

# **CENTRAL BANK OF THE DOMINICAN REPUBLIC**

## **Press Release on Monetary Policy**

### **The Central Bank Reduces its Overnight Interest Rate and Lombard Rate**

The Central Bank of the Dominican Republic, following its firm commitment to maintain price stability, has resolved, in its monetary policy meeting of December 30, 2008, to reduce, effective January 2, 2009, its overnight interest rate to 8.50% per annum, and its Lombard rate to 14% per annum.

Decisions with respect to interest rate movements depend on key inflation determinants. At the end of 2008, the inflation rate reached 4.52%. This is below the Monetary Program target for 2008. The reduction in interest rates is consistent with current oil price and internal demand performance, and reflects a prudent fiscal stance in line with the recently approved Income Budget and Public Spending Law for 2009.

In the international front, during the previous month the international prices of oil, other commodities and raw materials continue to show a downtrend. Additionally, recent figures show that the United States, our principal trading partner, is in economic recession. In an effort to counter that situation, United States have been pursuing expansionary policies designed to act as a stimulus to the real economy, such as the recent reduction in Fed funds within a range between 0 and 0.25%, which will influence the cost of money internationally.

Domestically, monthly inflation rates for October, November, and December were negative showing the effect of the drop in international oil prices and other commodities on goods and services such as transportation and food.

In December, the repo facility created by the Monetary Board to provide short term liquidity to financial intermediaries, was operating effectively. This instrument has allowed financial intermediaries to access funds needed to cover the higher seasonal demand for money during the holiday period.

The Central Bank will continue to monitor any evidence of inflationary pressure, from both the internal and external economic environment, that could affect the target of price stability defined by the Monetary and Financial Law. Accordingly, the Bank will follow on developments in the international financial crisis and their impact on the global economy, as well as internal demand performance and mid- and long-term inflation expectations.

Santo Domingo, December 31, 2008.