

DOMINICAN REPUBLIC

1. General trends

The economy of the Dominican Republic grew by 6.6% in 2016, compared with 7.0% in 2015, spurred by buoyant domestic demand and favourable external conditions. The sectors that have been the main drivers of this growth are mining, construction, agriculture and financial intermediation. On the demand side, investment increased significantly (11.1%), while there was continued robust growth in private and public consumption, with respective rates of 4.8% and 3.3%. Following efforts by the authorities to improve the efficiency of public spending and tax collection, the central government registered a deficit of 2.8% of GDP; although this was a deterioration on 2015, that year's surplus was due largely to a one-off discounted buyback of PetroCaribe debt.

Inflation stood at 1.7% at the end of 2016, below the rate registered in 2015 (2.3%). This was the third consecutive year in which inflation was lower than the central bank's target range (between 3.0% and 5.0%), owing primarily to plummeting global oil prices. Meanwhile, the decline in oil import values, together with significant increases in tourist arrivals, remittance flows and mining and agriculture exports, led to a fall in the current account deficit from 1.9% of GDP in 2015 to 1.4% of GDP in 2016. Furthermore, economic expansion reduced the open unemployment rate, from 5.9% in 2015 to 5.5% in 2016.

According to ECLAC estimates for 2017, the economy of the Dominican Republic will grow at a pace commensurate with the country's long-term potential output, at around 5.3%, as growth in the manufacturing and investment sectors will slow to levels commensurate with long-term expansion. Growth in the construction sector (mainly road infrastructure, low-cost housing, schools and new tourist resorts) is also expected to slow down somewhat from the high rates of the past few years. The tighter monetary policy adopted by the central bank—stemming from the prospect of a rebound in inflationary pressures and a normalization of Federal Reserve monetary policy in the United States—should also temper economic growth. In accordance with the fiscal consolidation programme, the central government deficit is expected to be 2.3% of GDP at the end of 2017, in line with the downtrend that has been seen in the public deficit since 2012.

With regard to the external accounts, the projected increase in fuel import bills and a drop in the international price of gold, the country's major export commodity, together with robust demand for imports of consumer and capital goods, will worsen the current account deficit, with tourism and remittance inflows only partially offsetting this effect. As a result, the current account deficit should rise to around 2.0% of GDP by the end of 2017. With the projected upturn in global oil prices, inflation is expected to move towards the central bank's target range in 2017.

2. Economic policy

(a) Fiscal policy

The authorities' efforts to improve expenditure efficiency and increase tax receipts were reflected in the fiscal balance. While the central government's total revenue fell by 10.7% in real terms in 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 52% discount of the nominal value). That transaction was booked as foreign grant income, in line with the guidelines of the International Monetary Fund's Government Finance Statistics Manual. If this transaction were excluded, total revenues would register a real increase of 8.5% for 2016, bolstered by a 10.9% rise in direct tax revenues. Total expenditure rose at a slower pace than revenues (6.7% in real terms) owing to a 0.9% drop in capital spending, itself resulting from the sharp 17.3% decline in fixed investment. There were noteworthy reductions in spending on wages and salaries (2.9%) and on goods and services (2.9%). However, increased spending on current transfers (19.7%) and on debt interest (17.4%) caused total current expenditure to rise by 8.6%. As a result, the central government deficit was 2.8% of GDP in 2016.

At the end of 2016, the public debt balance stood at 37.4% of GDP (compared with 35.4% of GDP in 2015). Of this, external debt accounted for 65.0% and domestic debt for the remainder. Rising debt levels were primarily the result of sovereign bond issuance. Bonds were issued in international markets twice in 2016, in January and July, for a cumulative amount of US\$ 1.5 billion. On both occasions, the bonds had a 10-year maturity and a 6.9% coupon rate.

In 2017, in line with efforts to balance the public accounts, revenues are expected to increase more than expenditure, which should lower the central government's deficit to around 2.3% of GDP. In January 2017, US\$ 1.2 billion worth of 10-year bonds with a 5.95% coupon were issued on the international market; that lower coupon rate compared with the international bonds issued the previous year reflects international investor confidence in the country and less volatility in international markets. Public debt rose to US\$ 28.370 billion in May 2017, representing an increase of US\$ 1.612 billion since the close of 2016.

(b) Monetary and exchange-rate policies

For the first nine months of 2016, the central bank held the base rate unchanged at 5.0%. This stance was in response to an environment of low inflationary pressure that resulted primarily from the positive supply shock brought on by low international oil prices, which kept inflation below the central bank's target range. However, with the projected upswing in oil prices, the upward trend in inflation projections and the expectation that the United States Federal Reserve would raise interest rates, the central bank tightened its monetary policy in the last quarter. In October 2016, the base rate rose by 50 basis points. In December 2016, the central bank authorized the release of 12 billion pesos from multipurpose banks' reserve requirements for loans for building low-cost housing and 6.566 billion pesos for agricultural producers.

As regards interest rates in the financial system, the accommodative monetary policy stance of the first nine months of 2016 was reflected in a downward trend in both nominal lending and deposit rates. The average nominal lending rate fell from 15.68% in January to 14.87% in September. However, the tightening of monetary policy in October saw this rate edge up to 15.30% at the close of the year (11.90% in real terms). The average nominal deposit rate also dropped, from 6.77% in January to 6.50% in September, and then increased to 7.15% in December (4.25% in real terms).

In keeping with the buoyant economy, total lending to the private sector saw nominal growth of 11.9% in 2016. The sectors with the greatest increase in lending were hotels and restaurants (23.0%), construction (20.7%) and mining (18.3%).

In March 2017, it was announced that the base rate would be raised by 25 basis points to 5.75%. This decision was a response to the expectation that inflation rates would move towards the central bank's

target range and that the United States Federal Reserve would gradually normalize its monetary policy in 2017. In June 2017, the year-on-year increase in total lending was 12.4%, primarily the result of greater lending to the transport and mining industries.

Compared with its value at the end of 2015, the Dominican peso had depreciated by 2.5% in nominal terms against the United States dollar by December 2016, with an exchange rate of 46.6 pesos to the dollar. The moderate changes seen in the exchange rate, in a highly volatile international climate, were attributable to the improved terms of trade and, in particular, the lower oil bill.

Moreover, the bilateral real exchange rate against the dollar, expressed as an index, increased from 99.3 at the end of 2015 to 102.4 in the last quarter of 2016, representing a real depreciation of the peso by 3.1%. At the end of 2016, net international reserves stood at US\$ 6.047 billion, representing 8.4% of GDP and US\$ 852 million more than 2015.

By June 2017, the Dominican peso had depreciated by 1.8% in nominal terms from its value at the close of 2016. In the early months of the year, in an extraordinary measure, the central bank injected up to US\$ 200 million in the spot exchange market and US\$ 75 million in the futures market to meet dollar demand, which was putting pressure on the value of local currency. After a significant accumulation in the first months of the year, net international reserves rose to US\$ 6.513 billion by the end of the first half of 2017, up US\$ 466 million from the close of 2016.

3. The main variables

(a) The external sector

In 2016, the value of exports and imports of goods rose by 4.4% and 3.4%, respectively. Domestic exports surged by 8.7% as a result of the sharp rise in mining exports (31.6%) and agricultural (14.0%) exports. Meanwhile, exports from free zones were up by a modest 1.3%. This was attributable to the significant decline in textile exports (12.4%) —a continued downtrend provoked by falling demand from the United States and competition from Asia in this sector— that was offset by buoyant exports of medical and surgical equipment (up 7.7%).

The value of total imports increased, despite a 9.3% fall in fuel imports stemming from lower oil prices. Non-oil imports climbed by 5.7%, on the back of a 10.1% rise in consumer goods and a 21.7% rise in capital goods, reflecting the country's buoyant economy and domestic demand. Imports of raw materials and intermediate products fell by 6.5% as a result of the decline in commodity prices across the board.

Inflows of remittances and tourists increased significantly in 2016, by 6.1% and 6.4%, respectively. 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 sixth year in a row, from 1.9% of GDP in 2015 to 1.4% in 2016.

Foreign direct investment (FDI) totalled US\$ 2.407 billion, up 9.2% from 2015. The mining, real estate and tourism sectors were the fastest-growing recipients of FDI in 2016.

In the first quarter of 2017, exports of goods rose by 5.0% year-on-year. This increase was primarily driven by the sound performance of national exports, in particular industrial exports of sugar and steel rods. Imports rose by 8.0%, owing to a 50.6% hike in the oil bill as international prices

rebounded in the first few months of the year. Remittances and tourist arrivals registered year-on-year increases of 12.8% and 3.8%, respectively. FDI rose significantly, up US\$ 595 million compared with the same period of 2016, as a result of greater flows towards the mining, real estate, tourism and commerce sectors.

(b) Economic activity

In 2016, the Dominican economy grew by 6.6% in real terms, spurred by the 11.1% rise in gross fixed capital formation stemming from large-scale investment in both public (roads, hospitals, schools) and private (low-cost housing, hotels) construction projects. Total consumption increased by 4.5% and exports of goods and services by 6.7%.

The most vibrant sectors in 2016 were mining (26.5%), agriculture (10.0%), financial intermediation (11.9%) and construction (9.0%). The marked expansion of the mining sector reflects an upturn following the temporary cessation of operations by one of the country's major mining companies in the first half of 2015. The hotel, bar and restaurant sector, a main driver of economic activity, grew by 6.4%, reflecting the importance of the tourism sector in terms of the investments made in recent years to improve and diversify the country's tourism industry.

In the first quarter of 2017, the country's economy grew by 5.2%, year-on-year, thanks mainly to the sustained expansion of the financial intermediation (8.5%), agriculture (7.5%), construction (7.2%) and hotel, bar and restaurant sectors (6.6%).

(c) Prices, wages and employment

At the end of 2016, inflation stood at 1.7%, below the floor of the central bank's target range. This low rate was due to the easing of external inflationary pressures as oil prices fell sharply, and to declines in food prices generated by an upturn in agricultural output in 2016.

Economic growth sparked the creation of 148,352 new jobs in 2016.¹ The open unemployment rate decreased from an average of 5.9% in 2015 to 5.5% in 2016, while the participation rate rose marginally, from 59.3% to 59.8%. The open unemployment rate for men fell from 4.0% to 3.7%, while for women it dropped from 9.0% to 8.4%. The average nominal wage climbed 8.7% in 2016.

On the basis of tripartite negotiations (between employee, employer and government representatives), the non-sectoral minimum wage was raised by 20% for 2017. The wage hike will be staggered, with a first increase (13%) effective as of May and the second (7%) coming into effect in November.

There was a pick-up in inflation in the early months of 2017, and in May, year-on-year inflation stood at 3.1%. This was inside the central bank's target range, after three consecutive years of being well below it. The return of inflationary pressure is a consequence of the supply shocks caused by recovering international oil prices and rising food prices.

¹ According to data from the National Workforce Survey.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
	Annual growth rates b/								
Gross domestic product	3.2	0.9	8.3	3.1	2.8	4.7	7.6	7.0	6.6
Per capita gross domestic product	1.8	-0.4	6.9	1.8	1.5	3.5	6.3	5.8	5.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	-2.7	10.2	7.0	7.8	2.7	2.5	3.2	1.2	10.0
Mining and quarrying	-29.1	-37.8	2.4	99.4	12.4	145.5	22.3	-10.0	26.5
Manufacturing	5.0	-5.2	8.7	3.7	0.5	3.3	5.1	5.5	4.3
Electricity, gas and water	3.9	-6.2	14.3	3.5	2.5	-0.1	4.7	7.5	6.5
Construction	1.8	-3.0	11.6	-3.9	-6.0	8.0	14.5	19.8	9.0
Wholesale and retail commerce, restaurants and hotels	3.5	1.4	7.3	3.7	4.6	3.5	6.7	6.2	6.0
Transport, storage and communications	7.8	5.4	9.6	4.2	7.7	4.4	6.8	8.1	9.8
Financial institutions, insurance, real estate and business services	4.5	5.9	4.5	2.8	2.5	3.6	4.8	5.4	4.5
Community, social and personal services	6.7	4.6	6.8	3.5	5.5	4.2	4.8	4.7	5.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.0	4.8	5.8	-1.8	6.2	-4.9	6.4	7.3	4.5
Government consumption	5.4	5.6	7.0	4.4	1.9	2.3	3.6	4.8	4.8
Private consumption	2.7	4.7	5.6	-2.7	6.8	-5.9	6.8	7.7	3.3
Gross capital formation	13.9	-14.8	22.1	9.5	-8.7	18.7	7.2	14.0	11.7
Exports (goods and services)	-4.6	-8.5	15.9	7.3	5.8	8.5	7.3	2.5	6.7
Imports (goods and services)	5.5	-10.5	18.4	0.0	1.9	-3.6	4.1	11.0	5.0
Investment and saving c/	Percentajes of GDP								
Gross capital formation	30.0	23.6	26.2	24.8	24.2	23.7	23.9	23.5	23.0
National saving	20.6	18.7	18.7	17.3	17.8	19.5	20.6	21.6	21.6
External saving	9.4	4.8	7.5	7.5	6.4	4.1	3.3	1.9	1.4
Balance of payments	Millions of dollars								
Current account balance	-4 519	-2 332	-4 024	-4 335	-3 881	-2 568	-2 170	-1 280	-978
Goods balance	-9 245	-6 813	-8 394	-8 940	-8 716	-7 377	-7 374	-7 465	-7 623
Exports, f.o.b.	6 748	5 483	6 816	8 362	8 936	9 424	9 899	9 442	9 860
Imports, f.o.b.	15 993	12 296	15 210	17 302	17 652	16 801	17 273	16 907	17 484
Services trade balance	2 962	2 987	2 867	3 005	3 321	3 634	4 084	4 368	4 961
Income balance	-1 749	-1 721	-1 927	-2 255	-2 400	-2 972	-3 247	-2 936	-3 364
Net current transfers	3 513	3 216	3 431	3 854	3 915	4 148	4 368	4 753	5 049
Capital and financial balance d/	4 191	2 734	4 096	4 631	3 441	3 902	2 820	2 051	1 870
Net foreign direct investment	2 870	2 165	2 024	2 277	3 142	1 991	2 209	2 205	2 407
Other capital movements	1 321	569	2 072	2 354	299	1 911	612	-154	-537
Overall balance	-328	403	72	296	-440	1 334	650	770	892
Variation in reserve assets e/	309	-638	-466	-339	548	-1 139	-195	-407	-780
Other financing	19	235	395	43	-108	-195	-455	-363	-112
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	105.9	110.5	108.9	110.3	112.3	115.8	120.7	115.8	116.9
Terms of trade for goods (index: 2010=100)	96.0	103.8	100.0	94.7	93.8	91.5	97.7	105.4	105.3
Net resource transfer (millions of dollars)	2 462	1 248	2 563	2 420	933	735	-882	-1 249	-1 606
Gross external public debt (millions of dollars)	7 219	8 215	9 947	11 625	12 872	14 919	16 074	16 029	17 400
Employment	Average annual rates								
Labour force participation rate g/	57.4	55.2	56.5	57.8	59.0	58.7	59.1	59.3	59.8
Open unemployment rate h/	5.3	5.8	5.7	6.7	7.2	7.9	7.2	6.9	6.3

Table 1 (concluded)

	2008	2009	2010	2011	2012	2013	2014	2015	2016 a/
Prices	Annual percentages								
Variation in consumer prices (December-December)	4.5	5.7	6.3	7.8	3.9	3.9	1.6	2.3	1.7
Variation in nominal exchange rate (annual average)	4.3	4.3	2.5	3.3	3.1	6.3	4.1	3.5	2.3
Variation in minimum real wage	-6.4	7.0	-0.4	1.2	2.8	3.1	2.3	7.2	3.8
Nominal deposit rate i/	10.3	7.8	4.9	7.9	7.5	6.0	6.7	6.6	7.2
Nominal lending rate j/	...	...	...	...	15.5	13.6	13.9	14.9	15.1
Central government	Percentajes of GDP								
Total revenue k/	15.0	13.2	13.1	12.9	13.6	14.4	14.8	14.5	14.7
Tax revenue	14.2	12.7	12.3	12.4	13.1	13.7	13.8	13.5	13.7
Total expenditure	18.6	16.3	15.7	15.0	18.8	17.1	17.3	16.9	17.0
Current expenditure	13.8	12.8	12.1	12.0	13.2	13.8	14.6	14.1	14.3
Interest	1.6	1.8	1.9	2.0	2.4	2.3	2.5	2.7	2.8
Capital expenditure	4.9	3.5	3.6	3.1	5.6	3.3	2.7	2.8	2.8
Primary balance	-2.0	-1.3	-0.7	-0.1	-2.8	-0.4	-0.1	0.3	0.5
Overall balance l/	-3.6	-3.0	-2.6	-2.1	-5.2	-2.7	-2.6	-2.4	-2.3
Central government public debt	23.2	27.1	27.6	28.8	32.2	38.1	37.1	35.2	37.0
Domestic	7.8	10.0	8.8	8.5	10.5	13.5	12.0	11.4	12.4
External	15.4	17.1	18.8	20.4	21.7	24.6	25.1	23.8	24.6
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	37.7	38.1	37.2	37.7	39.5	39.5	40.9	44.6	46.3
To the public sector	18.8	20.6	19.0	19.0	22.6	23.4	23.5	26.8	28.5
To the private sector	20.7	21.5	22.7	22.9	22.5	23.7	26.0	27.1	28.4
Others	-1.8	-4.1	-4.5	-4.3	-5.6	-7.6	-8.5	-9.4	-10.6
Monetary base	8.1	8.0	7.3	7.0	7.0	6.5	0.1	7.2	7.1
Money (M1)	7.7	8.8	8.4	7.9	8.1	8.6	8.6	8.9	9.2
M2	24.5	26.9	25.9	25.6	25.9	26.4	26.5	27.4	28.1
Foreign-currency deposits	5.8	6.1	6.6	7.2	7.5	8.0	7.7	8.1	8.2

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/ Urban total.

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

	2015				2016				2017	
	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/	6.9	7.5	7.9	6.0	6.3	8.5	5.8	5.9 #	...	...
Gross international reserves (millions of dollars)	4 751	4 957	4 884	4 972	5 327	5 134	5 137	5 737	6 489	6 203 c/
Real effective exchange rate (index: 2005=100) d/	115.7	116.9	115.6	114.9	114.9	117.3	117.6	117.7	118.3	120.4 c/
Consumer prices (12-month percentage variation)	0.6	0.6	0.4	2.3	1.6	1.9	1.4	1.7 #	3.1	3.1 c/
Average nominal exchange rate (pesos per dollar)	44.7	44.8	45.1	45.4	45.7	45.9	46.0	46.5	47.0	47.3
Nominal interest rates (average annualized percentages)										
Deposit rate e/	7.1	6.1	6.0	7.1	7.2	7.2	6.9	7.4	8.1	7.3 f/
Lending rate g/	15.1	14.6	14.3	15.6	15.5	15.0	14.6	15.2	16.1	14.9 f/
Interbank rate	6.5	5.8	5.6	5.8	6.1	6.0	5.4	6.8	6.6	6.9 f/
Monetary policy rates	6.1	5.3	5.0	5.0	5.0	5.0	5.0	5.5	5.5	5.8
Sovereign bond spread, Embi Global (basis points to end of period) h/	379	351	437	421	434	428	351	407	333	327 c/
International bond issues (millions of dollars)	2500	1 000	-	-	1 000	870	-	-	1 517	- c/
Domestic credit (variation from same quarter of preceding year)	10.2	15.3	16.5	17.5	15.4	17.4	13.8	11.6	10.1	8.5 f/
Non-performing loans as a percentage of total credit	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.8	1.9	1.8 f/

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.