

Dominican Republic

April 2012

EDC ECONOMICS

Economy

Nominal GDP (2011)

47 bil USD

Population (2011)

10 million

Total Trade/GDP (2011)

60 %

Currency

Dominican Peso (DOP)

Exchange regime

Managed float

Merchandise imports from Canada (2011)

CAD 129 million

Main sources of foreign exchange (excl. FDI)

Tourism

Textile products

Largest merchandise export destination (2011)

U.S. (52 %)

Main imports

Manufactured Goods

Fuels

Agriculture Products

Sovereign Ratings

MLT external debt

Fitch B

S&P B

Moody's B1

Risks to the outlook



Stronger global recovery than anticipated; greater improvements in DR electricity sector than envisaged.

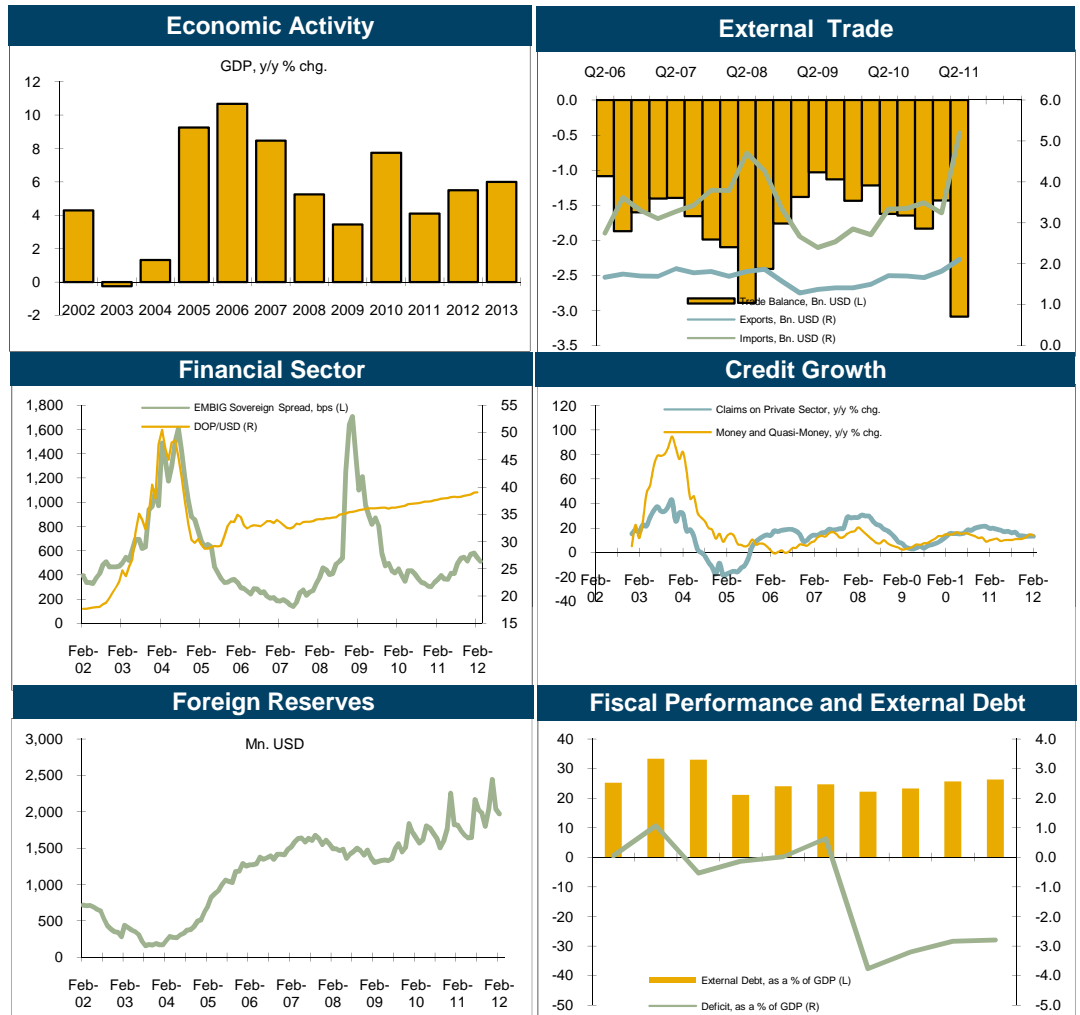


Additional external or domestic shock

Economic & Political Intelligence Centre

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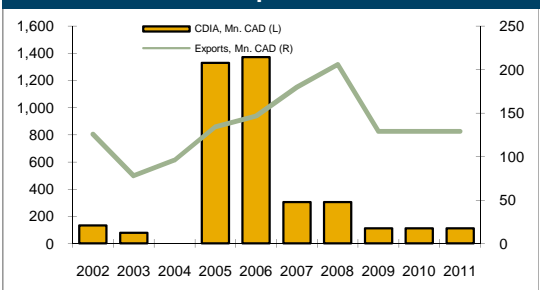
- The DR has experienced significantly better growth than the contractions seen in other markets. Growth is expected to have accelerated by 7.1% in 2010 and anticipated to grow 4.1% 2011.
- The US\$1.7bn 27-month IMF program (concluding in March 2012) – along with other multilateral financing – continues to provide the government funds to stimulate the economy, boost foreign exchange reserves, and the necessary assistance to implement structural reforms, albeit slow-moving reforms.
- Government liquidity concerns tend to emerge every 3-5 years in the Dominican Republic, however, solvency indicators are stable and public finance ratios sustainable. Strong import demand will keep the current account deficit elevated; risk here is mitigated by the fact that the deficit is largely financed by foreign direct investment in the mining and telecommunication sectors.
- Despite better management in the power sector, it remains an impediment to competitiveness and a major burden on fiscal accounts (the burden is positively related to oil prices). Government is beginning to explore more aggressively broader energy sources to reduce the vulnerability to oil prices. Fiscal consolidation will be a priority for the government going forward.



Economic Indicators

	07-11 avg.	2011	2012	2013
GDP (% growth, real)	5.8	4.1	5.5	6.0
Inflation (%chg, pa avg.)	6.6	7.8	5.2	5.0
Fiscal Balance (% of GDP)	-2.4	-2.8	-2.9	-2.0
Exports (% comp. annual growth)	4.4	17.9	16.1	17.5
Imports (% comp. annual growth)	10.0	19.3	-0.3	8.0
Current Account (% of GDP)	-7.8	-10.2	-6.4	-5.6
Reserves (months of curr. debits)	1.7	1.5	1.6	0.4
External Debt (% of GDP)	24.5	26.3	26.2	26.4
Debt Service Ratio (due)	8.6	8.0	7.5	8.0
Exchange Rate (to USD; eoy)	36.4	38.3	39.5	40.5

Canadian Exports and CDIA



Sources: EIU, EDC Economics

Sources: Haver Analytics, Statistics Canada, EIU, Bloomberg

Canada

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Political

Political Structure
Constitutional Republic

President
Leonel Fernández (PLD)

Vice-President
Rafael Albuquerque

National Legislative Body
Bicameral Congress:
Chamber of Deputies (178 seats); Senate (32 seats)

Major Parties
(seats in Chamber of Deputies; Senate)

- Dominican Liberation Party (PLD) – centrist (102:31)
- Dominican Revolutionary Party (PRD) – centre-left (73:0)
- Social Christian Reformist Party (PRSC) – rightist (3:1)

Last Elections

- Legislative: May 2010
- Presidential: May 2008

Next Elections

- Legislative: May 2016
- Presidential: May 2012

Press Freedom Survey:
2011 Score: 40 Partly Free
(0: Free; 100: Not Free)
freedomhouse.org

Control of Corruption Index
2010 Score: -0.83
(-2.5: Worst; +2.5: Best)
worldbank.org

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General Political Environment: Leonel Fernández of the Dominican Liberation Party (PLD) took the presidency in 2004 amidst economic turmoil and easily won reelection in May 2008. The current constitution bars him from running in the 2012 race.

Fernández's party controls both the Chamber of Deputies and the Senate. In the May 2010 legislative elections the PLD expanded its majority in both houses taking all but one seat in the Senate and 102 of 178 in the Chamber of Deputies. The legislators will hold office until 2016 in a special six-year term to bring presidential and legislative elections in sync.

Since 2006 the PLD has used its majority to implement the CAFTA-DR free trade agreement and to pass broad fiscal reform, in line with recommendations from international financial institutions. In a November 2010 preliminary review of their Stand-By Agreement, the IMF commended the government's improvement. Although progress in the electricity sector remains slow, the "electricity czar" appointed by Fernández in 2009 has thus far demonstrated a strong understanding of the issues and enjoys political support. The IMF agreement was prematurely concluded due to persistent disagreements in policy recommendation regarding the electricity sector.

The May 2012 presidential election will be closely fought between Danilo Medina, the PLD candidate, and Hipólito Mejía, the Dominican Revolutionary Party (PRD) candidate. Although the population has been discontent with rising inflation and disappointing public services, the announcement that Fernández's wife, Margatita Cedeño de Fernández, will be Medina's running mate has bolstered the PLD's popularity.

Investment Environment: Investment policies are increasingly business-friendly, but a relatively high degree of corruption and a dense bureaucracy contribute to difficulties faced by foreign investors. The DR, Central American countries and the US signed a free trade agreement (CAFTA-DR) in 2004. The agreement is expected to increase FDI and trade, thus improving the country's competitiveness. The DR is a natural conduit for supplies and equipment for the continued reconstruction in Haiti, supporting business opportunities between the two countries. Additionally, both governments have signed agreements which will facilitate bilateral commercial relations and expected to improve investment, transportation and safety.

Although the DR adheres to various dispute settlement agreements, foreign investors have reported problems with enforcement of legislative regulations and dispute resolution; implementation of CAFTA-DR should help strengthen binding arbitration mechanisms. Dates for the second round of negotiations towards a Canada-DR free trade agreement – launched in July 2007 – have still not been set.

Businesses must also be aware of the costs of operating in an environment where electricity can be unavailable for several hours each day. Companies that generate electricity often interrupt operations to protest payment arrears from government-backed distributors. Despite the PLD's majority in Congress, no real progress has been made on electricity reform, although World Bank and IDB projects to improve the sector are underway.

Political Violence: Criminal violence has increased, but the problem is largely contained in urban areas. Nevertheless, security and criminal violence will be a major theme in the campaign leading up to the 2012 election.

Violence during election campaigns is not uncommon and isolated instances of violence between the two main parties' supporters left five killed and 13 wounded in 2010; the upcoming 2012 elections will most likely not be an exception to this trend. Problems in neighboring Haiti are a threat to the DR given the fact that the border remains very porous. Drug trafficking also poses a serious threat to the country as the DR is the main transit point in the Caribbean. The situation led Fernández to reform the armed forces in order to better confront these two risks, but events have shown that collusion with drug-traffickers has occurred in the security forces.

Political Outlook

An erstwhile hotbed of economic growth in the Caribbean, the Dominican Republic has had to deal with both fiscal and energy deficits while continuing to push for foreign investment. The PLD popularity gained some momentum when First Lady Margatita Cedeño de Fernández was announced as Medina's running mate; however, polls show a deadlock between the PLD and PRD. If Mejía wins the presidential election the PLD's majority in the Chamber of Deputies could create a legislative deadlock. Social unrest and crime may be an increasingly disruptive factor for economic growth in the medium term.