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Dominican Republic Economy Improves but Country Sinks Further into Debt

by Crosby Girón
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The country’s economic performance has been good. During the first nine months of 2014, the economy grew by 7%, and between 2013 and 2014 more than 165,000 people found employment, said Central Bank director Héctor Valdez Albizu at the end of October. He added that unemployment was down 1%, reaching 6%, and that more than 500,000 people had "overcome" poverty.

Valdez Albizu is not the only optimist. In mid-November, the International Monetary Fund (IMF) admitted that the country was experiencing a period of bonanza. Przemek Gajdeczka, who visited the country Nov. 3-12, told a news agency that "the short-term perspectives appear to be more favorable than was anticipated during the consultation of Article IV for 2014." Gajdeczka visited the Dominican Republic as part of the periodic reviews that the IMF carries out.

The construction and tourism sectors also experienced significant growth. The IMF expects that the country will end 2014 with a 6% economic growth and that inflation will remain low, as it has done so far, at 2.9%. It also foresees a favorable scenario for 2015 because of the decrease in oil prices, crucially important for a country that imports fuel.

The IMF expressed satisfaction that the Dominican Republic had set itself the goal of increasing its gross reserves "to bolster the economy’s ability to resist external shocks," said Gajdeczka.

Nevertheless, the external debt remains one of the problems that President Danilo Medina has yet to resolve. Medina’s fiscal-reform proposal, put forward in 2012, aimed to reduce the country’s fiscal deficit, which amounts to around US$3.7 billion.

Debt will amount to 50% of the country’s GDP

Although the IMF has expressed satisfaction with the country’s economic performance, it has also recommended that the country should maintain its current borrowing capacity. Not in vain did the IMF mission recommend that the Dominican Republic "should continue its fiscal consolidation process in order to improve the sustainability of the debt and reduce the need for incurring in external debt."

The Quarterly Report on the Situation and Evolution of the Public Debt for July-September 2014 found that the country’s external debt totaled more than US$4 billion. The total debt (both internal and external) of the nonfinancial public sector, said the report, totaled US$24.1 billion, US$438.5 million more than the US$23.7 billion reported on June 30, 2014, meaning that it increased by 1.9%.

The Dominican Republic’s external debt will total 50% of its GDP, according to IMF figures. Since February, the IMF warned that the electric energy sector has experienced "huge losses" because the Dominican authorities have reduced the resources that are regularly transferred to this sector. Added to this, the IMF pointed out that the public sector’s fiscal revenue shortfall amounted to 5% of the country’s GDP.
The IMF has recommended "implementing a medium-term plan in order to quickly reduce the need for finance and rebuild the tax buffers, which would also contribute to the accumulation of international reserves," as was published in the local press.

Official figures indicate that, in April this year, the country issued 30-year bonds for a total of US$1.25 billion. This makes the Dominican Republic the only country with a B investment grade that has been able to place this type of bond on the international market. In the past 15 months, the Dominican Republic has issued bonds for a total of US$2.75 billion.

President Danilo Medina, according to press reports, accused the IMF of being "responsible" for the country’s financial woes, especially the problems currently experienced by the electric energy sector, as a result of the methodology used by the IMF to grade countries. For the past two decades, the Dominican Republic has experienced serious difficulties with the electric energy service because of problems with meter readings, damage caused to the technical equipment, and inefficient billing mechanisms, which have led the sector to incur losses in excess of US$27,000.

The debt and Petrocaribe

With a high fiscal deficit and an increasing external debt, in the short term the Dominican Republic will be facing problems regarding its participation in Venezuela’s Petrocaribe initiative.

In early December 2014, the Nuevo Herald reported that Venezuela had sold the country’s debt with Petrocaribe to Goldman Sachs under terms that were extremely advantageous for the banking firm. After a few days of uncertainty during which the Venezuelan government did not officially deny the claims made by Nuevo Herald, an anonymous source from the Venezuelan government told the local press that the information published by Nuevo Herald was untrue.

Recent reports said that, until October last year, the Dominican Republic’s debt with Venezuela’s Petrocaribe initiative totaled US$4.1 billion. And Nuevo Herald reported that Goldman Sachs allegedly made US$2.4 billion from the purchase of the debt whereas Venezuela managed to recover around US$2.7 billion.

Federico Quezada, an energy specialist from the Ministerio de Industria y Comercio (MIC) said that the Dominican Republic should be ready to face the possibility that Venezuela might cancel the loans it provides the Dominican Republic as part of the Petrocaribe initiative, which injects US$400 million a year into the Dominican Republic’s state coffers.

José Ramón Peralta, the Dominican Republic’s administrative minister of the presidency, denied the claims made by Nuevo Herald and said that what was published was "incorrect" and was not based on official information. Edwin Ruiz, editor of Diario Libre newspaper, said that "this explanation was hardly revealing" as the only country that could possibly be interested in buying the debt would be the Dominican Republic because it was a "solidary" debt with a 1% interest rate.

According to Ruiz, Peralta failed to mention the version of events published by The Wall Street Journal the day after the Nuevo Herald’s story came out, which claimed that the Dominican Republic used Goldman Sachs as an intermediary to purchase the debt.

Dominican newspaper Listin Diario, based on information published by the international press, reported that the country would issue bonds to pay off the debt whereas economic analyst Gustavo Volmar said that, as long as Venezuela was the creditor, it was possible that the debt could be
renegotiated once it had matured and that the Dominican Republic could import Venezuelan products instead, that the funds could be used to invest in Venezuela or that the debt could be partially or totally written off. Other economists have questioned why Venezuela didn’t offer the Dominican Republic the opportunity to purchase the debt given that this is detrimental to Dominican interests.

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