DOMINICAN REPUBLIC

1. General trends

The Dominican Republic’s gross domestic product (GDP) increased by 2.4% in 2023, compared with 4.9% in 2022. The slowdown was explained by a decline in domestic demand, a less favourable external situation and lower growth in trade flows with Haiti. The tourism sector remained a major driver of the Dominican economy.

The central government recorded a financial deficit equivalent to 3.3% of GDP in 2023 (3.2% in 2022), while the primary deficit represented 0.1% of GDP (0.4% in 2022). Revenues (especially from taxes on income, profits and capital gains) increased more strongly than expenditure, owing to the impact of subsidy reductions.

The country ran a current account deficit of US$ 4.376 billion in 2023, equivalent to 3.6% of GDP, compared with a deficit of US$ 6.548 billion (5.8% of GDP) in 2022, largely reflecting a fall in the value of imports of goods and services, especially energy, because of lower international hydrocarbon prices.

The year-on-year inflation rate was 3.6% by end-2023, whereas at the end of 2022 it was 7.8%. In the final months of 2023, the moderation in inflation over the course of the year brought it within the target range of 4.0% (with latitude of one percentage point either way) set by the Central Bank of the Dominican Republic. The open unemployment rate rose from 4.8% in the fourth quarter of 2022 to 5.0% in the fourth quarter of 2023.

For 2024, the Economic Commission for Latin America and the Caribbean (ECLAC) projects growth of 5.2%, subject to developments in the international economy, especially the United States, and geopolitical uncertainties. The factors that would favour an acceleration of growth relative to 2023 are monetary policy easing, given inflation securely within the target range, and a more expansionary fiscal policy. Construction, having not performed well in the previous two years, is also expected to improve, and tourism is projected to maintain its momentum. The unemployment rate is expected to be around 5.2%, broadly unchanged from the previous two years. The current account deficit is projected at about 3.5% of GDP, in view of the expectation for more stable trade flows.

2. Economic policy

(a) Fiscal policy

Total central government revenues grew by 7.0% in real terms in 2023 (4.4% in 2022), representing 15.7% of GDP (15.3% in 2022). The increase in revenue in 2023 was due mainly to a 17.4% rise in receipts from taxes on income, profits and capital gains. In contrast, receipts from social contributions and taxes on international trade and transactions fell by 18.2% and 2.4%, respectively.

Central government expenditure increased by 3.7% in real terms in 2023 (7.8% in 2022). The factors behind this slowdown included a reduction in subsidies, especially for fuel (down 23.9% in 2023, compared with an increase of 81.3% in 2022) and a reduction in the other expenditure category (10.7%). Interest payments increased by 14.4%, with those to non-residents rising particularly strongly (16.9%).

Public debt (domestic and external) totalled US$ 54.829 billion in 2023, compared with US$ 51.854 billion in 2022, an increase of 5.7%. Debt as a share of GDP was 45.2% in 2023 (45.7% in 2022). External debt totalled US$ 38.854 billion in 2023 and represented 32.0% of GDP, while domestic debt totalled US$ 15.975 billion and represented 13.2% of GDP. In 2023, US$ 3.846 billion (3.2% of GDP) was paid in domestic and external debt interest.

Up to February 2024, cumulative central government revenues recorded real year-on-year growth of 21.9%. There were particularly strong year-on-year increases in grants (358.8%) and other revenues (179.1%). Taxes on goods and services, accounting for 51.6% of total revenues, increased by 7.5% in real terms year-on-year.

Public spending at the end of February 2024 was down 1.7% in real terms year-on-year. The other expenditure category and subsidies fell by 61.4% and 9.7%, respectively, while spending on the use of goods and services (34.6%) and interest payments to residents (29.2%) increased. At the end of the first quarter of 2024, the external public debt of the non-financial public sector was US$ 38.997 billion (up 1.4% year-on-year) and domestic debt was US$ 16.289 billion (down 1.1% year-on-year).

(b) Monetary policy and exchange-rate policy

The Central Bank of the Dominican Republic lowered the monetary policy rate over the course of 2023 as inflation gradually slowed and returned to its target range. The rate started 2023 at 8.5% and was cut for the first time in June, with successive reductions bringing it down to 7.5% by December. Up to June 2024, it stayed at this level.

The weighted average lending rate was 14.4% in 2023, compared with 11.8% in 2022 (10.5% and 3.7% in real terms). The bank deposit rate averaged 9.2% in 2023, compared with 6.7% in 2022 (5.4% and -1.0% in real terms). The M1, M2 and M3 monetary aggregates increased by 9.0%, 16.9% and 14.3%, respectively, in 2023. Total credit expanded by 19.5% in 2023 (15.9% in 2022), with credit to the public sector increasing by 3.7% (down by 21.9% in 2022). Credit to the private sector increased by 19.8% (compared with 16.9% in 2022), driven by growth in credit to the extractive industry (55.1%), microenterprises (38.6%), construction (37%) and the electricity, gas and water sector (34.6%).

The average exchange rate in 2023 was 56.16 Dominican pesos per dollar, compared with an average of 55.14 pesos in 2022. This represented a nominal peso depreciation of 1.8%. Net international reserves ended the year at US$ 15.457 billion, representing growth of 7.1% from December 2022. This amount represented 6.4 months of goods imports.

In March 2024, lending and deposit rates averaged 14.93% and 9.05% (11.2% and 5.5% in real terms), respectively. The levels of the monetary aggregates continued to grow between January and March 2024: M1 by 8.9%, M2 by 16.6% and M3 by 14.7%, at year-on-year rates. Comparing the period from April 2023 to March 2024 with the same period a year earlier, credit expanded by 20.8%, with a contraction of 1.9% in credit to the public sector. Credit to the private sector, considering balances up to March 2024, increased by 21.2%. Lending to the electricity, gas and water sector, the extractive industry sector and the construction sector continued to show strong growth, with rates of 48.5%, 39.3% and 33.7%, respectively.

In August 2024, the average exchange rate was 59.46 Dominican pesos to the dollar, which represented a depreciation of 3.7% from the last quarter of 2023. In July 2024, gross international reserves amounted to US$ 15.297 billion, 0.8% below their July 2023 level, and were equivalent to 5.8 months of goods imports.

(c) Other policies

In October 2023, construction on the port of Manzanillo began, with an estimated investment of US$ 70 million. In January 2024 came the announcement of the bidding process to award the contract for the construction of Cabo Rojo airport, the country's new tourist hub, financed by a public trust, Fideicomiso Pro-Pedernales. Also, that month, the Central American Bank for Economic Integration, in collaboration with the government and the National Institute of Water Resources, inaugurated the Monte Grande dam, which will mitigate flooding, supply the South-West Regional Aqueduct and meet irrigation and hydroelectric power generation demand.

In May 2024, the government announced that it was arranging US$ 2.7 billion in financing with the World Bank for road transport projects in Greater Santo Domingo.

3. The main variables

(a) The external sector

Goods exports decreased by 6.0% in 2023 (compared with an increase of 10.1% in 2022) to US$ 12.931 billion. Goods imports fell more sharply, by 6.8% (compared with an increase of 27.3% in 2022), to US$ 28.823 billion. The country recorded a trade deficit of US$ 8.612 billion, which was less than the previous year's deficit (US$ 11.668 billion).

In 2023, domestic exports accounted for 38.4% of total goods exports and those from free trade zones for the remaining 61.6%. Domestic exports contracted by 16.1%, with declines for minerals (16.6%, especially ferronickel because of the closure of the Falcondo company), agricultural products (11.2%, with bananas especially affected, owing to adverse weather conditions and pests) and industrial products (17.0%, with a sharp fall in exports of steel rods). The reduction in domestic exports was also influenced by the disruption of the border with Haiti, which takes 7.5% of Dominican exports.

Exports from free trade zones increased by 1.8%, with industrial exports up by 1.9%, driven by 76.2% growth in manufactured cocoa and 12.1% growth in medical and surgical equipment. In contrast, there was a 2% fall in exports of agricultural products, especially cocoa beans, exports of which declined by 17.7%.

Domestic imports accounted for 83.0% of total goods imports in 2023, and the imports of free trade zones for the remaining 17.0%. Domestic imports declined by 6.6%, mainly because of an 18.0% drop in raw materials and intermediate goods (and particularly a 17.9% reduction in spending on oil and fuels, as a result of lower international hydrocarbon prices). The sharpest fall in the raw materials and intermediate goods sector was in the pulp, paper and paperboard sector (25.2%). In the other two domestic import sectors, namely consumer goods and capital goods, there were increases of 3.9% (due mainly to a rise for consumer durables) and 13.7% (due to an increase in imports of capital goods for industry and transport), respectively. Free zone imports decreased by 7.4%.

Remittances totalled US$ 10.157 billion in 2023, an increase of 3.1% over the 2022 figure, and were equivalent to 8.4% of GDP. This expansion was driven by the positive economic performance of the United States. Annual foreign direct investment inflows totalled US$ 4.381 billion in 2023, 9.2% more than in 2022. The largest flows went to tourism and energy (especially renewable energy) and originated in the United States, Spain and Mexico.

At the end of March 2024, the trade deficit was US$ 8.775 billion, reflecting a fall in both imports (6.9% year-on-year) and exports (6.3% year-on-year) and representing an increase over the first quarter of 2023, when the deficit was US$ 6.17 billion. Remittances totalled US$ 6.12 billion between January and July, 4.2% more than in the same period of 2023. Of total formal remittances received in July, 83.0% came from the United States.

(b) Economic activity

After a first half in which growth was low (1.3% on average), the second half of 2023 saw a rebound (3.4%), thanks to higher liquidity resulting from changes in monetary policy and increased credit.

By sector, agriculture grew by 3.9% in 2023 (5.0% in 2022). The industrial sector contracted by 0.3% (after a 1.3% expansion in 2022), with local manufacturing falling by 1.5% (compared with 2.2% growth in 2022), free zone manufacturing increasing very slightly (by 0.1%, compared with 5.4% in 2022) and construction expanding moderately (2.1%, compared with 0.6% in 2022), thanks to increased liquidity and credit provided at preferential rates. The downturn in the mining and quarrying sector continued to deepen (by 16.3% in 2023, after a decline of 7.2% in 2022), mainly because of installed capacity limits at Barrick Gold’s Pueblo Viejo mine and the closure of operations of ferronickel company Falcondo. The services sector grew by 3.6% in 2023 (6.5% in 2022), owing chiefly to the expansion of hotels, bars and restaurants (10.7%) and healthcare activities (10.0%). These sectors had also been the fastest-growing in 2022. The tourism sector was once again a driver of the Dominican economy in 2023. The government continues to invest in various initiatives to promote the country as a tourist destination and in the development of new tourist centres, such as Miches and Pedernales.

On the expenditure side, growth was driven primarily by private consumption, which grew by 2.5% (compared with 5.1% in 2022). Exports fell by 0.5% in 2023, after growing by 13.7% in 2022. Gross fixed capital formation increased by 2.0% (compared with 4.0% in 2022).

Year-on-year growth in the monthly index of economic activity to August 2024 averaged 5.1%. When this is disaggregated, the sector that grew the most from January to August 2024 was financial services at 8.1%, followed by hotels, bars and restaurants at 7.1%.

(c) Prices, wages and employment

December-to-December inflation was 3.6% in 2023 (compared with 7.8% in 2022). According to the national consumer price index, the sectors where prices rose the most were restaurants and hotels (7.1%), miscellaneous goods and services (7.1%), education (6.3%) and food and non-alcoholic beverages (6.1%). The only two sectors in which the price level decreased were communications (2.8%) and clothing and footwear (1.2%). With inflation slowing, the government reduced subsidies for fuel and electricity tariffs.

The open unemployment rate increased slightly in 2023, from 4.8% in the fourth quarter of 2022 to 5.0% in the fourth quarter of 2023. By sex, the male unemployment rate rose from 2.9% to 3.0% and the female rate from 7.4% to 7.7% over the period; in other words, there was a larger increase for women. The employment rate grew from 60.6% in the fourth quarter of 2022 to 61.7% in the fourth quarter of 2023. By sex, the male employment rate was 74.8% in the fourth quarter of 2022, down from 75.2% in the same quarter of 2023; the female rates were 47.7% and 49.3%, respectively. The rate of unemployment and underemployment rose slightly, from 7.0% in the fourth quarter of 2022 to 7.1% in the fourth quarter of 2023, but with opposing movements by sex: whereas for men this rate fell (from 5.2% to 4.6%), for women it increased (from 9.4% to 10.5%).

The average monthly income in the Dominican Republic is still lower than before the pandemic. It was 13,760 Dominican pesos (at constant 2010 prices) in 2023, down from 14,457 in 2019 but up by 8.3% in real terms from 2022. The only drop in real average earnings in 2023 was in the domestic service sector (1.7%), following a 13.7% increase in 2022 due to changes in labour legislation and the creation of a care system. In contrast, the largest rises were in financial intermediation and insurance (23.5%), public administration and defence (17.7%), construction (12.4%) and other services (12.2%).

Inflation was still on a downward trend in August 2024, at 3.4% compared with 4.3% in August 2023. The restaurant and hotel sector, was still among those with the highest inflation. The open unemployment rate was 5.3% in the second quarter of 2024, representing a year-on-year decline of 0.3 percentage points.