Dominican Republic

Despite the recession in the United States and the credit difficulties that characterized the year, the Dominican economy managed to grow in 2009, at about 2.5%. Although this growth was significantly lower than the 8.4% average rate recorded in 2004-2008, it still represented a 1.1% increase in per capita GDP. Annualized inflation was about 6%, slightly higher than in 2008. Estimates put the deficits of the central government and current account at 3% and 5.2% of GDP, respectively. ECLAC projects growth to exceed 3% in 2010 and inflation and the current account deficit to be similar to those of 2009. The central government's deficit, meanwhile, is expected to decrease to 2.5%.

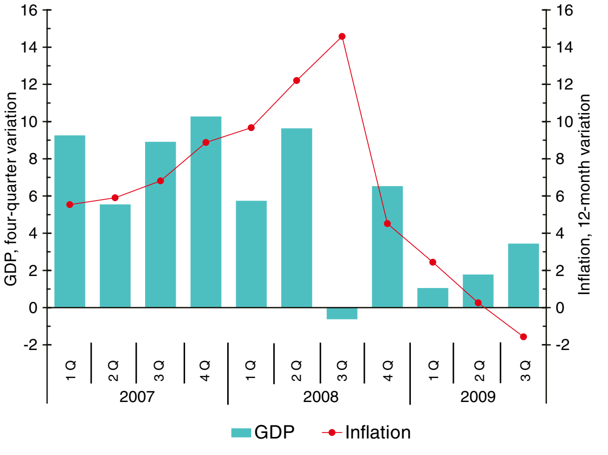
Throughout 2009, public policy decisions were driven by the unfolding international financial crisis. The government's crisis response plan, announced at the start of the year, included, as pertains to fiscal policy, tax exemptions for the agricultural sector, incentives for the construction of low-cost housing, support for small- and medium-sized enterprises and the expansion of public investment, which experienced significant delays because of major problems securing financing. Monetary policy adopted an expansionist stance. As for social policy, the government announced that a number of programmes aimed at protecting the most vulnerable sectors would be broadened.

The slowdown in economic activity significantly reduced government revenues. During the first half of 2009, current income fell by 14% in real terms. Although during the same period current spending declined slightly (by 5.6%), capital expenditures were hit the hardest, shrinking by 30% in real terms.

In light of the difficulties in obtaining external financing, for much of the year the government turned to the local market, a move that changed the composition of public debt and led to a slight deterioration in the short-term debt profile. In November 2009, the government signed a stand-by agreement with the International Monetary Fund (IMF) for US$ 1.7 billion.

The consolidated public sector deficit rose from 3.2% of GDP in 2008 to 4.5% in 2009. According to the targets agreed to with IMF, public debt would increase to 35% of GDP in 2009 and up to 40% by 2011, before gradually returning to 2009 levels towards 2014. The main elements of the fiscal consolidation strategy that the government negotiated with IMF are: reducing current expenditures on wages and salaries, restructuring of subsidies (particularly those that go to the electrical power industry) and a number of administrative measures to reduce tax evasion and improve the efficiency of tax collection. There are no plans for a tax increase.

DOMINICAN REPUBLIC: GDP AND INFLATION



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

In order to inject liquidity into the financial system and to ease credit for both the productive sector and the housing market, during the first half of 2009, the reserve requirement for the banking sector and interest rates on central bank bonds were lowered. Debt repurchases were also approved as a short-term liquidity solution.

Between January and August, the central bank lowered its benchmark rate from 9.5% to 4%. However, given the low inflation rate in 2009, real bank lending rates remained high, at an average of 18% through October 2009, compared with 7.5% for the same period in 2008. Consequently, in real terms, lending to the private sector was negative, a trend that only turned around in the fourth quarter of 2009. Annual growth of lending to the private sector is expected to remain modest compared with lending to the public sector, which grew by almost 19%.

The central bank participated actively in the foreign-exchange market throughout the year, which allowed the Dominican peso to hold steady and depreciate by only 3%. For 2010, given the low international reserves and the low benchmark interest rate, not much leeway is expected for monetary policy. However, no major inflationary pressures are anticipated in a scenario of slow global recovery and, therefore, no changes are expected in monetary policy.

Through the third quarter of 2009, cumulative GDP growth was 2.1%. The performance of agriculture, communications, banking and housing rentals offset downturns in the manufacturing and services sectors.

Regarding expenditures, government consumption decreased significantly, whereas private consumption fell off only slightly. Some of this is attributable to the 2% drop in remittances from abroad and worsening conditions in the labour market. The broad unemployment rate during the first half of 2009 was 14.9% and is expected to be higher in the second half, which will have negative repercussions on social indicators. Gross capital formation declined by almost 20% during the first semester of 2009, heavily hit by the uncertainty stemming from the international crisis and by the high real interest rates that have prevailed all year.

Since the last quarter of 2008, year-on-year inflation has slowed markedly, even turning negative in the third quarter of 2009. This decline is the result of lower international prices for food and fuels. Although year-on-year inflation in October was 4.6%, it is expected to rise by December as the low rates recorded in the closing months of 2008 are no longer factored into the twelve-trailing-month rate.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	8.5	5.3	2.5
Per capita gross domestic product	6.9	3.8	1.1
Consumer prices	8.9	4.5	-0.3 [b]
Real minimun wage	4.7	-6.4	7.0
Money (M1)	26.9	-7.4	-0.9 [c]
Terms of trade	3.3	-4.5	2.2
	Annual average percentages		
Urban unemployment rate [d]	15.6	14.1	14.9 [e]
Central government overall balance/GDP	0.1	-3.2	-3.0
Nominal deposit rate [f]	7.0	10.3	8.8 [g]
Nominal lending rate [h]	11.7	16.0	14.0 [g]
	Millions of dollars		
Exports of goods and services	11 927	11 860	9 968
Imports of goods and services	15 343	17 914	13 941
Current account balance	-2 096	-4 437	-2 353
Capital and financial account balance [i]	2 716	4 117	2 230
Overall balance	620	-320	-123

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 2009.
[c] January-September 2009 variation.
[d] Includes hidden unemployment.
[e] Figure for April.
[f] Ninety-day certificates of deposit.
[g] Average from January to September, annualized.
[h] Prime rate.
[i] Includes errors and omissions.

During the period January-September 2009, the value of imports fell off by more than 30% owing to the significant drop in oil prices and to weaker domestic demand. It is important to point out that, during this period, imports of durable consumer goods and capital goods decreased by 35% and 26%, respectively. The drop in imports offset the 22.6% decline in exports, which was largely attributable to the suspension of iron nickel exports and a 15% drop in exports from free trade zones. The balance of services, for the first time, registered a decline in nominal tourism revenue, due to a 2% cumulative drop in the number of tourists visiting the country in 2009. For the year as a whole, it is anticipated that the current account deficit will narrow slightly, to an estimated 5.2% of GDP.

After reaching a record high of US$ 2.885 billion in 2008, foreign direct investment is expected to be about US$ 2 billion in 2009. The sectors that benefited most were mining, real estate and telecommunications.