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Statement by an IMF Mission to the Dominican Republic

An International Monetary Fund (IMF) mission led by Mr. Alejandro Santos visited Santo Domingo during October 27- November 9 to conduct discussions under the fourth review of the Stand-By Arrangement (SBA), which was approved by the IMF Executive Board in November 2009 ([Press Release No. 09/393](#)). The mission met with President Leonel Fernández, Central Bank Governor Héctor Valdez, Minister of Finance Vicente Bengoa, Minister of Economy Temístocles Montás, Vice-President of the Public Electricity Corporation Celso Marranzini, as well as senior government officials. At the conclusion of the visit, Mr. Santos issued the following statement:

“The mission made significant progress in the discussions and will conduct the final assessment of the fourth SBA review in Washington in the coming weeks. Discussions on a letter of intent (LOI) that reiterates policies for the rest of 2010 and 2011, in line with the program, are well-advanced.

“The first phase of the program (through mid-2010) focused on stimulating the weak economy, and was very successful. Economic activity rebounded vigorously growing by 7.6 percent in the first three quarters of 2010 (year-on-year) following a modest fiscal impulse at end-2009 and a supportive monetary policy that reduced the interest rate to 4 percent. Against this background projected real GDP growth for 2010 has been revised upward by 1 percentage point to 6.5-7.0 percent. The external current account is expected to post a deficit of 7.5 percent of GDP in 2010 financed with a combination of direct foreign investment, public borrowing and private capital flows.

“All performance criteria and structural benchmarks for end-September 2010 were observed (including the deficit of the consolidated public sector, the deficit of the central administration, and net international reserves, among others), except the performance criterion on the zero ceiling on arrears to private electricity generators which was temporarily breached. The IMF Board has already given a waiver of nonobservance on this target in the context of completing the previous reviews on October 22. Data revisions also indicate that the end-December 2009 performance criterion on the consolidated public sector

deficit was temporarily breached by a small amount which is largely irrelevant from a macroeconomic perspective. The authorities will be requesting a waiver for the nonobservance of this performance criterion in their forthcoming LOI.

“The second phase of the program (after mid-2010) stresses a gradual rolling back of the stimulus to regain fiscal space, further strengthen debt sustainability and anchor inflationary expectations. The tightening phase of the program has been designed with the objective of safeguarding the sustainability of public debt. The authorities have sent to Congress two supplementary budgets to align the public finances with program targets and have also sent to Congress a budget for 2011 in line with the program. In addition, the Central Bank began removing the monetary accommodation in September 2010, increasing the interest rate on overnight deposits (by a 100 basis points) to 5 percent. Headline inflation remains contained at 5.7 percent in the twelve months through September 2010, while core inflation (which excludes food and fuel) reached 3.9 percent in the same period. End-2010 inflation is expected to remain within the Central Bank’s target of 6-7 percent. The real GDP growth forecast for 2011 remains in the range between 5.5 and 6.0 percent.

“The mission would like to thank the authorities and the citizens of the Dominican Republic for their warmth and hospitality.”