Dominican Republic

1. General trends

In 2007, the Dominican Republic recorded a real 8.5% increase in its GDP, continuing the sharp upward trend observed in the previous biennium (10% per year on average). Inflation stood at an annual rate of 8.9%, and a fiscal surplus equivalent to 0.1% of GDP was achieved, while the balance-of-payments current account deficit increased significantly to reach 5.4% of GDP.

These positive results were achieved in a context marked by high international oil and commodity prices and by the ravages caused in the agricultural sector by tropical storms Noel and Olga, which struck the island in quick succession towards the end of the year.

During the second half of 2007 and the first months of 2008, the electoral process played an increasingly influential role in the economic situation, the former culminated with the re-election of President Fernández to a second term in office on 16 May 2008. Having obtained a majority in both houses in Congress, the Government is expected to press ahead with the implementation of the 2004-2008 structural reform programme.

Given the slowdown of the international economy, the Dominican economy is expected to grow by 5.5% in 2008, the slowest growth rate the country has seen since 2005. Annual inflation is projected to reach 15% or more if the pressure on the prices of certain strategic import items continues to rise. In the first quarter of 2008, accumulated inflation with respect to December 2007 was 4.7%, compared with 2.9% in the same period the previous year. A small fiscal deficit is expected to be recorded at the close of 2008.

2. Economic policy

Economic policy continued to be pursued in accordance with the guidelines set out in the agreement concluded with the International Monetary Fund, which was in force until January 2008. Rising international prices and contingency outlays to mitigate the effects of natural disasters created some fiscal pressure, but this was absorbed without undermining the country's macroeconomic stability objectives.

(a) Fiscal policy

The non-financial public sector recorded a surplus equivalent to 0.1% of GDP in 2007. The quasi-fiscal deficit fell to 1.8% of GDP, which brought the consolidated public-sector deficit down much further than the previous year (1.7% of GDP compared with 3.7%). The increase in tax revenue was key to this achievement.

The central Government's total income increased 15.6% in real terms and expanded its share in GDP from 16.1% to 17.7% in 2007. Various factors contributed to this outcome, including the fiscal amnesty law and the tax amendment law (whereby the issue of tax receipts became obligatory for all operations concerning transfers of goods and provision of services), administrative improvements (which resulted in more effective tax collection), the rise in the international price of nickel and the larger revenue obtained from taxes on company dividends and sales transactions.

Direct taxes increased by one third in real terms. Income tax, which accounts for a quarter of tax revenue, recorded a real increase of 28.1% thanks to economic growth, the modernization of procedures for submitting tax returns and the greater effectiveness of the campaign against tax evasion. Revenue from indirect taxes rose 6.7% in line with the increase in economic activity, and revenue from sales taxes on goods and services, which represent three quarters of tax income, increased 13.7% in real terms.

After suffering a 32.4% drop in real terms in 2006, tax revenue from foreign trade operations fell again in 2007, this time by 20.3%. This type of revenue went from representing 32.8% of indirect taxes in 2005 to 15.4% in 2007. The 2% tariff hike was insufficient to offset the loss of income generated by the elimination of foreign exchange commission charges two years ago. Also, the economy was beginning to feel the first effects of the tariff reductions introduced with the implementation of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR).

Public spending rose again in 2007 (12.3% in real terms). Generally, as a proportion of GDP, it remained within the level contemplated in the Government's programme, rising from 17.1% to 17.2%.

Public spending picked up towards the end of 2007 in response to the need to mitigate the devastating social and economic effects of the tropical storms Noel and Olga which, according to the assessment performed by ECLAC, caused damages equivalent to 1.04% of GDP. Current expenditure remained constant as a proportion of GDP, but recorded a shift in spending to the acquisition of goods and services from allocations to personal services. Current transfers recorded a real increase of 2.5% due to the rise in liquefied petroleum gas subsidies, although subsidies to the electricity sector, which still receives the most significant amounts, actually fell. Capital expenditure was the most buoyant budget item, growing 38.3% in real terms and increasing its share in GDP from 3.2% to 4.3%. The two main components of capital expenditure both recorded substantial annual growth: fixed investment rose 48.6%, and capital transfers rose 36.6%, both in real terms. The increase in fixed investment reflects the high volume of public works undertaken, such as the construction of the metro of Santo Domingo, which was concluded in the first quarter of 2008. The increase in capital transfers reflects the increased number of transfers made to decentralized institutions and State-owned enterprises.

(b) Monetary policy

Monetary policy aimed to ensure that inflation remained below the 6% target set in the monetary programme. The strong pressure generated by the rise in international prices for oil and commodities, however, meant that inflation in fact exceeded this limit by almost three percentage points.

Open market operations were the main monetary policy tool used throughout the year to manage liquidity in response to demand for money and the increase in economic activity. As monetary stance was less restrictive than in 2006, the central bank placed fewer bonds on the market in 2007 than in 2006. The volume of securities issued increased 11.9% compared with 18.1% the previous year. The M1 aggregate increased 26.9% and grew from 7.7% to 8.5% as a proportion of GDP. Sight deposits held by individuals were the main factor behind this increase. Currency issue increased 14.7% in line with nominal GDP growth. Net international reserves rose 25%.

For most of the year, inflation remained within the expected limits, and the central bank therefore lowered the interest rates on short-term deposit earnings from 8% to 7%. The drop in the central bank's rates affected interest rates in the banking system. At the end of the year, the lending and borrowing rates of multi-purpose banks had fallen 1.1% and 1.05% in nominal terms, respectively, compared with the previous year, although the intermediation margin had remained practically unchanged (8.7%).

Towards the end of 2007, the rates of the central bank's securities fell significantly, especially its zero-coupon bonds, whose weighted average rate fell to 11.09% (3.8 percentage points less than the previous year), while the one for fixed-term investment certificates dropped to 17.02% (2.84 percentage points less than the previous year). This made it possible to lower the quasi-fiscal deficit by four tenths of a percentage point of GDP (from 2.2% to 1.8%).

The total assets and liabilities of the financial sector rose 4.7% and 6% in real terms, respectively, thanks to the expansion of the loan portfolio and the increase in savings and sight deposits. The real growth of loans from multi-purpose banks to the private sector rose notably (16.8%). Just over half of these loans were destined for productive sectors. The remainder consisted of personal loans, which posted the highest level of growth in 2007

(29.5% in real terms), as a result of the sharp increase in mortgages (143% in real terms) and the slightly gentler increase in consumer loans (21.5%).

(c) Exchange-rate policy

The exchange market remained relatively stable in 2007. The central bank intervened to prevent an excessive real appreciation of the Dominican peso. The nominal exchange rate appreciated 0.38%, while the real bilateral appreciation of the peso to the United States dollar was 3.5%, owing to the general weakness of the latter. The effective real exchange rate of the peso, on the other hand, which measures variation with regard to the currencies of all the country's trading partners, depreciated 3.5%.

3. The main variables

(a) Economic activity

Slower GDP growth (8.5%) meant that production grew at a more moderate pace in 2007 than in the previous biennium, converging towards historical levels. The Dominican economy has thus recorded three consecutive years of per capita GDP growth averaging 7.5% per year, one of the highest rates in the region.

The most important factors driving economic growth were private consumption and gross capital formation, which increased 12.0% and 12.5% in real terms, respectively. Consumer spending also increased 10.0%. Domestic demand therefore rose 12.0%, which was partially reflected in the 11.7% increase in imports, while exports grew only 2.4%.

With the exception of the free zones and the mining sector, all production sectors posted positive growth in 2007. Performance varied considerably across the sectors, however. Agricultural output recorded a slight annual increase of 1.2%, compared with 8.6% in 2006. Rice and traditional export crops, livestock production, forestry and fishing activities accounted for this increase, while the production of other crops (which had recorded a real growth of 16.2% in 2006) shrank 4.6%. This was almost entirely due to the havoc wrought by the tropical storms Noel and Olga in October and December, which affected the planting of several crops and destroyed rural infrastructure in many parts of the country.

Mining activity declined 1.4% because flooding (caused by tropical storm Noel) hampered ferronickel extraction operations during the last quarter of the year. Ferronickel output therefore fell 2.1%.

Manufacturing output rose 2.4%, driven by activities directly linked with products for household consumption (milled items, dairy goods and meat products, animal and vegetable oils and fats) or for use in the construction industry (paints and cement). The output levels for some traditional products, such as sugar, coffee, beverages and tobacco products, fell compared with those attained in 2006.

Production in the free zones declined for the second year in a row (8% in 2006 and 10% in 2007), and the contribution of the free zones to GDP shrank from 65% in 2003 to 45% in 2007. This drop was largely caused by the steep decline (23.8%) in textiles and apparel manufacturing in 2007. This sector had already reported production falls of 14.9% in 2006 and of 4.7% in 2005. Its competitiveness problems were worsened by the dismantling of the Multifibre Arrangement in 2005, and the decline of the textiles and apparel industry has been having serious effects on employment and exports.

After recording rapid growth in 2006 (24.6%), construction activity expanded 3.2% in 2007, largely owing to the central Government's investments in the sector, which rose 52% in real terms. Much of this investment corresponded to reconstruction projects undertaken by the Government to repair the damage caused by the tropical storms Noel and Olga to the country's basic infrastructure. Loans granted by the financial sector to private construction firms recorded a real increase of 5%.

In the services sector, the output of the hotel, bars and restaurants segment rose at an annual rate of 3.7%, 1.2 percentage points less than the previous year. This relatively moderate growth was sustained by tourism. The hotel room supply continued to increase as did the income obtained from the arrival of foreign visitors.

The high level of economic activity in 2007 meant that the performance of the basic services segment, which accounts for 20.4% of GDP, was relatively dynamic (12.3%) though less buoyant than during the previous biennium when its output growth averaged 17%. The output of the transport and storage segment increased 6.8% compared with 4% in 2006, while in the energy and water segment

Table 1
DOMINICAN REPUBLIC: MAIN ECONOMIC INDICATORS

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Annual growth rates [b]				
Gross domestic product	6.7	5.7	1.8	5.8	-0.3	1.3	9.3	10.7	8.5
Per capita gross domestic product	4.9	3.9	0.1	4.1	-1.8	-0.3	7.6	9.0	6.9
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	4.2	4.2	9.5	2.5	1.8	-2.5	5.9	8.6	1.2
Mining	11.5	16.1	-13.5	7.7	8.8	5.8	-0.1	11.0	-1.4
Manufacturing	8.6	3.7	-1.9	4.9	0.9	2.4	6.3	3.2	2.4
Electricity, gas and water	7.2	6.6	15.1	9.7	-6.9	-23.8	4.8	6.3	9.7
Construction	12.9	-4.0	-3.9	4.6	-17.1	-2.3	9.2	24.6	3.2
Wholesale and retail commerce, restaurants and hotels	7.2	4.4	-1.0	4.5	-2.3	-1.2	12.5	8.3	9.3
Transport, storage and communications	14.4	9.6	19.8	15.1	5.7	6.5	18.9	17.8	12.5
Financial institutions, insurance, real estate and business services	6.2	2.4	7.4	7.7	3.9	-1.6	2.0	9.0	11.0
Community, social and personal services	1.2	6.3	2.1	4.1	3.5	2.7	-1.2	5.8	4.5
Gross domestic product, by type of expenditure									
Consumption	6.2	4.7	3.5	5.7	-4.9	3.1	15.4	12.0	11.9
General government	3.7	3.7	9.2	8.0	-12.6	3.8	10.2	11.0	10.0
Private	6.3	4.7	3.3	5.6	-4.6	3.1	15.7	12.0	12.0
Gross domestic investment	-9.0	13.5	-4.0	5.0	-20.2	-1.8	13.3	21.3	12.5
Exports (goods and services)	5.4	8.7	-6.1	2.0	10.6	3.6	-1.2	0.7	2.4
Imports (goods and services)	1.1	8.5	-4.7	1.5	-12.9	5.3	11.3	8.2	11.7
					Percentages of GDP				
Investment and saving [c]									
Gross domestic investment	22.4	23.3	21.1	21.2	15.0	14.9	16.5	18.4	18.9
National saving	20.4	18.9	18.0	18.0	20.1	19.7	15.1	14.9	13.5
External saving	2.0	4.3	3.0	3.2	-5.2	-4.8	1.4	3.5	5.4
					Millions of dollars				
Balance of payments									
Current account balance	-429	-1 026	-741	-798	1 036	1 041	-473	-1 262	-2 231
Goods balance	-2 904	-3 742	-3 503	-3 673	-2 156	-1 952	-3 725	-5 564	-6 580
Exports, f.o.b.	5 137	5 737	5 276	5 165	5 471	5 936	6 145	6 610	7 237
Imports, f.o.b.	8 041	9 479	8 779	8 838	7 627	7 888	9 869	12 174	13 817
Services trade balance	1 602	1 854	1 826	1 757	2 249	2 291	2 457	2 985	2 968
Income balance	-975	-1 041	-1 092	-1 152	-1 393	-1 825	-1 902	-1 827	-2 028
Net current transfers	1 848	1 902	2 028	2 269	2 336	2 528	2 697	3 144	3 410
Capital and financial balance [d]	581	978	1 256	243	-1 583	-862	1 178	1 452	2 888
Net foreign direct investment	1 338	953	1 079	917	613	909	1 123	1 459	1 698
Financial capital [e]	-757	25	177	-674	-2 196	-1 771	55	-7	1 190
Overall balance	151	-48	515	-555	-546	179	705	190	657
Variation in reserve assets [f]	-194	70	-519	527	358	-542	-1 109	-314	-692
Other financing [g]	42	-22	4	28	189	363	404	124	35
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [h]	103.4	100.0	96.5	98.5	131.3	125.5	87.4	95.7	95.8
Terms of trade for goods (index: 2000=100)	105.7	100.0	100.9	101.5	97.9	96.7	95.8	94.9	98.0
Net resource transfer (millions of dollars)	-352	-85	168	-881	-2 787	-2 324	-321	-251	894
Total gross external debt (millions of dollars) [i]	3 661	3 679	4 176	4 536	5 987	6 380	6 813	7 266	7 566
					Average annual rates				
Employment									
Labour force participation rate [j]	53.5	55.2	54.3	55.1	54.7	56.3	55.9	56.0	56.2
Open unemployment rate [k]	13.8	13.9	15.6	16.1	16.7	18.4	18.0	16.2	15.6
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	5.1	9.0	4.4	10.5	42.7	28.7	7.4	5.0	8.9
Variation in nominal exchange rate (annual average)	5.0	2.4	3.3	9.8	65.7	36.6	-30.2	12.8	-0.3
Variation in real minimum wage	-1.1	-0.4	5.7	-0.5	-9.2	-15.0	18.7	-7.1	4.8
Nominal deposit rate [l]	15.4	18.6	16.1	16.4	20.6	21.1	12.7	9.8	7.0
Nominal lending rate [m]	22.2	23.6	20.0	21.3	27.8	30.3	21.4	15.7	11.7

Table 1 (concluded)

	1999	2000	2001	2002	2003	2004	2005	2006	2007[a]
					Percentages of GDP				
Central government									
Total income [n]	12.8	13.3	14.5	14.6	13.1	14.0	15.6	16.1	17.7
Current income	12.6	13.2	14.4	14.3	13.0	13.9	15.4	15.9	17.3
Tax income	12.2	12.5	14.0	13.8	12.1	12.9	14.6	14.9	16.0
Capital income	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Total expenditure	14.4	13.2	15.6	16.1	16.0	16.7	16.7	17.1	17.2
Current expenditure	10.2	10.0	10.5	10.5	10.1	12.5	12.6	13.0	12.9
Interest	0.6	0.7	0.7	1.1	1.6	1.8	1.3	1.4	1.2
Capital expenditure	4.2	3.2	5.1	5.6	5.8	4.2	4.1	4.1	4.3
Primary balance	-0.9	-1.0	-1.4	-1.3	-2.7	-1.6	0.7	0.3	1.8
Overall balance [o]	-1.5	-1.7	-2.1	-2.3	-4.2	-3.4	-0.6	-1.1	0.6
Public-sector debt	17.1	17.8	19.7	23.1	39.7	25.2	26.6	23.8	24.7
Domestic	0.0	2.0	2.5	2.3	3.6	3.4	3.3	3.2	2.9
External	17.1	15.8	17.2	20.7	36.1	21.8	23.3	20.6	21.8
Money and credit [p]									
Domestic credit [q]	22.7	23.8	24.7	28.7	36.4	23.1	19.4	17.0	16.6
To the public sector	2.7	2.9	1.6	10.4	1.1	6.4	10.2	17.7	17.2
To the private sector	19.5	21.1	24.5	26.5	26.8	18.0	17.5	17.2	19.0
Others	0.6	-0.2	-1.4	-8.2	8.6	9.2	3.9	-4.8	-6.8
Liquidity (M3)	24.6	24.3	27.9	28.5	36.8	27.8	27.7	25.2	25.7
Currency outside banks and local-currency deposits (M2)	24.2	24.2	27.9	28.5	36.8	27.8	27.7	25.2	25.7
Foreign-currency deposits	0.5	0.1	0.0	0.0	0.1	0.0	0.0	0.0	0.0

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 1991 prices.
[c] Based on figures in local currency expressed in dollars at current prices.
[d] Includes errors and omissions.
[e] Refers to the capital and financial balance (including errors and omissions), minus net foreign direct investment.
[f] A minus sign (-) denotes an increase in reserves.
[g] Includes the use of IMF credit and loans and exceptional financing.
[h] Annual average, weighted by the value of goods exports and imports. Owing to lack of data, the period 2002-2008 has been weighted using trade figures for 2001.
[i] Public and guaranteed private external debt.
[j] Economically active population as a percentage of the working-age population; nationwide total.
[k] Percentage of the economically active population; nationwide total.
[l] 90-day certificates of deposit.
[m] Average of the benchmark rate.
[n] Includes grants.
[o] Includes residuals and other payments (transfers).
[p] Monetary figures correspond to end-of-year balances.
[q] Includes monetary regulation instruments and medium- and long-term external loans.

output increased 9.7% (compared with 6.3% in 2006) and in communications it increased 14.9% (compared with 24.8% in 2006).

The financial sector recorded extraordinary growth for the second year in a row (25.6% compared with 23.6% in 2006). Consequently, the sector's share in GDP (3.4%), which had fallen in the wake of the financial crisis of 2003-2004, not only recovered, but actually exceeded the level reached at the beginning of the decade. This occurred parallel to improvements in the regulatory framework and prudential supervision of the financial system.

The trade sector recorded its third year of double-digit growth (13.9%) in 2007, This growth was generated by a soar in imports and larger private-sector spending in general, which was, in turn, fuelled by the increase in employment and income levels accumulated during the last three years.

(b) Prices, wages and employment

According to the variation in the consumer price index, year-on-year inflation was 8.9%. This figure, which is higher than the 6% target established in the monetary programme, reflected the rise in international prices for oil and imported commodities and the impact that natural phenomena had on the supply of staple agricultural products in the country. The core inflation rate, which excludes more volatile elements, was close to 4%. This shows that inflation in the Dominican Republic has a strong imported component. Moreover, inflation mainly rose during the last quarter of 2007, which was when the country was hit by two tropical storms.

Conditions in the labour market continued to improve on the whole. The open unemployment rate fell again to 4.5%, the lowest level recorded in the past nine years.

Table 2
DOMINICAN REPUBLIC: MAIN QUARTERLY INDICATORS

	2006				2007 [a]				2008 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	12.8	12.5	12.0	10.7	9.2	7.7	8.2	8.5	6.2	...
Goods exports, f.o.b. (millions of dollars)	1,517	1,660	1,755	1,679	1,695	1,876	1,799	1,866	1,684	...
Goods imports, f.o.b. (millions of dollars)	2,069	2,337	2,580	2,573	2,473	2,642	2,948	3,226	3,249	...
International reserve assets (millions of dollars) [c]	1,927	2,099	2,076	2,251	2,547	2,705	2,922	2,946	2,892	2,584
Real effective exchange rate (index: 2000=100) [d]	96.8	93.8	95.1	97.1	96.1	93.3	96.3	97.6	98.6	99.1
Consumer prices (12-month percentage variation)	8.3	10.3	4.7	5.0	5.5	5.9	6.8	8.9	9.7	12.2
Average nominal exchange rate (pesos per dollar)	33.77	32.51	32.87	33.41	33.30	32.24	33.11	33.49	33.81	34.15
Nominal interest rates (annualized percentages)										
Deposit rate [e]	12.1	11.3	8.4	7.5	7.7	7.2	6.4	6.6	6.7	8.5
Lending rate [f]	17.7	16.9	15.4	12.8	13.1	11.8	11.3	10.6	11.2	12.5
Interbank rate	11.9	11.5	9.8	9.2	9.1	8.2	7.8	7.9	9.0	10.4
Domestic credit (variation from same quarter of preceding year)	31.6	23.1	22.2	38.9	34.2	36.7	34.1	18.7	20.9	28.8 [g]
Non-performing loans as a percentage of total credit	6.5	6.4	5.9	4.8	5.5	5.4	5.0	4.3	4.3	3.8

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 1991 prices.
[c] Including gold.
[d] Quarterly average, weighted by the value of goods exports and imports.
[e] 90-day certificates of deposit.
[f] Average of the benchmark rate.
[g] Data to May.

The broad unemployment rate (15.6%) fell to its lowest level in the past six years. In 2007, 113,218 new jobs were created in the Dominican Republic, 3.3% more than the previous year.

The nominal minimum wage remained at the 2006 level in the public sector and in the free zones, which represented an 8.2% decline in purchasing power for workers. In the rest of the economy, the minium wage rose at a rate of 11.3% per year, which was equivalent to a real increase of 2.2%.

(c) The external sector

The balance-of-payments current account deficit increased in 2007 to the equivalent of 5.4% of GDP. The widening of the external imbalance was mainly brought about by the increase in the trade deficit, which was, in turn, generated by the notable increase in imports. The financial and capital account returned a surplus of US$ 2.554 million, reflecting a large inflow of foreign direct investment.

The value of goods imports (including imports to the free zones) was 13.5% higher than the previous year. Both consumer goods imports and imports of raw materials and intermediate goods posted increases of 18.4%. The country's oil bill rose US$ 479 million, equivalent to almost 28% of the increase in the non-maquila sectors' imports. The increase in capital goods imports in 2007 was 16.5%, far less than the 30% increase observed in the two preceding years. Imports to the free zones, on the other hand, dropped 3.3%, reflecting the low level of output of this sector in 2007.

Goods exports meanwhile rose 9.5%. The free zones' share in the economy fell again (by 2.5%) although they still constitute the main source of external sales in the country's trade balance: 63% of total exports in 2007, compared with

70.8% in 2006. Among traditional exports, tobacco and coffee recorded the steepest declines in export value (52% and 28%, respectively), while ferronickel exports were 60% higher than in 2006, and cacao exports were up 36%. In the case of sugar and tobacco, exports declined both in terms of volume and price, while the fall in value of coffee exports was caused by the drop in export volumes. Increases in international prices boosted foreign ferronickel sales despite the lower volume actually exported, while increases in both prices and volumes pushed up the value of cacao exports.

Net current transfers in the balance of payments increased 8.4% in 2007. Family remittances rose 10.8% to reach US$ 3.033 billion, which is equivalent to 7.5% of GDP. These remittances accounted for 89% of total balance-of-payments transfers.

The capital and financial account (including errors and omissions) posted a positive balance equivalent to about 7% of GDP. Foreign direct investment rose to US$ 1.698 billion, a 16.4% increase on the previous year. Financial capital inflows amounted to US$ 1.19 billion.