BCDR maintain its Monetary Policy Rate in 5.25% annum

At its monetary policy meeting in May 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 for inflation, the main domestic macroeconomic indicators, the relevant international environment, market expectations and medium-term projections. Accumulated inflation during the first four months of the year was 0.95%, after registering in April a monthly variation of 0.40% in the consumer price index. In terms of twelve months, that is, from April 2018 to April 2017, the inflation rate stood at 4.05%, around the center of the target range of 4.0% ± 1.0% set in the Monetary Program. Likewise, core inflation, linked to monetary conditions, was placed at 2.73% year-on-year. Forecasts indicate that inflation would remain within the target range in the two-year monetary policy horizon.

In the international environment, the economic outlook continues to be characterized by the world output growth. In this regard, the *Consensus Forecasts* (CF) projects an expansion of the global economy of 3.3% in 2018 and 3.2% in 2019, under the leadership of the industrialized countries and some emerging economies. However, while the United States of America (USA) maintains a high economic dynamism, growth in the Euro Zone and in Japan tends to moderate. In this context, the markets anticipate that the process of raising interest rates in the USA will continue, while maintaining an expansionary monetary policy stance in the rest of the advanced economies. As a result of the macroeconomic behavior and the differences in monetary positions in the USA and the EZ, a tendency of the dollar to appreciate in international markets is expected. This behavior of the US currency, together with upward pressure on the oil price, could cause a change in the monetary policy stance in some emerging economies through increases in their monetary policy interest rates.

Under this scenario, according to *Consensus*, the US economy would grow 2.8% in 2018 and 2.6% in 2019, while the economy of the Euro Zone would expand by 2.3% and 1.9%, during those years, respectively. On the other hand, in the emerging world, the BRICS economies (Brazil, Russia, India, China and South Africa) continue to grow, led by India, which is expanding at a rate of more than 7.0% so far this year and China, which registered an increase in its real output of 6.8% in the first quarter. Brazil, the Latin American giant, would be growing 2.5% in 2018 and 2.9% in 2019. In the case of Latin America as a region, *Consensus* presents growth prospects of 2.7% for 2018 and 3.0% for 2019, excluding Venezuela that it would continue in recession.

In the domestic context, economic activity continues to evolve favorably, as can be observed in the trajectory of the Monthly Indicator of Economic Activity (IMAE). In effect, the IMAE grew 7.5% year on year in the month of April and 6.7% during the first four months of the year. At the same time, the trend-cycle component of the IMAE expands 6.6% in April, showing that the economy will continue to grow above its potential. This dynamism was the result, to a large extent, of the monetary stimulus provided last year by the reduction in the monetary policy rate and in the required reserves. As a result of these measures, loans to the private sector in domestic currency continue to grow close to 13% year-on-year to May, while monetary aggregates show growth rates above the expansion of nominal GDP.

On the fiscal sector side, revenue collections have remained consistently above the budgeted amount during the five months of this year. If this trend continues, fiscal policy would achieve the deficit target of -2.2% of GDP, set in the 2018 Budget. In the external sector, the increase in oil prices is being offset by a greater dynamism in the foreign exchange generating activities, such as tourism, remittances, exports of goods and foreign direct investment, which contributes to maintaining the relative stability of the exchange rate 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 developments of the world economy, as well as the main risks in the domestic context, in order to adopt the necessary measures in the face of possible effects on price stability and the proper functioning of the financial and payment systems.

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