INTERNATIONAL MONETARY FUND

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DOMINICAN REPUBLIC

June 2023

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DOMINICAN REPUBLIC

In the context of the Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 20, 2023 consideration of the staff report that concluded the Article IV consultation with Dominican Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 20, 2023, following discussions that ended on May 19, 2023, with the officials of Dominican Republic on the Article IV Consultation. Based on information available at the time of these discussions, the staff report was completed on June 5, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Dominican Republic.

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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PRESS RELEASE

PR23/233

IMF Executive Board Concludes 2023 Article IV Consultation with the Dominican Republic

FOR IMMEDIATE RELEASE

Washington, DC – June 20, 2023: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Dominican Republic.

The Dominican Republic's economy has been one of the most dynamic and resilient in the Western Hemisphere over the last two decades, displaying an impressive recovery from the pandemic, supported by the authorities' sound policies as well as positive global spillovers.

The strong recovery began moderating at the end of 2022 in response to tighter global financial conditions, lower global demand, and the appropriate and timely withdrawal of policy stimulus, contributing to inflation's convergence to its target. Economic activity expanded by 4.9 percent in 2022, led by services and manufacturing, while construction activity eased in response to higher costs and tighter financial conditions, and mining declined due to temporary capacity constraints. Headline inflation has been rapidly returning to its target, falling from its April 2022 peak of 9.6 percent to 4.4 percent in May 2023. The current account deficit widened to 5.6 percent of GDP in 2022 due to softening goods exports, higher commodity prices and the continued domestic demand recovery, and was mostly financed by FDI flows. Despite the recent tightening of global and domestic financial conditions, the financial sector appears adequately capitalized, liquid, and profitable.

Supported by sound policies and fundamentals, the economic outlook is relatively positive, albeit subject to high uncertainty, mostly due to global risks. Real GDP growth is projected to decelerate slightly to around 4 percent in 2023 due to the lagged effects of financial tightening and lower global demand, thereby supporting inflation's return to the central bank's target, but is expected to return to its trend of around 5 percent in 2024 as global financial conditions ease somewhat and the world economy recovers. The external position is sustainable, and the current account deficit is projected to narrow over the medium term to 3.1 percent of GDP, driven by lower commodity prices and steady improvements in exports and tourist receipts in line with the global recovery. Downside risks, including from a further tightening of global financial conditions and sharper slowdown in global growth, dominate the short run but are more broadly balanced in the medium run.

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[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.

Executive Board Assessment[2]

Executive Directors highlighted the Dominican Republic's remarkable economic growth over the past two decades, which resulted in significant poverty reduction, and welcomed the authorities' strong macroeconomic policies and sound policy framework, which enabled an impressive post-pandemic recovery. Directors agreed that the economic outlook remains positive, although downside risks dominate in the near term. Against this backdrop, they recommended focusing near-term policies on maintaining macroeconomic and financial stability, while pressing ahead with structural reforms to boost inclusive growth and resilience.

Directors welcomed the monetary policy response that has helped ease inflationary pressures and stressed that it should continue to be calibrated to ensure that inflation remains within the target range over the policy horizon and inflation expectations stay anchored. They emphasized the importance of strengthening central bank autonomy through its recapitalization and legislative reforms. Directors noted that greater exchange rate flexibility and deepening of the foreign exchange market will further enhance the monetary transmission mechanism and help the economy confront adverse shocks.

Directors commended the authorities' continued efforts to bring a sound fiscal responsibility law to fruition, which, alongside further public financial management improvements, should contribute to more efficient and transparent use of public resources, help anchor fiscal policy, and enhance the fiscal framework. They agreed that fiscal policy should remain focused on placing debt on a firmly downward path. To further rebuild fiscal buffers and create space for much-needed social and infrastructure spending, Directors recommended that fiscal consolidation be supported by tax reforms, further tax administration improvements, and expenditure rationalization—notably through implementing the Electricity Pact.

Directors welcomed that the financial sector remains resilient and called for its continued close monitoring given tighter financial conditions. To strengthen financial stability, Directors stressed the need to further modernize the regulatory framework by implementing best international standards for supervision and regulation and expanding the macroprudential toolkit. They also recommended further strengthening the AML/CFT framework and introducing a prudential regulatory framework for unregulated financial institutions.

Directors commended the authorities' ambitious structural reform agenda, focused on boosting inclusive growth and resilience by improving public institutions, governance, education, and the business environment. They encouraged the authorities to persevere with electricity sector reforms to improve governance and efficiency and called for the implementation of climate adaptation and mitigation policies to further reduce economic and financial vulnerabilities. Directors welcomed the authorities' continued interest in technical assistance by the Fund, including in a Public Investment Management Assessment and its climate module (C-PIMA), and noted the authorities' interest in the Resilience and Sustainability Facility in the future.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Table 1. Dominican Republic: Selected Economic and Social Indicators

Population (millions, 2022)	10.6	GDP per capita (2022, U.S. dollars)	10,710.1
Quota	477.4 million SDRs / 0.10% of total	Poverty (2021, share of population)	23.2
Main exports	tourism, gold, tobacco	Unemployment rate (2022, percent)	5.3
Key export markets	U.S., Canada, Haiti	Adult literacy rate (percent, 2021)	95.2

					Projection	
	2019	2020	2021	2022	2023	2024
Output	(Annual percentage change, unless otherwise stated)					
Real GDP	5.1	-6.7	12.3	4.9	4.0	5.1
Contributions to growth						
Consumption	3.7	-1.9	4.5	4.1	3.8	4.0
Investment	1.1	-4.4	8.0	2.4	0.9	2.0
Net exports	-1.4	-3.2	-0.1	-1.5	-0.9	0.1
Nominal GDP (RD$ billion)	4,562	4,457	5,393	6,261	6,821	7,433
Nominal GDP (US$ billion)	89.0	78.9	94.5	113.9	...	...
Output gap (in percent of potential output)	-0.6	-6.3	-1.9	-0.3	-0.4	-0.2
Prices						
Consumer price inflation (end of period)	3.7	5.6	8.5	7.8	4.0	4.0
Exchange Rate						
Exchange rate (RD$/US$ - period average) 1/	51.2	56.5	57.1	55.0	...	...
Exchange rate (RD$/US$ - eop) 1/	52.9	58.2	57.3	56.2	...	...
Real effective exchange rate (eop, - depreciation) 1/	-3.2	-8.1	6.5	6.3	0.9	0.0
Government Finances	(In percent of GDP)					
Consolidated public sector debt 2/	53.3	71.1	62.2	58.8	56.5	56.0
Consolidated public sector overall balance 2/	-3.3	-9.0	-3.7	-3.6	-3.9	-3.7
Consolidated public sector primary balance	0.5	-4.3	0.6	0.2	0.5	0.7
NFPS balance	-2.3	-7.6	-2.5	-2.7	-2.9	-2.8
Central government balance	-3.5	-7.9	-2.9	-3.2	-3.1	-2.8
Revenues and grants	14.4	14.2	15.6	15.3	14.8	14.9
Primary spending	15.1	18.9	15.4	15.7	14.7	14.5
Interest expenditure	2.7	3.2	3.1	2.8	3.1	3.2
Rest of NFPS	1.1	0.3	0.4	0.6	0.2	0.0
Financial Sector	(Annual percentage change; unless otherwise stated)					
Broad money (M3)	11.7	20.8	13.3	6.6	8.3	9.3
Credit to the private sector	11.8	5.3	11.6	16.6	10.0	12.2
Net domestic assets of the banking system	8.6	2.5	11.5	9.7	15.4	7.9
Policy interest rate (in percent) 1/	4.5	3.0	3.5	8.5	…	…
Average bank deposit rate (1-year; in percent) 1/	6.7	3.1	2.3	9.9	…	…
Average bank lending rate (1-year; in percent) 1/	12.4	9.9	9.2	13.5	…	…
Balance of Payments	(In percent of GDP)					
Current account	-1.3	-1.7	-2.8	-5.6	-3.9	-3.7
Goods, net	-10.2	-8.6	-12.5	-14.9	-14.0	-13.4
Services, net	5.7	1.8	3.9	5.0	5.8	6.0
Income, net	3.2	5.2	5.7	4.3	4.3	3.8
Capital account	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 3/	3.6	5.3	5.7	6.6	4.8	4.3
Foreign direct investment, net	3.4	3.2	3.4	3.5	3.3	3.3
Portfolio investment, net	2.4	7.1	2.2	2.9	1.5	2.0
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-2.3	-5.1	0.1	0.2	-0.1	-1.0
Change in reserves (-increase)	-1.3	-2.5	-2.4	-1.3	-0.8	-0.7
GIR (in millions of US dollars)	8,782	10,752	12,943	14,383	15,403	16,343
Total external debt (in percent of GDP)	41.9	56.3	48.6	40.5	39.6	38.7
of which: Consolidated public sector	27.3	40.3	35.6	33.2	31.7	31.4

Sources: National authorities; World Bank; and IMF staff calculations.
1/ Latest available.

2/ The consolidated public sector includes the budgetary central government (CG); the rest of the Non-Financial Public Sector, i.e., extra-budgetary central government institutions (decentralized and autonomous institutions), social security funds, local governments, and non-financial public companies; and the quasi-fiscal central bank debt.

3/ Excluding reserves.

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

June 5, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

KEY ISSUES

Context. Supported by sound policies and positive spillovers, the Dominican Republic has staged an impressive recovery from the pandemic, cementing its place as one of the most dynamic and resilient economies in the Western Hemisphere. The strong recovery began moderating at the end of 2022 in response to tighter global financial conditions, lower global demand, and policy accommodation withdrawal, helping ease inflationary pressures. The current account deficit widened in 2022 to 5.6 percent of GDP and was mostly financed by Foreign Direct Investment (FDI) flows, with the country maintaining sound market access. The financial sector appears well-capitalized, liquid, and profitable.

Outlook and Risks. Growth is projected to decelerate slightly (which should support inflation's return to the central bank's target) from 4.9 percent in 2022 to around 4 percent in 2023, returning to trend in 2024 as global growth recovers. A moderate fiscal consolidation should result in increasing primary surpluses. The current account deficit is projected to narrow over the medium term driven by lower commodity prices and steady improvements in exports and tourist receipts in line with the global recovery. Downside risks, including from a further tightening of global financial conditions and a sharper slowdown in global growth, dominate the short run but are more broadly balanced in the medium run.

Policy Issues. Against a backdrop of inflation rapidly declining to target, a growth slowdown amid high uncertainty and near-term downside risks, discussions focused on the required policy mix to maintain macroeconomic and financial stability. Led by monetary policy and supported by sufficient exchange rate flexibility and a gradual fiscal consolidation to build buffers—including from policies to gradually remove energy subsidies and better target assistance—the near-term policy priority should remain focused towards returning inflation to target and maintaining inflation expectations firmly anchored. Financial supervision should remain vigilant amid tight global financial conditions and global financial stability concerns. Medium-term policies should continue to enhance the credibility of policy frameworks (e.g., formally introducing a fiscal anchor, further aligning the financial sector regulatory framework to international standards, enhancing central bank credibility through further autonomy), make further improvements to the business climate, governance, and social safety nets, and persevere with electricity sector reforms. Durably raising revenues through reforms to widen the tax base would also facilitate a medium-term inclusive fiscal consolidation. These policies can foster equitable growth and reinforce hard-earned economic and financial stability.

Approved By
Patricia Alonso-Gamo (WHD) and Eugenio Cerruti (SPR)

Discussions took place in Santo Domingo during May 8-19, 2023. The staff team comprised Emilio Fernandez-Corugedo (Head), Pamela Madrid, Manuel Rosales Torres (all WHD), Metodij Hadzi-Vaskov (Regional Resident Representative), and Dirk Jan Grolleman (MCM). Nicolas Fernandez-Arias, Alejandro Fiorito Baratas (WHD), and Hassan Adan (FAD) contributed extensively to the report. Julia Muñoz and Eliana Porras Herrera (WHD) assisted the team through research assistance and editorial support.

Frank Fuentes (OED) participated in the discussions. The team met with Central Bank Governor Héctor Valdez, Minister of Finance José Manuel Vicente, Superintendent of Banks Alejandro Fernandez, other senior officials, and representatives of the civil society and the private sector.

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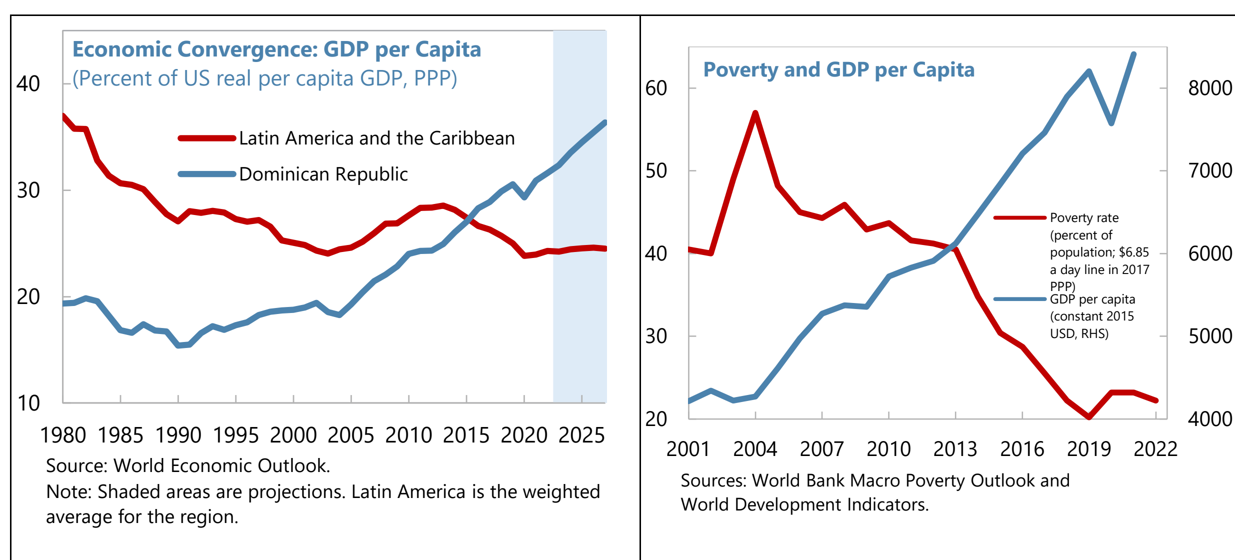
CONTEXT

1. **The Dominican Republic's economy has been one of the most dynamic and resilient economies in the Western Hemisphere over the last two decades.** Since the 2003-04 economic crisis, growth averaged 5.4 percent annually, per capita income more than doubled (becoming an upper middle-income economy), inflation averaged 4.9 percent, and reserves reached historical highs. This performance was supported by reforms and good economic policies—some under IMF programs between 2004-2012—that strengthened macroeconomic frameworks and the banking system, and deepened integration with the global economy. The ensuing macro-stability has attracted sizeable Foreign Direct Investment (FDI) flows and reduced the country's risk premium below the emerging market average. Notwithstanding a slight pandemic-related increase, poverty has halved since the 2003 crisis with extreme poverty almost eradicated.



Source: World Economic Outlook.
Note: Shaded areas are projections. Latin America is the weighted average for the region.

Sources: World Bank Macro Poverty Outlook and World Development Indicators.

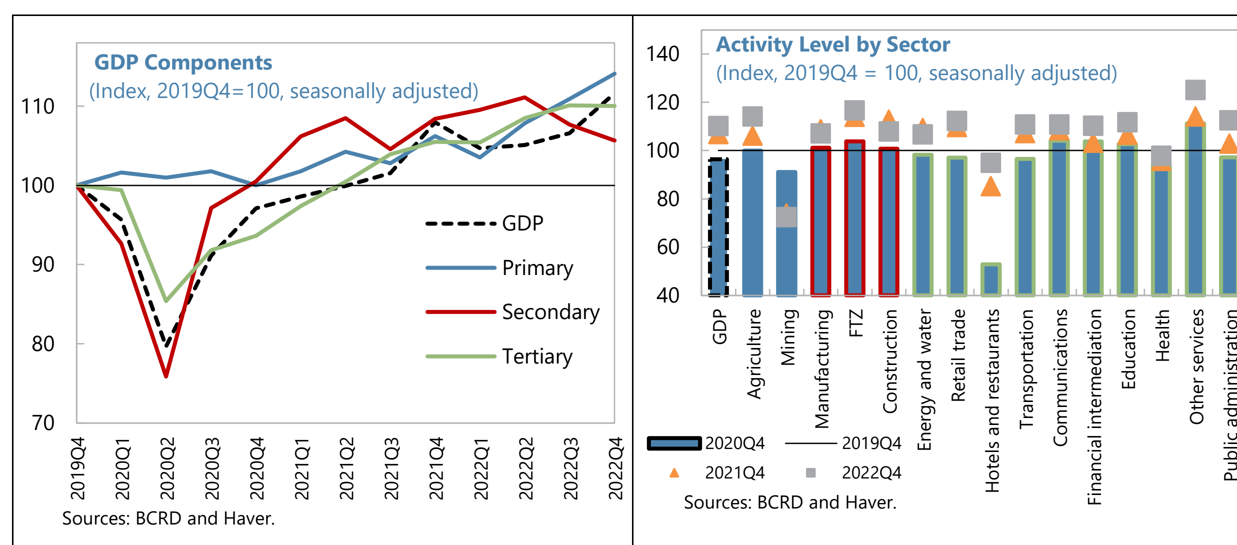
2. **Building on such resilience and dynamism, decisive policy response and positive global spillovers have supported a strong economic rebound from the pandemic.** Monetary, fiscal, and financial measures (including exchange rate adjustment) mitigated the impact of the pandemic and—alongside a prudent health strategy that paved the way for a well-attuned reopening—led the foundations for the robust recovery. The strong rebound in 2021—GDP grew 12.3 percent—allowed the authorities to begin withdrawing pandemic-related policy support with a front-loaded fiscal consolidation in 2021, starting monetary policy normalization, and withdrawing pandemic-related regulatory flexibility for financial institutions.

3. **Russia's war in Ukraine has affected the Dominican Republic mainly through the global economic slowdown and imported inflation.** The direct impact has been limited given relatively small shares in total trade. Nonetheless, higher energy prices and global supply bottlenecks weighed on inflation and on tighter financial conditions, and—combined with the global activity slowdown—have had an impact on domestic activity. In response, policies have sought to mitigate inflation's impact on the population, widening the fiscal deficit.

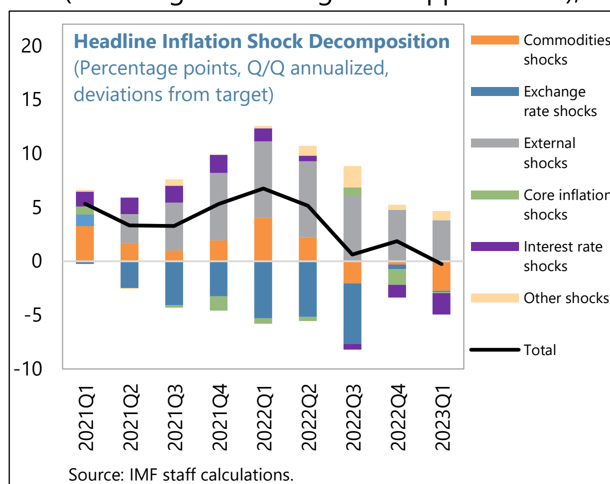
4. **The authorities remain committed to enhancing their policy frameworks further and to supporting inclusive growth.** Progress has continued with their ambitious reform agenda of strengthening public institutions to ensure good financial management, better support private investment and improve social outcomes (Annex I). While inflation shocks have delayed the implementation of some reforms (e.g., rationalizing electricity tariffs) and led to increases in untargeted subsidies, the authorities continue strengthening the fiscal and financial frameworks, governance, public service provision, and the social safety net.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

5. **The strong recovery continued in 2022 with some loss of momentum at year end.** Economic activity expanded 4.9 percent in 2022, led by services and manufacturing—notably Free Trade Zones (FTZ)—while construction and mining activities eased due to higher costs and tighter financial conditions and capacity constraints, respectively. Tourist arrivals increased 40 percent versus 2021, led by strong US arrivals (Figure 1). The labor market improved in line with the recovery as the employment rate increased to 59.8 percent in 2022 (58.3 percent in 2021), while the unemployment rate fell below pre-pandemic levels to 4.8 percent in 2022Q4.



6. Headline inflation has returned to its target range, while core has fallen more sluggishly. Reflecting tighter monetary conditions (including an exchange rate appreciation), less dynamic economic activity and lower commodity prices, annualized month-on-month headline and core inflation have declined to within the target range since August 2022—except for December 2022 due to weather-induced agricultural supply shortages. Thus, year-on-year headline (core) inflation fell from its April (May) 2022 peak of 9.6 (7.3) percent to 4.4 (5.5) percent in May 2023 (Figure 3). Two-year-ahead inflation expectations—measured by the central bank's survey—have remained within the inflation target range since 2016 (Annex X). Real wages rose by less than 1 percent in 2022 and remain 10 percent below pre-pandemic levels despite employment increasing above pre-pandemic levels in 2022Q4 as Labor Force Participation (LFP) rose.



Source: IMF staff calculations.

7. The Dominican Republic's external position weakened in 2022 but is assessed to be broadly in line with fundamentals and desirable policies (Annex V). The Current Account (CA) deficit widened to 5.6 percent of GDP due to softening goods exports (e.g., lower gold production and slowing global demand), the negative oil and food terms-of-trade shock, and the continued domestic demand recovery that supported imports. The CA deficit was financed by strong FDI and portfolio investment inflows that—alongside resilient remittance inflows—supported a peso appreciation against the US dollar. The reserve position improved further, exceeding traditional metrics (e.g., 4.6 months of prospective imports and 262 percent of short-term external debt) and reaching around 92 percent of the IMF's ARA metric, versus 88 percent in 2021. The government maintained good market access—international issuance of peso bonds in February was well received and helped to contain the increasing trend in foreign-currency exposure of sovereign debt.

8. After a strong fiscal consolidation in 2021, the fiscal deficit widened in 2022, largely due to measures to contain inflation stemming from the war in Ukraine. Tax revenues were buoyed by the robust recovery and higher prices, providing some room for measures to contain the impact of inflation (1.3 percent of GDP, text table) and unexpected climate events (0.3 percent of GDP in response to Hurricane Fiona and floods in 2022Q4). Despite contained Central Government (CG) expenditure elsewhere, the CG deficit widened to 3.2 percent of GDP in 2022, although the rest of the Non-Financial Public Sector (NFPS) posted a higher surplus. Nonetheless, with favorable debt dynamics, the NFPS debt burden continued to fall (Figure 2). A well-received external debt issuance, official credits, and domestic bond issuance have financed 60 percent of the 2023 gross financing needs as of end-April.[1]

[1] Most external bonds maturing in 2023 were bought back.

2021-2022 Budget, Main Accounts, Central Government

(Percent of GDP)[1/]

	2021 (Actual)	2022 (Initial Budget)[2/]	2022 (Supplemental Budget)	2022 (Actual)
Revenue	**15.6**	**14.9**	**15.1**	**15.5**
Tax revenues[3/]	14.4	13.2	13.9	14.0
Other revenues[2/]	1.1	1.7	1.1	1.4
Expenses	**17.1**	**16.3**	**17.1**	**17.6**
Compensation of employees	4.4	4.4	4.2	4.5
Goods and services	2.1	2.1	2.2	1.8
Interest	3.1	3.3	3.0	2.8
Subsidies	1.2	1.0	2.1	2.1
o/w to public electricity entities	0.7	0.7	1.2	1.3
o/w to private enterprises[4/]	0.3	0.1	0.7	0.7
Grants	3.3	2.9	2.8	3.1
Social benefits	1.7	1.6	1.7	1.7
Other transfers	1.2	1.0	1.2	1.5
Net Acquisition of Nonfinancial	**0.3**	**1.7**	**1.6**	**1.4**
Overall CG balance	**-2.9**	**-3.0**	**-3.6**	**-3.2**
Memo:				
Capital spending	3.0	2.4	2.5	2.8
Rest of the NFPS balance	0.4	...	0.0	0.6

Source: National authorities and IMF staff calculations.

1/ Budget GDP projections: Initial budget, RD$5,837 million and supplemental budget, RD$6,200 million.

2/ Budget law submitted to Congress in 2021. This initial budget included revenue from asset concessions, excluded in the supplemental budget.

3/ 2021 tax revenues include 0.5 percent of GDP for both advance and amnesty payments.

4/ Mostly to compensate for fuel price freeze.

Fiscal Measures to Mitigate Commodity Price and Climate Shocks, 2022

	Initial Duration[1/]	Focused/ means-tested	Initial cost estimate	Extended measures cost[2/]
			Percent of GDP	
TOTAL			**0.52**	**1.59**
Energy price			**0.35**	**1.22**
Freeze of basic fuel prices	4 months	No	0.28	0.57
Public transport drivers	4 months	~	0.01	0.02
Bonogas-Hogar (LPG for cooking)[3/]	...	Yes	0.07	0.05
Electricity[4/]	n.a.	No	n.a.	0.58
Food price			**0.17**	**0.07**
Direct food support to households[5/]	...	~	0.07	0.01
Subsidies for food/agriculture[6/]	various	~	0.10	0.07
Climate				**0.30**
Hurricane Fiona and floods	n.a	Yes	n.a.	0.30

Sources: National authorities and IMF staff calculations.

1/ If duration announced in Presidents accountability speech (Feb. 2022). Electricity tariff freeze was announced in July, without a duration.

2/ For non-electricity measures the actual cost is used as these were not included in initial budget. For electricity, estimate is difference between actual and initial budget.

3/ Initial estimate based on increase in beneficiaries (households) from 0.9 to 1.4 million, and monthly transfers from RD$228 to RD$470.

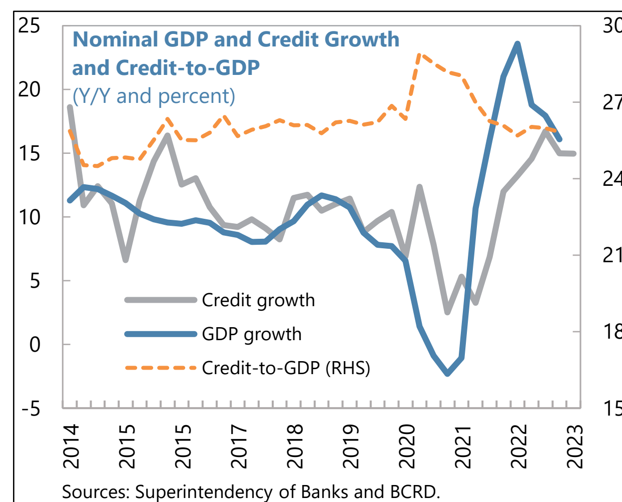
4/ Estimate. Difference between actual and initial budget is impacted by tariff freeze since July but also difference in actual energy price versus budget estimate as well differenes in estimated operational costs and losses in distribution.

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

6/ Originally for subsidies for up tp 10% of main foods imports. Subsequently covered: fertilizers, flour and chicken.

9. Monetary policy was appropriately tightened in 2022, while the peso appreciated. Starting in November 2021 the BCRD proactively increased its key policy rate by 550bps to 8.5 percent in October 2022 and mopped up liquidity through reserve requirement increases—except for loans to support the construction sector. Consistent with historical episodes, tighter monetary policy has been transmitted to deposit and lending rates (Figure 3).[2] Total Foreign Exchange (FX) purchases and sales rose slightly in dollar terms supporting the accumulation of foreign reserves and containing some appreciation pressures. On May 31st, the BCRD reduced its key policy rate by 50 bps to 8 percent.

10. Reflecting weaker economic activity and tighter financial conditions, credit growth began to soften by end-2022. Credit—mainly financed by strong deposit growth—has grown in line with the recovery, led initially by consumer loans and mortgages, and subsequently by corporate loans (Figure 6). Credit growth increased during much of 2022 but had softened since 2022Q4, driven by a slowdown in cyclical, export-oriented, and interest-rate sensitive sectors including manufacturing, mortgages, and construction.



Sources: Superintendency of Banks and BCRD.

11. The financial sector remains sound and macro-financial vulnerabilities appear limited. Credit quality improved in 2022 with past-due loans falling to 0.9 percent but picked up slightly to 1 percent in April 2023. Restructured loans—which increased following the expiration of regulatory flexibility in 2021—continued declining to 3.2 percent in March 2023; their lowest level since September 2020 (Figure 6). The provisioning coverage ratio—compared to a stressed measure of asset quality—has increased above its pre-pandemic average. Capital adequacy (16.65 percent in February 2023) is slightly below pre-pandemic levels but remains adequate. Overall, deposit-taking institutions' (DTI) capital positions remain supported by profitability and dividend distribution limitations during the pandemic emergency measures phase-out period.[3] While IFRS recognition and valuation of financial instruments is not implemented yet for banks, the authorities closely monitor mark-to-market values of DTIs' securities portfolios and their potential impact on solvency. Moreover, the Dominican Republic's financial sector does not appear to have direct links to the US or European financial institutions that experienced stress in 2023H1.

12. Supported by sound policies and fundamentals, the economic outlook is relatively positive:

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[2] See Grigoli and Mota (2015).

[3] To mitigate the impact of the regulatory flexibility, in March 2021 the authorities allowed DTIs to phase-in any regulatory provisions shortfalls until December 2023 (Country Report 22/248). DTIs had largely constituted necessary provisions by end-2021 and the phase-in period remains manageable.

- **After rebounding strongly, the post-pandemic recovery is moderating, supporting inflation's return to its target range.** Real GDP growth is projected to moderate to around 4 percent in 2023 due to the lagged effects of financial tightening and lower global demand but returns to around 5 percent (its trend) in 2024 as global financial conditions ease somewhat and the world economy recovers, supporting exports and private investment. In the medium term, growth is expected to be driven by rising investment and increasing LFP, formality and productivity as the tourism sector and FTZ/logistic hubs expand and recent reforms come to fruition (¶31). Credit growth and inflation are projected to moderate in 2023 reflecting the growth slowdown and tighter financial conditions. Lower projected commodity prices also support inflation's convergence to the 4±1 percent target range.[4]

- **Gradual fiscal consolidation will place public debt on a declining path.** Despite the absence of an official fiscal rule (¶22), the authorities' plans—embodied in their Medium-Term Fiscal Framework (MTFF)—envisage a fiscal consolidation of 0.8 pp of GDP between 2023 and 2027 that will place debt on a downward path.

- **The external position is projected to improve.** The CA deficit is projected to narrow to 3.9 percent of GDP in 2023, gradually declining to 3.1 percent of GDP by 2028 driven by a lower import bill—due to lower commodities prices—and moderate improvements in exports and tourist receipts as the global economy recovers. The CA deficit is expected to be financed mainly by FDI and official inflows, supporting further reserve accumulation with the reserves coverage expected to remain adequate over the medium-term.

Medium-Term Macroeconomic Framework

(Selected indicators, percent of GDP unless otherwise specified)

						Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Growth and Prices											
GDP growth (percent)	7.0	5.1	-6.7	12.3	4.9	4.0	5.1	5.0	5.0	5.0	5.0
Consumer price inflation (e.o.p., percent)	1.2	3.7	5.6	8.5	7.8	4.0	4.0	4.0	4.0	4.0	4.0
Government Finances											
Central government revenue	14.2	14.4	14.2	15.6	15.3	14.8	14.9	15.0	15.0	15.0	15.0
Central government expenditure	16.4	17.9	22.1	18.5	18.5	17.9	17.7	17.6	17.4	17.2	17.2
Consolidated public sector overall balance	-3.4	-3.3	-9.0	-3.7	-3.6	-3.9	-3.7	-3.2	-3.2	-2.8	-2.7
Consolidated public sector debt	50.1	53.3	71.1	62.2	58.8	56.5	56.0	55.0	54.1	52.9	51.6
Balance of Payments											
Current account	-1.5	-1.3	-1.7	-2.8	-5.6	-3.9	-3.7	-3.6	-3.4	-3.3	-3.1
Foreign direct investment	-3.0	-3.4	-3.2	-3.4	-3.5	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Gross reserves (US$million)	7,628	8,782	10,752	12,943	14,383	15,403	16,343	17,189	18,236	19,523	20,918

Sources: National authorities and IMF staff calculations

13. Uncertainty around the outlook is high, with short-term risks tilted to the downside but more balanced medium-term risks (Annex II). Although much of the tightening of global financial conditions to control inflation has occurred, further tightening is possible if global inflation remains elevated. At the same time, global financial stability risks have increased which could precipitate financial outflows, increase borrowing costs, and weaken domestic financial stability,

[4] In early 2023, a new minimum wage increase of 14 percent was announced. It is not expected to have a large impact on aggregate real wages and inflation given that minimum wage earners account for a small portion of the aggregate wage bill, which in turn is only part of total production costs.

putting negative pressure on the external and fiscal positions and lowering growth. An intensification of Russia's war in Ukraine could lead to a renewed spike in fuel, food, and other commodity prices, which would increase inflation, reduce economic activity and purchasing power, impacting vulnerable populations disproportionately and risking social discontent. Deepening geo-economic fragmentation could lead to trade and FDI reconfigurations, supply disruptions, technological and payment systems fragmentations, and rising input costs. Key downside domestic risks include extreme weather events that could affect agricultural production, tourism activity and exports, and a possible deterioration of the fiscal position if public spending increases in anticipation of the 2024 presidential election or electricity tariff increases do not resume as energy price shocks dissipate—potentially stalling momentum for much-needed reforms in the electricity sector. Key upside risks, concentrated on the medium-term, include expanded investment opportunities and fruition of ongoing reforms that may reduce risk premia and boost potential growth.

14. Existing buffers, further contingency planning and agile policy making can help the Dominican Republic face adverse shocks. Historically high international reserves (around 13 percent of GDP), a track record of stability backed by prudent and timely macroeconomic policies, a sound financial sector, and access to international capital markets (and contingent credit lines) can support the country if additional adverse shocks materialize. Further reserve accumulation, fiscal consolidation (including additional revenue measures, Annex VII), structural reforms to strengthen competitiveness (Annexes VI and IX), policy framework improvements (such as the introduction of a fiscal rule) and continued flexibilization of the exchange rate to act as an effective shock absorber, would also create additional buffers that can be deployed to mitigate adverse shocks. More persistent global inflationary pressures that could worsen the CA deficit would warrant tighter-for-longer macroeconomic policies to avoid de-anchoring inflation expectations and contain debt servicing costs. In that context, fiscal policy can become more targeted to protect the most vulnerable and continued close monitoring of the financial sector would be warranted. Amid climate risks, investment in resilient infrastructure (Annex VIII) and use of disaster insurance[5] is critical to protect public infrastructure and enable support for affected populations while safeguarding fiscal and external sustainability.

Authorities' Views

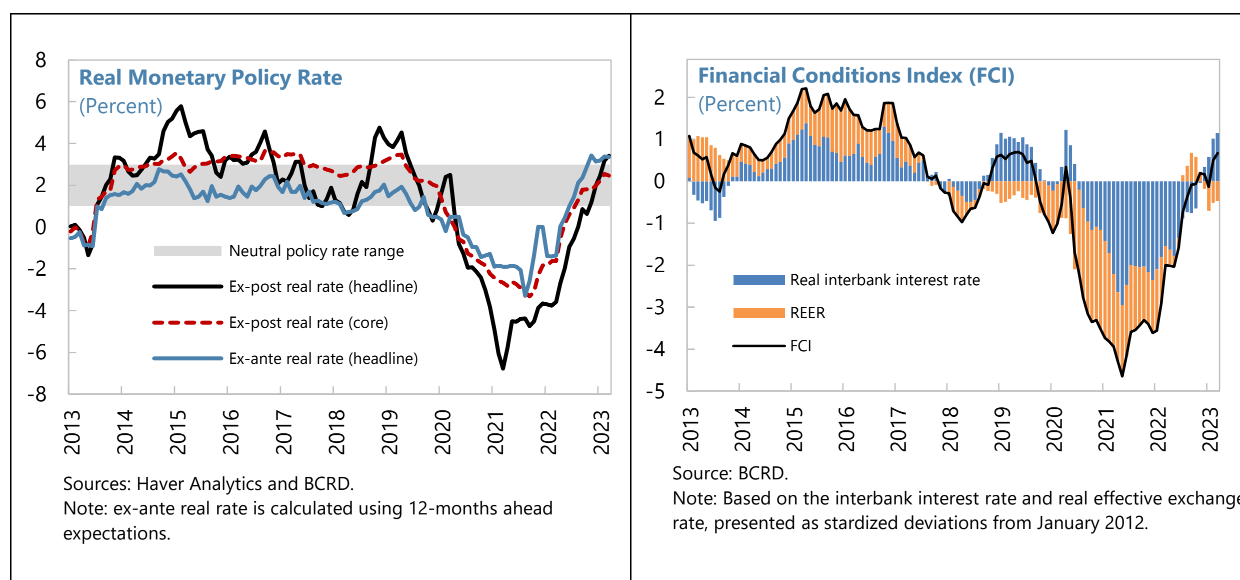
15. The authorities agreed with staff's assessment about the economic outlook and risks but were slightly more optimistic about near-term growth prospects on the back of strong tourist activity, remittances, robust FDI, and a projected rebound in construction activity. They expect headline inflation to return to the inflation target range in 2023Q2 and to end 2023 around 4 percent. The authorities noted that strong inflows of travel receipts and remittances have supported the external position, with international reserves at historically high levels and continuing to exceed traditional metrics. While lower nominal growth could reduce fiscal revenues, the authorities are tightly controlling non-essential spending and are implementing mandatory e-invoicing.

[5] In December 2022, the World Bank approved a Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) (¶36).

POLICY DISCUSSIONS

A. Maintaining Near-Term Macroeconomic Stability

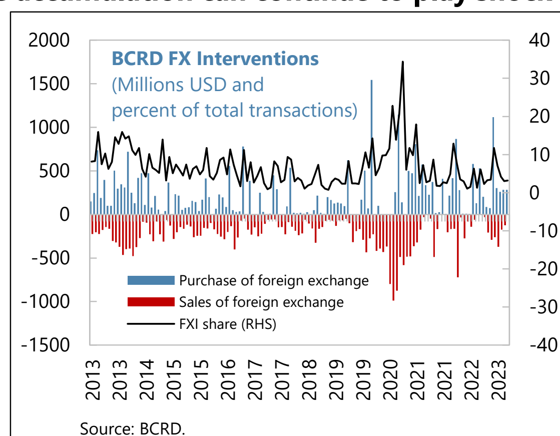
16. Policies that seek to bring inflation to target, keep inflation expectations firmly anchored, and maintain stability, including data-dependent monetary normalization, remain appropriate. Concerned that elevated commodity prices and inflation more generally could undermine economic stability, the authorities deployed policies to dampen inflation and support households. Following a timely and decisive withdrawal of accommodation, monetary policy has turned restrictive. Fiscal support measures, some untargeted, concurrently mitigated the inflationary impact of commodity price increases. With inflation projected to decline further and inflation expectations anchored, monetary policy should be calibrated to ensure that inflation converges fully to its target over the policy horizon. Communication efforts have improved in recent years and continued communication enhancements, such as publishing more information regarding macroeconomic assumptions underlying inflation projections and policy intentions in the Monetary Policy Report, can further support monetary policy.



Sources: Haver Analytics and BCRD.
Note: ex-ante real rate is calculated using 12-months ahead expectations.

Source: BCRD.
Note: Based on the interbank interest rate and real effective exchange rate, presented as stardized deviations from January 2012.

17. Further exchange rate flexibility and reserve accumulation can continue to play shock absorbing roles. The adoption of the FX platform in 2019 to buy and sell FX has improved information and increased transparency. Concurrently, the exchange rate has played a greater adjustment role as the BCRD has permitted more flexibility in recent years—supporting a depreciation during 2020 and an appreciation during the recovery. Led by dollar purchases, FX market interventions (FXIs) rose slightly in 2022 in dollar terms versus 2021—but remain below pre-pandemic levels and continued to



Source: BCRD.

decline as a share of FX market transactions[6]—as the authorities sought to accumulate international reserves (consistent with past Fund advice) while mitigating appreciation pressures stemming from strong dollar inflows (¶7). While FXIs have mitigated excessive volatility during periods of disorderly market conditions, the introduction of well-communicated intervention rules would further enhance FX market transparency and performance. Moreover, further exchange rate flexibility and deepening the FX market and expansion of hedging mechanisms can further enhance the transmission mechanism of monetary policy. With reserves at 92 percent of the ARA metric, there is room for gradual reserve accumulation to mitigate external risks (¶14).

18. Fiscal policy should remain focused on placing debt on a firmly downward path, and some measures to mitigate adverse shocks could be better targeted. The 2023 budget targets a CG deficit of 3 percent of GDP. Further gradual consolidation is embodied in the MTFF—allowing for continued reduction of the debt burden. The consolidation largely reflects projected lower subsidies due to lower energy prices[7] and sustained electricity sector reforms under the Electricity Pact to improve efficiency and reduce subsidies in the medium-term (¶19, ¶33)—(Figure 2).[8] Absent additional and durable revenue measures, continued restraint on non-priority spending is required given expenditure rigidity (e.g., of wages and interest). Thus, improvements in the quality and efficiency of capital spending and a move toward more public-private partnerships (PPPs) and public trusts may help to leverage public assets and investment (¶24), if risks are well-managed (¶23).[9] In case of adverse shocks, support measures should be better targeted, while policies should continue to build buffers, reduce vulnerabilities, and contain risks.[10]

[6] FX purchases fell as a share of GDP in 2022 while sales remained unchanged.

[7] A reduction in other extra-ordinary spending is reflected in lower grants. Meanwhile, allocations for education may increase goods and services spending in 2023 versus 2022.

[8] Subsidies are projected to decline with the on-going reforms to reduce total losses and with expected resumption of tariff increases to cost recovery.

[9] A new law on Public Trusts is in effect since March 2023.

[10] Proactive debt management in the last few years has helped reduce roll-over risk and the increase in peso issuance helps reduce foreign currency risk, which remains high.

Government's 2022 – 2023 Budgets and Medium-Term Fiscal Framework (MTFF) - Medium-Term Expenditure Framework (MTEF)[1/]
(Percent of GDP)

	2022 (Initial Budget)	2022 (Reformulated Budget)	2022 (Actual)	2023 (Initial Budget)	2026 MTFF MTEF[1/,2/]
Revenue	**14.9**	**15.1**	**15.3**	**15.1**	**15.1**
Tax revenues	13.2	13.9	13.8	13.9	13.9
Social security contriutions	0.0	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.0	0.0	0.0
Other revenues	1.7	1.1	1.4	1.1	1.1
Expenditure	**17.9**	**18.8**	**18.5**	**18.1**	**17.5**
Expenses	**16.3**	**17.1**	**17.0**	**16.7**	**16.0**
Compensation of employees	4.4	4.2	4.4	4.3	4.3
Goods and services	2.1	2.2	1.8	2.2	2.1
Interest [3/]	3.3	3.0	2.8	3.3	3.5
Subsidies	1.0	2.1	2.1	1.4	...
o/w to public electricity entities	0.7	1.2	1.3	1.0	...
o/w to private enterprises	0.1	0.7	0.7	0.3	0.0
Grants	2.9	2.8	3.0	2.6	...
Social benefits	1.6	1.7	1.6	1.7	...
Other transfers	1.0	1.2	1.2	1.2	...
Net Acquisition of Nonfinancial Assets	**1.7**	**1.6**	**1.7**	**1.4**	**1.5**
Overall CG Balance	**-3.0**	**-3.6**	**-3.2**	**-3.0**	**-2.4**
Primary balance	**0.3**	**-0.6**	**-0.4**	**0.2**	**1.1**
Memo:					
Capital spending	2.4	2.5	2.7	2.3	2.3

Source: Ministry of Finance.
1/ With adjustments to bring in line with GFSM2014 statement of accounts (except interest - see note 3/).
2/ MTFF and MTEF included with 2023 Budget. The MTEF does not breakdown transfers and other spending to be able to allocate among remaining spending categories.
3/ Budgets include estimated interest due in January of following year. Interest is reported on a cash-basis.

19. Given their fiscal cost and climate impact, rationalizing electricity tariffs and fuel price subsidies remain important objectives that require careful calibration to safeguard the most vulnerable. Given earlier electricity tariff increases (consistent with the Electricity Pact) and elevated inflation,[11] the 2022Q2 tariff increase was moderated for the lowest consumption brackets to 9 percent (from 30 percent) and subsequent increases were temporarily halted. Similarly, a fuel price freeze (around 0.6 percent of GDP in 2022), initially announced in March 2022 to last four months, was extended until May 2023 when international prices were below last year's. Considering their fiscal cost, regressive nature (Annex X), and impact on carbon emissions, use of extended price freezes should be re-evaluated, and new mechanisms carefully communicated. Specifically, and to create certainty pertaining to prices, the authorities should consider announcing a clear (conditions-based) road map for gradual tariff adjustments to efficient cost-recovery levels aligned with Electricity Pact principles[12] and more rules-based fuel prices[13] combined with a simultaneous

[11] Tariffs were raised by 6 percent and 18 percent for consumption less than 200 kWh per month in 2021Q4 and 2022Q1, respectively.

[12] Country report 22/248 for details.

[13] Resolution 214-22 formalized a subsidy-smoothing mechanism through the FECOPECO fund.

increase to targeted subsidies (i.e. Bonoluz program for electricity and other cash-transfer programs such as Bonogas for fuel).[14] In case of adverse shocks, cash-transfers should be adjusted as needed.

20. While the financial sector remains resilient, tighter financial conditions require continued close monitoring. While no immediate financial stability concerns exist (¶11)—leverage and dollarization do not appear excessive,[15] credit quality continues to improve, and capital is above regulatory standards—prudential indicators and supervision are largely based on Basel I standards and not completely comparable to data from countries complying with Basel III and IFRS accounting standards. The tightening of global and domestic financial conditions brought about by monetary policy normalization appears manageable and the authorities' stress tests (both bottom-up and top down) point to a relatively resilient financial sector to various scenarios. Nonetheless, in the current environment, supervisory authorities should remain vigilant with enhanced close monitoring—including continuation of data collection enhancements and macroprudential analysis of household and corporate balance sheets. Where relevant, the supervisory and financial stability authorities should ensure cross-sectoral coordination (e.g., accounting standards). Moreover, development of a framework that allows for parallel monitoring of DTIs' prudential ratios that consider potential/planned regulatory reforms and their potential impact would further support these endeavors.

Authorities' Views

21. The authorities remain committed to maintaining macroeconomic stability, including by durably bringing inflation to its target. They noted that the restrictive monetary policy stance successfully slowed domestic demand and private credit, and that headline inflation is expected to reach its target range in 2023Q2. With the current monetary stance deemed restrictive, inflation's return to the target range can create the conditions for a gradual monetary policy normalization to support growth's return to its potential whilst maintaining macroeconomic stability. They also highlighted that FXIs have declined, allowing the exchange rate to fluctuate more freely, and stressed that international reserves' accumulation seeks to build further external buffers and mitigate recent appreciation pressures stemming from robust FX inflows. As set out in the MTFF published in April 2023, they continue to see gradual fiscal consolidation as important and fuel subsidies as exceptional and transitory while further progress with the Electricity Pact—recent governance and efficiency improvements—can further contain subsidies. The authorities aim to formalize their consolidation plans through a fiscal responsibility law.

[14] The World Bank, IDB and other development partners are providing financing to support the authorities for electricity sector reform, including support for the expansion of the Bonoluz program from around 300,000 to 900,000 households by 2024.

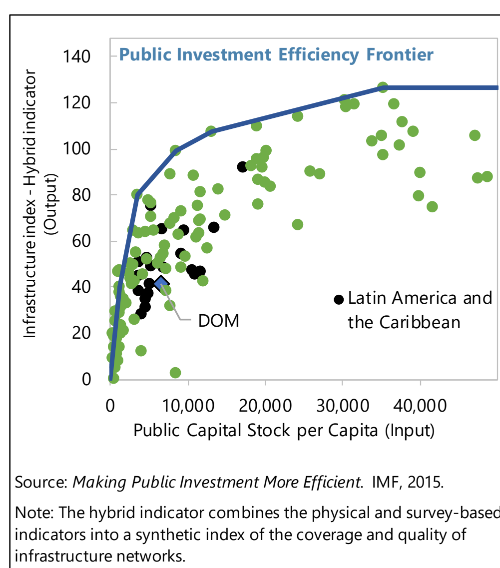
[15] Private sector debt to GDP is around 25 percent with loan portfolio dollarization around 22 percent, of which around 50 percent is hedged. Also, banks' net open foreign exchange positions are subject to tight regulatory limits.

B. Fiscal Framework Enhancements and Policies to Secure Fiscal Sustainability

22. A sound Fiscal Responsibility Law (FRL) will help anchor the fiscal framework, ensure sustainability, and guide market expectations. The authorities remain committed to fiscal prudence and have continued to work on an FRL, including drafting key legislation. The Fund has provided TA support, including discussion of debt coverage and thresholds, correction mechanisms, escape clauses, the accountability framework, and intermediate targets prior to rule adoption. To guide market expectations before potential implementation, staff recommends that the authorities publish a roadmap for FRL adoption alongside an effective communication strategy that includes establishing: (i) a prudent debt anchor; and (ii) operational rules calibrated to balance sustainability, stabilization, and simplicity.[16]

23. Staff welcome efforts to further strengthen PFM information systems and risk management, which will provide important support for FRL implementation. Development partners have aided recent PFM improvements including the publication of a MTFF and upgrades to the multi-annual budget process through developing and expanding a Medium-Term Expenditure Framework. The authorities are working on further PFM enhancements supported by Fund TA (Annex III), including: (i) presentational improvements to the MTFF (regarding fiscal strategy, projections, extended utilization of Debt Sustainability Analyses and a deeper assessment of fiscal risks); (ii) reducing data gaps and aligning information and management systems with best international statistical and public sector accounting standards and practices—including extending the coverage of the single treasury account and integrated financial management system; and (iii) improving monitoring and management of committed spending through the elaboration and publication of multi-annual budgets and enhanced fiscal risks assessments, including those of public trusts, PPPs and autonomous entities, and reflecting them in the annual budget documentation.

24. Further enhancements to the infrastructure governance framework could boost high-quality investments and create fiscal space to support inclusive development. The IMF's public investment efficiency frontier shows that the Dominican Republic has a relatively low infrastructure index compared to its public capital stock per capita (Text figure). Staff welcome the authorities' initiatives for improving public investment management—including the assessments of PPPs, capacity development at the regional level, and



Source: *Making Public Investment More Efficient.* IMF, 2015.

Note: The hybrid indicator combines the physical and survey-based indicators into a synthetic index of the coverage and quality of infrastructure networks.

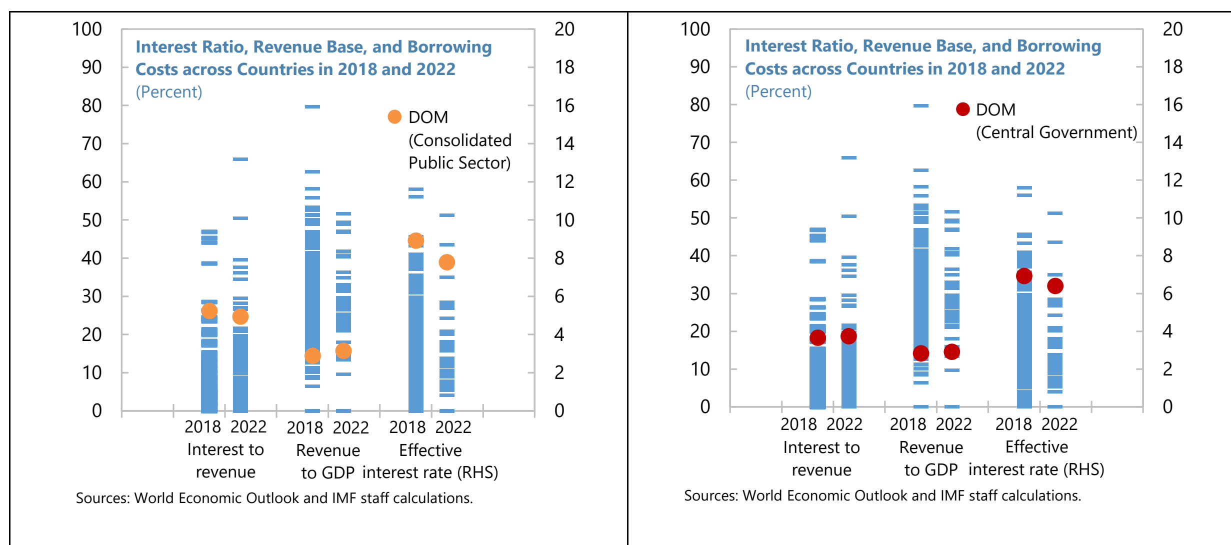
[16] See Country report 22/248.

requesting Fund TA[17]—seeking to enhance planning, allocation, and implementation of investment projects. Given the Dominican Republic's high vulnerability to climate risks, designing climate-resilient infrastructures and strengthening the enabling environment for their development are essential to mitigate the impact of climate shocks (Annex VIII).

25. Tax administration enhancements can help efforts to building fiscal buffers. The 2021 customs law and the planned overhaul of Title I of the Tax Code (pending legislative approval) should help strengthen the powers of the tax and customs administrations to improve voluntary collection. The authorities are working on several measures to enhance revenue performance, including extending electronic invoicing following the recent passage of the Electronic Invoicing Law. Recent Fund TA advocates prioritizing: (i) tax administration legal framework enhancements (including increasing digitalization, enhancing penalty provisions, and strengthening powers in debt collection and enforcement); (ii) adopting a modern framework for compliance risk management; (iii) adopting a more robust risk-based tax debt management strategy based on taxpayer compliance history; (iv) adapting the current procedures to the new customs law and regulations, especially on sanctions; and (v) implementing a foreign trade operators' risk-based compliance improvement plan.

26. Durably raising revenues through a comprehensive tax reform can facilitate a medium-term inclusive fiscal consolidation, while creating policy space for critical spending. Despite strong consolidation in 2021 and continuing efforts to rationalize spending in 2022, fiscal space is constrained by a narrow tax base and relatively high interest burden. Tax revenues are low compared to Latin American peers due to exemptions for VAT and income taxes and a high threshold for personal income taxes (Annex VII). Scope exists for revenue mobilization by broadening the tax base and streamlining exemptions, while calibrating their distributional impact, increasing needed social spending, strengthening public institutions, filling infrastructure gaps (including resilient investments), and reducing debt. An alternative staff scenario comprising a permanent increase in tax revenues of 2 percent of GDP relative to staff's baseline starting in 2025, alongside a fiscal consolidation of 1 percent of GDP for five years and an additional 1 percent of GDP increase in public spending comprising infrastructure and social transfers would boost medium-term output (around 2 percentage points) and lower public debt (around 7 percent of GDP, Annex VII).

[17] A C-PIMA TA mission is expected this fiscal year.



Authorities' Views

27. The authorities agreed on the need to continue making further improvements to their fiscal framework and to further strengthen PFM and tax administration. They see the passage of a FRL as key and expect to formalize it in the near-term. The authorities also noted enhancements to spending controls (significantly reducing administrative debts), further strengthening of internal controls with regards to procurements, as well as efforts to increase transparency (including the publication of government finance statistics for the general government and NFPS sectors in line with GFSM 2014 this year). They are receiving technical assistance to aid these efforts, including on formulating multi-year fiscal budgets and on fiscal risks.

C. Financial Sector Policies to Safeguard Stability

28. Further progress is needed to modernize the regulatory framework to strengthen financial sector resilience and expand the macroprudential toolkit. The authorities have made financial stability surveillance improvements in recent years, including publishing stress tests, implementing a risk-based supervisory approach, and strengthening the Superintendency of Banks' supervisory capacity, and data collection enhancements for private sector balance sheets.[18] To align the regulatory framework with best practices, upgrades to banking resolution and the financial safety net, the Basel framework, international accounting standards, and the macroprudential toolkit are needed. With technical assistance from CAPTAC-DR (Annex III), the authorities are working on a roadmap for the adoption of IFRS and Basel II/III standards. With unregulated saving and loans cooperatives—some of similar size of small banks—a more adequate regulatory framework should be considered to mitigate financial stability risks.

29. Central bank recapitalization and implementation of other priority recommendations from the 2021 safeguards assessment will further enhance its autonomy and transparency and accountability frameworks. While the BCRD has strengthened the independence and governance

[18] Consistent with recommendations made at the time of the 2009 FSAP.

of the audit function, other priority recommendations remain outstanding and require continued commitment to ensure further progress, including recapitalizing the central bank, adopting IFRS, and increasing (institutional, financial, personal) autonomy through legal reforms. The authorities resumed transfers to BCRD of 0.6 percent of GDP since 2022. Nonetheless, its balance sheet still requires further strengthening. The resolution of this long-standing issue[19]—which would strengthen BCRD's financial autonomy and would not have an impact on total public debt—should be predictable and financially sustainable (Annex IV).

Authorities' Views

30. The authorities assess the financial sector as resilient and will continue to monitor the potential impact of monetary tightening and developments in international financial markets closely. The authorities agreed that continuous monitoring, through close supervision and stress-testing, of financial sector risks is important. They are also preparing and planning for regulatory reforms (e.g., Basel II/III frameworks for operational risk, market risk and liquidity risk) that will further modernize policy frameworks and help to maintain financial stability. Financial market developments and appropriate approaches and timelines for implementation will be considered during this process. Authorities agree that BCRD recapitalization is essential to strengthen its operational autonomy. The BCRD and the Ministry of Finance are currently examining the financial sustainability of different recapitalization models and their potential implications for the implementation of monetary policy. They plan to make a formal request for IMF technical assistance to support these efforts.

D. Structural Reforms for Inclusive and Sustainable Growth

31. Strong efforts to improve public institutions and the business climate—at the heart of the authorities' reform agenda—are essential to boost inclusive growth and resilience. Despite recent enhancements in competition (including trade facilitation), governance, education, and infrastructure in recent years, further improvements would support investment, human capital, and productivity, boosting real wages and social outcomes, and reducing economic vulnerabilities (Annex IX). The single windows for construction, investment, and business registration will help to speed permits, reduce costs, and facilitate businesses entry and formalization. Likewise, the Zero Bureaucracy Law (for regulatory transparency and simplification) and the 2022 Customs Law, could help to reduce discretion, increase digitalization, and facilitate trade.[20] In 2023, the authorities' focus will be on streamlining processes to improve public service delivery for persons. Promoting further competition in key sectors including transport and communication,[21] and increasing enforcement of existing rules would spur further investment. Recent efforts to increase prosecution of intellectual property rights cases and improvements to anti-monopoly investigation are welcomed. Addressing

[19] The 2007 central bank recapitalization law (which included a combination of debt issuance for recapitalization plus transfers to cover losses) has not been strictly adhered to.

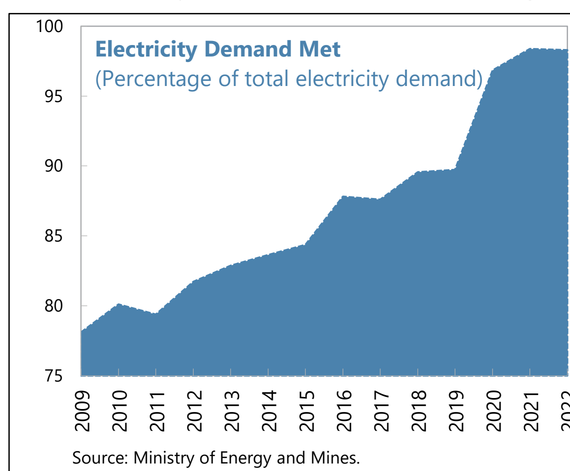
[20] Fund is providing TA on customs administration management, governance arrangements, and core functions (including as a logistic hub).

[21] Using the same methodology as Annex VI, staff estimate that a 1 percent increase productivity in transportation (communications) could boost GDP by 0.058 (0.078) percent.

human capital weaknesses and skills mismatches by enhancing the education curriculum and introducing training/apprenticeship programs may help to close labor demand gaps.

32. Further progress with governance reforms is important to improve the enabling environment and delivery of public services.[22] The authorities enacted the civil asset forfeiture law and are moving ahead with prosecution of high-level corruption cases and implementation of the National Integrity System (Annex I, Structural). The Chamber of Accounts published the audit of COVID-19-related spending—a commitment under the 2020 RFI— and the procurement process continues to be strengthened, but a revised procurement law to strengthen competitive bidding and powers for fraud detection is still being reviewed by Congress.[23] Further progress on reforms—including to entrench judicial and prosecutorial independence and strengthen the legal framework for public procurement—should continue to mitigate risks and strengthen fair competition. Regarding AML/CFT, the authorities have continued efforts to enhance the capacity for detection (including for cooperatives) and are preparing a National Risk Assessment exercise ahead of a the next FATF (GAFILAT) Mutual Assessment, which will set the agenda for further reforms.

33. The authorities are making progress under the Electricity Pact, critical to alleviating structural bottlenecks. Notwithstanding delays in tariff increases and private sector participation in distribution, reform efforts under the Electricity Pact remain ongoing and seek to reduce losses (technical and non-technical), improve electricity distribution services, expand renewable energy use, and better target subsidies via Bonoluz (¶35). Key progress includes: (i) continual strengthening of electricity sector governance (liquidating the Dominican Corporation of State Electricity Companies) and creating the legally separate Punta Catalina generation company;[24] (ii) introducing an amendment to the Energy Sector law designating the Ministry of Energy and Mines (MEM) as the over-arching policy setter (strengthening its planning functions, while transferring regulation of electricity cooperatives to the Electricity Superintendency); and (iii) strengthening electricity distribution enterprises oversight based on OECD corporate governance guidelines (including requiring publication of audited financial statements). Efforts continue to reduce blackouts and meet demand—alleviating a key structural bottleneck. Staff estimate significant macroeconomic benefits from improving electricity



Source: Ministry of Energy and Mines.

[22] Country Report 22/248 took stock of the rule of law and regulatory framework.

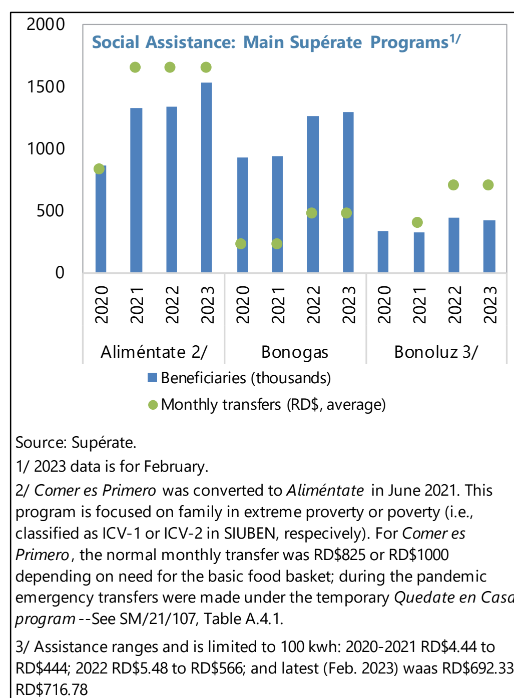
[23] The authorities are receiving technical assistance from development partners, including from the US Department of Commerce on the new law.

[24] The authorities commissioned a technical-forensic audit of Punta Catalina (constructed by Odebrecht) to assess whether its design and construction complied with international quality and safety standards.

distribution efficiency with a permanent 5 percent improvement yielding an expected present value of around 3 percent of GDP (Annex VI).

34. Increasing financial inclusion and deepening financial markets can promote inclusive and resilient growth. The authorities are implementing their 2022-2030 National Financial Inclusion Strategy. The 2020 law on movable guarantees has been operationalized with the creation of an electronic registry and the National Entrepreneurship Network (RD-EMPRENDE), supporting small firms' credit access and formalization. Other reforms under consideration (e.g., on factoring and leasing) could further facilitate stable and lower-cost financing for SMEs. The BCRD, with support of IMF TA, is analyzing the potential use of CBDC, which may facilitate financial inclusion.

35. Enhanced social safety nets could further improve resilience. Poverty rates have declined since 2003, reflecting high economic growth and increased LFP. Recent poverty increases following the pandemic were mitigated by strong government support measures.[25] To reduce structural poverty and better respond to income shocks, the authorities continue to expand key social assistance programs under the means-tested Supérate program, which provides cash transfers for food and utilities and conditional social assistance for health and education. The recently completed census should assist in these efforts by updating poverty maps. Targeted transfers and bonuses increased following the fuel price shock, electricity tariff increases of 2022, and climate shocks (Hurricane Fiona, floods in 2022Q4).



Source: Supérate.

1/ 2023 data is for February.

2/ *Comer es Primero* was converted to *Aliméntate* in June 2021. This program is focused on family in extreme proverty or poverty (i.e., classified as ICV-1 or ICV-2 in SIUBEN, respecively). For *Comer es Primero*, the normal monthly transfer was RD$825 or RD$1000 depending on need for the basic food basket; during the pandemic emergency transfers were made under the temporary *Quedate en Casa program* --See SM/21/107, Table A.4.1.

3/ Assistance ranges and is limited to 100 kwh: 2020-2021 RD$4.44 to RD$444; 2022 RD$5.48 to RD$566; and latest (Feb. 2023) waas RD$692.33-RD$716.78

36. The Dominican Republic is highly vulnerable to climate events and implementation of adaptation and mitigation policies should curb vulnerabilities. The Dominican Republic is one of the world's most exposed countries to climate-related natural disasters (Annex VIII) with annual average losses to the country's building stock estimated at around ½ percent of GDP. Staff's estimates suggest non-negligible effects on economic growth (between 0.1 and ½ percent annually) and associated tax revenue losses following climate disasters. Staff analysis indicates that investment in resilient infrastructure with an additional cost of around ½ percent of GDP annually would yield fiscal benefits of around 0.6 percent annually and a long-term increase in the level of GDP of 3.5 percent once 80 percent of the capital stock becomes resilient. The authorities' climate strategy continues to be guided by the Nationally Determined Contribution action plan (NDC-2000).[26] The authorities continue to make progress on climate issues, including the passage of a Territory Law that ensures land use is consistent with adaptation and mitigation goals, issued regulation on energy storage in

[25] See SM/21/107, Annex IV, p.56.

[26] Country Report 21/169 covered the authorities' updated NDC commitments to mitigation and adaptation.

batteries, published an updated NDC action plan for 2022-2025, and secured disaster insurance from the World Bank via a CAT-DDO worth US$230 million (0.2 percent of GDP). They have submitted a Law on Energy Saving and Efficiency to Congress and are also working with multinationals, foreign governments, and the private sector on financing plans for climate-related investment.

Authorities' Views

37. The authorities remain committed to further enhancing public institutions and the business environment to boost exports' performance and inclusive growth. They highlighted that enhancing transparency and strengthening governance are an integral part of their reform agenda, given their importance for private investment and for a good enabling environment. The authorities noted significant progress with their National Competitiveness Strategy including on the results from the single windows (notably businesses registration and foreign trade), the Zero-Bureaucracy Program, and customs reform, that have simplified processes, reduced discretion (and scope for corruption), and improved trade facilitation. They agreed on the need for further education, infrastructure, and competition enhancements (e.g., transport and communication) to improve productivity and facilitate the Dominican Republic's ambition to become a leading regional logistic hub. They highlighted training programs through the Technical and Professional Formation Institute (INFOTEP) and the introduction of science, technology, engineering, and math scholarships to address private sector skills mismatches, and the increased support to SMEs to foster inclusive growth. They also continued to make progress under the Electricity Pact, including on governance.

38. The authorities reiterated the strong commitment to addressing climate risks. They view adaptation to climate change as a primary concern given the exposure to climate events and limited contribution to greenhouse emissions. They continue to implement their NDC action plan, which necessitates private sector support given large costs. In that regard, the authorities are developing a framework for green bonds in consultation with a broad group of stakeholders and are expanding renewable electricity generation, modernizing water infrastructure, and enabling reforestation, supported where necessary by the Territory Law.

FUND RELATIONS

39. 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 1.5 percent of exports or 2.5 percent of reserves (Table 6). The authorities have maintained the 2021 SDR general allocation as international reserves.

STAFF APPRAISAL

40. The Dominican Republic's economy has been one of the most dynamic and resilient economies in the Western Hemisphere over the last two decades. The authorities' sound monetary and fiscal policies and positive global spillovers have contributed to an impressive post-

pandemic economic recovery. Economic growth began moderating at the end of 2022 in response to tighter global financial conditions, lower global demand, and the authorities' appropriate withdrawal of policy stimulus, contributing to inflation's rapid convergence to its target. The external position weakened in 2022 but is broadly in line with fundamentals and desirable policies and is assessed as sustainable. Strong dollar inflows supported an appreciation of the exchange rate and the accumulation of international reserves, at historical high levels at the end of 2022.

41. The economic outlook is relatively positive with downside risks dominating the near term but broadly balanced over the medium term. Growth is projected at around 4 percent in 2023—supporting inflation's return to its target by year end—and is expected to return to trend in 2024 as the global economy recovers. The current account is also projected to gradually improve as global growth recovers and commodity prices ease. Existing buffers (e.g., use of international reserves), further contingency planning (e.g., building additional fiscal buffers, investing in resilient infrastructure) and agile policy making (e.g., further exchange rate flexibility and appropriate monetary and fiscal policy responses) can help the Dominican Republic face adverse shocks.

42. In the near term, policy priorities should remain focused on maintaining macroeconomic and financial stability, including by ensuring that inflation expectations remain firmly anchored. With inflation projected to decline and inflation expectations anchored, monetary policy should be calibrated to ensure that inflation converges fully to its target over the policy horizon. Strengthening central bank autonomy through legislative reforms as well as through its recapitalization, would create certainty and should remain a priority. A strategy to continue deepening the FX market and expand the use of hedging mechanisms will also enhance the inflation targeting framework.

43. Fiscal policy should remain focused on maintaining debt on a firmly downward path, while additional upgrades to fiscal policy frameworks will support those efforts. Although the debt level is moderate, fiscal consolidation—supported by tax reforms, on-going tax administration improvements, and expenditure rationalization— will be important to support inflation's return to its target in the near term and, along well-targeted social programs, will further reduce the debt burden and build fiscal buffers to protect the most vulnerable and public investment. The introduction of fiscal responsibility legislation, supported by continued PFM improvements to ensure efficient and transparent use of limited resources, would be an important step in anchoring fiscal policy.

44. While the financial sector remains resilient, further progress is required to modernize the regulatory framework and expand the macroprudential toolkit. Despite this resilience, the current environment of tighter financial conditions requires continued close monitoring of the financial sector. The Superintendency of Banks is already closely monitoring financial institutions' ability to comply with international standards. Introducing a prudential regulatory framework for unregulated savings and loans cooperatives and implementing best international standards for supervision and regulation will also enhance financial stability.

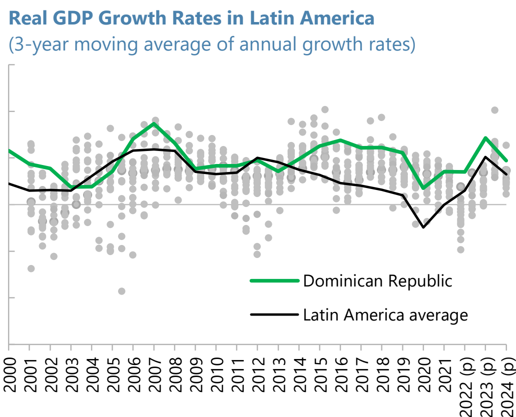
45. Resolute efforts to improve public institutions, governance, and the business climate are essential to boost inclusive growth and resilience. Continued governance enhancements can

strengthen the business enabling environment, while further improvements in infrastructure (including climate resilient, human capital), productivity and enhanced effectiveness of social programs, would support continued equitable growth. The authorities should persevere with electricity sector reforms to improve governance and efficiency. Implementation of climate adaptation and mitigation policies under the Nationally Determined Contribution action plan should continue to curb economic and financial vulnerabilities.

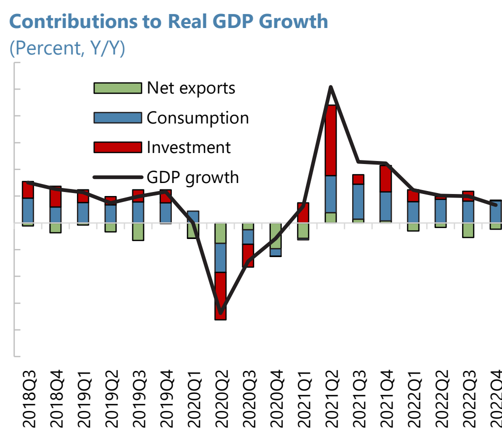
46. It is recommended that the next Article IV consultation takes place on the standard 12-month cycle.

Figure 1. Dominican Republic: Real Sector Developments

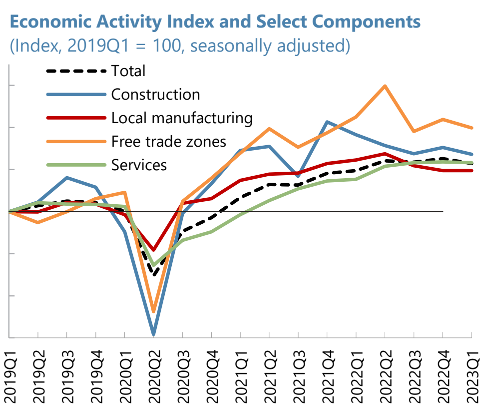
Growth in the Dominican Republic continues to outperform regional peers in recent years.



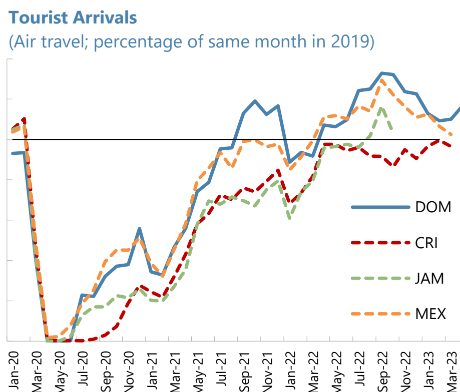
While hard hit in 2020 by COVID, the economy rebounded quickly supported by investment, resilient consumption…



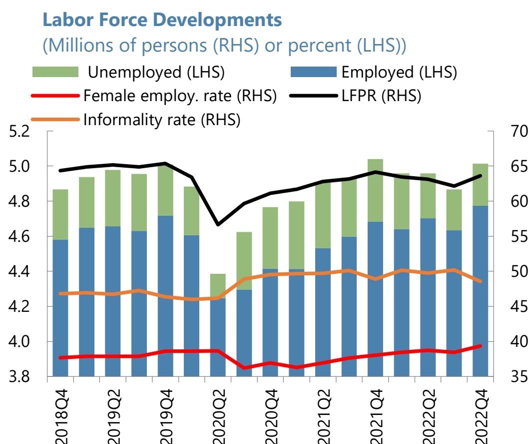
…construction, manufacturing, and services (notably tourism). However, growth started to slow in 2022…



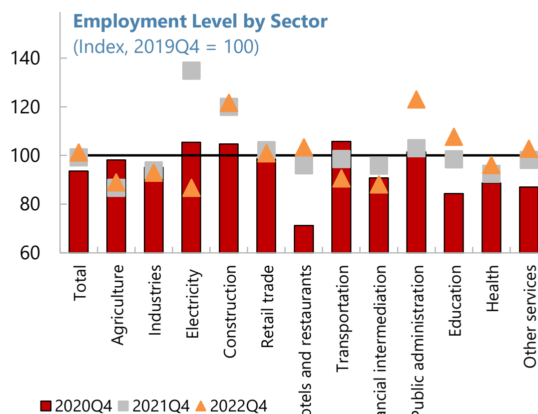
…despite strong tourist arrivals in 2022 and early 2023.



Employment and participation declined sharply during the pandemic but have recovered.



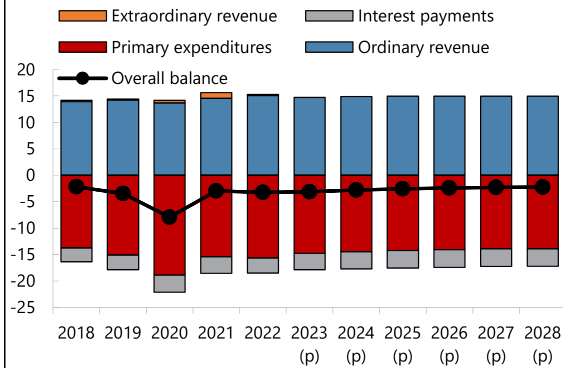
Aggregate employment recovered to its pre-pandemic level, though with substantial heterogeneity across sectors.



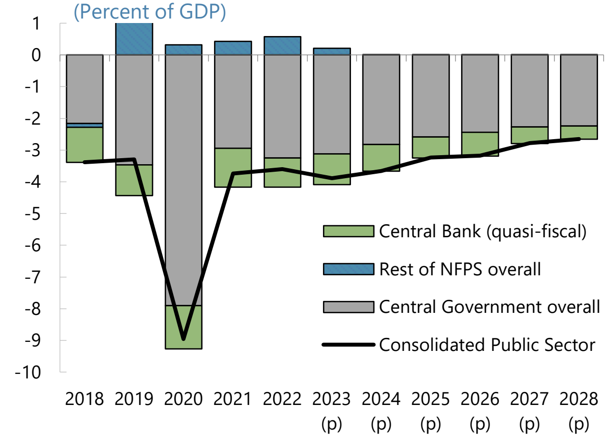
Sources: National authorities and IMF staff calculations.

Figure 2. Dominican Republic: Fiscal Developments and Outlook

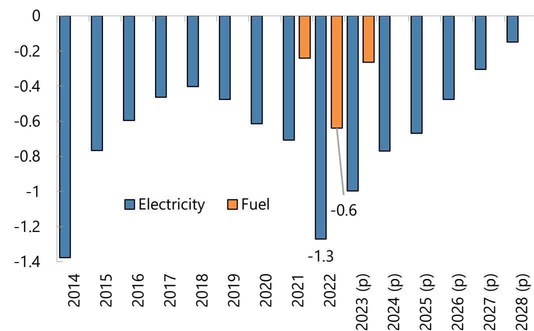
In 2022, the central government (CG) balance benefited from higher recurrent revenues, also buoyed by inflation…



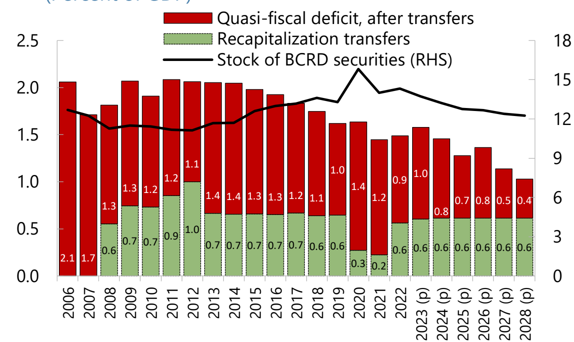
…but measures to contain the commodity price shock on the population widened the CG deficit in 2022…



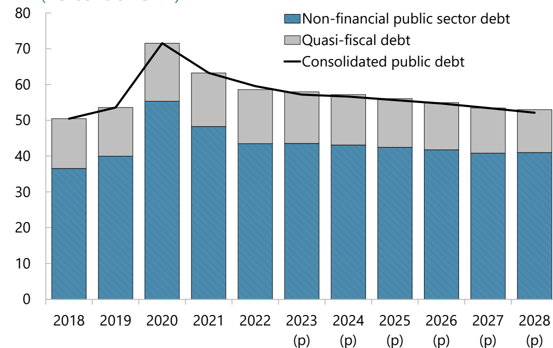
…as energy subsidies increased in 2022 but are projected to decline in line with lower world prices.



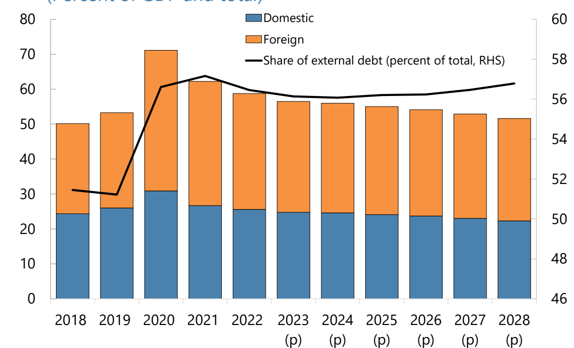
Meanwhile, additional re-capitalization transfers to the BCRD reduced the quasi-fiscal deficit in 2022.



The upfront consolidation and strong recovery put the debt burden on a downward path…



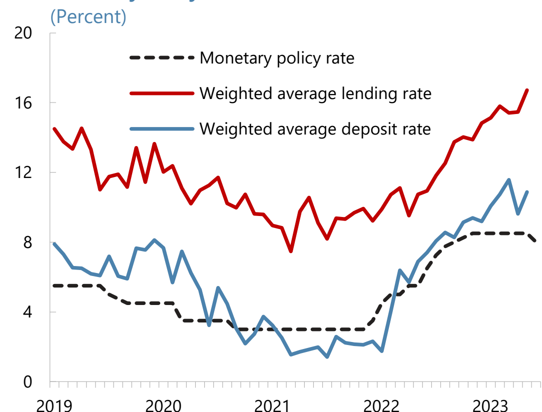
…although exposure to FX risk and external markets remains elevated.



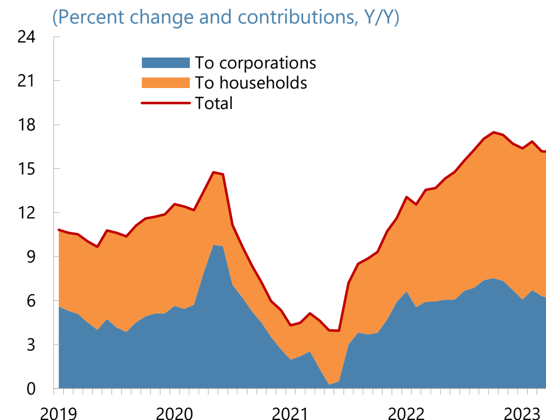
Sources: National authorities and IMF staff calculations.

Figure 3. Dominican Republic: Monetary Policy and Inflation Developments

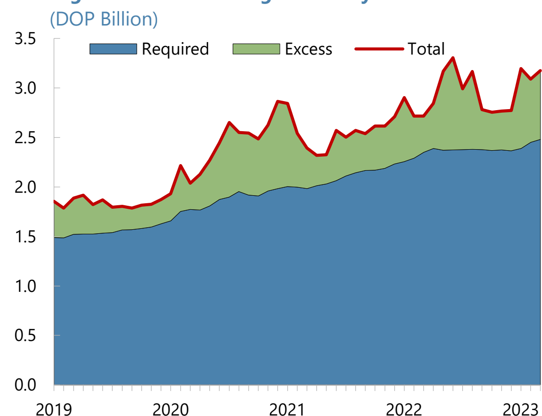
The BCRD continued its tightening cycle despite keeping the monetary policy rate on hold since the end of 2022, with strong pass-through to bank deposit rates.



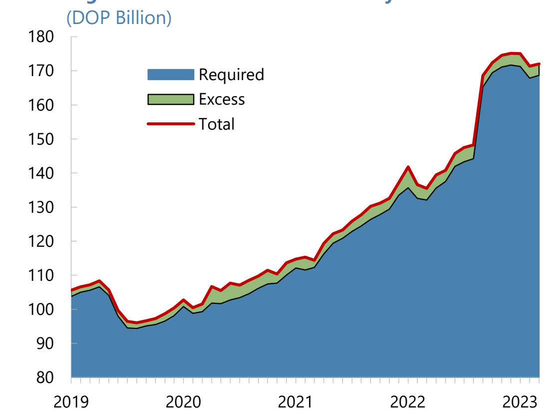
Private sector credit growth has returned to pre-COVID-19 levels despite a recent slowdown.



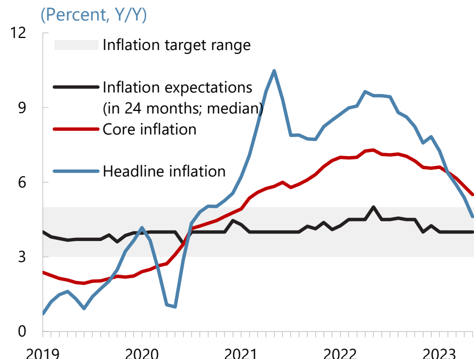
Excess reserves at the BCRD in FX remain significant, suggesting higher liquidity in that segment…



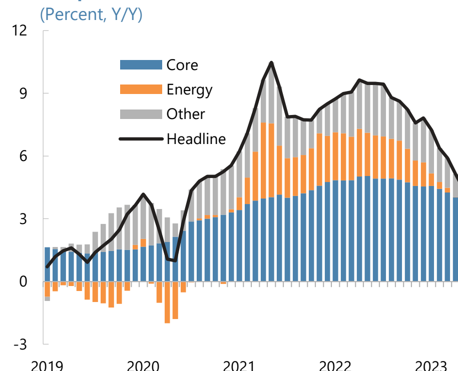
…and banks' legal reserves for deposits denominated in national currency slightly exceed the required levels.



Headline and core inflation have declined but remain above the target range, while 24 months expectations have remained within its bounds.



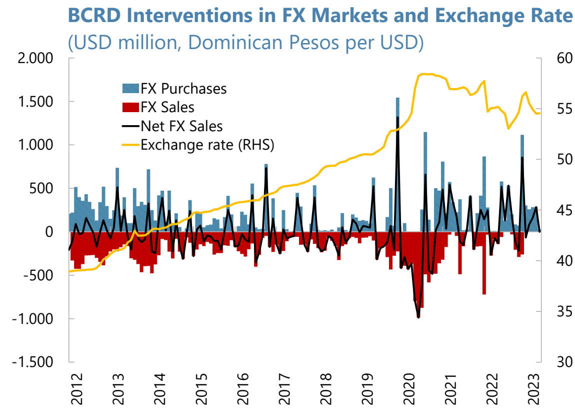
Food and energy price shocks have been the main drivers of headline inflation, showing signs of moderation.



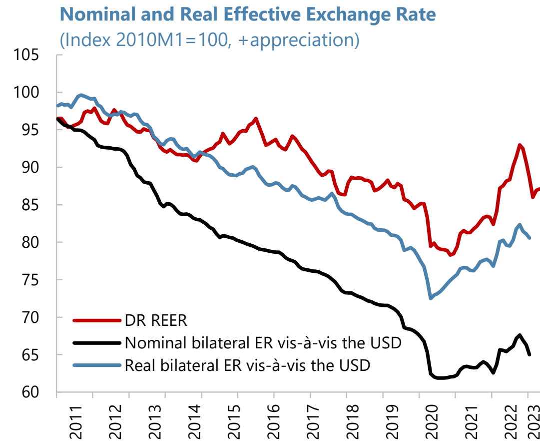
Sources: National authorities, Haver, and IMF staff calculations.

Figure 4. Dominican Republic: Exchange Rates and Sovereign Spreads Developments

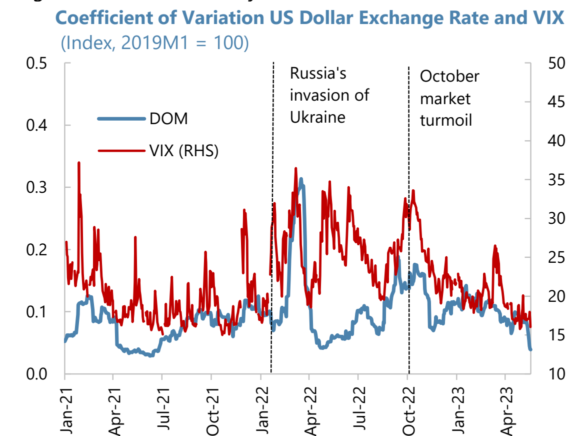
Interventions remained two sided and purchases permitted further reserve accumulation due to strong dollar inflows…



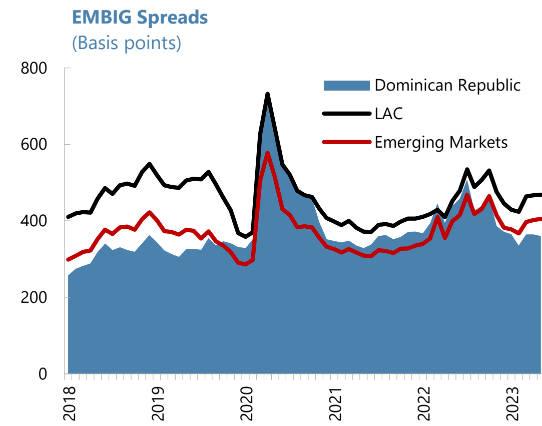
…which supported Dominican Peso appreciation…



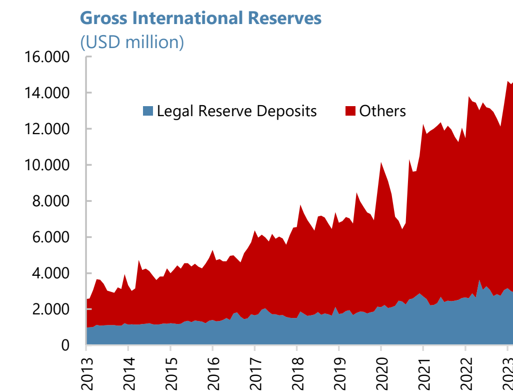
… while more FX volatility was permitted in some episodes of global market volatility.



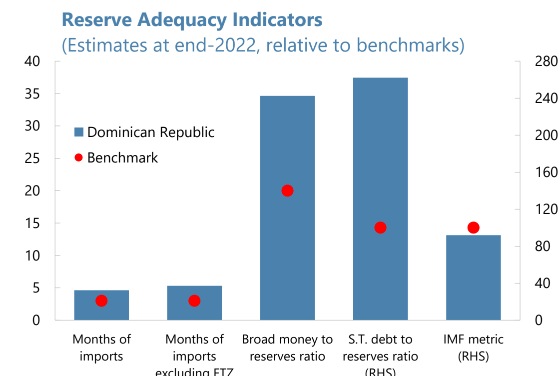
Sovereign spreads rose slightly but by less than peers.



International reserves position remains at historically high levels…



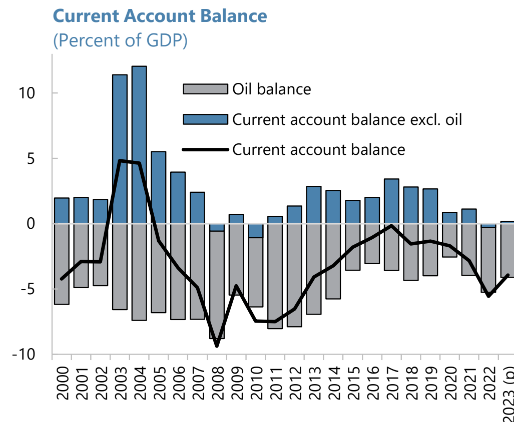
…and traditional adequacy indicators are above traditional benchmark metrics.



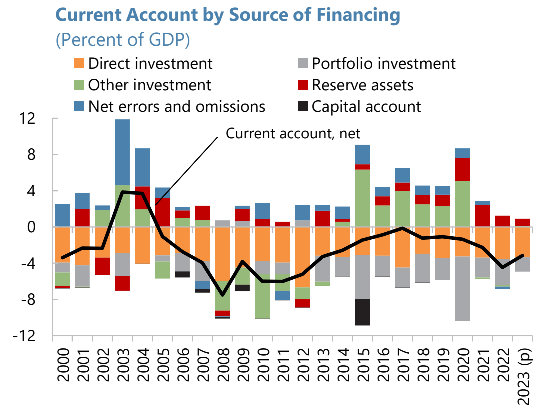
Sources: National authorities, Bloomberg, and IMF staff calculations.

Figure 5. Dominican Republic: External Sector Developments and Outlook

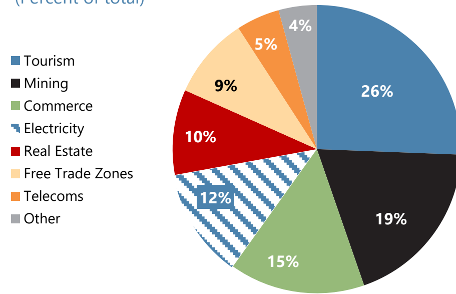
Current account deficit widened in 2022 due to external shocks…



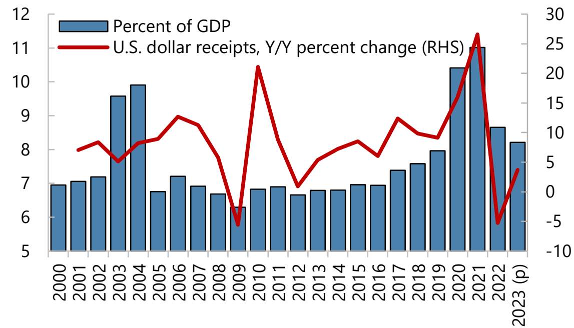
… and remains fully financed by net FDI.



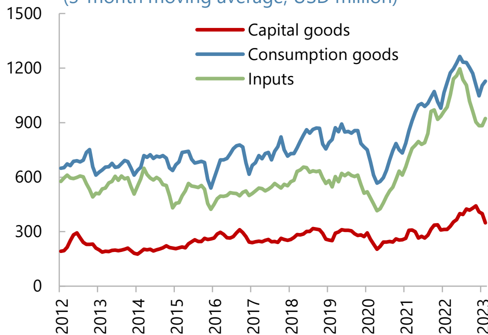
Tourism, mining, and commerce attract the most FDI…



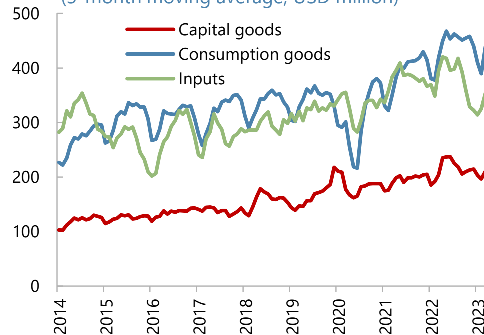
…and while remittances flows slowed from the peaks seen in 2020-21, they remain high.



Imports accelerated after the COVID shock, but have slowed down recently…



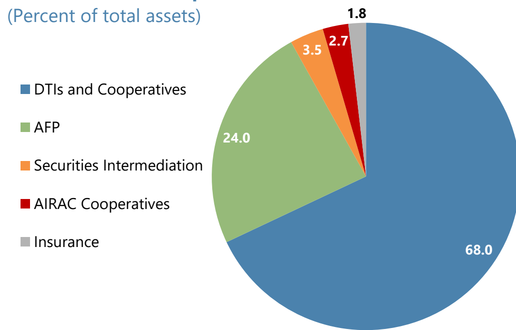
…while exports continue recovering.



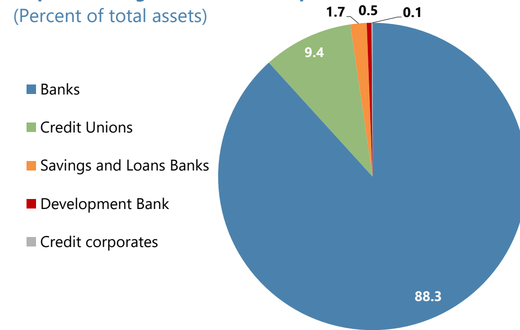
Sources: IMF WEO; National authorities and IMF staff calculations.

Figure 6a. Dominican Republic: Financial Sector Developments

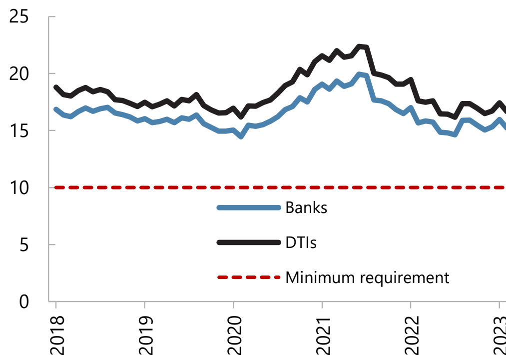
The financial sector is dominated by the 47 Deposit Taking Institutions (DTIs), followed by pension funds.



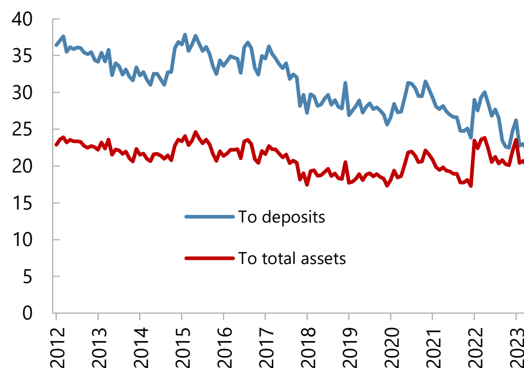
The banks account for 88 percent, but the sector is also concentrated; as its top 5 accounts for 79 percent of DTI assets.



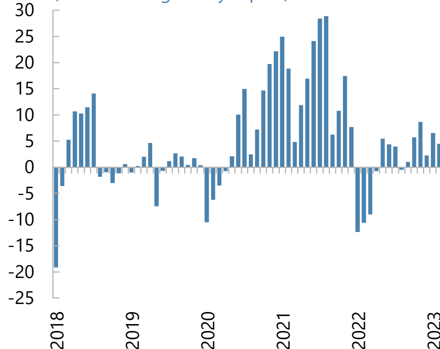
After the end of the regulatory flexibility (March 2021), DTIs' solvency ratio has stabilized around its pre-pandemic level.



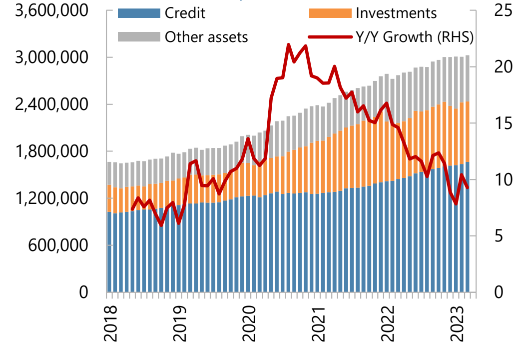
Deposits have been increasing as a share of total funding. As a result, liquid assets to deposits have been decreasing.



DTIs' foreign exchange risk is supervised and subject to regulatory requirements, limiting the risk.



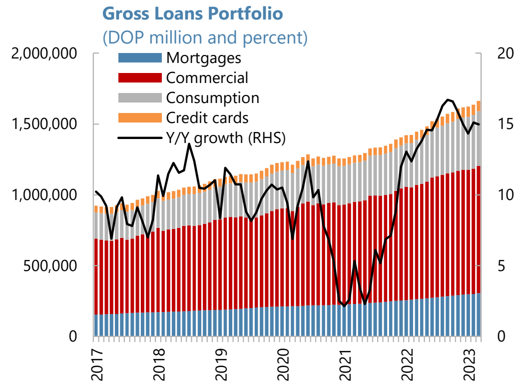
The end of the liquidity emergency measures, and the monetary policy tightening seem to impact asset growth.



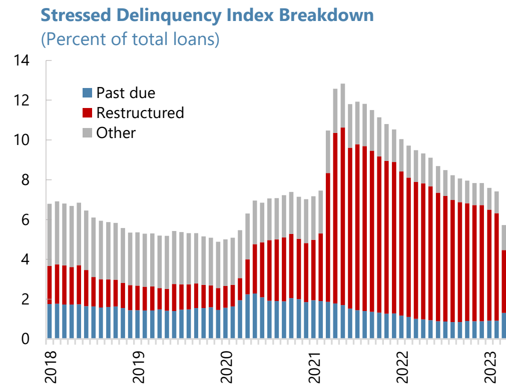
Sources: National authorities and IMF staff calculations.

Figure 6b. Dominican Republic: Financial Sector Credit Developments

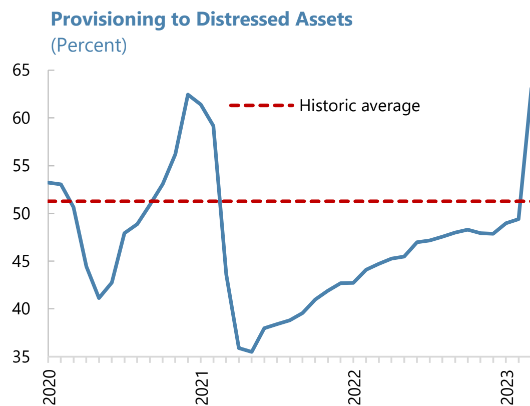
While credit growth remains healthy, there's been a slowdown since the second half of 2022.



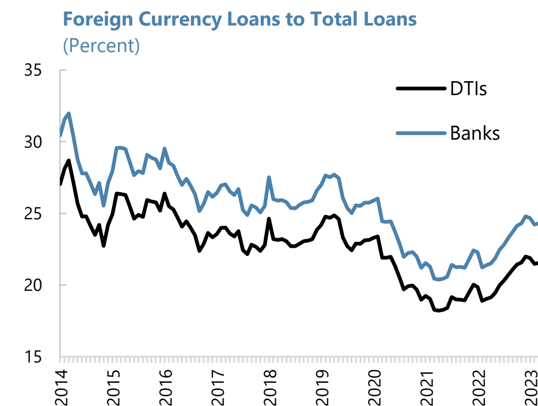
Credit quality continues to improve after a spike in 2021 that was driven by pandemic related restructurings.[1/]



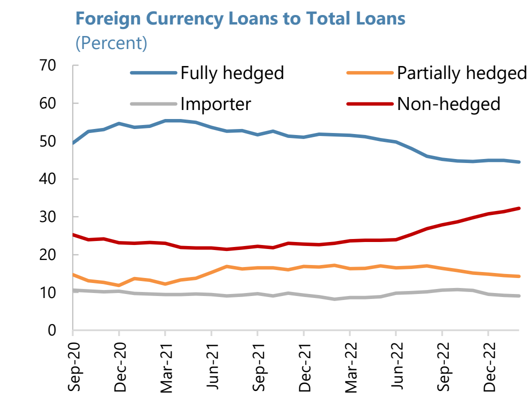
Not only credit quality, but also provisioning levels are recovering to historic (2017-2022) average levels and above.



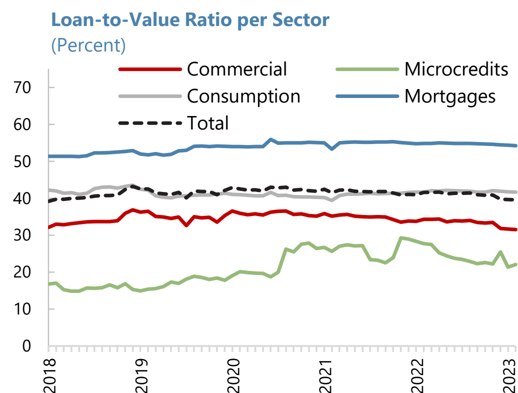
Foreign currency loans remain below historic levels, despite a recent uptick.



About 50 percent of the foreign currency loans are fully hedged, but the unhedged part has started to increase in 2022.



A large share of all credits (64 percent) is collateralized; those with real estate collateral have relatively low LTV ratios.



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, 2018–28

Population (millions, 2022)	10.6	GDP per capita (2022, U.S. dollars)	10,710
Quota	477.4 millions SDRs / 0.10% of total	Poverty (2021, share of population)	23.2
Main exports	tourism, gold, tobacco	Unemployment rate (2022, percent)	5.3
Key export markets	U.S., Canada, Haiti	Adult literacy rate (percent, 2021)	95.2

						Projection					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Output	(Annual percentage change, unless otherwise stated)										
Real GDP	7.0	5.1	-6.7	12.3	4.9	4.0	5.1	5.0	5.0	5.0	5.0
Contributions to growth											
Consumption	4.1	3.7	-1.9	4.5	4.1	3.8	4.0	4.2	4.2	4.2	4.3
Investment	4.6	1.1	-4.4	8.0	2.4	0.9	2.0	2.3	2.4	2.5	2.5
Net exports	-0.9	-1.4	-3.2	-0.1	-1.5	-0.9	0.1	0.7	0.6	0.6	0.6
Nominal GDP (RD$ billion)	4,236	4,562	4,457	5,393	6,261	6,821	7,433	8,120	8,870	9,685	10,577
Nominal GDP (US$ billion)	85.6	89.0	78.9	94.5	113.9	…	…	…	…	…	…
Output gap (in percent of potential output)	-0.5	-0.6	-6.3	-1.9	-0.3	-0.4	-0.2	-0.1	0.0	0.0	0.0
Prices											
Consumer price inflation (end of period)	1.2	3.7	5.6	8.5	7.8	4.0	4.0	4.0	4.0	4.0	4.0
Exchange Rate											
Exchange rate (RD$/US$ - period average) 1/	49.5	51.2	56.5	57.1	55.0	…	…	…	…	…	…
Exchange rate (RD$/US$ - eop) 1/	50.2	52.9	58.2	57.3	56.2	…	…	…	…	…	…
Real effective exchange rate (eop, - depreciation) 1/	-1.6	-3.2	-8.1	6.5	6.3	0.9	0.0	0.0	0.0	0.0	0.0
Government Finances											
Consolidated public sector debt 2/	50.1	53.3	71.1	62.2	58.8	56.5	56.0	55.0	54.1	52.9	51.6
Consolidated public sector overall balance 2/	-3.4	-3.3	-9.0	-3.7	-3.6	-3.9	-3.7	-3.2	-3.2	-2.8	-2.7
Consolidated public sector primary balance	0.3	0.5	-4.3	0.6	0.2	0.5	0.7	1.1	1.0	1.2	1.2
NFPS balance	-2.3	-2.3	-7.6	-2.5	-2.7	-2.9	-2.8	-2.6	-2.4	-2.3	-2.2
Central government balance	-2.2	-3.5	-7.9	-2.9	-3.2	-3.1	-2.8	-2.6	-2.4	-2.3	-2.2
Revenues and grants	14.2	14.4	14.2	15.6	15.3	14.8	14.9	15.0	15.0	15.0	15.0
Primary spending	13.8	15.1	18.9	15.4	15.7	14.7	14.5	14.3	14.1	13.9	13.9
Interest expenditure	2.6	2.7	3.2	3.1	2.8	3.1	3.2	3.3	3.3	3.3	3.3
Rest of NFPS	-0.1	1.1	0.3	0.4	0.6	0.2	0.0	0.0	0.0	0.0	0.0
Financial Sector	(Annual percentage change; unless otherwise stated)										
Broad money (M3)	7.0	11.7	20.8	13.3	6.6	8.3	9.3	9.5	9.7	9.5	9.6
Credit to the private sector	11.1	11.8	5.3	11.6	16.6	10.0	12.2	9.2	9.2	9.2	9.2
Net domestic assets of the banking system	5.5	8.6	2.5	11.5	9.7	15.4	7.9	8.7	9.5	8.7	9.0
Policy interest rate (in percent) 1/	5.5	4.5	3.0	3.5	8.5	…	…	…	…	…	…
Average bank deposit rate (1-year; in percent) 1/	7.4	6.7	3.1	2.3	9.9	…	…	…	…	…	…
Average bank lending rate (1-year; in percent) 1/	12.1	12.4	9.9	9.2	13.5	…	…	…	…	…	…
Balance of Payments	(In percent of GDP)										
Current account	-1.5	-1.3	-1.7	-2.8	-5.6	-3.9	-3.7	-3.6	-3.4	-3.3	-3.1
Goods, net	-11.2	-10.2	-8.6	-12.5	-14.9	-14.0	-13.4	-13.0	-12.5	-12.3	-12.1
Services, net	6.4	5.7	1.8	3.9	5.0	5.8	6.0	6.0	6.0	6.1	6.0
Income, net	3.2	3.2	5.2	5.7	4.3	4.3	3.8	3.3	3.0	3.0	3.0
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/	3.6	3.6	5.3	5.7	6.6	4.8	4.3	4.2	4.1	4.0	3.9
Foreign direct investment, net	3.0	3.4	3.2	3.4	3.5	3.3	3.3	3.3	3.3	3.3	3.3
Portfolio investment, net	3.1	2.4	7.1	2.2	2.9	1.5	2.0	2.0	1.5	0.9	1.3
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	-2.5	-2.3	-5.1	0.1	0.2	-0.1	-1.0	-1.1	-0.7	-0.2	-0.8
Change in reserves (-increase)	-1.0	-1.3	-2.5	-2.4	-1.3	-0.8	-0.7	-0.6	-0.7	-0.8	-0.8
GIR (in millions of US dollars)	7,628	8,782	10,752	12,943	14,383	15,403	16,343	17,189	18,236	19,523	20,918
Total external debt (in percent of GDP)	40.2	41.9	56.3	48.6	40.5	39.6	38.7	38.4	38.0	37.1	36.4
of which: Consolidated public sector	25.8	27.3	40.3	35.6	33.2	31.7	31.4	30.9	30.4	29.9	29.3

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

1/ Latest available.

2/ The consolidated public sector includes the budgetary central government (CG); the rest of the Non-Financial Public Sector, i.e., extra-budgetary central government institutions (decentralized and autonomous institutions), social security funds, local governments and non-financial public companies; and the quasi-fiscal central bank debt. With the dissolution of the state electricity holding company (CDEEE) in 2022, the deficit of CDEEE from 2019 was transferred to the CG.

3/ Excluding reserves.

Table 2a. Dominican Republic: Public Sector Accounts, 2018–28

(Percent of GDP)

						Projection					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Central Government 1/											
Revenue	**14.2**	**14.4**	**14.2**	**15.6**	**15.3**	**14.8**	**14.9**	**15.0**	**15.0**	**15.0**	**15.0**
Tax revenues	13.0	13.3	12.4	14.4	13.8	13.6	13.7	13.8	13.8	13.8	13.8
Taxes on income, profits, and capital gains	4.0	4.2	4.2	4.9	4.4	4.5	4.5	4.5	4.5	4.5	4.5
Tax on property	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	7.9	8.0	7.2	8.3	8.2	8.0	8.1	8.2	8.2	8.2	8.2
Value-added tax	4.6	4.7	4.4	4.8	5.0	4.9	5.0	5.1	5.1	5.1	5.1
Excises	2.2	2.2	1.9	2.1	2.1	1.9	1.9	1.9	1.9	1.9	1.9
Taxes on international trade and transactions	0.9	0.9	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social security contriutions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	1.1	1.0	1.4	1.1	1.4	1.1	1.1	1.1	1.1	1.1	1.1
Expenditure	**16.4**	**17.9**	**22.1**	**18.5**	**18.5**	**17.9**	**17.7**	**17.6**	**17.4**	**17.2**	**17.2**
Current spending (expense)	15.0	16.5	20.8	16.8	17.0	16.4	16.3	16.1	16.0	15.8	15.8
Compensation of employees	4.5	4.5	4.8	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Use of goods and services	1.7	1.9	2.3	2.1	1.8	2.1	2.0	2.0	2.0	2.0	2.0
Interest	2.6	2.7	3.2	3.1	2.8	3.1	3.2	3.3	3.3	3.3	3.3
Subsidies	0.6	0.7	0.9	1.2	2.1	1.3	0.9	0.8	0.6	0.5	0.5
Electricity	0.4	0.5	0.6	0.7	1.3	1.0	0.8	0.7	0.5	0.3	0.1
Other	0.2	0.2	0.3	0.5	0.8	0.3	0.2	0.2	0.2	0.2	0.3
Grants	2.6	2.7	3.4	3.3	3.0	2.7	2.7	2.7	2.7	2.7	2.7
Social benefits	1.2	1.3	4.2	1.7	1.6	1.7	1.7	1.7	1.7	1.8	1.8
Other transfers	1.8	2.8	2.0	0.9	1.2	1.2	1.4	1.3	1.3	1.3	1.3
Net acquisition of nonfinancial assets	1.5	1.5	1.7	1.5	1.6	1.4	1.4	1.4	1.4	1.4	1.4
Primary Balance	**0.4**	**-0.7**	**-4.7**	**0.2**	**-0.4**	**0.0**	**0.4**	**0.7**	**0.9**	**1.0**	**1.0**
Overall Balance	**-2.2**	**-3.5**	**-7.9**	**-2.9**	**-3.2**	**-3.1**	**-2.8**	**-2.6**	**-2.4**	**-2.3**	**-2.2**
Overall Balance Rest of NFPS	**-0.1**	**1.1**	**0.3**	**0.4**	**0.6**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance NFPS	**-2.3**	**-2.3**	**-7.6**	**-2.5**	**-2.7**	**-2.9**	**-2.8**	**-2.6**	**-2.4**	**-2.3**	**-2.2**
Primary balance	0.4	0.6	-4.3	0.6	0.2	0.2	0.4	0.7	0.9	1.1	1.0
Interest	2.7	2.9	3.3	3.1	2.8	3.1	3.2	3.3	3.3	3.3	3.3
Quasi-fiscal Balance of the Central Bank	**-1.1**	**-1.0**	**-1.4**	**-1.2**	**-0.9**	**-1.0**	**-0.8**	**-0.7**	**-0.8**	**-0.5**	**-0.4**
Primary balance	0.6	0.6	0.3	0.3	0.6	0.9	0.9	1.0	0.7	0.8	0.8
Interest	1.7	1.6	1.7	1.5	1.5	1.9	1.7	1.6	1.4	1.3	1.2
Overall Balance of the Consolidated Public Sector 2/	**-3.4**	**-3.3**	**-9.0**	**-3.7**	**-3.6**	**-3.9**	**-3.7**	**-3.2**	**-3.2**	**-2.8**	**-2.7**
Primary balance	0.3	0.5	-4.3	0.6	0.2	0.5	0.7	1.1	1.0	1.2	1.2
Interest	3.7	3.8	4.7	4.4	3.8	4.4	4.4	4.3	4.2	4.0	3.9
Memorandum Items:											
Consolidated Public Sector Debt 3/	50.1	53.3	71.1	62.2	58.8	56.5	56.0	55.0	54.1	52.9	51.6
NFPS	39.7	42.9	58.3	50.7	46.5	44.7	44.3	43.7	43.0	42.2	41.4
Central Bank	13.6	13.3	16.6	14.0	14.3	13.7	13.4	13.0	12.6	12.1	11.5
Underlying consolidated overall balance 4/	-3.7	-3.5	-9.8	-4.9	-3.8	-3.9	-3.7	-3.2	-3.2	-2.8	-2.7
Cyclically adjusted consolidated overall balance 5/	-3.7	-3.2	-8.1	-3.5	-3.6	-3.8	-3.7	-3.2	-3.2	-2.8	-2.7
Fiscal impulse 6/	-0.4	-0.1	4.9	-4.6	0.1	0.3	-0.2	-0.4	-0.1	-0.4	-0.1
Extraordinary revenue	0.3	0.2	0.5	1.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP (DR$ billion)	4,236	4,562	4,457	5,393	6,261	6,821	7,433	8,120	8,870	9,685	10,577

Sources: National authorities and IMF staff calculations.

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

2/ The consolidated public sector includes the budgetary central government (CG); the rest of the Non-Financial Public Sector, i.e., extra-budgetary central government institutions (decentralized and autonomous institutions), social security funds, local governments and non-financial public companies; and the quasi-fiscal central bank debt. With the dissolution of the state electricity holding company (CDEEE) in 2022, the deficit of CDEEE from 2019 was transferred to the CG.

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

4/ Net of grants and one-off revenues.

5/ Adjusts revenues and expenditures for the economic cycle.

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

Table 2b. Dominican Republic: Public Sector Accounts, 2018–28
(Billions of Dominican Pesos, unless otherwise stated)

	2018	2019	2020	2021	2022	Projection 2023	2024	2025	2026	2027	2028
Central Government 1/											
Revenue	**601**	**657**	**632**	**841**	**956**	**1006**	**1106**	**1215**	**1328**	**1450**	**1584**
Tax revenues	550	605	551	774	864	924	1017	1118	1221	1334	1457
Taxes on income, profits, and capital gains	168	192	187	263	276	306	334	363	397	434	474
Tax on property	8	9	8	14	14	16	17	19	20	22	24
Taxes on goods and services	334	365	323	448	514	543	601	664	726	792	865
Value-added tax	195	214	194	261	311	333	370	412	450	492	537
Excises	94	99	84	116	129	130	144	157	171	187	204
Taxes on international trade and transactions	39	40	33	49	59	60	65	71	78	85	93
Social security contributions	3	3	3	3	5	5	5	5	6	7	7
Grants	1	1	15	4	2	2	2	2	2	2	2
Other revenues	48	48	64	60	85	76	83	91	99	108	118
Expenditure	**693**	**815**	**985**	**1000**	**1159**	**1219**	**1316**	**1425**	**1544**	**1670**	**1821**
Current spending (expense)	635	752	928	905	1063	1122	1210	1310	1418	1532	1670
Compensation of employees	189	204	216	236	277	298	324	354	387	423	462
Use of goods and services	72	85	101	112	111	144	145	159	173	189	207
Interest	110	125	144	168	178	213	239	267	294	320	347
Subsidies	26	32	39	67	131	87	70	68	57	46	50
Electricity	17	22	27	38	80	68	57	54	42	29	16
Other	9	10	12	29	52	19	13	14	15	17	35
Grants	112	124	150	179	186	181	197	216	236	257	281
Social benefits	53	57	187	92	103	118	129	141	155	170	186
Other transfers	74	126	90	50	76	81	106	105	116	127	139
Net acquisition of nonfinancial assets	64	69	75	82	97	97	106	116	126	138	151
Primary Balance	**18**	**-33**	**-208**	**10**	**-25**	**1**	**29**	**57**	**78**	**100**	**110**
Overall balance	**-92**	**-158**	**-352**	**-159**	**-203**	**-213**	**-210**	**-210**	**-216**	**-220**	**-237**
Overall Balance Rest of NFPS	**-5**	**52**	**14**	**23**	**36**	**14**	**1**	**1**	**1**	**1**	**0**
Overall Balance NFPS	**-96**	**-106**	**-338**	**-136**	**-167**	**-198**	**-209**	**-209**	**-215**	**-219**	**-237**
Primary balance	16	27	-192	33	11	16	31	59	79	102	111
Interest	113	133	146	168	178	213	239	267	294	320	347
Quasi-fiscal Balance of the Central Bank	**-47**	**-44**	**-61**	**-66**	**-58**	**-66**	**-63**	**-54**	**-67**	**-51**	**-44**
Primary balance	25	27	14	14	37	61	67	80	61	76	83
Interest	72	72	74	80	95	127	130	134	127	127	127
Overall Balance of the Consolidated Public Sector 2/	**-143**	**-150**	**-399**	**-202**	**-225**	**-265**	**-272**	**-263**	**-281**	**-269**	**-280**
Primary balance	14	25	-191	34	11	35	53	90	87	120	131
Interest	157	175	208	236	236	300	325	353	368	390	411
Memorandum Items:											
Consolidated Public Sector Debt 3/	2,124	2,430	3,171	3,356	3,678	3,852	4,161	4,468	4,800	5,123	5,459
NFPS	1,680	1,956	2,598	2,734	2,914	3,049	3,294	3,548	3,813	4,085	4,378
Central Bank	577	606	740	755	896	936	999	1,053	1,119	1,170	1,214
Overall balance of the electricity sector 4/	-73	-72	-49	-53	-94	-68	-81	-67	-55	-43	-23
Nominal GDP	4,236	4,562	4,457	5,393	6,261	6,821	7,433	8,120	8,870	9,685	10,577

Sources: National authorities and IMF staff calculations.

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

2/ The consolidated public sector includes the budgetary central government (CG); the rest of the Non-Financial Public Sector, i.e., extra-budgetary central government institutions (decentralized and autonomous institutions), social security funds, local governments and non-financial public companies; and the quasi-fiscal central bank debt. With the dissolution of the state electricity holding company (CDEEE) in 2022, the deficit of CDEEE from 2019 was transferred to the CG.

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

4/ Before government transfers. It covers the Dominican Corporation of State Electricity Companies (CDEEE), and since its disolution in Dec. 2022, the consolidated state-owned electricity companies.

Table 3. Dominican Republic: Summary Accounts of the Banking System, 2018–28
(Billions of Dominican Pesos, unless otherwise stated)

						Projection					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
			I. Central Bank								
Net Foreign Assets 1/	**362**	**445**	**564**	**647**	**681**	**716**	**789**	**851**	**917**	**998**	**1,087**
(In millions of USD)	7,199	8,411	9,689	11,287	12,123	…	…	…	…	…	…
Net Domestic Assets	**-215**	**-279**	**-341**	**-402**	**-429**	**-443**	**-492**	**-527**	**-563**	**-611**	**-664**
Nonfinancial public sector (net) 2/	-18	-9	-137	-79	-57	-62	-68	-74	-81	-89	-97
Financial institutions (net)	-690	-802	-816	-1,002	-1,079	-1,232	-1,397	-1,595	-1,829	-2,225	-2,754
Nonfinancial private sector (certificates)	-134	-126	-128	-124	-152	-196	-207	-220	-240	-259	-281
Other items (net)	627	659	741	803	860	1,043	1,179	1,361	1,586	1,959	2,466
Currency Issued	**147**	**166**	**223**	**245**	**252**	**272**	**297**	**324**	**354**	**387**	**422**
			II. Deposit Money Banks								
Net Foreign Assets 1/	**-48**	**-79**	**60**	**13**	**-26**	**-24**	**-29**	**-32**	**-34**	**-37**	**-40**
(In millions of USD)	-953	-1,485	1,028	219	-459	…	…	…	…	…	…
Net Domestic Assets	**1,308**	**1,488**	**1,622**	**1,899**	**2,070**	**2,223**	**2,426**	**2,650**	**2,894**	**3,160**	**3,451**
Net claims on central bank	383	463	501	711	776	843	919	1,004	1,097	1,197	1,308
Net credit to the nonfinancial public sector	130	147	221	184	130	142	155	169	185	202	221
Central government	79	112	199	183	131	143	155	170	185	203	221
Rest of NFPS	52	35	22	1	-1	-1	-1	-1	-1	-1	-1
Credit to the private sector	1,095	1,225	1,291	1,441	1,682	1,851	2,077	2,269	2,479	2,707	2,956
In pesos	872	978	1,065	1,181	1,348	1,527	1,714	1,872	2,045	2,233	2,438
In foreign currency	223	247	226	260	334	324	364	398	434	474	518
Capital and accumulated surplus	-237	-268	-294	-344	-404	-388	-386	-386	-386	-386	-386
Other items (net)	-63	-80	-97	-93	-114	-225	-339	-407	-480	-560	-648
Liabilities to the Private Sector	**1,261**	**1,409**	**1,682**	**1,911**	**2,044**	**2,200**	**2,397**	**2,618**	**2,860**	**3,123**	**3,411**
In pesos	927	1,023	1,144	1,321	1,444	1,556	1,695	1,852	2,023	2,209	2,413
In foreign currency	334	386	538	590	600	644	701	766	837	914	998
			III. Banking System								
Net Foreign Assets 1/	**314**	**367**	**624**	**660**	**655**	**692**	**760**	**819**	**883**	**961**	**1,047**
(In millions of USD)	6,245	6,926	10,717	11,506	11,663	…	…	…	…	…	…
Net Domestic Assets	**1,516**	**1,646**	**1,688**	**1,882**	**2,064**	**2,381**	**2,569**	**2,792**	**3,058**	**3,325**	**3,625**
Net credit to non-financial public sector	113	137	84	105	73	80	87	95	104	113	124
Credit to the private sector	1,102	1,232	1,298	1,448	1,689	1,859	2,086	2,279	2,489	2,718	2,968
Other items (net)	302	277	306	328	302	443	396	418	465	494	533
M3	**1,401**	**1,565**	**1,891**	**2,141**	**2,282**	**2,472**	**2,701**	**2,958**	**3,245**	**3,554**	**3,894**
Currency in circulation	117	134	187	209	212	229	249	272	297	325	354
Deposits	905	1,052	1,355	1,581	2,030	2,184	2,380	2,600	2,840	3,102	3,387
Central bank certificates held outside commercial banks	23	22	22	21	26	26	26	26	26	26	26
Commercial bank certificates held by the public	356	357	327	330	14	15	16	18	20	21	23
Memorandum Items:			(Annual percentage change; unless otherwise stated)								
Credit to the private sector	11.1	11.8	5.3	11.6	16.6	10.0	12.2	9.2	9.2	9.2	9.2
Net domestic assets of the banking system		8.6	2.5	11.5	9.7	15.4	7.9	8.7	9.5	8.7	9.0
Currency issued	9.8	13.6	33.9	10.0	3.0	7.9	9.0	9.2	9.2	9.2	9.2
Deposits and commercial bank certificates	6.3	11.8	19.4	13.6	7.0	7.6	9.0	9.2	9.2	9.2	9.2
Broad money (M3)	7.0	11.7	20.8	13.3	6.6	8.3	9.3	9.5	9.7	9.5	9.6
M3 Velocity (ratio of GDP to M3)	3.0	2.9	2.4	2.5	2.7	2.8	2.8	2.7	2.7	2.7	2.7

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, 2018–28
(Millions of US Dollars, unless otherwise specified)

					Projection						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					(In millions of U.S. dollars)						
Current Account	**-1,322**	**-1,188**	**-1,337**	**-2,685**	**-6,327**	**-4,899**	**-4,921**	**-5,210**	**-5,343**	**-5,392**	**-5,465**
Goods and services, net	-4,063	-4,017	-5,413	-8,089	-11,257	-10,207	-10,038	-10,045	-9,994	-10,392	-10,833
Goods, net	-9,559	-9,075	-6,803	-11,796	-16,966	-17,454	-18,083	-18,733	-19,337	-20,428	-21,567
Exports, f.o.b.	10,638	11,193	10,302	12,486	13,777	14,515	15,896	17,235	18,522	19,913	21,424
Of which: Gold	1,361	1,544	1,676	1,610	1,329	1,403	1,664	1,950	1,930	1,941	1,941
Of which: Other	9,278	9,648	8,626	10,876	12,448	13,111	14,232	15,286	16,592	17,972	19,483
Imports, f.o.b.	20,197	20,268	17,105	24,282	30,743	31,969	33,979	35,968	37,859	40,341	42,991
Of which: Oil	3,715	3,558	2,018	3,749	5,991	5,110	5,075	5,113	5,177	5,252	5,334
Of which: Other	16,483	16,710	15,087	20,533	24,752	26,859	28,904	30,855	32,682	35,088	37,657
Services, net	5,497	5,058	1,391	3,707	5,709	7,247	8,045	8,688	9,343	10,036	10,734
Of which: Travel, net	6,999	6,848	2,464	5,002	7,387	8,182	8,960	9,820	10,637	11,527	12,529
Income, net	2,741	2,829	4,075	5,404	4,930	5,308	5,117	4,835	4,651	4,999	5,368
Primary income, net	-3,692	-4,069	-3,825	-4,711	-4,574	-4,499	-5,090	-5,792	-6,458	-6,795	-7,235
Of which: Direct investment, net	-2,761	-2,861	-2,442	-3,020	-3,073	-3,715	-4,010	-4,330	-4,672	-5,038	-5,430
Secondary income, net	6,433	6,898	7,900	10,114	9,504	9,806	10,207	10,626	11,108	11,794	12,603
Of which: Workers' remittances	6,066	6,603	7,615	9,764	9,148	9,446	9,846	10,264	10,744	11,427	12,235
Capital and Financial Account	**-3,083**	**-3,160**	**-4,159**	**-5,397**	**-7,473**	**-5,918**	**-5,860**	**-6,057**	**-6,389**	**-6,679**	**-6,859**
Capital Account	**2.2**	**1.4**	**1.0**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Financial Account	**-3,085**	**-3,162**	**-4,160**	**-5,398**	**-7,473**	**-5,918**	**-5,860**	**-6,057**	**-6,389**	**-6,679**	**-6,859**
Foreign direct investment, net	-2,535	-3,021	-2,560	-3,197	-4,010	-4,156	-4,499	-4,829	-5,175	-5,540	-5,936
Portfolio investment, net	-2,696	-2,178	-5,620	-2,061	-3,261	-1,888	-2,692	-2,875	-2,311	-1,449	-2,319
Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	2,147	2,037	4,020	-140	-202	126	1,331	1,647	1,096	309	1,396
Change in Reserves (+ increase)	847	1,150	1,980	2,304	1,444	1,020	940	847	1,046	1,287	1,395
Net Errors and Omissions	-928	-825	-860	-409	298	0	0	0	0	0	0
Net International Reserves	**7,627**	**8,781**	**10,752**	**12,943**	**14,379**	**15,558**	**16,815**	**17,839**	**18,885**	**20,172**	**21,567**
					(In percent of GDP)						
Current Account	**-1.5**	**-1.3**	**-1.7**	**-2.8**	**-5.6**	**-3.9**	**-3.7**	**-3.6**	**-3.4**	**-3.3**	**-3.1**
Goods and services, net	-4.7	-4.5	-6.9	-8.6	-9.9	-8.2	-7.5	-6.9	-6.4	-6.3	-6.1
Goods, net	-11.2	-10.2	-8.6	-12.5	-14.9	-14.0	-13.4	-13.0	-12.5	-12.3	-12.1
Exports, f.o.b.	12.4	12.6	13.1	13.2	12.1	11.7	11.8	11.9	12.0	12.0	12.1
of which: Gold	1.6	1.7	2.1	1.7	1.2	1.1	1.2	1.3	1.2	1.2	1.1
of which: Other	10.8	10.8	10.9	11.5	10.9	10.5	10.6	10.6	10.7	10.8	11.0
Imports, f.o.b.	23.6	22.8	21.7	25.7	27.0	25.7	25.2	24.9	24.4	24.3	24.2
of which: Oil	4.3	4.0	2.6	4.0	5.3	4.1	3.8	3.5	3.3	3.2	3.0
of which: Other	19.2	18.8	19.1	21.7	21.7	21.6	21.5	21.3	21.1	21.2	21.2
Services, net	6.4	5.7	1.8	3.9	5.0	5.8	6.0	6.0	6.0	6.1	6.0
of which: Travel, net	8.2	7.7	3.1	5.3	6.5	6.6	6.7	6.8	6.9	6.9	7.0
Income, net	3.2	3.2	5.2	5.7	4.3	4.3	3.8	3.3	3.0	3.0	3.0
Primary income, net	-4.3	-4.6	-4.8	-5.0	-4.0	-3.6	-3.8	-4.0	-4.2	-4.1	-4.1
Of which: Direct investment, net	-3.2	-3.2	-3.1	-3.2	-2.7	-3.0	-3.0	-3.0	-3.0	-3.0	-3.1
Secondary income, net	7.5	7.7	10.0	10.7	8.3	7.9	7.6	7.3	7.2	7.1	7.1
Of which: Workers' remittances, net	7.1	7.4	9.6	10.3	8.0	7.6	7.3	7.1	6.9	6.9	6.9
Capital and Financial Account	**-3.6**	**-3.5**	**-5.3**	**-5.7**	**-6.6**	**-4.8**	**-4.3**	**-4.2**	**-4.1**	**-4.0**	**-3.9**
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	**-3.6**	**-3.6**	**-5.3**	**-5.7**	**-6.6**	**-4.8**	**-4.3**	**-4.2**	**-4.1**	**-4.0**	**-3.9**
Foreign direct investment, net	-3.0	-3.4	-3.2	-3.4	-3.5	-3.3	-3.3	-3.3	-3.3	-3.3	-3.3
Portfolio investment, net	-3.1	-2.4	-7.1	-2.2	-2.9	-1.5	-2.0	-2.0	-1.5	-0.9	-1.3
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	2.5	2.3	5.1	-0.1	-0.2	0.1	1.0	1.1	0.7	0.2	0.8
Change in Reserves (+ increase)	**1.0**	**1.3**	**2.5**	**2.4**	**1.3**	**0.8**	**0.7**	**0.6**	**0.7**	**0.8**	**0.8**
Net Errors and Omissions	-1.1	-0.9	-1.1	-0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0

Sources: National authorities and IMF staff calculations.

Table 5. Dominican Republic: Financial Soundness Indicators, 2012–22
(Percent, end of year)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
I. Deposit Taking Institutions 1/											
Capital Adequacy											
Leverage ratio	11.8	11.5	11.3	11.2	11.3	11.6	11.8	11.9	10.9	11.0	11.7
Regulatory capital to risk-weighted assets	18.2	16.7	16.1	16.0	17.2	18.3	17.1	16.6	21.0	19.1	16.7
Asset Quality											
NPLs to total loans	3.4	2.2	1.5	1.7	1.7	1.9	1.6	1.6	1.9	1.3	1.0
Loan provisions to NPLs	97.7	134.8	187.1	152.4	156.3	149.3	157.1	160.6	205.7	322.9	352.1
NPLs net of provisions to net worth	-1.0	-5.5	-8.6	-6.4	-6.6	-6.4	-6.1	-6.1	-12.5	-15.8	-15.0
Fixed and net foreclosed assets to net worth	34.2	32.4	29.4	29.8	27.7	25.1	22.4	20.2	18.5	15.7	14.0
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	2.6
Return on average equity	18.8	20.6	19.9	20.1	19.0	16.7	20.1	19.1	15.4	20.7	23.0
Gross operating income to average assets	11.6	10.9	10.3	10.0	10.0	10.2	9.7	9.5	8.6	8.1	10.6
Financial margin to average assets	6.7	6.8	6.4	6.1	5.8	5.6	5.8	5.6	4.8	5.3	6.8
Operating expenses to net financial margin	89.6	86.2	90.0	93.2	93.6	89.9	89.6	92.4	83.0	79.0	87.7
Liquidity											
Liquid funds to deposits	34.4	33.4	36.9	34.4	34.9	29.7	31.3	25.6	30.5	23.8	24.7
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	19.0
II. Commercial Banks											
Capital Adequacy											
Leverage ratio	10.0	9.7	9.5	9.8	10.0	10.3	10.4	10.5	9.6	9.7	10.5
Regulatory capital to risk-weighted assets	15.8	14.8	14.0	14.4	15.6	16.4	15.8	14.9	18.6	16.5	15.3
Asset Quality											
NPLs to total loans	3.2	1.9	1.3	1.5	1.5	1.7	1.5	1.5	1.8	1.2	0.9
Loan provisions to NPLs	94.9	147.3	187.4	157.8	167.2	158.1	159.4	166.7	219.3	347.6	388.5
NPLs net of provisions to net worth	-1.5	-8.3	-10.9	-8.0	-8.0	-7.7	-7.3	-7.5	-15.0	-18.6	-17.3
Fixed and net foreclosed assets to net worth	41.7	39.0	35.2	34.4	31.5	28.3	25.3	21.9	19.7	16.4	14.1
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	2.6
Return on average equity	24.4	22.6	24.6	23.9	24.0	19.9	22.0	21.6	17.5	22.7	25.6
Gross operating income to average assets	11.0	10.5	10.0	9.7	9.7	9.8	9.4	9.2	8.3	7.8	10.1
Financial margin to average assets	6.5	6.6	6.2	6.0	5.6	5.5	5.6	5.4	4.7	5.1	6.5
Operating expenses to net financial margin	90.8	86.4	90.4	93.9	94.2	90.5	90.7	93.8	83.5	79.2	89.0
Liquidity											
Liquid funds to deposits	32.9	32.5	36.3	33.5	34.2	28.6	30.7	24.9	30.7	23.8	26.0
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	20.3

Sources: National authorities.

1/ These figures do not include credit and savings cooperatives, which account approximately for 3.8 percent of total DTI assets (staff estimate). The commercial banks account for 88 percent and the top 5 banks for 80 percent of total DTI assets.

Table 6. Dominican Republic: Indicators of Fund Credit, 2023–28
(Millions of SDRs, unless otherwise stated)

	2023	2024	2025	2026	2027	2028
Existing and Prospective drawings (RFI)	358.05	119.35	0.0	0.0	0.0	0.0
(In percent of quota)	75	25	0	0	0	0
	(Projected debt service to the fund based on existing and prospective drawings)					
Amortization	119.4	238.7	119.4	0.0	0.0	0.0
GRA charges	15.9	12.8	2.1	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0
SDR charges	6.1	8.3	8.3	8.3	8.3	8.3
Total Debt Service	**141.4**	**259.8**	**129.8**	**8.3**	**8.3**	**8.4**
(In percent of exports of goods and services)	0.7	1.3	0.6	0.0	0.0	0.0
(In percent of GDP)	0.2	0.3	0.1	0.0	0.0	0.0
(In percent of GIR)	1.3	2.3	1.1	0.1	0.1	0.1
Outstanding Stock	**358.1**	**119.4**	**0.0**	**0.0**	**0.0**	**0.0**
(In percent of quota)	75.0	25.0	0.0	0.0	0.0	0.0
(In percent of GDP)	0.4	0.1	0.0	0.0	0.0	0.0
(In percent of GIR)	3.3	1.0	0.0	0.0	0.0	0.0
Memorandum Items:						
Exports of goods and services (USD million)	27,032	29,580	31,928	34,276	36,803	39,414
GDP (USD million)	124,434	134,722	144,594	154,946	165,882	177,735
USD/SDR exchange rate	1.43	1.43	1.43	1.43	1.43	1.43
Gross International Reserves (USD million)	15,403	16,343	17,189	18,236	19,523	20,918
Quota	477.4	477.4	477.4	477.4	477.4	477.4

Source: IMF staff estimates.

Annex I. Implementation of Past Fund Advice

Recommendations	Status
Transversal / Cross Sector	
Continue with electricity sector reforms under the Electricity Pact to reduce fiscal losses ¶18, while improving targeted social transfers ¶35 and enhancing efficiency and transitioning away from fossil fuels ¶33.	**Ongoing.** Increases to the electricity tariffs were suspended in July 2022 amid the global commodity shock and its pass-through to domestic inflation. However, efforts to improve public electricity sector governance and economic efficiency continue, including by enhancing transparency and strengthening management (dissolution of CDEEE and creation of Punta Cataline SOE, the recent audited financial statements for EDEs, and a program to install more meters). Further, the central government has since end-2020 been making transfers to completely cover EDEs losses, thus eliminating arrears with private generators. To protect low-income families, the number of beneficiaries under the Bonoluz Program and the monthly transfer rose. With the dissolution of CDEEE, its responsibilities for management of electricity distribution companies was passed to the Unified Council for the Distribution Companies and policy functions have been unified under the Ministry of Energy and Mines. The Energy Saving and Efficiency Law has been submitted to Congress.
Fiscal	
Establish a fiscal responsibility framework to anchor medium-term policies ¶22.	**Ongoing.** The authorities are working towards adopting a Fiscal Responsibility Law (FRL) including calibration and institutional aspects of a fiscal rule. Public Financial Management (PFM)—notably the medium-term fiscal framework (MTFF)—improvements will support the FRL.
Continue to enhance Public Financial Management (PFM), to support transparency and the MTFF ¶23.	**Ongoing.** Supported with IMF TA—workstreams include improving MT fiscal projections, improving treasury management, extending GFSM2014 to the rest of the NFPS, further strengthening the multi-annual budget process (e.g., expanding a MT expenditure framework), and further strengthening the identification and quantification of fiscal risk.
Strengthening public procurement ¶32.	**Ongoing.** The updated procurement law is with Congress. The new Public Trust law requires that these trusts be subject to the existing procurement law. In October 2022, the President signed a decree creating an institutional framework to promote inclusive and sustainable public procurement—the framework was developed with technical assistance from the US Department of Commerce, who has also provided TA on the updated procurement law. The Directorate for Public Procurement (DGCP) continues to strengthen processes—it is currently conducting a massive review of State suppliers with expired or outdated legal-administrative documentation in the Registry of State Providers (RPE).
Publish audited reports of COVID-19-related spending ¶32.	**Implemented.** The Chamber of Accounts has published the audited reports of COVID-19 spending (as committed under the 2020 RFI).
Create policy space through revenue mobilization ¶25-26.	**Ongoing.** Improvements in tax administration—supported with IMF TA—include further digitalization and expansion of the e-Invoicing system (now required by law, although will be gradually applied over the next 2 years, starting with the largest taxpayers). The IMF is providing TA on audits, filing and compliance control and improvements in risk-based strategy to manage tax debt. Customs Law regulations were published on January 24, 2023. They seek to increase efficiency both to improve trade facilitation and customs control. It is still pending to adapt current procedures to the new Customs Law and its regulations, as well as to adopt an integrated risk management approach to improve voluntary compliance of foreign trade operators.

Recommendations	Status
Monetary and Financial	
Continue building reserve buffers and allow the exchange rate to play its stabilizing role ¶14, ¶17.	**Ongoing.** International reserves rose to 92 percent of the Fund's ARA metric in 2022 from 88 percent in 2021. The BCRD allowed further peso volatility while remaining committed to allow the peso to adjust in line with fundamentals.
Follow-through on the Safeguards assessment's recommendations to enhance BCRD's financial and institutional autonomy ¶28-29.	**Partially done.** The government increased transfers for BCRD recapitalization in 2022 and will maintain these at 0.6 percent of GDP for 2023. However, the process requires stronger legal and economic certainty which is crucial for the central bank financial autonomy. The authorities are assessing means to strengthen the recapitalization framework crucial for central bank financial autonomy and to further enhance policy credibility. In addition, the Monetary Board of the BCRD approved the creation of an Audit Department independent from the Comptroller, that will report to the Governor. They also hired an independent expert auditor to be part of the Audit Committee and approved a new policy to strengthen and expand remote work to bolster the BCDR operational resilience. Other priority actions, related to changes in the Monetary Law, to increase autonomy and transparency remain outstanding, including legal reforms and IFRS implementation.
Realign the regulatory and macro-financial framework with best practices, especially the Basel frameworks and IFRS, stress testing (including data collection), the macroprudential toolkit, cooperatives regulation and supervision, and the bank resolution framework ¶28.	**Ongoing.** The authorities are working on a plan for the implementation of IFRS and the Basel II/III framework, which will also help expand the macroprudential toolkit. The BCRD and Banking Superintendency continue to cooperate to improve stress testing and data collection. The Institute for Cooperative Development and Credit (IDECOOP) and the Superintendency of Banks (SB), signed a cooperation agreement to strengthen supervision (AML-CFT and IFRS implementation).
Structural	
Enhance the rule of law and regulatory framework to further improve the business climate in particular by entrenching prosecutorial and judicial independence, stepping up efforts to fight corruption and impunity, as well as increasing transparency and integrity of public administration, and reducing discretion and simplifying the regulatory framework ¶31-32.	**Ongoing.** Amendments to the Constitution to entrench prosecutorial and judicial independence have not yet been passed. Prosecutions of high-level corruption cases are on-going and those against intellectual property crimes have doubled. The President signed the civil asset forfeiture law. Progress in transparency and integrity of public administration continues: Decree 791-21 on *Government Integrity and Regulatory Compliance Commissions (CIGCN)* is being implemented, with 170 public institutions (out of a total 229) having formed their CIGCN, of which 106 CIGCN and 4 Integrity Officers are sworn in and authorized as of end-2022. Regulations to operationalize the "Zero-Bureaucracy" law (167-21 "On Regulatory Improvement and Simplification of Procedures") are being issued: Decree 486-22 requires regulatory impact analysis and stipulates public consultation periods depending on the complexity of the regulation; and the Ministry of Public Administration, acting as the coordinating and supervisory body for regulatory improvement, will manage a single registry/platform of all rules to increase transparency. General regulations implementing the updated customs law (168-21)—which seeks to increase efficiency, both to improve trade facilitation and customs control—have been published. However, as noted above, updated procedures are still pending. The Special Customs Regimes, Customs Operators, among others are still under preparation.

Recommendations	Status
Enhance social assistance, improving targeting and expanding assistance as needed ¶35.	**Ongoing.** The authorities continue to improve means-tested and focused assistance using both information from SIUBEN and leveraging administrative data. In response to the fuel price shock and increase in electricity tariffs, the number of low-income beneficiaries and monthly transfers under Bonogas and Bonoluz were increased. Targeted emergency assistance, with support from development partners, was provided in the wake of recent natural disasters—i.e., "emergency bonus" of RDD$5,000 to 35,000 households in regions affected by Hurricane Fiona and "family support bonus" of RD$1,500 to 103,565 households impacted by the floods in late 2022.
Continue energy sector reforms to improve efficiency and supply reliability as well as to support adaptation and mitigation ¶33.	**Ongoing.** While losses (technical and non-technical) remain relatively elevated, distribution companies continue to fulfill close to 100 percent of demand—i.e., in a break from the past, service reductions to control financial losses are now not used. The authorities continue to expand the share of electricity generated by renewables (¶33). A framework for competitive bidding for renewable contracts—supported by WB TA— should further help to reduce the cost of renewable energy. Further, other measures have been taken to support self-generation from renewables and decarbonize the transportation sector. Starting with the 2023 budget, DIGEPRES introduced new classification to track spending related to climate change.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Global Risks				
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation. • **U.S.:** Amid tight labor markets, supply disruptions and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in dollar strengthening, a more abrupt financial and housing market correction, and "hard landing". • **Europe:** Intensifying fallout from the war in Ukraine, worsening energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns and housing market corrections.	**Medium (US)** **High (Europe)**	**Medium/ Downside**	An abrupt slowdown in the US or Europe risks reducing demand for DR's exports, including both manufacturing and tourism. 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, build reserve buffers, and allow for greater exchange rate flexibility to accommodate shocks to export demand.
• **EMDEs:** A new bout of global financial tightening, possibly combined with volatile commodity prices, leads to spiking risk premia, debt distress, widening of external imbalances, fiscal pressures, and sudden stops.	**Medium**	**Medium/ Downside**	A sharp tightening of global financial conditions could negatively impact fiscal spending (part of which is deficit financed) and private investment (both FDI and domestically financed). This would hurt growth and worsen the medium-term external position due to higher interest payments and reduced export capacity (tourism, manufacturing).	Anchor the fiscal framework, including further strengthening of the fiscal position, to signal commitment to reducing debt in the medium-term. Develop fiscal contingency plan to protect priority spending in case of limited financing. Stand ready to reestablish liquidity support if needed, while continuing to build reserve buffers.

[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
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	**Medium**	**Medium/ Downside**	Higher commodity prices increase inflation, put negative pressure on the external and fiscal position (the latter due to price smoothing and extraordinary freezing 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 and nickel prices would strengthen the external position and real output, as the DR is an exporter.	Stand ready to tighten monetary policy further as needed. Work with private sector to improve resilience of supply chains. Continue transition to low-cost renewable energy to mitigate exposure to international fuel prices. Ensure social support programs are sufficient to support those who may lose access to essential goods like food, fuel, and medicine.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers.	**Medium**	**Low/ Downside**	Sharp swings in real interest rates and risk premia may slow credit but the financial system remains relatively robust in the DR.	Continue to strengthen reserve buffers in case FXI / liquidity support is needed to support the exchange rate / financial system amid a sharp increase in risk premia. Maintain enhanced monitoring of the financial system. Continue to work on transition to Basel II/III to ensure appropriate macroprudential regulation is in place.
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	**High**	**Medium/ Downside**	Higher commodity prices increase inflation and put negative pressure on the external position, fiscal position. Supply constraints on commodities reduce global economic activity and increasing risk premia, reducing FDI and demand for DR manufacturing exports. Lower purchasing power, particularly in Europe, reduces demand for DR tourism exports.	Stand ready to tighten monetary policy further as needed. Work with private sector to improve resilience of supply chains. Continue transition to low-cost renewable energy to mitigate exposure to international fuel prices. Continue structural reforms to increase competitiveness and FDI. Support efforts by tourism industry to attract arrivals from new markets. Build reserve buffers and stand ready to support exchange rate and financial system in the event of a large rise in risk premia.

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Monetary policy miscalibration. Amid high economic uncertainty and volatility, major central banks slow monetary policy tightening or pivot to loosen monetary policy stance prematurely, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Medium	Medium/ Downside	De-anchored inflation expectations in the US lead to a need for more prolonged period of high US rates to fight inflation, with negative spillovers to the DR investment, external position, and financial stability.	Stand ready to tighten monetary policy further as needed. Continue to strengthen reserve buffers in case FXI / liquidity support is needed to support the exchange rate / financial system amid a sharp increase in risk premia.
Social discontent. Supply shocks, high inflation, real wage drops, and spillovers from crises in other countries worsen inequality, trigger social unrest, and give rise to financing pressures and damaging populist policies with possible spillovers to other EMDEs. This exacerbates imbalances, slows growth, and triggers market repricing.	High	Low/ Downside	Worsening situation in some countries in the region could increase the flow of undocumented migrants to the DR, putting pressure on the fiscal position and labor markets, increasing the risk of social unrest and populist policies.	Collect more data on the impact of undocumented migrants. Work with the international community to support migrants and seek concessional financing and aid.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	Medium/ Downside	Hurricanes, floods, and droughts, to which the region is prone, can result in important economic, social, and fiscal costs.	Implement 2022-2025 National Climate Action Plan; build structural and financial resilience, including through resilient infrastructure and disaster insurance.
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Low/ Downside	Externally, escalating, and sustained trade actions threaten the global trade system, creating uncertainty about growth directly and through adverse confidence effects. Reduced international cooperation on global challenges increases the risk of bad outcomes regarding global climate change and possible future pandemics. However, the Dominican Republic may benefit from near-shoring and expansion of logistic hubs.	Continue structural reforms to strengthen external competitiveness (including logistic hubs) and boost investment and growth. Strengthen the medium-term fiscal position and continue to build reserve buffers. Invest in adaptation to climate change and domestic pandemic preparedness. Work with international community to foster cooperation on global issues.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	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.	Continue to improve legal, institutional, and strategic frameworks, devise a centralized plan and cross-sector common rules to combat cyberattacks.

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Domestic Risks				
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets.	Low	Medium/ Downside	While inflation expectations are currently anchored at 2-year horizon, further supply shocks could risk de-anchoring expectations, requiring a stronger monetary policy response and potentially leading to stagflation.	Maintain policy rate at or above neutral as needed to anchor inflation expectations. Stand ready to tighten monetary policy further if inflation expectations begin to diverge from target.
Electricity Pact tariff increases are not restarted even when economic conditions allow them	Low	High/ Downside	If the freeze on tariff increases is excessively prolonged, political will for implementing reforms may recede, with a negative impact on productivity and the fiscal position—limiting other public investments (e.g., resilient infrastructure), social assistance, and debt reduction.	Establish credible roadmap for tariff increases to cost-recovery conditional on the abatement the fuel price shock, including compensatory targeted transfers to the poor and vulnerable. Continue to implement other important measures in the electricity pact, such as improving governance, reducing losses, increasing energy efficiency, transition to renewable energy to reach Pact targets and support NDC goals.
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 MTFF (including a 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. Monitor for signs of lack of liquidity amid tightening global financial conditions.
Development of Logistics Hub	Medium	Medium/ Upside	Investments in logistic and transport capabilities may accelerate development of DR as a regional logistics hub, attracting further investment and increasing exports.	Continue reforms to improve the business climate. Fully implement new Customs Administration law and regulations.

Annex III. Summary of Capacity Development Strategy

1. The Dominican Republic has benefited significantly from CD support by the Fund. CD delivery 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 recent and forthcoming CD agenda has focused on fiscal sustainability, fiscal risk assessment, public investment governance, financial sector supervision, monetary policy frameworks, and statistical data reporting.

2. Collaboration with other partners has also been strong, particularly with the World Bank and the IDB.

Key Areas of Focus

- *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 the authorities own 2021–24 strategic plan. CAPTAC-DR also 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). An ICD TA mission is providing technical assistance regarding the projection models used at ministry of finance.

- *Public Financial Management (PFM)*: CAPTAC-DR experts are working with the Treasury to strengthen the cash programming model and active cash management to avoid arrears, minimize the cost of liquidity and enable active cash management speed up payments. Two missions have supported the authorities' plan for the introduction of a FRL. In the first half of 2022, a HQ-led PFM diagnostic mission focused on assessing the capacity to implement a medium-term fiscal framework able to support planned FRL, and in the second half of 2022, another HQ-led mission provided considerations, options, and the calibration of fiscal rules, as well as supporting the drafting of the FRL. In fiscal year 2023, the Ministry of Finance requested technical assistance to improve the consistency of its macroeconomic forecasting and policy analysis toolkit as well as its use in fiscal decision-making and since January 2023 a new project has been supporting staff of the General Direction of Analysis and Fiscal Policy in the development of an FPP-based projections tool driven by a semi-structural model, expected to provide comprehensive inputs for the preparation of the Medium-Term Fiscal Framework, the analysis of strategic fiscal policy options and the assessment of macroeconomic risks with fiscal impact.

- *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.

- *Monetary Policy Framework*: ICD TA missions to the central bank have focused on strengthening the monetary policy framework. The central bank is receiving ongoing macroframework TA from ICD to help develop a Forecasting Policy and Analysis System (FPAS), and the TA project seeks to build capacity, streamline the central bank's policy decision-making process, and improve external communications as the FPAS is incorporated into the central bank's monetary policy decisions.

- *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.

CD Priorities Going Forward

3. This year (May 2023-April 2024) continued support will be given to support the drafting of the FRL, fiscal risks analysis, improvements to the quality of fiscal reporting, development of macroeconomic frameworks at the Central Bank and Ministry of Finance (including improvements to the models for forecasting and analysis), and the assessment of public investment management systems (including C-PIMA). In support of the roadmap for the Basel II/III roll-out, follow-up TA on the frameworks for Pillar 2; operational, market and liquidity risk; as well on IFRS 9 has been scheduled for fiscal year 2024. The Fund will also begin providing support to the central bank around a central bank digital currency.

Annex IV. Public Debt Sustainability Assessment

Figure 1. Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	…	**Moderate**	The overall risk of sovereign stress is assessed as moderate. Spreads remain lower than many BB- peers, with continued good market access— as well as good international reserve buffers and track-record of good (investment-led) growth and resilience. Medium-term risks appear moderate given the declining debt path and relatively low Gross Financing Needs (GFN), while uncertainty around these paths suggests moderate risk. Longer-term risks relate primarily to the rising impact of natural disasters due to climate change. A proposed FRL, if adopted, could help further reduce spreads and risks related to deficits as a debt driver.
Near Term 1/			
Medium Term Fanchart GFN Stress test	**Low** **Moderate** **Moderate** …	**Moderate** … … …	Medium-term risks are assessed as moderate given debt levels are moderate and projected to decline, while Gross Financing Needs (GFNs) are also moderate as percentage of GDP in 2022-2028. That said, dependence on external private creditors is a risk factor, as it can lead to higher short-term financing needs (if reduced sovereign bond issuance is financed with shorter-term bank financing). The uncertainty around the debt and GFN paths—from the historical shocks—is also moderate. Medium-term risks could be lower if an FRL is adopted.
Long Term	…	**Moderate**	A key risk is from Climate Change (CC)—see Annex VIII, both from more frequent or intense natural disasters (e.g., extreme heat and droughts, forest fires, and rain and wind events), as well as environment degradation (e.g., rising sea levels and algal blooms/sargassum) that would negatively impact key industries, in particular agriculture and tourism, but also infrastructure. In terms of natural disasters, impacts may be mitigated by further investments in resiliency and adaptation (Annex VIII), with costs manageable although subject to uncertainty.
Sustainability Assessment 2/		Sustainable	Following the COVID-related spike, public debt is on a downward path. This path should be supported by the authorities' aim for continued gradual consolidation (as projected in their MTFF)—to be possibly supported also by a fiscal rule.
Debt Stabilization in the Baseline			Yes

DSA Summary Assessment
The Dominican Republic has an overall moderate risk of sovereign stress and debt is assessed as sustainable. This reflects that public debt is on a downward path as the recovery from the COVID-19 shock has been strong and fiscal consolidation was front-loaded in 2021. Spreads remain moderate (but lower than many BB- peers) and GFNs are relatively low in the near-term (which has been aided by recent pro-active debt management operations), while growth prospects remain relatively robust, reserve buffers have continued to increase, and the DR has so far benefited from good market access and further financing from official creditors. That said, given reliance on external private creditors (mostly in foreign currency) and being a small open economy, risks have risen due to tightened global financing conditions and possible negative spillovers from lower advanced economy growth amid high energy prices and banking stress. Interest cost increases may be contained by the relatively low GFN (rollover needs) in the near-term and limited floating rate debt (which is mostly with official creditors, whose base rates are low, and terms are long). In the medium-term, despite declining debt and relatively low GFNs, the dependence on private external creditors is a risk amplifier; further diversifying financing sources, in particular development of the domestic market could help lower risks. Medium-term risks are expected to be somewhat contained by increasing primary balances (as reflected in the MTFF) and may be further contained by the adoption of a fiscal rule. Longer term risks—primarily climate change related—may be contained by investments in resilience. The authorities have also secured in 2022 a CAT-DDO to have contingent financing in case of disasters.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing. 1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published. 2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication. Source: IMF staff calculations.

Figure 2. Debt Coverage and Disclosures

Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
			CPS (chosen)	

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

	Subsectors captured in the baseline	Inclusion	Comments
1	Budgetary central government	Yes	
2	Extra budgetary funds (EBFs)	Yes	Partial; see Commentary.
3	Social security funds (SSFs)	No	See Commentary.
4	State governments	No	Not exist.
5	Local governments	Yes	Partial; see Commentary.
6	Public nonfinancial corporations	Yes	
7	Central bank	Yes	Only quasi-fiscal
8	Other public financial corporations	No	

(CPS: rows 1–8; NFPS: rows 1–7 excl. 7; GG: expected: rows 1–5; CG: rows 1–3)

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/	Comments
Missing	Chosen	Chosen	Missing	Missing	See Commnetary

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
	Chosen		Chosen	

5. Debt consolidation across sectors:

Consolidated	Non-consolidated	Comments
	Chosen	Except recapitalization bonds.

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

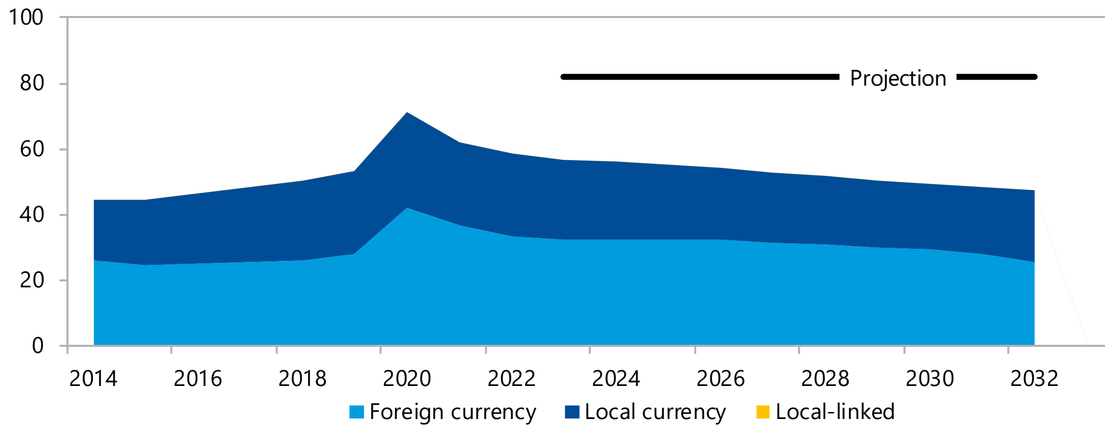
	Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt							132362		132362
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	132362	0	132362

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt coverage remains the same as recent Article IVs and is broad in terms of sectors—besides the central government (CG) it includes the rest of the budgetary non-financial sector and the central bank's quasi-fiscal debt (mostly a legacy of the 2003 banking crisis), which should eventually be absorbed by the CG through recapitalization. In terms of instruments, it is the sum of the Non-financial Public Sector (NFPS) securities and loans; plus public electricity distribution companies' arrears over 45 days (when they've existed)—currently not part of official statistics; plus the Central Bank (BCRD) securities debt (the counter-part for the BCRD quasi-fiscal debt, mostly related to 2003 banking crisis), net of recapitalization bonds issued by the central government and held by the central bank (as indicated in the table above on intra-government debt holdings). Most of the reported debt is that of the CG, followed by the BCRD debt, while the rest of the NFPS's securities and loan debt is minimal. Government guarantees of private debt is immaterial. Debt of public trusts and accounts payable (besides arrears of the electricity sector) are not included. Of note, the rest of the NFPS cannot issue debt beyond a fiscal year without the authorization of the Ministry of Finance or Congress. The authorities are receiving Fund technical assistance on public debt statistics to improve coverage, basis of recording, and valuation.
Source: IMF staff calculations.

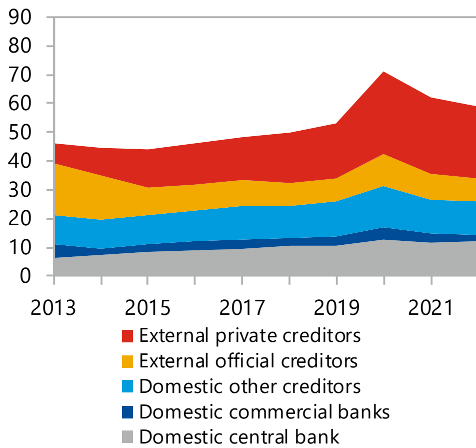
Figure 3. Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



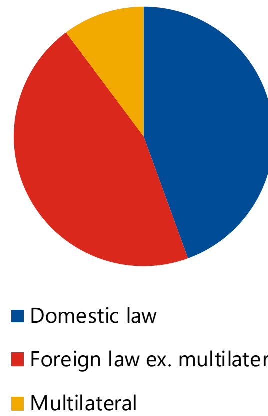
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



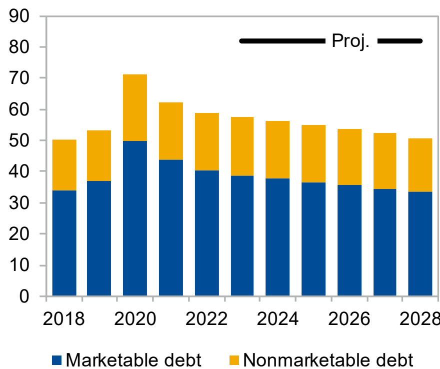
Note: The perimeter shown is consolidated public sector.

Public Debt by Governing Law, 2022 (Percent)



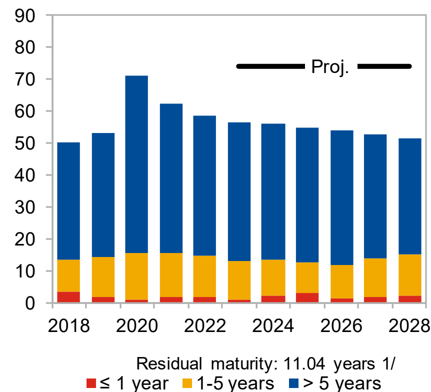
Note: The perimeter shown is consolidated public sector.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is consolidated public sector.

Public Debt by Maturity (Percent of GDP)



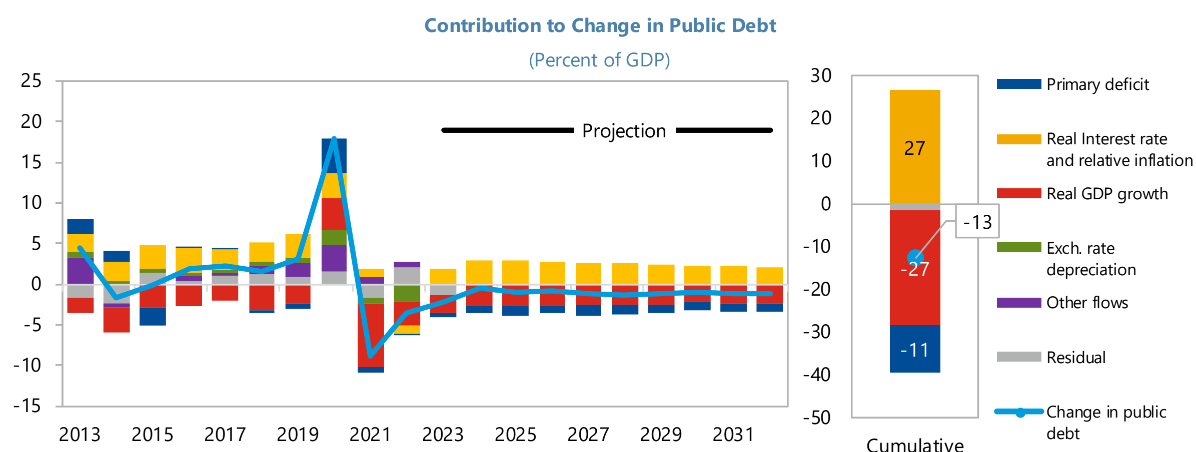
Note: The perimeter shown is consolidated public sector.

1/ Residual maturity is as of 2022, calculated for NFPS issued securities (net of the BCRD recapitalization bonds) and disbursed loans.

Commentary: Most debt is in foreign currency and held by the market (marketable), in particular by external private investors in DR global sovereign bonds (and thus are under foreign law). Debt in foreign currency and held by the market (marketable) increased in 2020, due to a large external sovereign bond issuance (at attractive interest rate and maturity), but in terms of GDP has declined since 2021 and is projected to gradually decline further. Given demand for more local currency debt and following up past successful issuances in Dominican pesos (DOP), in early 2023 the government issued $1.1 billion in DOP-denominated global bond (with about 60 percent to buy-back maturing DOP debt and the remainder for budget financing)—increasing the share of DOP bonds in total global bonds to 8 percent (from 7 percent). While this will incur higher interest costs than USD debt, it helps reduce the foreign exchange risk. Debt held by the central bank (BCRD) reflects the CG liability for quasi-fiscal debt, mostly a legacy of the 2003 banking crisis—the market counterpart to this is the securities issued by the BCRD, which are mostly held by commercial banks. The authorities are looking to further develop domestic securities market to issue more local currency debt, and domestic issuances have increased in frequency and regularity in 2023. NFPS debt is mostly long-term, with average remaining maturity increasing from around 9 years in 2018 to around 11 years as of end-2022, due in part to active debt management in recent years to extend maturities and reduce rollover risk.
Source: IMF staff calculations.

Figure 4. Baseline Scenario
(Percent of GDP unless indicated otherwise)

	Actual	Medium-term Projection						Extended Projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	58.8	56.5	56.0	55.0	54.1	52.9	51.6	50.5	49.5	48.4	47.2
Change in public debt	-3.5	-2.2	-0.5	-1.0	-0.9	-1.2	-1.3	-1.1	-1.0	-1.1	-1.2
Contribution of identified flows	-5.6	-0.9	-0.6	-0.9	-0.9	-1.2	-1.2	-1.1	-1.0	-1.1	-1.2
Primary deficit	-0.2	-0.5	-0.7	-1.1	-1.0	-1.2	-1.2	-1.0	-1.0	-1.0	-1.0
Noninterest revenues	15.3	14.8	14.9	15.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Noninterest expenditures	15.1	14.2	14.2	13.9	14.0	13.7	13.7	13.9	13.9	13.9	13.9
Automatic debt dynamics	-6.0	-0.4	0.1	0.2	0.1	0.1	0.0	-0.1	0.1	-0.1	-0.1
Real interest rate and relative inflation	-0.9	1.8	2.9	2.8	2.7	2.6	2.5	2.4	2.3	2.3	2.2
Real interest rate	-2.0	1.5	2.5	2.2	2.1	2.0	1.9	1.8	1.7	1.7	1.6
Relative inflation	1.1	0.4	0.4	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.5
Real growth rate	-2.9	-2.3	-2.8	-2.7	-2.6	-2.6	-2.5	-2.5	-2.2	-2.4	-2.3
Real exchange rate	-2.2	...	...	...	...	...	...	...	...	...	...
Other identified flows	0.6	0.0	0.0	0.0	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	0.0
Other transactions	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	2.1	-1.3	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	5.5	5.8	4.8	5.4	6.0	4.2	4.4	4.8	4.1	4.9	5.4
of which: debt service	5.7	6.3	5.5	6.5	7.0	5.5	5.6	5.9	5.1	5.9	6.5
Local currency	2.9	3.8	2.7	3.0	3.1	2.0	2.5	2.4	1.9	2.1	1.9
Foreign currency	2.8	2.5	2.8	3.5	3.9	3.4	3.1	3.5	3.3	3.8	4.6
Memo:											
Real GDP growth (percent)	4.9	4.0	5.1	5.0	5.0	5.0	5.0	5.0	4.6	5.0	5.0
Inflation (GDP deflator; percent)	10.7	4.8	3.6	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal GDP growth (percent)	16.1	9.0	9.0	9.2	9.2	9.2	9.2	9.2	8.8	9.2	9.2
Effective interest rate (percent)	7.0	7.5	8.4	8.3	8.2	8.1	8.0	7.9	7.7	7.9	7.7



Commentary: Historically and pre-COVID, debt was driven up mostly by the real interest rate and relative inflation, while real GDP growth, and sometimes primary surpluses, helped contain an increase in the debt burden. The exchange rate typically has not had a major impact. The year that COVID hit (2020) was an outlier in terms of debt drivers, with COVID related expenses having an important impact on debt also in the context of negative growth and a significant exchange rate depreciation. In the projection period, debt is expected to continue declining, reflecting expectations of increasing primary surplus (in line with the authorities' MTFF) and growth in line with potential. Real interest rate costs would increase from COVID lows (in 2021), back to levels in line with historical experience.
Source: IMF staff calculations.

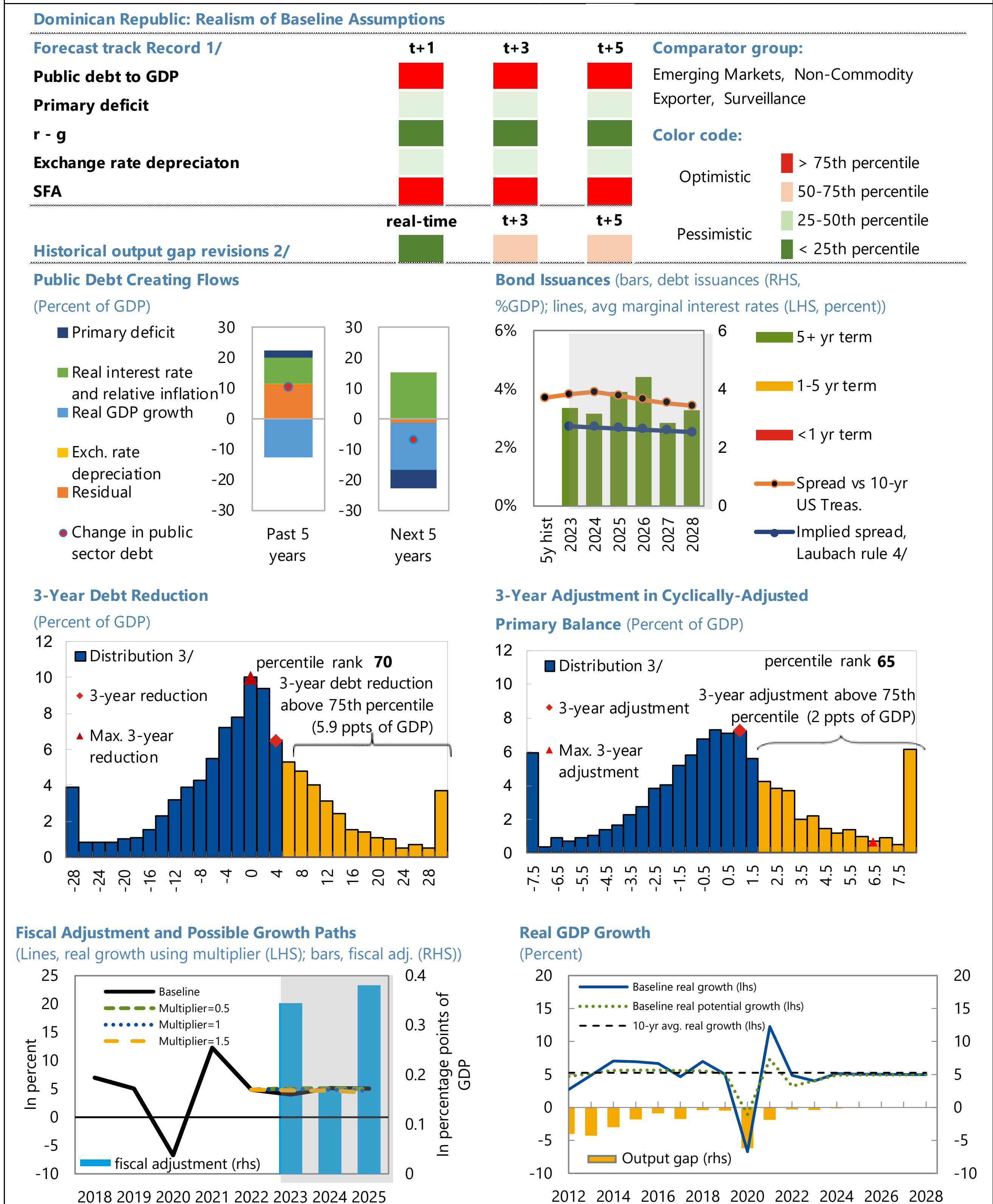


Figure 5. Realism of Baseline Assumptions
Dominican Republic: Realism of Baseline Assumptions
Forecast track Record 1/
t+1
t+3
t+5
Public debt to GDP
Primary deficit
r - g
Exchange rate depreciaton
SFA
real-time
Historical output gap revisions 2/
Comparator group:
Emerging Markets, Non-Commodity Exporter, Surveillance
Color code:
Optimistic
Pessimistic
> 75th percentile
50-75th percentile
25-50th percentile
< 25th percentile
Public Debt Creating Flows
(Percent of GDP)
Primary deficit
Real interest rate and relative inflation
Real GDP growth
Exch. rate depreciation
Residual
Change in public sector debt
Past 5 years
Next 5 years
Bond Issuances (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))
5+ yr term
1-5 yr term
<1 yr term
Spread vs 10-yr US Treas.
Implied spread, Laubach rule 4/
5y hist
3-Year Debt Reduction
(Percent of GDP)
Distribution 3/
3-year reduction
Max. 3-year reduction
percentile rank 70
3-year debt reduction above 75th percentile (5.9 ppts of GDP)
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)
Distribution 3/
3-year adjustment
Max. 3-year adjustment
percentile rank 65
3-year adjustment above 75th percentile (2 ppts of GDP)
Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))
Baseline
Multiplier=0.5
Multiplier=1
Multiplier=1.5
fiscal adjustment (rhs)
In percent
In percentage points of GDP
Real GDP Growth
(Percent)
Baseline real growth (lhs)
Baseline real potential growth (lhs)
10-yr avg. real growth (lhs)
Output gap (rhs)

Commentary: In terms of the historical (2011-2019) forecast track record, staff's public debt projections and Stock-Flow Adjustment (SFA) have been relatively more optimistic while the real rate - real growth (r-g) differential driver has been pessimistic. The latter (the r-g differential) is largely due to staff being typically conservative (i.e., more pessimistic) on growth and interest rates. The former (public debt projections and SFA) may be due to additional issuances (for pre-financing and/or over-financing to have a liquidity buffer) not captured by previous staff deficit projections. The former also may be due to the lack of data on accounts payable and staff including arrears (over 45 days) of the electricity distribution sector in the debt coverage —these debts and arrears may have only been known with a lag due to limited data/transparency. Also, since the CPS includes central bank securities (as a measure of the quasi-fiscal debt), these may increase for monetary/liquidity management reasons more than that implied by the quasi-fiscal deficit driver. The forecast error related to electricity sector arrears is not expected to continue as the authorities have put in place a mechanism to prevent arrears over 45 days. Further, the authorities are receiving Fund technical assistance on public debt statistics to improve coverage, basis of recording, and valuation. Forecast errors for the quasi-fiscal debt (i.e., proxied by the central bank securities) is likely to continue given that, as noted above, BCRD securities may increase for monetary/liquidity policy purposes. In terms of pre-financing/liquidity buffers, projections assume these are zero.

Projections of public debt creating flows show a greater impact of real growth in the next 5 years—this reflects that the past 5 years included the 2020 pandemic shock that reduced average growth to 4.3 percent versus the pre-pandemic long-term average of 5 percent that is used in projections. Further, the Real GDP Growth chart (growth realism tool) shows no positive output gaps in the MT.

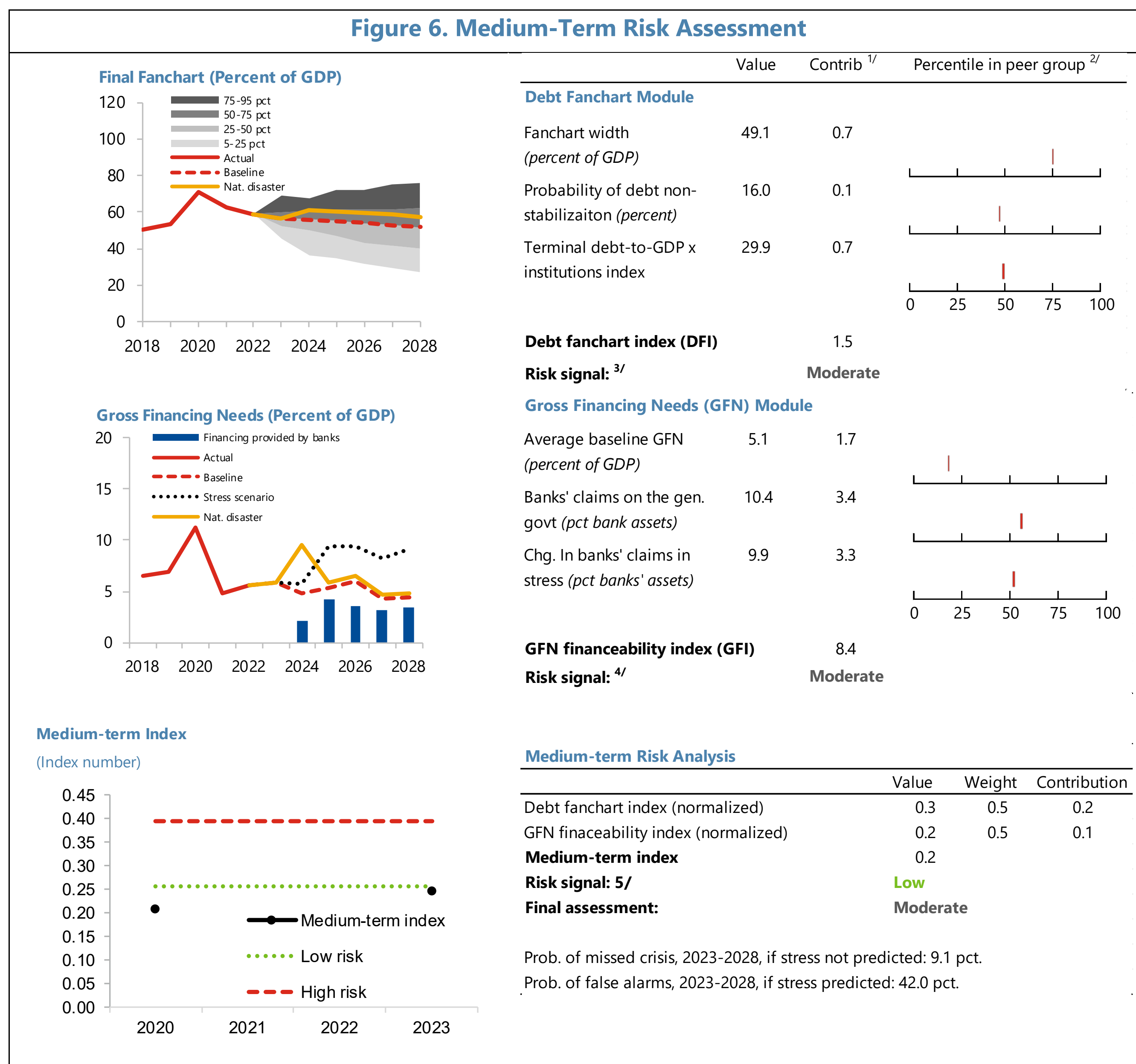
Another important debt reduction driver is the envisaged increase in the primary balance, which in the forecast period had a percentile rank below the 75th percentile and is slightly more conservative than the authorities' central government medium-term fiscal framework (MTFF) projections. Staff's projections are primarily driven by lower electricity subsidies, with almost half of these driven by the lower energy prices envisaged in the WEO baseline. The remainder is driven by the projected reduced distribution losses and higher tariffs envisaged under the Electricity Pact (although implemented with some delays). While there are downside risks to the projected lower subsidies, there are also upside risks if more and cheaper renewable energy is added to the generation matrix, as envisaged by the authorities (and supported by World Bank Development Policy Loans). The possible adoption of a fiscal rule (currently being worked on but not included in the baseline) could further improve the credibility of the consolidation envisaged in the authorities MTFF.

The authorities monitor the markets closely and were able to issue for 2022 before Russia's invasion of Ukraine and in early 2023, at relatively favorable spreads (with 2023 potentially reflecting the credit rating upgrade to BB by S&P in December 2022). Going forward, bond spreads for the DR are expected to remain around current levels in the near-term (which are elevated vis 2020 to early 2022 period, given geopolitical uncertainties and tighter global financial conditions) but then gradually decline somewhat during the projection period. Continued increases in the primary surplus and related declines in the debt burden should support lower spreads for the DR, especially if the authorities adopt a credible FRL. That said, there is a risk that spreads stay elevated, above the pre-Ukraine levels, given the geopolitical environment and uncertainties.

The forecasted (3-year) debt reduction is below the 75th percentile and just slightly above the average. Future debt reduction is supported by a realistic/feasible fiscal adjustment over a 3-year period (58 percentile rank). The latter adjustment is in line with the authorities MTFF and may be further cemented by the possible adoption of a FRL.

Source: IMF staff calculations.
1/ Projections made in the October and April WEO vintage.
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.
4/ The Lauback (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Medium-Term Risk Assessment



Commentary: Both the Debt Fanchart Module and GFN Module point to moderate risk in the baseline and likely adverse scenarios.

For the debt fanchart this reflects that initial debt levels are moderate, and risks are moderate, i.e., there is a high probability of stabilization and terminal debt level is not high. In case of a natural disaster shock, debt would be higher, but remain below the peak in 2020 and continue to gradually decline.

The GFN tool score also points to moderate risk, due to low average GFN in the baseline and moderate level of bank claims / dependence (as most debt is longer-term bonds). However, the shock (stress) scenario is strong because of dependence of external private creditors (as the shock scenario assumes limited rollover by these creditors and thus a need to rely on short-term bank financing). In case of a natural disaster, GFN would rise in that year of the shock (given the impact on the deficit and growth), but then decline (although remaining slightly above the baseline due to the higher debt level).

Source: IMF staff calculations.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

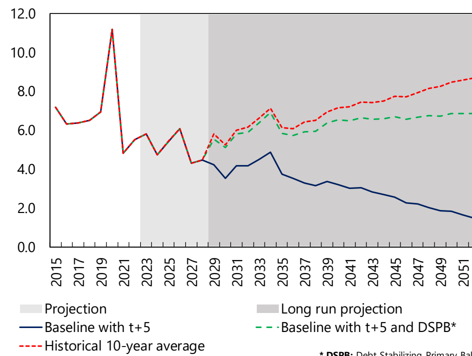
Figure 7. Long-Term Risk Analysis

Large Amortization Trigger

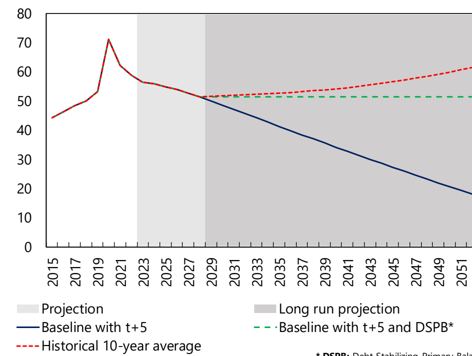
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

Alternative Baseline Long-term Projections

GFN-to-GDP Ratio



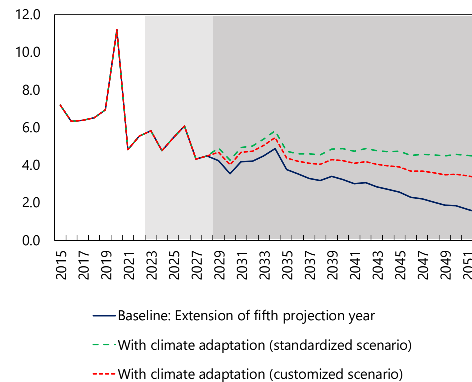
Total Public Debt-to-GDP Ratio



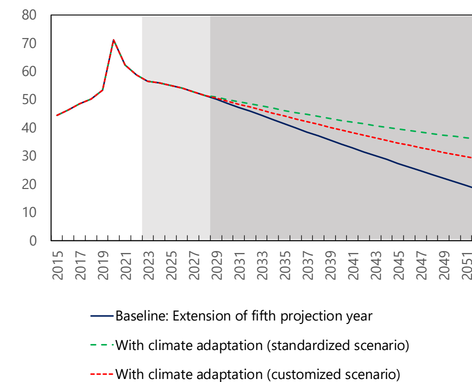
Commentary: The historical scenario—which shows an increasing GFN and debt ratios—is heavily influenced by the 2020 spike in the deficit and debt due to COVID—considered an extreme event—and thus not very likely. Under the baseline with debt stabilizing primary balance (DSPB) scenario, debt and GFN stay at the moderate levels. Under the baseline (with debt dynamics as of t+5), the debt ratio and GFNs continue declining given the projected primary surplus (1.2 percent of GDP) and also reflecting that the authorities' debt amortization does not have abnormally large spikes (aided by pro-active debt management).

Climate Change: Adaptation

GFN-to-GDP ratio



Total public debt-to-GDP ratio



Commentary: Under the standardized scenario (with 0.7 percent of GDP adaptation costs from 2029), debt remains on a downward path and GFN would remain moderate. A customized scenario based on Annex VIII takes into account the impact of resilient investment on long-term growth (higher by 0.13% per year) and LT fiscal gain (with a primary balance impact lower by 0.02% GDP versus the standardized scenario). A forthcoming World Bank CCDR (due in 2023) as well as the authorities on-going work with the IADB can provide more country specific parameters to better calibrate the adaptation scenario to the Dominican Republic's characteristics.

Source: IMF staff calculations.

Annex V. External Sector Assessment

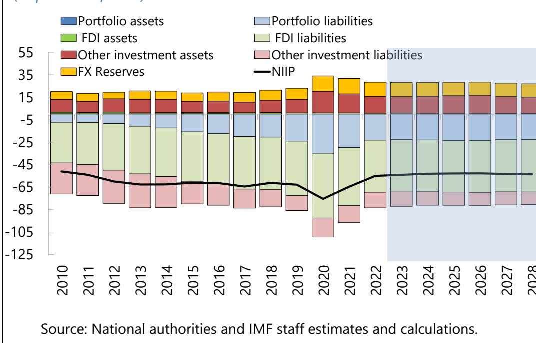
Overall Assessment. *The external position of the Dominican Republic as of end 2022 remains broadly in line with the level implied by fundamentals and desirable policies. Risks to external stability are low and decreasing, which are supported by the ongoing strong rebound in tourism activity, stable remittances inflows, rising foreign direct investment inflows, and declining external debt—below pre-pandemic levels as of end-2022. Gross international reserves increased and are above all traditional metrics, but still below the IMF's ARA metric.*

Potential Policy Responses. *Amid its dependence on global economic activity (tourism, remittances, and FDI), the Dominican Republic needs to continue building external buffers to shield the country against future external shocks. The tight monetary policy stance will lessen potential risks to capital outflows while a gradual fiscal consolidation will narrow the external current account deficit.*

Foreign Assets and Liabilities: Position and Trajectory

Figure 1. IIP Composition, by Instrument

(In percent of GDP)



Source: National authorities and IMF staff estimates and calculations.

Background. The Net International Investment Position (NIIP) continued to improve in 2022 reaching -54.9 percent of GDP, an improvement of 9¾ percentage points of GDP which followed a 10¾ percentage points of GDP improvement in 2021. It was driven mainly by a reduction in external debt (e.g., by the general government, deposit taking corporations, and other sectors) on the liabilities side which more than offset a reduction in gross assets in the form of other investments by other sectors. Total external debt, which fell to 40.5 percent of GDP, is already below pre-pandemic levels—4 years than earlier than previously estimated. Thus, risks to external sustainability and external vulnerabilities have continued to decrease. Over the medium-term, the NIIP is projected to continue improving gradually.

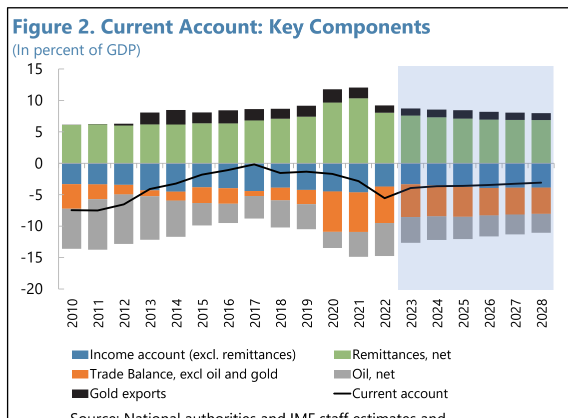
Assessment. The NIIP has improved since 2020 and is projected to continue strengthening over the medium-term. Thus, it is assessed as sustainable.

2022 (% GDP)	NIIP: -54.9	Gross Assets: 28.5	Debt Assets: 0.9	Gross Liabilities: 83.4	Debt Liabilities: 26.6

Current Account

Background. The Current Account (CA) deficit widened to 5.6 percent of GDP in 2022, driven by the terms of trade shock following Russia's invasion of Ukraine and the continued domestic recovery which contributed to the widening of the trade deficit (e.g., the oil bill increased by 1.2 percentage points of GDP). This is the largest current account deficit since 2012. The deficit was financed mainly by FDI and portfolio investments—largely in the form of long-term sovereign bonds.

Figure 2. Current Account: Key Components
(In percent of GDP)



Source: National authorities and IMF staff estimates and

Assessment. The Dominican Republic's cyclically adjusted CA is estimated at -4.1 percent of GDP after accounting for cyclical contributions (e.g., pandemic, negative terms of trade, and natural disasters shocks). The 2022 EBA-lite estimates a CA norm of -4.3 percent of GDP, which when compared to the cyclically adjusted CA, results in an estimated CA gap of 0.2 percent of GDP. Thus, staff concludes that the current account is broadly in line with the level implied by fundamentals and desirable policies.

Table 1. EBA-Lite Model Estimates for 2022
(Percent of GDP)

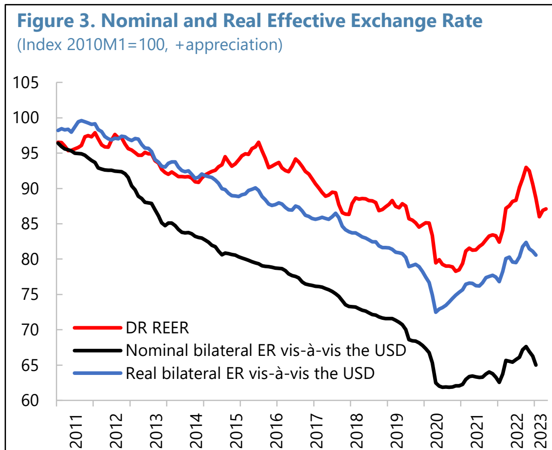
	CA model 1/	**REER model** 1/ (in percent of GDP)	**ES model**
CA-Actual	**-5.6**		
Cyclical contributions (from model) (-)	-0.6		
COVID-19 adjustors (-) 2/	-0.3		
Natural disasters and conflicts (-)	-0.5		
Adjusted CA	**-4.1**		
CA Norm (from model) 3/	**-4.3**		
Adjustments to the norm (-)	0.0		
Adjusted CA Norm	**-4.3**		
CA Gap	**0.2**	**2.9**	**-0.9**
o/w Relative policy gap	2.7		
Elasticity	-0.2		
REER Gap (in percent)	**-1.0**	**-16.6**	**5.1**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the pandemic on tourism (0.3 percent of GDP).
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Following a 6.5 percent appreciation in 2021, the Real Effective Exchange Rate (REER) continued its strengthening trend appreciating by 6.3 percent as of end-2022. This was driven by a 7.0

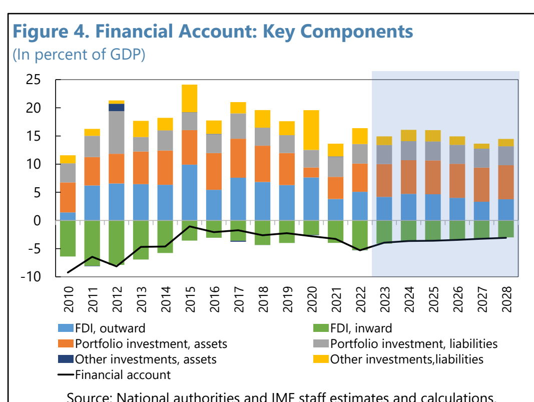
percent appreciation of the Nominal Effective Exchange Rate (NEER). The exchange rate vis-à-vis the U.S. dollar appreciated by 2.6 percent reflecting the strong foreign exchange inflows.



Assessment. The EBA-Lite REER model estimates a gap of -16.6 percent (undervaluation) in 2022 driven mainly by a large residual which limits the assessment. The External Sustainability (ES) model suggests a REER overvaluation of 5.1 percent. Based on an elasticity of -0.2 of the trade balance to the REER, the CA model estimates a REER undervaluation of -1.0 percent. In line with the assessment implied by the CA model—while considering all estimates and the uncertainties around them, staff assesses the REER gap in 2022 to be -1.0 percent.

Capital and Financial Accounts: Flows and Policy Measures

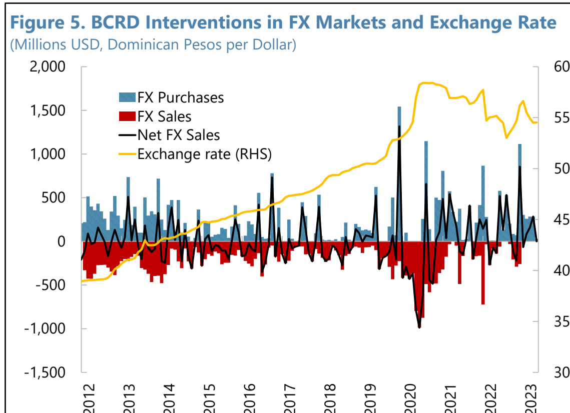
Background. Financing sources remain healthy and stable. In 2022, the current account deficit was financed mainly by FDI (two-thirds) and portfolio investment (one-third). Recent sovereign debt placements, in early 2022 and on January 31, 2023, have helped to extend the maturity and reduce the exchange rate risk of the government's debt profile. Going forward and in line with the authorities' plans to improve the business environment, FDI and portfolio investments are expected to continue to finance the current account deficit.



Assessment. The Dominican Republic's external sustainability is supported by strong FDI and net portfolio investment flows. Active debt management operations in recent years have strengthened the public sector external debt profile. Further accumulation of external buffers should mitigate potential capital flows risks.

FX Intervention and Reserves Level

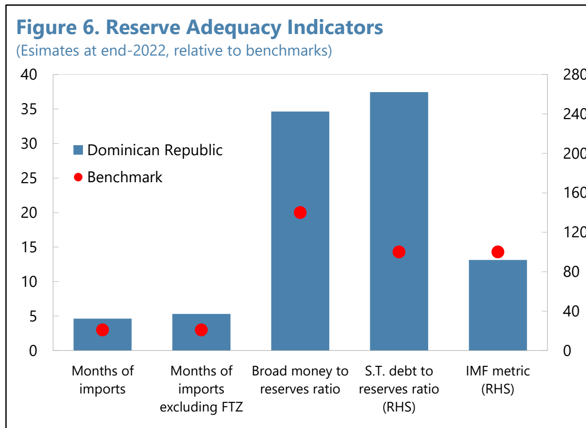
Background. The Dominican Republic's gross international reserves increased by 11.6 percent to US$14.4 billion. As of end 2022, the level of reserves exceeded traditional metrics increasing to 4.6 months of prospective imports of goods and services, over 2.6 times short-term debt, and covering nearly 35 percent of broad money. Gross international reserves stood at 92 percent of the IMF's ARA metric, up from 88 percent in 2021 and from 72 percent prior to the pandemic. The level of reserves has been supported



by active debt management operations, strong inflows of FDI, and the purchases by the Central Bank. FXI interventions by the BCDR remain double sided. Net purchases totaled US$1.7 billion in 2022, which also contributed to the small (i.e., 2.6 percent) nominal appreciation of the currency.

Assessment. The level of reserves has improved markedly over the last five years with IMF's ARA metric increasing from 61 percent in 2017 to 92 percent in2022. Staff's baseline scenario assumes further reserve accumulation over the medium-term.

Figure 6. Reserve Adequacy Indicators
(Esimates at end-2022, relative to benchmarks)



Annex VI. On the Potential Impact of Electricity Sector Reforms on Aggregate Output[1]

Introduction

1. The Dominican Republic (DR) is a fast-growing economy implementing several important structural reforms. To continue its rapid growth, the country needs efficient and sustainable infrastructure, including electricity provision. While the sector has improved its performance moderately in the last decade, it remains a hindrance to growth and fiscal sustainability, with large distribution losses in absolute terms and compared to regional peers—both technical (around 10 percent) and non-technical (around 20 percent)—frequent blackouts, a heavy reliance (70 percent) on imported fossil fuels (Annex VIII), and below-cost tariffs.[2] To address these challenges, the authorities have committed to substantial reforms to the Electricity Sector (ES) through the Electricity Pact (EP), which aims to improve service quality, eliminate untargeted electricity tariff subsidies, enable private sector participation in electricity distribution to increase efficiency and reliability, and increase the use of renewable energy, among other goals.[3]

2. ES reforms have the potential to significantly increase the efficiency of the sector, with positive downstream spillovers to other sectors. Several aspects of the EP—e.g., improving distribution efficiency, reducing blackouts, and increasing the use of renewable energy—will likely affect the cost of producing and distributing electricity in the DR. Improving distribution efficiency by reducing technical losses in distribution (including blackouts) has a direct impact on the efficiency by which generated electricity reaches end-users.[4] Increasing the use of renewable energy, given recent and ongoing technological improvements in its efficiency and geopolitical factors causing unpredictable supply constraints in fossil fuels, has the potential to reduce the cost of electricity generation in the DR. As electricity is an intermediate input to other sectors, such efficiency improvements will have positive downstream spillovers to other sectors. The goal of this annex is to quantify these spillovers.

Methodology and Data

3. Input-output (IO) analysis is used to quantify the potential macroeconomic impact of efficiency improvements. IO tables quantify linkages between economic sectors, permitting the quantification of improvements in the efficiency of the electricity sector for the productivity of other

[1] Prepared by Nicolas Fernandez-Arias.

[2] OECD/UNCTAD/ECLAC (2020), *Production Transformation Policy Review of Dominican Republic: Preserving Growth, Achieving Resilience*, OECD Development Pathways, OECD Publishing, Paris, https://doi.org/10.1787/1201cfea-en. Economist Intelligence Unit (2015), *The future of the electricity sector in Dominican Republic*.

[3] Country Report 22/248 provides details on the EP, emphasizing its potential to ease the fiscal burden of below-cost tariffs and non-technical distribution losses.

[4] While the productivity impact from blackouts may be small (some firms will not operate but others will use their own generators), the academic literature has tended to find that increases in shortages can reduce firms' revenues (especially of smaller firms that are prevalent) via production cuts.

sectors, and aggregate output (GDP). Specifically, the elasticity of GDP to ES productivity is estimated using the methodology described in Jones (2011). The key expression derived by Jones is:

$$\mu' = \frac{b'(I-B)^{-1}}{1-b'(I-B)^{-1}\lambda},$$

where μ is a vector whose ith entry is the elasticity of GDP to sector i productivity, b is a vector denoting the final output expenditure shares on each sector, $L \equiv (I-B)^{-1}$ is the Leontief inverse of the intermediate input expenditure shares matrix B (derived from the IO matrix) , and λ is a vector of intermediate import expenditure shares for each domestic production sector. The intuition for the above expression is as follows. Each element of matrix L, l_{ij}, captures the impact of a productivity improvement in sector *j* on the final output of sector i, capturing the direct and indirect effects via all sectors of the economy.[5] Thus, the expression $b'(I-B)^{-1}$ *adds up* the effects of increased productivity in sector *j on all* the sectors in the economy, weighed by their shares of final output expenditure. The denominator—equal to one in a closed economy and greater than one if there are imported intermediate inputs—accounts for the impact of increased output on exports and thereby imported intermediates.[6] The above expression thus reveals how a productivity improvement in any sector affects aggregate gross value added. To implement this methodology, domestic IO matrices, the sectoral composition of final output, and the import share for each domestic sector are used.

4. This methodology provides a first-order approximation of the impact of productivity improvements. The above expression is derived assuming that production functions and consumption preferences are both Cobb-Douglas, which implies that sectoral expenditure shares do not depend on sectoral productivities. In economies with other production functions such as CES, sectoral expenditure shares depend on sectoral productivities and hence the results will only be valid for small improvements in productivity.[7] The actual impact on output of a given increase in productivity of a given sector may be higher or lower than what is suggested by this local approximation, depending on how expenditure shares (in production and consumption) change. In this application to the ES, the local approximation may overestimate the impact of ES productivity on aggregate output given that electricity cannot easily substitute for other intermediate inputs or factors of production. Hence the results can be considered as an upper bound of the possible impact of improvements in the ES.

[5] For instance, a productivity increase of 1% in the electricity sector can improve the productivity in the transport sector which in turn could improve the productivity of the manufacturing sector.

[6] The intuition is that when an increase in sector i productivity increases aggregate output, this increases exports and, because trade is balanced and only intermediates are assumed to be imported, increases imported intermediates and hence aggregate output in sectors j which use imported intermediates most heavily (reflected in a high value of λ_i). The open economy correction thus amplifies the elasticity of aggregate output to productivity in sector i by an amount which is the same across sectors i.

[7] The approach is exact under Jones' assumptions, and it is a first-order approximation if the economy is efficient and satisfies Jones' assumptions about trade (balanced trade and only the aggregate final good is exported). Otherwise, adjusting the first-order approximation for inefficiencies requires information on these for each sector, beyond the scope of this annex.

Results and Discussion

5. Table 1 shows that productivity improvements in the ES would lead to VA improvements that exceed the share of electricity in VA. The analysis is conducted using two different IO tables: the authorities' latest publicly available IO table corresponding to 2012 and an IO table for 2021 from the EORA Global Supply Chain Database. The first source has 24 sectors and has the advantage of being specific to the DR but it is based on the economy in 2012 and may be somewhat outdated. The sector "Energy and Water" (*Energía y Agua*) is taken to be the electricity sector. EORA has an IO matrix for 2021, but with 26 sectors that are harmonized across countries, which could introduce some measurement error. The sector "Electricity, Gas, and Water" is taken to be the electricity sector.

Table 1. Dominican Republic: Impact of Electricity Sector Productivity Improvements on Aggregate Output and Amplification Via Intersectoral Linkages

	A: Elasticity of Aggregate Output to ES Productivity	B: Elasticity Due to Intermediates	C: Amplification Due to Use of Intermediates (A / (A – A'))	D: Elasticity of GDP to Productivity in All Sectors ($\tilde{\mu}$ in Jones)	E: Elasticity of GDP to Productivity in All Sectors Absent Domestic Intermediate Links
Authorities' IO (2012)	0.065	0.049	4.08	1.67	1.09
EORA (2012)	0.041	0.019	2.13	1.64	1.08
EORA (2021)	0.050	0.019	1.61	1.60	1.10

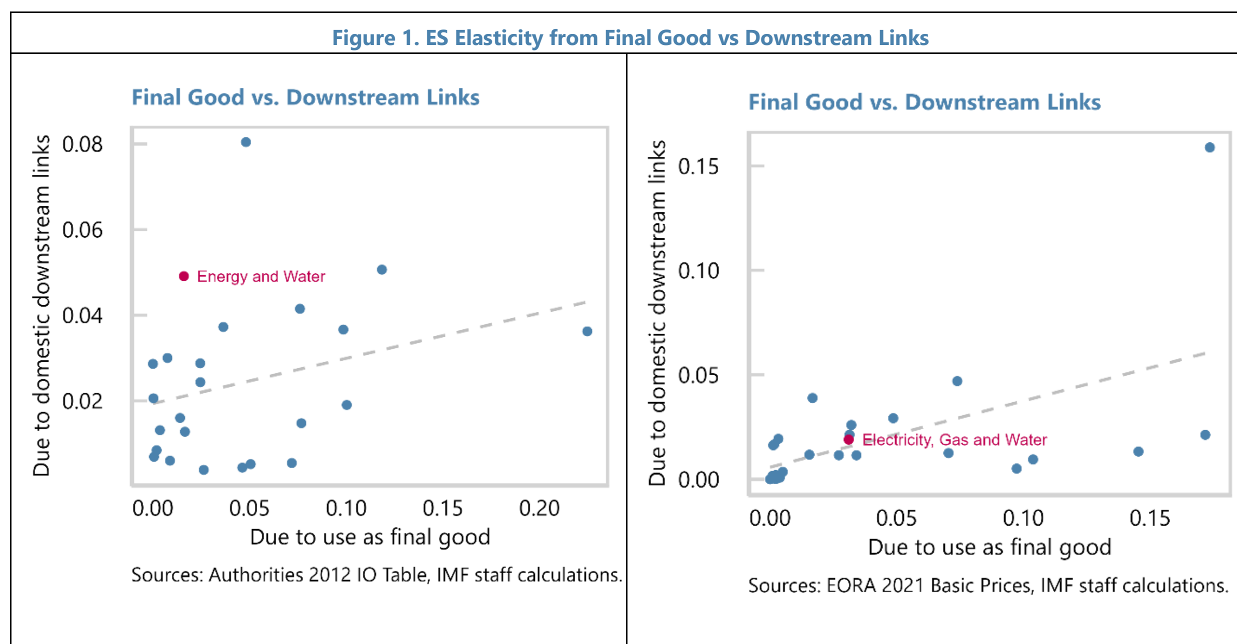
Note: EORA IO matrices pertain to basic prices. Analysis performed with purchaser prices yielded similar results.

Sources: Authorities, EORA, and IMF staff calculations.

6. The impact of ES efficiency improvements on GDP could be substantial and significantly amplified by its use as an intermediate input into other domestic sectors. Column A in Table 1 shows the elasticity of aggregate output to ES productivity considering all intermediate links. In 2012, using the authorities' data, it is estimated at 0.065, so that a 1 percent improvement in the efficiency of the ES increases output by 0.065 percent. In 2021, using EORA data, the same elasticity is estimated at 0.05. However, note that EORA data in 2012 (second row) estimates a lower elasticity than the authorities' data in the same year, suggesting possible downward bias in EORA. Column B shows the portion of this elasticity that is accounted for by electricity's use as an intermediate input by other domestic sectors[8] and column C shows the amplification due to intermediates. Across all data sets used, the impact on GDP of electricity sector efficiency is significantly amplified by its use as an intermediate input in other sectors.

[8] Calculated as the relevant entry of the difference $\frac{b'(I-B)^{-1}}{1-b'(I-B)^{-1}\lambda} - \frac{b'}{1-b'\lambda'}$, that is, the difference in the elasticity when using the actual intermediate expenditure share matrix B and when using $B = 0$, i.e., no domestic intermediate linkages.

7. The use of electricity as an intermediate sector is more important relative to its use as a final good than the typical sector. Column D shows the elasticity of GDP to the same percentage improvement in efficiency of all sectors, and E shows the same elasticity if domestic intermediate links are turned off. The difference in these quantities measures the overall importance of domestic intermediate inputs in aggregate production and can be compared to column B across sectors.[9] To examine the importance of ES use as an intermediate input compared to other sectors, Figure 1 considers the relationship between the elasticity of GDP to sectoral productivity due to domestic intermediate links and the elasticity of GDP to sectoral productivity ignoring domestic intermediate linkages, using the authorities' 2012 IO Table and EORA 2021 data, respectively. In 2012 and using the authorities' data, the use of ES output as an intermediate input contributed significantly more than its use as a final good would suggest based on other sectors. By contrast, in 2021 and using EORA data, ES figures only slightly above the trend line across sectors, reflecting a declining share of intermediates in ES output as well as a stronger positive relationship across sectors between sectoral GDP elasticities absent intermediate links and due to intermediate links. However, as previously mentioned, this may reflect a downward bias in EORA.

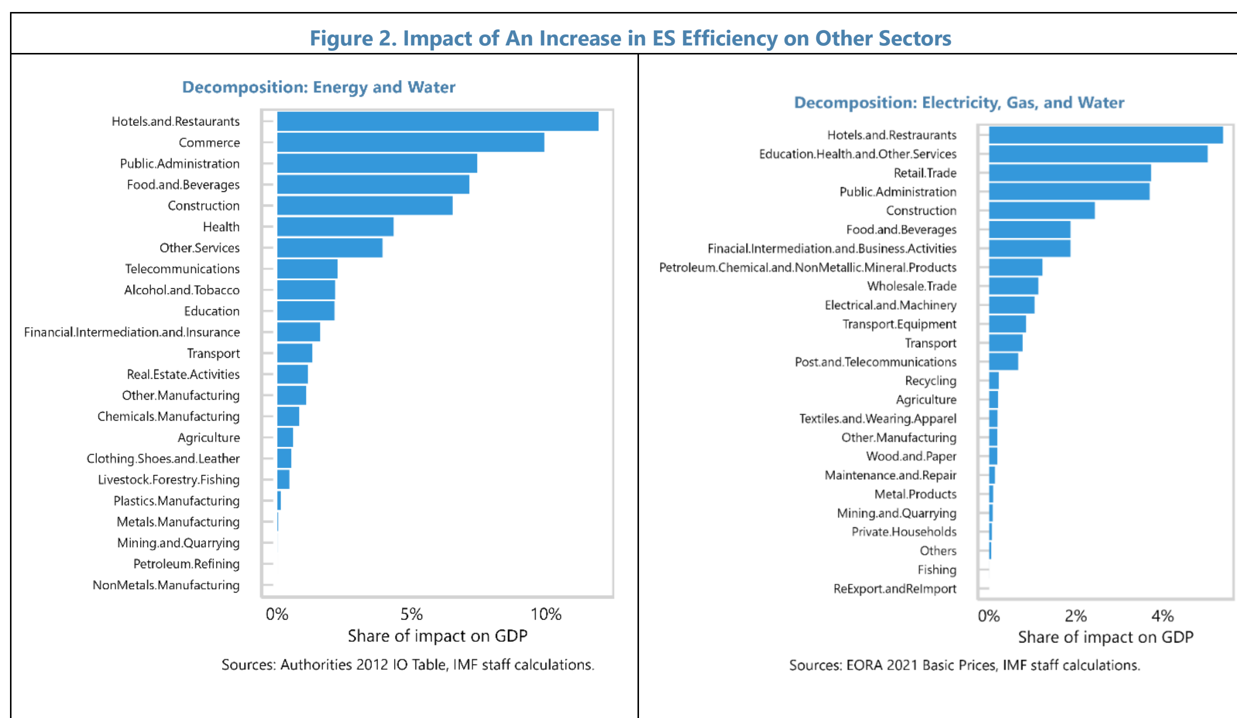


8. The impact of ES productivity on aggregate output is concentrated in a handful of key sectors. Figure 2 decomposes the impact on GDP of an increase in ES efficiency into the impact on final output across the different sectors in the economy using the authorities' 2012 input-output matrix. The share of the impact on ES final output itself (about 35 percent) is the residual. The figure shows that the main sectors downstream from ES are Hotels and Restaurants (11.9 percent), Trade (9.9 percent), Public Administration (7.4 percent), Food and Beverages (7.1 percent), Construction (6.5 percent), and to a lesser extent Health (4.3 percent) and Other Services (3.9 percent), together accounting for 51 percent of the elasticity of GDP to ES productivity. Other sectors account for the

[9] Specifically, the difference of columns D and E is equal to the sum of the respective differences (column A') across sectors.

remaining 14 percent. Apart from Construction, the pattern that emerges is of the importance of ES output for the Services sector. Figure 4 shows the same decomposition using the EORA 2021 input-output matrix, with the impact on ES final output itself (around 69 percent) as the residual. The results are broadly similar: the main sectors downstream from the ES are Hotels and Restaurants (5.4 percent), Education, Health, and Other Services (5.0 percent), Retail trade (3.7 percent), Public Administration (3.7 percent), and to a lesser degree Construction (2.4 percent), Food and Beverages (1.9 percent), and Financial Intermediation and Business Activities (1.9 percent), together accounting for 24 percent of the elasticity of ES productivity on GDP. Other sectors account for the remaining 7 percent. As with the authorities' data, this analysis suggests that efficiency improvements in the ES increase GDP mainly by increasing the output of the Services sector.[10]

Figure 2. Impact of An Increase in ES Efficiency on Other Sectors



Sources: Authorities 2012 IO Table, IMF staff calculations.

Sources: EORA 2021 Basic Prices, IMF staff calculations.

9. These estimates suggest important impacts on aggregate output from reforms to the ES given existing large inefficiencies and scope for efficiency improvements. Technical losses are used as a starting point to estimate the size of existing inefficiencies.[11] The Ministry of Economy, Planning, and Development's (*MEPyD)* ES monthly report shows overall distribution losses of about 30 percent, with technical losses in distribution around 1/3 of these, or 10 percent of electricity distributed.[12] The United States reports total transmission and distribution losses[13] of around 5

[10] As a caveat regarding the importance for Hotels and Restaurants, to some extent this may reflect the fact that our measure of ES in both data sets also captures water, an important input to that sector.

[11] Other sources of efficiency gains such as reductions in blackouts, a switch to cheaper sources of renewable energy, reduction in distributor operating expenses, or improvements in the efficiency of electricity generation itself are more difficult to quantify.

[12] Economist Intelligence Unit (2015), *The future of the electricity sector in Dominican Republic*.

[13] This includes both technical and non-technical losses. See https://www.eia.gov/tools/faqs/faq.php?id=105&t=3.

percent: assuming that the DR could reach this level allows for the possibility of a 5 percent improvement in efficiency from reducing technical losses. Applying the estimates presented in Table 1 suggest that aggregate output could increase between 0.25 and 0.325 percent if the improvement in efficiency is long-lasting. Conservatively, assuming a discount rate of 10 percent and an average growth rate of real GDP over the next twenty years of 3 percent, a 5 percent improvement in electricity would be equivalent to between 2.9 percent and 3.7 percent of GDP today in present value (depending on the elasticity used).[14] Table 2 presents sensitivity analysis for various assumptions on discount rates and growth rates of the economy.

Table 2. Dominican Republic: Present Value of Permanent Increase in GDP From Increased Electricity Sector Efficiency
(Percent of today's GDP)

		Discount Rate			
		5%	**7.5%**	**10%**	**12.5%**
Growth Rate	**3%**	[4.2, 5.5]	[3.4, 4.6]	[2.9, 3.7]	[2.5, 3.2]
	4%	[4.6, 5.9]	[3.7, 4.8]	[3.1, 4.0]	[2.6, 3.4]
	5%	[5.0, 6.5]	[4.0, 5.2]	[3.3, 4.3]	[2.8, 3.6]
	6%	[5.5, 7.1]	[4.4, 5.7]	[3.6, 4.7]	[3.0, 3.9]

Note: Lower (upper) bound in brackets relates to elasticity estimates using EORA 2021 (authorities' 2012) data.

Sources: Authorities, EORA, and IMF staff calculations.

[14] This exercise assumes a 20-year horizon where the structure of the economy is unchanged.

Annex VII. Creating Policy Space Through Revenue Mobilization to Support Developmental Needs[1]

The authorities' fiscal plans envisage a tightening fiscal envelope led by expenditure restraint and improvements to tax administration. Meanwhile, social and climate needs (Annex VIII) require additional spending which may be challenging to execute given spending rigidities and relatively low tax revenues. This annex explores the possible fiscal and macroeconomic impact of a comprehensive tax reform that raises 2 percent of GDP to create fiscal space in the medium term to help bring debt comfortably below 50 percent by 2027 while supporting key public investment, social spending, and development needs.

Background and Motivation

1. Despite relatively high tax rates, revenues are low relative to Latin American (LA) and sovereign credit rating peers. The authorities' economic plans aim to achieve investment-grade credit rating within ten years. Tax revenues and debt servicing costs relative to tax revenues are often cited as unfavorable metrics relative to other BB and BBB peers (Figure 1). Domestic revenue mobilization has been a longstanding challenge for the Dominican Republic with past tax reform efforts unable to yield durable increases in the tax base[2]. While tax rates in the Dominican Republic are above the average for regional comparators, tax revenues have remained relatively low with collection at around 13 percent of 2022 GDP, the second lowest in LA. This is due to (i) a complicated system of tax exemptions/incentives which is hard to administer, costly (around 4.5 percent of GDP, Figure 1) and inequitable; and (ii) the patchwork of modifications of the tax system in the last decade making compliance difficult, especially for medium and small enterprises. Several steps could help to improve the functioning, efficiency, and equity of the tax system, including simplifying the system to reduce compliance costs; increasing the efficiency of tax administration reforms; and eliminating the large number of exemptions under the VAT, property, and other taxes; rationalizing tax incentives; and reducing the high personal income tax allowance.

2. Low revenues have constrained priority social and infrastructure spending, while limiting needed fiscal space to reduce debt and to build buffers against future shocks. While poverty has more than halved relative to the levels observed following the 2003-04 financial crisis and extreme poverty almost eradicated, poverty levels remain at around 25 percent. Meanwhile, the Dominican Republic is vulnerable to climate shocks with estimated annual damages of around ½ percent of GDP and average annual spending on climate actions of around 10 percent of tax revenues between 2001-2021. These costs are projected to increase in the future due to climate change and from the implementation of the NDC—part of the authorities' National Development Strategy (NDS)—generating potential additional fiscal needs. Furthermore, relatively low revenue

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[1] Prepared by Emilio Fernandez-Corugedo and Hassan Adan.

[2] Country Report No. 2017/254. The tax reform of 2010 yielded about 0.3 percent of GDP, but its measures expired in 2013, and the tax reform of 2012 yielded about 1.3 percent of GDP by 2013, but some measures were temporary and other increased the burden on those who paid taxes instead of eliminating tax exemptions and incentives (e.g. through the tax on bank assets and the increase in CIT and VAT rates).

collection creates limited fiscal flexibility and is also an important structural obstacle to reducing financing costs for the government which currently devotes one-fifth of its revenues to interest payments (Figure 1, bottom right).

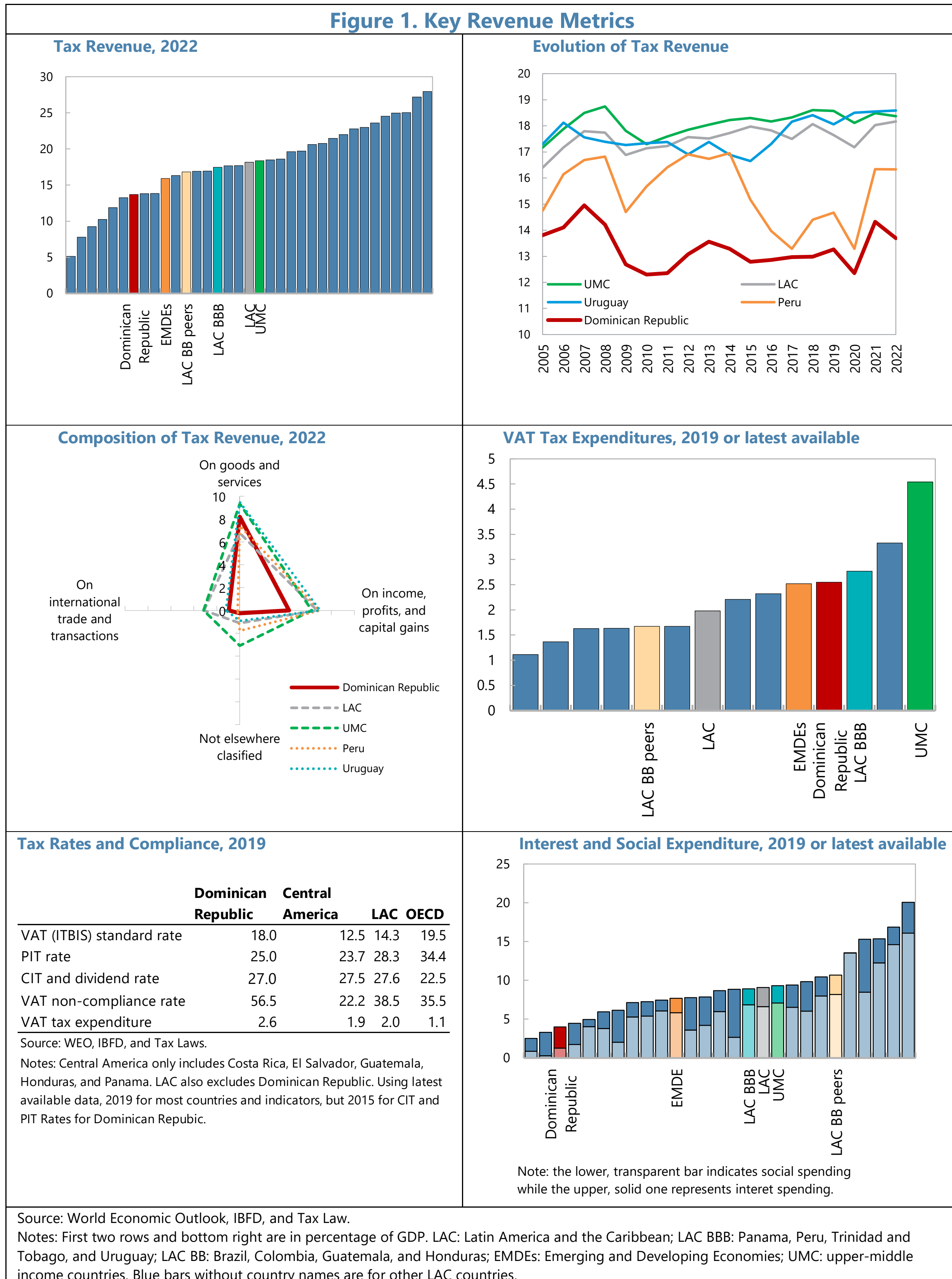
Near-term Measures to Increase Tax Revenue: Tax Administration Improvements

3. To improve yields in the near term, the authorities are committed to modernizing tax administration. The Dominican tax administration office's (DGII) 2021-2024 strategic alignment plan seeks to enhance its modernization, drawing taxpayers closer through service-enhanced provisions, whilst intensifying control over tax compliance, based on a more robust management of compliance risks (Country report 2021/169).

4. DGII performs well in terms of its core competencies relative to regional peers. Using the operational strength index of tax administration based on the International Survey on Revenue Administration (ISORA), the Dominican Republic is estimated to have a higher composite score for operational strength in revenue administration than the LAC regional average but lower composite score than investment grade countries in the region such as Peru and Uruguay (Figure 2, top left). Importantly, DGII scores high in key competencies of its operation, including the degree of autonomy, the establishment of Larger Taxpayer Office (LTO) or large taxpayer program, public accountability, service orientation and the use of third-party data (Figure 2, top right).

5. In the near term, improved tax administration can generate a limited yield from the current base. There is scope to improve gains on Compliance Risk Management (CRM) and digitalization of services. Specifically, automated risk profiling as part of processing payments and returns and use of electronic audit methods could further improve the compliance risk management, while mandatory e-filling, e-payment and electronic invoicing could facilitate digitalization of the taxation systems (Figure 2, middle row).

Figure 1. Key Revenue Metrics



Tax Rates and Compliance, 2019

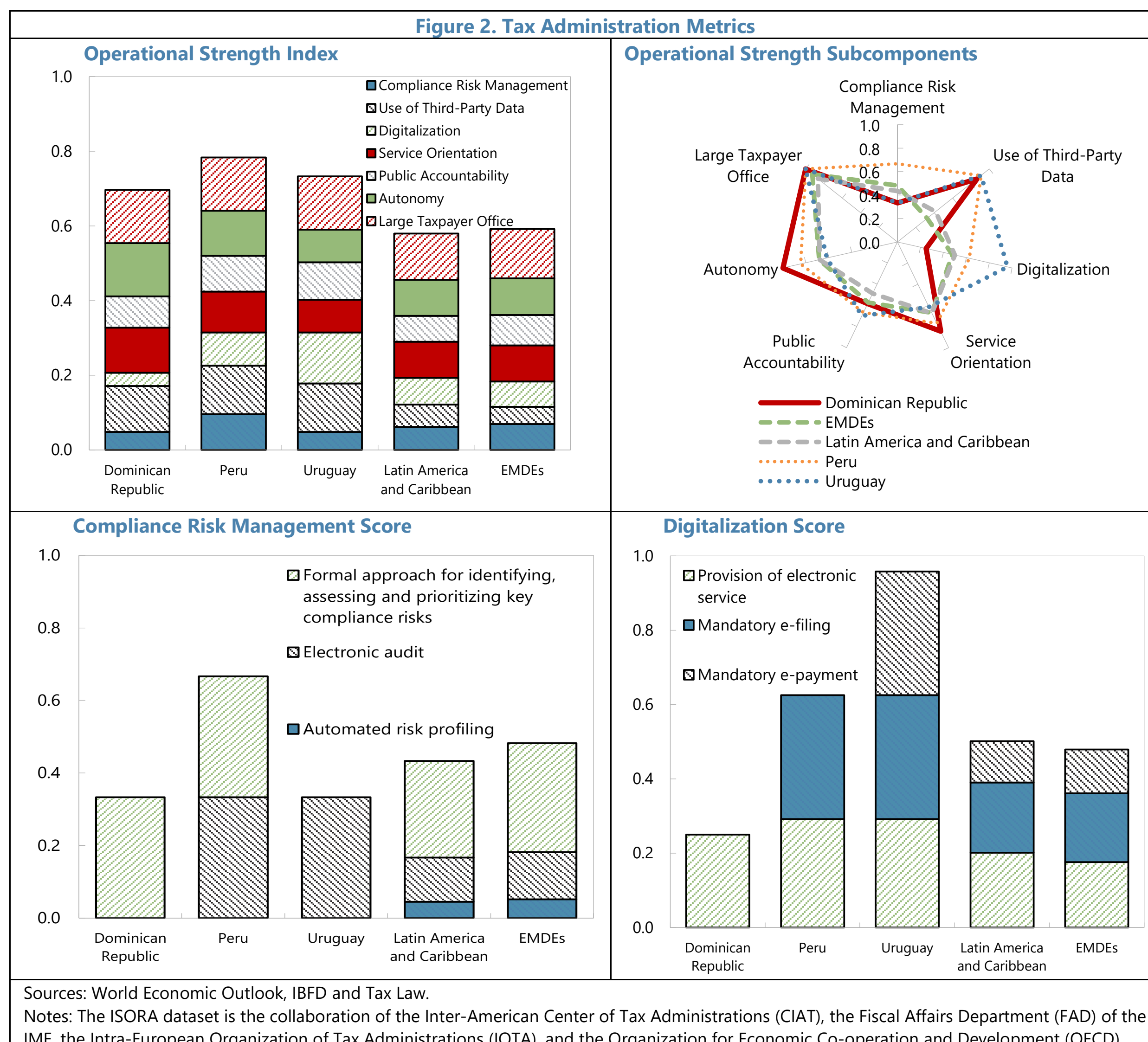
	Dominican Republic	Central America	LAC	OECD
VAT (ITBIS) standard rate	18.0	12.5	14.3	19.5
PIT rate	25.0	23.7	28.3	34.4
CIT and dividend rate	27.0	27.5	27.6	22.5
VAT non-compliance rate	56.5	22.2	38.5	35.5
VAT tax expenditure	2.6	1.9	2.0	1.1

Source: WEO, IBFD, and Tax Laws.

Notes: Central America only includes Costa Rica, El Salvador, Guatemala, Honduras, and Panama. LAC also excludes Dominican Republic. Using latest available data, 2019 for most countries and indicators, but 2015 for CIT and PIT Rates for Dominican Repubic.

Source: World Economic Outlook, IBFD, and Tax Law.
Notes: First two rows and bottom right are in percentage of GDP. LAC: Latin America and the Caribbean; LAC BBB: Panama, Peru, Trinidad and Tobago, and Uruguay; LAC BB: Brazil, Colombia, Guatemala, and Honduras; EMDEs: Emerging and Developing Economies; UMC: upper-middle income countries. Blue bars without country names are for other LAC countries.

Figure 2. Tax Administration Metrics



Sources: World Economic Outlook, IBFD and Tax Law.
Notes: The ISORA dataset is the collaboration of the Inter-American Center of Tax Administrations (CIAT), the Fiscal Affairs Department (FAD) of the IMF, the Intra-European Organization of Tax Administrations (IOTA), and the Organization for Economic Co-operation and Development (OECD).

Medium-Term Measures to Increase Tax Revenue Sustainably: Tax Reform

6. A well-crafted tax reform to create policy space, lower public debt and support development needs is required. As identified in by previous staff reports (Country Reports 2017/254, 2019/273, 2021/168 or 2022/248) tax expenditure have been estimated between 4½ and 5 percent of GDP, with more than ½ of expenditures driven by Value Added Tax (ITBIS), and income taxes comprising around 1/3. Staff considered a tax reform with the following ingredients. First, a reduction in VAT and property tax expenditure towards the average level in the region—including by removing the large list of goods and services exempted from the VAT—to yield an increase in revenue by 1.4 pp of GDP. [3] Second, reducing the PIT allowance to about two minimum salaries could yield about 0.3 pp of GDP. Third, a further 0.3 pp of GDP could be achieved through tackling

[3] Most adjustment would come from VAT and other indirect taxes, because (i) their size allows a larger contribution to adjustment effort; (ii) they account for a large share of exemptions; and (iii) they achieve a good balance between efficiency and equity. The VAT increase can include the removal of the exemptions on electricity to also support climate mitigation efforts, with transfers to the most vulnerable to mitigate the impact of this measure.

evasion by strengthening the capacity to deal with profit-shifting by multinationals and by creating two special tax regimes for small taxpayers (in lieu of VAT and CIT): one for the very small taxpayers (annual gross turnover lower than US$5,600) and another for businesses with annual sales below US$50,000.[4]

7. The tax reform can be accompanied by spending measures to support inclusive growth. The increased revenues, while supporting additional consolidation, would also support permanently higher public investment—initially 0.6 percent of GDP—and social spending—initially 0.4 percent of GDP, including 0.2 percent of GDP for compensation of low-income households for the increase in VAT and a further 0.2 percent of GDP to further increase social programs (Table 1). A fiscal consolidation worth 1 percent of GDP is assumed during the first five years of the package with a subsequent gradual reduction in the government surplus of 0.1pp of GDP for the next five years to achieve a gradual reduction in public debt of around 5 percent of GDP[5] by 2030. In turn, the decline in the interest rate bill of around ½ percent of GDP can support additional social (to 0.6 percent of GDP) and infrastructure spending (0.8 percent of GDP) beyond initial levels. In terms of economic growth, this package entails a trade-off between the negative impact on consumption, investment and labor stemming from higher taxes and the support provided through increased infrastructure investment and social transfers to support the most vulnerable. The reform is evaluated with the IMF's GIMF model.[6]

Table 1. Dominican Republic: Tax Reform
(Percent of GDP, difference versus baseline)

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Total Revenue	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**
VAT and consumption tax	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Personal income tax	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Total Spending	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**1.1**	**1.2**	**1.3**	**1.4**	**1.5**
Infrastructure investment	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.8	0.8	0.8
Social transfers	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6
Total surplus	**1.0**	**1.0**	**1.0**	**1.0**	**1.0**	**0.9**	**0.8**	**0.7**	**0.6**	**0.5**

Source: IMF staff estimates.

8. The simulations assume that all tax and expenditure measures are permanent and fully credible, and that government consumption is used as the main fiscal instrument in the fiscal rule. It is assumed that agents do not expect the reform measures to be changed or reversed in the future and therefore likely reflect an upper bound on their impact. The simulations are presented in Figure 3 with each of the key components separately examined. The first set of simulations (blue line) show the impact of higher VAT revenues—whose main impact transmits through household consumption. The red dashed lines add the impact of labor income—which also transmit largely through households' resources—and corporate income taxes—which transmit through firms' profits

[4] In all tax categories, improved tax administration is assumed including moving toward a high coverage of audit process for tax returns, increased digitalization, and improved tax debt collection through strengthening of sanctions against tax fraud.

[5] The debt decline relative to the baseline would bring public debt below 50 percent of GDP ensuring a prudent rebuild of fiscal buffers consistent with the analysis presented in IMF Country Report 22/248.

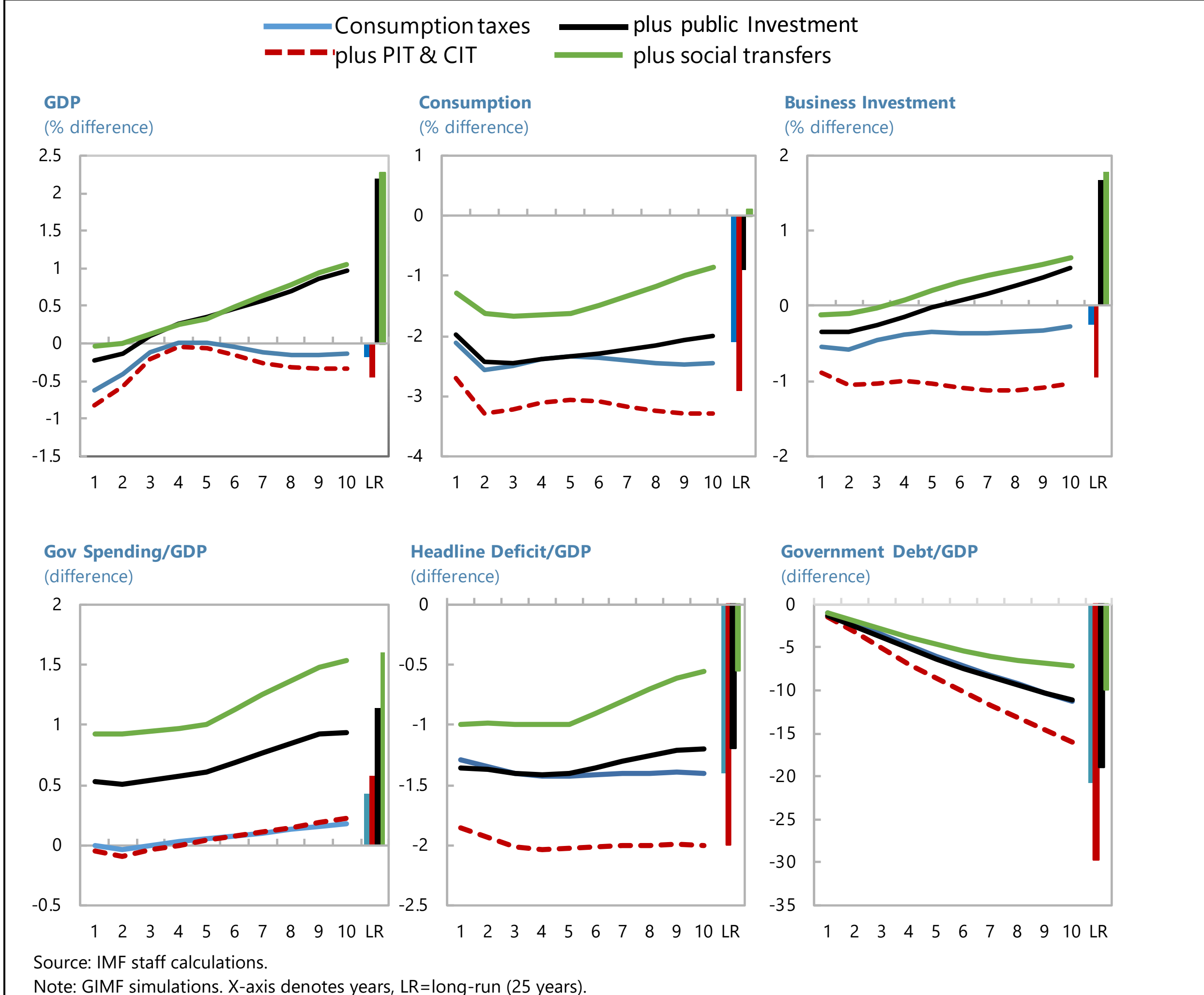
[6] Laxton and others (2010), Anderson and others (2013) and Carton and others (2017) for GIMF's model details and properties.

and their incentive to invest. The black line presents the impact of additional spending on public infrastructure[7] and the green line the impact of additional social spending.

9. Although higher consumption, labor and corporate taxes reduce the level of GDP both in the near and long term, output is overall permanently higher in response to higher public spending, notably public investment. Higher consumption taxes depress private consumption and labor supply through higher consumer prices—which reduce real income and wealth—while private investment falls due the decline in aggregate demand. Higher labor income and corporate taxes also depress after-tax labor income—which also reduces private consumption and labor supply—while higher corporate income taxes lower the returns on investment thereby further reducing business investment. Overall, there is a permanent decline in the level of GDP of around 1 percent of GDP stemming from the tax increases on impact (and ½ percent over the medium run), whereas the additional tax revenue and associated fiscal consolidation contributes to the decline in public debt. Higher spending on public infrastructure boosts the economy's capital stock, increases the return of private investment, and raises potential output thereby support private consumption. Finally, higher spending on social programs, supports private consumption and therefore aggregate demand which supports further private investment. Overall, lower government surpluses support a decline in public debt of around 7 percent after 10 years.

[7] The simulations abstract from climate shocks and the gains from investing in resilient infrastructure (Annex VIII).

Figure 3. Tax Reform Proposals



Source: IMF staff calculations.
Note: GIMF simulations. X-axis denotes years, LR=long-run (25 years).

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Carton, B. Fernández-Corugedo, E. and Hunt, B. L. 2017. "No Business Taxation Without Model Representation: Adding Corporate Income and Cash Flow Taxes to GIMF," IMF Working Papers 2017/259, International Monetary Fund.

Anderson, D., Hunt, B L, Kortelainen, M., Kumhof, M., Laxton D., Muir, D., Mursula, S. and Snudden, S. 2013. "Getting to Know GIMF: The Simulation Properties of the Global Integrated Monetary and Fiscal Model," IMF Working Papers 2013/055, International Monetary Fund.

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Annex VIII. Building Resilience to Natural Disasters and Climate Change[1]

Exposure and Macro-Criticality

1. **The Dominican Republic (DR)'s geographical location makes it particularly exposed to natural disaster risk stemming from climate change.** The DR ranks 23rd out of 191 countries in hazard and exposure to natural disasters in the 2023 Inform Risk Index, tied for first in CAPDR countries (with Nicaragua) and second in the Caribbean region only to its neighbor Haiti. The DR was deemed the 12th most affected country in the world over the 1998-2017 period by the 2019 Global Climate Risk Index. Similarly, the World Bank's Hurricane and Earthquakes Risk Profile for the Dominican Republic estimates that the annual average loss of capital from hurricanes is around ½ percent of GDP (or US$345 million), with a regressive distributional effect given their impact on the most vulnerable.

Table 1. Dominican Republic: Natural Hazard Risk Ranking, CAPDR, 2020

	Rank (191 Countries)	Percentile
Nicaragua	22	12
Dominican Republic	**23**	**12**
Guatemala	25	13
Honduras	26	14
El Salvador	27	14
Panama	32	17
Costa Rica	35	18

Source: Inform Risk Index.

2. **Climate change constitutes a large and likely growing macroeconomic burden through rising temperatures, rising sea levels, and increasing frequency and severity of natural disasters such as storms and floods.** Table 2 presents some stylized facts pertaining to Climate-Related Natural Disasters (CRND) reported in the Emergency Events Database (EM-DAT) during the period 1960-2022 for the DR and the rest of the CAPDR.[2] The table focuses on meteorological and hydrological events such as floods and storms which dominate extreme climate events in these countries. For the DR, storms and floods have caused damages of around 1 percent of GDP on average per event between 1960 and 2022—below the regional average—with a frequency of around 1.1 events per year—the largest in the region. The averages however mask large events, with Hurricane George estimated to have caused damages exceeding 9 percent of GDP in 1998 in the DR. According to the UNFCCC and WHO,[3] climate change is expected to increase average temperatures, decrease precipitation, increase sea-level rises and higher intensity windspeed and storm surge, while the World Bank estimates significant impacts from the hydrometeorological events (Figure 1). For one in a 100-year type of event (or a one percent probability), the losses are expected to exceed US$ 8.6 billion (around 12 percent of 2016 GDP).

[1] Prepared by Nicolas Fernandez-Arias, Emilio Fernandez-Corugedo and Alejandro Fiorito Baratas. Inputs from Katharina Siegmann y Gabriel Zaourak (World Bank forthcoming lead CCDR authors) were included.

[2] The database records disasters if they meet at least one of the following criteria and are reported by the authorities: (i) 10 or more people are killed; (ii) 100 or more people are reported as affected; (iii) a state of emergency is declared; or (iv) if there is a call for international assistance.

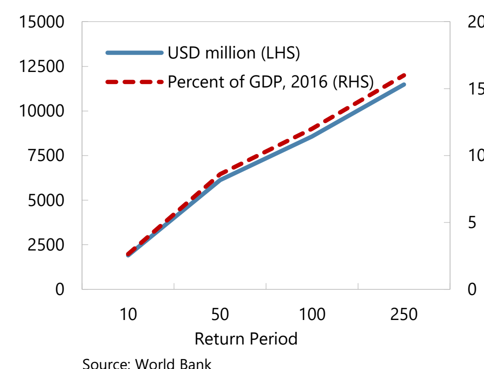
[3] Health and Climate Change. Country Profile 2021.

Table 2. Dominican Republic: Reported Climate-Related Natural Disasters in CAPDR, 1960-2022

	Event[1/]				Damages (Percent of GDP)	
	Floods	Average duration[2/]	Storms	Average duration[2/]	Average	Median
Dominican Republic	**30**	**0.09**	**39**	**0.05**	**1.1**	**0.2**
Costa Rica	30	0.15	10	0.10	0.9	0.3
El Salvador	18	0.14	18	0.06	2.8	1.7
Guatemala	35	0.09	20	0.09	1.0	0.2
Honduras	38	0.12	25	0.11	5.4	0.5
Nicaragua	23	0.36	24	0.08	6.4	0.2
Panama	40	0.14	8	0.02	0.2	**0.0**
Average	**31**	**0.20**	**20.6**	**0.1**	**2.5**	**0.2**

Sources: EM-DAT database and IMF staff calculations.
1/ EM-DAT as of May, 2022.
2/ In months.

Figure 1. Estimated Hurricane Events Risk Profile
(Indicative probability curve, USD million and percent of GDP)

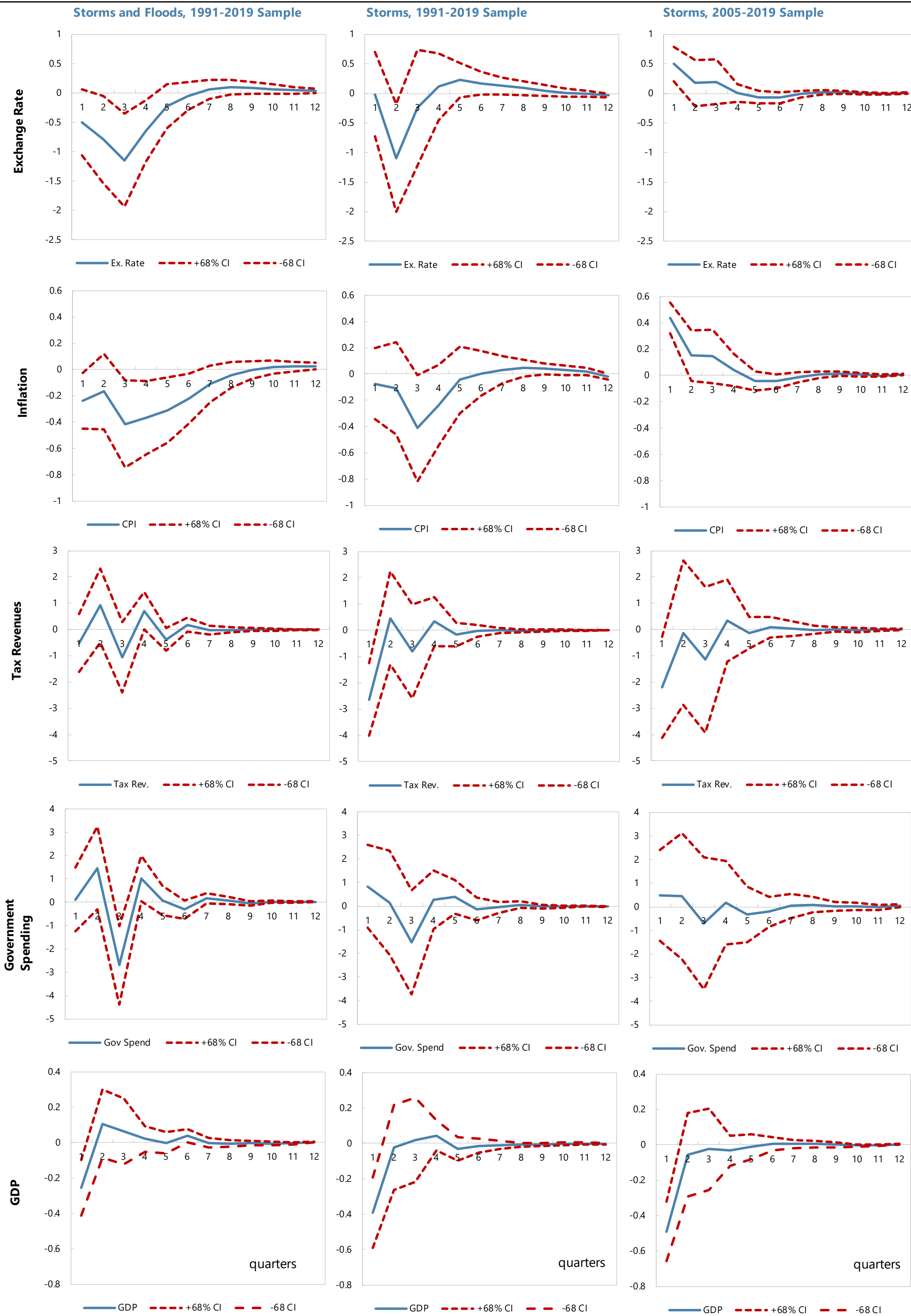


Source: World Bank

3. A Vector Autoregression (VAR) is used to quantify the macroeconomic impact of climate events. The approach used identifies climate events using the EM-DAT database to estimate their impact on a VAR that comprises five endogenous variables (all expressed in quarterly growth rates): GDP (or their industry subcomponents), CPI, bilateral exchange rate with US dollar, real tax revenues and real government spending. The climate variable, US GDP and oil prices are exogeneous variables, and two lags ensure no autocorrelation in the residuals. Four VARs are estimated: the first one considers storm and flood events (52 events) and is estimated over 1991Q4 to 2019Q4 (Figure 3, first column), the second one only considers storms (27 events) over the same period (Figure 2, second column) the third VAR considers storms for the more recent period 2005Q1-2019Q4 (18 events) to cover the period where the exchange rate is not fixed (Figure 3, third column), and the last VAR also considers storms over the more recent period but uses replaces GDP by primary, secondary and tertiary output (Figure 3). Overall, in response to both storms and floods, GDP, tax revenues, CPI and the exchange rate all fall, with the decline in quarterly GDP growth (around 0.2 percent) being statistically significant on impact but without evidence of significant growth scarring effects. Government spending increases though it is also not statistically significant. When only storms are considered, the decline in quarterly GDP growth is larger on impact (0.4) as is the fall in tax revenues (0.2) which becomes statistically significant. In the most recent period with flexible exchange rates, the impact on quarterly GDP growth (0.5 percent) is larger compared with the full sample size with a statistically significant depreciation of the exchange rate and a corresponding increase in the inflation rate. In both cases, the decline in GDP and tax revenues is permanent, though this effect is not statistically significant. Figure 3 presents the sectoral results, which point to the largest effect on the primary (largely agricultural) sector (around 1 percent decline on impact), with slightly more muted impacts on the secondary (around ½ percent on impact) and tertiary sectors (around ¼ percent on impact). Overall, the evidence points to sizeable impacts from storms on GDP and tax revenues and within the range of empirical results found for the CAPDR region—e.g., Kim and others (2022), IMF Country Report 23/53, Bello (2017).

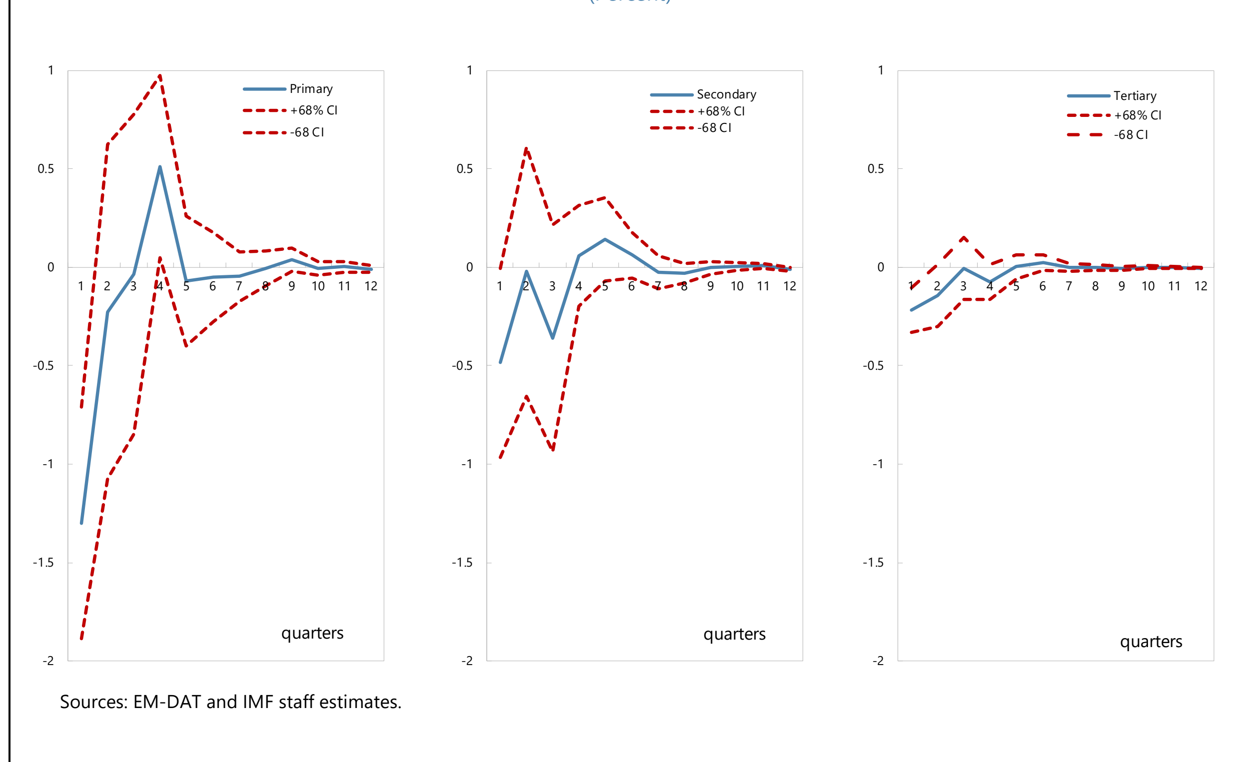
Figure 2. Impulse Responses to Climate Shocks

(Percent)



Sources: EM-DAT and IMF staff estimates.

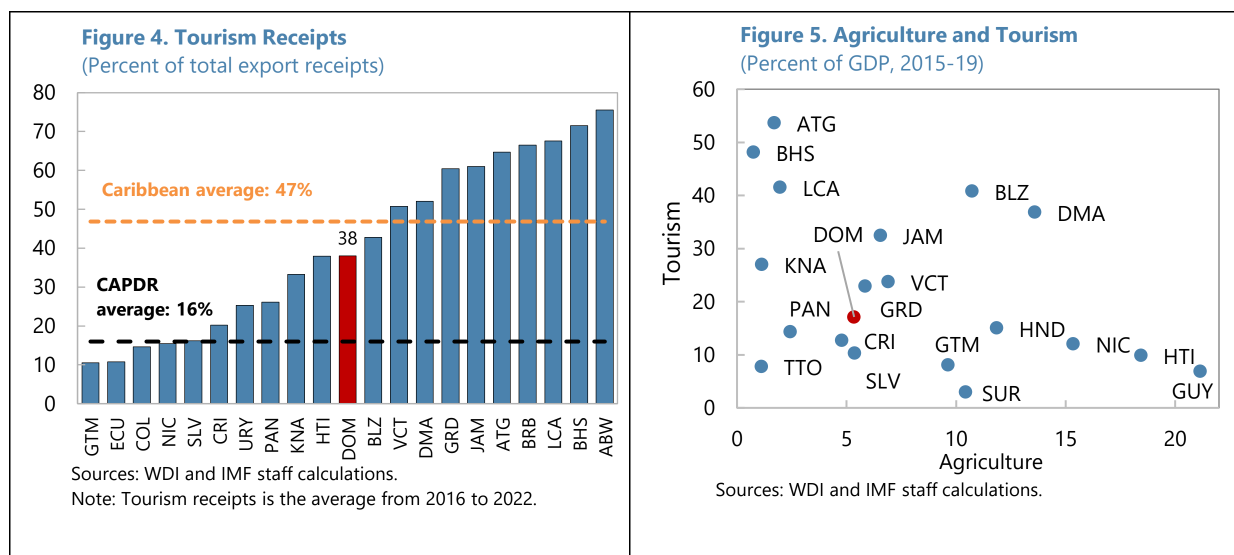
Figure 3. Impulse Responses to Climate Shocks
(Percent)



Sources: EM-DAT and IMF staff estimates.

4. **Beyond the impact on economic activity and on tax revenues stemming from climate events, climate change and natural disasters—as well the costs of adapting to them—also pose a risk to the Dominican Republic's external sustainability.** The DR has a large and growing tourism industry that is a significant source of inflows of about 10 billion USD per year (10 percent of GDP). Damage to infrastructure from natural disasters, as well as the prevalence and severity of those natural disasters themselves, pose risks to the health and further development of the tourism industry. The DR's NDC action plan expects the costs of adaptation to be large, at around 9 billion USD, which will require significant external financing.[4]

[4] The authorities continue to refine their estimates and are working together with the IADB to update them.



5. While costly, investment in resilient public infrastructure can deliver important long-run output gains and strengthen the fiscal sustainability outlook for the Dominican Republic. The authorities' National Adaptation Plan (PNACC) launched in 2016 aims to reduce the country's vulnerability to climate change impacts through building adaptive capacity and resilience.[5] The plan includes upscaling resilient public infrastructure (such as durable roads, bridges, and sea walls) which can reduce future expected losses from climate events. Staff assessed the net benefits of investing in resilient infrastructure through a small open economy DSGE model calibrated to the Dominican Republic, including the quantification of the impact of climate events shown in Figures 7 and Table 2. The model is tailored to quantify the gains from adaptation investment in the face of climate events that destroy a share of public and private capital.[6] The baseline simulations assume that resilient public investment is 25 percent more expensive than non-resilient public investment, in line with expert estimates, and assumes that the share of resilient public capital stock rises from 0 to 80 percent in the long run.[7] Moreover, the simulations assume that the additional cost of resilient investment is fully financed domestically without increases in the public debt level or contributions from international donors. The results shown in Figure 6 indicate that public investment in resilience infrastructure (of about 2 percent of GDP, at an additional fiscal cost of ½ percent of GDP) yields a long-term increase in the level of GDP of around 3½ percent once resilient capital is in place. The results include both the direct effect of lower public capital destruction—which reduces output losses following a climate event—and an indirect effect associated with the higher expected returns to private investment from higher public capital and GDP. Moreover, with higher private capital, there are increases in real wages, private consumption, and exports. Beyond its key macroeconomic

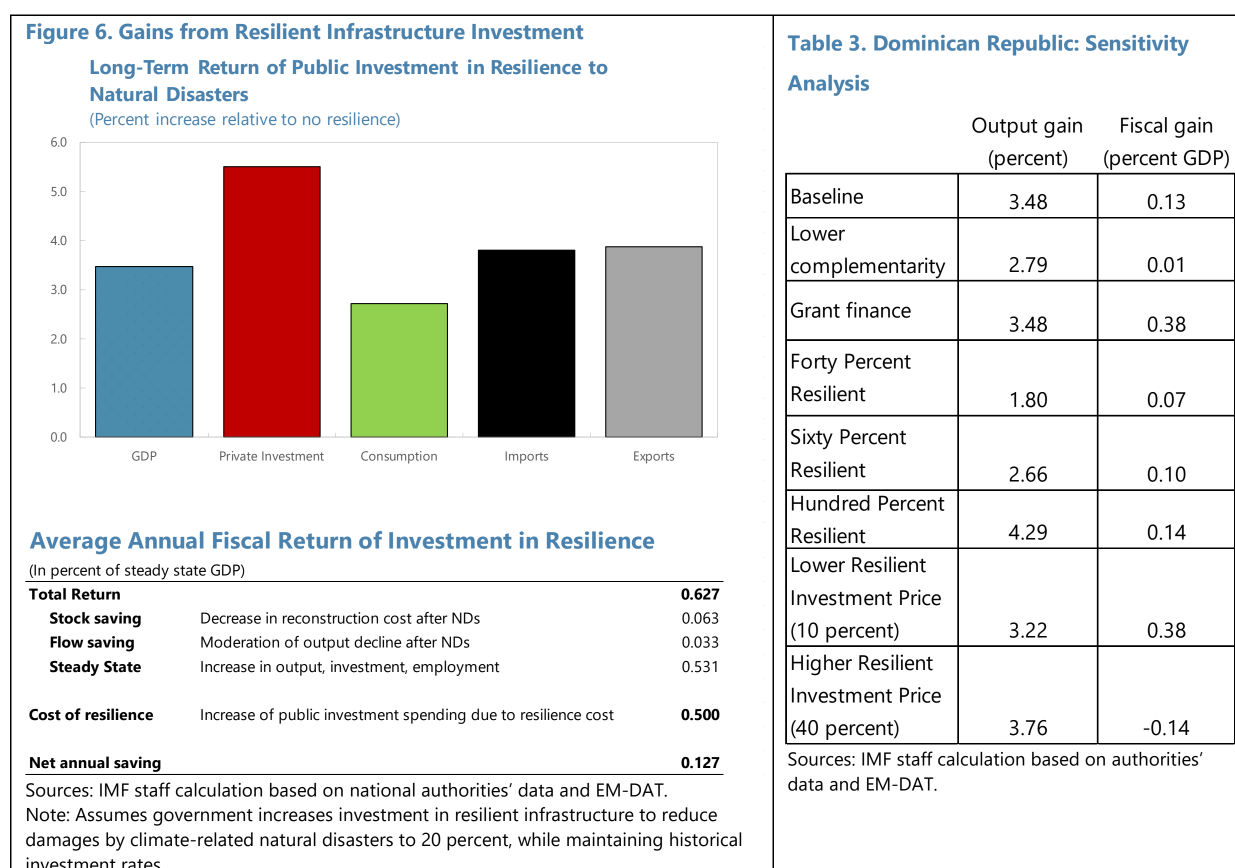
[5] The authorities have also developed the Sectoral Strategy for Climate Change Adaptation in the Agriculture Sector 2014-2020.

[6] The results are based on the model described in Fernandez-Corugedo, Gonzalez and Guerson (2023). In the model, with public capital complementary to private capital, mitigating the destruction of public capital increases the return of private capital, thereby further boosting output. Private consumption also increases since households (who are the owners of the private capital) need to save less for reconstruction purposes.

[7] IMF Regional Economic Outlook, October 2021: "Climate Change Challenges in Latin America and the Caribbean", based on estimates of Ex-Post Damage Assessments from the World Bank.

impact, investment in resilient infrastructure also produces gross fiscal gains of about 0.63 percent of GDP per year (Figure 6), leading to long-run steady state annual net gains of about 0.13 percent of GDP.[8]

6. Sensitivity analysis points to output gains in all cases and fiscal gains in most (Table 2). Output gains are lower when: (i) public capital is less complementary in private production; (ii) the share of resilient investment is lower; or (iii) if the price of resilient investment is lower.[9] Fiscal gains increase if: (i) the price of investment is lower; or (ii) foreign donors finance (50 percent of the resilient investment). On the other hand, fiscal gains are lower if the complementarity of public capital in private production is lower. While increasing the share of resilient capital always yields higher output gains, there is a non-linear impact on fiscal gains since the returns of resilient public capital decrease as its share increases, but its costs increase linearly.



Average Annual Fiscal Return of Investment in Resilience

(In percent of steady state GDP)

Total Return		**0.627**
Stock saving	Decrease in reconstruction cost after NDs	0.063
Flow saving	Moderation of output decline after NDs	0.033
Steady State	Increase in output, investment, employment	0.531
Cost of resilience	Increase of public investment spending due to resilience cost	**0.500**
Net annual saving		**0.127**

Sources: IMF staff calculation based on national authorities' data and EM-DAT.
Note: Assumes government increases investment in resilient infrastructure to reduce damages by climate-related natural disasters to 20 percent, while maintaining historical investment rates.

Table 3. Dominican Republic: Sensitivity Analysis

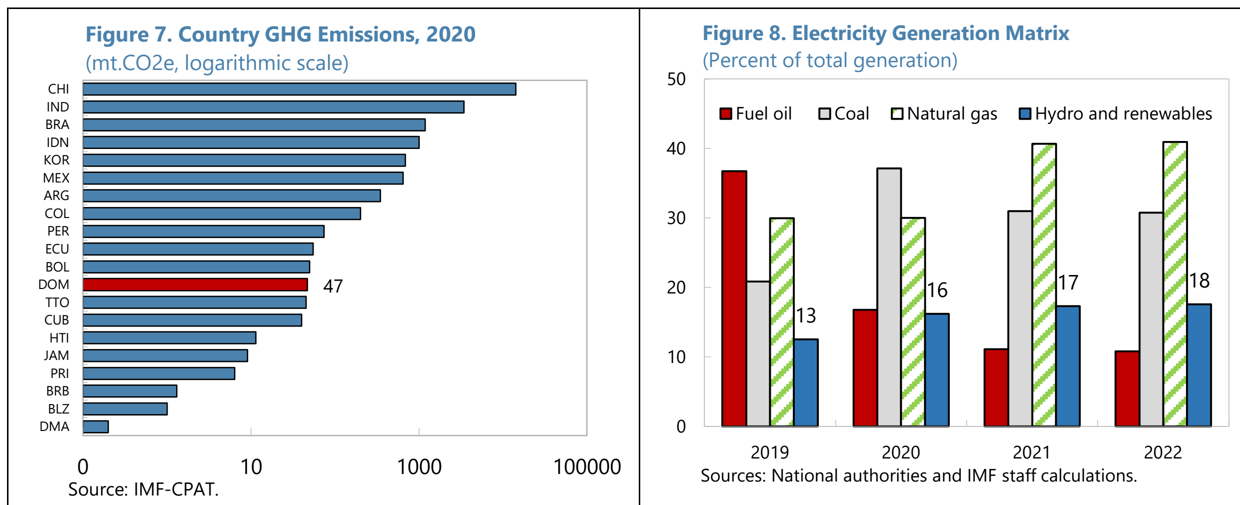
	Output gain (percent)	Fiscal gain (percent GDP)
Baseline	3.48	0.13
Lower complementarity	2.79	0.01
Grant finance	3.48	0.38
Forty Percent Resilient	1.80	0.07
Sixty Percent Resilient	2.66	0.10
Hundred Percent Resilient	4.29	0.14
Lower Resilient Investment Price (10 percent)	3.22	0.38
Higher Resilient Investment Price (40 percent)	3.76	-0.14

Sources: IMF staff calculation based on authorities' data and EM-DAT.

[8] The gains from investing ex-ante in resilient public infrastructure stem from the benefits associated from avoiding storm damages and comprise three additive components: (i) lowering reconstruction spending after each event (stock saving); (ii) limiting the decline in output and employment after a shock and therefore reducing tax revenues losses (flow saving); and (iii) generating a higher steady-state level of output, consumption, and employment and therefore of tax revenues. These gains are not associated with standard investment multiplier effects given that in the simulations the public investment to GDP ratio is unchanged.

[9] A lower price of resilient investment lowers its costs, boosting household consumption, lowering savings and employment.

7. While the DR's contribution to world-wide greenhouse gas (GHG) emissions are insignificant, completing its transition to renewable sources of energy would reduce downside risks. The GHG emissions of the Dominican Republic in 2019 were 0.08 percent of worldwide emissions, insignificant and small compared to the country's 0.12 percent share of world population.[10] 62 percent of these emissions were from the production of energy (Figure 7).[11] in 2022, more than 80 percent of the Dominican Republic's energy was produced from fossil fuels (Figure 8). As was demonstrated in 2022 with Russia's invasion of Ukraine, this dependence on fossil fuel imports threatens external sustainability. It also threatens social order as evidenced by protests against energy price fluctuations throughout the region (e.g., Panama) and the world in 2022. When subsidies are used to mitigate these risks, dependency on imported fossil fuels risks fiscal sustainability.



[10] Source: ClimateWatch.

[11] 23 percent was from agriculture, 8 percent from industry, 7 percent from waste, and -4 percent from land-use change and forestry (i.e., biological carbon sequestration). Source: Climate Watch.

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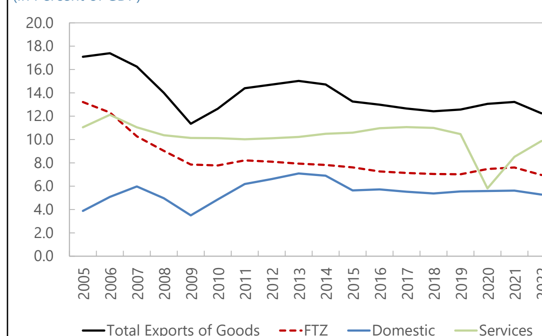
Annex IX. Improving Exports of Goods Performance[1]

The Dominican Republic's export of complex products has improved significantly over the last 25 years. However, despite its proximity to the large North American market, exports of goods (and services) have remained relatively unchanged as a share of GDP in recent years, as a surge in exports of gold and by free-trade zone corporations, have been offset by a decline in some of the country's traditional exports such as textiles and shoes. This annex finds that improvements in education outcomes, governance, infrastructure, and the business climate could help boost the country's exports base and increase its complexity, thereby enhancing productivity and economic growth.

A. Background

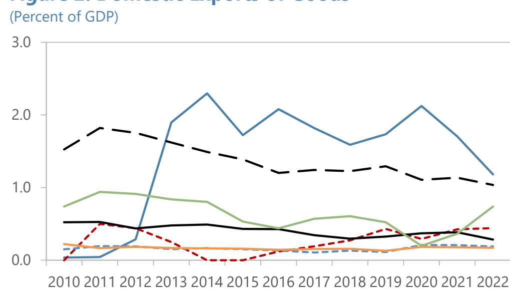
1. The Dominican Republic's exports of goods and services as share of GDP have remained stable in recent years (Figure). Following sizeable increases in 2011-14 driven by rising exports of gold, the exports of goods declined since 2013 reflecting the moderation in the exports of gold, bananas, and other domestic manufactured goods (Figure). Similarly, the exports by free trade zones (FTZ) have declined since 2011 driven by the contraction in the exports of textiles and shoes due to the quota elimination under the Agreement on Textiles and Clothing (ATC) in 2005 (Figure). FTZ's exports of goods remained broadly unchanged, averaging around 7.2 percent of GDP in 2017-22 despite the dynamism on the exports of medical and surgery equipment, electrical products, tobacco items, and jewelry.

Figure 1. Exports of Goods by Sector and Exports of Services
(In Percent of GDP)



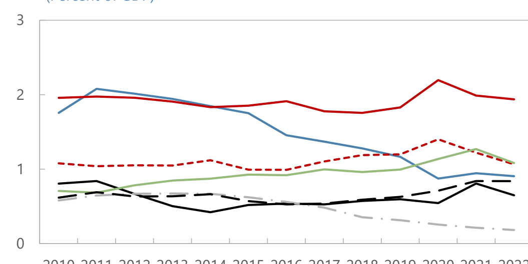
Sources: Dominican Republic authorities and IMF staff calculations.

Figure 2. Domestic Exports of Goods
(Percent of GDP)



Sources: Dominican Republic authorities and IMF staff calculations.

Figure 3. Free Trade Zones Exports of Goods
(Percent of GDP)



Sources: Dominican Republic authorities and IMF staff calculations.

2. While declining, the Dominican Republic's exports product structure and export market bases are concentrated. While the dependence on a few products (i.e., exports concentration) decreased in the 2000s as new products were added to the exports' baskets and the

[1] Prepared by Manuel Rosales.

exports of sugar and banana declined; the dependency on a limited number of products rose in the 2010s driven by the exports of gold, which increased its participation from less than 1 percent of total exports in 2010 to 16 percent in 2016. Likewise, the country has broadened its market destinations to around 150 countries compared to around 110 in the early 2000s. Nonetheless, about 47 percent of the country's total exports go to a single market—the U.S., and over 70 percent of total exports go to the top 5 export markets.

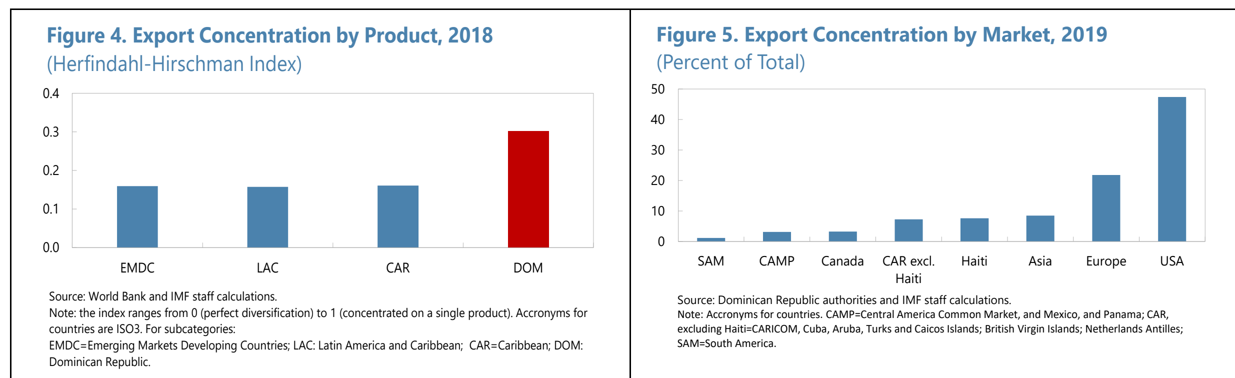


Figure 4. Export Concentration by Product, 2018
(Herfindahl-Hirschman Index)

Source: World Bank and IMF staff calculations.
Note: the index ranges from 0 (perfect diversification) to 1 (concentrated on a single product). Accronyms for countries are ISO3. For subcategories:
EMDC=Emerging Markets Developing Countries; LAC: Latin America and Caribbean; CAR=Caribbean; DOM: Dominican Republic.

Figure 5. Export Concentration by Market, 2019
(Percent of Total)

Source: Dominican Republic authorities and IMF staff calculations.
Note: Accronyms for countries. CAMP=Central America Common Market, and Mexico, and Panama; CAR, excluding Haiti=CARICOM, Cuba, Aruba, Turks and Caicos Islands; British Virgin Islands; Netherlands Antilles; SAM=South America.

3. The Dominican Republic's exports basket is relatively complex.[2] More complex exports are associated with higher productivity and GDP per capita growth. In 2020, it ranked as the 62nd (out of 133 countries) most complex economy in the Harvard University's Economic Complexity Index (ECI). The country improved 21 positions from 83rd in 1995 reflecting the addition of 31 new complex products to its export basket since 2005, including gold, clothing, medical equipment, a mix of chemical products, and electrical apparatus and some metal products. The Dominican Republic compares favorably to several members of the CAFTA and commodity dependent countries such as Chile and Peru.

Figure 6. Export Product Complexity Ranking 1/

Source: Harvard, Atlas of Economic Complexity.
1/ A higher ranking represents more complex exports.

4. The country, however, lags several comparators in complex exports, non-hydrocarbon mineral, and manufacturing per capita. When considering the top ten highest complex exports and normalizing them by population size, the Dominican Republic has higher complex exports per capita than Caribbean and South American countries. However, it lags EAEM and Central America counterparts. Likewise, the Dominican Republic's exports of services per capita are higher than most comparators, but it lags its Caribbean peers. It also lags all regions in terms of non-hydrocarbon

[2] The economic complexity for individual countries, based on the Harvard's Atlas of Economic Complexity (AEC) framework (AEC), reflects the amount of productive knowledge held by individual countries by the type of goods it produces. It is calculated based on two concepts, **diversity** of exports produced by a country and their **ubiquity** (i.e., the number of countries able to produce the same products). It is assessed through the *Economic Complexity Index* (ECI), which reflects the number of complex industries by countries. Countries are ranked based on how diversified and complex their export basket is. Accordingly, countries can improve their ranking in the ECI by becoming competitive in a larger number of complex industries.

mineral exports per capita, contributing to constraint its productivity, growth potential, per capita GDP, and higher quality jobs.

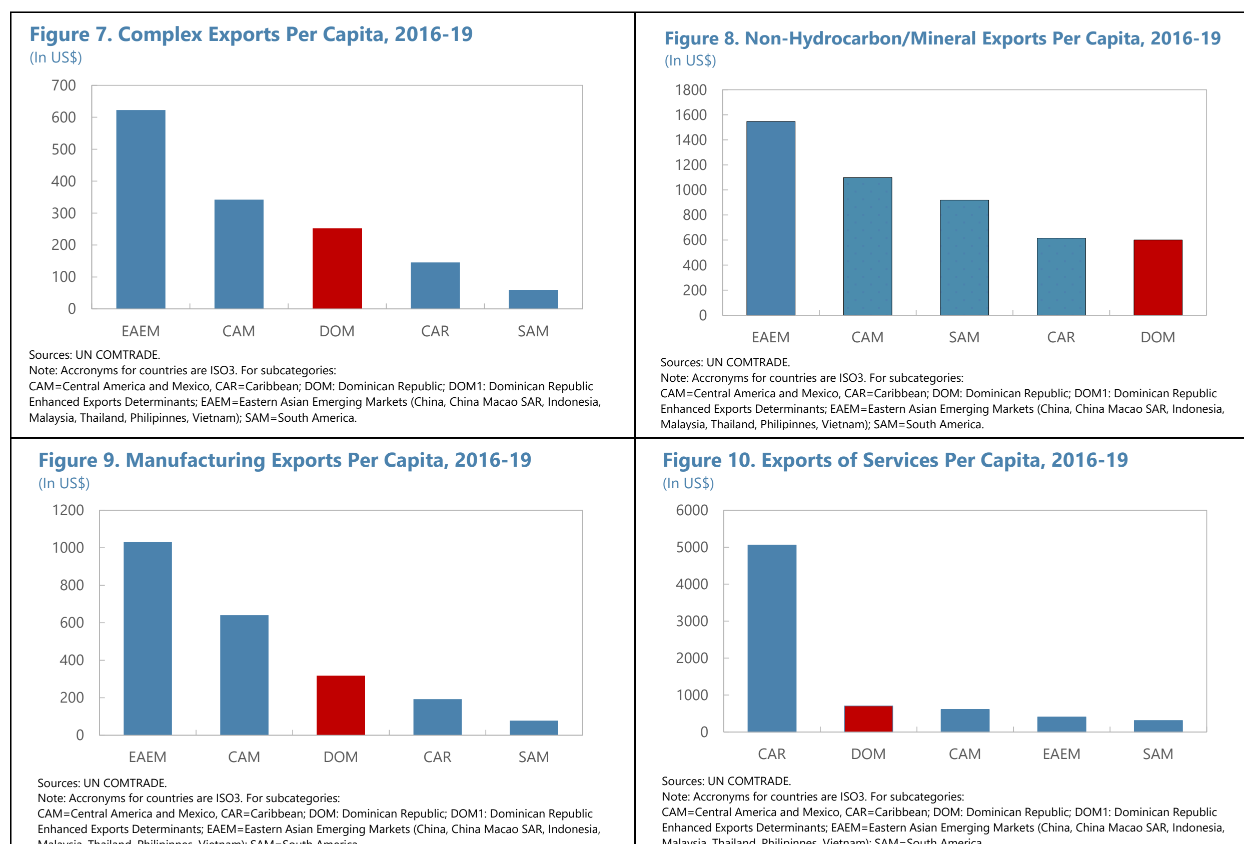


Figure 7. Complex Exports Per Capita, 2016-19
(In US$)

Sources: UN COMTRADE.
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

Figure 8. Non-Hydrocarbon/Mineral Exports Per Capita, 2016-19
(In US$)

Sources: UN COMTRADE.
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

Figure 9. Manufacturing Exports Per Capita, 2016-19
(In US$)

Sources: UN COMTRADE.
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

Figure 10. Exports of Services Per Capita, 2016-19
(In US$)

Sources: UN COMTRADE.
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

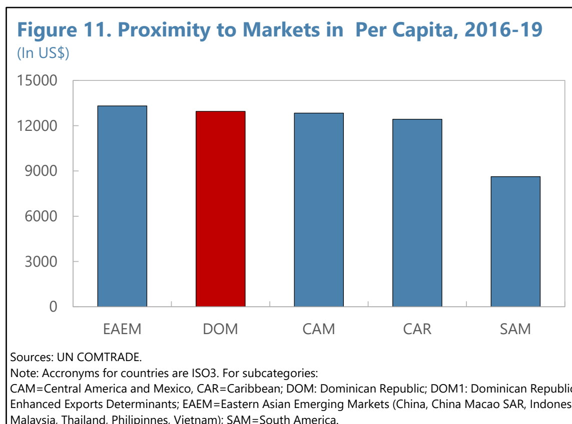
5. There is significant potential to reduce product and market concentrations, improve complexity and boost economic growth. The Dominican Republic could benefit from expanding its market base by exporting to large but relatively untapped markets such as South America and Canada. This will allow the country to boost economic growth by taking advantage of its know-how in relatively complex exports, including the production of appliances used in the medical, surgical and dental services, pharmaceutical goods, and electrical products, among others thus fostering a more diversified economy and the creation of new jobs in the manufacturing sector.

B. How to Address the Stagnant Performance and Boost Product Complexity

6. To boost exports performance, economic growth, and the country's ranking in the ECI, it is important to identify structural factors that drive performance. It is important to identify possible reforms that can improve and accelerate performance. This section examines various factors that can play a role, such as in the role of the business environment, structural exports determinants (i.e., education, infrastructure, governance, or trade policies).

7. Recent studies have found that distance to markets and "horizontal policies" are fundamental factors for exports performance.[3] Salinas (2021) finds that distance to international markets and standard gravity equation variables (i.e., dummies for common border, colonial history, common language, and past colonial dummy) are fundamental to boost Non-Hydrocarbon and Mineral (NHM) exports, manufacturing, and complex exports. Countries located closer to large markets and with strong structural exports determinants tend to have more complex exports baskets and see faster export growth than countries farther away or with weaker fundamentals. On the latter, the literature has found that higher educational attainment, stronger governance and institutional development, lower barriers to trade and higher physical infrastructure can enhance export complexity and diversification. Salinas (2021) finds that adding these variables to an otherwise gravity equation can explain around 80-90 percent of cross-country variation. Crucially, the point estimates suggest that increasing school attainment by one standard deviation more than doubles exports; improving governance by standard deviation boosts them by 30-40 percent; enhancing infrastructure by one standard deviation increases them by a third; and cutting tariffs from 15 to 5 percent increases them by almost 50 percent.

Figure 11. Proximity to Markets in Per Capita, 2016-19
(In US$)



Sources: UN COMTRADE.
Note: Accronyms for countries are ISO3. For subcategories: CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

8. The Dominican Republic appears to be taking full advantage of its proximity to the large U.S. market, but exports' performance could be boosted by further diversifying its export markets. The Index of Proximity to Market (IPM)—that aggregates the size of a country's trading partners divided by their distance to such countries—is higher for the Dominican Republic than for most regions including Central America and Mexico (CAM) and Caribbean (CAR) countries, except for East Asian Emerging Markets (EAEM) thus showing that location is one of the country's main assets in for its export performance. This privileged location suggests that other determinants such as horizontal policies might explain why exports have remained relatively flat as a share of GDP in recent years in the Dominican Republic's.

[3] See Hausmann and others (2006), Weldemicael (2012) for distance to market; Ding and Hadzi-Vaskov (2017), Giri and others (2019), Salinas (2021) for horizontal policies.

9. Further improvements to education, governance, trade policy, and infrastructure could boost exports performance. The Dominican Republic fares well in terms of trade policy reflecting relatively low average effective import tariff driven by the country's Free Trade Agreements (FTA) policy.[4] It lags Central American comparators such as Costa Rica which have in place a larger number of FTAs, including with several South American countries. Recent studies suggest that further large gains could be made through free trade agreements with large economic blocs.[5] The country, however, ranked 23 and 43 positions below in education outcomes relative to structural and aspirational comparators, respectively. Human capital and productivity are constrained by low years of school that translate into skill mismatches and a decline in productivity—increasing staff workload, lowering product quality or limiting the introduction of new products.[6]

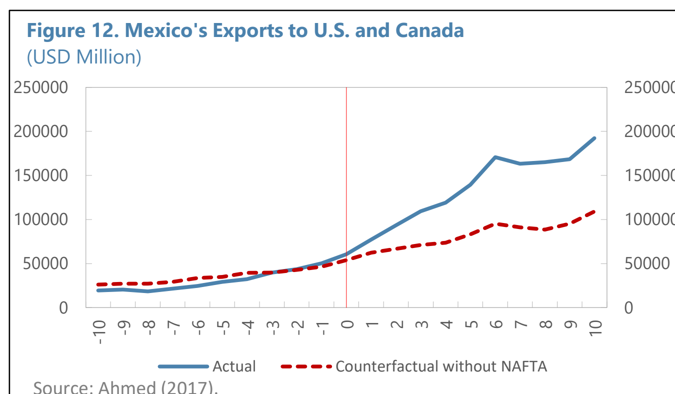
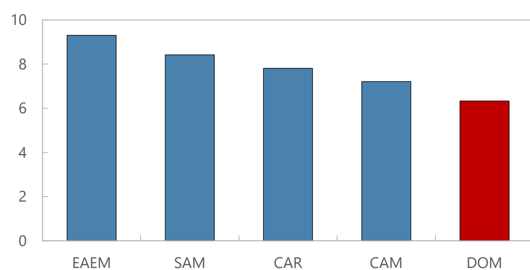
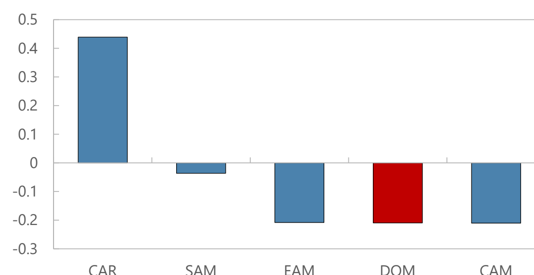


Figure 13. Exports Determinants: Learning Adjusted Years of Schooling
(Years, 2019)



Sources: World Bank's Human Capital Index.
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

Figure 14. Exports Determinants: Governance
(Index [-2 to 2], 2019)



Sources: Kauffman, Kraay, and Mastruzzi (2011) - (www.govindicators.org).
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

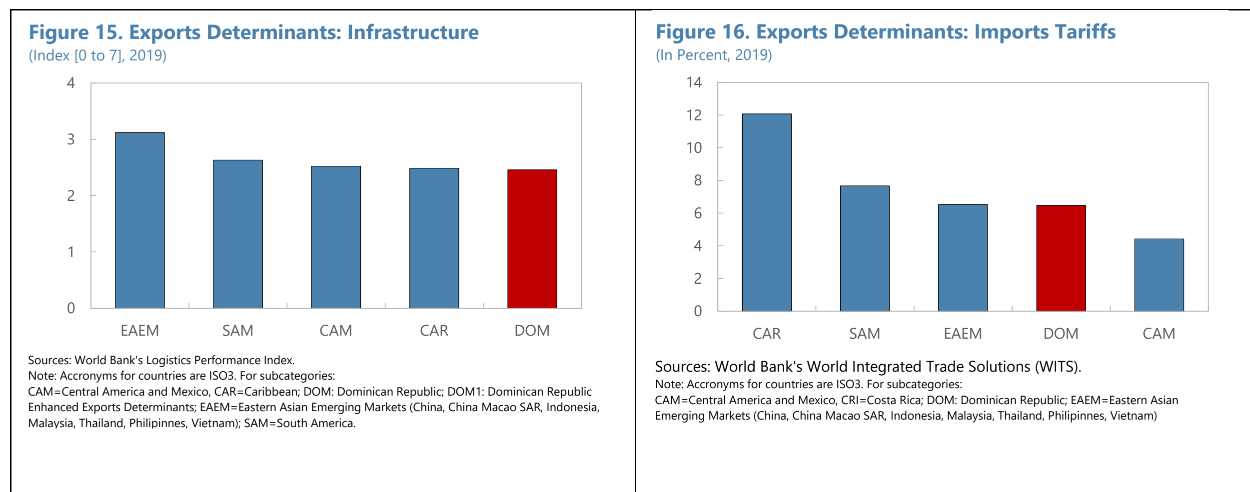
[4] The Dominican Republic is member of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), Caribbean -European Union Economic Partnership Agreement (CARIFORUM-EU EPA), and the Caribbean-Dominican Republic Free Trade Agreement (CARICOM-DR).

[5] Deep FTAs are effective in boosting exports. For instance, the North America Free Trade Agreement (NAFTA) led to a doubling of Mexico's exports to the United States (Hannan, 2016).

[6] OECD's 20218 PISA test scores. Structural comparators include Bulgaria, Costa Rica, Tunisia. Aspirational comparators include Croatia, New Zealand, and Uruguay (para 31).

Figure 15. Exports Determinants: Infrastructure
(Index [0 to 7], 2019)

Figure 16. Exports Determinants: Imports Tariffs
(In Percent, 2019)



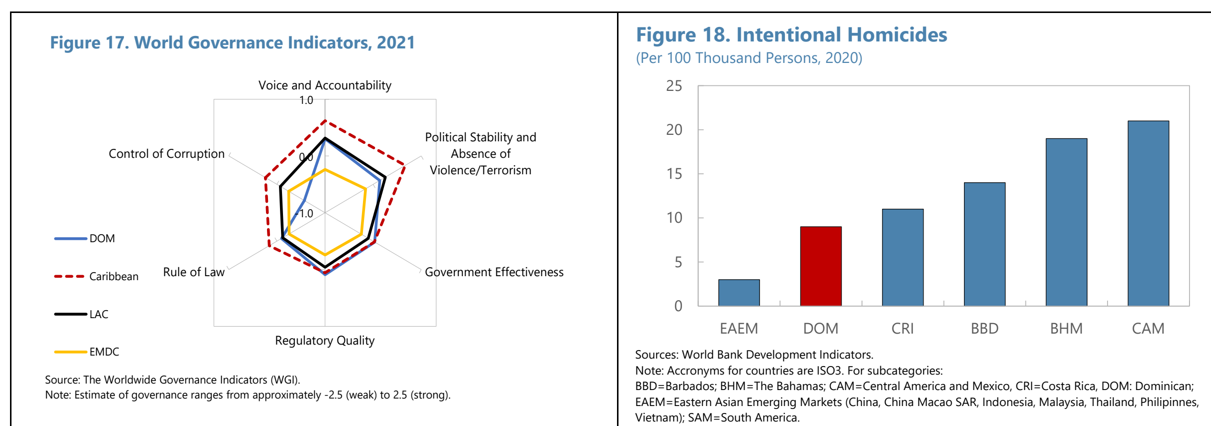
Sources: World Bank's Logistics Performance Index.
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

Sources: World Bank's World Integrated Trade Solutions (WITS).
Note: Accronyms for countries are ISO3. For subcategories:
CAM=Central America and Mexico, CRI=Costa Rica; DOM: Dominican Republic; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam)

10. Governance and infrastructure improvements could close the gap with other Central American and other Emerging Market countries. Despite recent governance improvements, the Dominican Republic lags peers in the rule of law and corruption. Further improvements would support domestic and external investment. Likewise, despite a marked reduction in the number of intentional homicides—from 26 in 2011 to 9 per 100,000 persons in 2020, further security improvements can enhance the business environment. Finally, closing the gap with peers on infrastructure and logistics services (e.g., customs operations) would lower the cost of doing business. Reducing technical loses in the electricity sector could help to keep electricity tariffs low and improving the systems' reliability could boost production and support the tourism and other service sectors (Annex VI).

Figure 17. World Governance Indicators, 2021

Figure 18. Intentional Homicides
(Per 100 Thousand Persons, 2020)



Source: The Worldwide Governance Indicators (WGI).
Note: Estimate of governance ranges from approximately -2.5 (weak) to 2.5 (strong).

Sources: World Bank Development Indicators.
Note: Accronyms for countries are ISO3. For subcategories:
BBD=Barbados; BHM=The Bahamas; CAM=Central America and Mexico, CRI=Costa Rica, DOM: Dominican; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

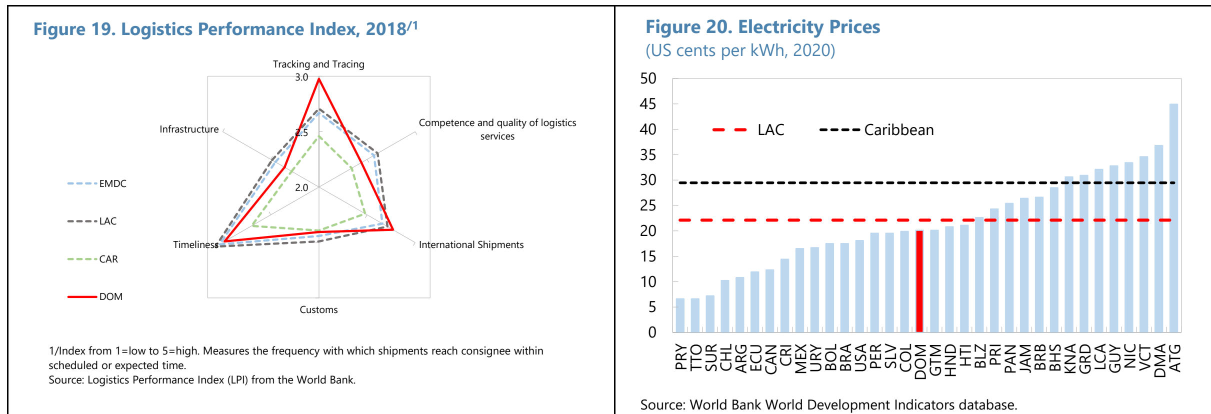


Figure 19. Logistics Performance Index, 2018/1

1/Index from 1=low to 5=high. Measures the frequency with which shipments reach consignee within scheduled or expected time.
Source: Logistics Performance Index (LPI) from the World Bank.

Figure 20. Electricity Prices
(US cents per kWh, 2020)

Source: World Bank World Development Indicators database.

11. Regression analysis suggests that the Dominican Republic's exports are determined by the country's proximity to markets.[7] The Dominican Republic's export level of NHM and complex exports per capita is well explained by a model that includes distance to markets and horizontal policies—see charts below, respectively. Based on Salinas (2021), about 90 percent of the Dominican Republic's exports are driven by its proximity to large export markets.

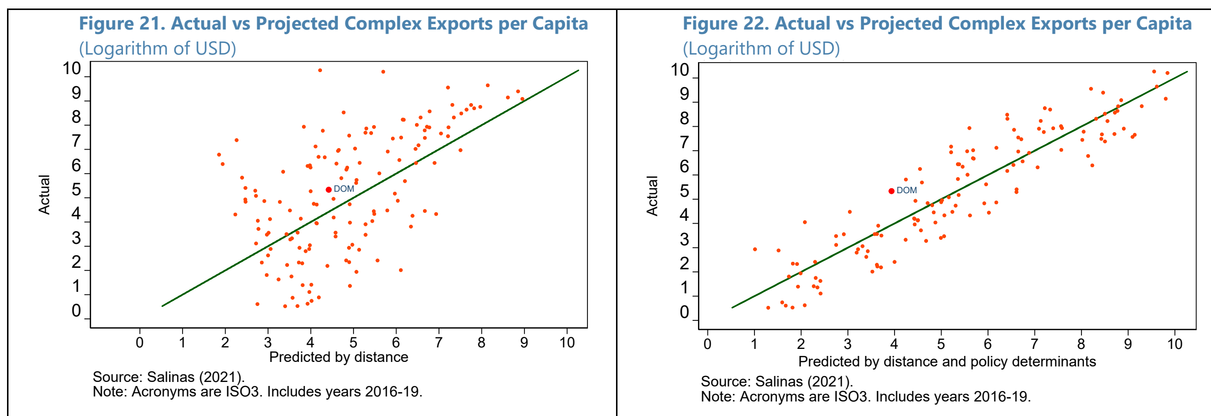


Figure 21. Actual vs Projected Complex Exports per Capita
(Logarithm of USD)

Source: Salinas (2021).
Note: Acronyms are ISO3. Includes years 2016-19.

Figure 22. Actual vs Projected Complex Exports per Capita
(Logarithm of USD)

Source: Salinas (2021).
Note: Acronyms are ISO3. Includes years 2016-19.

12. The Dominican Republic's relatively open trade policy and the CAFTA also represent important assets in the country's export performance. It is important to highlight that the model's prediction power does not increase when other export determinants are added on top of distance. This appears to confirm the need to improve education outcomes, public infrastructure, and make further governance improvements. It also suggests that other factors may be at play, including the contribution from FTZ to exports dynamics.

[7] Coefficients estimated are used to predict a country's level of exports based on its distance to markets and its structural factors (education, governance, infrastructure, and average tariff).

13. Improving education, infrastructure, governance, and the business environment could boost exports complexity and potential growth. The literature has shown they are associated with exports performance and complexity. Econometric estimates, based on Salinas (2021) suggest that the Dominican Republic could have exported around150 percent more than its actual level of exports in 2019 by matching the exports determinants of education, governance, tariffs (i.e., driven by the number of FTA), and infrastructure to those of Costa Rica. Likewise, the 2023 World Bank's Country Economic Memorandum estimates that structural reforms aiming to close the productivity gap could boost economic growth by up to 1.4 percentage points above its baseline scenario.[8]

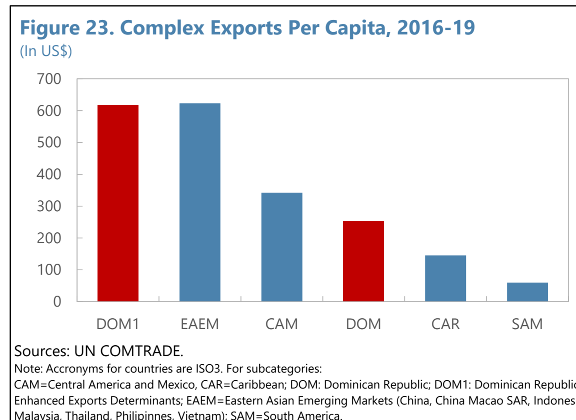


Figure 23. Complex Exports Per Capita, 2016-19
(In US$)

Sources: UN COMTRADE.
Note: Accronyms for countries are ISO3. For subcategories: CAM=Central America and Mexico, CAR=Caribbean; DOM: Dominican Republic; DOM1: Dominican Republic Enhanced Exports Determinants; EAEM=Eastern Asian Emerging Markets (China, China Macao SAR, Indonesia, Malaysia, Thailand, Philipinnes, Vietnam); SAM=South America.

[8] Relevant reforms include improvement to education and human capital (boosting productivity), a boost to productive investment (public—improving procurement efficiency and private), enhancements to market competition (governance—role of SOEs in certain markets, role of government as regulator, and role as referee enforcing the law) and productivity in Special Economic Zones (SEZ) (governance—incentives which leads to domestic market are less competitive than in peer countries) , and a transition to renewable energy sources (subsidies are phased out over 2022-27, unit cost of renewables declines by 25 percent by 2040). Para 46, 59, 65-66, Chapter 4 on expenditure efficiency.

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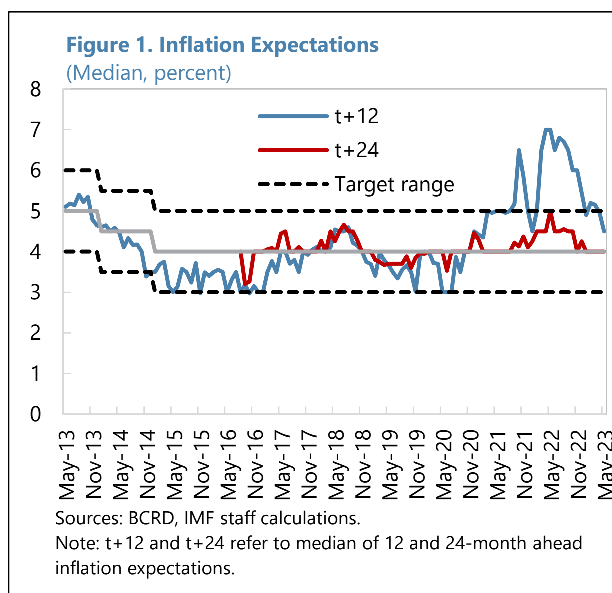
Annex X. Recent Inflation Dynamics[1]

Inflation expectations have remained anchored despite a series of large shocks, especially at the policy horizon, and are not very sensitive to shorter-term disturbances. Actual inflation dynamics and past expectations largely explain inflation expectations. Bottom income-quintile has been facing relatively higher inflation, albeit this differential in the Dominican Republic has been smaller compared to other CAPDR countries. Global fuel prices seem to contribute more than global food prices to explaining the inflation differential across income quintiles.

A. Inflation Expectations

1. According to survey data, inflation expectations in the Dominican Republic have been anchored, especially at the policy horizon. The responses from the macroeconomic expectations survey (EEM), conducted by the Central Bank of the Dominican Republic among economic analysts, indicate that inflation expectations have remained anchored, largely staying within the central bank's target range throughout the past decade. While the median 12-month ahead inflation expectations moved outside the range in several months since September 2021, amid strong inflationary pressures, the median 24-month ahead inflation expectation has consistently remained within the 4+/-1 percent target range since its inception in August 2016.

Figure 1. Inflation Expectations
(Median, percent)

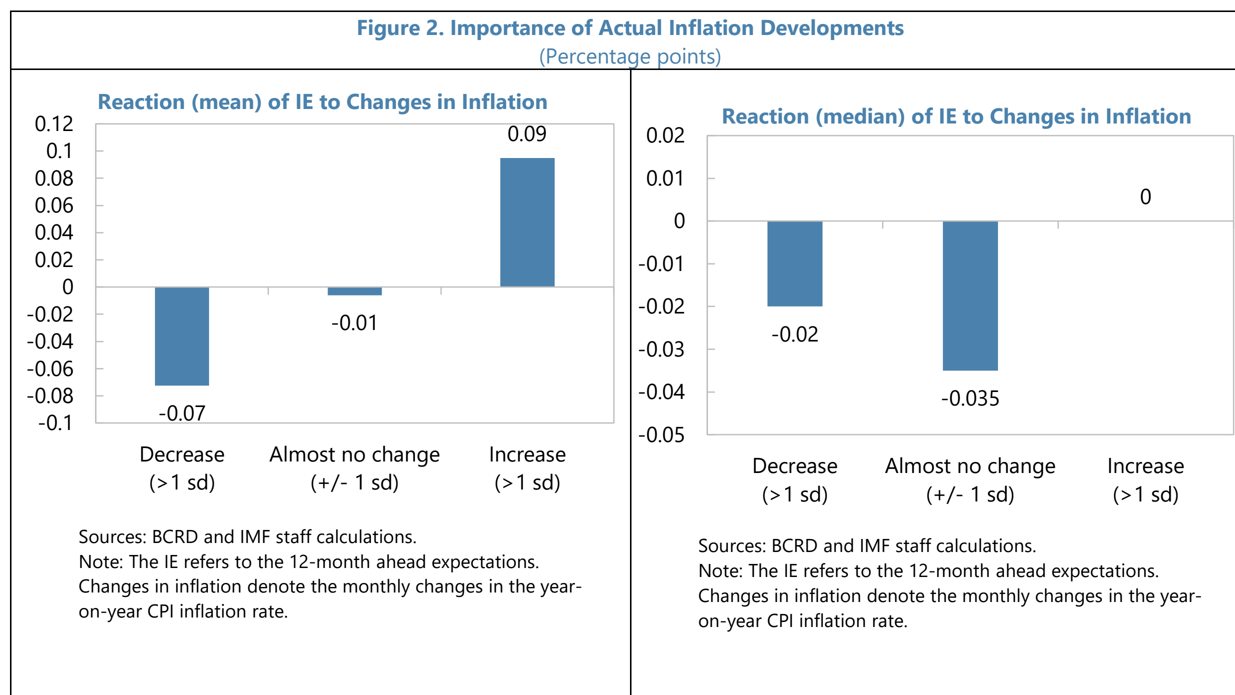


Sources: BCRD, IMF staff calculations.
Note: t+12 and t+24 refer to median of 12 and 24-month ahead inflation expectations.

[1] Prepared by Metodij Hadzi-Vaskov and Luis Carlos Ibanez Thomae.

2. Inflation expectations seem to react to actual inflation developments. In line with findings in the literature (Moessner (2022), and Sousa (2016)), actual inflation dynamics have an important effect on expectations formation. Figure 2 provides some descriptive evidence that larger positive (negative) monthly changes in the year-on-year headline inflation rate are associated with larger positive (negative) changes in inflation expectations. Moreover, the effect of domestic inflation seems to be relatively more important than the effect of U.S. inflation developments.

Figure 2. Importance of Actual Inflation Developments
(Percentage points)



3. Inflation expectations have not been very sensitive to shorter-term disturbances. Following the methodology employed by Bems et al. (2021), Figure 3 shows coefficient estimates from rolling regressions that explore the sensitivity of 24-month ahead inflation expectations to disturbances in the 12-month ahead expectations. Using alternative rolling windows, from 36 to 60 months, the chart on the left-hand side indicates that the sensitivity is low and has generally declined over the past several years. Similarly, the chart on the right-hand side shows that the sensitivity of inflation expectations has been quite low and remained consistently below the expectations sensitivity in regional peers.

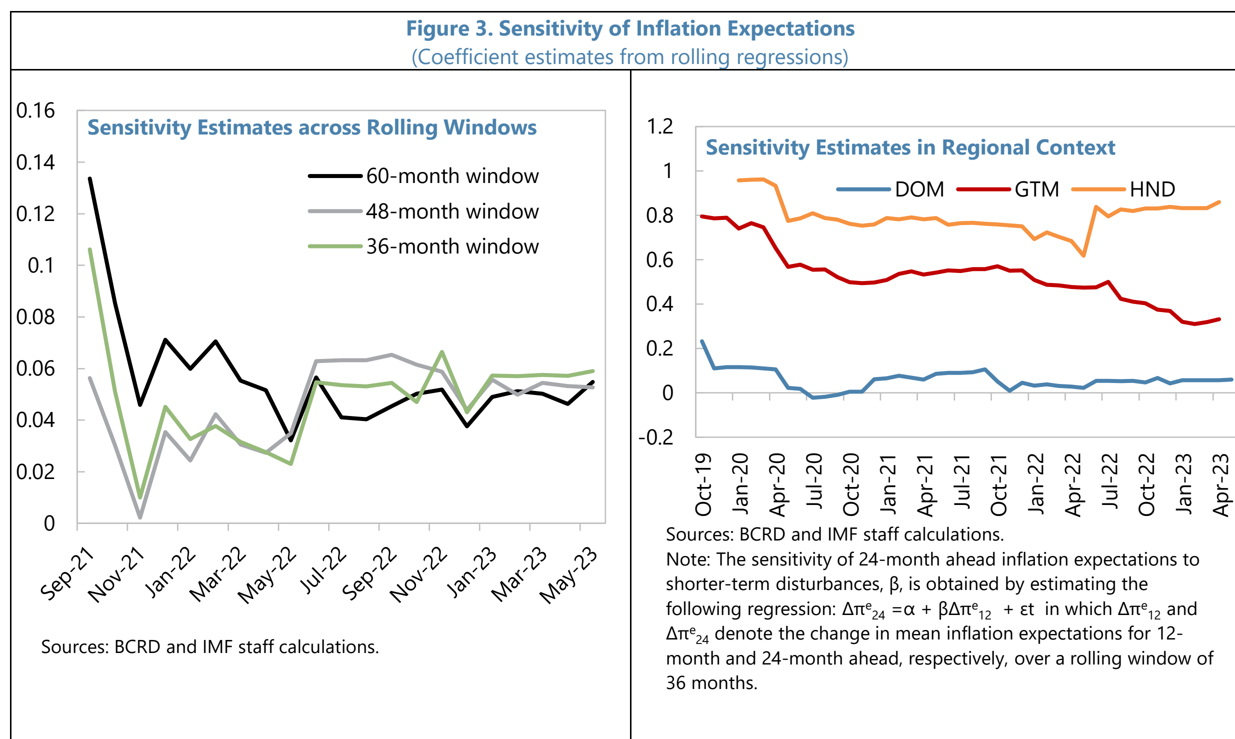


Figure 3. Sensitivity of Inflation Expectations
(Coefficient estimates from rolling regressions)

Sources: BCRD and IMF staff calculations.

Sources: BCRD and IMF staff calculations.
Note: The sensitivity of 24-month ahead inflation expectations to shorter-term disturbances, β, is obtained by estimating the following regression: $\Delta\pi^e_{24} = \alpha + \beta\Delta\pi^e_{12} + \varepsilon t$ in which $\Delta\pi^e_{12}$ and $\Delta\pi^e_{24}$ denote the change in mean inflation expectations for 12-month and 24-month ahead, respectively, over a rolling window of 36 months.

4. **Actual inflation dynamics and past expectations appear to be the key drivers of inflation expectations.** Table 1 provides results from regression specifications that aim to capture the factors that affect inflation expectations in the Dominican Republic over the 12-month and 24-month horizons. They indicate that two factors—actual inflation dynamics in the most recent period π_{t-1} and the lagged expectations for the corresponding horizon $\pi_{t-1}^{e,t+12/24}$—are consistently statistically significant and explain an important part of expectations variation. These results are consistent with the literature (for instance, see Clark and Davig, 2009). In addition, the changes in the monetary policy rate enter the regressions with a negative sign, as expected suggesting that increases in the policy rate are associated with a moderation in inflation expectations, albeit they are not statistically significant.[2] Other factors, such as exchange rate movements, changes in the federal funds rate and in the U.S. inflation rate, and movements in energy prices do not seem to play an important role in expectations formation.

[2] These results are robust to alternative specifications, such as replacing the changes in the monetary policy rate with the changes in the real policy rates, actual rates, or cumulative changes over several months.

Table 1. Dominican Republic: Drivers of Inflation Expectations

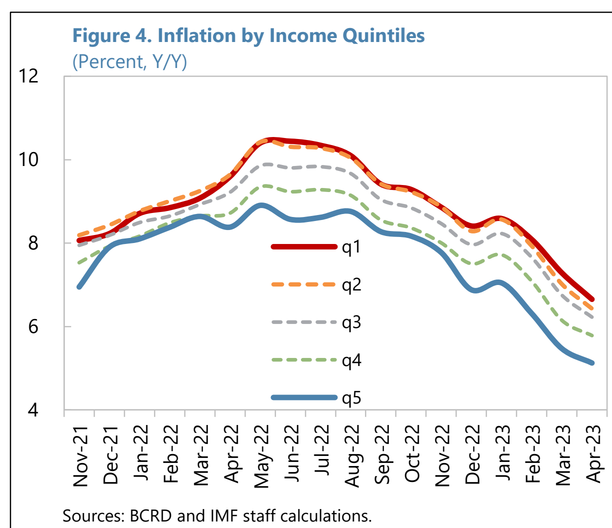
	Inflation expectations			
	12-month ahead		24-month ahead	
	I	II	III	IV
π_{t-1}	0.0830***	0.130***	0.0267**	0.0251
ΔMPR,t	-0.00803	-0.0411	-0.0298	-0.0265
$\pi_{t-1}^{e,t+12/24}$	0.797***	0.640***	0.605***	0.533***
EAI, t-1		-0.00731		-0.00240
FX depreciation, t		-0.0129		0.00357
ΔEFFR,t		0.139		0.0327
Δ US inflation, t		0.0149		-0.110
Growth_Energy		0.00124		0.00129
Constant	0.575***	2.253***	1.488***	2.179***
observations	153	153	67	67
R-squared	0.904	0.916	0.590	0.611
Adj R-squared	0.902	0.911	0.570	0.558

*** p<0.01, ** p<0.05, * p<0.1

Source: IMF staff calculations.

B. Inflation Differences Across Income Quintiles

5. **There have been important inflation differences across income quintiles, with the lowest-income quintile facing relatively higher inflation.** Figure 4 shows important differences of inflation rates across income quintiles, with the high-income quintiles facing relatively lower inflation than low-income quintiles. In particular, the inflation differential between the bottom-income quintile (q1) and the top-income quintile (q5) has persisted over time and even widened since March 2022, reflecting the impact of the global inflation shock as well as that of the subsidy response. Subsidies on fuels usually benefit the higher-income quintile more, given the relatively larger fuels share in their consumption baskets.



6. The inflation differential between the bottom- and the top-income quintile has been smaller in the Dominican Republic than in other CAPDR countries recently. As the Dominican Republic is the only country in the CAPDR region that compiles and published official data on inflation by income quintiles, its methodology has been used as a model to estimate inflation rates across income quintiles in the other countries of the region. Figure 5 indicates that the inflation differential between the bottom and top-income quintiles has generally increased across the CAPDR recently. Nonetheless, this inflation differential has been smaller in the Dominican Republic than in most other countries of the region over the past year.

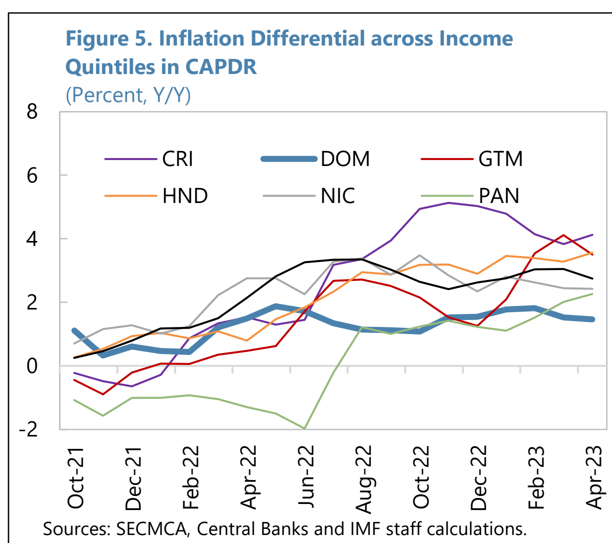


Figure 5. Inflation Differential across Income Quintiles in CAPDR
(Percent, Y/Y)

Sources: SECMCA, Central Banks and IMF staff calculations.

7. Global fuel prices seem to contribute to the inflation differential across income quintiles, though not global food prices. Table 2 presents results from a regression analysis that explores the impact of global fuel and food prices on the inflation differential between the bottom and the top-income quintiles across the CAPDR region. As expected, global fuel prices enter with a negative sign and are statistically significant for each CAPDR country, indicating that higher prices of fuel—which is consumed relatively more by the top-income segment—narrow the inflation differential. On the other hand, global food prices—which is consumed relatively more by the bottom-income segment—are expected to widen the inflation differential, and hence, enter with a positive sign. Nonetheless, while food prices are found to widen this inflation for most countries,[3] the effect for the Dominican Republic seems statistically insignificant, likely pointing at a limited pass-through from global to local food prices due to country-specific factors, including climate- and diet-related.

[3] See IMF (2022) Country Report No. 2022/165.

Table 2. Dominican Republic: Drivers of Inflation Differentials between Income Quintiles

Explaining Inflation Differential Between Bottom and Top Income Quintile

	CAPDR	CRI	SLV	GTM	HND	NIC	DOM	PAN
Fuel prices	-0.0181***	-0.0161***	-0.0183***	-0.00580**	-0.0153***	-0.0189***	-0.0223***	-0.0118***
	(0)	(0.000169)	(1.13e-09)	(0.0336)	(8.53e-07)	(7.22e-06)	(0.000439)	(5.56e-06)
Food prices	0.0287***	0.0375***	0.0303***	-0.0554***	0.0341***	0.0453***	0.0174	-0.00532
	(0)	(0.000105)	(0.000187)	(9.00e-09)	(3.03e-06)	(3.91e-06)	(0.239)	(0.555)
Constant	0.587***	0.559***	0.532***	1.958***	-0.0164	0.579***	0.668***	0.221***
	(0)	(2.85e-05)	(1.54e-08)	(0)	(0.862)	(1.13e-05)	(0.000667)	(0.00904)
Observations	1,359	189	159	132	267	255	267	90
R-squared	0.076	0.086	0.215	0.564	0.098	0.093	0.055	0.440

Note: Dependent variable is the difference between inflation rates facing the bottom quintile and the top quintile of the income distirbution. Global fuel prices are measured through the WTI, and global food prices through the FAO food price index. P-values in parentheses. *** p<0.01, ** p<0.05, * p<0.1

References

Bems, R., F. Caselli, F. Grigoli, and B. Gruss (2021), "Expectations' anchoring and inflation persistence", *Journal of International Economics*, 132.

Clark, T. E., and T. Davig (2009), "The relationship between inflation and inflation expectations", Federal Reserve Bank memo.

International Monetary Fund (2022), "Guatemala: Selected Issues Paper", Country Report No. 2022/165, Washington, DC.

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INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

June 5, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department (In consultation with other departments)

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FUND RELATIONS

(As of April 30, 2023)

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	444.02	66.63

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		
	2023	**2024**	**2025**	**2026**	**2027**
Principal	119.35	238.70	119.35		
Charges/Interest	22.00	21.10	10.45	8.34	8.34
Total	140.32	259.80	129.80	8.34	8.34

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 29-May 13, 2022. The consultation was concluded by the Executive Board on July 5, 2022. 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). See Annex III of the main report for details of the key areas of current focus.

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)

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 30, 2023)

I. Assessment of Data Adequacy for Surveillance

General: Data provided to the Fund for surveillance, including those reported in the Table of Common Indicators Required for Surveillance, are comprehensive and broadly adequate for macroeconomic and financial analyses. The authorities regularly provide to the Fund and reliably publish a large range of standard economic and financial data. Data coverage, frequency, and timeliness are generally in line with expectations/requirements set in the IMF Data Standards Initiatives. 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.

National Accounts: The Central Bank of the Dominican Republic (BCRD) compiles and disseminates national accounts series, based on the concepts and definitions of the *System of National Accounts 2008* using both production and expenditure approaches, in nominal values and volume measures. A monthly Index of Economic Activity (*Indice Mensual de Actividad Económica, IMAE*), which is a chain-linked volume index with 2007 as the reference year, is published monthly by the Central Bank. Updating the base year for the national accounts (currently based on 2007) and improving the timeliness of national accounts data would further support surveillance.

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.

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.

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).

The authorities have transitioned to the GFSM 2014 framework, with technical assistance from the Statistics Department of the IMF and CAPTAC DR.

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.

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. 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).
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). Improving the timeliness of the quarterly external sector data would further support surveillance.
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 30, 2023)

	Date of latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	5/29/2023	5/29/2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/30/2023	5/30/2023	D	D	D
Reserve/Base Money	5/30/2023	5/30/2023	D	D	D
Broad Money	5/30/2023	5/30/2023	D	D	D
Central Bank Balance Sheet	3/2023	5/2023	M	M	M
Consolidated Balance Sheet of the Banking System	3/2023	5/2023	M	M	M
Interest Rates[2]	5/26/2023	5/30/2023	D	D	D
Consumer Price Index	4/2023	5/9/2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]-General Government[4]	3/2023	5/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[3]–Central Government	3/2023	5/2023	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q1/2023	5/2023	Q	Q	Q
External Current Account Balance	Q4/2022	4/2023	Q	Q	Q
Exports and Imports of Goods and Services	12/2022	4/2023	M	M	M
GDP/GNP	Q4/2022	4/2023	Q	Q	Q
Gross External Debt	Q4/2022	4/2023	Q	Q	Q
International Investment Position[6]	Q4/2022	4/2023	Q	Q	Q

[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.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents, including of offshore banks.
[7] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by Mr. Bevilaqua and Mr. Fuentes on Dominican Republic
Executive Board Meeting
June 20, 2023

On behalf of our Dominican authorities, we thank Mr. Fernandez-Corugedo and his team for the frank and constructive discussions during the 2023 Article IV consultation mission. The authorities welcome the thorough analysis and sound policy recommendations presented in the staff report, as the Dominican economy continues to navigate difficult international financial conditions.

Recent economic developments and outlook

Economic activity is expected to regain momentum in the second half of the year. Growth, as measured by the Monthly Indicator of Economic Activity (IMAE), slowed significantly in the first four months of 2023 to an average of 1.2 percent, reflecting the deterioration in the external environment, characterized by heightened uncertainty and growth slowdown in the Dominican Republic's main trading partners, and the need to tighten domestic financial conditions to combat inflation. Notwithstanding, the output gap is expected to remain negative in the near term and narrow gradually as growth accelerates in the second half of the year on the back of the ongoing transition to a neutral monetary policy stance, strong tourism activity, robust FDI inflows, and the recovery of construction activity.

Inflation has returned to the target range. The inflation rate declined to 4.4 percent in May, converging to the target range of 4.0 percent ± 1.0 percent ahead of schedule, driven by the decline in energy and food prices, appreciation of the exchange rate, and moderation in economic activity during the first half of the year. Core inflation is also continuing its downward trend and is expected to converge to the target range in the third quarter of 2023. The monetary authorities expect headline inflation to continue to decline during the second semester, converging to 4 percent by the end of 2023. Market expectations are in line with the Central Bank of the Dominican Republic (BCRD)'s projections for the rest of the year.

Fiscal policy

Fiscal policy remained prudent in 2022 amid the impact of high international commodity prices and disruptive weather events on domestic inflation. A package of temporary fiscal measures was implemented to cushion households from the impact of high energy prices, including targeted subsidies and the expansion of some social programs. In addition, resources were allocated to support several provinces affected by adverse weather events. However, the good performance of the economy was reflected in the evolution of revenues, which partially offset the cost of those fiscal measures reduced the impact on public finances. The non-financial public

sector deficit reached 2.7 percent of GDP. In 2023, capital spending has accelerated and subsidies to mitigate the impact of inflation have become better targeted.

The authorities have delivered on their commitment to strengthen fiscal sustainability, transparency, and accountability with the new Fiscal Responsibility Law (FRL) submitted to Congress in June 2023. This legislation was supported by Fund technical assistance and extensively discussed with IMF staff. It sets a primary expenditure growth rule of the projected average annual inflation rate plus 3.0 percentage points, with a medium-term debt target of 40 percent of GDP in 2035. The Ministry of Finance will prepare and publish a Medium-Term Fiscal Framework (MTFF), which will include projections of key fiscal aggregates for the following four years, considering compliance with the fiscal rule. The FRL also establishes a Fiscal Responsibility Oversight Committee to monitor compliance with the fiscal rule and targets set out in the legislation. In addition, the authorities will continue to work on improving PFM systems with support from Fund TA.

Public debt remains sustainable and on a steady downward trajectory. The consolidated public debt continues to decline gradually, from 71.1 percent of GDP in 2020 to 58.8 percent of GDP in 2022. The authorities' commitment to gradual fiscal consolidation, low gross financing needs (GFN), and implementation of the new FRL submitted to Congress will contribute to further narrowing country risk spreads and keeping debt sustainability risks subdued.

Monetary policy and financial stability

The BCRD has initiated the process of monetary policy normalization. Since November 2021, monetary policy maintained a tight stance to anchor inflation expectations and contain excess demand. However, as inflation has returned to the target range in an environment of weakening domestic demand and receding pressures from international commodity prices and transportation costs, the BCRD began the transition to a neutral policy stance with a 50 basis point reduction in the policy rate, from 8.5 percent to 8.0 percent. The reduction in the policy rate was complemented by liquidity measures to offset the significant slowdown in monetary aggregates and support growth. The BCRD's forecasting models indicate that inflation will remain on track to end the year at 4 percent and remain within the target range of 4 percent ± 1 percent over the monetary policy horizon.

Banks remain well capitalized, liquid, and profitable. The banking system exhibits strong financial soundness indicators and high resilience to external shocks as a result of strong capital buffers and declining dollarization ratios of loans and deposits. In April 2023, nonperforming loans remained low at 1.1 percent, average return on equity (ROE) was 26.6 percent, and the solvency ratio reached 17.3 percent, significantly above the 10 percent minimum. Loan-loss provisions amounted to 306.9 percent, well above legal requirements.

The authorities continue to strengthen financial regulation and supervision in line with international best practices. They are working on roadmaps for the implementation of the Basel II/III framework, supported by technical assistance from CAPTAC-DR, and to facilitate the transformation of savings and loans institutions into banks. The Superintendency of Banks is working to bolster its risk-based supervisory capacity and is already closely monitoring the ability of financial institutions to comply with international standards, including mark-to-market valuation of DTIs' securities portfolios and its potential impact on solvency. The SIB and the BCRD continue to work closely to improve stress testing and expand the macroprudential toolkit.

External sector position

Despite a negative terms-of-trade shock, the external position remains broadly in line with fundamentals and is set to improve. The current account deficit widened to 5.6 percent of GDP in 2022 on the back of lower export demand and the highest international energy and food prices in more than a decade, mainly financed by strong FDI and net portfolio investment inflows. However, the deficit is projected to narrow to 3.9 percent of GDP in 2023, driven by lower commodity prices and higher exports of goods and services, particularly tourism, as the global economy recovers. The net international investment position (NIIP) improved further in 2022, mainly due to a reduction in external debt, which fell below pre-pandemic levels and is projected to continue declining over the medium term, further reducing risks to external sustainability.

Strong capital inflows supported an appreciation of the Dominican peso and boosted international reserves to historic high levels. The combination of resilient remittance inflows and robust FDI and portfolio investments supported a notable appreciation of the peso against the U.S. dollar in 2022. Given favorable market conditions, the monetary authorities remain firmly committed to promoting greater exchange rate flexibility to reinforce its role as a key shock absorber. Moreover, the real exchange rate remains in line with fundamentals and is consistent with the projected current account deficit in 2023. The international reserves position continues to improve, exceeding all traditional metrics and reaching over 100 percent of the IMF's ARA metric as of May 2023. The introduction of the foreign exchange platform has improved the functioning and transparency of the domestic foreign exchange market, in line with international best practices. At the same time, the BCRD is systematically reducing the size and frequency of foreign exchange interventions and limiting its participation to prevent episodes of disorderly market conditions.

Structural reforms and governance

The authorities are fully committed to the implementation of the country's ambitious reform agenda anchored in the National Development Strategy (NDS) 2030. The Economic and Social Council is a constitutionally mandated institution to coordinate dialogue and build consensus on structural reforms in 12 key thematic areas (water, elections, public administration modernization,

digital transformation, security and police reform, transparency and governance, transportation, foreign policy and immigration, environment and climate change, social security, health, and hydrocarbon consumption).

The implementation of reforms under the Electricity Pact signed in 2021 is well underway. They aim to reduce power outages and system losses (technical and non-technical), improve electricity distribution services, expand renewable energy generation, and improve the targeting of subsidies. Adjustments to electricity tariffs are expected to resume once the volatile conditions caused by the international energy price shock subside. The modernization of the energy sector law has strengthened the planning functions of the Ministry of Energy and Mines and transferred oversight to the Electricity Superintendency. The authorities are also working to strengthen the oversight capacity of electricity distribution companies (EDEs) based on OECD corporate governance guidelines.

The BCRD is making steady progress in implementing the recommendations of the IMF Safeguards Assessment. The Monetary Board has adopted a resolution establishing an independent internal audit function and appointing a chief internal auditor. It has also strengthened the oversight capacity of the Audit Committee with external technical expertise. The BCRD and the Ministry of Finance have requested technical assistance from the Fund to reform the current recapitalization law and design a financially sustainable mechanism to strengthen the operational autonomy of the BCRD. The authorities see the recapitalization of the central bank as closely associated to the implementation of the IFRS and are working on a roadmap for its operationalization.

Efforts to fight corruption and strengthen governance and transparency have intensified significantly. Reinforcing the independence of the judiciary has been a priority of the current administration in this area, enabling the Anti-Corruption Office (PEPCA) to successfully investigate and prosecute several high-level administrative corruption cases. Moreover, the Chamber of Accounts published the audit of COVID-19-related expenditures—a commitment under the 2020 RFI—and procurement processes continue to be strengthened. In the area of AML/CFT, the Financial Analysis Unit (FAU) continues to work diligently to strengthen the prevention, detection, and reporting of money laundering in line with international best practices. The ongoing National Risk Assessment exercise ahead of the next FATF Mutual Evaluation (GAFILAT) will set the agenda for further reforms.

Climate change adaptation and mitigation efforts remain a top government priority. Extreme climate events pose a permanent risk to the Dominican economy, negatively affecting key sectors (such as agriculture and tourism) and the most vulnerable population, with significant long-term fiscal implications. The authorities' climate strategy continues to be guided by the Nationally Determined Contribution (NDC) Action Plan and the Initiative for Climate Action Transparency

(ICAT). The new Land Management and Development Law will ensure efficient and sustainable use of land and other natural resources in line with the need to adapt to climate change. The authorities have secured disaster insurance from the World Bank through a CAT-DDO, have requested a C-PIMA mission to the IMF, expected later this year, and have expressed interest in accessing the Fund's RSF in the future.