Dominican Republic

A significant recovery in economic activity was seen in 2023, driven by the performance of the agricultural and power generation sectors, which had been badly affected by drought in 2022. The Economic Commission for Latin America and the Caribbean (ECLAC) projects growth of 4.5% in 2023 and 4% in 2024. The strong growth has been reflected in an improvement in the current account balance, which will close the year with a surplus estimated at close to 0.2% of GDP.

Given the gradual easing of inflation, which is projected to end the year around the 4% inflation target, the central bank began to reduce its monetary policy rate as of August 2023. Regarding public finances, the Ministry of Economy and Finance projects a central administration deficit equivalent to 4.1% of GDP, significantly wider than the 3% deficit posted in 2022.

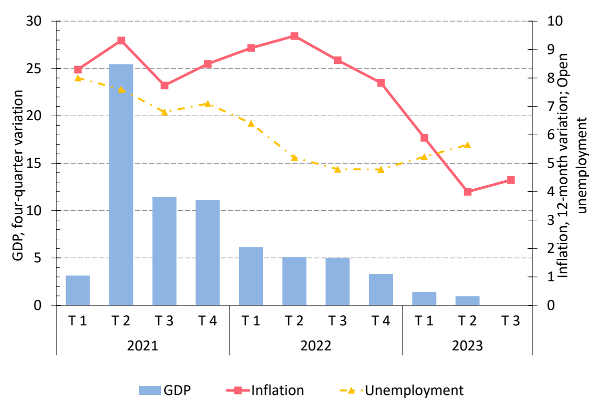
Up to August 2023, the central administration's cumulative budget deficit came to 1.7% of GDP, half a point above the figure for the prior-year period. The deterioration in the public finances reflects a sharp rise in total expenditure, of 8.4% in real terms, alongside a real-term contraction of 1.1% in revenues.

On the income side, a real decline of 1.8% was seen in tax revenues, mainly owing to lower collection of income and profits tax and value added tax (VAT). A 1.4% real-term increase in non-tax revenue, with a strong recovery in royalties and payments from binational hydroelectric plants, was not enough to offset the drop in tax revenue.

Although spending on personal services represents more than 40% of total expenditure, wage increases, mainly in the health and education sectors, did not fully offset the rise in inflation, so that expenditure in this area contracted 0.7% in real terms. By contrast, significant increases occurred in spending on goods and services, driven by procurement of medical supplies and medicines, interest payments amid rising international rates, and expenditure on social benefits that reflects higher payments for retirements and pensions, as well as expanded coverage of the food pension programme for older persons. In the January–August period, net acquisition of non-financial assets also declined, from 4.692 trillion guaraníes in 2022 to 4.047 trillion in 2023, a real contraction of almost 19%.

Consequently, up to August 2023 the public debt balance climbed by almost US$ 1 billion compared to the end of 2022, to stand at US$ 16.047 billion, equivalent to 36.2% of GDP. A little over half of the new borrowing came from multilateral sources. In contrast to recent years, where bond issuance had been largely on the international market, given the increase in international rates, bonds for close to US$ 200 million were issued in the domestic market.

Dominican Republic: GDP, Inflation and Unemployment, 2021-2023



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

After holding the monetary policy rate at 8.5% since September 2022, given the progressive reduction in 12-month inflation expectations —which, after reaching 5.5% in mid-2022, gradually fell to converge with the target of 4% as of July 2023— the Monetary Policy Committee of the Central Bank of Paraguay began to reduce the policy rate by 25 basis points at each monthly meeting, starting in August 2023, to reach 7.75 % in October 2023. The expectations of analysts surveyed by the central bank point to cuts of the same magnitude at the November and December meetings. Although the consensus indicates that the rate reduction cycle will continue into 2024, expectations point to 6% at the end of the year, significantly above the 0.75% in force at the start of 2021, before the most recent rate hike cycle began.

Dominican Republic: main economic indicators, 2021-2023

	2021	2022	2023 [a]
	Annual growth rate		
Gross domestic product	12.3	4.9	3.1
Consumer prices	8.5	7.8	4.4 [b]
Money (M1)	24.8	-0.5	5.0 [c]
Real effective exchange rate [d]	-2.6	-4.3	-2.2 [b]
Terms of trade	-8.9	-9.8	5.8
	Porcentaje promedio anual		
Open urban unemployment rate	7.4	5.3	5.6 [e]
Central government			
Overall balance / GDP	-2.9	-3.2	…
Nominal deposit rate [f]	2.8	7.0	10.0 [b]
Nominal lending rate [g]	9.6	11.9	14.1 [b]
	Millones de dólares		
Exports of goods and services	20 601	35 435	9 873 [h]
Imports of goods and services	28 690	36 360	16 881 [h]
Current account balance	-2 685	-6 327	-1 565 [h]
Capital and financial balance [h]	4 989	7 770	3 331 [h]
Overall balance	2 303	1 444	1 765 [h]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ Figures as of September.
c/ Figures as of August.
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 June.
f/ Rates for deposit certificates and/or deposits for 61-90 days.
g/ Weighted average of the system lending rates in local currency. and the TAC rate (Total Annual Cost).
h/ Data for 2023 correspond to the sum of the first and second quarters.
i/ Includes errors and omissions.

Up until July, the weighted average nominal lending rate was 15.25%, almost 1 percentage point above the equivalent prior-year figure. The decrease in inflation made the real-term rise in lending rates even sharper: from an average of 4.9% between January and July 2022 to 7.8% in the same period in 2023. Consequently, bank lending to the private sector slowed slightly in nominal terms, from 12.9% between January and August 2023 to 11% in the same period a year later, with the slowdown concentrated in foreign-currency loans.

The nominal weighted average for deposit rates in January–July rose from 4.17% in 2022 to 5.13% in 2023. Although deposit rates remain negative in real terms, all the monetary aggregates posted growth in 2023, after contracting in 2022. The M2 monetary aggregate expanded by 11.6% in nominal terms between January and August 2023, compared to a contraction of 1.9% in the prior-year period.

The banking system remains well capitalized, with a ratio of equity to contingent and risk-weighted assets averaging 18.7% through July 2023, and profitable, with before-tax returns of 18.4% of assets (compared to 15.8% in the same period of 2022). The higher profitability reflects the increase in financial intermediation margins. However, as rates rise, asset quality has deteriorated and the arrears portfolio has increased from 2.7% of the total portfolio in 2022 to 3.3% in 2023.

In early November, the Paraguayan authorities sought financing of approximately US$ 400 million from the International Monetary Fund (IMF) through the Resilience and Sustainability Facility. The resources will be used to support the national climate change adaptation and mitigation agenda. They will complement the current programme under the Policy Coordination Instrument, approved in November 2022, which does not include financial support from IMF but is rather aimed at bringing the fiscal deficit to a maximum of 1.5% of GDP, as established in the Fiscal Responsibility Law, through reforms to the public sector pension fund, improved tax collection, stronger public sector governance and more robust social protection.

The current account balance showed a small surplus at the end of the first half of 2023, compared to a deficit of 7.2% of GDP the previous year, and will end the year at round 0.2% of GDP according to estimates by the Central Bank of Paraguay. The stronger external sector balance is underpinned mainly by the upturn in goods exports.

Goods exports were up 15.8% by value in the first nine months of 2023, driven by the recovery of soybean exports —up 146.8% at the end of the third quarter— after these had shrunk in value by almost 60% in 2022 owing to the effects of the drought on production volumes. The recovery of soybean exports has more than offset reductions in export values of other products, such as beef, maize and soybean oil. During the same period, the value of goods imports has edged up by just 0.6%, reflecting a 16.3% contraction in imports of intermediate goods, driven by the fall in international fuel prices, which in turn mitigated the effect of a 17.6% rise in the value of capital goods imports. Consumer goods imports rose by 3.4% in value terms up to September.

Net foreign direct investment (FDI) flows fell slightly in the first half of 2023, compared to the same period a year earlier, to around US$ 200 million. The financial account overall showed a net outflow of US$ 516 million at the end of the first half, driven by a fall of some US$ 240 million in portfolio investment liabilities, as well as an increase of nearly US$ 470 million in net other investment assets, mainly by commercial banks.

Although the net overall balance of payments resulted in a drop of approximately US$ 240 million in reserve assets in the first half-year, the strengthening trade balance has reversed that trend during the third quarter. As of September 2023, the net international reserve balance stood at US$ 9.991 billion, equivalent to 22.5% of GDP and 7.8 months of imports.

In the 12 months to August 2023, Paraguay's nominal exchange rate against its trading partners fell by 6.7%, driven by the depreciation against the Brazilian real (7.7%) and, to a lesser extent, against the dollar (4.7%), since the guaraní appreciated against the euro during the first half of the year and continues to gain significantly against the Argentine peso. Considering the inflation differentials with respect to the country's main trading partners, up to August 2023, the guaraní has risen slightly, with annual average nominal exchange rate variation of -1.5% in real terms.

Real GDP growth rate in the first half of 2023 stood at 5.4% over the prior-year period, when economic activity contracted by 2.1% owing to the impact of the severe drought that had affected the country since late 2021. The largest contributions to growth came from the recovery of the agriculture (50.1%) and electricity and water (21.2%) sectors, which had contracted by 33% and 2.8%, respectively, in the same period in 2022. On the back of the economic recovery, growth in the services sector, which represents close to 50% of activity by volume, accelerated from 2% in the first half of 2022 to 2.6% in the first half of 2023. With the completion of some investment projects and the contraction of public investment, the construction sector contracted 9.5% up to June 2023, compounding the 4.3% contraction recorded at the end of 2022.

From a supply perspective, the recovery reflects export growth of 30.9%, compared to -7.1% recorded in the first half of 2022. This was driven by the normalization of export volumes of agricultural products, mainly soybeans, and energy. Although both private and public consumption picked up with respect to the year-earlier period (from 1.9% to 3% for private consumption and from -2.2% to 5.5% for government consumption), imports of goods and services slowed significantly from 16.3% in the first half of 2022 to 5.7% up to June 2023. This reflects both a contraction of 5.1% in gross fixed capital formation (-2.3% at the end of 2022) and a significant rundown of inventories that took 3.5 percentage points from growth in the period.

Monthly activity indicators point to continued growth during the third quarter of 2023. On that basis, GDP growth of 4.5% is projected for the year overall and ECLAC estimates a rate of 3.8% in 2024.

After reaching levels above 10% in mid-2022, year-on-year consumer price inflation gradually declined, owing mainly to patterns in food and transportation prices. Although the general price index has registered year-on-year variations below the inflation target of 4% throughout the third quarter of 2023, core inflation, which excludes prices of fruits and vegetables, regulated services and fuels, has been more persistent and stood at 4.8% at the end of the third quarter. Analysts surveyed by the Central Bank of Paraguay agree that inflation will close the year around 4% and will remain at that level during 2024.

With inflation easing, the general wage and salary index posted the first positive real-term half-year growth since the second half of 2019 (2.1%), although with uneven trends across the different branches of activity. Wages and salaries rose by 3% and 5.5%, respectively, in manufacturing and commerce, but fell by 3.6% and 4% in the electricity and water and communications sectors.

During the first half of 2023, the labour participation rate remained constant at around 70.7% of the population, still slightly below the 72% observed before the coronavirus disease (COVID-19) pandemic. Given the upturn in economic activity, the employment rate climbed to 66.4% during the first half of 2023, 1 percentage point above the figure for the same period of 2022. Rates of unemployment and underemployment fell from 7.6% to 6.2% and from 5.2% to 3.9%, respectively, during the same period. The improvement in working conditions was less marked for women than for men, with respect to both the rise in employment and the fall in unemployment and underemployment.