

F
RD
2239
1981
0317E

**THE INTERNATIONAL SITUATION: A CHALLENGE TO THE
DOMINICAN REPUBLIC'S ECONOMY**

*Speech Delivered By
Mr. Carlos Despradel,
Governor of the Central Bank of the
Dominican Republic*

American Chamber of Commerce of the Dominican Republic
Monthly Luncheon – March 17, 1981
Santo Domingo, D. R.



CENTRAL BANK OF THE DOMINICAN REPUBLIC
(COURTESY TRANSLATION)

THE INTERNATIONAL SITUATION: A CHALLENGE TO THE
DOMINICAN REPUBLIC'S ECONOMY

SPEECH DELIVERED BY MR. CARLOS DESPRADEL, GOVERNOR
OF THE CENTRAL BANK OF THE DOMINICAN REPUBLIC

AMERICAN CHAMBER OF COMMERCE OF THE DOMINICAN REPUBLIC
MONTHLY LUNCHEON - MARCH 17, 1981
SANTO DOMINGO, D. R.

BANCO CENTRAL DE LA REPUBLICA DOMINICANA

BIBLIOTECA

97-397

17/12/97

Don.

THE INTERNATIONAL SITUATION:

A. CHALLENGE TO THE DOMINICAN ECONOMY

A distinguished and dear friend, in a recent speech on social and economic matters, stated that when he was asked to talk, two approaches came to his mind: one of them commanding, rough and prophetic, like the Sermon of the Seven Words pronounced by Jesuit priests of the modern theology of liberation; the other, optimistic and encouraging, - like the traditional address given by the Governor of the Central Bank before the American Chamber of Commerce.

Personally I have been involved in the formulation of policies adopted by the Central Bank which have been presented before this chamber by former governors and although I recognize the optimism shown in their speeches, it is because they had the conviction, as I do, that our country, with its valuable natural resources, has a viable economy and consequently it is our inhabitants who decide if they are ready to responsibly face the challenge of development.

For this reason, through these traditional speeches, the Governor of the Central Bank has always aimed at giving, not an optimistic view, but a real panorama on the behavior and

outlook of our domestic economy, so that we all have a precise idea about the attitudes and responsibility that we should - assume to face our common problems.

I recognize that this task is at present more complex than ever, because of the social and political changes that inevitably are occurring in the world and especially in the developing countries, and because these changes are taking place in what qualified international authorities have recognized to be the worst world economic crisis since the Great Depression of the thirties. Therefore we believe that the analysis of our country's economy which we are presenting today, must depart from the following considerations.

In the first place, it is necessary to stress that each time that the Dominican people have been given the opportunity to freely express their mind, they have stated, overwhelmingly and categorically that they wish to live and to carry out their activities within a democratic regime based on free enterprise.

And when I refer to the Dominican people, I do not speak exclusively of those present who constitute the most favored segment of this system, but of the great majorities, the low income groups who, facing deprivation and misery have preferred,

up to the present time, to live with the hope of enjoying the benefits which only a democratic system can offer, and not - within a regime that, although it could cover their basic needs, denies the most essential condition of mankind, his liberty.

I strongly believe that it is an unavoidable responsibility of all of those who are here today, to dedicate all our efforts to realize the hopes of this underprivileged class. Should we fail in this task, if we are inconsistent with our own principles, then we would be creating the basis for the - destruction of the free and democratic regime that we have chosen to direct the destiny of this nation.

The consolidation of such a democratic regime, which has been considerably strengthened during recent years, will depend on the success of incorporating that stratum of the population in an increasing way into the productive process. This will be, in turn, a direct consequence of the strengthening of the group of emerging and potential small and medium entrepreneurs, and which, together with those already firmly established, constitute the base for the economic, political and social system of the country.

In the second place, the changes that are increasingly occurring in the international economic order necessitate the introduction of policies of domestic adjustment, not only in the Dominican Republic but also world wide, which demand the sacrifice and understanding of the citizenship, if we really wish to resolve the present problems.

This means that, in addition to the severe repercussions generated by the increase in oil prices, world inflation and the decrease in the demand for our principal export commodities, should be added those produced as a consequence of the unavoidable domestic policy adjustments to our economy, intended to strengthen it and to reach a fairer distribution of the benefits of development.

The need to face this global issue constitutes a challenge to the intelligence, foresight and the decision making ability of our generation.

It is imperative that we understand that our economy is passing through a period of restrictions, product of the international situation and of our own domestic problems, and that this situation cannot be faced with a defeatist pessimism, but

with a realistic approach, in line with our limitations and potential and also with a clear concept of our true desires.

If we, who have the responsibility of conducting the national economic policy, fail to communicate these fundamental ideas to the Dominican people, no matter how great our theoretical capacity, our experience, our conscious and honest dedications, our work and our effort, we would be unable to reach the results that, I am sure, we all wish to achieve.

It is for this reason that throughout this speech, I will try to confine the analysis of the economic situation of our country within the considerations that we have just presented. These constitute the basic criteria for our interpretation of the fundamental Dominican problems, and the principles that orientate our conduct as a public official and professional who has dedicated the majority of his life to the study of these problems and the search for solutions, mainly in the monetary, credit and exchange policies of the nation.

THE WORLD ECONOMIC CONTEXT AND DOMINICAN DEVELOPMENT.

On several occasions I have stated that the insular character of our country, which has conditioned our economic evolution in the past, and also the social and cultural formation of our people, has determined that many times there is not a clear view of the phenomenon of economic interdependence and its place in the contemporary world.

On very few occasions do we perceive the fundamental causes of the changes produced in our habits and customs.

Internal factors have an extraordinary importance in explaining what happens in the country, and in no way can these be considered in an isolated context, if we really want to fully understand the reason for what happens or does not happen, and if we desire to find solutions to the obstacles that impede the real development of a country.

In our case, the efforts to assign priorities and resources depend, today more than ever, on the international situation, because the Dominican Republic has an economy with a narrow market, with a limited availability of arable land and with a high dependence on outside factors.

All reports on world economic developments and outlook are extremely discouraging; the press, specialized periodicals and recent economic investigations coincide in qualifying today's economic problems as serious, stressing that it is in the oil importing developing countries, where these problems are most seriously felt. Projections made by the World Bank foresee that economic growth in the first half of the eighties will reach only 2 percent per year, in these countries, while in the last half, growth is projected at only 2.3 percent.

The average rate of inflation of 35% in the developing nations is extraordinary. In addition the total deficit in the current account of their balance of payments rose from US\$29 billion in 1978 to US\$65 billion in 1980, mainly due to the major increase in their oil imports which have doubled in the last two years, increasing from US\$32 billion in 1978 to US\$67 billion in 1980.

It is obvious that continuous deficits of this magnitude cannot be maintained indefinitely. In the recent past, the majority of the developing countries have been able to finance these deficits by increasing their external debt as a temporary measure while all nations seek more permanent solutions

to this complex and unjust situation. We are aware that in the future such temporary solutions will not be sufficient as the amounts of external loans required would make the - growing debt service intolerable. This panorama is even more uncertain due to the fact that the industrialized nations, traditionally having surplus resources and providing funds required in the past by the developing countries, are nowadays facing the worst economic crisis experienced in the last five decades. This situation is clearly revealed when we review recent statements by government officials of those nations and various economic reports.

The German Minister of Finance, Count Otto Lambsdorff, stated on January 28th that "the times of the easy life have now passed, the German economy will not grow in 1981 and may even decline by 1 percent. A reduction of the US\$18 billion deficit in our current account is not foreseen". This could be the end of the so called German economic miracle.

In his address of February 5, the new American President, referring to the state of his nation's economy, indicated, "we are in the worst economic mess since the Great Depression".

He expressed that in the last two years the U.S.A. had experienced inflation rates of 13.3 and 12.4 percent , which last happened in World War I.

President Reagan went on to state that "since 1960 our Government has spent \$5.1 trillion; our debt has grown by \$648 billion and prices have exploded by 178 percent" He quoted that "in the same period mortgage interest rates increased from 6 to 15.4 percent". ;And this is happening to the great Northern nation!

In Japan, official preliminary statistics for 1980 show that the current account of the balance of payments registered a deficit of \$11.7 billion, mainly due to the increased oil bill which grew from \$42.6 billion in 1979 to \$66.7 billion in 1980; that is 53 percent of Japan's total imports last year. This, in turn, created a rise of 17.8 percent in the wholesale price index and partly explains the increased prices of Japanese merchandise imported by our country.

In the United Kingdom, preliminary estimates show that output declined by some 3.4 percent; the price index rose by 20.9 percent and unemployment increased nearly 2 percent.

Notwithstanding the world situation and outlook which are widely known through daily domestic and international press reports, some people tend to attribute the problems affecting our economy to assumed incapacity in the management of economic policies. Dissatisfaction, even inconformity, is expressed over our economic growth when on the contrary, an expansion of 5.6 percent in the G.D.P. should be considered as satisfactory, given the world panorama. The complaints about our 18 percent rate of inflation last year, do not correspond with reality when it should be understood that we are still in a privileged position in that respect.

We can understand these criticisms, but not admit them, when they come from those in the political sector. But when other groups of our society echo these criticisms without knowing that by doing so, they contribute to dissuade participation of the private sector in the economy, we must agree that the time has come to place wisdom, common sense and considerations before, and put an end to, those negative attitudes which do not contribute to the solution of our common problems.

These sectors, consciously or not, divert attention from and blur comprehension of our problems, and hinder the completion of the necessary changes that should be made to take our country out of this oppressing energy crisis.

Let us now direct our attention to the recent behaviour of our economy in the light of changes in the international situation, our prospects and the actions that must be taken in the immediate future.

RECENT DEVELOPMENTS IN THE DOMINICAN ECONOMY

National Product

The Dominican economy experienced a healthy rate of growth of 5.6%, at constant 1970 prices, in spite of substantial changes in the world economy. This meant that the rate of growth of the national product was greater than registered by the population, which in global terms is highly satisfactory.

This rate of expansion was almost entirely attributable to a 23% increase in gross domestic investment from the level of 1979, thus leading to favorable growth rates in the principal sector of the economy. The only exception was mining in which output declined by 14.5% in relation to 1979 as a result of a decline in the international demand for ferronickel and bauxite.

The agricultural sector grew at a rate of 4.5%, which would have been higher, had there not been a decline of 12% and 20% in the production of sugar cane and cocoa, respectively. Likewise, a breakdown of this activity into its various sectores shows that crop production grew by 2.8%, livestock by 7.5%, and forestry and fisheries by 6.3%.

The large increase in livestock production was largely -

due to a 6.4% and 11.3% expansion in production in the poultry and cattle-raising sectors, respectively, which more than offset the drastic reduction in the production of pork as a result of the swine fever outbreak. This is a clear demonstration of the quality and capacity of our producers.

Other major contributions to the growth of the national product were the manufacturing and construction sectors, whose growth rates in real terms were in the order of 5.5% and 7.5% respectively. Both rates of growth compare favourably with the increases experienced in these sectors in 1979.

Before going on to discuss other aspects of our recent economic development, I would like to make a short digression on a topic to which I attach special significance.

It has been argued in theory that the process of economic development is accompanied by the relative decline in the primary activities, principally the agricultural sector, vis a vis the industrial sector. This is generally true for the majority of countries that have reached full development, but is not necessarily true for those nations like our own, which are in the take off stage and have a comparative advantage in the agricultural sector, resulting from their natural resources and micro-climates.

On more than one occasion we have pointed out that the agricultural sector is the priority sector of our economy, due both to its role as a major source of foreign exchange through exports and that the majority of our population depend on it for their subsistence. Nevertheless, it is increasingly preoccupying to observe the declining contribution of this sector to the national product, which fell from 23% in 1970 to 17% in 1980. As our total production has increased more than in the agricultural sector the Central Government has given increasing attention and emphasis to this sector, and consequently the Central Bank has used its various instruments of monetary policy, especially through the FIDE fund, toward this end. In addition to the above policy, I would like to comment on some aspects that, in my judgement, should be modified if we are to attain long-term stable economic growth, namely, the structure of our domestic supply and demand.

In 1960, personal expenditures on imported consumer goods and services amounted to only 14% of total expenditures while personal expenditures on locally produced goods accounted for the remaining percentage. This situation, however, has undergone a substantial transformation as a result of some important shifts in the patterns of demand that have occurred in the last two decades. For instance, in 1979, imports accounted for 20% of total consumer expenditures on goods and services, thus re-

ducing by 6% the percentage of consumer expenditures satisfied by domestically produced goods. In like manner we can observe that over the same period, the share of exports in our national product declined from 21% to 16%.

This means, on the one hand, that we have become increasingly dependent upon imports to satisfy our needs and, on the other hand, that in relative terms fewer goods are destined for exports, which implies that domestic production has become more dependent on local than on external demand.

An economy like ours, characterized by a narrow market - cannot base its growth upon a limited domestic market. This necessarily means that we must increasingly orient our production to exports if we are to maintain a healthy and dynamic economic growth. This conclusion acquires a greater significance when looked at in the light of the challenge created by the imperative need to increase exports and/or reduce imports.

I am a firm believer in the idea that we can obtain great benefits from the external sector not only if we orient our production to exports, but also if we substantially reduce our non-essential imports or, at least, those goods and services that can be produced locally in the short and medium term.

Hence, we must increasingly satisfy our needs through domestic production provided that this process of import substitution does not lead to a shift in our demand for imported raw materials. It is for this reason that the private entrepreneurs should understand that the long term stability of their activities depends to a large extent upon their ability to increase the proportion of exportable goods by availing themselves of the export incentive law, and their ability to reduce their dependence on imported inputs. Even though this may appear to be a theoretical exhortation, it follows an eminently practical concept within the perspective of the world economy. Furthermore, it is our firm belief that this may be the only way to guarantee rapid and stable growth for our economy without allowing bottlenecks in the external sector to jeopardize our growth.

Monetary and Financial Aspects

Although money supply in the first half of 1980 exhibited rates of growth considerably higher than those recorded in comparable periods in the past, by the end of the year the rate of growth was of the order of 14.3% relative to 1979, well within the Central Bank's desired target range for this variable.

This was due, fundamentally, to the restrictive effects of the measures adopted by the Monetary Board in the month of August. The pursuit of a restrictive monetary policy resulted in a lower rate of inflation and a smaller balance of trade deficit than would have been the case if the previous rate of growth of the money supply had been maintained.

Similarly, the strict implementation of a balanced budget on the part of the Central Government and the cautious credit policy of the Central Bank were determining factors in the achievement of the above mentioned results. It is clear that without the adoption of these measures, we could not have controlled the growth of the money supply and adjust it to the real needs of our economy.

It is important to point out at this juncture that internal Central Bank Credit expanded by 22.8% in spite of the restrictive measures adopted by the Monetary Board to maintain monetary stability. This growth in Central Bank credit made it possible for the commercial banks to expand their loans by RD\$195 million in relation to 1979, of which 80% directly benefited the private sector. In addition, Mortgage and Development Banks, and the Savings and Loans Associations increased their loans by 31% in relation to 1979.

Notwithstanding this favorable increase in credit there is still pressure for a greater expansion of the money supply. Although it is generally true that an expansion of the money supply leads to high levels of economic activity, monetary policy cannot be conducted in isolation of the need to preserve internal and external equilibrium, since if this was not the case all economic problems could be solved by simply increasing money supply in order to increase production.

Unfortunately the economic system is more complex than that, and even more so in the Dominican Republic, where industrial production largely depends upon imported raw materials, and therefore higher production levels lead to higher import levels.

For more than ten years a group of Dominican economists has repeatedly insisted on the need to reduce the dependence of our industrial sector on imported industrial raw materials. By now, what we have been preaching for so many years is widely understood; nevertheless, we must keep progressing but without losing sight of the need to maintain an equilibrium between industrial growth and internal and external balance.

In 1980 the proportion of banking credit financed by Central Bank resources amounted to 38% of the total thus indicating

the need to reorient certain basic instruments of monetary - policy toward greater domestic savings, therefore reducing dependence on Central Bank resources.

These measures cannot be postponed any longer, as the simple observation of the amount of Central Bank credit in relation to the total banking credit, and the low growth in commercial bank deposits relative to the increased credit portfolio, demonstrates the need to take action in this respect.

Even though the Central Bank's credit facilities are assigned to priority activities, a healthy financial system cannot base its growth entirely on Central Bank financing, for such a practice leads to an excessive expansion of the money supply and the consequent pressure on domestic prices and imports while at the same time discouraging the use of domestic savings by our financial institutions.

The 22.8% growth in internal Central Bank credit mentioned above, was oriented primarily toward those sectors having the greatest incidence on production and to satisfy the most urgent financial needs of the Corporation Dominicana de Electricidad. For this reason rediscounts were kept at the same level as in 1979, and it is our intention to keep this credit instrument within the same limits during the current year.

All of the above means that the largest share of internal Central Bank Credit is being channelled through the FIDE and INFRATUR funds. We are firmly convinced that these two institutions are basic pillars of the economic development of our country.

This belief has led us, as far as FIDE is concerned, to introduce new guidelines that will keep FIDE's credit policies in line with the real financial needs of our economy.

We have never opposed the development of large industrial concerns, on the contrary, we believe that such productive units play an immensely important role in the development of the economic system of our nation, but we also believe that it is essential for the orderly development of the system, to strengthen the financial support that we have been offering to small and medium sized enterprises through the FIDE fund. This financing mechanism used by FIDE is geared not only to increase the number of final beneficiaries, but also to reduce the concentration of economic activity in the capital city. There is no doubt in our minds that the incorporation of this emerging entrepreneurial class to the mainstream of economic life reinforces the foundations upon which the economic future of our nation rests.

This philosophy was implicit in the activities undertaken

by the FIDE fund in 1980, since in that year RD\$70 million in loans, benefiting 1918 productive units, were approved and disbursed. A breakdown of this total shows that the industrial sector received RD\$25.4 million including RD\$6 million through the Corporación de Fomento Industrial for the benefit of more than 200 small firms.

In the agricultural sector RD\$23.4 million was allotted, benefiting 1,328 farmers distributed between 315 direct beneficiaries and 13 cooperatives with 1,013 producers. The cattle raising sector received RD\$21.3 million which benefited 301 cattle farmers distributed between 288 direct beneficiaries and 2 cooperatives with 13 producers.

The monetary authorities have been very cautious in the administration of these development funds, and for this reason we have closely followed the development of projects financed through the FIDE fund. Notwithstanding our careful management of these funds, we have recently decided to undertake a comprehensive evaluation of the incidence that these projects have had on the cattle-raising and small industry subsectors since by no means will we permit that these programs will be demagogically interpreted. To make possible this evaluation, we are formally requesting the assistance of

several United Nations agencies such as the United Nations Organization for Industrial Development, as well as the Food and Agricultural Organization.

I would like to take this opportunity to stress the role the different financial institutions have played in preserving the orderly development of the financial system. We must acknowledge with pride and satisfaction the soundness, stability, and degree of development reached by our financial institutions. With the twin objectives to guarantee the continuous stability and financial solvency of these institutions, the Monetary Board enacted last year a series of guidelines and criteria for the establishment and operation of commercial bank and financial development associations.

Also these guidelines were orientated to stimulate a better regional distribution of credit and banking services. For instance, we can mention the exoneration from minimum capital requirements for commercial banks willing to establish branch offices in regions previously lacking those facilities, as well as the exemption from legal reserve requirements on deposits made in those branches.

DEVELOPMENTS IN THE FOREIGN SECTOR

From the very beginning I have been stressing the impor-

tance of external factors on our highly open economy. This importance must be repeatedly emphasized since the disequilibrium of the external sector is precisely one of the main constraints to our country's development.

According to preliminary data, our trade deficit amounted to \$463.8 million in 1980 resulting from commodity exports of \$962.0 million and imports of \$1,424.8 million. However, the deficit in the current account of our exchange balance, that is, the transactions which are effected through the Central Bank, was \$278.3 million which is much less due to transactions made through the parallel market. The current payments deficit was partially financed by net private and public capital inflows amounting to \$115.7 and \$63.9 million respectively. The remainder was mainly compensated through banking sector net capital inflows of \$79.3 million.

The trade deficit developed in spite of an increase of 11 percent in our exports and of the monetary measures to limit the growth of imports.

Higher sugar and gold prices in 1980 basically accounted for our export growth, since these two commodities by themselves registered an increase of \$227 million over previous

year's earnings, more than offsetting the decline of other traditional items.

In this respect, coffee earnings fell by \$90 million as export volume declined around 50 per cent as a result of - hurricane damages, and at the same time, world prices declined approximately 20 per cent. Likewise, cocoa earnings decreased by \$22.1 million due to a reduction of 6 per cent in volume, aggravated by a pricefall of 25 per cent compared to 1979. Exports of tobacco experienced a similar behavior as volume fell by 51 per cent on account of marketing problems, producing a decrease in earnings of nearly \$20 million.

On the other hand, imports of goods increased by \$371 million last year due principally to the oil import bill that rose to \$448.8 million, or \$113.9 million over the preceding year. Other factors influencing import growth were the increase in the inflation rates prevailing in trading partner countries and the sizable expansion registered by the money supply during the first seven months of 1980.

The effectiveness of the policies adopted by the Monetary Board since last year has been recently questioned. Some argue that the adjustment measures have led to economic stagnation;

others, that they have not attained their goal. These arguments are not consistent with the evidence as demonstrated by the following facts: In the period March-July 1980, the average monthly imports amounted to \$131 million, while in the subsequent five months since August, when the measures were enforced, this average declined to \$112 million, thus producing foreign exchange savings of nearly \$100 million.

In the same manner, if we consider the payments approved by the Central Bank's Foreign Exchange Department, they show a reduction of \$33 million per month on average, falling from \$141 million in the period March-July, to \$108 million in August-December 1980.

From the above we can infer that the argument about the ineffectiveness of the monetary and exchange policies is rebutted. On the other hand, the stagnation argument is also invalidated by the fact that our economy grew by 5.6 per cent in real terms, and by the banking credit expansion of over 18% in 1980.

However, the demand for imports from the official exchange market was burdensome. In effect, imports of capital goods considerably surpassed those of 1979: for instance, agricultural machinery imports grew by 104 percent; industrial equipment by

52 percent and construction equipment showed a 49 per cent increase, in spite of the enforcement by the Monetary Board in May of a prohibition to import these goods through the official exchange market.

Raw materials import payments through the official market increased by 40.1 per cent in 1980, and the major share corresponded to oil and oil by-products which were responsible for 50 percent of this increase. The breakdown of variations registered by major components in this category shows that payments for agricultural raw materials grew by 85 percent; organic and inorganic chemicals, 62 per cent; iron and steel castings, 62 percent; inputs for the canning industry, 55 per cent; and foodstuffs, 43 per cent. These data are evidence that our country's level of output and expenditure is much higher than in the past, since the above mentioned imports grew at a more rapid pace than inflation in our supplying countries.

Summarizing, taking into account all the country's international transactions during 1980, the global balance of payments, measured as the variation of the net international reserves of the Banking System, resulted in a deficit of \$116.8 million.

COST OF LIVING

During the first quarter of 1980, and derived from the impact of hurricanes David and Frederick, the cost of living rose considerably and the average rate of inflation reached 23 percent. However, a gradual reduction has taken place - since then and in November the rate had declined to 18.1 percent.

Factors influencing this reduction in the rate of inflation include the abundant crops in the last quarter of 1980, larger food imports by INESPRES (Institute for Price Stabilization) and the adjustment measures adopted by the Monetary Board to control excessive growth of money supply and banking credit, which obviously diminished the domestic demand pressures.

It is worth mentioning that a significant proportion of the increase in the inflation rate stemmed from the revision of prices for certain basic staples under official control, such as rice, milk and others, as an incentive to make their production more profitable. These policy measures had been postponed for several years and form part of the adjustments enforced in 1980 to stimulate output.

Similarly, owing to oil price increases, the government adjusted

prices for gasoline, and other by-products such as gas-oil and propane for household consumption. These adjustments also contributed to the increased inflation during 1980.

It is important for all to understand that prices cannot be controlled only by our policy makers. They depend, and more so in an open economy like ours, on the rate of inflation in the rest of the world. What I can assure you is that one of the basic goals of monetary policy will continue to be keeping prices at the lowest possible level as allowed by the international economic situation.

ECONOMIC OUTLOOK AND ACTION OF THE CENTRAL BANK

After having indicated to you some of the achievements as well as the problems faced by our country during the past year, we wish to dedicate this section to examine some basic ideas on which we are basing our economic outlook for the nation and the principal economic guidelines that the Central Bank proposes to implement in the short and medium term.

World economic outlook will undoubtedly condition our perspectives, as will the policies adopted by developed countries to face their economic problems.

For instance, our increasing imports bill and trade deficit have been and will be closely linked with the rising prices of imports, that is to say, with inflation in the developed world. If inflation is brought under control in those countries we will indirectly solve part of our problems.

Similarly, the issue now under discussion in the American Congress about future contributions to international financial institutions, to which in our opinion the USA is pledged, is decisively important to us, as many development projects in our country have and will continue to be funded by these organizations. If restrictive ideas predominate in Congress, developing countries such as ours will lose an important source of financing already included in investment programs.

In addition to the above mentioned, our economic outlook will be conditioned by other developments in the world economy such as the pricing policy of OPEP. This is a matter of great concern as each one percent increase in oil prices means an additional US\$5 millions to our oil bill.

There is no doubt that these elements and circumstances make up an external challenge of unpredictable consequences. But, history has demonstrated that individuals and people always face challenges by strengthening their internal unity and by taking upon themselves the great decisions and responsibilities that the circumstances impose.

This implies that our private sector will consciously adapt their individual expectations to the global needs of our nation. I am sure that this country can succeed in this task if we all face this challenge with intelligence and imagination.

Hence, government, entrepreneurs and individuals must increase their efforts and actions, which in our opinion, should be directed in three major complementary aspects:

- a) The generation of increased foreign exchange;
- b) Reduction of non-essential imports and import substitution of basic staples; and
- c) Developing our own sources of energy.

Let us now briefly examine our potential in these areas and what the Central Bank is doing and proposes to do in this respect.

Recently, a major gold field was discovered adjacent to the area now exploited by Rosario Dominicana, which will assure prolongation of the useful life of the mine, thus positively influencing our gold exports in the short and medium term.

Furthermore preliminary results of gold exploration in other areas, foresee a further increase in our production and export of this precious metal in coming years.

Also, in the immediate future, our country has favorable conditions to expand its traditional export items, such as sugar, coffee, cocoa and tobacco, which have been the major source of foreign exchange earnings up to the present time.

Aware of this fact, the Central Bank is giving financial support through the FIDE fund to initiate rehabilitation of coffee and cocoa plantations, originally programed by the Secretariat for Agriculture, which are expected to be funded by a World Bank loan now under negotiation, thus assuring a rise in productivity of these two traditional export commodities.

Likewise, because of the extraordinary importance of sugar manufacturing on our economy, the government has decided to implement an integrated rehabilitation program of the Consejo Estatal del Azúcar (State Sugar Council) on which will depend not only a significant proportion of future exports but also a large proportion of our working population.

All these actions must be implemented in the shortest possible term, otherwise some of our industrial plants may be forced to temporarily close down operations, which will have

unforeseen consequences. For this reason, and because of the need to strengthen the country's export sector, we wish to exhort our legislative authorities to reconsider the financial requirements for execution of this program with the urgency demanded by the circumstances.

If we add to the above, the potential expansion to exports of non-traditional items, as a result of the Export Incentive Law we can expect a favorable effect on our short and medium term exports. In this respect, I am pleased to announce that the Monetary Board has already authorized the exchange incentive to many products, which are now benefiting from foreign exchange reimbursements granted to exporters having fulfilled the necessary requirements to receive those incentives. However, the responsibility to increase these export items in the future will depend upon our private sector. All the necessary conditions for this to occur have now been given by the official sector. It is now up to you.

Another important source of foreign exchange not yet fully taken advantage of, and which has wide possibilities of growth in the short and medium term, is the tourism sector. Our country has the best conditions in the Caribbean for the developing of this important sector, as we enjoy a

peaceful, quiet and secure environment and attractive domestic prices which give us a comparative advantage, in addition to the natural beauty of our land, a favorable climate and the admiring friendliness of our people.

We are proud to inform you that progress of the tourism project sponsored by the Central Bank of the Dominican Republic on the North Coast of the Island, is highly satisfactory. Internationally well known hotel operators have expressed their genuine interest to participate in this project and negotiations are well advanced for the construction of two large hotels, which will considerably increase the supply of room accommodations.

Furthermore, the facilities actually operating have experienced a 100% occupancy rate during this winter season, which we estimate will continue at least until May.

It is necessary that the private sector of the Dominican Republic must be made aware of the extensive investment opportunities offered by tourism and, therefore, participate more actively in this promising sector.

The second aspect in which we believe our efforts must be concentrated results from the concept that the over 49%

growth rate of our imports during last year is intolerable and we must all have a clear idea that such an event must be prevented in the future.

In the recent past the Monetary Authorities have adopted measures directed to decrease the previous trends of our imports. To this effect, imports of machinery and equipment were transferred to the parallel exchange market, the requirement of advanced payment for certain goods, imports of which had increased by 80%, was established, and other measures were adopted by controlling the money supply. No other similar steps are contemplated to be adopted by the Monetary Authorities in the near future, unless an unexpected situation should arise, since we understand that the present provisions will considerably reduce the unusual increase in imports experienced last year.

Some persons have recently speculated on the devaluation of our currency. In this respect, we wish to reassert definitely that in the Dominican Republic, this mechanism of economic policy would have neither justification nor practical use. Actually, contrary to what occurs in exporting countries of highly competitive manufactured goods, our exports, mainly sugar, gold, silver, coffee, cocoa and other traditional exports, would not be stimulated by such action. On the other hand, in our country

these goals have been attained through implementation of much more appropriate measures.

Therefore, if there is one point of agreement, not only among our economists, businessmen and politicians, but also by government and monetary authorities, it is that a devaluation is neither required nor advisable in the Dominican Republic.

It is timely to mention at this point that in the Central Bank's opinion, after the month of April the delays in foreign exchange payments will gradually decrease, since from that month onwards we shall begin to receive sugar export earnings, which have been almost nil during the first quarter of 1981, due to the fact that the sugar corporations committed their deliveries for late March and subsequent months.

But the group of actions taken will not achieve their intended goal unless they are complemented by a change in the attitudes of our population. We must change our patterns of consumption in order to eliminate all the unessential items at this stage of our development. Foreign exchange, either from official sources or from the parallel exchange market, re-

presents a resource in short supply in our country and, therefore, must be assigned to cover priorities in the provision of the basic requirements of the economy and the people.

Furthermore, we believe that our country can and must reduce its present imports of some basic commodities. In this respect, Government authorities have been adopting a series of measures directed to establish the proper conditions to stimulate an increase in the domestic output of certain items. Effectively, domestic prices of specific foodstuffs such as rice, milk, peanuts and others, have been recently revised, in order to ensure a greater rate of return, which constitutes an important stimulus for import substitution of these commodities.

Action taken by the Central Bank in this field must be complementary, therefore, maximum priority has been assigned in the recently approved credit program of FIDE for 1981, for the agricultural and livestock sector, in which 67% of the total resources of \$70 million assigned for the present year will be used for agricultural and livestock financing. The use of these funds has been coordinated with the major officials in charge of establishing agricultural policy in the country and we have all agreed that funds will be channeled toward the most important commodities constituting the basic diet of our people,

such as rice, corn, beans and others which are under produced, with the purpose of reducing imports of basic foodstuffs, as well as to increase livestock raising, particularly for meat and milk production.

Another relevant aspect for the reduction of the import growth rate and for a sound development of the country's manufacturing sector, is for the private sector to direct its investments in industrial development in order to increase the use of domestic raw materials thus reducing its reliance on imported materials.

The concept I have just stated not only results from the foreign exchange point of view but also from our conviction that these firms would have greater stability if they were no longer subject to uncertainties of foreign raw material supply, while at the same time they would be increasingly contributing to the solution of the unemployment problem.

These guidelines are part of the government's industrial development policy, as evidence by the proposed Agroindustrial Incentive Law, submitted to the National Congress, in september 1979. This same concept is included in FIDE's Industrial Credit Program for the current year since we have assigned the amount of \$23 million to be used accordingly.

Within the framework of the three kinds of actions we must take, perhaps energy is the one which will require the greatest efforts and initiative in order to solve this problem.

Our country is essentially dependant on oil imports for the development of all its activities. As evidenced by recent research, more than 80% of our electric power is oil generated and thus dependant on imports.

In this oil dependant energy situation, aggravated by the increases in oil prices and by uncertainties in supply, the decision adopted by the Dominican Government to adhere to the Agreement of San José, between México and Venezuela, was a most necessary action since we have consequently secured guaranteed oil supply and at the same time benefitted from about \$100 million financing over a period of 20 years, at the rate of 2% per annum. These resources must be used in implementing major development projects, basically linked to the energy sector. As of today, over 30 million dollars have been received under the agreement with Venezuela and deposited with the Central Bank. Therefore, we are fully convinced that the negotiations carried out were very favorable to the country.

We are convinced that the economy has been correctly directed: emphasis has been made on the agricultural and livestock

sectors, in geographical decentralization of economic activity; export incentives, restriction of imports of goods that may be locally produced, increases in the prices of some basic commodities in order to ensure a greater rate of return on their production, revision of the electricity tariffs, as well as an increase in the domestic price of oil and oil by-products, the collectivization of public transport, a careful monetary and fiscal policy, the nationalization of our gold mine, and rational use of resources from international credit institutions, are some of the steps taken and which we shall continue to adopt to guide our country through the paths of development. However, we must admit that it could be argued that these measures have not been implemented, as much as demanded by the present situation, but the question should be asked if this moderation is not precisely what has maintained the political and social stability which we are enjoying and which is essential from any point of view.

In the short term therefore, the most important point should be to seek the mechanisms allowing us to gain time to look for more permanent solutions which would reduce the sacrifices that other well known solutions would require.

Hence, the Government of President Don Antonio Guzmán is concentrating great efforts in the search for oil in our country and to determine, with a view to their early exploitation, the extent of the coal deposits already located, which would permit the use of this fuel in some of our electric plants.

The prospects in the field of hidroelectric plants are - promising and with the utilization of this resource, together with other non-conventional energy sources, the country has the possibility of generating about 40% of its requirements in this decade. Obviously, this would require the assignment of considerable human and financial resources and the implementation of vigorous programs for the conservation of our present river basins.

In this respect, I am pleased to inform you that the Central Bank, in coordination with the National Institute of Hydraulic Resources and the Bureau of Forests, intends to finance and promote a conservation program of the vital hydrographic basins of the country, oriented to extend the estimate life time of the dams already constructed or under construction.

The "Plan Sierra" constitutes an eloquent example of what can and must be done in this respect.

To conclude, should I be asked what was the most important message in this speech, I would say the following: The Dominican Economy, as in the rest of the world, is facing a great challenge mainly resulting from the present international situation. This challenge is such that neither the public nor the private sector can successfully face it individually.

I am fully convinced that the Dominican Republic, confronting the future with courage and determination, will pass through this period of hardship with increased strength, since we have been taught by History that nations overcome difficulties, control them and shape their future according to their needs.

Thank you





