terms in 2009, reflecting the more than 30% fall in fixed investment.

The non-financial public sector's total debt stood at US\$ 13,239 billion (28.6% of GDP), nearly 18% higher than in 2008 in nominal terms. The consolidated public debt, which includes the financial public sector's foreign debt and the central bank's non-monetary liabilities, stood at 36.6% of GDP.

Starting in the second half of 2010, the central government will implement a fiscal consolidation plan to lower its deficit to 2.6% of GDP, equivalent to a 0.4% primary deficit.

The main measures to be applied include scaling back subsidies—in particular those for the electricity

sector—strengthening the tax administration, placing ceilings on current spending growth and extending the time allowed for recapitalizing the central bank from 10 to 15 years. The savings generated from the cuts in electricity sector subsidies have been used to finance capital expenditures, with a particular focus on social investment.

In view of the improvement in the country's credit rating, the Dominican government issued a 10-year, US\$ 750 million global bond in April 2010.

(b) Monetary and exchange-rate policy

With regard to monetary policy, as the international financial crisis got worse, the central bank reduced the reference rate by 550 basis points to 4% between January and August 2009.

Furthermore, it reduced the reserve requirement for universal banks from 20% to 17% and allowed for

Table 2
DOMINICAN REPUBLIC MAIN: QUARTERLY INDICATORS

	2008				2009 ^a				2010 ^a	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) ^b	5.7	9.6	-0.6	6.5	1.0	1.8	3.4	7.5	7.5	...
Goods exports, f.o.b. (millions of dollars)	1 671	1 842	1 779	1 455	1 284	1 429	1 415	1 361	1 419	522 ^c
Goods imports, f.o.b. (millions of dollars)	3 184	3 747	3 743	2 896	2 180	2 391	2 544	2 843	2 832	1 123 ^c
Gross international reserves (millions of dollars)	2 917	2 605	2 654	2 662	2 542	2 498	2 673	3 307	2 738	2 799 ^c
Real effective exchange rate (index: 2000=100) ^d	99.5	99.6	98.3	98.1	100.2	102.9	103.4	104.1	95.6	96.0 ^e
Consumer prices (12-month percentage variation)	9.7	12.2	14.6	4.5	2.4	0.3	-1.6	5.8	7.4	7.9 ^e
Average nominal exchange rate (pesos per dollar)	33.80	34.15	34.69	35.24	35.60	35.97	36.10	36.15	36.31	36.77
Nominal interest rates (annualized percentages)										
Deposit rate ^f	6.7	8.5	12.5	13.7	12.0	7.9	6.6	4.7	4.4	4.5 ^e
Lending rate ^g	11.2	12.5	18.8	21.5	19.4	12.3	10.4	9.4	9.0	7.9 ^e
Interbank rate	9.0	10.4	14.1	15.5	11.5	7.6	7.6	5.6	5.9	6.1 ^e
Domestic credit (variation from same quarter of preceding year)	20.2	18.3	19.8	10.8	10.2	9.6	10.2	9.5	15.3	14.3 ^e
Non-performing loans as a percentage of total credit	4.3	3.8	3.9	3.5	4.4	4.3	4.4	4.1	4.2	3.9 ^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.

greater flexibility in reserve composition with a view to directing resources towards productive activities. As an additional measure, as of September no further certificates of deposit were issued directly to the public.

As a result of these measures, nominal rates declined. Lending rates dropped from 23.94% to 13.82% over the 12 months ending in December 2009, and average deposit rates declined from 13.49% to 4.57% in the same period.

Given the progressive decrease in inflation, real interest rates remained relatively high until the third quarter. The average real lending rate between January and September was 18.48%, while the average real deposit rate was 7.68%. As inflation rose towards the end of the year, the real lending rate dropped to close to 8%, while the deposit rate turned negative (-1.2%) in December.

The drop in rates boosted lending to the private sector, which grew by 3.5% in 2009, after having contracted by 2% in real terms in 2008. Personal loans (40% of all lending) grew by 26.6% in real terms, while credit to the agricultural sector increased by 45.9% thanks to the intervention of the Agricultural Bank of the Dominican Republic. However, lending to the manufacturing and construction sectors contracted by 8% and 10.2%, respectively.

Although the fall in real interest rates was small during the first half of 2010, average real lending rates came down to around 3%, enough to keep up the rate of lending to the private sector, which grew by 2% in real terms during this period. Average real deposit rates fell to -3%, notwithstanding which the deposit balance increased by 6%.

Amid buoyant economic activity, the 12-month inflation rate reached 7.0% during the first half of 2010. Since the pace of economic activity is projected to slow as of the third quarter, which would ease inflationary pressure, the central bank may raise its reference rate to ensure that inflation ends the year within the target range of between 6% and 7%.

In part as a result of the central bank's intervention to reduce exchange-rate volatility, the nominal exchange rate depreciated by an average of 4.1% in 2009 (2.2% in real terms). In the first five months of 2010, the exchange rate against the dollar remained stable.

(c) Other policies

Under the constitutional reform adopted in January 2009, the government put forward the National Development Strategy of the Dominican Republic 2010-2030. The

Strategy establishes development goals and priorities for 2010-2030, focused on strengthening State institutions, social cohesion, economic development and environmental sustainability. A consultation process was carried out in the first half of 2010, with a bill to be submitted to Congress in August.

Given the damage to Haiti's infrastructure caused by the earthquake of January 2010, a large proportion of the personnel and materials going to that neighbouring

country have passed through Santo Domingo airport. This situation has boosted the export of services. Beyond the initial impact of the disaster on exports from free zones, the humanitarian effort has brought with it renewed demand for some Dominican export products. In the medium term, the reconstruction of Haiti is expected to have a positive impact both on certain sectors of the Dominican economy and on bilateral relations.

3. The main variables

(a) Economic activity

The adverse effects of the international financial crisis on the Dominican economy were channelled through weak external demand and difficulties in securing financing in the international market, which resulted in fiscal policy turning effectively procyclical during the first three quarters of 2009.

As a consequence, economic activity slowed significantly in 2009, culminating in growth of 3.5% (2.1% per capita) at the end of the year. Although this result compares favourably with the performance of the other countries in the region, it represented a substantial slowdown compared with previous years.

Economic activity picked up from the fourth quarter of 2009, spurred on by a strengthening performance by local manufacturing and by commerce and communications, which led to growth of 7.5% during the last quarter of 2009 and the first quarter of 2010.

According to ECLAC estimates, growth will slow in the second half of the year as the fiscal consolidation plan is implemented and output gaps are closed. Growth of close to 6% is expected in 2010.

The rate of growth of private consumption fell from 7.8% to 5.2%, while government consumption was down by 3.4%, compared with a gain of 7.7% in 2008. Growth in final consumption thus dropped by nearly two percentage points in 2009, to 4.9%. The slowdown in private consumption reflected an almost 7% reduction in real terms in flows of remittances, which represent approximately 6.5% of GDP. In addition, investment was badly hit and fell 14.7% because of the worsening growth prospects for the first months of the year.

As a result of slacker external demand, exports of goods and services posted negative growth for the second year in a row, dropping by 7.4%. However, given the lower domestic demand, this decline was easily offset by the 9.8% drop in imports.

By branch of activity, the agricultural sector performed well with 12.5% growth in 2009 compared with a 3.4% downturn in 2008. The sector benefited from government support in the form of technical assistance and inputs from the Ministry of Agriculture. It also secured resources totalling 7.168 billion pesos (0.4% of GDP) from the Agricultural Bank.

The mining sector contracted for the third consecutive year and declined by 51.9% as against 30.3% in 2008. The significant increases in copper, gold and silver production were not enough to offset this performance, which was attributable to the halt in ferronickel production following the drop in international ferronickel prices.

The activity of the manufacturing sector in the free zones, which has yet to recover from the impact of the expiry of the Multifibre Arrangement in 2005, contracted for the fourth straight year, shrinking by 14.6%. Construction was down by 3.9% owing to the uncertainty introduced by the crisis and the more than 10% fall, in real terms, in lending to the sector. This came on top of the 0.4% contraction posted in 2008.

Although growth in local manufacturing slowed significantly, the sector posted a modest upturn of 1%, thanks to the performance of food production.

In keeping with its trend in recent years, the services sector was the most buoyant, posting 4.9% growth, mainly because of the 14% expansion of the communications sector. Commerce contracted by 2.8% as a result of

lower private consumption, while the hotels, bars and restaurants sector declined by 3.5% owing to a drop of nearly 1% in foreign tourist arrivals.

(b) Prices, wages and employment

Amid falling international food and fuel prices and slackening domestic demand, 12-month inflation figures decreased gradually and turned negative during the third quarter of 2009.

The inflation rate turned positive again as of the fourth quarter, however, and in December the year-on-year rate was 5.8%, slightly below the 6%-7% target range set forth in the monetary programme. Average inflation was just 1.4%, compared with 10.6% in 2008.

Despite the uptick in the first half of 2010, and taking into account the slower economic activity projected for the second half of the year, it is estimated that inflation will end the year at 7%, at the ceiling of the central bank's target range.

Real minimum wages in the public sector shot up by 31.5%, on top of the 32.7% increase in 2008. In the private sector, real minimum wages went up by 2.8%, while in free-zone companies they fell by 4.5%, to reach a level similar to that of end-2007.

As a result of the economic slowdown, the labour market participation rate fell from 55.7% in the first half of 2008 to 54% in the second half of 2009. The broad unemployment rate, meanwhile, reached 14.9%.

One of the measures implemented to mitigate the effects of the international financial crisis among the most vulnerable population groups was the expansion of the conditional transfer programme in the fourth quarter of 2009 to include 17,000 families living in extreme poverty.

(c) The external sector

The current account deficit declined by nearly five percentage points to 5% of GDP in 2009, owing mainly to the reduction in the trade deficit from 20.2% to 14.6%.

More than a third of the drop in exports was attributable to the sharp fall in ferronickel exports, which plunged by 99.2% following the suspension of mining activities as a result of low international prices. Crop exports surged by 30% because of rising international prices and the support received by the agricultural sector during the year.

Exports from free zones, which represented 69.3% of total exports, contracted for the fourth year in a row, this

time by 13.1%, which was a far sharper fall than the 3.8% posted in 2008. In addition to the clothing and textiles sector, which continues to lose ground in the United States to Asian products, exports of electrical products and jewellery were the segments worst affected.

Merchandise imports declined by 23.2% because of the fall in fuel prices. The price of crude oil and petroleum products averaged US\$ 32.40 per barrel, which translated into a 15.5% contraction in intermediate goods imports. Imports of consumer goods dropped by 32.2%, owing mainly to lower demand for vehicles. Capital goods imports fell by 25.5% because of lower demand in the transport and construction sectors. Lastly, given the weaker demand for maquila products, imports of goods for processing decreased by 4.3%.

Despite the 0.9% drop in foreign tourist arrivals, the services balance posted a surplus equivalent to 6.6% of GDP. This was attributable to the strong performance of services exports, especially in transport, communications and government services. The deficit on the income account increased by close to US\$ 130 million to end the year at 4% of GDP. This deterioration is mainly attributable to the drop in interest generated abroad. Given the high level of unemployment in the United States and Spain, the flow of remittances shrank by 5.6%, which led to a 6.2% drop in the transfers balance.

The current account deficit was offset by the surplus in the capital and financial accounts. The financial account posted a surplus of US\$ 2.574 billion (5.5% of GDP), reflecting foreign direct investment (FDI) inflows of US\$ 2.158 billion. More than a third of FDI went to the mining sector, 18.6% to the real estate sector and 13.7% to telecommunications.

The balance-of-payments surplus and loan disbursements from the World Bank and the Inter-American Development Bank (IDB) enabled the central bank to increase net international reserves by US\$ 686.5 million. Net international reserves stood at US\$ 2.852 billion at the end of 2009, equivalent to nearly 2.4 months of import cover or 20.4% of M2.

Reflecting stronger economic activity and higher fuel prices, the current account deficit increased by close to US\$ 400 million during the first quarter of 2010 compared with the year-earlier period. This deficit was financed in part using reserves. A current account deficit equivalent to 6% of GDP is projected for 2010, which will be offset by a larger services surplus, increased inflows of FDI (approximately US\$ 2 billion), funding from multilateral agencies under the agreement signed with IMF and domestic debt issues.