

The Central Bank's Monetary Policy Rate Is Reduced

The Central Bank of the Dominican Republic, in its monthly Monetary Policy Meeting of August 31, has decided to reduce the Monetary Policy Rate (Overnight) to 4.00% p.a. and the Lombard Interest Rate to 9.50% p.a., as of September 3, 2009.

Monetary policy decisions are essentially conditioned by the performance of the principal determinants of inflation. The inflation rate for July was 0.12%, while the cumulative inflation rate over the first seven months of the year is only 3.31%. It should be noted that the annualized rate fell below zero to settle at -1.22%. Inflationary pressures remain low consistent with market expectations and Central Bank's forecasts.

Recently, global economic conditions have stabilized. However, important economic weaknesses still persists on our major trading partners. Even though the prospects of economic growth for the U.S. and other developed economies for the second half of the year are positive, the pace of recovery will be modest and its effect on the demand for domestic exports of goods and services will also be moderate.

Domestically, internal demand continues to benefit from monetary stimulus, as financing to the private sector has increased for the fifth consecutive month. However, this situation does not offset the negative external conditions that affect the Dominican economy. There has been also a sharp drop in public spending, especially in investment. An IMF agreement would help improve the economic outlook for the remainder of the year. This would allow access to external funding as stated in the Public Income and Expenditure Law of 2009, enabling the government to apply a countercyclical fiscal policy.

The Central Bank shall continue to monitor closely developments related to the international financial crisis and its impact on the global economy, as well as internal demand performance and mid- and long-term inflation expectations.

Santo Domingo, August 31, 2009.