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BANCO CENTRAL DE LA REPUBLICA DOMINICANA

SANTO DOMINGO, R. D.

**Report to the Monetary Board
September 1984**

Samuel Montagu & Co. Limited

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BANCO CENTRAL DE LA REPUBLICA DOMINICANA

REPORT TO THE MONETARY BOARD

SEPTEMBER 1984

BANCO CENTRAL DE LA REPUBLICA DOMINICANA
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BANCO CENTRAL DE LA REPUBLICA DOMINICANA

REPORT TO THE MONETARY BOARD

SEPTEMBER 1984

INTRODUCTION

1. The purpose of this report is to give a brief account of
 - (a) progress since our last report in March 1984 in carrying out work which we have undertaken in collaboration with officials from the Banco Central under the agreement between the Banco Central de la Republica Dominicana and Samuel Montagu & Co.Limited. This is covered in paragraphs 2-9 below;
 - (b) the present status of the Agreement (paragraphs 10-12); and
 - (c) a proposal for a new advisory contract between the Banco Central and/or the Ministry of Finance and Samuel Montagu (paragraphs 13-15).

REVIEW

Foreign Debt

2. During the period under review we regularly kept officials at the Banco Central informed of developments in commercial bank reschedulings in the region. We also advised the Banco Central on the involvement of Latin American and Caribbean Central Banks in rescheduling exercises for both public and private sector borrowers and on the possible structure of a Dominican refinancing. Our telex on these last two matters is attached as appendix A.
3. At the request of the Banco Central we prepared and sent by telex a preliminary paper on the strategy which the Dominican Republic could adopt with respect to the rescheduling of its public sector debt to commercial banks. A copy of this paper is attached as appendix B. Subsequently during the visit by representatives of Samuel Montagu to Santo Domingo at the end of July, we also presented a draft paper on the preliminary steps to be taken in the process of renegotiating the Dominican Republic's foreign debt to commercial banks and bilateral creditors, a copy of which is attached as appendix C.
4. During the July visit we also advised the Banco Central on various aspects of Paris Club and bilateral negotiation procedures on which we submitted summary papers (appendices D and E respectively) together with copies of Agreed Minutes from other recent Paris Club negotiations.
5. In March 1984 we also prepared a paper at the request of the Banco Central on the treatment of letters of credit and the effects of an official devaluation on payments due under letters of credit and on arrears depending on whether or not pesos had been previously deposited with the Banco Central. (appendices F-1 and F-2).

Freeports and Foreign Private Direct Investment

6. We have prepared over the last year a detailed paper on the attractions to foreign investors of the freeports in the Dominican Republic in the form of a brochure. The details of the brochure have now been finalized and we have asked the printers to produce 2,000 copies as requested by the Banco Central.

7. We have identified over 200 potential interested parties to whom we will send the brochure on behalf of the Banco Central. However in the absence of an agreement between the Banco Central and Samuel Montagu any follow up will need to be done directly by the Banco Central.

Financial Report

8. As part of our obligations under the agreement between the Banco Central and Samuel Montagu, we updated the Financial Report on the Dominican Republic and sent the first draft to the Banco Central. A copy of this draft is attached as appendix G.

Training/Gold

9. In June 1984 Lic. Francisco Guerrero Prats-Ramirez, Minister-Counsellor at the Embassy of the Dominican Republic in London attended a course at Samuel Montagu on the structure and operation of the gold and silver markets. The training programme included a visit to Johnson Matthey's refinery.

STATUS OF THE CONTRACT

10. During our last visit to Santo Domingo we prepared a revised offer for the renewal of the contract between the Banco Central and Samuel Montagu. At the request of Governor Santos Taveras our offer was limited to the provision of advisory services on foreign debt negotiations with commercial bank and bilateral creditors, the preparation of the Financial Report for 1984 and training. A formal offer in the form of a contract was submitted (appendix H) to which a verbal reply has been received to the effect that the Banco Central lacks the financial resources with which to pay for such advisory services.

11. As a result and in view of the fact that the Government of the Dominican Republic intends to renegotiate a part of its foreign debt, and bearing in mind the foreign exchange position of the country, Samuel Montagu put forward three alternative suggestions for the renewal of the contract which would involve a lesser cost to the Banco Central (appendix I). Briefly, these are:

- (a) Samuel Montagu would advise the Banco Central on the renegotiation of its commercial bank debt for a smaller fee. All other matters would be treated separately on a case by case basis;
- (b) Samuel Montagu would seek external finance from a multilateral organization for the advisory contract; or
- (c) Samuel Montagu would negotiate a new advisory contract either directly with the Ministry of Finance, or jointly with the Banco Central and the Ministry of Finance.

12. In the absence of any response to our suggestions the contract expired on 31st August 1984. However, we believe that Samuel Montagu has a continuing role to play in the Dominican Republic and could be of service to the Banco Central in the following areas:

- (a) commercial bank negotiations;
- (b) official finance, including Paris Club negotiations;
- (c) gold;
- (d) foreign direct investment; and
- (e) training

PROPOSAL FOR A NEW CONTRACT

13. In view of the forthcoming debt negotiations we believe that Samuel Montagu can make a significant contribution to the efforts of the Republic in obtaining maximum debt relief on favourable terms. We therefore believe that a contract between Samuel Montagu and the Banco Central and/or the Ministry of Finance could initially be limited to the provision of financial advisory services on such negotiations, i.e.

- (a) debt negotiations with commercial bank creditors,
- (b) debt negotiations with bilateral creditors; and
- (c) the Financial Report to be distributed to the creditors.

As suggested in our previous offer to the Banco Central we would propose a fee of US\$14,000 per month with expenses reimbursable at cost. (See appendix H)

14. The possibility of obtaining finance from a multilateral institution for an advisory contract remains. However we should emphasize that the negotiation of such finance is usually protracted, and that if the Banco Central and/or Ministry of Finance wish to retain our services at an earlier date, an interim agreement would need to be concluded.

15. We remain ready to discuss the above proposal or any of its aspects, with the Banco Central.

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 ++++ POSSIBLE DUPLICATE MESSAGE ++++

14-MAR-1984

TO: THE CENTRAL BANK OF THE DOMINICAN
 REPUBLIC, THE DOMINICAN REPUBLIC.

ATTN: LIC. EDUARDO GARCIA MICHEL.

1. IN MY TELEX OF MARCH 12TH I PROMISED TO GIVE YOU A PROPOSED STRUCTURE FOR YOUR RESCHEDULING OF 1984 BANK MATURITIES AS WELL AS BACKGROUND ON ITS TERMS.
2. AS REGARDS STRUCTURE WE SUGGEST THAT YOU SHOULD ASK THE BANKS FOR ARRANGEMENTS ALONG THE FOLLOWING LINES WHICH WOULD COVER BOTH PUBLIC AND PRIVATE SECTOR DEBT.
 - (I) EACH ORIGINAL OBLIGOR WILL CONTINUE AS BORROWER AND NEGOTIATE ITS OWN LOAN AGREEMENT WITH BANKS WITHIN THE FRAMEWORK OF GENERAL TERMS AND CONDITIONS ESTABLISHED THROUGH NEGOTIATIONS BETWEEN THE BANCO CENTRAL AND REPRESENTATIVES OF THE BANKS.
 - (II) THE REPUBLIC WILL GUARANTEE EACH NEW LOAN FACILITY.
 - (III) THE CENTRAL BANK WILL NOT SIGN THE LOAN AGREEMENTS BUT WILL GIVE UNDERTAKINGS ON THE AVAILABILITY OF FOREIGN EXCHANGE FOR DEBT SERVICE PURPOSES.
3. THE ADVANTAGES OF THIS STRUCTURE ARE:
 - (I) THERE ARE PRECEDENTS FOR IT IN PERU, ECUADOR, ARGENTINA, MEXICO AND CHILE AS FAR AS THE PRIVATE SECTOR IS CONCERNED AND IN PERU, JAMAICA, MEXICO, ARGENTINA AND CHILE AS FAR AS THE PUBLIC SECTOR IS CONCERNED (SEE MY PREVIOUS TELEX). HOWEVER IT SHOULD BE NOTED THAT THE PRECEDENTS ARE AGAINST THE PROPOSED STRUCTURE IN COSTA RICA, ECUADOR, HONDURAS AND URUGUAY AS REGARDS THE PUBLIC SECTOR - IN EACH OF THESE COUNTRIES THE CENTRAL BANK HAS TAKEN OVER AS BORROWER FROM PUBLIC SECTOR OBLIGORS.
 - (II) THE PROPOSED STRUCTURE IS SIMPLE WITH THE ROLE OF THE CENTRAL BANK KEPT TO A MINIMUM. PRESUMABLY IT DOES NOT INVOLVE THE CENTRAL BANK IN SEEKING FURTHER PERMISSIONS FROM CONGRESS.
 - (III) IT REFLECTS THE REALITY THAT HAVING THE CENTRAL BANK AS BORROWER ADDS NOTHING BY WAY OF ADDITIONAL SECURITY TO THE BANKS THAT HAVING THE REPUBLIC AS GUARANTOR DOES NOT GIVE THEM. IF THE BANKS ARGUE, AS THEY HAVE DONE IN OTHER COUNTRIES' RESCHEDULINGS, THAT THEY NEED THE CENTRAL BANK AS BORROWER IN ORDER TO BE ABLE TO ATTACH THE COUNTRY'S ACCOUNTS ABROAD, THEN THIS POINT CAN BE COVERED IN A SIDE-ARRANGEMENT LETTER WITH THE BANKS AS A CONDITION PRECEDENT TO THE AGREEMENTS. IT NEED NOT INVOLVE THE CENTRAL BANK IN SIGNING THE LOAN AGREEMENTS THEMSELVES OR ASSUMING ALL THE OBLIGATIONS OF THE BORROWER.
4. THE MAIN DISADVANTAGES OF THE PROPOSED STRUCTURE ARE:

(1) THE ADVERSE PRECEDENTS NOTED IN 3 (1).

(II) THE FACT THAT NO COUNTRY TO OUR KNOWLEDGE HAS YET CHANGED THE STRUCTURE OF ITS REFINANCING FROM ONE YEAR TO THE NEXT (ALTHOUGH THERE IS NO REASON OTHER THAN CONSERVATISM WHY IT SHOULD NOT DO SO).

(III) THE FACT THAT THE DOMINICAN REPUBLIC AGREED ITS CENTRAL BANK AS BORROWER FOR THE 1983 RESCHEDULING, THE COUNTER-ARGUMENT TO THIS IS THAT THE 1983 RESCHEDULING WAS A SPECIAL EXERCISE INVOLVING A LARGE AMOUNT OF TRADE FINANCE ARREARS AND FOR THIS REASON THE CENTRAL BANK HAS TO BE INVOLVED AS BORROWER. IN 1984, THIS DOES NOT APPLY TO THE SAME EXTENT AND IT IS MAINLY MEDIUM-TERM MATURITIES THAT ARE BEING REFINANCED, SHOULD NOT DO SO).

5. ALTHOUGH THE DISADVANTAGES CLEARLY HAVE SOME FORCE WE BELIEVE THAT ON BALANCE IT WOULD BE WORTH PRESSING FOR THE PROPOSED STRUCTURE IN PARA 2. YOU COULD ARGUE THAT (A) THERE IS A MUCH LOWER AMOUNT TO BE REFINANCED IN 1984, AND THAT (B) MANY FEWER BANKS ARE INVOLVED, AND SO BOTH SUGGEST A MORE SIMPLE, INFORMAL APPROACH THAN HAD TO BE TAKEN IN 1983 (WHEN THE PROBLEM OF GETTING TRADE FINANCE BACK TO A NORMAL BASIS WAS PARAMOUNT).
6. AS FAR AS TERMS ARE CONCERNED THE FOLLOWING TABLE SHOWS THE MORE FAVOURABLE TERMS OBTAINED BY COUNTRIES IN THEIR SECOND ROUND OF REFINANCING AND/OR RAISING NEW MONEY.

| | AMOUNT (USD M) | MAT'Y (YRS) | GRACE PERIOD (YRS) | INT ABOVE LIBOR PA) | MARGIN (O/O) | INT MAR'N ABOVE PRIME (O/O PA) | FEES O/O FLAT |
|-------------------------|-------------------------|----------------|--------------------------|------------------------------|-----------------|--------------------------------------|---------------------|
| CHILE (NEW MONEY) | 1983 1300 1984 780 | 7 9 | 4 5 | 2 1/4 1 3/4 | | 2 1/8 1 1/2 | 1 1/4 5/8 |
| BRAZIL (REFINANCING) | 1983 4700 1984 5500 | 8 9 | 2 1/2 5 | 2 1/8 2 | | 1 7/8 1 3/4 | 1 1/2 1 |
| BRAZIL (NEW MONEY) | 1983 4400 1984 6500 | 8 9 | 2 1/2 5 | 2 1/8 2 | | 1 7/8 1 3/4 | 1 1/2 1 |
| PERU (REFINANCING) | 1983 380 1984 700(+) | 8 9 | 3 5 | 2 1/4 1 3/4 | | 2 1 1/2 | 1 1/4 3/4 |
| MEXICO (NEW MONEY) | 1983 5000 1984 3800 | 6 10 | 3 5 | 2 1/4 1 1/2 | | 2 1/8 1 1/4 | 1 1/4 5/8 |

(+) ESTIMATE

7. THE ABOVE TABLE CLEARLY ESTABLISHES A TREND TOWARDS MORE FAVOURABLE TERMS FOR BORROWERS AND WE THEREFORE BELIEVE THAT IT WOULD BE REASONABLE FOR YOU TO AIM FOR THE FOLLOWING, ALTHOUGH THE BANKS MAY NOT WISH TO CONCEDE THEM:

PERIOD: 8 YEARS (INSTEAD OF 6 YEARS IN 1983)
GRACE PERIOD: 4 YEARS (INSTEAD OF 2 YEARS IN 1983)
INTEREST PERIOD: 1 3/4 PCT OVER LIBOR (2 1/4 PCT IN 1983) OR
1 1/2 PCT OVER PRIME (2 1/8 IN 1983)
FRONT-END FEES: 3/4 PCT FLAT (INSTEAD OF 1 1/4 PCT IN 1983)

8. MY TELEX OF MARCH 12TH MAY HAVE BEEN BADLY TRANSMITTED. I THEREFORE REPEAT IT BELOW.

IN OUR TELEPHONE CONVERSATION LAST WEEK YOU ASKED ME TO LET YOU HAVE A DETAILED SUMMARY OF THE INVOLVEMENT OF THE CENTRAL BANKS OF THE LATIN AMERICAN AND CARIBBEAN COUNTRIES IN RESCHEDULING EXERCISES FOR BOTH PUBLIC AND PRIVATE SECTOR BORROWERS. AS YOU WILL KNOW, WHERE NEW MONEY HAS BEEN RAISED, THE CENTRAL BANK CONCERNED HAS ALMOST ALWAYS ACTED AS BORROWER, BUT IN RESCHEDULING EXERCISES THE PATTERN IS VERY MUCH MORE COMPLICATED. HOWEVER, EVEN FOR NEW MONEY FACILITIES THERE ARE TWO EXCEPTIONS TO THE RULE THAT THE CENTRAL BANK ACTS AS BORROWER - IN PANAMA, WHERE OF COURSE THERE IS NO CENTRAL BANK, AND IN PERU, WHERE A STATE-OWNED BANK (BANCO DE LA NACION) BORROWS AS AGENT OF THE REPUBLIC.

THE CLAREST WAY TO LOOK AT CENTRAL BANK INVOLVEMENT IN RESCHEDULING EXERCISES IS TO SEPARATE THE LARGER AND SMALLER COUNTRIES (AS WE HAVE DONE ON PREVIOUS OCCASIONS) AND THE PRIVATE AND PUBLIC SECTORS IN EACH.

(A) IN THE SMALLER COUNTRIES THE NORMAL PATTERN IS FOR THE CENTRAL BANK TO TAKE OVER PUBLIC SECTOR DEBT AS THE NEW BORROWER AND FOR THE NEW FACILITY TO BE GUARANTEED BY THE REPUBLIC. HOWEVER, THERE ARE IMPORTANT EXCEPTIONS TO THIS - JAMAICA AND PERU (SEE BELOW).

(B) IN SMALLER COUNTRIES PRIVATE SECTOR UNGUARANTEED DEBT IS OFTEN NOT INVOLVED IN RESCHEDULING EXERCISES EITHER BECAUSE THERE IS NO SUCH DEBT OR BECAUSE IT IS SPECIFICALLY EXCLUDED. THIS IS THE CASE IN JAMAICA, HONDURAS, PANAMA AND URUGUAY. IN SMALLER COUNTRIES WHERE PRIVATE SECTOR DEBT IS INVOLVED NO CLEAR PATTERN EMERGES. IN COSTA RICA PRIVATE SECTOR DEBT WAS TAKEN OVER BY THE CENTRAL BANK THROUGH A JOINT GUARANTEE WITH THE REPUBLIC. IN ECUADOR (SEE BELOW) THE CENTRAL BANK HAS ONLY BEEN INVOLVED WHERE NEW MONEY HAS BEEN PROVIDED. IN PERU, THE CENTRAL BANK PROVIDES AN UNDERTAKING ON THE AVAILABILITY OF FOREIGN EXCHANGE AS A CONDITION PRECEDENT BUT DOES NOT SIGN ANY LOAN AGREEMENTS.

(C) IN THE LARGER COUNTRIES THE NORMAL PATTERN FOR PUBLIC SECTOR DEBT IS FOR THE ORIGINAL OBLIGOR TO CONTINUE AS BORROWER WITH THE GUARANTEE OF THE REPUBLIC. THE CENTRAL BANK NORMALLY PROVIDES AN UNDERTAKING ON THE AVAILABILITY OF FOREIGN EXCHANGE. IT SOMETIMES SIGNS THE LOAN AGREEMENT BUT ONLY IN RESPECT OF ITS UNDERTAKING TO MAKE FOREIGN EXCHANGE AVAILABLE AND NOT AS PRIMARY OBLIGOR. THIS PATTERN IS FOLLOWED IN MEXICO AND ARGENTINA. IN BRAZIL AND CHILE THE CENTRAL BANK IS ALSO INVOLVED TO A LIMITED EXTENT (SEE BELOW FOR DETAILS).

(D) IN LARGER COUNTRIES ORIGINAL PRIVATE SECTOR OBLIGORS TEND TO CONTINUE AS BORROWER WITH THE REPUBLIC PROVIDING A GUARANTEE. THE CENTRAL BANK IS INVOLVED ONLY IN LIMITED WAYS. FOR EXAMPLE IN BRAZIL THERE IS A SPECIAL MECHANISM UNDER WHICH THE PROCEEDS OF RESCHEDULING FACILITIES MAY BE DEPOSITED WITH THE CENTRAL BANK AND IN MEXICO AND ARGENTINA THE CENTRAL BANK IS INVOLVED BY WAY OF UNDERTAKINGS ON EITHER THE AVAILABILITY OF FOREIGN CURRENCY OR ITS RATE OF EXCHANGE. THE ONLY LARGER COUNTRY WHERE THE GOVERNMENT HAVE TAKEN OVER ANY PRIVATE DEBT IS CHILE WHERE THE REPUBLIC (NOT THE CENTRAL BANK) HAVE TAKEN OVER PRIVATE DEBT FOR SOME LOCAL BANKS WHICH HAD BEEN INTERVENED BY THE CENTRAL BANK PRIOR TO RESCHEDULING. IN LARGER COUNTRIES THE CENTRAL BANK DOES NOT OTHERWISE NORMALLY SIGN LOAN AGREEMENTS IN RESPECT OF RESCHEDULED PRIVATE SECTOR DEBT.

THE SITUATION AS REGARDS THE INVOLVEMENT OF THE CENTRAL BANK IN EACH COUNTRY IS GIVEN BELOW.

SMALLER COUNTRIES

(A) COSTA RICA- BOTH PUBLIC AND PRIVATE SECTOR DEBT WAS RESCHEDULED WITH THE ORIGINAL OBLIGORS CONTINUING AS BORROWERS AND A JOINT GUARANTEE BY THE REPUBLIC AND THE CENTRAL BANK. THIS EXERCISE INCLUDED A NEW MONEY FACILITY, WHICH WAS IN EFFECT RESCHEDULED TRADE FINANCING.

(B) ECUADOR- PUBLIC SECTOR DEBT WAS RESCHEDULED WITH THE CENTRAL BANK AS BORROWER AND THE REPUBLIC AS GUARANTOR. THE INVOLVEMENT OF THE CENTRAL BANK WAS ESSENTIAL GIVEN THAT NEW MONEY WAS RAISED AT THE SAME TIME AS OUTSTANDING MATURITIES WERE RESCHEDULED AND THAT THE TWO LOAN AGREEMENTS WERE SPECIFICALLY TIED TO EACH OTHER. IN THE PRIVATE SECTOR LENDERS WERE GIVEN THE OPTION OF INVOLVING THE CENTRAL BANK IN RESCHEDULING BY WAY OF GUARANTEE OR AN UNDERTAKING ON THE AVAILABILITY OF FOREIGN EXCHANGE. HOWEVER, TO OBTAIN A CENTRAL BANK GUARANTEE THE BORROWER HAD TO PERSUADE THE ORIGINAL LENDERS TO PUT UP AN ADDITIONAL 20% IN NEW MONEY. AS AN ALTERNATIVE PRIVATE SECTOR BORROWERS WERE ABLE TO NEGOTIATE THEIR OWN ARRANGEMENTS WITHOUT ANY CENTRAL BANK INVOLVEMENT AND WITHOUT THE NEED TO OBTAIN COMMITMENTS FROM BORROWERS FOR NEW MONEY.

(C) HONDURAS - PUBLIC SECTOR DEBT (INCLUDING PRIVATE SECTOR BORROWING UNDER GOVERNMENT GUARANTEE) IS TO BE RESCHEDULED WITH THE CENTRAL BANK AS BORROWER AND THE REPUBLIC AS GUARANTOR. A NEW MONEY FACILITY HAS ALSO BEEN REQUESTED BUT NO GENERAL AGREEMENT HAS YET BEEN REACHED. PRIVATE SECTOR UNGUARANTEED DEBT IS NOT INVOLVED.

(D) JAMAICA - PUBLIC SECTOR DEBT HAS SEVERAL TIMES BEEN RESCHEDULED WITH THE GOVERNMENT AS BORROWER. THE CENTRAL BANK HAS NOT BEEN A PARTY IN ANY WAY TO THE RESCHEDULING AGREEMENTS. PRIVATE SECTOR DEBT HAS NOT BEEN INVOLVED.

(E) PANAMA - PANAMA HAS REFINANCED PUBLIC SECTOR DEBT WITHIN THE FRAMEWORK OF A NEW MONEY FACILITY. THE BORROWER WAS THE REPUBLIC AND IN THE ABSENCE OF A CENTRAL BANK IN THE COUNTRY, NO OTHER STATE ENTITIES WERE INVOLVED.

(F) PERU - BOTH PUBLIC AND PRIVATE SECTOR DEBT WERE RESCHEDULED IN CONJUNCTION WITH THE RAISING OF NEW MONEY IN A SINGLE FACILITY WITH THE REPUBLIC AS OBLIGOR BORROWING THROUGH ITS FINANCIAL AGENT, THE STATE-OWNED BANCO DE LA NACION. THE CENTRAL BANK DID NOT SIGN THE AGREEMENT AND WAS INVOLVED ONLY TO THE EXTENT OF PROVIDING UNDERTAKINGS ON THE AVAILABILITY OF FOREIGN EXCHANGE.

(G) URUGUAY - PUBLIC SECTOR DEBT WAS RESCHEDULED WITH THE CENTRAL BANK AS BORROWER, GUARANTEED BY THE REPUBLIC. THE FACILITY WAS LINKED TO A NEW MONEY FACILITY. PRIVATE SECTOR DEBT WAS NOT INVOLVED

LARGER COUNTRIES

(A) ARGENTINA - PUBLIC SECTOR DEBT IS TO BE RESCHEDULED WITH THE OBLIGOR CONTINUING AS BORROWER AND A GUARANTEE OF THE REPUBLIC. THE CENTRAL BANK WILL PROVIDE UNDERTAKINGS ON THE AVAILABILITY OF FOREIGN EXCHANGE. AS REGARDS PRIVATE SECTOR DEBT, THE CENTRAL BANK WILL ONLY BE INVOLVED IN CASES WHERE PRIOR TO RESCHEDULING IT OPERATED AN EXCHANGE RATE INSURANCE SCHEME ON BEHALF OF THE PRIVATE BORROWER CONCERNED. IN SUCH CASES THE CENTRAL BANK WILL OFFER ITS OWN BONDS OR PROMISSORY NOTES IN PLACE OF THE PRIVATE SECTOR DEBT OR IT WILL ALLOW ITS BONDS TO BE USED AS SECURITY TO SUPPORT CONTINUED BORROWING BY THE ORIGINAL PRIVATE SECTOR OBLIGOR.

(B) BRAZIL - UNDER BRAZILIAN RESCHEDULING ARRANGEMENTS THE AMOUNTS RESCHEDULED ARE DEPOSITED WITH THE CENTRAL BANK AGAINST A GUARANTEE OF THE REPUBLIC. THIS APPLIES TO BOTH PUBLIC AND PRIVATE SECTOR DEBT. LENDERS MAY SUBSEQUENTLY CHOOSE TO ON-LEND SUCH DEPOSITS ON BETTER TERMS TO PUBLIC SECTOR BORROWERS (WITH OR WITHOUT THE GUARANTEE OF THE REPUBLIC) OR TO PRIVATE SECTOR BORROWERS. IN EACH CASE THE CENTRAL BANK UNDERTAKES TO MAKE FOREIGN EXCHANGE AVAILABLE.

(C) CHILE - THE REPUBLIC GUARANTEES RESCHEDULED LENDING BY PUBLIC SECTOR OBLIGORS AND THE CENTRAL BANK PROVIDES AN UNDERTAKING ON THE AVAILABILITY OF FOREIGN EXCHANGE. IN THE PRIVATE SECTOR THE REPUBLIC HAS GUARANTEED THE OBLIGATIONS OF THOSE PRIVATE SECTOR BANKS WHICH PR OR TO RESCHEDULING HAD BEEN INTERVENED BY THE CENTRAL BANK. IN THE CASE OF ALL OTHER PRIVATE SECTOR BORROWERS NEITHER THE REPUBLIC NOR THE CENTRAL BANK GUARANTEES RESCHEDULED OBLIGATIONS. IN ALL PRIVATE BORROWING THE ORIGINAL OBLIGOR CONTINUES AS BORROWER.

(D) MEXICO - PUBLIC SECTOR DEBT IS RESCHEDULED WITH THE ORIGINAL OBLIGOR CONTINUING AS BORROWER AND WITH A GUARANTEE FROM THE UNITED MEXICAN STATES. THE CENTRAL BANK UNDERTAKES TO MAKE FOREIGN EXCHANGE AVAILABLE. AS REGARDS PRIVATE SECTOR DEBT, PRIVATE BORROWERS CAN, IN RETURN FOR A LARGE PREMIUM, MAKE ARRANGEMENTS WITH THE CENTRAL BANK TO OBTAIN FOREIGN EXCHANGE FOR DEBT SERVICE PURPOSES AT AN AGREED RATE (THE OFFICIAL RATE) AT THE SAME TIME THEY HAVE TO MAKE DEPOSITS IN LOCAL CURRENCY TO COVER DEBT SERVICE OBLIGATIONS. FEW PRIVATE SECTOR BORROWERS HAVE TAKEN ADVANTAGE OF THIS SCHEME AND IN THE MAJORITY OF CASES PRIVATE SECTOR BORROWERS ARE THEREFORE NEGOTIATING THEIR OWN RESCHEDULING ARRANGEMENTS WITHOUT CENTRAL BANK INVOLVEMENT.

I HOPE THAT THE ABOVE SUMMARY GIVES YOU AN IDEA OF THE KIND OF ARRANGEMENTS WHICH HAVE BEEN NEGOTIATED IN LATIN AMERICAN COUNTRIES AND PROVIDES YOU WITH PRECEDENTS TO ARGUE YOUR CASE WITH THE BANKS. WE WILL BE SENDING YOU A FURTHER TELEX IN THE NEAR FUTURE GIVING OUR RECOMMENDED STRUCTURE OF YOUR PROPOSED RESCHEDULING FACILITY, AS WELL AS BACKGROUND ON ITS TERMS.

REGARDS

ARNOLD SHIPP

SAMUEL MONTAGU AND CO. LIMITED
LONDON.

UNQUOTE.....

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HEREWITH REPETITION OF OUR TELEX YESTERDAY AS REQUESTED:

25TH JUNE 1984

TELEX TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA
 TELEX NO: 3460052 BANCEN

ATTN: LIC. EDUARDO GARCIA MICHEL
 LIC. LUIS MANUEL PIANTINI

DOMINICAN REPUBLIC

26 JUN 1984

RESCHEDULING OF COMMERCIAL BANK DEBT

1. FOLLOWING OUR MEETING ON 21ST JUNE 1984 WE HAVE CONSIDERED, AS REQUESTED, THE POSSIBLE STRATEGIES WHICH THE REPUBLIC COULD ADOPT WITH RESPECT TO THE RESCHEDULING OF ITS PUBLIC SECTOR DEBT TO COMMERCIAL BANKS. OUR RECOMMENDATION IS SET OUT BELOW TOGETHER WITH THE TERMS FOR WHICH WE BELIEVE YOU SHOULD BE ASKING.

THE STRATEGY

2. OUR RECOMMENDATION IS THAT THE REPUBLIC SHOULD ASK THE BANKS TO RESCHEDULE NOT ONLY ALL PUBLIC SECTOR MATURITIES FALLING DUE IN 1984 AND 1985, INCLUDING 1985 MATURITIES UNDER THE 1983 BANK REFINANCING AGREEMENT, BUT ALSO TO RENEGOTIATE THE MATURITY, GRACE PERIOD AND INTEREST RATE TERMS OF THE 1983 BANK REFINANCING AGREEMENT. THIS STRATEGY CAN BE SUPPORTED BY ECONOMIC ARGUMENTS, PRECEDENT AND THE PRINCIPLE OF PARITY BETWEEN CREDITORS, ALL OF WHICH ARE DISCUSSED BELOW.

3. THE RELIEF SOUGHT IN OUR RECOMMENDATION IS MORE THAN THE CREDITOR BANKS HAVE BEEN PREPARED TO GRANT UNTIL NOW. WE HAVE CONSIDERED THE POSSIBILITY OF EXTENDING THE REQUEST TO INCLUDE ALL PUBLIC SECTOR MATURITIES IN 1986 BUT BELIEVE THAT THE BANKS WOULD BE MOST UNLIKELY TO CONTEMPLATE SUCH A LONG CONSOLIDATION PERIOD.

4. SIMILARLY WE BELIEVE THAT THE BANKS WOULD FIND UNACCEPTABLE A REQUEST FOR NEW MONEY AND/OR A REQUEST TO LIMIT THE INTEREST RATE OPTION TO LIBOR ONLY.

THE ECONOMIC ARGUMENTS

5. THE ECONOMIC NEED FOR SUCH EXTENSIVE DEBT RELIEF WILL BE SHOWN IN THE DETAILED PRESENTATION WHICH YOU PROPOSE TO GIVE TO THE COMMERCIAL BANKS WHICH WOULD INCLUDE AN ANALYSIS OF BALANCE OF PAYMENTS PROJECTIONS, VOLUME AND VALUE OF EXPORTS, FOREIGN EXCHANGE EARNINGS, AND EXTERNAL DEBT PROFILE FOR THE NEXT FIVE YEARS.

23334
Banco Central de la Republica Dominicana
FINANCIERCA

- (A) THAT THE PROJECTED BALANCE OF PAYMENT FOR 1984 AND 1985 AND BEYOND INDICATE THAT THE REPUBLIC WILL BE UNABLE TO SERVICE ITS DEBTS IN THE ABSENCE OF ADDITIONAL DEBT RELIEF FROM ITS CREDITORS,
- (B) THAT VALUE OF EXPORTS IS LARGELY EXTERNALLY DETERMINED IN THE INTERNATIONAL COMMODITY MARKETS, WHICH ARE CURRENTLY DEPRESSED AND SHOW NO SIGNS OF IMPROVING,
- (C) THAT FOREIGN EXCHANGE EARNINGS ARE DEPENDENT ON COMMODITY EXPORTS, WHICH CANNOT PRESENTLY BE EXPANDED, AND ON CONTROLLING ALL IMPORTS. THE REPUBLIC HAS DONE EVERYTHING IN ITS POWER TO LIMIT IMPORTS.
- (D) THAT THE LEVEL OF DEBT RELIEF OBTAINED THROUGH THE 1983 BANK REFINANCING AGREEMENT IS INSUFFICIENT IN VIEW OF THE OUTLOOK FOR EXPORTS AND FOREIGN EXCHANGE EARNINGS. IF EXPORT REVENUES IN 1984 ARE THE SAME AS IN 1983 THEN PROJECTED DEBT SERVICE PAYMENTS IN 1984 OF USD475M WOULD ACCOUNT FOR 620/0 OF EXPORT REVENUES. THE POSITION BECOMES MORE CRITICAL IN 1985 WHEN DEBT SERVICE PAYMENTS ARE EXPECTED TO REACH USD614M.

THE PRECEDENTS FOR INCLUDING AMOUNTS UNDER THE 1983 BANK REFINANCING AGREEMENT

6. WE HAVE ANALYSED THIS ISSUE IN A BROAD CONTEXT BY EXAMINING:

- (A) WHETHER THERE ARE ANY PRECEDENTS FOR RENEGOTIATING RESCHEDULING AGREEMENTS WHICH HAVE BEEN SIGNED,
- (B) WHETHER THERE HAVE BEEN ANY INSTANCES OF A SOVEREIGN DEBTOR ATTEMPTING TO RENEGOTIATE THE TERMS OF A RESCHEDULING WHICH HAVE BEEN AGREED BUT NOT IMPLEMENTED, AND
- (C) WHETHER AMOUNTS WHICH HAVE PREVIOUSLY BEEN RESCHEDULED ARE INCLUDED IN NEW RESCHEDULINGS.

OUR ANALYSIS HAS BEEN LIMITED TO THE LATIN AMERICA AND CARIBBEAN REGIONS AS THERE APPEAR TO BE SUFFICIENT INSTANCES WHICH ARE RELEVANT TO THE REPUBLIC. WE DEAL WITH EACH OF THESE CATEGORIES IN THE NEXT THREE PARAGRAPHS.

7. COUNTRIES WHICH HAVE SOUGHT OR ARE SEEKING TO DIRECTLY REOPEN NEGOTIATIONS ON PREVIOUSLY COMPLETED RESCHEDULINGS INCLUDE PERU IN 1980, MEXICO IN 1984 AND COSTA RICA IN 1984.

- (A) PERU: IN 1978 PERU'S BANK CREDITORS AGREED TO DEFER ALL PRINCIPAL PAYMENTS DUE IN 1979 FOR ONE YEAR TO 1980 WHEN SUCH AMOUNTS WOULD BE CONVERTED INTO A MEDIUM TERM LOAN. A SIMILAR TREATMENT WAS TO BE ACCORDED TO 1980 MATURITIES. PERU'S EXPORT PERFORMANCE COUPLED WITH SEVERE IMPORT RESTRICTIONS LED TO THE RECORDING OF A SIGNIFICANT SURPLUS FOR 1979. PERU THEN REQUESTED ITS CREDITOR BANKS TO CONSIDER RENEGOTIATING THE TERMS OF THE ORIGINAL AGREEMENT. THE BANKS REFUSED AND IT WAS SUBSEQUENTLY AGREED THAT PERU WOULD PREPAY ALL DEBT DEFERRED DURING 1979 AND THE BANKS WOULD RESCHEDULE ONLY DEBT MATURING IN 1980.

THIS IS NOT A STRONG PRECEDENT TO FOLLOW BECAUSE PERU'S ECONOMIC PERFORMANCE AND INCREASE IN RESERVES IN 1979 DID NOT JUSTIFY PERU'S REQUEST FROM THE BANKS' POINT-OF-VIEW. IN FACT PERU WAS CAPABLE OF SERVICING ITS DEBT DUE IN 1979.

(B) MEXICO: MEXICO IS PRESENTLY HOPING TO NEGOTIATE THE RESCHEDULING OF ALL PUBLIC SECTOR MATURITIES DUE BETWEEN 1985 AND 1988 INCLUSIVE IN ADDITION TO RENEGOTIATING THE TERMS AGREED FOR THE RESTRUCTURING OF 1983 AND 1984 MATURITIES. IN BOTH INSTANCES MEXICO IS SEEKING LOWER MARGINS, LONGER PERIODS AND POSSIBLY AN INTEREST RATE OVER LIBOR ONLY. THE BANKS APPEAR DISPOSED TO CONSIDER THE 1985 TO 1988 RESCHEDULING AND MAY BE WILLING TO RENEGOTIATE THE 1983-84 AGREEMENTS.

IF MEXICO IS SUCCESSFUL IN ITS NEGOTIATIONS THIS WILL BE AN IMPORTANT PRECEDENT BECAUSE ANY CONCESSIONS WILL BE GIVEN AS A REWARD FOR MEXICO'S ECONOMIC PROGRESS, AN ARGUMENT WHICH THE REPUBLIC WILL BE ABLE TO USE IN THE LIGHT OF ITS OWN PROGRESS.

(C) COSTA RICA: AFTER LONG NEGOTIATIONS COSTA RICA CONCLUDED ITS RESCHEDULING IN SEPTEMBER 1983. THE RESCHEDULING INCLUDED THE PROVISION BY THE BANKS OF A THREE-YEAR USD 225M REVOLVING TRADE CREDIT 500/0 OF WHICH WAS TO ENABLE THE COUNTRY TO KEEP INTEREST CURRENT. COSTA RICA HAS NOW DECLARED A MORATORIUM ON ALL PAYMENTS OF PRINCIPAL ON FOREIGN DEBT INCLUDING PAYMENTS UNDER THE REVOLVING TRADE FACILITY. THE COUNTRY HAS NO LIQUID RESERVES AND COULD FACE A FOREIGN EXCHANGE SHORTFALL OF USD 150M DURING THE SECOND HALF OF 1984. IT IS THEREFORE LIKELY THAT THE STEERING COMMITTEE WILL HAVE TO CONSIDER NOT ONLY PROVIDING NEW FUNDS IN 1984 BUT ALSO RESTRUCTURING THE ORIGINAL REVOLVING TRADE CREDIT.

COSTA RICA'S CASE IS PARTICULARLY RELEVANT TO THE REPUBLIC BECAUSE OF THE COUNTRY'S ECONOMIC AND FINANCIAL SITUATION PARALLEL ELEMENTS IN THE REPUBLIC'S ECONOMY AND ANY CONCESSIONS ON COSTA RICA'S RESCHEDULING SHOULD ALSO BE CONCEDED TO THE REPUBLIC BECAUSE ITS PROGRESS HAS BEEN BETTER.

8. COUNTRIES WHICH HAVE SOUGHT OR ARE SEEKING TO VARY THE TERMS OF THEIR RESCHEDULINGS, WHICH HAD PREVIOUSLY BEEN AGREED, INCLUDE ARGENTINA IN 1983/1984 AND ECUADOR IN 1984.

(A) ARGENTINA: THE IMPLEMENTATION OF THE RESCHEDULING OF 1982-1983 PUBLIC SECTOR PRINCIPAL WAS CONTINUALLY DELAYED BY THE FAILURE TO REACH AN IMF AGREEMENT AND CREDITORS' INSISTENCE THAT THE BANKRUPTCY LAWS BE AMENDED. IN THE INTERIM BRAZIL SUCCESSFULLY NEGOTIATED BETTER TERMS FOR ITS 1984 RESCHEDULING AND ARGENTINA HAS NOW SOUGHT TO FOLLOW SUIT. ARGENTINA THEREFORE NOT ONLY WANTS SOFTER TERMS FOR PUBLIC SECTOR DEBT FALLING DUE IN 1984 BUT ALSO WANTS TO RENEGOTIATE THE TERMS AGREED FOR 1982 AND 1983 DEBT.

ANY IMPROVEMENT ON THE AGREED TERMS OF THE 1982-83 RESCHEDULING CANNOT BE SEEN AS A REWARD FOR ARGENTINA'S ECONOMIC PROGRESS, WHICH, APART FROM THE OVERALL BALANCE OF PAYMENTS POSITION, HAS NOT BEEN SIGNIFICANT. IF ARGENTINA IS SUCCESSFUL THEN IT WILL BE POSSIBLE TO ARGUE THAT THE REPUBLIC'S PROGRESS MORE THAN JUSTIFIES SIMILAR CONCESSIONS.

- (B) ECUADOR: UNDER THE TERMS OF ITS 1983 RESCHEDULING ECUADOR WAS TO HAVE PAID 100/0 OF ALL PUBLIC SECTOR DEBT DUE IN 1983 AT THE END OF JANUARY 1984, THE BALANCE OF 900/0 BEING RESCHEDULED OVER 7 YEARS. SUBSEQUENTLY IT WAS AGREED THAT THE 100/0 PAYMENT WOULD BE MADE IN QUARTERLY INSTALMENTS. THE FIRST INSTALMENT WAS DULY MADE, THE GOVERNMENT HAS NOW REQUESTED THAT THE LAST THREE PAYMENTS BE DEFERRED TO THE END OF 1984 AT WHICH TIME THE PAYMENT WILL BE MADE FROM THE NEW MONEY FACILITY THAT IS CURRENTLY BEING ARRANGED. THUS ECUADOR HAS BEEN ABLE TO ALTER INDIRECTLY THE TERMS OF ITS 1983 RESCHEDULING AGREEMENT BY DEFERRING AND THEN REFINANCING THE PAYMENTS WHICH SHOULD HAVE BEEN MADE THEREUNDER.

ECUADOR'S SUCCESS IN 1984 IS OF COURSE MINOR AND OF LIMITED APPLICABILITY TO THE REPUBLIC SINCE THE CENTRAL BANKS HAVE ALREADY PAID THE 50/0 DUE UNDER THE 1983 RESCHEDULING. IT IS, HOWEVER, IMPORTANT IN SHOWING THAT SOME RENEGOTIATING IS POSSIBLE.

9. COUNTRIES WHICH HAVE RESCHEDULED OR ARE RESCHEDULING AMOUNTS WHICH WERE PREVIOUSLY RESCHEDULED INCLUDE BOLIVIA IN 1983, NICARAGUA IN 1984, MEXICO IN 1984, PERU IN 1983 AND 1984 AND JAMAICA BETWEEN 1981 AND 1984.

- (A) BOLIVIA: BOLIVIA NEVER COMPLETED ITS NEGOTIATIONS IN 1981. THE PRINCIPAL RESCHEDULED AT THAT TIME WILL NOW BE INCLUDED IN THE PRESENT RESCHEDULING DISCUSSIONS,
- (B) NICARAGUA: AFTER PROTRACTED NEGOTIATIONS AN AGREEMENT WAS REACHED TO RESCHEDULE NICARAGUA'S DEBT DUE BETWEEN 1979 AND 1981. THE COUNTRY IS NOW NEGOTIATING A FURTHER RESCHEDULING WHICH INCLUDES AMOUNTS DUE UNDER THE ORIGINAL AGREEMENT,
- (C) MEXICO: THE 1983-1988 RESCHEDULING WHICH MEXICO HOPES TO OBTAIN WOULD INCLUDE PRINCIPAL WHICH HAD BEEN RESCHEDULED IN 1983,
- (D) JAMAICA: JAMAICA HAS ON SEVERAL OCCASIONS REFINANCED PAYMENTS WHICH HAD PREVIOUSLY BEEN REFINANCED. THIS OCCURRED IN 1981/82 (PRINCIPAL REFINANCED IN 1978/79) AND UNDER THE PRESENT NEGOTIATIONS (PRINCIPAL REFINANCED IN 1980/1981 AND IN 1981/1982), AND
- (E) PERU: THE 1983 RESCHEDULING INCLUDES PRINCIPAL PAYMENTS WHICH FELL DUE UNDER THE 1980 REFINANCING AGREEMENT.

ALL THE ABOVE ARE RELEVANT TO A REQUEST BY THE REPUBLIC TO RESCHEDULE MATURITIES DUE IN 1985 UNDER THE 1983 BANK REFINANCING AGREEMENT.

10. SEVERAL OF THE ABOVE CASES REFER TO AGREEMENTS WHICH HAVE EITHER NOT YET BEEN REACHED, ARE NOT YET EFFECTIVE OR OCCURRED PRIOR TO THE 1983 AND 1984 RESCHEDULING PHASES. INDIVIDUALLY THEY ARE NOT COMPARABLE IN EVERY RESPECT TO THE REPUBLIC'S CASE, BUT TAKEN TOGETHER THEY WOULD SEEM TO JUSTIFY A REQUEST BY THE REPUBLIC TO INCLUDE NOT ONLY ALL AMOUNTS DUE UNDER THE 1983 BANK RESCHEDULING AGREEMENT IN 1985 BUT ALSO TO JUSTIFY THE REQUEST TO RENEGOTIATE THE TERMS OF THAT AGREEMENT.

PRINCIPLE OF PARITY BETWEEN CREDITORS

11. AS PART OF ITS OVERALL DEBT RESTRUCTURING THE REPUBLIC WILL BE RESCHEDULING AND/OR REFINANCING ITS DEBTS DUE IN 1983 AND 1984 TO ITS PARIS CLUB CREDITORS. THE TERMS WHICH THE REPUBLIC SHOULD OBTAIN FROM THE PARIS CLUB ARE LIKELY TO BE LONGER THAN THE 6 YEARS (2 YEARS GRACE) OF THE 1983 BANK REFINANCING AGREEMENT. THERE IS THEREFORE AN ARGUMENT THAT THE BANKS SHOULD GRANT BROADLY SIMILAR TERMS IN ORDER TO MAINTAIN THE PRINCIPLE OF PARITY BETWEEN CREDITORS.

12. ANOTHER ARGUMENT IS THAT THE REPUBLIC INTENDS TO CONTINUE TO NEGOTIATE AN ARRANGEMENT WITH THE IMF WHICH IS ACCEPTABLE TO THE COUNTRY. ANY IMF AGREEMENT WILL REQUIRE THE RESCHEDULING OF ALL DEBT TO THE COMMERCIAL BANKS IN ORDER FOR THE REPUBLIC TO REACH SPECIFIED IMF TARGETS

SUGGESTED TERMS

13. THE FOLLOWING TABLE SHOWS THE MORE FAVOURABLE TERMS OBTAINED BY COUNTRIES IN THEIR SECOND ROUND OF RESCHEDULING OR RAISING NEW MONEY:

| | | AMOUNT USD M | MTY YRS | GRACE YRS | INT. MARGIN OVER LIBOR O/O PA | INT. MARGIN OVER PRIME O/O PA | FEEES O/O FLAT |
|---------------------------|------|-----------------|------------|--------------|---|---|-------------------|
| CHILE (NEW MONEY) | 1983 | 1300 | 7 | 4 | 2 1/4 | 2 1/8 | 1 1/4 |
| | 1984 | 780 | 9 | 5 | 1 3/4 | 1 1/2 | 5/8 |
| BRAZIL (REFINANCING) | 1983 | 4700 | 8 | 2 1/2 | 2 1/8 | 1 7/8 | 1 1/2 |
| | 1984 | 5500 | 9 | 5 | 2 | 1 3/4 | 1 |
| BRAZIL (NEW MONEY) | 1983 | 4400 | 8 | 2 1/2 | 2 1/8 | 1 7/8 | 1 1/2 |
| | 1984 | 6500 | 9 | 5 | 2 | 1 3/4 | 1 |
| PERU (REFINANCING) | 1983 | 380 | 8 | 3 | 2 1/4 | 2 | 1 1/4 |
| | 1984 | 700 | 9 | 5 | 1 3/4 | 1 1/2 | 3/4 |
| MEXICO (NEW MONEY) | 1983 | 5000 | 6 | 3 | 2 1/4 | 2 | 1 1/4 |
| | 1984 | 3800 | 10 | 5 | 1 1/2 | 1 1/4 | 5/8 |
| ECUADOR (RESCHEDULING) | 1983 | 1050 | 7 | 1 | 2 1/4 | 2 1/8 | 1 1/4 |
| | 1984 | 700 | 8 | 4 | 1 3/4 | 1 1/2 | 7/8 |

THE ABOVE TABLE CLEARLY ESTABLISHED A TREND TOWARDS MORE FAVOURABLE TERMS FOR BORROWERS AND WE THEREFORE BELIEVE IT WOULD BE REASONABLE FOR THE REPUBLIC TO AIM FOR THE FOLLOWING:

PERIOD: 9 YEARS
 GRACE PERIOD: 5 YEARS
 INTEREST RATE: 1 3/4 O/O PA OVER LIBOR
 1 1/2 O/O PA OVER PRIME
 FRONT-END FEES: 3/4 O/O FLAT.

WE WOULD ALSO SUGGEST THE FOLLOWING GUIDELINES TO RESCHEDULE PUBLIC SECTOR MATURITIES.

- (A) EACH ORIGINAL OBLIGOR WILL CONTINUE AS BORROWER AND NEGOTIATE ITS OWN AGREEMENT WITH THE BANKS WITHIN THE FRAMEWORK OF THE GENERAL TERMS AND CONDITIONS ESTABLISHED THROUGH NEGOTIATIONS BETWEEN THE BANCO CENTRAL AND THE REPRESENTATIVES OF THE BANKS.
- (B) THE REPUBLIC WILL GUARANTEE EACH NEW LOAN FACILITY.
- (C) THE CENTRAL BANK WILL NOT SIGN THE LOAN AGREEMENTS BUT WILL GIVE AN UNDERTAKING ON THE AVAILABILITY OF FOREIGN EXCHANGE FOR DEBT SERVICE PURPOSES.

OUR TELEX DATED 14TH MARCH 1984 EXAMINES THIS AREA IN GREATER DEPTH.

CONCLUSION

16. WE HAVE COVERED THE ARGUMENTS THAT THE REPUBLIC SHOULD PRESENT TO ITS CREDITOR BANKS. REPRESENTATIVES OF SAMUEL MONTAGU ARE READY TO TRAVEL TO SANTO DOMINGO TO ASSIST YOU IN THE DETAILED PREPARATION OF SUCH PRESENTATION AND TO ARRANGE AND ATTEND MEETINGS WITH THE REPUBLIC'S CREDITOR BANKS IN THE US AND EUROPE.

KIND REGARDS
ARNOLD SHIPP
DESMOND CONNOR
SAMUEL MONTAGU + CO. LIMITED

NNNN

4186 BANCEN DR

REPUBLICA DOMINICANA
RENEGOCIACION DE LA DEUDA EXTERNA: PASOS A SEGUIR

EQUIPO COORDINADOR ("Equipo")

1. Se ha concretado la formación de un equipo coordinador del Banco Central de la República Dominicana ("Banco Central") que coordine la negociación de la deuda externa de la República Dominicana. El Equipo incluye:

| <u>Funcionario</u> | <u>Actividad</u> |
|-------------------------|---------------------|
| Sarah Almonte | Coordinadora |
| Héctor Valdez | Estudios Económicos |
| Maritza Amalia Guerrero | Bancos Acreedores |
| Tirso Concepción | Cambio Extranjero |
| Eligio Bisonó | F.M.I. |
| Doris Herrera | Club de París |

2. Los representantes de Samuel Montagu asistirán a reuniones del Equipo siempre y cuando estén en Santo Domingo.
3. El Equipo también podrá auxiliarse de un representante del Departamento de Crédito Público para asistir al Departamento de Estudios Económicos en lo referente a la deuda externa del sector público.
4. El Equipo deberá reunirse una vez por semana o tan frecuentemente como sea necesario, para revisar tanto el progreso de los preparativos para las negociaciones y de las negociaciones mismas, así como problemas que pudieran surgir dentro de las mismas. La asesoría de Samuel Montagu estará a entera disposición del Equipo.
5. La primera reunión del Equipo tuvo lugar el 2 de agosto de 1984, en la cual se discutió y definió el papel del Equipo. Para la segunda reunión se propone el siguiente temario:
- a) Telex preliminar a ser enviado a través del Royal Bank a los bancos acreedores informando que:
 - (i) Un Equipo del F.M.I. está por visitar la República Dominicana, y
 - (ii) Se están preparando informes detallados a ser presentados al Club de París y a los bancos acreedores.
 - b) Se acordará una reunión con funcionarios del C.E.A. para determinar el estado del acuerdo de refinanciamiento de las obligaciones del C.E.A.
 - c) El estado del acuerdo de refinanciamiento de septiembre de 1983.

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- d) La recaudación de los datos específicos sobre la deuda externa vencida o que vence en 1984 y 1985 de la República Dominicana, la cual será renegociada en el marco del Club de París y los bancos acreedores.
- e) Discusión sobre algunas áreas problemáticas tales como cartas de crédito, atrasos y créditos CCC.

FONDO MONETARIO INTERNACIONAL (F.M.I.)

- 6. Discusiones entre el Gobierno de la República y El F.M.I. sobre la forma del apoyo que el F.M.I. prestará a la República Dominicana en la renegociación de la deuda externa dentro de los términos del acuerdo que se pudiera firmar con el F.M.I.
- 7. No hay precedentes claros en el marco del Club de París y los bancos acreedores de que éstos renegociarían sus acreencias sin la previa firma de un acuerdo compensatorio o ampliado entre el país deudor y el F.M.I. (excepto el caso de Cuba que no es miembro del F.M.I.), por lo tanto el F.M.I. tiene que comprometerse por escrito a que apoyará explícitamente a la República Dominicana frente al Club de París y a los bancos acreedores para que estos consideren renegociar la deuda externa. Estas renegociaciones no podrán adelantarse sin un compromiso del F.M.I. que (i) apoya el pedido de la República Dominicana de refinanciar la deuda venciendo en 1984 y 1985, y (ii) éste asistirá a reuniones con los acreedores en las cuales dará voz a su apoyo.

ACUERDO CON EL F.M.I.

- 8. Al firmarse un acuerdo con el F.M.I., se tendrá que preparar y enviar al Club de París y a los bancos acreedores un telex.
 - a) Delineando los términos del acuerdo con el F.M.I.
 - b) Confirmando la intención de acudir al Club de París y renegociar la deuda vencida y por vencer hasta fines de 1985 a gobiernos y organismos oficiales dentro del OCDE y otros países acreedores y pidiéndole al Secretario del Club de París fijar una fecha preliminar para dicha renegociación.
 - c) Confirmando la intención de renegociar la deuda vencida y por vencer hasta fines de 1985 a los bancos acreedores.
 - d) Proponiendo una fecha y un lugar donde se presentará a los bancos acreedores el estado de la situación económico-financiera de la República Dominicana (tomando en cuenta las obligaciones previas de los funcionarios que harán dicha presentación). Por razones estratégicas y tácticas no se propone discutir los términos de la renegociación con los bancos acreedores antes de que se haya definido la situación en el marco del Club de París.

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9. Se prevee que este telex puede ser redactado dentro de las próximas tres semanas.

ESTRATEGIA DE LA RENEGOCIACION

10. Samuel Montagu preparará un estudio examinando las estrategias que la República Dominicana podrá seguir dentro del Club de París y con los bancos acreedores. En particular examinará lo siguiente:
- A) Club de París
- (i) Precedentes en las negociaciones realizadas por otros países que podrían ser aplicables al caso dominicano.
 - (ii) Los términos obtenidos por otros países.
 - (iii) Los términos que pudiera obtener la República Dominicana (alternativas y sugerencias).
 - (iv) La tasa de interés que pudiera conceder cada país a la República Dominicana.
 - (v) Las tácticas a seguir dentro del marco de las negociaciones bilaterales (cuales negociaciones bilaterales podrán ser negociadas paralelamente, qué forma tomarán los acuerdos bilaterales, etc.).
 - (vi) El formato de una aplicación al Club de París, tomando en cuenta que el objeto más importante de la aplicación es de obtener las mayores concesiones de los países que asistirán al Club de París.
 - (vii) Un cronograma posible para las negociaciones multilaterales y bilaterales.
- B) Bancos Acreedores
- (i) Precedentes en las negociaciones realizadas por otros países que podrían ser aplicables al caso dominicano.
 - (ii) Los términos obtenidos y en proceso de negociación por otros países (en particular México y Brasil, los cuales están por empezar sus negociaciones).
 - (iii) Los términos que pudiera obtener la República Dominicana (períodos, gracia, margen y base de interés, comisiones, etc.).
 - (iv) Las tácticas a seguir dentro del marco de las negociaciones. Por ejemplo: la postura inicial de la República Dominicana, los términos que deberían ser pedidos y los que pudieran ser concedidos.

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- (v) Identificación de áreas problemáticas y preparación de estrategias para resolverlas, como por ejemplo:
- (a) CEA/Banco Mundial/Credit Agricole.
 - (b) Pagos bajo cartas de crédito vencidas y por vencer.
 - (c) Pagos bajo obligaciones CCC.
 - (d) Atrasos.
 - (e) Reescalonamiento de deuda ya renegociada (o sea pagos bajo el acuerdo de refinanciamiento de septiembre de 1983).
- (vi) Un cronograma posible para las negociaciones con los bancos acreedores.

C) General

Estudios sobre alternativas a seguir en cuanto a las dos negociaciones, o sea cuál de las dos se debería empezar primero, cuáles partes podrían ser realizadas paralelamente y las implicaciones de un Convenio con el Club de París sobre las negociaciones con los bancos acreedores.

11. Se estima que el estudio, una vez aprobada la propuesta, se completará antes del fin de agosto y éste será presentado al Equipo dentro del Banco Central por representantes de Samuel Montagu en esa fecha.
12. En base a este estudio será posible definir exactamente los términos que el Gobierno de la República Dominicana podrá negociar frente al Club de París y a los bancos acreedores. También podrá servir de base para discusiones con los Ministros de Finanzas y los Gobernadores de Bancos Centrales de los países latinoamericanos cuando se reúnan en Santo Domingo, justamente antes de la reunión anual del FMI/Banco Mundial en fecha 22 de septiembre de 1984.

NEGOCIACIONES CLUB DE PARIS

13. El Embajador en Francia de la República Dominicana deberá presentar la aplicación dominicana a la Tesorería de Francia, Secretario del Club de París. La presentación debería tomar lugar lo más pronto posible y antes de la reunión anual del FMI/Banco Mundial si es posible, con el propósito de obtener una fecha firme para la reunión del Club de París.
14. El Embajador en Francia, representantes de Samuel Montagu y del Banco Central podrán asistir a cualquier reunión que sea necesaria con la Tesorería de Francia para aclarar, si las hubiese, cualquier duda que surja de dicha aplicación.

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15. Se estima conveniente el establecimiento de contactos preliminares con los países que pudieran asistir a la reunión del Club de París:
 - a) EE.UU. : Tesorería, AID, CCC, Eximbank.
 - b) España : Tesorería, ICO, Banco Exterior de España
 - c) RFA : KPW
 - d) Francia : Tesorería
 - e) Canadá : CDC, CIDA
 - f) Japón : M.I.T.I.
16. Asimismo, se estima necesario el establecimiento de contactos previos con los países e instituciones que tal vez no asistirán al Club de París.
 - a) OPEP
 - b) Venezuela
 - c) México, y
 - d) Proveedores no garantizados por agencias oficiales de créditos a las exportaciones.
17. Asistir a las reuniones del FMI/Banco Mundial para mantener y desarrollar los contactos con las partes interesadas en la aplicación dominicana al Club de París.
18. Samuel Montagu deberá asistir a la reunión del Club de París a fin de asesorar a la delegación dominicana sobre los procedimientos y negociaciones.
19. Al firmarse un convenio dentro del Club de París, se debe proceder a preparar y enviar un telex a los países acreedores que no asistirán a esa reunión y a los bancos acreedores, detallando los términos del convenio.
20. Samuel Montagu también deberá asistir a las negociaciones bilaterales con los gobiernos e instituciones acreedoras dentro del marco del convenio acordado con el Club de París.

BANCOS ACREEDORES

21. Renovar, si es necesario, la moratoria sobre el pago de principal a los bancos acreedores. En cuanto a los dos bancos acreedores que acordaron una moratoria solamente hasta fines de julio, pedirles a estos que prorroguen la moratoria de tal manera que coincida con la de los demás bancos.

22. Al definirse los términos que la República Dominicana pudiera obtener y los términos obtenidos dentro del Club de París, preparar y enviar, a través del Banco Royal, un telex a los bancos acreedores:
- a) Detallando los términos que propone la República Dominicana.
 - b) Proponiendo fecha y lugar de las negociaciones.
 - c) Pidiendo los datos de todas las acreencias a través del Banco Royal.
23. Samuel Montagu deberá asistir a las negociaciones con los bancos acreedores.

3 de agosto de 1984

Samuel Montagu & Co. Limited
Santo Domingo

MJ/BCR
embb

Paris Club procedures

1. The Paris Club normally meets in the Conference Centre on the Avenue Kléber (once the Paris H.Q. of the Nazis), near the Arc de Triomphe.
2. The delegation will be allocated a room in the Conference Centre to use as a base and as a waiting room. On arrival at the Conference Centre, usually at about 9 o'clock in the morning, the delegation will be met by officials of the Paris Club Secretariat and conducted to this room, where they will be joined by the Chairman of the day's meeting for a short introductory discussion.
3. There may then be a pause while the Paris Club members discuss the day's business (or other matters). The delegation will then be invited to join the meeting, and escorted to the main conference room. Seating in this room is in the form of a square. The delegation of the country under discussion occupies the side nearest the door. The side opposite is occupied by the Chairman (in the centre), the Secretariat, and representatives of the international agencies present (normally IMF, World Bank and UNCTAD). The other two sides are occupied by representatives of the governments which are members of the Paris Club (and an observer from the Organization for Economic Cooperation and Development).
4. After initial courtesies and an introduction from the Chairman, the leader of the delegation will be invited to make a presentation of the case for debt relief. Documents will already have been distributed, and it is obviously inappropriate to read them out. The point is to highlight, in perhaps 10-20 minutes,
 - (a) the problem which has given rise to the meeting;
 - (b) the measures the government is taking to deal with it; and
 - (c) the extent of relief sought (arrears, consolidation period, proportion rescheduled, maturity, grace period).
5. There may be questions from delegations round the table on matters arising from the presentation or the document previously distributed. These are likely to focus on reasons for failure to make payments previously agreed (if appropriate) and on the government's efforts to deal with the problems.
6. The IMF, World Bank and UNCTAD will then make presentations of the views of their organizations on problems, on its efforts to deal with them, and on its request for debt relief.
7. The question-and-answer session and these various presentations normally occupy the first morning. The meeting then adjourns for lunch. If no other major international meeting is in progress on the same day in the same centre, lunch will be provided by the Secretariat in the Conference Centre, at a series of small tables which offer the opportunity for some bilateral discussions, questions and lobbying.
8. After lunch, the delegation will retire to their room, while the meeting reconvenes among creditors only. Because the creditors often take some time to reach even a preliminary view, there may well be a period of 2-3 hours in which it is not necessary for the senior members of the delegation to remain in the building. It is important, however, that someone remains in case there are points of information to be dealt with. In the course of the

afternoon, the Chairman (or occasionally other members of the Secretariat) may act as intermediary, bringing news of the progress of discussions, problems on which further information is sought, or suggestions of the likely outcome and possible compromises. During the day, the Secretariat will compile and distribute a list of the total debt which each participant believes to be affected by the proposed rescheduling. It is naturally important to ensure that no figures in this table are different in order of magnitude from what the borrower expects. If they are, corridor discussions may explain the differences. But the figures do not commit either side at this stage: that is for the subsequent bilateral negotiations.

9. This process of separate discussion with intermediaries can be lengthy, extending far into the evening (a ten o'clock finish is not unusual). The objective is to reach a mutually acceptable outcome before the end of the first day. Occasionally, this is not possible, and the session reconvenes the following morning. This is best avoided if possible, because of the natural tendency of delegations to show greater flexibility in order to succeed in reaching agreement at the end of a long day.

10. Once an outcome acceptable to all parties has been reached, the delegation will be invited back into the main conference chamber. The Chairman formally puts the Paris Club proposals to the delegation, and the leader of the delegation formally accepts them. There will always be one or two Paris Club governments which will make their agreement conditional on approval from their government at home: this is unimportant as they will always confirm their agreement later.

11. The meeting then reconvenes the following morning when the Secretariat have had time to type up an "agreed minute" setting out the conclusions of the meeting, and to have it translated into English and duplicated. This "agreed minute" is then considered in full session, with the - delegation present, and signed in both languages by each delegation (this can easily take upwards of thirty minutes).

12. The meeting then concludes with an exchange of courtesies between the Chairman and the leader of the delegation. The Paris Club operates effectively and informally; the chairman makes a real effort to encourage consensus. The Paris Club prides itself on always finding a mutually acceptable solution; and on never taking longer than two days to do so.

Paris Club bilateral agreements

1. The agreed minute of the Paris Club sets the parameters and principles for the rescheduling of a country's foreign debt to, or guaranteed by, governments which participate in the Paris Club. Detailed agreements have to be negotiated subsequently with each foreign government concerned. These agreements:

- (a) specify the individual debts to be covered;
- (b) specify the rate of interest to be paid on rescheduled debt; and
- (c) reflect the general principles of the agreed minute in the manner appropriate to the individual legal and institutional framework of the creditor country.

The purpose of this note is to summarise the main issues which are likely to arise in the negotiation of bilateral agreements, following a Paris Club rescheduling.

Structure of the agreement

2. The structure of the agreement will depend on the nature of the debt covered and the creditor institutions. In some cases (e.g. Britain), commercial debts guaranteed by an export credit agency remain debts from the original borrower to the original foreign creditor; in most cases the debts are taken over by the foreign government concerned and it is the foreign government which has to be paid by the borrowing government. This may, for the borrower, simply take the form of an obligation for its government to pay certain amounts on certain dates to the creditor government, or it may involve a line of credit being established by the central bank (or some other agency) of the creditor country for the central bank of the borrowing country. In the latter case, this line will be drawn down to make payments due to original creditors, and repaid in accordance with the rescheduling terms. It is obviously simpler for the borrower to deal with a single counterparty in each creditor country, but that is only possible where the creditor agency has funds available to refinance the original debts.

3. Where different types of debt are owed to a single foreign country there may be more than one bilateral agreement with that country. Examples are the USA (for AID loans, for PL-480 food aid loans, and for EXIMBANK loans or EXIMBANK-guaranteed loans); Canada (for commercial loans guaranteed by the Export Development Corporation, for loans from the Canadian Wheat Board, and for loans from the Canadian International Development Agency); and Japan (for loans from the Overseas Economic Cooperation Fund, for loans from EXIMBANK, and for commercial loans insured by the Ministry of International Trade and Industry).

4. It is for the borrower to specify whether the obligor should be the government or the central bank.

Interest rates

5. Interest is the main subject for negotiation in bilateral agreements. The appropriate rate depends on the creditor country concerned, the currency of the debt, and the creditor. It is possible to obtain better interest rates than are first offered, by negotiating for them. Aid loans should not generally carry higher rates than before the rescheduling

(eg. rescheduling interest on a 3% PL 480 loan should generally be 3%). Loans from export credit institutions (eg. the US or Japanese EXIMBANKS) should if possible carry the same rates as before. There is likely to be pressure for some increase, which should clearly be kept to a minimum (eg. 1/2%).

6. Commercial loans guaranteed or insured by foreign governments are usually the most expensive to reschedule. The appropriate rate in these cases will depend on whether it is the commercial institution concerned or the export credit agency which is left holding the debt for the period of the rescheduling, and if the latter how the agency is funded. Most export credit agencies are expected to charge something approaching a market rate. Only those which fund themselves entirely from the market have no choice but to do so, and in such cases, being government agencies, they can generally borrow at or below the commercially quoted prime rate. Any spread over their cost of borrowing should be resisted. The currency of the debt may also be significant; eg. Italian debt denominated in US dollars should clearly bear a different interest rate from Italian debt denominated in Italian Lire.

7. The borrower can generally choose whether the agreement should specify a fixed or a floating rate of rescheduling interest. A fixed rate makes it easier for the borrower to budget to make the payments. But unless the rate is very favourable, a fixed rate does represent more of a gamble than a floating rate. It is usually easier to defend paying more when rates move up than it is to defend continuing to pay a high rate when rates move down. With a floating rate, it is of course important to pick the right rate (eg. for commercial debt to Japan insured by MITI this might be the Japanese Long Term Prime Rate).

8. Interest in governmental agreements should be calculated on a year of 365 or 366 days, not 360 days as is more normal in commercial loans.

Fees

9. Governments and their agencies should not charge rescheduling fees or pass on any of their costs. The only government agency which is a regular party to Paris Club agreements and always does ask for both a fee and costs is the Canadian Export Development Corporation. They can be satisfied with a token contribution to their legal costs.

Debt covered

10. It is normally the practice to keep the list of debts covered separate from the rest of the agreement. This is partly because the agreement itself may be circulated to other Paris Club governments, while details of the debts are often regarded as confidential; partly because the list may need to be changed. It is generally possible to sign an agreement before the list of debts has been verified in detail. It is important to ensure that the agreement provides for the list of debts to be altered by agreement between the two parties.

Most-favoured nation clause

11. It is usually worth sticking as closely as possible to the wording of the agreed minute of the Paris Club on the question of treating Paris Club creditors no less favourably than other comparable creditors.

Inconsistency is dangerous; and there is a risk of inadvertently taking on an obligation, eg. to treat Paris Club governments as favourably as banks, which cannot be met. It is also important that this clause should exclude the interest rate, which is specific to each creditor country, and any other exclusions covered in the agreed minute (eg. debts to countries which are owed less than SDR 500,000).

Payment dates

12. Administration of the agreements will be simpler for the borrower if payment dates are the same for principal and interest and for all creditor countries. They may have been specified in the agreed minute. The first payment date may, however, have been left in the form 'on the original due date, or at latest, by such-and-such a date'. It is obviously in the borrower's interest that the first payment date should be as late as the agreed minute allows. Interest should normally be paid 6-monthly: some creditors may try for 3-monthly payments.

Information on other agreements

13. The agreed minute will normally require the borrower to inform the Chairman of the Paris Club of the content of all bilateral agreements. Creditors may ask to be informed individually. This is administratively tedious and can lead to problems over confidentiality. It is safer to stick to the commitment to inform the Chairman. Creditors can then make their own arrangements with him.

July 1984.

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SANTO DOMINGO, REP. DOM.

MAYO 7, 1984

02-2223-84

ARNOLD SHIFF/PALL RICHARDS
SAMUEL MONTAGU AND CO.

PLS INFORM WHAT IS THE USUAL TREATMENT GIVEN TO FOLLOWING CASES WHEN AN OFFICIAL DEVALUATION EXISTS IN TERMS OF WHETHER THE OLD OR THE NEW EXCHANGE RATE APPLIES.

- 1) LETTERS OF CREDIT ALREADY OPENED BUT NOT YET NEGOTIATED. LOCAL CURRENCY PREPAID AND IN CENTRAL BANK.
- 2) SAME AS ABOVE BUT NO LOCAL CURRENCY PREPAID BY IMPORTER.
- 3) SAME AS ABOVE BUT L/C COLATERIZED BY CENTRAL BANK DEPOSIT.
- 4) PUBLIC SECTOR L/C'S.
- 5) ARREARS ON DIVIDENDS AND CAPITAL REPATRIATIONS FOR WHICH LOCAL CURRENCY PAYMENT ALREADY IN CENTRAL BANK.
- 6) SAME AS (5) BUT NO LOCAL CURRENCY IN CENTRAL BANK.
- 7) ARREARS ON IMPORT DRAFTS, (GIROS, TRANSFERENCIAS Y COBRANZAS) COVERING GOODS AND SERVICES FOR WHICH LOCAL CURRENCY ALREADY IN CENTRAL BANK.

REGARDS,

BERNARDO VEGA
GOBERNADOR DEL BANCO CENTRAL DE LA
REPUBLICA DOMINICANA.BANCENTRAL
MBJ
887213 SMO B G
BANEN 3460052*****
VIA ITT MAY 07 1984 1448

Telex no: 3460052

Telex to:

Central Bank of the Dominican Republic
Santo Domingo,
Dominican Republic

For the attention of Lic. Bernardo Vega, Governor

1. In this telex we set out, first, our answers to the questions posed in your telex dated 7 May. Secondly, we set out the principles that we have applied in order to give these answers. Thirdly, we make comparisons, so far as this is possible, with the usual treatment in other countries. Finally, we examine some of the implications of the answers we have given. It is important to state at the outset that there are few countries where the questions you have posed arise in precisely the same form as they do in the Dominican Republic. However, there are many in which the general problem has to be tackled of allocating the local currency costs arising from an official devaluation.

Answers

2. We consider that the questions posed in your telex can best be answered as follows, from the point of view of whether the old or the new exchange rate should apply:

(1) Letters of credit already opened but not yet negotiated, where the local currency has been prepaid and deposited with the Central Bank: old exchange rate.

(2) Same as above, but no local currency has been prepaid by the importer: new exchange rate.

(3) Same as above, but the letter of credit has been collateralised by a Central Bank deposit (we assume that the deposit as collateral refers to a commercial bank deposit with the Central Bank in place of prepayment by the importer): so long as the Central Bank treats the local currency deposit as prepayment for the future disbursement of foreign exchange, then the old exchange rate should apply; otherwise the new exchange rate should apply.

(4) Public sector letters of credit: whether the old or new exchange rate is used should depend in each case on whether local currency has been prepaid, unless public sector institutions have been given a general exemption from the prepayment of local currency, in which case the old exchange rate should apply, as long as the application to open the letter of credit was approved before the date of devaluation.

(5) Arrears on dividends and capital repatriation for which local currency payment is already deposited in the Central Bank: new exchange rate.

(6) Same as (5), but no local currency has been deposited in the Central Bank: new exchange rate.

(7) Arrears on import drafts (giros, transferencias y cobranzas) covering goods and services for which local currency has already been deposited in the Central Bank: old exchange rate.

Principles

3. The principles that we have applied in providing answers to the questions in your telex can be summarised as follows:

(a) If local currency has already been deposited to meet an obligation payable in foreign currency and contracted in foreign currency (e.g. imports of goods and services), then the old exchange rate should apply. In other words, the Dominican authorities should bear the cost of devaluation.

(b) If local currency has not already been deposited to meet an obligation payable in foreign currency and contracted in foreign currency (e.g. imports of goods and services), then the new exchange rate should apply. In other words, the importer should bear the cost of devaluation.

(c) Whether or not local currency has already been deposited to meet an obligation payable in foreign currency but contracted in local currency (e.g. dividends or the repatriation of capital invested in the Dominican Republic), then the new exchange rate should apply. In other words, the foreign investor should bear the cost of devaluation.

4. In formulating these principles, the underlying assumption is that the deposit of local currency by a claimant with the banking system represents a claim on foreign exchange at the exchange rate prevailing on the date on which the local currency is deposited, even though foreign exchange may not be disbursed by the Central Bank until a later date, provided that the foreign exchange is disbursed to discharge an obligation originally incurred in foreign currency. This interpretation creates two possible areas of controversy:

(a) Arrears on dividends and the repatriation of capital, where the original investment was made in local currency and the dividends arising on the investment are earned in local currency: since the obligation was originally contracted in local currency rather than foreign currency there is a case for providing foreign exchange at the exchange rate prevailing on the date that the foreign exchange is disbursed, rather than the date when the local currency was originally deposited in the Central Bank.

(b) Institutions for which, or transactions on which, prepayment of local currency is not required because the institutions or transactions concerned have been granted special exemption from the requirement to prepay local currency: since the effect of the exemption is to give the institutions or transactions concerned the benefits of prepayment without actually requiring prepayment, there is a case for applying the old exchange rate on letters of credit opened before the devaluation date rather than the new exchange rate.

Comparisons

5. In comparing the treatment proposed with the usual treatment in other countries, it is necessary to distinguish between two different kinds of transaction:

(a) letters of credit that have been opened but not yet fallen due for payment (questions 1-4), and

(b) foreign commercial payment arrears (questions 5-7).

6. So far as letters of credit are concerned, comparisons with other countries are complicated by the fact that many other countries do not require advanced payment in local currency in the form of deposits with the Central Bank. Insofar as they do, there are precedents for the treatment we have proposed (as in the case of Brazil). In Ecuador, prepayment in local currency is treated in practice as if it was a contract for the forward sale of foreign exchange at the exchange rate prevailing on the day the local currency prepayment is made. In a sense, prepayment in local currency for foreign exchange due for disbursement later is similar, though not precisely the same, as a forward exchange transaction, under which a foreign exchange price is agreed now for settlement on a specified future date.

7. So far as foreign commercial payment arrears are concerned, the treatment we have proposed on imports is consistent with previous treatment in the Dominican Republic for the guarantee of the exchange value of overdue letters of credit. We believe that it is also consistent with relevant practice in most other countries. The treatment we have proposed on dividends and the repatriation of foreign capital is cheaper for the Dominican authorities than the alternative. There are precedents for the treatment we have proposed, but we believe that there are also cases where the exchange value of foreign investment has been guaranteed.

Implications

8. The questions in your telex refer to the effect of an official devaluation on two different types of outstanding foreign obligation: letters of credit that have been opened but not fallen due for payment, and foreign commercial payment arrears. There is of course a third type of outstanding obligation in foreign currency whose local currency value is affected by an official devaluation: the foreign debt.

9. The change in the local currency value of the foreign debt as a result of an official devaluation would affect Dominican borrowers in two ways: by increasing the local currency value of the foreign liabilities on their balance sheets, and by increasing the local currency costs of servicing principal and interest falling due on foreign currency debt. The burden is likely to be especially great on borrowers which are not exporters.

10. In other countries in the region with a significant private sector, e.g. Chile, Ecuador and Mexico, the authorities have attempted to reduce the burden imposed by devaluation on local borrowers in foreign currency, either by giving a preferential exchange rate for the servicing of foreign currency debt or by taking over the foreign currency debt, and by giving local enterprises more favourable terms in local currency. The provision of relief to local borrowers has sometimes been tied to a requirement to reschedule. An additional consideration is whether the authorities need to revise their accounting standards to make it easier for local institutions to accommodate the effect on their balance sheets of the increase in the local currency value of their foreign currency liabilities.

11. Whenever the Central Bank sells foreign exchange for local currency after the devaluation at the pre-devaluation exchange rate (or alternatively at another preferential rate), whether on letters of credit falling due for payment, on foreign commercial payment arrears or on foreign debt payments, there will be a cost in local currency to the Central Bank at the new official exchange rate which has to be made up in some other way. The cost may or may not be offset by a compensating increase in the local currency value of foreign exchange receipts. If the Government bears the cost and finances it by borrowing from the Central Bank through a revaluation account, then this may count against IMF ceilings, unless a specific exemption is obtained.

12. Please let us know if there are any points in this telex that you would like us to expand, or any other matters on which we can be of assistance.

Kind regards
Arnold Shipp
Paul Richards
Samuel Montagu & Co. Limited

OPR/des
10.5.84

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THE DOMINICAN REPUBLIC: FINANCIAL REPORT SEPTEMBER 1984

INTRODUCTION

1. The purpose of this report is to provide information to the international financial community on the Dominican Republic (its geography, history, government, economy, fiscal and monetary policy, financial system, exchange control, balance of payments, foreign reserves and foreign debt).

It is divided into the following sections:

- (a) Basic information on the Dominican Republic.
- (b) Current economic and financial policy.
- (c) 1983 in Review.
- (d) Statistics.

BASIC INFORMATION ON THE DOMINICAN REPUBLIC

Geography

2. The Dominican Republic is situated in the Caribbean to the south east of the United States. It lies between Cuba and Jamaica to the west and Puerto Rico to the east. It forms the greater part of the island of Hispaniola on its eastern side. The lesser part of the island on the western side belongs to Haiti. The area of the Dominican Republic is 48,464 square kilometres, which is approximately half the size of Portugal. After Cuba, the Dominican Republic is the largest country in the Caribbean in terms of geographical size and population. There are 5.7 million inhabitants, mainly of mixed descent, of whom 1.2 million live in Santo Domingo, the capital, on the south coast. Population growth is estimated at 2.9% per annum. The terrain of the country is mountainous and the climate is tropical.

History

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

Government

4. The Dominican Republic is the biggest representative democracy in the Caribbean under the constitution of 28 November 1966, which has many similarities to the constitution of the United States of America. The Head of State is an Executive President elected by universal suffrage every four years. The election on 16 May 1982 was won by Salvador Jorge Blanco of the Partido Revolucionario Dominicano. The legislature is a bicameral Congress consisting of a Senate and a chamber of Deputies. The judiciary is headed by a Supreme Court. The local administration of the country is divided into 28 provinces and the National District, 94 communities and 37 municipal districts. Each province has a civil Governor

Economy

5. The Dominican economy is characterised by its dependence on agricultural and mining activity as sources of employment and by its dependence on the products of these sectors as foreign exchange earners. The major sectors of Dominican economy and their recent performance is detailed in paragraphs 6 to 13.
6. Growth: The Gross Domestic Product of the Dominican Republic is provisionally calculated at \$7.9b in 1982 giving a per capita figure of around \$1350. After performing very well in the 1970s, when it achieved a real average growth rate of nearly 7% per annum, the Dominican economy has in recent years suffered from the disruptive effect of the world-wide economic recession, the underlying increase in oil prices, the worsening of its terms of trade to the lowest levels in 40 years, and the crisis in the international financial sector. Real growth in the Gross Domestic Product has fluctuated between 4% and 1.5% over the last five years while inflation has fluctuated widely between 17% and 7%.
7. Agriculture: Over half of the Dominican labour force is dependent on the agricultural sector of the economy, which is responsible for around 12% of the Gross Domestic Product. Traditionally two thirds of Dominican exports are of agricultural origin. The largest contribution to exports is made by the sugar industry, which comprised the Consejo Estatal del Azucar (responsible for 65% of production) and two private sector consortia. Exports of sugar and its derivatives account for approximately 40% of exports. Most Dominican sugar is sold in the United States. Apart from sugar, the other important agricultural exports are coffee, coconuts and tobacco. Together with their derivatives and manufactures, exports of coffee, coconuts and tobacco typically account for approximately 20% of exports.
8. Mining: Mining is responsible for only around 3% of the Gross Domestic Product but the sector is a major foreign exchange earner. The Dominican Republic possesses significant deposits of gold, silver, ferronickel, bauxite, coal, copper, tin, marble, salt and gypsum. The main contribution to mining exports has traditionally been made by dore, a gold and silver alloy that has been produced in the Dominican Republic by Rosario Dominicana S.A. since 1975. Exports of dore typically account for approximately 21% of Dominican exports while exports of ferronickel and bauxite account for approximately 11%. The bauxite operations have been closed since the beginning of 1983.
9. Manufacturing: Manufacturing represents around 18% of the Gross Domestic Product and most manufacturing exports are based on agricultural commodities. But the diversification that has taken place in manufacturing production in the Dominican Republic over the past few years has provided an element of import substitution. A broad range of products are manufactured locally, including footwear, clothing, cement, plastic items, metallic articles for construction, tobacco, beverages and food products. The government encourages local manufacture through the provision of tax incentives, specialised credit facilities and technical assistance, particularly in industries aimed at export markets, tourism and agroindustry. Four industrial free zones have been established and opportunities for investment in additional zones have recently been created through new legislation.

10. Tourism: Tourism is a priority area in the Dominican Republic and although the total number of hotel rooms available is limited to 4764 at present, the government plans to expand the facilities available in the Dominican Republic for tourism. Particular attention is being paid to the development of a new tourist area at Puerto Plata, which is being financed by the World Bank in collaboration with the Banco Central. The number of visitors from abroad to the Dominican Republic increased from 278,333 in 1975 to 602,881 in 1982. Income from tourism is estimated at \$320m in 1983.

11. Energy: Oil and its derivatives constitute a third of Dominican imports. The government has attempted to limit the cost of imported energy in three principal ways. First, the price of electricity which provides most of the country's power supply, has been raised so as to conserve energy. Secondly, the development of hydro-electric resources has been accelerated with a view to providing a domestic substitute for imported energy. Thirdly, the process of converting power plants from fuel oil to coal is being accelerated.

12. The Dominican Republic continues to benefit from favourable terms for the import of crude oil from Venezuela and Mexico under the San Jose Agreement. 20% of oil supplies from Venezuela and Mexico (amounting to 14,000 barrels per day from each country) have been financed respectively by the Fondo de Inversiones de Venezuela and the Banco de Mexico in the form of 5 years US dollar denominated certificates of deposit with the Central Bank yielding 8%. These deposits can be converted into 20 year concessionary loans at 6% p.a. interest in respect of energy saving projects in the Dominican Republic approved by Venezuela and Mexico. The terms of the San Jose Agreement have recently been revised so that the credit granted by Venezuela must be paid half in US dollars and half in non-convertible bolivers which must be used to purchase goods and services from Venezuela over a maximum period of 15 years.

13. Infrastructure: In 1981, the government embarked on a three year public investment programme totalling \$1.7b, a substantial proportion of which is being financed by international development agencies, particularly the World Bank and the Inter-American Development Bank. Besides the development of hydro-electric power, the emphasis in the programme is on promoting agricultural self-sufficiency and communications (road airports and telecommunications). In its recent measures the government has also laid particular emphasis on construction (for example, of low-cost housing) as a stimulus to employment and growth.

Finance

14. Financial System: The Banco Central is responsible for the management of domestic monetary policy, foreign exchange resources and foreign debt. There were fifteen commercial banks with assets of \$2.8b at February 1984. Of these, one is government-owned or with small foreign participations: Banco de Reservas de la Republica Dominicana. One has mixed government and private ownership: Banco de los Trabajadores. Eight are private domestically owned or with small foreign participations: Banco Popular Dominicano S.A., Banco Metropolitano S.A., Banco del Comercio Dominicano S.A., Banco de Santander Dominicano S.A., Banco de Boston Dominicano S.A., Banco Nacional de Credito S.A., Banco Universal S.A. and Banco Giro Dominicano S.A. The rest are owned by foreign banks or have substantial foreign participation: Bank of America, Chase Manhattan Bank, Citibank N.A., the Royal Bank of Canada and the Bank of Nova Scotia. In addition, there are a number of financial institutions in the public and private sectors specialising in development finance. The Banco Central manages two funds which specialise in development finance: FIDE, which supplies funds for the development of agriculture and industry on preferential

terms; and INFRATUR, which is used to promote tourism projects.

15. Exchange Controls: The official exchange rate of the Dominican peso is RD\$1=US\$1. Since 1967, the authorities have allowed a parallel foreign exchange market to develop which was fed primarily by foreign remittances, tourist receipts and the proceeds of selected non-traditional export items. Since May 1984 all imports, with the exception of oil and oil derivatives, have been transferred to the parallel market. The parallel exchange rate has fluctuated substantially on a day-to-day basis, although the underlying trend has been for the peso to depreciate against the US Dollar. The parallel market rate at the end of July was RD\$2.76=US\$1. Official foreign exchange is channelled through the banking system to the Banco Central and is made available by the Banco Central for approved purposes. These include service of the external debt and payment for oil and oil derivative imports.

Balance of Payments

16. The Dominican current account balance has been in deficit over the last decade reflecting the country's dependence on primary commodity exports and oil imports. The variability of the prices of these commodities, particularly gold, sugar and oil, have a significant impact on the balance of trade. The current account deficits have traditionally been financed through foreign borrowings and aid.

17. The foreign currency facilities available to the Dominican Republic include:

- (a) multilateral credit lines from the central banks in Latin America in the framework of ALADI (Reciprocal Credit Agreements) and under the Santo Domingo agreement;
- (b) facilities on favourable terms for the import of crude oil from Venezuela and Mexico; and
- (c) facilities from the IMF.

Foreign Debt

18. The total amount of disbursed foreign debt outstanding at the end of 1983 was \$2,569.5m, of which \$2,251.0 was contracted by the public sector and \$317.4 by the private sector. The maturity structure of the foreign debt at the end of 1983 shows that 5.1% had a final maturity under one year and a substantial proportion is composed of multilateral debt over long terms.

CURRENT ECONOMIC AND FINANCIAL POLICY

Objectives

19. The government's economic programme aims first to correct the external and internal imbalances brought about by pressure resulting from the world recession and secondly to achieve high and stable rates of growth and a substantial increase in employment opportunities. The government believes that these objectives can only be achieved through tight financial discipline, a more efficient allocation of resources and an improvement in the investment performance of the economy. The main features of the government's policy are outlined in the next three paragraphs.

Public Sector Finance

20. The public sector deficit is being cut back by measures designed to increase the tax yield, through a reduction of current expenditure and by the control of capital expenditure. To this end the government has widened the tax base by introducing a value added tax, a tax on foreign travel, and by rationalising the system of tax incentives and exemptions on personal income, corporate profits and foreign trade. The aim is to reduce the reliance on foreign trade taxes, to increase the efficiency of the tax collection system, and at the same time to contain current expenditure. The efficiency of public sector agencies is being increased and tariffs are to be maintained in line with costs. Only two public sector agencies are expected to have deficits in 1984 (The State Electricity Company and The State Sugar Council).

Investment

22. Within the public sector budget greater resources are being devoted to investment in the construction, agricultural and energy sectors, and continued help in these areas is expected from international agencies such as the World Bank and Inter-American Development Bank. Domestic private investment is also being encouraged through the creation of special funds, particularly in the agricultural, tourism, mining and export oriented sectors. New free trade zones are being created to assist this process. These policies will serve to stimulate development in the interior of the country. At the same time new emphasis is being given to private savings through the issue of new savings instruments by financial institutions. Interest rates have been allowed to rise in line with the international market rates.

22. Since taking over in August 1982, the present administration headed by Dr. Salvador Jorge Blanco has also taken a series of measures to open up the country to foreign investment. These include an amendment to the foreign investment law giving more flexibility for foreigners to invest in the Dominican Republic. The government has repeatedly pointed out that its priorities for foreign investment are in the areas of free trade zones, tourism, agroindustry and mining.

23. In order to attract new investments in free trade zones, and taking into consideration the advantages of free trade zones established in the Dominican Republic in gaining access to the North American market under the Caribbean Basin Initiative law, the government has announced a policy whereby private foreign corporations can promote, establish and own free trade zones and local financing is available to construct them. It is anticipated that a number of companies presently situated in Asia will be attracted to the Dominican free trade zones, due to the fact that preferential tariff treatment from that area into the U.S. market will not be available two years hence. The tourism sector now operates totally in the parallel foreign exchange market, thereby making costs for the tourist in the Dominican Republic lower than in the past. Also, the government has simplified the requirements for foreigners to purchase land or houses in tourist areas. Regarding investment in agroindustry, the government has announced a policy of promoting joint-ventures between the government and the private sector, including foreign investors, under which the government would contribute land to the joint-venture for development by the private sector. As regards mining, after twelve years in which private exploration of mineral resources was not permitted, the government of Jorge Blanco has, by decree, allowed foreign investors to seek private concessions for the exploitation of mineral resources, except in some reserved areas where the government seeks joint-venture projects.

External Account

24. Various measures are being taken to correct the disequilibrium in the foreign exchange budget. The scope of the parallel market has been broadened to reduce pressure on the official market. All imports, except oil and its derivatives, are now being financed through the parallel market and the government intends to convert new foreign loans through this market. Exporters now receive an incentive ranging from 48% to 100% (i.e. proceeds are converted at rates between RD\$1.48=US\$1 and the parallel market rate) depending on the type of export and can thereby maintain their competitive position. Certain import restriction and quotas have been introduced on a variety of products to contain imports, but will be removed as soon as is feasible.

25. The raising of new external debt is being severely restricted to reduce pressure on the foreign exchange budget from debt service obligations. Support is being sought from the IMF and will be directed to restoring the net international reserves of the Central Bank. Part of the debt to international commercial banks was renegotiated in 1982-1983 and the Government intends to seek additional debt relief from its bank and official creditors during 1984.

1983 IN REVIEW

Economy

26. Production: The real growth in GDP for 1983 is provisionally estimated at 3.9% compared to 1.6% in 1982 as a result of increased agricultural, manufacturing and construction activity. Agricultural output as a whole increased by 4.2% during 1983 and notable increases were achieved in rice and vegetable oil products. Almost all manufacturing sectors recorded increases with the exception of beverages, while the construction sector showed moderate increases. Gold and silver production declined during 1983 but were offset by increases in the ferronickel and calcite production. Real growth in GDP is expected to decline 1.9% during 1984 as a result of reduced agricultural activity, due to the drought between January and May, and slack demand for mined products. Under the impact of restrictive fiscal and monetary policy inflation fell to 6.9% in 1983 compared to 9.6% in 1982 but is expected to increase during 1984 to between 14% and 18% as the impact of increased import costs are passed through the economy.

Finance

27. Government Expenditure: In spite of the government's success in keeping a tight control over the size of public expenditure, the budget deficit increased marginally in 1983 to \$285m to \$277m in 1982 notwithstanding a 21% increase in current revenues against a 13% increase in current expenditure. The increase in the budget deficit was due entirely to higher current capital expenditure totalling \$235m in 1983 compared to \$182m in 1982. The deficit has once again been financed through additional borrowings both domestically and abroad. The budget deficit for the first quarter of 1984 was \$18m, significantly less than the \$52m for the same period in 1983. This result was achieved by containing expenditure, which actually declined by 0.5%, and increasing income by 14.7%. The budget deficit for the first half of 1984 is forecast to be \$65m and for 1984 as a whole it is expected to be \$198m. The money supply (M1) is estimated to have grown by 12.3% in 1983 as compared with 12.0% in 1982 and 4.1% in 1981. However the rise in 1984 is expected to be limited to 9.4%.

28. Financial System: At the end of 1983 legislation was passed abolishing the largely unregulated exchange houses and creating exchange banks under the supervision of the Central Bank. These exchange banks, of which there are now 95, act as 'bureaux de change' and are not allowed to undertake any other banking functions. Approximately 90% of foreign exchange transactions in the parallel market are conducted through the exchange banks.

29. Exchange Controls: Throughout 1983 more and more imports were transferred to the parallel market to alleviate the pressure on the official market. In May 1984 the Monetary Board transferred all remaining imports, except oil and oil derivatives, to the parallel market. In addition the system of export incentives has been expanded and almost all exports are now converted through intermediate rates ranging from RD\$1.48/US\$ to the parallel market rate. The Central Bank continues to provide liquidity to the parallel market by selling foreign exchange to it, and proposals are now being considered to convert all new official loans through this market.

Balance of Payments and Reserves

30. In spite of the government's attempts to stimulate exports and discourage imports, the balance of trade remains substantially negative. Export performance during 1983 was stagnant registering a small increase of 2.3% over 1982 to US\$785m. The decline in sugar and coffee revenues reflecting generally weak international prices were offset by the increase in ferronickel exports as Falconbridge Dominicana resumed certain operations on the back of higher prices for this product. This is underlined by the export indices: in 1983 the volume of exports index increased to 89.9 from 78.0 in 1982 (1972=100) while the price of exports index declined from 229.2 in 1982 to 224.7 in 1983 and the value of exports index increased marginally to 225.9 in 1983. In the same period imports increased by 2.0% to US\$1,279m. The volume of oil and oil derivative imports increased by 1.6% in 1983 to 13.5 million barrels, although the cost was marginally lower by 2.1% (\$400.8m). However imports of wheat and corn increased by 20%. The adjusted trade balance in 1983 of negative \$497m was marginally greater than the \$490m deficit recorded in 1982. The deficit is expected to narrow to \$423m during 1984 with exports increasing by 15% over 1983 and imports rising by 4%. The balance on services showed a deficit of \$138m in 1983 compared to \$157m in 1982 and \$335m in 1981.

31. After taking into account of movements on invisibles and transfers the current account of the balance of payments improved from a deficit of \$442m in 1982 to a deficit of \$421m in 1983. This deficit was financed by foreign capital inflows of US\$263.7m including approximately \$92m from the IMF, the use of reserves and by increasing the level of arrears by approximately \$358m.

32. The gross foreign reserves of the Banco Central amounted to \$229m at the end of 1983, equivalent to a little more than 2 months of Dominican imports. At the end of June 1984 they had fallen to \$169.4m. There has been a significant decline in the net foreign reserves of the Banco Central over the past few years, as borrowing by the Banco Central has increased, and the level of net foreign reserves at the end of 1983 was negative by \$1,037.2m reflecting the country's increased foreign borrowings and arrears.

33. The net foreign liabilities of the commercial banks at the end of 1983 amounted to \$51m. Including the net foreign liabilities of the Banco Central at the same date of \$1,037m, the net foreign liabilities of the banking system as a whole amounted to \$1,088m.

Foreign Debt

34. In December 1982 negotiations were commenced with a Working Committee of Banks representing the country's commercial bank creditors with a view to renegotiating an important part of the external debt to the private banking sector. These negotiations provided for the refinancing of US\$567m of external debt, consisting of 95% of confirmed letters of credit outstanding at 30 November 1982, all letters of credit overdue as at 30 November 1982, and all principal payments on loans in arrears at the same date of falling due between that date and 31 December 1983. The refinancing loan has a maturity of six years from 18th January 1983 and the refinancing loan agreement was signed on September 15th. The effect of this agreement was to provide major relief in 1984 and to push the main burden of debt service forward to 1985-6.

35. Notwithstanding the 1983 refinancing there has been further pressure on scarce foreign reserves arising from the continued chronic balance of payments and government deficits, and the continued freeze on new credits from commercial banks. As a result the government has requested a moratorium on all principal payments due since March 1984 on debt to the commercial banks as a preliminary step towards renegotiating such debt. In addition the government is expected to approach the Paris Club to negotiate the debt to its official creditors due in 1983 and 1984, if these negotiations are successful the effect will be to ease the debt service burden for 1984 and 1985 and spread it more evenly over the next ten years.

36. A PARAGRAPH NEEDS TO BE INSERTED ON DEBT SERVICE PROJECTIONS - THE CENTRAL BANK HAS NOT PROVIDED FIGURES FOR THIS.

IMF

37. Shortly after taking office in August 1982, the government decided to seek external assistance from the IMF and the commercial banks in its efforts to reduce mounting pressure on the foreign exchange resources of the country. Negotiations with the IMF led at the beginning of 1983 to the arrangement of three facilities designed to improve the Dominican balance of payment position and its reserves of foreign currency. They consisted of an extended facility for three years in an amount of SDR371.25m (equivalent to around US\$400m) and a compensatory facility of the equivalent of around US\$45m. A buffer stock facility of around US\$14m was subsequently negotiated.

38. As noted during the early part of 1983 the government of the Dominican Agreement obtained an SDR 371.5m Extended Fund Facility from the IMF. The IMF programme under this facility was implemented as scheduled in 1983. Negotiations were held with the IMF in the first quarter of 1984 on the economic programme and targets for the year. Due to differences between the government and the IMF, negotiations were for a while suspended. When these negotiations were resumed in June 1984 the focus of the IMF had shifted away from restoring the Extended Fund Facility towards a "temporary agreement". It is proposed that at the end of this "temporary agreement", and after a further review of the Dominican economy, negotiations would be held to discuss the granting of a Stand-by Facility.

39. A PARAGRAPH NEEDS TO BE INSERTED ON THE TERMS OF THE TEMPORARY AGREEMENT REACHED RECENTLY.

THE DOMINICAN REPUBLIC:

FINANCIAL REPORT SEPTEMBER 1983

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* (this information was not available at the time of drafting)

PRODUCTION

Dominican Republic: composition of GDP by sector of origin

| Current Prices | 1979 | | 1980P | | 1981P | | 1982P | |
|--------------------|---------------|--------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | RD\$m | % | RD\$m | % | RD\$m | % | RD\$m | % |
| Agriculture | 679.1 | 12.3 | 947.4 | 14.3 | 951.6 | 13.2 | 961.4 | 12.1 |
| Livestock | 312.7 | 5.7 | 347.0 | 5.2 | 352.9 | 4.9 | 404.1 | 5.1 |
| Forestry & Fishing | 35.0 | 0.6 | 42.0 | 0.6 | 45.0 | 0.6 | 49.4 | 0.6 |
| Mining | 220.9 | 4.0 | 351.7 | 5.3 | 255.9 | 3.6 | 190.0 | 2.4 |
| Manufacturing | 928.6 | 16.9 | 1,015.4 | 15.3 | 1,133.1 | 15.7 | 1,454.9 | 18.4 |
| Construction | 418.8 | 7.6 | 479.4 | 7.2 | 537.1 | 7.5 | 557.0 | 7.0 |
| Commerce | 861.0 | 15.7 | 1,047.8 | 15.8 | 1,173.6 | 16.3 | 1,321.4 | 16.7 |
| Transport | 305.5 | 5.6 | 310.4 | 4.7 | 329.9 | 4.6 | 354.6 | 4.4 |
| Communications | 49.5 | 0.9 | 51.9 | 0.8 | 60.6 | 0.8 | 69.3 | 0.9 |
| Electricity | 31.3 | 0.6 | 30.0 | 0.5 | 66.8 | 0.9 | 82.4 | 1.0 |
| Finance | 191.0 | 3.5 | 237.7 | 3.6 | 286.8 | 4.0 | 305.3 | 3.9 |
| Private Property | 456.3 | 8.3 | 556.2 | 8.4 | 681.2 | 9.4 | 693.5 | 8.8 |
| Government | 469.1 | 8.5 | 551.9 | 8.3 | 607.9 | 8.4 | 663.3 | 8.4 |
| Other services | 540.0 | 9.8 | 661.9 | 10.0 | 727.8 | 10.1 | 810.9 | 10.3 |
| Total | 5498.8 | 100.0 | 6,630.7 | 100.0 | 7,210.2 | 100.0 | 7,917.5 | 100.0 |

Notes: P=Provisional

Source: Banco Central

Dominican Republic: consumer price index

| % increase | 1979 | 1980 | 1981 | 1982 | 1983 |
|-----------------|------|------|------|------|------|
| Consumer prices | 9.2 | 10.8 | 7.5 | 9.6 | 6.9 |

Source: Banco Central

FOREIGN TRADE

Dominican Republic: principal exports by quantity

| | 1979 | 1980 | 1981 | 1982 | 1983 |
|--------------------------------|---------|---------|---------|---------|---------|
| Sugar ('000 metric tons) | 992.4 | 802.0 | 847.5 | 833.3 | 917.7 |
| Coffee ('000 metric tons) | 38.8 | 19.7 | 26.8 | 34.0 | 29.7 |
| Cocoa ('000 metric tons) | 25.1 | 23.5 | 27.2 | 38.7 | 34.4 |
| Tobacco ('000 metric tons) | 42.5 | 21.8 | 39.2 | 12.1 | 13.5 |
| Bauxite ('000 metric tons) | 634.7 | 605.8 | 457.2 | 140.6 | - |
| Ferronickel ('000 metric tons) | 65.4 | 46.6 | 49.1 | 14.2 | 53.8 |
| Gold ('000 troy ounces) | 353.7 | 369.6 | 407.8 | 390.5 | 354.0 |
| Silver ('000 troy ounces) | 2,258.5 | 1,662.5 | 2,033.6 | 2,211.4 | 1,328.1 |

Source: Banco Central

Dominican Republic: composition of exports

| RD\$m | 1979 | 1980 | 1981 | 1982 | 1983 |
|-----------------|-------|-------|---------|-------|-------|
| Sugar | 233.4 | 330.7 | 560.4 | 308.6 | 298.9 |
| Coffee | 157.7 | 76.8 | 75.9 | 95.6 | 76.4 |
| Cocoa | 78.5 | 55.8 | 50.1 | 59.0 | 60.9 |
| Tobacco | 55.5 | 35.6 | 67.3 | 24.1 | 24.0 |
| Bauxite | 20.9 | 18.5 | 15.7 | 5.2 | - |
| Ferronickel | 123.4 | 101.3 | 110.5 | 24.2 | 83.5 |
| Gold and Silver | 127.8 | 259.5 | 207.8 | 163.6 | 164.5 |
| Other Products | 71.4 | 83.7 | 100.3 | 87.4 | 77.0 |
| Total exports | 868.6 | 961.9 | 1,188.0 | 767.7 | 785.2 |

Notes: Figures have been compiled on an f.o.b. basis

Source: Banco Central

Dominican Republic: export indices

| 1972 = 100 | 1979 | 1980 | 1981 | 1982 | 1983 |
|-------------------|-------|-------|-------|-------|-------|
| Volume of exports | 110.1 | 84.4 | 95.4 | 78.0 | 89.9 |
| Price of exports | 209.4 | 278.6 | 342.9 | 229.2 | 224.7 |
| Value of exports | 249.9 | 276.7 | 341.7 | 220.8 | 225.9 |

Source: Banco Central

DOMINICAN REPUBLIC: DIRECTION OF TRADE

| RD\$m | 1979 | 1980 | 1981 | 1982 | 1983 |
|----------------------|----------------|----------------|----------------|----------------|----------------|
| EXPORTS | | | | | |
| United States | 459.1 | 444.6 | 741.3 | 385.4 | 503.6 |
| Venezuela | 49.0 | 87.1 | 71.4 | 19.3 | 3.7 |
| European Community | 86.4 | 79.8 | 73.4 | 53.0 | 66.7 |
| Japan | 28.8 | 8.7 | 15.1 | 6.0 | 7.0 |
| Other countries | 245.3 | 341.7 | 286.8 | 304.0 | 204.2 |
| Total exports | 868.6 | 961.9 | 1,188.0 | 767.7 | 785.2 |
| IMPORTS | | | | | |
| United States | 443.2 | 607.8 | 583.7 | 469.9 | 441.5 |
| Venezuela | 191.0 | 301.5 | 256.5 | 221.0 | 271.5 |
| European Community | 87.1 | 126.0 | 103.2 | 88.3 | 99.9 |
| Japan | 70.2 | 113.7 | 82.4 | 64.6 | 55.0 |
| Other countries | 288.9 | 349.4 | 424.4 | 412.0 | 411.1 |
| Total imports | 1,080.4 | 1,498.4 | 1,450.2 | 1,255.8 | 1,279.0 |
| TRADE BALANCE | | | | | |
| United States | 15.9 | -163.2 | 157.6 | -84.5 | 62.1 |
| Venezuela | -142.0 | -214.4 | -185.1 | -201.7 | -267.8 |
| European Community | -0.7 | -46.2 | -29.8 | -35.3 | -33.2 |
| Japan | -41.4 | -105.0 | -67.3 | -58.6 | -48.0 |
| Other countries | -43.6 | -7.7 | -137.6 | -108.0 | -206.9 |
| Net balance | -211.8 | -536.5 | -262.2 | -488.1 | -493.8 |

Source: Banco Central

BALANCE OF PAYMENTS

Dominican Republic: balance of payments

| RD\$m | 1979 | 1980 | 1981 | 1982 | 1983 |
|-------------------------|--------|--------|--------|--------|---------|
| Balance of trade | -268.9 | -557.8 | -263.7 | -489.6 | -497.0 |
| Services | -268.2 | -299.8 | -335.2 | -157.3 | -139.1 |
| Current account balance | -537.1 | -857.6 | -598.9 | -646.9 | -636.11 |
| Transfers | 205.8 | 187.8 | 193.0 | -205.0 | 215.0 |
| Capital inflows | 374.8 | 723.9 | 434.4 | 301.2 | 263.7 |
| Use of reserves | -43.5 | -54.1 | -28.5 | 140.7 | -157.4 |

Source: Banco Central

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

Dominican Republic: foreign exchange balance

| RD\$m | Inflows | Outflows | Balance | Reserves |
|-------------------|----------------|----------------|---------------|----------|
| January 1982 | 114.7 | 181.6 | -66.9 | 243.6 |
| February | 159.5 | 166.8 | -7.3 | 236.3 |
| March | 150.3 | 156.9 | -6.6 | 229.7 |
| April | 161.7 | 124.6 | 37.1 | 266.8 |
| May | 237.9 | 300.0 | -62.1 | 204.7 |
| June | 116.8 | 172.3 | -55.5 | 149.2 |
| July | 166.4 | 129.1 | 37.3 | 186.5 |
| August | 113.0 | 165.6 | -52.6 | 133.9 |
| September | 169.7 | 202.7 | -33.0 | 100.9 |
| October | 174.5 | 150.1 | 24.4 | 125.3 |
| November | 117.2 | 115.0 | 2.2 | 127.5 |
| December | 167.5 | 97.3 | 70.2 | 197.7 |
| Total 1982 | 1,849.2 | 1,962.0 | -112.8 | |
| January 1983 | 235.3 | 206.7 | 28.6 | 226.3 |
| February | 94.4 | 122.5 | -28.1 | 198.2 |
| March | 143.1 | 105.7 | 37.4 | 235.6 |
| April | 117.5 | 113.5 | 4.0 | 239.6 |
| May | 158.2 | 164.7 | -6.5 | 233.1 |
| June | 172.1 | 134.0 | 38.1 | 271.2 |
| July | 151.2 | 170.4 | -19.2 | 252.0 |
| August | 189.9 | 138.5 | 51.4 | 303.4 |
| September | 122.7 | 234.6 | -111.9 | 191.5 |
| October | 126.8 | 109.6 | 17.2 | 208.7 |
| November | 125.4 | 124.3 | 1.1 | 209.8 |
| December | 188.2 | 168.9 | 19.3 | 229.1 |
| Total 1983 | 1,824.8 | 1,793.4 | 31.4 | |
| January 1984 | 126.2 | 146.8 | -20.6 | 208.5 |
| February 1984 | 177.8 | 206.9 | -29.1 | 179.4 |

PUBLIC FINANCE

Dominican Republic: Public Finance

| RD\$m | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|--------------|--------------|--------------|--------------|--------------|
| GOVERNMENT CURRENT REVENUE | | | | | |
| Taxes, duties, licences etc. | 622.7 | 713.7 | 749.2 | 676.3 | 798.1 |
| Other revenue | 50.9 | 155.2 | 159.1 | 68.8 | 107.5 |
| Total (a) | 673.6 | 868.9 | 908.3 | 745.1 | 905.6 |
| GOVERNMENT CURRENT EXPENDITURE | | | | | |
| Operational expenditure | 390.0 | 465.1 | 514.6 | 534.1 | 566.9 |
| Interest and public debt | 78.2 | 75.4 | 79.6 | 105.3 | 146.4 |
| Current transfers | 140.2 | 166.9 | 157.7 | 161.1 | 187.8 |
| Other expenditure | 132.6 | 35.9 | 51.3 | 49.9 | 63.2 |
| Total (b) | 741.0 | 743.3 | 803.2 | 850.4 | 963.3 |
| SURPLUS AVAILABLE FOR INVESTMENT | | | | | |
| Current savings(a) -(b) | -67.4 | 125.6 | 105.1 | -105.3 | -57.7 |
| Sale of assets | 8.6 | 9.6 | 10.2 | 7.2 | 6.5 |
| Other receipts | 0.7 | 1.4 | 6.6 | 2.8 | 1.4 |
| Total(c) | -58.1 | 136.6 | 121.9 | -95.3 | -49.8 |
| CURRENT CAPITAL EXPENDITURE | | | | | |
| Real investment | 96.3 | 128.1 | 120.8 | 97.6 | 116.4 |
| Capital transfers | 166.2 | 192.8 | 159.6 | 83.2 | 118.2 |
| Acquisition of fixed assets | 1.0 | 2.3 | 2.0 | 1.3 | 0.8 |
| Total(d) | 263.5 | 323.2 | 282.4 | 182.1 | 235.4 |
| BALANCE FOR FINANCING (e)=(c)-(d) | 321.6 | 186.6 | 160.5 | 277.4 | 285.2 |
| BALANCE FINANCED BY | | | | | |
| Foreign credit facilities | 226.6 | 103.0 | 69.2 | 91.1 | 99.9 |
| Domestic credit facilities + treasury certificates | 38.0 | 20.0 | 85.0 | 173.0 | 150.2 |
| Bond issues | 50.0 | 50.0 | - | 1.8 | - |
| Other resources | 7.9 | 10.9 | 1.6 | 3.4 | 13.0 |
| Total (f) | 322.5 | 183.9 | 155.8 | 269.3 | 259.1 |
| Financing balance (e) - (f) | 0.9 | -2.7 | -4.7 | -8.1 | -26.1 |

Source: Banco Central

FINANCIAL SYSTEM

Dominican Republic: net foreign reserves

| RD\$m | End 1979 | End 1980 | End 1981 | End 1982 | End 1983 |
|-------------------------|-------------|-------------|-------------|-------------|-------------|
| BANCO CENTRAL | | | | | |
| Foreign reserves | 300.5 | 302.9 | 310.5 | 197.7 | 229.1 |
| Foreign liabilities | 360.9 | 423.4 | 474.7 | 642.5 | 1,266.3 |
| Net foreign reserves | -60.4 | -120.5 | -164.2 | -444.8 | -1,037.2 |
| COMMERCIAL BANKS | | | | | |
| Foreign assets | 35.9 | 25.2 | 18.8 | 37.9 | 42.7 |
| Foreign liabilities | 73.9 | 154.8 | 341.3 | 341.1 | 93.7 |
| Net foreign reserves | -38.0 | -129.6 | -322.5 | -276.2 | -51.0 |
| BANKING SYSTEM | | | | | |
| Foreign reserves | 336.4 | 328.1 | 349.3 | 235.6 | 271.8 |
| Foreign liabilities | 434.8 | 578.2 | 816.0 | 956.6 | 1,360.0 |
| Net foreign reserves | -98.4 | -250.1 | -466.7 | -721.0 | -1,088.2 |

Notes. Foreign liabilities include all foreign liabilities other than foreign debt (overdrafts and liabilities not subject to repayment terms stated in contracts in advance) foreign debt of the commercial banks other than the Banco de Reservas is included in the foreign debt of the private sector.

Source: Banco Central.

DOMINICAN REPUBLIC: POSITION AT THE INTERNATIONAL MONETARY FUND

| SD/In end year | 1979 | 1980 | 1981 | 1982 | 1983 |
|----------------------------|-------|------|------|------|-------|
| IMF quota | 55.0 | 82.5 | 82.5 | 82.5 | 112.1 |
| Use of IMF credit | 98.3 | 38.0 | 19.8 | 64.1 | 235.2 |
| Use of IMF credit/quota(%) | 171.5 | 46.1 | 24.0 | 77.7 | 209.8 |

Notes: The figures for the use of IMF credit exclude the drawing of the reserve tranche.
Source: International Monetary Fund

Dominican Republic: consolidated balance sheet of the commercial banks

| RD\$m | End 1979 | End 1980 | End 1981 | End 1982 | End 1983 |
|---|----------------|----------------|----------------|----------------|----------------|
| NATIONAL COMMERCIAL BANKS | | | | | |
| Banco de Reservas de la Republica Dominicana | 768.4 | 880.7 | 1,081.4 | 1,189.1 | 1,348.4 |
| Banco Popular Dominicano | 210.6 | 253.7 | 303.8 | 327.7 | 348.5 |
| Banco de Santander Dominicano | 67.5 | 90.0 | 125.9 | 146.1 | 136.2 |
| Banco Santo Domingo | 35.2 | 29.9 | n.a. | n.a. | n.a. |
| Banco Metropolitano | 42.6 | 49.9 | 60.9 | 76.1 | 96.7 |
| Banco de Boston Dominicano | 34.4 | 43.4 | 53.2 | 76.0 | 73.0 |
| Banco de Comercio Dominicano | - | 15.9 | 29.4 | 48.3 | 52.8 |
| Banco de los Trabajadores | 9.7 | 13.8 | 17.0 | 21.3 | 27.4 |
| Banco Nacional del Credito | - | - | 6.3 | 28.7 | 38.2 |
| Banco Universal | - | - | - | - | 23.6 |
| Banco Girod | - | - | - | - | 11.8 |
| Total (a) | 1,168.4 | 1,377.3 | 1,677.9 | 1,913.3 | 2,156.6 |
| FOREIGN COMMERCIAL BANKS | | | | | |
| Royal Bank of Canada | 329.6 | 356.2 | 425.8 | 419.6 | 331.0 |
| Bank of Nova Scotia | 106.6 | 122.7 | 147.6 | 151.2 | 138.3 |
| Citibank | 109.5 | 104.7 | 104.6 | 128.9 | 116.1 |
| Chase Manhattan Bank | 155.6 | 174.6 | 210.0 | 225.5 | 209.8 |
| Bank of America | 41.8 | 36.6 | 54.4 | 67.9 | 48.7 |
| Total (b) | 743.1 | 794.8 | 942.4 | 993.1 | 843.9 |
| ALL COMMERCIAL BANKS (a) + (b) | 1,911.5 | 2,172.1 | 2,620.3 | 2,906.4 | 3,000.5 |

Notes: n.a. = not available
Source: Banco Central

FOREIGN DEBT

Dominican Republic: foreign debt by maturity

| RD\$m | End 1979 | End 1980 | End 1981 | End 1982 | End 1983 |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| Short term (0 - 1 year) | 139.9 | 270.4 | 232.1 | 170.4 | 131.5 |
| Medium term (1 - 8 years) | 360.1 | 402.9 | 388.5 | 444.2 | n/a |
| Long term (over 8 years) | 1,065.4 | 1,166.1 | 1,216.4 | 1,306.9 | 2,437.9 |
| Total foreign debt | 1,565.4 | 1,839.4 | 1,837.0 | 1,921.5 | 2,569.4 |

Notes: Disbursed debt only. Figures exclude foreign liabilities of the Banco Central and commercial bank liabilities other than foreign debt.
Source: Banco Central.

Dominican Republic: foreign debt by borrower

RD\$m end 1983

| | Short term | Medium & long term | Total |
|--|--------------|--------------------|----------------|
| PUBLIC SECTOR | | | |
| Central government | | | |
| Banco Central | - | 931.5 | 931.5 |
| Banco Agricola | 34.8 | 845.0 | 879.8 |
| Banco de Reservas | | 7.5 | 7.5 |
| Banco Nacional de la Vivienda | 10.0 | 14.1 | 24.1 |
| Consejo Estatal del Azucar | | 13.1 | 13.1 |
| Corporacion de Fomento Industrial | 60.8 | 1.1 | 61.9 |
| Corporacion del Acueducto y del A/c de Santo Domingo | | 0.1 | 0.1 |
| Corporacion Dominicana de Electricidad | | 18.5 | 18.5 |
| Corporacion Dominicana de Empresas Estatales | | 237.0 | 237.0 |
| Instituto de Auxilios y Viviendas | | 6.0 | 6.0 |
| Instituto de Estabilizacion de Precios | | 0.8 | 0.8 |
| Instituto Nacional de Aguas Potables y Alcantarillados | 10.0 | 56.1 | 66.1 |
| Instituto Nacional de la Vivienda | | 4.3 | 4.3 |
| Universidad Autonoma de Santo Domingo | | 1.2 | 1.2 |
| | | 0.1 | 0.1 |
| Total public sector | 115.6 | 2,125.4 | 2,251.0 |
| Private sector | 15.9 | 301.5 | 317.4 |
| Total | 131.5 | 2,436.9 | 2,568.4 |

Short term (0 -1 year). Medium term and Long term (over 1 year)

Source: Banco Central

FOOTNOTES

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

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

E N T R E:

DE UNA PARTE, el BANCO CENTRAL DE LA REPUBLICA DOMINICANA, institución bancaria autónoma del Estado, organizado de acuerdo con la Ley No. 6142 de fecha 29 de diciembre de 1962, y sus modificaciones, con su domicilio y Oficina Principal en su edificio sede, ubicado en la manzana formada por la Av. Dr. Pedro Henríquez Ureña y las Calles Leopoldo Navarro, Manuel Rodríguez Ob- jío y Federico Henríquez y Carvajal, de esta ciudad, debidamente representado para los fines y consecuencias del presente Contrato, por su Gobernador, señor Lic. JOSE SANTOS TAVERAS, dominicano, mayor de edad, casado, economista, domiciliado y residente en esta ciudad, provisto de la cédula de identificación personal No. 358 serie 94, sello hábil, quien en lo adelante se denominará "LA PRIMERA PARTE"; y

DE LA OTRA PARTE, la SAMUEL MONTAGU & Co., Limited, con su domicilio en 114 Old Broad Street, Londres, EC2P2HY, institución bancaria, organizada de acuerdo con las leyes del Reino Unido, representada por uno de sus Directores, señor ARNOLD B. SHIPP, británico, mayor de edad, casado, portador del Pasaporte número B228660, domiciliado y residente en Londres, Inglaterra, quien en lo adelante se denominará "LA SEGUNDA PARTE".

SE HA CONVENIDO Y PACTADO LO SIGUIENTE:

PRIMERO.- "LA SEGUNDA PARTE" se obliga frente a "LA PRIMERA PARTE", en su calidad de asesora financiera, de conformidad con los términos del presente Contrato, a asesorar y ayudar a "LA PRIMERA PARTE", en todas las gestiones relacionadas con la renegociación de la deuda externa de la República Dominicana, tanto con los bancos comerciales como frente a los organismos oficiales del denominado Club de París.

SEGUNDO.- "LA SEGUNDA PARTE" se compromete y obliga a redactar por cuenta de "LA PRIMERA PARTE", una versión debidamente actualizada del informe sobre la economía dominicana, la cual

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se destinará a ser distribuída a la comunidad financiera internacional.

TERCERO.- "LA SEGUNDA PARTE" se obliga asimismo a organizar, a solicitud de "LA PRIMERA PARTE", diversos programas de capacitación orientados hacia los funcionarios previamente designados por "LA PRIMERA PARTE". Dichos programas de capacitación podrán ser dictados en Londres u otros centros financieros, de manera que puedan ser aprovechables las instalaciones de "LA SEGUNDA PARTE" así como de su accionista el MIDLAND BANK.

CUARTO.- "LA SEGUNDA PARTE" acepta formalmente, mediante el presente Contrato, su disposición de proporcionar a "LA PRIMERA PARTE", cualquier servicio de asesoría financiera que le sea solicitada, relacionada con inversiones extranjeras en la República Dominicana, proyectos de desarrollo de la República y otros. Queda expresamente convenido que en este caso las partes suscribirán acuerdos específicos sobre dichos asuntos.

QUINTO.- El presente Contrato entrará en vigor el día 10. (primero) del mes de septiembre del año 1984 (mil novecientos ochenta y cuatro) y permanecerá en vigencia hasta tanto una cualquiera de las partes decida ponerle fin, en cuyo caso, deberá notificárselo por escrito a la otra parte, con por lo menos treinta (30) días de anticipación.

SEXTO.- "LA PRIMERA PARTE" se obliga a pagar a "LA SEGUNDA PARTE", por concepto de servicios de asesoría pactada en el presente Contrato, la suma de US\$14,000.00 (CATORCE MIL DOLARES DE LOS ESTADOS UNIDOS DE AMERICA) mensual, los cuales serán pagados trimestralmente y al vencimiento del Contrato. Asimismo, "LA PRIMERA PARTE" pagará a "LA SEGUNDA PARTE", los gastos en que esta última incurra por concepto de viajes, hoteles, comunicaciones, etc., mediante presentación de las facturas correspondientes. Los costos que se hayan generado localmente, serán pagaderos en pesos dominicanos, asimismo los gastos realizados en dólares de los Estados Unidos de América serán reembolsados en dicha moneda.

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SEPTIMO.- Durante la vigencia del presente Contrato, "LA SEGUNDA PARTE" se abstendrá de provocar cualquier tipo de conflicto de intereses y asimismo velará por mantener el carácter estrictamente confidencial de las informaciones suministrádale por "LA SEGUNDA PARTE" o cualesquiera otra información que haya podido ser obtenida por conducto de "LA PRIMERA PARTE", excepto cuando "LA PRIMERA PARTE" haya autorizado de manera expresa la divulgación de las mismas.

OCTAVO.- "LA SEGUNDA PARTE" empleará sus mejores esfuerzos en el cumplimiento del presente Contrato, salvo casos de fuerza mayor. En presencia de un evento que escape al control de "LA SEGUNDA PARTE", ésta deberá notificar prontamente de tales circunstancias a "LA PRIMERA PARTE" y dentro de un plazo no mayor de 15 (quince) días. "LA SEGUNDA PARTE" será responsable por su negligencia o descuido deliberado en el cumplimiento de los términos del presente Contrato.

NOVENO.- El presente Contrato se regirá por las leyes de la República Dominicana y las partes expresamente se remiten al derecho común para los aspectos no previstos en el mismo.

DECIMO.- Las partes, para los fines y consecuencias del presente Contrato, eligen domicilio en la forma siguiente: "LA PRIMERA PARTE", en su edificio sede, indicado en este Contrato; y, "LA SEGUNDA PARTE", en 114 Old Broad Street, London EC2P2HY, Londres, Inglaterra.-

HECHO y FIRMADO de buena fé, ha sido el presente Contrato, en dos (2) originales de un mismo tenor y efecto, uno para cada parte, en la ciudad de Santo Domingo, Distrito Nacional, Capital de la República Dominicana, a los días del mes de del año mil novecientos ochenta y cuatro (1984).-

POR "LA PRIMERA PARTE".

POR "LA SEGUNDA PARTE".

Lic. JOSE SANTOS TAVERAS,
Gobernador.

ARNOLD B. SHIPP,
Director.

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TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA
SANTO DOMINGO

ATTN: LIC. JOSE SANTOS TAVERAS, GOBERNADOR

REF: CONTRATO DE ASESORIA FINANCIERA

SIGUIENDO NUESTRAS CONVERSACIONES EN SANTO DOMINGO LA SEMANA PASADA, ENTENDEMOS QUE EL BANCO CENTRAL DE LA REPUBLICA DOMINICANA HA DECIDIDO SUSPENDER POR UN PLAZO INDEFINIDO EL CONTRATO DE ASESORIA ENTRE DICHA INSTITUCION Y SAMUEL MONTAGU. SEGUN FUE COMUNICADO AL SR. DESMOND CONNOR EN UNA REUNION EL 6 DE AGOSTO DE 1984 ESTA DECISION SE DEBE AL PARECER A EXIGENCIAS BASADAS EN EL USO PRIORITARIO DE MONEDA EXTRANJERA. POR LO TANTO QUEREMOS ELEVAR A SU ATENCION Y CONSIDERACION TRES ALTERNATIVAS PARA LA CONTINUIDAD DE LAS RELACIONES QUE NUESTRA FIRMA DESEA MANTENER CON ESE BANCO CENTRAL DE LA REPUBLICA DOMINICANA.

1. ASESORAMIENTO CASO POR CASO

~~DADO EL HECHO QUE EL BANCO CENTRAL ESTA POR EMPEZAR LA~~ RENEGOCIACION DE LA DEUDA EXTERNA DOMINICANA FRENTE A LOS BANCOS COMERCIALES; ~~CUYA~~ RENEGOCIACION SERA BASTANTE DIFICIL. A NUESTRO JUICIO ESTA ES LA AREA EN LA CUAL EL BANCO CENTRAL MAS NECESITARA ASISTENCIA TECNICA Y EN LA CUAL LA ASESORIA DE SAMUEL MONTAGU PUEDE RESFORZAR LA POSICION DEL BANCO CENTRAL FRENTE A LOS BANCOS ACREEDORES. POR LO TANTO UNA ALTERNATIVA PARECE SER LA RENOVACION DEL CONTRATO EN LA SIGUIENTE FORMA:

(A) SAMUEL MONTAGU SOLAMENTE ASESORARA AL BANCO CENTRAL SOBRE LA RENEGOCIACION DE DICHA DEUDA POR LA CUAL SE NEGOCIARA UNA COMISION, Y

(B) SAMUEL MONTAGU PROPORCIONARIA CUALQUIER OTRO SERVICIO DE ASESORIA A LA SOLICITUD DE ESE BANCO CENTRAL EN CUAL CASO SE SUSCRIBIRIAN ACUERDOS ESPECIFICOS SOBRE DICHOS SERVICIOS.

2. FONDEO EXTERNO DE UN CONTRATO DE ASESORIA

EXISTE LA POSIBILIDAD DE QUE UN ORGANISMO INTERNACIONAL, O UNA INSTITUCION DE AYUDA FINANCIERA, PUDIERA FINANCIAR UN CONTRATO DE ASESORAMIENTO ENTRE EL BANCO CENTRAL Y SAMUEL MONTAGU, LO QUE CIRCUNDAIRIA LAS EXIGENCIAS EXISTENTES EN EL USO PRIORITARIO DE MONEDA EXTRANJERA POR PARTE DEL BANCO CENTRAL.

SAMUEL MONTAGU HA REALIZADO EN VARIAS OCASIONES ESTE TIPO DE CONTRATO Y INVESTIGARA SI EXISTE DICHA POSIBILIDAD PARA EL CASO

3. ASESORAMIENTO AL GOBIERNO DE LA REPUBLICA DOMINICANA

UNA OTRA ALTERNATIVA PUEDE SER QUE EL CONTRATO DE ASESORIA SEA

(A) ENTRE EL GOBIERNO DE LA REPUBLICA DOMINICANA, EL BANCO CENTRAL Y SAMUEL MONTAGU LO QUE SIGNIFICARIA UNA REDUCCION DEL COSTO QUE EL BANCO CENTRAL TENDRIA QUE ATENDER DADO QUE EL COSTO TOTAL DE TAL CONVENIO SE APOCIONARIA ENTRE EL GOBIERNO Y DICHO BANCO CENTRAL, O

(B) ENTRE EL GOBIERNO DE LA REPUBLICA DOMINICANA Y SAMUEL MONTAGU SOLAMENTE LO QUE SIGNIFICARIA QUE EL BANCO CENTRAL NO TENDRIA QUE ATENDER COSTO NINGUNO.

SI ESTA ALTERNATIVA ES FACTIBLE TAMBIEN SE DEBERIA CONSIDERAR LA FORMA ESPECIFICA DE UN CONVENIO LA CUAL PUDIERA SER SUJETA A UN CONTRATO CASO POR CASO (VEASE ALTERNATIVA 1.).

ESPERAMOS SUS COMENTARIOS SOBRE ESTAS ALTERNATIVAS A LA MAYOR BREVEDAD DADO LOS ACONTECIMIENTOS QUE SE ESTAN DESARROLLANDO EN TODO LO QUE SE TRATA DE LAS RELACIONES ECONOMICAS DE LA REPUBLICA DOMINICANA FRENTE A SUS ACREEDORES EN ESTOS DIAS.

ATENTAMENTE
ARNOLD SHIPP

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