REPORT ON THE DOMINICAN ECONOMY, JANUARY-DECEMBER 2009
EXECUTIVE SUMMARY

The Dominican economy grew by 3.5% in 2009, exceeding the projections of slower growth at the beginning of the year, in an unfavorable international scenario. Economic performance in 2009 was sustained by the activity that was evident in some sectors related to domestic demand, such as: Communications, 14.0%; Agricultural, 12.5; Financial Intermediation and Insurance, 8.3%; Other Services 6.9%; Education, 4.5%; Health, 4.3%; Rental Housing, 3.1%; Energy and Water, 3.0%; Public Administration 2.6%; Local Manufacturing, 1.0%; and Transportation, 0.5%.

To a large extent, the growth was driven by increased availability of funding as a result of measures applied by the Monetary Board, to reducing interest rates and loosening reserve requirements to release funds through the banking system, to be directed to Construction, Agriculture, Local Manufacturing and Small and Medium Enterprises (SMEs). Consequently, during 2009 loans from multiple service banks to the productive sector increased by 8.6%, compared to a 6.9% increase in 2008.

On the expenditure side, GDP growth of 3.5% was supported by private end-consumption, which represents 89.8% of GDP. In annualized terms, private consumption grew by 5.2% over 2008, spurred by the measures taken in order to soften the negative effects of the global crisis. Importantly, in the last quarter of the year, public consumption, which had been on a downward trend, began a rebound, increasing by 2.3% compared with fourth quarter 2008. Gross capital formation (investment) contracted by 14.7% as a result of the uncertainty created by the international crisis. Similarly, exports and imports declined by 7.4% and 9.8%, respectively.

In addition to registering one of the highest growth rates in Latin America for 2009, inflation in the Dominican Republic remained below the target range of 6%-7% as defined in the Monetary Program. Accordingly, the rise in the CPI stood at 5.76%. Of this increase, 63.37% is explained by rising prices for fuel and electricity as a result of the impact of the external crisis on the Dominican economy. Also, the number of employed increased by 58,229 individuals compared to April, 2009, as reflected in the preliminary results of the October National Labor Force Survey. This growth in employment allowed the economy to absorb a 0.4 percentage point increase in the working age population of, so that the broad unemployment rate for October 2009 was 14.9%, similar to the April figure for that year.

Regarding the external sector, preliminary figures show that 2009 finished up with an overall positive result of US$409.5 million in the balance of payments position. This result indicates that the inflow of funds was sufficient to bolster international reserves after covering the current account deficit and external debt obligations. It should be noted that the current account deficit fell from 9.9% of GDP in 2008 to 5.0% of GDP in 2009, exceeding the forecasts earlier this year as spelled out in the Monetary Program and the IMF Stand-By Agreement.

The international crisis had a major impact on Central Government tax revenues. As a result of this, Central Government operations ended 2009 with a deficit of RD$57.86 billion on an accrual basis, or 3.5% of GDP. Although this result was above the agreed IMF target for 2009, the Consolidated Public Sector, which, other than the Central Government, also includes the Central Bank and the Non-Financial Public Sector, registered a deficit in line with the estimated target for this variable as per the IMF Letter of Intent.

Monetary policy in 2009 was focused on addressing the deepening international crisis and its impact on the Dominican economy. In an environment of reduced economic activity and lower inflationary pressures, the monetary authorities changed their policy stance, leading to an easing of monetary conditions through a set of measures that allowed them to successfully confront the adverse effects of the crisis. The measures included reductions in overnight and Lombard rates and major adjustments to reserve requirements, such as the freeing up of resources allocated to productive sectors and reducing the reserve requirement ratio by 3.0 percentage points.

The financial sector showed renewed activity as reflected in the main variables and indicators during 2009, and supported by the monetary and financial policy measures adopted by the authorities. These measures helped reverse the decline in bank credit observed during the first quarter. As of year-end 2009, the sector's total gross assets had grown by 12.9%, while liabilities expanded by 13.7%, driven by deposits and outstanding securities. Equity increased by 7.4%, largely due to an increase of 9.8% in paid-in capital, which is indicative of the confidence that the deposit-holding public has in the system and the strength that has been observed in that system in recent years.

The information contained in this report shows that in 2009 the Dominican economy began a process of sustained recovery within an environment of controlled inflation. By 2010, it is expected that this process will continue smoothly, and that, under the Stand-by Agreement with the IMF, the economy will gradually return to growth levels that are closer to its potential.