DOMINICAN REPUBLIC

1. General trends

In 2018 the economy of the Dominican Republic grew by 7% in real terms, a significant acceleration compared to the previous year's 4.6% expansion. Both private consumption (up 5.3%) and investment (14.4%) were buoyant. The sectors that grew by most year-on-year were communications (by 12.3%) and construction (12.2%). In addition, external demand remained solid, and exports of goods and services climbed by 6.7% in real terms over the year. Economic performance surpassed most initial forecasts, boosted by an expansionary monetary policy and drawing on the robust growth of the United States economy.

The government made significant efforts to strengthen the public accounts, and it closed the year with a non-financial public sector (NFPS) deficit equivalent to 2.7% of GDP, down from 3.3% in 2017. This was aided by a reduction in capital expenditures and renewed efforts to improve revenue intake. Year-on-year inflation in December 2018, at 1.17%, was the lowest in 34 years. Lower fuel prices on international markets, together with an increase in the supply of agricultural products in the last quarter of the year, helped ease inflationary pressures.

The current account deficit widened to 1.4% of GDP (from 0.2% in 2017), following a hefty 30% rise in the oil bill. Despite the country's remarkable economic growth, the open unemployment rate edged up from 5.5% in 2017 to 5.7% in 2018, owing to a substantial increase in the economically active population.

ECLAC forecasts growth in the Dominican economy to slow to 5.5% in 2019, in the wake of an expected loss of momentum in the United States economy, leading to weaker exports, family remittance flows and tourism. The NFPS deficit should be around 2% of GDP, thanks to new initiatives to consolidate spending and improve revenue collection. Inflation is expected to converge on the central bank's target range of 4% plus or minus 1 percentage point, although this will depend on international fuel prices. The current account deficit is set to widen in 2019 owing to weaker remittance flows and lower exports.

2. Economic policy

Economic policy continued to be geared towards ensuring macroeconomic stability. The monetary policy interest rate has been held at 5.5% since August, while the fiscal deficit was reduced through initiatives to consolidate expenditure and increase revenue collection.

(a) Fiscal policy

Total NFPS revenues grew by 7.5% in real terms in 2018, thanks to the government's efforts to reduce tax evasion and improve revenue collection through mechanisms such as online tax services, supported by the robust expansion of the economy. Tax revenues rose by 7.7% in real terms year-on-year, with a 6.2% increase in revenue from income and profits taxes. Nonetheless, the overall tax burden remained unchanged from the previous year at 15% of GDP, owing to strong GDP growth.

In line with the objective of fiscal consolidation, public expenditure grew more slowly than revenue (1.5% year-on-year in real terms). Current transfers increased by 1.8%, while capital spending declined by 14.5% owing to the completion of the Punta Catalina energy project. The largest increases in public spending were in wages and salaries (9.8%) and interest payments (8.3%).

The NFPS deficit came in above the initial target of 2.1% set by the government in the national budget, mainly because of the rise in international oil prices. Nonetheless, in 2018 an NFPS primary surplus (equivalent to 0.1% of GDP) was recorded for the first time since 2015.

At end-2018, the NFPS public debt stood at 39.6% of GDP, up slightly from 38.9% a year earlier. Most of the debt (67.1%) is owed to external creditors, and 87.1% of the total is at a fixed rate. In July 2018, sovereign bonds totalling US$ 1.3 billion were traded on the external market. For 2019, the Senate of the Dominican Republic approved bond issuance of 190 billion Dominican pesos (RD$ 190 billion), equivalent to roughly US$ 3.6 billion; and in late May, a US$ 2.5 billion placement was made on the international market. Of this, RD$ 50.523 billion (US$ 1 billion) was issued in national currency, with a seven-year term and a coupon rate of 9.8%. Demand for this bond amounted to RD$ 72 billion. Another issue, made in United States dollars, totalling US$ 1.5 billion with a 30-year term and a rate of 6.5%, attracted demand of US$ 4 billion.

In late 2018, 32.9% of the debt was held by domestic creditors. In addition to the international bond issue in May, between January and May 2019, bonds totalling RD$ 51.4 billion (approximately US$ 1 billion) were placed in the domestic market, at rates of between 10.25% and 11.5% and maturities of between 5 and 15 years.

In February 2019, the government approved a plan to raise public sector wages, in some cases by nearly 100%. In order to continue the expenditure consolidation process, the government plans to offset these wage increases by adjusting the national budget and rationalizing transfers. Several programmes to increase revenue have already been launched, such as an increase in the sale of tourist cards, a pilot e-invoicing exercise and a new scheme introduced by the Directorate General of Internal Revenue to control tax evasion on alcohol, beer and cigarettes.

For 2019, the Dominican authorities envisage a one-percentage-point improvement in the fiscal deficit and a primary surplus topping 1%. In January 2019, central government revenues were down by 3.4% year-on-year, while expenditures were up by 14.4%. In April 2019, the public debt represented 38.9% of GDP. The performance of the public accounts will largely depend on the trend of the international oil price, which in the national budget is estimated at US$ 60 per barrel of West Texas Intermediate (WTI). In 2018 the average WTI price was US$ 64.90 per barrel, and in May 2019 it was US$ 59.12.

(b) Monetary and exchange-rate policy

In response to inflationary pressures, in August 2018 the central bank raised the monetary-policy interest rate by 25 basis points to 5.5%. The pressure on prices came from both domestic and external factors: the Dominican economy was growing rapidly, and international oil prices were rising for most of the year. The policy rate then remained unchanged in the last quarter of 2018, in keeping with weaker global growth and a fall in the price of oil on international markets.

In the financial system, the nominal lending rate in national currency remained broadly stable for most of the year —rising to 13.8% in October following the interest rate hike in August, but ending the year just 0.8 percentage points above its December 2017 level, at 12%. By contrast, the nominal rate paid on deposits rose steadily throughout the year —starting at 5.7% in January and ending at 8.2% in December, for an increase of 2.4 percentage points year-on-year. Real rates rose more sharply: the lending rate from 7.9% in January to 10.76% in December, while the real rate on deposits surged in the last quarter of the year, from 2.4% in August to 6.9% in December.

Credit to the private sector gathered pace in 2018, expanding by 11.4% year-on-year in nominal terms compared to 10% in 2017 (equivalent in real terms to 7.6% in 2018 and 6.5% in 2017). This growth was driven by various sectors, including a 15.8% expansion in lending to hotels and restaurants, along with increases of 11.3% for consumption and 6.5% for construction.

The Dominican central bank operates a managed floating exchange-rate regime. The national currency depreciated by 4.2% in nominal terms during 2018 and ended the year at 50.18 pesos per dollar. The real bilateral exchange rate index against the dollar was 108.3 in the last quarter of 2018, compared to 103.6 a year earlier, representing a depreciation of 4.7%. This variation is explained mainly by the gradual normalization of monetary policy in the United States and the resulting appreciation of the dollar, along with the growth of the United States economy and a larger Dominican current account deficit.

International reserves continued to grow during 2018 and had reached US$ 7.627 billion by the end of the year, equivalent to 10% of GDP and 12.5% higher than at end-2017. The increase was driven by buoyant family remittances and foreign-exchange earnings from tourism. In late 2018, the country's gross international reserves were equivalent to 4.4 months of imports of goods and services, excluding imports from free zones.

In the first five months of 2019, the monetary-policy interest rate remained at 5.5% amid weaker inflationary pressures. Credit growth to the private sector slackened slightly in April 2019 (9.5% year-on-year, compared to 12.8% in the year-earlier period). In response to the economic slowdown, in late May the Central Bank Monetary Board decided to release RD$ 29.210 billion for lending to sectors such as construction and agriculture.

In the latter part of April, the exchange rate had depreciated by 0.6%, to reach RD$ 50.50 per dollar, and the country's international reserves stood at RD$ 7.353 billion. The central bank is in the process of setting up an electronic foreign-exchange trading platform —expected to be rolled out before the end of the year— with a view to making the foreign-exchange market more transparent.

(c) Other policies

In April 2018, the government announced its decision to sever diplomatic relations with Taiwan Province of China. On 1 May, the Dominican Republic established diplomatic relations with the People's Republic of China; and, in November, the two countries signed 18 trade agreements covering a variety of areas, including finance, agriculture, tourism and air navigation.

3. The main variables

(a) The external sector

The widening of the current account deficit in 2018 was due mainly to a significant rise in the oil bill, coupled with increased imports of both consumer goods (growth of 8% compared to 1% in 2017) and capital goods (an increase of 20.6% following a 16.9% decrease in 2017). The import growth was partially offset by strong performances by goods exports (up 7.6%), tourism (5.3%) and remittances (9.8%). The buoyancy of the United States economy, the Dominican Republic's main trading partner and source of remittances and tourism, contributed to these results.

Exports from free trade zones grew by 9.1%. Among industrial goods, electrical products and medical equipment led the way (with gains of 30.3% and 5.7%, respectively), while among agricultural goods free-zone exports of cocoa beans increased by 50.4% year-on-year.

On the other side of the trade account, total imports grew by 14%. In the food category, milk imports grew by 21.5% versus 1.2% in 2017. As a result of climate change, there have been droughts in the north-east of the country, affecting the livestock sector and domestic milk production. In the case of raw materials and intermediate goods, in addition to the increase in oil imports, imports of iron and steel (up 43.9%) and artificial plastic materials (up 21.5%) also climbed. In 2018, foreign direct investment (FDI) inflows were 29% lower than in 2017, when exceptional FDI inflows had been created by the acquisition of 34% of the national brewery, Cervecería Nacional Dominicana, by foreign investors. The US$ 2.513 billion in FDI entering the country in 2018 was more in line with the average annual inflow of previous years of around US$ 2 billion. Most of this was distributed between tourism (33.7%), commerce and industry (21.3%) and real estate (20.4%).

For 2019, the current account deficit is expected to widen as a result of a weaker United States economy and uncertainty surrounding trade relations between the United States and China, which could reduce the overall volume of international trade and impair flows of both family remittances and tourists. The sociopolitical crisis in Haiti, which is the second most important market for Dominican sales abroad (accounting for about 9% of the total), could also harm exports.

In the first quarter of 2019, total exports grew by 4.6% year-on-year, with agricultural exports up by 21.4%. Imports increased by 4.2% in the same period, owing mainly to the continued rise in oil prices. Tourism revenues expanded by 3.9%, with the number of visitors from the United States increasing by 12.4%. FDI flows were down by US$ 51.2 million (10%) relative to the first quarter of 2018; and family remittances grew by 10.4% year-on-year.

(b) Economic activity

In 2018 the Dominican economy posted the region's highest growth rate, driven largely by private consumption, which contributed 3.7 percentage points to the total, and by gross capital formation, which added 3.6 points.

Investment rebounded strongly, with a year-on-year expansion of 3.2% in 2018, following negligible growth of 0.5% in the previous year. Private consumption also gathered pace in 2018, growing by 5.3% compared to 4.3% in 2017, thanks to an increase in the average wage and an expansion of the workforce.

All key sectors of the economy expanded, with the sole exception of mining. Construction grew by 12.2% year-on-year compared to 4.1% in 2017, thanks to real-estate housing projects for low- and middle-income households, as well as investments in the hotel sector. The communications sector grew by 12.3%, compared to 3.9% the previous year, driven by the expansion of Internet and mobile services. Free zone production increased by 8.1% (4.6% in 2017), with textile products (up 15.1%) and tobacco and its derivatives (12.1%) the growth leaders. The 1.3% contraction in the mining sector was due to the need to suspend activities for equipment maintenance.

Services are of major importance to the Dominican economy, accounting for 55.6% of GDP in 2018. The tourism, hotels, bars and restaurants sector expanded by 5.7% in 2018, compared to 6.7% in the previous year. In 2018, 41.6% of foreign tourists came from the United States, so the momentum of that country's economy is crucial for the sector's performance.

In the first quarter of the year, GDP grew by 5.7%, the most vigorous sectors being construction (12.5%), energy and water (11.7%), financial services (9.5%) and mining (6.3%). In the latter, the previous year's upgrade of the country's main ferronickel plant revitalized the sector.

(c) Prices, wages and employment

Average annual inflation was 3.6% in 2018, compared to the previous year's 3.3%. This slight increase is due to a rise in international fuel prices and the resulting increase in the domestic prices of transport and tradable goods. In the last three months of the year, inflation trended down along with international fuel prices (in December the price of gasoline was down 7.72% year-on-year); and it ended 2018 with a year-on-year variation of 1.2%, which was below the central bank's target range. This is the country's lowest inflation rate in decades. Core inflation ended the year at 2.5%.

In May 2019, the consumer price index fell by 0.3% relative to the previous month's level, owing to decreases in the price indices for food, housing, transport, and recreation and culture. In the transport sector, prices fell in the case of automobiles, foreign travel fares and liquefied gas for vehicles. In the same month, year-on-year inflation was at 1.31%, still below the central bank's target range. In the second half of the year, inflation is expected to converge towards the target range, with increases mainly in the transport and food price indices.

The increase in the average open unemployment rate in 2018 (up by 0.2 percentage points), despite the remarkable vigour of economic activity, was due mainly to growth of the economically active population and, in particular, the fact that more women entered the labour force. In 2018, 81,834 men and 114,674 women entered the labour force; the open unemployment rate among men fell from 4% to 3.5%, while the rate for women rose from 7.8% to 8.8%. The introduction of new social programmes allowing children to stay in school until 5 p.m., including a meal service, has provided an incentive for more women to seek work outside the home.

In 2018, the average monthly wage grew by 14% in nominal terms (equivalent to 10.2% in real terms). Public sector wages were raised in April 2019, in the context of the country's biennial review of the minimum wage scale; and the minimum private sector wage is also expected to increase by at least 15%.

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2010	2011	2012	2013	2014	2015	2016	2017	2018 a/
	Annual growth rates b/								
Gross domestic product	8.3	3.1	2.7	4.9	7.6	7.0	6.6	4.6	7.0
Per capita gross domestic product	6.9	1.8	1.4	3.6	6.3	5.8	5.4	3.4	5.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.8	7.1	3.0	2.8	2.8	0.5	8.6	5.8	6.3
Mining and quarrying	2.4	99.9	12.0	182.7	21.1	-11.0	26.5	-3.4	-1.3
Manufacturing	8.9	3.5	0.8	3.0	4.9	4.1	4.2	3.3	6.3
Electricity, gas and water	14.7	2.6	2.1	-1.0	4.6	6.5	5.7	3.0	8.3
Construction	11.6	-2.4	-5.3	5.2	14.6	19.7	9.5	4.1	12.2
Wholesale and retail commerce, restaurants and hotels	7.4	3.8	4.4	4.4	6.8	6.0	5.9	5.8	6.0
Transport, storage and communications	8.5	6.0	5.7	3.7	2.8	8.0	6.7	4.1	10.8
Financial institutions, insurance, real estate and business services	4.7	2.5	2.5	4.1	5.9	7.1	5.0	2.9	2.8
Community, social and personal services	5.4	4.8	5.3	5.5	6.0	4.5	4.8	-1.9	4.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	6.5	3.6	2.4	2.6	3.8	5.3	4.8	4.7	4.4
Government consumption	4.9	-2.6	6.6	6.3	6.6	8.1	4.3	6.5	2.8
Private consumption	6.9	4.3	1.9	2.2	3.4	4.9	4.9	4.3	5.3
Gross capital formation	20.8	-5.8	-0.6	-1.7	16.8	23.7	9.3	-3.3	14.4
Exports (goods and services)	16.1	7.3	5.5	9.0	7.5	2.0	6.6	4.7	6.7
Imports (goods and services)	18.7	0.1	1.5	-2.2	3.9	11.4	4.6	-2.5	8.4
Investment and saving c/	**Percentages of GDP**								
Gross capital formation	26.4	25.0	24.3	22.7	23.0	22.6	21.9	21.8	24.4
National saving	18.9	17.5	17.9	18.6	19.7	20.7	20.8	21.7	22.9
External saving	7.5	7.5	6.4	4.1	3.3	1.9	1.1	0.2	1.4
Balance of payments	**Millions of dollars**								
Current account balance	-4 024	-4 335	-3 881	-2 568	-2 170	-1 280	-815	-133	-1 159.6
Goods balance	-8 394	-8 940	-8 716	-7 377	-7 374	-7 465	-7 559	-7 600	-9 301.3
Exports, f.o.b.	6 816	8 362	8 936	9 424	9 899	9 442	9 840	10 135	10 907.6
Imports, f.o.b.	15 210	17 302	17 652	16 801	17 273	16 907	17 399	17 734	20 208.9
Services trade balance	2 867	3 005	3 321	3 634	4 084	4 368	4 940	5 550	5 885.6
Income balance	-1 927	-2 255	-2 400	-2 972	-3 247	-2 936	-3 253	-3 794	-3 845.0
Net current transfers	3 431	3 854	3 915	4 148	4 368	4 753	5 058	5 711	6 101.1
Capital and financial balance d/	4 096	4 631	3 441	3 902	2 820	2 051	1 707	861	1 994.2
Net foreign direct investment	2 024	2 277	3 142	1 991	2 209	2 205	2 407	3 571	2 535.3
Other capital movements	2 072	2 354	299	1 911	612	-154	-700	-2 710	-541.1
Overall balance	72	296	-440	1 334	650	770	892	728	834.6
Variation in reserve assets e/	-466	-339	548	-1 139	-195	-407	-780	-731	-848.5
Other financing	395	43	-108	-195	-455	-363	-112	3	13.9
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	108.6	110.3	112.2	115.8	118.9	115.8	117.2	119.9	118.2
Terms of trade for goods (index: 2010=100) g/	100.0	94.7	93.8	91.5	93.3	97.9	98.9	95.1	92.5
Net resource transfer (millions of dollars)	2 563	2 420	933	735	-882	-1 249	-1 659	-2 930	-1 836.9
Gross external public debt (millions of dollars)	11 057	12 761	13 888	16 132	17 280	16 928	18 170	19 124	21 860.4
Employment	**Average annual rates**								
Labour force participation rate h/	56.5	57.8	59.0	58.7	59.1	61.8	62.3	62.2	63.6
Open unemployment rate i/	5.7	6.7	7.2	7.9	7.2	7.9	7.9	6.1	6.1

Table 1 (concluded)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Prices	**Annual percentages**								
Variation in consumer prices									
(December-December)	6.3	7.8	3.9	3.9	1.6	2.3	1.7	4.2	1.2
Variation in nominal exchange rate									
(annual average)	2.5	3.3	3.1	6.3	4.1	3.5	2.3	3.1	4.4
Variation in minimum real wage	-0.4	1.2	2.8	3.1	2.3	7.2	3.8	6.3	5.5
Nominal deposit rate j/	4.9	7.9	7.5	6.0	6.7	6.6	7.2	6.8	6.6
Nominal lending rate k/	...	...	15.5	13.6	13.9	14.9	15.1	13.9	12.5
Central government	**Percentages of GDP**								
Total revenue	13.1	12.9	13.6	14.2	14.6	14.3	14.6	14.9	15.0
Tax revenue	12.3	12.4	13.1	13.6	13.7	13.4	13.6	13.9	13.9
Total expenditure	15.6	15.0	18.8	16.9	17.1	16.7	17.1	17.3	17.0
Current expenditure	12.1	11.9	13.2	13.7	14.4	13.9	14.3	13.8	14.4
Interest	1.9	2.0	2.4	2.3	2.4	2.6	2.9	2.4	3.2
Capital expenditure	3.5	3.1	5.6	3.2	2.8	2.8	2.8	3.5	2.6
Primary balance	-0.7	-0.1	-2.8	-0.4	-0.1	0.3	0.5	0.0	1.2
Overall balance	-2.6	-2.1	-5.2	-2.7	-2.5	-2.4	-2.4	-2.4	-2.0
Central government public debt	27.2	28.3	31.5	37.2	35.9	34.4	36.2	38.0	38.8
Domestic	8.7	8.3	10.3	13.2	11.6	10.9	12.1	13.2	12.2
External	18.5	20.0	21.2	24.0	24.3	23.6	24.1	24.8	26.6
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	37.2	37.6	39.5	39.0	40.4	44.1	45.8	46.0	44.4
To the public sector	16.9	15.9	18.9	19.1	18.5	26.6	28.2	23.2	21.6
To the private sector	22.7	22.9	22.5	23.4	25.6	26.9	28.1	28.7	28.7
Others	-2.4	-1.1	-1.9	-3.4	-3.8	-4.1	-5.1	-5.9	-5.9
Monetary base	7.3	7.0	7.0	6.4	0.1	7.1	7.0	6.3	6.0
Money (M1)	8.4	7.9	8.1	8.5	8.5	8.8	9.1	9.4	9.0
M2	25.9	25.6	25.9	26.1	26.2	27.2	27.8	28.3	26.5
Foreign-currency deposits	6.6	7.2	7.5	7.9	7.6	8.1	8.2	8.1	8.3

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 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/ Economic Development Division, calculations for Economic Survey of Latin America and the Caribbean, 2019.
h/ Nationwide total. New measurements have been used since 2015; the data are not comparable with the previous series.
i/ Urban total. Up to 2014, nationwide total.
j/ 90-day fixed-term certificates of deposit, weighted average.
k/ Prime lending rate.

Table 2

DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2017				2018				2019	
	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/	5.5	3.1	3.1	6.5	6.6	7.2	7.4	6.6	...	...
Gross international reserves (millions of dollars)	6 489	6 307	6 237	6 317	7 478	6 904	7 385	7 100	7 179	7 129 c/
Real effective exchange rate (index: 2005=100) d/	119.0	121.9	124.8	126.4	122.2	118.6	115.9	116.2	116.6	116.7 c/
Consumer prices (12-month percentage variation)	3.1	2.6	3.8	4.2	3.9	4.6	3.3	1.2 #	1.5	1.3 c/
Average nominal exchange rate (pesos per dollar)	47.0	47.3	47.5	48.0	48.9	49.4	49.7	50.1	50.5	50.6 c/
Nominal interest rates (average annualized percentages)										
Deposit rate e/	8.1	7.1	6.5	5.5	5.7	6.0	6.8	8.1	7.2	6.4 c/
Lending rate f/	16.1	14.9	13.3	12.0	12.2	12.3	13.0	12.7	12.9	12.5 c/
Interbank rate	6.6	6.4	6.2	6.1	5.7	5.3	5.6	6.1	6.4	6.4 c/
Monetary policy rates	5.5	5.8	5.3	5.3	5.3	5.3	5.5	5.5	5.5	5.3
Sovereign bond spread, Embi Global (basis points to end of period) g/	333	321	283	275	292	348	305	331	318	348
International bond issues (millions of dollars)	1517	500	-	-	1 818	-	1 300	-	-	2 500
Domestic credit (variation from same quarter of preceding year)	10.1	7.6	8.0	8.9	10.2	10.7	8.5	7.9	11.1	13.4

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/ Prime lending rate.
g/ Measured by J.P.Morgan.

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