

Report on the Dominican Economy, First Quarter 2008
Executive Summary

Preliminary figures on the performance of the Dominican economy during the first quarter of 2008 indicate a growth rate of 6.2%, reflecting a slowdown compared to the pace registered for comparable periods in the two prior years. This is due principally to a contraction of the Agriculture and Livestock sector (-7.1%) resulting from severe damage wrought by Tropical Storms Noel and Olga in the fourth quarter of 2007.

GDP performance for the period is broken out into the following sectors: Local Manufacturing (3.1%); and its flour milling component (30.4%); Construction (7.8%); Financial Intermediation Services (20.3%); Communications (12.7%); Commerce (7.5%); Energy and Water (7.8%); Hospitality (5.2%); Transportation (5.3%); Rental Housing (3.5%); Public Administration and Defense (1.1%); Education (3.2%); Health (1.6%); Other Service Activities (2.4%).

Regarding price performance, cumulative inflation stood at 2.79% for the first quarter of the year, largely due to sustained increases in oil prices and in overseas prices for wheat, corn, milk, and soy. This, together with the lag effects of Noel and Olga, led to higher local food prices. Also influencing performance was the increase in internal demand, which is characteristic of electoral periods. First quarter inflation can be largely attributed to Transportation, which accounted for 1.32 percentage points representing 47.5% of the variance, and Food, Beverages, and Tobacco, which accounted for 1.01 percentage points representing 36.36% of the variance for the period.

Additionally, the country's balance of payments deficit reached US\$ 134.9 million during the period in question. Central Bank Gross International Reserves, US\$ 2.89 billion as at March 31, helped to finance that balance. External performance has been weakened by the oil import bill, which reached US\$ 1.01 billion. This figure is US\$ 337.3 million (49.9%) higher than it was during the same prior year period. Thus, of the US\$ 776.1 million increase in national imports, 43.5% is accounted for by imports of crude and its derivatives. Moreover, the oil import bill accounts for 42.6% of the US\$ 791.7 million increase in the current account deficit. This impact has been partially offset by a US\$ 1.12 billion surplus in the service trade balance, higher current transfers (US\$ 866.5 million) and sustained growth of foreign direct investment (US\$ 1.06 billion).

In the fiscal sector, Central Government operations on an accrual basis registered a deficit balance of RD\$ 5.70 billion or 1.5% of GDP. Added to the remaining Non-Financial Public Sector balance, the figure reaches RD\$ 6.21 billion. This deficit was partially financed through RD\$ 1.17 billion in internal credits and external funds, equal to US\$ 34.4 million.

Since the beginning of the year, monetary policy has been directed toward counteracting the negative effects of the unfavorable international scenario and the jump in public and private spending during the electoral cycle. By means of this policy, it was possible to keep monetary issuance within the range established in the Monetary Program, reaching

RD\$ 118.08 billion at the end of the period. Similarly, the M1 money supply figure grew by 31.3% in annualized terms, to RD\$ 139.33 billion, and the M² money supply and quasi-money rose 19.7%, ending the period at RD\$ 421.26 billion.

Meanwhile, total outstanding securities equaled RD\$ 184.01 billion, which is 6.4% higher than their March, 2007 levels, sustaining, however, the contraction in volume evident in recent quarters. It should be noted that, despite this year-on-year increase, total interest payments went down by 14.5%, which reflects the fall in interest rates during that period. At March 2008 month-end, the Central Bank quasi-fiscal deficit rose to RD\$ 4.28 billion. This is RD\$ 1.01 billion lower than had been estimated for the period in the Monetary Program.

The financial sector maintained the rate of expansion in its asset and liability operations and its capital enhancement activities evident during the recent years of recovery for the sector. As of March 31, 2008, Total Gross Assets stood at RD\$ 602.54 billion or 16.5% higher than March 2007. Total Liabilities reached RD\$501.67 billion or 18.5% higher. At the close of the period, the credit portfolio was the component showing the highest growth and share among total financial sector assets, expanding by 27.5% on an annualized basis. Multiple service banks registered weighted average annual interest rates of 15.28% for assets and 6.41% for liabilities, similar to December 2007. Nevertheless, over the coming months multiple service bank rates could rise somewhat, as a result of monetary policy instrument rate hikes, especially for short term interest bearing deposits and auctioned Central Bank notes.