BCRD maintains its Monetary Policy Rate at 5.25% per annum

At its monetary policy meeting in February 2018, the Central Bank of the Dominican Republic (BCRD) decided to keep its monetary policy interest rate at 5.25% per annum.

This decision was based on a comprehensive review of the balance of risks around inflation forecasts, the evolution of the main domestic macroeconomic indicators, the international environment, market expectations and medium-term projections. Inflation for January 2018 was 0.29%, while year-on-year inflation stood at 3.86%, slightly below of the core value of the target range of 4.0% ± 1.0% set in the Monetary Program. Likewise, the underlying inflation, related to monetary conditions, reached 2.43% year-on-year. It is expected that the interannual inflation rate would remain within the target range in the 24-month monetary policy horizon.

In the international level, perspectives of the world economy continue to improve, according to the most recent forecasts of *Consensus Forecast (CFC)*, while inflation remains conatined and labor markets are strengthened. In this regard, CFC estimates an expansion rate of 3.3% for the world economy in 2018, driven by growths of 2.8% in the United States of America (USA) and 2.3% in the Euro Zone (EZ). By 2019 the economic dynamism of the industrialized nations is expected to moderate slightly, with the USA reaching a growth of 2.4% and the EZ of 1.9%. Likewise, in the developed world inflationary pressures would remain moderate, with an inflation estimated for the USA of 2.3% in 2018 and 2.2% in 2019, and for the EZ a price increase of 1.5% in both years.

In the case of Latin America (AL), the recovery process would continue throughout the region with the exception of Venezuela, estimating a growth of 2.6% for 2018 and 2.9% for 2019. International financial conditions remain favorable for emerging economies in an environment of ample liquidity worldwide. However, in the medium term, these conditions could change as the US fiscal reform and the monetary normalization of the Federal Reserve (FED) encourage the return of capital to the United States. Precisely, in the press release published at the end of its last visit to the country, the IMF identified as a risk factor for the Dominican economy the possibility of facing international financial conditions more restrictive than expected. In addition, it pointed out as other important risk factors the increase in international oil prices and a weaker than expected external demand.

In the domestic context, the economy continues to react favorably to the monetary easing measures implemented in the last two quarters of last year. In this regard, preliminary information from the Monthly Indicator of Economic Activity (IMAE) shows a year-on-year growth of 7.0% in the month of January. Furthermore, the credit to the private sector in domestic currency grew around 12.0% year-on-year, while improving the perspectives of private investors, as is perceived in the evolution of the indicators of industrial confidence and business climate, corresponding to the Business Opinion Survey that is implemented by the BCRD. Projection models indicate that in the current year, economic growth is likely to be in the range of 5.5% and 6.0%.

In the fiscal policy side, capital spending experienced a notable recovery in the second half of 2017, which helped to the dynamism of the economic activity. In the external sector, the current account closed last year with a deficit of -0.2% of GDP, which allowed historical international reserves to accumulate, reaching coverage of 4.4 months of imports. So far this year, international reserves have continued to increase, surpassing the record figure of US$8,000 million. The favorable evolution of the international environment would induce more dynamism in the activities generating foreign exchange, which would continue to facilitate the relative stability of the exchange market.

The Central Bank of the Dominican Republic reaffirms its commitment to conduct monetary policy to achieve its inflation target and to maintain macroeconomic stability. In this regard, it will continue to monitor the evolution of the world economy and the domestic situation, in order to adopt the necessary measures against possible risks on price stability and the proper functioning of the financial and payment systems.

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