



DOMINICAN REPUBLIC

July 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with the Dominican Republic, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis on July 5, 2022, following discussions that ended on May 13, 2022, with the officials of the Dominican Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 16, 2022.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2022 Article IV Consultation with the Dominican Republic

FOR IMMEDIATE RELEASE

Washington, DC – July 5, 2022: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the Dominican Republic and considered and endorsed the staff appraisal without a meeting².

The Dominican Republic continued to show remarkable resilience to global shocks, supported by sound policies, monetary policy support, a nimble COVID vaccination campaign and a well-attuned reopening that allowed the economy to make the most of the global rebound last year. This resilience and strong signals of policy sustainability are placing the Dominican economy in a good position to face emerging global challenges going forward.

The economy recovered strongly from the pandemic, despite global factors that created challenges in terms of inflation. Real GDP increased by 12.3 percent in 2021, amid broad sectoral growth—including a notable recovery in tourism, with arrivals exceeding 2019 levels since last fall. By end-2021, output was 5 percent above pre-pandemic levels, consistent with strong employment growth. Inflation convergence is taking longer than envisaged—headline inflation exceeds the target range due primarily to high inflation in the United States, higher global energy and food prices, and supply chain disruptions. The external position was sound, with the current account financed by FDI and a significant accumulation of reserves. The financial system remains resilient and continues to support the economy despite the unwinding of pandemic-related regulatory flexibility.

The outlook points to a continued recovery, though global developments pose risks. GDP growth would converge to its potential and inflation would return to the target range by next year as the impact of global shocks recedes, in the context of financial stability and a sound external position. As for risks, the war in Ukraine may have a stronger-than-expected effect on global growth and inflation. The pandemic, while well-contained in the Dominican Republic, may downgrade growth in other regions. And monetary policy tightening in the United States may have a stronger-than-expected impact on capital flows. The authorities have responded with temporary measures while maintaining budget discipline through expenditure control and executing proactive debt-management that reduced financing risks. The central bank has begun a normalization of monetary policy; absorbing liquidity and increasing the monetary policy rate.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Executive Board Assessment

In concluding the 2022 Article IV Consultation with the Dominican Republic, Executive Directors endorsed staff's appraisal, as follows:

As in the past, the Dominican Republic's economy showed remarkable resilience. Sound policies that supported stability and maintained good market access, an effective health campaign and well-attuned re-opening—including to tourism—allowed the Dominican Republic to make the most of the global rebound and to limit scarring and the increase in poverty. The strong, broad-based recovery—with GDP at end-2021 about 5 percent above pre-pandemic levels—allowed a front-loaded fiscal consolidation and the normalization of monetary policy to address inflationary pressures.

Strong growth momentum and a well-sequenced policy response continue to help the Dominican Republic face a challenging global environment. Amid abating global tailwinds, growth should converge to its longer-term trend. Supply shocks have driven inflation higher than previously projected, but fiscal measures are easing the impact while the normalization of monetary policy should allow inflation convergence to the target over the policy horizon. Risks are mainly associated with the war in Ukraine and the tightening of global financial conditions. The main impact from the war is expected to take place through higher commodity prices—direct trade and financial linkages are limited—while global financial conditions may have a stronger-than-expected impact on capital flows. The front-loaded fiscal consolidation, timely debt issuance and pro-active debt management help reduce vulnerabilities through lower near-term financing needs. Overall, this provides some space to face downside risks.

The external position is broadly in line with fundamentals and desirable policies. Exports and remittances grew robustly, while higher domestic demand and commodity prices increased the current account deficit—which nonetheless remained fully financed by resilient FDI—the external position is assessed as sustainable, with international reserves up strongly, improving reserve adequacy. The real exchange rate appreciated slightly in 2021 and remains broadly in line with fundamentals.

Economic policies—fiscal prudence, temporary commodity price mitigation measures, and monetary policy tightening—remain appropriate. Expenditure rationalization and tax administration efforts will help maintain a gradual fiscal consolidation, putting public debt on a stronger downward trajectory than previously projected while protecting investment and social spending. The use of temporary fiscal measures to contain the impact of commodity price shocks on domestic fuel and food prices is appropriate, as well as continuing with electricity sector reforms and improved targeting of subsidies and social assistance. Ongoing monetary and prudential policy normalization are warranted to maintain inflation expectations anchored and moderate financial risk-taking, respectively.

The exit from the financial regulatory response to the pandemic has been appropriate and the financial system proved its resilience. The exit was well designed and remains based on intensive monitoring and transparency in the assessment of asset quality. Going forward, the system would benefit from implementing higher international standards of supervision and regulation, enhancing the macroprudential and crisis management toolkit, and strengthening the regulatory framework for credit and savings cooperatives financial oversight.

Well-sequenced reform implementation can help strengthen medium-term policies. The authorities continue taking steps to strengthen policy frameworks, in particular by enhancing public financial management and transparency. This will pave the way for the introduction of fiscal responsibility legislation to better anchor medium-term policies and further secure debt sustainability. Together with ongoing reforms in the electricity sector, enhanced policy frameworks can build consensus for future revenue mobilization initiatives that create space for needed investment in infrastructure and human capital. An agreed roadmap for central bank recapitalization can also help by enhancing financial and institutional independence.

Reforms to foster inclusive growth and improved social outcomes remain critical. Ongoing efforts to improving governance, securing stable, competitive, and sustainable energy supply, building climate change resilience, and tackling other productivity bottlenecks—e.g., modernizing the labor code, increasing years and quality of education, and narrowing skills gaps in labor markets—along with enhanced effectiveness of social programs continue to be critical for sustainable and more equitable growth. Further efforts to address social issues—such as reducing regional and gender inequality—would also help making growth more inclusive.



DOMINICAN REPUBLIC

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION

June 16, 2022

KEY ISSUES

Context. As in the past, the Dominican Republic's dynamic economy continued to show remarkable resilience to shocks, rebounding strongly from the impact of the pandemic. Sound policies, a nimble vaccination campaign and a well-attuned reopening—including international travel—allowed the economy to make the most of the global rebound. The recovery has been broad based; GDP was about 5 percent above pre-pandemic levels as of end-2021. The country maintained sound market access and benefitted from Fund support through the Rapid Financing Instrument (RFI).

Recent Developments. Following a decline of 6¾ percent in 2020, GDP grew by 12¼ percent last year. Aided by global spillovers and resilient FDI, the upturn was led initially by manufacturing and construction, followed by a strong recovery in tourism—by last fall, arrivals surpassed pre-pandemic levels. Amid global inflationary pressures, inflation convergence to the target (4±1 percent) is taking longer-than-envisaged; it reached 8½ percent by end-2021, though inflation expectations remained well-anchored. The external current account remained more than fully financed by FDI, and the international reserve position strengthened in 2021.

Outlook and Risks. A frontloaded fiscal consolidation tailored policies to the evolving impact of the pandemic—phasing out support as employment recovered and devoting efforts to the reopening—and allowed a significant reduction in public debt. Monetary policy aided the recovery and turned into normalization to address inflation pressures by end-2021. This will help facing challenges from the war in Ukraine and global financial tightening on inflation and activity amid constrained policy space.

Policy Issues. Discussions focused on the ongoing normalization of monetary policy, the fiscal response to global shocks amid efforts to secure fiscal sustainability, and the exit strategy from financial sector pandemic support. Persevering on electricity sector reforms while ensuring appropriate support for vulnerable population through well-targeted programs will be important going forward, as well as implementation of ongoing efforts to strengthen policy frameworks (including a fiscal responsibility law), governance, anti-corruption policy and transparency, and the business environment. These reforms—supported by Fund capacity development—can foster growth and signal strong commitment to sustainable policies. Sound sequencing in the reform agenda can build consensus for revenue mobilization going forward.

Approved By
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(WHD) and Eugenio
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Discussions took place in Santo Domingo during April 29-May 13, 2022. The staff team comprised Esteban Vesperoni (head), Pamela Madrid, Mario Mansilla, Nicolás Fernández-Arias, (all WHD), Hassan Adan (FAD) and Dirk Jan Grolleman (MCM). Evelyn Carbajal, Soungbe Coquillat and Madina Toshmuhamedova (WHD) assisted the team through research assistance and editorial support. Messrs. Afonso Bevilaqua and Frank Fuentes (both OED) participated in the discussions. The team met with President Luis Abinader, Central Bank Governor Héctor Valdez, Minister of Finance José Manuel Vicente, Superintendent of Banks Alejandro Fernandez, and other senior officials, as well as private sector and civil society representatives.

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STRONG RECOVERY, POLICY ADJUSTMENTS AND ONGOING REFORMS

1. The economy rebounded strongly, aided by positive global spillovers and a well-phased reopening. Through prompt procurement and an expedient vaccination campaign, the authorities implemented a well-attuned reopening—including to international travel—that made the most of the global rebound. The early upturn in manufacturing and construction was followed by a stronger-than-expected recovery in tourism. Sound market access and Fund support through the RFI aided the recovery. By end-2021, GDP was 5 percent above pre-pandemic levels.

2. A frontloaded fiscal consolidation bodes well for fiscal sustainability and is instrumental to address challenges, including inflation. The policy mix comprised a front-loaded fiscal consolidation that tailored support to the evolving impact of COVID while significantly reducing public debt. Monetary policy appropriately supported activity while the fiscal consolidation was taking place, and gradually shifted to normalization to address inflation pressures towards end-2021. Overall, this should help facing challenges from the impact of the war in Ukraine and tightening global financial conditions on inflation and activity amid still-constrained policy space.

3. The authorities are committed to a reform agenda to improve policy frameworks, strengthen inclusive growth and secure stability. The agenda conveys the authorities' vision of effective public institutions and should aid sustainable policies and the tackling of challenges from productivity bottlenecks and gaps in social outcomes. It comprises stronger policy frameworks—including a fiscal responsibility law—better governance and transparency, a sustainable electricity sector, an enhanced business environment, and stronger social programs. A timely implementation and good sequencing of reforms can build consensus for revenue mobilization to finance development needs and build buffers.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. A strong and broad-based recovery took place in 2021, with a notable recovery in tourism and real GDP increasing by 12.3 percent. Tourism arrivals recovered faster than expected—exceeding 2019 levels by 15 percent in the last quarter—supporting the rebound in services, which accounted for half of 2021 GDP growth. Construction and manufacturing, which led the recovery initially, accounted for another third. At end-2021, output in all sectors was above pre-pandemic levels (Figure 1), aiding the withdrawal of fiscal support and giving way to the start of the monetary policy tightening cycle.

5. Inflation remains above the target range pushed mainly by persistent global factors (Annex I), while wage pressures remain relatively contained. At 8½ percent, inflation continued to exceed the target range due primarily to external factors: while the nominal exchange rate appreciated, high US inflation, higher global fuel and food prices, COVID-related supply disruptions

(e.g., container shipping costs), and the recovery of US demand pushed inflation above its target range. Real wages in 2021 recovered slightly—1½ percent—from the fall in 2020, which reached 13 percent.

6. The external position remained in line with fundamentals and desirable policies

(Annex II). The current account (CA) deficit increased, as strong remittances and the recovery in exports and tourism—which benefitted from global spillovers—only partially offset the increase in imports due to strong domestic demand and higher prices, especially fuels (Figure 5). Nonetheless, FDI continued to cover the CA deficit while portfolio flows remained positive. Along with the SDR allocation, this helped strengthen the reserve position, which ended at a historic high, exceeding traditional metrics and reaching 83 percent of the ARA metric.

7. The financial sector passed a tough resilience test. Despite the withdrawal of COVID-related regulatory flexibility and the legacy of the crisis on credit quality, capital and liquidity buffers remain sufficient (Table 5). Credit growth rebounded with the recovery, though distressed loans (notably, restructurings in the service sector) are still elevated. Deposits growth remained strong. A recent liquidation of a very small bank, due to issues pre-dating COVID, was handled appropriately and had no visible effect on the market.

8. Following the strong recovery last year, growth is expected to decelerate to its potential rate in 2022. While there is a strong carryover for 2022, global demand will slow down. And while direct trade linkages and spillovers in the financial sector are relatively limited, the war in Ukraine is adding to inflation pressures through international energy and food prices and slowing global growth—dampening income growth and increasing risks and the current account deficit in the short-term (Annex III). In the medium-term, maintaining potential growth at 5 percent would require continued investment and labor-force participation growth, and higher productivity to offset demographic trends (Annex IV).

Medium-Term Macroeconomic Framework										
(Selected Indicators, In Percent of GDP, Unless Otherwise Specified)										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
					Proj.					
Growth and Prices										
GDP growth	7.0	5.1	-6.7	12.3	5.0	5.0	5.0	5.0	5.0	5.0
Consumer price inflation (e.o.p.)	1.2	3.7	5.6	8.5	8.0	4.5	4.0	4.0	4.0	4.0
Government Finances										
Central government revenue	14.2	14.4	14.2	15.6	14.4	14.4	14.5	14.5	14.5	14.5
Central government expenditure	16.4	16.6	22.1	18.5	17.4	17.2	17.2	17.1	17.0	17.0
Consolidated public sector overall balance	-3.4	-3.3	-9.0	-3.9	-3.9	-3.7	-3.5	-3.4	-3.3	-3.1
Consolidated public sector debt	50.1	53.3	71.1	62.1	59.3	57.6	56.6	55.8	54.9	54.0
Balance of Payments										
Current account	-1.5	-1.3	-1.7	-2.8	-3.4	-2.4	-2.2	-2.2	-2.2	-2.2
Foreign direct investment	-3.0	-3.4	-3.2	-3.3	-3.2	-3.3	-3.3	-3.3	-3.3	-3.3
Gross reserves (US\$million)	7,627	8,781	10,752	12,289	13,602	15,215	16,380	17,563	18,831	20,190

Sources: National authorities and IMF staff calculations

9. While uncertainty remains high, the medium-term outlook is positive; continued reforms could reduce vulnerabilities and support inclusive growth. The recovery facilitated a reduction in the public sector deficit (by 5 percent of GDP, to almost pre-pandemic levels) and debt (by 9 percent of GDP).¹ Aided by pro-active debt management—the Dominican Republic tapped international markets last February—the 2022 budget is mostly financed, and refinancing risks have been curbed amid slightly lower financing costs (Annex V). Credit growth is expected to slow down as GDP growth converges to potential and monetary policy tightens. A gradual reserve accumulation is expected to continue going forward. Returning inflation to the target and persevering on reforms to better anchor medium-term policies and enhance productivity and effective social programs will help build buffers, improve social outcomes, and limit scarring—as in other emerging economies, GDP has not recovered yet to the levels of its pre-pandemic trend.

10. Short-term risks to the outlook are tilted to the downside, but more balanced in the medium-term (Annexes VI and VII).

- **Global Risks—war in Ukraine.** The increase in geopolitical risks have tilted the balance of risks—for both growth and inflation convergence—to the downside. Stronger-than-envisaged inflation from higher commodity prices may create further pressures in the fiscal accounts—due to a need for increased social support—and require stronger-than-expected monetary policy tightening, affecting growth.
- **Global Risks—global financial conditions.** Stronger-than-envisaged tightening of global financial conditions can curb capital flows, posing further challenges to monetary policy and increasing pressure on financing costs and the currency. This could increase debt burdens, especially for unhedged borrowing in foreign currency.
- **COVID-19.** New variants may reduce global output, spilling over to the domestic economy through trade linkages. Viral transmission to the Dominican Republic could hurt the service-oriented economy—although it has been resilient so far.
- **Domestic risks.** These are slightly tilted upwards over the medium-term. Expanded investment opportunities and ongoing reforms may reduce risk premia and boost potential growth. On the other hand, unexpectedly high inflation or other shocks could hinder the reform momentum.

Authorities' Views

11. The authorities agreed with staff on outlook and risks. They noted that the staff's 2022 growth forecast is on the conservative side of their 5-5½ percent range and agreed with the outlook for inflation. They emphasized that major downside risks are associated with external factors and remain confident that their policies will continue to support growth in the medium-term. They agreed with staff that there is upside risk associated with successful implementation of structural reforms and recognized the importance of social support and political stability.

¹ DR's rating outlook was upgraded to stable by Fitch and S&P in December 2021.

POLICY DISCUSSIONS

Discussions focused on the policy mix and medium-term structural reforms, especially on: (i) fiscal consolidation and support for the vulnerable; (ii) the need to secure inflation convergence amid a complex external environment; and (iii) ongoing reforms to ensuring a good quality and equitable consolidation, building consensus for further reforms, maintaining financial stability and fostering inclusive growth.

A. Supporting Inclusive Growth and Policy Sustainability

12. The front-loaded fiscal consolidation paves the way for reforms to secure policy sustainability and support inclusive growth. While consolidation has placed public debt on a solid downward path, increasing inflationary pressures point to the need to fine tune normalization of monetary policy and create space for targeted policies to protect the most vulnerable. Sound sequencing to enhance medium-term fiscal and financial regulatory frameworks would further support stability and sustainable growth.

13. Fiscal policies in 2021 took advantage of the economic recovery to frontload a consolidation, securing policy sustainability. The budget redirected spending at aiding the reopening—especially through vaccination—and at mitigating the impact of rising commodity prices.² The recovery allowed the gradual phase-out of income and employment pandemic-related support while the key social program was expanded (see ¶38). One-offs and the strong recovery in tax collection more than offset lower other revenues from delays in contracting electricity sector concessions.³ Along with strict expenditure controls, these helped reduce the deficit by about 5 percent of GDP.

Emergency Measures: Key Impacts on Fiscal Accounts		
(in percent of GDP)		
	2020	2021
Increase in Expenditures ^{1/}	3.3	1.2
COVID Health spending	0.3	0.5
Other COVID-related spending ^{2/}	0.1	0.2
Key social programs (targeted cash-transfers)	2.9	0.4
<i>Food</i> ^{3/}	1.6	0.3
<i>Employment</i> ^{4/}	1.3	0.0
Fuel subsidies (untargeted) ^{5/}	n.a.	0.2

Sources: National authorities and IMF staff calculations
1/ Not included in original budget.
2/ Includes salary incentives for other sectors and other spending.
3/ *Superate/Alimentate* since May 2021, previously *Quedate en Casa / Comer es Primero*.
4/ Temporary emergency programs (FASE and Pa'Ti).
5/ Smoothing of fuel prices.

² In particular, fuel prices were smoothed, requiring subsidies of 0.2 percent of GDP.

³ One-offs include advances (0.5 percent of GDP), collections from law 46-20 providing for tax amnesty and payment plans (0.5 percent of GDP), and other extraordinary revenues (0.1 percent of GDP).

14. The 2022 budget continues to prioritize expenditure rationalization while mitigating the impact of higher commodity prices. The fiscal position aims at protecting the consolidation achieved last year despite global shocks—the fiscal stance will be broadly neutral this year. The authorities intend to continue curbing current spending and proceed with reforms in the electricity sector—including gradually adjusting tariffs towards cost recovery and replacing consumption-based subsidies with targeted transfers to offset the impact on the poor (Annex VIII).⁴ However, with the shock to commodity prices, 2022 subsidies will remain elevated given additional temporary support to mitigate the impact of higher energy and food prices on the vulnerable (see also ¶38).⁵ The authorities may extend some measures—i.e., those affecting fuel, gas and transport prices that impact heavily on informal employment. About 0.7 percent of GDP in non-priority spending was identified to accommodate this, with scope also to reduce capital spending given the large end-2021 transfers.⁶ Staff assess that the budget is conservative in terms of tax revenue, but revenues from sales of minority stakes in energy generation assets are uncertain. Overall, the 2022 deficit would remain in line with last year's outcome.

2022 Budget, Main Accounts (In percent of GDP) ^{1/}			
	2021 (Actual)	2022 (Budget)	IMF Proj.
Revenue	15.6	14.8	14.4
Tax revenues	14.3	13.0	13.4
Other revenues ^{2/}	1.1	1.6	1.0
Current Spending (Expenses) ^{3/}	17.1	16.1	15.9
Compensation of employees	4.4	4.4	4.2
Goods and services	2.1	2.0	1.4
Interest	3.1	3.6	3.0
Subsidies	1.4	1.0	1.9
Grants	3.3	2.8	2.7
Social benefits	1.7	1.6	1.7
Other transfers	1.1	1.0	1.0
Assets	1.5	1.6	1.5
Overall Balance	-2.9	-3.0	-3.0

Sources: National authorities and IMF staff calculations.

1/ The budget assumes GDP is RD\$5,837 bln. Staff assumes GDP of RD\$6,160 bln.

2/ The budget includes revenue from asset sales, while staff consider only usual capital revenue.

3/ Since the budget, the government announced additional subsidies and social benefits to mitigate the impact of higher fuel and food prices. Staff assume these are partially offset by less goods and services spending. Budgeted interest expenses include interest for Jan. 2023.

Fiscal Measures to Mitigate Commodity Price Shock, 2022		
	Duration (Initial)	Cost (percent of GDP)
Fuel / Transport:		0.4
Freeze of basic fuel prices	4 months	0.3
Bonogas-Households	full-year	0.1
Public transport drivers (INTRANT)	4 months	0.0
Food		0.2
Superete/Alimentate (cash-transfer)	full-year	0.1
Other food support (in-kind) ^{1/}	full-year	0.1
Subsidy for up to 10% of food imports ^{2/}	6 months	0.1

Sources: National authorities and staff calculations.

1/ Includes expansion of community canteens and markets for subsidized sale of basic food basket (INESPRE); and distribution of food rations (President's Social Plan).

2/ Includes subsidies for rice price freeze and fertilizer.

⁴ The transitional tariff scheme has been aided by a hedge on gas prices contracted by the authorities in 2021, which extends to 2023.

⁵ From March, the basic fuel prices would be frozen if the WTI remained between US\$85-US\$115; if WTI were to exceed US\$115, then the price change would be passed-on but without the ad-valorem tax. The Authorities recently proposed amendments to the Hydrocarbons Law to provide an explicit legal basis for more transparent smoothing and related subsidies.

⁶ Decree 3-22 on rationalization and spending control. This mostly impacts purchases of motor vehicles and international travel: <https://presidencia.gob.do/noticias/presidente-abinader-reitera-por-decreto-la-racionalizacion-del-gasto-publico-por-medio-de>

15. The central bank started the normalization of monetary policy. Monetary policy supported the recovery during the fiscal consolidation. As inflation convergence slowed and the economy recovered quickly the BCRD tightened, mopping up exceptional liquidity starting in August 2021 and increasing the reference rate by 350 bp since November 2021 (from 3 to 6½ percent), which staff views as appropriate. The monetary stance remains supportive, as the real policy rate is still negative. While fiscal measures will curb the impact of energy prices, inflation pressures persist and may call for further adjustments in the context of the ongoing tightening cycle. The pace of the tightening should continue to be data dependent—the central bank monitors a broad set of indicators, including monetary policy in advanced economies—and should allow for inflation convergence to the target range (4 ± 1 percent) over the policy horizon. Graduality in the process has been currently justified by well anchored two-year inflation expectations and subdued wage pressures (see ¶15). The authorities and the staff agreed that maintaining expectations anchored is of essence.

16. The policy mix and shock mitigation measures are broadly appropriate, though more persistent inflation may require further policy adjustments. Further gradual fiscal consolidation—which calls for continued reforms in the electricity sector and expenditure control—will allow a steady decline in the debt burden. While the targeting of some measures to mitigate high commodity prices can be improved going forward, they are assessed as broadly appropriate because they are temporary, managed within the budget envelope, and important to help maintain the reform momentum. As for contingency planning, even if shocks required some budget revisions, these would be contained and financing would not pose a major challenge. To maintain the course over the medium-term, the fiscal strategy would benefit from fiscal responsibility legislation (¶122) and policies to protect the vulnerable in the context of the envisaged electricity sector pact reforms (Annex VIII). On the monetary front, depending on the impact of external developments on domestic inflation and given the importance of maintaining the hard-earned credibility of the inflation targeting regime, the central bank may need to pursue higher-than-expected monetary tightening.

Authorities' Views

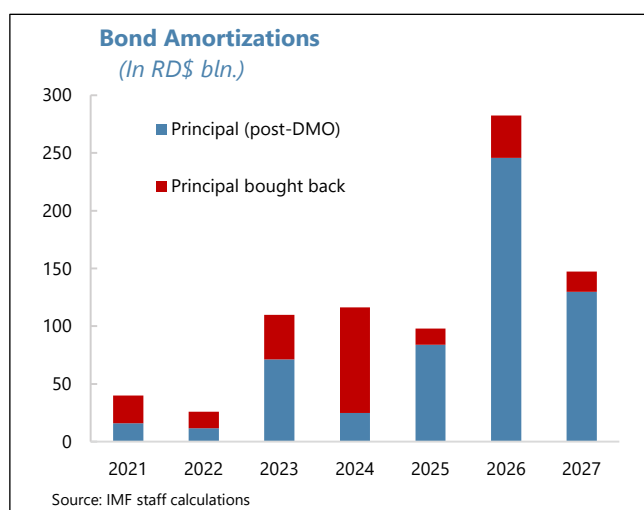
17. The authorities are confident that policies will continue to support growth and maintain internal and external balance. The central bank will conduct monetary policy to keep inflation expectations well-anchored and bring inflation back to the target range within the policy horizon. The fiscal stance will lead to a further—though more gradual—consolidation while providing support for the vulnerable—fiscal discipline is being strengthened by on-going and planned reforms. Confidence in economic policies is reflected in the continued strength of FDI and tourism—key drivers of the robust growth and the external position, including historically-high reserve buffers.

B. Consolidating Policies to Secure Fiscal Sustainability

Securing a High-Quality and Equitable Consolidation

18. Ongoing reforms in the electricity sector can gradually eliminate treasury transfers, increasing the quality of fiscal spending (Annex VIII). The electricity sector has been a drain on fiscal resources—with annual transfers of around 1 percent of GDP over the last decade. The Electricity Pact has given the authorities a mandate to enhance governance in the sector, create conditions to facilitate private investment, and implement tariff and subsidy reforms—the first tariff increase in 10 years took place last November and quarterly adjustments continued in 2022. Reforms intend to gradually reach cost-recovery levels by 2026 while increasing targeted transfers through a social program (Bonoluz) to mitigate the impact on the poor. Tariff adjustments will be conceived to eliminate consumption-based (poorly targeted) subsidies. Staff believes that the electricity sector pact follows a balanced approach by implementing gradual tariff adjustments while strengthening the social safety net.

19. Pro-active debt management is serving consolidation efforts and helps building buffers against short-term downside risks. The country is taking advantage of its market access and its recently upgraded credit outlook to actively implement debt management operations. Those transactions are lowering interest costs, extending the maturity of debt, and smoothing the amortization schedule.



20. Continued enhancement of Public Financial Management (PFM) and transparency are critical to strengthen the fiscal framework. These reforms will also support the adoption of a fiscal rule (¶22). The government's commitment to enhancing PFM is manifested in the approved plan to make public administration more efficient and continued efforts to enhance budget control and monitoring—e.g., reduction of administrative debt (accounts payable); and integration between the Expenditure Module of the Financial Management Information System (SIGEF) and the Electronic Public Procurement System (SECP). Further, the authorities requested TA to help identify key weaknesses in PFM and provide a road map to strengthen the institutional capacity for a Medium-Term Fiscal Framework (MTFF). Areas to strengthen include the assessment of the fiscal outlook and the management and reporting of fiscal risks. Setting up a PFM reform coordination mechanism, ensuring consistency between MTFF and strategic planning, strengthening the MTFF content, and implementing multiannual spending commitments will be instrumental going forward. The authorities requested further FAD TA, including on fiscal risks and a Public Investment Management Assessment (PIMA).

21. The authorities continue to work on strengthening public procurement and COVID-spending audits. Proposed amendments to the procurement law—currently in Congress—would strengthen powers to eliminate loopholes and shift to a more modern system (Annex X). Regarding COVID spending, due diligence of suppliers was strengthened; and a special fraud unit at the Comptroller General and a transparency portal were rolled out. While the external audit is not finished yet, the Chamber of Accounts has been collecting information and coordinating with other institutions. In order to finish the COVID-spending audits in line with RFI commitments, the authorities have sought guidance from the IMF staff, and they are working to complete the report. Staff stand ready to provide further guidance if requested.

22. Plans to strengthen the Medium-Term Fiscal Framework—including through a Fiscal Responsibility Law (FRL)—are welcome. As strong PFM systems are established, enhancing institutional effectiveness and the decision-making process through an FRL would be more achievable. Staff considers that such a framework could focus on two main pillars:⁷ (i) a medium-term fiscal anchor based on a debt-to-GDP ratio of 50 percent; and (ii) an operational target (expenditure growth rule) calibrated to balance sustainability, stabilization, and simplicity of fiscal rules (Annex IX). This would require strengthening of medium-term fiscal management, curbing budget rigidities and rebuilding fiscal buffers during the transition to the anchor.

Creating Policy Space Through Medium-Term Revenue Mobilization

23. Ongoing tax administration reforms can help strengthen collections in the near-term, while revenue mobilization reforms are needed to create policy space over the medium term. Higher revenues are required to increase needed social spending, strengthen public institutions, fill infrastructure gaps, reduce debt to safer levels, and balance the composition of the adjustment.

24. Improved tax administration can increase yields from the current tax base. The 2021 customs law and the planned overhaul of tax procedures (Title I of the Tax Code), which is already in congress, should strengthen powers of the collection agency and reduce discretion. Expected implementation of electronic-invoicing and taxation of digital services should also generate some yield. Recent Fund TA argues for further focus on fostering tax collection through a recovery of filing and payment obligations, compliance control, and reforms to improve the risk-based strategy to manage tax debt, and to strengthen audit and governance functions. These efforts and reforms should lead to higher collection efficiency.

25. A more comprehensive tax-reform can broaden the tax base. Tax collection is low compared to peers in the region, reflecting a narrow base due to tax incentives and exemptions—over 4 percent of GDP—coupled with relatively low collection efficiency. A reform aimed at

⁷ The authorities requested TA on proposals for suitable fiscal rules as part of their wider FRL agenda.

eliminating economically ineffective exemptions combined with measures to rationalize the high-income threshold in the personal income tax can bolster revenue mobilization. The authorities have been assessing revenue mobilization alternatives, which require consensus building.

26. Revenue mobilization measures and targeted social benefits and investment could support an equitable adjustment. A

reduction in exemptions to VAT and income taxes along with increases in targeted social benefits and investment could allow for a stronger, yet equitable and growth-friendly fiscal adjustment. An alternative scenario assumes that exemptions are reduced by 1 percent of GDP in 2024–25, the consolidated public sector (CPS) debt ratio could decline faster and provide additional fiscal space to protect investment and social spending.

Tax Expenditures - 2021

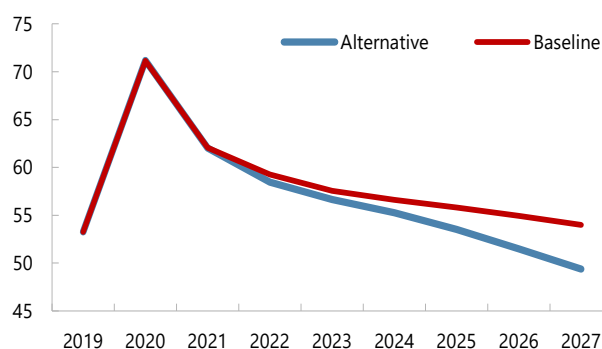
(In percent of GDP)

Tax	Amount
Value Added Tax (ITBIS)	2.41
Taxes on Income and Wealth	1.32
Excises	0.43
Customs and Use of G&S	0.27
Total	4.43

Source: National authorities

Consolidated Public Sector Debt¹

(In percent of GDP)



Source: National authorities and IMF staff calculations

1/ Includes the Central Bank's quasi-fiscal debt.

Authorities' Views

27. The authorities emphasized that policies aim at increasing primary balances and strengthening public administration and financial management to secure equitable debt sustainability. They stressed strict control of non-priority spending and tax revenue performance are providing space for mitigating measures of inflation shocks. Time-bound measures allow to reassess these to contain fiscal pressures, with scope for a slightly higher deficit if shocks persist. Continued implementation of electricity sector reforms—with appropriate support for poor households—is critical to improving public finances. Ongoing work to strengthen tax administration and public financial management—especially the transparency and control of spending, and the FRL design—would enhance confidence, critical to building consensus for a fiscal pact to mobilize the revenues needed to achieve investment grade and achieve sustainable economic and social goals.

C. Maintaining Financial Stability and Strengthening Policy Frameworks

28. Deposit Taking Institutions (DTIs) remained resilient despite expiration of flexibilization measures and a gradual absorption of restructured loans. While past due loans are at historic lows, the increase in restructured loans—driven by hotel, restaurant and transportation sectors—upon expiration of the regulatory flexibility per March 2021 weighs on credit quality (see Figure 6). To allow for a gradual absorption of the impact of the expiration of the regulatory flexibility, the authorities provided DTIs until December 2023 to phase-in any resulting

regulatory provisioning shortfall. However, on a system level the shortfall as of end-2021 is immaterial as most DTIs constituted the necessary provisions and the shortfalls of individual DTIs that need the phase-in period appear manageable. Also, when compared to a stressed measure of asset quality, the provisioning coverage ratio is on its way to recover its pre-pandemic average (see Figure 6). The expiration of regulatory flexibility and continued credit growth reduced capital adequacy from 22.4 percent in June 2021 to 19.0 percent by year-end—this is still higher than its pre-pandemic level (see Table 5), as DTIs' capital positions have been supported by profitability and limitations in dividend distribution during the pandemic and the phase-out period.

Macrofinancial Policy: COVID-19 Measures and Phase-out Arrangements	
Policy Tool	Measure
Risk Ratings	Temporal freeze of debtor ratings and provisioning to pre-covid levels. The freeze covers all new loans, including refinancing transactions (expired March 31, 2021).
Zero Percent Risk Weight	Loans financed using the BCDR liquidity measures/windows are risk weighted zero percent (expired March 31, 2021).
Loans Risk Classification	Past due loans to 60 days remain classified as current and period for collateral appraisal expanded (expired March 31, 2021).
Phase-In of Provisioning	Any provisioning shortfall can be rebuild gradually until December 2023.
Real Estate Provisioning	Real estate received in lieu of payment before December 2020 can be provisioned in 5 instead of 3 years.
Dividend Distribution	Financial institutions using provisioning phase-in arrangements are subject to dividend distribution and management remuneration restrictions.

Source: National authorities.

29. Tighter financial conditions will require close monitoring. Monetary policy normalization and the moderation of growth may have an impact, as increasing interest rates will likely affect the valuation of DTIs' securities portfolio and the repayment capacity of borrowers. The global liquidity tightening will bring additional challenges in terms of risk aversion and higher financing costs. While recent top-down and bottom-up stress testing suggests a manageable impact of these factors, supervisory authorities should remain vigilant. The authorities are in the initial stages of improving the data collection and macroprudential analysis of household and corporate balance sheets to allow for a better assessment of their debt service capacity.

30. The dissolution of a small bank by the Monetary Council—0.13 percent of DTI assets—is proceeding well. The bank's problems predated the pandemic, and the existing resolution framework permitted a swift handling of the case with no visible impact on the market. The financial system would benefit from enhancing the bank resolution framework to align it with best practice; the staff remains ready to collaborate with the authorities on these issues.

31. The central bank recapitalization can further enhance policy frameworks. While the 2022 budget includes a provision for recapitalization transfers to the BCRD—0.6 percent of the GDP—the BCRD balance sheet still requires further strengthening. There are several possible modalities; the process should have a predictable path and be financially sustainable. The resolution of this legacy issue from the 2003 crisis would have no impact on total public debt (see Annex V) but it would strengthen BCRD's institutional independence.

32. Foreign exchange (FX) market intervention declined in 2021 while increasing use of non-deliverable forwards (NDFs) and the FX platform added efficiency and transparency.

Amid lower volatility in FX markets, intervention volumes were about 55 percent lower than in 2020 and remained two-sided. The full adoption of the FX platform, introduced in 2019 to buy and sell FX, increased market transparency and the quality of information to market participants. At the same time, BCRD interventions with NDFs are more prevalent than spot transactions, making FX liquidity more predictable and smoothing out the reserve path. While intervening to limit excess volatility has proved effective, the introduction of well-communicated intervention rules would further enhance the FX market performance. With reserves at 83 percent of the ARA metric, there is still room for continued gradual reserve accumulation.

33. Part of the recommendations of the 2021 safeguards assessment to strengthen the central bank's institutional framework have been implemented, but some measures would require more time.

The BCRD implemented the recommendations related to strengthening the governance of the internal audit committee, but other actions remain outstanding, including: (i) recapitalization of the BCRD; (ii) increasing institutional and personal autonomy; and (iii) implementation of IFRS. The authorities indicated that some recommendations require a legal reform—which is not planned in the short term.

34. The authorities should continue their efforts to realign the financial sector regulatory framework with best practices over the medium term.

The Superintendency of Banks has implemented a program to further strengthen supervisory capacity and a risk-based supervisory approach. Financial sector authorities are also working towards enhancing the macroprudential tool kit, stress testing frameworks, and a roadmap for the implementation of Basel II/III and IFRS (with support from CAPTAC). Ongoing efforts to enhance data collection on the private sector balance sheet should continue. Credit and savings cooperatives (about 3.5 percent of DTI assets) still require an effective regulatory and supervision framework. The coordination of micro-prudential regulations and requirements that are similar or relevant across financial sectors could be enhanced. The authorities are cautiously exploring the benefits of a Central Bank Digital Currency (CBDC); staff stands ready to offer capacity development support.

Authorities' Views

35. The authorities agreed that continuous monitoring of financial sector risks is important and emphasized their plans to further strengthen policy frameworks to ensure stability. They agreed on strengthening monitoring—including through enhanced stress tests, especially during the unwinding of regulatory flexibility and given monetary policy tightening. They emphasized that priorities for the next year are related to enhancing supervisory capacity and the risk-based supervisory approach. They also noted enhancements to their foreign exchange intervention framework adding transparency and efficiency in the market. Authorities agree that the recapitalization of the BCRD is essential and discussion on the modalities and appropriate timing will continue.

D. Strengthening Institutions and Supporting Inclusive Growth

36. Recent and ongoing initiatives to enhance the rule of law and the regulatory framework can enhance the business climate. Past expert reports have pointed mainly to the need to strengthen the independence of the judiciary and prosecutor, and to simplify the regulatory framework (Annex X). Staff believes that timely implementation of ongoing initiatives will be critical going forward, as they have the potential to mitigate risks in these areas. There has been progress along both dimensions in recent years, notably associated with prosecutorial and high court member appointments free from political ties and more effective procedures in key institutions, though there is still room for improvement. Key regulatory framework initiatives aim at enhancing transparency (including through a new public procurement law); reducing red tape through the “Zero-Bureaucracy” plan; and modernizing, simplifying, and expediting international trade procedures through a new customs law (see below)—which can reduce the regulatory burden and discretion, and hence the scope for corruption. Further, the pro-competition authority has been granted new tools and institutional structure conducive to its mission. The appointment of an independent attorney general and the autonomy of the office are steps in the right direction for strengthening the rule of law, and the authorities should follow through with plans to entrench prosecutorial and judicial independence in the legal framework (see Annex X).

37. Continued progress in addressing key structural bottlenecks can increase productivity and boost growth potential. The authorities’ agenda includes actions in the following areas:

- *Product-market and logistics reforms.* The 2021 custom law allows for the use of new technologies to facilitate operations, instrumental to the objective of becoming a regional logistics hub through expedite dispatches. Reducing transport costs and improving sea and air transport facilities could further increase competitiveness.
- *Labor and social security reforms.* The multisectoral dialogue for an integrated reform of labor and social security laws, launched in May 2021, is expected to develop consensus in the following months.
- *Electricity supply.* Distribution companies now fulfill close to 100 percent of demand, reducing service disruptions to planned maintenance. The National Commission of Energy (CNE) is finalizing medium-term energy demand projections to guide the expansion of generation to further increase reliability.
- *Financial inclusion and payments system efficiency.* The 2020 law on movable property guarantees helps increase micro-, small- and medium-enterprises (MIPYMES) access to credit. The authorities are nearing completion of the National Plan for Financial Inclusion, which includes the development of a fintech hub, regulation facilitating development of electronic payments systems (e- money), and enhanced consumer protection.

- *Skills gap.* The authorities continued to launch job fairs to facilitate skill matching in labor markets and to repurpose general high school curricula to technical education. Further efforts to enhance schooling and vocational training will be important going forward.

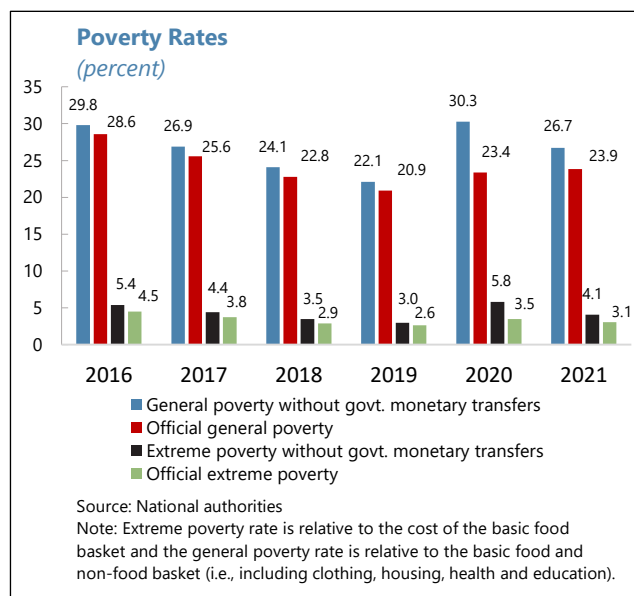
38. Improved social outcomes should remain a key objective. While the pandemic increased poverty, social assistance helped cushion the shock. To reduce poverty and vulnerability further, the government is improving targeting and increasing the number of households assisted under the main social program (Supérate), which provides support to enhance economic resilience and inclusion.⁸

To mitigate the impact of higher fuel and food prices, the government is increasing targeted cash transfers, while those for electricity—Bonoluz—are also being gradually increased to compensate for the structural adjustment to electricity tariffs (Annex VIII). These steps are important to make the needed fiscal consolidation and the electricity sector transformation equitable.

39. Energy sector reforms support climate change adaptation and mitigation strategies. The electricity reforms support the gradual elimination of untargeted electricity subsidies, improve the efficiency of energy generation/distribution, and diversify the energy mix away from hydrocarbons (Annex VIII). In addition, the Nationally Determined Contribution action plan (based on NDC-2020) continues to guide the overall climate strategy for mitigation and adaptation. Among other actions, with support from the World Bank, the authorities are evaluating disaster insurance coverage and a plan to

Fiscal Policy: Key Targeted Social Protection Measures in 2022		
Instrument	Objective	Measure
Social Programs		
<i>Supérate's Alimentate Program</i>	Alleviate impact of higher food prices	Coverage increase from 1.35 to 1.65 million households with monthly assistance of RD\$1,650 (up from 800 thousand households with RD\$825 in monthly assistance under the pre-COVID <i>Comer es Primero</i>).
<i>Supérate's Bonogas Program</i>	Alleviate impact of higher fuel prices	Coverage will increase from 926 thousand to 1.399 million households and support will increase from 228 to 470 pesos per month.
Other Social Assistance		
<i>President's Social Plan; President's Social Policies Coordination Cabinet/ Economic Canteens (CEED); and National Institute for Price Stabilization (INESPRE).</i>	Alleviate impact of higher food prices	Increases in distribution of food rations; increase in canteens, with 136,000 additional daily food rations. Subsidized sale of the basic food basket at popular markets and supermarkets.

Sources: National Authorities.



⁸ In June 2021, Presidential Decree 377-21 transferred programs from *Progressing with Solidarity* (PROSOLI) to the newly created *Supérate* Program, whose aim is to reduce poverty through capacity development, productive inclusion, and economic empowerment of vulnerable groups. <https://www.superate.gob.do/wp-content/uploads/2021/09/Decreto-377-211.pdf>

reach carbon neutrality by 2050. They are also exploring reforms to the legal framework for public investment and risk management, aiming at incorporating climate change considerations. Finally, the authorities are working with multilaterals, foreign governments, and the private sector to develop a financing plan for climate-related investments.⁹

40. The authorities are in the process of strengthening the implementation of the AML/CFT framework and preparing for the planned Mutual Evaluation.¹⁰ The next evaluation is scheduled to start in the second half of 2023. The authorities have been coordinating on a national level the follow up on the recommendations of the 2018 Mutual Evaluation. In this context and with assistance from the World Bank, the authorities started in 2021 a process to update the National Risk Assessment (NRA). The Superintendency of Banks strengthened its internal sanctions process, enhanced its risk-based supervisory approach, and increased its supervisory resources to further improve the effectiveness of the AML/CFT framework. In addition, they prohibited licensed financial institutions to interact with informal exchange entities and their owners, and are in the process of further tightening the ability of such entities to operate in the market. The authorities noted that enhancements to the supervision of designated nonfinancial businesses and professions (DNFBPs) are in progress, while the effective supervision and implementation of AML standards by credit and savings cooperatives requires further attention.

Authorities' Views

41. The authorities agreed on the need for multifaceted reforms to foster inclusive growth through better institutions. They aim at increasing political independence of key institutions and strengthening procurement controls, competition and trade facilitation—even if some reforms require new laws. They highlighted the National Competitiveness Strategy, including the streamlining of the regulatory framework (zero bureaucracy and new customs laws) to improve the business climate as well as infrastructure investment and better education outcomes. They stressed that improving social programs is essential to maintain positive social outcomes. Regarding climate change, the authorities remain committed to goals in their 2020 NDC submission and are working towards their next submission in 2025. Financial inclusion remains critical, and a comprehensive strategy is being finalized. The authorities continue to follow through on recommendations of the 2018 AML/CFT Mutual Evaluation, especially to strengthen the supervision of DNFBPs and other relevant sectors.

FUND RELATIONS

42. The Dominican Republic has adequate capacity to repay the Fund. The country has a sound debt service track record and risks from RFI exposure are low. The DSA shows debt to be sustainable, and scheduled RFI repayments do not exceed 1.2 percent of exports or 2.1 percent of reserves (Table 6). The authorities have maintained the SDR allocation as international reserves.

⁹ Other in-depth climate change aspects have been covered in the 2021 Article IV report.

¹⁰ The evaluation will be conducted by the Financial Action Task Force of Latin America (GAFILAT).

STAFF APPRAISAL

43. **As in the past, the Dominican Republic's economy showed remarkable resilience.**

Sound policies that supported stability and maintained good market access, an effective health campaign and well-attuned re-opening—including to tourism—allowed the Dominican Republic to make the most of the global rebound and to limit scarring and the increase in poverty. The strong, broad-based recovery—with GDP at end-2021 about 5 percent above pre-pandemic levels—allowed a front-loaded fiscal consolidation and the normalization of monetary policy to address inflationary pressures.

44. **Strong growth momentum and a well-sequenced policy response continue to help the Dominican Republic face a challenging global environment.**

Amid abating global tailwinds, growth should converge to its longer-term trend. Supply shocks have driven inflation higher than previously projected, but fiscal measures are easing the impact while the normalization of monetary policy should allow inflation convergence to the target over the policy horizon. Risks are mainly associated with the war in Ukraine and the tightening of global financial conditions. The main impact from the war is expected to take place through higher commodity prices—direct trade and financial linkages are limited—while global financial conditions may have a stronger-than-expected impact on capital flows. The front-loaded fiscal consolidation, timely debt issuance and pro-active debt management help reduce vulnerabilities through lower near-term financing needs. Overall, this provides some space to face downside risks.

45. **The external position is broadly in line with fundamentals and desirable policies.**

Exports and remittances grew robustly, while higher domestic demand and commodity prices increased the current account deficit—which nonetheless remained fully financed by resilient FDI—the external position is assessed as sustainable, with international reserves up strongly, improving reserve adequacy. The real exchange rate appreciated slightly in 2021 and remains broadly in line with fundamentals.

46. **Economic policies—fiscal prudence, temporary commodity price mitigation measures, and monetary policy tightening—remain appropriate.**

Expenditure rationalization and tax administration efforts will help maintain a gradual fiscal consolidation, putting public debt on a stronger downward trajectory than previously projected while protecting investment and social spending. The use of temporary fiscal measures to contain the impact of commodity price shocks on domestic fuel and food prices are appropriate, as well as continuing with electricity sector reforms and improved targeting of subsidies and social assistance. Ongoing monetary and prudential policy normalization are warranted to maintain inflation expectations anchored and moderate financial risk-taking, respectively.

47. **The exit from the financial regulatory response to the pandemic has been appropriate and the financial system proved its resilience.**

The exit was well designed and remains based on intensive monitoring and transparency in the assessment of asset quality. Going

forward, the system would benefit from implementing higher international standards of supervision and regulation, enhancing the macroprudential and crisis management toolkit, and strengthening the regulatory framework for credit and savings cooperatives financial oversight.

48. Well-sequenced reform implementation can help strengthen medium-term policies.

The authorities continue taking steps to strengthen policy frameworks, in particular by enhancing public financial management and transparency. This will pave the way for the introduction of fiscal responsibility legislation to better anchor medium-term policies and further secure debt sustainability. Together with ongoing reforms in the electricity sector, enhanced policy frameworks can build consensus for future revenue mobilization initiatives that create space for needed investment in infrastructure and human capital. An agreed roadmap for central bank recapitalization can also help by enhancing financial and institutional independence.

49. Reforms to foster inclusive growth and improved social outcomes remain critical.

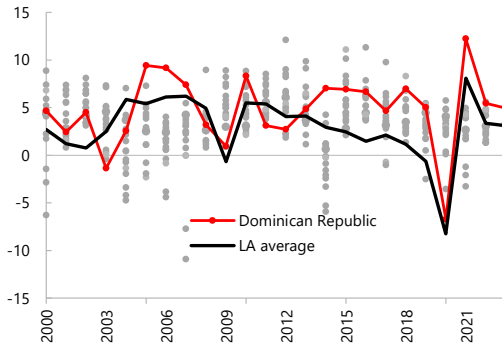
Ongoing efforts to improving governance, securing stable, competitive, and sustainable energy supply, building climate change resilience, and tackling other productivity bottlenecks—e.g., modernizing the labor code, increasing years and quality of education, and narrowing skills gaps in labor markets—along with enhanced effectiveness of social programs continue to be critical for sustainable and more equitable growth. Further efforts to address social issues—such as reducing regional and gender inequality—would also help making growth more inclusive.

50. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Dominican Republic: Real Sector Developments

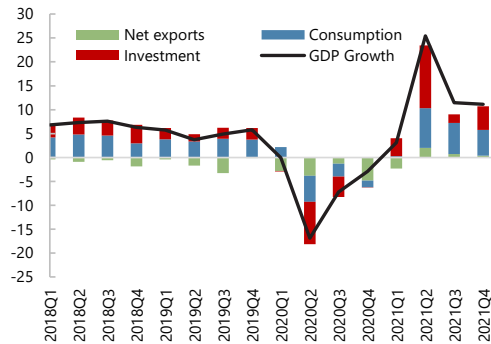
Growth in the Dominican Republic has outperformed regional peers in recent years...

Real GDP Growth Rates in Latin America
(3-year moving average of annual growth rates)



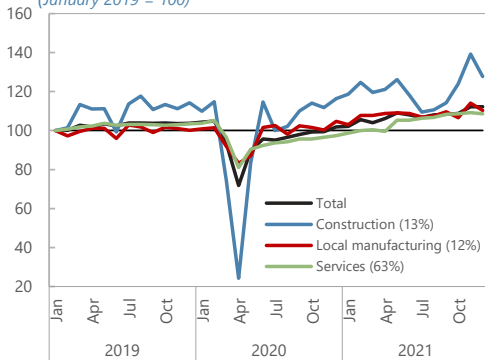
...While hit hard in 2020 by COVID, the DR rebounded quickly...

Contributions to Real GDP Growth
(Four quarter percent change)



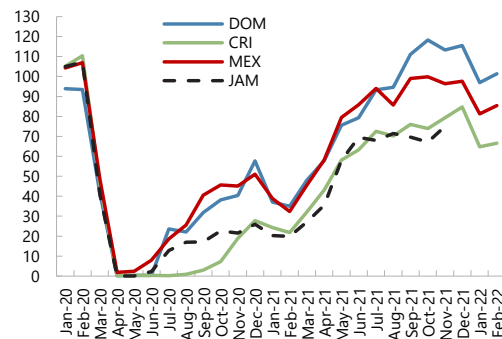
...driven initially by manufacturing and construction; services (especially tourism) also rebounded in 2021H2...

Economic Activity Index and Select Components
(January 2019 = 100)



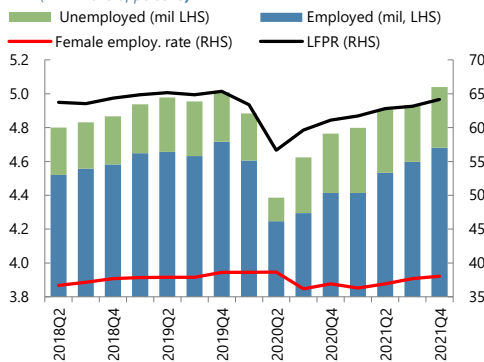
...with tourist arrivals to the Dominican Republic recovering faster than regional peers.

Tourist Arrivals
(Percentage of same month in 2019)



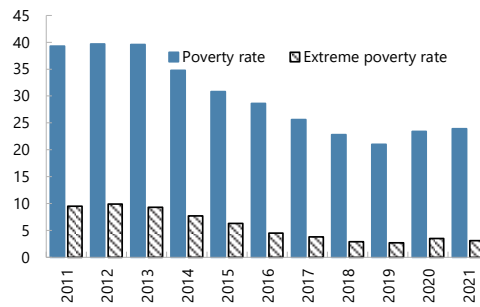
Employment and participation declined sharply due to COVID, but is recovering (though more slowly than output)...

Labor Force Developments
(in millions of persons)



...Despite expanded social programs, the pandemic partially reversed the impressive decline in poverty in 2014-19.

Poverty Indicators¹
(In percent of population)



Note: 1/ Poverty headcount ratios using national poverty lines (floating RD\$).

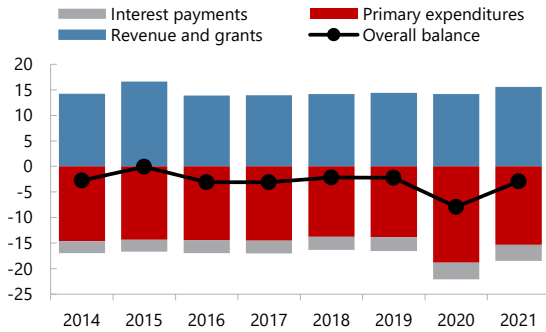
Sources: National authorities and IMF staff calculations.

Figure 2. Dominican Republic: Fiscal Developments

In 2021, the central government balance benefited from higher revenues and lower emergency spending...

Central Government: Components of Overall Balance

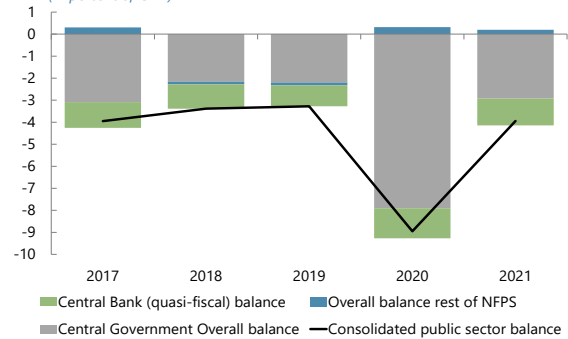
(In percent of GDP)



...which front-loaded the consolidation, returning the deficit close to the pre-pandemic levels...

Consolidated Public Sector Overall Balance

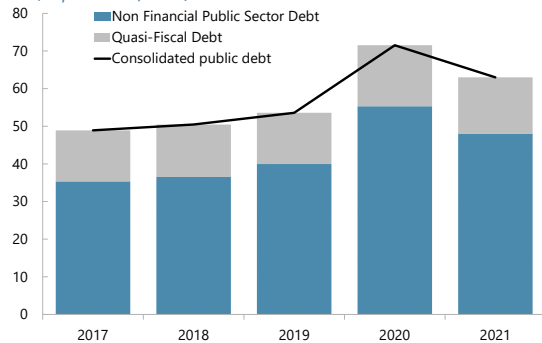
(In percent of GDP)



...and helped put the debt burden on a stronger downward path...

Public Sector Consolidated Debt Distribution by Borrower

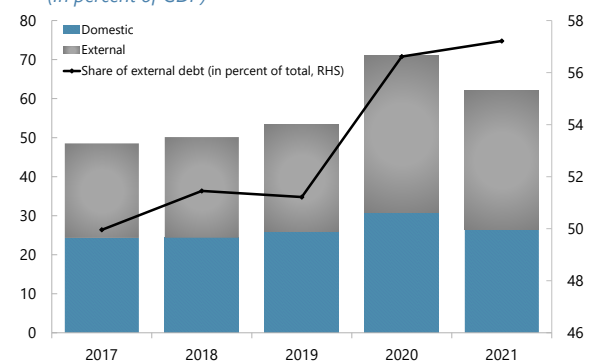
(In percent of GDP)



...although higher external borrowing increased exposure to FX risk...

Public Sector Consolidated Debt: Distribution by Currency

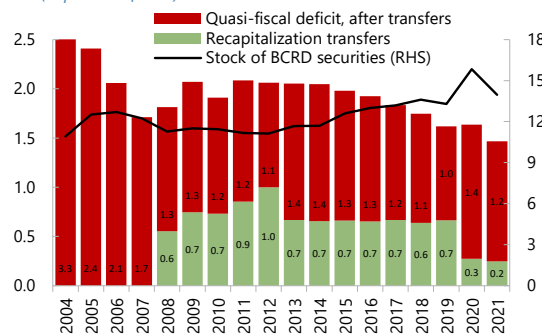
(In percent of GDP)



The quasi-fiscal deficit narrowed due to stronger growth...

Central Bank Quasi-Fiscal Deficit

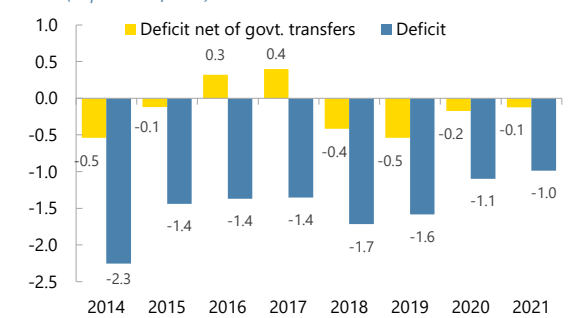
(In percent of GDP)



The electricity sector deficit remained largely unchanged despite higher energy prices...

Electricity Sector Deficit

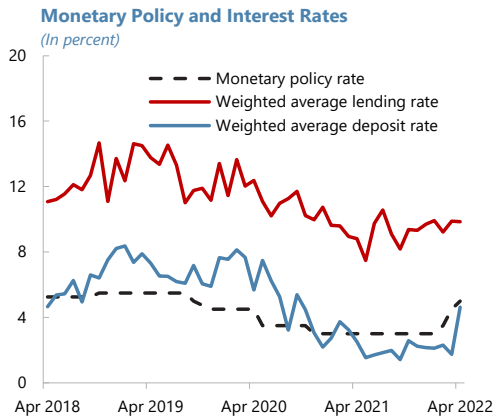
(In percent of GDP)



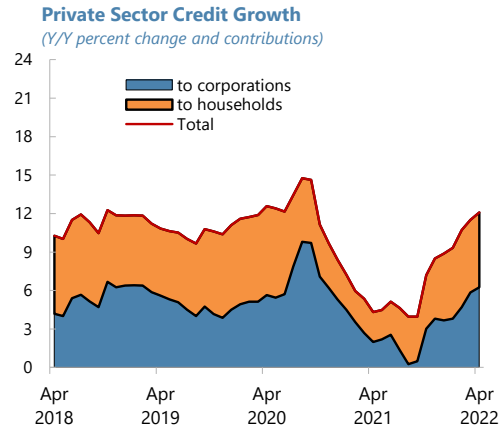
Sources: National authorities and IMF staff calculations.

Figure 3. Dominican Republic: Monetary Policy and Inflation

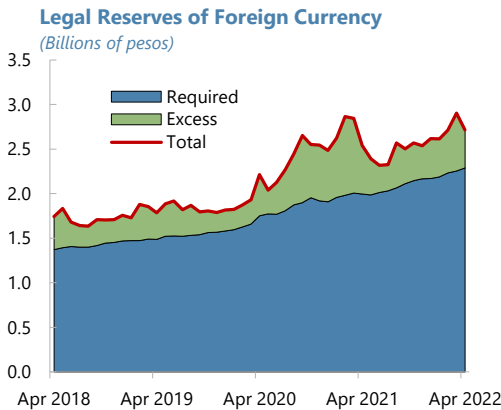
The BCRD started a tightening cycle, with strong pass-through to bank deposit rates.



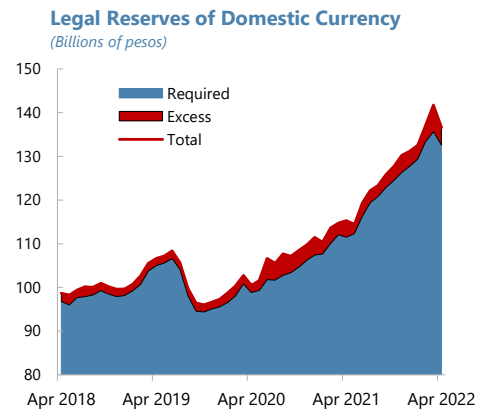
Private sector credit growth is converging to pre-crisis levels.



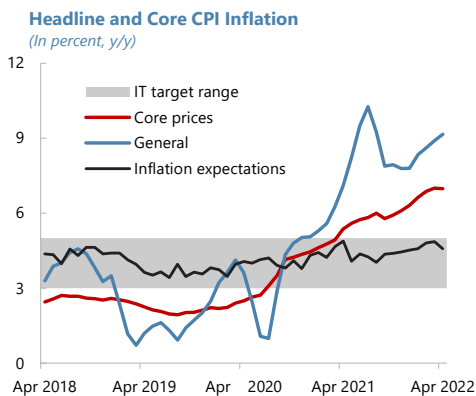
Banks' legal reserves for deposits denominated in national currency slightly exceed the required levels...



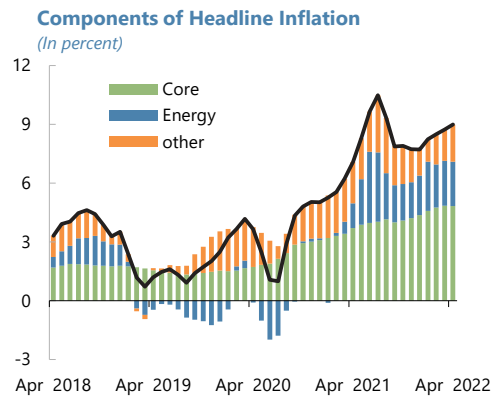
...while holding higher excess reserves for deposits denominated in foreign currencies.



Headline and core inflation are above the target range though expectations remain within its bounds.



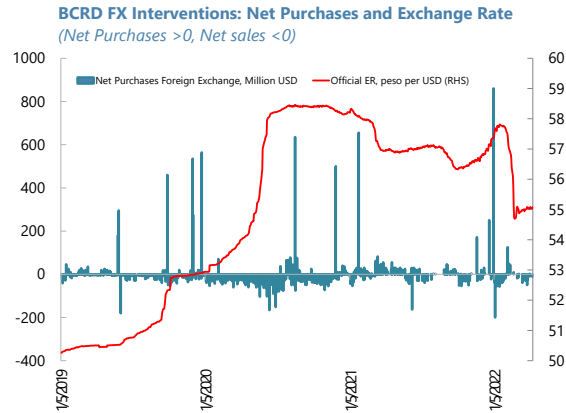
Food and energy price shocks have been the main driver of headline inflation.



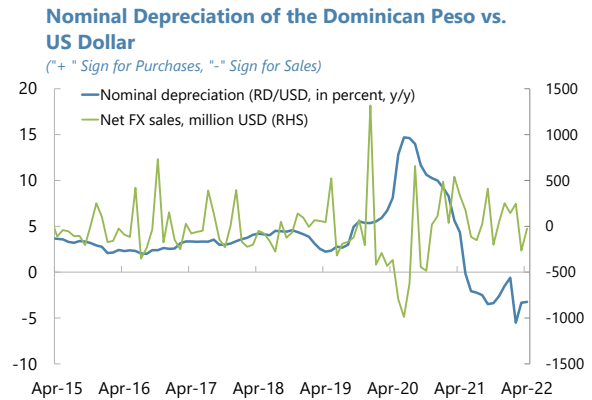
Sources: National authorities, Haver, and IMF staff calculations.

Figure 4. Dominican Republic: Exchange Rates and Sovereign Spreads

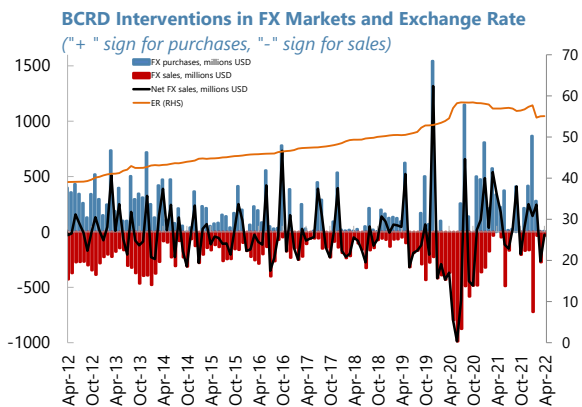
Lower exchange rate volatility warranted less interventions...



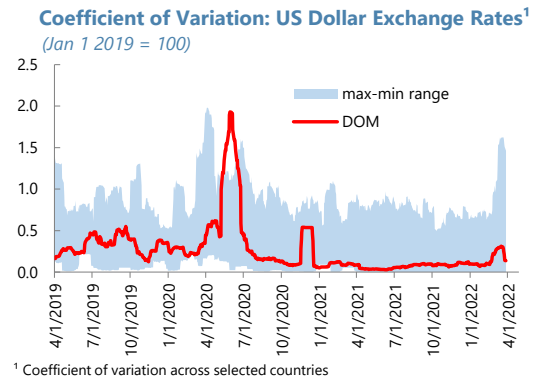
...and the Dominican Peso appreciated.



BCRD FX interventions stayed two-sided...



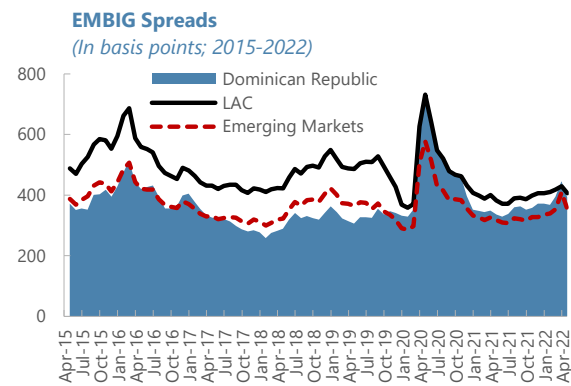
...and FX volatility subsided.



International reserves position reached historical levels by end-2021, partly due to the SDR allocation.



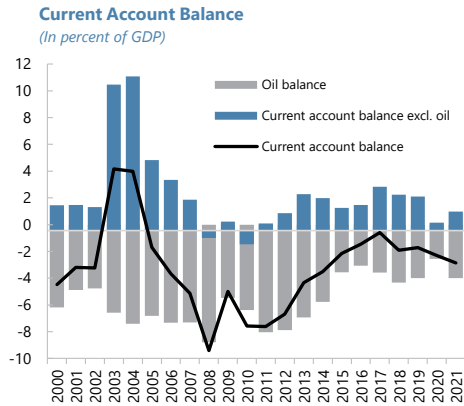
Sovereign spreads returned to pre-COVID levels and remain in line with peers.



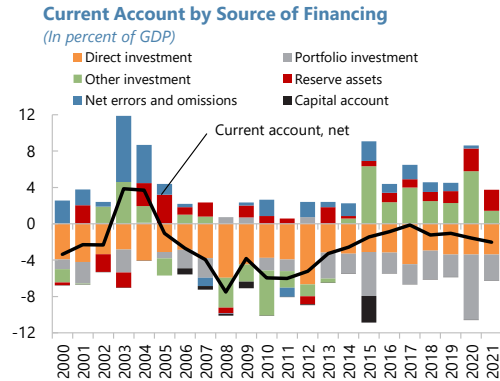
Sources: National authorities, Bloomberg, and IMF staff calculations.

Figure 5. Dominican Republic: External Sector Developments

Current account deficit is relatively low and below the norm...

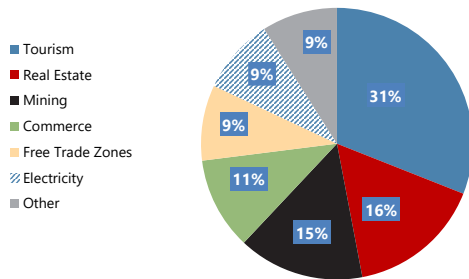


... and fully financed by net FDI.



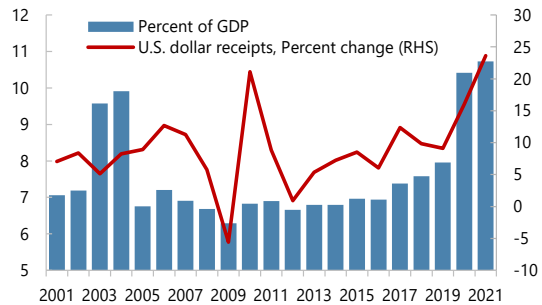
Tourism, real estate, and mining attract the most FDI ...

FDI By Sector, 2021
(In percent of total)



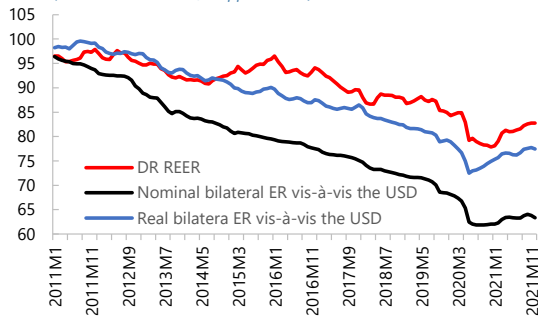
... while remittances have grown strongly.

Remittance Receipts
(in percent of GDP)



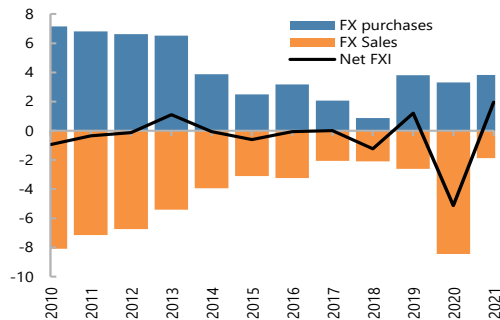
The exchange rate strengthened...

Nominal and Real Effective Exchange Rate
(Index 2010M1=100, +appreciation)



... with interventions to smooth volatility.

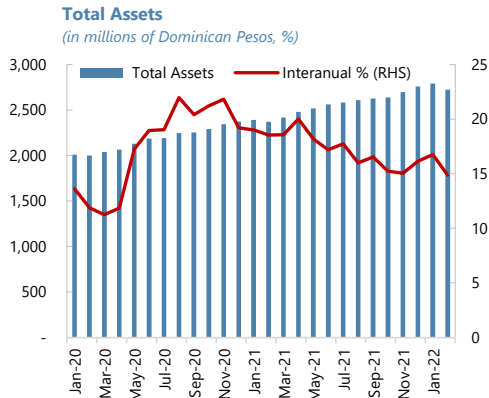
Foreign Exchange Intervention
(In percent of GDP)



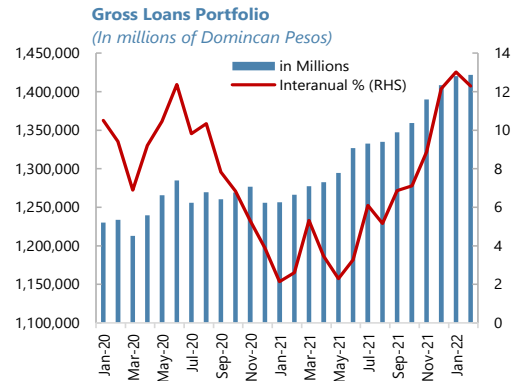
Sources: IMF WEO; National authorities and IMF staff calculations.

Figure 6. Dominican Republic: Financial Sector Developments

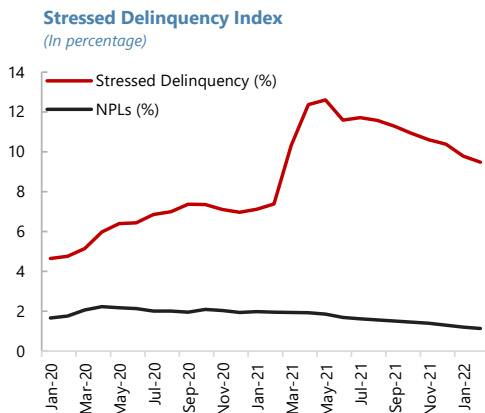
Total DTI assets grew in 2021 by 16 percent, largely driven by growth of the securities portfolio ...



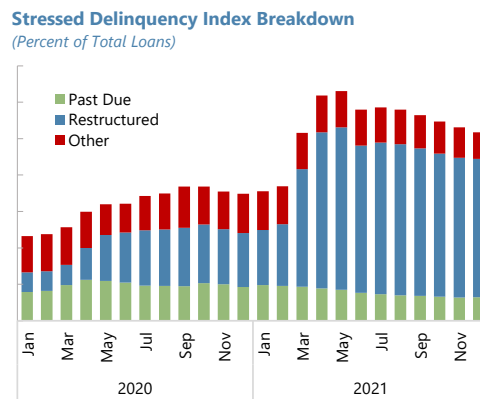
With monetary tightening, loan and asset growth appear to slow down since early 2022.



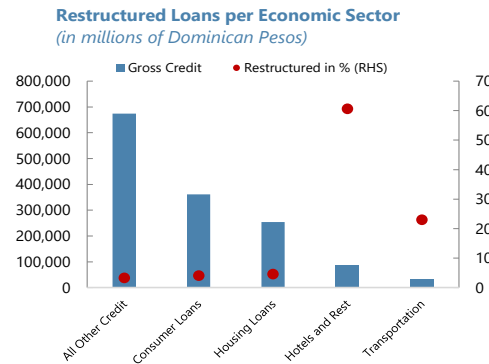
While NPLs are low, an alternative stressed measure increased significantly during the pandemic.^{1/}



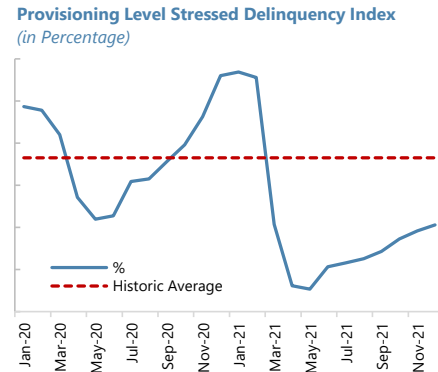
The stressed delinquency index includes restructured loans, which jumped upon expiry of the regulatory flexibility.



7.7 percent of the loan portfolio has been restructured, driven by hotels, restaurants, and transportation sectors.



The provisioning coverage of distressed asset dropped during the pandemic but is slowly recovering to its historic average.



Sources: National authorities and IMF staff calculations.

^{1/} NPLs only include loans past due, while the stressed delinquent loan index also includes restructured loans and loans foreclosed or written-off during the past 12 months, providing an alternative/complementary view on asset quality developments.

Table 1. Dominican Republic: Selected Economic and Social Indicators, 2017–27

Population (millions, 2021)	10.5		GDP per capita (2021, U.S. dollars)		8,986						
Quota	477.4 millions SDRs / 0.10% of total		Poverty (2021, share of population)		23.9						
Main exports	tourism, gold, tobacco		Unemployment rate (2021, percent)		7.7						
Key export markets	U.S., Canada, Haiti		Adult literacy rate (percent, 2018)		93						
	2017	2018	2019	2020	2021	Projection					
						2022 2023 2024 2025 2026 2027					
Output	(Annual percentage change, unless otherwise stated)										
Real GDP	4.7	7.0	5.1	-6.7	12.3	5.0	5.0	5.0	5.0	5.0	5.0
<i>Contributions to growth</i>											
Consumption	3.1	4.1	3.7	-1.9	5.0	4.0	4.0	3.8	3.8	3.8	3.8
Investment	-1.4	4.6	1.1	-4.4	7.0	0.9	1.5	1.4	1.4	1.4	1.4
Net exports	2.2	-0.9	-1.4	-3.2	0.6	0.8	1.0	0.6	1.2	1.0	1.0
Nominal GDP (RD\$/billion)	3,803	4,236	4,562	4,457	5,407	6,160	6,846	7,506	8,197	8,951	9,775
Nominal GDP (US\$/billion)	80.1	85.6	89.0	78.9	94.7	...	...	...	...	...	...
Output gap (in percent of potential output)	-1.8	-0.5	-0.6	-6.3	-1.9	-0.5	-0.1	0.0	0.0	0.0	0.0
Prices											
Consumer price inflation (end of period)	4.2	1.2	3.7	5.6	8.5	8.0	4.5	4.0	4.0	4.0	4.0
Exchange Rate											
Exchange rate (RD\$/US\$ - period average) 1/	47.5	49.5	51.2	56.5	57.1	...	...	...	...	...	...
Exchange rate (RD\$/US\$ - eop) 1/	48.2	50.2	52.9	58.2	57.3	...	...	...	...	...	...
Real effective exchange rate (eop, - depreciation) 1/	-4.8	-1.9	-3.4	-8.2	5.8	-0.6	0.0	0.0	0.0	0.0	0.0
Government Finances	(in percent of GDP)										
Consolidated public sector debt 2/	48.5	50.1	53.3	71.1	62.1	59.3	57.6	56.6	55.8	54.9	54.0
Consolidated public sector overall balance 2/	-4.0	-3.4	-3.3	-9.0	-3.9	-3.9	-3.7	-3.5	-3.4	-3.3	-3.1
Consolidated public sector primary balance	0.1	0.6	0.9	-4.3	0.4	0.4	0.8	1.0	1.2	1.4	1.4
Central government balance	-3.1	-2.2	-2.2	-7.9	-2.9	-3.0	-2.7	-2.7	-2.6	-2.5	-2.5
Revenues and grants	14.0	14.2	14.4	14.2	15.6	14.4	14.4	14.5	14.5	14.5	14.5
Primary spending	14.5	13.8	13.8	18.9	15.4	14.4	14.0	13.9	13.7	13.6	13.6
Interest expenditure	2.5	2.6	2.7	3.2	3.1	3.0	3.2	3.3	3.4	3.4	3.4
Rest of NFPS	0.3	-0.1	-0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Financial Sector	(Annual percentage change; unless otherwise stated)										
Broad money (M3)	11.2	7.0	11.7	20.8	13.2	12.5	11.7	10.2	9.7	9.5	9.5
Credit to the private sector	10.1	11.1	11.8	5.3	11.5	11.1	11.1	9.6	9.2	9.2	9.2
Net domestic assets of the banking system	8.0	5.5	8.6	2.5	11.4	15.7	11.2	8.9	8.0	6.0	6.0
Policy interest rate 1/	5.3	5.5	4.5	3.0	3.5	6.5	...	...	...	...	...
Average deposit rate (1-year; in percent) 1/	5.0	7.4	6.7	3.1	3.7	...	...	...	...	...	...
Average lending rate (1-year; in percent) 1/	11.2	12.1	12.4	9.9	11.1	...	...	...	...	...	...
Balance of Payments	(in percent of GDP)										
Current account	-0.2	-1.5	-1.3	-1.7	-2.8	-3.4	-2.4	-2.2	-2.2	-2.2	-2.2
Goods, net	-9.5	-11.2	-10.2	-8.6	-12.3	-13.5	-13.2	-13.2	-12.8	-12.3	-12.2
Services, net	6.9	6.4	5.7	1.8	3.9	5.7	6.5	6.8	6.9	6.9	6.9
Income, net	2.4	3.2	3.2	5.2	5.6	4.4	4.3	4.2	3.7	3.2	3.1
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 3/	2.6	3.6	3.6	4.4	5.7	4.6	3.3	2.9	3.2	3.1	3.1
Foreign direct investment, net	4.5	3.0	3.4	3.2	3.3	3.2	3.3	3.3	3.3	3.3	3.3
Portfolio investment, net	2.2	3.1	2.4	7.1	2.7	2.9	2.9	2.4	1.4	1.6	2.2
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-4.0	-2.5	-2.3	-5.9	-0.3	-1.5	-2.9	-2.8	-1.4	-1.8	-2.4
Change in reserves (-increase)	-0.9	-1.0	-1.3	-2.5	-2.4	-1.2	-0.8	-0.9	-0.9	-0.9	-0.9
NIR (in millions of U.S. dollars)	6,780	7,627	8,781	10,752	12,289	13,602	15,215	16,380	17,563	18,831	20,190
Total external debt (in percent of GDP)	41.9	40.2	41.9	56.4	49.9	46.8	46.4	45.6	44.0	42.9	42.3
of which: Public sector	24.2	25.8	27.3	40.3	35.5	33.9	32.9	32.3	31.8	31.2	30.6

Sources: National authorities; World Bank; and IMF staff calculations.

1/ Latest available. For the Policy interest rate, the latest available is as of end-May (effective June 1).

2/ The consolidated public sector includes the central government, some decentralized entities, the electricity holding company, and the central bank.

3/ Excluding reserves.

Table 2a. Dominican Republic: Public Sector Accounts, 2017–27
(In Percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.										
Central Government 1/											
Revenue	14.0	14.2	14.4	14.2	15.6	14.4	14.4	14.5	14.5	14.5	14.5
Tax revenues	13.0	13.0	13.3	12.4	14.3	13.3	13.4	13.4	13.4	13.4	13.4
Taxes on income, profits, and capital gains	4.0	4.0	4.2	4.2	4.9	4.1	4.2	4.2	4.2	4.2	4.2
Tax on property	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	7.8	7.9	8.0	7.2	8.3	8.1	8.1	8.1	8.1	8.1	8.1
Value-added taxes	4.5	4.6	4.7	4.4	4.8	4.7	4.7	4.8	4.8	4.8	4.8
Excises	2.3	2.2	2.2	1.9	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Taxes on international trade and transactions	0.9	0.9	0.9	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social security contributions	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.0	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.9	1.1	1.0	1.4	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Expenditure	17.1	16.4	16.6	22.1	18.5	17.4	17.2	17.2	17.1	17.0	17.0
Current spending (expense)	15.6	15.0	15.2	20.8	17.1	15.9	15.6	15.6	15.5	15.4	15.4
Compensation of employees	4.4	4.5	4.5	4.8	4.4	4.2	4.2	4.2	4.2	4.2	4.2
Use of goods and services	1.8	1.7	1.9	2.3	2.1	1.4	1.7	1.7	1.8	1.9	1.9
Interest	2.5	2.6	2.7	3.2	3.1	3.0	3.2	3.3	3.4	3.4	3.4
Subsidies	0.7	0.6	0.7	0.9	1.4	2.0	1.1	1.0	0.6	0.3	0.3
Electricity	0.5	0.4	0.5	0.6	0.9	1.1	0.8	0.7	0.3	0.0	0.0
Other	0.2	0.2	0.2	0.3	0.5	0.9	0.3	0.3	0.3	0.3	0.3
Grants	2.7	2.6	2.7	3.4	3.3	2.8	2.7	2.7	2.7	2.7	2.7
Social benefits	1.3	1.2	1.3	4.2	1.7	1.7	1.7	1.7	1.8	1.9	1.9
Other transfers	2.2	1.8	1.5	2.0	1.1	0.8	1.0	1.0	1.0	1.0	1.0
Net acquisition of nonfinancial assets	1.8	1.5	1.5	1.7	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Primary Balance	-0.5	0.4	0.6	-4.7	0.2	0.0	0.5	0.6	0.8	0.9	0.9
Overall Balance	-3.1	-2.2	-2.2	-7.9	-2.9	-3.0	-2.7	-2.7	-2.6	-2.5	-2.5
Overall Balance Rest of NFPS	0.3	-0.1	-0.1	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.2
Overall Balance NFPS	-2.8	-2.3	-2.3	-7.6	-2.7	-3.0	-2.7	-2.7	-2.6	-2.4	-2.3
Primary balance	-0.2	0.4	0.6	-4.3	0.4	0.0	0.5	0.7	0.8	1.0	1.1
Interest	2.5	2.6	2.7	3.2	3.1	3.0	3.2	3.3	3.4	3.4	3.4
Quasi-fiscal Balance of the Central Bank	-1.2	-1.1	-1.0	-1.4	-1.2	-0.9	-0.9	-0.9	-0.9	-0.8	-0.8
Primary balance	0.6	0.6	0.6	0.3	0.2	0.6	0.6	0.6	0.6	0.6	0.6
Interest	1.8	1.7	1.6	1.7	1.4	1.5	1.5	1.4	1.4	1.4	1.4
Overall Balance of the Consolidated Public Sector	-4.0	-3.4	-3.3	-9.0	-3.9	-3.9	-3.7	-3.5	-3.4	-3.3	-3.1
Primary balance	0.1	0.6	0.9	-4.3	0.4	0.4	0.8	1.0	1.2	1.4	1.4
Interest	4.0	4.0	4.1	4.7	4.3	4.3	4.5	4.6	4.6	4.6	4.6
Memorandum Items:											
Consolidated Public Sector Debt 2/	48.5	50.1	53.3	71.1	62.1	59.3	57.6	56.6	55.8	54.9	54.0
NFPS	38.8	39.7	42.9	58.3	50.6	48.2	46.7	45.9	45.1	44.3	43.4
Central Bank	13.2	13.6	13.3	16.6	14.0	13.2	12.8	12.5	12.3	12.1	11.9
Underlying consolidated overall balance 3/	-4.2	-3.7	-3.4	-9.0	-3.9	-3.9	-3.7	-3.5	-3.4	-3.3	-3.1
Cyclically adjusted consolidated overall balance 4/	-3.8	-3.7	-3.2	-8.1	-3.7	-3.8	-3.6	-3.6	-3.4	-3.3	-3.2
Fiscal impulse 5/	0.1	0.4	0.1	-4.9	4.4	-0.2	0.2	0.1	0.1	0.1	0.1
Extraordinary revenue	0.2	0.3	0.1	0.4	0.0	...	...	...	...	...	...
Nominal GDP (DR\$ billion)	3,803	4,236	4,562	4,457	5,407	6,160	6,846	7,506	8,197	8,951	9,775

Sources: National authorities and IMF staff calculations.

1/ Based on Government Finance Statistics Manual (GFSM) 2014.

2/ Consolidated public sector debt includes the Central Bank's quasi-fiscal debt.

3/ Net of one-off revenues.

4/ Adjusts revenues and expenditures for the economic cycle.

5/ Equal to change in cyclically adjusted consolidated overall balance, i.e., (-) = surplus decline or deficit increase; (+) = surplus increase or deficit decrease.

Table 2b. Dominican Republic: Public Sector Accounts, 2017–27
(In Billions of Dominican Pesos, Unless Otherwise Stated)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Proj.										
Central Government 1/											
Revenue	531	601	657	632	841	887	989	1089	1189	1298	1417
Tax revenues	493	550	605	551	774	820	915	1007	1100	1201	1312
Taxes on income, profits, and capital gains	153	168	192	187	263	252	285	313	341	373	407
Tax on property	7	8	9	8	14	14	15	16	17	19	21
Taxes on goods and services	298	334	365	323	448	499	553	611	667	729	796
Value-added taxes	170	195	214	194	261	292	323	358	391	428	467
Excises	87	94	99	84	116	131	145	159	174	190	207
Taxes on international trade and transactions	35	39	40	33	49	56	62	68	74	81	88
Social security contributions	3	3	3	3	3	3	3	4	4	4	5
Grants	2	1	1	15	4	2	2	2	3	3	3
Other revenues	34	48	48	64	60	62	69	75	82	90	98
Expenditure	649	693	757	985	999	1072	1176	1289	1399	1519	1659
Current spending (expense)	592	635	694	928	922	977	1070	1173	1269	1378	1505
Compensation of employees	166	189	204	216	236	257	291	318	347	379	414
Use of goods and services	70	72	85	101	112	88	113	124	144	168	183
Interest	97	110	125	144	168	186	220	249	276	303	330
Subsidies	26	26	32	39	76	122	78	73	50	27	29
Electricity	18	17	22	27	47	65	57	51	26	0	0
Other	9	9	10	12	29	57	21	23	25	27	29
Grants	103	112	124	150	180	170	186	204	223	243	266
Social benefits	49	53	57	187	92	105	116	131	148	169	185
Other transfers	82	74	68	90	58	49	66	73	81	88	98
Net acquisition of nonfinancial assets	68	64	69	75	82	96	106	116	130	142	155
Primary Balance	-21	18	25	-208	10	0	33	48	66	81	87
Overall balance	-117	-92	-100	-352	-158	-186	-187	-201	-210	-222	-242
Overall Balance Rest of NFPS	12	-5	-6	14	11	0	0	0	0	4	18
Overall Balance NFPS	-106	-96	-106	-338	-147	-186	-187	-201	-210	-217	-225
Primary balance	-6	16	27	-192	21	1	33	49	67	86	105
Interest	97	110	125	144	168	186	220	249	276	303	330
Quasi-fiscal Balance of the Central Bank	-44	-47	-44	-61	-66	-55	-63	-66	-72	-75	-82
Primary balance	25	25	28	14	12	34	39	43	45	49	54
Interest	69	72	72	74	78	90	101	109	118	124	136
Overall Balance of the Consolidated Public Sector	-150	-143	-149	-399	-213	-241	-250	-266	-280	-292	-307
Primary balance	2	24	39	-191	21	23	57	76	98	122	141
Interest	152	168	188	208	235	264	307	342	378	414	448
Memorandum Items:											
Consolidated Public Sector Debt 2/	1,846	2,124	2,430	3,170	3,357	3,650	3,940	4,250	4,576	4,919	5,279
NFPS	1,477	1,680	1,956	2,598	2,734	2,972	3,200	3,444	3,700	3,968	4,246
Central Bank	501	577	606	740	755	810	873	938	1,008	1,083	1,165
Overall balance of the electricity sector 3/	-52	-73	-72	-49	-53	-73	-65	-60	-35	4	18
Nominal GDP	3,803	4,236	4,562	4,457	5,407	6,160	6,846	7,506	8,197	8,951	9,775

Sources: National authorities and IMF staff calculations.

1/ Based on Government Finance Statistics Manual (GFSM) 2014.

2/ Consolidated public sector debt includes the Central Bank's quasi-fiscal debt.

3/ Before government transfers; it covers the Dominican Corporation of State Electricity Companies (CDEEE).

Table 3. Dominican Republic: Summary Accounts of the Banking System, 2017–27
(In Billions of Dominican Pesos, Unless Otherwise Stated)

	2017	2018	2019	2020	2021	Projection					
						2022	2023	2024	2025	2026	2027
I. Central Bank											
Net Foreign Assets 1/ (in millions of US\$)	301	362	445	564	647	733	806	905	997	1,087	1,074
Net Domestic Assets	-167	-215	-279	-341	-402	-459	-502	-571	-633	-690	-640
Nonfinancial public sector (net) 2/	-2	-18	-9	-137	-79	-90	-100	-109	-119	-130	-142
Financial institutions (net)	-628	-690	-802	-816	-1,002	-1,224	-1,423	-1,632	-1,870	-2,153	-2,656
Nonfinancial private sector (certificates)	-123	-134	-126	-128	-124	-187	-206	-228	-251	-275	-295
Other items (net)	586	627	659	741	803	1,042	1,227	1,398	1,607	1,869	2,453
Currency Issue	134	147	166	223	245	274	304	334	364	398	434
II. Deposit Money Banks											
Net Foreign Assets 1/ (in millions of US\$)	-51	-48	-79	60	13	12	14	16	18	20	22
Net Domestic Assets	1,237	1,308	1,488	1,622	1,897	2,099	2,332	2,556	2,791	3,047	3,327
Net claims on central bank	374	383	463	501	711	745	828	907	991	1,082	1,182
Net credit to the nonfinancial public sector	151	130	147	221	184	211	234	256	280	305	333
Central government	94	79	112	199	183	209	232	254	278	303	331
Rest of NFPS	57	52	35	22	1	2	2	2	2	2	2
Credit to the private sector	985	1,095	1,225	1,291	1,440	1,599	1,777	1,948	2,128	2,324	2,537
In pesos	787	872	978	1,065	1,179	1,319	1,466	1,607	1,755	1,917	2,093
In foreign currency	198	223	247	226	260	280	311	341	373	407	444
Capital and accumulated surplus	-213	-237	-268	-294	-344	-333	-332	-332	-332	-332	-332
Other items (net)	-59	-63	-80	-97	-94	-123	-175	-224	-276	-332	-394
Liabilities to the Private Sector	1,186	1,261	1,409	1,682	1,910	2,111	2,345	2,572	2,808	3,067	3,349
In pesos	893	927	1,023	1,144	1,320	1,475	1,639	1,797	1,962	2,143	2,340
In foreign currency	293	334	386	538	590	636	707	775	846	924	1,009
III. Banking System											
Net Foreign Assets 1/ (in millions of US\$)	250	314	367	624	660	744	820	921	1,015	1,107	1,097
Net Domestic Assets	1,437	1,516	1,646	1,688	1,881	2,177	2,421	2,636	2,874	3,141	3,492
Net credit to non-financial public sector	149	113	137	84	105	121	134	147	161	175	191
Credit to the private sector	991	1,102	1,232	1,298	1,447	1,607	1,786	1,958	2,139	2,335	2,550
Other items (net)	297	302	277	306	329	448	500	530	574	630	751
M3	1,309	1,401	1,565	1,891	2,140	2,407	2,688	2,961	3,247	3,558	3,892
Currency in circulation	102	117	134	187	210	234	260	286	312	341	372
Deposits	832	905	1,052	1,355	1,580	1,746	1,941	2,128	2,324	2,537	2,771
Central bank certificates held outside commercial banks	21	23	22	22	21	21	21	21	21	21	21
Commercial bank certificates held by the public	354	356	357	327	330	364	405	444	485	529	578
Memorandum Items:	(Annual percentage change; unless otherwise stated)										
Credit to the private sector	10.1	11.1	11.8	5.3	11.5	11.1	11.1	9.6	9.2	9.2	9.2
Currency issue	13.2	9.8	13.6	33.9	10.0	11.6	11.1	9.6	9.2	9.2	9.2
Deposits and commercial bank certificates	9.6	6.3	11.8	19.4	13.5	10.5	11.1	9.6	9.2	9.2	9.2
Broad money (M3)	11.2	7.0	11.7	20.8	13.2	12.5	11.7	10.2	9.7	9.6	9.4
M3 Velocity (ratio of GDP to M3)	2.9	3.0	2.9	2.4	2.5	2.6	2.5	2.5	2.5	2.5	2.5

Sources: National authorities and IMF staff calculations.

1/ On a residency basis.

2/ Excludes transfers related to central bank recapitalization.

Table 4. Dominican Republic: Balance of Payments, 2017–27
(In Millions of US Dollars, unless otherwise specified)

	2017	2018	2019	2020	2021	Projection					
						2022	2023	2024	2025	2026	2027
(in millions of U.S. dollars)											
Current Account	-133	-1,322	-1,188	-1,337	-2,689	-3,702	-2,758	-2,734	-2,962	-3,158	-3,386
Goods, net	-7,600	-9,559	-9,075	-6,803	-11,681	-14,659	-15,277	-16,557	-17,211	-17,674	-18,815
Exports, f.o.b.	10,135	10,638	11,193	10,302	12,462	13,952	15,119	16,672	18,228	19,215	20,800
Imports, f.o.b.	17,734	20,197	20,268	17,105	24,143	28,611	30,396	33,229	35,440	36,890	39,615
Services, net	5,550	5,497	5,058	1,391	3,649	6,143	7,503	8,515	9,257	9,968	10,613
Income, net	1,917	2,741	2,829	4,075	5,344	4,815	5,016	5,308	4,993	4,548	4,817
Capital Account	2	2	1	1	0	0	0	0	0	0	0
Financial Account	2,121	3,085	3,162	3,493	5,439	5,014	3,875	3,582	4,321	4,425	4,745
Foreign direct investment, net	3,571	2,535	3,021	2,560	3,102	3,469	3,799	4,089	4,385	4,701	5,041
Portfolio investment, net	1,757	2,696	2,178	5,620	2,596	3,187	3,393	3,000	1,852	2,335	3,446
Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-3,207	-2,147	-2,037	-4,687	-259	-1,642	-3,316	-3,508	-1,916	-2,611	-3,742
Net Errors and Omissions	-1,259	-919	-825	-864	-451	0	0	0	0	0	0
Overall Balance	731	847	1,150	1,292	2,300	1,313	1,118	848	1,360	1,268	1,360
Financing	-731	-847	-1,150	-1,292	-2,300	-1,313	-1,118	-848	-1,360	-1,268	-1,360
Change in reserves (- increase)	-731	-847	-1,150	-1,980	-2,300	-1,313	-959	-1,165	-1,183	-1,268	-1,360
(in percent of GDP)											
Current Account	-0.2	-1.5	-1.3	-1.7	-2.8	-3.4	-2.4	-2.2	-2.2	-2.2	-2.2
Goods, net	-9.5	-11.2	-10.2	-8.6	-12.3	-13.5	-13.2	-13.2	-12.8	-12.3	-12.2
Exports, f.o.b.	12.7	12.4	12.6	13.1	13.2	12.8	13.0	13.3	13.6	13.3	13.5
of which: Gold	1.8	1.6	1.7	2.1	1.7	1.6	1.5	1.4	1.2	1.1	1.0
of which: Other	10.8	10.8	10.8	10.9	11.5	11.3	11.5	12.0	12.4	12.3	12.5
Imports, f.o.b.	22.1	23.6	22.8	21.7	25.5	26.3	26.2	26.6	26.4	25.6	25.6
of which: Oil	3.6	4.3	4.0	2.6	4.0	5.6	4.8	4.2	3.9	3.6	3.4
of which: Other	18.6	19.2	18.8	19.1	21.5	20.7	21.4	22.3	22.6	22.0	22.2
Services, net	6.9	6.4	5.7	1.8	3.9	5.7	6.5	6.8	6.9	6.9	6.9
of which: Travel, net	8.3	8.2	7.7	3.1	5.3	6.6	7.3	7.6	7.8	7.9	7.9
Income, net	2.4	3.2	3.2	5.2	5.6	4.4	4.3	4.2	3.7	3.2	3.1
Primary income, net	-4.7	-4.3	-4.6	-4.8	-5.0	-4.3	-4.1	-3.7	-3.9	-4.1	-4.0
Of which: Direct investment, net	-3.4	-3.2	-3.2	-3.1	-3.2	-2.9	-2.8	-2.8	-2.8	-2.8	-2.8
Secondary income, net	7.1	7.5	7.7	10.0	10.6	8.7	8.4	8.0	7.6	7.2	7.1
Of which: Workers' remittances, net	6.8	7.1	7.4	9.6	10.3	8.4	8.1	7.7	7.4	7.0	6.9
Capital Account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial Account	2.6	3.6	3.6	4.4	5.7	4.6	3.3	2.9	3.2	3.1	3.1
Foreign direct investment, net	4.5	3.0	3.4	3.2	3.3	3.2	3.3	3.3	3.3	3.3	3.3
Portfolio investment, net	2.2	3.1	2.4	7.1	2.7	2.9	2.9	2.4	1.4	1.6	2.2
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-4.0	-2.5	-2.3	-5.9	-0.3	-1.5	-2.9	-2.8	-1.4	-1.8	-2.4
Net Errors and Omissions	-1.6	-1.1	-0.9	-1.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	0.9	1.0	1.3	1.6	2.4	1.2	1.0	0.7	1.0	0.9	0.9
Financing	-0.9	-1.0	-1.3	-1.6	-2.4	-1.2	-1.0	-0.7	-1.0	-0.9	-0.9
Change in reserves (-increase)	-0.9	-1.0	-1.3	-2.5	-2.4	-1.2	-0.8	-0.9	-0.9	-0.9	-0.9

Sources: National authorities and IMF staff calculations.

Table 5. Dominican Republic: Financial Soundness Indicators, 2012–21
(In Percent, End of Year)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
I. Deposit Taking Institutions 1/										
Capital Adequacy										
Leverage ratio (net worth to total assets)	11.8	11.5	11.3	11.2	11.3	11.6	11.8	11.9	10.9	11.0
Regulatory capital to risk-weighted assets	18.2	16.7	16.1	16.0	17.2	18.3	17.1	16.6	21.1	19.0
Asset Quality										
NPLs to total loans 2/	3.4	2.2	1.5	1.7	1.7	1.9	1.6	1.6	1.9	1.3
Loan provisions to NPLs 2/	97.7	134.8	187.1	152.4	156.3	149.3	157.1	160.6	203.9	335.7
NPLs net of provisions to net worth	-1.0	-5.5	-8.6	-6.4	-6.6	-6.4	-6.2	-6.1	-11.8	-15.8
Assets received in lieu of payment to total assets	1.1	1.0	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.1
Earnings and Efficiency										
Return on average assets	2.2	2.3	2.3	2.3	2.2	1.9	2.4	2.3	1.8	2.3
Return on average equity	18.8	20.6	19.9	20.1	19.0	16.7	20.0	19.1	15.6	20.7
Gross interest margin on productive assets	10.5	10.2	9.4	8.9	8.6	8.5	8.5	7.9	7.8	7.5
Cost to income ratio	70.0	67.8	69.0	69.8	68.8	67.0	66.6	67.6	63.3	61.3
Liquidity										
Liquid funds to deposits	34.3	33.4	36.9	34.3	34.9	29.7	31.3	25.6	30.5	23.8
Liquid funds to total assets	19.0	18.7	19.7	18.4	18.4	15.8	17.0	14.4	18.2	14.6
II. Commercial Banks										
Capital Adequacy										
Leverage ratio (net worth to total assets)	10.0	9.7	9.5	9.8	10.0	10.3	10.4	10.5	9.6	9.7
Regulatory capital to risk-weighted assets	15.8	14.8	14.0	14.4	15.6	16.4	15.8	14.9	18.7	16.4
Asset Quality										
NPLs to total loans	3.2	1.9	1.3	1.5	1.5	1.7	1.5	1.5	1.9	1.2
Loan provisions to NPLs	100.5	153.6	202.9	165.0	169.8	160.3	163.8	169.1	216.9	362.1
NPLs net of provisions to net worth	-1.5	-8.3	-10.9	-8.0	-8.0	-7.7	-7.5	-7.5	-14.2	-18.6
Assets received in lieu of payment to total assets	1.1	1.0	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.1
Earnings and Efficiency										
Return on average assets	2.2	2.3	2.3	2.3	2.2	2.0	2.3	2.3	1.8	2.2
Return on average equity	24.4	22.6	24.6	23.9	24.0	19.9	21.8	21.6	17.8	22.7
Gross interest margin on productive assets	10.5	10.3	9.4	8.8	8.5	8.3	8.4	7.7	7.7	7.4
Cost to income ratio	69.3	67.1	68.5	69.3	68.0	66.6	66.0	67.2	63.1	60.6
Liquidity										
Liquid funds to deposits	32.8	32.5	36.3	33.4	34.2	28.6	30.7	24.9	30.7	23.8
Liquid funds to total assets	20.8	20.3	21.3	19.6	19.6	16.7	18.2	15.2	19.7	15.6

Sources: National authorities.

1/ These figures do not include credit and savings cooperatives, which account approximately for 3.5 percent of total DTI assets (staff estimate). The 17 commercial banks account for 88 percent and the top 5 banks for 79 percent of total DTI assets.

2/ See Figure 6 for a stressed measure of asset quality (the so called stressed delinquency index) and its corresponding provisioning coverage.

Table 6. Dominican Republic: Indicators of Fund Credit, 2022–27
(In Millions of SDRs, Unless Otherwise Stated)

	2022	2023	2024	2025	2026	2027
Existing and Prospective drawings (RFI)	477.40	...	...	...	...	...
(in percent of quota)	100	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)						
Amortization	0.0	119.4	238.7	119.4	0.0	0.0
GRA charges	4.6	6.1	3.5	0.6	0.0	0.0
GRA service charge	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.5	0.7	0.7	0.7	0.7	0.7
SDR charges	5.1	6.8	4.2	1.3	0.7	0.7
Total Debt Service	5.1	126.1	242.9	120.6	0.7	0.7
(in percent of exports of goods and services)	0.0	0.7	1.1	0.5	0.0	0.0
(in percent of GDP)	0.0	0.2	0.3	0.1	0.0	0.0
(in percent of GIR)	0.1	1.2	2.1	1.0	0.0	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)						
Outstanding Stock	477.4	358.1	119.4	0.0	0.0	0.0
(in percent of quota)	100.0	75.0	25.0	0.0	0.0	0.0
(in percent of GDP)	0.6	0.4	0.1	0.0	0.0	0.0
(in percent of GIR)	4.8	3.4	1.0	0.0	0.0	0.0
Memorandum Items:						
Exports of goods and services (US\$ million)	24,465	27,279	30,222	32,866	34,890	37,540
GDP (US\$ million)	108,670	116,031	125,015	134,151	143,987	154,506
US\$/SDR exchange rate	1.43	1.43	1.43	1.43	1.43	1.43
Gross International Reserves (US\$ million)	14,256	15,215	16,380	17,563	18,831	20,191
Quota	477.4	477.4	477.4	477.4	477.4	477.4

Source: IMF staff estimates.

Table 7. Dominican Republic: Recommendations of the 2021 Article IV Consultation

Recommendations	Status
Fiscal Policies	
Establish a fiscal responsibility framework to anchor medium-term policies.	The authorities intend to adopt a Fiscal Responsibility Law (FRL). To support this, they are rationalizing spending, improving the quality of public infrastructure and services, and developing their medium-term fiscal framework.
Improve fiscal governance and transparency.	The government continues to improve tax administration and control tax evasion, including with support from IMF TA. It also continues to strengthen procurement and transparency and has proposed a new procurement law (see Annex X).
Strengthen the fiscal position—broaden the tax base through a revision of tax exemptions and further reforms in the electricity sector.	The government has focused its efforts on reforming the electricity sector (see also below)—which has been a large drain on fiscal resources over the years. The authorities continue to seek consensus on a wider tax reform to create space for needed social and capital spending.
Monetary and Financial Policies	
Continue building reserve buffers and allow the exchange rate to play its stabilizing role.	The BCRD kept accumulating reserves: in 2021 reserves reached 83 percent of the Fund’s ARA metric. Authorities remain committed to allow the peso to adjust in line with fundamentals.
Recapitalize the central bank to enhance its financial and institutional independence.	The treasury increased transfers for BCRD recapitalization in 2022, but the process requires entrenchment. The authorities are assessing means to strengthen the recapitalization framework.
Realign the regulatory and macro-financial framework with best practices, especially banking resolution and the safety net, the Basel framework, and the macroprudential toolkit.	The supervision and regulation of financial cooperatives needs strengthening. The authorities developed a plan for the implementation of IFRS and the Basel II/III framework, which will also help expand the macroprudential toolkit.
Structural Reforms	
Address the long-standing weaknesses in the electricity sector.	Electricity sector reforms focus on diversifying the energy matrix (curbing dependence on fuel oil), reducing electricity distribution losses, and implementing the Electricity Pact (see Annex VIII).
Continue reforms to foster inclusive growth and improve social outcomes.	Reforms focus on strengthening public institutions and governance to attract investments. The authorities are working to improve labor market and education outcomes, increase financial inclusion, and strengthen social protection, including by consolidating key social programs.

Annex I. Inflation Drivers¹

This note assesses the drivers of inflation in the Dominican Republic during the Covid-19 pandemic using a small semi-structural model. It analyzes separately the drivers of the three CPI components—core, non-core food, and energy—considering, in each case, equation and shock decompositions. External factors, specifically the exchange rate, foreign prices, and foreign demand, were the primary factors driving all components of inflation. Oil prices and the wedge between the policy rate and the one implied by the assumed Taylor rule also had an impact on inflation dynamics, particularly in 2021. Looking forward, model-implied inflation expectations have increased by end-2021, due to a pickup in US inflation and output gap, as well as a moderate depreciation.

A. Analytical Approach

1. This note examines inflation dynamics using a small structural macroeconomic model developed at the International Monetary Fund.² This is a semi-structural model building on the new-Keynesian framework and which consists of four main equations: (1) an aggregate demand equation (IS curve) that relates the domestic output gap to real interest rate, exchange rate, and foreign output gaps; (2) aggregate supply equations (Phillips curves) that relate components of inflation (core, non-core food, and energy) to the output gap, the real interest rate gap, the exchange rate, international commodity prices and foreign inflation; (3) an uncovered interest parity condition for the exchange rate; and (4) a monetary policy reaction function which has elements of a standard Taylor rule and also seeks to maintain some stability in the exchange rate.³

2. The analysis is based on both equation and shock decompositions of the inflation dynamics. Equation decompositions of a variable show the contribution of contemporaneous endogenous variables, while shock decompositions show contributions from all past structural shocks on the deviation of a variable from its steady-state.⁴ The latter therefore differ from the former in two ways. First, they decompose variable into contributions from exogenous, mutually independent shocks. Second, they are cumulative, showing the contribution from all prior shocks (including the present quarter) to the value of the variable in that quarter. It can be thought of as a cumulation of all impulse responses to all of the shocks in all preceding quarters. All variables are defined in annualized quarter-on-quarter terms.

¹ Prepared by Nicolas Fernandez-Arias.

² “A Practical Model-Based Approach to Monetary Policy Analysis—Overview”, 2006, by A. Berg, P. Karam, and D. Laxton, IMF, WP/06/80. The model was customized and calibrated to the Dominican Republic with the assistance of staff from the IMF’s Institute of Capacity Development.

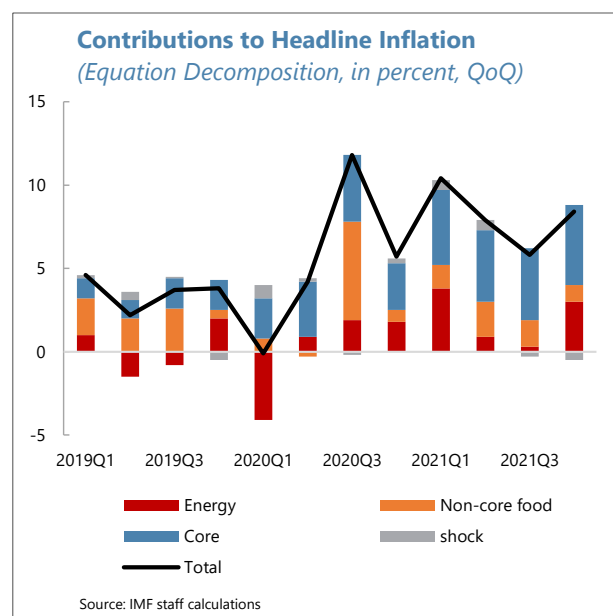
³ The simplicity of the assumed Taylor rule—which, for example, does not consider the discrepancy between domestic and imported inflation—means that the analysis cannot definitively assess the optimality of monetary policy. It nonetheless helps to quantify the drivers of inflation, including the difference between the actual interest rate and the one implied by the Taylor rule. Combined with other analyses and economic judgment, the results in this annex can complement a full assessment of the optimality of monetary policy during the pandemic.

⁴ To clarify, shock decompositions can also be performed on raw variables. We focus on deviations from steady state as this analysis is concerned with explaining the deviation of inflation from its target.

B. Headline Inflation

3. Headline inflation was initially driven by non-core food and energy, with core picking up since the fall of 2020.

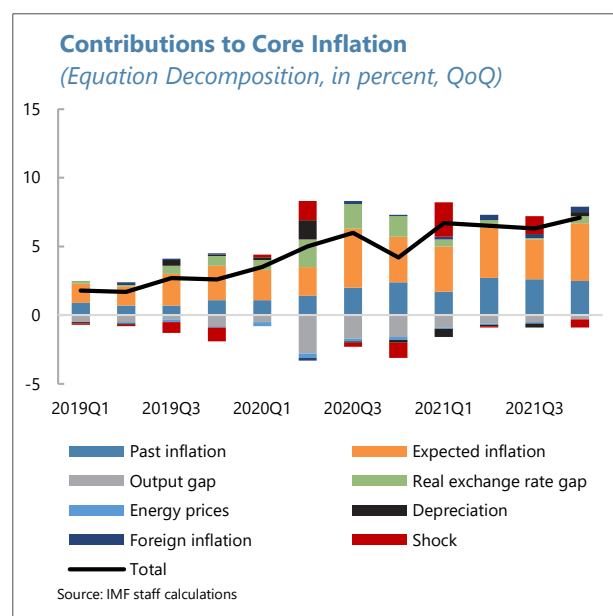
Early in the pandemic, headline CPI inflation was significantly below its 4 percent target due to significant disinflation in energy-related goods and services. During the second half of 2020, however, inflation in non-core food and energy increased, with a significant impact on headline inflation, which in turn exceeded the target consistently. After a decline in at the end of 2020, non-core non-energy inflation (primarily food, henceforth non-core food for simplicity) again increased throughout 2021, before abating in the last quarter of the sample. Energy inflation, by contrast, showed a gradual decline throughout 2021, reemerging during the last quarter. Core inflation began to increase during the second quarter of 2020 and remained elevated throughout 2021, even during periods in which food and energy inflation has been receding.



C. Core Inflation

4. Core inflation was primarily driven by the exchange rate and foreign inflation, though inertia and short-term inflation expectations have played a role since the fall of 2020.⁵

Core inflation was initially pushed up by the exchange rate depreciation throughout 2020. It increased in the second quarter of 2020 due to a depreciation of the exchange rate—which drives the ‘depreciation’ component directly (through imported goods included in core CPI) and the ‘real exchange rate gap’ component indirectly (through pass-through to higher imported input prices leading to higher prices of domestically produced core items). Exchange rate dynamics continued to drive core inflation in subsequent quarters.



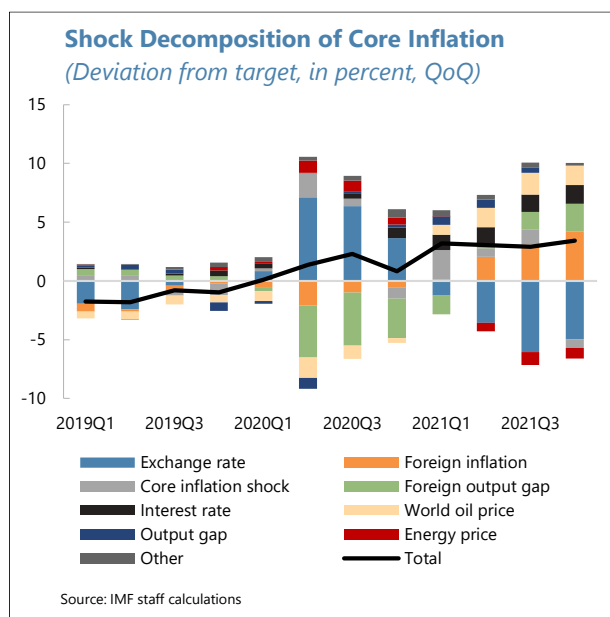
⁵ Throughout this note, “inflation expectations” refers to *model-implied* inflation expectations: we do not observe inflation expectations directly, e.g., through a survey of market participants.

5. In 2021, appreciations curbed the impact of the exchange rate on core inflation, although this pattern reversed in the last quarter of 2021, as the exchange rate depreciated.

Inertia and short-term inflation expectations picked up significantly since the fall of 2020 and remained elevated through the pandemic, while the output gap has contributed negatively to core inflation consistently, as expected. Finally, note that the large positive shocks directly to core inflation in the first and third quarters of 2021 may reflect the contribution of higher container shipping costs. These have increased by a factor of seven since the beginning of 2020, with the increases particularly concentrated in those two quarters.

6. The shock decomposition confirms the primacy of external factors, and an impact of the interest rate and oil prices since late 2020.⁶

The most important driver of core deviations from the target has been shocks to the nominal exchange rate, which contributed positively in 2020 and negatively in 2021. However, core inflation remained elevated in 2021—despite exchange rate appreciations in the first three quarters—due to increasing positive contributions from shocks to US inflation, the US output gap, and international oil prices—though the latter is to some degree counteracting shocks to energy inflation due to regulatory price-smoothing, which we discuss in the section below on energy inflation.⁷ Finally, the wedge between the monetary policy rate and the rate implied by the model's Taylor rule had a positive contribution on core inflation since late 2020, similar to the one from oil prices.



the model's Taylor rule had a positive contribution on core inflation since late 2020, similar to the one from oil prices.

7. The drivers of core inflation expectations are similar to those of core inflation, though with somewhat different dynamics—including a large pick-up at the end of the sample.

Early in the pandemic, core inflation expectations increased significantly due to the exchange rate depreciation, largely offset by the negative output gap. By 2021, the exchange rate appreciation began to reduce expectations. However, the latter remain elevated due to increasing positive contributions from shocks to US inflation, US output gap, international oil prices, and the wedge

⁶ The inflation target for a CPI component in general differs from headline CPI target (of 4 percent per year) due to relative price trends, specifically an upward relative price trend in food and a downward trend in the relative price of services. Thus, the core inflation target is lower than 4 percent and the non-core food inflation target is higher than 4 percent. The target for energy inflation is the same as the target for headline inflation.

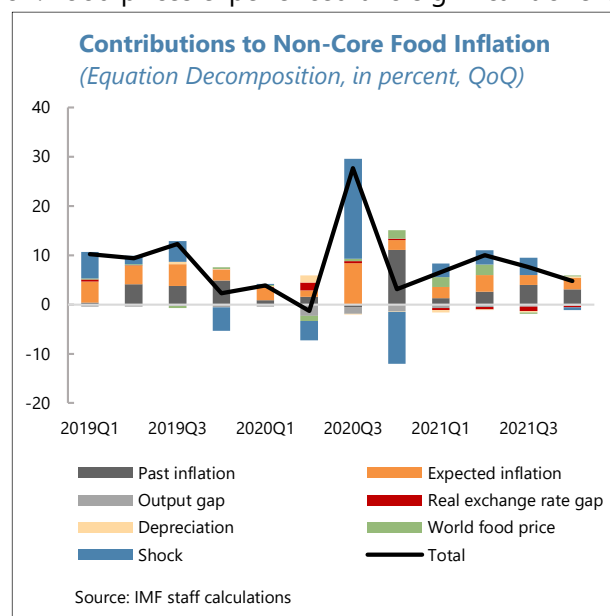
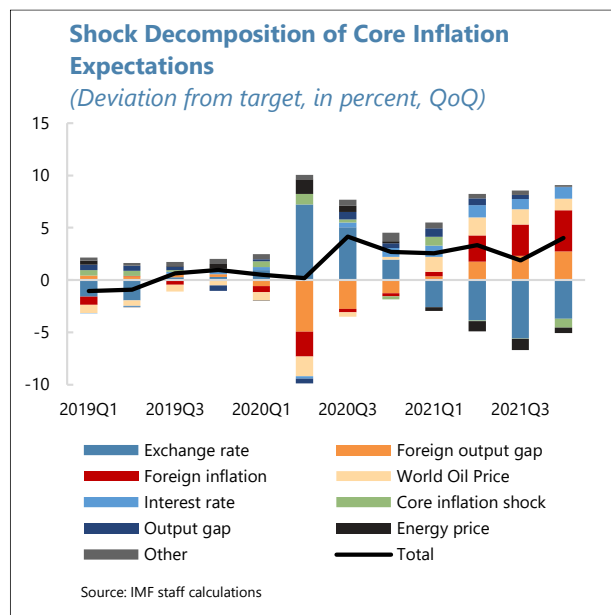
⁷ Note that the depreciation in 2021Q4 manifests as a less negative contribution from the exchange rate shock (rather than a positive one) due to the cumulative nature of the shock decomposition.

between the policy rate and the implied Taylor rule. This was particularly so in the last quarter of 2021, in which expectations were driven up by increases in the contribution from foreign inflation and output gap, as well as a reduced negative contribution from the exchange rate, reflecting its depreciation.

D. Non-Core Food Inflation

8. Non-core food inflation has been largely driven by external factors, expectations, and one-off supply shocks.

In the spring of 2020, the depreciation in the exchange rate contributed positively to non-core food inflation—although in part offset by negative shocks to domestic food prices. In late 2020 and early 2021, there were significant positive contributions to non-core food inflation from rising world food prices, as well as additional moderate shocks that are not explained by the model and some relatively small negative contributions from the exchange rate appreciation. Food prices experienced two significant one-off supply shocks during the pandemic. First, in the third quarter of 2020, the substantial pick-up in food inflation was likely driven by a large storm which caused flooding, restricting food supply.⁸ Public transportation, a non-food item included in non-core food, also experienced a significant increase in prices in that quarter, contributing about 7 percent to non-core food inflation. By the following quarter this shock dissipates—the negative shock in the fourth quarter offsets the lag term due to the shock in the preceding period, as there appears to have been less backward-looking price indexation following this shock than the model assumes.⁹ Second, the large positive shock in the third quarter of



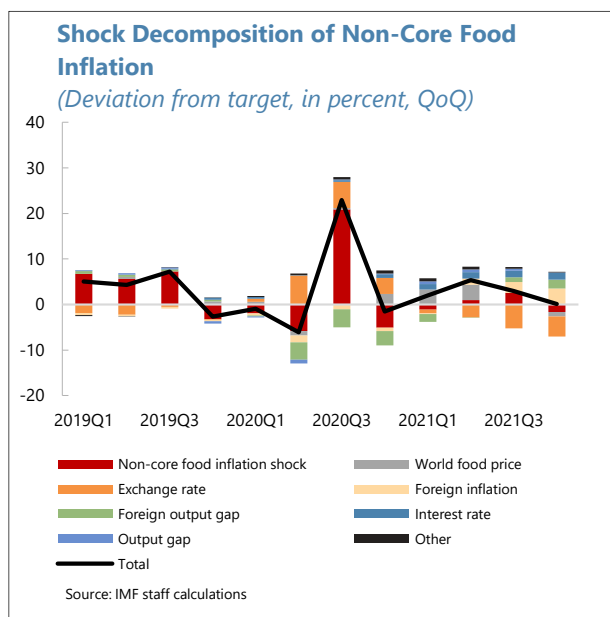
⁸ Green plantains, whose price increased by 304 percent, contribute 11.4 percent to non-core food inflation, accounting for more than half of the shock. Onions, whose price increased by 122 percent, contributed 2.5 percent to non-core food inflation.

⁹ For example, Green plantains experienced deflation of 21 percent in 2020Q4, contributing -1 percent to non-core food inflation. Onions experienced a deflation of 59 percent, contributing -1.4 percent to non-core food inflation.

2021 is likely due to a swine flu epidemic which required the slaughter of pigs and shifted demand to consumption of chicken.¹⁰ By end-2021, non-core food inflation declined significantly, and expectations are well-anchored.

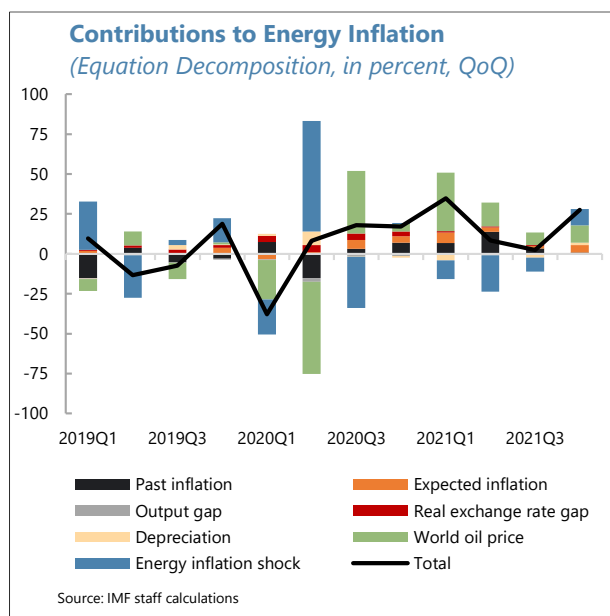
9. The shock decomposition confirms the conclusions of the previous analysis—food inflation driven by the exchange rate, world prices, and one-off supply shocks—as well as an impact from the interest rate wedge.

There was a significant positive contribution from shocks to the exchange rate early in the pandemic, which turned negative by 2021, though lessened in the last quarter due to the partial reversal of the previous appreciation. Rising world prices also had a sizable positive impact in late 2020 and early 2021. However, the contributions from the positive shocks to the US output gap and from rising food prices were substantially weaker than the analogous contributions in the case of core inflation (i.e., of US output gap and rising US CPI inflation), explaining the difference in the two near the end of the sample. The decomposition also points to a positive contribution from the wedge between the policy rate and the implied Taylor’s rule interest rate, as with core inflation.



E. Energy Inflation

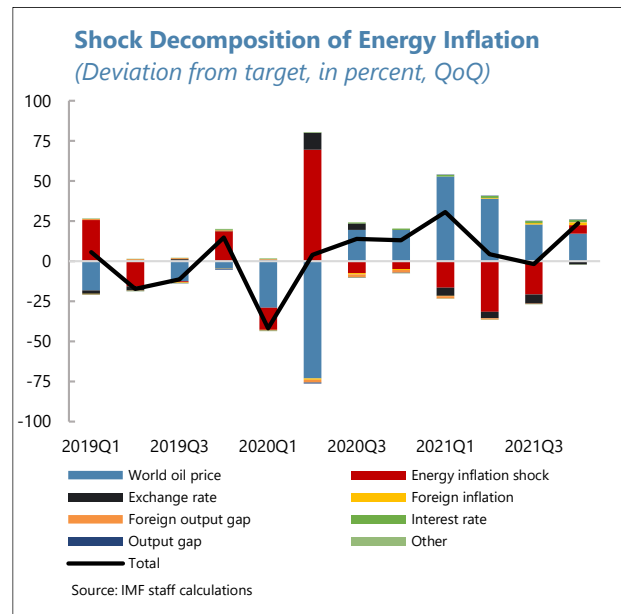
10. Energy inflation was driven primarily by the price of oil, though the pass-through into energy inflation has been smoothed by domestic pricing of energy. The equation decomposition of energy inflation shows large contributions of fluctuations in the world oil price, typically offset by shocks to oil inflation, reflecting regulated prices which smooth the pass-through of international price changes. The initial fall in world oil prices at the onset of the pandemic was not reflected in domestic



¹⁰ In fact, chicken was the leading contributor to non-core food inflation, with a contribution of 6.4 percent (price increase of 45 percent), due to substitution away from pork. The latter was due both to reduced supply of pork, as many pigs were slaughtered, as well as reduced demand for pork from consumers avoiding exposure to disease.

energy prices, as well as the subsequent reversal that drove world prices up since the fall of 2020—with two exceptions during early 2020 and late 2021, when the world oil price and the shock to domestic energy inflation had contributions of the same sign.

11. The shock decomposition shows a similar picture to the equation decomposition. It highlights the importance of shocks to oil prices and stabilizing contributions from the smoothing of energy prices, except for the first quarter of 2020 and the last quarter of 2021.



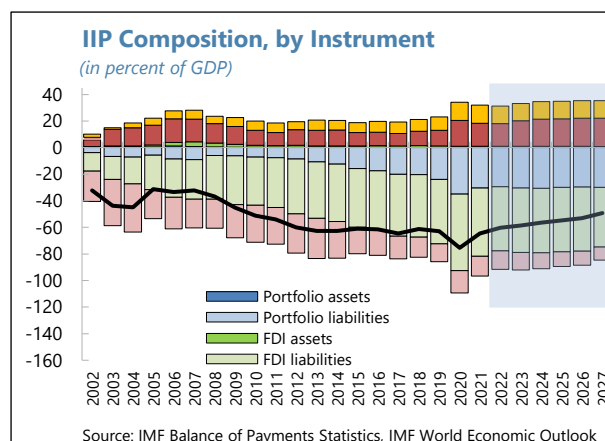
Annex II. External Sector Assessment

Overall Assessment: The external position of the Dominican Republic as of end-2021 continued broadly aligned with fundamentals and desirable policy settings. The risks to external stability remain low as FDI inflows continue to fully finance the CA deficit while reserve adequacy improved substantially with reserves exceeding all metrics, except for the IMF's risk-weighted adequacy metric for fixed exchange rate regimes (where it reached 83 percent of the recommended level). External debt is on track to revert to its pre-crisis level in percent of GDP, exports and tourism have rebounded and remittances reached a historic high in 2021.

Potential Policy Responses: The strength of the external sector is one of the recovery drivers of the Dominican economy, however it is reliant on the global economic environment, particularly regarding the normalization of tourism and world trade. Continued building of reserve buffers will aid the country's resilience to these risks.

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (NIIP) improved markedly to -65 percent of GDP in 2021, ten percentage points higher than in 2020. Such recovery mirrored the normalization of external flows and the SDR allocation, which allowed a significant strengthening of the reserve stock. Foreign direct investment and portfolio investment accounted for the bulk of the liabilities. The NIIP is projected to continue improving gradually over the medium term.



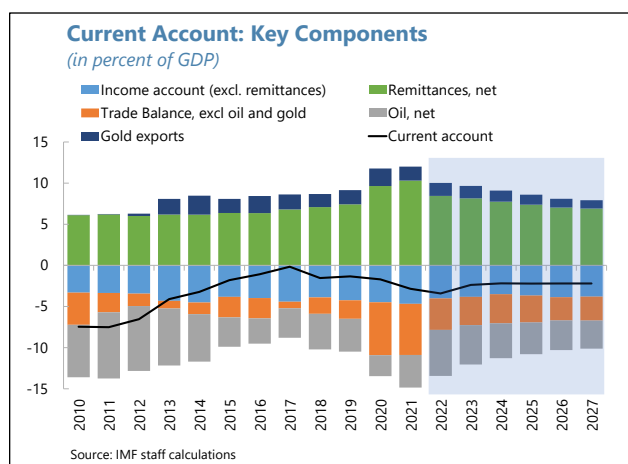
Following the quick rise of external indebtedness during the crisis, external debt declined in relation to GDP in 2021 (50 percent). While the decline of the debt ratio was an accounting effect of the uptick in GDP growth, the debt dynamics indicate a continued substantial reduction to 42 percent of GDP by 2027 supported by an expected return to potential growth. Public sector external debt accounted for about 80 percent of the total at end-2021, of which 25 percent is official debt. The set of bound tests under the external debt sustainability framework (market access) shows that the Dominican debt profile is resilient to several shocks. As expected, the highest impact on the external debt ratio would come from an exchange rate shock (Figure 1, Table 1).

Assessment. The current NIIP and its projected trend are assessed as sustainable.

2021 (% GDP)	NIIP: -65	Gross Assets: 32	Debt Assets: 1	Gross Liab.: 97	Debt Liab.: 50
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Current Account

Background. Reflecting the strong economic recovery in 2021, the current account deficit increased to 2.8 percent of GDP, still below the norm. The main driver of the trade imbalance was the import bill, which reflected aggregated demand recovery and higher commodity prices—especially oil. Exports of goods are above pre-crisis levels supported by gold prices. At the same time, tourism inflows are on track to recover its normal level, thanks to a decisive but safeguarded reopening, and remittances reached a record 10.3 percent of the GDP in the year.



Assessment. The estimated current account gap in relation to the norm using the EBA Lite model is 0.4 percent of the GDP. This result is obtained after accounting for cyclical factors as well as COVID-related adjustment for tourism (1.16 percent of the GDP) and remittances (-0.69 percent). Such low CA gap suggests that the 2021 external position is aligned with fundamentals.

Dominican Republic: Model Estimates for 2021 (in percent of GDP)

	CA Model	REER
CA-Actual	-2.8	
Cyclical contributions (from model) (-)	0.3	
COVID-19 adjustor (+) 1/	0.5	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	-2.6	
CA Norm (from model) 2/	-2.9	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	-2.9	
CA Gap	0.4	6.9
o/w Relative policy gap	1.9	
Elasticity	-0.18	
REER Gap (in percent)	-2.0	-38.0

1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (1.16 percent of GDP) and on remittances (-0.69 percent of GDP).

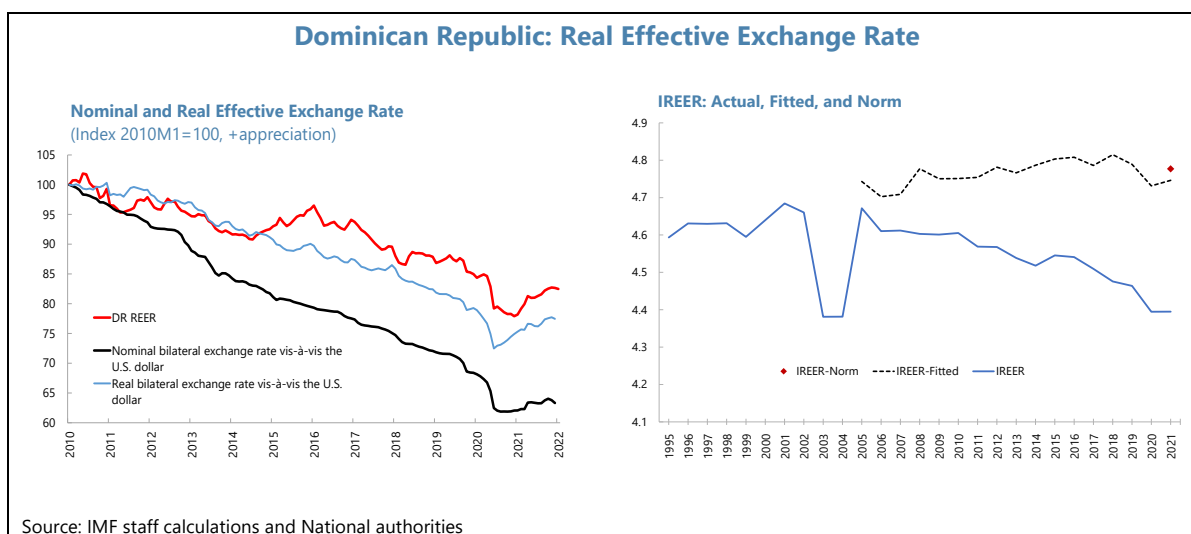
2/ Cyclically adjusted, including multilateral consistency adjustments.

Similarly, under the External Stability approach (ES) the external position is considered sustainable. The significant NIIP weakening observed in 2020 was temporary and net external liabilities started trending down in 2021. It is expected that the NIIP will converge to pre-crisis levels in the medium term in response to continued economic recovery and full normalization of trade flows and tourism. Current projections place NIIP at about 50 percent of the GDP by 2027.

Real Exchange Rate

Background. Following the significant depreciation of the peso in 2020 at the peak of the covid crisis, the real effective exchange rate revalued by 6 percent in 2021 (e-o-p), reflecting the gradual appreciation of the nominal exchange rate against the U.S. dollar as the economy stabilized and external flows normalized. In this context, monetary authorities have continued allowing the exchange rate to play its stabilizing role.

Assessment. The REER undervaluation is estimated by the EBA Lite model at 2 percent, suggesting that there is no significant misalignment. In contrast, estimates using the REER approach indicate that the exchange rate is undervalued by 35 percent. However, the latter is explained by a large residual in the regression, so the results have a low level of statistical confidence. On balance, the real exchange rate gap is assessed to be in the range of 0 to 2 percent.



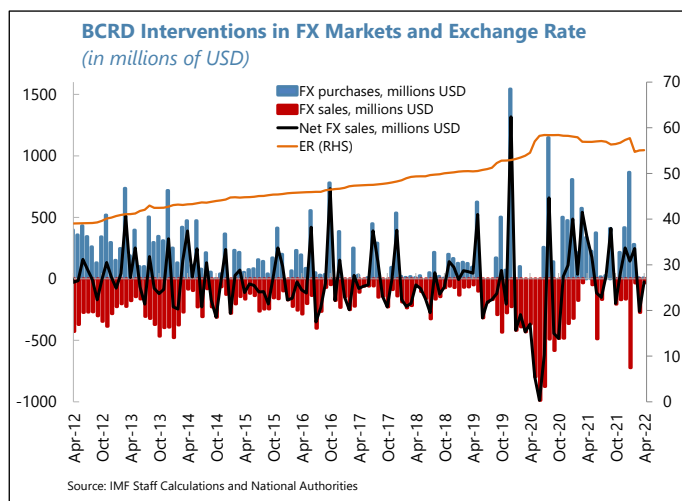
Capital and Financial Accounts: Flows and Policy Measures

Background. The financing structure of the current account supports external stability. In 2021 the CA deficit was fully covered by FDI (3.3 percent of GDP) and over the medium term, Dominican Republic's well diversified FDI inflows are expected to remain around 3-4 percent of GDP, driven by the authorities' commitment to enhance the business environment. Net portfolio inflows moderated in 2021 (2.7 percent of the GDP vs 7.1 percent in 2020) reflecting lower financing needs of the government, and a normalization of private sector financing needs. The significant sovereign bond issuance in the first quarter of this year strengthened the reserve buffer against volatility of international flows. In the short term tighter global financial conditions will make borrowing more expensive, but the government's financing needs for 2022 have been met and pro-active debt management have reduced near-term refinancing risk.

Assessment. The composition of external capital and financial flows to the Dominican economy is adequate and contribute to structural sustainability. An active debt management policy and continued reserve build up contribute to mitigate possible risks related to capital flows. Continued vigilance of possible balance sheet effects in the private sector associated to global risk aversion and tighter liquidity is warranted.

FX Intervention and Reserves Level

Background. Gross international reserves increased by 20 percent to US\$13 billion by end-2021 (about 13 percent of GDP). The coverage ratios stayed significantly above traditional metrics—i.e., reserves in terms of months of prospective imports, broad money, and short-term debt (on a remaining maturity basis). While this was partly explained by the SDR allocation (USD 649 million), access to external financing to cover fiscal needs, the buoyancy of remittances, and the normalization of FDI also buttressed reserve accumulation. Regarding the ARA metric, reserves are increasingly aligned with the IMF's recommended level. Thus, GIR stood at 83 percent of the applicable metric. The *de facto* exchange rate is classified as other managed regime.



FX interventions, which had increased significantly in 2020, are returning to pre pandemic levels. The interventions have been mostly double-sided, and in 2021 overall net purchases amounted to US\$1.8 billion, suggesting an effort to smooth out the revaluation trend while still letting the peso regain nominal value. The central bank's foreign currency purchases continued to be sterilized.

Dominican Republic: Reserve Adequacy

Metric	Benchmark Coverage	NIR Coverage			
		2019	2020	2021	2027
Months of imports	3 months	5.2	4.2	4.5	4.8
Months of imports (excl. free zones)	3 months	6.3	5.1	5.3	5.8
Broad money	20%	28.8	30.2	32.8	32.8
Short-term debt	100%	233.9	284.9	309.8	290.5
IMF reserve adequacy metric ¹	100 - 150%	72	76	83	88
External debt ² , in billions of U.S. dollars		37.3	45.1	47.2	65.1
External debt, in percent of NIR		424.6	447.0	384.3	322.5
Net international reserves, in billions of U.S. dollars		8.8	10.1	12.3	20.2
Additional reserves needed to reach IMF reserve metric of 100, in billions of U.S. dollars		3.4	3.3	2.5	2.7

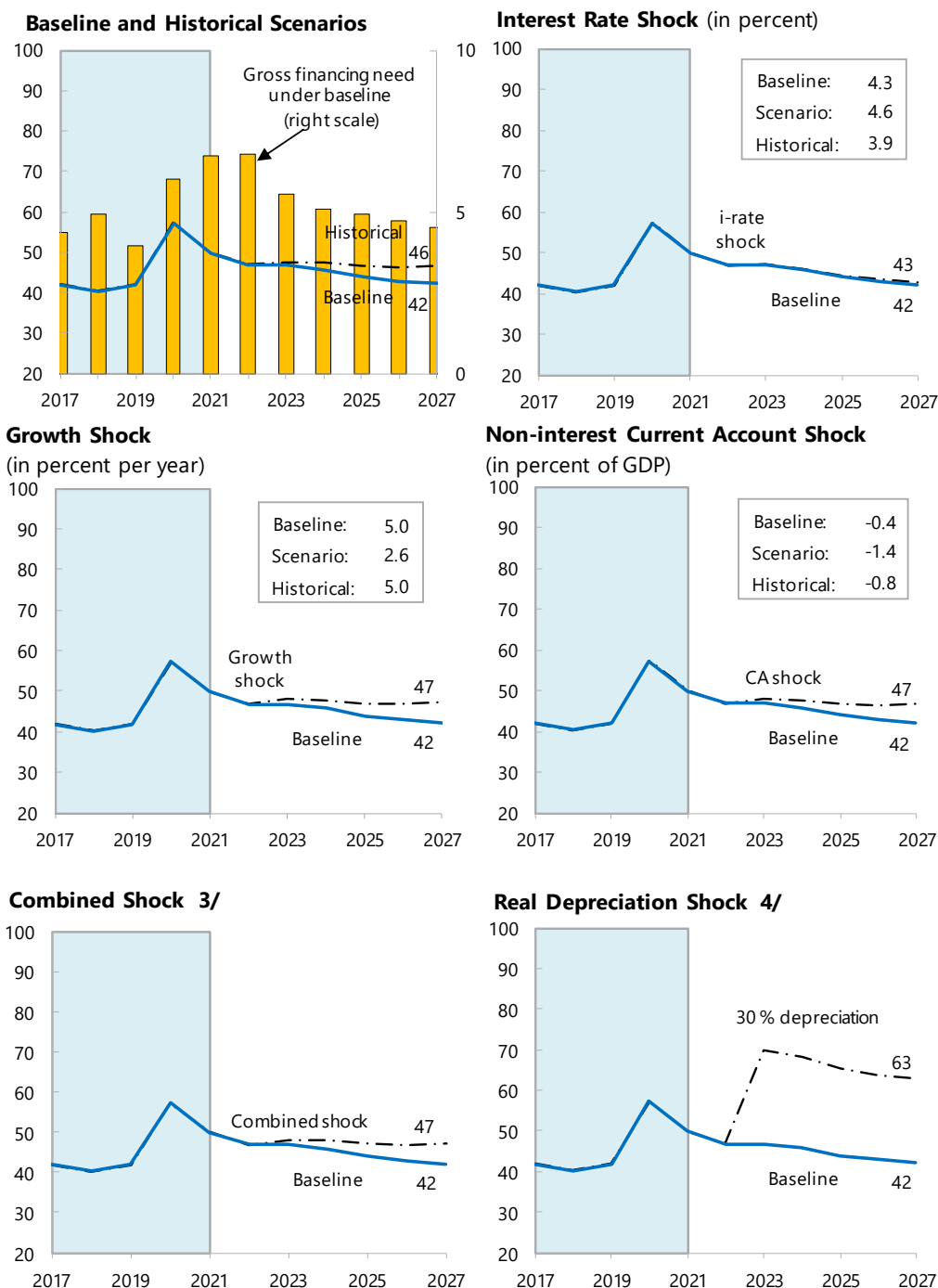
Sources: National authorities and IMF staff calculations.

1/ Emerging market metric for fixed exchange rate countries: net reserves divided by the sum of 30% of short-term debt (remaining maturity basis), 10% of broad money (M3); 20% of IIP MLT portfolio liabilities; and 10% of exports. Revised data for IIP MLT portfolio liabilities increased recommended adequate level of reserve holdings, explaining a lower metric for 2016 and 2017 compared to the 2018 Article IV.

2/ Private and public, based on residency.

Assessment. Judging by all metrics and the current trend, the reserve level improved markedly in 2021, however there is still room for continued gradual reserve accumulation.

Figure All.1. Dominican Republic: External Debt Sustainability: Bound Tests ^{1, 2}
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and IMF staff estimates.
 1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
 2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
 3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
 4/ One-time real depreciation of 30 percent occurs in 2022.

Table AII.1. Dominican Republic: External Debt Sustainability Framework, 2018–27
(In percent of GDP, unless otherwise indicated)

	Actual				Projections						Debt-Stabilizing Non-interest Current Account 6/ -4.4	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027		
1 Baseline: External Debt	40.2	41.9	57.2	49.9	46.8	46.8	45.7	44.0	42.8	42.2		
2 Change in external debt	-1.7	1.7	15.3	-7.3	-3.1	0.0	-1.1	-1.8	-1.2	-0.6		
3 Identified external debt-creating flows (4+8+9)	-4.1	-3.6	3.7	-10.0	-2.0	-3.1	-3.3	-3.2	-3.1	-3.1		
4 Current account deficit, excluding interest payments	0.0	-0.5	-0.4	0.7	1.6	0.6	0.4	0.4	0.4	0.4		
5 Deficit in balance of goods and services	4.7	4.5	6.9	8.5	7.8	6.7	6.4	5.9	5.4	5.3		
6 Exports	23.4	23.0	18.9	21.7	22.5	23.5	24.2	24.5	24.2	24.3		
7 Imports	28.2	27.5	25.7	30.1	30.4	30.2	30.6	30.4	29.6	29.6		
8 Net non-debt creating capital inflows (negative)	-3.0	-3.4	-3.2	-3.3	-3.2	-3.3	-3.3	-3.3	-3.3	-3.3		
9 Automatic debt dynamics 1/	-1.1	0.3	7.4	-7.4	-0.4	-0.4	-0.3	-0.3	-0.2	-0.2		
10 Contribution from nominal interest rate	1.6	1.8	2.1	2.2	1.8	1.8	1.8	1.8	1.8	1.8		
11 Contribution from real GDP growth	-2.7	-2.0	3.2	-5.8	-2.2	-2.2	-2.2	-2.1	-2.0	-2.0		
12 Contribution from price and exchange rate changes 2/	0.0	0.4	2.1	-3.7	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	2.5	5.3	11.6	2.6	-1.1	3.1	2.1	1.4	2.0	2.4		
External debt-to-exports ratio (in percent)	171.7	181.8	303.1	230.3	207.9	199.2	189.1	179.4	176.5	173.5		
Gross External Financing Need (in Billions of US Dollars) 4/	4.2	3.5	4.7	6.4	7.4	6.4	6.4	6.6	6.8	7.0		
in percent of GDP	4.9	3.9	6.0	6.7	10-Year	10-Year	6.8	5.5	5.1	4.9	4.7	4.5
Scenario With Key Variables at Their Historical Averages 5/					46.8	47.3	47.3	46.5	46.2	46.5	-4.2	
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation						
Real GDP growth (in percent)	7.0	5.1	-6.7	12.3	5.0	4.8	5.0	5.0	5.0	5.0		
GDP deflator in US dollars (change in percent)	-0.1	-1.0	-5.0	6.9	0.1	3.0	9.3	1.7	2.6	2.2	2.2	
Nominal external interest rate (in percent)	4.0	4.7	4.4	4.5	3.9	0.6	4.2	4.1	4.2	4.3	4.4	
Growth of exports (US dollar terms, in percent)	5.6	2.3	-27.4	37.7	4.8	15.5	19.3	11.5	10.8	8.7	6.2	
Growth of imports (US dollar terms, in percent)	14.6	1.7	-17.2	40.6	4.4	15.0	15.6	6.3	9.2	6.7	4.4	
Current account balance, excluding interest payments	0.0	0.5	0.4	-0.7	-0.8	1.9	-1.6	-0.6	-0.4	-0.4	-0.4	
Net non-debt creating capital inflows	3.0	3.4	3.2	3.3	3.7	1.1	3.2	3.3	3.3	3.3	3.3	

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate,

e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

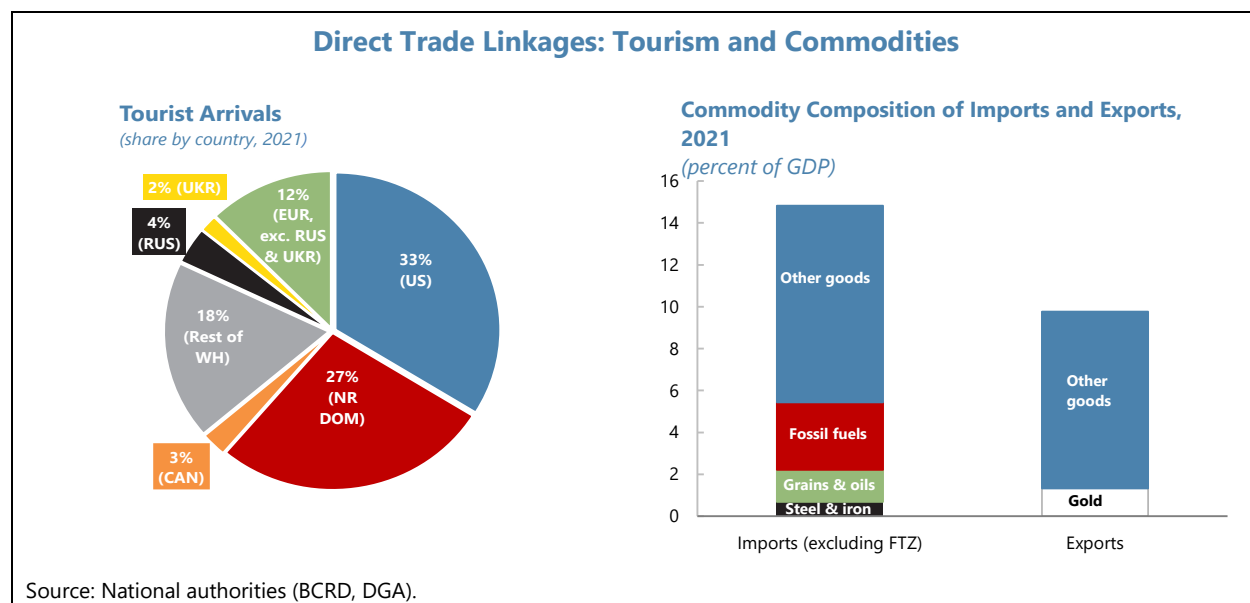
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex III. Implications of the War in Ukraine for the Dominican Republic¹

The war in Ukraine will affect mainly inflation, given the impact of higher international commodity prices on domestic fuel and food prices—fiscal measures to contain the impact on the population will affect fiscal accounts but this is manageable. Direct trade linkages are relatively limited, but the current account deficit will widen due to higher import prices. The impact on financing requirements is limited given a frontloaded budget financing for 2022, proactive debt management policies, and limited financial linkages.

A. Trade Channels

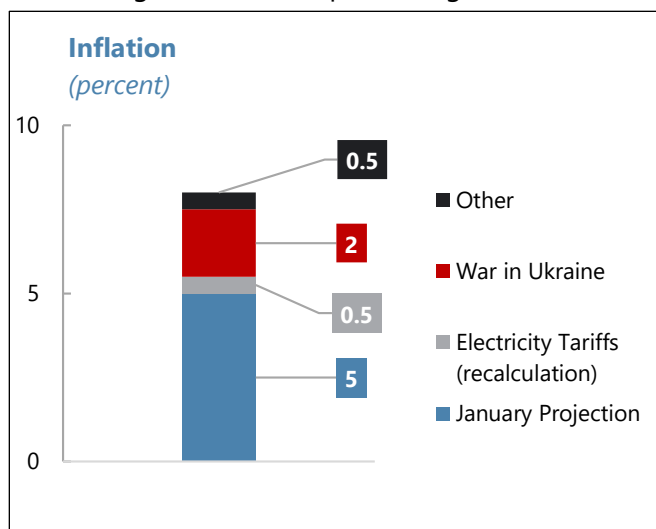
1. Direct trade linkages are limited, but the current account deficit will widen due to a higher import bill. Direct exposure is mostly through services trade, as tourist arrivals from Russia and Ukraine accounted for almost 6 percent of the total arrivals in 2021. However, as of March 2022 the decline in arrivals from Russia and Ukraine is being offset by increased arrivals from Canada and Western European countries. Aggregate merchandise trade linkages are very limited at about 0.7 percent of total trade but there is some concentration in certain imports, in particular steel and iron—accounting for about 10 percent of total steel and iron primary imports in 2020—and fertilizer from Russia—about 7 of total imports of fertilizer. These will need to be sourced from other suppliers—with regard to steel and iron, Dominican companies are already looking to Brazil and Mexico, who were their main suppliers before 2020. Overall, the current account deficit is expected to widen given the Dominican Republic’s imports of commodities whose prices have been most affected by the War—notably, fossil fuels.



¹ Prepared by Pamela B. Madrid and Nicolas Fernandez-Arias.

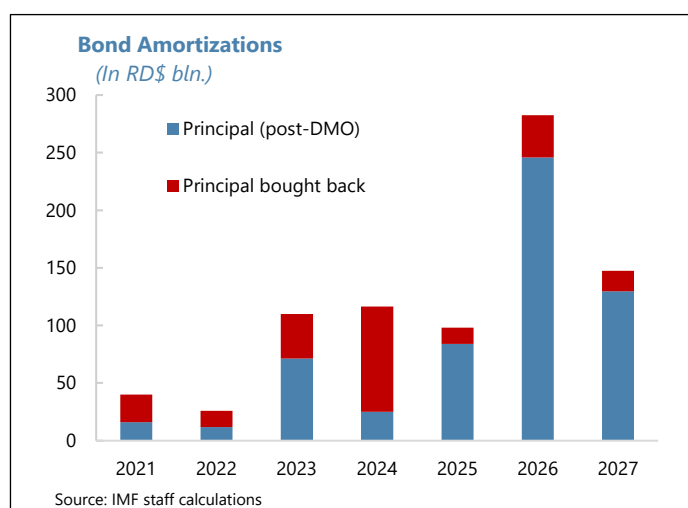
B. Inflation and Growth

2. The war in Ukraine will add to inflation pressures while the impact on growth is expected to be limited. Inflation will be affected through the direct impact of higher international fuel and food prices and an indirect impact on the cost of imported goods. With regards to the former, the government has announced measures to limit the impact on domestic basic fuel—gasoline and LPG—and food prices—in particular, the basic food basket (see ¶14). Considering, both direct and in-direct effects, staff estimate that the geopolitical shock could add 2 percentage points to headline inflation in 2022. While this is expected to also reduce real incomes and dampen consumer demand in 2022, the carry-over from 2021 growth is strong and high-frequency data point to continued strong external demand—with good export growth through February and tourist arrivals through March.



C. Financial Impact

3. Proactive debt-management operations have extended maturities, reducing near-term financing requirements. In mid-February, the government placed US\$3.6 billion in international markets—about US\$2.2 billion was to finance the 2022 budget, and the remainder to retire debt coming due in 2023–24, thus reducing near-term gross financing needs. Previous debt management operations undertaken in 2020–21 also reduced financing needs for the 2022–27 period (see DSA, ¶14). While sovereign spreads initially rose following the invasion on February 24, currently spreads are about 60 bp lower compared to pre-war levels. For the private sector, higher external and domestic interest rates—due both to the geopolitical shock and the normalization of monetary policy rates—will likely reduce borrowing but is not expected to have a major impact on financial sector soundness.



Annex IV. Potential Growth¹

This note presents estimates of the Dominican Republic's potential growth—and relatedly, the output gap—as well as the estimated contributions of capital, labor, and labor efficiency to potential output growth. Pre-pandemic potential growth is estimated to have averaged around 5—and ranged between 4 to 6—percent since 2010, while the pandemic had an important temporary impact on potential growth and created a historically large output gap in 2020. Since then, the output gap has closed substantially while potential growth appears to be recovering back to its the long-term average due to strong investment growth and some recovery in labor productivity. However, the contribution from employment remains below pre-pandemic levels. Maintaining a 5 percent potential growth rate will likely require on-going investment and labor force participation growth and higher productivity to offset demographic trends.

A. Potential Output and Output Gap Estimates

1. Methodology: Staff estimated potential output and output gaps using the following approaches:

- **Hodrick-Prescott filter (HPF)** applied to the level of real GDP;²
- **Multivariate filter (MVF)** of real GDP, headline inflation and a broad unemployment rate,³ whereby the unobserved variables (potential, output gap and NAIRU) are linked to the observable data based on a simple model in which (i) output evolves according to an assumed steady-state growth rate and shocks to potential and the output gap; (ii) a Phillips Curve relationship links inflation to the output gap as well as projected inflation and inflation shocks; and (iii) the unemployment rate evolves according to an assumed steady-state of the equilibrium unemployment rate (NAIRU) and shocks to NAIRU, while Okun's Law relates the unemployment gap to the output gap and shocks to the unemployment gap. The parameters and variances of shocks are estimated using Bayesian (MLE) techniques and the Kalman filter is used to obtain estimates of the unobservable variables (potential GDP, output gap and NAIRU).⁴ MVF estimates can vary depending on priors regarding the relative contribution of shocks as well as the steady-state values of potential growth and the unemployment rate.
- **Production function approach (PFA)** that employs a Cobb-Douglas production function whereby potential output is calculated as the weighted sum of the potential (or trend) estimates of capital, employment and labor efficiency.⁵

¹ Prepared by Pamela Madrid Angers and Bennett Sutton.

² For annual output data, lambda was set at 6.25 following Ravn and Uhlig (2002).

³ This follows Blagrove et al (2015). In the model, potential output growth and NAIRU can deviate from their assumed steady-states for extended periods as the impact of shocks fade gradually.

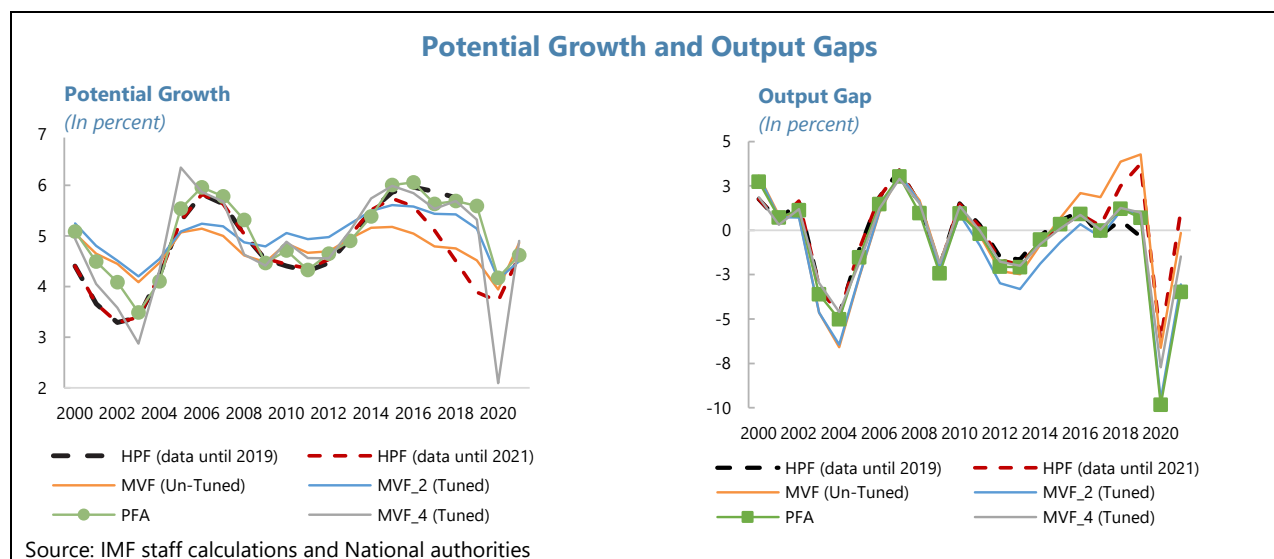
⁴ We are grateful to Kadir Tanyeri (ITD) for sharing the IRIS scripts to run the MVF.

⁵ See Box 1 for a more detailed description of the estimation procedures, which broadly follows the OECD methodology described by Chalaux and Guillemette (2019) whereby some employment components are cyclically adjusted before filtering to reduce end-point problems.

2. Since all filters suffer from end-point problems, and the COVID shock resulted in a large decline in GDP, we employed a “Tuned” MVF, whereby we impose judgement on the 2019 gap when we filter over the entire history (i.e., data until 2021).⁶ This results in less “revision” to the history of potential and gaps than the HPF (or un-Tuned MVF) and highlights how the MVF can be more flexible and produce more reasonable results when based on well-informed judgement.⁷ The PFA also makes extensive use of HP filters that would then lead to a revision of the gap and potential just before the pandemic. To avoid this, staff employed two measures of PFA potential that are spliced together: first, potential GDP is estimated over the period 1991–2019— which by truncating the sample ahead of the COVID turning point mitigates much of the end-point bias problem from the shock. Next, growth rates from a second estimate of potential fit over the entire sample (including staff’s medium-term forecasts) are used to extend the level from 2019 to 2021.

Results

3. Pre-pandemic, the average estimate of potential growth based on the three approaches was around 5 percent and ranged approximately between 4 and 6 percent since 2010.⁸ In the pre-pandemic period, a low of around 3 percent was reached during the banking crisis of 2003. The Global Financial Crisis (GFC) of 2009 also appears to have depressed potential, but less so than the 2003 crisis. Since the GFC, potential growth continued to gradually increase, peaking around 5.8 percent in 2016 before slowing to slightly above 5 percent by 2019.



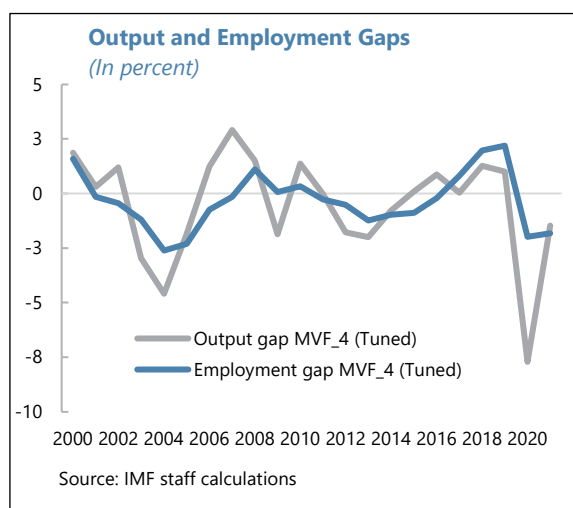
⁶ The 2019 gap was based on running the MVF with data until 2019; the estimate of the gap was similar to the gap estimated by Hernandez (2020) and Ramirez (2019). This gap was also consistent with the evolution of inflation and monetary policy at the time.

⁷ A similar tune was employed for the example of Canada in Blagrove et al (2016)—see p. 27, “How additional information is applied to the raw filtered output”.

⁸ The results take the average of the HPF, Tuned-MVF, and PFA. MVF estimates of potential are impacted by the assumption on the relative size of shocks to the output gap versus potential: if the former dominates—as is usually assumed for advanced economies—estimated potential growth is smoother (e.g., MVF_2); while if the latter dominates—as is assumed for many emerging market countries—potential growth is closer to actual (e.g., MVF 4). For the Dominican Republic, the latter tracks more closely with the PFA until the crisis.

4. The COVID shock led to sizeable slowing of potential in 2020, although its growth rate appears to be converging quickly to its pre-pandemic pace. Averaging the different methodologies, potential growth is estimated to have slowed to 3 percent in 2020. A robust recovery in investment and a rapid exit from very strict restrictions on mobility and physical distancing limited the scope for long term, structural scarring. Furthermore, a successful vaccination campaign in 2021 allowed for further lifting of COVID restrictions⁹, and should support potential growth approaching its previous long-run average (see next section for drivers).

5. The COVID shock also produced the largest output gap in the last 20 years; the impressive recovery in 2021 positions the gap to close by 2023. Unlike the 2003 banking crisis—which, while having a large negative impact on domestic investment, was nonetheless a DR specific event¹⁰—the pandemic also triggered a very large external demand shock (possibly much larger even than that caused by the global financial crisis). The large gap in 2020—which the Tuned-MVF and the spliced PFA method estimate at between -8 and -10 percent—may also reflect the high uncertainty associated with COVID and related behavioral changes (i.e., reduced domestic demand for contact-intensive services).¹¹ However, the gap began to close much faster than in previous crises as buoyant remittances, rebounding US growth and competitive positioning of the tourism sector supported growth above 12 percent. That said, according to the Tuned-MVF, this gap remains substantial (around -4 percent of potential GDP), which presents a challenge for closing the unemployment gap (typically lags the closing of the output gap).



B. Potential Growth Accounting

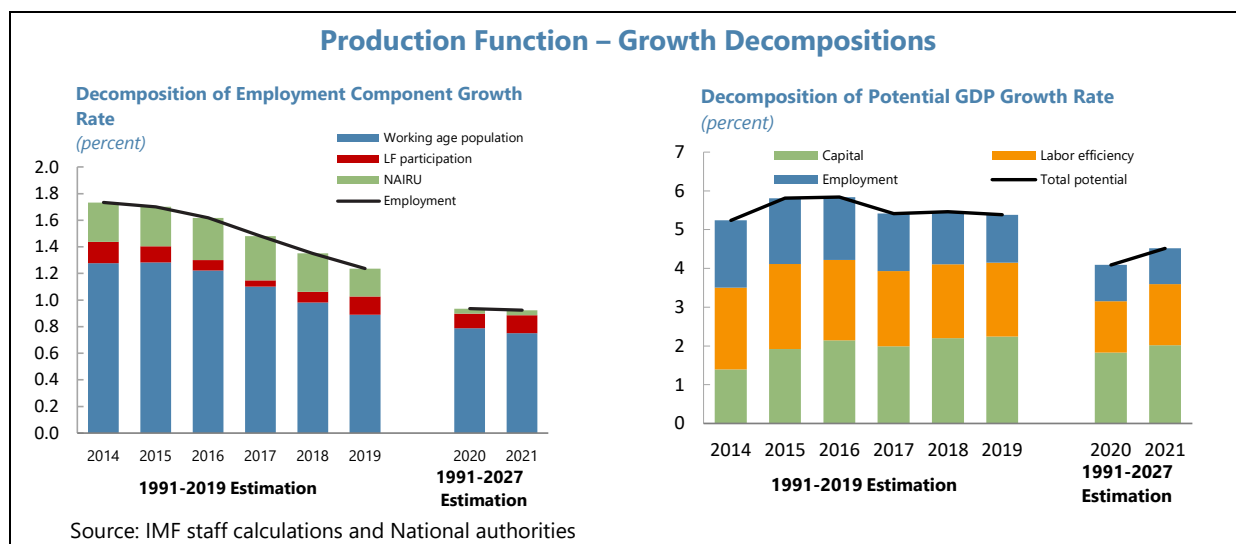
6. Before the pandemic, potential growth had already slowed slightly from the recent peak in 2016 due to a lower contribution from trend employment. The lower employment contribution appears driven mostly by demographic factors, in particular the slowing growth rate of the working age population (WAP), which in turn largely reflects an on-going decline in fertility rates

⁹ Initially, in addition to a curfew and physical distancing requirements, the borders were close from March-July 2020. By mid-2021, the Dominican Republic had one of the highest vaccination rates in the region, as it had secured enough doses to vaccinate the entire population. The government achieved its objective of fully vaccinating 60 percent of the target population (18 years and over) by October 2021, at which point government did not renew its emergency powers that had allowed it to impose curfews

¹⁰ The various approaches, and in particular the Tuned-MVF, also picked-up the output gap in 2012-2013 that followed from tightening of domestic policies.

¹¹ Of note, the output gap would likely have been larger in 2020 if the authorities had not been able to support liquidity, credit and incomes as they did.

and may also reflect increased emigration.¹² Smaller gains in the trend unemployment rate (measured by the NAIRU) also added to the compression of trend employment. Modest increases in the capital contribution between 2017–19 kept overall potential from falling below its estimate long run average of 5 percent.



7. When COVID hit in 2020, potential growth was reduced by decelerations in trend labor efficiency, trend employment contribution, and capital accumulation. The strict lockdown impacts on employment¹³ and investment were of relatively short duration and so largely present as cyclical responses. However, staff expectations that working age population growth will continue to slow and that trend unemployment¹⁴ (NAIRU) will level off, imply a modest degree of structural change reflected in lower trend employment growth and in turn total potential.

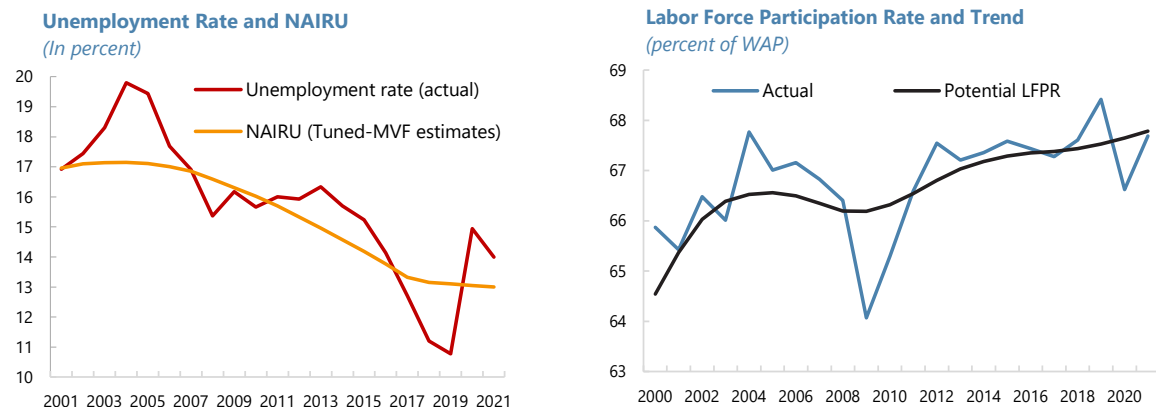
8. The output gap is expected to close in the near term as potential growth runs below its historical average while actual GDP growth remains solid. In addition to reduced employment contributions, total potential may suffer from a more measured pace of capital stock accumulation reflecting construction activity that had been pulled forward by the opportunity to expand and renovate resorts during the global pause in tourist travel. On the other hand, actual growth is expected to benefit from a tourism sector whose successful re-opening efforts may have captured regional market share. To return to a potential growth rate of close to 5 percent, the Dominican economy would thus need continued investment and labor efficiency growth, given also that demographic trends (lower WAP growth) will weight on potential growth.

¹² Since 2000, the fertility rate has declined 18 percent. Data on emigration is limited, however we see a gradual downward trend in the share of the prime working age population (15-59 years old).

¹³ To mitigate the impact of lockdown on the poor and the most vulnerable, the government expanded social assistance programs, e.g., creating the “*Quédate en casa*” (“*Stay at home*”) program, which provided more generous cash payments to poor and vulnerable households.

¹⁴ It is difficult to disentangle from the simple model used to estimate the NAIRU, but it is possible that there was even an increase in NAIRU during COVID. In the DR, during 2020 there was a large increase in people available to work but not searching, which could reflect both government support programs as well as personal decisions about the relative risks of returning to work, which could have led to an increase in the NAIRU.

Estimates of Potential Unemployment (NAIRU) and Labor Force Participation



Source: IMF staff calculations and National authorities

Box AIV.1. Production Function Approach (PFA) for Potential Output

The PFA assumes a Cobb-Douglas production function (i.e., with elasticity of substitution between capital labor equal to one), in log-linear form:

$$Y_p = (E_p * L_p)^\alpha * K^{(1-\alpha)} \rightarrow y_p = \alpha * e_p + \alpha * l_p + (1 - \alpha) * k$$

Here, L_p is potential labor input (employment) and K is the observed capital stock,¹ which is assumed to always be fully utilized. Y_p is the unobserved potential output and E_p is the potential estimate of labor efficiency (i.e., growth that is not explained by changes in labor and capital). The labor share, α , is assumed to 65 percent.²

The potential labor input (employment) is disaggregated into its components: (i) the working age population (WAP); (ii) the labor force participation rate (LFPR); and (iii) the employment rate, which is equal to one minus the broad unemployment rate (UNR).³ Potential WAP is estimated simply as the HPF trend of historical data plus five years of forecasted growth provided the Dominican Republic's Office of National Statistics (ONE). The potential unemployment rate (NAIRU) is estimated by the multivariate filter (MVF), based on the Phillips Curve and Okun's Law, discussed earlier. Labor efficiency and the LFPR, are cyclically adjusted prior to being filtered as follows:

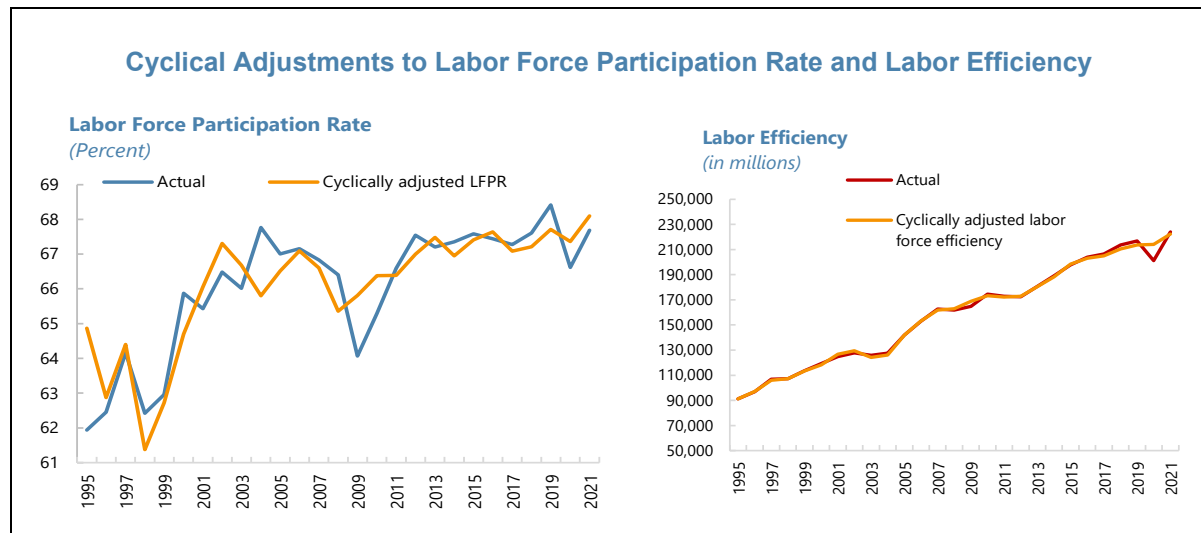
- **Labor efficiency:** is cyclically adjusted by regressing the efficiency gap (i.e., the difference between labor efficiency (e) and a simple HP trend of e) on a single lag of that efficiency gap and contemporary and lagged cyclical indicators. Whereas the OECD uses capital utilization gap, the current account gap and the national accounts gross fixed capital formation gap as cyclical indicators, for the DR the real export gap had more explanatory power and produced meaningful dampening of cyclical fluctuations. The coefficients from the labor efficiency gap regression are then converted to impulse responses and subtracted from the raw labor efficiency data yielding a cyclically adjusted labor efficiency series that is then smoothed with an HP filter.
- **LFPR:** the gap between the observed LFPR and a simple HP filter of the LFPR (including 5 years of forecast) is regressed on a lag of itself and cyclical indicators: for the DR, employment gap and the real average wage gap (both constructed as observed minus their HP filter trend) are used. As with labor efficiency, the coefficients from the regressions are converted to impulse responses and subtracted from actual LFPR yielding a cyclically adjusted LFPR that is then smoothed with an HP filter.

Box AIV.1. Production Function Approach (PFA) for Potential Output (concluded)

Thus, the estimated potential output is the sum of the potential (or trend) components, some of which were cyclically-adjusted (~):

$$y_p = \alpha * e_{\sim p} + \alpha (w_{ap} + l_{fpr\sim p} + (1 - n_{airu})) + (1 - \alpha)*k$$

The Figure below presents the impact of the cyclical adjustment and broadly confirms the procedure compresses the magnitude of temporary movements, notably during the global financial crisis and the COVID-19 pandemic.



Source: IMF staff calculations and National authorities.

1/Capital stock data is source from the Penn World tables 10.0 (PWT) using their index of capital services applied to the 2007 base year estimate of capital stock at historical prices. An important caveat is that data limitations prohibit the deduction of residential investment from PWT capital services estimates as is done by the OECD. Values for 2020-27 are derived from IMF staff forecasts of real gross fixed capital formation with depreciation estimated by quadratic estimation.

2/This is in line with past studies, e.g., see Garcia-Saltos et al (2016).

3/We used an extended measure of unemployment that includes people that are available to work but are not searching (perhaps including discouraged workers)—this corresponds to the reported SU3 unemployment rate. Labor force participation rate has also been adjusted to include these “potential” workers.

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Annex V. Public Debt Sustainability Assessment

Public debt is sustainable, and risks have decreased compared to the previous DSA due to a lower debt burden and gross financing needs. This reflects a front-loaded fiscal consolidation, pro-active debt management, and strong economic growth. However, the downward debt path is vulnerable to growth or exchange rate shocks. The debt profile shows a high share of debt held by non-residents and in foreign currency—but this is long-term debt, and a significant amount is held by official creditors. Aided by active debt management that lengthened maturities, gross financing needs are smoother and remain well-below the risk benchmark under both the baseline and stress scenarios.

A. Debt and Financing Profiles

1. Debt definition. Public debt is defined as the consolidated sum of the non-financial public sector (NFPS)¹ and central bank (BCRD) debt, net of recapitalization bonds issued by the central government and held by the central bank. Including central bank debt intends to capture debt issued as a consequence of the BCRD's financial support to failed banks during the 2003 financial crisis, leading to a significantly negative capital position of the BCRD. The existing framework for recapitalization calls for the government to make transfers to the BCRD to gradually reduce the quasi-fiscal debt; agreement on a new framework to gradually transfer quasi-fiscal debt from the BCRD balance sheet to the Treasury is pending.² Either way, the total level of public debt does not change—only its composition.³

2. Debt baseline scenario. The baseline was impacted by the strong growth and front-loaded consolidation in 2021:

- The decline in debt in 2021 reflects an increase in the primary balance, which is close to pre-pandemic levels and above the historical average. It also reflects automatic debt dynamics—i.e., the strong rebound in economic growth, exchange rate appreciation, and the decline in the real interest rate—and the draw-down of deposits following the 2020 pre-financing of the 2021 deficit (Figure 1).
- Going forward, the consolidated public debt-to-GDP ratio is projected to decline to about 54 percent of GDP by 2027, almost back to pre-pandemic levels. This reflects economic growth as well as reforms that allow for an important reduction in current spending (i.e., subsidies decline about 0.5 percent of GDP between 2019–25).

¹ Public sector guarantees of private sector debt are negligible. Based on the latest report (March 2022), explicit guarantees of the external debt of two private sector NGOs amounted to US\$5.4 million (less than 0.01 percent of GDP). According to Law 174-07, the Ministry of Finance can guarantee domestic bank credits to the FTZs up to RD\$1.2 billion—according to the latest information, the exposure was RD\$21.4 million (US\$0.3 million).

² The proposed legal amendments aim to overcome issues with the existing framework (based on Law 176-07), which has fallen short of its objectives.

³ As the starting point for projections, we include the entire stock of central bank certificates as of end-2021 even though some of these have been issued for monetary policy purposes.

3. Sovereign yields. The Dominican Republic's foreign currency sovereign bonds yields have generally followed peers. The credit spread of 396 basis points relative to U.S. Treasury Bonds (as of May 3, 2022) compares favorably to the average of other emerging market and Latin American economies, and the effective nominal interest rate is projected to move in line with Libor rates. Rating agencies improved their outlook on the Dominican Republic's foreign and local currency credit ratings: in December 2021, Standard and Poor's and Fitch upgraded the outlook to stable. Moody's has maintained a stable outlook. The government was able to place \$3.6 billion in mid-February 2022—almost fully financing the 2022 deficit and refinancing existing debt; the placement met with strong demand.

4. Gross financing needs remain well below the early warning benchmarks (15 percent) in the baseline. This benefits from the active debt management that has aimed at smoothing the path of amortizations. In June 2021, the government completed the first large scale domestic debt management operation that reduced amortizations by US\$1.6 billion over 2021–25 and also reduced interest rates, extended maturities and increased the liquidity of domestic benchmark bonds. In February 2022, the government completed another debt management operation of both external and domestic bonds, retiring the equivalent of \$1.2 billion. The February 2022 operation is reflected in the projections. The authorities will look for opportunities for additional operations to smooth financing needs and reduce the interest expense of debt.

Debt Operations 2020-22

Date	Type of bond	Amt. (in \$, bln)	Chg. In Maturity (years, wt. avg.)	Chg. In Coupon (pp, wt. avg.)
Dec-20	External	1.3	9.67	-1.60
Jun-21	Domestic	1.6	5.49	-0.65
Feb-22	External	0.8	6.90	-0.34
Feb-22	Domestic	0.4	n.a. ^{1/}	n.a. ^{1/}

Source: National authorities and IMF staff calculations

^{1/} No domestic bonds were issued at the time of the operation.

5. Public debt risk profile. Until the COVID crisis, the authorities were prioritizing issuances of longer-term, local currency debt with a view to minimizing public debt vulnerabilities to financing and market risks. However, the authorities prioritized external financing during the pandemic, amid good market access, leaving more space for domestic financing of the private sector as well as taking advantage of favorable external financing conditions. By end-2021, NFPS debt showed: (i) an average maturity of 11.5 years—up from 7.4 years in 2013; (ii) the share of short-term debt at 5.2 percent; (iii) the share of foreign-currency denominated debt at 76.1 percent; and (iv) the share of floating rate debt at 12 percent—down from 20 percent in 2018⁴. As for domestic debt—31 percent of NFPS debt—it showed (i) an average maturity of 7.4 years; (ii) a low share at floating rates (one percent); (iii) about 21 percent in foreign currency; and (iv) 90 percent held by residents. The share of public debt held by non-residents—57 percent of total consolidated debt—is above the upper benchmark (45 percent). However, rollover risk should be mitigated by its longer maturity—14.3 years.

⁴ [Gestión de Riesgos | Dirección General de Crédito Público \(creditopublico.gob.do\)](https://www.creditopublico.gob.do/)

B. Realism of Baseline Scenario⁵

6. Growth. Staff's growth forecasts tended to be lower than the actual growth outcomes during 2012–20, with a median forecast error of 0.28 percentage points. The forecast bias generally decreased in the years prior to the pandemic, then increased somewhat in 2021 along with the uncertainty generated by a crisis with limited precedent.

7. Inflation. While inflation was converging after the inception of the inflation targeting regime—until 2016—inflation forecasts tended to be downward biased. However, the bias declined significantly between 2016–19, in line with the decline in inflation volatility. It increased in 2020 given pandemic-related uncertainties.

8. Fiscal adjustment. The large, front-loaded, fiscal adjustment in 2021–22 reflects the normalization of revenues (and some one-offs),⁶ reduced extra-ordinary expenditures for additional health spending and social benefits as the COVID shock recedes, and the authorities' commitment to cut other spending; going forward, reform of the electricity sector—in particular the gradual increase in tariffs to cost-recovery levels—will also increase the primary balance even though spending on social protection is expected to increase. The DSA template provides the distribution of projected primary balances across other debt market-access countries, placing the Dominican Republic at the 57th percentile rank in terms of the 3-year average level of cyclically adjusted primary balance (CAPB) during the forecast horizon and at 13th percentile rank in terms of the 3-year fiscal adjustment. With regard to the latter, as noted above, the adjustment was front-loaded; the authorities are strongly committed to fiscal discipline and working towards establishing a fiscal responsibility law. From 2023 onward, the fiscal impulse is around zero, implying a broadly neutral fiscal stance.

C. Stochastic Simulations

9. Fan charts. The fan charts illustrate the possible evolution of the debt ratio over the medium term, subject to shocks drawn from a symmetric distribution (upside and downside risks are treated equally) and an asymmetric distribution (which assumes there are no positive shocks to the primary balance). Under the symmetric scenario, there is a 100 percent probability that debt will remain below 70 percent of GDP benchmark for emerging economies over the medium term, while in the asymmetric (adverse) scenario, debt would remain below the 70 percent of GDP benchmark with a 75 percent probability.

D. Baseline Scenario Assessment

10. Debt remains sustainable and risks have decreased due to strong growth, on-going fiscal consolidation, and pro-active debt management. Public debt is projected to decline as the fiscal position gradually returns to pre-pandemic levels and reforms to the electricity sector

⁵ The MAC-DSA framework is described in <http://www.imf.org/external/np/pp/eng/2013/050913.pdf>

⁶ In 2021, there were advance tax payments of about 0.5 percent of GDP.

continue. The main risk to the debt outlook is associated with slower growth, though mitigated by moderate gross financing needs over the projection horizon. The debt profile shows a high share of debt held by non-residents; a risk mitigated by the fact that this is long-term debt with a significant amount held by official creditors.

E. Stress Tests and Alternative Scenarios

- 11. Individual shocks.** The debt-to-GDP ratio is not expected to breach the 70 percent benchmark under stress tests. For alternative scenarios, debt remains below the 70 percent benchmark. For all stress tests and alternative scenarios, gross-financing needs peaks at around 10.2 percent in 2026—well-below the risk benchmark of 17 percent.
- 12. Combined shock.** A combined shock incorporates the largest effect of individual shocks (real GDP growth, inflation, primary balance, exchange rate, and interest rate). In this scenario debt would increase to a maximum of 72.3 percent of GDP while gross financing needs would increase to a maximum of 12.2 percent of GDP.
- 13. Contingent liability shock.** The financial sector contingent liability shock is not triggered because the three-year cumulative increase of private credit relative to three-year average GDP (7.2 percent) and loan-to-deposit ratio (75.8 percent) are lower than the thresholds. Alternatively, staff has assumed a natural disaster shock given the country's exposure to disaster risk. The scenario assumes a disaster with 100-year return period and a 20 percent of GDP economy-wide loss, of which 15 percent (3 percent of GDP) is assumed to be the responsibility of the government. It is also assumed that this disaster has an adverse effect on growth in the first year (-0.9 percentage points), with a slight rebound (+0.3 percentage points) in the year following the disaster due to reconstruction activity. Further, in the year of the shock, inflation is higher by 1 percentage point (given constraints on output), there is a primary deficit of 2.3 percent of GDP and a 50 bps increase in the effective interest rate. In this scenario, debt peaks at 62.5 percent of GDP and gross financing needs at 9.5 percent.

Figure AV.1. Dominican Republic: Public Sector Debt Sustainability Analysis – Baseline Scenario

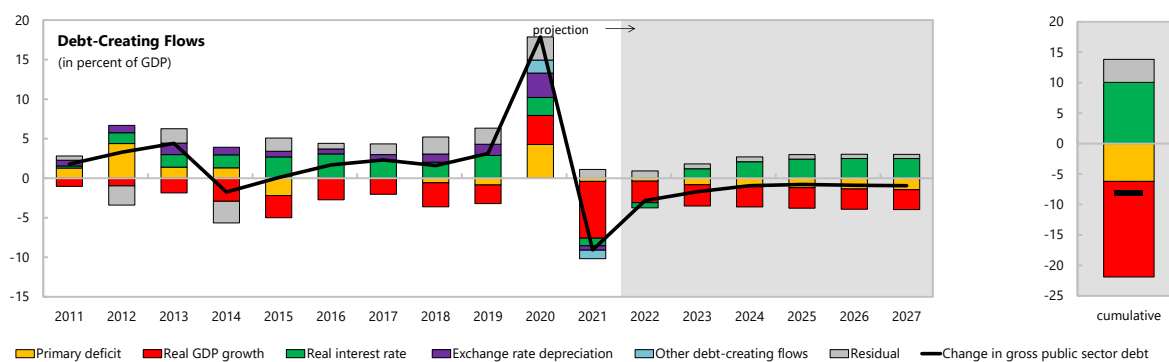
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}

	Actual			Projections							As of May 03, 2022		
	2011-2019 ^{2/}	2020	2021	2022	2023	2024	2025	2026	2027	Sovereign Spreads			
Nominal gross public debt	46.0	71.1	62.1	59.3	57.6	56.6	55.8	54.9	54.0	EMBIG (bp) ^{3/}	396		
Public gross financing needs	7.6	11.2	6.8	5.9	6.2	6.0	6.7	8.4	7.7	5Y CDS (bp)	n.a.		
Real GDP growth (in percent)	5.3	-6.7	12.3	5.0	5.0	5.0	5.0	5.0	5.0	Ratings	Foreign	Local	
Inflation (GDP deflator, in percent)	4.2	4.7	8.0	8.5	5.8	4.4	4.0	4.0	4.0	Moody's	Ba3	Ba3	
Nominal GDP growth (in percent)	9.7	-2.3	21.3	13.9	11.1	9.6	9.2	9.2	9.2	S&Ps	BB-	BB-	
Effective interest rate (in percent) ^{4/}	9.1	8.6	7.4	7.7	8.3	8.6	8.9	9.1	9.2	Fitch	BB-	BB-	

Contribution to Changes in Public Debt

	Actual			Projections							cumulative	debt-stabilizing primary balance ^{9/}
	2011-2019	2020	2021	2022	2023	2024	2025	2026	2027			
Change in gross public sector debt	1.8	17.9	-9.1	-2.8	-1.7	-0.9	-0.8	-0.9	-0.9	-8.1		
Identified debt-creating flows	1.3	14.9	-10.2	-3.7	-2.3	-1.5	-1.4	-1.4	-1.5	-11.9		
Primary deficit	0.5	4.3	-0.4	-0.4	-0.8	-1.0	-1.2	-1.4	-1.4	-6.2	0.0	
Primary (noninterest) revenue and grants	14.2	14.2	15.6	14.4	14.4	14.5	14.5	14.5	14.5	86.8		
Primary (noninterest) expenditure	14.8	18.5	15.2	14.0	13.6	13.5	13.3	13.1	13.1	80.6		
Automatic debt dynamics ^{5/}	0.7	9.0	-8.7	-3.4	-1.5	-0.5	-0.2	-0.1	0.0	-5.6		
Interest rate/growth differential ^{6/}	-0.2	5.9	-8.1	-3.4	-1.5	-0.5	-0.2	-0.1	0.0	-5.6		
Of which: real interest rate	2.0	2.3	-1.0	-0.7	1.2	2.1	2.4	2.5	2.5	10.0		
Of which: real GDP growth	-2.2	3.7	-7.2	-2.7	-2.7	-2.6	-2.6	-2.6	-2.5	-15.7		
Exchange rate depreciation ^{7/}	1.0	3.1	-0.6	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	1.6	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Privatization/Drawdown of Deposits (+ reduces financing need) (negative)	0.0	1.6	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Please specify (2)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual, including asset changes ^{8/}	0.6	2.9	1.1	0.9	0.6	0.6	0.6	0.5	0.5	3.8		



Sources: National authorities and IMF staff.

^{1/} Public sector is defined as consolidated public sector.

^{2/} Based on available data.

^{3/} Long-term bond spread over U.S. bonds.

^{4/} Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

^{5/} Derived as $[r - \pi(1+g) - g + ae(1+r)] / (1+g+\pi+g\pi)$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;

a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

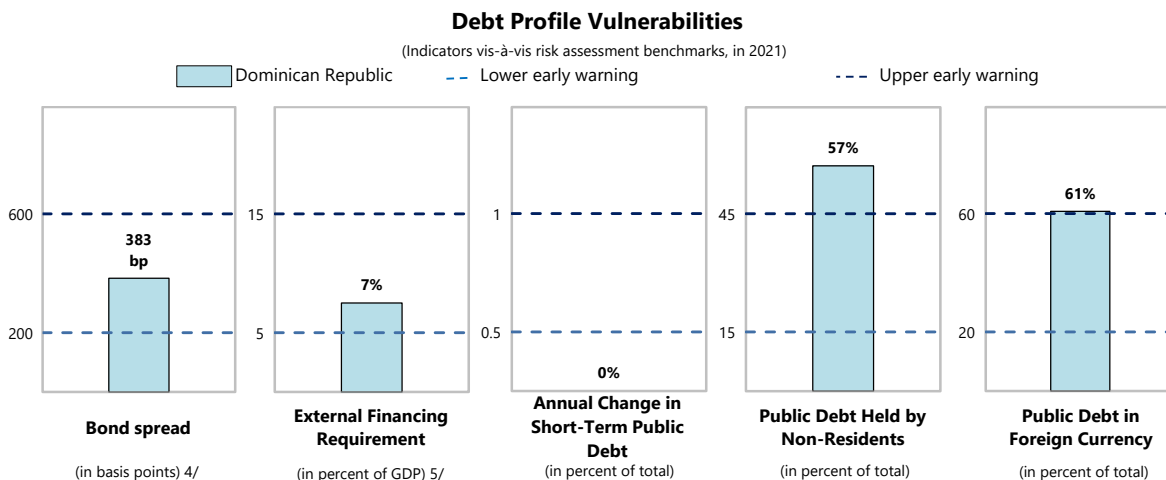
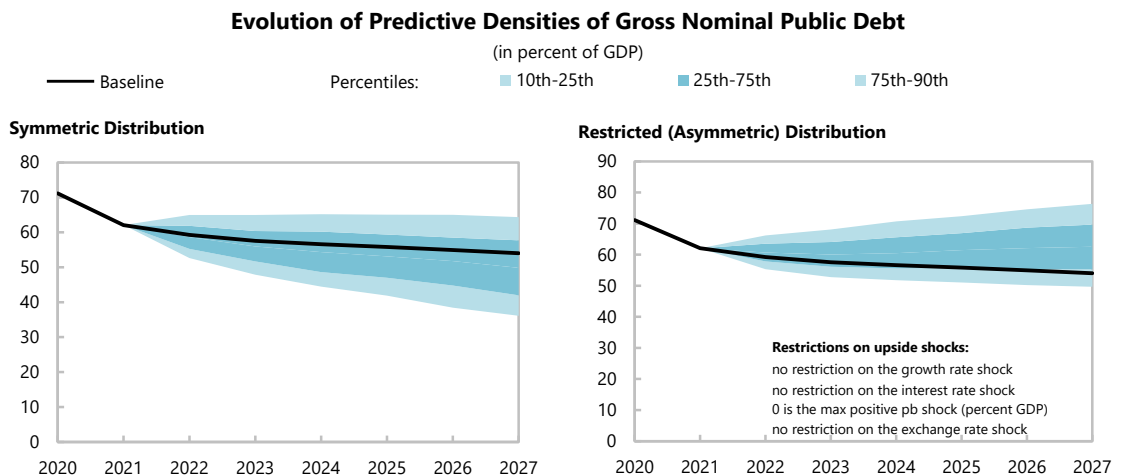
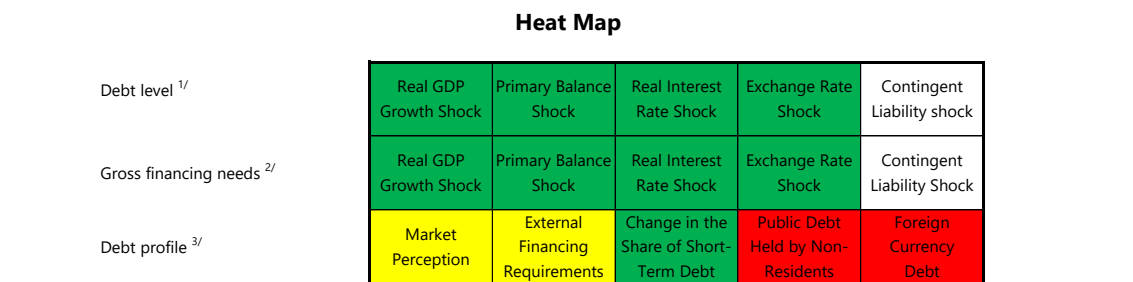
^{6/} The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as $-g$.

^{7/} The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

^{8/} Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

^{9/} Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure AV.2. Dominican Republic: Public Debt Sustainability Analysis Risk Assessment



Sources: National authorities and IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

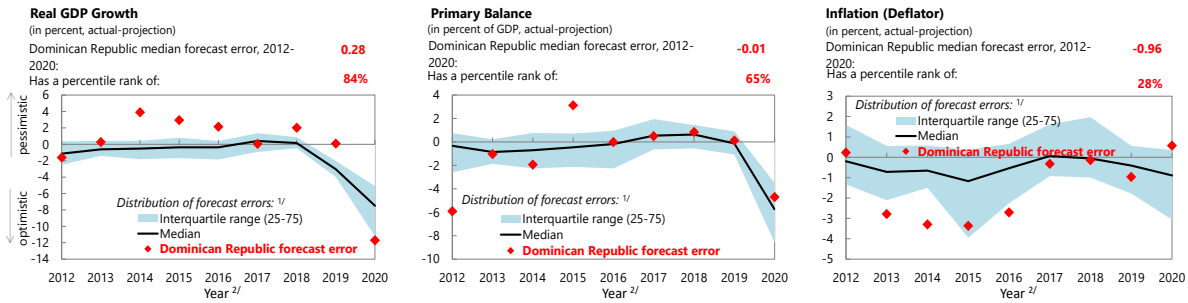
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 02-Feb-22 through 03-May-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

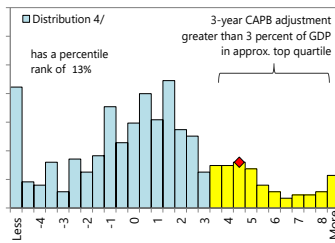
**Figure AV.3. Dominican Republic: Public Debt Sustainability Analysis—
Realism of Baseline Assumptions**

Forecast Track Record, versus surveillance countries

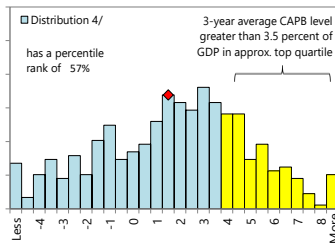


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)

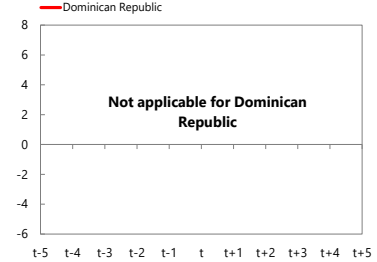


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(Percent of GDP)



Boom-Bust Analysis^{3/}

Real GDP growth
(in percent)



Sources: National authorities and IMF staff.

1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Dominican Republic, as it meets neither the positive output gap criterion nor the private credit growth criterion.

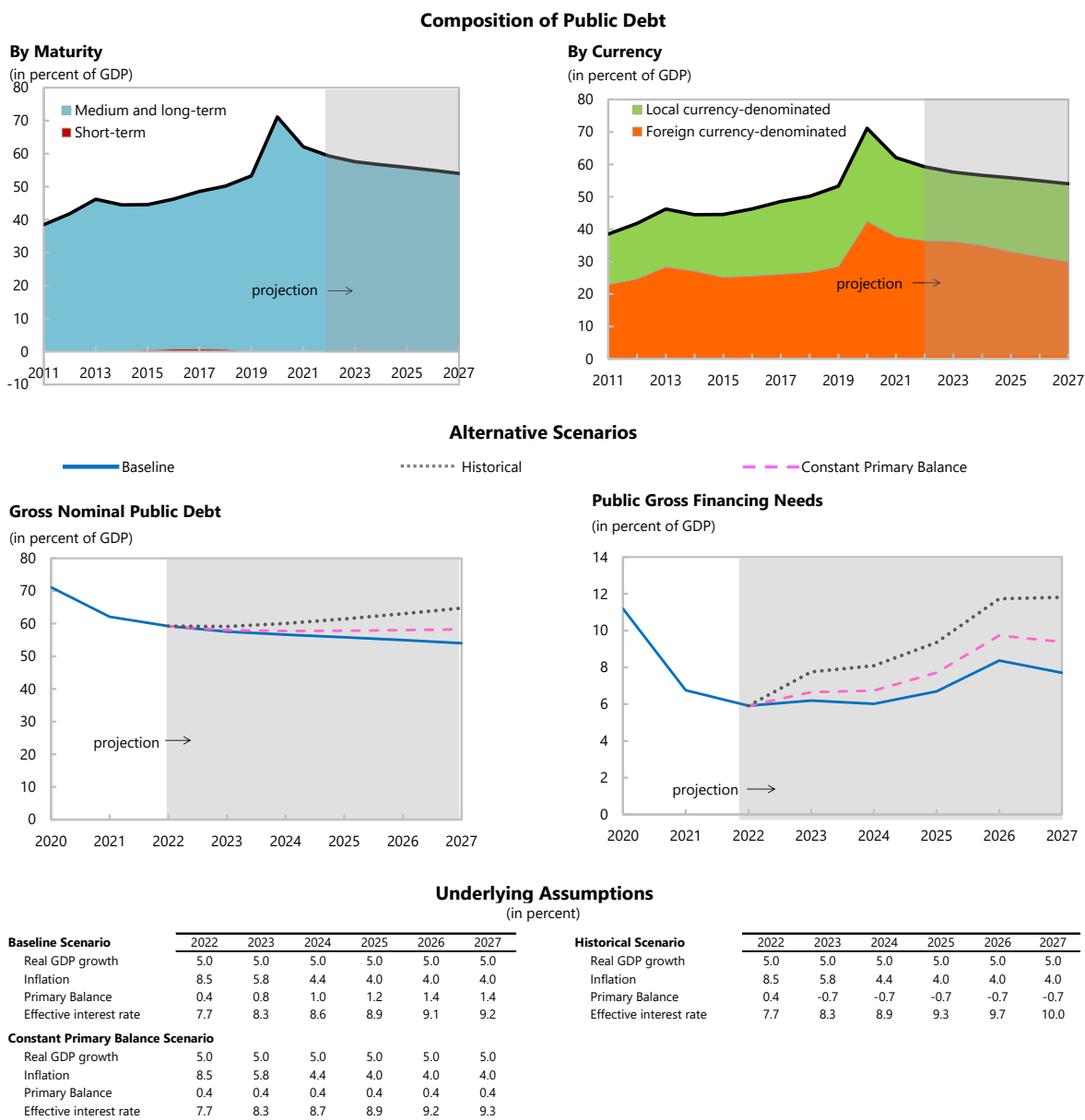
4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure AV.4. Dominican Republic: Public Debt Sustainability Analysis—Stress Tests



Source: IMF staff.

Figure AV.5. Dominican Republic: Public Debt Sustainability Analysis—Composition of Public Debt and Alternative Scenarios



Sources: National authorities and IMF staff.

Annex VI. Risk Assessment Matrix ¹

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Global Risks				
<p>Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries. Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic. Policies to cushion the economic impact are prematurely withdrawn or for many EMDEs, constrained by lack of space. In addition to declines in external demand, a reassessment of growth prospects triggers capital outflows, financial tightening, currency depreciations, and debt distress in some EMDEs, with spillovers to AEs, leading to growing divergence of economic recovery paths.</p>	High	Medium/Downside	<p>While the Dominican Republic has so far avoided the worst, with cases and deaths significantly below the regional average, outbreaks domestically or abroad could have severe negative impact and spillovers to the DR, leading to slower growth, employment scarring, higher risk premia, depreciation and loss in reserves, further limiting policy space. In particular, a domestic outbreak or one in US/Canada/Europe could harm the ongoing strong recovery in tourism. However, the negative impact may not be as severe as early in the pandemic as the population is largely vaccinated (> 60 percent) and many may have natural immunity.</p>	<p>To build robustness to incoming shocks, anchor the fiscal framework to signal commitment to reducing debt in the medium-term. Stand ready to reestablish fiscal and liquidity support if needed, while continuing to build reserve buffers.</p>
<p>De-anchoring of inflation expectations in the U.S. and/or advanced European economies. A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten policies abruptly. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects (e.g., lower commodity prices and possible contagion across EMDEs).</p>	Medium (for U.S.)/Medium-Low (for Euro area)	Medium/Downside	<p>An abrupt tightening in global financial conditions could lead to sudden sharp increases in interest rates, raising public and private financing costs, hindering investment and growth, depreciating the exchange rate, and worsening the overall fiscal position.</p>	<p>Accelerate monetary policy normalization if needed to anchor expectations. Strengthen the medium-term fiscal position—e.g., by anchoring the fiscal framework and reforming the electricity sector; continue proactive public debt management to access less costly financing while also containing financing risks by increasing domestic/IFI sources; continue building reserve buffers.</p>

¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Extended global supply chains disruptions. Persistent disruptions in the production and shipment of components caused by lockdowns and logistical bottlenecks continue until 2023. This leads to shortages of intermediate and final consumer goods, growth slowdowns, and price surges, compounded by the passthrough from currency depreciations in vulnerable countries.	High	High/ Downside	Extended supply chain disruptions would negatively impact inflation, growth, and the external position.	Stand ready to tighten monetary policy if needed. Work with private sector to improve resilience of supply chains. In terms of fiscal policy, ensure social support programs are sufficient to support those who may lose access to essential goods like food and medicine.
Abrupt growth slowdown in China. A combination of a sharper-than-expected slowdown in the property sector, more frequent Covid-19 outbreaks, and inadequate policy responses result in a sharp slowdown of economic activity, with spillovers affecting other countries through financial, trade, and commodity-price channels.	Medium	Medium- Low /Downside	An abrupt slowdown in China risks reducing demand for DR's exports. While the direct effect would be moderate, as China constitutes only 5 percent of DR's exports by value, a slowdown in China could lead to global growth slowdown. However, the negative effect on growth and the external position may be attenuated by the reduction in the global price of fossil fuels.	Continue structural reforms to strengthen external competitiveness and allow for greater exchange rate flexibility.
Rising and volatile food and energy prices. Commodity prices are volatile and trend up amid pent-up demand and supply disruptions, conflicts, or a bumpy transition to renewable energy sources. This leads to bouts of price and real sector volatility, including acute energy crises in some countries.	High	Medium/ Downside	Higher commodity prices, in particular fuel, increase inflation, put negative pressure on the external and fiscal position (the latter due to price smoothing measures), and run the risk of stalling reform momentum. They also have a negative supply (higher costs of production) and demand (lower real incomes) effect. On the other hand, higher gold prices would strengthen the external position and real output, as the DR is a gold and nickel exporter.	In the short-term, continue to assess potential second-round effects on inflation and inflation expectations and adjust the monetary policy stance if needed. Stand ready to use fiscal space to mitigate social impact of commodity price shocks. Continue to strengthen social programs for transfers for those most affected by reforms.
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions. Sanctions on Russia are broadened to include oil, gas, and food sectors. Russia is disconnected almost completely from the global financial system and large parts of the trading system. This, combined with Russian countersanctions and secondary sanctions on countries and companies that continue business with Russia, leads to even higher commodity prices, refugee migration, tighter financial conditions, and other adverse spillovers, which particularly affect LICs and commodity-importing EMs.	High	Medium/ Downside	Externally, escalating and sustained trade actions threaten the global trade system, creating uncertainty about growth directly and through adverse confidence effects.	Continue structural reforms to strengthen external competitiveness and allow for greater exchange rate flexibility.

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Global information infrastructure failure. A disruption in global information systems (from an unintended error, natural disaster, or knock-on effects of widespread energy shortages) and/or cyber-attacks on critical infrastructure and institutions trigger financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium	Medium/ Downside	Breach of critical financial and commercial digital infrastructure as well as broader private and public institutions can trigger systemic financial instability or widespread disruptions in socio-economic activities.	Improve legal, institutional, and strategic frameworks, devise a centralized plan and cross-sector common rules to combat cyberattacks.
Domestic Risks				
Natural disasters related to climate change. Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.	Medium	Medium/ Downside	Hurricanes, earthquakes, floods and droughts, to which the region is prone, can result in important economic, social and fiscal costs.	Accelerate the implementation of the National Climate Action Plan; build structural and financial resilience, including through disaster insurance.
Domestic reforms	High	High/ Upside	Timely reforms could improve confidence and increase near-term growth momentum as well as potential growth and equity. Ongoing fiscal reforms—PFM and MTFE (including a fiscal responsibility law (FRL))—could reduce the NFPS deficit, lower the sovereign risk premium and increase fiscal space in the medium-term.	Stand ready to adjust monetary, financial and fiscal policies as needed. Build buffers more rapidly. Emphasize consensus building and institutionalize reforms to guard against reform slippage.
Expanded tourism sector	Medium	High/ Upside	High investment expanding tourism sector capacity, infrastructure, and amenities (e.g., Pedernales projects; eco-tourism) – along with the relatively rapid Covid-19 recovery – could lead to a medium-term increase in the Dominican Republic’s share of tourism and value-added.	Continue to support sustainable infrastructure and private investment projects relating to the tourism industry.
Development of Logistics Hub	Low	Medium/ Upside	Investments in logistical and transport capabilities may accelerate development of DR as a regional logistics hub, attracting further investment and increasing exports.	Continue fiscal governance reforms to improve the business climate.

Annex VII. Growth-at-Risk¹

The application of the Growth-at-Risk (GaR) model to the Dominican Republic finds that short term growth prospects remain predominantly positive, but volatility is considerable and there is a non-negligible chance of low-growth in the short run. At the same time, the estimated probability distribution of GDP growth suggests that pre-covid potential growth is likely to return in the medium term.

1. The GaR model. This exercise follows the model initially developed by Adrian et.al. (2016).² The model forecasts the conditional distribution of future GDP growth on the basis of quantile regressions using a set of macroeconomic variables. The GaR methodology does not establish causal links between the chosen variables and growth outcomes. Instead, the GaR framework was designed to map and quantify risks to economic growth associated with macroeconomic factors (partitions) through a segmentation of the sample into quantiles that reflect the business cycle. The model also allows to design shock scenarios and medium-term projections.

2. Implementation of the GaR model for Dominican Republic. The estimated model includes macrofinancial and fiscal variables to capture the rebalancing of the policy mix in the cycle. Following Bernalova and Rousset (2019),³ the variables used identify five macrofinancial partitions: domestic financial conditions, domestic leverage, external cost of borrowing, external liquidity, and external demand, all of which remain statistically relevant in the estimation. Additionally, in order to incorporate fiscal elements two variables are identified as significant: the primary balance and capital spending (both in percent of GDP). Table 1 lists the variables included. The sample covers the 1999–2021 period (with quarterly periodicity), which includes three critical periods: the banking crisis of 2003, the international financial crisis of 2008, and the covid pandemic.

Table AVII.1. Partition Groups

Domestic Financial Conditions	Domestic Leverage	External Cost of Borrowing	External Liquidity	External Demand	Fiscal
M1	Private credit-to-GDP	6-month LIBOR	EM bond flows	Terms of Trade	Public Investment
M2	Credit growth	US Fed Funds rate	MOVE index	Net exports-to-GDP	Primary Balance
Lending interest rate in USD	Regulatory capital	EMBIG spread	VIX	US growth	
30-day interest rate	NPLs			REER	
Inflation				Oil price	
Policy rate					
2-year interest rate					
Personal interest rate					
Mortgage interest rate					

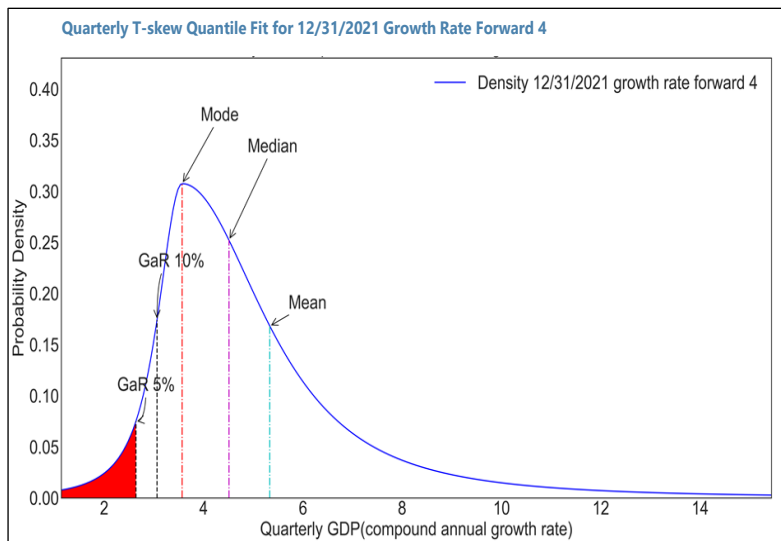
Source: IMF staff calculations and National authorities

¹ Prepared by Mario Mansilla.

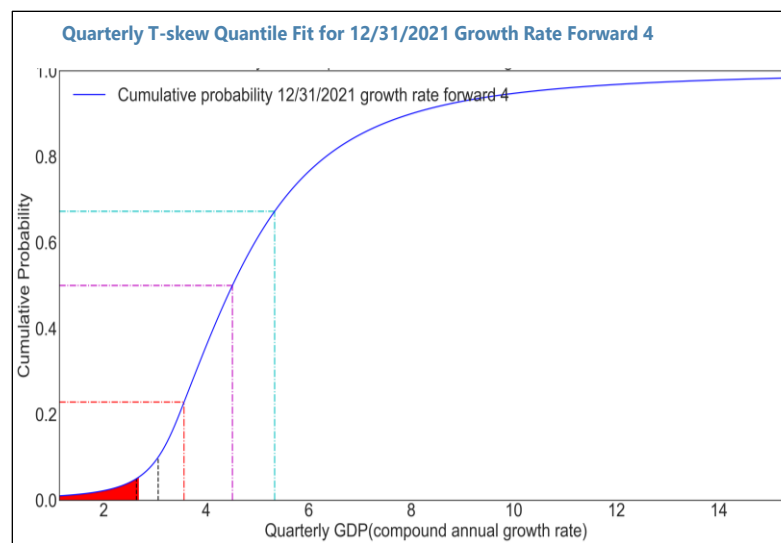
² Adrian, T., Boyarchenko, N., and Giannone, D. "Vulnerable Growth." Federal Reserve Bank of New York Staff Report 794, 2016. The methods used for this exercise are based on Prasad et al. (2019), "Growth at Risk: Concept and Application in IMF Country Surveillance", IMF working paper; and Lafarguette, R. (2019) "Growth at Risk Tool: Technical Appendix." mimeo, International Monetary Fund.

³ Bernalova, O. and Rousset M. "Macrofinancial linkages and Growth at Risk in the Dominican Republic". IMF Working Paper WP/19/246. November 2019.

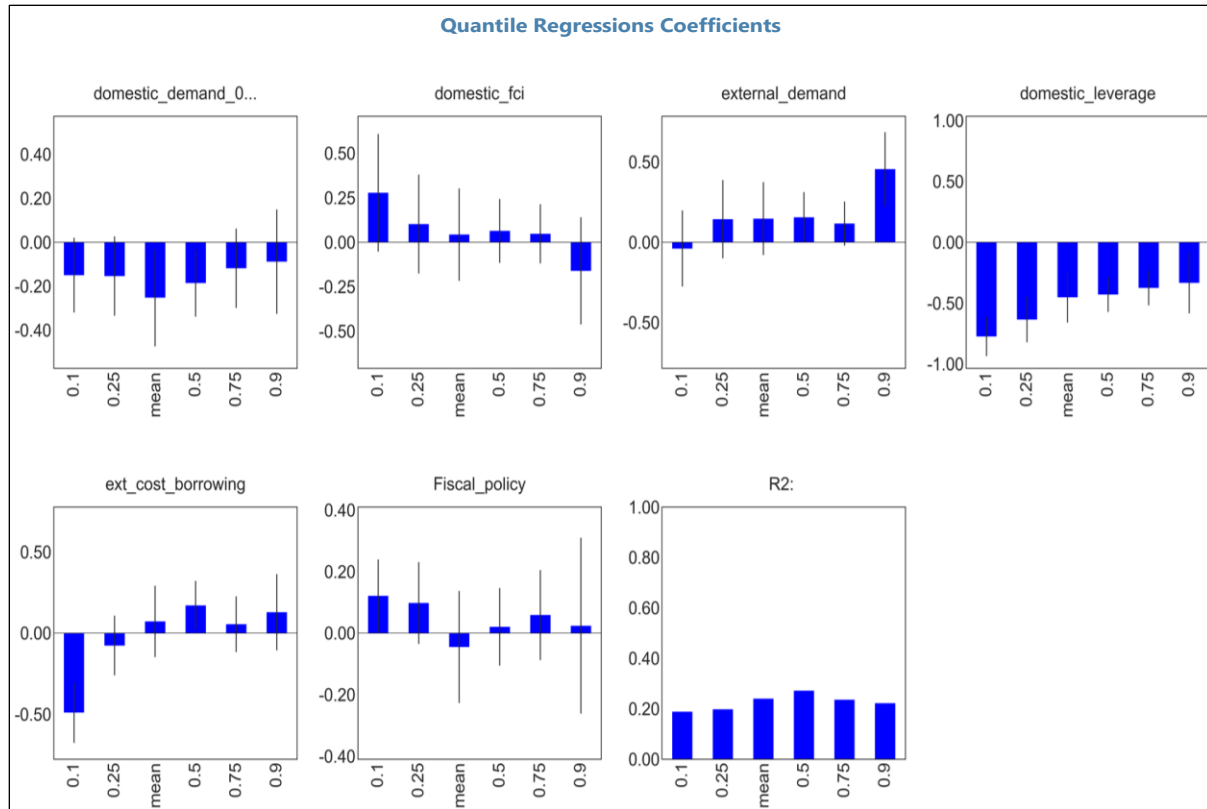
3. Main results. The four-quarters-ahead estimated growth distribution suggests that low growth/recession outcomes are relatively unlikely but remain a possibility in the short run. The distribution is skewed to the right—i.e., expected outcomes are predominantly positive and relatively high, with a media of 4.5 percent and mean of 5.3 percent. While the probability of negative growth (0.5 percent) is relatively low, the growth at risk (at 5 percent) is still positive at 2.6 percent, i.e., there is a 5 percent probability that GDP growth is 2.6 percent or less.



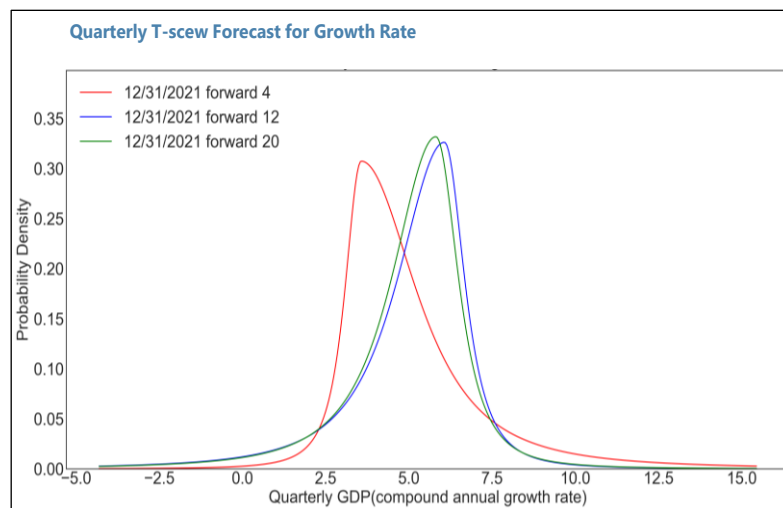
4. Policy effectiveness during the cycle. These estimations also reveal that the association of some partitions with growth is stronger under certain circumstances (e.g., different growth quantiles). For instance, judging by the magnitude of coefficients, factors of domestic credit conditions have a stronger correlation with growth for both the top and the bottom quantiles, i.e., higher growth years and recession years. In contrast, the association of fiscal policy variables and GDP growth appears to be more significant for the lower quantile of growth outcomes. This reinforces the importance of fine tuning the mix of liquidity conditions and fiscal policy during recessions. Regarding exogenous factors, the linkage of external cost of



borrowing and growth is stronger during the cycle trough, which is when external financing costs tend to be higher. At the same time external demand is associated with the top decile of growth outcomes during the sample suggesting that economic booms often correlate with positive global cycles.

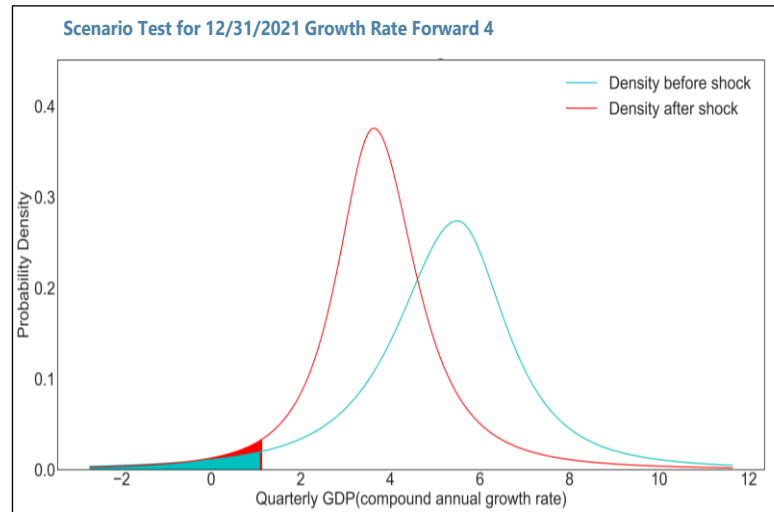


5. Projections and shock scenario. Extending the projections to 3- and 5-years horizons show that GDP growth dispersion remains similar, but the skewness of the distributions vary over time showing a fatter left tail in the medium run—i.e., the probability of low growth outcomes increases relative to the shorter horizon. This can be related to the starting point of the estimation which is a year of strong recovery right after a crisis, and the average length of the business cycles during the sample period, which is approximately 3.5 years. As a result, starting at end-2021, the estimated GaR (at 5 percent probability) falls from 2.6 percent (1 year ahead) to 0.98 percent (5 years ahead). Nonetheless, the expected medium term GDP growth would be around potential, as the estimated mean and median growth are around 5 percent in five years. Finally, a simulated shock to the fiscal



and external conditions factors (one standard deviation each, combined) would be associated with a shift of the density distribution (four-quarters ahead) to the left, as expected, and with higher

kurtosis. This would move the range of expected growth outcomes about 3 percentage points lower than baseline, but the GaR would fall marginally—i.e., such shock scenario would be accompanied by a significant GDP growth slow down but not be devastating for the economy.



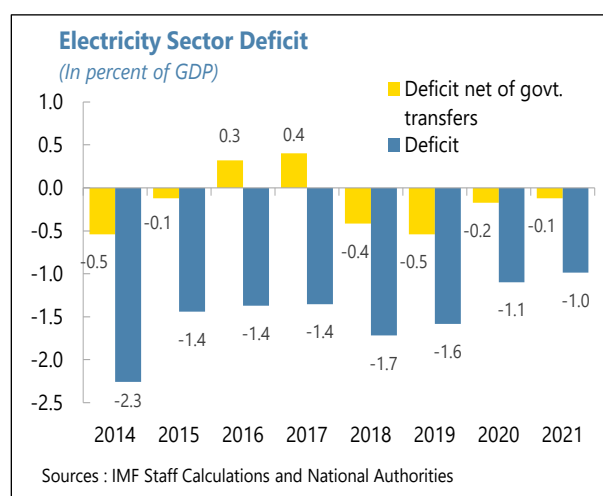
Annex VIII. Electricity Sector Reforms¹

The electricity sector has been a drag on growth and fiscal accounts due to unreliable electricity supply, large losses, and poorly targeted subsidies. The Electricity pact sets a roadmap for reforms to improve electricity provision and gradually eliminate treasury transfers to the sector. To this end, the authorities are: (i) enhancing governance of the sector by defining policy/planning mandates and strengthening the independent electricity regulator; (ii) creating conditions to facilitate private investment in the distribution companies and (iii) implementing tariff reforms by gradually removing consumption-based subsidies to reach cost-reflective levels and reallocating transfers through a targeted social program.

A. Background

1. The Dominican state-owned electricity companies represent a long-standing drag on the country's fiscal resources, primarily due to below-cost tariffs, large distribution losses, weak oversight, and poor targeting of subsidies. Financial losses incurred by the state-owned distributors are due to consumption tariffs that have not kept pace with costs (fixed since 2011 until last November) as well as a high share of unbilled energy and large transmission (technical) losses, exacerbated by high generation and operating costs. This has also severely constrained investment to enhance transmission capacity and improve service quality.

2. Deficits generated by the public electricity sector have been between 1 and 2 percent of GDP over the past decade. Each year, the government transfers to the sector to finance investment projects and to cover the financial deficits of public enterprises. The deficits have narrowed in recent years, reflecting lower costs from changes in the generation matrix. The deficit net of government transfers reached a balance in 2020, with the management of arrears improving. The decision by the government to fulfill 98 percent of energy demand (versus 85 percent in previous years) explains why fiscal losses have not come down as much. This shift towards closing the demand gap is a positive development for the real sector in terms of more reliable energy provision.

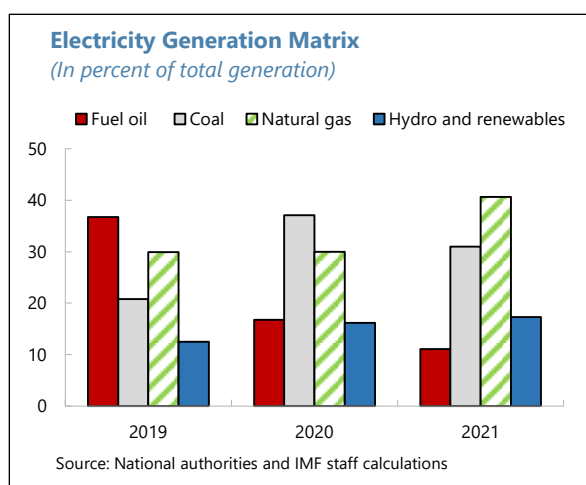


¹ Prepared by Hassan Adan (FAD), Pamela Madrid Angers and Nicolas Fernandez-Arias with contributions from Evelyn Carbajal (all WHD).

B. Reforms

3. The Electricity Pact², signed in February 2021, lays out a broad social agreement on the road map to reform the sector including the following:

- **Reforming institutional governance** to ensure a clearer separation of policymaking, regulation, and operational functions across institutions. So far, the authorities are in the process of liquidating the state holding company (CDEEE³)—which owns the Punta Catalina plant—and transferring its assets to a public trust. They also mandated policy making to the Ministry of Energy and Mines and strengthened the regulatory body (SIE) which is now actively involved in the tariff changes.
- **Opening the distribution sector to private participation.** The Pact envisages the use of performance-based concession contracts with the private sector in distribution to reduce technical and commercial losses.
- **Restoring financial viability of the sector.** On the distribution side, this requires each distributor to develop—and be accountable for—a plan to increase operating efficiency, reduce losses and improve service quality with measurable targets monitored by the regulator. On the generation side, an escrow payment system for fuel subsidies to generators has been established to increase transparency and predictability for such payments.
- **Pricing system reforms to establish rates that reflect actual costs of service**, while simplifying tariff structures. The first tariff adjustment in a decade was implemented in November 2021. The adjustment plan envisages that by the end-2026, consumption-based subsidies are removed, and tariffs reflect the cost of efficient service provision plus appropriate value added (Box 1).
- **Rationalizing consumption subsidies to target vulnerable households.** According to the Presidential Decree (651-21), subsidies should be received exclusively by households in situations of poverty or vulnerability through the BONOLUZ Program (Box 2).



² The Electricity Pact (Pacto Eléctrico) was initially drafted in 2017, building on an accord by all stakeholders in the sector. A Presidential decree (651-21) was issued in October 2021, establishing revised timelines for implementation of the Pact.

³ The CDEEE had acted for decades as a state corporation that managed and signed contracts on behalf of the distribution companies, controlled the performance of the state's transmission companies, and exerted great influence on general policies in the sector.

4. Electricity reform can also support sustainable growth that is more consistent with climate change commitments. Given the Dominican economy reliance on imported fossil fuels for power generation, there is an objective to minimize cost of energy provision and to further diversify the generation mix by investing in renewables and greater energy efficiency. A priority of the Electricity Pact is to ensure that the sector is adapted for climate change resilience and mitigation. Key actions include: (i) prioritizing generation from clean and renewable sources including solar photovoltaic, wind, and bioenergy to reduce emissions from the energy sector; (ii) increasing the share of generation from lower-carbon fuels such as natural gas; (iii) conducting strict oversight of operation of the Punta Catalina coal-fired generation plant to meet environmental requirements, including removing the coal ash it generates.⁴

⁴ Summarized in the World Bank's Electricity Reform for Sustainable Growth DPF, 2022

Box AVIII.1. Tariff Adjustment Formula

Electricity tariffs will be adjusted according to the following scheme¹:

- **Tariffs for all levels of consumption will be adjusted linearly** from the corresponding base tariff (lower for lower levels of consumption) to the base reference tariff (same for all levels of consumption) over a period of 20 quarters. Because base tariffs are lower for lower levels of consumption, but the reference tariffs are the same, tariffs for lower levels of consumption will increase by a larger amount each quarter (in absolute and in percentage terms).
- **In addition, any changes to the reference tariff will be passed one-for-one into each tariff when they occur.** These will reflect the input cost (which varies with the exchange rate and the international price of fuel), the cost of power generation (which depends on capital and technology investment in energy efficiency as well as changes in the energy mix, such as renewable energy), and the cost of electricity distribution.
- **Reference tariffs are set as a function of input costs of distribution, such as energy and commodity prices.** They are set to a value that is consistent with appropriate profits for distributors (in particular, no need for subsidies) once the Electricity Pact goals for distribution technical and non-technical losses are met.

Precisely, letting j index monthly consumption levels (0-200 kWh, 201-300 kWh, 301-700 kWh, and more than 700 kWh) and letting t index quarters from 0 (before the first tariff adjustment of Nov 2021) to 20 (the last adjustment), the tariff for consumption level j , $Tariff_t^j$, will follow:

$$Tariff_t^j = Tariff_0^j + A1_t^j + A2_t$$

$$A1_t^j = \frac{Reference\ Tariff_0 - Tariff_0^j}{20} t$$

$$A2_t = Reference\ Tariff_t - Reference\ Tariff_0$$

The table below shows the level of tariffs and reference tariffs for low-voltage residential customers as of 2022Q1. It shows that most of the adjustment in tariffs will occur in the lower ranges of consumption (below 300 kWh per month). To avoid placing the burden of higher tariffs on the poorest consumers, the Bonoluz transfer scheme (Box 2) will provide additional electricity vouchers to those who demonstrate their low-income status. On net, the joint tariff adjustment and Bonoluz expansion is expected to reduce transfers to the sector while increasing overall progressivity, replacing poorly targeted transfers with more targeted ones through Bonoluz.

Consumption Range	Tariffs (RD\$ / kWh)					
	Reference Tariffs 2022Q1			Tariff 2022Q1		
	EDESUR	EDENORTE	EDESTE	EDESUR	EDENORTE	EDESTE
0-200 kWh	12.46	13.09	12.53	5.55	5.48	5.66
201-300 kWh	12.46	13.09	12.53	7.88	7.81	7.99
301-700 kWh	12.46	13.09	12.53	11.46	11.38	11.56
> 701 kWh	12.46	13.09	12.53	11.68	11.60	11.79

Source: National Authorities' data. EDESUR, EDENORTE and EDESTE are the three state-owned distributors (EDE).

1/ The tariff adjustment scheme is described in, e.g., Resolución SIE-021-2022-TF. Applied tariffs need not exactly coincide with transition tariffs defined by the formulae above in times of high volatility of reference tariffs, based on the discretion of the Consejo de la Superintendencia de Electricidad. This occurred in the second quarter of 2022, where the scheme described here would have implied an increase in tariffs of 27 percent for those consuming no more than 300 kWh per month; their tariffs were increased by 9 percent instead. Other tariffs continue to follow the scheme.

Box AVIII.2. The BONOLUZ Program

Bonoluz was created in 2009, as the Dominican Republic attempted to transition from generalized subsidies.¹ It was aimed at poor and lower middle-class households. In 2021, Bonoluz was included under the newly created social protection program, Supérate program (Presidential Decree 377-21). The key features of the program include:

- **Eligible beneficiaries are poor and vulnerable households as identified by the single beneficiary system (SIUBEN).**^{2/} To join BONOLUZ, households are required to have a contract with an electricity company. Beneficiaries are removed from the program if they do not use their benefits, change address, or are discovered to be un-metered/stealing electricity.
- **Bonoluz customers receive a cash transfer to pay their electricity bill for consumption up to 100kWh/month.** Until 2021, beneficiaries also received an additional subsidy as they were charged lower tariff rates.
- **The Bonoluz cash transfer of up to RD\$444 (\$9) per month represented 2 percent of monthly income** for poor households on average in 2018 (World Bank). As of late 2021, the cash transfer could be up to RD\$574 (\$10).^{3/}
- **By end-2021, 330 thousand households were considered active and using their Bonoluz cards.** However, the government has estimated that there were about 1 million poor households (i.e., with ICV1-ICV2) that could be eligible for Bonoluz support.

As part of the Electricity Pact, the government intends to gradually expand Bonoluz so that it adequately targets poor households—reaching 900 thousand by 2024 and 1 million households by 2026. A challenge is to ensure that the beneficiaries list is updated in a timely manner—Decree 426-04 stipulates that the list should be updated every four years, although there are plans to update the list more frequently—in particular, now that Bonoluz is part of Supérate, which benefits from a beneficiaries database that is now updated quarterly.

1/Bonoluz was gradually phased in: the first phase targeted households in the former Blackout Reduction Program (Programa de Reducción de Apagones, PRA), that subsidized energy consumption in specific areas; and the second phase extended the program nationwide.

2/Decree 421-09 specified the subsidy was for households registered in SIUBEN. SIUBEN classifies households into five quality-of-life index (ICV) categories—ICV1: extreme poor, ICV2: poor, ICV3: vulnerable, and ICV4: non-poor—based on four dimensions of poverty—household infrastructure conditions, household demographics, access to education services, and access to public services

3/ <https://gob-do.digital/bonoluz/>

Annex IX. Strengthening the Medium-Term Fiscal Framework¹

The analyses presented in this note calibrate macroeconomic and fiscal parameters to illustrate types of fiscal rules available to the Dominican authorities, accounting for their sustainability, stabilization, and simplicity features. The calibration results suggest that: (i) The medium-term fiscal framework should be anchored on a medium-term debt-to-GDP ratio of 50 percent; (ii) Given the increasingly uncertain environment; it would be prudent to rebuild fiscal buffers towards the debt anchor; (iii) A well calibrated multi-year expenditure ceiling rule (linked to the debt anchor) that can achieve both sustainability and stabilization goals could be a more practical and desirable operational rule for the Dominican Republic.

1. The pandemic has brought to the forefront medium-term fiscal challenges in the Dominican Republic that require careful sequencing of reforms. The authorities aim to build on previous success achieved through fiscal and structural reforms and address the remaining challenges by strengthening the fiscal framework and improving fiscal governance. A fiscal responsibility law (FRL) would help anchor medium-term fiscal policies, potentially reduce financing costs, and further improve macroeconomic stability.

2. Experience has shown that to be effective, fiscal frameworks (especially numerical rules) need to balance the so-called “trilemma”: sustainability, stabilization, and simplicity (October 2021 Fiscal Monitor and Debrun and Jonung, 2018). Conventionally, fiscal rules are introduced to help ensure long-term debt sustainability by controlling policy discretion and deficit biases. However, they should also contribute to policies that stabilize economic activity (counter-cyclical policy) and should aim for functional simplicity to ensure broad support and compliance verification by politicians, markets, and the public (Lledo and others, 2018). That is, while various fiscal rules exist (debt anchors, deficit rules, expenditure rules or a combination), some elements are important to consider when designing them. For example, some rules can reduce the procyclicality of fiscal policy but are harder to monitor (e.g., cyclical/structural balance rules), and others may score high on stabilization but might leave too much room to increase debt (e.g., simple expenditure rules).

3. Fiscal rules could be adopted in several aspects in the Dominican Republic. For example, setting a debt ceiling for the public sector would help anchor medium-term fiscal policies, ensure sustainability, and anchor market expectations. Operational targets, to support the debt target, could also be designed to reduce procyclicality of fiscal policy. At the same time, strengthening supportive institutions, including a medium-term fiscal Framework (MTFF) would enhance credibility and successful implementation of the rules.

4. The analysis presented in this note focuses on three principles: (i) Debt anchor calibration; (ii) rebuilding fiscal buffers; (iii) operational rule simulations.

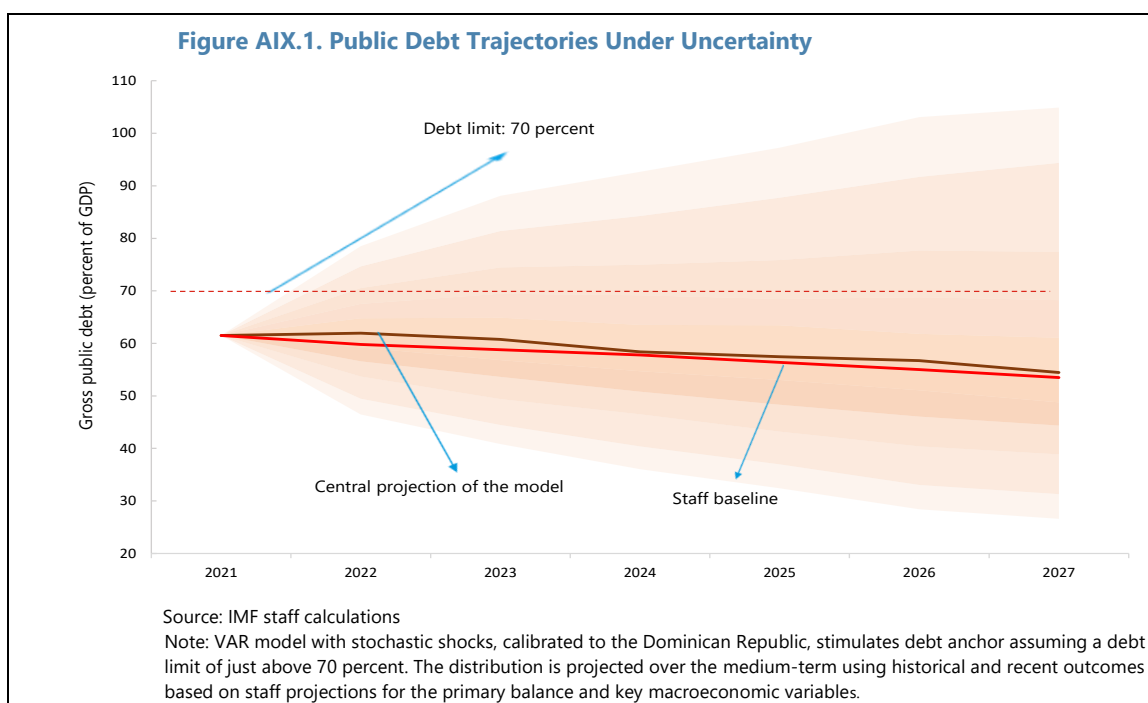
¹ Prepared by Hassan Adan (FAD)

A. Debt Anchor Calibration

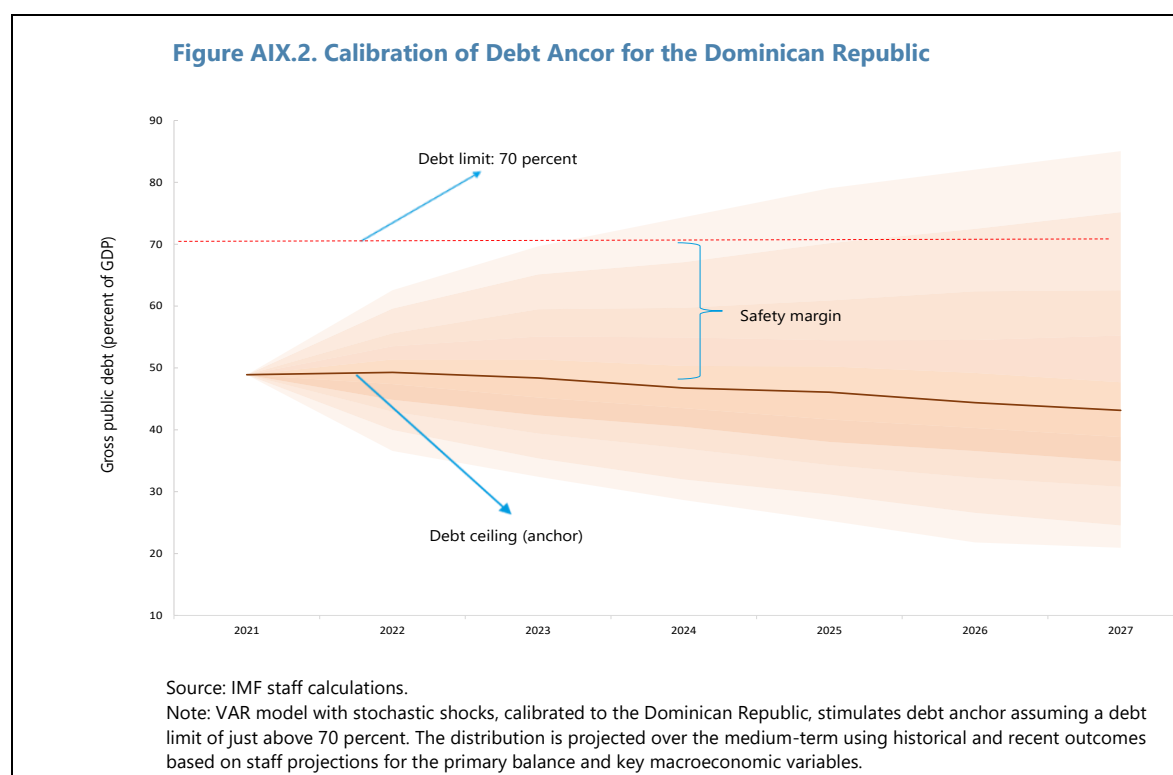
5. A public debt level is considered safe if it is plausible to expect the government to stabilize or reduce debt under most circumstances through a prudent fiscal policy. This requires a good understanding of (i) the uncertainties surrounding the main determinants of debt dynamics (interest rate, growth, direct shocks to debt or the budget), and (ii) the government's capacity to generate and sustain primary balances at or above their debt stabilizing level (Debrun and others, 2020).

6. Experience points to maximum sustainable debt levels in emerging economies at about 70 percent of GDP. While no upper bound of the safe debt zone (i.e., the debt limit beyond which it is believed that a debt distress episode will occur with heightened probability) cannot be derived from economic theory, past research suggests that the maximum sustainable debt level to be around 60-85 percent of GDP. However, it varies by country. For emerging market economies, the IMF Debt Sustainability Analysis (DSA) framework for Market Access Countries uses benchmarks of 70 percent of GDP. In the following simulations, to compute the safe debt level for the Dominican Republic, the debt limit is set at 70 percent (close to the highest debt ratio ever recorded in 2020).

7. Under current debt levels, there would be a high probability of reaching the 70 percent threshold. Given that uncertainty could remain acute in the years ahead, the fan charts in Figure 1 (calibrated to the Dominican Republic) project where the current debt ratio (61 percent of GDP in 2021) could end up in the medium term if the fiscal position is hit by a series of shocks. The central projection shows a downward debt trajectory through the debt path projected by staff, reaching a debt ratio close to the pre-pandemic level. Despite this, there is a high probability of exceeding the 70 percent debt ratio over the medium term (with a probability of close to 30 percent in 2027), given the uncertainty conditioned in the model.



8. The safe debt anchor for the Dominican Republic is calibrated to be a debt ratio of about 50 percent of GDP.² Figure 2 calibrates the safe debt level for the Dominican Republic, assuming a debt limit of just over 70 percent for the consolidated public sector debt. This prudent debt level captures the initial debt ratio in the first projection year that ensures that under different shocks, debt will not exceed the maximum debt limit over the medium term at a 10 percent tolerance criterion. The safe debt level is estimated to be close to 50 percent (red line). That is, a debt level of less than 50 percent of GDP would ensure (with 90 percent of probability) that debt would remain below the 70 percent debt limit under various shocks over the medium-term. This debt anchor constitutes the floor of the safety margin below the debt limit.



B. Rebuilding Fiscal Buffers

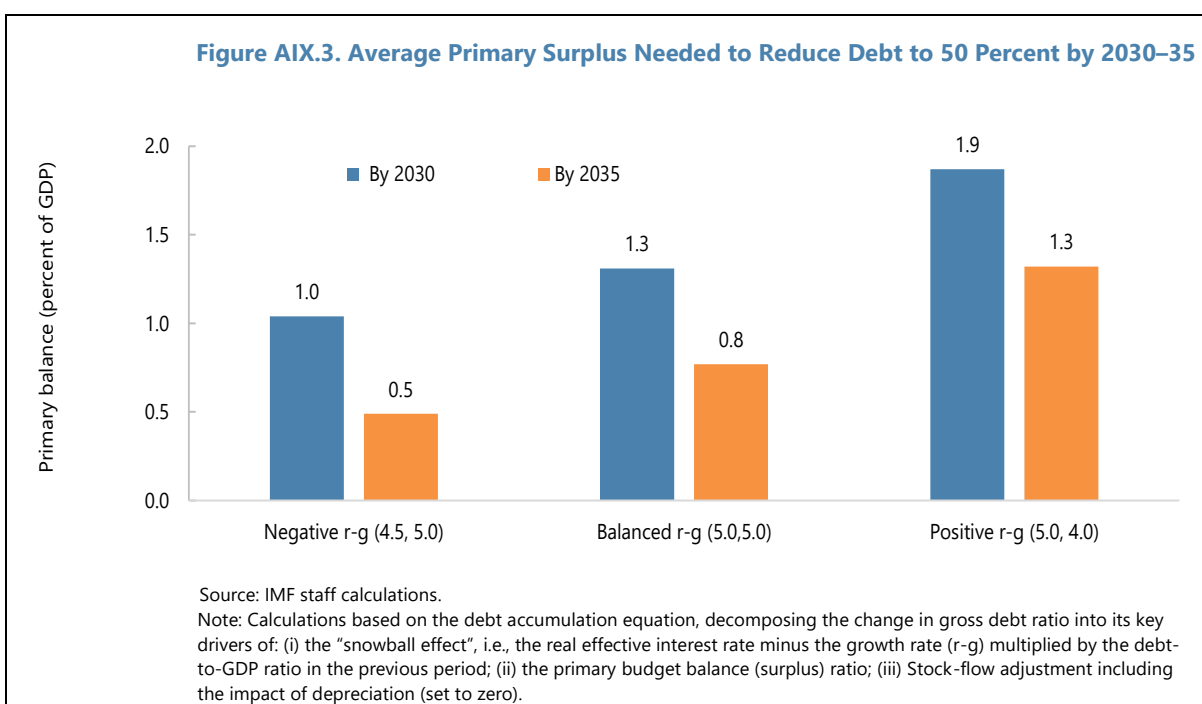
9. The simulations suggest that it would be prudent to rebuild fiscal buffers. Given the increasingly uncertain environment, reducing the current debt ratio towards the 50 percent anchor over the medium term would be prudent as this would allow the fiscal policy to adjust gradually to shocks, as illustrated in Figure 2.

10. To shed light on the fiscal challenges ahead, a simple exercise based on the debt accumulation equation is presented in Figure 3. The exercise (akin to the one presented in the October 2021 Fiscal Monitor) quantifies the multiyear increase in the primary balance that would be needed to reduce debt ratio to the simulated debt anchor of 50 percent by 2030 and by 2035,

² Based on a methodology developed by Baum and others (IMF, 2018)

respectively. The exercise takes as given the primary balance, growth, and real interest rate in staff baseline projections for 2022–23 and then computes the average primary balance needed in 2024–30 or 2024–3035 to reduce the debt ratio to 50 percent by 2030 or 2035.

11. The results show efforts needed to rebuild fiscal space would involve running an average primary balance of close to 1 percent of GDP. Under the baseline assumptions (constant effective interest rate of 4.5 percent and real growth of 5 percent), the average primary surplus required to reduce debt to 50 percent of GDP by 2030 would be 0.9 percent of GDP (average for 2015–19 was 0.7). The results are, however, very sensitive to the macroeconomic assumptions. For example, if the average real effective interest rate is set higher, at 5 percent i.e., parity of r and g , the primary surplus needed to reduce debt to 50 percent by 2030 would be 1.2 percent. While it increases to 1.7 percent if $(r - g)$ turns positive³. These efforts are less demanding if the time horizon is extended to 2035.



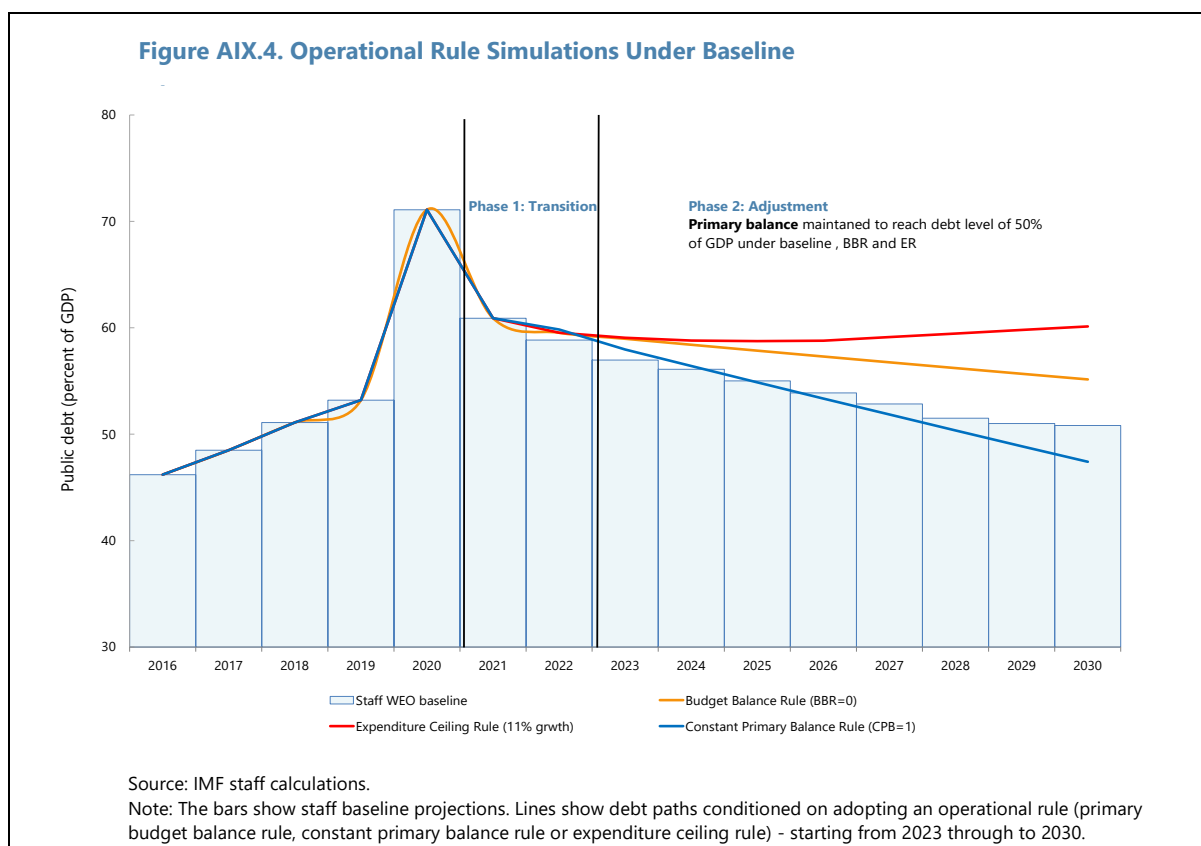
C. Operational Rule Simulations

12. The choice of an operational rule to attain the safe debt target asymptotically in the long term or over a shorter horizon is country specific and should reflect social preferences.⁴ However, some common elements exist and ideally the policy makers should strike the right balance

³ A surge in $(r-g)$ can generate large economic costs and can put public debt on an unsustainable path (Mauro and Zhou 2019).

⁴ Lledo and others (IMF2018) provides guidance on the selection of fiscal rules.

in the “trilemma”. Evidence from the years after the GFC suggests that design of rules has moved toward stabilization but at the cost of becoming more complex (e.g., cyclically/structurally adjusted balance rule).

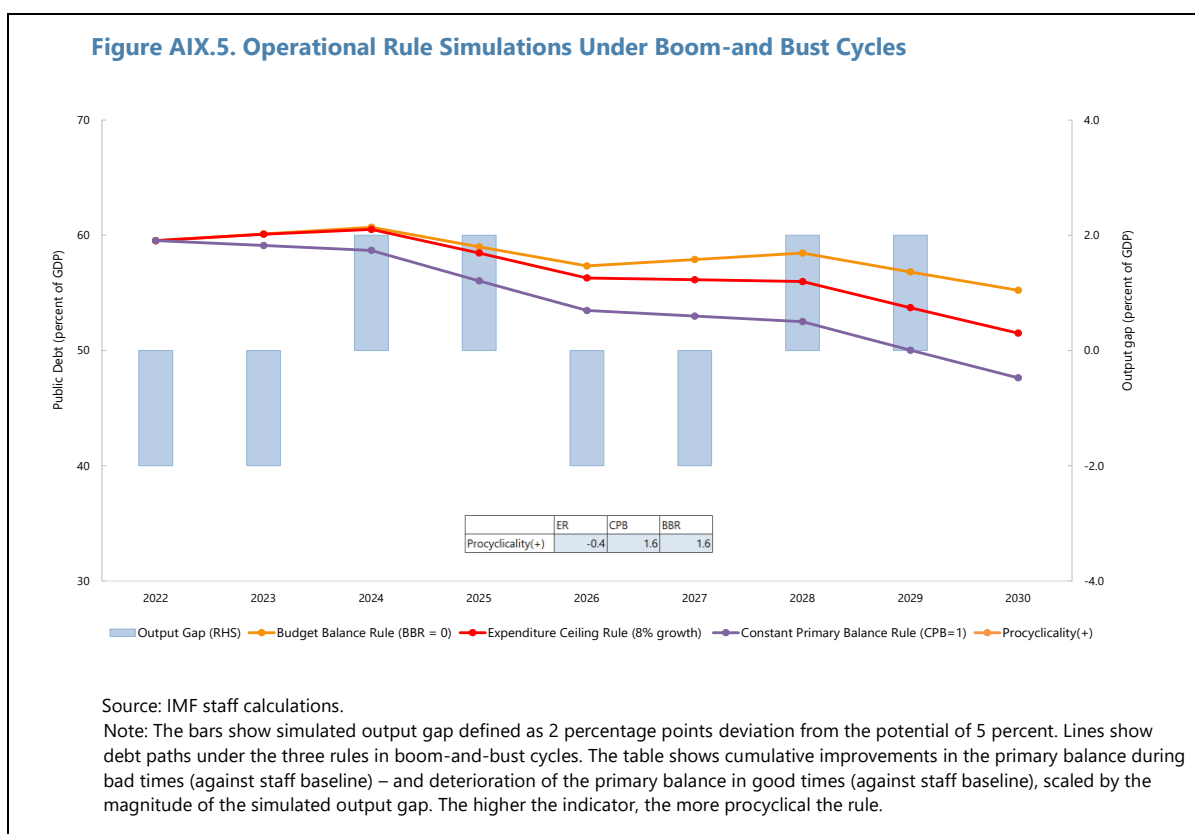


13. The most common form of fiscal rules has been a combination of a debt anchor together with operational limits on expenditures and/or budget balance (IMF WP, Davoodi and others, 2022). Assuming their adoption from 2023 and calibrated to staff baseline projection of fiscal and macroeconomic variables for the Dominican Republic, Figure 4 presents simulations of debt paths for three types of operational rules: nominal expenditure rule in line with past revenue growth (set at 11 percent based on the average of 2017–19 growth rate of revenues), primary budget balance rule⁵ and constant primary balance rule. As illustrated in the previous exercise, it is not surprising that a constant primary balance of 1 percent would reduce debt to below 50 percent by 2030, while a budget balance rule would stabilize debt downwards around the current level.

14. The nominal expenditure ceiling appears to be the least effective operational rule to guide debt to the prudent level. This result is not surprising as a simple expenditure ceiling does not necessarily correct a tendency towards excessive deficits (e.g., large tax cuts or the systematic overprediction of revenues) and as such is not linked directly to the debt sustainability objective.

⁵ A primary budget balance rule excludes interest payments and is thus more directly under the control of policymakers. Given the relatively high interest bill in the Dominican Republic, an overall balance rule would be more effective in terms of sustainability but at the cost of stabilization as interest bills are often countercyclical.

15. Despite this, expenditure rules often have strong countercyclical features and can be calibrated to guide the debt level towards the anchor. Figure 5 presents simulations of debt paths during boom-and-bust cycles, based on a hypothetical illustrative scenario that does not represent staff projections during 2022–30. A more prudent expenditure growth of 8 percent is imposed which reduces the debt ratio closer to the 50 percent mark. Importantly, the table in the chart, reporting the cumulative procyclical impulses over the period, shows that the expenditure ceiling is the only countercyclical rule.



16. Setting a binding upper limit on expenditure growth as a key operational focus is appealing, since: (i) it directly addresses distortions leading to excessive spending and can also curb the tendency to increase public spending during good times; (ii) it does not automatically lead to a procyclical fiscal stance because stabilizers on the revenue side are free to operate (revenues often fluctuate more than expenditures over the economic cycle); (iii) it is easy to explain to the public and market participants and relatively easy to monitor since it can be set over several years (relative to a realistic MTF) with a review embedded in the electoral cycle. An independent fiscal council can also be tasked with monitoring fiscal performance and compliance with the rule; (iv) escape clauses, which allow for deviations from the rule in times of need, could be specified and activated only for events beyond the government’s control, such as severe recessions, natural disasters, or pandemics.

17. Specific design features can be embedded in the expenditure rule to make it more prudent and flexible. For example, expenditure could be allowed to grow above the limit if higher spending is matched by increases in discretionary revenues to encourage tax reform and other revenue mobilization efforts. Caution is warranted as this enhanced flexibility could complicate enforcement during the budget process and limits the rule's ability to anchor expectations on debt sustainability. The rule can also include an error correction mechanism to accommodate for period with high debt, while ensuring that growth-enhancing capital investment spending does not bear the brunt of the adjustment.

D. Conclusion

18. In summary, a multi-year expenditure ceiling rule (linked to the debt anchor) could be a more practical and desirable option for the Dominican Republic. To be effective and credible, this would require strengthening of medium-term fiscal management, reduction of budget rigidities (e.g., spending on electricity subsidies and revenue earmarking), and rebuilding fiscal buffers in the transition period (ideally towards the debt anchor).

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Annex X. Governance Reforms: Rule of Law and Regulatory Framework⁵⁵

The rule of law and a sound regulatory framework can serve important roles—in particular, controlling corruption and enabling and facilitating the provision of public goods, such as effective public administration and a conducive business environment. Past reports on these issues have pointed mainly to the need to strengthen the independence of the judiciary and the prosecutor, and to simplify the regulatory framework. Recent steps to appoint an attorney general and high court members free of political ties, strengthen the transparency and integrity of public administration, and further trade facilitation and competition are contributing to the Dominican Republic’s on-going progress in strengthening the rule of law and regulatory framework to support sustainable and inclusive growth. The staff believes that timely implementation of ongoing initiatives—including plans to entrench prosecutorial and judicial independence in the legal framework—will be critical going forward, as they have the potential to mitigate risks in these areas.

A. Rule of Law

1. Overview: Governance, which is broadly defined as institutions, mechanisms, and practices through which government power is exercised,⁵⁶ impacts the government’s ability to deliver good quality public administration and inclusive growth.⁵⁷ Good governance helps to support growth and stability—preventing misallocation of resources and increasing trust in government.⁵⁸ Further, growth based on private investment and higher value-added business relationships requires fair, predictable, timely and cost-effective enforcement of property and contractual rights. To both control corruption and protect property rights, governance frameworks should insulate these from government interference and private influence as well as provide sufficient transparency.

2. Judicial and prosecutorial systems. The 2017 UN Human Rights Council Report – Concluding observations on the sixth periodic report of the Dominican Republic (paragraphs 27–30) on independence of the judiciary and corruption pointed to two key areas with potential for improvement: (i) strengthening mechanisms and safeguards to ensure the independence, competence, and integrity of the judiciary; and (ii) reducing the incidence of corruption and impunity of some cases.⁵⁹ Recommendations to overcome these issues included (i) ensuring judicial

⁵⁵ Prepared by Pamela Madrid Angers, Nicolas Fernandez-Arias and Hassan Adan (FAD)

⁵⁶ IMF (2017), *The Role of the Fund in Governance Issues*, <https://www.elibrary.imf.org/view/journals/007/2017/004/007.2017.issue-004-en.xml>

⁵⁷ [IMF Working Papers Volume 2021 Issue 098: Governance for Inclusive Growth \(2021\)](#)

⁵⁸ <https://www.imf.org/external/pubs/ft/issues6/>

⁵⁹ The 5th round (2017) Mechanism for Follow-up on Implementation of the Inter-American Convention Against Corruption (MESICIC) Report provides further specific recommendations to strengthen competence and integrity at all levels of the judiciary (paragraphs 155-157 and 179). The authorities’ responses are posted: <http://www.oas.org/en/sla/dlc/mesicic/paises-rondas.html?c=Dominican%20Republic&r=6>

selection and appointments are carried out by an independent body; and (ii) stepping-up efforts to fight corruption and impunity, particularly through investigation of cases by the public prosecutor (attorney general).

3. The authorities are taking steps to strengthen institutions, mechanisms, and practices:

- **Enhancing Independence of the Public Prosecutor (Attorney General) and Judiciary.** In a break from the past, the Attorney General appointed in 2020 was free of political and party affiliation, with a strong professional profile—a long career in the judiciary, including serving on the Supreme Court of Justice. Further, recent appointees to the Constitutional Court and Superior Electoral Court, were also politically independent with high professional merit.
 - o To further institutionalize the political independence of the office, President Abinader proposed constitutional amendments—currently being discussed by the Economic and Social Council (CES)⁶⁰—such that the Attorney General would not be appointed directly by the President and would not be part of the National Council of the Judiciary, which appoints the High Court Judges.
- **Stepped-up efforts to fight corruption and impunity:** Under the current Attorney General, the Specialized Prosecutor’s Office for the Prosecution of Administrative Corruption (PEPCA) has initiated four major criminal proceeding involving officials—both past and present—civilians, and the military. Also, institutions responsible for monitoring the management of public finances were strengthened with regard to controlling administrative corruption and referring cases: (i) the General Directorate of Public Procurement (DGCP) for the first time sent 10 cases to the Attorney General due to indications of crimes; and (ii) the Chamber of Accounts (independent auditor), which had previously focused on financial audits, shifted to special audits that have been used by PEPCA. Decree 674-20 required new officials to uphold ethical commitments, including by declaring their assets, or else the employment would be terminated. Decree 499-21 created a public trust for recovery of illicitly diverted public funds.
 - o To further strengthen the state’s powers to control administrative corruption and other illicit activities (e.g., money laundering and drug trafficking), the government has submitted to Congress a law on civil asset forfeiture, whereby the state can confiscate assets derived from illicit activity through a court order (without requiring a criminal conviction, which lowers the burden proof and thus makes them easier to obtain).
- **Transparency and accountability.** The authorities have highlighted transparency and ethics as control mechanisms: (i) Decrees 713–21 and 9–22 created the first multi-stakeholder forum on open government with a view to strengthening mechanisms that encourage civil society and

⁶⁰ The CES is as a consultative body created to ensure the organized participation of employers, workers and civil society in strengthening of social peace, as established in article 251 of the Dominican Constitution. The constitutional reform is being discussed as part of a broader dialogue on enhancing transparency and institutionality: <https://ces.gob.do/transparenciainstitucionalidad>

non-governmental organizations to participate in holding government accountable; (ii) Decree No. 791–21 created the *Government Integrity and Regulatory Compliance Commissions (CIGCN)* as an operational instrument, a necessary step to the creation of a National Integrity System; and (iii) Decree 103–22 on the *National Open Data Policy* follows the recommendations of the United Nations Convention Against Corruption (UNCAC) for development of modern mechanisms to prevent, detect, sanction and eradicate corruption.

4. Protection of property and contract rights. Weaknesses appear due mainly to: issues with land registry, lack of sufficient transparency and effectiveness of courts, and lack of effective enforcement that hinders the timely recovery of claims.^{61,62}

5. Recent steps to strengthen the protection of property and contract rights include:

- Implementing Law 141–15 on Asset Restructuring and Liquidation. This law allows managing the bankruptcy processes and guaranteeing the protection of the rights of creditors in the face of debtors' financial difficulties and insolvency. It offers a framework for companies in difficulty to remain operational. While the law was passed in 2015 and the implementing regulation issued in 2017, the specialized court was established only in 2019.
- The movable property guarantee law (45–20) provides better access to credit for micro, small and medium-sized companies (MiPyMes)—i.e., allows using machinery, equipment, accounts receivable, intellectual property and any other good or right as a guarantee. The law also allows for extrajudicial execution—by auction, direct sale or transfer—of the encumbered asset, which may speed timely recovery of debts. Implementation has been on-going—in particular the creation of the electronic registry—including because COVID-19 disrupted the work plan.
- The authorities are working to strengthen the administration of public real estate assets, which includes streamlining the titling process and reducing informality in land tenure.

⁶¹ These findings are supported by scores from the World Justice Project (WJP) Rule of Law Index, specifically the sub-factors on due process, delays, government influence, and enforcement, whose results weigh on the Dominican Republic's scores for regulatory enforcement and civil justice. Please note that these indices are perceptions-based, and the accuracy of the index can be biased by the respondent's views instead of facts on these factors. Questionnaires are administered to experts annually and to the general public every few years. The general public survey for the Dominican Republic was last conducted in 2018, thus recent changes may not yet fully show up in scores. Non-IMF indicators provide qualitative information. They do not represent the IMF's assessment of the situation in the Dominican Republic.

⁶² While there have been reports about issues with expropriation—in particular as a legacy of agricultural reform and due to weaknesses in the title registration system—indicators related to expropriation are not particularly low: for the relevant WJP sub-factor the score is above the overall score for regulatory enforcement. However, complaints are often related to the delay of compensation for expropriations.

B. Regulatory Framework

General Characteristics—Public Administration

6. Overview: The quality of public administration is associated with control of corruption, which in turn affects the business climate. Important elements in this area are related to the governance of (i) public sector employment, and (ii) public procurement.

7. Public employment. The Mechanism for Follow-Up on the Implementation of the Inter-American Convention against Corruption (MESICIC) 2017 report recommended to strengthen public sector appointments, in particular: (i) strengthening the legal basis with regards to access to public employment on the basis of key principles (of openness, equity, and efficiency); (ii) carrying out a comprehensive review of recruitment and selection regime; and (iii) strengthening the Ministry of Public Administration by providing it with the necessary human and financial resources.

8. The authorities took steps to strengthen public administration and employment policies:

- In April 2021, President Abinader issued Decree 149-21 on the General Plan for the Reform and Modernization of Public Administration and Decree 262, which specified that promotion and advancement mechanisms developed by public bodies must be based on the fundamental principles that govern the public function, such as personal merit, equal access, stability in career positions, equal pay, organizational flexibility, mobility and judicial protection.
- In early 2022, public discussions began on a proposal to reform the Public Administration Law—modifying provisions on human resources, labor relations and the rights and duties in public administration.⁶³ The authorities also unveiled ethics education programs for public employees to set principles, values and standards of conduct that will serve as reference framework for public servants.

9. Public procurement. The *Mechanism for Follow-Up on the Implementation of the Inter-American Convention against Corruption* (MESICIC) 2017 report identified three issues in the Procurement Law (340-06):

- It is not a “public order” law, which results in a dispersion of regulations among agencies, making conflict of interest different from one entity to another.
- Lack of sufficient operational autonomy of the General Directorate of Public Procurement (DGCP).
- Lack of transparency on the performance of government contracts for procurement of goods and services, as information was not widely available or published.

⁶³ This is being discussed in the CES—see [9• Reforma y Modernización de la Administración Pública - ces.gob.do](https://ces.gob.do)

10. There have been several recent initiatives to improve public procurement. The procurement system has gone through a modernization phase that allowed for real-time public access to information, throughout the procurement cycle. Under President Abinader’s administration, developments in government procurement regulations and policies extended to include:

- Issuance of decree No. 434-20, which makes the public–private partnership (PPP) law (47-20) fully operational by widening the scope of the regulations.
- Issuance of decree No. 36-21, which calls for the creation of a government procurement compliance program that uses International Organization for Standardization (IOS) standards and includes anti-bribery provisions.
- Issuance of new policies concerning different stages of the procurement process by the DGCP, including use of digital forms in tender documentation and principles that contracting agencies must follow in the preparation of submissions following requests for proposals.⁶⁴
- Issuance of guidelines on the selection of experts participating in the evaluation process.
- Removal from the supplier list of companies linked to legislatures and other elected officials.
- In terms of enforcement, the DGCP will draft regulations to the contracting units of the different government agencies and create a National Committee of Public Compliance Officers. Recent progress includes the creation of a special fraud unit at the Comptroller General and a new monitoring system and a transparency portal, providing information on transaction amounts, status of contracts, individual suppliers and contract details.
- In April 2021, the authorities presented a legislative proposal to strengthen public procurement by making it a public order law. Enactment of this legislation to modernize the procurement systems would allow a shift to a more modern and efficient procurement system, elimination of loopholes that gave place to corruption and fraud, and expansion of access to public procurement by SMEs.

Trade and Competition Policies—Regulating Markets

11. Overview. The regulatory framework should be conducive to entrepreneurship and competition rather than to rent-seeking and corruption. An onerous business regulatory environment inhibits investment and privileges established and large firms over entrants and small firms. A system that relies on discretion—rather than rules-based procedures—increases the scope for bribery and corruption, hindering competition and entrepreneurship.

⁶⁴ In particular, in 2021 DGCP launched the first stage of the Preventive and Reactive Alert System (SAPR), which allows identifying which institutions have incurred in violations of the public procurement law.

12. Overall Regulatory framework. Previous assessments of the Dominican regulatory framework pointed to room for improvement in (i) trade facilitation,⁶⁵ (ii) business climate,⁶⁶ and (iii) effectiveness of anti-monopoly and pro-competition policy.⁶⁷

13. Trade facilitation. The Dominican Republic has been hindered by inefficient and discretionary customs procedures. This has arguably hindered growth and export diversification, becoming an obstacle in the authorities' intentions to become a logistics and nearshoring hub.

14. Recent measures have been taken in terms of trade facilitation. A comprehensive new customs law (Ley 168-21)—which replaced the 68-year old customs law (Ley 3489)—modernizes and expedites customs procedures, reducing discretion and increasing transparency, which are important for controlling corruption. Among other changes, the law establishes:

- Advance rulings: a reduction in time to receive advance rulings from 150 days to 30 days (or 45 days in exceptional cases).
- Authorized Economic Operator status (Operador Económico Autorizado, or OEA). Qualifying agents will obtain OEA certification, reducing scrutiny and processing times.
- 24-hour dispatch. A reduction in time to dispatch containers from nearly 7 days to 24 hours.
- Non-invasive inspections. The customs authority is granted the authority to perform non-invasive (X-ray) inspections, expediting routine inspections.
- Reduced discretion. The law formally and clearly stipulates customs procedures, reducing opportunities for corruption and increasing transparency.

15. Business climate. The Dominican Republic economy has also been constrained by onerous and slow bureaucratic procedures for formalizing and operating businesses.

16. Several measures have been taken improve the business climate. The Zero-Bureaucracy law (Ley 167–21) aims at modernizing and simplifying bureaucratic procedures. The law improves government procedures and imposes requirements on how new regulations are crafted and

⁶⁵ As supported by the OECD *Trade Facilitation Indicator*, 2019 (weaknesses identified in advance rulings, fees and charges, documents, automation, and efficiency of procedures); World Bank Group & Turku School of Economics (WBGTSSE) *Logistics Performance Index* (LPI), 2018 (efficiency of clearance process, quality of trade and transport infrastructure, ease of arranging international shipments, quality of logistics services, tracking and tracing consignments, and timeliness of shipments); World Economic Forum (WEF) *Global Competitiveness Survey* (GCS), 2019 subindices on trade openness sourced from the WEF *Executive Opinion Survey* (EOS) (prevalence of non-tariff barriers) and the International Trade Centre (trade tariffs, complexity of tariffs). Note that the LPI and EOS are constructed from surveys of market participants and therefore must be interpreted with caution as they can be biased by experts' views; they do not represent the IMF's assessment of the situation in the Dominican Republic.

⁶⁶ As supported by in the World Bank *Global Indicators of Regulatory Governance*, 2017-2018 (transparency of rulemaking, impact assessment, ex-post review, and challenging regulations) and the WEF GCS, 2019, subindex on burden of government regulation based on the WEF EOS.

⁶⁷ As supported by in the WEF GCS, 2019, sub-indices: indicators of domestic market competition (distortive effect of taxes and subsidies on competition, extent of market dominance, competition in services) based on the WEF EOS.

evaluated, including public consultation and both *ex ante* and *ex post* impact assessments. The Ministry of Public Administration is in the process of drafting its regulations. Zero-Bureaucracy specifies that 150 procedures in 41 public institutions are to be reformed. Reforms underway center on the creation of single windows (*ventanillas*) to speed bureaucratic procedures:⁶⁸

- Business Formalization Window (*Ventanilla de Formalización de Empresas*). The goal is to reduce the time it takes to formalize a business to 24 hours. This will be achieved by consolidating paperwork into a single form that can be processed in parallel by the various institutions involved, as well as facilitating communication between institutions to expedite approval.
- Construction Permits Window (*Ventanilla Única de Construcción*). The goal is to reduce the time for approval of construction projects, to 60 days (120 days) for simple (complex) projects.
- Health Code Permits Window (*Ventanilla Única de Servicios del MSP*). The goal is to reduce the time to obtain health code permits from 6 months to 14 days. This involves the revision and modification of regulations on cosmetics, personal hygiene products, and food and beverages.
- Foreign Investment Window (*Ventanilla Única de Inversión*). The goal is to facilitate and expedite the procedures required of foreign investors. It involves the centralization and simplification of the required procedures, achieved through increased automation and interoperability between relevant institutions.

17. Competition Policy. The Dominican Republic needs to improve competition in product markets. The primary government agency tasked with encouraging competition—established by the 2008 Competition Law (*Ley General de Defensa de la Competencia, Ley 42-08*)—*ProCompetencia*, was not enabled until 2017.

18. Further steps could be instrumental to improve competition policies. While *ProCompetencia's* powers remain limited—it lacks legal authority to block mergers or break up companies⁶⁹ and there are limits on the sanctions it can impose, which do not scale with the revenues of the sanctioned firm—an executive decree from July 2020 enhanced the agency by specifying more clearly the way in which *Ley 42-08* should be applied. Going forward, *ProCompetencia* is working towards strengthening their mandate to allow for larger and more preemptive sanctions, such as for anti-competitive mergers and acquisitions.

⁶⁸ The improvements resulting from these reforms will be studied and presented to the public in August 2022.

⁶⁹ Except in certain industries where the relevant regulator has been endowed with such powers – such as telecommunications, financial services, and hospitals – in which case *Ley 42-08* states that *ProCompetencia* will work in tandem with said regulators.



DOMINICAN REPUBLIC

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION— INFORMATIONAL ANNEX

June 15, 2022

Prepared By

Western Hemisphere Department
(in consultation with other departments)

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FUND RELATIONS

(As of April 30, 2022)

Membership Status: Joined: December 28, 1945; Article VIII

General Resources Account:	SDR Million	Percent Quota
Quota	477.40	100.00
Fund holdings of currency (Exchange Rate)	890.17	186.46
Reserve Tranche Position	64.63	13.54
SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	666.39	100.00
Holdings	458.14	68.75
Outstanding Purchases and Loans: RFI	SDR Million	Percent Allocation
RFI Loan	477.40	100.0

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	November 9, 2009	March 8, 2012	1,094.50	766.15
Stand-By	January 31, 2005	January 30, 2008	437.80	437.80
Stand-By	August 29, 2003	January 31, 2005	437.80	131.34

Outright Loans:

Type	Date of Commitment	Date Drawn	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RFI	April 29, 2020	May 01, 2020	477.40	477.40

Projected Payments to Fund

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2022	2023	2024	2025	2026
Principal		119.35	238.70	119.35	
Charges/Interest	5.73	7.94	5.05	1.70	1.04
Total	5.73	127.29	243.75	121.05	1.04

Implementation of Enhanced HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangement. The currency of the Dominican Republic is the Dominican peso. The Dominican Republic's *de jure* exchange rate arrangement is classified as "managed floating", while the *de facto* exchange rate arrangement is classified as "other managed". The Dominican Republic has accepted the obligations under Article VIII, Section 2(a), 3, and 4, and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

Article IV Consultation. The previous round of Article IV consultation discussions took place in Santo Domingo during April 21-May 5, 2021. The consultation was concluded by the Executive Board on June 30, 2021. The Dominican Republic is on the standard 12-month consultation cycle.

FSAP Participation. An FSAP update was completed in February 2009. The corresponding report was issued in November 2009.

Technical Assistance. Technical assistance (TA) delivery to the Dominican Republic takes place through a mix of short-term HQ expert missions and visits from regional advisors based in the IMF Regional Technical Assistance Center for Central America, Panama and the Dominican Republic (CAPTAC-DR). The key areas of current focus are:

- **Revenue and Customs Administration:** recent missions have supported the internal tax administration (DGII) in measuring the impact of their reform program on tax compliance as well as developing a post-COVID-19 action plan to reinvigorate collections and compliance and further strengthen their structural reform agenda within the context of their own 2021–24 strategic plan. CAPTAC-DR has assisted the customs administration (DGA) in aligning its strategic plan with new governmental priorities—including on strengthening the country's position as a logistics hub—and strengthening its governance arrangements. A HQ-led customs mission is also planned to support the strategic initiative to facilitate trade by clearing goods within 24 hours (D24H).
- **Public Financial Management (PFM):** CAPTAC-DR experts are working with the Treasury to strengthen the cash programming model and active cash management to speed up payments. Early this year, a HQ-led PFM diagnostic mission focused on assessing the capacity to implement a medium-term fiscal framework able to support the planned fiscal rule legislation (FRL). Going forward, missions are planned to support the drafting of the FRL, fiscal risks analysis, and the assessment of public investment management systems.
- **Government Finance Statistics:** TA missions resulted in the publishing of monthly budgetary central government data fully aligned with the latest international standards, based on joint work between the MOF and the central bank. TA is also underpinning the expected publication of quarterly general government (GG) data. Ongoing TA is being provided on the expansion of coverage and timeliness of GG data, while also reducing above and below-the-line data discrepancy. Improvements are being made in data sources and consolidation. TA is also focused on the improvement of public sector debt data (including the sectorization of some units, notably trust funds, as well as the accrual of interest and nominal value of debt).

- **Real Sector Statistics:** A national accounts rebasing project to 2018 is in progress, for which a *Household Income and Expenditure Survey* was conducted during 2018/19. CAPTAC-DR is providing multi-year capacity development to the Central Bank in line with the needs for the national accounts rebasing project, which is expected to be completed by the first half of 2023.
- **Financial Sector Supervision and Regulation:** the strategic objective is to bolster the tailored implementation of financial supervision and regulation according to international best practices, with an emphasis on risk-based supervision, cross-border consolidated supervision, and the adoption of prudential criteria based on IFRS and Basel II/III standards. Recent TA assisted the authorities in developing a roadmap for the implementation of the Basel II/III framework over the next few years. In support of the roll-out of this roadmap, follow-up TA on the frameworks for operation, market and liquidity risk as well on IFRS 9 has been scheduled for fiscal year 2023.

Resident Representative: The Fund representative office in the Dominican Republic was closed on July 1, 2014. Mr. Hadzi-Vaskov (based in Guatemala) is the Regional Resident Representative for Central America, Panama, and the Dominican Republic.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

World Bank: <http://www.worldbank.org/en/country/dominicanrepublic>

Inter-American Development Bank: <https://www.iadb.org/en/countries/dominican-republic/overview>

Development Bank of Latin America (CAF): <https://www.caf.com/en/countries/dominican-republic/>

Central American Bank for Economic Integration: [Dominican Republic - Banco Centroamericano de Integración Económica \(bcie.org\)](http://www.bcie.org)

MAIN WEBSITES OF DATA

Central Bank of the Dominican Republic: <https://www.bancentral.gov.do/>

National accounts
Consumer Price Index
Monthly Indicator of Economic Activity (IMAE)
Balance of Payments
International reserves
Interest rates
Monetary and financial indicators
Tourism statistics
Labor and employment
Exchange rates

Ministry of Finance: <https://www.hacienda.gob.do/>

Fiscal accounts
Central government budget

Ministry of Economy, Planning and Development: <https://mepyd.gob.do/>

Household income and expenditure survey
Poverty and inequality
Construction sector statistics

Public Debt Office of the Treasury: <https://www.creditopublico.gob.do/>

Public debt

Superintendency of Banks: <https://sb.gob.do/>

Banks balance sheets and income statements
Financial Soundness Indicators

National Statistics Office: <https://www.one.gob.do/>

Population and social indicators
Producer price index

STATISTICAL ISSUES

(As of May 20, 2022)

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance. Most macroeconomic statistics are compiled by the Central Bank of the Dominican Republic, with the National Statistics Office producing underlying surveys and the population census. Fiscal data are compiled by the Ministry of Finance, and deposit taking institutions data by BCRD and the Superintendency of Banks.</p>
<p>National Accounts: The Central Bank of the Dominican Republic (BCRD) compiles and disseminates national accounts series, based on the concepts and definitions of the <i>System of National Accounts 2008</i> using both production and expenditure approaches, in nominal values and volume measures. A monthly Index of Economic Activity (<i>Indice Mensual de Actividad Económica, IMAE</i>), which is a chain-linked volume index with 2007 as the reference year, is published monthly by the Central Bank.</p>
<p>Price Statistics: The BCRD compiles the Consumer Price Index (CPI) following internationally accepted standards. The BCRD has received technical support from the ECLAC in this area. The CPI basket of goods and services is disaggregated and allows evaluation of prices for 12 groups of goods and services, according to the Classification of Individual Consumption by Purpose (COICOP) 1999. It is currently calculated with weight reference period October 2019 to September 2020. The National Statistical Office compiles a Producer Price Index for manufacturing (165 products and 93 services), with weights from the national accounts (base year 2007), and reference period of December 2013.</p>
<p>Government Finance Statistics: Both the Ministry of Finance and the Central Bank compile and disseminate government finance statistics (GFS). Although aggregate and consolidated data are available for the central government, the balance of the Rest of the Non-Financial Public Sector is estimated only from the financing side, as above-the-line data coverage on local governments and some non-central government entities is incomplete and not timely. The authorities have made progress in fiscal data presentation and are posting fiscal execution data on the transparency portal of the Ministry of Finance.</p> <p>The country participates in a regional capacity development program for the harmonization of GFS for Central America, Panama, and the Dominican Republic led by the IMF's Regional Center for Technical Assistance (CAPTAC-DR).</p> <p>The authorities have transitioned to the GFSM 2014 framework, with technical assistance from the Statistics Department of the IMF and CAPTAC DR.</p> <p>The authorities are currently working to implement International Public Sector Accounting Standards (IPSAS) and further results-based program budgeting system that should help to further disseminate comprehensive fiscal data on a timely basis.</p>
<p>Monetary and Financial Statistics: The Central Bank of the Dominican Republic compiles monetary statistics, including its monetary accounts and the accounts for other depository corporations (ODCs). A consolidated balance sheet of the financial sector is available. In support of surveillance, monetary data is reported to the IMF's Statistics Department using standardized report forms on a monthly basis.</p> <p>The Central Bank of the Dominican Republic also disseminates its harmonized monetary statistics via its webpage and provides data on several indicators of the Financial Access Survey (FAS), including two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the U.N. to monitor Target 8.10 of the Sustainable Development Goals (SDGs).</p>

Financial sector surveillance: The Dominican Republic is a participant in the IMF's Financial Soundness Indicators (FSIs) database, reporting FSIs monthly with data beginning in 2008. The data is reported by the Superintendency of Banks of the Dominican Republic and is comprehensive, both for the banking system as a whole, and for individual banks. There is very good coverage of core FSIs, but FSIs on non-financial corporates and households are not available. Data on real estate markets is also lacking.

External sector statistics: The Central Bank of the Dominican Republic compiles and disseminates balance of payments (BOP) and international investment position (IIP) statistics on a BPM6 basis. There are some coverage gaps in the recording of nonfinancial private sector transactions in the financial account of the BOP, particularly related to direct investment and private sector external debt transactions and positions which also impact IIP statistics. The Directorate of Public Credit of the Ministry of Finance publishes the external debt of the government. External debt statistics for the whole economy are available from the IIP report. The Dominican Republic does not participate in the Coordinated Portfolio Investment Survey (CPIS) and the Coordinated Direct Investment Survey (CDIS).

II. Data Dissemination Standards

The Dominican Republic implemented the e-GDDS (a data transparency framework) in 2019, publishing core economic data aligned with the Table of Common Indicators Required for surveillance. The information is published in a data portal called National Summary Data Page, with timeliness and periodicity in line or even exceeding the e-GDDS recommendations.

Table 1. Dominican Republic: Common Indicators Required for Surveillance
(as of May 20, 2022)

	Date of latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷
Exchange Rates	5/20/2022	5/23/2022	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	5/20/2022	5/23/2022	D	D	D
Reserve/Base Money	5/20/2022	5/23/2022	D	D	D
Broad Money	5/20/2022	5/23/2022	D	D	D
Central Bank Balance Sheet	4/2022	5/2022	M	M	M
Consolidated Balance Sheet of the Banking System	4/2022	5/2022	M	M	M
Interest Rates ²	5/20/2022	5/23/2022	D	D	D
Consumer Price Index	4/2022	5/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ -General Government ⁴	3/2022	5/2022	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ -Central Government	3/2022	5/2022	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q4/2021	2/2022	Q	Q	Q
External Current Account Balance	Q4/2021	4/2022	Q	Q	Q
Exports and Imports of Goods and Services	12/2021	4/2022	M	M	M
GDP/GNP	Q4/2021	4/2022	Q	Q	Q
Gross External Debt	12/2021	4/2022	Q	Q	Q
International Investment Position ⁶	12/2021	4/2022	Q	Q	Q
<p>¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.</p> <p>² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.</p> <p>³ Foreign, domestic bank, and domestic nonbank financing.</p> <p>⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.</p> <p>⁵ Including currency and maturity composition.</p> <p>⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents, including of offshore banks.</p> <p>⁷ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).</p>					