DOMINICAN REPUBLIC

Table 1	2020
Population, million	10.4
GDP, current US$ billion	79.4
GDP per capita, current US$	7598.1
International poverty rate ($1.9)[a]	0.6
Lower middle-income poverty rate ($3.2)[a]	2.7
Upper middle-income poverty rate ($5.5)[a]	12.4
Gini index[a]	41.9
School enrollment, primary (% gross)[b]	112.2
Life expectancy at birth, years[b]	73.9

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2019), 2011 PPPs.
(b) Most recent WDI value (2018).

Following an economic contraction of 6.7 percent in 2020, the economy is starting to recover. While GDP growth is projected to reach 5.5 percent in 2021, a 2.9 percent output gap remains, projected to close in 2023/24. Despite an increase in social expenditures to mitigate the impact of the pandemic, poverty increased by an estimated 2.4 percentage points to 23.4 percent in 2020. The implementation of recovery policies offers an opportunity to address long-standing structural challenges such as formal sector job creation.

Key conditions and challenges

Sustained, long-term growth reduced poverty levels but created limited formal sector employment opportunities. Growth averaged 4.9 percent during the 20 years leading up to 2019, while poverty levels dropped steadily since 2005 to reach 21 percent in 2019. Labor reallocation from inefficient to more efficient sectors contributed little to productivity growth. More than half of the workforce is employed in the informal sector.

Prior to the start of the pandemic, the country's macroeconomic developments were broadly sustainable. Banking supervision was strengthened following the 2003 financial crisis and an inflation targeting regime was gradually adopted. During 2015-20, the current-account deficit was less than 2 percent of GDP and fully financed by foreign direct investment. Leading up to the COVID-19 pandemic, the share of public debt and interest payments in GDP increased steadily but remained sustainable. The country's fiscal revenues are among the lowest in the region, and fiscal risks increased as government contingent liabilities of SOEs and PPPs reached 1.5 percent of GDP in 2020.

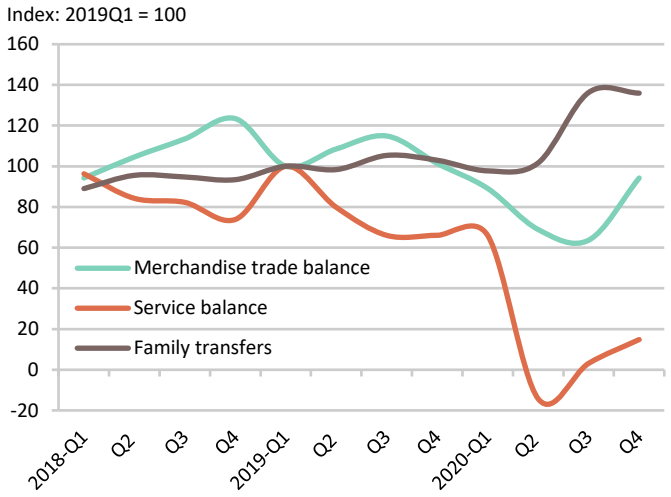
COVID-19 has a major but potentially transitory impact on economic growth and poverty reduction. The pandemic triggered a 6.7 percent contraction of GDP in 2020. Despite a fall in tourism receipts, the current-account deficit deteriorated only modestly following higher gold exports and remittances as well as lower imports. The poverty rate increased by 2.4 percentage points to 23.4 percent, which represents about 250,000 new poor, affecting women and urban population disproportionally. The East region experienced the highest poverty impact given its heavy reliance on tourism. According to Government statistics, poverty would have reached 29 percent in the absence of an expansion of social protection programs. A fiscal impulse, combined a monetary expansion, boosted demand and allowed for a rapid recovery.

Recent developments

Prospects for economic recovery have strengthened, driven by domestic and foreign demand. Year-on-year growth improved from -28.9 percent in April 2020 to -1 percent in December 2020. Foreign arrivals recovered from close to zero in 2020Q2 to almost 40 percent of December 2019 levels at year end, but decelerated again in January 2021, and remittances increased by 30 percent year-on-year in the second half of 2020. Merchandise exports were during 2020H2 just 4 percent below the 2019H2 levels. The 2020Q4 US dollar current account balance was unchanged year-on-year as lower services exports were fully offset (figure 1). As the economy recovered, the fiscal and monetary impulse tapered off during 2020H2.

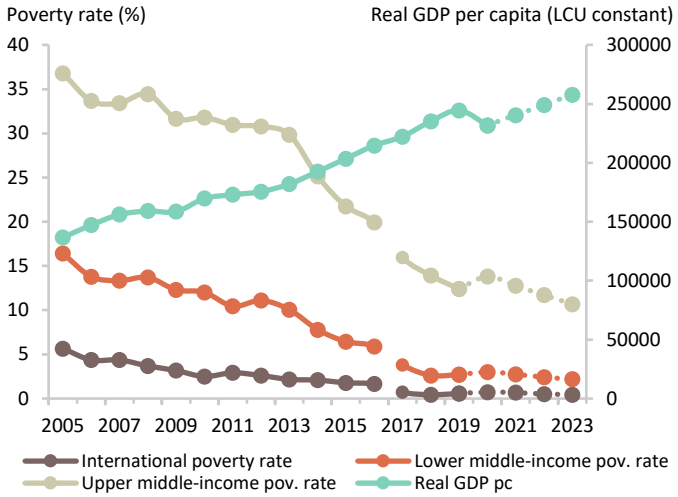
Monetary and financial markets have stabilized, although inflation picked up in

FIGURE 1 Dominican Republic / External account balance, selected items, 2019Q1=100



Source: Central Bank of the Dominican Republic.

FIGURE 2 Dominican Republic / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

late-2020. Following rapid growth during March–August 2020, credit to the private sector stabilized, despite a reduction in the policy rate from 3.5 to 3.0 percent in August. Following an 8 percent currency depreciation to US dollar in 2020Q2, the central bank announced foreign exchange interventions worth US$3.5 billion in July 2020 and the exchange rate stabilized. Even so, gross international reserves increased to US$12.4 billion after a successful bond sale of US$2.5 billion in January 2021. At end-February 2021, inflation reached 7.1 percent, outside the central bank's target of 3-5 percent, and the core inflation rate is estimated at 5.4 percent. Food prices increased by 9.0 percent, year-on-year which especially affected the poor.

However, employment remains below the pre-crisis level, and there was an increase in informal employment in 2020Q3. While the labor participation rate recovered by 3 percentage points to 59.7 percent in 2020Q3, it remains more than 5 percentage points below the pre-crisis level. In 2020Q3, formal-sector jobs continued to decline while informal jobs were recovering. Sales by smaller firms—mostly in the retail sector—are recovering faster than in larger firms. The deterioration of labor markets reduced household income, increasing poverty and vulnerability, affecting women and urban population disproportionally. Continued social programs through April 2021 will limit the impact on poverty though.

Outlook

Economic growth is projected to recover to 5.5 percent in 2021, before transitioning to a more modest but sustainable level in the medium term. Merchandise exports are projected to continue growing, responding to U.S. demand and near-shoring of production. In 2022-23, consumption is projected to pick up, and the output gap is to close in 2023/24. The strength of the economy is projected to reduce poverty defined as living under the US$5.5/day (PPP 2011) by at least 1 percentage point in 2021 (Table 2), allowing the authorities to phase out COVID-19 social protection payments. Rapid growth in 2021 will stabilize the debt-to-GDP ratio. The exchange rate strengthened by 0.4 percent in January–February but inflation puts a floor on future monetary stimulus.

Policy buffers are adequate to mitigate a resurgence in COVID-19, turbulence in international financial markets, or a natural disaster. International reserves cover 6.9 months of projected 2021 imports GNFS, and the country continues to have access to international bond markets. Accumulated reserves, combined with the inflation targeting regime and control over fiscal spending, provide policy options to address macroeconomic shocks. Still, balancing domestic and foreign demand remains a challenge and government bonds are being used to finance a countercyclical fiscal stance. These issuances are also part of a medium-term debt strategy aiming at building a smooth yield curve and benchmarks to facilitate private sector access once the economy start to recover.

Focusing fiscal and regulatory policies on increasing competition and creating formal-sector jobs remains a medium-term challenge. The recovery from the COVID-19 crisis offers an opportunity to reform tax and regulatory policies to level the playing field between large and small companies, increase investment and consumption, and address environmental challenges. The authorities' commitment to greater transparency and predictability in fiscal policy through a "fiscal pact" that would aim to reduce the debt-to-GDP ratio may boost public confidence and reduce bond spreads.

TABLE 2 Dominican Republic / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	7.0	5.1	-6.7	5.5	4.8	4.8
Private Consumption	5.7	4.6	-1.6	5.3	5.1	4.8
Government Consumption	2.8	6.3	5.1	0.6	2.3	1.5
Gross Fixed Capital Investment	13.3	8.1	-11.9	8.4	7.1	6.5
Exports, Goods and Services	6.1	1.5	-25.2	8.0	7.0	6.8
Imports, Goods and Services	8.5	5.8	-8.5	8.0	8.1	7.0
Real GDP growth, at constant factor prices	6.1	4.8	-6.9	5.5	4.8	4.7
Agriculture	5.5	4.1	3.2	2.8	3.0	3.1
Industry	7.9	5.9	-7.3	5.4	4.5	4.3
Services	5.1	4.3	-8.6	6.2	5.4	5.4
Inflation (Consumer Price Index)	3.6	1.8	3.8	4.9	4.2	3.6
Current Account Balance (% of GDP)	-1.4	-1.4	-1.8	-2.1	-2.8	-3.0
Net Foreign Direct Investment (% of GDP)	3.0	3.4	3.2	3.3	3.3	3.4
Fiscal Balance (% of GDP)[a]	-2.6	-2.5	-7.7	-4.6	-2.6	-2.1
Debt (% of GDP)[a]	37.6	40.4	56.7	56.7	54.5	52.2
Primary Balance (% of GDP)[a]	0.0	0.3	-4.1	-1.3	0.7	1.0
International poverty rate ($1.9 in 2011 PPP)[b,c]	0.4	0.6	0.7	0.7	0.5	0.4
Lower middle-income poverty rate ($3.2 in 2011 PPP)[b,c]	2.6	2.7	3.0	2.7	2.4	2.2
Upper middle-income poverty rate ($5.5 in 2011 PPP)[b,c]	13.9	12.4	13.8	12.8	11.7	10.7

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate. f = forecast.

(a) Fiscal indicators are shown for the non-financial public sector (i.e. excluding central bank's quasi-fiscal balances and debt).
(b) Calculations based on SEDLAC harmonization, using 2019-ECNFT-Q03.Actual data: 2019. Nowcast: 2020. Forecast are from 2021to 2023.
(c) Projection using neutral distribution (2019) with pass-through = 1 based on GDP per capita in constant LCU.