



Dominican Republic

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COUNTRY		CREDIT RATING			
Real GDP growth (%) Q42015	6.10%	S&P Foreign Currency	BB-(Stable)	Major Trade Partners	USA, Venezuela, China, Mexico
Next General Election	2016	Fitch Foreign Currency	B+ (Positive)	Major Exports (%)	Textiles, Sugar, Gold, Cocoa
Exchange Rate		Moody's Foreign Currency	B1 (Stable)	GDP Composition	Agriculture:6%, Industry: 29.1%, Agriculture:6%

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK

Stable

The Dominican Republic economy continues to show impressive growth, averaging over 7% during 2014–15, fueled mainly by domestic demand. Employment recovery and the decline in oil prices boosted disposable income, while the consumption-led recovery in the U.S provided strong linkages with tourism and remittance flows. Diversification into tourism, higher value manufacturing, and recently, increased mining activity, has supported the economy's resilience through economic cycles. Private housing and tourism investment has further assisted in boosting the construction sector along with government's investment in two coal plants. The services-based aspect of the economy has surpassed growth expectations and is expected to remain robust, bolstering a projected growth of 5.1% for 2016-2017 for the overall economy.

INFLATION

Stable

Inflation saw a minute decline from 1.7% in February to 1.6% in March, which marked the lowest reading in almost four months. Headline inflation remains well below the lower bound of the Central Bank's margin of +/- 1% around its 4% target rate. Inflation has declined and is expected to average 2.4% and 3.2% in 2015 and 2016, respectively, driven by the low energy prices. At its Central Bank's monthly policy meeting held in March, the standing committee decided to maintain its monetary policy rate at 5%, taking into consideration the inflation outlook as well as the international environment relevant to the Dominican economy.

FISCAL ACCOUNTS

Stable

In its latest country's assessment the IMF notes that the fiscal adjustment during 2013–14 has been critical in restoring confidence. Excluding one-off receipts, the deficit in 2015 is estimated to have been maintained at broadly similar levels as the previous year. This, together with the reduction in public debt by 3.1% of GDP due to the restructuring of the Petrocaribe liabilities, moderated the increase in consolidated public sector debt (including the debt of the electricity sector and the central bank) to 48.5% of GDP estimated by the IMF for 2015.

POLITICAL

Stable

President Danilo Medina is likely to secure a second term in the May 2016 presidential election. An improving economy, declining poverty and income inequality, as well as a modestly improving security environment, will ensure the government's current business friendly policy direction remains popular. The main threats to policy continuity are a deterioration in the security environment and an escalation in long-running tensions with neighboring Haiti. Relations between the Dominican Republic and its neighbor Haiti have reached a new low in recent months, following the Dominican Republic's decision to begin mass deportations of Haitian migrants and their descendants.

CREDIT RATINGS

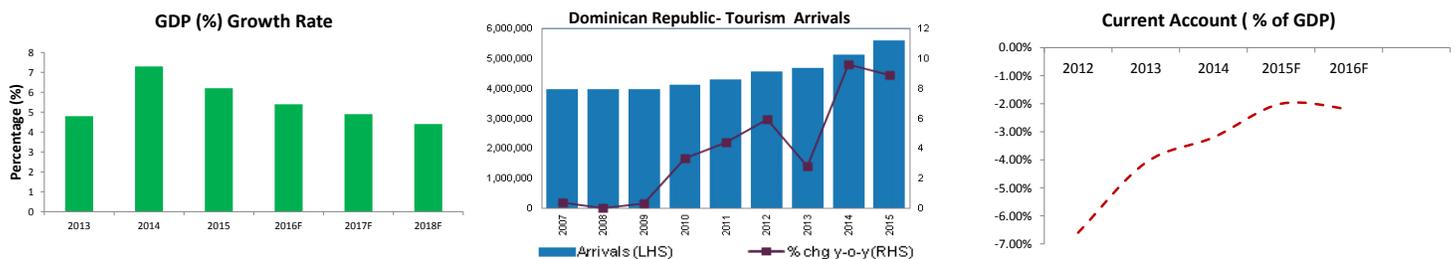
Stable

On May 20, 2015, Standard & Poor's Ratings Services raised its long-term sovereign credit ratings on the Dominican Republic to 'BB-' from 'B+'. The credit rating outlook remains at "stable". The ratings upgrade was supported by an improved monetary policy framework in the Dominican Republic. In 2012, the central bank became operationally independent and moved to an inflation-targeting regime, improving its policy track record. Currently, the Dominican Republic is rated by Moody's at B1 (Stable) and by Fitch at B+ (Positive).

OUTLOOK

Economic activity maintains a strong momentum, supported by a favorable external environment and a strengthened policy framework. Domestic demand has been the main growth engine, supported by an expansion in employment, decent credit growth, lower oil prices, and the recovery in the U.S. Strong tourist arrivals and increasing investment into the sector will create a growing number of employment opportunities in the hotels & restaurants and wholesale & retail trade over the coming years. While the emergence of the Zika virus is likely to impact arrivals growth in 2016, strengthening US economy and hotels' attempts to woo visitors with lower prices will ensure that arrivals continue to experience an upward trend over the next few months. Conclusively, sustaining strong economic growth and making it more inclusive will require effective reform efforts. The authorities' reforms in education, strengthening social safety nets, and in promoting financial inclusion should help boost growth and improve social outcomes overtime.

Source: IMF Economic Outlook April 2016



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