



Fiscal Accounts 2019-2020

Ministry of Finance

Department of Fiscal Policy Analysis

March 2020

Dominican Republic



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II. Fiscal Accounts

I. Fiscal Accounts 2019

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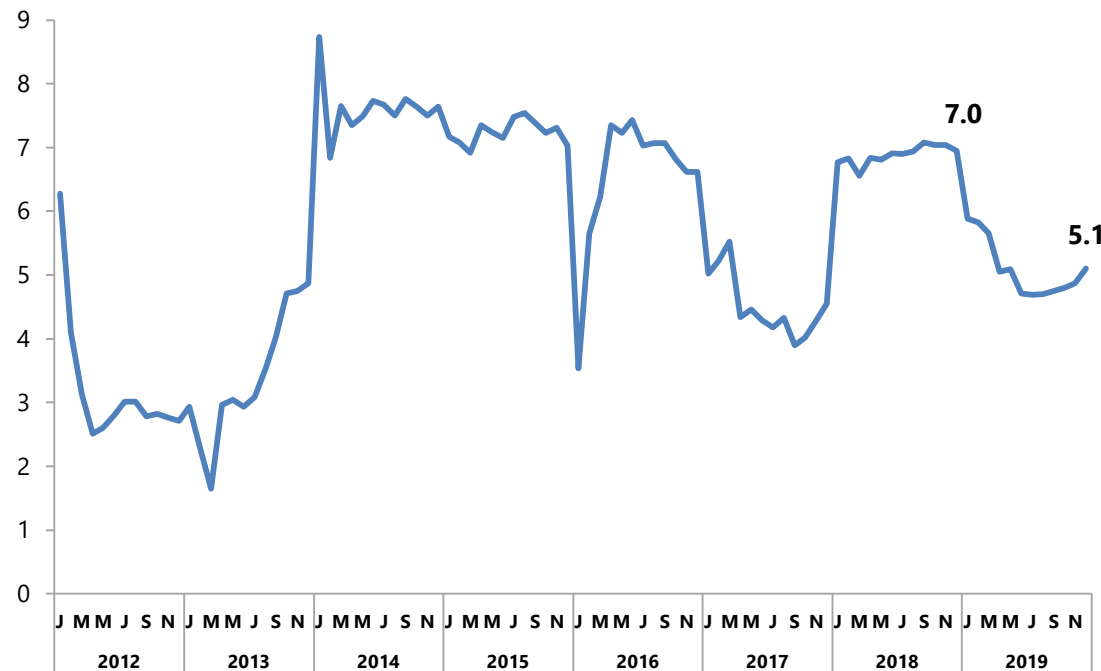


Dominican Republic is growing at its potential rate...

In 2019, the economy showed a slight deceleration, synchronizing its growth rate downwards (5.1%) with global growth projections, locating around its potential.

Real GDP growth, January-December

Monthly Economic Activity Index
(Accumulated variation, %)

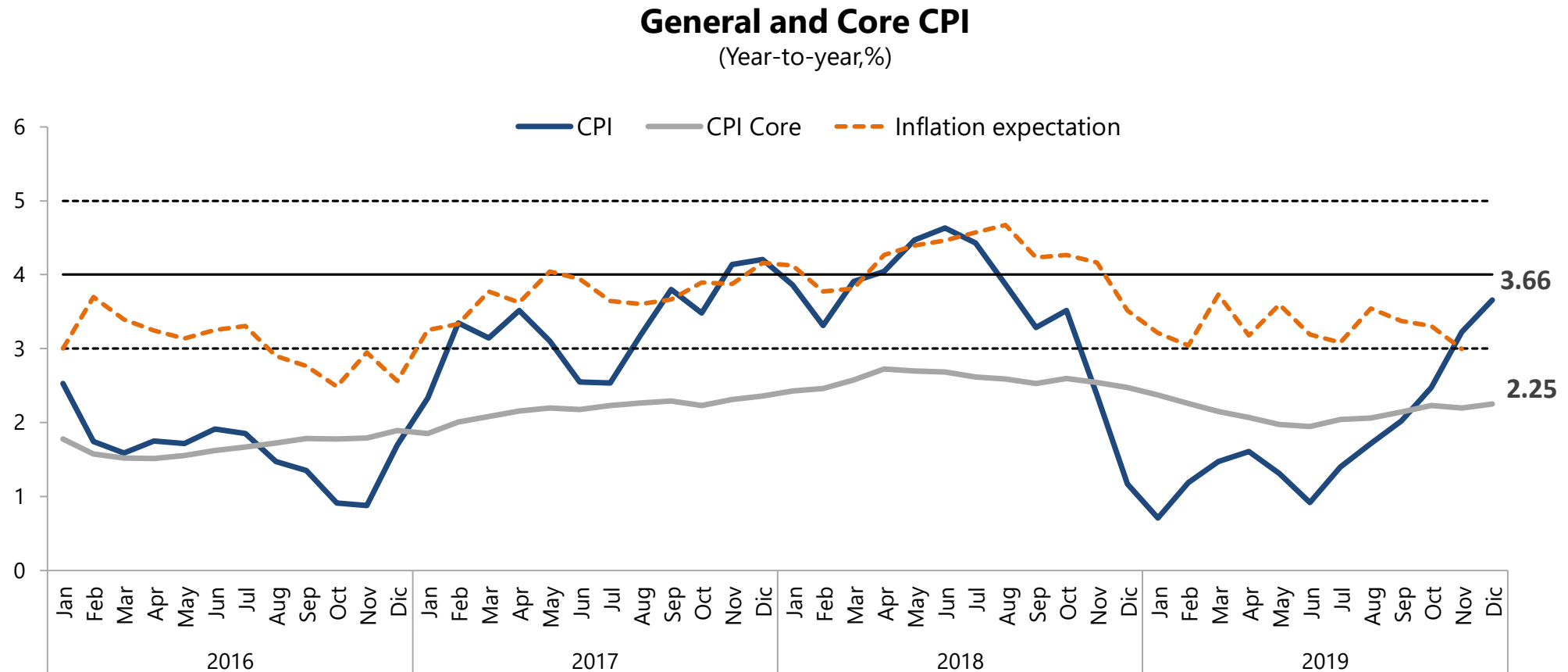


Activity	2018	2019	Incidence
Agricultural	5.5	4.1	0.2
Mine Exploitation	-1.3	3.4	0.1
Local Manufacturing	5.6	2.7	0.3
Free Zone Manufacturing	8.1	1.6	0.1
Construction	11.8	10.5	1.2
Services	5.9	4.4	2.6
Energy and water	5.7	7.4	0.1
Commerce	7.9	3.8	0.4
Tourism	5.7	0.3	0.0
Transportation	6.0	5.3	0.4
Communication	12.5	-7.2	-0.1
Financial services	7.2	9.0	0.4
Real Estate and Rental Activities	4.2	5.0	0.4
Public Administration	2.8	3.7	0.2
Education	2.6	2.5	0.1
Health	8.6	4.3	0.1
Other services	4.8	7.1	0.5
GDP	7.0	5.1	5.1



while prices remains stable and expectations anchored...

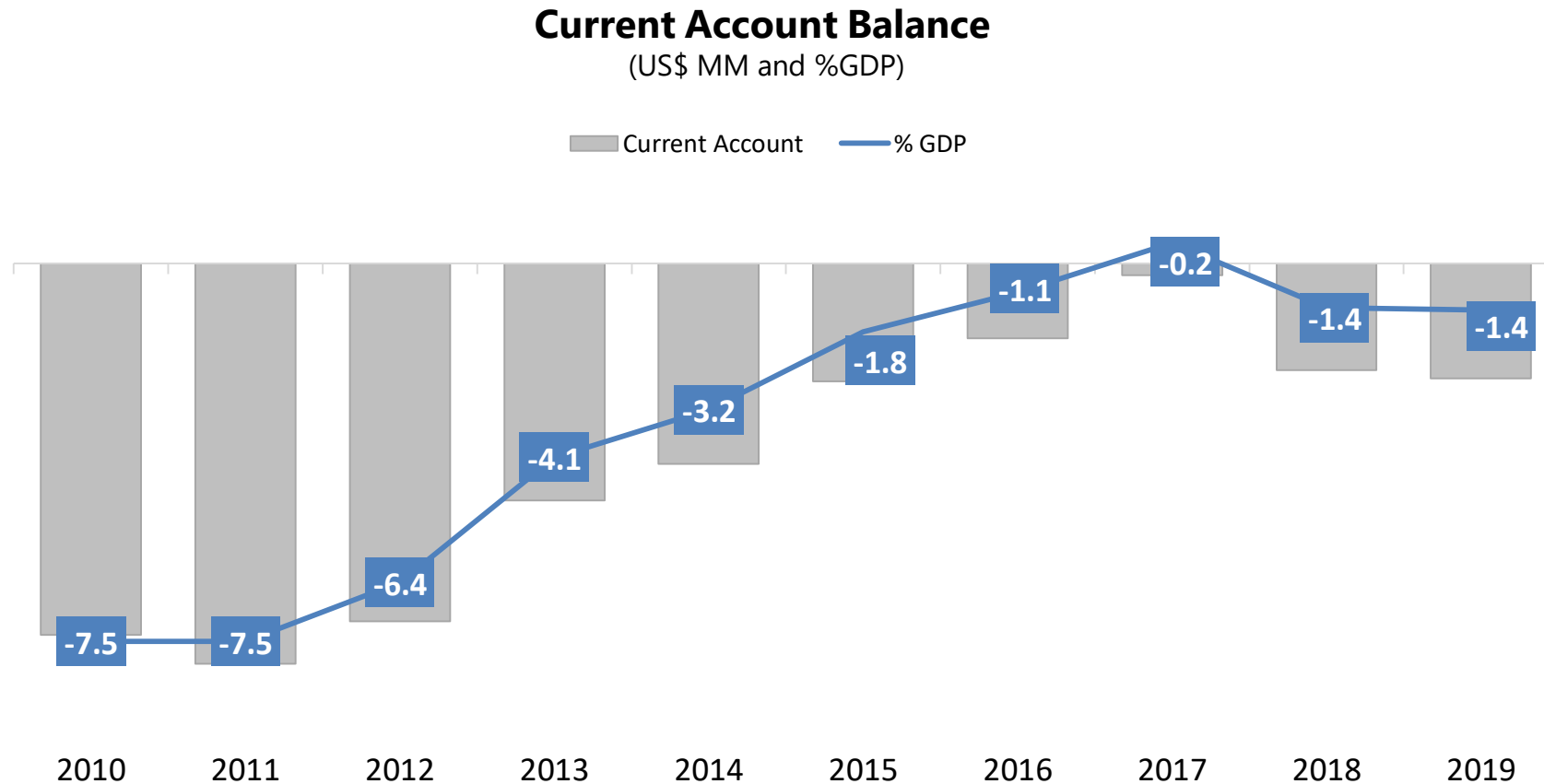
Low year-on-year inflation of **3.66%** on December, and an **average of 1.8%** for 2019. Prior to this, it had remained below the target range determined by the Central Bank for most months of 2019, however, the inflation expectation of economic agents remained within the stipulated range. Core inflation has remained under the lower limit during this period.





This good macroeconomic performance takes place in a context of external stability...

Current Account Balance closed the year 2019 with a deficit of barely 1.4% of GDP, similar to the previous and below the historical average of the last decade.

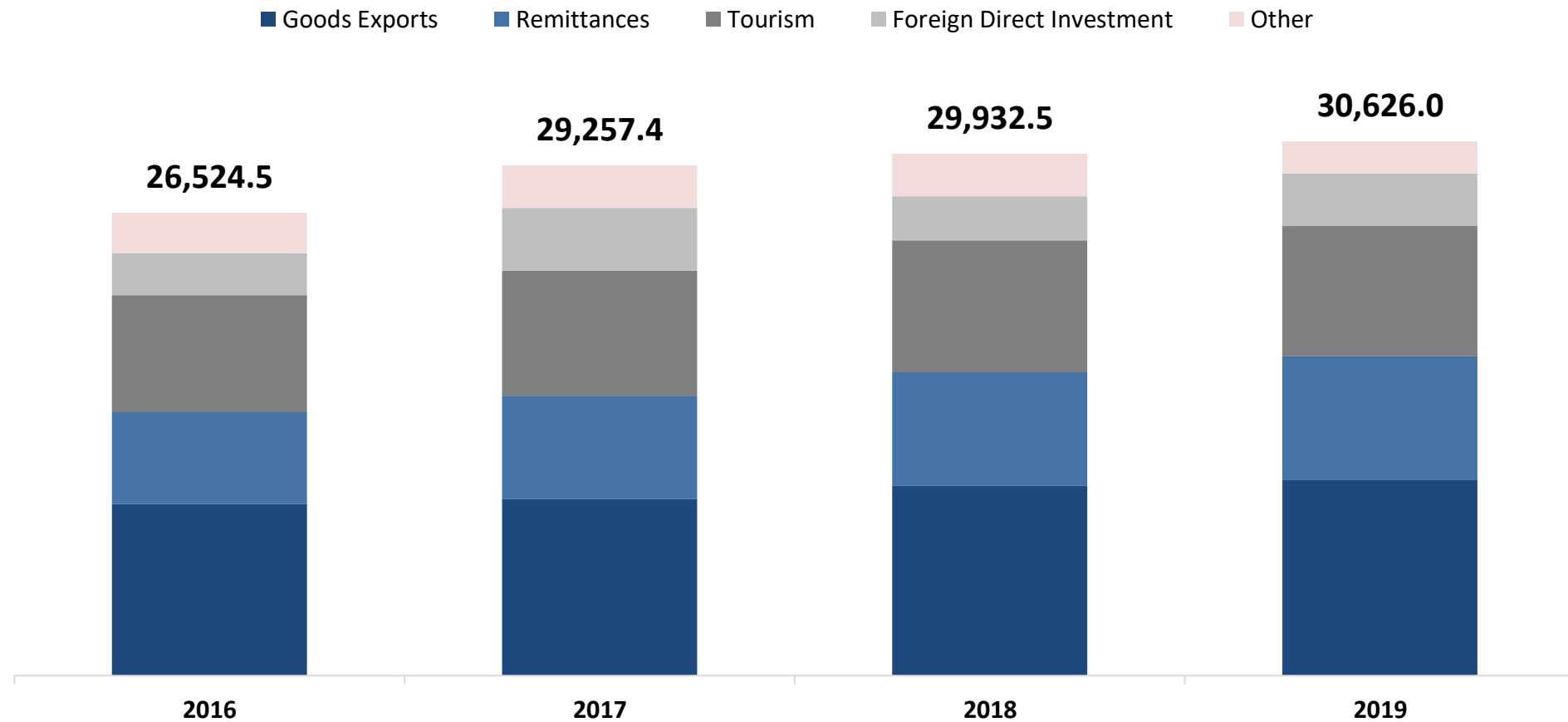




with a strong inflow of foreign exchange...

The foreign exchange income of the Dominican Republic amounted to **US\$30,626 million** in 2019, equivalent to **34.4%** of GDP.

Foreign Exchange Income (US\$ millions)



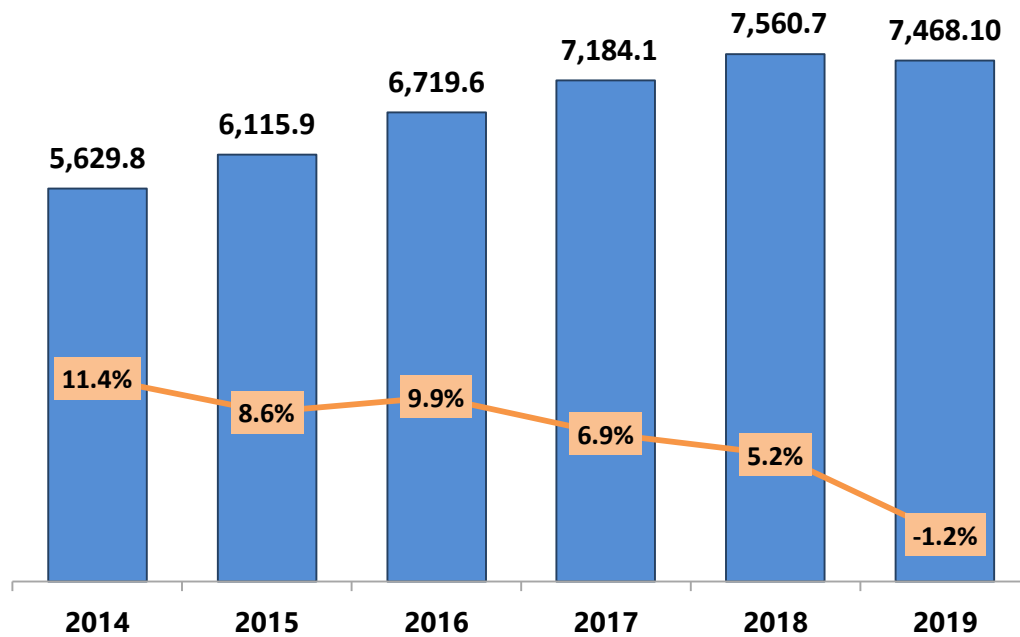


with tourism and remittances accounting almost half the total foreign exchange earnings...

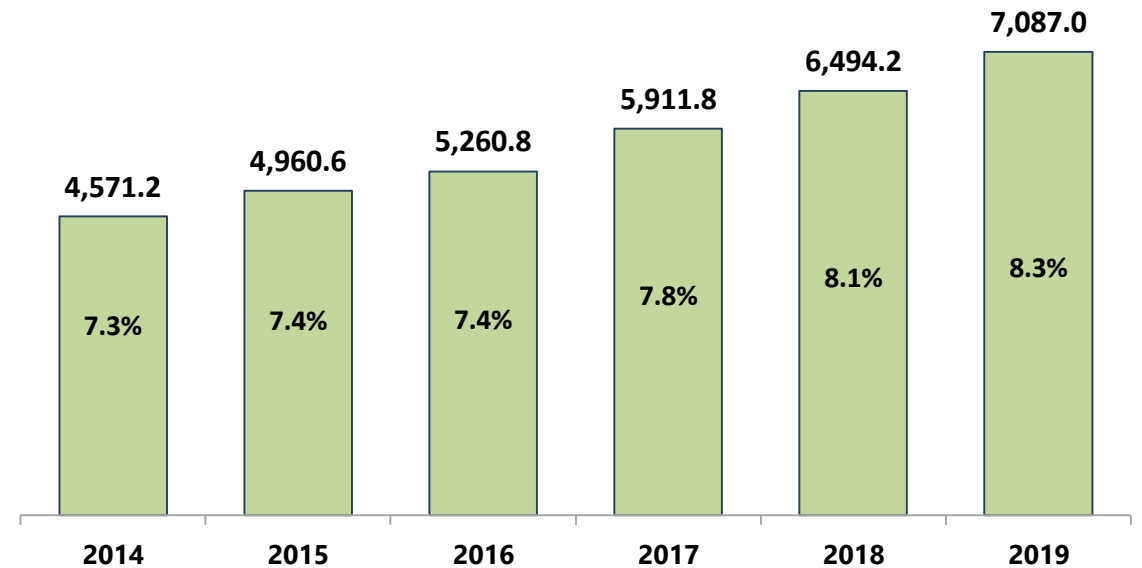
Growth in remittances compensated the slight fall in tourism revenue. Tourism and Remittances accounted for 47.5% of the total foreign exchange earnings.

TOURISM REVENUE
(In US\$ MM and % of GDP)

■ Tourism — variation (%)



REMITTANCES
(In US\$ MM and % of GDP)



Provenance of Tourist

(January-September 2019, % of total)



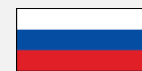
31.3%



12.1%



3.1%



2.6%

Provenance of Remittances

(January-september 2019, % of total)



77.5%



10.1%



1.5%

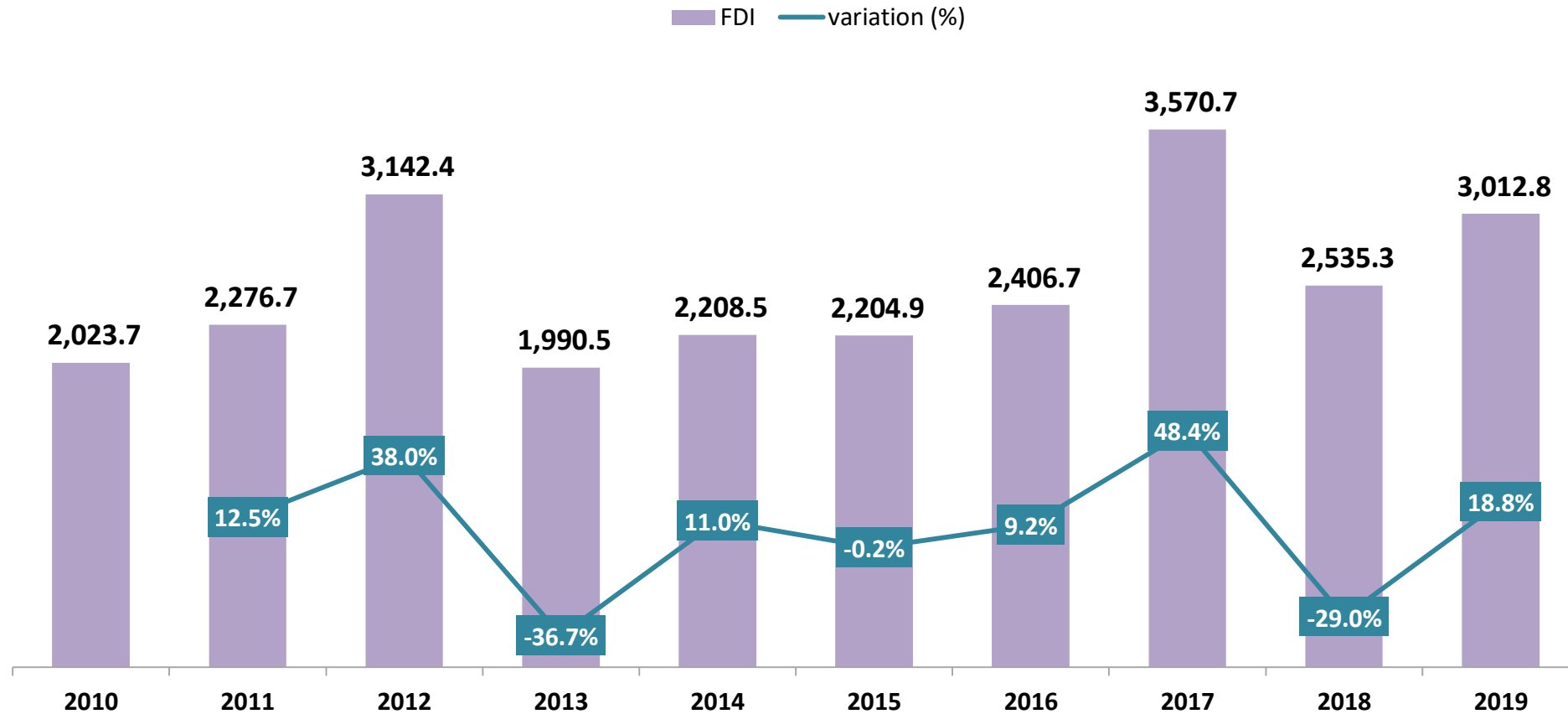


1.1%



Foreign direct investment continues to grow...

FOREIGN DIRECT INVESTMENT (US\$ Millions)



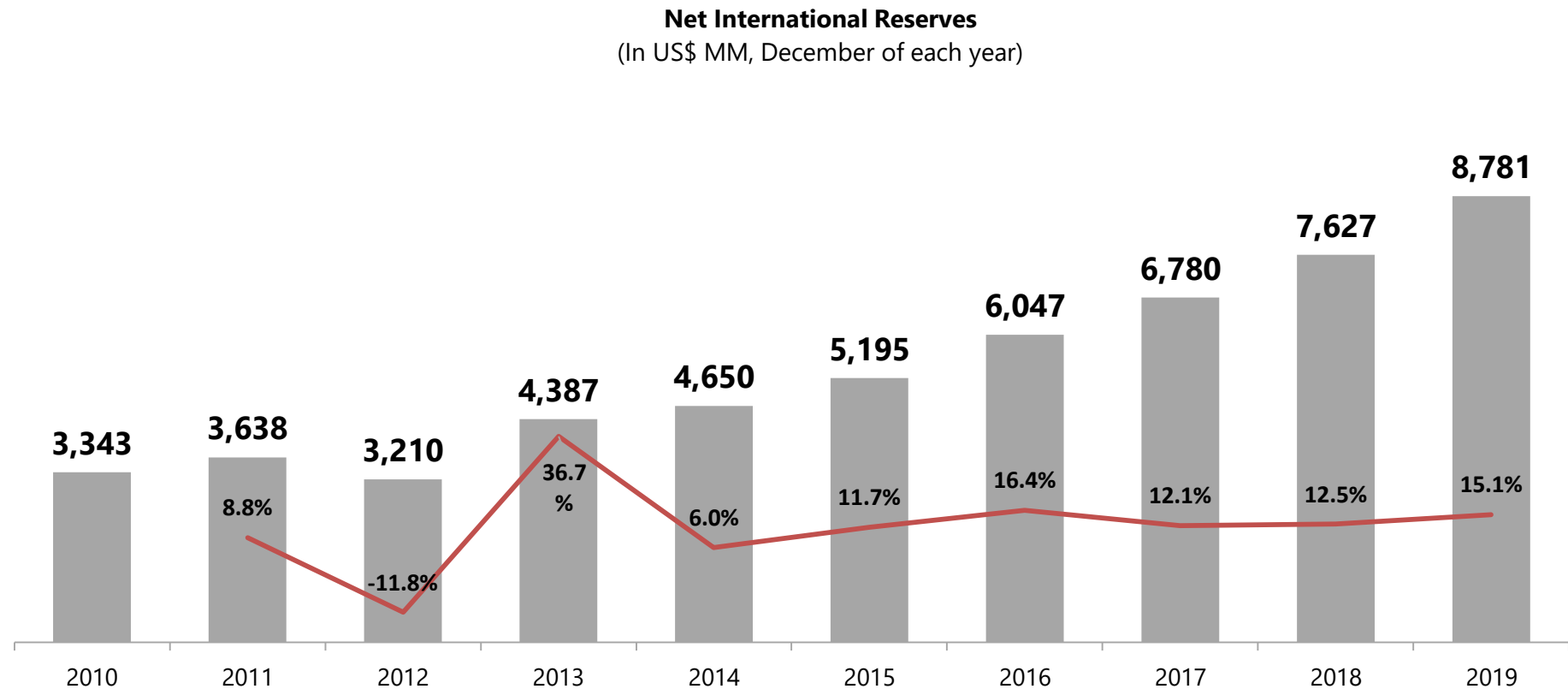
** 2012 and 2017 include the shareholding re-composition of Cerveceria Nacional Dominicana, shares were sold for 1,237US\$ and 926.4 US\$, respectively.

Source: Central Bank of the Dominican Republic.



...and we reach a historical record of net international reserves

International reserves reached US\$8,718 million in December 2019; which amounts to **10% of GDP** or **4.9 months of imports**.

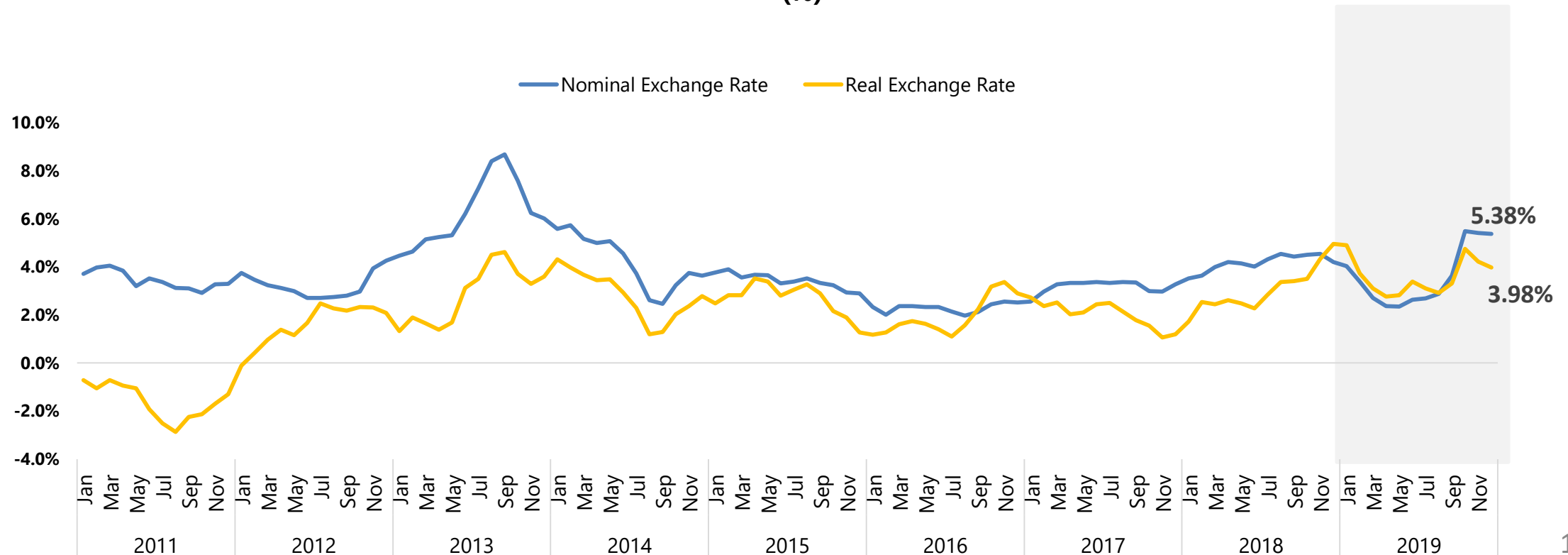




Relative stability of exchange rate aligned with macroeconomic fundamentals...

The spot market exchange rate registered **year-on-year depreciation of 3.98 %**. At the beginning of 2019, the rhythm of depreciation of the Dominican peso showed a decline, but after monetary easing interventions at mid year, the depreciatory exhibited an acceleration.

Exchange Rate Depreciation (%)





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I. Fiscal Accounts 2019

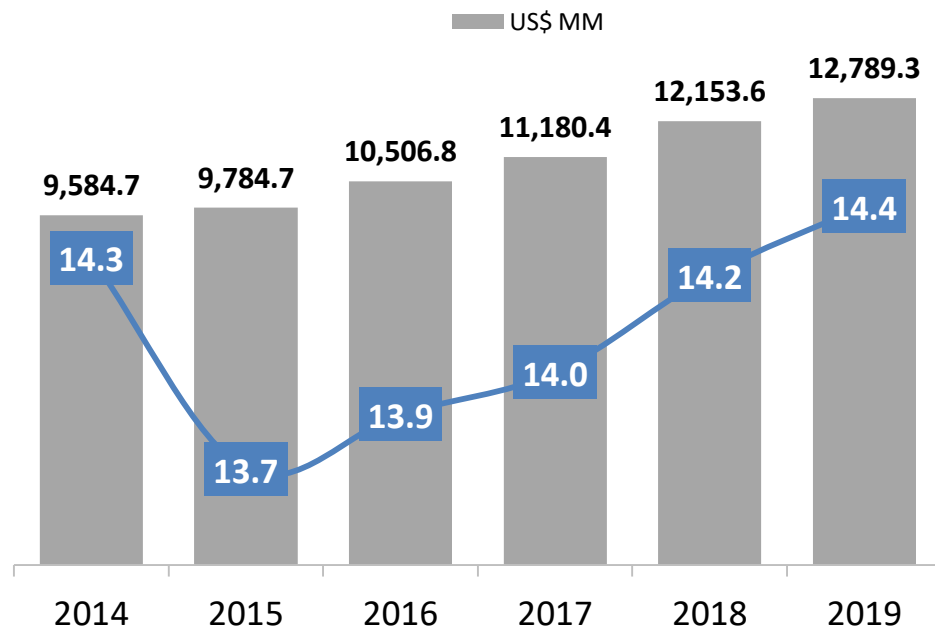
II. Medium Term Fiscal Outlook



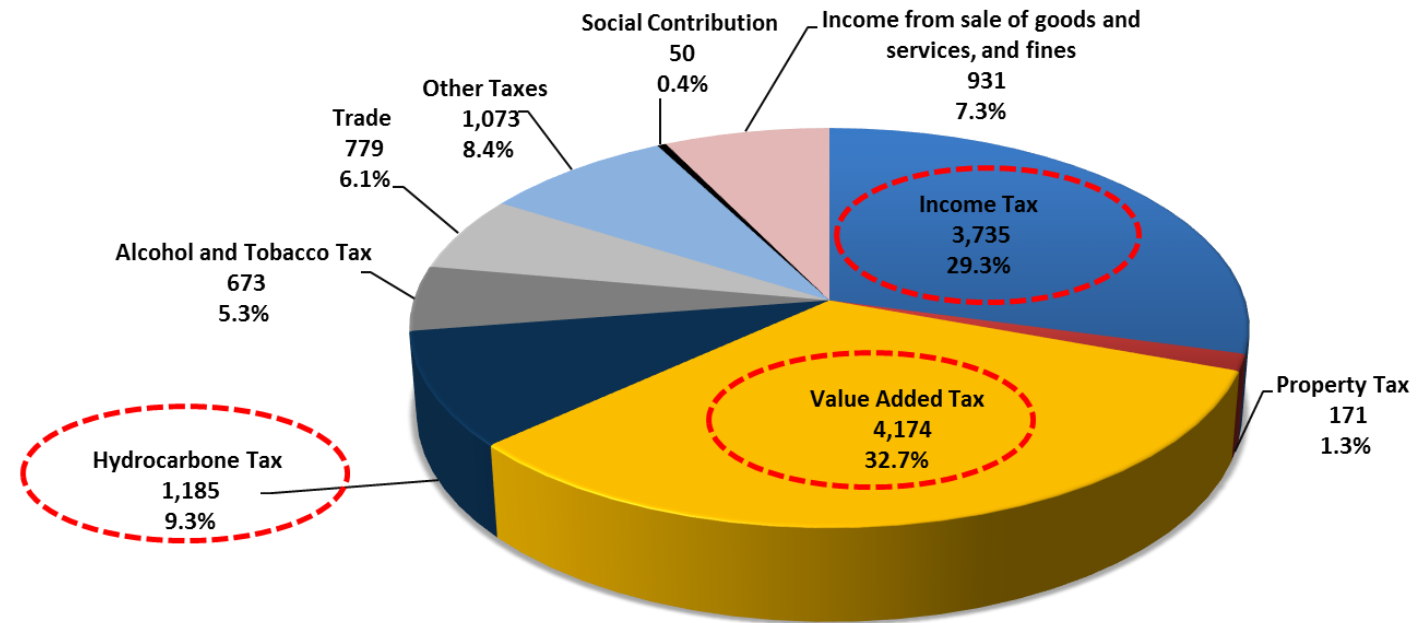
Revenues keep growing faster than economic activity due to the efforts of the tax administration...

In 2019, fiscal revenue amounted to **US\$12,789.3 million**, for an year on year nominal increase of **9.2%** in Dominican pesos (5.2% in US dollars).

Total Revenue
(US\$ MM and % of GDP)



Revenue Composition 2019
(US\$ MM and % of total)

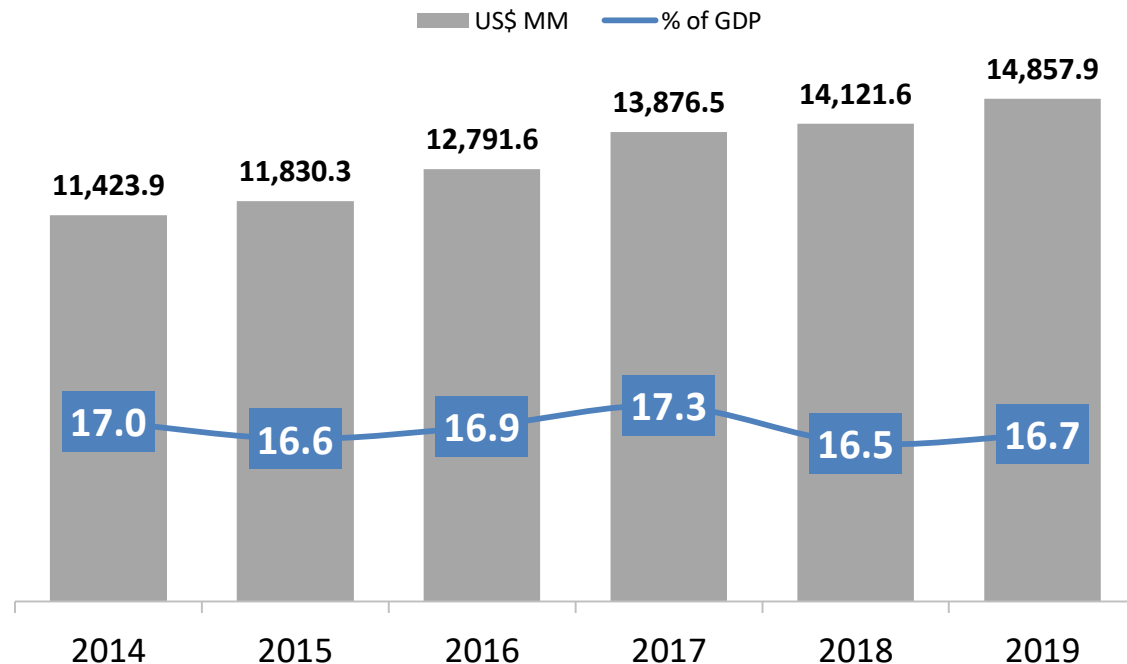




While we observe a moderation in expenditure growth...

In 2019, public expenditure amounted to **US\$14,857.9 million**, which is equivalent to **16.7% of GDP**, slightly increasing the level registered in the previous year.

Total Expenditure
(US\$ MM and % of GDP)



Expenditure Growth
(Year-on-year growth)

	2019		2019 % of GDP
	RD\$	US\$	
Expense	9.2%	5.5%	15.2%
Salary Payment	8.0%	4.4%	4.5%
Goods and Services	19.0%	15.1%	1.9%
Interest Payment	14.2%	10.1%	2.7%
Donations	10.0%	6.3%	2.7%
Subsidies	22.0%	17.9%	0.7%
Social Benefits	9.4%	5.7%	1.3%
Other Expenses	-10.6%	-13.6%	1.5%
Gross Investment in Nonfinancial Assets	7.6%	4.4%	1.5%
Expenditure	9.0%	5.4%	16.7%



Main expenditure developments during 2019

- **Wages and salaries:** In February 2019, the public sector's minimum wage was increased to RD \$10,000, and salaries less than RD \$ 30,000 were also increased.
- **Goods and services:** This figure includes the expenditure for the organization of the Primary Elections in October.
- **Social Protection:** Also, the minimum pension was increased and pensions less than RD\$ 30,000 were increased.

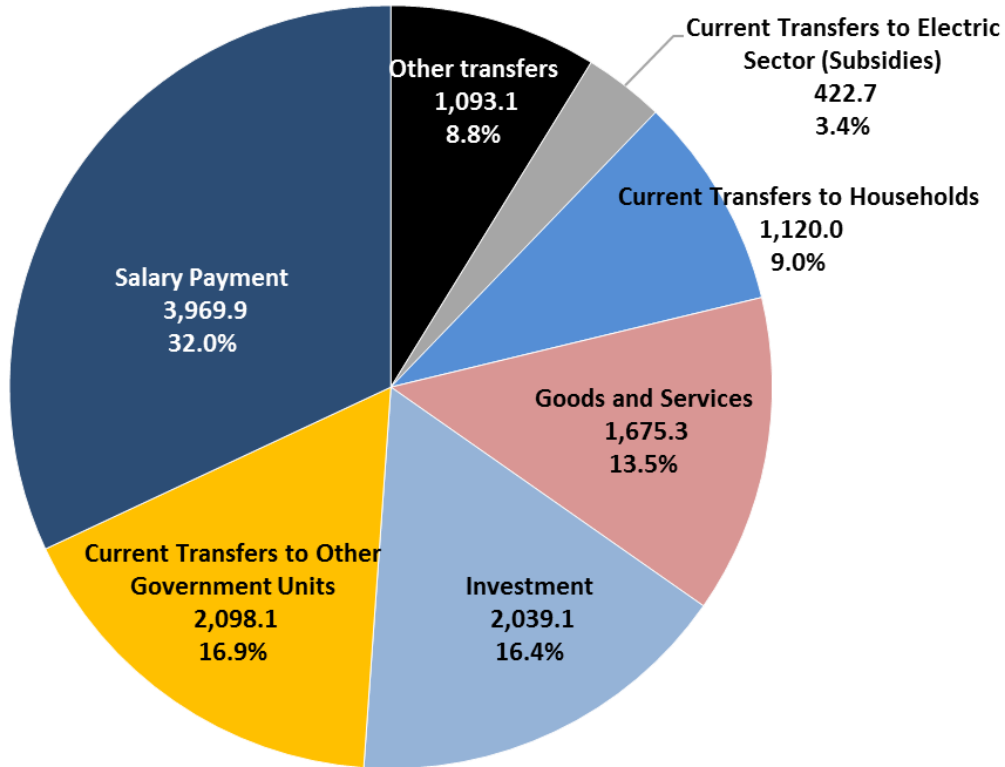


and social services represents 54% of the primary expenditure

Out of the primary expenditure (**US\$12,418.1 million**), 65.3% of it corresponds to salary payment, currents transfers to other Government units and investment. On the other hand, social services continue to be the focus of the current administration expenditure.

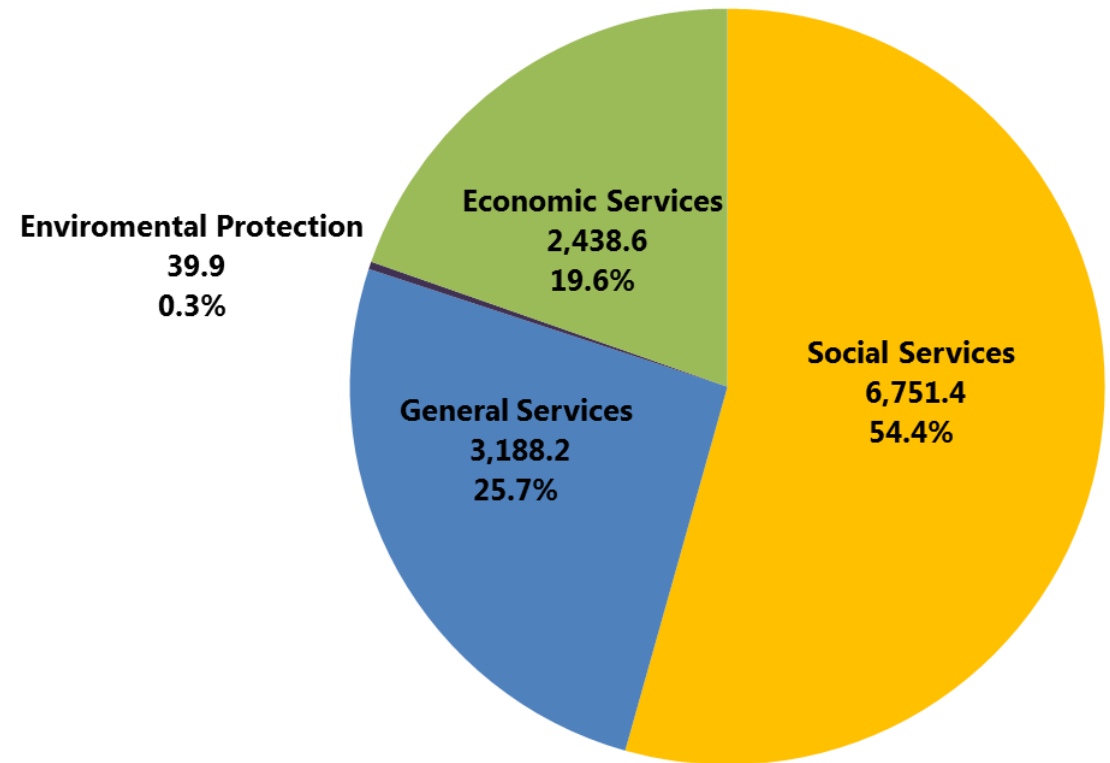
Public Expenditure Economic Composition

(In millions of US\$ and % of total)



Public Expenditure Functional Composition

(In millions of US\$ and % of total)

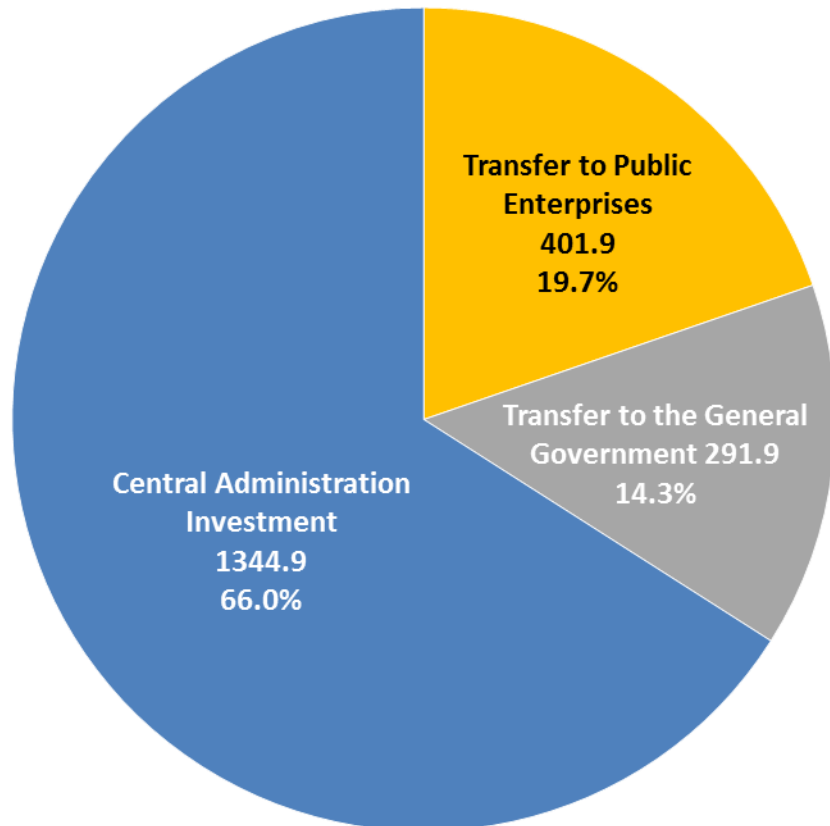




Investment is mainly focused on road improvement, education and health

Total gross investment amounted to **US\$1,728.3 million**, equivalent to 2.3 % of GDP.

In Millions of US\$ and % of total)



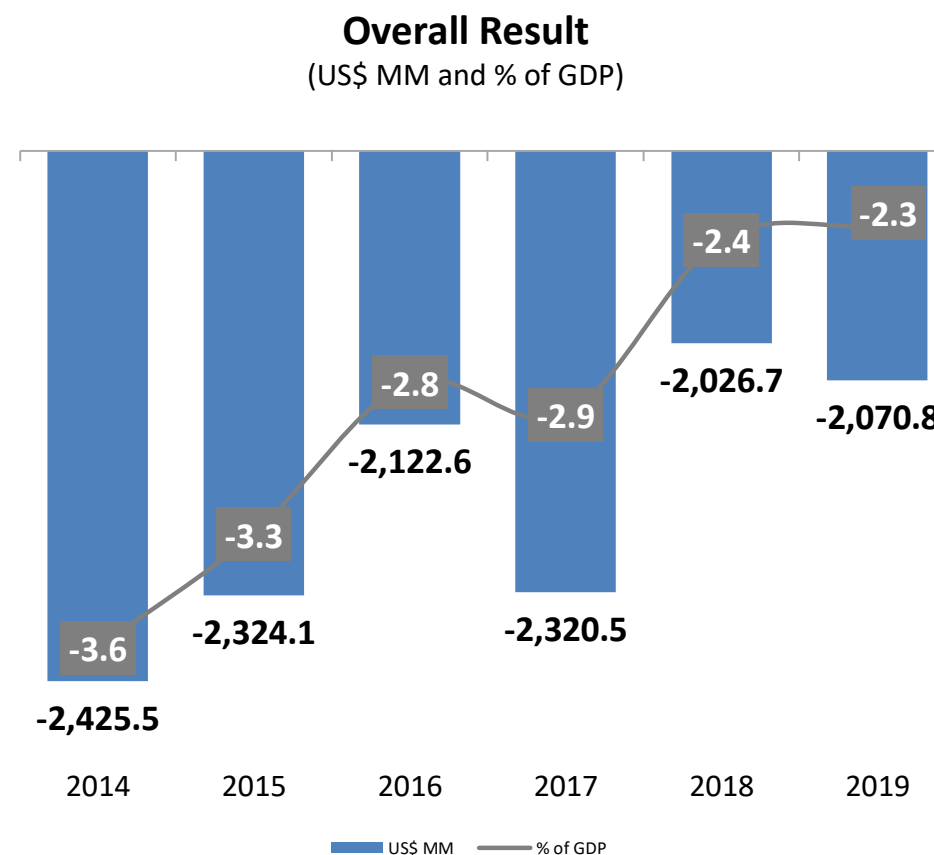
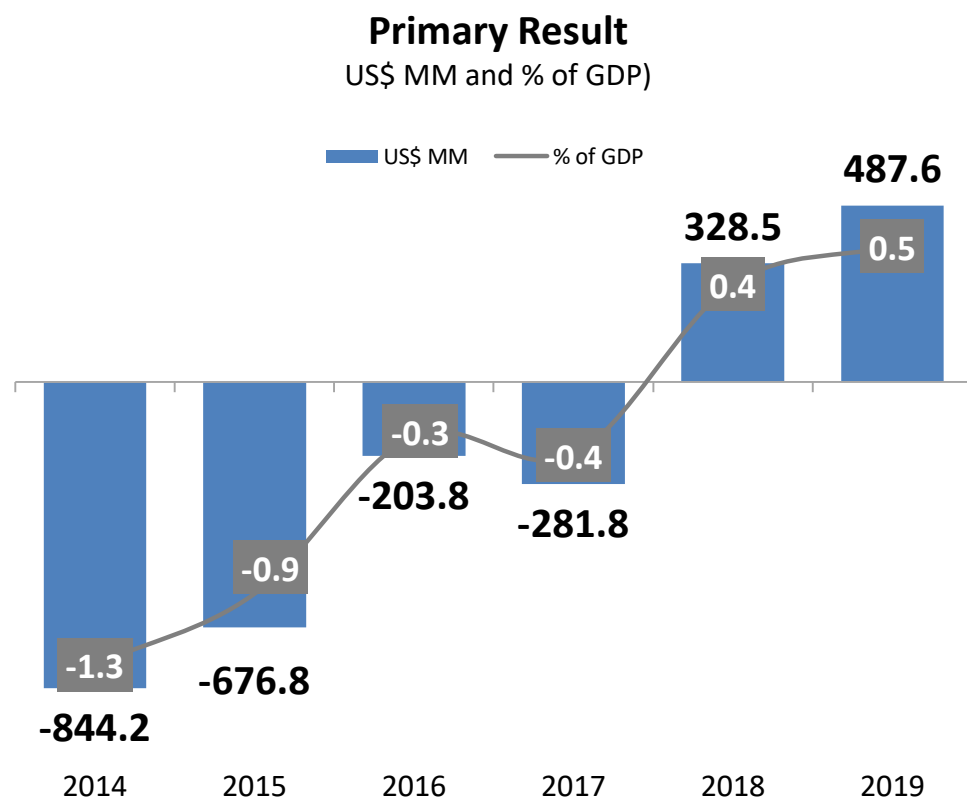
10 Main Projects January – December 2019 US\$ MM

DETAIL	US\$ MM
INFRASTRUCTURE OF ROAD IMPROVEMENT	178.7
CONSTRUCTION AND REPAIRMENT OF HOSPITALS	160.3
PLANTELES ESCOLARES*	145.9
PUNTA CATALINA	100.5
CIRCUNVALACION SANTO DOMINGO	76.0
IMPROVEMENT OF ELECTRICAL DISTRIBUTION NETWORKS	66.0
HUMANIZATION OF THE PENITENTIARY SYSTEM	60.0
MONTE GRANDE	47.6
TOURISTIC INFRASTRUCTURE	37.6
RECOVERY OF THE VEGETABLE COVER IN RIVER BASINS	29.6
TOTAL	902.2



And the primary balance of the NFPS exhibits a surplus for the second year in a row

In 2019, NFPS accounts registered a **primary** of **US\$487.6 million**, equivalent to **0.5% of GDP**.

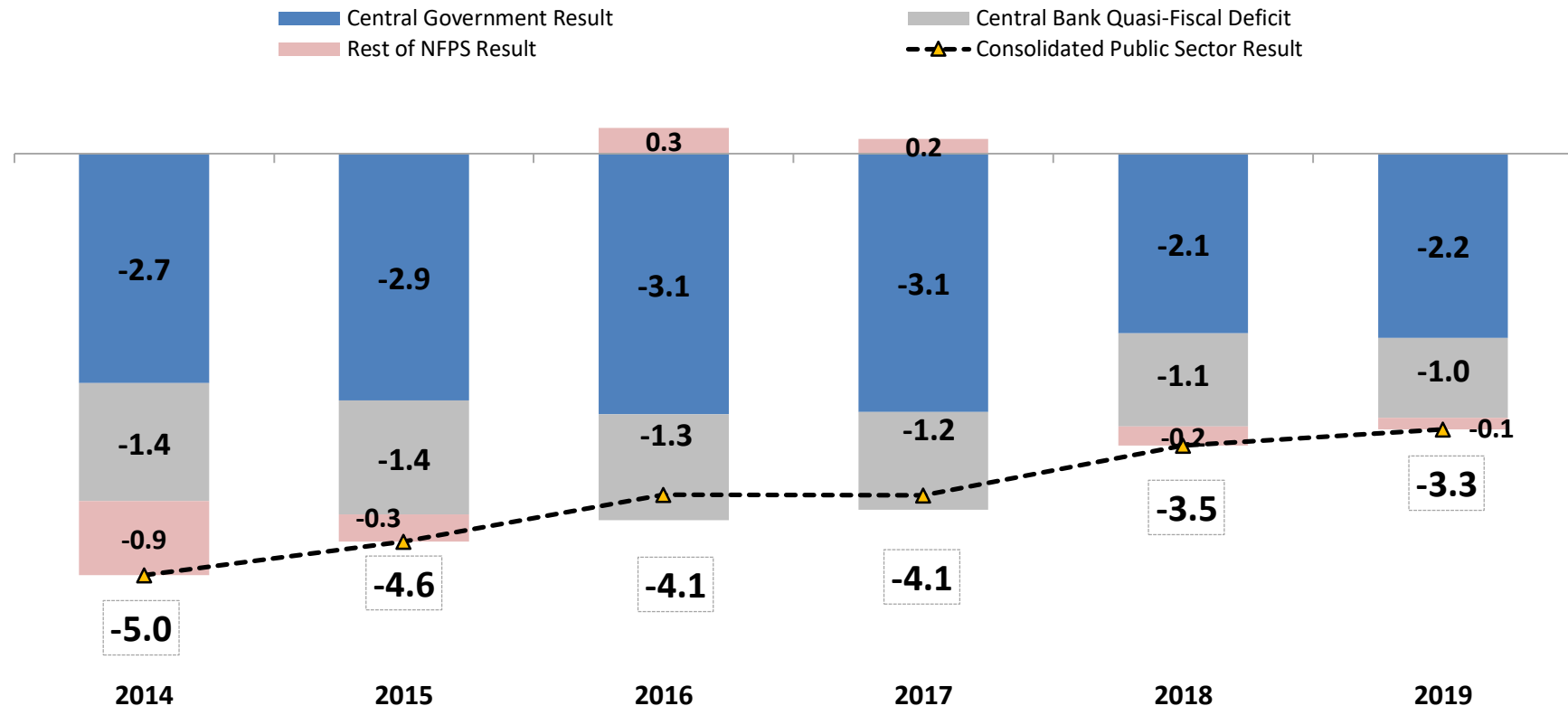




Consolidated Public Sector Deficit is lower than previous years

After adding the Central Bank Quasi-Fiscal deficit, the Consolidated Public Sector deficit amounts to **US\$2,919.7 million, or 3.3% of GDP.**

Consolidated Public Sector Result (% of GDP)





In 2019, we continued addressing the structural issues of the public finances:

Electric sector

- Liability management operations carried out at the end of 2019 have reduced the debt stock of the electricity sector.
- These operations allowed to reduce the deficit of the electricity sector in 2020 by more than 250 million dollars due to the financial expenses avoided.
- Also, the public electric companies now have to submit their budget to the Ministry of Finance. This was envisioned by a new decree no. 207-19, and will guarantee enhanced transparency and supervision.
- Punta Catalina was finalized in February. The first unit is operating at its full capacity, and will significantly reduce transfers to the electricity sector and lower overall energy prices.
- The operational efficiency of electricity distribution will reduce the technical losses of the sector.



In 2019, we continued addressing the structural issues of the public finances:

Central Bank Recapitalization

- The Ministry of Finance and the Central Bank signed a Memorandum of Understanding that contains the elements of Inter-institutional coordination for the new Recapitalization Law.
- This MoU includes aspects about the placement of securities of both institutions. In particular, this will contribute to a greater organization of the local public debt curve, by establishing differentiated terms for both issuers of securities.
- The proposal agreed between the Central Bank and the Ministry of Finance will be sent to the Monetary Board during 2020.



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Medium-Term Fiscal Strategy

The fiscal strategy is oriented **to guarantee medium-term debt levels consistent with the payment capacity of the Government:**

1. The strategy regarding fiscal revenue contemplates an **increment in collections derived from administrative measures implemented by the tax administration.**
2. The strategy regarding public expenditure involves **limits directed to the primary current expenditure growth**
3. A public debt and financing management based on maintaining a balance debt portfolio, reducing the fundamental risks in terms of reduction of the percentage of debt in foreign currency, subject to variable interest rates and improving the debt maturity structure.



NFPS Statement of Operations 2019-2020

- In line with the strategy, the budget for 2020 contains a **global result for the non-financial public sector of 2.5% of GDP.**
- Capital expenditure is increased to allow the development of new projects in the area of education, health, sanitation and water and public transportation.

Non-Financial Public Sector Statement of Operations 2019 - 2020

(Millions US\$ | % GDP)

	Millions US\$		% GDP _{2/}	
	2019	2020 _{1/}	2019	2020
Central Government				
Total Revenue	12,789.3	14,018.9	14.4	15.3
Total Expenditure	14,857.9	16,292.5	16.7	17.7
Expenses	13,513.0	14,587.6	15.2	15.9
Government Consumption	5,645.2	5,872.7	6.3	6.4
Subsidies	609.5	648.0	0.7	0.7
Grants	2,403.8	2,628.1	2.7	2.9
Employers social contributions	1,120.0	1,163.4	1.3	1.3
Other Expenses	1,294.7	1,474.7	1.5	1.6
Gross investment in nonfinancial assets	1,344.9	1,705.0	1.5	1.9
Capital Expenditure	2,039.1	2,573.0	2.3	2.8
Primary Expenditure	12,418.1	13,491.9	14.0	14.7
Primary Balance	489.7	527.1	0.6	0.6
Net lending (+)/Net borrowing (-)	(1,950.0)	(2,273.6)	(2.2)	(2.5)
Rest of Non-Financial Public Sector				
Net lending (+)/Net borrowing (-)	(120.8)	-	(0.1)	-
Non-Financial Public Sector				
Net lending (+)/Net borrowing (-)	(2,070.8)	(2,273.6)	(2.3)	(2.5)

Notes:

1/ Draft Bill of the proposed 2020's State's General Budget

2/ Preliminary estimations

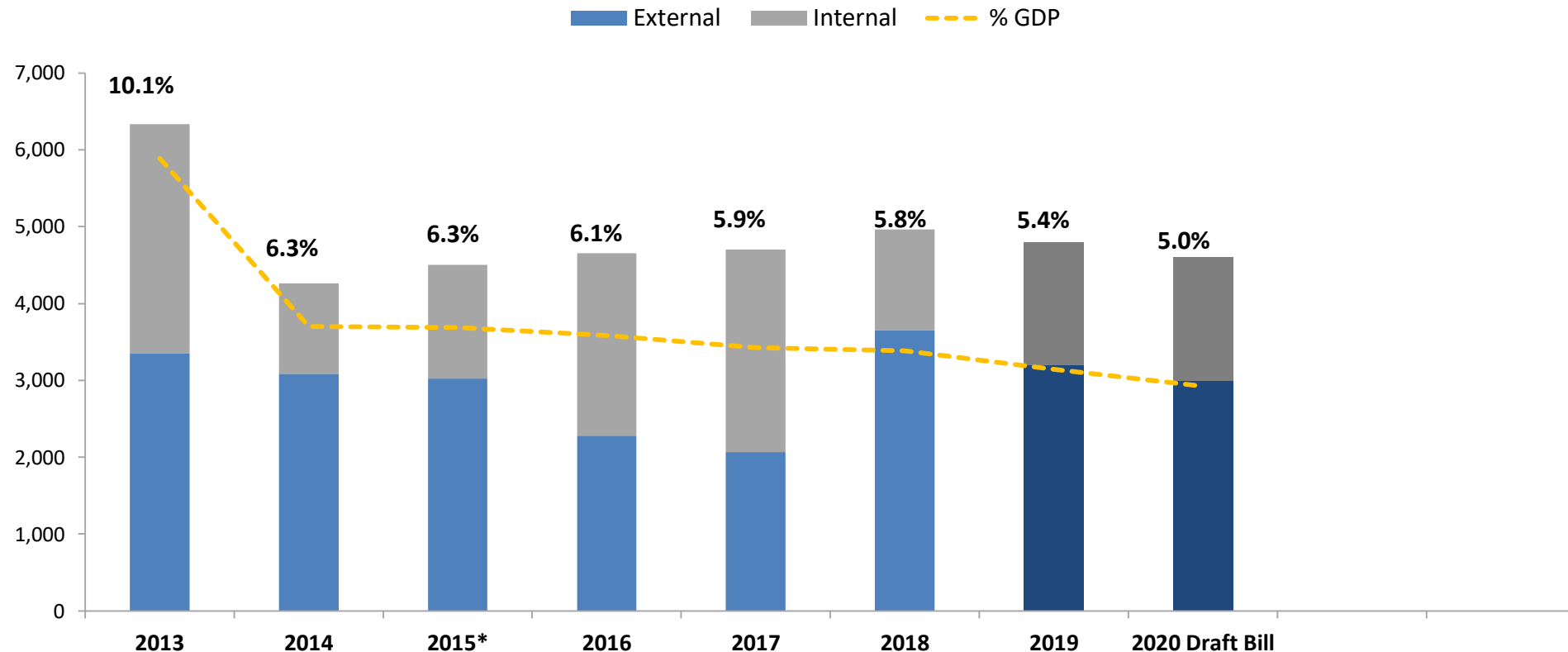
Figures are presented using the IMF's Government Finance Statistics Manual 2014.



Gross Financing Requirement NFPS

(2013-2020B, US\$ Millions)

The gross financing need of the NFPS is projected to maintain its downward trend.



*Financial Sources corresponding to the placement of global bonds (US\$ 1,933.1) are excluded, as they were used for the discount payment of the debt with Petrocaribe through the liability management operation carried out on January 27, 2015.

Source: Public Debt Office, Ministry of Finance.



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III. COVID-19: Government Emergency Economic Plan



Government Emergency Economic Plan

- The Commission for Economic and Employment Affairs, made up under presidential decree 132-20, and coordinated by the Minister of Finance, has outlined a plan with specific interventions and programs to support families and enterprises in the face of the current global health crisis caused by the COVID-19 pandemic.
- These measures are aimed at supporting the most vulnerable groups in society, and guaranteeing the proper functioning of the economy.



Government Emergency Economic Plan: Expenditure measures

To safeguard lower-income informal workers and families in vulnerable conditions:

- With the creation of the “**Stay at Home**” program, the **Solidarity card will reach 1.5 million households and will give RD\$ 5,000 a month** to each one of them, from April 1 to May 31.

To protect the jobs and the companies that generates them:

- With the creation of the “**Employee Solidarity Assistance Fund (FASE)**” **up to RD\$8,500 will be covered from the salary of formal employees** who have been suspended in the economic sectors in which the temporary cessation of operations was ordered.

Adding both programs, the government is ensuring the income of more than 5.2 million Dominicans, almost half of the population.



Government Emergency Economic Plan: Expenditure measures

To meet the nutritional needs of the most vulnerable families:

- The Social Plan of the Presidency will serve 3 daily servings of food to 315,000 families each week.
- The School Feeding Program remains active. Each week 1.3 million food rations will be delivered.
- 22,000 basic food kits will be distributed to the families of children who attend to government nurseries.
- Economic Dining Rooms will serve 100,000 servings of cooked food everyday.



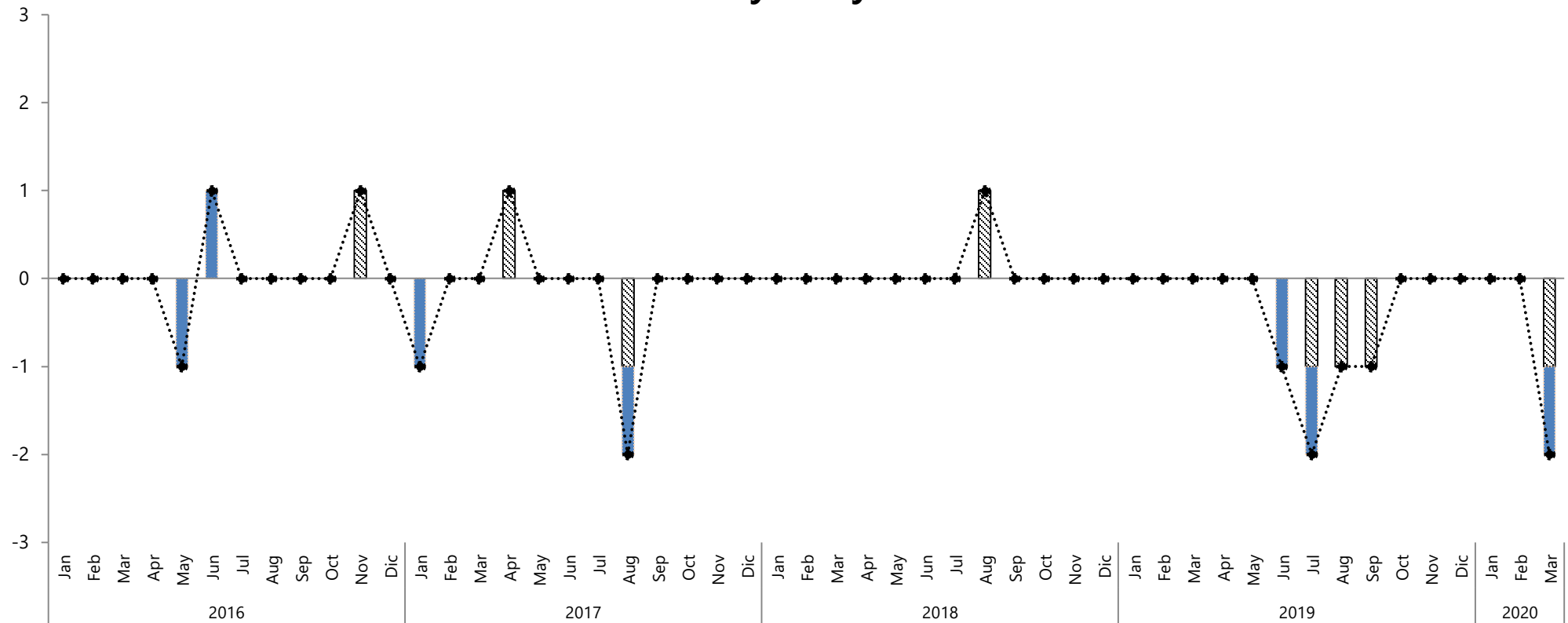
Government Emergency Economic Plan: Monetary Policy

Monetary Policy Stance

Contraction



Expansion



Reserve Requirement

RPM

Monetary Policy Stance



Government Emergency Economic Plan: Monetary Policy

Reduction of interest rates in the financial market:

- **BCRD decided to reduce its monetary policy interest rate by 100 basis points, from 4.50% to 3.50% per year.** The rate corridor of BCRD short-term liquidity management scheme was revised as well.

Provision of liquidity to banks, both in national and foreign currency:

- Relaxation of the requirements for legal reserve requirements in national and foreign currency.
- The Repos window is enabled to channel RD\$ 30 billion up to 90 days.
- Injection of up to US \$ 300 million, through 90-day repo operations.



Government Emergency Economic Plan: Monetary Policy

Transitory flexibility of prudential regulations in the financial sector

- Freeze credit ratings and provisions at the level outstanding at the time of approval of this measure.
- In credit restructurings, the debtor's risk rating will be kept unchanged, without generating additional provisions
- It is not considered as past due loans those disbursed against credit lines for a period of sixty days and
- Extension to ninety days the term granted to the debtor for updating the guarantees corresponding to the ratings.



Government Emergency Economic Plan: Monetary Policy

Transitory relaxation of commercial bank's cost policy regarding consumer financing via credit cards:

- Banks will eliminate the minimum monthly payment on the balance of the credit card debt.
- Likewise, the late fee will be eliminated.
- The Reserve Bank lowered the consumer interest rate with credit cards to 1% per month.



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