

Dominican Republic

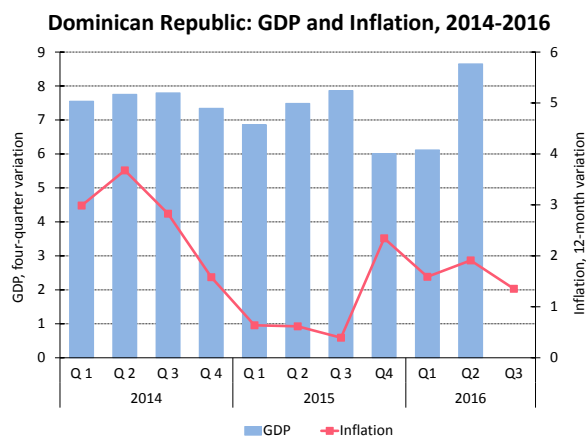
ECLAC expects the Dominican Republic to grow above potential in 2016, with a rate of 6.4% (as against 7.0% in 2015). This expansion has been underpinned by buoyancy in mining, construction, tourism and agriculture. In accordance with the fiscal consolidation programme, the central government deficit is expected to be 2.3% of GDP at end-2016, which would mean a primary surplus of about 0.6% of GDP. The decrease in the value of fuel imports due to the low international oil price, coupled with the vitality of tourist arrivals and remittances, is estimated to have offset the drop in exports of goods produced both within the country and in free zones, narrowing the current account deficit from 1.9% of GDP in 2015 to 1.7% in 2016. Inflation is expected to end the year below the floor of the central bank's target range of 3.0% to 5.0%. At the same time, economic expansion has reduced the open unemployment rate in 2016.

The government's efforts to balance the public accounts have been reflected in a continuation of the downward trend in the public deficit seen since 2012. Although total revenue registered a year-on-year drop of 19.7% in real terms to August 2016, this was due to the temporary effect in 2015 of the proceeds from a one-off transaction to buy back PetroCaribe debt at a discount, which were booked as foreign donation income under International Monetary Fund (IMF) rules. If this transaction were excluded, total revenues would register a real increase of 5.6% for the period, contributed to by growth of 5.4% in tax revenues.

Total expenditure to August was up by 11.4% in real terms as a result of current and capital spending increases of 10.7% and 15.1%, respectively. This strong growth was due to increased implementation of budgeted expenditure in the run-up to the presidential elections held in May. Spending growth is estimated to have slowed in the second half of 2016, however, which would leave the year-end result of the public accounts in line with what was projected in the national budget (2.3% of GDP).

Public debt in September 2016 was the equivalent of 37.0% of GDP (with 24.0% being external debt and 13.0% domestic debt), an increase on the 35.4% of GDP registered at the end of 2015. The rise was due to the deficit in government operations, which was partially financed by issuing sovereign bonds in January and again in June, for a total of US\$ 1.5 billion.

The monetary policy rate was kept unchanged for the first nine months of 2016 before being raised by 50 basis points in October to 5.50%, signalling a move towards a tighter monetary policy. This decision was contributed to by protracted above-trend growth in the country's economy, the prospect of higher inflation in 2017



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

owing to the expected rise in the international oil price, greater uncertainty and volatility in international financial markets and, lastly, the expectation that the United States Federal Reserve would raise interest rates.

As regards interest rates in the rest of the financial system, the average nominal lending rate of commercial banks was 14.87% in September, 0.63 percentage points lower than at the end of 2015. The average deposit interest rate fell by 0.84 percentage points over the same period to 6.50%. Similarly, average real lending and deposit rates dropped by 1.22 and 0.31 percentage points to 11.91% and 3.79%, respectively. From January to September 2016, lending to the private sector was up by 12.5% year on year, in line with the dynamism of domestic demand, with the main destination sectors being construction, commerce and hotels and restaurants.

By the end of September 2016, the Dominican peso had depreciated by a nominal 1.5% against the dollar from its end-2015 value, while the real bilateral exchange rate showed depreciation of 2.4%. Depreciation remained within moderate bounds thanks to improved terms of trade and, in particular, a lower oil bill. Net international reserves stood at US\$ 4.939 billion in September (equivalent to 7.0% of GDP), a drop of US\$ 257 million from the end of 2015.

There was a year-on-year decline of 2.1% in the total value of exports over the first half of the year, owing to lower shipments from domestic producers and from free zones (down 1.9% and 2.2%, respectively). Where domestic exports are concerned, vibrant sales of gold and agricultural products were insufficient to offset a drop in industrial shipments. In the free zones, medical equipment exports partly made up for lower sales of textiles and electrical products. Imports, meanwhile, decreased marginally (-0.3%). Buoyant domestic demand was reflected in a strong rise in consumer and capital goods imports, whereas external purchases of fuels and those made through the free zones declined.

Sustained growth in remittances and tourism receipts, which grew by 4.7% and 10.0% year on year, respectively, to September 2016, means that a slight narrowing of the current account deficit is projected for the end of the year. Foreign direct investment totalled US\$ 1.092 billion in the first half of 2016, a rise of 8% on the amount for the same period in 2015, with most of it going to the commerce and industry, mining and tourism sectors.

GDP expanded by 6.9% year on year from January to September, owing in particular to the strong performance of the mining, construction and agriculture sectors. On the demand side, growth continued to be driven by consumption (both public and private) and by gross capital formation, with

Dominican Republic: main economic indicators, 2014-2016

	2014	2015	2016 ^a
	Annual growth rate		
Gross domestic product	7.6	7.0	6.4
Per capita gross domestic product	6.3	5.8	5.2
Consumer prices	1.6	2.3	1.4 ^b
Money (M1)	13.6	12.9	14.2 ^b
Real effective exchange rate ^c	4.2	2.8	-1.1 ^b
Terms of trade	2.0	8.1	3.1
	Annual average percentage		
Open urban unemployment rate	6.4	5.9	5.7 ^d
Central government			
Overall balance / GDP	-2.6	-2.4	-2.7
Nominal deposit rate ^f	6.7	6.6	7.2 ^e
Nominal lending rate ^g	13.9	14.9	15.1 ^e
	Millions of dollars		
Exports of goods and services	16,924	17,061	17,451
Imports of goods and services	20,108	20,002	19,928
Current account balance	-2,141	-1,307	-760
Capital and financial balance ^h	2,789	2,077	435
Overall balance	648	770	-326

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

a/ Estimates.

b/ Figures as of September.

c/ A negative rate indicates an appreciation of the currency in real terms. Refers to the global real effective exchange rate.

d/ Figures as of April.

e/ Figures as of October.

f/ Rates for deposit certificates and/or deposits for 90 days.

g/ Prime lending rate.

h/ Includes errors and omissions.

large items in the latter being road infrastructure projects, tourism investments and the construction of schools and low-cost housing.

In October, year-on-year inflation was only 0.9%, this being due to declines in food prices (the result of an upturn in agricultural output in 2016) and the international oil price. Year-on-year core inflation was 1.8%. At the same time, the dynamism of economic activity reduced the open unemployment rate from 6.0% in April 2015 to 5.7% in April 2016.

ECLAC expects real GDP growth of about 6.2% in 2017, driven by the steady expansion of the construction, mining and tourism sectors. The projected recovery of the international oil price will create pressures that could push inflation into the central bank's target range after two years below it. Moreover, there will be a rise in the value of fuel imports, partially offset by the dynamism of mining exports, remittance inflows and tourist arrivals. Consequently, the balance-of-payments current account deficit will increase moderately to 2.0% of GDP, while the central government deficit is forecast to be about 2.3% of GDP.