Dominican Republic

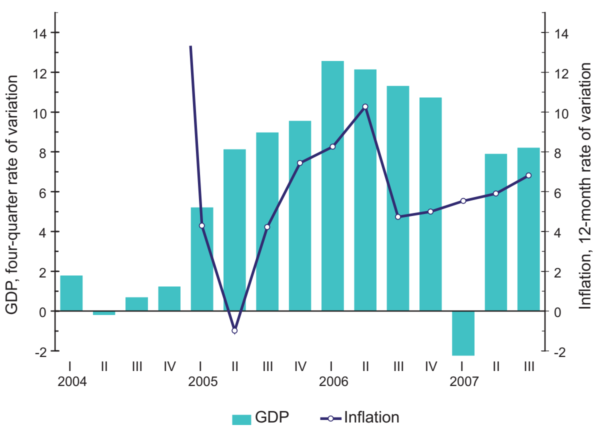
In 2007, the economy of the Dominican Republic grew by 7.5%, which was a slower rate than in 2006 but higher than the 6% set out in the monetary programme. Inflation stood at 7%. The fiscal deficit represented 1% of GDP, while the current-account deficit amounted to almost 3% of GDP. Due to the international economic slowdown, the country's GDP is expected to rise by 5.5% in 2008, which is considerably lower than the growth observed in the previous three-year period but closer to the long-term trend of the economy.

Although public spending remained high in 2007, it was nonetheless within planned levels and, as a percentage of GDP, was similar to the amount observed in 2006. Under the law on austerity in the public sector, the increase in government consumption expenditure was reined in, while other components of current expenditure shot up. Transfers to the energy sector (electricity and liquefied petroleum gas) are estimated to have climbed 20% in real terms, while external-debt interest payments were up by almost 25%. The proportion represented by these two items within total current expenditure (40%) rose by five percentage points in 2007. Capital expenditure remained as buoyant as in the previous year. Public works (mainly the metro in Santo Domingo, due to be opened in February 2008) accounted for two thirds of the absolute increase in capital expenditure.

Total central government revenues were 7% higher than the projected figure. Real annual growth is expected to come in at around 17%. This encouraging performance was due to various factors, in particular more efficient collection (spurred by the introduction of a tax receipt for operations concerning transfers of goods and provision of services) following the implementation of a tax amendment bill early in the year, a rise in international nickel prices and extraordinary revenues from company profits. The fastest growing item of tax revenues in relative terms was tax on property (mainly real estate and motor vehicles), which posted a real increase of 34% compared with 2006. The two main tax items (income tax and goods and services transfer tax) also rose considerably in 2007 (by around 21% and 16%, respectively, in real terms).

As a result of the above, the central government's operational surplus represented 1% of GDP. Given that the quasi-fiscal deficit narrowed from 2.6% of GDP to 2.1%, the consolidated deficit shrank to 1.1% of GDP in 2007.

DOMINICAN REPUBLIC: GDP AND INFLATION



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

Monetary policy focused on achieving the target range of 4% to 6% for inflation set out in the monetary programme. In a context of inflationary pressure generated by the rise in international hydrocarbon prices, inflation was about two points higher than in 2006 and one percentage point above the target range.

Open-market operations were the main instrument of monetary policy. The increase in the central bank's balance of certificates did not involve any rises in interest payments, as the interest rates fell both in terms of auctions and counter operations. This helped to narrow the quasi-fiscal deficit. In October, the one-year benchmark interest rates dropped from 15% to 13%, which in turn pushed bank rates down to an all-time low in the same month. The maturity on issued securities continued to lengthen to a maximum term of seven years in 2007.

The nominal exchange rate remained stable. At the end of 2007, the exchange rate was barely higher than the average for the previous year. The central bank's interventions in the exchange market were limited to avoiding the excessive appreciation of the real exchange rate caused by hefty inflows of external capital and the inflation differential. Between October 2006 and October 2007, the peso appreciated by 3% against the dollar in real terms.

Productive activity remained intense, although aggregate growth was slower than in the previous year, partly due to the tropical storm Noel that struck the country at the end of October. Unlike the previous year, GDP growth in 2007 was significantly driven by private consumption expenditure. Another determining factor of performance was gross capital formation.

Financial and business services displayed above-average buoyancy in 2007. Growth tended to slow in communications and in tourism, while construction was boosted by public investment and mortgage expansion. Manufacturing and agricultural output both grew more slowly than the economy as a whole, while output from free zones contracted once more.

The main factors affecting inflation were the persistent increases in international oil prices. In 2007, 45% of the rise in the consumer price index (CPI) was attributable to higher oil prices, which indicates a significant imported component in total inflation.

The expanded unemployment rate trended downwards. According to the National Labour Force Survey, the rate fell by 0.4 percentage points in April and another half percentage point in October compared with the year-earlier period. This brought unemployment down to just under 15% (16% in 2006). The minimum wage in the private sector, which had been frozen since the end of 2005, rose by 11.3% in early 2007.

The value of merchandise exports in dollars increased by around 6%. Determining factors in this result included exports of ferronickel, whose international prices soared by over 150% due to burgeoning demand. Compared with the previous year, the share of ferronickel in the total value of non-maquila exports went from 30% to just over 45%. Exports from free zones continued to decline (-12%). The value of merchandise imports climbed by 12%, with a quarter of that increase due to imports of capital goods.

The net current transfers of the balance of payments rose once more, this time by nearly 16.5%. Family remittances, which represented almost US$ 2.98 billion (up by about 9%), accounted for 90% of such transfers. Nevertheless, the balance-of-payments current account deficit was wider than in 2006, representing around 3% of GDP.

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2005	2006	2007 [a]
	Annual growth rates		
Gross domestic product	9.3	10.7	7.5
Per capita gross domestic product	7.6	9.0	5.9
Consumer prices	7.4	5.0	7.2 [b]
Real minimum wage	18.7	-7.1	5.1
Money (M1)	13.3	13.9	…
Terms of trade	-1.0	-1.0	-0.2
	Annual average percentages		
Urban unemployment rate [c]	18.0	16.2	15.6 [d]
National administration overall balance / GDP	-0.6	-1.0	1.0
Nominal deposit rate	12.7	9.6	7.0 [e]
Nominal lending rate	21.4	15.5	11.9 [e]
	Millions of dollars		
Exports of goods and services	10 058	10 664	11 328
Imports of goods and services	11 336	12 748	14 231
Current account	-478	-786	-1 703
Capital and financial account	1 183	1 057	2 103
Overall balance	705	271	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 2007.
[c] Includes hidden unemployment.
[d] Data refer to April.
[e] Average from January to October, annualized.

The capital and financial account balance was positive, amounting to almost 4% of GDP.[1] Foreign direct investment bordered on US$ 1.2 billion, which was 5% more than in the previous year. The country also recorded net financial capital inflows of nearly 1% of GDP.

The central bank continued to implement the policy of building up reserves that it introduced in 2004. Available net reserves are estimated to have swelled by around 1% of GDP, which exceeds the minimum level agreed with IMF.

1 Including errors and omissions.