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### **IMF Executive Board Approves US\$1.7 Billion Stand-By Arrangement for the Dominican Republic**

The Executive Board of the International Monetary Fund (IMF) approved today a 28-month Stand-By Arrangement for the Dominican Republic in the amount of SDR 1,094.5 million (about US\$1.7 billion) to support the country's strategy to cope with the adverse effects of the global economic environment.

The authorities' program aims to pursue short-term countercyclical policies; strengthen medium-term sustainability; reduce vulnerabilities exposed during the global crisis; and lay the foundations for a gradual recovery and sustained growth. The Stand-By Arrangement is designed to bolster confidence in the policy framework and catalyze additional financing from other multilateral sources.

Following the Executive Board discussion on the Dominican Republic, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

“Following several years of rapid growth, the Dominican economy has weakened significantly in 2009, due to the global economic recession. The authorities timely adjusted their monetary policy stance to stimulate economic activity on the back of subdued inflation. The financial system has weathered the recent global crisis relatively well, as a result of reforms undertaken after the 2003 financial crisis. The lack of adequate financing, however, constrained the conduct of countercyclical fiscal policy.

“The authorities' macroeconomic framework, supported by a Stand-by Arrangement with the Fund, aims to limit the effects of the global recession on the economy through the implementation of short-term countercyclical policies, while establishing the conditions for robust, sustainable growth. Successful implementation of this program will unlock significant financing from other multilateral sources, creating space for an adequate fiscal response. It will be important that the authorities follow through with their fiscal consolidation plan and structural reform agenda critical for medium-term sustainability.

“The planned fiscal stimulus will focus on high-return investment projects and current expenditures to strengthen social safety nets. The authorities are committed to addressing deficiencies in the revenue administration, and implementing a comprehensive plan to tackle structural issues in the electricity sector, aimed at abolishing untargeted subsidies while providing adequate service to the public.

“Monetary policy will continue to support economic activity and build up international reserves, with exchange rate flexibility to help cushion against external shocks. Implementing the plan for central bank recapitalization remains an important priority, crucial for the credibility of the monetary policy framework. The central bank intends to adopt full-fledged inflation targeting over the medium term.

“The Dominican banking system remains liquid, solvent, and profitable, despite the global credit crunch. The authorities continue to monitor the impact of the economic slowdown, and plan to advance the implementation of risk-based consolidated bank supervision and regulation,” Mr. Portugal said.

## **Recent Economic Developments**

The global economic and financial crisis has significantly worsened short-term economic prospects and may jeopardize some of the achievements of the last 5 years. Economic recovery from the 2003 financial crisis has been impressive. Real GDP grew 40 percent in the last 5 years, one of the highest expansions in Latin America and the best performance of the Dominican economy in the last quarter of a century. Inflation fell from over 40 percent in 2003 to 4.5 percent in 2008. Fiscal deficits have been cut in half, from almost 9 percent of GDP for the consolidated public sector in 2003 to about 4.5 percent in 2008. The public debt-to-GDP ratio was reduced by almost one-half, from about 60 percent in 2003 to 35 percent in 2008. However, social progress remains a challenge, and despite recent improvements, poverty indicators are still weaker than before the 2003 crisis.

## **Program Summary**

To safeguard the achievements of the last several years, and against the background of unfavorable external conditions, large uncertainties and a sizable balance of payments need, the authorities are requesting a 28-month SBA for 500 percent of quota (SDR 1,094.5 million). The objectives of the program are twofold: first, to conduct countercyclical policies at the beginning of the program (including the last quarter 2009 and the first half 2010) to mitigate the drastic economic downturn; and second, to implement actions to address debt and fiscal sustainability issues in the latter part of the program (starting in mid-2010), while embracing an ambitious structural reform agenda.