BCRD maintains its Monetary Policy Rate at 5.25% per annum

At its August 2017 monetary policy meeting, the Central Bank of the Dominican Republic (BCRD) determined to keep its monetary policy interest rate at 5.25% per annum.

The decision on the reference rate took into account the balance of risks around inflation projections, the evolution of the main domestic macroeconomic indicators, as well as the international environment relevant for the Dominican economy and market expectations. The monthly inflation rate rose to 0.18% in July, so the accumulated rate at the seventh month of the year stood at 1.20%. On the other hand, year-on-year inflation was 2.54%, below the lower limit of the target of 4.0% ± 1.0% of the Monetary Program. In addition, underlying inflation rose to 2.23% on a year-on-year basis. Projections indicate that inflation would remain close to the lower limit of the target at the end of the year.

In the international context, industrialized economies grew at similar rates during the second quarter of the year. The United States of America (USA) and the Eurozone (EZ) registered a year-on-year expansion of the real product of 2.2%, while Japan grew 2.1% with respect to the same period of the previous year. According to *Consensus Forecast*, the USA would grow 2.1% in 2017 and 2.4% in 2018, while the product of the EZ would expand by 2.0% and 1.8%, during those years. The dynamism of the advanced economies would have a positive impact on world economic activity, which would grow 3.0% in 2017 and 2018. It should be noted that inflationary pressures in developed economies remain low, projecting a 2.0% for the US in both years and rates of inflation of 1.5% in 2017 and 1.3% in 2018 for the EZ.

In Latin America there is a gradual economic recovery, emerging from the recession in the present year 2017, with the exception of Venezuela. Projections indicate that the region's economy would grow 1.6% in 2017 and 2.4% in 2018, driven by more favorable terms of trade.

International financial conditions for emerging economies show a high volume of liquidity, influenced by a more gradual process of monetary normalization in the US. Likewise, the monetary policy stance of the Federal Reserve, together with a greater dynamism in the European economies, has contributed to a depreciation of the dollar in recent months. On the other hand, oil prices remain below projections for the current year, while the price of gold has increased above US$1,300 a troy ounce. These trends in international markets favor the good performance of the external sector in the Dominican Republic.

At the domestic level, the Dominican economy grew 4.0% in year-on-year terms during the first half of the year, influenced by a downturn of the internal demand during the

April-June period. However, more than 76,000 new jobs were generated in the labor market during this period, according to the Continuous National Labor Force Survey.

It is important to note that, as a result of recent measures of monetary expansion, there is a greater dynamism in consumer and production-oriented credit. In this regard, since the measures were taken, loans to companies and households have increased by more than RD$10.4 billion, almost three times the monthly average of the January-July period. In year-on-year terms, credit to the private sector in local currency expands at a rate of 10.6%, above nominal product growth. It is projected that the impact of monetary measures on credit and real economic activity would allow GDP growth to reach around 5.0% at the end of this year.

On the fiscal side, preliminary figures show that the deficit of the Non-Financial Public Sector at the end of July reached 1.3% of GDP. In year-on-year terms, public spending grows around 6.0%, while revenues collected by the Government show a double-digit year-on-year expansion rate and remain above the budget projection. This behavior of public finances would contribute to achieving the deficit target of -2.3% of GDP at the end of the year, equivalent to a primary surplus of 0.8% of GDP.

With respect to the external accounts, the activities generating foreign exchange maintained a favorable performance, which would help to bring the current account deficit to around 2.0% of GDP by the end of the year. In addition, the flow of foreign exchange has allowed an increase in international reserves, which enables the maintenance of relative stability in the foreign exchange market.

The Central Bank of the Dominican Republic reaffirms its commitment to conduct monetary policy to achieve its inflation target and maintain 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.

Santo Domingo, August 31, 2017