**EXECUTIVE SUMMARY**
**DOMINICAN ECONOMY**
**JANUARY – JUNE, 2005**

During the first half of 2005, the Gross Domestic Product (GDP) measured in **real terms** increased by 5.8% with respect to the same prior year period, according to preliminary numbers supplied by companies making up the sample of each of the economic sectors. This represents a growth of 7.2% for the economy during the second quarter of this year.

These results are reflected by a 48.9% growth in taxable imports, or “other imports”, which have a high correlation with GDP performance. Among these, there was a 54.0% increase in consumer goods imports. Additionally, there was a 12.8% increase in private consumption in real terms.

The sectors contributing to GDP growth during the first half of the year were: Communications (24.3%); Commerce (14.9%); Hotels, Bars and Restaurants (10.1%); Transportation (6.1%); Finance (3.2%); Agriculture/Livestock (2.3%); Other Services (2.0%); Housing (1.9%); and Manufacturing (0.7%). Altogether, these sectors make up 80.3% of the GDP.

It should be noted that this favorable GDP performance surpasses all expectations for the projected recovery of the Dominican economy, which has surprised all concerned due to the record time in which most sectors have responded in a positive way. This has been a response to the increased confidence of the different economic agents and the close coordination of monetary and fiscal policies.

The **Consumer Price Index (CPI) variance** for the month of June was only 0.06%. Cumulative inflation for the first half of the year was 0.82%, compared to 31.09% for the same prior year period. The annualized inflation rate maintained its downward trend, reaching -0.98% in June of this year. This shows that, after a period of economic crisis and high inflation, the Dominican economy had begun, as far back as the end of last year, a gradual process of deflation and correction in the prices of goods and services, in consonance with the levels of stability exhibited in the exchange rate. The adjustment in internal prices has not been more evident, due to being partially offset by continuously rising prices in the foreign oil markets.

Regarding the **external sector**, the total balance of payments results showed a positive balance of US$ 551.7 million, helping the growth in international reserves. During the period in question, gross international reserves rose by US$ 700.1 million, and on a net basis, by US$ 637.4 million, over the December, 2004 figure.

The current account surplus, which equaled US$ 319.8 million, registered a drop of US$ 451.2 million, or 58.5%, below the levels of the same prior year period. This was determined by a strong rise in imports (23.3%), in accordance with the reactivation of the economy, and in response to the return of exchange rate stability. Exports grew by 7.7%, among which national exports increased 16.6%, while industrial free zone exports rose 5.3%.

The total expenditure for oil imports reached US$ 1,081.4 million, higher by US$ 348.5 million that the same prior year period. During the first half of 2005, international oil prices surpassed US$ 58.00 a barrel. This led to a 47.6% increase in oil expenditures, while imported volume rose by 12.3%.

The balance of services surplus increased its surplus by US$ 189.3 million, or 15.2%. Tourist-related services, which represent 91.9% of total income for this balance, rose by 17.8%. The balance of net current transfers registered an increase of 6.4%. Family remittances from abroad, which represent 93.5% of current transfers, contributed US$ 1,102.0 million to the economy. This is 4% higher than in the same prior year period.

With regard to **the monetary sector**, the monetary authorities adopted a strategy to eliminate the excess liquidity generated by the financial crisis. The Central Bank have issued Certificates of Investments to achieve its goal. Even though the stock of debt at the Central Bank has increased as a result of the open market operations, the financial cost has actually decreased as a result of lower interest rates. The reduced inflation expectations and the excess liquidity in the financial system pushed interest rates down. Money supply (M1) grew 8.3% over the month of December 2004. Also, the reduction in interest rates, both in Central Bank instruments and in the commercial banking sector, shows that there is no scarcity of liquidity in the economy. It should be pointed out that the monetary targets set in the IMF Stand-by Agreement up to June were amply met.

In the fiscal sector, during the first half of 2005, preliminary results indicate that the non-financial public sector (NFPS) registered a surplus of RD$ 10,915.9 million. This, in contrast to the RD$ 20,647 million deficit for the same prior year period, is an indication of the government's important effort aimed at fiscal adjustment. As a result, the NFPS monetary targets set in the IMF Agreement were comfortably met. These established a cumulative deficit for the October 2004-June 2005 period of RD$ 6,600 million. The Central Government balance followed a similar trend. Total Central Government income increased by 24.4%, while total expenses only rose by 7.1% in the first half of the year compared to the same prior year period.

It is worth noting that this favorable economic performance has been achieved, while complying with the ceilings that have been rigorously established in the IMF Agreement. Together with the inflation rate and nominal exchange rate stability that has been evident to date this year, these results have contributed to improving the outlook for the economy. It can be confirmed that the Dominican Republic is well on the way to establishing growth with macroeconomic stability, based primarily on a re-energized private sector.