

## A coral reef in the Caribbean

### General Information



<b>GDP</b>	USD68.103bn (World ranking 65, World Bank 2015)
<b>Population</b>	10.528mn (World ranking 86, World Bank 2015)
<b>Form of state</b>	Presidential republic
<b>Head of government</b>	Danilo Medina Sánchez (centre), since 2012
<b>Next elections</b>	Presidential and legislative 2020 (4-year term)



### Strengths

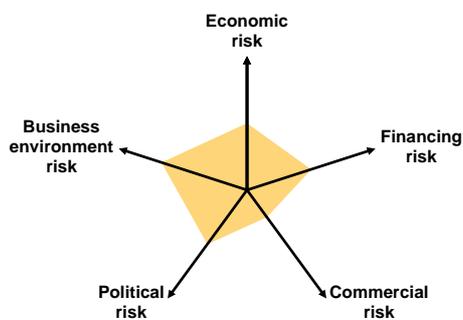
- Resilient economic growth
- Robust tourism sector
- Good infrastructure network
- Sound banking sector indicators
- Free Trade Agreement with the US (CAFTA-DR)
- Political stability

### Weaknesses

- Weak rule of law
- High levels of red tape and corruption
- Persistent income inequality is a breeding ground for social unrest

### Country Rating

**B2**



Source: Euler Hermes

### Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	54% 1	41% United States
Haiti	12% 2	13% China
Canada	8% 3	5% Mexico
India	7% 4	3% Brazil
Netherlands	2% 5	3% Spain

By product (% of total)

Exports	Rank	Imports
Gemstones & precious metals	20% 1	16% Mineral fuels
Optical and apparatus thereof	12% 2	8% Industrial machinery
Tobacco	9% 3	8% Electrical machinery
Electrical machinery	7% 4	7% Vehicles
Clothing	6% 5	7% Plastics

Source: Comtrade (2015)



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## Economic Overview

### Growth moderates but keeps on breaking the waves

Once again, the Dominican Republic outperformed the region in terms of real GDP growth. The negative impact of low gold and silver prices on mining activity and the poor performance of tobacco and coffee exports have somewhat been offset by construction, retail, and services.

On the demand side, private consumption, investment in the energy network (aimed at providing adequate capacity), and the tourism sector, are set to remain the main engines of growth.

The improved economic performance of crucial trading partners will also support activity. However, headwinds arise as the United States is redefining its trade policy. The US foreign direct investment position has been contracting in recent years although trade dependence remains high. In addition, the anticipated Fed hikes could tighten global financial conditions. The considerable export and import concentration also exposes the Caribbean nation to external shocks.

FDI inflows are abundant and together with lower oil prices, generous remittances, and tourism revenues have enabled the country to keep under control its current account deficit under control. In addition, foreign reserves are on the rise and the import coverage has increased due to rising imports.

### Steps in the right direction

Over the past years, the government has made a move to ensure a more attractive environment for investors and better public accounts. The International Monetary Fund has supported the current administration in this endeavor.

Despite the strengthening of business confidence, key weaknesses remain in insolvency resolution, issues related to getting electricity, tax red tape, and contract enforcement.

The 2015 fiscal reform expanded the taxable base on household's income and indirect tributes but has not been able to contain the fall in revenues at the same time that spending increased. Different subsidies also put pressure on the government's budget as it is the case of electricity. However, the improving regional context should buoy collection and ease the pressure on public debt.

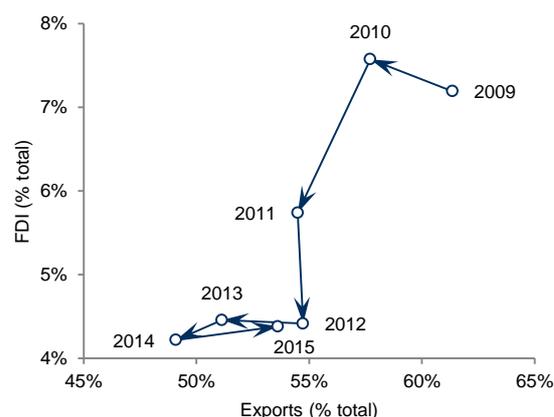
The inflation-targeting regime set by the Central Bank has anchored inflation at 4%  $\pm$ 1pp. The Dominican peso is under a controlled float regime against the USD.

### Key economic forecasts

	2015	2016e	2017f	2018f
GDP (real, %)	7.0	5.9	4.5	4.4
Inflation (average-of-period, %)	0.8	2.0	3.8	3.4
Inflation (end-of-period, %)	2.3	2.4	3.6	3.5
Fiscal balance (% of GDP)	-0.4	-3.7	-3.9	-3.4
Public debt (% of GDP)	34.9	35.8	36.7	37.1
Foreign debt (% of GDP)	35.3	33.1	30.7	28.2
Current account (% of GDP)	-1.9	-2.1	-2.4	-2.6

Sources: IMF, Euler Hermes

### US FDI position and exports to the US



Sources: BEA, UNCTAD, Comtrade, Euler Hermes

### Foreign exchange reserves and import cover



Sources: IHS, Euler Hermes

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