

Report on the Dominican Economy, January-September 2007

Executive Summary

Dominican economy grew 8.2% in the January-September period, thus consolidating the recovery process that has been taking place since 2005. This performance, measured through the gross domestic product, taking 1991 as base year, is highly satisfactory when compared to the same period in 2006, when real GDP increased 12.0%.

Sectors contributing to growth in the January-September period were: Agriculture and Livestock (2.8%), Mining (1.9%), Local Manufacturing (1.9%), Financial Services (Intermediation) (28.6%), Communication (17.2%), Commerce (16.0%), Energy and Water (9.9%), Hospitality (2.6%), Transport (6.3%), Housing (Rentals) (3.6%), Public Administration and Defense (1.5%), Education (3.5), Health (3.3%), and other Service Activities (6.7%). The only negative performance during the period was registered in Construction (-2.3%) and Free Trade Zones (-11.2%).

Regarding expenditure, the most important GDP expansion determinants were the increases registered in final consumption (13.6%) and capital gross formation (12.1%). Final consumption, the GDP share of which amounts to 90.7%, was driven by an expansion in private consumption of 14.0%. In this rise, imports of consumer goods played a predominant role, increasing by 19.2% during the first nine months of the year. Similarly, capital goods imports rose by 19.4%, having an impact on the increase registered for capital gross formation.

In the January-September period monetary policy continued meeting its objective of keeping inflation within the parameters defined in the IMF Stand-by Agreement and the Central Bank Monetary Program. As in previous periods, open market operations constituted the main instrument of monetary policy. These operations easily allowed fulfilling the base money indicative goal, as per the IMF Stand-by Agreement. Monetary policy efficacy is confirmed by inflation performance during the first nine months of the year. Inflation reached 5.25% in an environment characterized by high oil prices in the international markets. In annualized terms, inflation rose to 6.81% at the end of September 2007.

Preliminary figures show a current account deficit US\$1.23 billion as at September, largely explained by an increase in national imports of US\$1.08 billion. National exports, on the other hand, grew US\$570.4 million, headed by general merchandise exports, which grew 50.3% as a result of a significant increase in exports of nickel and non-traditional products. In contrast with the current account deficit, in January-September there was an US\$1.51 billion surplus in the capital and financial account. Foreign direct investment, which increased 21.8% compared to same period in 2006, contributed to this result.

Concerning the fiscal sector, accrued base operations of the Central Government, registered a balance of RD\$10.94 billion. The Non-Financial Public Sector (NFPS), on the other hand, brought in a surplus of RD\$12.76 billion, fulfilling with a wide margin the Stand-by Agreement's quantitative target for fiscal performance.

As at September 2007, total assets and liabilities for the financial sector increased, by 14.7% and 16.0%, respectively. This performance was the result of strong activity evident in the credit portfolio as well as in deposits to current and saving accounts. For example, annualized growth of the credit portfolio as at September 2007 rose by 24.5%, a rate that contributed in an important way to the GDP rise during the first nine months of the year.