

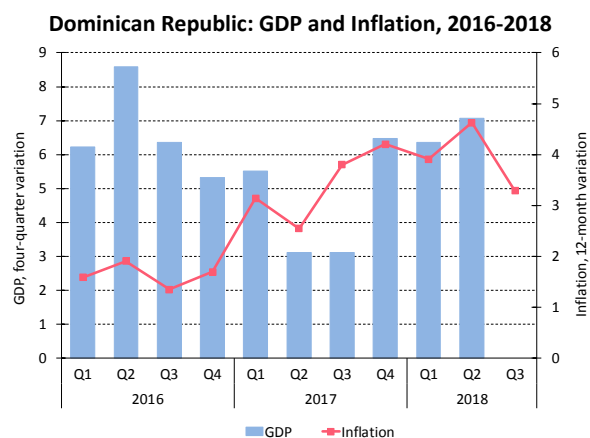
Dominican Republic

Estimates by ECLAC suggest that the economy of the Dominican Republic will grow by 6.3% in 2018—a significant increase on the 4.6% recorded in 2017. This is a result of the monetary stimulus implemented in mid-2017, in conjunction with robust economic growth in the United States, which is the Dominican Republic’s main trading partner and its largest source of remittances and tourists. The deficit of the non-financial public sector is expected to be around 2.8% of GDP at end-2018 (compared to the previous year’s 3.2%), reflecting increased revenue obtained from improvements to tax administration and a sharp slowdown in expenditure growth.

The current account deficit will increase by 0.9 percentage points to 1.1% of GDP, mainly owing to the rise in international fuel prices. The rise in energy prices has also had effects on inflation, which will be between 3.5% and 4.0% at end-2018 (compared to 4.2% a year earlier); and it is expected to remain within the central bank’s target range of 3.0%–5.0%. The open unemployment rate stood at 5.5% at the end of the third quarter of 2018, in other words 0.4 percentage points below its year-earlier level. In 2019, job creation is likely to remain buoyant, fuelled by growth in production sectors such as construction.

In the first nine months of 2018, the total income of the non-financial public sector increased by 7.9% year-on-year in real terms (compared to growth of 8.0% in the year-earlier period), driven mainly by real increases in revenues from taxes on income and profits (by 6.5%), and on goods and services (8.8%). This result reflects both the efforts made to combat tax evasion and the start-up of new online tax services. Total expenditure decreased by just 0.03% year-on-year between January and September 2018. Current expenditure was up by 7.8%, fuelled partly to a 20.4% rise in interest payments. In contrast, capital expenditures fell by 30.1%, following the completion of infrastructure projects in 2017. Although the Government is persevering with its fiscal consolidation program, its commitment to subsidize a frozen electricity tariff restricts the chances of reducing expenses. Public debt represented the equivalent of 40% of GDP in September 2018, up by 1.1 percentage points since the end of the previous year. In September 2018, 11.7% of the debt was subject to a variable interest rate, compared to the 25.9% recorded in 2013, which has improved its long-term sustainability. In July 2018, 10-year sovereign bonds were issued for regular government financing, for a total of US\$ 1.3 billion at an interest rate of 6.0% (compared to the 3.0% yield offered on United States ten-year bonds). Investors’ demand for these debt instruments totalled about US\$ 3.5 billion, reflecting the confidence placed in the Dominican economy.

The central bank again adopted the restrictive stance it had assumed in November 2016, by raising the monetary-policy interest rate by 25 basis points to 5.5% in August 2018. The rise in the international oil price and the buoyancy of domestic demand have stoked inflationary pressures. The increase in the benchmark interest rate has gradually fed through to the rest of the financial system. The



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

average nominal lending rate in national currency charged by full-service banks reached 13.8% in October, compared to an average of 12.7% a year earlier. The deposit rate was up by 1.9 percentage points year-on-year stood at 7.4%. Nonetheless, credit to the private sector grew by a nominal 12.0% between January and September, compared to 10.0% at end-2017. Consumer credit grew by 10.7%, while financing to the production sectors expanded more rapidly: by 10.9% in construction and by 12.4% in the manufacturing industries.

In October, the average exchange rate of the Dominican currency was 49.38 pesos per dollar, a depreciation of 4.5% year-on-year, caused mainly by the widespread appreciation of the dollar in response to monetary-policy normalization in the United States. Driven by income from family remittances, tourism and free zones, the Dominican Republic's international reserves had grown to US\$ 6.985 billion by the end of October 2018, US\$ 1.158 billion more than a year earlier.

The larger current account deficit is explained, above all, by a 31.7% year-on-year increase in the oil bill between January and June. Total imports grew by 14.4% in the same period. Imports of capital goods grew faster (16.0%) than those of consumer goods (7.4%). Driven by the demand in the United States, in conjunction with a moderate depreciation of the peso, total exports grew by 8.4% year-on-year between January and June 2018. Exports from free zones performed strongly (up by 11.1%, compared to 3.5% at the end of 2017), particularly in the case of agricultural products (up 32.4%, compared to a contraction of 12.0% in 2017). Free-zone exports of cocoa beans increased by 61.8% (compared to a reduction of 30.7% in 2017).

Despite the uncertainty generated by immigration policy in the United States, family remittances have remained buoyant, increasing by 10.2% year-on-year between January and September 2018. In contrast, foreign direct investment flows dipped slightly (-1.0%) relative to the year-earlier period.

In the first three quarters of 2018, GDP grew by an average of 6.9% year-on-year, a sharp acceleration from the 3.9% recorded in the same period of 2017. At the end of the third quarter, the fastest growing sectors were construction (10.9%) and free zones (12.0%). Services, which constitute the largest sector in the Dominican economy, grew by 5.7%. The only exception was the mining sector, which contracted by 2.1% owing to the need for temporary stoppages to repair equipment. As a reflection of the monetary stimulus implemented in 2017, private consumption grew by 5.4% in the first half of 2018, compared to 4.6% in the same period a year earlier. Gross fixed capital formation increased by 12.7% in the same period.

In October, year-on-year inflation stood at 3.5%. The rise in the price of oil and its effects on the transport sector were partially offset by lower food prices (-11.0% per month in September in the case of fresh chicken, due to an oversupply). Core inflation was recorded at 2.6%, which is within the central bank's target range. On the labour market front, the open unemployment rate benefited from the

Dominican Republic: main economic indicators, 2016-2018

	2016	2017	2018 ^a
	Annual growth rate		
Gross domestic product	6.6	4.6	6.3
Per capita gross domestic product	5.4	3.4	5.2
Consumer prices	1.7	4.2	3.5 ^b
Money (M1)	13.9	6.2	16.2 ^c
Real effective exchange rate ^d	1.3	5.7	1.5 ^c
Terms of trade	2.1	-4.6	-2.6
	Annual average percentage		
Open urban unemployment rate	7.9	6.1	6.0 ^e
Central government			
Overall balance / GDP	-2.4	-2.4	-2.2
Nominal deposit rate ^f	7.2	6.8	6.3 ^b
Nominal lending rate ^g	15.1	13.9	12.6 ^b
	Millions of dollars		
Exports of goods and services	18 149	18 912	20 276
Imports of goods and services	20 768	21 209	23 424
Current account balance	-815	-165	-852
Capital and financial balance ^h	1 707	894	1 057
Overall balance	892	729	204

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

a/ Estimates.

b/ Figures as of October.

c/ Figures as of September.

d A negative rate indicates an appreciation of the currency in real terms. Refers to the extraregional real effective exchange rate.

e/ January-September average.

f/ Rates for deposit certificates and/or deposits for 61-90 days.

g/ Weighted average of the system lending rates in local currency.

h/ Includes errors and omissions.

buoyancy of economic activity: the rate for men dropped to 3.8% in the third quarter of 2018 from 4.1% a year earlier, while female unemployment rose to 8.9% during the first quarter of 2018, compared to the previous year's 8.7%. These figures highlight the need to continue implementing public policies that encourage the employment of women.

For 2019, ECLAC forecasts growth of 5.7%, which is lower than in 2018, but more in line with the economy's long-term potential, estimated at 5.0% per year. This lower growth will reflect the adjustment of the monetary policy stance, in conjunction with a more subdued external sector. The United States will continue to be a key factor in the performance of the services sector and in remittance flows. The key fiscal challenge to be tackled by the Dominican Republic in 2019 will be the impact of the oil price on the performance of the electricity sector and, hence, on government finances.