INTERNATIONAL MONETARY FUND

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DOMINICAN REPUBLIC

2024 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

September 2024

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 2024 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on July 23, 2024, with the officials of the Dominican Republic on the Article IV Consultation. Based on information available at the time of these discussions, the staff report was completed on August 22, 2024.
- An **Informational Annex** prepared by the IMF staff.

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

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PRESS RELEASE

PR 24/323

IMF Executive Board Concludes 2024 Article IV Consultation with Dominican Republic

FOR IMMEDIATE RELEASE

Washington, DC – September 11, 2024: On September 10, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Dominican Republic and considered and endorsed the staff appraisal without a meeting.[2]

A track record of sound policies and institutional policy frameworks has helped the Dominican Republic achieve robust and resilient economic growth and low inflation over the last two decades. Effective policies contributed to a growth moderation that appropriately supported inflation's rapid and sustained return to its target last year and then aided the recovery, while close monitoring of the financial sector supported macro-financial stability. Planned enhancements to policy frameworks and deepening structural reforms—in particular, comprehensive fiscal and electricity reforms—have the potential to further support stability, competitiveness, and inclusive growth.

Following a strong post-pandemic recovery, economic growth slowed to 2.4 percent in 2023 due to tighter global and domestic financial conditions, weak export demand, and transient domestic factors, largely climate related. The growth slowdown, alongside lower commodity prices, drove inflation's faster-than-expected convergence to its target range (4±1 percent). In response, the Central Bank of The Dominican Republic (BCRD) cautiously and appropriately reduced its key policy rate, allowing for greater exchange rate flexibility while increasing foreign exchange interventions to smooth daily exchange volatility. Fiscal policy was also prudently adjusted to support the economy. The current account deficit in 2023 narrowed markedly to 3.6 percent of GDP and was fully financed by foreign direct investment (FDI) flows. The financial sector weathered the period of tight monetary policy and slower growth and is adequately capitalized and profitable.

Supported by sound policies and macroeconomic fundamentals, the outlook is favorable despite elevated, mostly global, uncertainty. For 2024 and over the medium term, real GDP growth is projected around its long-term trend of 5 percent, with inflation around its 4 percent target. The current account deficit is projected to gradually narrow to less than 3 percent of GDP and continue being fully financed by FDI. Near-term risks to the outlook—including tighter global financial conditions, geopolitical tensions, and volatile commodity prices—have moderated since last year but remain elevated and tilted to the downside. Over the medium-

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

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

term risks are more balanced and include upside risks if key domestic reforms are implemented successfully.

Executive Board Assessment

In concluding the 2024 Article IV Consultation with the Dominican Republic, Executive Directors endorsed staff's appraisal, as follows:

A track record of sound policies and institutional policy frameworks has helped the Dominican Republic achieve robust and resilient economic growth and low inflation over the last two decades. Effective policies contributed to a growth moderation that appropriately supported inflation's rapid and sustained return to its target in 2023. The authorities provided timely policy support to aid the recovery while monitoring closely the financial sector. The external position improved significantly in 2023 and was broadly in line with fundamentals and desirable policies.

The outlook is favorable despite elevated—mostly global—uncertainty. Real GDP growth is projected around its long-term trend of 5 percent in 2024 and thereafter, with inflation around its (4±1 percent) target. The current account deficit, expected to be fully financed by FDI, is projected to gradually narrow over the medium term. Downside risks dominate in the near-term term—including tighter for longer monetary policy in the U.S., intensification of regional conflicts, or extreme local weather events—but are broadly balanced over the medium term, including upside risks if reforms are successfully implemented. Existing buffers, further contingency planning, and agile sound policy making can help face adverse shocks.

In the near term, policy priorities should remain focused on maintaining macroeconomic and financial stability, including further flexibility of the exchange rate. Monetary policy normalization can continue, given remaining economic slack and that inflation is firmly within the target range. Efforts to expedite the recapitalization of the central bank to reinforce its autonomy should remain a priority. Endeavors should continue to deepen the FX market, expand the use of hedging mechanisms and limit FXIs to large shocks that lead to destabilizing changes in hedging and financing premia to support further exchange rate flexibility, and therefore further enhance the effectiveness of the inflation targeting framework. While international reserves are broadly adequate based on traditional metrics, further reserve accumulation is necessary to increase buffers to deal with future shocks.

Fiscal policy should remain focused on rebuilding buffers and critical spending needs. The fiscal responsibility law and its planned implementation are welcomed and are important steps to better anchor medium-term policies and further secure debt sustainability. The authorities' planned gradual fiscal consolidation, consistent with this law, is appropriate to place debt on a firmly downward path and build fiscal buffers. An integral fiscal reform that durably raises revenues—through elimination of tax exemptions and expansion of the tax base—and improves spending efficiency—especially by reducing electricity sector subsidies and untargeted transfers—is imperative. This can provide space for needed development spending (including disaster-resilient infrastructure) to promote inclusive growth.

The financial sector remains resilient and well capitalized, and efforts to bring the regulatory framework up to the latest international standards should continue. The sector weathered well the period of high interest rates and slower growth in 2023. Stress tests show that the banking sector can absorb a range of shocks. Continued close monitoring to contain any build-up of vulnerabilities remains warranted amid higher for longer interest rates and past increases to credit growth. The modernization of the financial and prudential regulatory framework, alongside the expansion of the macroprudential toolkit, and closing regulatory/supervisory gaps (including for savings and loans cooperatives) will further increase financial sector resilience.

Ongoing efforts to improve public institutions and the business climate are essential to maintaining the strong investment and growth trajectory. The fiscal policy framework, and spending and revenue efficiency can be further enhanced by continued improvements to public financial management and further strengthening of revenue administration. Reforms to education and the labor market, alongside further improvements to social outcomes and implementation of climate adaptation and mitigation policies will be critical to support inclusive and resilient growth and continue to reduce vulnerabilities. The authorities should continue in their efforts to fully implement the Electricity Pact.

Dominican Republic: Selected Economic Indicators

Population (millions, 2023)	10.7	GDP per capita (2023, U.S. dollars)	11,372
Quota	477.4 million SDRs / 0.10% of total	Poverty (2021, share of population)	23.9
Main exports	tourism, gold, tobacco	Unemployment rate (2023, percent)	5.3
Key export markets	U.S., Canada, Haiti	Adult literacy rate (percent, 2022)	95.5

						Projection	
	2019	2020	2021	2022	2023	2024	2025
Output	(Annual percentage change, unless otherwise stated)						
Real GDP	5.1	-6.7	12.3	4.9	2.4	5.1	5.0
Nominal GDP (RD$ billion)	4,562	4,457	5,393	6,261	6,820	7,453	8,149
Nominal GDP (US$ billion)	89.0	78.9	94.5	113.9	121.8	...	...
Output gap (in percent of potential output)	-0.5	-6.3	-1.9	-0.8	-1.7	-0.8	-0.5
Prices							
Consumer price inflation (end of period)	3.7	5.6	8.5	7.8	3.6	3.7	4.0
Exchange Rate							
Exchange rate (RD$/US$ - period average) 1/	51.2	56.5	57.1	55.0	56.0	...	...
Exchange rate (RD$/US$ - eop) 1/	52.9	58.2	57.3	56.2	58.0	...	...
Real effective exchange rate (eop, - depreciation) 1/	-3.2	-8.1	6.5	6.3	-1.9	-2.9	0.0
Government Finances	(In percent of GDP)						
Consolidated public sector debt 2/	53.3	71.1	62.2	58.8	59.3	58.4	57.4
Consolidated public sector overall balance 2/	-3.3	-9.0	-3.7	-3.6	-4.0	-4.0	-3.8
Consolidated public sector primary balance	0.5	-4.2	0.7	0.0	0.4	0.7	0.7
NFPS balance	-2.3	-7.6	-2.5	-2.7	-3.1	-3.1	-3.1
Central government balance	-3.5	-7.9	-2.9	-3.2	-3.3	-3.1	-3.1
Revenues and grants	14.4	14.2	15.6	15.3	15.7	16.3	15.2
Primary spending	15.1	18.9	15.4	15.7	15.8	15.9	14.8
Interest expenditure	2.7	3.2	3.1	2.8	3.1	3.4	3.5
Rest of NFPS	1.1	0.3	0.4	0.6	0.2	0.0	0.0
Financial Sector	(Annual percentage change; unless otherwise stated)						
Broad money (M3)	11.7	21.2	13.4	6.3	14.3	11.5	10.7
Credit to the private sector	11.8	5.3	11.6	16.6	19.6	15.8	11.5
Net domestic assets of the banking system	8.6	2.5	11.5	9.7	13.1	13.5	10.1
Policy interest rate (in percent) 1/	4.5	3.0	3.5	8.5	7.0	...	...
Average bank deposit rate (1-year; in percent) 1/	6.7	3.1	2.3	9.9	8.6	...	...
Average bank lending rate (1-year; in percent) 1/	12.4	9.9	9.2	13.5	13.6	...	...
Balance of Payments	(In percent of GDP)						
Current account	-1.3	-1.7	-2.8	-5.8	-3.6	-3.4	-3.4
Goods, net	-10.2	-8.6	-12.5	-15.1	-13.0	-12.9	-12.7
Services, net	5.7	1.8	3.9	4.8	6.0	6.6	6.5
Income, net	3.2	5.2	5.7	4.5	3.5	2.9	2.7
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 3/	3.6	5.3	5.7	6.7	5.1	3.5	4.3
Foreign direct investment, net	3.4	3.2	3.4	3.6	3.6	3.5	3.5
Portfolio investment, net	2.4	7.1	2.2	2.9	2.0	1.5	1.3
Financial derivatives, net	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment, net	-2.3	-5.1	0.1	0.2	-0.5	-1.5	-0.5
Change in reserves (-increase)	-1.3	-2.5	-2.4	-1.3	-0.9	-0.2	-0.9
GIR (in millions of US dollars)	8,782	10,752	12,943	14,441	15,464	15,660	16,883
Total external debt (in percent of GDP)	41.9	56.3	48.6	40.5	43.3	43.5	42.5
of which: Consolidated public sector	27.3	40.3	35.6	33.2	33.9	32.9	32.2

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

1/ Latest available.

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

3/ Excluding reserves.

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

August 22, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

KEY ISSUES

Context. The Dominican Republic has grown strongly over the last two decades supported by political and social stability and a sustained track record of strong policies and strengthened institutional policy frameworks. The next term of government affords the opportunity to further advance and update ambitious reforms, including to tackle low levels of tax revenues, high electricity sector subsidies and climate change challenges.

Recent Developments. The economy is rebounding from a moderate cyclical slowdown, with inflation back to its 4±1 percent target earlier than anticipated following decisive monetary tightening and fiscal measures to mitigate price shocks. The current account deficit narrowed, and reserves reached a historical high at end-2023. Since May 2023 the monetary policy rate has been reduced and liquidity measures deployed to support a credit expansion, with additional public capital spending also assisting the growth rebound. The nonfinancial public sector deficit and debt ratios are reversing after a slight increase in 2023. The financial sector weathered well the period of tight monetary policy and slower growth and is well capitalized and profitable.

Outlook and Risks. The economy is expected to grow around its long-term trend of 5 percent in 2024 and thereafter. Inflation is projected to remain around target, with monetary policy gradually returning to a neutral stance. External accounts are broadly in line with fundamentals and desirable policies and are projected to improve further, fully financed by FDI. Public debt remains sustainable, supported by a gradual fiscal consolidation in the medium-term that is reinforced by a Fiscal Responsibility Law. Macro-financial vulnerabilities and systemic risk remain limited. Risks to the outlook have receded, although are still tilted to the downside in the short-term.

Key Policy Advice. Near-term policies should prudently close the output gap, build buffers, and contain vulnerabilities. With core inflation at target, monetary policy normalization should gradually continue while liquidity and foreign exchange interventions be conditioned on smoothing large shocks and reserves aligned with reaching the 100 percent adequacy metric. Fiscal consolidation and reducing electricity subsidies remain essential to fiscal sustainability. A tax reform would help efforts to build fiscal space while supporting the development agenda. Bringing the financial regulatory framework to the latest standards would further support resilience and stability. Medium-term structural policies should continue emphasizing increased efficiency and resilience—enhancing the business environment, electricity sector, labor force and social safety net—which could deliver strong and inclusive growth. Strengthening the framework to address climate change is increasingly critical.

Approved By
Patricia Alonso-Gamo (WHD) and Pritha Mitra (SPR)

Discussions took place in Santo Domingo during July 10-23, 2024. A staff team comprised Emilio Fernandez-Corugedo (head), Pamela Madrid Angers, Manuel Rosales Torres, Diego Calderon, Ilya Stepanov (all WHD), and Marco Barzanti (MCM). Alejandro Fiorito Baratas (WHD) contributed extensively to the report and Eliana Porras Herrera (WHD) provided editorial support. Afonso Bevilaqua (OED) participated in the opening meeting and Frank Fuentes (OED) participated in the discussions.

The team met with Central Bank Governor Hector Valdez, Minister of Finance Jose Manuel Vicente, Superintendent of Banks Alejandro Fernandez, other senior officials and representatives of the civil society and private sector.

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CONTEXT

1. The Dominican Republic (DR) has a history of dynamic, resilient growth supported by a track record of sound macroeconomic policies and enhanced policy frameworks. Since the 2003 banking crisis, the authorities have adopted strong measures to stabilize the economy and enhance macroeconomic frameworks, including adopting inflation targeting (IT) and developing a medium-term fiscal framework. In response, the DR economy has been dynamic and resilient, averaging 5 percent growth over the last two decades, with low inflation, increasing international reserves, moderate public debt levels, a stable financial sector, and good access to international markets. These strong fundamentals have helped the DR navigate an uncertain and volatile global environment and allowed poverty to decrease, with inequality among the lowest in Latin America. In that regard, sound policies brought inflation swiftly and durably back to its target in 2023. To further enhance their policy frameworks, the authorities enacted a fiscal responsibility law (FRL), in July 2024 (Annex IX).

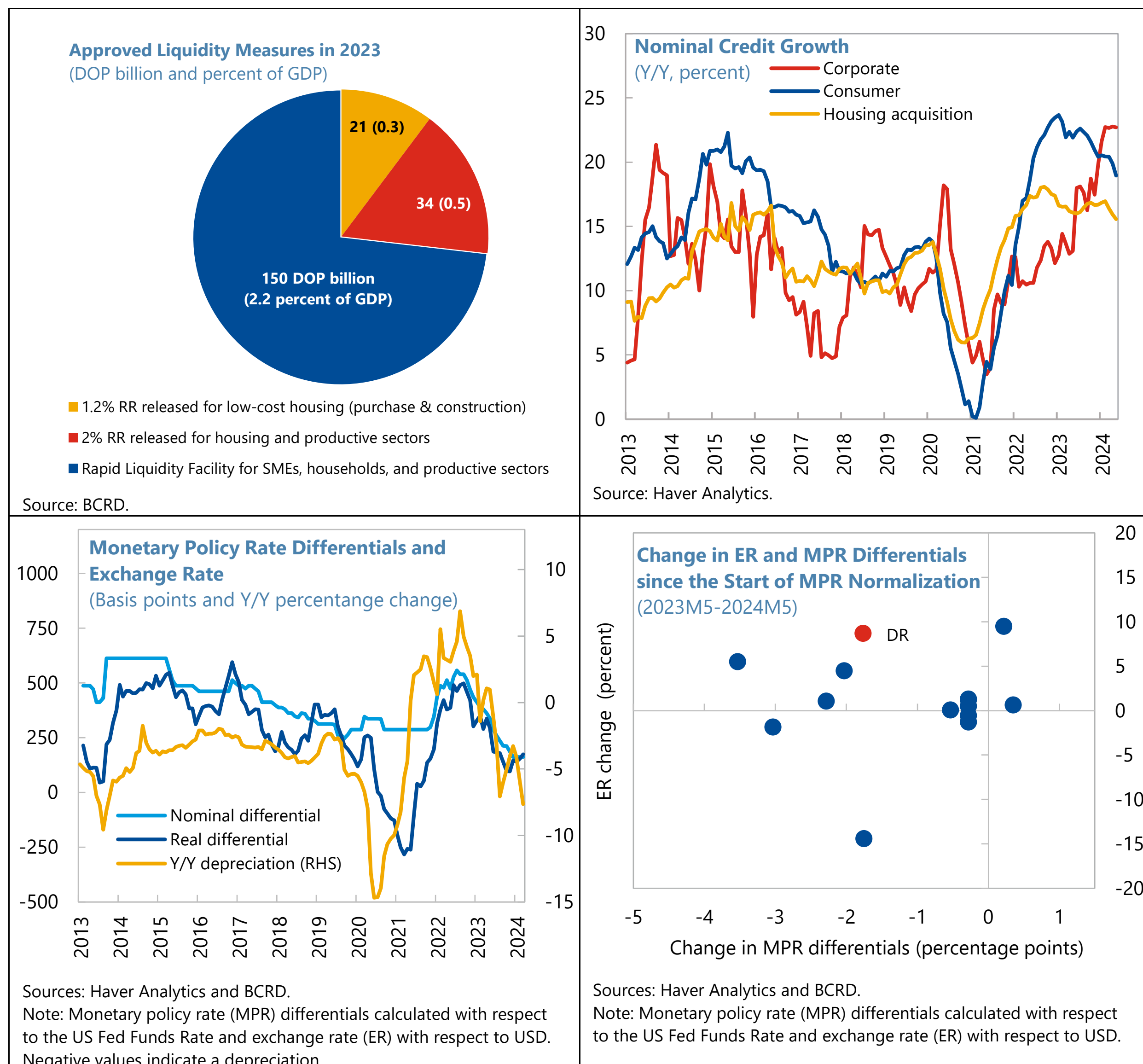
2. A renewed political mandate provides a unique opportunity to advance and update an ambitious reform agenda. The authorities remain committed to maintaining macroeconomic and financial stability, rebuilding fiscal and external buffers, further strengthening public institutions, governance, and improving the country's competitiveness. Slowing working age population growth and high vulnerability to natural disasters call for continued reforms to increase productivity, female labor force participation (FLFP), and infrastructure resilience to support strong and inclusive growth. This requires further strengthening policy frameworks (including to tackle climate change), reducing inefficiencies (particularly in electricity distribution), and additional fiscal resources to support the country's development agenda.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. The economy has rebounded from a moderate cyclical slowdown while inflation remains around target (Annex VI). Growth slowed in 2023 largely due to tight financial conditions, weaker export demand and transient idiosyncratic factors. The slowdown was short lived as domestic demand rebounded in 2023H2 led by industry and services on the production side and investment and private consumption on the demand side. The labor market remained robust (5.3 percent unemployment, employment reaching pre-pandemic levels led by an expansion in the formal sector, and higher real hourly wages, around 9½ percent). Between January and June 2024, annual GDP growth (versus same period in 2023) averaged 5.1 percent. Lower domestic demand and favorable food and energy price dynamics drove inflation's faster-than-expected convergence to its target range (4 percent ±1pp) in 2023. Despite increasing real wages, inflationary pressures remain contained: since February 2024, headline inflation has remained slightly below the 4 percent inflation target while core has remained at 4.0 percent (Figure 4).

4. Cautious monetary policy rate (MPR) normalization was supplemented with temporary liquidity measures to support the monetary transmission. With inflation's earlier-than-anticipated return to target following decisive monetary tightening in 2021-22 and the ensuing

growth slowdown, the central bank (BCRD) gradually reduced its MPR from 8.5 percent in May 2023 to 7.0 percent in November 2023. The BCRD also approved temporary liquidity measures to accelerate the policy transmission mechanism (given expiring COVID-19 liquidity measures). With MPR differentials versus the US Fed Funds rate at multi-decade lows, the exchange rate depreciated by 3.3 percent in 2023—despite a 2.8 appreciation between January-May 2023—and by an additional 2.5 percent between January and July 20, 2024. Against this background, the BCRD deployed Foreign Exchange Interventions (FXIs) to smooth daily frequency exchange rate volatility (Fig. 4) while allowing the exchange rate to depreciate faster than peers. The use of FXIs drained some liquidity from the shallow interbank market, contributing to increased interbank rates and a slowdown in credit growth (¶7). In response, the BCRD has since mid-July extended the maturity of the Repo window from 7 to 28 days, approved a reverse auction for the repurchase of BCRD's securities, and relaxed provision requirements. The authorities have also sought to rebuild foreign reserves following a sovereign bond placement in June (¶6), refraining from FXIs, and allowing more exchange rate flexibility.



5. Fiscal policy prudently adjusted in 2023 to support the economy by increasing the budget deficit to 3.3 percent of GDP while the 2024 budget would limit the deficit to 3.1 percent. Amid lower-than-expected growth, spending was increased—mostly for investments—financed by one-off revenues. Current spending rose mostly due to higher interest expenses, but also to meet policy priorities (e.g., education; health and social benefits; national security reform) and for election-related and disaster expenses. Overall, real primary spending slowed as lower energy prices reduced subsidies while one-off revenues implied a lower structural primary balance.

Budgetary Central Government, Main Accounts
(Percent of GDP,[1/] unless otherwise noted)

	2022 (Actual)	2023 (Initial Budget)	2023 (Supplemental Budget)	2023 (Actual)	2024 (Initial Budget)
Revenue	**15.3**	**15.1**	**15.8**	**15.7**	**16.0**
Tax revenues	13.8	13.9	14.3	14.2	14.1
Other (non-tax) revenues [2/]	1.5	1.2	1.5	1.5	1.9
Expenditure	**18.5**	**18.1**	**19.1**	**19.0**	**19.1**
Expenses	**17.0**	**16.7**	**17.2**	**16.9**	**17.3**
of which: Interest	2.8	3.3	3.2	3.1	3.5
of which: Subsidies	2.1	1.4	1.5	1.5	1.5
Net acquisition of nonfinancial assets	**1.7**	**1.4**	**1.8**	**2.1**	**1.8**
Overall CG balance	**-3.2**	**-3.0**	**-3.2**	**-3.3**	**-3.1**
Primary balance	-0.4	0.2	0.0	-0.1	0.4
Memo:					
Current spending	15.9	15.9	16.2	16.1	16.4
Capital spending	2.6	2.3	2.8	2.9	2.7
Real primary spending growth (percent) [3/]	8.4	-1.5	4.5	5.1	3.0
NFPS Structural primary balance	0.2	...	...	-0.5	...
NFPS debt	46.5	...	...	46.7	...
GDP (RD$ bln.)	6,261	6,884	6,869	6,820	7,411

Sources: Ministry of Finance and IMF staff calculations.
1/ Relative to actual or budget forecast.
2/ Includes social security contributions, grants and other non-tax revenues.
3/ For budget columns, growth is relative to budget's inflation forecast.

6. Improving debt dynamics and debt management operations have reduced risks while a green bond issuance was well-received. With a higher deficit, real interest rates, exchange rate depreciation and slower growth, the non-financial public sector (NFPS) debt ratio rose in 2023. Despite external interest rates remaining elevated, lower domestic rates, higher growth and primary balances are supporting a decline in the debt ratio this year. In June, the authorities published their 2024-2028 debt management strategy and green, social and sustainable bond framework. This was followed by a successful US$750 million green bond issuance–financing climate-related projects in electricity, transport, and water sectors–and US$1.8 billion peso-linked issuance to finance the budget and buy-back US$1 billion of bonds maturing in 2025, helping to reprofile debt and reduce risks.

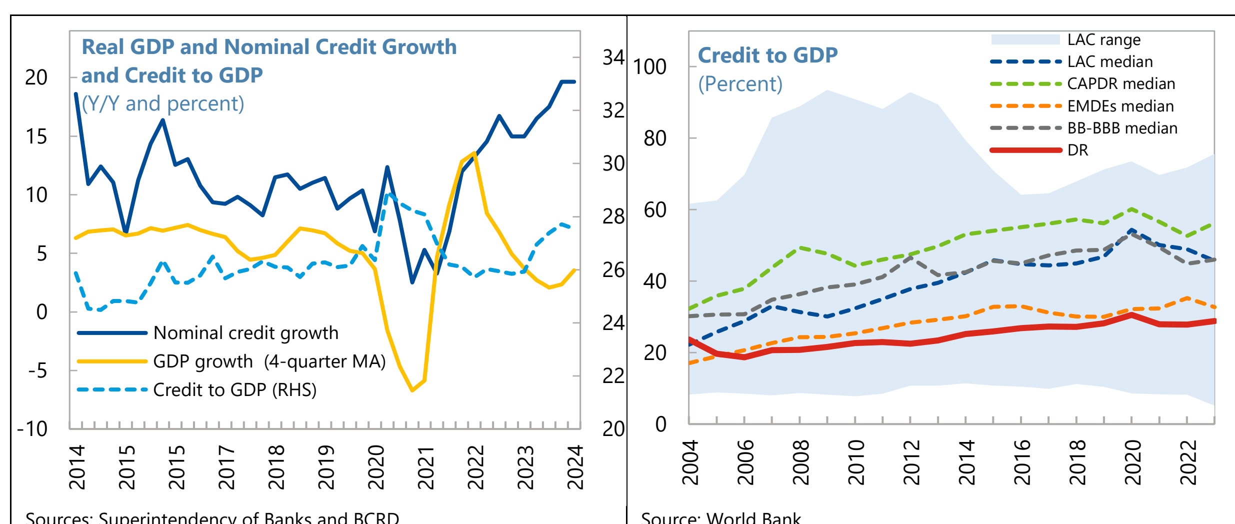
7. The external position remains broadly in line with fundamentals and desirable policies (Annex V). The current account (CA) deficit narrowed markedly (5.6 percent of GDP in 2022 vs 3.6 percent in 2023) driven by import compression, receding energy prices, and record travel receipts, which more than offset declines in goods exports and higher government interest payments. It remained fully financed by foreign direct investment (FDI) while gross international reserves (GIR) increased. Nonetheless, these fell from 98.9 percent in 2022 to 94.8 percent of the ARA metric in 2023 due to higher external liabilities.[1, 2] The DR has continued to maintain good market access with

[1] The methodology for the calculation of the reserves adequacy metric has been aligned with the 2016 Guidance Note on the Assessment of Reserve Adequacy and Related Considerations. In this context, M2 has replaced M3 as the proxy to gauge potential capital flight risks associated to outflows of residents' deposits. The results of the calculation of the reserves adequacy metric under M2 and M3 were 94.8 percent and 88.4 percent, respectively for 2023.

[2] GIR remained substantially above recommended thresholds for all traditional metrics (e.g., 5.2 months of prospective imports, 12.9 percent of GDP, 45 percent of the monetary base, and 260 percent of short-term debt).

spreads at historically low levels. Following a temporary decline in the first five months of the year,[3] GIR increased to US$15.7 billion by mid-July 2024 and are expected to close around these levels by end-2024 (around 90 percent of the ARA metric).

8. The financial sector weathered the policy tightening cycle and growth slowdown well, remaining sound and with limited apparent macro-financial vulnerabilities. Credit growth rose in 2023 without affecting risk indicators (stressed NPL ratio remains at historically low levels), and recent outturns point to softening growth rates. Overall, credit as a share of GDP remains among the lowest in the region, with scope for further financial inclusion. Banking sector capital ratios stood at 17.6 percent as of March 2024, well-above minimum requirements and increasingly driven by retained earnings. Profitability is robust (ROE above 26 percent), sustained by interest rate margin and return on security holdings. FX lending risks remain contained with most borrowers hedged. Staff's (Annex XII) and the authorities' latest stress tests suggest that the banking sector can absorb a range of shocks without material impact at aggregated level on the banks' capitalization. Overall, supervised entities' business model and the features of the DR's economy makes the financial system less exposed to external shocks.



9. Supported by sound policies and good fundamentals, the economic outlook remains positive.

- Real GDP growth is projected at 5.1 percent in 2024 and its long-term trend thereafter, driven by domestic monetary policy normalization, continued growth in advanced economies (supporting exports, tourism and remittances), opening of recently built ports, power generation, logistics and tourism facilities, and a mining recovery. In the medium term, increased labor force participation, productivity, and investment—in line with past trends— are projected to remain the main growth drivers (Annex XIII). Inflation is forecast around its 4 (±1pp) target as inflation expectations remain anchored while the output gap is expected to close gradually.

[3] Due to public external debt service payments and the authorities' decision to delay the issuance of sovereign debt until the green/ESG bond framework was in place.

- Gradual fiscal consolidation ensures debt sustainability. Staff's projections are in line with the 2025 budget policy lines and the recently passed FRL. These envisage a fiscal deficit of 3.1 percent in 2025 followed by a real primary spending consolidation in line with the FRL. Debt dynamics imply debt is sustainable; while the high share of central government external bonds and foreign currency debt remain key risks, debt and GFNs are moderate (Annex IV).

- Sustainable external position. The CA deficit is projected to gradually converge to around 2¾ percent of GDP over the medium-term—supported by a recovery in gold exports, higher free trade zones (FTZ) and tourism receipts, and a lower energy bill. FDI should fully finance CA deficits and allow, with other official inflows, for further reserve accumulation. Reserve coverage is expected to remain broadly adequate over the medium-term.

Medium-Term Macroeconomic Framework

(Selected indicators, percent of GDP unless otherwise specified)

						Projection					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Growth and Prices											
GDP growth (percent)	5.1	-6.7	12.3	4.9	2.4	5.1	5.0	5.0	5.0	5.0	5.0
Consumer price inflation (e.o.p., percent)	3.7	5.6	8.5	7.8	3.6	3.7	4.0	4.0	4.0	4.0	4.0
Government Finances											
Central government revenue	14.4	14.2	15.6	15.3	15.7	16.3	15.2	15.2	15.2	15.2	15.2
Central government expenditure	17.9	22.1	18.5	18.5	19.0	19.4	18.3	18.1	17.8	17.4	17.1
Consolidated public sector overall balance	-3.3	-9.0	-3.7	-3.6	-4.0	-4.0	-3.8	-3.3	-3.0	-2.8	-2.2
Consolidated public sector debt	53.3	71.1	62.2	58.8	59.3	58.4	57.4	56.1	54.4	52.7	50.6
Balance of Payments											
Current account	-1.3	-1.7	-2.8	-5.8	-3.6	-3.4	-3.4	-3.2	-3.0	-2.8	-2.8
Foreign direct investment	-3.4	-3.2	-3.4	-3.6	-3.6	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
Gross international reserves (US$million)	8,782	10,752	12,943	14,441	15,464	15,660	16,883	17,617	18,617	19,673	20,778

Sources: National authorities and IMF staff calculations.

10. Risks to the outlook have moderated but remain tilted to the downside in the near-term due to external factors (Annex II). Tighter for longer monetary policy in the U.S. could reduce FDI, increase capital outflows, and weaken demand for DR's exports of goods and services. Commodity price volatility, the intensification of regional conflicts (disrupting also supply chains) and extreme global climate events could increase food and energy prices, increasing inflation and impacting vulnerable populations disproportionately. Extreme local weather events could affect agricultural production, tourism, and exports, and delay ongoing reforms (e.g., Electricity Pact), weakening the fiscal situation. Key upsides include successful implementation of the FRL, a tax reform, and faster recapitalization of the BCRD through bonds that could reduce the risk premia.

11. Systemic risks appear well-contained, and existing buffers, further contingency planning, and agile sound policy making can help face adverse shocks. Given a broadly balanced external sector (¶7), negative output gap, and a sound financial sector (¶8), systemic risks appear contained. Risks to external stability have decreased supported by active debt management to extend the maturity and improve the currency composition of the debt profile thus reducing rollover and FX risks. If adverse shocks materialize, historically high international reserves, reserve funds for deposit guarantees and banking resolution, a track record of stability and strong economic policies, a sound financial sector and international capital market access can support the country. Further buffers (from reserve accumulation, fiscal consolidation) and exchange rate flexibilization, structural reforms, and enhanced policy frameworks would also help.

Authorities' Views

12. The authorities broadly agreed with staff's views about recent macroeconomic performance, the near-term outlook, and risks. They expect the economy to grow around its long-term trend in 2024 and thereafter, sustained by a strong tourism sector, construction, FTZ, and robust FDI, with inflation remaining within its 4 percent (±1pp) target. The authorities also expect the external position to continue strengthening on the back of strong tourism receipts, the recovery of gold exports, and a reduced dependency from volatile energy imports with FDI comfortably financing the deficit.

POLICY DISCUSSIONS

Near-term policies should focus on prudently closing the output gap, building further buffers, and containing vulnerabilities. The policy mix should entail continued fiscal consolidation, monetary policy normalization, with FXI and liquidity interventions limited to large shocks. On-going efforts to enhance fiscal (FRL, tax reform), monetary (exchange rate flexibility), and financial regulatory (latest standards) frameworks would support stability. Medium-term structural policies should emphasize increasing efficiency and resilience to deliver strong and inclusive growth, with continued strengthening of the business environment, electricity sector, labor force and social safety net. Strengthening the framework to address climate change remains critical.

A. Near-Term Policy Mix

Gradual Fiscal Consolidation to Support Sustainability

13. The 2024 reformulated budget submitted to Congress in July continues to target a 3.1 percent of GDP deficit but envisages increased spending in line with revised revenues. Given above target tax collections and expected additional transfers from the rest of the NFPS, the reformulated budget revised revenues up to 16.4 percent of GDP to support electricity and fuel subsidies, health, housing programs, and police reform. Advanced concession revenues (about 0.6 percent of GDP) will be used for capital spending.

14. The 2025 budget policy lines envisage an important spending growth reduction, while appropriately targeting a gradual medium-term consolidation, as per the FRL. For 2025, planned measures include reducing 10 percent of recurrent spending; ensuring close links with results-based plans; and lowering capital spending. The medium-term (MT) expenditure framework envisages a consolidation led by lower current transfers, wage bill restraint, and contained investment and social spending, keeping real primary spending from growing above 3 percent. The latest MT policy lines project the overall deficit to decline to 2.1 by 2028, with the primary balance increasing to 1.5 percent of GDP, allowing general government debt-to-GDP to reach the 40 percent debt anchor by 2035, per the FRL. Staff projections assume spending in line with the FRL.[4]

[4] Further, projections include continued BCRD recapitalization transfers of 0.6 percent of GDP.

Budgetary Central Government: 2024 Budget and 2025 Budget Policy Lines (PL) Projections[1/]

(Percent of GDP, unless otherwise specified)

	2024			2025		2026		2027		2028		2029
	Initial Budget with Addendum	Reformulated Budget	IMF Projections	PL[2/]	IMF Projections	PL[2/]	IMF Projections	PL[2/]	IMF Projections	PL[2/]	IMF Projections	IMF Projections
Revenue	16.0	16.4	16.3	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2
Expenditure	19.1	19.5	19.4	18.3	18.3	17.9	18.1	17.6	17.8	17.3	17.4	17.1
of which: Interest[3/]	3.5	3.5	3.4	3.7	3.5	3.6	3.6	3.6	3.5	3.6	3.5	3.4
Overall BCG balance	-3.1	-3.1	-3.1	-3.1	-3.1	-2.8	-2.8	-2.4	-2.5	-2.1	-2.2	-1.9
Primary balance	0.4	0.4	0.4	0.6	0.5	0.9	0.7	1.2	1.0	1.5	1.3	1.5
Memo:												
NGDP (in RD$ bln.)	7,411	7,447	7,453	8,133	8,149	8,881	8,907	9,698	9,725	10,590	10,619	11,595
Real primary spending growth (percent)	3.0	6.1	6.4	-1.4	-2.2	2.9	3.0	2.9	3.0	2.9	3.0	3.0
excluding one-off spending[4/]	n.a.	n.a	n.a.	2.7	1.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Capital spending	2.7	2.7	2.6	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1
excluding one-off spending[4/]	2.1	n.a	2.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Ministry of Finance, Fund staff calculations.
1/ As percent of respective budget or PL.
2/ PL from June 2024. Real primary growth is relative to initial budget.
3/ Budgets and MTFFs include estimated interest due in January of following year.
4/ One-off spending financed by extra-ordinary or advanced revenues.

15. Given spending rigidities and a tight fiscal envelope, the authorities should aim for more targeted measures, especially reducing electricity subsidies. Temporary fuel price freezes and other subsidies helped keep inflation in-check and minimize the impact on households. However, these subsidies are costly (around 1½ percent of GDP since 2021), also benefit those most able to pay, and interfere with the price-rationing mechanism. The authorities should consider enhancing their framework to smooth price shocks while mitigating the impact on the most vulnerable, including by strengthening targeted cash-transfers (¶28). Reducing electricity subsidies—between 0.6 and 1.3 percent of GDP annually recently—is key to a fiscal consolidation that allows for adequate levels of social and capital spending. This requires further progress with the electricity pact (¶28).

Managing the Monetary Policy Easing Cycle

16. Monetary policy normalization can proceed gradually to close the output gap while interventions should fully align with the IT regime's objectives. Timely and decisive monetary policy tightening—alongside exchange rate appreciation and clear communication of the inflation objective—was instrumental in bringing inflation to its target range and for maintaining inflation expectations firmly anchored, thereby cementing the credibility of the IT regime. Continued monetary policy normalization is warranted given headline (core) inflation below (at) target, well-anchored inflation expectations, and a negative output gap. However, the pace of normalization should be carefully calibrated to reflect the impact on inflation from the most recent exchange rate depreciation episode and liquidity provision measures.

17. Allowing further exchange rate flexibility can help transmit monetary policy more effectively and preserve reserve buffers. Greater exchange rate movements and reduced FXIs in recent years have been welcomed steps to enhance the IT framework. Despite a sizeable exchange rate depreciation since the start of the MPR normalization in May 2023, further flexibility through less FXIs could have mitigated inflation falling below its 4 percent target and supported the closing

of the output gap while preserving buffers. Absent financial stability concerns (amid limited FX mismatches) or unanchored inflation expectations, FXIs and use of liquidity measures should be limited to large shocks that lead to destabilizing changes in hedging and financing premia to further enhance the transmission mechanism and the hard-won credibility of the IT framework.[5] Furthermore, deepening the FX market and expansion of hedging mechanisms alongside further exchange rate flexibility would better support monetary policy transmission. With reserves below 100 percent of the ARA metric, there is also room for continued gradual reserve accumulation to buffer against external shocks. The BRCD has made important communication improvements in recent years, including publishing biannual monetary policy (MP) Reports. Communication enhancements can further increase the credibility of the IT framework, including the production of alternative scenarios and increasing the number of MP reports.

Authorities' Views

18. The authorities are committed to maintaining macroeconomic stability, including by keeping inflation around its target and rebuilding buffers. They broadly agreed with staff's assessment about the careful calibration of the pace of monetary policy normalization while emphasizing the important role played by the liquidity measures. The authorities stand ready to act to maintain inflation at target and will explore staff's recommendations for further communication enhancements. They stressed that the important movements in the exchange rate demonstrate increased flexibility since the start of the MPR normalization and that these have played a shock absorber role, consistent with the inflation targeting regime. They also concurred with staff on the need to continue building external buffers to maintain adequate levels related to the ARA metric but noted that international reserves exceed all traditional metrics and that they can impact the quasi-fiscal deficit.

19. The authorities also stressed that Congress' approval of the FRL is a fundamental part of their fiscal reforms to discipline spending. They noted that the 2025 budget policy line provides a global spending ceiling in line with the FRL. They agree that reducing electricity subsidies is a key part of fiscal sustainability and are improving management and increasing investment in the sector to reduce losses. The authorities are open to future adjustments to electricity tariffs, in accordance with the Electricity Pact, along with an expansion of the BonoLuz program to protect the most vulnerable population.

B. Ensuring Strong Fundamentals and Financial Stability

Strengthening the Fiscal Framework

20. Implementing the FRL would help ensure sustainability. Staff commend the authorities' efforts to adopt the FRL, and draft the necessary regulation to implement the FRL, ensuring that their 2025 budget and medium-term projections are consistent with the parameters of the proposed

[5] Liquidity measures may be appropriate if there are MPR constraints (e.g., ZLB, low interest rate differential with the US). Absent such constraints, use of liquidity measures can be limited as they may diminish (similarly to FXI) the effectiveness of the transmission mechanism.

FRL. The authorities are planning to establish an independent fiscal council to further strengthen credibility in the future.

21. An integral fiscal reform will be important to support the consolidation and create policy space for critical development spending and faster central bank recapitalization. While there is some fiscal space, a comprehensive fiscal reform that durably raises revenues (through broadening the tax base, removing exemptions) while improving tax administration and spending efficiency (¶22), can provide additional resources for public investment and social programs while supporting a fiscal consolidation consistent with the FRL.[6] It could also generate sufficient space to support a faster recapitalization of the BCRD (¶23). To ensure that tax reform gains are not subsequently eroded, upgrading the frameworks for tax incentives and subsidies by establishing clear economic benefit criteria and strengthening the cost-benefit methodology is important. The authorities have requested Fund advice in this area.

22. Further strengthening revenue administration and public financial management (PFM), including debt management, should yield benefits in terms of enhanced revenue collections, spending efficiency and risk reduction.[7]

- ***Revenue administration:*** the authorities continue to improve performance in core functions and are committed to further strengthening tax administration and reduce evasion. Importantly, the e-invoicing law (32-23) is being implemented,[8] a norm on property valuation updated, and efforts are on-going to strengthen: the tax registry; management of tax debts, tax risk control; and fiscal fraud reduction, with a new dedicated Tax Crime Investigation Unit attached to the Public Prosecutor Office. The authorities should further strengthen efforts to reduce tax evasion, including by passing an Amended Title I to strengthen powers and sanctions.

- ***PFM*****:** The 2023 Public Investment Management Assessment (PIMA) and Climate PIMA (C-PIMA) mission noted the strengthening in the rigor of the public investment management system and identified areas for further improvements, especially to strengthen strategic plans including to better address climate change challenges, ensure procurement best practices by public trusts, PPPs and SOEs, and enhancement of fiscal and disaster risk management. In public procurement, regulations and manuals have been updated to the latest standards,[9] which can lead to more transparent and efficient spending. More streamlined processes—including interoperability with the integrated financial management system (SIGEF)—have halved bidding process times, increasing the number of suppliers and enhancing the competitiveness of the

[6] Country Report 23/225 (Annex VII) illustrated the growth impacts of greater public investment and social spending in case of a tax reform.

[7] The Ministry of Finance has received TA on PFM and requested a fiscal transparency evaluation (Annex III).

[8] The law requires firms to comply over the next 3 years, based on their size: large national firms by May 2024; large local firms by May 2025; and remaining firms by May 2026.

[9] Regulation 416-23 introduces best practices related to the organization of the contracting system, evaluation criteria, use of technological tools, sustainability, value for money and inclusion of productive sectors. A Circular requires public trusts to have procurement processes in line with the procurement law (340-06).

process. The authorities should continue with enhancements, particularly to strengthen: strategic planning (including introducing climate change criteria); the oversight of non-budgetary entities, SOEs (especially electricity companies), PPPs and long-term contracts; government financial statistics (e.g., incorporating balances) and risk monitoring and management.

- ***Debt management*:** The authorities continue to proactively reduce debt risks. Besides on-going efforts to reduce foreign currency debt risk, and further green/ESG bond issuances, they plan to continue increasing multilateral financial institution and bilateral creditor funding as well as domestic market issuance and further developing the domestic market, which could be supported by further recapitalization of the central bank (Annex X). For the latter they are working to make the peso clearable internationally, which could increase international investor access and lower interest costs.

Monetary/Central Bank

23. Implementation of the 2021 safeguards assessment is ongoing,[10] and further efforts are needed to strengthen BCRD's autonomy and governance. Outstanding recommendations include increasing institutional, financial, and personal autonomy through legal reforms, adopting International Financial Reporting Standards (IFRS) and recapitalizing the central bank. Fund technical assistance (TA) assessed the BCRD recapitalization needs and needed legal reforms to enhance its financial autonomy (Annex X). Alongside a planned tax reform, the authorities envisage increasing transfers to the BCRD (beyond current transfers of 0.6 percent of GDP) to improve solvency, while keeping spending and debt in line with the FRL. However, its balance sheet would require further strengthening and the authorities are exploring possible modalities consistent with the FRL and best PFM practices.

Enhancing Financial Sector Frameworks

24. While FSIs appear sound and risk levels low/moderate, key risk indicators and supervision are based on outdated Basel and financial reporting standards. Despite recent financial stability surveillance improvements (introducing a risk-based supervisory approach, strengthening the Superintendency of Banks supervisory capacity, publishing stress tests, and improved data collection) areas for possible improvement remain. Key priority areas include: the application of heightened prudential rules (tailored for local specificities covering—among others—liquidity, market, and operational risk); the adoption of capital buffer requirements (including conservation, countercyclical and systemically important banks buffer); macroprudential and resolution tools, together with the convergence towards international accounting standards. The authorities have received Fund TA to support potential roll out plans and are working on a roadmap for the implementation of IFRS9 and Basel II/III.

25. Savings and Loans Cooperatives require a more effective regulatory and supervisory framework. Accounting for a relatively contained portion of the financial sector assets—with some

[10] Country Report 23/225.

large cooperatives of similar size as small banks—these entities are subject to the oversight of the Cooperative Development and Credit Institute (IDECOOP). The authorities are considering initiatives to strengthen the existing regulatory framework which dates to the 1960s, including introducing prudential measures that are more aligned to those already implemented in the banking sector, improving data collection, and implementing a risk-based supervisory approach.

Authorities' Views

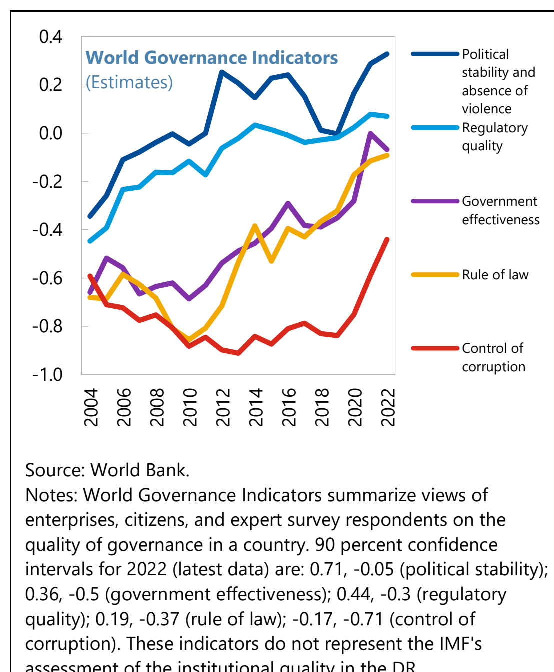
26. The authorities are committed to a comprehensive fiscal reform. The reform would increase revenues—from improved tax administration and a tax reform—and rationalize public spending. This requires a reform of public administration that improves spending efficiency through the reduction of the number of public institutions, avoids the duplication of functions, strengthens the mandates and capacities of entities, and ensures that they work in a more coordinated and effective manner. The rationalization of public spending will provide space for fiscal consolidation and needed development spending. They noted they are working on the communication strategy and look forward to the Fund staff's assessment of the tax reform after it is announced. They stressed they are committed to further improving transparency and adopting best international practices.

27. The authorities assess the financial sector as resilient and profitable and will continue to monitor developments as part of their on-going supervisory activities. They emphasized that close supervision, stress testing, and continued enhancements to their supervisory capacity remains important. The authorities are also working on regulatory reforms (e.g., Basel II/III frameworks for operational risk, market risk and liquidity risk) that will further modernize policy frameworks and help to maintain financial stability.

C. Maintaining Strong Growth and Boosting Resilience

28. The DR continues to implement its ambitious structural reform agenda to support inclusive and resilient growth and stronger efforts are needed to ensure its full success. The authorities' recent efforts have centered on improvements in: governance (including on the "Zero Bureaucracy" initiative), trade facilitation, education and social programs, female and financial inclusion, the electricity sector, and building climate change resilience. Important legal reforms are expected once the legislature commences in August. Despite these improvements, the country would benefit from further reforms to boost productivity, export diversification, and inclusive and resilient growth.

- ***Governance.*** On-going efforts appear reflected in recent WGIs and credit rating agencies' recently improved outlooks. The removal from the US Trade Representative intellectual property (IP) watch list could be supportive of investment, particularly in IP sensitive sectors such as semi-conductors. Building on earlier efforts that sought to strengthen the rule of law, enhance judicial and prosecutorial independence as well as the prosecution of corruption, the President reiterated as high priority a Constitutional reform to formalize the public prosecutor's independence (making selection free of political interests) and the creation a Ministry of Justice, to allow the prosecutor to focus on investigations. In public administration, the Comptroller General announced strict compliance with Law 311-14 on asset declarations, while the Chamber of Accounts—which audits the state's financial accounts and public employees' asset declarations—has been granted more autonomy and powers following the passage of Law 18-24, which also creates the National Control and Supervision System.[11] Further timely enhancements, including recovery of illicitly diverted public funds and passage and implementation of the strengthened procurement law—currently with the Chamber of Deputies following approval by the Senate in July 2024—could further help reduce further governance risks.



Source: World Bank.
Notes: World Governance Indicators summarize views of enterprises, citizens, and expert survey respondents on the quality of governance in a country. 90 percent confidence intervals for 2022 (latest data) are: 0.71, -0.05 (political stability); 0.36, -0.5 (government effectiveness); 0.44, -0.3 (regulatory quality); 0.19, -0.37 (rule of law); -0.17, -0.71 (control of corruption). These indicators do not represent the IMF's assessment of the institutional quality in the DR.

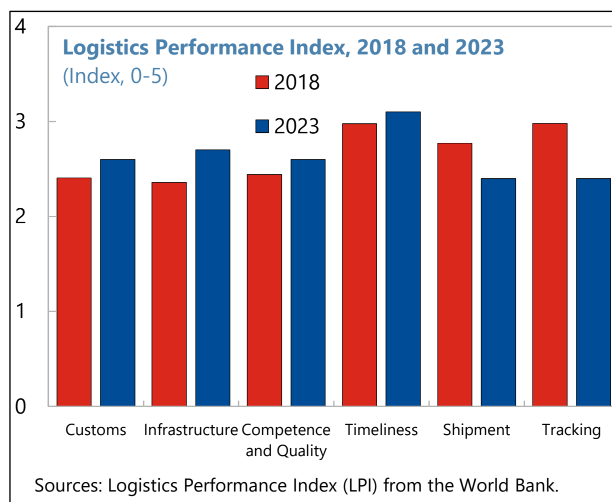
- **Anti-money laundering and combating the financing of terrorism (AML/CFT).** The authorities continue to address technical compliance and effectiveness weakness identified in their 2018 Mutual Evaluation.[12] Recent improvements include obtaining certification to comply with ISO standards on anti-bribery management system, updating their national risk assessments (expected by year-end), enhancements to the sanctioning regime (including for the insurance sector) and to the quality of suspicious transaction reports. Support from the financial analysis unit (UAF) and the Superintendency of Banks (SIB) is helping to improve the supervision and implementation of AML standards by credit and savings cooperatives, although more work is needed.[13]

[11] Decree 343-22 charges the Directorate General of Ethics and Government Integrity to recommend sanctions for officials that don't present sworn asset declarations and orders the Comptroller General to exclude from the public payroll officials who have not complied.

[12] Available at https://biblioteca.gafilat.org/wp-content/uploads/2024/07/IEM-RD.pdf/

[13] The authorities are drafting legislation and regulations to improve the sector's macroprudential and AML standards in line with Law 155-17 and best international practices.

- ***Productivity, logistics, and export performance.*** The DR continues to make notable improvements to become a regional logistic hub, setting the foundation for increased nearshoring opportunities. Important improvements include increasing connectivity and domestic linkages (e.g., port-airport infrastructure and PPPs), developing new FTZ parks, and further improving trade facilitation (through the "Release in 24-Hour" program). Education outcomes are gradually catching up with peers (years of schooling, PISA-scores). Nonetheless, the country would benefit by continuing with their ambitious reform agenda by reducing skills mismatch to enhance human capital, updating the Labor Code, or moving ahead with the 2030 Innovation and Digital Agenda to successfully attract and develop the semi-conductor industry and increase the country's contribution in the global value chains.



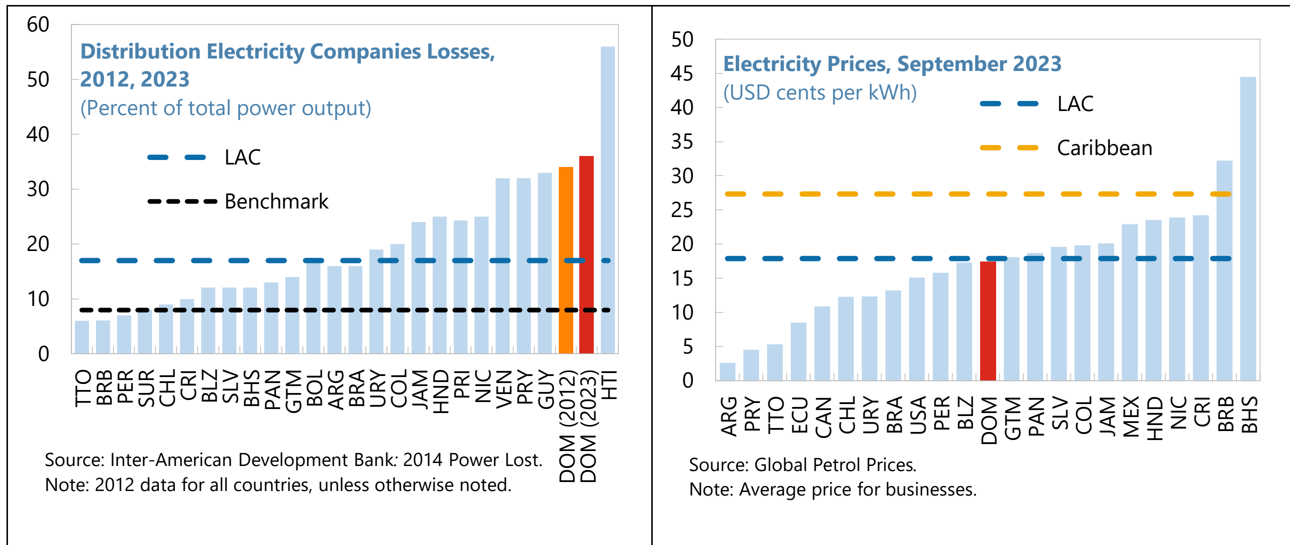
Sources: Logistics Performance Index (LPI) from the World Bank.

- ***Female employment.*** Despite sustained improvements, there are potentially sizable gains from increasing female participation in the labor market (Annex VIII). Recent policies to close labor market gender gaps include special programs to support female entrepreneurs (including by providing financing), and ongoing efforts to legally recognize domestic workers through the Labor Code and provide expanded care services.

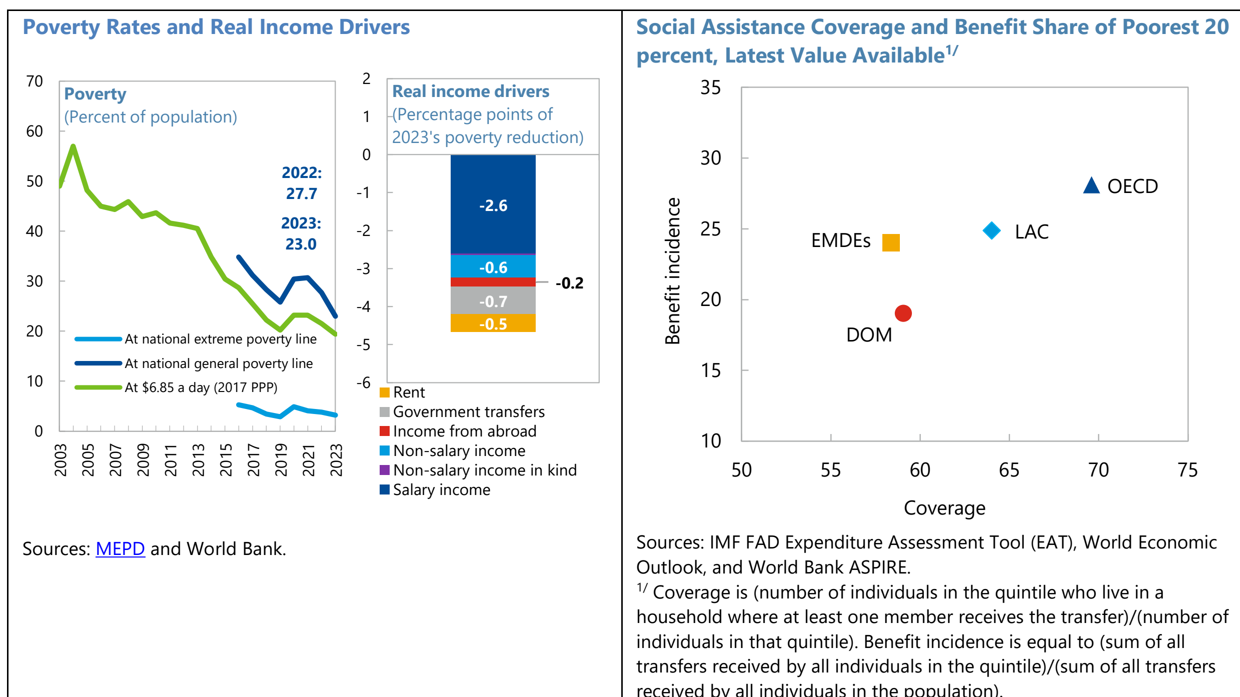
- ***Financial inclusion.*** The National Strategy for Financial Inclusion (2022-2030) provides a framework for the main stakeholders to coordinate financial policy to increase access to financial products and services and to promote their sustainable use. The strategy aims to increase the ownership of at least one financial product in 2030 to 65 percent (55 percent in 2023).

- ***Electricity sector.*** Electricity distribution losses increased to 36 percent in 2023 and subsidies remained high (1.1 percent of GDP) driven by rising demand (high temperatures), a drought (reduced hydro generation), increased illegal connections to the grid and weak metering systems, and electricity tariffs remaining frozen. Nonetheless, the authorities continue to make progress with the 2021 Electricity Pact (EP) and estimate that over 70 percent of actions have been implemented (Annex I), including updates to the estimates of the reference tariffs based on updated distribution costs and increasing the share of non-conventional renewable energy sources.[14] Outside the EP, the authorities are developing the regulation for battery storage to ensure power reliability.

[14] Country Report 22/217 for description of the EP.



- ***Social programs.*** Poverty has continued to decline, driven by improved labor market outcomes. However, social assistance is less impactful, given incidence and coverage. To address this, the authorities continue to enhance social programs with increased support under *Superate*'s main programs and are also planning to expand universal healthcare. Going forward, the authorities need to continue to strengthen the universal registry (SIUBEN) to ensure better assistance targeting during natural disasters and programs like *Alimentate* or *Bonoluz* are able to reach eligible households in case of food price spikes or electricity tariff adjustments.



- ***Climate change.*** The DR continues to make important inroads to address climate change and reduce the country's carbon footprint. The authorities are working on updating the country's nationally determined contributions (NDC)—expected to be ready in February and published in

December 2025, respectively. Preliminary estimates indicate the cost of its implementation would increase from US$17.6 billion to US$36 billion, explained by the reevaluation of adaptation costs as well as plans to broaden the type of gases covered under the new NDC. There is a slight delay in both reporting the progress with reducing emissions and the approval and implementation of the Climate Change Framework Law, but the authorities hope the project is prioritized once the legislature commences. The DR is accessing the Climate Investment Fund (CIF), which will provide a roadmap for the decarbonization of the energy sector, including the decommissioning of coal-fired power plants. The authorities are making progress identifying the public sector's intervention on climate change by including climate related classification in the budget.

29. Data quality is broadly adequate for surveillance but has some shortcomings (Annex XIV). Fund capacity development (CD) has supported data enhancements in recent years (Annex III). The authorities are working closely with the Fund to further enhance the quality of their data including by aiming to adhere to the Special Data Dissemination Standard (SDDS) standards, by setting concrete calendars for the publication of key releases, improving the timeliness and coverage of external sector data, and updating the national accounts' base year (expected in the coming months).

Authorities' Views

30. The authorities stressed their commitment to continue improving governance, which they see as important to stability and economic progress. They stressed the importance of a Constitutional reform to (a) reduce the possibility that the Constitution can be amended to extend indefinitely the term limits of a sitting president; and (b) formalize the independence of the office of the Attorney General and allow the office to focus on prosecution, with a newly created Ministry of Justice taking over administrative duties. They emphasized the on-going reforms in public institutions, including the recent implementation of ISO anti-bribery and compliance standards at Ministries. They noted that the new Procurement Law, which would strengthen oversight and sanctioning powers, was approved by the Senate of the Republic in July 2024.

31. The authorities agreed on the importance of continuing to implement their ambitious structural reform agenda to support inclusive and resilient growth. They emphasized their objective to double the size of the economy under the recently launched *Meta 2036*, especially by developing the semi-conductor industry and leveraging the DR's manufacturing base, strategic location, and logistic hub qualities. The authorities concurred on the importance of strengthening the legal framework for mainstreaming climate policy actions across multiple sectors. The authorities recognized insufficient progress on updating the national inventory for GHGs and reiterated their commitment to strengthen institutional coordination to advance climate change adaptation and mitigation policies. They highlighted the progress made on the Electricity Pact and their commitment to continue strengthening the sector's governance, distribution companies' finances, diversifying the electricity matrix, and reducing the carbon footprint in line with the NDC. They noted the 2025 budget continues to fund programs to increase inclusiveness and well-being, including with the aim to reduce the female labor market gap in 10 years, and their key policy social

security priority to expand universal health care. They also noted that the BCRD authorized a domestic bank to issue gender bonds to allow long term financing to SMEs led by women.

FUND RELATIONS

32. The Dominican Republic has adequate capacity to repay the Fund. The country has a sound debt service track record and risks from the Rapid Financing Instrument (RFI) exposure are low. The debt sustainability analysis shows debt to be sustainable, and scheduled RFI repayments do not exceed 1 percent of exports or 1½ percent of reserves going forward (Table 6). The authorities' have maintained the 2021 SDR general allocation as international reserves.

STAFF APPRAISAL

33. A track record of sound policies and institutional policy frameworks has helped the Dominican Republic achieve robust and resilient economic growth and low inflation over the last two decades. Effective policies contributed to a growth moderation that appropriately supported inflation's rapid and sustained return to its target in 2023. The authorities provided timely policy support to aid the recovery while monitoring closely the financial sector. The external position improved significantly in 2023 and was broadly in line with fundamentals and desirable policies.

34. The outlook is favorable despite elevated—mostly global—uncertainty. Real GDP growth is projected around its long-term trend of 5 percent in 2024 and thereafter, with inflation around its (4±1 percent) target. The current account deficit, expected to be fully financed by FDI, is projected to gradually narrow over the medium term. Downside risks dominate in the near-term term—including tighter for longer monetary policy in the U.S., intensification of regional conflicts, or extreme local weather events—but are broadly balanced over the medium term, including upside risks if reforms are successfully implemented. Existing buffers, further contingency planning, and agile sound policy making can help face adverse shocks.

35. In the near term, policy priorities should remain focused on maintaining macroeconomic and financial stability, including further flexibility of the exchange rate. Monetary policy normalization can continue, given remaining economic slack and that inflation is firmly within the target range. Efforts to expedite the recapitalization of the central bank to reinforce its autonomy should remain a priority. Endeavors should continue to deepen the FX market, expand the use of hedging mechanisms and limit FXIs to large shocks that lead to destabilizing changes in hedging and financing premia to support further exchange rate flexibility, and therefore further enhance the effectiveness of the inflation targeting framework. While international reserves are broadly adequate based on traditional metrics, further reserve accumulation is necessary to increase buffers to deal with future shocks.

36. Fiscal policy should remain focused on rebuilding buffers and critical spending needs. The fiscal responsibility law and its planned implementation are welcomed and are important steps to better anchor medium-term policies and further secure debt sustainability. The authorities'

planned gradual fiscal consolidation, consistent with this law, is appropriate to place debt on a firmly downward path and build fiscal buffers. An integral fiscal reform that durably raises revenues—through elimination of tax exemptions and expansion of the tax base—and improves spending efficiency—especially by reducing electricity sector subsidies and untargeted transfers—is imperative. This can provide space for needed development spending (including disaster-resilient infrastructure) to promote inclusive growth.

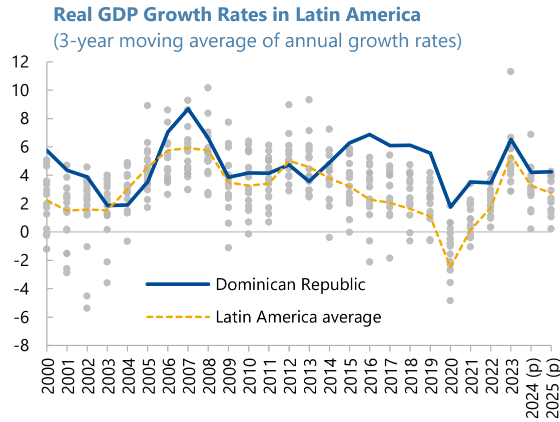
37. The financial sector remains resilient and well capitalized, and efforts to bring the regulatory framework up to the latest international standards should continue. The sector weathered well the period of high interest rates and slower growth in 2023. Stress tests show that the banking sector can absorb a range of shocks. Continued close monitoring to contain any build-up of vulnerabilities remains warranted amid higher for longer interest rates and past increases to credit growth. The modernization of the financial and prudential regulatory framework, alongside the expansion of the macroprudential toolkit, and closing regulatory/supervisory gaps (including for savings and loans cooperatives) will further increase financial sector resilience.

38. Ongoing efforts to improve public institutions and the business climate are essential to maintaining the strong investment and growth trajectory. The fiscal policy framework, and spending and revenue efficiency can be further enhanced by continued improvements to public financial management and further strengthening of revenue administration. Reforms to education and the labor market, alongside further improvements to social outcomes and implementation of climate adaptation and mitigation policies will be critical to support inclusive and resilient growth and continue to reduce vulnerabilities. The authorities should continue in their efforts to fully implement the Electricity Pact.

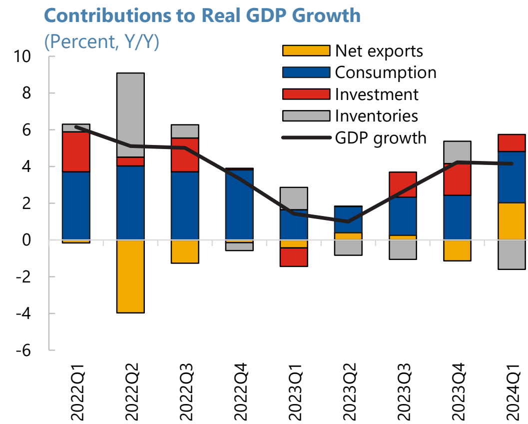
39. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Dominican Republic: Real Sector Developments

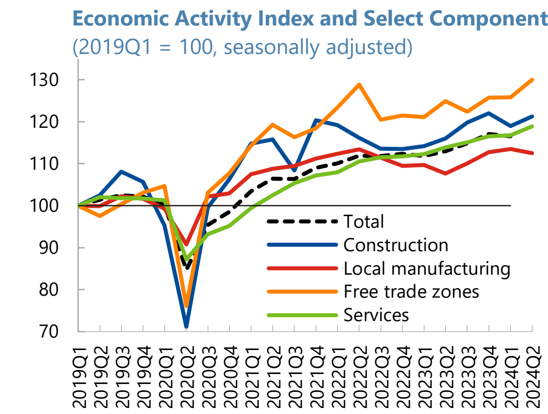
Growth in the Dominican Republic continues to outperform regional peers in recent years.



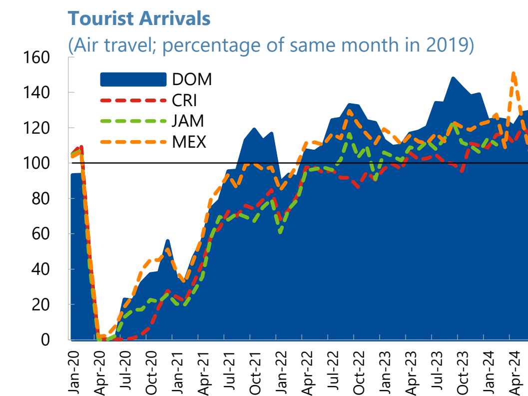
The economy has rebounded after a slowdown…



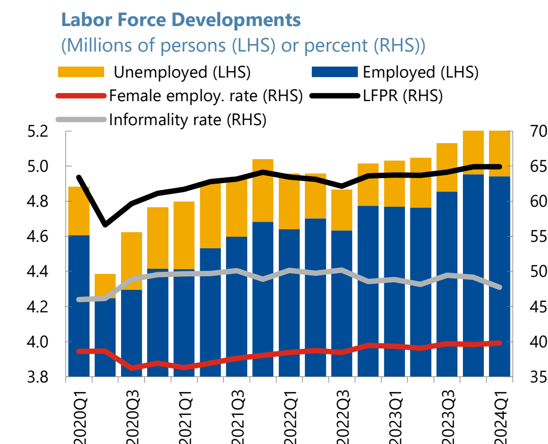
…led by construction, free trade zones, and services…



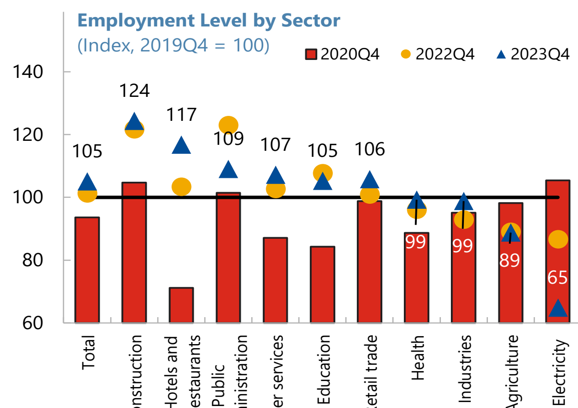
…which continue to be supported by strong tourist arrivals.



Employment and participation have recovered from the pandemic shock….



… as employment growth has been relatively broad based.

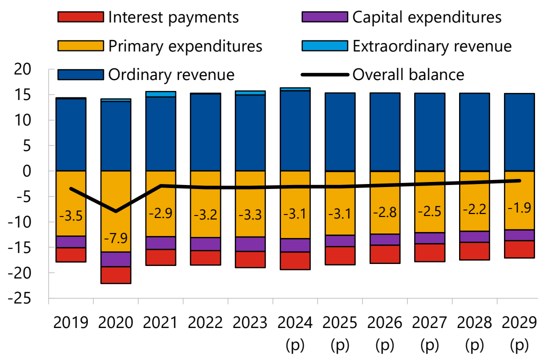


Sources: National authorities and IMF staff calculations.

Figure 2. Dominican Republic: Fiscal Developments and Outlook

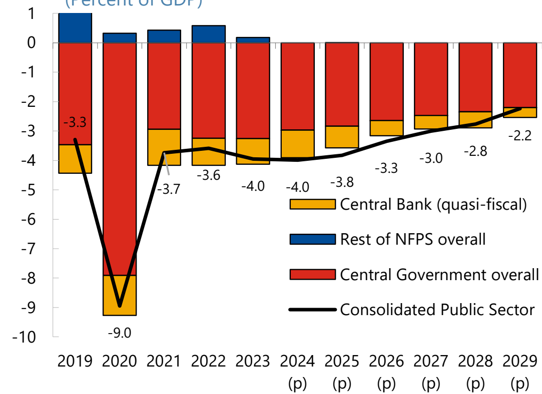
The increase in the budgetary central government deficit was contained by one-offs receipts, allowing an increase in capital spending.

Central Government: Components of Overall Balance
(Percent of GDP)



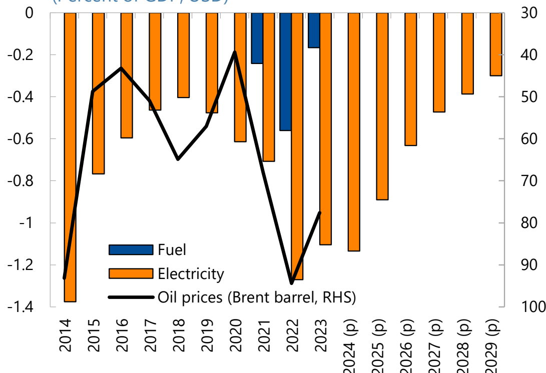
2023 public sector debt increased due to higher deficits and higher-than-expected exchange rate depreciation.

Consolidated Public Sector Overall Balance
(Percent of GDP)



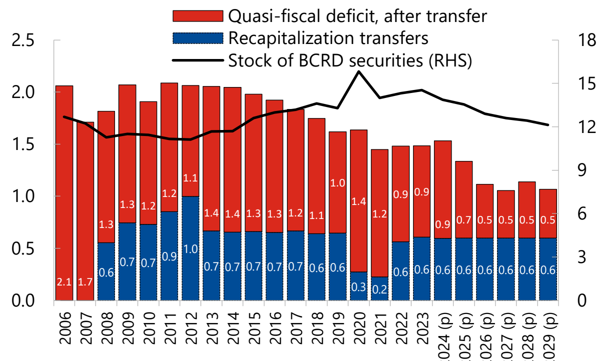
Energy subsidies decreased in 2023 and are projected to gradually decline over the medium term in line with lower world prices and the electricity pact.

Electricity and Fuel Subsidies
(Percent of GDP, USD)



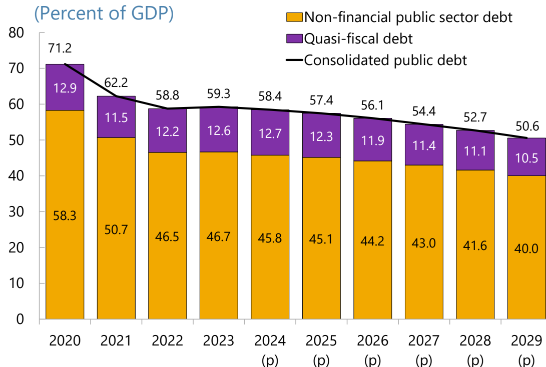
Meanwhile, re-capitalization transfers to the BCRD continued, while the stock of BCRD securities increased more than the deficit given still restrictive MPR.

Central Bank Quasi-Fiscal Deficit
(Percent of GDP)



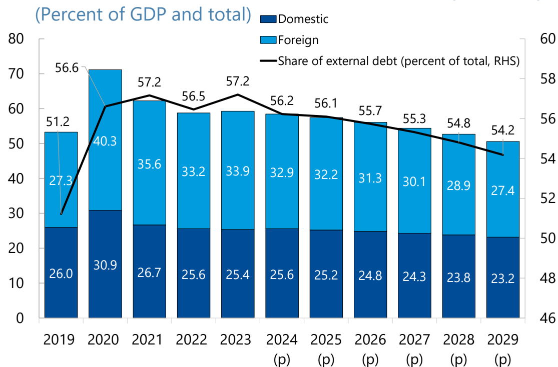
The continued consolidation should support the declining debt path.

Public Sector Consolidated Debt Distribution by Borrower
(Percent of GDP)



Exposure to FX risk and external markets remains elevated despite lower recent FX debt emissions.

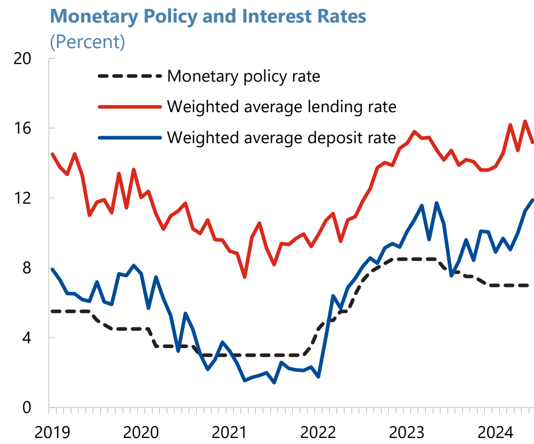
Public Sector Consolidated Debt: Distribution by Currency
(Percent of GDP and total)



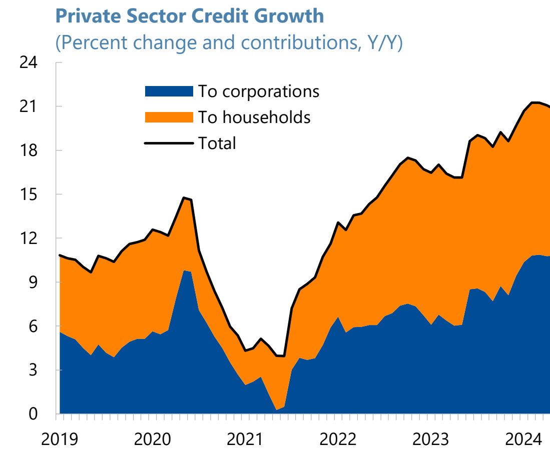
Sources: National authorities and IMF staff calculations.

Figure 3. Dominican Republic: Monetary Policy and Inflation Developments

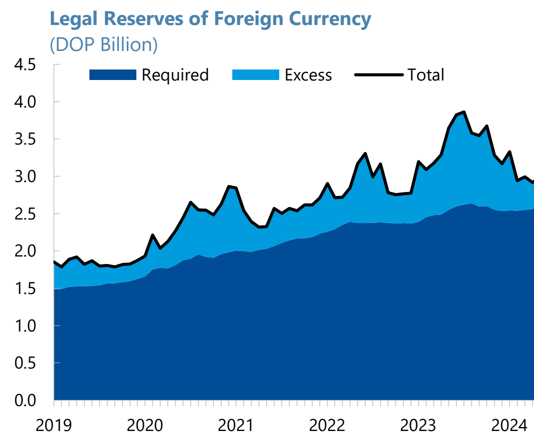
The BCRD began normalizing the MPR in May 2023 but has kept it on hold since end-2023 while expired liquidity measures drove an increase in lending rates in 2024Q2…



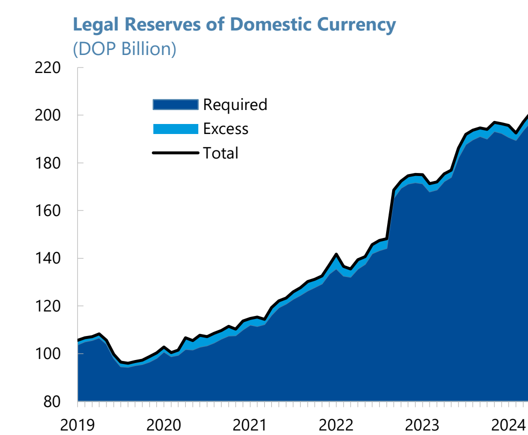
Private sector credit growth rose both in response to the BCRD's liquidity measures in 2023 and the GDP growth rebound, but has recently eased.



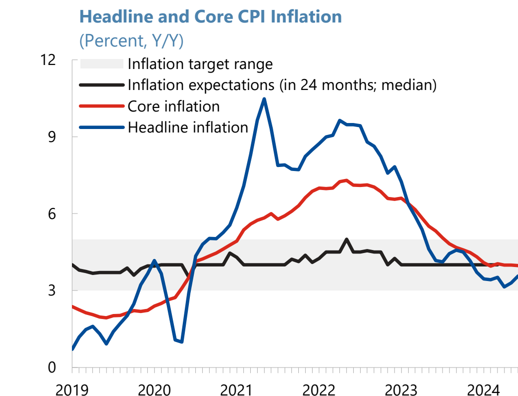
Excess reserves at the BCRD in FX remain significant, suggesting higher liquidity in that segment…



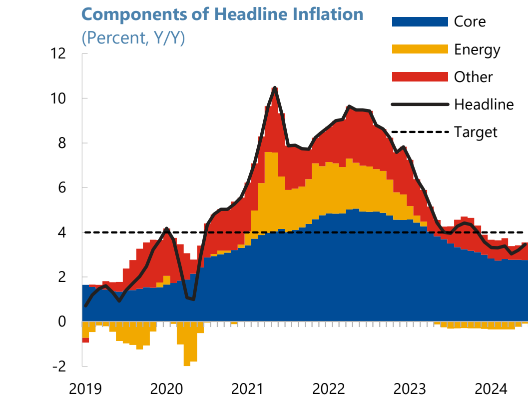
…and banks' legal reserves for deposits denominated in national currency slightly exceed the required levels.



Headline and core inflation declined rapidly in 2023 and remain within the target range, with 24 months expectations firmly anchored



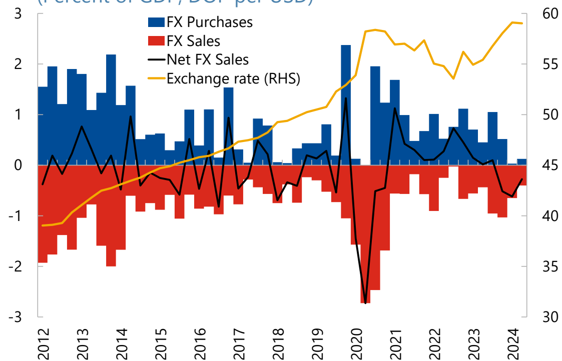
Food and energy price shocks were key drivers of headline inflation.



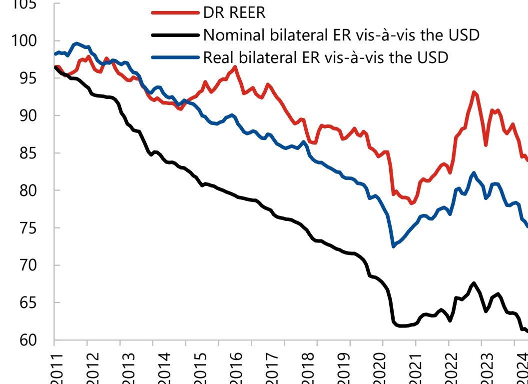
Sources: National authorities, Haver, and IMF staff calculations.

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

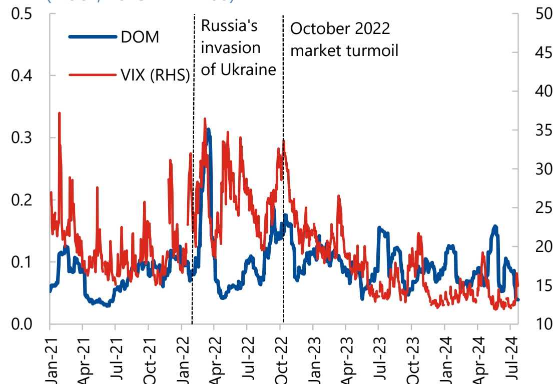
Interventions remained two sided in 2023 with sales dominating so far in 2024.



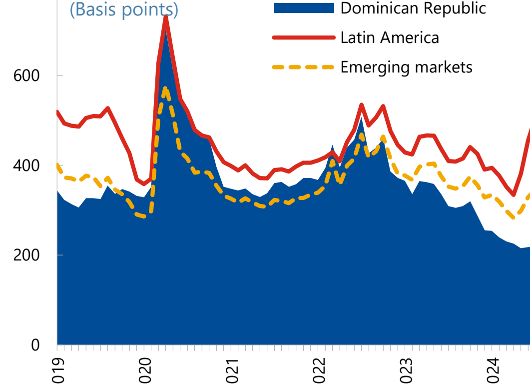
The Dominican Peso depreciated in response to interest rates differentials with the U.S. at historical lows.



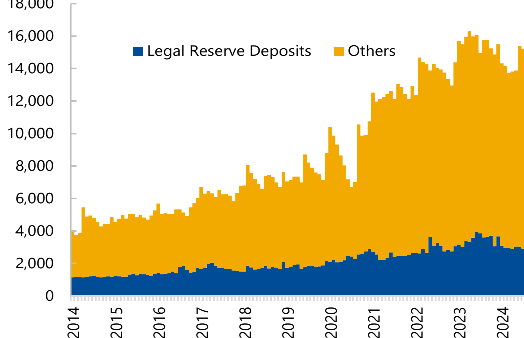
Daily FX volatility remained contained as the BCRD smoothed the peso depreciation.



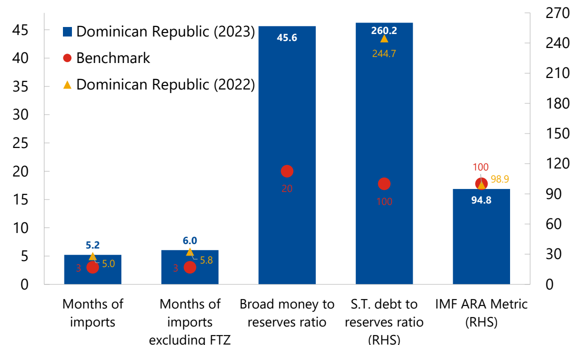
Sovereign spreads have continued to decline despite recent increases in Latin America and emerging markets.



International reserves position rose to historically high levels in 2023 and remain at broadly adequate levels in 2024.



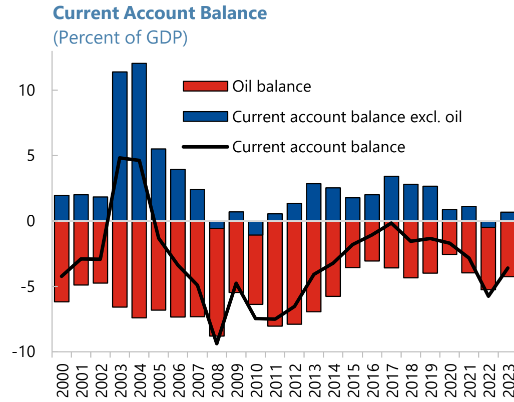
Traditional adequacy indicators are above benchmark metrics.



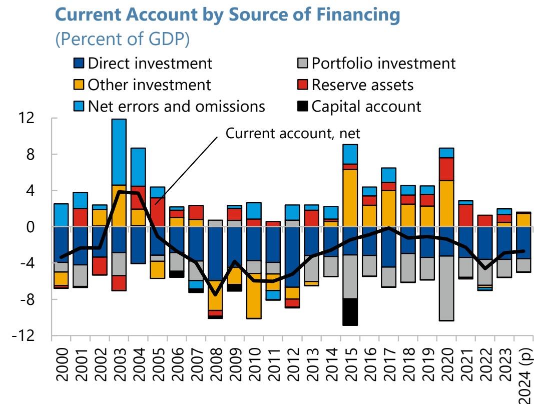
Sources: National authorities, Bloomberg, and IMF staff calculations.

Figure 5. Dominican Republic: External Sector Developments and Outlook

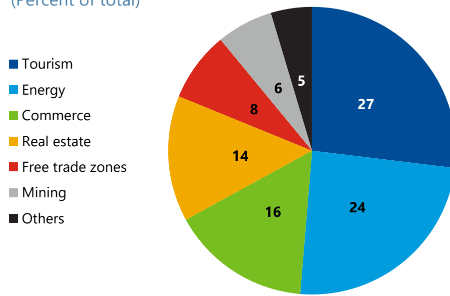
The current account deficit narrowed in 2023 due to favorable terms of trade, import compression, and strong tourist arrivals…



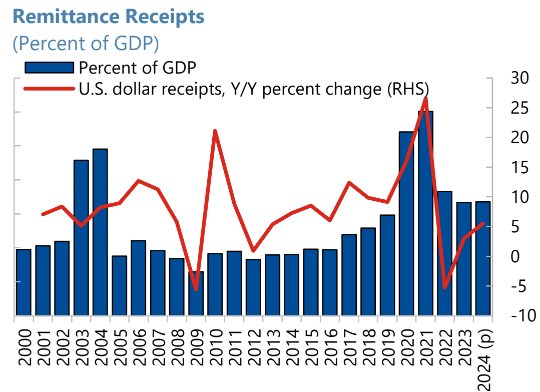
…and remains fully financed by net FDI.



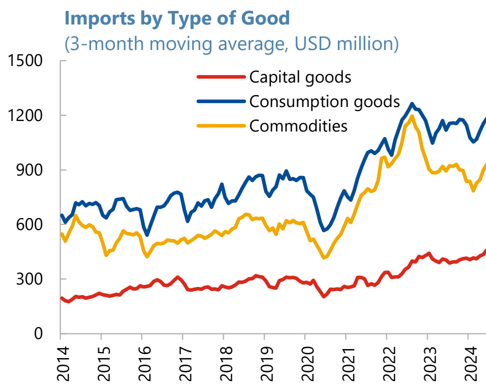
Tourism, energy, and commerce, and real estate attract the most FDI…



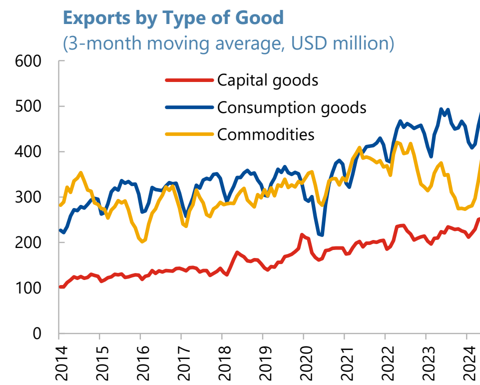
…and while remittances flows slowed from the peaks seen in 2020-21, they remain above pre-pandemic levels.



While total imports decelerated in 2023, capital goods imports remained steady.



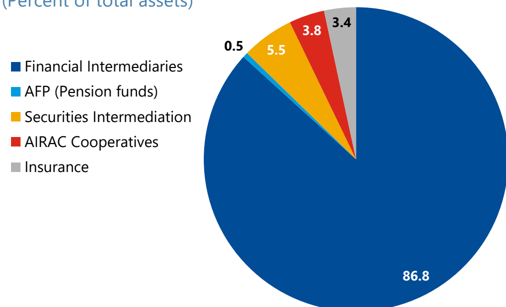
Exports fell in 2023 due to weak external demand and capacity issues in the mining sector but are recovering.



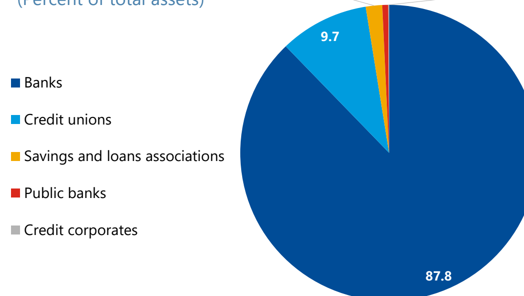
Sources: IMF WEO; National authorities and IMF staff calculations.

Figure 6a. Dominican Republic: Financial Sector Developments

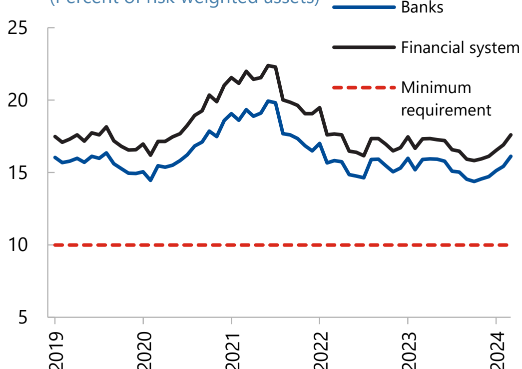
The financial sector is dominated by the 47 Deposit Taking Institutions (DTIs), followed by pension funds.



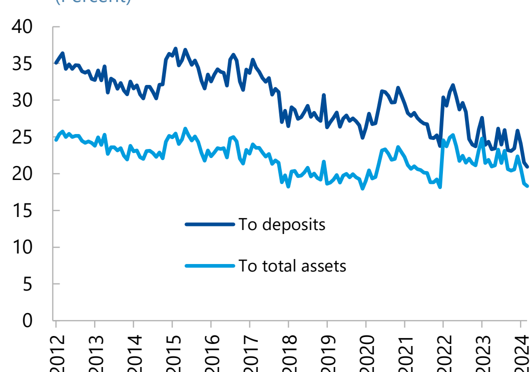
Banks account for 88 percent of total DTI assets, but the sector is also concentrated as the top 5 banks account for 79 percent of DTI assets.



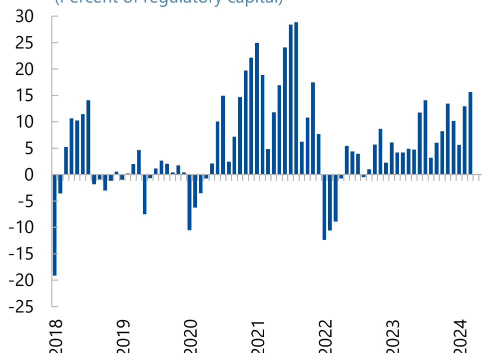
After the end of the regulatory flexibility (March 2021), DTIs' solvency ratio has stabilized around its pre-pandemic level in 2024.



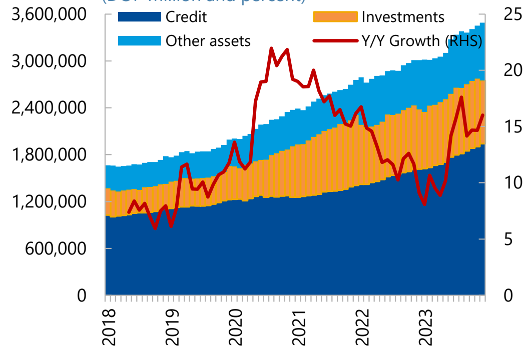
Deposits have been increasing as a share of total funding. As a result, liquid assets to deposits have been decreasing.



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



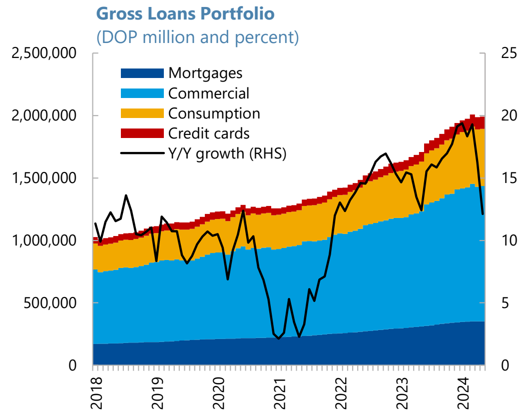
Monetary policy easing partly reversed the asset growth impact from the end of the COVID emergency liquidity measures, and the prior tightening.



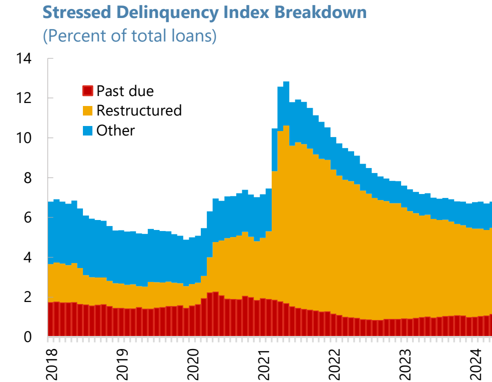
Sources: National authorities and IMF staff calculations.

Figure 6b. Dominican Republic: Financial Sector Credit Developments

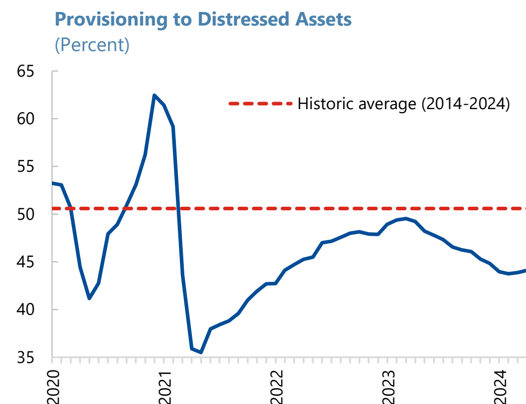
While credit growth rebounded strongly in 2023…



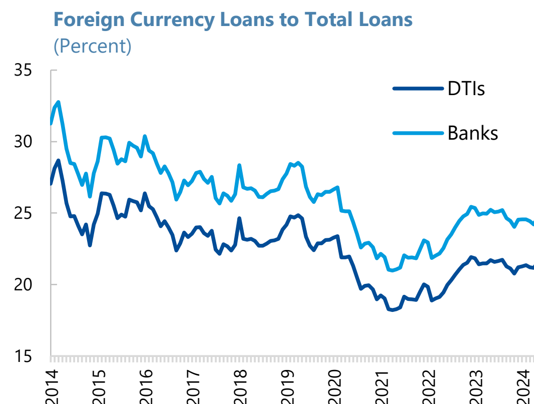
…credit quality continues to improve after a spike in 2021 that was driven by pandemic related restructurings.[1/]



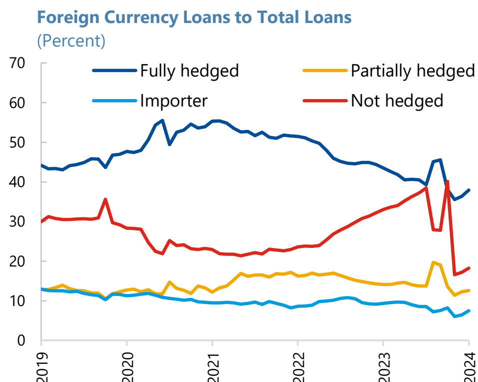
Banks are reducing excess provisioning given credit quality improvements.



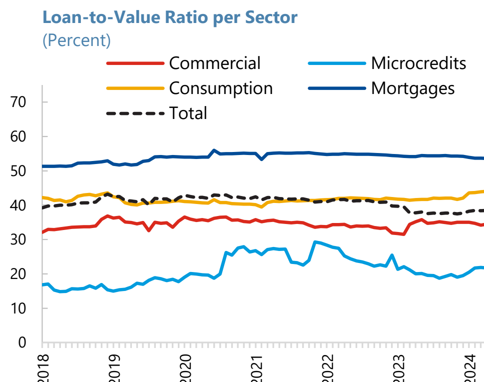
Foreign currency loans remain stable and below historical levels.



About 40 percent of the foreign currency loans are fully hedged.



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



Sources: National authorities and IMF staff calculations.
1/ NPLs only include loans past due, while the stressed delinquent loan index also includes restructured loans and loans foreclosed or written-off during the past 12 months, providing an alternative/complementary view on asset quality developments.

Table 1. Dominican Republic: Selected Economic and Social Indicators, 2019-2029

Population (millions, 2023)	10.7	GDP per capita (2023, U.S. dollars)	11,372
Quota	477.4 millions SDRs / 0.10% of total	Poverty (2021, share of population)	23.9
Main exports	tourism, gold, tobacco	Unemployment rate (2023, percent)	5.3
Key export markets	U.S., Canada, Haiti	Adult literacy rate (percent, 2022)	95.5

						Projection					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output	(Annual percentage change, unless otherwise stated)										
Real GDP	5.1	-6.7	12.3	4.9	2.4	5.1	5.0	5.0	5.0	5.0	5.0
Nominal GDP (RD$ billion)	4,562	4,457	5,393	6,261	6,820	7,453	8,149	8,907	9,725	10,619	11,595
Nominal GDP (US$ billion)	89.0	78.9	94.5	113.9	121.8	…	…	…	…	…	…
Output gap (in percent of potential output)	-0.5	-6.3	-1.9	-0.8	-1.7	-0.8	-0.5	-0.2	-0.1	0.0	0.0
Prices											
Consumer price inflation (end of period)	3.7	5.6	8.5	7.8	3.6	3.7	4.0	4.0	4.0	4.0	4.0
Exchange Rate											
Exchange rate (RD$/US$ - period average) 1/	51.2	56.5	57.1	55.0	56.0	…	…	…	…	…	…
Exchange rate (RD$/US$ - eop) 1/	52.9	58.2	57.3	56.2	58.0	…	…	…	…	…	…
Real effective exchange rate (eop, - depreciation) 1/	-3.2	-8.1	6.5	6.3	-1.9	-2.9	0.0	0.0	0.0	0.0	0.0
Government Finances											
Consolidated public sector debt 2/	53.3	71.1	62.2	58.8	59.3	58.4	57.4	56.1	54.4	52.7	50.6
Consolidated public sector overall balance 2/	-3.3	-9.0	-3.7	-3.6	-4.0	-4.0	-3.8	-3.3	-3.0	-2.8	-2.2
Consolidated public sector primary balance	0.5	-4.2	0.7	0.0	0.4	0.7	0.7	1.0	1.3	1.4	1.7
NFPS balance	-2.3	-7.6	-2.5	-2.7	-3.1	-3.1	-3.1	-2.8	-2.5	-2.2	-1.9
Central government balance	-3.5	-7.9	-2.9	-3.2	-3.3	-3.1	-3.1	-2.8	-2.5	-2.2	-1.9
Revenues and grants	14.4	14.2	15.6	15.3	15.7	16.3	15.2	15.2	15.2	15.2	15.2
Primary spending	15.1	18.9	15.4	15.7	15.8	15.9	14.8	14.5	14.2	13.9	13.7
Interest expenditure	2.7	3.2	3.1	2.8	3.1	3.4	3.5	3.6	3.5	3.5	3.4
Rest of NFPS	1.1	0.3	0.4	0.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financial Sector	(Annual percentage change; unless otherwise stated)										
Broad money (M3)	11.7	21.2	13.4	6.3	14.3	11.5	10.7	9.1	9.1	9.2	9.2
Credit to the private sector	11.8	5.3	11.6	16.6	19.6	15.8	11.5	11.0	10.3	9.2	9.2
Net domestic assets of the banking system	8.6	2.5	11.5	9.7	13.1	13.5	10.1	9.0	9.1	9.1	9.1
Policy interest rate (in percent, eop) 1/	4.5	3.0	3.5	8.5	7.0	…	…	…	…	…	…
Average bank deposit rate (1-year; in percent) 1/	6.7	3.1	2.3	9.9	8.6	…	…	…	…	…	…
Average bank lending rate (1-year; in percent) 1/	12.4	9.9	9.2	13.5	13.6	…	…	…	…	…	…
Balance of Payments	(In percent of GDP)										
Current account	-1.3	-1.7	-2.8	-5.8	-3.6	-3.4	-3.4	-3.2	-3.0	-2.8	-2.8
Goods, net	-10.2	-8.6	-12.5	-15.1	-13.0	-12.9	-12.7	-12.2	-11.9	-11.7	-11.6
Services, net	5.7	1.8	3.9	4.8	6.0	6.6	6.5	6.6	6.6	6.6	6.6
Income, net	3.2	5.2	5.7	4.5	3.5	2.9	2.7	2.5	2.4	2.3	2.2
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account 3/	3.6	5.3	5.7	6.7	5.1	3.5	4.3	3.7	3.6	3.4	3.4
Foreign direct investment, net	3.4	3.2	3.4	3.6	3.6	3.5	3.5	3.5	3.5	3.5	3.5
Portfolio investment, net	2.4	7.1	2.2	2.9	2.0	1.5	1.3	0.6	0.4	0.3	0.1
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	-2.3	-5.1	0.1	0.2	-0.5	-1.5	-0.5	-0.4	-0.4	-0.4	-0.2
Change in reserves (-increase)	-1.3	-2.5	-2.4	-1.3	-0.9	-0.2	-0.9	-0.5	-0.6	-0.6	-0.6
GIR (in millions of US dollars)	8,782	10,752	12,943	14,441	15,464	15,660	16,883	17,617	18,617	19,673	20,778
GIR in percent of ARA metric (using M2) 4/	77.3	86.8	95.0	98.9	94.8	91.3	91.7	90.9	91.8	92.3	93.1
GIR in percent of ARA metric (using M3)	72.7	80.4	87.5	91.3	88.4	…	…	…	…	…	…
Total external debt (in percent of GDP)	41.9	56.3	48.6	40.5	43.3	43.5	42.5	41.4	40.1	38.9	37.3
of which: Consolidated public sector	27.3	40.3	35.6	33.2	33.9	32.9	32.2	31.3	30.1	28.9	27.4

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

1/ Latest available.

2/ The consolidated public sector includes the Budgetary Central Government (BCG), rest of NFPS and the quasi-fiscal central bank balances or debt. With the dissolution of the state electricity holding company (CDEEE) in 2022, the deficit of CDEEE from 2019 was transferred to the BCG.

3/ Excluding reserves.

4/ Harmonized with the 2016 Guidance Note on the Assessment of Reserve adequacy and Other Considerations.

Table 2a. Dominican Republic: Public Sector Accounts, 2019–29

(Percent of GDP)

						Projection					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Central Government 1/											
Revenue	**14.4**	**14.2**	**15.6**	**15.3**	**15.7**	**16.3**	**15.2**	**15.2**	**15.2**	**15.2**	**15.2**
Tax revenues	13.3	12.4	14.4	13.8	14.2	14.3	14.0	14.0	13.9	13.9	13.9
Taxes on income, profits, and capital gains	4.2	4.2	4.9	4.4	5.0	4.8	4.5	4.5	4.5	4.5	4.5
Tax on property	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	8.0	7.2	8.3	8.2	8.1	8.3	8.3	8.4	8.4	8.4	8.4
Value-added tax	4.7	4.4	4.8	5.0	4.9	5.1	5.2	5.2	5.2	5.2	5.2
Excises	2.2	1.9	2.1	2.1	2.0	1.9	1.9	1.9	1.9	1.9	1.9
Taxes on international trade and transactions	0.9	0.7	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Social security contriutions	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Grants	0.0	0.3	0.1	0.0	0.1	0.7	0.1	0.1	0.1	0.1	0.1
Other revenues	1.0	1.4	1.1	1.4	1.3	1.3	1.1	1.1	1.1	1.1	1.1
Expenditure	**17.9**	**22.1**	**18.5**	**18.5**	**19.0**	**19.4**	**18.3**	**18.1**	**17.8**	**17.4**	**17.1**
Expenses	16.5	20.8	16.8	17.0	16.9	17.5	16.9	16.6	16.3	16.0	15.7
Compensation of employees	4.5	4.8	4.4	4.4	4.5	4.6	4.6	4.6	4.5	4.5	4.5
Use of goods and services	1.9	2.3	2.1	1.8	1.9	2.1	1.9	1.9	1.8	1.8	1.7
Interest	2.7	3.2	3.1	2.8	3.1	3.4	3.5	3.6	3.5	3.5	3.4
Subsidies	0.7	0.9	1.2	2.1	1.5	1.7	1.3	1.0	0.9	0.7	0.6
Electricity	0.5	0.6	0.7	1.3	1.1	1.3	1.1	0.8	0.7	0.5	0.4
Other	0.2	0.3	0.5	0.8	0.4	0.5	0.2	0.2	0.2	0.2	0.2
Grants	2.7	3.4	3.3	3.0	3.1	2.7	2.6	2.6	2.6	2.6	2.5
Social benefits	1.3	4.2	1.7	1.6	1.8	1.7	1.7	1.7	1.8	1.8	1.8
Other transfers	2.8	2.0	0.9	1.2	1.0	1.2	1.2	1.2	1.2	1.2	1.2
Net acquisition of nonfinancial assets	1.5	1.7	1.5	1.7	2.1	1.9	1.5	1.4	1.4	1.4	1.4
Primary Balance	**-0.7**	**-4.7**	**0.2**	**-0.4**	**-0.1**	**0.4**	**0.5**	**0.7**	**1.0**	**1.3**	**1.5**
Overall Balance	**-3.5**	**-7.9**	**-2.9**	**-3.2**	**-3.3**	**-3.1**	**-3.1**	**-2.8**	**-2.5**	**-2.2**	**-1.9**
General Government 2/											
Revenue	**15.7**	**14.7**	**16.6**	**16.5**	**16.9**	**17.6**	**16.4**	**16.4**	**16.4**	**16.4**	**16.4**
Expenditure	**19.1**	**22.7**	**19.3**	**19.5**	**20.2**	**20.7**	**19.5**	**19.2**	**18.9**	**18.5**	**18.2**
of which: Interest	2.7	3.2	3.1	2.9	3.1	3.4	3.5	3.6	3.5	3.5	3.4
of which: Capital spending	2.7	3.3	3.0	2.8	3.2	2.9	2.5	2.4	2.4	2.4	2.4
Primary Balance	**-0.6**	**-4.8**	**0.4**	**-0.2**	**-0.2**	**0.4**	**0.4**	**0.7**	**1.0**	**1.3**	**1.6**
Overall Balance	**-3.4**	**-8.0**	**-2.7**	**-3.0**	**-3.3**	**-3.1**	**-3.1**	**-2.8**	**-2.5**	**-2.2**	**-1.8**
Overall Balance Rest of NFPS 3/	**1.1**	**0.3**	**0.4**	**0.6**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall Balance NFPS	**-2.3**	**-7.6**	**-2.5**	**-2.7**	**-3.1**	**-3.1**	**-3.1**	**-2.8**	**-2.5**	**-2.2**	**-1.9**
Primary balance	0.6	-4.3	0.6	0.2	0.1	0.4	0.5	0.7	1.0	1.3	1.5
Interest	2.9	3.3	3.1	2.9	3.1	3.4	3.5	3.6	3.5	3.5	3.4
Quasi-fiscal Balance of the Central Bank 4/	**-1.0**	**-1.4**	**-1.2**	**-0.9**	**-0.9**	**-0.9**	**-0.7**	**-0.5**	**-0.5**	**-0.5**	**-0.5**
Primary balance	0.6	0.3	0.3	0.6	1.1	0.9	0.9	0.9	0.9	0.7	0.7
Interest	1.6	1.7	1.5	1.5	1.9	1.8	1.6	1.4	1.3	1.3	1.2
Overall Balance of the Consolidated Public Sector 5/	**-3.3**	**-9.0**	**-3.7**	**-3.6**	**-4.0**	**-4.0**	**-3.8**	**-3.3**	**-3.0**	**-2.8**	**-2.2**
Primary balance	0.5	-4.2	0.7	0.0	0.4	0.7	0.7	1.0	1.3	1.4	1.7
Interest	4.1	4.7	4.4	4.2	4.9	5.1	5.0	4.8	4.7	4.6	4.4
Memorandum Items:											
Consolidated Public Sector (CPS) Debt 6/	53.3	71.1	62.2	58.8	59.3	58.4	57.4	56.1	54.4	52.7	50.6
NFPS	42.9	58.3	50.7	46.5	46.7	45.8	45.1	44.2	43.0	41.6	40.0
Central Bank	13.3	16.6	14.0	14.3	14.5	14.5	13.9	13.4	12.7	12.3	11.7
CPS cyclically-adjusted overall balance 7/	-3.5	-8.1	-3.5	-4.1	-4.3	-5.0	-4.3	-3.8	-3.5	-3.3	-2.8
CPS Fiscal impulse 8/	-0.1	4.6	-4.6	0.6	0.2	0.7	-0.8	-0.4	-0.3	-0.2	-0.5
CPS underlying (structural) overall balance 9/	-3.5	-9.8	-4.9	-3.7	-4.8	-4.0	-3.8	-3.3	-3.0	-2.8	-2.2
Real primary spending growth (GG)	17.7	12.0	-7.0	9.9	6.6	6.4	-2.2	3.0	3.0	3.0	3.0

Sources: National authorities and IMF staff calculations.

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

2/ Includes the central government (CG)--comprising the BCG and the extra-budgetary (i.e., decentralized and autonomous) central government institutions--social security funds and local governments. Based on GFSM2014.

3/ The rest of the Non-Financial Public Sector includes the extra-budgetary (i.e., decentralized and autonomous) central government institutions, social security funds, local governments and non-financial public (state-owned) entities (SOEs). Based on below-the-line accounts.

4/ In 2019, since 2022 and for the projection period, the quasi-fiscal balance includes central government recapitalization transfers equal to 0.6 percent of GDP.

5/ The consolidated public sector includes the BCG, rest of NFPS and the quasi-fiscal central bank debt. With the dissolution of the state electricity holding company (CDEEE) in 2022, the deficit of CDEEE from 2019 was transferred to the BCG.

6/ Consolidated public sector debt includes the NPFS and Central Bank's quasi-fiscal debt (net of recapitalization bonds issued to the central bank).

7/ Calculated based cyclically-adjusted BCG non-grant revenues, BCG grants, BCG expenditures and rest-NFPS and central bank quasi-fiscal balances.

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

9/ Calculated based on the CPS cyclically-adjusted overall balance net of one-off revenues.

Table 2b. Dominican Republic: Public Sector Accounts, 2019–29
(Billions of Dominican Pesos, unless otherwise stated)

						Projection					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Central Government 1/											
Revenue	**657**	**632**	**841**	**956**	**1072**	**1217**	**1242**	**1357**	**1479**	**1614**	**1763**
Tax revenues	605	551	774	864	969	1064	1139	1244	1356	1480	1616
Taxes on income, profits, and capital gains	192	187	263	276	340	361	369	400	434	473	516
Tax on property	9	8	14	14	16	17	19	21	23	25	27
Taxes on goods and services	365	323	448	514	553	615	678	744	812	887	968
Value-added tax	214	194	261	311	337	383	424	466	509	556	607
Excises	99	84	116	129	135	145	158	173	189	206	225
Taxes on international trade and transactions	40	33	49	59	61	70	73	79	87	95	103
Social security contributions	3	3	3	5	4	6	6	7	7	8	9
Grants	1	15	4	2	7	54	5	6	6	7	8
Other revenues	48	64	60	85	92	93	92	100	109	119	130
Expenditure	**815**	**985**	**1000**	**1159**	**1294**	**1444**	**1494**	**1609**	**1726**	**1851**	**1983**
Current spending (expense)	752	928	905	1062	1154	1302	1376	1482	1589	1700	1819
Compensation of employees	204	216	236	277	305	345	373	408	438	478	521
Use of goods and services	85	101	112	111	131	154	154	168	179	187	194
Interest	125	144	168	178	214	257	289	317	343	370	397
Subsidies	32	39	67	131	105	127	106	93	87	76	72
Electricity	22	27	38	80	75	93	89	74	67	55	50
Other	10	12	29	52	30	34	17	19	20	21	22
Grants	124	150	179	186	209	199	214	233	253	272	289
Social benefits	57	187	92	103	120	130	142	155	171	187	204
Other transfers	126	90	50	76	72	91	99	108	118	129	142
Net acquisition of nonfinancial assets	69	75	82	108	146	143	118	127	138	151	163
Primary Balance	**-33**	**-208**	**10**	**-25**	**-8**	**29**	**37**	**65**	**96**	**134**	**177**
Overall balance	**-158**	**-352**	**-159**	**-203**	**-222**	**-228**	**-252**	**-252**	**-247**	**-236**	**-220**
General Government 2/											
Revenue	**717**	**654**	**894**	**1033**	**1153**	**1309**	**1336**	**1460**	**1591**	**1736**	**1896**
Expenditure	**872**	**1012**	**1042**	**1222**	**1380**	**1539**	**1591**	**1712**	**1837**	**1969**	**2109**
of which: Interest	125	145	169	179	214	257	289	317	344	371	398
of which: Capital spending	124	145	163	177	217	218	200	215	231	252	273
Primary Balance	**-29**	**-213**	**21**	**-11**	**-13**	**27**	**35**	**65**	**98**	**138**	**184**
Overall Balance	**-155**	**-358**	**-148**	**-190**	**-227**	**-230**	**-254**	**-252**	**-246**	**-233**	**-213**
Overall Balance Rest of NFPS 3/	**52**	**14**	**23**	**36**	**12**	**0**	**0**	**0**	**0**	**0**	**0**
Overall Balance NFPS	**-106**	**-338**	**-136**	**-167**	**-210**	**-228**	**-252**	**-252**	**-247**	**-236**	**-220**
Primary balance	27	-191	34	12	5	29	37	65	96	134	177
Interest	133	147	170	179	214	257	289	317	343	370	397
Quasi-fiscal Balance of the Central Bank 4/	**-44**	**-61**	**-66**	**-57**	**-60**	**-70**	**-60**	**-46**	**-45**	**-57**	**-54**
Primary balance	27	14	14	36	73	65	73	80	86	77	84
Interest	72	74	80	93	133	135	133	126	131	134	138
Overall Balance of the Consolidated Public Sector 5/	**-150**	**-399**	**-202**	**-225**	**-270**	**-297**	**-312**	**-298**	**-292**	**-294**	**-259**
Primary balance	25	-189	36	-1	24	50	60	91	124	147	199
Interest	188	210	238	261	334	378	407	429	461	488	515
Memorandum Items:											
Consolidated Public Sector Debt 6/	2,430	3,171	3,356	3,678	4,042	4,356	4,682	4,994	5,289	5,594	5,863
NFPS	1,956	2,598	2,734	2,914	3,182	3,411	3,679	3,933	4,182	4,420	4,642
Central Bank	606	740	755	896	992	1,078	1,135	1,193	1,239	1,306	1,353
Nominal GDP	4,562	4,457	5,393	6,261	6,820	7,453	8,149	8,907	9,725	10,619	11,595

Sources: National authorities and IMF staff calculations.

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

2/ Includes the central government (CG)--comprising the BCG and the extra-budgetary (i.e., decentralized and autonomous) central government institutions--social security funds and local governments. Based on GFSM2014.

3/ The rest of the Non-Financial Public Sector includes the extra-budgetary (i.e., decentralized and autonomous) central government institutions, social security funds, local governments and non-financial public (state-owned) entities (SOEs). Based on below-the-line accounts.

4/ In 2019, since 2022 and for the projection period, the quasi-fiscal balance includes central government recapitalization transfers equal to 0.6 percent of GDP.

5/ The consolidated public sector includes the BCG, rest of NFPS and the quasi-fiscal central bank debt. With the dissolution of the state electricity holding company (CDEEE) in 2022, the deficit of CDEEE from 2019 was transferred to the BCG.

6/ Consolidated public sector debt includes the NPFS and Central Bank's quasi-fiscal debt (net of recapitalization bonds issued to the central bank).

Table 3. Dominican Republic: Summary Accounts of the Banking System, 2019–29
(Billions of Dominican Pesos, unless otherwise stated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
						Projection					
I. Central Bank											
Net Foreign Assets 1/	**445**	**564**	**647**	**681**	**753**	**774**	**851**	**898**	**962**	**1,030**	**1,102**
(In millions of USD)	8,411	9,689	11,287	12,123	...	...	...	...	...	...	...
Net Domestic Assets	**-279**	**-341**	**-402**	**-429**	**-471**	**-469**	**-517**	**-533**	**-564**	**-595**	**-627**
Nonfinancial public sector (net) 2/	-9	-137	-79	-57	-80	-88	-96	-105	-115	-125	-137
Financial institutions (net)	-802	-816	-1,001	-1,078	-1,115	-1,270	-1,451	-1,659	-1,999	-2,450	-3,056
Nonfinancial private sector (certificates)	-126	-128	-124	-152	-166	-183	-196	-193	-193	-195	-197
Other items (net)	659	740	802	859	890	1,072	1,227	1,423	1,743	2,175	2,763
Currency Issued	**166**	**223**	**245**	**252**	**282**	**305**	**334**	**365**	**398**	**435**	**475**
II. Other Depositary Money Corporations											
Net Foreign Assets 1/	**-79**	**60**	**13**	**-26**	**-24**	**-32**	**-43**	**-45**	**-53**	**-55**	**-59**
(In millions of USD)	-1,485	1,028	219	-459	...	...	...	...	...	...	...
Net Domestic Assets	**1,488**	**1,622**	**1,899**	**2,070**	**2,369**	**2,671**	**2,957**	**3,231**	**3,532**	**3,853**	**4,206**
Net claims on central bank	463	501	711	776	799	899	995	1,088	1,188	1,297	1,416
Net credit to the nonfinancial public sector	147	221	184	130	150	165	180	197	216	236	257
Central government	112	199	183	131	152	166	182	199	217	237	259
Rest of NFPS	35	22	1	-1	-3	-2	-2	-2	-2	-2	-2
Credit to the private sector	1,225	1,291	1,441	1,682	2,013	2,332	2,601	2,886	3,183	3,476	3,796
In pesos	978	1,065	1,181	1,348	1,628	1,883	2,088	2,328	2,562	2,804	3,062
In foreign currency	247	226	260	334	385	449	513	558	622	672	734
Capital and accumulated surplus	-268	-294	-344	-404	-472	-453	-451	-451	-451	-451	-451
Other items (net)	-80	-97	-93	-114	-121	-271	-368	-490	-605	-705	-812
Liabilities to the Private Sector	**1,409**	**1,682**	**1,911**	**2,044**	**2,345**	**2,639**	**2,915**	**3,186**	**3,479**	**3,798**	**4,147**
In pesos	1,023	1,144	1,321	1,444	1,702	1,881	2,070	2,262	2,470	2,697	2,945
In foreign currency	386	538	590	600	643	759	845	923	1,008	1,101	1,202
III. Depositary Corporations											
Net Foreign Assets 1/	**367**	**624**	**660**	**655**	**729**	**742**	**808**	**853**	**909**	**975**	**1,043**
(In millions of USD)	6,926	10,717	11,506	11,663	...	...	...	...	...	...	...
Net Domestic Assets	**1,646**	**1,688**	**1,882**	**2,064**	**2,334**	**2,650**	**2,917**	**3,179**	**3,467**	**3,782**	**4,125**
Net credit to non-financial public sector	137	84	105	73	69	77	84	92	101	110	121
Credit to the private sector	1,232	1,298	1,448	1,689	2,020	2,340	2,610	2,896	3,194	3,487	3,808
Other items (net)	277	306	328	302	244	234	223	191	173	184	196
M3	**1,565**	**1,897**	**2,151**	**2,286**	**2,612**	**2,912**	**3,222**	**3,515**	**3,836**	**4,188**	**4,572**
Currency in circulation	134	187	209	212	234	251	274	299	327	357	390
Deposits	1,052	1,355	1,581	2,030	2,335	2,628	2,902	3,172	3,464	3,782	4,130
Central bank certificates held outside commercial banks	22	22	21	26	30	30	30	30	30	30	30
Commercial bank certificates held by the public	357	327	330	14	10	11	12	14	15	16	18
Memorandum Items:	(Annual percentage change; unless otherwise stated)										
Credit to the private sector	11.8	5.3	11.6	16.6	19.6	15.8	11.5	11.0	10.3	9.2	9.2
Net domestic assets of the banking system	8.6	2.5	11.5	9.7	13.1	13.5	10.1	9.0	9.1	9.1	9.1
Currency issued	13.6	33.9	10.0	3.0	11.7	8.2	9.3	9.3	9.2	9.2	9.2
Deposits and commercial bank certificates	11.8	19.4	13.6	7.0	14.7	12.6	10.4	9.3	9.2	9.2	9.2
Broad money (M3)	11.7	21.2	13.4	6.3	14.3	11.5	10.7	9.1	9.1	9.2	9.2
M3 Velocity (ratio of GDP to M3)	2.9	2.3	2.5	2.7	2.6	2.6	2.5	2.5	2.5	2.5	2.5

Sources: National authorities and IMF staff calculations.
1/ On a residency basis.
2/ Excludes transfers related to central bank recapitalization.

Table 4. Dominican Republic: Balance of Payments, 2019–29
(Millions of US Dollars, unless otherwise specified)

						Projection					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					(In millions of U.S. dollars)						
Current Account	**-1,188**	**-1,337**	**-2,685**	**-6,549**	**-4,376**	**-4,251**	**-4,608**	**-4,666**	**-4,608**	**-4,675**	**-4,947**
Goods and services, net	-4,017	-5,413	-8,089	-11,669	-8,613	-7,856	-8,312	-8,246	-8,283	-8,534	-8,887
Goods, net	-9,075	-6,803	-11,796	-17,162	-15,891	-16,230	-17,175	-17,775	-18,541	-19,577	-20,754
Exports, f.o.b.	11,193	10,302	12,486	13,750	12,932	13,485	14,937	16,049	17,264	18,497	19,868
Of which: Gold	1,544	1,676	1,610	1,329	1,148	1,455	2,035	2,181	2,314	2,412	2,509
Of which: Other	9,648	8,626	10,876	12,422	11,784	12,030	12,902	13,868	14,949	16,086	17,360
Imports, f.o.b.	20,268	17,105	24,282	30,913	28,823	29,715	32,112	33,824	35,805	38,074	40,623
Of which: Oil	3,558	2,018	3,749	5,991	5,198	5,058	5,546	5,421	5,331	5,370	5,499
Of which: Other	16,710	15,087	20,533	24,922	23,625	24,657	26,566	28,404	30,475	32,704	35,124
Services, net	5,058	1,391	3,707	5,494	7,279	8,373	8,863	9,529	10,258	11,042	11,867
Of which: Travel, net	6,848	2,464	5,002	7,375	8,536	9,595	10,402	11,259	12,196	13,190	14,252
Income, net	2,829	4,075	5,404	5,120	4,236	3,605	3,704	3,580	3,676	3,859	3,940
Primary income, net	-4,069	-3,825	-4,711	-4,311	-5,438	-6,449	-6,804	-7,459	-7,927	-8,366	-8,911
Of which: Direct investment, net	-2,861	-2,442	-3,020	-3,014	-3,984	-4,187	-4,442	-4,811	-5,170	-5,600	-6,066
Secondary income, net	6,898	7,900	10,114	9,431	9,674	10,054	10,508	11,040	11,603	12,226	12,851
Of which: Workers' remittances	6,603	7,615	9,764	9,148	9,307	9,670	10,120	10,647	11,206	11,825	12,446
Capital and Financial Account	**-3,160**	**-4,159**	**-5,397**	**-7,623**	**-6,207**	**-4,447**	**-5,831**	**-5,400**	**-5,607**	**-5,730**	**-6,053**
Capital Account	**1.4**	**1.0**	**0.4**	**0.3**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Financial Account	**-3,162**	**-4,160**	**-5,398**	**-7,623**	**-6,207**	**-4,447**	**-5,831**	**-5,400**	**-5,607**	**-5,731**	**-6,053**
Foreign direct investment, net	-3,021	-2,560	-3,197	-4,099	-4,390	-4,444	-4,772	-5,119	-5,488	-5,883	-6,303
Portfolio investment, net	-2,178	-5,620	-2,061	-3,258	-2,413	-1,844	-1,776	-871	-699	-556	-102
Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	2,037	4,020	-140	-267	596	1,841	717	590	579	708	352
Change in Reserves (+ increase)	1,150	1,980	2,304	1,444	1,053	196	1,223	735	1,000	1,056	1,105
Net Errors and Omissions	-825	-860	-409	370	-779	0	0	0	0	0	0
Net International Reserves	**8,781**	**10,752**	**12,943**	**14,437**	**15,458**	**15,653**	**16,876**	**17,611**	**18,610**	**19,666**	**20,771**
					(In percent of GDP)						
Current Account	**-1.3**	**-1.7**	**-2.8**	**-5.8**	**-3.6**	**-3.4**	**-3.4**	**-3.2**	**-3.0**	**-2.8**	**-2.8**
Goods and services, net	-4.5	-6.9	-8.6	-10.2	-7.1	-6.2	-6.1	-5.7	-5.3	-5.1	-5.0
Goods, net	-10.2	-8.6	-12.5	-15.1	-13.0	-12.9	-12.7	-12.2	-11.9	-11.7	-11.6
Exports, f.o.b.	12.6	13.1	13.2	12.1	10.6	10.7	11.0	11.0	11.1	11.1	11.1
of which: Gold	1.7	2.1	1.7	1.2	0.9	1.2	1.5	1.5	1.5	1.4	1.4
of which: Other	10.8	10.9	11.5	10.9	9.7	9.5	9.5	9.5	9.6	9.6	9.7
Imports, f.o.b.	22.8	21.7	25.7	27.1	23.7	23.5	23.7	23.3	23.0	22.8	22.7
of which: Oil	4.0	2.6	4.0	5.3	4.3	4.0	4.1	3.7	3.4	3.2	3.1
of which: Other	18.8	19.1	21.7	21.9	19.4	19.5	19.6	19.5	19.6	19.6	19.6
Services, net	5.7	1.8	3.9	4.8	6.0	6.6	6.5	6.6	6.6	6.6	6.6
of which: Travel, net	7.7	3.1	5.3	6.5	7.0	7.6	7.7	7.7	7.8	7.9	8.0
Income, net	3.2	5.2	5.7	4.5	3.5	2.9	2.7	2.5	2.4	2.3	2.2
Primary income, net	-4.6	-4.8	-5.0	-3.8	-4.5	-5.1	-5.0	-5.1	-5.1	-5.0	-5.0
Of which: Direct investment, net	-3.2	-3.1	-3.2	-2.6	-3.3	-3.3	-3.3	-3.3	-3.3	-3.4	-3.4
Secondary income, net	7.7	10.0	10.7	8.3	7.9	8.0	7.8	7.6	7.4	7.3	7.2
Of which: Workers' remittances, net	7.4	9.6	10.3	8.0	7.6	7.7	7.5	7.3	7.2	7.1	7.0
Capital and Financial Account	**-3.5**	**-5.3**	**-5.7**	**-6.7**	**-5.1**	**-3.5**	**-4.3**	**-3.7**	**-3.6**	**-3.4**	**-3.4**
Capital Account	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Financial Account	**-3.6**	**-5.3**	**-5.7**	**-6.7**	**-5.1**	**-3.5**	**-4.3**	**-3.7**	**-3.6**	**-3.4**	**-3.4**
Foreign direct investment, net	-3.4	-3.2	-3.4	-3.6	-3.6	-3.5	-3.5	-3.5	-3.5	-3.5	-3.5
Portfolio investment, net	-2.4	-7.1	-2.2	-2.9	-2.0	-1.5	-1.3	-0.6	-0.4	-0.3	-0.1
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	2.3	5.1	-0.1	-0.2	0.5	1.5	0.5	0.4	0.4	0.4	0.2
Change in Reserves (+ increase)	**1.3**	**2.5**	**2.4**	**1.3**	**0.9**	**0.2**	**0.9**	**0.5**	**0.6**	**0.6**	**0.6**
Net Errors and Omissions	-0.9	-1.1	-0.4	0.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0

Sources: National authorities and IMF staff calculations.

Table 5. Dominican Republic: Financial Soundness Indicators, 2013–23
(Percent, end of year)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
I. Deposit Taking Institutions[1/]											
Capital Adequacy											
Leverage ratio	11.5	11.3	11.2	11.3	11.6	11.8	11.9	10.9	11.0	11.7	11.7
Regulatory capital to risk-weighted assets	16.7	16.1	16.0	17.2	18.3	17.1	16.6	21.0	19.1	17.3	16.7
Asset Quality											
NPLs to total loans	2.2	1.5	1.7	1.7	1.9	1.6	1.6	1.9	1.3	1.0	1.0
Loan provisions to NPLs	134.8	187.1	152.4	156.3	149.3	157.1	160.6	205.7	322.9	349.7	263.6
NPLs net of provisions to net worth	-5.5	-8.6	-6.4	-6.6	-6.4	-6.1	-6.1	-12.5	-15.8	-15.0	-11.4
Fixed and net foreclosed assets to net worth	32.4	29.4	29.8	27.7	25.1	22.4	20.2	18.5	15.7	14.0	13.3
Earnings and Efficiency											
Return on average assets	2.3	2.3	2.3	2.2	1.9	2.4	2.3	1.8	2.3	2.6	3.0
Return on average equity	20.6	19.9	20.1	19.0	16.7	20.1	19.1	15.4	20.7	23.0	25.5
Gross operating income to average assets	10.9	10.3	10.0	10.0	10.2	9.7	9.5	8.6	8.1	10.6	12.6
Financial margin to average assets	6.8	6.4	6.1	5.8	5.6	5.8	5.6	4.8	5.3	6.8	7.4
Operating expenses to net financial margin	86.2	90.0	93.2	93.6	89.9	89.6	92.4	83.0	79.0	87.8	83.8
Liquidity											
Liquid funds to deposits	33.4	36.9	34.4	34.9	29.7	31.3	25.6	30.5	23.8	24.9	24.9
Liquid funds to total assets	18.7	19.7	18.4	18.4	15.8	17.0	14.4	18.2	14.6	19.0	18.4
II. Commercial Banks											
Capital Adequacy											
Leverage ratio	9.7	9.5	9.8	10.0	10.3	10.4	10.5	9.6	9.7	10.5	10.7
Regulatory capital to risk-weighted assets	14.8	14.0	14.4	15.6	16.4	15.8	14.9	18.6	16.5	15.3	14.7
Asset Quality											
NPLs to total loans	1.9	1.3	1.5	1.5	1.7	1.5	1.5	1.8	1.2	0.9	1.0
Loan provisions to NPLs	147.3	187.4	157.8	167.2	158.1	159.4	166.7	219.3	347.6	384.9	283.0
NPLs net of provisions to net worth	-8.3	-10.9	-8.0	-8.0	-7.7	-7.3	-7.5	-15.0	-18.6	-17.3	-12.8
Fixed and net foreclosed assets to net worth	39.0	35.2	34.4	31.5	28.3	25.3	21.9	19.7	16.4	14.1	13.0
Earnings and Efficiency											
Return on average assets	2.3	2.3	2.3	2.2	2.0	2.3	2.3	1.8	2.2	2.6	3.0
Return on average equity	22.6	24.6	23.9	24.0	19.9	22.0	21.6	17.5	22.7	25.6	28.5
Gross operating income to average assets	10.5	10.0	9.7	9.7	9.8	9.4	9.2	8.3	7.8	10.1	12.3
Financial margin to average assets	6.6	6.2	6.0	5.6	5.5	5.6	5.4	4.7	5.1	6.5	7.2
Operating expenses to net financial margin	86.4	90.4	93.9	94.2	90.5	90.7	93.8	83.5	79.2	89.0	84.2
Liquidity											
Liquid funds to deposits	32.5	36.3	33.5	34.2	28.6	30.7	24.9	30.7	23.8	26.0	25.9
Liquid funds to total assets	20.3	21.3	19.6	19.6	16.7	18.2	15.2	19.7	15.6	20.3	19.5

Sources: National authorities.

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

Table 6. Dominican Republic: Indicators of Fund Credit, 2024–29
(Millions of SDRs, unless otherwise stated)

	2024	2025	2026	2027	2028	2029
Existing and Prospective drawings (RFI)	119.35	0.00	0.00	0.00	0.00	0.00
(In percent of quota)	25.00	0.00	0.00	0.00	0.00	0.00
	(Projected debt service to the fund based on existing and prospective drawings)					
Amortization	238.7	119.4	0.0	0.0	0.0	0.0
GRA charges	13.7	2.3	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0
SDR charges	18.3	20.3	20.3	20.3	20.3	20.3
Total Debt Service	**270.8**	**141.9**	**20.3**	**20.3**	**20.3**	**20.3**
(In percent of exports of goods and services)	1.5	0.8	0.1	0.1	0.1	0.1
(In percent of GDP)	0.3	0.2	0.0	0.0	0.0	0.0
(In percent of GIR)	2.6	1.3	0.2	0.2	0.1	0.1
Outstanding Stock	**119.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
(In percent of quota)	25.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP)	0.1	0.0	0.0	0.0	0.0	0.0
(In percent of GIR)	1.1	0.0	0.0	0.0	0.0	0.0
Memorandum Items:						
Exports of goods and services (USD million)	25,169	25,843	27,825	29,965	32,307	34,687
GDP (USD million)	113,873	119,966	127,356	136,300	145,936	156,480
USD/SDR exchange rate	1.38	1.38	1.38	1.38	1.38	1.38
Gross International Reserves (USD million)	14,383	15,497	16,452	17,607	18,852	20,214
Quota	477.4	477.4	477.4	477.4	477.4	477.4

Source: IMF staff estimates.

Annex I. Implementation of Past Fund Advice

Recommendations	Status
Transversal / Cross Sector	
Continue with electricity sector reforms under the Electricity Pact to reduce fiscal losses, ¶2, 15, 28.	**Ongoing.** Integrated Loss Reduction Plans have been published. Investments to upgrade power lines and the procurement and installation of smart meters are underway. Over 70 percent of the outlined actions underpinning the Electricity Pact have been implemented, including on governance of the sector and increasing the share of non-conventional renewable energy sources. A study to update the power marginal cost has been completed. A technical study to set the technical tariffs and adjustments to the reference tariffs is awaiting public consultation. A draft study to update the regulation related to the quality of the electricity transmission service is under review. An Energy Harmonization Law is currently under discussion by Congress, which will help to strengthen the sector's regulation. Open competitive bidding has been established for new generation projects. However, electricity tariffs remain frozen until further notice.
Continue improving targeted social transfers, ¶15, 28.	**Ongoing.** The number of beneficiaries increased in 2023. The authorities continue to work on updating the universal registry data base (SIUBEN).
Continue enhancing efficiency and transitioning away from fossil fuels, ¶15,28.	**Ongoing.** The share of non-conventional renewable sources (NCRE) increased from 10.4 percent in 2022 to 11.4 percent in 2023. Around 2,900 MW in new installed capacity is expected over the medium term, over half of which will come from NCRE. Investments to enhance efficiency in the electricity distribution grid and public lighting are underway.
Fiscal	
Establish a fiscal responsibility framework to anchor medium-term policies, ¶1, 9, 14, 20.	**Completed.** The FRL was approved by Congress on July 24, 2024.
Create policy space through revenue mobilization, ¶21, 22.	**Ongoing.** The tax to GDP ratio has increased including due to customs and tax administrations reforms including the implementation of the e-invoicing law (32-23), the use of non-intrusive technology, risk-based audits and the implementation of Authorized Economic Operators (OEAs), among others. The authorities are working on a norm to update property valuation and are undertaking efforts to improve the tax registry, tax risks and controls and to reduce fiscal fraud alongside the Public Prosecutor. With the re-election of President Abinader, a tax reform (as part of a broader Fiscal Pact which will include an updated Title I of the Tax code) is expected to be submitted in September. The president has started discussion with opposition parties on a Fiscal Pact.
Continue to enhance Public Financial Management (PFM), ¶22.	**Ongoing.** Supported by the Fund and other development partners TA, the authorities are strengthening PFM, including GFS, investment management methodologies, and procurement, both practices and the framework, with submission of a strengthened Procurement Law to Congress (see 2022 Art. IV, Annex X). They have published a revised debt management strategy.
Implement a medium-term fiscal consolidation plan through: (¶15, 20,	**Ongoing.** The authorities' fiscal plans embody consolidation that is aligned with the fiscal responsibility law.

Recommendations	Status
21, 22, 28). • Increased revenue mobilization. • Enhanced public spending efficiency including by rationalizing existing subsidies while strengthening the social safety net. Reduced electricity sector losses and transfers to the distribution companies.	See above on tax administration and tax reform. See above for subsidies and social safety net. Subsidies fell in response to lower energy prices. Going forward, authorities expect subsidies to decrease further. They also expect to make further gains in public spending efficiency as part of the planned comprehensive fiscal reform. See above for the electricity sector losses under the Electricity Pact.
Monetary and Financial	
Continue building reserve buffers and allow greater exchange rate flexibility to play shock absorbing role ¶4, 7, 17.	**Ongoing.** The BCRD continued to build reserves in 2023 while allowing greater exchange rate flexibility. Reserves stood at 94.8 percent of the ARA metric in 2023. The 2024 BCRD's Monetary Program envisages a gradual reserve accumulation over the medium-term to maintain an adequate level of reserves.
Further enhance the FX market transparency and performance through well-communicated intervention rules, deepening and expansion of hedging mechanism, ¶4, 7, 17.	**Ongoing.** The BCRD has allowed greater exchange rate flexibility by allowing the exchange rate to depreciate. FXI increased following the start of the MPR normalization amid depreciation pressures. The authorities noted a continued improvement of their exchange rate platform, including ongoing progress made to capture small transactions.
Continue improving Monetary Policy communication, ¶17.	**Ongoing.** The authorities are considering increasing the frequency of their Monetary Policy Report from semi-annual to quarterly. They are receiving Fund TA to support the preparation and possible publication of alternative scenarios.
Continue implementing the Safeguard Assessment's recommendations to enhance BCRD's financial and institutional autonomy, ¶21, 23.	**Ongoing.** An MCM-LEG mission provided options to ensure policy solvency and the authorities have requested further TA to help implement the recommendations. They are also considering further Fund TA to support the drafting of new Monetary and Financial Law.
Maintain enhanced monitoring of the financial system. Continue to work on transition to Basel II/III and IFRs standards to ensure appropriate macroprudential regulation is in place to strengthen financial sector resilience and expand macroprudential toolkit. Upgrade the banking resolution and financial safety net, ¶24-25.	**Ongoing.** The authorities have continued to maintain enhanced monitoring of the financial system. They continue to work on a roadmap for the implementation of Basel II/III and IFRS standards which will help expand the macroprudential toolkit. They are formulating regulations to strengthen supervision (AML-CFT and IRFS implementation) at the IDECOOP with support from the SIB and UAF and are making improvements to their sanctioning regime.
Structural	
Continue structural reforms to strengthen, ¶28: • Competitiveness • Governance, • Labor market reforms, • Electricity sector reform, • Financial inclusion.	**Ongoing.** **Competitiveness** is being improved through enhanced trade facilitation including, through the 24/7 customs services, cargoes release in 24 hours, transport infrastructure, and quality of logistic services, as well as the implementation of the "Zero Bureaucracy" initiative that aims to strengthen regulatory quality and streamline regulatory processes, reducing regulatory discretion that can also reduce scope for corruption. **Governance.** Recent gains appear reflected in improved WGIs. Specific outcomes include: In May 2024 the DR was removed from the US Trade Representative (USTR)'s Watch List of countries regarding adequacy and effectiveness of intellectual property (IP) rights due to the DR's increasing enforcement actions and transparency, including by increasing interagency co-operation, resources and training of specialist prosecutors and agents, and publishing statistics.

Recommendations	Status
	Passage of Law 18-24, which aims to modernize and strengthen the Chamber of Accounts (the supreme external audit institution) and creates the National Control and Supervision System. Ongoing efforts include: implementation of ISO anti-bribery and compliance standards at Ministries; prosecution of high-level corruption cases (including of members of the current ruling party); strengthened procurement practices that have increased the number of suppliers and competitiveness of process, as well as contributing to the formalization of firms. A strengthened Procurement Law is currently in Congress and the Executive Branch is working on a Constitutional reform to increase the independence and effectiveness of the Public Prosecutor (Attorney General). **Labor market.** Ongoing efforts include the program "*RD Trabaja*" to incentivize the incorporation of young workers into the labor force, and the opening of STEM-oriented scholarships to address the skills mismatch in the labor market. A pilot program to evaluate the reduction in hours in the work week was completed in 2024, suggesting positive effects on productivity and mental health. Recent policies to close gender gaps in the labor market include special programs to support female entrepreneurs, provide subsidized housing to women, modifications to the procurement law to incentivize state suppliers that are female-led SMEs, the expansion in coverage of the Extended School Day Program (JEE), and ongoing efforts to legally recognize domestic workers and expand care services through the modernization of the Labor Code (expected to be discussed in Congress during 2024). In 2023, the Comprehensive Early Childhood Care Centers (CAIPI) opened 23 new centers covering around 4,700 children between 1-3 years old, while additional 3,000 new rooms for 75,000 children between 3-5 years old are expected to operate in 2024-25. In the context of the National Care Policy, preliminary studies suggest that care services could create between 79,000 and 285,000 new jobs and could allow between 48,000 to 85,000 women to leave care duties and search for jobs. **Electricity sector**. Penetration of NCRE continued to grow: installed capacity of the NCRE doubled from 555 MW in 2020 to 1,122 MW in 2023, while the share of NCRE in electricity generation increased from 10.4 percent in 2022 to 11.4 percent in 2023. The ongoing efforts to reduce electricity distribution companies' losses include purchase and the beginning of installation of smart meters as well as open competitive bidding for all public contracts for generation expansion. **Financial inclusion**. Recent efforts have resulted in an increase of 4 percentage points in the percentage of adults that own at least one financial product in 2023 from 51 percent in 2019. Ongoing efforts include progress towards the implementation of the Digital Signature which could facilitate the access of around 2.8 million Dominicans overseas to domestic financial products and services, and the program "*PYMES+*" led by the Ministry of Industries and the private sector to provide access to SMEs to financial education and digitalization.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
Global Risks			
Abrupt global slowdown. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation triggering sudden stops in EMDEs.	Medium	Medium/ Downside An abrupt slowdown in the US or Europe risks reducing demand for DR's exports, including both manufacturing and tourism. However, the negative effect on growth and the external position may be attenuated by the reduction in the global price of fossil fuels.	Continue structural reforms to strengthen external competitiveness, build reserve buffers, allow greater exchange rate flexibility, and deepen FX markets to accommodate shocks to export demand.
• **U.S.:** Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction. • **Europe:** Intensifying fallout from the war in Ukraine, supply disruptions, tight financial conditions, and real estate market corrections exacerbate economic downturn.	Medium Medium	Medium/Downside A sharp tightening of global financial conditions could negatively impact fiscal spending (part of which is deficit financed) and private investment (both FDI and domestically financed). This would hurt growth and worsen the medium-term external position due to higher interest payments and reduced export capacity (tourism, manufacturing).	Anchor the fiscal framework, including further strengthening of the fiscal position, to signal commitment to reducing debt in the medium-term. Develop fiscal contingency plans to protect priority spending in case of limited financing. Stand ready to reestablish broad-based temporary liquidity support in case of large shocks while continuing to build reserve buffers.

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

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High**	**Medium/ Downside** Higher commodity prices increase inflation, put negative pressure on the external and fiscal positions and run the risk of delaying reform momentum. They also can increase costs of production and reduce demand through lower real incomes. Higher gold and nickel prices would strengthen the external position and real output, as the DR is an exporter.	Stand ready to moderate the pace of normalization or tighten monetary policy if needed. Allow the exchange rate to play its role as a shock absorber. Work with private sector to improve resilience of supply chains. Continue transition to low-cost renewable energy to mitigate exposure to international fuel prices. Provide targeted fiscal support for the most vulnerable.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	**Medium**	**Low/Downside** Sharp swings in real interest rates and risk premia may slow credit but the financial system remains relatively robust in the DR.	Build reserve buffers and allow the exchange rate to play its role as a shock absorber. Stand ready to support the exchange rate and financial system in the event of a large rise in risk premia. Maintain enhanced monitoring of the financial system and credit growth. Continue working on the transition to Basel II/III to ensure appropriate macroprudential regulation.
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**Low/Downside** The conflicts may add pressure commodity prices and inflation, putting negative pressure on the external and fiscal positions. Supply constraints on commodities also reduce global economic activity and increase risk premia, reduce FDI and demand for DR manufacturing exports. Lower purchasing power, particularly in Europe, reduces demand for DR tourism exports. Conflict in the Middle East may divert tourism from that region towards the DR.	Stand ready to moderate the pace of normalization or tighten monetary policy if needed. Work with private sector to improve resilience of supply chains. Continue transition to low-cost renewable energy to mitigate exposure to international fuel prices. Continue structural reforms to increase competitiveness and FDI. Support efforts by tourism industry to attract arrivals from new markets. Build reserve buffers and allow the exchange rate to play its role as a shock absorber but stand ready to support the exchange rate and financial system in the event of a large rise in risk premia.

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets, and weakening the credibility of central banks.	Medium	Medium/Downside De-anchored inflation expectations in the US lead to a need for a more prolonged period of high US rates to fight inflation, with negative spillovers to the DR investment, external position, and financial stability.	Moderate pace of normalization or tighten monetary policy if needed. Build reserve buffers and allow the exchange rate to play its role as a shock absorber. Stand ready to support the exchange rate and financial system in the event of a large rise in risk premia.
Social discontent. High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing.	Medium	Low/ Downside Worsening situation in some countries in the region could increase the flow of undocumented migrants to the DR, putting pressure on the fiscal position and labor markets, increasing the risk of social unrest and populist policies.	Collect more data on the impact of undocumented migrants. Work with the international community to support migrants and seek concessional financing and aid.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	Medium	Medium/Downside Hurricanes, floods, and droughts, to which the region is prone, can result in important economic, social, and fiscal costs.	Implement 2022-2025 National Climate Action Plan; build structural and financial resilience (including resilient infrastructure and disaster insurance). Follow C-PIMA recommendations including climate change strategic planning and explicit climate change information in the investment budget.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	Low/Downside Externally, escalating, and sustained trade actions threaten the global trade system, creating uncertainty about growth directly and through adverse confidence effects. Reduced international cooperation on global challenges increases the risk of bad outcomes regarding global climate change and possible future pandemics. However, the Dominican Republic may benefit from nearshoring and expansion of logistic hubs.	Continue structural reforms to strengthen external competitiveness (including logistic hubs) and boost investment and growth. Strengthen the medium-term fiscal position and continue to build reserve buffers. Invest in adaptation to climate change and domestic pandemic preparedness. Work with the international community to foster cooperation on global issues.
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies trigger financial and economic instability.	Medium	Medium/ Downside Breach of critical financial and commercial digital infrastructure as well as broader private and public institutions can trigger systemic financial instability or widespread disruptions in socioeconomic activities.	Continue to improve legal, institutional, and strategic frameworks, devise a centralized plan and cross-sector common rules to combat cyberattacks.

Source of Risks	Relative Likelihood	Expected Impact	Policy Response
		Domestic Risks	
Domestic reforms	High	High/Upside Timely reforms could improve confidence, increase near-term growth momentum, and potential growth and equity. Ongoing fiscal reforms—Electricity Pact, PFM and MTFF (including a FRL) —could reduce the NFPS deficit, lower the sovereign risk premium and increase fiscal space in the medium-term.	Stand ready to adjust monetary, financial, and fiscal policies as needed. Build buffers more rapidly. Emphasize consensus building and institutionalize reforms to guard against reform slippage. Update and monitor the Electricity Pact milestones.
Expansion of the tourism sector	Medium	Medium/Upside Remaining room for further investment to expand the tourism sector capacity, infrastructure, and amenities. (e.g., Pedernales projects; ecotourism). New developments such as sustainable luxury tourism could lead to a medium-term increase in the Dominican Republic's share of tourism and value-added.	Continue to support sustainable infrastructure and private investment projects relating to the tourism industry, also ensuring climate resilience. Monitor for signs of lack of liquidity amid tight global financial conditions. Monitor and manage Public Trusts and PPPs to limit fiscal risks, following PIMA recommendations.
Development of Logistics Hub	Medium	Medium/Upside Remaining room for further investment in logistic and transport capabilities may accelerate the development of DR as a regional logistics hub, attracting further investment and increasing exports. Ongoing fiscal incentives of exports of hydrocarbons used by aircraft and vessels.	Continue to support reforms to improve the business climate. Fully implement new Customs Administration law and regulations. Ensure any fiscal incentives have clear economic criteria and social returns.
Development of nearshoring	Medium/Low	Medium/Upside The DR may be an attractive location for semi-conductor manufacturing given its existing manufacturing base, cost competitiveness, improved regulatory framework, and strategic location and logistics.	Continued to support reforms to increase skills, labor force participation and implement the "Zero Bureaucracy" law to maintain an appropriate regulatory framework. Ensure any fiscal incentives have clear economic criteria and social returns.

Annex III. Summary of Capacity Development (CD) Strategy

1. The Dominican Republic continues to significantly benefit from Fund CD. CD delivery takes place through a mix of short-term HQ expert missions and visits from regional advisors based in the IMF Regional Technical Assistance Center for Central America, Panama, and the Dominican Republic (CAPTAC-DR). Recent and forthcoming CD has focused on revenue and customs administration, public investment governance, financial sector supervision, monetary and fiscal policy frameworks, and statistical data reporting.

2. Partner collaboration has been strong, particularly with the World Bank and the IDB.

Key Areas of Focus

- *Revenue and Customs Administration*: recent missions have supported the internal tax administration (DGII) in measuring the impact and strengthening their reform program on tax compliance within the context of the authorities' own 2021–24 strategic plan which includes electronic invoicing implementation. CAPTAC-DR assisted the customs administration (DGA) in aligning its strategic plan with the authorities' priorities (including on strengthening the country's position as a logistics hub, strengthening governance arrangements, and risk analysis).

- *Public Financial Management (PFM)*: CAPTAC-DR experts continue to work with the Treasury to strengthen the cash programming model and active cash management to avoid arrears, minimize the cost of liquidity and enable active cash management to speed up payments. Two missions supported the authorities' plan for the introduction of a FRL: the first one, a FAD PFM diagnostic mission, focused on assessing the capacity to implement a medium-term fiscal framework to support a planned FRL; the second one provided considerations, options, and the calibration of fiscal rules. It also supported the drafting of the FRL, approved by Congress in July 2024. In fiscal year 2024, the Ministry of Finance received assistance on enhancing coverage of fiscal risks (using FRAT) and a public investment management assessment (PIMA), which included a C-PIMA, providing recommendations across the budget cycle as well as transversally.

- *Financial Sector Supervision and Regulation*: the strategic objective of this CD stream is to bolster the tailored implementation of financial supervision and regulation according to international best practices, with an emphasis on risk-based supervision, cross-border consolidated supervision, and the adoption of prudential criteria based on IFRS and Basel II/III standards. Recent TA assisted the authorities in developing a roadmap for the implementation of the Basel II/III framework over the next few years and on implementing risk-based financial supervision.

- *Monetary and Fiscal Policy Frameworks*: ICD TA missions to the central bank have focused on strengthening the monetary policy framework. The central bank (BCRD) is receiving ongoing TA from ICD to help develop an enhanced Forecasting Policy and Analysis System (FPAS) based on a new semi-structural Forecasting Model of Internal and External Balance (FINEX), and the TA project seeks to build capacity, streamline the central bank's policy decision-making process, and improve external communications as the FPAS is incorporated into the BCRD's monetary policy decisions. Since fiscal year 2023, ICD technical assistance has been provided to the staff of

the General Direction of Analysis and Fiscal Policy in the Ministry of Finance to develop an FPP-based projections tool driven by a semi-structural model to provide comprehensive inputs for the preparation of the Medium-Term Fiscal Framework, the analysis of strategic fiscal policy options and the assessment of macroeconomic risks with fiscal impact.

- *Central Bank Operations and Sustainability*: this CD stream's strategic objective is to help the BCRD enhance its operations and support its independence through ensuring the sustainability of its balance sheet. MC-led TA missions have supported the BCRD's Office of Risk Management in reviewing its guidelines for risk tolerance to adopt international best practices, with focus on: (i) metrics used; (ii) risk thresholds; (iii) roles and responsibilities; and (iv) policies for reviews. Similarly, an MCM-led mission (together with the LEG and IT departments) supported the BCRD in the exploration of a retail Central Bank Digital Currency (CBDC), evaluating the potential impact on the monetary policy transmission mechanism, financial stability, payment systems, the CBDR's balance sheet as well as its potential legal and AML/CFT implications. An MCM-led mission (together with the LEG department) examined the health of the BCRD's balance sheet, provided a range of options to restore the policy solvency of Central Bank, and reviewed and proposed amendments to the legal framework underpinning the BCRD's financial autonomy.

- *Government Finance Statistics*: TA missions resulted in the publishing of monthly budgetary central government data fully aligned with the latest international standards (GFSM 2014), based on joint work between the MOF and the central bank. TA also underpinned the publication of quarterly General Government (GG) data. Ongoing TA is being provided on the expansion of coverage (to NFPS) and timeliness of CG 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 improving public sector debt data (including sectorization of some units, notably trust funds, and 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 has continued to provide capacity development to the BCRD in line with the needs for the national accounts rebasing project on high frequency indicators (QGDP and IMAE). The GDP rebasing project is expected to be in the second half of 2024.

CD Priorities Going Forward

3. Between May 2024 and April 2025 CD will continue to support fiscal and tax administration risks analysis, tax administration effectiveness, improvements to the quality of fiscal reporting, fiscal transparency (through a Fiscal Transparency Evaluation) and asset and liability management, development of macroeconomic frameworks at the BCRD and Ministry of Finance (including improvements to forecasting and analysis models). Support will be provided on updates to the roadmap for the Basel II/III; operational, market and liquidity risk; accounting and prudential provisioning regulatory guidelines; review of drat regulation and guidelines on cybersecurity risks; as well on IFRS 9 has been scheduled for fiscal year 2025. The Fund will also undertake a climate diagnostic assessment to support the authorities in their climate commitments.

Annex IV. Sovereign Risk and Debt Sustainability

Figure 1. Dominican Republic: Risk of Sovereign Stress

Horizon	Mechanical Signal	Final Assessment	Comments
Overall	…	**Moderate**	The overall risk of sovereign stress is assessed as moderate. Medium-term risks appear moderate given the declining debt path of the consolidated public sector (CPS) and relatively low Gross Financing Needs (GFN), while uncertainty around these paths suggests moderate risk. Longer-term risks relate primarily to the rising impact of natural disasters due to climate change. Continued issuances by the Central Government (CG) in domestic currency could help improve the risk profile by reducing the exposure to exchange rate volatility. A recently adopted Fiscal Responsibility Law (FRL) should help contain deficits, and potentially further reduce spreads and risks related to deficits as a debt driver.
Near Term 1/			
Medium Term Fanchart GFN Stress test	**Low** **Moderate** **Low** Bank. Crisis Nat. Disast.	**Moderate** … … …	Medium-term risks are assessed as moderate given debt levels are moderate and projected to decline, while Gross Financing Needs (GFNs) are also relatively low in 2024-2029. That said, the central government's dependence on external private creditors is a risk factor, as it can lead to higher short-term financing needs (if reduced sovereign bond issuance is financed with shorter-term bank financing). The uncertainty around the debt and GFN paths—from the historical shocks—is also moderate. Medium-term risks could be lower in the future now that an FRL, with a debt anchor and real primary expenditure rule, has been adopted.
Long Term	…	**Moderate**	A key risk is from Climate Change (CC)— both from more frequent or intense natural disasters (e.g., extreme heat and droughts, forest fires, and rain and wind events), as well as environment degradation (e.g., rising sea levels and algal blooms/sargassum) that would negatively impact key industries, in particular agriculture and tourism, but also infrastructure. In terms of natural disasters, impacts may be mitigated by further investments in resiliency and adaptation with costs manageable —Annex VIII of 2023 AIV— though subject to uncertainty.
Sustainability Assessment 2/	…	Sustainable	Following the COVID-related spike, public debt is on a downward path. This path should be supported by the authorities' aim for continued gradual consolidation (as projected in their MTFF) and now supported also by the FRL.
Debt Stabilization in the Baseline			Yes

Figure 1. Dominican Republic: Risk of Sovereign Stress (Concluded)

DSA Summary Assessment

The Dominican Republic has an overall moderate risk of sovereign stress and debt is assessed as sustainable. This reflects that public debt is on a downward path as the recovery from the COVID-19 shock has been generally strong and fiscal consolidation was front-loaded in 2021. The slowdown that began in late 2022 combined with tighter monetary policy both in the US and the DR–affecting both financing rates and change in central bank securities that are included in the Consolidated Public Sector (CPS) perimeter–and a more depreciated exchange rate led to a temporary uptick in the debt to GDP ratio in 2023. For 2024, debt as a percentage of GDP should continue to decline due to lower global and domestic interest rates, and a return to trend growth.

In the medium-term, CPS debt is expected to continued declining and GFNs to remain moderate or relatively low. However, the Central Government's dependence on private external creditors (mostly in foreign currency) is a risk amplifier. Further diversifying financing sources, in particular further development of the domestic market could help lower risks. Medium-term risks are expected to be somewhat contained by increasing primary balances anchored by the recent adoption of a fiscal rule.

Longer term risks—primarily climate change related—may be contained by investments in resilience. The authorities have also secured a CAT-DDO to have contingent financing in case of disasters.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Source: IMF staff calculations.

Figure 2. Dominican Republic: Debt Coverage and Disclosures

Debt Coverage and Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS (chosen)	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

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

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

(Groupings: CG = 1–3; GG: expected = 1–5; NFPS = 1–6; CPS = 1–7)

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
Coverage	Missing	Chosen	Chosen	Missing	Missing

4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis (chosen)	Nominal value 5/ (chosen)	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	Consolidated	Non-consolidated (chosen)

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

Reporting on Intra-Government Debt Holdings

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

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

Figure 2. Dominican Republic: Debt Coverage and Disclosures (Concluded)

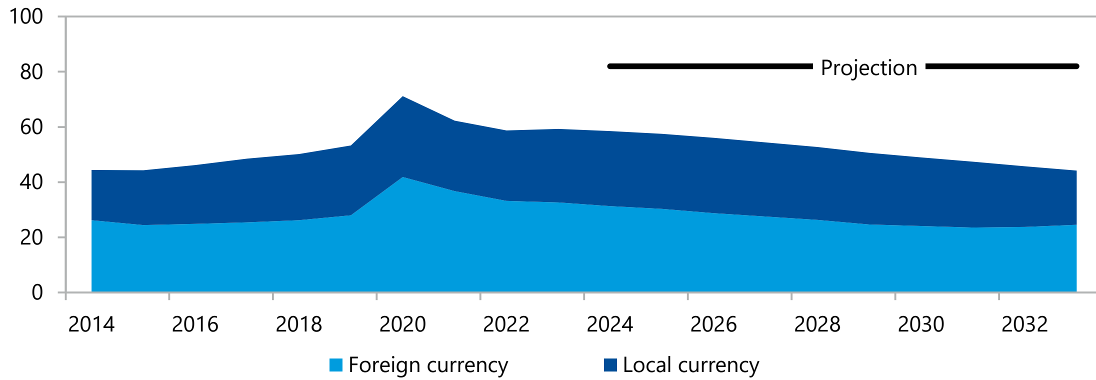
Commentary: The debt coverage remains the same as recent Article IVs and is broad in terms of sectors—besides the central government (CG) it includes the rest of the budgetary non-financial sector and the central bank's quasi-fiscal debt (mostly a legacy of the 2003 banking crisis), which should eventually be absorbed by the CG through recapitalization. In terms of instruments, it is the sum of the Non-financial Public Sector (NFPS) securities and loans; plus public electricity distribution companies' arrears over 45 days (when they've existed)—currently not part of official statistics; plus the Central Bank (BCRD) securities debt (the counter-part for the BCRD quasi-fiscal debt, mostly related to 2003 banking crisis), net of recapitalization bonds issued by the central government and held by the central bank (as indicated in the table above on intra-government debt holdings).

Most of the reported debt is that of the CG, followed by the BCRD debt, while the rest of the NFPS's securities and loan debt is minimal. Reported government guarantees of private debt is immaterial. Debt of public trusts and accounts payable (besides arrears of the electricity sector) are not included. Of note, the rest of the NFPS cannot issue debt beyond a fiscal year without the authorization of the Ministry of Finance or Congress. The authorities are receiving Fund technical assistance on public debt statistics to improve coverage, basis of recording, and valuation.

Source: IMF staff calculations.

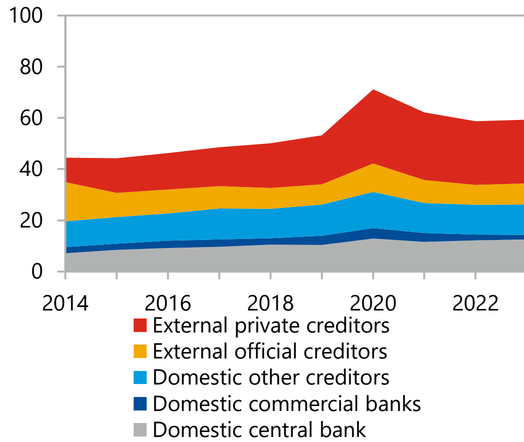
Figure 3. Dominican Republic: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



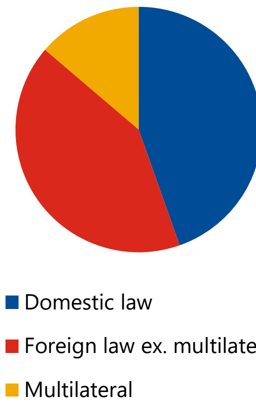
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



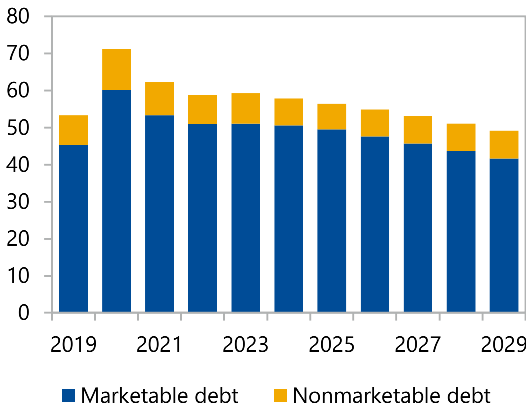
Note: The perimeter shown is consolidated public sector.

Public Debt by Governing Law, 2023 (Percent)



Note: The perimeter shown is consolidated public sector.

Debt by Instruments (Percent of GDP)



Public Debt by Maturity (Percent of GDP)

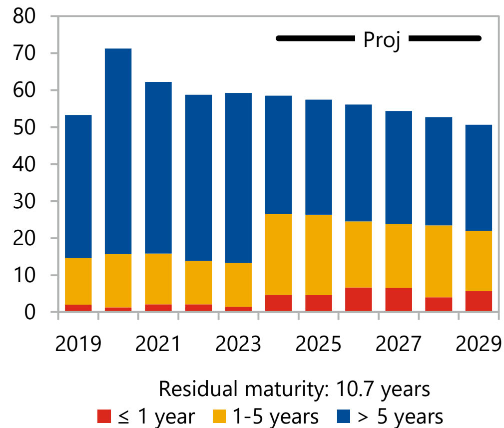


Figure 3. Dominican Republic: Public Debt Structure Indicators (Concluded)

Commentary: Most debt is in foreign currency and held by the market (marketable), in particular debt is held by external private investors in DR global sovereign bonds (and thus are under foreign law). Debt in foreign currency and held by the market (marketable) increased sharply in 2020, due to a large external sovereign bond issuance to finance COVID related spending, but in terms of GDP has declined until 2023 when it increased marginally. However, it is projected to gradually decrease as the government plans to issue more DOP-linked external bonds. While this will incur higher interest costs than USD-denominated debt, it helps reduce the foreign exchange risk exposure. The quasi-fiscal central bank (BCRD) debt reflects mostly a legacy of the 2003 banking crisis—the market counterpart to this is the securities issued by the BCRD, which are mostly held by commercial banks, followed by domestic pension funds (AFPs). The authorities are looking to further develop domestic securities market and domestic issuances have increased in frequency and regularity since 2022. The Central Government, with technical assistance from the World Bank, issued a green-bond at end-June 2024, which was well-received. NFPS debt is mostly long-term, with average remaining maturity increasing from around 9 years in 2018 to almost 11 years as of end-2023, due in part to active debt management in recent years to extend maturities and reduce rollover risk.

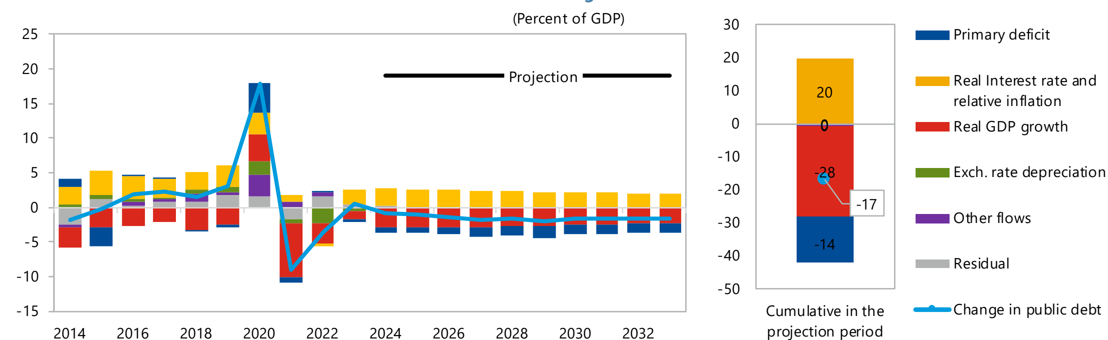
Source: IMF staff calculations.

Figure 4. Dominican Republic: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	59.3	58.4	57.4	56.1	54.4	52.7	50.6	49.0	47.4	45.7	44.2
Change in public debt	0.5	-0.8	-1.0	-1.4	-1.7	-1.7	-2.1	-1.6	-1.6	-1.6	-1.5
Contribution of identified flows	0.1	-1.0	-1.0	-1.3	-1.5	-1.7	-2.0	-1.7	-1.6	-1.6	-1.5
Primary deficit	-0.4	-0.7	-0.7	-1.0	-1.3	-1.4	-1.7	-1.4	-1.4	-1.4	-1.4
Noninterest revenues	15.7	16.3	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2
Noninterest expenditures	15.4	15.7	14.5	14.2	13.9	13.8	13.5	13.8	13.9	13.8	13.8
Automatic debt dynamics	0.6	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Real interest rate and relative inflation	2.2	2.6	2.6	2.5	2.5	2.4	2.3	2.2	2.1	2.1	2.0
Real interest rate	1.4	2.1	2.0	2.0	1.9	1.9	1.8	1.7	1.7	1.6	1.6
Relative inflation	0.8	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Real growth rate	-1.4	-2.9	-2.8	-2.8	-2.7	-2.6	-2.5	-2.4	-2.3	-2.3	-2.2
Real exchange rate	-0.2	...	...	...	...	...	... ...	...	...	...	...
Other identified flows	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	0.4	0.2	0.0	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	13.0	8.4	7.7	7.2	8.8	8.5	5.6	7.4	7.3	5.2	7.0
of which: debt service	13.3	9.1	8.4	8.2	10.0	9.9	7.4	8.8	8.7	6.6	8.3
Local currency	10.4	6.3	5.9	4.5	6.9	7.2	4.3	6.1	6.4	3.6	5.8
Foreign currency	3.0	2.8	2.6	3.7	3.2	2.7	3.0	2.7	2.3	3.0	2.5
Memo:											
Real GDP growth (percent)	2.4	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Inflation (GDP deflator; percent)	6.4	3.9	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Nominal GDP growth (percent)	8.9	9.3	9.3	9.3	9.2	9.2	9.2	9.3	9.3	9.3	9.2
Effective interest rate (percent)	9.1	7.9	7.9	7.8	7.7	7.7	7.7	7.7	7.7	7.7	7.8

Contribution to Change in Public Debt



Source: IMF staff calculations.

Commentary: The consolidated public sector (CPS) includes the NFPS plus the central bank, given the latter's quasi-fiscal losses (largely a legacy of the 2003 banking crisis). NFPS debt accounts for around 3/4 of the total CPS debt while NFPS GFNs are low, declining from 6 percent in 2023 to a range of 4-5 percent of GDP over the medium-term, aided by pro-active debt management since 2021.

The slight increase in debt in 2023 from identified flows was driven largely by the real interest rate; the real exchange rate had a smaller impact. The residual was largely driven by the increase in BCRD securities exceeding the quasi-fiscal deficit (due to still restrictive monetary policy rate). While growth slowed, it still was the most important offset to the higher real interest and exchange rates; the small CPS primary surplus also helped.

In the projection period, debt is expected to continue declining, reflecting expectations of growth in line with potential, inflation around target, and especially important from increasing primary surpluses, in line with the authorities' MTFF and the recently adopted FRL. Real interest rate costs have increased since COVID lows (in 2021), including from higher long-term rates impacting bonds and higher US short-term rates impacting loans from official creditors. Real interest rate costs are largely back to levels in line with historical experience—while external rates have stayed elevated, progress has been made in lowering domestic interest rates and external spreads—including from credit rating agencies' improved outlooks.

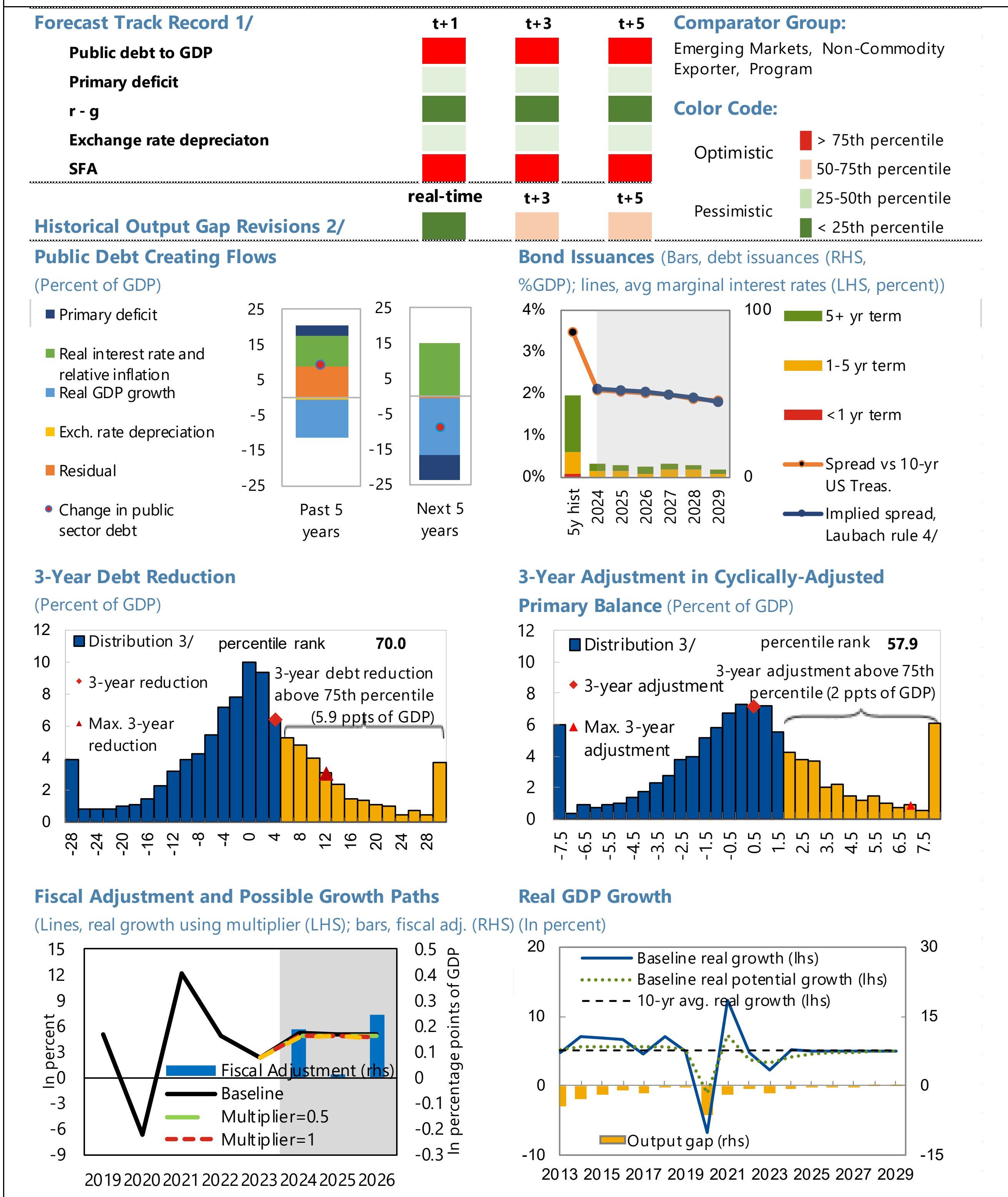


Figure 5. Dominican Republic: Realism of Baseline Assumptions
Forecast Track Record 1/
t+1
t+3
t+5
Public debt to GDP
Primary deficit
r - g
Exchange rate depreciaton
SFA
real-time
Historical Output Gap Revisions 2/
Comparator Group:
Emerging Markets, Non-Commodity Exporter, Program
Color Code:
Optimistic
Pessimistic
> 75th percentile
50-75th percentile
25-50th percentile
< 25th percentile
Public Debt Creating Flows
(Percent of GDP)
Primary deficit
Real interest rate and relative inflation
Real GDP growth
Exch. rate depreciation
Residual
Change in public sector debt
Past 5 years
Next 5 years
Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))
5+ yr term
1-5 yr term
<1 yr term
Spread vs 10-yr US Treas.
Implied spread, Laubach rule 4/
5y hist
3-Year Debt Reduction
(Percent of GDP)
Distribution 3/
percentile rank 70.0
3-year reduction
Max. 3-year reduction
3-year debt reduction above 75th percentile (5.9 ppts of GDP)
3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)
Distribution 3/
percentile rank 57.9
3-year adjustment
Max. 3-year adjustment
3-year adjustment above 75th percentile (2 ppts of GDP)
Fiscal Adjustment and Possible Growth Paths
(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)
In percent
In percentage points of GDP
Fiscal Adjustment (rhs)
Baseline
Multiplier=0.5
Multiplier=1
Real GDP Growth
(In percent)
Baseline real growth (lhs)
Baseline real potential growth (lhs)
10-yr avg. real growth (lhs)
Output gap (rhs)

Figure 5. Dominican Republic: Realism of Baseline Assumptions (Concluded)

Commentary: There has been no change in the historical forecast track record compared to the 2023 Article IV. Of note, the staff's public debt projections and Stock-Flow Adjustment (SFA) have been relatively more optimistic while the real rate minus real growth (r-g) differential driver has been pessimistic. The latter (the r-g differential) is largely due to staff being typically conservative (i.e., more pessimistic) on growth and interest rates. The former (public debt projections and SFA) may be due to additional issuances (for pre-financing and/or over-financing to have a liquidity buffer) not captured by previous staff deficit projections as well as the COVID shock. It may also be due to the lack of data on accounts payable and staff including arrears (over 45 days) of the electricity distribution sector in the debt coverage —these debts and arrears may have only been known with lags due to limited data/transparency. Also, since the CPS includes central bank securities (as a measure of the quasi-fiscal debt), these may increase for monetary/liquidity management reasons more than that implied by the quasi-fiscal deficit driver. Going forward arrears in the electricity sector are not expected to continue as the authorities have put in place a mechanism to prevent arrears over 45 days. However, forecast errors for the quasi-fiscal debt (i.e., proxied by the central bank securities) is likely to continue given that, as noted above, BCRD securities may increase for monetary/liquidity policy purposes. In terms of pre-financing/increasing liquidity buffers, projections assume these are zero, but in the context of high interest rates, authorities could use available deposits.

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

Another important debt reduction driver is the envisaged increase in the primary balance, which in the forecast period had a percentile rank below the 75th percentile and is in line with the authorities' central government medium-term fiscal framework (MTFF) projections and recently adopted FRL. As in recent years, staff's projections are primarily driven by lower electricity subsidies, impacted by the WEO baseline energy price assumptions, but also by the projected reduced distribution losses—driven by increasing investments and better management—as well as future higher tariffs envisaged under the Electricity Pact (agreed in 2021). While there are downside risks to the projected lower subsidies, there are also upside risks if more and cheaper renewable energy is added to the generation matrix (as currently occurring), as envisaged by the authorities (and supported by World Bank Development Policy Loans). The recent adoption of the FRL (passed by Congress in July) could further improve the credibility of the consolidation envisaged in the authorities MTFF.

Interest rates in 2024 for the DR have declined and further declines are expected going forward (consistent with expected decline in global rates, which should also affect domestic rates). Continued increases in the primary surplus and related declines in the debt burden (as well as the foreign-currency debt share) should further support lower spreads for the DR, especially now that the authorities adopted an FRL, which would be further boosted by a fiscal reform, comprising both a tax reform and measures to increase spending efficiency. That said, there is a risk that spreads may rise given the geopolitical environment and uncertainties, as well as delayed or poorly implemented reforms.

The forecasted (3-year) CPS debt reduction is at the 70th percentile, so relatively elevated compared to other countries but below the Dominican Republic's maximum 3-year change. Future debt reduction is supported by a realistic/feasible cyclically adjusted fiscal adjustment over a 3-year period (58 percentile rank), and well-below its maximum 3-year change. The fiscal adjustment is in line with the authorities MTFF, which is now anchored by the adoption of a FRL.

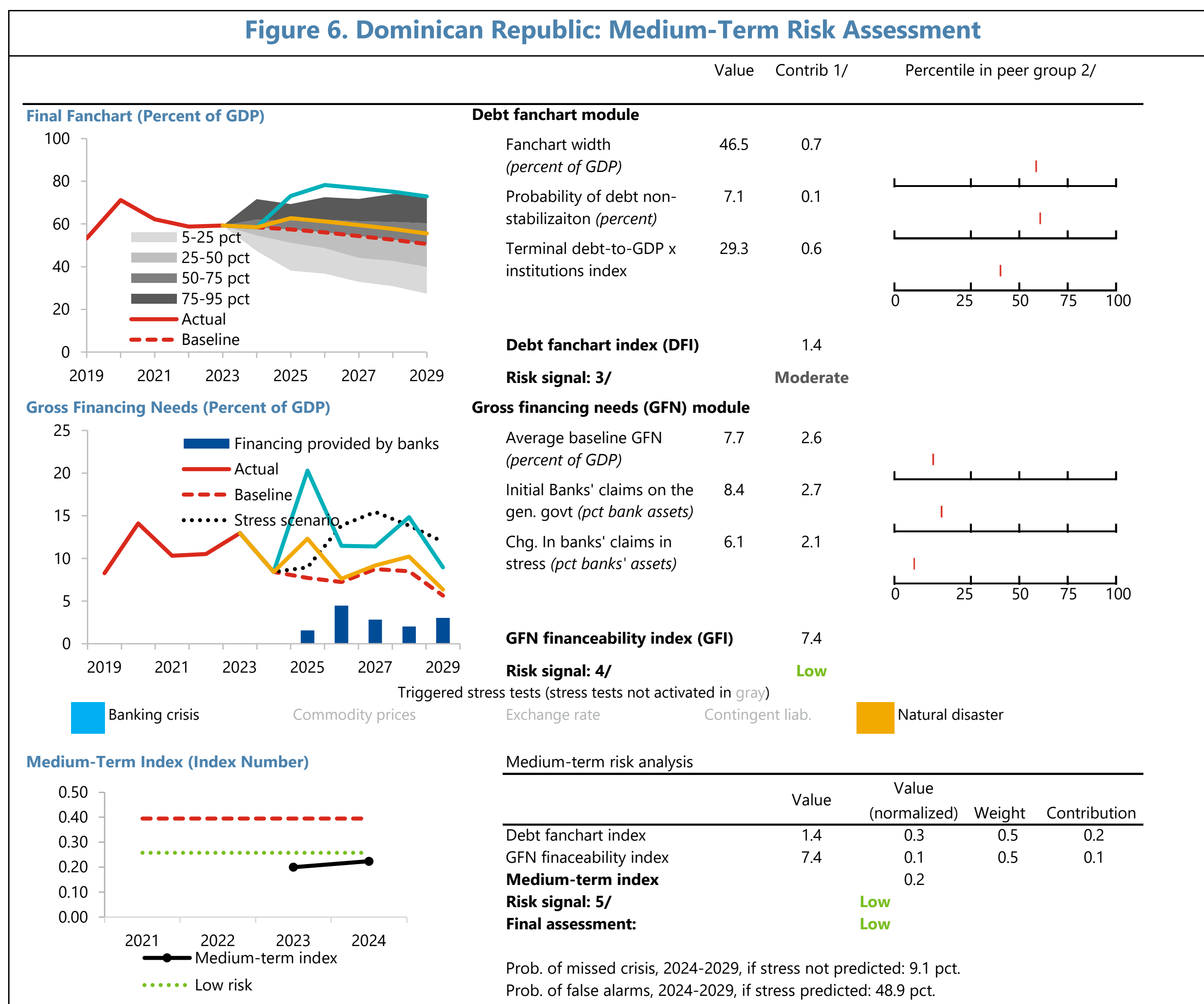
Source: IMF staff calculations.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Lauback (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.



Commentary: The Debt module points to moderate risk in the baseline, while the GFN module points to low risk and overall the medium-term risk signal is low.

The debt fanchart risk signal reflects that initial debt levels are moderate, and risks are moderate, i.e., there is a high probability of stabilization and terminal debt level is not high (as debt is projected to continue declining). The banking crisis scenario is triggered by recent credit growth; however, the impact appears too large given the current sound state of the banking sector, the existence of bank-funded deposit guarantee and resolution funds, and that the Dominican Republic's credit to GDP is well below the median. In case of a natural disaster shock, debt would be somewhat higher, but remain below the peak in 2020 (and thus expected to be financeable, including because the DR has access to climate disaster risk financing via the World Bank's CAT-DDO)

The GFN tool score points to low risk, due to relatively low average GFNs in the baseline (which include both NFPS debt and BCRD securities amortizations) and levels of bank claims / dependence (as most debt is longer-term external bonds held by international private investors). However, the shock (stress) scenario is strong due to dependence on external private creditors (as the shock scenario assumes limited rollover by these creditors and thus a need to rely on short-term domestic bank financing). In case of a natural disaster, GFN would rise and then decline (although remaining slightly above the baseline due to the higher debt level but below recent peaks). Further, as noted above, financing would be available form a CAT-DDO.

Source: IMF staff calculations.

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

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

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

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

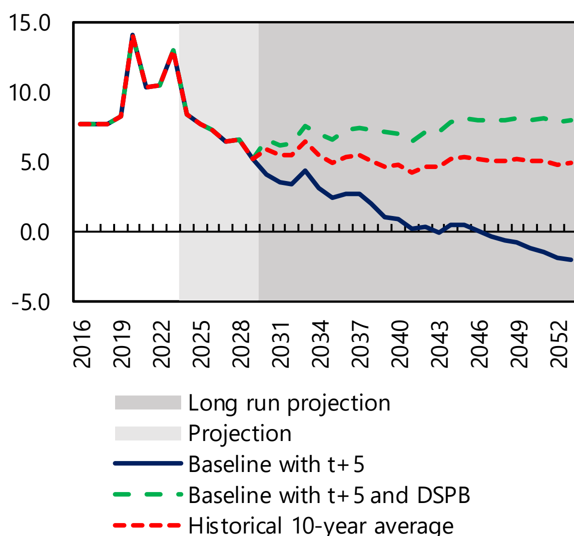
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Dominican Republic: Long-Term Risk Analysis

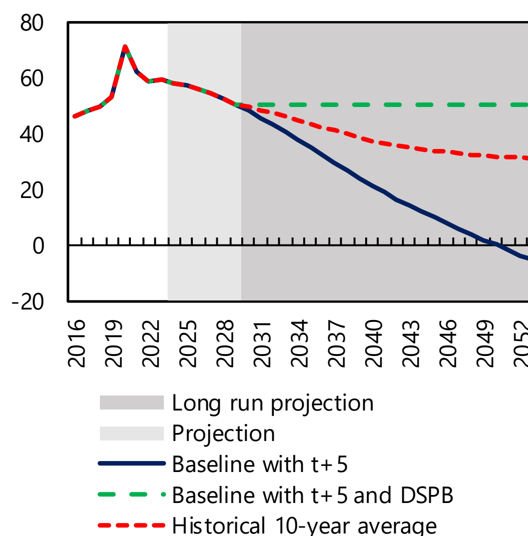
Dominican Republic: Long-Term Risk Assessment: Large Amortization

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

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

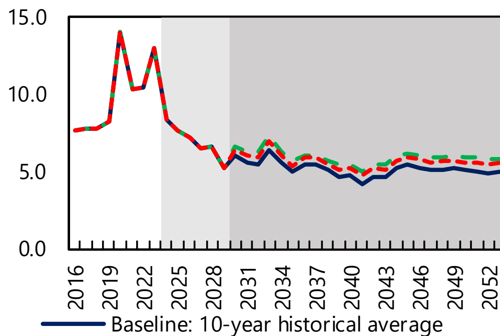


Commentary: In all scenarios GFN and the debt ratio remain moderate or low. The worst projected outcome is the baseline with t+5 and debt stabilizing primary balance (DSPB)—green dashed lines. In this case, GFNs and debt stay in the moderate range rather than declining as in the baseline with t+5 (which assumes continuous fiscal consolidation)—blue solid line. Given that the proposed fiscal rule would imply a DSPB only once GG debt has declined to 40 percent of GDP, a more realistic scenario may be the historical 10-year average (red). The latter nonetheless implies GFNs would remain relatively low.

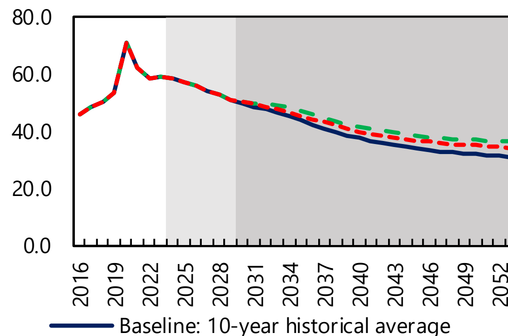
Figure 7. Dominican Republic: Long-Term Risk Analysis (Concluded)

Dominican Republic: Climate Change: Adaptation

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



Commentary: Under the standardized and customized scenarios, debt and GFN remains on a downward path. The standardized scenario shows that debt and GFN would be higher from incurring higher adaptation costs (0.7 percent of GDP) versus a Baseline without such costs. A customized adaptation scenario based on Annex VIII for the 2023 AIV takes into account the impact of resilient investment on long-term growth (higher by 0.13% per year) and LT fiscal gain (with a primary balance impact lower by 0.02% GDP versus the standardized scenario). The DR is currently updating its NDC action plan and its estimated costs and the authorities continue to improve their analysis of the fiscal risks from natural disasters, which may provide more country specific parameters to better calibrate the baseline in case of increasing frequency and severity of natural disasters and the benefits of an adaptation scenario, with more resilient infrastructure investment.

Source: IMF staff calculations.

Annex V. External Sector Assessment

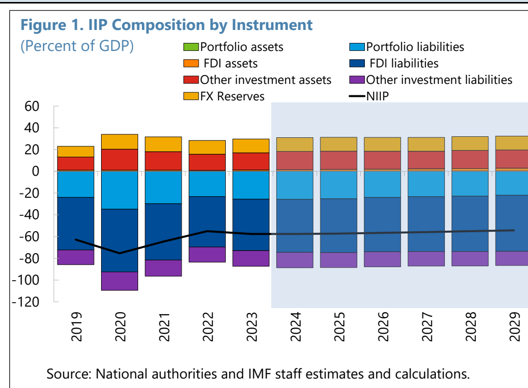
Overall Assessment. *The estimated external position of the Dominican Republic in 2023 remained broadly in line with the level implied by fundamentals and desirable policies. The CA deficit narrowed significantly in 2023 driven by import compression associated to the slowdown in domestic economic activity and lower energy prices that narrowed the trade deficit, and a stronger surplus in the service account stemming from record travel receipts. Gross international reserves increased further in 2023 and are at broadly adequate levels given they greatly exceed all traditional metrics despite falling short of the IMF's ARA metric.*[1]

Potential Policy Responses. *The Dominican Republic needs to gradually continue building external buffers to shield the country against future external shocks, including by continuing building upon its current broadly adequate level of international reserves along with greater exchange rate flexibility. Data-dependent monetary policy normalization should lessen potential risks to capital outflows while a gradual fiscal consolidation would reduce risk premia and narrow the external current account deficit and strengthen the external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. As of end-2023, the Net International Investment Position (NIIP) weakened slightly to -57.6 percent of GDP, largely driven by an increase in external debt in the form of portfolio investments and direct investments (FDI) on the liabilities side (which exceeded the increases in other investments by other sectors and reserve assets on the asset side). Nonetheless, the NIIP has improved by over 18 percentage points of GDP since 2020. Total external debt rose to 43 percent of GDP driven by sovereign bonds placed in capital markets, short-term debt liabilities by the Central Bank, and private sector debt (banks and other sectors). The exchange rate depreciation also contributed to the increase in external debt. Active debt management operations have helped to reduce exchange rate and rollover risks by extending the maturity and strengthening the currency composition of the debt profile (i.e., issuance of domestic currency-denominated debt at longer maturity) thus reducing the risks to external sustainability and vulnerabilities. Over the medium-term, the NIIP is projected to improve gradually driven by increases in external assets associated with growing direct investments and other investments.

Figure 1. IIP Composition by Instrument
(Percent of GDP)



Source: National authorities and IMF staff estimates and calculations.

Assessment. The NIIP has improved since 2020 and is projected to further improve over the medium-term supported by the steady increase in foreign assets and the expected improvement in the current account. The substantial share of FDI on the liabilities side mitigate potential risks. Thus, the Dominican Republic's NIIP is deemed sustainable.

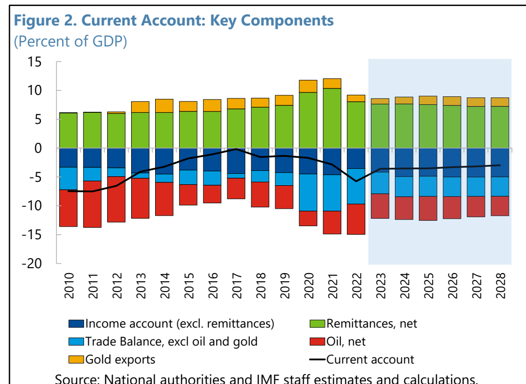
2023 (% GDP)	NIIP: -57.6	Gross Assets: 29.8	Debt Assets: 1.3	Gross Liabilities: 87.3	Debt Liabilities: 29.0

[1] See paragraph 7 of the main report.

Current Account

Background. The Current Account (CA) deficit narrowed from 5.8 percent of GDP in 2022 to 3.6 percent of GDP in 2023 supported by declining global energy prices, strong tourism activity, and soft import demand associated with the slowdown in domestic economic activity (Annex VI). The CA deficit was fully financed by FDI while portfolio investments—largely in the form of long-term sovereign bonds, contributed to the accumulation of reserves.

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



Source: National authorities and IMF staff estimates and calculations.

Assessment. The Dominican Republic's cyclically adjusted CA is estimated at -3.7 percent of GDP after accounting for cyclical contributions (e.g., terms of trade). The 2023 EBA-lite estimates a CA norm of -3.9 percent of GDP, which when compared to the cyclically adjusted CA, results in an estimated CA gap of 0.3 percent of GDP. Against this background, staff concludes that the current account is broadly in line with the level implied by fundamentals and desirable policies.

Table 1. EBA-Lite Model Estimates for 2023
(Percent of GDP)

	CA model 1/	**REER model** 1/	**ES model**
	(in percent of GDP)		
CA-Actual	**-3.6**		
Cyclical contributions (from model) (-)	0.2		
Natural disasters and conflicts (-)	-0.1		
Adjusted CA	**-3.7**		
CA Norm (from model) 2/	**-3.9**		
Adjustments to the norm (+)	0.0		
Adjusted CA Norm	**-3.9**		
CA Gap	**0.3**	**2.5**	**0.0**
o/w Relative policy gap	2.2		
Elasticity	-0.2		
REER Gap (in percent)	**-1.5**	**-14.6**	**0.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Following two-consecutive years with an average annual appreciation of 6.4 percent in 2021-2022, the Real Effective Exchange Rate (REER) depreciated by 2.6 percent as of end-2023. This was largely driven by a faster convergence of inflation to the target range in the Dominican Republic compared to the U.S. (improving the Dominican Republic's external competitiveness). The exchange rate vis-à-vis the U.S. dollar depreciated by 3.3 percent reflecting an increase in demand for foreign exchange towards the end of the year in response to the uptick in imports in the second half of the year. This depreciation versus the US dollar drove a slight depreciation (-0.6 percent) of the Nominal Effective Exchange Rate.

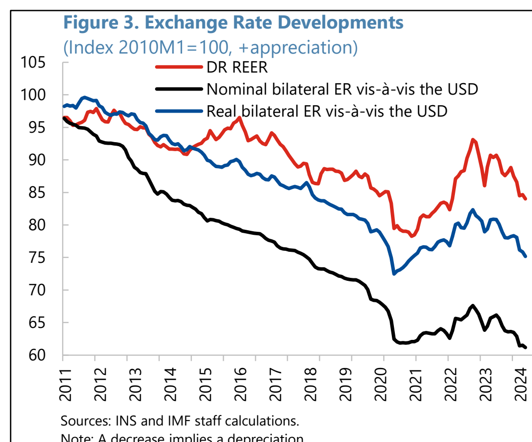


Figure 3. Exchange Rate Developments
(Index 2010M1=100, +appreciation)

Sources: INS and IMF staff calculations.
Note: A decrease implies a depreciation.

Assessment. The EBA-Lite REER model estimates a gap of -14.6 percent (undervaluation) in 2023 driven mainly by a large residual which limits the assessment. The External Sustainability (ES) model suggests no REER overvaluation nor undervaluation which implies the NIIP is sustainable. Based on an elasticity of -0.2 of the trade balance to the REER, the CA model estimates a REER undervaluation of -1.5 percent. In line with the assessment implied by the CA model—while considering all estimates and the uncertainties around them, staff assesses the REER gap in 2023 to be -1.5 percent.

Capital and Financial Accounts: Flows and Policy Measures

Background. Capital flows to the Dominican Republic are mainly private exceeding 60 percent over the last three years. External financing sources (e.g., FDI and market access) remained healthy and stable in 2023. The current account deficit was fully financed by FDI (100 percent). Active debt management operations in the form of placement of domestic currency international bonds in 2023-2024 and buybacks over the last four years have helped improve the Dominican Republic's risk profile by reducing the exchange rate and rollover risks of the government's debt profile. Going forward—and in line with improvements in the rule of law and control of corruption (Annex VII)—FDI and portfolio investments are expected to continue to finance the current account deficit.

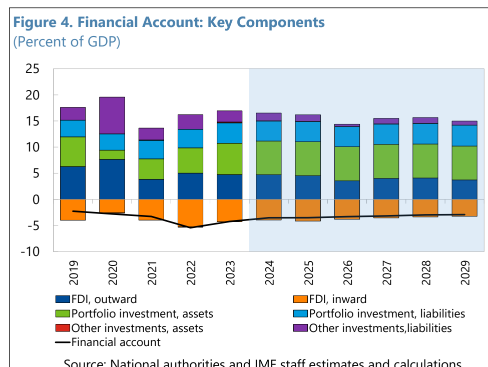


Figure 4. Financial Account: Key Components
(Percent of GDP)

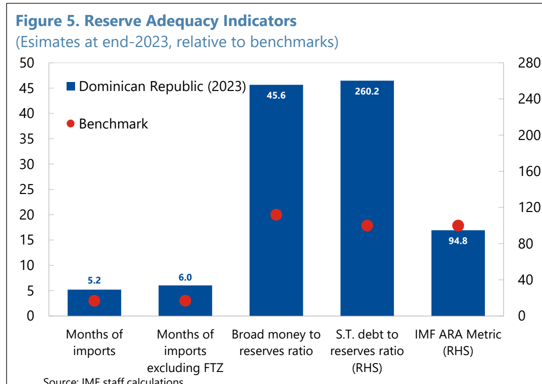
Source: National authorities and IMF staff estimates and calculations.

Assessment. The Dominican Republic's external sustainability is supported by a solid financing structure. Inflows are dominated by FDI and long-term debt flows. Outflows largely consist of public debt amortization. Active debt management operations (e.g., longer maturity and domestic currency denominated debt) in recent years have strengthened the public sector external debt profile.

FX Intervention and Reserves Level

Background. The Dominican Republic's gross international reserves (GIRs) increased to US$15.5 billion at end-2023. The level of reserves is broadly adequate as they exceed all traditional metrics, increasing to 5¼ months of prospective imports of goods and services, 12.7 percent of GDP, and covering 2.6 times short-term debt and over two fifths of broad money. GIRs stood at 95 percent of the IMF's ARA metric, 21½ percentage points above the three-year average prior to the pandemic. The level of GIRs has been supported by strong inflows of FDI and purchases of FX by the Central Bank. FXI interventions by the BCRD remain double sided and at around 5¼ percent of total market transactions (down from 9.5 percent of transactions in 2020). Net FXI represented US$0.2 billion in net sales in 2023 compared to US$1.8 billion net purchases in 2022, helping to smooth the nominal depreciation of the currency.

Figure 5. Reserve Adequacy Indicators
(Esimates at end-2023, relative to benchmarks)



Source: IMF staff calculations.

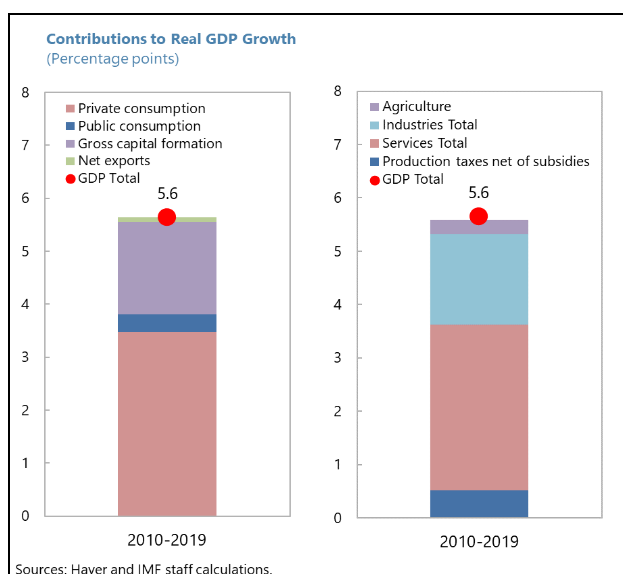
Assessment. The level of reserves is assessed as broadly adequate exceeding traditional metrics. Reserves stood at 94.8 percent of the IMF's ARA metric for non-floating exchange rate regime in 2023. Reserves averaged 96½ percent of the non-floating ("floating") ARA metric in 2021-23.

Annex VI. Explaining the Growth Slowdown and Recent Inflation Dynamics[1]

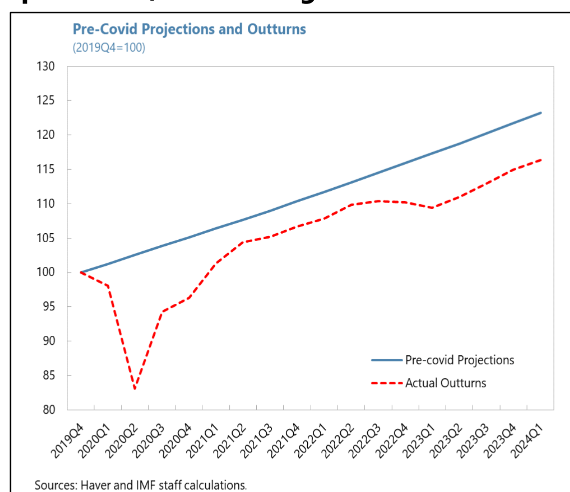
The Dominican Republic's (DR) economy recovered strongly following the pandemic, almost returning to its pre-pandemic trend by mid-2022. However, growth came to a halt at the start of 2023. This annex details the drivers of the growth slowdown (tighter domestic and external financial conditions, less favorable external demand, and transient idiosyncratic factors), its subsequent recovery, and the drivers of recent inflation dynamics (domestic slack, commodity prices and weak global conditions).

A. An Uncharacteristic Growth Slowdown

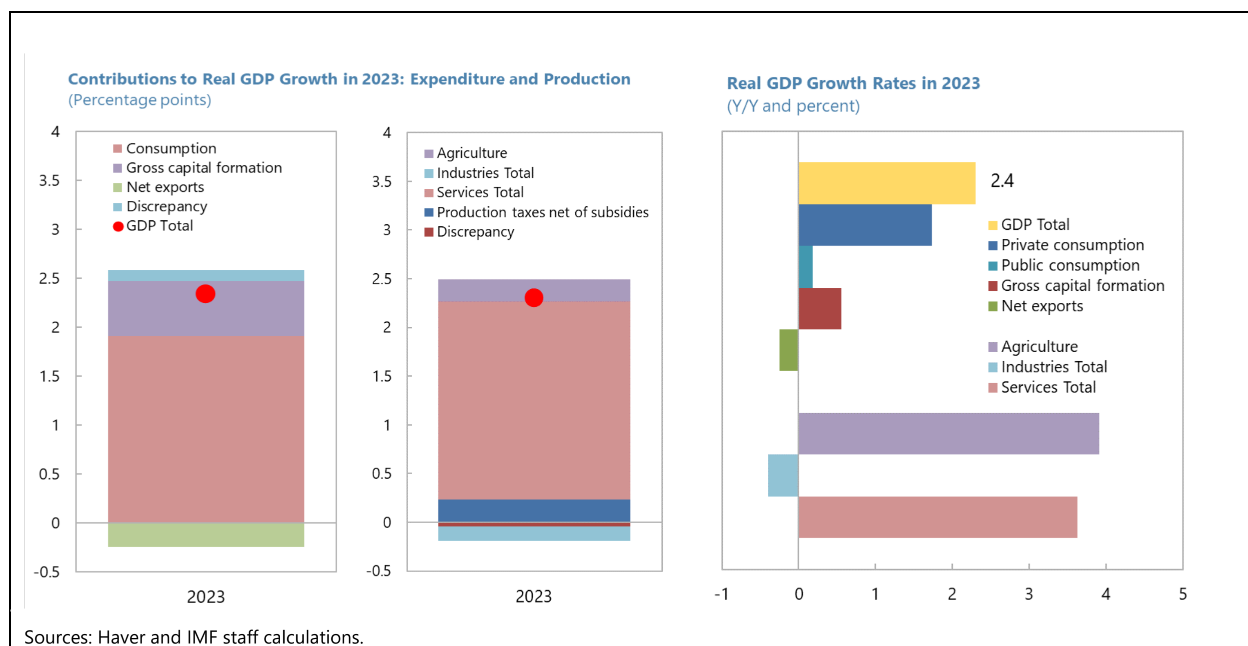
1. **The DR's economy has been one of the most dynamic and robust economies in the Western Hemisphere over the last two decades.** Between 2010-19, economic growth averaged 5.6 percent versus average growth of 2.2 percent in LAC. The largest contributors to GDP growth during that period were private consumption and investment on the expenditure side, while on the production side the contribution was more diversified, with important contributions from a dynamic services sector (led by tourism) and the industries sector (led by construction, local manufacturing, and mining).



2. **After a strong recovery from the COVID-19 pandemic, economic growth slowed below its average 5 percent growth rate in 2023.** Following a 6.7 percent contraction in real GDP in 2020, the economy recovered strongly in 2021, with GDP returning to its pre-crisis level in 2021Q1 and further closing the gap relative to pre-pandemic projections by 2022Q2. Growth began to decelerate in 2022Q3, and GDP contracted in both 2022Q4 and 2023Q1 (-0.6 and -2.8 percent on a quarter-on-quarter annualized basis respectively). Despite a strong rebound in economic activity in 2023H2 (with an important carry over impact for 2024), GDP growth was 2.4 percent in 2023.



[1] Prepared by Diego Calderon.



Sources: Haver and IMF staff calculations.

3. Private investment and consumption drove the growth slowdown on the expenditure side while industries led on the production side. Year-on-year growth decelerated from 2022Q4 due to a sharp deceleration in investment and private consumption (contributing 2.3 and 0.25 percentage points between 2022Q3 and 2023Q2, respectively). The contribution from exports also fell and exceed the drop in imports (in line with the domestic demand decline). The growth slowdown was nevertheless short lived as domestic demand rebounded in 2023H2. On the production side, the slowdown was evident a little earlier for the industrial sector, driven by a sharp decline in the construction sector and local manufacturing. Mining and agriculture also contributed negatively to growth during this period due to transient factors related to regulatory and planning issues in a gold mine (since overcome) and by a drought and swine flu (at the start of 2023). There was also a growth slowdown in the service sector led by a lower contribution from tourism (despite continued robust growth in arrivals as tourists spent less per visit), retail and wholesale trade (aligned with the decline in private consumption), and by the transport and storage sector. The 2023H2 growth rebound was driven by a rebound in industry (led by the construction sector and local manufacture), and services (led by hotels and restaurants and transportation and storage). The rest of the annex discusses the key drivers behind the growth slowdown and subsequent recovery.

Contributions to Real GDP Growth: Expenditure Components
(Percentage points)

Contributions to Real GDP Growth: Production Components
(Percentage points)

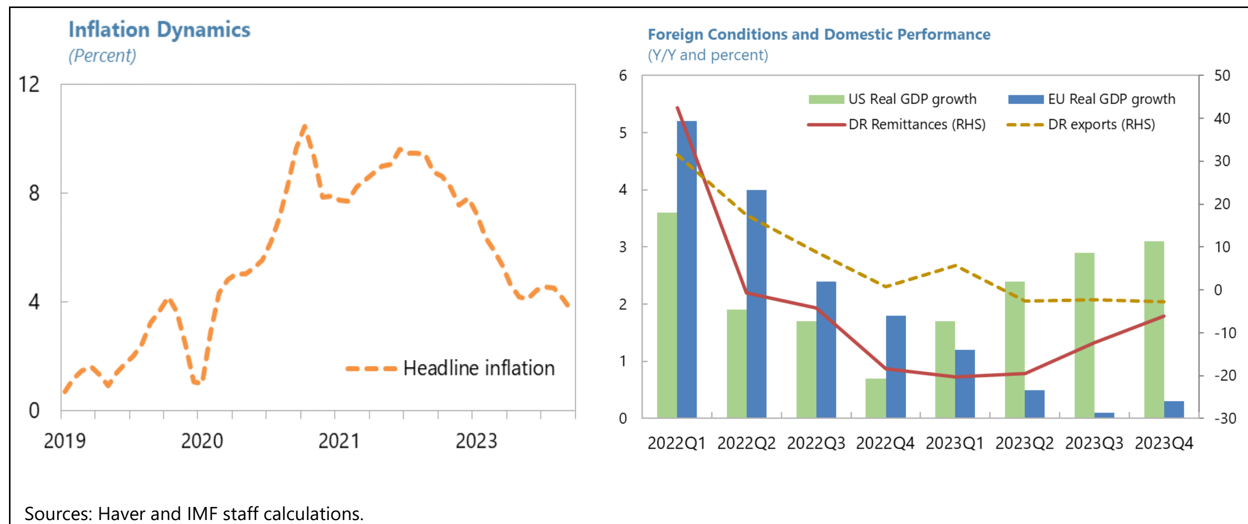
Contributions to Real GDP Growth: Services
(Percentage points)

Contributions to Real GDP Growth: Industries
(Percentage points)

Sources: Haver and IMF staff calculations.

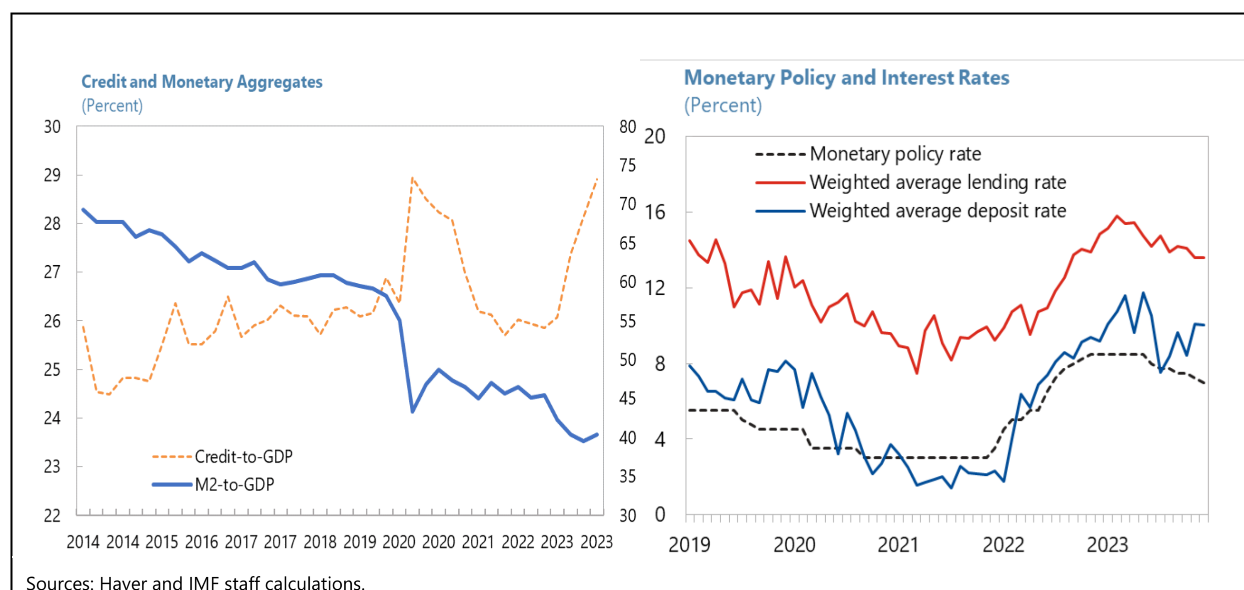
B. Domestic and External Factors Drove the Growth Slowdown

4. **Policy support was swiftly withdrawn from 2021.** Starting in November 2021, monetary policy was tightened by 550bp by November 2022 and pandemic-related liquidity support



Sources: Haver and IMF staff calculations.

withdrawn. The increase in the monetary policy rate resulted in a 750bp increase in the real rate (from -4.7 percent in November 2021 to 3.9 percent by May 2023) while the average lending rate rose by around 480bp. In response, credit to GDP declined until 2022Q4 as credit conditions tightened. In May 2023, monetary policy normalization began as inflation returned to its target range. To ensure full passthrough to lending rates, liquidity measures were introduced, positively impacting credit growth in the second half of 2023 and supporting the recovery.[2] Fiscal policy also contributed to the growth slowdown as pandemic-related measures were withdrawn in 2021 and although they had been partially offset at the start of 2022 by subsidies in response to Russia's invasion of Ukraine, these had faded by early 2023. Lower real public investment growth in 2022 following a peak in 2021Q4, partly contributed to the slowdown of the construction sector, but was partially reversed by increased real public investment spending in 2023 (see ¶5 in the report).



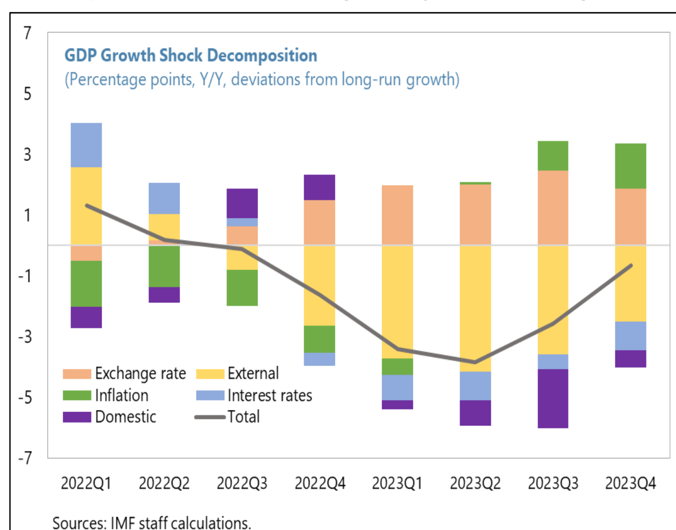
Sources: Haver and IMF staff calculations.

5. Less favorable external conditions also contributed to a weaking of exports and remittances. Tight global financial conditions and a slower growth in the main trading partners such as the US and the European Union partially explain a decline in remittances and exports, the latter also impacted in response to higher shipping costs and higher and more volatile commodity prices. As GDP growth in the US recovered in 2023, remittances to the DR improved in the last two quarters of 2023.

[2] Based on a credit impulse estimated using the credit to GDP gap, the increase in credit growth seen between 2023Q3-2024Q2 is estimated to have boosted the level of GDP by around 0.2 percent.

C. Formalizing the Impact of the Key Growth Drivers and Recent Inflation Dynamics

6. A small semi-structural macroeconomic model is used to evaluate the impact of the different growth drivers through a shock decomposition, confirming many of the insights previously discussed.[3] Shock decompositions show contributions from all past structural shocks on the deviation of a variable from its steady-state.[4] The shock decomposition confirms that the growth slowdown is driven by both domestic and external factors consistent with the above narrative. Financial conditions (both domestic and external), which had been supporting growth in the aftermath of the pandemic, turned more restrictive from 2022Q4. Despite the decline in the policy rate since May 2023, the real rate remains restrictive thereby weighing on growth (Annex XI). Inflation shocks, which dampened real wages, also contributed negatively to GDP growth in 2022 and early 2023 but became supportive thereafter given the increase in real wages (see ¶3 in the main text). With the rapid decline in inflation, real wage growth began to recover in 2023H2 and supported the GDP rebound. The exchange rate, which had been a headwind following its appreciation in 2021-2022H1, began to depreciate from 2022Q2, offsetting some of the factors that had dampened growth. Finally, contributions from domestic shocks (including fiscal policy or weaker confidence) also had a negative impact on GDP growth throughout 2023 but had almost faded by year end.

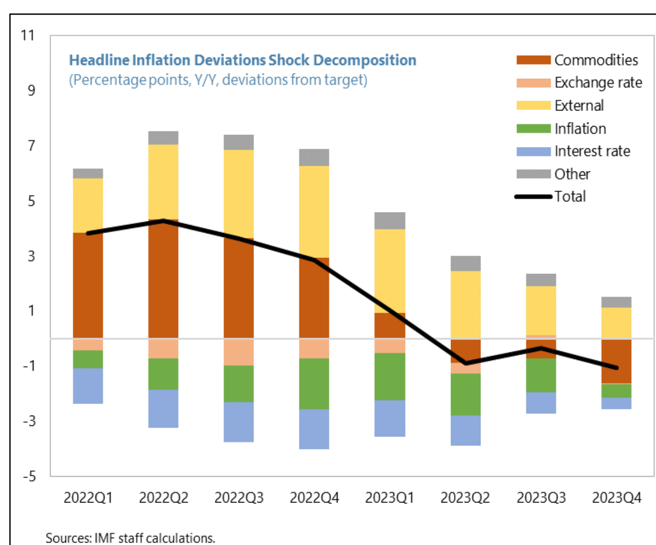


Sources: IMF staff calculations.

[3] "A Practical Model-Based Approach to Monetary Policy Analysis—Overview", 2006, by A. Berg, P. Karam, and D. Laxton, IMF, WP/06/80. The model was customized and calibrated to the Dominican Republic with the assistance of staff from the IMF's Institute of Capacity Development. The model consists of four main equations: (1) an aggregate demand equation (IS curve) relating the output gap to real interest rate, credit conditions, exchange rate, and foreign output; (2) aggregate supply equations (Phillips curves) that relates inflation to the output gap, the exchange rate, international commodity prices and foreign inflation; (3) an uncovered interest parity condition for the exchange rate; and (4) a monetary policy reaction function

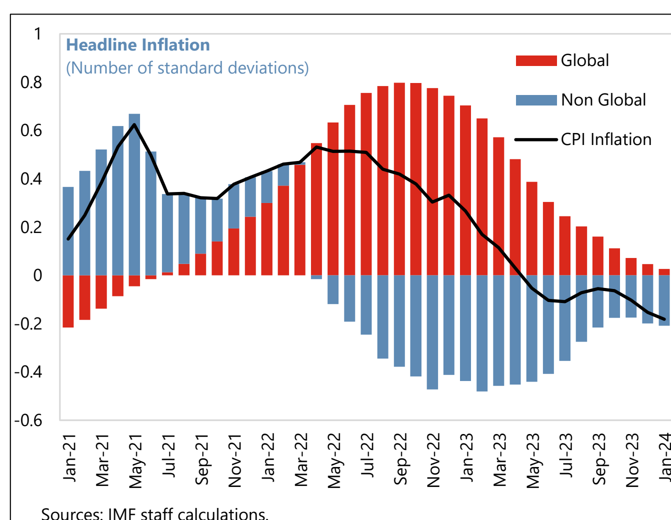
[4] It decomposes a variable into contributions from exogenous, mutually independent shocks. All variables are defined in annualized quarter-on-quarter terms. The shocks presented are cumulative, showing the contribution from all prior shocks (including the present quarter) to the value of the variable in that quarter. It can be thought of as a cumulation of all impulse responses to all of the shocks in all preceding quarters.

7. Recent inflation dynamics are driven mainly by global conditions. Shock decomposition of headline inflation shows that the deviation from target inflation is driven mostly by external factors (commodity prices and the US output gap) during 2022 and 2023, but with an attenuated impact by the end 2023 as the US output gap closed and commodity prices fell (shocks contributed negatively to inflation deviations). In contrast, tight monetary policy (including both domestic and foreign) and negative core price shocks have contributed to offset the upward pressures to headline inflation. Exchange rate appreciation during the first three quarters in 2022 contributed negatively to inflation, but relatively less than the rest of the shocks.



Sources: IMF staff calculations.

8. Using a dynamic factor model, global factors are also shown to be key factors driving recent inflation dynamics. A global factor is extracted from quarterly inflation data between 1996 and 2023 for 136 countries, including the Dominican Republic and 21 other countries in Latin America and the Caribbean.[5] Consistent with the results from the model decomposition, external factors explain the entirety of the inflation surge in 2021-22, with domestic and regional factors playing an offsetting role. The decline in inflation in 2023 was partly driven by the decline in the global factor, itself correlated with the decline in global commodity prices.



Sources: IMF staff calculations.

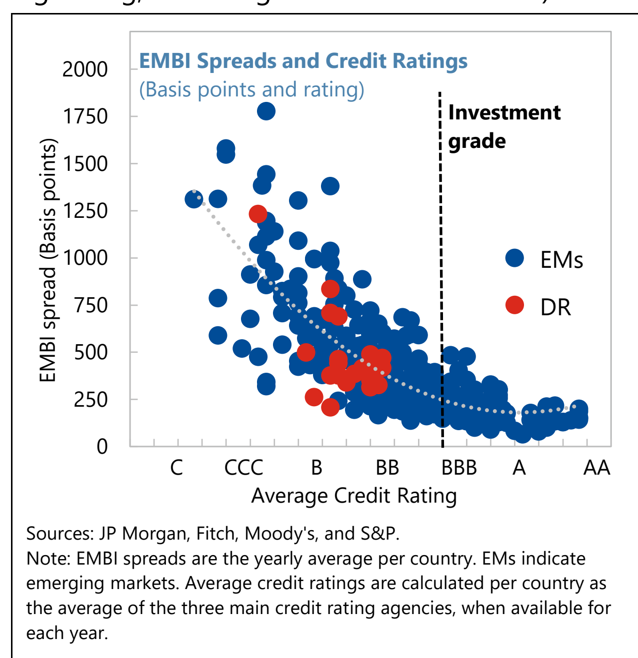
[5] "On the importance of global and regional factors for explaining inflation dynamics in Latin America", Chaverri and others (2024) forthcoming IMF Working Paper.

Annex VII. Debt Affordability and Sovereign Spreads[1]

Debt affordability—the capacity to carry current, or take on additional, debt—is a concern for many emerging market economies, particularly following the COVID pandemic shock, which resulted in exceptionally higher deficits and corresponding higher debt. With interest rates now higher for longer, the higher debt levels are now resulting in higher interest costs that are further worsening debt affordability. Given the impact of interest spreads on interest costs and debt affordability, it is useful to assess how global and country specific factors (fundamentals) affect spreads. This can help countries focus on reforms that can reduce borrowing costs. Analysis shows that improved fundamentals (both macroeconomic and institutional factors) help reduce spreads and make debt more affordable.

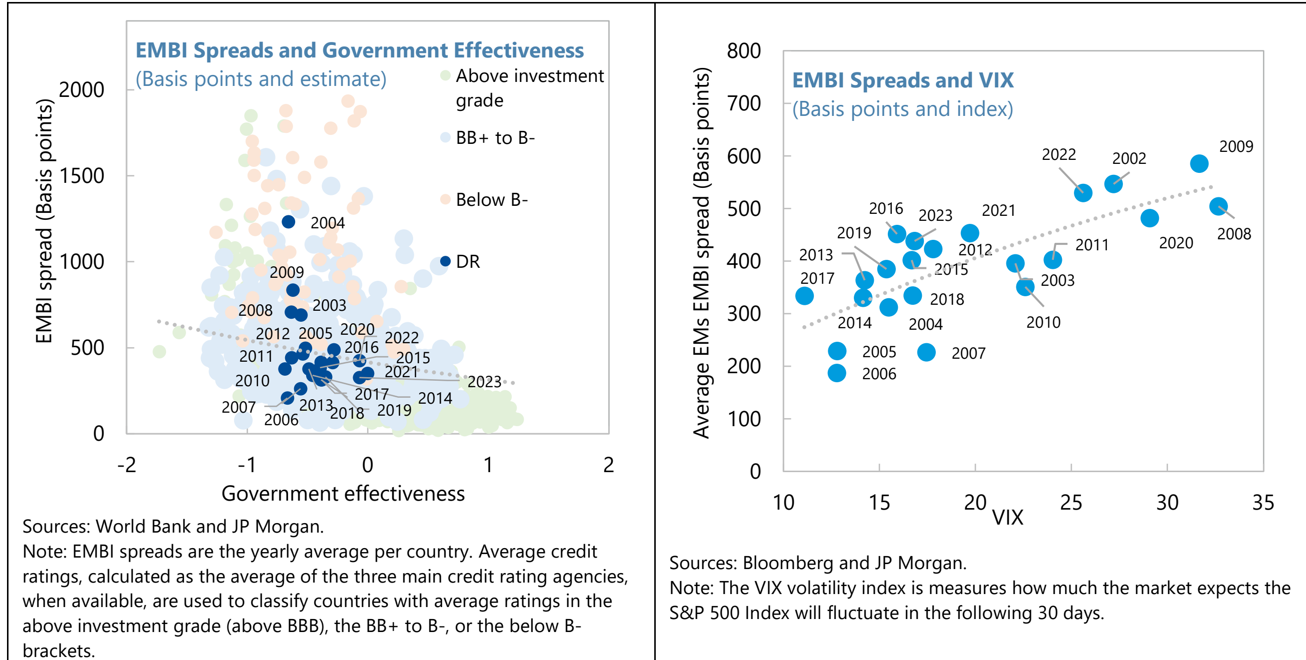
Background and Motivation

1. Drivers of debt affordability and spreads.[2] The main drivers of debt affordability relate to the level and risk profile of debt, interest rates (cost of borrowing), and the ability and willingness to generate revenues to pay debt (including by having strong, resilient growth and institutions). These inter-related fundamentals are simultaneously key drivers for sovereign credit risk ratings, which assess the probability of default, and interest rate spreads (the difference versus the risk-free rate). However, unlike credit ratings (which are through-the-cycle assessments), spreads (the market's pricing of the risk of default) are also impacted by global factors, such as financial conditions and investor uncertainty (typically proxied by the VIX).[3] Thus, spreads may fluctuate even as fundamentals remain unchanged. Further, spreads of sovereigns with lower credit ratings often appear more negatively impacted by global factors—thus there is more dispersion for spreads at lower credit ratings.



Sources: JP Morgan, Fitch, Moody's, and S&P.
Note: EMBI spreads are the yearly average per country. EMs indicate emerging markets. Average credit ratings are calculated per country as the average of the three main credit rating agencies, when available for each year.

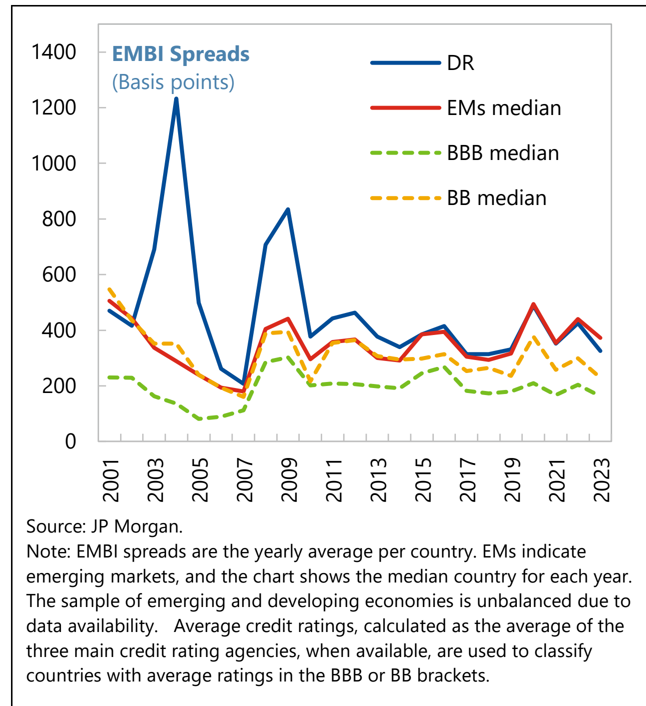
[1] Prepared by Pamela Madrid and Alejandro Fiorito.
[2] Spreads are measured by JP Morgan's Emerging Markets Bond Index (EMBI), which is the difference between the yields on an EM government's US dollar-denominated external debt and equivalent maturity US Treasury, using averages per year for each country.
[3] The VIX volatility index is intended to measure how much the market expects the S&P 500 Index will fluctuate in the following 30 days.



Sources: World Bank and JP Morgan.
Note: EMBI spreads are the yearly average per country. Average credit ratings, calculated as the average of the three main credit rating agencies, when available, are used to classify countries with average ratings in the above investment grade (above BBB), the BB+ to B-, or the below B- brackets.

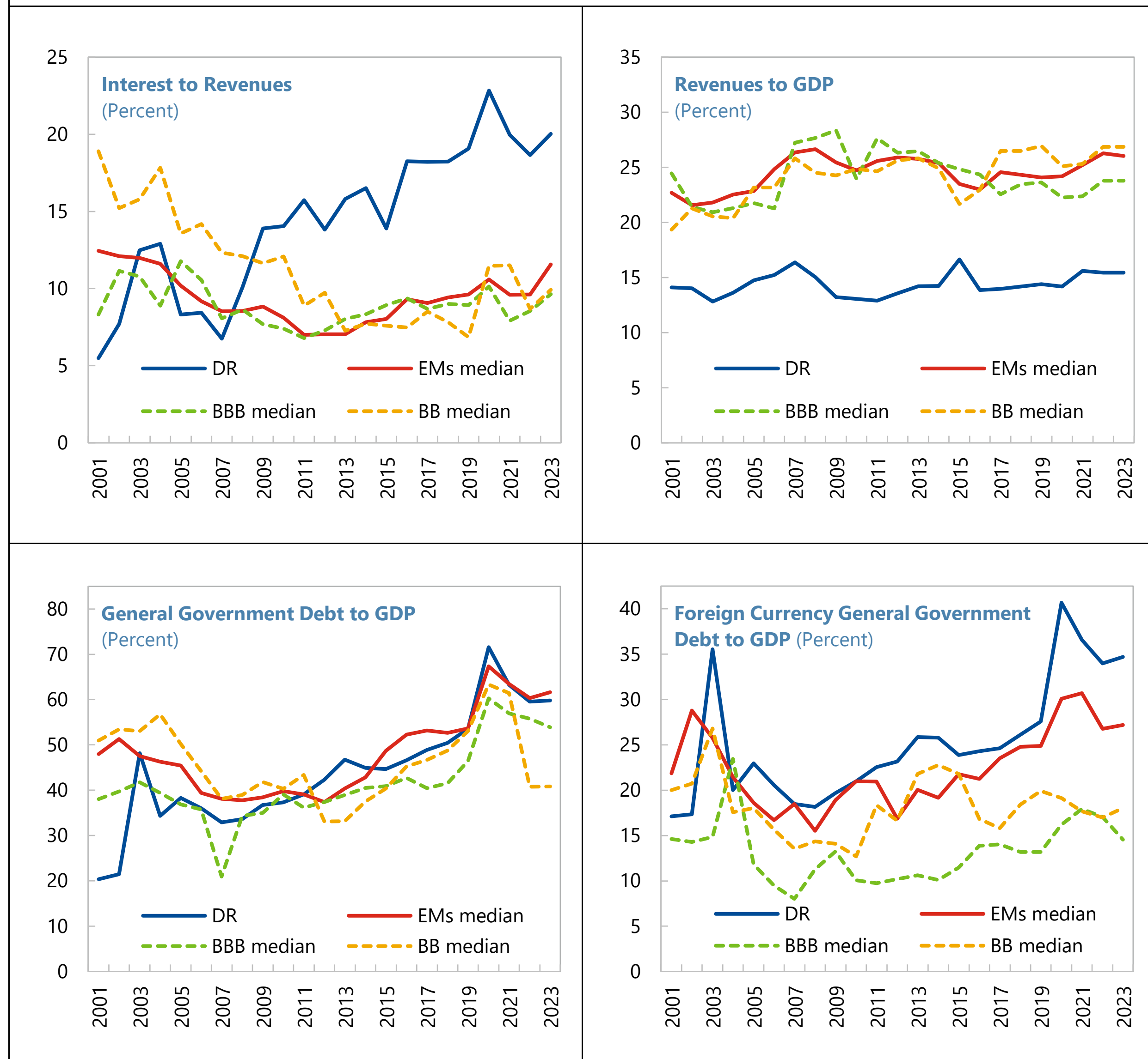
Sources: Bloomberg and JP Morgan.
Note: The VIX volatility index is measures how much the market expects the S&P 500 Index will fluctuate in the following 30 days.

2. The DR's debt affordability remains constrained, and spreads are elevated relative to peers. Despite good market access, moderate overall debt levels (in line with EM peers), and some improvements in the Dominican Republic's fundamentals in recent years (notably improving institutions), debt affordability remains constrained by relatively low revenues and high interest costs. Debt is also more exposed to exchange rate fluctuations given relatively high stocks of external and FX debt.



Source: JP Morgan.
Note: EMBI spreads are the yearly average per country. EMs indicate emerging markets, and the chart shows the median country for each year. The sample of emerging and developing economies is unbalanced due to data availability. Average credit ratings, calculated as the average of the three main credit rating agencies, when available, are used to classify countries with average ratings in the BBB or BB brackets.

Figure 1. Dominican Republic: Key Debt Affordability and Debt Risk Metrics versus Peers



Source: IMF staff calculations.
Notes: EMs indicate emerging markets, and the chart shows the median country for each year. The sample of emerging and developing economies is unbalanced due to data availability but includes up to 76 countries per variable. Average credit ratings, calculated as the average of the three main credit rating agencies, when available, are used to classify countries with average ratings in the BBB or BB brackets.

Sovereign Spreads and Fundamentals

3. **Spreads reflect the probability of default and market price of risk (default distribution).** Based on this, the literature has used a variety of variables that can affect a sovereign's default, in particular fundamentals related to debt, growth, liquidity, and institutions as well as global factors related to financial conditions.

4. **A fixed effects panel regression captures the impact global and domestic factors (fiscal, macroeconomic, and institutional variables) on EMBI spreads across a sample of emerging and developing economies between 2002 and 2022.** Box 1 details the specification used. The sample is unbalanced due to data availability constraints and composed of 76 countries, excluding outliers with extremely high EMBI spreads (generally above 2,000 basis points).

Box 1. Model Specification and Variables

A typical specification uses the arbitrage condition, assuming a risk neutral investor that equates the expected return on risky debt, with a given a probability of default (p) and no recovery ($LGD = 100\%$), to the risk-free return:

$$(1-p)[1+(i^*+s)] = (1+i^*),$$

with

$$p = exp(\sum B_i x_i)/\,(1+exp(\sum B_i x_i))$$

Where i^* is the risk-free rate and x_i are determinants of the p, i.e., domestic fundamentals (e.g., fiscal soundness/debt affordability, growth, and institutions). Taking logs and solving for s, spreads, gives:

$$log(s) = log\,(1+i^*) + \sum B_i x_i$$

Recent literature also includes other global factors (e.g., VIX) to capture global uncertainty that may also impact the pricing of sovereign bonds:

$$Spread_{i,t} = \Upsilon_i + \sum \alpha_j * GlobalFactors_j + \tau_t + \sum \beta_k * Fundamentals_{k,i,t}$$

where

- $Spread_{i,t}$ is measured as the natural logarithm of the EMBI spread for country i in year t.
- i are the countries in sample and Υ_i are country fixed effects.
- j are global factors (e.g., VIX and US 10-year yield), which may also be partially captured by time fixed effects (τ_t)
- k are the fundamental factors, including: (1) fiscal variables (general government debt, primary balance, interest payments to revenue, and foreign currency debt); (2) general macroeconomic variables (real GDP growth and inflation); and (3) institutional variables (control of corruption, government effectiveness, political stability and absence of violence, and rule of law from the World Bank's World Governance Indicators database).

5. **Results highlight the importance of fiscal and institutional variables, as well as GDP growth, in determining country spreads (Table 1).** As expected, on average, higher primary

balance and/or real GDP growth lower spreads, whereas higher interest payments to revenue and/or higher foreign currency debt ratios increase spreads. While general government debt is not significant, its impact is likely captured by other variables (such as interest payments to revenue that measures debt carrying capacity, foreign currency debt accounts for debt composition, and time fixed effects which likely reflect the general increasing trend in debt-to-GDP ratios). Importantly, all institutional variables are very significant and negative, implying that a better institutional quality indicator (WGI estimate) leads to lower spreads.

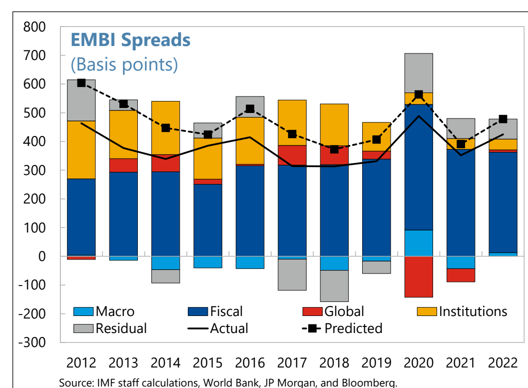
Table 1. Dominican Republic: Model Results

		Natural log of EMBI spread				
		(1)	(2)	(3)	(4)	(5)
Credit Rating	Average credit rating	-0.206 ***	-0.206 ***			
Global	VIX (index)		0.034 ***	0.038 ***	0.039 ***	0.023
	10-year US Treasury yields (percent)		0.152 ***	0.092	0.110	0.076
Fiscal	General government debt			0.002	0.002	-0.001
	Primary balance			-0.016 **	-0.012 *	-0.012 **
	Interest payments to revenue			0.027 ***	0.026 ***	0.029 ***
	Foreign currency debt			0.011 **	0.009 *	0.011 **
Macro	Real GDP (y/y growth)				-0.021 ***	-0.018 ***
	Inflation (y/y average)				0.009 ***	0.003
Institutional	Government effectiveness (estimate)					-0.388 ***
	Political stability and absence of violence (estimate)					-0.130 ***
	Rule of law (estimate)					-0.410 ***
	R-squared	0.76	0.76	0.29	0.32	0.49
	F-test	83.6	83.6	49.4	50.5	43.9
	Observations	963	963	980	978	918

Notes: Variables are in percent of GDP unless otherwise noted. Average credit ratings are calculated as the average of the three main credit rating agencies, when available. Using robust standard errors and country and time fixed effects.
***p<0.01, **p<0.05, and *p<0.1.

6. These results have several key implications for the Dominican Republic:

- The DR's strong, resilient growth and improving institutions have helped reduce its spreads in recent years. Institutions contributed to a third of the predicted EMBI spread for the DR between 2012 (when inflation targeting was introduced) and 2019. Since then, the contribution from institutions is around 8 percent of the predicted EMBI spreads, largely reflecting the improvement in government effectiveness and rule of law, as well as political stability.



Source: IMF staff calculations, World Bank, JP Morgan, and Bloomberg.

- Further increasing fiscal revenues and reducing foreign currency debt could help further reduce spreads, improving debt affordability. In that regard, fiscal factors are the overall main driver of spreads, accounting, on average, for 69 percent of the predicted spreads between 2012-2022.

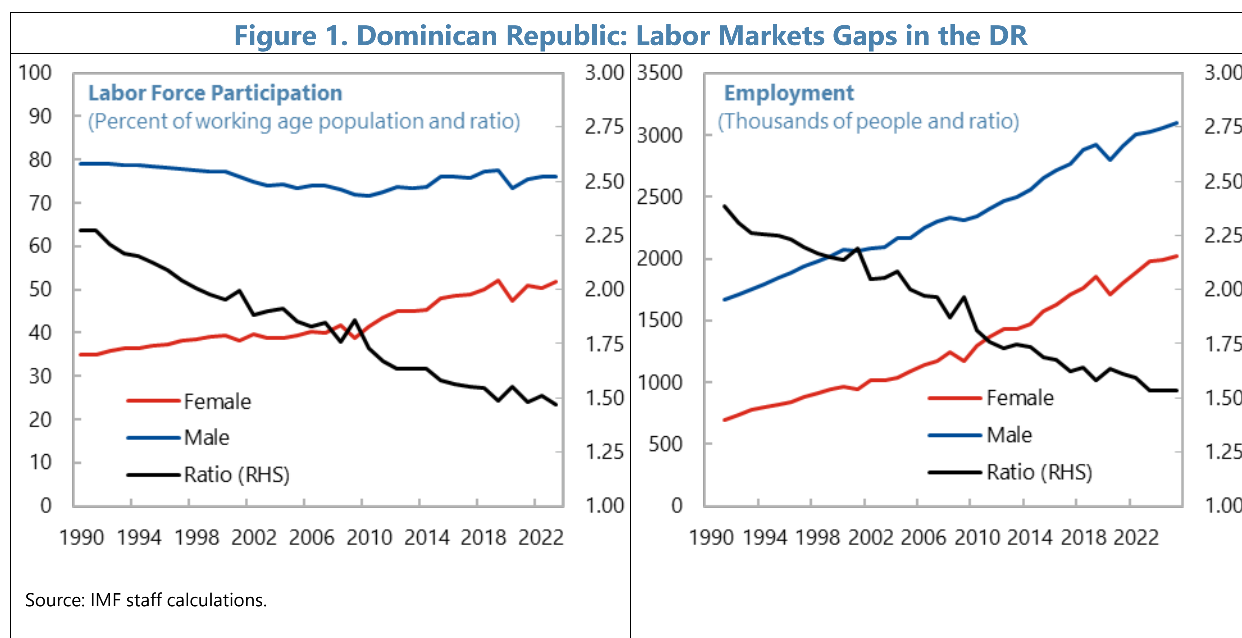
Annex VIII. Closing Key Labor Market Gender Gaps in the Dominican Republic[1]

Despite important improvements in the last three decades, the Dominican Republic's (DR) Female Labor Force Participation (FLFP) gap remains significant, impacting also female employment. Closing these gaps while also boosting education and skills could not only increase output but also productivity, potentially increasing DR's GDP by 17-19 percent. The authorities are implementing various policies to reduce gender gaps and foster female labor market participation, which may have important payoffs.

A. DR's Labor Market Gender Gaps

1. While FLFP and employment have improved significantly from low levels, they remain among DR's main gender gaps. Female participation in the labor force has improved significantly, from around 35 to 53 percent in the last three decades and female employment is now about three times that of 1991. These large improvements have led to a persistent reduction in gaps relative to men in terms of DR's FLFP and employment, and closed gaps relative to peers. The DR FLFP gap has improved relative to upper-middle income (UMI) peers, moving from slightly above the 75th percentile to about the median. Although the DR remains above the median when compared to LAC (around the upper bound of the interquartile range), when compared to advanced economies (AEs) the DR FLFP gap is about twice as high. Further, the latest data show that the ratios of men to women in terms of employment (1.58) are still important and above the regional average (1.3) and that of advanced economies (1.22).

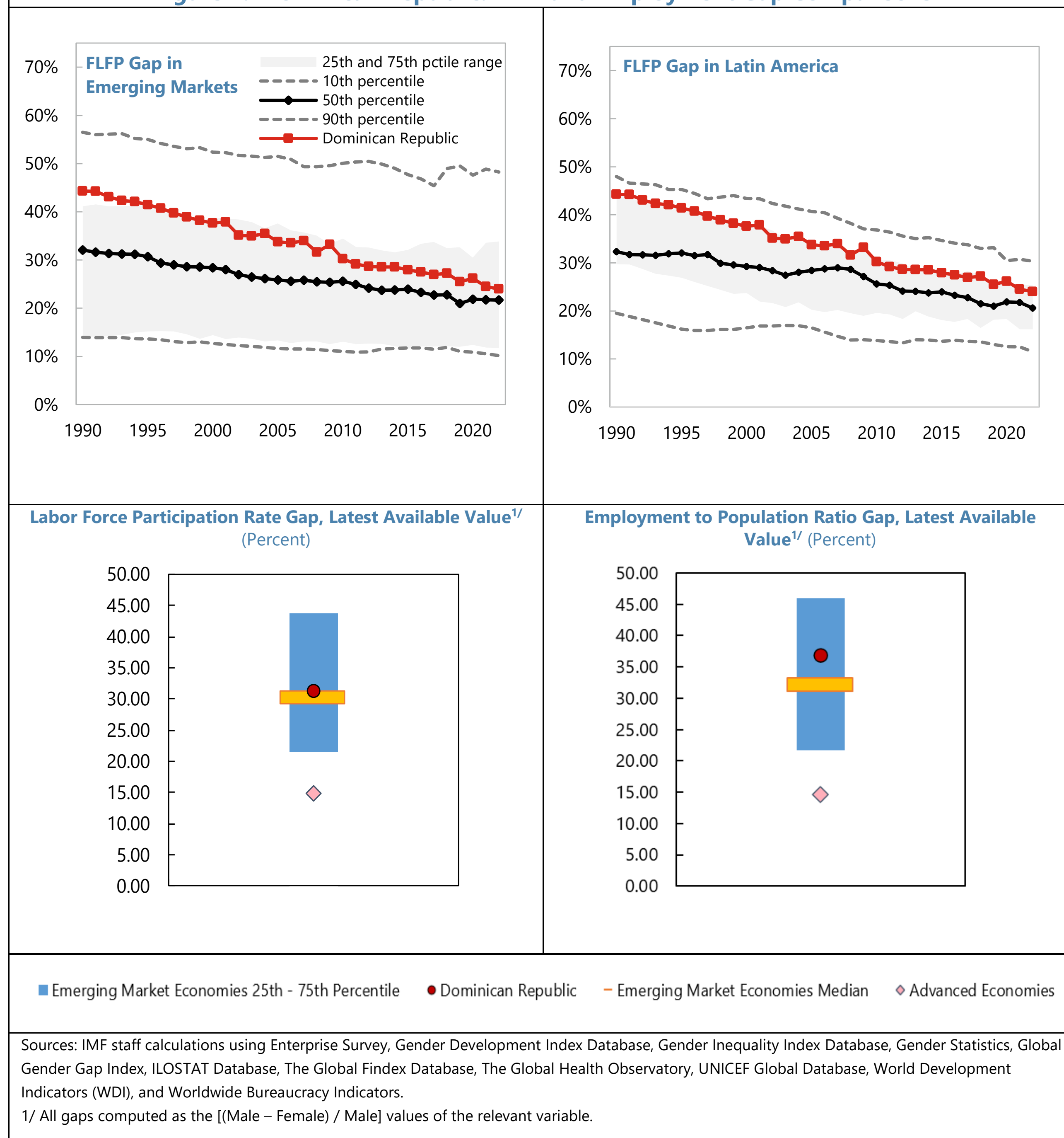
Figure 1. Dominican Republic: Labor Markets Gaps in the DR



Source: IMF staff calculations.

[1] Prepared by Diego Calderon, Alejandro Fiorito and Pamela Madrid.

Figure 2. Dominican Republic: FLFP and Employment Gap Comparisons



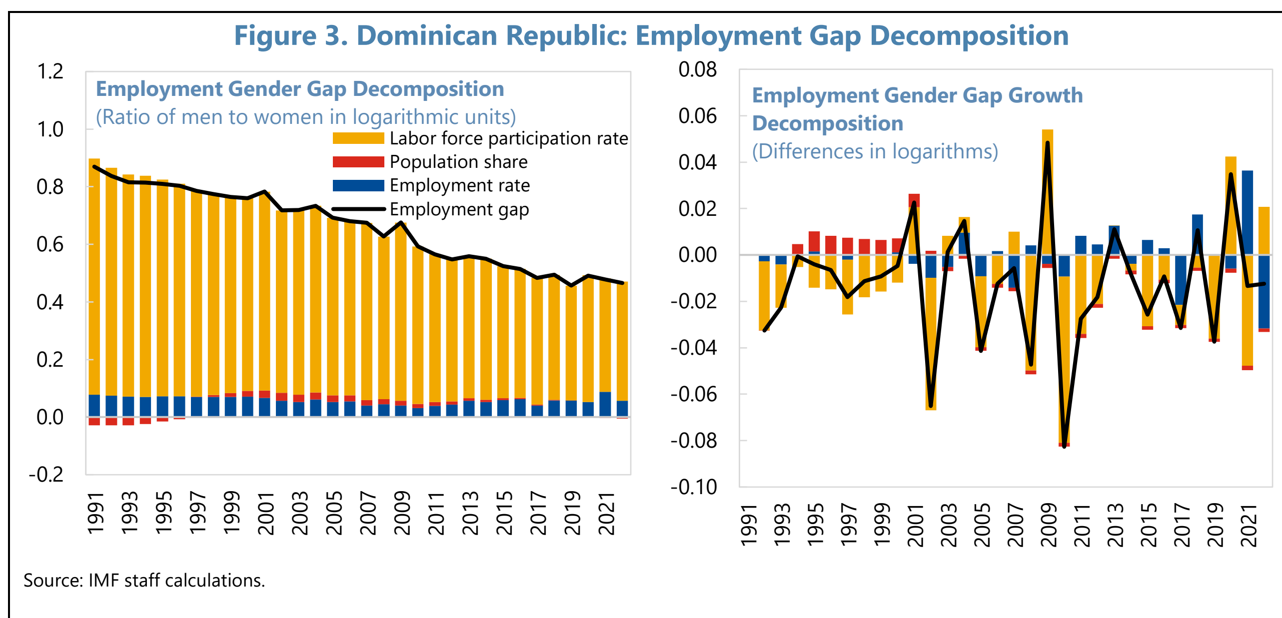
Sources: IMF staff calculations using Enterprise Survey, Gender Development Index Database, Gender Inequality Index Database, Gender Statistics, Global Gender Gap Index, ILOSTAT Database, The Global Findex Database, The Global Health Observatory, UNICEF Global Database, World Development Indicators (WDI), and Worldwide Bureaucracy Indicators.

1/ All gaps computed as the [(Male – Female) / Male] values of the relevant variable.

2. **Significant increases in FLFP have contributed to a sizable reduction of the female employment gap, although this gap remains relatively greater than that for LFP.** A decomposition of the employment gender gap shows that the main driver was the entry of woman

into the labor force as the employment rate gap did not vary significantly (Figure 3).[2] Increasing FLFP in the DR during the last three decades correlates with strong and stable economic growth, increasing services sector employment, a reduction in teen pregnancy (since 2010) and early marriage, and higher levels of schooling for women, in line with the main drivers suggested by the literature (Serrano et al., 2018, World Bank, 2023).

Figure 3. Dominican Republic: Employment Gap Decomposition

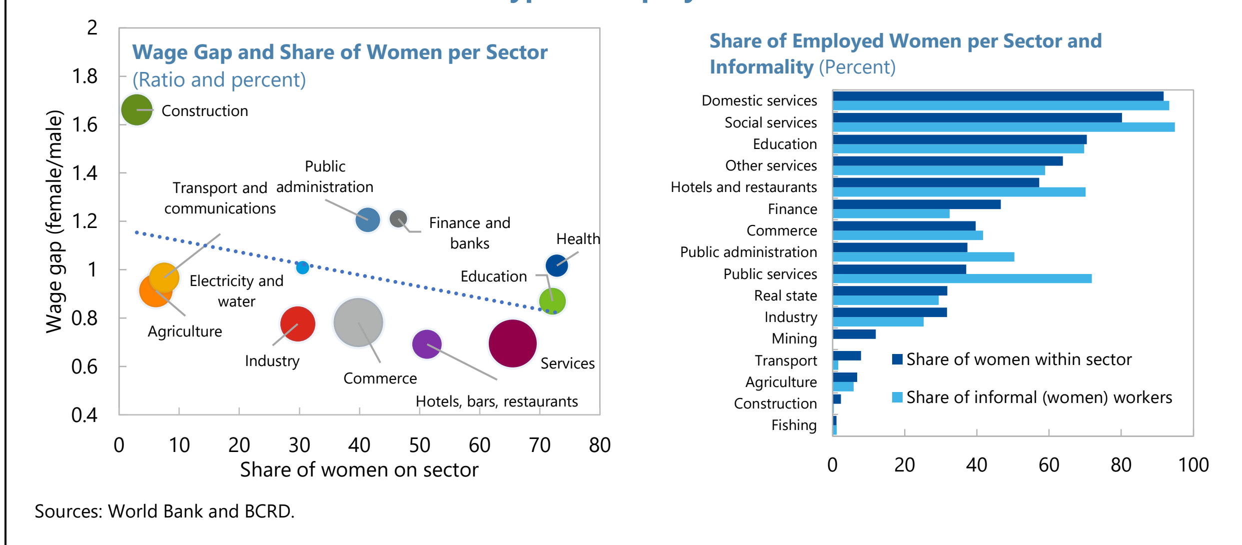


Source: IMF staff calculations.

3. **Female employment is concentrated in less capital-intensive services and informal sectors, leading to a higher wage gap and more income uncertainty, although discrimination may also play a role.** Women are largely employed in services—in particular health, education, domestic, and tourism-related. Sectors with higher share of employed women are more labor-intensive and also associated with wage gaps, i.e., lower wages relative to men (Fig. 4). Labor informality is widespread among domestic service workers, but also in education and tourism, and is more prevalent among women than men. On average, women in the formal sector earn only about 85 percent of what men earn and this figure declines to around 60 percent in the informal sector (World Bank, 2023). Even controlling for self-selection and also observable characteristics (e.g., education, experience, region, family characteristics), gaps across the wage distribution are still found, suggesting possibly differences in productivity, social norms, or discrimination (Ibid, pp. 77-79).

[2] Employment gender gap decomposition follows $G_{E,t} = E_{m,t}/E_{f,t} = G_{e,t} \times G_{l,t} \times G_{s,t}$, where $E_{m,t}$ and $E_{f,t}$ are the number of male and females employed, $G_{e,t} = e_{m,t}/e_{f,t}$ is the gap in employment rates, $G_{l,t} = l_{m,t}/l_{f,t}$ is the gap in labor force participation rates, and $G_{s,t} = s_{m,t}/s_{f,t}$ is the gap in population shares. Logarithms are used to arrive to an additively expression.

Figure 4. Dominican Republic: Wage Gap and Share of Women Employment by Sector and Type of Employment



Sources: World Bank and BCRD.

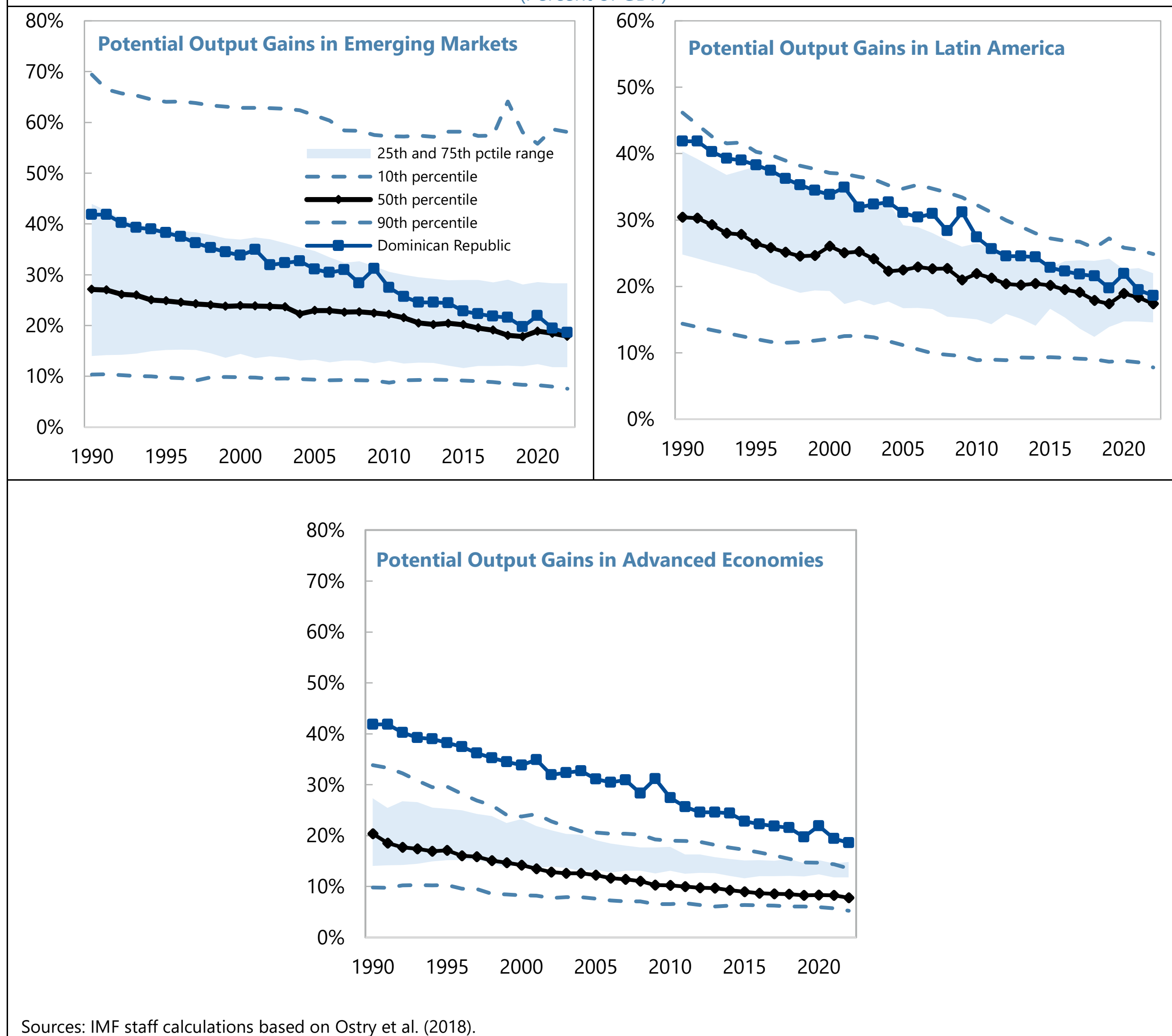
B. Potential Economic Gains from Closing Labor Market Gender Gaps

4. Estimates of potential GDP gains from reducing labor market gender gaps are sizable, ranging between 15 to 19 percent. Three different methodologies, centering on different labor channels, point to similar gains. The first methodology, following Ostry et al. (2018), emphasizes the gains stemming from greater gender diversity in the labor force. The second methodology, based on the IMF's Equity Gains (EG) tool, focuses on GDP gains from equalizing labor market conditions for woman relative to men. The last methodology examines the effects of reducing early marriage.

5. Complementarity between female and male workers supports higher GDP gains similar to income and regional peers. Based on Ostry et al (2019), potential gains in GDP are computed as the percentage increase in production under the assumption that the gender gaps are closed when using a production function approach with complementary female and male labor.[3] The gains amount to a 19 percent gain in GDP, in line with the median gain of income and regional peers. In the case of the DR, as the gender gap remains high, its potential gain is significantly higher than in advanced economies. Moreover, as women work fewer hours than men on average (36.7 versus 42 hours per week), closing the hours gap would add another 1 percentage point in the potential gains in GDP.

[3] The estimated elasticity of substitution (about 2) implies that female and male labor force are complement in production, and therefore, an increase in female labor force participation increases GDP as it corresponds to a rise in aggregate labor supply The model considers a standard Cobb-Douglas production function with capital (*K*) and labor (*L*), $Y = AK^{\alpha}L^{(1-\alpha)}$, with a capital share equal to α. Labor is a function of total labor force (*LF*) and the participation rates of females and males, $L = f(L_f, L_m) \times LF$, where $f(L_f, L_m)$ is a Constant Elasticity of Substitution aggregator, $f(L_f, L_m) = \left({L_f}^{\eta} + \delta L_f^{\eta}\right)^{1/\eta}$ with elasticity of substitution σ and $\eta = 1 - 1/\sigma$. The share parameter, δ, is defined as the ratio of female work hours to male work hours and calibrated to 0.87 for the DR (World Bank, 2023).

Figure 5. Dominican Republic: Potential Output Gains from Closing Labor Market Gender Gaps
(Percent of GDP)



Sources: IMF staff calculations based on Ostry et al. (2018).

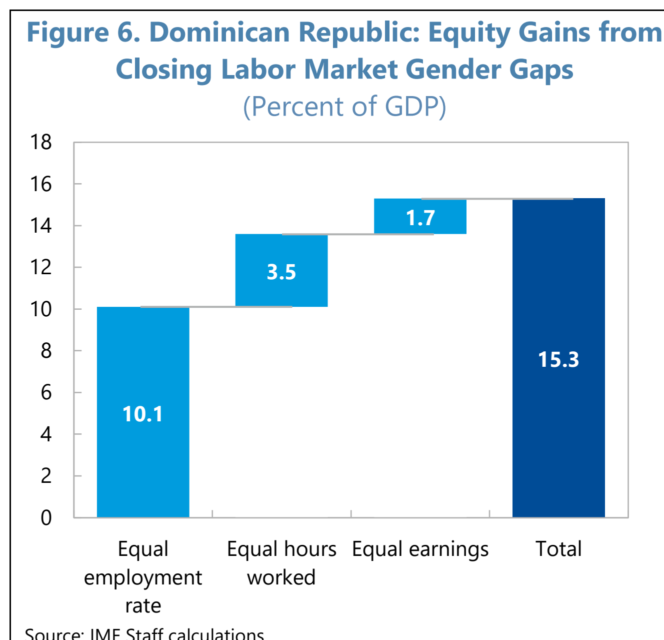
6. **Similar estimates are obtained when using the EG tool.**[4] This tool estimates the potential GDP gains from closing the employment, working hours, and pay gender gaps by conducting an accounting exercise based on counterfactual scenarios under the assumption that wages reflect the marginal product of labor.[5] The overall 15.3 percent of GDP in estimated gains can be decomposed as follows:

[4] The tool is based on the methodology of Choi et. al. (2021).

[5] The method uses a shift-share technique to construct a counterfactual scenario where no gender gaps exist in employment rates, hours worked, and hourly earnings by occupation. Counterfactual GDP is computed as $GDP^C = \sum_g \sum_o (LF_g \times e_g) \times s_{g,o} \times h_{g,o} \times w_{g,o}$, where $g = \{\text{female, male}\}$, $o = \{\text{elementary, sales, trades}\}$, $LF_g \times e_g$ is the number of people employed by gender, $s_{g,o}$ is the gender share in each occupation, and $h_{g,o}$ and $w_{g,o}$ are hours worked and hourly earnings by gender and occupation, respectively. To compute the total gains to GDP, this method assumes the floor of each labor market measure equals that of men.

(i) 10.1 percentage points from reducing the employment rate gap; (ii) 3.5 from reducing the working hours gap; and (iii) 1.7 from reducing the wage gap. The female employment rate shows the largest gap relative to men (48 versus 75 percent in 2019) explaining why closing this gap yields the largest gains over the medium-term. Women work fewer hours than men, especially in trades and sales (10 and 9 hour less per week, respectively). When considering heterogeneity across sectors, potential gains can account for around one third of the overall potential gains. According to the EG methodology, equity gains associated with closing the unemployment gap are small but likely represent a lower bound given data limitations in the informal sector.

Figure 6. Dominican Republic: Equity Gains from Closing Labor Market Gender Gaps
(Percent of GDP)



Source: IMF Staff calculations.

7. Reducing early marriage can also have an important effect on women remaining in both school and the labor force that could also boost growth. The DR has the highest prevalence of early marriage in LAC, with more incidence among poorer and less educated girls and in rural areas (World Bank, 2023). In the DR, as of 2019 around 9 percent of women aged 20-24 were married before the age of 15 and 32 percent of girls are married before the age of 18. Following Mitra et al. (2020), the estimated impact of reducing early marriage on real GDP per capita growth range from 0.3 percent (if early marriages fall to the average level in LAC) to 1.3 (if these are completely eliminated).[6]

C. Policies to Reduce Barriers and Increase Incentives to Entry in DR's Labor Market

8. Policies should aim to tackle key barriers to entry and incentivize productivity especially for younger women. Low FLFP rates in the DR appear associated with higher rates of teenage pregnancy, early marriage, lower secondary education completion rates and home and care responsibilities. Higher informality and lower wages associated with female employment may also disincentivize entry and constrain FLFP, as may social norms.

9. The DR has developed a national strategy and plan to for gender equality. The latest plan, Plan Nacional de Igualdad y Equidad de Género 2020-2030 (PLANEG III), conveys a

[6] Mitra et al. (2020) examines whether the persistently high rate of early marriage impacts real GDP per capita growth using a cross sectional sample of 112 countries from 1986 to 2017 and including standard aggregate indicators consistent with the growth literature. Early marriage is defined as the percentage of women aged 20 to 24 who were married or in a union before reaching 18 years old. Estimates are computed using the coefficients of the study and the most recent data for early marriage documented in the World Bank Gender Assessment (World Bank, 2023).

comprehensive strategy to address some of the main challenges to close gender gaps in the DR. PLANEGIII identifies the main priorities to close gender gaps, lines of action, and responsible institutions. Objectives of the strategy are organized in seven major themes: education, health, economic independence, political representation, gender inequality and the environment, gender violence, and technologies for woman independence.

10. Increasing the secondary school completion rate is an important element of increasing LFP and earnings. While increasing through the mid-2000s, completion rates have since stagnated and were partially reversed by COVID. Although higher than the regional average, the current female secondary school completion rate is around the median level among the countries in the sample, indicating ample room for further educational improvements. An important determinant of the level of earnings is the level of education as it maps to skills and productivity. However, this is not sufficient as unemployment rates for women with secondary (intermediate) education remains above those of men.

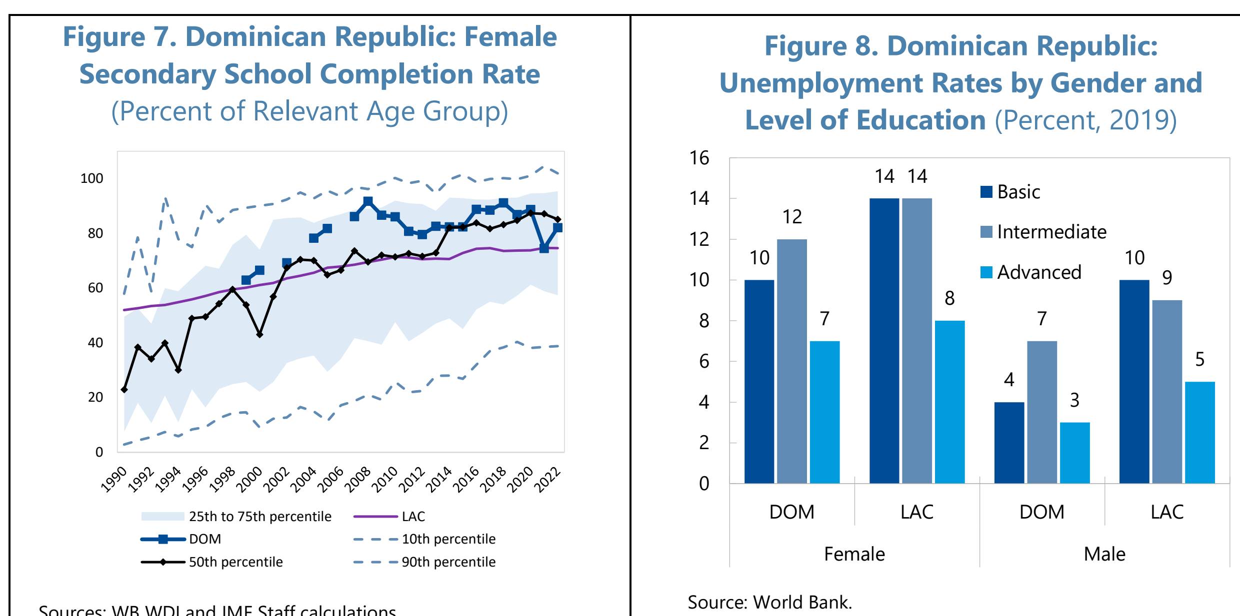


Figure 7. Dominican Republic: Female Secondary School Completion Rate
(Percent of Relevant Age Group)

Sources: WB WDI and IMF Staff calculations.

Figure 8. Dominican Republic: Unemployment Rates by Gender and Level of Education (Percent, 2019)

Source: World Bank.

11. Higher female employment rate can increase output while increasing education and skill levels can increase productivity and wages. The share of employed women with tertiary education is significantly higher than males in the DR, while the share of women with secondary education is slightly lower. The overall unemployment rate is also higher for females (8 versus 4 percent in 2019), and also by education levels. The unemployment rate for females with basic education was around 2.5 times higher in 2019 than for males (10 vs 4 percent), and around two times that observed among males at the intermediate and advanced levels. As women show higher levels of education on average than men, bringing more females into the labor force and being employed may result in an increase in productivity and wages if unobservable barriers such as discrimination and social norms against women are eliminated.

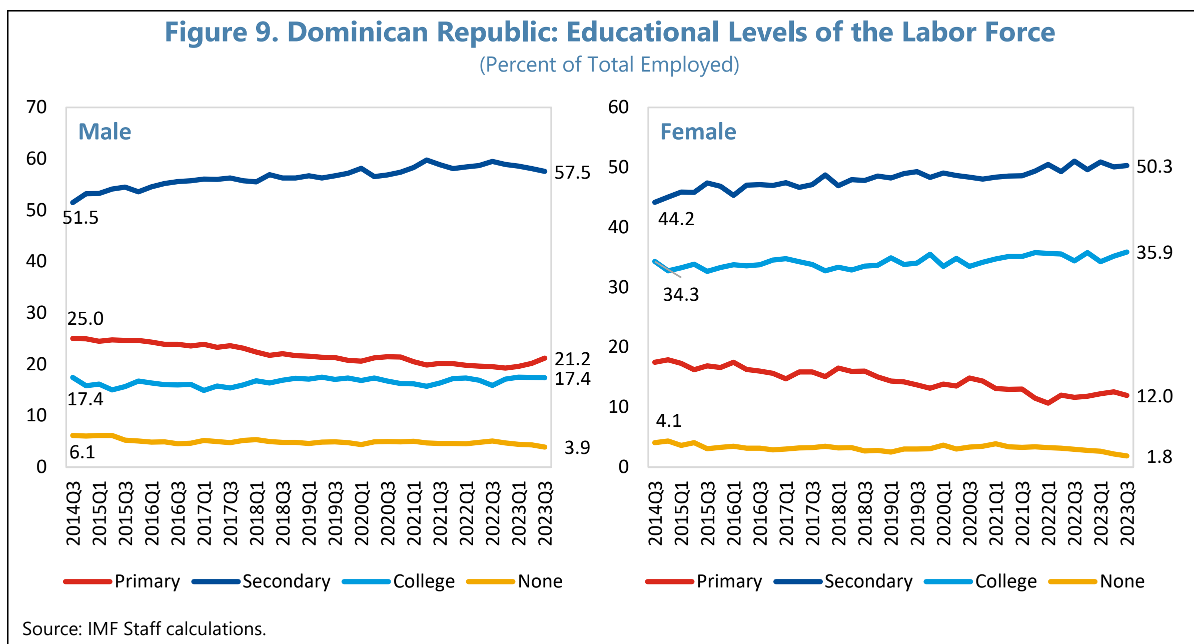


Figure 9. Dominican Republic: Educational Levels of the Labor Force

(Percent of Total Employed)

Source: IMF Staff calculations.

12. Policies and programs addressing factors that may impact secondary school completion rates and LFP are showing some good results. As part of the diagnostic in PLANEGIII,[7] the DR is currently implementing several programs to reduce teenage pregnancies and early marriage such as the enforcement of Law 1-21 on child marriage, the expansion of programs aimed at promoting the completion of primary and secondary schooling (*Aprende and Avanza*), the scaling-up life skills programs to promote positive role model (Girls Club), the extension of the National Program for Comprehensive Health Care for Adolescents (PRONAISA), the introduction of Sexual and Reproductive Health education in schools at all levels, and the creation of the Cabinet for Children and Adolescents (GANA) as a main coordinating body in 2020.

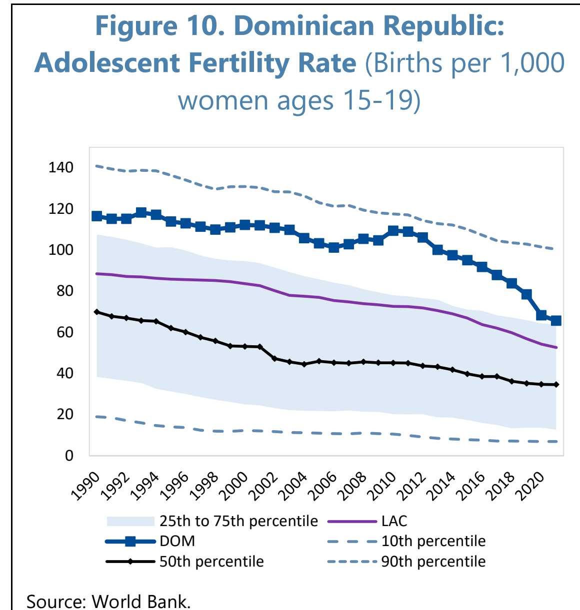
- **Teenage pregnancies (adolescent fertility rate) have declined.** While remaining high (highest in LAC), teenage pregnancies have declined in recent years, with higher fertility rates in poorer households. Schooling can discourage teenage pregnancy by increasing the economic stakes of dropping out and by providing sexual and reproductive information as well as access to contraception.

- **Early Marriage has been outlawed since 2021 but remains elevated.** Despite its prohibition, the experience from other countries suggest that legal change is often not enough to prevent early marriage on the ground, especially in regions or groups where it is socially accepted. Enforcement must be ensured and continuous work towards a shift of social and gender norms is required. Currently, this is part of the objectives in *PLANEGIII.*

[7] The current plan consolidates two decades of policies, starting with the Strategic Plan for the Prevention of Pregnancies in Adolescents (2011) and the National Plan for the Elimination of Child Marriage and Reduction of Early Union (World Bank, 2023).

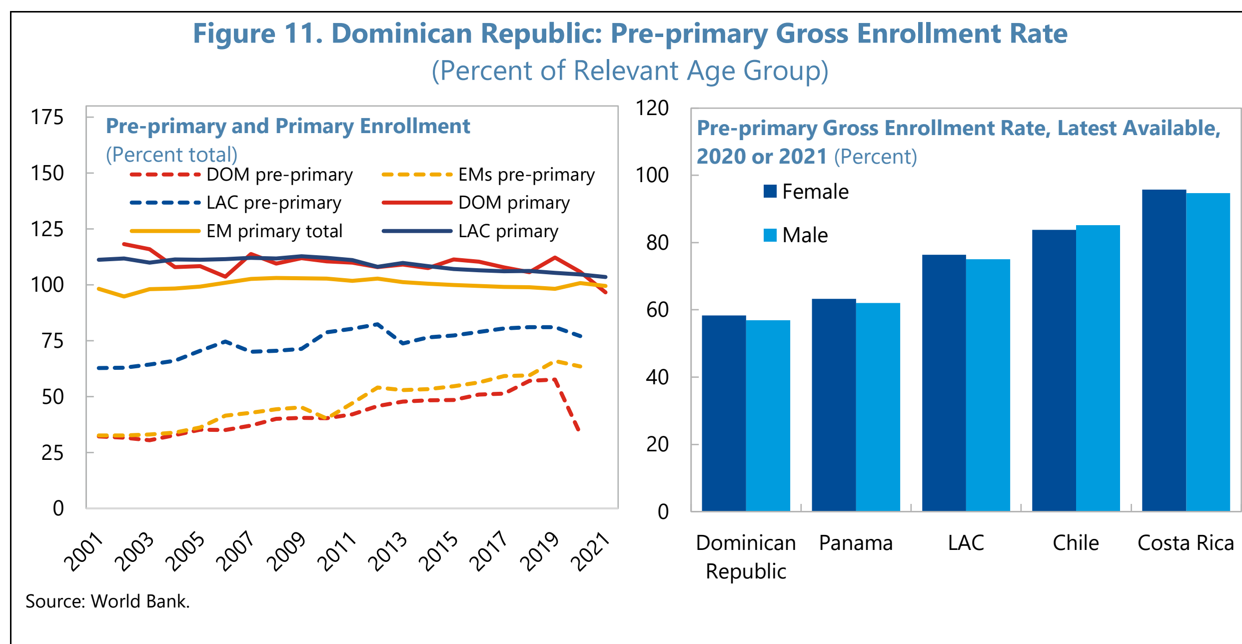
13. Further access to care service could also support women staying in the LF and their ability to work more hours, thus raising output and female income. While the DR's primary education rate is in line with peers, its pre-primary education rate lags behind LAC peers with better social outcomes and was impacted further by COVID. Meanwhile, extended hours in primary and secondary schools appears associated with great labor market attachment.[8] Despite improvements, the DR shows similar preprimary enrollment rates compared with the EM average, and significant lags remain with respect to the region average and leaders such as Costa Rica and Chile. [9]

Figure 10. Dominican Republic: Adolescent Fertility Rate (Births per 1,000 women ages 15-19)



Source: World Bank.

Figure 11. Dominican Republic: Pre-primary Gross Enrollment Rate (Percent of Relevant Age Group)



Source: World Bank.

[8] The complete implementation of the Extended School Day (JEE) program, created in 2014 to double the school day from 4 to 8 hours, is still pending, constrained by insufficient classrooms, and it showed a sharp drop in the construction of new centers in recent years. The enrollment rate in 2020 was around 71 percent of the primary and secondary student population (World Bank, 2023). Nonetheless, studies show the JEE helped women participate in the LF (Ibid).

[9] In 2020, the National Institute for Comprehensive Early Childhood Care (INAPI) ran 122 Comprehensive Early Childhood Care Centers (CAIPI) and 521 Child and Family Care Centers (CAFI) in the DR (World Bank, 2023). In 2020, the government further proposed the creation of a National System of Care and in 2021 the Communities of Care, a pilot program that contemplates providing formal care services to poor and vulnerable within the anti-poverty strategy or referring families to INAIPI, was launched.

D. Conclusion

14. There are sizable economic gains from boosting female market labor participation in DR. Female participation in the DR is merely 40 percent, about 70 percent of male labor market participation. While the gap has lowered significantly in the last three decades, the level remains relatively high. The estimated gains of fully closing the gender gap in labor force participation could increase DR's GDP by 17-19 percent, while reducing early marriage could increase GDP per capita growth by 0.3-1.3. Continuing the reduction in gender gaps could result in important output gains (IMF, 2013).

15. Recent and additional policy steps could further support FLFP and earnings. Aided by development partners, the DR has been strengthening social programs that support FLFP. It has seen a sizable drop in teenage pregnancy and outlawed early marriage, which potentially augurs well for increasing secondary school completion rates, which can support higher FLFP and earnings. Further efforts to expand the care system and incentivize formalization of employment in the service sector can sustain higher participation rates for women and boost economic growth over the medium term.

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Annex IX. The Fiscal Responsibility Law (FRL)[1]

A well-designed permanent fiscal rule can help anchor fiscal sustainability and make medium-term fiscal consolidation plans more credible,[2] potentially reducing financing costs and improving macroeconomic stability. Like in many countries, the pandemic brought to the forefront medium-term fiscal challenges for the DR—the spike in the deficit and debt requiring consolidation over the medium-term. While the DR already has a medium-term fiscal framework, the FRL approved by Congress in July 2024 could increase the credibility of the envisaged consolidation while also providing flexibility in the case of shocks.

A. Background

1. Well-designed and effective fiscal frameworks need to strike a balance between being simple, flexible, and enforceable.[3] Within a fiscal framework, fiscal rules can provide credible commitments to fiscal discipline and correcting deficit bias but should contribute towards the goals of economic stabilization and redistribution. Even if fiscal rules are effective in creating fiscal discipline, they need to be well designed to prevent potential costs such as generating procyclicality, using productive spending or off-budget operations for fiscal adjustment. Fiscal rules should also aim for functional simplicity while being sufficiently flexible in the advent of extreme events/shocks to ensure broad support and compliance.

2. Staff advice has advocated for a multi-year expenditure ceiling rule linked to a debt anchor. Country report 22/217 advocated for a FRL based on two main pillars. First, a medium-term anchor based on a debt-to-GDP ratio of 50 percent for the consolidated public sector and second, an expenditure growth rule as the operational target calibrated to balance sustainability, stabilization and simplicity of fiscal rules. For the effective implementation of the fiscal rule, previous IMF staff advice has recommended a gradual transition to the anchor while rebuilding fiscal buffers, strengthening of medium-term fiscal management, and curbing budget rigidities.

B. The DR's FRL

3. While fiscal sustainability is envisaged in the DR legal framework, it requires formalization. The 2006 Organic Laws for the Ministry of Finance (MoF) and for the Budget declare that the annual budgets should guarantee fiscal sustainability. A permanent fiscal rule is envisaged in the 2012 *Law on National development Strategy* as part of the package of fiscal reform that would serve to meet the DR's development needs while maintaining fiscal sustainability and the 2006 Public Credit Law enables the Public Debt Council to recommend to the President both a strategy

[1] Prepared by Emilio Fernandez-Corugedo and Pamela Madrid.

[2] Fiscal Rules: Anchoring Expectations for Sustainable Public Finances; IMF Policy Paper; December 16, 2009

[3] Eyraud, L., Debrun, X., Hodge, A., Lledó, V. and C. Pattillo, 2018, "Second-Generation Fiscal Rules: Balancing Simplicity, Flexibility, and Enforceability", IMF Staff Discussion Note No. 18/04.

and ceilings for debt. However, absent the passage of the FRL, the fiscal framework was not subject to formal limits or debt targets.

4. To align with the national development strategy and strengthen the medium-term fiscal framework (MTFF), the authorities have approved a FRL whose key elements include:

- **Debt anchor:** A debt ceiling on the General Government (GG) debt-to-GDP ratio of 40 percent, to be reached by December 31, 2035. (Art. 4)

- **Operational (expenditure) rule:** during the transition period to the debt ceiling, an expenditure ceiling rule constrains the GG primary expenditure growth to 3 percent plus annual inflation; and, once the debt target is reached, the primary expenditure (primary balance) is calibrated annually to be consistent with not breaching the debt ceiling going forward (Art. 5). Public investment must also be budgeted in line with the National Public Investment Plan and considering the budget's expenditure ceiling. (Art. 5).

- **Modification of expenditure rule:** In case of permanent, structural increase in taxes, the expenditure ceiling could be adjusted as long as primary spending remains consistent with the medium-term debt limit. In doing so, the MoF must present a report to Congress detailing the change to the expenditure rule in the corresponding period (Art. 5).

- **Escape clause (triggers for suspension):** an Executive decree may suspend the rule for a period no longer than one budget cycle, in case of (i) calamities (e.g., natural disasters, pandemics, war, etc.) that result in declaration of emergency and increased expenditures of at least 0.3 percent of GDP; or (ii) economic recession (defined as negative growth in current year or a growth forecast of less than 1 percent) (Art. 10).

- **Correction mechanism:** following a breach or suspension, there would be time-bound adjustment (within 3-years, with at least 1/3 adjustment per year) (Art. 10).

5. The FRL also seeks to reinforce the MTFF and increase transparency and credibility of fiscal plans.

- **Medium-term projections:** The draft FRL contemplates that the annual medium-term fiscal framework will include fiscal projections for the key fiscal variables for the following 4 years that are consistent with meeting the fiscal rule (Art. 7). In case of breach or suspension, the MTFF would include a Correction Plan with the fiscal measures to restore compliance with the fiscal rule (Art. 9).

- **Increased transparency:** The MoF will prepare the pertinent measures to increase transparency to Congress during all stages related to the preparation of the annual budget, will provide a report alongside the budget on the compliance of the fiscal rule as well as a declaration of fiscal risks (Art. 11). The MOF will publish quarterly reports on spending, revenues and overall financing (Art. 12).

- **It allows for the creation of a Fiscal Responsibility Supervisory Committee:** The Executive can create a committee to supervise compliance with the fiscal rule and which is tasked with the preparation of an annual report on rule compliance (Art. 13).

6. The FRL is broadly aligned with previous IMF recommendations. The debt ceiling of 40 percent of GDP constitutes a prudent debt anchor for the Dominican Republic that ensures that under varying shocks, debt would remain below a 70 percent of GDP threshold (for possible debt distress).[4] The expenditure rule balances the trilemma of sustainability, stabilization and simplicity—without this balance, fiscal rules often fail to achieve their objectives. Similarly, the escape clause and correction mechanism are well-defined.

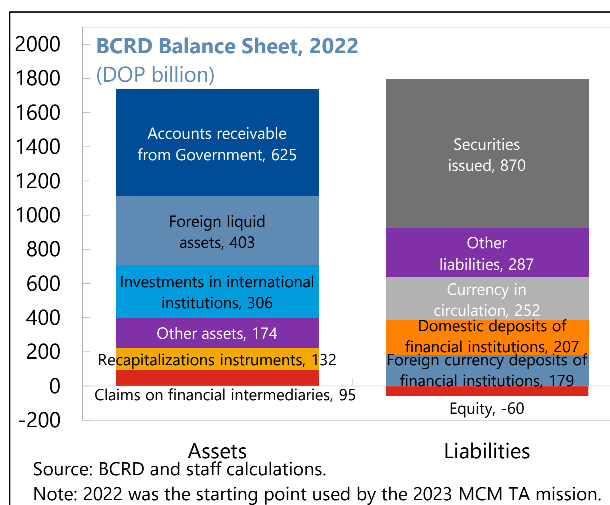
[4] See Annex IX of Country Report 22/217.

Annex X. BCRD Recapitalization[1]

The BCRD's recapitalization need is largely a legacy of 2003 banking crisis and of the 2007 Recapitalization Law not achieving its objective—while the government has transferred funds since 2008, the transfer levels envisaged in the 2007 law were not fully met and current transfer levels imply a long time until solvency can be achieved. Recent Fund TA recommended a faster recapitalization, ideally via marketable bonds, to increase the certainty of achieving solvency over a reasonable timeframe. This would entail higher CG debt and interest expense (and capital transfers in case of recapitalization via bonds)—which would need to be kept in line with the recently adopted fiscal rule. However, benefits from debt issuance could include a more liquid government securities market, a more robust yield curve and potentially lower borrowing rates. Further, the BCRD would be able to focus on managing short-term liquidity (maintaining interbank rates within the MPR corridor), thus reducing volatility in the money market and enhancing MPR transmission.

A. Status of the Recapitalization and BCRD's Balance Sheet at End 2022

1. The BCRD balance sheet and income statements reflect the unfinished and uncertain recapitalization process. Since the 2003 banking crisis, during which the BCRD provided liquidity as lender of last resort to distressed banks that eventually failed, the BCRD has had a large gap in its balance sheet. It has had to issue securities to absorb the excess liquidity (14 percent of GDP in 2022)[2] without sufficient earning assets[3] resulting in recurring losses from interest expenses (1.5 percent of GDP in 2022) that exceed revenues (mostly consisting of variable government transfers). The accumulated losses have been booked in non-interest earning accounts receivable from the government (10 percent of GDP as of 2022).

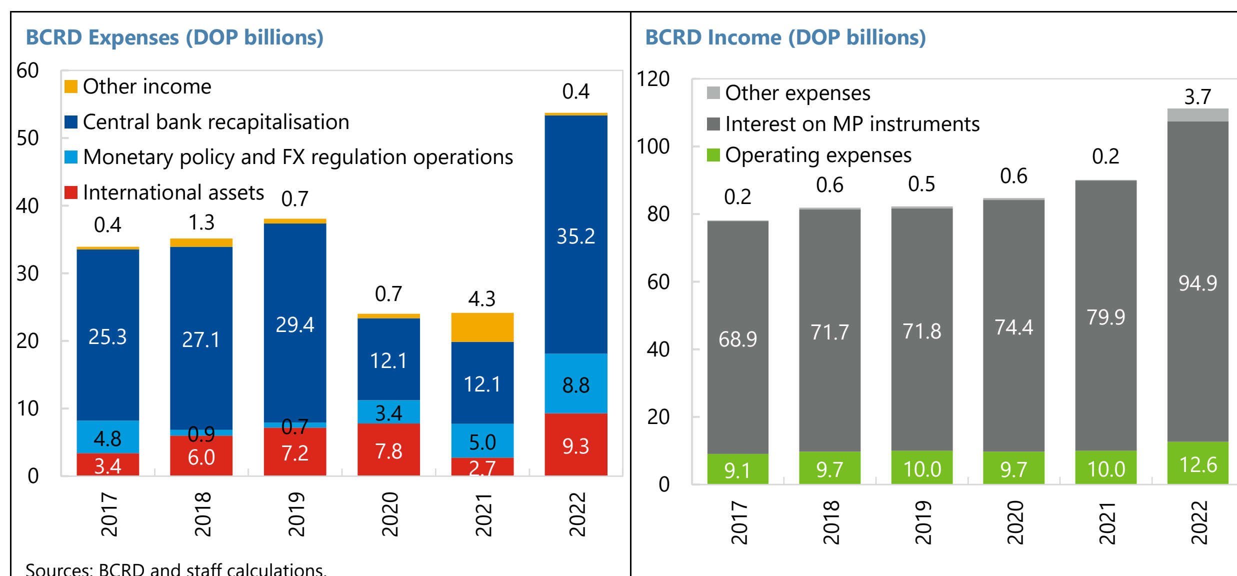


Source: BCRD and staff calculations.
Note: 2022 was the starting point used by the 2023 MCM TA mission.

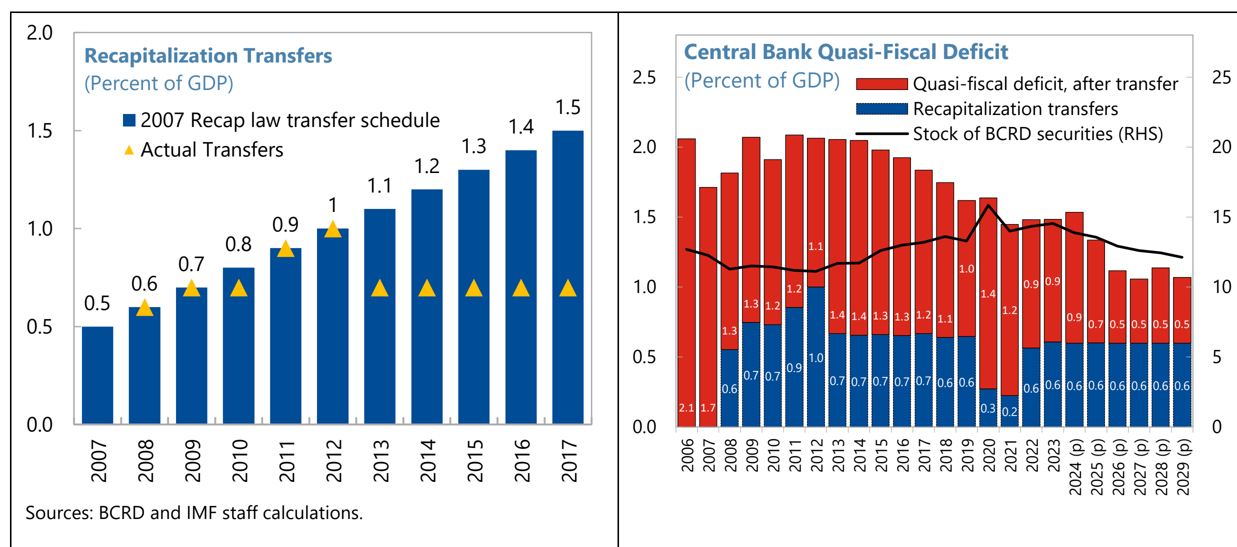
[1] Prepared by Pamela Madrid and Cecilia Melo.

[2] Some of this excess liquidity comes also from reserve accumulation and liquidity provision to banks not related to the 2003 crisis.

[3] Best practice is that the government backstops the central bank when it performs it LOLR function, which was the case in the DR.



2. The 2007 recapitalization law set out a schedule of government transfers that included a gradual issuance of bonds to the BCRD[4] but which was not fully met. The transfers (including some from the issuance of recapitalization bonds to the BCRD) went according to schedule until 2012 when budget cuts were implemented to consolidate the central government's deficit. Since 2013, transfers[5] and issued recapitalization bonds were lower than previously envisaged.[6]

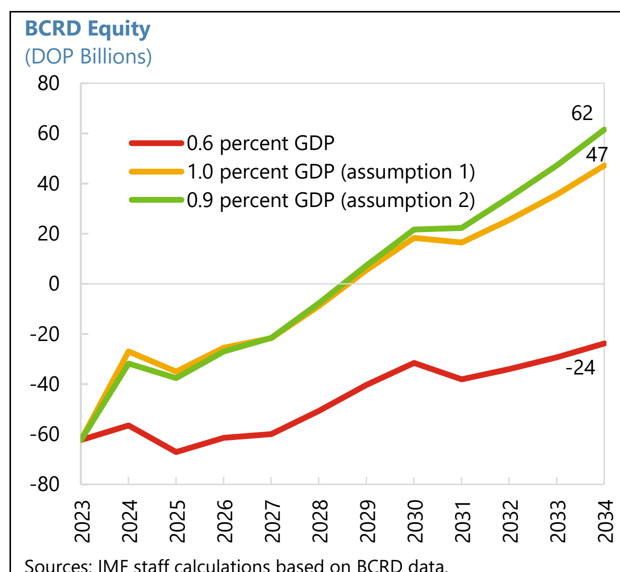


[4] IMF had provided TA and had recommended recapitalization with marketable bonds.

[5] Given pandemic-related needs, transfers were cut to 0.2 percent of GDP during the COVID shock when only the interest on the recap bonds was paid. Transfers were increased to 0.6 percent of GDP since 2022.

[6] A total of RD$132 billion in recapitalization bonds were issued to the BCRD between 2008-2014, whereas the 2007 recapitalization law had authorized up to RD$320 billion.

B. Achieving Central Bank Policy Solvency



Sources: IMF staff calculations based on BCRD data.

3. A 2023 MCM TA mission recommended increasing transfers, preferably via income on marketable bonds, to achieve policy solvency in a reasonable, and more certain, timeframe. Policy solvency is defined as the state in which the CB can achieve its policy objectives while maintaining a sustainable equity trajectory—i.e., operational profits (realized earnings) exceed operational costs. Based on projected income and expenses, the mission highlighted that current transfers (0.6% GDP) are insufficient to restore policy solvency within a decade—net income (including with continued government transfers) would only be positive by 2036. Nevertheless, those projections are subject to a high degree of uncertainty (subject to annual budget appropriations given only a portion of this income is from the issued recapitalization bonds).[7] Given this, it was recommended that:

- Transfers be increased to 0.9%/1% of GDP to achieve policy solvency (positive realized net income) by 2029 to reduce risks to the BCRD balance sheet.

- Transfers be ideally increased via interest on (marketable) bonds issued directly to the BCRD. This would represent a more credible commitment, increasing certainty to the process of achieving policy solvency by 2029. Increasing transfers this way would also reduce fragmentation of the public debt market (¶4, ¶5).

4. Higher transfers (cash or interest) would not only reduce annual losses (and accounts receivable),[8] but also marginally reduce the need for additional BCRD securities issuance. Relatively more CG securities would need to be issued to cover the increased deficit, equal to the amount of the increased transfers (0.3-0.4 percent of GDP), reducing the amount of BCRD securities issuance by an equivalent amount. This would marginally reduce the fragmentation of the public securities market.

5. Current public securities' market fragmentation could be reduced faster if CG marketable bonds were used to pay-off BCRD maturing securities. The amount of BCRD securities maturing over the medium-term amount to 4-6 percent of GDP per year. If CG securities replaced these maturing BCRD securities, then fragmentation of the public securities market would

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[7] By 2036 about 1/6 of the 0.6 percent of GDP in transfers would be from the stock of legacy recapitalization bonds.

[8] The reduction of accounts receivable could be faster if the distribution rule was amended to ensure realized profits are appropriated to the reduction of the capital deficit first.

decline faster and could potentially increase the liquidity of the CG securities market, allowing for a more robust Treasury yield curve and lower financing costs (from lower liquidity premiums). Further, the BCRD could focus on fine-tuning liquidity in the interbank market which could improve monetary transmission and reduce BCRD interest expenses (which could further reduce the increase in accounts receivable, positively impacting policy solvency).

Annex XI. Natural Real Interest Rates in the Dominican Republic[1]

This annex updates a range of estimates for the Dominican Republic's real interest rate using different statistical methods, pointing to a range of between 1 and 3 percent.

A. Introduction

1. The Natural Rate of Interest is important to guide both monetary and fiscal policy. It is the interest rate that neither stimulates nor contracts the economy and thus provides a reference level to gauge the stance of monetary policy and a key determinant of the sustainability of public debt. When observed real interest rates are below (above) the natural rate, they boost (dampen) demand and inflation. The natural rate is usually thought of as being driven by real phenomena such as technological progress, demographics, inequality, or preference shifts for safe and liquid assets, rather than being determined by monetary policy (IMF, 2023). As such it can vary over time.

2. The natural rate is not observable, and its estimates are uncertain. Its estimation is model dependent. Among the most used models is the seminal work by Laubach and Williams (2003), LW, for the US which estimates the natural rate using a reduced form model based on a canonical New-Keynesian model. This approach is used in this analysis and is complemented with additional methods.

3. Many of the popular approaches to estimate the natural rate abstain from international spillovers which are relevant to small-open economies. The Dominican Republic is a small-open economy, and its neutral rate can be influenced by external factors. For instance, higher foreign growth and associated higher foreign rates of return necessitate greater compensation for domestic investors and can drive up the domestic natural rate. Likewise, global savings and investments, or preferences for safe and liquid assets can also affect the domestic natural rate. The LW framework is thus extended to allow for international spillovers from the US.

B. Methodology and Data

4. Direct, univariate, and semi-structural methods are used to estimate the natural rate of interest. Direct methods include computations based on theoretical economic relations using both data and estimated variables.[2] Univariate methods include standard univariate statistical filters.[3] Semi-structural methods consider estimations derived from standard economic models such as Taylor (1998), LW, an international spillover extension of that model where there is a simultaneous estimation with an US block as in Wyonne and Zhang (2019) and IMF (2023), and a

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[1] Prepared by Diego Calderon.

[2] Direct methods include estimations of the Uncovered Interest Parity (UIP) using different measures for real and financial variables using domestic and US data. For more detail see Calderon and Wales (2024, forthcoming IMF Working Paper).

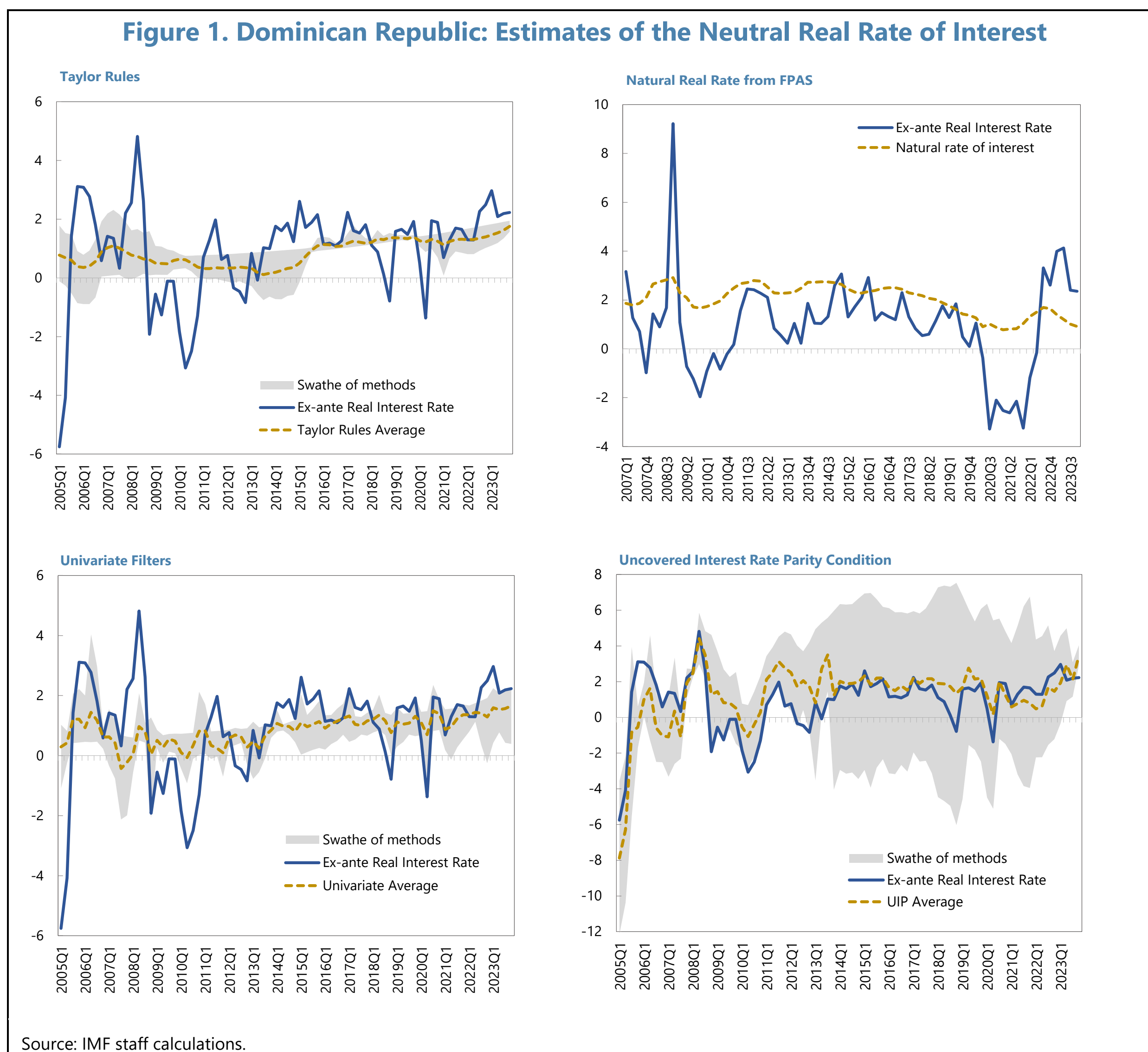
[3] Univariate statistical filters include Hodrick and Prescott (1997), Hamilton (2018), Christiano and Fitzgerald (2003), and Harvey (1989).

semi-structural New-Keynesian model developed by the International Monetary Fund estimated for the Dominican Republic, namely, the FPAS model.[4] LW methods are estimated using Bayesian techniques. A brief description of the methods is provided below.

5. **Quarterly data from 2005 to 2023 are used.** Quarterly data for the Dominican Republic and the US for real gross domestic product, inflation (CPI for the DR and CPE for the US), and monetary policy rates. Inflation expectations from Consensus Economics are used to compute the observed real rate to facilitate international comparability. The FPAS model uses model-consistent expectations.

C. Results

Figure 1. Dominican Republic: Estimates of the Neutral Real Rate of Interest

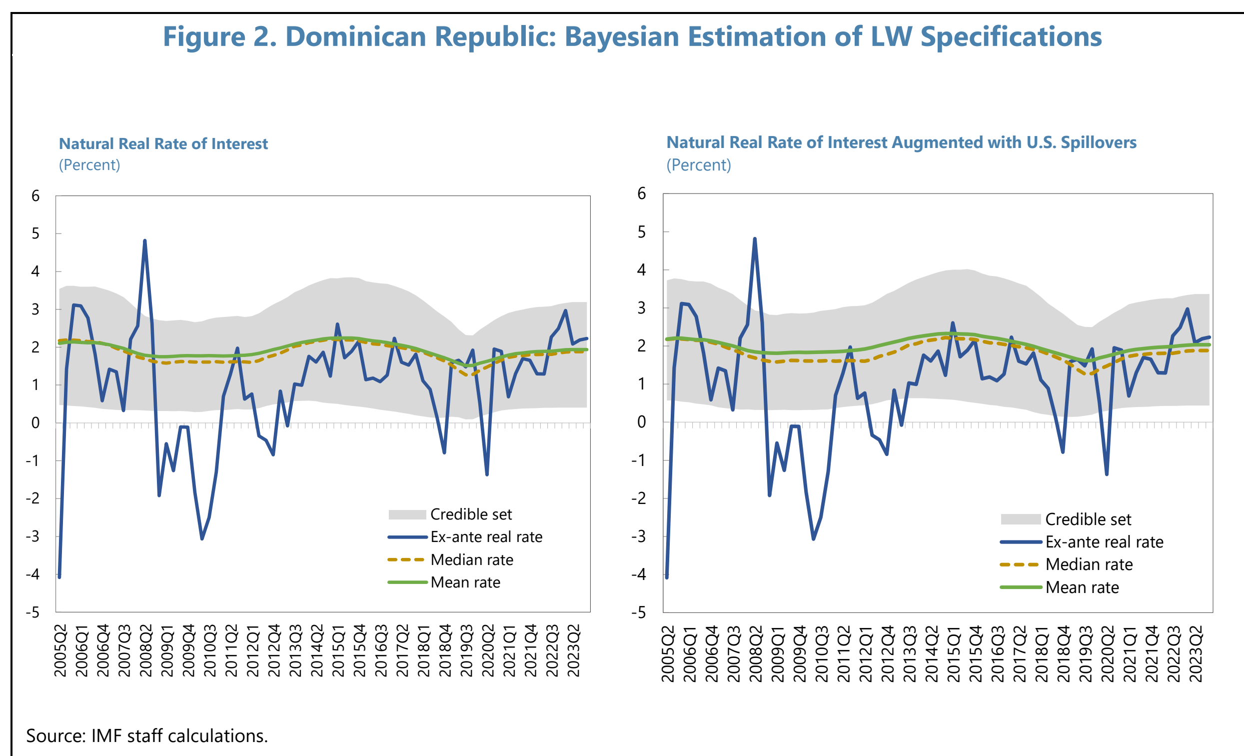


Source: IMF staff calculations.

[4] FPAS (Forecasting and Policy Analysis Systems). For more details see Annex VI.

6. Estimates suggest that the current natural rate of interest is in the range of 0.9 and 2.1, clustered around 1¾ percent. Table 1 shows the various estimates for the average natural rate within methods. Estimates for the most recent period are generally higher to their historical averages, with the exception of the FPAS, but close nonetheless, as the historical average remains within the range (except for Taylor rules estimates). The highest estimates correspond to UIP estimates, largely driven by estimates of the country risk premium used in the computation. LW specifications, based on more information, suggest that the current natural rate of interest is clustered in the range of 1.5 to 2 percent. The FPAS model provides the lowest estimate.

Figure 2. Dominican Republic: Bayesian Estimation of LW Specifications



Source: IMF staff calculations.

7. The natural rate has slightly decreased since 2005, with a moderate increase since 2020. According to the LW specifications, the natural rate remains close to its historical average around 1.5 and 3 percent. While there was a slight reduction of the natural rate towards 2019, recent developments have increased the (median) natural rate by around 50 basis points between 2020 and 2023.

8. According to these estimates, the monetary policy stance remains restrictive but close to neutral levels. Based on Consensus Forecasts and on the Central Bank's Monthly Survey, the real interest rate was 2.9 percent in December 2023, suggesting that monetary policy was somewhat restrictive under all average estimates. Semi-structural methods suggest that the current difference between the (median) natural rate and the ex-ante real rate of interest was around 100-150 basis points in December 2023 for most estimates, although higher for the FPAS model.

Table 1. Dominican Republic: Point Estimates for the Natural Real Interest Rate

Method	Estimates	
	Most recent	Historical
Univariate	1.66	0.86
	[0.39, 2.25]	[-2.13, 4.04]
UIP	2.13	1.32
	[1.16, 3.09]	[-12.13, 7.53]
Taylor rules	1.75	0.86
	[1.58, 1.95]	[-0.89, 2.32]
LW	1.55	1.53
	[0.40, 2.79]	[0.09, 3.40]
LW augmented with International Spillovers	1.88	1.83
	[0.44, 2.92]	[0.14, 3.48]
FPAS	0.92	2.01

Notes: Table shows the average estimate of the natural real rate of interest among each method for the 2005-2023 period. Most recent estimate corresponds to the average among methods in 2023Q4, except the UIP that reports 2023Q3. LW specifications reports are based on the posterior median of the two-sided estimation. Brackets report minimum and maximum values among methods and the 68% credible set in LW specifications for the most recent estimates. For the historical estimates, brackets report minimum and maximum over the sample and across methods and over the 68% credible set in LW specifications. FPAS model estimates involve model-consistent inflation expectations.

D. Semi-Structural Methods and Estimation Procedure Description

9. LW specifications are estimated using Bayesian techniques. The LW model is given by:

(1) $\hat{y}_t = \hat{y}_{t-1} + \alpha_2 \hat{y}_{t-2} + \alpha_r (\hat{r}_{t-1} + \hat{r}_{t-2}) + \varepsilon_t^y$

(2) $\pi_t = \beta_1 \pi_{t-1} + \beta_2 \sum_{s=2}^{4} \pi_{t-s}/3 + (1 - \beta_1 - \beta_2) \sum_{s=5}^{8} \pi_{t-s}/4 + \beta_y \hat{y}_{t-1} + \varepsilon_t^\pi$

(3) $y_t^* = y_{t-1}^* + g_t + \varepsilon_t^{y^*}$;

(4) $g_t = g_{t-1} + \varepsilon_t^g$;

(5) $r_t^* = g_{t-1} + z_{t-1}$;

(6) $z_t = z_{t-1} + \varepsilon_t^z$

The first equation is based on an Interest-Saving (IS) relationship between the real interest rate and output ($\hat{y}_t$ is the output gap, $\hat{r}_{t-1} = r_{t-1} - r_{t-1}^*$ is the difference between the observed and natural rate of interest). The second equation is a Phillips curve linking inflation to the output gap, where π_t represents year-on-year inflation.[5] Equations (3)-(6) are complemented by the exogenous processes for the two trend variables: the natural level of output, y_t^* and the natural real interest rate, r_t^*. ε_t^y, $\varepsilon_t^{y^*}$, ε_t^g, and ε_t^z are shocks. The LW framework is augmented with international spillovers by extending the block of domestic equations (1)-(6) by using an additional block representing the US

[5] Imposing that the summation of inflationary lags equals 1 guarantee that the model exclusively reflects a short-term trade-off between output and inflation stabilization.

that follows the same six-equation specification. However, in that version, equation (5) is modified to also contain spillovers from the foreign block captured by $r_t^* = g_{t-1} + z_{t-1} + \theta g_{t-1}^{\mathrm{US}}$ and both blocks are estimated simultaneously.

10. Taylor rule methods consider static and dynamic specifications of the Taylor Rule. Following modifications of the following rule $r_t = r_t^* + \theta_\pi(\pi_t - \pi^{\mathrm{Target}}) + \theta_y \hat{y}_t + \varepsilon_t^r$, including static versions with $r_t^* = r$, adding the change in real exchange rate, and 12-month ahead inflation expectations, and dynamic versions augmented with the stochastic process $r_t^* = r_{t-1}^* + gr_{t-1}$ and $gr_t = gr_{t-1} + \varepsilon_t^{gr}$, six specifications are estimated using the Kalman filter.

11. Direct methods are derived from the UIP condition. The UIP equation follows $1 + r_t^{\mathrm{UIP}} = (1 + i_t^{US}/1 + \pi_{t+1}^e) \cdot (e_{t+1}^e / e_t) \cdot \left(1 + \rho_t^j\right)$, where i_t^{US} represents the US nominal interest rate, e_t is the nominal bilateral exchange rate (DOP/US), e_{t+1}^e and π_{t+1}^e represent period *t* expectations for the nominal exchange rate and inflation in the following period respectively, and ρ_t^j is an estimate of the country risk premium according to method $j = \{bond, policy, LW\}$. *Bond* estimates of the risk premium are from domestic and US bond yields data, *Policy* estimates are from 5-year rolling average computed directly from the UIP condition, and LW estimates uses the point-estimate for the natural rate in the US from the Federal Reserve Bank of New York based upon the LW methodology.

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Annex XII. Deposit Taking Institutions' Stress Tests[1]

The financial sector weathered the policy tightening cycle and growth slowdown, remaining sound and with limited apparent macro-financial vulnerabilities. Banking sector aggregated capital adequacy ratio (CAR) stood at 17.6% as of end-March 2024, well above the 10-percent minimum regulatory requirement. Profitability remains strong (ROE 26.3 percent) supported by high interest margin and returns on security holdings. Following a sustained increase in credit growth in 2023, recent outturns point to a softening of growth rates. Staff's top-down solvency stress test applied to the twenty largest Deposit Taking Institutions (DTIs) in the Dominican Republic shows that the banking sector should be able to withstand a severe shock under a downside scenario, with the overall CAR falling to 12.8 percent. Modernizing the prudential framework, the inclusion of capital buffers (i.e., capital conservation, countercyclical capital, and for systemically important banks) and convergence towards international accounting standards has the potential to further strengthen risk management and the preparedness to absorb shocks.

A. Soundness of the Deposit Taking Institutions and Risks

1. The banking sector, which represents 52 percent of GDP as of May 2024, is made up of 46 active DTIs. It comprises Commercial Banks (17),[2] Savings and Loans Associations (10), Savings and Credit Banks (13), Credit Corporations (4), and Public Financial Intermediation Entities (2) which are regulated by the Monetary Board and supervised by the Superintendency of Banks (SIB). Total credit to the private sector is about 28 percent of GDP, among the lowest of the region. The top 20 DTIs included in the stress-test account for about 95 percent of all DTI assets. The DTI system is highly concentrated as the 3 and 10 largest banks account respectively for about 70 and 90 percent of total DTI assets. In addition, there are Savings and Credit Cooperatives, which also collect deposits from their members, but do not fall under the prudential regulation and supervision of the Financial and Monetary Administration, being subject to the Law 127-64 of Cooperative Associations,[3] and that based on an estimation represent less than 9 percent of all DTI assets.

2. Credit and securities account respectively for 54.7 and 25.1 percent of DTI assets considered for stress test purposes. Credit is predominantly allocated to the private sector in the form of commercial lending (53 percent of the total loans), consumer lending (24 percent) and mortgages (18 percent). DTIs' investments in securities are mainly related to instruments issued by the Government and Central Bank. In terms of accounting standards for credit and securities, the authorities are working towards the implementation of international standards for the expected credit loss (ECL) and valuation of financial instruments. While these standards are not implemented

[1] We are grateful to the Dominican Republic's authorities for providing the data necessary for the analysis.

[2] Refers to the license of "Multiple Banks".

[3] According to domestic regulation, the traditional definition of a Cooperative is a non-profit society, operating under the principle of universal membership and equality among its members. The minimum number of partners is fifteen, and each partner is liable for the limited amount of capital invested. Cooperatives are formed to address the needs of their members, whether economic or social, through a democratic and collective process. They must have variable capital and an indefinite duration.

yet, some progress has been achieved and the authorities currently monitor, as part of the on-going supervisory activities, the evolution of risk indicators pertaining to ECL and valuation of financial instruments.

3. **DTIs are relatively well capitalized.** Solvency ratio, largely based on the Basel I framework, stands at 17.6 percent as of March 2024, largely increasing from 16.1 percent in December 2023 due to retained earnings.

4. **Asset quality indicators have been improving in recent quarters and are not affected by the past interest rate tightening and credit expansion at this stage**. Based on the broadest definition of default applied in the Country, the stressed NPL ratio stands at 6.2 percent as of March 2024 against a peak of 12.9 percent in May 2021 (following the Covid-19 pandemic). Dollarization of the loan book has been fairly stable and amounted about 22 percent of total credit as of March 2024, with unhedged borrowers[4] falling over time (27 percent as of end March 2024 versus 33 percent in March 2023). Credit risk is further mitigated by a relatively low loan-to-value ratio (40.8 percent).

B. Solvency Stress Test

5. **The stress test covers the main risks to solvency faced by the banking system over a one-year time horizon.**

- *Credit risk shock* has been calibrated through a growth-at-risk model and assumes a 4.4 percent drop in GDP, higher unemployment, and elevated interest rates. It includes: (i) a conservative provisioning assumption; (ii) a system-wide proportional increase in the stressed NPL ratio[5] from 6.2 percent to 11.4 percent (consistent with the highest levels over the last 10 years); and (iii) an adverse classification of the largest exposure in the loan portfolio of every DTI. Results suggest that impact of these 3 shocks on the average capital adequacy ratio of the 20 DTIs would be -0.2, -1.0 and -0.8 percentage points, respectively. The 3 shocks combined would lower the capital adequacy from 17.4 to 15.4 percent and maintain the average solvency of the DTI system well above the 10 percent minimum requirement.

- The *interest rate risk shock* assumes an increase of 200 basis points, which affects both flows and stocks. More specifically, interest rate shock affects: (i) the interest rate margin through the gap between interest sensitive assets and liabilities; (ii) the repricing of all securities from at mark-to-market (MtM), and; (iii) the stock impact from securities repricing as interest rates rise.[6] An additional haircut has been applied to the mark-to-market value of the security portfolio to take

[4] E.g., borrowers without FX income or the ability to recuperate exchange rate variations in the pricing of their sales.

[5] The current credit risk classification regulation distinguishes the categories: A, B, C, D1, D2 and E. For the purpose of the stress-testing exercise, loans in the categories D1, D2 and E are considered adversely classified.

[6] For this stress-testing exercise the approach was taken to classify all securities as tradable and requiring MtM valuation. This should be considered conservative as under normal circumstances DTIs would also under International Financial Reporting Standards (IFRS) split the securities portfolio in securities held for trading (valued MtM) and those held for investment purposes as held-to-maturity (HtM).

account of variables beyond interest rates that might impact the current level of quotations, such as for example market liquidity. While the simulated increase in interest rates would result in a marginal gain in interest income (+0.2 percentage points), valuation losses on sovereign bond holdings would reduce the system-wide CAR by 3.2 percentage points. Overall, the combined interest rate risk shocks would lower the capital adequacy from 17.4 to 14.4 percent.

- The *Foreign Exchange (FX) risk shock* assumes a 20 percent nominal depreciation of the bilateral exchange rate with the US dollar, greater than the 15 percent devaluation seen during the onset of the Covid-19 pandemic. The shock directly affects FX exposures while the indirect effect through credit risk for non-hedged borrowers is assumed to be already captured in the credit risk module. Results indicate that the hypothetical FX depreciation would only marginally impact banks' capitalization (0.7 percentage points).

6. The combined effect of the shocks above, including profits' mitigation, would result in a decrease of the CAR from 17.4 to 12.8 percent, firmly above the 10 percent regulatory threshold. As a result of the stress test simulation some entities might experience the need to replenish their capital base, although recapitalization needs would remain extremely limited (below 0.3 percent of GDP) and widely covered by the Dominican Republic's Contingency Fund and Bank Consolidation Fund, currently reporting consolidated balances up to USD 1,155 million,[7] that exceed by three times the amount estimated through the stress test.

[7] As of April 2024, the Contingency Fund amounts to USD 434.2 million, while the Bank Consolidation Fund totals USD 722.5 million. These figures have been converted from Dominican Peso to US Dollars using the spot bilateral exchange for the end of April 2024.

Table 1. Dominican Republic: Stress-Testing Results

(Figures: March 2024)

Top 20 Deposit Taking Institutions	
Capital adequacy pre-shock (percent)	17.4
Credit Risk	
1. Conservative provisioning approach	-0.2
2. System-wide proportional increase in D-E exposures	-1.0
3. Large exposure shock	-0.8
Interest Rate Risk	
1. Net interes income (NII) impact	+0.2
2. M-t-M repricing impact (application of MtM, interest rate shock)	-3.2
FX Risk	
1. Direct FX impact	-0.7
Combined Effect	
Post-shock CAR (percent)	12.8
CAR change (pct points)	-4.6
Recapitalization need (percent of GDP)	<0.3

Sources: Superintendency of Banks and IMF staff estimates.
Note: Individual shocks are not additive.

Annex XIII. Drivers of Potential Growth in the Dominican Republic[1]

This annex presents updates estimates of the Dominican Republic's potential growth as well as the estimated contributions of capital, labor, and labor efficiency to potential output growth, making use of the methodology used in Country Report 22/217. Potential growth is estimated around 5 percent with the main drivers being labor efficiency and employment, the latter through an increase in labor force participation.

A. Potential Growth Accounting

1. Staff estimated potential output using the Production function approach (PFA) methodology. A Cobb-Douglas production function where potential output is calculated as the weighted sum of the potential (or trend) estimates of capital, employment and labor efficiency is used:[2]

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

$$y_p = \alpha * e_p + \alpha * l_p + (1 - \alpha) * k$$

  Where l_p is (log) potential labor input (employment) and k is the (log) observed capital stock, which is assumed to always be fully utilized. y_p is the unobserved (log) potential output and e_p is the potential estimate of labor efficiency (i.e., growth that is not explained by changes in labor and capital). The labor share, α, is assumed to 65 percent.

- The potential labor input (employment) is disaggregated into its components: (i) working age population (WAP); (ii) the labor force participation rate (LFPR); and (iii) the employment rate, which is equal to one minus the broad unemployment rate (UNR).[3] Potential WAP is estimated as the Hodrick-Prescott trend of historical data plus five years of forecasted growth provided the Dominican Republic's Office of National Statistics (ONE). The potential unemployment rate (NAIRU) is estimated by a multivariate filter (MVF).[4] Labor efficiency and the LFPR, are cyclically adjusted prior to being filtered as in Chalaux and Guillemette (2019).

[1] Prepared by Diego Calderon, Alejandro Fiorito and Pamela Madrid.

[2] See Box 1 of Annex IV of Country Report 22/217 for a more detailed description of the estimation procedure. This approach broadly follows the OECD methodology described by Chalaux and Guillemette (2019) whereby some employment components are cyclically adjusted before filtering to reduce end-point problems.

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

[4] See Alichi et al. (2017).

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

$$y_p = \alpha * \tilde{e}_p + \alpha * \left(wap_p + \widetilde{lfp}_p + (1 - \ nairu)\right) + (1 - \ \alpha) * k$$

2. **Potential Output is estimated around 5 percent.** Figure 1 shows estimated potential output growth reaching 5 percent in 2027 after a significant drop in 2020. The decomposition of Potential GDP growth rate shows an important contribution from projected labor efficiency and employment, in line with historical contributions.

3. **Potential labor input (employment) growth is sustained by increasing LFPR.** An important driver to sustain the growth rate of employment is the labor force participation rate. Staff project the contribution of the labor force participation rate to match the rates observed between 2010 and 2019 which is assumed feasible[5] if recent improvements in female market labor participation continue (Annex VIII).

4. **Contributions from WAP and unemployment rate are projected to slowly decrease by the end of the projection.** Demographics in the Dominican Republic show a slight slowdown in WAP and population ageing. Preliminary results from the 2022 Census point to a reduction to the population growth rate from 1.21 percent in 2010 to 1.11 in 2022. In terms of population ageing, the population over 60 years old represented 8.6 percent of the population in 2010 and 13.3 percent in 2022.[6] The projected contribution from WAP to the employment growth rate shows a slight decline, consistent with the decline in population growth (Figure 3). Similarly, robust labor markets and low unemployment rates in recent years reduce the potential contribution from lower unemployment as the gap with respect to the estimated NAIRU (Figure 3) gradually closes.

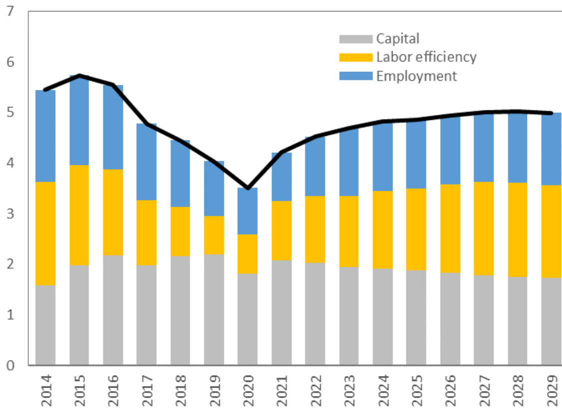
5. **Staff estimate a small reduction in the contribution from the capital stock to Potential GDP growth.** Capital is projected using IMF staff forecasts of real gross fixed capital formation with a depreciation rate computed using a quadratic estimation. The contribution of capital to potential growth depicts a gradual decreasing trend. Given ongoing and expected structural reforms in DR, the current business climate and projected FDI in the near term, the projection of the trend is likely to be within the conservative range of estimates with upside risks in the medium term.

[5] Female participation in the DR is merely 40 percent, about 70 percent of male labor market participation. While the gap has lowered significantly in the last three decades, the level remains relatively high.

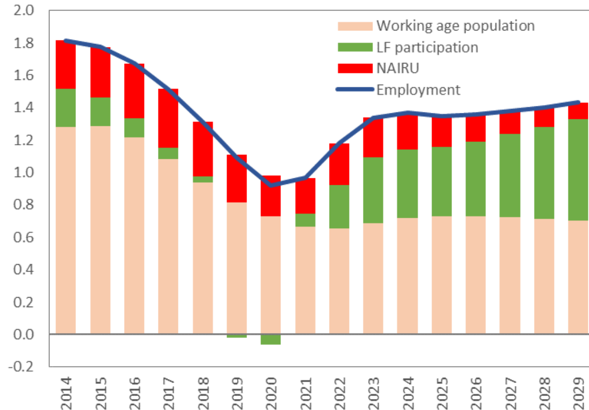
[6] Population projections from Census 2022 are not published at the time of this report.

Figure 1. Dominican Republic: Production Function – Growth Decompositions

Decomposition of Potential GDP Growth Rate
(Percent)

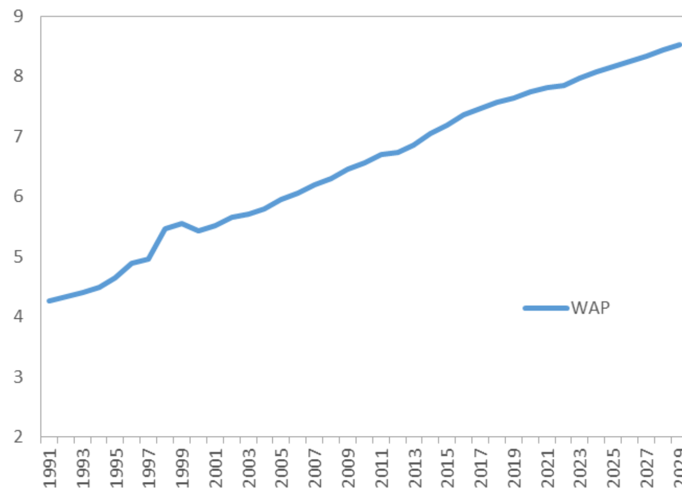


Decomposition of Employment Growth Rate
(Percent)



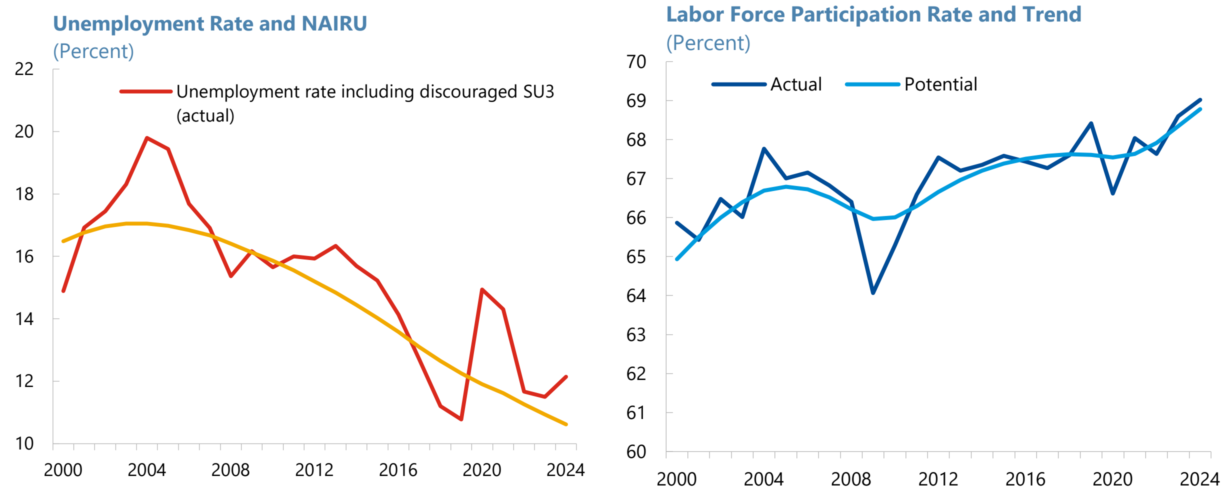
Sources: IMF staff calculations and national authorities. Data from 2024 to 2029 are projections.

Figure 2. Dominican Republic: Evolution of Working-Age Population and Projections
(Millions)



Sources: IMF staff calculations and national authorities. Data from 2024 to 2029 are projections based on the National Statistics Office (ONE).

Figure 3. Dominican Republic: Estimates of Potential Unemployment (NAIRU) and Labor Force Participation



Sources: IMF staff calculations and National authorities.

References

Alichi, Ali, and Olivier Bizimana, Douglas Laxton, Kadir Tanyeri, Hou Wang, Jiaxiong Yao, and Fan Zhang (2017) "Multivariate Filter Estimation of Potential Output for the United States", IMF WP/17/106.

Chalaux, Thomas and Yvan Guillemette (2019) "The OECD potential output estimation methodology", OECD Economics Department Working Papers No. 1563.

Annex XIV. Data Issues

Table 1. Dominican Republic: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	A	B	B	B	B	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	A	B	B	A		
Granularity 3/	B		B	A	B		
			B		B		
Consistency			B	B		B	
Frequency and Timeliness	A	A	A	C	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial B26 shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

Rating	Description
A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided to the Fund for surveillance are comprehensive and adequate for macroeconomic and financial analyses. Data coverage, frequency, and timeliness are generally in line with expectations/requirements set in the IMF Data Standards Initiatives. Improving the timeliness of the monthly external trade and quarterly external sector accounts data would further support surveillance (currently monthly trade data are only released every three months as a whole quarter and quarterly data are published four months after the end of the quarter) as would updating the base year for the national accounts (currently based on 2007). On the external sector, there are some coverage gaps in the recording of nonfinancial private sector transactions in the financial account of the BOP, particularly related to private sector external debt transactions and positions which also impact IIP statistics. Aggregate and consolidated data are available for the central government though 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 Dominican Republic participates in the IMF's Financial Soundness Indicators (FSIs) database with comprehensive data for the banking system and for individual banks and very good coverage of core FSIs. FSIs on non-financial corporates and households are not available and data on real estate markets is also lacking.

Changes since the last Article IV consultation. Since November 2018, the authorities are working (with help from STA and CAPTAC-DR) on the rebase of the national accounts and expect to complete the rebasing to 2018 during the second half of 2024. They have also published government statistics (above and below the line) based on GFSM 2014. They are working with STA on the steps required to adhere to SDDS (see below on the the country's current participation in the IMF Data Standards).

Corrective actions and capacity development priorities. The country team have asked the authorities that external sector statistics (monthly and quarterly) be published more timely and for FSIs to be provided to the Fund.The authorities have been receiving CD from STA and CAPTAC-DR (Annex III) on various issues including on rebasing the national accounts to 2018 and expanding coverage and timeliness of their public sector.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics

Other data gaps. N/A

Table 2. Dominican Republic: Data Standard Initiatives

Dominican Republic participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since February 2019.

Table 3. Dominican Republic: Table of Common Indicators Required for Surveillance

As of July 22, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Dominican Republic[8]	Expected Timeliness[6,7]	Dominican Republic[8]
Exchange Rates	19-Jul-24	22-Jul-24	D	D	D	30	...	30
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	19-Jul-24	22-Jul-24	D	D	M	30	1M	30
Reserve/Base Money	19-Jul-24	22-Jul-24	D	D	M	30	2M	30
Broad Money	Jun-24	Jul-24	M	M	M	30	1Q	30
Central Bank Balance Sheet	Jun-24	Jul-24	M	M	M	30	2M	30
Consolidated Balance Sheet of the Banking System	Jun-24	Jul-24	M	M	M	30	1Q	30
Interest Rates[2]	19-Jul-24	22-Jul-24	D	D	M	30	...	30
Consumer Price Index	Jun-24	Jul-24	M	M	M	30	2M	15
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Jun-24	Jul-24	M	M	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Jun-24	Jul-24	M	M	Q	30	1Q	60
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q2/2024	Jul-24	Q	Q	Q	90	2Q	56
External Current Account Balance	Q1/2024	Jul-24	Q	Q	Q	90	1Q	90
Exports and Imports of Goods and Services	May-24	Jul-24	M	M	M	30	12W	150
GDP/GNP	Q1/2024	Jun-24	Q	Q	Q	90	1Q	90
Gross External Debt	Q1/2024	Jun-24	Q	Q	Q	90	2Q	42
International Investment Position	Q1/2024	Jul-24	Q	Q	A	90	3Q	180

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[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] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

August 22, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

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FUND RELATIONS

(As of June 30, 2024)

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

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	477.40	100.00
Fund holdings of currency (Exchange Rate)	651.47	136.46
Reserve Tranche Position	64.63	13.54

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	666.39	100.00
Holdings	167.81	25.18

Outstanding Purchases and Loans: RFI	**SDR Million**	**Percent Allocation**
RFI Loan	238.70	50.0

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				
	2024	**2025**	**2026**	**2027**	**2028**
Principal	119.35	119.35			
Charges/Interest	15.40	22.24	20.02	20.02	20.03
Total	134.75	141.59	20.02	20.02	20.03

Implementation of Enhanced HIPC Initiative: Not Applicable
Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable
Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

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

Article IV Consultation. The previous round of Article IV consultation discussions took place in Santo Domingo during May 8-May 19, 2023. The consultation was concluded by the Executive Board on June 20, 2023. The Dominican Republic is on the standard 12-month consultation cycle.

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

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

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

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

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

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

Central American Bank for Economic Integration: https://www.bcie.org/en/member-countries/regional-non-founding-members/dominican-republic-1

MAIN WEBSITES OF DATA

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

National accounts

Consumer Price Index

Monthly Indicator of Economic Activity (IMAE)

Balance of Payments

International reserves

Interest rates

Monetary and financial indicators

Tourism statistics

Labor and employment

Exchange rates

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

Fiscal accounts

Central government budget

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

Household income and expenditure survey

Poverty and inequality

Construction sector statistics

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

Public debt

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

Banks balance sheets and income statements

Financial Soundness Indicators

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

Population and social indicators

Producer price index