Dominican Republic

The Dominican Republic is expected to post economic growth of around 3% in 2013 (compared with 3.9% in 2012), driven by agriculture, mining and quarries, construction and financial services. On the demand side, less government consumption during the first half of the year contributed to the economic slowdown. Inflation may close the year at 5%, up from 3.9% in 2012 but still within the target range set by the monetary authorities. On the strength of fiscal consolidation efforts, the consolidated public sector deficit is expected to come in at around 4.3% at end-2013, down from 7.8% in 2012.

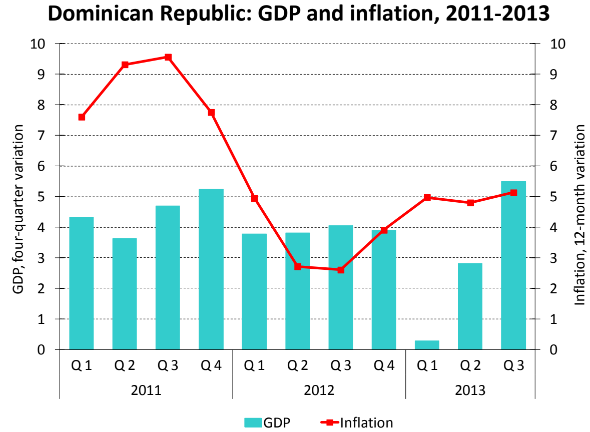
Tax reform legislation (Law 253-12) enacted in late 2012 raised the transaction tax on industrialized goods and services (ITBIS) from 16% to 18%, with a lower tax (8%) for goods that had previously been exempt. This boosted central government revenue, which was up 12.4% in September, while total central government expenditures fell by 13.4% on declines in fixed investment (-59.6%) and capital transfers (-49%). This fiscal consolidation effort is expected to bring down the consolidated deficit to the equivalent of 4.3% of GDP at year-end. As a result, external debt had fallen to 22.3% of GDP in September, down from 23.6% of GDP at end-2012.

The strong contraction generated by fiscal policy and lower inflation was behind the decision by the Central Bank of the Dominican Republic to ease monetary policy. In May, the central bank cut its reference rate by 75 basis points to 4.25%, while relaxing reserve requirements by the equivalent of US$ 500 million, in a bid to incentivize production and housing credit. Against this backdrop, the financial system's total assets were up in September by 12.3% over the previous year (9.3% in September 2012). However, the increase in liquidity in a low-reserve environment, as a result of weaker exports, generated pressure on the exchange rate, such that on 26 August the Monetary Board reversed its policy stance, raising the interest rate from 4.25% to 6.25% to prevent exchange rate volatility from driving up inflation.

With the increase in assets, the financial system's return on equity was 18.5% in September, up from 16.2% in September 2012. Likewise, paid capital was up by 15.4% year-on-year.

The external sector, despite a sluggish international environment, performed well, with exports posting a gain of 0.8% in September 2013, mainly due to buoyant mineral exports. Foreign sales of gold, in particular, topped US$ 800 million that month, offsetting the downslide in exports of traditional products. In effect, as of September, lower international prices for these products led to a slump in exports of coffee (-51.8%), sugar (-30.7%), tobacco (-29.5%) and ferronickel (-25.1%).

Dominican Republic: GDP and inflation, 2011-2013



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

Trending in the opposite direction were imports, which posted a year-on-year decline of 6.6% in September 2013. This was mainly due to a 23.9% decrease in imports of capital goods, as foreign direct investment waned. In addition, commodity exports slid by 8.1% on lower oil sales. Imports of consumer goods also fell, albeit to a lesser extent (-4.7%). Imports of manufacturing inputs to be used in customs-free areas climbed slightly by 6.1%, tied to increased production in these areas.

As a result of feeble job growth in the United States and rising unemployment in Europe, family remittances climbed just 0.8% year-on-year in September, although they continue to contribute over 5% to the country's GDP.

Tourism performed strongly between January and September, growing by 6.6% over the previous year, compared with growth of 4.1% in the same period in 2012.

Foreign direct investment plummeted by about 50% with the completion in 2012 of the Pueblo Viejo mining project, which is now in operation. That year was also marked by the purchase of the brewery Cervecería Nacional Dominicana by a transnational company. In 2013, the top sectors receiving foreign direct investment were energy, commerce, real estate and tourism, which together accounted for 66.7% of the total.

Dominican Republic: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	4.5	3.9	3.0
Per capita gross domestic product	3.1	2.6	1.7
Consumer prices	7.8	3.9	4.7 [b]
Money (M1)	4.9	7.1	12.4 [c]
Real effective exchange rate [d]	1.4	2.1	3.1 [b]
Terms of trade	-5.3	-1.0	1.9
	Annual average percentage		
Open urban unemployment rate [e]	5.8	6.5	7.0 [f]
Central government			
Overall balance / GDP	-2.2	-5.4	-2.8
Monetary policy rate	6.4	5.9	5.0 [b]
Nominal lending rate [g]	11.7	12.2	10.7 [b]
	Millions of dollars		
Exports of goods and services	13 952	14 632	15 420
Imports of goods and services	19 689	20 052	18 859
Current account balance	-4 409	-4 240	-2 291
Capital and financial balance [h]	4 563	3 806	2 291
Overall balance	154	-434	0

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.
[e] Includes hidden unemployment.
[f] Figure for April.
[g] Prime lending rate.
[h] Includes errors and omissions.

As a result of balance-of-payment operations, as of September net international reserves had increased by about US$ 134 million over the December 2012 level.

The Dominican Republic is expected to close 2013 with economic growth at around 3%, driven primarily by the following sectors: mining and quarries (which posted a year-on-year increase of 217% in September as operations at the Pueblo Viejo gold mine got underway); financial services, insurance and related activities; and to a lesser extent, construction. Local manufacturing (which has an important role in the structure of output) contracted slightly as fewer refined oil products were made. The agriculture sector lost momentum as well, with growth dipping to 3.1% in September, compared with 4.3% during the same month in 2012. The weakening seen in the manufacturing sector is explained by a stumble in the first quarter of the year; in the second and third quarters, the sector posted recoveries of 1.2% and 1.7%, respectively.

Both year-on-year inflation (4.7%) and average inflation (4.8%) as of October were within the range set by the monetary authorities. The sectors that were most responsible for this price growth were transportation, housing and food and nonalcoholic beverages.