LATIN AMERICA ECONOMICS UPDATE

Dominican Republic's economy set for a slowdown

- **The Dominican Republic recorded an impressive post-pandemic recovery, but we think that a combination of a fading boost from tourism, weakness in the US and tight fiscal policy will cause growth to slow by more than most expect this year and next.**
- The Dominican Republic has recorded one of the strongest post-pandemic recoveries in the emerging world. GDP was 11.4% above its pre-pandemic level in Q1, higher than in most other EMs. (See Chart 1.)
- A closer look at the data shows that **the recovery has been driven by a strong rebound in services activity on the back of a rapid rebound in the tourism sector.** Tourist arrivals, having slumped following the outbreak of the pandemic, quickly returned to pre-pandemic levels thanks to the government's lenient virus restrictions. (See Chart 2.) This more than offset weakness in other sectors, such as mining.
- **But we doubt that this strength will continue and there are three key headwinds which are likely to result in a sharp slowdown in growth in the Dominican Republic over the rest of this year and in 2024.**
- First, with tourist arrivals now back at their pre-pandemic level, the boost from the tourism sector is likely to fade. Second, **weakness in the US will have a knock-on effect on the Dominican Republic**. (See Chart 3.) The US is the destination of more than 50% of the Dominican Republic's exports and, perhaps unsurprisingly, its business cycle tends to follow the US's closely. On past form, our US GDP forecast points to growth in the Dominican Republic easing over the coming quarters.
- Third, **the government's fiscal plans to bring down debt with tighter fiscal policy will drag on domestic demand**. The budget for 2024 envisages a balanced primary budget this year – a fiscal squeeze of 0.4%-pt of GDP compared to 2022 – and a primary surplus of 0.4% of GDP in 2024.
- We expect these three factors to more than offset the favourable effects from falling inflation and lower interest rates. **Overall, we expect growth to come in at 2.3% this year and 3.0% next year, down from 4.9% in 2022.** Our forecasts lie below the consensus (see Chart 4) but still imply that growth in the Dominican Republic will be stronger than in most Latin American economies over the next few years.

Chart 1: Change in GDP (Latest vs. Pre-Pandemic Level, %)

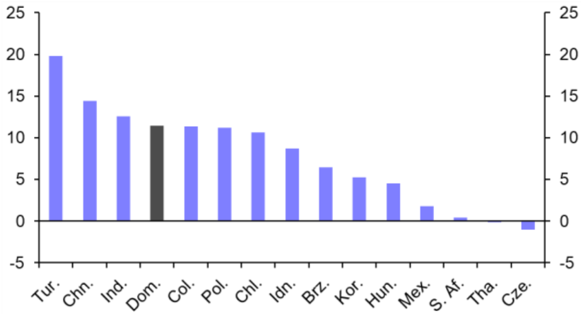


Chart 2: Tourist Arrivals (SA, Thsds.)

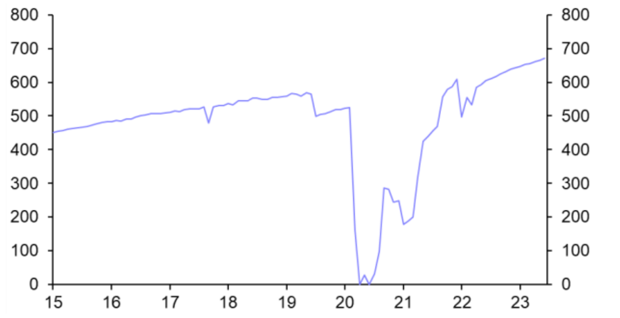


Chart 3: US GDP & Dominican Republic* GDP (% y/y)

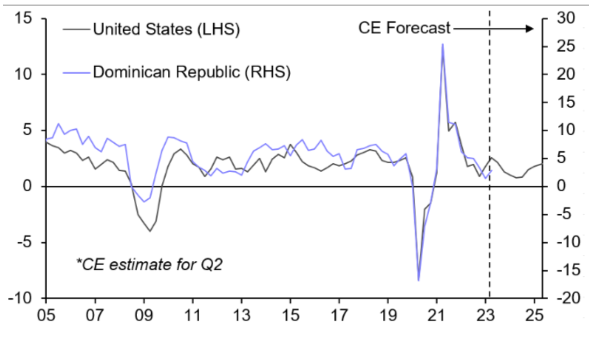
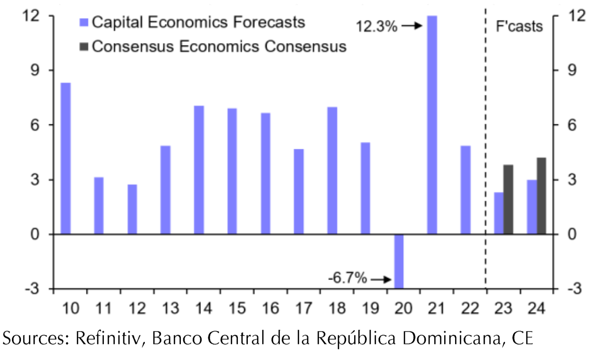


Chart 4: GDP (% y/y)



Sources: Refinitiv, Banco Central de la República Dominicana, CE

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