DOMINICAN REPUBLIC

The Dominican Republic’s economic freedom score is 61.0, making its economy the 89th freest in the 2019 Index. Its overall score has decreased by 0.6 point, with lower scores for judicial effectiveness and investment freedom exceeding improvements in trade freedom, labor freedom, and monetary freedom. The Dominican Republic is ranked 19th among 32 countries in the Americas region, and its overall score is just above the regional and world averages.

The National Development Strategy requires buy-ins from civil society groups, making advances on politically difficult fiscal, electricity, and labor reforms possible but time-consuming. Diversification has strengthened the economy’s resilience, and regulatory efficiency has improved. Relatively high openness to global trade and strong economic growth have improved the business climate. However, nontransparency and institutional weaknesses have undermined competitiveness, and the rule of law is not strongly sustained by the judicial system. Corruption and political patronage are the main complicating factors in doing business.

BACKGROUND: The Dominican Republic occupies the more verdant and arable eastern side of the island of Hispaniola. President Danilo Medina of the center-right Dominican Liberation Party (PLD) won a second four-year term in 2016. Medina’s efforts to extend his presidency past the limit of two consecutive terms have been blocked by former president and PLD party rival Leonel Fernández. The PLD’s dominance of government contributes to political stability but also risks undermining checks and balances and weakening the country’s multiparty democracy. Long viewed primarily as an exporter of sugar, coffee, and tobacco, the economy has been the Caribbean’s most vibrant in recent years, driven by mining activity and strong growth in such service-based sectors as tourism and finance.
A persistently insecure investment climate is undermined by government expropriation, institutional weaknesses, and inadequate enforcement of land tenure laws. Protection of intellectual property rights is poor. Judicial decisions are subject to widespread political influence. Corruption is found at all levels of the government, the judiciary, the security forces, and the private sector. Institutionalized graft is linked to significant levels of narco-trafficking.

The top individual income tax rate is 25 percent, and the top corporate tax rate is 27 percent. Other taxes include value-added, estate, and net wealth taxes. The overall tax burden equals 13.6 percent of total domestic income. Over the past three years, government spending has amounted to 17.9 percent of the country’s output (GDP), and budget deficits have averaged 2.1 percent of GDP. Public debt is equivalent to 37.7 percent of GDP.

The cost of completing licensing requirements has been reduced, and the process for launching a business has been streamlined. The nonsalary cost of employing a worker is moderate, but restrictions on work hours are rigid. Electricity subsidies were reduced from 2 percent to 0.6 percent of GDP in the 2018 budget, but preferential fuel subsidies, real estate deductions, and corporate tax incentives remain in effect.

The combined value of exports and imports is equal to 52.9 percent of GDP. The average applied tariff rate is 4.6 percent. As of June 30, 2018, according to the WTO, the Dominican Republic had 89 nontariff measures in force. In general, the government does not discriminate against or screen foreign investment. About 62 percent of adult Dominicans have access to an account with a formal banking institution.