BCRD maintains its Monetary Policy Rate at 5.25% per annum

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

The decision to leave the reference rate unchanged was based on a comprehensive review of the balance of risks around inflation forecasts, the main domestic macroeconomic indicators, the relevant international context, market expectations and medium-term projections. Inflation for February 2018 was -0.11%, so cumulative inflation in the first two months of the year reached 0.18% and year-on-year inflation stood at 3.32%. On the other hand, core inflation, related to monetary conditions, was 2.46% year-on-year. Forecasts indicate that inflation would remain within the target range of 4.0% ± 1.0% set in the Monetary Program during the monetary policy horizon.

Regarding the international context, the global economic outlook continues to improve, according to the most recent forecasts of the *Consensus Forecast (CFC)*. In this regard, CFC estimates an expansion rate of 3.3% for the world economy in 2018, driven mainly by the buoyancy of the industrialized economies. United States of America (USA) would grow 2.8% and the Euro Zone (EZ) would expand by 2.3% in the current year. By 2019 the economic dynamism of the developed nations is expected to continue, with the USA reaching a growth of 2.6% and the EZ of 1.9%. Likewise, inflationary pressures would remain moderate in advanced economies, estimating inflation for the USA of 2.4% in 2018 and 2.1% in 2019, and for the EZ of 1.5% in both years. In the case of Latin America (LA), the recovery prospects point to a growth of 2.6% for 2018 and 2.9% for 2019. Only Venezuela would remain in recession during the projection period.

It should be noted that the Federal Reserve Bank of the USA adjusted its monetary policy rate (MPR) by 0.25 percentage points, raising it to a range between 1.50% and 1.75%, in a move expected by the market and in response to potential inflationary pressures associated with the economic boom of that country. The market expects at least four additional increases in the MPR of USA in 2018 and 2019. However, international financial conditions continue to be favorable for emerging economies in an environment of ample liquidity, while the prices of primary goods, particularly oil, have resumed their upward trend in the current year.

In the domestic context, the Dominican economy continues under the favorable effects of the monetary stimulus launched in the second half of last year. In this regard, preliminary information shows that in February the trend-cycle of the Monthly Indicator of Economic

Activity (IMAE), which excludes the irregular component of the series that moderates its volatility, tends to grow at 6.2% year-on-year. In this context in which the economy grows above its potential, private loans in domestic currency maintain its dynamism, registering a growth of over 13% year-on-year to March. It is important to note that the forecast models indicate that in the current year the economic growth could be around 6.0% year-on-year.

On the fiscal policy side, government revenues have remained above the amount budgeted during the first quarter of the year. In this environment of higher fiscal revenues, the prospects for meeting the fiscal deficit target of 2.2% of GDP for 2018 improve. In the external sector, dynamism continues in foreign exchange generating activities such as tourism, remittances and direct foreign investment, which facilitates the relative stability of the foreign exchange market and the strengthening of international reserves.

The Central Bank of the Dominican Republic reaffirms its commitment to conduct monetary policy aimed at achieving the inflation target and maintaining macroeconomic stability. In this regard, it will continue to monitor the evolution of the world economy, particularly the prices of fossil fuels, as well as the monetary, fiscal and trade policies of the USA. Additionally, at the domestic level, the institution will continue to monitor the main risks, in order to adopt the necessary measures for possible effects on price stability and the proper functioning of the financial and payment systems.

Santo Domingo, March 28, 2018.