CENTRAL BANK OF THE DOMINICAN REPUBLIC
Executive Summary Central Bank's Monetary Program 2010

The Central Bank of the Dominican Republic, pursuant to the provisions of Monetary and Financial Law No.183-02 and its implementing regulation, and of the First Resolution of the Monetary Board dated December 17, 2009, makes available to the general public the Executive Summary of the Monetary Program for 2010.

In the first half of 2009, the Dominican economy was affected by the worsening international crisis that began in August 2007. Although the second half of 2009 was witness to a gradual improvement in conditions at the international level, policy decisions throughout the year were aimed at increasing liquidity and reducing interest rates in order to stimulate economic activity in an environment of low inflation.

For 2010, prospects for the global economy point to better conditions for the performance of the Dominican economy. The design of the Monetary Program includes maintaining an accommodative monetary along with the implementation of an expansionary fiscal policy, as stipulated in the New Agreement with the International Monetary Fund (IMF). This will continue as long as the economy grows close to its potential and as long as there are no inflationary pressures that could affect the goal of the Program.

Preliminary Macroeconomic Results 2009

In 2009, economic activity in the Dominican Republic (DR) was conditioned on the impact of the international financial crisis, which significantly affected its principal trading partners, particularly the United States. During the first three quarters of the year, real GDP in the Dominican Republic increased by 2.1 percent over the same prior-year period. However, this was below the rate of growth of 4.8 percent in the same period 2008.

For year-end 2009, preliminary estimates of real GDP growth point to a rate of around 3.5 percent, as a result of the revitalization of economic activity during the fourth quarter. The lower interest rates, resulting from the expansionary monetary policy, led to greater consumption and private investment. Additionally, inflows derived from multilateral agencies under the new agreement with the IMF and received in November and December 2009 generated a major fiscal impulse at the end of the year.

Conversely, during 2009 there were no significant pressures on price levels. In November, monthly inflation stood at 1.07 percent, thus reversing the trend of the previous four months and causing the annual rate to climb to 4.18 percent. In December, the closing accumulated inflation rate was 5.76 percent, which is near the lower limit of the 6.0-7.0 percent target set out in the 2009 Monetary Program.

Regarding foreign accounts at the close of 2009, preliminarily estimates are that balance of payments the current account recorded a deficit equal to 5.3 percent of GDP; this would indicate a significant decrease from 9.4 the percent rate registered for 2008. This result was obtained because of the drop in international oil prices, accompanied by the fall in imports as a consequence of the international crisis.

Net international reserves at the end of 2009 reached a level of US$2.85 billion, an increase of US$686.5 million over the year-end 2008 figure. This performance was favored by higher foreign exchange inflows and the entry into effect of the IMF Agreement, as well as by disbursements received from multilateral agencies in the latter part of 2009.

The adoption during the year of an expansionary monetary policy was reflected in the behavior of key monetary indicators, which in turn was another sign of the economic recovery experienced in the second half of 2009. The restricted monetary base grew by 3.2 percent, due to liberalization measures applied to legal reserve requirements. The money supply (M1) rose by18.3 percent, driven by an increase of 24.3 percent in local currency transferable deposits. Accordingly, the expanded money supply (M2) expanded by 14.0 percent, influenced by the increase in debt securities in national currency issued by other depository corporations, while the broad money (M3) increased 13.3 percent, due, among others, to the growth of other foreign currency deposits.

2010 International Environment[1]

During 2009, the global economy continued to assimilate the effects of the economic crisis that originated in the developed countries. Following sharp declines in production at year-end 2008, especially in the United States, during the first quarter of 2009 the global economy continued to deteriorate, characterized by job losses and declining terms of trade. To cope with this situation, the developed countries and some developing countries implemented fiscal stimulus measures, accompanied by a significant easing in monetary policy that included significant injections of liquidity for financial markets and sharp reductions in policy interest rates in an effort that at times was internationally coordinated. By the second quarter of 2009, as a result of these unprecedented measures, some countries began to show a new trend or at least a slowdown in the rate of decline of the economy, which heralded the end of the call "Great Recession."

Overall performance for the last months of 2009, pointed to the beginning of a recovery period for global economic activity. In fact, the U.S. economy in the third quarter registered a y-o-y growth rate of 2.2 percent. This result was highly influenced by the effects of the fiscal stimulus plan, which was established to address the adverse effects of the crisis. For their part, the major European Union countries and Japan had positive results beginning in the second quarter.

In the emerging economies, China, India and other Asian countries have been at the forefront of the global economy's recovery, growing at a strong pace albeit slower than in the period before the crisis. The implementation of prudent macroeconomic policies during the expansion period allowed Latin America to face the global crisis on better terms than on previous occasions. In the region, Mexico has been the country most affected by the situation of the U.S. economy, as evidenced by a drop of 7.3 percent. According to the IMF, for 2010 it is expected that the U.S. economy should be growing at 1.5 percent, while the euro zone would expand by 0.3 percent. Among Asian economies, Japan would recover at a 1.7 percent rate, while China and India would demonstrate healthy growth rates of 9.0 percent and 6.4 percent, respectively.

While the global outlook points to improved economic conditions, there are still doubts about the strength of this recovery and even the length of it. However, market expectations about production

[1] This section is based on: *World Economic Outlook*, IMF, October, 2009; and *Consensus Forecast*, December 2009.

growth are positive for 2010 expected an expansion of 3.1 percent of world GDP, following the contraction of 1.1 percent experienced in 2009. Moreover, inflation expectations remain moderate, as global GDP will grow at a level below its potential, according to the IMF.

Moreover, the predictions contained in the latest report from Consensus Forecast for December, say the U.S. economy would grow by 2.7 percent, Japan by 1.5 percent and the euro zone would expand by 1.3 percent. These projections are based on the belief that the worst seems to be over, and most economies are already out of recession or near out of it.

Macroeconomic Prospects for the Dominican Republic in 2010

After a year of slower economic growth resulting from the international crisis, under the terms of the IMF agreement, for 2010 a Monetary Program has been designed that contemplates renewed growth with low and stable inflation. The 2010 Monetary Program aims at an inflation range of 6.0-7.0 percent, and conservatively estimates real GDP growth at around 2.5-3.5 percent, based on the assumption that the U.S. economy should grow around 1.5 percent.

For 2010 it is expected that external inflation pressures should remain moderate, in response to weak economic conditions worldwide. Domestically, inflationary pressures should remain contained while the economy to grow below its potential level of output.

By 2010, it is estimated that the current account deficit will keep within a range of 5-6.0 percent of GDP, taking into account the expected rebound in oil prices as a result of a more energized world economy. Preliminary expectations indicate that foreign investment should reach a level of around US$1.86 billion. The financing of the deficit would be covered without difficulty and would permit maintaining the same level of international reserves at the end of the year.

Estimated revenue and expenditure figures for 2010 provide for a reduction in the NFPS fiscal deficit of about 0.5 percentage points, from 3.1 percent of GDP in 2009 to 2.6 percent of GDP in 2010. This deficit would be financed mainly by external resources from multilateral agencies such as the Inter-American Development Bank, International Monetary Fund, and World Bank, among others. Finally, in the fiscal area is important to note that the estimates include the funds required to cover recapitalization interest payments to the Central Bank.

This baseline scenario would be affected by an increase in the international price of oil, from an average of US$61.25 per barrel in 2009 to an average of US$74.87 per barrel in 2010. Similarly, U.S. economic performance would impact the performance of the Dominican economy in the same direction, albeit more slowly. It is expected that if the U.S. economy were to grow by more than 1.5 percent in 2010, this would affect the growth of the Dominican economy by an amount greater than that estimated in the Monetary Program.

Goals and Objectives of the Monetary Program

The Monetary Program's primary goal is to keep inflation within a range between 6.0 percent and 7.0 percent, consistent with an economic growth of between 2.5 and 3.5 percent. The implementation of policy strategy is based on an approach to monetary targets, within the framework of the IMF Agreement, transitioning to an inflation targeting framework in which the Central Bank's interest rate policy plays an important role in signaling the monetary policy stance. For 2010, the Monetary Program establishes quarterly targets based on the results obtained in the estimates for the following monetary aggregates:

Central Bank Net International Reserves (NIR)

Net international reserves exclude short-term liabilities from gross reserves. As indicative variables, we observe the liquid net international reserves, which, among other items, exclude from net reserves dollar account reserve requirements in the domestic financial system.

Millions of US$

Variable	Mar 2010	Jun 2010	Sept 2010	Dec 2010
NIR Accumulation	**-227**	**42**	**92**	**93**
NIR Level	**2,624**	**2,667**	**2,759**	**2,852**
Cumulative Annual Target				**0**

For 2010, it is estimated in the Monetary Program that net international reserves will not differ from the level for year-end 2009.

Restricted Monetary Base

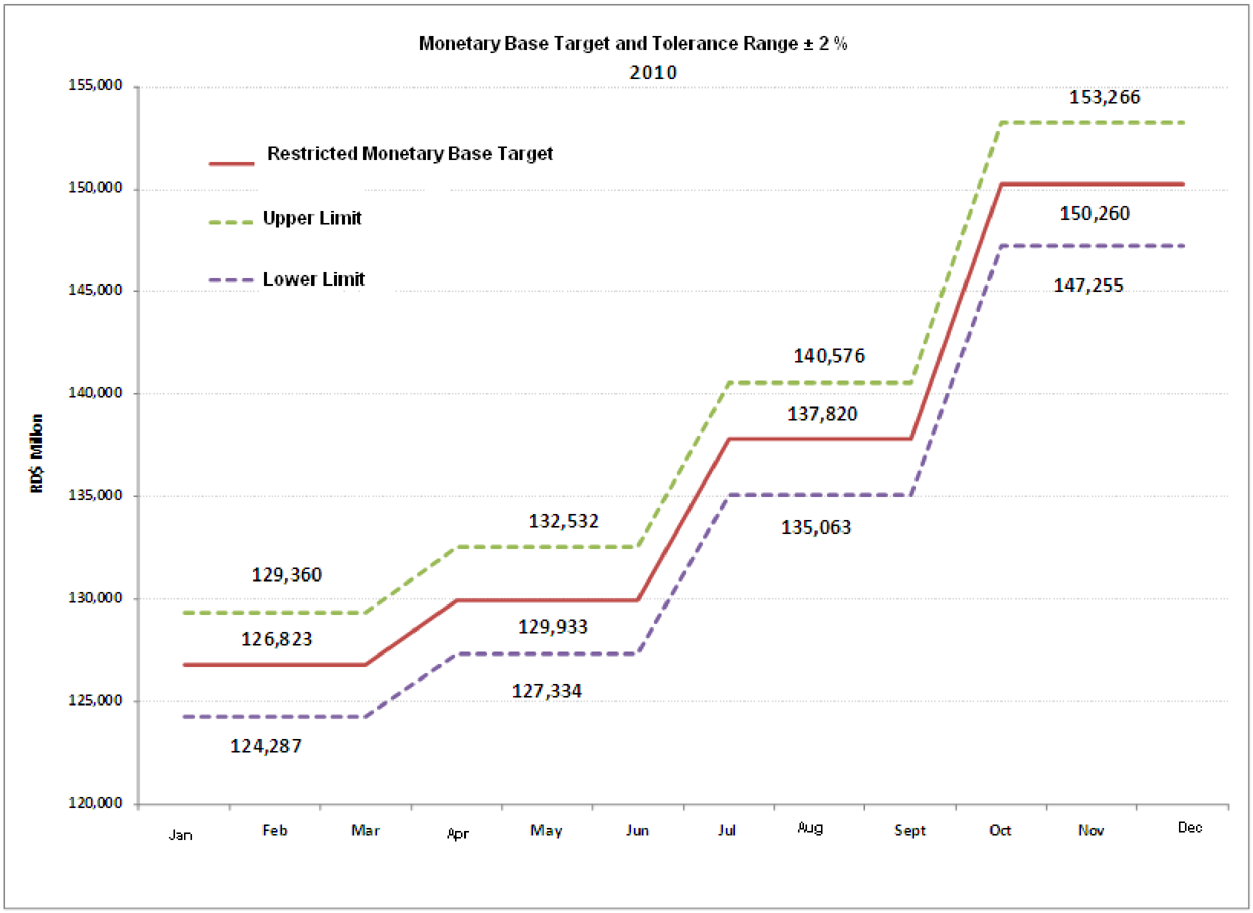
The restricted monetary base consists of currency issued and local currency sight deposits of banks on deposit at the Central Bank. By 2010, it is expected that the main expansion factor should be interest payments on issued securities, while the placing of securities through auctions of securities should be the most significant contraction factor.

In the Monetary Program, the restricted monetary base target will operate within a narrow margin of ± 2 percent around the quarterly estimated level. For example, the monetary base target in the first quarter of the year would be adjusted by an absolute value of ± RD$2.54 billion, which is equivalent to ± 2 percent of the absolute value set as a goal in that period, so that the maximum monetary base for the first quarter of 2010 would be RD$129.40 billion and the minimum monetary base would be RD$124.29 billion.

The following is a breakout of the expected results for the Program for 2010, containing the expected changes in the sources and uses of the restricted monetary base:

Millions of RD$

Variable	Mar 2010	Jun 2010	Sept 2010	Dec 2010
Sources of Restricted Monetary Base	**126,823**	**129,933**	**137,820**	**150,260**
Net International Reserves (In L/C)	98,967	100,712	104,847	110,654
Net Internal Assets	27,857	29,222	32,974	39,607
Uses of Restricted Monetary Base	**126,823**	**129,933**	**137,820**	**150,260**
Issued Paper Currency	61,915	64,112	67,183	75,691
Bank Sight Deposits (In L/C)	64,908	65,821	70,637	74,569


Monetary Base Target and Tolerance Range ± 2 %
2010
Restricted Monetary Base Target
Upper Limit
Lower Limit
RD$ Millon
155,000
150,000
145,000
140,000
135,000
130,000
125,000
120,000
153,266
150,260
147,255
140,576
137,820
135,063
132,532
129,933
127,334
129,360
126,823
124,287
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sept
Oct
Nov
Dec

The following is a summary of the principal macroeconomic indicators.

Summary - Principal Macroeconomic Indicators
Preliminary Figures 2009 – Projected 2010

Variable	2009 Preliminary	Projected 2010
Real Sector		
Inflation - End of Period	5.76%	6% - 7%
Average Inflation	1.44%	6.43%
Real GDP Growth	3.50%	2.5% - 3.5%
Fiscal Sector		
% Var. Total Revenues GC	-6.8%	10.7%
% Var. Tax Revenues GC	-6.0%	11.4%
% Var. Total Expenditure GC	-7.8%	9.0%
% Var. Current Expenditure GC	-3.6%	2.3%
% Var. Capital Expenditure GC	-19.7%	31.5%
Non-Financial Public Sector Balance	-3.1 % of GDP	-2.6% of GDP
External Sector		
Balance of Payments Current Account Deficit	-5.3% of GDP	-5.0% to -6.0% of GDP
% Var. National Exports	-29.1%	36.3%
% Var. National Imports	-27.5%	12.4%
% Var. Other Imports	-27.2%	7.5%
Oil Bill (MM US$)	US$2,520.8	US$3,219.4
Foreign Direct Investment (MM US$)	US$2,065.7	US$1,863.4
International Reserves		
Gross International Reserves (MM US$)	US$3,307.1	US$3,513.8
Net International Reserves (MM US$)	US$2,851.9	US$2,851.9
Net Liquid International Reserves (MM US$)	US$1,820.1	US$1,820.2
Monetary Sector		
Monetary Base Growth	3.2%	8.9%
Paper Currency Issued Growth	12.3%	8.0%
Sight Deposits Growth (In L/C)	-4.8%	9.8%
Credit to the Private Sector Growth (In L/C)	7.7%	9.5%
Loans to the Private Sector Growth (In L/C) (Harmonized)	9.3%	11.5%
Central Bank Quasi-fiscal Deficit	-1.4% of GDP	-1.8% of GDP