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BANCO CENTRAL DE LA REPUBLICA DOMINICANA
REPORT TO THE MONETARY BOARD: MAY 1982

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OPR/lmm.
30 April 1982

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
REPORT TO THE MONETARY BOARD: MAY 1982

Introduction

1. The purpose of this report is to give a brief account to the Monetary Board of progress in carrying out the programme of work which we are undertaking in collaboration with officials from the Banco Central under the agreement between the Banco Central and Samuel Montagu & Co. Limited which came into effect in March this year. The report also mentions some of the subjects which we hope to discuss at the Banco Central during our regular visit to Santo Domingo in the working week beginning 3 May.

Report to the international financial community

2. One of the main objectives of the agreement is to widen the range of the Banco Central's foreign commercial bank counterparties. In the past, the Banco Central has relied primarily on foreign commercial banks from North America. Over a period of time, it is hoped that it will be possible to supplement the foreign currency financing provided by North American banks through access to foreign commercial banks in other international financial centres, particularly in Europe. This is not an easy task, but it is an important one from the point of view of ensuring continued availability of foreign currency financing for the Banco Central in future.

3. At present, foreign commercial banks in Europe, the Middle East and the Far East are not very familiar with the financial position and prospects of the Dominican Republic. In the present climate, which is not generally favourable for international bank lending to the Caribbean Basin (or to other regions of the developing world), it will be necessary over a period of time to present the Dominican Republic's case to the international financial community, so that international banks are able to distinguish between the opportunities for lending to the Dominican Republic and the problems that they frequently face in their relations with other countries.

4. As a first step in the process of familiarisation, we have prepared a financial report on the Dominican Republic on the basis of financial information supplied by the Banco Central. A copy is included at the back of this document. The report is in draft form, and we hope to discuss its contents with the Banco Central during our visit. In particular, we hope to obtain more up to date financial statistics, and data about the mineral resources of the Dominican Republic, where these are now available, to reconcile the different sources of financial information already received, and to discuss the foreign exchange budget forecast for the period ahead.

5. As amended in discussions with the Banco Central, and subject to the Banco Central's approval, the report will then be circulated to target foreign commercial bank counterparties with whom it is hoped that it will be possible for the Banco Central to develop a new relationship in the future, or where there is an existing relationship, to extend it. A draft target list of foreign commercial bank counterparties is included for discussion on our visit at the end of this report. We also consider that North American banks should be circulated with financial information on a regular basis, so that the international financial community as a whole becomes more aware of the financial prospects for the Dominican Republic.

Presentations to foreign creditors

6. The preparation of financial reports is not an end in itself, but a means to establishing relations with new foreign creditors and developing relations with existing creditors. One method of achieving this objective is by organising presentations to which target foreign commercial bank counterparties are invited. A preliminary presentation of this kind was held a month ago at the Inter-American Development Bank meeting in Cartagena. An initial version of the financial report (excluding the explanatory notes and statistical section) was presented to that meeting, which was addressed by the Governor, and attended by senior representatives of a special selection of foreign commercial banks: Saudi International Bank (London); Amsterdam-Rotterdam Bank (Amsterdam); Société Générale de Banque (Brussels); National Westminster Bank (London); Banco de Bilbao (Madrid); Deutsch-Südamerikanische Bank (Hamburg).

7. During our visit, we will be discussing the character and venue of possible presentations to foreign commercial banks in future, whether in London or in other financial centres. In order to obtain the maximum financial benefit from foreign commercial banks in the medium term, we consider that it may also be necessary to approach the official export credit agencies in the countries responsible for the commercial banks concerned. These official institutions not only ensure that, when funds are provided to finance the supply of goods and services, they are provided on terms that are more favourable than market terms. They also influence the attitude of commercial banks when they consider the credit rating of countries to which funds may be committed.

Weekly telexes on foreign currency financing

8. In conjunction with officials from the Banco Central, we have devised a system whereby the Banco Central can telex us weekly in London on a confidential basis with details of the foreign exchange budget in the month ahead. This has two advantages. First, the system gives advance warning if there is a danger that arrears may arise on foreign currency payments in the period ahead, so that corrective action would be taken to pre-empt this. Secondly, the information we receive enables us to telex back to the Banco Central with detailed recommendations on foreign currency financing options in the period ahead. The format for the telex of weekly information has recently been revised by the Banco Central, and we hope to review the revised format with officials from the Banco Central during our visit.

9. In recent weeks, we have been involved in telex discussions on a number of foreign currency financing options, including the provision of Commodity Credit Corporation guaranteed financing, and the procurement of foreign currency deposits for the Banco Central from the Central Bank of Trinidad & Tobago. In some cases, it may be possible for the Banco Central to withstand pressure on the reserve ratio stipulated in Article 45 of the Central Bank Law without raising new funds. For example, we have suggested that it may be possible, when they mature, to alter the terms of the lines of credit that the Banco Central receives from a number of North American commercial banks from a 3 month revolving basis to the equivalent of 1 month and a day's notice, so as to minimise the adverse impact of shortening maturities on the reserve ratio.

10. Apart from the telex recommendations on foreign currency financing options, we also receive weekly information on a confidential basis on the position of the Banco Central's foreign currency reserves. This enables us to make recommendations by telex on ways of maximising the revenues that can be obtained by the Banco Central on the reserves. In particular, we hope that we will be able to recommend ways in which the Banco Central can increase the revenue it receives on foreign currency reserves that are presently tied up as cheques in the process of collection.

Special assignments

11. We have been investigating three other subjects in general terms which we hope to discuss with officials of the Banco Central during our visit. These are:

(a) investment guidelines: the preparation of an appropriate set of investment guidelines and procedures to enable the Banco Central to make best financial use of the foreign currency reserves available;

(b) International Monetary Fund: advice on the terms that have been obtained by other relevant countries from the IMF under the Extended Fund facility; and

(c) gold coins: preliminary indications about whether it might be profitable for the Banco Central to sell gold coins outside the Dominican Republic, leaving aside the potential promotional value.

Seminar and training

12. Finally, during our visit we will be holding a one day seminar for officials nominated by the Banco Central on opportunities for the Banco Central in international financial markets. We hope that the seminar will be valuable to those invited to attend, and when the Banco Central has identified officials for training overseas, we intend to assist the Banco Central in the process of locating potential training assignments for them with foreign financial institutions.

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30 April 1982

APPENDIX: THE DOMINICAN REPUBLIC -
TARGET FOREIGN COMMERCIAL BANK COUNTERPARTIES

Abu Dhabi

National Bank of Abu Dhabi

Bahrain

Arab Banking Corporation
Gulf International Bank
United Gulf Bank

Belgium

Kredietbank
Société Générale de Banque

France

Banque Française du Commerce Extérieur
Banque Nationale de Paris
Banque de Paris et des Pays-Bas
Banque Sudameris
Crédit Commercial de France
Crédit Lyonnais
Société Générale

Germany

Bayerische Landesbank Girozentrale
Bayerische Vereinsbank
Commerzbank
Deutsche Bank
Deutsch-Südamerikanische Bank
Dresdner Bank

Holland

Amsterdam-Rotterdam Bank

Kuwait

National Bank of Kuwait

Hong Kong

Hong Kong & Shanghai Banking Corporation

Italy

Banca Commerciale Italiana

Japan

Bank of Tokyo
Bank of Yokohama
Dai-Ichi Kangyo Bank
Fuji Bank
Industrial Bank of Japan
Mitsui Trust & Banking
Sumitomo Bank
Sumitomo Trust & Banking
Toyo Trust & Banking
Yasuda Trust & Banking

Peru

Arab Latin American Bank

Spain

Banco de Bilbao
Banco Exterior de España
Banco de Vizcaya

United Kingdom

Associated Japanese Bank (International)
Banco Urquijo Hispano Americano
Bank of Tokyo Trust
Barclays Bank
Euro-Latinamerican Bank
International Commercial Bank
International Mexican Bank
Japan International Bank
Libra Bank
Lloyds Bank International
Midland and International Banks
Midland Bank
National Westminster Bank
Nordic Bank
Saudi International Bank
Scandinavian Bank
Standard Chartered Bank
UBAF Bank

Note: Target foreign commercial bank counterparties outside North America by country of domicile.

Draft for consideration by the Banco Central

THE DOMINICAN REPUBLIC
REPORT TO THE INTERNATIONAL FINANCIAL COMMUNITY
MAY 1982

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THE DOMINICAN REPUBLIC
REPORT TO THE INTERNATIONAL FINANCIAL COMMUNITY
MAY 1982

SUMMARY

1. This report is intended to provide information to commercial banks which are not familiar with the Dominican Republic about its economy, financial system, balance of payments and foreign debt.

Proximity to North America

2. The Dominican Republic has traditionally had close ties with the United States and Canada, but it deserves to be better known outside the Americas, in view of its size, constitutional status and financial stability.

Financial discipline

3. The Banco Central is obliged by law to maintain internal disciplines designed to ensure that adequate foreign exchange is available to meet foreign payments. Foreign borrowing requires the prior permission of the Banco Central's Monetary Board, and medium and long term public sector foreign borrowing has to be approved by Congress.

4. Public sector foreign debt is serviced on schedule. The level of foreign debt and foreign debt service is not high in comparison with other countries in the region.

5. An agreement is in place with the North American commercial banks which have traditionally financed trade with the Dominican Republic to ensure that trade payments are met on time and arrears do not arise.

6. The existence of a parallel market for non-priority imports helps to take pressure off official supplies of foreign exchange when exports are cyclically low owing to depressed commodity prices.

Availability of financing

7. Oil supplies are financed under the San José agreement with Venezuela and Mexico, who have agreed to provide credit on concessionary terms for 30% of their sales of crude to the Dominican Republic.

8. The Banco Central is able to draw on multilateral lines of credit from other central banks in Latin America under the Santo Domingo agreement.

9. Unlike many other countries in the region, it has not so far been necessary for the Dominican Republic to borrow extensively from the International Monetary Fund. Consequently, a substantial source of concessionary credit potentially available for balance of payments support remains untapped.

10. The Dominican Republic is one of the main countries likely to benefit from President Reagan's Caribbean Basin initiative.

11. The Government is negotiating the preferential sale of Dominican sugar in the United States.

Diversification of exports

12. Although the greater part of Dominican exports consists of agricultural commodities, such as sugar, coffee and cocoa, there has been a large expansion in gold and silver mining for export in recent years through Rosario Dominicana S.A.

Development of infrastructure

13. The World Bank, the Inter-American Development Bank and other official agencies are actively involved in a wide range of development projects in the Dominican Republic aimed at improving the quality of the physical infrastructure, import substitution and export promotion designed to reduce dependence on cyclical agricultural commodity exports in the medium term.

14. In view of its location, facilities and natural beauty, the Dominican Republic has considerable potential for tourism. The World Bank is working with the Banco Central to develop a new tourist resort at Puerto Plata.

Promotion of foreign investment

15. The foreign investment regulations have helped to attract a substantial number of well-known foreign companies to invest in the Dominican Republic, mainly from North America.

THE DOMINICAN REPUBLIC
REPORT TO THE INTERNATIONAL FINANCIAL COMMUNITY
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INTRODUCTION

16. The purpose of this report is to provide information to commercial banks which are not familiar with the Dominican Republic about its geography, history, Government, economy, fiscal and monetary policy, financial system, exchange control, balance of payments, foreign reserves, foreign debt and foreign investment. There are explanatory notes about special financial arrangements available to the Dominican Republic. These are followed by a statistical section. The emphasis in the report is on financial information likely to be of interest to commercial banks. The report will be brought up to date on a regular basis in the future.

GEOGRAPHY

17. The Dominican Republic is situated in the Caribbean to the south east of the United States between Cuba and Jamaica to the west and Puerto Rico to the east. It forms the greater part of the island of Hispaniola on its eastern side. The lesser part of the island on the western side belongs to Haiti. The area of the Dominican Republic is 48,464 square kilometres, which is slightly smaller than Portugal or Ireland. After Cuba, the Dominican Republic is the largest country in the Caribbean in terms of geographical size and population. There are 5.6 million inhabitants, mainly of mixed descent, of whom 1.2 million live in Santo Domingo, the capital, on the south coast. Population growth is estimated at 2.7% per annum. The terrain of the country is mountainous and the climate is tropical.

HISTORY

18. Hispaniola was discovered by Christopher Columbus in 1492 and colonised by Spain. Santo Domingo was founded in 1496 by Bartholomew Columbus. It became the capital of Hispaniola and the administrative centre for the Spanish Caribbean. The western part of Hispaniola was occupied by French buccaneers around 1605 and formally ceded to France in 1697. The Dominican Republic gained independence in 1844. The population is still Spanish speaking, and 95% is Roman Catholic.

GOVERNMENT

19. The Dominican Republic is a representative democracy under the constitution of 28 November 1966, which has many similarities to the constitution of the United States. The Head of State is an Executive President elected by universal suffrage every four years. An election is due in May this year. The legislative is a bicameral Congress consisting of a Senate and a Chamber of Deputies. The judiciary is headed by a Supreme Court. The local administration of the country is divided into 26 provinces and the National District, 69 communities and 16 municipal districts. Each province has a civil Governor.

ECONOMY

20. The gross national product of the Dominican Republic is provisionally estimated at \$7.7b in 1981, giving per capita income of around \$1,275. The Dominican economy has performed very well during the last decade, with a real average growth rate of 6.9% per annum, which is one of the highest in the region. Real growth is estimated at 5.6% in 1980 and 3.4% in 1981. This level of real growth has been achieved, despite the disruptive effect on the Dominican economy of the hurricanes and the increase in oil prices, which raised the Dominican Republic's oil import bill from \$199m in 1978 to \$500m in 1981. There has been a cost in terms of inflation and a deterioration in the balance of trade, and unemployment remains high. But the authorities have taken measures which have succeeded in reducing the annual rate of inflation from 16.8% in 1980 to 7.5% in 1981, and the trade deficit from \$553m in 1980 to \$257m in 1981.

Agriculture

21. Over half of the Dominican labour force is dependent on the agricultural sector of the economy and, traditionally, two-thirds of Dominican exports are of agricultural origin. The largest contribution to exports is made by the sugar industry, which comprises the Consejo Estatal del Azucar (responsible for 65% of production), and two private sector consortia. Exports of sugar and its derivatives amounted to \$331m in 1980 (34.4% of total exports) and \$560m (47.2%) in 1981. Most Dominican sugar is sold in the United States. The Government is negotiating an agreement for its preferential sale there. Apart from sugar, the other important agricultural exports are coffee, cocoa and tobacco. Together with their derivatives and manufactures, exports of coffee, cocoa and tobacco amounted to \$168m in 1980 (8.0%, 5.8% and 3.7% of total exports respectively), and \$193m (6.4%, 4.2% and 5.7% respectively) in 1981.

Mining

22. The Dominican Republic possesses significant deposits of gold, silver, ferronickel, bauxite, coal, copper, tin, marble, salt and gypsum. The main contribution to mining exports is made by doré, a gold and silver alloy that has been mined in the Dominican Republic by Rosario Dominicana S.A. since 1975. Exports of doré amounted to \$260m in 1980 (27.0% of total Dominican exports), and \$208m in 1981 (17.5%). Ferronickel and bauxite are also mined for export. In 1980, exports of ferronickel and bauxite amounted to \$120m (10.5% and 1.9% of total exports respectively), and to \$126m (9.3% and 1.3%) in 1981.

Manufacturing

23. Most manufacturing exports are based on agricultural commodities. But the diversification that has taken place in manufacturing production in the Dominican Republic over the past few years has provided an element of import substitution. A broad range of products are manufactured locally, including footwear, clothing, cement, plastic items, metallic articles for construction, tobacco, beverages and food products. The Government encourages local manufacture through the provision of tax incentives, specialised credit facilities and technical assistance, particularly in industries aimed at export markets. Three industrial free zones have been established.

Tourism

24. The number of foreign visitors to the Dominican Republic increased from 233,000 in 1975 to 484,000 in 1980. Income from tourism is estimated at \$173m in 1980 and \$201m in 1981. Although the number of hotel rooms available is limited to 3,500 at present, the Government plans to expand the facilities available in the Dominican Republic for tourism. Particular attention is being paid to the development of a new tourist resort at Puerto Plata, which is being financed by the World Bank in collaboration with the Banco Central.

Energy

25. Oil and its derivatives constitute 30% of Dominican imports. The Government has attempted to limit the cost of imported energy in three principal ways. First, the price of electricity, which provides most of the country's power supply, has been raised so as to conserve energy. Secondly, the development of hydro-electric resources has been accelerated with a view to providing a domestic substitute for imported energy. Thirdly, following the discovery of significant coal reserves in the Dominican Republic in 1980, the process of converting power plants from oil to coal has begun.

Infrastructure

26. The damage to the physical infrastructure of the country by the hurricanes in 1979 has largely been repaired. In 1981, the Government embarked on a three year public investment programme totalling \$1.7b, a substantial proportion of which is being financed by international development agencies, particularly the World Bank and the Inter-American Development Bank. Besides the development of hydro-electric power, the emphasis in the programme is on promoting agricultural self-sufficiency and communications (roads, airports and telecommunications).

FISCAL AND MONETARY POLICY

27. The Government has controlled the size of its budget deficit, which fell from \$345m in 1979 to \$197m in 1980 and \$177m in 1981, on a wide measure of the deficit to be financed. Monetary policy has been designed to help arrest the deterioration in the current account of the balance of payments. In May 1980, the Banco Central, following a traditionally moderate policy, limited the level of its lending to the commercial banks to the level outstanding at the end of 1979, and a series of measures have been announced since then to absorb the surplus liquidity in the financial system. The money supply is estimated to have grown by 2.3% in 1980 and 4.1% in 1981.

FINANCIAL SYSTEM

28. The Banco Central is responsible for the management of domestic monetary policy, foreign exchange resources and foreign debt. There are thirteen commercial banks, with assets of \$2.4b at the end of 1981. Of these, one is Government-owned: Banco de Reservas de la Republica Dominicana. One has mixed Government and private ownership: Banco de los Trabajadores. Six are privately domestically owned: Banco Popular Dominicano, Banco Metropolitano S.A., Banco del Comercio Dominicano S.A., Banco de Santander Dominicano S.A., Banco de Boston Dominicano S.A. and Banco Nacional de Credito S.A. The rest are owned by foreign banks or have substantial foreign participation: Bank of America, Chase Manhattan Bank, Citibank N.A., Royal Bank of Canada and Bank of Nova Scotia. In addition, there are a number of financial institutions in the public and private sectors specialising in development. The Banco Central manages two funds which specialise in development: FIDE, which supplies funds for the development of agriculture and industry on preferential terms; and INFRATUR, which is used to promote tourist projects.

EXCHANGE CONTROL

29. The official exchange rate of the Dominican peso is RD\$1 = US\$1. Since 1967, the authorities have allowed a parallel foreign exchange market to develop which is fed primarily by foreign remittances, tourist receipts and the proceeds of selected non-traditional export items. The exchange rate in the parallel market is at March 1982 around RD\$1.40 = US\$1. The existence of the parallel market enables the authorities to relieve pressure on official supplies of foreign exchange when these are scarce, by transferring non-essential imports for financing into the parallel market. Official foreign exchange is channelled through the banking system to the Banco Central.

BALANCE OF PAYMENTS

30. The current account of the Dominican Republic's balance of payments deteriorated from a deficit of \$537m in 1979 to \$858m in 1980, but is provisionally estimated to have improved to \$568m in 1981. The main influence on the current account of the balance of payments is the change in the terms of trade of sugar and gold for oil. The recent weakness in the international price for sugar and gold has reduced export receipts, but the recent weakness in the international oil price has also reduced import payments. Oil supplies are financed under the San José agreement with Venezuela and Mexico, who have agreed to provide credit on concessionary terms for 30% of their sales of crude to the Dominican Republic.

FOREIGN RESERVES

31. The gross foreign reserves of the Banco Central amounted to \$311m at the end of 1981, equivalent to between two and three months of Dominican imports. There has been a decline in the net foreign reserves of the Banco Central over the past few years, as borrowing by the Banco Central has increased. The level of net reserves at the end of 1981 was negative by \$164m. However, the Banco Central is required under the Central Bank law to keep a positive reserve ratio, defined as gross foreign reserve assets less a proportion of foreign liabilities which increases, depending on how close they are to maturity. The reserve ratio gives an indication of the foreign liquidity position of the Banco Central, and over a period of time the Banco Central has succeeded in keeping the reserve ratio positive.

32. The foreign currency facilities available to the Banco Central include multilateral credit lines from other central banks in the Latin American region under the Santo Domingo agreement. Unlike many of the other countries in the region, it has not so far been necessary for the Dominican Republic to borrow extensively from the International Monetary Fund. At the end of 1981, the total amount of Fund credit in use by the Dominican Republic amounted to the equivalent of \$23m, of which \$16m represented ordinary credit tranche drawings and \$7m represented drawings under the compensatory financing facility for export shortfalls. The Dominican Republic's quota in the Fund is equivalent to \$96m. Consequently, a substantial source of concessionary credit potentially available for balance of payments support remains untapped.

33. The net foreign liabilities of the commercial banks at the end of 1981 amounted to \$316m. Including the net foreign liabilities of the Banco Central at the same date of \$164m, the foreign liabilities of the banking system as a whole amounted to \$480m. In February 1982, an agreement was reached between the Banco Central and the foreign commercial banks represented in the country which is designed to ensure that delays do not arise in the disbursement of foreign exchange payments by the Banco Central to the foreign commercial banks in connection with bills of exchange negotiated under commercial letters of credit already approved by the Banco Central. A similar agreement has been made between the Dominican commercial banks and their foreign correspondents.

FOREIGN DEBT

34. The issue of foreign debt by private sector and public sector entities in the Dominican Republic requires the prior approval of the Monetary Board, the chief decision-making body of the Banco Central, and the issue of public foreign debt with a final maturity longer than one year requires the prior approval of Congress. The total amount of disbursed foreign debt outstanding at the end of 1981 was \$1,887m, of which \$1,450m was contracted by the public sector and \$437m by the private sector. The maturity structure of the foreign debt at the end of 1981 shows that 14.7% had a final maturity under one year, 23.9% between one year and eight years and 61.4% over eight years. On the World Bank's definition of public foreign debt, debt interest payments amounted to 7.5% of exports of goods and services in 1980, and total foreign debt service payments amounted to 12.2% of exports of goods and services.

35. The greater part of foreign debt contracted by the Government, the Banco Central and other public sector bodies in the Dominican Republic has been obtained on concessionary terms, and a considerable proportion of commitments remain to be disbursed. The Dominican Republic is also one of the main countries likely to benefit from President Reagan's Caribbean Basin initiative. Multilateral and bilateral development agencies that have loans outstanding to the Republic and public sector bodies in the Republic include the International Monetary Fund, the World Bank, the Inter-American Development Bank, US AID, Eximbank, Commodity Credit Corporation, France, Spain, Kreditanstalt für Wiederaufbau, the Fondo de Inversiones de Venezuela and the OPEC Fund for International Development. Loans by foreign banks to the Republic in the period between 1979 and 1981 averaged a margin of around $1\frac{1}{4}\%$ over LIBOR, and ranged from $1\frac{3}{8}\%$ to $7\frac{1}{8}\%$.

FOREIGN INVESTMENT

36. The official policy of the Dominican Republic is to promote and encourage foreign investment there, particularly in tourism, industrial free zones and agro-industry. The total value of foreign investment registered with the Banco Central at the end of October 1981 amounted to \$102m. The largest investor is Gulf and Western. Foreign investment is subject to the Foreign Investment Law of 1978. The Directorate of Foreign Investment is responsible for implementing it. The US Overseas Private Investment Corporation offers political risk insurance and some financial facilities to investors in the Dominican Republic from the United States. However, when the Dominican Government recently increased its stake in Rosario Dominicano S.A. from 46% to 100%, payment was made in cash and the buying price was regarded by the foreign companies making the sale as fair.

REPORT TO THE INTERNATIONAL FINANCIAL COMMUNITY
EXPLANATORY NOTES

San José agreement

37. Under the San José agreement, signed in August 1980, the Dominican Republic receives favourable terms for the import of crude oil from Venezuela and Mexico. 30% of oil supplies from Venezuela amounting to an average of 14,000 barrels per day and 30% of oil supplies from Mexico also amounting to an average of 14,000 barrels per day are financed by the Fondo de Inversiones de Venezuela and the Banco de Mexico respectively in the form of 5 year US dollar denominated certificates of deposit yielding 4%. These deposits can be converted into 20 year concessionary loans at 2% in respect of energy-saving projects in the Dominican Republic approved by Venezuela and Mexico. The agreements with Venezuela and Mexico are renewed on an annual basis.

Caribbean Basin initiative

38. The Caribbean Basin initiative launched by the President of the United States in February 1982 supplements measures to provide economic support to the Dominican Republic that have been taken by Canada, Venezuela and Mexico. Once it has been approved by the US Congress, the initiative will help the Dominican Republic in three main ways. First, it will provide one-way free trade for Dominican exports (with the exception of clothes and textiles) to the US for a period of twelve years, provided that there is a 25% minimum Dominican content. In particular, there will be a duty-free quota for Dominican sugar exports. Secondly, it will provide a tax incentive in the form of a 10% tax credit to US businesses making equity investments in the Dominican Republic. Thirdly, it will provide an additional US\$40m in economic assistance to the Dominican Republic in the US fiscal year ending September 1982.

39. Apart from the measures that require congressional approval in the US, there are a number of additional measures that could benefit the Dominican Republic which do not require Congressional approval. First, the US will be prepared to negotiate new bilateral investment treaties with countries in the Caribbean Basin covering private direct investment by US companies. Secondly, the US will be prepared to extend the range of its insurance facilities, in collaboration with multilateral development banks and the private sector, so as to supplement the political risk insurance already provided for investors from the US by OPIC. Thirdly, the Eximbank will be prepared to expand the protection it provides for short term credit from US banks to the private sector in the Caribbean Basin for imports that are critical to the countries concerned.

Concessionary financing

40. The US is the largest source of bilateral assistance to the Dominican Republic on concessionary terms at present. Apart from the benefits from the Caribbean Basin initiative, the Dominican Republic receives US assistance through the Agency for International Development (AID), food aid (PL480), Eximbank and the Commodity Credit Corporation (CCC). The largest sources of multilateral assistance at present come from the Inter-American Development Bank (IDB) and the World Bank (IBRD). Most concessionary assistance is made available to finance specific development projects.

41. In the Dominican Republic, a substantial proportion of the financial commitments made by bilateral and multilateral development agencies remain to be disbursed. Of total foreign loans committed to the Dominican Republic on concessionary terms of \$1,419.8m, \$771.2m was disbursed at the end of 1980.

International Monetary Fund

42. Negotiations have recently been taking place with the IMF to ensure that the Dominican Republic can make further drawings on the IMF's compensatory financing facility for export shortfalls and imports of cereals. Even if the compensatory financing facility is fully drawn down, the Dominican Republic will still not have made use of the main facility that has been used by a number of other countries in the region: the Extended Fund facility. This facility is usually made available over a three year period against policy conditions in amounts up to 450% of a member country's quota (450% of the Dominican Republic's quota is approximately equivalent to \$432m). In exceptional circumstances, some member countries have obtained even larger amounts than 450% of quota.

Net reserve ratio

43. Under Article 45 of the Central Bank Law, the Banco Central has to maintain its gross foreign reserves, including foreign currency contributions to international institutions, at a level in excess of a proportion of its foreign currency liabilities which varies depending on their residual maturity. The proportions are as follows: 100% of foreign currency liabilities maturing within 30 days; 75% of foreign currency liabilities maturing between 30 days and one year; 50% of foreign currency liabilities maturing between one year and three years; and 25% of foreign currency liabilities maturing in more than three years.

Commercial banks' agreement

44. An agreement signed in February 1982 between the Banco Central and the foreign banks represented in the Dominican Republic is designed to eliminate delays previously arising on foreign exchange payments due by the Banco Central on maturing letters of credit issued by the banks and approved by the Banco Central. Under the agreement, the banks have opened lines of credit from their head offices to finance letters of credit issued by their branch offices in the Dominican Republic and approved by the Banco Central. At the same time, the Banco Central has confirmed that it will supply foreign exchange to meet letters of credit falling due for payment and that the overall volume of letters of credit outstanding will not be increased. Provision is made in the agreement for Dominican importers to pay interest overdue on payments that were delayed prior to the agreement. The agreement runs till the end of 1982 and will then be subject to review prior to renewal.

Commercial credit rating

45. The level of the Dominican Republic's disbursed foreign public debt and debt service as a proportion of GNP and of exports of goods and services has, over the past five years, consistently been lower than the average for the Latin American and Caribbean region as a whole, according to World Bank figures. In its 1981 report on the Dominican Republic, the World Bank stated that the level of foreign public debt as a proportion of GNP in 1980 (18.3%) and the level of foreign public debt service as a proportion of exports of goods and services (7.5%) were not high by international standards, and a significant increase was not expected in either of these two figures.

46. Public sector foreign debt in the Dominican Republic is serviced on schedule. But the World Bank implied in its 1981 report that the credit rating of the Dominican Republic was less favourable than was justified by the underlying economic conditions in the country because of a lack of efficiency in the past in meeting current payments. Since the report was published, the Banco Central has taken steps to improve the situation by reaching the agreement with the foreign commercial banks (described above) designed to prevent arrears on current payments arising in future. A similar agreement has been reached between the Dominican commercial banks and their foreign correspondents.

REPORT TO THE INTERNATIONAL FINANCIAL COMMUNITY
STATISTICS

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PRODUCTION

Dominican Republic: composition of GDP by sector of origin

Current prices	1977		1978		1979	
	RD\$m	%	RD\$m	%	RD\$m	%
Agriculture	687.3	15.2	621.4	13.2	674.5	12.3
Livestock	215.1	4.7	244.1	5.2	316.7	5.8
Forestry and fishing	18.1	0.4	20.8	0.4	35.0	0.6
Mining	144.0	3.2	118.0	2.5	227.8	4.1
Manufacturing	822.3	18.1	726.5	15.5	852.8	15.5
Construction	305.9	6.7	349.0	7.4	391.5	7.1
Commerce	787.1	17.4	850.1	18.1	955.5	17.4
Transport	248.9	5.5	280.5	6.0	305.5	5.6
Communications	34.0	0.8	41.8	0.9	49.5	0.9
Electricity	32.9	0.7	42.6	0.9	31.3	0.6
Finance	138.0	3.0	154.9	3.3	190.7	3.5
Private property	368.2	8.1	402.7	8.6	456.3	8.3
Government	273.5	6.0	326.5	6.9	469.2	8.5
Other services	463.5	10.2	519.8	11.1	540.0	9.8
Total	4,538.8	100.0	4,698.5	100.0	5,496.3	100.0

Source: Ministry of Finance.

Dominican Republic: consumer price index

% increase	1978	1979	1980	1981
Consumer prices	7.1	9.2	16.8	7.5

Source: Banco Central.

FOREIGN TRADE

Dominican Republic: principal exports by quantity

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Sugar ('000 metric tons)	1,098.7	904.7	992.4	802.0	745.3
Coffee ('000 metric tons)	39.7	24.3	38.8	19.7	18.2
Cocoa ('000 metric tons)	25.6	27.8	25.1	23.5	24.1
Tobacco ('000 metric tons)	20.1	37.3	42.5	21.8	27.1
Bauxite ('000 metric tons)	774.1	756.7	634.7	605.8	412.5
Ferronickel ('000 metric tons)	60.7	50.0	65.4	46.6	37.4
Gold ('000 troy ounces)	342.8	336.1	353.7	370.9	313.1
Silver ('000 troy ounces)	1,275.8	1,843.6	2,258.5	1,642.1	1,532.9

Notes: 1981 figures are for the first three quarters. Source: Ministry of Finance.

Dominican Republic: composition of exports

RD\$m	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Sugar	211.2	233.4	330.7	560.4
Coffee	96.9	157.7	76.8	75.9
Cocoa	87.7	78.4	55.8	50.1
Tobacco	46.4	55.4	35.4	67.3
Bauxite	23.1	20.9	18.5	15.7
Ferronickel	72.7	123.4	101.2	110.5
Gold and silver	72.8	127.8	259.5	207.8
Other products	64.7	71.6	84.2	100.3
Total exports	675.5	868.6	962.1	1,188.0

Notes: Figures for sugar include raw sugar and derivatives. Figures for coffee, cocoa and tobacco include manufactures. Figures have been compiled on an f.o.b. basis. Source: Banco Central.

Dominican Republic: export indices

1972 = 100	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Volume of exports	123.4	109.3	96.4	110.1	84.4
Price of exports	187.7	205.6	195.9	209.4	278.6
Value of exports	206.1	224.5	194.3	149.9	276.7

Source: Banco Central.

Dominican Republic: composition of licensed imports

RD\$m 1981	<u>Goods and services</u>	<u>Vehicles</u>	<u>Oil and derivatives</u>	<u>Total</u>
January	20.0	4.3	31.1	55.4
February	35.2	1.3	35.3	71.8
March	46.7	2.2	45.6	94.5
April	58.5	6.1	39.4	104.0
May	24.6	2.0	40.5	67.1
June	46.7	1.3	13.2	61.2
July	69.8	1.2	57.5	128.5
August	48.3	3.2	19.7	71.2
September	37.7	0.9	31.7	70.3
October	21.1	2.7	27.7	51.5
November	20.5	3.4	34.6	58.5
December	33.1	1.2	32.2	66.5
Total	462.2	29.8	408.5	900.5
% of total	51.3%	3.3%	45.4%	100.0%

Source: Ministry of Finance.

Dominican Republic: direction of trade

RD\$m	<u>1978</u>	<u>1979</u>	<u>1980</u>
<u>Exports</u>			
United States	363.4	459.1	444.6
Venezuela	54.5	49.0	87.1
European Community	78.6	86.4	79.8
Japan	8.3	28.8	8.7
Other countries	170.7	245.3	341.7
Total exports	675.5	868.6	962.1
<u>Imports</u>			
United States	366.2	443.2	607.9
Venezuela	132.1	191.0	301.5
European Community	92.7	87.1	126.0
Japan	67.4	70.2	113.7
Other countries	201.3	263.1	276.7
Total imports	859.7	1,054.6	1,425.8
<u>Trade balance</u>			
United States	-2.8	15.9	-163.3
Venezuela	-77.6	-142.0	-214.4
European Community	-14.1	-0.7	-46.2
Japan	-59.1	-41.4	-105.0
Other countries	-30.6	-17.8	65.0
Net balance	-184.2	-186.0	-463.7

Source: Ministry of Finance

BALANCE OF PAYMENTS

Dominican Republic: balance of payments

RD\$m	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Balance of trade	-47.2	-68.8	-186.9	-268.9	-557.8
Services	-207.8	-199.4	-274.8	-268.2	-299.8
Current account balance	-255.0	-268.4	-461.7	-537.1	-857.6
Transfers	125.8	139.6	149.8	205.8	187.8
Capital inflows	124.0	191.6	272.4	374.8	723.9
Use of reserves	5.2	-63.0	39.5	-43.5	-54.1

Notes: Balance of trade figures recorded on an f.o.b. basis in previous tables have been adjusted. An increase in reserves is shown by a negative sign. Source: Banco Central.

Dominican Republic: foreign exchange balance

RD\$m 1981	<u>Inflows</u>	<u>Outflows</u>	<u>Balance</u>	<u>Reserves</u>
January	107.8	166.4	-58.6	244.3
February	121.1	123.6	-2.5	241.8
March	196.3	188.1	8.2	250.0
April	162.3	146.4	15.9	265.9
May	214.9	205.7	9.2	275.1
June	221.2	218.5	2.7	277.8
July	188.8	184.2	4.6	282.4
August	155.2	152.2	3.0	285.4
September	203.9	232.5	-28.6	256.8
October	163.1	132.1	31.0	287.8
November	121.9	135.8	-13.9	273.9
December	220.3	183.7	36.6	310.5
Total	2,076.8	2,069.2	7.6	

Notes: Figures for reserves show short term reserves at the end of each month. Source: Banco Central.

PUBLIC FINANCE

<u>Dominican Republic: public finance</u>				
RD\$m	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Government current revenue	578.4	673.6	868.9	908.3
Government current expenditure	447.6	614.9	719.7	751.9
Government capital expenditure	242.1	403.9	345.8	333.7
Government financial deficit	111.3	345.2	196.6	177.3

Source: ONAPLAN

<u>Dominican Republic</u> <u>Government budget and financing</u>	
RD\$m	<u>1981</u>
<u>Current revenue</u>	
Taxes	749.2
Other revenue	159.1
Total (a)	908.3
<u>Current expenditure</u>	
Operational expenditure	514.6
Interest on public debt	62.5
Current transfers	157.7
Other expenditure	41.3
Total (b)	776.1
<u>Surplus available for investment</u>	
Current savings (a) - (b)	132.1
Sale of assets	10.2
Other receipts	6.6
Total (c)	148.9
<u>Capital expenditure</u>	
Real investment	120.8
Capital transfers	159.6
Financial investment	1.2
Acquisition of assets	2.1
Other expenditure	8.7
Total (d)	292.4
<u>Balance for financing (c) - (d)</u>	143.4
<u>External financing</u>	
Disbursements	69.2
less: amortisation	17.1
Total	52.1
<u>Internal financing</u>	
Issue of public debt	85.0
Other financing	1.6
Total	86.6
<u>Stock adjustment</u>	4.8
<u>Total financing</u>	143.4

Source: Ministry of Finance

FINANCIAL SYSTEM

Dominican Republic: net foreign reserves

RD\$m	End <u>1976</u>	End <u>1977</u>	End <u>1978</u>	End <u>1979</u>	End <u>1980</u>	End <u>1981</u>
<u>Banco Central</u>						
Foreign reserves	146.2	201.5	192.1	300.5	302.9	310.5
Foreign liabilities	111.0	146.4	219.0	360.9	423.4	474.7
Net foreign reserves	35.2	55.1	-26.9	-60.4	-120.5	-164.2
<u>Commercial banks</u>						
Foreign assets	26.8	40.4	25.3	35.9	25.2	18.8
Foreign liabilities	47.9	76.1	78.9	73.9	154.8	335.3
Net foreign reserves	-21.1	-35.7	-53.6	-38.0	-129.6	-316.5
<u>Banking system</u>						
Foreign reserves	173.0	241.9	217.4	336.4	328.1	329.3
Foreign liabilities	158.9	222.5	297.9	434.8	578.2	810.0
Net foreign reserves	14.1	19.4	-80.5	-98.4	-250.1	-480.7

Source: Banco Central

Dominican Republic: position at the International Monetary Fund

RD\$m end-year	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
IMF quota	50.0	52.2	71.7	72.5	105.2	96.0
Use of IMF credit	25.0	44.3	47.6	124.3	48.5	23.0
Use of IMF credit/quota (%)	50.0	84.9	66.4	171.4	46.1	24.0

Source: International Monetary Fund.

Dominican Republic: consolidated balance sheet of the commercial banks

RD\$m end-December	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>National commercial banks</u>					
Banco de Reservas de la Republica Dominicana	606.2	672.4	768.4	880.7	1,020.5
Banco Popular Dominicano	165.6	194.7	210.6	253.7	309.2
Banco Santander Dominicano	53.5	54.2	67.5	97.6	116.4
Banco Santo Domingo	41.5	47.7	35.2	29.9	28.6
Banco Metropolitano	32.1	33.0	42.6	56.0	58.6
Banco de Boston Dominicano	27.6	35.4	34.4	43.4	52.1
Banco del Comercio	-	-	-	15.9	27.7
Banco de los Trabajadores	5.9	7.4	9.7	13.8	16.3
Banco Nacional del Credito	-	-	-	-	4.5
Total (a)	932.4	1,044.8	1,168.4	1,391.0	1,633.9
<u>Foreign commercial banks</u>					
Royal Bank of Canada	253.8	269.4	329.6	356.2	414.0
Bank of Nova Scotia	86.6	87.5	106.6	122.7	140.9
Citibank	149.4	116.8	109.5	104.7	102.7
Chase Manhattan Bank	117.9	128.5	155.6	174.6	210.0
Bank of America	29.8	35.1	41.8	36.6	51.1
Total (b)	637.5	637.7	743.1	794.8	918.7
All commercial banks (a) + (b)	1,569.9	1,682.5	1,911.5	2,185.8	2,552.6

Notes: 1981 figures are for the end of November. Source: Ministry of Finance.

FOREIGN DEBT

Dominican Republic: foreign debt by maturity

RD\$m	End 1976	End 1977	End 1978	End 1979	End 1980	End 1981
Short term (0-1 year)	108.1	50.4	236.4	209.9	286.8	276.9
Medium term (1-8 years)	264.9	476.7	473.8	677.9	715.5	450.1
Long term (over 8 years)	605.4	557.2	617.1	689.1	845.3	1,160.2
Total foreign debt	978.4	1,084.2	1,327.4	1,576.9	1,847.6	1,887.2

Notes: Disbursed debt only. Source: Banco Central

Dominican Republic: foreign debt by borrower

RD\$m end 1981	Short term	Medium term	Long term	Total
<u>Public sector</u>				
Central government	-	-	770.4	770.4
Banco Central	84.5	87.8	70.3	242.6
Banco Agricola	-	-	8.3	8.3
Banco de Reservas	48.0	5.0	-	53.0
Banco Nacional de la Vivienda	-	2.6	14.0	16.6
Consejo Estatal del Azucar	101.0	-	-	101.0
Corporacion de Fomento Industrial	-	0.1	-	0.1
Corporacion del Acueducto y del A/c de Santo Domingo	-	-	18.5	18.5
Corporacion Dominicana de Electricidad	-	40.0	106.1	146.1
Corporacion Dominicana de Empresas Estatales	-	9.1	-	9.1
Instituto de Auxilios y Viviendas	-	8.5	-	8.5
Instituto de Estabilizacion de Precios	-	69.1	-	69.1
Instituto Nacional de Aguas Potables y Alcantarillados	-	-	5.5	5.5
Instituto Nacional de la Vivienda	-	-	1.5	1.5
Universidad Autonoma de Santo Domingo	-	-	0.2	0.2
Total public sector	233.5	222.2	994.8	1,450.5
<u>Private sector</u>	43.4	227.9	165.4	436.7
Total	276.9	450.1	1,160.2	1,887.2

Notes: Disbursed debt only. Short term (0-1 year). Medium term (1-8 years). Long term (over 8 years). Source: Banco Central.

Dominican Republic: foreign debt by lender

RD\$m end 1980	<u>Commitments</u>	<u>Disbursements</u>
<u>Public sector</u>		
Agencia Canadiense	1.8	-
AID	233.2	161.1
AIF	22.1	17.7
Biape	2.0	1.3
BID	485.9	229.9
BIRF	176.0	57.0
Bladex	3.0	0.3
Commodity Credit Corporation	101.3	52.0
Eximbank	64.7	33.2
Federal Home Loan Bank	4.9	4.3
Fondo de Inversiones de Venezuela	60.0	60.0
Fondo Especial de la OPEP	7.9	5.0
Fondo Internacional de Desarrollo Agricola	10.7	0.7
Fondo Monetario Internacional	107.3	63.3
Gobierno de EUA (PL480)	104.0	57.8
Gobierno Espanol	23.0	20.3
Gobierno Frances	3.9	2.4
Kreditanstalt für Wiederaufbau	8.1	6.5
Other lenders	1,031.9	592.0
Total	2,451.7	1,364.8
<u>Private sector</u>		
Total	737.6	482.8
Total	3,189.3	1,847.6

Source: Banco Central.

Dominican Republic: selected foreign debt ratios

%	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Disbursed foreign debt/exports (%)	60.0	66.3	88.9	76.5	92.0
Disbursed foreign debt/GNP (%)	13.2	13.8	15.9	16.2	18.3
Foreign debt service/exports (%)	6.6	7.5	10.8	21.6	12.2
Foreign debt service/GNP (%)	1.4	1.6	1.9	4.6	2.4
Foreign debt interest/exports (%)	2.2	2.6	4.8	4.9	7.5
Foreign debt interest/GNP (%)	0.5	0.5	0.9	1.0	1.5

Notes: Foreign debt is defined as all public, publicly guaranteed and private (non-guaranteed) foreign debt. Exports include both goods and services. Source: World Bank.

Latin America and Caribbean: selected foreign debt ratios

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Disbursed foreign debt/exports (%)	110.7	118.0	136.2	120.4	104.3
Disbursed foreign debt/GNP (%)	15.6	17.7	20.0	20.3	18.8
Foreign debt service/exports (%)	15.5	18.5	26.3	26.8	22.2
Foreign debt service/GNP (%)	2.2	2.8	3.9	4.5	4.0
Foreign debt interest/exports (%)	6.4	6.7	8.7	9.7	10.8
Foreign debt interest/GNP (%)	0.9	1.0	1.3	1.6	1.9

Notes: Foreign debt is defined as all public, publicly guaranteed and private (non-guaranteed) foreign debt. Exports include both goods and services. Source: World Bank.

FOOTNOTES

47. This report has been prepared by Samuel Montagu & Co. Limited, financial advisers to the Banco Central de la Republica Dominicana. The statistics quoted in the report are based on information provided by the Banco Central. While every effort has been made to ensure the accuracy of the report, no responsibility is taken for errors or omissions.

48. Statistics used in the report are quoted for the latest month for which they are publicly available. Figures quoted in \$ are based on the official exchange rate of 1 Dominican peso equals 1 United States dollar (RD\$1 = US\$1). The fiscal year in the Dominican Republic is the same as the calendar year.