DOMINICAN REPUBLIC

Table 1	2021
Population, million	10.5
GDP, current US$ billion	94.3
GDP per capita, current US$	8939.7
International poverty rate ($2.15)[a]	1.1
Lower middle-income poverty rate ($3.65)[a]	5.3
Upper middle-income poverty rate ($6.85)[a]	23.8
Gini index[a]	39.6
School enrollment, primary (% gross)[b]	105.7
Life expectancy at birth, years[b]	74.3
Total GHG emissions (mtCO2e)	41.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2020), 2017 PPPs.
b/ Most recent WDI value (2020).

The Dominican economy grew 5.6 percent during the first half of 2022, fueled by tourism, which benefitted from a strong government campaign. Nevertheless, the fiscal deficit is expected to widen in 2022 due to higher subsidies to counteract food and energy price surges. Rising inflation prompted the Central Bank to hike the monetary policy rate to 7.75 percent in July 2022. Poverty is expected to continue to decline in 2022 relative to 2020 but remain above pre-crisis levels.

Key conditions and challenges

The Dominican Republic (DR) has been one of the fastest-growing economies in Latin America and the Caribbean. The economy expanded by an average of 5.3 percent in 2000 - 2019, as foreign direct investment (FDI) inflows, averaging about 4 percent of GDP over the last two decades, transformed the economy, and fueled tourism, services, manufacturing, construction, and mining. Growth has been supported by domestic demand and favorable external conditions. Prudent monetary and fiscal policy has contributed to macroeconomic stability. The country's external position remains strong as the external deficit remains fully financed by FDI and remittances, but the DR's participation in global value chains remains low and exports have declined from 35 to 21 percent of GDP from 2000 to 2021.

Fostering long-term growth will require structural reforms in support of increased productivity, including through higher investment in innovation, fomenting economic clusters, and improved public services, in particular skills and education. However, public investment declined from 3.9 to 2.8 percent of GDP between 2010 and 2021.

Public debt increased during the pandemic and remains above pre-pandemic levels. The interest bill absorbed one-fifth of tax revenues in 2021, crowding out public investments. Improvements in the quality of domestic resource mobilization and spending efficiency and effectiveness are necessary to ensure adequate provision of public services. This is particularly relevant as a significant share of the labor force is excluded from the formal economy.

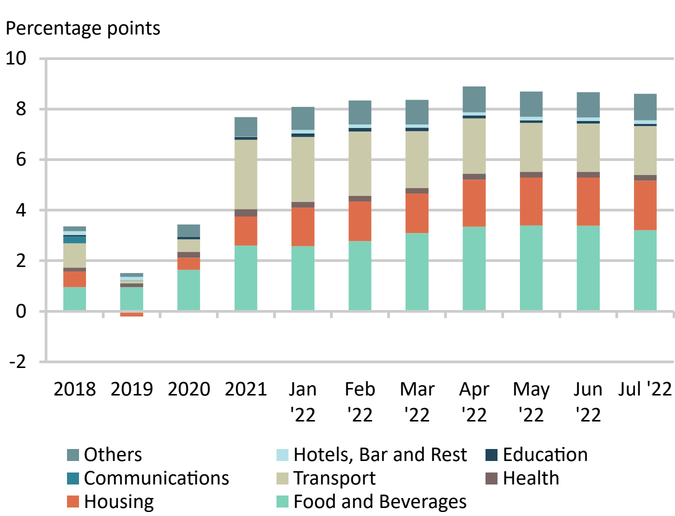
Recent developments

Real GDP grew 5.6 percent during the first half of the year (2022H1), driven by services. The hotels, bars, and restaurants sector grew 34.3 percent in 2022H1, supported by an active government vaccination campaign, resulting in 6.02 million people fully vaccinated as of August 15, 2022, equivalent to 56 percent of the total population. Expansionary fiscal policy also contributed to growth, while monetary tightening attenuated inflationary pressures.

However, income growth has been diluted by price inflation, which reached 9.4 percent in July 2022, outside the Central Bank's target range of 4±1 percent, prompting the Central Bank to increase its monetary policy rate six times between December 2021 and August 2022.

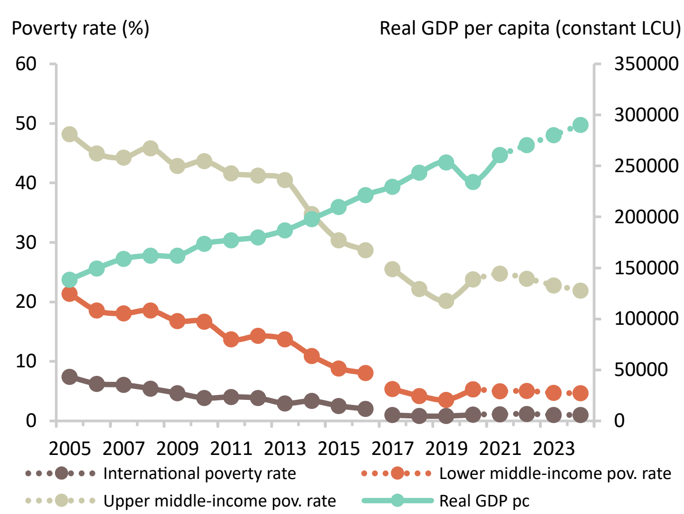
The cost of the family basket increased 23.2 percent in July 2022, compared to pre-pandemic levels, with the poorest quintiles most affected. In 2022Q1, the employment rate remained 1.7 percentage points below pre-pandemic levels and informality was 3 percentage points higher than pre-pandemic levels. For all these reasons, poverty (defined as living with less than US$6.85 per day) is expected

FIGURE 1 Dominican Republic / Consumer price inflation, contribution by item



Source: Central Bank of Dominican Republic.

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



Source: World Bank. Notes: see Table 2.

to remain above pre-pandemic levels in 2022. The vulnerable population increased from 39 to 42 percent during the pandemic and is expected to remain.

While tourism revenues in 2022H1 surpassed 2019 levels during the same period, import growth (primarily due to non-oil imports) exceeded merchandise export growth, widening the trade deficit. Remittance inflows for 2022 grew 38.4 percent during the first seven months, compared to pre-pandemic levels. These strong inflows support the income losses from the domestic labor market, primarily in the metropolitan area where 57 percent of the total remittances are concentrated.

The fiscal deficit widened due to the government's efforts to mitigate price increases through targeted subsidies for fuels, energy, transport, and basic food products, resulting in additional expenses of around 0.5 percent of GDP. These additional expenses were financed by a combination of higher-than-expected tax revenue collection, expenditure reallocations, and acquisition of debt.

As of June 2022, the return on equity index surpassed the pre-pandemic level of 21.9 percent compared to 17.8 percent in June 2019. Likewise, the liquidity ratio outperformed the pre-pandemic level of 22.9 percent compared to 19.6 percent, suggesting that the financial system remains stable.

Outlook

Following rapid expansion in 2021, growth is expected to revert to a potential of 5 percent, driven by tourism, remittances, and nearshoring opportunities. The implementation of structural reforms is expected to sustain growth potential in the medium-term, particularly reforms in energy, water, and public-private partnerships, coupled with efforts to increase the quality of human capital and attract FDI to higher value-added industries.

The poverty rate (US$6.85 PPP 2011 per day) is expected to continue declining in 2022 relative to 2020 but remain above pre-crisis levels at 24 percent. Meanwhile, inflation is not likely to return to the target range before mid-2023.

Ongoing government efforts are expected to counter mounting inflationary pressures, with the fiscal deficit projected to widen in 2022 due to higher subsidies, this has prompted a pause in the plan to increase electricity tariffs. Thereafter, an expected gradual phase-out of the subsidies to state-owned enterprises in the energy and water sector, together with improvements in tax administration, should contribute to a reduction of the fiscal deficit of around 2.4 percent of GDP in the medium term. The public debt-to-GDP ratio is projected to stabilize below 60 percent over the medium term.

The macroeconomic forecast faces both demand and supply risks. A faster-than-expected slowdown of the US economy could directly affect tourist arrivals, while an escalation of the war in Ukraine could indirectly affect the prices of key goods and services through increasing fuel prices. Likewise, climate change has intensified the exposure to natural disasters, which, given the country's low degree of financial protection against these risks, could substantially increase contingent fiscal liabilities.

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

	2019	2020	2021	2022e	2023f	2024f
Real GDP growth, at constant market prices	5.1	-6.7	12.3	5.0	5.0	5.0
Private Consumption	4.6	-3.4	6.6	5.0	5.1	5.1
Government Consumption	6.3	4.9	0.1	2.7	4.5	6.3
Gross Fixed Capital Investment	8.1	-12.1	22.1	4.4	3.9	4.0
Exports, Goods and Services	1.5	-30.3	36.2	15.9	7.9	7.3
Imports, Goods and Services	5.8	-14.6	24.7	11.1	6.0	6.0
Real GDP growth, at constant factor prices	4.8	-6.3	11.5	5.0	5.0	5.0
Agriculture	4.1	2.8	2.6	1.9	2.5	3.0
Industry	5.9	-6.7	16.5	4.0	4.5	5.0
Services	4.4	-7.1	10.0	6.0	5.5	5.2
Inflation (Consumer Price Index)	1.8	3.8	8.2	9.1	5.0	4.0
Current Account Balance (% of GDP)	-1.3	-1.7	-2.9	-4.1	-2.2	-2.1
Net Foreign Direct Investment Inflow (% of GDP)	3.4	3.2	3.3	3.2	3.2	3.2
Fiscal Balance (% of GDP)[a]	-2.2	-7.9	-2.9	-3.8	-2.9	-2.4
Debt (% of GDP)[b]	50.5	69.1	62.7	61.3	60.5	59.8
Primary Balance (% of GDP)[a]	0.6	-4.7	0.2	-0.8	0.0	0.5
International poverty rate ($2.15 in 2017 PPP)[c,d]	0.8	1.1	1.1	1.2	1.0	1.0
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	3.5	5.3	5.0	5.0	4.7	4.7
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	20.2	23.8	24.8	23.9	22.8	21.9
GHG emissions growth (mtCO2e)	5.6	-3.2	7.6	3.6	3.2	3.2
Energy related GHG emissions (% of total)	64.5	62.6	63.3	63.9	64.3	64.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast. Poverty lines are expressed in 2017 PPP, resulting in changes from earlier editions that used 2011 PPP. See pip.worldbank.org.
a/ Fiscal balances are shown for the non-financial public sector (i. e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
c/ Calculations based on SEDLAC harmonization, using 2020-ECNFT-Q03. Actual data: 2020. Nowcast: 2021. Forecasts are from 2022 to 2024.
d/ Projections using microsimulation methodology.