

Dominican Republic

According to ECLAC estimates, the Dominican Republic is expected to post economic growth of around 6.0% in 2014 (compared with 4.6% in 2013). Inflation might reach about 3.5% in late December (compared with 3.9% in December 2013), grazing the floor of the target range, which is 4.5% with a 1-percentage-point margin in either direction. The balance-of-payments current account deficit is expected to remain at around 4% of GDP, similar to the level recorded in late 2013, while the consolidated public-sector deficit is expected to come in at about 3.5% of GDP.

In 2015, economic activity could expand by approximately 5%, driven by sustained growth in consumption and rallying exports, assuming the United States continues to recover. This, together with low oil prices, could bring the balance-of-payments current account deficit down to about 3%.

The tax reform adopted in late 2012 (Act No. 253-12) raised the industrialized goods and services transfer tax (ITBIS) from 16% to 18% and introduced a lower rate of 8% on goods that had previously been exempt. This boosted central government revenue, which was up by 14.9% in nominal terms in September 2014 to 15.6% of GDP, while the total expenditure of the central government rose by 12%. These fiscal consolidation efforts should allow the consolidated deficit to fall to a level equivalent to 3.5% of GDP by year-end, despite the higher central bank operating losses resulting from the decline in recapitalization transfers. The total debt of the non-financial public sector amounted to US\$ 23.997 billion (38% of GDP) at the end of October. Of this total, external debt accounted for US\$ 15.642 billion.

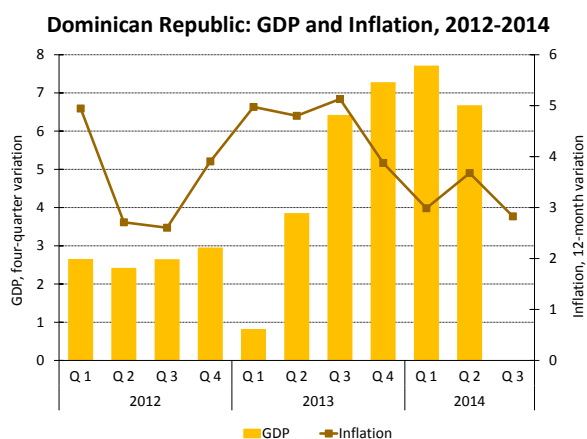
Tax revenues could represent 15% of GDP by December 2014. Indeed, they showed a nominal increase of 14.9% to September, owing primarily to higher corporation tax revenues on the back of the sale of two companies, Orange and Tricom. Also noteworthy is the increase in revenues from taxes on foreign trade (11.5% to September) resulting largely from administrative improvements in customs revenue collection procedures.

The uptick in spending is attributable mainly to higher current expenditure, with wages and salaries up by 21.5%, while capital expenditure dropped by 2.9%, largely owing to an 18.5% reduction in fixed investment, and capital transfers rose by 28.6%.

Fiscal contraction was combined with a neutral monetary policy, with the base rate being held steady at 6.5% as of November 2014. This, together with a loss of net reserves of some US\$ 363 million, held inflation near the floor of the target range set by the monetary authority earlier in the year (3.5% to 5.5%).

The interest rate on lending to the private sector, as a weighted average, was 13.5% in October 2014, and outstanding credit is expected to have expanded by some 9% in real terms by year-end. The expansion in lending was attributable primarily to increases in nominal credit for real estate services (70.2%), social services (54.9%), consumption (18.6%) and housing (14.7%).

As a result of the country's robust economic and credit performance, the financial sector reported a return on assets of 2.0% and a return on equity of



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

some 18.48% as of September 2014, these being similar to the figures recorded up to September 2013.

The external sector has performed well owing to higher exports as a result of increased gold production, exports from free zones and tourism revenues.

Total exports to September came to US\$ 7.419 billion (representing year-on-year growth of 4.3%), including record non-monetary gold exports totalling US\$ 1.143 billion (a 34.9% increase over September 2013). Tourism revenue increased by over US\$ 440 million (11.5% year-on-year) to total US\$ 4.285 billion by the end of the third quarter. Family remittances also performed very favourably, growing by 10.8% to September owing to the improving United States economy, the main source of remittances to the Dominican Republic. As a result, remittances should represent about 7.5% of GDP by year-end.

Total imports amounted to US\$ 13.038 billion to September 2014 (a year-on-year increase of 5.5%), the great bulk being non-oil imports, while the oil bill fell by US\$ 165.8 million (5.0% year-on-year) as one major company suspended imports for re-export and crude oil prices dropped.

Imports of consumer goods, which represent over 50% of the total, expanded by 4.7% to September, while imports of raw materials for industry were up by 6%. Imports of capital goods remained virtually unchanged, edging up by only 0.7%, despite the fact that foreign direct investment grew by 19.8% to US\$ 1.807 billion (3.8% of GDP), largely on the back of the communications, commerce and tourism sectors.

Balance-of-payments operations brought net consolidated international reserves down by US\$ 75.9 million (2.1%) between year-end 2013 and September 2014. Gross reserves totalled US\$ 4.282 billion, equivalent to 2.8 months of imports.

Year-on-year inflation was 2.9% in October, while core inflation, which is directly related to monetary conditions, stood at 3.1%. Food and non-alcoholic beverages, alcoholic beverages and tobacco, education, and restaurants and hotels were the groups contributing most to this outcome, together accounting for 76.4% of cumulative inflation between January and October, which stood at 2.4%. On the basis of that trend to October, inflation could be very close to the floor of the target range set by the central bank at the end of the year. The open unemployment rate fell from 6.9% to 6.0% in October 2014.

**Dominican Republic: main economic indicators,
2012-2014**

	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	2.7	4.6	6.0
Per capita gross domestic product	1.4	3.3	4.7
Consumer prices	3.9	3.9	2.9 ^b
Money (M1)	7.3	12.1	13.9 ^b
Real effective exchange rate ^c	0.9	3.4	2.6 ^b
Terms of trade	-1.0	-2.4	2.2
	Annual average percentage		
Open urban unemployment rate	6.5	7.0	6.8 ^d
Central government			
Overall balance / GDP	-5.4	-2.7	-3.0
Nominal deposit rate	7.5	6.0	6.7 ^e
Nominal lending rate ^f	12.2	10.7	10.5 ^e
	Millions of dollars		
Exports of goods and services	15,076	15,986	17,114
Imports of goods and services	20,612	19,791	20,280
Current account balance	-3,971	-2,493	-1,592
Capital and financial balance ^g	3,530	3,834	1,698
Overall balance	-440	1,341	106

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

a/ Estimates.

b/ Figures as of October.

c/ A negative rate indicates an appreciation of the currency in real terms.

d/ Figure for April.

e/ Figures as of November.

f/ Prime lending rate.

g/ Includes errors and omissions.