

Report on the Dominican Economy
January – March, 2007
Executive Summary

Preliminary information indicates that the Dominican economy is maintaining the same trend seen last year, having achieved a growth rate of 9.1% during the first quarter of 2007 compared to the same prior-year period. This robust first quarter growth was greatly influenced by the following sectors (and their growth rates): Agriculture and Livestock (5.1%); Local Manufacturing (3.0%); Construction (5.5%); Financial Intermediation (22.7%); Communications (20.7%); Commerce (17.2%); Energy and Water (12.9%); Hospitality (7.0%); Transportation (6.2%); Rental Housing (3.3%); Public Administration and Defense (2.5%); Education (5.3%); Health (2.5%); and Other Services (10.5%). Only the industrial free zones (-12.4%) registered a negative growth rate.

Total FOB value of goods imports had a positive impact on the economy, increasing by 19.7% for an additional US\$ 492.2 million over the same prior-year period during the first quarter of 2007. Within this category, the significant growth (58%) in the “Other Imports” caption should be noted for its strong correlation with GDP performance. A breakdown of imports according to type shows consumer goods increasing by 30.9%, raw materials 19.0%, and capital goods imports by 50.3%. Similarly, growth performance is reflected in national goods exports, which grew by 65%, among which ferronickel exports rose by 132.7% and minor products by 43.0%. The latter category includes non-traditional exports (organic products, agriculture and livestock, manufactured goods, etc.).

In addition to external sector performance, the economy during the period in question was also influenced by the multiple service banks’ private sector loan portfolio activity, which grew at an annual rate of 22.7%. This represented an increase of RD\$ 33.70 billion over March 2006. Of this increase, 68.7% or RD\$ 23.18 billion corresponded to loans for production, which rose by 28.7% over March 2006.

With regard to GDP performance from the spending standpoint, the factors having the greatest impact on the economy were final consumption and private investment. Final consumption, which represents 84.7% of GDP, grew by 15.3% during the period in question, while there was a 15.5% expansion in gross capital formation. These variables were impacted favorably by growth in private consumption (15.9%), construction (5.5%), and capital goods imports (50.3%).

Inflation for the first quarter, according to the Consumer Price Index (CPI), rose 2.04%, mainly as a result of domestic fuel price increases. If the fuel factor is excluded from the CPI, cumulative inflation would equal only 0.91%. This is evidence of internal price stability. In annualized terms, the inflation rate as of March 2007 stood at 5.54%, whereas the average variance reached 6.73%.

In the external sector, the balance of payments closed the first quarter with a global surplus of US\$ 261.6 million. This led to a considerable increase in Central Bank international reserves. The revitalization of the economy was reflected in higher imports. This resulted in a deficit balance in the current account of US\$ 102.7

million, equal to 1.1% of GDP. This result was funded by the capital and financial account, whose surplus balance was US\$ 277.5 million.

It should be noted that during the first quarter of the year, the country's oil expenditure rose to US\$ 662.1 million, very close to the same amount registered in the same prior-year period. Also in the first quarter, the increase in imports was offset by a 10.0% reduction in the country's fuel prices.

The capital and financial account shows that in the first quarter, capital inflows continued. This was reflected in continued exchange rate stability for the period, during which the average nominal rate was RD\$ 33.23::US 1.00. This represents a slight reduction of 0.4% in the exchange rate when compared to fourth quarter 2006.

Exchange rate stability was maintained despite the fact that Central Bank gross international reserves had reached US\$ 2.55 billion at the end of March. Net international reserves closed the latter month with a balance of US\$ 2.05 billion, while liquid reserves, using IMF methodology, were equal to US\$1.31 billion. This balance is US\$ 405.1 million higher than the floor of US\$ 900 million stipulated in the IMF Stand-by Agreement.

Regarding the fiscal sector, the Central Government fiscal accounts, on an accrual basis, registered a surplus equal to 1.2% of GDP. This is in contrast to the RD\$ 2.02 billion deficit figure for the same period in 2006. The consolidation of public finance reflects a significant improvement in the non-financial public sector balance, thus allowing the IMF's fiscal and public debt targets to be met.

In the monetary sector, the Central Bank continued meeting its price stability objective, in spite of greater risks inherent in the volatility of the overseas oil market. In the first quarter, the principal policy instrument continued to be the placing of certificates, which allowed ample compliance with Monetary Program targets as well as those in the Stand-by Agreement. Between December 2006 and March 2007 the amount of currency issued was reduced by 5.9%.

In the financial sector during the period in question there occurred an active process of capital consolidation and institutional transformation, with favorable results. Paid-in capital grew at an annualized rate of 21.8% as of March 2007, and the principal local and foreign currency asset and liability components registered an expansion, in keeping with the growing economy during the period.