Dominican Republic

ECLAC expects the Dominican economy to grow by 4.8% in 2019, following the previous year’s 7% expansion, which was greater than initially expected. This slowdown reflects a number of factors, such as the slackening pace of the world economy—particularly in the Dominican Republic’s main trading partner, the United States—and compounded by a reduction in tourist arrivals. The deficit of the non-financial public sector (NFPS) is forecast to be equivalent to 3% of GDP by the end of the year, up from 2.4% in 2018, owing to weaker government revenues. At the end of 2019 the NFPS primary surplus is expected to come in at 0.3% of GDP (0.5% in 2018).

The current account deficit is set to widen to 1.7% of GDP (1.4% in 2018) owing to a slowdown in exports and fewer tourist arrivals. Inflation will end the year within the central bank’s 3%–5% target range at roughly 3.5%, compared to 1.2% in 2018, fuelled by a rise in food prices in the wake of the drought in the north of the country. The open unemployment rate stood at 6.1% in the first half of the year, 0.4 percentage points higher than the annual average for 2018, as a result of the growth slowdown.

Total central government income grew at an annual rate of 7.5% in the first eight months of 2019 (9.3% in the year-earlier period). There was a 9.5% increase in receipts from income, profits and capital gains taxes and an 8.7% increase in revenue from value-added tax. This increase is the result of new administrative measures and efforts to combat tax evasion and the smuggling of products such as alcohol and cigarettes. Total central government expenditure was up by 8.7% year-on-year in real terms between January and August 2019, partly owing to higher interest payments (growth of 14%, compared to 11.1% in 2018). In August the total NFPS debt was equivalent to 41.9% of GDP, compared to 37.6% in the previous December. Of this, 67.3% is owed to external creditors, 25.1% is held domestically and 7.6% is intergovernmental debt. Of the total public debt, 88.6% is subject to fixed interest rates, a significant improvement over 2013, when 74.1% was contracted on such terms.

In view of the economic slowdown, the central bank adopted an expansionary monetary policy in mid-2019. The Monetary Board cut the monetary policy rate three times (in June, August and September) by a total of 100 basis points from 5.5% to 4.5%, bringing it to its lowest level since 2013. In addition, two releases were made of the legal reserve requirement, totalling 34,335.9 million Dominican pesos. These expansionary policies have brought down interest rates in the financial market. The average nominal lending rate charged by full-service banks stood at 12.1% in September, compared to 13.3% a year earlier; and the nominal deposit rate fell to 5.2% in September, compared to 7.8% twelve months earlier. In real terms, the full-service bank lending rate was 8.8% in September and the deposit rate was 2.5%, representing year-on-year reductions of 0.2 and 0.3 percentage points, respectively.

Lending to the private sector in local currency was up by a nominal 11% year-on-year at the end of September (following an increase of 12% in the same period in 2018). The growth of credit to the construction sector slowed to 8.1% in
nominal terms year-on-year, compared to a 14% expansion in the year-earlier period. In contrast, consumer credit expanded by an annualized 13.3% in nominal terms (+8.3% in the same period of 2018).

In late October, the domestic currency had depreciated by 4.9% year on year, partly owing to the uncertainty surrounding the electoral process. In September the central bank announced an injection of US$ 100 million into the foreign exchange market to stabilize and strengthen the exchange rate. In the same month, the country’s international reserves stood at US$ 7.59 billion (equivalent to roughly four months’ imports), compared to US$ 7.32 billion a year earlier. In October, the Electronic Currency Trading Platform entered into operation with the aim of making the foreign exchange market more transparent.

The widening of the current account deficit is partly explained by the slackening pace of total exports, which grew at a year-on-year rate of 2.8% in the first half of 2019, compared to 7.9% in the first six months of the previous year. Agricultural exports from the free zones contracted by 4.4% compared to a half-yearly expansion of 29.1% in 2018. Industrial exports from the free zones flattened in the first half of the year, following a 10.4% increase in the first six months of 2018. Mining sector exports were buoyant (+8.1%), following a contraction of 0.8% in the first half of 2018. Imports of consumer goods increased by 6.9% year-on-year to June, while those of capital goods expanded by 3.4%. The oil bill was just 4% higher, following a 30% year-on-year increase in 2018.

Between January and October 2019 the number of foreign visitors to the country was down by 3.8% year-on-year (with 5.4% fewer arrivals from the United States). This reflected the temporary effect of the death of a number of American tourists early in the year; but the trend is expected to be reversed after the Federal Bureau of Investigations (FBI) clarified that the deaths had been due to natural causes.

Family remittances strengthened by 8.6% year-on-year in the January-August period and helped to offset the drop in foreign-exchange earnings from tourism. Foreign direct investment (FDI) is expected reach a level of US$ 2.6 billion for the year as a whole (US$ 2.04 billion up to September), 2.5% more than the previous year’s inflow.

In the first nine months of 2019, GDP grew by 4.8%, compared to 7.2% in 2018. With the exception of the mining sector, which expanded by 3.9% (recovering from a year earlier contraction of 1.9%) the pace of activity slackened in several other sectors. Services, which represent 55.6% of GDP, grew by 4.4% to the third quarter, compared to 6% a year earlier. The hotels, bars and restaurants sector expanded by 1% up to the third quarter of 2019, following 5.6% growth in the same period in 2018. Free zone manufacturing shrank by 0.2%, following 10.1% growth up to the third quarter of the previous year. The tourism sector reported revenues of US$ 5.767 billion between January and September, a year-on-year decrease of 0.8%. The growth of private consumption slowed to 4.3% in the third quarter (+6.3%...
in the year-earlier period). Gross fixed capital formation expanded by 7.8% up to the third quarter, compared to a year-earlier rate of 12.8%.

As of October 2019, year-on-year inflation stood at 2.5%. Roughly half of this is explained by a 1.2% monthly increase in food prices, which in turn reflects the impact of weather conditions on the production of certain goods in the family shopping basket. The open unemployment rate in the first half of the year was 4% among men (3.5% in 2018) and 9.2% in the case of women (8.8% in 2018). Participation rates had risen to 65% overall (63.6% in 2018), 78.6% for men (77.8% in 2018) and 52.3% for women (52.3%).

For 2020, ECLAC forecasts GDP growth of 4.7%, affected by external uncertainty surrounding the United Kingdom’s departure from the European Union (Brexit), trade tensions between the United States and China, and the general slowdown in the world economy. Meanwhile, the tourism sector is expected to recover. The national budget for 2020 provides for an NFPS fiscal deficit equivalent to 2.5% of GDP. The current account balance will trend downwards, narrowing by 1.7 percentage points of GDP by 2020. Inflation is expected to remain within the central bank’s 3%–5% target range.