

# CENTRAL BANK OF THE DOMINICAN REPUBLIC

## MONETARY POLICY NOTICE

### **The Central Bank's Monetary Policy Rate Remains Unchanged**

The Central Bank of the Dominican Republic at its monthly monetary policy meeting of July 31st, 2009, has resolved to maintain its interest bearing overnight rate, which functions as its monetary policy rate, unchanged at 5.0% per annum. Also remaining unchanged is the Lombard standing facility lending rate, at 10.5% per annum.

Decisions with respect to monetary policy interest rate movements are essentially conditioned by the performance of the principal determinants for inflation. In fact, the annualized rate of inflation for June was 0.26%, whereas monthly inflation was 2.16%, driving cumulative inflation for the first six months of the year to 3.19%. It should be noted that price variances during June can be mostly explained by increases in the cost of fuel and a one-time electrical energy rate hike, which reduces the likelihood of further significant changes in the trajectory of the price index for the rest of the year.

On the external context, the world economy continues to show signs of moderate recuperation, with markets demonstrating a cautious optimism. The Federal Reserve has recently affirmed that the U.S. economy is increasingly stabilizing, thus confirming the recovery prospects forecast for the last quarter of this year, an expected positive influence on the Dominican economy.

Domestically, credit to the private sector in local currency signals that the recovery process is gaining momentum, a process accelerated by the response to a recent freeing up of legal reserve requirements. The total private sector portfolio has grown by RD\$ 13.37 billion, or 5.2%, since March, when the negative credit growth trend was reversed. Commerce, agriculture, manufacturing, housing, small business, and construction are among the sectors showing credit growth.

The Central Bank shall continue to closely monitor developments related to the international financial crisis and its impact on the global economy, as well as domestic demand performance and mid- and long-term inflation expectations.

Santo Domingo, July 31st, 2009.