REPORT ON THE DOMINICAN ECONOMY
JANUARY - SEPTEMBER 2009
EXECUTIVE SUMMARY

At the conclusion of the first nine months of 2009, the Dominican economy, as measured by gross domestic product (GDP) grew by 2.1% compared to the same period in 2008. On the expenditure side, growth has been underpinned by positive results in the final consumption category (4.3%) as a result of expansionary measures applied by the monetary authorities beginning in the early part of the year, in order to lessen the negative effects of the world crisis.

Insofar as output by sector during the period in question, the best results were in: Communications, 16.7%; Agricultural, 14.6%, Financial Intermediation and Insurance, 8.3%; Other Services, 6.8%; Education, 4.1%; Health , 4.0%; Rental Housing, 3.1%; Public Administration 2.5%; and Energy and Water, 1.4%. These activities together accounted for 44.7% of GDP. Moving in the opposite direction were the sectors linked to external demand, reflecting the negative effects of the crisis. In this regard, Mining registered a rate of -72.2%, Industrial Free Zones, -18.3%; and Tourism and Hospitality, -6.7%.

Economic growth in the first three quarters of 2009 can be considered satisfactory if one takes into account the global economy's slow recovery. Despite an unfavorable international environment, companies in the Dominican Republic have been helped by increases in the availability of funding, due to monetary measures put in place in 2009. Between March and September 2009, loans from multiple service banks to the private sector rose by RD$16.74 billion, favoring the following sectors: Agriculture, 71.5%; Construction 14.7%; Electricity, 11.7%; Trade, 7.3%; Manufacturing, 4.1%; and Communications, 3.1%. In addition, home financing rose by10.5%.

In September, cumulative inflation stood at 4.31%, which is 6.45 percentage points lower than the level reached by this indicator in the same prior-year period, when it reached 10.76%. More than half of the variance in 2009 has been the result of increases in domestic fuel prices, which account for 58.24% of the variance in the Consumer Price Index (CPI). In annualized terms, inflation through September was -1.57 percent, which ranks as one of the lowest among the countries of Latin America.

In the external sector, despite the adverse international environment, the balance of payments ended the period in question with an overall positive balance of US$85.5 million. This is in contrast with a negative US$326.3 million recorded in the same period 2008. The balance of payments current account decreased by US$2.48 billion. This is because the decline experienced in export earnings, tourism and remittances as a result of the deteriorating world economy, was more than offset by a greater reduction in the oil bill and other imports.

During the first three quarters of 2009, the average exchange rate was RD$35.80::US$1.00. Comparing the January 2009 average with the September 2009 rate, local currency depreciation was only 2%. This is indicative of the amount of exchange rate stability that has prevailed in the Dominican economy in recent months.

Faced with an environment of low inflationary pressures, and for the purpose of stimulating an economy weakened by the severe international crisis, in January-September 2009 the Central Bank implemented an expansionary monetary policy. The first signals of monetary easing were sent at the beginning of the year, with significant reductions in the interest rate on short term interest-bearing deposits (overnight), which is the monetary policy rate. The Lombard rate was also reduced.

As a result of these measures, monetary aggregates registered positive growth in the first three quarters of 2009. While the money supply (M1) at the end of September recorded an increase of 2.4% (yoy), the broad money supply (M2) increased by 8.6% and the broad monetary aggregate (M3) expanded by 7.9% over the same quarter of 2008. In addition to monetary measures, the authorities introduced changes to the legal reserve, increasing available liquidity for loans to the productive sectors (Agriculture, Local Manufacturing, Construction, Micro-, Small- and Medium-Sized Enterprises).

Subsequently, there were reductions in the reserve requirement rate and, effective September 3, 2009, placings of Direct Window Fixed Term Investment Certificates by the general public was temporarily suspended. These measures had an impact on interest rates. For multiple service banks, at the end of September 2009 the weighted annual average asset and liability rates were 15.60% and 5.61%. This is 10 percentage points lower than the month-end January, 2009 rates.

In the fiscal sector, the international crisis, as well as a series of legal amendments aimed at increasing the competitiveness of Dominican companies, had a strong impact on tax revenues, contributing significantly to the deficit in the Central Government accounts during the period in question. On an accrual basis, the Central Government fiscal accounts had a deficit of RD$26.51 billion, which is 4.24% lower than the amount registered for the same prior-year period. When considering the overall Non-Financial Public Sector (NFPS), the deficit is reduced to RD$24.35 billion.

Data from the first three quarters of 2009 show better than expected results, which could indicate that by the end of the year the Dominican economy might show better results than those projected in the Monetary Program. This would indicate that macroeconomic stability has been successfully maintained in an external crisis environment and that the policies implemented have contributed to a faster than expected recovery. The Central Bank, as the lead agency for monetary policy and key player in maintaining macroeconomic stability, will remain on the lookout for any deviation from this more favorable scenario, and will be ready to take the necessary steps to continue redirecting the Dominican economy's path of growth with stability.