

**FOR
AGENDA**

EBS/08/161
Supplement 3

January 9, 2009

To: Members of the Executive Board

From: The Secretary

Subject: **Dominican Republic—First Post-Program Monitoring Review—Draft
Public Information Notice**

Attached for consideration by the Executive Directors is the background section of the draft Public Information Notice relating to the paper on the first post-program monitoring review for the Dominican Republic (EBS/08/161, 12/29/08), which is tentatively scheduled for discussion on **Monday, January 12, 2009**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Dominican Republic indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. Wolfe (ext. 38620), Mr. Canales-Kriljenko (ext. 34224), and Mr. Alichí (ext. 35494) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, January 21, 2009; and to the European Commission and the Inter-American Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 09/xx
FOR IMMEDIATE RELEASE
[Month, dd, yyyy]

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes First Post-Program Monitoring Review with the Dominican Republic

On January 12, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the first post-program monitoring review with the Dominican Republic.¹

Background

Macrop performance was uneven in 2008 in the context of the difficult external environment. Following natural disasters at end-2007, the country's terms of trade deteriorated sharply through the first half of 2008. While GDP continued to expand solidly in the first half of the year, falling nickel prices and rising food and energy prices led to sharp increases in the fiscal and external current account deficits, and inflation accelerated to nearly 15 percent in the third quarter. With food and energy prices having fallen sharply since October, *pari passu* with the global economic slowdown and international financial crisis, inflation has fallen rapidly, and ended the year at 4.6 percent, the lowest level in seven years (and down from almost 9 percent in 2007).

Developments in 2008 were met with a mix of loose fiscal and tight monetary policies. Public spending was increased, in large part, to shield the economy from the deterioration in the terms of trade. In this circumstance, the central bank cut sharply money and credit growth rates to contain second-round effects of higher world food and oil prices on inflation and the external current account deficit.

¹ In August 2008, the Executive Board of the IMF decided that post-program monitoring (PPM) with the Dominican Republic was needed, in view of outstanding credit to the Dominican Republic in excess of 100 percent of the country's quota and the difficult external environment. A staff team visited the country in November 2008 to discuss with officials the country's economic developments and policies, and their report formed the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The domestic financial system has weathered the immediate effects of the international financial crisis. The exchange rate has been managed in a manner to ensure an orderly depreciation of the peso against the U.S. dollar and appears broadly in line with macro-fundamentals. Banks' exposure to foreign credit lines has been very limited since the 2003–04 financial crisis, and prudential indicators point to liquidity and capital buffers that will allow banks to withstand moderate stress.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Table. Dominican Republic: Selected Economic Indicators

Main export products: Tourism, textiles, jewelry, electronics, nickel, sugar, and coffee.

GDP per capita (U.S. dollars, 2007)	4,270	Income share by highest	
Population (millions, 2006)	9.6	10 percent (in percent, 2006)	39.0
Life expectancy at birth (years, 2006)	72.3	Extreme poverty rate (2006)	13.1
Under 5 mortality rate (per thousands, 2006)	29.2	Adult literacy rate (percent, 2004)	94.1

	2004	2005	2006	2007		Proj.	
				Prog.	Prel.	2008	2009
National accounts and prices							
	(Annual percentage change, unless otherwise indicated)						
Nominal GDP (RD\$trillion)	0.9	1.0	1.2	...	1.4	1.6	1.7
Dollar GDP (US\$ billion)	21.6	33.5	35.3	...	41.0	45.6	45.9
Real GDP	1.3	9.3	10.7	6.0	8.5	4.8	1.8
Consumer price index (period average)	51.5	4.2	7.6	4.5	6.1	11.3	5.3
Consumer price index (eop)	28.7	7.4	5.0	4-6	8.9	7.5	7.0
Social Indicators							
Unemployment rate (in percent)	19.7	17.5	16.0	...	15.6	14.0	...
Public finances 1/							
	(In percent of GDP)						
Central government primary balance	-1.2	0.4	0.2	2.3	1.7	-0.8	0.5
Total revenues (including grants)	14.0	15.6	16.2	19.7	17.6	15.7	14.3
Primary spending	15.3	15.1	16.0	17.3	15.8	16.4	13.8
Interest expenditure	1.8	1.4	1.7	1.6	1.6	1.8	2.2
Nonfinancial public sector overall balance	-2.0	-0.5	-0.9	0.6	0.1	-2.6	-1.7
Quasi-fiscal balance of the central bank	-3.4	-2.5	-2.2	-1.9	-1.8	-1.4	-1.4
Consolidated public sector balance	-5.4	-3.0	-3.1	-1.2	-1.7	-4.0	-3.1
Of which : primary balance	-0.1	1.0	0.4	2.3	1.8	-0.4	0.9
Total public debt	51.1	36.6	38.3	51.1	35.4	32.5	33.2
Of which : FX currency share (in percent)	69.8	59.9	53.8	...	53.7	49.2	50.0
Money and credit							
	(12-month percentage changes, unless otherwise indicated)						
Liabilities to private sector (M3)	22.8	18.0	13.5	17.3	15.2	12.6	10.9
Currency in circulation	9.8	17.8	14.7	12.1	16.5	12.7	13.5
Deposits	11.2	11.4	5.7	22.7	15.7	12.4	12.5
Net domestic assets of the banking system	11.5	6.7	11.8	15.3	12.1	15.4	10.5
Of which:							
Credit to the private sector	-1.0	9.6	14.3	21.7	26.3	11.9	9.8
M3, in percent of GDP	36.5	38.4	37.3	43.3	37.5	36.1	35.3
Balance of payments							
	(In millions of U.S. dollars, unless otherwise indicated)						
Current account	1,041	-473	-1,288	-1,215	-2,068	-4,439	-2,695
Merchandise trade balance	-1,952	-3,725	-5,564	-5,409	-6,437	-8,969	-7,127
Exports	5,936	6,145	6,610	6,934	7,160	6,377	5,914
Imports	-7,888	-9,869	-12,174	-12,343	-13,597	-15,346	-13,040
Of which : oil and gas	-1,668	-2,451	-2,788	-2,853	-3,224	-4,262	-2,240
Services and transfers (net)	2,994	3,252	4,276	4,194	4,369	4,530	4,432
Of which : interest on public debt	-223	-291	-236	-391	-245	-274	-338
Capital and financial account	118	1,636	1,598	1,533	2,314	3,867	3,257
Of which: foreign direct investment	909	1,123	1,528	1,396	1,517	2,811	2,192
Errors and omissions	-980	-466	-147	-458	374	283	0
Overall balance	179	697	164	439	620	-289	562
Of which : change in NIR (increase -)	-479	-918	-268	-439	-607	295	-562
Current account (in percent of GDP)	4.8	-1.4	-3.6	-3.4	-5.0	-9.7	-5.9
Exports of goods (in US\$, annual percentage chg)	8.5	3.5	7.6	7.7	8.3	-10.9	-7.3
Imports of goods (in US\$, annual percentage chg)	8.5	25.1	23.3	9.9	11.7	12.9	-15.0
International reserve position and external debt							
Gross official reserves	825	1,929	2,251	2,468	2,946	2,610	2,979
(in months of imports of goods) 2/	1.3	2.3	2.2	2.6	2.6	2.0	2.7
(in terms of short-term external debt, percent) 3/	126.8	185.7	249.8	256.1	318.7	307.5	314.9
Net international reserves	602	1,520	1,788	1,898	2,395	2,100	2,662
NIR, program definition 4/	192	850	1,128	1,275	1,626	1,331	1,892
Outstanding external public debt, in percent of GDP	29.7	20.6	21.3	29.7	18.5	17.4	16.7
WEO Oil price (US\$/bbl)	37.8	53.4	64.3	n.a.	71.1	99.8	54.3

Sources: BCRD; World Bank; and Fund staff estimates and projections.

1/ Fiscal projections include unidentified measures.

2/ In relation to imports of the current year.

3/ In relation to total external debt service obligations, including clearance of arrears and IMF obligations, during the following year on a residual maturity basis.

4/ Excludes reserve requirements on f/x deposits and various government deposits in f/x at the central bank.