

DOMINICAN ECONOMY REPORT, JANUARY-JUNE 2011

EXECUTIVE SUMMARY

During the semester January to June 2011 the Dominican economy experienced a growth rate of around 4.0% showing a slowdown in the growth rate compared to the analogous period of 2010. This level of performance reflected can be considered satisfactory in the context of an economic environment influenced by the set of measures adopted at the end of 2010 in order to preserve macroeconomic stability, in view of external factors among which stand out the continuous increase since the middle of last year, international oil prices and commodities. This behavior is in harmony with the objectives of the monetary policy and the agreement with the International Monetary Fund (IMF).

It is important to note that the added value of most economic activities showed a good performance during the period considered in the following order: Mining, 65.6%; Free Zones, 9.5%, Agricultural, 7.1%, Local Manufacturing, 5.7% ; Other services activities, 5.4% Health, 5.0%, education, 4.6% Trade 4.5% Transportation and Storage, 4.1%, Financial Intermediation and Insurance, 3.9%, Hotels, Bars and Restaurants, 3.7%; Rental Housing, 3.0% public administration, 1.0%. Together, these activities provided a 70.0% of GDP. Contractions were observed in energy and water activities (-7.9%), communications (-2.3%) and Construction (-0.2%).

On the expenditure approach, it appears that the reduction in the growth rate of aggregate demand is largely due to the slowdown in private consumption growth, which rose from 7.2% in January-June 2010 to 4.8% in January -June 2011, as a result of the decline in private consumption, and fiscal adjustment made from the past under the IMF agreement, which was reflected in a reduction in public consumption of 6.7%. Meanwhile, gross capital formation declined by 2.1%, while imports and exports increased by 6.9% and 4.2% respectively.

The Consumer Price Index registered a cumulative increase of 5.85% during the period January to June 2011. This result is explained largely by increases in oil prices in international markets and major agricultural *commodities*, which resulted in price increases for transport, fuel, electricity, food and nonalcoholic beverages, accounting for 80.71% of the growth index. Annualized inflation stood at 9.32%.

In the external sector during the period analyzed, stand out the recovery that continues to show free zones exports, which verified an increase of U.S. \$ 264.7 million (13.5%) with respect to January-June 2010. Meanwhile, domestic imports moderated its growth, registering an increase of 17.1% in January-June 2011 in contrast to 33.1% in January-June 2010. The current account deficit amounted to \$2,161.2 million, exceeding in US\$ 466.4 million the result registered in the same period last year, mainly due to the upward trend in fuel prices. At the end of January-June quarter, the gross and net international

reserves of the Central Bank amounted to US\$2,945.9 million and US \$2,606.5 million, respectively.

At the end of the semester January to June 2011, the Central Government's fiscal operations, on an accrual basis, showed a deficit of RD\$20,684.9 million, lower than that established in the Stand-by Agreement with the IMF of RD\$21,300.0 million. During this period, the fiscal performance was influenced by the increase in oil prices, higher than expected in the national budget, forcing the government to make spending adjustments to accommodate this external shock. Fiscal measures implemented during the period considered, especially on the expenditure side, helped to obtain taxable income located within the provisions of the agreement with the IMF

The Monetary policy was focused on reducing inflationary pressures, both of external and domestic character, to which was subjected the Dominican economy during the semester January to June 2011. In this regard, in response to higher inflation and with the interest of avoiding that such pressures would put at risk the achievement of the goal established in the Monetary Program for the year end, the Central Bank of the Dominican Republic implemented adjustments in the short-term interest-bearing deposits (*Overnight*) taking it to 6.75%, for an increase of 175 basis points with respect to the December level.