

# Dominican Republic Macro Perspective

November 7th, 2023



# Summary

# Main Issues

Outcomes could determine upside or downside scenarios for Dominican risk, including potential credit upgrades or improved outlooks

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- **May 2024 Elections** : official party seems to be ahead in presidential polls, but no clear view yet if it will retain majority in Congress to enact needed reforms.
- **Fiscal Sustainability Bill**: aims to limit budget spending growth. Status: Passed the Senate, still pending a vote in the lower chamber.
- **Tax Reform**: would aim to overhaul current tax code and suggested by all credit rating agencies. Status: expected after 2024 elections.
- **Central Bank Recapitalization**: need to limit the current USD 17bn CB debt from continuing to snowball at double digit annual growth. Status: Under negotiations between Finance Ministry and Central Bank.
- **Energy Pact and Reform**: minimizing losses at state-owned distribution companies that yearly contribute 1-1.5% of GDP to the deficit. Status: signed between government and private sector. New capacity is being built, but losses persist as consumer energy prices need to be adjusted.



# Current Macro Situation

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- **Economic Slowdown (1.7% Jan-Sep 2023)**
- **Monetary Policy less restrictive since May (policy rate at 7.25% vs 8.50% in April)**
- **USD 3bn (2.6% of GDP) announced in liquidity measures in 2023**
- **DOP yields relatively stable**
- **Dominican yields in USD rising along with US Treasuries**
- **More volatile DOP throughout 2023**
- **Inflation at 4.4% within target range**
- **Foreign Reserves at USD 15.1bn (12.5% GDP)**
- **Local bank USD rates at over 15-year highs**



# Current Macro Expectations

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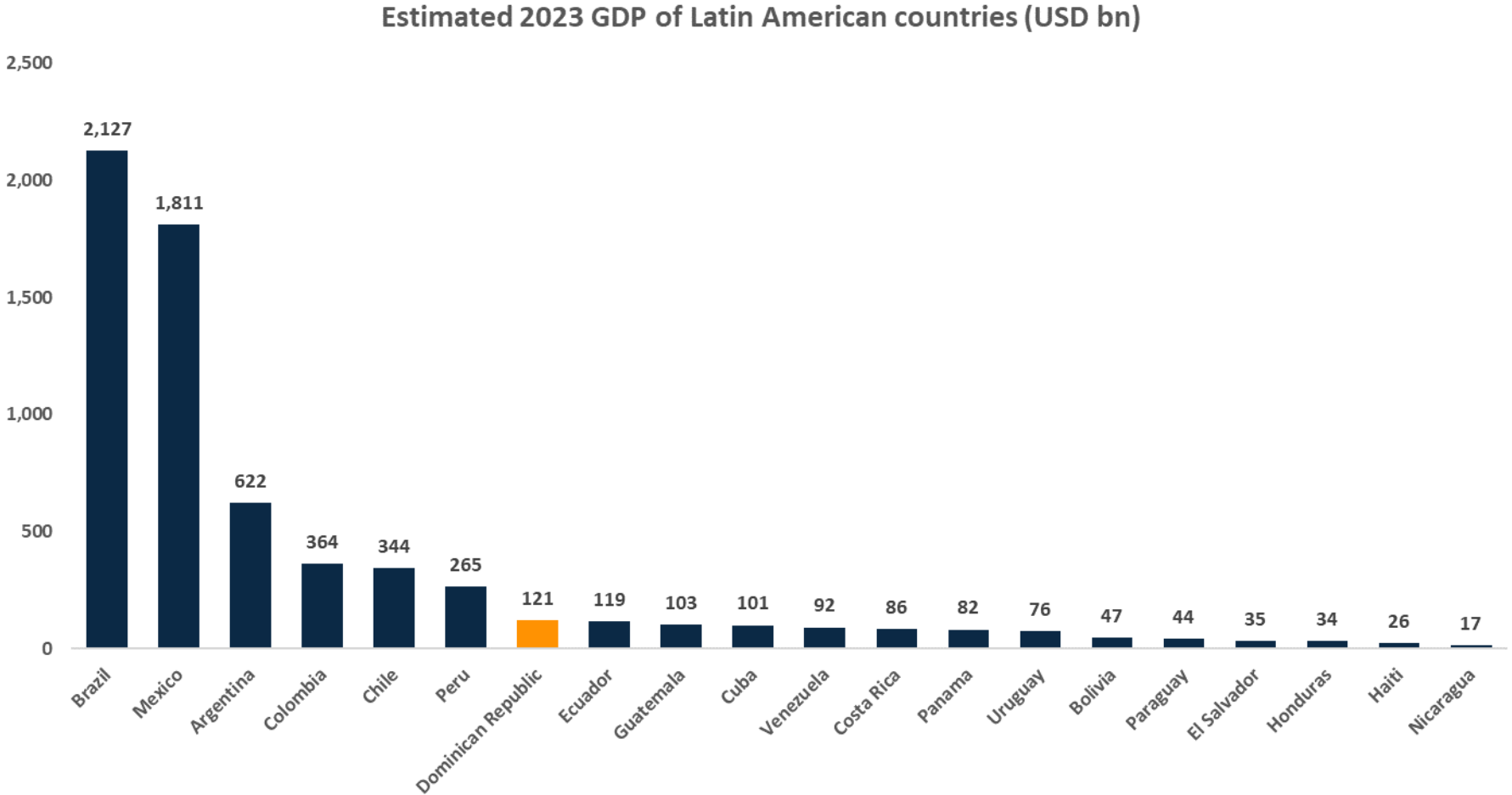
- **Policy rate cuts in 2023 and 2024**
- **Large incoming DOP liquidity** to be handled through:
  - Central Bank Bill issuances
  - Limiting use of current Central Bank liquidity facilities
  - Sale of foreign reserves
- **Potential for DOP downside due to:**
  - **Historically low rate difference between DOP and USD**
  - Public investments in campaign season
  - Larger imports in case of a Dominican growth rebound coinciding with a slowdown in US and EU, impacting exports
  - Oil prices if the conflict in the Middle East expands to major oil producers
- **DOP downside could be limited somewhat with an early DOMREP issuance in 2024**



# General Macro Facts

# GDP

Dominican Republic recently surpassed Ecuador to be the **7th largest economy in the region.**



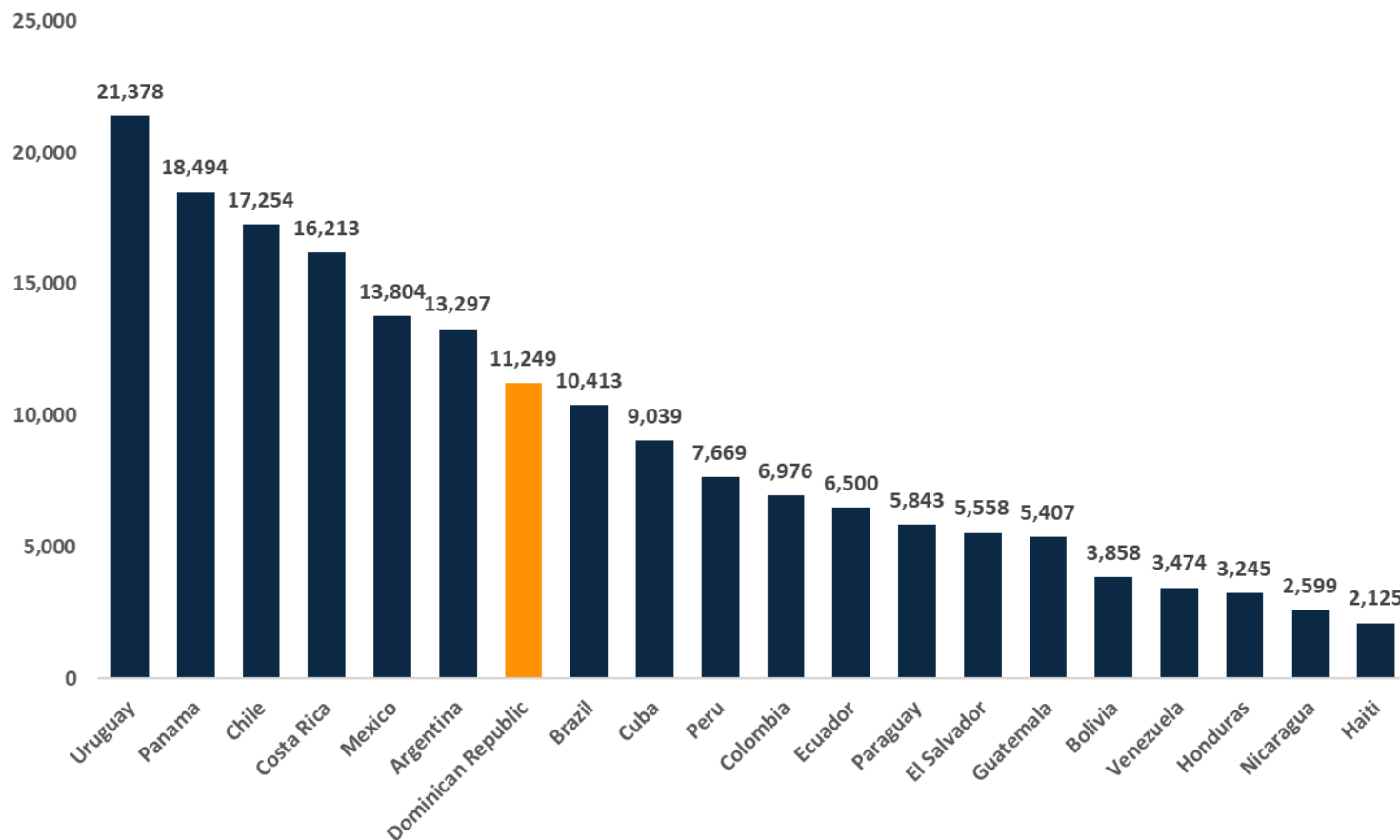
Source: IMF, and internal estimates for Cuba



# GDP per capita

The Dominican Republic has reached **upper-middle-income levels** after **growing at one of the fastest rates** of the region in the past 20 years. IMF recognizes the DR's speed of convergence towards US living standards.

Estimated 2023 GDP per capita of Latin American countries (USD)

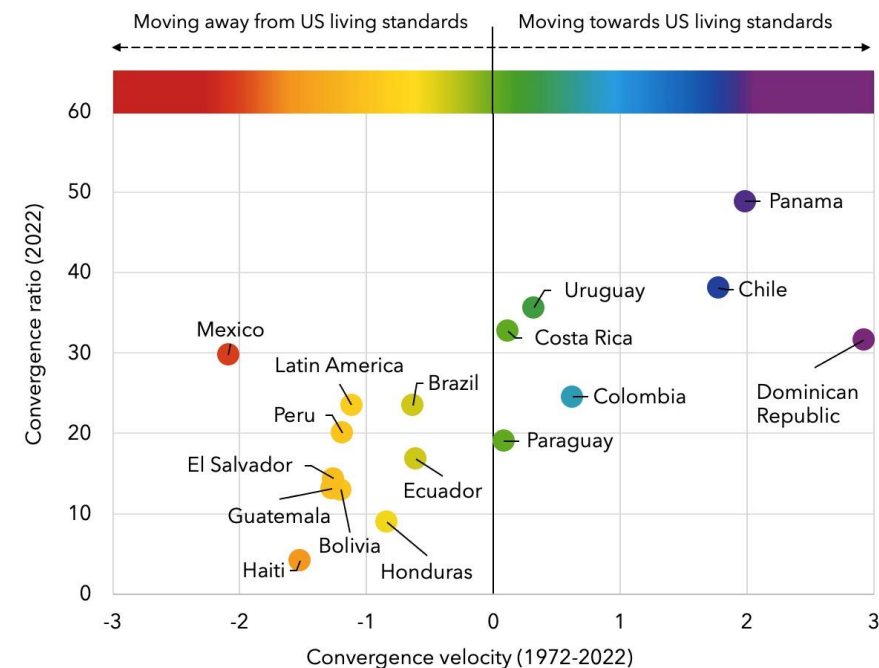


Source: IMF, and internal estimates for Cuba

## Toward income convergence

The Dominican Republic's standard of living is about one third that of the US but rapidly moving closer.

(change in convergence ratio per decade, 1972-2022, percentage points)



Source: World Economic Outlook.

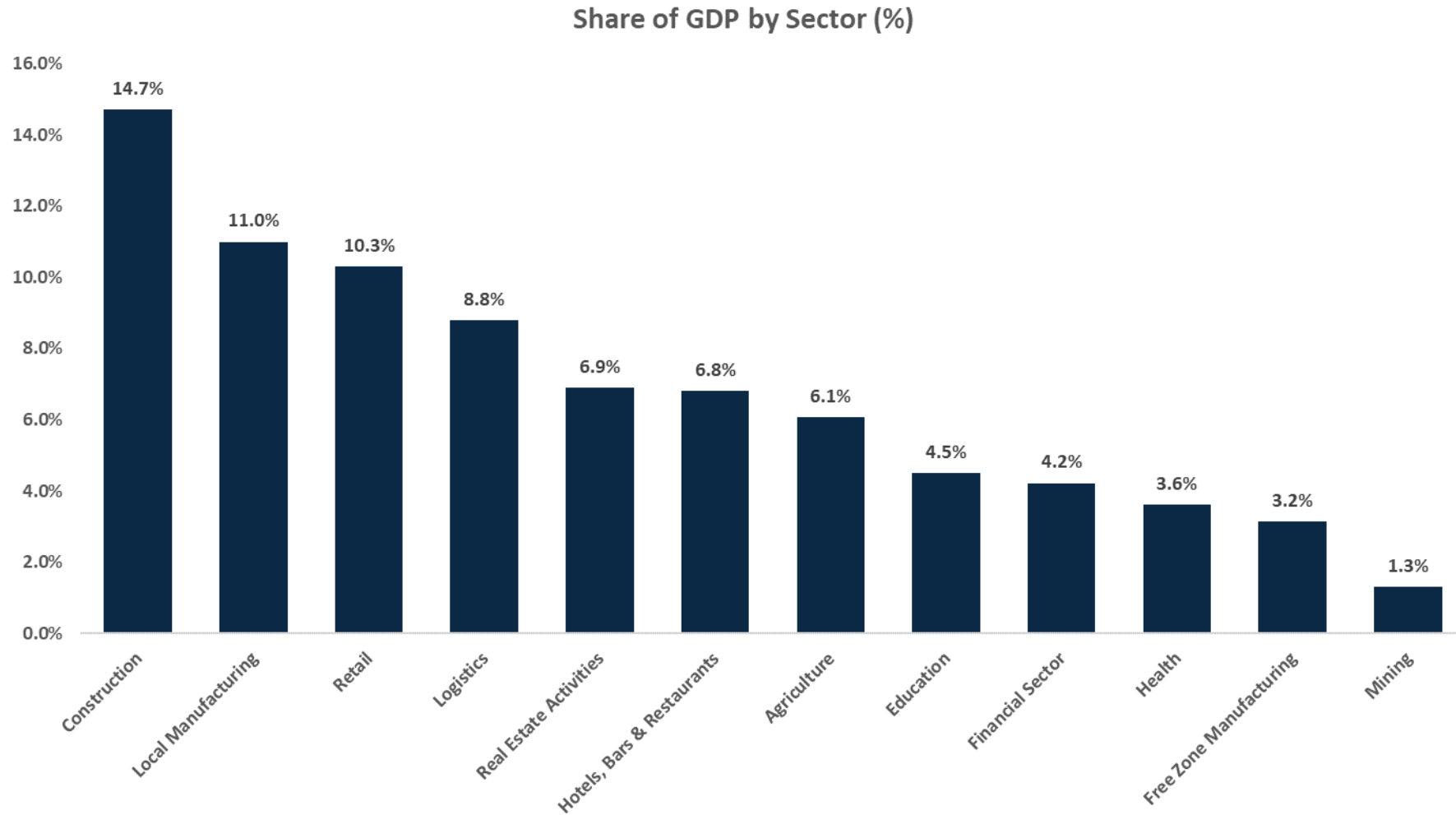
IMF





# GDP by sector

**Diversified economy**, not overly reliant on Tourism or commodities as other countries in the region. This allowed for a lower economic impact in 2020.

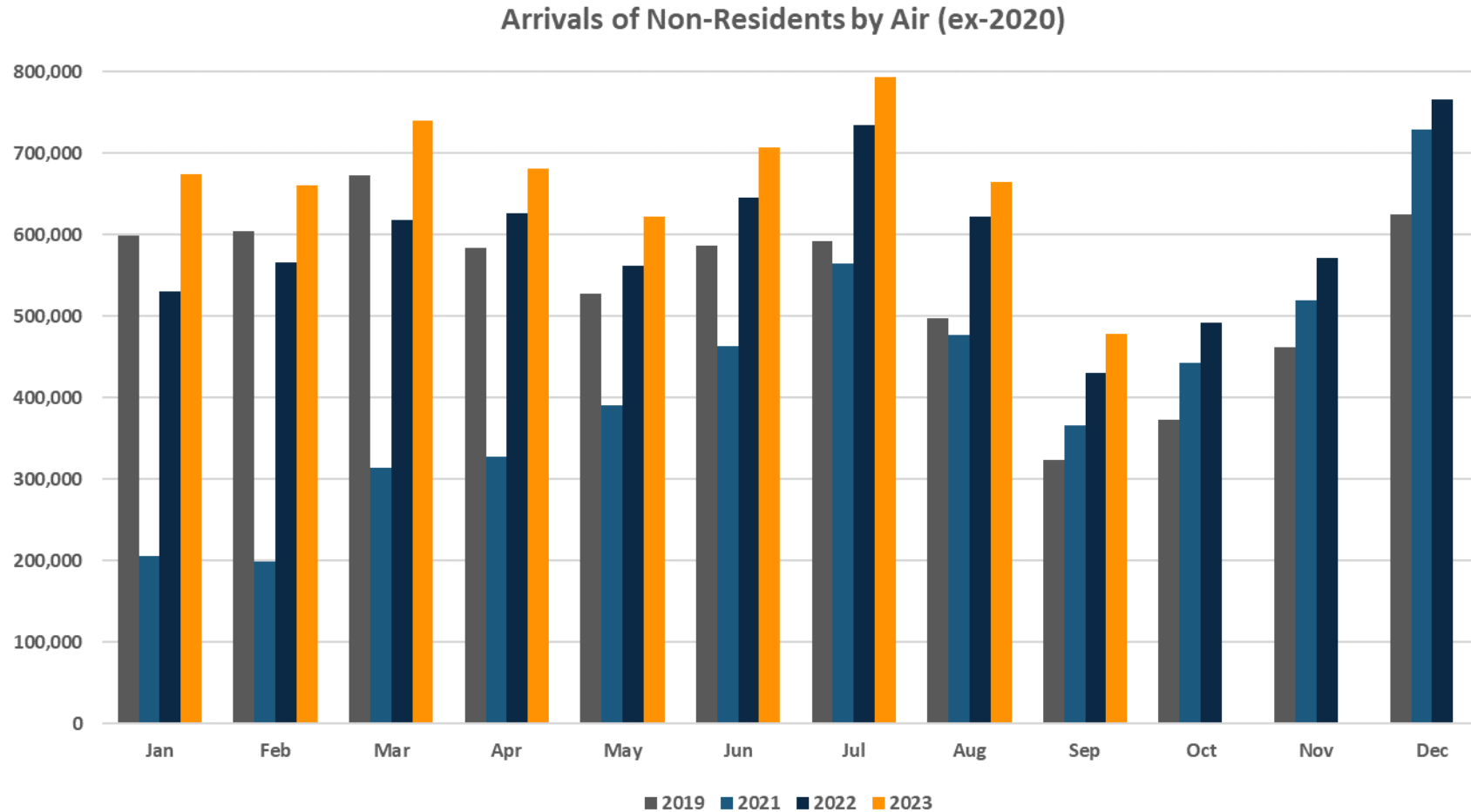


Source: Dominican Republic Central Bank, June 2023. Percentages don't add 100% as other smaller sectors were excluded.



# Tourism

Since April 2022, monthly tourist arrivals by air have **continuously reached new highs**. January-September 2023 arrivals have grown 13% over same period in 2022. **8million tourists by air is attainable in 2023**.

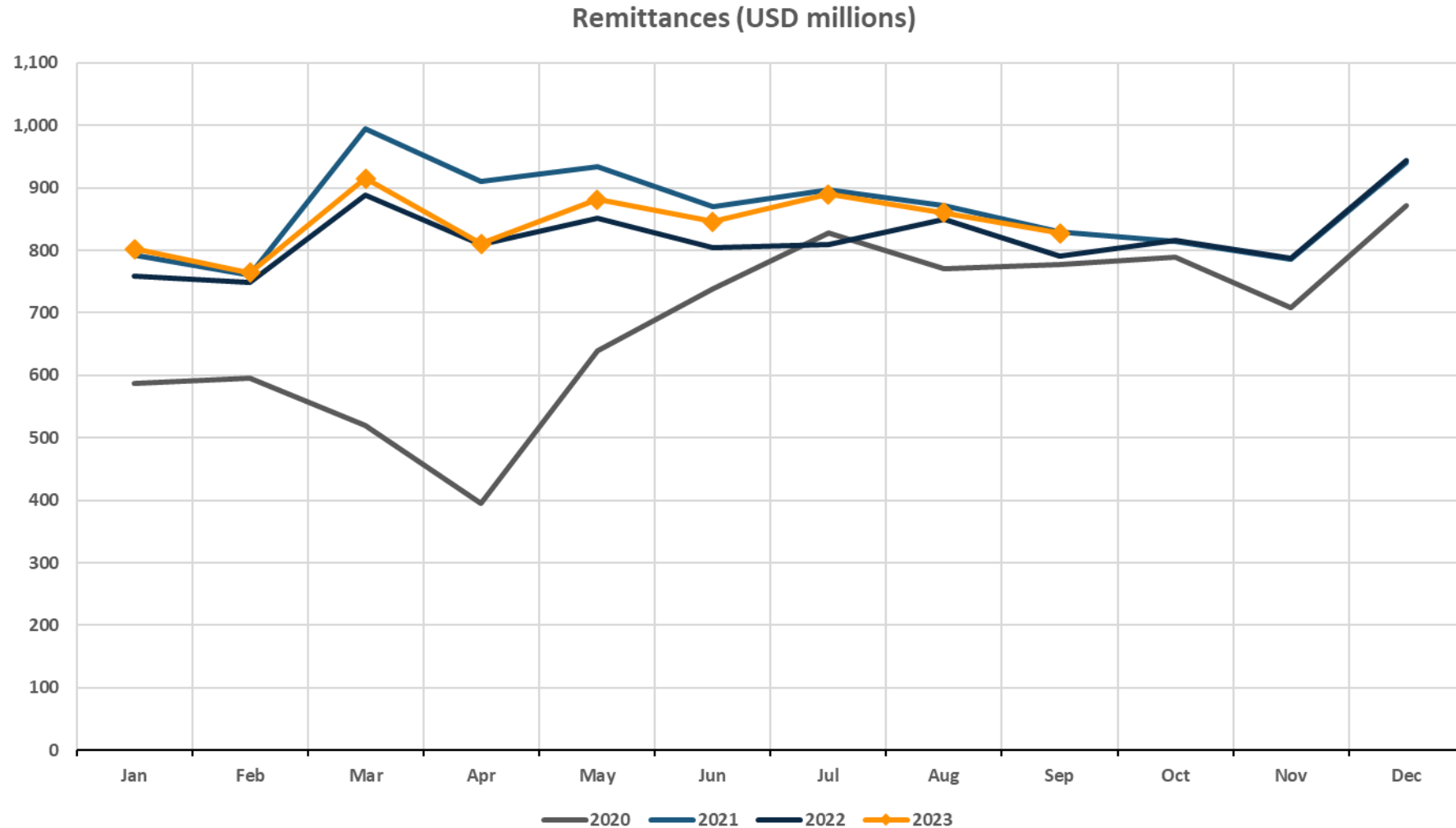


Source: Dominican Republic Central Bank, September 2023.



# Remittances

Jan-Sept 2023 grew 4% (USD 288mn) vs 2022, and -7% vs 2021. With current trend, remittances would fall back to 8% of GDP, lower than the 9-11% during the 2020-22 COVID era, but closer to pre-COVID levels.

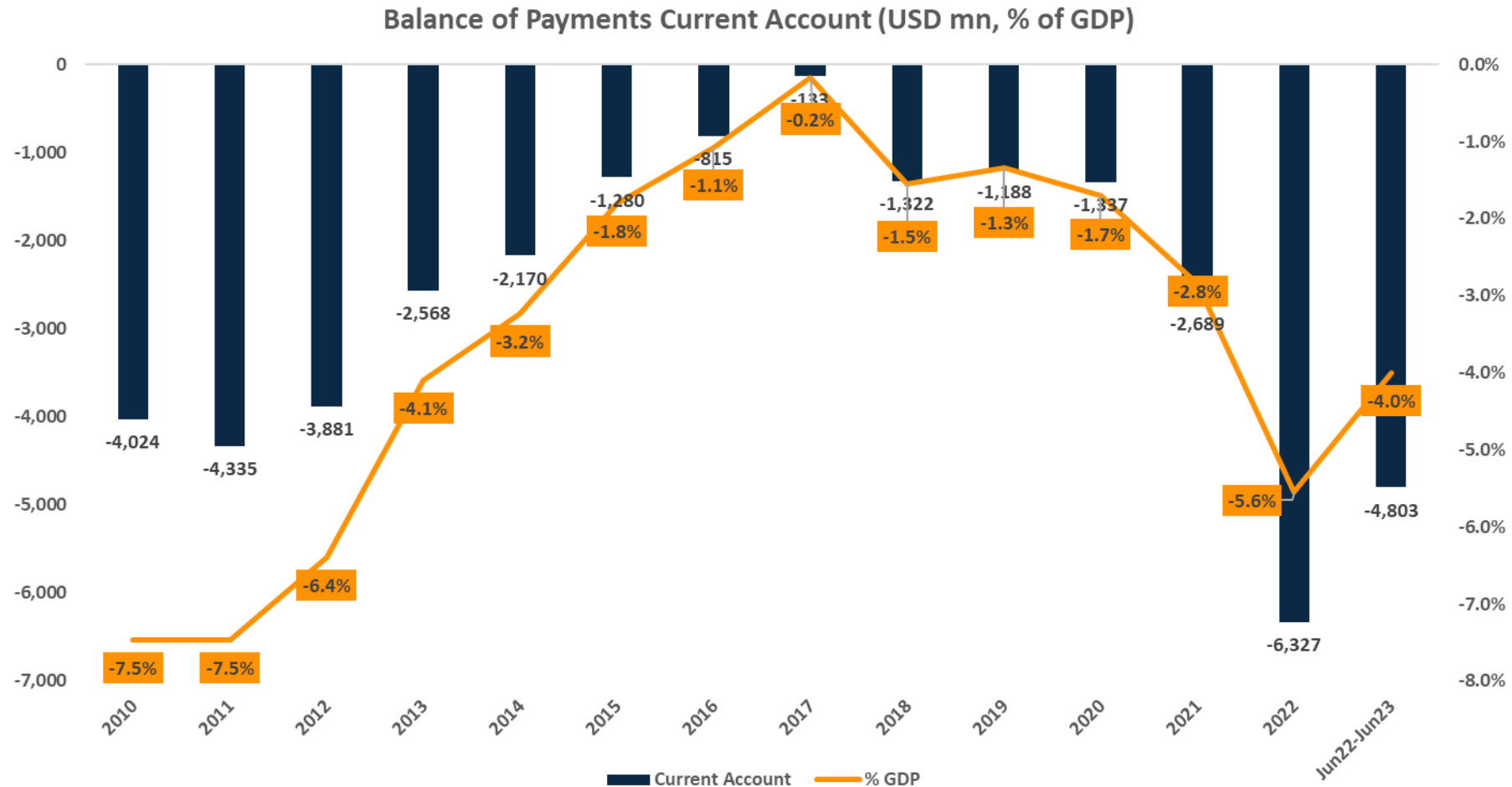


Source: Dominican Republic Central Bank, September 2023.



# Current Account

Current account deficit seems to be improving in 2023, but still larger than the government would like.



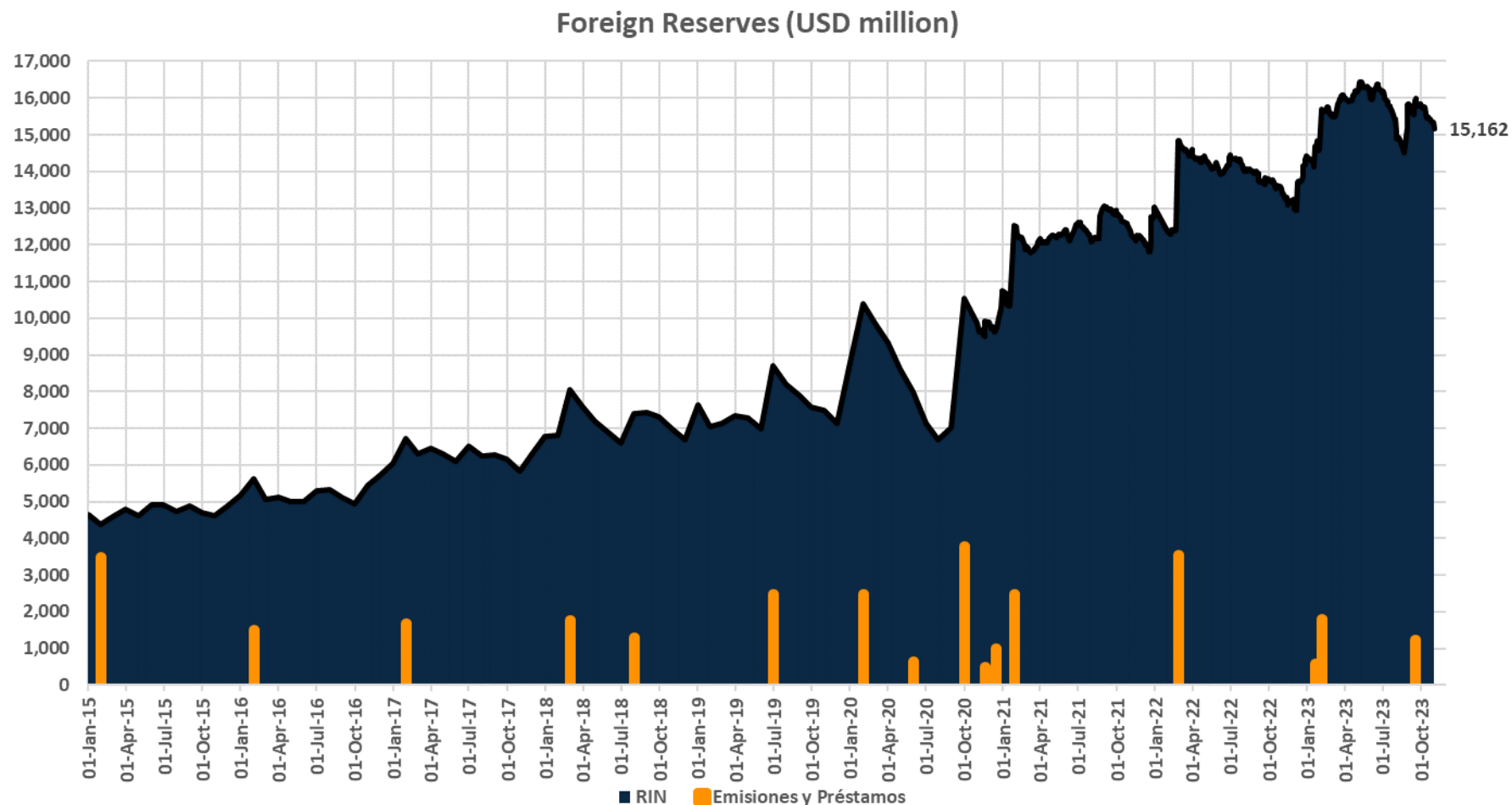
Source: Dominican Republic Central Bank as of June 2023



# Net Foreign Reserves

Despite current account deficit, enough foreign currency has flowed through the financial account to increase reserves every year in the past 10+. Current levels= 6-7 months of imports, 12.4% of GDP. Central Bank continues to sell reserves

Date	Reserves (\$mn)	Growth (\$mn)	% chg.	% GDP
31-Dec-14	4,650			
31-Dec-15	5,195	545	12%	7.3%
31-Dec-16	6,047	852	16%	8.0%
31-Dec-17	6,780	734	12%	8.5%
31-Dec-18	7,627	847	12%	8.9%
31-Dec-19	8,781	1,154	15%	9.9%
31-Dec-20	10,752	1,970	22%	13.6%
31-Dec-21	13,034	2,282	21%	13.8%
31-Dec-22	14,437	1,403	11%	12.7%
01-Nov-23	15,162	725	5%	12.4%



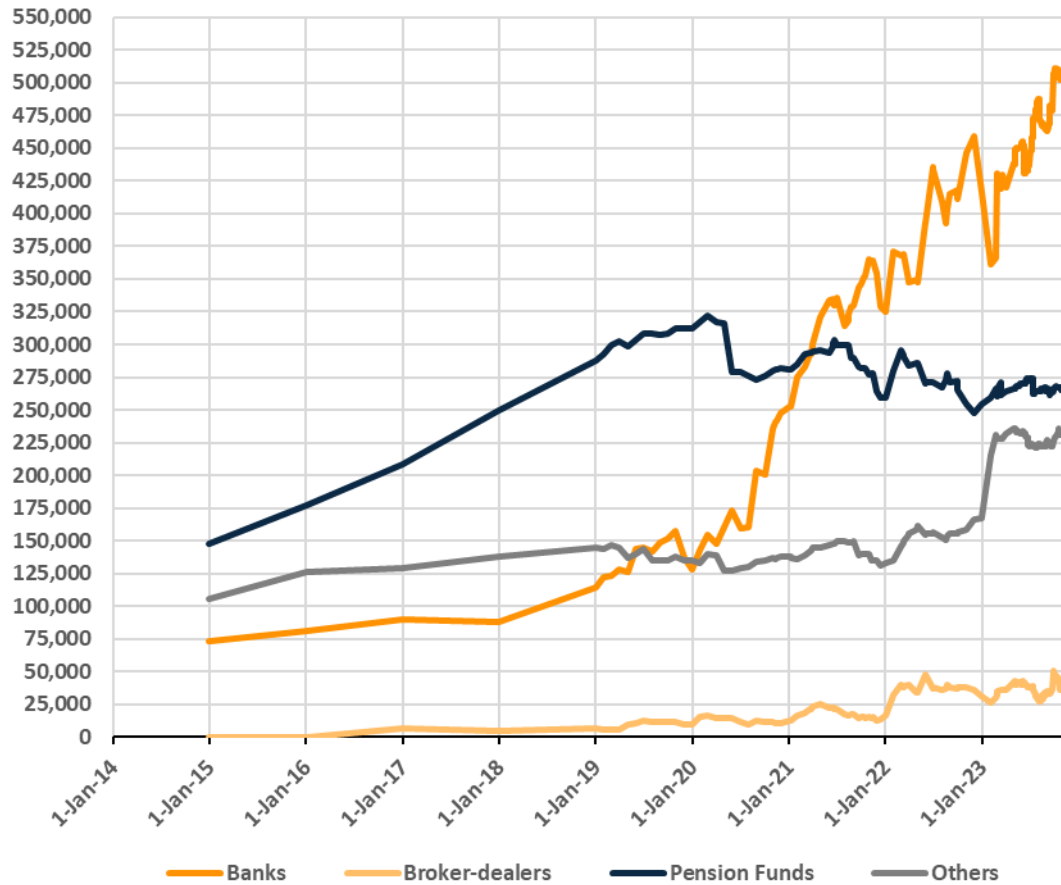
Source: Dominican Republic Central Bank as of November 1<sup>st</sup>, 2023.



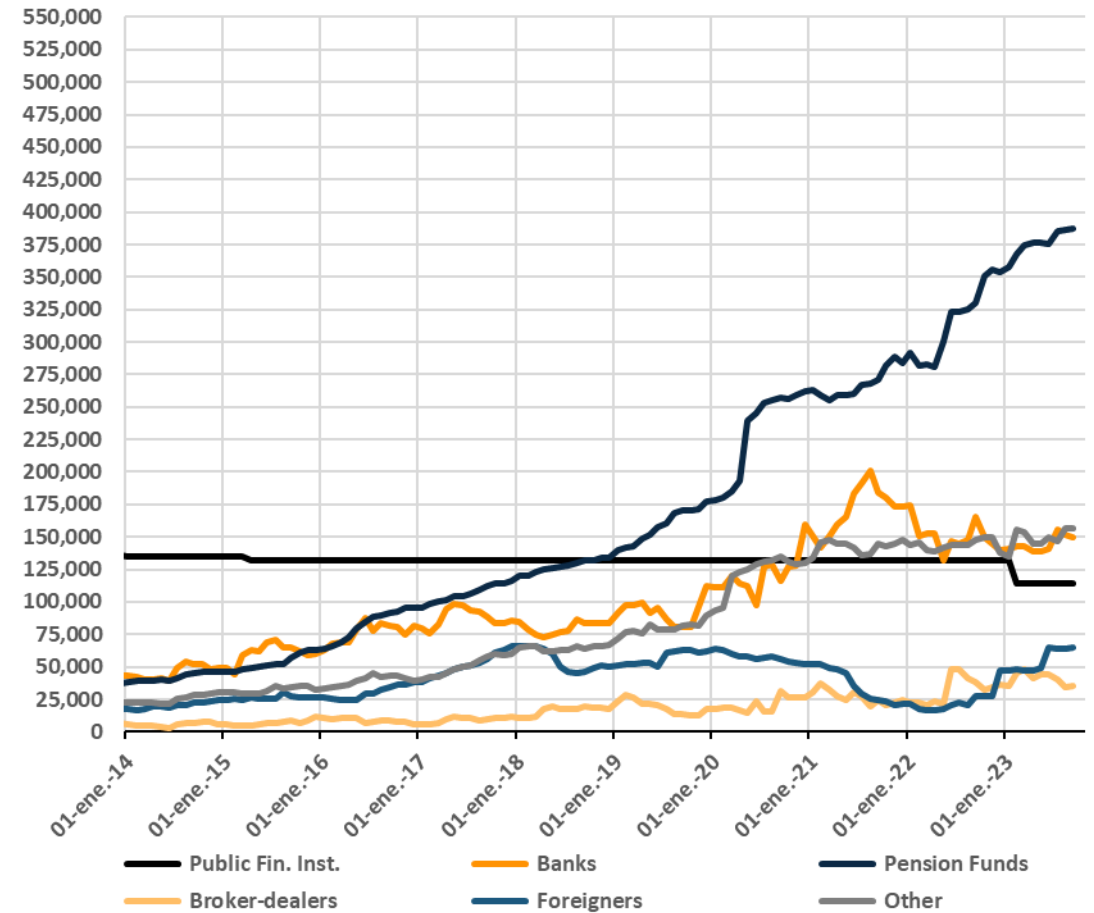
# Holders of Local Bonds

Banks and Others (mostly other financial institutions and foreign investors) increased their holdings in 2023. Foreigners also owning close to record highs of Finance Ministry (MH) local bonds, helping FX flows into the DR.

Central Bank Bondholders (DOP mn)



Holders of Local MH Bonds (DOP mn)

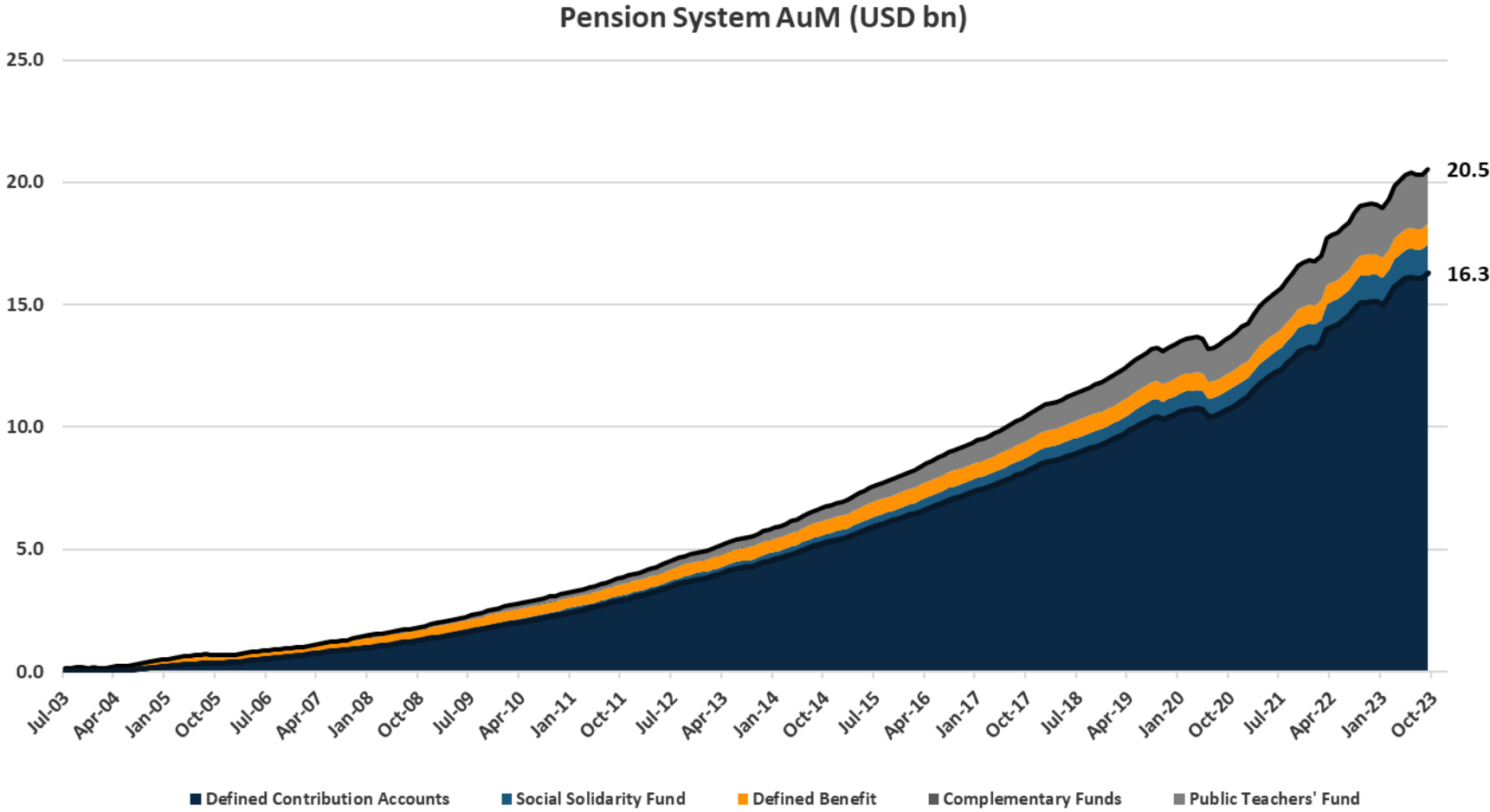


Source: Dominican Republic Central Bank as of October 30th, 2023, Dirección General de Crédito Público (Public Debt Office) as of September 2023, and Primma Advisors estimates.



# Pension System

Young pension system, mostly consisting of private, defined contribution accounts. At USD 20.5bn (17% GDP), it's the biggest source of demand for capital market instruments, and should remain so through 2030.



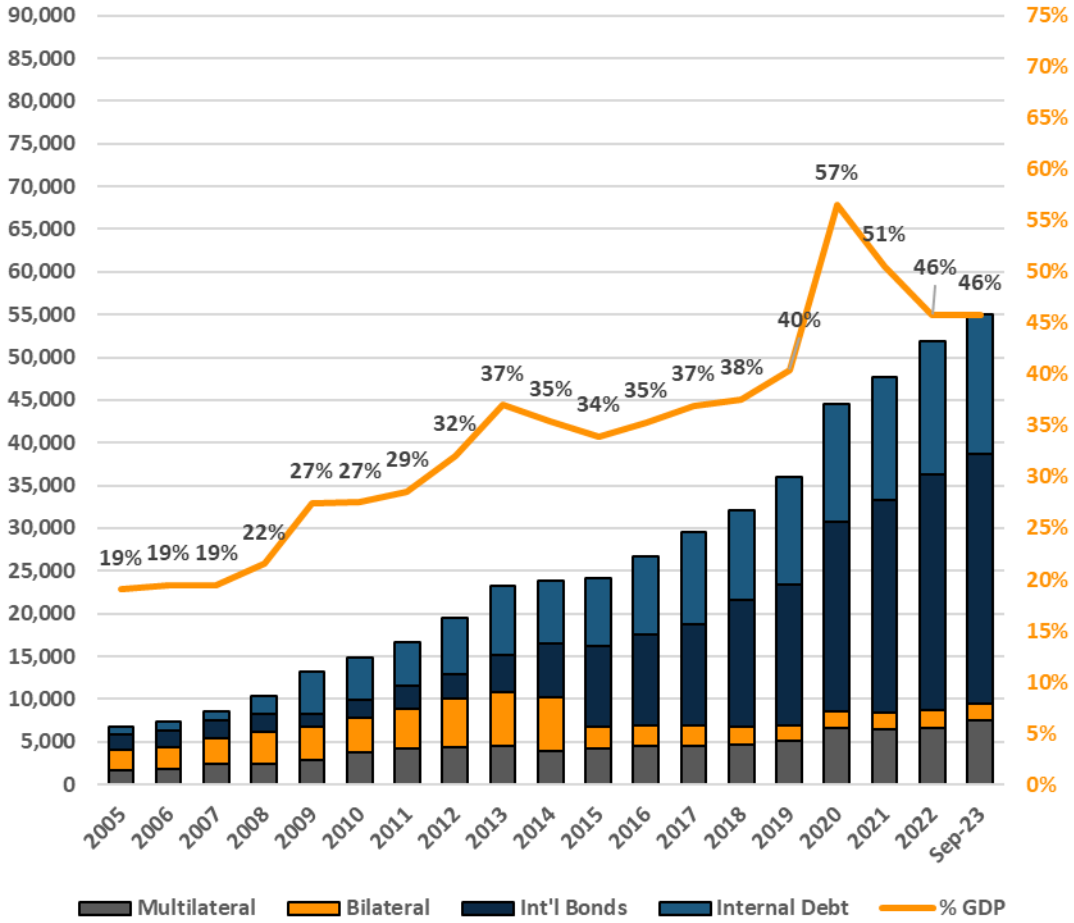
Source: DR Superintendency of Pensions as of September 2023.



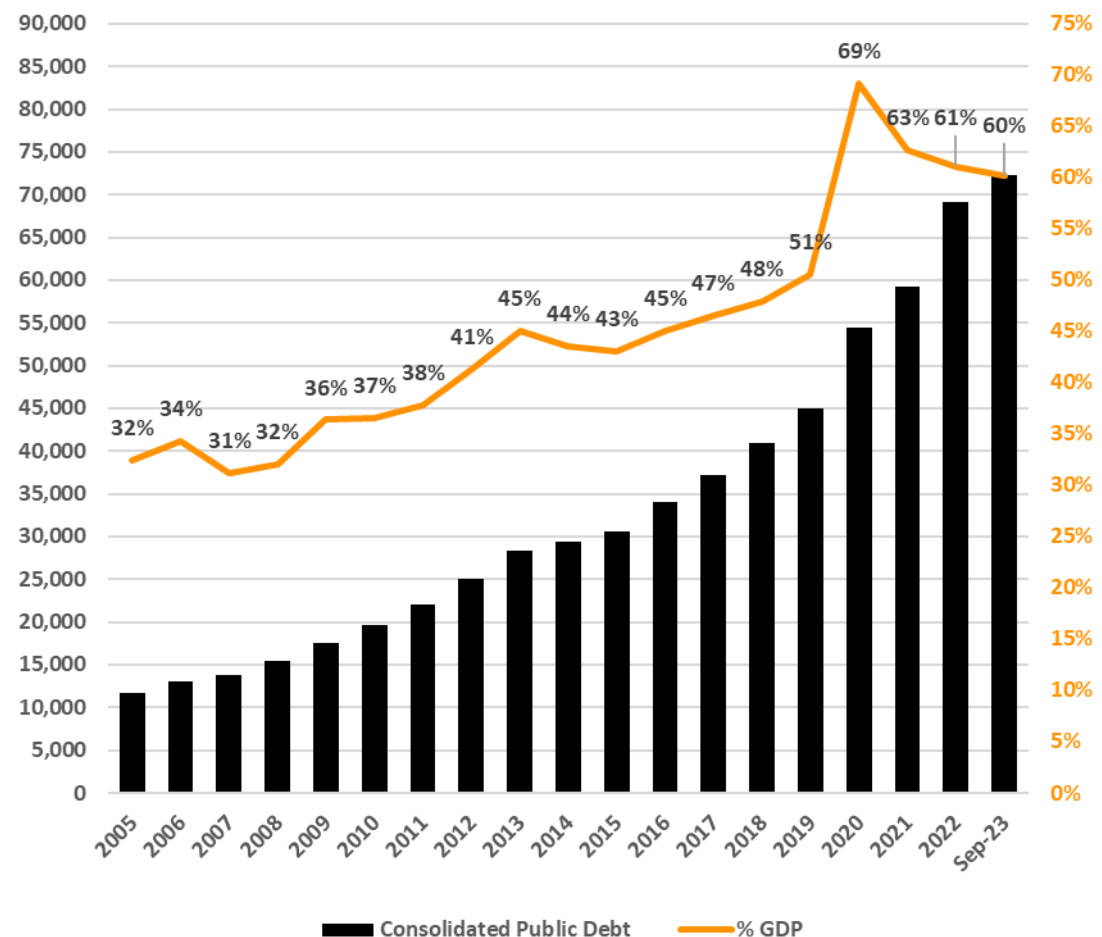
# Public Debt

Inflation and growth helped improve debt metrics after the impact of COVID-19, but current debt still exceeds pre-COVID levels. Central Bank debt growth has been greater due to monetary policy.

Central Gov't Debt (USD mn, % GDP)



Consolidated Public Debt (USD mn, % GDP)



Source: Dominican Republic Central Bank, Dirección General de Crédito Público (Public Debt Department) and Primma Advisors estimates as of September 2023.





# General Election Polls

Main parties are market-friendly, leaning mostly towards center, being conservative on social issues and slightly left on economic issues due to some welfare policies.

## Si hoy fueran las elecciones presidenciales del 2024 y las opciones fueran... ¿Por cuál candidato votaría usted?

Base: 1200

55.2%



Luis Abinader  
por el PRM

27.4%



Leonel Fernández  
por la FP

13.5%



Abel Martínez  
por el PLD

0.1%

Ramfis Trujillo

0.1%

Votaría  
en blanco

1.9%

Ninguno

1.8%

NS/NR

Fuente: Gallup

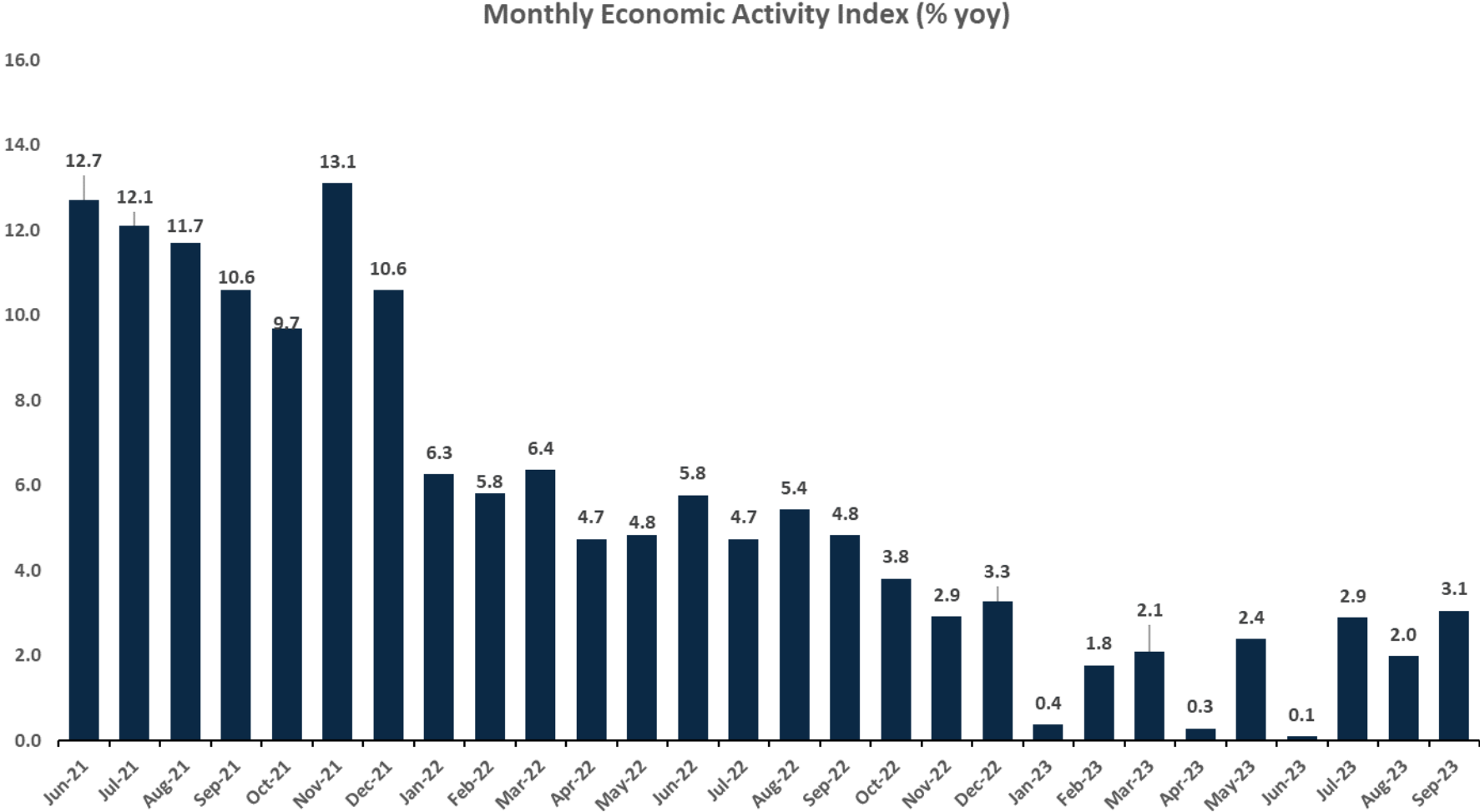
Autor: Luis Luis/Diario Libre



# Growth

# Monthly Economic Activity Index (IMAE)

Tight monetary policy in 2022 to fight inflation impacted growth throughout 2023. Growth may be rebounding in recent months after monetary easing began in June 2023.

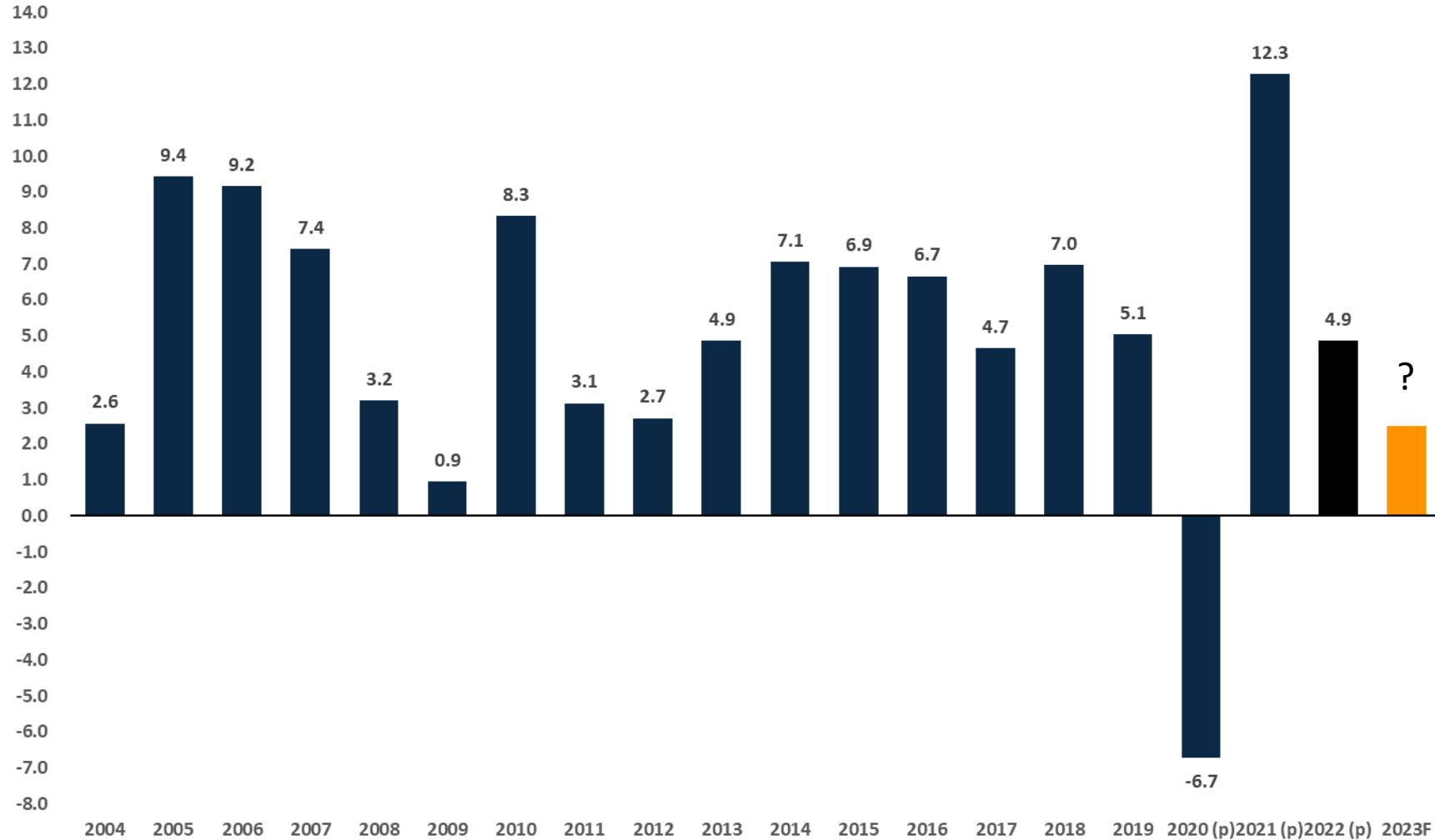


Source: Dominican Republic Central Bank as of September 2023, Primma Advisors estimates.



# Historic and Expected Economic Growth

2023 growth is expected to be slower than the DR's 5% potential.



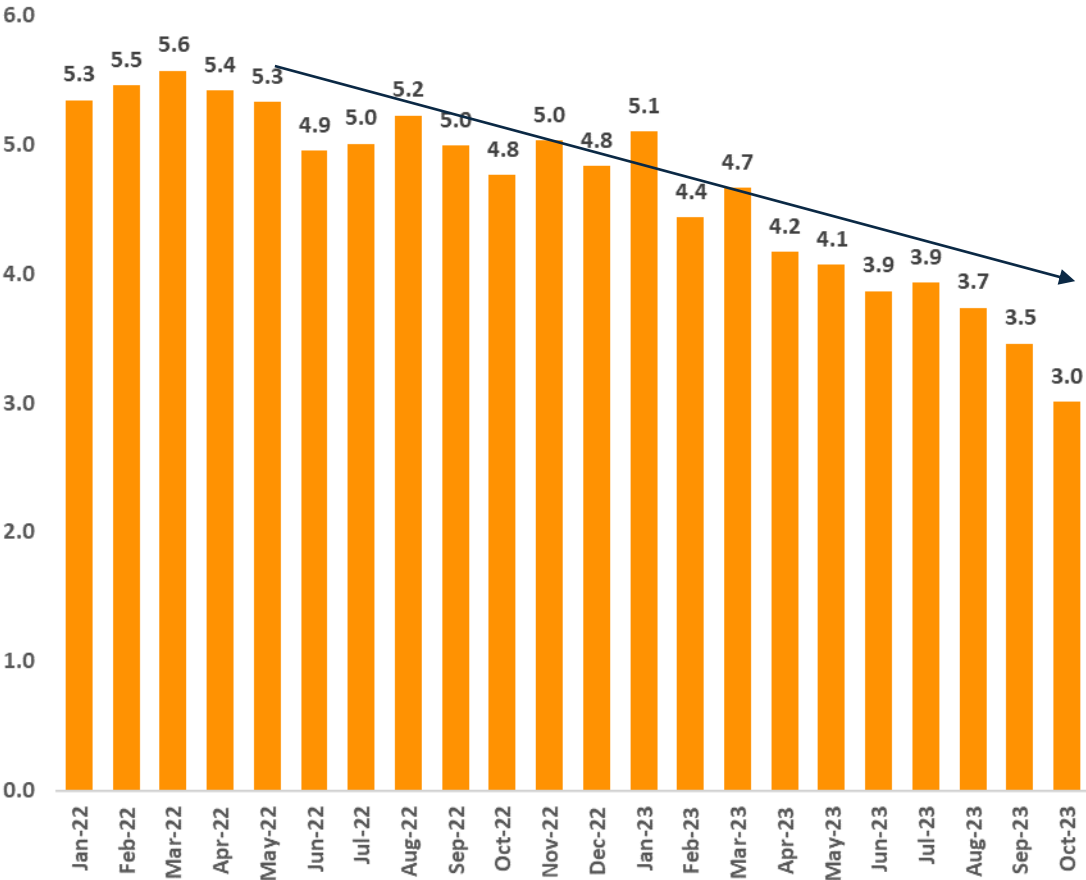
Source: Dominican Republic Central Bank as of October 23rd 2023, Primma Advisors estimates.



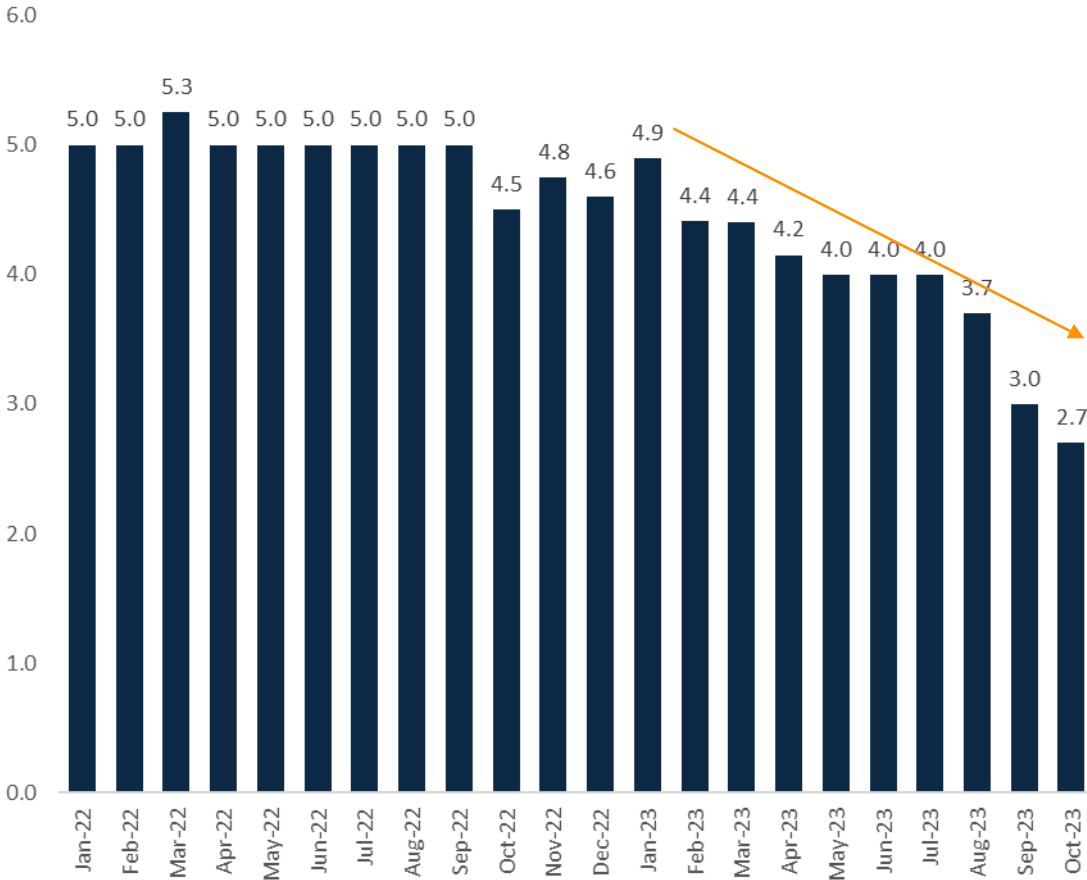
# Expected Growth

Since 2022, the Central Bank's survey respondents have been lowering growth expectations for 2023, even after monetary stimulus

Average growth expectations for 2023, %



Median growth expectations for 2023, %



Source: Dominican Republic Central Bank as of October 2023



## Expected Growth (continued)

With 1.7% growth for January-September, reaching the highest part of the range of expectations seems unlikely unless Oct-Dec surprise with significant growth.

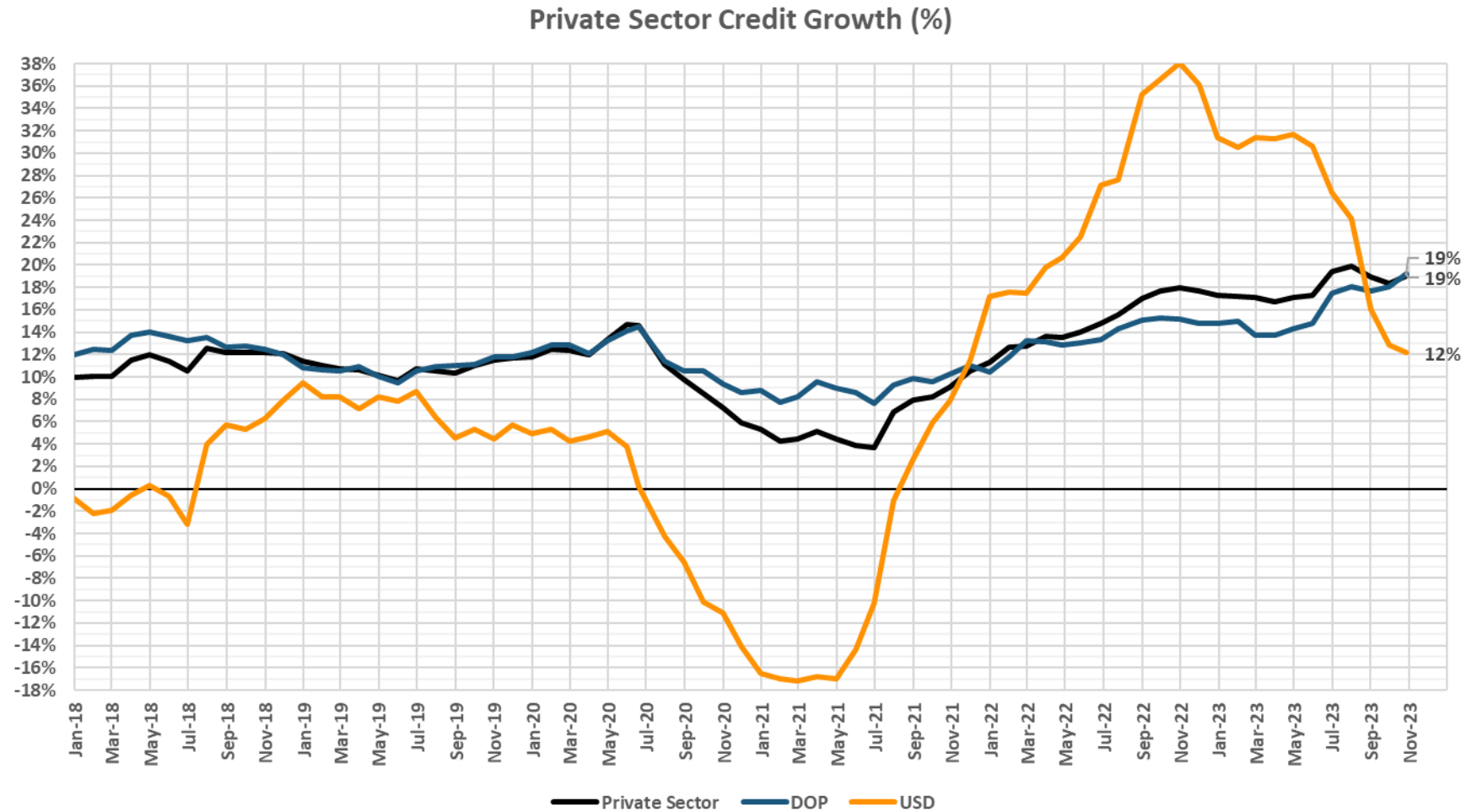
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Entity	Estimate	Date
Fitch Solutions	2.50%	06 Oct 23
IMF	3.00%	Oct 23
Dominican Government	3.00%	28 Aug 23
Central Bank Survey Average	3.01%	Oct 23
Consensus Forecast	3.10%	16 Oct 23
ECLAC	3.70%	Sep 23
World Bank	4.10%	Jun 23



# Private Sector Credit Growth

Foreign currency credit at ~USD 6.5billion, record highs. Strong DOP growth after Central Bank stimulus. Even adjusted for inflation, credit growth is above pre-COVID tren.



Source: Dominican Republic Central Bank as of October 27th, 2023 and Primma Advisors estimates.



# Government Forecasts

Growth expected at 3.00%, inflation 4.00%, and DOP 2.64% avg deval. **2024 with much higher 6.45% depreciation forecast by the government.**

## PANORAMA MACROECONÓMICO 2023 - 2027

Revisado el 28 de agosto de 2023

	2022	2023	2024	2025	2026	2027
PIB real (Índice 2007=100)	197.8	203.7	213.4	224.1	235.3	247.0
Crecimiento del PIB real	4.86	3.00	4.75	5.00	5.00	5.00
PIB nominal (Millones RD\$)	6,260,564.0	6,803,041.9	7,411,233.8	8,093,067.3	8,837,629.5	9,650,691.5
Crecimiento del PIB nominal	16.09	8.67	8.94	9.20	9.20	9.20
PIB nominal (Millones de US\$)	114,004.6	120,194.2	123,005.7	129,156.0	135,613.8	142,394.5
Crecimiento del PIB nominal en US\$	20.61	5.43	2.34	5.00	5.00	5.00
Meta de inflación (±1)	4.00	4.00	4.00	4.00	4.00	4.00
Inflación (promedio)	8.81	4.75	4.00	4.00	4.00	4.00
Inflación (diciembre)	7.83	4.00	4.00	4.00	4.00	4.00
Crecimiento deflactor PIB	10.65	5.50	4.00	4.00	4.00	4.00
Tasa de cambio (promedio)	55.14	56.60	60.25	62.66	65.17	67.77
Tasa de variación (%)	-3.68	2.64	6.45	4.00	4.00	4.00

### SUPUESTOS :

Petróleo WTI (US\$ por barril)	94.79	77.88	81.50	85.23	85.26	85.53
Oro (US\$/Oz)	1,800.95	1,935.13	2,016.50	2,115.15	2,161.35	2,199.55
Nickel (US\$/TM)	26,371.80	20,559.8	21,429.33	22,496.75	23,599.00	24,632.67
Carbón mineral API2 CIF ARA (US\$/TM)	231.70	122.52	128.75	127.42	122.64	120.74
Crecimiento PIB real EE.UU. (%)	2.10	1.90	0.60	1.80	1.80	1.80
Inflación EE.UU. (promedio)	8.00	4.10	2.60	2.00	2.00	2.00
Inflación EE.UU. (diciembre)	6.44	3.40	2.20	2.00	2.00	2.00

#### Notas:

1. Proyecciones consensuadas entre el Ministerio de Economía, Planificación y Desarrollo, el Banco Central y el Ministerio de Hacienda.
2. De 2025 en adelante se proyecta la inflación meta con la consecución de la meta establecida por el Banco Central.
3. La meta de inflación se relaciona con el objetivo de inflación establecido por la Junta Monetaria del Banco Central; en cambio las proyecciones de inflación corresponden a los resultados esperados, dada la evolución de los precios domésticos, los precios internacionales del petróleo y otros determinantes.
4. La tasa de cambio se refiere a la tasa de cambio de venta del dólar de Entidades Financieras, promedio anual.
5. Fuentes supuestos exógenos: Consensus Forecasts™, FMI, LME, CMX, CME y EIA.

Source: Dominican Economy, Planning, and Development Ministry as of August 28, 2023

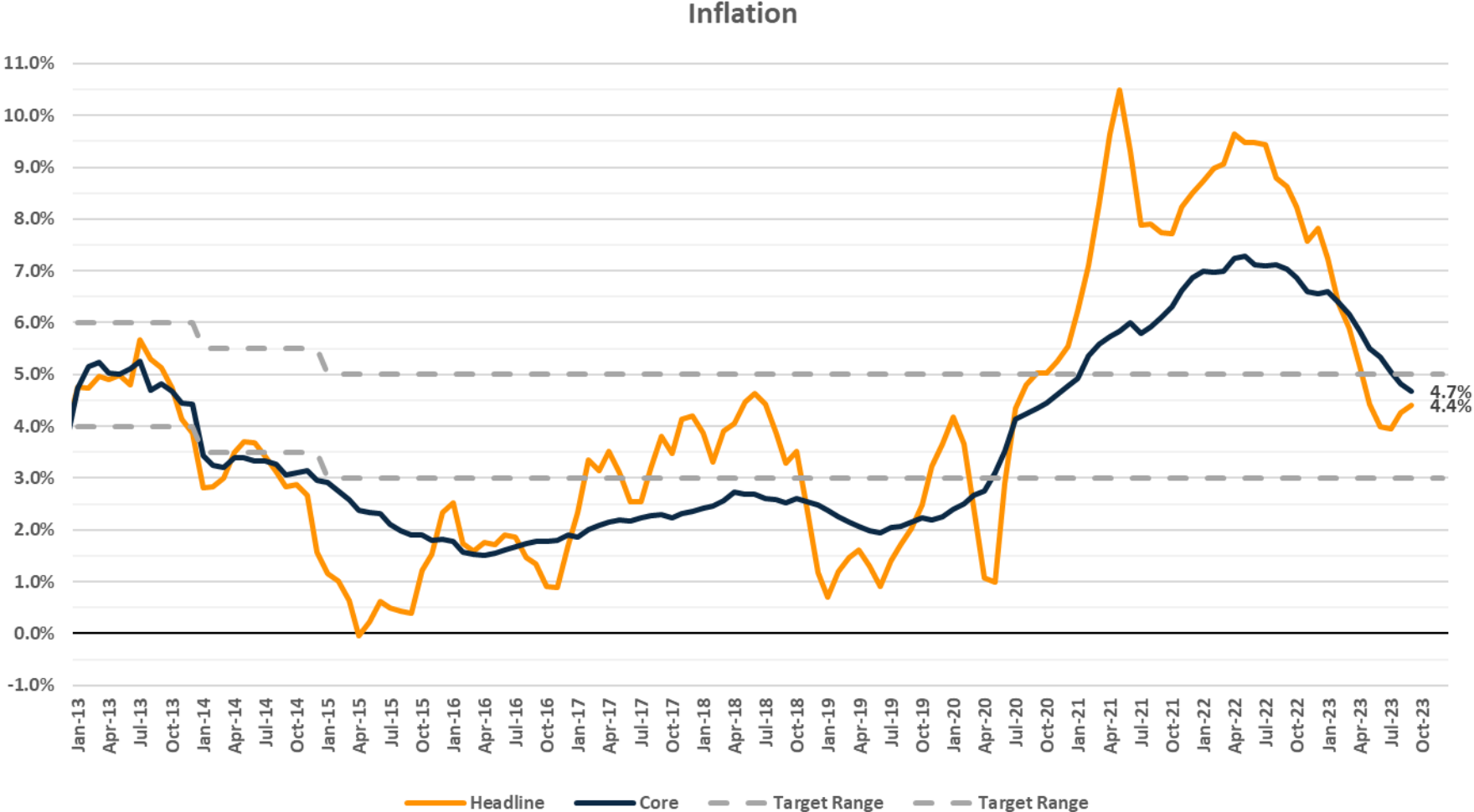




# Inflation

# Inflation

Inflation remains within the 3-5% target range, with September inflation at 4.4%



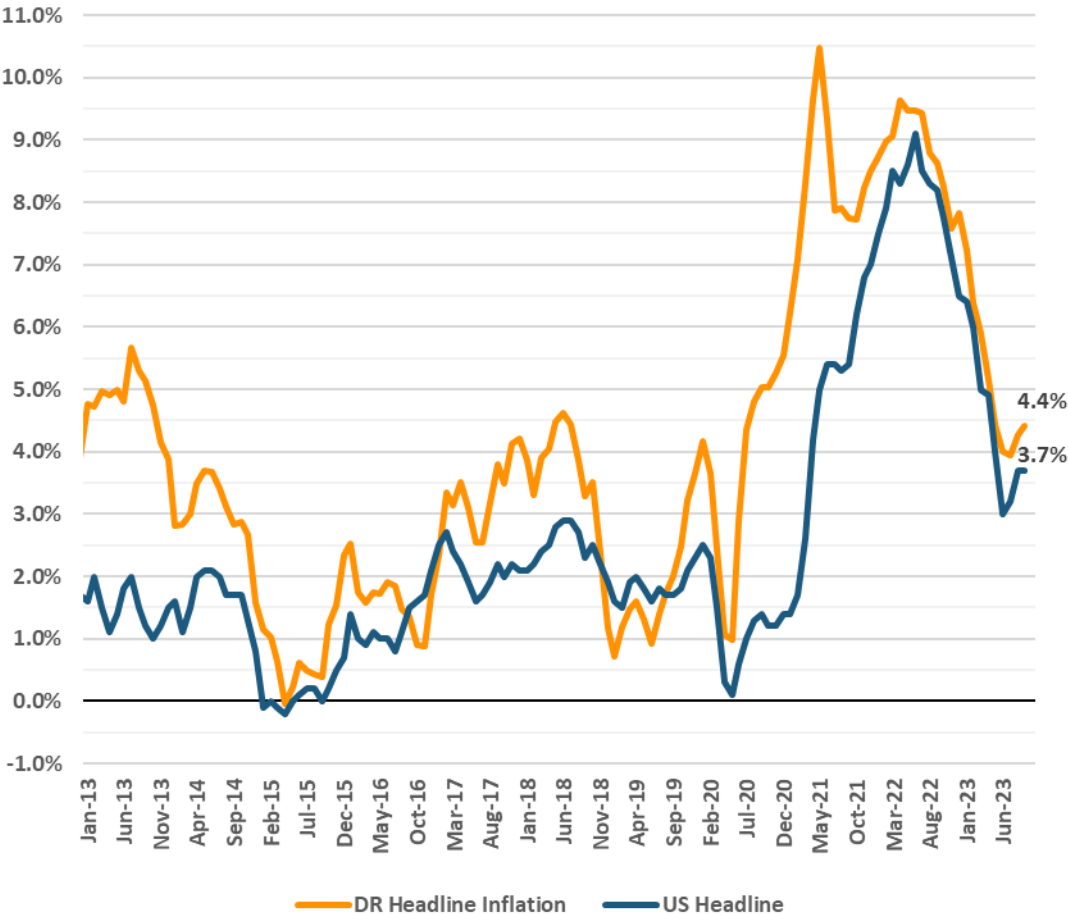
Source: Dominican Republic Central Bank as of September 2023



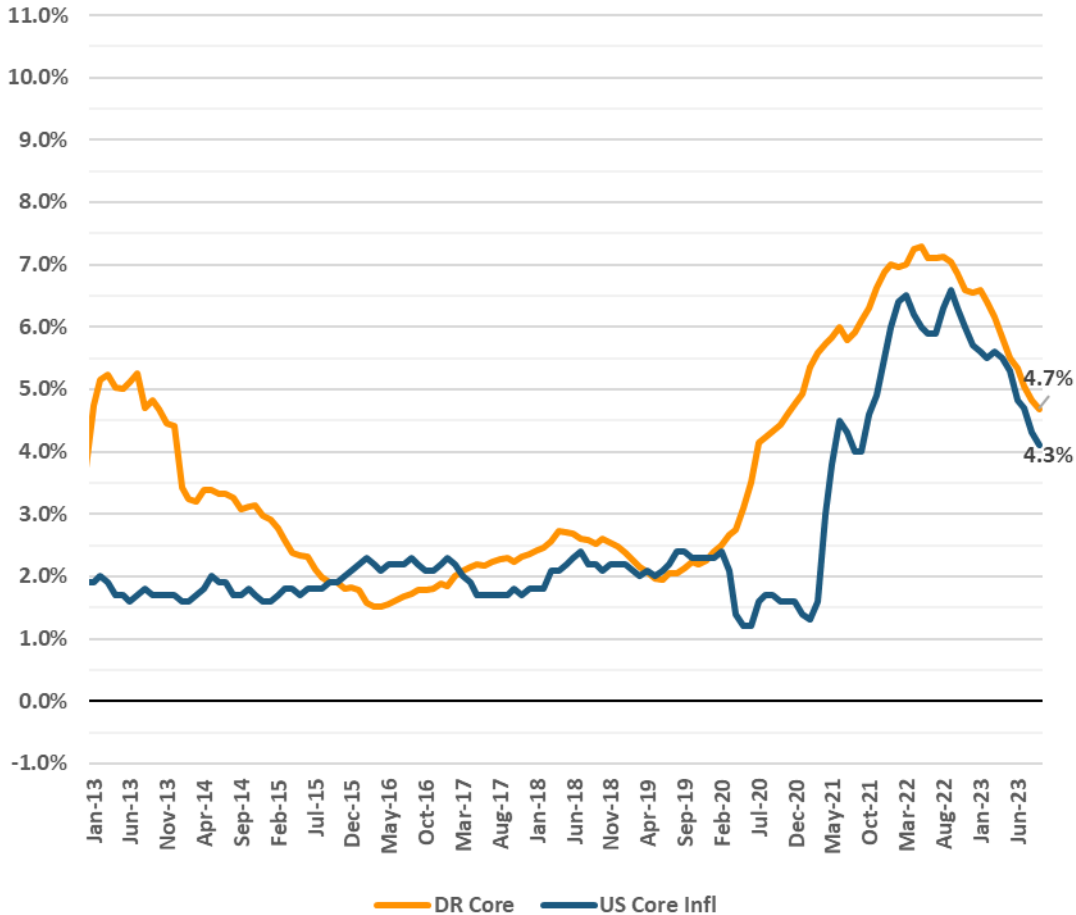
# Inflation comparison

Inflation remains high in the US, where it's expected to remain over 3% for the rest of the year, and doubts on how long it will take to reach its 2% target.

DR vs US Inflation



DR vs US Core Inflation



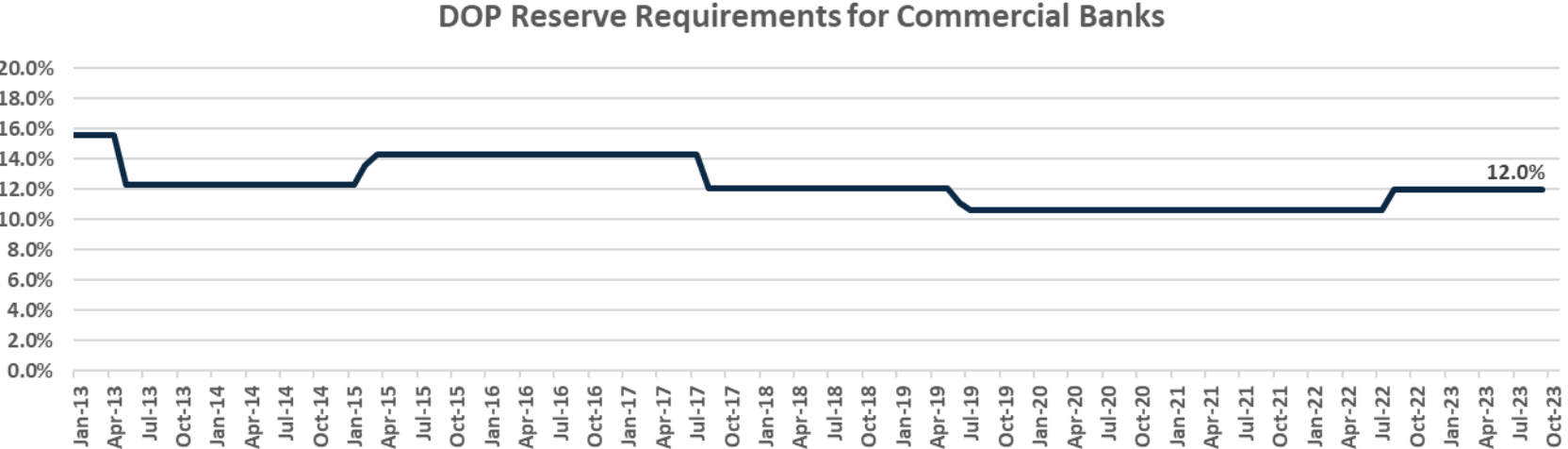
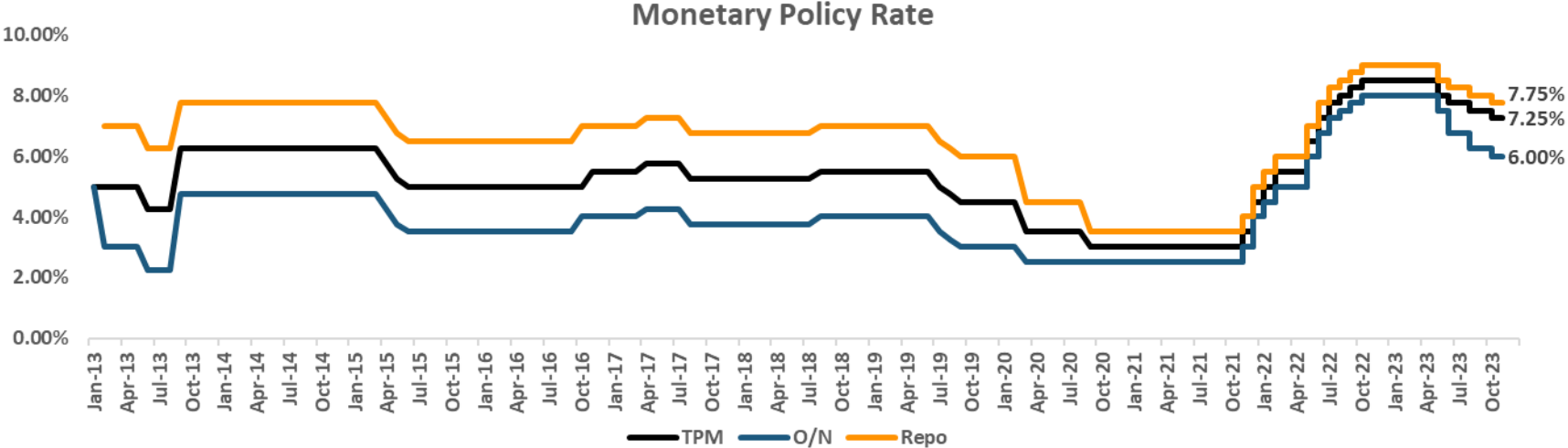
Source: Dominican Republic Central Bank as of September 2023, US Bureau of Labor Statistics as of September 2023 and Primma Advisors estimates.



# Monetary Policy, Liquidity and DOP rates

# Monetary Policy

DR Central Bank reduced its policy rate by 25bps to 7.25%. Low growth and inflation within target range may provide space for more rate cuts, but effects on DOP vs USD may give the central bank some pause.



Source: Dominican Republic Central Bank as of October 31st 2023



# 2023 Liquidity Measures

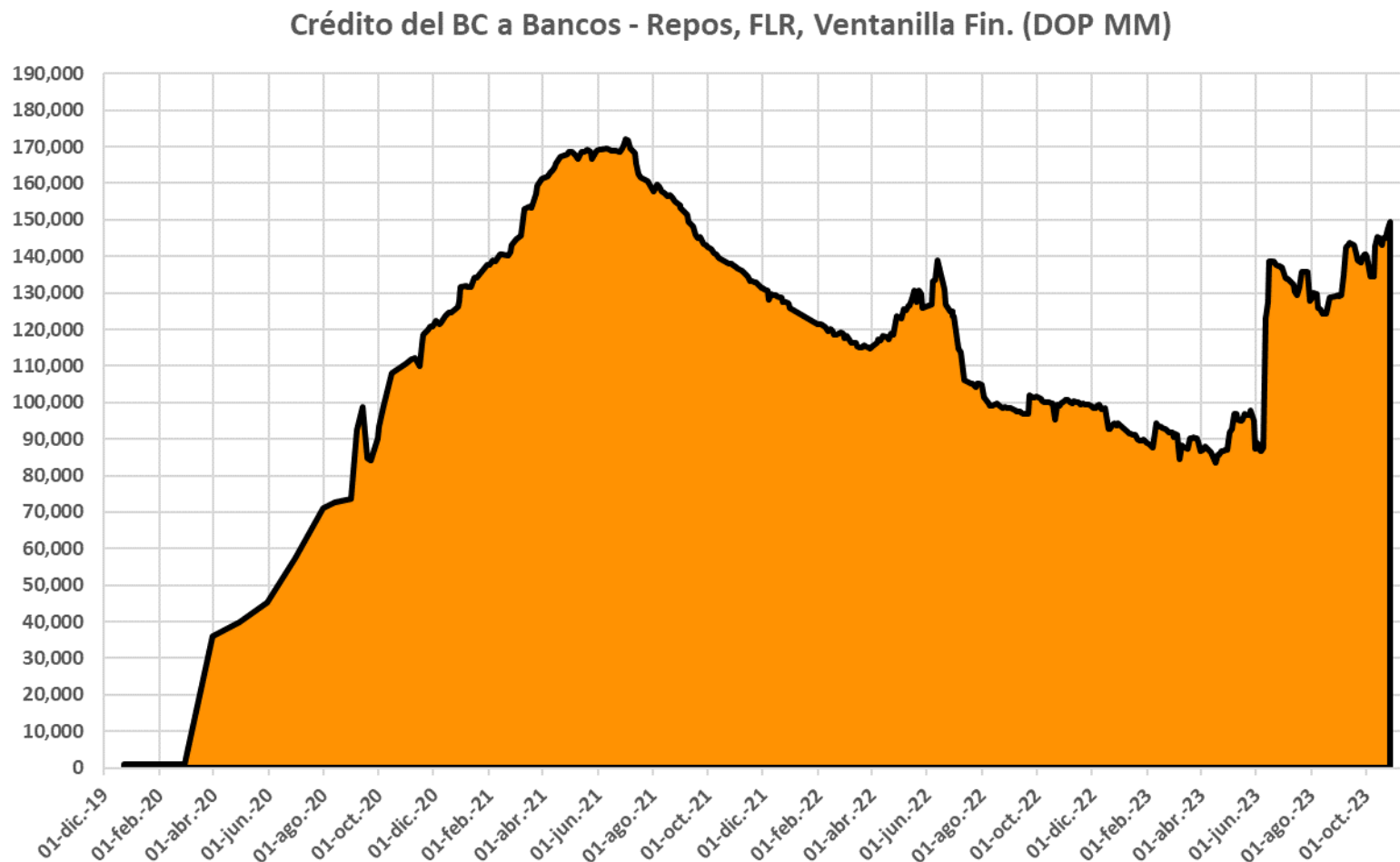
Monetary Board approved new liquidity packages in October, for a total DOP 180bn (USD 3.2bn) in 2023.

Facility	Purpose	Amount (DOP mn)	Date
Reserve Requirement Loans	Homebuilders and low-ticket mortgages	21,400	17-Jan-23
Reserve Requirement Loans	Productive sectors and households	34,000	01-Jun-23
Rapid Liquidity Facility (FLR)	Private sector financing	30,000	01-Jun-23
Rapid Liquidity Facility (FLR)	Financial sector liquidity	30,000	01-Jun-23
Rapid Liquidity Facility (FLR)	Private sector financing	25,000	19-Jun-23
Rapid Liquidity Facility (FLR)	Construction, Manufacturing, Exporters, Agriculture	40,000	Oct 23
	<b>Total</b>	<b>180,400</b>	Jan-Oct
	<b>Used</b>	<b>150,000</b>	Jan-Oct
	<b>Pending</b>	<b>30,400</b>	31-Oct-23



# Liquidity Measures Used by Banks

As of October 27, the DR Central Bank continues supporting the financial sector. Approximately DOP 150bn (USD 2.63bn) in credit facilities from the DRCB to Banks (repo + FLR + other financing)



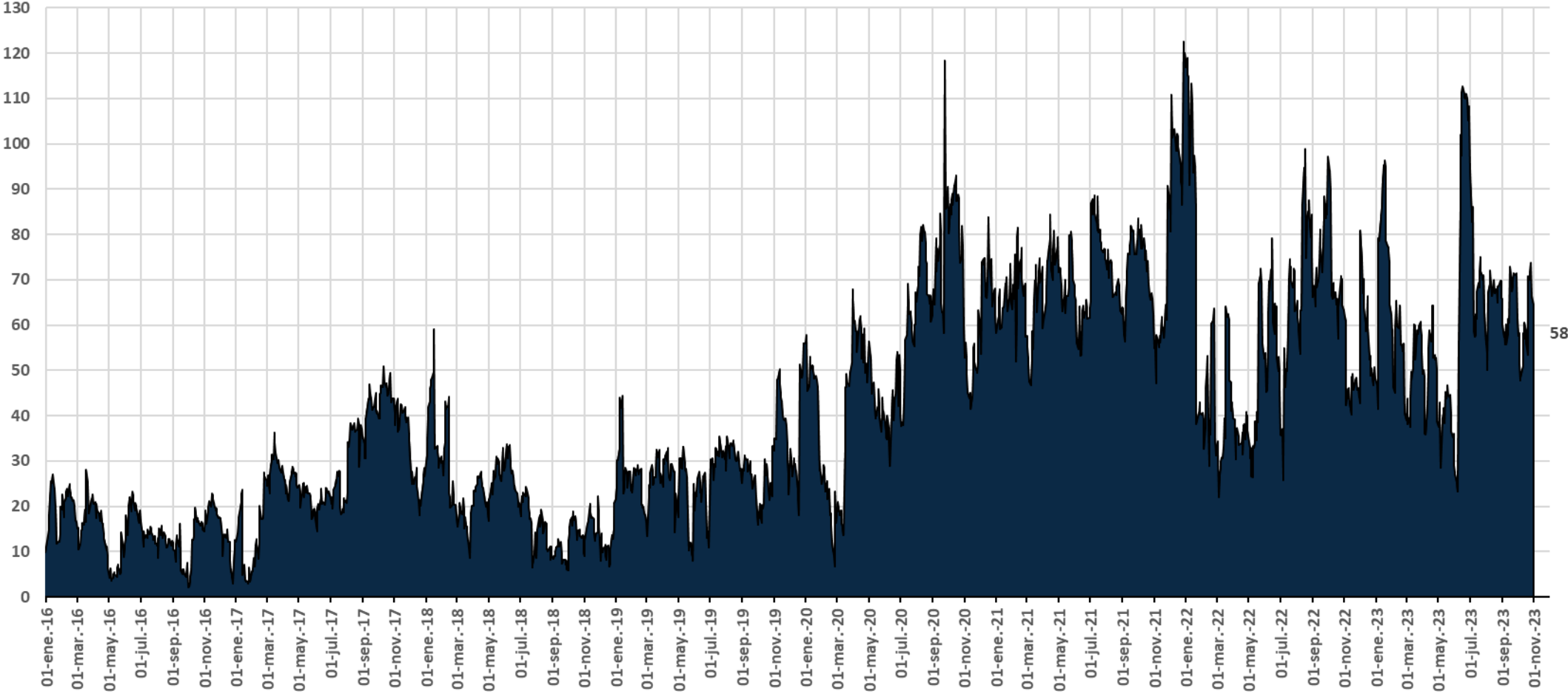
Source: Dominican Republic Central Bank as of October 27th 2023



# DOP Excess Reserves

Excess reserves at around DOP 58billion (USD1bn), lower than the recent DOP 60-70bn range.

Operaciones Monetarias Diarias Netas (DOP MMM)



Source: Dominican Republic Central Bank as of October 31st 2023



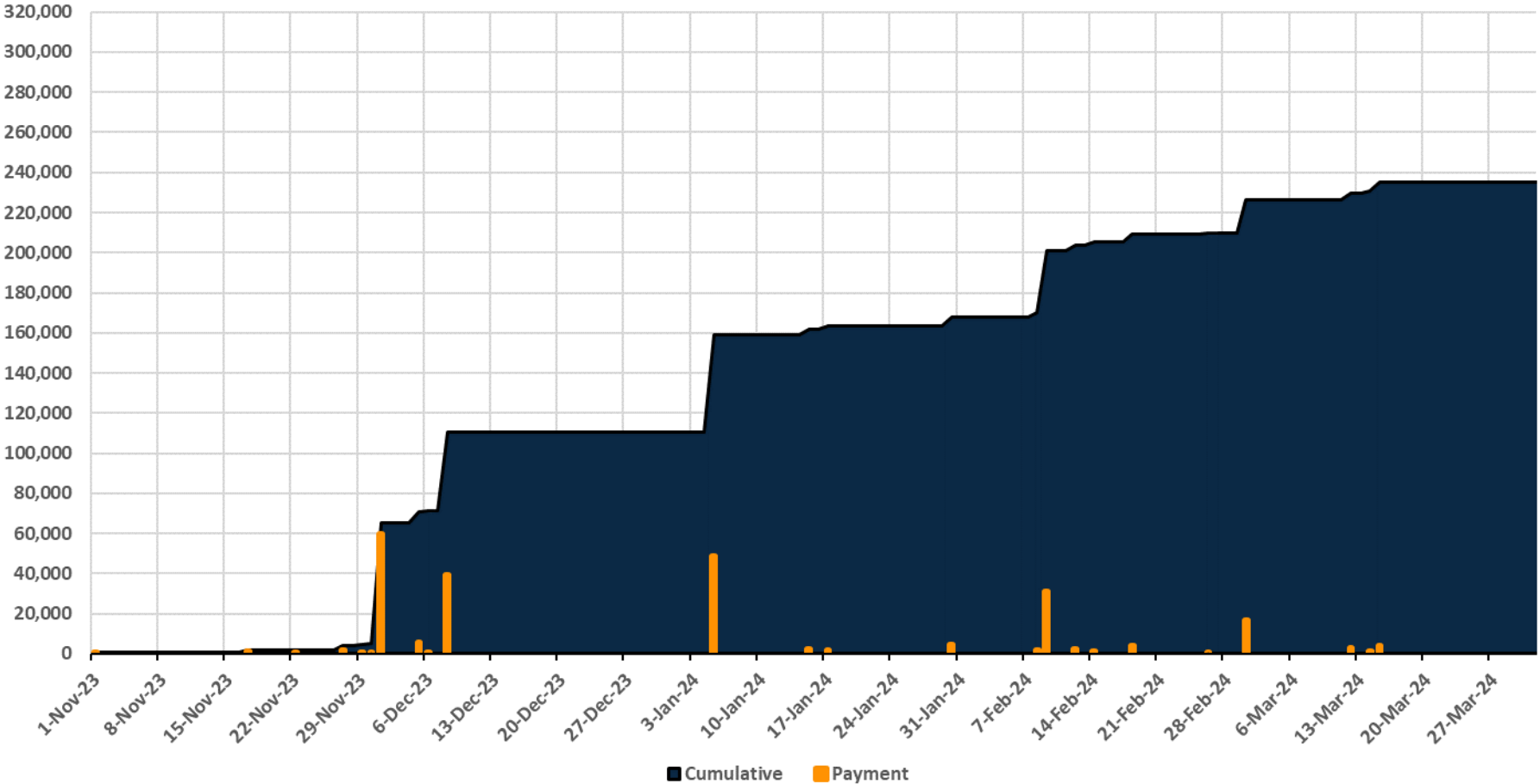


# DRCB Coupon and Principal Payments

DRCB notes and bills could greatly expand current liquidity in the next 4 months (USD 4bn). DRCB would be expected to prevent this through bill issuance and sale of foreign reserves.

Date	Amount (DOP mn)
Nov	5,225
Dec	105,429
Jan	57,412
Feb	41,498
Mar	25,398
Apr	5,305

DRCB Coupon and Principal Payments (DOP million)

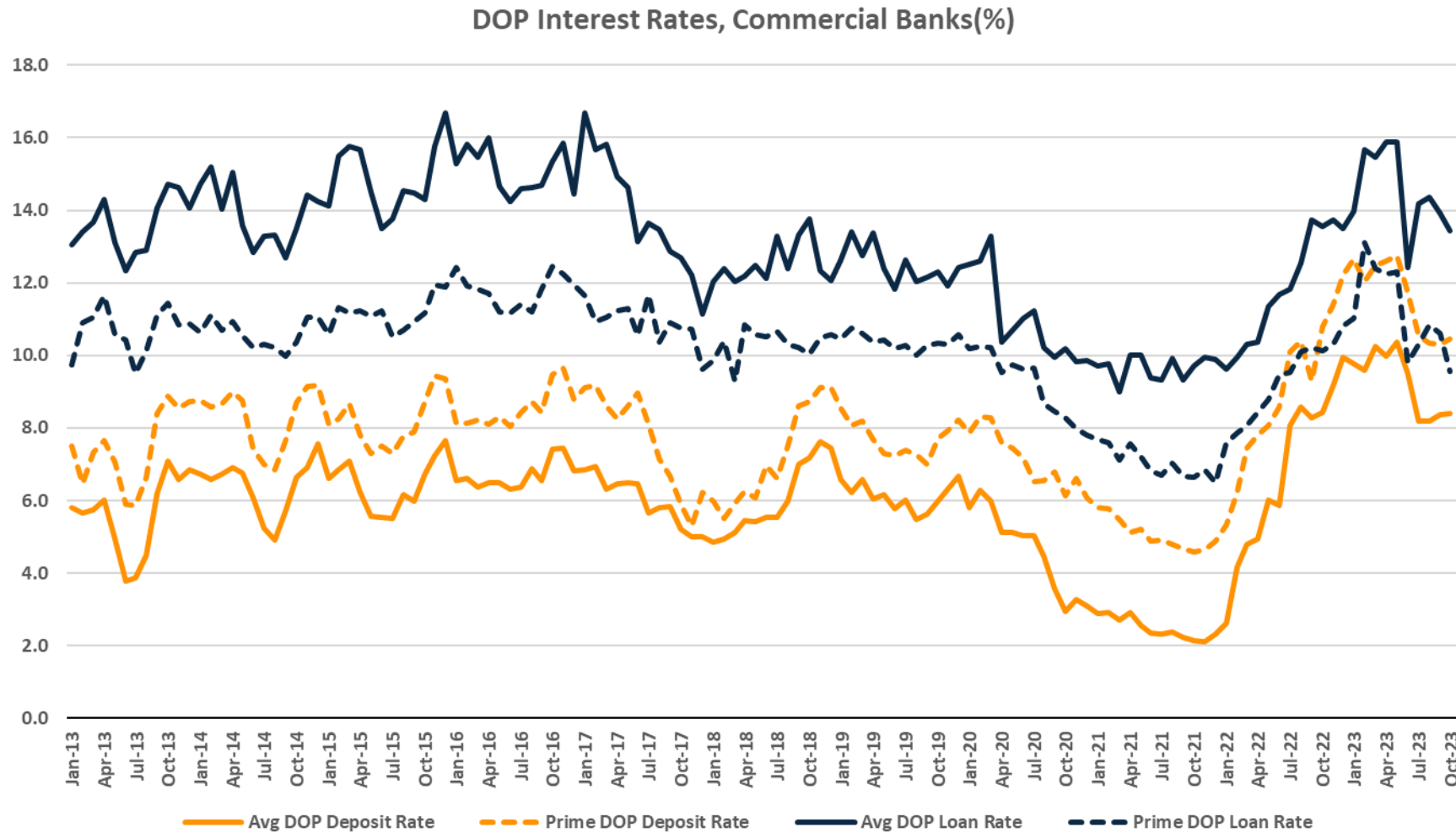


Source: Dominican Republic Central Bank as of October 31st 2023 and Primma Advisors estimates



# Short-Term DOP Interest Rates

Despite Central Bank rate cuts, short-term rates remain high by historical standards, while loan-deposit rate margin is now 2pp lower than recent years



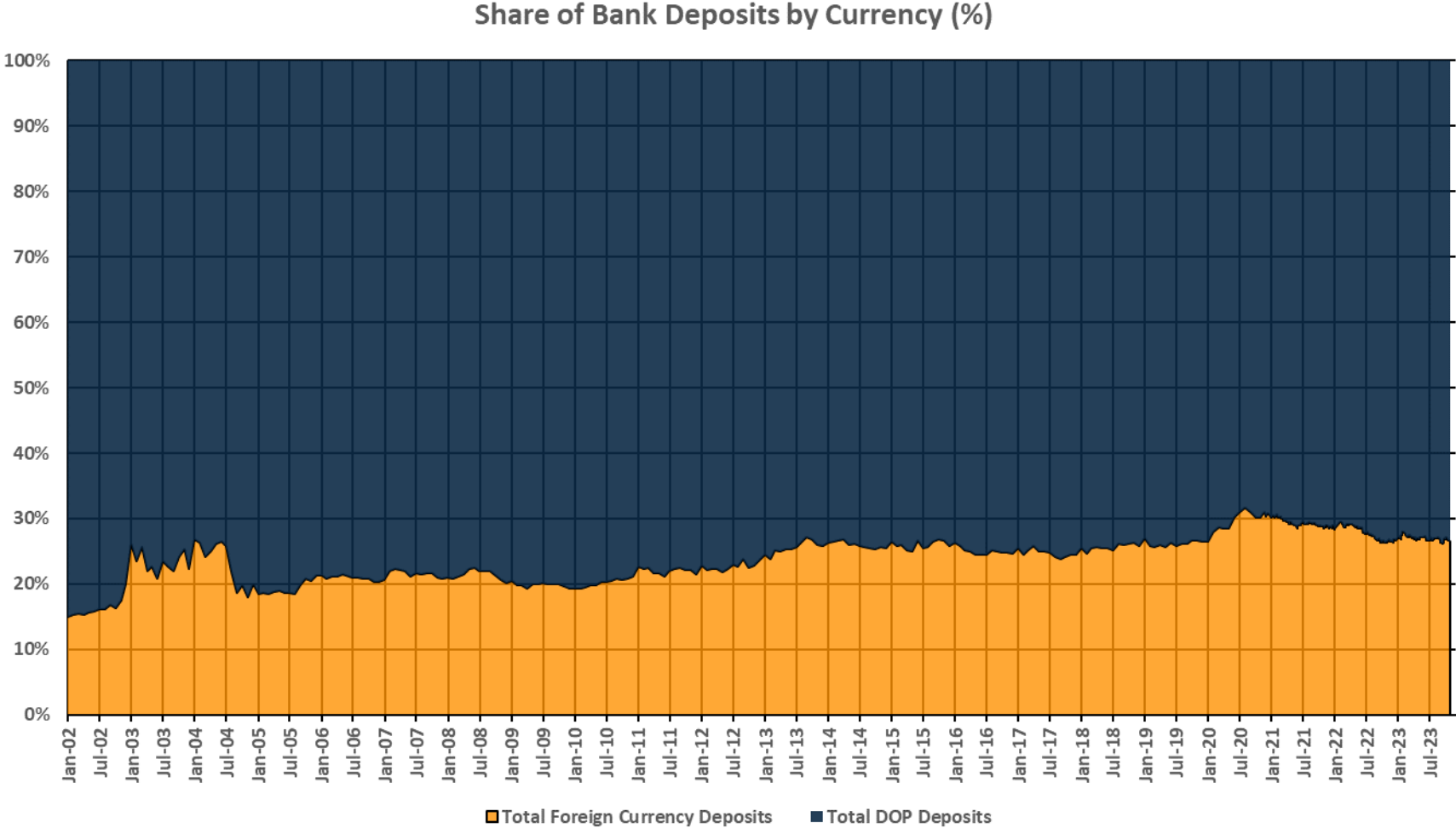
Source: Dominican Republic Central Bank as of October 31st 2023



# USD Rate and FX Rate

# Deposits, by Currency

Share of foreign currency deposits reached historical highs in July 2020 (31.7%). At 26.5%, it's now closer to pre-COVID levels.

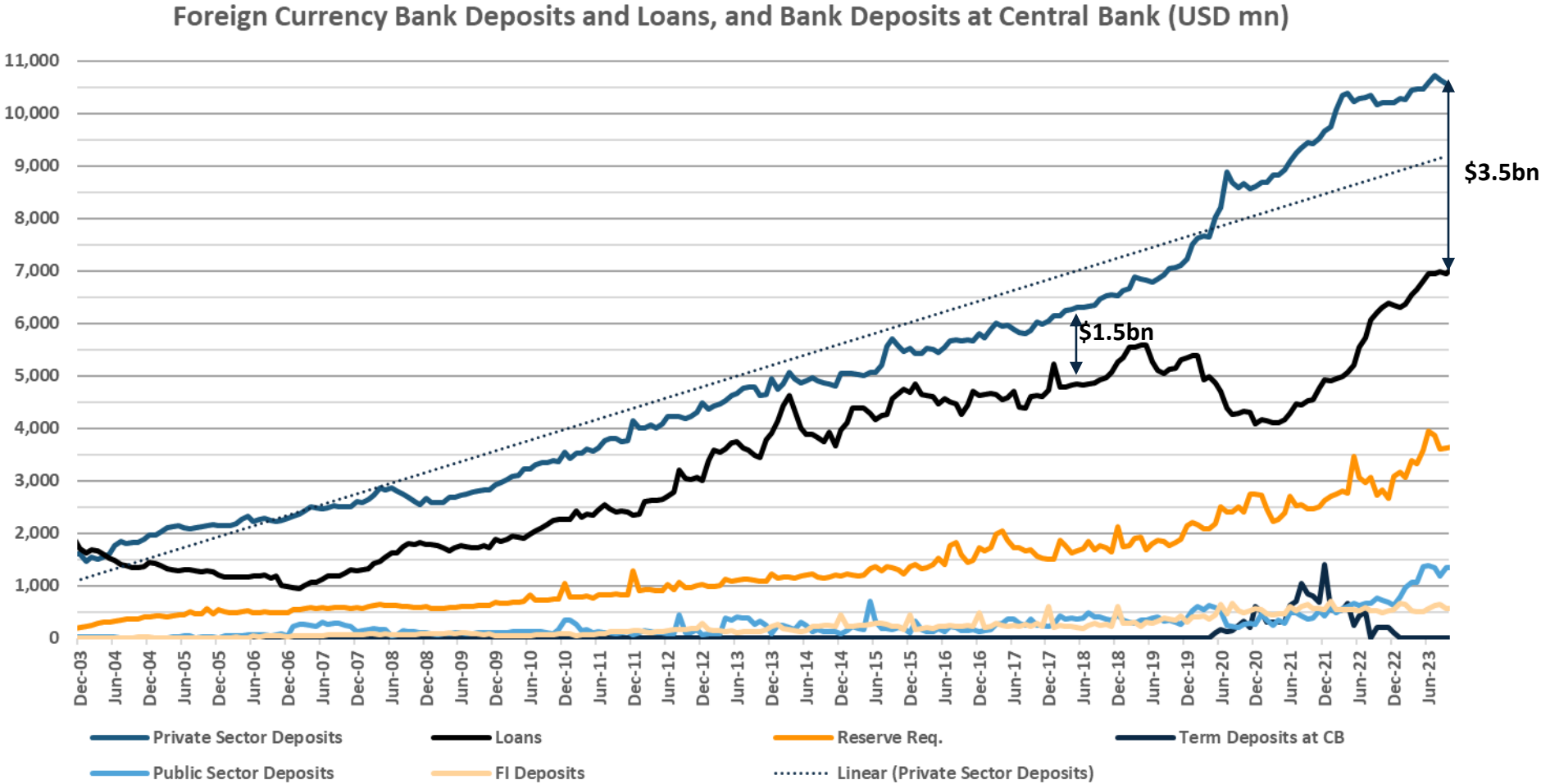


Source: Dominican Republic Central Bank as of October 27th 2023 and Primma Advisors estimates



# Banks – Foreign Currency Deposits and Loans

Loans remain low in relationship to deposits.

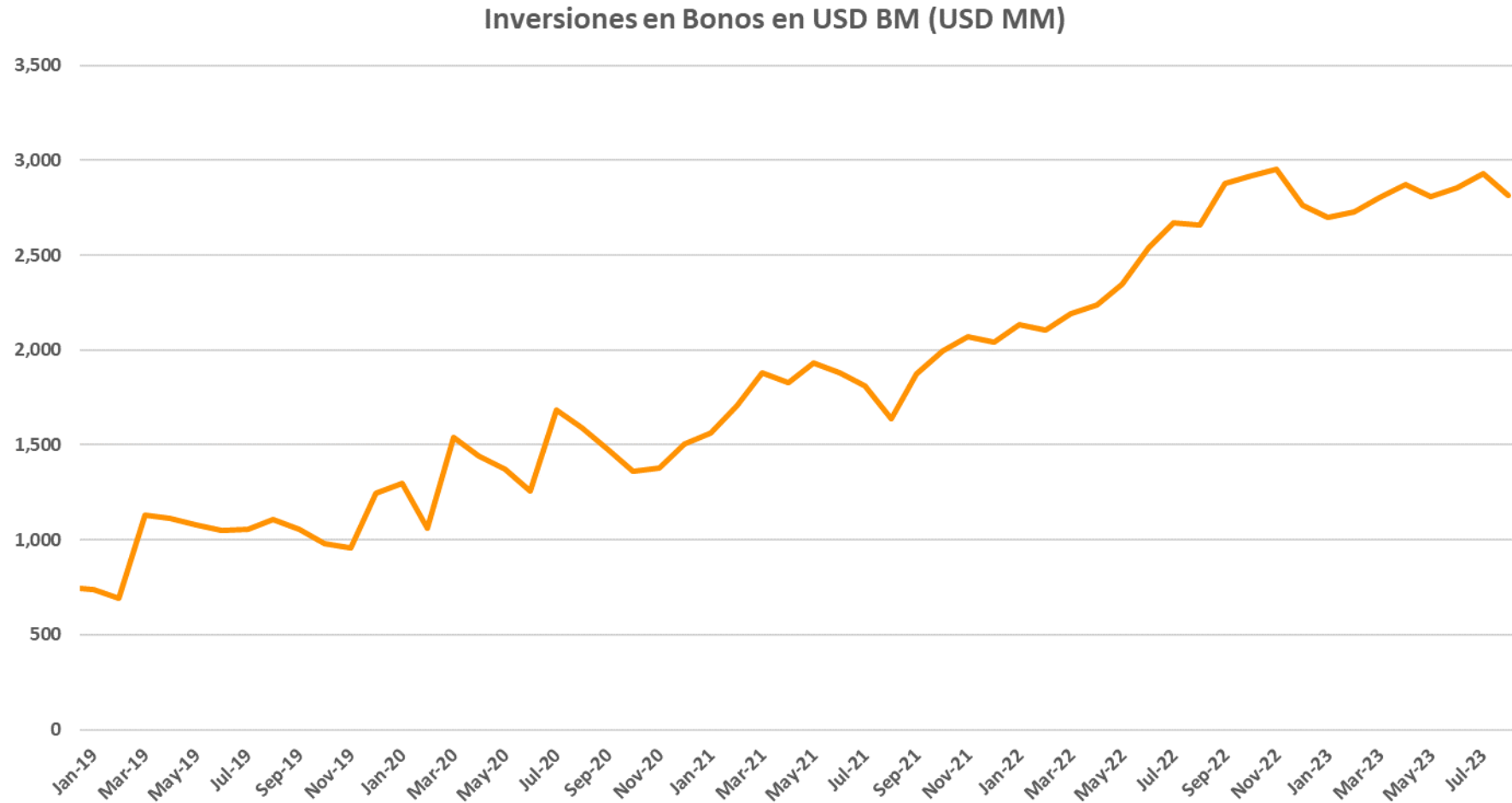


Source: Dominican Republic Central Bank as of October 27th 2023 and Primma Advisors estimates  
 Note: Loans include loans to the public sector in foreign currency.



# Banks – USD Investments

Part of the amount not being loaned may have been used to buy foreign currency securities

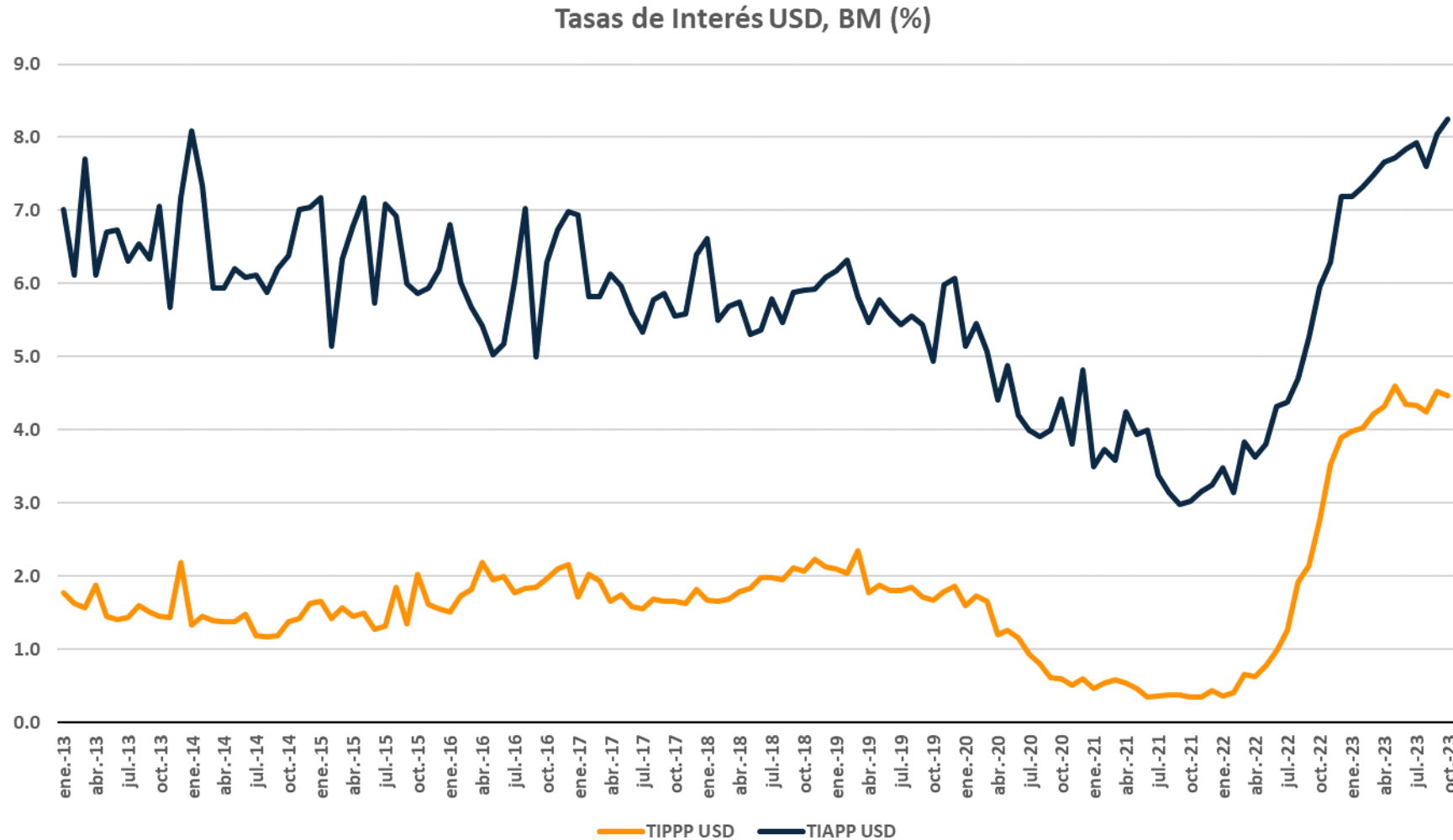


Source: Superintendencia de Bancos August 2023



# Short-Term USD bank interest rates

USD rates rebounded in big part due to international movements. Local USD rates are now their highest in at least 13 years.

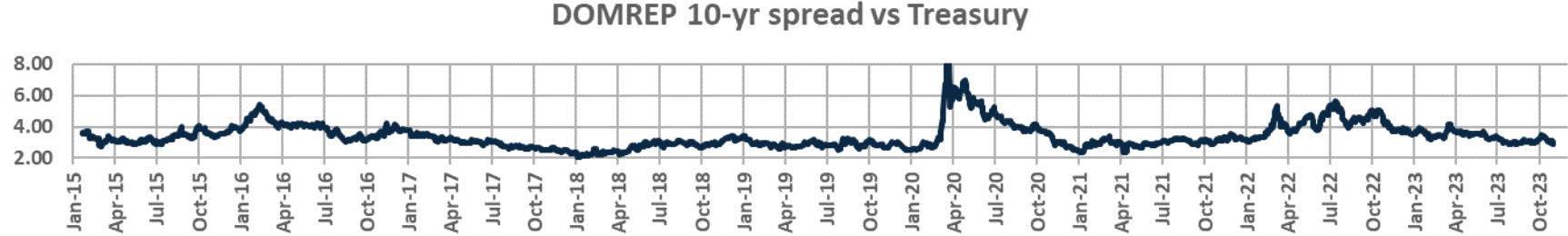
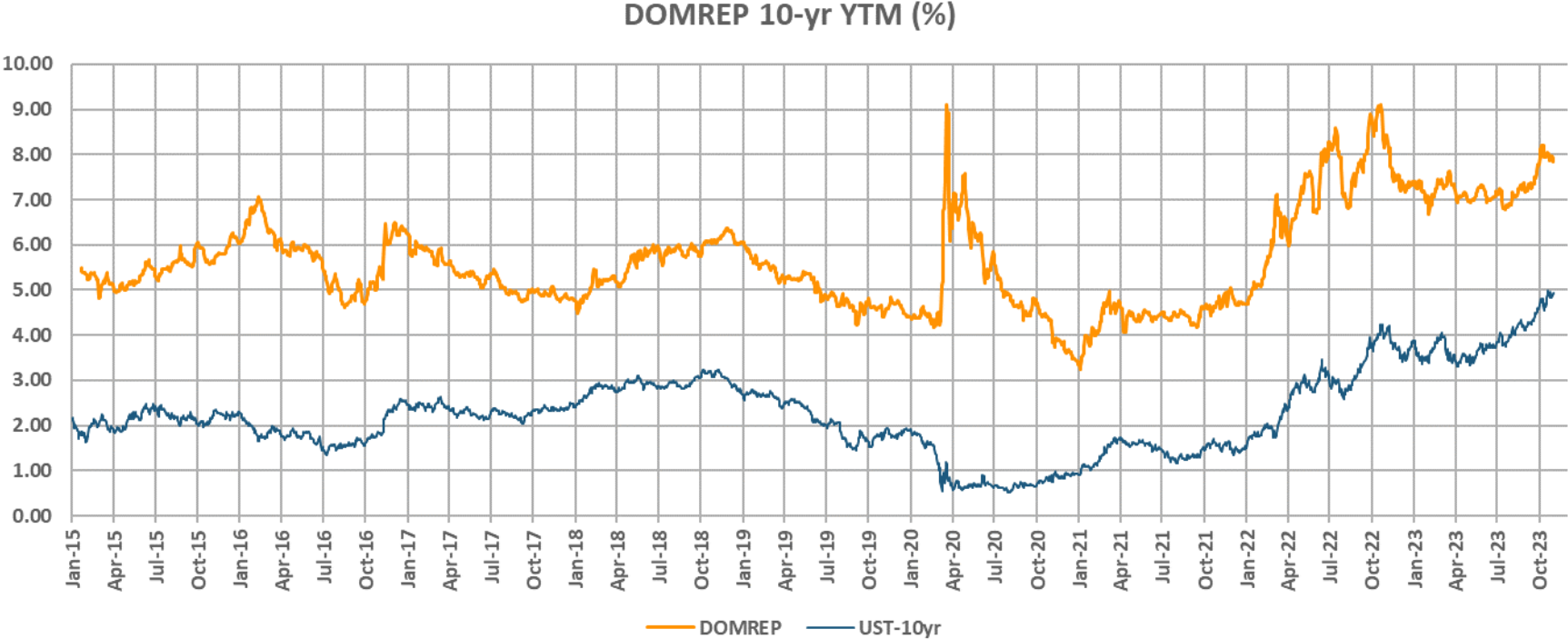


Source: Dominican Republic Central Bank as of October 31st 2023 and Primma Advisors estimates



# USD Rates – DOMREP 10 years

Higher Treasury yields have led DOMREP yields higher, despite lower country spread.



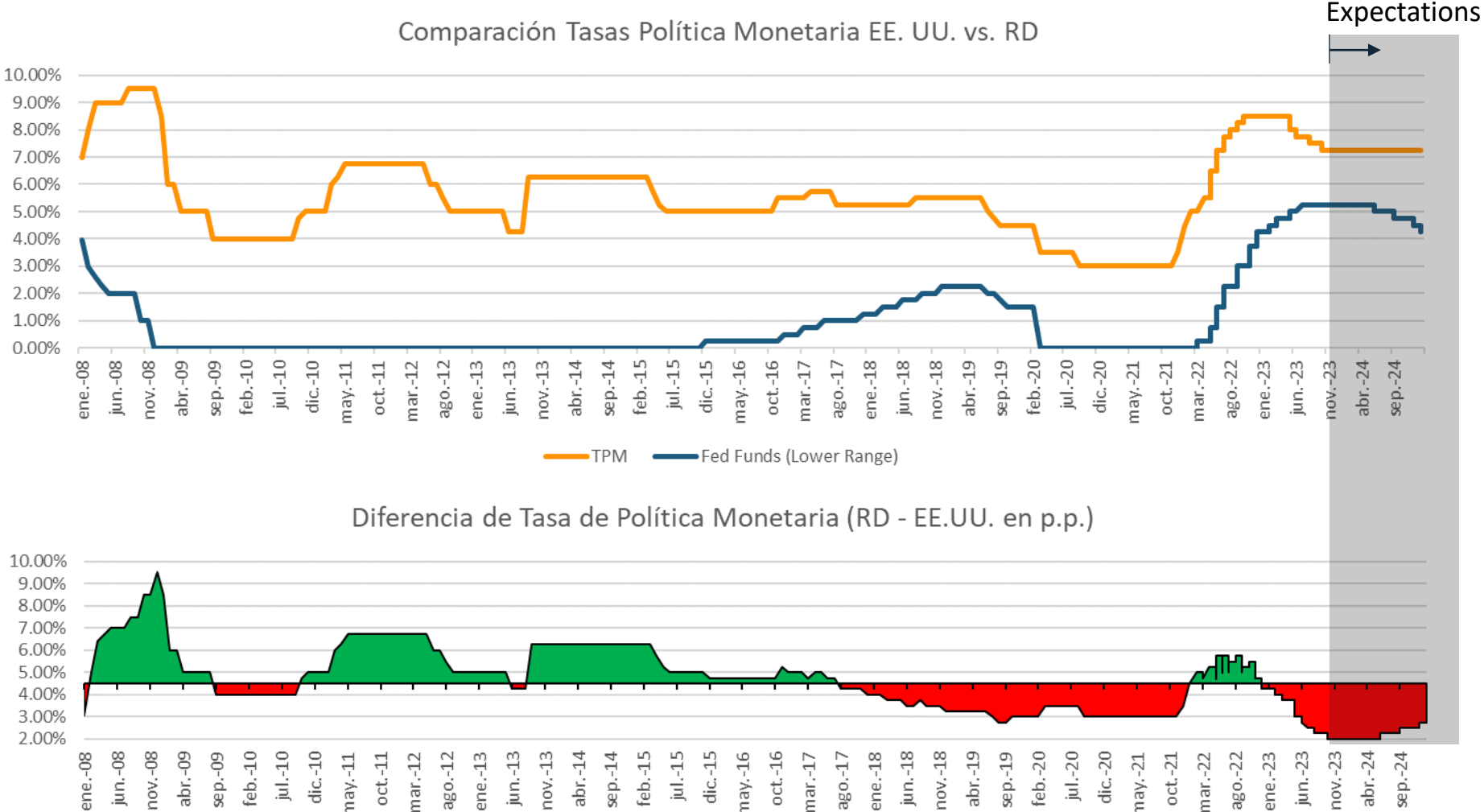
Sources: Bloomberg and quotes as of October 31st 2023





# DR vs US Monetary Policies

Lowest policy rate difference in the past 15 years. More Fed hikes or DRCB cuts should lead to narrower DOP vs USD spreads and a pressured DOP FX rate.

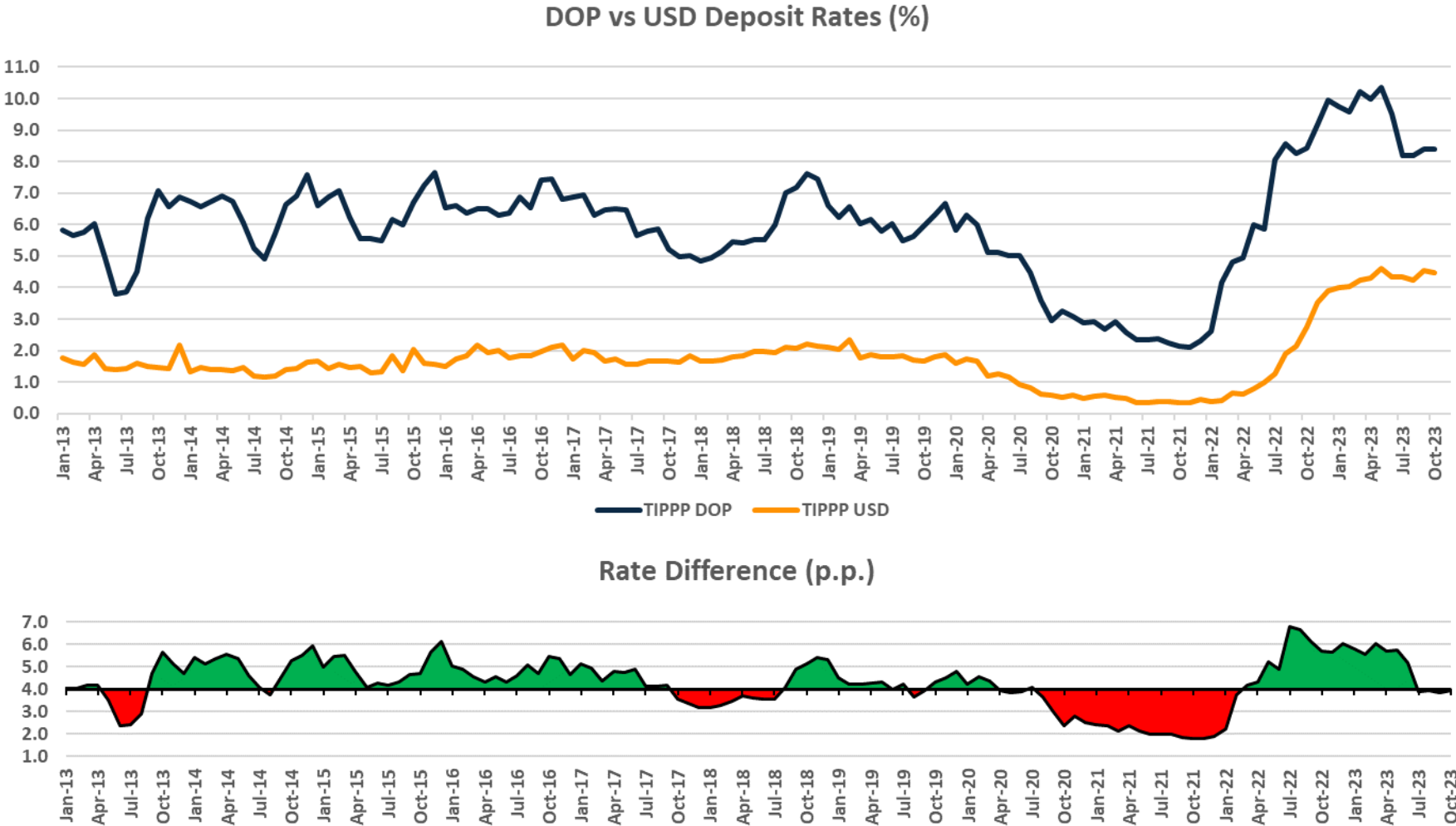


Source: Dominican Republic Central Bank, CME and Bloomberg as of Octubre 31 2023. Expectations obtained from Fed futures, but assumed stable for DRCB's rate.



# DOP vs USD bank interest rate difference

Lower DOP rates and higher USD rates could lead to speculative behaviour, pressure the DOP and become a self-fulfilling prophecy.



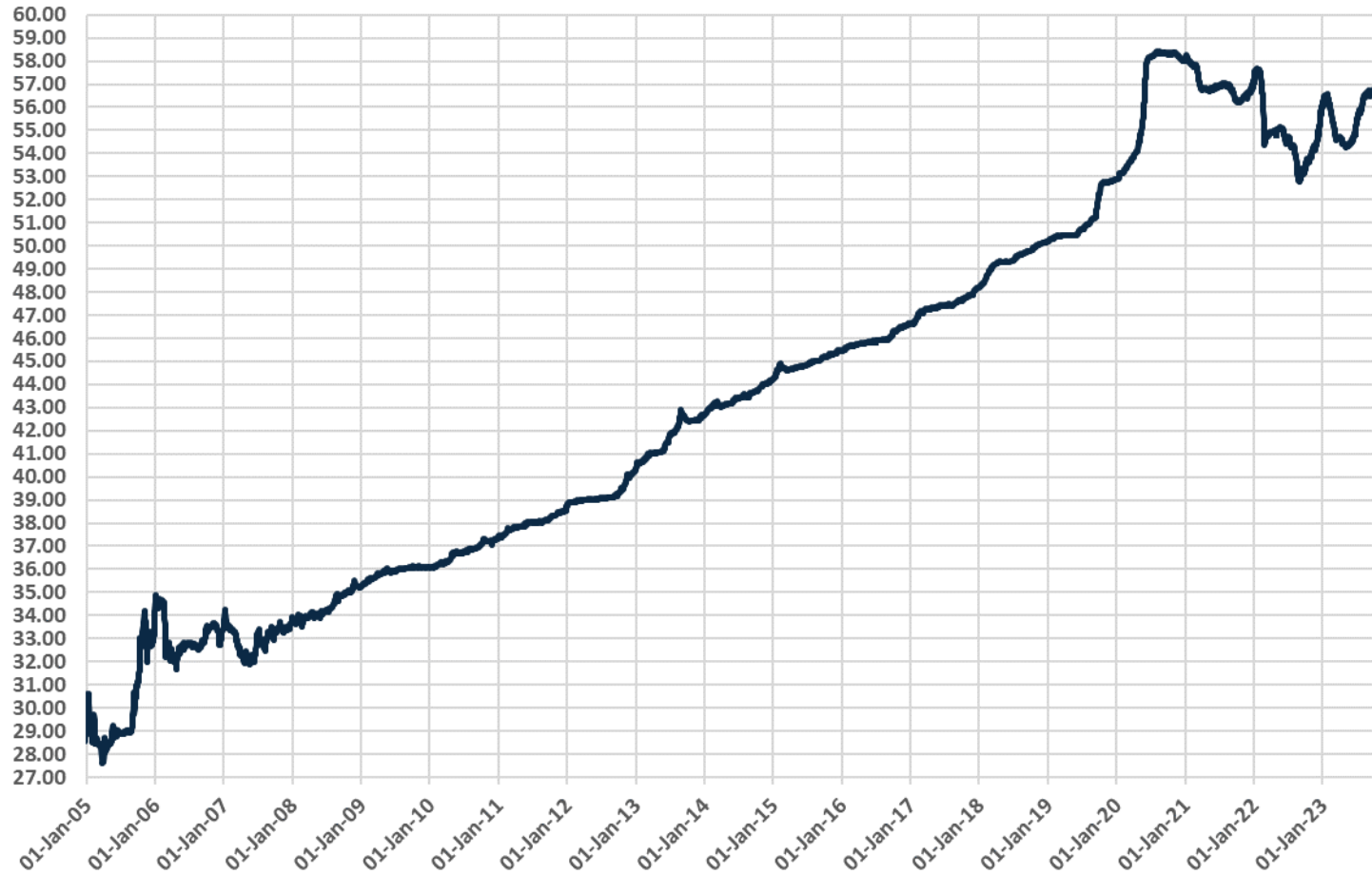
Source: Dominican Republic Central Bank as of October 31st 2023



# USDDOP

2021 and 2022 saw a stronger DOP, but 2023 has bene more volatile. As of October, the official CB rate saw a DOP depreciate 1.2% in the year.

USDDOP bid BCRD



Month	Chg %
Jan	0.56%
Feb	-1.83%
Mar	-1.04%
Apr	-0.60%
May	0.12%
Jun	1.51%
Jul	1.47%
Aug	1.00%
Sep	0.13%
Oct	-0.04%

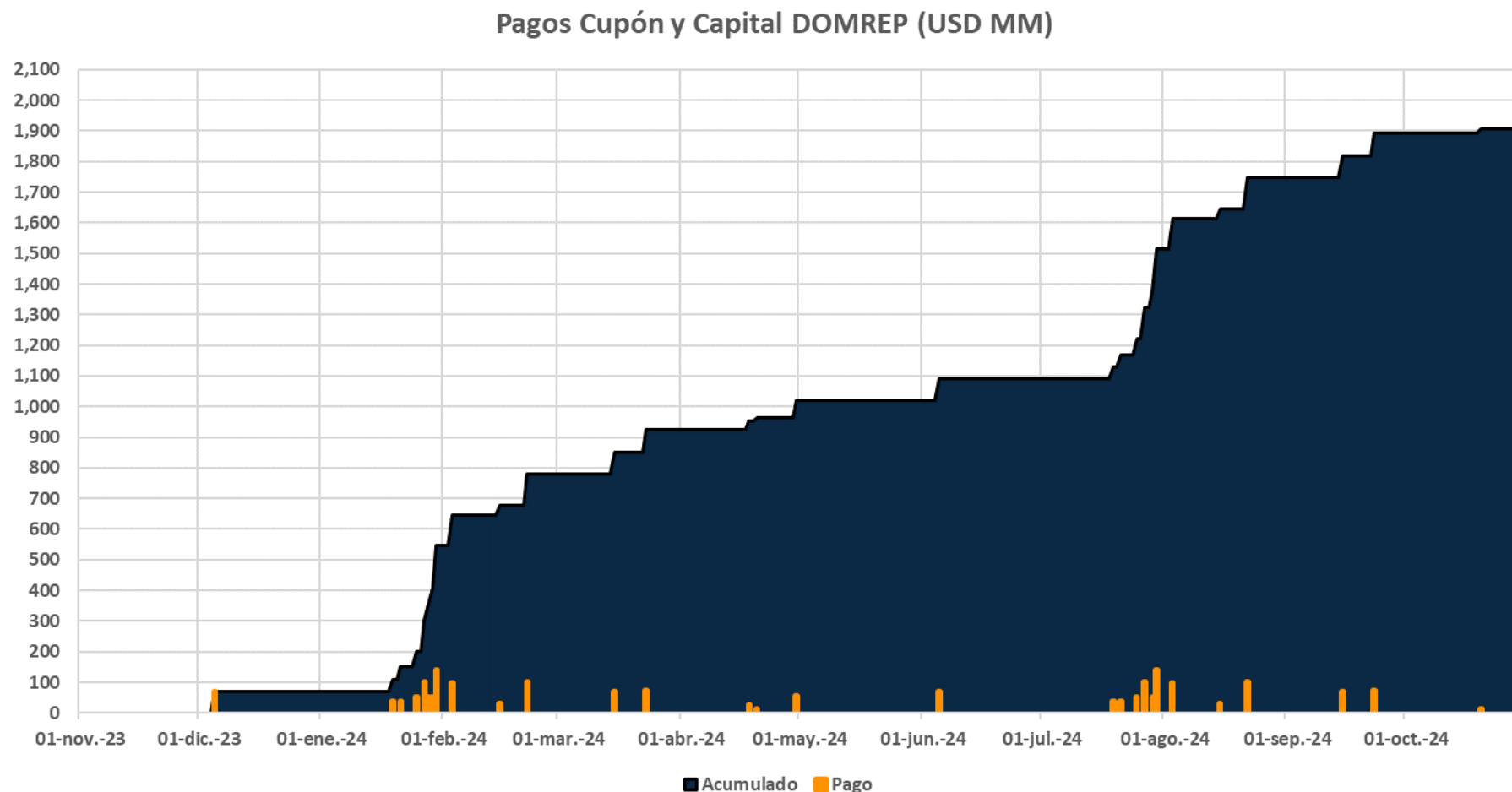
Source: Dominican Republic Central Bank as of October 31st 2023



# DOMREP bond payments

DR Govt still has USD 71mn in foreign currency payments from their int'l bonds in 2023, but will need to pay over USD 850mn in the first three months of 2024.

Date	Amount (USD mn)
5-Dec-23	71
19-Jan-24	39
21-Jan-24	40
25-Jan-24	51
27-Jan-24	103
28-Jan-24	52
29-Jan-24	52
30-Jan-24	139
3-Feb-24	99
15-Feb-24	33
22-Feb-24	102
15-Mar-24	70
23-Mar-24	75
18-Apr-24	26
20-Apr-24	13
30-Apr-24	56
5-Jun-24	71
19-Jul-24	39
21-Jul-24	40
25-Jul-24	51
27-Jul-24	103
29-Jul-24	52
30-Jul-24	139

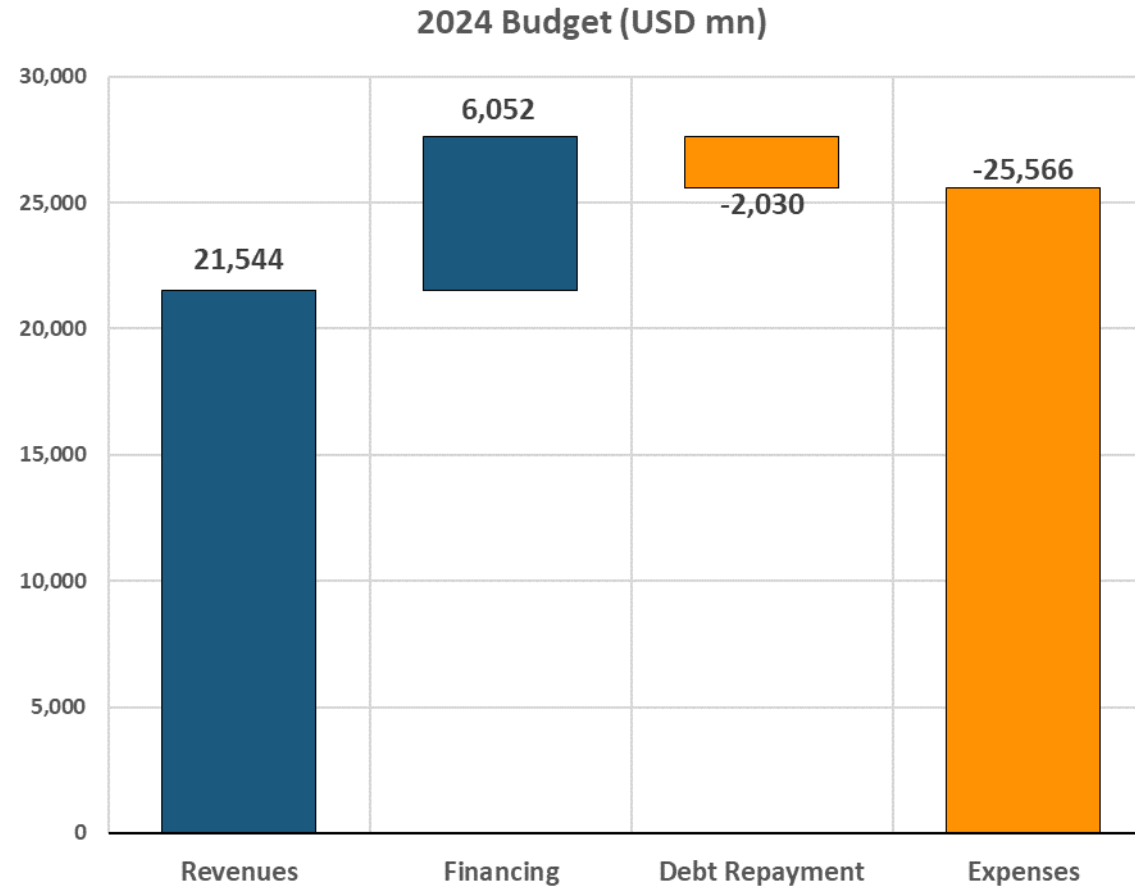


Source: Dirección General de Crédito Público (Public Debt Office) and Primma Advisors estimates as of 31 October 2023



# 2024 Budget Proposal

USD 6billion in financing expected. Early 2024 issuance to be expected due to current FX situation and USD needs to repay coupons and principal on outstanding debt.



Source: Dirección General de Presupuestos (Budget Office)



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