FOR AGENDA

EBS/08/161

December 29, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Dominican Republic—First Post-Program Monitoring Review**

Attached for consideration by the Executive Directors is a paper on the first post-program monitoring review for the Dominican Republic, which is tentatively scheduled for discussion on **Monday, January 12, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Dominican Republic indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Wolfe (ext. 38620), Mr. Canales-Kriljenko (ext. 34224), and Mr. Alichi (ext. 35494) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, January 8, 2009; and to the European Commission and the Inter-American Development Bank, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

First Post-Program Monitoring (PPM) Review

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by José Fajgenbaum and Dominique Desruelle

December 24, 2008

Context. The Dominican economy has been hit by two consecutive external shocks in 2008—food and oil price hikes in the first half of the year followed by the global financial crisis and worldwide economic slowdown. The challenge for policymakers moving forward is to consolidate the fiscal accounts to the more limited available financing while easing monetary policy to address the sharp slowdown in economic activity.

Political situation. President Fernández won re-election in May with 54 percent of the vote and, for the next two years, will be working with a legislative majority. Municipal and legislative elections will take place in 2010.

Exchange rate regime. Managed float with no predetermined path for the exchange rate.

Statistics. Economic data are generally adequate for surveillance and program monitoring, although Customs data for imports continues to be subject to large revisions. The Dominican Republic subscribes to the SDDS.

Fund relations. The Dominican Republic completed a three-year Stand-By Arrangement in January 2008, and at end-November 2008, outstanding credit to the Fund was SDR 319.6 million (146 percent of quota). In August 2008, the Executive Board decided that post-program monitoring was needed, and the first PPM review mission visited Santo Domingo during November 11–20, 2008. The next Article IV Consultation is tentatively scheduled for the second quarter of 2009.

Team. The mission comprised A. Wolfe (head), Ali Alichi, and J. Canales-Kriljenko (all WHD), and K. Hosono (SPR). J. Estrella (OED) attended the policy discussions.

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EXECUTIVE SUMMARY

Background

Macroperformance was uneven in 2008 in the context of the difficult external environment. Following natural disasters at end-2007, the country's terms of trade deteriorated sharply through the first half of 2008. While GDP continued to expand solidly in the first half of the year, falling nickel prices and rising food and energy prices led to sharp increases in the fiscal and external current account deficits, and inflation accelerated to nearly 15 percent in the third quarter. With food and energy prices having fallen sharply since October, pari passu with the global economic slowdown and international financial crisis, inflation has fallen rapidly, and is expected to end the year near the central bank's original end-of-year inflation target of 6 percent. Growth is slowing significantly and is projected to decline to around 5 percent in 2008 (down from almost 9 percent in 2007).

Developments in 2008 were met with a mix of loose fiscal and tight monetary policies. Public spending was increased, in large part, to shield the economy from the deterioration in the terms of trade. In this circumstance, the central bank cut sharply money and credit growth rates to contain second-round effects of higher world food and oil prices on inflation and the external current account deficit.

The domestic financial system has weathered the immediate effects of the international financial crisis. The exchange rate has been managed in a manner to ensure an orderly depreciation of the peso against the U.S. dollar and appears broadly in line with macro-fundamentals. Banks' exposure to foreign credit lines has been very limited since the 2003–04 financial crisis, and prudential indicators point to liquidity and capital buffers that will allow banks to withstand moderate stress.

Outlook and recommendations

Although several vulnerability indicators improved in 2008, the global outlook for 2009 poses serious risks that require a rebalancing of the mix of macropolicies. The authorities agreed that, first and foremost, strict adherence to the 2009 budget, for which financing has been identified, is key, and that the 2009 budget should provide space for monetary policy easing that could buffer the slowdown in aggregate demand. Moreover, external financing of the budget, along with projected FDI in 2009, including a confirmed large mining project, should help mitigate any sudden stop that, in the absence of major capital flight, would help avoid a crisis. Economic activity will slow with the world recession, but inflation is forecast to stay low, and the external current account deficit is projected to decline significantly.

Close supervision of the banking system and a prompt reaction to any emerging problems will be crucial for maintaining confidence in the financial system. The upcoming FSAP should help identify areas where actions might be needed, and the authorities should finalize a crisis preparedness plan and hone their crisis management tools.

I. Recent Economic Developments and Outlook

1. **Given the adverse external environment, macroeconomic performance in 2008 has been weaker than envisaged during the 2007 Article IV consultation**. The impact of the temporary rise in international fuel and food prices and the global slowdown led to: (i) increased government spending on energy (especially electricity) and food subsidies and, consequently, a higher-than-envisaged fiscal deficit; (ii) a sharply increased fuel-import bill and external current account deficit; and (iii) headline inflation reaching double digits for much of the year. Lower export earnings and tax revenue due to plummeting nickel prices further worsened the deficits in the external current account and public finances. The global slowdown has undermined prospects for economic activity, but sharp declines in food and energy prices in the latter part of 2008 have improved the terms of trade, bolstering the outlook for inflation and the external current account balance in 2009.

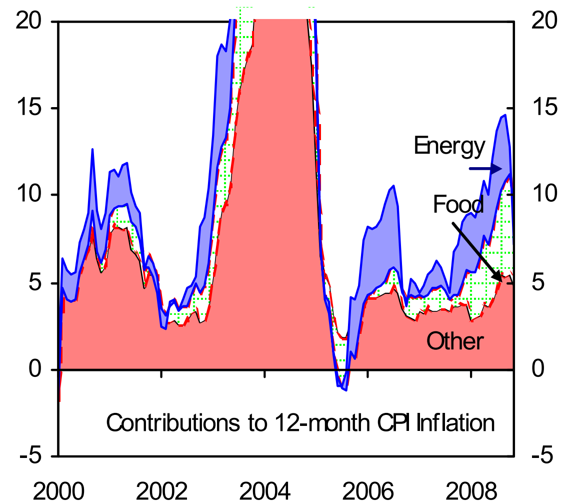
Dominican Republic: Main Macroeconomic Indicators

	2004	2005	2006	2007	2008	2009
Real GDP growth	1.3	9.3	10.7	8.5	4.8	1.8
CPI Inflation (percent change, eop)	28.7	7.4	5.0	8.9	7.5	7.5
External current account balance (in percent of GDP)	4.8	-1.4	-3.6	-5.0	-9.7	-5.9
Gross International Reserves (US$ million)	825	1,929	2,251	2,946	2,610	2,979
in months of imports of goods	1.3	2.3	2.2	2.6	2.0	2.7
in percent of short-term external debt coming due	127	186	250	319	307	315
Net international reserves (US$ million, program definition)	191	850	1,128	1,626	1,331	1,892
WEO Oil price (US$/bbl)	37.8	53.4	64.3	71.1	99.8	54.3

- **Growth**. GDP continued to expand rapidly in the first half of 2008, but slowed sharply in the third quarter and is expected to end the year at around 5 percent (from almost 9 percent in 2007). In 2009, growth is projected to decline further, to the 1.5–3 percent range, with downside risks much larger than any upside potential, as real sector developments in the U.S. affect the Dominican Republic with a lag estimated at around one year).[1]

[1] The United States accounts for over 60 percent of the Dominican Republic's merchandise exports, half the tourists visiting the island, 70 percent of foreign direct investment, and the bulk of remittances.

- **Inflation**. Headline inflation peaked in the third quarter at about 15 percent, up from 8.9 percent at end-2007. However, the tight monetary policy in the first half of 2008 combined with falling commodity prices should result in inflation ending 2008 at around 7.5 percent and settling at 7 percent in 2009.



- **Balance of Payments**. In the context of a loose fiscal policy, exceptionally high foreign direct investment, and tight exchange rate management (see below), the external current account deficit is expected to reach about 10 percent of GDP in 2008.[2] In 2009, the deficit is projected to decline to below 6 percent of GDP, as imports are projected to fall faster than exports. The adjustment would have been larger were it not for a large FDI project in the mining (gold) sector of over 2.5 percent of GDP.[3]

2. **Fiscal policy was relaxed in 2008, mainly reflecting the fall in nickel-related and extraordinary capital gains revenues and increased subsidies for food and electricity**. Data through September suggest that at current trends the primary fiscal balance for 2008 would show a deficit of around 1 percent of GDP, compared with the authorities' target of a 1.3 percent surplus envisaged during the Article IV consultation (see EBS/08/3). Most of this deterioration is associated with higher transfers to the electricity sector and subsidies on liquefied gas (LPG) and selected food items. Fiscal spending was tightened in September, in light of the slowdown in revenue (pari passu with the slowing in activity) and the decline in available financing, especially PetroCaribe. The nonfinancial public sector overall deficit (NFPS) is expected to end the year at 2.6 percent of GDP, compared with balance in 2007. The combined public sector deficit in 2008 (including central bank losses) is estimated at 4 percent of GDP.

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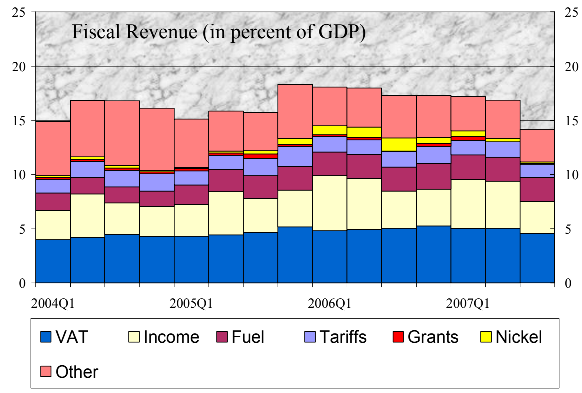
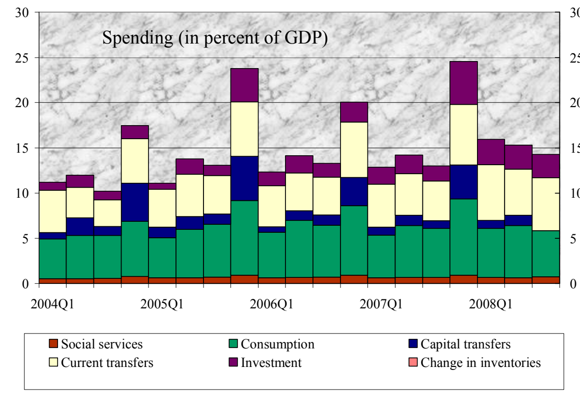
[2] The deficit was financed by exceptionally high foreign direct investment, PetroCaribe, and a reduction in gross reserves. Gross reserves declined by about US$450 million through October 2008 (out of a stock of US$2.9 billion at end 2007).

[3] In 2009, sources of financing of the external current account have been identified and are mainly FDI and medium-term multilateral and bilateral lending. The identified financing suggests that the Dominican Republic should have no problems in repayments to the Fund.





3. **The increase in energy subsidies in 2008, owing to very high world prices, masks important progress in streamlining and reducing the costs of these subsidy programs**.

- **Electricity**. Higher costs from fuel inputs were not passed on to electricity consumers, and thus, the sector's financial situation worsened sharply in 2008.[4] Moreover, government coverage of the losses was delayed and arrears arose in the latter part of the year (but are in the process of being cleared). Nevertheless, this circumstance has overshadowed progress made in improving invoicing and collections and, therefore, the cash-recovery index (CRI). The improved CRI and decline in fuel prices, if sustained, will lead to a significant reduction in the losses of the electricity sector in 2009.

- **Liquefied gas**. The delivery of LPG subsidies was substantially streamlined in the second half of 2008. Subsidized LPG is now only available to urban public transportation systems and qualifying low-income households. The household subsidy was incorporated into the existing, well-targeted "Solidarity Card" income-support program. The total savings on LPG subsidies in 2009 is projected at about 0.4 percent of GDP.

4. **The central bank, BCRD, has maintained a tight monetary policy and strictly managed the exchange rate**. Monetary and exchange rate policies have been the anchors to contain inflationary expectations and maintain macro stability. The central bank intervened on both sides of the foreign exchange market in 2008, and the peso depreciated very gradually. On the money market side, the central bank raised its policy rate three times in the year (with a cumulative hike to 9.5 percent from 7 percent) and tightened reserve requirements. Auction rates for central bank certificates were increased four percentage points during the year to facilitate their rollover, and interest rates on longer-term deposit

[4] The average dollar tariff fell about 6 percent (due to peso depreciation) and marginal costs increased 50 percent. The final budget numbers for electricity subsidies reached US$900 million in 2008 (2.1 percent of GDP), up from US$600 million (1.2 percent of GDP) in 2007. At WEO prices as of December 5, projected losses of the electricity sector in 2009 are US$325 million (0.7 percent of GDP).

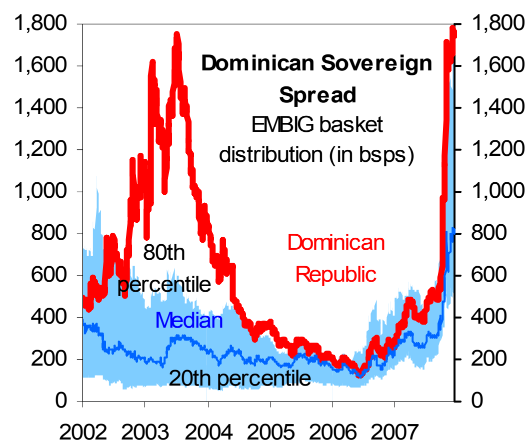
facilities were raised by up to six percentage points. M1 contracted by 8 percent (y/y) by end-November 2008, compared with a 17 percent expansion in 2007. The increased uncertainty on the economic outlook and higher policy rates fostered a sharp slowdown in private credit in the second half of 2008, with the 12-month rate of real bank credit growth basically zero by September (y/y), compared with a near 20 percent growth rate at end-2007.

II. Risks and Vulnerabilities

5. **While several vulnerability indicators have improved in 2008, the difficult external and domestic environments, on balance, are clear risks for the economy**. A loss of confidence brought about by the loose fiscal policy stance and the deteriorated external environment have raised investor's perception of risk sharply, with sovereign spreads reaching over 1,700 bps as of mid-December 2008. Early warning indicators of sudden stops (which usually end in a crisis) point to the DR as a candidate, especially in view of the large external current account deficit. Nevertheless, short of a collapse in confidence that gives rise to massive capital flight, ongoing foreign direct investment projects and increased multilateral lending should provide sufficient resources to avert a crisis.

- **Public debt is above a safe level**, at 32 percent of GDP, with about half denominated in foreign currency. The central bank successfully rolled over a large stock of its securities falling due in early 2008 and extended the average maturity. However, rollover in 2009, amounting to the equivalent of US$1.4 billion (2.9 percent of GDP), is likely to require significantly higher interest rates than the current average rate of 14 percent.

- **Sovereign spreads have widened sharply** and Dominican Republic spreads are among the highest in emerging markets, and the country is considered to be within a high-risk asset class.[5] News of government arrears to electricity generators, rumors of delays in transfers to the central bank for its recapitalization,[6] and financing problems in a major private-sector tourist project (Capcana) have added to the risk posed by the loose fiscal position in 2008.



[5] Nevertheless, the sensitivity of Dominican sovereign spreads to EMBIG fluctuations has actually declined over the last six months albeit from a high level (from a beta of 2.0 to a beta of 1.5), suggesting that the deterioration also responds, to a significant extent, to external factors, given the risk class in which foreign investors place Dominican bonds.

[6] The supplementary budget approved by congress in August postponed until next year the transfers to the central bank corresponding to the second semester of 2008 to redirect these resources to other spending areas.

- **Reserve coverage has improved**. The ratio of reserves to short-term debt (including peso-denominated central bank securities) has increased (and exceeds 100 percent) despite falling international reserves. Nevertheless, the Dominican Republic has one of the lowest reserve adequacy indicators among emerging market economies.[7] Gross international reserves of the central bank declined by an estimated US$450 million (about 15 percent of the stock of reserves at end-2007) through mid-December 2008 and should end the year at about US$2.6 billion (still more than 100 percent of short-term public debt coming due in 2009). A further deterioration in remittances and FDI associated with a slowdown in the world economy would slow imports further and put extra strain on economic activity.[8]

- **Financial soundness indicators have improved somewhat**. Banking system solvency indicators strengthened slightly through September 2008, bank profitability remains positive and relatively stable, and banks are adequately liquid. Stress tests carried out by the superintendency of banks (SBS) suggest that the banking system is poised to weather current global financial conditions, but risks exist, mainly from: (i) rising dollarization of bank portfolios, albeit from low levels, and the gradual but persistent decline in dollar deposits since June 2008 (although the level is still above that of end-2007 and the decline far less steep than during the 2003 financial crisis); and (ii) rapidly contracting credit conditions.

III. Policy Discussions

The discussions focused on policies to reduce the likelihood of a crisis, given the current turmoil in financial markets and global slowdown. It was agreed that while the fall in external demand might call for policies to stimulate domestic demand, the fiscal and external positions, together with the Dominican Republic's existing level of market access, did not allow the authorities to pursue a fully countercyclical macropolicy stance. The authorities recognized that the key to avoiding a crisis was a set of policies that preserved market confidence, and key in this regard was to limit fiscal spending in 2009 to a level that could be credibly financed. Such a fiscal stance would provide space for the monetary authorities to relax money and credit conditions. It was agreed that continued close financial system oversight is crucial to guide risk-taking at domestic financial institutions.

[7] See SM/08/5 for a full discussion of reserve adequacy measures in the Dominican Republic.

[8] This said, remittances grew through the last global slowdown in 2001–02.

A. Fiscal Policy and Public Debt Sustainability

6. **A prudent fiscal spending plan for 2009 is key for preserving confidence**. The mission supported the authorities' 2009 budget plan, which is based on a conservative revenue estimate and a realistic projection of available financing, and is consistent with an NFPS deficit of 1.7 percent of GDP.[9] Moreover, the quality of spending should be improved, with social spending protected and poorly-targeted subsidies, mainly food and energy-related, reduced. There was broad agreement that successful implementation of the budget is predicated on implementing ongoing electricity sector reforms that aim at further increases in the CRI, including by enforcing the criminalization of electricity theft and automatically adjusting tariffs to reflect costs.

7. **The 2009 budget reinstates the central bank recapitalization plan**. The budget incorporates in full the cumulative government obligations under the framework law for the recapitalization of the central bank. Staff underscored that setting aside the recapitalization framework law in its first year had seriously undermined the credibility of the government's intention to recapitalize the bank and weakened confidence in the central bank's ability to control monetary policy over the medium term. The authorities felt that the lack of available financing had forced them to take this temporary measure, but recognized the need to put the recapitalization back on track.

Dominican Republic: Financing Flows: 2009
(In millions of U.S. dollars)

	2009
Public sector borrowing requirements	**1,486**
Overall deficit	784
Amortization	703
Expected disbursements	**1,486**
Multilateral budget support 1/	630
Petrocaribe	263
Project lending	524
Others	70

1/ Figure does not include potential access to IDB's emergency liquidity facility.

8. **It was agreed that the ongoing international financial turmoil will likely delay the medium-term objective of reaching a stable debt-to-GDP ratio of 25 percent**. The updated Debt Sustainability Analysis (DSA) contained in Appendix I assumes fiscal policies that will achieve this objective by 2015, rather than in 2012 as envisaged in EBS/08/3. Under the baseline scenario, this will require primary surpluses in the order of 1.5–2 percent of GDP starting in 2010-11. Nevertheless, the history of adverse shocks suffered by the Dominican Republic suggests that a higher primary surplus of 2–2.5 percent of GDP would be advisable to increase the likelihood of achieving the debt-to-GDP target. The mission, thus, noted the need for pursuing reforms early on to ensure fiscal consolidation over the medium term, including the streamlining of tax incentives and benefits (although the

[9] It was agreed that if revenue were to exceed current projections, spending could be increased through supplementary budgets, while paying close attention to the quality of such spending and future budgetary flexibility.

authorities do not appear inclined to pursue another round of tax reform) and steps to bolster spending control (including through the introduction of a single treasury account).

B. Monetary, Exchange Rate, and Financial Sector Policies

9. **Monetary and exchange rate policies in 2008 anchored macroeconomic stability, compensating for the loose fiscal stance**. The maintenance of a tight monetary policy, despite record-high food and energy prices in the first half of 2008, began to bring about the intended result of lower inflation by the fourth quarter of the year. The lagged effect of the slower money growth, the fall in commodity prices since September, and the slower economic activity should help lower inflation in 2009 to the 7 percent level envisaged in the BCRD's medium-term macroeconomic framework.[10] The authorities noted that the slowdown in credit resulting from the higher interest rates has helped slow imports and the adjustment to the expectation of declining foreign exchange inflows next year, easing potential pressure in the foreign exchange market. There was full agreement that as fiscal consolidation takes hold, the central bank would have space to lower interest rates.

10. **The authorities see relative exchange rate stability as a key determinant in maintaining confidence**. Despite the tightly managed exchange rate, staff's exchange rate assessment does not find evidence of fundamental misalignment, and the exchange rate appears broadly in line with macro-fundamentals (Box 1). Staff pointed out that although exchange rate stability (both nominal and real) has served the economy well, it has encouraged a rapid increase in credit portfolio dollarization, albeit from a low level. The authorities noted that banks had sufficient liquidity and capital buffers at this time, but agreed that strict enforcement of prudential regulations to discourage excessive exchange rate risk was appropriate. Staff also pointed out that while there was adequate reserve coverage of maturing short-term debt, this could change rapidly if confidence faltered and the authorities chose to defend the currency. The authorities acknowledged this risk, but indicated that they intend to build up reserves in 2009.

[10] This forecast is consistent with model-based inflation forecasts that have been prepared with RES' FPAS and GPM models estimated for the Dominican Republic, with the latest WEO assumptions on the world economy and commodity prices.

Box 1. Dominican Republic: Assessment of External Competitiveness and Exchange Rates

Indicators of external competitiveness and exchange rates provide mixed signals about the external viability of the Dominican Republic. Overall, and taking into account the terms-of-trade shock and significant uncertainties with import data, the exchange rate appears broadly in line with macro-fundamentals.

CPI-based exchange rate. The real exchange rate vis-à-vis the Dominican Republic's main competitors in manufacturing and tourism returned to pre-crisis levels in mid-2006 and has since remained relatively stable. The tourism-customer based exchange rate, however, has depreciated more in recent years (Figure 1).

ULC-based exchange rate. ULC-based bilateral real exchange rates against the U.S. dollar remained more depreciated than in past years, given the wage adjustments that lagged inflation, but have returned recently to pre-crisis levels. The ULC-based real exchange rate against Mexico has appreciated more strongly, as Mexico's ULC indicator has improved significantly in recent years (Figure 2).

Internal real exchange rate. The internal real exchange rate (IRER) shows tradable prices falling relative to nontradeable prices in recent years and is now back to pre-crisis levels (Figure 3).

Market share. DR-CAFTA member countries as a whole have been losing market share in manufacturing to Asian competitors in the US market, and this decline has been sharper in the Dominican Republic. However, the country's tourism market share has increased in recent years (Figure 4).

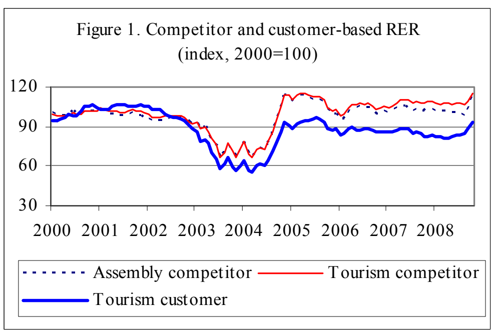


Figure 1. Competitor and customer-based RER (index, 2000=100)

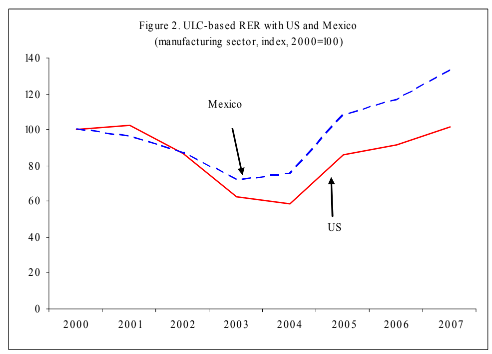


Figure 2. ULC-based RER with US and Mexico (manufacturing sector, index, 2000=100)

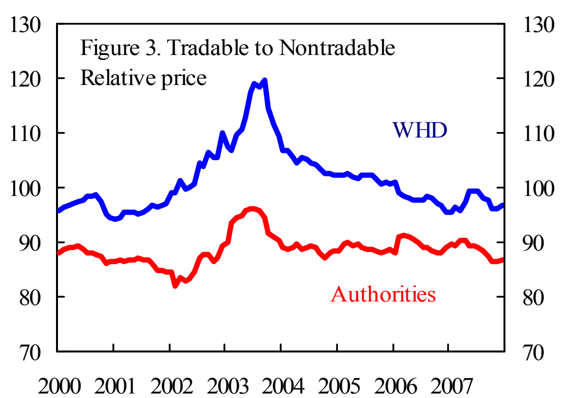


Figure 3. Tradable to Nontradable Relative price

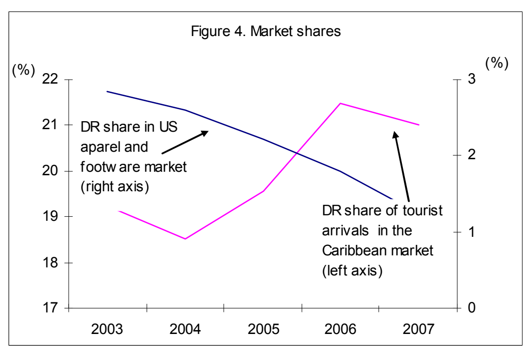


Figure 4. Market shares

CGER-type analyses and econometric models. Applying the Macro-Balance approach using estimated parameters specifically for emerging market countries suggests a current account deficit norm of around 5 percent of GDP for the Dominican Republic. With an underlying current account deficit of about 5 percent of GDP (taking into account the temporary terms-of-trade shock and forthcoming gold exports), the analysis suggests that the exchange rate is broadly in line with macro-fundamentals. The external stability analysis suggests that to maintain the NFA at the current level of around -44 percent of GDP the peso could be overvalued by about 11 percent, but this estimate is also subject to a large degree of statistical uncertainty associated with trade data. The fundamental equilibrium real effective exchange rate analysis suggests that observed real effective exchange rate movements are not statistically different from their long-run fundamentals (albeit the standard errors are significant). A similar result was obtained by the authorities.

C. Banking Policies

11. **The banking system should be able to withstand moderate stress arising from the international financial turmoil and the global slowdown**. Banking system indicators suggest sufficient liquidity and capital buffers to withstand moderate stress arising from the envisaged deterioration in the macroeconomic outlook, consistent with the SBS's stress test results that were shared with the mission. These buffers should be able to absorb a moderate increase in nonperforming loans and some reduction in deposits.

12. **The uncertainty in world financial markets, however, underscores the need to strengthen crisis management tools**. The mission and authorities agreed that close surveillance of financial institutions is particularly important at this juncture to facilitate prompt action, if needed. The mission recommended that the authorities establish a crisis preparedness plan that would entail, inter alia, a streamlining of decision-making procedures in the event of failure in a systemically important financial institution, and improve the bank resolution framework through the pending amendments to the monetary and financial law. These amendments also will strengthen the independence of the SBS and clarify the legal basis for consolidated supervision (e.g., allowing the SBS to carry out full supervision of a financial group's books) and inter-agency cooperation.

13. **Continued strengthening of financial system oversight will be crucial to maintain confidence in the financial system**. The authorities agreed to an FSAP update in early 2009. The update will help identify the actions needed to complete the financial sector reform agenda that aims at continued strengthening of bank oversight and improved consolidated supervision. Complementing the FSAP, the authorities saw merit in the mission's suggestion that the Dominican Republic would benefit from documenting the progress on prudential regulation and banking supervision made since the 2003–04 banking crisis.

14. **Concerns remain about the planned international financial free-trade zone (FTFZ)**. The FTFZ law, recently approved in congress, has partially addressed some of staff's concerns with earlier drafts. It calls for the highest prudential and anti-money laundering standards and includes a firewall to separate the FTFZ from the domestic financial system, with jail time for those directly or indirectly crossing that firewall. Although it creates a supervisory and regulatory authority separate from the SBS, it grants the Monetary Board an oversight role, with the ability to dismiss members and recommend supervisory or regulatory action. Nevertheless, minimum prudential standards and anti-money laundering standards have not been spelled out in the law, and a separate anti-money laundering unit is to oversee financial institutions operating in the FTFZ. Staff noted the possible damage to the reputation of the Dominican financial system in the event of stress or fraud in the FTFZ and recommended strengthening the limited ability of the government to monitor developments in the zone in a timely manner through appropriate regulation. Notwithstanding these concerns, the authorities were confident that the FTFZ law has minimized any risks to the country and its financial system.

IV. Staff Appraisal

15. **Macroeconomic performance deteriorated in 2008, in large part because of adverse terms of trade and a slowing world economy**. Rising energy and food prices and falling nickel prices through the first half of the year resulted in rising inflation and higher fiscal and external current account deficits. Monetary and exchange rate policies became the anchors for stability, but at the cost of higher interest rates and a lagged but strong reduction in credit growth, helping contain aggregate demand pressures. This, together with the slowdown in the global economy, has induced a sharp deceleration in economic activity and a rapid decline in inflation toward targeted levels.

16. **Macroeconomic policy needs to be rebalanced in 2009, with an easing of monetary policy once fiscal consolidation takes hold**. The world recession and limited external financing will lower external demand and access to external savings, while the reduction in energy and food prices should ease pressure on the fiscal and external current accounts, allowing room for relaxing monetary policy. Avoiding a crisis in 2009 is feasible with appropriate macroeconomic policies that maintain confidence in the peso, in the government's ability to repay its debts, and in the financial system. The 2009 budget and the central bank's monetary program are consistent with this objective.

17. **Notwithstanding the envisaged more appropriate policy mix in 2009, downside risks to the economy are significant**. Were financing for the external current account not to materialize, imports would need to contract and to mitigate the potential loss of reserves, the central bank would need to consider a less tight management of the exchange rate. Moreover, should the lack of financing also imply lower funding for the budget, spending will need to be curtailed to the degree that the domestic capital market cannot provide adequate resources.

18. **Continued reform in the energy sector remains critical for the public finances and, therefore, debt sustainability**. The projected improvement in the public finances in 2009 reflects in great part lower transfers to the electricity sector. With oil prices on a sharp decline and the political timing optimal, now is the time to push forward and complete the reform agenda in the sector. First and foremost, this will require strict enforcement of anti-theft statutes and the authorities resisting calls for lower tariff rates (which are now at an appropriate cost-coverage level). Staff also welcomes the authorities' actions to improve the targeting of the LPG subsidy.

19. **While indicators of bank soundness keep strengthening, the authorities will need to remain vigilant**. Banking indicators suggest that the system is well-capitalized, liquid, and profitable, and stress tests suggest that the system could withstand moderate stress. In these times of international financial uncertainty, staff encourages the authorities to enhance their crisis management tools and elaborate a crisis preparedness plan and welcomes the authorities' decision to undertake an FSAP update in early 2009. Staff urges the authorities to ensure that the legal and regulatory framework for the FTFZ addresses weaknesses in oversight.

Table 1. Dominican Republic: Daily Indicators: 2002-December 16, 2008

(End-of-period data, unless otherwise indicated)

	December						2008			Change from	
	2002	2003	2004	2005	2006	2007	Oct.	Nov.	Dec.	Dec. 07.	1 yr.
							(In percent)				
CPI inflation											
12-month	10.5	42.7	28.7	7.4	5.0	8.9	12.8	...	...	...	...
Monthly	1.8	3.7	-1.5	1.0	0.7	1.1	-1.1	...	...	...	...
Cumulative in year	10.5	42.7	28.7	7.4	5.0	8.9	9.6	...	...	...	...
Exchange rate					(DR$/US$)						
Nominal	20.8	37.0	30.8	34.9	33.8	34.3	35.2	35.7	35.4	3.3	3.3
					(2000 = 100)						
Nominal effective (INS, average)	79.1	42.3	51.7	46.8	46.0	43.9	43.9	44.2	44.1	0.3	0.3
Real effective (INS, average)	91.8	68.8	105.0	98.9	99.2	100.3	107.5	...	...	...	...
Real effective (estimate)	91.8	70.6	104.3	98.9	99.6	100.6	...	...	...	...	...
FX liquidity					(In millions of US$)						
NIR (program)	376.0	-95.4	191.4	849.9	1128.4	1625.8	1250.2	1213.3	1287.5	-338.3	-338.3
GIR	629.8	279.4	824.8	1929.3	2250.9	2946.2	2494.8	2445.7	2495.3	-450.9	-450.9
BCRD FX net purchases	35.7	-4.4	218.0	1151.8	443.6	59.3	-47.3	-56.6	59.2	-367.8	...
Bank FX liquidity	...	717.8	1250.7	1571.1	1516.0	1934.1	1576.8	1484.7	1485.1	-449.0	-449.0
Sovereign spreads					(In bps)						
EMBI-DR	499.0	1141.0	824.0	378.0	196.0	281.0	1690.0	1705.0	1760.0	1479.0	1479.0
EMBI Plus	725.0	403.0	347.0	237.0	171.0	255.0	684.0	748.0	770.0	515.0	515.0
U.S. 10 yr. bond + EMBI-DR	8.8	15.7	12.5	8.2	6.7	6.9	20.9	20.0	20.2	13.4	13.4
Domestic interest rates											
Money market											
Lombard	...	...	45.0	33.0	18.0	16.0	16.0	16.0	16.0	0.0	0.0
Overnight	...	...	7.0	10.0	8.0	7.0	9.5	9.5	9.5	2.5	2.5
Interbank (monthly avg.)	...	26.4	23.1	9.3	7.9	7.6	15.4	15.3	15.5	8.0	8.0
Banking											
Deposits (bank average)	19.4	19.8	20.3	11.9	7.8	6.7	13.3	13.4	13.8	7.1	5.9
Lending (bank average)	25.0	30.4	31.9	19.9	17.4	15.1	23.3	23.7	23.3	8.2	4.2
BCRD deposit (91 days)	...	31.0	24.0	14.0	7.0	5.0	5.0	5.0	5.0	0.0	0.0
BCRD deposit (365 days)	14.0	35.0	26.0	17.0	10.0	7.0	10.0	10.0	10.0	3.0	3.0
					(In billions of DR$)						
Net domestic assets	5.1	33.0	25.8	8.6	4.5	-5.6	0.1	1.1	-2.0	3.6	21.6
Of which:											
Overnight deposits	...	...	5.8	7.1	5.9	14.6	7.5	5.1	8.8	-5.9	...
Direct credit to Banks	6.6	104.7	105.6	105.5	102.7	99.9	99.9	99.9	99.9	0.0	-5.8
BCRD certificates	...	60.0	110.8	134.5	158.4	176.8	196.3	192.8	191.0	14.2	38.4
Months to maturity (average)	...	...	7.8	13.1	15.9	18.8	...	...	...	...	...
High powered money					(In percent)						
Base money (program)	38.4	77.5	90.9	105.1	113.1	127.7	119.2	...	...	...	...
Currency in circulation	18.3	29.7	32.5	38.3	44.0	51.3	43.8	43.5	43.1	-16.0	29.2
Bank deposits											
Total	160.7	211.1	250.2	280.6	310.4	351.0	351.4	348.6	...	...	...
Peso	101.1	158.3	180.0	203.2	227.2	254.1	254.1	253.4	...	...	...
					(In millions of US$)						
Dollar	1703.0	1509.6	2008.0	2210.1	2376.3	2770.0	2781.1	2721.4	2717.2	-1.9	14.1
					(In billions of DR$)						
External					(Monthly averages)						
Crude Oil-Brent 1Mth Fwd	29.5	32.2	43.3	59.4	62.0	91.8	76.3	57.0	45.0	-51.0	-51.0
U.S. inflation (12m)	2.4	1.9	3.3	3.4	2.5	4.1	...	...	...	...	...
Nickel LME (000 US$/MT)	7.2	14.3	13.8	13.4	34.5	26.1	12.1	10.7	9.4	-63.8	-63.8

Source: Central Bank of the Dominican Republic.

1/ Updated on 12/17/2008, with information through 12/16/2008.

Table 2. Dominican Republic: Selected Economic Indicators

Main export products: Tourism, textiles, jewelry, electronics, nickel , sugar, and coffee.

GDP per capita (U.S. dollars, 2007)	4,270	Income share by highest	
Population (millions, 2006)	9.6	10 percent (in percent, 2006)	39.0
Life expectancy at birth (years, 2006)	72.3	Extreme poverty rate (2006)	13.1
Under 5 mortality rate (per thousands, 2006)	29.2	Adult literacy rate (percent, 2004)	94.1

				2007		Proj.	
	2004	2005	2006	Prog.	Prel.	2008	2009
National accounts and prices	(Annual percentage change, unless otherwise indicated)						
Nominal GDP (RD$trillion)	0.9	1.0	1.2	...	1.4	1.6	1.7
Dollar GDP (US$ billion)	21.6	33.5	35.3	...	41.0	45.6	45.9
Real GDP	1.3	9.3	10.7	6.0	8.5	4.8	1.8
Consumer price index (period average)	51.5	4.2	7.6	4.5	6.1	11.3	5.3
Consumer price index (eop)	28.7	7.4	5.0	4-6	8.9	7.5	7.0
Social Indicators							
Unemployment rate (in percent)	19.7	17.5	16.0	…	15.6	14.0	…
Public finances 1/	(In percent of GDP)						
Central government primary balance	-1.2	0.4	0.2	2.3	1.7	-0.8	0.5
Total revenues (including grants)	14.0	15.6	16.2	19.7	17.6	15.7	14.3
Primary spending	15.3	15.1	16.0	17.3	15.8	16.4	13.8
Interest expenditure	1.8	1.4	1.7	1.6	1.6	1.8	2.2
Nonfinancial public sector overall balance	-2.0	-0.5	-0.9	0.6	0.1	-2.6	-1.7
Quasi-fiscal balance of the central bank	-3.4	-2.5	-2.2	-1.9	-1.8	-1.4	-1.4
Consolidated public sector balance	-5.4	-3.0	-3.1	-1.2	-1.7	-4.0	-3.1
Of which : primary balance	-0.1	1.0	0.4	2.3	1.8	-0.4	0.9
Total public debt	51.1	36.6	38.3	51.1	35.4	32.5	33.2
Of which : FX currency share (in percent)	69.8	59.9	53.8	...	53.7	49.2	50.0
Money and credit	(12-month percentage changes, unless otherwise indicated)						
Liabilities to private sector (M3)	22.8	18.0	13.5	17.3	15.2	12.6	10.9
Currency in circulation	9.8	17.8	14.7	12.1	16.5	12.7	13.5
Deposits	11.2	11.4	5.7	22.7	15.7	12.4	12.5
Net domestic assets of the banking system	11.5	6.7	11.8	15.3	12.1	15.4	10.5
Of which:							
Credit to the private sector	-1.0	9.6	14.3	21.7	26.3	11.9	9.8
M3, in percent of GDP	36.5	38.4	37.3	43.3	37.5	36.1	35.3
Balance of payments	(In millions of U.S. dollars, unless otherwise indicated)						
Current account	1,041	-473	-1,288	-1,215	-2,068	-4,439	-2,695
Merchandise trade balance	-1,952	-3,725	-5,564	-5,409	-6,437	-8,969	-7,127
Exports	5,936	6,145	6,610	6,934	7,160	6,377	5,914
Imports	-7,888	-9,869	-12,174	-12,343	-13,597	-15,346	-13,040
Of which : oil and gas	-1,668	-2,451	-2,788	-2,853	-3,224	-4,262	-2,240
Services and transfers (net)	2,994	3,252	4,276	4,194	4,369	4,530	4,432
Of which : interest on public debt	-223	-291	-236	-391	-245	-274	-338
Capital and financial account	118	1,636	1,598	1,533	2,314	3,867	3,257
Of which: foreign direct investment	909	1,123	1,528	1,396	1,517	2,811	2,192
Errors and omissions	-980	-466	-147	-458	374	283	0
Overall balance	179	697	164	439	620	-289	562
Of which : change in NIR (increase -)	-479	-918	-268	-439	-607	295	-562
Current account (in percent of GDP)	4.8	-1.4	-3.6	-3.4	-5.0	-9.7	-5.9
Exports of goods (in US$, annual percentage chg)	8.5	3.5	7.6	7.7	8.3	-10.9	-7.3
Imports of goods (in US$, annual percentage chg)	8.5	25.1	23.3	9.9	11.7	12.9	-15.0
International reserve position and external debt							
Gross official reserves	825	1,929	2,251	2,468	2,946	2,610	2,979
(in months of imports of goods) 2/	1.3	2.3	2.2	2.6	2.6	2.0	2.7
(in terms of short-term external debt, percent) 3/	126.8	185.7	249.8	256.1	318.7	307.5	314.9
Net international reserves	602	1,520	1,788	1,898	2,395	2,100	2,662
NIR, program definition 4/	192	850	1,128	1,275	1,626	1,331	1,892
Outstanding external public debt, in percent of GDP	29.7	20.6	21.3	29.7	18.5	17.4	16.7
WEO Oil price (US$/bbl)	37.8	53.4	64.3	n.a.	71.1	99.8	54.3

Sources: BCRD; World Bank; and Fund staff estimates and projections.

1/ Fiscal projections include unidentified measures.
2/ In relation to imports of the current year.
3/ In relation to total external debt service obligations, including clearance of arrears and IMF obligations, during the following year on a residual maturity basis.
4/ Excludes reserve requirements on f/x deposits and various government deposits in f/x at the central bank.

Table 3. The Dominican Republic: Fiscal Accounts

(In percent of GDP base 1991)

	2004	2005	2006	Prel. 2007	Est. 2008	Proj. 2009
			I. CENTRAL GOVERNMENT			
Total revenue and grants	**14.0**	**15.6**	**16.2**	**17.6**	**15.7**	**14.3**
Total revenue	**13.9**	**15.4**	**16.0**	**17.4**	**15.5**	**14.2**
Tax revenues	12.9	14.6	15.0	16.0	15.0	14.0
Income and property 1/	2.9	3.3	4.0	4.9	4.5	3.7
VAT	3.4	4.1	4.5	4.9	4.8	4.5
Excises	2.5	3.5	4.3	4.5	4.2	4.3
International trade	4.1	3.7	2.3	1.7	1.6	1.5
Nontax revenue	1.0	0.9	0.9	1.4	0.6	0.3
Grants	**0.1**	**0.1**	**0.3**	**0.2**	**0.1**	**0.1**
Primary expenditures 2/	**15.3**	**14.7**	**16.0**	**15.8**	**16.4**	**13.8**
Wages and salaries	3.3	3.7	3.7	3.5	3.5	3.5
Goods and services	1.6	2.0	2.3	2.3	2.2	2.2
Transfers, *o/w* : 3/	5.8	5.4	5.4	5.0	6.2	3.7
Gas subsidy	0.7	0.4	0.5	0.4	0.6	0.2
Electricity transfers	2.0	1.7	1.4	1.2	2.1	0.9
Capital expenditure	4.3	4.2	4.8	4.7	4.2	4.4
Relief Spending	0.0	0.0	0.0	0.3	0.3	0.0
Unallocated spending and stat. discrepancy 2	0.3	-0.5	-0.2	0.0	0.0	0.0
Primary balance	**-1.2**	**0.8**	**0.2**	**1.7**	**-0.8**	**0.5**
Interest 3/	**1.8**	**1.3**	**1.4**	**1.6**	**1.8**	**2.2**
Overall balance	**-3.1**	**-0.5**	**-1.2**	**0.1**	**-2.6**	**-1.7**
			II. REST OF THE NON FINANCIAL PUBLIC SECTOR			
Overall balance rest of NFPS 4/	**1.1**	**0.3**	**0.3**	**0.0**	**0.0**	**0.0**
			III. NON FINANCIAL PUBLIC SECTOR			
Overall balance NFPS	**-2.0**	**-0.2**	**-0.9**	**0.1**	**-2.6**	**-1.7**
Primary balance	-0.2	1.3	0.5	1.7	-0.8	0.5
Interest	1.8	1.4	1.4	1.6	1.8	2.2
Financing NFPS	**2.0**	**0.2**	**0.9**	**-0.1**	**2.6**	**1.7**
External financing	2.0	1.0	1.4	0.5	1.1	1.7
Domestic financing	0.0	-0.8	-0.5	-0.5	1.4	0.0
Financing gap	0.0	0.0	0.0	-0.4	0.0	0.0
			IV. QUASI-FISCAL BALANCE OF THE CENTRAL BANK			
Quasi-fiscal balance of the central bank	**-3.4**	**-2.5**	**-2.2**	**-1.8**	**-1.4**	**-1.4**
Of which : non-interest	0.1	0.1	-0.1	0.1	0.4	0.4
			V. COMBINED PUBLIC SECTOR			
Combined public sector balance	**-5.4**	**-2.7**	**-3.1**	**-1.7**	**-4.0**	**-3.1**
Primary balance	-0.1	1.4	0.4	1.8	-0.4	0.9
Interest	5.3	4.1	3.5	3.6	3.6	4.0

Sources: Central Bank of the Dominican Republic and Fund staff estimates.

1/ For 2007 includes the capital gains windfall of Verizon for 0.5 percent of GDP.

2/ Primary expenditures include an unidentified residual which is the difference between the financing below the line and the overall balance registered above the line.

3/ The government transfers for the recapitalization of the central bank between 2005 and 2006 have been reclassified as interest payments for consistency with 2008 figures, following the central bank recapitalization law.

4/ Including electricity distribution companies (Edenorte and Edesur).

Table 4a. Dominican Republic: Balance of Payments: 2006–13

(In millions of U.S. dollars, unless otherwise specified)

			Projections					
	2006	2007	2008	2009	2010	2011	2012	2013
Current account	-1,288	-2,068	-4,439	-2,695	-3,090	-3,540	-3,112	-3,298
Trade balance	-5,564	-6,437	-8,969	-7,127	-7,916	-8,869	-8,969	-9,797
Exports f.o.b.	6,610	7,160	6,377	5,914	6,376	7,101	7,846	8,203
Of which: nickel	710	1,099	436	184	286	305	322	334
Imports f.o.b.	-12,174	-13,597	-15,346	-13,040	-14,292	-15,970	-16,815	-17,999
Of which: oil and gas	-2,788	-3,224	-4,262	-2,240	-2,740	-3,130	-3,397	-3,682
Nonfactor services	2,985	3,039	3,156	3,204	3,443	3,764	4,089	4,499
Of which: travel receipt	3,917	4,082	4,242	4,242	4,624	5,099	5,573	6,091
Factor services	-1,853	-2,079	-2,162	-2,308	-2,523	-2,771	-3,037	-3,326
Of which: interest on public debt	-236	-245	-274	-338	-357	-375	-388	-398
Transfers	3,144	3,409	3,535	3,535	3,906	4,336	4,805	5,326
Capital and financial account	1,598	2,314	3,867	3,257	3,259	3,700	3,779	3,919
Capital account	254	249	232	241	253	292	310	336
Financial account	1,344	2,065	3,635	3,016	3,006	3,408	3,469	3,583
Direct investment, net	1,528	1,517	2,811	2,192	2,024	2,334	2,480	2,688
Portfolio investment, net	773	954	-275	-59	200	363	373	393
Other investment, net	-957	-405	1,098	883	782	711	616	502
Of which, government mid and long-term borrowing, net	367	332	530	714	589	469	349	203
Disbursement	900	942	1,144	1,417	1,245	1,235	1,061	1,060
Amortization	-533	-610	-614	-703	-655	-767	-712	-858
Errors and omissions	-147	374	283	0	0	0	0	0
Overall balance	164	620	-289	562	168	159	667	621
Financing	-164	-620	289	-562	-168	-159	-667	-621
Change in GIR (increase, -)	-314	-679	336	-369	0	-57	-652	-621
Net Fund purchases	38	63	-41	-193	-168	-103	-15	0
Exceptional financing	113	-4	-6	0	0	0	0	0
Debt rescheduling/relief	80	34	0	0	0	0	0	0
Other refinancing	36	11	8	0	0	0	0	0
Net change in arrears	-3	-49	-14	0	0	0	0	0
Memorandum items:								
Current account in percent of GDP	-3.6	-5.0	-9.7	-5.9	-6.1	-6.1	-5.0	-4.9
Non-oil-gas current account in percent of GDP	4.3	2.8	-0.4	-1.0	-0.7	-0.7	0.5	0.6

Sources: Dominican authorities, and Fund staff estimates and projections.
1/ The authorities' trade figures for 2008 are slightly larger than those of the staff presented in this table, but the trade deficit is almost the same.

Table 4b. Dominican Republic: Balance of Payments: 2006–13

(In millions of U.S. dollars, unless otherwise specified)

			Projections					
	2006	2007	2008	2009	2010	2011	2012	2013
Current account	-1,288	-2,068	-4,439	-2,695	-3,090	-3,540	-3,112	-3,298
Trade balance	-5,564	-6,437	-8,969	-7,127	-7,916	-8,869	-8,969	-9,797
Exports f.o.b.	6,610	7,160	6,377	5,914	6,376	7,101	7,846	8,203
Of which: nickel	710	1,099	436	184	286	305	322	334
Imports f.o.b.	-12,174	-13,597	-15,346	-13,040	-14,292	-15,970	-16,815	-17,999
Of which: oil and gas	-2,788	-3,224	-4,262	-2,240	-2,740	-3,130	-3,397	-3,682
Nonfactor services	2,985	3,039	3,156	3,204	3,443	3,764	4,089	4,499
Of which: travel receipt	3,917	4,082	4,242	4,242	4,624	5,099	5,573	6,091
Factor services	-1,853	-2,079	-2,162	-2,308	-2,523	-2,771	-3,037	-3,326
Of which: interest on public debt	-236	-245	-274	-338	-357	-375	-388	-398
Transfers	3,144	3,409	3,535	3,535	3,906	4,336	4,805	5,326
Capital and financial account	1,598	2,314	3,867	3,257	3,259	3,700	3,779	3,919
Capital account	254	249	232	241	253	292	310	336
Financial account	1,344	2,065	3,635	3,016	3,006	3,408	3,469	3,583
Direct investment, net	1,528	1,517	2,811	2,192	2,024	2,334	2,480	2,688
Portfolio investment, net	773	954	-275	-59	200	363	373	393
Other investment, net	-957	-405	1,098	883	782	711	616	502
Of which, government mid and long-term borrowing, net	367	332	530	714	589	469	349	203
Disbursement	900	942	1,144	1,417	1,245	1,235	1,061	1,060
Amortization	-533	-610	-614	-703	-655	-767	-712	-858
Errors and omissions	-147	374	283	0	0	0	0	0
Overall balance	164	620	-289	562	168	159	667	621
Financing	-164	-620	289	-562	-168	-159	-667	-621
Change in GIR (increase, -)	-314	-679	330	-369	0	-57	-652	-621
Net Fund purchases	38	63	-41	-193	-168	-103	-15	0
Exceptional financing	113	-4	0	0	0	0	0	0
Debt rescheduling/relief	80	34	0	0	0	0	0	0
Other refinancing	36	11	0	0	0	0	0	0
Net change in arrears	-3	-49	0	0	0	0	0	0
Memorandum items:								
Current account in percent of GDP	-3.6	-5.0	-9.7	-5.9	-6.1	-6.1	-5.0	-4.9
Non-oil-gas current account in percent of GDP	4.3	2.8	-0.4	-1.0	-0.7	-0.7	0.5	0.6

Sources: Dominican authorities, and Fund staff estimates and projections.

1/ The authorities' trade figures for 2008 are slightly larger than those of the staff presented in this table, but the trade deficit is almost the same.

Table 5. Dominican Republic: Summary of the Banking System 1/

(In billions of Dominican pesos unless otherwise indicated)

	December					September	
	2003	2004	2005	2006	2007	2007	2008
				I. Central Bank			
Net international reserves (DR$ bn)	4.7	17.9	51.0	59.9	81.0	78.8	73.7
In US$ million	124	602	1,520	1,788	2,395	2,358	2,088
NIR Program definition (in US$ million) 2/	-96	201	850	1,128	1,627	1,591	1,306
Net domestic assets	80.4	78.2	66.8	69.4	74.7	62.0	78.5
Net credit to the nonfinancial public sector 3/4/	-0.6	41.9	97.7	206.6	234.5	206.6	263.7
Of which : excluding quasi-fiscal related	-0.6	2.3	4.3	4.7	32.6	4.6	61.7
Net credit to commercial banks	82.0	57.7	44.0	-32.4	-25.6	-29.5	-21.1
Certificates held by the private sector	-37.0	-54.4	-81.8	-117.5	-144.1	-147.1	-163.0
Medium- and long-term external liabilities	-20.8	-14.9	-14.8	-13.2	-11.6	-11.9	-10.9
Official capital and accumulated surplus (-) 3/4/	52.7	48.2	16.4	24.5	22.5	42.1	12.1
Other assets net	4.1	-0.3	5.2	1.5	-1.1	1.9	-2.3
Monetary base	85.1	96.1	117.8	129.3	155.7	140.9	152.2
Currency in circulation	29.7	32.5	38.3	44.0	51.2	40.6	43.2
Cash-in-vault and bank deposits	55.4	63.5	79.5	85.3	104.5	100.2	109.0
Of which: Investment requirement	0.0	12.7	12.7	5.9	5.9	5.9	5.9
Of which: Reserves on foreign currency deposits	8.3	11.6	18.0	16.5	19.5	19.8	21.7
				II. Deposit Money Banks			
Net foreign assets	5.0	23.4	30.5	37.8	42.4	43.9	24.0
In US$ million	131	787	907	1,130	1,255	1,312	680
Net claims on central bank	-32.8	-19.5	8.6	93.6	112.4	110.9	115.7
Claims	72.2	81.9	105.4	102.0	119.5	118.8	122.8
Liabilities	-105.0	-101.4	-96.8	-8.5	-7.1	-7.9	-7.1
Net domestic assets	225.1	215.6	205.4	127.1	144.1	127.0	177.9
Net credit to the nonfinancial public sector	8.2	14.6	5.6	2.0	-0.6	-10.8	14.4
Credit to the private sector	165.6	163.9	179.5	205.1	259.1	241.9	277.4
Capital and accumulated surplus	9.3	4.6	1.1	-0.8	-6.7	-5.9	-12.2
Other assets net	42.0	32.5	19.2	-79.2	-107.7	-98.2	-101.6
Liabilities to the private sector	197.3	219.5	244.5	258.5	298.9	281.7	317.6
				III. Banking System			
Net foreign assets	9.7	41.3	81.5	97.7	123.5	122.7	97.7
In US$ million	255	1,389	2,427	2,917	3,650	3,670	2,768
Net domestic assets	260.6	290.5	309.9	346.5	388.5	365.6	440.5
Net credit to the nonfinancial public sector	7.7	56.5	103.3	208.6	234.0	195.8	278.0
Of which : excluding quasi-fiscal losses		17.0	9.9	6.7	32.0	-6.2	76.1
Credit to the private sector	165.6	163.9	179.5	205.1	259.1	241.9	277.4
Denominated in pesos	105.0	129.2	144.5	170.5	216.2	203.1	220.3
Denominated in foreign currency	60.6	34.7	35.1	34.6	42.9	38.8	57.2
Medium- and long-term external liabilities	-20.8	-14.9	-14.8	-13.2	-11.6	-11.9	-10.9
Capital and accumulated surplus	62.0	52.7	17.5	23.6	15.8	36.1	-0.1
Other assets net (includes valuation effects)	46.1	32.2	24.4	-77.7	-108.7	-96.3	-103.9
M3	270.2	331.7	391.4	444.2	511.9	488.3	538.2
Currency in circulation	29.7	32.5	38.3	44.0	51.2	40.6	43.2
Deposits	197.3	219.5	244.5	258.5	298.9	281.7	317.6
Central bank certificates held by the private sector	43.2	79.7	108.6	141.7	161.7	165.9	177.3

Source: Central Bank of the Dominican Republic; and Fund staff estimates and projections.

1/ Includes the central bank and commercial (multiple) banks.

2/ Excludes reserve requirement on foreign currency deposits, and government and bank deposits in foreign currency. E-o-p.

3/ In 2004/05, the government recognized DR$62 bn in quasi-fiscal debts to the BCRD accumulated pre-2004.
NFPS credit projections for 2006 assume a cash recapitalization of US$200m, evenly distributed throughout the year.

4/ Following the external auditor's recommendation, the BCRD provisioned about 80 percent of its loans granted to the banking system during the 2002 crisis.

Table 6a. Dominican Republic: Selected Financial Soundness Indicators for the Banking System
(In percent)

	Total /3						
	December						Sep.
	2002	2003	2004	2005	2006	2007	2008
Capital adequacy							
Net worth to total assets	10.7	7.7	8.9	9.4	10.0	9.5	10.0
Regulatory capital to risk-weighted assets	12.0	8.9	12.9	12.5	12.4	13.0	...
Asset quality							
Loan growth 4/	18.4	10.2	-3.0	17.1	24.7	27.1	21.1
NPLs to total loans	4.9	8.7	7.3	5.9	4.5	4.0	3.8
Loan provisions to NPLs	70.7	66.9	110.8	127.6	144.7	134.5	129.9
NPLs net of provisions to net worth	8.9	20.1	-4.2	-8.5	-10.8	-8.2	-6.7
Fixed and net foreclosed assets to net worth	50.2	63.4	72.5	61.2	52.0	57.2	56.3
Earnings and efficiency							
Return on average assets	2.4	0.0	1.8	1.8	1.9	2.0	1.7
Return on average equity	23.1	-0.1	21.3	19.3	19.7	21.3	17.9
Gross operating income to average assets	10.3	9.7	10.1	9.9	9.9	9.8	2.0
Financial margin to average assets	7.6	5.7	6.2	6.2	6.8	6.7	5.4
Income from exchange rate change to avg. assets	0.5	1.5	0.2	0.5	0.0	0.0	0.0
Operating expenses to net financial margin	81.8	103.6	112.7	112.5	107.1	104.4	95.2
Operating expenses to gross operating income	59.7	60.7	68.9	70.3	74.0	71.7	256.6
Liquidity							
Liquid funds to deposits	30.0	43.0	45.6	46.2	33.0	32.3	30.7
Liquid funds to total assets	22.2	34.6	38.4	39.1	27.7	27.2	25.7
Sensitivity to market risks							
Net open position in foreign exchange to capital	11.5	40.7	26.1	24.3	22.8	28.0	...

Source: Superintendency of Banks (non-audited financial statements).
1/ Reservas, Popular, BHD, Progreso (except for Dec. 2005-2006, when under regularization) and León.
2/ Citibank and Nova Scotia. From Dec. 2004-Dec. 2006, Republic Bank (ex-Mercantil) is included, so data are not comparable across all time periods.
3/ Excludes Progreso during 2005-2006 and Republic as of Sept 2007.
4/ Excludes also new bank, Lopez de Haro, for comparability of small and total banks.
5/ Loans classified in 3 highest risk categories (C-E).

Table 6b. Dominican Republic: Selected Financial Soundness Indicators for the Banking System

(In percent)

	Large Domestic Banks /1							Small Domestic Banks							Foreign Banks 2/						
	December						Sep.	December						Jul.	December						Sep.
	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008	2002	2003	2004	2005	2006	2007	2008
Capital adequacy																					
Net worth to total assets	10.1	7.2	8.0	8.9	9.3	9.1	9.4	13.2	11.9	15.9	13.3	12.8	10.5	11.3	17.9	10.7	12.8	12.0	14.5	12.5	14.4
Regulatory capital to risk-weighted assets	11.6	8.1	12.0	12.0	12.0	12.9	...	18.2	21.8	26.4	20.3	15.8	14.1	17.9	9.6	11.5	16.0	13.6	13.7	13.4	...
Asset quality																					
Loan growth 4/	15.3	33.7	-3.0	15.3	23.0	26.5	20.7	146.3	-4.3	2.2	28.8	50.6	36.1	-6.6	10.3	28.4	34.8	30.0	30.5	21.5	25.2
NPLs to total loans	4.5	8.1	6.7	5.8	4.7	4.3	3.8	14.1	8.6	13.7	4.5	3.5	2.4	2.7	3.6	12.5	10.7	7.4	4.0	2.6	4.2
Loan provisions to NPLs	75.3	69.6	111.5	125.5	139.9	132.4	128.6	19.5	48.5	47.5	94.8	115.5	135.7	123.0	82.1	62.5	130.7	146.2	194.6	165.7	143.4
NPLs net of provisions to net worth	7.4	19.4	-4.9	-8.4	-10.6	-8.6	-6.8	53.0	13.4	15.2	0.7	-2.3	-4.8	-3.2	2.4	17.6	-9.5	-12.6	-14.4	-7.1	-7.8
Fixed and net foreclosed assets to net worth	49.9	70.2	83.4	67.9	57.4	63.2	63.3	39.5	31.4	32.7	32.5	35.8	35.5	31.3	24.2	34.1	40.7	37.3	29.8	28.3	25.0
Earnings and efficiency																					
Return on average assets	2.3	-0.2	1.6	1.9	1.9	2.0	1.8	0.0	1.7	4.9	2.0	0.5	1.2	0.6	5.6	4.1	1.9	0.8	2.6	2.7	2.3
Return on average equity	23.4	-2.0	21.6	22.5	20.8	22.6	18.5	-0.3	13.9	34.9	13.7	3.7	10.4	5.7	33.5	31.2	15.8	6.7	19.3	19.8	16.4
Gross operating income to average assets	10.4	10.3	9.4	9.6	9.9	9.8	2.0	7.1	6.9	11.4	13.4	8.1	8.1	1.9	14.8	13.0	17.2	10.6	10.4	10.7	2.2
Financial margin to average assets	7.7	5.8	5.8	6.2	6.9	6.8	5.5	4.3	2.8	6.5	2.8	3.4	4.5	2.7	11.4	8.8	9.8	6.8	7.6	7.5	5.7
Income from exchange rate change to avg. assets	0.5	1.8	0.1	0.3	0.0	0.0	0.0	0.1	0.9	3.2	5.8	0.1	0.0	0.0	0.7	0.9	0.2	0.4	0.0	0.2	0.0
Operating expenses to net financial margin	83.6	107.1	115.0	107.9	102.2	104.3	93.9	109.2	142.8	79.0	196.1	214.8	160.0	143.2	55.9	72.0	110.0	129.3	123.9	91.6	94.6
Operating expenses to gross operating income	61.3	60.9	71.6	70.2	71.0	71.9	261.8	66.1	59.2	45.5	41.4	89.9	90.0	202.2	43.1	49.1	62.8	82.9	90.8	64.5	238.0
Liquidity																					
Liquid funds to deposits	29.2	40.6	42.8	46.0	32.6	31.5	30.2	38.7	50.2	48.9	49.6	42.8	36.8	40.4	42.0	63.9	66.1	46.6	32.3	37.6	30.6
Liquid funds to total assets	21.8	32.7	36.5	39.2	27.7	26.6	25.3	31.1	40.3	39.7	40.6	36.1	30.8	33.9	28.7	50.9	50.9	37.8	25.3	30.9	24.9
Sensitivity to market risks																					
Net open position in foreign exchange to capital	10.3	52.7	24.4	30.1	21.2	16.4	...	62.9	82.9	83.0	-18.1	23.2	30.0	-15.2	32.8	-4.7	16.0	10.9	31.2	114.4	...

Source: Superintendency of Banks (non-audited financial statements).

1/ Reservas, Popular, BHD, Progreso (except for Dec. 2005-2006, when under regularization) and León.

2/ Citibank and Nova Scotia. From Dec. 2004-Dec. 2006, Republic Bank (ex-Mercantil) is included, so data are not comparable across all time periods.

3/ Excludes Progreso during 2005-2006 and Republic as of Sept 2007.

4/ Excludes also new bank, Lopez de Haro, for comparability of small and total banks.

5/ Loans classified in 3 highest risk categories (C-E)

Table 7. Dominican Republic. Central Bank Interest Rates: 2002-December 03, 2008

	December						2008		Change from	
	2002	2003	2004	2005	2006	2007	Nov.	Dec.	Dec. 07	1 yr.
	(In percent a year, unless otherwise indicated)									
Key policy rates										
Lombard rate	...	...	45.0	33.0	18.0	16.0	16.0	16.0	0.0	0.0
Overnight rate	...	...	7.0	10.0	8.0	7.0	9.5	9.5	2.5	2.5
Retail window (early redemption)										
30 days	...	27.0	23.0	12.0	6.0	4.0	4.0	4.0	0.0	0.0
90 days	...	31.0	24.0	14.0	7.0	5.0	5.0	5.0	0.0	0.0
180 days	...	33.0	25.0	15.0	8.0	6.0	8.0	8.0	2.0	2.0
1 year	14.0	35.0	26.0	17.0	10.0	7.0	10.0	10.0	3.0	3.0
1 1/2 years	...	...	...	19.0	11.0	8.0	11.0	11.0	3.0	3.0
2 years	...	...	...	21.0	12.0	9.0	12.0	12.0	3.0	3.0
Retail window (non-redeemable)										
1 year	...	...	...	...	12.0	9.0	12.0	12.0	3.0	3.0
1 1/2 years	...	...	...	...	10.0	8.0	13.0	13.0	5.0	5.0
2 years	...	...	...	...	12.0	9.0	14.0	14.0	5.0	5.0
2 1/2 years	...	...	...	...	13.0	10.0	16.0	16.0	6.0	6.0
Memorandum items										
Average maturity (months)	...	...	7.5	13.5	15.7	18.5	...	...	...	...
Banking system rates										
Interbank	...	26.4	23.1	9.3	7.9	7.6	15.3	...	...	...
Deposits (90 days)	19.4	19.8	20.3	11.9	7.8	6.7	13.4	13.2	6.5	6.6
Credit (90 days)	25.0	30.4	31.9	19.9	17.4	15.1	23.7	23.4	8.3	9.7

Source: Central Bank of the Dominican Republic.

1/ Updated on 12/4/2008, with information through 12/1/2008.

Table 8. Dominican Republic: Consumer Price Inflation Measures

(In percent, last 12 months)

	December					Oct.	Nov.
	2003	2004	2005	2006	2007	2008	2008
Headline Inflation	42.7	28.7	7.4	5.0	8.9	12.8	7.2
Median inflation	29.4	33.6	3.2	5.0	4.3	7.0	6.3
Core Inflation Measures							
Exclusion method							
Official	38.5	30.5	3.8	5.1	4.3	9.3	9.1
Excluding food and energy	37.5	29.0	6.1	4.9	6.3	9.2	8.3
Excluding fuel and electricity 1/	42.3	30.1	4.3	4.9	6.7	13.4	11.3
Excluding food	35.9	27.7	6.3	5.0	6.3	8.9	7.7
Excluding administered and volatile prices 2/	38.7	34.9	3.0	6.0	3.8	10.2	10.0
Trimming method							
Monthly frequency							
Five-percent window 3/	32.1	28.9	4.3	4.5	4.3	8.6	7.6
Ten-percent window 4/	26.0	27.0	3.3	4.3	2.6	5.2	5.0
Annual frequency							
Five-percent window 12-month	41.7	30.3	4.0	5.4	6.9	11.2	8.9
Ten-percent window 12-month	39.1	31.8	3.7	5.1	5.0	9.3	7.7
Noncore inflation measures							
Fuel and electricity	45.4	19.9	30.0	5.5	21.3	9.9	-12.6
Food	54.3	32.6	0.3	4.9	7.5	23.8	18.3
Administered and volatile prices	47.3	22.0	12.7	4.0	14.5	15.6	4.3
Tradable (WHD)	47.0	29.7	2.4	4.4	4.4	13.1	11.9
Nontradable (WHD)	35.4	30.6	7.1	5.7	10.1	14.0	10.4
Tradable (authorities)	47.2	29.3	4.0	4.7	7.7	12.5	9.6
Nontradable (authorities)	38.4	30.7	4.5	5.1	5.9	14.2	12.6

Source: Central bank of the Dominican Republic and Fund staff estimates.
1/ Excludes regular and premium gasoline, electricity, and propane gas.
2/ Excludes fuel and electricity prices, as well as items whose inflation was in the 5 percent tail of the distribution of monthly inflation for more than 50 percent in the February 1999-July 2006 period.
3/ Excludes each month items whose monthly inflation was in the 5-percent tails of the distribution.
4/ Excludes each month items whose monthly inflation was in the 10-percent tails of the distribution.

Figure 1. Dominican Republic: Exchange Rate Developments

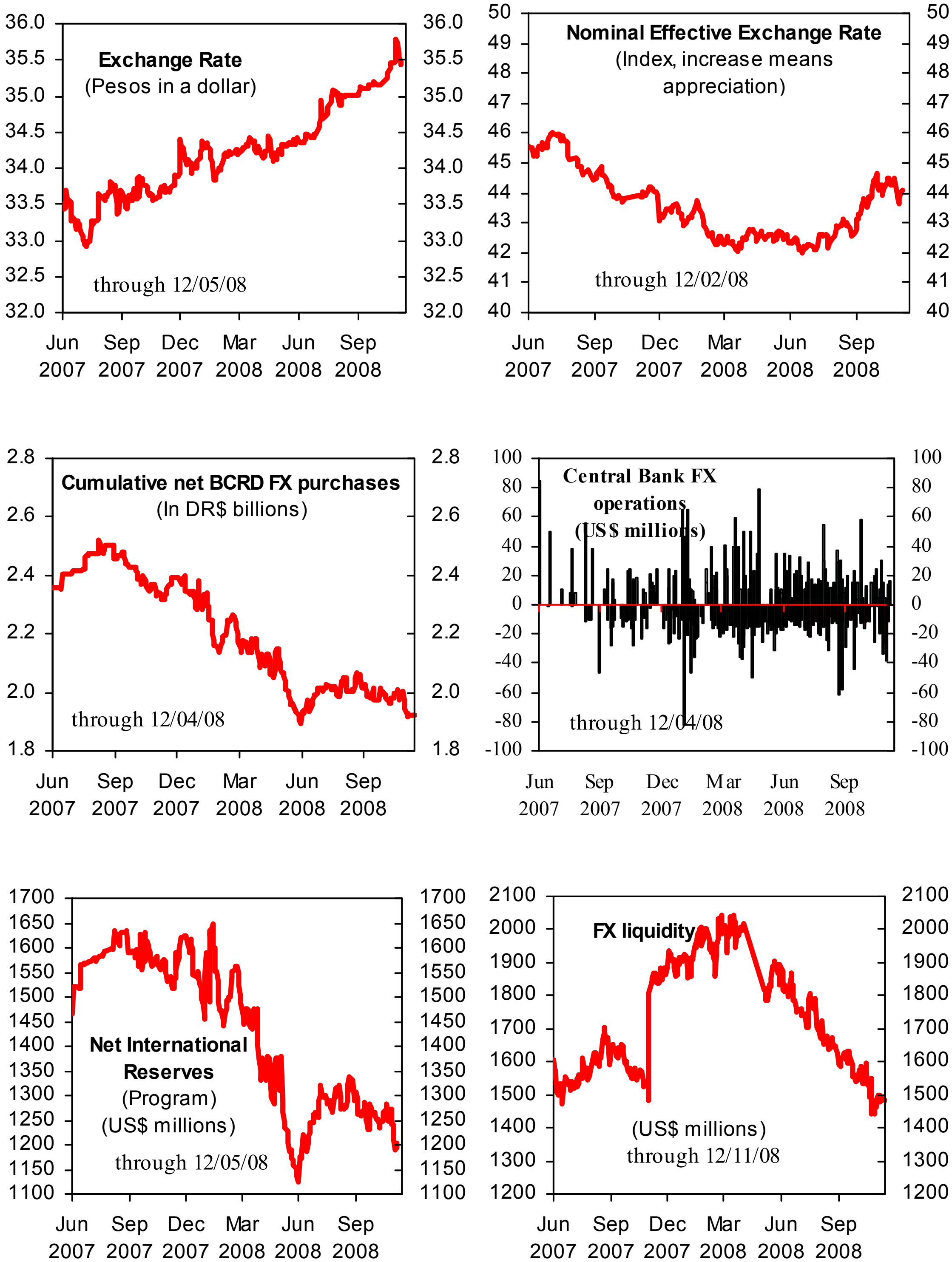
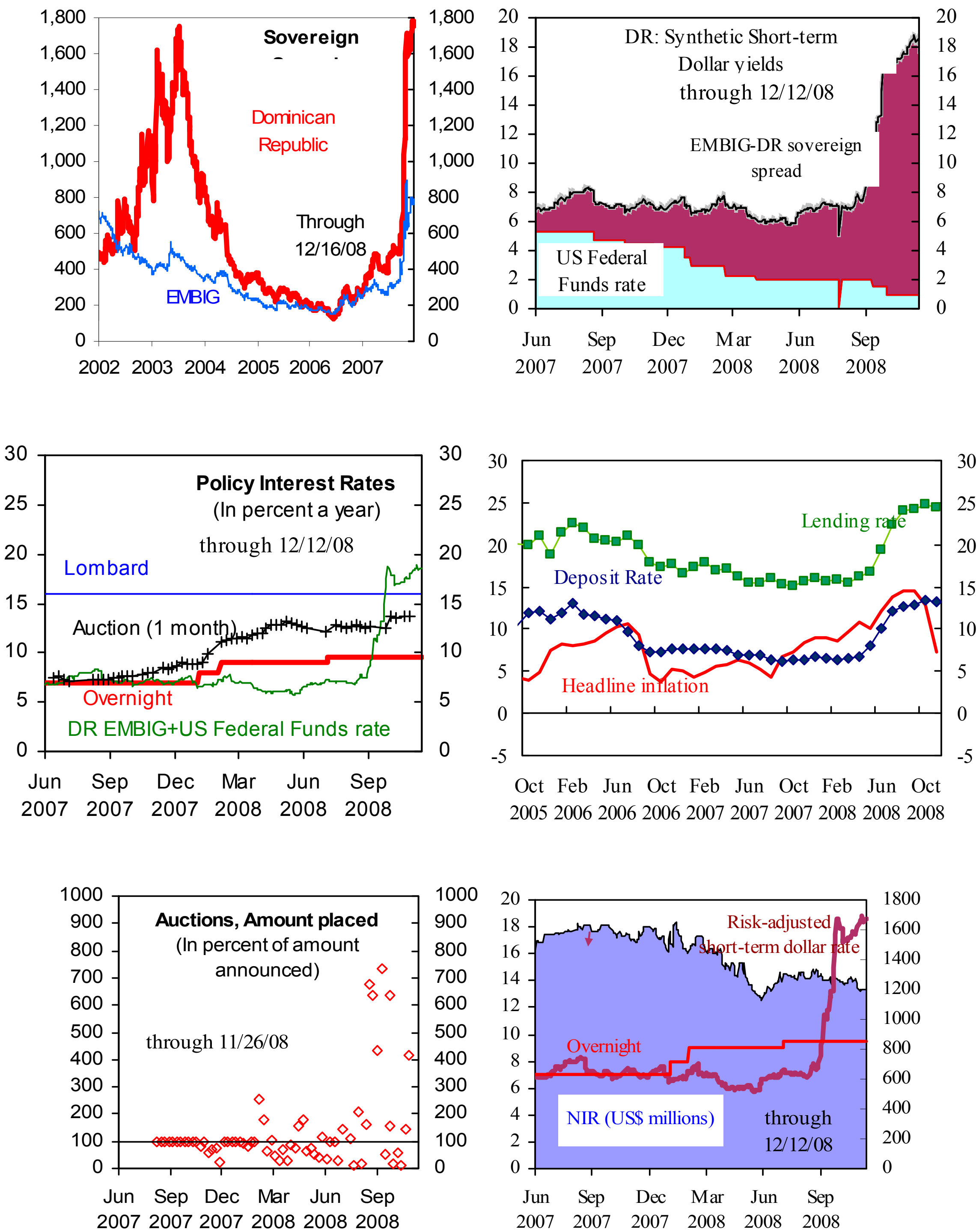
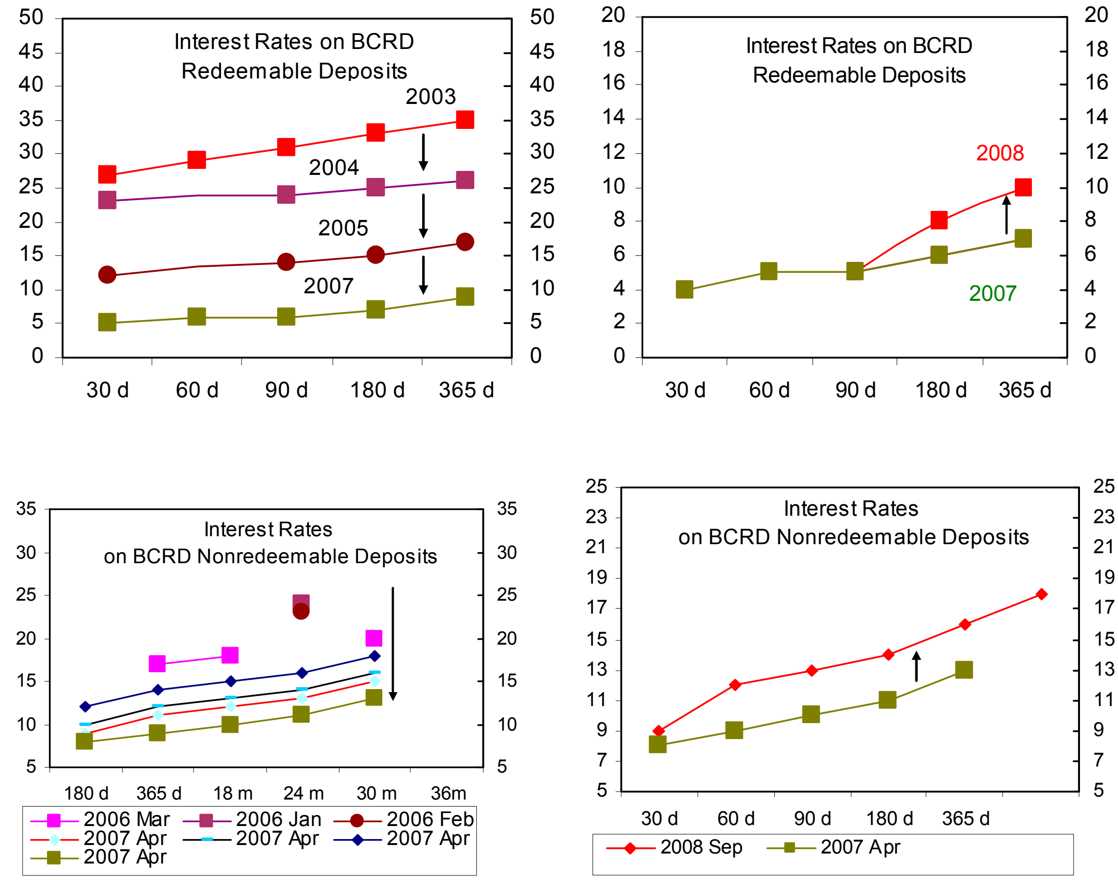


Figure 2. Dominican Republic: Interest Rate Developments



Source: BCRD, JP Morgan, and Fund staff estimates.

Figure 3. Dominican Republic: Central Bank Retail Deposit Rates



Source: BCRD, JP Morgan, and Fund staff estimates.

Figure 4. Dominican Republic: Monetary Developments

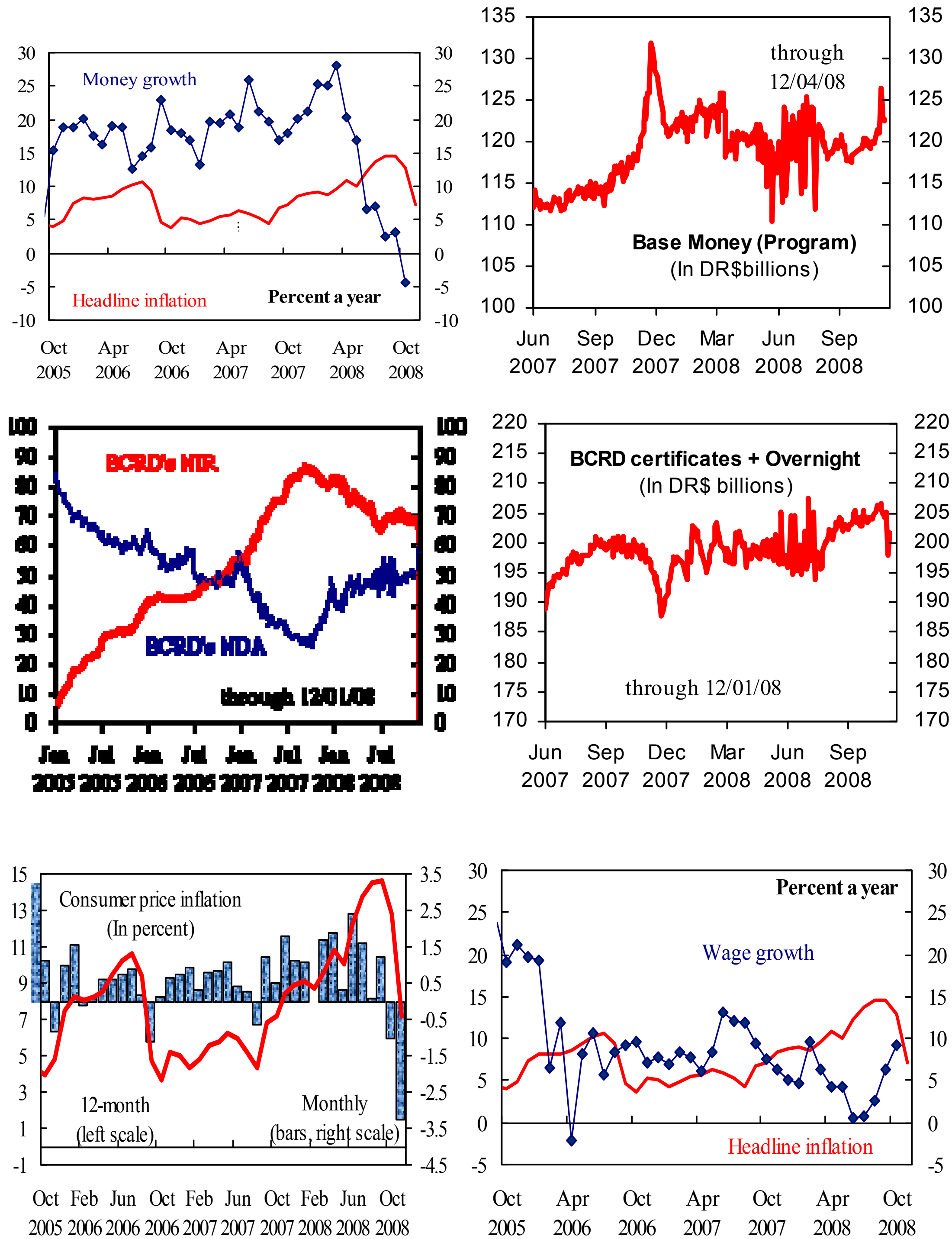


Figure 5. Dominican Republic: Public Debt Management

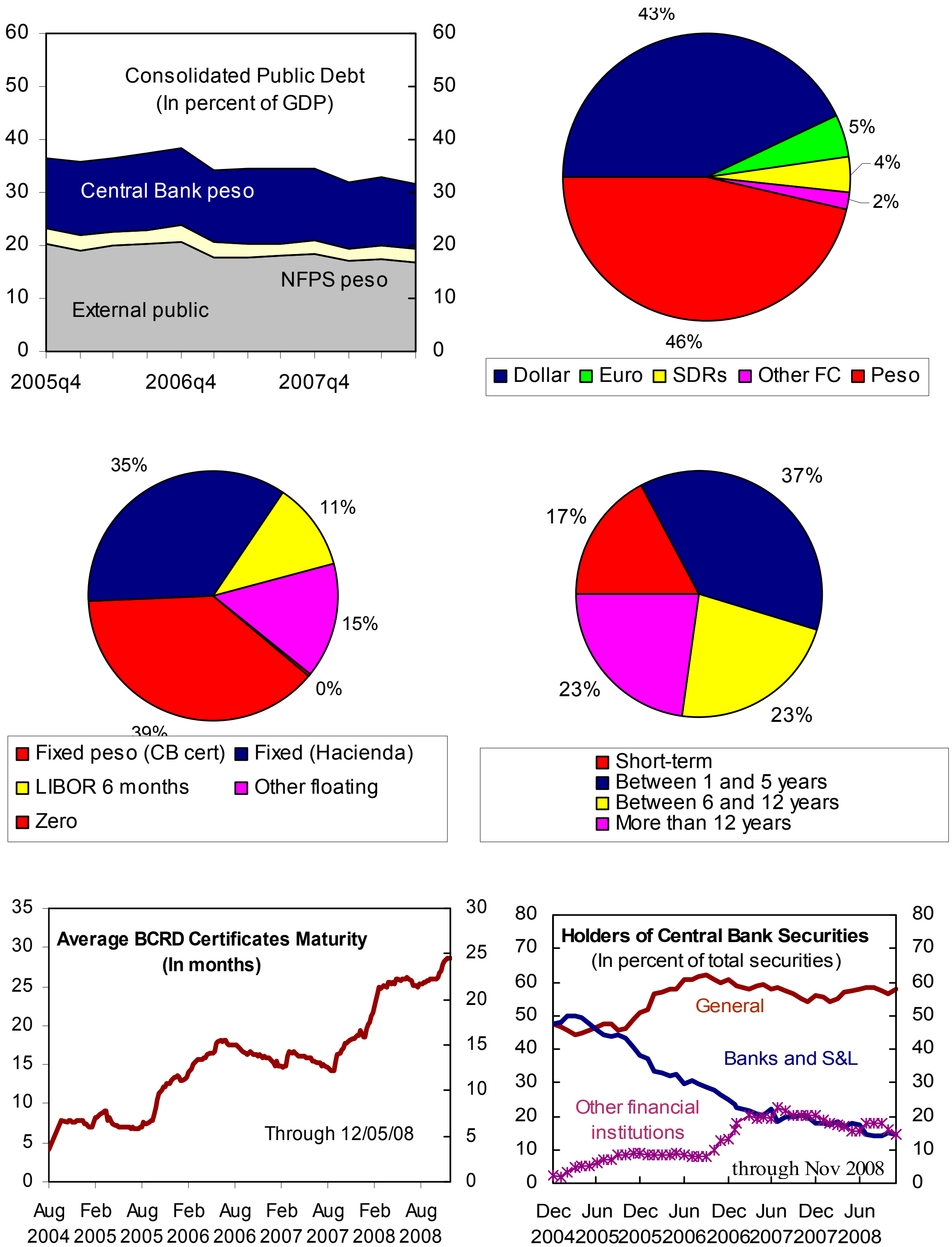
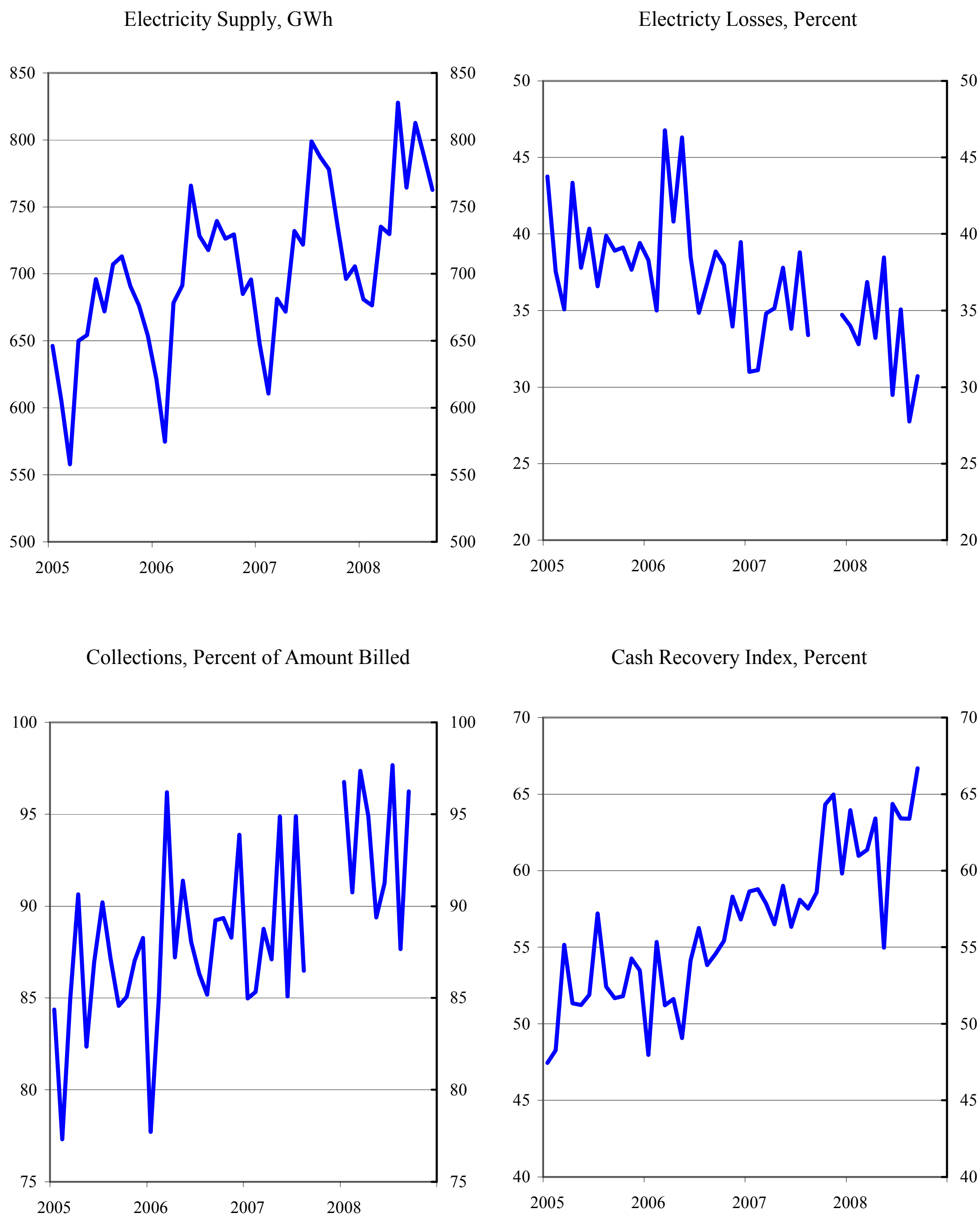


Figure 6. Dominican Republic: Electricity Sector Performance Indicators, 2005-08



Source: Corporacion Dominicana de Empresas Estatales de Elecricidad and Fund staff estimates

Appendix I: Debt Sustainability Analysis

External debt sustainability

External debt appears sustainable in the medium term, as current account deficits are expected to decline to low levels. The decreasing current account deficits are predicated on a number of factors: (i) sharply reduced oil and food prices in the near term; (ii) lower volume of imports of consumption goods during the next few years associated with the slowdown in economic activity; and (iii) implementation of prudent fiscal and monetary policies over the medium term. Such policies should contribute to an orderly unwinding of the (currently) high external current account deficit. Support from international financial organizations and foreign direct investment are expected to be sufficient to finance the reduced levels of external current account deficits during the next few years.

Public debt sustainability

The objective of lowering the debt-to-GDP ratio to 25 percent of GDP is expected to be delayed, as the fiscal stance in 2009 will be geared to counterbalancing, in a measured manner, the impact of the global slowdown on domestic activity. When the world economy begins to recover (assumed to start in 2010), the authorities should return to pursuit of a fiscal policy path aimed at reducing the relative debt burden. Staff anticipates that, under the baseline scenario, consolidated public sector primary surpluses of about 1.5–2.2 percent of GDP would be required to lower the debt-to-GDP ratio to 25 percent by 2015. However, given the frequency at which the economy has in the past been affected by adverse shocks, the primary surplus should be in the 2-2.5 percent range to raise the probability that the debt objective would be achieved (see SM/08/5).

Table 1. Dominican Republic: External Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

		Actual					Projections						
		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	**Debt-stabilizing non-interest current account 6/**
1	**Baseline: External debt**	33.5	34.4	23.5	20.7	17.5	**14.5**	**15.6**	**15.8**	**15.1**	**14.6**	**13.8**	**-4.6**
2	Change in external debt	7.1	1.0	-10.9	-2.8	-3.2	-3.0	1.2	0.2	-0.7	-0.5	-0.8	
3	Identified external debt-creating flows (4+8+9)	-5.7	-9.2	-17.8	-4.0	-3.9	3.2	0.9	0.5	-0.1	-0.1	-0.5	
4	Current account deficit, excluding interest payments	-6.4	-6.4	-2.5	2.6	4.1	8.4	4.8	4.8	4.8	3.9	3.8	
5	Deficit in balance of goods and services	-0.4	-1.6	3.8	7.3	8.3	12.0	8.1	8.4	8.3	7.5	7.5	
6	Exports	44.2	43.8	30.0	31.6	29.1	23.7	22.8	22.3	21.3	21.9	21.5	
7	Imports	43.8	42.2	33.8	38.9	37.4	35.7	30.9	30.7	29.6	29.4	28.9	
8	Net non-debt creating capital inflows (negative)	-3.5	-4.1	-4.1	-6.5	-6.0	-5.2	-4.4	-4.2	-4.4	-4.4	-4.3	
9	Automatic debt dynamics 1/	4.3	1.2	-11.2	-0.1	-1.9	0.1	0.5	-0.1	-0.6	0.4	0.0	
10	Contribution from nominal interest rate	1.5	1.6	1.1	1.1	1.0	0.8	0.8	1.0	0.9	0.9	0.8	
11	Contribution from real GDP growth	0.1	-0.4	-2.0	-2.4	-1.5	-0.7	-0.3	-1.1	-1.5	-0.5	-0.8	
12	Contribution from price and exchange rate changes 2/	2.7	0.0	-10.2	1.2	-1.4	...	...	...	...	...	...	
13	Residual, incl. change in gross foreign assets (2-3) 3/	12.8	10.2	6.9	1.3	0.6	-6.2	0.3	-0.3	-0.6	-0.4	-0.3	
	External debt-to-exports ratio (in percent)	75.6	78.6	78.3	65.6	60.1	61.0	68.6	70.7	70.7	66.5	64.1	
	Gross external financing need (in billions of US dollars) 4/	-0.1	-0.4	0.1	2.6	3.1	5.7	3.4	3.7	4.3	3.8	4.2	
	in percent of GDP	-0.6	-1.9	0.4	7.4	7.6	11.7	7.0	7.0	7.0	5.8	5.9	
	Scenario with key variables at their historical averages 5/						**14.5**	**9.5**	**4.7**	**0.0**	**-4.6**	**-9.1**	**-4.4**
	Key Macroeconomic Assumptions Underlying Baseline												
	Real GDP growth (in percent)	-0.3	1.3	9.3	10.7	8.5	4.8	1.8	8.1	10.9	3.6	6.0	
	GDP deflator in US dollars (change in percent)	-9.3	-0.1	42.3	-4.9	7.1	12.6	-1.8	2.0	4.1	2.6	2.2	
	Nominal external interest rate (in percent)	5.2	4.9	5.1	4.7	5.5	5.4	5.4	7.1	6.7	6.3	6.3	
	Growth of exports (US dollar terms, in percent)	8.4	5.8	6.5	10.9	7.1	-3.9	-3.9	8.0	10.1	9.3	6.1	
	Growth of imports (US dollar terms, in percent)	-12.9	3.0	24.4	21.2	11.7	12.7	-13.5	9.6	11.2	5.5	6.7	
	Current account balance, excluding interest payments	6.4	6.4	2.5	-2.6	-4.1	-8.4	-4.8	-4.8	-4.8	-3.9	-3.8	
	Net non-debt creating capital inflows	3.5	4.1	4.1	6.5	6.0	5.2	4.4	4.2	4.4	4.4	4.3	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

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

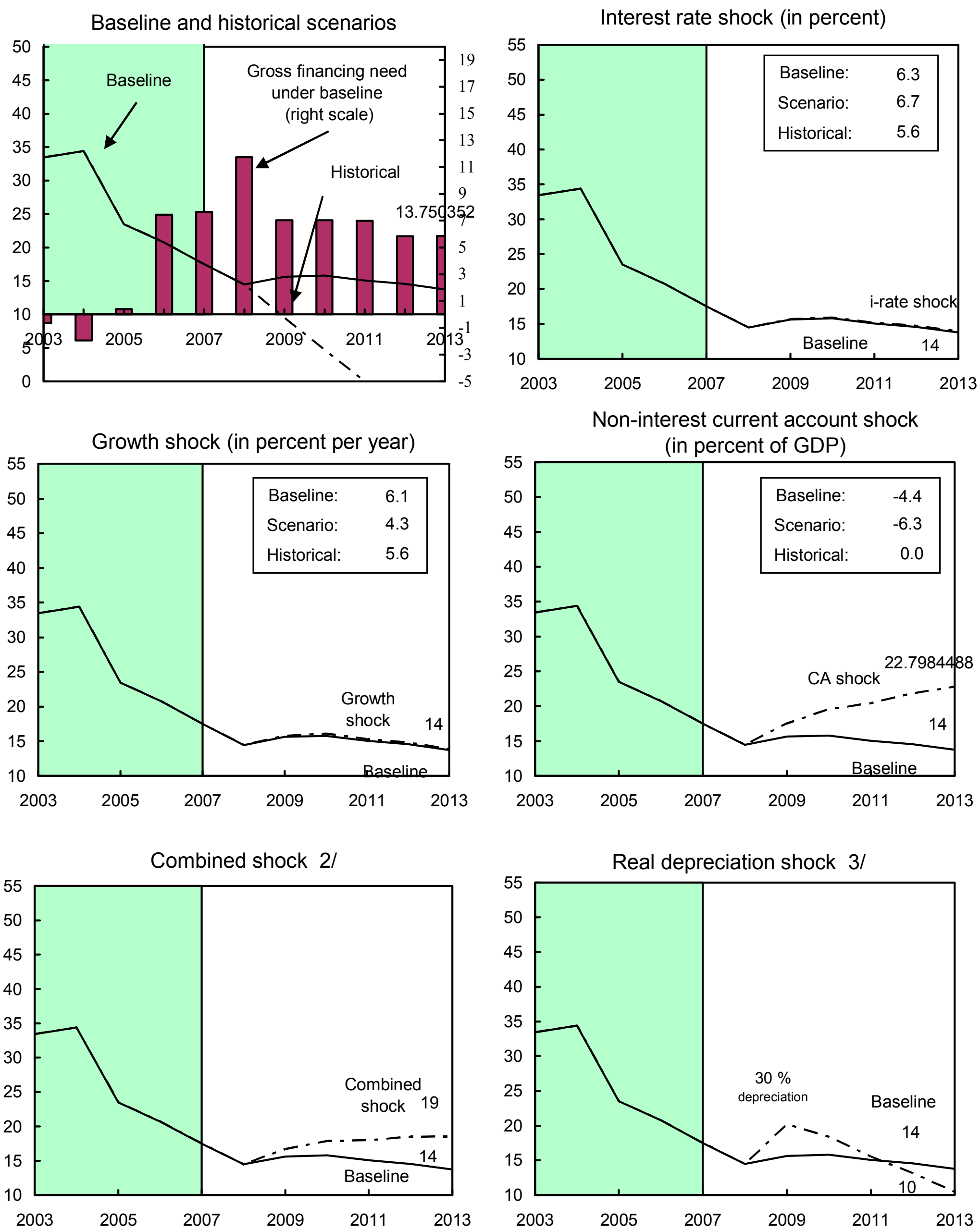
3/ For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 1. Dominican Republic: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2009.

Table 2. Dominican Republic: Public Sector Debt Sustainability Framework, 2003-2013
(In percent of GDP, unless otherwise indicated)

	Actual		Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	38.3	35.4	**32.5**	**33.2**	**31.3**	**28.3**	**27.3**	**26.2**	**1.7**
o/w foreign-currency denominated	20.6	19.0	17.4	16.6	15.6	14.1	13.7	13.1	
Change in public sector debt	-3.6	-2.9	-2.9	0.7	-1.9	-3.0	-0.9	-1.1	
Identified debt-creating flows (4+7+12)	-1.8	-2.9	-0.9	0.7	-1.9	-3.0	-0.9	-1.1	
Primary deficit	3.1	-1.8	0.4	-0.9	-1.8	-2.2	-2.2	-2.2	
Revenue and grants	16.2	17.6	15.7	14.3	15.5	16.3	16.3	16.3	
Primary (noninterest) expenditure	19.3	15.7	16.0	13.4	13.7	14.1	14.1	14.1	
Automatic debt dynamics 2/	-4.9	-1.1	-1.3	1.6	-0.1	-0.8	1.3	1.1	
Contribution from interest rate/growth differential 3/	-4.2	-1.3	-1.3	1.6	-0.1	-0.8	1.3	1.1	
Of which contribution from real interest rate	-0.4	1.5	0.2	2.2	2.2	2.0	2.2	2.5	
Of which contribution from real GDP growth	-3.8	-2.8	-1.5	-0.5	-2.3	-2.9	-0.9	-1.4	
Contribution from exchange rate depreciation 4/	-0.7	0.3	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	-1.8	0.0	-2.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio 1/	236.1	201.5	207.3	232.5	201.9	173.5	167.6	160.6	
Gross financing need 6/	4.6	7.6	8.6	7.4	6.1	5.4	5.0	5.1	
in billions of U.S. dollars	1.6	3.1	3.9	3.4	3.1	3.1	3.1	3.4	
Scenario with key variables at their historical averages 7/			**32.5**	**31.9**	**31.4**	**30.9**	**30.5**	**30.1**	**-1.1**
Scenario with no policy change (constant primary balance) in 2008-2013			**32.5**	**34.6**	**34.9**	**34.4**	**36.5**	**38.5**	**2.6**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline									
Real GDP growth (in percent)	10.7	8.5	4.8	1.8	8.1	10.9	3.6	6.0	
Average nominal interest rate on public debt (in percent) 8/	4.9	10.7	11.8	13.3	14.1	16.0	17.0	18.8	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-0.5	5.0	1.1	7.4	8.2	8.6	8.8	10.9	
Nominal appreciation (increase in US dollar value of local currency, in percent)	3.3	-1.4	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	5.4	5.7	10.7	5.9	5.9	7.4	8.2	7.9	
Growth of real primary spending (deflated by GDP deflator, in percent)	27.7	-11.7	7.0	-15.2	10.8	14.1	3.6	6.0	
Primary deficit	3.1	-1.8	0.4	-0.9	-1.8	-2.2	-2.2	-2.2	

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.

5/ For projections, this line includes exchange rate changes.

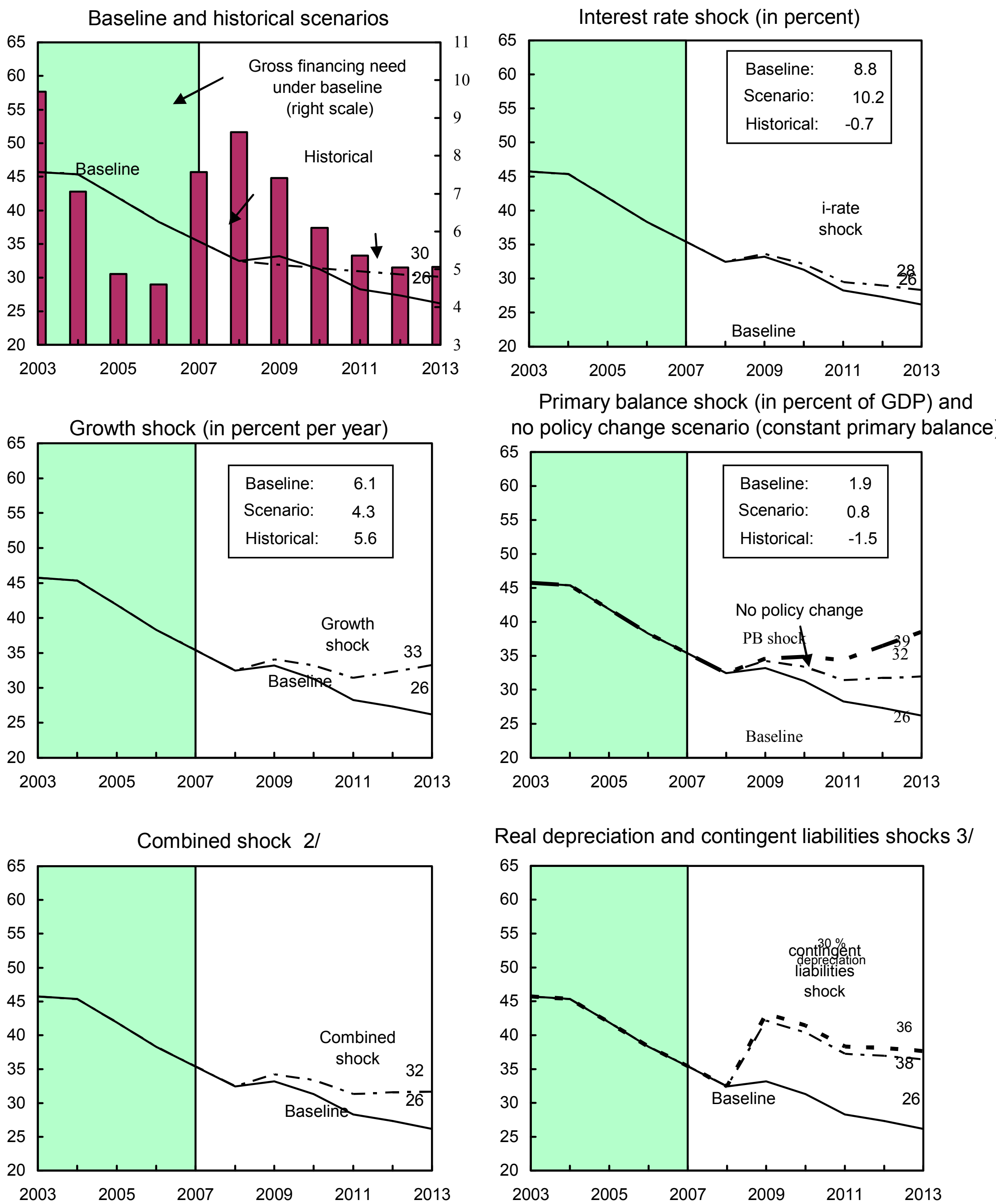
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.

8/ Derived as nominal interest expenditure divided by previous period debt stock.

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

Figure 2. Dominican Republic: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2009, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).