Governor's Statement No. 8

October 7, 2016

Statement by the Hon. **HÉCTOR VALDEZ ALBIZU,**
Governor of the Fund for the **DOMINICAN REPUBLIC**

Statement by the Hon. Héctor Valdez Albizu,
Governor of the Fund for the Dominican Republic

Dominican Republic: Good luck or good policies?

I wish to take the opportunity offered by this year's IMF/WB Annual meetings to make some remarks in my capacity as Governor of the Central Bank of the Dominican Republic, on recent developments in the Dominican economy amid the current international context, and the role of good policies in driving growth with macroeconomic stability.

In the most recent G-20 meeting in China, Madame Christine Lagarde, Managing Director of the IMF, expressed concern about the low levels of growth in the world economy. She warned on the risk of global stagnation if urgent measures are not implemented to boost public and private investment, and reverse the rising tide of protectionism that hinders international trade. This argument coincides with the comments recently made by the President of the Dominican Republic Lic. Danilo Medina Sanchez in the General Assembly of the United Nations.

Given this scenario, the IMF projects a lower global growth for 2016, mainly influenced by a slowdown in economic activity in the United States of America, China and the Eurozone. Furthermore, the Fund is expecting a negative growth rate of -0.6 percent for the Latin America and the Caribbean region at year-end.

Amid this gloomy background, the Dominican economy has sustained a robust economic performance through a prudent macroeconomic management and efficient socio-economic policies, promoting a more inclusive growth performance. Real GDP grew 7.4 percent during the first semester of 2016, primarily supported by the dynamism of Construction, Mining Financial Intermediation and Farming. Consequently, it is expected the Dominican Republic will remain the fastest growing economy in the region for the third year in a row. Despite growth momentum, cumulative inflation remained very low, reaching just 0.31 percent for the first eight months of the year. In turn, the balance of payments showed a surplus in the current account, while the financial system maintains adequate levels of solvency, profitability and capitalization.

Unquestionably, fluctuations in international markets are crucial for a small open economy like the Dominican Republic. In this regard, low international oil prices and the recovery of the U.S. economy, the country's main trade partner, have positively contributed to the notable performance of our economy.

This is why, in my opinion, changes in the current trade and immigration policies in the United States of America, as those proposed during the current Presidential campaign, could have devastating consequences on small and highly integrated economies with the U.S., like those in Central America and the Caribbean.

Nonetheless, high economic growth in the Dominican Republic is not simply based on a favorable international context, what some might call "*good luck*", but rather on "*good policies*" at the macroeconomic and sectorial levels, such as those implemented by the Government headed by President Danilo Medina Sánchez.

In terms of structural policies, investment in human capital leads the economic agenda of the current administration, which has doubled the spending on education from 2 to 4 percentage points of GDP. The higher education spending has not only boost potential growth in the Dominican Republic, but it has also supported the dynamism in activities such as Construction and Agriculture in the near term, thus contributing to poverty reduction.

In addition, since 2013, authorities' commitment with fiscal consolidation has managed to reduce the deficit and raise the confidence of foreign investors and multilateral institutions in the sustainability of public finances in the Dominican Republic. Simultaneously, monetary policy has maintained a neutral stance, which has allowed the economy to grow without generating inflationary pressures or exchange rate instability, facilitating consumption and investment decisions by the private sector.

In addition, the current regulatory framework of the banking system, which has contributed to strengthen the financial sector, will be reinforced with new macroprudential policies. Moreover, the country exhibits significant progress in the application of new legislation and regulation to prevent anti-money laundering and combat the financing of terrorism.

Finally, the Dominican authorities remain committed to macroeconomic policies that support sustainable and inclusive economic growth, underpinned by fiscal discipline and strengthened external buffers.