Dominican Republic

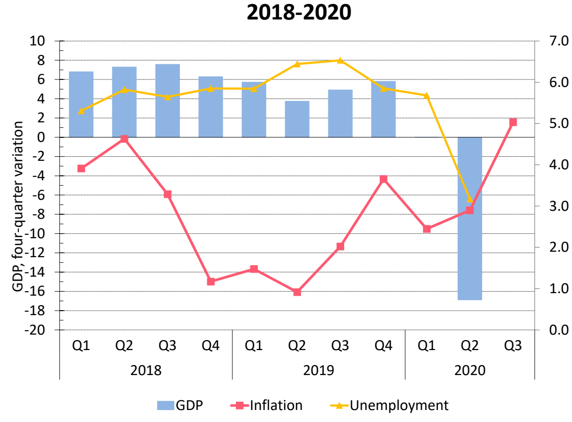
ECLAC expects the GDP of the Dominican Republic to fall by 5.5% in 2020, given the impact of the coronavirus (COVID-19) pandemic on economic activity. This decline is mainly due to the health measures taken to reduce infection rates and to the shutdown of the tourism sector. There has also been a negative impact from external demand, principally the contraction of the United States economy. Because of the drop in government revenues and the increase in social spending to cope with the crisis, the central government fiscal deficit will be equivalent to 9.9% of GDP at the end of the year (as compared to 2.2% in 2019).

The current account deficit will widen to the equivalent of 3.0% of GDP in 2020 (as compared to 1.3% in 2019), the chief cause being the contraction of tourism revenues. Year-on-year inflation (from December to December) will be about 5%, at the upper limit of the central bank target range (4.0% with a tolerance of 1 point on either side), owing to a supply shock, extreme weather events, the restrictions imposed and the impact of exchange-rate depreciation. The employed population fell by 410,367 in the second quarter of the year, a drop of 8.8% on the same period in 2019.

To deal with the pressure on the public finances, the national budget was revised on two occasions (June and September), the result being an increase in the central government deficit equivalent to almost 8 percentage points of GDP relative to the deficit of 2% of GDP expected at the start of the year. Total central government revenues dropped by 13.4% year-on-year in real terms in the first eight months of 2020. The tax take contracted by 17.1%, with a fall of 19.1% in goods and services taxes. Central government spending increased by 24.1% in real terms year-on-year between January and August. Social spending rose the most (192.6% in real terms year-on-year), owing to the implementation of programmes such as Stay at Home (with an estimated cost to end-December of 1.7% of GDP), the Employee Solidarity Assistance Fund (1.2% of GDP) and the Self-employed Workers Assistance Programme (0.2% of GDP), which have been providing cash transfers to Dominican families affected by the crisis.

At end-September 2020, non-financial public sector debt was equivalent to 54.8% of GDP (as against 40.4% at the end of 2019); 75.6% was foreign-currency debt and the remaining 24.4% was in local currency (as compared to 72.2% and 27.8%, respectively, in 2019). To respond to the crisis, the government took out loans from different international organizations: US$ 150 million from the World Bank, US$ 486 million from the Inter-American Development Bank (IDB) and US$ 650 million from the International Monetary Fund (IMF). In September, the government administered the largest international sovereign bond issue in the country's history, worth a total of US$ 3.8 billion. Demand for this issue was US$ 9.6 billion, i.e., it was two and a half times oversubscribed.

Dominican Republic: GDP, inflation and unemployment, 2018-2020



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

The central bank adopted an expansionary stance, cutting the monetary policy interest rate by 100 basis points in March, from 4.5% to 3.5%, and by a further 50 basis points in September, to 3.0%. The interest rate of the permanent liquidity facility (overnight repo) was cut by 250 basis points, from 6.0% to 3.5%, and the rate on short-term interest-bearing (overnight) deposits at the central bank was cut by 50 basis points, from 3.0% to 2.5%. The central bank also authorized the release of a total of 35.814 billion Dominican pesos (RD$) from the legal reserve, with a view to providing liquidity to production sectors. In July, it introduced a new rapid liquidity facility (FLR) worth RD$ 60 billion to support financing for production activities, with an emphasis on the health-care sector, personal and consumer loans, and micro, small and medium-sized enterprises. In October, a further RD$ 40 billion was made available through the FLR.

Dominican Republic: main economic indicators, 2017-2020

	2018	2019	2020 [a]
	Annual growth rate		
Gross domestic product	7.0	5.1	-5.5
Per capita gross domestic product	5.8	4.0	-6.5
Consumer prices	1.2	3.7	5.0 [b]
Money (M1)	13.6	10.6	24.8 [b]
Real effective exchange rate [c]	2.4	0.2	6.7 [b]
Terms of trade	-4.8	4.5	3.1
	Porcentaje promedio anual		
Open urban unemployment rate	5.7	6.2	4.4 [d]
Central government			
Overall balance / GDP	-2.3	-2.3	...
Nominal deposit rate [e]	6.6	6.6	5.7 [b]
Nominal lending rate [f]	12.5	12.5	11.3 [b]
	Millones de dólares		
Exports of goods and services	20 192	20 564	7 203 [g]
Imports of goods and services	23 607	24 181	9 656 [g]
Current account balance	-1 160	-1 205	-749 [g]
Capital and financial balance [h]	1 994	2 344	-1 429 [g]
Overall balance	835	1 139	-2 177 [g]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
d/ Figures as of first semester.
e/ Rates for deposit certificates and/or deposits for 61-90 days.
f/ Weighted average of the system lending rates in local currency.
g/ Cumulative figures to the second quarter of 2020.
h/ Includes errors and omissions.

These measures translated into lower interest rates in the rest of the financial system and allowed the dynamism of credit to the private sector to be maintained. The weighted average lending rate charged by full-service banks fell from 13.3% in March 2020 to 10.2% in October. The weighted average deposit rate was 3.0% at the end of October, as against 6.0% in March. In real terms, the lending rate charged by full-service banks was 6.7% in September and the deposit rate was 0.3%, as compared to 9.4% and 2.1%, respectively, in March. As of mid-October, local-currency lending to the private sector had expanded by 9.2% year-on-year, as compared to a year-on-year expansion of 11.8% in October 2019.

In late October 2020, the average annual exchange rate was RD$ 56.0 per dollar, as compared to RD$ 51.2 at the close of 2019, a nominal depreciation of 9.4%. The central bank intervened in the currency market to reduce pressure on the peso, with the result that international reserves were 35.7% lower in July than in January. These reserves began to recover in August, and after the September bond sale referred to earlier net reserves totalled US$ 10.552 billion, an increase of 1.4% on the amount in January 2020 and equivalent to six months' imports.

A reduced oil bill and lower imports counteracted the impact of the substantial reduction in exports on the current account. Total exports fell at a year-on-year rate of 12.8% in the first half of 2020, while those from free zones dropped by 14.1%. Activity in the free zones had recovered almost completely by October, after being down to a quarter of capacity in the second quarter. Imports fell by 18.3% in the first half: those of consumer goods contracted by 10.3% and those of capital goods by 13.1%, while the oil bill fell by 46.8%.

The tourism sector resumed activity in early July, since when it has presented a very modest recovery. In August, air passenger arrivals of non-resident foreigners were equivalent to 19% of the number in the same month of 2019. As of September, air passenger arrivals of non-resident foreigners were down by 68% year-on-year.

Despite the difficult economic conditions caused by the pandemic in the United States (the main receiving country for Dominican migrants), family remittances were up by 10.5% year-on-year in September. In the same period, flows of foreign direct investment (FDI) totalled US$ 2.066 billion, with the largest investments in the communications and mining sectors. This amount is consistent with historical flows of FDI into the country (the total in 2019 was US$ 3.013 billion).

GDP fell by 8.5% year-on-year in the first half of 2020. The worst-affected sectors were hotels, bars and restaurants (-42.5%) and construction (-19.5%). On the demand side, the drop in exports had the largest effect on GDP performance (-7.7 percentage points); investment contracted by 3.3% and private consumption by 2.0%. The monthly index of economic activity (IMAE) recorded its highest negative year-on-year rate in April (-29.8%), since when it has contracted less severely (-4.3% in October).

In September 2020, year-on-year inflation was 5.0%, within the central bank target range. The drop of 8.8% in the number of people in work in the second quarter and the decline in the number of employees in the informal sector and domestic service account for 71.4% of this change. In the second quarter of 2020, the average number of hours worked per week fell by 5.6% year-on-year.

ECLAC expects GDP growth of 5.0% for 2021. Investment in public works will be decisive, since recovery in the tourism sector could take longer. In an effort to contain spending, the 2021 national budget provides for a central government fiscal deficit of 3% of GDP. The current account balance is estimated at -2.5% of GDP for 2021, an improvement on 2020, thanks to recovery in the external sector. The expectation is that inflation could decrease to reach the midpoint of the central bank’s target range in 2021 if the food supply stabilizes.