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THE DOMINICAN REPUBLIC

PEOPLE

ECONOMY

COMMERCE

MANUFACTURING

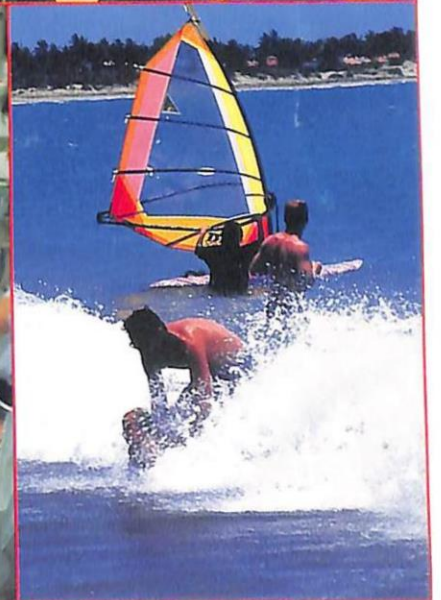
AGRICULTURE

MINING

TRANSPORT

COMMUNICATIONS

TOURISM



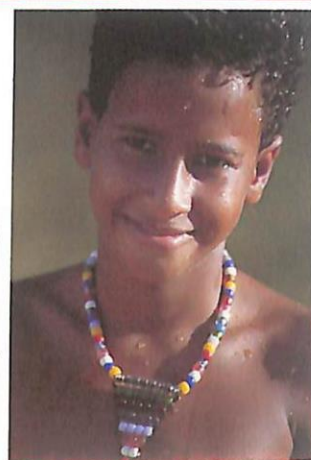
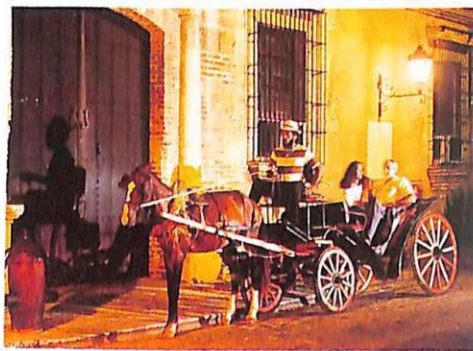
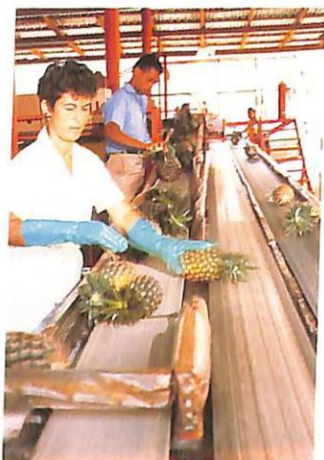
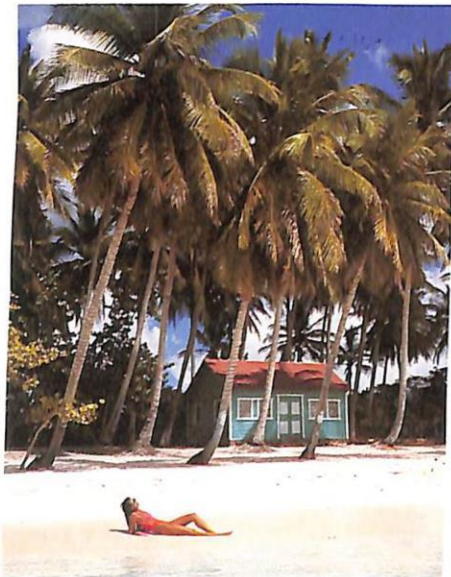
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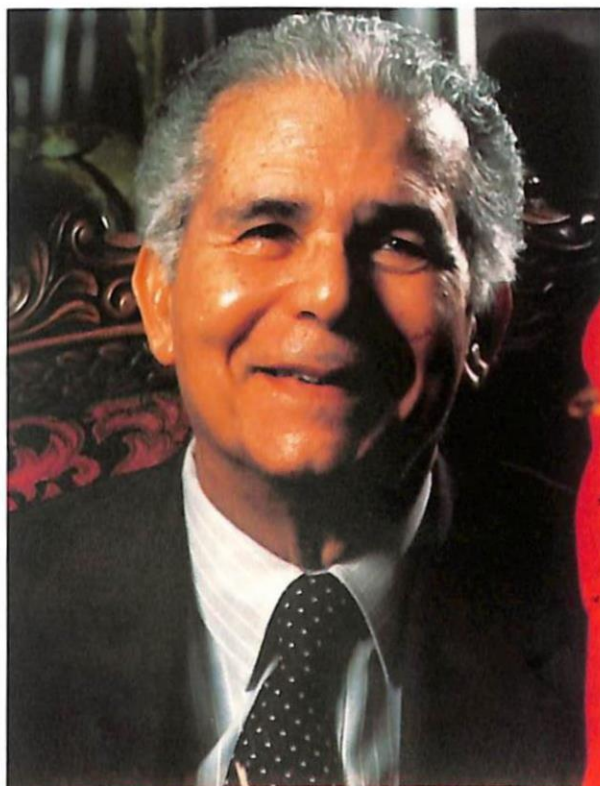
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PHOTOGRAPHS: Inside cover, Columbus Lighthouse. Page 2, Punta Cana Beach Resort restaurant, folk dancing at the Alcazar de Colón, a colonial city building, Bayahibe Beach, Santo Domingo's Cathedral, seashells, Fortaleza Ozama, pineapple processing plant, furniture factory, Dominican boy. Page 6, polo players, Dominican girl, painter Cándido Bidó, a devil participating in the Santo Domingo Carnival, musician at small grocery shop, student, sewing machinist in a free industrial zone, packaging bars of ferronickel, a rural mother and her child, national flags at the Santo Domingo Carnival, tourists at Playa Dorada beach. Page 7, little league team members. Page 10, view of the Santo Domingo's Malecón with the hotels Jaragua Renaissance, Santo Domingo Sheraton and V Centenario InterContinental in the foreground. Page 11, exporting containers of pineapples. Page 12-13, assembling clothing and electronic components and packing contraceptive pills at free trade zones. Page 14, agroindustrial products, waitress with Dominican cocktails. Page 15, Falconbridge Dominicana mining company. Page 16, Port of Haina and the Las Americas International Airport. Page 17, Avenida del Puerto in the colonial city of Santo Domingo. Page 18, Boca Chica Beach, Jaragua Hotel Renaissance casino. Page 19, Playa Dorada golf course, Chef Mike Mercedes, Mini Club tourists at Club Med.

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WELCOME TO SANTO DOMINGO



*Dr. Joaquín Balaguer,
President of the Dominican Republic*

In the Dominican Republic we look to the future with optimism and we recall, as wise lessons, our historic past.

A visit to our country is an encounter of the old and the new. Follow in the footsteps of the first European settlers of the Americas, tour the cradle of American civilization with its first cathedral and city hall, and see where it all began. Side by side, most modern technology softly whispers, communicating our nation with the world.

We are truly in the presence of a new and different world. The globalization of the economy, the tendency to convert all markets into one, is foremost on the mind of today's leaders.

From our strategic geographic position as the Caribbean nation closest to Europe and midway in the Americas, the Dominican Republic is becoming an important center for new investments and production. The nation each day readies itself to take

advantage of the opportunities this new world trade and financial trend is bringing.

Today, the nation invites you to revel in the symphony of colors of our cities, mountains, beaches and skies. May you be the modern discoverers of our lands, sharing the warmth irradiated by the traditional hospitality of our people.

On behalf of the Dominican people, President Joaquín Balaguer welcomes you all.

CENTRAL BANK MESSAGE

The Dominican Republic continues to adhere to the macroeconomic reforms initiated in 1990 with satisfactory results. So far they are important milestones along the road to sustained development. Note the annual growth rate of the per capita Real Gross Domestic Product, which increased from a negative 7.5% in 1990, to an accumulated 8.1% in the period 1991-94. The real growth of the GDP in 1994 was 4.3%.

The inflation rate, which peaked at 79.9% in 1990, was 14.3% in 1994, averaging 5.3% in the period 1991-94. This took place within the framework of a reduction in unemployment, estimated at 15% in 1994 against 21.1% in 1990.

Regarding the external sector, the country is immersed in a process of transforming the economy from being an exporter of raw materials to a vigorous provider of services, without neglecting the improvement in the quality of manufactured goods that is necessary to continue participating in the international markets that become more competitive day by day.

The monetary authorities seek to make the Dominican economy less vulnerable to external shocks, to strengthen the international reserves and prepare a macroeconomic environment stimulating to local and foreign investment with an appropriate and permanent return on capital, limited only by competition and market forces.

With respect to economic growth, the forecast for 1995 is a larger rise in the GDP than that of 1994. The GDP is expected to grow 4.5% by the year's end. This increase would reflect the filling of the production goals in various sectors, particularly mining — an increase in the production of gold, silver and ferronickel is expected. Likewise there are very favorable forecasts for farming, construction, telecommunications, commerce,



*Hector Valdez Albizu,
Central Bank Governor*

transport, industrial free zone assembly, and tourist industry sectors

Inflation is expected to remain under control, ending the year 1995 with a single digit. The current account of the Balance of Payments should end the year with a deficit equal or less than that at the start of 1995 — US\$86.6 million, equivalent to 0.8% of the GDP. This is considered one of the lowest levels in Latin America and confirms the trend whereby the Dominican Republic is becoming a provider of services.

The government continues with its structural reforms introducing new customs, labor, and tax laws. Currently under study by the National Congress are the regulatory frameworks for foreign investment, electricity generation, and the monetary and financial sector. Also under official review are bills that deal with the ramifications of the country becoming a member of the World Trade Organization.

The government is giving priority to the implementation of the Ten Year Edu-

cation Plan and the preparation of a Ten Year Health Program, products of a very broad national consensus and directed at reducing poverty and improving the standards of living.

Today, more than ever, Dominicans see the economy within an international context. Its behavior is affected by fluctuations in the prices of our commodities and imports in world markets, and by the availability of foreign capital. The country is working hard to assimilate the changes in work force specialization, migration, tourism, and the new technologies. In the same manner, our nation is aware of the evolution of international organizations and the new universal trains of thought.

But the nation is accepting the challenges of globalization and commits itself to the rules of the game that promote competition. It is very much aware of the need to become part of the regional integration resulting from the North American proposal to develop an enormous free trade zone.

But in winning the race for progress, the national authorities know that there is no universal formula that assures the sustained development of everyone. To deny the necessary changes, within the framework of a world on the way towards integration, as would be a decision to postpone the liberalization of trade, would be to prolong the inefficiencies that are contained within the economy, and to run the risk of isolating us from international markets, while progressively expanding the gap in terms of economic, social and political development with the rest of the world. But in the same manner as many of our neighbors in the region are also finding, our greatest challenge is to choose our own roads leading to development within the present world climate.

GENERAL OUTLOOK

The site of the first European settlement in the New World, the Dominican Republic historically has been a forerunner in the Caribbean. Today, 500 years later, the nation stands apart in its quest for a truly modern economy, one that is versatile and technologically up-to-date. The Dominican Republic bases its growth on its intrinsic strengths—the Dominican people, a kaleidoscope of natural resources and its strategic geographic location.

The country occupies the eastern two-thirds of the island of Hispaniola, named by its discoverer, Christopher Columbus, in 1492. The wide variety of topography, ranging from desert regions on some coastal plains to mountains over 10,000 feet high, lends itself well to a multiplicity of uses. While the valleys and plains feature ample arable lands, the mountains and hillsides have seen considerable mining exploration and exploitation

activity in recent years. Industrial free trade zones have been located in 20 towns and cities to take advantage of the large local labor pools. And tourism has blossomed along all the coastal beaches and in the capital city of Santo Domingo, the first city in the New World.

Santo Domingo prepares with a major urban renewal program for the celebration of its 500th anniversary in 1998. Works continue on the restoration of the colonial city, proclaimed by the United Nations as a “cultural heritage of the world,” a modern cruise ship port, construction of city parks, in addition to plans for the Caribbean’s most modern convention center.

The nation is taking giant leaps to prepare for the challenges of the 21st century. President Joaquín Balaguer has masterminded an unprecedented public investment program to accomplish his goals of revitalizing the economy and provid-

ing ample job opportunities. Major public works have developed the infrastructure needed to meet the challenges of the next century, including the tripling of the capacity of the two principal international airports and construction and improvements of the nation’s highway system.

Following an initial period of Spanish colonial rule, the Dominican Republic has been an independent nation for more than a century. A new Constitution was adopted in 1966 succeeding the years of political turmoil in the early 1960s after the death of dictator Rafael Trujillo.

Today, independent observers generally view the Dominican Republic as a stable, multi-party, progressive democracy. Four major political parties are active in the elections held every four years, representing a wide spectrum of political opinion. The next presidential elections are scheduled for May 16, 1996.

BASIC DATA

GOVERNMENT

Principal government officials:

Joaquín Balaguer, President

Jacinto Peynado, Vice President

Type: Representative democracy**Date of independence:**

February 27, 1844

Major political parties:

Reformist Social Christian Party,

Dominican Liberation Party,

Dominican Revolutionary Party

Independent Revolutionary Party

Suffrage:

Universal and compulsory,

over 18 or married

Administrative subdivisions:

30 provinces and the National District

PEOPLE

Population: 7.1 million (1993)**Ethnic Groups:** Caucasian 16%, Black 11%, Mixed 73%**Annual Growth Rate:**

2.4% (1983-1992)

Language: Spanish,

English is widely spoken

Religion: Roman Catholic 90%**Education:**

Years compulsory—8 years

Adult literacy rate—74%

Primary school enrollment—90%

Health:

Infant mortality rate—56 per 1,000

Life expectancy—65 years men,

69 years women

GEOGRAPHY

Area: 48,484 square kilometers**Cities:**

Capital—Santo Domingo (pop. 1.6 million, 1993)

Santiago de los Caballeros (400,000, 1993)

Terrain: Mountainous, valleys, coastal plains**Climate:** Maritime tropical, 17-34°C

ECONOMY (1994)

Gross Domestic Product:

US\$10,870 million

Real GDP growth: 4.3%**GDP per capita:** US\$1,532**Natural resources:**

Nickel, gold, silver, beaches

Agricultural products:

Sugar cane, coffee, cocoa, tobacco, beef, fruits and vegetables

Type of industry: Sugar and

petroleum refining, rum and beer,

textiles, pharmaceutical, cement,

light manufacturing, food processing, metallurgy

Principal goods exports: Ferronickel,

gold, sugar, silver, coffee, cocoa, tobacco, meats, fruits and vegetables

(US\$644 million)

Principal service exports: Tourism

and industrial free zones

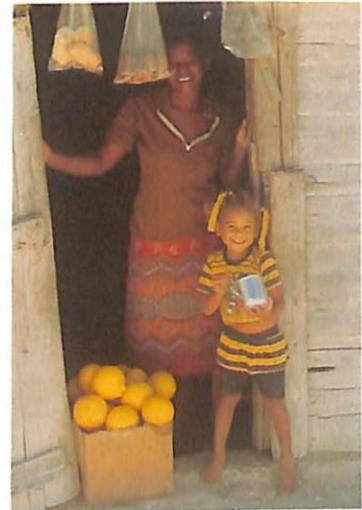
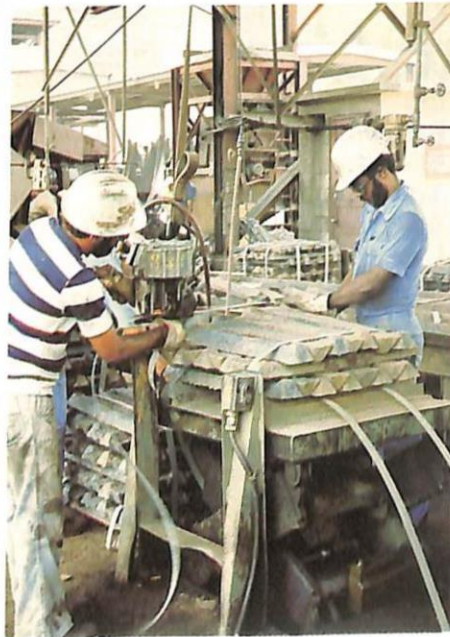
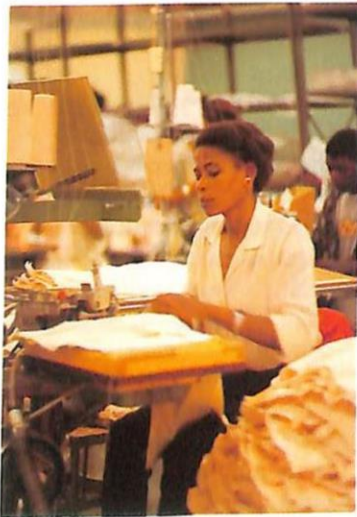
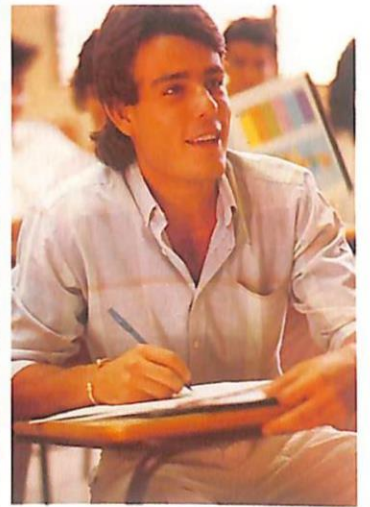
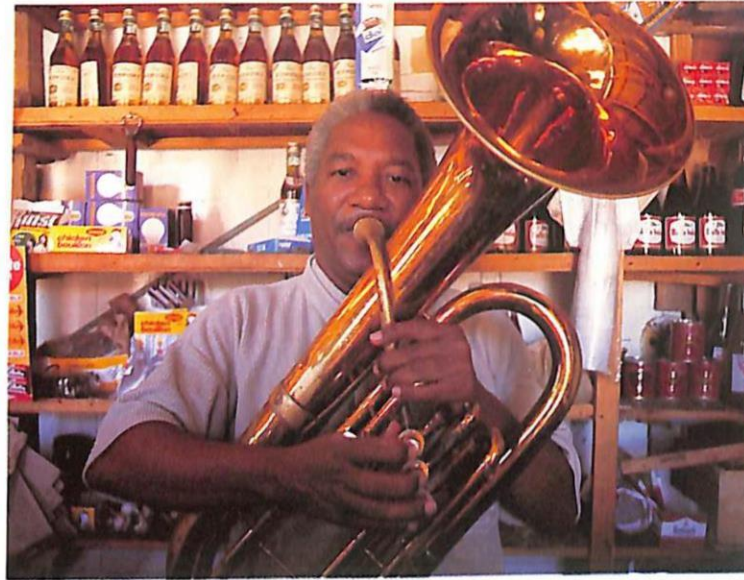
(US\$1,957.5 million)

Principal imports: Foodstuffs,

petroleum, industrial raw materials, capital goods (US\$2,276 million)

Official foreign exchange rate:

12.87 RD peso = 1.00 US dollar (March 1995)



PEOPLE

WHO WE ARE



Independent surveys of current investors reveal that the Dominican labor force is the nation's principal economic asset. Employers characterize workers as diligent, highly trainable, dexterous and capable of utilizing new technologies.

The same studies show employee turnover is generally very low.

The people element has also fueled the boom in the Dominican tourism industry. Time after time, airport departure polls indicate that the country's main attraction is the hospitality of its people.

Dominicans make good hosts and are proud to show visitors the first cathedral, mint, city hall, hospital, university, or even first hotel in the New World. The

people of this land have been welcoming visitors since the days of Columbus.

The openness of the Dominican society makes it easy for newcomers to integrate and soon feel at home. Spaniards, the French, the British, Asians, Americans and now waves of Canadians, Germans, Italians and even Scandinavians have chosen to move to the Dominican Republic.

As a result of the migration, Santo Domingo is today the city with the largest gastronomic diversity in the Caribbean. Moreover, tourism sites have blossomed with the many restaurants, small shops, and inns of foreigners who came as tourists and then returned to open businesses.

Dominicans take to new technology just as easily as they welcome foreigners. The modernization of Santo Domingo, the most cosmopolitan city in the Caribbean, is reflected in the range of products and services available to businesses and consumers. Companies use the latest in office automation and communications equipment, including computers, cellular phones, facsimile machines and desktop publishing systems.

In terms of education, the country boasts an excellent network of more than 20 public and private universities. And most major cities offer English and/or bilingual educational facilities for kindergarten through high school.

ECONOMY

BUILDING

FOR

PROGRESS

The Dominican economy has experienced satisfactory growth, reaching a Gross Domestic Product of 4.3%, compared to 1993's 3%. The indicator was above the 3.7% average for Latin America, 4% for the United States and 3% for the world economy. It is opportune to point out that the Dominican economy has grown at an annual average rate of 5% for the past three years.

Traditional exports were up 24.6%, but services continued to have the greatest effect on the growth of the GDP. The free trade zones' shipments rose by 12.8% and 12,000 new jobs were created in this sector. Tourism receipts grew by 7.2%, generating US\$1.1 billion and 2,436 new hotel rooms were built.

Mining contributed significantly to the growth of the economy in 1994, reversing the negative trend of the last three years, caused by low international prices and technical problems at several of the larger companies. The communications

sector boomed by 9.7% due to the expansion of the telephone services. The government's public works policy and private investment in the hotel industry stimulated the construction sector that grew by 6.6%.

External Sector

It is important to point out that in 1994 a significant increase in the prices of Dominican exports took place and the terms of trade climbed 19.8% this year, in comparison with a negative 19.6% accumulated during the period 1991-94.

There has been an improvement in the balance of trade complemented by increased revenues from tourism, the free trade zones, the remittances of Dominican residents abroad, and the accumulation of less interest paid on the foreign debt as a result of the renegotiation. This led to a 1.9% reduction in the deficit on the current account last year, down from 3.8% of the GDP in 1993.

The Dominican Republic has made great efforts to be prudent in the renegotiation of its foreign debt, seeking to accommodate its servicing to the levels of the foreign exchange anticipated in the medium term. As a result of this effort, the public foreign debt declined by 12.8%, from US\$4,499.1 million in 1990 to US\$3,922 million in 1994. In relation to the GDP, the debt dropped from 59% to 36.8% during that period.

The foreign debt was US\$692 million less in 1994 than in the past three years and the D.R. became the only country in the region to reduce its debt in 1994.

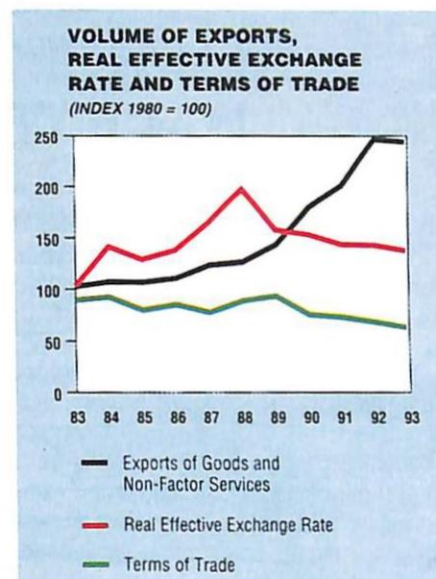
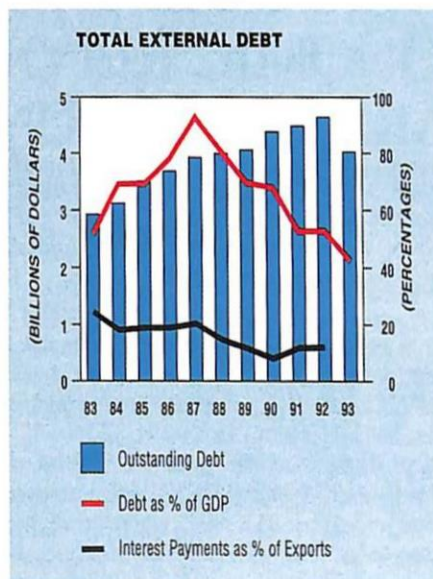
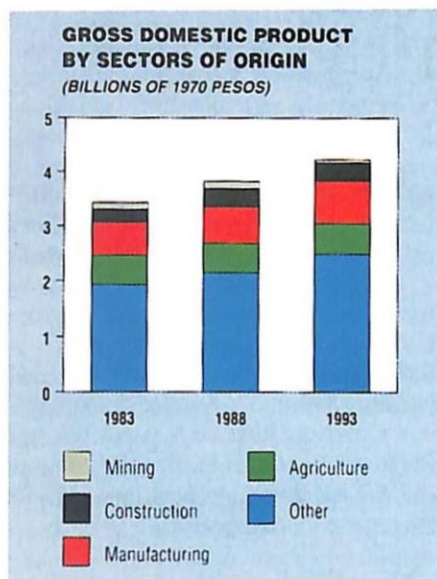
In regard to the value of the exports of goods, services and transfers, the servicing of the foreign debt improved in a significant manner, falling from 36.7% in 1990 to only 20.6% in 1994. This behavior is encouraging but, given the period of adjustment the world economy is undergoing, extended payment plans will have to be secured with the contin-

RESULTS OF THE PRINCIPAL ECONOMIC VARIABLES

Economic Variables

at year end	1990	1991	1992	1993	1994
Inflation (1984=100)	79.92%	7.9%	5.17%	2.79%	14.3%
Official exchange rate (RD\$/US\$)	RD\$8.43	RD\$12.42	RD\$12.50	RD\$12.50	RD\$12.87
Prime interest rate	49%	37.8%	24.6%	24.8%	24.4%
Interest rate on deposits	18.4%	16.8%	17.9%	10.7%	17.9%
Minimum wage (per month)	RD\$1,120	RD\$1,120	RD\$1,456	RD\$1,456	RD\$1,675
Consolidated public sector % GDP	-5.0%	0.1%	1.3%	1.1%	-2.5%
Monetary base	RD\$6.4B	RD\$8.5B	RD\$11.1B	RD\$14.4B	RD\$13.8B
Money supply (M1)	RD\$8.3B	RD\$11B	RD\$13.8B	RD\$16.1B	RD\$15.5B
Broad money supply (M2)	RD\$14.6B	RD\$20.5B	RD\$27.2B	RD\$33.3B	RD\$35.5B
Balance of trade	-US\$1.1B	-US\$1.1B	-US\$1.6B	-US\$1.6B	-US\$1.6B
Balance of payments (overall)	-US\$75.8M	-US\$380.3M	-US\$123.5M	-US\$131.8M	US\$469.7M
Current account	-US\$107.8M	-US\$110.6M	-US\$694.7M	-US\$364.6M	-US\$199M
Foreign exchange balance	-US\$41M	US\$319.9M	US\$80.7M	US\$155.2M	-US\$351.4M
Gross international reserves	US\$180.2M	US\$500.1M	US\$580.8M	US\$736.1M	US\$384.6M
Foreign debt	US\$4.5B	US\$4.6B	US\$4.2B	US\$4.6B	US\$3.9B
Growth Gross Domestic Product	-5.6%	0.8%	7.8%	3%	4.3%

ECONOMY



ued cooperation of our creditors, so that we may meet our commitments on time, and still maintain the necessary social programs.

According to the Economic Commission for Latin America and the Caribbean (ECLAC), in 1994 the Dominican Republic showed the second best results in Latin America on its current account. The deficit was US\$134.6 million, only 1.2% of GDP.

This result was due to the combination of a strong increase of 23.8% in the income for exports of goods and services, and a reduction in disbursements for accrued interest on the foreign debt which declined by 33% when compared to 1992.

It is important to note that from 1991 to 1994, the Dominican foreign debt declined by 15%, while the debt of Latin America as a whole has increased by 17%. The Dominican foreign debt represents only about 1% of Latin American and Caribbean indebtedness. Only 19.4% of this debt is held by commercial banks, while some 49.1% is owed to governments of which 51% is accounted for by the United States.

Monetary Policy and Public Finance

The monetary authorities enacted new measures at the end of 1994 to maintain macroeconomic stability, reduce the expansion of internal expenditure, and carry out structural reforms that permit the

economy to be competitive in the new international global scheme. At the same time, the government is maintaining an intense public works program, financed mostly by national savings.

The Central Bank is studying the signing of a Stand By Agreement with the International Monetary Fund. Meanwhile, the government and the Central Bank have adopted most of the measures that the IMF would require for an agreement of this nature. Its main advantages would be the reduction of the servicing of the foreign debt by way of a restructuring with the Paris Club, and financing from the IMF to support the balance of payments. The agreement would also facilitate disbursement of loans from international development banks. Most importantly, it would reinforce the international perception of the Dominican government's commitment to macroeconomic stability.

Dominican Economic Growth in International Context

In the last four years, the Dominican economy has outpaced most countries in the region.

The value of GDP per capita in the Dominican Republic in 1994 grew 9% since 1991, compared to the region's 4.3% average. Furthermore, while in 1993 the increase of GDP per inhabitant was 1.2%, in 1994 it doubled to 2.4%.

The economic expansion in this period

has not, as in the past, been due to favorable international conditions producing a bonanza in traditional exports. Neither has it been financed by foreign indebtedness by way of the public sector. On the contrary, it was achieved during a period of negative trade and while the country underwent the largest reduction of foreign public debt in Latin America. From 1991 to 1994, the Dominican foreign debt fell by 15%, while the regional average increased by 17%.

All this occurred despite the modern trend by the industrialized countries to import less raw materials. The Dominican economy responded to the contraction of international markets and declining prices of commodities by attracting a larger share of the growing demand for services.

Adapting to the new reality of globalization, the country now holds leading positions in the growing industries of tourism and textiles, reducing the nation's dependency on the fluctuations of the international prices for commodities.

The increase in the exports of goods and services is closing the gap on the current account. In 1994, the deficit on the current account in relation to the GDP was one of the lowest, at 1.2%. The rest of the region registered 3.5%. It is important to stress that most of this growth is financed by national savings, regarded as one of the largest in Latin America and the Caribbean.

CENTRAL BANK

MACROECONOMIC REPORT UPDATE

HALF YEAR ENDING JUNE 30, 1995

The following report by the Central Bank is a preliminary summary of the principal economic, monetary, exchange, financial and fiscal indicators for the period January to June 30, 1995.

Gross Domestic Product. During the first half of 1995, economic activity measured in terms of Real Gross Domestic Product grew by 3.5%, two tenths more than the increase registered for the same period in 1994. This is evidence of the new dynamism in the economy, notwithstanding the chronic shortage of electricity and adverse weather conditions.

This increase is the result of a 2.7% growth in farming agriculture, up from minus 2% for the same period in 1994. Farming represents 13% of the GDP. The industrial free zones and the construction industry showed continuing development, registering growth rates of 8.1% and 5.6%, totalling 12.4% of the GDP. These sectors have a significant beneficial effect on employment and investment.

Service industries, such as commerce, transport, government, finance, electricity, hotels, bars and restaurants (tourism) and telecommunications, among others, accounted for 56.6% of the GDP. Tourism and telecommunication sectors, for their part, grew by 16.5% and 17.5%.

The local manufacturing sector, with a share of 19.1% of the GDP, remained stagnated, registering a growth rate of barely 0.1%. This drop was due to the 10.4% decline in the sugar industry and a 0.4% growth rate in the other industrial sectors, that was countered by the activity in the industrial free zones. It is evident that manufacturing is one of the sectors most affected by the insufficiency of electricity.

The country enjoyed favorable international prices for several of its principal exports from January to June 30, 1995. In addition, the new liberalization of import policies had a positive effect on the levels of inventories of raw materials, the introduction of new plant and machinery, the replacement or expansion of existing manufacturing assets, and on consumer goods. This, in turn, resulted in an in-

creased GDP, investment and the satisfying of domestic demand. The above results were achieved within an overall macroeconomic stability.

The Central Bank's foreign reserves.

At June 30, 1995 the balance of the Central Bank's gross foreign reserves stood at US\$481.2 million. This was US\$96.6 million more than the total at the end of December 1994 and US\$210.6 more than that at August 31, 1994, when the figure was US\$270.6 million. The increases in foreign reserves were the result of monetary and fiscal measures implemented in September 1994 to discipline the economy.

International organizations, particularly the International Monetary Fund (IMF), calculate the net foreign reserves by deducting the foreign debt up to three years arrears and the obligations to the IMF from the gross foreign reserves. In the case of the Dominican Republic, 70.1% of these short term arrears are owed to the IMF, with an average period of more than three years. At the end of June 1995, the Central Bank's net foreign reserves stood at US\$60.4 million, a figure that reflects an improvement of US\$92.2 million over the deficit of US\$31.8 million at December 31, 1994, and US\$123 million more than the balance at August 3, 1994.

The very significant increase of US\$92.2 million in the net reserves during the first half of the year is well in excess of the US\$35 million established for the whole of 1995 by the monetary program. The Monetary Board approved this program at the beginning of the year following talks with the IMF, under the understanding that a financial agreement could be reached with that organization.

Also noteworthy is the position of the liquid reserves available at June 30, 1995. These reached US\$286.7 million after the Central Bank fulfilled all of its obligations during the first half of the current year. The Central Bank made foreign public debt repayments in amount of US\$191.1 million, provided foreign exchange in the amount of US\$208.6 million to cover imports of petroleum and its by-products, in

addition to injecting US\$35.5 million in the private currency market to stabilize a fluctuating exchange rate.

The level of the foreign reserves during the first half of this year can be described as highly satisfactory as all the targets set by the monetary program have been exceeded. Furthermore, the forecast of foreign currency receipts indicates that the Central Bank will be able to meet, quite comfortably, all its international commitments for the remainder of the year.

Monetary Base. The Central Bank's monetary base, which comprises money in circulation and commercial bank reserves held in Dominican currency at the Bank, stood at RD\$15,713.9 million on June 30, 1995. This balance is RD\$1,850.9 million more than that at the end of December 1994. This 13.4% growth in the monetary base in six months has occurred without runaway inflation or inordinate pressures on the exchange rate. The accumulation of US\$96.6 million in the gross foreign reserves during the first semester of 1995 explains, in great measure, the variation in the monetary base, as it represents 67.1% of the growth during the subject period. At the start of the year, the Central Bank also unfroze RD\$472.2 million which had been retained since September from the commercial banks' legal reserves.

Money supply. The money supply (M1), made up by the currency in circulation and the checking deposits in commercial banks, stood at RD\$16,592.5 million, as of June 30, 1995. This balance reflects an increase of RD\$1,104.1 million (7.1%) over the RD\$15,488.4 million total at the end of December 1994. Over the 12 months ending June 30, 1995, the increase has been barely 9%, a percentage that is less than the registered rate of inflation, 11.79%, for the same period.

During the subject period, the preference of the public for cash has declined. This trend is quite evident during the first half of 1995 when deposits in the commercial banks grew proportionally greater than loans. In effect, while the deposits in-

creased by RD\$3,374.9 million, or 10.4%, during the six months, bank loans only rose by RD\$1,281 million, 6.1%.

This greater propensity for savings can also be noticed in the variation in the composition of the money supply during this year. The broad money supply (M2), made up by the money supply plus savings and term deposits, reached RD\$38,484.5 million at June 30, 1995, reflecting a growth of 8.5% over the balance at the end of December 1994 and of 15.7% over that at June 30, 1994. The higher balance has been substantially generated by the increase in savings and term deposits, which confirms the overall trend towards savings during the subject period.

Central Bank domestic credit. This financing, measured by the investments in advances and rediscounts, government securities, and others as of the end of June 1995, showed a reduction of RD\$21.8 million when compared to the end of December 1994, and was RD\$450 million lower than the figure at the end of June 1994. This was the result of the prudent policies adopted by the monetary authorities in handling this financing, which is generally identified as one of the main factors contributing to the destabilization of the macroeconomic equilibrium.

Commercial bank liquidity. The commercial banks are maintaining a solid state of liquidity and availability of funds for lending. At the end of the first semester, the commercial banks, in aggregate, had an excess of reserves over the statutory requirements. At June 30 this surplus stood at RD\$1,155.8 million. In addition, these institutions have vault cash and hold certificates of participation in the Central Bank which at the end of June 1995 had reached RD\$2,918.9 million.

In this context, the state-owned bank, the Banco de Reservas has begun, in a manner corresponding with the monetary policy, a dynamic program of lending to preferential clients. This should foster greater competition between the commercial banks, thereby reducing the present excess liquidity and promoting a further decline in interest rates. This action may result in a drop in interest rates at commercial banks.

On the other hand, according to the last bulletin from the Superintendent of Banks, the banking system has shown a solvency

index average of 12.6%, which exceeds the level of 8.33% required by standards determined in December 1994. The supervisory organization, from the information obtained from the third stage of the evaluation of assets held by these institutions, indicates a positive change of status, with an average credit risk of 8.5% for the banks in general. The results show that the consolidated banking system possesses a solid financial base.

Consumer Price Index. The accumulated inflation rate as of June, measured by the variation of the Consumer Price Index (CPI) against the figure for December 1994, reached 3.72%, being less than that registered in the first half of 1994, which was 6.06%. The annual inflation rate, measured by the variation of the CPI in the past 12 months, went from 12.08% in May to 11.79% in June of 1995. These figures show that in June there was a reduction in the rate of price increases, when compared to the same period in the previous year. The monthly variation of the CPI from May to June 1995 was 0.63%.

The variation on the CPI in June 1995, by groups of goods and services, evidence that foodstuffs, beverages and tobacco cost 0.69% more, housing was up by 0.70%, clothing by 0.53% and other items by 0.41%.

Fiscal Policy. According to the Central Bank, the Central Government closed June 1995 with a treasury surplus of RD\$2,306.7 million. Revenues surged to RD\$12,369.9, including tax collections, the petroleum differential from Refidomsa to cover payments of the foreign debt and income received in dollars at the official exchange rate. Total government expenditure amounted to RD\$10,063.2 million, including payment of interest on the foreign debt and other overseas commitments. When compared to the first half of 1994, the Central Government's expenditure showed a reduction of RD\$682.2 million.

The surplus of RD\$2,306.7 million is 2.9% of the GDP, and favorably offset the Central Government's 0.2% deficit at the end of June 1995.

Monetary Program for 1995. A review of the results obtained in the variables, subject to the goal of fulfilling the monetary program of the Central Bank which was approved by the Monetary

Board at the start of this year, reveals that all the goals established for the first half of the year were well exceeded, in some cases even tripling the set objectives.

With regards to the net international reserves of the Central Bank it is important to note that in line with the monetary program, the goal for growth of US\$35 million in the net international reserves set for the entire year was surpassed by the month of June. This result is a consequence of the strict control in the use of credit, the prudence in employing credit by the public sector and the disciplines set by the Central Government in the use of government funds, maintaining a strict coordination between the fiscal and monetary policies.

The net domestic credit in the public sector, combining balances of the Central Bank and the Banco de Reservas was RD\$2,948.0 million at the end of December 1994. At the end of June this balance had declined to RD\$1,523.6 million, a reduction of RD\$1,424.4 million for the six months. The goal established for the level of this credit at the end of June of this year was zero growth over last December.

The stand of the Central Government regarding net domestic credit has been highly positive, since during the first half of the year the surplus position of the Central Government has permitted the accumulation of deposits at the Banco de Reservas.

Concerning a component of the monetary base, currency in circulation, this reflects a drop of RD\$380.7 million, from December 1994, resulting in a RD\$119.1 million decline in the estimated value for the first half of 1995. The behavior of this aspect of the economy, which is influenced by the demand from the public for cash, is an indication that the preference for liquidity has been reduced, again evidencing a greater preference for savings. This has favored the relative stability of the exchange rate during the subject period.

As for the net domestic assets of the Central Bank, which are measured by the sum of the net foreign reserves and the component of the monetary base corresponding to currency in circulation, these were reduced by RD\$1,567.3 million as at June 30, 1995. This result exceeds by RD\$867.3 million, the goal set in the monetary program. The significant increase in the foreign reserves is strong evidence of the discipline that the Central Bank maintains in the handling of credit in the economy.



COMMERCE
MOVING AHEAD
INTO
THE 90'S

In the Dominican Republic economic development is not taken for granted. It is hard business. The economy has undergone a dynamic and fast-paced modernization in the last decade. Once predominantly agricultural, the nation now boasts world-class hotels and resorts, major agribusiness companies, industrial parks and export-processing zones. The transformation is evident in the capital city's ever-changing skyline, dotted with banking, residential and hotel towers.

The service sector, principally in tourism and commerce, has experienced continued growth. With more hotel rooms than any other Caribbean nation, the Dominican Republic attracted 1.9 million tourists in 1994, 10% more than in 1993.

Light manufacturing also contributes a rising share of national output, exports and employment. Employment in the duty-free zones, principally in the assembly of clothing, footwear and electronic components continues to grow significantly.

The local business community is sup-

ported by a modern banking system. Fourteen commercial banks operate in the Dominican Republic, including two major international institutions, Citibank and the Scotiabank. The emerging Stock Market of Santo Domingo is a new option for business finance.

Turning to trade, when exploiting its potential with both the U.S. and Europe, the Dominican Republic's excellent geographic location offers a definite comparative advantage.

In recent years, the Dominican Republic has diversified its exports, capitalizing on its location and accepting the challenge of regional market integration. For instance, the Dominican Republic has been the Caribbean nation to take most advantage of duty free entry for many products under the Caribbean Basin Initiative (CBI). The country will be the most to benefit from the CBI-NAFTA parity bill, expected to be approved in 1995 by the U.S. Congress. The bill will give Dominican exports to the U.S., in-

cluding textiles, the same preferential tariff and quota treatment given to Mexico and Canada under the North American Free Trade Agreement.

The nation is the fifth largest trading partner of the U.S. in Latin America and the Caribbean, behind Mexico, Brazil, Venezuela and Colombia. In 1994, it imported US\$3 billion worth of goods, a 16% increase over 1993, and almost half of the total U.S. exports to the Caribbean, as reported by the U.S. Department of Commerce.

Likewise, the Dominican Republic continues to benefit from 936 financing, which mainly attracts Puerto Rican-based U.S. companies to set up manufacturing operations in CBI-qualified countries to maintain their tax advantage and employ lower-priced labor.

The Dominican Republic still enjoys duty-free access to U.S. markets for about 3,000 manufactured and semi-manufactured goods under the Generalized System of Preferences which benefits devel-

COMMERCE

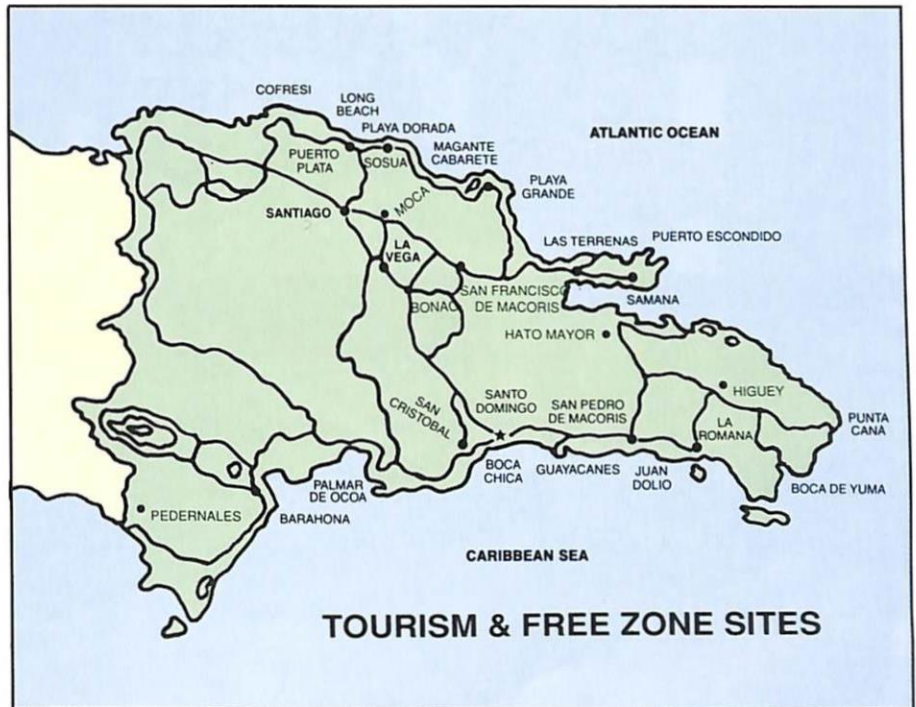
oping countries. In addition, the country's growing textile industry takes advantage of U.S. tariff schedules known as 806/807 that provide for reduced duties for U.S.-origin products assembled or processed outside of the United States.

Dominican exports also have duty-free entry to the 320 million affluent consumer market in the European Union (EU), the world's largest consumer market. Under the Lomé IV Accord, Dominican products which meet certain requirements have duty-free access to Europe.

The agreement is expected to spur investment in manufacturing and agribusiness, as companies realize the opportunity of using the Dominican Republic as an export platform into Europe. EU officials recognize the Dominican Republic has been the Caribbean nation to most efficiently use the development programs available under the Lomé IV Accord.

The country has intensified its efforts to integrate with more advanced world economies. In this sense, the government is advancing reforms in its systems of customs, finance, tax, export, judiciary, labor and public administration.

Keeping with the times, the nation is



considering several regional and bilateral integration schemes. Among these are the Caribbean Community Common Market and the Association of Caribbean States, of which the country is a member.

Confirming its commitment to free trade, the country signed the Generalized Agreement for Trade and Tariffs (GATT) and is a member of the World Trade Organization.



MANUFACTURING
MADE
IN THE
D.R.



Assembly operations in the Dominican Republic's industrial free trade zones have proven to be an effective and profitable activity for foreign firms, primarily due to the country's close proximity to the United States. The free zones allow foreign and local manufacturers to set up production plants that benefit from major tax and import incentives. In 1994, there were 31 free zones in operation with 476 firms. Three new parks and 40 companies were approved to start operations in 1995.

The country's abundant and competitively priced labor has been an important driving force behind investor interest. With a labor pool of some three million

people, the Dominican Republic has a large supply of unskilled and semi-skilled workers, and technical and managerial personnel. The strength and sophistication of the local business community are



key advantages as well. Skilled firms and professionals provide services and participate in joint ventures.

The Dominican free zones have an impressive record of job creation and export expansion. In 1980, the free zones employed 16,400 workers and the gross value of exports was US\$117 million. By 1992, the estimated number of employees had grown to 141,000 and the gross value of exports to over US\$1.7 billion. In 1994, 476 firms were operating in the zones. They generated over US\$2.3 billion, according to U.S. Department of Commerce statistics. Employment had grown to over 176,311 jobs. This perfor-

MANUFACTURING

mance by the free trade zones dramatically illustrates the potential for growth in export-oriented industries taking advantage of the Dominican Republic's abundant labor and its strategic location.

Industries represented include clothing, footwear, electronics, sporting goods, jewelry, cigars, pharmaceuticals, and furniture, as well as emerging fields such as data entry, computer-aided digitization, telemarketing and other service operations.

The Dominican Republic has been extremely successful attracting clothing manufacturers. Today the country is the largest textile exporter to the United States in the Western Hemisphere and fifth in the world.

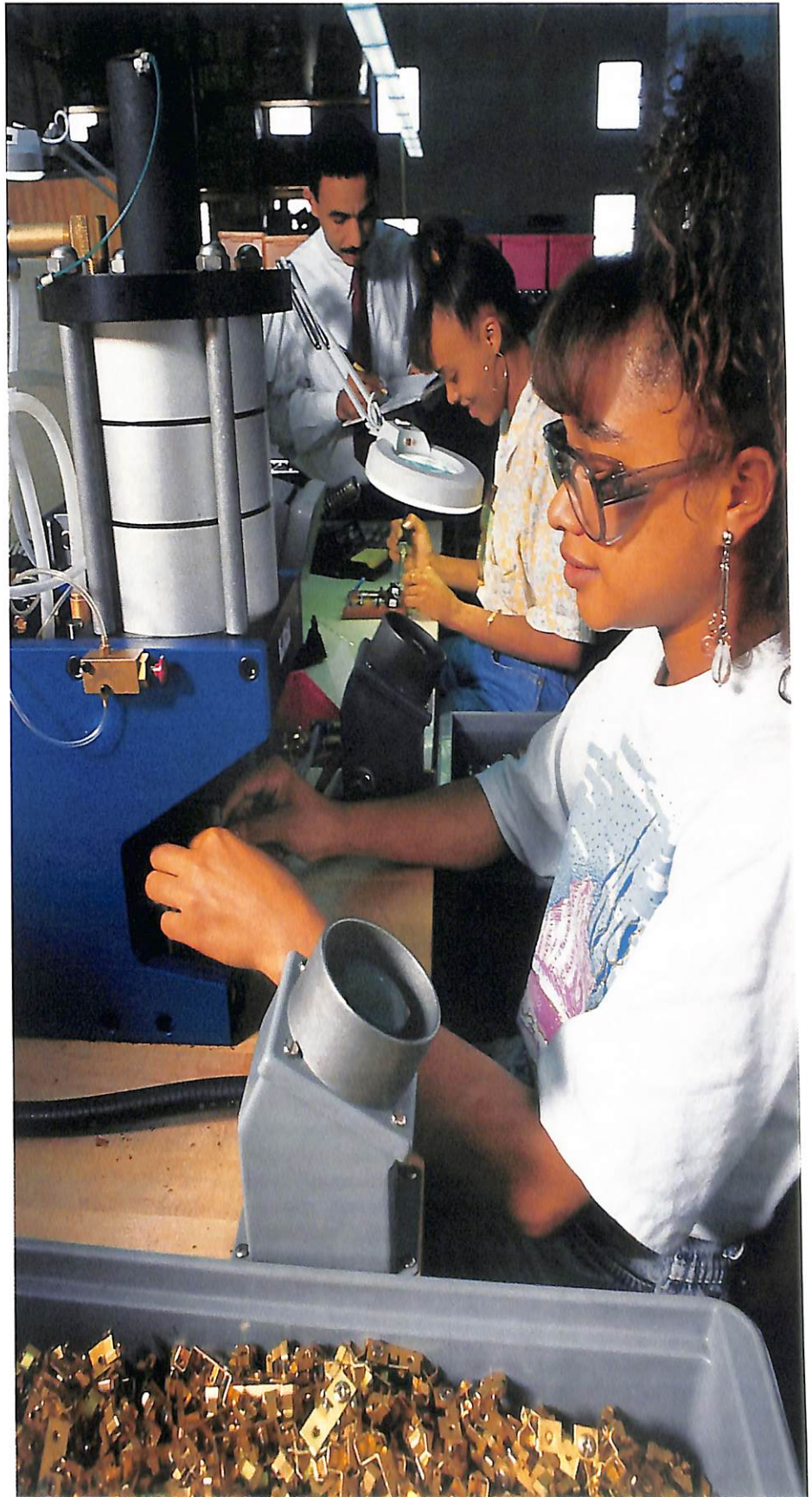
The Dominican Republic offers Special Free Zone Status to exporters whose production must be located outside of the existing zones. Ship-repairing, agribusiness and other firms take advantage of these special provisions.

A wide variety of export products are also manufactured outside the free zones. Processed foodstuffs include prepared beef, cream of coconut, canned and processed fruits and vegetables, cocoa by-products, rum and beer. Major non-food export items include clothing, leather purses, chemical fertilizer, furniture and dry batteries.

By contrast with the industries operating in the free trade zones, domestic manufacturing has stagnated: value added in manufacturing in 1990 is only slightly above the level in 1980. The Dominican Republic has found, as have other Latin American countries, that the scope for import substitution via high protection of domestic manufacturing has been exhausted.

New trade liberalization policies are being implemented stimulating industries to adapt and expand their base for export-oriented operations while at the same time compelling efficiency in import competing sectors.

Output of foodstuffs and beverages account for nearly 70% of total manufacturing production; chemicals about 11%; iron and metal products 5.5% and textiles 5%. Industry is highly concentrated as less than 3% of all firms produce 47% of value added in the sector. Small and medium size companies account for 30% of production and 50% of industrial employment.



AGRICULTURE AND MINING

INNER STRENGTHS



During the past ten years, the Dominican Republic has gone from having a traditional agriculture-mining-exporting economy to one with a vigorous service sector, with major income generated from tourist businesses and export-processing

zones. While the economy has become increasingly diversified, agriculture and mining continue to provide significant employment opportunities, income and foreign exchange earnings.

The relative contribution of traditional

crops to the country's total export revenues has declined, but sugar cane, coffee, cocoa and tobacco still are the major money crops. Sugar has traditionally been the country's leading crop, and the Dominican Republic has for decades been one of the world's largest sugar producers. The primary market is the United States.

New opportunities for export to Europe opened up in early 1990 when the Dominican Republic became a member of the Lome IV Accorde, which provides duty-free entry for local produce to the European Union. As the Dominican Republic penetrates this new market, which is more structured than the U.S.'s and commands higher prices, the expected foreign exchange earnings will increase in the long run as the export volume grows, compensating for the differential in freight costs.

In agriculture, though, the country has not yet been able to take advantage of the opening of attractive new markets. This sector continues to decline, despite suc-



AGRICULTURE AND MINING

successful efforts to seek international markets for roots, tubers, winter vegetables, bananas, mangos, melons, avocados and other fruit, macadamia nuts, plants and flowers.

In recent years, increasing amounts of fertile land have been reallocated for the production of non-traditional agricultural crops, especially winter vegetables and tropical fruit, to take advantage of the nation's geography. Major international firms such as Chiquita and Dole have large banana and pineapple plantations in the Dominican Republic to utilize the country's excellent positioning in the main shipping lanes of the Caribbean, its ample arable lands, good weather and abundant labor force.

Furthermore, over the past three years, agribusiness has shown greater importance among productive sectors. Today, the Dominican Republic is the leading producer of citric concentrates in Central America and the Caribbean.

In 1994, the country obtained its first quota to export duty-free bananas to the European Union. This up to 90,000 ton quota placed Dominican exporters in a position of advantage in Latin America.

The mining sector has achieved consid-

erable importance over the last decade. It offers extensive development potential through its diverse and sizable resources. Based on studies conducted by national and international institutions, and the ongoing Dominican Geological Survey, the Dominican Republic is known to possess exploitable deposits of gold, silver, ferro-nickel, bauxite, marble, salt and gypsum.

The existence of oil deposits has been determined with exploration drillings scheduled to begin in 1995. The government has been accelerating this work through contracts with international petroleum companies, including one signed with Mobil Oil, the fourth largest oil company in the world.

The mining sector reversed the negative trend of 1993, when the combination of low international prices and technical problems in the largest companies resulted in a five year low of US\$55.7 in exports. In 1994, they increased to US\$107.2 million.

Falconbridge exploits nickel laterite deposits in the central Bonao area, and foresees continuing mining operations well into the year 2000. In 1994 Falconbridge produced 68 million pounds of nickel in ferro-nickel, exporting some

69 million pounds. The Dominican government received during 1994 US\$35 million in taxes from Falconbridge.

Rosario Dominicana exported US\$22 million in gold and silver ore in its first year of operation since May 1994, when it restarted working. Exports of transition ore deposits are expected to reach US\$90 million per year. At present, Rosario Dominicana is in the final stages of contracting the company that will develop the project to extract gold and silver from sulphide ore. Proven sulphide ore reserves are estimated at more than 100 million tons, which would generate an estimated US\$2 billion during the well over 30 years life span of the mine.

Likewise, international mining companies have ascertained the potential of copper and gold fields and are preparing for exploitation in 1995. These include the El Higo gold field, with an estimated reserve of nearly 375,000 ounces.

There continue to be advances in the non-metallic industries. Marble quarrying has increased. Polished marble is produced in Samaná, Canoa and San Cristóbal both for domestic use and export. Limestone aggregates, clay, and silica were extracted in several concessions.





TRANSPORT AND COMMUNICATIONS

MODERN LINKS WITH THE WORLD

All major cities and ports are linked by more than 20,000 kilometers of modern paved roads. There are 15 commercial ports, nine serve foreign trade, two serve tourism and four serve domestic coastal

traffic. The three ports serving the Santo Domingo area (Haina, Santo Domingo and Andrés/Boca Chica) handle two-thirds of the total foreign traffic (six million tons per annum including petroleum) and half

of the dry cargo traffic (three million tons per annum). Haina, the principal port, was recently substantially expanded, including the construction of a major container terminal. A new breakwater is being built in the port to further facilitate operations.

At present, the Dominican government is converting the Port of Santo Domingo from a freight station into a cruise ship port. Public works include the Avenida del Puerto, the Avenida de la Marina and the modern cruise ship terminal from which tourists will be a short walk away from touring and shopping in the city's colonial zone. Nearby, the National Aquarium, V Centenario Hippodrome and the monumental Columbus Lighthouse beckon visitors to drop by.

For those traveling by air, there are five principal airports for international traffic: Las Americas (Santo Domingo), Puerto Plata, Punta Cana, La Romana and Santiago. In southwestern Barahona, a sixth major international airport is slated to open this year catering for tourists visiting this emerg-



TRANSPORT AND COMMUNICATIONS

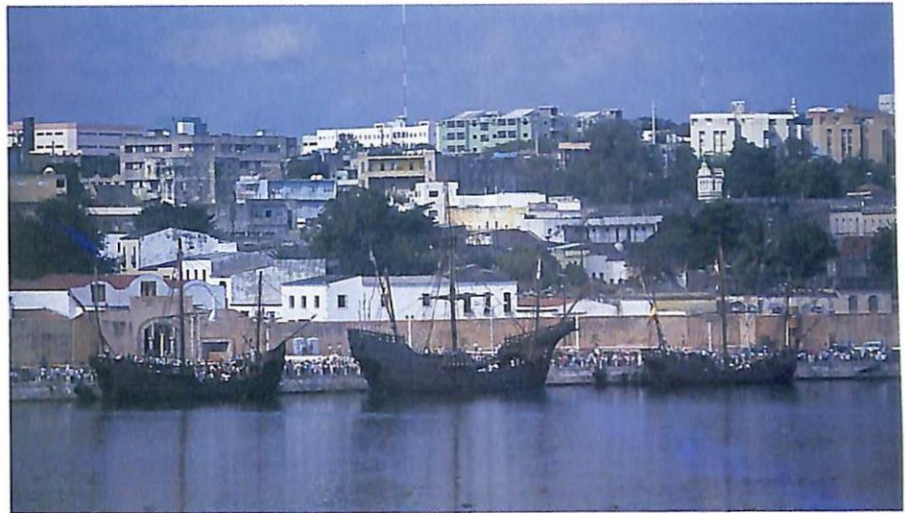
ing holiday destination. The country maintains an open sky policy. As of December 1994, more than 60 foreign airlines flew scheduled or charter flights into the Dominican Republic.

The country's transportation infrastructure provides an excellent operating relationship with the global marketplace. Several freighters service the United States market, at present the source of 65% of Dominican exports. And following the signing of the Lomé Accorde, traffic to Europe is increasing.

Frequent service to Europe and Asia is available. Already, the world's largest shipping companies have set up bases for transshipment operations linking the Far East with South America.

The proximity to Puerto Rico also allows for connecting ships to consolidate cargo on that island for ports within the Caribbean or abroad.

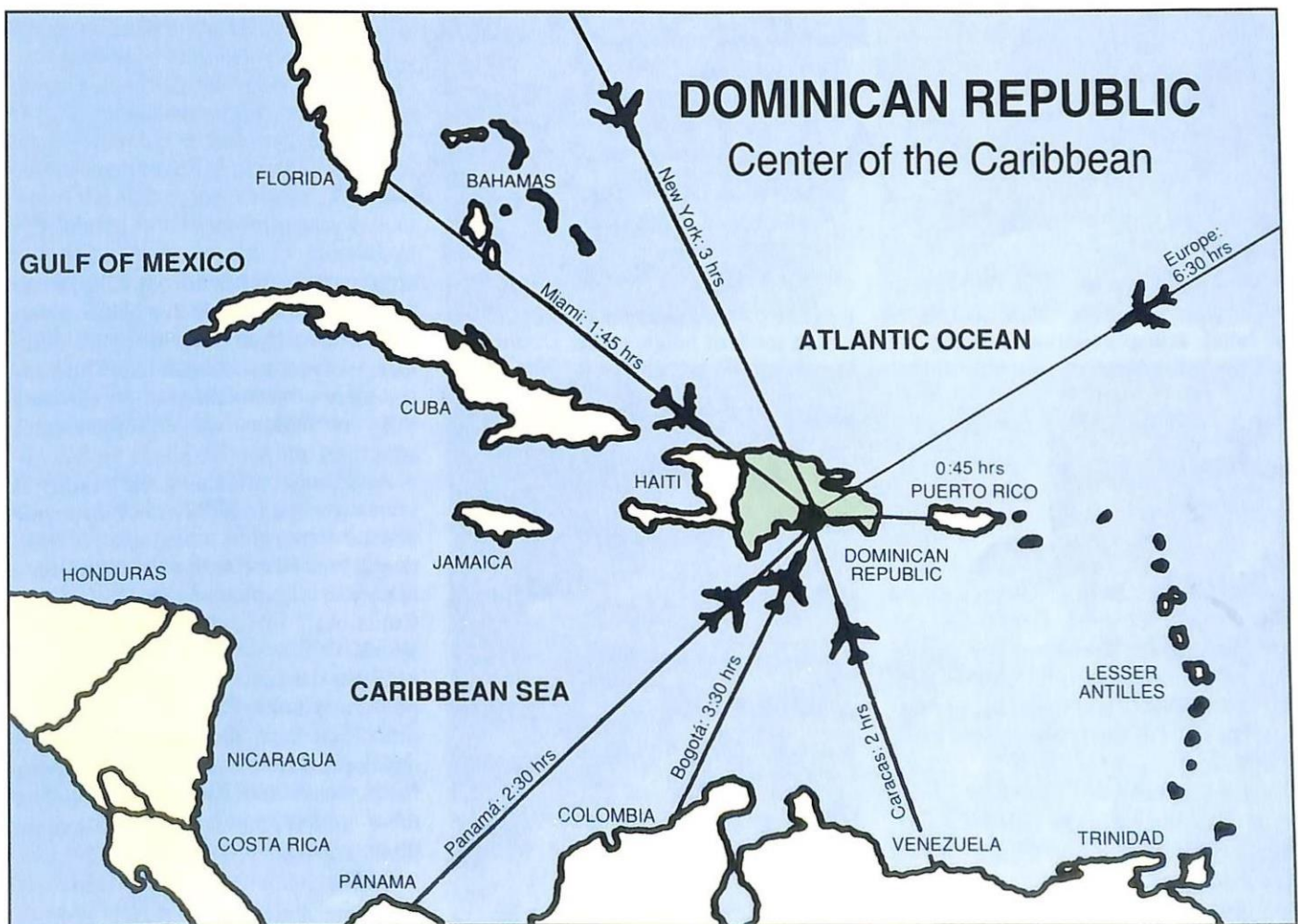
The tourism boom of the past ten years has opened up new transportation routes,



with regular and charter airlines offering attractively-priced cargo space for transporting goods and produce to the Americas and Europe.

The telecommunications system is con-

sidered among the best in the Americas. Both GTE and Motorola, two of the main telecommunications companies in the United States, have large investments in the Dominican Republic.



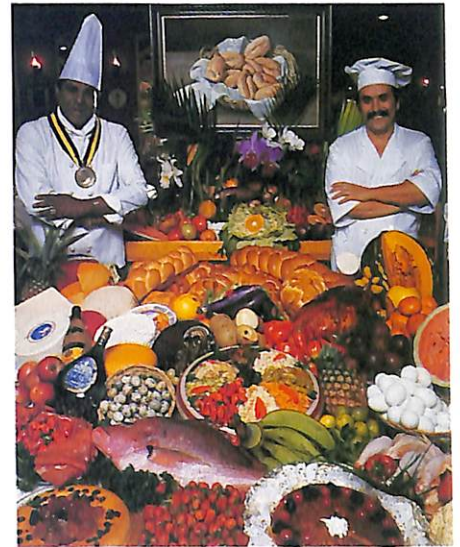
TOURISM

first cathedral and the Columbus Lighthouse, serves both business and leisure travelers. In the north coast area, Puerto Plata offers the most hotel rooms in the entire country, as well as areas with the most restaurants and tourist shops per square kilometer. Juan Dolio-Guayacanes, on the southeastern coastline, is also popular for its excellent weather, beaches and reasonably priced hotels. Bávaro-Punta Cana, on the east coast, boasts a white-sand beach that stretches for 50 kilometers. Samana, on the northeastern coast, is an up-and-coming destination known for the exuberance of its scenery. And on the southwest coast, with its spectacular panorama, Barahona is being billed as the destination of the near future.

The growth of tourism in the Dominican Republic has indeed been phenomenal, especially when considering that the nation received barely 90,000 visitors in 1970 and had only 1,200 hotel rooms. Two decades later, 28,000 hotel rooms are expected to welcome over two million tourists from all around the world, attracted by the friendliness of the Dominican people, the excellent year round climate, pristine beaches and high value per U.S. dollar. Despite the increases in hotel room supply, the country has maintained an average occupancy of over 70% during recent years, one of the highest in the region.

While the initial boom in hotel construction was mainly funded by Dominican investors, in the 90's foreign interests are taking the lead now that the country is firmly established as Europeans' preferred Caribbean destination. Several major Spanish, German and French hotel groups, including Grupo Sol, Spain's largest hotel chain, have built hotels in the past three years, spurring new European interest in investing in the future of tourism in the Dominican Republic. They join U.S. companies such as Stouffer-Renaissance, Sheraton and Inter-Continental that already have operations here.

The tourist boom has benefitted the island in a number of ways, particularly in generating foreign exchange and employment. The industry generated US\$1.1 billion worth of foreign currency in 1994, approximately 43% of the total exports of goods and services. Today, tourism is the third largest employer in the nation, only behind agriculture and the industrial free zones.





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The Dominican Republic is positioned to become the Caribbean Tiger.

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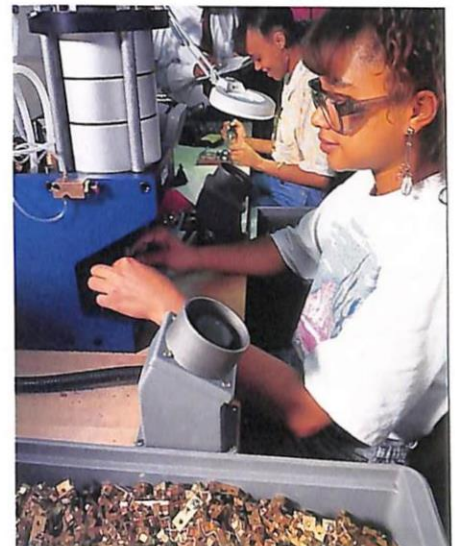
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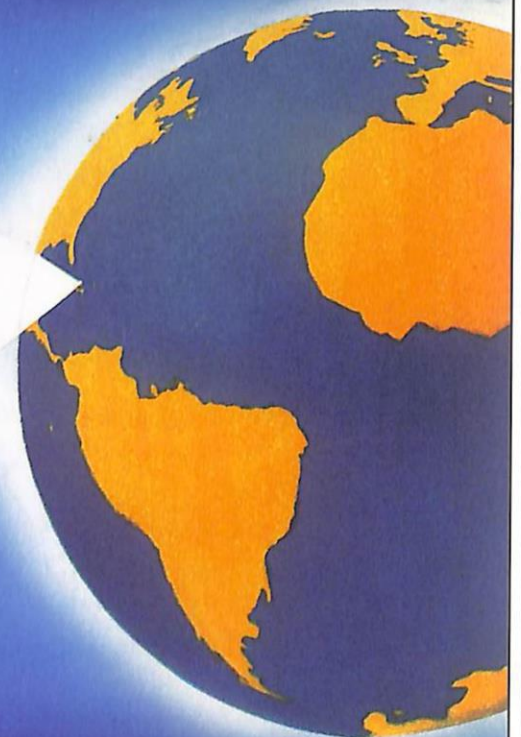
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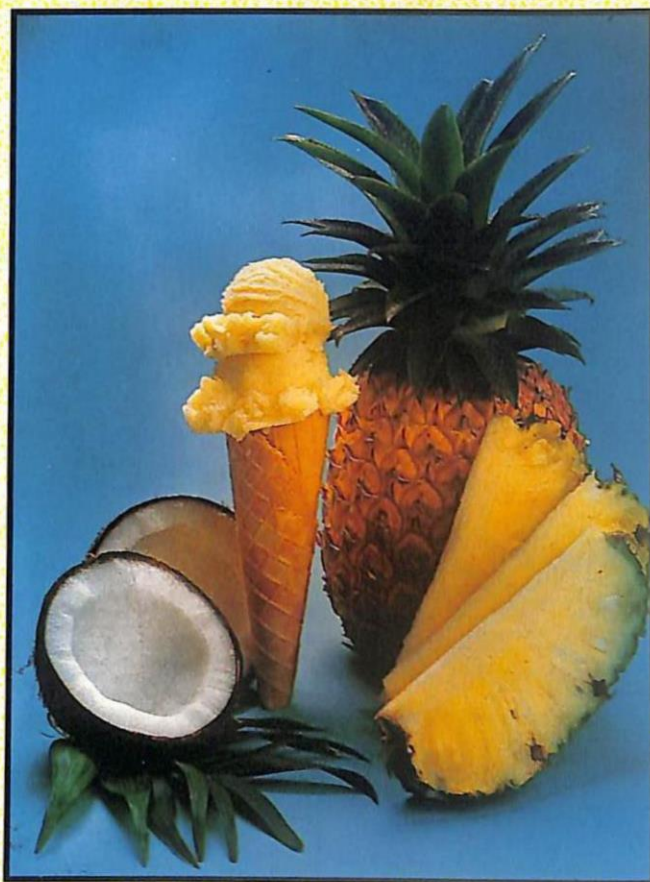
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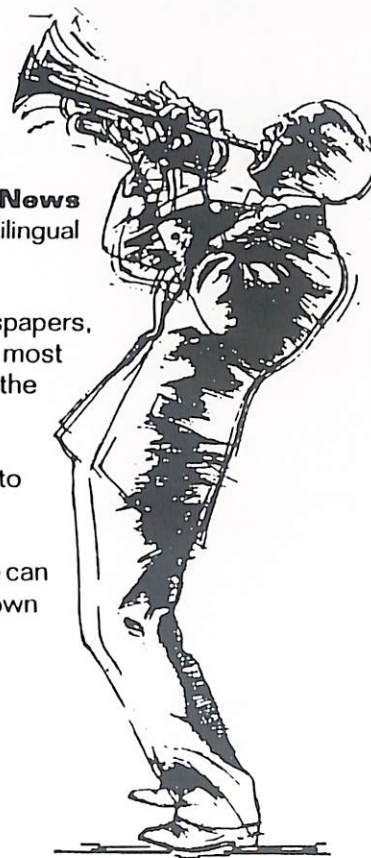
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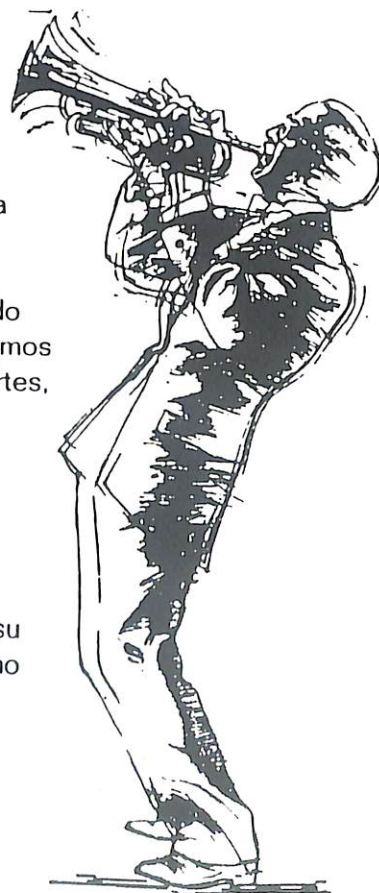
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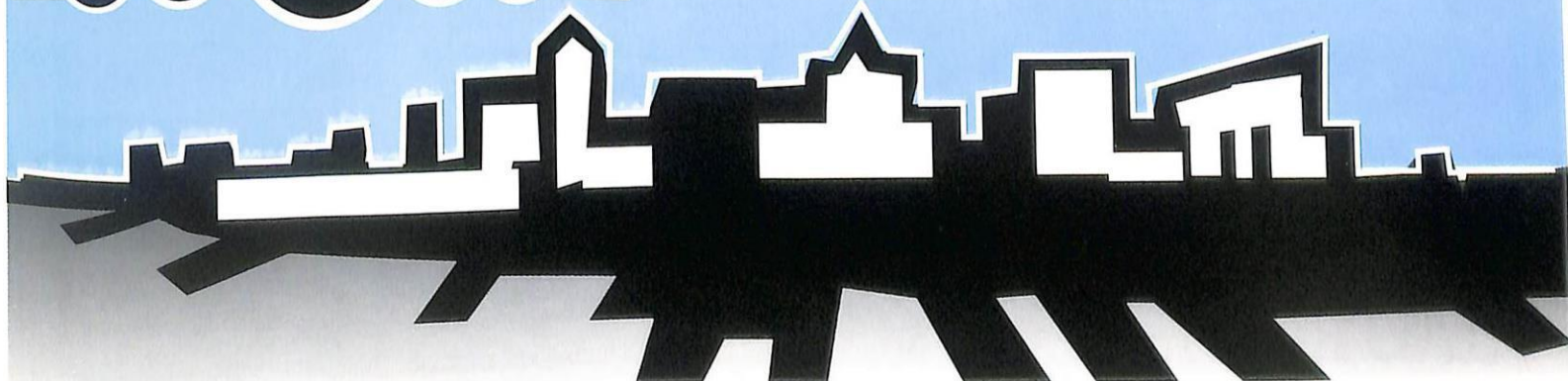
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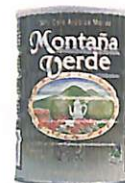
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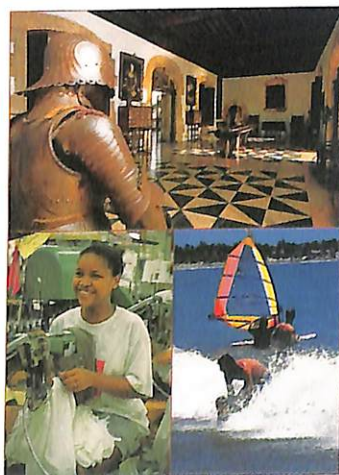
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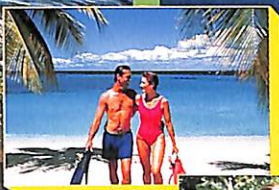
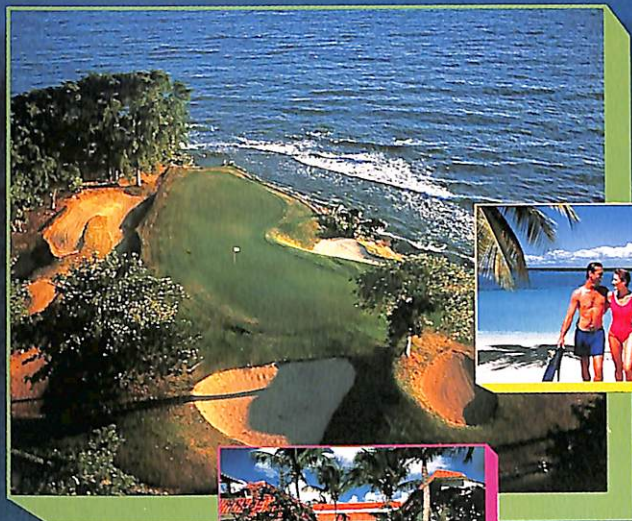
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