

DOMINICAN REPUBLIC

1. General trends

The economy of the Dominican Republic grew by 4.1% in 2013, compared with 3.9% in 2012. This higher growth rate was the result of fiscal and monetary policy implemented from the month of May onwards. The decision to release around US\$ 465 million in reserve funds for productive credit boosted private-sector lending by more than 15%. Public expenditure on infrastructure, notably on highways and the construction of public schools, also expanded during the second half of the year. Although investment expenditure rose during the second half of the year, total expenditure was down 5% for the year as a whole and the central government deficit was equivalent to 2.9% of GDP (versus 6.8% in 2012), thanks to a tax reform, which swelled tax revenues by 14.0% in nominal terms.

Inflation at year-end 2013 was 3.9%, slightly below the floor of the target range (4%-6%). The current account deficit narrowed to 4.3% of GDP, from 6.8% in 2012.

At the end of the first quarter of 2014 the Dominican economy recorded year-on-year growth of 5.5%, primarily owing to the continued buoyancy of mining, construction, agriculture and manufacturing. GDP growth of around 5% is forecast for year-end 2014, and the central bank has established an inflation target of 4.5% (± 1 percentage point). At the end of May 2014, inflation stood at 3.7%. With regard to the balance of payments, the current account deficit could widen somewhat, to around 5% of GDP, in light of the performance of exports and a possible increase in oil prices.

2. Economic policy

(a) Fiscal policy

Fiscal policy turned strongly contractionary in early 2013 as result of the tax reform adopted in late 2012 (Law 253-12). Total central government revenues were up 19.3% in the first quarter of 2013 over the same period in 2012, while spending dropped by 15.7% following a reduction of 58.3% in capital expenditure. Domestic demand thus contracted by 2.8% in real terms during the first quarter.

As of May, an expansionary fiscal policy stance was adopted, with the aim of boosting investment (particularly in roads and public schools) to prevent an economic slowdown. Efforts to push up capital expenditure continued until the fourth quarter of the year, when an increase of 85.8% was recorded compared with the same period of 2012. Nevertheless, at year-end 2013 capital spending was down 38.1% on 2012. Current spending, meanwhile, was up 10.5% on 2012.

At year-end 2013, total spending declined by 5% in nominal terms, while revenues expanded by a nominal 16%. Revenue growth occurred thanks to the tax reform, which boosted receipts from the goods and services transfer tax (ITBIS), income tax and property tax by 22.1%, 17.3% and 17.5%, respectively. The central government deficit was equivalent to 3.1% of GDP, an improvement of 3.5 percentage points on the 2012 figure (6.6% of GDP).

The tax reform implemented in late 2012 will further benefit revenues during 2014, in particular because the ITBIS rate has been raised from 8% to 11% for some products in the basic shopping basket such as sugar, coffee, oils and margarine. This took effect at the beginning of January 2014 and the rate will be raised further to 16% by January 2016. At the end of the first quarter of 2014, total tax revenues had grown by 12.9% year on year while expenditure soared by 28.7%, owing to year-on-year growth of 76.1% in capital spending and 21% in current spending.

(b) Monetary policy

Monetary policy was also contractionary during the first quarter of 2013 and the monetary policy interest rate was held at an annual 5%. This helped dampen inflation expectations, placing inflation below the middle of the target range in May. At its meeting that month, the board of the central bank decided to lower the policy interest rate by 75 basis points, to 4.25%. In order to support economic growth by boosting credit to the private sector, the board also authorized a reduction in the reserve requirements for local currency deposits, lowering the ratio from 15.6% to 12.3% for full-service banks and from 11.1% to 8.1% for savings and loan associations. A sum of around US\$ 465 million was made available, which was used to provide credit for the production sector.

Thanks to these measures, lending to the private sector was up 15.4% year on year at the end of August and commerce, consumption and residential mortgage lending were the main beneficiary sectors. However, the announcement of a possible shift in United States monetary policy generated negative expectations, which created exchange-rate and inflationary pressures given the abundant liquidity. The central bank accordingly reversed its policy, raising the monetary policy rate by 200 basis points to 6.25% at the end of August. Year-on-year growth of total credit to the private sector was 15.2% at year-end 2013.

The average inflation rate was 4.8% in 2013 and inflation stood at 3.9% by the end of the year, despite a spike at the beginning of the year as a result of higher taxes (in particular the ITBIS rate, which was raised from 16% to 18%).

In late May 2014, year-on-year inflation declined to 3.7%, close to the floor of the target range for the year. Cumulative inflation for the first five months of the year was 1.5%. Core inflation, which is related to monetary conditions, was 3.4% at the end of May. At its monetary policy meeting in June 2014, the central bank therefore decided to leave its monetary policy rate at an annual 6.25%.

(c) Financial and regulatory policies

Among the measures taken to foster growth and employment, the regulations for banking subagents were approved with a view to promoting greater financial inclusion, and the Asset Valuation Regulations were amended, relaxing the regulatory requirements for assessing and granting loans to small and medium-sized enterprises. In addition, new draft regulations for microloans were published for consultation. The easing of the regulatory measures, coupled with monetary policy efforts, meant that full-service banks' assets expanded by around 17.1%. The average yield on assets therefore increased to 19.9%, compared with 18.3% at year-end 2012.

Following the hike in the monetary policy rate in August 2013, the weighted average lending rate, which was then 13.8%, rose to 15.9% in April 2014. The weighted average deposit rate climbed from 4.6% in August 2013 to 6.8% at the end of April 2014. Despite these increases in the nominal interest rates, inflation trends kept the system's real lending rate steady at 12.4%, with the result that year-on-year

growth of credit to the private sector was 15.6% at the end of April. This variable is expected to stand at around 12% by late 2014, in line with the inflation target and with the anticipated nominal growth in economic activity.

3. The main variables

(a) The external sector

Following the launch of operations at Barrick Gold Corporation's Pueblo Viejo project, gold and silver exports soared (524%) in 2013, offsetting falling sales of other traditional products such as sugar (37%), furfural (17%) and coffee (56%). Total exports expanded by 6.4%, a slightly lower rate than that observed in 2012 (6.8%). Sales from free trade zones continued to grow, but at a more moderate pace (1.8%, versus 2.6% in 2012). The most important exports from these zones were textiles and services (including call-centre services) and tobacco products.

Imports were down 4.9%, owing to fewer imports of machinery and equipment and to a lower oil bill. Reasons for the drop in capital goods imports (20.3%) include the conclusion of mining construction works, as the mines began operating in 2013, and a decline in government consumption.

The services sector was strongly driven by a buoyant tourism sector in 2013, whose earnings, at over US\$ 5 billion, were 8.1% higher than in 2012. Remittance receipts likewise exceeded the previous year's figures by 5.5%.

Thanks to the economic adjustment, the current account deficit narrowed from 6.8% of GDP in 2012 to 4.3% of GDP in 2013. The deficit was funded by greater inflows of foreign portfolio investment, which surpassed US\$ 2 billion. Foreign direct investment, on the other hand, declined by around US\$ 1 billion (36.7%), placing additional pressure on the macroeconomic accounts.

Another major funding component came from the Bolivarian Republic of Venezuela, channelled through PetroCaribe. After Cuba, the Dominican Republic is the second-largest recipient of support from this oil alliance. According to central bank estimates, US\$ 704.8 million in funding was received in 2013, down slightly from the 2012 figure of US\$ 714.5 million.

Balance-of-payment operations pushed net international reserves up by US\$ 1.177 billion (37%), making the performance of portfolio investment particularly important.

During the first quarter of 2014, gold exports surged by 39.7% and cocoa exports by 47%, which was reflected in year-on-year growth of 5.5% in total exports. Imports, meanwhile, held steady, dropping by just 0.3% year on year, owing to a fall in the value of imports of oil and oil products. A reversal of this trend may occur in the second half of 2014, in light of the possibility of higher fuel prices. Further increases in reserves are expected by the end of the year, especially as more inflows of foreign portfolio investment are forecast.

(b) Economic activity

The economy of the Dominican Republic grew by 4.1% in 2013, compared with 3.9% in 2012. This was the result of vigorous final-quarter growth (7.3%) driven by a surge in public and private investment, which resulted in a boom in construction (20.3%), mining (123%) and financial

intermediation and insurance (9.2%). Factors influencing these developments include public investment in education and health (in the form of school and hospital construction), and loans to the private sector, which benefited construction works and small businesses, following the release of reserve funds and the relaxing of the lending rules by the banking supervisory body.

Growth was observed in most sectors in 2013, but particularly mining (which grew by 156.7%), financial intermediation (9.9%), agriculture (4.3%) and hotels, bars and restaurants (7.6%). An important contributory factor was lending to micro and small enterprises, through solidarity banks, and to housing and housing improvement projects run by the National Housing Institute (INVI).

The value added of manufacturing rose in 2013, fuelled by production in milling (7.1%) and oil refining (10.9%), which led to a drop in imports of gasoline and diesel products of 27.3% and 16.2%, respectively.

(c) Prices, wages and employment

Implementation of the higher ITBIS rate pushed inflation up at the start of 2013, when it came to nearly 6% year on year, but it eased down again thanks to fuel price trends and lower domestic aggregate demand. During April and May, monthly inflation remained stable, placing the year-on-year inflation rate within the central bank's target band (4%-6%), while core inflation stood at 5% at the end of May. From that month onwards, inflation began to creep up again, peaking at 5.7% in late July, before dropping to 3.9% by the end of 2013, slightly under the floor of the target range. Core inflation was 4.4%, within the target range.

When the different components of year-on-year inflation (from December to December) are analysed, price increases in transport (5.7%) and housing (4.6%) were the main factors contributing to this result.

In late May 2014, the year-on-year inflation rate declined to 3.7%, within the target range set for the year (3.5% to 5.5%) and cumulative inflation was 1.5%.

As for wages, the National Wage Committee is mandated to review, twice a year, wage rates for all the sectors that make up the country's economy. The national minimum wage for workers is set by binding resolutions established by that entity and depends on company type and size.

On 1 June 2013, the employer and employee sectors agreed to raise the minimum wage by 14%. In large companies, whose capital exceeds 4 million pesos, the minimum wage is now 11,298 pesos (around US\$ 269). In medium-sized companies, with capital of more than 2 million but less than 4 million pesos, the minimum wage is 7,765 pesos (US\$ 182). In small enterprises, whose capital does not exceed 2 million pesos, the new minimum wage is 6,880 pesos (US\$ 158). Under the agreement, agricultural workers will receive 234 pesos (US\$ 5.37) a day and private security staff will be entitled to a salary of 9,526 pesos (US\$ 219).

The open unemployment rate climbed from 6.5% in 2012 to 7.0% in 2013, due to a decline in the occupation rate that was not offset by a lower labour participation rate.

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Annual growth rates b/									
Gross domestic product	9.3	10.7	8.5	5.3	3.5	7.8	4.5	3.9	4.1
Per capita gross domestic product	7.7	9.1	7.0	3.8	2.1	6.3	3.1	2.6	2.8
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	5.9	8.6	1.2	-3.4	12.5	5.5	5.5	4.1	4.3
Mining and quarrying	-0.1	11.0	-1.4	-30.3	-51.9	2.9	79.7	42.0	156.7
Manufacturing	6.3	3.2	2.4	2.6	-1.2	7.2	6.1	0.9	0.8
Electricity, gas and water	4.8	6.3	9.7	10.3	3.0	5.4	-3.6	7.3	1.2
Construction	9.2	24.6	3.2	-0.4	-3.9	11.0	1.4	0.7	7.5
Wholesale and retail commerce, restaurants and hotels	12.5	8.3	9.3	4.3	-3.1	9.9	4.5	3.6	1.8
Transport, storage and communications	18.9	17.8	12.5	15.5	10.6	7.9	-0.3	3.3	3.4
Financial institutions, insurance, real estate and business services	2.0	9.0	11.0	7.3	5.2	7.1	3.6	4.9	6.2
Community, social and personal services	-1.2	5.8	4.5	3.5	5.7	4.1	5.1	3.7	4.0
Gross domestic product, by type of expenditure									
Final consumption expenditure	15.4	12.0	8.9	7.8	4.9	7.6	3.8	1.9	0.7
Government consumption	10.2	11.0	10.0	7.7	-3.4	3.3	0.4	11.5	-6.6
Private consumption	15.7	12.0	8.9	7.8	5.2	7.7	3.9	1.6	1.0
Gross capital formation	13.1	20.8	12.4	9.2	-14.7	17.5	-2.6	4.3	-2.8
Exports (goods and services)	-1.2	0.7	3.2	-4.0	-7.4	11.6	8.8	5.4	7.6
Imports (goods and services)	11.3	8.2	6.8	4.7	-9.8	14.4	2.9	1.0	-3.6
Percentajes of GDP									
Investment and saving c/	16.5	18.4	18.9	18.3	14.8	16.5	16.4	16.4	14.6
Gross capital formation	15.1	14.8	13.6	8.4	9.8	8.1	8.5	9.6	10.4
National saving	1.4	3.6	5.3	9.9	5.0	8.4	7.9	6.8	4.2
External saving									
Millions of dollars									
Balance of payments									
Current account balance	-473	-1,287	-2,166	-4,520	-2,303	-4,006	-4,359	-3,971	-2,467
Goods balance	-3,725	-5,564	-6,437	-11,171	-8,257	-8,395	-8,940	-8,738	-7,306
Exports, f.o.b.	6,145	6,610	7,160	2,393	1,689	6,815	8,362	8,936	9,504
Imports, f.o.b.	9,869	12,174	13,597	13,564	9,946	15,210	17,302	17,673	16,810
Services trade balance	2,457	2,985	3,053	4,887	4,436	2,244	2,924	3,202	3,601
Income balance	-1,902	-1,853	-2,183	-1,749	-1,722	-1,306	-2,176	-2,344	-2,907
Net current transfers	-1,902	-1,853	-2,183	-1,749	-1,722	-1,306	-2,176	-2,344	-2,907
Capital and financial balance d/	1,180	1,482	2,793	-3,987	-2,920	-6,216	-3,312	-3,662	-4,225
Net foreign direct investment	1,123	1,085	1,667	2,870	2,165	1,622	2,277	3,142	1,990
Other capital movements	57	397	1,125	-6,857	-5,086	-7,838	-5,589	-6,804	-6,215
Overall balance	707	194	626	-325	406	72	162	-441	1,340
Variation in reserve assets e/	-1,110	-345	-682	309	-637	-466	-340	548	-1,146
Other financing	404	150	56	17	231	395	178	-108	-195
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	100.0	106.0	106.1	106.4	110.5	108.9	110.5	113.0	116.8
Terms of trade for goods (index: 2005=100)	100.0	99.0	102.3	97.7	105.7	101.8	96.5	95.5	93.2
Net resource transfer (millions of dollars)	-319	-221	665	-5,719	-4,411	-7,127	-5,310	-6,113	-7,326
Gross external public debt (millions of dollars)	5,847	6,295	6,556	7,219	8,215	9,947	11,625	12,872	14,919

Table 1 (concluded)

	2005	2006	2007	2008	2009	2010	2011	2012	2013 a/
Employment	Average annual rates								
Labour force participation rate g/	55.9	56.0	56.1	55.6	53.8	55.0	56.2	56.5	56.1
Unemployment rate h/	17.9	16.2	15.6	14.2	14.9	14.3	14.6	14.7	15.0
Open unemployment rate i/	6.4	5.5	5.1	4.7	5.3	5.0	5.8	6.5	7.0
Prices	Annual percentages								
Variation in consumer prices (December-December)	7.4	5.0	8.9	4.5	5.7	6.3	7.8	3.9	3.9
Variation in nominal exchange rate (annual average)	-27.8	9.7	-0.3	4.1	4.1	2.3	3.3	3.1	6.3
Variation in minimum urban wage	18.7	-7.1	4.7	-6.4	7.0	-0.4	1.2	2.8	3.1
Nominal deposit rate j/	12.7	9.8	7.0	10.3	7.8	4.9	7.9	7.5	6.0
Nominal lending rate k/	21.4	15.7	11.7	16.0	12.9	8.3	11.7	12.2	10.7
Central government	Percentajes of GDP								
Total revenue l/	15.7	16.2	17.7	15.9	13.7	13.6	13.5	14.0	14.7
Tax revenue	14.6	14.9	16.0	15.0	13.1	12.8	12.9	13.5	14.0
Total expenditure	15.8	16.1	17.1	19.6	16.8	16.3	15.7	20.5	17.8
Current expenditure	12.0	12.9	12.9	14.5	13.2	12.6	12.5	14.0	14.1
Interest	1.0	1.2	1.6	1.7	1.8	2.0	2.1	2.4	2.3
Capital expenditure	3.9	3.3	4.1	5.1	3.6	3.7	3.2	6.5	3.7
Primary balance	0.8	1.2	2.2	-2.1	-1.3	-0.7	-0.1	-4.1	-0.8
Overall balance m/	-0.1	0.0	0.6	-3.8	-3.1	-2.7	-2.2	-6.6	-3.1
Central government public debt	21.1	20.1	18.1	24.4	28.0	28.8	30.0	32.4	38.3
Domestic	3.2	2.6	2.0	8.2	10.3	9.2	8.8	10.6	13.7
External	17.9	17.5	16.1	16.2	17.7	19.6	21.2	21.8	24.6
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	41.2	40.0	40.0	39.7	41.4	41.2	42.6	44.4	45.2
To the public sector	10.9	18.5	18.5	19.8	21.3	19.8	19.8	23.3	24.0
To the private sector	20.9	19.8	22.1	21.9	22.3	23.7	24.0	23.2	24.2
Others	9.4	1.7	-0.7	-1.9	-2.1	-2.3	-1.2	-2.0	-3.0
Monetary base	9.1	9.0	8.9	8.5	8.2	7.6	7.3	7.2	6.6
Money (M1)	8.3	9.3	10.2	8.2	9.1	8.8	8.3	8.3	8.8
M2	30.5	27.8	28.6	25.9	27.8	27.0	26.7	26.7	27.0
Foreign-currency deposits	7.3	6.5	6.5	6.1	6.3	6.8	7.5	7.7	8.2

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1991 prices.

c/ Based on values calculated in national currency and expressed in current dollars.

d/ Includes errors and omissions.

e/ A minus sign (-) indicates an increase in reserve assets.

f/ Annual average, weighted by the value of goods exports and imports.

g/ Nationwide total.

h/ Nationwide total. Includes hidden unemployment.

i/ Nationwide total. Includes an adjustment to the figures for the economically active population for exclusion of hidden unemployment.

j/ 90-day fixed-term certificates of deposit, weighted average..

k/ Prime lending rate.

l/ Includes grants.

m/ The overall balance includes the residue.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2012				2013				2014	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross domestic product (variation from same quarter of preceding year) b/	3.8	3.7	4.0	4.0	0.3	2.8	5.5	7.3	5.5	...
Gross international reserves (millions of dollars)	3,460	3,520	3,498	3,458	3,515	4,330	3,719	4,172	3,903	5,169 c/
Real effective exchange rate (index: 2005=100) d/	110.2	111.2	110.0	110.0	112.0	112.4	112.3	113.7	114.0	114.4 c/
Consumer prices (12-month percentage variation)	4.9	2.7	2.6	3.9	5.0	4.8	5.1	3.9	3.0	3.7
Average nominal exchange rate (pesos per dollar)	39.02	39.08	39.19	39.83	40.85	41.26	42.31	42.55	43.05	43.18
Nominal interest rates (annualized percentages)										
Deposit rate e/	9.1	9.5	6.5	4.9	6.2	5.2	5.3	7.4	7.3	7.5
Lending rate f/	13.7	13.1	11.8	10.1	10.6	10.9	10.2	11.0	10.8	10.6
Interbank rate	8.8	8.5	7.8	7.2	6.5	5.6	5.6	6.7	6.4	6.4
Monetary policy rates	6.8	6.5	5.5	5.0	5.0	4.8	4.9	6.3	6.3	6.3
Sovereign bond spread, Embi Global (basis points to end of period) g/	506	488	418	343	385	401	429	349	330	325
International bond issues (millions of dollars)	-	-	-	750	300	1,000	...	500
Domestic credit (variation from same quarter of preceding year)	13.6	10.5	14.5	14.4	15.3	13.7	15.7	12.1	15.1	11.7 h/
Non-performing loans as a percentage of total credit	3.3	3.4	3.4	3.6	3.3	3.2	3.0	2.4	2.2	...

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

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1991 prices.

c/ Figures as of May.

d/ Quarterly average, weighted by the value of goods exports and imports.

e/ 90-day fixed-term certificates of deposit, weighted average.

f/ Prime lending rate.

g/ Measured by J.P.Morgan.

h/ Figures as of April.