DOMINICAN REPUBLIC

1. General trends

The economy of the Dominican Republic grew by 7.3% in 2014, compared with 4.8% in 2013, driven by expanding domestic demand and the strong performance of exports. All sectors posted positive growth in 2014, in particular, mining and quarrying (20.3%), construction (13.8%) and financial services (9.1%). As a result of the fiscal consolidation process and the efforts undertaken to prevent public deficits from widening further, the central government succeeded in narrowing the deficit to 2.7% of GDP at the end of 2014, a slight improvement over the previous year, as tax revenues rose by 13.0% and spending increased by 10.1%.

Inflation stood at 1.6% at the end of 2014 (down from 3.9% in 2013), which was far below the floor of the target range set by the central bank (4.5% with a 1-percentage-point margin in either direction). This low rate was largely attributable to the easing of external inflationary pressures in the last months of 2014 as oil prices fell sharply. The current account deficit narrowed for the fourth consecutive year to stand at 3.2% of GDP, as against 4.1% of GDP in 2013.

In the first quarter of 2015, the Dominican economy grew by 6.5% year-on-year, owing primarily to the sustained expansion of construction, commerce, financial intermediation and local manufacturing. GDP growth of around 5.0% of GDP is expected in 2015 and the central bank has set the inflation target at 4.0%, with a 1-percentage-point margin in either direction. At the end of April 2015, year-on-year inflation turned negative (-0.04%) as international oil prices remained low. As for the balance of payments, strong exports, the lower oil bill and higher remittance flows and tourist arrivals are expected to lead to a narrowing of the current account deficit to around 2.5% of GDP from 3.5% of GDP in 2014.

2. Economic policy

(a) Fiscal policy

Continued fiscal consolidation efforts in 2014 led to a slight improvement in the central government balance, which posted a deficit of 2.7% of GDP. Fiscal revenue rose by 12.6% over the figure for 2013, owing primarily to higher receipts from income and benefits tax (14.9%) and indirect taxes on goods and services (11.9 %). The 10.7% increase in total tax revenue resulted in a tax burden equivalent to 14.1% of GDP in 2014, compared with 13.9% of GDP in 2013.

Central government spending increased by 10.1% in 2014, owing mainly to higher current expenditure on wages and salaries (21.4%) and transfers, both current (10.6%) and capital (18.5%), particularly to the electricity sector. In total, current expenditure rose by 16.1%, while capital spending fell by 13.0% as fixed investment contracted by 23.9%.

In 2015, the government is expected to continue its policy of controlling spending in order to end the year with a primary surplus of 0.5% of GDP, which will lead to a narrowing of the public accounts deficit from 2.7% of GDP in 2014 to 2.4% of GDP in 2015. In the first quarter of 2015, tax revenue was up by 10.5% compared with the same period in 2014. Total central government spending rose by a more moderate 4.7% in the same period, reflecting the authorities' efforts to contain public expenditure.

The positive fiscal outlook has made for two successful international placements of debt instruments so far in 2015, worth some US$ 3.500 billion in total. The proceeds will make it possible to fund the 2015 budget without putting pressure on the domestic interest rate and, at the same time, to increase the level of international reserves, which will provide leeway to ward off any exchange-rate pressures that could arise during the year. However, these placements also raise the country's level of public debt, which stood at 47.2% of GDP in February 2015, with external debt equivalent to 22.7% of GDP and domestic debt equivalent to 24.5% of GDP. Just over half of domestic public debt (12.7% of GDP) corresponds to outstanding debt issued by the central bank.

(b) Monetary policy

In 2014, the central bank maintained a steady monetary policy stance and held the base rate at 6.25% throughout the year. This stance was determined by the absence of inflationary pressures and the expectation that the inflation target would be met in the medium term, despite the fact that year-on-year inflation hovered below the 2014 target for most of the year. The annual deposit and lending rates of universal banks rose to a weighted average of 14.2% and 7.6% respectively, at the end of 2014.

As a result of the robust economic growth in 2014, consolidated private-sector credit jumped up by 19.7%, even higher than the rate of 15.2% recorded in 2013. That expansion was concentrated in electricity, gas and water, construction and microenterprises.

To date in 2015, a more expansionary monetary policy has been adopted in a bid to boost lending to the private sector against a backdrop of low inflation and uptrending real interest rates. Consequently, the central bank cut the base rate three times in the first five months of 2015, bringing it down from 6.25% at the end of 2014 to 5.0% in June 2015 (down 1.25 percentage points). In view of these measures and the robustness of economic activity during the first quarter of 2015, lending to the private sector expanded by 16.6% year-on-year (compared with 13.5% during the same period in 2014), with a focus on construction, microenterprises, electricity, gas and water, and commerce.

The central bank has changed tack with respect to the legal reserve requirement in early 2015. It initially increased the reserve requirement by 2 percentage points in February in response to pressures on the exchange rate; however, in March, the central bank authorized the release of 10 billion pesos from the reserve requirement for commercial banks, on condition that they increase lending for construction and home mortgages.

(c) Exchange-rate policy

In 2014, the peso depreciated by an average nominal rate of 4.2% against the dollar in respect of the 2013 value. In the first quarter of 2015, the currency depreciated by a further 1.1% compared with its value at year-end 2014.

The prospect of monetary tightening by the United States Federal Reserve in the second half of 2015 is not expected to have a significant impact on currency variables in the Dominican Republic because of the relatively low level of integration of the Dominican economy in international financial markets. Furthermore, any pressures that could be exerted on the exchange rate are expected to be mitigated by the reduction of the current account deficit in 2015. Lastly, debt placements in the international market, totalling some US$ 3.500 billion in the first five months of 2015, will also boost the country's international reserves and provide additional leeway for easing pressures on the value of the local currency.

3. The main variables

(a) The external sector

In 2014, the Dominican external sector mirrored developments in the international economy, especially the gradual economic recovery in the United States. Total exports rose by 5.3%, down slightly from 5.5% in 2013. That growth was fuelled largely by significant increases in exports of gold and silver, which were up by 29.8% and 38.2%, respectively. Exports from free zones grew by 5.9% in 2014 (up from 3.0% in 2013), reflecting the aforementioned rally in the United States economy in 2014.

Imports grew at a moderate rate of 2.9% over the year. That rate reflected an 11.3% increase in consumer goods and a 10.9% rise in free zone imports, while imports of capital goods remained virtually unchanged from 2013. Those increases were partially offset by the 11.2% drop in oil and fuel imports caused by the decline in oil prices during the second half of 2014.

The services sector was driven by a buoyant tourism industry, whose earnings reached a record high of US$ 5.637 billion in 2014, rising by 11.0% over 2013. Remittance receipts likewise exceeded the previous year's figures by 7.2%. The upturn in the United States economy was instrumental in this regard as it prompted higher flows of tourists and an improved labour market situation in the United States, which is the destination of the majority of Dominican migrant workers.

Owing to the positive performance of these variables, the current account deficit narrowed for the fourth year in a row to US$ 2.026 billion at year-end 2014, equivalent to 3.2% of GDP.

Foreign direct investment amounted to US$ 2.208 billion (equivalent to 3.5% of GDP), which is an increase of 11.0% over 2013. Net international reserves expanded by US$ 263.9 million over the year to total US$ 4.650 billion at the end of 2014.

In the first quarter of 2015, exports fell by 4.8% with respect to the same period in 2014, as exports of gold and silver plummeted by 30.6% and 43.0%, respectively, while free zone exports increased by 6.2%. In the same period, imports contracted by 2.8% owing mainly to the decline in the oil bill (31.8%) as oil prices remained low in the international market in early 2015.

As for the services balance, revenue from tourism increased by 7.4% year-on-year, while remittances rose by 3.6%. Lastly, net international reserves increased by US$ 100.9 million in the first quarter with respect to the end of 2014, amounting to US$ 4.798 billion (equivalent to 3.3 months of imports).

(b) Economic activity

The economy of the Dominican Republic grew by 7.3% in 2014, driven by expanding domestic demand and the strong performance of exports. All economic sectors showed positive growth in 2014, in particular, mining and quarrying (20.3%), construction (13.8%), financial services (9.1%) and local manufacturing (5.5%). One contributing factor was the 19.7% increase in lending to the private sector in 2014, with production loans up by 20.1%.

On the expenditure side, the main engine of growth was domestic demand. Consumption and gross capital formation contributed 6.6 percentage points to the 7.3% growth recorded in 2014 and net exports accounted for the remainder.

In the first quarter of 2015, the Dominican economy grew by 6.5% year-on-year, owing mainly to the continued expansion of the construction sector (14.9%), commerce (10.6%), financial intermediation (7.4%) and local manufacturing (5.5%). The positive performance of these sectors offset the sharp drop in mining (25.3%). Manufacturing free zones recorded year-on-year growth of 4.0%, just above the rate of 3.6% recorded in the first quarter of 2014. GDP growth of about 5% is forecast for 2015 on the back of sustained strong domestic demand and an improved external environment, reflected in more favourable terms of trade (linked to the fall in oil prices) and the rebound in economic activity in the United States. Indeed, the United States will have a positive impact on Dominican exports, remittance flows, tourist arrivals and investment received by the Dominican Republic.

(c) Prices, wages and employment

At 1.6% in 2014, as against 3.9% in 2013, inflation was far below the floor of the central bank's target range of 4.5%, with a 1-percentage-point margin in either direction. Domestic prices were strongly influenced by the sharp drop in oil prices in the second half of 2014, which had a direct impact on the domestic prices of fuels, liquefied petroleum gas and various transportation services. The largest increases in 2014 were seen in the prices of alcoholic beverages and tobacco (7.6%), and food and non-alcoholic beverages (7.1%). Core inflation, which excludes the most volatile items from the basket, stood at 3.0% in December 2014.

For 2015, the central bank has set an inflation target of 4.0%, with a 1-percentage-point margin in either direction. At the end of April, inflation was negative (-0.04%), largely because of the low level of oil prices relative to the year-earlier period.

As for the employment situation, some 165,799 new jobs were created between October 2013 and October 2014 thanks to the expansion of the Dominican economy. As a result, the open unemployment rate decreased markedly from 7.0% in 2013 to 6.0% in 2014. The open unemployment rate for men fell from 5.0% to 3.9%, while for women it dropped from 10.4% to 9.4%.

Lastly, nominal wages rose by 4.5% on average during 2014, with the largest increases in mining and quarrying (12.5%), and agriculture (11.9%).

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
	Annual growth rates b/								
Gross domestic product	10.7	8.5	3.1	0.9	8.3	2.8	2.6	4.8	7.3
Per capita gross domestic product	9.1	7.0	1.7	-0.4	6.9	1.5	1.3	3.5	6.1
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	8.6	1.2	-2.8	10.1	7.1	6.5	2.9	3.7	4.4
Mining and quarrying	11.0	-1.4	-29.1	-37.8	3.1	56.8	24.0	144.1	20.3
Manufacturing	3.2	2.4	5.0	-5.4	8.0	2.0	0.9	4.8	5.2
Electricity, gas and water	6.3	9.7	3.9	-6.2	13.8	0.9	5.8	0.5	4.9
Construction	24.6	3.2	1.8	-1.5	10.4	-1.8	-7.3	7.3	13.8
Wholesale and retail commerce, restaurants and hotels	8.3	9.3	4.1	1.9	7.1	3.6	2.8	3.3	6.7
Transport, storage and communications	17.8	12.5	7.7	4.3	11.7	3.9	7.6	5.5	7.6
Financial institutions, insurance, real estate and business services	9.0	11.0	4.4	5.6	4.8	3.8	3.4	3.4	4.8
Community, social and personal services	5.8	4.5	5.9	4.2	6.6	4.2	3.4	4.4	5.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	12.0	8.9	2.4	4.1	5.4	0.4	10.2	-5.4	9.4
Government consumption	11.0	10.0	5.5	5.2	8.1	3.1	3.1	2.3	3.5
Private consumption	12.0	8.9	2.0	4.0	5.1	0.1	11.3	-6.4	10.3
Gross capital formation	20.8	12.4	15.5	-12.9	24.9	-0.4	-19.6	24.2	-2.3
Exports (goods and services)	0.7	3.2	-4.6	-8.4	11.4	13.0	8.1	8.6	7.8
Imports (goods and services)	8.2	6.8	5.5	-10.7	17.5	1.2	4.1	-3.3	4.1
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	27.6	28.4	30.1	23.9	26.7	25.1	23.1	21.8	21.5
National saving	24.3	23.5	20.7	19.1	19.2	17.6	16.5	17.7	18.4
External saving	3.4	5.0	9.4	4.9	7.5	7.5	6.6	4.1	3.2
Balance of payments	**Millions of dollars**								
Current account balance	-1,287	-2,166	-4,519	-2,331	-4,006	-4,359	-3,971	-2,537	-2,026
Goods balance	-5,564	-6,437	-9,245	-6,813	-8,395	-8,940	-8,738	-7,377	-7,369
Exports, f.o.b.	6,610	7,160	6,748	5,483	6,815	8,362	8,936	9,424	9,920
Imports, f.o.b.	12,174	13,597	15,993	12,296	15,210	17,302	17,673	16,801	17,288
Services trade balance	2,985	3,053	2,962	2,987	2,244	2,924	3,202	3,688	4,226
Income balance	-1,853	-2,183	-1,748	-1,721	-1,306	-2,176	-2,344	-2,994	-3,209
Net current transfers	-1,853	-2,183	-1,748	-1,721	-1,306	-2,176	-2,344	-2,994	-3,209
Capital and financial balance d/	1,482	2,793	4,193	2,737	4,077	4,521	3,530	3,877	2,640
Net foreign direct investment	1,085	1,667	2,870	2,165	1,622	2,277	3,142	1,990	2,209
Other capital movements	397	1,125	1,323	572	2,455	2,245	388	1,887	431
Overall balance	194	626	-326	406	71	163	-440	1,341	614
Variation in reserve assets e/	-345	-682	309	-638	-466	-339	548	-1,146	-162
Other financing	150	56	17	232	396	177	-108	-195	-453
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	106.0	105.0	105.9	110.5	108.9	110.3	112.3	115.8	120.7
Terms of trade for goods (index: 2010=100)	97.3	100.5	96.0	103.8	100.0	94.7	93.8	91.5	93.3
Net resource transfer (millions of dollars)	-221	665	2,462	1,248	3,167	2,522	1,079	688	-1,022
Gross external public debt (millions of dollars)	6,295	6,556	7,219	8,215	9,947	11,625	12,872	14,919	16,074
Employment	**Average annual rates**								
Labour force participation rate g/	56.0	56.1	55.6	53.8	55.0	56.2	56.5	56.1	57.3
Open unemployment rate i/	5.5	5.1	4.7	5.3	5.0	5.8	6.5	7.0	6.4

Table 1 (concluded)

	2006	2007	2008	2009	2010	2011	2012	2013	2014 a/
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	5.0	8.9	4.5	5.7	6.3	7.8	3.9	3.9	1.6
Variation in nominal exchange rate									
(annual average)	12.4	-0.3	4.3	4.3	2.5	3.3	3.1	6.3	4.1
Variation in minimum real wage	-7.1	4.8	-6.5	7.0	-0.4	1.2	2.8	3.1	2.3
Nominal deposit rate j/	9.8	7.0	10.3	7.8	4.9	7.9	7.5	6.0	6.7
Nominal lending rate k/	15.7	11.7	16.0	12.9	8.3	11.7	12.2	10.7	10.6
Central government	**Percentajes of GDP**								
Total revenue l/	15.1	16.6	15.1	13.3	13.1	12.9	13.6	14.6	15.1
Tax revenue	14.0	15.0	14.3	12.7	12.3	12.3	13.1	13.9	14.1
Total expenditure	15.1	16.0	18.7	16.3	15.7	15.0	18.8	17.3	17.7
Current expenditure	12.1	12.1	13.8	12.9	12.1	11.9	13.2	14.0	14.9
Interest	1.1	1.5	1.6	1.8	1.9	2.0	2.4	2.3	2.5
Capital expenditure	3.1	3.9	4.9	3.5	3.6	3.1	5.6	3.3	2.7
Primary balance	1.1	2.1	-2.0	-1.3	-0.7	-0.1	-2.8	-0.4	-0.1
Overall balance m/	0.0	0.6	-3.6	-3.0	-2.6	-2.1	-5.2	-2.7	-2.6
Central government public debt	18.9	17.0	23.2	27.2	27.7	28.7	32.3	37.7	37.0
Domestic	2.4	1.9	7.8	10.0	8.9	8.4	10.6	13.4	12.0
External	16.4	15.1	15.4	17.2	18.8	20.3	21.8	24.3	25.1
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	37.5	37.5	37.8	38.2	37.3	37.5	39.6	40.0	41.7
To the public sector	17.4	17.4	18.9	20.6	19.0	18.9	22.7	23.7	23.9
To the private sector	18.6	20.8	20.8	21.6	22.8	22.8	22.6	23.9	26.5
Others	1.6	-0.7	-1.8	-4.1	-4.5	-4.2	-5.6	-7.7	-8.7
Monetary base	8.5	8.4	8.1	8.0	7.3	7.0	7.1	6.6	6.6
Money (M1)	8.7	9.6	7.8	8.8	8.4	7.9	8.1	8.7	8.7
M2	26.1	26.8	24.6	27.0	25.9	25.5	26.0	26.7	27.1
Foreign-currency deposits	6.1	6.1	5.8	6.1	6.6	7.1	7.5	8.1	7.9

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 hidden unemployment.
i/ Nationwide total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.
j/ 90-day fixed-term certificates of deposit, weighted average..
k/ Prime lending rate.
l/ Includes grants.
m/ The overall balance includes the residue.

Table 2

DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2013				2014				2015	
	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/	0.8	3.8	6.8	7.7	8.1	8.0	6.8	6.6	6.5	...
Gross international reserves (millions of dollars)	3,515	4,330	3,719	4,172	3,903	5,096	4,539	4,575	4,751	4,908 c/
Real effective exchange rate (index: 2005=100) d/	113.7	114.7	116.7	118.1	119.1	120.5	121.5	121.7	121.9	123.5 c/
Consumer prices (12-month percentage variation)	4.8	4.9	5.4	4.3	2.9	3.6	3.1	2.4	0.9	0.1 c/
Average nominal exchange rate (pesos per dollar)	40.9	41.3	42.3	42.6	43.1	43.2	43.6	44.0	44.7	44.9
Nominal interest rates (average annualized percentages)										
Deposit rate e/	6.2	5.2	5.3	7.4	7.3	7.1	5.3	7.2	7.1	6.7 f/
Lending rate g/	10.6	10.9	10.2	11.0	10.8	10.6	10.2	10.8	11.0	11.2 c/
Interbank rate	6.5	5.6	5.6	6.7	6.4	6.5	6.4	6.5	6.5	6.2 f/
Monetary policy rates	5.0	4.8	4.9	6.3	6.3	6.3	6.3	6.3	6.3	5.5 c/
Sovereign bond spread, Embi Global (basis points to end of period) h/	385	401	429	349	330	326	351	381	379	351
International bond issues (millions of dollars)	300	1000	-	500	-	1,250	250	-	2,500	1,000
Domestic credit (variation from same quarter of preceding year)	14.5	12.3	13.6	9.7	12.5	10.8	9.4	13.8	10.2	15.2 c/
Non-performing loans as a percentage of total credit	3.3	3.2	3.0	2.4	2.2	2.2	2.0	1.7	1.6	1.6 c/

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/ Figures as of April.
g/ Prime lending rate.
h/ Measured by J.P.Morgan.

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