The Dominican Republic (DR) has been the second fastest growing economy in LAC over the last decade, only surpassed by Panama, growth was supported by domestic demand and favorable external conditions. The economy expanded by an average of 5.3 percent in 2000–19, driven primarily by capital accumulation and total factor productivity growth. 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.

The country’s external position remains strong, but the DR’s participation in global value chains is low, and has accounted for an average of 30 percent of value added to exports since 2000; it has contributed to the decline of total exports from 35 to 23 percent of GDP in 2000–19. The removal of the Multifiber Agreement in 2005 that protected Dominican textile exports to the US also contributed to the decline. Nevertheless, external deficits remain fully financed by FDI and remittances. Fostering long-term growth will require structural reforms in support of increased productivity growth, including through higher investment in innovation, and improved public services, in particular skills and education. A significant share of the labor force is excluded from the formal economy.

Public debt continues to increase due to quasi-fiscal deficits and adverse debt dynamics. The interest bill already absorbed one-fifth of tax revenues in 2019, crowding out public investments, which declined from 3.9 to 2.3 percent of GDP between 2010 and 2019. Improvements in the quality of domestic resource mobilization and spending efficiency and effectiveness are necessary to ensure the adequate provision of public services.

Recent developments

The economy recovered strongly in 2021, with GDP rebounding by 12.3 percent, supported by a solid policy response to COVID-19, including fiscal, macroprudential and supervisory policies, and monetary easing. A successful vaccination campaign also contributed to the recovery. The government increased the number of citizens covered by the public health system, resulting in 66.1 percent of the population being fully vaccinated as of January 18, 2022.

However, income growth has been diluted by price inflation, which reached 8.5 percent by December 2021, this is outside the central bank’s target range of 4±1 percent. Price increases are primarily explained by international supply-chain disruptions and increasing commodity prices. In response, the central bank increased its policy rate twice between December 2021 and January 2022 to 5.0 percent (total of 150 basis points). By 2021Q3, formal employment had not fully recovered, remaining 3.8 percentage points below its pre-pandemic level. The

Key conditions and challenges

The Dominican economy rebounded strongly in 2021, supported by well-implemented fiscal and monetary policies. A successful vaccination campaign also contributed to the rebound, by accelerating the tourism recovery. Although, inflationary pressures and lingering effects on labor markets have kept poverty above pre-crisis levels. The fiscal deficit narrowed 5 percentage points to 2.9 percent of GDP in 2021. The medium-term outlook depends on productivity improvements.
lingering effects on labor markets along
with inflationary pressures have reduced,
on average, real family incomes by around
3 percent in 2021.
For all these reasons, poverty (defined as
living with less than US$5.5 per day) is
expected to remain at 2020 levels in 2021,
above pre-pandemic levels. The vulnerable
population is estimated to increase while
middle-classes contract.
Remittance inflows increased by 26.6 per-
cent, year-on-year (y/y), to US$10.4 billion,
alleviating the loss in family incomes,
mostly in the metropolitan area where 56.8
percent of the total is received.
The number of tourists has increased but
remains below pre-pandemic levels at 77
percent. Merchandise exports expanded
by 21.3 percent, yoy, and merchandise im-
ports increased by 45.8 percent, yoy.
The government’s fiscal stimulus has been
phased out, contributing to fiscal consolid-
a tion efforts. The fiscal deficit narrowed
from 7.9 percent of GDP in 2020 to 2.9 of GDP in
2021, mostly due to the recovery in revenue
although partly explained by one-off tax ad-
vances and substantial adjustments in ex-
penditures, particularly investment.

**Outlook**

Following rapid expansion in 2021, growth is estimated to converge to the
5 percent potential level. In the nearer-
term, tourism and remittance-supported
private consumption will drive growth;
maintaining potential growth requires
steady implementation of structural re-
forms, particularly in energy, water, and
public-private partnerships, coupled with
actions to increase the quality of human
capital and attract FDI to higher-valued
added industries.

Government efforts are expected to
counter the mounting inflationary pres-
sures. The gas subsidy coverage for the
poorest has increased, while the import
tariff for key staples will be reduced to ze-
ro for half year in 2022.

The poverty rate (US$5.5 PPP 2011 per
day) is estimated to gradually decline in
2022 to 14 percent, but remain above pre-
crisis levels. Meanwhile, inflation is likely
to converge toward its target bands only
by mid-2022.

The fiscal deficit is projected to narrow from
2.9 to 2.4 percent of GDP in 2021–24. A gradu-
al phase-out of subsidies to state-owned
enterprises in the energy and potentially
water sector, together with improvements
in tax administration, is estimated to create
headroom to increase public investments
and expand targeted transfers. Adequate
implementation of conditional cash trans-
sfers is likely to mitigate the energy reform
impact on households’ income. The public-
debt-to-GDP ratio is projected to stabilize
below 60 percent over the medium term.

The macroeconomic scenario faces both
demand and supply risks. A normalization
of monetary policy in the US can lead to a
tightening of financial conditions, while an
escalation of the war in Ukraine could di-
rectly affect tourist arrivals, and indirectly
affect the prices of key goods and services.
In addition, increasing fuel prices would
possess a significant risk to the fiscal bal-
ances and the energy reform. Likewise, cli-
mate change has intensified the exposure
to natural disasters, which, given the coun-
try’s low degree of financial protection
against these risks, could substantially in-
crease contingent fiscal liabilities.

### TABLE 2 Dominican Republic / Macro poverty outlook indicators

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023f</th>
<th>2024f</th>
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<tbody>
<tr>
<td><strong>Real GDP growth, at constant market prices</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Private Consumption</td>
<td>5.1</td>
<td>-6.7</td>
<td>12.3</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
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<tr>
<td>Government Consumption</td>
<td>4.6</td>
<td>-3.4</td>
<td>6.6</td>
<td>5.0</td>
<td>5.4</td>
<td>5.1</td>
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<tr>
<td>Gross Fixed Capital</td>
<td>6.3</td>
<td>4.9</td>
<td>0.1</td>
<td>2.7</td>
<td>5.6</td>
<td>7.9</td>
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<tr>
<td>Investment</td>
<td>8.1</td>
<td>-12.1</td>
<td>22.1</td>
<td>4.5</td>
<td>3.2</td>
<td>4.0</td>
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<tr>
<td>Exports, Goods and</td>
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<td>-30.3</td>
<td>36.2</td>
<td>13.5</td>
<td>7.8</td>
<td>7.0</td>
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<tr>
<td>Services</td>
<td>5.8</td>
<td>-14.6</td>
<td>24.7</td>
<td>9.5</td>
<td>6.0</td>
<td>6.1</td>
</tr>
<tr>
<td><strong>Real GDP growth, at constant factor prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.8</td>
<td>-6.3</td>
<td>11.5</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
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<tr>
<td>Industry</td>
<td>4.1</td>
<td>2.8</td>
<td>2.6</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Services</td>
<td>5.9</td>
<td>-6.7</td>
<td>16.5</td>
<td>5.0</td>
<td>5.0</td>
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</tr>
<tr>
<td><strong>Inflation (Consumer Price Index)</strong></td>
<td>1.8</td>
<td>3.8</td>
<td>8.2</td>
<td>5.5</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Current Account Balance (% of GDP)</strong></td>
<td>-1.3</td>
<td>-2.0</td>
<td>-2.5</td>
<td>-1.8</td>
<td>-1.6</td>
<td>-1.8</td>
</tr>
<tr>
<td><strong>Net Foreign Direct Investment (% of GDP)</strong></td>
<td>-3.4</td>
<td>-3.2</td>
<td>-2.8</td>
<td>-3.2</td>
<td>-3.2</td>
<td>-3.2</td>
</tr>
<tr>
<td><strong>Fiscal Balance (% of GDP)</strong></td>
<td>-2.2</td>
<td>-7.9</td>
<td>-2.9</td>
<td>-2.8</td>
<td>-2.5</td>
<td>-2.4</td>
</tr>
<tr>
<td><strong>Debt (% of GDP)</strong></td>
<td>50.5</td>
<td>69.1</td>
<td>62.7</td>
<td>60.9</td>
<td>60.1</td>
<td>59.8</td>
</tr>
<tr>
<td><strong>Primary Balance (% of GDP)</strong></td>
<td>0.6</td>
<td>-4.7</td>
<td>0.2</td>
<td>0.1</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>International poverty rate ($1.9 in 2011 PPP)</strong></td>
<td>0.6</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Lower middle-income poverty rate ($3.2 in 2011 PPP)</strong></td>
<td>2.7</td>
<td>4.0</td>
<td>3.7</td>
<td>3.6</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Upper middle-income poverty rate ($5.5 in 2011 PPP)</strong></td>
<td>12.4</td>
<td>15.2</td>
<td>14.5</td>
<td>14.2</td>
<td>13.7</td>
<td>13.3</td>
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<tr>
<td><strong>GHG emissions growth (mtCO2e)</strong></td>
<td>5.7</td>
<td>-5.0</td>
<td>6.0</td>
<td>1.2</td>
<td>1.4</td>
<td>1.5</td>
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<tr>
<td><strong>Energy related GHG emissions (% of total)</strong></td>
<td>64.6</td>
<td>62.3</td>
<td>64.4</td>
<td>64.6</td>
<td>64.7</td>
<td>64.8</td>
</tr>
</tbody>
</table>

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

a/ Fiscal balances are shown for the non-financial public sector (i.e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
d/ Projection using annualized elasticity (2007-2019) with pass-through = 0.35 based on private consumption per capita in constant LCU.