



DOMINICAN REPUBLIC

2015 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

November 2016

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2015 Article IV consultation with Dominican Republic, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on November 20, 2015 with the officials of the Dominican Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 2, 2016.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



Press Release No. 16/84
FOR IMMEDIATE RELEASE
March 1, 2016

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2015 Article IV Consultation with the Dominican Republic

On February 19, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with the Dominican Republic, and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.¹

Background

The Dominican economy has continued its vibrant performance. Growth averaged over 7 percent during 2014–15, fueled mainly by domestic demand. Employment recovery and the decline in oil prices boosted disposable income, while the consumption-led recovery in the U.S provided tailwinds through linkages with tourism and remittance flows. Strong growth in private investment dovetailed the expansion in consumption.

Despite strong growth, lower oil prices kept inflation low and strengthened the external position. While inflation expectations remained within the central bank's target of 4±1 percent, actual inflation was below the target range throughout 2015, picking up to over 2 percent by end-year as the oil price effect waned and food prices spiked following a mid-year drought. The external position strengthened on the back of lower oil prices and robust remittance and tourism inflows. The current account deficit is estimated at about 2 percent of GDP by end-2015 and reserves recovered to a level equivalent to over three and a half months of imports, excluding free-trade zones. The current account deficit and the real exchange rate are broadly in line with the economy's fundamentals.

The monetary policy stance remained broadly neutral during 2015. Softening core inflation prompted several rounds of interest rate cuts by the central bank in early 2015, to 5 percent, which offset an earlier policy tightening. The banking system continues to show healthy capitalization, profitability and asset quality.

¹ The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Fiscal policies continued to safeguard the gains from the recent fiscal consolidation. The fiscal adjustment during 2013–14, to a consolidated public sector deficit of about 4.5 percent of GDP, has been critical in restoring confidence. Excluding one-off receipts, the deficit in 2015 is estimated to have been maintained at broadly similar levels as the previous year. This, together with the face value reduction in public debt (by 3.1 percent of GDP) due to the restructuring of the Petrocaribe liabilities, moderated the increase in consolidated public sector debt (including the debt of the electricity sector and the central bank) to 48.5 percent of GDP estimated by staff for 2015.

Going forward, the growth momentum will soften as the economy returns to its potential growth. Staff projects growth to slow to 5.4 percent in 2016 and to its longer-term potential rate of 4.5–5 percent by 2017. The positive output gap and the incipient pressures on real wages are projected to return inflation to the target range in 2016. Risks to the staff's macroeconomic outlook are moderate and somewhat tilted to the downside, largely owing to potential negative spillovers from weaker growth in advanced economies.

Executive Board Assessment

In concluding the 2015 Article IV consultation with Dominican Republic, Executive Directors endorsed the staff's appraisal as follows:

Economic activity maintains a strong momentum, aided by a favorable external environment and a strengthened policy framework. Domestic demand has been the main growth engine, supported by an expansion in employment, robust credit growth, lower oil prices, and the recovery in the U.S. Inflation remained low, the current account deficit contracted, and key social indicators improved. The implementation of sound policies has underpinned the strong economic performance. The inflation targeting framework has been successful at maintaining inflation expectations around the official target range in the face of positive supply shocks, and notable fiscal consolidation efforts over the past three years have slowed further increases in public debt. Going forward, as some of the external tailwinds dissipate, the economy is expected to slow to its potential growth of 4.5–5 percent. The challenge for macroeconomic policies will be to sustain high growth rates and address remaining poverty and inequality challenges, further strengthening the fiscal position, limiting risks of negative international spillovers and tackling long-term legacies in the electricity sector.

Fiscal sustainability and social spending pressures require renewed attention to strengthening the fiscal position. Over the medium-term, public debt is set to rise due to large consolidated deficits, and additional pressures are building from the need to sustain adequate infrastructure and social spending. The authorities' continued commitment to fiscal discipline is welcome, and the favorable cyclical position provides a good opportunity to undertake the adjustment to put debt on a downward path. A major effort is needed to expand the narrow tax base, eroded by tax exemptions and incentives, and to tackle inefficient spending, including on generalized electricity subsidies. The strides achieved over the past decade in building up institutions are notable, but there is merit in further strengthening the fiscal framework by

anchoring annual policy decision-making to sustainability objectives and improving the quality of spending. The risk profile of public debt would benefit from reduced reliance on foreign currency borrowing, which necessitates further development of the domestic bond market in coordination with the central bank, a major issuer in the market.

The monetary policy stance is appropriate in guiding inflation back to target range, but a strengthened framework could further improve policy effectiveness and outcomes. The strong economic outlook, waning supply shocks, and tightening labor markets are reducing the scope for further interest rate cuts. The tightening bias is therefore appropriate in guarding against upside risks to inflation. Transition towards more exchange rate flexibility and the continued buildup of reserves will increase resilience against external spillovers and shocks. The challenges of managing monetary policy and legacy quasi-fiscal debts should be tackled through increased coordination with the fiscal authorities in avoiding overlap between two issuers to develop the local bond markets and in firming up the recapitalization arrangements.

The resilience of the financial system has been strengthened over the past years in tandem with improved bank supervision. The regulatory reform agenda for the banking system needs to be further advanced towards best international practice, and pockets of rapid credit growth warrant monitoring. At the same time, the supervision of non-bank financial intermediaries remains weak and—although these are not systemic—vigilance is needed against inherent risks, especially those related to potential AML/CFT activities.

Sustaining strong economic growth and making it more inclusive will require concerted reform efforts. The authorities' reforms in education, strengthening social safety nets, and in promoting financial inclusion should help boost growth and improve social outcomes. Addressing long-standing problems in the electricity sector remains key to improving growth prospects. Needed measures include significant upgrades to the public distribution networks, a move towards cost recovery pricing and reducing regulatory uncertainty. The latter would also foster a stronger investment climate needed to narrow infrastructure gaps, while increased product market competition and labor market flexibility would strengthen the economy's competitiveness.

Table 1. Dominican Republic: Selected Economic Indicators

Population (millions, 2014 estimate)	9.9					GDP per capita 2014 (U.S. dollars)	6,481
Quota (218.9 millions SDRs / 0.09% of total)						Poverty (2014, share of population)	35.5
Main export products: tourism, textiles, gold						Extreme poverty (2014, % of pop.)	7.2
Key export markets: U.S. and Canada						Adult literacy rate (percent, 2014)	91
							Proj.
	2012	2013	2014	2015	2016		
Output	(Annual percentage change, unless otherwise stated)						
Real GDP	2.6	4.8	7.3	7.0	5.4		
Nominal GDP (RD\$ billion)	2,378	2,559	2,786	3,036	3,312		
Nominal GDP (US\$ billion)	60.5	61.3	64.1	67.6	...		
Output gap	-0.4	-0.6	0.3	1.3	1.2		
Unemployment							
Unemployment rate (in percent; period average)	6.5	7.0	6.4	5.9	...		
Prices							
Consumer price inflation (end of period)	3.9	3.9	1.6	2.3	4.0		
Consumer price inflation (period average)	3.7	4.8	3.0	0.8	4.3		
Exchange rate							
Exchange rate (RD\$/US\$ - period average)	39.3	41.7	43.5	44.9	...		
Exchange rate (RD\$/US\$ - eop)	40.3	42.7	44.3	45.4	...		
Government finances						(Percent of GDP)	
Consolidated public sector balance 1/	-7.7	-5.0	-4.5	-1.3	-5.0		
Consolidated public sector debt	43.5	48.3	48.1	48.5	49.5		
Central government balance	-6.4	-2.8	-2.6	0.6	-2.5		
Revenues and grants	13.6	14.6	15.1	18.0	14.6		
Primary spending, o.w.:	17.7	15.1	15.2	14.6	14.2		
Transfers to electricity sector	1.5	1.4	1.4	0.9	1.0		
Interest expenditure	2.4	2.3	2.5	2.9	2.9		
Central bank quasi-fiscal balance	-1.1	-1.4	-1.5	-1.4	-1.4		
Rest of NFPS	-0.1	-0.7	-0.4	-0.5	-1.1		
Money and credit						(Annual percentage change)	
Broad money (M3)	9.4	13.5	11.8	11.3	9.7		
Credit to the private sector	5.8	15.0	19.5	12.2	9.1		
Net domestic assets of the banking system	11.7	8.2	10.2	11.1	8.3		
Balance of payments						(Percent of GDP)	
Current account	-6.6	-4.1	-3.2	-2.0	-2.2		
Merchandise trade balance	-14.4	-12.0	-11.5	-10.7	-10.8		
Exports, of which:	14.8	15.4	15.5	14.5	14.1		
Gold	0.3	1.9	2.4	1.8	1.7		
Imports, of which	-29.2	-27.4	-27.0	-25.2	-24.9		
Oil and gas	-7.9	-7.1	-6.0	-3.6	-3.0		
Services and transfers (net)	7.9	7.9	8.3	8.7	8.6		
Capital account 2/3/	0.1	0.1	0.0	3.1	0.0		
Financial account 3/	-5.9	-6.8	-5.2	-2.1	-2.9		
Foreign direct investment, net	-5.2	-3.2	-3.4	-3.2	-3.0		
Portfolio investment, net	0.7	-2.9	-2.2	-4.6	-1.6		
Other investment, net	-1.5	-0.6	0.5	5.7	1.7		
GIR (in millions of U.S. dollars)	3,559	4,701	4,862	5,258	5,645		
GIR in months of imports (excl. maquila) 4/	2.6	3.4	3.5	3.6	3.7		
Total external debt	33.2	36.3	37.7	35.1	34.2		

Sources: Country authorities; World Bank; and Fund staff calculations and estimates.

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

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

3/ In line with BPM6 presentation.

4/ In relation to imports of goods and nonfactor services of the following year, excluding maquila.



DOMINICAN REPUBLIC

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

February 2, 2016

KEY ISSUES

Context. The Dominican Republic remains among the most dynamic economies in the region, benefiting from a strengthened macro-policy framework and external tailwinds. It does not face significant internal or external imbalances: inflation is low, fiscal deficits and debt moderate, and the external position is broadly in line with fundamentals. Vulnerabilities remain, however: public debt is set to increase over the medium-term and the tax ratio is one of the lowest in the world, reserves are below the Fund's suggested metric, legacy bottlenecks in the electricity sector remain unresolved, and social challenges persist. The consultations focused on policies to address these vulnerabilities and strengthen the economy's resilience to external shocks.

Main policy issues.

- *Fiscal policy and framework.* Given the favorable cyclical conditions, fiscal consolidation should accelerate to halt the upward debt dynamics and open fiscal space for needed infrastructure and social spending. Widening the narrow tax base by tackling tax exemptions and incentives will be critical in supporting the adjustment. There is merit in further strengthening the fiscal framework by anchoring annual policy decision-making to sustainability objectives.
- *Monetary policy and framework.* The broadly neutral monetary policy stance is appropriate, and the tightening bias will help guard against increasing upside risks to inflation. Transition towards more exchange rate flexibility as the market infrastructure is strengthened will help build reserve buffers, absorb external shocks, and improve the credibility of the regime. Coordination between monetary and fiscal authorities is needed to foster the development of the local bond market and to firm the central bank's recapitalization arrangements.
- *Financial system.* Against the backdrop of a strong banking system and bank supervision, the supervision of nonbank intermediaries requires concerted attention to mitigate financial and AML/CFT compliance risks.
- *Structural reforms.* Addressing legacy problems in the electricity sector— through distribution grid upgrades, cost recovery pricing, and reduced regulatory uncertainty—remains key to sustaining high growth. Reforms to foster a stronger investment climate and address labor and product markets rigidities would help narrow infrastructure gaps and strengthen competitiveness. Sustaining ongoing reform efforts in education and financial inclusion will support a further improvement in social outcomes and potential growth.

Approved By:

Charles Enoch (WHD)
and Steve Barnett (SPR)

Discussions took place in Santo Domingo during November 9–20, 2015. The team comprised A. Cebotari (head), S. Cerovic, F. Grigoli, M. Hadzi-Vaskov (all WHD), M. Marinkov (FAD), and N. Westelius (SPR). J.L. Saboin provided research assistance at headquarters. F. Fuentes (OED) participated in the discussions. The mission met with Central Bank Governor, Minister of Finance, Minister of Economy, Minister of Labor, other senior officials, private sector and civil society representatives.

CONTENTS

CONTEXT	4
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS	5
SECURING DEBT SUSTAINABILITY	10
MONETARY POLICY AND FRAMEWORK	12
STRENGTHENING RESILIENCE TO EXTERNAL SHOCKS	13
REFORMS FOR SUSTAINABLE AND MORE INCLUSIVE GROWTH	14
SAFEGUARDING FINANCIAL STABILITY AND PROMOTING FINANCIAL DEVELOPMENT	17
STAFF APPRAISAL	19
BOXES	
1. Restructuring of the Petrocaribe Debt	7
2. Electricity Sector: Issues and Reforms	16
3. Financial System and its Development since the 2003 Crisis	19
FIGURES	
1. Recent Economic Developments	22
2. Monetary Developments and Policies	24
3. Monetary and Financial Developments	25
4. Fiscal Developments	26
5. Structural and Competitiveness Indicators	27

TABLES

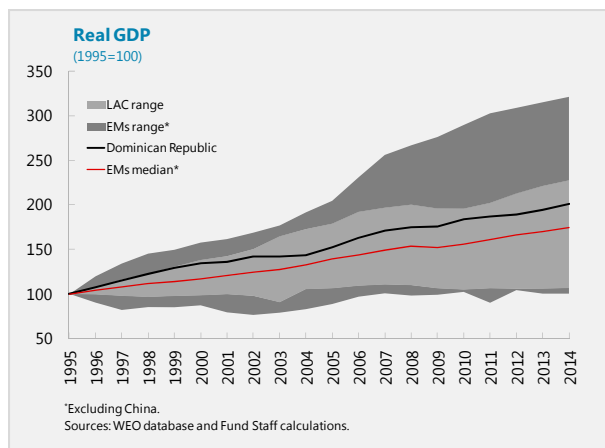
1. Recent Economic Developments _____	22
2. Monetary Developments and Policies _____	24
3. Monetary and Financial Developments _____	25
4. Fiscal Developments _____	26
5. Structural and Competitiveness Indicators _____	27

ANNEXES

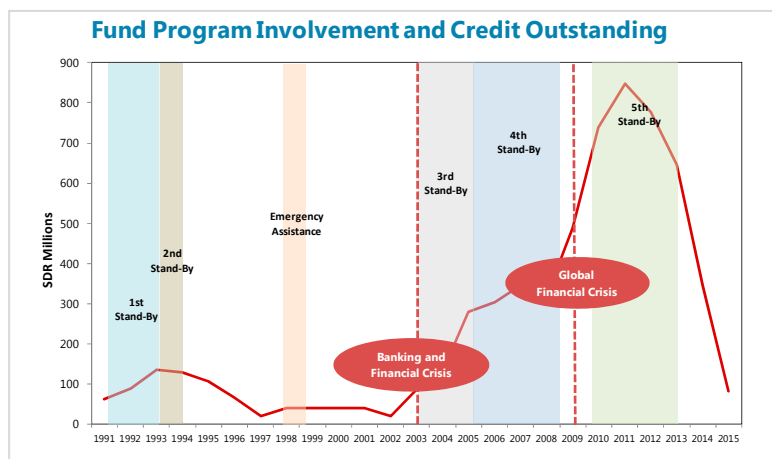
I. Risk Assessment Matrix _____	34
II. Macroeconomic Impact of the Decline in Commodity Prices _____	36
III. External Sector Assessment _____	39
IV. Updated Debt Sustainability Analysis _____	44
V. Interest Rate Pass-Through _____	52
VI. Balance Sheet Approach to the Dominican Republic _____	56

CONTEXT

1. Overview. The Dominican Republic remains among the most dynamic economies in the region, having benefitted from a strengthened policy framework and external tailwinds. Growth averaged 5½ percent over the past two decades and 6 percent over the past two years, notably above the average for Latin America and the Caribbean (LAC). After the severe banking crisis in 2003–04, policies have been strengthened with a cleanup of the financial system and reinforced supervision, the introduction of inflation targeting in 2012, and a commitment to fiscal responsibility. At present, the economy does not face significant imbalances, as inflation is low, fiscal deficits and debt are moderate, and the external position is broadly in line with fundamentals.¹ Nevertheless, vulnerabilities remain: public debt is set to increase over the medium term and the tax ratio is one of the lowest in the world, reserves are below the level suggested by the Fund’s risk-weighted metric, and underperformance in the electricity sector and high poverty remain challenges.



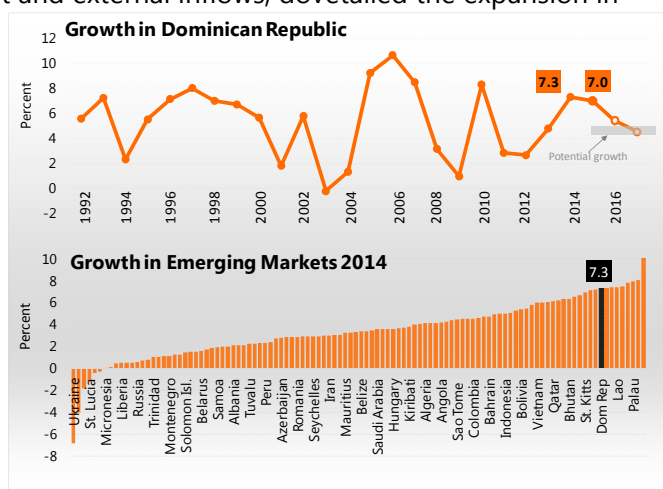
2. Engagement with the Fund and post program monitoring (PPM). Following a period of close engagement with the IMF after the country’s 2003–04 financial crisis—during which credit outstanding peaked at 387 percent of quota or 2.2 percent of GDP in 2011—post-program monitoring (PPM) was initiated in January 2013. With improved economic performance and a strong capacity to repay the remaining credit outstanding to the Fund, the PPM was terminated in October 2014 as outstanding credit dropped below 200 percent of quota. As of end-December 2015, the obligations to the Fund stood at 37.5 percent of quota.



¹ Reflecting the strengthened economic and policy performance, Standard and Poor’s raised its long-term sovereign credit rating to BB- from B+ earlier in 2014. Also, Fitch Ratings recently revised the country’s outlook from stable to positive, and affirmed its B+ rating.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. The growth momentum remains strong, but the pace of expansion is set to gradually slow to potential. Growth accelerated to 7.3 percent in 2014 and remained at a robust 7 percent in 2015 according to preliminary data, propelled largely by domestic demand.² Employment recovery and the decline in oil prices boosted disposable income, while the consumption-led recovery in the U.S provided tailwinds through linkages from tourism and higher remittances. Strong growth in private investment, supported by robust credit and external inflows, dovetailed the expansion in consumption. Staff estimates that the recent strong growth closed the output gap by 2014, placing it in a ½–1½ percent positive range by end-2015. While the favorable external backdrop will continue to support demand, the recent tightening of financial conditions will temper growth going forward. Staff projects growth to soften to about 5½ percent in 2016 as the economy converges to the potential growth of about 4½–5 percent. The authorities broadly share this outlook.

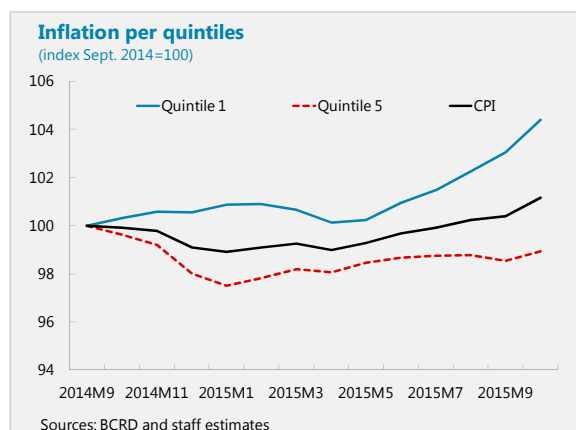
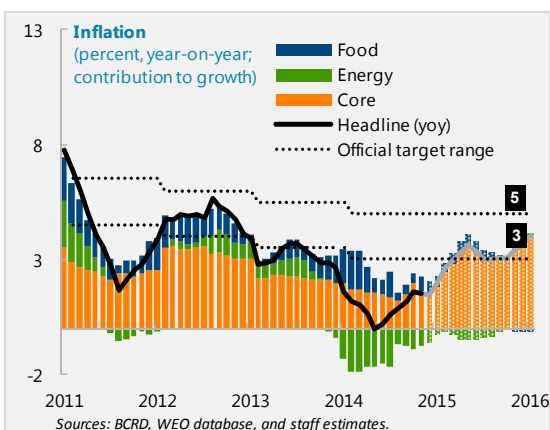


4. Despite strong growth, inflationary pressures remained subdued. Lower fuel prices pulled headline inflation to an average of 0.8 percent during 2015, below the central bank's target of 4±1 percent. Second-round effects have also dampened core inflation, prompting several rounds of interest rate cuts by the central bank in early 2015. As oil prices begin to stabilize, the positive output gap, recent spikes in food prices following a severe mid-2015 drought, and the incipient pressures on real wages are beginning to add upward price pressures.³ As a result, inflation picked up to 2½ percent by end-2015, and both staff and the authorities project it to return to the target range in 2016. The incidence of recent price developments has been regressive, as the highest income quintile faced a slight deflation in the year to November and prices for the lowest income quintile increased by over 4 percent.⁴

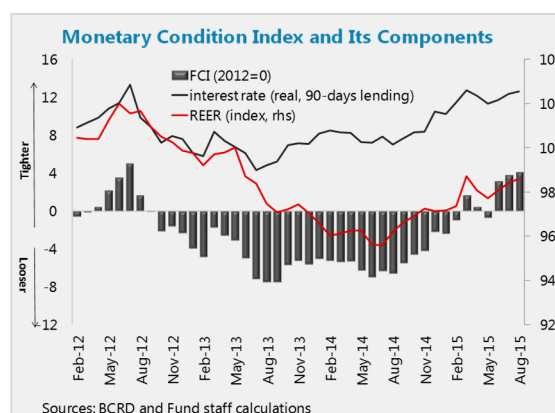
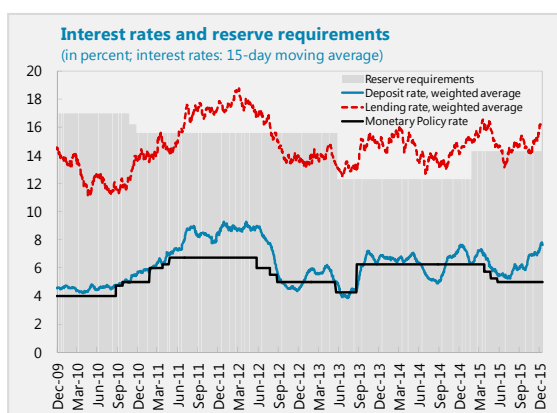
² Since the last Article IV consultations, the national accounts have been rebased from 1991 to 2007. Under the revised accounts, released in August 2014, real growth averaged 0.4 percentage points lower and nominal growth about 0.1 percentage points higher over the period 1991–2013. The revision affected the ratios to GDP, with the public debt ratio for 2014 about 0.5 percentage points lower post-revision.

³ Real wages in the private sector have remained stagnant over the past five years, declining after the crisis and beginning to recover more meaningfully following the mid-2015 round of biennial minimum wage negotiations. With labor productivity outpacing real wage growth since the crisis, the economy's competitiveness has strengthened.

⁴ The regressivity has been driven by the fact that (i) fuel constitutes a larger share of the consumption basket for high-income earners, and its price has dropped significantly, while (ii) food and beverages constitute a larger share of low-income earners' consumption basket, and their prices have increased over the same period.



5. The monetary policy stance remained broadly neutral during 2015, while financial conditions tightened. Faced with declining inflation, the central bank reduced policy rates in three consecutive moves from 6¼ to 5 percent during March–May 2015. These reductions offset the earlier policy tightening through increased reserve requirements, keeping the monetary stance broadly neutral during 2015.⁵ Financial conditions tightened, however, as falling inflation increased real interest rates and the peso appreciated in real effective terms.



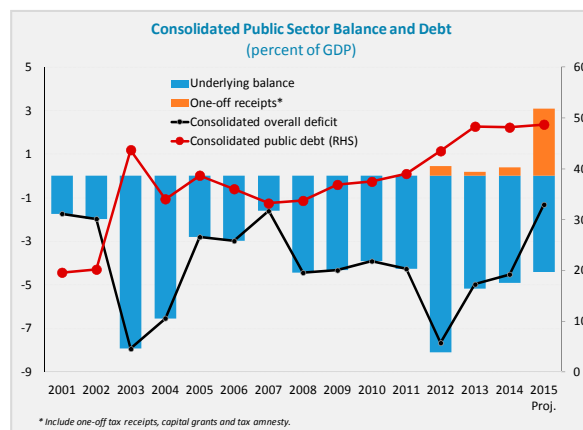
6. Fiscal consolidation over the past three years helped reduce macroeconomic imbalances. The widening of the consolidated public sector deficit in 2012 to 7¾ percent of GDP, while boosting needed infrastructure investment, created significant uncertainty about the direction of fiscal policies and worsened the current account deficit.⁶ The subsequent adjustment during 2013–14—to a deficit of 4½ percent of GDP—has been critical in restoring confidence. Preliminary estimates suggest that the *underlying* fiscal deficit remained at broadly similar levels in 2015 despite

⁵ Reserve requirements were increased in February 2015 by 2 percentage points to stem what were deemed artificial depreciation pressures in a tight foreign exchange market.

⁶ The consolidated public sector includes the central government, some decentralized entities, the electricity holding company, and the central bank.

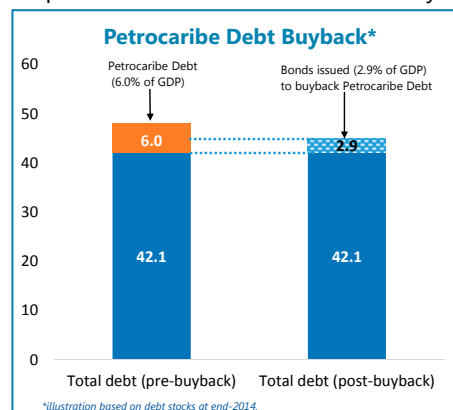
(continued)

the loss of one-off and gold-related revenues, largely due to careful prioritization of spending on goods, services, and transfers.⁷ The *headline* fiscal deficit in 2015, on the other hand, reports a significant fiscal consolidation owing to the capital grant from the restructuring of the Petrocaribe debt (3.1 percent of GDP; Box 1). Despite the restructuring operation, the consolidated public sector debt is estimated to have increased marginally to 48½ percent of GDP in 2015.



Box 1. Restructuring of the Petrocaribe Debt

In January 2015, the Dominican Republic restructured its debt with Venezuela’s state-owned oil company PDVSA under the Petrocaribe agreement. It bought back US\$4 billion of its debt with PDVSA at a discount of about 52 percent. The operation was financed with a sovereign bond placement of US\$2.5 billion of 10-year and 30-year maturities, of which US\$1.9 billion was used to buy back the debt. Although the terms of the new issuance (US\$1 billion 10-year bonds at 5.5 percent interest, and US\$1.5 billion 30-year bonds at 6.85 percent interest) are not as beneficial as those under the Petrocaribe agreement (25-year maturity, 2-year grace period at an interest rate of 1-2 percent), the government still achieved savings of 12 percent in net present value terms, assuming a 6 percent discount rate. With this operation, the country bought back some 98 percent of the debt accumulated with the PDVSA during 2005-14, which reduced public debt by US\$2,094 million or 3.1 percent of GDP.



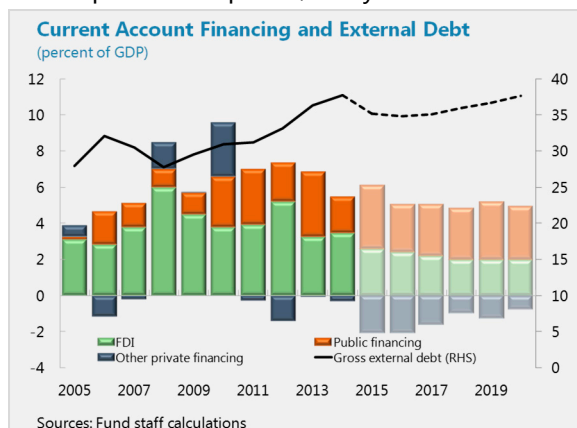
7. The fiscal adjustment has been supported by wide-ranging fiscal structural reforms.

Tax administration efforts focused on the fight against tax fraud and evasion, risk management and coordination between collection agencies. In public financial management, reforms covered the transparency of public accounts, extending their coverage to other decentralized entities and their inclusion in the treasury single account.⁸ Public debt management has also helped mitigate risks, especially through notable maturity extension.

⁷ The underlying deficit is the headline fiscal deficit net of one-off tax receipts, capital grants and tax amnesty collections.

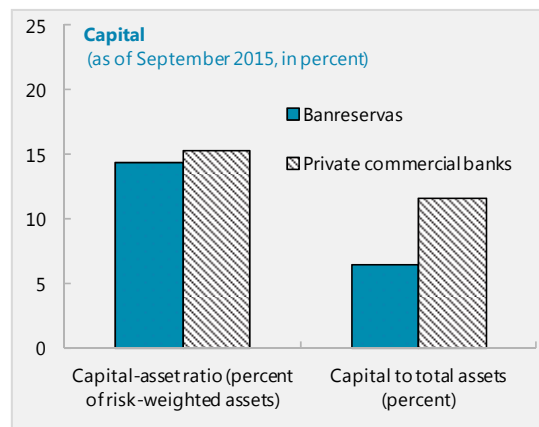
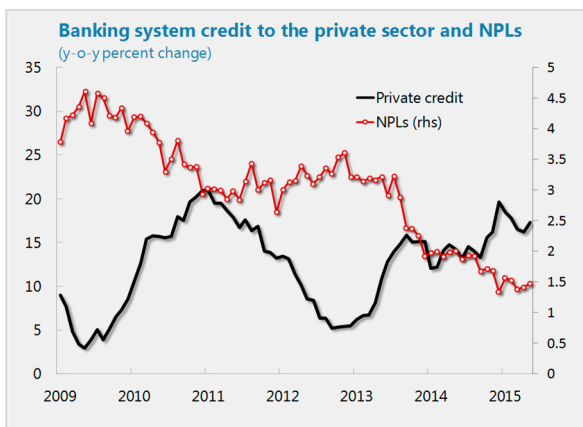
⁸ Reflecting these efforts, the Dominican Republic recorded one of the largest regional improvements in its Open Budget Index score between 2012 and 2015.

8. The external position strengthened with lower oil prices and a favorable external environment. Preliminary estimates suggest that the current account deficit narrowed to 2 percent in 2015, the lowest in a decade and a half, due to the sharp fall in oil prices, buoyant tourism receipts and remittances, and the expansion of gold exports. Reserve coverage increased to 3½ months of imports (excluding free-trade zones) by end-2015. However, the net international investment position has continued to deteriorate, primarily due to FDI inflows and to a lesser extent public borrowing. Over the medium term, the current account deficit is projected to widen gradually to some 3 percent of GDP as oil prices recover and interest payments on external public debt rise.

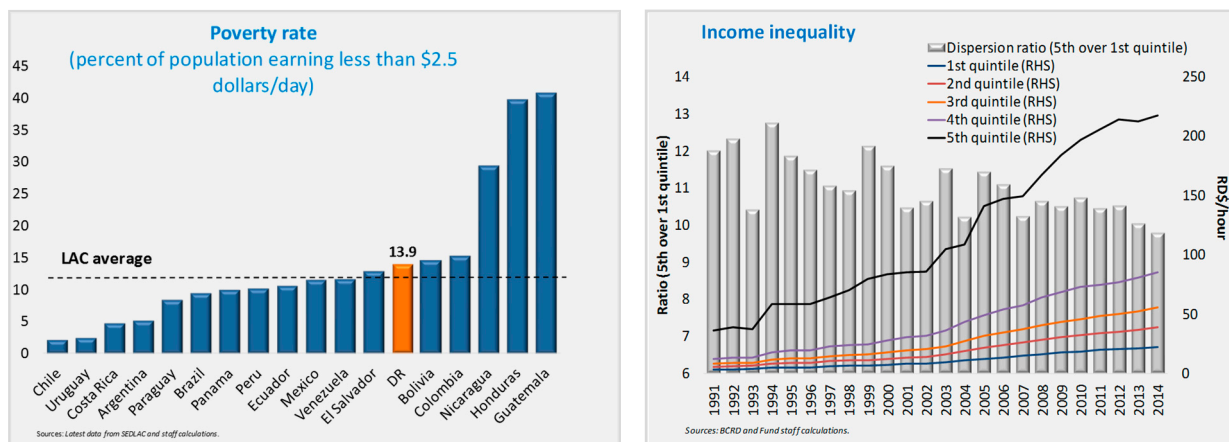


9. The banking system continues to show healthy capitalization, profitability, and asset quality. The system-wide capital adequacy is well above regulatory requirements, at about 15 percent as of September 2015. The rapid increase in private credit over the past year was driven mainly by a pickup in credit from the public bank—as part of its strategy to diversify away from public sector lending and as it pre-financed projects in the electricity sector—and has therefore not translated into pressures on non-performing loans. The latter declined to 1.5 percent of the banking system’s loan portfolio by September 2015 and have a healthy provisioning coverage, while profitability and liquidity in the system remain strong. In November 2014, an insolvent non-systemic bank (Peravia, 0.2 percent of bank assets) was intervened and is being wound down.

10. The financial position of state-owned Banreservas, which accounts for a third of the market, also improved. Following its 2013 restructuring plan, the profitability of the bank strengthened, non-performing loans remained far below the level of recent years, and the capital was increased at end-2014. The bank’s capitalization is broadly in line with the private banking system, but capital adequacy is lower once the concentration of zero-weighted lending to the government is accounted for.



11. Social outcomes have improved along with the economy's performance, but pressing social needs persist. Strong economic growth and targeted social spending over the last three years helped reduce unemployment to about 6 percent by end-2015, the share of households living in poverty by a fifth (to about 35 percent of the population), and the share of those living in extreme poverty by a third (to about 7 percent). However, poverty remains among the highest in LAC. Labor income inequality—measured by the relative dispersion between the upper and lower deciles of the wage distribution—remained broadly unchanged over the past decade, resulting in a widening gap between the high and low-income earners.



12. Risks to the outlook are moderate and somewhat tilted to the downside (Annex I). On the downside:

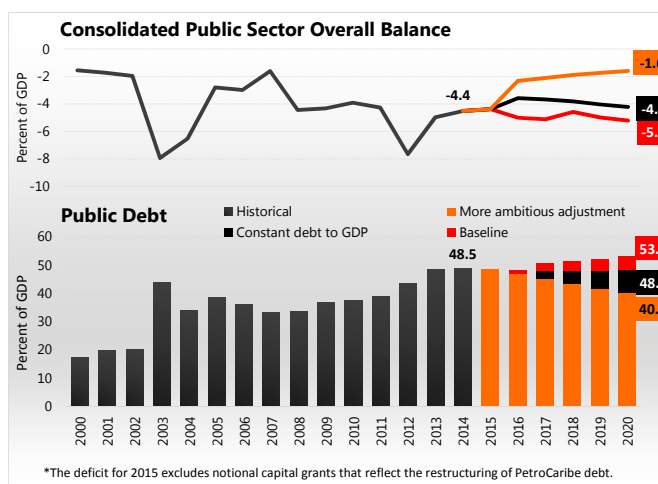
- Weaker growth in advanced and emerging economies may dampen the outlook through trade channels, FDI, tourism receipts, and remittances. Spillovers from a slowdown in the U.S. would be particularly detrimental given close integration.
- Geopolitical developments in the region present some downside risks, but these are likely to be low-impact or materialize in the long-term. The recent policy to regularize illegal immigrants to the Dominican Republic and the subsequent ban on overland exports of a number of Dominican products to Haiti (the country's second largest importer) has generated tensions that could affect exports and labor markets, although it is early to quantify these. The reopening of the U.S.-Cuba diplomatic relations could pose risks of potential diversion of tourism, exports, and FDI inflows, although its effect is likely to be protracted. Finally, the possible discontinuation of the Petrocaribe agreement with Venezuela may result in less favorable fiscal and external financing terms, although the effect is likely to be negligible (Annex II).
- Other downside risks include tighter or more volatile global financial conditions, which may increase financing costs, dampen demand, and put some pressure on the exchange rate. Given relatively weak financial integration of the Dominican Republic with the world financial markets, the effect of this risk is estimated to be moderate, unless accompanied by a slowdown in the U.S.

On the upside, a greater boost to demand may come from persistently lower-than-anticipated oil prices or a faster recovery of the U.S. economy.

SECURING DEBT SUSTAINABILITY

13. The authorities have signaled their intention to continue the fiscal consolidation, but plans are likely to be firmed up after the 2016 presidential elections. The 2016 budget targets a mild narrowing in the central government deficit (by $\frac{1}{2}$ percent of GDP) over the next three years, with measures remaining to be identified. This adjustment will be insufficient to prevent an upward creep in the consolidated public debt, given the anticipated pressures on the fiscal position. Staff's baseline scenario suggests that—in the absence of policy measures and with the increase in debt servicing costs following monetary policy normalization in the U.S.—the consolidated public sector deficit would hover around 5 percent of GDP over the medium term, pushing the debt ratio from $48\frac{1}{2}$ percent estimated for 2015 to about 53 percent by 2020.⁹ Although risks to this baseline fiscal outlook are largely tilted towards better-than-projected outcomes under plausible macroeconomic shocks (Annex IV), these are partly offset by downside risks from larger spending needs in the electricity sector, contingent exposures in the banking sector, and public sector's exposure to exchange-rate risk (Annex VI).

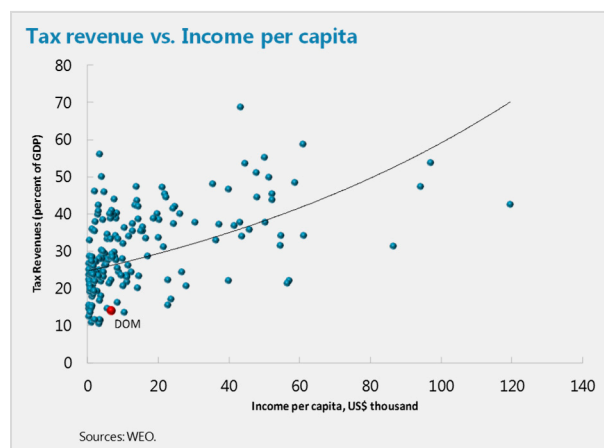
14. The favorable cyclical conditions provide a good opportunity to pursue a more ambitious and frontloaded adjustment. Staff estimates that an adjustment of around $1\frac{1}{2}$ percent of GDP over one year is needed to stabilize debt at current levels, and an adjustment of 2- $2\frac{1}{2}$ percent of GDP over the next three years would put debt on a downward path towards reaching 40–45 percent of GDP by 2020. The larger fiscal effort is desirable, as it will ensure more adequate buffers to safeguard debt sustainability in the face of rising external risks and would help open additional fiscal space needed to reduce poverty, inequality, and infrastructure gaps (especially in the electricity sector).



15. Future consolidation efforts should be underpinned by both tax reforms and expenditure rationalization.

⁹ In the near term, the weakening of the fiscal position will also be driven by the ongoing construction of two coal plants (Box 2).

- The tax base remains very narrow for the country's level of income due to numerous exemptions and tax incentives. The tax ratio was about 14 percent of GDP in 2014 (excluding one-off revenues), one of the lowest in the world, while tax expenditures accounted for 6½ percent of GDP. The widening of the tax base should therefore be a policy priority, with revenue mobilization efforts focusing on substantively eliminating VAT and excise exemptions, rationalizing tax incentives, and boosting personal income tax collections through lowering the tax threshold.¹⁰ These measures would not only open fiscal space for needed infrastructure and social spending, but would also make the tax system more equitable, less distortive, and easier to administer. Efforts should focus initially on eliminating exemptions for upper-income taxpayers, while maintaining exemptions aimed at protecting socially vulnerable groups.



- The need to expand the fiscal envelope, while undertaking the fiscal consolidation, will require further expenditure rationalization. This would need to focus on reducing subsidies to the electricity sector, rationalizing spending on inefficient public institutions, and improving quality of spending. In particular, subsidies to the electricity sector averaged 2–2½ percent of GDP in recent years, which now fell to 1½ percent in 2015 due to lower oil prices. Adjusting tariffs to cost recovery levels (at least 11 percent higher than current tariffs, according to existing methodologies) or, as a first stage, allowing automatic tariff adjustment going forward to lock in recent savings is critical; social safety nets should be strengthened at the same time to mitigate the effects on the most vulnerable.

16. A credible medium-term fiscal framework would be important to further strengthen fiscal institutions. The upcoming discussions of the fiscal pact—required by the national development strategy—would provide an opportunity to strengthen the fiscal policy framework going forward, including potentially through transition to a rule-based framework. The latter could provide a medium-term fiscal policy anchor to facilitate the improvement in the fiscal position and strengthen credibility of fiscal policies, but would have to rely on simple rules that allow for flexibility to absorb cyclical fluctuations.

17. Authorities' views. The authorities reiterated their commitment to fiscal discipline, demonstrated by the considerable fiscal consolidation undertaken since 2012, especially in the context of the mandated doubling of spending on education. They noted that the fiscal pact—deferred to the next administration given the proximity of the elections and the still ongoing

¹⁰ As a result of the relatively high income tax thresholds, only 14 percent of formal employment pays personal income taxes.

discussions of the electricity pact (Box 2)—will be an important component of the government’s medium-term fiscal strategy and plans to reduce public debt over time. The authorities also noted the need to increase revenue to address challenges related to debt sustainability and a narrow fiscal envelope. They pointed that the electricity sector and the quasi-fiscal deficit of the central bank continue to be important drivers of consolidated public sector debt dynamics. In this regard, they emphasized the importance of resolving the challenges in the electricity sector and strengthening the arrangements for central bank recapitalization and management of the quasi-fiscal deficit. Cognizant of past election-related pressures, the authorities affirmed their commitment to fiscal discipline and to the targets set out in the 2016 budget.

MONETARY POLICY AND FRAMEWORK

18. The neutral monetary policy stance is currently appropriate, and policies should remain vigilant to guard against the risks of higher inflation. With inflation expected to return to the target by end-2016, staff and the authorities agreed that the current neutral stance is warranted. At the same time, the widening positive output gap, the tightening labor markets, and the possible depreciation pressures related to the beginning of the normalization cycle in the U.S. merit vigilance against the risks of higher-than-expected inflation going forward. Staff therefore welcomed the tightening bias adopted by the central bank and its readiness to tighten monetary policy if signs of stronger-than-anticipated inflationary pressures emerge.

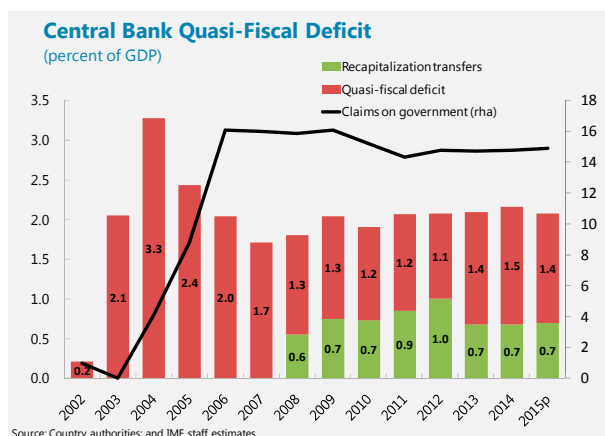
19. Further strengthening the monetary policy framework will help improve macroeconomic outcomes.

- *Exchange rate.* Staff noted that allowing greater exchange rate flexibility would strengthen the credibility of the inflation targeting regime, increase the economy’s ability to absorb external shocks and, at the current juncture, help achieve the inflation objectives and build up reserves. The authorities indicated their intention to upgrade the infrastructure of the foreign exchange market by introducing an electronic trading platform in 2016, and to develop foreign exchange hedging instruments to support a gradual move towards more exchange rate flexibility.¹¹ A rule-based foreign exchange intervention mechanism will also be considered to foster changes in exchange rate expectations while guarding against excessive volatility. The interventions could be based on gradually widening the tolerance thresholds, with an asymmetric band that allows more intervention to accumulate reserves.
- *Monetary policy and quasi-fiscal deficits.*¹² With a large stock of legacy bank recapitalization bonds (around 10 percent of GDP) still managed by the central bank along with domestic liquidity, a number of challenges remain to be addressed. Under the current setting of recapitalization of the central bank, a stronger coordination between fiscal and monetary

¹¹ Technical assistance (TA) on both issues has been requested from the regional TA center CAPTAC.

¹² The quasi-fiscal deficit of the central bank stems from the large interest cost of bonds it issued to recapitalize banks during the 2003-04 financial crisis.

authorities is needed to ensure more efficient public debt management. In particular, coordination on the term structure of bonds issued by the two authorities—including focusing issuances for monetary liquidity management on shorter-term instruments—would help deepen the maturity buckets, further develop the domestic bond markets, and reduce financing costs. At the same time, the legal and institutional arrangements for gradually recapitalizing the central bank need to be strengthened, to ensure continued transfer of bank recapitalization costs to the fiscal authorities and promote a move towards a unified public debt management.



20. Authorities' views. The authorities broadly agreed with staff's assessment and reiterated their commitment to price stability and strengthening of the inflation targeting framework. They indicated that they are closely monitoring both external and domestic developments, and adopting a neutral-to-tight monetary policy bias. They noted that while moving towards a more flexible exchange rate regime has advantages, current efforts are focus on first strengthening the market infrastructure to manage exchange rate fluctuations, especially in the context of fairly dollarized balance sheets. Both the central bank and the fiscal authorities recognized that current arrangements to recapitalize the central bank are not effective and indicated that they are analyzing alternatives to strengthen it. The issues that will be considered are the consistency of the transfer size with the fiscal envelope, the speed of the recapitalization, and accountability for managing fiscal resources.

STRENGTHENING RESILIENCE TO EXTERNAL SHOCKS

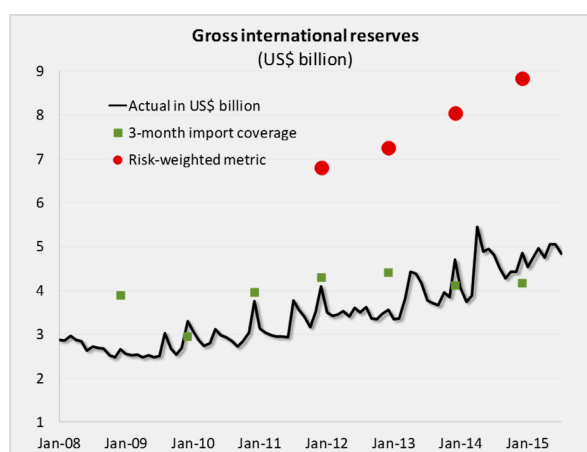
21. The current account and the real exchange rate are broadly in line with medium-term fundamentals and desired policy setting. Lower oil prices have strengthened the external balance above its predicted value based on medium-term fundamentals and current policies. However, when taking into account a partial recovery of oil prices over the medium term and the desired policies to support further reserve accumulation and fiscal consolidation, the gap between the actual

	2015 Current Account and REER Gaps		
	EBA-Lite Methodology		
	Current Account	Real Effective Exchange Rate	External Sustainability
Actual current account (% GDP)	-2.0%		
Adjusted current account (% GDP) 1/	-2.7%		
Medium term current account (% GDP)			-3.1%
Current account norm (% GDP)	-3.4%		-3.0%
Current account gap (% GDP)	0.7%		
Real exchange rate gap (+ is over-valuation)	-4.3%	-2.9%	0.6%

1/ Adjusted for the partial recovery of oil prices over the medium term.

current account and the predicted value narrows significantly, indicating no major misalignment. Direct estimates of the equilibrium real exchange rate are broadly consistent with this assessment, suggesting only a marginally weaker currency than that consistent with fundamentals and desired policies. Over the medium term, while the current account deficit is expected to widen, it will remain consistent with a level that stabilizes the net foreign assets position (see Annex III).

22. The narrowing of the external current account deficit provides a good opportunity to strengthen the reserve buffers. Reserves have risen significantly since the 2003–04 financial crisis, and are deemed broadly sufficient against a number of standard reserve adequacy benchmarks, including short-term debt and import coverage ratios (see Annex III). However, despite recent improvements in the current account, continued foreign exchange interventions prevented faster accumulation of reserves, which remain notably below the Fund’s risk-based reserve metric. The latter requires coverage not only for short-term, but also longer-term liabilities, and current reserves only cover about 60 percent of the implied adequacy level. At the same time, the dominant share of public debt in long-term external liabilities (with about half of it owed to official creditors and a protracted schedule of amortization) and the relatively diverse sources of foreign exchange inflows mitigate the need for such high reserves.



23. Authorities’ views. The authorities broadly concurred with staff’s external sector assessment and reiterated their commitment to continue accumulating reserves and enhance resilience to shocks. Moreover, the authorities recognized that further reserve accumulation is needed, but also emphasized that reserve levels have steadily increased since the banking crisis in 2003 and that a faster pace of accumulation is constrained by high sterilization costs.

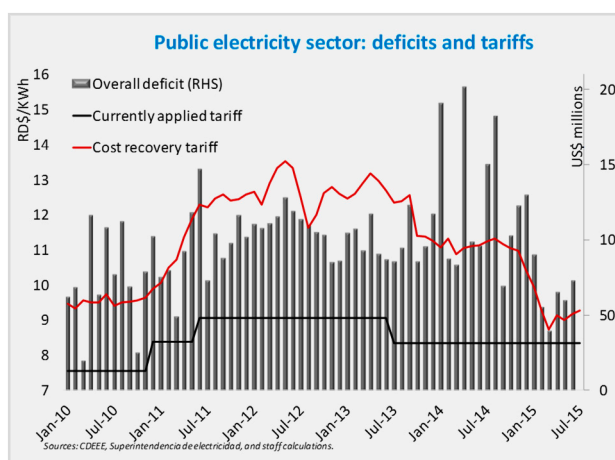
REFORMS FOR SUSTAINABLE AND MORE INCLUSIVE GROWTH

24. A faster improvement in living standards will require sustaining high growth and making it more inclusive. While robust economic performance in recent years has allowed some catch-up of per capita income relative to other LAC economies, it still remains at 25 percent of the U.S. levels and 85 percent of the average LAC levels, in PPP terms. Potential growth, estimated at 4½–5 percent, may of itself not be sufficient to ensure a fast convergence to higher per capita income and substantially reduce poverty.

25. Despite notable improvements in cost and structural competitiveness, there are a number of areas where reforms could boost the economy's potential. The electricity sector remains the main bottleneck for growth, but the Dominican Republic also lags behind its regional peers in the quality of infrastructure and institutions, education and health outcomes, and resolving insolvency (Figure 5).

- *Electricity sector.* Long-standing challenges in the electricity sector absorb substantial fiscal resources and pose significant obstacles to economic development (Box 2). Recent policy action focused on enhancing generation capacity and reducing generation costs through the construction of two coal power plants that are expected to come on stream in 2017. The authorities also took actions to clear

most of the arrears with the generators, reflecting efforts to strengthen financial discipline. Ongoing discussions of the Electricity Pact among the social partners are expected to generate a comprehensive package of measures to: (i) reduce electricity losses, especially through investments in the distribution network; (ii) gradually adjust tariffs to cost recovery; and (iii) ensure a stable and predictable regulatory framework to facilitate private energy investments.



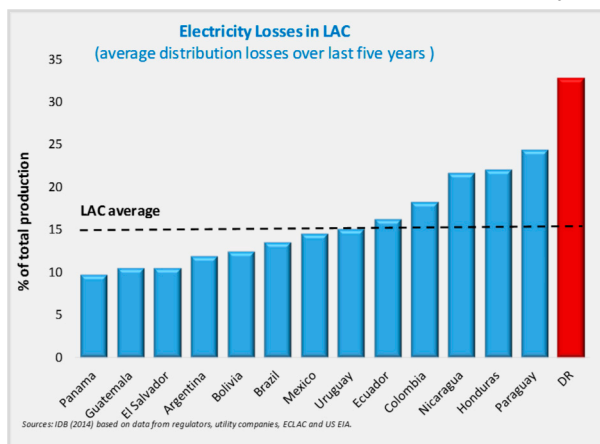
- *Infrastructure gaps.* Despite robust investment over the past few years, poor infrastructure continues to constrain the economy's growth potential (Figure 5). Investment needs in the electricity sector alone are estimated at an additional $\frac{1}{3}$ – $\frac{1}{2}$ percent of GDP per year over the medium term. Despite consolidation needs, spending on infrastructure needs to be sustained at adequate levels to ensure continued increases in the country's capital stock, through revenue reform and expenditure prioritization.
- *Institutional strength and governance.* Institutional quality and governance have long trailed the country's regional peers (Figure 5). Meaningful advances were made over the past decade, but continued efforts are essential to strengthen governance, enhance the culture of institutionalism, and improve the rule of law.
- *Bankruptcy reform.* An obsolete insolvency framework had limited investment opportunities and discouraged business activity. The recently adopted Bankruptcy Law aims at addressing identified deficiencies in terms of defining a business restructuring framework, reducing time and costs associated with bankruptcy procedures, as well as improving recovery rates.
- *Product and labor markets.* Rigid severance pay regulation and high transportation costs, largely as a result of strong unionization in the sector, push up the cost structures throughout the

economy. Addressing these rigidities in the labor and product markets would support a stronger competitive environment.

Box 2. Electricity Sector: Issues and Reforms

The electricity sector remains a major fiscal drag and a key bottleneck for the economy.

Notwithstanding recent improvements, distribution losses in the electricity sector remain among the highest in the region and tariffs fall short of costs. A confluence of factors has contributed to this, including insufficient investments in the distribution grid, governance weaknesses at state-owned distribution companies, high share of unbilled energy (about half of clients are not metered), as well as a relatively unfavorable energy matrix, with about half of total electricity generated using fuel oil. This has given rise to annual deficits of 2–2½ percent of GDP in the public electricity distribution and transmission sector (down to 1½ percent in 2015 due to lower oil prices), which are covered with fiscal transfers or accumulation of arrears to private electricity generators. At the same time, unstable electricity supply and common blackouts adversely affect economic activity, disrupt production processes, and generate additional costs for companies, as many of them had to install their own electricity generators.



New power plants. The public electricity holding company started construction of two new coal plants, estimated to cost about US\$2 billion (3 percent of GDP) and expected to enter into operation in 2017. Their completion is projected to increase the share of coal in the electricity generation matrix by about 11 percent, mainly by reducing the share of fuel oil. While the recent collapse in world oil prices would substantially reduce the savings expected earlier, savings would still remain under the current commodity price outlook and the diversified energy matrix will provide protection against future volatility of oil prices.

Electricity Pact. In line with the National Development Strategy 2030, a comprehensive social consultation process was started in 2015 (with participation from various government institutions, energy companies, civil society organizations, and experts) on a National Pact to Reform the Electricity Sector. The pact is expected to entail a broad consensus for actions to address the decades-old challenges in the electricity sector. The authorities expect the pact to be concluded in early-2016.

26. The government's policy agenda prioritizes social inclusion and poverty alleviation, but additional fiscal space is needed to safeguard this spending.

- **Education.** Reforms in education have been underpinned by a National Education Reform Pact, agreed between the government and the civil society in April 2014. Spending on pre-university education roughly doubled as a result, to 4 percent of GDP, in support of large-scale programs to build new schools, extend teaching hours (from 4 to 8) and improve learning outcomes, where the Dominican Republic has traditionally lagged behind regional peers. Beyond improving the productive capacity through higher human capital, the reforms may provide a boost to labor participation as more female workers substitute reduced household duties with formal employment.

- *Social safety nets* were also strengthened with better-targeted, categorized, and coordinated social assistance programs for the most vulnerable. While the authorities have taken steps to extend basic health coverage to improve inclusion of socially-vulnerable categories, a major area remaining to be addressed includes access to health and social security insurance by the informal sector (including self-employed), which accounts for about half of the labor force.
- *Financial inclusion.* Gaps in financial inclusion remain particularly acute at the household level due to inadequate number of bank accounts in lower income segments, and low usage of debit cards and ATMs. The authorities launched a number of programs aimed at addressing financial inclusion and promoting financial education: (i) the institution of “bank agents” (currently about 2–3 thousand commercial entities that are allowed to provide limited services on behalf of financial institutions) has opened access to financial services for most vulnerable groups; (ii) the administration of social benefits through payment cards is also promoting financial inclusion; and (iii) several programs have been directed at the financial education of the public and the press.

27. Authorities’ views. The authorities largely concurred with staff’s view on the economy’s potential and the need to continue structural reforms. While strong foreign direct investment flows continue to attest to a favorable business environment, they reiterated their commitment to continue actions aimed at strengthening competitiveness. They noted in particular the setup of the joint private-public Competitiveness Roundtable in May 2014, aimed at identifying policy measures to improve competitiveness and strengthen the overall business environment. The authorities largely agreed that key challenges remain in the electricity sector, and pointed out that the Electricity Pact will aim to address them. The authorities also emphasized that reducing poverty and making growth more inclusive continues to be one of the key socio-economic challenges and remains very high on their policy agenda.

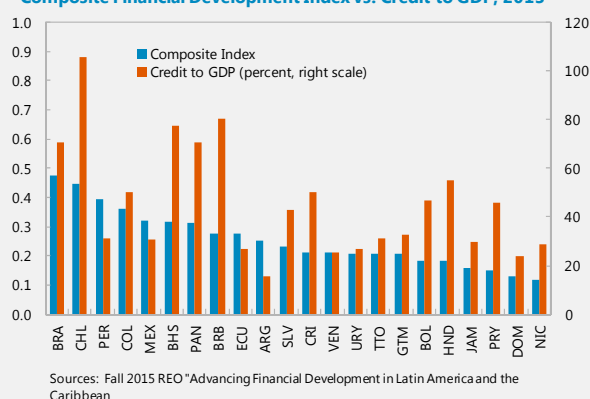
SAFEGUARDING FINANCIAL STABILITY AND PROMOTING FINANCIAL DEVELOPMENT

28. Staff welcomed the strengthening of the financial system and its supervision, but noted that pockets of vulnerability remain. The authorities have strengthened the bank supervisory and regulatory framework, including through continued work towards implementation of Basel core principles, risk-based supervision, thematic reviews of bank risks, and institutional reforms; efforts to further advance progress in these areas continue. Staff noted that while the financial position of banks is strong, pockets of rapid credit growth, especially in foreign currency, merit close monitoring. In addition, the regulation and supervision of nonbank intermediaries, in particular credit unions, is weak. Although the system is very small according to available data, it is closely interlinked with banks through ownership channels and some institutions are as large as banks. The financial system has remained largely unaffected by the withdrawal of certain financial services by global banks (“de-risking”), with only smaller financial services institutions impacted.

29. Weaknesses in nonbank supervision could also create challenges for compliance with anti-money laundering (AML)/combating the financing of terrorism (CFT) standards. Since the previous assessment by the Financial Action Task Force (FATF) in 2006, the authorities have taken steps to strengthen the AML/CFT framework and supervision, and are working to address weaknesses in the supervision of nonbank intermediaries. These efforts will need to be supported by bringing the AML/CFT supervisory framework in line with the 2012 FATF standard, notably with respect to nonbank supervision, and by strengthening the financial intelligence unit.¹³

30. Strong economic growth has not fully translated into development of financial institutions and markets. The country scores low on financial deepening indicators compared to the region, and is one of the least financially-developed in LAC. In particular, private sector credit-to-GDP ratio increased only marginally over the past decade, and is still well below the 2003 pre-crisis level at 30 percent. According to the IMF's fall 2015 Regional Economic Outlook, the country also scores poorly on efficiency of financial institutions, as captured through a high bank concentration (78 percent of total assets is held by 3 banks), non-interest income, and net interest margins. High concentration is also reflected in asymmetric, albeit well-functioning, pass-through from changes in monetary policy rates to retail rates, with short-term lending rates responding faster to policy rate hikes and deposit rates responding faster to policy rate cuts (Annex V).

Composite Financial Development Index vs. Credit to GDP, 2013



31. Authorities' views. The authorities reiterated their commitment to safeguarding the soundness of financial system. They stated that the intensive supervision program resulted in improved bank capitalization, and that they are closely monitoring the quality of the loan portfolio and provisioning levels in the context of robust credit growth. They also stressed their commitment to further strengthen Banreservas and increase the paid-in capital by capitalizing future profits. The authorities pointed that—despite rapid foreign currency credit growth in some sectors—foreign currency loans can only be extended to borrowers with foreign currency earnings, minimizing credit risk. The authorities indicated that they are considering plans to address deficiencies in AML/CFT compliance by nonbanks and other private sector activities in the real sector.

¹³ The Dominican Republic is scheduled to undergo an assessment against the 2012 FATF standard in the second half of 2016.

Box 3. Financial System and its Development since the 2003 Crisis

The financial system in the Dominican Republic is small, dominated by banks and highly concentrated.

Financial system assets account for about 55 percent of GDP, one of the smallest in the region. The system is dominated by commercial banks, but these are part of financial groups that usually include pension funds, securities brokers and insurance companies.

	Number of institutions			Assets % of GDP			Assets % of total assets		
	2003	2008	2014	2003	2008	2014	2003	2008	2014
TOTAL FINANCIAL SYSTEM				51.68	40.98	55.4	100	100	100
Commercial banks	13	12	17	30.3	30.3	37.7	77.9	71.7	68.0
Domestic	11	10	11	27.9	27.9	33.8	0.0	65.9	61.0
State-owned	1	1	1	8.5	8.5	12.5	19.9	20.3	22.6
Private	10	9	10	19.2	19.2	21.3		45.6	38.4
Foreign-owned	2	2	7	2.4	2.4	3.9		5.7	7.0
Other depository corporations									
Saving and Loans Ass.	18	16	20	4.8	4.8	4.8	13.8	11.5	8.6
Saving Banks	17	26	10	1.1	1.1	0.7	1.9	2.7	1.3
Credit Corporatives*	87	14	17	0.0	0.0	0.1	1.4	0.3	0.2
Securities Dealers		10	12	0.2	0.2	0.2	0.0	0.3	0.0
Pension Funds	7	5	5	4.4	4.4	11.0	2.0	10.3	19.8
Insurance Companies	34	34	31	1.3	1.3	1.1	3.0	3.2	2.0

* The availability of data on credit corporatives is limited, and does not cover the whole sector.

Commercial banks. The banking system is very concentrated, with some 78 percent of total assets in three banks and a third in the state-owned Banreservas. The presence of foreign banks increased since 2008, with now 7 out of 17 banks being foreign-owned. Still, their share remained relatively low, at 10 percent of total banking system.

Other deposit taking institutions are relatively small, representing 10 percent of total financial system. They include saving banks, saving and loan associations and credit cooperatives.

The pension funds represent the fastest growing segment of the financial market, and are becoming an important institutional investor. The pension system was reformed in 2003 with the introduction of mandatory savings. Since then, contributions to the funds have gradually increased, and the funds mostly invest in public debt securities. Investment in corporate bonds is only 5 percent of the pension funds' portfolio. Current regulations do not allow pension funds to invest abroad.

Insurance sector remains small and concentrated. The system represents only 2 percent of total financial system, with the largest five companies (out of 31) composing 78 percent of the market.

Capital markets remain underdeveloped. There are no equity markets, and corporate debt market is very small. Only bond issues from seven companies were traded in the market in 2014. Central bank certificates and government papers are the main securities traded in the market. Despite a low number of operations in the securities exchange, there are 12 brokerage houses, about half of them associated with banks.

STAFF APPRAISAL

32. Economic activity maintains a strong momentum, aided by a favorable external environment and a strengthened policy framework. Domestic demand has been the main growth engine, supported by an expansion in employment, robust credit growth, lower oil prices, and the recovery in the U.S. Inflation remained low, the current account deficit contracted, and key social indicators improved. The implementation of sound policies has underpinned the strong economic performance. The inflation targeting framework has been successful at maintaining inflation expectations around the official target range in the face of positive supply shocks, and

notable fiscal consolidation efforts over the past three years have slowed further increases in public debt. Going forward, as some of the external tailwinds dissipate, the economy is expected to slow to its potential growth of 4½–5 percent. The challenge for macroeconomic policies will be to sustain high growth rates and address remaining poverty and inequality challenges, further strengthening the fiscal position, limiting risks of negative international spillovers and tackling long-term legacies in the electricity sector.

33. Fiscal sustainability and social spending pressures require renewed attention to strengthening the fiscal position. Over the medium-term, public debt is set to rise due to large consolidated deficits, and additional pressures are building from the need to sustain adequate infrastructure and social spending. The authorities' continued commitment to fiscal discipline is welcome, and the favorable cyclical position provides a good opportunity to undertake the adjustment to put debt on a downward path. A major effort is needed to expand the narrow tax base, eroded by tax exemptions and incentives, and to tackle inefficient spending, including on generalized electricity subsidies. The strides achieved over the past decade in building up institutions are notable, but there is merit in further strengthening the fiscal framework by anchoring annual policy decision-making to sustainability objectives and improving the quality of spending. The risk profile of public debt would benefit from reduced reliance on foreign currency borrowing, which necessitates further development of the domestic bond market in coordination with the central bank, a major issuer in the market.

34. The monetary policy stance is appropriate in guiding inflation back to target range, but a strengthened framework could further improve policy effectiveness and outcomes. The strong economic outlook, waning supply shocks, and tightening labor markets are reducing the scope for further interest rate cuts. The tightening bias is therefore appropriate in guarding against upside risks to inflation. Transition towards more exchange rate flexibility and the continued buildup of reserves will increase resilience against external spillovers and shocks. The challenges of managing monetary policy and legacy quasi-fiscal debts should be tackled through increased coordination with the fiscal authorities in avoiding overlap between two issuers to develop the local bond markets and in firming up the recapitalization arrangements.

35. The resilience of the financial system has been strengthened over the past years in tandem with improved bank supervision. The regulatory reform agenda for the banking system needs to be further advanced towards best international practice, and pockets of rapid credit growth warrant monitoring. At the same time, the supervision of non-bank financial intermediaries remains weak and—although these are not systemic—vigilance is needed against inherent risks, especially those related to potential AML/CFT activities.

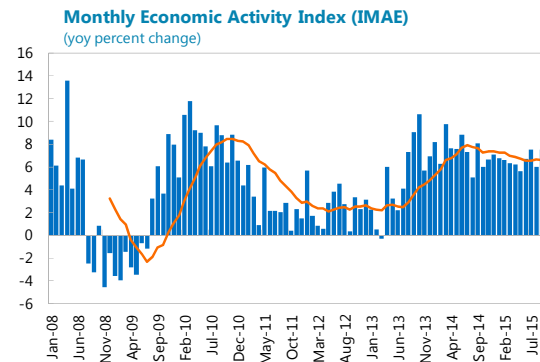
36. Sustaining strong economic growth and making it more inclusive will require concerted reform efforts. The authorities' reforms in education, strengthening social safety nets, and in promoting financial inclusion should help boost growth and improve social outcomes. Addressing long-standing problems in the electricity sector remains key to improving growth prospects. Needed measures include significant upgrades to the public distribution networks, a move towards cost recovery pricing and reducing regulatory uncertainty. The latter would also foster

a stronger investment climate needed to narrow infrastructure gaps, while increased product market competition and labor market flexibility would strengthen the economy's competitiveness.

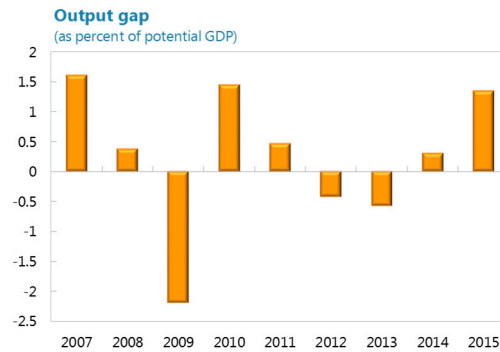
37. Staff proposes that the next Article IV Consultation take place on the standard 12-month cycle.

Figure 1. Dominican Republic: Recent Economic Developments

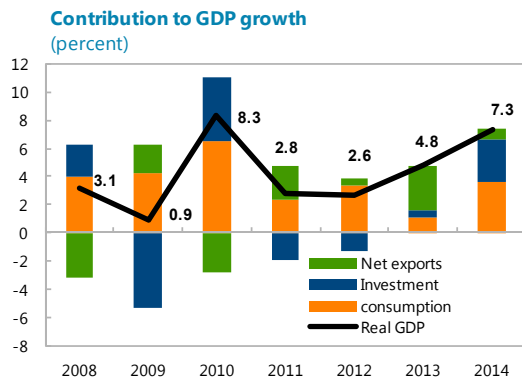
Economic activity remains strong despite an anticipated deceleration...



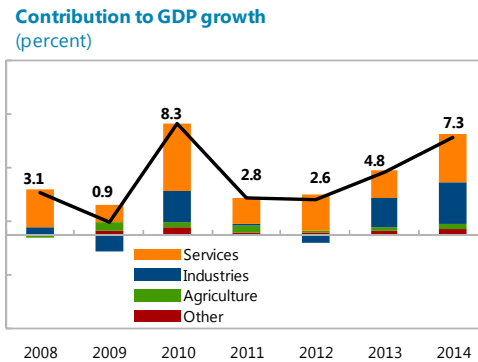
...placing output an estimated 1½ percent above potential levels.



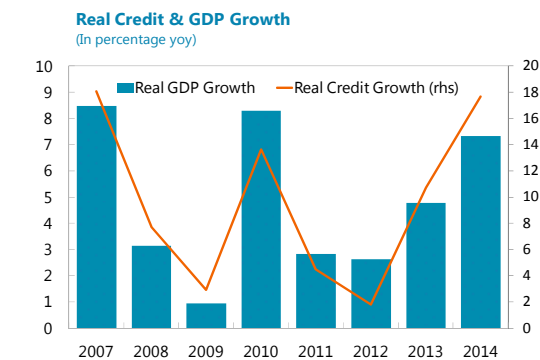
Activity was boosted by vibrant consumption and investment, on the demand side...



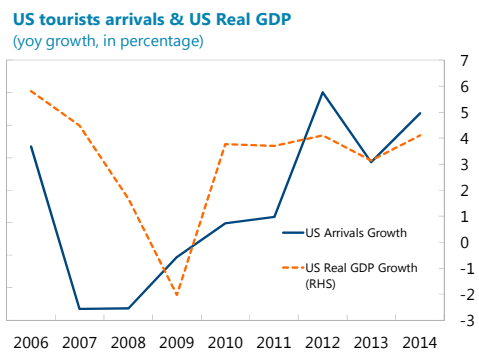
...and a pick-up in services and industries, on the supply side.



Strong credit growth...



...and a strong rebound in tourism arrivals, particularly associated with the U.S. recovery, supported activity.

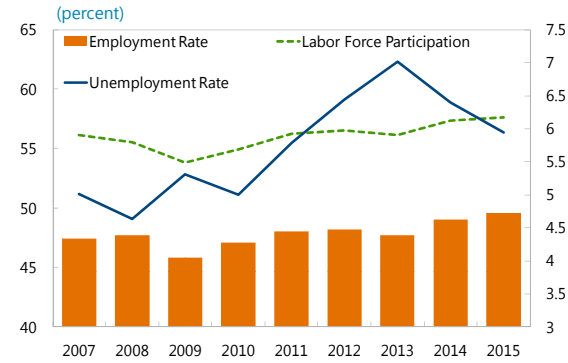


Sources: BCRD, WEO database and Fund staff calculations.

Figure 1. Dominican Republic: Recent Economic Developments (concluded)

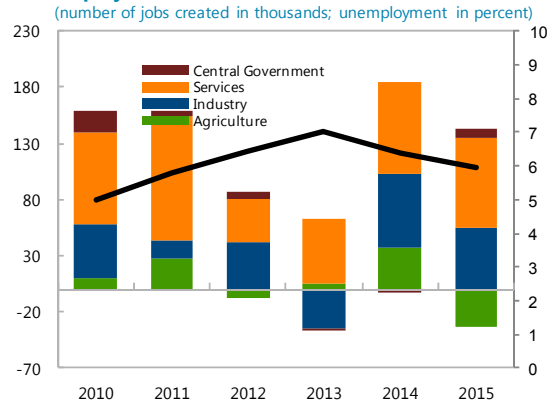
Unemployment started to decline amid a steady increase in labor participation...

Labor Market



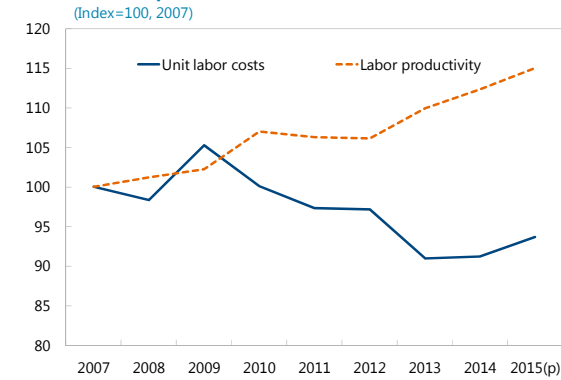
...reflecting broad-based job creation.

Employment



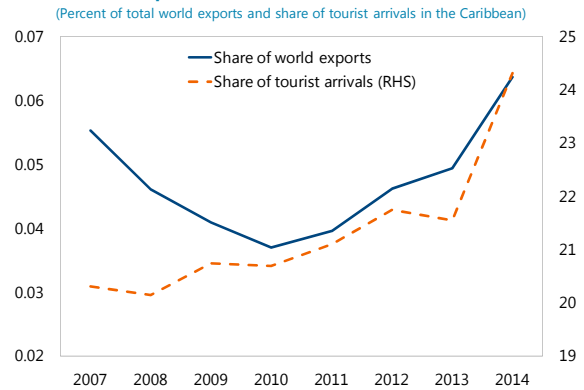
Competitiveness continued to improve as productivity growth outpaced the increase in unit labor costs...

Cost Competitiveness



...and was reflected in a continued increase in the country's shares in world exports and tourism arrivals.

Shares in exports and tourism arrivals



The improvement in productivity was driven by the private sector...

Private Sector: Wages and Productivity



...offset by a strong increase in real wages in the public sector despite declining productivity.

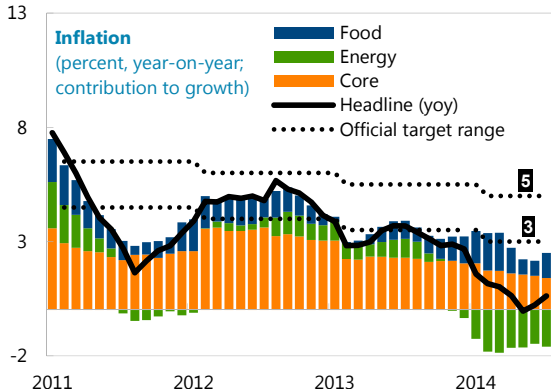
Public Administration: Wages and Productivity



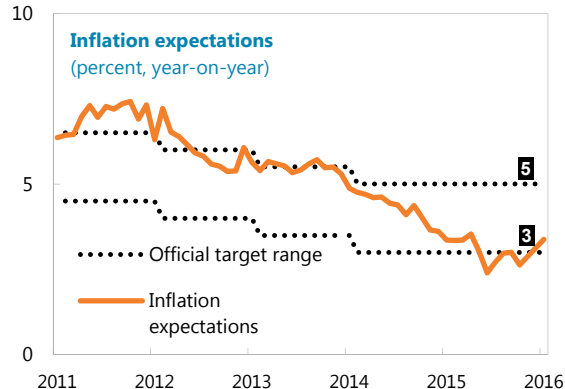
Sources: UN Comtrade, CTO, BCRD, National Labor Force Survey and Fund staff calculations and estimates.

Figure 2. Dominican Republic: Monetary Developments and Policies

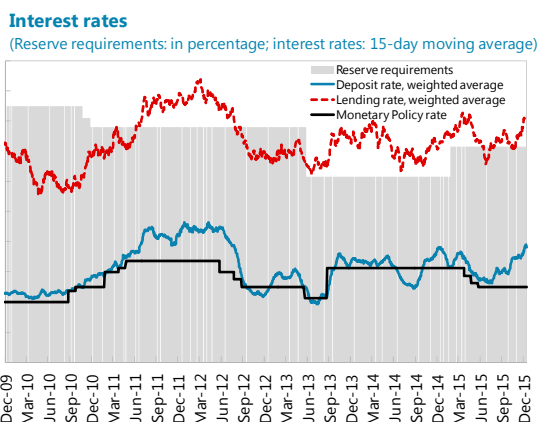
Both headline and core inflation dropped below the target range, mainly as a result of declining oil prices....



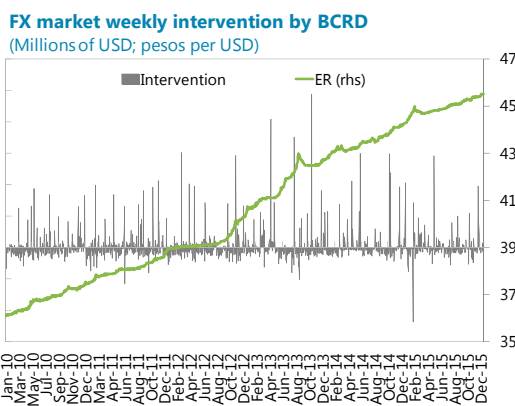
...but expectations for end-2016 remain anchored within the target range.



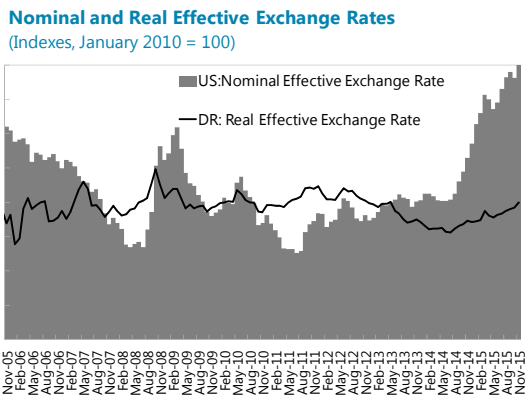
In response to softening inflation, the interest rates were cut by 150bp in early 2015. Their expansionary effect in part offset the earlier increase in reserve requirements.



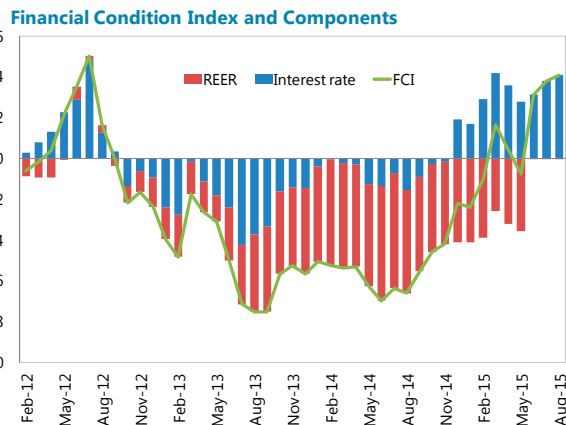
Interventions in the exchange rate market continued by way of smoothing fluctuations in a thin market.



Given the close crawl against the U.S. dollar, the peso appreciated somewhat in real effective terms...



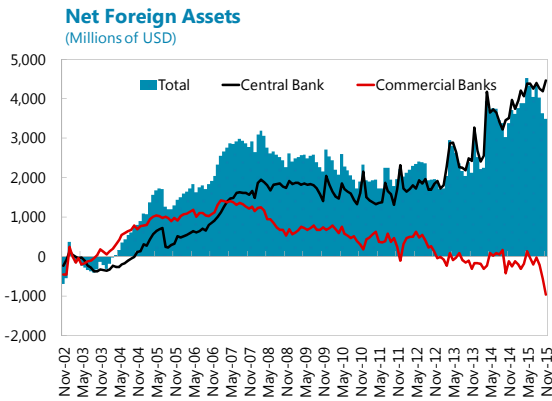
...tightening financial conditions along with the increases in real interest rates due to disinflation.



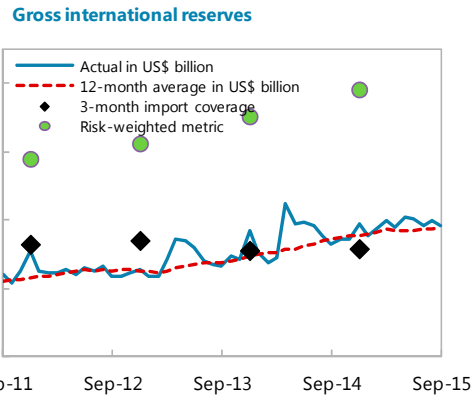
Sources: BCRD, IMF Monetary and Financial Statistics database and Fund staff calculations.

Figure 3. Dominican Republic: Monetary and Financial Developments

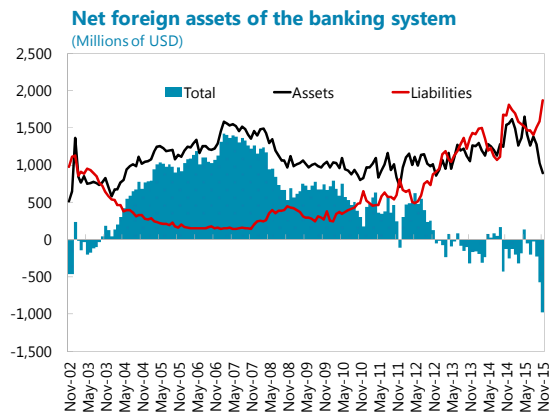
Despite interventions in the foreign exchange markets, central bank reserves continued to increase.



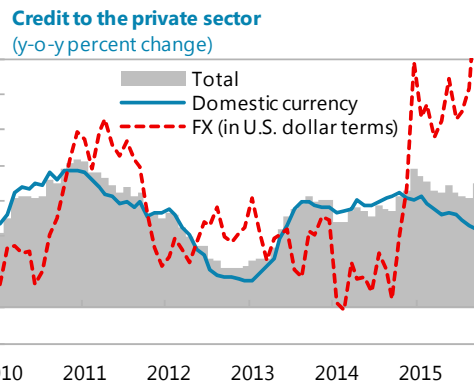
Although adequate by traditional metrics, they remain below the Fund's risk-weighted reserve metrics that requires coverage for long-term liabilities.



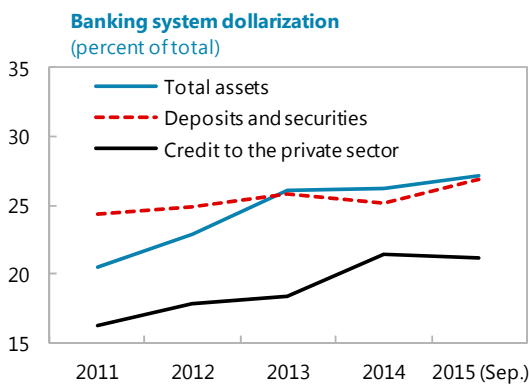
Banks' net foreign asset position remained slightly negative over the past few years, with asset growth offsetting a rapid increase in borrowing from abroad...



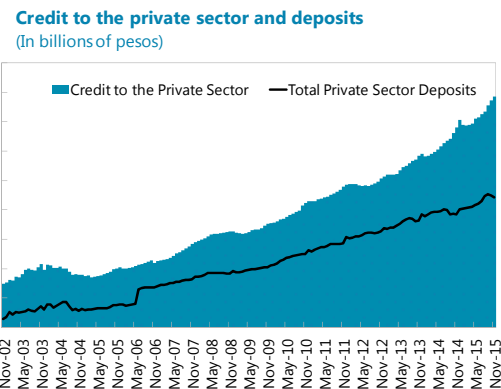
...which helped finance strong credit growth, especially in foreign currency, largely concentrated at the public bank.



Nevertheless, financial dollarization increased only moderately ...



...as the bulk of the credit growth was financed by an increase in private deposits.

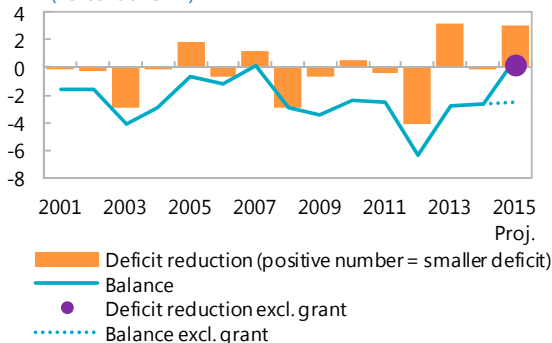


Sources: BCRD, IMF Monetary and Financial Statistics database and Fund staff calculations.

Figure 4. Dominican Republic: Fiscal Developments

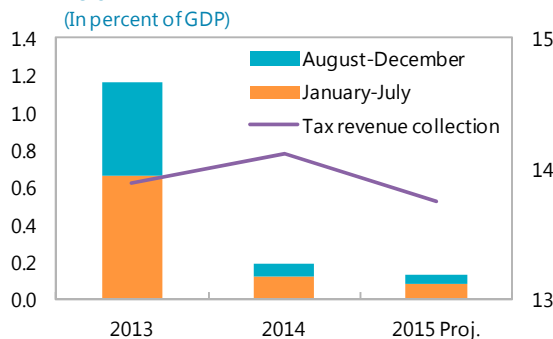
Controlling for the Petrocaribe grant, the fiscal stance is expected to be neutral in 2015...

Central Government - Fiscal Brakes
(Percent of GDP)



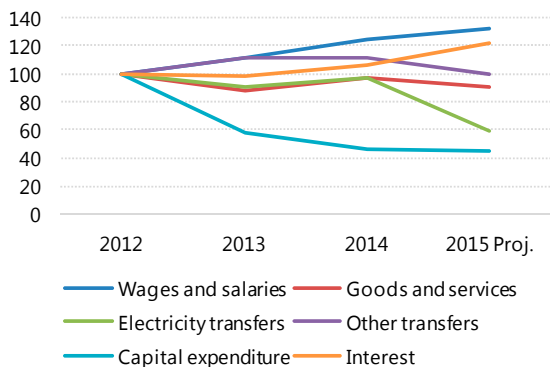
...partly owing to slowing revenue collection.

Marginal Revenue Gains from the 2012 Tax Reform
(In percent of GDP)



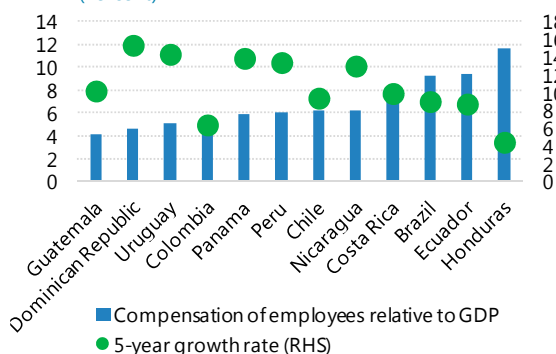
Since 2012, expenditure on wages and salaries has grown steadily...

Central Government Expenditure
(Index, relative to 2012 values)



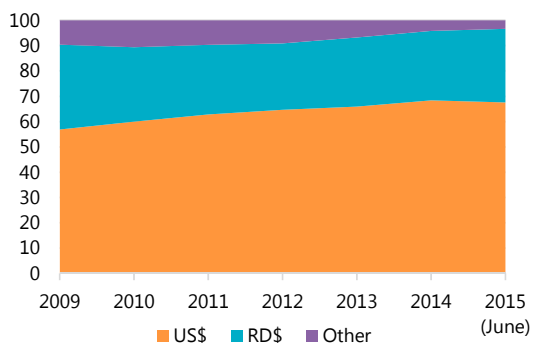
...exceeding growth of some other countries in the region, despite relatively low levels.

General Government Compensation of Employees
(Percent)



The share of foreign currency debt is significant...

NFPS Debt by Currency
(Share of total debt)



...while debt levels, although also rising, remain moderate by global standards.

General Government Gross Debt, 2000-2014
(World, percent of GDP)

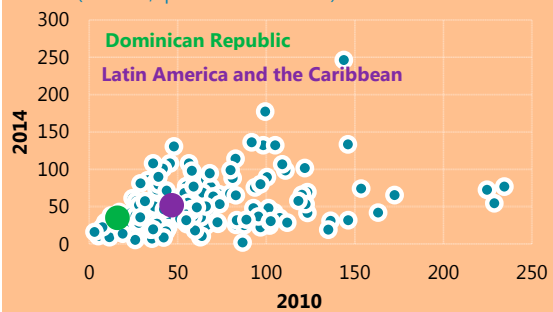
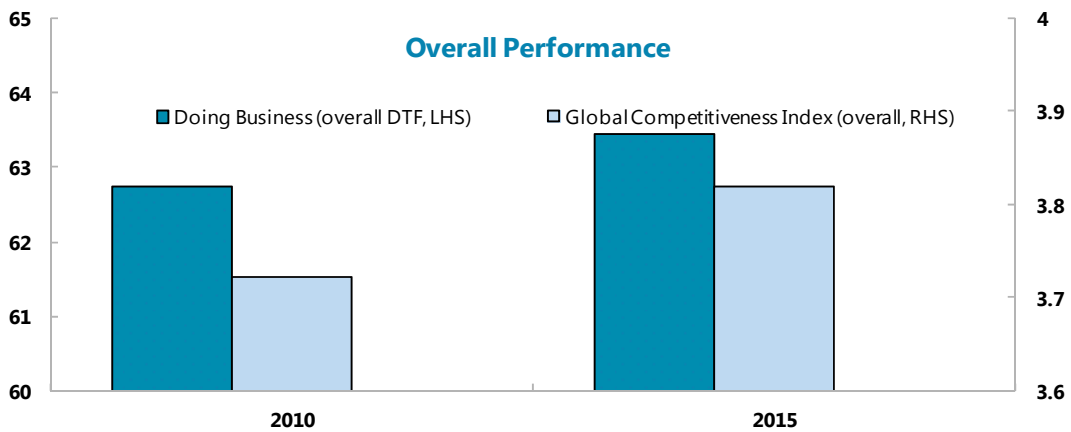


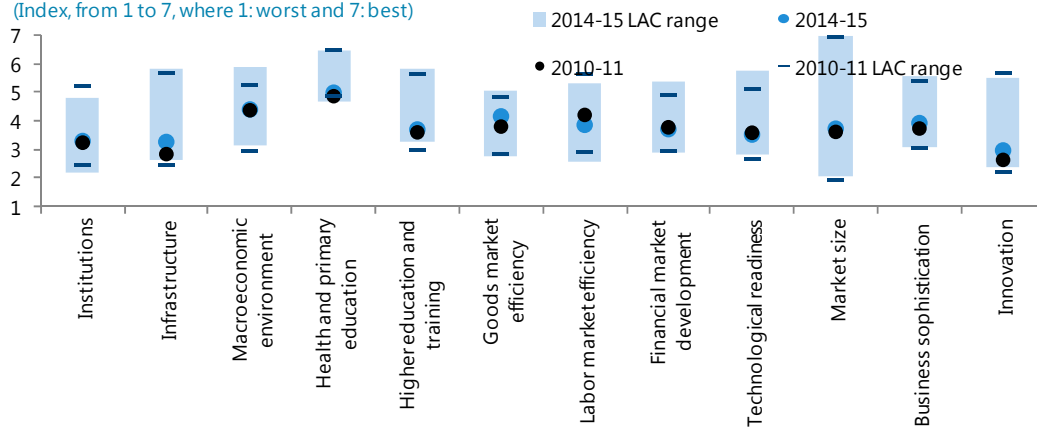
Figure 5. Dominican Republic: Structural and Competitiveness Indicators

The overall position has only marginally improved on Doing Business and Global Competitiveness rankings...



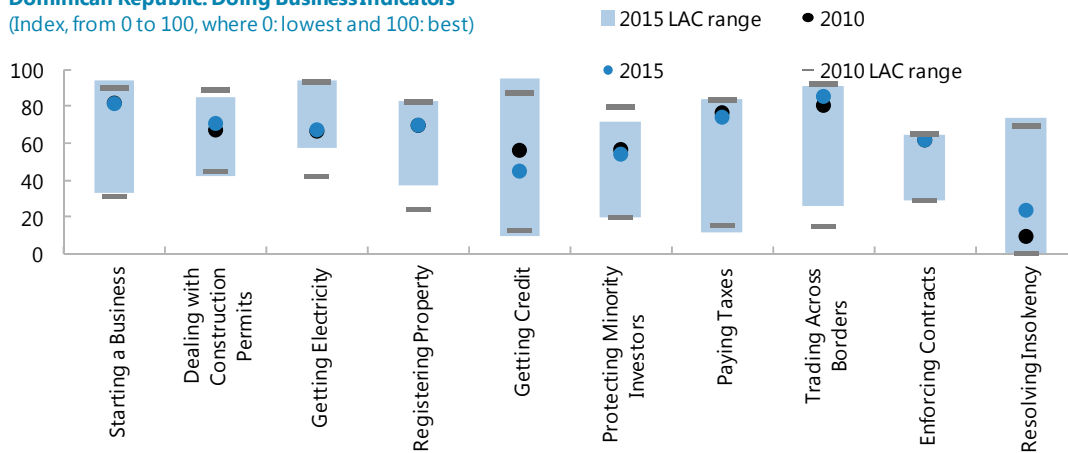
...as its competitiveness is still hampered by insufficiencies in education, infrastructure, and innovation capacity...

Dominican Republic: Global competitiveness Index
(Index, from 1 to 7, where 1: worst and 7: best)



...while the business climate has been held back by an inefficient electricity sector and weak insolvency resolution framework.

Dominican Republic: Doing Business Indicators
(Index, from 0 to 100, where 0: lowest and 100: best)



Sources: World Bank's Doing Business and World Economic Forum's Global Competitiveness reports.

Table 1. Dominican Republic: Selected Economic Indicators

Population (millions, 2014 estimate)	9.9	GDP per capita 2014 (U.S. dollars)	6,481
Quota (218.9 millions SDRs / 0.09% of total)		Poverty (2014, share of population)	35.5
Main export products: tourism, textiles, gold		Extreme poverty (2014, % of pop.)	7.2
Key export markets: U.S. and Canada		Adult literacy rate (percent, 2014)	91

	2012	2013	2014	Est. 2015	Proj.					
					2016	2017	2018	2019	2020	
Output	(Annual percentage change, unless otherwise stated)									
Real GDP	2.6	4.8	7.3	7.0	5.4	4.5	4.5	4.5	4.5	
Nominal GDP (RD\$ billion)	2,378	2,559	2,786	3,036	3,312	3,600	3,912	4,252	4,621	
Nominal GDP (US\$ billion)	60.5	61.3	64.1	67.6	...	...	...	...	...
Output gap	-0.4	-0.6	0.3	1.3	1.2	0.5	0.0	0.0	0.0	
Unemployment										
Unemployment rate (in percent; period average)	6.5	7.0	6.4	5.9	...	...	...	...	...
Prices										
Consumer price inflation (end of period)	3.9	3.9	1.6	2.3	4.0	4.0	4.0	4.0	4.0	
Consumer price inflation (period average)	3.7	4.8	3.0	0.8	4.3	4.0	4.0	4.0	4.0	
Exchange rate										
Exchange rate (RD\$/US\$ - period average)	39.3	41.7	43.5	44.9	...	...	...	...	...
Exchange rate (RD\$/US\$ - eop)	40.3	42.7	44.3	45.4	...	...	...	...	...
Government finances	(Percent of GDP)									
Consolidated public sector balance 1, 2/	-7.7	-5.0	-4.5	-1.3	-5.0	-5.1	-4.6	-5.0	-5.2	
Consolidated public sector debt	43.5	48.3	48.1	48.5	49.5	50.7	51.2	52.1	53.1	
Central government balance	-6.4	-2.8	-2.6	0.6	-2.5	-3.0	-3.0	-3.3	-3.3	
Revenues and grants	13.6	14.6	15.1	18.0	14.6	14.5	14.4	14.3	14.3	
Primary spending, o.w.:	17.7	15.1	15.2	14.6	14.2	14.5	14.3	14.3	14.2	
Transfers to electricity sector	1.5	1.4	1.4	0.9	1.0	1.1	0.9	0.8	0.7	
Interest expenditure	2.4	2.3	2.5	2.9	2.9	3.0	3.1	3.3	3.4	
Central bank quasi-fiscal balance	-1.1	-1.4	-1.5	-1.4	-1.4	-1.3	-1.2	-1.2	-1.2	
Rest of NFPS	-0.1	-0.7	-0.4	-0.5	-1.1	-0.8	-0.3	-0.5	-0.7	
Money and credit	(Annual percentage change)									
Broad money (M3)	9.4	13.5	11.8	11.3	9.7	9.7	9.7	9.4	9.2	
Credit to the private sector	5.8	15.0	19.5	12.2	9.1	8.7	8.7	8.7	8.7	
Net domestic assets of the banking system	11.7	8.2	10.2	11.1	8.3	8.5	8.5	8.5	8.6	
Balance of payments	(Percent of GDP)									
Current account	-6.6	-4.1	-3.2	-2.0	-2.2	-2.4	-2.8	-2.8	-3.1	
Merchandise trade balance	-14.4	-12.0	-11.5	-10.7	-10.8	-11.1	-11.1	-11.4	-11.6	
Exports, of which:	14.8	15.4	15.5	14.5	14.1	14.0	13.8	13.7	13.6	
Gold	0.3	1.9	2.4	1.8	1.7	1.6	1.4	1.3	1.1	
Imports, of which	-29.2	-27.4	-27.0	-25.2	-24.9	-25.1	-24.9	-25.1	-25.3	
Oil and gas	-7.9	-7.1	-6.0	-3.6	-3.0	-3.4	-3.6	-3.8	-3.9	
Services and transfers (net)	7.9	7.9	8.3	8.7	8.6	8.7	8.4	8.6	8.5	
Capital account 2,3/	0.1	0.1	0.0	3.1	0.0	0.0	0.0	0.0	0.0	
Financial account 3/	-5.9	-6.8	-5.2	-2.1	-2.9	-3.2	-3.6	-3.6	-3.8	
Foreign direct investment, net	-5.2	-3.2	-3.4	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	
Portfolio investment, net	0.7	-2.9	-2.2	-4.6	-1.6	-1.4	-1.4	-2.0	-1.4	
Other investment, net	-1.5	-0.6	0.5	5.7	1.7	1.3	0.9	1.4	0.6	
GIR (in millions of U.S. dollars)	3,559	4,701	4,862	5,258	5,645	6,291	6,973	7,644	8,248	
GIR in months of imports (excl. maquila) 4/	2.6	3.4	3.5	3.6	3.7	3.9	4.1	4.2	4.3	
Total external debt	33.2	36.3	37.7	35.1	34.2	34.1	34.6	35.1	35.7	

Sources: Country authorities; World Bank; and Fund staff calculations and estimates.

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

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

3/ In line with BPM6 presentation.

4/ In relation to imports of goods and nonfactor services of the following year, excluding maquila.

Table 2. Dominican Republic: Public Sector Accounts

(In percent of GDP)

	2012	2013	2014	Proj.					
				2015	2016	2017	2018	2019	2020
A. Central Government									
Total revenue and grants	13.6	14.6	15.1	18.0	14.6	14.5	14.4	14.3	14.3
Total revenue	13.4	14.4	15.0	14.8	14.5	14.4	14.3	14.2	14.2
Tax revenues	13.1	13.9	14.1	13.7	13.7	13.6	13.5	13.4	13.4
Income and property 1/	4.7	5.2	5.2	4.7	4.7	4.6	4.6	4.5	4.6
VAT	3.9	4.4	4.7	4.8	4.9	4.9	4.9	4.9	4.9
Excises	3.5	3.4	3.3	3.1	3.1	3.0	3.0	2.9	2.9
International trade	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Nontax revenue	0.3	0.6	0.8	1.1	0.8	0.8	0.8	0.8	0.8
Grants	0.2	0.1	0.1	3.2	0.1	0.1	0.1	0.1	0.1
Primary expenditures	17.7	15.1	15.2	14.6	14.2	14.5	14.3	14.3	14.2
Wages and salaries	3.7	4.1	4.6	4.9	4.2	4.2	4.2	4.2	4.2
Goods and services	1.7	1.5	1.7	1.6	1.7	1.7	1.7	1.7	1.8
Transfers	5.7	6.0	6.1	5.1	5.7	5.8	5.6	5.5	5.4
Electricity transfers	1.5	1.4	1.4	0.9	1.0	1.1	0.9	0.8	0.7
Other	4.2	4.6	4.6	4.2	4.7	4.7	4.7	4.7	4.7
Capital expenditure	6.3	3.7	2.9	2.9	2.4	2.6	2.6	2.6	2.6
Statistical discrepancy	0.2	-0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-4.1	-0.5	-0.1	3.4	0.4	0.0	0.1	0.0	0.1
Interest	2.4	2.3	2.5	2.9	2.9	3.0	3.1	3.3	3.4
Foreign	0.7	0.8	0.9	1.1	1.3	1.3	1.3	1.4	1.5
Domestic 2/	1.6	1.5	1.6	1.8	1.6	1.7	1.8	1.9	1.9
o/w: interest for central bank recapitalization	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Overall balance	-6.4	-2.8	-2.6	0.6	-2.5	-3.0	-3.0	-3.3	-3.3
B. Rest of the Non-Financial Public Sector 3/									
Overall balance rest of NFPS	-0.1	-0.7	-0.4	-0.5	-1.1	-0.8	-0.3	-0.5	-0.7
C. Non-Financial Public Sector (A+B)									
Overall balance NFPS	-6.6	-3.6	-3.0	0.1	-3.6	-3.8	-3.3	-3.8	-4.0
Primary balance	-4.2	-1.2	-0.5	2.9	-0.7	-0.8	-0.2	-0.5	-0.5
Interest	2.4	2.3	2.5	2.9	2.9	3.0	3.1	3.3	3.4
D. Central Bank									
Quasi-fiscal balance of the central bank	-1.1	-1.4	-1.5	-1.4	-1.4	-1.3	-1.2	-1.2	-1.2
Of which: non interest	0.8	0.5	0.5	0.5	0.6	0.7	0.7	0.8	0.8
E. Consolidated Public Sector (C+D)									
Consolidated public sector balance	-7.7	-5.0	-4.5	-1.3	-5.0	-5.1	-4.6	-5.0	-5.2
Interest	3.3	3.5	3.8	4.1	4.2	4.3	4.3	4.6	4.8
Memorandum items:									
Consolidated public sector debt	43.5	48.3	48.1	48.5	49.5	50.7	51.2	52.1	53.1
Non-financial public sector	30.5	34.6	34.4	34.4	35.3	36.2	36.4	37.2	38.2
Central Bank 5/	13.0	13.7	13.7	14.2	14.2	14.5	14.7	14.9	14.9
Underlying consolidated public sector balance	-8.1	-5.2	-4.9	-4.4	-5.0	-5.1	-4.6	-5.0	-5.2
Structural balance 4/	-3.6	-0.2	-0.1	0.7	0.8	0.6	0.8	0.8	0.9
Central government primary spending excl. energy subsidies	16.2	13.7	13.7	13.7	13.2	13.4	13.4	13.5	13.5
Central government overall spending	20.0	17.4	17.7	17.5	17.1	17.5	17.4	17.6	17.6
Overall balance of the electricity sector	-2.6	-2.0	-2.4	-1.5	-2.1	-1.9	-1.2	-1.3	-1.3
Nominal GDP (DR\$ billion)	2,378	2,559	2,786	3,036	3,312	3,600	3,912	4,252	4,621

Sources: Country authorities; and Fund staff calculations and estimates. Projection for 2015 based on data through end-October.

1/ Includes social security contributions.

2/ Includes interest payments on central bank recapitalization bonds.

3/ Includes the Dominican Corporation of State Electricity Companies (CDEEE).

4/ Consolidated public sector primary structural balance; excludes one-off items

5/ Includes outstanding stock of all central bank securities.

Table 3. Dominican Republic: Public Sector Accounts

(In billions of Dominican pesos)

	2012	2013	2014	2015	2016	Proj. 2017	2018	2019	2020
A. Central Government									
Total revenue and grants	323.5	372.5	419.5	547.9	483.0	520.5	562.9	606.8	660.8
Total revenue	318.6	369.4	417.4	449.3	479.6	516.8	558.9	602.4	656.1
Tax revenue	312.1	355.3	393.2	417.3	453.5	488.4	528.1	568.9	619.7
Income and property 1/	112.7	132.4	144.8	143.9	156.1	167.0	180.7	193.4	213.7
VAT	92.8	113.3	130.4	147.2	161.4	175.4	190.6	207.1	225.1
Excises	83.1	85.8	90.9	94.8	101.7	108.8	116.3	124.4	133.0
International trade	23.4	23.8	26.6	31.0	33.8	36.7	39.9	43.4	47.1
Nontax revenue	6.5	14.1	21.2	32.0	26.1	28.4	30.8	33.5	36.4
Grants	4.9	3.1	2.1	98.6	3.4	3.7	4.0	4.4	4.7
Primary expenditures	420.3	386.0	423.2	443.2	469.0	520.9	559.0	606.4	654.8
Wages and salaries	87.8	105.3	127.8	149.1	139.9	152.0	165.2	179.5	195.1
Goods and services	41.5	39.3	47.4	48.2	55.8	61.4	67.5	74.2	81.6
Transfers	134.9	153.4	169.7	153.9	189.0	208.6	218.9	235.9	251.2
Electricity transfers	35.5	34.6	40.2	26.9	31.9	37.9	33.3	34.3	32.1
Other	99.4	118.8	129.4	127.0	157.1	170.7	185.5	201.6	219.1
Capital expenditure	151.0	93.7	81.5	87.8	79.8	93.9	102.1	111.0	120.6
Statistical discrepancy	4.5	-6.1	-3.5	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	-96.8	-13.5	-3.8	104.7	14.0	-0.4	3.9	0.4	6.0
Interest	56.2	59.2	70.0	87.2	97.4	108.9	121.2	140.1	159.0
Foreign	17.7	20.5	25.4	33.5	43.0	47.8	51.1	60.6	69.7
Domestic 2/	38.5	38.7	44.6	53.7	54.3	61.1	70.1	79.5	89.3
o/w: interest for central bank recapitalization	23.8	17.4	19.2	21.2	23.2	25.2	27.4	29.8	32.3
Overall balance	-153.0	-72.7	-73.8	17.6	-83.4	-109.3	-117.3	-139.7	-153.0
B. Rest of the Non-Financial Public Sector 3/									
Overall balance rest of NFPS	-3.5	-18.3	-10.8	-15.4	-37.0	-28.9	-13.2	-20.5	-30.2
C. Non-Financial Public Sector (A+B)									
Overall balance NFPS	-156.5	-91.0	-84.5	2.2	-120.4	-138.2	-130.5	-160.2	-183.2
Primary Balance	-100.3	-31.7	-14.5	89.4	-23.0	-29.3	-9.3	-20.1	-24.2
Interest	56.2	59.2	70.0	87.2	97.4	108.9	121.2	140.1	159.0
D. Central Bank									
Quasi-fiscal balance of the central bank	-25.5	-36.2	-41.2	-42.0	-45.4	-46.0	-48.6	-52.0	-57.5
Of which: non interest	19.8	12.3	13.6	16.5	19.6	23.4	27.6	32.4	35.6
E. Consolidated Public Sector (C+D)									
Consolidated public sector balance	-182.0	-127.2	-125.8	-39.8	-165.8	-184.2	-179.0	-212.2	-240.7
Interest	77.7	90.4	105.7	124.5	139.2	153.1	170.0	194.7	219.8
Memorandum items:									
Consolidated public sector debt	1,034	1,236	1,341	1,474	1,640	1,824	2,003	2,215	2,456
Non-financial public sector	724	885	958	1,043	1,168	1,301	1,426	1,582	1,766
Central Bank 5/	309	351	383	430	471	522	577	633	690
Underlying consolidated public sector balance	-193	-132	-137	-133	-166	-184	-179	-212	-241
Structural balance	-86.2	-3.9	-2.5	22.6	28.0	20.5	31.3	32.5	41.4
Central government primary spending excl. energy subsidies	384.8	351.4	383.0	416.3	437.1	483.0	525.7	572.1	622.7
Central government overall spending	476.5	445.2	493.3	530.4	566.4	629.7	680.2	746.5	813.8
Overall balance of the electricity sector	-62.3	-50.3	-66.0	-46.8	-68.9	-66.9	-46.5	-54.7	-62.3

Sources: Country authorities; and Fund staff calculations and estimates. Projection for 2015 based on data through end-October.

1/ Includes social security contributions.

2/ Includes interest payments on Central Bank recapitalization bonds.

3/ Includes the Dominican Corporation of State Electricity Companies (CDEEE).

4/ Consolidated public sector primary structural balance; excludes one-off items

5/ Includes outstanding stock of all central bank securities.

Table 4. Dominican Republic: Summary Accounts of the Banking System

(In billions of Dominican pesos, unless otherwise specified)

	2012	2013	2014	Proj.	
				2015	2016
I. Central Bank 1/					
Net foreign assets	77.2	139.7	175.4	216.0	246.7
(in millions of US\$) 2/	1,918	3,275	3,968	4,736	5,252
Net domestic assets	9.3	-46.0	-70.7	-99.2	-119.3
Nonfinancial public sector (net) 3/	-2.0	-17.1	-1.4	-0.4	-0.4
Financial institutions (net)	-327.7	-390.6	-432.4	-475.0	-522.9
Nonfinancial private sector (certificates)	-92.6	-94.7	-120.5	-138.9	-154.2
Other items (net)	431.6	456.4	483.6	515.1	558.2
Currency issue	86.5	93.7	104.7	116.8	127.5
II. Deposit Money Banks					
Net foreign assets	-1.9	-7.1	-11.1	-30.2	-25.7
(in millions of US\$) 2/	-48	-166	-252	-662	-547
Net domestic assets	717.7	810.1	883.4	990.1	1075.7
Net claims on central bank	242.2	269.2	275.5	303.7	331.9
Net credit to the nonfinancial public sector	78.4	98.0	68.7	68.0	80.0
Central government	76.2	96.6	67.2	-24.1	-12.2
Rest of NFPS	2.1	1.4	1.6	92.1	92.2
Credit to the private sector	513.6	591.1	707.0	793.8	866.8
In pesos	422.3	482.3	555.4	637.9	696.5
In foreign currency	91.3	108.8	151.6	156.0	170.3
Capital and accumulated surplus	-122.4	-138.1	-150.9	-167.6	-181.8
Other items (net)	6.1	-10.2	-16.9	-7.8	-21.3
Liabilities to the private sector	715.8	803.0	872.2	959.9	1050.0
In pesos	537.7	596.0	652.6	716.3	783.6
In foreign currency	178.1	207.0	219.6	243.6	266.4
III. Banking System 4/					
Net foreign assets	75.3	132.7	164.3	185.8	221.1
(in millions of US\$) 2/	1,870	3,109	3,717	4,074	4,706
Net domestic assets	887.5	960.1	1,057.8	1,174.7	1,271.8
Nonfinancial public sector 3/	76.4	81.0	67.3	67.6	79.6
Credit to the private sector	518.4	596.1	712.6	799.4	872.3
Other items (net)	292.7	283.0	277.9	307.8	319.9
M3	962.8	1,092.7	1,222.1	1,360.5	1,492.9
Currency in circulation	66.6	73.5	82.5	92.5	100.8
Deposits	503.9	575.9	605.8	670.5	733.5
Central bank certificates held outside commercial banks	92.6	94.7	120.5	138.9	154.2
Commercial bank certificates held by the public	211.9	227.1	266.4	289.4	316.5
(percent change, y-o-y)					
Memorandum items:					
Credit to the private sector	5.8	15.0	19.5	12.2	9.1
Currency issue	10.6	8.4	11.7	11.6	9.1
Deposits and commercial bank certificates	9.9	12.2	8.6	10.0	9.4
M3	9.4	13.5	11.8	11.3	9.7
M3 Velocity (ratio of GDP to M3)	2.5	2.3	2.3	2.2	2.2

Source: Country authorities; and Fund staff calculations and estimates.

1/ The central bank's balance sheet is adjusted to incorporate the reserve liability that emerges from the IMF budgetary support under the 2009 SBA.

2/ On a residency basis.

3/ Excludes transfers related to central bank recapitalization.

4/ Includes the central bank, Banco de Reservas, and all other deposit-taking institutions. Excludes other financial institutions.

Table 5. Dominican Republic: Balance of Payments

(In millions of U.S. dollars, unless otherwise specified)

	2012	2013	2014	Projections					
				2015	2016	2017	2018	2019	2020
Current account	-3,971	-2,537	-2,026	-1,380	-1,574	-1,779	-2,202	-2,372	-2,772
Trade balance	-8,738	-7,377	-7,369	-7,260	-7,724	-8,378	-8,881	-9,577	-10,306
Exports f.o.b.	8,936	9,424	9,920	9,782	10,097	10,551	10,979	11,499	12,093
<i>Of which: gold</i>	175	1,191	1,541	1,187	1,215	1,179	1,098	1,056	1,018
<i>Of which: core exports 1/</i>	3,082	2,513	2,490	2,481	2,661	2,788	2,922	3,072	3,286
Imports f.o.b.	-17,673	-16,801	-17,288	-17,042	-17,821	-18,929	-19,860	-21,076	-22,398
<i>Of which: oil and gas</i>	-4,810	-4,352	-3,866	-2,452	-2,133	-2,537	-2,871	-3,193	-3,449
<i>Of which: core imports 2/</i>	-9,964	-9,338	-9,972	-11,018	-12,019	-12,535	-12,930	-13,602	-14,432
Nonfactor services	3,202	3,688	4,226	4,452	4,743	5,044	5,346	5,762	6,098
<i>Of which: travel receipt</i>	4,687	5,064	5,637	6,154	6,562	7,011	7,419	7,875	8,398
Factor services	-2,344	-2,994	-3,209	-3,223	-3,515	-3,674	-4,162	-4,517	-4,906
<i>Of which: interest on public debt 3/</i>	-449	-490	-583	-746	-929	-1,002	-1,041	-1,198	-1,338
<i>Of which: cost recovery (mining)</i>	0	-336	-278	-212	-210	-204	-190	-183	-176
Transfers	3,909	4,147	4,326	4,651	4,921	5,228	5,496	5,960	6,341
Capital and financial account	-3,555	-4,108	-3,279	719	-2,011	-2,357	-2,812	-2,968	-3,296
Capital account	41	41	26	2,128	32	34	36	38	40
Financial account	-3,596	-4,149	-3,305	-1,409	-2,043	-2,391	-2,848	-3,006	-3,336
Direct investment, net 4/	-3,142	-1,991	-2,209	-2,157	-2,146	-2,265	-2,390	-2,521	-2,660
Portfolio investment, net	446	-1,765	-1,430	-3,133	-1,122	-1,072	-1,136	-1,700	-1,200
Other investment, net	-900	-393	334	3,881	1,225	945	678	1,216	524
<i>Of which: public sector MLT, net 5/</i>	1,237	766	-257	-3,284	599	744	683	603	1,389
Disbursements	1,859	1,612	1,774	1,680	1,321	1,509	1,407	1,527	1,807
Amortization	-648	-846	-1,065	-4,964	-722	-765	-724	-924	-418
Other	-2,137	-1,159	591	7,165	626	201	-5	613	-865
<i>Of which: cost recovery (mining)</i>	133	164	479	369	367	356	331	319	307
<i>Of which: private sector MLT loans, net</i>	-105	-108	21	-232	0	0	0	0	0
Errors and omissions	-106	-312	-691	-1,370	0	0	0	0	0
Overall balance	-440	1,341	614	786	501	646	682	671	604
Financing	440	-1,341	-614	-787	-501	-646	-682	-671	-604
Change in NIR (increase, -) 6/	437	-1,343	-616	-775	-501	-646	-682	-671	-604
Change in GIR (increase, -)	548	-1,146	-162	-404	-387	-646	-682	-671	-604
Net Fund purchases	-111	-197	-455	-371	-114	0	0	0	0
Exceptional financing	3	2	2	-12	0	0	0	0	0
Memorandum items:									
Current account in percent of GDP	-6.6	-4.1	-3.2	-2.0	-2.2	-2.4	-2.8	-2.8	-3.1
Underlying current account in percent of GDP 7/	-6.3	-3.9	-2.4	-1.5	-1.7	-1.9	-2.3	-2.4	-2.8
Non-oil-gas current account in percent of GDP	1.4	3.0	2.9	1.6	0.8	1.0	0.8	1.0	0.8
Growth rate of the volume of exports of goods	6.8	8.2	8.0	2.6	5.1	3.0	2.7	3.5	4.1
Growth rate of the volume of imports of goods	0.6	-2.7	5.7	10.3	6.5	5.1	5.6	4.5	5.1
GIR in months of imports (excl. maquila) 8/	2.6	3.4	3.5	3.6	3.7	3.9	4.1	4.2	4.3

Sources: Country authorities; and Fund staff calculations and estimates.

1/ Excludes exports of metals, FTZs and goods procured in ports.

2/ Excludes imports of petroleum and FTZs; does not include imports of machinery and equipment for the power plants in 2015-17 (US\$1,455 million).

3/ Includes interest on loans and bonds.

4/ 2012 includes the change in ownership of a beer company offset by portfolio outflows (approximately US\$1 billion).

5/ Excludes Fund purchases and repurchases by the central government.

6/ On residency basis. Net of central bank and central government obligations to the Fund.

7/ Includes net gold exports, after subtracting capital outflows related to investment recovery by the gold company.

8/ In relation to imports of goods and non-factor services of the following year, excluding maquila.

Table 6. Dominican Republic: Financial Soundness Indicators of Commercial Banks

(In percent)

	2008	2009	2010	2011	2012	2013	2014	Sep 2015
Capital adequacy								
Net worth to total assets	9.5	9.1	9.3	9.7	10.0	9.7	9.5	9.8
Regulatory capital to risk-weighted assets 1/	13.4	13.8	12.9	14.6	15.8	14.8	14.0	15.1
Asset quality								
Loan growth (twelve-month percent change)	15.9	12.4	14.5	11.4	13.7	20.4	12.0	13.9
NPLs to total loans	3.4	4.0	2.9	2.6	3.2	1.9	1.3	1.5
Loan provisions to NPLs	137.0	114.8	135.8	129.2	108.3	169.8	228.6	185.5
NPLs net of provisions to net worth	-7.7	-3.8	-6.6	-4.4	-1.5	-8.3	-10.9	-8.2
Fixed and net foreclosed assets to net worth	56.9	51.3	46.1	46.1	41.7	39.0	35.2	33.8
Earnings and efficiency								
Return on average assets	2.7	2.3	2.6	2.4	2.2	2.3	2.3	2.5
Return on average equity	27.6	28.3	25.3	24.4	22.6	24.6	23.9	25.8
Gross operating income to average assets	10.7	11.2	9.6	10.0	11.0	10.5	10.0	10.0
Financial margin to average assets	6.2	6.1	6.2	6.2	6.5	6.6	6.2	6.3
Operating expenses to net financial margin	96.0	91.1	85.7	90.5	90.8	86.4	90.4	91.3
Liquidity								
Liquid funds to deposits	31.1	28.0	26.2	26.3	25.1	25.0	26.7	25.3
Liquid funds to total assets	25.6	23.7	22.1	21.7	20.8	20.3	21.3	20.5

Source: Country authorities.

1/ Value for 2015 is as of end-Sept.

Annex I. Risk Assessment Matrix and Past Fund Advice

Dominican Republic: Risk Assessment Matrix ¹				
Source of Risks	Likelihood	Impact	Effect	Policy Response
Tighter or more volatile global financial conditions	H	M	Reduction in capital inflows or an increase in capital outflows; higher financing costs; pressures on the exchange rate	Fiscal restraint; shift to domestic financing sources; readiness of monetary authorities to tighten policy if needed
Sharper-than-expected global growth slowdown, in particular through structurally weak growth in key advanced and emerging economies	H (advanced economies)/M (emerging markets)	M	Reduction in exports, tourism receipts, and remittances. Subsequently, lower economic activity and fiscal receipts	Build external and fiscal buffers to safeguard macroeconomic stability; structural reforms to improve competitiveness
Persistently low energy prices	H	M	Higher real income, boosting demand and output	Lock in lower transfers to the electricity sector, use savings to improve fiscal position and/or enhance needed productive public investment
Reopening of U.S.-Cuba relations and geopolitical aspects	H	M/L	Stronger relationships between U.S. and Cuba can divert tourism and exports. Ban on overland imports of products to Haiti can result in a decline of exports and output	Structural reforms to improve competitiveness both in the tourism and other export-oriented sectors
Discontinuation of Petrocaribe agreement	H/M	L	Reduction in favorable fiscal financing	Continue commitment to fiscal discipline
Large exchange rate depreciation	L	H	Deterioration of the net financial position of the public sector arising from large currency mismatches	Fiscal consolidation and shift to domestic currency financing

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Past policy advice

Over the past few years, Fund advice focused on: (i) continuing fiscal consolidation to put debt on a sustainable downward path; (ii) allowing additional exchange rate flexibility by limiting the interventions only to counter disorderly market conditions; (iii) resuming the recapitalization of the central bank at levels envisaged in the 2007 legislation, and (iv) addressing the bottlenecks in the electricity sector. The authorities undertook a significant consolidation through tax reform and expenditure restraint over the past three years, halving the central government deficit to 2 $\frac{2}{3}$ percent. The exchange rate continues to depreciate at a broadly 3-4 percent a year crawl vis-à-vis the U.S. dollar, with interventions on both sides of the market. Recapitalization transfers remain below levels envisaged in the legislation, in part as a result of the limited fiscal envelope. Efforts in the electricity sector have focused on diversifying the energy matrix and reducing distribution losses, but substantive reforms will be underpinned by the outcomes of the ongoing discussions of the electricity pact.

Annex II. Macroeconomic Impact of the Decline in Oil Prices

The significant decline in world oil prices since mid-2014 represented a positive terms-of-trade shock for the Dominican Republic as a net oil importer. This annex elaborates on four key areas of macroeconomic gains associated with the decline in oil prices: stronger economic activity, lower inflation, fiscal savings, and an improvement in the external position.

Economic Activity

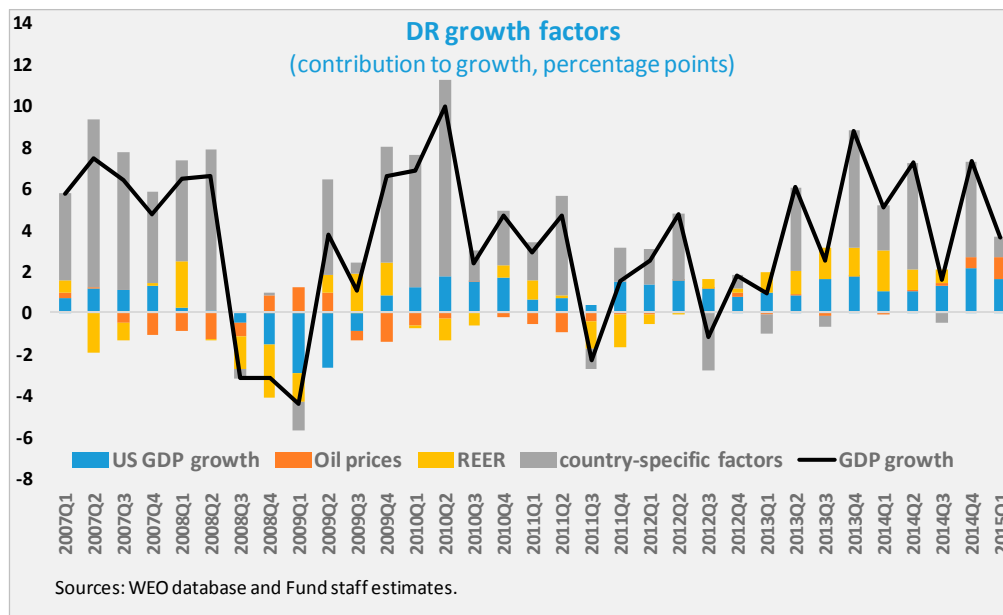
Economic activity was affected through a positive impulse to domestic demand, a favorable supply cost shock, and likely through higher external demand for Dominican goods and services by partner countries that also enjoyed an increase in real disposable incomes.

- a. **Domestic demand:** The drop in oil prices generated an increase in real disposable income, which in turn, boosted private consumption to the degree that it was not fully saved. While a considerable share of the increase in domestic demand is estimated to have leaked out through higher imports, the net impact on economic activity is estimated to have been positive.
- b. **Supply:** The reduction in oil prices has translated into lower production and transportation costs for businesses, which helped boost corporate profits, lead to an expansion of productive capacity and increased investment, or indirectly supported credit activity to the extent that higher corporate gains were recycled through the domestic financial system.
- c. **External demand:** As a highly open economy, the Dominican Republic has likely benefitted from lower oil prices indirectly through higher external demand for its goods and services. Its main export destinations and key tourism source markets are generally net oil importers, hence overall external demand is likely to have been positively affected.¹

Staff estimated empirically the potential overall impact on economic activity using regression analysis, VAR, and a structural model. When relevant, the calculations were based on the assumption that the pattern of private consumption and private investment, as well as the share of imports, do not significantly deviate from the trend over the last five years. Staff estimates suggest that the 47 percent drop in oil prices in 2015 has added about 0.6–0.7 percentage points to economic growth in 2015.²

¹ The U.S. is by far the largest trade partner and tourist source market of the Dominican Republic, accounting for 49 percent of total Dominican exports in 2014 and 45 percent of total tourist arrivals over the period January–August 2015. The group of net oil exporters accounts for less than 10 percent of exports and about 12 percent of total tourist arrivals over the same period.

² While alternative techniques and empirical specifications produce a wide range of results, they are typically centered on 0.6–0.7 percentage points higher growth, with the upper bound at 1 percentage point.



Inflation

Headline inflation has been directly affected via three key categories of the consumption basket—fuels, transport and household costs—where the pass-through of international price changes is fast and substantial.³ In addition, oil prices are estimated to have affected core and headline inflation through second-round price effects related to retail, logistics, and distribution channels. Staff estimates that the drop in global oil prices have lowered domestic headline inflation by about 1-1¼ percentage points through end-2015, mainly through lower fuel, transport, and household costs, while core inflation has been about 0.4 percentage points lower due to second-round effects.

Fiscal Position

The fiscal position is exposed to oil price changes primarily through the ad valorem components of fuel taxes, the favorable source of financing provided under the Petrocaribe agreement, and the overall deficit of the public electricity sector. While a drop in fuel prices will translate into lower tax revenues and lower financing under the terms of the Petrocaribe agreement, it will also result in lower costs for electricity generation (fuels account for about half of total generation) and hence smaller deficit for the public electricity sector. Overall, the savings in the electricity sector have more

³ The pass-through from international fuel prices to the reference fuel import prices that are used as an input in the calculation of the final consumer price of fuels is almost complete with a lag of less than two weeks. Nonetheless, the reference fuel import prices represent only about 40 percent of the overall final consumer fuel prices, with the rest being determined mainly by fixed taxes, charges, and margins.

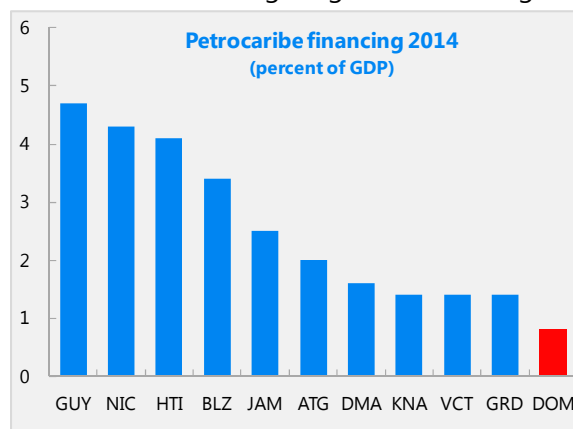
(continued)

than compensated for the loss in fuel tax revenues and interest savings related to Petrocaribe, resulting in an improvement of the fiscal position of about 0.4 percent of GDP in 2015.

a. *Ad valorem* fuel taxes: The *ad valorem* fuel taxes represent about 16 percent of the import fuel price.⁴ Staff estimates that direct fiscal revenues loss in 2015 was about 0.2 percent of GDP.

b. Petrocaribe financing: The Dominican Republic has been receiving long-term financing at

interest rates significantly below market levels under the Petrocaribe agreement since 2005. While the arrangement has resulted in significant interest savings, Petrocaribe financing for the Dominican Republic has been considerably less important than for other countries in the region. Moreover, it has not been earmarked for specific social projects as is the case with other countries, suggesting that the risk for discontinuation of public projects is lower. Staff estimates that the need to substitute Petrocaribe financing with costlier sources may imply higher annual interest costs for the public sector of up to 0.03–0.04 percent of GDP.



c. Electricity sector savings: Lower oil prices have provided significant savings for the public electricity sector (transmission and distribution), as oil fuels represent the most important source of electricity generation in the Dominican Republic. Staff estimates that the 47 percent drop in oil prices in 2015 have reduced the deficit of the electricity sector by about 0.6 percent of GDP. In turn, this lower overall deficit has allowed the electricity sector to avoid further accumulation of arrears to private generators, reduce its current level of arrears, as well as lower the fiscal transfers it is expected to receive in 2015.

External Position

The drop in oil prices has translated into a significant reduction of the oil import bill, which was partly offset by the response of oil volumes. Taking into account the higher-than-initially-projected jump in oil import volumes of 18 percent in the first half of 2015, staff estimates a decline in the value of oil imports from 5.6 percent of GDP in 2014 to 3.4 percent of GDP in 2015. As the change in oil prices is unlikely to have a significant impact on the non-trade components of the current account, the oil import bill savings are estimated to have directly contributed to an improvement in the current account of about 2.2 percent of GDP.

⁴ The *ad valorem* component of fuel taxes is levied as 16 percent of the import fuel price for most fuels in accordance with Law 495 from 2006. For Avtur the *ad valorem* tax is levied at 6.5 percent.

Annex III. External Sector Assessment

The current account and real exchange rate are broadly in line with medium-term fundamentals and desired policy settings. Persistent current account deficits, financed through foreign direct investment (FDI) flows and to a lesser extent public external debt accumulation, continue to deteriorate the net international investment position. Reserves remain well below the Fund's risk-weighted adequacy metric.

A. Current Account and Exchange Rate Assessment

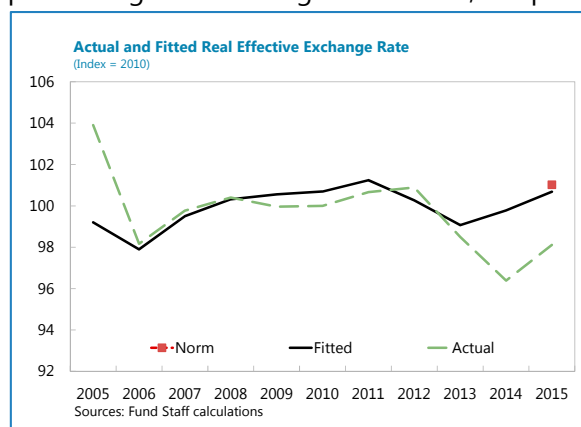
While recent current account improvements have strengthened the external balance, the cyclically adjusted current account balance is close to its norm. According to the EBA-lite current account panel regression the estimated adjusted current account norm for 2015 is -3.4 percent of GDP which accounts for a slight policy gap of -0.4 percent of GDP.¹ Hence, the estimated deficit of 2.0 percent of GDP for 2015 suggests a current account gap of 1.4 percent of GDP. However, most of the improvements in the external balance over the past year have been due to the sharp fall in global oil prices. When adjusting for the partial recovery of oil prices over the medium term, the estimated gap narrows to 0.7 percent of GDP, indicating that the actual current account is broadly in line with fundamentals and desired policy settings. Moreover, assuming an exchange rate elasticity of 16 percent, the adjusted current account gap suggests that the real exchange rate is 4 percent weaker than fundamentals and desired policies.

EBA-Lite Current Account Panel Regression			
Percent of GDP		Percent of GDP	
(a) Actual current account	-2.0%	(g) Fitted current account	-3.8%
(b) Adjusted actual current account 1/	-2.7%	(h) Residual = (a)-(g)	1.8%
(c) Adjusted current account norm = (g) - (i)	-3.4%	(i) Policy gap = (j)+(k)+(l)	-0.4%
(e) Adjusted current account gap = (b)-(c)	0.7%	(j) Fiscal policy	-0.6%
(f) Real exchange rate elasticity	-15.7%	(k) Change in GIR	-0.1%
Real exchange rate gap = (e)/(f)	-4.3%	(l) Private credit to GDP	0.2%

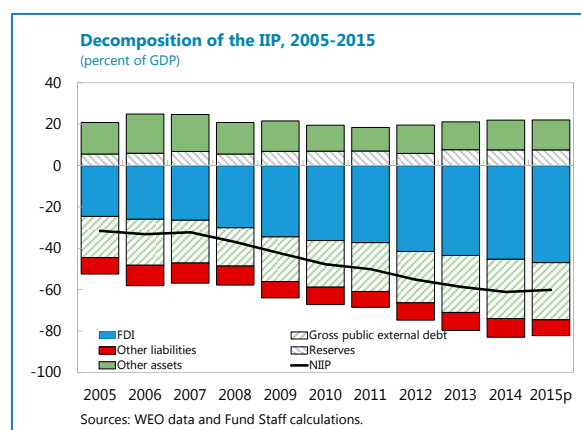
Source: Fund staff calculations
1/ Adjusted for the projected increase in oil prices over the medium term

¹ Three policy variables are included in the panel regression: the cyclically adjusted fiscal balance as a share of GDP, the change in reserve assets as a share of GDP, and the private credit-to-GDP ratio. The respective policy gaps are calculated as the difference between the current values of these variables and their desired medium-term levels. The combined policy gap for Dominican Republic is estimated at -0.4 percent of GDP. For more details about the methodology see "The External Balance Assessment (EBA) Methodology," IMF Working Paper 13/272.

The real effective exchange rate is marginally weaker relative to its estimated norm. With the nominal exchange rate allowed to only gradually depreciate against a stronger U.S. dollar, the peso has continued to appreciate against other major currencies. However, with the United States as its largest trading partner and with low domestic inflation, the real effective exchange rate has only appreciated by approximately 3 percent over the past year. The EBA-lite real exchange rate panel regression indicates that the real rate is 3 percent weaker than the level consistent with fundamentals and desired policies. This is largely consistent with the EBA-lite current account approach.



The current account deficit will widen over the medium term, but is deemed sustainable at an acceptable level of the international investment position (IIP). The deficit is projected to increase to 3.1 percent by 2020 and will continue to be primarily financed through FDI flows and government borrowing. According to the external sustainability approach, stabilizing the net IIP at the 2014 level would require a current account deficit of 3.0 percent of GDP, indicating that the underlying deficit is only marginally weaker than its norm.



B. International Investment Position and External Debt

While persistent current account deficits have deteriorated the net IIP over the past decade, it is expected to stabilize at the current level. Net foreign liabilities doubled between 2005 and 2014, from 32 to 61 percent of GDP. However, two-thirds of the increase reflected non-debt creating flows in terms of foreign direct investment in the tourism, manufacturing and mining industries. Meanwhile, overall gross external debt rose from 28 to 38 percent, mainly due to increased public external borrowing. Going forward, consistent with the external sustainability analysis the net IIP level is projected to stabilize at around 60 percent of GDP over the medium term.

The composition and maturity of gross public external debt has changed, reflecting more favorable external financial conditions. Low global interest rates and increased demand for emerging market debt have encouraged issuance of public debt securities in favor of loans. Following the debt restructuring deal with PetroCaribe and increased issuance of dollar denominated bonds in 2015, external public debt securities are now estimated to account for more than half of the total external debt compared to a only a quarter in 2008. On the other hand, the

maturity of the public external debt stock has also risen. The share of short-term public debt is estimated to have fallen from approximately one third in 2008 to a projected less than a one tenth in 2015.

Overall gross external debt is projected to rise moderately over the medium term and remain only moderately sensitive to a number of shocks. The restructuring deal with PetroCaribe helped lower external debt from 38 percent of GDP in 2014 to an estimated 35 percent in 2015 (see Table 1). Over the medium term gross financing needs will range between 6 and 7 percent of GDP, primarily reflecting debt and debt service falling due. Non-debt creating flows are expected to cover about one third of these financing needs, while the rest will be financed by rolling over existing debt and issuing some new debt. Consequently, gross external debt is projected to rise moderately to 36 percent of GDP by 2020. The external debt sustainability analysis indicates that the medium term debt profile is resilient to a number of shocks including a one-half standard deviation shock to the interest rate, growth rate and non-interest current account (see Figure 1). A 30 percent real depreciation shock, however, would lower the value of GDP in U.S. dollars and increase the medium term external debt level to 52 percent by 2020.

C. Reserve Adequacy

While reserves continue to increase gradually, they remain considerably lower than the Fund's risk-weighted adequacy measure. Despite continued strong FDI inflows and improvements in the current account, reserves are projected to grow by 0.4 US\$ billion in 2015. While the reserve adequacy has improved relative to some standard benchmarks (see table) it remains well below the Fund's risk-based metric which requires coverage against medium and long-term external debt. However, a mitigating factor is that public borrowings accounts for the majority of long-term external liabilities—with about half of it owed to official creditors and with a protracted schedule of amortization. Moreover, sources of foreign exchange are relatively diverse, reflecting inflows from tourism, remittances and gold. Over the medium term, reserve adequacy is projected to further improve, albeit still below the Fund's risk-weighted metric.

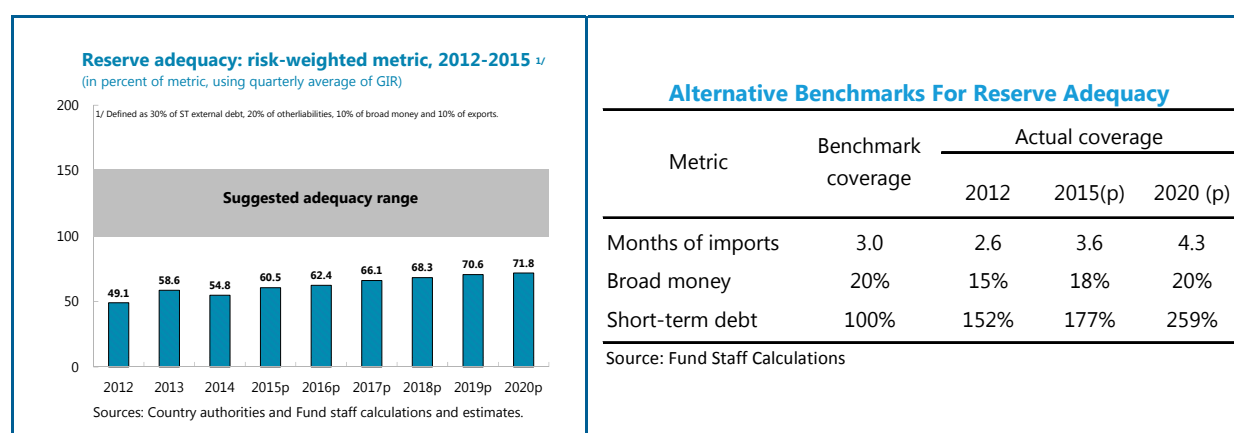
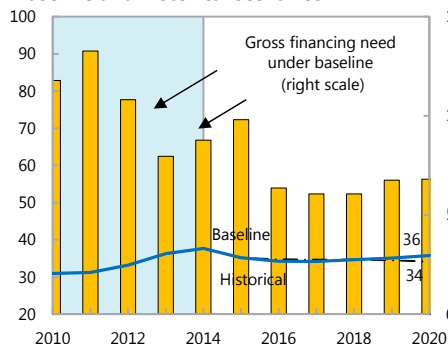


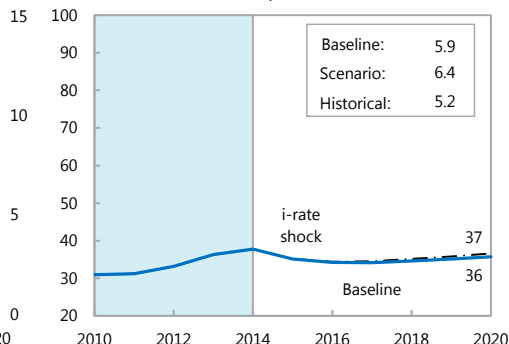
Figure 1. Dominican Republic: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)

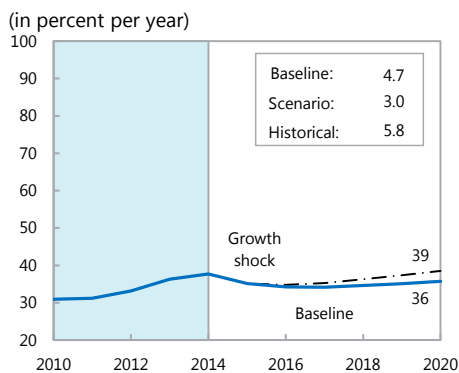
Baseline and historical scenarios



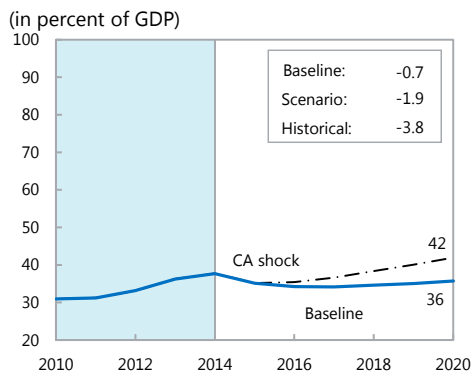
Interest rate shock (in percent)



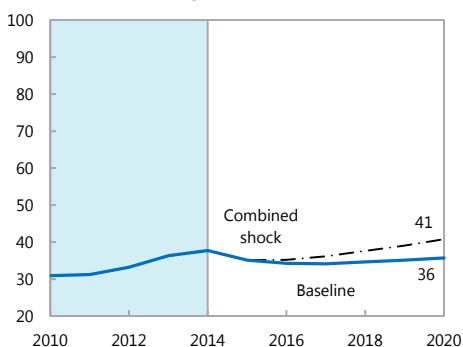
Growth shock



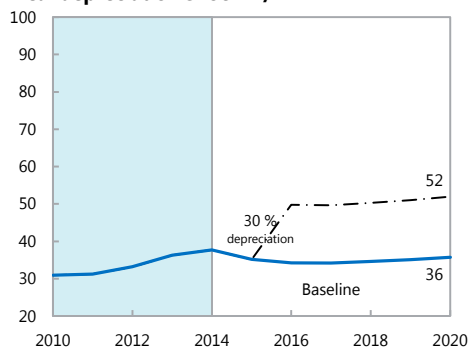
Non-interest current account shock



Combined shock 3/



Real depreciation shock 4/



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2010.

Table 1. Dominican Republic: External Debt Sustainability Framework, 2010–20

(In percent of GDP, unless otherwise indicated)

	Actual					Prel.	Projections					Debt-stabilizing non-interest current account 6/ -2.8
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
1 Baseline: External debt	30.9	31.2	33.2	36.3	37.7	35.1	34.2	34.1	34.6	35.1	35.7	
2 Change in external debt	1.4	0.3	1.9	3.1	1.4	-2.6	-0.9	-0.1	0.5	0.5	0.6	
3 Identified external debt-creating flows (4+8+9)	-0.2	1.2	0.2	0.5	-1.9	-3.7	-2.6	-2.1	-1.7	-1.7	-1.4	
4 Current account deficit, excluding interest payments	6.3	6.2	5.1	2.7	1.8	0.5	0.4	0.5	0.8	0.8	1.1	
5 Deficit in balance of goods and services	11.4	10.3	9.1	6.0	4.9	4.2	4.2	4.4	4.4	4.5	4.7	
6 Exports	22.8	24.2	24.8	25.9	26.5	25.5	25.2	25.2	25.0	25.0	25.0	
7 Imports	34.3	34.5	33.9	31.9	31.4	29.7	29.4	29.6	29.5	29.5	29.8	
8 Net non-debt creating capital inflows (negative)	-4.5	-3.9	-5.2	-3.3	-3.5	-3.2	-3.0	-3.0	-3.0	-3.0	-3.0	
9 Automatic debt dynamics 1/	-1.9	-1.1	0.3	1.0	-0.2	-0.9	0.0	0.4	0.5	0.5	0.6	
10 Contribution from nominal interest rate	1.2	1.3	1.5	1.4	1.3	1.6	1.8	1.9	1.9	2.0	2.1	
11 Contribution from real GDP growth	-2.2	-0.8	-0.8	-1.6	-2.5	-2.5	-1.8	-1.5	-1.5	-1.5	-1.5	
12 Contribution from price and exchange rate changes 2/	-0.9	-1.6	-0.4	1.2	1.0	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	1.6	-0.9	1.7	2.6	3.3	1.1	1.7	2.0	2.2	2.1	2.0	
External debt-to-exports ratio (in percent)	135.6	129.2	133.9	140.1	142.4	137.6	135.7	135.5	138.4	140.5	142.8	
Gross external financing need (in billions of US dollars) 4/ in percent of GDP	6.3	7.7	6.6	4.9	5.6	6.6	4.6	4.6	4.8	5.7	6.0	
	11.8	13.3	10.8	8.0	8.8	9.8	6.4	6.1	6.1	6.8	6.8	
Scenario with key variables at their historical averages 5/						35.1	34.7	34.7	34.7	34.5	34.2	-5.9
							-47.10	-49.43	-49.49	-44.41	-44.09	
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	8.3	2.8	2.6	4.8	7.3	7.0	5.4	4.5	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	3.2	5.4	1.2	-3.4	-2.6	-1.4	0.5	1.0	1.0	1.0	1.0	
Nominal external interest rate (in percent)	4.5	4.6	4.8	4.3	3.8	4.4	5.5	5.8	6.0	6.1	6.2	
Growth of exports (US dollar terms, in percent)	19.0	14.8	6.4	5.9	6.9	1.7	4.6	5.4	4.8	5.3	5.7	
Growth of imports (US dollar terms, in percent)	30.3	9.1	2.1	-4.7	2.8	-0.2	4.8	6.3	5.0	5.7	6.4	
Current account balance, excluding interest payments	-6.3	-6.2	-5.1	-2.7	-1.8	-0.5	-0.4	-0.5	-0.8	-0.8	-1.1	
Net non-debt creating capital inflows	4.5	3.9	5.2	3.3	3.5	3.2	3.0	3.0	3.0	3.0	3.0	

1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Annex IV. Updated Debt Sustainability Analysis¹

Gross debt levels in Dominican Republic, estimated at 48.5 percent of GDP at end-2015, remain moderate. Gross financing needs remain below 10 percent of GDP over the entire forecast horizon. However, given the relatively large share of foreign currency denominated debt, large and sudden exchange rate depreciation could raise the public debt-to-GDP trajectory. Against this background, the different DSA scenarios presented in this section suggest that Dominican Republic's public debt is sustainable, i.e. will remain below 60 percent of GDP, even under the most extreme shocks. Only the impact of lower real GDP growth shifts the debt trajectory up significantly, but even under such a scenario, gross debt remains below 60 percent of GDP. With the exception of the share of debt held by non-residents and public debt held in foreign currency, public debt profile indicators remain below the upper early warning benchmarks.

A. Realism of Baseline Scenario

Debt. The modest increase in gross debt levels in 2015 relative to 2014 is largely due to the PDVSA debt buy-back operation. Although there are plans for further gradual consolidation of central government's budget in 2016, large deficits from the non-financial public sector (electricity generators primarily) are contributing to a projected increase in gross debt levels, particularly in 2016 and 2017 (during which the construction of new power plants is set to take place). The primary balance is projected to improve in 2018, but it does not reach the debt-stabilizing level—0.7 percent of GDP—by 2020 under the staff's baseline scenario. As a result, debt remains on a rising trajectory over the forecast horizon.

Growth. Past projections of growth outcomes suggest moderate forecast errors. These show a tendency for pessimistic forecasts, most recently in 2014 when Dominican Republic recorded an impressive 7.3 percent economic growth (one of the highest in Latin America). Dominican Republic's debt dynamics are also sensitive to sudden changes in GDP growth, as indicated by the relevance of growth shocks under the DSA stress tests. In this context, should growth turn out to be higher than expected over the forecast horizon, it will impact positively on debt.

Fiscal adjustment. Under the baseline, there is a significant adjustment in the cyclically-adjusted primary balance in 2015, which is explained by the classification of the discounted portion of the PDVSA debt as a grant in central government accounts. This also has an impact on the distribution of fiscal adjustment episodes provided in the DSA template, which puts Dominican Republic in the top quartile based on the projected adjustment of the cyclically-adjusted primary balance over 3 years during the forecast horizon. Without the PDVSA grant, which amounts to some 3.1 percent of GDP, the projected adjustment in the cyclically-adjusted primary balance would not be considered infeasible. From 2015 onward, the fiscal impulse converges to zero, implying a broadly neutral fiscal

¹ In this DSA, the public debt covers the consolidated public sector, i.e. non-financial public sector and quasi-fiscal activities of the central bank.

policy in the absence of major policy changes (for example, implementation of measures under a future fiscal pact).

Sovereign yields. As of January 2016, Dominican Republic's sovereign bonds have a credit spread of 447 basis points relative to U.S. Treasury Bonds, and compare favorably relative to other emerging-market and Latin-American countries (with average spreads of 669 and 515 basis points, respectively). Bond yields have been on an upward trend since July when the U.S. Federal Reserve announced the possibility of raising rates, with the 10-year local currency bond yield at 568 basis points as of October 9, 2015. However, given upward projections for the U.S. Treasury bills and Libor rates over the medium term, the effective nominal interest rate on Dominican Republic's sovereign debt is projected to increase from 3.7 percent in 2014 to 8.8 percent by 2020. In May, Standard & Poor's upgraded Dominican Republic's foreign-currency credit rating to BB-. On account of continued positive performance relative to peers, Fitch recently revised its outlook for Dominican Republic's sovereign rating from stable to positive and affirmed a B+ rating.

B. Debt Profile

Maturity, currency composition and rollover. The sovereign bond placements in January 2015 have lengthened the average maturity of debt (now estimated at around 10 years for total non-financial public sector debt) and lowered the variable rate risk. Given the large share of foreign-currency denominated debt (some 60 percent of total debt), a real exchange rate depreciation could have a significant effect on debt dynamics. Furthermore, some 55 percent of total gross debt is held by non-residents, making rollover risk sensitive to shifts in market sentiment. However, since most of the non-resident holdings are held at maturities longer than one year, rollover risks are deemed reasonable at present.

C. Stochastic Simulations

Fan charts. The fan charts illustrate the possible evolution of the debt ratio over the medium term and are based on both the symmetric and asymmetric distributions of risk. Under the symmetric distribution of risk, there is a 75 percent probability that debt will be below 60 percent of GDP over the medium term. If restrictions are imposed on the primary balance (i.e. the asymmetric scenario, where it is assumed that there are no positive shocks to the primary balance), the debt path is still projected to remain below 60 percent of GDP over the projection horizon.

D. Stress Tests

Real GDP growth shock. The debt ratio appears to remain under 55 percent of GDP under all scenarios except the growth shock where it reaches 60 percent of GDP by the end of the projection horizon. This scenario also results in a drastic increase in public gross financing needs in 2017, in addition to the increase in 2019 that is evident in all scenarios (this is related to a large principal payment that is due on external debt).

Combined shock. Since the combined shock incorporates the largest effect of individual shocks on all relevant variables (real GDP growth, inflation, primary balance, exchange rate and interest rate), it produces the most extreme debt trajectory. Under this scenario, debt exceeds 60 percent of GDP in 2019, and results in average gross financing needs of around 11 percent of GDP over the medium term.

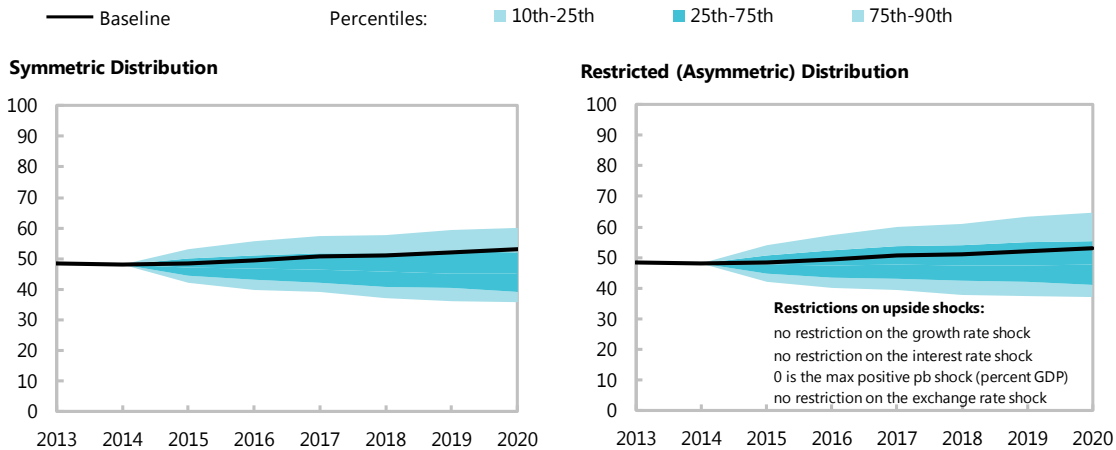
Figure 1. Dominican Republic Public DSA Risk Assessment

Heat Map

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

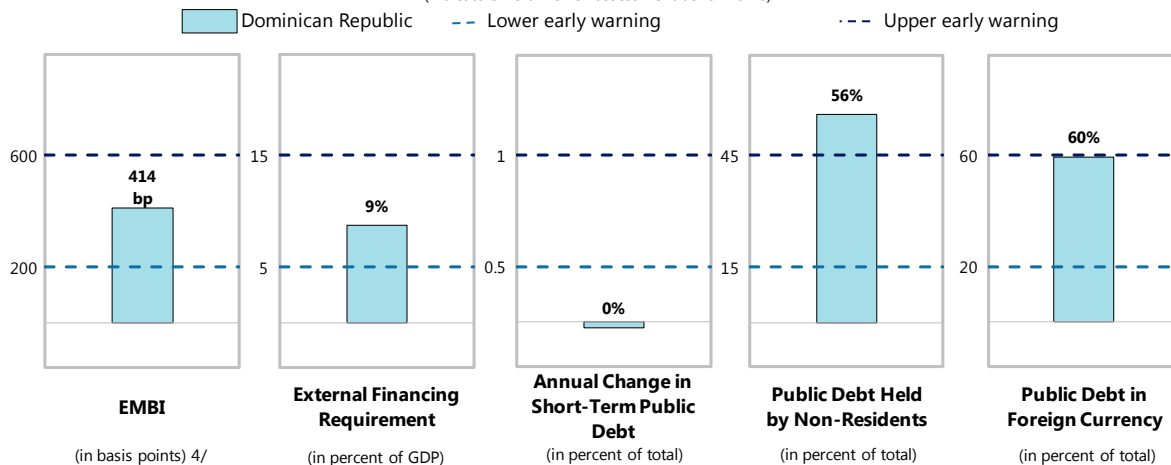
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks)



Source: Fund staff calculations and estimates.

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

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

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

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

4/ An average over the last 3 months, 09-Oct-15 through 07-Jan-16.

Figure 2. Dominican Republic DSA – Realism of Baseline Assumptions

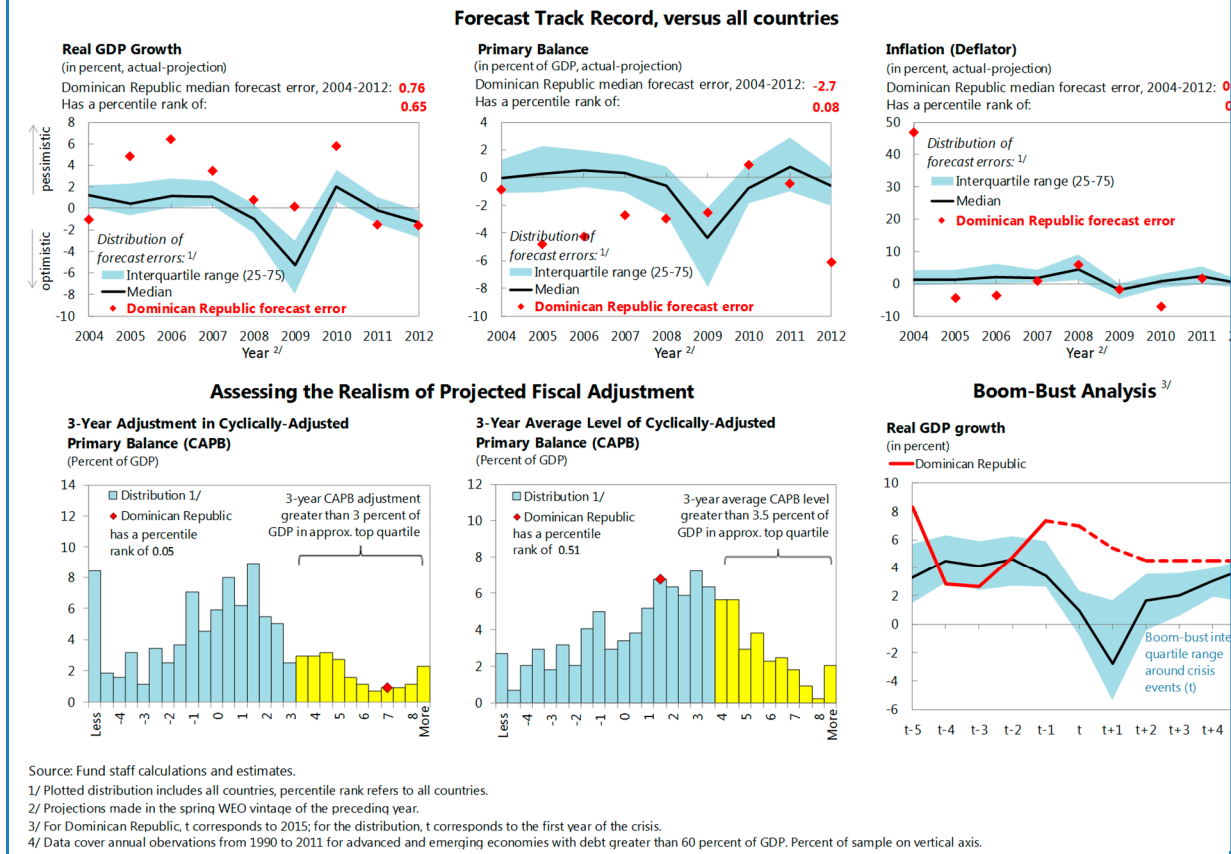


Figure 3. Dominican Republic Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

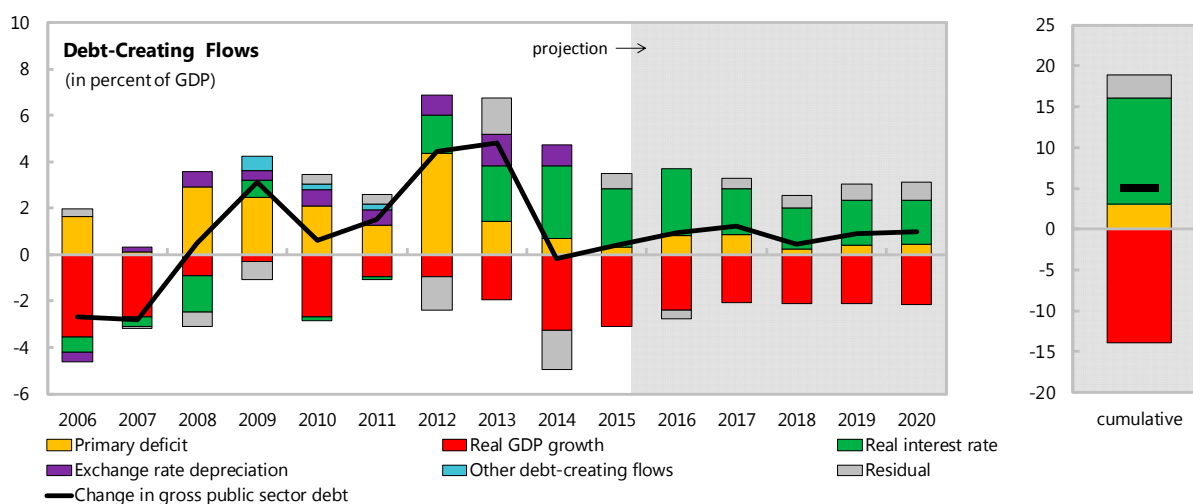
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators^{1/}

	Actual			Projections						As of January 07, 2016		
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	Sovereign Spreads		
Nominal gross public debt	37.4	48.3	48.1	48.5	49.5	50.7	51.2	52.1	53.1	EMBI (bp) 447		
Public gross financing needs	9.8	8.7	8.8	8.5	7.3	8.3	8.8	9.7	9.1	Ratings Foreign Local		
Real GDP growth (in percent)	5.3	4.8	7.3	7.0	5.4	4.5	4.5	4.5	4.5	Moody's	B1	B1
Inflation (GDP deflator, in percent)	10.3	2.7	1.4	1.8	3.5	4.0	4.0	4.0	4.0	S&Ps	BB-	BB-
Nominal GDP growth (in percent)	15.9	7.6	8.9	9.0	9.1	8.7	8.7	8.7	8.7	Fitch	B+	B+
Effective interest rate (in percent) ^{2/}	5.8	8.7	8.6	7.7	8.0	8.1	7.8	7.6	7.3			

Contribution to Changes in Public Debt

	Actual			Projections						Cumulative	Debt-stabilizing primary balance ^{7/}
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020		
Change in gross public sector debt	-0.8	4.8	-0.2	0.4	1.0	1.3	0.5	0.9	1.0	5.0	0.7
Identified debt-creating flows	-0.4	3.3	1.5	-0.3	1.3	0.8	-0.1	0.2	0.2	2.2	
Primary deficit	2.4	1.4	0.7	0.3	0.8	0.9	0.2	0.4	0.5	3.1	
Primary (noninterest) revenue and grants	14.1	14.6	15.1	14.9	14.6	14.5	14.4	14.3	14.3	86.9	
Primary (noninterest) expenditure	16.5	16.0	15.8	15.3	15.4	15.3	14.6	14.7	14.8	90.0	
Automatic debt dynamics ^{3/}	-2.9	1.8	0.8	-0.6	0.5	-0.1	-0.3	-0.2	-0.3	-0.9	
Interest rate/growth differential ^{4/}	-3.3	0.5	-0.2	-0.6	0.5	-0.1	-0.3	-0.2	-0.3	-0.9	
Of which: real interest rate	-1.6	2.4	3.1	2.5	2.9	2.0	1.8	1.9	1.9	13.0	
Of which: real GDP growth	-1.7	-1.9	-3.3	-3.1	-2.4	-2.0	-2.1	-2.1	-2.2	-13.9	
Exchange rate depreciation ^{5/}	0.4	1.4	0.9	...	...	...	...	...	...	...
Other identified debt-creating flows	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Floating debt	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes ^{6/}	-0.3	1.6	-1.7	0.7	-0.4	0.4	0.6	0.7	0.8	2.8	



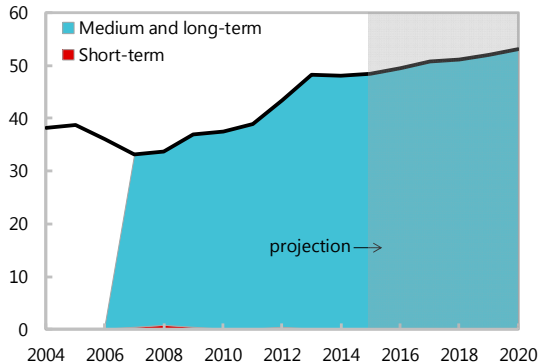
Source: Fund staff calculations and estimates.

^{1/} Public sector is defined as consolidated public sector.^{2/} Defined as interest payments divided by debt stock at the end of previous year. For 2014, it reflects the interest payments of the budget.^{3/} Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).^{4/} The real interest rate contribution is derived from the denominator in footnote 4 as $r - \pi(1+g)$ and the real growth contribution as $-g$.^{5/} The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$.^{6/} For projections, this line includes exchange rate changes during the projection period.^{7/} Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

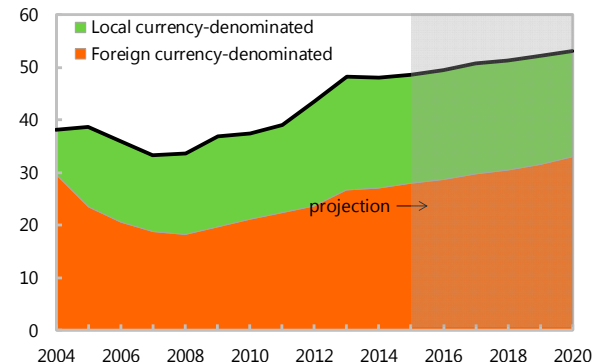
Figure 4. Dominican Republic Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity 1/
(in percent of GDP)



By Currency
(in percent of GDP)

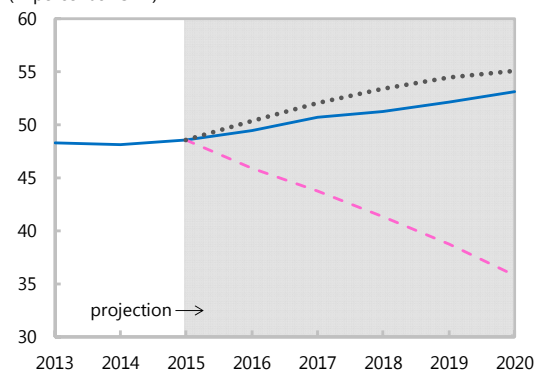


Alternative Scenarios

— Baseline Historical - - - Constant Primary Balance

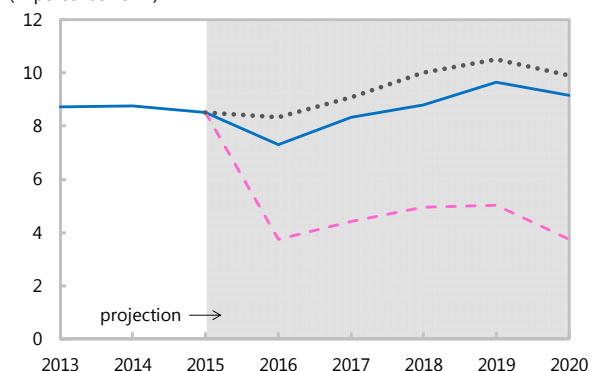
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

(in percent)

	2015	2016	2017	2018	2019	2020
Baseline Scenario						
Real GDP growth	7.0	5.4	4.5	4.5	4.5	4.5
Inflation	1.8	3.5	4.0	4.0	4.0	4.0
Primary Balance	2.8	-0.8	-0.9	-0.2	-0.4	-0.5
Effective interest rate	7.7	8.0	8.1	7.8	7.6	7.3
Constant Primary Balance Scenario						
Real GDP growth	7.0	5.4	4.5	4.5	4.5	4.5
Inflation	1.8	3.5	4.0	4.0	4.0	4.0
Primary Balance	2.8	2.8	2.8	2.8	2.8	2.8
Effective interest rate	7.7	8.0	8.1	7.6	7.1	6.4
Historical Scenario						
Real GDP growth	7.0	5.8	5.8	5.8	5.8	5.8
Inflation	1.8	3.5	4.0	4.0	4.0	4.0
Primary Balance	2.8	-1.9	-1.9	-1.9	-1.9	-1.9
Effective interest rate	7.7	8.0	7.7	6.9	6.4	5.8

Source: Fund staff calculations and estimates.

1/ Short-term debt includes unidentified financing during the projection horizon.

Figure 5. Dominican Republic Public DSA - Stress Tests



Source: Fund staff calculations and estimates.

Annex V. Interest Rate Pass-Through

A well-functioning monetary transmission mechanism is critical for monetary policy. As the Dominican Republic recently adopted an inflation targeting regime, it is even more relevant to guarantee that changes in the monetary policy rates are quickly and fully reflected in retail rates, to eventually influence aggregate demand and inflation. The interest rate pass-through of the monetary policy rate to retail rates is complete, confirming the effectiveness of the monetary policy transmission mechanism. However, the pass-through to lending rates is faster than to deposit rates and short-term rates adjust asymmetrically, with deposit rates responding faster to policy rate cuts and lending rates responding faster to policy rate hikes. More competition in the financial system could help achieving a symmetric adjustment of retail rates.

A. Background

The recent history of the Dominican Republic’s monetary policy starts with the Monetary and Financial Law of 2002. The law strengthened the institutional framework for the conduct of monetary policy by establishing price stability as the main central bank’s mandate. Starting in 2004, the central bank moved away from exchange rate targeting and transitioned to monetary targeting. In this context, it introduced an overnight deposit window and a Lombard facility, which created a corridor for the interbank rate. The overnight rate served as signal of the monetary policy stance.

The monetary targeting anticipated the transition to the inflation targeting regime. While the central bank managed to significantly reduce inflation and stabilize the economy under the monetary targeting, financial innovation and deregulation as well as financial sector reforms generated a growing instability in money demand, weakening the relationship between money and inflation (Andújar, 2014).¹ To strengthen monetary policy effectiveness, the central bank adopted an inflation targeting regime in January 2012. Starting in February 2013, the authorities introduced the monetary policy rate as the benchmark rate, which is in the middle of a corridor bounded by the one-day deposit and expansion facilities.

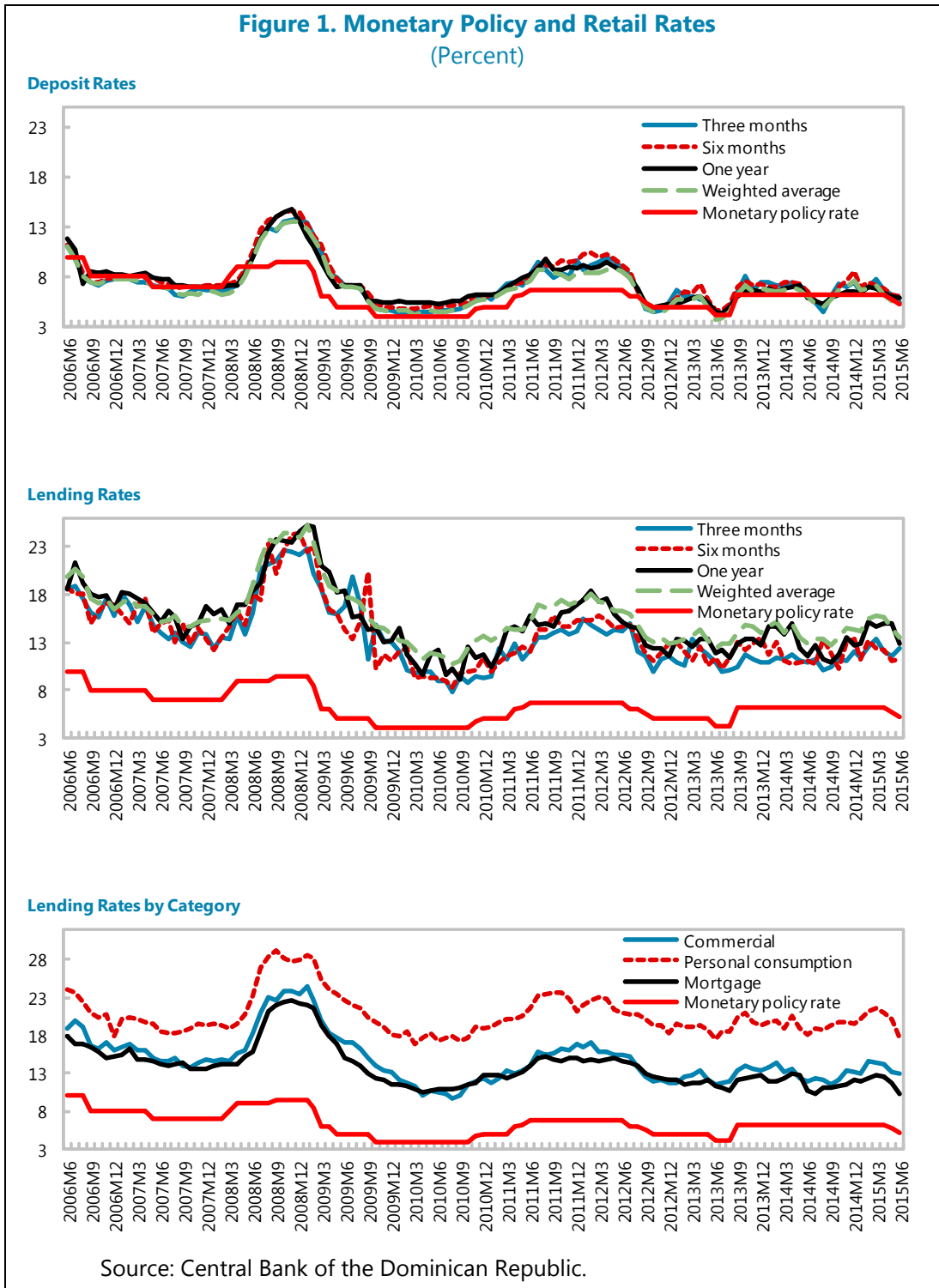
B. Financial System Concentration

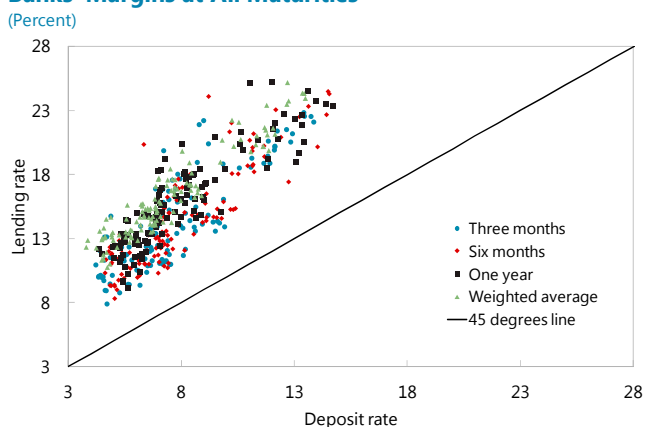
Since the financial crisis of 2003–04, the financial system developed considerably but remains highly concentrated. As of June 2015, the system is composed of 65 financial entities with assets over 45 percent of GDP and a loan portfolio of about 27 percent of GDP.² Most of the loans go to the commercial sector (58.7 percent), while the remainder is split between personal consumption loans (24 percent) and mortgage loans (17.3 percent). Commercial and mortgage loans are usually

¹ Andújar, Julio, 2014, “La transición de la República Dominicana a metas de inflación”, Revista Dominicana de Economía, Vol. 5, pp. 99-120.

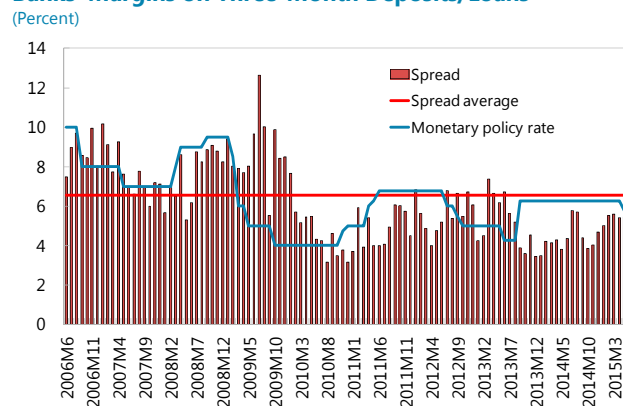
² The financial system consists of 17 commercial banks (85.8 percent of the system assets), 10 saving and credit institutions (11.1 percent of the system assets), 19 credit unions (1.9 percent of the system assets), several credit corporations (0.3 percent of the system assets), and a development bank (0.9 percent of the system assets).

backed by a collateral, which contributes to lower the interest rate. In June 2006 the three main banks represented 57.5 percent of deposits and 58.2 percent of loans, while as of June 2015 they represent 67.7 percent of deposits and 69.0 percent of loans.



Banks' Margins at All Maturities

Sources: Central Bank of the Dominican Republic.

Banks' Margins on Three-Month Deposits/Loans

Sources: Central Bank of the Dominican Republic.

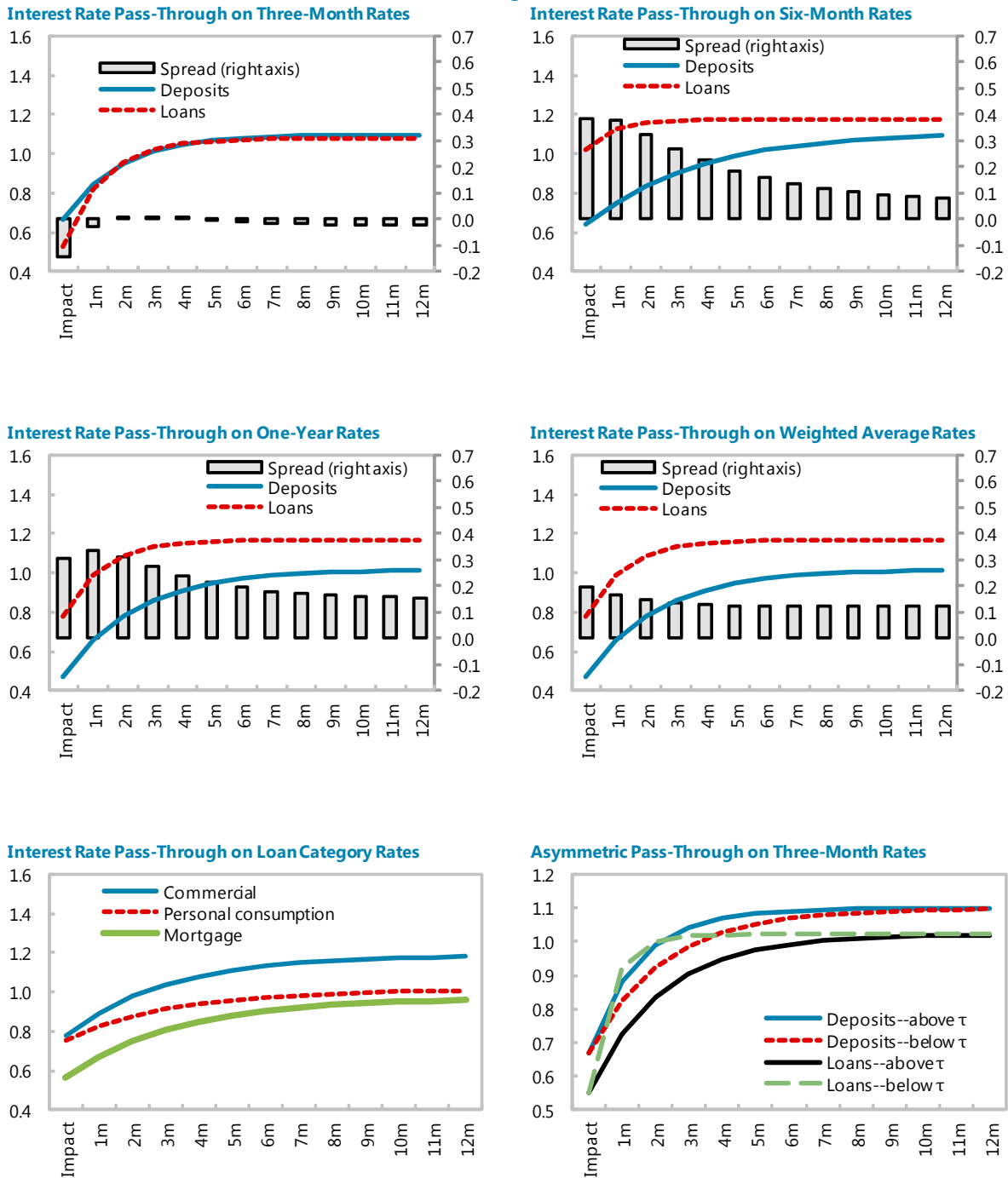
The degree of concentration is often associated with high profits for banks as well as asymmetries in the adjustment of retail rates to the monetary policy rates. In the Dominican Republic, spreads are high at all maturities (6.5 percent on average for three-month spread over 2006–15) and vary significantly when the monetary policy rate changes. This suggests that deposit and lending rates may either react differently to changes in the monetary policy rate, react asymmetrically to lifts and cuts in the monetary policy rate, or both.

C. Completeness, Speed of Adjustment, and Asymmetries

There are several possible explanations as to why the interest rate pass-through may be slow, incomplete, more than complete, or asymmetric. These include asymmetric information, menu costs, switching costs, risk sharing, ownership of the financial system, economic conditions, and bank concentration. While the empirical literature for advanced and emerging economies is vast, the evidence for the Dominican Republic remains limited. In general, previous studies found evidence of overpass-through to lending rates, albeit the results present a significant variation in the estimated pass-through. As for the deposit rates, results are generally mixed, with estimates ranging from incomplete to overpass-through.

The econometric analysis reveals that the pass-through to deposit and lending rates is complete, confirming the effectiveness of the monetary policy transmission mechanism, but speed varies and it is sometimes asymmetric. The features of the interest rate pass-through are assessed by relying on error correction and momentum-threshold autoregressive models estimated for several retail rates with monthly data over the period June 2006–June 2015. While the pass-through results statistically complete, the results also suggest that the pass-through to lending rates is generally faster than to deposit rates. Moreover, the retail rates' adjustment can be asymmetric, with short-term deposit rates responding faster to monetary policy rate cuts than hikes, and short-term lending rates responding faster to monetary policy rate hikes than cuts. Reducing bank concentration by fostering competition in the financial system could be instrumental in enhancing the effectiveness of monetary policy transmission mechanism by reducing asymmetries in the adjustment of retail rates.

Figure 2. Timing of One-Percentage Point Change in the Monetary Policy Rate
(Percentage Points)



Source: Central Bank of the Dominican Republic.

Notes: The asymmetric adjustment to monetary policy rate cuts is plotted on the positive side of the vertical axis for ease of interpretation. Deviations above τ correspond to monetary policy rate cuts, while deviations below τ correspond to monetary policy rate hikes.

Annex VI. Balance Sheet Approach for the Dominican Republic

The overall balance sheet of the economy has deteriorated in the aftermath of the global financial crisis. The worsening is almost completely driven by the non-financial public sector (NFPS), as its reliance on foreign currency borrowing from both domestic and external sources has increased. The financial position of other sectors of the economy slightly improved and remains healthy. External risks seem to be limited, as liabilities are balanced towards FDI and the short-term position in foreign currency is strong. The main source of risk comes from the public sector's vulnerability to an external shock, which could spill over to the rest of the economy, especially the financial system.

The Balance Sheet Approach (BSA) was developed as a framework to understand financial crises. It was proposed by Allen et al. (2002)¹ on the basis of the financial events of the late 1990s and early 2000s, and has been applied to many emerging-market economies since then. The BSA studies stocks of financial assets and liabilities and analyzes the risks related to currency and maturity mismatches at the aggregate economy level and for each economic sector. Moreover, it distinguishes vulnerabilities associated with liquidity and solvency problems, and reveals potential spillovers across sectors that can transmit the impact of economic shocks.

The main instrument for the analysis is the balance sheet matrix. The economy is disaggregated into six sectors: (i) the central bank; (ii) the non-financial public sector, which includes the central government, state and local governments, public non-financial corporations; (iii) the other depository corporations (ODC), which include commercial banks and other deposit-taking institutions; (iv) other financial corporations (OFC), which in the case of the Dominican Republic include only pension funds; (v) the non-financial private sector, which includes non-financial corporations (NFPC), and other domestic resident sector (largely households); and (vi) the rest of the world or nonresidents. Within each sector, assets and liabilities are decomposed into foreign and domestic currency, and to the extent data are available, by maturity (see table 1 for the matrix).²

Since 2005, the net financial position of the overall economy has worsened, but there are important differences among sectors. The net asset position of the economy deteriorated from -22 percent of GDP in 2005 to -50 percent of GDP in 2014, owing to persistent fiscal deficits, which led to a weaker net position of the NFPS. On the other hand, the recovery of the banking system after the 2003–04 crisis turned the net position of the sector from net debtor to net creditor (vis-a-vis the rest of the economy). Similarly, the central bank's net creditor position has improved, amid a reduction in foreign currency liabilities and accumulation of reserves. Though it remained a net creditor during the last ten years, the net financial position of the

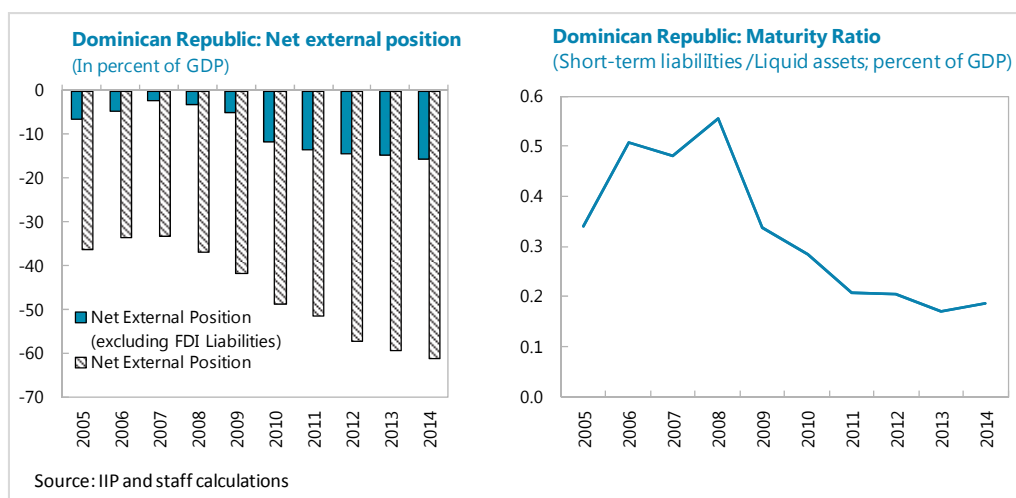
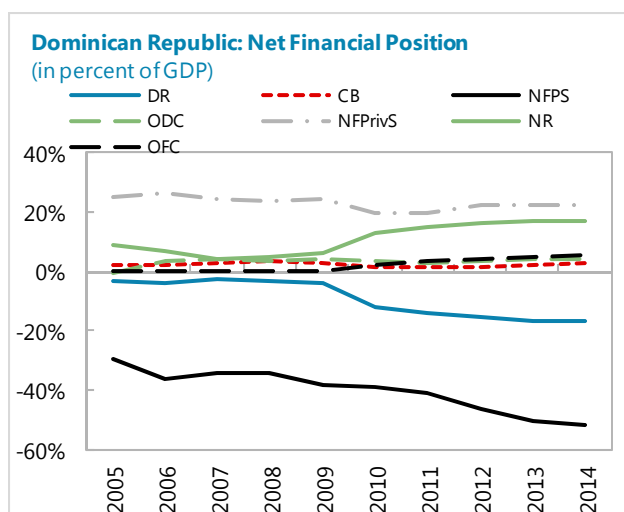
¹ Allen M., C. Rosenberg, C. Keller, B. Setser, and N. Roubini, 2002, "A Balance Sheet Approach to Financial Crisis," IMF Working Paper WP/02/21, December (Washington, D.C.: International Monetary Fund).

² The data used in constructing the matrix are the Standard Report Forms (SRF) for monetary and financial data and the International Investment Position (IIP) for the external counterpart.

corporate sector deteriorated due to a reduction of the creditor position against the central bank (as securities from the crisis matured) and, to a smaller extent, to the increase in borrowing from the banking system. Households improved their net creditor position against the financial system, owing mainly to an accumulation of assets in the pension funds (panels 1 and 2).

The net external position of the economy deteriorated, but the maturity ratio improved, and the capital structure is favorable. The economy's net external debtor position increased from 36 percent of GDP in 2005 to 61 percent of GDP at the end of 2014.

While the economy has large foreign liabilities, the share of equity in these liabilities has increased importantly, helping reduce capital structure risks.³ Excluding FDI liabilities, the economy's net debtor position deteriorated by only 9 percentage points of GDP over the last 10 years, increasing to 16 percent of GDP. Short-term risks arising from maturity mismatches have decreased significantly over the last ten years thanks to an increase of international reserves, new public borrowing at longer maturities, as well as an increase of banks deposits abroad and private sector deposits in foreign currency relative to their short-term foreign currency liabilities.



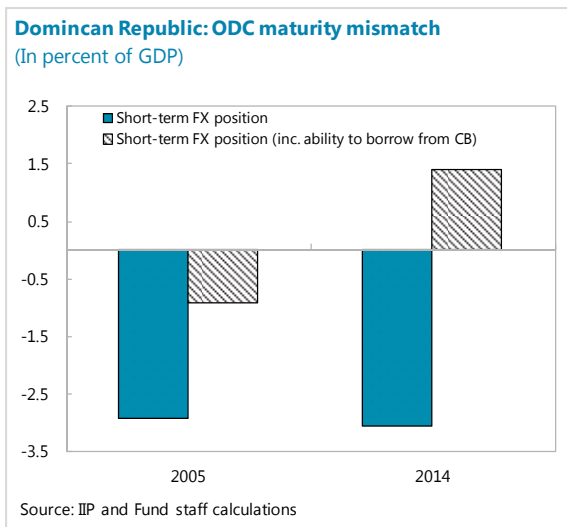
Public sector. While maturity mismatches of the public sector have declined, it remains highly exposed to currency mismatches risks. The accumulation of international reserves by the central bank and long maturities of the public sector's external debt (9 years on average) are the main

³ FDI equity holdings are by definition state contingent (e.g. with profits and dividends falling in bad times), while debt-service payments generally remain unchanged in bad times, thus decreasing a country's payment capacity.

(continued)

contributors to a strong short-term financial position. In terms of currency mismatches, on the other hand, the sector has a net debtor position in foreign currency of 18.3 percent of GDP,⁴ indicating that the NFPS would suffer large losses in the event of an exchange rate shock. In the case of 30 percent depreciation, the negative impact on the NFPS would be about 8.3 percent of GDP (table 2).

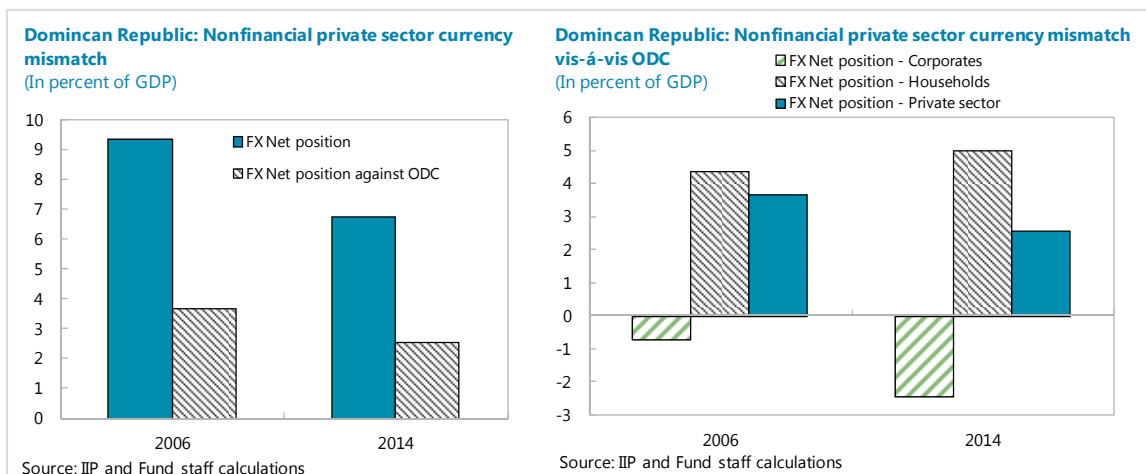
The banking sector. The banking sector is highly liquid and maintains a close-to-balance net foreign currency position, but has increased exposure to the public sector. The average net foreign currency position of the sector over the past ten years is 0.6 percent of GDP and the estimated 2014 position was -0.2 percent of GDP. The position deteriorated over the last five years as deposits of nonresidents in foreign currency increased.⁵ Within this exposure, banks have a negative financial position in foreign currency against households of around 5 percent of GDP, which is then lent to NFPS and NFPC. While this could create a burden in a stress event if the claims in foreign currency to these sectors are not hedged, in the case of NFPC a strong liquid asset position abroad (7.5 percent of GDP) could act as a buffer, whereas the NFPS remains more vulnerable. In terms of maturity risk, banks had a short-term foreign currency net creditor position of 1.4 percent of GDP at the end of 2014, including the ability to borrow from the central bank. Such position has improved compared to the previous ten years, when banks' short-term position was negative.



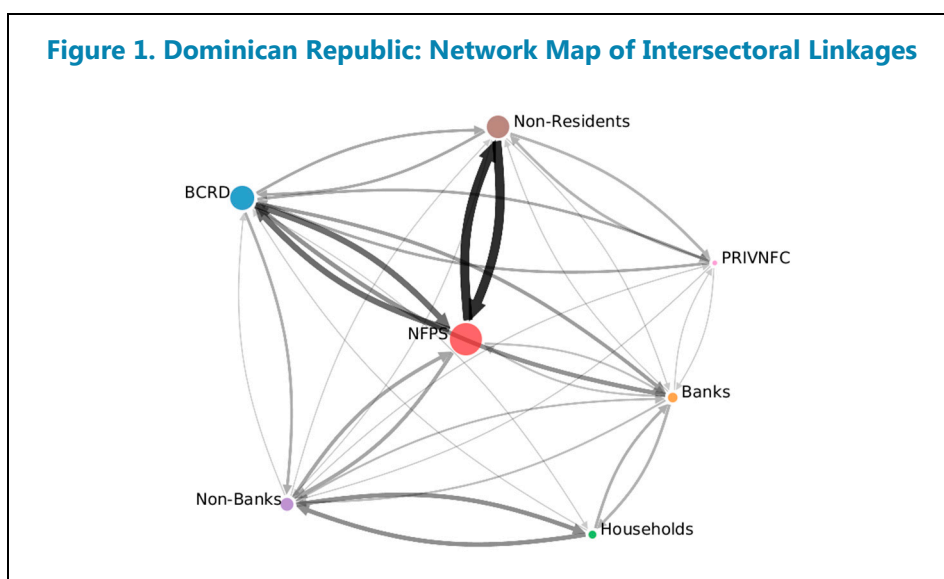
The nonfinancial private sector. The nonfinancial private sector does not appear vulnerable to currency and maturity risks. The sector has a net creditor position in foreign currency of around 6.7 percent of GDP against nonresidents and banks - the only two sectors to which it is exposed. While there is no disaggregation of external assets by subsector, households are net creditors vis-à-vis banks, whereas firms are net debtors. Maturity risks in foreign currency positions are minimal, given that short-term foreign currency deposits are significantly larger than short-term foreign currency liabilities. Moreover, such a strong creditor position makes the private sector the main potential beneficiary from currency depreciations; however, such an impact is estimated to be small compared to the negative impact on the NFPS (1.7 percent of GDP in the case of 30 percent depreciation; see table 2).

⁴ The position increases to 20.2 percent of GDP once multiple banks claims on central bank reserves –related to required reserves on FX deposits- are also taken into account.

⁵ The current financial regulation on the limits on foreign currency open position is relatively relaxed, allowing banks to have an open foreign currency net position of up to 100 percent of capital.



The network map of intersectoral linkages illustrates the vulnerabilities and potential spillovers discussed above. In figure 1 below, the nodes represent the size of the net financial position of each sector, while the thickness of the links between the nodes point to the size of the exposure. The network shows that NFPS could be an important source of vulnerability and spillover: given the financial interlinkages, a shock related to the external funding to the government could adversely affect the balance sheets of the other sectors, in particular the financial sector. The adverse impact on banks could in turn reduce credit supply to the rest of the economy and lead to an overall economic slowdown. Bank exposures are even more pronounced if we take into account that around 56 percent of total domestic lending to the NFPS is coming from the largest bank in the system -which also holds 30 percent of total system deposits. Distress in the NFPS would also affect the already weak financial position of the central bank by further increasing its quasi-fiscal deficit, and thus affecting monetary policy. Finally, since the pension funds invest a large portion of households’ savings in governments bonds, its solvency could be compromised as the indirect exposure of the households to the sovereign increases.



In percent of GDP 2014						
Issuer of liability (debtor) Holder of liability (creditor)	Public sector		Financial Sector		Private Sector	Rest of the World
	Central bank ¹	Nonfinancial public sector	Other depository corporations ^{1,2}	Other financial corporations ²	Nonfinancial Private Sector	Nonresidents
	Net pos.	Net pos.	Net pos.	Net pos.	Net pos.	Net pos.
Central bank		-16.0	9.9	5.4	4.1	-6.3
In domestic currency		-16.1	8.0	5.4	4.1	-0.6
In foreign currency		0.1	1.9	0.0	0.0	-5.7
Nonfinancial public sector	16.0		2.1	6.7	...	26.8
In domestic currency	16.1		1.2	6.7	...	0.0
In foreign currency	-0.1		0.8	0.0	...	26.8
Other depository corporations ¹	-10.1	-2.1		3.4	4.4	0.4
In domestic currency	-8.2	-1.2		3.4	1.8	0.1
In foreign currency	-1.9	-0.8		0.0	2.6	0.3
Other financial corporations	-5.4	-6.7	-2.9		9.8	0.0
In domestic currency	-5.4	-6.7	-2.7		9.8	0.0
In foreign currency	0.0	0.0	-0.1		0.0	0.0
Nonfinancial private sector	-4.1	...	-4.4	-9.8		-4.2
In domestic currency	-4.1	...	-1.8	-9.8		0.0
In foreign currency	0.0	...	-2.6	0.0		-4.2
Nonresidents	6.3	-26.8	-0.4	0.0	4.2	
In domestic currency	0.6	0.0	-0.1	0.0	0.0	
In foreign currency	5.7	-26.8	-0.3	0.0	4.2	

Sources: Standardized report forms for monetary and financial data and International investment position for nonresident data
1\ There are discrepancies between reported sectoral positions by BCRD and ODC
2\ There discrepancies between reported sectoral positions by ODC and OFC

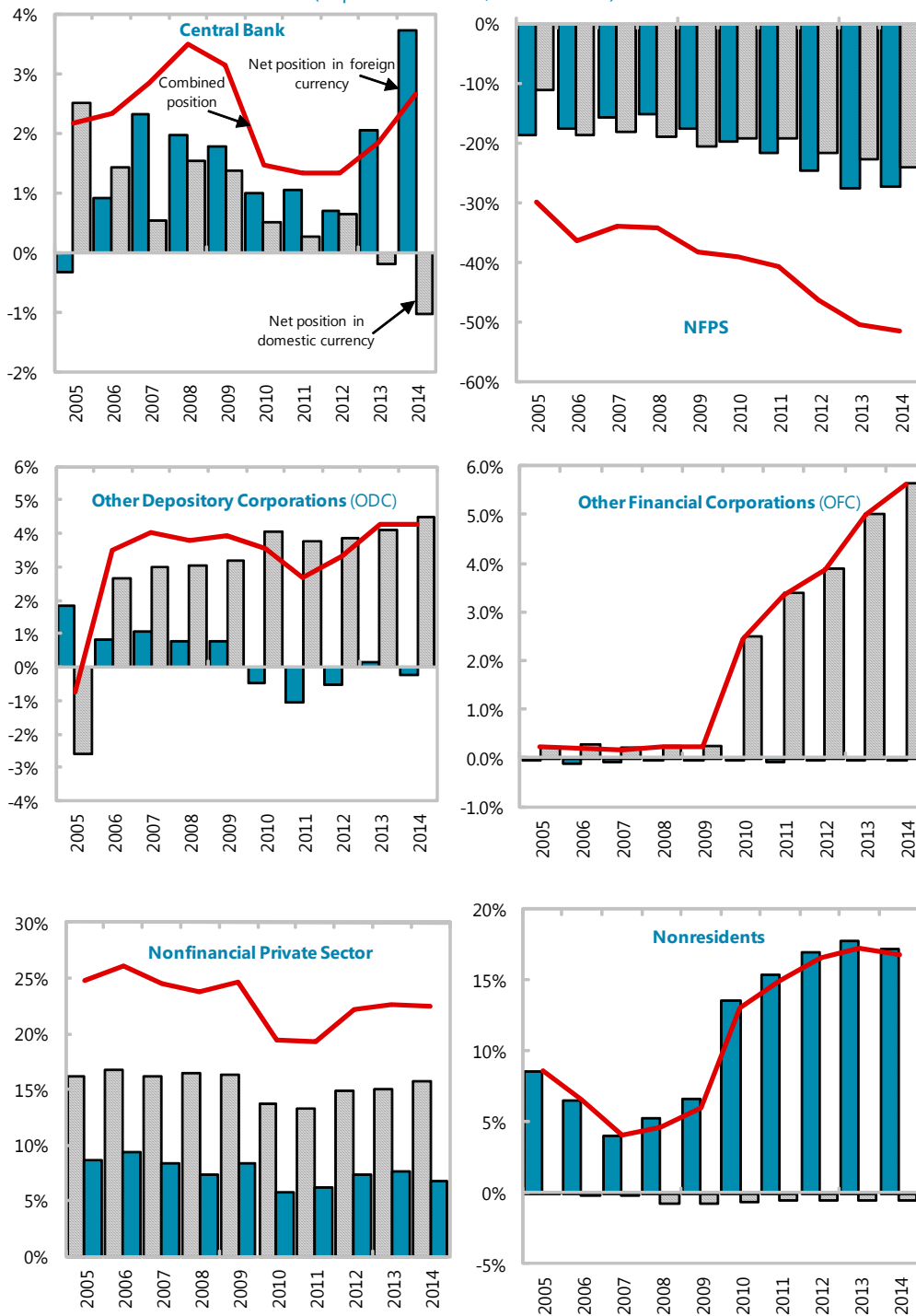
Table 2. Dominican Republic: Net Foreign Currency Debt Positions and Exchange Rate Stock
(in percent of GDP)

Sector	End-2014	Loss/Gain	
		From 2015 depreciation	From large exchange rate shock (30 percent)
Central bank	3.70	0.15	1.11
Nonfinancial public sector	-27.53	-1.10	-8.26
Financial sector	-0.25	-0.01	-0.07
Private sector			
Vis-à-vis financial sector 1/	2.56	0.10	0.77
Vis-à-vis all sectors 2/	6.75	0.27	2.02

1/ Includes FX bank credit and deposits.

2/ Includes FX bank credit and deposits, and net foreign assets of the private sector.

Figure 2. Dominican Republic: Sector's Net Financial Positions vis-à-vis the Rest of the Economy 1/
By Currency
 (In percent of GDP, 2005 - 2014)

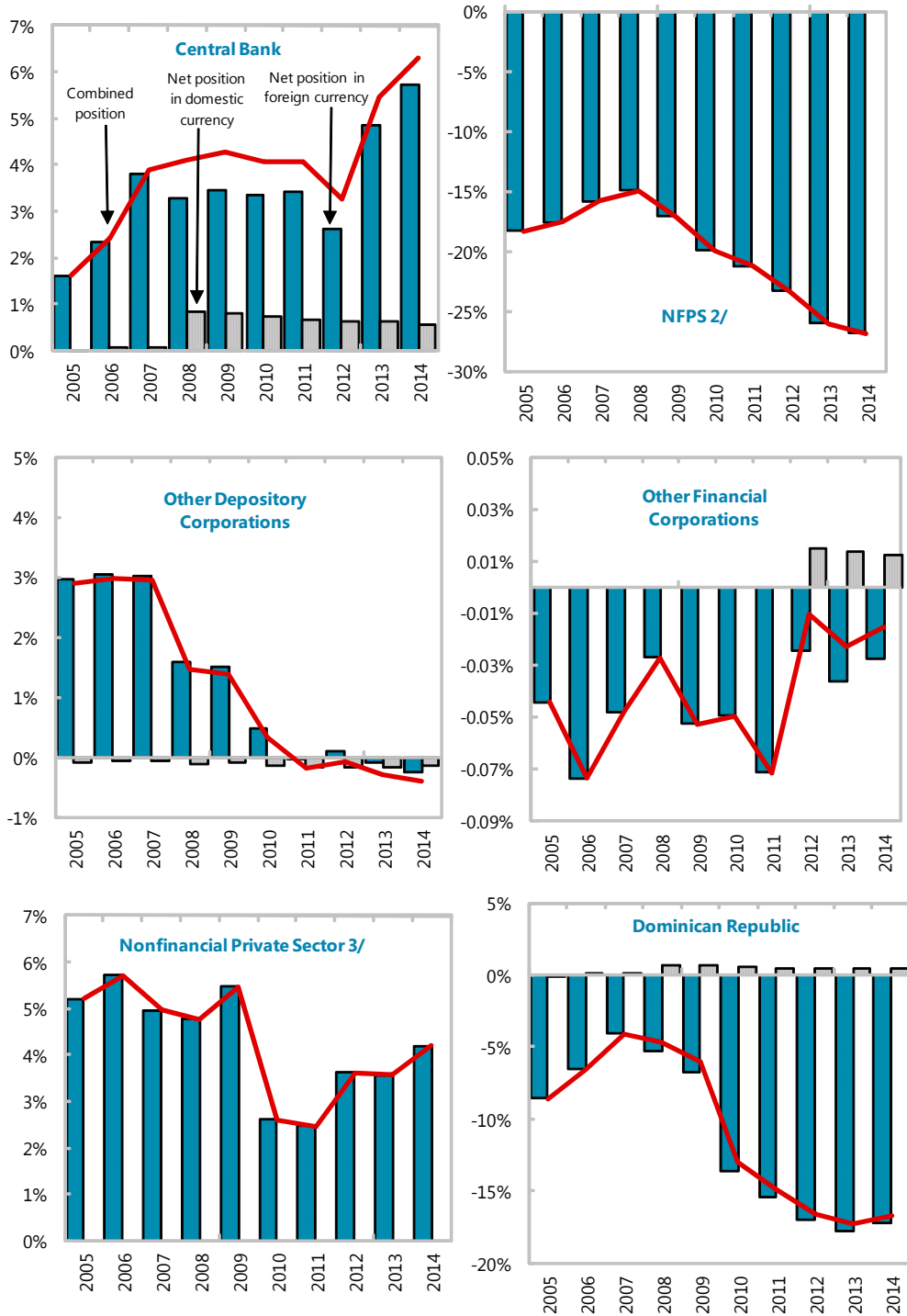


Sources: SRF & IIP.

1/ Total financial assets minus total financial liabilities. It does not include FDI-related Assets and Liabilities.

Figure 3. Dominican Republic: Sectoral Net Financial Positions vis-à-vis Nonresidents 1/
By Currency

(In percent of GDP, 2005 - 2014)



Sources: SRF & IIP.

1/ It does not include FDI-related Assets and Liabilities.

2/ Net position in domestic currency (zero or negligible)

3/ Nonfinancial Corporations + Households. Net position in domestic currency is negligible.



DOMINICAN REPUBLIC

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 2, 2016

Prepared By

The Western Hemisphere Department

CONTENTS

FUND RELATIONS	2
RELATIONS WITH THE WORLD BANK	6
RELATIONS WITH THE INTER AMERICAN DEVELOPMENT BANK	7
STATISTICAL ISSUES	8

FUND RELATIONS

(As of December 31, 2015)

Membership Status: Joined on December 28, 1945; Article VIII

General Resources Account:	SDR Million	Percent of Quota
Quota	218.90	100.00
Fund holdings of currency	300.99	137.50
Reserve Tranche Position	0.00	0.00

SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	208.83	100.00
Holdings	5.57	2.67

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Stand-By Arrangements (SBA)	82.09	37.50

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SBA	Nov 9, 2009	Mar 8, 2012	1,094.50	766.15
SBA	Jan 31, 2005	Jan 30, 2008	437.80	437.80
SBA	Aug 29, 2003	Jan 31, 2005	437.80	131.34

Projected Payments to Fund: 1/

(SDR million: based on existing use of resources and present holdings of SDRs):

	Forthcoming			
	2016	2017	2018	2019
Principal	82.09	0.00	0.00	0.00
Charges/Interest	0.53	0.11	0.11	0.11
Total	82.61	0.11	0.11	0.11

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Article IV Consultation. The last Article IV consultation was concluded by the Executive Board on May 28, 2014.

FSAP Participation. An FSAP update was completed in February 2009. The corresponding report was issued in November 2009.

Exchange Rate Arrangement. The Dominican Republic's *de jure* exchange rate arrangement is classified as "managed floating", while the *de facto* exchange rate arrangement is classified as a "crawl-like arrangement." Over the last two years, the *peso* has been depreciating against the U.S. dollar by an average rate of 4 percent per year. The Dominican Republic maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Technical Assistance, 2014–15:

Year	Subject	Action	Timing	Counterpart
2014	Balance of payments statistics and international investment position (IIP)	Missions	Multiple missions Jan. – Sep. 2014	BCRD
	Monetary and exchange rate policy	Missions	Multiple missions Jan. – Sep. 2014	BCRD
	Quarterly national accounts compilation	Missions	Multiple missions Feb. – Dec. 2014	BCRD
	Tax administration	Missions	Multiple missions Feb. – Nov. 2014	MoF, DGII
	Public financial management	Missions	Multiple missions Mar. – Nov. 2014	MoF
	Bank supervision and regulations	Missions	Multiple missions Feb. – Dec. 2014	SIB
	Support to develop hedging instruments	Missions	Multiple missions May – Jul. 2014	BCRD
	Producer price index compilation	Mission	Jul. 2014	BCRD
	National accounts: financial account and flow of funds table	Mission	Sep. 2014	BCRD
	Monetary operations	Mission	Nov. 2014	BCRD
2015	Customs administration	Missions	Multiple missions 2015	MoF, DGA
	Public financial management: Treasury single account	Missions	Multiple missions 2015	MoF
	Tax administration	Missions	Multiple missions Mar. – Apr. 2015	MoF, DGII
	Support to develop the thrusts scheme	Missions	Multiple missions Jan. – Mar. 2015	BCRD
	Public financial management	Mission	Mar. 2015	MoF
	Macroeconomic analysis and projections	Mission	Mar. 2015	BCRD
	Exchange position limits	Mission	Apr. 2015	BCRD
	Bank supervision and regulations	Missions	Multiple missions Apr. – May 2015	SIB
	Balance of payments statistics and international investment position (IIP)	Missions	Multiple missions Apr. – Sep. 2015	BCRD
	National accounts: flow of funds table	Mission	Jul. 2015	BCRD
	External debt statistics	Mission	Aug. 2015	BCRD
	Consumer and producer prices	Mission	Jul. 2015	BCRD
	Risk-based supervision	Missions	Multiple missions Sep. – Dec. 2015	SIB
	Supervision of market and liquidity risks	Mission	Sep. – Oct. 2015	BCRD, SIB

	Tax system, revenue mobilization, tax expenditures	Mission	Oct. 2015	MoF, DGII
	Treasury modernization processes	Missions	Multiple missions Oct. – Dec. 2015	MoF
	Macro stress testing model	Mission	Apr. 2015	BCRD
	Balance of payments statistics and international investment position (IIP)	Missions	Multiple missions Apr. – Sep. 2015	BCRD
	National accounts: flow of funds table	Mission	Jul. 2015	BCRD
	External debt statistics	Mission	Aug. 2015	BCRD
	Consumer and producer prices	Mission	Jul. 2015	BCRD
	Risk-based supervision	Missions	Multiple missions Sep. – Dec. 2015	SIB
	Supervision of market and liquidity risks	Mission	Sep. – Oct. 2015	BCRD, SIB
	Tax system, revenue mobilization, tax expenditures	Mission	Oct. 2015	MoF, DGII
	Treasury modernization processes	Missions	Multiple missions Oct. – Dec. 2015	MoF

Resident Representative: The Fund representative office was closed on July 1, 2014.

RELATIONS WITH THE WORLD BANK

Dominican Republic: Relations with the World Bank

Lending Operations				
(In millions of U.S. dollars)				
Products	Total loan	Undisbursed through FY16	Projected disbursements in FY17	Closing date
DO Support to the Nat. Education Pact	50.0	50.0	17.5	06/30/20
DO Social Sectors Investment Program	29.4	0.1	0.0	06/30/16
DO Municipal Development Project	17.0	8.5	0.0	2/15/16
DO Integrated Social Protect & Promotion	75.0	74.8	40.0	03/30/19
DO (APL2) Health Ref II	30.5	4.4	0.0	02/29/16
DO Emergency Recovery and Disaster Management	100.0	9.7	0.0	12/31/15
DO CARCIP 1B - Dominican Republic	30	30.0	10.0	06/30/20
DO Strengthening PFM – DPL	60.0	60.0	0.0	06/30/17
DO Water and Sanitation in Tourist Areas	27.5	17.3	7.0	12/31/16
Total	419.4	254.2	74.5	

Source: World Bank. As of November 10, 2015.

Analytical and Advisory Products			
Title	Products	Product type	Expected delivery date
World Bank	Dominican Republic - Public Expenditures Management TA	Technical assistance	03/28/2016
Work Program	DO RAS Improving Competitiveness in DR	Technical assistance	11/13/2015
	DO RAS Legal Framework for Securities Settlement Systems	Technical assistance	05/13/2016
	DR PEMFAR2- Improving Equity Outcomes of the Fiscal System	Report	12/29/2015
	DR Female Biz and Worker training	Impact Evaluation	06/30/2016
	Exports and Global Value Chains in DR	Report	03/30/2016
	DO Technical Assistance on HIV AIDS	Technical assistance	03/30/2016
	Support the Sound Development of Mining	Technical assistance	03/01/2016
	Water and Sanitation Sector Finance and Service Efficiency	Report	03/16/2016
	Dominican Republic Policy Notes	Report	06/22/2016

Source: World Bank. As of November 10, 2015.

RELATIONS WITH THE INTER AMERICAN DEVELOPMENT BANK

(As of November 30, 2015)

Dominican Republic: Relations with the Inter-American Development Bank

(In millions of U.S. dollars)

Operations			
Sector	Approved	Disbursed	Undisbursed amount
Reform/Modernization of the State	25.0	0.0	25.0
Social Investment	1,126.0	619.1	506.9
Transport	80.0	76.0	4.0
Energy	108.0	37.8	70.2
Agriculture	75.0	12.4	62.6
Education	50.0	28.4	21.6
Tourism	30.0	23.3	6.7
Private Sector Development	290.0	260.0	30.0
Water and Sanitation	60.0	17.2	42.8
Total	1,844.0	1,074.2	769.8
Source: Inter-American Development Bank.			

Loan Transactions					
	2011	2012	2013	2014	2015(p)
Repayments	86.4	88.5	272.1	445.4	120.1
Disbursement	300.7	104.0	576.4	146.7	562.3
Net Lending	214.3	15.5	304.3	-298.7	442.2
Subscriptions and Contributions	1.2	4.3	1.2	2.3	2.6
Interest and Charges	61.2	67.6	68.0	59.4	49.2
Net Cash Flow	152.1	-56.4	235.2	-360.5	390.4
Source: Inter-American Development Bank.					
Note: (p) projected.					

STATISTICAL ISSUES

DOMINICAN REPUBLIC—STATISTICAL ISSUES APPENDIX As of December 31, 2015
I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision is broadly adequate for surveillance, with some data shortcomings. Most macroeconomic statistics are compiled by the Central Bank, with the National Statistics Office producing underlying surveys and the population census. Fiscal data are compiled by the Ministry of Finance.</p>
<p>National Accounts: The Central Bank updated the base year of the national accounts to 2007 in August 2014; the previous base year was 1991. This initiative benefitted from both IMF technical assistance and input from other experts. Staff from the IMF's Statistics Department has reviewed the methodology and has provided comments and suggestions, which have been largely incorporated. The Monthly Index of Economic Activity (<i>Indice Mensual de Actividad Económica</i>) is now published by the Central Bank on its website.</p>
<p>Price Statistics: CPI data has a base date of December 2010; weights are based on the survey of Income and Expense of Households of 2007-2008. The Central Bank has implemented improvements in the adjustments for seasonal and missing price imputations, changes in product specifications and quality, and new products. It has also harmonized the index with those of Central America and Panama as part of a regional harmonization project.</p>
<p>Government Finance Statistics: Both the Ministry of Finance and the Central Bank compile and disseminate government finance statistics (GFS).</p> <p>Data are generally not available for the consolidated general government, as data coverage on local governments and some non-central government entities is incomplete and not timely. The authorities have made progress in fiscal data presentation, but the lack of a suitable classification of data on the execution of the budget remains a constraint on effectively monitoring fiscal developments during the year. The authorities have not yet transitioned to the GFSM 2014 framework, and may need technical assistance to do so.</p> <p>The country participates in a regional project for the harmonization of GFS for Central America, Panama, and the Dominican Republic. The authorities are currently working to implement International Public Sector Accounting Standards (IPSAS) and introduce a results-based program budgeting system. The authorities are encouraged to involve strategic units in elaborating the chart of accounts under IPSAS, create a GFS committee to reconcile fiscal data, and review the regulatory framework for financial management prior to the adoption of international standards.</p>
<p>Monetary and Financial Statistics: The country has reported monetary data to STA in the standardized report forms (SRFs) since August 2007, and this has been the base for national publications since July 2009. SRFs-based data has helped improve coverage and classification of the data. The SRFs were developed in the context of a regional project for the harmonization of monetary and financial statistics in Central America and the Dominican Republic that ended in December 2008. Currently, the central bank disseminates the harmonized monetary statistics via its web page.</p>

<p>Financial sector surveillance: The Dominican Republic has begun reporting Financial Soundness Indicators (FSIs) to the IMF on a monthly basis with data beginning in 2008. The Dominican Republic's FSIs have been posted, and are now available, on the IMF's FSIs website (http://fsi.imf.org).</p>	
<p>External sector statistics: The authorities started disseminating balance of payments (BOP) statistics according to BPM6 in March 2015. Problems of coverage remain for exports, imports, factor services, capital transfers, income, and the financial account including the private sector, giving rise to large errors and omissions. External debt statistics, notably for the private sector, also require further improvements. Several technical assistance missions have assisted the BCRD in improving balance of payments statistics (including migration to BPM6), external debt statistics and preparing the International Investment Position (IIP) data according to BPM6, which are now available for the period 2010Q4–2015Q1, and need to be extended backwards.</p>	
<p>II. Data Standards and Quality</p>	
<p>The country is a GDDS participant. However, most of its metadata, with the exception of the fiscal sector and socio-demographic metadata, were last updated in June 2007. Fiscal sector metadata was last updated in November 2005, while socio-demographic metadata are not available. The authorities are working to update the metadata.</p>	<p>Data ROSC was published on June 27, 2006.</p>

Dominican Republic: Table of Common Indicators Required for Surveillance (As of January 14, 2016)

	Date of latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items:	
						Data Quality – Methodological Soundness ⁸	Data Quality – Accuracy and Reliability ⁹
Exchange Rates	1/13/2016	1/14/2016	D	D	D		
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	1/12/2016	1/13/2016	D	D	M		
Reserve/Base Money	1/11/2016	1/13/2016	D	D	W	LNO, O, LO, LO	LO, O, O, O, LO
Broad Money	11/30/2015	12/20/2015	W	W	W		
Central Bank Balance Sheet	11/2015	12/20/2015	M	M	M		
Consolidated Balance Sheet of the Banking System	11/2015	12/20/2015	M	M	M		
Interest Rates ²	1/11/2016	1/12/2016	D	D	D		
Consumer Price Index	12/2015	1/11/2016	M	M	M	O, O, O, O	O, LNO, LNO, O, LO
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴						LO, NO, LO, LO	LNO, O, LO, O, LNO
Revenue, Expenditure, Balance and Composition of Financing ³ –Central Government	11/2015	12/2015	M	M	M		
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	11/2015	12/2015	Q	Q	Q		
External Current Account Balance	9/2015	11/2015	Q	Q	Q	O, LO, LO, LO	LNO, O, LO, LO, NO
Exports and Imports of Goods and Services	9/2015	11/2015	Q	Q	Q		
GDP/GNP	Q3/2015	11/10/2015	Q	Q	Q	LNO, LO, LNO, LO	LNO, LO, LNO, O, LNO
Gross External Debt	Q3/2015	11/2015	Q	Q	Q		
International Investment Position ⁶	Q3/2015	11/2015	Q	I	I		

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents, including of offshore banks.

⁷ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

⁸ Reflects the assessment provided in the Report on the Observance of Standards and Codes (ROSC)—Data Module published on June 27, 2006, based on the findings of the mission that took place during August 3–16, 2005. For the dataset corresponding to the variable in each row, the assessment indicates whether international standards concerning (respectively) concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹ Same as footnote 8, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs, and revision studies.