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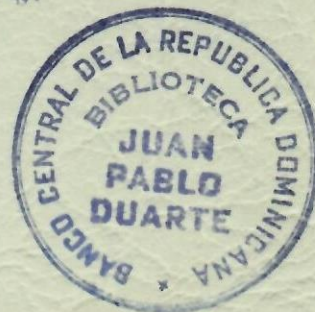
**BANCO CENTRAL DE LA REPUBLICA DOMINICANA**

**THE DOMINICAN ECONOMIC MOMENT**

By  
Bernardo Vega  
Governor of the Central Bank  
of the Dominican Republic

Speech Delivered before the  
American Chamber of Commerce

Santo Domingo, Dominican Republic  
March 9, 1983



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"THE DOMINICAN ECONOMIC MOMENT"

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Mr. President and other Members of the  
Board of the American Chamber of Commerce,  
Ladies and Gentlement:

It's been over 11 years since I gave the first of my several speeches before this Chamber.

Nevertheless, this is the first time that I speak before this forum as Governor of the Central Bank. On the other occasions, the Directors of the Chamber could freely decide whether to invite me or not since, after all, I was called on a personal basis. I am afraid that, this time, they did not enjoy that liberty but, I wish to reaffirm, with the same sincerity as before, my gratitude for the honor of, once again, having been called by you.

Today, I will talk about three general subjects:

1. How the Dominican economy found itself on August 16th;
2. What has been done since then to face the situation; but, even more important, why it has been done; and
3. What remains to be done.

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(\*) Speech delivered before The American Chamber of Commerce on March 9, 1983.

The President has spoken widely on these subject: On August 16th., in Miami, and on February 27th; therefore, today, I will try to explain the coherence, the programmatic consistency of the measures taken, and the reasons why they have been considered to be the most appropriate in comparison to the other alternate economic policies available.

It is traditional to enumerate in this speech, the most outstanding statistics of the recently passed year. In order not to prolong this speech, I have chosen to include them in a table which appears at the end of the text.

#### THE DOMINICAN ECONOMY IN AUGUST 1982

In the middle of last year, the Dominican economy was characterized by suffering from a zero rate of growth, that is, absolute stagnation, coinciding with the strangulation of its external sector together with the secular tendency of a drop in the tax base, that is to say, that each day taxes diminished as a proportion of national production, causing heavy pressure towards a fiscal deficit of unmanageable dimensions. Of course, these three things were, at the same time, cause and effect and were interrelated among themselves. A real vicious circle.

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This situation was reflected in the Central Government's deficit as well as in those of the state sugar mills, The Dominican Electricity Corporation, the CORDE enterprises, and the Price Stabilization Institute.

The Consolidated public sector was projected in the middle of last year with a deficit of \$400 Million, which, in view of the measures taken after August, was able to be reduced to \$330 Million.

On the external side of the economy, for several years, we had been suffering from strong balance of payment deficits and also in the Central Bank's foreign exchange income and expenditures, with the result that monetary reserves not only found themselves at minimum levels but actually had a negative balance if the high level of the Central Bank's arrears were taken into account. These levels of arrears reflected the incapacity of the Central Bank to pay letters of credit upon maturity, as well as to handle other foreign exchange applications through drafts, transfers and collections. As of August 30th., the level of those arrears reached \$364.8 Million and \$436.3 Million by December 31st. of last year. In fact, during the transition period, there was talk that in the

month of September, a few days after the inauguration, there was going to be a great foreign exchange crisis in the country, a sort of "Black September", in view of the Central Bank's inability to face that month a sudden accumulation of maturities of the foreign debt, particularly, those relating to oil payments. It must be remembered that in 1982, foreign exchange income was reduced by 35% below the 1981 levels; that is to say, a drop of over one third.

To complicate things even further, this difficult external situation of the Dominican economy coincided, a month after the inauguration, with the start of an international financial crisis provoked, among other factors, by Mexico's inability to meet payment of its foreign debt, which caused a great impact on the international banking community, causing a generalized reduction of private bank credit to Latin America in general. The Dominican Republic thus suffered the effects of that international crisis through the reduction of foreign banks' lines of credit to head offices or correspondents in our country, which caused even greater difficulties in the process of opening letters of credit.

Being faced with this situation, it was wise to ask oneself what were the options, the alternatives to be followed. To do nothing, before the continuous deterioration of the internal as well as the external deficit, would have resulted

necessarily in a forceful and also dramatic economic contraction in view of the social consequences it would have provoked. The fact that 1982 was an election year can explain the political reasons why there was no effort made to break, before August, with the vicious circle of internal and external deficits through appropriate but politically costly measures. The Deferment of facing economic reality merely served to make the confrontation more painful and profound after the month of August. Luckily for us Dominicans, a serious economic crisis did not explode during the same period as the electoral process and, luckily also for us Dominicans, as of August 16th., it was possible to quickly take the necessary measures to avoid the continuation of this deterioration.

#### WHAT HAS BEEN DONE TO FACE THE INTERNAL DEFICIT

In order to reduce the public sector deficit, a series of measures were taken which went from the increase of working hours of public employees, salary reductions, and the decrease of other general expenses not related to the payroll, such as the reduction of government vehicles and travel expenses, to the sending to Congress of several new tax bills which were estimated to render an additional return of \$140 Million per year, while improving, at the same time, the collection of existing taxes. The tax bills

were characterized by having, as a common denominator to almost all of them, a tax base related to internal activity and not to international trade in order that a decrease in our foreign-exchange income would not continue to produce simultaneous reductions in fiscal income, thereby worsening the situation even more. This austerity policy was also applied to the main government agencies, such as CEA, CDE and CORDE and, as a consequence of all this, for 1983, there is an estimated deficit in the public sector of only \$190 Million, which will permit a 37% reduction in the credit expansion of the Central Bank since said expansion is, by far, a reflection of the public sector deficit, that is to say, rather than a deliberate expansion policy it implies the necessity of financing public sector deficits with internal credit requirements. Nevertheless, the pressure which the Monetary Board exercises to limit credit expansion serves to reinforce the economic discipline that the Government imposes on the public sector. On the other hand, from the estimated internal credit expansion for 1983, amounting to \$230.8 Million, 41% of it represents financing to the government sugar mills and to the Dominican Electricity Corporation, both affected by international factors, one by the drastic reductions in its export prices, which makes uneconomical all sugar production which is basically oriented to the world market and, the other, suffering

from the high cost of importing oil at a time when over 85% of its energy production comes from it. It could be said that the obligation to grant credit to these two agencies of the Dominican Government is a reflection of the negative effects of the high prices of oil and the low prices of sugar in an economy essentially dependant on fuel and sugar. Another 43% of internal credit expansion is being used to generate the local currency necessary for repaying, upon maturity, the central government's foreign debt in 1983. These pesos, which will become immediately demonetized when converted into dollars, will not generate a growth of money supply, and thus inflationary pressures.

To the extent in which the reduction of the deficit in the public sector now permits a lesser expansion of credit by the Central Bank, this, in turn, will be reflected in lower growth of money supply.

WHAT HAS BEEN DONE TO FACE THE EXTERNAL DEFICIT

The measures taken to reduce the external deficit basically consisted in the temporary prohibition of some \$100 Million Dollars in merchandise imports, including women's manufactured apparel, the rise in price of other imports through the 10%

tax, the modification of customs regulations, and the fight against contraband, all tending to stop the growth of that drainage factor in our balance of payments. In addition, foreign exchange quotas for raw materials at the official parity were reduced. The result was that, in 1982, imports were reduced by 14% and it is estimated that, for 1983 will be reduced by 12%, which means that in a period of 24 months, the country's imports will have been reduced by 25%.

But, the external deficit is not only fought with restrictions on foreign exchange disbursements, but also by stimulating new foreign exchange sources. Hence, for the first time since 1959, that is, 24 years ago, a specific measure was taken in exchange policy to benefit traditional exports of sugar, coffee, cacao and tobacco, which normally represented 60% of our total exports. This measure was the Foreign Exchange Credit Certificate which permits those exporters to obtain foreign currency at par from the Central Bank, without delays, in an amount equal to 20 to 10% of the value of their exports, to be applied either to the requirements of the exporter to cover the importation of his inputs, or, if he so desires, by selling them to a third party through the endorsement of the Certificate. These traditional exports had been suffering in their earnings by the fact that inputs used by many of them had to be obtained through the parallel market even though the foreign exchange generated

by these exports must be exchanged at the official parity rate. The Foreign Exchange Credit Certificate gives the right to a certain amount of foreign exchange at the official rate, without delay, to those exporters, equal to at least the value of the inputs they used to acquire in the parallel market. I admit we could have gone further in this mechanism of stimulating these traditional exports by offering a larger proportion of their sales in certificates but, one has to take into account that by establishing this mechanism, the Central Bank has parted with approximately \$60 Million per year in foreign exchange at a time of great scarcity of it. That is why the measure of establishing the Certificate coincided, in time, with an additional transfer of merchandise to the parallel market, for an equal value, through the reduction of foreign exchange quotas for industries. The effect of both measures on the parallel market was, therefore, neutral, since the inputs of those traditional exporters were taken out of the market at the same time that a similar value of other merchandise was transferred to it. Another measure taken to stimulate exports was the elimination of delays in the delivery of foreign exchange for its free use by non-traditional exporters, covered by Law # 69. In addition, the foreign exchange quotas are now automatically increased by a value equivalent to the raw materials used in products which are exported. Also, the Investment Fund for Industrial Development (FIDE)



established a substantial and innovative financing program for non-traditional exports, at the same time that the Monetary Board authorized FIDE to finance free-zone factories belonging to Dominicans, and Congress approved legislative amendments which now allow the Central Bank to give foreign exchange to factories belonging to Dominicans in said zones.

The reduction in foreign exchange expenses achieved by the afore-mentioned measures, together with export-stimulating measures, coincided with a certain degree of improvement in international prices. This, in addition to the capital inflows and the deferment of debts, to which I will refer to later on permits us to foresee that, during this year, our foreign exchange balance will end up with a slight surplus in comparison to the \$113 Million deficit of 1982.

THE EFFECT OF THE MEASURES ON THE LEVEL OF INFLATION, THE PARALLEL MARKET RATE, FISCAL INCOME, IMPORTS AND CURRENCY

Some are of the opinion that the Government's policies reflect inconsistencies, since certain measures have economic effects contrary to those of other measures. For example, it is argued that some measures reduce tax collection, others pressure upwards the parallel market rate, and others stimulate inflation. Those that so argue incurr

in the error of analyzing individual measures and not the whole "package" of laws, decrees and resolutions which compose the financial policy of the Government. Analyzing all these measures as a whole, one finds that they are indeed coherent since, in general terms, they increase fiscal revenue, reduce inflation and allow an adequate level of money supply while, on the one hand creating new production incentives and, on the other hand, increasing obstacles to it with the deliberate purpose of re-orienting private sector investment towards those sectors presently considered as priorities.

This financial package, conceived during the transition period, was the result of long discussions wherein all the possible monetary, exchange and tax policy alternatives were evaluated in terms of their economic and political adequacy.

It is true that import prohibitions, basically with free dollars, reduce customs taxes by at least \$30 Million per year but this is compensated by the collection of new taxes and prohibitions serve the purpose of reducing pressure on the parallel foreign exchange market, a market to which other items have been transferred since the month of August. It is also true that the reduction

by the Central Bank of foreign exchange quotas would have created pressures on the parallel market had the prohibitions not have simultaneously reduced that pressure. It is also true that the decrease in foreign exchange quotas by the Central Bank creates cost pressures which could be inflationary in the short run, but the reduction in the fiscal deficit, by permitting a less expansive monetary policy, offsets these pressures.

Analyzing the reasoning behind the policy of reducing the public sector deficit, we can appreciate that its purpose is to reduce the expansion of credit which, in turn, limits the growth of money supply, which ends up achieving a lower level of internal inflation. Hence, to sustain that austerity in current expenses and the need of new taxes cause a reduction in the level of internal inflation, is a correct statement. In addition, the maintenance of a low degree of expansion of money supply serves as a cushion to the pressures on the parallel market rate. It is not therefore a coincidence that the level of the parallel market rate today is the same as that of seven months ago when in the previous seven months, that is, between January and July 1982, said rate increased by 17 points. Truly, one would have to acknowledge that the seven month period.

between August 16 and today is the only period in the recent history of the Dominican Republic during which this rate has not increased since, today, it is at the same level as seven months ago. Also, it is no mere coincidence that inflation has not increased since August and that tax revenues are averaging 34% higher during the first two months of 1983 in relation to those same months in 1982, in spite of the fact that imports have been greatly reduced. In economy, as in the human body, all organs are linked. New taxes and a reduction in current expenses imply a lower deficit in the public sector, which results in less Central Bank credit which, in turn, implies an absence of new inflationary pressures and stability in the parallel market rate, since a larger volume of money supply would have meant a greater demand for the operations of that market.

This economic policy should be judged in the light of an international comparison of inflation rates. As a matter of fact, last year, the Dominican Republic had the lowest level of inflation in Latin America and the 1983 inflation rate is estimated to be similar to that of 1982.

Nevertheless, this austerity does not affect growth and it is estimated that the economy will grow by 2.6% in

1983 in comparison to 1.5% in 1982.

In summary, what I am trying to say is that the measures adopted since August 16th. are coherent in fiscal, foreign exchange, and monetary policy terms when analyzed as a whole, since they tend to increase tax revenues, stop the secular tendency that existed of an increase in the parallel market rate and help the balance of payments by reducing imports and creating an export stimulus, all within the lowest inflation rate in Latin America.

#### EXCHANGE RATE POLICY ALTERNATIVES

During the electoral campaign and, later on, during the three months transition period, Dr. Salvador Jorge Blanco entrusted a team of consultants to evaluate the positive and negative aspects of each and all possible alternatives in the exchange rate policy field in order to make a decision with full knowledge as to its implications and which, in general, would definitely have greater advantages with regards to all other alternative policies. Consequently, devaluation of our currency had to necessarily be studied as one of these alternatives but was rejected for political as well as practical reasons, including the necessity of Congressional sanction, as well as justified economic reasons, including its inflationary

impact. That is why in his August 16th. speech, the President said: "Nevertheless, one thing we can assure to the Dominican people: In spite of the truly calamitous foreign exchange situation which we have inherited, our Government will not submit to this national Congress a bill to devalue our currency, whose parity is consecrated in our monetary law". One day later, on August 17th., in a letter he addressed to the newly appointed members of the Monetary Board and to which I can refer publicly because it was recently given to the press by the Central Bank, Dr. Jorge Blanco said: "Above all, we wish to point out that we are of the opinion that the official devaluation of our currency would not solve our problems because of the particular characteristics of our economy, and for this reason we would not support any suggestion of introducing a bill to Congress by which our present parity of a dollar for a peso would be modified".

Another alternative which was studied, was the establishment of a multiple exchange rate; that is, that our currency would have various official parities for exports and imports for different goods and services, depending on the greater or lesser priority of the products which flow in or out of our economy. This alternative, which could even contain a variance that one of those parities be a floating one, that is, depending on market forces

was also ruled out for economic as well as political reasons and the President made it so known in his previously-mentioned letter to the Monetary Board when he said: "Neither would we support an official partial devaluation through a multiple exchange system, also implemented through modifications to our monetary law".

Dr. Jorge Blanco also added: "Due to the depressed situation of our sugar, coffee, cacao, and tobacco prices, we consider that you should study the possibility of granting some type of incentive to the exporters of those four products so long as it does not require a law. This incentive should at least compensate the additional costs implicit in today's purchases, with free dollars, of capital goods and inputs necessary for producing those exports. Since this measure would imply a higher level of foreign exchange disbursements by the Central Bank, it is probable that it will require the transfer of an equivalent amount to the parallel market".

The technical personnel of the Central Bank has simultaneously reached similar conclusions on exchange rate policy. This happy coincidence moved the Monetary Board to implement the option of a Foreign Exchange Credit Certificate and the simultaneous transfer of an equal amount of merchandise to the parallel market.

This policy, together with unilateral transfers to the parallel market, implies that each day a larger flow of operations pass through that market. At present, 45% of the value of all imports of goods and services of the private sector is carried out through the parallel market, operations which, in turn, represent approximately 26% of the total international transactions of the country. Due to the importance of this market, it was considered necessary to institutionalize it through the authorization given to commercial banks to operate in it. This happened last September and, today, these banks transact purchases for a volume of approximately US\$1.7 million a week, or the equivalent to US\$88 million a year. Since this is a new experience for commercial banks in the country, which even implies the training of personnel, this participation in the market suggests that commercial banks, slowly, but surely, will gain each day a larger proportion of it. The fact that they continuously quote rates below those of exchange houses, permits the banks to operate as a curb on the rate and the experience of the last four months also suggests that they act as stabilizers of it. The objective of our foreign exchange policy is the maintenance of stability as well as of fluidity both in the official and in the parallel market. To the extent that there is greater fluidity in the use of resources in the official market, greater stability will exist in the second market. For example, this year, the opening without problems of letters of credit with official foreign exchange has been a decisive factor in the stability of the parallel market rate.

I take advantage of this opportunity to clarify certain confusion caused by decree #714, wherein obligations are imposed on shipping companies and universities with respect to the turning over of foreign exchange. This decree was an answer to a formal request of the Association of Shipping Companies of Santo Domingo for the purpose of establishing a legal basis, which some interpreted to be lacking, that would obligate its members to turn in foreign exchange. This was the sole purpose of the decree and any interpretation which tends to see in it a reversion of existing policies, is mistaken.

Part of the policy of limiting foreign exchange disbursements is the strategy of encouraging the reduction of capital flight which, in the past, had been stimulated, among other factors, by a high negative differential between interest rates being paid in our country and those being paid in the main financial centers of the world. During the past month of October, the Monetary Board authorized increases in the rates on savings and time deposits which, because it coincided with reductions in external rates, means that, today, for the first time in the modern history of our country, higher rates of interest are being paid here than abroad. Our Financial Certificate earns an interest rate of 15% in comparison to similar certificates in the Euro-dollar market, which only pay 9.5%. A second objective of this increase in passive interest rates was to bring the formal credit market closer to the informal credit market, which has flourished in our country, in recent years, precisely due to the freezing of interest rates at levels below those indicated by the demand for resources. All of this stimulates internal savings, as can be proven by the fact that commercial-bank savings and fixed-term deposits have grown, during the four months after the increase 8.2 per cent, the second highest rate of growth for the same months in the past eight years.

THE IMF AGREEMENT

The change from austerity into a phase of growth and its consequent benefits takes time and, meanwhile, any economy in such a transition process unavoidably requires a certain cash flow to cover its foreign accounts.

It is, therefore, normal that the Dominican Republic, like most other Latinamerican countries, has now entered into a credit agreement with the International Monetary Fund. In addition to supplying the country with the necessary resources with which to break the foreign sector's squeeze the IMF Agreement provides it with two intangible assets: self discipline and foreign creditworthiness. The fact that the adoption of measures required to balance foreign and domestic deficits had already been adopted on August 16, 1982, when the Fund's Mission arrived to Santo Domingo in late October to carry out negotiations, gave the Dominican Government an extraordinary negotiating ability, since policies had already been established and were being implemented. The measures of financial discipline contained in the so called Letter of Intent are known to all. I shall, therefore, not enter into details in that respect, but mention that it basically implies a restriction in the expansion of the Central Bank's credit, reductions in the level of commercial arrears and certain minimum levels of monetary

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reserves. For instance, the Central Bank committed itself reducing commercial arrears levels by at least \$100 Million dollars in 1983 and to fully eliminate them by 1985. In January, \$92 million dollars were received under the first disbursement, and were used to reduce arrears, for payment of past due interest and principal installments as well as to increase our low level of monetary reserve, among other things.

A major advantage under the IMF Agreement results from the fact that it is a condition precedent for negotiating the foreign debt of the country. Private commercial banks do not negotiate such debts unless an IMF agreement is previously entered into, at least this is the case for underdeveloped oil importing countries, as evidenced by the recent cases of Brazil, Ecuador, Costa Rica, Honduras, Bolivia, Argentina, Uruguay, Chile, Jamaica and even Mexico. Negotiations for deferring part of our debt payments for 1983 are in process.

This renegotiation was first suggested by the Monetary Board in mid July, 1982, to the then President Jacobo Majluta, when it requested authorization to start negotiations with the International Monetary Fund, since the Board, at that time as well as now, considered that these negotiations were essential. Upon conclusion of discussions with the International Monetary Fund, by the end of October, the Central Bank

issued a Press Release stating that "The conclusion of this agreement would facilitate the renegotiation by our country of part of its foreign debt". Moreover, the Letter of Intent to the International Monetary Fund, whose contents have been known to the public since last October, indicates that "the Dominican Government expects the International Monetary Fund to support its efforts with the international financial community with respect to the renegotiation of the country's short term debt." This support has already been received. On December 7th, a Press Release from the Central Bank announced the first meeting starting these negotiations, which was held at the Board Room of the Directors of the Federal Reserve in New York. This meeting was attended by the Dominican Minister of Finance, Representatives of the Consejo Estatal del Azúcar, the Governor of the Central Bank, the Dominican Ambassador in Washington and a representative of the International Monetary Fund. In his recent Speech, President Jorge Blanco referred to these negotiations by saying that "it is expected that they shall successfully conclude during next March, when more extensive relevant information will be disclosed to the general public, prior to proceeding to its contractual implementation."

However, as opposed to the case of other countries, such as Brazil and Mexico, these negotiations do not imply an increase in the foreign debt of the country with international private banks. It is even expected that, as a result of such renegotiations, our foreign debt with private banks, will be as of Dec 1983.

\$161 million, below its Dec 1981 level. What this operation rather implies is the direct assumption by the Central Bank of the past due obligations that the banks have today with their main offices or foreign correspondents due to the inability of the Central Bank to provide the required foreign exchange upon maturity of letters of credit already paid in Dominican Pesos. This negotiation is particularly interesting for the private sector, since it implies that the Central Bank would assume the interest costs on arrears which constitute today a considerable burden on the production costs of domestic manufacturing plants, thus improving their rate of return as well as producing major deflationary effects on essential products such as fertilizers, insecticides, pesticides, animal feed, medicines and containers.

By deferring past due obligations, thanks to a grace period, the Central Bank will be able to use its foreign exchange income to reduce the level of arrears, which will also benefit importers. Likewise, exporters, who encounter considerable difficulties in competing in foreign markets, will also benefit from this, since in their internal product costs they are also including interest on arrears. Finally, this operation would reinstate the free flow of international trade of the country, which is presently facing a situation, as defined by the President on August 16, with "Dollar arrears covering imports made during the past government, exceeding

\$370 million dollars." This renegotiation constitutes the second phase of the reorganization process of our external finances, since the agreement with the IMF covers the first phase.

#### MEASURES TO STIMULATE PRODUCTION

As the President stated recently, austerity is not by itself an objective. Not even is the effort to reduce domestic and external deficits. These efforts are simply pre-conditions in order to establish an economic and financial frame of reference inside which national production, which is an objective, may increase, mainly because of the effects that it has on the generation of new jobs. To put the house in order was a pre-requisite in order to set up to the base that makes feasible sustainable growth. The decision to adopt these disciplinary measures as soon as power was assumed, had two main advantages: first, the traditional "honeymoon" that every nation gives to a new ruler, was capitalized; and second, by reducing the period of time between the announcement and the implementation of measures necessarily unpleasant, it was possible to anticipate the moment starting from which, the problems of stability already solved, an impulse would be given to the development and the productive forces of the nation.

This is the Dominican economic moment which we are living today. Someone with evil intentions could argue that in this case, the advice of Maquiavelo was applied: "When a country is subdued, the conqueror should be careful to commit all his cruelties immediately, in order to avoid the necessity of being cruel every day". However, it should be born in mind that the government of Professor Bosch in 1963, as well as the first government of Dr. Balaguer in 1966, both started with austerity programs fairly similar to those established by the present government.

Confidence is not restored when the country, and above all the private sector, is aware of the existence of budgetary and balance of payment crisis. The rationality of economic policy, implemented within an environment of administrative honesty and patterns of discipline that proceed from the summit of power itself, is the base that promotes confidence, and it is that confidence which stimulates the private sector to make investments.

The disciplinary policy followed during these first six months, has the goal of liberalizing the dynamic powers of the entrepreneur. Austerity is the frame of reference within which private activity is stimulated.

The passing from the stage of the announcement and the implementation of necessary but unpleasant measures, to the stage of emphasis on growth, was proclaimed by the President on the 27th of February when he said: "On August 16th in the inauguration speech, I said that the moment of pleasant measures was over. Today, with only six and a half months of government, I declare that the measures of economic adjustment that I have imposed until now will be more than sufficient for the purpose of shaping the stage of economic recovery in which we are already immersed. In that sense, and speaking plainly, I must state that we are now entering the stage of implementing stimulative plans for investment and production in the private sector".

However, it is fair to admit that, in the process of adjustment of the domestic economy, some entrepreneurial sectors suffer, while others profit, because the aim is to eliminate the anti-export bias of previous policies. An "outward looking policy" instead of "inward looking policy" is being promoted; and it is for these reasons that the President said that the four more promising areas as motors of growth today are tourism, industrial free zones, mining and agro-industries, which precisely are, in essence, export oriented activities in our country. By coincidence, these elements by their own nature, also attack the serious problem of the concentration of productive activities in the capital city, thus sponsoring "spacial democracy" in our economic development, locating economic activity in the interior

rather than the capital city. Furthermore, this adjustment implies changes in consumption habits, by reducing smuggling and through either prohibiting or making imports more expensive. As part of the effort to eliminate the anti-export bias, it is worth mentioning the automatization in the reimbursement of foreign exchange to non-traditional exporters and also the automatic increase in foreign exchange quotas for those who export products requiring foreign inputs.

In the Central Bank, through FIDE, this year, we have announced a program that implies the largest disbursement of resources in the history of the institution, which amount to approximately \$92 million, but more important than that is the concentration of those resources in new programs, such as the financing of agro-industries for export and small enterprises. For these programs, resources are given under exceptionally soft conditions. The construction industry has always been a dynamic sector of the economy, and it is for that reason that, last October, a program was established in the Central Bank, through which resources are lent to the Savings and Loan Associations and to the Mortgage Banks in the same proportion that they increase their financing programs to the construction sector. For that program we have budgeted about \$20 million in 1983. Cement consumption in the three months which run between

November 1982 and January of this year, has increased 14% in relation to the same months of 1981 and 1982, which already reflects the recovery of that sector. But domestic savings, in any underdeveloped country and even more in the Dominican Republic, are not enough to promote development, and for that reason we need external capital resources, through loans, foreign aid and foreign investment. When President Jorge Blanco proclaimed, during the electoral campaign and later in his government, that the main motors of growth would be tourism, mining, agro-industries and industrial free zones, he was referring to sectors where, by their own nature, foreign investment necessarily must play a role of importance. It is therefore totally consistent with his thoughts and policies, the sending to Congress of a bill (which by and large gathers the ideas of this Chamber of Commerce) which amends the present foreign-investment law. From the letter remitting this bill to the President of the Senate, we quote the following paragraphs:

"As legislators already know, Law No. 861, in its financial aspects contains uncertainties and ambiguities that have prevented the establishment of new investments in the country and hindered the reinvestment of profits obtained by investors, provoking, in consequence, the repatriation of those dividends.

With the aim of correcting those purely financial deficiencies and of keeping one of the promises included in the Government Program, I suggest, through the attached bill, some modifications without affecting the most fundamental aspects of foreign investment, such as the determination of the areas in which it may act and its proportions. The modifications that I hereby propose, try to establish clearer rules of the game, creating an adequate frame which can be used as a basis for promoting new investments and the reinvestment of available funds in activities that generate and/or save foreign exchange".

One of the advantages of the amendments, if they become law, would be the stimulus that they would give to the reinvestment in our country of the so-called "blocked funds" that today amount to more than \$100 million. It is hoped that with these amendments there will be an increase in foreign investment which would permit our balance of payments to once again have a surplus in its capital account. If in our country, besides the traditional deficits in our current account in the balance of payments, that is to say, between our export and imports of goods and services, we also maintain a deficit in our capital account, it is certain that we could not straighten our balance of payments problems.

WHAT REMAINS TO BE DONE

I reiterate that the stage of announcing measures of austerity (except those already known) has already been overcome, and the present economic situation is one of change of emphasis towards the search, within austerity, of measures to stimulate growth and development.

In the public sector itself, we should move even inside the mental attitude implicit in a "disciplinary government", to the preparation of measures and the adoption of initiatives which point out more and more to a "Government of Promotion".

Can we have the same success when emphasizing growth inside discipline, as we have had in these almost seven months of outlining and applying discipline itself?

That is the main challenge that the Economic Team of the Government faces today.

On February 27th., only ten days ago, the President, even though he did not directly refer to this change of approach, declared his preoccupation about the actions which still remain to be taken and from the list that he read, the coincidence is evident, because all of them are reiterative of the need to adopt measures that promote private investment and growth. He mentioned the need to define a policy on price

controls and the role of the State in production and of INESPRES in marketing; the urgency to look for ways of diversifying the sugar industry and to reduce our dependence on energy and imported food; the convenience of defining the status of the money-losing enterprises of CORDE and to adopt a mining policy that actively promotes the exploration and exploitation of those promising resources, all this within attitudes and policies which reduce frustrating bureaucratic paper shuffling and waste of time.

As part of this effort, we must reduce the rhetoric and look for practical solutions to the matter of the suggested modifications to Law 299 On Industrialization Policy based on import substitution and to make ourselves conscious of the fact that the "fever is not in the sheets", and that the main obstacle for this kind of new industries is really the absence of foreign exchange quotas for new factories and the impossibility of granting them because of the non-existence of that foreign exchange.

Discipline has, among its objectives, the return of confidence so that internal confidence be reflected abroad, among our creditors as well as among new possible investors.

It is only possible to move from discipline to growth if that element of confidence exists, confidence which arises

from the conviction that the wrong things are being taken care of, in an efficient and adequate manner, within the environment of peace and democracy. And this is not common in our America. As Mr. Hugh Brache stated recently: "We rely on a fundamental resource: Peace in Liberty. That is the scarcest of all resources in our America".

Without confidence there will not be growth. Is there much more confidence now than seven months ago? I sincerely believe that there is positive consensus in the answer to that question. The unpleasant and politically expensive part of the effort is over.

Now, we only need to reap the fruits of what has already been sown.

Thank you!

In million of RD\$

	1980	1981	1982
Rate of Growth of the Current GNP	20.3%	11.1%	8.9%
Rate of Growth of the Real GNP (1970=100)	5.7%	3.5%	1.5%
Agriculture	4.7%	5.3%	3.9%
Mining	-14.8%	9.1%	-29.6%
Industry	5.0%	3.0%	5.2%
Construction	7.1%	0.8%	-4.9%
Commerce	4.9%	3.8%	3.5%
Electricity	12.1%	9.0%	-9.6%
Annual Inflation Rate	16.76%	7.53%	7.64%
Fiscal Burden (Tax Revenue/Current GNP)	12.0%	10.0%	8.4%
Balance of Payments Result	54.1	28.5	-140.0
Gross International Reserves	302.9	310.5	197.7
Net Monetary Reserves	77.8	49.3	-145.1
Commercial Arrears	149.6	316.3	436.3
Letters of Credit	102.2	253.7	254.1
Collections	16.8	31.5	65.1
Others	30.6	31.1	117.1
Foreign Exchange Income	2,097.0	2,076.8	1,715.0
Foreign Exchange Disbursements	2,094.6	2,059.2	1,827.8
Exchange Balance	2.4	7.6	-112.9
Exports	961.9	1,188.0	767.7
Imports	1,498.4	1,450.2	1,248.4
Commercial Balance	-536.5	-262.2	-480.7
Monetary Issue	620.1	868.3	753.9
Money Supply (Balance as of December)	716.8	746.1	835.9
Rate of Growth	2.3	4.1	12.0
Money Supply (annual average)	652.1	657.5	723.0
Rate of Growth	14.3	0.8	10.0
Central Bank Net Credit	145.0	241.5	336.0
FIDE Credit (disbursements)	70.2	67.2	42.8*
INFRATUR Credit (disbursements)	12.1	16.0	5.6*
Commercial Bank Loans	1,225.8	1,369.2	1,541.9
Commercial Bank Deposits	1,030.4	1,097.9	1,275.1
Sight	435.5	420.9	471.2
Savings	242.3	254.6	303.9
Time	352.6	422.4	500.0
Loans/deposits ratio	11.2%	16.6%	12.3%

(\*) January-November

