



Press Release No.
FOR IMMEDIATE RELEASE

International Monetary Fund
Washington, D.C. 20431 USA

Statement of IMF Staff Mission to the Dominican Republic

An International Monetary Fund mission, headed by Andy Wolfe, visited Santo Domingo during November 12–19 to conduct the first post-program monitoring (PPM) discussions with the Dominican Republic. Such discussions are expected to take place semi-annually after a Fund program expires and a country's exposure to the Fund exceeds 100 percent of quota. The last Stand-By Arrangement with the Dominican Republic expired on January 30, 2008. Post-program monitoring is a form of intensified surveillance, complementing the annual surveillance under the Article IV Consultation.

The discussions focused on the macroeconomic policies needed to maintain stability in the face of a rapidly slowing world economy and tight international financial conditions. There was broad agreement that a fiscal adjustment in 2009 was needed, including because of the tighter global credit conditions, but that such a tightening of fiscal policy would create space for some easing of monetary policy. In addition, the country will benefit from the reduction in international food and energy prices, which has significantly improved Dominican terms of trade and should help reduce pressure on the fiscal and external current accounts.

The prudent monetary policy implemented during 2008, which has contributed to moderating aggregate demand and has served as an anchor for macrostability, is beginning to bear fruit, is helping to diminish pressure in the foreign exchange market, and is expected to generate a reduction in inflation in 2009 to 7 percent. Nevertheless, there should be scope for easing monetary policy in the course of 2009 as the fiscal adjustment takes hold. To this end, the authorities will submit a budget to congress based on a realistic revenue projection and a credible and identified level of financing. A key element in the fiscal adjustment is the envisaged improvement in the financial situation of the electricity sector that reflects not only the reduction in energy prices, but also active enforcement of the criminalization of electricity theft and a tariff policy that accurately reflects costs.

In the financial sector, official indicators suggest a well-capitalized, liquid, and profitable banking system that should be well cushioned to withstand current adverse external conditions. In this context, a joint IMF and World Bank mission is scheduled for early 2009 to conduct an update of the financial sector assessment program, which was last carried out in 2002. Lastly, the authorities will include in the 2009 budget resources to meet the government's cumulative obligation under the central bank recapitalization law.

These policies should contribute significantly to strengthen the Dominican economy.

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