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**BANCO CENTRAL DE LA REPUBLICA DOMINICANA**

SANTO DOMINGO. R. D.

## Report to the Monetary Board

May 1983

**Samuel Montagu & Co. Limited**

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BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
REPORT TO THE MONETARY BOARD: MAY 1983

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JKS/ctl  
18 May 1983

BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
REPORT TO THE MONETARY BOARD: MAY 1983

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. This report also sets out some of the subjects which we hope to discuss at the Banco Central during our visit to Santo Domingo in the working week beginning 23rd May.

Negotiations with foreign commercial banks

2. The most important subject under discussion at the Banco Central, with which Samuel Montagu have been concerned, is the negotiations with foreign commercial banks to refinance letters of credit and to finance the Dominican Republic's external financial requirements for 1983. Samuel Montagu assisted the Banco Central in preparing the proposal which was submitted by the Banco Central at a meeting with the foreign commercial banks at the Federal Reserve Bank of New York in December last year. Subsequently, they attended meetings of the Banco Central with the foreign commercial banks' Working Committee in Miami on 14 January, 8 February and 11 March. The subsequent notes and telexes prepared by Samuel Montagu for the Banco Central on the conduct of the negotiations are included as Appendices A to I to this report.

3. As essential background information for the Banco Central's negotiations with foreign commercial banks, Samuel Montagu sent

(a) telexes regarding the rescheduling terms and conditions to which Latin American borrowers had agreed with their commercial bank creditors (Appendices G, J and K); and

(b) a telex setting out details of recent reschedulings of official debt (Appendix L).

4. We hope during our next visit to review, with officials of the Banco Central, the current stage of the negotiations between the Banco Central and the foreign commercial banks and to offer our assistance on any outstanding points.

Rosario Dominicana

5. In March of this year following a visit to Santo Domingo by Mr. Paul Jeanty, Managing Director of Samuel Montagu, we confirmed that we would be prepared to sponsor a Dominican application for good delivery status on the London Gold Market and to make an offer for handling the whole or part of Dominican bullion production, whether in the form of doré bars, bars without good delivery status or bars with good delivery status.

Following this offer the Board of Directors of the Banco Central discussed the proposal and decided that whilst Samuel Montagu's offer to sponsor Rosario Dominicana's application for good delivery status on the London Gold Market would not constitute a conflict of interest with our status as financial advisers to the Banco Central, such a conflict of interest might arise if Samuel Montagu purchased any part of the Dominican Republic's bullion production. Consequently Samuel Montagu sent a telex to Rosario Dominicana offering only to sponsor the company on the London Gold Market. The telex (Appendix M) also sets out the relevant rules and procedures for obtaining good delivery status.

#### Gold operations

6. At the request of the Banco Central, Samuel Montagu have sent several telexes detailing:

(a) the various ways in which gold producers may sell their gold;

(b) the sale techniques employed by the world's major gold producers; and

(c) how the Banco Central may use its future gold production and existing gold reserves to raise US dollar loans.

Copies of the various telexes that we have sent out are attached as Appendix N.

7. In particular, Samuel Montagu have advised the Banco Central regarding Rosario Dominicana's wish to raise a US\$20 million loan secured against future deliveries of gold. Our discussions with commercial banks are still continuing regarding the possibilities of obtaining such an advance and we hope to discuss this matter further with officials of the Banco Central during our next visit. The telexes sent to the Banco Central regarding the various mechanisms available to raise the required sum are set out in Appendix O.

8. During our next visit to Santo Domingo we hope to discuss with officials of the Banco Central and Rosario Dominicana the formation of an appropriate system of selling the bullion production of the Rosario Dominicana refinery.

#### Gold Institute meeting

9. Beginning 28 February the Gold Institute held its annual general meeting in Santo Domingo. Samuel Montagu was represented at the meeting by Mr. Paul Jeanty, Managing Director, and by Mr. Christopher Linen from our New York office. Mr. Jeanty was one of three speakers at the meeting as was Governor Vega. At the Governor's request, Samuel Montagu prepared a speech outlining (a) the increasing role of gold bullion and coinage in the 1983 financial systems and (b) the importance of gold in the international structure of central banks and of the IMF. A copy of the speech that we prepared is attached as Appendix P.

Debt control system

10. In August of last year, Samuel Montagu prepared a preliminary paper at the Banco Central's request, based on precedents established in other countries in the region, on the control of foreign borrowing through the establishment of a Public Debt Office (Appendix Q). During our next visit to Santo Domingo, we hope to investigate further the current procedures for the approval of foreign currency borrowings with a view to making recommendations regarding the establishment of a new debt control system.

Foreign reserves

11. Samuel Montagu prepared in October last year a paper on the management of the Banco Central's foreign reserves (Appendix R). During our next visit to Santo Domingo we hope, with the help of officials of the Banco Central, to start formulating procedures for handling the foreign reserves. In the recent past the potential for the active management of the Banco Central's foreign reserves has been extremely limited. This position is likely to change under the IMF agreement as the gross level of reserves held by the Banco Central is prescribed to increase.

Freeports

12. We understand that the Government of the Dominican Republic has recently approved the basic legislation to enable a number of new freeports to be set up in various parts of the Dominican Republic to take advantage of the tax incentives to be introduced in the US under the second part of the Caribbean Basin Initiative. During our visit to Santo Domingo we hope to study the details of the new legislation in order to prepare a detailed paper on the attractions of such freeports with a view to seeking out potential interested parties using our worldwide contacts.

Seminars and training

13. During our visits we are always happy to conduct seminars for officials from the Banco Central on any subject felt to be of interest.

14. We shall also be happy to discuss the training of Banco Central officials in financial (including bullion) market techniques in London or elsewhere.

JKS/ctl  
18 May 1983

THE NEGOTIATIONS WITH FOREIGN BANKS  
THE MIAMI MEETING: 14 JANUARY 1983

1. This note summarises the main differences between the original proposal put forward by the Banco Central de la Republica Dominicana (the 'Banco Central') and the counter-proposal put forward by the Working Committee of foreign banks ('the Working Committee') at the meeting in Miami on Friday, 14 January.

Foreign bank exposure

2. The Banco Central's proposal involves an increase in foreign bank exposure to the Dominican Republic in 1983 of \$43m (+5.4%), after excluding advance financing for Rosario Dominicana. The Working Committee's proposal involves a reduction in foreign bank exposure to the Dominican Republic in 1983 of \$62m (-7.7%). The Working Committee's proposal therefore provides \$105m less towards the foreign exchange budget of the Banco Central in 1983, before taking account of minor statistical discrepancies between the two proposals.

3. The Working Committee do not appear only to be arguing that foreign banks will be reluctant to increase their exposure in 1983, as the Banco Central has proposed. After all, the foreign banks have agreed to increase their exposure to Brazil, Argentina and Mexico by 7% each in 1983. Their main objection in the Dominican case is that, if they increase their exposure, they will be providing foreign exchange that will effectively be used to pay off bilateral official creditors (particularly the US and Venezuela).

4. It appears that the foreign exchange resources gap created by the Working Committee's proposal cannot be filled by either (a) a rescheduling of bilateral official commitments in 1983 (which the Banco Central has ruled out), or (b) an increase in new disbursements from bilateral official sources in 1983 (which the Banco Central cannot rely upon). In these circumstances, the Banco Central may have difficulty in reducing foreign payments arrears (other than refinanced letters of credit) by the amount stipulated in the IMF programme.

5. Consequently, it is likely to be necessary for the Banco Central to ask the Working Committee to improve their offer, at least from 90% of foreign bank payments falling due (i.e. a reduction in exposure of 7.7%) to 100% of foreign bank payments falling due (i.e. no change in exposure). The remainder of the foreign exchange gap may subsequently be filled by other sources (e.g. new letters of credit opened after 30 November 1982), though this is by no means certain.

### Maturity of refinancing

6. The weighted average maturity (or 'average life') of the loans required in the Banco Central's proposal is 4.2 years. (This figure takes into account the proposed refinancing of letters of credit, loans to CEA Infratur and Rosario Dominicana, and assumes that foreign bank lines to the Banco Central will be rolled over when they fall due). The average life of the Working Committee's proposal is 3.25 years. Compared with the Banco Central's proposal, this means that the Working Committee's proposal will involve an additional cost from principal repayments in the foreign exchange budget of the Banco Central of around \$38m per annum from the time between the end of the grace period on the Working Committee's proposal (1.5 years) and its final maturity (5 years). The additional foreign exchange cost will only partially be offset by reduced interest costs associated with the shorter average life of the Working Committee's proposed loan.

7. If the Working Committee were to agree to increase the repayment period on their proposed loans from 5 years with 1.5 years grace to 6 years with 2 years grace, then the average life of the Working Committee's proposal would be similar to, though still slightly shorter than, the Banco Central's proposal. It is not important in this context whether the proposed refinancing from foreign banks takes the form of a single loan or more than one loan.

### Cost of refinancing

8. The Working Committee has asked for a margin of 2.5% over 3 month LIBOR (0.125% less over prime). This compares with a margin of 1.875% over 3 or 6 month LIBOR (1.75% over prime) that has been proposed, we understand, in the case of the Mexican refinancing; 2.125% over LIBOR (1.875% over prime) in the case of the Brazilian Republic; and 2.125% over LIBOR (2% over prime) in the case of Argentina. The margins on other loans which are comparable are the margins on refinancings rather than the margins on new money loans (which are generally higher), as the Working Committee's proposal in the Dominican case does not involve the net provision of new money. We suggest that the Banco Central should ask the Working Committee to reduce the margin over LIBOR from 2.5% to 2% in the first instance. This may eventually produce a compromise between 2% and 2.5%. There is also a case for suggesting that prime pricing should be 0.25% less than LIBOR instead of 0.125%.

9. The Working Committee has asked for a front end fee of 1.5% flat. This compares with front end fees on refinancings of 1.125%, we understand, in the case of Mexico, up to 1.5% in the case of Brazil, and 1% in the case of Argentina. We suggest that the Banco Central should ask the Working Committee to reduce their front end fee from 1.5% to 1% in the first instance. This may eventually produce a compromise between 1% and 1.5%.

### Number of loans

10. The Banco Central's proposal identifies a number of separate borrowers (the Banco Central, CEA, etc). The Working Committee has proposed a single loan either to the Banco Central or to the Republic, with exchange availability (but not, of course, credit risk) guaranteed by the Banco Central. In putting forward their proposal, the Working Committee have clearly not taken into account the domestic implications of the proposal on IMF ceilings and other matters. However, they appear unlikely to oppose dividing the refinancing into two separate loans, one to the Banco Central and one to, or guaranteed by, the Republic.

### Equal treatment for foreign banks

11. The foreign banks will require to be treated 'pro rata' in the refinancing, and the Working Committee's proposal treats them 'pro rata' to their commitments in the 'included debt' (as defined by the Committee). The precise method that is used to produce equal treatment is for the banks to decide. However, there is clearly a disagreement within the Working Committee about whether bank creditors who have some form of security (such as the Libra consortium to CEA) should maintain preferential status in the proposed refinancing. A possible solution to this problem is to establish whether or not the Libra consortium's security can be legally enforced. If it can, there is a stronger case for giving them preferential treatment in the proposed refinancing. If it cannot be legally enforced, then the case for giving them preferential treatment is much weaker.

### Private sector payments

12. The Working Committee have proposed that private sector debtors should only be refinanced in foreign currency when they have deposited the peso equivalent in the Banco Central. They have also stipulated that, if separate refinancing agreements are made with debtors which have not deposited pesos in the Banco Central, the terms of the refinancing should not be more favourable to the debtors than the proposed refinancing to the Republic and/or the Banco Central. This is because the Working Committee consider that failure to deposit pesos is an indication of lack of creditworthiness and should be treated accordingly.

### Minority view

13. It became clear in the meeting that the foreign banks represented in the Working Committee are still divided over a number of issues. For example, American Express implied at the meeting that some banks were reluctant to refinance overdue letters of credit, which represent short term trade finance, in the form of medium term balance of payments support, and were opposed, to the principle of including letters of credit that have been opened but not fallen due in the proposed refinancing. Royal Bank of Canada said at the

meeting that there was also disagreement within the Committee over whether a counter-proposal should be presented to the Banco Central at this stage, when there was a minority on the Committee against the proposal, and the Committee had no mandate as yet to act on behalf of the other creditor banks.

Other points

14. This note summarises the main points arising from the meeting. The negotiations are still at a very early stage. There are a number of important points of principle, and a wide range of technical points, to be covered on which we are available to provide assistance to the Banco Central, as and when required.

O.P. Richards  
J.K. Sleeman  
Samuel Montagu & Co. Limited  
15 January 1983

BANCEN 3460052  
887213 SMCO X G  
ZCZC MSGN 192  
JAN 24 18-25 HRS

TO: LIC BERNARDO VEGA, GOVERNOR  
BANCO CENTRAL, SANTO DOMINGO

APPENDIX B

FROM: SAMUEL MONTAGU + CO LTD, LONDON

THE NEGOTIATIONS WITH FOREIGN BANKS

WE GIVE BELOW A TELEX THAT WE HAVE DRAFTED WHICH WE THINK CAN FORM THE BASIS OF A COUNTER-PROPOSAL TO BE PUT TO THE WORKING COMMITTEE OF FOREIGN BANKS BY THE BANCO CENTRAL, FOLLOWING THE MEETING HELD IN MIAMI ON 14 JANUARY. AT THAT MEETING THE WORKING COMMITTEE LEFT WITH YOUR TEAM A WORKING PAPER ('PROPOSAL FOR RESCHEDULING') FOR CONSIDERATION AND IN THE TWO MEETINGS THAT WERE HELD WITH THE BANK'S REPRESENTATIVES WE ALL LEARNT MUCH OF THE DETAILED THINKING (AND INDEED DISAGREEMENTS) BEHIND THAT WORKING PAPER.

YOU VERY CLEARLY SET OUT THE INITIAL CRITICISMS THAT YOU HAD WITH THEIR PROPOSALS, AND THE DRAFT TELEX SET OUT BELOW IS INTENDED BOTH FORMALLY TO PUT THESE CRITICISMS FORWARD TO THE WORKING COMMITTEE AND TO INVITE A RESPONSE FROM THAT COMMITTEE., IT IS IMPORTANT THAT WE KEEP UP THE MOMENTUM IN THESE NEGOTIATIONS.

THE PAPER HAS BEEN DRAFTED BEARING IN MIND THE FOLLOWING MAJOR POINTS:

(A) THE BANKS ARE SEEKING A REDUCTION IN THEIR EXPOSURE TO THE DOMINICAN REPUBLIC WHILST THE BANCO CENTRAL'S PROPOSAL INVOLVES AN INCREASE. ALTHOUGH BY THE END OF THE NEGOTIATIONS IT MAY PROVE ACCEPTABLE TO AGREE UPON THE BANKS MAINTAINING THEIR EXISTING EXPOSURE, WE SHOULD NOT AT THIS STAGE BE SEEN TO BE ASKING FOR LESS THAN THE AMOUNTS SET OUT IN THE ORIGINAL PROPOSAL MADE TO THE BANKS IN NEW YORK.,

(B) THE BANCO CENTRAL WILL WISH TO SEE THE AVERAGE LIFE OF ANY NEW LOAN TO BE AS LONG AS POSSIBLE AND CLEARLY THE 3.25 YEARS AVERAGE LIFE OFFERED IS NOT PARTICULARLY GENEROUS, ESPECIALLY IN THE CONTEXT OF WHAT LATIN AMERICAN COUNTRIES ARE ACHIEVING IN THEIR NEGOTIATIONS WITH BANKS., AND

(C) THE COSTS OF THE REFINANCING PROPOSAL AS ASKED BY THE BANKS ARE NOT OUTRAGEOUS BUT ARE CERTAINLY HIGHER THAN THE LEVEL WHICH THE BANCO CENTRAL SHOULD ACCEPT AT PRESENT. THE DRAFT PAPER SUGGESTS LOWER COSTS WITH A VIEW TO NEGOTIATING A MUTUALLY ACCEPTABLE FEE ARRANGEMENT.

WE THINK THAT THE FOLLOWING POINTS SHOULD BE BORNE IN MIND WHEN PRESENTING THE BANCO CENTRAL'S CASE TO THE WORKING COMMITTEE:

(A) THE WEAKNESS IN OUR CASE IS THAT FOREIGN BANKS WILL STATE THAT THE CENTRAL BANK IS PAYING OFF BILATERAL OFFICIAL CREDITORS FROM THE BANK REFINANCING, IT WOULD BE VERY USEFUL TO PUT FORWARD STRONG ARGUMENTS REGARDING THE INABILITY OF THE REPUBLIC TO RESCHEDULE THE VENEZUELAN AND US DEBTS AND IT WOULD BE VERY USEFUL IF YOU ARE ABLE TO INCORPORATE SUCH ARGUMENTS IN TO THE RESPONSE TO THE WORKING COMMITTEE.,

(B) THE TELEX ASSUMES THAT IN ADDITION TO REFINANCING OVERDUE LETTERS OF CREDIT FOR AT LEAST 5 YEARS, THE IMF ALSO REQUIRES OTHER ARREARS TO BE PAID OFF DURING THE PROGRAMME PERIOD (US DLRS 100 MILLION OF WHICH IN 1983).., AND

(C) THERE APPEARED TO BE A SMALL STATISTICAL DISCREPANCY BETWEEN THE FIGURES PUT FORWARD BY THE CENTRAL BANK AND THOSE PRESENTED TO US BY THE WORKING COMMITTEE. WE SUGGEST THE CENTRAL BANK TRIES TO RECONCILE THE TWO SETS OF FIGURES IN ORDER TO ENSURE THAT THERE IS NO MAJOR AREA OF DISAGREEMENT BETWEEN THE TWO SIDES.

WE HAVE FACTS AND FIGURES TO SUPPORT MANY OF THE STATEMENTS MADE IN THE PAPER WHICH CAN BE USED TO BACK UP THE POINTS MADE DURING THE NEXT ROUND OF NEGOTIATIONS. SUCH FACTS AND FIGURES ARE NOT INCORPORATED INTO THE TEXT BECAUSE WE WISHED TO KEEP THE COUNTER-PROPOSAL AS CONCISE AS POSSIBLE.

WHEN SENDING THE FINAL PAPER TO THE WORKING COMMITTEE WE SUGGEST THAT A DEADLINE IS GIVEN FOR THE HOLDING OF THE NEXT MEETING. IN OUR VIEW THIS DEADLINE SHOULD BE FRIDAY 4TH FEBRUARY.

WITH KIND REGARDS

O P RICHARDS  
A B SHIPP  
J K SLEEMAN

THE DRAFT TELEX READS AS FOLLOWS:

EXTERNAL FINANCIAL REQUIREMENTS OF THE  
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DOMINICAN REPUBLIC FROM COMMERCIAL BANKS  
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RESPONSE TO THE PROPOSALS PUT FORWARD BY THE WORKING COMMITTEE  
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INTRODUCTION  
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1. THIS PAPER SETS OUT A RESPONSE TO THE PROPOSALS PUT FORWARD BY THE WORKING COMMITTEE TO THE CENTRAL BANK OF THE DOMINICAN REPUBLIC AT THE JOINT MEETING HELD IN MIAMI ON FRIDAY, 14TH JANUARY 1983. THE PAPER SEEKS TO IDENTIFY AREAS IN WHICH THE WORKING COMMITTEE AND THE CENTRAL BANK ARE NOT IN COMPLETE AGREEMENT AND MAKES COUNTER-PROPOSALS REGARDING THE TERMS OF THE REFINANCING.

2. THE PAPER IS BASED UPON THE DISCUSSIONS HELD IN MIAMI. THE CENTRAL BANK WOULD LIKE TO EXPRESS ITS GRATITUDE TO ALL THE BANKS REPRESENTED AT THE MIAMI MEETING. IT IS THE CENTRAL BANK'S VIEW THAT THE MIAMI MEETING FORMS THE BASIS FOR A SUCCESSFUL OUTCOME TO THESE NEGOTIATIONS.

GENERAL REQUIREMENTS  
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3. AT THE MEETING IN MIAMI, THE WORKING COMMITTEE STATED THAT THEY ACCEPTED THE CENTRAL BANK'S FOREIGN EXCHANGE BUDGET FOR 1983. HOWEVER, THERE APPEAR TO BE MINOR STATISTICAL DISCREPANCIES BETWEEN THE WORKING COMMITTEE'S PRESENTATION IN MIAMI AND CENTRAL BANK'S ORIGINAL PROPOSALS, THE FIGURES IN THIS TELEX ARE BASED ON THE CENTRAL BANK'S ORIGINAL PROPOSALS.

4. IT WAS THE OBJECT OF THE CENTRAL BANK'S ORIGINAL PROPOSALS THAT FOREIGN BANKS WOULD ENSURE THAT THE DEFICIT DISCLOSED BY THE FOREIGN EXCHANGE BUDGET FOR 1983 WOULD BE FINANCED. TO ACHIEVE THIS OBJECTIVE THE BANKS WERE ASKED TO REFINANCE ARREARS ON LETTERS OF CREDIT OUTSTANDING AT 30TH NOVEMBER 1982, TO FINANCE LETTERS OF CREDIT OPENED BUT NOT FALLEN DUE AS AT THAT DATE AND TO PROVIDE ADDITIONAL FINANCE. THIS ADDITIONAL FINANCE WAS SET AT US DLRS 270 MILLION IN THE ORIGINAL PROPOSALS, BUT AS EXPLAINED TO THE WORKING COMMITTEE IN MIAMI THE FIGURE HAS BEEN REDUCED TO US DLRS 225 MILLION AS A RESULT OF EXCLUDING THE PROPOSED US DLRS 45 MILLION FACILITY FOR ROSARIO DOMINICANA. THE NET EFFECT OF THESE PROPOSALS (BEARING IN MIND THE SUBSTANTIAL REPAYMENT OF PRINCIPAL DUE TO FOREIGN BANKS IN 1983) IS TO INCREASE THE FOREIGN BANKS' EXPOSURE TO THE DOMINICAN REPUBLIC IN 1983 BY US DLRS 43 MILLION, I.E. AN INCREASE OF 5.4 PCT.

5. THE WORKING COMMITTEE HAS PROPOSED, HOWEVER, THAT A REFINANCING LOAN OF US DLRS 560 MILLION SHOULD BE OFFERED TO THE DOMINICAN REPUBLIC. THIS PROPOSAL HAS BEEN MADE IN THE KNOWLEDGE THAT IT WILL NOT FINANCE THE PROJECTED 1983 DEFICIT. THE WORKING COMMITTEE HAS PROJECTED A REDUCTION IN FOREIGN BANK EXPOSURE TO THE DOMINICAN REPUBLIC OF US DLRS 62 MILLION, I.E. A REDUCTION OF 7.7 PCT. THIS REDUCTION CONTRASTS WITH THE INCREASE IN FOREIGN BANK EXPOSURE PROJECTED IN 1983 FOR OTHER COUNTRIES IN THE REGIONS (SUCH AS MEXICO, BRAZIL AND ARGENTINA).

6. THE WORKING COMMITTEE HAS SUGGESTED THAT, GIVEN THE VERY SUBSTANTIAL REPAYMENTS DUE IN 1983 TO BILATERAL OFFICIAL CREDITORS, IT IS UNFAIR TO ASK FOREIGN BANKS TO MAKE FINANCE AVAILABLE TO THE REPUBLIC, AS THIS FINANCE WOULD EFFECTIVELY BE USED TO REDUCE OFFICIAL BILATERAL DEBT. THE CENTRAL BANK IS SYMPATHETIC TO THIS VIEWPOINT BUT, AS EXPLAINED TO THE WORKING COMMITTEE, IT IS NOT POSSIBLE TO REFINANCE THE MAJOR OFFICIAL BILATERAL CREDITORS, NOR TO GUARANTEE AT THIS STAGE THAT ANY NEW MONIES THAT MAY BE GRANTED FROM OFFICIAL SOURCES WILL BE SUFFICIENT TO CLOSE THE FINANCING GAP IF FOREIGN BANKS REDUCE THEIR EXPOSURE IN THE MANNER PROPOSED BY THE WORKING COMMITTEE.

7. THE WORKING COMMITTEE HAS ALSO SUGGESTED THAT THE FINANCING GAP COULD ALSO BE CLOSED BY FAILING TO REDUCE COMMERCIAL PAYMENTS ARREARS OTHER THAN OVERDUE LETTERS OF CREDIT. UNDER THE IMF AGREEMENT, THE REPUBLIC IS OBLIGED NOT ONLY TO SEEK A REFINANCING OF ARREARS OF LETTERS OF CREDIT FOR A TERM OF AT LEAST 5 YEARS BUT ALSO TO CLEAR ALL OTHER ARREARS WITHIN THE PERIOD OF THE IMF PROGRAMME. IN ADDITION, THERE IS A REQUIREMENT IN 1983 THAT US DLRS 100 MILLION OF THESE 'OTHER ARREARS' SHOULD BE CLEARED. IF OTHER ARREARS ARE NOT REDUCED BY THIS AMOUNT, THE REPUBLIC WILL NOT KEEP WITHIN THE TERMS OF THE AGREEMENT WITH THE IMF.

8. FOR THE REASONS SET OUT ABOVE, THE CENTRAL BANK REQUESTS THE WORKING COMMITTEE TO RECONSIDER THE AMOUNT ON OFFER TO THE REPUBLIC IN THE FORM OF A REFINANCING LOAN. THE CENTRAL BANK WOULD WISH TO SEE THE FOREIGN BANKS NOT ONLY MAINTAINING THEIR CURRENT LEVEL OF EXPOSURE TO THE REPUBLIC BUT INCREASING THIS LEVEL BY US DLRS 43 MILLION (I.E. BY 5.4 PCT).

# THE TERMS OF THE PROPOSED REFINANCING

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9. THIS PART OF THE PAPER EXAMINES THE VARIOUS TERMS PUT FORWARD BY THE WORKING COMMITTEE IN THEIR REFINANCING PROPOSAL AND DEALS WITH THESE TERMS IN THE ORDER THAT THEY WERE PRESENTED.

## THE BORROWER

10. THE BORROWER IS TO BE EITHER THE GOVERNMENT OF THE DOMINICAN REPUBLIC (WITH THE CENTRAL BANK GUARANTEEING EXCHANGE AVAILABILITY) OR THE BANCO CENTRAL DE LA REPUBLICA DOMINICANA. IN PUTTING FORWARD THE PROPOSAL THE WORKING COMMITTEE ACCEPTED THAT THEY HAD NOT FULLY THOUGHT OUT THE DOMESTIC IMPLICATIONS OF HAVING A SINGLE BORROWER WITH REGARD TO IMF CEILINGS AND OTHER MATTERS. FROM THE LATER DISCUSSIONS HELD WITH THE COMMITTEE IT IS UNDERSTOOD THAT THE USE OF MORE THAN ONE BORROWER WILL PROVE TO BE ACCEPTABLE TO THE FOREIGN BANKS SO LONG AS THE STANDING OF ANY BORROWER OR OF ANY GUARANTOR ASSOCIATED WITH ANY BORROWING IS CONSIDERED SATISFACTORY BY THE FOREIGN BANKS. DETAILS RELATING TO THE PROPOSED BORROWERS WILL BE DECIDED IN FUTURE NEGOTIATIONS.

## THE AMOUNT

11. THE AMOUNT OF US DLRS 560 MILLION IS CONSIDERED TO BE INSUFFICIENT TO MEET THE DOMINICAN REPUBLIC'S NEEDS FOR THE REASONS ALREADY SET OUT IN PARAGRAPHS 5 TO 9.

## THE MATURITY

12. THE WORKING COMMITTEE'S PROPOSAL PUTS FORWARD A LOAN WHICH EFFECTIVELY HAS A GRACE PERIOD FOR 1 1/2 YEARS AND A FINAL MATURITY OF 5 YEARS., THE REPAYMENT SCHEDULE GIVING AN AVERAGE LIFE OF 3 1/4 YEARS. THE ORIGINAL PROPOSAL PUT FORWARD BY THE CENTRAL BANK CONSISTED OF A VARIETY OF LOANS WITH DIFFERING MATURITY DATES BUT WHICH TAKEN AS A WHOLE WERE ANTICIPATED TO HAVE AN AVERAGE WEIGHTED MATURITY OF ONLY 4 1/4 YEARS. IT IS OBVIOUSLY VERY IMPORTANT THAT FUTURE DEBT SERVICE OBLIGATIONS DO NOT IMPOSE SUCH A STRAIN ON THE FOREIGN EXCHANGE BUDGET THAT THE ABILITY TO MEET SUCH OBLIGATIONS BECOMES PROBLEMATIC, THE CENTRAL BANK CONSIDERS THAT THE REDUCED AVERAGE LIFE OF THE WORKING COMMITTEE'S PROPOSAL (CREATING AS IT DOES, A MATERIAL ADDITIONAL ANNUAL FOREIGN EXCHANGE OUTFLOW DURING THE REPAYMENT PERIOD) WILL CREATE TOO GREAT A STRAIN ON FUTURE FOREIGN EXCHANGE CASH FLOWS.

13. THE COMMITTEE IS THEREFORE REQUESTED TO CONSIDER ALTERING THE REPAYMENT SCHEDULE INCORPORATED IN ITS PROPOSED LOAN BY ALLOWING A 2 YEAR GRACE PERIOD AND GRANTING A FINAL MATURITY OF 6 1/2 YEARS, THEREBY GIVING A LOAN WITH AN AVERAGE LIFE OF 4 1/4 YEARS IN LINE WITH THE ORIGINAL PROPOSAL PUT FORWARD BY THE CENTRAL BANK. AN AVERAGE LIFE OF 4 1/4 YEARS IS LESS THAN THAT BEING OBTAINED IN OTHER LATIN AMERICAN REFINANCINGS.

## REPAYMENT

14. THE CENTRAL BANK WOULD WISH TO SEE REPAYMENTS OCCURRING AT SIX MONTHLY INTERVALS NOT ONLY BECAUSE SUCH REPAYMENTS ARE MORE COMMON IN LOAN TRANSACTIONS OF THIS NATURE, BUT ALSO BECAUSE IT WOULD ALLOW THE CENTRAL BANK TO SELECT INTEREST PERIODS OF 3 OR 6 MONTH TERMS (SEE PARAGRAPH 15).

2333/2  
Banco Central de la Republica Dominicana  
S. B. SIORERA

## INTEREST

15. THE CENTRAL BANK HAS MADE A CAREFUL STUDY OF INTEREST MARGINS CURRENTLY BEING DEMANDED BY BANKS FOR LATIN AMERICAN REFINANCINGS AND FOR LENDING NEW MONIES TO COUNTRIES IN THAT REGION. AS A RESULT OF THIS STUDY AND BEARING IN MIND (A) THE SLIGHTLY SHORTER MATURITY OF THE PROPOSED LOAN WHEN COMPARED TO OTHER REFINANCINGS AND (B) THE ECONOMIC PROSPECTS OF THE DOMINICAN REPUBLIC, THE COMMITTEE IS REQUESTED TO REDUCE THE INTEREST MARGINS PUT FORWARD IN ITS PROPOSAL. THE CENTRAL BANK BELIEVES THAT AN INTEREST MARGIN OF 2 PCT P.A. ABOVE LIBOR WOULD BE FAIR BOTH TO THE BANKS AND TO THE BORROWERS. BECAUSE OF THE VIOLENT SWINGS WHICH HAVE OCCURRED IN INTEREST RATES DURING THE LAST FEW YEARS, THE CENTRAL BANK BELIEVES THAT THE BORROWERS SHOULD HAVE THE ABILITY TO SELECT INTEREST RATES OVER 3 OR 6 MONTH LIBOR RATHER THAN BE LOCKED INTO THREE MONTHLY ROLLOVERS.

16. THE CENTRAL BANK AGREES WITH THE WORKING COMMITTEE'S PROPOSAL THAT LENDERS SHOULD HAVE A PRIME RATE OPTION AT THE OUTSET SUCH AN OPTION ALLOWS THOSE BANKS HAVING ACCESS TO US DOMESTIC FUNDS TO ACHIEVE A GREATER TRUE MARGIN THAN CAN BE OBTAINED BY LENDING FROM THE EUROCURRENCY MARKETS. BECAUSE OF THIS GREATER RETURN TO THE BANKS, THE CENTRAL BANK REQUESTS THAT THE MARGIN OVER PRIME SHOULD BE  $\frac{1}{4}$  LESS THAN THE EQUIVALENT MARGIN OVER LIBOR RATHER THAN  $\frac{1}{8}$  PCT P.A. LESS, AS IN THE WORKING COMMITTEE'S PROPOSAL. THE CENTRAL BANK THEREFORE SEEKS A MARGIN OF  $1 \frac{3}{4}$  PCT P.A. OVER PRIME.

## REFINANCING FEE

17. THE CENTRAL BANK AGREES THAT A FLAT FRONT END FEE SHOULD BE PAYABLE TO THE BANKS IN RETURN FOR THE PROVISION OF MEDIUM TERM FINANCING BUT BELIEVES THAT THE  $1 \frac{1}{2}$  PCT FEE REQUESTED IS TOO HIGH. THE PROPOSED REFINANCING SHOULD NOT PROVE DIFFICULT TO PUT INTO PLACE, GIVEN THAT ALL RELEVANT INFORMATION CONCERNING THE DEBTS INVOLVED HAS BEEN PROVIDED BY THE CENTRAL BANK TOGETHER WITH RELIABLE FOREIGN EXCHANGE BUDGET FORECASTS. FOR THIS REASON THE BANKS ARE ASKED TO ACCEPT A 1 PCT FLAT FRONT END FEE.

## OTHER TERMS

18. THE CENTRAL BANK AGREES IN PRINCIPLE WITH ALL THE OTHER TERMS CONTAINED IN THE PROPOSAL PUT FORWARD BY THE WORKING COMMITTEE, BUT THE PRECISE DETAILS WILL NEED TO BE AGREED DURING FURTHER DISCUSSIONS.

SUMMARY  
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19. IN SUMMARY, THE CENTRAL BANK REQUESTS THE WORKING COMMITTEE TO AMEND ITS PROPOSAL BY:

- (A) INCREASING THE AMOUNT OF THE PROPOSED REFINANCING LOAN SO THAT THE TOTAL FOREIGN BANK EXPOSURE TO THE DOMINICAN REPUBLIC RISES BY US DLRS 43 MILLION.,
- (B) ALLOWING MORE THAN ONE BORROWER.,
- (C) CHANGING THE GRACE PERIOD AND FINAL MATURITY TO 2 YEARS AND 6 1/2 YEARS RESPECTIVELY.,
- (D) AGREEING TO SIX MONTHLY REPAYMENT PERIODS.,
- (E) AMENDING THE INTEREST RATES TO 2 PCT P.A. OVER LIBOR AND 1 3/4 PCT P.A. OVER PRIME, WITH BOTH OPTIONS ALLOWING FOR 3 OR 6 MONTH INTEREST PERIODS., AND
- (F) REDUCING THE PROPOSED REFINANCING FEE TO 1 PCT FLAT.

SAMUEL MONTAGU LONDON

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JAN 25 16-07 HRS

APPENDIX C

TO CENTRAL BANK OF THE DOMINICAN REPUBLIC

ATTN LIC BERNARDO VEGA, GOVERNOR

1. THANK YOU FOR YOUR TELEX OF 24TH JANUARY

2. WE BELIEVE THAT THE FEES UNDER A FACILITY OF THE KIND YOU PROPOSE COULD BE STRUCTURED IN SUCH A WAY AS TO GIVE THE BANKS THE SAME REMUNERATION AS IN A CONVENTIONAL MEDIUM-TERM ADVANCE FACILITY. IN ADDITION THE BANKS MAY ALSO WISH TO BE COMPENSATED FOR THE EXTRA ADMINISTRATION WHICH YOUR PROPOSAL WOULD ENTAIL

3. HOWEVER AS YOU WILL ALREADY BE AWARE, YOUR PROPOSED ACCEPTANCE CREDIT FACILITY WOULD HAVE TWO DISADVANTAGES :-

A) STRICTLY SPEAKING IT WOULD NOT CONSTITUTE A FIVE-YEAR COMMITMENT BY THE BANKS TO LEND AND IT MIGHT NOT THEREFORE SATISFY THE IMF CONDITION THAT ARREARS BE RE-FINANCED FOR A FIVE-YEAR PERIOD

B) IT MIGHT BE INTERPRETED BY THE BANKS AS INDICATING A POSSIBLE LACK OF SUPPORT BY CONGRESS FOR THE PROPOSED RE-SCHEDULING PLAN

4. IT IS POSSIBLE THAT WE COULD CONVINCE BOTH THE IMF AND THE BANKS TO ACCEPT THE ACCEPTANCE CREDIT IDEA, BUT WE WOULD LIKE TO PROPOSE AN ALTERNATIVE ARRANGEMENT WHICH WOULD NOT HAVE THE SAME DISADVANTAGES. THIS ALTERNATIVE COULD TAKE ONE OF TWO FORMS

A) THE BANKS WOULD COMMIT THEMSELVES TO LEND FOR SUCCESSIVE PERIODS OF 90 DAYS (OR LONGER IF LEGAL CONSIDERATIONS PERMIT) AGAINST PROMISSORY NOTES OF THE CENTRAL BANK. AT THE END OF EACH OF THE PERIODS NEW PROMISSORY NOTES WOULD BE ISSUED BY THE CENTRAL BANK TO REDEEM SOME OR ALL OF THE MATURING PROMISSORY NOTES (DEPENDING ON THE OVERALL REPAYMENT SCHEDULE). HOWEVER THE CENTRAL BANK WOULD HAVE AN OPTION TO REDEEM ALL OUTSTANDING

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NOTES AT THE END OF EACH PERIOD WITHOUT ISSUING NEW ONES, IE BY MAKING CASH REPAYMENTS

B) THE BANKS WOULD INITIALLY LEND FOR A PERIOD OF 90 DAYS (OR LONGER IF LEGAL CONSIDERATIONS PERMIT) AGAINST PROMISSORY NOTES OF THE CENTRAL BANK. AT THE END OF THIS PERIOD THE CENTRAL BANK WOULD HAVE THE OPTION TO REQUIRE THE BANKS TO LEND FOR A FURTHER PERIOD OF SIMILAR LENGTH AND SO ON FOR SUCCESSIVE PERIODS UP TO A MAXIMUM FINAL MATURITY OF FIVE YEARS FROM THE FIRST DRAWDOWN. AT THE END OF EACH PERIOD THE CENTRAL BANK COULD ASK FOR THE AMOUNT OUTSTANDING TO BE ROLLED OVER IN FULL OR IN PART DEPENDING ON THE OVERALL REPAYMENT SCHEDULE

5. WE THINK THAT EITHER 4(A) OR 4(B) WOULD BE ACCEPTABLE IN PRINCIPLE TO THE BANKS AND THAT THE CHOICE BETWEEN THEM COULD BE MADE IN THE LIGHT OF YOUR LOCAL REQUIREMENTS. HOWEVER THE EFFECT OF BOTH 4(A) AND 4(B) IS THAT ON THE ONE HAND THE BANKS WOULD HAVE A FIVE-YEAR COMMITMENT TO LEND (THEREBY SATISFYING IMF REQUIREMENTS) AND ON THE OTHER HAND THE CENTRAL BANK WOULD HAVE A SHORT-TERM COMMITMENT TO BORROW WHICH, SUBJECT TO THE ADVICE OF YOUR LAWYERS, WOULD SEEM TO AVOID THE NEED TO SEEK CONGRESSIONAL APPROVAL

6. IF YOU APPROVE THIS IDEA WE WOULD BE GLAD TO TELEX A MORE DETAILED PROPOSAL

WITH KIND REGARDS  
O P RICHARDS  
A B SHIPP  
J K SLEEMAN

SAMUEL MONTAGU LONDON

TO LIC BERNARDO VEGE, GOVERNOR/  
LIC EDUARDO GARCIA MICHEL  
BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
SANTO DOMINGO  
LA REPUBLICA DOMINICANA

FROM SAMUEL MONTAGU AND CO LIMITED  
LONDON

1. THANK YOU FOR SENDING COPIES TO US OF THE TELEX THAT YOU HAVE SENT TO KEITH TALBOT OF THE ROYAL BANK OF CANADA. WE NOTE THAT YOU NOW PROPOSE TO HAVE TWO LOANS, ONE TO THE BANCO CENTRAL AND THE OTHER TO CEA
2. WE NOTE THAT THE PROPOSED LOANS WILL, IN TOTAL, AMOUNT TO USDLRS 621.6M. THIS IS LESS THAN THE AMOUNT ORIGINALLY ASKED FOR IN NEW YORK, BUT WE UNDERSTAND THAT BANKS ARE NOT WILLING TO INCREASE THEIR EXPOSURE TO THE DOMINICAN REPUBLIC. THE FIGURE OF USDLRS 621.6M WAS CALCULATED BY THE WORKING COMMITTEE TO BE THE FOREIGN BANKS' EXPOSURE TO THE DOMINICAN REPUBLIC AND WE WONDER WHETHER THAT LEVEL OF EXPOSURE IS ACCEPTED BY THE BANCO CENTRAL
3. THE PROPOSED MECHANISM THAT DRAWDOWNS SHOULD NOT BE TIED TO PRINCIPAL REPAYMENTS OF DEBT MAY CAUSE PROBLEMS WITH SOME BANKS (GIVEN THE GENERAL UNWILLINGNESS OF THE BANKS TO INCREASE THEIR OVERALL EXPOSURE TO THE DOMINICAN REPUBLIC) IF THEY SEE A TEMPORARY INCREASE IN THEIR EXPOSURE TO THE DOMINICAN REPUBLIC DURING 1983. THIS MATTER CAN BE DISCUSSED IN DETAIL WHEN WE NEXT MEET WITH YOU
4. WE NOTE THAT YOU HAVE NOT PROPOSED ANY DETAILED TERMS FOR THE CEA LOAN. TO ENSURE AN OVERALL AVERAGE LIFE OF 4-1/4 YEARS GRACE ON THE NEW LOANS, THE CEA LOAN WOULD NEED TO HAVE THE SAME GRACE PERIOD AND REPAYMENT PERIOD AS PROPOSED FOR THE BANCO CENTRAL'S BORROWINGS
5. WE WOULD APPRECIATE RECEIVING A COPY OF THE LOAN MADE BY THE BANK OF NOVA SCOTIA TO THE BANCO CENTRAL IN 1974
6. IF THERE IS ANYTHING WE CAN DO TO HELP IN THE NEXT FEW DAYS, EITHER IN PRESENTING OUR CASE TO THE WORKING COMMITTEE OR IN ANSWERING QUESTIONS PUT BY THE BANKS TO YOU, THEN PLEASE LET US KNOW. WE LOOK FORWARD TO SEEING YOU PRIOR TO THE NEXT MEETING WITH THE WORKING COMMITTEE

WITH KIND REGARDS  
PAUL RICHARDS  
ARNOLD SHIPP  
JOHN SLEEMAN  
SAMUEL MONTAGU AND CO LTD  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

ATTN: LIC BERNARDO VEGA, GOVERNOR  
LIC EDUARDO GARCIA MICHEL, ECONOMIC ADVISER

BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

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INTRODUCTION

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1. FOLLOWING THE MEETING WITH THE WORKING COMMITTEE IN MIAMI ON TUESDAY 8 FEBRUARY, WE GIVE BELOW OUR COMMENTS ON THE NEW PROPOSALS SUBMITTED BY THE WORKING COMMITTEE AT THAT MEETING.

AMOUNT

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2. THE WORKING COMMITTEE HAVE NOT INCREASED THE AMOUNT THAT THE BANKS ARE PREPARED TO REFINANCE FROM 90 PCT OF US DLRS 621.8M. THEIR ARGUMENT APPEARS TO BE:

(A) THAT THEY DO NOT WISH TO PROVIDE FUNDS WHICH WILL BE USED TO REPAY BILATERAL OFFICIAL CREDITORS (PARTICULARLY THE US AND VENEZUELA).. AND

(B) THAT THE DOMINICAN REPUBLIC IS DIFFERENT FROM OTHER COUNTRIES IN THE REGION, BECAUSE A LARGE PROPORTION OF THE AMOUNT TO BE REFINANCED CONSTITUTES ARREARS ON LETTERS OF CREDIT, WHEREAS OTHER COUNTRIES WHICH HAVE RECEIVED 100 PCT REFINANCING HAVE MAINLY REFINANCED MATURITIES ON DEBTS FALLING DUE IN THE FUTURE.

3. USING THE WORKING COMMITTEE'S FIGURES, THEIR PROPOSAL LEAVES A FOREIGN EXCHANGE BUDGET GAP OF US DLRS 58.9M AFTER ALLOWING FOR A REDUCTION IN 1983 OTHER THAN REFINANCED LETTERS OF CREDIT OF THE US DLRS 100M MINIMUM SET IN THE IMF AGREEMENT, AND ASSUMING THAT US DLRS 20M OWING TO THE BANCO CENTRAL DE VENEZUELA IS DEFERRED. THEY CONSIDER THAT THE GAP COULD BE CLOSED BY:

(A) ASSUMING A HIGHER GOLD PRICE AND A LOWER OIL PRICE THAN THE PRICES STATED IN THE BANCO CENTRAL'S FOREIGN EXCHANGE BUDGET ASSUMPTIONS..

(B) THE OPENING OF NEW LETTERS OF CREDIT BY BANKS IN THE DOMINICAN REPUBLIC.. AND

(C) DEFERRING PRINCIPAL REPAYMENTS FALLING DUE TO THE US GOVERNMENT.

4. WE CONSIDER THAT IT IS, IN PRINCIPLE, UNSATISFACTORY TO REACH AN AGREEMENT WITH THE BANKS WHICH LEAVES A GAP OF US DLRS 58.9M IN THE FOREIGN EXCHANGE BUDGET, AND IN PRACTICE:

(A) IT WOULD BE UNWISE AT THIS STAGE TO ASSUME AN IMPROVEMENT IN THE FOREIGN EXCHANGE BUDGET FROM A HIGHER GOLD PRICE AND A LOWER OIL PRICE THAN PREVIOUSLY FORECAST, PARTICULARLY IF A LOWER OIL PRICE WOULD JEOPARDIZE THE FINANCING PROVIDED UNDER THE SAN JOSE AGREEMENT..

5. THE DEFERMENT OF REPAYMENTS TO, OR PROVISION OF ADDITIONAL FINANCING BY, THE US GOVERNMENT MIGHT SUBSTANTIALLY REDUCE THE FOREIGN EXCHANGE BUDGET GAP. ACCORDINGLY, THE WORKING COMMITTEE HAS PROMISED TO INVESTIGATE THE POSSIBILITY OF OBTAINING DEBT RELIEF OR ADDITIONAL FINANCING THROUGH BILATERAL NEGOTIATIONS. WE ARE PREPARING A SEPARATE TELEX ON THE IMPLICATIONS OF A MULTILATERAL RENEGOTIATION OF DOMINICAN DEBT TO BILATERAL FOREIGN OFFICIAL CREDITORS THROUGH THE PARIS CLUB.

6. IF THESE ROUTES ARE NOT PRACTICABLE OR ACCEPTABLE, THEN WE CONSIDER THAT THE BEST OPTION WOULD BE TO ASK THE WORKING COMMITTEE TO INCREASE THEIR OFFER FROM 90 PCT TO 100 PCT. OTHERWISE, IN THE ABSENCE OF AN IMPROVEMENT IN THE FOREIGN EXCHANGE BUDGET, BANCO CENTRAL WOULD BE IN A POSITION WHERE IT IS FORCED TO PROCURE ADDITIONAL FINANCING (E.G. THROUGH GOLD SALES OR SWAPS), OR FORCED BACK TO THE CONFERENCE TABLE WITH THE BANKS LATER IN THE YEAR.

#### TERMS

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7. MATURITY: THE WORKING COMMITTEE HAVE MODIFIED THEIR ORIGINAL PROPOSAL OF 5 YEARS WITH 1 1/2 YEARS GRACE TO 6 YEARS WITH 2 YEARS GRACE. WE THINK THAT THEIR NEW POSITION IS SUFFICIENTLY CLOSE TO THE BANCO CENTRAL'S COUNTER-PROPOSAL OF 6 1/2 YEARS WITH 2 YEARS GRACE TO BE ACCEPTED.

8. RATE: THE WORKING COMMITTEE HAVE MODIFIED THEIR ORIGINAL PROPOSAL OF 2 1/2 PCT OVER LIBOR AND 2 3/8 PCT OVER PRIME TO 2 1/4 PCT OVER LIBOR AND 2 1/8 PCT OVER PRIME. WE ORIGINALLY SUGGESTED THAT THE BANCO CENTRAL SHOULD COUNTER THE WORKING COMMITTEE'S ORIGINAL PROPOSAL WITH 2 PCT AND 1 3/4 PCT ON THE BASIS THAT THE FINAL SETTLEMENT WOULD BE BASED ON A MARGIN OF 2 1/4 PCT OVER LIBOR. SO WE THINK IT WOULD BE PRUDENT TO ACCEPT 2 1/4 PCT OVER LIBOR (WHICH IS THE SAME MARGIN AS HAS BEEN ACCEPTED BY ECUADOR AND ARGENTINA AND 1/8 PCT LOWER THAN COSTA RICA). BUT WE SUGGEST THAT IT IS STILL WORTH BARGAINING FOR A PRIME OPTION 1/4 PCT BELOW LIBOR INSTEAD OF THE 1/8 PCT BELOW LIBOR THAT THE WORKING COMMITTEE HAVE SUGGESTED, ESPECIALLY AS MANY BANKS ARE LIKELY TO OPT FOR FUNDING OVER PRIME.

9. FRONT END FEES: THE WORKING COMMITTEE HAVE NOT CHANGED THEIR ORIGINAL PROPOSAL OF 1 1/2 PCT IN FRONT END FEES. IN OUR VIEW, THE EVIDENCE THEY HAVE PRODUCED IN SUPPORT OF THEIR CASE IS NOT CONCLUSIVE. TO ILLUSTRATE THIS POINT, FRONT END FEES OF 1 1/2 PCT, ASSUMING A ROLL-UP PERIOD BETWEEN 30 NOVEMBER 1982 AND 31 DECEMBER 1983, ARE ROUGHLY EQUIVALENT TO THOSE PROPOSED IN THE CASE OF BOLIVIA (1 1/8 PCT CONVERSION FEE PLUS 3/8 PCT ROLL-UP FEE AT AN ANNUAL RATE), AND HIGHER THAN THOSE PROPOSED IN THE CASE OF COSTA RICA (1 PCT CONVERSION FEE PLUS 3/8 PCT ROLL-UP FEE AT AN ANNUAL RATE), BOTH OF WHICH ARE GENERALLY REGARDED AS LESS CREDIT-WORTHY THAN THE DOMINICAN REPUBLIC. WE THINK THAT THE BANCO CENTRAL SHOULD NEGOTIATE FOR FRONT END FEES NOT HIGHER THAN 1 1/4 PCT (I.E. EQUIVALENT TO THOSE RECENTLY NEGOTIATED BY ARGENTINA AND ECUADOR, AND 1/4 PCT HIGHER THAN MEXICO).

#### CONGRESSIONAL APPROVAL

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10. THE WORKING COMMITTEE'S POSITION APPEARS TO HAVE MOVED AWAY FROM DEMANDING CONGRESSIONAL APPROVAL WITHOUT CONDITIONS TO A POSITION WHERE THEY WILL NOT DEMAND CONGRESSIONAL APPROVAL, PROVIDED THAT THEY CAN BE SATISFIED THAT THE REFINANCING LOAN TO THE BANCO CENTRAL IS EQUIVALENT IN SECURITY TO A LOAN TO THE REPUBLIC. CLEARLY, FURTHER DISCUSSION ON THE MATTER SHOULD AWAIT THE OUTCOME OF THE VISIT BY THE WORKING COMMITTEE'S LAWYER TO SANTO DOMINGO.

#### NUMBER OF LOANS

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11. IT APPEARS THAT THERE IS NOW GENERAL AGREEMENT THAT A SINGLE LOAN TO THE BANCO CENTRAL WOULD BE ACCEPTABLE, PROVIDED THAT THE 'PESO PROBLEM' CAN BE OVERCOME.

2. THE CLAUSE IN THE WORKING COMMITTEE'S PROPOSAL THAT 'ALL AMOUNTS ARE DEFERRED AS THEY MATURE AND BECOME PART OF THIS AGREEMENT AND DIRECT OBLIGATIONS OF THE BORROWER' FOLLOWS RECENT PRACTICE IN OTHER COUNTRIES, AND WE THINK THAT IT SHOULD BE ACCEPTED.

MORATORIUM ANNOUNCEMENT

13. THE WORKING COMMITTEE INSISTED THAT A STATEMENT SHOULD BE ISSUED BY THE BANCO CENTRAL ANNOUNCING THAT THERE WAS A MORATORIUM ON PRINCIPAL REPAYMENTS TO FOREIGN BANKS WITH EFFECT FROM 1 DECEMBER 1982. WHILE WE DO NOT SEE ANY OBJECTION IN PRINCIPLE TO THE ISSUE OF A STATEMENT BY THE BANCO CENTRAL, WE FEEL THAT THE STATEMENT SHOULD EMPHASIZE THE POINT THAT THE BANCO CENTRAL IS IN NEGOTIATION WITH A WORKING COMMITTEE OF FOREIGN BANKS, AND INTENDS TO TREAT FOREIGN BANKS PRO RATA IN THE SETTLEMENT THAT IS EXPECTED SHORTLY TO BE REACHED.

INTEREST ARREAS

14. WE NOTE THAT THE WORKING COMMITTEE HAVE INCLUDED PROVISION FOR PAYMENT OF US DLRS 21.6M OF INTEREST TO THE BANKS IN THEIR FOREIGN EXCHANGE BUDGET FIGURES. WE ARE NOT CLEAR HOW THEY HAVE DERIVED THIS FIGURE, AND WHETHER IT IS INCLUDED IN THE BANCO CENTRAL'S OWN FOREIGN EXCHANGE BUDGET CALCULATIONS. WE THINK THAT THE FIGURE SHOULD BE CHECKED WITHIN THE BANCO CENTRAL TO ENSURE THAT NO MORE INTEREST IS TO BE PAID TO THE BANKS THAN THE BANCO CENTRAL ACCEPT SHOULD BE OWING TO THEM.

OTHER POINTS

15. THIS TELEX DEALS WITH THE GENERAL OUTLINE OF THE PROPOSED REFINANCING AGREEMENT. THERE ARE OBVIOUSLY A LOT OF DETAILED POINTS THAT NEED TO BE CONSIDERED ONCE THE GENERAL OUTLINE HAS BEEN AGREED WITH THE OTHER SIDE. WE LOOK FORWARD TO HEARING FROM YOU AS SOON AS WE CAN NEXT BE OF ASSISTANCE, AND WE ARE, OF COURSE, READY TO COME OUT TO SANTO DOMINGO WHEN AND IF WE ARE REQUIRED.

KIND REGARDS  
PAUL RICHARDS  
ARNOLD SHIPP  
JOHN SLEEMAN  
SAMUEL MONTAGU + CO LTD, LONDON  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

FOR THE ATTENTION OF LIC BERNARDO VEGA, GOVERNOR AND LIC EDUARDO GARCIA MICHEL.

1. REFERENCE OUR TELEPHONE CONVERSATION WITH EDUARDO GARCIA MICHEL ON THURSDAY, 3RD MARCH. YOU MAY LIKE TO HAVE THE FOLLOWING SUMMARY OF THE ARGUMENTS TO BE USED IN DISCUSSIONS WITH THE BANKS ON THE LEVEL OF THE FRONT-END FEE AND THE AMOUNT OF THE FACILITY.

FRONT-END FEE

2. FRONT-END FEES AGREED IN RECENT REFINANCING OPERATIONS FOR COUNTRIES IN THE AREA ON A COMPARABLE BASIS ARE AS FOLLOWS:-

1 PCT	MEXICO
1 1/8 PCT	ARGENTINA
1 1/4 PCT	EQUADOR
1 3/8 PCT	COSTA RICA
1 1/2 PCT	BRAZIL, BOLIVIA AND HONDURAS

3. NEGOTIATIONS ARE NOW UNDER WAY FOR A REFINANCING OPERATION FOR CUBA AND A 1 PCT FRONT-END FEE HAS BEEN MENTIONED., HOWEVER NO AGREEMENT HAS YET BEEN REACHED. THE ONLY OTHER COUNTRIES IN THE AREA NOW UNDER DISCUSSION ARE PERU, CHILE AND URUGUAY AND IT IS TOO EARLY TO SAY WHAT THE FRONT-END FEES WILL BE.

4. FROM THE ABOVE INFORMATION IT SEEMS TO US THAT THE WORKING COMMITTEE'S CASE FOR A 1 1/2 PCT FRONT-END FEE IS FAR FROM PROVEN. OF THE THREE COUNTRIES WHICH HAVE A FRONT-END FEE OF 1 1/2 PCT, BRAZIL IS ARGUABLY A SPECIAL CASE BY VIRTUE OF THE SIZE OF THE DEBT INVOLVED. MOREOVER ON GROUNDS OF CREDITWORTHINESS THE DOMINICAN REPUBLIC SHOULD CERTAINLY COMMAND BETTER TREATMENT THAN BOLIVIA AND PROBABLY BETTER THAN HONDURAS AS WELL. SIMILARLY WE THINK THAT THE DOMINICAN REPUBLIC SHOULD RECEIVE MORE FAVOURABLE TREATMENT THAN COSTA RICA, WHICH IS PAYING 1 3/8 PCT FRONT-END FEE. THIS POINTS TO A 1 1/4 PCT FRONT-END FEE WHICH WOULD PUT THE DOMINICAN REPUBLIC ON THE SAME LEVEL AS EQUADOR AND WHICH WOULD IN OUR VIEW BE ACCEPTABLE.

AMOUNT

5. THE BANKS HAVE USED TWO ARGUMENTS FOR ONLY REFINANCING 90 PCT OF MATURITIES -

(A) OFFICIAL CREDITORS ARE NOT RESCHEDULING THEIR MATURITIES AND THEREFORE IN EFFECT THE BANKS ARE BEING ASKED TO PROVIDE FUNDS TO SERVICE OFFICIAL DEBT, AND

(B) THE DOMINICAN CASE IS UNUSUAL IN THAT ARREARS ON LETTERS OF CREDIT ARE BEING REFINANCED.

6. THE FIRST ARGUMENT DOES NOT BEAR MUCH WEIGHT SINCE THE MAJOR OFFICIAL CREDITOR, THE UNITED STATES OF AMERICA, IS EFFECTIVELY PROVIDING INCREASED SUPPORT TO THE DOMINICAN REPUBLIC FOR 1983 (WE ARE NOT SURE WHAT THE LATEST POSITION ON VENEZUELAN BILATERAL DEBT IS). THE SECOND ARGUMENT (THAT IT IS UNUSUAL TO INCLUDE REFINANCING OF ARREARS ON LETTERS OF CREDIT) IS TRUE AS FAR AS IT GOES, BUT -

(I) THE EFFECT OF THE BANKS' POSITION IS TO LEAVE A FINANCING GAP IN THE FOREIGN EXCHANGE BUDGET, WHICH IS CLEARLY UNSATISFACTORY, AND

(II) IF OIL AND GOLD PRICES DO NOT MOVE IN FAVOUR OF THE DOMINICAN REPUBLIC THEN THERE IS A DEFINITE RISK THAT A FURTHER REFINANCING EXERCISE WILL HAVE TO BE UNDERTAKEN LATER IN THE YEAR. IT IS IN THE BANKS' INTEREST TO DO ALL

7. IN THE WIDER CONTEXT OF NEGOTIATIONS WITH THE BANKS IN THE IMMEDIATE FUTURE YOU MAY FIND THE FOLLOWING THOUGHTS WORTH BEARING IN MIND -

- (1) FOLLOWING OUR LAST MEETING IN MIAMI YOU WERE CONSIDERING WHETHER OR NOT ANOTHER APPROACH TO THE BILATERAL CREDITORS FOR DEBT SERVICE RELIEF COULD BE MADE, PROVIDED OF COURSE THAT THIS WOULD NOT PREJUDICE THE AVAILABILITY OF NEW FUNDS ALREADY COMMITTED FROM COUNTRIES SUCH AS THE UNITED STATES OF AMERICA. IF THE BILATERAL CREDITORS WERE PREPARED TO REFINANCE MATURITIES TO A LIMITED EXTENT THIS WOULD PROVIDE A FURTHER MEANS OF PUTTING PRESSURE ON THE BANKS TO INCREASE THE AMOUNT OF THEIR REFINANCING LOAN THEREBY GIVING SOME HOPE OF CLOSING THE EXISTING FINANCING GAP.,
- (2) THE BANKS HAVE REJECTED THE IDEA OF INCREASING THE AMOUNT OF THE LOAN ON A CONTINGENCY BASIS, I.E. IF OIL AND GOLD PRICES MOVE IN A LESS FAVOURABLE WAY THAN WE HAVE ASSUMED IN THE ESTIMATES. HOWEVER IT IS POSSIBLE THAT THE BANKS MIGHT CONSIDER INCREASING THEIR LOAN FROM 90 PCT TO 95 PCT OF EXISTING MATURITIES IF THE ADDITIONAL 5 PCT WERE TO BE REPAYABLE AT A SIGNIFICANTLY EARLIER DATE THEN WOULD BE AVAILABLE FOR THE BULK OF THE REFINANCING.,
- (3) YOU MAY ALSO WISH TO CONSIDER THE POSSIBILITY OF A TRADE-OFF BETWEEN FRONT-END FEE AND AMOUNT. IF THE BANKS INSIST ON REFINANCING ONLY 90 PCT OF MATURITIES YOU COULD STAND FIRM ON A FRONT-END FEE OF 1 1/4 PCT. ON THE OTHER HAND IF THEY WERE PREPARED TO GO UP TO 95 PCT OF MATURITIES THEN YOU COULD CONSIDER AGREEING A FRONT-END FEE HIGHER THAN 1 1/4 PCT.
- (4) IN THE LAST RESORT IT WOULD BE POSSIBLE TO APPROACH THE IMF WITH A REQUEST FOR THEM TO MAKE DISBURSEMENTS UNDER THEIR FACILITY FOR THE DOMINICAN REPUBLIC CONDITIONAL ON THE BANKS REFINANCING 95 PCT OR 100 PCT OF MATURITIES. THIS IS AN IDEA WHICH IS BEING DISCUSSED IN THE CONTEXT OF CURRENT NEGOTIATIONS ON PERUVIAN DEBT AND IT WOULD BE AN OBVIOUS WAY OF INCREASING PRESSURE ON THE BANKS TO COVER THE FINANCING GAP. HOWEVER SUCH AN APPROACH COULD ONLY BE MADE ON THE BASIS THAT IT DID NOT IN ANY WAY PREJUDICE THE EXISTING AGREEMENT WITH THE IMF AND THERE IS OF COURSE NO GUARANTEE THAT THE IMF WOULD AGREE TO LINK DISBURSEMENTS UNDER THEIR FACILITY TO THE BANKS' REFINANCING LOAN. THIS IS THEREFORE AN IDEA TO BE FOLLOWED UP ONLY AS A FINAL OPTION.

8. WE LOOK FORWARD TO HEARING FROM YOU AS SOON AS YOU HAVE BEEN ABLE TO FIX A DATE AND PLACE FOR THE NEXT MEETING WITH THE BANKS.

KIND REGARDS  
ARNOLD SHIPP  
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TO BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
SANTO DOMINGO

FOR THE ATTENTION OF LIC. BERNARDO VEGA, GOVERNOR AND  
LIC. EDUARDO GARCIA MICHEL, ECONOMIC ADVISER

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1. FOLLOWING THE MEETING WITH THE WORKING COMMITTEE IN MIAMI ON FRIDAY, WE SET OUT BELOW AS PROMISED OUR UNDERSTANDING OF THE POSITION REGARDING THE BORROWER OR GUARANTOR (IF ANY) ON BANK REFINANCINGS RECENTLY NEGOTIATED OR IN THE PROCESS OF NEGOTIATION IN LATIN AMERICA. IT IS IMPORTANT TO EMPHASISE THAT IN SOME CASES THE NEGOTIATIONS HAVE NOT YET BEEN CONCLUDED, AND CONSEQUENTLY THE POSITION IN THESE CASES IS SUBJECT TO CHANGE. WE HOPE THAT THIS TELEX WILL ANSWER THE FIRST POINT IN YOUR TELEX TO US TODAY. ANSWERS TO THE OTHER POINTS WILL BE TELEXED TO YOU BY THE OPENING OF BUSINESS YOUR TIME TOMORROW.

2. IN THE CASE OF PUBLIC SECTOR DEBT IN LATIN AMERICA TO FOREIGN BANK CREDITORS RECENTLY REFINANCED OR IN THE PROCESS OF BEING REFINANCED, WE UNDERSTAND THAT THE NEW BORROWER OR GUARANTOR (IF ANY) OF THE DEBT REFINANCED IS IN EACH CASE AS FOLLOWS:

<u>COUNTRY</u>	<u>NEW BORROWER/GUARANTOR</u>
ARGENTINA	ORIGINAL BORROWER WITH REPUBLIC GUARANTEE
BRAZIL	CENTRAL BANK WITH REPUBLIC GUARANTEE (WITH OPTION FOR BANKS TO LEND AT INCREASED MARGIN WITH REDUCED SECURITY).
ECUADOR	ORIGINAL BORROWER WITH REPUBLIC GUARANTEE
HONDURAS	CENTRAL BANK WITH REPUBLIC GUARANTEE
MEXICO	ORIGINAL BORROWER WITH GUARANTEE OF UNITED MEXICAN STATES
VENEZUELA (ANTICIPATED)	REPUBLIC OR ORIGINAL BORROWER WITH REPUBLIC GUARANTEE.

3. THE PRIVATE SECTOR HAS GENERALLY BEEN EXCLUDED FROM THE FORMAL REFINANCING ARRANGEMENTS DESCRIBED ABOVE. HOWEVER, IN THE CASE OF ARGENTINA, BRAZIL, MEXICO AND (WE ANTICIPATE) VENEZUELA, THE PRIVATE SECTOR HAS BEEN ENCOURAGED, AND IN SOME CASES EFFECTIVELY FORCED, TO REFINANCE DEBT TO FOREIGN BANK CREDITORS BECAUSE THE AUTHORITIES IN THE COUNTRIES CONCERNED HAVE EITHER PROVIDED FOREIGN EXCHANGE FOR REPAYMENTS OF PRINCIPAL ONLY AT A PROHIBITIVE RATE, OR BECAUSE THE AUTHORITIES HAVE PROMISED TO PROVIDE FOREIGN EXCHANGE AT A FAVOURABLE RATE IF DEBT IS REFINANCED, OR BECAUSE SOME OTHER METHOD HAS BEEN USED TO ENSURE REFINANCING. IN EACH CASE, WE UNDERSTAND THAT THE NEW BORROWER OR GUARANTOR IS THE ORIGINAL PRIVATE SECTOR BORROWER, AND NO NEW CENTRAL BANK OR REPUBLIC GUARANTEE HAS BEEN

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PROVIDED, EXCEPT IN THE CASE OF BRAZIL, WHERE A GUARANTEE IS CONDITIONAL ON THE DEPOSIT ON THE ORIGINAL MATURITY DATE BY THE BORROWER WITH THE CENTRAL BANK OF THE CRUZEIRO EQUIVALENT OF THE AMOUNT TO BE REFINANCED.

4. THERE ARE A NUMBER OF CASES IN LATIN AMERICA THAT ARE STILL IN A TOO EARLY A STAGE OF NEGOTIATION TO JUDGE THE EVENTUAL OUTCOME. THESE INCLUDE BOLIVIA, CHILE, COSTA RICA AND URUGUAY.

5. THE RELEVANCE OF THESE FINDINGS IN THE CASE OF CURRENT DOMINICAN NEGOTIATIONS APPEARS TO US TO BE AS FOLLOWS:

(A) THE PRECEDENTS IN THE REST OF LATIN AMERICA SUGGEST THAT THE BANKS HAVE A STRONG CASE FOR ARGUING THAT MATURITIES ON PUBLIC SECTOR DEBT TO BE REFINANCED SHOULD BE COVERED WITH A REPUBLIC GUARANTEE, UNLESS IT IS POSSIBLE TO PROVE THAT THE CENTRAL BANK AS BORROWER IS EQUIVALENT TO THE REPUBLIC.

(B) THE BANKS ARE ON MUCH WEAKER GROUND IN ARGUING THAT OVERDUE LETTERS OF CREDIT ESPECIALLY IN SO FAR AS THESE ARISE AS A RESULT OF PRIVATE SECTOR TRANSACTIONS, SHOULD CARRY A REPUBLIC GUARANTEE. THE CENTRAL BANK HAS ALREADY MADE A SIGNIFICANT CONCESSION BY STATING THAT IT IS PREPARED TO REFINANCE OVERDUE LETTERS OF CREDIT AS DIRECT OBLIGATIONS OF THE CENTRAL BANK.

6. PLEASE LET US KNOW WHETHER THERE IS ANY FURTHER INFORMATION OR ASSISTANCE THAT WE CAN GIVE ON THE QUESTIONS ADDRESSED IN THIS TELEX. WE WILL REVERT TO YOU BY OPENING OF BUSINESS TOMORROW ON THE OTHER POINTS RAISED IN YOUR TELEX. WE ARE ALSO PLANNING TO REVERT TO YOU AS SOON AS POSSIBLE ON PRECEDENT ON THE TREATMENT OF BLADEX IN RECENT BANK REFINANCINGS.

WITH KIND REGARDS

PAUL RICHARDS  
ARNOLD SHIPP  
JOHN SLEEMAN

SAMUEL MONTAGU AND CO. LIMITED LONDON

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APPENDIX G

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TO BANCO CENTRAL, SANTO DOMINGO, DOMINICAN REPUBLIC  
FOR LIC. BERNARDO VEGA, GOVERNOR

1. FURTHER TO OUR TELEX OF 14 MARCH CONCERNING THE SECURITY OFFERED BY BORROWERS IN RECENT AND CURRENT DEBT RENEGOTIATIONS, YOU MAY WISH TO NOTE THE SITUATION IN ECUADOR WHERE WE UNDERSTAND THAT ALTHOUGH NO FINAL DECISIONS HAVE BEEN TAKEN LENDING BANKS HAVE REACTED SYMPATHETICALLY TO THE GOVERNMENT'S PROPOSAL THAT, IN EFFECT, THE CENTRAL BANK AND NOT THE GOVERNMENT WILL ASSUME RESPONSIBILITY FOR PRIVATE SECTOR DEBT.
2. WE FEEL THAT THIS REINFORCES PARA 5 (B) OF OUR TELEX UNDER REFERENCE. WHILST CREDITORS CAN EXPECT GOVERNMENTS TO TAKE RESPONSIBILITY FOR PUBLIC SECTOR DEBT, THERE ARE AMPLE PRECEDENTS FOR THE PROVISION OF AN EFFECTIVE CENTRAL BANK GUARANTEE FOR PRIVATE SECTOR LIABILITIES .

KIND REGARDS,  
ANOLD SHIPP  
PAUL RICHARDS  
SAMUEL MONTAGU AND CO LONDON  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
SANTO DOMINGO  
DOMINICAN REPUBLIC

FOR THE ATTENTION OF LIC. BERNARDO VEGA, GOVERNOR AND  
LIC. EDUARDO GARCIA MICHEL, ECONOMIC ADVISER

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1. FURTHER TO OUR TELEXES OF 14 AND 15 MARCH, WE HAVE CONSIDERED THE QUESTION THAT AROSE AT THE MEETINGS IN MIAMI LAST FRIDAY ON WHETHER BLADEX SHOULD BE INCLUDED OR EXCLUDED FROM THE PROPOSED REFINANCING.
2. BLADEX HAS 215 SHAREHOLDERS, INCLUDING CENTRAL BANKS, GOVERNMENTS AND COMMERCIAL BANKS BOTH FROM WITHIN AND OUTSIDE THE REGION. IT OPERATES LIKE A COMMERCIAL BANK. IT HAS BEEN INCLUDED IN THE 'DEPOSIT FACILITY' (I.E. RESCHEDULING AGREEMENT) RECENTLY SIGNED AS PART OF THE RENEGOTIATION OF BRAZIL'S FOREIGN DEBT.
3. IN VIEW OF THESE FACTS AND THE BRAZILIAN PRECEDENT, WE THINK THAT THERE IS A STRONG CASE FOR INCLUDING BLADEX IN THE PROPOSED REFINANCING AGREEMENT BEING NEGOTIATED BY THE BANCO CENTRAL WITH FOREIGN BANKS.
4. IF YOU REQUIRE ANY FURTHER INFORMATION ON THE SUBJECT, PLEASE LET US KNOW.
5. FOLLOWING A REQUEST FROM MARITZA AMALIA, WE HAVE TODAY TELEXED HER SETTING OUT POSSIBLE WAYS FOR THE BANCO CENTRAL OR ROSARIO TO RAISE FOREIGN CURRENCY FINANCE AGAINST FUTURE SALES OF GOLD OR DORE.

WITH KIND REGARDS  
PAUL RICHARDS  
ARNOLD SHIPP  
JOHN SLEEMAN  
SAMUEL MONTAGU + CO. LIMITED  
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BANCO CENTRAL DE LA REPUBLICA DOMINICANA

FOR THE ATTENTION OF EDUARDO GARCIA MICHEL  
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1. FOLLOWING OUR BRIEF DISCUSSION IN PANAMA YOU MAY LIKE TO HAVE OUR COMMENTS ON THE LIBOR AND US PRIME MARGIN OPTIONS BEING REQUESTED BY LENDING BANKS FROM THE DOMINICAN REPUBLIC. WE HAVE CONSIDERED THE DIFFERENTIAL MARGIN BETWEEN LIBOR AND PRIME, AND THE MAKE-UP OF THE PRIME OPTION ITSELF.
  
2. AS YOU KNOW, LIBOR IS A FAIRLY ACCURATE MARKET RATE WHILST PRIME IS SET BY THE US BANKS THEMSELVES AND INCLUDES A SIGNIFICANT ELEMENT ABOVE THE COST OF FUNDS TO BANKS. HENCE WHEN LOANS ARE PRICED WITH LIBOR OR PRIME ALTERNATIVES THE PRIME OPTION USUALLY CARRIES A LOWER MARGIN THAN THE LIBOR OPTION. IN ASKING FOR A 1/8 PCT DIFFERENTIAL BANKS ARE PROBABLY BASING THEIR CASE ON A NUMBER OF RECENT LATIN AMERICAN RESCHEDULING PRECEDENTS (E.G. ARGENTINA, ECUADOR AND MEXICO), BUT IN SO DOING THEY IGNORE RECENT FINANCINGS FOR BRAZIL, WHERE A 1/4 PCT DIFFERENTIAL APPLIES, AND FOR COSTA RICA AND PERU WHERE A 1/4 PCT DIFFERENTIAL HAS BEEN REQUESTED BUT IS STILL UNDER DISCUSSION. BECAUSE PRIME RATES ARE HIGHER THAN THE COST OF FUNDS EVEN A 1/4 PCT DIFFERENTIAL GIVES AN ADDED PROFIT MARGIN FOR BANKS TAKING THE PRIME OPTION, AND THIS IS OF PARTICULAR BENEFIT TO THOSE LENDERS WHO ORIGINALLY HAVE PRICED THEIR LOANS OVER LIBOR. IN YOUR OWN REFINANCING THERE IS LIKELY TO BE SIGNIFICANT SWITCHING FROM LIBOR TO PRIME AS THE LENDING BASE AND SINCE PRIME HAS FREQUENTLY BEEN HIGHER THAN LIBOR, THERE WILL BE A CORRESPONDING INCREASE IN THE COSTS OF BORROWING. IT IS THEREFORE IMPORTANT TO PRESS FOR A 1/4 PCT DIFFERENTIAL BETWEEN PRIME AND LIBOR MARGINS. WE KNOW OF NO PRECEDENT IN LATIN AMERICA FOR A DIFFERENTIAL MARGIN OF GREATER THAN 1/4 PCT, BUT THERE ARE EXAMPLES OF MUCH SOUGHT AFTER BORROWERS IN OTHER PARTS OF THE WORLD WHO HAVE INSISTED UPON A DIFFERENTIAL IN EXCESS OF 1/4 PCT (E.G. SWEDEN AND INDIA, WHO HAVE ACHIEVED 0.3 PCT AND 0.35 PCT RESPECTIVELY).

3. IN THEIR PROPOSALS TO THE BANCO CENTRAL THE BANKS HAVE NOT DEFINED "PRIME". RECENT NEGOTIATIONS ELSEWHERE SUGGEST THAT THE BANKS MAY SEEK A DEFINITION WHICH INCLUDES A REFERENCE TO THE ADJUSTED 90-DAY CD RATE. TYPICAL WORDING MIGHT READ "PRIME RATE MEANS THE HIGHER OF THE REFERENCE BANKS PRIME RATE OR THE RATE FOR SECONDARY MARKET 90-DAY CD'S ADJUSTED FOR FEDERAL RESERVE REQUIREMENTS AND INSURANCE PREMIUMS". YOU WILL BE AWARE THAT THE CD RATE IS NORMALLY LOWER THAN THE PRIME RATE. AT PRESENT THE ADJUSTED 90-DAY CD RATE IS MORE THAN 1 1/2 PCT BELOW THE PRIME RATE AND SO PRIME OPTION LENDERS ARE ABLE TO AVAIL THEMSELVES OF VERY ADVANTAGEOUS FUNDING. AT THE SAME TIME THEY CAN QUOTE RATES OVER PRIME KNOWING THAT IN THE UNLIKELY EVENT THAT PRIME BECOMES LOWER THAN THE CD RATE THEY CAN SIMILARLY TAKE ADVANTAGE OF THIS DIFFERENCE.
4. IN THE LIGHT OF THIS A RECENT INNOVATION IS A PRIME/CD "CAP" WHICH LIMITS THE COST TO THE BORROWER BY MEANS OF A STIPULATION THAT IF PRIME EXCEEDS THE ADJUSTED CD RATE BY AT LEAST A CERTAIN AMOUNT THEN THE RATE OF INTEREST WILL BE FIXED AT THE ADJUSTED CD RATE PLUS THAT AMOUNT. HOWEVER SUCH AN ARRANGEMENT HAS NOT TO OUR KNOWLEDGE YET BEEN AGREED WITH ANY LATIN AMERICAN BORROWER AND HAS NOT BEEN APPLIED IN ANY REFINANCING FACILITIES. IT IS THEREFORE UNLIKELY THAT THE BANKS WOULD AGREE IT FOR YOUR FACILITY AND WE ONLY MAKE THE POINT FOR YOUR INFORMATION.
5. IN CONCLUSION WE BELIEVE THAT THE BANCO CENTRAL CAN JUSTIFY A REDUCED PRIME MARGIN OF 2 PCT BY REFERRING TO THE BRAZILIAN COSTA RICAN AND PERUVIAN PRECEDENTS AND BY SUGGESTING THAT LENDERS ACKNOWLEDGE THE PROFITABILITY TO THEMSELVES OF THE PRIME OPTION.

PLEASE DO NOT HESITATE TO REVERT IF YOU WISH TO HAVE ANY MORE DETAILS ON THE ABOVE.

KIND REGARDS  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

FOR THE ATTENTION OF:

LIC. BERNARDO VEGA, GOVERNOR AND

LIC. EDUARDO GARCIA MICHEL, ECONOMIC ADVISER

1. FOLLOWING OUR TELEX YESTERDAY, WHICH COVERED THE FIRST POINT IN YOUR TELEX TO US, WE ARE TELEXING AS PROMISED OUR ANSWERS TO THE OTHER SEVEN POINTS RAISED IN YOUR TELEX.

2. OUR TELEX YESTERDAY REFERRED TO THE LARGE NUMBER OF REFINANCINGS CURRENTLY IN THE PROCESS OF NEGOTIATION IN LATIN AMERICA. BUT AS FAR AS WE ARE AWARE, NONE OF THEM ARE AT THE STAGE AT WHICH THERE IS AGREEMENT ON DETAILED DOCUMENTATION, EXCEPT IN THE CASE OF BRAZIL, WHERE ALL THE AGREEMENTS HAVE BEEN SIGNED. IN THE MEXICAN CASE, THE AGREEMENT ON THE PROVISION OF NEW MONEY HAS BEEN SIGNED, BUT NOT THE PROPOSED REFINANCINGS. IN THE ARGENTINIAN CASE, NO SIGNIFICANT PROGRESS HAS YET BEEN MADE ON DOCUMENTATION. AS FAR AS WE ARE AWARE, DOCUMENTATION HAS NOT YET BEEN AGREED IN THE OTHER LATIN AMERICAN COUNTRIES REFERRED TO IN OUR TELEX YESTERDAY.

3. HOWEVER, WE ANTICIPATE THAT DOCUMENTATION WILL FOLLOW NORMAL PRACTICE IN THE INTERNATIONAL BANKING MARKET. NORMAL PRACTICE IS FOR AGREEMENTS TO BE SUBJECT EITHER TO NEW YORK OR ENGLISH LAW, DOCUMENTATION WRITTEN UNDER EITHER LAW IS ALMOST CERTAIN TO CONTAIN THE FOLLOWING:

(A) A CROSS DEFAULT CLAUSE.,

(B) A CLAUSE ALLOWING THE BANKS TO ATTACH ASSETS IN ANY COUNTRY THROUGH ANY COURT IN THE EVENT OF DEFAULT., AND

(C) A WAIVER OF SOVEREIGN IMMUNITY.

4. THE INCLUSION OF A NEGATIVE PLEDGE CLAUSE DEPENDS ON THE STATUS OF THE BORROWER. ONLY THE MAIN INDUSTRIAL COUNTRIES CAN REALISTICALLY EXPECT TO AVOID A NEGATIVE PLEDGE ALTOGETHER. OTHER SOVEREIGN BORROWERS NORMALLY HAVE TO AGREE TO GIVE A NEGATIVE PLEDGE CLAUSE. THE DETAILED WORDING OF THE CLAUSE IS FOR NEGOTIATION AND VARIES FROM CASE TO CASE.

5. THE BRAZILIAN AND (NEW MONEY) MEXICAN AGREEMENTS ARE SUBJECT TO NEW YORK LAW, THOUGH IN THE MEXICAN CASE, THE BANKS HAVE THE RIGHT TO CHOOSE ANY OTHER LAW THEY WISH. IN BOTH THE BRAZILIAN AND (NEW MONEY) MEXICAN CASES, ALL THE CLAUSES REFERRED TO IN PARAGRAPH 3 ARE INCLUDED. THE AGREEMENTS ALSO CONTAIN NEGATIVE PLEDGE CLAUSES. AS AN EXAMPLE, WE QUOTE BELOW THE RELEVANT COVENANTS GIVEN BY THE CENTRAL BANK OF BRAZIL:

ACKNOWLEDGEMENTS, THE CENTRAL BANK WILL, UNLESS AT LEAST 66 2/3 PCT OF THE BANKS SHALL OTHERWISE CONSENT IN WRITING:

- (A) OBLIGATIONS PARI PASSU. ENSURE THAT AT ALL TIMES ITS OBLIGATIONS HEREUNDER AND UNDER THE ACKNOWLEDGEMENTS RANK AT LEAST PARI PASSU IN RIGHT OF PAYMENT WITH ALL OTHER UNSECURED EXTERNAL INDEBTEDNESS OF THE CENTRAL BANK NOW OR HEREAFTER OUTSTANDING.
- (B) NO LIENS. NOT CREATE OR SUFFER TO EXIST ANY LIENS UPON OR WITH RESPECT TO ANY OF ITS PRESENT OR FUTURE PROPERTIES (INCLUDING INTERNATIONAL MONETARY ASSETS) OR REVENUES TO SECURE EXTERNAL INDEBTEDNESS OF ANY PERSON, EXCEPT LIENS ARISING IN CONNECTION WITH CONTRACTS ENTERED INTO SUBSTANTIALLY SIMULTANEOUSLY FOR SALES AND PURCHASES AT MARKET PRICES OF PRECIOUS METALS'.

6. IN THE BRAZILIAN CASE THE FOLLOWING UNDERTAKING HAS BEEN GIVEN BY BRAZIL WITH REGARD TO COMPLIANCE WITH THE EXTENDED FUND FACILITY NEGOTIATED WITH THE IMF:

'SO LONG AS ANY AMOUNT REMAINS UNPAID HEREUNDER OR UNDER ANY ACKNOWLEDGEMENT, THE GUARANTOR (THE FEDERAL REPUBLIC OF BRAZIL) WILL, UNLESS AT LEAST 66 2/3 PCT OF THE BANKS SHOULD OTHERWISE CONSENT IN WRITING, DULY COMPLY WITH THE PERFORMANCE CRITERIA SET FORTH IN THE LETTER OF INTENT DATED JANUARY 6, 1983, THE RELATED TECHNICAL MEMORANDUM OF UNDERSTANDING AND ANY OTHER DOCUMENTS APPROVED BY BRAZIL AND THE IMF IN CONNECTION WITH THE EFF'.

7. THE BRAZILIAN CASE INDICATES THAT THE BANKS ARE LIKELY TO DEMAND OTHER FINANCIAL DATA SIMILAR TO THAT SUBMITTED TO THE IMF.

8. IF THERE IS ANY OTHER INFORMATION YOU REQUIRE ON THE ANSWERS GIVEN IN THIS TELEX, AND IN PARTICULAR IF YOU REQUIRE ANY SAMPLES OF DETAILED DOCUMENTATION, PLEASE LET US KNOW. WE WOULD BE HAPPY TO REVIEW THE DRAFT DOCUMENTATION SUBMITTED TO YOU BY THE BANKS IF YOU CONSIDER THIS APPROPRIATE.

WITH KIND REGARDS  
PAUL RICHARDS  
ARNOLD SHIPP  
JOHN SLEEMAN  
SAMUEL MONTAGU + CO LTD, LONDON  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

FOR THE ATTENTION OF LIC BERNARDO VEGA, GOVERNOR

REFERENCE YOUR TELEX OF TODAY, MARCH 25TH. I AM TELEXING SEPARATELY  
 DETAILS OF THE CUBAN SITUATION. ON THE OTHER QUESTION YOU HAVE  
 RAISED, THE MATURITIES TO BE DEFERRED ARE AS FOLLOWS: -

COUNTRY	MATURITIES TO BE DEFERRED	STATUS OF PROPOSALS
ARGENTINA	1983	AGREED
BOLIVIA	1983 AND 1984	UNDER PRELIMINARY DISCUSSION
BRAZIL	1983	AGREED
CHILE	1983 AND 1984	UNDER PRELIMINARY DISCUSSION
ECUADOR	DECEMBER 1982 AND 1983	UNDER DISCUSSION
CUBA	LAST QUARTER OF 1982 + 1983	UNDER DISCUSSION (SEE SEPARATE TELEX)
HONDURAS	1983 AND 1984	UNDER DISCUSSION
MEXICO	MID-DEC 1982 TO END-1984	AGREED
PERU	MARCH 1983 TO MARCH 1984	UNDER DISCUSSION
URUGUAY	1983	UNDER DISCUSSION
VENEZUELA	1983 (BUT COULD BE BE EXTENDED INTO 1984)	UNDER PRELIMINARY DISCUSSION

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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

FOR THE ATTENTION OF LIC BERNARDO VEGA, GOVERNOR

REFERENCE YOUR TELEX OF TODAY, MARCH 25TH. I HAVE TELEXED SEPARATELY ON MATURITIES TO BE DEFERRED FROM VARIOUS COUNTRIES.

AS FAR AS CUBA IS CONCERNED, AN AGREEMENT WAS SIGNED ON MARCH 1ST BETWEEN CUBA AND ITS BILATERAL OFFICIAL CREDITORS UNDER PARIS CLUB ARRANGEMENTS. DETAILS OF THAT AGREEMENT ARE AS FOLLOWS:-

QUOTE.

THE EXTERNAL DEBT CONCERNED IS AS FOLLOWS:

- I) COMMERCIAL CREDITS OF 1 YEAR + WHICH ARE GUARANTEED BY THE NATIONS CONCERNED AND WHICH WERE SIGNED BEFORE SEPTEMBER 1, 1982
- II) GOVERNMENTS' LOANS OF 1 YEAR + WHICH WERE SIGNED BEFORE SEPTEMBER 1, 1982.
- III) THE AGREEMENT DOES NOT INCLUDE DEBT ENTERED INTO BEFORE JANUARY 1, 1970.

TERMS ON THE RESCHEDULING ARE:

- A) 95 PCT OF THE UNPAID PRINCIPAL MATURING BETWEEN SEPTEMBER 1, 1982, AND DECEMBER 31, 1983, WILL BE RESCHEDULED AND REPAID IN 10 EQUAL SEMI-ANNUAL INSTALMENTS. THE FIRST WILL START ON JULY 1, 1986, AND THE LAST WILL BE ON JANUARY 1, 1991.
- B) THE REMAINING 5 PCT WILL BE REPAID IN 2 EQUAL INSTALMENTS, ONE TAKING PLACE ON DECEMBER 31, 1984, AND THE SECOND ON DECEMBER 31, 1985.
- C) INTEREST WILL BE PAID ACCORDING TO THE INITIAL SCHEDULE. THEIR RATES WILL BE FIXED BILATERALLY ON THE BASIS OF APPROPRIATE MARKET RATES.

THE PARTIES AGREED TO MEET IN DUE TIME TO STUDY CUBA'S 1984 EXTERNAL DEBT SUBJECT TO THE FOLLOWING:

- A) AN AGREEMENT BETWEEN CUBA AND THE COMMERCIAL BANKS ON THE DEBT DUE TO THEM.
- B) CUBA IMPLEMENTING A 1983 ECONOMIC PROGRAMME TO BE ASSESSED AS FURTHER DETAILED BELOW.
- C) A CUBAN 1984 ECONOMIC PROGRAMME TO BE APPROVED.

THE CUBAN 1983 ECONOMIC PROGRAMME WILL BE ASSESSED ON THE BASIS OF THE FOLLOWING CRITERIA:

THE TRADE BALANCE IN CONVERTIBLE CURRENCIES WILL HAVE TO BE IN EXCESS OF PESOS 342M.

- 2) THE LEVEL OF EXPORTS AND IMPORTS WITH ECONOMIES SUBMITTED TO MARKET FORCES WILL REACH PESO 836M AND PESO 840M RESPECTIVELY, THUS LEAVING A DEFICIT OF ONLY PESOS 4M.
- 3) THE BALANCE OF PAYMENT CURRENT ACCOUNTS IN CONVERTIBLE CURRENCIES WILL BE IN EXCESS OF PESOS 5M.
- 4) CUBA'S SHORT TERM INDEBTEDNESS IN CONVERTIBLE CURRENCIES WILL REACH A MINIMUM OF PESOS 900M AND A MAXIMUM OF PESOS 1BN.
- 5) CUBA'S TOTAL INDEBTEDNESS IN CONVERTIBLE CURRENCIES WILL BE AT A MAXIMUM OF PESOS 2.85 BN AFTER DEDUCTIONS OF RESERVES IN CONVERTIBLE CURRENCIES.
- 6) CUBA'S REAL RATE OF GROWTH WILL BE BETWEEN 2 PCT AND 2 1/2 PCT.
- 7) CUBA'S RESERVES IN CONVERTIBLE CURRENCIES WILL BE AT A MINIMUM OF PESOS 150M.
- 8) CUBA'S MAXIMUM INDEBTEDNESS IN CONVERTIBLE CURRENCIES WILL BE PESOS 3.15BN.

IN THE GENERAL RECOMMENDATIONS INCLUDED IN THE AGREEMENT IT IS STATED THAT CUBA IS EXPECTING FROM THE COMMERCIAL BANKS A RESCHEDULING WITH TERMS AND CONDITIONS SIMILAR TO THOSE APPROVED WITH THE WESTERN GOVERNMENT REPRESENTATIVES IN ORDER TO AVOID ANY DISCRIMINATION BETWEEN THE VARIOUS CREDITORS.

UNQUOTE  
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AS FAR AS BANK DEBT IS CONCERNED, THE STEERING COMMITTEE HAS REACHED AN AGREEMENT WITH THE CUBANS WHICH IS SUBJECT TO FURTHER JUSTIFICATION OF THE AMOUNT OF SHORT-TERM INTER-BANK LINES REQUESTED. THE MAIN POINTS OF THIS AGREEMENT, WHICH HAS NOT YET BEEN MADE PUBLIC, ARE AS FOLLOWS:-

- (A) 100 PCT OF MEDIUM-TERM COMMERCIAL BANK DEBT MATURING BETWEEN SEPTEMBER 1982 AND DECEMBER 1983 IS TO BE REFINANCED.,
- (B) THE REPAYMENT STARTS IN JANUARY 1986 AND IS BY WAY OF 10 SEMI-ANNUAL INSTALMENTS WITH FINAL MATURITY IN JULY 1990.,
- (C) THE MARGIN IS 2 1/4 PCT P.A. OVER LIBOR WITH A FRONT-END FEE OF 1 1/4 PCT FLAT.,
- (D) THE CUBANS HAVE ASKED FOR SHORT-TERM INTER-BANK LINES TO BE CONFIRMED IN AN AMOUNT OF US DLRS 850 MILLION. SUCH LINES WOULD BE SUBJECT TO A MARGIN OF 1 PCT P.A. OVER LIBOR AND A CONFIRMATION FEE OF 1/4 PCT FLAT.

THERE ARE NO OFFICIAL DOCUMENTS SUCH AS TERM SHEETS YET AVAILABLE BUT I HOPE THAT THE ABOVE WILL GIVE YOU THE BASIS OF THE INFORMATION YOU NEED.

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FROM SAMUEL MONTAGU AND CO LIMITED, LONDON

1. AS YOU REQUESTED IN MIAMI LAST WEEK, WE NOW SET OUT BELOW DETAILS OF RECENT RESCHEDULINGS OF OFFICIAL DEBT. OUR COMMENTS ON THE TABLE ARE GIVEN AT THE END OF THIS TELEX

DATE OF AGREEMENT	DEBTOR COUNTRY	CONSOLIDATION PERIOD	ESTIMATED AMOUNT RE-SCHEDULED USDLRS M	MATURITY (YEARS)	OTHER TERMS
JAN 1983	COSTA RICA	JULY 82 - DEC 83	190	9	4 YEARS GRACE
DEC 1982	UGANDA	JULY 82 - DEC 83	22	10	5 YEARS GRACE
NOV 1982	SENEGAL	JULY 82 - DEC 83	87	9	
SEPT 1982	MALAWI	JULY 82 - DEC 83	25	8	5 YEARS GRACE, 85 PCT REFINANCED
JULY 1982	MADAGASCAR	JULY 82 - JUNE 83	107	9	
MARCH 1982	SUDAN	JULY 81 - DEC 82	400	10	
DEC 1981	LIBERIA	JAN 82 - JUNE 83	30	9	
NOV 1981	UGANDA	JULY 81 - JUNE 82	30	8-10	
OCT 1981	SENEGAL	JULY 81 - JUNE 82	75	9	5 YEARS GRACE, 85 PCT REFINANCED
JULY 1981	ZAIRE	JAN 81 - DEC 82	500	10	
JUNE 1981	CENTRAL AFRICAN REP	JAN 81 - DEC 81	72	9	
APRIL 1981	MADAGASCAR	JAN 81 - JUNE 82	140	9	
FEB 1981	TOGO	JAN 81 - DEC 82	232	9	5 YEARS GRACE, 85 PCT REFINANCED
JAN 1981	PAKISTAN	JAN 81 - JULY 82	250	25-30	
DEC 1980	LIBERIA	JULY 80 - DEC 81	55	9	
JULY 1980	TURKEY	JULY 80 - JUNE 83	3,000	8-10	
FEB 1980	SIERRA LEONE	JULY 79 - DEC 81	37	7-10	

2. OFFICIAL DEBT RESCHEDULINGS ARE USUALLY CARRIED OUT AT THE PARIS CLUB. THE PARIS CLUB MEETS UNDER THE CHAIRMANSHIP OF M CAMDESSUS, DIRECTOR OF THE FRENCH TREASURY. REPRESENTATIVES FROM EXPORT CREDIT GUARANTEE AGENCIES AND CENTRAL BANKS OF OECD CREDITOR COUNTRIES MEET REPRESENTATIVES OF THE DEBTOR COUNTRY DURING A TWO-DAY PERIOD IN PARIS. REPRESENTATIVES OF THE IMF, THE WORLD BANK AND UNCTAD ALSO ATTEND THE MEETING. THE RESULT OF SUCH A MEETING IS AN AGREED MINUTE. IN SUMMARY THIS MINUTE WILL COVER THE FOLLOWING POINTS :

- A) THE CONSOLIDATION PERIOD. THIS IS THE PERIOD IN WHICH ALL AMOUNTS OF PRINCIPAL AND INTEREST DUE ON DEBTS USUALLY HAVING AN ORIGINAL MATURITY OVER ONE YEAR ARE TO BE RESCHEDULED
- B) THE PERIOD OVER WHICH THE RESCHEDULED DEBT IS TO BE REPAYED
- C) THE PERCENTAGE OF THE PRINCIPAL AND INTEREST PAYMENTS FALLING DUE IN THE CONSOLIDATION PERIOD WHICH ARE TO BE REFINANCED
- D) THE AMOUNT OF ARREARS, IF ANY, TO BE REFINANCED
- E) THE RATE OF INTEREST. THIS RATE IS DETERMINED BILATERALLY WITH EACH CREDITOR COUNTRY AFTER THE PARIS CLUB MEETING. IN THE MINUTE THE RATE IS STATED TO BE ON THE BASIS OF THE APPROPRIATE MARKET RATE
- F) THE CONDITIONS UPON WHICH THE RESCHEDULING WILL PROCEED. THESE CONDITIONS WILL INCLUDE, INTER ALIA, ONE OR MORE OF THE FOLLOWING:
  - (I) EACH CREDITOR COUNTRY TO BE TREATED PARI PASSU;
  - (II) COMMERCIAL BANK DEBT TO BE REFINANCED ON COMPARABLE TERMS;  
AND
  - (III) THE IMPLEMENTATION OF AN IMF AGREEMENT.

A FAIR AMOUNT OF SECRECY SURROUNDS THE MEETINGS OF THE PARIS CLUB AND PRECISE DETAILS OF THE AGREED MINUTES ARE NOT EASILY OBTAINED. THE ABOVE TABLE SHOWS THE DETAILS THAT WE HAVE BEEN ABLE TO OBTAIN TO DATE.

3. CERTAIN CONCLUSIONS MAY BE DRAWN FROM THE DETAILS IN THE ABOVE TABLE:

(A) THE AVERAGE MATURITY OF RESCHEDULING LOANS IS 9 YEARS. THE EXCEPTION IS PAKISTAN, BUT IT SHOULD BE REMEMBERED THAT THE NEGOTIATIONS REGARDING THAT COUNTRY'S DEBT OCCURRED SHORTLY AFTER THE RUSSIAN INVASION OF AFGHANISTAN AT A TIME WHEN THE WEST WISHED TO SHOW SUPPORT TO A FRONTLINE STATE.

(B) CONSOLIDATION PERIODS ARE ON AVERAGE 18 MONTHS LONG AND THIS IS PARTICULARLY TRUE OF THE MORE RECENT RESCHEDULINGS.

(C) THE AVERAGE GRACE PERIOD (TO THE EXTENT THAT WE HAVE BEEN ABLE TO DETERMINE THE PERIOD) GIVEN ON RESCHEDULING LOANS IS 4 TO 5 YEARS BUT HAS BEEN AS LOW AS 2 1/2 YEARS.

(D) 100 PCT OF PRINCIPAL AND INTEREST PAYMENTS DUE DURING THE CONSOLIDATION PERIOD HAVE SOMETIMES BEEN RESCHEDULED. HOWEVER, CREDITOR COUNTRIES LIKE TO SEE ONLY 85 PCT BEING RESCHEDULED OVER THE LONGER TERM AND THE REMAINING 15 PCT EITHER BEING WHOLLY OR PARTLY PAID WHEN DUE OR WITHIN 3 YEARS THEREAFTER.

(E) WITH THE EXCEPTION OF PAKISTAN, THOSE COUNTRIES WHICH PROBABLY HAD THE US AS A MAJOR CREDITOR (LIBERIA, ZAIRE, PAKISTAN AND TURKEY) RECEIVED COMPARABLE TERMS TO THOSE OBTAINED BY THE OTHER COUNTRIES GOING TO THE PARIS CLUB.

(F) BY FAR THE MOST FREQUENT DEBTOR COUNTRIES TO GO TO THE PARIS CLUB ARE AFRICAN COUNTRIES. OF RECENT RESCHEDULINGS ONLY COSTA RICA OUT OF THE LATIN AMERICAN COUNTRIES HAS GONE TO THE PARIS CLUB.

4. THERE ARE TWO BASIC PURPOSES FOR THE HOLDING OF PARIS CLUB MEETINGS. FIRST, THE MEETINGS GIVE THE DEBTOR COUNTRY AN OPPORTUNITY TO STATE ITS CASE AND AGREE TERMS OF A RESCHEDULING EXERCISE. SECONDLY, THE MEETINGS ENSURE THAT CREDITOR COUNTRIES ARE TREATED PARI PASSU. SUCH MEETINGS CAN ONLY WORK PROPERLY WHEN THERE ARE SEVERAL CREDITOR COUNTRIES EXPECTING REPAYMENTS OF PRINCIPAL DURING A CONSOLIDATION PERIOD.

5. IT IS UNLIKELY, THEREFORE, (A) THAT THE FRENCH TREASURY WOULD WISH TO CALL A MEETING OF THE PARIS CLUB IF THERE WERE ONLY ONE MAJOR COUNTRY CREDITOR AND (B) THAT THE USA, IF IT WERE THE ONLY MAJOR CREDITOR, WOULD WISH TO SUBMIT ITSELF TO A PARIS CLUB MEETING.

6. THUS, IN THE CASE OF THE DOMINICAN REPUBLIC WHERE THE USA IS THE ONLY MAJOR OECD COUNTRY CREDITOR, IT IS UNLIKELY THAT A PARIS CLUB MEETING COULD BE HELD. WE UNDERSTAND THAT THE US GOVERNMENT HAVE STATED THAT OFFICIAL DEBT OF THE US CAN ONLY BE RESCHEDULED THROUGH THE PARIS CLUB. THIS MAY HAVE BEEN STATED BECAUSE THE US IS UNAWARE THAT IT IS THE DOMINICAN REPUBLIC'S ONLY MAJOR OECD COUNTRY CREDITOR. IF THIS IS THE CASE, THEN IT MAY PROVE WORTHWHILE BRINGING THE RELEVANT FACTS TO THE ATTENTION OF THE US GOVERNMENT.

7. THE DOMINICAN REPUBLIC'S OTHER MAJOR COUNTRY CREDITOR IS VENEZUELA. NOT ONLY IS VENEZUELA NOT A MEMBER OF OECD BUT ITS COMMITMENTS TO THE DOMINICAN REPUBLIC ARE OF A TYPE THAT IS NOT USUALLY ADDRESSED AT PARIS CLUB MEETINGS. IT IS UNLIKELY, THEREFORE, THAT THE DOMINICAN REPUBLIC'S OBLIGATIONS TO VENEZUELA WOULD BE CONSIDERED AT A PARIS CLUB MEETING.

8. A FURTHER POINT TO BE BORNE IN MIND IS THAT THE DOMINICAN REPUBLIC EXPECTS TO RECEIVE MORE FROM THE US IN 1983 THAN IT IS DUE TO PAY TO THE US. A PARIS CLUB MEETING MAY JEOPARDIZE THE RECEIPT OF THE NEW MONIES FROM THE US ALTHOUGH THIS POINT CAN ONLY BE DETERMINED BY FURTHER BILATERAL CONTACT WITH THE US GOVERNMENT. THE FACT THAT THERE IS EXPECTED TO BE NET RECEIPTS FROM THE US IN 1983 IS, OF COURSE, A STRONG COUNTER-ARGUMENT TO THE BANK'S ORIGINAL CLAIM THAT THE DOMINICAN REPUBLIC IS SEEKING EFFECTIVELY TO PAY OFF BILATERAL CREDITORS WITH COMMERCIAL BANK MONIES.

9. THERE IS STILL AN UNWELCOME STIGMA ATTACHED TO COUNTRIES WHO HAVE GONE TO THE PARIS CLUB AND SUCH A COURSE OF ACTION, EVEN IF IT WERE POSSIBLE, IS BEST AVOIDED. THE DOMINICAN REPUBLIC WOULD INEVITABLY BE CLASSED WITH SUCH COUNTRIES AS ZAIRE.

10. WE WOULD BE PLEASED TO DISCUSS THE MATTERS RAISED IN THIS TELEX WITH YOU FURTHER IF YOU WISH.

WITH KIND REGARDS,

PAUL RICHARDS,  
ARNOLD SHIPP,  
JOHN SLEEMAN,  
SAMUEL MONAGU + CO LIMITED  
LONDON  
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TO ROSARIO DOMINICANA SA  
SANTO DOMINGO  
DOMINICAN REPUBLIC

File

ATTN SR CARLOS BERMUDEZ, CHAIRMAN

FOLLOWING DISCUSSIONS AND AN EXCHANGE OF TELEXES WITH BERNARDO VEGA I CONFIRM THAT SAMUEL MONTAGU WOULD BE DELIGHTED TO SPONSOR YOUR APPLICATION FOR GOOD DELIVERY STATUS ON THE LONDON GOLD MARKET. WE WILL NOT OF COURSE CHARGE FOR THIS SERVICE. THE RELEVANT RULES AND PROCEDURES FOR OBTAINING GOOD DELIVERY STATUS HAVE BEEN GIVEN TO THE CENTRAL BANK AND ARE AS FOLLOWS :-

THE RULES OF THE LONDON GOLD MARKET STATE THAT ANY COMPANY WISHING TO BE INCLUDED IN ITS GOOD DELIVERY LIST MUST FULFIL THE FOLLOWING CRITERIA :

A) THE COMPANY HAS BEEN IN EXISTENCE FOR NOT LESS THAN FIVE YEARS AND SHALL HAVE BEEN INVOLVED IN GOLD REFINING OPERATIONS FOR NOT LESS THAN THREE YEARS PRIOR TO THE APPLICATION

B) THE COMPANY HAS AN ESTABLISHED ANNUAL PRODUCTION OF GOLD OF NOT LESS THAN 10 METRIC TONS IN THE FORM OF 400 OUNCE TROY BARS

C) THE COMPANY HAS A FINANCIAL NET WORTH OF NOT LESS THAN THE EQUIVALENT OF FIVE MILLION POUNDS STERLING, OR SUCH FIGURE AS THE MARKET MAY FROM TIME TO TIME DETERMINE

IT IS OUR OPINION THAT ROSARIO DOMINICANA WOULD MEET ALL THE ABOVE CRITERIA. THE COMPANY HAS BEEN REFINING THE ORE INTO A PURE DORE BAR FOR OVER THREE YEARS AND THUS THIS PARTICULAR CONDITION WILL BE MET. THE NEW REFINERY WILL HAVE A CAPACITY OF OVER 10 METRIC TONS OF GOLD AND THE THROUGHPUT COULD BE SLIGHTLY HIGHER THAN THIS QUANTITY IF ALL THE MINE'S OUTPUT IS REFINED. HOWEVER, ONCE GOOD DELIVERY STATUS HAS BEEN OBTAINED, THERE IS NO NEED TO MEET THE 10 METRIC TON REQUIREMENT YEAR AFTER YEAR. IT IS ALSO OUR OPINION THAT A REFINERY SITUATED IN LATIN AMERICA WOULD BE A WELCOMED ADDITION TO THE GOOD DELIVERY LIST

A COMPANY MEETING THE ABOVE STANDARDS MUST FIRST OBTAIN RECOGNITION OF ITS BARS FROM THE CENTRAL BANK OF THE COUNTRY IN WHICH ITS ACTIVITIES ARE BASED, AND MUST THEN APPLY TO A MEMBER OF THE MARKET TO ACT AS A SPONSOR. THE REQUEST FOR SPONSORSHIP MUST BE ACCOMPANIED BY THE FOLLOWING DOCUMENTS :

- A) THE CENTRAL BANK'S LETTER OF RECOGNITION
- B) A COPY OF THE COMPANY'S MOST RECENT AUDITED FINANCIAL STATEMENTS
- C) A LETTER THAT GIVES :
  - 1) THE FULL NAME AND ADDRESS OF THE REFINERY
  - 11) A BRIEF HISTORY OF THE BUSINESS AND OPERATIONS OF THE COMPANY
  - 111) DETAILS OF THE ANNUAL GOLD PRODUCTION OF THE REFINERY FOR THE THREE YEARS IMMEDIATELY PRECEDING THE DATE OF THE SUBMISSION, AND AN ESTIMATE OF THE GOLD PRODUCTION OF THE REFINERY FOR THE TWO YEARS FOLLOWING THE DATE OF THE SUBMISSION
- D) TEN COLOUR PHOTOGRAPHS (MINIMUM SIZE 7 INCHES X 5 INCHES) SHOWING THE BARS PRODUCED BY THE COMPANY
- E) TEN COPIES OF A TECHNICAL LINE DRAWING SHOWING CLEAR DETAILS OF THE STAMPS AND MARKS APPEARING ON THE BARS

IF, HAVING CONSIDERED THE INFORMATION SUBMITTED, THE MEMBERS OF THE MARKET AGREE THAT THE REQUEST SHOULD BE PROCESSED FURTHER, THE COMPANY WILL BE SO ADVISED BY THE SPONSOR, AND WILL THEN BE REQUIRED TO UNDERTAKE THE FOLLOWING PROCEDURE FOR THE TESTING AND EXAMINATION OF ITS MELTING AND ASSAYING CAPABILITY. THE TEST IS STRINGENT AND FALLS INTO TWO PARTS.

IN THE FIRST PART THE COMPANY WILL BE REQUIRED TO SUBMIT TO THE SPONSOR TEN BARS OF GOLD THAT CONFORM IN ALL RESPECTS TO THE SPECIFICATIONS AND STANDARDS LAID DOWN BY THE MARKET. THE FOLLOWING POINTS SHOULD BE NOTED :

A) THE GOLD CONTENT OF THE SPECIMEN BARS SUBMITTED FOR TESTING SHOULD BE NOT LESS THAN 395 FINE OUNCES TROY AND NOT MORE THAN 405 FINE OUNCES TROY

B) FAULTS THAT SHOULD BE AVOIDED ARE IRREGULARITIES OF THE TOP SURFACE OF THE BAR, SURFACE CAVITIES, LAYERING AND EXCESSIVE SHRINKAGE. THE SIDES AND BOTTOM SURFACE SHOULD BE REASONABLY SMOOTH AND FREE FROM CAVITIES AND BUBBLES, AND THE EDGES SHOULD BE ROUNDED AND NOT SHARP. THE BARS MUST BE EASY TO HANDLE AND CONVENIENT TO STACK

C) IN ADDITION TO THE STAMPS OF THE MELTER AND ASSAYER, THE YEAR OF MANUFACTURE MUST BE SHOWN AS A SEPARATE MARK

D) IT IS NOT THE PRACTICE OF THE MARKET TO STAMP WEIGHTS ON GOOD DELIVERY BARS, BUT A LIST OF WEIGHTS AND ASSAYS SHOULD BE PROVIDED, WITH THE BARS DENOMINATED IN OUNCES TROY, AND WEIGHED IN ACCORDANCE WITH THE SPECIFICATIONS LAID DOWN BY THE MARKET. METRIC WEIGHT LISTS ARE NOT ACCEPTABLE

EXAMINATION OF THE BARS WILL BE MADE BY TWO INDEPENDENT REFEREES APPOINTED BY THE MARKET, WHO, AFTER A JOINT INSPECTION ARRANGED BY THE SPONSOR, WILL SHARE THE SAMPLE BARS RECEIVED. EACH REFEREE WILL MELT AND ASSAY FIVE BARS, USING SAMPLING AND ASSAYING PROCEDURES THAT HAVE BEEN AGREED WITH THE MARKET

IN THE SECOND PART TWO REFEREES WILL BE APPOINTED BY THE MARKET AND THEY WILL EACH PREPARE TWELVE SAMPLES WITH AGREED ASSAYS. THE TWENTY-FOUR TEST SAMPLES, EACH IDENTIFIED BY A REFERENCE NUMBER, WILL THEN BE SENT TO THE COMPANY, WHICH WILL BE REQUIRED TO MAKE PAYMENT TO THE SPONSOR COVERING THE GOLD CONTENT OF THE SAMPLES BEFORE THEY ARE DESPATCHED. THE COMPANY WILL ASSAY THE SAMPLES AND REPORT ITS FINDINGS TO THE SPONSOR, LISTING THE REFERENCE NUMBERS AND GIVING THE INDIVIDUAL ASSAYS TO FIVE PLACES OF DECIMALS. IN ADDITION, AGAINST EACH FIVE FIGURE RESULT, THE COMPANY SHALL INDICATE ITS FOUR-FIGURE INTERPRETATION OF THAT RESULT

FOR A COMPANY TO BE INCLUDED IN THE LIST AS AN ACCEPTABLE MELTER AND ASSAYER, IT MUST SATISFY THE MEMBERS OF THE MARKET THAT IT HAS MET THE CRITERIA AND REQUIREMENTS OF BOTH THESE TESTS

THE LONDON GOLD MARKET MEMBERS MEET ONCE A MONTH ON ABOUT THE 20TH DAY OF THE MONTH. THE REFEREES ARE THEN LIKELY TO TAKE ABOUT TWO WEEKS TO SEND THEIR ASSAY SAMPLES TO ROSARIO DOMINICANA, WHO SHOULD MAKE THE NECESSARY TESTS WHEN THEY RECEIVE THEM. THE TWO REFEREES WILL EACH REQUEST A FEE OF 2,500 POUNDS STERLING FOR THEIR WORK. IN ADDITION, ADVANCE PAYMENT MUST BE MADE FOR THE ASSAY PIECES. EACH PIECE VARIES IN WEIGHT, BUT AN AVERAGE WEIGHT IS A LITTLE OVER HALF AN OUNCE. THUS 24 PIECES WILL WEIGH ABOUT 15 OUNCES AND WILL BE VALUED AT APPROXIMATELY USDLRS 6,250. ONCE THE PIECES HAVE BEEN TESTED THEY MAY BE USED BY ROSARIO DOMINICANA IN THE REFINERY

THE REFEREES WILL REQUIRE AT LEAST TWO MONTHS TO MAKE THEIR OWN TESTS UPON THE BARS. IF ROSARIO DOMINICANA MEET THE CRITERIA OF BOTH TESTS, THEIR NAME WILL BE ENTERED INTO THE GOOD DELIVERY LIST. THE TOTAL TIME TAKEN TO CARRY THROUGH THE PROCEDURES WILL THUS BE A MINIMUM OF FOUR MONTHS FROM THE TIME THAT AN APPLICATION IS MADE TO THE LONDON GOLD MARKET

I HOPE THE ABOVE INFORMATION IS OF VALUE TO YOU AND WE WILL GO AHEAD WITH YOUR APPLICATION AS SOON AS YOU GIVE YOUR AUTHORISATION TO DO SO

WITH KIND REGARDS  
PAUL JEANTY  
MANAGING DIRECTOR  
SAMUEL MONTAGU LONDON

SJ

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RSARIO 3460367

TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

FOR THE ATTENTION OF MARITZA AMALIA, RESEARCH DEPARTMENT

1. FOLLOWING OUR TELEPHONE CONVERSATION YESTERDAY, THIS TELEX SETS OUT POSSIBLE WAYS FOR THE BANCO CENTRAL OR ROSARIO TO RAISE FOREIGN CURRENCY FINANCE AGAINST FUTURE SALES OF GOLD OR DORE.

2. WE UNDERSTAND THAT THE BANCO CENTRAL IS NOT CURRENTLY CONSIDERING THE RAISING OF FOREIGN CURRENCY FINANCE THROUGH A GOLD SWAP, AND WE DO NOT THEREFORE DISCUSS GOLD SWAPS IN DETAIL IN THIS TELEX. AS YOU KNOW, WE SENT A DETAILED TELEX ON THE SUBJECT TO JULIO LLIBRE AND MANUEL COCCO ON 16 SEPTEMBER LAST YEAR. A GOLD SWAP WOULD INVOLVE THE SALE OF GOLD FROM THE BANCO CENTRAL'S RESERVES FOR FOREIGN EXCHANGE AGAINST THE FORWARD REPURCHASE OF THE GOLD FOR FOREIGN EXCHANGE. THE FOREIGN BANKS' CREDIT RISK ON THE DOMINICAN REPUBLIC UNDER A GOLD SWAP WOULD BE LIMITED TO FLUCTUATIONS IN THE GOLD PRICE AND THIS RISK COULD BE MINIMISED BY CALCULATING THE AMOUNT OF THE FOREIGN EXCHANGE TO BE PROVIDED BY THE BANKS AT A DISCOUNT TO THE RULING GOLD MARKET PRICE. A GOLD SWAP WOULD THEREFORE BE A RELATIVELY SURE WAY OF RAISING FOREIGN EXCHANGE, PROVIDED THAT THE BANCO CENTRAL HAD SUFFICIENT GOLD IN ITS RESERVES TO SWAP, AND WAS NOT PREVENTED FROM UNDERTAKING A GOLD SWAP BY LEGAL CONSIDERATIONS OR THE IMF.

3. IF THE BANCO CENTRAL OR ROSARIO DECIDED TO RAISE FOREIGN EXCHANGE IN THE FORM OF A US DOLLAR LOAN FROM FOREIGN BANKS AGAINST THE FUTURE SALE OF GOLD OR DORE, TWO POTENTIAL PROBLEMS WOULD HAVE TO BE OVERCOME:

(A) THE FIRST IS THAT THE BORROWER WOULD EFFECTIVELY HAVE TO PLEDGE FUTURE RECEIPTS FROM SALES OF GOLD OR DORE. THIS MIGHT CONTRAVENE NEGATIVE PLEDGE CLAUSES GIVEN TO OTHER LENDERS (E.G. UNDER THE PROPOSED REFINANCING AGREEMENT WITH FOREIGN BANKS), THOUGH NOT NECESSARILY SO. FOR EXAMPLE, WE UNDERSTAND THAT CEA HAS RAISED FOREIGN CURRENCY FINANCE IN THE PAST FROM A SYNDICATE HEADED BY LIBRA BANK SECURED ON FUTURE SALES OF SUGAR.

(B) THE SECOND POTENTIAL PROBLEM IS THAT, EVEN IF IT WAS POSSIBLE TO SECURE THE TRANSACTION ON FUTURE SALES OF GOLD OR DORE, THERE WOULD STILL BE A CREDIT RISK FOR THE BANKS PROVIDING THE FOREIGN CURRENCY FUNDS. IN THE CURRENT STATE OF THE INTERNATIONAL BANKING MARKET, AND ESPECIALLY IN VIEW OF THE REFINANCING NEGOTIATIONS CURRENTLY IN PROGRESS BETWEEN THE BANCO CENTRAL AND THE WORKING COMMITTEE OF FOREIGN BANKS HEADED BY ROYAL BANK OF CANADA, IT MIGHT BE DIFFICULT TO INDUCE FOREIGN BANKS TO INCREASE THEIR DOMINICAN EXPOSURE IN THIS WAY. THE CHANCES OF SUCCESS FOR AN OPERATION OF THIS KIND WOULD DEPEND ON HOW SECURELY THE TRANSACTION COULD BE TIED TO FUTURE SALES OF GOLD OR DORE.

4. IN PRINCIPLE, A WIDE RANGE OF FOREIGN BANKS COULD BE APPROACHED TO PROVIDE OR SYNDICATE A FOREIGN CURRENCY LOAN AGAINST FUTURE SALES OF GOLD OR DORE. HOWEVER, THE MOST LIKELY CANDIDATES SEEM TO US TO FALL INTO TWO CATEGORIES:

(A) VALCAMBI AND J. ARON, WHO ARE CURRENTLY INVOLVED IN THE ARRANGEMENTS FOR REFINING, COULD BE ASKED WHETHER THEY WOULD BE PREPARED (WITH THEIR BANKERS) TO ACCEPT A CHANGE IN THE TIMING OF PAYMENTS THEY MAKE FOR SALES OF DORE. (THIS POSSIBILITY WOULD HAVE TO BE REVIEWED IF DORE WAS REFINED IN FUTURE THROUGH ROSARIO'S NEW REFINERY).

(B) THE LIBRA BANK CONSORTIUM COULD BE APPROACHED TO SEE WHETHER IT WOULD BE PREPARED TO FINANCE FUTURE SALES OF GOLD OR DORE ON A SIMILAR BASIS TO THE ARRANGEMENTS THAT HAVE BEEN MADE IN THE PAST FOR FINANCING FUTURE SALES OF SUGAR FROM CEA.

5. IF THIS OPTION FAILED, ANOTHER OPTION COULD BE CONSIDERED WHICH WOULD INVOLVE THE PROVISION OF FOREIGN CURRENCY FINANCE FROM INVESTORS TO THE SWISS DOMESTIC CAPITAL MARKET. UNDER SUCH AN ARRANGEMENT THE BANCO CENTRAL OR ROSARIO WOULD AGREE TO DELIVER BULLION IN 6 YEAR'S TIME EQUIVALENT TO THE US DOLLAR ADVANCE MADE AVAILABLE BY THE INVESTORS, WHERE THE BULLION PRICE WOULD BE CALCULATED BY REFERENCE TO THE MARKET PRICE ON THE DATE OF THE TRANSACTION, SO LONG AS THE BULLION PRICE ON THE DELIVERY DATE WAS EQUAL TO OR HIGHER THAN THE MARKET PRICE ON THE TRANSACTION DATE. IF AT THE END OF THE 6 YEAR PERIOD THE MARKET PRICE ON THE DELIVERY DATE WAS LOWER THAN THE MARKET PRICE ON THE TRANSACTION DATE, THEN THE BANCO CENTRAL OR ROSARIO WOULD BE REQUIRED TO REPAY THE ORIGINAL US DOLLAR ADVANCE IN DOLLARS. IF THE INVESTORS INSISTED ON ATTEMPTING TO COVER THEIR DOMINICAN RISK, THEY WOULD PAY 50 PCT OF THE ADVANCE TO THE BORROWER, AND 50 PCT INTO AN ESCROW ACCOUNT, WHERE THE PROCEEDS WOULD BE INVESTED IN ZERO COUPON (IE. DISCOUNT) BONDS. IF THE BONDS WERE PURCHASED AT A PRICE OF AROUND DOLLARS 50 PCT, AT CURRENT MARKET YIELDS THEY COULD BE EXPECTED TO MATURE IN 6 YEARS AT PAR (DOLLARS 100 PCT). THIS WOULD ENSURE THAT, IN THE EVENT OF A DEFAULT, THE INVESTORS WOULD BE ABLE TO RECLAIM THE DOLLAR VALUE OF THEIR ORIGINAL DOLLAR ADVANCE.

6. WE HAVE DISCUSSED THIS SCHEME IN OUTLINE WITH MICHAEL PALMER OF ASSOCIATED EUROPEAN CAPITAL CORPORATION IN NEW YORK, WHO CLAIMS TO BE IN CONTACT WITH SWISS DOMESTIC INVESTORS, WHILE THE SCHEME IS AN INTERESTING ONE IN PRINCIPLE, IN PRACTICE IT RAISES A NUMBER OF PROBLEMS WHICH WOULD HAVE TO BE OVERCOME, SUCH AS THE FOLLOWING:

(A) THE NEED FOR AN ESCROW ACCOUNT WOULD REDUCE THE AMOUNT THAT THE BANCO CENTRAL OR ROSARIO WOULD RECEIVE FROM THE TRANSACTION.,

(B) THE USE OF AN ESCROW ACCOUNT WOULD STILL NOT ELIMINATE THE RISK TO SWISS INVESTORS THAT THE BORROWER WOULD NOT BE ABLE TO REPAY GOLD AT MATURITY, IF REQUIRED.,

(C) THE TRANSACTION COULD CONTRAVENE NEGATIVE PLEDGE CLAUSES IN OTHER LOAN AGREEMENTS., AND

(D) THE FEES AND EXPENSES PAYABLE TO INVESTORS AND THE ARRANGER WOULD BE LIKELY TO BE SUBSTANTIAL.

7. IN CONSIDERING THE SCHEMES PUT FORWARD IN THIS TELEX, WE HAVE ASSUMED THAT THE BANCO CENTRAL OR ROSARIO'S FOREIGN CURRENCY REQUIREMENT FROM FUTURE GOLD SALES IN 1983 WOULD BE OF THE ORDER OF US DLRS 40 M (I.E. THE AMOUNT THAT WE UNDERSTAND IS SPECIFIED IN THE IMF AGREEMENT).

8. PLEASE LET US KNOW IF THERE ARE ANY POINTS ARISING FROM THIS TELEX THAT REQUIRE FURTHER EXPLANATION OR YOU WOULD LIKE US TO FOLLOW UP ON YOUR BEHALF.

WITH KIND REGARDS  
PAUL RICHARDS  
ARNOLD SHIPP  
JOHN SLEEMAN  
SAMJEL MONTAGU + CO LTD, LONDON  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
SANTO DOMINGO  
DOMINICAN REPUBLIC

FOR THE ATENTION OF LIC. BERNARDO VEGA, GOVERNOR  
-----

1. THANK YOU FOR YOUR TELEX DATED 17 MARCH REFERRING TO OUR TELEX ON GOLD SWAPS.
2. WE BELIEVE THAT YOUR UNDERSTANDING OF THE TREATMENT OF GOLD SWAPS IS CORRECT. THAT IS, A GOLD SWAP REPRESENTS A TEMPORARY REDUCTION IN THE GOLD CONTENT OF THE CENTRAL BANK'S FOREIGN RESERVES AND A TEMPORARY INCREASE IN THE FOREIGN EXCHANGE CONTENT. THERE IS NO INCREASE IN FOREIGN RESERVES UNLESS GOLD IS EXCLUDED FROM THE DEFINITION OF FOREIGN RESERVES. A GOLD SWAP ONLY INCREASES LIQUIDITY TO THE EXTENT THAT FOREIGN EXCHANGE REPRESENTS A MORE LIQUID FORM OF RESERVES THAN GOLD.
3. WE ARE CHECKING THE POSITION, AND IF WE FIND ANYTHING FURTHER ON WHICH TO COMMENT, WE WILL TELEX YOU AGAIN.

KIND REGADS,  
PAUL RICHARDS  
DIRECTOR  
SAMUEL MONTAGU AND CO. LIMITED. LONDON

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TO : BANCO CENTRAL DE LA REPUBLICA DOMINICANA,  
SANTO DOMINGO, DOMINICAN REPUBLIC.

APPENDIX N

FOR THE ATTENTION OF LIC. BERNARDO VEGA, GOVERNOR  
-----

THE FOLLOWING SUPPLEMENTS OUR TELEX OF 27TH APRIL ON SELLING  
POLICIES IN THE GOLD BULLION MARKET.

IN CONSIDERING INDIVIDUAL TRANSACTIONS A SELLER HAS THE  
FOLLOWING OPTIONS:-

- (1) TO SELL ALL THE AVAILABLE GOLD TO A SINGLE COUNTERPARTY  
IN THE MARKET. THIS CAN BE DONE EITHER AT THE FIXING OR AT  
ANY OTHER TIME DURING DEALING HOURS IN THE CENTRE CONCERNED.  
BY HAVING COUNTERPARTIES IN DIFFERENT FINANCIAL CENTRES AROUND  
THE WORLD, A SELLER IS IN A POSITION TO SELL AROUND THE CLOCK.  
IF SALES ARE NOT MADE AT THE FIXING THEN OBVIOUSLY THE SELLER  
HAS TO TAKE A VIEW ON THE BEST TIMING AND THE BEST MARKET IN  
WHICH TO SELL.
- (2) TO SPLIT THE GOLD AVAILABLE INTO VARIOUS LOTS TO BE SOLD AT THE  
SAME TIME (OR AT DIFFERENT TIMES) TO DIFFERENT COUNTERPARTIES.  
THIS IS OBVIOUSLY IRRELEVANT IF THE SELLER WISHES TO SELL AT THE  
FIXING AND IN ANY CASE IT IS AN OPTION ONLY OPEN TO LARGER  
SELLERS.
- (3) TO SEEK COMPETITIVE BIDS FROM DIFFERENT COUNTERPARTIES FOR THE  
AVAILABLE GOLD. HOWEVER THERE IS FREQUENTLY NOT A SIGNIFICANT  
PRICE ADVANTAGE IN SEEKING COMPETITIVE BIDS SINCE MARKET FORCES  
WILL TEND TO ENSURE THAT BIDS FROM DIFFERENT COUNTERPARTIES ARE  
MORE OR LESS IN LINE.  
IN ANY CASE DIFFERENCES IN PRICES QUOTED AT ANY ONE TIME ARE  
LIKELY TO BE MUCH LESS SIGNIFICANT THAN DIFFERENCES IN PRICE AT  
DIFFERENT TIMES, EVEN DURING THE SAME DAY.

ALL THE ABOVE OPTIONS, OR A COMBINATION OF THESE OPTIONS, ARE USED  
BY SELLERS AND THEIR CHOICE OF OPTION DEPENDS BASICALLY ON THE SIZE  
OF THEIR SALES AND THEIR DEGREE OF SOPHISTICATION AND ADMINISTRATIVE  
STRENGTH. LARGER SELLERS TEND TO USE OPTIONS (2) AND (3). SMALLER  
PRODUCERS TEND TO SELL THROUGH A SINGLE COUNTERPARTY AT THE FIXING  
FOR THE FOLLOWING REASONS:-

- (A) THE FIXING PRICE IS PUBLICISED AND THEREFORE CAN BE SEEN TO BE  
FAIR.
- (B) THE FIXING PRICE PROBABLY REPRESENTS A GOOD AVERAGE OF PRICES  
OBTAINABLE DURING THE DAY.
- (C) IT IS AN EXTREMELY SIMPLE POLICY TO OPERATE AND ADMINISTER.

WE WOULD BE DELIGHTED TO DISCUSS THESE MATTERS FURTHER DURING OUR  
NEXT VISIT TO SANTO DOMINGO OR TO SEND ANY ADDITIONAL INFORMATION  
YOU MAY REQUIRE BY TELEX.

KIND REGARDS  
ARNOLD SHIPP  
DIRECTOR  
SAMUEL MONTAGU LONDON  
JEA  
NNNN

TO: LIC. BERNARDO VEGA,  
GOVERNOR,  
BANCO CENTRAL DE LA REPUBLICA DOMINICANA,  
SANTO DOMINGO,  
DOMINICAN REPUBLIC.

FROM: SAMUEL MONTAGU + CO. LIMITED.  
LONDON.

GOLD SALES  
-----

1. THANK YOU FOR YOUR TELEX OF 21 APRIL TO PAUL JEANTY WHO IS AT PRESENT CONVALESCING FOLLOWING AN OPERATION. VERY LITTLE IS WRITTEN ABOUT THE COMMERCIAL SALES TACTICS OF THE MAJOR PRODUCERS WHO ARE UNDERSTANDABLY RETICENT ABOUT GIVING DETAILS OTHER THAN THE REGULATIONS AND TAXES GOVERNING EXTRACTION AND REFINING. THESE PUBLIC REGULATIONS ARE SUMMARISED IN A GOLD INSTITUTE PUBLICATION, A COPY OF WHICH IS BEING SENT TO YOU.

2. IN ADDITION, OUR UNDERSTANDING OF THE COMMERCIAL/POLICIES OF THE FOLLOWING COUNTRIES IS SUMMARISED BELOW (THIS INFORMATION IS GIVEN TO YOU IN CONFIDENCE):

(A) AUSTRALIA: EXPORTS ARE ALLOWED SUBJECT TO EXCHANGE CONTROL  
----- PROCEDURES WHICH REQUIRE THAT FOREIGN EXCHANGE PROCEEDS MUST BE REMITTED TO THE RESERVE BANK. LARGE COMPANIES MAKE THEIR OWN SALES ARRANGEMENTS AND THE GOLD PRODUCERS ASSOCIATION HOLDS WEEKLY AUCTIONS OF GOLD FROM THE SMALLER PRODUCERS TO THOSE REPUTABLE DEALERS WHO WISH TO BID. MOST AUSTRALIAN PRODUCTION IS REFINED IN AUSTRALIA: EXPORTS ARE NORMALLY IN BULLION FORM. ALL SALES ARE AT INTERNATIONAL MARKET PRICES.

(B) BRAZIL: ALL GOLD PRODUCTION MUST BE OFFERED TO THE STATE WHICH  
----- HAS A MONOPOLY OF ALL LEGAL GOLD EXPORTS. GOLD IS BOUGHT FROM THE DOMESTIC PRODUCERS BY A PUBLIC SECTOR FINANCIAL INSTITUTION AT A SLIGHT PREMIUM IN ORDER TO DISCOURAGE SMUGGLING. THE GOLD IS REFINED AT THE CASA DA MOEDA AND UNTIL RECENTLY MOST PRODUCTION WAS TAKEN INTO THE CENTRAL BANK'S RESERVES, BUT MARKET RUMOURS INDICATE RECENT HEAVY SELLING.

(C) CANADA: NON-COIN GOLD EXPORTS ARE ALLOWED, SUBJECT TO CERTAIN  
----- RESTRICTIONS, BUT MOST EXPORTS ARE IN THE FORM OF MAPLE LEAF COINS PRODUCED AND EXPORTED BY THE MINT WHICH PROCURES THE GOLD WITH THE ASSISTANCE OF THE BANK OF CANADA AT INTERNATIONAL MARKET RATES. ABOUT ONE THIRD OF CANADIAN PRODUCTION IS USED BY DOMESTIC INDUSTRY.

(D) CHILE: CHILE OPERATES A FREE MARKET IN GOLD. INDIVIDUALS MAY  
----- EXPORT BUT MOST REGISTER THEIR EXPORTS WITH THE CENTRAL BANK. MOST OF THE PRODUCTION IS REFINED DOMESTICALLY.

(E) COLUMBIA: THE CENTRAL BANK PURCHASES ALL GOLD PRODUCTION AT A  
----- PRICE BASED UPON THE AVERAGE OF THE LONDON AND ZURICH MARKETS. SOME GOLD IS SOLD TO INDUSTRIAL USERS AT A PRICE BASED UPON THE SAME FORMULA, AND THE REMAINDER OF PRODUCTION IS THOUGHT TO GO INTO THE RESERVES.

(F) GHANA: THE GHANAIAN SITUATION IS PARTICULARLY UNCLEAR DUE TO  
----- RECENT DOMESTIC DEVELOPMENTS. THE STATE IS THOUGHT STILL  
TO PURCHASE ALL LARGE-SCALE PRODUCTION AND EXPORTS ARE QUITE STRICTLY  
CONTROLLED. SOME PRODUCTION IS TAKEN INTO RESERVES.

(G) MEXICO: THE BANCO DE MEXICO CONTROLS ALL IMPORTS AND EXPORTS AND  
----- THE STATE IS RESPONSIBLE FOR SUPPLYING THE DOMESTIC NEEDS  
THROUGH TWO DESIGNATED BANKS. PRODUCTION IS NORMALLY HELD FIRST IN  
RESERVES BUT MEXICO OCCASIONALLY SELLS GOLD DEPENDING UPON MARKET  
CONDITIONS. WE ARE UNAWARE WHAT EFFECTS MEXICAN RECENT FINANCIAL  
DIFFICULTIES MAY HAVE HAD ON THEIR GOLD SALES POLICY. MEXICO IS A  
LARGE INDUSTRIAL USER.

(H) PAPUA NEW GUINEA: PNG AS YET HAS NO DOMESTIC REFINING CAPACITY  
----- AND SO GOLD IS EXPORTED BY THE PRODUCERS TO  
JAPAN, AUSTRALIA AND EUROPE WITH CENTRAL BANK APPROVAL. THE MAJOR  
PRODUCER, BOUGAINVILLE, IS PERMITTED TO MAKE HEDGING ARRANGEMENTS AND  
IT IS ASSUMED THAT REGULATIONS FOR OK TEDI WILL BE SIMILAR WHEN IT  
BECOMES A MAJOR PRODUCER.

(I) PERU: PERU HAS STATED ITS INTENTION TO LIBERALISE GOLD SALES BUT  
----- WE HAVE RECEIVED NO FORMAL NOTIFICATION OF A CHANGE IN  
POLICY. CERTAINLY, UNTIL RECENTLY, MINEROPERU WAS IN A MONOPOLY SALES  
POSITION FOR ALL ORES AND CONCENTRATES, WHILST BANCO MINERO WAS THE  
ONLY EXPORTER OF BULLION. PERUVIAN GOLD IN ALL FORMS IS MAINLY SOLD  
TO AMERICAN CORPORATE BUYERS AT MARKET PRICES.

(J) SOUTH AFRICA: ALL PRODUCTION IS REFINED AT THE RAND REFINERY  
----- OWNED BY THE CHAMBER OF MINES WHICH REPRESENTS THE  
PRODUCERS AND WHICH ENJOYS A CLOSE RELATIONSHIP WITH THE RESERVE BANK  
THE BANK IS IN EFFECT RESPONSIBLE FOR ALL GOLD EXPORTS AND SO MUST  
BALANCE THE DESIRE OF THE PRODUCERS FOR QUICK SALES AGAINST THE  
DESIRABILITY OF SMOOTH EXPORT FLOWS. PRODUCERS RECEIVE THE MARKET  
PRICE FOR THEIR GOLD FROM THE RESERVE BANK. MUCH OF SOUTH AFRICA'S  
GOLD IS SOLD THROUGH A SYNDICATE AT THE LONDON FIXING, AND THE  
REMAINDER IS SOLD THROUGH THE THREE MAJOR SWISS BANKS AND TO  
INDIVIDUAL DEALERS.

(K) USA: THE USA OPERATES A LARGELY FREE MARKET, WITH THE EXCEPTION  
--- THAT SALES TO CERTAIN COMMUNIST COUNTRIES ARE NOT ALLOWED.  
PRODUCERS MAKE THEIR OWN REFINING AND SALES ARRANGEMENTS.

(L) USSR: VERY LITTLE IS KNOWN OF THE SOVIET UNION'S GOLD SALE  
----- POLICY, BUT IT IS DICTATED CENTRALLY, PRODUCTION BEING  
SOLD BY THE BANK FOR FOREIGN TRADE THROUGH A RUSSIAN BANK IN ZURICH  
WHEN BALANCE OF PAYMENTS CONSIDERATIONS REQUIRE SALES OR WHEN THE  
INTERNATIONAL PRICE IS FAVOURABLE.

(M) ZIMBABWE: THE MAJOR PRODUCERS SEND THEIR GOLD FOR REFINING TO THE  
----- RAND REFINERY IN SOUTH AFRICA. SOME OF ZIMBABWE'S GOLD  
IS THEN SOLD TOGETHER WITH SOUTH AFRICAN PRODUCTION, SOME IS SOLD TO  
DEALERS AND SOME IS TAKEN INTO ZIMBABWE'S RESERVES.

3. WE HAVE IN THE PAST MADE SUGGESTIONS TO THE BANCO CENTRAL WITH  
REGARD TO POSSIBLE GOLD SALES PROCEDURES. OUR REPORT FOR THE NEXT  
VISIT TO SANTO DOMINGO WILL SUMMARISE OUR VIEWS ON THE SUBJECT AND WE  
HOPE TO DISCUSS THE MATTER WITH YOU DURING OUR VISIT. PLEASE DO NOT  
HESITATE TO CONTACT US IF WE CAN EXPAND VERBALLY ON ANY OF THE POINTS  
MADE ABOVE.

WITH KIND REGARDS.

ARNOLD SHIPP,  
PAUL RICHARDS,  
SAMUEL MONTAGU + CO LIMITED LONDON  
JEA  
NNNN

APPENDIX O

TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

ATTN: LIC BERNARDO VEGA

MANY THANKS FOR YOUR TELEX OF 5TH MAY. WE HAVE AGAIN REVIEWED THE VARIOUS POSSIBILITIES OPEN TO YOU AND THESE WITH OUR COMMENTS ARE LISTED BELOW. IT HAD BEEN OUR UNDERSTANDING FROM PREVIOUS CONVERSATIONS THAT THE GOLD TO BE USED IN A GOLD SWAP FACILITY WAS IN THE DOMINICAN REPUBLIC AND COULD NOT BE TRANSFERRED OUT OF THE COUNTRY. WE NOW UNDERSTAND THAT THIS IS NOT THE CASE AND OUR COMMENTS BELOW REFLECT THIS NEW UNDERSTANDING.

THERE ARE FOUR MECHANISMS UNDER WHICH YOU MAY RAISE THE US DOLLARS 20 MILLION FUNDS THAT YOU REQUIRE:

(I) THE BANCO CENTRAL RECEIVES ADVANCE PAYMENT FOR ROSARIO DOMINICANA'S GOLD PRODUCTION AND THIS IS THE ROUTE WE HAVE BEEN PURSUING WITH CREDIT SUISSE AND OTHERS. THE ATTRACTION OF THIS ROUTE IS THAT THE BANCO CENTRAL WOULD OBTAIN A FINANCING ARRANGEMENT WHICH IN PRINCIPLE COULD BE ROLLED OVER AT THE END OF EVERY 3 MONTH PERIOD.,

(II) THE BANCO CENTRAL MAY CHARGE THE GOLD WHICH IT HOLDS IN FAVOUR OF A BANK GRANTING AN ADVANCE FACILITY. ASSUMING THAT THE BANCO CENTRAL MAY PLEDGE ITS GOLD HOLDINGS, THERE ARE TWO PROBLEMS ASSOCIATED WITH SUCH A MECHANISM:

(A) THE FEDERAL RESERVE WILL NOT ALLOW OR ACKNOWLEDGE ANY INTEREST OF A THIRD PARTY INCLUDING A CHARGE HELD OVER ANY GOLD THAT IT HOLDS. THE SITUATION IS THE SAME FOR OTHER CENTRAL BANKS SUCH AS THE BANK OF ENGLAND.,

(B) THE CHARGING OF GOLD MAY CAUSE SERIOUS PROBLEMS WITH THOSE BANKS WITH WHICH YOU ARE PRESENTLY NEGOTIATING A REFINANCING FACILITY. A CHARGE WOULD CREATE DEBT SENIOR TO THAT WHICH THE BANKS ARE PROPOSING TO GRANT.

(III) THE GOLD COULD BE TRANSFERRED INTO AN ACCOUNT OVER WHICH A LENDING BANK WOULD HAVE THE RIGHT OF SET-OFF, I.E. IN THE EVENT OF A DEFAULT THE BANK WOULD HAVE THE RIGHT TO SELL THE GOLD AND APPLY THE PROCEEDS TO SETTLE THE DEBT. THE PROBLEM WITH THIS COURSE OF ACTION IS THAT THE BANCO CENTRAL'S GOLD WOULD HAVE TO BE PUT INTO AN ACCOUNT WITH THAT OF A BANK AND WOULD THEREFORE PRESUMABLY CONTRAVENE THE REGULATION THAT THE GOLD RESERVES MUST BE KEPT WITH CENTRAL BANKS OR WITH MULTILATERAL INSTITUTIONS OF WHICH THE DOMINICAN REPUBLIC IS A MEMBER.

(IV) THE BANCO CENTRAL COULD ENTER INTO A SWAP ARRANGEMENT. SUCH AN ARRANGEMENT HAS THE ATTRACTION OF NOT CREATING ANY PROBLEM OF PLEDGE BUT OF COURSE IF THE DOLLARS RECEIVED ARE PAID AWAY, THERE IS A DECREASE IN THE LEVEL OF NET INTERNATIONAL RESERVES. UNDER THE IMF ARRANGEMENT, THE DOMINICAN REPUBLIC IS REQUIRED TO MAINTAIN MINIMUM LEVELS OF NET INTERNATIONAL RESERVES. HOWEVER, IT IS THEORETICALLY POSSIBLE TO ENTER INTO A SWAP ARRANGEMENT, SAY FROM 1ST JULY TO 29TH SEPTEMBER, WITHOUT AFFECTING IMF PERFORMANCE CRITERIA WHICH HAVE TO BE MET AT THE END OF EACH CALENDAR QUARTER. THERE WOULD ALSO BE A MARGIN REQUIREMENT UNDER WHICH YOU WOULD ONLY GET, SAY, 85 PCT OF THE VALUE OF THE GOLD SWAPPED, I.E. THE BANCO CENTRAL WOULD RECEIVE, SAY, 85 PCT OF THE MARKET VALUE OF THE OUNCES SWAPPED AS CALCULATED ON THE DAY OF THE TRANSACTION. A DISADVANTAGE OF A SWAP IS THAT IT DOES NOT PROVIDE AN ARRANGEMENT UNDER WHICH AN ADVANCE MAY BE ROLLED OVER.

IN CONCLUSION, WE FEEL IT BEST TO FOLLOW SIMULTANEOUSLY TWO COURSES OF ACTION:

(A) TO CONTINUE OUR DISCUSSIONS WITH CREDIT SUISSE REGARDING ADVANCE PAYMENT FINANCING., AND

(B) TO DISCUSS WITH APPROPRIATE BANKS THE SWAP MECHANISM

IN ACCORDANCE WITH YOUR TELEX OF 5TH MAY, WE ARE DISCUSSING (B) ABOVE WITH THE BANKS AND WE WOULD BE GRATEFUL FOR YOUR INSTRUCTION TO CONTINUE WITH (A) ABOVE.

WITH KIND REGARDS  
ARNOLD SHIPP  
JOHN SLEEMAN  
SAMUEL MONTAGU + CO LTD, LONDON  
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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO

ATTN: LIC EDUARDO GARCIA MICHEL

I TELEX FOLLOWING OUR CONVERSATION TODAY REGARDING THE BANCO CENTRAL'S REQUIREMENT TO RAISE US DLRS 20 MILLION. FOR THE PURPOSES OF THIS TELEX, WE ASSUME THAT THE FUNDS ARE REQUIRED IN ORDER TO BE PAID AWAY. IF THIS IS NOT THE CASE, THEN IT SHOULD BE POSSIBLE TO ARRANGE A GOLD SWAP USING PART OF YOUR RESERVES, AS THIS WOULD NOT IN ITSELF RESULT IN A DIMINUTION OF YOUR GROSS RESERVES.

ON THE ASSUMPTION THAT THE FUNDS ARE NEEDED IN ORDER TO MAKE A PAYMENT, THEN THE BEST COURSE OF ACTION IS TO RAISE THE US DLRS 20 MILLION AGAINST FUTURE GOLD PRODUCTION. WE ARE NOT TOO CERTAIN FOR WHAT LENGTH OF PERIOD THE FUNDS WOULD BE REQUIRED, BUT GIVEN YOUR EXISTING RELATIONSHIP WITH CREDIT SUISSE, IT MAY BE POSSIBLE TO ENTER INTO AN ARRANGEMENT WHEREBY EITHER

- (A) CREDIT SUISSE ADVANCES US DLRS 20 MILLION AND SEEKS REPAYMENT FROM THE GOLD REFINED BY VALCAMBI IN THE SUBSEQUENT 90 DAYS, OR
- (B) CREDIT SUISSE ADVANCES US DLRS 20 MILLION AND SEEKS REPAYMENT OUT OF GOLD REFINED BY VALCAMBI IN THE PERIOD BEGINNING 90 DAYS AFTER THE INTITIAL ADVANCE.

IF (B) IS THE OPTION YOU SEEK, THEN IT SHOULD BE POSSIBLE UNDER THE TERMS OF THE EXISTING AGREEMENTS TO ARRANGE FOR THE WHOLE OF THE REFINERY'S GOLD PRODUCTION TO BE CHANNELLED THROUGH VALCAMBI IN THE PERIOD BEGINNING AFTER 90 DAYS, THEREBY ENSURING THAT THE ADVANCE IS REPAID IN A PERIOD OF APPROXIMATELY 6 WEEKS.

IT WILL NOT BE POSSIBLE FOR ROSARIO DOMINICANA TO OFFER ANY SUITABLE SECURITY TO CREDIT SUISSE AS ALL OF ITS ASSETS ARE IN THE DOMINICAN REPUBLIC. IT WILL BE A BREACH OF ITS NEGATIVE PLEDGE CLAUSES IF THE BANCO CENTRAL WERE TO OFFER SOME FORM OF SECURITY. HOWEVER, CREDIT SUISSE ARE AWARE OF THE VERY GOOD PRODUCTION RECORD OF ROSARIO DOMINICANA AND SHOULD WISH TO BE HELPFUL IN ORDER TO RETAIN THEIR EXISTING CONTRACT WITH YOU. FOR A THREE MONTH FACILITY OF THIS NATURE, THE APPROPRIATE INTEREST RATE WOULD BE THREE MONTHS US DOLLAR LIBOR PLUS A MARGIN OF 1 1/2 PCT - 1 3/4 PCT PER ANNUM. THE FRONT END FEE, WOULD BE FOR DISCUSSION.

I SHALL TELEPHONE YOU LATER TODAY TO ESTABLISH YOUR PRECISE FINANCIAL REQUIREMENTS AND TO VERIFY THAT THE VALUE OF THE CURRENT GOLD PRODUCTION IS SUFFICIENT TO REPAY ANY ADVANCE IN THE TIME FRAMES MENTIONED ABOVE.

AT THE SAME TIME PERHAPS YOU COULD GIVE ME THE NAME OF SOMEONE IN CREDIT SUISSE WITH WHOM WE COULD DISCUSS THE MATTER.

KIND REGARDS  
ARNOLD SHIPP  
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Draft speech by the Governor of the Central Bank of the Dominican Republic to the Gold Institute: 28 February 1983

THE ROLE OF GOLD IN THE INTERNATIONAL FINANCIAL SYSTEM:

A CENTRAL BANKER'S VIEW

I have been asked to speak about the role of gold in the international financial system from the point of view of a central banker. I shall also of course be speaking from the point of view of a gold producer. It is worth reflecting that the annual gold production of the Dominican Republic at present is roughly equivalent to the average annual gold production of the world as a whole in the period up to 1850.

First of all, I intend to say a few words about the monetary role of gold, and then I shall go on to speak about the role of gold as an investment. I think you will see that these two aspects of the subject are closely linked.

As you know, the monetary role of gold in the fixed exchange rate system established at Bretton Woods was intended to be a significant one. International payments imbalances between member countries of the IMF were intended to be financed mainly by the transfer of gold or dollars, which were convertible into gold at a fixed price. When persistent payments imbalances made longer term adjustment necessary, then supplementary liquidity was to be made available, conditional on an agreement between the IMF and the country concerned. The credit made available by the IMF was intended to be temporary, as the IMF's resources were considered as revolving. The major source of permanent liquidity creation in the Bretton Woods system therefore consisted in theory of the net supply of new gold.

In practice, the net supply of new gold proved to be an insignificant source of liquidity creation, particularly in the period when the United States was running a large balance of payments deficit with the rest of the world.

Countries in payments surplus with the United States tended to build up their reserve claims on the United States in dollars rather than demand the transfer of gold in payment. As a result, dollar claims on the United States became the primary source of international liquidity creation. This created a situation which was basically unstable. Either the United States payments deficit was allowed to continue, in which case the United States would ultimately not be able to convert dollars on demand, or the payments deficit was eliminated, in which case there would be a liquidity shortage.

The consensus that emerged during the early discussions on the reform of the international financial system was that the United States payments deficit ought to be eliminated, but that, if it was going to be eliminated, it would have to be replaced by a new source of liquidity creation. One way of achieving this would have been substantially to increase the official price of gold in terms of dollars. But a substantial increase in the official price of gold was ruled out because of the disproportionate benefits it would have brought to large scale producers such as South Africa and the Soviet Union. Instead, it was decided to phase out the role of gold in the financial system and create a new reserve asset - the SDR.

The experiment, designed to put the SDR at the centre of the international financial system has not so far proved a very successful one, for two reasons. First, the scope for the issue of SDRs has been limited, as the main source of international liquidity creation has continued to take the form of dollars - either dollars issued directly as obligations of the United States Treasury, or indirectly through the euro-currency market. Although a scheme has been devised which would involve the conversion of dollars held by central banks into SDRs through a substitution account, the scheme has not so far been implemented.

Secondly, gold has retained its attraction to central banks, despite the attempts led by the IMF and the United States Treasury to demonetize it. The official price of gold has been abolished, but central banks are now free to value their gold reserves at a price related to the gold price in the free market. Both the IMF and the United States Treasury have conducted gold auctions involving the sale of just over 1,300 metric tons of gold. But the price of gold now is significantly higher than the price when the gold auctions started, and there is no evidence at present that auctions are going to be continued. It is interesting to note that at the current free market price of gold, central bank reserves of gold represent just under two thirds of their total foreign reserves. This is a proportion which is only slightly lower than the proportion which gold represented in global central bank reserves 35 years ago when the Central Bank of the Dominican Republic was founded.

When a central bank is considering an investment in gold bullion, there are three main factors which need to be taken into account. These are, first, the prospective risk in holding gold; secondly, the prospective return on an investment in gold; and thirdly, the prospective liquidity if a decision is taken to sell the holding.

Gold bullion is not a risk-free investment. The risk associated with holding gold is a function of the geographical locality where it is held and the form in which it is held. If the gold is held in the financial centre in which it is purchased, there is a risk of sequestration by the host government or a freeze on assets similar to the freeze on Iranian assets imposed by the financial authorities in the United States in 1979. However, the risk of sequestration or a freeze is no greater in the case of gold bullion than it is in the case of any of the other financial assets in a

central bank's reserves.

There is also a risk attached to holding gold in unallocated form. If a central bank holds gold in an unallocated account, the claim represents a credit risk on the balance sheet of the financial institution concerned, in the same way as bank deposit represents a credit risk. However, this risk can be minimised by holding unallocated gold with good names, and it can be eliminated altogether by holding gold in allocated form, as most central banks do, at the Federal Reserve Bank of New York or the Bank of England.

The prospective return on an investment in gold is obviously dependent on its capital performance. Investment in gold bullion yields no income, with the limited exception that there are sometimes opportunities to lend gold to gold houses for short periods in small amounts at a rate of interest that does not normally exceed  $\frac{1}{2}\%$  p.a. The capital performance of gold bullion has been far more volatile than any other form of investment in central bank reserves over the recent past. Over the longer term in the past, the capital performance of gold has varied depending on the time span over which it is measured. Since 1968, when the free market in gold developed, the gold price has increased by over 14 times in nominal terms, and by over 5 times in real terms, after adjusting for the industrial countries' average rate of inflation.

The overall rise in the gold price since the free market in gold was established in 1968 can, I think, mainly be attributed to three factors. First, there has been an adjustment in the gold price to compensate for the long period during which the price was fixed in nominal terms and depreciated in real terms because of inflation. Secondly,

the price has been affected in a cyclical manner by inflation and political instability that have occurred since the free market was established. Thirdly, there have been factors influencing the supply and demand in the free market other than price factors, such as the IMF and United States Treasury auctions.

The prospective liquidity of an investment in gold is limited by its size. Although it has proved practicable for some central banks to sell large holdings over a relatively short period of time, it has generally not been possible to do so without having an effect on the price. Consequently, in recent years, extensive use has been made by central banks of gold as collateral and gold swap operations. Faced with a substantial balance of payments deficit in 1974, Italy borrowed from West Germany against the security of its gold reserves as collateral, and other countries such as Portugal have done likewise. South Africa has made extensive use of gold swap operations to even out fluctuations in its balance of payments, and the central banks in the European monetary system also swap their gold.

I anticipate that gold will continue to play an important role as a portfolio investment in central bank reserves. There is evidence of increasingly active management of gold reserves in some countries, such as the recent decisions by Indonesia and Libya to buy gold, and Iran and Iraq to sell gold from their reserves. Some gold producers effectively follow an active management policy by taking gold into their reserves instead of selling new production immediately on the spot market. But the opportunities for the active management of gold reserves are bound to remain limited by the relative lack of liquidity of gold holdings in the face of considerable volatility in the free market gold price. This position seems unlikely to change unless

the central banks in the main industrial countries decide that they are prepared to intervene in a coordinated manner in the gold market, not necessarily to fix the gold price, but at least to hold it within a predetermined price band.

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BANCO CENTRAL DE LA REPUBLICA DOMINICANA:  
THE CASE FOR A PUBLIC DEBT OFFICE

Introduction

1. The purpose of this paper is to set out the disadvantages of the present systems within the Dominican Republic of approving foreign currency borrowings and to recommend how these disadvantages may be overcome by the establishment of a Public Debt Office. The advice which we give is based partly upon the experience we have gained in dealing with similar offices in other Latin American countries.

2. This paper is divided into six main sections:

(a) The first section sets out our understanding of the present systems whereby public and private borrowers in the Dominican Republic obtain the necessary permissions to enable them to borrow in foreign currency.

(b) The second section describes how in practice we understand that these permissions are obtained and which organisations and bodies are responsible for approving the terms and conditions of the borrowings.

(c) The third section comments on the Office of the Director General of Public Credit.

(d) Following on from the first three sections, the fourth section lists the disadvantages which we see in the present systems.

(e) The fifth section describes how these disadvantages could be overcome by the establishment of a Public Debt Office and suggests how this office may be established within the framework of existing institutions in the Dominican Republic.

(f) The last section briefly suggests how the Public Debt Office should be set up and under whose authority it should operate.

The present system of approvals

3. We understand that four different chains of approval exist at present for borrowing foreign currency, dependent upon the status of the borrower. These four systems are described below.

4. Central Government, including ministries, require Congressional approval before borrowing foreign currency, but do not require the approval of the Monetary Board. In the loan documentation for such borrowers, Congressional approval has usually been a condition precedent; that is to say, before drawdown is permitted by the lenders such approval must have been obtained by the borrower. In practice, Congressional approval has not always been given and so certain loans, although negotiated and documented, have never been drawn down.

5. Autonomous Government entities (e.g. the State sugar company CEA, the State holding company CORDE and other companies owned by the State), with the exception of the Banco Central, require permissions from:

- (a) their own board;
- (b) the board of a State holding company, if the borrower is a subsidiary of such a company;
- (c) the Presidency of the Republic, and this approval usually requires a law or decree to be issued by the President; and
- (d) the Monetary Board.

It is only once all these approvals have been obtained that a borrower may sign the loan document. Thus it is not possible to include such approvals as conditions precedent to drawdown in any loan agreement.

6. The Banco Central, if it borrows for periods of under one year, requires no approvals whatsoever other than its own internal ones. If the Banco Central borrows for over one year, then it requires the approval of the Monetary Board and of Congress. Again, only once such approvals have been obtained is the Banco Central in a position to sign the loan agreement. Thus the approvals cannot be made conditions precedent to drawdown within such agreements.

7. The private sector is not required to obtain any approvals to borrow foreign currency and no controls are exercised over their borrowings or upon the terms of those borrowings. To repay funds due under such borrowings, private sector borrowers need to obtain the appropriate foreign exchange from the Banco Central, at which point the Banco Central will become aware of the existence of the borrowings. The question of private sector borrowings is not addressed by this paper which concentrates solely upon public sector borrowings. Without changing formal exchange controls and appropriate legislation, it is difficult to see how future borrowings by the private sector can be regulated in the way that we contemplate regulations being imposed upon the public sector.

The present system for negotiating terms and conditions

8. In a similar way that different types of borrower need different types of approvals, we understand that the system of negotiating foreign currency borrowings varies from one type of borrower to another. These different systems are considered below.

9. When negotiations take place with the World Bank and other international agencies (excluding IFC) who lend directly to the Government or to a State entity against a Government guarantee, then such negotiations are conducted by the borrower and by the Banco Central even if the Banco Central is not an obligor or a guarantor. The Ministry of Finance and the Technical Secretariat of the Presidency may also be involved in the negotiations. Quite often, however, the Ministry of Finance and the Technical Secretariat are not parties to the negotiations and rely upon the Banco Central to achieve the best terms and conditions available to the borrower.

10. If, however, the Central Government borrows from commercial institutions, then no institution other than the Ministry of Finance is involved in the negotiations. In particular, the Banco Central has no role to play when such borrowings occur.

11. Autonomous Government entities when borrowing without a State guarantee negotiate directly with the lenders and neither the Banco Central nor the Ministry of Finance participate in those negotiations. The agreed loan documentation is not filed either with the Banco Central or the Ministry of Finance and the Banco Central only becomes aware of the terms and conditions of such borrowings through the Monetary Board and through the requests received by the Banco Central from the entities concerned for foreign currency to service the loan.

12. Autonomous Government entities when borrowing with a State guarantee enter into negotiations with the lenders with a representative of the Ministry of Finance. No representative of the Banco Central is present. Again, it is difficult for the Banco Central to establish the terms and conditions agreed upon at those negotiations.

13. The Banco Central negotiates its own borrowings without participation from any other government body.

14. The private sector negotiates directly with potential lenders without the need of any governmental participation. Private sector borrowers are not required to file information regarding their borrowings with any public authority.

#### The Office of Director General of Public Credit

15. In many Latin American countries the type of unit which this paper concludes by proposing is called the Office of the Director General of Public Credit. There currently exists in the Dominican Republic an official reporting to the Ministry of Finance called the Director General of Public Credit but, as far as we understand, the office concerned merely fulfills the role of collecting the details of loan arrangements entered into by public sector borrowers and of producing statistics in respect of them.

16. Despite the coincidence of name (and for the reasons set out in paragraph 22 below) we do not consider on the information available to us that the Director General of Public Credit, or indeed the Ministry of Finance to which the office concerned reports, would be suitable for fulfilling the functions of a Public Debt Office as proposed in this paper.

#### Disadvantages of the present systems

17. There are several major disadvantages in the present systems whereby public sector entities borrow foreign currency. To overcome the disadvantages, we recommend the establishment of a Public Debt Office in the Banco Central as a Secretariat to the Monetary Board.

18. First, when facilities are being negotiated by public sector borrowers, there is no common unit involved in the negotiations. Because of this lack of a common unit, there is an apparent absence of a means for enforcing any common consensus on the terms and conditions of the loan agreements. That is to say there is no common policy within the Dominican Republic regarding the maturity of the loan, the margin over LIBOR payable on loans, etc.

19. Secondly, when negotiations occur on the documentation of loans, there is no common unit to ensure consistency of the conditions upon which the loans are made. There is a large number of clauses that need to be considered carefully within any loan document, including those concerning covenants, events of default, definition of LIBOR and waiver of sovereign immunity. For example, it is important to avoid cross default clauses in documentation which could result in an event of default being called in relation to a major Central Government borrowing because of a small default by a minor State-owned entity.

20. The third disadvantage in the present systems relates to the Office of the Director General of Public Credit. It is our understanding that the Director General may not have all the figures relating to public sector obligations (e.g. the Director General is unlikely to have all the statistics relating to Banco Central borrowings) and thus there is no one institution within the Dominican Republic which has complete knowledge of the amount of the present public sector foreign currency debt or of the maturity profile of that debt.

#### Proposed Public Debt Office

21. We recommend that the above disadvantages in the present systems could be remedied by the establishment of a Public Debt Office.

22. For three main reasons we believe that this Public Debt Office should be established as a Secretariat in the Banco Central reporting to the Monetary Board. These reasons are as follows:

(a) A review of the first section of this paper highlights the fact that the Monetary Board is required to give its approval for most public sector borrowings. The two main types of borrowing falling outside the jurisdiction of the Monetary Board are (i) direct borrowing by the Central Government and (ii) short term borrowings by the Banco Central. In the case of borrowings of the Central Government, the Banco Central is generally involved in negotiations unless the Government is borrowing directly from commercial institutions. We do not view the Banco Central's ability to borrow for under one year without approval as being an important deficiency in our proposals.

(b) The Monetary Board is located within the Banco Central and takes advantage of the administration and information systems of the Banco Central. A Technical Secretariat responsible to the Monetary Board would thus naturally work in close co-operation with the Banco Central with mutual advantage to both.

(c) The Monetary Board is composed of the Governor of the Banco Central and representatives from the Government and from the private sector. The Board is thus a representative body and is a natural focus for such a monitoring role, in the same way as the Banco Central (as the custodian of the foreign exchange reserves of the State) is responsible for disbursing foreign exchange to meet all foreign currency debts falling due.

23. The Monetary Board should refer all submissions that come to it for approval to the Public Debt Office for checking. The Public Debt Office will be able to examine each submission in much greater detail than is possible by members of the Monetary Board and will be able to apply to each submission those general principles on terms and conditions that the Board will have previously established. The Board should only give its approval for a foreign currency borrowing after the Public Debt Office has indicated that the terms and conditions of the borrowing are consistent with the Board's policy.

24. We have stated above that the Central Government can borrow foreign currency commercially without the approval of the Monetary Board. However, Central Government does require Congressional approval and we believe that Congress would be more sympathetic in giving that approval if it knew that the Public Debt Office had approved all the terms and conditions negotiated by the Government. Naturally, the Public Debt Office cannot ensure that Congress would not withhold its approval on political grounds, but nevertheless the fact that there has been a prior examination by the Public Debt Office should help in obtaining the necessary approval.

25. We further believe that the Public Debt Office should be present during all negotiations conducted by public sector entities concerning foreign currency borrowings. We believe that public sector entities themselves would wish this to occur because they will be aware that in almost all cases Public Debt Office approval will eventually be needed as to the terms and conditions negotiated.

26. We believe that the above proposals will not require any legislation to be passed or decrees to be issued. Once it is seen that the Public Debt Office's approval is important, then potential public sector borrowers will wish to involve the Office at an early stage to ensure the easiest possible passage for their proposed borrowings.

#### The formation of the Public Debt Office

27. We recommend that the Public Debt Office should be a Secretariat of the Monetary Board. In this way it will effectively operate as a sub-committee of that Board operating under the latter's control. The Public Debt Office should be headed by a person who has extensive knowledge of international eurocurrency loan markets and who has been responsible for both negotiating and documenting foreign currency borrowings, preferably with experience of the lender's point of view. This person will be directly responsible to the Monetary Board and will need a small staff to assist him.

28. The Public Debt Office will operate within strict guidelines laid down by the Monetary Board. The terms and conditions upon which foreign currency is borrowed should be determined by the Monetary Board acting upon the advice given by the Public Debt Office. Given constantly changing market conditions, these guidelines will need constant revision, which will be a function of the Public Debt Office.

29. In summary, the functions of the Public Debt Office will be fourfold:

(a) to suggest from time to time to the Monetary Board guidelines as to the terms and conditions for foreign currency borrowings by the public sector;

(b) to approve foreign currency borrowings by the public sector, within such guidelines as to terms and conditions as are established from time to time by the Monetary Board;

(c) to assist borrowers in negotiating such foreign currency borrowings; and

(d) to collect statistics on all foreign currency borrowings in order that a correct position can be determined on the Dominican Republic's total foreign indebtedness.

MANAGEMENT OF THE FOREIGN RESERVESIntroduction

1. We have reviewed the report on the subject of the management of the Banco Central's foreign reserves dated March 1980. The report is both descriptive and normative. It describes the different types of financial instruments available in the international financial markets in which the Banco Central could invest its foreign reserves. The report is also normative in the sense that it makes a number of suggestions about the Banco Central's investment policy. In this paper we concentrate on those aspects of the report that relate to investment policy.

Liquid and non-liquid reserves

2. The foreign reserves can be divided into liquid and non-liquid reserves. Liquid reserves can be defined as foreign reserves that can be encashed in order to finance a deficit on the foreign exchange budget. Treasury bills, Federal funds, repurchase agreements, bank deposits and certificates of deposit (in the US domestic and eurocurrency markets), bankers' acceptances, commercial paper, US government securities, domestic US and eurodollar bonds all meet this criterion in principle. However, in practice, term bank deposits cannot necessarily be encashed until they mature, and securities (including CDs) cannot necessarily be encashed at their face value. They can only be encashed at the market price prevailing at the moment of sale.

3. The Banco Central also holds non-liquid reserves, which cannot be encashed, such as subscriptions of international institutions. Some of the other foreign reserves in the Banco Central's portfolio must be classified as non-liquid as well. Although they can be encashed, the policy of the Banco Central is either not to encash them (e.g. holdings of SDRs) or to hold them above a minimum level (e.g. foreign notes and coin). Investment policy relates by definition to the liquid rather than the non-liquid reserves.

Gold reserves

4. Holdings of gold in the foreign reserves of the Banco Central have traditionally been regarded as non-liquid in the sense that the Banco Central's policy has until recently been to leave the level of gold in the foreign reserves unchanged. However, the recent decision to sell a proportion of the Banco Central's gold reserves raises the question of whether an active investment policy in respect of the gold reserves is going to be followed in future. If an active investment policy was followed, the level of the gold reserves would change from time to time, depending on the Banco Central's requirements for foreign exchange and its views about the outlook for the gold price. Gold holdings in the reserves would be increased by taking a proportion of Rosario Dominicana's production into the reserves rather than allowing Rosario Dominicana to sell it on the market. Gold holdings would be reduced by making sales on the market from the

Banco Central's reserves as well as from Rosario Dominicana's production. So long as Rosario Dominicana was compensated at the market price for gold taken into the foreign reserves of the Banco Central, Rosario Dominicana's cash flow would not be affected by any change in the Banco Central's investment policy.

#### Currency distribution of the reserves

5. Apart from gold, the main policy considerations affecting the investment of the liquid reserves concern their currency distribution, maturity structure and asset composition. As far as we are aware all the liquid foreign currency reserves are currently denominated in US dollars. There is a strong case for continuing the policy in which the foreign reserves are all invested in US dollars, for three reasons. First, the exchange rate of the Dominican peso is tied to the US dollar. Secondly, the greater part of Dominican foreign trade is denominated in US dollars. Thirdly, a far larger proportion of the foreign debt of the Dominican Republic is denominated in US dollars than in any other currency. Although there may from time to time be investment grounds for switching a small proportion of the foreign reserves into other convertible currencies (e.g. Deutsche marks, Swiss francs and Japanese yen), it is important to take account of the exchange risk involved when investing in currencies other than the US dollar.

#### Maturity structure of the reserves

6. Under the agreement whereby the Federal Reserve Bank of New York manages the Banco Central's Treasury bill portfolio, the Federal Reserve invests Treasury bills up to a specified minimum amount in overnight repurchase agreements. While the level of liquid reserves remains low, it is important to maintain all the liquid reserves in very short dated financial instruments in order to maximise the Banco Central's ability to encash them without loss or delay should the need arise. However, if the liquid reserves increase above the level required for working balances, a proportion of the reserves can be invested in slightly longer dated negotiable financial instruments. This will have the effect of increasing the return achieved on the Banco Central's reserve portfolio in conditions in which US dollar interest rates are falling. It can be done either by directing the Federal Reserve Bank of New York, or by taking over the management of that part of the reserve portfolio currently managed by the Federal Reserve and making investment decisions within the Banco Central.

#### Asset composition of the reserves

7. The liquid reserves must be invested in prime quality financial instruments. At least a proportion of the reserves should always therefore be held in the form of US Treasury bills. But if the whole of the reserve portfolio is kept in the form of US Treasury bills, the return on the portfolio is likely to be lower than if a proportion of the reserves is

invested in similarly dated bank certificates of deposit or commercial paper. The use of bank deposits will also have the effect of widening the range of bank counterparties which might be prepared to provide credit lines to the Banco Central. However, in conditions in which arrears exist on the Dominican Republic's foreign payments, a policy of widening the range of the Banco Central's counterparties through the placement of bank deposits has to be followed with extreme caution, because of the possibility that banks will use the deposits placed with them as offsets against arrears. Business can be given to bank counterparties without the risk of offsets arising if the Banco Central directs banks to purchase Treasury bills on its behalf as well as making use of the Federal Reserve Bank of New York.

#### Investment return on the reserves

8. As the Banco Central's report makes clear, investment policy is a matter of obtaining the highest return on the reserves compatible with the security and liquidity of the financial instruments in which investment is made. Apart from investment considerations arising from changes in interest rates, there are three additional factors that need to be taken into account in optimising the return on the Banco Central's liquid reserves: the speed with which foreign currency receipts are channelled through the commercial banks to the Banco Central; the extent to which the Banco Central can earn interest on its working balances with foreign banks (e.g. by consolidating these balances into larger amounts); and the ability to switch a proportion of the reserves out of Treasury bills into higher yielding financial instruments of a similar maturity.

#### Investment guidelines

9. In the recent past, the potential for the active management of the Banco Central's foreign reserves has been relatively limited because the level of liquid reserves has been extremely low. This position is likely to change under an IMF agreement, which is likely to prescribe an increase in the gross level of liquid reserves to be held by the Banco Central over the period of the agreement. In these circumstances, we consider that it would be appropriate to construct a set of investment guidelines (to be approved by the Monetary Board) within which the reserve managers in the Banco Central can make day to day decisions about the investment of the Banco Central's foreign reserves, and we would be willing to draft a set of possible investment guidelines for consideration within the Banco Central, if appropriate.

#### Investment information

10. The ability of the reserve managers to obtain the best results is likely to be enhanced in the following circumstances: (a) up to date information is available about the currency distribution, maturity structure and asset composition of the Banco Central's foreign reserve portfolio on the Banco Central's computer; (b) regular information is received

from foreign banks and dealers (especially from New York) about investment opportunities available to the Banco Central within the investment guidelines; and (c) the reserve managers have a short period of training with financial institutions in international financial markets to increase their knowledge of the workings of the markets.

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