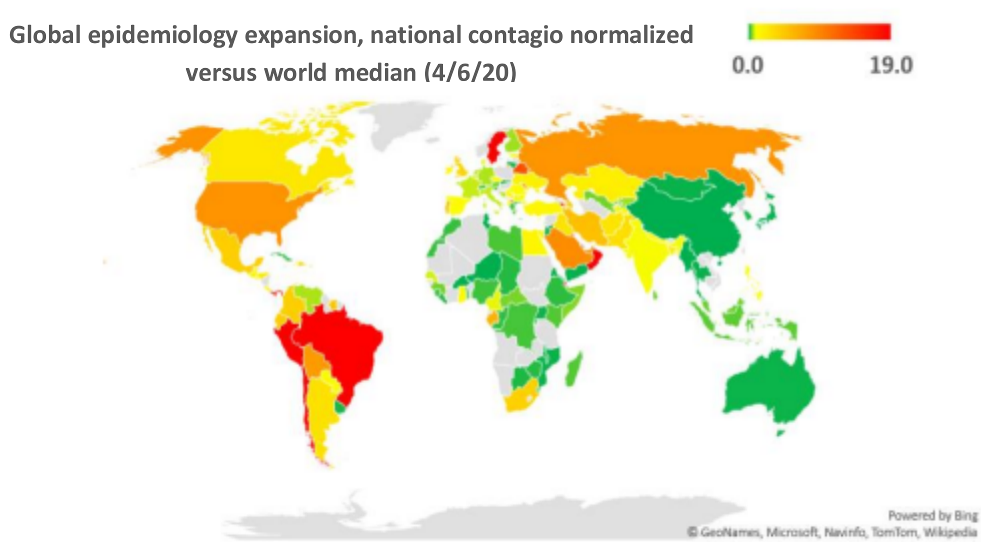
MINISTRY OF ECONOMY, PLANNING AND DEVELPMENT

Macro-Economic Framework 2020-2024

Since the outbreak of the global pandemic of COVID-19 at the beginning of the year, the world has changed drastically, especially from the month of March. The health crisis has been an atypical economic shock and of considerable magnitude in many countries, at least in times of peace. Current volatility and uncertainty levels in place, projections and forecasts should be done carefully, due to the changing and complex situation, while everything adjusts to the new normal.

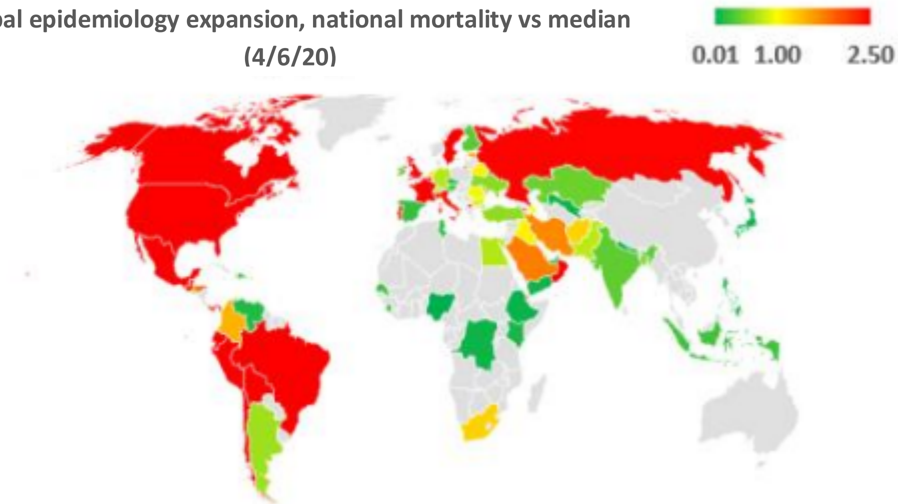
Current external context

In many nations, to preserve people's health and implement sanitary management of the new disease, authorities have taken various measures, from restrictions to ensure intelligent social distancing, such as partial / total quarantines. These measures have had mixed results in terms of fighting or containing the virus – measuring the degrees / values observed with indicators of contagion / spread and observable lethality –, in function of the initial conditions of the health systems and the collective efforts made by the respective companies. Globally, the epicenter of the pandemic has been moving from Asia / Oceania to Europe and then to America (with little information on Africa).



Source: Calculations based on http://ourworldindata.org/ (collaborative effort that compiled various sources of data, such as WHO and JHU). Accessed on 8/6/20, cut to 7/6/20 (209 geographic areas; grays are places with no data available). In the first graph, the effective sample of revealed information is 135 countries, while which in the second drops to 73. The values of cases / deaths are normalized by 1 million inhabitants, the values being medians taken as world reference 6.9 and 0.5, respectively.

Global epidemiology expansion, national mortality vs median (4/6/20)



The 73 countries with data on both indicators shown in the figures reach 5 billion people (64.5% of the estimated world population and half of the rest corresponds to China) and 67.9% of global GDP (in Parity Purchasing Power, International Monetary Fund) of 2019 (94.6% if we take the indicator of reported cases). For the particular case of the Dominican Republic, until June 4th the registered contagion and the mortality that occurred are in the positions 100/135 and 12/73 respectively.

The unpredictable and disruptive situation in recent months has caused drastic changes in projections or forecasts of all international organizations and analytics firms on the pace of real economic growth by 2020 globally (including that the US Federal Reserve decided to postpone the regular publication of its economic projections). Thus, the International Monetary Fund (IMF, WEO) adjusted from 3.3% in January to -3% in April; the World Bank decreased from 2.8% in January to -5.2% in June; the Organization for Economic Cooperation and Development (OECD) cut from 2.4% in March to -6% in June 1[1].

From the *Global Economic Monitor* (GEM)[2] database of the World Bank (WB), up to early June, 55 countries (out of 90 that this source has) already had information recorded from local national accounts for the January-March quarter. In those statistics the inter-annual rate ranges from -10.3% to 5% (median -0.4%), but in terms of annualized rates (i.e. comparing Jan-Mar 2020 vs. Oct-Dec 2019 using seasonally-adjusted series) the range is much broader, since it ranges from 12.7% (Chile; statistical effect due to protests) down to -34.6% (China), with a median of -6.7%. The drop in production is very generalized, with 85% of the economies exhibiting decrease in the first period of

[1] Available at: http://www.oecd.org/perspectivas-economicas/junio-2020/
[2] Available at: https://datacatalog.worldbank.org/dataset/global-economic-monitor

the current year, with exceptions such as the cases of Ireland, India, Mozambique, Turkey, Serbia and Bulgaria. Another relevant indicator that appears in the same source is industrial production: from 63 countries with available data, two thirds showed negative year-on-year growth when comparing the first quarter of 2020 with the same period in 2019, with a median variation of the international distribution -2%.

In the case of the United States (USA), the annualized real growth rate in the first quarter of 2020 decreased by -5%: the projected variation for the full year would be the smallest since 1946. Meanwhile, unemployment went from a 3.5% average between September 2019 and February 2020 to 14% in April-May, its highest level since 1940: only in April were 16-21 million jobs lost.

Regarding oil, the average price of the West Texas Intermediate (WTI) in the January-2020 period was US$36.2 per barrel, significantly lower than the average in the same period in 2019 (US$57.9) due to the effects of supply and demand in the commodity markets derived from the COVID-19 situation. According to the report of the USA's Energy Information Agency (EIA), the average spot price between March 16 and May 15 was US$19.76, including the lows for the entire series (since 1986) recorded on April 20 and 21. During May, the average price reached US$28.6 per barrel and at the close of June 5 it was US$39.49, although current forecasts, based on future contracts, indicate the range US$40-45 as a benchmark for the following year and a half (until full 2021).

Information and developments at the domestic level

According to preliminary figures from the Central Bank (BCRD), the Dominican economy registered a GDP growth of zero (0%) in real terms during the first quarter of the year, compared to the same period in 2019. The economic sectors that showed positive interannual variation were Health, Financial Services, Energy and Water, Communications, Real Estate, Agriculture, among others. While those who experienced contractions were Hotels, Bars and Restaurants, Mining, Construction and Transportation, which felt the initial effects at the local level of COVID-19 (supply and demand shocks that are reinforced and intensify) in the second half of March. The Monthly Economic Activity Indicator (IMAE) of the month of March presents a year-on-year drop of 9.4%, the largest since 2007 for this series.

Regarding the general evolution of prices, it has also been conditioned significantly due to the domestic effects of the pandemic. Accumulated inflation of the first four months of the year stood at -1.14% (the lowest value in a first four-month period since 1992), while year-on-year inflation until April fell to 1.07%, after three consecutive months with negative variation in the Consumer Price Index (CPI). In fact, deflation in this recent period is the most pronounced in 11 years (-4.37% in November 2008- January 2009), after the abrupt collapse of international oil prices at that time, a result of the international financial crisis. 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 transport), stood at 2.75% year-on-year in April, 0.5% higher than in December 2019, although 65 months in a row below the lower limit of target range (4 ± 1%). Regarding the types of goods, the year-on-year change in tradables was 0.1%, while that of non-tradables was 2.1%, although the January-April quarter Sub-index corresponding to tradable products has had a significant decrease of -2.34%, in the middle of the complex international panorama.

On the other hand, the reference nominal sale exchange rate in May 2020 had an average of RD$55.39 per dollar, registering a year-on-year depreciation of 9.5% with respect to the level reached in May 2019. Only in the first 5 months of the year, the accumulated depreciation has been 7.7%. However, in a sample of almost a hundred nations with currencies at the international level (without fixed exchange rate regimes), the Dominican peso is close of the median in terms of depreciation rate observed during January-May and with a lower decrease in relative value than the average of the currencies in the Latin American region.

Regarding the external sector of the economy, the preliminary results published by the BCRD indicate that in the January-March 2020 quarter, the current account reached a deficit of US$41.8 million, compared to surpluses shown in the previous 6 years. This change is mainly explained by the deterioration of the services balance (which includes income from tourism), which had a year-on-year drop of US$607.6 million, which could not be offset by the increase in the balance of goods since the trade deficit was US$1,861.1 million, with a reduction of US$274.4 compared to the first quarter of 2019. On the latter, the value of total exports of goods experienced a year-on-year growth of 2.6%, with the amounts reached in gold (US$424.7 million) in the national and medical teams in the industrial line (US $ 426.7 million) of free zones (ZZ.FF.) standing out. While, on the side of imports of goods, their value had an interannual reduction of 4.3%, essentially due to the lower oil bill (variation of -30%, US$281 million less than in January-March 2019), in so much so that non-oil imports increased 1.9% (4.9% the ZZ.FF.).

In the first four months of 2020, 1.36 million non-resident passengers entered the country via by air, which implies a 43.4% drop in visitors when compared to the same period of the previous year (January-April 2019). This is partly explained by the complete closure of international borders since March, like in the vast majority of countries worldwide, in order to avoid the entrance of people who live outside the national territory and could potentially be affected by the virus.

Total family remittances in the first quarter was US $ 1,703.2 million, with a decrease relative of 2.3%, particularly for the month of March, in which 21.8% fell (US $ 145.36 million less than in March

2019). This observed drop is the worst recorded in the last decade and directly related to what happens in the US and Spain, where 87% of the amounts received come from.

On the other hand, in the first quarter of 2020 foreign direct investment (FDI) reached an amount, according to preliminary figures, of US$758.3 million, a reduction of US$177.7 million (-19%). The Net International Reserves (RIN) as of May 31st, 2020 amounted to US$8008.9 million, with an interannual variation of US$1,028.4 million (14.7%). These elements, together with the real exchange rate, are fundamental variables to determine the capacity of our economy to be able to resiliently absorb, manage and solve the present situation.

Regarding the fiscal sector, the preliminary result of the Central Government accounts corresponding to the first quarter of 2020 presents a deficit of RD$33,099.9 million (-0.7% of the GDP estimated in the 2020 budget); while the primary balance closed with a deficit amounting to RD$6,547.0 million (0.13% of GDP). Similar to the observed behavior in the same period of 2019, where there was a deficit of RD$14,611.7 million (0.3% of GDP), the Non-Financial Public Sector (SPNF) closed with a deficit fiscal balance of RD$35,276.8 million (0.7% of GDP). For its part, the deficit of the Central Bank amounted to RD$15,311.8 million (0.3% of GDP), which places the deficit of the Consolidated Public Sector for the period January-March 2020 in an amount equivalent to 1.1% of GDP.

Total Central Government revenue amounted to RD$160,085.0 million in the first 2020 quarter, which represents a growth of 3.1% (RD$4,767.0 million) compared to the same period of the previous year, the lowest in the last six years. This low growth of collections is explained by the facilities granted by the DGII for COVID-19, which include the deferment of payment of contributions. Among the tributes that presented the best collections, were taxes on income, profits and capital gains in 10.3%, especially those payable by companies and other companies whose year-on-year growth it was 20.2% (RD$3,676.3 million).

In January-March 2020 the expenditures of the Central Government amounted to RD$205,885.2 million, a 14.4% year-on-year growth (RD$25,869.6 million), the third highest in the same period of the last six years. Similarly, primary spending expanded by 15.5% (RD$22,315.9 million) compared to the first quarter of 2019, which is due to the increase in capital expenditures (public investment) and purchases of goods and services in 58.6% and 44.6%, respectively.

Fiscal figures as of April include a greater impact of COVID-19, both on the part of income as in expenses. According to preliminary data from DIGEPRES, in the January-April period this year the central government budget revenue decreased by 6.7% (RD$14,026.5 million), compared to the first four months of 2019, despite the fact that in 2020 they received 11,500 million from IDOPPRIL; while total spending increased by 12.2% (RD$27,249.6 millions). These results of the fiscal accounts represent, respectively, 27.9% and 29.1% of the total budgeted for the year 2020.

Regarding the monetary sector, different relevant indicators (representing different transmission channels) have reacted as expected to the various measures taken since March by the authorities (such as drops in the corridor around the TPM reference rate, reductions in reserve requirements in pesos and dollars) to facilitate liquidity in the economy in the face of the difficult situation resulting from the pandemic. The enormous magnitude of the stimulus (without historical precedents in the country) and the accommodative position of monetary policy have led to positive initial impacts without generating evident inflationary pressures in the short term.

During the month of May, the interest rates (weighted averages) of the banking sector were active 10.7% for lending and 5.1% for deposits, with decreases compared to March values of 2.6 and 0.9 percentage points, respectively. At the end of the month, the monetary aggregates exhibited year-on-year growth rates of orders between 12.1% (M2) and 26.8% (M1). Meanwhile, credit to the private sector continues to flow adequately, accelerating its expansion to a year-on-year rate of 14.6%. The economic sectors that have received the most channeling of funds are commerce, industry (including mining), hospitality and services real estate / business.

Macroeconomic perspectives

According to the above, both with regard to the external context and at the domestic level, the Dominican economy is expected to register a real expansion of GDP in a -1% to 1% range for the current year, with a rapid recovery during the second semester, due to the effects and impacts of the monetary and fiscal measures implemented, as well as the reopening of economic activities, converging next year towards its potential pace of 5%. It is important to highlight that the projections made take into account the economic information available until mid-May 2020, both in the international environment as well as local.

Regarding the variation in the price level, year-on-year inflation is forecasted to reach 2.5% by the end of 2020, with which the average inflation would be around 2% for the full year. Meanwhile, forecasts indicate that, on the monetary policy horizon, inflation would converge towards its natural level of 4%. From 2022, an evolution of the growth in consumer prices equal to the central value of the established inflation target range by the national authorities. Regarding the GDP deflator, considering the dynamics projected relative prices of its various components, particularly private consumption (directly related to the average and underlying CPI), its variation is expected at 1.5% for the coming year, respectively, and later during the years changes in the product deflator would be in line with general inflation. Given the expected evolution of prices and the projected real growth of the economy, the Nominal GDP growth is estimated at 1.5% for the current year.

Regarding the exchange rate, an average level of 57.05 pesos per dollar is expected for 2020, which represents a depreciation of 11.2%, higher than in previous years, due to the effects on the external sector caused by the pandemic. Obviously, the evolution for the rest of the year would be conditioned by the balance between the positive effects of the dynamics of the terms of exchange (gold, oil) versus adjustments in quantities: exports of goods (national and ZZ.FF.) and services (including tourist activities that will be reactivated from July, lifting of travel restrictions globally), which will be reduced by lower external demand, and non-oil imports that would decrease due to lower private internal demand. In addition, currency flows associated with remittances by absent Dominicans and multinational financial flows will become more relevant (for example, FDI).

As mentioned in the introduction, since the Dominican Republic is an open and small economy, the complex international scenario, with high volatility, extreme fluctuations and high uncertainty, which has been generated due to COVID-19, significantly conditions developments expected in the short term, particularly regarding the adequate flow of foreign currency to our economy. Therefore, the responsible authorities and the technical teams that collaborate jointly in the elaboration of this macroeconomic framework, will continue with the follow-up and permanent monitoring that they have been carrying out since the third week of March, in order to take the corresponding actions that ensure the preservation of macroeconomic stability that the country has enjoyed in recent years.

The following table presents the official projections agreed institutionally for this year and the next four years:

MINISTRY OF ECONOMY, PLANNING AND DEVELOPMENT
MACROECONOMIC FRAMEWORK 2010 – 2024
Revised by May 25th 2020

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real GDP (Index 2007 = 100)	153.1	160.2	171.4	180.1	180.1	189.1	198.6	208.5	218.9
Real GDP growth	6.7	4.7	7.00	5.10	-	5.00	5.00	5.00	5.00
Nominal GDP (RD$ Millions)	3,487,292.5	3,802,655.8	4,235,846.8	4,562,235.1	4,630,668.6	5,056,690.1	5,521,905.6	6,029,921.0	6,584,673.7
Nominal GDP growth	8.80	9.00	11.40	7.70	1.50	9.20	9.20	9.20	9.20
Nominal GDP (US$ Millions)	75,759.4	80,024.5	85,536.9	88,536.1	81,168.6	85,227.0	89,488.4	93,962.8	98,660.9
Nominal GDP growth in US$	6.3	5.6	6.9	3.9	(8.7)	5.0	5.0	5.0	5.0
Inflation target (± 1)	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
Inflation (average)	1.61	3.28	3.56	1.81	2.00	4.00	4.00	4.00	4.00
Inflation (December)	1.70	4.20	1.17	3.66	2.50	4.00	4.00	4.00	4.00
GDP deflator growth	1.99	4.18	4.12	2.53	1.50	4.00	4.00	4.00	4.00
Exchange rate (average)	46.09	47.57	49.54	51.33	57.05	59.33	61.71	64.17	66.74
Rate of change (%)	2.3	3.2	4.2	3.6	11.2	4.0	4.0	4.0	4.0

SUPUESTOS :

WTI Oil (US $ per barrel)	43.2	50.9	64.8	57.0	30.1	43.3	43.7	43.5	43.9
Gold (US $ / Oz)	1,249.5	158.8	1,269.0	1,939.1	1,600.0	1,590.0	1,567.7	1,545.7	1,503.0
Nickel (US$/TM)	9,595.2	10,409.6	13,118.5	13,943.3	11,500.0	12,000.0	12,553.0	13,131.4	14,370.0
API2 mineral coal (US $ / MT)	59.3	84.3	92.0	61.5	50.8	55.9	63.0	63.0	63.0
US real GDP growth (%)	1.6	2.4	2.9	2.3	-5.4	4.3	3.0	2.2	2.0
US inflation (average)	1.3	2.1	2.4	1.8	0.7	1.8	2.2	2.2	2.1
US inflation (December)	2.1	2.1	1.9	2.3	0.8	2.4	2.3	2.3	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 with the achievement of the goal established by the Central Bank.
3. The inflation target is related to the inflation objective established by the Central Bank's Monetary Board; On the other hand, inflation projections correspond to the expected results, given the evolution of domestic prices, international oil prices and other determinants.
4. . Exogenous assumed sources: Consensus ForecastsTM, IMF, World Bank, EIA and Bloomberg©.