DOMINICAN REPUBLIC

Table 1	2023
Population, million	10.7
GDP, current US$ billion	121.5
GDP per capita, current US$	11305.6
International poverty rate ($2.15)[a]	0.8
Lower middle-income poverty rate ($3.65)[a]	4.0
Upper middle-income poverty rate ($6.85)[a]	21.5
Gini index[a]	37.0
School enrollment, primary (% gross)[b]	100.5
Life expectancy at birth, years[b]	74.2
Total GHG emissions (mtCO2e)	41.9

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2022), 2017 PPPs.
b/ Most recent WDI value (2022).

Poised for a rebound, the Dominican economy anticipates a 5.1 percent growth in 2024, fueled by monetary easing effects and public investment. However, challenges such as low revenue mobilization and socioeconomic disparities remain. The re-election of President Abinader in 2024 with a bicameral majority sets the stage for crucial reforms in taxation, energy, and labor market to bolster sustainable development.

Key conditions and challenges

The Dominican Republic (DR) stands out in LAC, for its fast growth and sharp reductions in poverty and inequality. From 2005 to 2023, GDP grew an average of 5.2 percent, while poverty more than halved, from 48.2 to 17.9 percent (US$6.85 per day, 2017 PPPs). The Gini Index declined from 50 to 38.4, and the middle class doubled, from 21 to 43 percent. Non-monetary poverty also declined as the provision of public services improved. However, significant socioeconomic and spatial inequities in living standards persist, including gender gaps and differences between urban and rural areas. Prudent monetary and fiscal policies helped macroeconomic stability, underpinning growth and social progress. However, the DR struggles with low-revenue mobilization (at 15.7 percent of GDP in 2023), and significant monetary losses in the energy sector, covered by government transfers of 1.1 percent of GDP in 2023.

Recent shocks, including the pandemic, surging commodity prices, and floods, have strained the country's finances. Public debt continues to exceed pre-pandemic levels, and new expenditure needs have emerged. In 2023, interest payments alone consumed three percentage points of GDP, curtailing public investment. To create more fiscal space, the country would need to improve tax collection and spending efficiency. The new fiscal responsibility law caps primary expenditure growth at 7 percent starting in 2025 and aims to reduce debt to 40 percent by 2035. Re-elected in May 2024, President Abinader's bicameral majority may enable him to advance long-awaited reforms, including a tax overhaul, the resumption of the energy pact, and pension reforms.

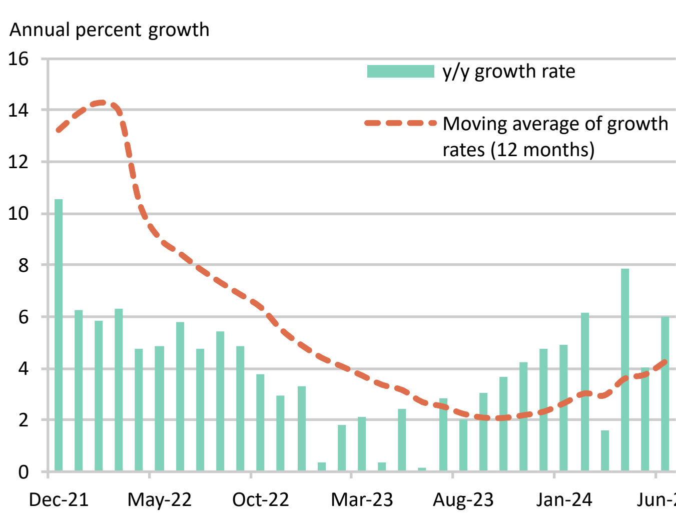
Increasing productivity is also essential, including by: (i) improving education; (ii) boosting competitiveness; (iii) revamping the innovation strategy and adopting green technologies; and (iv) improving service delivery. These changes should go hand in hand with improvements in labor market regulations and social protection systems to reduce inequalities.

Recent developments

After slowing down to 2.4 percent in 2023, GDP expanded by 5 percent in January-July 2024. Boosted by interest rate cuts and liquidity support, the construction sector grew 4.6 percent, driven by strong public and private investment. Service sectors, like hospitality and financial services, maintained momentum, both expanding by 8.0 percent, which helped offset the 11.3 percent contraction in the mining sector.

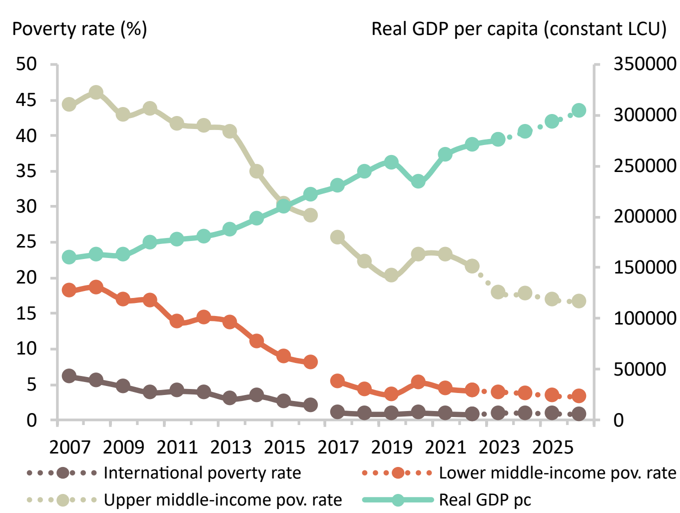
The current account deficit (CAD) contracted in the first half of 2024 due to higher exports and remittances. Exports reached US6.8 billion, growing 2.3 percent year-over-year (y-o-y), boosted by tourism revenues, which surged 14.1 percent with 5.3 million arrivals. Remittances grew by 4.4 percent. Foreign direct investment

FIGURE 1 Dominican Republic / Index of monthly economic activity (IMAE)



Source: World Bank staff calculations based on Central Bank data.

FIGURE 2 Dominican Republic / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

(FDI) exceeded USD 2.3 billion, fully financing the CAD.

Inflation declined throughout the year, reaching 3.5 percent y-o-y in July 2024, within the central target range (4 percent +/- 1 percent). The policy rate, which had been maintained at 7 percent since November 2023, was lowered to 6.75 percent in August 2024. Labor market displayed strong dynamism, adding 172,443 new jobs between March 2023 and March 2024—a 4 percent y-o-y increase. Three-quarters of these were formal positions, with women filling 80 percent of them.

In 2023, the poverty rate fell to 17.9 percent, below the pre-pandemic level of 20.2 percent. The reduction was largely explained by rising labor income and government transfers. Real per capita income grew by 11.7 percent in 2023, marking the highest increase since 2016.

The fiscal deficit increased slightly to 1.1 percent of GDP in the first half of 2024 from 0.6 percent in the first half of 2023. Total revenue surged by 9.4 percent, driven by improved tax administration and exceptional income from the renegotiation of airport concessions. Expenditures grew by 15.1 percent y-o-y, fueled by increases in goods and services (31.6 percent) and interest payments (25.2 percent).

Outlook

In 2024, economic growth is anticipated to accelerate to 5.1 percent as the effects of the monetary easing, higher public investment, and record tourism arrivals boost activity. Inflation is expected to stabilize around 4 percent. Over the medium term, robust consumption and investment are expected to underpin growth, bolstered by structural reforms such as fiscal, energy, water, and labor, as well as initiatives aimed at improving education quality and attracting FDI. By 2027, growth is forecasted to stabilize at around 5 percent. Robust growth and job creation, together with stable inflation will support poverty reduction in 2024 and 2025, reaching 17.7 and 16.9 percent respectively.

Fiscal consolidation is expected over the medium term, anchored on the implementation of the Fiscal Responsibility Law, the phase-out of untargeted subsidies, and measures to improve spending efficiency (e.g., procurement reforms and consolidation of social programs). Consequently, the public debt-to-GDP ratio is expected to decrease progressively, falling below 57 percent post-2026. Beyond this baseline, a comprehensive fiscal reform focused on enhancing revenue mobilization and public expenditure management is crucial to support the ongoing fiscal efforts, while ensuring sustainable economic growth.

The macroeconomic outlook faces three main risks. First, the persistence of geopolitical tensions could lead to volatility in commodity prices, pressuring the government to maintain energy subsidies. Second, the anticipated slowdown in the U.S. economy could directly affect the DR's external accounts. Third, weather-related events, could negatively impact agriculture and tourism, disproportionately impacting the poor. Climate-induced GDP deviations from baseline could reach up to 16.7 percent of GDP by 2050. The high exposure to shocks and limited financial buffers pose additional fiscal risks. Therefore, strengthening resilience through inclusive growth, reducing inequality, and enhancing fiscal sustainability is imperative to sustain economic progress and ensure broader social benefits.

TABLE 2 Dominican Republic / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	12.3	4.9	2.4	5.1	4.7	5.0
Private consumption	6.6	5.1	2.5	5.1	5.0	5.2
Government consumption	0.1	3.9	2.3	4.3	-1.3	1.8
Gross fixed capital investment	22.1	4.0	2.0	3.6	4.3	4.9
Exports, goods and services	36.2	13.7	-0.5	4.1	3.9	5.0
Imports, goods and services	25.7	14.4	0.3	2.4	2.3	3.7
Real GDP growth, at constant factor prices	11.1	4.6	2.2	5.1	4.7	5.0
Agriculture	2.6	5.0	3.9	4.0	3.6	3.4
Industry	16.5	1.3	-0.3	4.7	4.4	4.6
Services	9.3	6.3	3.3	5.4	5.0	5.3
Inflation (consumer price index)	8.2	8.8	4.8	3.8	4.0	4.0
Current account balance (% of GDP)	-2.8	-5.8	-3.6	-3.5	-3.6	-3.4
Net foreign direct investment inflow (% of GDP)	3.4	3.6	3.6	3.7	3.7	3.7
Fiscal balance (% of GDP)[a]	-2.9	-3.2	-3.3	-3.3	-2.9	-2.6
Revenues (% of GDP)	15.6	15.3	15.7	16.2	15.4	15.3
Debt (% of GDP)[b]	62.6	58.6	58.3	58.3	58.0	57.1
Primary balance (% of GDP)[a]	0.2	-0.4	-0.1	0.2	0.7	0.9
International poverty rate ($2.15 in 2017 PPP)[c,d]	0.9	0.8	0.9	0.9	0.9	0.8
Lower middle-income poverty rate ($3.65 in 2017 PPP)[c,d]	4.3	4.0	3.9	3.7	3.4	3.3
Upper middle-income poverty rate ($6.85 in 2017 PPP)[c,d]	23.2	21.5	17.9	17.7	16.9	16.6
GHG emissions growth (mtCO2e)	7.4	0.0	-0.8	2.2	2.1	2.1
Energy related GHG emissions (% of total)	64.6	63.9	62.9	62.8	62.8	62.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Fiscal balances are shown for the non-financial public sector (i. e. excluding central bank quasi-fiscal balances).
b/ Consolidated public sector debt.
c/ Calculations based on SEDLAC harmonization, using 2023 - ECNFT-Q03. Actual data: 2022 and 2023 (preliminary). Forecasts are from 2024 to 2026.
d/ Projections using microsimulation methodology.