

## Macroeconomic environment

### ECONOMY<sup>1</sup>

The Dominican economy expanded by 7.0% in 2018, driven by supply-side performance in its largest sectors: construction, trade, communications and other services. In fact, all sectors grew apart from mining, where gold production dipped because of the temporary shutdown of the country's main production plant for maintenance in the first half of the year.

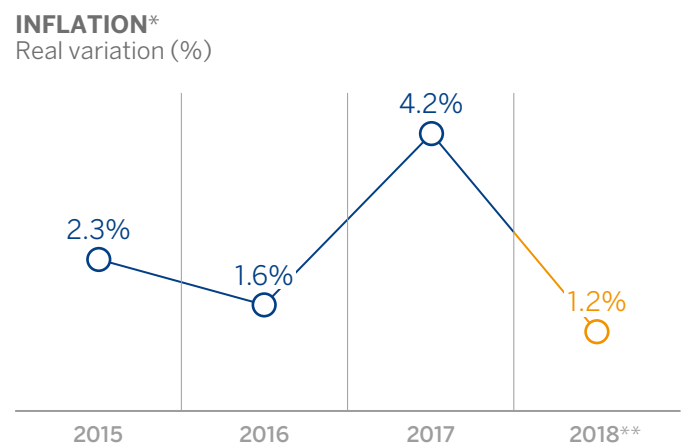
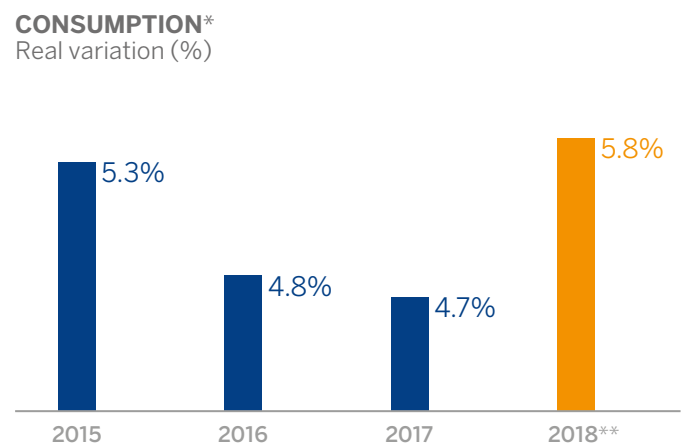
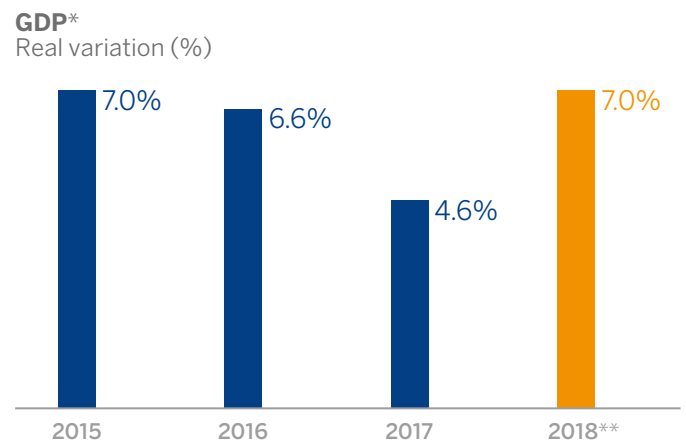
The exterior sector has been a major factor in this hike, mainly thanks to record levels in remittances and tourism. Both are linked to the solid performance of the US economy, a key source for these sectors, and have given the Republic better external liquidity, exchange rate stability and multi-dimensional social development throughout its territory.

On the demand side, in 2018 there was a healthy recovery in investment, which surged ahead by 14.4%, after zero growth the previous year, while consumption was up by 5.8%. In the last few years, this variable has been less volatile, posting average growth of 5%.

This stabilization in private consumption in recent years is due to its close correlation with remittances, enabling household consumption to rely less on the domestic cycle, helping to create more stable GDP, given the important weighting of this component.

Inflation fell to 1.2% in 2018, just tipping over the lower end of the target range. This was mainly accounted for by better performance of the food and non-alcoholic beverages group, which offset the rise in the international oil price in the first part of the year, but which slipped back in the final quarter. The greater weighting of food in the household basket among the more vulnerable strata of society enabled these segments to experience a recovery in their disposable income.

The central bank has gone back to the restrictive position it adopted in 2016, raising the monetary policy rate by 25 basis points, which left it at 5.5% at the end of 2018.



<sup>1</sup> All data from the central bank of the Dominican Republic. Estimates to the end of 2018 by BBVAMF Research.

\* Central bank, Dominican Republic.  
\*\* BBVAMF Research estimate.

## EMPLOYMENT, POVERTY AND WELFARE

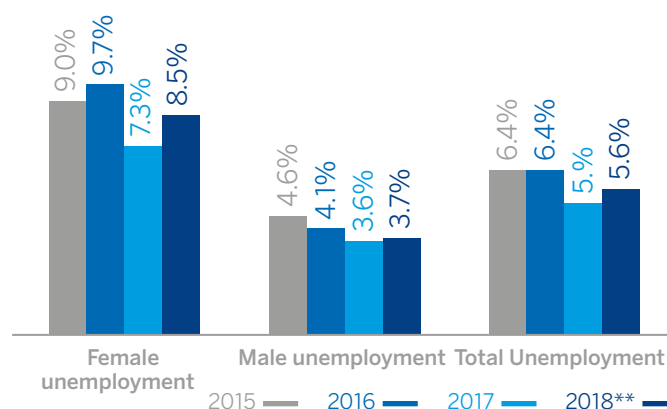
Employment benefited from the dynamic economic activity, mainly in the service and construction sectors, which are significant job creators, which brought the unemployment rate down to 5.6%. However, if the under-employed, who are not classified as unemployed, are included, the rate would rise to 10.4%. 58% of the employed are working in the informal economy, with the implications that has in terms of productivity and welfare.

In the case of men, the unemployment rate was similar to the previous year, at 4.1%, whereas, for women, the rate rose by 1.2 percentage points, from 7.3% to 8.5%. If the under-employed are included, this rate comes in at 7.9% and 14% for men and women respectively, with the gender gap widening as a result of the significant weighting of under-employment in women's employment rate (they work fewer hours and would like to work more). These figures flag up the need to continue implementing public policies that provide incentives for women's employment.

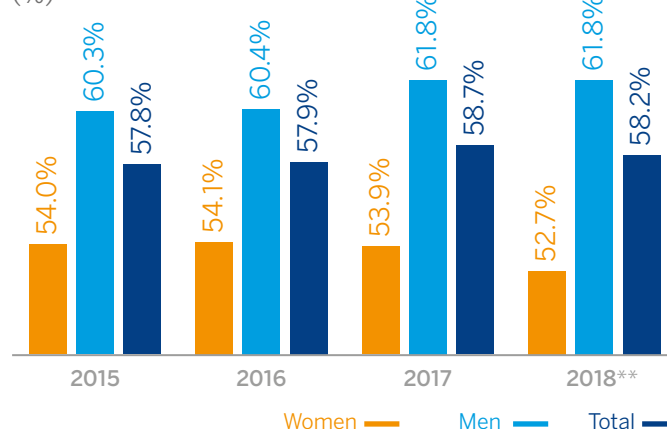
Of the total active population, 62% of men and 53% of women work in the informal economy.

Drilling down into the data by region, according to the latest available figures, the area with the highest unemployment is the Eastern region, at 8.2%, compared to the Northern region of Cibao with just 1.3%. In the Metropolitan region the unemployment rate is 7.5%, while in the Southern region it stands at 6.5%. In this last region around 9% of the workforce is under-employed, whereas in the Eastern region this is the case for only 1.6%, which shows the significant divergences between the regions when it comes to the quality of their employment.

### LABOR MARKET\* (%)



### INFORMAL SECTOR\* (%)



\* Central bank, rolling survey (ENCFT).  
\*\* ENCFT, third quarter.

## Macroeconomic environment

Around 24.6% of Dominicans are in a situation of monetary poverty, while 15% of the population is in extreme poverty.

There has been a 0.7p.p. drop in the rate of monetary poverty in urban zones, falling 24.5% to 23.8%. It has also shrunk in rural areas, from 29.6% to 28.4%, a reduction of 1.2 percentage points in one year.

The momentum of economic activity and low levels of unemployment and under-employment have enabled around 550,000 people to escape poverty in the last three years, with this figure falling by 6.2p.p. Of this reduction, an estimated 3.2p.p. (52.5% of those escaping poverty) is due to the rise in the real per capita income of Dominican households, with the remaining 3p.p. of the fall associated with the behavior of household income distribution.

These results came in conjunction with a nationwide reduction in inequality, more so in rural than in urban areas.

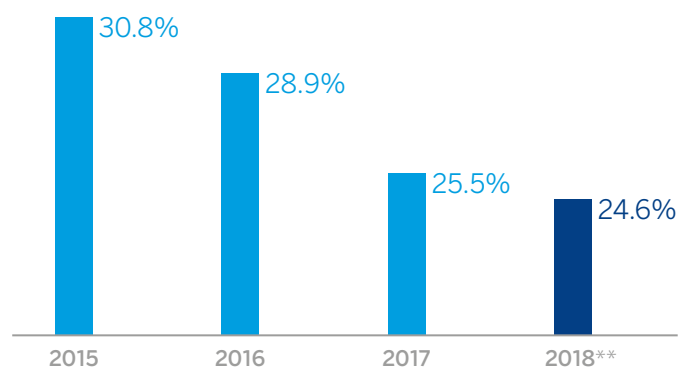
### FINANCIAL INCLUSION<sup>2</sup>

According to the latest available figures, in the Dominican Republic around 3.2 million adults remain unbanked. 44% of the total –most of them from the more vulnerable segments– do not have a bank account in a financial institution. 53% of all unbanked adults are women, while 63% of banked adults are in the workforce.

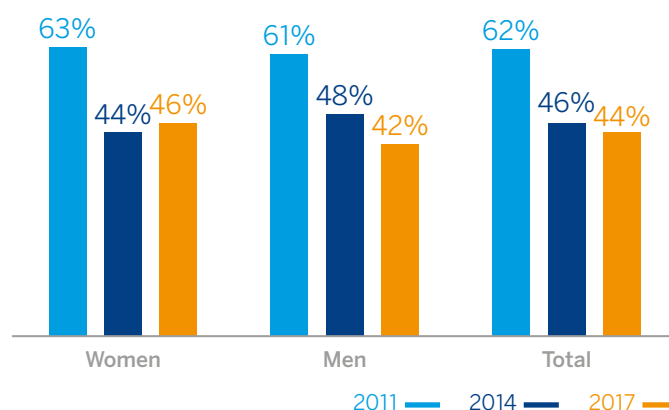
By income segment, of the 40% poorest adults, 58% are outside the financial system. Of the 60% with the highest incomes, 34% are unbanked.

Nationwide, 57% of adults with primary education at best are unbanked, demonstrating that the population with the lowest educational attainments is more likely to be excluded from the financial system.

**MONETARY POVERTY\***  
Population (%)



**UNBANKED ADULTS\*\*\***  
Total over 15 years old (%)



\* National Statistics Office, using national labor force survey (ENFT) data.

\*\* BBVAMF Research estimate.

\*\*\* Global Findex 2017, World Bank.

<sup>2</sup> Global Findex 2017, World Bank.

Several reasons are given for being unbanked. The most common is that they had very little money. Specifically, 67% of adults claimed that this was one of the reasons why they do not have an account in a financial institution, while close to 20% gave it as the sole reason.

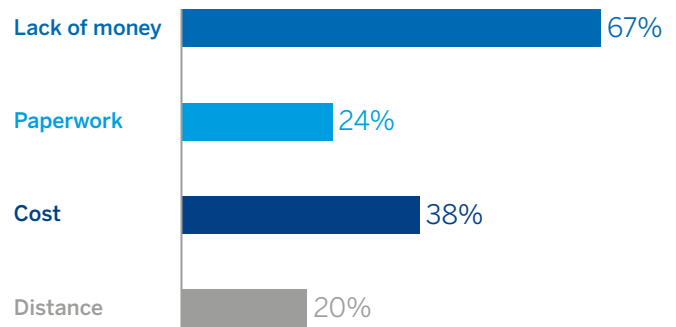
20% of adults says that they do not have a bank account because the financial institutions are too far away, while 38% argue that financial services are “very expensive”. 24% comment that it is because they do not have the documents needed to be able to open an account, while 31% say that another family member has an account that is used by the rest of the family.

Looking at the financial products held, while 51% of adults have received a loan in the last year, only 30% have had one that is issued by the financial system and 19% have used money lent by family members or friends. Turning to savings, 52% have saved something in the last year, but only 19% have done so in a financial institution and only 13% have saved for their retirement.

All these factors make up a route map showing the areas that should be tackled to encourage and extend financial inclusion across the nation.

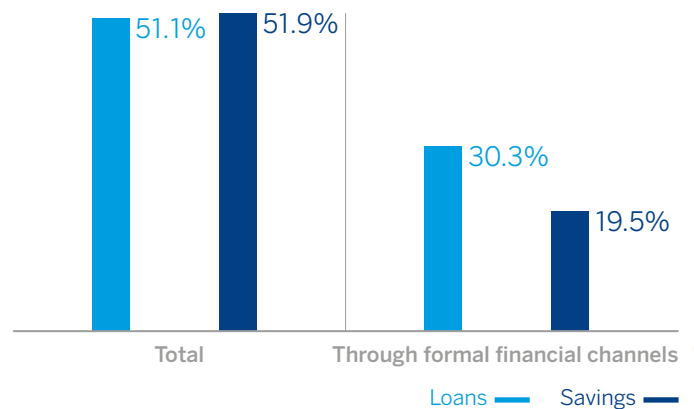
**EXCLUSION FACTORS\***

Excluded adults (%)



**PRODUCTS IN DEMAND**

Adults (%)



\* Global Findex 2017, World Bank.