

REPORT ON THE DOMINICAN ECONOMY, JANUARY-MARCH 2010

EXECUTIVE SUMMARY

The Dominican economy grew by 7.5% during the first quarter of this year, which is a significant change when compared to the 1.0% increase registered in the same quarter of 2009. Economic activities aimed at meeting domestic demand continue to lead the recovery that began last year. Accordingly, this has been driven by growth observed in the following sectors: Construction, 19.4%; Commerce, 15.7%; Agriculture, 9.6; Energy and Water, 9.5%; Local Manufacturing, 9.3%; Financial Intermediation and Insurance, 7.3%; and Communications, 6.0%.

Overall, production was favored by a greater availability of resources as a result of implementing expansionist fiscal and monetary policies. These measures, in force since last year, allowed the productive sectors to have access to lower cost financing.

On the expenditure side, in real terms, from January to March 2010 final consumption registered an increase of 8.3%, and gross capital formation grew by 15.3%. Final consumption was driven by private consumption, which grew by 8.3% and represents 89.2% of GDP. Another factor contributing to GDP growth during the first quarter was an 8.7% increase in exports of goods and services.

The economic recovery is taking place in an environment marked by price stability. During the first quarter, the Consumer Price Index (CPI) registered a cumulative variance of 2.33%. Annualized inflation reached 7.43% at the end of March, and in the remainder of the year is expected to continue favorably, to achieve the 6-7% target established in the IMF Stand-by Agreement's letter of intent. Cumulative core inflation stood at 0.66%. This indicator measures the inflationary trend driven by monetary factors, and isolates the short to medium term effects of price variances of certain goods.

Regarding the external sector, the balance of payments at the end of the first quarter of 2010 had an overall deficit of US\$571.1 million. This result corresponds to reserves usage during the first quarter. Nevertheless it should be noted that at the end of March the Central Bank had US\$2.296 billion in Net International Reserves, a figure well above the IMF first quarter target of US\$225.0 million.

The current account recorded a deficit of US\$487.0 million, due primarily to the impact on the external accounts of a 53.6% increase in fuel prices during the first quarter. Total imports amounted to US\$3.38 billion during the period in question, a growth of 23.5% over the same prior-year period. In the first quarter, total exports of goods equaled US\$14.19 billion, due largely to an increase of 55.0% in national exports.

In the fiscal sector, the balance of the Central Government for the January-March 2010 period had a deficit on an accrual basis of RD\$11.31billion. At the end of March, the Central Government deficit was lower by RD\$4.53 billion to the goal defined in the IMF Stand-by Agreement's letter of intent. On the revenue side, there was an increase of 6.4% in annualized terms during the first quarter. This increase in total government revenue makes a significant recovery over the 14.3% drop recorded y-o-y in the first quarters of 2008-2009. Regarding

public expenditure, the Central Government registered outlays of RD\$73.53 billion, which represents a positive variance of 22.8% over the same prior-year period.

In the monetary sector, monetary policy maintained its expansionist stance as the monetary authorities did not authorize changes in policy interest rates during the first quarter. As a result of current monetary policy for this quarter, interest rates remained low. The weighted average lending rate decreased by 12.91 percentage points from its peak in January 2009, to stand at 12.26% in March 2010. Meanwhile, the weighted average deposit rate fell by 8.46 percentage points, reaching 4.24% at the end of March.

The financial sector performed favorably as of month-end March this year compared to the same period in 2009. Total loan portfolio, the most heavily weighted item within the sector's total assets, reached RD\$425.63 billion, for an annualized growth of 18.7% or RD\$67.17 million compared to March 2009. This performance was influenced by local and foreign currency credits, which increased by RD\$58.43 billion and RD\$8.74 billion, respectively, or 19.7% and 14.1% compared to March 2009.

During the first quarter, the Dominican economy continued to firm up the recovery that began in the second half of last year, following the sharp slowdown resulting from the international financial crisis. The Central Bank, being the institution responsible for achieving and maintaining price stability in the Dominican Republic, remains vigilant with regard to any adverse impact that may affect the road to recovery. Accordingly, should it be necessary to do so, the Central Bank is prepared to apply additional policy measures in support of current macroeconomic stability, with the objective of promoting sustainable growth in the Dominican Republic.