Dominican Republic

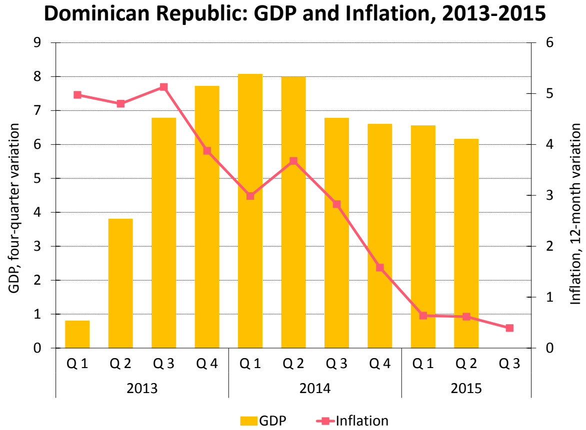
According to ECLAC estimates, the Dominican Republic will post economic growth of around 6.6% in 2015, compared with 7.3% in 2014. That growth is driven by the continued expansion of domestic demand and favourable external conditions, including falling oil prices and the buoyancy of the United States economy. The upswing in the United States economy is impacting exports (chiefly from free zones) as well as flows of remittances, tourist arrivals and investments entering the country. Inflation could reach about 3.0%, grazing the floor of the central bank's target range of 4.0% with a 1-percentage-point margin in either direction. In accordance with the fiscal consolidation programme, the central government deficit is expected to be 2.4% of GDP (compared with 2.6% in 2014), which would mean a primary surplus of close to 0.4% of GDP at the year's end. The lower oil bill, together with robust tourist arrivals and remittance flows, could help reduce the current account deficit from the 2014 figure of 3.2% of GDP to close to 2.0% in 2015.

Total central government revenue posted real-term year-on-year growth of 4.8% between January and August, while total spending increased by 10.8%. This was due partly to a 33.3% surge in capital expenditure, reflecting investments in road infrastructure projects and low-cost housing. At the same time, up to August, current outlays reported a real-term increase of 5.9%. The 20.5% hike in the wage and salaries bill was partially offset by a 9.5% drop in current transfers, due to reduced transfers to the electricity sector, whose losses fell significantly thanks to lower oil prices. Reduced spending and increased income in the fourth quarter, along with the uptick in economic activity, is expected to enable the central government to reduce the deficit in terms of GDP.

In 2015, the government's international bond issues totalled US$ 3.5 billion, of which US$ 1.9 billion was used to buy back PetroCaribe debt (at a discount of 52% on the nominal value). That operation reduced the public debt balance, which in August 2015 stood at 36.3% of GDP —with external debt accounting for 24.0% and domestic debt for 12.3%— compared to 37.2% at the close of 2014. The improvements in public sector finances were reflected in better sovereign credit ratings, with the Standard & Poor's credit rating agency raising its assessment from B+ to BB-.

In a climate of low inflationary pressure, the central bank adopted an expansionary monetary policy in 2015. The base rate was cut on three occasions between March and May, bringing it down from 6.25% to 5.0%. In March the central bank also authorized the release of up to 10 billion pesos from commercial banks' reserve requirements, on the condition that they increased lending for construction and home mortgages. As regards interest rates in the rest of the financial system, in October the average nominal lending rate of the universal banks stood at 14.46% (10.97% in real terms), 0.47 points below the 2014 closing figure. Likewise, the average deposit rate fell by 0.43 percentage points over the same period, to close at 6.66% (3.40% in real terms). As a result of the measures adopted and robust domestic demand, in

Dominican Republic: GDP and Inflation, 2013-2015



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

October the domestic-currency lending to the private sector was up by 11.8% in nominal year-on-year terms, with much of it going to the construction industry and microenterprises.

By the third quarter of 2015, the peso had depreciated by a nominal 2.4% against the dollar in respect of the end-2014 value: a relatively small decline compared to other currencies of the region. At the same time, the real bilateral exchange rate depreciated by 2.7%. This was partly due to the improved terms of trade and, in particular, the lower oil bill.

The total value of exports as of September reported a year-on-year drop of 2.6%, within which a 20.8% reduction in mining exports was partly offset by an increase of 5.0% in shipments from free zones. Gold exports in 2015 have been affected by lower international prices and the temporary shutdown of one of the country's largest mining companies during the first half of the year. Oil imports were down US$ 1.1 billion in September. Improved conditions in the construction and services sectors in the United States —the main destination of Dominican migrants— led to a year-on-year increase of 7.0% in remittances, while non-resident tourist arrivals were up by 8.5% as of September.

Dominican Republic: main economic indicators, 2013-2015

	2013	2014	2015 [a]
	Annual growth rate		
Gross domestic product	4.8	7.3	6.6
Per capita gross domestic product	3.5	6.1	5.4
Consumer prices	3.9	1.6	1.2 [b]
Money (M1)	12.1	13.6	12.7 [b]
Real effective exchange rate [c]	3.5	2.2	-0.4 [b]
Terms of trade	-2.4	2.0	9.8
	Annual average percentage		
Open urban unemployment rate	7.0	6.4	...
Central government			
Overall balance / GDP	-2.7	-2.6	-2.5
Nominal deposit rate [d]	6.0	6.7	6.5 [e]
Nominal lending rate [f]	10.7	13.9	14.6 [b]
	Millions of dollars		
Exports of goods and services	15,874	16,964	17,081
Imports of goods and services	19,562	20,107	19,406
Current account balance	-2,537	-2,026	-330
Capital and financial balance [g]	3,877	2,640	167
Overall balance	1,341	614	-162

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a Estimates.
b Figures as of October.
c A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.
d Rates for deposit certificates and/or deposits for 90 days.
e Figures as of November.
f Prime lending rate.
g Includes errors and omissions.

The current account deficit fell by US$ 707.9 million by the third quarter of the year. Foreign direct investment (FDI) totalled US$ 1.7 billion during that period, which was similar to the year-earlier figure. Net international reserves stood at US$ 4.7 billion dollars on 26 October, an increase of US$ 349.9 million over the start of the year.

Economic growth has been driven by the construction sector, commerce, teaching and financial intermediation. The buoyancy of those sectors will offset poor performance in mining and quarrying and in the farm sector, the result of a drought that affected several areas of the country. On the demand side, increased public consumption and investment will drive growth, while exports of goods and services are also performing positively. In the third quarter, the cumulative percentage change in the monthly index of economic activity reported an increase of 6.7%.

In October, year-on-year inflation stood at 1.2%, the result of falling oil prices, which could also be seen in the year-on-year fall of 8.8% in the transport price index. Nevertheless, inflation is expected to rise by the year's end owing to the impact of adverse weather conditions on food prices, and will approach the floor of the target range set by the central bank.

In the labour market, the expansion of economic activity led to the net creation of 155,189 jobs between January and October, so a drop in the unemployment rate is expected in 2015. At the same time, the minimum wage in large private sector companies showed a real-term rise of 13.0% in June.

Economic growth in 2016 is expected to be more in line with the long-term potential growth rate, with a projected figure of around 5.2%. That growth will be driven by the performance of the mining and construction sectors, with tourism revenues and remittance flows also making a significant contribution. Inflation is expected to be close to the central bank's target of 4.0%. The current account deficit will remain largely unchanged at around 2.0% of GDP, while the fiscal deficit is forecast to stand in the region of 2.3% of GDP.