GOBIERNO DE LA
REPÚBLICA DOMINICANA

MINISTRY OF ECONOMY, PLANNING AND DEVELOPMENT

Macroeconomic Framework 2020-2024

Since the outbreak of the COVID-19 pandemic earlier this year, the global context has changed drastically, especially since the month of March. The health crisis has been an atypical economic and social shock, of considerable magnitude for many countries and unprecedented in several decades, at least during peacetime. The preliminary results of the first semester at an international level indicate that the projections and forecasts initially made have been overlooked by the effects and impacts of this changing and complex situation, which still continues shrouded in high degrees of uncertainty on a global and local scale.

Current context / situation of the external environment

In many nations, to preserve the health of people and implement the sanitary control and management of the new disease, the authorities have adopted various measures, such as restrictions to ensure intelligent social distancing, an example of this being the partial or total quarantines. These measures have had mixed results in terms of combat or containment of the virus – measuring the values observed with indicators of contagion / spread and observable mortality/ lethality – , depending on the initial conditions of the domestic health services systems, the collective efforts made by the respective societies and actions and initiatives carried out by the international community. Regarding the evolution of the global overview, the continental epicenter of the pandemic has been moving from Asia / Oceania to Europe and then to Africa and America.

The unpredictable and disruptive situation in recent months has caused drastic changes in the projections and forecasts of all the international organizations and entities, prestigious private economic analysis firms and universities on the global and regional real economic growth for 2020. For example, the International Monetary Fund (IMF) made drastic cuts (between January and June) in its forecasts of real growth rates of gross domestic product (GDP) for the world, the United States and Latin America, in the order of 8.2, 10 and 11 percentage points, respectively.

The Organization for Economic Cooperation and Development (OECD) in its June Economic Outlook report provides estimates based on two possible alternative scenarios. In one scenario a second massive outbreak of infections and new confinements is contemplated before the end of 2020 and another does not foresee new significant outbreaks. In any case, they show vulnerability and fragility in economic recovery processes. At a global level a significant fall of -6.0% is projected with the first outbreak (current) and an additional decrease of -1.6% with a second outbreak, meaning that it would not return to closing 2019 levels for at least 2 years. However, these decrease forecasts in activity show a wide range of variability, from -2.4% for South Korea to -14.3% in the case of Spain.

The US Federal Reserve's Open Market Committee (FOMC) showed in its economic projections for mid-June (those for March had been suspended due to the emergence and spread of the current pandemic) a 6.5% decrease in real GDP and an unemployment rate of 9.3%, with drastic variations of -8.5 and 5.8 points percentage when compared to the expected outlook in December 2019. In its last meeting of July 28-29, the Committee reaffirmed its commitment to use all its arsenal available in these challenging times, in which COVID-19 has caused tremendous human and economic damage at a world level. The members stated that the health crisis will significantly condition the recovery of economic activity and employment in the short term, and which will also mean considerable risks to the economic outlook in the medium term, so they maintain the same accommodative / expansionary (countercyclical) monetary policy stance carried out by the Fed since the month of March. Regarding the operational strategy, we will continue with close monitoring of the information in the international context and to support the adequate flow of liquidity (funds / credits) to households and businesses, existing mechanisms could be expanded in order to facilitate an orderly and efficient operation of the financial and payment systems.

Starting from the *Global Economic Monitor* (GEM)[1] database of the World Bank (WB), until the beginning of August, the fall in economic activity is quite widespread and generalized at an international level, with 79% of countries (91 in total) exhibiting a decrease in the first quarter of the current year (an annualized variation when comparing October-December 2019 with a median -6.0%), although countries such as Chile, Ireland, Ghana, Kenya, Botswana, Mozambique and Egypt showed increases of over 3%. However, preliminary figures for a set of 22 economies with figures for the second quarter (April-June) are obviously much more negative, with an annualized variation with respect to the January-March period of -34% (USA - 32.9%; Germany -34.7%), with China being the only country expanding towards a recovery from the stoppage of the first quarter (its inter-annual change in the first semester was -1.8%) and the more extreme falls corresponding to Spain (-55.8%), Mexico (-53.2%) and the Philippines (-48.2%). Of According to the June publication of the Global Economic Prospects (GEP), the WB expects growth 4.2% globally by 2021, with 63/138 (45.7%) of countries exhibiting a rapid recovery.

[1] Available at https://datacatalog.worldbank.org/dataset/global-economic-monitor

Table 1. Changes in the real GDP growth projections for 2020 at the level international

	World			USA			Latin America and The Caribbean		
	2019 Closure	Pre COVID	Post COVID	2019 Closure	Pre COVID	Post COVID	2019 Closure	Pre COVID	Post COVID
IMF	**3.4**	**3.3**	**-4.9**	**2.1**	**2.0**	**-8.0**	**1.8**	**1.6**	**-9.4**
WB	**2.5**		**-5.2**	**1.8**		**-6.1**	**1.8**		**-7.2**
OECD	**2.9**	**2.4**	**-6.0**	**2.0**	**1.9**	**-7.3**			
ECLAC							**1.3**		**-9.1**
Consensus Forecast		**2.4**	**-4.7**	**1.8**	**1.9**	**-5.2**		**1.4**	**-8.0**

Note: The time references for each moment correspond to December 2019 / January 2020, February-March 2020 and latest available value (June-August).

With regards to oil, the average West Texas Intermediate (WTI) price for the period January-July 2020 was US$37.3 per barrel, significantly lower than the same period average for 2019 (US$57.3) due to the effects of supply and demand in the derivative commodities markets of the COVID-19 situation. According to the Energy Information Agency (EIA) report, the average spot price between May 18 and August 7 was US$38.8 (range of US$31.8 – US$42.2 per barrel). In July, the average price reached US$40.7 per barrel and closed at US$42.9 on August 17th, although current forecasts, based on future contracts, indicate the range between US$40.5 – US$48 as a reference band for the next year and a half (until the end of 2021).

Information and evolution at internal / domestic level

The Dominican economy registered a cumulative real GDP growth of -8.5% during the first half of the year, compared to the same period of 2019, influenced by the significant contraction in economic activity during the month of April of -29.8% (due to containment restrictions to control COVID-19), despite the effects of the gradual reactivation of the economy in the months of May and June. According to preliminary figure reports from the Central Bank (BCRD), in the first half of the year the sectors with the highest contractions were Hotels, bars and restaurants (-43.3%), Construction (-19.5%), Mining (-15.6%), Other Services (-12.1%), Transportation and Storage (-10.8%). Meanwhile, some sectors continued the positive trend of the first quarter: Health (12.0%), Financial Services (10.9%), Real Estate Activities (4.8%), Agriculture (4.5%), Communications (2.9%), among others. The Monthly Economic Activity Index (IMAE) for the month of June presented an interannual fall of 7.1%, a recovery of 22.8 p.p. with respect to April.

Regarding the general evolution of prices, it is evident that it has also been significantly conditioned by the external and internal effects derived from the pandemic. Throughout the year, not only have the lowest values been registered in the monthly variations of prices but also the highest in 11 years (-0.82% in April and 1.88% in July), after the financial crisis of 2008-2009, when the abrupt collapse in international oil prices (between November 2008 and January 2009) and their gradual recovery towards mid-June 2009. Accumulated inflation for the first seven months of the year was at 2.32%, while interannual inflation for the month of July was 4.35%, higher by 3.36 p.p. with respect to the minimum value reached in the month of May (0.99% year-on-year), as a result of the recovery of international oil prices started in May and which is maintained to date, which are reflected in internal fuel prices and therefore in the increase in the group index for Transportation (4.98% year-on-year) which together with the year-on-year increases in Food, non-alcoholic beverages (6.04%) and Housing (4.34%) explain the 69.4% of the interannual inflation of July. 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), stood in July at 4.14% year-on-year, 1.89 p.p. higher than the rate of December 2019, with which it remains within the target range for the third consecutive month (4 ± 1%), after 64 months in a row below the lower threshold. The interannual variation of tradable goods was at 4.37% in July, while that of non-tradable ones was 4.33%.

In this sense, the change of direction in tradable products registered a 2.34% decrease in the January-April four-month period, amid the complex external panorama, and since then they have increased by 4.49% in just 3 months; in relation to the non-tradable products, the increase was 3.05% between June and July.

On the other hand, the reference nominal sale exchange rate in July 2020 averaged RD$58.35 per US$ dollar, registering a depreciation of 15.8% compared to the level reached in July 2019. In the January-July period, the accumulated depreciation has been 10.4%, (18.2% in annualized terms). This behavior in the value of the Dominican peso is a common situation faced by most currencies in emerging economies due to economic impacts caused by COVID-19.

Regarding the external sector of the economy, in the first half of 2020 the current account reached a deficit of US$756.0 million. This negative balance, significantly larger than in 2019, is mainly explained by the deterioration of the services balance (which includes tourism income), which had a year-on-year fall of US$2,276.1 million, which could not be offset due to the improvement in the balance of goods since the trade deficit was US$3,324.2 million, with a reduction of US$1,128.3 million compared to the first half of 2019, mainly due to the decrease in the oil bill. Regarding changes in the trade balance, the value of total exports of goods experienced a year-on-year decrease of 12.5%, as a result of the decrease in the value of national exports by 11.2%, of which there is a 18.2% fall in industrial exports; meanwhile, mineral exports fell slightly by 1.4%, due to the fall in copper exports (-61.7%) and ferronickel (-32.2%) being offset by the increase in the value of non-monetary gold exports (9.1%). Within the exports of free trade zones

(-13.6%), all categories registered reductions, except medical equipment which increased by 9.6%. While, on the side of goods imports, their value had a year-on-year reduction of 18.3%, due to the combination of a lower oil bill (variation of -46.8%, US $ 876.2 million less than in January-June 2019), and lower non-oil imports, which decreased by 11.6% (-13.9% those of free trade zones).

In the period January-July 2020, 1.53 million non-residents entered the country by air, which implies a 63.3% drop in visitors when compared to the same period of the previous year, the largest drop observed in the historical series (the smallest previous amount in terms of arrival of passengers during the first 7 months of a year was in 1998). While the year-on-year growth of the arrival of non-resident passengers by air has remained 11 consecutive months in decline, it has been accentuated since March 2020, in part, due to the total closure of international borders – as in almost the vast majority of countries worldwide – in order to prevent the entry of people who live outside the national territory and could potentially be affected by COVID-19. However, the less negative monthly decline in July (-77.1% versus -89.9% on average between March-June) is due to the reopening of air operations and airport facilities as of July 1.

Total family remittances in the January-July period was US$4,302.5 million, an increase relative 5.0%. This rate is the result of the recovery in the amount of remittances from the month of May, after the falls registered in the months of March and April (-21.8% and -32.5%, the worst falls in the last decade), in response to a better performance of the American economy after the reopening of its economic sectors, since that nation has 89.8% of the total family remittances came from.

On the other hand, in the first half of 2020 foreign direct investment (FDI) reached US$1,190.6 million, a reduction of US$342.9 million (-22.4%). For their part, net reserves international (NIR) as of July 31, 2020 amounted to US$6,689.2 million, lower by US$1,525.8 million (-18.6%) to the value registered in the same date of the previous year. These elements, together with the real exchange rate, are fundamental variables to determine the capacity of our economy to be able to absorb, manage and solve the current crisis in a resilient way.

Regarding the fiscal sector, the preliminary Central Government's account results corresponding to the first semester of 2020 show a global and primary deficit of RD$136,800.9 million (-2.8% of GDP estimated in the 2020 budget) and RD$68,799.7 million (-1.4% of GDP), respectively. This result contrasts with the behavior observed in the same period of 2019, which registered a fiscal deficit balance of RD$15,589.8 million (-0.3% of GDP) and a primary balance surplus of RD$44,088.1 million (1.0% of GDP). The Non-Financial Public Sector (NFPS) closed with a global deficit amounting to RD$141,630.2 million (-2.9% of GDP), while the Central Bank deficit amounted to RD$31,852.4 million (-0.6% of GDP). These results in public finances place Consolidated Public Sector deficit for the period January-June 2020 at -3.5% of GDP.

The total revenues of the Central Government amounted to RD$283,906.9 million in the first semester of 2020, which represents a decrease of 14.0% (-RD$46,056.0 million) compared to the same period of the previous year. This drop in collections is explained by the facilities granted by the DGII (internal revenue authority) before COVID-19, which include the deferral of payment of contributions. Between the taxes that presented the greatest decreases in collections were: the tax on value added (ITBIS) (RD$16,668.1 million), taxes on income, profits and capital gains payable by companies and other companies (RD$ 11,074.2 million) and selective ones (RD$ 10,725.6 million).

In January-June 2020 the expenditures of the Central Government amounted to RD$439,281.8 million, an interannual growth of 23.8% (RD$ 84,422.6 million). Similarly, primary spending expanded by 25.8% (RD$ 76,096.2 million) compared to the first semester of 2019. This is due to the increase in social benefits (RD$ 43,605.4 million), public investment (RD$ 9,111.5 million) and purchases of goods and services (RD$ 6,182.0 million), which presented a year-on-year growth of 163.9%, 27.8% and 14.0%, respectively. In the case of the first component, it is directly related to the special programs ("Stay at Home" and FASE) created to sustain private consumption and employment during the COVID-19 pandemic.

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 (as decreases in the corridor around the reference MPR, reductions of legal reserve coefficients in Dominican pesos and US dollars) to facilitate liquidity to the economy given the difficult situation resulting from the pandemic. Only the interbank rate has not kept pace with the expected downward trend, a behavior possibly associated with the rapid channeling of resources released via legal reserve by the Central Bank (BCRD). 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 higher inflationary expectations in the medium term.

During the month of July, the interest rates (weighted averages) of the banking sector were 11.8% for lending and 5.0% for borrowing, with decreases with respect to their maximum values in March of 3.9 and 2.0 percentage points, respectively. While, at the end of the month, the Monetary aggregates exhibited interannual growth rates between 13.2% (M2) and 27.1% (M1). Meanwhile, credit to the private sector continues to flow adequately, with a 11.1% year-on-year rate of expansion. Despite the COVID-19 situation, credit to the private sector between March and July has had an average interannual growth of 13.1% thanks to the facilities provided by the monetary authority to maintain the flow of resources to productive sectors. The economic sectors that have received the greatest channeling of funds to date are manufacturing, hotels and restaurants, commerce, construction and agriculture.

Macroeconomic outlook

In view of the above, both regarding the external context and at the domestic level, the Dominican economy is expected to register a real decrease in GDP of around -4% 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. While, based on the foregoing, the rate of GDP expansion from 2021 would reach 5% and the gradual convergence towards the historical potential rate of our economy would remain from 2022 onwards. It is important to note that the projections carried out take into account the economic information available in mid-August 2020, both in the international environment and in the local scenario.

While the forecasts indicate that, in the monetary policy horizon, inflation would rebound during the second semester until reaching the central value of the target range established by the national authorities (4 ± 1%) by the end of 2020, and would remain around this level until 2022. Among the determining factors of this perspective would be the speed of moderation / recovery of external and internal demand (which if lower would generate lower inflationary pressures) and the anticipated effects of quantitative easing conditions with exceptional measures of expansionary monetary policy to provide the necessary / required liquidity in order to mitigate the impacts of the pandemic on private sector activities (both a maintenance of the family consumption as credit facilitation to enable the continuity of operations of regular businesses of the national economic apparatus).

In addition, a depreciation of the nominal exchange rate over what is expected could impact on prices of imported goods, although the risk of deviation from the inflation target is limited because estimations indicate that the pass-through effect has been gradually decreasing since 2012 when the Inflation Goals Scheme was officially in force in the country.

Regarding to the GDP deflator, given the projected dynamics of the relative prices of its different components (including their interrelationships with external prices), it is expected that their variation in 2020 will be 2.5%, and subsequently during the coming years the relative factor change in the output deflator would be in line with headline inflation. Given the expected evolution prices and projected real growth of the economy, nominal GDP growth is estimated at -1.6% for the current year and 9.2% for 2021.

As for the exchange rate, an average level of RD$57.05 per dollar is expected for 2020, which represents a depreciation of 11.15%, higher than in previous years, mainly due to the effects in 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 due to the dynamics of the terms of exchange (gold, oil) versus quantity adjustments: exports of goods (national and FF.ZZ.) and services (including tourist activities that will be reactivated as of July with the lifting of travel restrictions globally), which will be reduced due to lower foreign demand, and non-oil imports that would decrease due to lower private domestic demand.

In addition, the net inflow of foreign exchange flows associated with remittances will be relevant by absent Dominicans and transnational financial flows (for example, FDI and portfolio investments) with possible adjustments to asset position profiles for reasons precautionary, in view of the current situation and the situation that is expected in the future. By 2021 expects a slowdown in the rate of nominal depreciation of the Dominican peso and a normalization in later years, always contingent on the events of the complex external panorama. In the medium term, it is estimated that the average exchange rate for 2021, 2022 and 2023 would be RD$ 62.3, RD$ 64.79 and RD$ 67.38 per dollar, respectively.

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 affects expected developments in the short term for our national economy. Therefore, the responsible authorities and the technical teams that collaborate jointly in the elaboration of this macroeconomic framework will continue with the permanent follow-up and monitoring that have been carrying out since mid-March, in order to take the corresponding actions that ensure/preserve the macroeconomic stability that the country has enjoyed in recent years.

The following table presents the official institutional consensus projections for this year and the following four years:

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Macroeconomic overview 2020 – 2024

Revised August 31st, 2020

	2019	2020	2021	2022	2023	2024
Real GDP (200=100 Index)	180.1	172.9	181.5	190.6	200.1	210.2
Real GDP growth (200=100 Index)	5.1	-4.0	5	5	5	5
Nominal GDP (RD$ Millions)	4,562,235.1	4,489,239.3	4,902,249.40	5,353,256.30	5,845,755.90	6,383,565.40
Nominal GDP growth	7.7	-1.6	9.2	9.2	9.2	9.2
Nominal GDP (US$ Millions)	88,906.1	78,689.6	78,689.60	82,624.00	86,755.20	91,093.00
GDP growth in US$	3.9	-11.5	0	5	5	5
Inflation Target (±1)	4.0	4.00	4.0	4.0	4.0	4.0
Inflation (Average)	1.81	3.5	4.0	4.0	4.0	4.0
Inflation (December)	3.66	4.0	4.0	4.0	4.0	4.0
Deflator growth	2.53	2.5	4.0	4.0	4.0	4.0
Exchange Rate (Average)	51.33	57.05	64.79	64.79	67.38	70.08
Variation Rate (%)	3.59	11.15	4.00	4.00	4.00	4.00

Assumptions:

Oil UTI (US$ per barrel)	57.0	38.5	45.5	45.9	45.7	46.1
Gold (US$/Oz)	1,393.10	1600.0	1590	1,567.7	1,545.7	1,503.0
Nickel (US$/MT)	13,943.30	11,500.0	12,000.0	12,553.0	13,131.4	14,370.0
Mineral Coal API2 CIF ARA (US$/MT)	61.5	50.8	55.90	63.0	63.0	63.0
US Real GDP Growth (%)	2.3	-5.2	4.0	3.0	2.2	2.0
US Inflation (Average)	1.8	0.9	1.7	2.2	2.2	2.1
US Inflation (December)	2.3	0.8	2.40	2.30	2.30	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 2022 onwards, inflation is projected with the achievement of the goal established by the Central Bank.
3. The inflation target is related to the inflation target established by the Monetary Board of the Central Bank; instead the Inflation projections correspond to the expected results, given the evolution of domestic prices, oil international prices and other determinants.
4. Assumed exogenous sources: Consensus Forecasts TM, IMF, World Bank, EIA and Bloomberg ©.