Dominican Republic

ECLAC estimates that the economy of the Dominican Republic will grow by 4.9% in 2017, a much weaker result than 2016's growth rate of 6.6%. This lower dynamism is mainly due to the slowdowns in domestic demand and, particularly, in investment. In keeping with the fiscal consolidation programme, the central government deficit is expected to be 2.3% of GDP at the end of 2017 (compared to 2.8% in 2016). Healthy tourist arrivals and remittance flows, as well as a good export performance, will offset the increased cost of fuel imports caused by rising international oil prices. Consequently, the current account deficit will remain stable, at around 1.5% of GDP. At the end of the year, inflation will be within the central bank's target range (between 3.0% and 5.0%) after three consecutive years of results below that target. The Dominican economy will continue to grow steadily, albeit more slowly than in previous years, and this will contribute to a lower open unemployment rate in 2017.

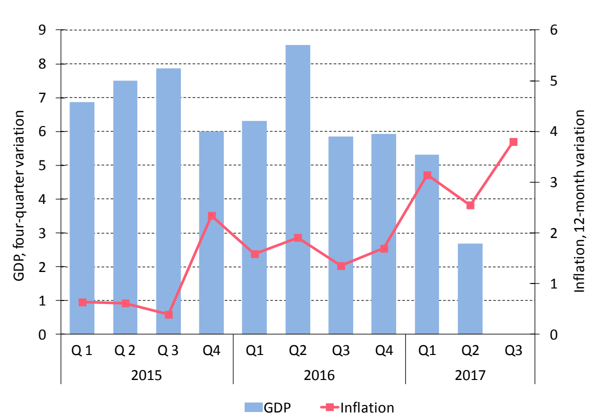
Total central government revenues reported a year-on-year increase of 9.2% in real terms in the first half of 2017. Behind this was a real-term increase of 15.4% in direct tax revenues and a 5.4% rise in indirect revenue. These results reflect improvements in collection mechanisms, the payment of tax arrears and the implementation of specific tax increases that had been approved earlier.

At the same time, total central government spending posted a real-term decline of 0.9% in the first half of the year. This was partly due to the 7.3% reduction in capital expenditure, as well as the increase of only 0.7% in current expenditure. The contraction of capital expenditure was the result of cuts in public works investments, while the lower current expenditure was largely on account of the elimination of government subsidies for the electricity sector. Because of the spike in revenue and the containment of spending, the public account deficit was only 0.6% of GDP in the first half of the year. In the second half, however, a more active fiscal position is expected, in an attempt to trigger economic activity in response to the slowdown. Thus, in September, the Government announced that 20 billion pesos (the equivalent of US$ 425 million) had been earmarked for public housing construction and infrastructure projects.

Public debt in September 2017 was the equivalent of 39.4% of GDP (with external debt equalling 25.6% and domestic debt totalling 13.8%), up from 37.3% at the end of 2016. The government issued two series of sovereign bonds during this period: one in January, in the amount of US$ 1.2 billion, for regular government funding, and a second in June, in the amount of US$ 500 million, for the completion of the Punta Catalina power plant.

Faced with the prospect of an upsurge in inflationary pressures and the normalization of United States monetary policy, the central bank adopted a tighter monetary policy in the first months of 2017 and increased the monetary policy rate 25 basis points to 5.75% in April. That position was abandoned early in the third quarter, however,

Dominican Republic: GDP and Inflation, 2015-2017



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

in response to the sharp economic slowdown in the second quarter, inflationary pressures that were lower than expected and a more gradual normalization of United States monetary policy than had been forecast. Thus, in July, the central bank lowered the monetary policy rate by 50 basis points and released 20.4 billion pesos from the legal reserve for spending in the economy's productive sectors.

In October, the average nominal interest rate for commercial bank loans stood at 13.1%, down 2.2 percentage points from the end of 2016. The average interest rate for deposits fell by 1.8 percentage points over the same period to stand at 5.4%. Between January and October, lending to the private sector rose by 9.2% in year-on-year terms. While a portion of this increase was channelled into productive sectors, most of it went on increased consumer lending (11.4%) and home purchases (11.3%). Construction sector lending fell by 13.8%.

Dominican Republic: main economic indicators, 2015-2017

	2015	2016	2017 [a]
	Annual growth rate		
Gross domestic product	7.0	6.6	4.9
Per capita gross domestic product	5.8	5.4	3.8
Consumer prices	2.3	1.7	3.5 [b]
Money (M1)	12.9	13.9	4.7 [c]
Real effective exchange rate [d]	-2.6	0.9	3.6 [c]
Terms of trade	4.9	1.0	-1.6
	Annual average percentage		
Open urban unemployment rate	7.3	7.1	5.6 [e]
Central government			
Overall balance / GDP	-2.4	-2.4	-2.4
Nominal deposit rate [f]	6.6	7.2	7.3 [c]
Nominal lending rate [g]	14.9	15.1	14.5 [b]
	Millions of dollars		
Exports of goods and services	16 984	18 165	19 232
Imports of goods and services	20 081	20 828	21 686
Current account balance	-1 280	-978	-901
Capital and financial balance [h]	2 050	1 870	1 029
Overall balance	770	892	129

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/ Figures as of first semester.
f/ Rates for deposit certificates and/or deposits for 90 days.
g/ Weighted average of the system lending rates in local currency.
h/ Includes errors and omissions.

At the end of October 2017, the nominal value of the peso against the dollar had dropped by 2.5% since the close of 2016. Net international reserves stood at US$ 6.340 billion in November (equal to 8.6% of GDP), up US$ 293 million from the end of 2016.

There was a year-on-year rise of 6.0% in the value of total exports over the first half of the year, the result of increased domestic exports (up 8.4%) and exports from free zones (up 4.1%). Among domestic shipments, the dynamism of mineral and industrial exports offset the decline in agricultural exports. Pharmaceuticals and electrical products performed particularly well among shipments from the free zones. Imports, meanwhile, grew by 3.7%. The lower levels of domestic investment led to a drop in capital goods imports (20.6%), which was offset by the buoyancy of imports of consumer and intermediate goods (10.8%) and fuel (29.0%).

Partially because of the sustained growth in remittance flows and tourism earnings (respectively, up 12.3% and 11.1% in the first half of the year), the current account deficit for the year as a whole will remain stable at around 1.5% of GDP. Foreign direct investment (FDI) totalled US$ 1.394 billion in the first half of the year, an increase of US$ 402 million over the same period in 2016.

GDP rose by 4.0% in the first half of 2017 (compared with 7.4% over the same period the previous year) and suffered a sharp slowdown in the second quarter (down 2.7% in year-on-year terms). This was partially on account of an 8.7% contraction in the construction sector, caused by the public works cuts referred to above, and the drop in private investment resulting from the less favourable economic outlook. On the demand side, gross fixed capital formation shrank by 6.0% in the first half of the year, while consumption rose by 3.8%.

In October, year-on-year inflation stood at 3.5%, driven by increases in food and transport prices. Year-on-year core inflation was 2.2%. With regard to the labour market, economic growth led to a drop in the open unemployment rate from 7.4% during the second quarter of 2016 to 5.4% in the corresponding period in 2017.

For 2018, ECLAC forecasts that GDP will expand by 5.1%, on the back of rising domestic demand, especially investment, and accelerated growth in the world economy. Inflation is expected to be within the central bank’s target range. The sustained dynamism of remittance flows and tourism is expected to offset the negative result in the goods trade balance, and so the current account deficit is projected to remain stable in 2018. In keeping with the authorities’ fiscal consolidation programme, the central government deficit is expected to continue along the downward trend observed since 2012.