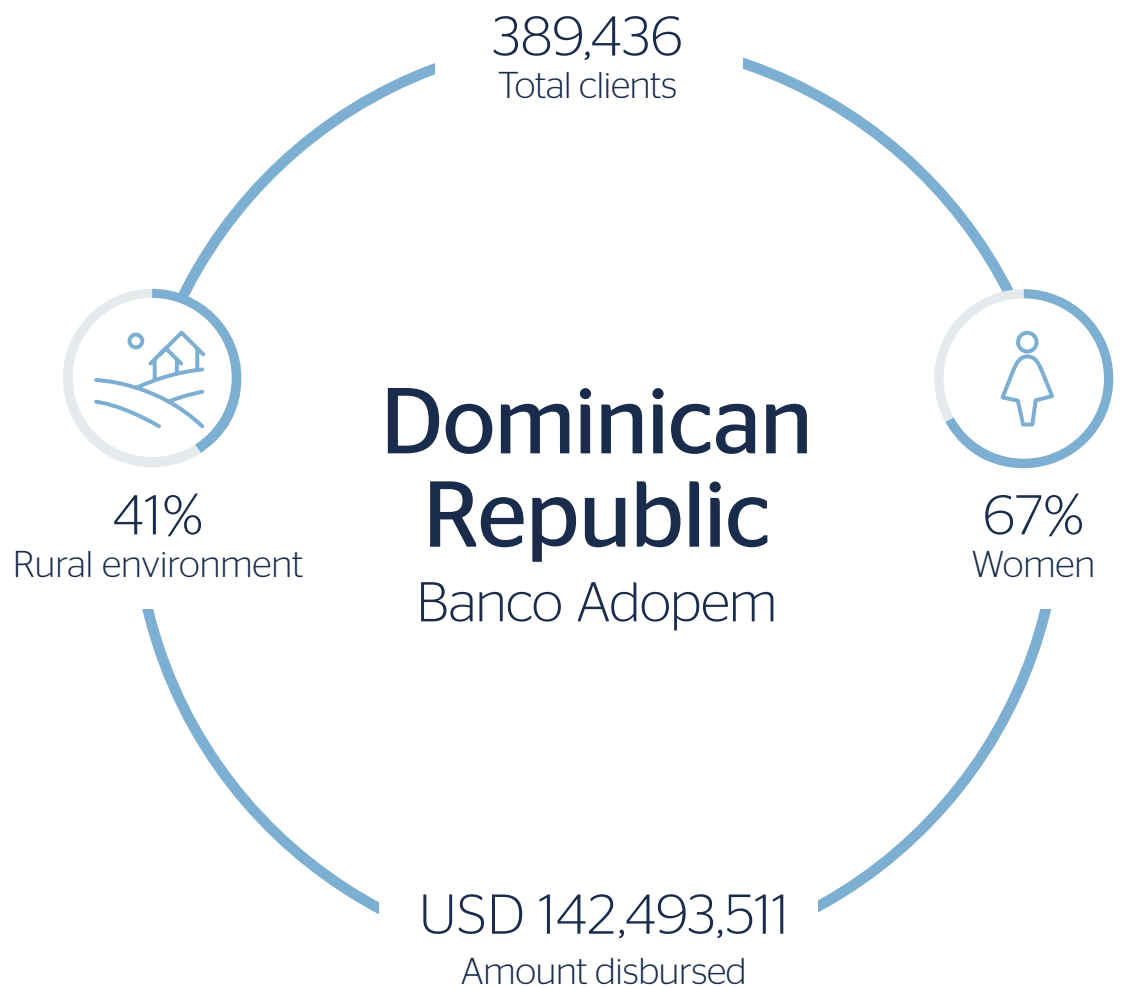

2017 Social Performance Report

Measuring what really matters



Banco Adopem promotes the development of vulnerable people and their communities in the Dominican Republic, bringing them into the formal financial system. It has over 1,400 employees throughout the country working to improve Dominicans' living standards, with a network of 74 branch offices and 201 banking agents.

Banco de Ahorro y Crédito Adopem, S.A. (Banco Adopem) is a financial institution that works for vulnerable people through financial inclusion. It is committed to the society of which it forms part and to small entrepreneurs, whom it supports with programs which have a socio-economic impact, in which partnerships with major international organizations also play a leading role. It carries out much labor-intensive field work, in remote areas that are difficult to reach.

Adopem became a bank in 2005, although it has been providing loans for nearly three decades as an NGO. In 2012, it joined the BBVA Microfinance Foundation's group of institutions. Banco Adopem provides tailored financial products and services to small entrepreneurs, 67% of whom are women, wanting to make a go of their micro-enterprise.

Most of the people it serves work in the production and sale of foodstuffs, handcrafted objects, clothing and footwear, or service provision, among others. Adopem relies on the daily dedication of 1,418 employees who are committed to its entrepreneurs' long-term prosperity. Thanks to its footprint of 74 branch offices and 201 banking agents, it con-

tributes to the growth of the most vulnerable sectors of the Dominican Republic.

This microfinance institution is a by-word for transparency, compliance, responsibility, service vocation and development. Its Rural Finance & the Environment program [Finanzas Rurales y Medio Ambiente] helps to combat the effects of climate change, encouraging entrepreneurs to start up low-environmental-impact activities and businesses. This initiative also facilitates access to credit to improve the quality of farming businesses from an environmental perspective.

In 2017 Banco Adopem received the Inter-American Award for Financial and Entrepreneurial Innovation given by the Inter-American Development Bank, for its product *Agrocrédito* and its use of technology. Fitch Ratings has confirmed its long-term valuation at AA-(dom) with stable outlook. It has also retained its ALFA MAS (a+) classification from Microrate's international Committee, which reaffirms its excellent positioning in the microfinance sector, at the head of Microrate's ranking in Latin America.

Banco Adopem received the 2017 Inter-American Award for Financial and Entrepreneurial Innovation given by the Inter-American Development Bank

Headline figures

Data at December 31st, 2017

Total credit clients

389,436

Nº of disbursements in 2017

194,958

People receiving financial education

16,466

Gross loan portfolio (USD)

129,163,276

Average disbursement in 2017

731

Nº of branch offices

74

Amount disbursed in 2017 (USD)

142,493,511

Deposits & others (USD)

71,437,973

Nº of employees

1,418

**Total
clients**

389,436

With nearly 400,000 clients and coverage in all provinces throughout the country, Banco Adopem has maintained its position as a major player in the social and economic development of the Dominican Republic. 85% of its over 220,000 credit clients were in *vulnerability* at the end of 2017. Its micro-enterprises, which mainly focus on Trade, grew, in terms of their annual sales and net income rates, by around 20% over the year, bringing the segment of its clients that are below the poverty line down by 37% after two years banking with the institution.

Total credit clients

224,304



85%

Vulnerability¹



67%

Women



41%

Rural environment



50%

Primary education at best²

New credit clients in 2017

51,871



88%

Vulnerability¹



62%

Women



46%

Rural environment



57%

Primary education at best²



430

USD

Average disbursement³



170

USD

Monthly net income *per capita*



3.1

people

Household size

1. According to the Ministry of the Economy's poverty line (differentiating between the rural and urban environments). Clients whose monthly net income *per capita* (estimated as the business net income divided by the size of the household) is below the threshold calculated by multiplying the poverty line figure by three are in *vulnerability*. **2.** Proportion of all credit clients who have completed primary education, at best. **3.** Average disbursement: average disbursement of new clients served in 2017.

Source: Banco Adopem. BBVAMF calculations.

1. Our clients



SDGs impacted

Socio-economic profile

• 85% of the entrepreneurs served by Banco Adopem are in *vulnerability* and 24% generate monthly *per capita* (p.c.) net incomes below the poverty line (PL). The bank always endeavors to serve its target clients: in 2017, 88% of new clients were in *vulnerability*.

• 67% of Banco Adopem's clients are women. Almost all are in *vulnerability* (87%) and 36% live in rural areas, contributing to the development of the most remote locations.

• One of the main wellsprings of gender inequality is the different rate of inclusion in the labor market. Many of the restrictions still facing women are associated with motherhood and produce significant gaps in their access to economic opportunities and the subsequent disparities in income and productivity between women and men when the former are of childrearing age. This means that the rate of women in poverty in the 20 to 59 age range, compared to poor men in the same age range, is greater.

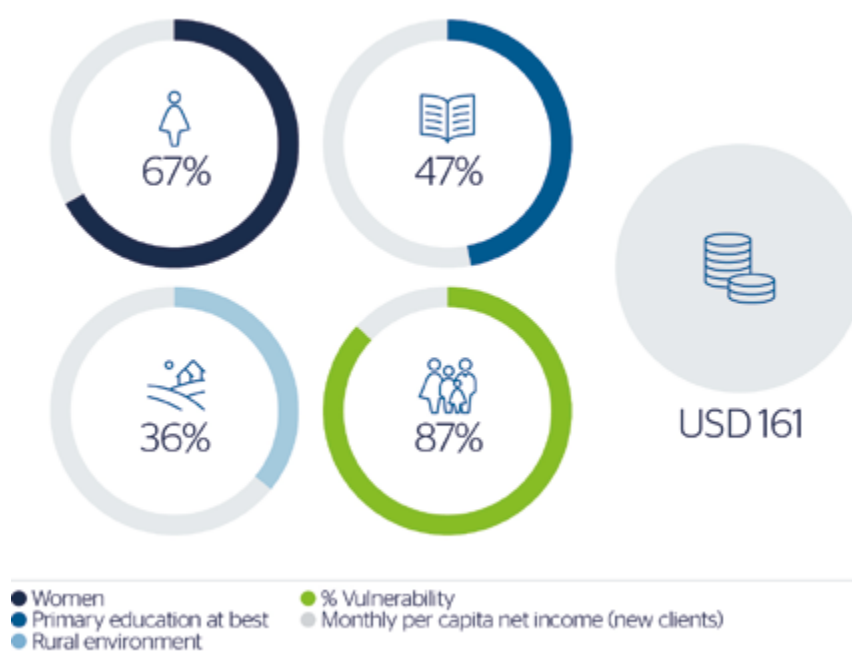
1. According to the Ministry of the Economy's poverty line (distinguishing between rural and urban environments). Clients whose net income (i.e. profit obtained from their microenterprise) divided by the number of members in the family unit is above the poverty line but no more than three times the poverty line of their corresponding country are classified as *vulnerable*. 'Total' shows the number of clients current at 12.31.2017. 2. Proportion of clients current at 12.31.2017. New clients (no previous loans) signed up over the year.

1. Client economic vulnerability



Source: Banco Adopem, BBVAMF calculations.

2. Women's profile



Source: Banco Adopem, BBVAMF calculations.

- In fact, of the 51,871 new clients served in 2017, the *poor and extremely poor* segments consisted in the main of women (69% and 74%, respectively).

- Half are single-parent households (singles, separated or widowed) with dependants (55% in the case of women and 53% in the case of men). A third of households are made up of couples (married or living together), with a dependant (30% in the case of women and 32% in the case of men).

- The bank also looks for other vulnerable profiles such as those with primary education at best (57% of new clients) (see graph 6).

- New clients in *extreme poverty* have a monthly *p.c.* net income of USD 32, which represents 32% of the poverty line figure, so their *p.c.* monthly net income would have to increase by at least 212% to reach that limit. In the case of *poor* clients (with a monthly *p.c.* net income of USD 75), their incomes would have to grow by 33% to get over the poverty line.

- The *p.c.* monthly net income of clients broken down by gender indicates that the gap between men and women is getting wider among *vulnerable* and *other* clients.

3. New credit clients



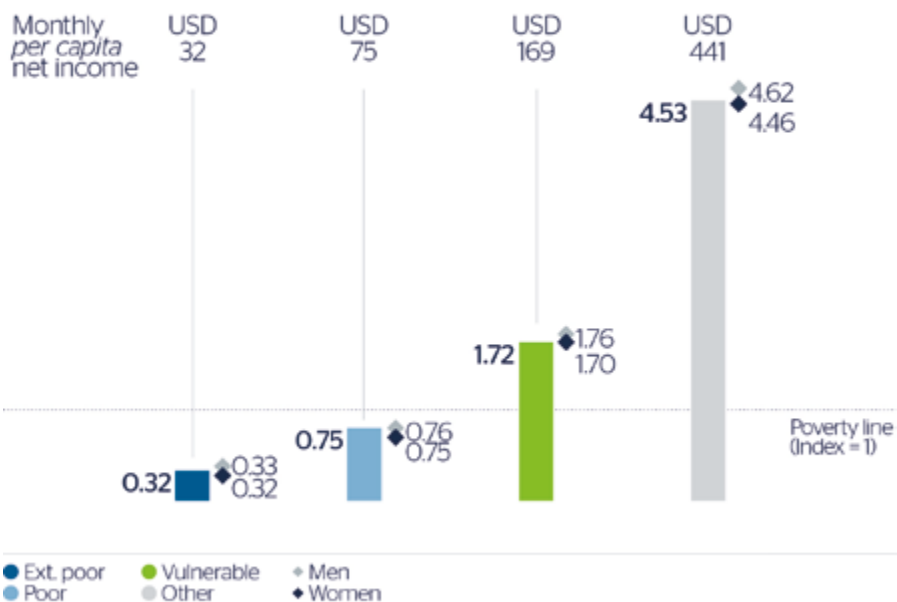
Source: Banco Adopem. BBVAMF calculations.

4. New credit clients' vulnerability, by gender



Source: Banco Adopem. BBVAMF calculations.

5. Relative net income of new clients



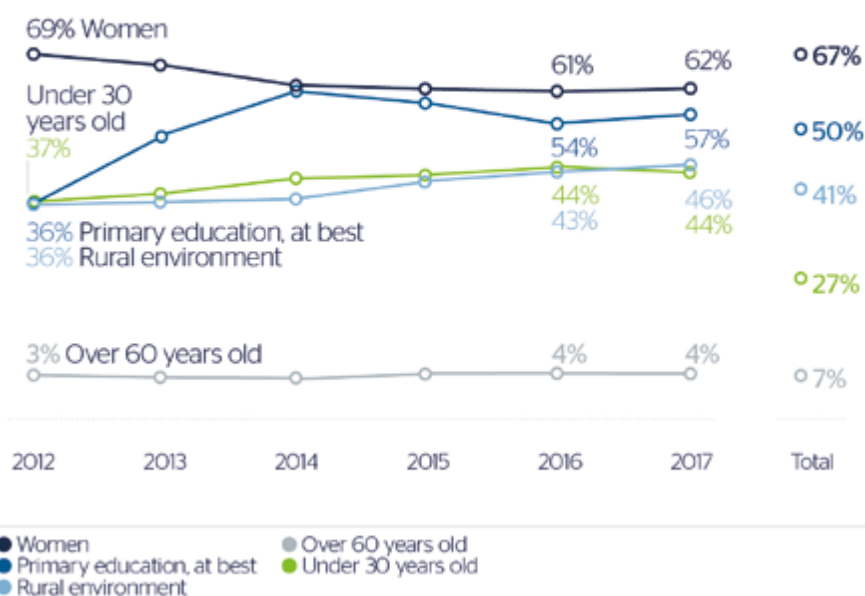
Source: Banco Adopem. BBVAMF calculations.

3 & 4. New clients (no previous loans) signed up over the year. **5.** According to official poverty lines from the Ministry of Economy, Planning and Development, differentiating between rural and urban environments. Considers clients signed up during the year (no previous loans).

1. Our clients

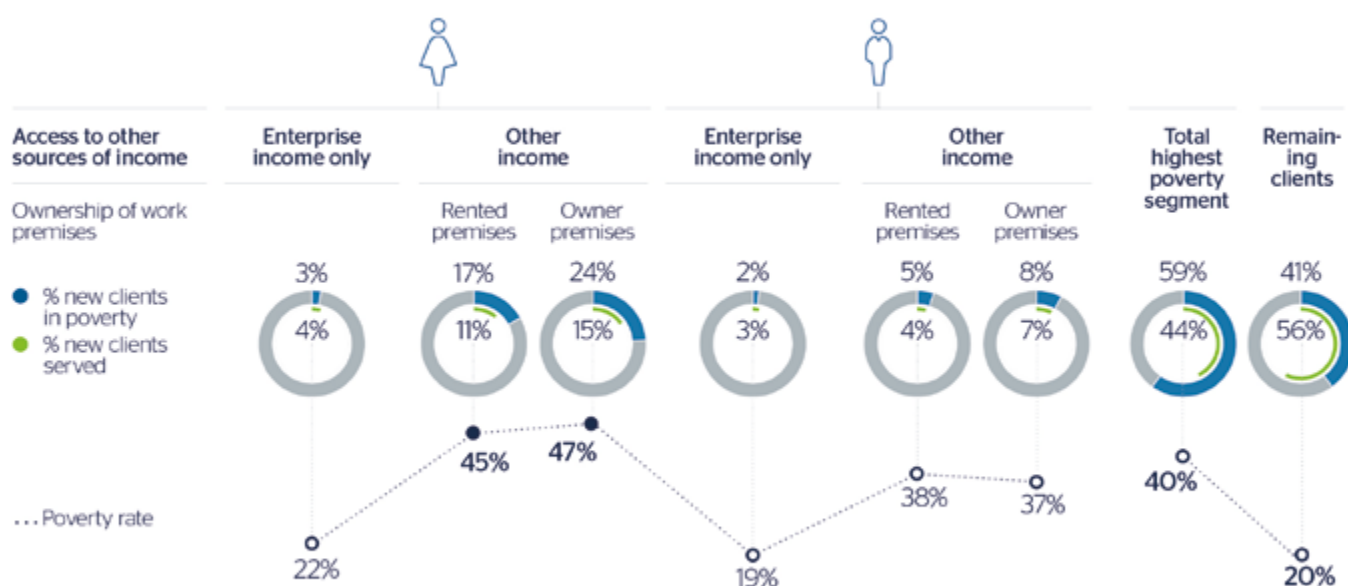
• We wanted to identify the profiles of our clients with the highest rates of poverty: clients in an urban environment and in the Trade sector (retail and wholesale) make up 43% of new clients served and 60% of all new *poor* clients served. Of these, women who need another source of income, and particularly those who have their micro-enterprise in a family home, are the segment with the highest rate of poverty: nearly five out of every 10 of these entrepreneurs are living under the poverty line. That is, their micro-enterprise may not be their principal source of income or else it does not cover all their economic needs.

6. Profile of new credit clients



Source: Banco Adopem, BBVAMF calculations.

7. Clients with the highest poverty rates

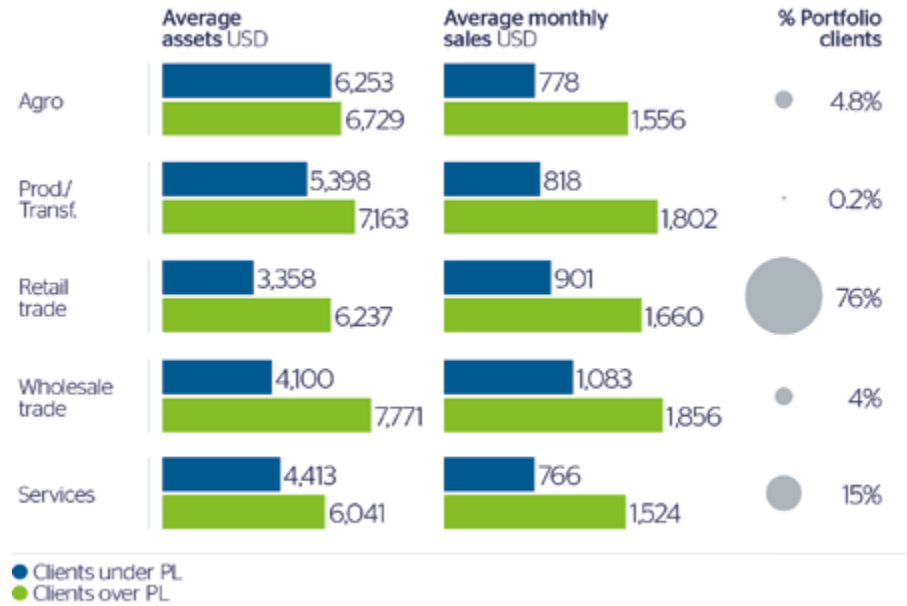


Source: Banco Adopem, BBVAMF calculations.

Profile of their businesses

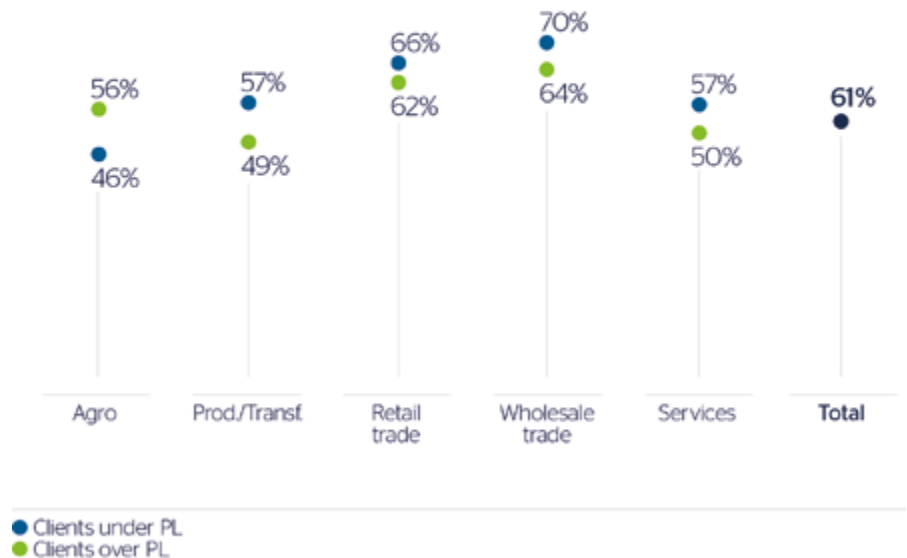
- Most clients work in the Trade sector (retail and wholesale), which accounts for 80% of all clients, and shows a stable trend to 2016.
- Women are more entrepreneurial in Retail trade (83% vs. 63% for men), their main activity being the sale of clothes and textiles (50% of the total). Street sellers, selling in community markets and hairdressing services are also popular activities (6.7%, 5% and 5% of the total).
- Clients under the poverty line (PL) in the Retail trade sector have assets of around USD 3,000, half the assets of those above the PL. Entrepreneurs have a higher participation in businesses with lower level of assets and, as such, have a lower initial outlay, as well as fewer technical and/or physical requirements.

8. Average monthly sales and assets - clients under and over the poverty line (PL)



Source: Banco Adopem, BBVAMF calculations.

9. Average expenses as percentage of sales, by sector - clients under and over the poverty line (PL)



Source: Banco Adopem, BBVAMF calculations.

6. Covers new clients (no previous loans) signing up during the year. 'Total' shows the number of clients current at 12.31.2017. 7. Covers new clients (no previous loans) signing up during the year. 'Total' shows the sum of the participation of the segments analyzed, calculated over total new clients served in 2017. 'Remaining' shows the participation of segments not included in the table, calculated over total new clients served during 2017. 8. Average monthly sales and average assets in each sector, segmented as under PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*) clients. Covers clients current at 12.31.2017. 9. Costs as ratio of average sales, by sector. Segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *other*) clients. Covers clients current at 12.31.2017.

1. Our clients

- The businesses of clients in greater *poverty* tend on the whole to have higher relative costs than the others, although the difference in Trade is lower than in other sectors. In the case of Agriculture, the opposite is true: clients below the PL have greater efficiency and lower costs than those suffering less poverty.

- On the other hand, Agriculture and Production/transformation are the sectors with the greatest cost differences (over sales) undertaken by clients under and above the PL.

10. Assets, liabilities and equity, by sector - clients under and over the poverty line (PL)



10. Assets, liabilities and equity, together with their ratios, for each sector, segmented as under the PL (classified as *extremely poor* and *poor*) and over the PL (*vulnerable* and *other*) clients. The loan granted by the institution is not included in liabilities. Covers clients current at 12.31.2017.

Clients under PL
 ● Equity / Assets
 ● Liabilities / Assets
 ○ Avg. equity

Clients over PL
 ● Equity / Assets
 ● Liabilities / Assets
 ○ Avg. equity

Source: Banco Adopem, BBVAMF calculations.

Where our clients are

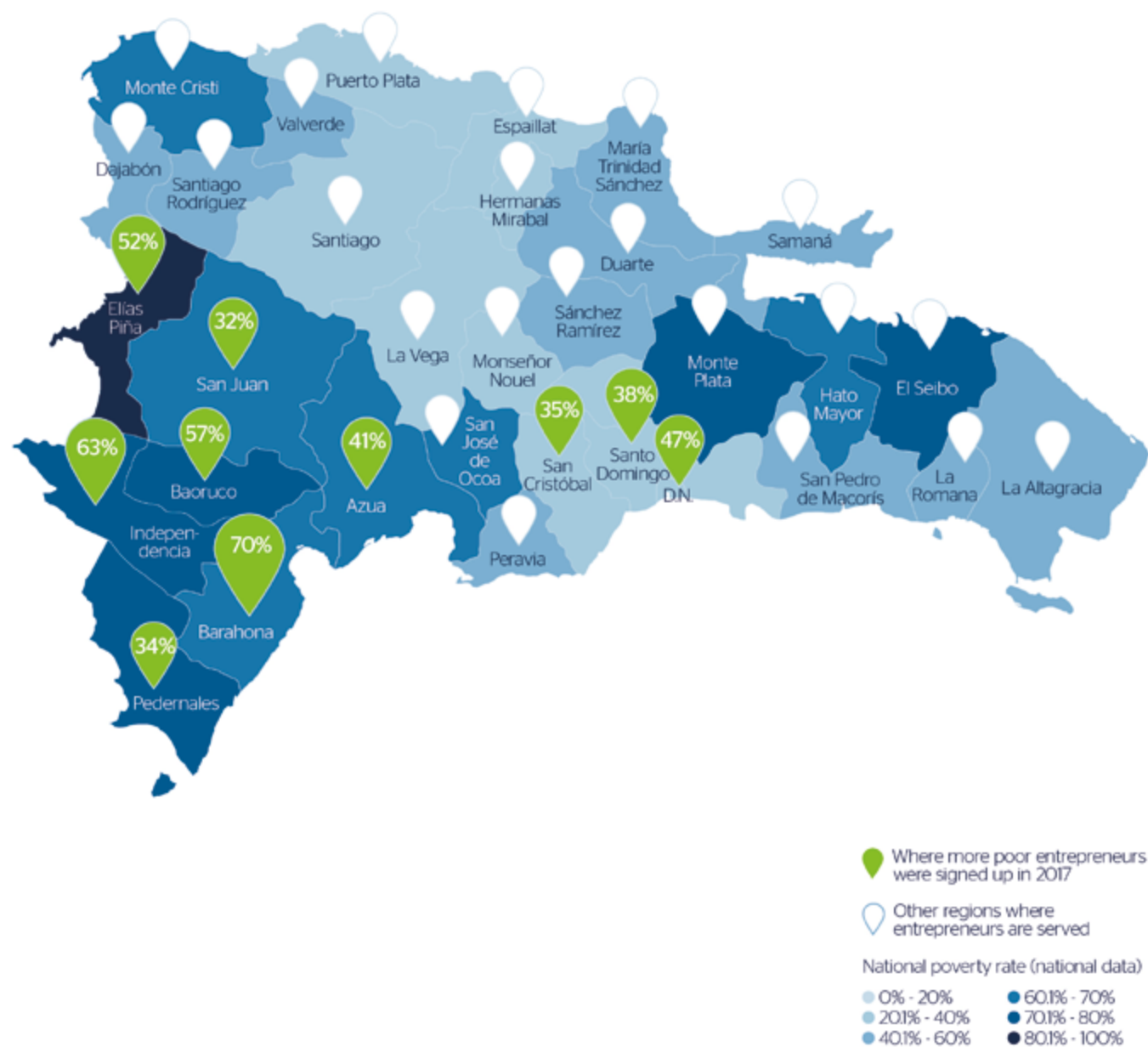
- Banco Adopem's footprint extends to every province in the country, reaching the least developed and most remote areas, where the percentage of poor households is sometimes higher than 70%, as shown on the map (Ministry of Economy, Planning & Development, 2010).

- In 2017 it reached out to serve 15,561 new clients under the PL, representing 30% of all its new credit clients in the year. It was particularly active in the provinces of Elias Piña, Barahona and Independencia, where the poverty rate is over 60%, and where it has over 9,000 new clients under the PL.

- Banco Adopem remains firm in its commitment to support *vulnerable* clients wherever they are, both in high density population areas, such as Santo Domingo, where a high number of people can be served, and in more remote areas, where the poverty rate is higher. Comparing nation-wide information with the data on each client reveals opportunities to help with other local bodies to promote economic development among low-income groups.

Banco Adopem supports vulnerable clients throughout the country, reaching areas where the poverty rate is higher

11. National poverty rate and sign-ups of poor entrepreneurs in 2017



Source: Banco Adopem, BBVAMF calculations.

11. Proportion of poor households by administrative department (2010) Ministry of the Economy, Planning and Development. Data from the Population and Housing Census. The 10 regions with the highest percentage of *poor* new clients served during 2017 are shown.

2. Our clients' development

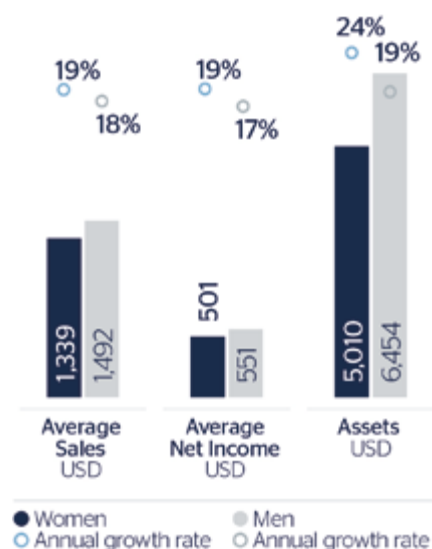


SDGs impacted

Growth of their businesses

- The country's continued economic growth (GDP up by 4.9%) has enabled high growth rates in sales, net incomes and assets (19% annually in sales and net incomes).
- Growth in monthly sales was higher in Agriculture and Services. Agriculture, however, which has assets of higher value, posted lower asset growth rates.
- Women's entrepreneurial activities reported lower assets, sales and net incomes than men's, but their compound annual growth rates in all three dimensions were higher.

12. Avg. growth rates of monthly sales, net income and assets, by gender



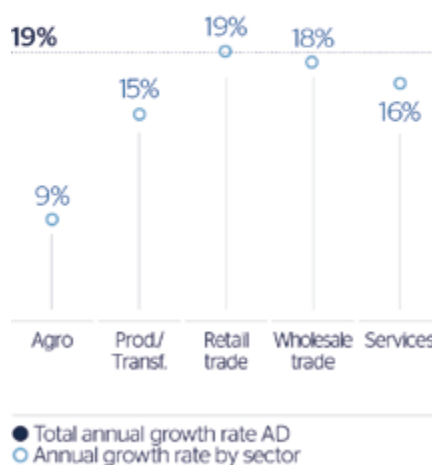
Source: Banco Adopem. BBVAMF calculations.

13. Avg. growth rates of monthly sales, by sector



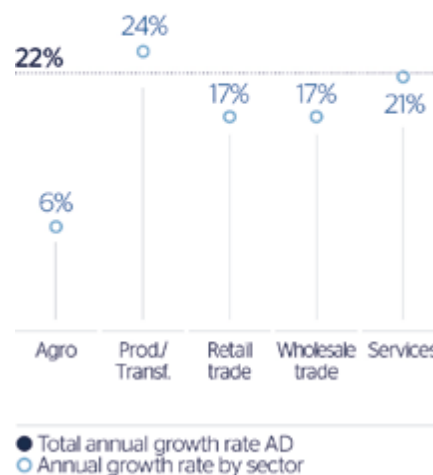
Source: Banco Adopem. BBVAMF calculations.

14. Avg. growth rates of monthly net income, by sector



Source: Banco Adopem. BBVAMF calculations.

15. Avg. growth rates of assets, by sector



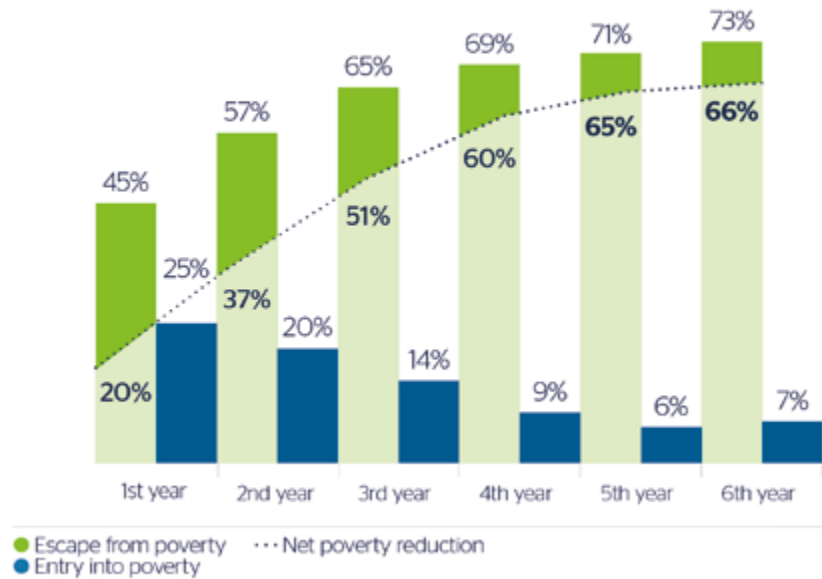
Source: Banco Adopem. BBVAMF calculations.

12. Current clients at some point in the year who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented by gender. 13, 14 & 15. Current clients at some point in the year who have made a disbursement or update in the last 12 months of their relationship with the institution. The compound annual growth rate (CAGR) of the 2012-2017 cohorts was used for the calculation, and the weighted average of these rates presented for each sector

Escaping poverty

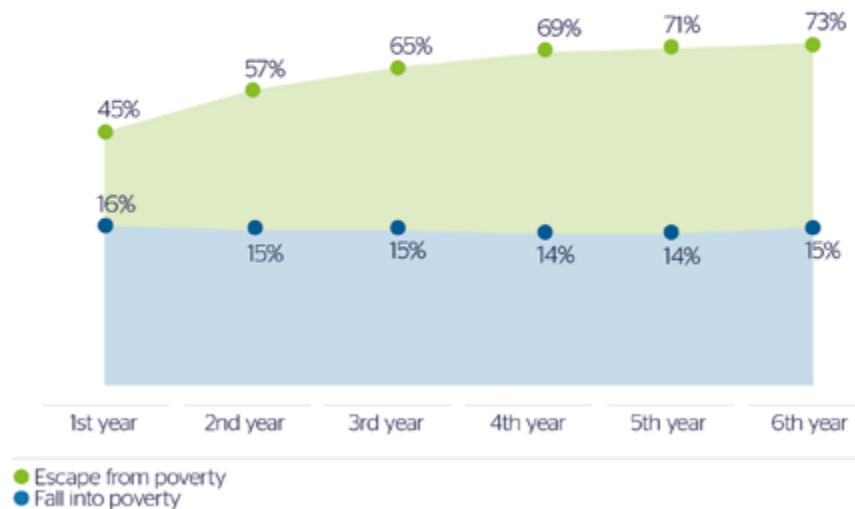
- In net figures, a higher percentage of clients escapes poverty as time passes: the time clients have banked with us has a positive effect on their performance. 37% of *poor* clients managed to get over the PL after two years.
- Nevertheless, clients' *vulnerability* is reflected in the fact that 15% of the *non-poor* clients fell into poverty. This ratio remains stable over time.
- The best performing clients (whether their situation at the outset is one of *extreme poverty* or *poverty*) are rural. Performance also differs by product used: clients with individual loans get further out of poverty than those taking out group loans (jointly).
- This situation remains true whatever their initial *poverty* level, although it is more apparent in the case of *poor* clients than the *extremely poor*.

16. Net poverty variation



Source: Banco Adopem, BBVAMF calculations.

17. Clients falling into and escaping poverty



Source: Banco Adopem, BBVAMF calculations.

16. Clients current at some point in 2017 whose data was updated in the last 12 months of their relationship with the institution. Clients who have been written off are excluded from the escape from poverty figure. • Escape from poverty: Clients in poverty (classified as *extremely poor* and *poor*) at the outset, who have climbed above the poverty line, as a percentage of all those in *poverty* at the outset. • Entry into poverty: Clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, as a proportion of clients in poverty at the outset. • Net poverty reduction: Escape from poverty – Entry into poverty.

17. Clients current at some point in 2017 were recorded and their data updated in the final 12 months of their relationship with the institution. Clients who have written-off are excluded from the escape from poverty figure. • Escape from poverty: clients in poverty (classified as *extremely poor* and *poor*) at the outset, who have climbed above the poverty line, in terms of their own segment (poverty). • Fall into poverty: clients not in poverty (classified as *vulnerable* or *other*) at the outset, who have fallen into poverty, divided by the number of *non-poor* clients at the outset.

2. Our clients' development

- By total composition, even though it is the rural clients with individual products who perform best, there are more urban clients who escape poverty in absolute terms because more clients have this profile.

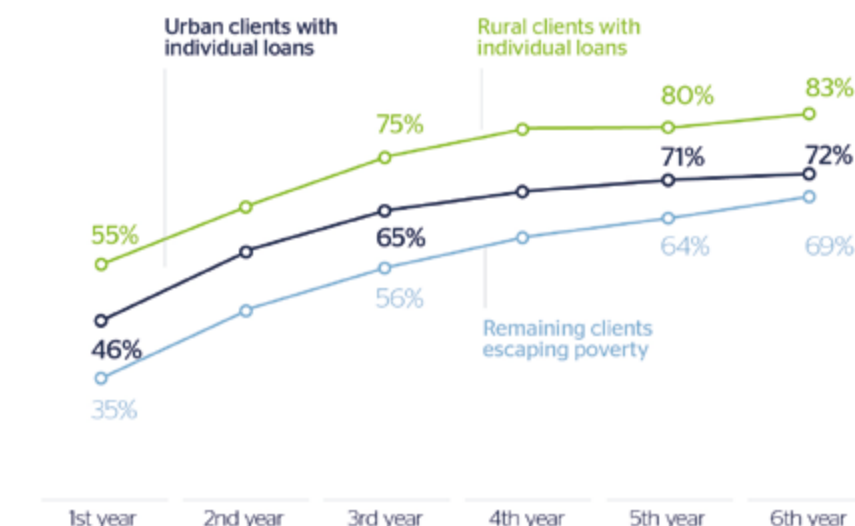
- We should point out that clients do not perform differently by age, gender or civil status, although for *poor* clients those with more education are more likely to escape from poverty.

- Looking at *per capita* net income relative to the PL, performance by *vulnerability* segment remains stable. In fact, clients who have renewed a loan in 2017 show better performance, particularly those in *extreme poverty*.

- In 2017, *poor* clients escaped poverty after their first credit and the *extremely poor* after two.

- Relative *p.c.* net income growth rates show differences by *vulnerability* segment: the greater the poverty, the higher the growth, independently of the credit cycle they are in. Furthermore, these rates remain stable over time.

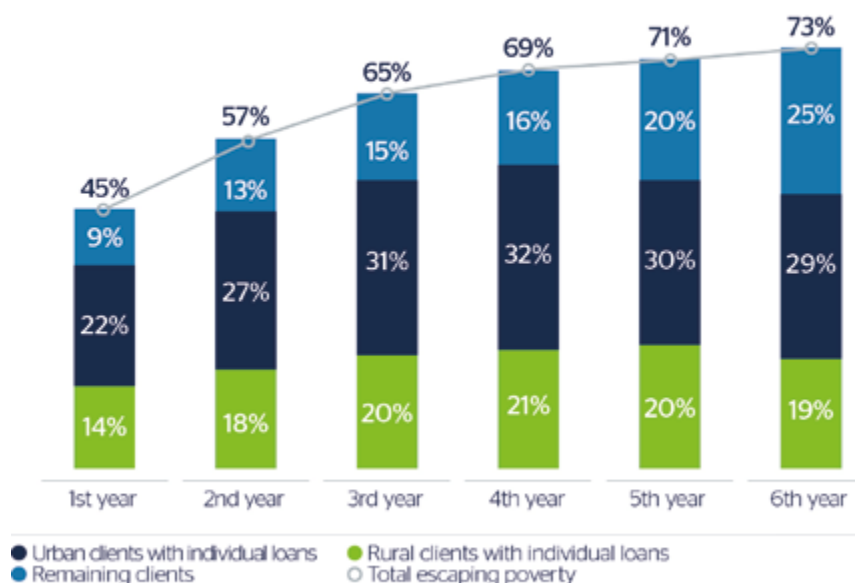
18. Clients escaping poverty, by best performing segments



● Urban clients with individual loans
● Rural clients with individual loans
● Remaining clients

Source: Banco Adopem, BBVAMF calculations.

19. Distribution of clients escaping poverty



● Urban clients with individual loans ● Rural clients with individual loans
● Remaining clients ○ Total escaping poverty

Source: Banco Adopem, BBVAMF calculations.

18, 19 & 23. Clients current at some point in 2017 who have updated their data during the last 12 months. Clients who have defaulted are excluded from the "escaping poverty" category. Proportion of those escaping poverty over those who were poor at the outset. Indicator by segments. **20.** For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at the outset (the first credit), showing the progress of monthly *p.c.* net income in each credit cycle, relative to each country's official poverty line. Relative *per capita* monthly net income takes the value of one when it is equal to the poverty line.

• Nevertheless, our clients' incomes are unstable, which is another feature of their situation. When we look at clients who have had at least five loans, we see that of the *non-poor*, 46% cross the poverty line at least twice, and are thus classified as volatile. Of clients joining the bank as *poor*, 30% are volatile, reflecting the need to support them so that they can consolidate their incomes.

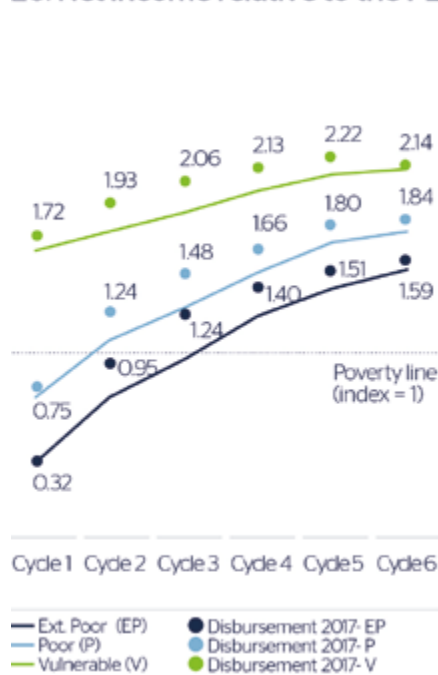
• 55% of clients below the PL are able to escape poverty and remain above the PL during the period studied (five loans).

• Unstable income is one of the primary reasons for falling into poverty. When clients falling into poverty in 2017 were analyzed, in 51% of cases this was due to a reduction in incomes, against 24% for whom it was due to an increase in costs, of which indirect costs are the majority cause. The remaining 25% fall into poverty, mainly as a result of the increase in household members.

• We see how most clients perform well and succeed in getting over the poverty line or in improving their situation. Nevertheless, the challenge lies in supporting clients to stabilize their income in the medium term and this requires effort, not only on the part of the financial players, but on the part of all those involved in their ecosystem.

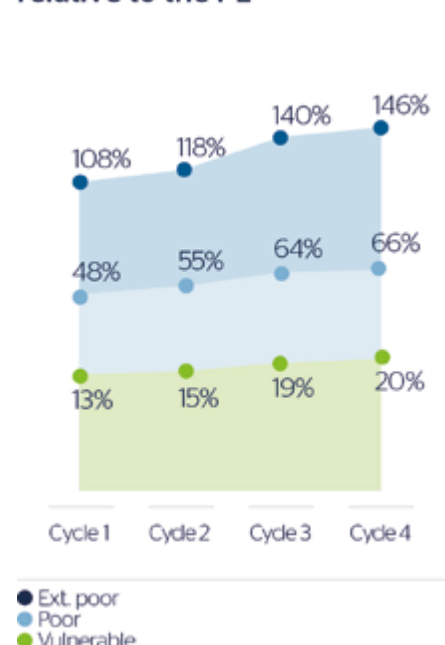
21. For the sample of clients served between 2011 and 12.31.2017. The client classification was based on their degree of *vulnerability* at each credit cycle. **22.** Clients served between 2011 and 12.31.2017 who have had at least five disbursements. The classification by *vulnerability* considers their situation at the outset (first loan) and is segmented by under the PL (classified as *extremely poor* and *poor*) and over the PL (classified as *vulnerable* and *others*). • *Volatile*: client who crosses the poverty line at least twice. • *Escape from poverty*: client who escapes poverty and doesn't fall back in. • *Fall into poverty*: client enters poverty in one cycle and does not escape it again. • *Stable*: client who remains poor or non-poor throughout the five disbursement cycles.

20. Net income relative to the PL



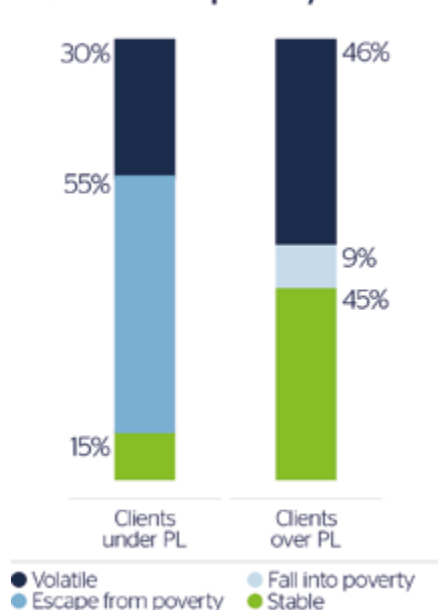
Source: Banco Adopem, BBVAMF calculations.

21. Average net income growth relative to the PL



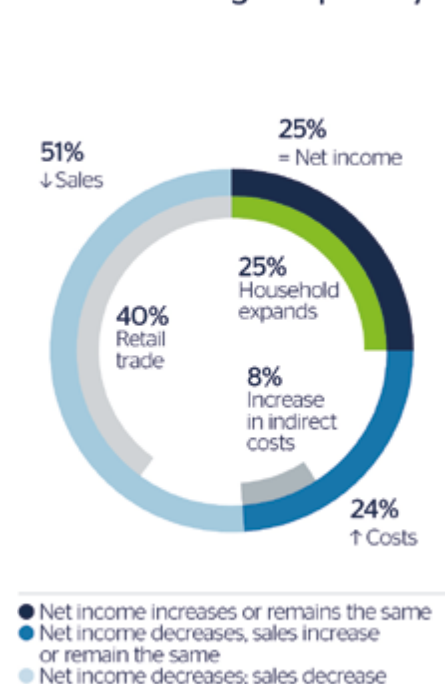
Source: Banco Adopem, BBVAMF calculations.

22. Net income volatility relative to the poverty line



Source: Banco Adopem, BBVAMF calculations.

23. Clients falling into poverty



Source: Banco Adopem, BBVAMF calculations.

2. Our clients' development

Indirect impact

- In Banco Adopem, 16% of entrepreneurs are capable of generating employment in the communities where they work. The lower their *vulnerability*, the greater their capacity to hire employees.

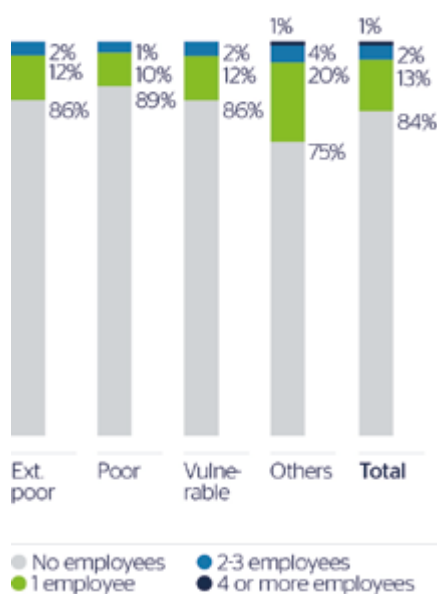
- After the first year with Banco Adopem, on average, 6% of clients manage to employ at least one more worker, 10% do so after three years, which has a positive impact on their communities.

- After three years, 7% of clients have managed to improve their housing conditions, moving from a rented property to their own, thus improving their safety and standard of living.

- 9% of the clients who have been with the institution the longest (over five years) invest part of their net income in education, improving their education from when they signed up with the bank.

- In the Dominican Republic, one of the key poverty gaps is determined by the level of schooling: 73% of adults with secondary education or higher are financially included vs. only 41% of those with primary education at best (see *Macro-economic analysis*).

24. Micro-enterprise employee breakdown



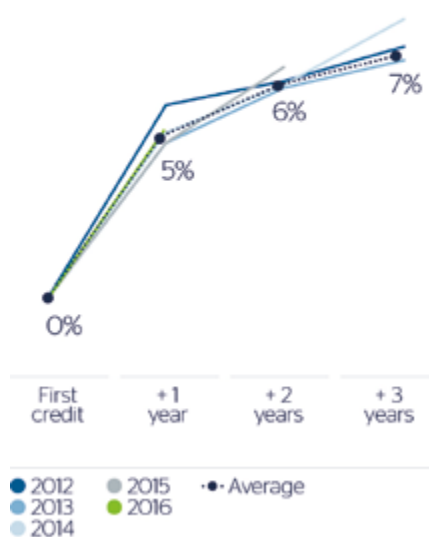
Source: Banco Adopem, BBVAMF calculations.

25. Job creation (by cohort)



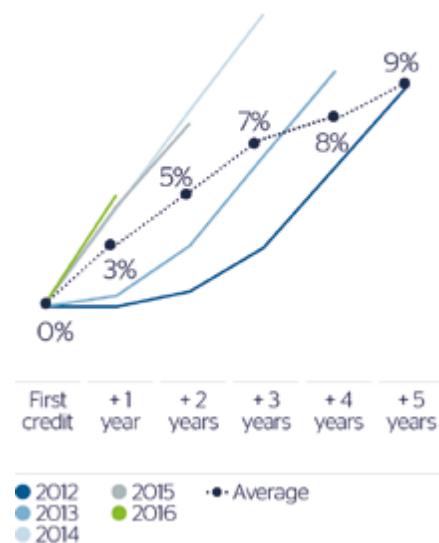
Source: Banco Adopem, BBVAMF calculations.

26. Client improvement in housing (by cohort)



Source: Banco Adopem, BBVAMF calculations.

27. Client improvement in education (by cohort)



Source: Banco Adopem, BBVAMF calculations.

24. Covers the number of employees working for clients current at 12.31.2017. **25.** Covers the increase in the number of employees compared to the outset, for clients current at 12.31.2017 in each cohort. Averages from cohorts 2012-2017 are shown. **26.** Proportion of clients current as of 12.31.2017 from each cohort that has improved their living arrangements (moved into their own home), upgraded their home (eg. bathroom, fuel used) or increased the number of rooms. **27.** Proportion of clients current as of 12.31.2017, from each cohort that has improved their educational attainment.

3. Relationships with clients



SDGs impacted

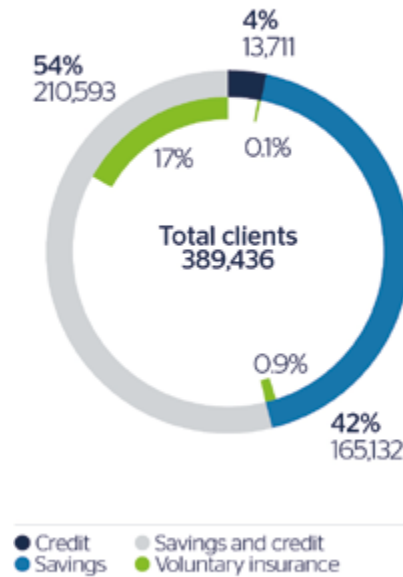
• Most Banco Adopem clients are savings and credit clients (54%), of whom 17% have taken out a voluntary insurance policy. Clients who do not have a loan, hardly sign up for other products; only 1% also have insurance.

Relationship with our credit clients

- For new clients served in 2017, the average disbursement and the installment remained stable over time, although the Dominican peso depreciated against the US dollar.
- The average disbursement per transaction increased over time with the bank, rising from USD 396 in the first year, to USD 1,224 in the fifth.
- On average, 74% of credit clients stay after one year.
- After the first loan, 67% of clients take out a second, showing they trust the institution.

28. Clients current as of 12.31.2017. **29.** New clients (no previous loans) signed up over the year. Average disbursement, calculated as the average of the first disbursement for new clients in each year. Weight of the installment calculated as a ratio average (installment over sales). YoY: 2016-2017 annual growth rate. **30.** Variation in the average disbursement per transaction by length of time since the client signed up. "Value at the outset" is the average of the outset value of 2013-2017 cohorts to which the average growth of the disbursement of cohorts 2012-2017 is applied. **31.** 'Retention': Percentage of clients in each cohort still current at each year-end and to 12.31.2017; shows averages from 2012-2017 cohorts. 'Recurrence': Clients served since 2011. Percentage of clients that, after an initial loan, accesses another. Distance between cycles is the number of days between two successive disbursements.

28. Client linkage by product type



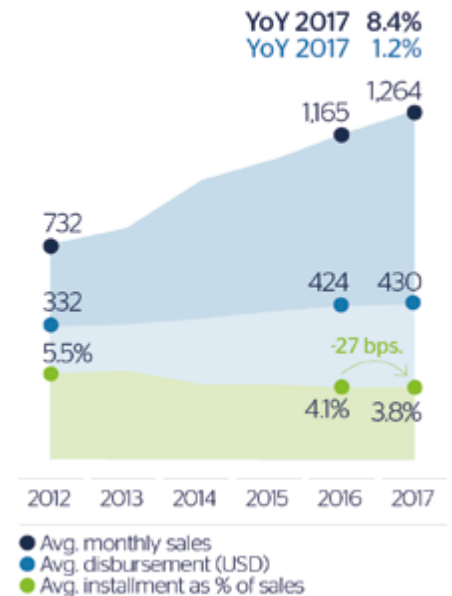
Source: Banco Adopem, BBVAMF calculations.

30. Average disbursement per transaction (by cohort)



Source: Banco Adopem, BBVAMF calculations.

29. Sales, disbursements (USD) and weight of installment for new clients



Source: Banco Adopem, BBVAMF calculations.

31. Credit client retention and recurrence

Retention

Start	100%
+ 1 year	74%
+ 2 years	56%
+ 3 years	42%
+ 4 years	33%
+ 5 years	28%

Recurrence Distance (days)

Cycle	Percentage	Distance (days)
Cycle 1	100%	0
Cycle 2	67%	336
Cycle 3	45%	366
Cycle 4	30%	382
Cycle 5	19%	388
Cycle 6 or +	10%	373

Source: Banco Adopem, BBVAMF calculations.

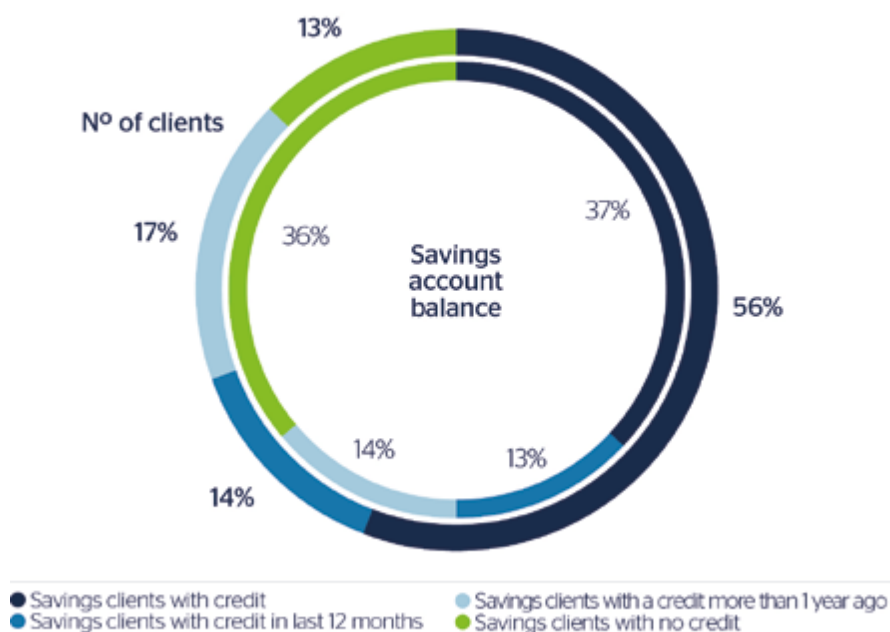
3. Relationships with clients

Relationship with our savings clients

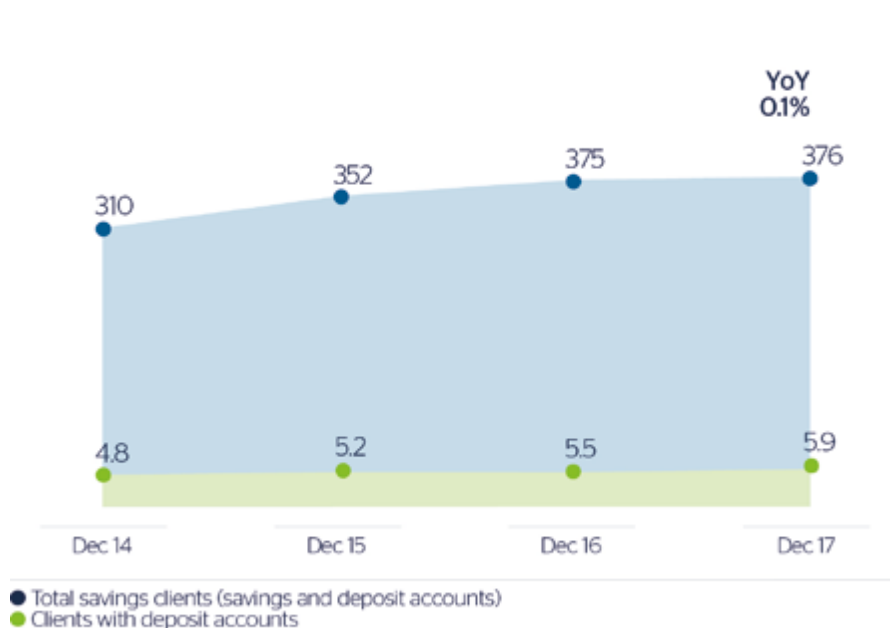
- Savings clients grow at a year-on-year rate of 0.1%, whereas clients with deposits do so by 7.4%, representing the highest percentage of the bank's liabilities.
- 56% of savings clients also have a current loan. These clients account for 37% in balances and are those who most use their savings accounts; 83% have had at least three bank movements in the previous three months.
- Clients who only have savings (who have never had a loan with the bank) have edged up slightly since 2016 (0.15%). Furthermore, they represent 36% of savings balances. 83% have had bank movements in the previous three months, 67% have even made more than 10 transactions, showing an interest in accessing a range of savings products. In addition, 59% of them have balances of over USD 15. These clients show a greater capacity to save.

- Simply having a bank account is of great value to low-income clients, particularly the most vulnerable women, because it represents a safe place for them to put their net income, most of which they use to increase their households' welfare.

32. Linkage of savings clients



33. Clients with savings and deposit accounts ('000)

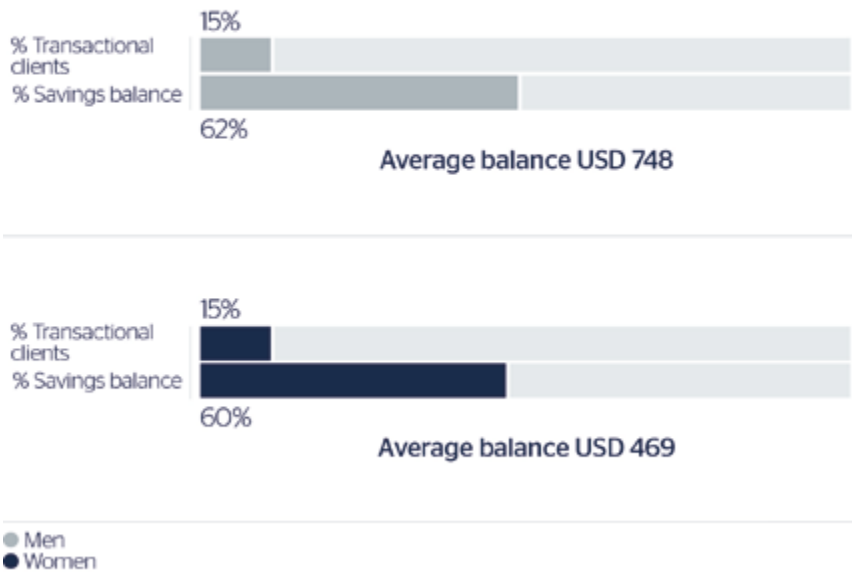


32. Clients and savings balances as of 12.31.2017.

33. Clients with savings products (savings accounts and deposits) on each date.

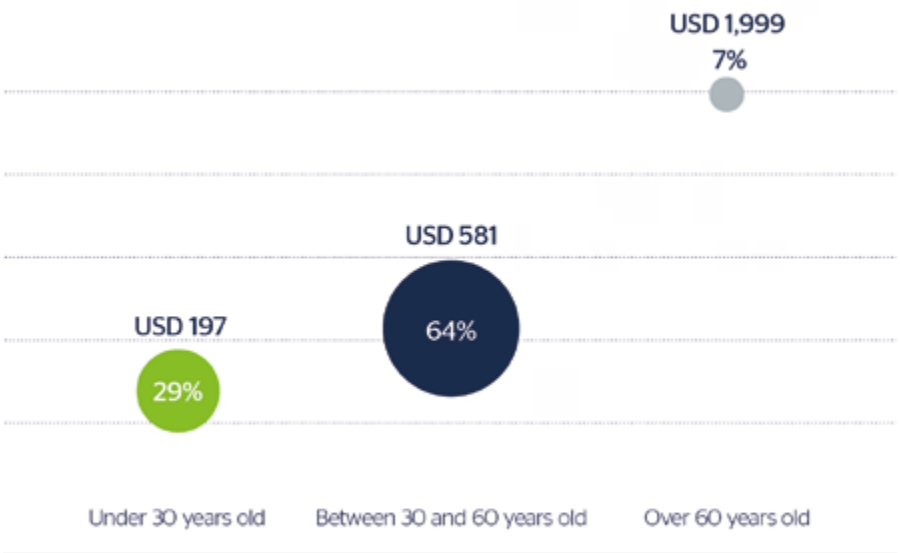
- 15% of clients have had more than three banking movements in the previous three months; a trend that remains stable over time.
- These results are in line with the national trend, where around 14% of adults in the Dominican Republic carry out more than three transactions a month, although cash remains the preference of most*.
- Women in Banco Adopem have lower balances: USD 469, compared to men, with USD 748.
- Clients' average balances remain high among the over 60s, reducing their vulnerability in the short term.

34. Transaction figures, by gender



Source: Banco Adopem, BBVAMF calculations.

35. Savings account balance, by segment



34. Clients who conduct transactions (nº of movements in the last three months), excl. administrative movements (interest, fees) in their overdrawn balances at 12.31.2017. 35. Clients who have conducted three transactions in the last three months), excl. administrative movements (interest, fees) on their savings balances at 12.31.2017. Percentages represent the number of clients in each segment.

*World Bank Global Findex

Source: Banco Adopem, BBVAMF calculations.

Macroeconomic analysis

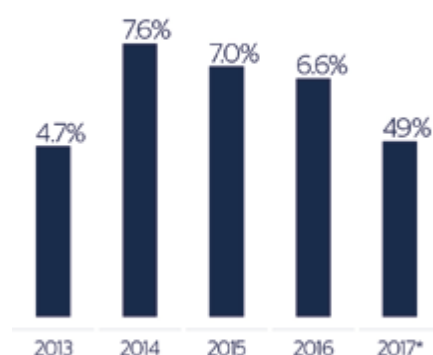
Dominican Republic

The economy has grown, converging towards the average reached between 2000 and 2016, in a higher inflation environment, because of the impact of climate factors on the price of foodstuffs, which had greater impact on the low-income segments.

Economic context

Economic growth: the momentum continues

GDP growth (var.)



Source: Central Bank. * Estimate: FMBBVA Research.

The Dominican Republic has continued to grow strongly, driven mainly by internal demand, with expansion at 4.9% in 2017, converging with its growth potential¹. Growth came in 5.2% in the first quarter, but moderated in the second, down to 2.7%.

Private consumption expanded by 4.3%, while investment did so by 3.2%, recording a drop of 10 percentage points from 2016. The slowdown in public and private investment was influenced by a greater correction than expected in public spending and more subdued expectations².

This is shown in the Construction sector, which grew by 4% in 2017, after having contracted in the second quarter of the year. More buoyant investment in the second half meant that Construction shot up by 12% in the second half of the year.

Agricultural activity posted year-on-year growth of 5.9%, even though the sector had been affected by Hurricanes Irma and María, which brought activity to a standstill for three days throughout the country, and for 10 to 15 days in some provinces. The hurricanes not only affected agricultural activity, with growth over all sectors slumping to just 0.4% in September.

Despite the impact of the hurricane season in the Caribbean, in 2017 there was a rise in the entry of foreign visitors and non-resident Dominicans, setting a record at 6,187,000 people, a year-on-year increase of 3.8% from 2016. 95% of tourists reported that the main reason for their visit to the country was leisure. Of these, hotels were the accommodation choice of 94%. Revenues from tourism rose in 2017 to around USD 7.22 billion, an increase of 7.5%. This allowed the hotels, bars and restaurant sector to expand by 5.7% in 2017.

Inflation: climactic factors and oil drive up prices

Inflation (CPI var.)



Source: Central Bank.

Inflation ended 2017 at 4.2%, at around the center of the target range of 4%±1% set by the central bank. 72% of that was the outcome of annual variations of 5.5%, 5.2% and 5.9% in the indicators of Foodstuffs and non-alcoholic beverages, Transport and Housing, respectively. Similarly, 23% of annual inflation was due to the increase in fuel prices (gasoline, diesel, liquified petrol gas (LPG) and kerosene gas), associated with the higher petroleum prices that have impacted both transport and electricity generation. The fall in fuel prices has made it possible to achieve the country's lowest levels of inflation historically, even though the Dominican economy has been growing at above its potential in recent years.

1. Conducted at the end of November 2017. 2. All 2017 estimates are by BBVAMF Research.

Economic context

Significant reduction in poverty, but slower progress in reducing income inequality

By strata, inflation showed sharper variations in the lower spending quintiles, a result of the increase in the Foodstuff and non-alcoholic beverages group, which has greater relative weight in their baskets. And so, quintile I accumulated an annual variation of 4.6%, whereas quintile IV grew by 4.0%. Climactic factors have generated a significant restriction in the food supply, which can be seen in the accumulated 54% growth in the price of these items in the last quarter of the year.

The North Region was particularly impacted, posting inflation of 4.8% over the year, followed by the South Region with 4.3% and the East with 4.1%. The zone least impacted by the prices was Ozama, at 3.7%, mainly because of the lower incidence of the Food and non-alcoholic beverages on its indicator.

Labor market: the services sector accounts for 74% of employment

Unemployment rate, %



Source: ONE.* Estimate: FMBBVA Research.

The “open” unemployment rate, that only considers unemployed the population that is actively looking for work, went down from 6.7% in 2014 to 5.9% in 2017. However, the “extended” unemployment rate, that includes those who are not looking for a position, posted at 13.5%.

The economically active population (EAP), the proportion of the population of working age that is active in the labor market, was 60% of the whole. The activity rate of men was 70%, whereas for women, even though it has improved in recent years, it was still around 50%.

In structural employment terms, 59% of the employed worked in the informal economy, that is, nearly six out of every 10 workers. Of these, 60% were not receiving all the labor benefits they are due under law.

The Services sector accounted for 74% of all people in work, mainly in Trade, which agglutinated 22% of all employment. Other services contributed 29%, and Hotels, bars and restaurants, 7%. These are the sectors that are leading job creation.

Labor productivity by worker rose by 3.3%. Although this indicator has continued the favorable course it has been following since 2011, for the second year in a row it showed a slight slowdown from the three preceding years³.

3. All 2017 estimates are by BBVAMF Research, using data from the National Statistics Office (ONE) [Oficina Nacional de Estadística]. **4.** All 2017 estimates are by BBVAMF Research, using data from the World Bank's Global Findex. **5.** Someone can be considered monetarily poor if their monthly p.c. income is below the monetary value of a basket of goods and services that meets one person's basic needs (poverty line).

Social environment

Financial inclusion: access to the financial system is up

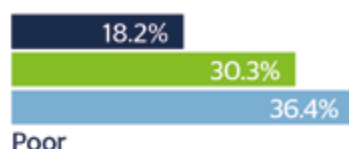
By the end of 2017, 64% of adults had access to the financial system, measured as having a financial product, a 10 percentage point improvement from the last time this was measured, in 2014. Around 4.6 million adults were included in the financial system, with around 895,000 of these having joined the system in the last three years. Around 2.6 million adults were excluded from the financial system at the end of 2017.

The greatest gap in financial inclusion is determined by schooling level. 76% of adults with secondary education or higher are financially included, whereas this is true of only 43% of those with primary education at best, a gap of 33 percentage points.

The gap in financial inclusion by income level is 25 percentage points. 70% of the segments with the highest income percentiles (the top 60%) accesses the financial system, whereas in the lower income ranges (the bottom 40%) only 45% has access⁴.

Poverty: the rate at which people escape from poverty is dropping

Poverty (% of the population)



● 2030 Goal ● 2017* ● 2014

Source: ONE. * Estimate: FMBBVA research, ONU.

Monetary poverty⁵ in the Dominican Republic in 2017 affected 30.3% of the population, a reduction of 6.1 percentage points from the 36.4% rate recorded in 2014. Nevertheless, in 2017, the rate of people escaping poverty has been slower, with the numbers in poverty falling by only 0.2 percentage points, whereas in the three years previously the average was 3.6 percentage points, on average.

In the case of extreme poverty, or destitution, a nationwide rate of 6.3% was recorded, a reduction of 2.1 percentage points from 2014, when the rate stood at 8.4%. In absolute terms, around 3.05 million Dominicans subsist in conditions of poverty, which represents a drop of 545,000 people since 2014, when the total population in poverty came to 3.6 million people.

In rural areas, poverty affects 37.9% of the population, whereas in urban areas it is 26.7%, with that structural persistence between those two areas remaining unchanged. An analysis of the 2014-2017 period shows us that nominal *per capita* (*p.c.*) income has risen by 25.4%, due mainly to the increase in labor income, together with low inflation, which has allowed growth of real incomes to reach 13.8% over this period.

The border regions in the south of the country continue to be afflicted by the greatest poverty. In Enriquillo around 56% of the population is in a state of poverty, in El Valle this is true of 47%, whereas in Valdesia the poverty rate is 38% of its population. The areas with less poverty are the Metropolitana, North Cibao and North East Cibao, with rates of 23%, 26% and 28%, respectively.

Social environment

Inequality: improvements have come to a halt

Inequality (Gini ratio)



Source: ONE.

In 2016⁶, income inequality, measured on the Gini index, that uses values between 0 (the absence of inequality) and 1 (maximum inequality), came in at 0.468, which was a one-off increase in the index over 2015, when it registered 0.456.

For 2016 there was a rise in the ratio, both in the country and in urban areas. In the towns inequality increased, with a Gini index of 0.472, higher than the 0.412 index recorded in the rural environment.

During this period, the most unequal region was Metropolitana, with a ratio of 0.482, while the region with the greatest distributive fairness was North East Cibao, with a ratio of 0.393.

The increase in the price of food had a sharper impact on the lowest-income quintile, due to the greater weight in the basket of this segment; this accounts for the greater relative impairment of their real incomes, with the result that the improvements achieved in previous years were reversed.

Real per capita income has increased by 13.8% between 2014 and 2017

Other dimensions

The average years of school attendance for the adult population (15 and older), an indicator that explores school coverage, is showing favorable progress. On average, school attendance is 9.2 years, an improvement of 0.3 years from 2014. For men, average schooling is 8.9 years, and for women it goes up to 9.5 years. Both groups have been on a steady upward curve. The gap between the female and male population remains stable, at 0.6 years of schooling.

When the variation in the years of schooling is analyzed by poverty level, we see that the *non-poor* segments of the adult population have an average of 9.7 years of schooling, whereas in the *poor* segment (excluding those in extreme poverty) it is 7.6 years, ie. a gap of 2.1 years. This factor has an impact on structural poverty levels.

6. Official Statistics Bulletin for Monetary Poverty. National Statistics Office (ONE) [Oficina Nacional de Estadística].

