BCRD maintains its Monetary Policy Rate at 5.25% per annum

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

The decision on the benchmark rate was taken following a comprehensive review of the balance of risks around inflation projections, including the evolution of the main domestic and international macroeconomic indicators, the relevant international environment for the Dominican economy and expectations of the domestic market. The monthly inflation rate in August amounted to 0.57%, so the year-to-date inflation stood at 1.77%. Also, year-on-year inflation climbed to 3.18%, within the target range of 4.0% ± 1.0% of the Monetary Program. In addition, core inflation, reflecting monetary conditions, rose to 2.27% year-on-year. Projections indicate that inflation would remain within the target range at the end of the year.

In the external context, advanced economies have accelerated their growth for the sixth consecutive quarter. Prospects are favorable for the United States of America (USA), the Eurozone (EZ) and Japan. According to *Consensus Forecast*, the US would grow 2.2% in 2017, after upwardly revised the annualized quarter-on-quarter growth of April-June to 3.1. By 2018, the USA is projected to grow by 2.4%, in a context of normalization of its monetary policy. As for the EZ, output is expected to expand by 2.1% during 2017 and 1.8% by 2018. The dynamism of the advanced economies would have a positive impact on world economic activity, which would grow 3.0% in 2017 and 3.1% in 2018. It should be noted that inflationary pressures in developed economies remain relatively low, projecting 2.0% for the USA in 2017 and 1.9% in 2018, as well as inflation rates of 1.5% in 2017 and 1.3% in 2018 for the EZ.

On the other hand, Latin America (LA) continues to see a gradual economic recovery, with the exception of Venezuela. In the case of Brazil, the largest economy in the region, it would grow 0.7% in 2017 and 2.3% in 2018. Mexico would expand 2.2% in both years, while Chile would grow 1.4% in 2017 and 2.9% in 2018. The projections for Latin America have been revised upwards and reflect that the region's economy would expand by 1.7% in 2017 and 2.6% in 2018, driven by more favorable terms of trade.

Domestically, economic activity has reacted favorably following the expansionary measures taken at the end of July, such as the reduction of the monetary policy rate by 50 basis points and the decrease in the legal reserve requirement by 2.2 percentage points. It should be noted that credit to the private sector in local currency has increased by RD$16 billion since these measures were taken, so there is a positive outlook on the revitalization of domestic demand for the rest of 2017. In this regard, growth is expected to approach its potential for the end of the year, even in a context of recovering from damages caused by recent climate events. It is important to note that the World Bank approved a US$150 million loan for the Dominican Republic with the purpose of dealing with natural disasters, which would facilitate the recovery of economic activity during the last quarter of the year.

In the fiscal sector, a boost in public spending was recently announced, which implies a more active fiscal policy for the rest of the year. Notwithstanding this decision, the Government announced that it would meet the deficit target of 2.3% of GDP, set in the National Budget for 2017. On the other hand, the external sector maintains its dynamism, contributing to the increase in foreign exchange earnings and creating a favorable environment for the relative stability of the exchange market and for the accumulation of international reserves.

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.

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