

DOMINICAN REPUBLIC

1. General trends

The measures taken to address the coronavirus disease (COVID-19) health crisis have taken a serious economic toll on the Dominican Republic. ECLAC estimates that the country's economy will contract by 5.3% in 2020. This comes as a result of the shutdown of key sectors, such as tourism and construction, following the implementation of physical distancing measures and movement restrictions, and slacker external demand. The projections for 2020 show the country will register its worst economic performance since 1990, when GDP contracted by 5.5%.

The increase in public spending to address the challenges related to the pandemic combined with falling revenues resulting from lower economic activity will lead to a fiscal deficit of the non-financial public sector (NFPS) of approximately 4.8% of GDP in 2020, widening from 2.3% in 2019. Lower tourism revenues in 2020 will push the current account deficit up to 2.5% of GDP. The fall in international fuel prices and the weaker demand for goods and service stemming from the pandemic will be reflected in a low year-on-year inflation rate of around 2.5% (December-December). This is below the floor of the central bank's target range of 4% (plus or minus 1 percentage point). The open unemployment rate had edged up 0.5 percentage points year-on-year in 2019 and is expected to see an even larger increase in 2020.

The Government of the Dominican Republic has implemented various measures to curb the spread of COVID-19 in the population. On 16 March, all inbound flights from China, Europe, the Islamic Republic of Iran and the Republic of Korea were suspended. On 19 March, the government expanded the restrictions and declared a state of emergency, closing the land border (with Haiti) and sea and air borders, suspending classes in all schools and universities and cancelling all mass gatherings and events. A nation-wide curfew between 8 p.m. and 6 a.m. was introduced on 20 March. The presidential elections, which were scheduled for 17 May, were postponed to 5 July. Thanks to the slowdown in the rate of infection, a plan for the phased reopening of the economy was implemented, with the first phase beginning on 20 May.

The Dominican Republic's economy was in a stronger position than other countries in Latin America and the Caribbean when the crisis struck. In 2019, its GDP growth rate of 5.1%, albeit 2 percentage points lower relative to 2018, was one of the highest in the region. This slowdown was primarily attributable to lower growth in the United States and the negative shock in the tourism industry in mid-2019. The Bureau of Internal Revenue (DGII) continued to implement measures to increase tax revenues. The NFPS deficit narrowed by 0.1 percentage points, ending 2019 at 2.3% of GDP.

The current account deficit stood at 1.3% of GDP in 2019, compared with 1.4% in 2018. Year-on-year inflation to December 2019 stood at 3.7%, which was within the central bank's target range. The average open unemployment rate was 6.2% in 2019, up from 5.7% in 2018.

2. Economic policy

To counter the economic upheaval triggered by the health crisis, the central bank doubled down on the expansionary stance adopted in 2019 to respond to the slowdown in economic activity. At the same time, the Government implemented various programmes to mitigate the economic and social impact of the pandemic.

(a) Fiscal policy

In response to the challenges of COVID-19, the Government of the Dominican Republic introduced social protection programmes and other programmes intended to safeguard employment in the private sector. It launched three cash transfer programmes targeting various sectors of the population, at a total cost of 42 billion Dominican pesos (approximately US\$ 750 million). The Stay at Home programme grants 5,000 Dominican pesos (RD\$ 5,000) to low-income individuals and covers a total of 1.5 million households. Under the Employee Solidarity Assistance Fund (FASE) programme, formal sector workers who have been unable to work because of the restrictions implemented receive 70% of their salary, with a minimum amount of RD\$ 5,000 and a maximum of RD\$ 8,500 per month. Under the third programme, Pa' Ti, informal workers receive a cash transfer of 5,000 pesos per month for an indefinite period. Public health spending is expected to increase by approximately RD\$ 10 billion (US\$ 171 million).

The payment of taxes and contributions was deferred for the hotel sector. The Bureau of Internal Revenue also exempted most taxpayers from the advance payment of income tax for May 2020, and companies will have the option to pay the industrialized goods and services transfer tax (ITBIS) on their sales on a quarterly basis, instead of monthly. Micro- and small enterprises were also exempted from the payment of the first instalment of the tax on assets, which was due on 29 June.

Total tax revenues are projected to shrink by 2.0% of GDP while expenditures will increase by 0.75% of GDP in 2020. This would result in an NFPS deficit at end-2020 more than twice that of the previous year (4.8% of GDP, against 2.3% in 2019). In the first quarter of 2020, central government revenues were down by 9.8% in real terms, while expenditures increased by 14.2% in real terms over the year-earlier period. In April 2019, non-financial public sector debt represented 38.9% of GDP.

Against this backdrop, the government used an existing US\$ 150 million credit line for disaster management from the World Bank and received another loan under the Rapid Financing Instrument of the International Monetary Fund (IMF) for US\$ 650 million. In May, the Ministry of Finance announced a bond issuance worth RD\$ 40 billion (equivalent to approximately US\$ 684.3 million) that was purchased by the country's pension fund administrators.

In 2019, total central government revenues grew by 7.6% in real terms, driven by higher revenue from taxes on income, profits and capital gains (11.8%). The tax burden in 2019 was 13.3% of GDP, slightly higher than in 2018 (13%).

Public spending grew at a slower rate (7.4% in real terms) than tax revenues in 2019. There was a significant rise in public sector wages (6.0%) on the back of hikes in minimum wages and pensions. Interest payments increased by 12.2% and subsidies to the power sector by jumped by 25.4%. The central government posted a primary surplus equivalent to 0.6% of GDP, compared to 0.4% in 2018.

At end-2019, total public debt of the non-financial public sector amounted to 40.2% of GDP, up 2.6 percentage points from the end of 2018. External debt accounted for 65.1% of total debt in 2019, compared with 67.1% the year before.

(b) Monetary and exchange-rate policy

On 18 March 2020, the central bank announced a number of measures to stimulate economic activity and safeguard liquidity. These included cutting the monetary policy rate by 100 basis points (from 4.5% to 3.5%), reducing the interest rate of the permanent liquidity facility (overnight repo) by 150 basis

points (from 6.0% to 4.5%), and lowering the interest rate on short-term interest-bearing deposits at the central bank (overnight), from 3.0% to 2.5%. In addition, a total of RD\$ 22.321 billion was released from the legal reserve requirement: RD\$ 10 billion pesos went to loans for households, micro-, small and medium-sized enterprises and the trade sector, and RD\$ 12.321 billion went to productive sectors such as tourism. All loans were granted at a maximum interest rate of 8.0% per year.

As a result of these measures, the weighted lending rate applied by full-service banks dropped by 300 basis points between March and May 2020 (from 13% to 10%), and the average weighted deposit rate declined by 90 basis points (from 6.0% to 5.1%). Lending to the private sector in local currency was up by 14.6% year-on-year in May.

At the end of May 2020, the Dominican peso had depreciated by 5.4% compared with the end of 2019 and by 9.8% year-on-year. To stabilize the exchange rate, the central bank sold US\$ 2.1 billion in the first five months of the year. In January 2020, US\$ 10.409 billion worth of bonds were sold, providing a boost to gross international reserves. At the end of May 2020, reserves totalled about US\$ 8.2 billion, equivalent to 4.3 months of imports.

In July 2019, low-inflation conditions and the slowdown in economic activity led the central bank's Monetary Board to cut the monetary policy rate by a total of 50 basis points (25 in August and 25 in September), bringing it to 4.5% at year-end.

The lending rate in local currency of full-service banks gradually fell in line, dropping from 13.4% in April 2019 to 12.4% in December of that year. The deposit rate hovered between 5.5% and 6.6% over the year. In real terms, the variation in interest rates was more pronounced: the lending rate of full-service banks fell from 10.2% in April to 8.9% in December, and the deposit rate climbed from 1.9% in August to 3.17% in December. Lending to the private sector in local currency was up by 11.8% in 2019, on the back of particularly strong growth in credit for real estate (28.5%), manufacturing (14.9%) and consumer credit (13.8%).

In 2019, the average nominal selling rate of the Dominican peso was 51.05 for one United States dollar, reflecting a nominal depreciation of 3.1% compared to the 2018 average. At end-2019, gross international reserves stood at US\$ 8.782 billion, 15% above the December 2018 level.

3. The main variables

(a) The external sector

The country's external sector has been severely hit by the pandemic. The current account posted a deficit of US\$ 41.8 million in the first quarter of 2020 compared with a surplus of US\$ 283.5 million in the year-earlier period. This deterioration is due primarily to a US\$ 607.6 million reduction in the services balance resulting from the closure of the tourism sector since mid-March.

The health measures in place were such that free zones were operating at 26% capacity when confinement was most stringent in the period between 19 March and 20 May, prior to the resumption of economic activity. In the first quarter, exports from free zones were up by 1.5% year-on-year thanks to growth in the medical equipment sector (18.1%), which offset the decline in exports of agricultural products (-11.4%) and textiles (-20.0%). Total exports increased by 2.6% in the first quarter, while total imports fell by 4.3% year-on-year in the same period as lower international prices led to a sharp 30.1% drop in the value of oil and other fuel imports.

Remittances fell by 4.6% year-on-year in May 2020, driven down by the impact of COVID-19 in countries such as the United States and Spain, where the majority of Dominican migrants reside. In the first quarter of 2020, foreign direct investment (FDI) inflows were down US\$ 177.7 million on the total for the year-earlier period. The central bank estimates that FDI could fall by roughly 15% as a result of the closure of the construction sector in response to physical distancing measures.

Despite the effect of the pandemic on the performance of exports, the staggered resumption of economic activity at the end of May allowed free zones to begin operating at 73% of their capacity. However, medical equipment manufacturing continued to operate at almost 100% capacity throughout the crisis. The country also stands to benefit from favourable terms of trade thanks to lower international fuel prices and an increase in the price of gold, with gold exports registering a 23.1% year-on-year jump in value in the first quarter.

On 10 June, the Ministry of Tourism and the Dominican Republic Hotel Association issued health protocols to enable the reopening of the sector. The airport in Punta Cana, the country's main tourist centre, was scheduled to reopen on 1 July. Whether tourists return will depend on the travel restrictions imposed in other countries and on how confident they are about travelling. In the meantime, the sector should be kept afloat by domestic tourism and by returning nationals, who continued to arrive in steady numbers during the 2019 downturn.

The current account deficit narrowed slightly in 2019. Increases in goods exports (2.9%), remittances (9.1%) and foreign direct investment (5.6%) offset the drop in revenue from services (-7.4%) explained primarily by the decline in tourism. Mining exports picked up sharply in 2019, with gold in particular rising by 13.5%. Total exports from free zones edged up by 0.5% and exports of industrial manufactures rose by 0.7%, reflecting significant growth in exports of medical equipment (8.2%) that offset the 4.3% downturn in agricultural exports.

Tourism was affected by negative media coverage in mid-2019 and revenues fell by 1.2% compared with 2018. In volume terms, there were 122,852 fewer air passenger arrivals in 2019; mostly due to a decline in arrivals of tourists from Europe, South America and the United States.

Total imports grew by 0.4% in 2019. There was a reduction in the oil bill, while non-oil imports increased by 1.6%. These included consumer goods imports, which rose by 2.3%.

Foreign direct investment surged by 18.8% in 2019, bringing the total to US\$ 3.013 billion, with an additional US\$ 477.5 million in inflows. Most of this was distributed between tourism, real estate, energy and telecommunications. Family remittances grew by 9.1% and were equivalent to 8.3% of GDP.

(b) Economic activity

As emergency measures to tackle the pandemic took a heavy toll on economic activity in the first quarter of 2020, there was no year-on-year change in GDP. In the period from January to April, the monthly index of economic activity (IMAE) registered an average year-on-year decline of 7.5%, after having increased by around 5.0% in January and February. In March, the index was down 9.4% year-on-year and in April it plummeted by 29.8%.

The hotel, bar and restaurant sector was the worst affected in the first quarter, contracting 17.9% year-on-year. The construction sector fell by 13.8%. This negative change was offset thanks to growth in the health (12.2%), financial services (9.5%), energy and water (5.2%) and agriculture (5.0%) sectors.

Instead of the projected rebound in the tourism sector in 2020, there was a decline in tourist arrivals in January and February (-6.3%) year-on-year. In the second half of the year, it is expected that the construction sector—for which reopening protocols have already been defined— will be the first to recover following the resumption of economic activity.

In 2019, that sector expanded by 10.4%, contributing 1.2 of the 5.1 percentage points of GDP growth. This performance was attributable to private (low- and medium-cost housing and tourism sector projects) and public projects (ground transportation infrastructure). Also performing well were financial intermediation and insurance (9.0%), thanks to significant growth in fees, as well as the energy and water sector, which was up 7.5% thanks to higher commercial and residential consumption. After contracting by 1.3% in 2018, the mining sector picked up and posted 3.4% growth, largely on account of the upgrade of the country's main ferronickel plant.

The largest driver of GDP growth was private consumption, which contributed 3.2 percentage points; investment followed with 2.5 percentage points. This boost in domestic demand was facilitated by an expansionary monetary policy. The increase in investment was owed primarily to the performance of the construction sector.

(c) Prices, wages and employment

Year-on-year inflation in April 2020 stood at 1.1%, below the target range. The slower rate of change in consumer prices was chiefly attributable to the 6.2% decline in transport prices.

Average annual inflation was 1.8% in 2019, compared to the previous year's 3.6%. This was driven mainly by the decline in international oil prices.

As of 17 June 2020, 863,824 workers had received cash transfers under the FASE programme and 279,478 had returned to work.

In 2019, the open unemployment rate among women climbed to 9.3%, up from 8.8% in 2018; the rate for men rose to 3.9%, up from 3.5% the previous year. A pronounced gender gap remains. In 2019, the average monthly wage grew by 2% in nominal terms year-on-year (equivalent to 0.1% in real terms).

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2011	2012	2013	2014	2015	2016	2017	2018	2019 a/
	Annual growth rates b/								
Gross domestic product	3.1	2.7	4.9	7.1	6.9	6.7	4.7	7.0	5.1
Per capita gross domestic product	1.9	1.5	3.7	5.8	5.7	5.5	3.5	5.9	6.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	7.3	2.8	2.9	2.4	2.3	5.6	5.8	5.5	4.1
Mining and quarrying	99.9	12.0	182.7	25.4	-9.1	25.7	-2.9	-1.3	3.4
Manufacturing	3.5	0.7	3.0	5.3	4.4	3.2	2.7	6.2	2.5
Electricity, gas and water	2.6	2.1	-1.0	6.3	8.8	7.3	2.6	7.9	3.8
Construction	-2.4	-5.3	5.2	11.7	17.9	10.5	5.0	11.8	10.4
Wholesale and retail commerce, restaurants and hotels	3.4	2.9	0.9	7.5	7.7	6.9	4.4	7.0	2.2
Transport, storage and communications	3.9	4.7	5.0	6.9	5.9	6.4	4.7	6.7	4.0
Financial institutions, insurance, real estate and business services	2.9	4.6	4.1	5.2	5.0	7.1	4.2	5.3	6.4
Community, social and personal services	3.3	4.3	3.8	6.4	5.5	5.3	2.4	4.4	4.7
Gross domestic product, by type of expenditure									
Final consumption expenditure	3.6	2.4	2.6	3.8	5.3	4.8	4.7	4.4	5.4
Government consumption	-2.6	6.6	6.3	4.3	6.9	1.9	0.8	2.8	6.3
Private consumption	4.3	1.9	2.2	5.3	6.4	6.0	4.4	5.7	4.6
Gross capital formation	-2.2	-0.5	-2.5	9.3	18.9	12.3	-0.3	13.3	8.1
Exports (goods and services)	7.3	5.5	9.0	8.7	3.1	7.5	4.9	6.1	1.5
Imports (goods and services)	0.1	1.5	-2.2	4.8	11.0	8.1	-3.0	8.5	5.8
Investment and saving c/	Percentages of GDP								
Gross capital formation	25.0	24.3	22.7	23.1	23.4	23.0	22.5	25.8	26.0
National saving	17.5	17.9	18.6	19.9	21.6	21.9	22.3	24.4	24.7
External saving	7.5	6.4	4.1	3.2	1.8	1.1	0.2	1.4	1.3
Balance of payments	Millions of dollars								
Current account balance	-4 335	-3 881	-2 568	-2 170	-1 280	-815	-133	-1 160	-1 205
Goods balance	-8 940	-8 716	-7 377	-7 374	-7 465	-7 559	-7 600	-9 301	-9 069
Exports, f.o.b.	8 362	8 936	9 424	9 899	9 442	9 840	10 135	10 908	11 219
Imports, f.o.b.	17 302	17 652	16 801	17 273	16 907	17 399	17 734	20 209	20 288
Services trade balance	3 005	3 321	3 634	4 084	4 368	4 940	5 550	5 886	5 452
Income balance	-2 255	-2 400	-2 972	-3 247	-2 936	-3 253	-3 794	-3 845	-4 274
Net current transfers	3 854	3 915	4 148	4 368	4 753	5 058	5 711	6 101	6 686
Capital and financial balance d/	4 631	3 441	3 902	2 820	2 051	1 707	861	1 994	2 344
Net foreign direct investment	2 277	3 142	1 991	2 209	2 205	2 407	3 571	2 535	3 013
Other capital movements	2 354	299	1 911	612	-154	-700	-2 710	-541	-669
Overall balance	296	-440	1 334	650	770	892	728	835	1 139
Variation in reserve assets e/	-339	548	-1 139	-195	-407	-780	-731	-849	-1 150
Other financing	43	-108	-195	-455	-363	-112	3	14	11
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	110.3	112.2	115.7	115.1	110.7	110.8	112.3	117.0	117
Terms of trade for goods (index: 2010=100)	98.2	98.8	96.5	96.1	104.4	109.0	104.1	99.1	104
Net resource transfer (millions of dollars)	2 420	933	735	-882	-1 249	-1 659	-2 930	-1 837	-1 920
Gross external public debt (millions of dollars)	11 625	12 872	14 919	16 074	16 029	17 567	18 821	21 565	23 383
Employment g/	Average annual rates								
Labour force participation rate	57.8	59.0	58.7	59.1	61.8	62.3	62.2	63.6	65.1
Open unemployment rate	6.1	6.7	7.4	6.7	7.3	7.1	5.5	5.7	6.2

Table 1 (concluded)

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Prices	Annual percentages								
Variation in consumer prices (December-December)	7.8	3.9	3.9	1.6	2.3	1.7	4.2	1.2	3.7
Variation in nominal exchange rate (annual average)	3.3	3.1	6.3	4.1	3.5	2.3	3.1	4.4	3.7
Variation in minimum real wage	1.2	2.8	3.1	2.3	7.2	3.8	6.3	5.5	
Nominal deposit rate h/	7.9	7.5	6.0	6.7	6.6	7.2	6.8	6.6	6.6
Nominal lending rate i/	...	15.5	13.6	13.9	14.9	15.1	13.9	12.5	12.5
Central government	Percentages of GDP								
Total revenue	12.9	13.6	14.2	14.2	13.7	13.9	14.0	14.2	14.4
Tax revenue	12.4	13.1	13.6	13.3	12.8	12.9	13.0	13.0	13.3
Total expenditure	15.0	18.8	16.9	17.0	16.6	16.9	17.4	16.5	16.7
Current expenditure	11.9	13.2	13.7	14.1	13.3	13.6	13.6	13.4	13.9
Interest	2.0	2.4	2.3	2.4	2.3	2.5	2.5	2.6	2.7
Capital expenditure	3.1	5.6	3.2	2.9	3.3	3.3	3.7	3.1	2.8
Primary balance	-0.1	-2.8	-0.4	-0.4	-0.6	-0.5	-0.8	0.3	0.4
Overall balance	-2.1	-5.2	-2.7	-2.8	-2.9	-3.0	-3.4	-2.3	-2.3
Central government public debt	28.3	31.5	37.2	35.9	34.4	36.2	38.0	36.8	39.6
Domestic	8.3	10.3	13.2	11.6	11.2	12.1	13.2	11.6	13.3
External	20.0	21.2	24.0	24.3	23.3	24.1	24.8	25.2	26.3
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	37.6	39.5	39.0	39.7	42.7	43.8	43.7	42.5	44.3
To the public sector	15.9	18.9	19.1	18.2	25.7	27.0	22.1	20.5	21.9
To the private sector	22.9	22.5	23.4	25.2	26.0	26.9	27.3	27.2	28.2
Others	-1.1	-1.9	-3.4	-3.7	-4.0	-4.8	-5.6	-5.3	-5.7
Monetary base	7.0	7.0	6.4	6.3	6.9	6.7	6.0	5.7	5.8
Money (M1)	7.9	8.1	8.5	8.3	8.5	8.7	8.9	8.6	9.6
M2	25.6	25.9	26.1	25.8	26.3	26.5	26.9	25.2	25.8
Foreign-currency deposits	7.2	7.5	7.9	7.5	7.8	7.8	7.7	7.9	8.5

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. New measurements have been used since 2015; the data are not comparable with the previous series.

h/ 90-day fixed-term certificates of deposit, weighted average.

i/ Lending rates in local currency of multiple banks, weighted average.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2018				2019				2020	
	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/	6.8	7.3	7.6	6.3	5.7	3.7	4.9	5.8	0.0	...
Gross international reserves (millions of dollars)	7 478	6 904	7 385	7 100	7 179	7 656	7 902	7 807	9 866	7 951
Real effective exchange rate (index: 2005=100) c/	118.4	118.3	115.7	115.4	116.1	116.5	116.9	119.3	120.5	122.6 d/
Open unemployment rate e/	5.3	5.8	5.6	5.8	5.8	6.4	6.5	5.9	5.7	...
Employment rate e/	59.5	60.0	60.0	60.6	61.1	61.0	60.6	61.5	59.8	...
Consumer prices (12-month percentage variation)	3.9	4.6	3.3	1.2	1.5	0.9	2.0	3.7	2.4	2.9
Average nominal exchange rate (pesos per dollar)	48.9	49.4	49.7	50.1	50.5	50.6	51.5	52.9	53.5	55.2 c/
Nominal interest rates (average annualized percentages)										
Deposit rate f/	5.7	6.0	6.8	8.1	7.2	6.4	6.2	6.5	6.1	5.9 c/
Lending rate g/	12.2	12.3	13.0	12.7	12.9	12.5	12.3	12.2	12.8	10.5 c/
Interbank rate	5.7	5.3	5.6	6.1	6.4	6.4	6.0	5.6	5.7	6.3 c/
Monetary policy rates	5.3	5.3	5.5	5.5	5.5	5.3	4.6	4.5	4.2	3.5
Sovereign bond spread, Embi Global (basis points to end of period) h/	292	348	305	371	318	334	358	309	621	567
International bond issues (millions of dollars)	1818	-	1 300	-	-	2 500	-	-	2 500	-
Domestic credit (variation from same quarter of preceding year)	10.2	10.7	8.5	8.1	11.7	11.5	10.7	11.3	4.9	...

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/ Quarterly average, weighted by the value of goods exports and imports.

d/ Figures as of May.

e/ Nationwide total.

f/ 90-day fixed-term certificates of deposit, weighted average.

g/ Prime lending rate.

h/ Measured by J.P.Morgan.