INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/169

DOMINICAN REPUBLIC

July 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DOMINICAN REPUBLIC

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with the Dominican Republic, 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 30, 2021 consideration of the staff report that concluded the Article IV consultation with the Dominican Republic.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 30, 2021 following discussions that ended on May 5, 2021, with the officials of the Dominican Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 14, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR21/204

IMF Executive Board Concludes 2021 Article IV Consultation with the Dominican Republic

FOR IMMEDIATE RELEASE

Washington, DC – **July 1, 2021:** On June 30, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Dominican Republic.

The pandemic hit the Dominican Republic economy hard in 2020 but policy support helped cushion the impact. The initial global spillovers on tourism and exports and the heavy toll of the lockdown on other sectors led to a sharp economic contraction in the second quarter. However, sound fundamentals and a decisive policy response—including increased social transfers and health spending, tax deferrals and targeted tax relief, monetary policy easing, liquidity support and prudential flexibility—helped the economy rebound gradually. Overall, the economy contracted 6.7 in 2020, but positive growth momentum started in the second half of the year. Largely reflecting supply shocks, inflation increased in the second half of 2020, but expectations remained well-anchored. Continued strong access to global markets aided the financing of the higher fiscal deficit and the financial sector remained resilient. The current account deficit remained more than fully financed by FDI, strengthening the international reserves position.

A significant recovery is expected starting in 2021, with risks broadly balanced. This recovery will be aided by US spillovers and the swift vaccination campaign implemented by the authorities. Growth in the Dominican economy is expected to converge to its potential over the medium-term, progressively closing the output gap. While the recovery in tourism activities is expected to be gradual, manufacturing exports, investment and consumption would be supported by global growth, resilient FDI and buoyant remittances. A remaining output gap, anchored inflation expectations and the temporary nature of supply shocks should allow inflation to converge to the target over the policy horizon. While COVID has burdened public finances, a gradual return to pre-pandemic primary balances would secure a downward path in public debt. The current account would remain more than fully financed by FDI. Risks are broadly balanced, largely reflecting the COVID outbreak: while a longer-than-expected deployment of vaccines or a prolonged pandemic could deter growth, faster global containment may have positive spillovers. Other key risks include tighter global financial conditions and extreme weather events.

Executive Board Assessment [2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities' decisive policy response to protect the health and livelihoods of Dominicans,

---

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

[2] 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.

including through increased health expenditures, social transfers, targeted tax relief, and supportive monetary and prudential policies. Directors agreed that the Dominican Republic is set for a strong economic recovery in 2021 underpinned by the policy response, the global rebound, and the swift vaccination campaign. They noted that risks to the outlook are broadly balanced, mainly associated with the strength and speed of the global recovery.

Directors agreed that policies appropriately balance continued support of the recovery with the need to secure debt sustainability. They noted that the envisaged fiscal consolidation protects critical social assistance and health spending through strict controls of non-priority expenditures and improved targeting of social and employment programs. Directors stressed the need for medium-term revenue mobilization through a broadening of the tax base and revision of tax exemptions. They noted that further reforms in the electricity sector will help create fiscal space to reduce debt sustainability risks while protecting investment and social spending. Directors welcomed recent progress and underlined the benefits of further improvements in fiscal governance and transparency, including by enhancing public financial management and introducing fiscal responsibility legislation.

Directors agreed that monetary policy support remains appropriate as long as inflation expectations remain well-anchored, while exchange rate flexibility would help provide a buffer against shocks. Directors agreed that while the financial system remains resilient and well-monitored, it would benefit from moving closer to international standards for supervision and regulation and enhancing the macroprudential and crisis management toolkit. They also noted that recapitalizing the central bank would enhance its financial and institutional independence.

Directors highlighted the importance of structural reforms to improve social outcomes and increase productivity. They noted that ensuring inclusive and sustainable growth will require making social programs more effective and focused on increasing labor market participation and education support, modernizing the labor code to allow for more flexible and formal work arrangements, narrowing labor market skills gaps, and addressing rural poverty and gender inequality. They also highlighted the importance of enhancing competitiveness and reducing the regulatory burden. Directors stressed that adapting to and mitigating climate change risks remains a priority.

It is expected that the next Article IV consultation with the Dominican Republic will be held on the standard 12-month cycle.

Table 1. Dominican Republic: Selected Economic Indicators

	2017	2018	2019	2020	Projection 2021	Projection 2022
Output	(Annual percentage change, unless otherwise stated)					
Real GDP	4.7	7.0	5.1	-6.7	5.5	5.0
Contributions to growth						
Consumption	3.1	4.1	3.7	-1.9	1.3	2.9
Investment	-1.4	4.6	1.1	-4.3	4.7	1.5
Net exports	2.2	-0.9	-1.4	-3.2	-0.4	0.0
Nominal GDP (RD$ billion)	3,803	4,236	4,562	4,457	4,911	5,362
Nominal GDP (US$ billion)	80.1	85.6	89.0	78.9	...	...
Output gap (in percent of potential output)	0.4	3.2	5.0	-4.6	-2.3	-1.0
Prices						
Consumer price inflation (end of period)	4.2	1.2	3.7	5.6	4.5	4.0
Government finances	(In percent of GDP)					
Consolidated public sector debt 2/	48.5	50.1	53.2	71.1	67.9	66.9
Consolidated public sector overall balance 2/	-4.0	-3.4	-3.3	-9.0	-4.9	-4.0
Consolidated public sector primary balance	0.1	0.6	0.9	-4.3	-0.1	0.7
Central government balance	-3.1	-2.2	-2.2	-7.9	-3.5	-3.2
Revenues and grants	14.0	14.2	14.4	14.2	14.9	14.1
Primary spending	14.5	13.8	13.8	18.9	14.8	13.8
Interest expenditure	2.5	2.6	2.7	3.2	3.6	3.4
Rest of NFPS	0.3	-0.1	-0.1	0.3	-0.1	0.0
Financial sector	(Annual percentage change, unless otherwise stated)					
Broad money (M3)	11.2	7.0	11.7	20.8	11.6	9.5
Credit to the private sector	10.1	11.1	11.8	5.3	10.2	9.2
Policy interest rate 1/	5.3	5.5	4.5	3.0	...	...
Balance of payments	(In percent of GDP)					
Current account	-0.2	-1.5	-1.3	-2.0	-1.6	-1.5
Goods, net	-9.5	-11.2	-10.2	-8.6	-10.1	-10.1
Services, net	6.9	6.4	5.7	1.3	3.6	4.0
Income, net	2.4	3.2	3.2	5.3	4.9	4.6
Capital account	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 3/	2.6	3.6	3.6	4.8	2.6	2.5
of which: Foreign direct investment, net	4.5	3.0	3.4	3.4	3.4	3.4
Change in reserves (- increase)	-0.9	-1.0	-1.3	-2.5	-1.0	-1.0
NIR (in millions of U.S. dollars)	6,780	7,627	8,781	10,752	11,602	12,484
Total external debt (in percent of GDP)	41.9	40.2	41.9	56.4	55.3	53.7
of which: Public sector	24.2	25.8	27.3	40.3	38.8	38.2

Sources: National authorities and IMF staff calculations.
1/ Latest available.
2/ The consolidated public sector includes the central government, some decentralized entities, the electricity holding company, and the central bank.
3/ Excluding reserves.

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

June 14, 2021

KEY ISSUES

Context. The pandemic interrupted a prolonged growth spell that made the Dominican Republic one of the most dynamic economies in the region amid strong growth, macroeconomic stability and improved social outcomes. This built resilience to the shock—including by maintaining access to markets—and allowed a decisive policy response to address the health emergency, support growth, and protect the vulnerable.

Recent Developments. The pandemic hit the economy hard through the initial negative global spillovers on tourism and exports and the heavy toll of the lockdown on other sectors. The policy response included increased health spending and social transfers, targeted tax relief and deferrals, monetary policy easing, liquidity support and prudential flexibility; the exchange rate also helped buffer the shock. The economy rebounded since mid-2020 and positive growth momentum continues.

Outlook and Risks. The authorities' policy response, the global recovery, spillovers from US policy measures, and the continued reopening aided by a prompt vaccination campaign should support the recovery. Inflation has been driven by supply shocks but is expected to converge to the target over the policy horizon with the fiscal position returning to primary balances reached before the pandemic; the current account would remain more than fully financed by FDI, strengthening the reserves position. Risks to the outlook are broadly balanced, mainly arising from the pandemic and global financial conditions.

Policy Issues. Discussions focused on the withdrawal of COVID emergency measures, which will require a careful calibration of short-term policies to support growth while taking steps to secure debt sustainability, maintain financial stability and continue providing social assistance as needed. A sound sequencing of policy signals and measures will be important. Strengthening policy frameworks while improving governance and transparency in the short-term can support growth, signal strong commitment to sustainable policies, and build support for revenue mobilization and electricity sector reforms. Maintaining monetary policy support and adopting an exit strategy for prudential flexibility based on sound monitoring, transparency, and more targeted measures in the financial sector can support growth and secure financial stability.

Approved By
Patricia Alonso-Gamo (WHD) and Bjoern Rother (SPR)

Discussions took place via videoconferences during April 21–May 5, 2021. The staff comprised Esteban Vesperoni (head), Pamela Madrid, Mario Mansilla, Marina Rousset, Mariana Sans (all WHD) and Dirk Jan Grolleman (MCM). Bennett Sutton (WHD) participated in the preparation of the virtual mission, and Anaysa Delsid, Madina Toshmuhamedova and Soungbe Konate (WHD) assisted the team. Frank Fuentes (OED) participated in the discussions, and Hassam Adan (FAD) in the closing meetings. The team met with Central Bank Governor Héctor Valdez, Minister of Finance José Manuel Vicente, Superintendent of Banks Alejandro Fernandez, and other senior officials as well as private sector representatives.

CONTENTS

ANNEXES

BUILDING ON STRONG FUNDAMENTALS

1. **The pandemic interrupted a prolonged growth spell that made the Dominican Republic one of the most dynamic economies in the region.** The economy—which outperformed regional growth in the last two decades—had grown by more than 6 percent on average in the quinquennial before the pandemic amid low inflation, a sound external position, and improved social outcomes. This dynamism built resilience to the shock—including by maintaining access to markets—despite the impact of COVID on tourism and the heavy toll of the lockdown.

2. **The policy response was decisive; the outlook points to a recovery starting in 2021.** Monetary and fiscal measures and exchange rate adjustments have helped buffer the shock. Macroeconomic conditions remained stable and the external position in line with fundamentals, and growth momentum strengthened in late 2020. While the global outlook remains uncertain, the recovery—notably, US spillovers—and the ongoing global and domestic vaccination campaigns are expected to support growth.

3. **The authorities aim to build on previous success through fiscal and structural reforms to address remaining challenges.** The pandemic has brought to the forefront medium-term challenges, such as the level of public debt, bottlenecks to higher productivity and gaps in social outcomes. Sound policy frameworks and economic dynamism should help build policy buffers and pave the way for further reforms to strengthen the outlook, which the authorities intend to pursue on fiscal and electricity sector issues. Initiatives to strengthen governance, anti-corruption efforts, and improvements in the business climate can also foster inclusive growth.

RECENT DEVELOPMENTS, OUTLOOK AND RISKS

4. **The pandemic hit the economy hard but policy support helped cushion the impact.** Containment measures addressed the emergency but compounded the impact of global spillovers on economic activity. The policy response included fiscal measures that increased health expenditures and transfers to low-income families and the unemployed, targeted tax relief (tourism and commerce), and tax deferrals—deteriorating the NFPS primary balance by about 4 percent of GDP. On the monetary and financial fronts, the central bank lowered its policy rate and expanded liquidity to support credit; and the Monetary Board introduced flexibility in the prudential framework (see text tables).

Key Impacts on Fiscal Accounts
(in percent of GDP)

	2020
Total	**4.2**
Increase in expenditures	**3.3**
Key social programs (from April 2020)	2.9
Quedate en Casa	1.6
1.5 million vulnerable households (monthly allowance between US$35 and US$85)	
FASE	1.1
0.7 million formal workers laid-off or with reduced hours (monthly allowance up to maximum of 70 percent of formal wages or US$145)	
Pa'ti	0.2
Independent workers (monthly allowance of US$89)	
Health spending	0.3
Other spending /1	0.1
Loss of tax revenues	**0.9**

Sources: National authorities and IMF staff calculations
1/ Includes salary incentives for other sectors.

5. GDP contracted by 6.7 percent in 2020 weighed down by services, but other sectors started to recover faster. Tourism re-opened but has been weak given travel restrictions while growth in other services was curtailed by domestic containment measures. However, the gradual reopening, strong foreign investment and US demand are supporting agriculture, construction and manufacturing, which had surpassed pre-pandemic levels by end-2020. Both employment and labor participation fell in 2020— particularly in services and for women (Figure 1)—but manufacturing employment fully recovered by early 2021.

6. Supply shocks and the exchange rate depreciation have driven inflation dynamics. Inflation accelerated in the second half of 2020, growing since June at an above target (4±1 percent) pace driven by supply shocks (food and oil). The exchange rate depreciation in early 2020 also pushed core inflation up, but to a lesser extent than headline. Supply shocks persisted in early 2021, though a slight peso appreciation has in part reduced inflationary pressures and wage growth has remained subdued, contributing to well-anchored inflation expectations.

Monetary Policy: COVID-19 Measures in 2020

	Instrument	Measure
1	**Policy Rate**	Reduced by 150 basis points from 4.5 to 3 percent.
2	**Repo Rate**	(1-day) REPO facility rate cut from 6.0 to 3.5 percent.
3	**Overnight Rate**	Reduce the overnight deposit rate from 3.0 to 2.5 percent.
4	**Reserve Requirements**	Reduce reserve requirements up to RD$36 billion (about 0.8 percent of GDP) - equivalent to a 3¼ percent reduction in reserve requirements. The freed resources are earmarked for credits to corporates, SMEs, and households at an interest rate capped at 8 percent for up to 4 years.
5	**Other Repo Operations**	Creation of new repo windows for an amount of RD$55 billion (about 1.2 percent of GDP) to provide additional liquidity to the financial system for targetted onlending to the real sector.
6	**Liquidity facility**	A collateralized liquidity window established for DR$125 billion (about 2.75 percent of GDP) to fund lending to the productive sector, micro enterprises, and households.
7	**Dollar Liquidity**	Provide US$0.6 billion (about ¾ percent of GDP), through repo operations and FX reserve requirements relaxation.

Source: National authorities

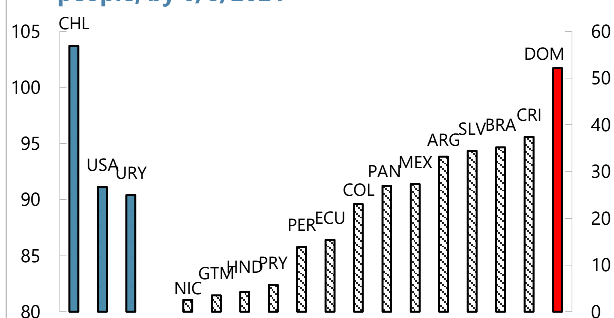
7. The external position remained in line with fundamentals and desirable policies (Annex I). The current account deficit increased modestly from 1.3 to 2 percent of GDP—weak tourism receipts were partially offset by remittances and favorable gold prices and the exchange rate helped buffer the shock. It was more than fully financed by resilient FDI. International reserves increased strongly; NIR stood at 81 percent of the ARA metric and largely surpassed all individual benchmarks.

8. The Dominican Republic has maintained strong access to markets. The country issued global bonds throughout 2020—including in Dominican pesos—not only covering 2020 needs but also prefinancing part of the 2021 budget. It also bought back bonds maturing in 2021-2025—extending maturities and reducing short-term financing needs. In January 2021, the treasury issued US$ 2.5 billion at historically low yields again to finance the 2021 budget.

9. Aided by regulatory flexibility, the financial system remained resilient. Total assets of deposit-taking institutions increased by almost 20 percent, mainly financed by deposits—which increased by 26 percent, recovering from an initial slump in early 2020—amid central bank liquidity support measures. Regulatory flexibility provided capital and provisioning relief, which combined with lower interest rates allowed banks to refinance or restructure loans and maintain credit flows—which remained constant in real terms. As a result, reported substandard loans increased only marginally, and capital adequacy improved due to lower risk-weighted assets and capital conservation. However, as regulatory flexibility expires—notably on credit risk classification—some deterioration in reported asset quality is expected. In anticipation of this, banks—in particular large ones—increased their provisioning, leading to a slight decline in profitability in 2020. As corporations rebuild their balance sheets and catch up with their pre-crisis business plans, financial intermediation is expected to increase.

10. Recent developments point to a significant recovery in 2021. By 2021Q1, activity in most sectors recovered to pre-pandemic levels (Figure 1)—GDP expanded by 3 percent year-on-year. Aided by buoyant growth in the United States, manufacturing is recovering fast and exporting companies have adapted quickly, notably by increasing medical-related exports—US fiscal stimulus point to further spillovers in 2021. The implementation of construction projects delayed by COVID—including in tourism and housing—are supporting investment, and remittances continue to back consumption. The domestic vaccination campaign has already covered 5.7 million people with at least one dose. The authorities have targeted 7.8 million immunized people—over 70 percent of the population—by year-end. Tourism is not expected to fully recover until 2023, but arrivals are increasing faster than in peers (Figure 1), in part due to good private-public cooperation on health protocols that promote the country as a safe destination.

COVID-19 vaccine doses administered per 100 people, by 6/8/2021



Source: Our World in Data
Note: this is counted as a single dose.

11. A sustained recovery, macroeconomic stability, and envisaged reforms have the potential to strengthen policy frameworks and improve debt dynamics. Global growth, US spillovers, and further reopening aided by prompt vaccination should support the recovery beyond 2021, with growth in line with pre-COVID levels. A remaining negative output gap, anchored inflation expectations and the temporary nature of supply shocks should allow inflation to converge to the target over the policy horizon. Current account deficits are expected to remain more than fully financed by FDI, strengthening the reserves position. While the pandemic has burdened public finances, the gradual return of primary balances to pre-pandemic levels amid stable revenues will secure a downward debt path (text table). Authorities' plans to pursue fiscal and electricity sector reforms and measures to enhance governance and the business climate would allow an even faster consolidation in public debt than envisaged in staff baseline projections.

12. Risk to the outlook are broadly balanced (Annex II):

- **COVID-19.** While a longer-than-expected deployment of vaccines or a prolonged pandemic could deter growth and weaken the external position, faster global containment may have positive spillovers.

- **External Risks.** Tighter financial conditions could hinder growth and limit policy space. Increased volatility in commodity markets and de-globalization could become a drag on growth and the external position, including from higher oil prices. Extreme weather events may affect tourism and agricultural exports, while cyberattacks could disrupt financial markets and commercial infrastructure. On the upside, US spillovers may be larger than anticipated.

- **Domestic risks.** Timely implementation of the reform agenda could foster potential growth through higher efficiency and lower risk premia.

Medium-term Macroeconomic Framework

(In Percent of GDP, Unless Otherwise Specified)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.			
Growth and prices									
GDP growth	7.0	5.1	-6.7	5.5	5.0	5.0	5.0	5.0	5.0
Consumer price inflation (e.o.p.)	1.2	3.7	5.6	4.5	4.0	4.0	4.0	4.0	4.0
Government finances									
Central government revenue	14.2	14.4	14.2	14.9	14.1	14.2	14.3	14.3	14.3
Central government expenditure	16.4	16.6	22.1	18.3	17.3	17.1	17.1	17.0	17.0
Consolidated public sector overall bal	-3.4	-3.3	-9.0	-4.9	-4.0	-3.8	-3.6	-3.5	-3.5
Consolidated public sector debt	50.1	53.2	71.1	67.9	66.9	65.7	64.4	63.1	61.9
Balance of payments									
Current account	-1.5	-1.3	-2.0	-1.6	-1.5	-1.7	-1.9	-2.0	-2.1
Foreign direct investment	-3.0	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	-3.4
Gross reserves (US$million)	7,627	8,781	10,752	11,602	12,484	13,393	14,369	15,420	16,549

Sources: National authorities and IMF staff calculations

Authorities' Views

13. The authorities largely share staff's views on the outlook and risks. They see the policy response (including the vaccination campaign), confidence in country's fundamentals, and global growth leading a dynamic recovery—noting that the staff's forecast is on the conservative side of their 5½-6 percent range for 2021. While tourism recovery will take longer, employment growth in other sectors, government programs and remittances are supporting consumption. Given current conditions, though, output would remain below potential until 2024. They see upside risks from stronger US growth, pent-up demand for tourism, and full execution of public investment, and downside risks from a slower recovery in tourism and oil prices. They expect inflation to return to the target range by end-2021, and higher oil prices to be a short-term risk to it. Export performance, remittances and FDI would support the external position.

POLICY DISCUSSIONS

Discussions focused on policy priorities to withdraw COVID support, which will require continued calibration of the short-term policy response to support inclusive growth while securing policy sustainability and financial stability. Well-sequenced policy measures and reforms to further strengthen policy frameworks and governance in order to increase policy space and enhance the quality of fiscal policies were also discussed.

A. Supporting Growth and Securing Fiscal Sustainability

14. The withdrawal of policy support should balance supporting growth and the vulnerable population with securing sustainability. The speed of the fiscal adjustment should be guided by policy space and prioritization to improve the quality of spending—including better targeting of social support. While the recovery will strengthen the fiscal position, the pandemic calls for careful sequencing of reforms. Strengthening the fiscal framework and improving governance in the short-term can signal strong commitment to sustainable policies and build consensus for reforms to increase fiscal space, which could start when the impact of the pandemic subsides.

Short-term Policies

15. The fiscal program envisages a withdrawal of fiscal support while protecting social and health spending. Amid stronger activity, tax collections are recovering—exceeding budget targets through April—and one-off revenue is projected for close to one percent of GDP from the concession of a recently-built electricity generation plant (Punta Catalina).[1] Emergency outlays in 2021 are expected to offer significant support—about 40 percent of the amount spent in 2020—focused on the extension of income and employment support and health spending—prioritizing the prompt vaccination campaign. Investment is expected to concentrate on high impact projects—including low-cost housing—and rely further on public-private partnerships. Strict control of non-priority spending will contribute to protect critical spending.[2] Overall, the primary deficit excluding one-off revenues will fall by about 3½ percent of GDP to reach a broadly neutral position. Financing needs will be reduced by pre-financing operations in 2020 (1½ percent of GDP) with residual needs covered mainly by bond placements—market access remains strong.

Emergency Spending - 2021
(in percent of GDP)

Total	**1.3**
Key social programs	0.7
Quedate en Casa (QEC) / Supérate 1/	0.7
FASE 2/	0.1
Health spending	0.5
Vaccines	0.4
PCR tests and other /3	0.1

Sources: National authorities and IMF staff calculations
1/ From May, QEC becomes Supérate, the expanded *Comer es Primero* program.
2/ Includes FASE I though April and estimate for tourism sector FASE from May-July.
3/ Includes salary incentives, mostly to doctors.

[1] Also, agreements were reached with the financial and mining sectors to anticipate tax payments in 2021.

[2] Fiscal space for critical spending is also expected from higher-than-budgeted revenue—budget assumptions on tax revenue are cautious—and the drop in one-off electoral spending incurred last year.

16. The economic recovery and improved quality of spending—including on social programs—will play a critical role. The bold fiscal response in 2020 makes debt sustainability considerations relevant, but fiscal plans still envisage continued support to the ongoing recovery and vulnerable population with better targeted social programs. Aided by the recovery in employment in most sectors, the full FASE I program was not extended beyond April, but a targeted program to support tourism workers was put in place. Starting in May, *Quedate en Casa* will be merged with the pre-pandemic program *Comer es Primero*—creating *Superate,* a new permanent program that will improve targeting through a better beneficiary registry and enhanced provisions for insertion into formal labor markets (see Annex IV). More generally, policies focus on increasing transparency, efficiency, and expenditure controls (¶20).

Fiscal Policy: Key Social Protection Measures in 2021

Social programs	
Quedate en Casa	Extended until April 2021. Recipients will thereafter receive benefits under the *Superate* program.
Superate	From May 2021, replaces *Quedate en Casa/Comer es Primero*. Monthly transfers will be of RD$1,650 and will cover 1.3 million households (up from 800 thousand under *Comer es Primero* pre-COVID).
FASE I	Extended to April 2021. Covers workers with suspended labor contracts (transfers up to 70 percent of formal wages, minimum of RD$5,000 and maximum of RD$8,500).
Assistance fund for tourism sector	From May to July 2021. Covers suspended workers of the tourism sector, and workers of particular categories of the sector. Monthly transfers will be between RD$5,000 to RD$8,500 (up to 70 percent of the last reported salary).

Source: National authorities

17. Central bank forward guidance points to a supportive monetary policy stance. The monetary policy stance is expected to remain accommodative in the short term, coupled with liquidity support. While the inflation trajectory deserves continued scrutiny, the impact of supply shocks should recede in the second half of 2021. The remaining output gap and anchored inflation expectations within the inflation target band should help bring down inflation.[3]

18. Overall, the policy mix balances supporting the recovery and reining in debt—the protection of social spending and the monitoring of inflation will be critical. The withdrawal of fiscal support is a prudent response to place public debt on a downward trajectory. Given that ongoing uncertainty from the pandemic may call for higher social and health spending than budgeted, strict controls of non-priority spending will be of the essence. A return to the pre-pandemic fiscal position will ensure that the consolidated public sector debt gradually converges to close to 60 percent of GDP by 2026 and remain sustainable, but subject to higher risks from debt levels and vulnerable to growth shocks (Annex III). Given the fiscal tightening, continued monetary support is warranted as long as inflation expectations remain well-anchored and inflation returns to the target range as supply shocks dissipate in the fall. The BCRD should continue to allow the exchange rate to buffer shocks.

[3] There is also a statistical effect in early 2021 due to the new CPI basket, which will end in the fall.

Improving the Fiscal Framework

19. A fiscal responsibility law (FRL) would help anchor medium-term fiscal policies. This legislation would further improve macroeconomic policy frameworks. The adoption of an FRL with a medium-term debt target and fiscal rules to manage cyclical developments would signal strong commitment to fiscal sustainability without an impact on short-term growth, and likely help reduce financing costs and build social consensus for other reforms that will require more time—notably on revenue mobilization by signaling taxpayers a commitment to keep tax liabilities contained over the medium term. The fiscal pact envisages such legislation, but specific elements in it—including the debt target—remain to be defined. The staff stands ready to offer technical advice.

20. Continued efforts to improve fiscal governance and transparency remain important objectives. These are critical to increase effectiveness of fiscal policy—including by reducing corruption risks—and could also build support for other reforms. The authorities are taking steps:

- *Building on revenue administration reforms to increase collections and control tax evasion.* Past reforms yielded positive results, but continued efforts are required. In the short term, with Fund technical assistance, the tax authorities are taking actions aimed at recovering collection (e.g., reviewing the registry and risk profiles), focusing on large taxpayers and illicit trade, and expanding an electronic tax receipt pilot project to the 100 largest taxpayers. They are also restarting audits of high-risk taxpayers postponed during the pandemic and developing risk-based projects on tax fraud. Over the medium term, reforms include establishing a more robust risk-based tax debt management, compliance risk management and an enhanced audit function.

- *Enhancing public finance management and transparency.* A plan was approved to make public administration more efficient at all levels, notably to improve the quality of public infrastructure and services such as security, health, and education. The president instructed all public entities to report spending through the financial management system (SIGEF) to enhance control and evaluation. In line with recommendations in the 2016 PEFA, the budget now includes a report on fiscal risks, and multi-year and results-based budgeting were improved.[4]

- *Strengthening procurement and accountability.* The COVID crisis led to emergency procurement procedures and agencies reported on them.[5] The authorities now require enhanced due diligence of suppliers—with identification of ultimate beneficiaries—and bi-annual internal audits of delivery performance.[6] A special fraud unit at the Comptroller General was created and a new monitoring system and a transparency portal were rolled out, providing information on transaction amounts, status of contracts, individual suppliers (e.g., company or individual name

[4] https://www.transparenciafiscal.gob.do/documents/20127/61550/Informe+Final+PEFA+2016.pdf/d1b0d4e7-d7b0-e4c7-281b-11e00d0a6277.

[5] Contracts under Decrees 87-20, 133-20, 144-20 and 401-20 were reported in: https://www.dgcp.gob.do/noticias/informes-de-rendicion-de-cuentas-de-los-procesos-de-emergencia/ and https://www.dgcp.gob.do/covid-19/

[6] https://www.dgcp.gob.do/new_dgcp/documentos/politicas_normas_y_procedimientos/resoluciones_de_politicas/2021/PDF-PNP-05-2021.pdf

and taxpayer number) and contract details.[7] Audit reports of COVID-related expenditures will take place in the second half of 2021. The staff encourages the authorities to publish information on suppliers' beneficial ownership in the transparency portal.

21. The authorities are working to improve debt and cash management. These efforts are timely, as the interest bill has grown over the years. As noted above, they have conducted the first global debt management operation, which lengthened maturities and reduced costs—they are also conducting regular and transparent domestic auctions. The authorities plan to further develop the domestic government securities markets, seek opportunities to reduce interest costs, and continue to improve risk management. Internally, they have made progress to control the use of lines of credit and arrears and to improve cash management.

Reforms to Strengthen the Fiscal Position

22. Broadening the tax base by reducing tax exemptions would help secure sustainability and create fiscal space. The authorities are assessing reforms to be implemented gradually and have called on the Economic and Social Council to discuss a fiscal pact to simplify the tax system and revise existing exemptions. Relatively low tax collection compared with peers in Latin America is related to exemptions for both income taxes and VAT, and a high-income threshold in the personal income tax. In this context, there is scope to broaden the tax base by streamlining exemptions while carefully calibrating its distributional impact—exemptions are close to 5 percent of GDP, but two-thirds are associated with taxes on consumption.

Tax Expenditures - 2020

(In percent of GDP)

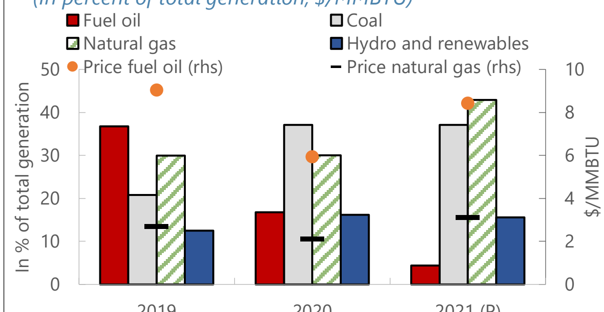
Tax	Amount
Value Added Tax (ITBIS)	2.52
Taxes on Income	1.41
Excises	0.65
Others	0.25
Total	4.84

Source: National authorities

23. Recent progress in the electricity sector can help secure energy provision and strengthen the fiscal position. This progress is in line with objectives in the electricity sector pact signed last February and comprises several areas: (i) generation is moving away from expensive oil-based generation to cheaper sources; notably to gas but also coal;[8] (ii) governance is being enhanced by approving a decree that, once fully implemented, will liquidate the state holding company (CDEEE), transfer policy making to the Ministry of Mines and Energy, and strengthen the regulatory body; (iii) operational costs are being reduced—including financial costs through

Electricity Generation Matrix

(In percent of total generation, $/MMBTU)



Source: National authorities and IMF staff calculations

[7] See https://acceso.comprasdominicana.gob.do/compras/publicaciones/consultas/procesosdecompras/consulta.jsp?; https://www.dgcp.gob.do/siscompras/; and http://mapainversiones.economia.gob.do/contratista/contratoscovid.

[8] Some long-term contracts may limit the full pass-through of generation savings in the short term.

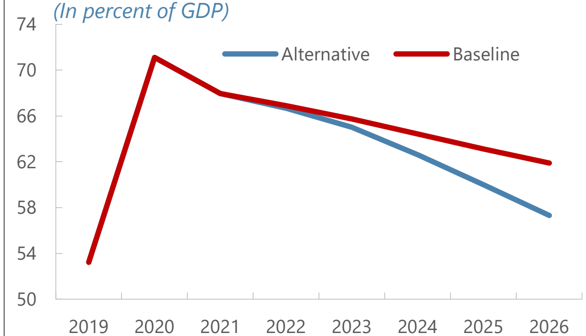
better liquidity management that avoids arrears to generators; and (iv) an investment plan is being defined to reduce transmission losses, which can reduce electricity losses. This progress is expected to reduce transfers to the electricity sector—which stood at about 1 percent of GDP in 2020—by half.

24. Going forward, steps are still needed to address below-cost tariffs, poorly targeted subsidies, and the reduction of non-technical electricity losses. The authorities are working on a document to define specific measures within the electricity pact, which should be finished by end-June—they are receiving technical support from the World Bank and the IDB on these issues. These measures would aim at transitioning to a cost-recovery pricing tariff scheme, reforming subsidy policies, and reducing non-technical losses.

25. An alternative staff scenario suggests that reforms on these fronts can have a significant impact on debt dynamics. Revenue mobilization and electricity sector reforms can aid the consolidation of public debt while preserving fiscal space for critical spending—it would not only improve the primary fiscal balance but also create policy space by reducing debt service. A gradual implementation would prevent a significant impact on activity. The alternative scenario comprises two elements. First, revenue mobilization efforts to reduce tax exemptions that will gradually increase collection by one percentage point of GDP by 2024, a target that takes into account its potential distributional impact. Second, a gradual move to cost-recovery tariffs and the revision of subsidy policies on high consumption—excluding BONOLUZ transfers to low-income families—that would yield ½ percent of GDP in fiscal savings, eliminating transfers to the electricity sector over the medium term.[9] Such scenario would reduce the consolidated public sector deficit to less than 2 percent of GDP by 2026, and public debt to pre-pandemic levels.

Consolidated Public Sector Debt[1]

(In percent of GDP)



Source: National authorities and IMF staff calculations

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

Authorities' Views

26. The authorities emphasized that fiscal policies strike the right balance among policy objectives and agree on the importance of carefully sequenced reforms. They are striving to contain debt while protecting spending on health and emergency benefits. Control of non-priority spending and fiscal space due to conservative revenue assumptions (tax collection through April is above budget targets) should help protecting critical expenditure; the authorities would take further steps if needed while keeping fiscal objectives in check. They believe that recent developments in the electricity sector—i.e., moving away from oil-based generation—and other planned reforms will secure stable energy and reduce the footprint of the sector on public finances. The authorities

[9] Consumption up to 700KWh per month is subsidized, well above typical consumption in low-income households (between 150 and 200 KWh per month).

agreed on the importance of a fiscal responsibility framework, and work is ongoing to strengthen transparency and public financial management—seen as critical to enhance institutions and credibility. Meanwhile, they keep building consensus around fiscal and electricity sector pacts.

B. Maintaining Financial Stability and Strengthening the Monetary Policy Framework

27. The authorities took decisive measures to preserve credit and macro-financial stability, and the financial system appears resilient. While some macro-financial measures introduced temporary distortions, lower reserve requirements and BCRD's emergency liquidity windows allowed banks to refinance about 12 percent of their loan portfolio, in particular to SMEs. These borrowers benefitted from lower lending rates and medium-term tenors while regulatory flexibilization allowed banks to benefit from lower risk weights and provisioning rates when using the emergency facilities. Supported by regulatory flexibilization, asset quality barely changed in 2020. Most emergency measures, though, expired at end-March 2021 and with corporations reporting their 2020 financials in the first half of 2021, a deterioration of asset quality is expected to become visible in regulatory reporting. Although uncertainty of the full pandemic impact persist, at the system level, available excess capital—above the 10 percent minimum requirement—is high enough to absorb potential increases in provisioning needs, even under stressed assumptions.[10] Banks will nevertheless be allowed to gradually build provisions during a transition period until end-2023. Banks using the transition period will be subject to dividend restrictions, among others (Figure 6 and Table 5).

Macrofinancial Policy: COVID-19 Measures in 2020

1	**Risk Ratings**	Temporal freeze of debtor ratings and provisioning to pre-covid levels. The freeze covers all new loans, including refinancing transactions (expired March 31, 2021).
2	**Zero percent risk weight**	Loans financed using the BCDR liquidity measures/windows are risk weighted zero percent (expired March 31, 2021).
3	**Loans risk classification**	Past due loans to 60 days remain clasified as current and period for collateral appraisal expanded (expired March 31, 2021).

Source: National authorities

28. The exit strategy from emergency forbearance must remain based on intensive monitoring, asset quality transparency, and targeted measures. The unwinding of emergency measures will likely reveal weaker spots in the system and lower solvency in some cases. The Superintendency of Banks has been diligent in trying to stay ahead of the curve, but as support measures are phased out the need for continued intense and more granular surveillance—through *inter alia* risk migration analysis and additional indicators of leverage at the micro level—will increase. Supervisory responses will need to be more targeted and assure that solvency is maintained once the extent of asset quality damage is known without undermining the banking system's capacity to support the recovery.

[10] For instance, working with an acid NPL measure of 6.7 percent (*morosidad estresada*) and assuming these loans were immediately written-off fully, the Deposit Taking Institutions (DTI) sector would still be capitalized above the 10 percent minimum regulatory requirement on average, with differences on a bank-by-bank basis.

29. Central bank recapitalization can further improve policy frameworks. The weak BCRD balance sheet is a legacy of the 2003 financial crisis. A new legal amendment to the existing framework—approved by the senate and currently under consideration by the lower chamber of congress—targets a gradual recapitalization of the BCRD while taking into account costs to the treasury from assuming the debt associated with the financial crisis. Specifically, the amendment creates a trust fund—with both the treasury and the central bank as grantors—that will issue securities to replace existing certificates as they mature, unloading the BCRD balance sheet. The treasury will be the only beneficiary, receiving the remaining liabilities. The new arrangement includes appropriate governance with representation of the treasury, BCRD, and an independent member elected jointly. It would also have transparency rules and allow biannual reviews of the issuance strategy—the trust fund should conduct issuance with the standards followed by the public credit office. Recapitalization is critical to strengthen central bank's financial and institutional independence and can potentially reduce risk premia on bond issuances.

30. Exchange rate flexibility and further accumulation of reserves can continue buffering the shock and preserving confidence and stability. The exchange rate played a buffering role last year, depreciating at the onset of the shock and appreciating slightly as external financing strengthened the reserve position and risk premia declined. The authorities pursued two-sided interventions to prevent excessive volatility during the adjustment (Annex 1).[11] Reserve coverage has increased to 81 percent of the IMF's reserve adequacy (ARA) metric (72 percent in 2019). The new foreign exchange trading platform was key to channel orderly interventions as volatility increased last year, ensuring a transparent FX market. Continued reserve accumulation and exchange rate flexibility with interventions focused on limiting excess volatility will be instrumental going forward. Development of intervention rules and proper communication of its objectives would help improving the FX market performance.

31. Measures are required to enhance the BCRD's safeguards framework. The January 2021 safeguards assessment recommended legislative reforms to strengthen the central bank's governance arrangements. In particular, amendments are necessary to safeguard institutional autonomy and reinforce independent oversight of the board. In addition, efforts are needed to improve accountability and transparency through the alignment of audit and financial reporting practices with international standards. The recapitalization trust fund would complement measures to restore the BCRD's financial autonomy. Early steps for IFRS implementation and enhancements to the auditing process are in progress, and staff will maintain close engagement with the BCRD on further implementation of recommendations going forward.

32. The medium-term regulatory agenda should realign the framework with best practices. To increase resilience in the financial sector, the regulatory framework needs updating—in particular regarding banking resolution and the financial safety net, the Basel framework, international accounting standards, the macroprudential toolkit, and stress-testing capabilities.

[11] While the nature of the shock called for an exchange rate adjustment, FX intervention to avoid over- and under-shooting in the exchange rate is justified due to relatively shallow FX markets, balance sheet vulnerabilities from dollarization, and a potential impact of volatility on the inflation pass-through.

In addition, for credit and savings cooperatives—total assets of about 2 percent of GDP—adequate regulation and supervision arrangements need to be put in place. These reforms should not be hold off until after the phase-out period but restarted once the economic recovery has firmly taken hold.

Authorities' Views

33. The authorities highlighted the importance of monetary policy support. They see continued accommodative policy as important to providing certainty and supporting the recovery while maintaining a close monitoring of inflation. They agree that BCRD recapitalization is of the essence and noted that discussions on the way forward continue. The authorities noted that they are committed to letting the exchange rate reflect fundamentals while avoiding excess volatility—they see trends in capital flows as favorable to continue building buffers. The electronic exchange trading platform for foreign exchange has made the FX market more efficient, and the BCRD plans to further increase transparency by communicating interventions rules going forward, as the pandemic recedes. The authorities are reviewing recommendations in the safeguards assessment to further strengthen central bank governance.

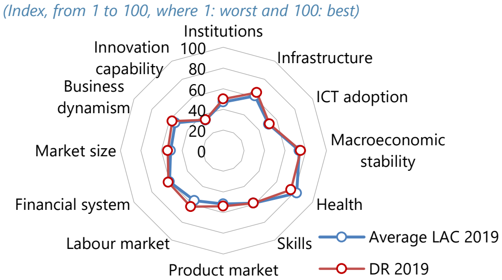
34. They stressed that they are closely monitoring exit from regulatory flexibility and noted that moving closer to international standards is on the agenda. The exit strategy aims at providing banks room to gradually close provisioning gaps while avoiding premature tightening of credit conditions. However, they noted that banks—large ones in particular—have voluntarily increased provisions. Over the medium term, the authorities intend to better align financial regulation and supervision with more advanced Basel and international accounting standards and introduce macroprudential tools and best practices for stress testing and other analytical tools—they are considering Fund TA support to advance this agenda. The authorities are also currently working on strengthening the AML/CFT and consumer protection frameworks. They also agreed with the need to enhance regulation and supervision of financial cooperatives.

C. Fostering Inclusive Growth

35. Despite recent improvements, enhancing the business climate remains a post-pandemic policy priority. The Global Competitiveness assessment of the World Economic Forum shows that the Dominican Republic gained four notches in one year, with improvements in information technology adoption, financial system depth and stability, business dynamism and innovation capacity.[12] However, innovation capability remains weak and challenges remain in institutional strength, health and social capital. The National Competitiveness Council proposed a list of actions consolidated in the Competitiveness Strategy.

Global Competitiveness Index 4.0

(Index, from 1 to 100, where 1: worst and 100: best)



Sources: World Economic Forum and IMF Staff calculations.
Note: LAC stands for Latin America and the Caribbean.

[12] Survey-based indicator that reflects business executives' perceptions on the institutions, policies, and factors that determine the level of productivity for economies.

36. The country still faces a number of structural bottlenecks that deter productivity. Addressing institutional, governance and related long-standing vulnerabilities remain an important policy issue that can buttress the recovery:

- *Product and labor market reforms.* Reducing transport and logistics costs and improving sea and air transport facilities would spur investment and increase competitiveness. Modernizing the labor code while rendering it more flexible can help reduce labor informality and adapt markets to working practices. While past attempts to amend the law did not succeed, a multisectoral dialogue for a broader and integrated reform of labor and social security laws was launched by the president in May.

- *Reliable electricity provision.* As previously discussed, recent steps made the sector less exposed to volatile oil prices and reduced electricity generation prices. Plans to invest in transmission can help reduce service disruptions and meet increased demand more sustainably.

- *Getting credit. S*trengthening movable collateral laws and credit information systems could reduce credit risk spreads, expanding access to credit. The authorities are in the process of authorizing a third credit bureau and amending a transitory clause of the Law on Real Estate Guarantees, which will be implemented in 2023.

- *Skills gap*. A survey of private companies to identify required skills and expanded school hours are the first steps to enhance the effectiveness of schooling and align tertiary and vocational education curricula with labor market needs (see Annex IV).

- *Governance and institutions.* Enhancing the quality of public services by reducing the regulatory compliance burden, fostering policy independence from political pressures, and controlling corruption are important to the authorities. Aside from the improvements in public administration noted earlier, the government has appointed a new Attorney General and is strengthening the AML/CFT framework (see below).

37. Implementation of the climate change adaptation and mitigation strategy should curb vulnerabilities. The frequency of natural disasters has increased since the early 2000s, with losses of about ½ percent of GDP per year on average.[13] The climate strategy is guided by the Nationally Determined Contribution action plan (NDC-2020), prioritizing water and food security, health, resilient cities, ecosystems, coastal-marine resources, and tourism. The greenhouse emissions reduction plan (27 percent by 2030) encompasses energy, transportation, agriculture and waste management and is underpinned by private sector support and assistance from development partners. A recently issued US$100 million "green bond" received the first Climate Bond certification in the country and adds to the list of climate financing initiatives—others include project-based financing by development partners.

38. Building on strong technical compliance with FATF recommendations, continued efforts aim at enhancing effectiveness of the AML/CFT framework. The Dominican Republic's 2019 Enhanced Follow-up Report highlighted significant progress on technical compliance that:

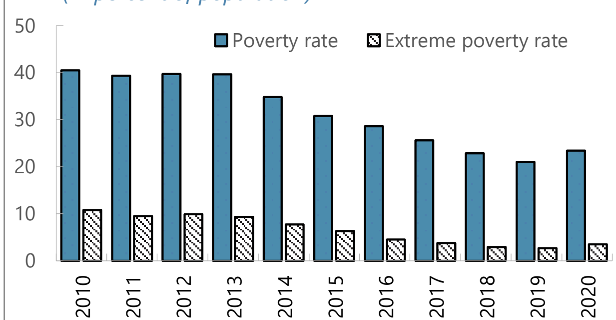
[13] http://www.digepres.gob.do/pubs/2021/Libros/Tomo-I/Noviembre/ANEXO-NO-6-RIESGOS-FISCALES.pdf

(i) enhanced securities exchange firms' due diligence to limit exposure to high-risk jurisdictions; (ii) enhanced due diligence for the insurance sector; (iii) established audit systems in the cooperatives sector to test for compliance with AML/CFT regulations; and (iv) improved the functionality of the Financial Intelligence Unit. Since then, the authorities made further progress on registering and training "obligated reporters" in the nonfinancial sector and using financial intelligence to prosecute crimes involving a broader list of predicate offenses to money laundering. The process of updating the National Risk Assessment began in March 2021 with World Bank support and aims at *inter alia* expanding the coverage of designated nonfinancial businesses and professions (DNFBPs), including casinos and credit cooperatives.[14] Reform priorities include improving risk-based supervisory frameworks for DNFBPs and use of preventive measures—customer due diligence, electronic suspicious transaction reporting and recordkeeping—along with strengthened use of financial intelligence, improved capacity for financial investigations, and interagency cooperation. In addition, greater transparency on the ultimate beneficial ownership information needs to be enforced—especially in certain DNFBPs—extending identification requirements to natural persons that exercise the final effective control of legal persons or arrangements.

39. **Social policies should aim at building over the impressive improvement in social outcomes over the last years.** Between 2010 and 2018, the poverty rate was halved by strong growth and targeted policy action. However, the pandemic has increased the poverty headcount, exacerbated the gender gap, and disrupted academic programs. To mitigate socioeconomic deterioration, the authorities implemented decisive measures to support basic needs and employment support through a number of temporary targeted programs while expanding healthcare coverage. Building on previous achievements, as emergency programs unwind, envisaged reforms to make social support balanced and well targeted while prioritizing employment, education, health and social equity outcomes are of the essence. Other important social issues—including gender equality and rural poverty—are discussed in Annex IV.

Poverty Indicators[1]

(In percent of population)



Source: National authorities and IMF staff calculations.
1/ Poverty headcount ratios using national poverty lines (floating RD$).

Authorities' Views

40. **The authorities believe that inclusive growth requires integrated reforms.** The competitiveness strategy calls for enhanced infrastructure and greater transparency and efficiency in public administration to build trust and strengthen the rule of law—recent steps aim at ensuring judicial independence and the effectiveness of the AML-CFT regime, including by updating the

[14] The Dominican Republic completed a National Risk Assessment (NRA) in 2014, which was updated in 2017.

National Risk Assessment. A social pact would build consensus to reform tax, labor and social security systems—to make labor markets more flexible and formal; and raise incomes. They are committed to addressing weakness in education quality, skill gaps, and gender inequality. They stressed that improving social programs through better targeting and increased emphasis on labor market insertion is critical. Finally, the authorities emphasized that the strategy on climate change adaptation and mitigation aims at reducing emissions, increasing food and water security, building more resilient communities and enhancing natural resources management.

FUND RELATIONS

41. 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 the country has the capacity to repay the Fund (Table 6), with scheduled RFI repayments at no point exceeding 1.4 percent of exports or 2.4 percent of reserves.

STAFF APPRAISAL

42. The pandemic interrupted a growth spell that made the Dominican economy one of the most dynamic in the region, but the policy response was decisive. The strength of the economy has allowed a bold response to the pandemic, including by supporting solid access to global markets. The response included increased health expenditures and social transfers, targeted tax relief, tax deferrals in 2020, and a swift vaccination campaign starting in early 2021. The central bank lowered its policy rate and expanded liquidity, while the Monetary Board introduced flexibility in the prudential framework.

43. The policy response, the ongoing vaccination campaign and the global recovery are placing the economy on a recovery path starting in 2021. The economy contracted sharply last year weighed down by services. However, activity in most sectors recovered pre-pandemic levels by early 2021 and the economy is expected to grow by 5½ percent this year, and gradually close the output gap, including as tourism recovers. While supply shocks have driven inflation up over the last months, anchored inflation expectations and the temporary nature of the shocks should allow inflation to converge to the target over the policy horizon. While the pandemic has burdened public finances, the gradual return of the fiscal position to pre-pandemic levels can secure debt sustainability. Risks to the outlook are broadly balanced; mainly associated with the global recovery and a potential tightening of global financial conditions.

44. The external position is broadly in line with fundamentals. The current account deficit increased modestly as weak tourism receipts were partially offset by remittances and the exchange rate helped buffer the shock; it remained fully financed by resilient FDI. International reserves increased strongly, enhancing precautionary buffers.

45. Macroeconomic policies are appropriately balancing continued support of the recovery with the need to secure debt sustainability. The withdrawal of fiscal support is guided by available policy space, and it is a prudent response to place public debt on a downward trajectory. Meanwhile, in light of remaining uncertainty, the staff welcomes the authorities' decision to protect social and health spending through strict controls of non-priority spending as well as improved targeting and renewed focus on labor market insertion in social programs. Continued monetary policy support is warranted as long as inflation expectations remain well-anchored and supply shocks dissipate, and the exchange rate policy should preserve its shock-buffering role.

46. The financial regulatory response to the pandemic has been appropriate. The financial system proved its resiliency, continues to support the economy, and is closely monitored by the authorities. The exit strategy from the temporary regulatory forbearance is well designed and should remain based on intensive monitoring, asset quality transparency, and targeted measures. Going forward, the financial system would benefit from moving closer to international standards of supervision and regulation, enhancing the macroprudential and crisis management toolkit, and strengthening the regulatory framework for cooperatives financial oversight.

47. As the impact of the pandemic recedes, a number of well-sequenced reforms can help strengthen medium-term policies. Steps to strengthen policy frameworks and governance in the short-term would not affect growth and can signal a strong commitment to sustainable policies, building consensus for reforms that may require more time to be effective. Policy frameworks could be strengthened by fiscal responsibility legislation to anchor medium-term policies and the recapitalization of the central bank can enhance its financial and institutional independence, reducing quasi-fiscal losses. Over the next years, revenue mobilization reforms through a broadening of the tax base and a revision of tax exemptions and further reforms in the electricity sector can create the needed fiscal space to reduce the risks to debt sustainability while protecting investment and social spending.

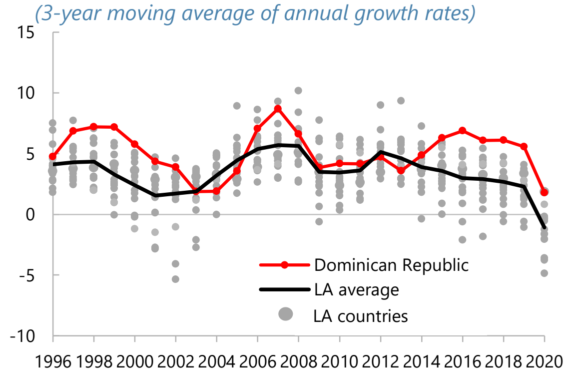
48. Reforms to foster inclusive growth and improve social outcomes remain critical. Ongoing efforts to support vulnerable households and employment, secure stable and competitive supply of electricity, and improve the quality of the budget and governance are steps in the right direction. There are also plans to address bottlenecks that hinder productivity, such as to make social programs more effective and focused on labor market insertion and education support, adapt and mitigate climate change risks, reduce the regulatory burden through more effective public institutions, modernize the labor code to allow for more flexible and formal work arrangements, and narrow skills gaps in labor markets. Further efforts to address business practices that thwart competitiveness—especially in the logistics sector—and social issues such as rural poverty and gender inequality would also help making growth more inclusive.

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

Figure 1. Dominican Republic: Real Sector Developments

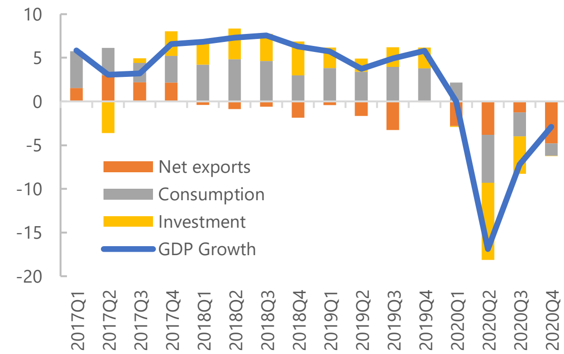
Growth in the Dominican Republic has outperformed regional peers in recent years…

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



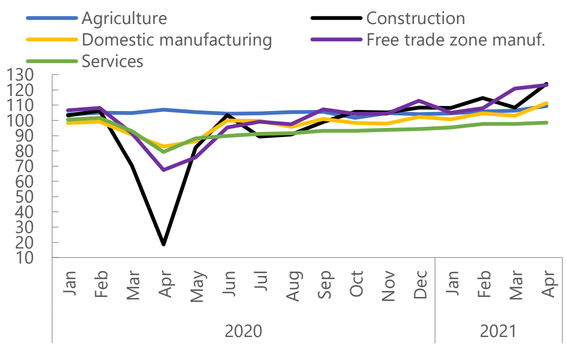
…while hit hard in 2020 by COVID, especially in Q2, it rebounded quickly…

Contributions to Real GDP Growth
(Four quarter percent change)



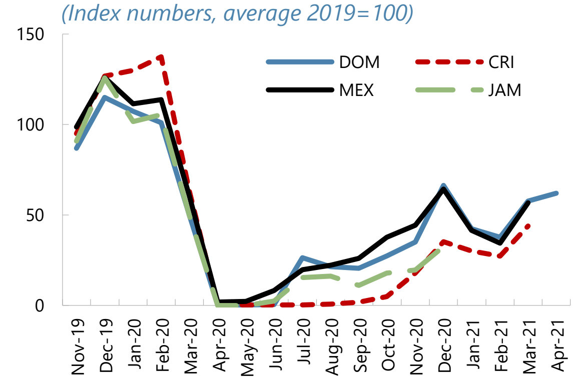
…driven by manufacturing and construction, while services (especially tourism) remain constrained…

Economic Activity Indices
(April 2019 = 100)



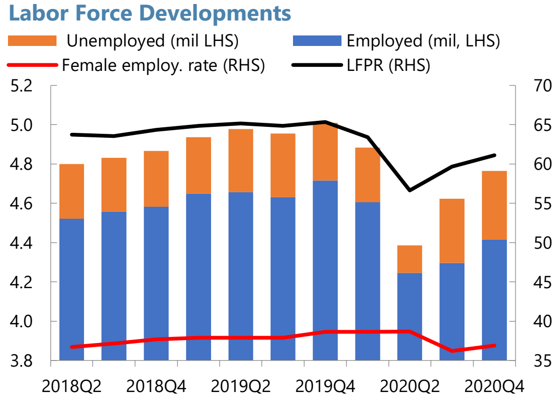
…tourist arrivals to the Dominican Republic are recovering faster than many of its regional competitors.

Tourist Arrivals
(Index numbers, average 2019=100)



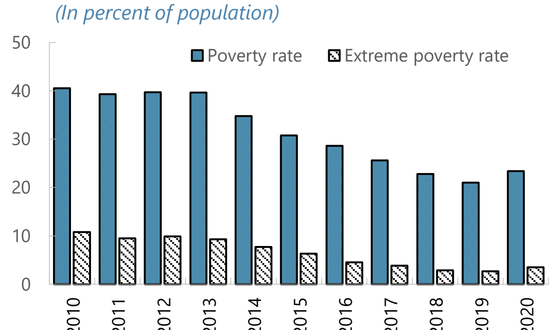
Employment and labor force participation declined sharply…

Labor Force Developments



…which, despite expanded social programs, contributed to partially reversing the impressive decline in poverty in 2014-2019.

Poverty Indicators[1]
(In percent of population)



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

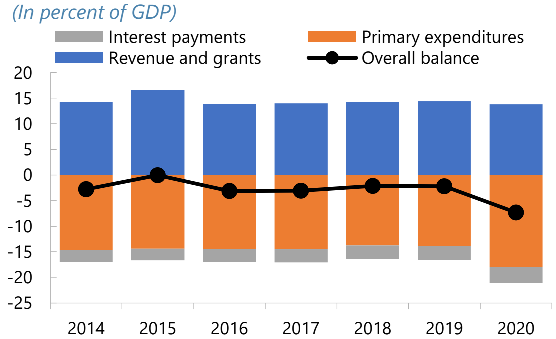
Sources: National authorities and IMF staff calculations.

Figure 2. Dominican Republic: Fiscal Developments

In 2020, the central government balance deteriorated sharply, due largely to emergency spending…

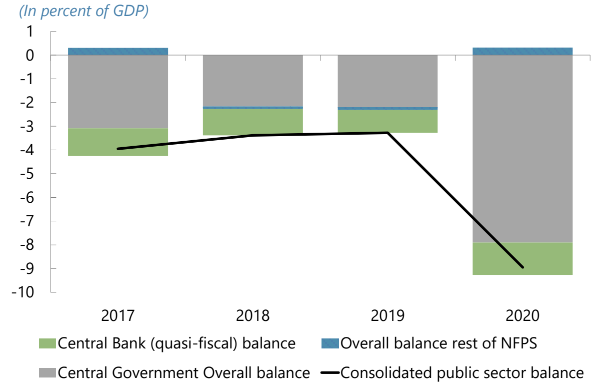
which concurrently increased the CPS deficit…

Central Government: Components of Overall Balance
(In percent of GDP)



Note: Expenditures are reflected as negative values for ilustration

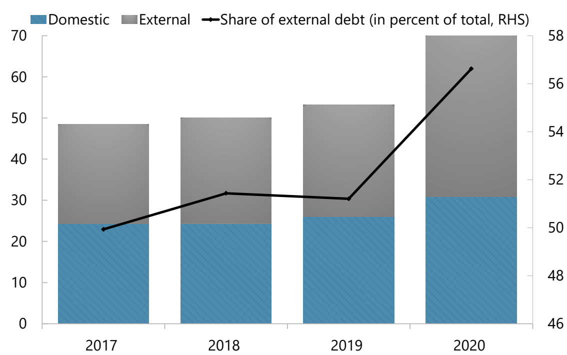
Consolidated Public Sector Overall Balance
(In percent of GDP)



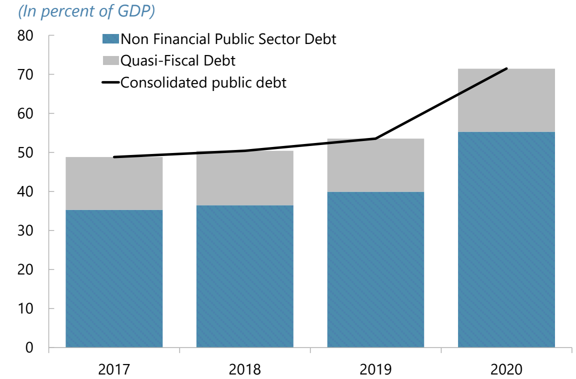
…and public external debt significantly…

…particularly in the nonfinancial public sector.

Public Sector Consolidated Debt: Distribution by Currency
(In percent of GDP)



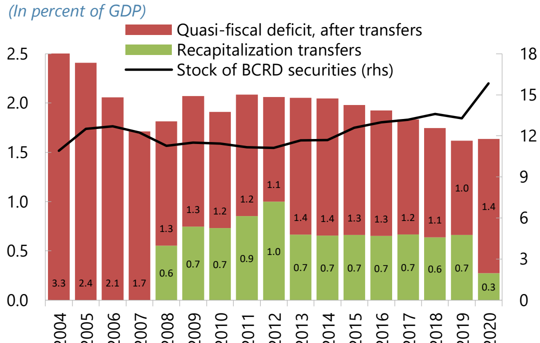
Public Sector Consolidated Debt Distribution by Borrower
(In percent of GDP)



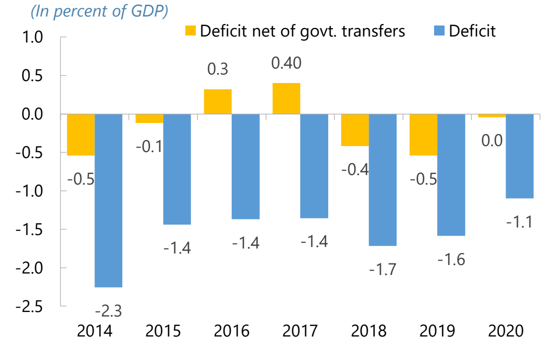
The quasi-fiscal deficit widened as the government reduced transfers.

And electricity sector deficits, though gradually lower, continue to be a drain on public accounts.

Central Bank Quasi-Fiscal Deficit
(In percent of GDP)



Electricity Sector Deficit and Debt
(In percent of GDP)



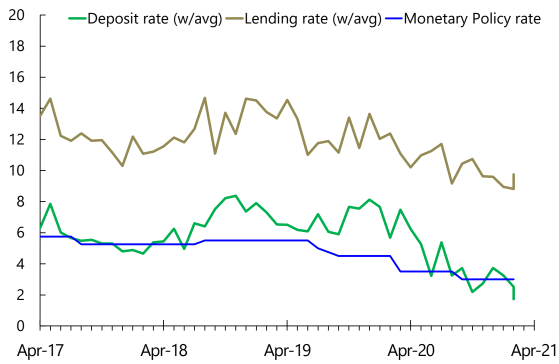
Sources: National authorities and IMF staff calculations.

Figure 3. Dominican Republic: Monetary Policy and Inflation

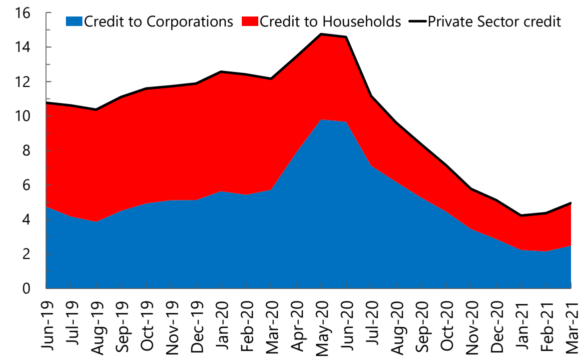
The BCRD cut monetary policy, deposit facility, and repo rates, with strong pass-through to bank rates.

Private sector credit grew strongly in April-June (reflecting liquidity needs) but slowed since then.

Monetary Policy and Interest Rates
(In percent)



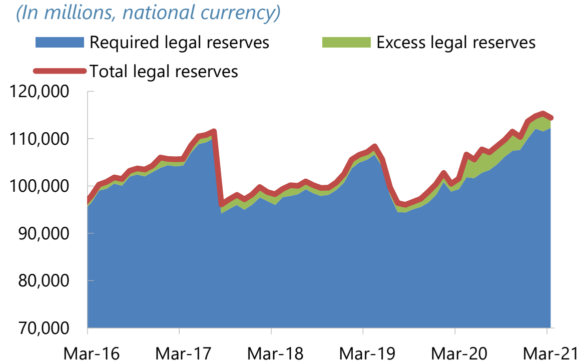
Private Sector Credit Growth
(Contributions to growth, y-o-y)



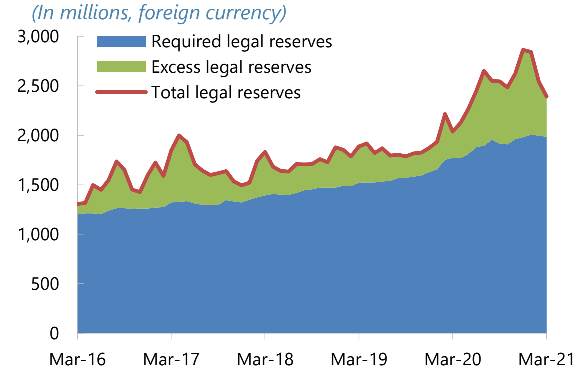
Banks' legal reserves for deposits denominated in national currency slightly exceed the required levels...

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

Legal Reserves in National Currency: Total vs. Required
(In millions, national currency)



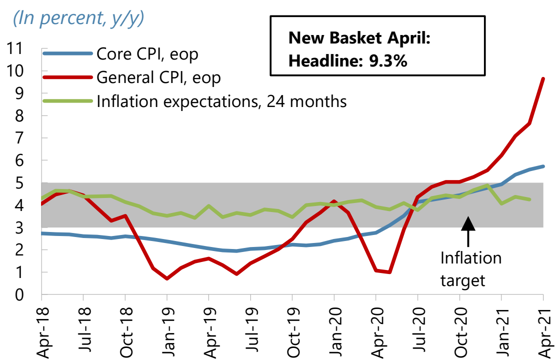
Legal Reserves in Foreign Currency: Total vs. Required
(In millions, foreign currency)



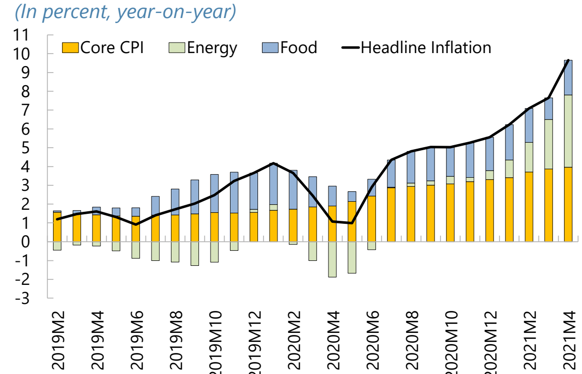
Pre-COVID-19, headline inflation was near the mid-point of the target range, while core inflation was below the lower bound.

Since COVID, depreciation and food and energy price shocks have driven headline outside the target range temporarily.

Headline and Core CPI Inflation
(In percent, y/y)



Inflation Contributions
(In percent, year-on-year)



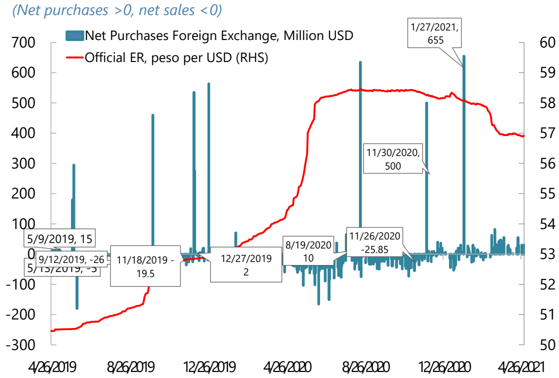
Sources: National authorities, Haver, and IMF staff calculations.

Figure 4. Dominican Republic: Exchange Rates and Sovereign Spreads

Shortly after the start of the COVID-19 outbreak the pace of depreciation of the Dominican Peso accelerated…

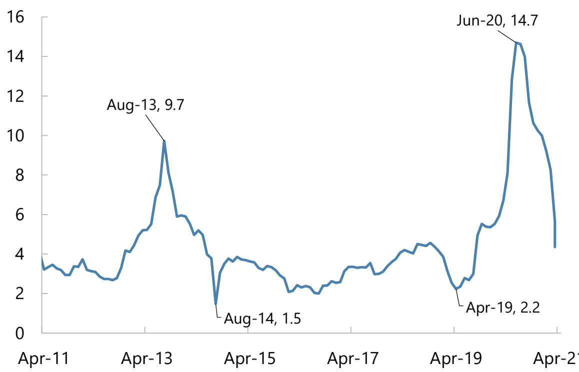
BCRD FX Interventions: Net purchases and Exchange Rate

(Net purchases >0, net sales <0)



…nominal depreciation vs. U.S. dollar reached a record-high at 14.7 percent in June 2020 (y/y).

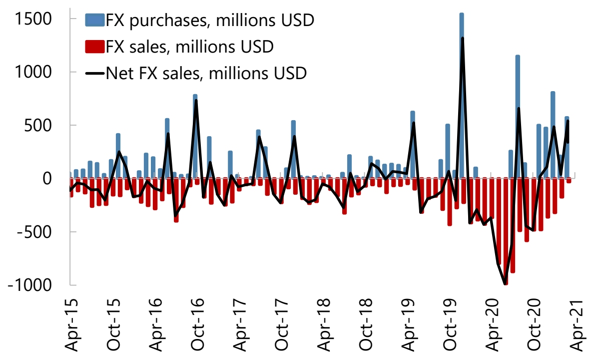
Nominal depreciation of the Dominican Peso vs. US Dollar



With high BCRD FX sales, but since July FXI became two-sided again…

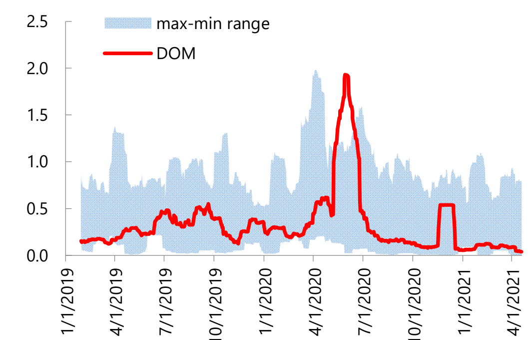
BCRD Interventions in FX Markets

("+ " sign for purchases, "-" sign for sales)



…as FX volatility subsided.

Coefficient of Variation: US Dollar Exchange Rates[1]

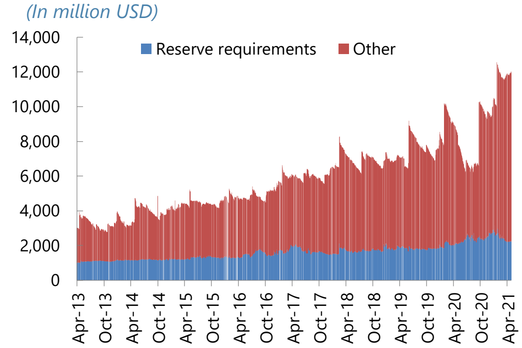


[1] Coefficient of variation across selected countries

International reserves increased, in part due to government placement of eurobonds and IFI disbursements.

Gross International Reserves

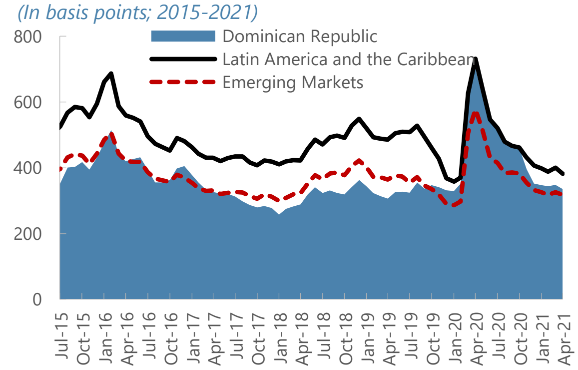
(In million USD)



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

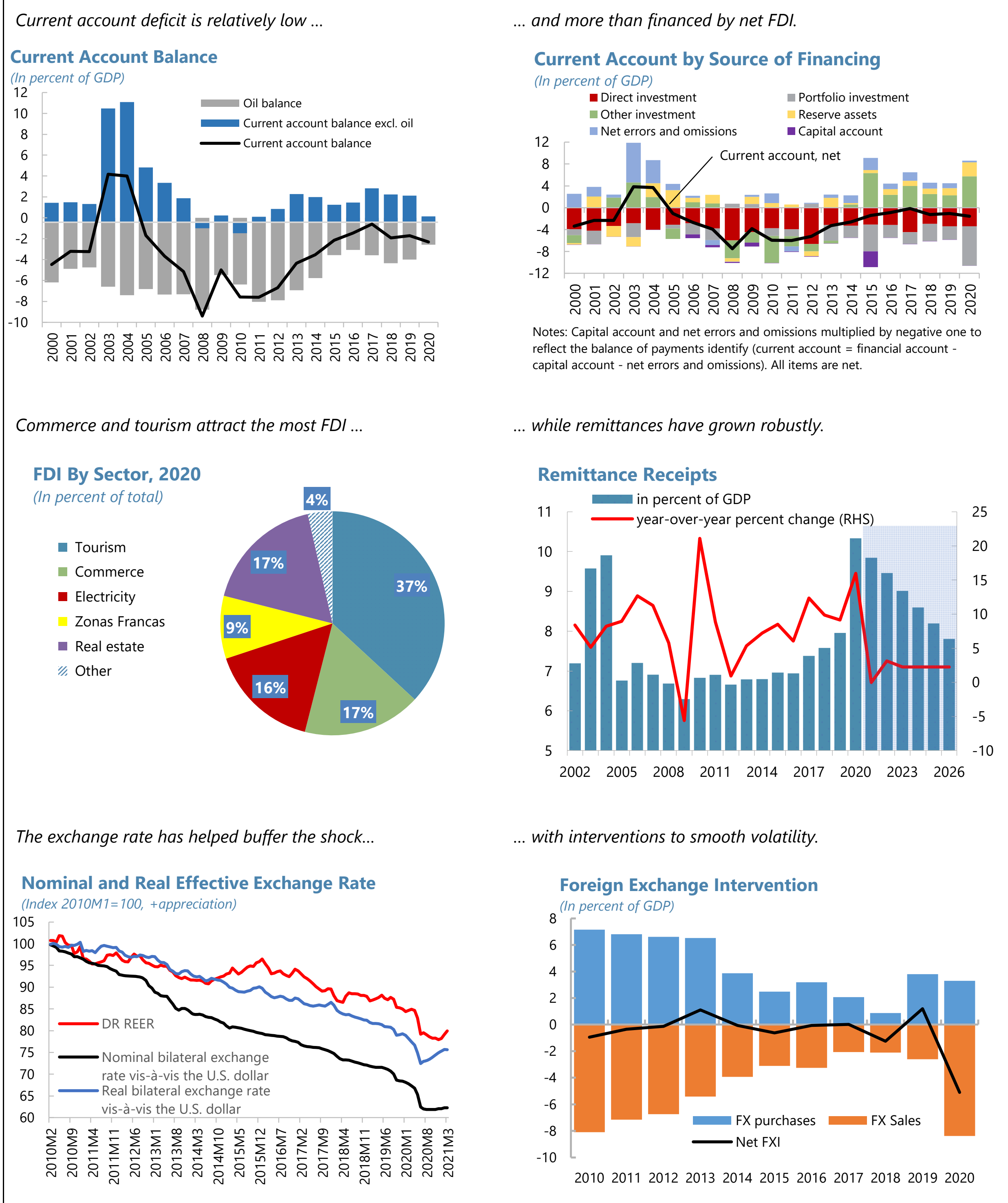
EMBIG Spreads

(In basis points; 2015-2021)



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

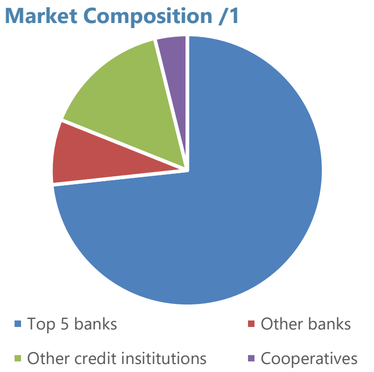
Figure 5. Dominican Republic: External Sector Developments



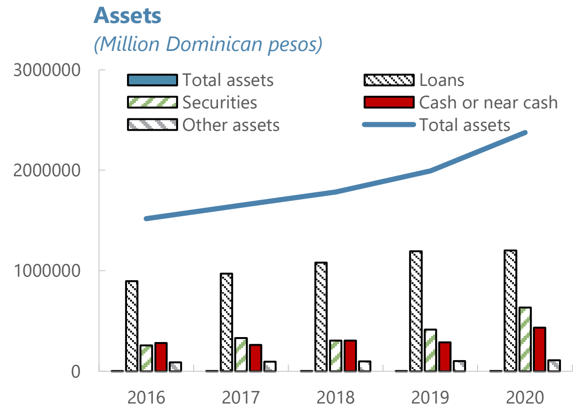
Sources: IMF WEO; National authorities and IMF staff calculations.

Figure 6. Dominican Republic: Financial Sector Developments

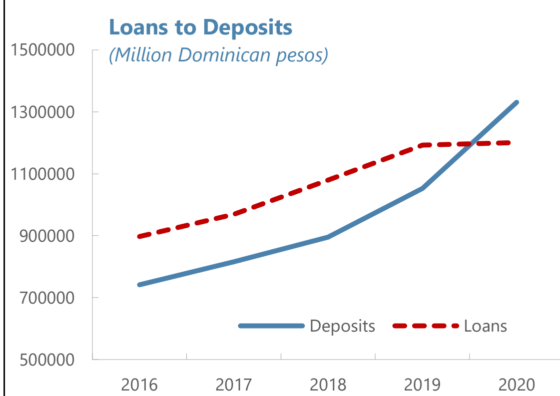
DTIs are dominated by banks, with the top 5 accounting for almost 75 percent of the assets.



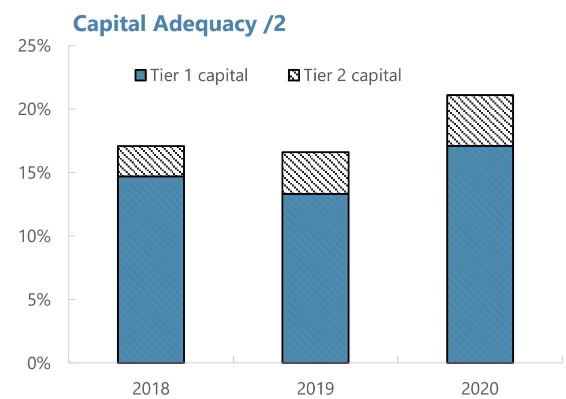
The loan portfolio increased by 1 percent, while total assets increased almost 20 percent in 2020.



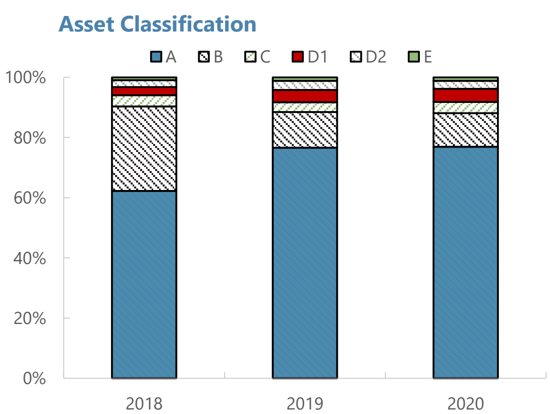
The asset growth was mainly financed by deposits, resulting in a loan-to-deposits ratio of below 1.



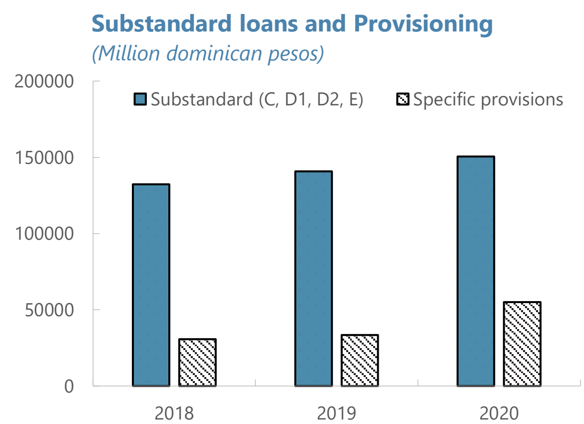
As a result of capital conservation and supported by regulatory flexibilization, the capital ratio increased to 21.1 percent.



With borrowers reporting their 2020 financials and the end of regulatory flexibility, the impact on asset quality is expected to become only visible in the first half of 2021.



In anticipation of the decrease in asset quality, banks (large ones in particular) have increased the provisioning coverage ratio. In addition, and if needed, DTIs can fall back on excess capital.



Sources: National authorities and IMF staff calculations.
1/ Cooperatives' asset share has been estimated and their financials are not included in the other graphs in the figure.
2/ IMF staff estimates that capital conservation and regulatory flexibilization contributed equally to the capital increase in 2020. adequacy.

Table 1. Dominican Republic: Selected Economic and Social Indicators, 2016–26

Population (millions, 2020)	10.4	GDP per capita (2020, U.S. dollars)	7,544
Quota	477.4 millions SDRs / 0.1% of total	Poverty (2020, share of population)	23.4
Main exports	tourism, gold, tobacco	Unemployment rate (2020, percent)	5.7
Key export markets	U.S., Canada, Haiti	Adult literacy rate (percent, 2018)	93

						Projection					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Output	(Annual percentage change, unless otherwise stated)										
Real GDP	6.7	4.7	7.0	5.1	-6.7	5.5	5.0	5.0	5.0	5.0	5.0
Contributions to growth											
Consumption	4.5	3.1	4.1	3.7	-1.9	1.3	2.9	3.8	3.8	3.9	3.9
Investment	2.9	-1.4	4.6	1.1	-4.3	4.7	1.5	1.4	1.4	1.4	1.4
Net exports	-0.6	2.2	-0.9	-1.4	-3.2	-0.4	0.0	-0.2	-0.3	-0.5	-0.3
Nominal GDP (RD$ billion)	3,487	3,803	4,236	4,562	4,457	4,911	5,362	5,852	6,386	6,972	7,612
Nominal GDP (US$ billion)	75.8	80.1	85.6	89.0	78.9	...	...	...	...	...	...
Gross national saving (percent of GDP)	21.9	22.3	24.3	24.7	23.4	27.2	28.3	27.9	27.4	27.2	27.1
Output gap (in percent of potential output)	0.8	0.4	3.2	5.0	-4.6	-2.3	-1.0	-0.3	0.0	0.0	0.0
Prices											
Consumer price inflation (end of period)	1.7	4.2	1.2	3.7	5.6	4.5	4.0	4.0	4.0	4.0	4.0
Exchange rate											
Exchange rate (RD$/US$ - period average) 1/	46.0	47.5	49.5	51.2	56.5	...	...	...	...	...	...
Exchange rate (RD$/US$ - eop) 1/	46.6	48.2	50.2	52.9	58.2	...	...	...	...	...	...
Real effective exchange rate (eop, - depreciation) 1/	-1.9	-4.8	-1.9	-3.4	-7.8	...	...	...	...	...	...
Government finances	(in percent of GDP)										
Consolidated public sector debt 2/	46.2	48.5	50.1	53.2	71.1	67.9	66.9	65.7	64.4	63.1	61.9
Consolidated public sector overall balance 2/	-4.0	-4.0	-3.4	-3.3	-9.0	-4.9	-4.0	-3.8	-3.6	-3.5	-3.5
Consolidated public sector primary balance	0.0	0.1	0.6	0.9	-4.3	-0.1	0.7	0.9	1.1	1.2	1.3
Central government balance	-3.1	-3.1	-2.2	-2.2	-7.9	-3.5	-3.2	-3.0	-2.8	-2.7	-2.7
Revenues and grants	13.9	14.0	14.2	14.4	14.2	14.9	14.1	14.2	14.3	14.3	14.3
Primary spending	14.4	14.5	13.8	13.8	18.9	14.8	13.8	13.7	13.7	13.6	13.6
Interest expenditure	2.5	2.5	2.6	2.7	3.2	3.6	3.4	3.4	3.4	3.4	3.4
Rest of NFPS	0.4	0.3	-0.1	-0.1	0.3	-0.1	0.0	0.0	0.0	0.0	0.0
Financial sector	(Annual percentage change; unless otherwise stated)										
Broad money (M3)	9.8	11.2	7.0	11.7	20.8	11.6	9.5	9.7	9.6	9.6	9.6
Credit to the private sector	12.1	10.1	11.1	11.8	5.3	10.2	9.2	9.1	9.1	9.2	9.2
Policy interest rate 1/	5.5	5.3	5.5	4.5	3.0	...	...	...	...	...	...
Average deposit rate (1-year; in percent) 1/	6.8	5.0	7.4	6.7	3.1	...	...	...	...	...	...
Average lending rate (1-year; in percent) 1/	14.5	11.2	12.1	12.4	9.9	...	...	...	...	...	...
Balance of payments	(in percent of GDP)										
Current account	-1.1	-0.2	-1.5	-1.3	-2.0	-1.6	-1.5	-1.7	-1.9	-2.0	-2.1
Goods, net	-10.0	-9.5	-11.2	-10.2	-8.6	-10.1	-10.1	-10.4	-10.5	-10.7	-10.7
Services, net	6.5	6.9	6.4	5.7	1.3	3.6	4.0	4.6	4.9	5.2	5.3
Income, net	2.4	2.4	3.2	3.2	5.3	4.9	4.6	4.2	3.7	3.5	3.3
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/	3.1	2.6	3.6	3.6	4.8	2.6	2.5	2.6	2.8	3.0	3.0
Foreign direct investment, net	3.2	4.5	3.0	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Portfolio investment, net	2.3	2.2	3.1	2.4	7.2	2.8	2.2	2.7	2.1	1.7	2.2
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-2.4	-4.0	-2.5	-2.3	-5.8	-3.6	-3.2	-3.5	-2.8	-2.1	-2.6
Change in reserves (-increase)	-1.0	-0.9	-1.0	-1.3	-2.5	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9
NIR (in millions of U.S. dollars)	6,047	6,780	7,627	8,781	10,752	11,602	12,484	13,393	14,369	15,420	16,549
Total external debt (in percent of GDP)	41.8	41.9	40.2	41.9	56.4	55.3	53.7	52.3	50.9	49.1	47.4
of which: Public sector	23.9	24.2	25.8	27.3	40.3	38.8	38.2	37.5	36.8	36.0	35.2

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

1/ Latest available.

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

3/ Excluding reserves.

Table 2a. Dominican Republic: Public Sector Accounts, 2016–26
(In Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
								Proj.			
	A. Central Government 1/										
Revenue	**13.9**	**14.0**	**14.2**	**14.4**	**14.2**	**14.9**	**14.1**	**14.2**	**14.3**	**14.3**	**14.3**
Tax revenues	12.9	13.0	13.0	13.3	12.4	12.8	13.0	13.1	13.3	13.3	13.3
Taxes on income, profits, and capital gains	3.9	4.0	4.0	4.2	4.2	3.9	4.0	4.0	4.2	4.2	4.2
Tax on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	7.9	7.8	7.9	8.0	7.2	7.9	8.0	8.0	8.0	8.0	8.0
Value-added taxes	4.6	4.5	4.6	4.7	4.4	4.7	4.8	4.8	4.8	4.8	4.8
Excises	2.2	2.3	2.2	2.2	1.9	2.1	2.1	2.2	2.2	2.2	2.2
Taxes on international trade and transactions	1.0	0.9	0.9	0.9	0.7	0.9	0.9	0.9	0.9	0.9	0.9
Social security contriutions	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.1	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.9	0.9	1.1	1.0	1.4	2.0	1.0	1.0	1.0	1.0	1.0
Expenditure	**17.0**	**17.1**	**16.4**	**16.6**	**22.1**	**18.3**	**17.3**	**17.1**	**17.1**	**17.0**	**17.0**
Current spending (expense)	15.2	15.6	15.0	15.2	20.8	16.9	15.8	15.6	15.5	15.5	15.4
Compensation of employees	4.3	4.4	4.5	4.5	4.8	4.3	4.3	4.3	4.3	4.3	4.3
Use of goods and services	1.4	1.8	1.7	1.9	2.3	2.3	1.9	1.8	1.8	1.8	1.8
Interest	2.5	2.5	2.6	2.7	3.2	3.6	3.4	3.4	3.4	3.4	3.4
Subsidies	0.8	0.7	0.6	0.7	0.9	1.1	0.8	0.8	0.8	0.8	0.7
Electricity	0.6	0.5	0.4	0.5	0.6	0.8	0.6	0.6	0.5	0.5	0.5
Other	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Grants	3.0	2.7	2.6	2.7	3.4	3.0	2.7	2.7	2.7	2.7	2.7
Social benefits	1.2	1.3	1.2	1.3	4.2	1.8	1.6	1.6	1.5	1.4	1.4
Other transfers	1.8	2.2	1.8	1.5	2.0	0.8	1.1	1.1	1.1	1.1	1.1
Net acquisition of nonfinancial assets	1.7	1.8	1.5	1.5	1.7	1.5	1.5	1.5	1.6	1.6	1.6
Primary balance	**-0.6**	**-0.5**	**0.4**	**0.6**	**-4.7**	**0.1**	**0.3**	**0.5**	**0.6**	**0.7**	**0.7**
Overall balance	**-3.1**	**-3.1**	**-2.2**	**-2.2**	**-7.9**	**-3.5**	**-3.2**	**-3.0**	**-2.8**	**-2.7**	**-2.7**
	B. Rest of the Non-Financial Public Sector										
Overall balance rest of NFPS	**0.4**	**0.3**	**-0.1**	**-0.1**	**0.3**	**-0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	C. Non-Financial Public Sector										
Overall balance NFPS	**-2.7**	**-2.8**	**-2.3**	**-2.3**	**-7.6**	**-3.6**	**-3.2**	**-3.0**	**-2.8**	**-2.7**	**-2.7**
Primary balance	-0.1	-0.2	0.4	0.6	-4.3	0.0	0.3	0.5	0.7	0.8	0.8
Interest	2.5	2.5	2.6	2.7	3.2	3.6	3.4	3.4	3.4	3.4	3.4
	D. Central Bank										
Quasi-fiscal balance of the central bank	**-1.3**	**-1.2**	**-1.1**	**-1.0**	**-1.4**	**-1.3**	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.8**
Primary balance	0.5	0.6	0.6	0.6	0.3	0.1	0.6	0.6	0.6	0.7	0.6
Interest	1.8	1.8	1.7	1.6	1.7	1.5	1.5	1.5	1.5	1.4	1.4
	E. Consolidated Public sector										
Overall balance of the consolidated public sector	**-4.0**	**-4.0**	**-3.4**	**-3.3**	**-9.0**	**-4.9**	**-4.0**	**-3.8**	**-3.6**	**-3.5**	**-3.5**
Primary balance	0.0	0.1	0.6	0.9	-4.3	-0.1	0.7	0.9	1.1	1.2	1.3
Interest	3.9	4.0	4.0	4.1	4.7	4.9	4.7	4.7	4.7	4.7	4.8
Memorandum items:											
Consolidated Public Sector Debt 2/	46.2	48.5	50.1	53.2	71.1	67.9	66.9	65.7	64.4	63.1	61.9
NFPS	37.0	38.8	39.6	42.8	58.2	54.9	54.2	53.2	52.1	51.0	50.0
Central Bank	13.0	13.2	13.6	13.3	16.5	15.7	15.2	14.8	14.4	14.0	13.6
Underlying consolidated overall balance 3/	-4.0	-4.2	-3.7	-3.4	-9.0	-4.9	-4.0	-3.8	-3.6	-3.5	-3.5
Cyclically adjusted consolidated overall balance 4/	-4.6	-4.1	-4.0	-3.9	-8.3	-4.6	-3.9	-3.8	-3.6	-3.6	-3.6
Fiscal impulse	-0.5	0.0	-0.2	0.1	4.4	-3.7	-0.7	-0.1	-0.2	-0.1	0.0
Extraordinary revenue	0.2	0.2	0.3	0.1	…	…	…	…	…	…	…
Nominal GDP (DR$ billion)	3,487	3,803	4,236	4,562	4,457	4,911	5,362	5,852	6,386	6,972	7,612

Sources: National authorities and IMF staff calculations.
1/ Based on Government Financial Statistics Manual (GFSM) 2014.
2/ Consolidated public sector debt includes the Central Bank's quasi-fiscal debt.
3/ Net of one-off revenues, including gains from PDVSA debt buy back.
4/ Adjusts revenues and expenditures for the economic cycle, and excludes one-off gains from PDVSA debt buy back

Table 2b. Dominican Republic: Public Sector Accounts, 2016–26
(In Billion Dominican Pesos)

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.					
A. Central Government 1/											
Revenue	**484**	**531**	**601**	**657**	**632**	**731**	**755**	**828**	**916**	**1000**	**1092**
Tax revenues	449	493	550	605	551	629	698	766	848	925	1010
Taxes on income, profits, and capital gains	135	153	168	192	187	190	213	235	269	293	320
Tax on property	6	7	8	9	8	10	11	12	13	15	16
Taxes on goods and services	275	298	334	365	323	387	427	467	509	556	607
Value-added taxes	159	170	195	214	194	231	255	278	304	332	362
Excises	76	87	94	99	84	105	115	127	139	151	165
Taxes on international trade and transactions	33	35	39	40	33	43	47	51	56	61	67
Social security contriutions	2	3	3	3	3	3	3	3	3	4	4
Grants	1	2	1	1	15	2	3	3	3	3	4
Other revenues	32	34	48	48	64	96	52	57	62	67	74
Expenditure	**592**	**649**	**693**	**757**	**985**	**901**	**926**	**1001**	**1094**	**1188**	**1297**
Current spending (expense)	531	592	635	694	928	829	847	915	993	1078	1173
Compensation of employees	151	166	189	204	216	211	228	249	272	297	324
Use of goods and services	49	70	72	85	101	112	100	106	115	126	137
Interest	88	97	110	125	144	176	185	201	217	237	261
Subsidies	29	26	26	32	39	53	43	46	49	53	53
Electricity	21	18	17	22	27	40	30	32	35	38	38
Other	8	9	9	10	12	12	13	13	14	15	16
Grants	106	103	112	124	150	147	145	159	173	189	206
Social benefits	43	49	53	57	187	89	88	91	96	100	108
Other transfers	64	82	74	68	90	41	58	64	70	76	83
Net acquisition of nonfinancial assets	58	68	64	69	75	72	79	86	101	110	124
Primary balance	**-20**	**-21**	**18**	**25**	**-208**	**5**	**14**	**28**	**40**	**49**	**55**
Overall balance	**-108**	**-117**	**-92**	**-100**	**-352**	**-171**	**-171**	**-173**	**-178**	**-188**	**-206**
B. Rest of the Non-Financial Public Sector											
Overall balance rest of NFPS	**15**	**12**	**-5**	**-6**	**14**	**-6**	**-1**	**-2**	**1**	**1**	**3**
C. Non-Financial Public Sector											
Overall balance NFPS	**-94**	**-106**	**-96**	**-106**	**-338**	**-176**	**-172**	**-175**	**-177**	**-187**	**-203**
Primary balance	-3	-6	16	27	-192	1	15	28	43	53	61
Interest	88	97	110	125	144	176	185	201	217	237	261
D. Central Bank											
Quasi-fiscal balance of the central bank	**-44**	**-44**	**-47**	**-44**	**-61**	**-66**	**-46**	**-49**	**-52**	**-52**	**-57**
Primary balance	18	25	25	28	14	7	34	37	40	46	47
Interest	63	69	72	72	74	73	80	86	93	98	104
E. Consolidated Public Sector											
Overall balance of the Consolidated public sector	**-138**	**-150**	**-143**	**-149**	**-399**	**-242**	**-216**	**-224**	**-229**	**-244**	**-267**
Primary balance	-1	2	24	39	-191	-3	36	53	71	87	95
Interest	137	152	168	188	208	239	252	277	300	331	362
Memorandum items:											
Consolidated Public Sector Debt 2/	1,611	1,843	2,122	2,428	3,169	3,337	3,587	3,847	4,115	4,400	4,712
NFPS	1,291	1,474	1,678	1,954	2,596	2,698	2,904	3,115	3,330	3,558	3,805
Central Bank	453	501	577	606	737	771	815	864	917	974	1,039
Overall balance of the electricity sector 3/	-48	-52	-73	-72	-49	-48	-33	-36	-36	-36	-35
Nominal GDP	3,487	3,803	4,236	4,562	4,457	4,911	5,362	5,852	6,386	6,972	7,612

Sources: National authorities and IMF staff calculations.

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

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

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

Table 3. Dominican Republic: Summary Accounts of the Banking System, 2017–26
(In billions of Dominican pesos, unless otherwise stated)

	2017	2018	2019	2020	Projection 2021	2022	2023	2024	2025	2026
					I. Central Bank					
Net foreign assets 1/	**300**	**361**	**445**	**564**	**610**	**670**	**745**	**835**	**922**	**1,006**
(in millions of US$)	6,236	7,197	8,410	9,688	…	…	…	…	…	…
Net domestic assets	**-167**	**-215**	**-278**	**-341**	**-364**	**-402**	**-453**	**-516**	**-573**	**-625**
Nonfinancial public sector (net) 2/	-2	-18	-9	-137	-10	-11	-12	-13	-14	-16
Financial institutions (net)	-628	-690	-802	-816	-950	-1,092	-1,260	-1,461	-1,704	-1,996
Nonfinancial private sector (certificates)	-123	-134	-126	-128	-216	-230	-253	-277	-303	-332
Other items (net)	587	627	659	741	812	932	1,072	1,236	1,448	1,719
Currency issue	**134**	**147**	**166**	**223**	**246**	**268**	**293**	**319**	**349**	**381**
					II. Deposit Money Banks					
Net foreign assets 1/	**-51**	**-48**	**-79**	**60**	**57**	**63**	**69**	**77**	**84**	**93**
(in millions of US$)	-1,065	-954	-1,487	1,028	…	…	…	…	…	…
Net domestic assets	**1,237**	**1,308**	**1,488**	**1,621**	**1,758**	**1,919**	**2,094**	**2,284**	**2,493**	**2,721**
Net claims on central bank	374	383	463	501	511	558	608	664	725	792
Net credit to the nonfinancial public sector	151	130	147	221	249	270	292	316	342	370
Central government	94	79	112	199	219	239	261	285	311	339
Rest of NFPS	57	52	35	22	30	31	31	31	31	31
Credit to the private sector	985	1,095	1,225	1,290	1,422	1,553	1,694	1,849	2,019	2,204
In pesos	787	872	978	1,064	1,132	1,236	1,349	1,472	1,607	1,754
In foreign currency	198	223	247	226	290	317	346	377	412	450
Capital and accumulated surplus	-213	-237	-268	-294	-288	-287	-287	-287	-287	-287
Other items (net)	-59	-63	-80	-98	-135	-174	-214	-258	-306	-358
Liabilities to the private sector	**1,186**	**1,261**	**1,409**	**1,681**	**1,815**	**1,982**	**2,163**	**2,361**	**2,577**	**2,814**
In pesos	893	927	1,023	1,143	1,243	1,357	1,481	1,616	1,764	1,926
In foreign currency	293	334	386	538	573	625	682	745	813	888
					III. Banking System					
Net foreign assets 1/	**249**	**313**	**366**	**624**	**667**	**733**	**815**	**912**	**1,006**	**1,099**
(in millions of US$)	5,171	6,243	6,923	10,717	…	…	…	…	…	…
Net domestic assets	**1,437**	**1,516**	**1,647**	**1,687**	**2,023**	**2,185**	**2,372**	**2,568**	**2,792**	**3,050**
Net credit to non-financial public sector	149	113	137	84	238	259	280	302	327	355
Credit to the private sector	991	1,102	1,232	1,297	1,429	1,560	1,703	1,858	2,029	2,215
Other items (net)	297	302	277	306	356	366	390	407	436	481
M3	**1,309**	**1,401**	**1,565**	**1,890**	**2,110**	**2,310**	**2,534**	**2,779**	**3,046**	**3,338**
Currency in circulation	102	117	134	187	207	226	246	269	293	320
Deposits	832	905	1,052	1,354	1,463	1,597	1,743	1,902	2,077	2,267
Central bank certificates held outside commercial banks	21	23	22	22	22	22	22	22	22	22
Commercial bank certificates held by the public	354	356	357	327	353	385	420	459	501	547
Memorandum items:					(Annual percentage change; unless otherwise stated)					
Credit to the private sector	10.1	11.1	11.8	5.3	10.2	9.2	9.1	9.1	9.2	9.2
Currency issue	13.2	9.8	13.6	33.9	10.2	9.2	9.1	9.1	9.2	9.2
Deposits and commercial bank certificates	9.6	6.3	11.8	19.3	8.0	9.2	9.1	9.1	9.2	9.2
Broad money (M3)	11.2	7.0	11.7	20.8	11.6	9.5	9.7	9.6	9.6	9.6
M3 Velocity (ratio of GDP to M3)	2.9	3.0	2.9	2.4	2.3	2.3	2.3	2.3	2.3	2.3

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, 2016–26

						Projection					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					(in millions of U.S. dollars)						
Current account	**-815**	**-133**	**-1,322**	**-1,188**	**-1,541**	**-1,348**	**-1,364**	**-1,664**	**-1,957**	**-2,291**	**-2,535**
Goods, net	-7,559	-7,600	-9,559	-9,075	-6,749	-8,619	-9,278	-10,241	-11,025	-12,072	-12,988
Exports, f.o.b.	9,840	10,135	10,638	11,193	10,297	11,216	12,024	12,942	14,316	15,655	17,379
Imports, f.o.b.	17,399	17,734	20,197	20,268	17,047	19,835	21,302	23,183	25,341	27,727	30,367
Services, net	4,940	5,550	5,497	5,058	1,005	3,065	3,660	4,467	5,149	5,827	6,486
Income, net	1,805	1,917	2,741	2,829	4,203	4,206	4,253	4,111	3,919	3,954	3,967
Capital account	**2**	**2**	**2**	**1**	**1**	**1**	**1**	**1**	**1**	**1**	**1**
Financial account	**2,341**	**2,121**	**3,085**	**3,162**	**3,785**	**2,214**	**2,245**	**2,571**	**2,931**	**3,340**	**3,663**
Foreign direct investment, net	2,407	3,571	2,535	3,021	2,678	2,886	3,105	3,331	3,574	3,835	4,116
Portfolio investment, net	1,729	1,757	2,696	2,178	5,665	2,410	2,035	2,682	2,261	1,869	2,714
Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	-1,795	-3,207	-2,147	-2,037	-4,557	-3,081	-2,895	-3,441	-2,903	-2,363	-3,168
Net errors and omissions	**-748**	**-1,259**	**-919**	**-825**	**-276**	**0**	**0**	**0**	**0**	**0**	**0**
Overall balance	**780**	**731**	**847**	**1,150**	**1,970**	**868**	**882**	**909**	**975**	**1,051**	**1,129**
Financing	**-780**	**-731**	**-847**	**-1,150**	**-1,970**	**-868**	**-882**	**-909**	**-975**	**-1,051**	**-1,129**
Change in reserves (- increase)	-780	-731	-847	-1,150	-1,970	-851	-882	-909	-975	-1,051	-1,129
					(in percent of GDP)						
Current account	**-1.1**	**-0.2**	**-1.5**	**-1.3**	**-2.0**	**-1.6**	**-1.5**	**-1.7**	**-1.9**	**-2.0**	**-2.1**
Goods, net	-10.0	-9.5	-11.2	-10.2	-8.6	-10.1	-10.1	-10.4	-10.5	-10.7	-10.7
Exports, f.o.b.	13.0	12.7	12.4	12.6	13.0	13.2	13.1	13.2	13.6	13.9	14.3
of which: Gold	2.1	1.8	1.6	1.7	2.1	1.8	1.6	1.4	1.2	1.1	1.0
of which: Other	10.9	10.8	10.8	10.8	10.9	11.4	11.5	11.8	12.4	12.8	13.4
Imports, f.o.b.	23.0	22.1	23.6	22.8	21.6	23.3	23.3	23.6	24.1	24.5	25.0
of which: Oil	3.1	3.6	4.3	4.0	2.6	3.5	3.2	3.0	2.9	2.8	2.7
of which: Other	19.9	18.6	19.2	18.8	19.0	19.8	20.0	20.6	21.2	21.7	22.3
Services, net	6.5	6.9	6.4	5.7	1.3	3.6	4.0	4.6	4.9	5.2	5.3
of which: Travel, net	8.2	8.3	8.2	7.7	3.1	5.5	6.0	6.5	6.9	7.1	7.3
Income, net	2.4	2.4	3.2	3.2	5.3	4.9	4.6	4.2	3.7	3.5	3.3
Primary income, net	-4.3	-4.7	-4.3	-4.6	-4.9	-5.4	-5.3	-5.2	-5.2	-5.0	-4.8
Of which: Direct investment, net	-4.3	-4.7	-4.3	-4.6	-4.9	-5.4	-5.3	-5.2	-5.2	-5.0	-4.8
Secondary income, net	6.7	7.1	7.5	7.7	10.2	10.4	9.9	9.4	8.9	8.5	8.1
Of which: Workers' remittances, net	6.4	6.8	7.1	7.4	9.9	10.1	9.6	9.2	8.7	8.3	7.9
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	**3.1**	**2.6**	**3.6**	**3.6**	**4.8**	**2.6**	**2.5**	**2.6**	**2.8**	**3.0**	**3.0**
Foreign direct investment, net	3.2	4.5	3.0	3.4	3.4	3.4	3.4	3.4	3.4	3.4	3.4
Portfolio investment, net	2.3	2.2	3.1	2.4	7.2	2.8	2.2	2.7	2.1	1.7	2.2
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-2.4	-4.0	-2.5	-2.3	-5.8	-3.6	-3.2	-3.5	-2.8	-2.1	-2.6
Net errors and omissions	**-1.0**	**-1.6**	**-1.1**	**-0.9**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.0**	**0.9**	**1.0**	**1.3**	**2.5**	**1.0**	**1.0**	**0.9**	**0.9**	**0.9**	**0.9**
Financing	**-1.0**	**-0.9**	**-1.0**	**-1.3**	**-2.5**	**-1.0**	**-1.0**	**-0.9**	**-0.9**	**-0.9**	**-0.9**
Change in reserves (-increase)	-1.0	-0.9	-1.0	-1.3	-2.5	-1.0	-1.0	-0.9	-0.9	-0.9	-0.9

Sources: National authorities and IMF staff calculations.

Table 5. Dominican Republic: Financial Soundness Indicators, 2011–20
(In percent, end of year)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
I. Financial System										
Capital adequacy										
Leverage ratio	11.7	11.8	11.5	11.3	11.2	11.3	11.6	11.8	11.9	10.9
Regulatory capital to risk-weighted assets 1/	17.3	18.2	16.7	16.1	16.0	17.2	18.3	17.1	16.6	21.1
Asset quality										
NPLs to total loans 2/	2.9	3.4	2.2	1.5	1.7	1.7	1.9	1.6	1.6	1.9
Loan provisions to NPLs 3/	111.7	97.7	134.8	187.1	152.4	156.3	149.3	157.1	160.6	203.9
NPLs net of provisions to net worth 4/	-3.0	-1.0	-5.5	-8.6	-6.4	-6.6	-6.4	-6.2	-6.1	-11.8
Fixed and net foreclosed assets to net worth	36.8	34.2	32.4	29.4	29.8	27.7	25.1	22.4	20.2	18.4
Earnings and efficiency										
Return on average assets	2.4	2.2	2.3	2.3	2.3	2.2	1.9	2.4	2.3	1.8
Return on average equity	19.9	18.8	20.6	19.9	20.1	19.0	16.7	20.0	19.1	15.6
Gross operating income to average assets	10.5	11.6	10.9	10.3	10.0	10.0	10.2	9.7	9.5	8.6
Financial margin to average assets	6.4	6.7	6.8	6.4	6.1	5.8	5.6	5.8	5.6	4.8
Operating expenses to net financial margin	89.6	89.6	86.2	90.0	93.2	93.6	89.9	89.6	92.4	83.5
Liquidity										
Liquid funds to deposits	36.6	34.3	33.4	36.9	34.3	34.9	29.7	31.3	25.6	30.5
Liquid funds to total assets	19.9	19.0	18.7	19.7	18.4	18.4	15.8	17.0	14.4	18.2
II. Commercial Banks										
Capital adequacy										
Leverage ratio	9.7	10.0	9.7	9.5	9.8	10.0	10.3	10.4	10.5	9.6
Regulatory capital to risk-weighted assets	14.6	15.8	14.8	14.0	14.4	15.6	16.4	15.8	14.9	18.7
Asset quality										
NPLs to total loans	2.6	3.2	1.9	1.3	1.5	1.5	1.7	1.5	1.5	1.9
Loan provisions to NPLs	118.8	100.5	153.6	202.9	165.0	169.8	160.3	163.8	169.1	216.9
NPLs net of provisions to net worth	-4.4	-1.5	-8.3	-10.9	-8.0	-8.0	-7.7	-7.5	-7.5	-14.2
Fixed and net foreclosed assets to net worth	46.1	41.7	39.0	35.2	34.4	31.5	28.3	25.3	21.9	19.6
Earnings and efficiency										
Return on average assets	2.4	2.2	2.3	2.3	2.3	2.2	2.0	2.3	2.3	1.8
Return on average equity	28.9	24.4	22.6	24.6	23.9	24.0	19.9	21.8	21.6	17.8
Gross operating income to average assets	10.0	11.0	10.5	10.0	9.7	9.7	9.8	9.4	9.2	8.3
Financial margin to average assets	6.2	6.5	6.6	6.2	6.0	5.6	5.5	5.6	5.4	4.7
Operating expenses to net financial margin	90.5	90.8	86.4	90.4	93.9	94.2	90.5	90.7	93.8	84.0
Liquidity										
Liquid funds to deposits	35.0	32.8	32.5	36.3	33.4	34.2	28.6	30.7	24.9	30.7
Liquid funds to total assets	21.7	20.8	20.3	21.3	19.6	19.6	16.7	18.2	15.2	19.7

Sources: National authorities.

1/ Includes all deposit-taking institutions except credit and savings cooperatives. The total assets of this segment amount to about 2 percent of GDP.

2/ The used definition of non-performing loans deviates from international standards and only includes loans past due. The definition does not include loans that are current, but that are unlikely to be fully repaid (e.g., loans that have been restructured because of financial distress of the borrower). A stressed alternative measure (morosidad estresada) as published by the Superintendency of Banks in its December 2020 trimestral report amounts to 6.7 percent.

3/ The ratio includes the total amount of provisions made for the entire loan portfolio; general and specific provisions. On a system level the specific provisions to substandard loans (classified according to the asset classification regulations as C, D1, D2 or E loans) amount to about 37 percent.

4/ Using the alternative NPL measure (morosidad estresada) and the coverage ratio of substandard loans (37 percent), the ratio would be 20.1 percent per December 2020.

Table 6. Dominican Republic: Indicators of Fund Credit, 2021–26

(In millions of SDRs, unless otherwise specified)

	2021	2022	2023	2024	2025	2026
Existing and Prospective drawings (RFI)	477.4	...	...	...	...	...
(in percent of quota)	100	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)						
Amortization	0.0	0.0	119.4	238.7	119.4	0.0
GRA charges	3.8	5.0	4.9	2.8	0.5	0.0
GRA service charge	0.0	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0
SDR charges	0.1	0.1	0.1	0.1	0.1	0.1
Total debt service	**3.9**	**5.1**	**124.3**	**241.6**	**119.9**	**0.1**
(in percent of exports of goods and services)	0.0	0.0	0.8	1.4	0.6	0.0
(in percent of GDP)	0.0	0.0	0.2	0.3	0.2	0.0
(in percent of GIR)	0.0	0.1	1.3	2.4	1.1	0.0
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)						
Outstanding stock	**477.4**	**477.4**	**358.1**	**119.4**	**0.0**	**0.0**
(in percent of quota)	100.0	100.0	75.0	25.0	0.0	0.0
(in percent of GDP)	0.8	0.7	0.5	0.2	0.0	0.0
(in percent of GIR)	5.9	5.5	3.8	1.2	0.0	0.0
Memorandum items:						
Exports of goods and services (US$ million)	18,174	19,966	22,020	24,443	26,856	29,667
GDP (US$ million)	85,042	91,508	98,169	105,318	113,024	121,300
US$/SDR exchange rate	1.43	1.43	1.43	1.43	1.43	1.43
Gross International Reserves (US$ million)	11,602	12,484	13,393	14,369	15,420	16,549
Quota	477.4	477.4	477.4	477.4	477.4	477.4

Source: IMF staff estimates.

Annex I. External Sector Assessment

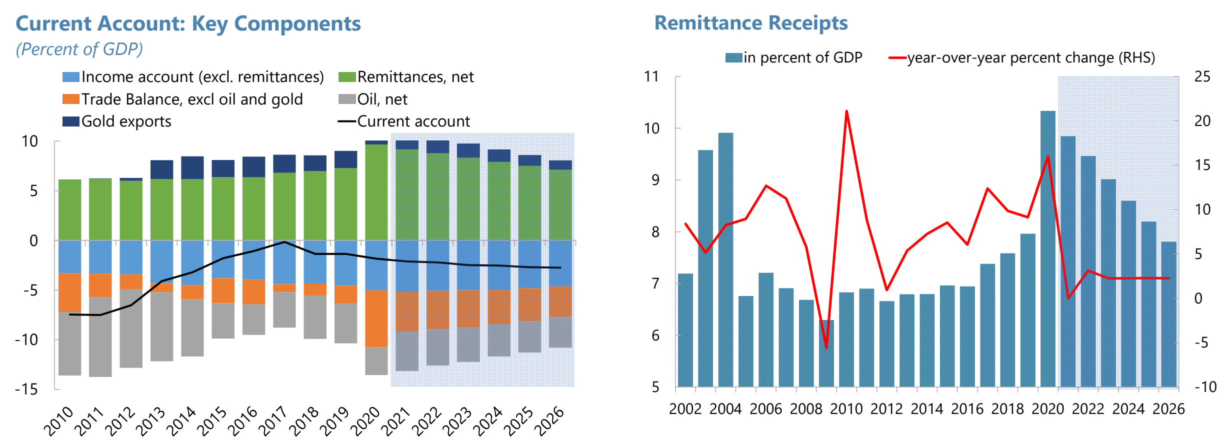
The external position as of end-2020 is assessed to be broadly in line with fundamentals and desirable policy settings. External debt has increased amid COVID but risks to external stability remain low as FDI inflows continue to fully finance the CA deficit while external debt is expected to stabilize in the medium term—exports and tourism are expected to rebound as the pandemic recedes. Reserve adequacy improved substantially in 2020 with reserves far exceeding all traditional metrics, although it stayed below the IMF's risk-weighted adequacy metric for fixed exchange rate regimes.

A. Background

Current Account and Real Exchange Rate

1. The current account deficit deteriorated somewhat to 2 percent of GDP amid a decline in tourism partly compensated by resilient remittances and lower oil prices. The CA deficit—which had remained low at 1.5 and 1.3 percent of GDP in 2018 and 2019, respectively—still compares well with its historical average of around 3.5 percent of GDP. During 2020, the collapse in economic activity, the sharp decline in global trade, and the virtual stoppage in tourism during the second quarter was partially compensated in the second half of the year by lower oil imports and strong growth in remittances and gold exports.

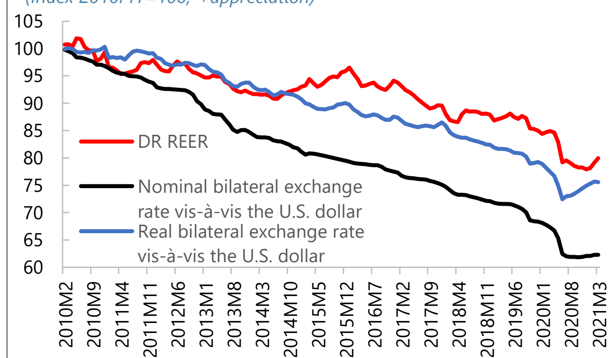
Current Account



Source: National authorities and IMF staff calculations

2. The trade deficit is projected to widen slightly as economic activity recovers next year but medium-term projections still place the CA below the norm. Exports—particularly from the free trade zones—and tourism are expected to improve as the pandemic recedes, thus compensating a gradual recovery in imports as domestic demand rebounds. FDI, which remained resilient in 2020, is expected to stay strong as global capital flows regain momentum.

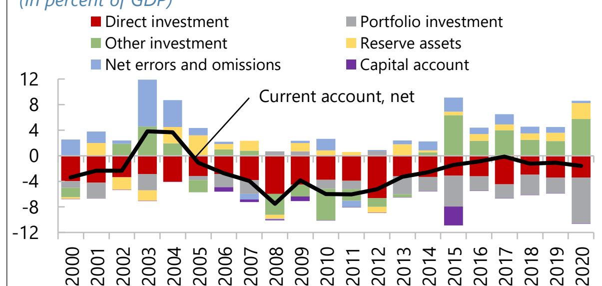
3. **Real Exchange Rate.** The average real effective exchange rate depreciated by 12 percent in 2020, reflecting the depreciation of the nominal exchange rate against the U.S. dollar. In the context of the crisis, monetary authorities allowed the exchange rate to play a role in stabilizing external flows.



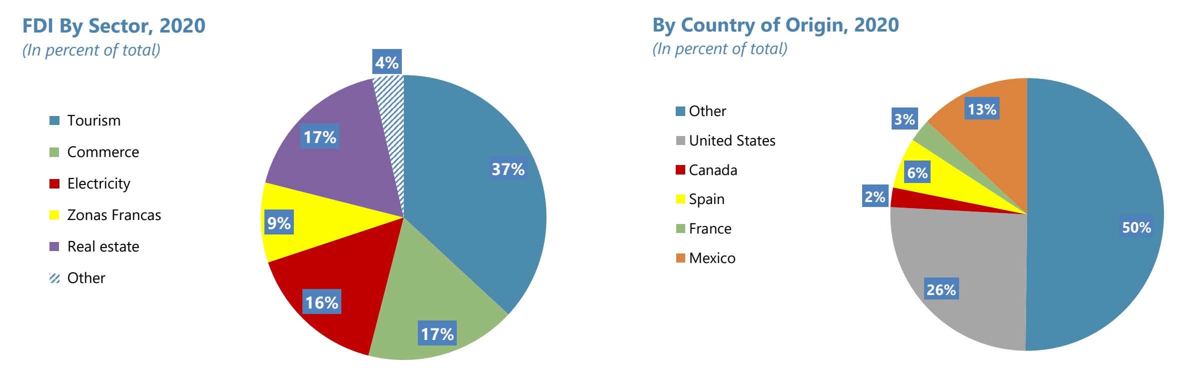
Nominal and Real Effective Exchange Rate
(Index 2010M1=100, +appreciation)
Sources: INS and IMF staff calculations.

Capital and Financial Flows

4. **The financing structure of the current account continued to support external stability.** With net FDI inflows amounting to US$ 2.7 billion (3.4 percent of GDP) in 2020 (US$3 billion in 2019), the current account deficit remains adequately financed. Over the medium term, Dominican Republic's well diversified FDI inflows are expected to remain around 3-4 percent of GDP, driven by the authorities' resolute commitment to enhance the tourism sector. Net portfolio inflows reflected strong market access in 2020 (US$5.7 billion vs US$2.2 in 2019), but it is expected to return to more moderate inflows over the next two years.



Current Account by Source of Financing
(In percent of GDP)
Sources: BCRD and IMF staff calculations.
Notes: Capital account and net errors and omissions multiplied by negative one to reflect the balance of payments identify (current account = financial account - capital account - net errors and omissions). All items are net.

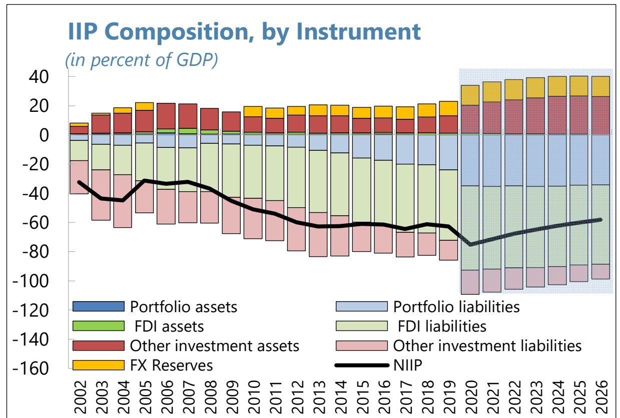


Foreign Direct Investment
Source: National authorities and IMF staff calculations

International Investment Position

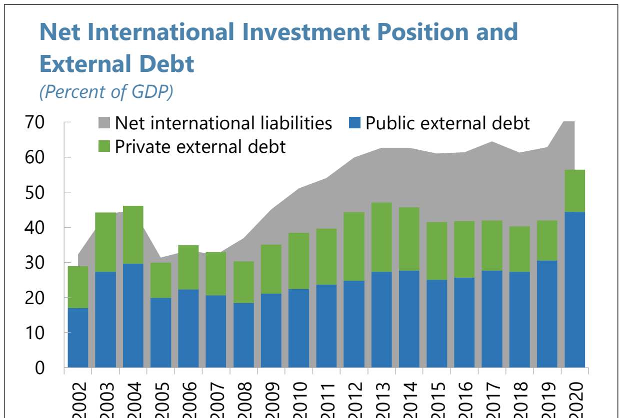
5. **The net international investment position (NIIP) declined significantly to -75 percent of GDP in 2020 from -63 percent of GDP in 2019**. Most of this deterioration was due to public borrowing in global markets to finance spending associated with the pandemic. Foreign direct

investment and portfolio investment accounted for the bulk of the liabilities. The NIIP is projected to improve gradually over the medium term, in line with the resumption of growth and relatively modest current account deficits.



Source: IMF Balance of Payments Statistics, IMF World Economic Outlook

6. Despite the temporary increase in 2020, external debt is expected to decline in the medium-term. The increase in public and private external debt in 2020—14 percent of GDP—is deemed temporary and the debt dynamics indicate a substantial reduction to 47 percent of GDP by 2026 underpinned by economic recovery and lower interest rates. Public sector external debt accounted for about three-quarters of the total in 2020, while private debt is mostly driven by corporations. The external debt sustainability assessment suggests that the medium-term debt profile is resilient to several shocks, with the most important risk being the standardized shock of a 30 percent exchange rate depreciation, which results in a significant increase in the external debt ratio (Figure 1, Table 1).



Sources: BCRD and IMF staff calculations.

B. Assessment

7. The external position is assessed to be aligned with the level implied by medium-term fundamentals and desirable policies in 2020.

- **The current account analysis** based on the EBA-lite methodology shows that, once the proper adjustors are applied to account for the 2020 shocks, the underlying current account gap is 0.5 percent of GDP. The COVID 19- related adjustors account for the boost in remittances observed in 2020 (-0.16 percent of GDP), the improvement in oil trade balance (-0.97 percent of the GDP), and the collapse in tourism (1.99 percent of the GDP). An additional adjustment (-0.4 percent of GDP) is made to the current account to reflect the temporary

Model Estimates for 2020
(In percent of GDP)

	CA model	REER model
CA-Actual	**-2.0**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustor (+) 1/	0.9	
Additional temporary/statistical factors (+)	-0.4	
Natural disasters and conflicts (-)	-0.1	
Adjusted CA	**-2.0**	
CA Norm (from model) 2/	**-2.6**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-2.6**	
CA Gap	**0.5**	**8.1**
o/w Relative policy gap	1.7	
Elasticity	-0.18	
REER Gap (in percent)	**-3.0**	**-45.5**

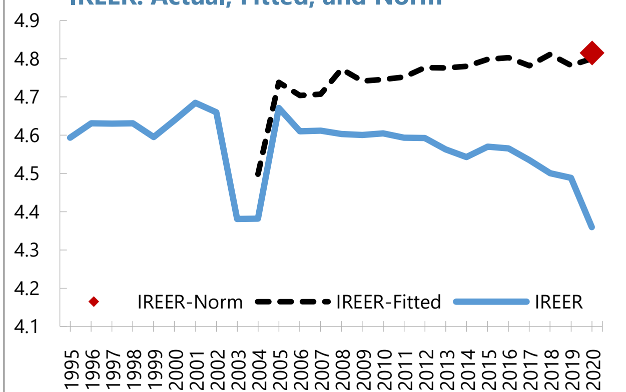
Source: National authorties and IMF staff calulations
1/ Additional cyclical adjustment to account for the temporary impact of the pandemic on oil trade balances (-0.97 percent of GDP), on tourism (1.99 percent of GDP), and on remittances (-0.16 percent of GDP).
2/ Cyclically adjusted, including multilateral consistency adjustments.

boost in remittances arising from uncertainties related to U.S. immigration policy.[1] The EBA-lite places the REER undervaluation at 3 percent, suggesting that the 2020 external position is aligned with fundamentals.

- The **External Stability approach** (ES) also suggests that the external position is sustainable. The significant NIIP weakening observed in 2020 was mainly due to the temporary shock and it is expected that the economic recovery, the gradual normalization of trade flows and tourism, and low interest rates will lead to a gradual reduction in external liabilities in the medium-term. Thus, current projections show a marked NIIP improvement to -58 percent by 2026, which is consistent with a recovery of the external position in net present value terms and with regained sustainability.

- The multilaterally consistent estimates following the **REER approach** suggests an exchange rate undervaluation of 45 percent. However, such gap is driven by a large residual rather than deviations from desirable policies. Given the uncertainty surrounding the results from this model, staff builds the overall assessment based on the current account approach which has a larger explanatory power.

IREER: Actual, Fitted, and Norm



Source: National authorities and IMF staff calculations

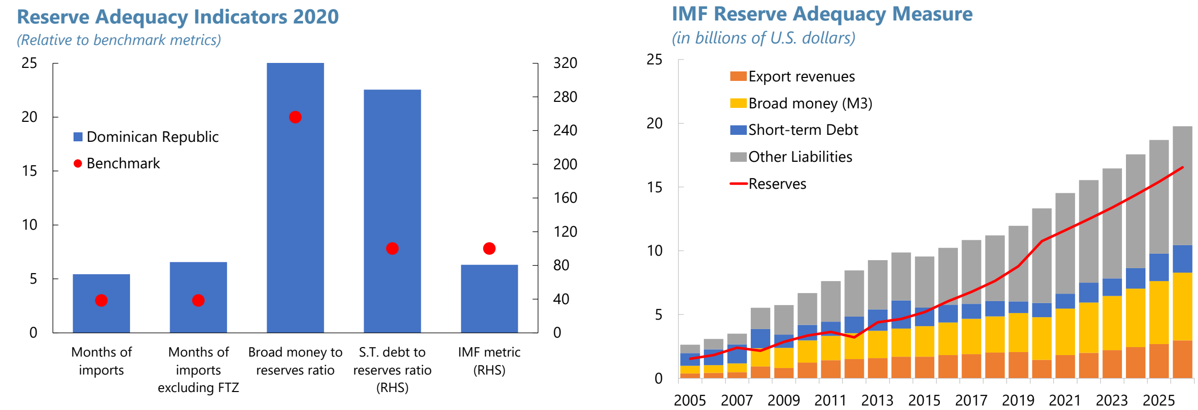
C. Reserve Adequacy Assessment and Foreign Exchange Intervention

8. Reserve adequacy improved markedly in 2020, better aligning the country's external buffers with the IMF's reserve adequacy metric. Net international reserves increased by 22 percent to US$10.7 billion by end-2020 (14 percent of GDP), allowing coverage ratios to stay significantly above traditional metrics—i.e., in terms of months of prospective imports, broad money, and short-term debt (on a remaining maturity basis). While this was partly explained by international borrowing to finance fiscal needs, this financing is mostly long-term in nature and other important sources of reserves—FDI and remittances—remained buoyant during the pandemic. As a result, reserves are better aligned with the IMF's reserve adequacy metric than in the past. NIR stood at 81 percent of the applicable metric—corresponding to the *de facto* exchange rate regime classified as a crawl-like regime[2]—at end-2020 (72 percent in 2019).

[1] This adjustment takes into account the departure of net remittances in 2020 (pre-COVID 19, estimated at 7.2 percent of GDP) from its 5-year average of 6.8 percent of GDP.

[2] Per the latest Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER). If the regime was classified as flexible, reserves would amount to about 119 percent of the ARA metric.

Reserve Adequacy

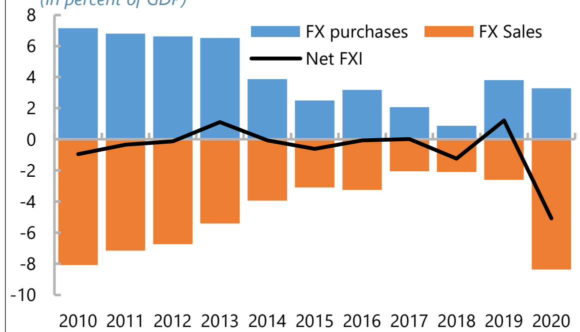


Source: National authorities and IMF staff calculations

9. Foreign exchange intervention increased during the crisis. FX interventions, which had been in a steep declining path since 2010—and close to zero in net terms for several years—increased in 2020 amid high volatility in FX markets. These interventions continued to be double-sided, but overall sales exceeded purchases in 2020 by US$5 billion. At the outset of the crisis, with significant uncertainty looming over the external position, there were FX sales, while still allowing for FX depreciation. In the second half of the year, given significant inflows, the authorities have bought reserves, which again did not prevent a gradual appreciation. The central bank's foreign currency purchases continued to be sterilized.

Foreign Exchange Intervention

(In percent of GDP)

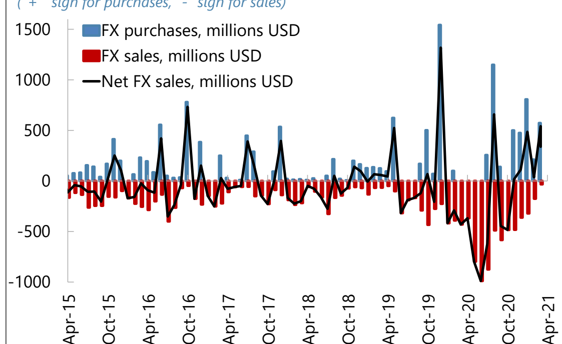


Sources: BCRD and IMF staff calculations

10. The exchange rate has helped buffer the COVID shock. While BCRD intervention smoothed volatility, the exchange rate depreciated by 10 percent between end-December 2019 and end-June 2020, allowing the economy to better cushion the impact of COVID on the external accounts—in contrast with the experience, for example, during the global financial crisis. The introduction of the exchange trading platform in 2019 is assisting price discovery in FX markets; going forward, markets would benefit from more transparent FX intervention—timely publishing information about it and communicating its objectives—including to continue the needed build-up of precautionary buffers.

BCRD Interventions in FX Markets

("+ " sign for purchases, "-" sign for sales)



Source: National authorities and IMF staff calculations

Reserve Adequacy

Metric	Benchmark coverage	NIR coverage 2017	2018	2019	2020 (e)	2025(p)
Months of imports	3 months	3.4	3.7	5.2	5.4	5.2
Months of imports (excl. free zones)	3 months	4.0	4.4	6.4	6.6	6.4
Broad money	20%	24.6	26.9	28.8	32.1	31.2
Short-term debt	100%	146.1	162.5	233.9	288.6	214.9
IMF reserve adequacy metric[1]	100 - 150%	61	67	72	81	82
External debt[2], in billions of U.S. dollars		33.5	34.4	37.3	44.5	55.4
External debt, in percent of NIR		494.7	451.5	424.6	413.7	359.6
Net international reserves, in billions of U.S. dollars		6.8	7.6	8.8	10.8	15.4
Additional reserves needed to reach IMF reserve metric of 100, in billions of U.S. dollars		4.3	3.8	3.4	2.6	3.3

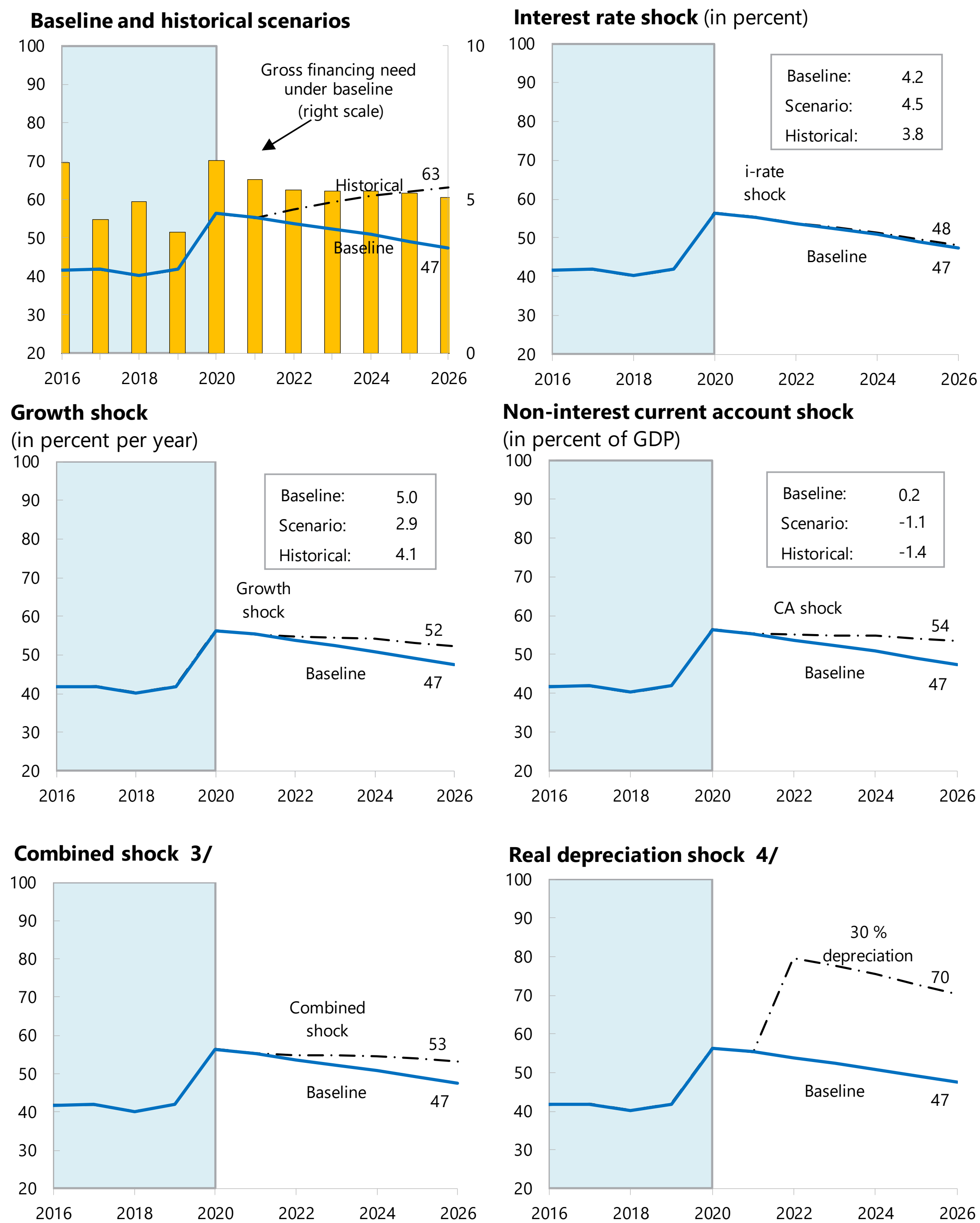
Sources: National authorities and IMF staff calculations.

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

2/ Private and public, based on residency.

Figure A1.1. Dominican Republic: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and IMF staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.
3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
4/ One-time real depreciation of 30 percent occurs in 2019.

Table A1.1. Dominican Republic: External Debt Sustainability Framework 2017–26

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2017	2018	2019	2020			2021	2022	2023	2024	2025	2026	**Debt-stabilizing non-interest current account 6/**
1 **Baseline: External debt**	41.9	40.2	41.9	56.4			**55.3**	**53.7**	**52.3**	**50.9**	**49.1**	**47.4**	**-4.7**
2 Change in external debt	0.1	-1.7	1.7	14.5			-1.1	-1.6	-1.4	-1.4	-1.9	-1.7	
3 Identified external debt-creating flows (4+8+9)	-6.5	-4.2	-3.6	3.8			-4.7	-4.5	-4.2	-4.0	-3.7	-3.6	
4 Current account deficit, excluding interest payments	-1.5	0.0	-0.5	-0.2			-0.5	-0.6	-0.4	-0.2	0.0	0.1	
5 Deficit in balance of goods and services	2.6	4.7	4.5	7.3			6.5	6.1	5.9	5.6	5.5	5.4	
6 Exports	23.7	23.4	23.0	18.3			21.4	21.8	22.4	23.2	23.8	24.5	
7 Imports	26.3	28.2	27.5	25.6			27.9	28.0	28.3	28.8	29.3	29.8	
8 Net non-debt creating capital inflows (negative)	-4.5	-3.0	-3.4	-3.4			-3.4	-3.4	-3.4	-3.4	-3.4	-3.4	
9 Automatic debt dynamics 1/	-0.6	-1.2	0.3	7.4			-0.8	-0.5	-0.4	-0.4	-0.3	-0.3	
10 Contribution from nominal interest rate	1.7	1.6	1.8	2.1			2.0	2.1	2.0	2.1	2.1	2.0	
11 Contribution from real GDP growth	-1.8	-2.7	-2.0	3.2			-2.9	-2.6	-2.5	-2.4	-2.4	-2.3	
12 Contribution from price and exchange rate changes 2/	-0.4	0.0	0.4	2.1			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	6.7	2.5	5.3	10.7			3.6	2.9	2.8	2.6	1.9	1.9	
External debt-to-exports ratio (in percent)	176.6	171.7	181.8	307.9			258.8	246.1	233.2	219.4	206.5	193.8	
Gross external financing need (in billions of US dollars) 4/	3.5	4.2	3.5	5.0			4.8	4.9	5.2	5.5	5.9	6.2	
in percent of GDP	4.4	4.9	3.9	6.3	10-Year	10-Year	5.7	5.3	5.3	5.3	5.2	5.1	
Scenario with key variables at their historical averages 5/							**55.3**	**57.3**	**59.3**	**61.0**	**62.1**	**63.2**	**-3.7**
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation							
Real GDP growth (in percent)	4.7	7.0	5.1	-6.7	4.1	4.1	5.5	5.0	5.0	5.0	5.0	5.0	
GDP deflator in US dollars (change in percent)	1.0	-0.1	-1.0	-5.0	-0.1	2.4	2.2	2.5	2.2	2.2	2.2	2.2	
Nominal external interest rate (in percent)	4.2	4.0	4.7	4.5	3.8	0.6	3.9	4.0	4.1	4.2	4.3	4.4	
Growth of exports (US dollar terms, in percent)	4.6	5.6	2.3	-29.6	2.4	11.9	25.8	9.9	10.3	11.0	9.9	10.5	
Growth of imports (US dollar terms, in percent)	1.3	14.6	1.7	-17.7	1.6	9.1	17.5	7.8	8.6	9.1	9.2	9.3	
Current account balance, excluding interest payments	1.5	0.0	0.5	0.2	-1.4	2.6	0.5	0.6	0.4	0.2	0.0	-0.1	
Net non-debt creating capital inflows	4.5	3.0	3.4	3.4	3.6	0.7	3.4	3.4	3.4	3.4	3.4	3.4	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

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

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

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

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

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

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
		Global Risks		
Unexpected shifts in the Covid-19 pandemic. Asynchronous progress. Limited access to, and longer-than-expected deployment of, vaccines in some countries—combined with dwindling policy space—prompt a reassessment of their growth prospects (for some Emerging and Frontier Markets triggering capital outflows, depreciation and inflation pressures, and debt defaults).	**Medium**	**Medium/Downside**	The Dominican Republic has secured vaccines for all its population and has already began vaccination. However, should pharmaceuticals delay delivery this could interrupt the reopening, weakening demand for contact intensive services and thus slowing growth and the improvement of balance sheets and fiscal accounts. A longer than expected deployment of vaccines globally could dampen the recovery of tourism and weaken the external position. This could lead to slower growth, higher risk premiums, depreciation and some loss in reserves, further limiting policy space.	• Prioritize fiscal spending towards more health and social benefits, continue with liquidity support targeted to the most severely affected sectors, and extend regulatory flexibility to allow the most affected sectors to re-finance loans while at the same time ensuring transparency and monitoring of banks' financial positions. Anchor the fiscal framework to signal commitment to reducing debt in the medium-term.
Unexpected shifts in the Covid-19 pandemic. Prolonged pandemic. The disease proves harder to eradicate (e.g., due to new virus strains, short effectiveness of vaccines, or widespread unwillingness to take them), requiring costly containment efforts and prompting persistent behavioral changes rendering many activities unviable. For countries with policy space, prolonged support—while needed to cushion the economy—exacerbates stretched asset valuations, fueling financial vulnerabilities. For those with limited space, especially EMs, policy support is insufficient.	**Medium**	**High/Downside**	A prolonged pandemic would constrain the recovery, including the important tourism sector; the recovery would thus be slower and narrower (more based on merchandise trade growth). This would constrain the improvements in balance sheets and fiscal accounts and lead to tighter financial conditions (higher risk premium), limiting policy space. This could exacerbate social outcomes gaps in education, health and poverty; further constraining future growth and worsening inequality.	• Prioritize fiscal spending and anchor the fiscal policy framework to signal commitment to reducing debt gradually in the medium-term. Accelerate structural reforms to reduce scarring, strengthen competitiveness, and maintain exchange rate flexibility.
Unexpected shifts in the Covid-19 pandemic. Faster containment. Pandemic is contained faster than expected due to the rapid production and distribution of vaccines, boosting confidence and economic activity.	**Medium**	**High/Upside**	Faster containment of COVID would allow for a faster and more broad-based recovery, with the recovery in services and in particular tourism accelerated versus the baseline. This should allow for a faster strengthening in balance sheets and improvement in fiscal accounts, which could lead to lower risk-premia and a stronger exchange rate.	• Depending on the impact on inflation, monetary policy may need to be tightened sooner. Emergency support measures (liquidity assistance and regulatory flexibility) can also be withdrawn sooner.

[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
Global Risks				
Sharp rise in global risk premia exposes financial and fiscal vulnerabilities. A reassessment of market fundamentals (e.g., in response to adverse Covid-19 developments) triggers a widespread risk-off event. Risk asset prices fall sharply and volatility spikes, leading to significant losses in major non-bank financial institutions. Higher risk premia generate financing difficulties for leveraged firms (including those operating in unviable activities) and households, and a wave of bankruptcies erode banks' capital buffers. Financing difficulties extend to sovereigns with excessive public debt, leading to cascading debt defaults.	Medium	Medium/Downside	An abrupt change in global risk appetite could lead to sudden sharp increases in global interest rates from the decompression of risk premia, putting pressure on sovereign financing costs, the exchange rate, and the overall fiscal position.	• Strengthen the fiscal position, including by anchoring the fiscal framework and reforming the electricity sector; review public debt management to access less costly financing while also containing financing risks by increasing domestic sources; continue building reserve buffers and tighten monetary policy if needed.
Intensified geopolitical tensions and security risks. (Geo)political tensions in selected countries/regions (e.g., Middle East) cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence.	High	Medium	Oil supply and demand shocks may cause large and persistent price swings. Fuel prices may rise above current expectations, reducing real income, decreasing demand and output and widening the external current account and fiscal deficits.	• In the short-term, assess potential second-round effects on inflation and inflation expectations and adjust the monetary policy stance if needed. Continue electricity sector reforms to limit the negative impact of higher oil prices on the fiscal position, while using the fiscal space to mitigate the social impact of these reforms.
Structural risks. Accelerating de-globalization. Despite renewed efforts to reach multilateral solutions to existing tensions, geopolitical competition leads to further fragmentation. Reshoring and less trade reduce potential growth.	Medium	Medium/Downside	Externally, escalating and sustained trade actions threaten the global trade system, creating uncertainty about growth directly and through adverse confidence effects.	• Continue structural reforms to strengthen external competitiveness and maintain exchange rate flexibility.
Structural risks. Cyber-attacks on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium	High/Downside	Breach of critical financial and commercial digital infrastructure as well as broader private and public institutions can trigger systemic financial instability or widespread disruptions in socio-economic activities.	• Improve legal, institutional, and strategic frameworks, devise a centralized plan and cross-sector common rules to combat cyberattacks.
Structural risks. Higher frequency and severity of natural disasters related to climate change This may cause severe economic damage to smaller economies susceptible to disruptions and accelerate emigration from these economies (medium probability). A sequence of severe events in large economies reduces global GDP and prompts a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility (low probability).	Medium/Low	Medium/Downside	Hurricanes, earthquakes, floods and droughts, to which the region is prone, can result in important economic, social and fiscal costs.	• Accelerate the implementation of the National Climate Action Plan; build structural and financial resilience, including through disaster insurance.

Source of Risks	Relative Likelihood	Expected Impact		Policy Response
Domestic Risks				
Domestic reforms	**High**	**High/Upside**	Timely structural reforms could improve confidence and increase near-term growth momentum as well as potential growth and equity. Fiscal reforms 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, including the pace of withdrawal of emergency support measures. Build buffers more rapidly.

Annex III. Public Debt Sustainability Assessment

Public debt is sustainable but risks have increased due to the higher debt level. The latter rose in 2020 due to the fiscal response to the pandemic, exchange rate depreciation and the prefinancing of part of the 2021 budget; risks are mitigated by moderate gross financing needs over the projection horizon. Debt is projected to decline as the fiscal position gradually returns to pre-pandemic levels and growth recovers, but it is vulnerable to scenarios in which the recovery gets seriously delayed. The debt profile shows a high share of debt held by non-residents—the pandemic response was mainly financed in global markets, avoiding a private sector crowd out in domestic markets—but this is long-term debt and a significant amount is held by official creditors. Aided by active debt management that lengthened maturities, gross financing needs are projected to remain below the risk benchmark under the baseline and most stress scenarios.

A. Debt and Financing Profiles

1. Debt definition. Public debt is defined as the sum of the consolidated debt of the non-financial public sector (NFPS) and central bank (BCRD) debt net of recapitalization bonds issued by the central government and held by the central bank.[1] Including BCRD debt intends to capture debt issued as a consequence of the BCRD's financial support to failed banks during the 2003 financial crisis, leading to a significantly negative capital position of the BCRD.

2. Debt baseline scenario. The baseline was strongly impacted by the COVID shock:

- The increase in 2020 debt levels largely reflects the impact of the COVID crisis on the primary deficit, growth, the real interest rate, and the exchange rate—all together accounting for 13.3 percent of GDP (Figure 1). The increase in public debt is also related to the authorities' decision to pre-finance the 2021 deficit—by 1.6 percent of GDP. The remaining residual—3 percent of GDP—is likely explained by an increase in NFPS deposits and BCRD certificates issuance not related to the quasi-fiscal deficit, as discussed before.[2]

- Going forward, the consolidated public debt-to-GDP ratio is projected to decline to almost 60 percent of GDP by 2026. The gradual withdrawal of COVID support starts with the 2021 budget, which envisages a return to a primary balance—from a primary deficit of 4.3 percent of GDP in 2020—and reflects the authorities' intention to rein in debt. The primary balance is projected to increase to an average 1.1 percent in the medium-term (2023–26), in line with the pre-pandemic level in 2019. This compares with a debt-stabilizing primary deficit of 0.6 percent (Figure A3.1).

[1] These bonds were equal to 5.1 percent of total NFPS debt at end-2020.

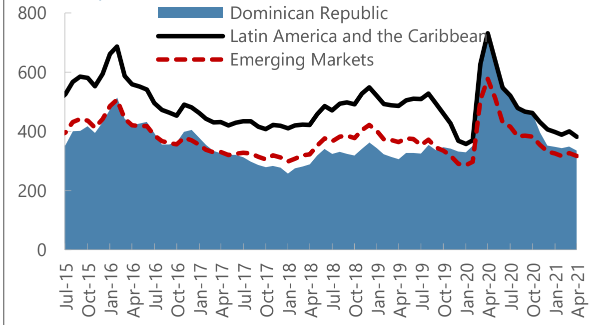
[2] The increase in BCRD certificates was the equivalent of 2.2 percent of GDP, while the BCRD's quasi-fiscal deficit was 1.3 percent of GDP.

3. **Sovereign yields.** Dominican Republic's foreign currency sovereign bonds yields have stabilized at close to pre-pandemic levels, along with other emerging markets. The credit spread of 282 basis points relative to U.S. Treasury Bonds (as of May 18, 2021) compares favorably to the average of other emerging market and Latin American economies. The effective nominal interest rate is projected to move in line with Libor rates, decreasing from 8.6 percent in 2020 to 7.5 in 2021–22 before gradually increasing to 8.2 percent by 2026—the decline in 2021–22 also reflects the increase in external debt in 2020, which carries a lower interest rate than domestic debt. Rating agencies have maintained the Dominican Republic's foreign and local currency credit ratings: Moody's at Ba3, while Standard and Poor's and Fitch maintained it at BB-. Moody's maintained a stable outlook (latest as of March 26, 2021), while S&P and Fitch outlooks were revised to negative in 2020. The government was able to place $2.5 billion in January 2021 at yields similar to January 2020, with the issue four times over-subscribed due to high demand.

4. **Gross financing needs remain well below the early warning benchmarks over the medium term (i.e., 15 percent of GDP).** This follows from the authorities' active management of debt in recent years, aimed at smoothing the path of amortizations by using instruments of different maturities to minimize financing pressures in their medium-term schedule. In December 2020, the government completed an external debt management operation that reduced debt service by US$1.1 billion over 2021-25.[3] Gross financing needs in 2026 increase relative to prior years, due to higher external and domestic bond amortizations. The authorities plan a domestic debt management operation to further extend maturities and smooth needs.

EMBIG Spreads

(In basis points; 2015-2021)



Source: Bloomberg

Bond Placements 2020-21

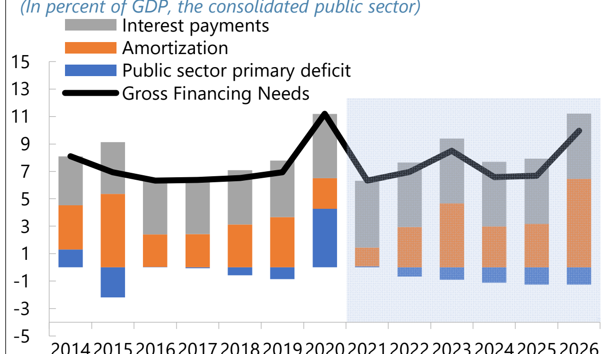
Amount	Maturity	Interest rate
14-Jan-20		
$1 billion	10 years	4.5%
$1.5 billion	40 years	5.875%
$ 2.5 billion		
18-Sep-20		
$1.8 billion	12 years	4.875%
$1.7 billion	40 years	6.25%
RD$17.5 billion ($0.3 billion)	6 years	10%
$ 3.8 billion		
1-Dec-20 (buy back) 1/		
$1.3 billion	12 years	4.875%
$ 1.3 billion		
23-Jan-21		
$1 billion	10 years	4.5%
$1.5 billion	40 years	5.875%
$ 2.5 billion		

Source: National authorities, Jefferies, and IMF staff calculations

1/ Issued to buy back bonds maturing in 2021-2025: $0.4 billion in both 2021 and 2022; and $0.2 billion in both 2024 and 2025.

Gross Financing Needs

(In percent of GDP, the consolidated public sector)



Sources: National authorities and IMF staff calculations.

[3] The operation reopened the 2032 global bonds, with a debt exchange for four different U.S. dollar bonds maturing between 2021 and 2025.

5. Public debt risk profile. Until the COVID crisis, the authorities were prioritizing issuances of longer-term, local currency debt with a view to minimizing public debt vulnerabilities to financing and market risks. By end-2020, NFPS debt showed: (i) an average maturity of 12.7 years—up from 7.4 years in 2013; (ii) the share of short-term debt at 2.5 percent; (iii) the share of foreign-currency denominated debt at 75.6 percent; and (iv) the share of floating rate debt at 15.9 percent—down from 20 percent in 2018.[4] As for domestic debt—31 percent of NFPS debt—it showed (i) an average maturity of 7.4 years: (ii) a low share at floating rates (one percent): (iii) about 20 percent in foreign currency; and (iv) 90 percent held by residents. The share of public debt held by non-residents—57 percent of total consolidated debt—is above the upper benchmark (45 percent). However, rollover risk should be mitigated by its longer maturity—14.3 years—with 11 percent held by official creditors. The increase in external public debt in 2020 reflected the need to finance the temporary increase in the deficit due to the COVID shock without crowding out domestic credit.

6. The heat map description of risks associated with the debt level should be read cautiously, as it is affected by the pre-financing of the 2021 budget. The pre-financing has taken public debt above 70 percent of GDP in 2020—subtracting non-financial public sector deposits in the central bank, the consolidated public sector debt would be below this level. Staff projections of the fiscal position over the next years implies that the 70 percent threshold would not be crossed in the baseline over the projection period. This implies that when using net debt, debt level risks would be depicted in the heat map very differently highlighting moderate (yellow) risks only under the real GDP growth shock, and low risk (green) in all other scenarios.

B. Realism of Baseline Scenario[5]

7. Growth. Staff's growth forecasts tended to be lower than the actual growth outcomes during 2011-19, with a median forecast error of 0.28 percentage points. The forecast bias has generally decreased in the past few years.

8. Inflation. While inflation was converging after the inception of the inflation targeting regime—until 2016—inflation forecasts tended to be downward biased. However, the bias has declined significantly since 2016, in line with the decline in inflation volatility.

9. Fiscal adjustment. The large fiscal adjustment in 2021-22 reflects the gradual normalization of revenues, reduced expenditures for additional health spending and social benefits as the COVID shock recedes, and the authorities' commitment in the 2021 budget to cut other spending. The DSA template provides the distribution of projected primary balances across other debt market-access countries, placing the Dominican Republic at the 59th percentile rank in terms of the 3-year average level of cyclically-adjusted primary balance (CAPB) during the forecast horizon and at the 11th percentile rank in terms of the 3-year fiscal adjustment. The latter is driven by the unprecedented shock to fiscal balances in 2020 due to COVID, while as noted above the new authorities are committed to the large fiscal adjustment (most of it occurring in 2021). From 2023 onward, the fiscal impulse is around zero, implying a broadly neutral fiscal policy.

[4] https://www.creditopublico.gob.do/inicio/gestion_de_riesgos

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

C. Stochastic Simulations

10. Fan charts. The fan charts illustrate the possible evolution of the debt ratio over the medium term, subject to shocks drawn from a symmetric (upside and downside risks are treated equally) and an asymmetric (which assumes there are no positive shocks to the primary balance) distribution of risks. Under the symmetric scenario, there is a 66 percent probability that debt will remain below 70 percent of GDP benchmark for emerging economies over the medium term, while in the asymmetric (adverse) scenario, debt would remain below the 70 percent of GDP benchmark with a 45 percent probability.

D. Baseline Scenario Assessment

11. Debt remains sustainable; risks have increased due to higher debt levels but are mitigated by moderate gross financing needs. Public debt is projected to decline as the fiscal position gradually returns to pre-pandemic levels—a primary balance of around 1 percent, against a debt-stabilizing balance of -0.6 percent—aided by the recovery. The main risk to the debt outlook is associated with delays in the recovery, and it is mitigated by moderate gross financing needs over the projection horizon. The debt profile shows a high share of debt held by non-residents; a risk mitigated by the fact that this is long-term debt with a significant amount held by official creditors.

E. Stress Tests and Alternative Scenarios

12. Individual shocks. The debt-to-GDP ratio is not expected to breach the 70 percent benchmark under stress tests, with the exception of a real growth shock. A one-standard deviation negative real GDP growth shock in 2022-23 would increase debt to a maximum of 74.9 percent of GDP by 2023 before it declines to 71.1 percent by 2026—9.8 percent of GDP higher than under a no-shock scenario. For alternative scenarios, debt exceeds the 70 percent benchmark only in the one in which growth falls to the 2011-20 historical growth of 4.1 percent (which includes COVID growth shock of -6.7 percent and compares with a pre-COVID historical growth rate of 5.6 percent). Meanwhile, for most stress tests and alternative scenarios, gross-financing needs stay below the benchmark of 15 percent.

13. Combined shock. A combined shock incorporates the largest effect of individual shocks (real GDP growth, inflation, primary balance, exchange rate, and interest rate). In this scenario, debt would increase to a maximum of 81.5 percent of GDP while gross financing needs would increase to a maximum of 14.2 percent of GDP.

14. Contingent liability shock. While the financial sector contingent liability shock is not triggered because the three-year cumulative increase of the credit-to-GDP or loan-to-deposit ratio is lower than the threshold and most SOE debt is accounted for in the headline debt statistics, staff has added a natural disaster shock given the country's exposure to this risk. The scenario assumes a disaster with a 100-year return period and a 10 percent of GDP economy-wide loss, of which 15 percent (3 percent of GDP) is assumed to be the responsibility of the government. It is also assumed that this disaster has an adverse effect on growth in the first year (-0.5 percentage points), with a slight rebound of 0.3 percentage points the year following the disaster due to reconstruction activity. Under the scenario, debt would increase to 68.8 percent of GDP in 2022 before declining to 63.6 percent in 2026.

Figure A3.1. Dominican Republic: Public Sector Debt Sustainability Analysis (DSA)-Baseline Scenario

(in percent of GDP, unless otherwise indicated)

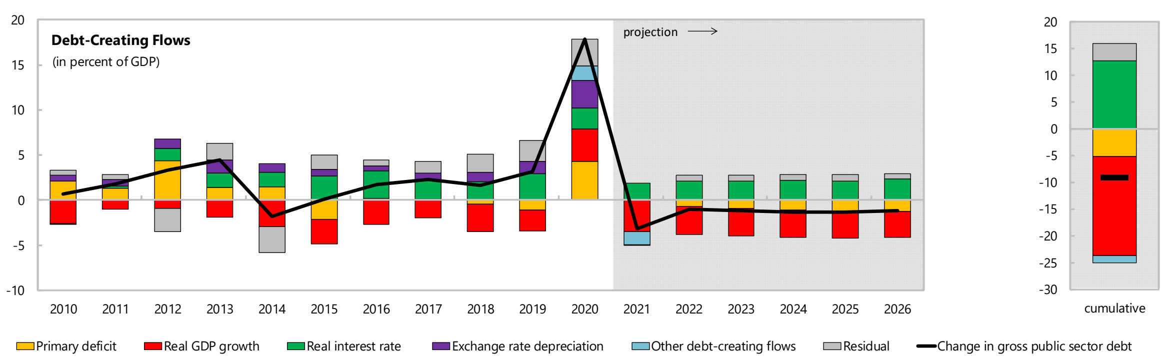
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	44.1	53.2	71.1	67.9	66.9	65.7	64.4	63.1	61.9
Public gross financing needs	7.6	6.7	11.2	6.3	7.0	8.5	6.6	6.7	10.0
Net public debt	44.1	53.2	69.5	67.9	66.9	65.7	64.4	63.1	61.9
Real GDP growth (in percent)	5.7	5.1	-6.7	5.5	5.0	5.0	5.0	5.0	5.0
Inflation (GDP deflator, in percent)	4.5	2.5	4.7	4.5	4.0	4.0	4.0	4.0	4.0
Nominal GDP growth (in percent)	10.4	7.7	-2.3	10.2	9.2	9.1	9.1	9.2	9.2
Effective interest rate (in percent) [4/]	8.8	8.9	8.6	7.5	7.6	7.6	7.8	7.8	8.2

As of May 18, 2021		
Sovereign Spreads		
EMBIG (bp) 3/		282
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB-
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.6	3.2	17.9	-3.2	-1.0	-1.2	-1.3	-1.3	-1.2	-9.2	
Identified debt-creating flows	1.2	0.8	14.9	-3.1	-1.7	-1.8	-1.9	-2.1	-1.8	-12.4	
Primary deficit	0.9	-1.1	4.3	0.1	-0.7	-0.9	-1.1	-1.2	-1.3	-5.1	-0.6
Primary (noninterest) revenue and grants	14.1	14.4	14.2	14.9	14.1	14.2	14.3	14.3	14.3	86.1	
Primary (noninterest) expenditure	15.0	13.3	18.5	14.9	13.4	13.3	13.2	13.1	13.1	81.0	
Automatic debt dynamics [5/]	0.3	1.9	9.0	-1.7	-1.0	-0.9	-0.8	-0.8	-0.6	-5.9	
Interest rate/growth differential [6/]	-0.6	0.5	5.9	-1.7	-1.0	-0.9	-0.8	-0.8	-0.6	-5.9	
Of which: real interest rate	1.6	2.9	2.3	1.8	2.1	2.1	2.2	2.1	2.3	12.7	
Of which: real GDP growth	-2.2	-2.3	3.7	-3.5	-3.1	-3.0	-3.0	-3.0	-2.9	-18.5	
Exchange rate depreciation [7/]	0.9	1.4	3.1	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	1.6	-1.4	0.0	0.0	0.0	0.0	0.0	-1.4	
Privatization/Drawdown of Deposits (+ reduces financing need) (negative)	0.0	0.0	1.6	-1.4	0.0	0.0	0.0	0.0	0.0	-1.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes [8/]	0.3	2.3	3.0	-0.1	0.7	0.7	0.6	0.7	0.6	3.2	



Source: IMF staff.

1/ Public sector is defined as consolidated public sector.

2/ Based on available data.

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

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

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

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

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

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

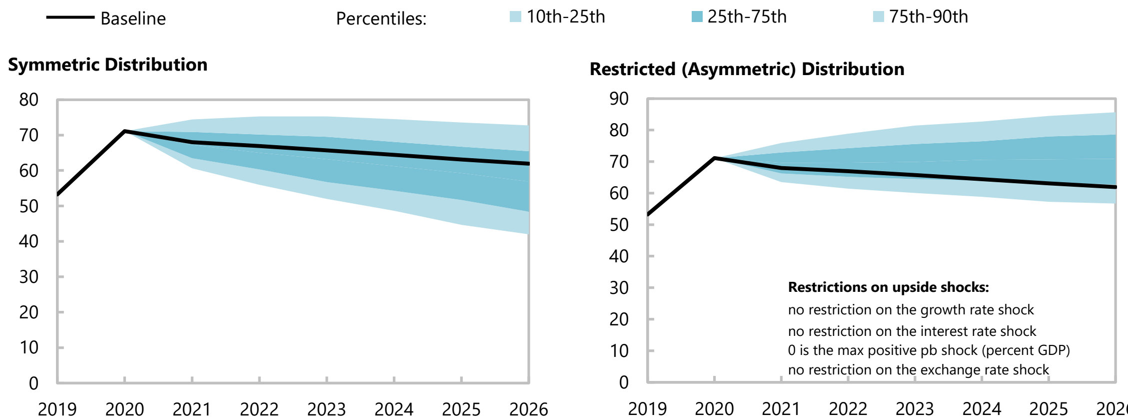
Figure A3.2. Dominican Republic: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

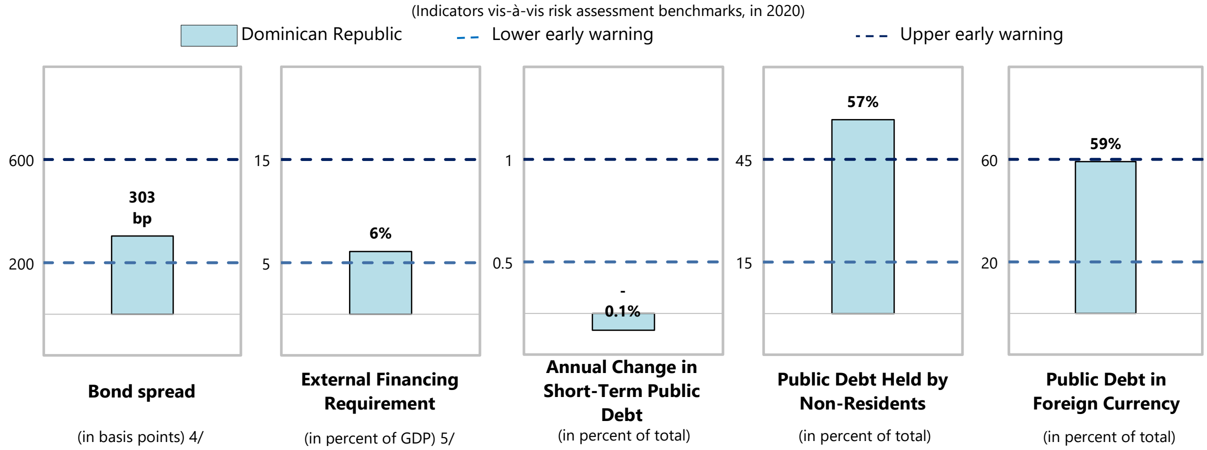
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

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

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

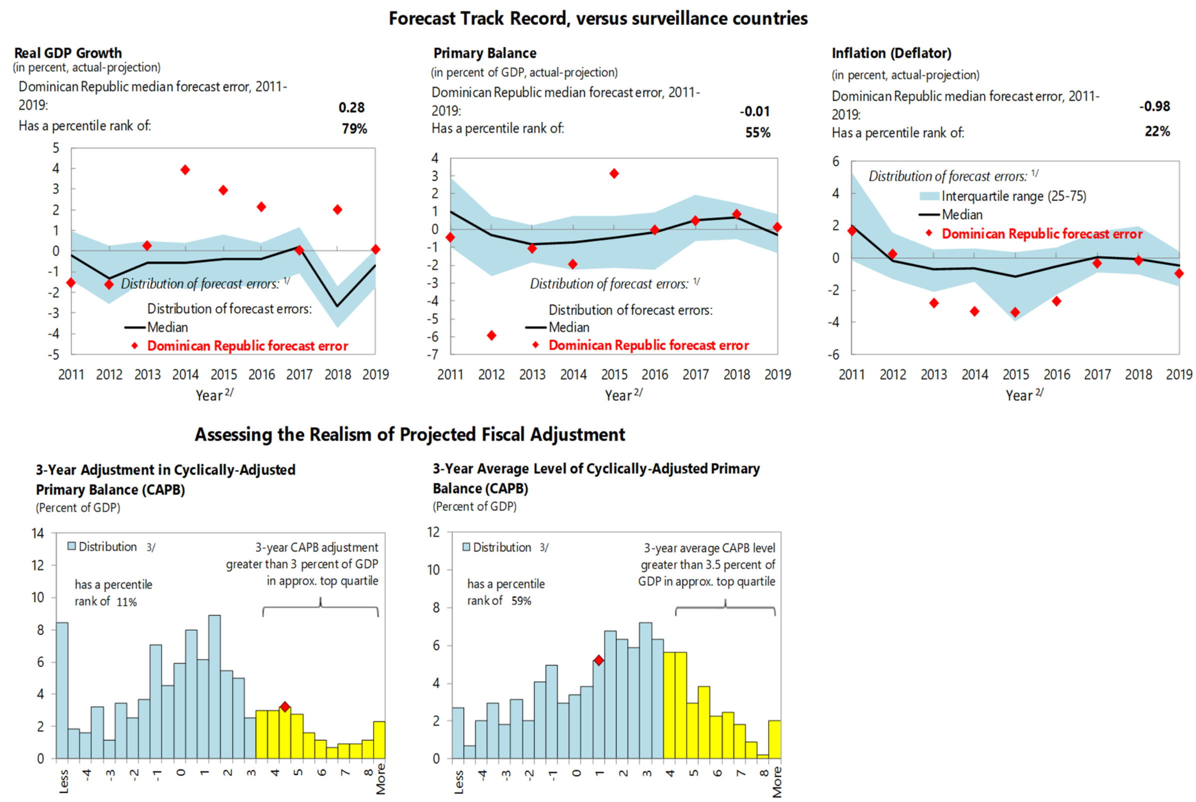
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ Long-term bond spread over U.S. bonds, an average over the last 3 months, 17-Feb-21 through 18-May-21.

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

Figure A3.3. Dominican Republic: Public DSA-Realism of Baseline Assumptions



Source : IMF Staff.

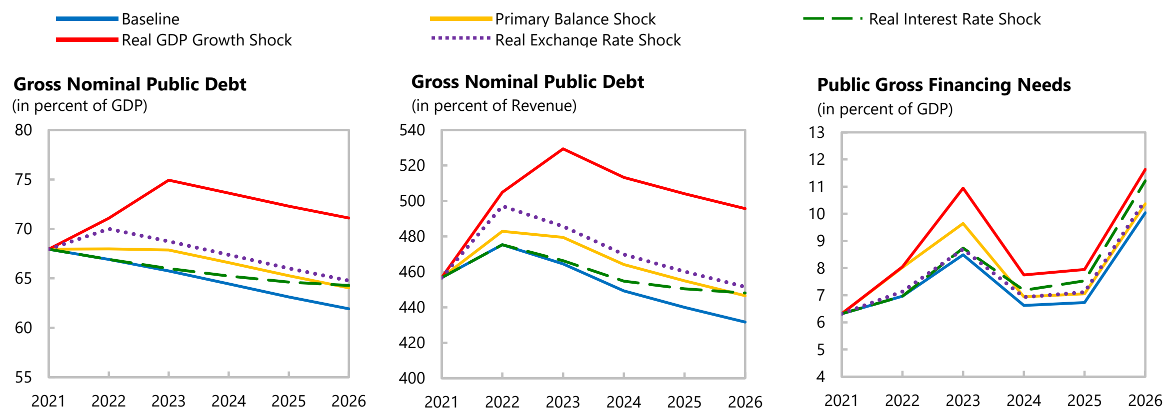
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries.

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

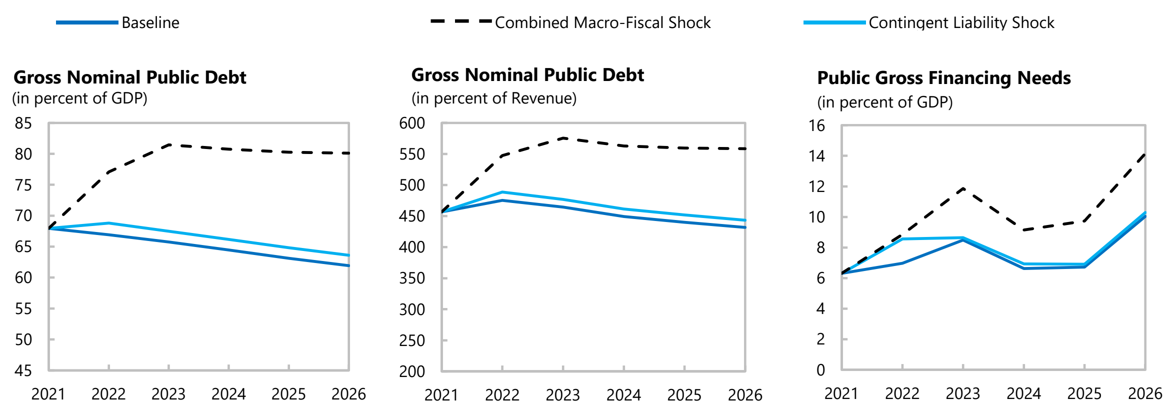
3/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure A3.4. Dominican Republic: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	5.5	5.0	5.0	5.0	5.0	5.0
Inflation	4.5	4.0	4.0	4.0	4.0	4.0
Primary balance	-0.1	-0.4	-0.2	1.1	1.2	1.3
Effective interest rate	7.5	7.6	7.6	7.8	7.8	8.2
Real Interest Rate Shock						
Real GDP growth	5.5	5.0	5.0	5.0	5.0	5.0
Inflation	4.5	4.0	4.0	4.0	4.0	4.0
Primary balance	-0.1	0.7	0.9	1.1	1.2	1.3
Effective interest rate	7.5	7.6	8.0	8.7	9.0	9.7
Combined Shock						
Real GDP growth	5.5	0.9	0.8	5.0	5.0	5.0
Inflation	4.5	2.9	2.9	4.0	4.0	4.0
Primary balance	-0.1	-0.4	-0.5	1.1	1.2	1.3
Effective interest rate	7.5	8.0	7.9	8.6	8.9	9.6

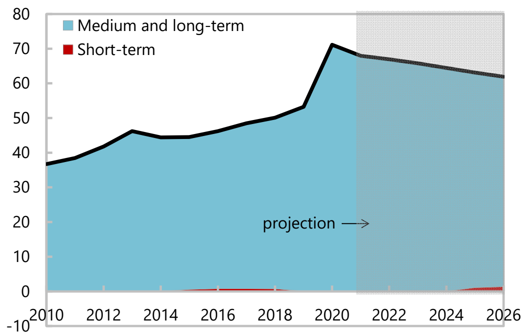
Real GDP Growth Shock	2021	2022	2023	2024	2025	2026
Real GDP growth	5.5	0.9	0.8	5.0	5.0	5.0
Inflation	4.5	2.9	2.9	4.0	4.0	4.0
Primary balance	-0.1	0.0	-0.5	1.1	1.2	1.3
Effective interest rate	7.5	7.6	7.6	7.8	7.8	8.2
Real Exchange Rate Shock						
Real GDP growth	5.5	5.0	5.0	5.0	5.0	5.0
Inflation	4.5	7.3	4.0	4.0	4.0	4.0
Primary balance	-0.1	0.7	0.9	1.1	1.2	1.3
Effective interest rate	7.5	8.0	7.5	7.6	7.7	8.1
Contingent Liability Shock						
Real GDP growth	5.5	4.5	5.1	5.0	5.0	5.0
Inflation	4.5	4.0	4.0	4.0	4.0	4.0
Primary balance	-0.1	-0.8	0.9	1.1	1.2	1.3
Effective interest rate	7.5	7.6	7.6	7.7	7.7	8.2

Source: IMF staff.

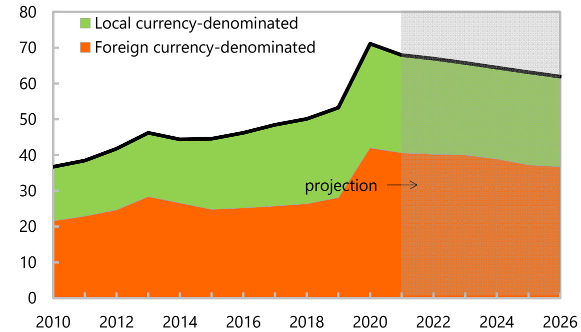
Figure A3.5. Dominican Republic: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



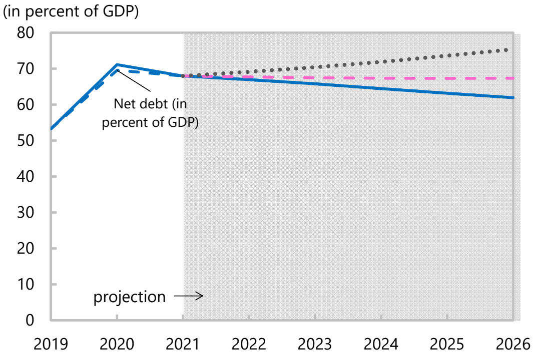
By Currency
(in percent of GDP)



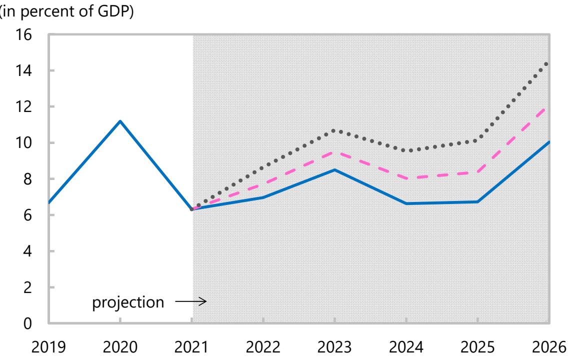
Alternative Scenarios

Baseline
Historical
Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.5	5.0	5.0	5.0	5.0	5.0
Inflation	4.5	4.0	4.0	4.0	4.0	4.0
Primary Balance	-0.1	0.7	0.9	1.1	1.2	1.3
Effective interest rate	7.5	7.6	7.6	7.8	7.8	8.2
Constant Primary Balance Scenario						
Real GDP growth	5.5	5.0	5.0	5.0	5.0	5.0
Inflation	4.5	4.0	4.0	4.0	4.0	4.0
Primary Balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	7.5	7.6	7.6	7.7	7.7	8.1

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.5	4.1	4.1	4.1	4.1	4.1
Inflation	4.5	4.0	4.0	4.0	4.0	4.0
Primary Balance	-0.1	-0.9	-0.9	-0.9	-0.9	-0.9
Effective interest rate	7.5	7.6	7.7	8.0	8.1	8.5

Source: IMF staff.

Annex IV. Social Policy in the Dominican Republic: Key Challenges and Policy Perspectives[1]

A. Introduction

1. The Dominican Republic's development priorities are outlined in its National Development Strategy enshrined in Law 1-12, which extends to 2030.[2] The authorities have identified policies that promote synergies and accelerate the advancement of the 2030 Agenda through five broad objectives: (i) reducing poverty, (ii) enhancing competitiveness and providing jobs, (iii) promoting sustainable growth, (iv) achieving resilience to climate change, and (v) enhancing institutional capacity. This annex takes stock of progress on key development goals, assesses the impact of the pandemic on socioeconomic indicators—such as poverty and the quality of public services: social safety nets, health, education—and identifies some policy priorities.

B. Background

2. The country continues enhancing its human capital and productive capacity. The Dominican Republic has been one of the most dynamic economies in the region – with growth effects, combined with targeted policies, helping lift people out of poverty and decrease unemployment. Between 2010 and 2019, per capita income has increased from US$5,689 to US$8,596, positioning the country as an upper-middle-income economy. Over the same period, poverty rates in the Dominican Republic dropped from 35.4 percent to 21 percent, with extreme poverty nearly eradicated. In addition to improvements in prosperity, the Human Development Index[3] improved the most among countries in the region over the last 5 years (see Figure 1). Income inequality, while not negligible, is below the Latin America and the Caribbean average (with the UNDP income inequality coefficient[4] of 30.4, compared to 34.9 for the region). The country shows favorable demographics – the median age is 28 and the fertility rate is 2.36 births per woman, which is above the regional average and the replacement rate, highlighting the country's productive potential.

3. However, an integrated reform agenda is needed to further boost social prosperity. Progress in poverty reduction has been heterogeneous across provinces; in certain regions of the country, there is a greater incidence of poverty among children and adolescents in rural areas, and among the unemployed population. Other regions have greater concentrations of poor and vulnerable populations in urban settings. Tools to remediate these gaps may be as diverse as the

---

[1] Prepared by M. Rousset.

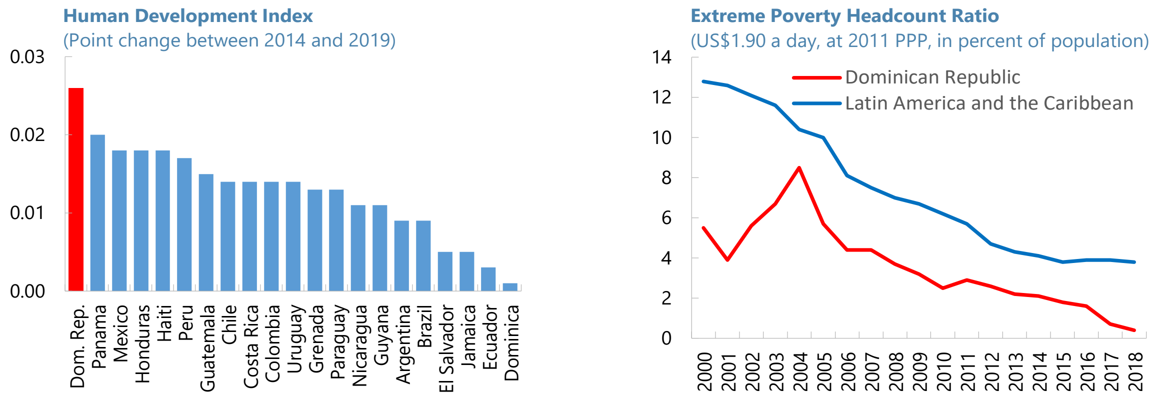
[2] http://ods.gob.do/Seccion/Index/3

[3] Developed by the United Nations Development Program, the Human Development Index (HDI) is a measure of achievement in the basic dimensions of human development across countries. These dimensions include life expectancy, knowledge (measured in years of schooling) and living standards (measured in per-capita income at PPP).

[4] Inequality in income, calculated by the United Nations Development Program, is a distribution based on data from household surveys estimated using the Atkinson inequality index.

underlying issues, emphasizing policy design and the effectiveness of targeted public service delivery. In addition, action is needed to address structural problems of employment, gender inequality and the quality of public services.

Figure A.4.1. Recent Gains in Human Development



Sources: United Nations Human Development Report 2020, and World Bank World Development Indicators 2020.
Note: As a result of revisions in PPP exchange rates, poverty rates may not be directly comparable to those in earlier editions. They remain comparable across countries in the same year, however.

C. Impact of COVID-19

4. The pandemic has widened existing socioeconomic gaps. According to various **methodologies** (tabulated in Acevedo et al., 2020), the increase in the poverty rate in the Dominican Republic due to the adverse impact of the pandemic could range between 0.8 and 8.9 percentage points. IDB, for instance, projects an increase in the poverty rate of 6.3 percentage points, after accounting for the mitigating impact of both remittances and government support measures. In other words, an additional 677,000 people could have fallen below the poverty threshold due to a combination of job losses and declining wages. The income loss is highly variable across sectors, disproportionately affecting the trade and hospitality sectors, social services, manufacturing, and construction, where most low- and middle-income workers are concentrated. According to the IDB, as a result of the pandemic's sizable impact on the services sector, the urban and peri-urban areas of the country—where almost half the population is concentrated—are likely to see a greater rise in poverty and inequality than rural areas (see the section on rural-urban poverty). Women appear to have been impacted disproportionally through increased caregiving pressures, a higher incidence of domestic violence, and a retrenchment in earnings (since women tend to be employed in COVID-impacted services, including tourism).

5. Timely government support mitigated the impact on vulnerable households. The **Ministry** of Economy, Planning and Development estimated poverty rates to have increased from 21 percent to 23.4 percent in 2020, indicating that 268,515 people shifted into poverty last year. Government transfers and other forms of social assistance were estimated to have prevented poverty rates from jumping to 29.1 percent, saving 594,745 more people from dropping below the national poverty threshold. Extreme poverty may have increased from 2.7 percent to 5.2 percent, but instead rose to only 3.5 percent, according to the same estimates.

6. Temporary support programs are being gradually merged into a new social assistance program as the economy recovers. The Dominican government's mitigation efforts during the pandemic spanned fiscal, monetary and macro financial measures, with key social programs listed in Table 1. These programs have been gradually phased out and centralized in a social assistance program titled *Supérate*, which aims to lift vulnerable beneficiaries out of poverty by facilitating their transition into the labor market and support their consumption needs with a monthly transfer of RD$1,650 (about US$29). In addition, targeted employment support programs are being considered for tourism sector workers as the employment support program, FASE, is eliminated.[5]

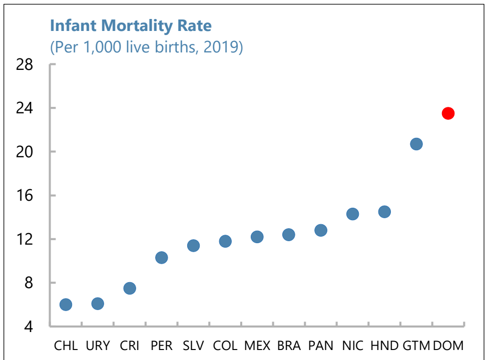
Table A4.1. Social Support Programs to Mitigate the Impact of the Pandemic
(Total impact, April/May - December 2020)

Program	Description	Beneficiaries	Expenditure (million)	Expenditure (% GDP)
Quédate en Casa	Paying RD$5,000 (about US$86) per month to the most vulnerable households, including informal workers, with qualifying low-income families receiving additional transfers of RD$2,000 (about US$35) per month.	1,550,576 households	RD$75,601 US$1,339	1.68
Employee Solidarity Assistance Fund (FASE) I and II	Paying the families of formal workers who were laid off up to 70 percent of last official payroll wages (minimum of RD$5,000 or US$86, up to RD$8,500 or US$145)	846,343 workers	RD$46,585 US$825	1.04
PA´TÍ	Paying independent (informal) workers RD$5,000 (about US$86) a month, with additional allowances for healthcare workers, the military and the police	200,000 workers	RD$7,409 US$131	0.17

Source: Ministry of the Economy, Planning and Development

D. Health

7. The healthcare sector has shown significant improvements. Across a multitude of dimensions, health outcomes improved in the Dominican Republic over the last decade: children's immunization rates have risen dramatically[6], adult mortality rates were slashed nearly in half[7] and the incidence of childhood stunting (a sign of malnutrition) is among the lowest in the region. Also, the recent COVID-19 vaccination campaign has demonstrated the authorities' commitment to public health policy, complete with a transparent communication campaign and commendable vaccine procurement efforts.



Source: World Bank, World Development Indicators.

[5] On May 3, President Abinader announced that a temporary employment support program will protect tourism workers, especially in Puerto Plata and Samaná, which depend heavily on Canadian tourism (which has not resumed yet).

[6] From 23 percent of one-year-olds missing the diphtheria, tetanus and poliomyelitis (DTP) vaccine and 21 percent missing the measles vaccine in 2008 (2010 UNDP Human Development Report) to 1 percent and 4 percent in 2019, respectively.

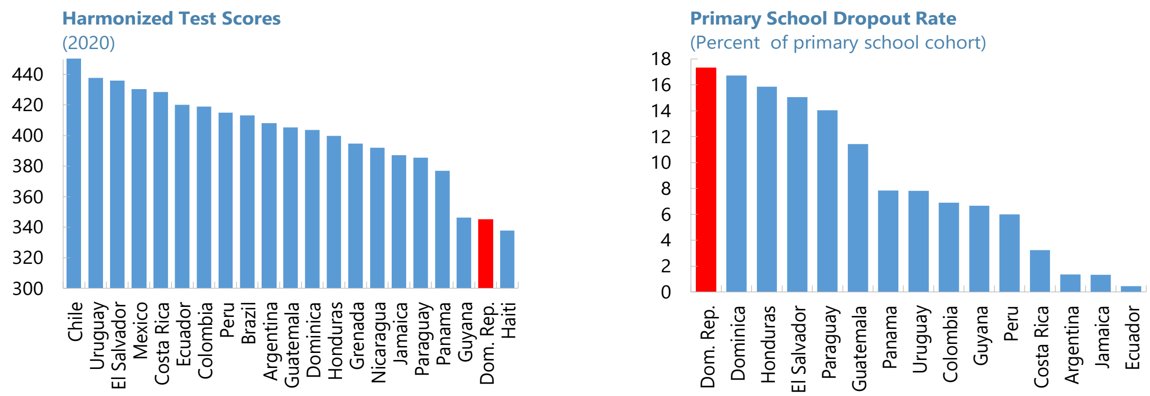
[7] From 212 (female) and 377 (male) per 1000 adults in 2008 (2010 UNDP Human Development Report) to 115 (female) and 197 (male) per 1000 adults in 2019.

8. Notwithstanding this progress, challenges in infant and maternal health remain. Infant mortality rates are fairly high compared to peers, while life expectancy is below the regional average, especially among males. According to the Pan American Health Organization, key healthcare challenges in the Dominican Republic include weaknesses in maternal and infant programs (aimed at reducing mortality rates for children under five and mothers) and broader health insurance coverage to ensure more comprehensive access to healthcare. The latter has improved during the pandemic due to the government's mass enrollment program, with Family Health Insurance coverage increasing from 79 percent of the population in 2019 to 92 percent in October 2020—the system is expected to move into a contributive regime from the subsidized regime as employment prospects and incomes recover. Maternal and infant health issues are addressed by the government program that encourages prenatal screenings (currently, only 38 percent of Dominican women undergo regular prenatal screening throughout pregnancy), but a more comprehensive cross-sectoral policy is needed to advance progress.

E. Education

9. There has been some progress in the area of education in the recent years. The Dominican Republic has improved literacy—illiteracy rate was 7% among the population aged 15 and over in 2015—and increased the coverage and enrollment rates for primary and secondary education. Public spending on education nearly doubled in 2013 (to over 4 percent of GDP, still lower than elsewhere in the region) and an Education Pact was announced in 2014 to address key sectoral challenges in consultation with social partners. Teachers' wages have been increasing over the years to mitigate increasing demands on them (longer teaching days, for instance, along with fuller classrooms) and expected years of schooling are on par with regional averages.

Figure A4.2. Weak Educational Outcomes: School Attainment and Completion



Sources: United Nations Human Development Report 2020 and World Bank Human Capital Index 2020.

10. Academic outcomes, though, remain poor and restrain competitiveness. Dominican students' scores in the Program for International Student Assessment (PISA) are some of the lowest in all disciplines among the 79 participating countries, but especially in mathematics and science, with a smaller proportion of students achieving a minimum level of proficiency in at least one subject compared to other countries. Moreover, the 2018 PISA results demonstrated some retrenchment in academic performance in reading—and to a lesser extent, mathematics—since the previous PISA evaluation in 2015, pointing to the need for enhancing the effectiveness of schooling and addressing the underlying deficiencies in the national education strategy. Dropout rates are also high compared to peers (see Figure A4.2).

11. Several initiatives aim at improving outcomes, but reforms have been slow. Among the promising recent initiatives are (i) surveys of private-sector agencies on the skills required in their operations, spearheaded by the national statistics office, to align university and vocation training curricula with the needs of the economy, and (ii) the expansion of teaching hours from five to eight, aiming at enhancing learning, liberating parents to participate in non-childcare activities, and saving household income as meals are provided to students. While these changes are a few years old, their implementation has been gradual, and their impact on educational outcomes will take time to manifest itself (along with the newly implemented strategies for distance learning). Other policy priorities may include deepening reforms supported by development partners (such as enhancing the quality of training and recruitment for teachers and decentralizing public school management, financed by the World Bank in 2019), leveraging technological solutions where possible, aligning educators' incentives with academic outcomes, upgrading school infrastructure, and promoting community involvement in school readiness.

F. Social Safety Nets

12. Social support appropriately expanded during the pandemic. Redistributive fiscal tools, like conditional cash transfers and unemployment support, are key to poverty reduction and absorbing income shocks during economic downturns. The Dominican government instituted its flagship social intervention program, *Progresando con Solidaridad*, in 2012 to provide targeted subsidies and conditional transfers to eligible beneficiaries, who are mostly women (67 percent). The social support program was expanded during the pandemic both in terms of coverage and transfer amounts, with spending on social benefits rising from 1.3 percent of GDP in 2019 to 4.1 percent of GDP in 2020. These benefits also included employment support programs—since the Dominican Republic has no unemployment insurance scheme, temporary transfers were granted to employers for preventing layoffs (under FASE) and to the self-employed (under Pa'Ti; see Table A4.1).

13. Social programs would benefit from enhanced targeting and efficiency. The Dominican Republic reported some of the highest leakages in targeted spending in the region, indicating the need for better administration and supervision of the social support system.[8] Spending can be rationalized by promoting the use of the Single Beneficiary System (SIUBEN)[9] for better targeting

[8] See *Inequality and Social Discontent: How to Address them through Public Policy* (IDB, 2020).

[9] The Single Beneficiary System (SIUBEN) is being transformed into a Universal Social Registry of Households and a Single Registry of Beneficiaries to promote transparency and improve the targeting of social benefits and the allocation of public resources. This transformation is underpinned by greater use of administrative records and field surveys with a shorter socioeconomic characterization sheet for households. The new household survey will be

(continued)

and institutional coordination, and by gradually removing nonpoor beneficiaries from the recipient list as the economy recovers and incomes stabilize. Developing monitoring procedures can also help in this respect. Improving the efficiency of social spending is especially important in the presence of tightening fiscal space and recent reductions in human resources involved in social program management. Additional consideration should be given to instituting unemployment support (for which there exists a legal basis but no implementation plan) and strengthening pension systems (which lack of coverage due to the high level of labor informality) to act as automatic stabilizers during crises.

14. An improved targeting scheme should aid the planned gradual withdrawal of support. As the pandemic recedes, various temporary benefits are being gradually withdrawn—as reflected in the national budget—with social transfers centralized in *Supérate*. This underscores the need for adequate targeted support to continue—commensurate with the pace of recovery—to prevent retrenchments in consumption support and social wellbeing. Most critically, the timing of support withdrawal needs to be carefully assessed to avoid premature disruptions in social assistance.

G. Gender

15. Gender inequality is high, and health-related issues are prevalent. The UNDP Gender Inequality Index in the Dominican Republic is among the highest in the region, behind only Haiti, Guatemala and Guyana. While the country performs better than many regional peers on political representation, with 24 percent of Dominican Parliament seats held by women, it shows the highest share of adolescent births in the region and has one of the highest maternal mortality ratios (see Figure A4.3), which points to weaknesses in preventive care, health education and access to contraceptives. Adolescent births—along with limited childcare options, the burden of domestic caregiving responsibilities and various forms of gender stereotyping—in turn limit women's education level, lifetime earning potential, labor force participation, and access to financial services, reducing the country's productive capacity. At the same time, occupational segregation[10] contributes to women facing lower wages and greater employment vulnerability.

16. The effectiveness of existing legal protections needs improvement. While the **Dominican** Republic's legal framework has a series of laws and provisions that protect women from discrimination and safeguard their civil capacity as mothers and wives, the effectiveness of these provisions is variable, especially when it comes to "family violence". Reportedly, these cases are frequently dismissed by law enforcement, and don't provide full protection to victims even when prosecuted. For example, in cases where domestic abuse is reported and injuries are healed within 10 days, the assailant is released on bail, jeopardizing the victim.

---

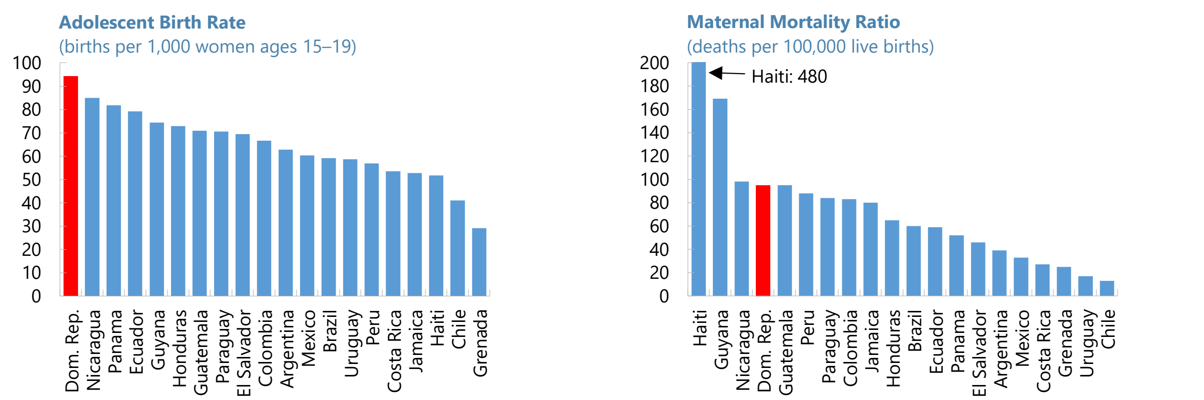
launched in June 2021, and the results will be cross-checked with other datasets on vulnerable households and transfer recipients.

[10] The propensity for gender-based employment. Specifically, women tend to be employed in care sectors such as health, education, and domestic services. In the Dominican Republic, women are mostly employed in the service sector (90%), predominantly in health services (77%), education (67%), tourism (59%), and others (69%), with a high proportion of them being self-employed (25%) or working in domestic service (13%).

17. Gender equality is not only desirable as a moral objective but essential for economic prosperity. While all the above mentioned issues are not uncommon among developing economies and other countries in the region, public policy interventions aimed at removing the barriers to women's wellbeing will unlock the country's long-term growth potential, enhance productivity, foster equality and inclusivity, and may spearhead social and cultural change beyond its borders.

18. The policy agenda must be broad-based. Stricter enforcement of existing laws, access to health and childcare, and workplace regulations (allowing for flexible hours and part-time work, for example) may be a good starting point. Current initiatives spearheaded by the Ministry of Women include providing comprehensive care to violence victims (expanding prevention programs and increasing the number of women's shelters from 3 to 12); special programs to support female entrepreneurs and provide subsidized housing to women (with additional subsidies if they are single mothers and low-income); modifications to the procurement law to include state suppliers that are female-led SMEs; and revisions to the Civil Code to protect women from gender-based, economic and political violence. In addition, the authorities are promoting the Gender Equality Seal (developed by UNDP), which is a voluntary certification process—requiring about 18 months to complete—for businesses and organizations to demonstrate that they enforce equality of opportunity (and equal benefits and pay). To address adolescent pregnancies and high maternal mortality, the authorities (i) prioritized 21 municipalities where the adolescent birth rate is highest in the country, (ii) are drafting legal amendments to eliminate the authorizations for child marriage and permit preventive abortions (specifically, in three exceptional cases: pregnancy resulting from rape/incest, elevated maternal health risk, and non-viable fetus), and (iv) developed a strategy to update the health service protocols and prenatal screenings, and to educate the community about pregnancy risks.

Figure A4.3. Health-Related Barriers to Women's Quality of Life



Source: United Nations Human Development Report 2020.

H. Rural-Urban Poverty

19. Making the distinction between rural and urban poverty is critical for targeted policy action as their root causes and associated policy response are different. The urban poor often lack adequate housing, sanitation and employment, while the rural poor suffer from lack of connectivity, access to services, nonfarm employment and technology to enhance agricultural productivity. Both, however, are highly vulnerable to climate change and natural disasters: in the cities, extreme weather events affect people living in precarious housing and can lead to substantial damages and loss of life, exacerbated by high population density, while in the countryside climate change threatens those Dominicans whose livelihoods are dependent on agriculture by causing crop and income losses.

20. There is more poverty in the countryside, but the pandemic affected the urban population more adversely. About 82 percent of the Dominican population is estimated to live in an urban setting, very close to the Latin America and the Caribbean average. Acevedo et al. estimate that of the total population transitioning from middle class to vulnerable and from vulnerable to poor due to the pandemic, up to three-fourths may reside in urban areas, indicating a greater impact of COVID-19 on vulnerability and poverty in Dominican cities[11]. Official statistics on monetary poverty confirm these findings by reporting an increase in the urban general poverty rate to 23.2 percent in 2020 (from 20 percent in 2019) and a reduction in the rural general poverty rate to 24 percent (from 25.4 percent in 2019). This effect was due to a higher incidence of job losses in cities, where real household income dropped by 12.7 percent compared to 2019, whereas the income decline in rural zones was more modest—approximately 1.5 percent. Social transfers had a larger mitigating impact on the rural poor than the urban poor, attenuating income losses more substantially, along with more pronounced remittance support[12]. However, despite the increase in general poverty rates in urban areas and a decrease in rural areas, the share of Dominicans living below the poverty threshold remains more elevated in the countryside than in cities. Migrant workers often reside in the countryside and face income and food insecurity amid limited sources of nonfarm income, a lack of access to financial products, and a narrow skill set.

21. Policy solutions to poverty reduction are multipronged. Policy action should be aided by the efforts to centralize the beneficiary system (SIUBEN), modernize the labor code and adapt to natural disaster risks. However, targeted efforts are needed to assist the rural poor in expanding their skill set and education (including on strategies to improve agricultural yields) and enhancing physical and digital connectivity to markets, while improving the safety of the urban poor as well as their training and job opportunities.

I. Climate

22. Climate vulnerability is high. According to the Global Climate Risk Index, the Dominican Republic is the eleventh country on the planet most vulnerable to extreme weather events derived from climate change (GCRI 2017). Estimated annual damages from various natural disasters between 1950 and 2014 amounted to around 0.5 percent of GDP in the Dominican Republic which, under

[11] Similarly, the authorities' report on the impact of the pandemic "COVID-19 Bajo la Lupa" estimates that the poverty headcount rose more sharply in cities in 2020. For example, in Q2-2020 *extreme* poverty rates rose by 3 percentage points (y/y) in urban areas, to 5.3 percent, while remaining unchanged in rural areas, at 4.4 percent. At the same time, the *general* poverty rate rose by 7.9 percentage points to 27.8 percent in cities while actually declining somewhat in rural areas, by 0.8 percentage points, to 25.9 percent, relative to Q2-2019.

[12] *Boletín Estadisticas Oficiales De Pobreza Monetaria 2020*.

different climate change scenarios, may increase to between 0.6 and 0.8 percent of GDP going forward (Acevedo 2016). The authorities have demonstrated their understanding of the climate risks by launching a robust Nationally Determined Contribution action plan (NDC-2020) which spans 37 adaptation and 42 mitigation policy options.

- ***Adaptation policies.*** Climate change adaptation policies are critical to long-term sustainable development. In NDC-2020, the authorities prioritize policy options in seven areas: water security, food security, health, resilient cities, ecosystems, coastal-marine resources, and tourism. Additional policy guidelines are listed in the National Climate Action Plan, which prioritizes watershed management, sustainable agriculture and coastal area management, increasing energy efficiency, introducing nonconventional energy sources, and deploying cleaner transportation alternatives. Longer-term adaptation strategies, spanning green infrastructure investment, coastal use and sustainable agriculture, are also being designed with support from development partners.

- ***Mitigation policies.*** Although the Dominican Republic's contribution to global greenhouse emissions is low (about 0.06 percent of the global total), the country committed to reducing these emissions by 27 percent by 2030, supported by various development partners including the World Bank, the French Development Agency, Global Water Partnership, Nature Conservancy, and the United Nations Development Program. The plan for emission reduction spans key contributing sectors – energy, transportation, agriculture and waste management and relies on local private sector support. This initiative draws on existing efforts in environmental policy. For example, by 2015, the Dominican Republic had reduced the consumption of substances that deplete the ozone layer by 16 percent, surpassing its goal of 10 percent in the Montreal Protocol. Going forward, the authorities identified priority action areas to include: (i) better statistics and indicators that allow the design of effective environmental policies; (ii) improved compliance with existing regulations; (iii) creation of an integrated waste management system, of which the recent governmental initiative called "Dominicana Limpia" is an example; (iv) promotion of a culture of conservation that contributes to changing standards, practices and habits; (v) rebalancing of the energy matrix towards sustainable sources; and (vi) the approval of the draft legal framework including a water law, a territorial ordinance law and a law on integrated waste management. Recently, a proposal was tabled to convert the coal-powered Punta Catalina plant to natural gas and to remove the coal ash it generated from the current dump site, which should advance the emissions reduction agenda and render the power plant area cleaner and safer. In addition, the authorities signed an agreement with the World Bank's Forest Carbon Partnership Facility, which is expected to reduce 5 million tons of forest-related carbon emissions by 2025 by fighting deforestation and forest degradation.

- ***Disaster insurance.*** Financial instruments contributing to disaster preparedness include (i) sovereign self-insurance by building fiscal buffers over time to secure immediate access for emergency financing; (ii) risk-transfer vehicles to capital markets (e.g., catastrophe bonds[13]); and

[13] The issuance of the first Dominican Green Bond was announced on May 3, 2021, in the amount of US$100 million.

(iii) pre-arranged contingent loans[14] from international financial institutions or central banks, which would disburse immediately after disasters (Cebotari and Youssef, 2020). To ensure post-disaster resilience, the country would also benefit from no parametric insurance coverage for disaster risks, and from indemnity insurance coverage for public assets against catastrophe risks (for example, the Dominican Republic is not a member of the Caribbean Catastrophe Risk Insurance Facility but is eligible for participation). This and other pooled insurance schemes can be instrumental in mitigating the economic damages of climate-related events and should be considered (while balancing expected payouts relative to annual premiums). In addition, investing in resilient infrastructure and contingency planning can help reduce adverse impacts of extreme weather events—the authorities intend to operationalize a Directorate of risk management at the Ministry of the Environment to deal with disaster risk management.

- ***Energy policy.*** Electricity consumption continues to be subsidized, representing a drag on the country's fiscal resources. Persistent deficits call for reviewing the electricity tariff structure (which should cover generation, transmission and distribution costs). Recent initiatives point to de-politicizing energy price-setting and diversifying away from hydrocarbons, emphasizing energy efficiency and conservation. These distortionary energy subsidies should be eliminated, with carefully targeted mitigation measures put in place to protect vulnerable population. Carbon taxation, while useful in containing carbon emissions in the long run, is not contemplated by the authorities at this point.

J. Conclusions

23. With many long-standing social issues exacerbated by the COVID-19 pandemic, the soundness and resilience of existing public policies, social support strategies and development targets is being tested in all countries individually and the global community at large. At the same time, the pandemic provides an opportunity to focus and reprioritize development policies, take advantage of new digitization tools to better target and reach vulnerable groups, and develop new initiatives with development partners to comprehensively address the needs of the population. In the Dominican Republic, the pandemic has caused some retrenchment in poverty, especially in urban settings—which was partially offset by a package of mitigating measures introduced by the government—but provided an opportunity to expand health insurance coverage and introduce temporary employment support. Going forward, the gradual withdrawal of temporary income support measures needs to be carefully paced and well targeted. Social support systems need to reduce systemic leakages and improve coordination to remain sustainable while other income-stabilizing mechanisms (such as unemployment insurance) should be considered.

[14] The Dominican Republic had a US$150 million contingent line of credit for disasters and pandemic risks with the World Bank (Development Policy Loan with a Catastrophe Deferred Drawdown Option, Cat DDO) but it was triggered and fully disbursed in March 2020 in the context of the COVID-19 pandemic. The Deferred Drawdown Option formally closed in February 2021. The country still has a parametric contingent line of credit with IDB (US$300 million) which was partially triggered in the context of the COVID-19 pandemic. Along with bonds on local and international markets, the Cat DDO and the IDB parametric contingent line of credit were the main externally sourced financial instruments to face the pandemic. These instruments remain immediately available options in case of adverse natural disaster or health events.

To enhance long-term competitiveness and social stability while unleashing the country's full growth potential, it is important to enhance educational outcomes, maternal and early childhood health programs, and women's economic opportunities. Finally, the Dominican Republic's physical and human resources require protection from natural disaster risks through sound cross-sectoral climate-change adaptation and mitigation policies. The post-pandemic future will likely require a greater degree of regional cooperation, policy transparency and spending efficiency (given the rising debt burden).

References

Acevedo, S. (2016). "Gone with the Wind: Estimating Hurricane Climate Change Costs in the Caribbean." IMF Working Paper WP/16/199, October 2016.

Acevedo, I., Castellani, F., Flores, I., Lotti, G. and Székely, M. (2020). "Implicaciones sociales del Covid-19: estimaciones y alternativas para América Latina y El Caribe." Inter-American Development Bank Technical Note, 2020.

Avvisati, F., Echazarra, A., Givord P. and Schwabe, M. "Programme for International Student Assessment – Results from PISA 2018 Country Note on the Dominican Republic." OECD, 2019.

Cañete Alonso, R. et al. (2020). "COVID-19 Bajo la Lupa: Efectos de la COVID-19 en la pobreza monetaria, la desigualdad y el mercado de trabajo. Análisis de los programas de mitigación." Dirección de Análisis de Pobreza, Desigualdad y Cultura Democrática, Dominican Republic, 2020.

Cebotari, A. and Youssef, K. (2020). "Natural Disaster Insurance for Sovereigns: Issues, Challenges and Optimality" IMF Working Paper WP/20/3, January 2020.

Comision ODS Depublica Dominicana (2018). "Compromisos, Avances y Desafios con el Desarrollo Sostenible: Informe Nacional Voluntario sobre los Objetivos de Desarrollo Sostenible." United Nations Voluntary National Review, June 2018.

Comité Técnico Interinstitucional de Pobreza (2020). "Boletín Estadisticas Oficiales De Pobreza Monetaria 2020 (BOLETÍN N0. 8, AÑO 6)." Dominican Republic, 2020.

Inter-American Development Bank, Gender and Diversity Knowledge Initiative (2020). "What is the labor market like for women in Latin America and the Caribbean?" Inter-American Development Bank, 2020.

Kreft, S., Eckstein, D. and Melchior, I. (2017). "Global Climate Risk Index 2017: Who Suffers Most from Extreme Weather Events? Weather-related Loss Events in 2015 and 1996 to 2015." Germanwatch Briefing Paper, 2017. https://germanwatch.org/sites/default/files/publication/16411.pdf

López Marmolejo, A. and Ruiz-Arranz M. (2020). "Inequality and Social Discontent: How to Address them through Public Policy. Economic Report on Central America, the Dominican Republic, Haiti, Mexico, and Panama." Inter-American Development Bank, 2020.

Organization of American States Inter-American Commission on Human Rights. "Report on the Situation of Human Rights in the Dominican Republic, Chapter X: The Situation of Women in the Dominican Republic." http://www.cidh.org/women/Chapter10.htm

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

June 14, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(in consultation with other departments)

CONTENTS

FUND RELATIONS

(As of April 30, 2021)

Membership Status: Joined: December 28, 1945

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	208.83	100.00
Holdings	1.76	0.84

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				
	2021	2022	2023	2024	2025
Principal			119.35	238.70	119.35
Charges/Interest	3.84	5.12	4.96	2.93	0.57
Total	3.84	5.12	124.31	241.63	119.92

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 Dominican Republic's *de jure* exchange rate arrangement is classified as "managed floating", while the *de facto* exchange rate arrangement is classified as a "crawl-like arrangement". The Dominican Republic maintains an exchange system free of 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 March 12 – 21, 2019. The consultation was concluded by the Executive Board on June 5, 2019. The corresponding report was published in August 2019. The Dominican Republic is on the standard 12-month consultation cycle.

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

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

- **Revenue and Customs Administration**: recent missions have supported the internal tax administration (DGII) in measuring the impact of their reform program on tax compliance as well as developing a post-COVID-19 action plan to reinvigorate collections and compliance and further strengthen their structural reform agenda within the context of their own 2021-24 strategic plan. CAPTAC-DR has assisted the customs administration (DGA) in aligning its strategic plan with new governmental priorities and strengthening its governance arrangements.

- **Public Financial Management**: CAPTAC-DR experts are working with the Treasury to strengthen the cash programming model and active cash management to speed up payments.

- **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 has also underpinned the expected publication of quarterly general government (GG) data in the summer of 2021 (one of the first in the CAPTAC-DR region to do so). 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.

- **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 (e.g., for interest rate risk, liquidity risk and IT supervision). The regulatory reform agenda has however been delayed as a result of the COVID-19 pandemic. Recent TA activities responded to immediate concerns regarding the monitoring and stress-testing of asset quality.

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 Dominica Republic.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

Interamerican 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: https://www.bcie.org/en/member-countries/regional-non-founding-members/dominican-republic/

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.gov.do/

Public debt

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

Balance sheets and income statements

Financial Soundness Indicators

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

Population and social indicators

Producer price index

STATISTICAL ISSUES

(As of May 20, 2021)

I. Assessment of Data Adequacy for Surveillance
General: Data provision is broadly adequate for surveillance. Most macroeconomic statistics are compiled by the Central Bank of the Dominican Republic, with the National Statistics Office producing underlying surveys and the population census. Fiscal data are compiled by the Ministry of Finance.
National Accounts: The Central Bank of the Dominican Republic 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. Current prices and chain-linked volume indices use 2007 as the reference year. 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.
Price Statistics: The concepts and definitions used in the Consumer Price Index (CPI) follow internationally accepted standards. 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. In 2020, the CPI was rebased to October 2019 – September 2020, with weights based on the results of the National Household Income and Expenditure Survey (ENIGH), conducted between January 2018 and January 2019. The National Statistical Office compiles a Producer Price Index for manufacturing (574 products) and services (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 allowing balance sheet analysis of currency and maturity mismatches for depository corporations.

The Central Bank of the Dominican Republic also disseminates its harmonized monetary statistics via its webpage. The Central Bank of the Dominican Republic reports 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 very 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. There is also no data available on real estate markets. FSI data is also available in Dominican Republic's National Summary Data Page.
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). The authorities are encouraged to reduce coverage gaps.
II. Data Standards and Quality
The country has been a e-GDDS participant since November 22, 2005 and implemented the e-GDDS on February 21, 2019 by launching a National Summary Data Page (NSDP). The NSDP reflects updated metadata and other recent methodological improvements.

Table 1. Dominican Republic: Common Indicators Required for Surveillance
(as of May 20, 2021)

	Date of latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	5/19/2021	5/19/2021	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/17/2021	5/19/2021	D	D	D
Reserve/Base Money	5/17/2021	5/19/2021	D	D	D
Broad Money	5/17/2021	5/19/2021	D	D	D
Central Bank Balance Sheet	04/2021	05/2021	M	M	M
Consolidated Balance Sheet of the Banking System	04/2021	05/2021	M	M	M
Interest Rates[2]	5/19/2021	5/19/2021	D	D	D
Consumer Price Index	4/2021	5/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]- General Government[4]	03/2021	04/2021	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	03/2021	4/2021	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q4/2020	2/2021	Q	Q	Q
External Current Account Balance	Q4/2020	4/2021	Q	Q	Q
Exports and Imports of Goods and Services	12/2020	4/2021	M	M	M
GDP/GNP	Q4/2020	4/2021	Q	Q	Q
Gross External Debt	12/2020	4/2021	Q	Q	Q
International Investment Position[6]	12/2020	4/2021	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, Executive Director and Mr. Fuentes,
Alternate Executive Director on the Dominican Republic
June 30, 2021

On behalf of our Dominican authorities, we thank Mr. Vesperoni and his team for the productive engagement, as well as Management and the Executive Board for the timely financial support provided last year under the Rapid Financing Instrument (RFI). The authorities welcome staff's thorough analysis and invaluable policy recommendations during this Article IV consultation, as they continue to safeguard lives and livelihoods of the Dominican people and support economic recovery amid unprecedented challenges posed by the COVID-19 pandemic.

Recent developments and outlook

Updated projections indicate that growth could reach between 7.0 and 8.0 percent in 2021. The recovery is well underway despite heightened uncertainty. After a real GDP contraction of 6.7 percent in 2020, the monthly indicator of economic activity (IMAE) registered a year-on-year growth of 47.1 percent in April 2021. This sharp expansion was primarily driven by a strong performance in construction activities, tourism, and mining. The accommodative monetary and financial policies fostered by the Central Bank have provided liquidity facilities of about 5 percent of GDP to bolster credit growth, allowing the private sector to resume capital expenditure projects and launch new ones. Similarly, the government continues to support vulnerable families and displaced workers and is expected to start several infrastructure projects during the second half of the year.

An effective vaccination rollout is bolstering the surge in economic activity. By early January, the authorities secured enough doses from Sinovac, Pfizer and AstraZeneca (via Covax) to immunize the entire population. As of June 23, 66.8 percent of the adult population has received at least one dose of a COVID-19 vaccine, and 37.4 percent have been fully vaccinated. As the authorities pursue in their goal to immunize 70 percent of the population by September 2021, they continue to overcome logistical challenges and implement a transparent procurement process.

The external position remains in line with fundamentals as tourism steadily recovers. As global travel restrictions are gradually lifted, the recovery of the tourism industry continued in May 2021, with over 390 thousand nonresident arrivals. This figure represented three-quarters of May 2019 total visitors, extending a sustained upward trend thatstarted in January. Growth in tourism receipts is expected to accelerate during the second halfof 2021, as vaccine rollouts move forward in the US, Canada, and Europe. Concurrently, the strong performance of remittances inflows, growing by 60.5 percent (year-on-year) during January-May 2021, helped to partially offset weak tourism activity and higher oil prices. These developments continue to support a favorable external position and maintain a current account deficit around 1½ percent of GDP in 2021.

Inflation is expected to return to the target range in the last quarter of 2021. Inflation reached 10.5 percent in May, primarily driven by a temporary statistical rebound reflecting a low comparison base as monthly CPI inflation was negative between February and May 2020. This effect is expected to dissipate gradually after June and inflation should converge back to the 3-5 percent target range. Concurrently, as international oil pricescontinue to rise, imported price pressures have intensified. Nonetheless, as supply-side shocks dissipate during the second half of the year, more favorable market conditions should expedite inflation's convergence.

Fiscal policy

The fiscal response to mitigate the widespread socioeconomic impact of thepandemic was timely and decisive. The emergency package amounted to 3.3 percent of GDP, including assistance to 1.5 million vulnerable households, social transfers to assist the unemployed and independent workers, and tax deferrals to households and firms. As a result, public expenditures experienced a significant increase. Moreover, tax collections plummeted induced by a combination of the sharp contraction in economic activity and tax relief measures. The combined effect of higher spending and lower revenue led the fiscal deficit to increase to 7.9 percent of GDP in 2020, resulting in a sizeable increase in public debt.

Policy support has become better targeted within a more balanced fiscal approach. Through April 2021, fiscal policy was characterized by more moderate expenditure growth and tax revenues above target, as domestic demand continues to recover. Careful budget execution has managed to reduce financing needs by controlling non-priority spending while maintaining emergency support to the health system and assistance to low- income families and firms in the tourism sector. Considering the heightened uncertainty inthe near-term outlook, the authorities stand ready to boost social and health spending beyond budgeted amounts, if necessary. Plans for the second half of 2021 feature several public infrastructure projects under the public-private partnerships that will contribute to boost growth prospects. Overall, fiscal performance remains consistent with the 3.0 percent of GDP target deficit set in the National Budget for 2021.

The authorities are fully committed to strengthening fiscal sustainability and public financial management. President Luis Abinader's administration has placed strong emphasis on strengthening procurement, transparency, and accountability in budget management. The authorities concur with staff on the importance of introducing a fiscal responsibility legislation in connection with a credible medium-term fiscal framework to anchor policy objectives, enhance public financial management and strengthen debt sustainability. In the meantime, they continue to build consensus around a comprehensive fiscal reform to expand the tax base, streamline exemptions, and reduce tax evasion that is planned to be implemented once the recovery is more entrenched. They recognize the benefits of carefully sequencing reforms to the fiscal policy framework in a manner that yields some early payoffs and achieve medium-term fiscal objectives.

Monetary policy and financial stability

Monetary policy has played a critical role in accommodating the pandemic shockand preserving macroeconomic stability. The Central Bank has provided monetary stimulus by reducing the policy interest rate and implementing a comprehensive plan to supply liquidity and support credit growth. The liquidity provision program established in March 2020 has channeled DOP 215 billion (approximately 5 percent of GDP) through repurchase agreements, the reduction in legal reserve requirements and the Rapid Liquidity Facility. These measures have been successful in lowering interest rates to businesses and households and maintain credit growth, which expanded 9.2 percent (year-on-year) in April. Over DOP 192 billion in new credit, refinanced loans, and debt restructuring schemes have been provided to households, as well as SMEs and other firms primarily operating in the retail, manufacturing, and construction sectors.

The monetary authorities will maintain support until the crisis abates, while ensuring inflation convergence. The monetary policy stance is expected to remain accommodative until the recovery takes hold and the impact of pandemic on the economy is mitigated. The Central Bank currently maintains the monetary policy rate at record-low levels and will continue to monitor inflation closely as it converges back to target. Nonetheless, the authorities understand the near-term outlook is still clouded by high uncertainty and believe their solid international reserves position, equivalent to 15 percent of GDP or 7.5 months of imports, provide ample external buffers to avoid disorderly conditions in the foreign exchange market as the tourism sector regains its footing.

The exchange rate has been operating as a necessary and effective shock absorber. The pandemic shock generated an unprecedented contraction in world travel, drastically reducing foreign exchange inflows in tourism-dependent countries. Under these circumstances, the Central Bank used foreign exchange interventions to provide liquidity to the market and avoid excess volatility. Nonetheless, the monetary authorities have allowed the exchange rate to continue playing its role as a shock absorber and the real exchange rate remained broadly in line with fundamentals. The electronic exchange trading platform for foreign exchange has helped increase efficiency, and the Central Bank plans to further increase transparency by communicating intervention rules going forward, as the pandemic recedes. Valuable technical assistance from the Regional Technical Assistance Center CAPTAC-DR supported these efforts.

The financial system remains resilient. Banks are well-capitalized, with adequate liquidity and profitability and are being supported by regulatory flexibilization, lower reserve requirements and other macro-financial measures. The Superintendency of Banks is fully prepared to monitor the exit process from regulatory forbearance supported by a well-designed strategy and a detailed set of supplementary indicators to ensure asset quality transparency, and it is ready to implement targeted measures when necessary. In addition, the authorities are intensively working on strengthening the AML/CFT and consumer protection frameworks, building on a strong technical compliance with FATF recommendations. Over the medium term, the authorities are committed to better aligning financial regulation with international standards and to enhancing regulation and supervision of financial cooperatives.

Structural reforms and governance

The bold structural reform agenda will remain anchored by the National Development Strategy. This framework provides the guidelines to build consensus and establish pacts between the government, the private sector and civil society on education, fiscal, electricity and labor reforms. The education pact, signed into law in 2013, raisedpublic investment in education from 2 percent of GDP to 4 percent of GDP. Initially, the emphasis was on education infrastructure, now the focus has shifted towards addressing weaknesses in education quality, skill gaps, and teachers' human capital. Similarly, after years of intense negotiations, the electricity pact was finally signed in February 2021, establishing a clear roadmap for modernization and reform. Regarding the rest of the reform agenda, the authorities expect to resume discussions on the fiscal pact and labor and social security reforms when the crisis abates and are currently engaged in the implementation of multiple initiatives to improve the business climate. Finally, the government considers climate change as a macro-critical issue and is working on a comprehensive strategy to boost climate resilience by reducing emissions and enhancing natural resources management.

Implementing the electricity sector reform is a top priority for the government. The National Pact for the Reform of the Electricity Sector laid out the guidelines to strengthen the transparency, efficiency, and institutional framework of the sector, through regulatory and structural renewal of the existing legal and operational framework. Accordingly, the state holding company CDEEE is now undergoing a liquidationprocess to improve sector's governance and promote more private sector participation. Authorities are also focused on bolstering generation efficiency and easing pressures topublic finances. Therefore, the power generation matrix continues to diversify away from oil and in favor of renewable sources of energy to reduce environmental pollution and promote technological innovation.

The authorities are fully committed to continue strengthening governance and the rule of law. President Abinader has appointed an independent attorney general and strengthened the legal and operational capacity of the justice system. As a result, anti- corruption investigations have strengthened, forcefully pursuing allegations against former and current high-level officials. According to the 2021 Capacity to Combat Corruption(CCC) Index published by the Americas Society/Council of the Americas, the Dominican Republic had by far the greatest score improvement, reflecting a significant progress in the country's effectiveness to fight corruption. In addition, the creation of the Cabinet for Transparency, Prevention, and Control of Public Expenditures has effectively supported inter-institutional coordination on governance issues.