Dominican Republic

Fuelled by stimulus measures, the economy of the Dominican Republic is projected to expand by 7% (5.6% per capita) in 2010. The impact of growing domestic demand on imports and the rising oil bill have pushed the current account deficit up; it is expected to end the year in the area of 7%.

Thanks to ample productive capacity, this strong performance has not generated inflationary pressures. Year-on-year inflation is therefore projected at some 6% (5.8% in 2009). The economic slowdown of 2009 had a lagged impact on tax collections, and the planned scale-back of subsidies for the electricity sector was delayed. The authorities therefore cut spending in order to meet the central government's deficit target, equivalent to 2.6% of GDP.

Sparked by resources allocated to the countercyclical measures in place since late 2009, total central government spending during the first half of 2010 was 20% higher in real terms than during the same period in 2009. Most of the increase was channelled to investments in infrastructure. Although the focus on generalized subsidies involved trimming real transfers to the electricity sector, these transfers were higher than projected. The cost of maintaining the original plan for recapitalizing the central bank (0.8% of GDP in 2010) was another factor.

The economic upswing did boost property and consumption tax collections, but relatively slow growth during 2009 had a lagged impact on direct collections and thus led to poor current revenue performance. As a result, during the first half of the year the central government deficit neared the 30 billion peso mark (3.3% of GDP for the period) agreed with the International Monetary Fund (IMF) for the entire year. To address the situation, the administration amended the budget to hold the central government deficit to no more than 2.6% of GDP.

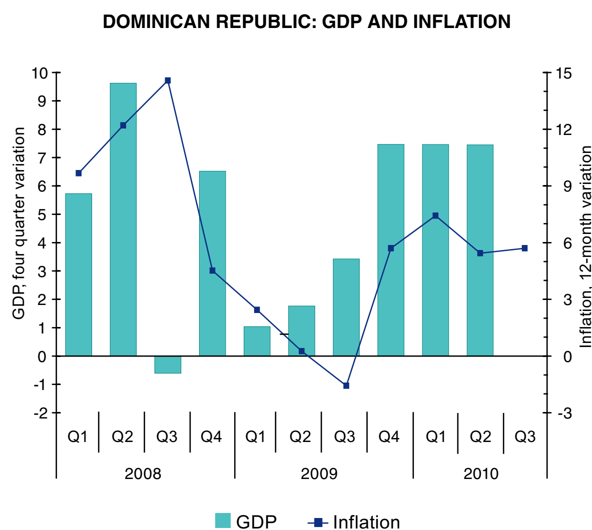
The deficit will be financed virtually entirely with external resources, but monthly auctions of government bonds with maturities of up to 10 years were conducted during the year in order to foster the development of a national debt market. Total non-financial public sector debt is projected to end the year at a level equivalent to 29% of GDP (36.7% for the consolidated public sector). This is half of a GDP point above the 2009 level.

Projected tax revenues for 2011 have been revised downward from the targets agreed with the IMF in late 2009. The tax pressure is expected to be 13.3% instead of the original 15%. The administration announced its intention to make current spending cuts a priority, highlighting cutbacks in transfers to the electricity sector. In view of the above, the 2011 budget provides for a central government deficit equivalent to 1.6% of GDP.

After holding the benchmark rate at a historically low 4%, the central bank raised the overnight rate by 100 basis points between October and November in an effort to check the growth of credit to the private sector, which as of October had expanded by more than 16% in nominal terms (11% in real terms).

Nominal rates began to rise in mid-year in anticipation of this adjustment. Although borrowing rates are still

DOMINICAN REPUBLIC: GDP AND INFLATION



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

negative in real terms, deposits posted a real increase of 3.7% during the period from January to October. The return of lending rates to pre-crisis levels boosted lending to the private sector, which rose nearly 11% in real terms during the same period.

Although lending has reduced financial sector liquidity slightly, capitalization levels are adequate (13.7%), delinquencies remain low (3.3%) and the return on capital is improving (35.8%).

GDP growth (accumulated 7.6% as of the third quarter) is due to buoyant domestic demand. Improving labour conditions and easier access to credit supported consumption. Investment (which is projected to expand by nearly 20% after contracting 14.7% in 2009) has benefited from credit to the private sector and from the flows of foreign direct investment and public investment in infrastructure.

During the first nine months of the year, growing domestic demand lifted the construction sector (15%) and commerce (12.6%). The communications sector also performed well (9.7%). Local manufacturing rose in line with GDP for the first time since 2005, owing to rebounding consumption and to demand from Haiti for finished goods. After contracting for five years, manufacturing in free zones showed signs of recovery in the third quarter, with 3.4% year-on-year growth as operations shifted from textiles to medical equipment manufacturing, jewellery and footwear.

In view of the fiscal consolidation plans and the use of more idle capacity, projections are for a slowdown starting in the fourth quarter. Growth is therefore expected to be 7% for the entire year. The 5% projected growth for 2011 reflects the impact of less expansionary public policies and falling demand from the United States.

With core inflation stable, the behaviour of fuel prices lessened the impact of indexing the gasoline and diesel fuel taxes. Inflation for the 12 months to December is projected to be 6%. The shift in monetary policy and the slowdown in activity are expected to keep inflation below 6% for 2011.

Owing to the recovery, the labour participation rate was 54.9% during the first half of 2010. But employment is still 1.4 percentage points below the level recorded in 2007. The broad unemployment rate (which includes persons who did not look for work but are willing to work) fell by half a percentage point to 14.4%.

Goods exports expanded by 17.3% to the third quarter of 2010 thanks to an upturn in demand from the United States and, to a lesser degree, to greater demand from Haiti for finished goods. Nevertheless, buoyant domestic demand and the increase of more than 40% in the oil bill drove imports up by 27.7% during the period. The result is a projected trade deficit of nearly 11% of GDP. The surplus in the services trade balance shrank as the nearly 3% increase in tourist arrivals did not offset the rise in freight costs.

With the slight decrease in the income balance deficit and the slowing pace of decline in remittance flows, it is estimated that the current account deficit will end 2010 at a level equivalent to 8% of GDP (5% in 2009). Most of this deficit will be financed through the capital account and the financial account, whose balances rose by more than US$ 2.700 billion during the first nine months of 2010. The remainder will be financed with international reserves, which will amount to US$ 2.400 billion (two months of imports) as of year-end —some US$ 400 million less than at year-end 2009.

Despite slackening external demand, exports in 2011 are expected to benefit from the resumption of nickel exports and the start-up of gold exports from the Pueblo Viejo mine. Along with slower growth and greater energy product price stability, the current account is projected to show a deficit equivalent to 6% of GDP.

Thanks to robust growth and the resources streaming into the country, the nominal rate of exchange against the dollar has held relatively stable, with a slight nominal depreciation of 2.4% during the 12 months to October. The real exchange rate against the dollar appreciated 1.7% during the same period.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2008	2009	2010 [a]
	Annual percentage growth rates		
Gross domestic product	5.3	3.5	7.0
Per capita gross domestic product	3.8	2.1	5.6
Consumer prices	4.5	5.7	6.2 [b]
Real minimun wage	-6.5	7.0	...
Money (M1)	-9.1	15.9	17.6 [c]
Real effective exchange rate [d]	2.4	3.9	-5.7 [e]
Terms of trade	-4.5	8.1	-2.8
	Annual average percentages		
Urban unemployment rate [f]	14.1	14.9	14.4 [g]
Central government overall balance / GDP	-3.5	-3.4	-2.3
Nominal deposit rate [h]	10.3	7.8	4.7 [i]
Nominal lending rate [j]	16.0	12.9	8.3 [i]
	Millions of dollars		
Exports of goods and services	11 670	10 437	11 823
Imports of goods and services	17 953	14 132	17 384
Current account	-4 519	-2 159	-4 138
Capital and financial account [k]	4 193	2 565	3 738
Overall balance	-326	406	-400

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2010.
[c] Twelve-month variation to September 2010.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Year-on-year variation, January to October average.
[f] Includes hidden unemployment.
[g] Figure for April.
[h] 90-day certificates of deposit, annualized.
[i] Average from January to November.
[j] Prime rate, annualized.
[k] Includes errors and omissions.