Dominican Republic

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COUNTRY			CREDIT RATING				
Real GDP growth (%) 2015	6.20%		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**

Dominican Republic continues to demonstrate strong growth amongst the region given its reformed and strengthened policy framework.The economy is estimated to have expanded 6.5% - 7% in 2015 driven by strong domestic demand. The services sector drives growth in the Dominican Republic and accounted for 62.1% of GDP in 2014 and is forecasted to grow 5.1% in 2016. Within this sector, the hotel and bars sub-sector accounts for 7.5% of GDP and other services such as commerce accounts for 9.5% of GDP. These sectors are expected to show strong growth in the future linked to the positive tourism outlook. The construction sector (9% of GDP -2014) is also expected to show growth in the future associated with a boost in tourism-related infrastructure such as hotels and airports.

INFLATION — **Stable**

Inflation saw a notable increase from 1.5% in November to 2.3% in December, representing the highest with the last year. The increases were mainly due to higher prices for transportation and housing.Overall, inflation was estimated to have averaged 2.34% in 2015 below its target rate of 4% ± 1%. Transportation-related prices remained contained, given significantly lower costs of fuel imports which offset an increase in food prices that was caused by drought conditions.Low oil prices will keep consumer price inflation in the Dominican Republic subdued throughout 2016. Inflation is forecasted at 2.6% in 2.16.

FISCAL ACCOUNTS — **Stable**

The general government deficit continued its downward trend since 2012 and was estimated at 4% of GDP by S&P in 2015. Tax reform, capital expenditure controls and low oil prices were the major drivers. Tax reforms such as a VAT increase from 16% to 18% (over a period of four years), higher corporate tax (26% to 29%), higher taxes on tobacco and alcohol and increased royalties from the Barrick Gold mine have helped to increase revenue. Further tax reforms, a more efficient custom system and the Fiscal Responsibility Law to lock in deficit reductions are expected after the 2016 elections. In January 2015, the Dominican Republic used USD1.9 billion of a USD2.5 billion issuance to buy back USD4 billion of PetroCaribe outstanding debt, with a 52% discount. This resulted in the net general government debt falling to 41.7% of GDP in 2015 from 44% of GDP in 2014.

POLITICAL — **Stable**

It is expected that most likely Dominican Republic's May 2016 general election will see the re-election of President Danilo Medina, resulting in the continuation of investor-friendly policies. In June, the legislature amended the constitution to allow for two consecutive presidential terms. A victory by Medina would secure the fourth consecutive presidential term by the ruling Partido de la Liberación Dominicana (PLD), bolstering investor confidence in the regulatory environment for the mining sector, which has become the fastest growing sector in the country in the last few years. While Medina had previously stated that he would not support a re-election bill, since the passage of the constitutional amendment he has stated that he is considering running for re-election in 2016.

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+ (Stable).

OUTLOOK

Given an impressive track record of macroeconomic stability and sustained access to official lending and international capital markets, Dominican Republican's development has been on the right track. These strengths are balanced against structural weaknesses in fiscal accounts such as a narrow revenue base and rigid budget expenditure, rising government debt and external financing needs, and a weak external liquidity position. It is expected that growth for Dominican Republic will be above 5% in 2016, driven by strong performance in the tourism and construction sectors. Tourism growth will drive the overall economy especially given a strengthening US economy. However, as with much of the Caribbean, the Dominican Republic will remain highly exposed to potential economic slumps in advanced economies in the coming years, which would impact on tourist arrivals and economic growth.

Source: Standard and Poor's, Caribbean Tourism Organisation, IMF Economic Outlook October 2015