Euler Hermes Economic Research

Country Report

Dominican Republic

Growth slows, but country continues to outperform

General Information

GDP	USD63.969bn (World ranking 72, World Bank 2014)
Population	10.53mn (World ranking 83, World Bank 2014)
Form of state	Democratic Republic
Head of government	Danilo MEDINA Sanchez
Next elections	2016, presidential and legislative

Strengths

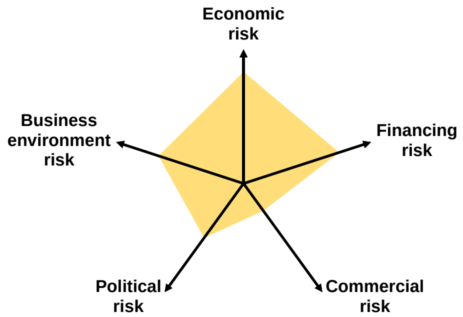
- Resilient economic growth
- Political stability
- Country has a well-developed tourist infrastructure
- Infrastructure compares favourably with other developing nations, particularly the telecommunications system
- Effective fiscal consolidation and discipline

Weaknesses

- Electricity shortages
- Large external financing requirements
- Democratic institutions remain weak; rule of law remains fragile
- High levels of corruption and red tape continue to plague everyday business dealings
- Persistent income inequality and poverty generate a recipe for protests to escalate

Country Rating

C2



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
United States	50%	1	42%	United States
Haiti	17%	2	8%	China
China	4%	3	7%	Venezuela
Canada	2%	4	6%	Mexico
United Kingdom	2%	5	4%	Trinidad and Tobago

By product (% of total)

Exports		Rank		Imports
Apparel & clothing	11%	1	21%	Petroleum products
Scientific instruments	9%	2	5%	Electrical machinery.
Electrical machinery	8%	3	5%	Textile yarn products
Manufactured articles	7%	4	5%	Road vehicles
Tobacco	6%	5	4%	Manufactured articles

Source: ITC, Chelem

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Economic Overview

Growth slows but remains solid

Despite a slight slow-down, growth prospects remain positive. We expect real GDP to expand by +5% in 2015 and by +4.7% in 2016. The negative impact of plummeting gold and silver prices on mining activity and bad figures for tobacco and coffee exports will be somewhat offset by continued strong growth in construction, retail and services sectors. From the demand side, investment (notably in energy, infrastructure and tourism sectors) and private consumption (supported by oil prices) are expected to remain the main engines of growth. After the fall in oil prices led inflation rates to drop (+0.4% y/y in July against +3% a year ago), the Central Bank cut the key rate by 125bps since February to 5% in June. Additional cuts cannot be excluded. Fiscal policy is also expected to remain broadly supportive this year in the run up to the general elections in May 2016.

Steps in the right direction, but still some way to go

President Medina, in power since 2012, has been praised for improving the business environment and strengthening fiscal accounts. Unrelenting fiscal consolidation since 2012 has reduced the fiscal deficit from -6.8% of GDP then to -3.0% in 2014 as fiscal revenue rose from a tax structure reform (that spreads its impact broadly across income and indirect taxes) to outstrip the controlled spending increase. With the government expected to continue on this trajectory, EH forecasts a primary surplus of +0.5% and a reduction in the fiscal deficit to -2.4% in 2015. Alongside, the inflation-targeting regime (currently at 4% +/-1pp) followed by the Central Bank since 2012 has proved credible at anchoring inflation.

Despite the strengthening of the business environment, key weaknesses remain in insolvency resolution, corruption control, regulatory quality, and the rule of law. Dealing with the electricity sector shortcomings is a major challenge: the electricity system`s capacity is inadequate and power cuts are common while electricity subsidies weight heavily on the budget (about 10% of total current expenditure). While initially expected to step down in May 2016, a constitutional amendment in June will allow President Medina, in power since 2012, to seek reelection.

The current account deficit is expected to narrow in 2015 (to -2.9% of GDP) on the back of low oil prices and the recovery in the U.S. driving remittances, FDI and tourism revenues up. However, the country remains vulnerable to external shocks, notably to a surge in oil prices, especially as the outlook for the Petrocaribe alliance framework (which allows the purchase of Venezuelan crude oil at preferential rates) raises some concerns given the current political and economic situation in Venezuela. The Dominican peso is under a controlled float regime against the USD, but the relatively low level of FX reserves (3 months of imports) would not allow defending the currency in case of massive downward pressures.

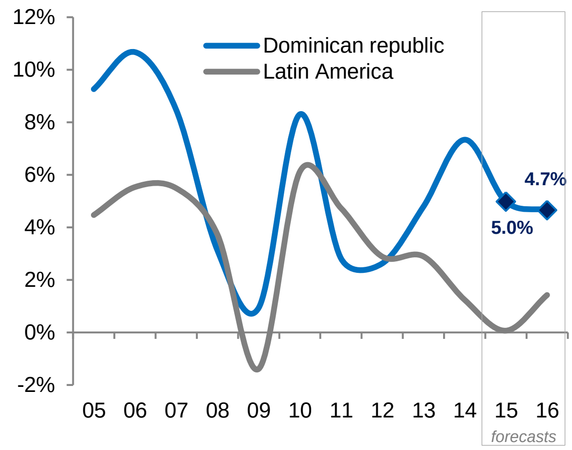
Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	4.8	7.3	5.0	4.7
Inflation (%, yearly average)	4.8	3.0	0.9	2.5
Fiscal balance* (% of GDP)	-3.6	-3.0	-2.4	-2.2
Public debt* (% of GDP)	34.6	35.1	31.0	36.5
Current account (% of GDP)	-4.2	-3.2	-2.9	-3.1
External debt (% of GDP)	39.1	37.9	38.6	39.1

**Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments*

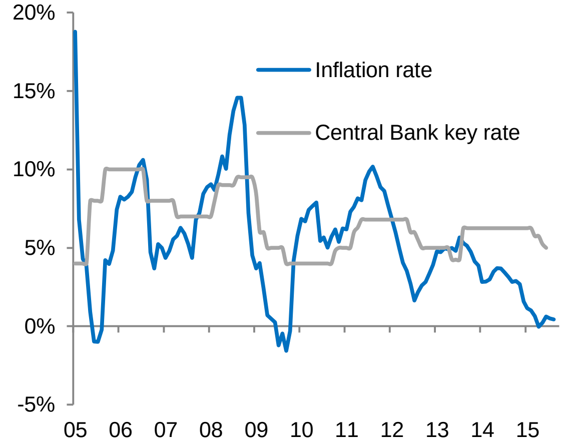
Sources: National sources, IMF-WEO, IHS, Euler Hermes

Real GDP growth (%)



Sources: National sources, IMF-WEO, IHS, Euler Hermes

Inflation and monetary policy rate (%)



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DISCLAIMER
These assessments are, as always, subject to the disclaimer provided below.

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