

**EXECUTIVE
BOARD
MEETING**

EBS/20/71

April 22, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Dominican Republic—Request for Purchase Under the Rapid Financing Instrument**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, April 29, 2020
Proposed Decision:	Page 10
Publication:	Yes*
Questions:	Mr. Santos, WHD (ext. 36629) Mr. Chow, WHD (ext. 36638) Ms. Rousset, WHD (ext. 34655) Ms. Bepalova, WHD (ext. 36435)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—Inter-American Development Bank, World Trade Organization

***The Secretary's Department has been notified by the authorities that their explicit consent is required prior to the publication of Board documents. At the time of circulation of this paper to the Board, the authorities have indicated that they consent to the Fund's publication of this paper.**



DOMINICAN REPUBLIC

April 21, 2020

REQUEST FOR PURCHASE UNDER THE RAPID FINANCING INSTRUMENT

EXECUTIVE SUMMARY

- **Context.** The Dominican Republic has enjoyed a prosperous decade with high growth, low inflation, a relatively strong external position and significant gains in poverty reduction. While the economy was strong, it was highly vulnerable to the outbreak of the COVID-19 pandemic as tourism is one of the most important activities. As the pandemic advanced and travel restrictions intensified globally, the Dominican economy lost an important source of foreign exchange and employment. Weaker domestic activity is having a negative impact on tax receipts while the government needs to provide additional health services. This is creating budgetary pressures that will require additional financing. Similarly, as businesses struggle, their ability to service their credit lines would be diminished, putting a strain on the financial position of banks.
- **Request for Fund support.** Given the global COVID-19 shock and the negative impact that is having on the Dominican economy, by deteriorating the balance of payments and public finances, the authorities are requesting financial support under the Rapid Financing Instrument (RFI) in the amount of SDR 477.4 million (about US\$650 million), equivalent to 100 percent of quota; which is within applicable limits under the GRA. The full amount will become available upon Board approval and will be used for budgetary support. The authorities stand ready to continue cooperating with the Fund in finding solutions to the balance of payments and fiscal imbalances.
- **Macroeconomic policies.** The main policy challenge in the short run is to minimize the loss of human lives as the COVID-19 pandemic advances. The macroeconomic policy response (including a fiscal package, monetary easing and liquidity provision, and supportive macroprudential measures) has been adequate, but the authorities need to stand ready to calibrate and expand these measures as needed. The Government has declared a National Emergency to enhance prevention measures, and the Ministry of Public Health has designed a plan to face the pandemic.

Approved By
Patricia Alonso-Gamo
(WHD) and María
Gonzalez (SPR)

Discussions took place via videoconferences during Mar 27–April 17, 2020. The staff team comprised Alejandro Santos (head), Olga Bepalova, Julian Chow, and Marina Rousset (all WHD). Mariana Sans and Madina Toshmuhamedova (WHD) assisted the team.

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BACKGROUND

- 1. The Dominican Republic has enjoyed a prolonged period of impressive economic performance.** It has been the fastest growing economy in Latin America (6½ percent) over the last several years, while inflation was muted and the external position strong.
- 2. The political calendar reduces the room for policy maneuver.** Presidential elections (initially scheduled for May 17, 2020) have been postponed to July 5, 2020 due to the COVID-19 pandemic, but the change of government will continue to take place on August 15, 2020. Municipal election (initially scheduled for February 16, 2020) were suspended due to the failure of the e-voting system, which prompted social protests. The rescheduled elections were held on March 15 (despite the COVID-19 outbreak), and the opposition Modern Revolutionary Party was the main winner.

RECENT DEVELOPMENTS

- 3. The COVID-19 pandemic came at a time of macroeconomic strength and stability:**
 - Economic activity moderated in 2019.** Real GDP growth eased to 5.1 percent in 2019 (from 7.0 percent in 2018). High-frequency indicators point to a robust expansion in January and February.
 - Inflation remained within the Central Bank target range of 4±1 percent.** Inflation increased to 3.7 percent in 2019 (from 1.3 percent in 2018) and stayed at that level through February.
 - The fiscal stance remained relatively neutral.** The consolidated public sector deficit fell to 3.3 percent of GDP (from 3.5 percent in 2018) with no change in the central government deficit.
 - Monetary policy remained accommodative.** The BCRD lowered its policy rate during Q3-2019 by 100 basis points (in 3 stages) to 4.5 percent and eased reserve requirements.
 - The financial system ended 2019 sound but vulnerable.** Banks remained well capitalized, profitable and liquid. Credit continued growing at a healthy rate. NPL fell to 1.6 percent in 2019.
 - The external position remained stable.** In 2019, the current account deficit remained steady at 1.4 percent of GDP (similar to 2018), fully financed by foreign direct investment (FDI).

IMPACT OF COVID-19

- 4. The COVID-19 pandemic has severely affected the Dominican economy.** As of April 13, there were 3,167 confirmed cases with 177 fatalities. President Medina declared

Impact of COVID-19			
(Percent of GDP unless otherwise indicated)			
	2020		
	Pre-COVID	Post-COVID	Δ Change
GDP growth (%)	5.1	-1.0	-6.1
Inflation (%)	4.0	3.0	-1.0
Fiscal deficit	-3.7	-6.0	-2.3
Public debt (NFPS)	53.4	60.9	7.5
Credit growth (%)	9.7	2.5	-7.2
Source: Fund staff calculations.			

a national state of emergency on March 19 establishing a country-wide curfew accompanied by school and border closures and the suspension of public activities and mass gatherings. Non-essential businesses have been ordered to close for 15 days (with the exception of supermarkets, grocery stores, gas stations, pharmacies, and medical supply stores). As a result, commercial activity has been heavily disrupted, and the tourism industry has been paralyzed.

5. The unanticipated global shock from the pandemic has deteriorated the outlook.

Preliminary estimates suggest that real GDP will fall to -1 percent in 2020 (from an expansion of 5.1 percent in 2019), while the current account deficit could widen to 5.2 percent of GDP in 2020 (from 1.4 percent of GDP in 2019). Containment costs and pressures on revenues could likely increase the fiscal deficit to 6.0 percent of GDP in 2020 (from 3.3 percent of GDP in 2019).

6. The shock will also have a large balance of payments impact.

The urgent balance of payments (BOP) needs in 2020 emanate from a deterioration in tourism and trade activities in the free trade zone, and a decline in capital inflows, although the historic decline in oil prices offsets some of these pressures. The impact of the COVID-19 shock on the BOP can be analyzed by comparing current BOP projections for this year with a baseline projection in the absence of COVID-19. Under this metric, the BOP impact of the shock for 2020 could amount to US\$4.8 billion (5.7 percent of GDP) despite some relief coming from lower oil prices. The BOP gap is driven by a projected deterioration in the current account (US\$3 billion) and portfolio investment (US\$1.3 billion).¹ Part of the the BOP gap will be closed with use of international reserves.

7. External debt obligations are large.

External debt amortizations are estimated at US\$1.9 billion (2.3 percent of GDP) in 2020 and could increase financing needs in the event of a sudden stop in capital flows.

8. The authorities are approaching other multilateral institutions to cover external and fiscal financing needs.

¹ The post-COVID projections are based on the following assumptions: compared to 2019, tourism is assumed to decline by 50 percent, while remittances and net re-exports from the free zone are projected to fall by 20 percent and 10 percent, respectively, due to adverse global economic conditions. Net portfolio investment and net FDI are assumed to decline by 50 percent and 20 percent, respectively, on the back of a severe deterioration in global portfolio flows and a weaker economic outlook in source countries.

Balance of Payments: COVID-19 Impact (In billions of U.S. dollars)

	2020		Δ Change
	Pre- COVID	Post- COVID	
Current account	-1.4	-4.4	-3.0
Non-oil balance	-9.4	-8.9	0.5
Oil balance	-3.8	-2.0	1.8
Free zone	2.7	2.2	-0.5
Tourism	7.7	3.5	-4.3
Remittances	6.9	5.2	-1.7
Other current	-5.5	-4.3	1.2
Foreign direct investment	2.9	2.4	-0.4
Portfolio investment	2.2	0.9	-1.3
BOP financing needs	...	...	-4.8
(In percent of GDP)	...	...	-5.7
Potential financing	...	...	4.8
IMF (RFI)	...	...	0.7
Other IFIs	...	...	0.5
International reserves	...	...	1.1
Unidentified support	...	...	2.5

Source: Fund staff estimates.

deteriorate by about 2¼ percent of GDP. To this end, the authorities have approached the World Bank, the Interamerican Development Bank (IDB), and the Development Bank for Latin America (CAF) to mobilize loans and commercial credit lines to shield the economy. Disbursements are expected soon.

RISKS TO THE OUTLOOK

9. The main risk to the outlook arises from a greater-than-expected severity of the epidemic. The economic outlook is subject to an unusual degree of uncertainty related to the impact of COVID-19 on the global economy and the Dominican Republic, and the outlook can easily turn out much worse than envisaged. Staff projections assume that the spread of the disease will be contained at moderate levels and activity will resume relatively rapidly as the health crisis begins to wane. However, the situation could evolve along a more negative trajectory. Should this occur, additional measures to strengthen domestic health services and provide support to vulnerable populations would be needed.

POLICY DISCUSSIONS

10. The authorities have already announced a package of measures to counter the COVID-19 shock on the economy. On March 25, President Medina announced a package of fiscal measures amounting to RD\$32 billion (about ¾ percent of GDP, including reallocation of expenditures) focused on providing temporary relief to poor households. The government created a social assistance program titled *Quédate en casa* (Stay at Home) to support informal-sector workers, low-income families, formal-sector workers on furlough, as well as students and the elderly during the quarantine. It aims to disburse funds and food rations to 5.2 million Dominicans to sustain their consumption needs through May 31. The government also undertook temporary tax administration measures such as extending deadlines for filing tax declarations. Moreover, the health authorities announced a number of measures to face the pandemic (see text table).

11. The government will face additional fiscal pressures due to the nature of the crisis. As the economy decelerates and conditions deteriorate, it will be difficult for taxpayers to meet their obligations. Tax collections and other public revenues will suffer. Staff estimates conservatively

Healthcare Policy: COVID-19 Measures

	Instrument	Measure
1	Testing	The government committed to finance at-home coronavirus testing via authorized private laboratories (for patients 59 and older, with health conditions, or with 2 or more symptoms)
2	Disinfection Policy	To be conducted in public places, including hospitals, health centers, transportation stops (including metro), parks, recreational areas, supermarkets and pedestrian bridges
3	Taskforce	A High Commission for the Prevention and Control of Coronavirus was created by Presidential decree
4	Hospital beds	Increase their number by 224 (to 600) starting in March
5	Training	Medical personnel receiving training on COVID-19-specific case management, protection and treatment
6	Isolation space	Repurpose former Airforce hospital (Ramón de Lara) and expand its capacity
7	Communication Policy	Call center installed (Line *462) for COVID-19 inquiries; weekly updates and recommendations posted on the Ministry of Health website

Source: Dominican authorities.

that a shortfall of the central government revenues could amount to about $\frac{3}{4}$ percent of GDP. The announced expenditure package is a vital and welcome economic measure. The authorities would need to allocate more resources to health and social benefits, including by redirecting budgetary appropriations from other areas. Staff estimates conservatively that central government expenditures could be $\frac{1}{4}$ percent of GDP higher than before the shock. The government needs to ensure that these public spending measures are both targeted and temporary, focusing on protecting those most vulnerable to the shock and on supporting demand. With that goal in mind, the authorities should allow automatic stabilizers, including the support for the unemployed and means-tested transfers. All in all, the consolidated deficit of the public sector has been conservatively estimated to be 6 percent of GDP in 2020 (some $2\frac{1}{3}$ percent of GDP higher than before the COVID-19 shock). The additional financing needs amount to some US\$1½ billion, of which the RFI could cover almost one-half.

Fiscal Accounts: COVID-19 Impact

	2020		Δ Change
	Pre- COVID	Post- COVID	
(In percent of GDP)			
Revenue	14.5	13.6	-0.9
o/w tax revenue	13.3	12.5	-0.8
Expenditure	16.8	18.0	1.2
Current	15.0	16.6	1.7
o/w goods and services	2.0	2.4	0.4
o/w social benefits	1.3	1.9	0.7
Capital	1.8	1.5	-0.3
Overall balance (CG)	-2.3	-4.4	-2.1
Consolidated balance	-3.7	-6.0	-2.3
(In billions of U.S. dollars)	-3.5	-5.0	-1.5
(In billions of U.S. dollars)			
Potential financing	...	...	1.5
IMF (RFI)	...	...	0.7
Other IFIs	...	...	0.4
Unidentified support	...	...	0.4

Source: Fund staff estimates

Source: Fund staff estimates

12. The BCRD eased its monetary policy stance to provide additional liquidity to support the economy. The monetary policy council of the BCRD decided (in an extraordinary meeting of March 16) to reduce the monetary policy rate by 100 basis points to 3.5 percent, and approved a number of other measures (see text table). The BCRD is monitoring the situation closely and has sufficient monetary space to further ease its policy stance if needed. Staff encouraged the authorities to continue implementing a more flexible exchange rate policy at a measured pace (given unknown foreign exchange exposure in the non-financial private sector), taking into account inflationary expectations and balance sheet exposures, as this can be used as an effective shock absorber, especially if external conditions deteriorate further. Interventions in the foreign exchange market should be limited to preventing disorderly market conditions, and large interventions should be

Monetary Policy: COVID-19 Measures

Instrument	Measure
1 Policy Rate	Reduce the monetary policy rate by 100 basis points from 4.5 to 3.5 percent.
2 Repo Rate	Reduce the (1-day) REPO facility rate from 6.0 to 4.5 percent.
3 Overnight Rate	Reduce the overnight deposit rate from 3.0 to 2.5 percent.
4 Repo Operations	Ease other REPO operations in an amount of RD\$30 billion (about $\frac{2}{3}$ percent of GDP) to provide additional liquidity to the financial system.
5 Dollar Liquidity	Provide U.S. dollar liquidity for US\$0.5 billion (about $\frac{1}{2}$ percent of GDP), through REPO operations and allowing banks to use public instruments to cover reserve requirements on foreign currency deposits.

Source: BCRD.

avoided given that international reserves are still below IMF's recommended reserve adequacy metric (ARA) of 100-150 percent.²

13. The BCRD also adopted several macroprudential and supervisory measures to provide additional liquidity to support the economy. These measures aim to provide liquidity to the banking system and ease financial tensions. An important measure was the reduction in reserve requirements which would provide significant liquidity to the system (1¾ percent of GDP), as well as a number of other measures (see text table). The authorities should ensure that these extraordinary measures are temporary and targeted specifically to the borrowers adversely affected by the COVID-19 outbreak.³

Macroprudential Policy: COVID-19 Measures

Instrument	Measure
1 Reserve Requirements	Allow banks to cover reserve requirement with public (and BCRD) bonds up to an amount of RD\$22.3 billion (about ½ percent of GDP), which is equivalent to a 2 percent reduction in reserve requirements. These resources are earmarked to provide credit to households and businesses at an interest rate capped at 8.0 percent.
2 Ratings	Freeze (temporarily) debtor ratings and provisioning to the prevailing levels as of March 16.
3 Refinancing	Maintain debtor rating in case of loan refinancings during the emergency.
4 Overdue Loans	Classify as current overdue loans for a 60-day period.
5 Guarantees	Provide 90 days for debtors to update loan guarantees.

Source: BCRD.

RAPID FINANCING INSTRUMENT ISSUES

14. The RFI is the most appropriate instrument at this juncture. The Dominican Republic meets the eligibility requirements for support under the RFI. It faces an urgent BOP need, which, if not addressed, would result in immediate and severe economic disruption. There is also a high degree of uncertainty on the duration and scale of the COVID-19 impact and practical difficulties of holding comprehensive discussions with the authorities in the current no-travel/work-from-home environment.

15. Staff proposes to provide support for 100 percent of quota under the RFI. This access is within applicable limits under the GRA. The annual access of 100 percent of quota (SDR 477.4 million or about US\$650 million) would provide financing relief to the budget. RFI resources will be disbursed to the Ministry of Finance allocated to provide financing for virus-related spending.⁴

² The IMF classifies the Dominican Republic's exchange rate regime as a "crawl-like arrangement". For 2020, reserve coverage is estimated at 65 percent of the ARA metric.

³ To strengthen banks' financial position, the authorities could consider adoption of additional supervisory measures, including: (i) temporary suspend dividends, bonuses, and variable remunerations during the outbreak; (ii) let banks draw upon existing capital buffers to absorb the costs of loan restructuring; (iii) intensify reporting and monitoring requirements, especially for borrowers with modified loans; (iv) help banks with capital restoration plans in case their minimum capital levels are compromised

⁴ As RFI resources are being used for budgetary support, the authorities commit to adhere to best practices in procuring and awarding contracts related to the pandemic as well as publishing an externally audited report on virus-related expenditures once the crisis is over. All public purchases are subject law 340-06 (2006), which adhere to strict principles of efficiency, competition, transparency, equity, responsibility, morality and good faith, and make public servants liable for not following the law. Law 340-06 establishes special rapid procedures in case of emergencies like COVID-19. To that end, the government issued decrees 87-20 and 133-20 (2020) for purchases related to the fight against COVID-19. Under these emergency procedures, the law establishes, inter alia, the

(continued)

Remaining needs are expected to be filled by other donors. In the absence of adequate financing, additional adjustments will be needed.

16. A safeguards assessment of the BCRD will be needed. The authorities commit to undergoing a safeguards assessment that would need to be completed before the Executive Board approval of any subsequent arrangement, to provide Fund staff with the most recently completed external audit reports, and to authorize the external auditors to hold discussions with staff. In their Letter of Intent, the authorities confirm that they will establish a framework (e.g., through a memorandum of understanding) between the BCRD and the Ministry of Finance, that clarifies the responsibilities for timely servicing of the financial obligations to the IMF.

17. The Dominican Republic is assessed as having sustainable debt and adequate capacity to repay the Fund. The RFI resources would be the first time in a decade that the Dominican Republic uses Fund resources, and they only represent about 0.8 percent of GDP. The Fund's risks from this RFI exposure will be low given the authorities' excellent track record of servicing their debt obligations. Furthermore, the DSA (Annex I) shows debt to be sustainable with a sufficient buffer to remain sustainable even after the impact of the pandemic. The Dominican Republic also has the capacity to repay the Fund (Table 8), with scheduled repayments of the RFI at no point in excess of 2 percent of exports or 4 percent of reserves.

AUTHORITIES' VIEWS

18. The authorities foresee a significant weakening in economic activity in 2020.

Policymakers recognize that the COVID-19 shock will have a large short-term impact on economic performance as consumption, investment and exports deteriorate amid the global pandemic. They are particularly concerned with the sharp decline in tourism receipts and the impact it will have on foreign-currency liquidity. The government has been negotiating financial assistance with several IFIs, including the IDB, World Bank and Development Bank of Latin America (CAF) to cover their budgetary and BOP needs.

19. There is an urgent need to support health and social sectors at a time tax revenue are softening, leading to a widening of the fiscal deficit. The authorities recognize the mounting fiscal pressure from unbudgeted current expenditure—namely on healthcare needs and the announced fiscal stimulus measures—while at the same time facing declining receipts, especially from consumption taxes. They plan to reallocate resources from other budget items and reduce 2020 capital expenditure to ongoing high-priority projects. The authorities do not foresee granting tax exemptions but are providing relief by allowing postponements and incremental payments of income taxes. They underscore their commitment to continued consolidation efforts in the medium term, but in view of the large-scale shock to the economy in 2020, these efforts must be postponed until the pandemic recedes.

publication of requirements and all documents related to emergency purchases, as well as requiring each institution that used these emergency procedures to issue reports of their operations to the General Comptroller Office and the Accounts Chamber and to publish these reports in their own web pages and a special purchase portal.

20. The authorities acknowledged the need to ease their policy stance while confirming their commitment to the inflation targeting framework. The nature of the shock calls for a more accommodative policy stance, and the BCRD is prepared to provide additional monetary and financial stimulus if needed. They believe that recent trends in soft commodities prices, weak economic activity, and contained inflationary expectations surveys all point to the absence of any meaningful inflationary pressures in 2020.

21. The authorities are taking macroprudential policies to ensure the proper functioning of the financial system. While the banking system had sufficient capital and liquidity buffers before this shock, the authorities think it is important to provide additional liquidity to the system to avoid financial stress as bank's clients will be going through financial difficulties related to the COVID-19 shock. They agree on the need to carefully monitor the financial system.

STAFF APPRAISAL

22. The outlook has weakened significantly in the near term. Growth prospects for 2020 have been severely curtailed by a near standstill in economic activities following the lockdown and health concerns related to the pandemic while tourism and re-exports from the free zone have dwindled significantly following border closures, heightened risk aversion and deterioration in global trade.

23. The fiscal position will weaken but debt remains sustainable. Staff supports fiscal measures, including higher public healthcare spending and the use of automatic stabilizers (support to the unemployed and transfer programs). Despite the sizable fiscal pressures and a rising debt burden, the country's debt repayment capacity is assessed as robust (see the DSA for more details).

24. Staff concurs with the monetary and macroprudential policy easing at this juncture. In staff's view, the authorities' decision to have more accommodative policy stance was adequate. Staff encourage the authorities to continue monitoring the situation closely and be prepared to take additional measures if necessary.

25. Staff urges the authorities to allow greater exchange rate flexibility as a shock absorber and preserving an adequate international reserve cover. Foreign exchange market interventions should be limited to preventing disorderly market conditions. The exchange rate is a powerful tool that can serve as a very useful to cushion the economy in times of crisis.

26. Against this background, staff supports the authorities' request for the RFI in the amount of SDR477.4 million (100 percent of quota). Staff's assessment is based on the severity of the COVID-19 outbreak, urgent BOP needs, and the authorities' existing policies to mitigate this external shock, which include actively pursuing financing options with other IFIs.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

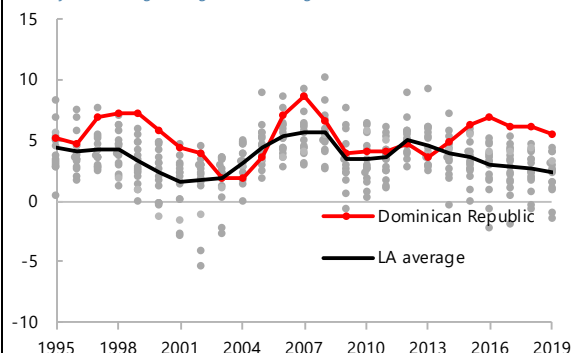
1. The Dominican Republic has requested a purchase in an amount equivalent to SDR 477.4 million (100 percent of quota) under the Rapid Financing Instrument.
2. The Fund notes the intentions of the Dominican Republic as set forth in the letter dated April 13, 2020 from the Governor of the Central Bank and the Minister of Finance and approves the purchase in accordance with the request.

Figure 1. Dominican Republic: Real Sector Developments

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

Real GDP Growth Rates in Latin America

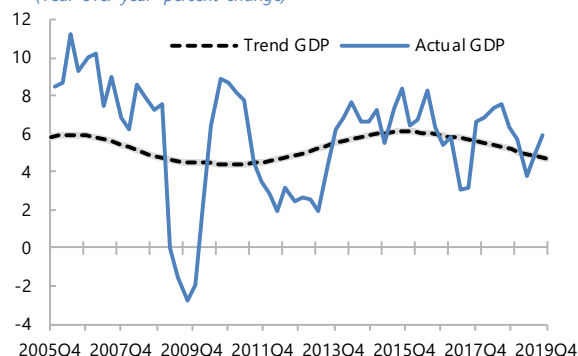
(3-year moving average of annual growth rates)



...with economic activity slightly above trend in 2019...

Real and Potential GDP Growth

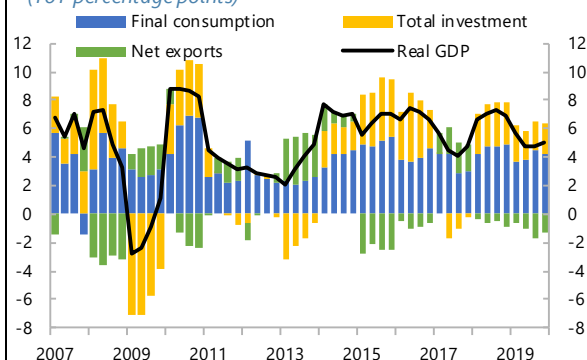
(Year-over-year percent change)



...supported by robust consumption and, to a lesser extent, investment.

Contributions to Growth of Real GDP

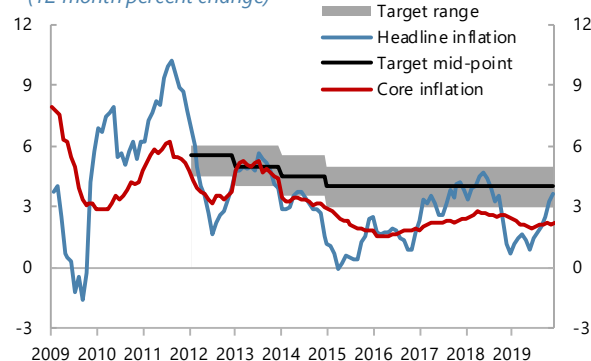
(YoY percentage points)



Inflation has been contained remaining close to the BCRD target mid-point.

CPI Inflation and Inflation Target

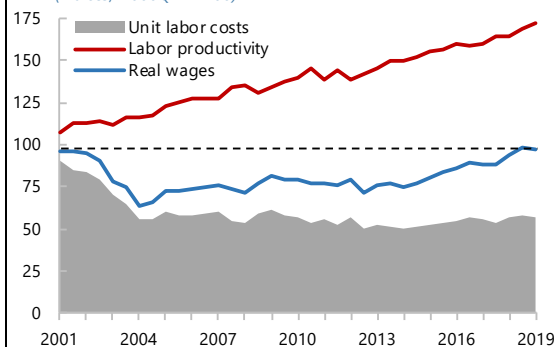
(12 month percent change)



Productivity has been rising, and wages finally recovered from their post-banking-crisis dip.

Labor Productivity and Real Wages

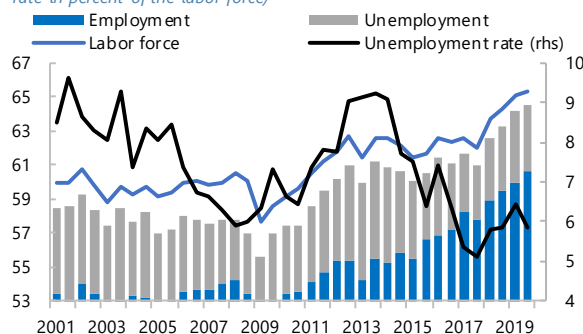
(Indices, 2000Q2 = 100)



The unemployment rate picked up in the recent years while remaining low by historical standards, and the labor force continues to expand.

Labor Force Composition and Unemployment Rate

(Labor data in percent of economically active population; unemployment rate in percent of the labor force)

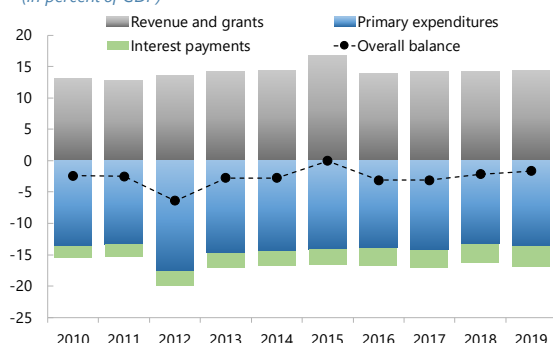


Sources: National authorities and IMF staff calculations.

Figure 2. Dominican Republic: Fiscal Developments

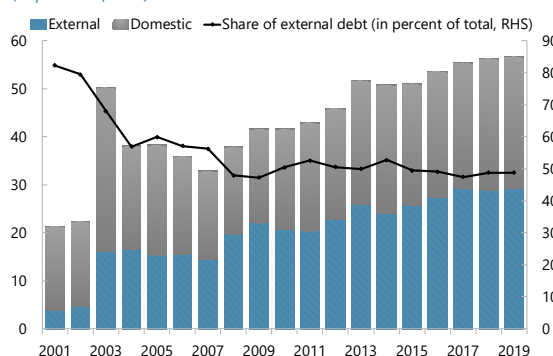
In 2019, the central government balance remained broadly unchanged as the slight improvement in revenue was offset by an increase in current spending.

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



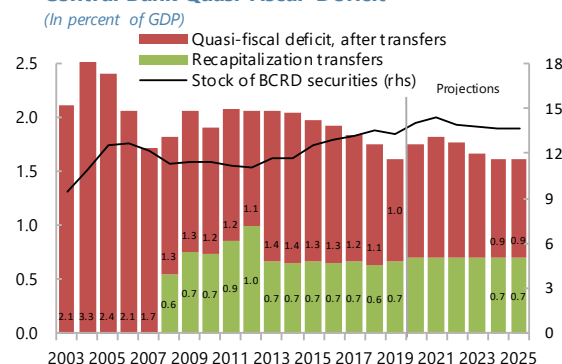
Persistent deficits have been pushing public debt up despite strong growth performance.

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



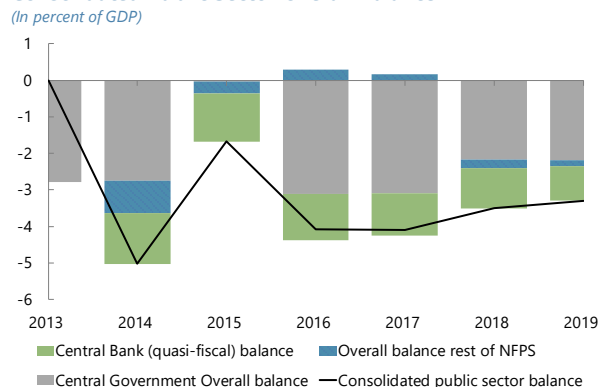
The quasi-fiscal deficit is expected to shrink gradually in the medium term.

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



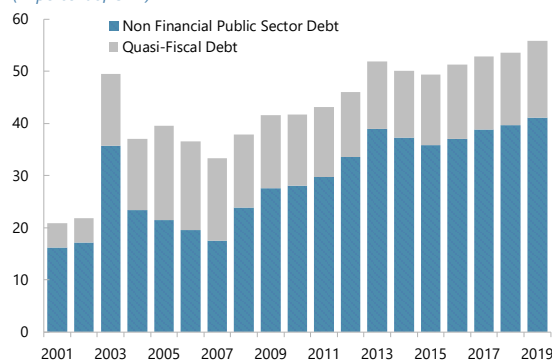
While minor improvements in the balances of quasi-fiscal and rest of NFPS sectors led to a small reduction in the consolidated government balance.

Consolidated Public Sector Overall Balance (In percent of GDP)



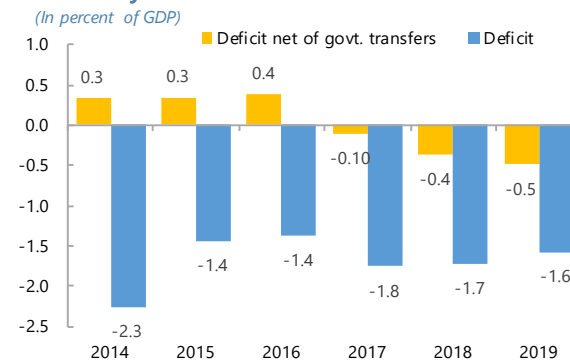
The increase in consolidated debt is mostly due to the nonfinancial public sector.

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



While electricity sector deficits after government transfers have been widening, eroding the public accounts.

Electricity Sector Deficit and Debt (In percent of GDP)



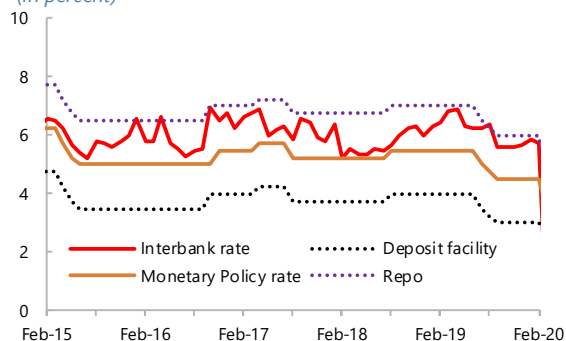
Sources: National authorities and IMF staff calculations.

Figure 3. Dominican Republic: Monetary Policy and Inflation

To mitigate the adverse impact from the COVID-19 shock, BCRD cut monetary policy, deposit facility, and repo rates.

Monetary Policy: Interest Rates (Feb 2015 - Feb 20)

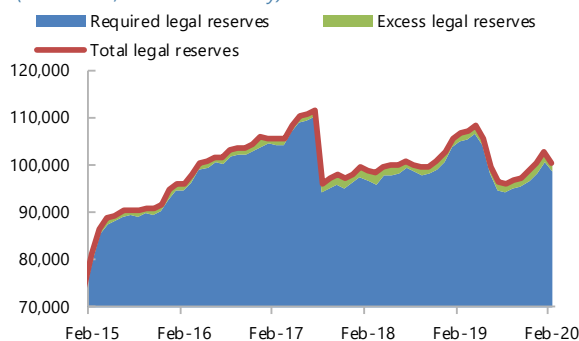
(In percent)



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

Legal Reserve: Total vs. Required Levels

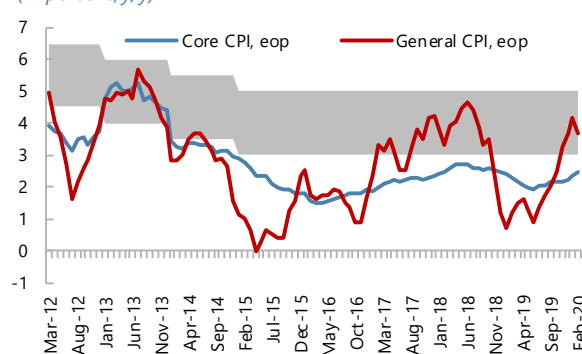
(In millions, national currency)



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

Headline and Core CPI Inflation

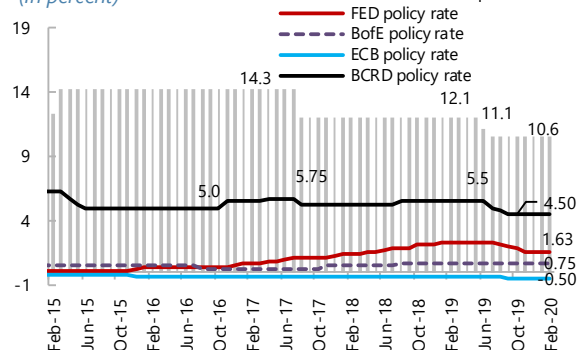
(In percent, y/y)



This monetary expansion episode is in tandem with the U.S. Federal Funds Rate.

Policy Rates and Reserve Requirement (2015-20)

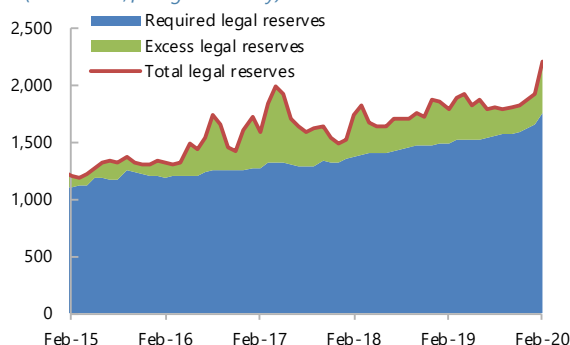
(In percent)



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

Legal Reserve: Total vs. Required Levels

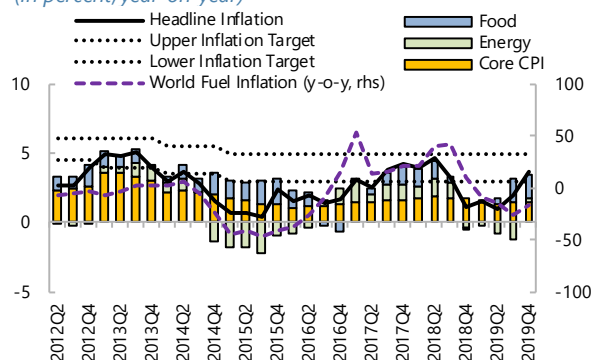
(In millions, foreign currency)



The inflation dynamics were driven by food and energy prices.

Inflation and its Components, Target, World Fuel Price

(In percent, year-on-year)



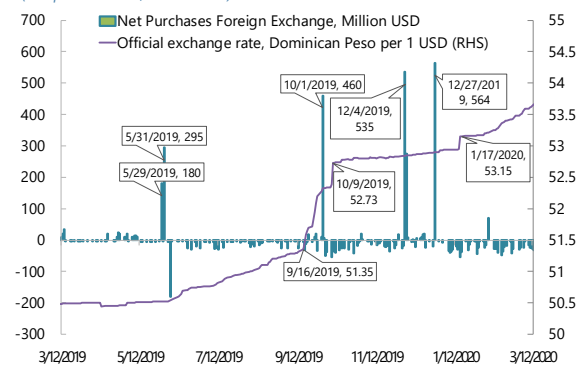
Sources: National authorities, Haver, and IMF staff calculations.

Figure 4. Dominican Republic: Exchange Rates and Sovereign Spreads

In 2020, the pace of depreciation of the Dominican Peso accelerated on January 17, shortly after the start of the COVID-19 outbreak.

BCRD FX Interventions: Net purchases and Exchange Rate

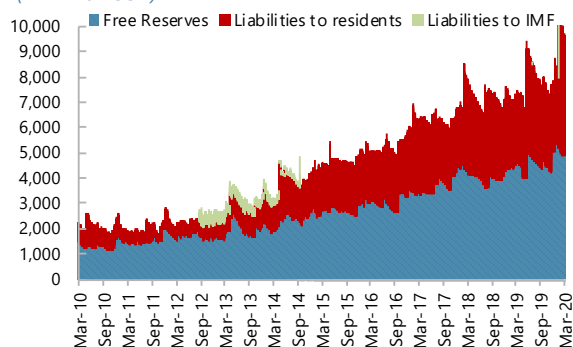
(Net purchases > 0, net sales < 0)



Gross international reserves stand at a record high of about US\$10 billion.

Gross International Reserves

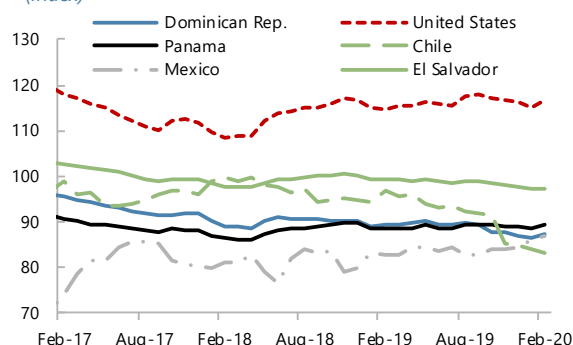
(In million USD)



The Dominican peso slightly depreciated in REER terms relative to its main trading partners...

Selected Real Effective Exchange Rates

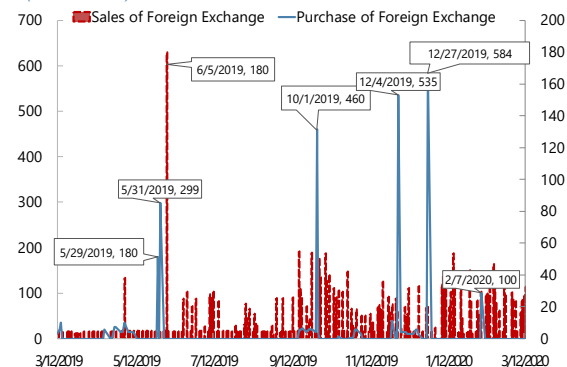
(Index)



The BCRD intervenes to avoid disorderly market conditions, selling about US\$20 million daily, on average.

BCRD FX Interventions: Purchases and Sales

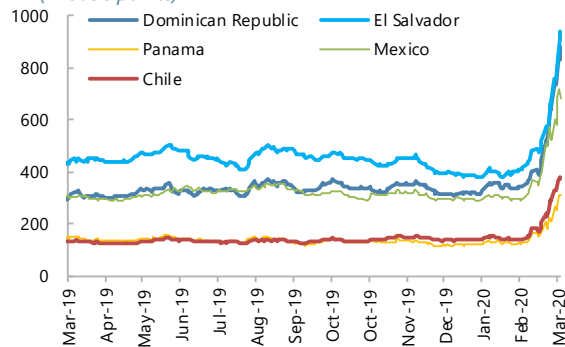
(In million USD)



After the local COVID-19 outbreak, Dominican spreads grew fast, in line with peers.

EMBI Spread and Regional Comparisons

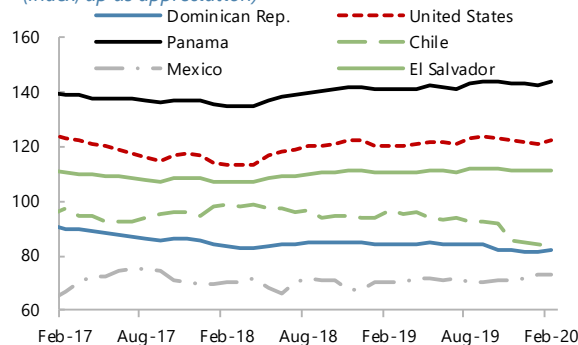
(In basis points)



...as well as in nominal terms.

Selected Nominal Effective Exchange Rates

(Index, up us appreciation)



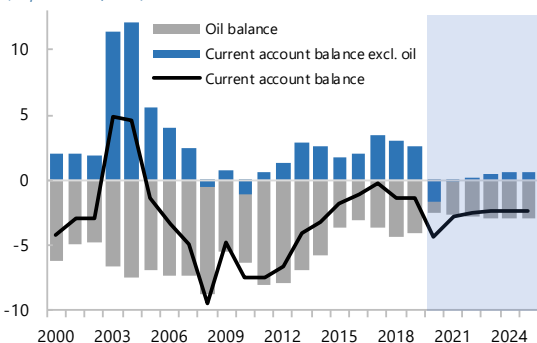
Sources: National authorities, Bloomberg, and IMF staff calculations.

Figure 5. Dominican Republic: External Sector Developments

Current account deficit is relatively low ...

Current Account Balance

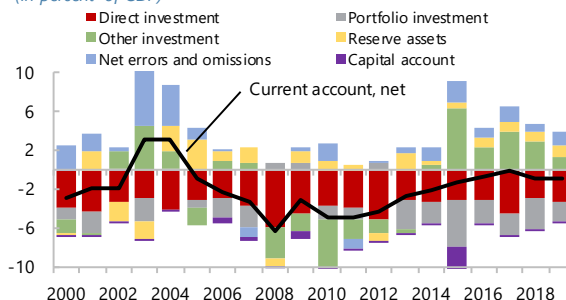
(In percent of GDP)



... and more than financed by FDI.

Current Account by Source of Financing

(In percent of GDP)

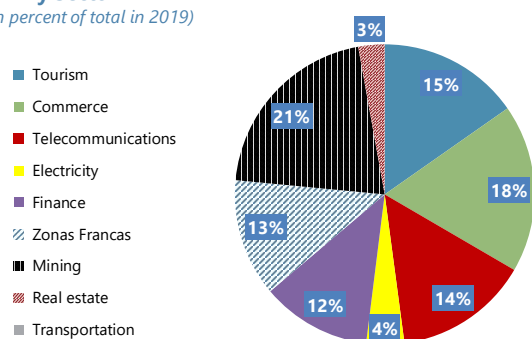


Note: Capital account and net errors and omissions multiplied by negative one to reflect the balance of payments identity (current account = financial account - capital account - net errors and omissions).

Mining, commerce and tourism attract the most FDI ...

FDI By Sector

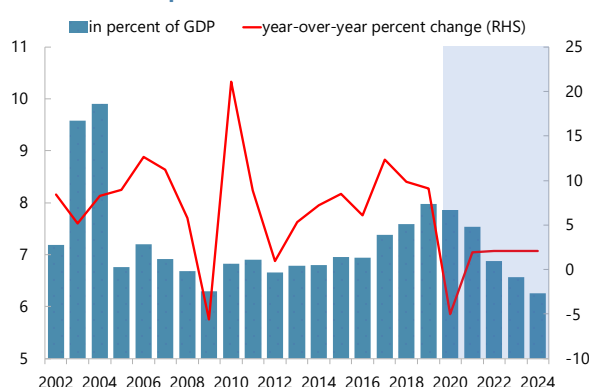
(In percent of total in 2019)



Note: 2019 data is through September

... while remittances grew robustly before the COVID-19 shock.

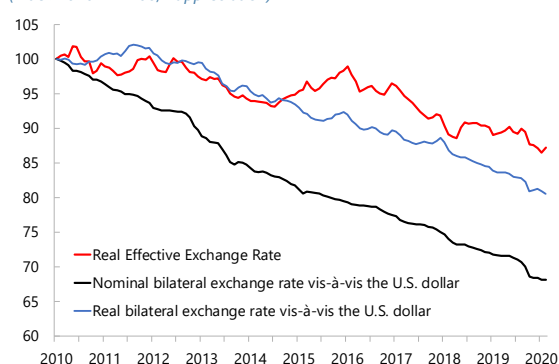
Remittance Receipts



The exchange rate was allowed to absorb more external pressure ...

Nominal and Real Effective Exchange Rate

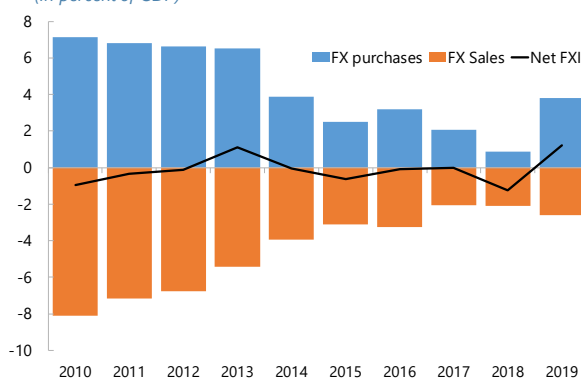
(Index 2010M1=100, +appreciation)



... with occasional interventions to smooth volatility.

Foreign Exchange Intervention

(In percent of GDP)



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

Table 1. Dominican Republic: Selected Economic and Social Indicators, 2015–25

Population (millions, 2019)	10.4					GDP per capita 2019 (U.S. dollars)					8,596	
Quota	477.40 millions SDRs / 0.23% of total					Poverty (2018, share of population)					22.8	
Main export product	tourism, gold, tobacco					Extreme poverty (2018, % of pop.)					2.9	
Key export markets	U.S., Canada, Haiti					Adult literacy rate (percent, 2018)					93	
	Projection											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	
Output	(Annual percentage change, unless otherwise stated)											
Real GDP	6.5	7.0	4.7	7.0	5.1	-1.0	4.0	5.0	5.0	5.0	5.0	
Contributions to growth												
Consumption	5.2	4.7	3.5	4.4	3.7	2.2	2.4	4.3	4.3	4.1	4.0	
Investment	3.6	3.6	-2.1	4.3	1.3	-1.2	0.0	0.4	0.5	0.5	0.7	
Net exports	-2.4	-0.8	2.1	-0.6	-1.2	-5.3	2.0	0.5	0.6	0.5	0.4	
Nominal GDP (RD\$ billion)	3,206	3,487	3,803	4,236	4,562	4,679	5,041	5,503	6,008	6,559	7,162	
Nominal GDP (US\$ billion)	71.3	75.8	80.1	85.6	89.0	...	...	...	...	...	...
Gross national saving (percent of GDP)	21.6	21.9	22.3	24.4	24.6	19.7	20.3	19.9	19.5	19.1	18.8	
Output gap (in percent of potential output)	-0.3	0.7	0.0	2.0	2.8	-1.9	-1.7	-0.7	0.1	0.0	0.0	
Unemployment												
Unemployment rate (in percent; period average)	7.3	7.1	5.5	5.7	6.2	9.0	7.0	5.5	5.5	5.5	5.5	
Prices												
Consumer price inflation (end of period)	2.3	1.7	4.2	1.2	3.7	3.0	4.0	4.0	4.0	4.0	4.0	
Consumer price inflation (period average)	0.8	1.6	3.3	3.6	1.8	3.5	3.6	4.0	4.0	4.0	4.0	
Exchange rate												
Exchange rate (RD\$/US\$ - period average) 1/	45.0	46.0	47.5	49.5	51.2	...	...	...	...	...	...
Exchange rate (RD\$/US\$ - eop) 1/	45.5	46.7	48.2	50.2	52.9	...	...	...	...	...	...
Real effective exchange rate (eop, - depreciation) 1/	2.3	-0.8	-2.3	-1.9	-3.3	...	...	...	...	...	...
Government finances						(in percent of GDP)						
Consolidated public sector debt 2/	44.7	46.6	48.9	50.4	53.6	60.9	58.2	57.6	57.2	56.4	55.7	
Consolidated public sector overall balance 3/	-1.7	-4.1	-4.1	-3.5	-3.3	-6.0	-4.3	-4.1	-3.9	-3.5	-3.5	
Consolidated public sector primary balance	2.1	-0.2	-0.1	0.4	0.8	-1.6	0.2	0.4	0.6	0.9	0.9	
Central government balance	0.0	-3.1	-3.1	-2.2	-2.2	-4.4	-2.9	-2.8	-2.7	-2.4	-2.5	
Revenues and grants	16.6	13.9	14.0	14.2	14.4	13.6	14.1	14.2	14.2	14.4	14.3	
Primary spending, o.w.:	14.4	14.4	14.6	13.7	13.8	15.0	13.9	13.9	13.9	13.9	13.9	
Transfers to electricity sector	0.8	0.6	0.5	0.4	0.5	0.3	0.4	0.4	0.4	0.4	0.4	
Interest expenditure	2.3	2.5	2.5	2.6	2.7	3.0	3.1	3.0	3.0	2.9	2.9	
Rest of NFPS	-0.3	0.3	0.2	-0.2	-0.1	-0.5	-0.4	-0.3	-0.2	-0.1	-0.1	
Financial sector						(Annual percentage change; unless otherwise stated)						
Broad money (M3)	12.3	9.8	11.2	7.0	11.7	0.7	8.3	9.6	9.8	9.7	9.7	
Credit to the private sector	12.7	12.1	10.1	11.1	11.8	2.5	7.7	9.2	9.2	9.2	9.2	
Policy interest rate 1/	5.0	5.5	5.3	5.5	4.5	...	...	...	...	...	...
Average deposit rate (1-year; in percent) 1/	7.7	6.8	5.0	7.4	6.7	...	...	...	...	...	...
Average lending rate (1-year; in percent) 1/	16.7	14.5	11.2	12.1	12.4	...	...	...	...	...	...
Balance of payments						(in percent of GDP)						
Current account	-1.8	-1.1	-0.2	-1.4	-1.4	-5.2	-3.7	-3.4	-3.1	-2.9	-2.9	
Goods, net	-10.5	-10.0	-9.5	-10.9	-10.8	-10.5	-10.4	-10.2	-9.9	-10.0	-9.7	
Services, net	6.1	6.5	6.9	6.9	6.1	3.8	5.4	5.7	5.8	6.4	6.5	
Income, net	2.5	2.4	2.4	2.6	3.3	1.4	1.3	1.1	1.0	0.7	0.4	
Capital account	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Financial account	-1.0	-2.1	-1.7	-2.2	-2.8	-5.2	-3.7	-3.4	-3.1	-2.9	-2.9	
Foreign direct investment, net	-3.1	-3.2	-4.5	-3.0	-3.4	-2.9	-3.4	-3.4	-3.4	-3.4	-3.4	
Portfolio investment, net	-4.9	-2.3	-2.2	-3.1	-2.0	-1.0	-2.0	0.4	-0.7	-0.2	-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	6.3	2.4	4.0	2.9	1.3	0.0	1.2	-0.9	0.4	0.1	0.0	
Reserves,net	0.6	1.0	0.9	1.0	1.3	-1.3	0.5	0.6	0.6	0.6	0.6	
NIR (in millions of U.S. dollars)	4,728	5,712	6,528	7,382	8,541	7,448	7,903	8,731	9,343	10,006	10,724	
Total external debt (in percent of GDP)	38.1	38.7	41.0	39.4	40.0	44.7	44.5	41.3	40.3	39.2	38.3	
of which: Public sector	25.1	25.7	27.7	27.3	28.3	32.7	33.5	31.6	31.3	30.8	30.4	

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

1/ Latest available.

2/ Improvement in 2015 reflects the grant element of a debt buy back operation with Venezuela's state owned-oil company (PDVSA) of 3.1 percent of GDP.

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

Table 2. Dominican Republic: Public Sector Accounts, 2015–25
(In Percent of GDP)

	Projection												
	2015	2016	2017	2018	2019	Pre- COVID	Post- COVID	Δ	2021	2022	2023	2024	2025
						2020	2020	change					
A. Central Government 1/													
Revenue	16.6	13.9	14.0	14.2	14.4	14.5	13.6	-0.9	14.1	14.2	14.2	14.4	14.3
Tax revenues	12.8	12.9	13.0	13.0	13.3	13.3	12.5	-0.8	13.0	13.1	13.1	13.3	13.2
Taxes on income, profits, and capital gains	3.7	3.9	4.0	4.0	4.2	4.2	4.1	-0.1	3.8	4.2	4.2	4.4	4.4
Tax on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	8.0	7.9	7.8	7.9	8.0	8.0	7.4	-0.6	8.1	7.8	7.9	7.8	7.7
Value-added taxes	4.6	4.6	4.5	4.6	4.7	4.8	4.5	-0.2	5.0	4.7	4.8	4.7	4.6
Excises	2.3	2.2	2.3	2.2	2.2	2.1	1.7	-0.4	1.9	2.0	2.0	2.0	2.0
Taxes on international trade and transactions	1.0	1.0	0.9	0.9	0.9	0.9	0.8	0.0	0.9	0.9	0.9	0.9	0.9
Social security contriutions	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Grants 2/	3.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.8	0.9	0.9	1.1	1.0	1.1	1.0	-0.1	1.0	1.0	1.0	1.0	1.0
Expenditure	16.7	17.0	17.1	16.3	16.6	16.8	18.0	1.2	16.9	16.9	16.9	16.8	16.8
Current spending (expense)	14.5	15.2	15.6	15.0	15.2	15.0	16.6	1.6	15.1	15.1	15.0	15.0	14.9
Compensation of employees	4.8	4.3	4.4	4.5	4.5	4.5	4.5	0.0	4.5	4.5	4.5	4.5	4.5
Use of goods and services	1.5	1.4	1.8	1.7	1.9	2.0	2.4	0.4	1.7	1.8	1.8	1.8	1.8
Interest	2.3	2.5	2.5	2.6	2.7	2.6	3.0	0.4	3.1	3.0	3.0	2.9	2.9
Subsidies	1.0	0.8	0.7	0.6	0.7	0.5	0.6	0.0	0.6	0.6	0.6	0.6	0.6
Electricity	0.8	0.6	0.5	0.4	0.5	0.4	0.3	-0.1	0.4	0.4	0.4	0.4	0.4
Other	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.1	0.3	0.3	0.3	0.3	0.3
Grants	2.3	3.0	2.7	2.6	2.7	2.6	2.8	0.2	2.8	2.8	2.8	2.8	2.8
Social benefits	1.3	1.2	1.3	1.2	1.3	1.3	1.9	0.7	1.1	1.1	1.1	1.1	1.1
Other transfers	1.2	1.8	2.2	1.8	1.5	1.4	1.5	0.1	1.2	1.2	1.2	1.2	1.2
Net acquisition of nonfinancial assets	2.1	1.7	1.8	1.5	1.5	1.8	1.5	-0.3	2.0	2.0	2.0	2.0	2.0
Primary balance	2.3	-0.6	-0.5	0.4	0.6	-0.3	-1.4	-1.1	0.2	0.2	0.3	0.5	0.4
Overall balance	0.0	-3.1	-3.1	-2.2	-2.2	-2.3	-4.4	-2.1	-2.9	-2.8	-2.7	-2.4	-2.5
B. Rest of the Non-Financial Public Sector													
Overall balance rest of NFPS	-0.3	0.3	0.2	-0.2	-0.1	-0.2	-0.5	-0.3	-0.4	-0.3	-0.2	-0.1	-0.1
C. Non-Financial Public Sector													
Overall balance NFPS	-0.4	-2.8	-2.9	-2.4	-2.3	-3.1	-4.9	-1.8	-3.2	-3.0	-2.9	-2.6	-2.6
Primary balance	2.2	-0.2	-0.3	0.3	0.6	-0.4	-1.7	-1.4	0.0	0.1	0.2	0.6	0.5
Interest	2.3	2.5	2.5	2.6	2.7	2.6	3.0	0.4	3.1	3.0	3.0	2.9	2.9
D. Central Bank													
Quasi-fiscal balance of the central bank	-1.3	-1.3	-1.2	-1.1	-1.0	-1.1	-1.1	0.0	-1.1	-1.1	-1.0	-0.9	-0.9
Primary balance	0.5	0.5	0.6	0.6	0.6	0.6	0.5	-0.1	0.5	0.6	0.6	0.6	0.6
Interest	1.8	1.8	1.8	1.7	1.6	1.7	1.6	-0.1	1.6	1.6	1.6	1.6	1.5
E. Consolidated Public sector													
Overall balance of the consolidated public sector	-1.7	-4.1	-4.1	-3.5	-3.3	-3.7	-6.0	-2.3	-4.3	-4.1	-3.9	-3.5	-3.5
Primary balance	2.1	-0.2	-0.1	0.4	0.8	-0.1	-1.6	-1.5	0.2	0.4	0.6	0.9	0.9
Interest	3.8	3.9	4.0	4.0	4.1	4.1	4.4	0.3	4.5	4.5	4.5	4.4	4.3
Memorandum items:													
Consolidated Public Sector Debt	44.7	46.6	48.9	50.4	53.6	53.4	60.9	7.5	58.2	57.6	57.2	56.4	55.7
NFPS	35.8	37.0	38.8	39.6	42.9	40.5	50.3	9.8	47.7	47.3	46.8	45.9	45.2
Central Bank	13.0	13.4	13.5	13.9	13.6	13.6	13.4	-2.2	13.1	12.7	12.6	12.5	12.4
Underlying consolidated overall balance 3/	-4.8	-4.1	-4.4	-3.8	-3.4	-4.2	-6.0	-1.8	-4.3	-4.1	-3.9	-3.5	-3.5
Cyclically adjusted consolidated overall balance 4/	-4.9	-4.6	-4.2	-4.1	-3.7	-4.2	-5.7	-1.5	-4.1	-4.0	-3.9	-3.5	-3.5
Fiscal impulse	0.0	0.3	0.5	0.1	0.1	-0.1	-2.1	-2.0	1.6	0.1	0.1	0.4	0.0
Extraordinary revenue 2/	3.2	0.2	0.2	0.3	0.1	...	...	...	...	...	...	...	...
Overall balance of the electricity sector 5/	-1.4	-1.4	-1.8	-1.7	-1.6	-1.2	-1.3	-0.2	-1.1	-0.9	-0.9	-0.8	-0.8
Nominal GDP (DR\$ billion)	3,206	3,487	3,803	4,236	4,562	4,988	4,679	-309.7	5,041	5,503	6,008	6,559	7,162

Sources: National authorities and IMF staff calculations.

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

2/ Outcome in 2015 reflects the grant element of a debt buy back operation with Venezuela's state owned-oil company (PDVSA) of 3.1 percent of GDP.

3/ Net of one-off revenues, including gains from PDVSA debt buy back.

4/ Adjusts revenues and expenditures for the economic cycle, and excludes one-off gains from PDVSA debt buy back.

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

Table 3. Dominican Republic: Public Sector Accounts, 2015-25
(In Billions of Dominican Pesos)

	2015	2016	2017	2018	2019	Projection								
						Pre- COVID	Post- COVID	Δ change	2021	2022	2023	2024	2025	
						2020								
A. Central Government 1/														
Revenue	534	484	533	600	657	721	635	-86	710	779	854	944	1025	
Tax revenues	410	449	493	550	605	663	585	-78	656	720	790	875	948	
Taxes on income, profits, and capital gains	118	135	153	168	192	210	191	-18	193	229	251	289	316	
Tax on property	6	6	7	8	9	10	9	-1	10	11	12	13	14	
Taxes on goods and services	255	275	298	334	365	400	346	-54	408	431	474	514	555	
Value-added taxes	147	159	170	195	214	237	211	-26	254	257	287	310	332	
Excises	73	76	87	94	99	107	82	-25	98	112	120	131	143	
Taxes on international trade and transactions	31	33	35	39	40	44	39	-5	45	49	54	58	64	
Social security contributions	1	2	3	3	3	3	3	0	3	3	3	4	4	
Grants 2/	96	1	2	1	1	2	1	-1	1	1	1	1	2	
Other revenues	26	32	35	46	48	53	46	-7	50	54	59	65	71	
Expenditure	535	592	650	691	757	838	841	3	854	931	1015	1105	1202	
Current spending (expense)	464	531	592	635	694	747	777	30	761	829	903	983	1069	
Compensation of employees	153	151	166	189	204	226	210	-16	226	247	270	295	322	
Use of goods and services	49	49	70	72	85	99	111	12	87	100	109	119	130	
Interest	74	88	97	110	125	132	140	9	156	165	179	193	207	
Subsidies	33	29	26	26	32	27	27	-1	32	35	38	41	45	
Electricity	25	21	18	17	22	19	14	-5	18	20	22	24	26	
Other	8	8	9	9	10	8	12	4	13	15	16	17	19	
Grants	74	106	103	112	124	130	131	1	141	154	169	184	201	
Social benefits	42	43	49	53	57	63	89	27	57	62	68	74	81	
Other transfers	39	64	82	74	68	69	68	-1	61	66	71	77	83	
Net acquisition of nonfinancial assets	69	58	68	64	69	91	70	-21	100	109	119	130	142	
Primary balance	73	-20	-21	18	25	-14	-66	-52	11	13	18	33	30	
Overall balance	-1	-108	-117	-92	-100	-117	-206	-89	-145	-152	-161	-161	-177	
B. Rest of the Non-Financial Public Sector														
Overall balance rest of NFPS	-10	10	6	-10	-7	-10	-22	-11	-19	-15	-13	-7	-9	
C. Non-Financial Public Sector														
Overall balance NFPS	-11	-98	-111	-102	-107	-154	-228	-74	-163	-167	-174	-167	-186	
Primary balance	69	-7	-11	11	26	-18	-80	-62	0	7	14	37	33	
Interest	74	88	97	110	125	132	140	9	156	165	179	193	207	
D. Central Bank														
Quasi-fiscal balance of the central bank	-42	-44	-44	-47	-44	-56	-51	4	-54	-58	-61	-62	-63	
Primary balance	15	18	25	25	28	31	24	-7	27	32	38	41	45	
Interest	58	63	69	72	72	87	75	-12	81	90	99	103	108	
E. Consolidated Public Sector														
Overall balance of the Consolidated public sector	-54	-142	-155	-149	-150	-183	-279	-96	-218	-225	-236	-229	-249	
Primary balance	67	-5	-3	19	37	-3	-73	-70	10	22	35	61	61	
Interest	121	137	152	168	188	206	206	0	228	247	271	290	310	
Memorandum items:														
Consolidated Public Sector Debt	1,433	1,625	1,860	2,137	2,445	2,664	2,847	183	2,935	3,168	3,435	3,700	3,993	
NFPS	1,148	1,292	1,477	1,679	1,956	2,020	2,354	334	2,405	2,602	2,809	3,011	3,234	
Central Bank	417	466	515	590	621	776	625	-151	663	698	759	822	891	
Overall balance of the electricity sector 3/	-46	-48	-67	-73	-71	-59	-63	-4	-54	-52	-53	-49	-55	
Nominal GDP	3,206	3,487	3,803	4,236	4,562	4,988	4,679	-310	5,041	5,503	6,008	6,559	7,162	

Sources: National authorities and IMF staff calculations.

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

2/ Outcome in 2015 reflects the grant element of a debt buy back operation with Venezuela's state owned-oil company (PDVSA) of 3.1 percent of GDP.

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

Table 4. Dominican Republic: Income Statement of the Central Bank, 2015–25
(in billions of Dominican pesos, unless otherwise specified)

	2015	2016	2017	2018	2019	Projection					
						2020	2021	2022	2023	2024	2025
Revenues	23.0	26.2	33.9	35.2	38.9	34.9	38.4	44.6	51.4	56.1	61.3
Interest	23.0	26.0	33.5	33.9	38.2	33.9	37.6	43.7	50.5	55.2	60.5
International reserves	1.2	2.1	3.4	6.0	7.2	0.4	1.5	4.3	7.5	8.2	9.2
BCRD recapitalization 1/	21.2	22.8	25.3	27.1	30.2	32.7	35.3	38.5	42.1	45.9	50.1
Other	0.6	1.2	4.8	0.9	0.7	0.8	0.8	0.9	1.0	1.1	1.2
Other revenues	0.0	0.2	0.4	1.3	0.7	1.0	0.8	0.9	0.9	0.9	0.9
Expenditures	65.3	70.6	78.3	82.1	82.4	86.1	92.6	102.7	112.6	117.8	124.1
Administrative	6.8	7.1	7.8	8.1	8.9	9.4	10.1	11.0	12.0	13.1	14.3
Interest	57.7	62.5	69.1	71.6	71.8	75.1	80.8	90.0	98.9	102.9	108.1
Securities	56.2	60.8	66.3	69.3	69.5	72.7	78.3	87.2	95.9	99.7	104.5
Other	1.5	1.8	2.8	2.3	2.2	2.3	2.5	2.7	3.0	3.2	3.5
Other expenditures 2/	0.8	1.0	1.5	2.3	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Quasi-fiscal balance	-42.3	-44.3	-44.4	-46.9	-43.6	-51.2	-54.2	-58.1	-61.2	-61.7	-62.8
(in percent of GDP)											
Revenues	0.7	0.8	0.9	0.8	0.9	0.7	0.8	0.8	0.9	0.9	0.9
Interest	0.7	0.7	0.9	0.8	0.8	0.7	0.7	0.8	0.8	0.8	0.8
International reserves	0.0	0.1	0.1	0.1	0.2	0.0	0.0	0.1	0.1	0.1	0.1
BCRD recapitalization	0.7	0.7	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Other	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	2.0	2.0	2.1	1.9	1.8	1.8	1.8	1.9	1.9	1.8	1.7
Administrative	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Interest	1.8	1.8	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.5
Securities	1.8	1.7	1.7	1.6	1.5	1.6	1.6	1.6	1.6	1.5	1.5
Other	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenditures 2/	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Quasi-fiscal balance	-1.3	-1.3	-1.2	-1.1	-1.0	-1.1	-1.1	-1.1	-1.0	-0.9	-0.9
Memorandum items:											
BCRD securities outstanding 3/	403.7	453.0	501.2	576.5	606.3	608.6	647.5	682.6	742.7	805.5	874.9
In percent of GDP	12.6	13.0	13.2	13.6	13.5	13.0	12.8	12.4	12.4	12.3	12.2

Sources: National authorities and IMF staff calculations.

1/ Includes both interest on recapitalization bonds and direct transfers.

2/ Includes the cost of issuing money bills.

3/ Stock at end of period. Equivalent to the par value, minus the net discount/premium at which paper was sold, plus accrued but unpaid interest.

Table 5. Dominican Republic: Summary Accounts of the Banking System, 2015–25¹
(In billions of Dominican pesos, unless otherwise stated)

	2015	2016	2017	2018	Projection						
					2019	2020	2021	2022	2023	2024	2025
I. Central Bank											
Net foreign assets 1/ (in millions of US\$)	206	252	301	362	445	517	505	547	592	640	694
	4,522	5,401	6,238	7,199	8,411	8,643	9,088	9,662	10,260	10,907	11,607
Net domestic assets	-94	-134	-167	-215	-279	-350	-326	-351	-378	-407	-439
Nonfinancial public sector (net) 2/	-1	-2	-3	-18	-10	-10	-11	-12	-13	-14	-15
Financial institutions (net)	-480	-570	-628	-690	-802	-835	-945	-1,097	-1,279	-1,498	-1,763
Nonfinancial private sector (certificates)	132	133	123	134	126	140	150	156	169	182	196
Other items (net)	519	571	586	627	659	634	779	913	1,082	1,286	1,535
Currency issue	112	118	134	147	166	166	179	196	214	233	255
II. Deposit Money Banks											
Net foreign assets 1/ (in millions of US\$)	-49	-58	-51	-48	-79	-89	-95	-103	-111	-121	-131
	-1,084	-1,242	-1,063	-953	-1,485	-1,482	-1,706	-1,813	-1,929	-2,054	-2,189
Net domestic assets	1,032	1,140	1,237	1,308	1,488	1,534	1,652	1,803	1,967	2,147	2,343
Net claims on central bank	299	346	374	383	463	486	524	572	624	681	744
Net credit to the nonfinancial public sector	129	140	151	130	147	165	176	188	201	214	229
Central government	95	100	94	79	112	115	124	135	148	161	176
Rest of NFPS	34	40	57	52	35	50	52	53	53	53	53
Credit to the private sector	797	894	985	1,095	1,225	1,257	1,354	1,478	1,614	1,762	1,924
In pesos	622	702	787	872	978	1,000	1,078	1,177	1,285	1,402	1,531
In foreign currency	175	192	198	223	247	256	276	302	329	359	392
Capital and accumulated surplus	-168	-192	-213	-237	-268	-260	-259	-259	-259	-259	-259
Other items (net)	-24	-47	-59	-63	-80	-114	-144	-177	-213	-252	-295
Liabilities to the private sector	983	1,082	1,186	1,261	1,409	1,445	1,557	1,700	1,856	2,026	2,213
In pesos	733	810	893	927	1,023	1,049	1,130	1,234	1,347	1,471	1,606
In foreign currency	250	272	293	334	386	396	427	466	509	555	607
III. Banking System											
Net foreign assets 1/ (in millions of US\$)	156	194	250	314	367	428	410	444	480	520	563
	3,438	4,159	5,175	6,245	6,926	7,161	7,382	7,849	8,331	8,853	9,418
Net domestic assets	1,224	1,330	1,437	1,516	1,646	1,643	1,818	1,963	2,141	2,334	2,545
Net credit to non-financial public sector	128	137	149	113	137	155	166	177	188	201	214
Credit to the private sector	803	900	991	1,102	1,232	1,263	1,361	1,486	1,622	1,771	1,934
Other items (net)	293	294	297	302	277	224	291	300	331	362	397
M3	1,072	1,177	1,309	1,401	1,565	1,592	1,724	1,887	2,070	2,268	2,486
Currency in circulation	89	94	102	117	134	133	143	156	171	186	204
Deposits	688	757	832	905	1,052	1,079	1,162	1,269	1,385	1,512	1,652
Central bank certificates held outside commercial ban	439	485	539	571	666	683	736	803	877	957	1,045
Commercial bank certificates held by the public	294	326	354	356	357	366	395	431	470	514	561
(Annual percentage change; unless otherwise stated)											
Memorandum items:											
Credit to the private sector	12.7	12.1	10.1	11.1	11.8	2.5	7.7	9.2	9.2	9.2	9.2
Currency issue	6.5	5.8	13.2	9.8	13.6	0.0	7.7	9.2	9.2	9.2	9.2
Deposits and commercial bank certificates	12.7	10.1	9.6	6.3	11.8	2.5	7.7	9.2	9.2	9.2	9.2
Broad money (M3)	12.3	9.8	11.2	7.0	11.7	1.7	8.3	9.4	9.7	9.6	9.6
M3 Velocity (ratio of GDP to M3)	3.0	3.0	2.9	3.0	2.9	2.9	2.9	2.9	2.9	2.9	2.9

Sources: National authorities and IMF staff calculations.

1/ On a residency basis.

2/ Excludes transfers related to central bank recapitalization.

Table 6. Dominican Republic: Balance of Payments, 2015–25

						Projection							
	2015	2016	2017	2018	2019	Pre- COVID	Post- COVID	Δ change	2021	2022	2023	2024	2025
						2020							
	(in millions of U.S. dollars)												
Current account	-1,280	-815	-133	-1,160	-1,240	-1,366	-4,357	-2,991	-3,250	-3,325	-3,299	-3,313	-3,472
Goods, net	-7,465	-7,559	-7,600	-9,301	-9,594	-10,554	-8,729	1,825	-9,166	-10,046	-10,460	-11,254	-11,734
Exports, f.o.b.	9,442	9,840	10,135	10,908	11,125	11,574	10,293	-1,281	11,295	12,372	13,566	14,516	15,912
Imports, f.o.b.	16,907	17,399	17,734	20,209	20,719	22,128	19,021	-3,106	20,461	22,418	24,026	25,770	27,646
Services, net	4,368	4,940	5,550	5,886	5,441	6,170	3,174	-2,996	4,740	5,600	6,127	7,187	7,812
Income, net	1,817	1,805	1,917	2,256	2,914	3,018	1,198	-1,821	1,176	1,121	1,034	754	449
Capital account 1/	2,089	2	2	2	2	2	2	0	2	2	2	2	2
Financial account	-1,148	-2,341	-2,121	-2,714	-3,618	-2,700	-942	1,758	-3,703	-3,910	-3,908	-3,975	-4,187
Foreign direct investment, net	-2,205	-2,407	-3,571	-2,535	-3,022	-2,875	-2,430	445	-2,993	-3,347	-3,581	-3,836	-4,111
Portfolio investment, net	-3,458	-1,729	-1,757	-2,696	-1,737	-2,192	-869	1,323	-1,794	347	-747	-232	-122
Financial derivatives, net	0	0	0	0	0	0	0	0	0	0	0	0	0
Other investment, net	4,515	1,795	3,207	2,518	1,142	2,367	2,357	-10	1,084	-911	421	93	46
Net errors and omissions	-1,550	-748	-1,259	-708	-1,226	0	0	0	0	0	0	0	0
Overall balance	407	780	731	849	1,154	1,336	-3,413	-4,749	455	588	612	663	717
Financing	-407	-780	-731	-849	-1,154	-1,336	3,413	4,749	-455	-588	-612	-663	-717
Change in reserves (-increase)	-407	-780	-731	-849	-1,154	-1,336	-235	1,101	-455	-588	-612	-663	-717
IMF (RFI)	0	0	0	0	0	0	653	653	0	0	0	0	0
Other IFIs	0	0	0	0	0	0	500	500	0	0	0	0	0
Unidentified support	0	0	0	0	0	0	2,495	2,495	0	0	0	0	0
	(in percent of GDP)												
Current account	-1.8	-1.1	-0.2	-1.4	-1.4	-1.4	-5.2	-3.6	-3.7	-3.4	-3.1	-2.9	-2.9
Goods, net	-10.5	-10.0	-9.5	-10.9	-10.8	-11.2	-10.5	2.2	-10.4	-10.2	-9.9	-10.0	-9.7
Exports, f.o.b.	13.3	13.0	12.7	12.7	12.5	12.3	12.4	-1.5	12.8	12.5	12.9	12.8	13.1
of which: Gold	1.7	2.1	1.8	1.6	1.7	1.5	1.8	0.1	1.6	1.4	1.2	1.0	0.9
of which: Other	11.5	10.9	10.8	11.1	10.8	10.7	10.5	-1.6	11.2	11.2	11.7	11.8	12.2
Imports, f.o.b.	23.7	23.0	22.1	23.6	23.3	23.5	22.8	-3.7	23.2	22.7	22.8	22.8	22.8
of which: Oil	3.6	3.1	3.6	4.4	4.0	4.0	2.4	-2.1	2.6	2.6	2.7	2.7	2.8
of which: Other	20.2	19.9	18.6	19.2	19.3	10.7	20.4	8.2	20.6	20.1	20.1	20.1	20.1
Services, net	6.1	6.5	6.9	6.9	6.1	6.5	3.8	-3.6	5.4	5.7	5.8	6.4	6.5
of which: Travel, net	7.9	8.2	8.3	8.2	7.8	8.2	4.1	-5.1	5.9	5.5	5.6	5.8	5.8
Income, net	2.5	2.4	2.4	2.6	3.3	3.2	1.4	-2.2	1.3	1.1	1.0	0.7	0.4
Primary income, net	-4.1	-4.3	-4.7	-4.5	-4.2	-4.3	-4.9	-0.1	-4.8	-4.4	-4.2	-4.3	-4.2
Of which: Direct investment, net	-4.1	-4.3	-4.7	-4.5	-4.2	-4.3	-4.9	-0.1	-4.8	-4.4	-4.2	-4.3	-4.2
Secondary income, net	6.7	6.7	7.1	7.1	7.5	7.4	6.4	-2.0	6.1	5.5	5.2	4.9	4.6
Of which: Workers' remittances, net	6.4	6.4	6.8	7.0	7.3	7.2	6.3	-1.9	6.0	5.4	5.2	4.9	4.5
Capital account 1/	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-1.6	-3.1	-2.6	-3.2	-4.1	-2.9	-1.1	2.1	-4.2	-4.0	-3.7	-3.5	-3.5
Foreign direct investment, net	-3.1	-3.2	-4.5	-3.0	-3.4	-3.1	-2.9	0.5	-3.4	-3.4	-3.4	-3.4	-3.4
Portfolio investment, net	-4.9	-2.3	-2.2	-3.1	-2.0	-2.3	-1.0	1.6	-2.0	0.4	-0.7	-0.2	-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	0.0	0.0
Other investment, net	6.3	2.4	4.0	2.9	1.3	2.5	2.8	0.0	1.2	-0.9	0.4	0.1	0.0
Net errors and omissions	-2.2	-1.0	-1.6	-0.8	-1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.6	1.0	0.9	1.0	1.3	1.4	-4.1	-5.7	0.5	0.6	0.6	0.6	0.6
Financing	-0.6	-1.0	-0.9	-1.0	-1.3	-1.4	4.1	5.7	-0.5	-0.6	-0.6	-0.6	-0.6
Change in reserves (-increase)	-0.6	-1.0	-0.9	-1.0	-1.3	-1.4	-0.3	1.3	-0.5	-0.6	-0.6	-0.6	-0.6
IMF (RFI)	0.0	0.0	0.0	0.0	0.0	0.0	0.8	0.8	0.0	0.0	0.0	0.0	0.0
Other IFIs	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.6	0.0	0.0	0.0	0.0	0.0
Unidentified support	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0	0.0	0.0	0.0	0.0	0.0

Sources: National authorities and IMF staff calculations.

1/ For 2015 includes the grant-element of a debt buyback operation with PDVSA of 3.1 percent of GDP.

Table 7. Dominican Republic: Financial Soundness Indicators, 2011–18

(In percent, end of year)

	2011	2012	2013	2014	2015	2016	2017	2018
I. Financial System								
Capital adequacy								
Leverage ratio	11.7	11.8	11.5	11.3	11.2	11.3	11.6	11.8
Regulatory capital to risk-weighted assets 1/	17.3	18.2	16.7	16.1	16.0	17.2	18.3	17.1
Asset quality								
NPLs to total loans	2.9	3.4	2.2	1.5	1.7	1.7	1.9	1.6
Loan provisions to NPLs	121.8	103.4	144.7	202.4	164.1	167.5	161.5	171.7
NPLs net of provisions to net worth	-3.0	-1.0	-5.5	-8.6	-6.4	-6.6	-6.4	-6.2
Fixed and net foreclosed assets to net worth	36.8	34.2	32.4	29.4	29.8	27.7	25.1	22.4
Earnings and efficiency								
Return on average assets	2.4	2.2	2.3	2.3	2.3	2.2	1.9	2.4
Return on average equity	19.9	18.8	20.6	19.9	20.1	19.0	16.7	20.0
Gross operating income to average assets	10.5	11.6	10.9	10.3	10.0	10.0	10.2	9.7
Financial margin to average assets	6.4	6.7	6.8	6.4	6.1	5.8	5.6	5.8
Operating expenses to net financial margin	89.6	89.6	86.2	90.0	93.2	93.6	89.9	89.6
Liquidity								
Liquid funds to deposits	36.6	34.3	33.4	36.9	34.3	34.9	29.7	31.3
Liquid funds to total assets	19.9	19.0	18.7	19.7	18.4	18.4	15.8	17.0
II. Commercial Banks								
Capital adequacy								
Leverage ratio	9.7	10.0	9.7	9.5	9.8	10.0	10.3	10.4
Regulatory capital to risk-weighted assets 1/	14.6	15.8	14.8	14.0	14.4	15.6	16.4	15.8
Asset quality								
NPLs to total loans	2.6	3.2	1.9	1.3	1.5	1.5	1.7	1.5
Loan provisions to NPLs	118.8	100.5	153.6	202.9	165.0	169.8	160.3	163.8
NPLs net of provisions to net worth	-4.4	-1.5	-8.3	-10.9	-8.0	-8.0	-7.7	-7.5
Fixed and net foreclosed assets to net worth	46.1	41.7	39.0	35.2	34.4	31.5	28.3	25.3
Earnings and efficiency								
Return on average assets	2.4	2.2	2.3	2.3	2.3	2.2	2.0	2.3
Return on average equity	28.9	24.4	22.6	24.6	23.9	24.0	19.9	21.8
Gross operating income to average assets	10.0	11.0	10.5	10.0	9.7	9.7	9.8	9.4
Financial margin to average assets	6.2	6.5	6.6	6.2	6.0	5.6	5.5	5.6
Operating expenses to net financial margin	90.5	90.8	86.4	90.4	93.9	94.2	90.5	90.7
Liquidity								
Liquid funds to deposits	35.0	32.8	32.5	36.3	33.4	34.2	28.6	30.7
Liquid funds to total assets	21.7	20.8	20.3	21.3	19.6	19.6	16.7	18.2

Sources: National authorities.

1/ Includes all deposit-taking institutions.

Table 8. Dominican Republic: Indicators of Fund Credit, 2020-25

(In millions of SDRs, unless otherwise specified)

	2020	2021	2022	2023	2024	2025
Existing and Prospective drawings (RFI)	477.4	...	...	...	...	...
(in percent of quota)	100	...	...	...	...	...
(Projected Debt Service to the Fund based on Existing and Prospective Drawings)						
Amortization	0.0	0.0	0.0	119.4	238.7	119.4
GRA charges	4.8	8.3	8.3	7.8	4.3	0.6
GRA service charge	2.4	0.0	0.0	0.0	0.0	0.0
SDR assessments	0.0	0.0	0.0	0.0	0.0	0.0
SDR charges	1.1	1.5	1.5	1.5	1.5	1.5
Total debt service	8.3	9.8	9.8	128.7	244.5	121.5
(in percent of exports of G&S)	0.1	0.1	0.1	0.9	1.6	0.7
(in percent of GDP)	0.0	0.0	0.0	0.2	0.3	0.2
(in percent of GIR)	0.2	0.2	0.2	2.2	3.9	1.8
(Projected Level of Credit Outstanding based on Existing and Prospective Drawings)						
Outstanding stock	477.4	477.4	477.4	358.1	119.4	0.0
(in percent of quota)	100.0	100.0	100.0	75.0	25.0	0.0
(in percent of GDP)	0.8	0.7	0.8	0.6	0.2	0.0
(in percent of GIR)	8.9	7.7	8.8	6.2	1.9	0.0
Memorandum items:						
Exports of goods and services (US\$ mn)	20,192	20,370	15,600	18,978	20,499	22,411
GDP (US\$ mn)	85,630	87,841	82,103	86,980	97,280	104,094
US\$/SDR exchange rate	1.38	1.38	1.38	1.38	1.38	1.38
Gross International Reserves (US\$ mn)	7,383	8,542	7,445	7,901	8,731	9,343
Quota	477.4	477.4	477.4	477.4	477.4	477.4

Source: IMF staff estimates.

Annex I. Public Debt Sustainability Assessment (DSA)

Bottom line: Sustainable.

Baseline

Consolidated public sector debt is expected to remain sustainable. It is projected to rise from 53.6 percent of GDP in 2019 to about 60.9 percent of GDP in 2020—spurred by the pandemic-related macroeconomic shock—but declining gradually to 55.7 percent of GDP by 2025. The GFN will remain somewhat elevated averaging 10.4 percent of GDP over the projection horizon.	The authorities are addressing the COVID-19 shock with additional temporary spending financed by expenditure reallocation and loans from IFIs. Despite the sharp deceleration in 2020 to -1.0 percent (y/y), medium-term prospects for the country's growth remain robust. Against the backdrop of a stable macroeconomic environment, growth is expected to converge to its potential of 5 percent from 2022 onwards. Headline inflation is expected to remain contained, at around 4 percent in the medium term, consistent with the BCRD target. The overall deficit of the consolidated public sector is projected to rise to 6 percent of GDP in 2020, before falling to 3.5 percent of GDP over the medium term. The medium-term fiscal path is assessed as realistic.
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Stress Tests

The debt path maintains its downward trajectory in all standardized macro-fiscal stress tests except in the case of the combined macro-fiscal shock.	Debt is vulnerable to a growth shock (namely, a slow recovery in 2021-22), which would cause gross nominal public debt to rise in 2022 and remain above the baseline through the projection period.
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Assumptions

The COVID-19 shock is expected to lead to negative growth in 2020Q2-Q3, with a recovery starting in 2020Q4. A sharp rise in the overall deficit of the consolidated public sector is projected for 2020.	The baseline growth projections are in line with the WEO assumptions, and fiscal assumptions are aligned with the authorities' views. A more protracted shock could weaken aggregate demand for longer, lower tax revenues and increase the fiscal deficit, widen the current account deficit by hampering tourism receipts, and consequently lower GDP growth.
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Coverage and Contingent Liabilities

The definition of "public" debt is the debt of the consolidated public sector, which includes the quasi-fiscal balance of the central bank (BCRD) and fiscal operations of the public utility, social security institutions, functionally decentralized nonfinancial institutions, and municipalities in addition to the central government. Public sector debt accounts for contingent liabilities of these public entities.

Figure AI.1. Dominican Republic: Public Sector DSA – Baseline Scenario
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators ^{1/}										As of March 31, 2020	
	Actual			Projections							
	2009-2017 ^{2/}	2018	2019	2020	2021	2022	2023	2024	2025		
Nominal gross public debt	43.0	50.4	53.6	60.9	58.2	57.6	57.2	56.4	55.7	Sovereign Spreads	
Public gross financing needs	5.3	8.4	7.4	10.5	9.5	9.8	11.1	10.6	10.5	EMBIG (bp) 3/	
Net public debt	40.9	49.0	52.3	59.5	57.0	56.4	56.1	55.4	54.8	5Y CDS (bp)	
Real GDP growth (in percent)	4.8	7.0	5.1	-1.0	4.0	5.0	5.0	5.0	5.0	Ratings	Foreign Local
Inflation (GDP deflator, in percent)	4.7	4.1	2.5	3.5	3.6	4.0	4.0	4.0	4.0	Moody's	Ba3 Ba3
Nominal GDP growth (in percent)	9.7	11.4	7.7	2.5	7.7	9.2	9.2	9.2	9.2	S&P's	BB- BB-
Effective interest rate (in percent) ^{4/}	5.1	9.0	8.8	6.6	6.8	7.7	8.1	8.6	9.2	Fitch	BB- BB-

Contribution to Changes in Public Debt											
	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing
Change in gross public sector debt	1.7	1.5	3.1	7.3	-2.6	-0.7	-0.4	-0.8	-0.7	2.2	primary
Identified debt-creating flows	-0.4	-0.5	1.1	3.7	-0.8	-1.2	-1.2	-1.2	-0.8	-1.5	balance ^{9/}
Primary deficit	0.4	-0.4	-0.8	1.6	-0.2	-0.4	-0.6	-0.9	-0.9	-1.4	0.0
Primary (noninterest) revenue and grants	14.0	14.2	14.4	13.6	14.1	14.2	14.2	14.4	14.3	84.7	
Primary (noninterest) expenditure	14.4	13.7	13.6	15.1	13.9	13.8	13.6	13.5	13.5	83.3	
Automatic debt dynamics ^{5/}	-0.8	0.0	1.9	2.1	-0.6	-0.8	-0.6	-0.3	0.0	-0.1	
Interest rate/growth differential ^{6/}	-1.6	-1.0	0.5	2.1	-0.6	-0.8	-0.6	-0.3	0.0	-0.1	
Of which: real interest rate	0.3	2.0	2.9	1.6	1.7	1.9	2.1	2.3	2.6	12.2	
Of which: real GDP growth	-1.8	-3.1	-2.4	0.5	-2.3	-2.7	-2.6	-2.6	-2.6	-12.3	
Exchange rate depreciation ^{7/}	0.8	1.0	1.4	...	...	...	...	...	...	...
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{8/}	2.1	2.0	2.0	3.6	-1.9	0.5	0.8	0.5	0.2	3.7	

Source: IMF staff.

1/ Public sector is defined as Consolidated public sector.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

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

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

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

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

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

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

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

Heat Map

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

Source: IMF staff.

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

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

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

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

Appendix I. Letter of Intent

Santo Domingo,
Dominican Republic

April 13, 2020

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Georgieva,

1. On March 19, 2020, the Government of The Dominican Republic announced a “National Emergency” to avert the spread of the global COVID-19 pandemic. As of April 13, 2020, the number of confirmed cases stood at 3,167, with 177 fatalities. Given the severity of this outbreak, our government decided to close all air, sea, and land borders. All inbound commercial international flights have been suspended, with the exception of cargo supplies and transporting foreigners out of the country. A curfew from 5:00 pm to 6:00 am is in place, schools are closed, and all events and commercial activities are suspended. All stores across the country will remain closed except for grocery stores, gas stations, pharmacies, food producers, and medical providers.

2. This emergency has severely affected our economy. Our preliminary projections suggest that real GDP growth in 2020 could decline substantially below the 5.1 percent growth achieved in 2019. The tourism sector, which is the main contributor to our national income and foreign exchange earnings, could lose around US\$400 million (0.5 percent of GDP) if the situation extends beyond June. Additionally, weak global demand had led to declines in activities in the free trade zone and agriculture exports. Domestic production, especially manufacturing and construction, is poised to suffer due to supply-chain disruptions, while consumption will fall as confidence and incomes erode. To prevent further disruptions to our economy and a downward spiral to the well-being of our citizens, our government has undertaken various stimulus measures which, among others, include:

- Economic measures amounting to RD\$ 32 billion (US\$576 million), comprising COVID-19 tests in private laboratories financed by the government; food for those who are most in need, including elderly and students; “Solidarity Card” benefits for 811,000 families at RD\$5,000 (US\$90) per month until May 31; and subsidy for affected formal and informal workers up to RD\$ 8,500 (US\$153) per month for two months. The Central Bank of the Dominican Republic (BCRD) also allocated US\$229.4 million to support productive sectors, including tourism.
- An emergency reduction in the monetary policy rate by 100 basis points (from 4.5 percent to 3.5 percent) and the provision of around US\$1 billion in liquidity to the banking system.

- A release of banks' statutory reserves by around US\$0.4 billion (0.6 percent of GDP), of which 55 percent will be directed to credit for tourism and other productive sectors, and the remaining to households.

3. Our fiscal situation has changed, requiring the reallocation of budgetary resources toward critical spending in disease containment and eradication (including medical supplies, equipment, and facilitates) and increased social assistance to the most vulnerable. The consolidated fiscal deficit is projected to rise by more than 2½ percentage point of GDP, from the deficit of 3.3 percent of GDP registered in 2019. The increase in imports, particularly for medical supplies and equipment to combat the pandemic, will compound the significant weaknesses in tourism and other exports, putting tremendous strain on our balance of payments.

4. Against this background, and in the face of the urgent BOP need, the Government of the Dominican Republic requests emergency financing from the IMF under the Rapid Financing Instrument (RFI) in the amount of SDR477.4 million, equivalent to 100 percent of quota. This IMF assistance will help meet the urgent balance of payments needs in 2020 that are associated with increased health spending needs, deterioration in tourism and trade activities in the free trade zone, and a decline in capital inflows. We are confident that, with the support of the international community, including the World Bank and Inter-American Development Bank, these needs will be fully financed during the course of this year.

5. The Government of The Dominican Republic values its cooperation with the IMF. We are committed to ensuring continued macroeconomic stability and will avoid any measures or policies that would exacerbate balance of payments difficulties. We do not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, trade restrictions for balance of payments purposes, or multiple currency practices, or to enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement. In addition, we recognize the importance of safeguarding the IMF's financial support to ensure that such assistance is used for the very urgent purpose of resolving the current pandemic crisis and not diverted for any other purpose.

6. Even as we contemplate an increase in public spending to carry out the emergency pandemic response, we are aware of the urgent need to contain fiscal imbalances so as not to jeopardize macroeconomic stability and medium-term sustainability. Specifically, to ensure that public debt-to-GDP ratios remain sustainable and on a clear downward path in the medium-term, we are committed to a gradual tightening of fiscal policies once the pandemic recedes. Beyond the medium-term fiscal consolidation outlined above, we are committed to strengthening our public financial management to ensure effective oversight over the entire public sector, including state-owned enterprises. We will also consider carefully the recommendation by IMF staff to establish a medium-term fiscal framework.

7. In line with the IMF safeguards policy, we commit to undergoing a safeguards assessment in connection with the RFI. We will provide IMF staff with BCRD's most recently completed external audit reports and authorize our external auditors to hold discussions with IMF staff.

8. Given that financing from the IMF will be used for budget support, the Central Bank and the Ministry of Finance will sign a *Memorandum of Understanding* to establish a framework agreement and determine the respective responsibilities of each institution for timely servicing the country's financial obligations to the IMF. Moreover, we commit to adhere to best practices in procuring and awarding contracts related to the pandemic as well as publishing an externally audited report on virus-related expenditures once the crisis is over.

9. We authorize the IMF to publish this Letter of Intent and the staff report for the request for disbursement under the RFI.

Sincerely yours,

/s/

Héctor Manuel Valdez Albizu
Governor, BCRD

/s/

Donald Guerrero Ortiz
Minister of Finance