MINISTRY OF ECONOMY, PLANNING AND DEVELPMENT

Macro-Economic Framework 2019-2023

Partial Results 2019

According to the preliminary figures of the Central Bank, the Dominican economy registered a gross domestic product (GDP) growth in real terms of 5.7% during the first quarter of the year (compared to the same period of 2018), 0.9 percentage points (pp) less than in the fourth quarter of the previous year, while the annual growth of the Monthly Economic Activity Index (IMAE) in March was 5.3% (original series) and 5.5% (cycle trend). All economic sectors - except communications - showed a positive variation, highlighting the growth in the added value in construction (12.5%), energy and water (11.7%), financial services (9.5%), mining and quarrying (6.3 %), transport and storage (6.2%) and public administration and defense (5.7%).

With this result, during the first quarter the Dominican Republic placed itself above the growth of Latin American economies, followed by Panama (3.4%) as the only two economies in the region with preliminary figures above 3%. In about half a hundred economies with GDP information until the first quarter at the end of May at the World Bank, only 6 reach a year-over-year growth of 5.5% or more, highlighting China (6.4%), along with other Asian economies (India, Philippines, Vietnam and Mongolia). In addition, around two thirds of the economies with information had a lower year-over-year growth in the first quarter of 2019 compared to that observed in the fourth quarter of 2018.

In relation to the labor market, according to the figures of the National Continuous Labor Force Survey (ENCFT), in the first quarter of 2019 the average monthly monetary income (nominal) of the income earners increased by 9.9% over the same period in 2018 -a rate lower by 3 pp to the value in said quarter of the previous year-, which translates to an 8.6% increase in real terms. In the reference quarter, the branches of economic activity with the highest year-over-year growth in average labor remuneration were Financial Intermediation (52.2%), Transportation (12.5%) and Hotels, Bars and Restaurants (12.0%). The unemployment rate rose to 5.8%, 0.5 pp higher when compared to the January-March 2018 rate (5.3%), due to a significant increase in participation, while the level of employed persons reached in the first quarter about 4.65 million workers, equivalent to the generation of an additional 153.6 thousand employed (net) when compared with the same quarter of the previous year. The informality rate for the first quarter was reduced by 2.3 pp when compared with the same quarter of the previous year, reaching 55.6%. This occurred because 5 out of every 6 additional employees mentioned above (or 3 out of 5 compared to the October-December 2018 quarter) were originated in the formal sector, which led to the private employee category reaching 1.79 million people and that workers with formal employment exceed 2 million (2,066,478). Additionally, both the participation rate and the occupancy rate experienced increases of 2.0 and 1.5 pp, respectively, when compared to the same period 2018. In both cases, the rates registered are the highest published since 2014, which suggests significant improvements in the field of labor market during recent years. The decrease in the inactivity rate since the third quarter of 2018 from 36.4% to 35.1% today may be associated with the return of active job search by the discouraged.

Regarding the general evolution of prices, the accumulated inflation of the first four months of the year stood at 1.39%, while year-over-year inflation reached 1.61%, below the lower value of the Central Bank target range (4 ± 1%). Core inflation, which excludes from the general CPI some agricultural goods with volatile prices, alcoholic beverages, tobacco, fuels and some managed services (such as energy and transportation), was 2.07% year-over-year in April, 0.66 pp less than a year ago and 53 months in a row below the lower limit of the target range. Regarding the types of goods, the inter-annual variation of the tradable goods was 0.77%, while for the non-tradable was 0.27%. When analyzing the behavior broken down by groups of goods and services, 74% of year-over-year inflation was explained by the food and non-alcoholic food, transportation, education and various goods and services groups. While if you see the variation accumulated in the four months of January-April, 76% corresponds to food and beverages along with transportation. On the cost side, the annual growth of the producer price index (PPI) of services has slowed from 3.2% in December 2018 to 1.2% in April 2019. Lower inflation levels have been reflected in market expectations: for inflation at the end of 2019, it fell from 4.54% in July 2018 to 3.25% in March 2019; while the 12-month and 24-month interannual variations fell 1.17 pp and 0.97 pp, respectively, when comparing the March-April 2019 averages with July-August 2018.

On the other hand, the nominal sale exchange rate of reference had an average of RD$50.56 per dollar in the month of May, registering an interannual depreciation of 2.4% with respect to the level reached in May 2018, which is less than the value observed on that date (4.1%). In the first 5 months of the year, the annualized depreciation rate was 1.7%, lower than the rate recorded in the same period of the previous year (6.1%).

Regarding the external sector of the economy, preliminary results published by the BCRD indicate that in the January-March 2019 quarter, the current account reached a positive balance of US$241.7 million (0.3% of GDP), lower than the average surplus reached in the previous 5 years (after 2013) during the first quarter (US$313.5 million on average). This result is mainly based on an increase of US$118.4 million (4.6%) in exports, reaching US$2,705.0 million, and an increase of US$157 million (10.5%) in secondary income, which combined offset the increase in Total imports in US$191.8 million (4.2%).

The growth in exports is mainly explained by the 5.5% expansion (US$63.3 million) in national exports, among which the increase in agricultural exports stands out in 21.4%, especially bananas

(31.2%) and avocados (26.0 %). Also noteworthy is the increase in exports of free zones in 3.9% (US$55.1 million), with industrial exports being the fastest growing (4.1%), particularly those in the areas of electrical products (11.0%) and tobacco manufacturing (13.2 %).

Regarding total imports (which increased 4.2%), in addition to the increase in the oil bill by US$64.4 million (7.4%) to reach US$932.6 million in the quarter, the increase in the amount of consumer goods (excluding fuels) at US$130.4 million equivalent to 10.3% (4.1% in the same quarter of 2018), stands out, in particular food products, with a growth of 17.2%.

According to preliminary figures based on customs records (DGA) in the period January-April 2019, exports increased by US$113.8 million (3.8%) compared to the same period of the previous year, while imports did so by US$147.3 million (2.3%), being the components of greatest variations exports of national origin (3.9%) and expenditures for consumer goods without fuels (7.1%).

In the first four months of 2019, 2.46 million non-resident passengers entered the country by air, which implies an increase of 112.6 thousand (4.8%) additional visitors when compared with the same period of the previous year. As for foreign tourists, the increase was 76,672 people (3.7%), with North America being the most representative region in terms of the origin of passengers arriving in the country (64.5% of the total) and particularly the United States with a participation of around 40% of the passengers who visited the country during January-April. Increases in the arrival of Americans compensated for decreases in Europeans (especially English, Germans and French) and South Americans (mainly Argentines and Venezuelans).

Total family remittances for the month of April 2019 amounted US$567.6 million, the highest amount in April in the last 10 years, with an increase of US$29.7 million (5.5%) when compared to the same month of the previous year, and a decrease of US$107.4 million (-15.9%) compared to the maximum value reached the previous month (US$675.0 million). In the first four months of 2019, remittances reached an amount of US$2,280.3 million, an increase of US$191.5 million (9.2%) compared to January-April 2018. The good performance of the employment and growth indicators of the USA continue to translate into positive results in the number of remittances received, considering that 78.6% of them come from this country.

On the other hand, in the first quarter of 2019, foreign direct investment (FDI) reached an amount, according to preliminary figures, of US$803.7 million, an increase of US$176.3 million (28.1%) compared to the same quarter of the previous year. It is noted that the amount reached is 1.5 times greater than the average amount recorded for the first quarter in the past 9 years (US$543.2 million). This increase, together with those of remittances and exports, allow a steady annual growth of the inflow of foreign exchange to the economy at 8%.

Net international reserves (RIN) as of May 31, 2019 amounted US$6,980.5 million, for a net change of US$69.3 million compared to the end of May 2018. This level of reserves is equivalent to 4.5 months of total imports of goods (excluding free zones) and services, thus maintaining the improvement in this indicator achieved in recent years.

Regarding the fiscal sector, the preliminary result of the Central Government accounts corresponding to the first quarter of 2019 presents a deficit of RD$16,962.9 million (-0.4% of GDP); while the primary balance closed with a surplus equivalent to 0.4% of the estimated GDP for the year (RD$18,736.4 million). Contrary to the behavior observed in the same period of 2018, where a surplus of RD$4,159.4 million was recorded, the Non-Financial Public Sector (SPNF) closed with a fiscal balance deficit of RD$14,506.7 million (0.3% of GDP). For its part, the Central Bank deficit totaled RD$12,652.1 million, which places the Consolidated Public Sector deficit of the January-March 2019 period at an amount equivalent to 0.6% of GDP.

Total revenues of the Central Government totaled RD$155,390.1 million in the first quarter of 2019, representing a growth of 5.7% (RD $ 8,438.2 million) compared to the same period of the previous year. Excluding the extraordinary revenues reported by the DGII for January 2018 (RD$10,536 million), the relative increase would reach 13.9%. This increase in tax revenue is mostly explained by the increase in the collection of value added taxes (ITBIS) by 11.4% as well as revenues from income taxes to individuals by 12.6%. Increases in tax collections accounted for around 86.0% of the increase in fiscal revenues for the period.

In January-March 2019, in preliminary figures, the expenditures of the Central Government totaled RD$172,353.0 million, an annual growth of 14.0% (RD$21,115.6 million). Similarly, primary spending expanded by 12.2% (RD$14,840.0 million) compared to the first quarter of 2018, which is due to the increase in capital expenditures (public investment) and current transfers.

According to preliminary data from DIGEPRES (Budget Office), central budgetary government revenues grew by 10.1% in the January-April period of this year, compared to the first quarter of 2018; while total spending increased by 13.0%. These results of the fiscal accounts represent, respectively, 32.4% and 29.2% of the total budgeted for the year 2019.

Regarding Public Debt, the emerging market bond index (EMBI) corresponding to Dominican securities averaged 3.23% in the first five months of 2019 and 3.26% in May, similar to May 2018 (3.19%). Despite the increases in the interest rate made between 2016 and 2018 by the US Federal Reserve, the EMBI, which measures the yield differential with respect to US Treasury bonds, has remained at levels below comparable economies (globally 377 basis points (bps) in the period January-May, 405 bps the regional indicator), which reflects a marked improvement in the international perception of our country risk. As of June 7, the Dominican EMBI is 325 bps, a decrease of 12.4% (46 bps) compared to the end of 2018 and 14.5% (55 bps) less than the global indicator. This favorable relative position allowed the country to recently issue an international bond denominated in Dominican pesos, as in February 2018, with a greater amount (from 40 to 50.2 billion pesos) and a longer term (from 5 to 7 years). In addition, a 30-year dollar bond was placed with the lowest coupon interest rate issued for this term (6.49%), slightly lower than that obtained almost 16 months ago. Both titles received a combined demand of almost US$5.4 billion, more than double what was placed, again a sample of the confidence in the macro perspectives of the country by international investors. With these placements, together with the resources of the bonds issued in the domestic market, the Government as covered more than the 80% of gross financing needs stipulated and contemplated in laws 61-18 and 64-18.

With respect to the monetary sector, as of May 31, 2019, interest rates in the financial market experienced interannual increases, 79 bps for the weighted average lending interest rate (12.4%) and 68 bps for the weighted average deposit rate (6.2%) After the increase in the MPR in July 2018, the Central Bank has maintained this rate at a level of 5.50%, and since then, the weighted average lending interest rate has shown a somewhat volatile behavior, ending in 2018 around 123 bps below the value of July and from the end of December until May 31, 2019 it has remained practically at the same level. On the contrary, the weighted average deposit interest rate increased from July 2018 by 192 bps to December and since has been reduced by 122 bps. This behavior since the beginning of the year has translated into a higher intermediation margin (6.56% in May).

On the other hand, the money supply (M1) increased by 8.2% year-over-year as of May 31 (8.4 pp lower than the growth rate in May 2018). During 2019 there's been a normalization in liquidity growth, after maintaining a marked downward trend since July 2018, associated in part with the cessation of the effects of the monetary stimulus and the increase in the MPR at the end of that month. Since the implementation of this monetary policy measure, the annual growth rate of loans to the private sector in national currency has maintained a decreasing trend, closing the month of May 2019 at 9.4% (8.9% for production activities), after reaching 14%, 13.5% and 10.8% in April, July and December of last year, respectively. In view of this situation, on May 30th, the Monetary Board authorized the release of legal reserve resources for an amount of up to 29.2 billion pesos, for financial intermediation entities to channel them in loans to the private sector, so the dynamization of credit in favorable conditions for companies and households, could help maintain the private internal demand (investment and consumption), growth dynamics.

Current External Scenario

United States´s real GDP registered an expansion of 3.1% (annualized) in the first quarter of the year (3.2% year-over-year), lower by 0.1 pp than the value of it´s initial estimate, but higher than the rate observed in the previous quarter (2.2%). This growth represents a recovery, after the slowdown reflected since the third quarter of the previous year, and is mainly attributed to the contributions of investment in private inventories, in personal consumption expenditure and in exports; which were partially offset by a decrease in residential investment. However, according to *Consensus Economics*[1], as of November 2018, real GDP growth expectations for 2019 have been reduced and stabilized at around 2.5% on average. For the month of April, Consensus Economics projects a real GDP growth for 2019 of 2.4%, backed mainly by the growth of private investment (4.1%) and corporate profits (4.0%), with unemployment that remains at low levels (3.5 %). For the year 2020, Consensus projects an expansion of 2.0%, and 1.8% for 2021-2022. In terms of inflation, the forecasts remained around the average level of the last 3 months (1.9%) for this year and 2.2% in 2020.

In the April issue of the WEO[2], the IMF projects US real GDP growth for 2019 at 2.3% (0.2% less than projected in January), a downward revision that reflects the impact of the government´s shutdown and lower fiscal expenditure, and by 2020 the projection increased by 0.1 pp to be located at 1.9% On the other hand, the World Bank (WB), according to the World Economic Outlook (GEP)[3] report of June 2019, maintained its US growth forecasts for 2019 and 2020 at 2.5% and 1.7% respectively. While the Organization for Economic Cooperation and Development (OECD) in its *Economic Outlook*[4] report adjusted its projections upwards by 0.2 pp and 0.1 pp to 2.8% in 2019 and 2.3% in 2020.

Regarding the process of monetary normalization in the US, after increasing the monetary policy rate by 25 basis points (being in a range between 2.25% and 2.50%) in the last meeting of the year 2018 (December 19), the FED has decided to maintain the range set for the federal funds rate in the 3 meetings of 2019.

[1] This section principal source for forecast is Consensus Economics, unless otherwise indicated. Consensus Economics. It is an international organization, founded in 1989, which is a world leader in business perspective, for surveying more than 700 economists about their forecasts and projections of fundamental macroeconomic variables such as growth, inflation, interest rates and exchange rates, for more than one hundred countries. This company makes a monthly compilation called Consensus Forecasts™, which is a widely known and used reference.

[2] Acronym of World Economic Outlook.

[3] Report consulted on June 3rd 2019. Available at https://www.worldbank.org/en/publication/global-economic-prospects

[4] Information available at http://www.oecd.org/economy/outlook/, consulted on May 22th, 2019.

According to the FOMC[5], this decision is consistent with the sustained expansion in economic activity, a strengthened labor market and a medium-term target inflation of 2%. More generally, members were patient about decisions regarding short-term adjustments in monetary policy stance, considering that it will depend on the evolution and perspective reflected in the global economic and financial data.

Regarding the euro zone, during the first quarter of 2019, the real gross domestic product grew by 0.4% compared to the previous quarter, higher than the one recorded in the fourth quarter of 2018 (0.2%). The annual growth rate remains at 1.2%, the same that was recorded in the fourth quarter of 2018. These data are encouraging amid fears about a possible slowdown that arose after recording not so favorable data in the last two quarters of the 2018, mainly attributed to the deterioration of the German car industry and the yellow vests crisis in France. From the point of view of spending, the components that contributed most to the growth with respect to the previous quarter were private consumption (+0.3 pp) and gross fixed capital formation (+0.2 pp) with a growth of 0.5% and 1.1%, respectively. When disaggregated by the large economies of the euro zone, Spain's growth was 0.7% (0.6%, Q4 2018), Germany with 0.4% (0.0%, Q4 2018), France 0.3% (0.4%, Q4 2018) and Italy coming out of the recession with 0.1%, after suffering setbacks of -0.1% in the previous two quarters. For 2019, Consensus Economics forecasts a growth for the euro zone of 1.1% (lower by 0.1 pp to the March forecast and 0.2 pp to the EU data) and 1.3% by 2020. Disaggregated by country, the forecasts of 2019 and 2020 are: German economy growth of 0.8% and 1.5%, the French economy would expand by 1.3% for both years, Spain would increase by 2.2% and 1.9%, while Italy would have growth rates of 0.0% and 0.5 %. On the other hand, growth forecasts for the eurozone in this year and next year by other institutions are slightly more optimistic: IMF (1.3% and 1.5%), European Commission (1.2% and 1.5%) and OECD (1.2% and 1.4%).

As for the unemployment rate in the eurozone, it is expected to continue its reduction process, going down from 10% in 2016 to 8.2% in 2018 and then to 7.7% and 7.5% for 2019 and 2020, respectively. On the other hand, inflation for 2019 and 2020 would be 1.3% and 1.4%, slightly lower than in the rest of the EU (1.5% 2019 and 1.7% 2020). Additionally, around monetary policy decisions, the European Central Bank (ECB) at its most recent meeting (June 6) continues to leave the interest rates applicable to the main financing operations and those applicable to the marginal facility of credit and deposit facility, at 0.00%, 0.25% and -0.40%, respectively; In addition, the Governing Council of the ECB expects that these interest rates “remain at the current levels at least until the first half of 2020 and in any case for the necessary time to ensure the continuation of the sustained convergence of inflation towards lower levels , although close to 2% in the medium term”. This explicitly states that the term of an accommodative monetary policy would be extended, trying to maintain adequate conditions of liquidity and fluidity for markets financing.

[5] Acronym for Federal Open Market Committee; Last Meeting Minute

The perception of the global economic scenario presents the start of a short-term uncertainty cycle, especially since the events that have taken place in the main economies since the second half of 2018. According to Consensus Economics, the world economy would grow by 2.7% (0.1 pp less than projected in March) in 2019 and 2.8% in 2020. In its April projections, the IMF projects a decrease in the growth rate this year for 70% of the world economy (more than a hundred countries), leaving the rate of Global GDP growth at 3.3% for 2019 (0.3 pp less than in 2018 and 0.2 pp less than the January 2019 forecast) and would rise to 3.6% growth by 2020. These projections are based on the possibility that negative conditions of the end of last year remain during the first half or even throughout 2019, as is the case of commercial tensions due to the increases in tariffs introduced in the United States and China during 2018, macroeconomic difficulties in Argentina and Turkey, the tightening of credit policies in China or international financial conditions less lax, in general, in parallel to the normalization of monetary policy in larger advanced economies, among other factors.

For its part, the OECD in its projections for May 2019, points out that the effects of commercial tensions and political uncertainty are having an impact, so the projection for 2019 is reduced by 0.1 pp and stands at 3.2% and then up in 2020 to 3.4%. As the OECD report notes, growth has weakened in most advanced economies, especially in those where trade and manufacturing play an important role, such as Germany and Japan, and GDP growth is expected to be lower to 1% in both countries this year. In contrast, the United States has maintained its momentum thanks to considerable fiscal support, although growth is considered as dwindling. Finally, the WB cut its projections of global growth by 0.3 pp to 2.6% (2.9% in January), due to a greater than expected decrease in trade and investment so far this year. At least until 2021 the rates of 3% -3.1% observed in 2017-2018 would not be achieved, with persistent risks that are geared towards the economic slowdown, such as the possibility of greater commercial tensions. This situation will affect many nations: around 52% of the economies with forecasts (134) will suffer in 2019 a slowdown in their real GDP growth rate.

Regarding the growth of Latin America, according to Consensus Economics (April reports), it is estimated that the region as a whole (excluding Venezuela) will register a smaller than expected expansion around 1.7% during 2019, then reach 2.5% in 2020; while inflation (average) for consumers would be reduced from 9.5% in 2018 to 7.4% in 2019 and 6% in 2020, although if Argentina is also excluded, the regional aggregate indicator is maintained at 3.6%. The estimates according to Consensus Economics of the expected real GDP growth rates for 2019 and 2020, as well as the changes when compared with the estimates reported for the previous month, in the largest economies in the region are: Argentina (-1.2%↓ y 2.3%↓), Brazil (1.9%↓ y 2.6%), Chile (3.2%↓ y 3.3%↓), Colombia (3.0% y 3.2%), Ecuador (0.7%↓ y 1.1%↓), Guatemala (3.2%↑ y 2.9%), Mexico (1.6% y 1.8%↑), Panama (5.1% y 4.5%), Paraguay (3.8% y 3.7%↓), Peru (3.7%↓ y 3.8%), Dominican Republic (5.4% y 4.8%↑) and finally Venezuela, which for the fourth consecutive year would have a double-digit decrease in 2019 (-20.2%↓) and an additional contraction of 4.6%↑ in

2020. Regarding the annual inflation rate (December), 2019 is expected to close with a rate of 7.9% ↑ and 2020 with 6.3% ↑, considering the increases in the projections for 2019 of Argentina (36.6%), Brazil (4.0%), Honduras (4.4%) and Nicaragua (5.6%).

In its April issue of the World Economic Outlook (WEO) report, the International Monetary Fund (IMF) reduced its projections for regional growth for 2019 and 2020 by 0.6 pp and 0.1 pp (1.4% and 2.4%), respectively. These results are mainly due to the slowdown in domestic demand in Argentina and an even greater collapse of the Venezuelan economy, whose forecasts e for the latter indicate a growth rate for 2019 of -25%, 7 pp worse than the rate of 2018 and another contraction for 2020 (-10%). For its part, the Inter-American Development Bank (IDB), in its macroeconomic report "Building opportunities to grow in a challenging world" indicates that it forecasts a growth rate of 2.4% per year for the period 2019-2021, but in the case that a series of adverse shocks materializes (less growth in China, the US and other turbulences) the growth rate could be reduced 1.7 pp to 0.7%; Consequently, IDB recommends that, in order to overcome global economic difficulties, infrastructure investments are essential, as they improve productivity. On the other hand, the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), in the most recent update of its projections for Latin America and the Caribbean (April 2019), reduced the 2019 growth outlook for the region as a whole to 1.3%, compared with the estimated 1.7% in December 2018. According to this agency, the main risks facing the region in 2019 "remain a lower global growth rate, the low dynamism of world trade and the financial conditions the emerging economies are facing[6]". In more detail, the economic activity in South America would close with a growth of 1.1% in 2019, with Bolivia, Paraguay, Peru, Chile and Colombia growing between 3.3% and 4.3%, Brazil 1.8%, in addition to the aforementioned setbacks. While Central America would grow by 3.1%, with slight downward revisions in most countries, but led by the Dominican Republic (5.5%) and Panama (5.4%). Additionally, Mexico would expand to 1.7%, so that the entire Central American region, both continental and insular (Greater and Lesser Antilles, including the English and Dutch-speaking Caribbean economies) would show a 2.0% growth for this year 2019.

Regarding international oil prices, the US Energy Information Administration (EIA) of USA estimates (in its May report) an average price of West Texas Intermediate (WTI) oil, for this year and the next, of US$62.8 and US$63.0 per barrel, these values being US$6.7 and US$5.0 higher than the March forecasts. In the April WEO update, the IMF forecasts a 13.4% drop in the basket price for this year and an additional 0.2% reduction in 2020; the WB has a similar dynamic of fall in both years, although more limited because it maintains a level between US$65 and US$67 until 2025. However, in the case of the relevant reference (WTI) the IMF forecasts a decrease of US$10.2 in the 2019 average compared to the one in 2018, but a rebound of US$0.9 (1.7%) in 2020, to an average price

[6] Press release available https://www.cepal.org/en/pressreleases/eclac-lowers-its-economic-growth-estimates-latin-america-and-caribbean-gdp-will , consulted June 10th, 2019.

of US$55.5 per barrel. Until May, the average price for the WTI was US$58, lower than the average of US$65 in the same period of 2018. For the years 2019-2020, the median of Bloomberg analysts and future contracts would indicate a price range between US$55 and US$64. Recent perspectives revolve around conflicting supply and demand factors: an environment of inventory decline, given the growing risk of global oil supply, which could push up prices, while a slowdown in the pace of International economic growth, which could slow fuel consumption and lead to downward price trends.

Regarding the price of gold, also under the criterion of combining different sources of information, it is established that the price would remain in a range of 1,300-1,375 dollars per troy ounce, continuing the gradual upward trend in the price of this precious metal which has been going on since 2014. Although significant increases are not expected in the medium term, short-term fluctuations remain associated with movements in the relative value of the US dollar or changes in global economic and financial conditions. As for nickel, the expected prices for the next five years are between 1% and 4% lower than what was established in March, although 21.4% -35.6% higher than those observed in 2017.

Starting in this review, it has been decided to incorporate to exogenous assumptions the price of mineral coal, due to the importance that this product will have with the entry into operation of the plants of the Punta Catalina Thermoelectric Power Plant (CTPC). Internationally, the standard reference price index is API2, which includes industry transactions for imported coal in northwestern Europe (ARA), and it is internationally accepted and used in negotiations. This price reached a peak of US$95 per metric ton (MT) in October 2018, although since then it has dropped significantly (to less than US$55) and is expected to remain below of US$65 / MT in the next 12 months (until mid-2020). What future prices and analysts reflect is that for the next 4 years the price will range between US$63 and US$75 per ton.

Macroeconomic Perspectives 2019-2023

According to the external and domestic context outlook, the Dominican economy is expected to register a real expansion of the gross domestic product around 5.25% this year, with positive bias, while for the following years the economic growth would converge towards the potential rate of 5%. It is important to note that the projections made take into account the information available until the end of May 2019, both in the international and local environment. According to the Central Bank´s macroeconomic expectations survey, between January and April the agents increased their growth expectation for 2019 by 0.14 pp, up to 5.66% (5.5% being the most common in the sample).

As for the variation in the price level, for 2019, annual inflation is forecast to reach 3.5% by the end of the year, with an average inflation around 3% for the full year. While forecasts indicate that, in the monetary policy horizon, specifically during 2020, inflation would converge towards its natural level of 4%. As of 2021, an evolution of consumer price growth is assumed equal to the central value of the inflation target range established by the authorities. With respect to the GDP deflator, considering the projected dynamics of the relative prices of its different components, particularly the private consumption (directly related to the average CPI), it is expected that its variations in the present and next year will be 3% and 3.5%, respectively, and during subsequent years the relative change in the product deflator would be in line with average inflation.

Given the expected price evolution and the projected real growth of the economy, nominal GDP growth is estimated at 8.4% for 2019, 8.67% for 2020 and 9.2% as of 2021, lower rates than the 2018 figure (11.4 %) although higher than those observed between 2015 and 2017 (7.9% on average during that period).

The discussion regarding the external scenario is subject to or conditioned by the degree of adjustment between current expectations and effective developments in the short term, both in the direction of the process of normalization of monetary policy in the US. (that the Fed maintains the pause in federal funds interest rate increases, or even possible cuts), as well as the evolution of international oil prices, which will continue to be analyzed and monitored by the technical team that develops this macroeconomic framework.

In the particular case of the price of the WTI, the committee considered maintaining the previously set values, in the understanding that possible supply and demand movements of could mean that during this year the prices will remain between US$55 and US$60 per barrel, although with some volatility due to the uncertainty prevailing in this market. In fact, the monthly average price in May was US$61, lower than the US$70 in May 2018. However, in the last week of the month it decreased to US$53 per barrel, a 18% (US$8) more than its value at the end of 2018, but with an interannual variation of -20% (US$14). As previously indicated, this outlook of high volatility is configured with global balances of both supply and demand, globally, and given that our country is a small and open hydrocarbon importing economy, it is important to be aware to price fluctuations due to the various effects and impacts they produce.

Given the above, in the central scenario for 2019, we do not expect substantial for the average exchange rate (RD$52.18) and the exchange rate as of December (RD$53.10), given the adequate flow of foreign exchange to the economy. In the medium term, from 2020 the exchange rate variation is expected to return at a rate equal to general inflation and therefore, for the years 2020, 2021, 2022 and 2023 the average exchange rate estimates are maintained in RD$54.26, RD$56.43, RD$58.69 and RD$61.04 per dollar, respectively.

MINISTRY OF ECONOMY, PLANNING AND DEVELOPMENT
MACROECONOMIC FRAMEWORK 2019 - 2023
June 5th, 2019

	2017	2018	2019	2020	2021	2022	2023
Real GDP (Index 2007=100)	161.0	172.2	181.3	190.3	199.9	209.8	220.3
Real GDP Growth	4.6	7.0	5.25	5.00	5.00	5.00	5.00
Nominal GDP (Millions RD$)	3,613,147.1	4,025,092.4	4,363,502.0	4,742,035.8	5,178,303.1	5,654,707.0	6,174,940.1
Nominal GDP Growth (in RD$)	8.39	11.40	8.41	8.67	9.20	9.20	9.20
Nominal GDP (Millions USD$)	76,038.1	81,282.6	83,629.8	87,389.1	91,758.6	96,346.5	101,163.9
Nominal GDP Growth (in USD$)	5.0	6.9	2.9	4.5	5.0	5.0	5.0
Inflation Target (±1)	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Inflation (average)	3.28	3.56	3.00	4.00	4.00	4.00	4.00
Inflation (december)	4.20	1.17	3.50	4.00	4.00	4.00	4.00
GDP Deflator Growth	3.67	4.16	3.00	3.50	4.00	4.00	4.00
Exchange Rate (average)	47.57	49.54	52.18	54.26	56.43	58.69	61.04
Variation Rate (%)	3.2	4.2	5.3	4.0	4.0	4.0	4.0
Exchange Rate (december)	48.25	50.39	53.10	55.22	57.43	59.73	62.11
Variation Rate (%)	3.3	4.4	5.4	4.0	4.0	4.0	4.0

ASSUMPTIONS:

	2017	2018	2019	2020	2021	2022	2023
WTI Oil (US$ per barrel)	50.8	65.0	60.5	60.2	59.3	57.8	56.7
Gold (US$/Oz)	1,257.6	1,269.0	1,312.3	1,349.1	1,351.2	1,351.7	1,362.5
Nickel (US$/TM)	10,409.6	13,118.5	12,630.4	13,104.7	13,459.4	14,154.1	14,054.2
Coal (US$/TM)			81.4	80.5	80.0	80.6	81.9
U.S. Real GDP Growth (%)	2.2	2.9	2.4	2.0	1.8	1.8	1.9
U.S. Inflation (average)	2.1	2.4	1.9	2.2	2.3	2.2	2.2
U.S. Inflation (december)	2.1	1.9	2.0	2.1	2.2	2.2	2.2

Notes:
1. Projections of the Ministry of Economy, Planning and Development, agreed with the Central Bank and the Ministry of Finance.
2. From 2021 onwards, inflation is projected according to the goal set by the Central Bank.
3. The inflation target is related to the inflation target set by the Central Bank Monetary Board; On the other hand, inflation projections correspond to the expected results, given the evolution of domestic prices and international oil prices.
4. Sources for Exogenous Assumptions: Consensus Forecasts, IMF, World Bank, EIA and Bloomberg.