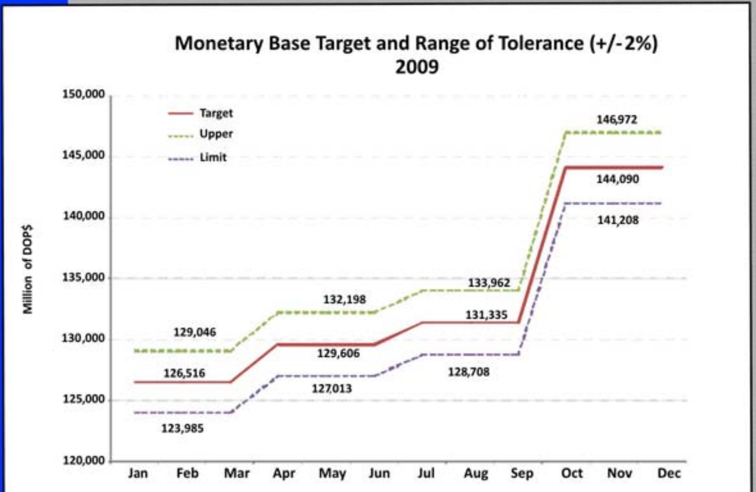
BANCO CENTRAL DE LA REPUBLICA DOMINICANA

MONETARY PROGRAM 2009



CENTRAL BANK OF THE DOMINICAN REPUBLIC

Executive Summary
Central Bank Monetary and Financial Program 2009

The Central Bank of the Dominican Republic, in compliance with Monetary and Financial Law # 183-02 and its Regulations, makes available for the general public the Executive Summary for the 2009 Central Bank Monetary and Financial Program, approved by Monetary Board's First Resolution dated December 16, 2008.

It seems that 2009 will be a challenging year for the Dominican economy, given the slowdown in economic growth in the world's leading economies. However, there may be opportunities with the decrease in international oil and commodities prices, which will lead to lower inflation. This scenario along with the fiscal adjustment included on the government budget for 2009 and the deceleration in internal demand, would allow a change in the monetary policy stance. These elements and other issues described in this Monetary Program comprise the basis for the design and implementation of monetary policy in 2009.

2008 Macroeconomic Performance

After significant economic growth in the first half of 2008, the Dominican economy started to show signs of fatigue in the third quarter amid an acceleration of crisis conditions in the world economy and the implementation of a monetary policy oriented toward moderating inflationary pressures by decreasing the rate of growth of internal demand. By year-end 2008, real GDP growth was approximately 5.0%.

During the first three quarters of 2008, domestic prices were on the rise driven by international oil and commodities prices. Other factors, such as the effects on agriculture of four storms while still not having fully recovered from Noel and Olga, also led to price increases in some staple foods. Additionally, in the first two quarters of the year, there was a sharp increase in public and private internal demand. Consequently, year-to-date inflation reached 10.76% in September, a rate above the 2008 monetary program target. However, in October domestic prices began to show a sharp downward trend, due to a sudden drop in oil prices during the second half of the year, as well as an important hold back in domestic demand. As a result of this, inflation was negative in the last quarter of the year, which led to an end-of year price increase of 4.52%, an inflation rate below the 6% target established in the 2008 Monetary Program.

International Scenario for 2009 [1]

According to the International Monetary Fund, the economic outlook for the world economy is uncertain and could worsen in the midst of the financial crisis. It is estimated that the world economy will grow 2.2% in 2009, driven by emerging market performance

[1] This section is based on *World Economic Outlook*, October 2008, and the November 2008 update, published by the IMF.

as the majority of developed economies are in recession. It is expected that the recovery should begin around year-end 2009, albeit slowly due to the troubled financial markets.

In addition, for 2009 inflation in the world economy should be lower due to the economic slowdown and lower oil prices.

During the fourth quarter of 2008, oil prices continued to fall after reaching historical highs in the first half of the year. While the IMF forecasted a price of US$68/bbl on average for 2009, and US$54.25 on overage, prices at year-end 2008 remained close to the US$50 mark, due to a reduction in demand resulting from the weakened economy.

It is expected that the developed economies will fall 0.25% in 2009 and that any expansion will take place among emerging markets, which are expected to grow by 5%. The U.S. economy, which is in recession, will continue to be affected by the crisis as consumers readjust their spending in response to the devaluation of assets and restrictions on credit. Thus, a drop of 0.7% is predicted for 2009 for this country. Also, due to the weakened economy, it is estimated that inflation will be just 1.8%.

The international scenario has led to greater coordination in the implementation of policies among countries. Also, it has trigger in some cases, the application of unorthodox alternatives. The measure of effectiveness of these policies will determine how long and severe the recession will be in the developed economies. Given the recession, strong inflationary pressure is not expected, and policies shall focused on stabilizing financial markets with a view toward beginning a possible recovery by the end of 2009.

Macroeconomic Outlook 2009

The Monetary and Financial Program for 2009 aims at an inflation target between 6.0% and 7.0%. This target takes into account a reduced external inflationary pressure and a slower rate of domestic expansion. For 2009, it is expected that the Dominican economy will expand by 3.0% in real terms. Compared to the estimate for 2008, around 5.0%, this is a considerable reduction. The slowdown is largely a result of the U.S. recession and the difficulties in the world credit markets.

In terms of domestic inflation, in 2009 inflationary pressures will be on the downside. It is expected that the price of WTI oil will be near US$54.25 a barrel, while the relevant price for the Dominican economy will average about US$48.26 per barrel, accompanied by lower food prices. Accordingly, the import bill for oil should be around US$2,811.7 millions. This would be a significant reduction compared to 2008.

After closing 2008 with a current account deficit estimated at about 9.6% of GDP, a smaller deficit is expected for 2009 due to the reduced import bill for oil and a slower pace of growth in economic activity. In this regard, it is estimated that by the end of 2009 the current account deficit will range between 5.8% and 6.1%. Despite the financial crisis inward flows of capital are expected, in addition to disbursements of funds from bilateral and multilateral agencies. This should be sufficient to finance the deficit and even allow the accumulation of international reserves, so that liquid NIR reach the December 2007 level of US$1,625.8 millions. It is also estimated that foreign direct investment will reach US$2,321.4 millions in 2009.

It is worth mentioning that in the estimates of the 2009 balance of payments, are not covered the resources requested by the Dominican government to the Interamerican Development Bank (IDB) for about US$500.0 millions in the Liquidity Program for Sustainable Growth, resources that are aimed to short-term financing for the private sector.

Regarding fiscal policy, the estimates for revenues and spending in the Government's Budget for 2009 envisage a reduction in the NFPS fiscal deficit above 1% of GDP. There should be a reduction in spending of about RD$8,000.0 millions, which combined with an increase in revenues of some RD$5,400.0 millions , would leave a deficit at the end of 2009 of 1.7% of GDP. The financing for 93% of this deficit would be with external funds net of amortization, mainly disbursements from multilateral agencies. The remaining 7% would be covered by internal funds net of amortization, in the form of bank loans and domestic bonds. Finally, in the fiscal area is important to note that the estimates include funds to cover interest payments to the Central Bank under the recapitalization plan.

Risks affecting the scenario described above are linked mainly to the performance of the U.S. economy and the speed with which it manages to overcome the current recession. Also, the oil price scenario should be taken into consideration, despite the fact that at present it is not a source of concern.

Instrumental Variables

Monetary policy is oriented to comply with a number of monetary targets. Under this plan, the Central Bank's instruments are used to reach an intermediate monetary target, which in turn will ensure compliance with an ultimate inflation goal. The Central Bank is working on its goals of intermediate operational target, in this case monetary base, to reach the ultimate goal, which is price stability. This is based on the understanding that there is a stable relationship linking the monetary base and other monetary aggregates to and inflation.

Inflationary pressures are expected to be low for 2009, due to the weakened outlook for the international economy, including lower prices for oil and other commodities. This, together with greater fiscal discipline at the domestic level, will create the space for a loosened monetary policy in early 2009, featuring a drop in interest rates. Lower nominal rates will translate into reductions in real interest rates, which will impact consumer activity and investment, and will stimulate the demand for money. This, in turn, will allow liquidity to grow without exerting pressure on internal prices.

Interest rate fluctuations impact the economy with a lag of 3 to 9 months, according to studies on credit and interest rate transmission mechanisms undertaken by the Central Bank's Monetary Programming and Economic Research Department. Steps to bring down interest rates can have a more timely effect on the economy if accompanied by policies to increase liquidity, either a reduction in investment certificate or an increase in international reserves.

Objectives and Targets

The Monetary Program has as its main target maintaining inflation between 6.0% and 7.0%, which is consistent with growth of 3.0%. The implementation of this strategy is based on monetary targeting. For 2009, the Monetary Program will determine its quarterly targets based on estimates for the following monetary aggregates:

Central Bank Net Liquid International Reserves (NLIR)

It is expected that a level of NLIR comparable to that of December 2007 will be reached. These liquid reserves, which are freely available to the Central Bank, exclude from net reserves the legal reserve deposits for U.S. dollar accounts in the local financial sector and government foreign currency deposits in the Central Bank. This is consistent with the Central Bank Recapitalization Plan.

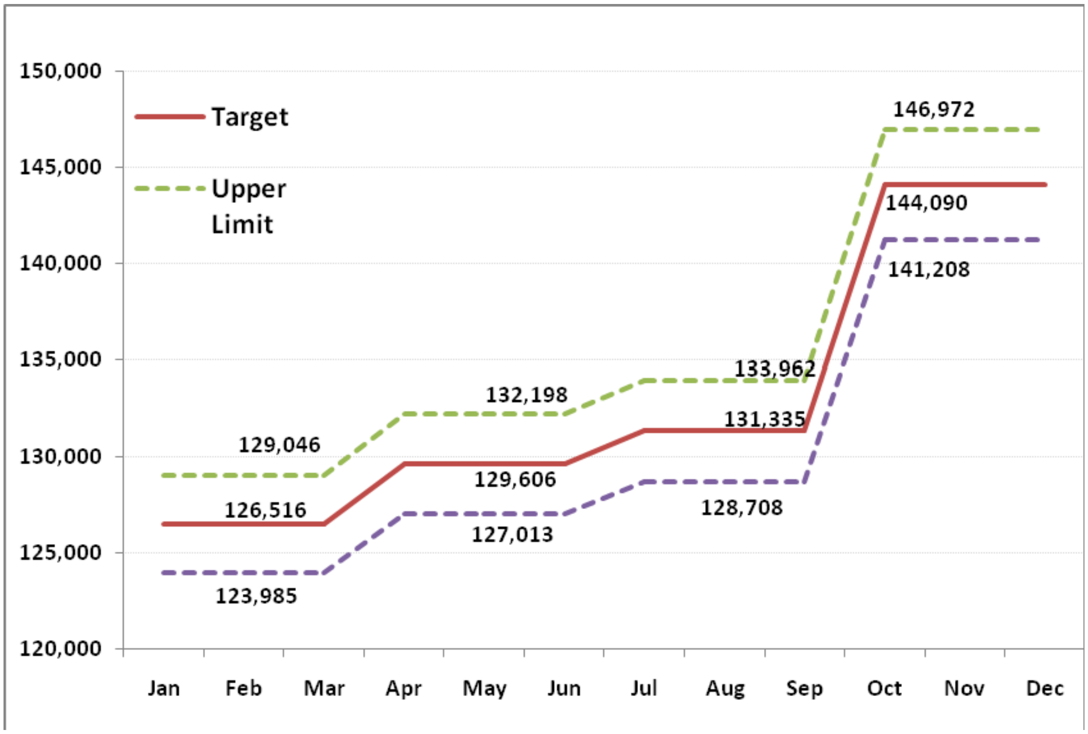
(in millions of US$)

Variable	**Mar 2009**	**June 2009**	**September 2009**	**December 2009**
Net International reserves	1,269	1,361	1,474	1,626

Restricted Monetary Base

The restricted monetary base is defined in the monetary program for the current year as currency in circulation plus reserve deposits from financial intermediaries in the Central Bank. In accordance with the Monetary Program, the restricted monetary base target will operate within a margin of tolerance of 2%, above and below the quarterly estimate. For example, the monetary base target for the first quarter would be adjusted by an absolute amount of +/- RD$2,530 millions, which is equivalent to +/-2% of the absolute amount established as a target for that period. Thus, the Monetary Base ceiling for the first quarter of 2009 would be RD$129,046.3 millions and the floor would be RD$123,985.7 millions.

Monetary Base Target and Range of Tolerance (+/-2%)
2009



(in millions of DOP$)

Variable	Mar 2009	June 2009	September 2009	December 2009
Restricted Monetary Base	126,516	129,606	131,335	144,090

Quarterly monetary base sources and uses for 2009 appear in the following table.

(in millions of DOP$)

Variable	Mar 2009	June 2009	September 2009	December 2009
Sources - Restricted Monetary Base	**126,516**	**129,606**	**131,335**	**144,090**
Net international reserves (DOP$)	74,882	80,006	85,910	93,520
Net Internal Assets	51,634	49,600	45,425	50,570
Uses - Restricted Monetary Base	**126,516**	**129,606**	**131,335**	**144,090**
Banknotes Issued	59,917	60,322	60,792	72,519
Sight Deposits in Banks (DOP$)	66,599	69,284	70,543	71,571

Below please find a summary of the principal macroeconomic indicators.

Summary - Principal Macroeconomic Indicators
2008 Estimates – 2009 Forecast

Indicators	2008 Estimates*	2009 Forecast
Real Sector		
Inflation	4.52%	6.0-7.0%
GDP Growth	5.0%	3.0%
Fiscal Sector		
% Var. Central Gov't. Total Revenue	3.1%	2.2%
% Var. Central Gov't. Tax Revenue	8.2%	3.5%
% Var. Central Gov't. Total Expenditure	21.0%	-2.8%
% Var. Central Gov't. Current Expenditure	27.3%	-1.2%
% Var. Central Gov't. Capital Expenditure	3.3%	-8.2%
Non-Financial Public Sector Balance	-2.7 - 3.0% of GDP	-1.7% of GDP
External Sector		
Balance of Payments Current Account Deficit	-9.6% of GDP	-5.8 -6.1% of GDP
% Var. Tourist Revenue	3.9%	1.8%
% Var. Free Zone Exports	-0.9%	-1.4%
% Var. Other Imports	15.6%	3.6%
Oil Imports (US$ Mn)	US$4,305.4	US$2,818.4
Foreign Direct Investment (US$ Mn)	US$2,811.7	US$2,321.4
Balance of Payments – Overall Results (US$ Mn)	-US$288.7	US$432.8
Gross International Reserves (US$Mn)	US$2,643.5	US$2,720.8
Net International Reserves (US$Mn)	US$2,149.4	US$2,461.4
Liquid Net International Reserves (US$Mn)	US$1,376.3	US$1,625.8
Monetary Sector		
Base Money - Growth	9.7%	10.7%
Issued Banknotes - Growth	0.3%	10.7%
Local Currency Sight Deposits – Growth	19.6%	10.7%
Local Currency Credit to Private Sector - Growth	2.3%	11.0%
Central Bank Quasi-fiscal Deficit	-1.3% of GDP	-1.2% of GDP

*Data for inflation, monetary sector and international reserves are preliminary. GDP growth, fiscal and external sectors are estimates.