DOMINICAN REPUBLIC

1. General trends

The economy of the Dominican Republic grew by 4.6% in 2017, substantially less than the previous year's 6.6% expansion. This loss of momentum is explained mainly by a slackening of domestic demand, particularly investment. Construction and mining were the sectors that slowed most abruptly. The more active fiscal policy adopted by the Dominican authorities in the second half of the year fuelled a moderate increase in the central government deficit, which widened to 3.0% of GDP by end-2017 (compared to 2.8% a year earlier).

Inflation at the end of 2017 was 4.2%, up from the previous year's 1.7% but still within the central bank's target range of 3.0%–5.0%, following three consecutive years below the lower bound of the range. The current account deficit narrowed significantly, from 1.1% of GDP in 2016 to 0.2% in 2017, since buoyant tourism and remittance flows, supported by a strong export performance and a sharp reduction in capital goods imports, offset the increased value of fuel imports. Despite the deceleration in economic activity, the open unemployment rate at the national level dropped steeply, from an annual average of 7.1% in 2016 to 5.5% in 2017.

The Economic Commission for Latin America and the Caribbean (ECLAC) expects growth in the Dominican economy to rebound in 2018, with a forecast expansion of 5.4%. This will be driven partly by a recovery in domestic demand, especially investment, as well as a pickup in growth in the world economy. Having launched an expansionary fiscal policy in the second half of 2017, the government is expected to shift towards a fiscal consolidation programme in 2018. As a result, the central government deficit is forecast to narrow to around 2.5% of GDP by the end of the year.

The rise in international oil prices will push inflation up slightly from its 2017 level, but it will still be within the central bank's target range. The current account deficit is set to widen in 2018, to around 1.0% of GDP. Although remittance and tourism flows are likely to remain buoyant and merchandise exports should continue strong, these will not be enough to offset the increase in fuel, consumer and capital goods imports driven by the recovery of domestic demand and the rise in international raw material prices.

2. Economic policy

(a) Fiscal policy

The fiscal consolidation programme implemented by the Dominican authorities generated a sharp fiscal adjustment in the first half of 2017, with a year-on-year reduction in total public expenditure of 1.0% in real terms during this period. This was due partly to a reduction in capital expenditures (7.4%), while current expenses grew only marginally (0.6%). Nonetheless, when economic activity slowed in the second quarter, the authorities adopted a more active fiscal stance for the second half of the year. Public expenditures grew by 18.0% in real terms in the second semester, driven by a revival of both capital expenditure (49.7%) and current expenditure (11.8%). The rebound in capital expenditures largely reflected the allocation of 20 billion Dominican pesos (RD$ 20 billion) (equivalent to about US$ 425 million) to public housing and infrastructure building projects in the last few months of the year. The momentum of current expenditures was driven mainly by an increase in purchases of goods and services, while current transfers declined throughout the year as government subsidies to the electricity sector were cut back. As a result, total public expenditure posted annual growth of 8.6% as of end-2017.

Total central government income grew by 7.0% in real terms in 2017, fuelled by a 10.2% real increase in direct tax revenues and a 4.9% increase in indirect income. These results reflect improvements in collection mechanisms and the back-payment of overdue taxes. Despite efforts to increase tax revenue (which saw an increase in the tax burden from 13.6% of GDP in 2016 to 13.9% in 2017), the more active public spending stance in the second half of the year produced a moderate increase in the public accounts deficit, from 2.8% of GDP in 2016 to 3.0% in 2017.

As of end-2017, the public debt was equivalent to 38.9% of GDP (compared to 36.9% a year earlier). Of this amount, 63.8% was held externally and the rest was domestic. Most of the new debt reflected sovereign bond issuance. Bonds were floated on international markets twice in 2017: in January, for an amount of US$ 1.2 billion, to finance day-to-day government business; and in June, for US$ 500 million, to complete the Punta Catalina thermoelectric power plant. In both cases, the bonds had a maturity of 10 years and a coupon of 5.95%.

Amid efforts to balance the public accounts, income is expected to outpace expenditure in 2018 and thus reduce the central government deficit to around 2.5% of GDP. In February 2018 there were two bond issues on the international market: one for US$ 1 billion, with a 30-year term and a coupon of 6.5%; and the second for RD$ 40 billion (equivalent to US$ 822 million), with a five-year maturity and a coupon of 8.9%. The latter represents the first local-currency-denominated sovereign bond in the Dominican Republic’s history, which reflects international investors’ confidence in the country’s economic growth prospects and the stability of the national currency. The peso bond issue also forms part of the government’s strategy to reduce exposure to foreign-exchange risk. The public debt grew to a total of US$ 30.5 billion in March 2018, US$ 957 million more than at the end of 2017.

(b) Monetary and exchange-rate policy

Given the prospect of an upturn in inflationary pressures and the normalization of monetary policy in the United States, in April 2017 the central bank raised its monetary policy interest rate by 25 basis points to 5.75%. Nonetheless, in response to the abrupt slowdown in economic activity in the second quarter of 2017, together with lower-than-expected inflationary pressures and a more gradual normalization of United States monetary policy, it adopted a more expansionary stance at the start of the third quarter of the year. In July it lowered the monetary policy rate by 50 basis points, while releasing RD$ 20.4 billion from the legal reserve to be allocated to the production sectors of the economy.

Interest rates in the financial system behaved differently in the two halves of the year. The average nominal lending rate held steady at 15.27% in the first half of the year; but the adoption of a looser monetary policy from July onwards caused the rate to fall, and it reached 12.44% by the end of the year. Similarly, the average nominal deposit rate was held at 6.84% in the first six months of the year, but later dropped to 5.19% in December. Real rates behaved in a similar way. The real lending rate applied by full-service banks dropped from an average of 11.48% in the first half of 2017 to 6.99% by the end of the year; and the real deposit rate fell from 2.93% in the first semester to 0.85% in December. The downward trend in real interest rates also reflected the upturn in inflation during the last few months of the year.

Lending to the private sector grew by 10.0% in 2017 —led by commercial credit (14.8%), with significant increases in consumer credit (11.5%) and loans for home purchase (11.7%). The sharp activity slowdown in the construction sector was reflected in a year-on-year contraction of 18.2% in credit to the sector.

During 2017, the Dominican peso depreciated by 3.3% against the dollar in nominal terms and was trading at 48.1 pesos per dollar in December. The robust increase in the flow of remittances to the country in 2017 (12.4%) helped to keep the depreciation within moderate bounds. Meanwhile, the real bilateral exchange rate index with respect to the dollar rose from 102.4 at end-2016 to 103.6 in the last quarter of 2017, which represents a real depreciation of the Dominican peso of 1.2%. As of end-2017, net international reserves stood at US$ 6.78 billion, equivalent to 8.9% of GDP and US$ 734 million more than a year earlier.

In the first few months of 2018, the monetary policy interest rate remained unchanged at 5.25%. In May, total lending was up by 9.7% year-on-year, targeted towards the commerce, manufacturing, and hotel and restaurant sectors.

As of April 2018, the Dominican peso had depreciated by 2.4% in nominal terms relative to its end-2017 level. In the first few months of the year net international reserves grew by US$ 351 million to stand at US$ 7.131 billion in May. This reserve growth mainly reflects the sovereign bonds issued in the first quarter.

3. The main variables

(a) The external sector

The balance-of-payments current account deficit narrowed sharply in 2017, with merchandise exports and imports growing by 2.9% and 1.7%, respectively. Among exports, total national shipments weakened (2.1%), mainly due to a reduction in gold exports (7.5%). In contrast, national shipments of industrial products grew by 12.4% in 2017. Exports from free zones were up by 3.5%, thanks to a significant increase in exports of electrical products (17.7%) and manufactured tobacco (14.0%). Nonetheless, the strong performance of these items was partially offset by reduced shipments of textiles and medical and surgical equipment (3.2% and 3.8%, respectively).

The growth in the value of total imports is explained mainly by a sharp reduction in capital goods purchases (17.1%), associated with the contraction of domestic investment in the first half of the year. Nonetheless, this was offset by a sharp increase in fuel imports (22.4%), owing to the rise in the price of oil, and imports into the free zones (6.0%).

Remittances and tourist arrivals grew by 12.4% and 4.2%, respectively, in 2017. The former reflected the greater buoyancy of the United States economy and also the improvement in economic conditions in Spain, which has the second largest Dominican immigrant community after the United States. The increase in tourist arrivals reflects a diversification in the origin of visitors to the country, with sharp increases in those from Argentina, Brazil and the Russian Federation. The positive trend of remittances and tourist arrivals generated a substantial increase in the surpluses on the transfers and services accounts. The current account deficit thus narrowed significantly, from 1.1% of GDP in 2016 to 0.2% in 2017.

Foreign direct investment (FDI) flows totalled US$ 3.57 billion, up by 48.3% on the 2016 figure. This remarkable surge in FDI into the country was caused mainly by an additional US$ 952 million absorbed by the commerce and manufacturing sectors relative to the year-earlier levels. This result represented the purchase of a further 30% of Cervecería Nacional Dominicana by the transnational corporation Anheuser-Busch InBev, which had owned 55% of the Dominican firm since 2012.

In the first quarter of 2018, goods exports registered year-on-year growth of 8.0%, due mainly to increases in shipments of gold (11.2%) and electrical products from the free zones (23.7%). Imports grew by 10.0%, owing chiefly to a 29.4% increase in the oil bill (following the rise in the international price during the first few months of the year) and a 13.7% increase in imports of capital goods. Remittances and tourist arrivals were also up —by 14.0% and 7.7%, respectively; and FDI was 13.7% higher than in the same period of 2017, with larger flows into the tourism, commerce and mining sectors.

(b) Economic activity

The growth of the Dominican economy slowed abruptly, from 6.6% in 2016 to 4.6% in 2017, partly owing to the meagre 0.5% expansion in gross fixed capital formation (compared to 11.4% in 2016). In contrast, consumption growth held steady at 4.7%, with a slowdown in private consumption (4.3% compared to 4.9% in 2016) being offset by the buoyancy of public consumption (up by 6.5%), while exports of goods and services grew by 4.7%.

The pace of economic activity varied over the course of the year, with growth slowing sharply in the second quarter, as gross capital formation contracted by 11.1% year-on-year in this period. This deceleration was largely caused by fiscal policy constraints in the first half of the year, and by greater uncertainty in the expectations of private sector economic agents. Moreover, bad weather conditions in September (Hurricanes Irma and Maria) undermined agricultural activity during that month and damaged several infrastructure facilities in the north of the country. Nonetheless, the implementation of a more active fiscal policy as from the third quarter of 2017, together with monetary easing, produced a revival in the last quarter. Thus, the last three months of 2017 saw year-on-year growth of 11.9% in gross capital formation and a 6.5% expansion of GDP.

The economic sectors that continued to perform well in 2017 were agriculture (6.2%) and hotels and restaurants (6.7%) —owing to growth in the tourism sector, generated by investments made to increase and diversify the country's touristic offerings. In contrast, the construction sector slowed sharply (by 4.1%), following the double-digit expansions of recent years. The mining sector also shrank (by 3.4%), following the temporary cessation of operations in the country's leading mining company for machinery maintenance.

In the first quarter of 2018, the Dominican economy maintained the high rate of growth observed since the last quarter of the previous year, posting a year-on-year expansion of 6.4%. This mainly reflects strong growth in the free-zone manufacturing (10.9%), construction (9.3%) and commerce (8.2%) sectors.

(c) Prices, wages and employment

As 2017 ended, year-on-year inflation stood at 4.2%, which is inside the central bank's target range of between 3.0% and 5.0%, following three consecutive years of inflation below the lower bound. The higher inflation in 2017 reflected external pressures, such as the rise in the international price of oil, which generated a 5.3% rise in transport prices at the end of the year. In contrast, core inflation came in at 2.4%.

The national unemployment rate continued the downtrend of recent years, despite the slacker growth recorded in 2017. The open unemployment rate dropped from an annual average of 7.1% in 2016 to 5.5 % in 2017, while labour force participation dipped slightly from 62.3% to 62.2% in the same period. The male open unemployment rate fell from 4.8% to 4.0%, while the female rate dropped from 10.5% to 7.8%. The average nominal wage rose by 3.5% in 2017, compared to the previous year's 9.2% increase.

In the first few months of 2018, inflation settled around the midpoint of the target range and stood at 4.0% year-on-year in April. This upturn mainly reflects increases in food and transport prices.

Table 1

DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	2009	2010	2011	2012	2013	2014	2015	2016	2017 a/
	Annual growth rates b/								
Gross domestic product	0.9	8.3	3.1	2.7	4.9	7.6	7.0	6.6	4.6
Per capita gross domestic product	-0.4	6.9	1.8	1.4	3.6	6.3	5.8	5.4	3.4
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	10.2	7.8	7.1	3.0	2.8	2.8	0.5	8.6	5.8
Mining and quarrying	-37.8	2.4	99.9	12.0	182.7	21.1	-11.0	26.5	-3.4
Manufacturing	-5.2	8.9	3.5	0.8	3.0	4.9	4.1	4.2	3.3
Electricity, gas and water	-6.2	14.7	2.6	2.1	-1.0	4.6	6.5	5.7	3.0
Construction	-3.0	11.6	-2.4	-5.3	5.2	14.6	19.7	9.5	4.1
Wholesale and retail commerce, restaurants and hotels	1.4	7.4	3.8	4.4	4.4	6.8	6.0	5.9	5.8
Transport, storage and communications	5.4	9.8	4.1	7.8	5.7	6.8	8.9	9.4	4.3
Financial institutions, insurance, real estate and business services	5.9	3.9	2.8	2.5	3.3	4.7	5.5	4.5	3.3
Community, social and personal services	4.6	6.3	3.6	4.8	3.7	4.9	4.8	6.0	1.5
Gross domestic product, by type of expenditure									
Final consumption expenditure	5.5	6.5	3.6	2.4	2.6	3.8	5.3	4.8	4.7
Government consumption	4.7	4.9	-2.6	6.6	6.3	6.6	8.1	4.3	6.5
Private consumption	5.6	6.9	4.3	1.9	2.2	3.4	4.9	4.9	4.3
Gross capital formation	-14.8	24.4	9.4	-8.5	-9.6	7.8	15.5	11.0	-8.3
Exports (goods and services)	-8.5	16.1	7.3	5.5	9.0	7.5	2.0	6.6	4.7
Imports (goods and services)	-10.5	18.7	0.1	1.5	-2.2	3.9	11.4	4.6	-2.5
Investment and saving c/	**Percentajes of GDP**								
Gross capital formation	23.6	26.4	25.0	24.3	22.7	23.0	22.6	22.8	21.8
National saving	18.7	18.9	17.5	17.9	18.6	19.7	20.7	21.4	21.5
External saving	4.8	7.5	7.5	6.4	4.1	3.3	1.9	1.4	0.4
Balance of payments	**Millions of dollars**								
Current account balance	-2 332	-4 024	-4 335	-3 881	-2 568	-2 170	-1 280	-815	-165.1
Goods balance	-6 813	-8 394	-8 940	-8 716	-7 377	-7 374	-7 465	-7 559	-7 579.6
Exports, f.o.b.	5 483	6 816	8 362	8 936	9 424	9 899	9 442	9 840	10 120.7
Imports, f.o.b.	12 296	15 210	17 302	17 652	16 801	17 273	16 907	17 399	17 700.3
Services trade balance	2 987	2 867	3 005	3 321	3 634	4 084	4 368	4 940	5 282.3
Income balance	-1 721	-1 927	-2 255	-2 400	-2 972	-3 247	-2 936	-3 253	-3 488.7
Net current transfers	3 216	3 431	3 854	3 915	4 148	4 368	4 753	5 058	5 620.9
Capital and financial balance d/	2 734	4 096	4 631	3 441	3 902	2 820	2 051	1 707	894.3
Net foreign direct investment	2 165	2 024	2 277	3 142	1 991	2 209	2 205	2 407	3 570.0
Other capital movements	569	2 072	2 354	299	1 911	612	-154	-700	-2 675.7
Overall balance	403	72	296	-440	1 334	650	770	892	729.2
Variation in reserve assets e/	-638	-466	-339	548	-1 139	-195	-407	-780	-730.7
Other financing	235	395	43	-108	-195	-455	-363	-112	1.5
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) f/	110.5	108.9	110.3	112.2	115.8	118.9	115.8	117.3	120.3
Terms of trade for goods (index: 2010=100)	103.8	100.0	94.7	93.8	91.5	93.3	97.9	98.9	95.2
Net resource transfer (millions of dollars)	1 248	2 563	2 420	933	735	-882	-1 249	-1 659	-2 592.9
Gross external public debt (millions of dollars)	9 375	11 057	12 761	13 888	16 132	17 280	16 928	18 170	19 124.4
Employment	**Average annual rates**								
Labour force participation rate g/	55.2	56.5	57.8	59.0	58.7	59.1	61.8	62.3	62.2
Open unemployment rate h/	5.8	5.7	6.7	7.2	7.9	7.2	7.9	7.9	6.1

Table 1 (concluded)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Prices	**Annual percentages**								
Variation in consumer prices (December-December)	5.7	6.3	7.8	3.9	3.9	1.6	2.3	1.7	4.2
Variation in nominal exchange rate (annual average)	4.3	2.5	3.3	3.1	6.3	4.1	3.5	2.3	3.1
Variation in minimum real wage	7.0	-0.4	1.2	2.8	3.1	2.3	7.2	3.8	6.3
Nominal deposit rate i/	7.8	4.9	7.9	7.5	6.0	6.7	6.6	7.2	6.8
Nominal lending rate j/	...	...	...	15.5	13.6	13.9	14.9	15.1	13.9
Central government	**Percentajes of GDP**								
Total revenue k/	13.2	13.1	12.9	13.6	14.2	14.6	14.3	14.6	14.9
Tax revenue	12.7	12.3	12.4	13.1	13.6	13.7	13.4	13.6	13.9
Total expenditure	16.3	15.6	15.0	18.8	16.9	17.1	16.7	17.1	17.3
Current expenditure	12.8	12.1	11.9	13.2	13.7	14.4	13.9	14.3	13.8
Interest	1.8	1.9	2.0	2.4	2.3	2.4	2.6	2.9	2.4
Capital expenditure	3.5	3.5	3.1	5.6	3.2	2.8	2.8	2.8	3.5
Primary balance	-1.3	-0.7	-0.1	-2.8	-0.4	-0.1	0.3	0.5	0.0
Overall balance l/	-3.0	-2.6	-2.1	-5.2	-2.7	-2.5	-2.4	-2.4	-2.4
Central government public debt	26.9	27.2	28.3	31.5	37.2	35.9	34.4	36.2	38.0
Domestic	9.9	8.7	8.3	10.3	13.2	11.6	10.9	12.1	13.2
External	17.0	18.5	20.0	21.2	24.0	24.3	23.6	24.1	24.8
Money and credit	**Percentages of GDP, end-of-year stocks**								
Domestic credit	38.1	37.2	37.6	39.5	39.0	40.4	44.1	45.8	46.1
To the public sector	18.7	16.9	15.9	18.9	19.1	18.5	26.6	28.2	23.1
To the private sector	21.5	22.7	22.9	22.5	23.4	25.6	26.9	28.1	28.6
Others	-2.2	-2.4	-1.1	-1.9	-3.4	-3.8	-4.1	-5.1	-5.7
Monetary base	8.0	7.3	7.0	7.0	6.4	0.1	7.1	7.0	6.3
Money (M1)	8.8	8.4	7.9	8.1	8.5	8.5	8.8	9.1	9.4
M2	26.9	25.9	25.6	25.9	26.1	26.2	27.2	27.8	28.3
Foreign-currency deposits	6.1	6.6	7.2	7.5	7.9	7.6	8.1	8.2	8.1

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 2007 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. New measurements have been used since 2015; the data are not comparable with the previous series.
h/ Urban total. Up to 2014, nationwide total.
i/ 90-day fixed-term certificates of deposit, weighted average..
j/ Prime lending rate.
k/ Includes grants.
l/ The overall balance includes the residue.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2016				2017				2018	
	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/	6.2	8.6	6.4	5.3	5.5	3.1	3.1	6.5	6.4	...
Gross international reserves (millions of dollars)	5 327	5 134	5 137	5 737	6 489	6 307	6 237	6 317	7 478	6 904
Real effective exchange rate (index: 2005=100) c/	115.0	117.7	118.1	118.3	119.3	122.5	125.8	128.1	124.8	121.7
Consumer prices (12-month percentage variation)	1.6	1.9	1.4	1.7	3.1	2.6	3.8	4.2	3.9	4.6
Average nominal exchange rate (pesos per dollar)	45.7	45.9	46.0	46.5	47.0	47.3	47.5	48.0	48.9	49.4
Nominal interest rates (average annualized percentages)										
Deposit rate d/	7.2	7.2	6.9	7.4	8.1	7.1	6.5	5.5	5.7	6.0
Lending rate e/	15.5	15.0	14.6	15.2	16.1	14.9	13.3	12.0	12.2	12.3
Interbank rate	6.1	6.0	5.4	6.8	6.6	6.4	6.2	6.1	5.7	5.3
Monetary policy rates	5.0	5.0	5.0	5.5	5.5	5.8	5.3	5.3	5.3	5.3
Sovereign bond spread, Embi Global (basis points to end of period) f/	434	428	351	407	333	321	283	275	292	348
International bond issues (millions of dollars)	1000	870	-	-	1 517	500	-	-	1 818	-
Domestic credit (variation from same quarter of preceding year)	15.5	17.4	13.7	11.6	10.1	7.6	8.0	9.0	10.2	9.3 g/
Non-performing loans as a percentage of total credit	1.8	1.8	1.8	1.8	1.9	2.0	2.1	2.0	1.9	1.9

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 2007 prices.
c/ Quarterly average, weighted by the value of goods exports and imports.
d/ 90-day fixed-term certificates of deposit, weighted average.
e/ Prime lending rate.
f/ Measured by J.P.Morgan.
g/ Figures as of April.