



Dominican Republic

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COUNTRY		CREDIT RATING		Major Trade Partners	
Real GDP growth (%) 2Q2016	8.70%	S&P Foreign Currency	BB-(Stable)	USA, Venezuela, China, Mexico	
Next General Election	2020	Fitch Foreign Currency	B+ (Positive)	Textiles, Sugar, Gold, Cocoa	
Exchange Rate		Moody's Foreign Currency	B1 (Positive)	GDP Composition	Agriculture:6%, Industry:29.1%, Agriculture:6%

RECENT ECONOMIC DEVELOPMENTS

ECONOMIC OUTLOOK

Stable

Preliminary data from the Central Bank reflects that the Dominican Republic's economy grew by 5.8% in the 3Q2016. This quarter's expansion was a decline from the stronger 8.7% growth registered in the previous quarter and the lowest pace of growth since 2Q2016. Key sectors such as the mining and quarrying sector saw impressive growth of 22.3% y-o-y in the first three quarters of 2016. The local manufacturing growth rate continues to show some downward pressure having decelerated from 2015's 6.1% to 5.3%, while in the same period manufacturing activity in the country's special economic zones shrank from 4.5% growth to a 0.4% drop. The government forecasts that the economy will grow 6.5% in 2016 supported by the tourism sector which is likely to be a major driver of capital inflows, as investors expand the sector's capacity through construction of new hotels and resorts.

BALANCE OF PAYMENTS

Stable

Preliminary balance of payments results for first quarter 2016 show a favorable external sector performance after registering a positive current account balance in the same period for the third consecutive year. At the end of March the balance surplus was USD239.9 million, USD44.8 million higher than that registered in the first quarter of 2015. This result is mainly due to an increase in the balance of services, due to revenue growth from tourism and family remittances of 8.3% and 7.4%, respectively. Additionally, the balance results were influenced by lower prices of oil and petroleum products, compared to those prevailing during the same prior-year period.

TOURIST ARRIVALS

Positive

Dominican Republic recorded strong growth in cruise passenger arrivals, according to the latest data from the country's Ministry of Tourism. Thus far, the country reported 580,000 cruise passengers at the end of September 2016, which represents a 67.5% increase from the same period y-o-y. This has been largely attributed to the newly completed Amber Cove cruise port complex in Puerto Plata, which was developed by Carnival Cruise Line. It is expected that Dominican Republic's tourism sector will remain robust supported by private consumption and continue to attract new investment into the economy over the short-medium term. Tourism has significantly benefited from a strengthening US jobs market, which has driven spending on vacations and entertainment. With regards to air arrivals this saw an uptick from January to August 2016 by 6.5% y-o-y according to BMI estimates.

POLITICAL

Stable

In mid-2016, the Dominican Republic went to the polls to elect the president, members of the National Congress as well as municipal authorities. The general elections resulted in a large victory for incumbent President Danilo Medina of the ruling Dominican Liberation Party (PLD) over his closest competitor, Luis Abinader, of the social-democratic Modern Revolutionary Party (PRM). During his second term, Medina is expected to focus on attracting foreign investment, particularly into the tourism and mining sectors, in order to sustain growth. GDP growth in the Dominican Republic has been quite attractive when compared to Caribbean peers in recent years, which is a major contributor towards the president's relatively high approval ratings as well as his successful re-election bid. For 2017, the government is expected to pass the 'Pacto Eléctrico' which is a package of reforms directed at reducing inefficiencies in the country's electricity sector. Costly electricity subsidies have weighed on government finances, but under the proposed legislation these will be reduced immensely. Generally, government policies are expected to remain business-friendly in Dominican Republic as strong economic growth will lead the policy direction.

CREDIT RATINGS

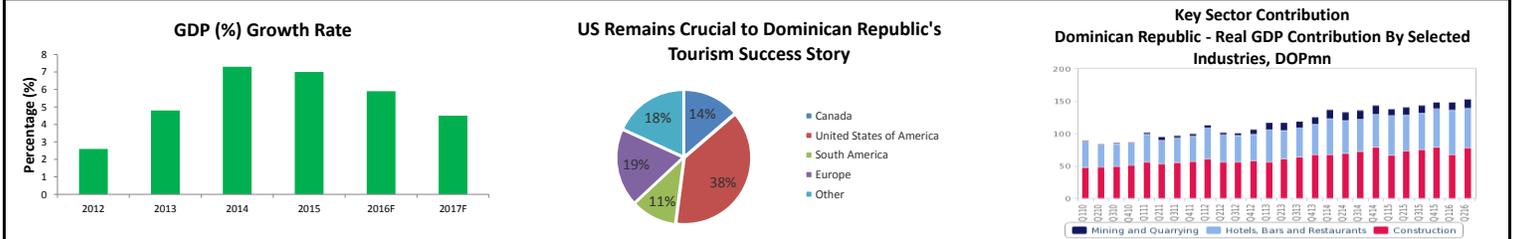
Positive

Early July 2016 saw Moody's changing its outlook on Dominican Republic sovereign rating to "Positive" from "Stable", while affirming its B1 rating. The rating agency highlighted its confidence that the country's debt burden will continue to decline over the next two years, supported by a reduced fiscal deficit. Moreover, the Dominican Republic's robust growth outlook, which compares favorably to rating peers, and could lead to a rise in the country's income levels proving to be well for the country's small middle-class. Currently, the Dominican Republic is rated by S&P's at BB- (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. The emergence of the new tourism projects, together with a 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 October 2016, Business Monitor International



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