

Economy

Nominal GDP (2008)
45.9 bil USD

Population (2008)
9.8 million

Total Trade/GDP (2008)
48.8 %

Currency
Dominican Peso (DOP)

Exchange regime
Managed float

Merchandise imports from Canada (2008)
156.1 million

Main sources of foreign exchange (excl. FDI)
Tourism
Textile products

Largest merchandise export destination (2008)
US (67.2 %)

Main imports
Manufactured Goods
Fuels
Agriculture Products

Sovereign Ratings
MLT external debt

Fitch B
S&P B
Moody's B2

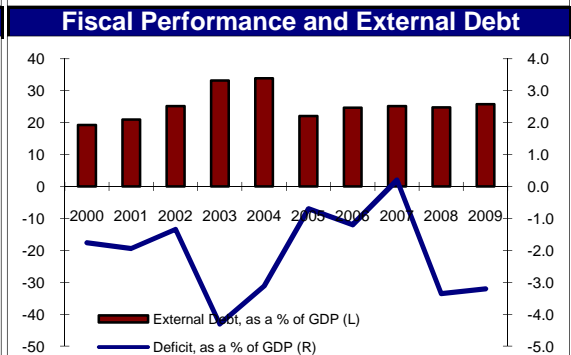
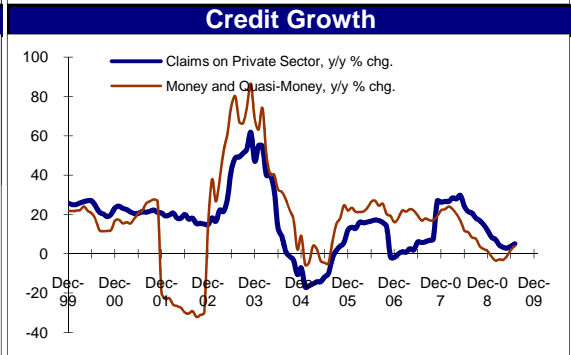
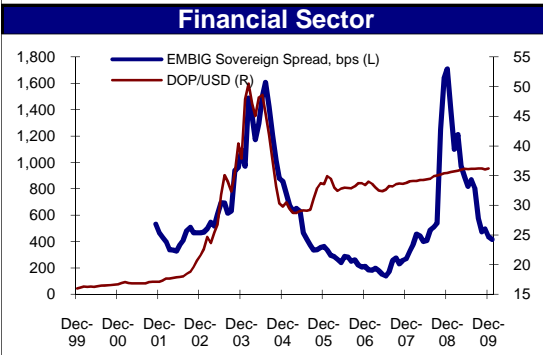
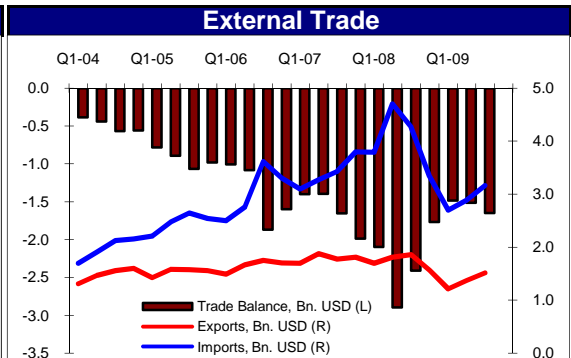
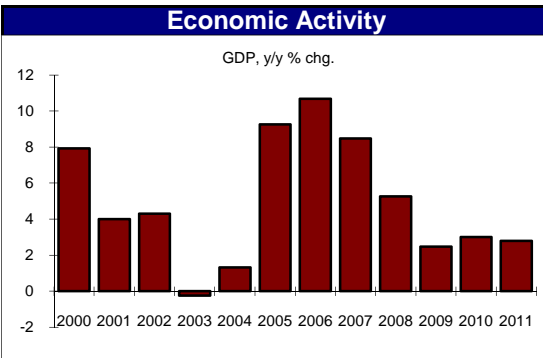
Risks to the outlook

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

↓ Additional external or domestic shock

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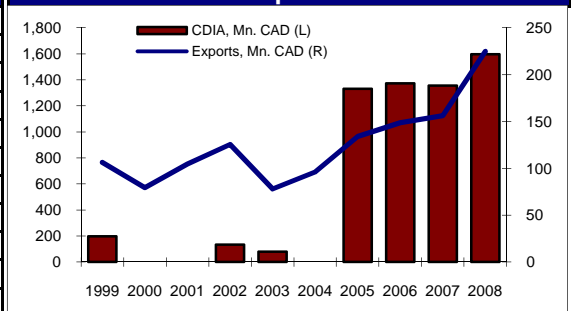
- Real GDP slowed to only 2.5% in 2009 but this is significantly better than contractions seen in other markets. Growth should accelerate to 2.5-3.5% in 2010, significantly below trend and with risks weighted to the downside.
- The US\$1.7bn 27-month IMF program – along with other multilateral financing - will provide the government money to stimulate the economy and boost foreign exchange reserves to stave off liquidity concerns.
- During the peak of the global financial crisis, government bond spreads surged to 1700 basis points (bps) above comparable US government. Spreads have since compressed significantly.
- Government liquidity concerns tend to emerge every 3-5 years in the Dominican Republic but solvency indicators are not alarming.
- The energy sector (specifically the electricity sector) remains an impediment to country competitiveness and a burden to fiscal accounts.



Economic Indicators

	04-08 avg.	2009	2010	2011
GDP (% growth, real)	7.0	2.5	3.0	2.8
Inflation (%chg, pa avg.)	10.9	5.8	5.8	5.8
Fiscal Balance (% of GDP)	-1.6	-3.2	-3.0	-1.8
Exports (% comp. annual growth)	5.0	-29.2	10.0	9.3
Imports (% comp. annual growth)	16.4	-27.5	14.0	4.4
Current Account (% of GDP)	-3.0	-4.8	-6.5	-6.2
Reserves (months of curr. debits)	1.4	1.8	0.0	0.0
External Debt (% of GDP)	26.1	25.7	27.3	28.0
Debt Service Ratio (due)	8.6	10.5	11.3	11.6
Exchange Rate (to USD; eoy)	33.9	36.1	37.9	39.7

Canadian Exports and CDIA



Political

Political Structure

Constitutional Republic

President

Leonel Fernández (PLD)

Vice-President

Rafael Alburquerque

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 (96::22)
- Dominican Revolutionary Party (PRD) – centre-left (60:7)
- Social Christian Reformist Party (PRSC) – rightist (22:3)

Last Elections

- Legislative: May 2006
- Presidential: May 2008

Next Elections

- Legislative: May 2010
- Presidential: May 2012

Press Freedom Survey:

- 2009 Score: 40 Partly Free (0: Free; 100: Not Free)
freedomhouse.org

Control of Corruption Index

- 2008 Score: -0.62 (-2.5: Worst; +2.5: Best)
worldbank.org

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General Political Environment:

In 2003, the Mejía (PRD) government's poor management of a banking crisis plunged the country into a period of economic turmoil. Leonel Fernández of the Dominican Liberation Party (PLD) defeated Mejía in 2004. In May 2008, Fernández easily won reelection.

Fernández's party controls both the Congress and the Senate. It has used this majority to implement the CAFTA-DR free trade agreement and to pass broad fiscal reform in late 2006, in line with recommendations of international financial institutions. The government has taken steps to improve the regulatory environment for financial institutions.

In January 2008 the country completed an IMF Stand-By Agreement and appeared somewhat reluctant to engage in post-program monitoring. The global financial crisis has strongly impacted the DR and so the government has recently turned again to the IMF for assistance.

In 2009 the government's priority was a re-draft of the Constitution. The process was relatively quick but consumed almost all of the government's attention. Other important government priorities are debt management and attracting foreign investment. Reforms are still pending on corruption and accountability in government. Domestic and foreign stakeholders have criticized the government for its lack of focus in addressing endemic corruption, the main cause of the damaging 2003 banking crisis.

The DR did not qualify for funds from the U.S. Millennium Account, and the government has not met the electorate's expectations for the delivery of basic services including health care, education and water. Unemployment has become a major issue. Legislative elections will be held on 16 May. Although the opposition has not provided a strong alternative to voters, discontent with the Fernández administration's inability to take advantage of strong growth in previous years and implement positive change could be an important factor in the election.

Fernández has recently appointed an "electricity czar" to try to improve service. He will also likely continue to make strong efforts to court new investment and some of these efforts are paying off. For example, in October 2009 the United Arab Emirates announced an investment in a 600 megawatt natural gas-fired power plant.

Investment Environment:

Investment policies are increasingly investor-friendly. However, there is a relatively high degree of corruption and a dense bureaucracy that contribute to the difficulties faced by foreign investors. The DR, Central American countries and the US have signed a free trade agreement (CAFTA-DR). The agreement is expected to increase FDI and trade, thus improving the country's competitiveness.

Although the DR adheres to various dispute settlement agreements, foreign investors have reported problems with 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 not yet 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 IADB projects to improve the sector are underway.

Political Violence:

Dominicans tend to resort to strikes and demonstrations to express discontent with government policies. Criminal violence has increased, but the problem is largely contained in urban areas.

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 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 infiltrated security forces.

Political Outlook

An erstwhile hotbed of economic growth in the Caribbean, the Dominican Republic now has to deal with both fiscal and energy deficits while continuing to push for foreign investment. Soon campaigning for the May 16 legislative elections will be the main focus for politicians. The earthquake in Haiti on 12 January is resulting in many business opportunities for D.R. companies and may result in visible improvements in employment in time to give the PLD a boost before the election. The deepening of the energy crisis continues to be an obstacle to investment and will test both Fernández's and the PLD's ability effectively institute key reforms.