

Report on the Economy of the Dominican Republic
January – March, 2009
Executive Summary

Preliminary results on the performance of the Dominican economy during the first quarter of 2009 reflect the prevailing adverse external economic conditions. The international financial crisis has produced a rapid decline in economic activity worldwide, particularly in the United States, the European Union and Asian countries, thus affecting emerging economies through the reduction of trade with these countries.

In this context, the Dominican economy grew by 1.0%, which reflects a slowdown in economic activity compared to the same period last year when it reached 5.7 percent. This growth was driven primarily by: communications (21.4%); agriculture (9.9%); financial services and insurance (8.5%); and energy and water (6.3%), among others.

Conversely, there was a downturn in activities related to the external sector, thus reflecting the unfavorable international environment, particularly in the following sectors: mining and quarrying, (-74.9%); industrial free zones, (-13.0%); and tourism and hospitality (-7.5%). Other activities that experienced reductions were: construction (-21.9%); commerce (-6.8%); local manufacturing (-3.3%); and transportation and storage (-0.7%).

At current prices, GDP growth was 3.4%, in line with economic performance in real terms and the annualized inflation rate of 2.44% at the end of the first quarter of the year.

The Gross Domestic Product (GDP), in terms of spending, was marked by a slower pace of real growth during the first quarter of 2009, namely 1.0%, and by the falloff in internal demand, which grew 2.1 % compared to 6.7% during the same prior year period.

At the close of the quarter, the cumulative inflation rate as measured by the change in the Consumer Price Index, stood at 0.74%, reflecting a marked slowdown in the rate of inflation in the current year compared with a cumulative level of 2.79% as of March last year. This level of inflation is the lowest in Latin America and the Caribbean.

With regard to transactions of the external sector, preliminary figures indicate that the overall result of the balance of payments was almost balanced, registering a deficit of only US\$ 27.7 million, financed by the use of Central Bank international reserves. The current account balance showed a deficit of only US\$ 85.2 million, or US\$ 591.3 million less than in 2008, due primarily to the significant reduction in international oil prices. This result was funded mainly by US\$ 636.5 billion of foreign direct investment through the capital and financial account, which closed the quarter with a positive balance of US\$ 335.0 million.

The oil bill during the quarter was lower by US\$ 504.6 million than the amount recorded in the same prior year period. This decline, coupled with lower spending (US\$ 599.5 million) in the "Other Imports" caption, easily offset the reductions experienced in foreign exchange producing activities: tourism, industrial free zones, national exports, and remittances, all of which decreased by a total of US\$ 570.9 million.

During the first quarter, monetary policy played an important role in cushioning the effects on the Dominican economy of the global economic slowdown. The relaxation of monetary policy, in an environment of low inflationary pressure, included substantial cuts in the policy interest rate, reductions in interest rates on over-the-counter securities, as well as a decrease in legal reserve requirements, with its concomitant release of funds to production sectors that are essential to the process of economic recovery. As a result of implementing this package, market interest rates showed a significant decline at the close of the first quarter compared to levels reached in 2008.

Management indicators for the financial sector performed favorably during the period in question, despite the decrease in the volume of credit granted to productive sectors as a result of the economic slowdown in the country. Capital solvency and solidity of the domestic financial system was confirmed by the results of the Financial Sector Assessment Program (FSAP). This program was undertaken by a joint World Bank and IMF mission, which visited the country early in the year.

First quarter 2009 results for the rest of the Central Government , on an accrual basis, showed a deficit of RD \$7.58 billion, and a balance for the rest of the non-financial public sector (NFPS) amounting to RD \$6.61 billion. Central Government fiscal operations performance in the first quarter reflected a decline in total revenues of 14.3%, and a decrease in total spending of 19.1%, compared to 2008.

This reduction reflects, among other factors, the slowing pace of growth in economic activity, principally external, due to the international financial crisis, as well as the impact of the implementation of fiscal measures to support competitiveness by granting compensation and exemptions to certain sectors of the economy.

The international economic crisis has reduced access to external sources of credit for the purpose of financing the government budget, mainly due to lags in disbursements from multilateral agencies. In this scenario, characterized by lower revenues, the Government raised its level of funding by RD\$ 6.30 billion, of which RD\$ 5.35 billion represented an increase in banking sector net credit.