

Central Bank of the Dominican Republic Increases Overnight Rate

The Central Bank of the Dominican Republic, following its commitment to maintain macroeconomic stability and control over inflation, in a monetary policy meeting held on July 30, 2008, increased its overnight rate from 9.0% to 9.5% effective on August 1st, 2008. The Lombard Rate remained unchanged at 16 percent.

This decision is consistent with the targets set in the Central Bank's Monetary Program and aims to reduce inflationary pressure on internal prices, given the magnitude of the external shock. Interest rate movements are conditioned to the performance of internal and external inflation determinants, considering the lags in the monetary transmission process.

In this regard, even when external volatility has shown signs of moderation recently, their effect on the Balance of Payments has been significant and the monetary authorities foresee a lagged effect on the Dominican economy. Moreover, there is a persistent imported inflation component originated by high international food, commodities, and other finished goods prices.

Domestically, inflation risks are still present due to an increase in aggregate demand, driven by rising consumption and investment public and private, which could affect inflation in the last two quarters of the year.

The Central Bank will continue to closely monitor the international situation and the developments in internal markets, as well as their implications for mid and long-term inflation expectations.

Santo Domingo, July 31, 2008.