SECRETARIA DEL BANCO
División de Traducciones

The Central Bank maintains its Monetary Policy Interest Rate at 5.75% p.a.

At its June 2017 monetary policy meeting, the Central Bank of the Dominican Republic (BCRD) decided to maintain its monetary policy interest rate at 5.75% per annum.

The decision regarding the benchmark rate took into account the balance of risks of inflation projections and market expectations, as well as the evolution of the main domestic macroeconomic indicators and the international environment relevant to the Dominican economy. As of May, the inter-annual inflation rate declined to 3.11%, remaining within the target range of 4% ± 1% set in the Monetary Program. Year-to-date rate of inflation in May fell to 0.96%. On the other hand, the underlying inflation, related to the monetary conditions, rose to 2.20%. According to the most recent projections, inflation would remain within the target range over the policy horizon.

In the international context, the economy of the United States of America would be growing at around 2.2% in 2017 and 2.4% in 2018, according to *Consensus Forecast*. In addition, inflation would be at 2.3% and 2.2% in 2017 and 2018, respectively. Recently, the International Monetary Fund downgraded its growth forecasts for the US economy, while the market expects that the monetary policy normalization will continue with further rate increases by the Federal Reserve this year. On the other hand, in the Euro Zone (EZ) the economic activity would continue to expand around its potential, registering annual rates of 1.8% in 2017 and 1.6% in 2018. Inflation in this group of countries would remain below the target of 2.0% of the European Central Bank (ECB), reaching 1.6% and 1.4% in 2017 and 2018, respectively.

For Latin America, a recovery from the recession is expected in this current year 2017, except for Venezuela that would continue to register negative growth. Projections indicate that the region would expand by 1.6% this year and 2.5% in 2018, driven by more favorable terms of trade, particularly for *commodity* exporting economies. In the case of South American countries, oil price forecasts around US$50 per barrel would imply an improvement over the past two years. With regard to international financial conditions, despite the increases in the monetary policy rate in the United States, liquidity levels are still high, being favorable for emerging economies.

In the domestic level, economic activity is converging gradually to its potential of 5.0%, in line with that envisaged in the Monetary Program. Credit to the private sector in local currency increased by a year-on-year rate of 11.0%, above the expected growth for output in nominal terms.

On the fiscal side, the execution of the budget during the first five months of the year indicates a expense reduction policy pointing to a deficit by the end of the year below the target set in the National Budget of -2.3% of GDP. In this regard, as of May, the year-on-year growth of public spending was negative, while revenues were above the level estimated in the Budget. As a result, the non-financial public sector deficit at the end of May was -0.5% of the GDP level estimated for the end of the year.

With respect to external accounts, the activities generating foreign exchange are performing well, contributing to the strengthening of international reserves and facilitating the maintenance of the exchange rate stability. In this regard, it should be noted that in the first quarter of the year the cumulative revenues from tourism and remittances amounted to US$1,979 million and US$1,455 million, respectively. In the same way, to the month of May non-resident passengers arrivals increased by 6.7% in year-on-year terms.

The Central Bank reaffirms its commitment to conduct the monetary policy in achieving its inflation target and maintaining macroeconomic stability. In this regard, it will continue to monitor the evolution of the world economy and the domestic situation in order to take the necessary measures in view of possible risks to price stability and the proper functioning of the financial and payment systems.

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