

Press Release on Monetary Policy

BC keeps unchanged Overnight Interest Rate

Following its strong commitment with macroeconomic and price stability, the Central Bank of the Dominican Republic decided on its November monetary policy to keep unchanged its Overnight Interest Rate at 9.5%. Also it decided to maintain its Lombard Interest Rate at the current level of 16% per annum.

Interest rate movements depend on the behavior of key inflation determinants and the lags of the monetary transmission mechanisms.

In the external sector, the prices of commodities and raw materials, particularly oil prices, deepen its downward trend in international markets. The International Financial Sector remains in crisis, while harmed countries, notably the United States, continue to implement policies to boost operations in its financial system, as well as policies to further real economic activity. In this regard, the outlook of the global economy remains uncertain.

In the domestic level, inflationary pressures continue to plunge on falling fuel prices and the slowdown in domestic demand. The most recent forecast suggests that at the end of 2008, Dominican Republic will reach a one-digit inflation.

Within the monetary and financial legal framework, the Monetary Board provided a mechanism for short-term liquidity to financial intermediaries aimed to cover part of money demand from the public associated with Christmas festivities. This mechanism operates through an instrument known as “repos or reportos”.

For 2009 inflationary pressures should remain on the downside, given the expected trend in oil prices and the economic growth slowdown. These factors along with the fiscal adjustment envisaged in next year’s Public Budget including interest payments for the Central Bank under the Recapitalization Law, will contribute to a change in the stance on monetary policy. Under this scenario, a monetary program for 2009 has been designed with an inflation target of 7%.

The Central Bank will continue giving a careful follow-up to the international scenario and to the development of the relevant variables at the national level, as well as the implications of these factors on inflation expectations in the medium and long term.

Santo Domingo, November 28, 2008.