

CENTRAL BANK OF THE DOMINICAN REPUBLIC

SPEECH GIVEN BY
DR. DIOGENES H. FERNANDEZ
GOVERNOR OF THE CENTRAL BANK
OF THE DOMINICAN REPUBLIC
BEFORE THE AMERICAN CHAMBER
OF COMMERCE

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SANTO DOMINGO, D. N.,
MARCH 20 th, 1973

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Mr. Chairman,

Members of the American Chamber of Commerce

Gentlemen:

During the last four years, the performance of our economy has been highly satisfactory, and, has revealed once more during the year that has just elapsed, the dynamic and creative effort of all active sectors of the country which are presently involved in the difficult task to assist in maintaining a steady economic development. This performance took place even though the international economy evolved within a framework, characterized by its worldwide and successive monetary crisis and by continuing inflationary pressures. These are times of rapid changes in the international economic and commercial structures. On the one hand, we have noted the admission of new members into the European Economic Community, Common Market, which produced the logical development of extending Europe's economy and markets. We have also observed and endured the hard situation which the dollar stability has been going through. Said situation has forced the American authorities into a second devaluation of this important reserve currency, due to the continuous deficits in the Balance of Trade of the United States as well as to other related factors.

There are many economic consequences of the devaluations and revaluations of the currencies of the different major countries of the world. ^{Es decir} Among such consequences, we may point out the fact, that a realignment in the world trade structure has been developing through the changes in prices of internationally traded commodities. Therefore, we observe that the world is presently going through a process of continuous alterations and realignments of the international trade system and, in view of such situation, we recommend that the Dominican Republic, specially its sectors devoted to economic and productive activities, must be quite alert to take advantage of the new opportunities and junctures that may arise in the near future. We shall only be able to maintain or improve our economic and trade position among the independent nations of the world by means of a dynamic, determining and constructive action from both our public and private entrepreneurs.

In this respect, 1972 was surely a good year for the country from the economic point of view. ^{mirar} Our economy had very good opportunities of benefitting and taking advantage of the most favorable international market conditions, while the domestic effort to expand the national output was determining to the maintenance of the fast rate of economic growth experienced all year long.

^{desear: saber}
^{Reneguir: dar cosa}
^{saludo}
^{falto de}
I do not wish to pursue today's speech without previously thanking the Honorable American Chamber of Commerce for this new opportunity

it has given me to address such a distinguished and enlightened audience. I highly appreciate this occasion of being with you again, to present data, facts and criteria concerning subjects that today are of extreme interest for persons devoted to the various activities which contribute to the nation's economic development.

PROGRESS OF THE DOMINICAN ECONOMY
DURING 1972

ANALYSIS OF THE BEHAVIOUR OF THE MAJOR ECONOMIC INDICATORS

The outcome of an analysis of the major economic indicators for the recently elapsed year shall direct us, necessarily to reassert that 1972 was a year of an extraordinary economic and social progress. For instance, the Gross National Product, increased at the rate of 12.5% compared to that of 1971, as announced by the Honorable President in his speech of last February 27. Briefly this fast growth proves that, the excellent results achieved under the mystic that the joint constructive effort of all, produces economic and social development of nations. Various factors have influenced this rate of growth, among which we may point out the continuous increase in the rate of Government investment, which for said year was of 18% and that of private investment which increased at a rate of 23%. Another major factor which had a noticeable influence on this production increase was the extraordinary growth in exports, ^{with} led by sugar, with

a considerable increase in prices and volume. There was also a significant increase in the country's production and exports due to a new item, nickel, which will become a dynamic factor of our export sector.

- Vale de la Paz
It is worthwhile to point out that even though the high rate of growth of our Gross National Product reached in 1972 was widely influenced by the production of nickel, which is a new export, this rate of growth would still be high, if we exclude nickel from our calculations of the National Accounts, since it would anyway reach the figure of 9.5%.

A more precise view of what has been achieved during the last few years, may be obtained by dividing the period 1960-1971 in two parts, and verifying that for the second part, which includes the years 1968-1971, the annual per capita growth of the Gross National Product was of 7.5%, a figure that may favorably be compared to the slow per capita growth for the period 1960-1967, which only reached 1.2%.

Besides the noticeable contribution of the mining sector to this growth, other sectors such as industry and building activities have also shown a dynamic development of 12.9% and 22.5%, respectively, which constitute, at the same time, two important employment sources. On the other hand, the total output of sugar reached a volume of 1,255,562 short tons (raw value), which represents a record figure in the national production; livestock production increased at the high rate 6.0%, which allowed an expansion

of meat exports at a rate of 131% compared to that of 1971. In general, it is evident that there is a considerable increase in output of the major sectors of the country, which demonstrates, that this high rate of development of our economy is mostly a consequence of domestic factors and therefore we reassert that the high rate of increase in public and private investment has been one of the most important causes that has activated the wheels of the national economy.

Foreign Sector

The recent evolution of our country's foreign trade has demonstrated the capacity of improvement of this important sector of the economy. During last year, exports have attained the record figure of RD\$347.6 million, the highest level reached in our economic history, showing an increase of RD\$104.6 million which is equivalent to 43% above the level of RD\$243.0 million of 1971. Within this high volume of exports, sugar and its by-products have increased from RD\$145.6 million in 1971 to RD\$176.4 million in 1972 representing a significant improvement of 21.1%. It is important to mention that the value of sugar and its by-products exports grew by RD\$30.8 million, as a result of an increase in the physical volume exported from 992,047 metric tons in 1971 to 1,098,578 M. T. in 1972, as well as of better prices obtained

in the international markets. To this we must also add, that for the first time there was a significant increase in exports of sugar by-products.

At the same time, our tobacco exports produced an additional inflow of foreign exchange, since they increased from RD\$20.2 million in 1971 to RD\$28.6 million in 1972. Likewise, coffee and cocoa, which in 1971 reached RD\$23.9 million, the former and RD\$13.6 million, the latter, increased to RD\$29.8 million and RD\$18.3 million, respectively. One of the main achievements in our policy of export production diversification has been the birth of a new and important line of exports, nickel, which in 1972 was able to reach RD\$47.1 million even though full capacity production was not yet attained. In addition to the excellent behaviour of our traditional exports, nontraditional exports have also experienced an increase from RD\$23.8 million in 1971, to RD\$35.1 million in 1972, which represents a rate of increase of 47%.

On the other hand, imports have also increased even though at a slower rate than exports, as they went from RD\$311.0 million in 1971 to RD\$337.7 million in 1972, or a growth of 8.5%. It is worthwhile to point out that for the first time in the last decade the country had a favorable balance of trade of RD\$9.9 million, as a result of the dynamic behaviour of our foreign trade, which is really a noticeable achievement of

the efforts that have been made to improve the balance of payment situation.

In spite of the promising results of our exports last year, that we have pointed out above, we must insist that the institutions devoted to export promotion must double their efforts and direct their activities and resources, primarily towards increasing production - surpluses that have possibilities in foreign markets, so that the rate of export increase can be maintained at the necessary level to support the balance of payment equilibrium obtained in the last years and thus produce the required foreign exchange surplus to finance the development of the other sectors of the domestic economy.

Consistent with the healthy performance of our external sector, the Balance of Payments for 1972 closed with a surplus of US\$11.7 million which represents a favorable balance, resulting mainly from the extraordinary increase occurred in the price and in the volume of sugar and other major export products, such as coffee, tobacco, cocoa and - nickel.

The nonmonetary capital account of our Balance of Payments has maintained its usual net favorable balance. The inflow of private and official capital, in net terms, grew, to the amount of RD\$111.6 million, which means it was possible to maintain the same rate of capital inflows

obtained in the last few years. As well, the direct foreign investments experienced a net increase of RD\$3.6 million, from RD\$65.0 million in 1971 to RD\$68.6 million in 1972. Therefore, private foreign investment has been able to remain at a high level due to the stable and favorable conditions to attract international investors, which the country has experienced.

Fiscal Operations

The Honorable President of the Republic in his address of February 27th expressed that the behaviour of the public sector during 1972 was very satisfactory. Analyzing the behaviour of this sector we find that current income actually continued to increase at the high rate of 14.2%, which produced a revenue collection of RD\$315.2 million, even though it is admitted that more efforts can be made in order to substantially improve the tax and tariff collections systems.

The increased revenue obtained allowed the Government to maintain a sound fiscal policy as pertains to the composition of the current public expenses, which has been stable since the Government took office, as only RD\$207.5 million out of the current revenue were used for current expenses, which allowed that 95% from the RD\$126.3 million invested by the Government in works of infrastructure for development in 1972, could be financed with its own resources.

The economic authorities are convinced that if the amount of public investment in basic infrastructure is maintained, in the future, the country can preserve the continuous and rapid rate of economic and social development as at present, since this is one of the determining factors for a high rate of increase of domestic output. They can therefore assert, that one of their major concerns has been to progressively increase this important stimulus to the economy, thus contributing to activate the other productive sectors of the Nation, as it has been achieving since 1965.

In addition, special mention must be made of the fact that the National Government, while extraordinarily increasing the public investment from an amount of RD\$21.5 million in 1966 to RD\$126.3 million in 1972 it has, at the same time, created various mechanisms and financial facilities, to stimulate even more and redirect the domestic economic resources towards the productive sectors of the economy.

Such is the case, for example, of the Investment Fund for Economic Development (Fondo de Inversiones para el Desarrollo Económico - FIDE), created in the Central Bank in 1966, which as of December 31, 1972, had granted financing to the private sector by an amount of RD\$51,184,414.60, for projects of the industrial and agricultural sectors

and many other productive activities. Likewise, in 1967 a new system of selective legal reserve requirement was established, which has served to channel the commercial banking credit towards the productive sectors and with increasing success, since the commercial banks availed themselves of the unified legal reserve system.

The Government, while representing a vehicle and stimulus to the economic growth, has been creating the necessary mechanisms to permanently expedite and develop private sector investment. Among the main institutions which were created to such an end, it is worth mentioning the Commission for National Development, the Price Stabilization Institute, the Export Promoting Center and, lately, the timely strengthening of the Agriculture Bank of the Dominican Republic and its complete technical and administrative reorganization, in order to transform it into the efficient agriculture and livestock development institution which it should have been long ago.

Therefore, our high rate of development is an obvious indication - that during the last few years there has been a harmonious coordination of public and private efforts, duly geared towards a definite development policy designed by the Dominican Government.

Monetary Sector

The evolution of monetary statistics, reflects a satisfactory behaviour for 1972. Most of all, the monetary sector has supported and stimulated the economy thus also contributing to its rapid growth. Consequently, the commercial bank and the FIDE fund's credit increased at the rate of 23.5%, or from RD\$256.6 million in 1971 to RD\$317.0 million in 1972. These credits have been principally geared towards the productive sectors. In the case of FIDE, due to the fact that the majority of its loans are directed to the productive sector, and in respect of commercial banks because the system of selective legal reserve requirement directs, in an optional manner, our economic resources towards the sectors that contribute most to the development of our productive forces. This is and has been one of the monetary instruments which have mostly assisted in developing the private industrial, agricultural and livestock sectors. The constant financial support received by the productive sectors has served to make our economic progress increasingly sound, while numerous sources of employment are generated and the remaining productive sectors of the country are even more activated.

It is important to state, however, that the banking system has been able to increase the volume of its loans due to the fast and simultaneous increase in the deposits received from the public and corporations, showing

confidence in the stability and development of the economic system from its users. Therefore, it is encouraging to notice how demand, savings, time and special deposits have increased at a rate of 18.3%, that is, from a volume of RD\$330.6 million in 1971 to RD\$391.1 million in the past year. Furthermore, more than half of the loans of the FIDE fund are financed from soft loans obtained from international organization, which implies, that although the level of credit of the banking system has increased in accordance with the needs and demands of our economic development, there has also been a corresponding increase in the ability and the volume of resource absorption by the financial system, both from national and international sources.

As a result of the increasing volume of credit transactions in the development field, which is not exactly the sector in which commercial banks concentrate, we have observed a profitable multiplication of private development financing institutions that, no doubt, are slowly filling the gap that existed when the monetary authorities created the present legal reserve system. During the last years two credit institutions have been created, Compañía Financiera Dominicana y Corporación Financiera Asociada, S. A. (COFINASA), and we have recently seen the creation of a new one, Financiera Interamérica. These institutions specialize in medium and long term loans and have an increasingly important role in our

financial system. Another specialized institution, which was created last year, is the Banco Hipotecario de la Construcción, that will concentrate its transactions in housing financing. The fact that the private sector is actively participating in the financing of development projects is a clear indicator of the integrated efforts of the public and private sectors towards the Nation's economic development.

We must also point out, that the money supply registered an increase during 1972, in comparison with last year, since by December, the balance reached RD\$266.7 million, as a result of the Balance of Payments surplus, and the seasonal increase, that always occurs in December. However, it must also be mentioned, that during the first 10 months of the year the level of the money supply remained very stable, changing from RD\$226.2 million in 1971 to RD\$231.7 million by October of 1972, which represents a satisfactory behavior of the money supply. Thus, the seasonal increase in the level of the money supply occurred as usual in the last two months of the year, as a result of the inflow of foreign exchange due to the balance of payment surplus, which is beneficial for our economy.

Special mention should be made of the fact, that the monetary policy pursued in order to obtain a gradual reduction of commercial arrears, has had a very remarkable success, since the volume of arrears has been considerably diminished during the last few years. In 1972 the highest level reached by commercial arrears was RD\$20.5 million during the months of

April and May, but this amount decreased slowly until it reached RD\$7.6 million by December of 1972. This tendency has been increasing and during the last days we have totally eliminated commercial arrears and at this moment I can state that in the Central Bank there is no letter of credit, or draft or arrear pending approval, besides those that are received daily for their approval the same day. I must add that it is the purpose of the monetary authorities to continue this policy as long as the level of our monetary reserve allows, and at this moment the immediate outlook of this variable is very favorable. Even though conditions have improved during the last years, it is still too early to take hasty measures in order to modify our exchange system or our import regulations, since in this field, it is advisable to move with caution, specially when international monetary and trade condition have become so changeable in the last months. Therefore, it is necessary, for the time being, to maintain our exchange and monetary policies, until we can permanently consolidate the improvements in our balance of payment and external trade and until the international outlook seems clearer and better defined.

PARTICIPATION OF THE CENTRAL BANK IN THE
ECONOMIC AND SOCIAL DEVELOPMENT

The Central Bank has had direct and indirect participation in the economic and social development of the country through its multiple financial -

transaction and its contributions to various specialized programs of other development institutions of the country. Besides this direct contribution of the Central Bank, through the transactions of the FIDE fund and the Department for Tourist Infrastructure Development, it has also contributed to our economic growth by the financing of numerous specialized agricultural and livestock programs of the Banco Agrícola (Agriculture Bank) and through the opening of lines of credit in favor of important institutions, such as, the Instituto de Estabilización de Precios, the Banco de Reservas and others. Furthermore, the Central Bank has also participated in the provision of domestic counterpart funds for partial financing of development projects and programs utilizing international resources. Thus, we see that the Bank's contribution takes various forms and mechanisms, all of which have a common goal.

New directions in FIDE's credit policy

As it is well known, the credit operations of the FIDE fund have been aimed to contribute to the development of private sector investments, and to direct them, at the same time, towards the priority sectors of the country. Since its foundation in 1966, until December of 1972, FIDE has lent a total amount of RD\$51,184,414.00 which has been distributed in the different fields of the economy. The most dynamic year, and of the greatest volume of transactions, was 1972, since 155 applications

were received equivalent to RD\$16,493,759.13, of which 130 applications were approved for a total value of RD\$12,891,427.23 during that year. We must also mention that out of the total of loans approved last year, 46% went to the industrial sector, 19% to agriculture and livestock, 11% to health, 11% to services and the remaining 13% was distributed among the other sectors.

The most important social and economic effects to the national economy generated by FIDE financed projects during the past year, are the following: internal savings were mobilized in an approximate amount of RD\$11.5 million; imports were substituted by RD\$2.6 million; 1,070 new jobs were created; and the value added to the economy will increase by RD\$16.7 million. For these reasons, we consider that the transactions of the FIDE fund are very useful to the economy of the country, since they are directly contributing to the increase of the Nation's productive capacity, while on the other hand, they also participate in the solution of the problems of unemployment, health and education. The intermediary financial institutions which utilize the resources of FIDE have been very dynamic and receptive to this system, which has surely contributed to the fast and swift evolution of the transactions of this credit mechanism.

Due to the important participation of the FIDE fund in the development of the industrial sector, we have considered that the time has come to make a retrospective analysis of our credit policy to this sector in accordance with our present development needs in the second stage of the active participation of this Department of the Central Bank in the country's progress.

The first stage of the Dominican industrial development practically started in 1966, with the creation of the FIDE fund and, very specially, two years later through the enactment by the Executive Power of law 299, on Industrial Incentives. These two creations have been, in addition to the functions of the other specialized institutions, the two instruments which have strengthened the most our previously incipient industrial class.

In FIDE's first stage, the main objective of the national authorities was the creation of convenient conditions and adequate incentives, so that a new sector in the country could slowly develop with an entrepreneurial mentality, which would be willing to get involved and integrated with the development process, through the necessary investment to establish new industrial enterprises.

During this stage, the FIDE fund deliberately worked with the widest and most flexible criteria in its credit policies, as permitted by the agreements signed with international financial institutions which contributed with

most of the resources, so as to offer the holders of domestic capital, the majority of which were businessmen, sufficiently flexible conditions, so that the incipient industrial class could develop and grow adequately, until it could feel sure of itself and of its potential of future production. The results of this policy have been very noteworthy and fruitful since the country has been able, in a short term, to create a well defined and dynamic industrial sector. However, we feel that the time has come in which FIDE can establish more directing criteria and better defined guide lines to stimulate, even more, the industrial investment towards areas considered to be of highest priority and that offer greater future prospects within the framework of the overall economy.

As a result of the achievements obtained during the period that we have called our first stage of industrial development, FIDE has taken the initiative, in its second stage, of redirecting its industrial credit policies in order to emphasize and favor labor intensive investments and those directed to develop the domestic agroindustrial sector. And since we are speaking of our agroindustry, we feel that this is a good moment to call upon those public and private institution that have a relation with agricultural programs, so that they keep in mind, at the time of seeding destined to future industrialization, the necessary classification and adequate sorting of varieties in each of the products chosen for this purpose, so as to obtain the best quality and the highest possible output per area, so that we may have a competitive production in both domestic and external markets.

These two criteria are geared towards the development of and a more intensive utilization of the domestic productive factors, since, besides representing a sound economic policy, they also imply a progressive social meaning which will make our workers better producers while employment in the country increases, as well as the purchasing power of this class, representing such an important part of our economy.

Accordingly, with the assistance of the Central American Institute for Research and Industrial Technology (ICAITI), the FIDE fund has already established a new system of project evaluation. This system aims to establish a more selective and discretionary credit policy, through the appraisal of the project considered by FIDE for its financing, within a mechanism that would be considerably faster than the previous one.

The new direction of credit policy is to offer a steady stimulant and support those enterprises that use the more abundant factor of production in our country, which will be increased in the near future, through the multiple programs that will most favorably influence our agricultural and livestock production, such as, the PIDAGRO program, and the various dams, irrigation canals and rural electrification projects under construction.

However, for our development there is a need that becomes more evident day by day: in order to maintain an adequate rate of economic development, we also require an adequate human, institutional and industrial development, necessary to activate and sustain this desirable econo-

mic growth. Experience shows that economic development must be supported through the strengthening and perfecting of the institutions and industries, making them constantly more efficient so that they can keep up with modern technique, and be more competitive in respect of production costs. FIDE has been both an actor and a witness of the new demands that development creates and has felt the pressures to improve its systems and perfect its techniques.

We recognize, however, that a simple announcement of changes in criteria and evaluation systems is not enough, in spite of the importance of these two aspects, but that it is necessary that additional mechanisms and special facilities be created to help the private sector direct its resources and techniques towards the agro-industry and other priority sectors of the economy. For this reason the Central Bank has engaged the assistance of ICAITI and is using the collaboration of a well known expert in this field, in order to advise FIDE in the additional task of achieving the improvement of research and industrial efficiency within the country with the establishment of two new institutes destined, in their respective fields, to fill a great gap in this important sector of the domestic economy.

I have the pleasure to announce, that under the Central Bank's sponsorship two projects are presently under way, which shall lead to the creation of the Institute of Research and Technical Assistance for

Industry, and of the Intermediate Technician Training Institute; both centers are directed to assist and strengthen the Dominican industrial sector, so that it may improve its technical capacity and efficiency, so as to make its products competitive on the most demanding markets.

The objectives and organization of the Institute of Research and Technical Assistance for Industry will be the following:

1.- To offer assistance to productive enterprises in solving the technical problems that may arise in their plants; reduce production costs; improve production techniques in existing plants; and identify by-products which may be used as inputs in productive processes.

2.- To carry on technological research for the use of domestic raw material, with special emphasis in agricultural outputs, presently existing or that may be obtained in the future, with the objective of identifying and developing new products or industrial processes.

3.- To promote the application and adaptation of technology and modern productive methods.

4.- To assist domestic entrepreneurs in matters relating to the establishment of quality standards and controls for their inputs and finished goods.

The initial institutional structure of the Institute contemplates four basic divisions; Applied Research, Analytical Laboratory, Technical Service and Quality Standard Divisions.

On the other hand, the Intermediate Technician Training Institute will have another very important function, the training of both private and public technicians and entrepreneurs. Among its fundamental objectives we can mention the following:

- 1.- Conduct technical training programs in order to prepare both private and public industrial staff;
- 2.- Promote courses and special lectures to prepare technicians in specific fields, through coordinated programs with foreign and domestic universities or educational institutions; and
- 3.- Promote training of researchers, technical experts, craftsmen and specialized labor.

The Institute will also promote and support the possibility of inviting wellknown foreign technicians to conduct specialized programs and courses. The first courses to be given are divided among three essential fields: Bussiness Administration courses, Economics courses and courses in specialized subjects, such as Statistics, Computer Programming and Tourism.

These two Institutes, whose functions and institutional structure have been described above, will represent the Central Bank's support to the industrial sector of the country, in accordance with the new criteria that the Credit Committee of FIDE will establish for the use of available resources to finance new enterprises in this sector, within the economic

and social development policy that the Dominican Government has been carrying on.

Tourist Infrastructure

In our speech of last year before this same audience, we referred to a Resolution of the Monetary Board which decided the creation, within the Central Bank, of a department to be concerned, among other technical aspects, with the administration of resources destined to promote tourist development in the country. This department, which is called Department for Tourist Infrastructure Development, was created upon request of the National Bureau for Tourism, with the approval of the President of the Republic. At present, this department is closely working with the National Bureau for Tourism, and other institutions related to this field.

The Executive Power, by means of Decrees issued in order to create the corresponding legal framework, has entrusted the Central Bank with the execution, supervision and administration of the major and complementary tourist infrastructure works, within selected areas. At present, the Central Bank is actively working on two important tourist development projects: one on the northern coast and another on the southern coast, with the purpose of creating tourist attracting facilities and convert this activity into an important source of foreign exchange.

The Costa de Ambar Project, on the northern coast, comprises two wide zones: one in the surroundings of Puerto Plata City and the other to the east of Río San Juan Town, wherein a major resort complex, including hotels, cottages, apartments, residential zoning, an 18 hole golf course, other sport facilities and a new concept in tourism for the Caribbean area, called "Villa Vacacional". The land upon which this complex will be developed represents approximately 10 million square meters.

The total public investment for the northern zone amounts to more than RD\$22.0 million, including tourist infrastructure works, and the International Airport Terminal, which is already under construction on the site called " La Union ", while the private sector investment will be of RD\$88.0 million.

The southern coast project, in the area of "Boca Chica", includes, in its first stage, the development of the following works and constructions: a club house, an 18 hole golf course, an amusement center, two hotels, - enlargement of the beach areas to be developed, sewer, residential zoning, electric lighting, access roads, parking areas, public buildings and facilities and a pontoon bridge. This project will be developed in an area of approximately 2 million square meters.

The public investment in this project is estimated to reach RD\$9.2 million during the next 4 years and that of the private sector RD\$12.7 mil-

lion, during the next 6 years. In addition to the amounts with which the Dominican Government will contribute and which have already been allocated, steps are being taken for the financing of both projects in order to obtain loans from international financial agencies, such as the World Bank, for the northern coast, and the Interamerican Development Bank, for the southern coast projects.

We have considered that the development of international tourism may become, in the medium term, one of our main sources of foreign exchange earnings. Consequently, we estimate that both the public, as well as the private sectors must collaborate to help promote this tourism industry, as it has been wisely exploited by Spain, México and other countries. In a country like ours, with a tremendous usable potential in this field, tourism can considerably contribute to economic development, both as a creator of new sources of employment and as an incentive to increase production, due to a greater consumption demand, as well as generator of a considerable amount of foreign exchange earnings.

Therefore, we hereby invite the private sector to keep pace and actively participate with its investment in the tourist projects, which commencement we are already witnessing.

Cost of Living

In accordance with the 1972 preliminary figures prepared by the Department of Economic Research, the increase in the cost of living was of 8.6% in relation with last year's, which implies, that the inflationary pressures upon the economy still continue. These pressures have various causes and origins, some of which are internal and other external. During the last few months, a study about the cost of living has been undertaken by the Central Bank and although the final report is not ready yet, some very significant preliminary conclusions have been obtained, which we will briefly outline hereafter.

One of the main causes of the price increase in the Dominican Republic has been the considerable imported inflation that the country is facing, as a result of the revaluation of European and Japanese currencies, but even more as a result of the high rate of inflation that the main industrial trading partners of the Dominican Republic are experiencing. This is due to the fact, that 90% of our exports are bound to the United States of America, with which our peso maintains a par value, while only approximately 50% of our imports come from this country. The rest of our imports are of European and Japanese origin, hence, precisely from those countries which have revalued their curren-

cies in the last three years. We must bear in mind, that the currencies of the European countries and the Japanese Yen have suffered various revaluations, which, on the average, amount to more than 20% for all these currencies in general on those three years. However, if we separate the last two revaluations of the Yen, we will see, that since 1971 it has appreciated even more than other currencies, since it has increased by more than 36% in relation with the American dollar. These revaluations should have had, as it may be supposed, serious consequences for an open economy like ours.

Imported inflation is directly reflected in the increase in prices of agricultural and industrial equipment and machinery, that we utilize in our developing programs and projects, industrial chemical products, primary products, consumption goods, electrical appliances in general, loading and transportation vehicles and other indispensable imports, required by a country which is experiencing a rapid economic development. On top of the effects of the revaluation of the European and Japanese currencies, we must also add the negative effects of the inflation which all those countries are suffering. For example the rate of inflation in France is 6.6%; in Germany it is 6.4%; in Italy 7%; in Japan 5.6%; in Great Britain 8.9%; in Spain 9.2%; in Holland 7.7%; and in the United States 3.6%. This worldwide inflation naturally increases prices

of imported products of our country and is one of the most important factors of the continuing pressures upon prices which the Dominican Republic is actually facing.

It is our duty to point out that there is also a domestic factor which has influenced the increase in the cost of living, that is, the high prices of domestic agricultural products, partially generated by an extraordinary increase in the consumption demand of the population, which at the same time is the result of an increasing economic development of the domestic economy in the last few years. Our rapid rate of growth has been a result of an increasing rate in the establishment of new industries and execution of a considerable number of infrastructure projects both in the urban and rural sectors, which have carried along numerous employment opportunities at all levels, but have logically also increased the consumption demand. The investments in public and private projects and industries, and the numerous employments that have been generated, have caused the demand for agricultural commodities to increase faster than supply, but this is a rather logical phenomenon for a country presently wishing and experiencing a high rate of economic development.

The short term demand increase may generate structural pressures and bottlenecks, but we are convinced that in the medium and long term it shall greatly contribute to stimulate and induce farmers to improve

agricultural and livestock production, until supply can restore the normal price level that we are anxious to reach. For the time being we must not condition development to reaching a possible temporary stability in the prices of agricultural goods. The answer to this economic juncture comes from the supply, that is by aiming to a systematic increase of the agricultural and livestock production. By increasing our agricultural and livestock production we should be able, not only to stop the pressures on prices of these commodities, but also produce in the medium term, an output above domestic consumption as required to improve more and more our export level. It is not enough, however, to talk about the increase in the domestic production, without steadily and seriously facing one of the major hindrances that this solution has to confront.

The raise in the prices of Dominican agricultural commodities, has also been caused by speculation of the group of intermediaries marketing these products, which in their efforts to obtain higher profit margins, are simultaneously prejudicing both farmers and consumers. Additionally, we should mention the negative effect produced by the excessive number of intermediaries which take part at different levels, occasioning a considerable price increase of the product by the time it reaches the retail markets. This problem comes from a former deficiency in the marketing framework of agricultural commodities and the process of solving it corresponds to specialized agencies.

Analyzing the incidence of the price increase in agricultural and livestock goods on the cost of living increase, the Central Bank's team carrying on this study, has made several direct surveys within the main productive zones of the country in order to obtain reliable data on the evolution of the agricultural and livestock farm prices, that is, to find out the prices at which farmers sell their products to intermediaries and compare them to those paid on the Santo Domingo retail markets.

The idea was to determine in what proportion farmers or intermediaries had benefitted from the price increase in agricultural commodities. The second answer we were looking for was to find out whether or not the Dominican farmers have had or are having sufficient price incentives to stimulate them in increasing production. The answer to said questions are tremendously important from the social viewpoint as well as per the agricultural and livestock marketing and the economic aspect. In free market economies, prices are the best instruments to stimulate production one way or the other, hence the importance of having a price structure fitted to the objectives aimed.

The result of said surveys was as follows: during the 1969-1972 period the retail prices of the 23 products under study increased at an average rate of approximately 12% per annum, farm prices increased 5%, and profit margins of intermediaries 33%. The comparison of

these three figures indicates that approximately 17% of the retail price was due to an increase in farm prices, and the remaining 83%, to the increase in profit margins.

Within the same study the group also performed a survey on the Santo Domingo City markets, they interviewed 128 truck drivers which are farm products suppliers, resulting that the variable transportation costs have remained fairly steady during said period.

If we observe the annual variations of the percentages of the variables studied herein we may notice an interesting phenomenon: in 1970, farm prices have increased 2.1%, the profit margins of the intermediaries 33.2% and the retail prices 9.6% as compared to 1969 figures. The changes occurred in 1971 as compared to those in 1970 were 2.1%, 37.7% and 14.3%, respectively. This means that for both years, profit margins of the middlemen on retail prices steadily increased while farm prices maintained the same rate. The comparison of 1972 with 1971, presents a fundamental and interesting change: farm prices show an increase of 9.9%, retail prices 12.3% and profit margins to intermediaries also show an increase, but at a lower rate than previous years, of 26.9%. We can, therefore, notice that during last year there was a farm price increase that benefitted farmers.

Now, what are the meaning of the result of such survey ?

The obvious conclusion is a double meaning one: In the first place, it shows that farm marketing systems must be drastically improved in order to avoid excessive speculation and prices swelling due to the excess of intermediaries at all levels, and second, that it is necessary to protect farmers in order that they may receive higher prices for their crops, to avoid that the terms of trade be against them and the increase of production. If we succeed to have higher prices paid to farmers for their crops without raising excessively retail prices as it is now occurring, then we would be giving a double incentive to the farmers to increase production: fair farm prices and demand increase resulting from more reasonable retail prices on the consumption markets.

This would concur with the criteria, which have been followed up to now, that we must concentrate our major efforts and resources towards an increase in agricultural and livestock production.

According to the results of the survey, in many events an increase in the agricultural commodity farm prices has carried along an improvement in the farmer incomes, which is the ideal situation towards a better distribution of the national wealth, that has always been aimed by this Government. One must bear in mind that research made by means of surveys, from which overall conclusions are derived, always have some

generalization, as there are, no doubt, items of agricultural and livestock production in which producers have largely benefitted, as for cattle and milk production among others. There are overall observations which are directed towards the whole system of agricultural and livestock production.

In brief we will point out the fundamental causes of the inflationary pressures that our economy is suffering. One of the main causes, as we have stated, has been the imported inflation that affects directly and indirectly the economy. The other one, has been the insufficiency of the supply of local production, including agricultural products, against a growing demand created by our speedy economic development and by the speculation of the middlemen and the swelling of the retail prices, as a result of deficiencies in our agricultural marketing. The former cause is out of our control, but concerning the second one, there are two corrective measures to be taken. One of them has been taken already by the Government and the private sector through the integrated effort that is being done to increase the agricultural production of the country. The other recommendable measure is to improve furthermore the agricultural marketing system in the country as a whole. This marketing measure has been partially initiated through the Institute of Price Stabilization.

As a result of the above, we consider an effective way of fighting the increase in food prices, the array of measures and policies recently taken by the Government concerning agricultural development, such as: the Agrarian Laws, the PIDAGRO Plan, the Valdesia and Tavera Dams, the Yaque del Norte Project, the Rural Electrifications Programs, the Irrigation Projects in the south, such as Sabaneta and Sabana Yegua Dams and the Azua Canal, as well as the Tourist Development Projects, which will be initiated this year, plus other no lesser important projects that are too many to mention here.

The reorganization and the new inflow of capital channelized towards the Banco Agricola, through the sale of National Government's Agriculture Bonds, has been one of the most sound and profitable measures taken by the Government within its agricultural development policies. These policies have brought about the already expected results throughout the country. Consequently, there are enough reasons to be confident in the short, medium and long term economic future, concerning the development of infrastructure and the productive base that is being prepared. Therefore, there should not be any doubt that the inflationary pressures will start to decrease in the near future, since the program that has been undertaken is the most effective way to fight them.

OUTLOOK FOR 1973 AND ATTITUDE
THAT WE SHOULD TAKE FROM NOW ON

We are wholly confident, that 1973 should be a good year from the economic point of view. The promising prospects of this year are based on the fact that the country has been able to maintain a high and increasing rate of public and private investment. At the same time it has been successful in mobilizing abundant domestic and external resources, in order to finance the execution, in this year and the near future, of multiple industrial and agricultural projects.

During the recent visit to our country, of the President of the Interamerican Development Bank, Lic. Antonio Ortiz Mena, a loan agreement was signed to finance one of the most important projects that has been undertaken in the Dominican Republic in order to increase agricultural production: the first stage of the Integrated Program for Agriculture Development worth RD\$24.8 million, during which the efforts of all institutions related to agriculture will be strengthened and coordinated. Later on, in Washington, D. C., a loan agreement was signed for that part of the first phase of the Yaque del Norte Catchment Area Irrigation Project, to be financed by the World Bank, for a value of RD\$17.0 million.

For the present year 1973, the Interamerican Development Bank has under study and possibly for immediate financing the following projects:

part of the first stage of Yaque del Norte Irrigation Project, equivalent to RD\$15.5 million that it agreed to finance; the enlargement of Santo Domingo City water supply, amounting RD\$13.0 million; the Bao Dam Project, worth RD\$20.5 million; the Fundación Dominicana de Crédito Educativo Project in order to enlarge its scholarship and assistance programs value RD\$2.1 million; IDECOOP's Fishing Project, worth RD\$ 1.6 million; the Tourist Infrastructure Development Project within the recently named Costa Caribe in the Boca Chica zone, equivalent to RD\$6.0 million. Likewise, the Department for Tourist Infrastructure Development of the Central Bank will complete, by June of this year, the study concerning the tourism development of Puerto Plata, which infrastructure cost amount to RD\$22.0 million. We hope that the financing agreement will be signed during this year. Moreover, the Refineria Dominicana de Petroleo starts to operate this year and as known by all of you, it has been a very profitable project to the country. Furthermore, it is quite probable that the Rosario Dominicana, S. A., begins to produce in the near future and according to the mining studies, it will be one of the best gold producing mine in the American Continent. Besides, Falconbridge Dominicana will double this year its 1972 output according to the plants program.

Other industries that will probably start to be installed this year include two new cement factories, of San Pedro de Macorís and that of

Barahona, to satisfy the increasing domestic demand which is estimated to reach by 1976, 27 millions bags yearly. We must also point out, that the need of creating these two new cement factories to satisfy the internal demand is a clear sign of the progress achieved in the last years.

For the current year, therefore, there are more than RD\$79.3 million in development projects which are presently being studied by IDB and the World Bank. For 1974 there is also another list of projects, many of which have already been submitted and others will be submitted in the near future to the international financial institutions with the purpose of obtaining their eventual approval. The idea is and has been to have prepared and ready, sufficient development projects, as required to maintain the high rate of economic growth, with the purpose of having a 3 to 4 years program of continuous investments into the basic priority sectors for the planned development of the domestic economy. We are, thus, looking for a continuous growth of our investments and a steady development of our economy. As we have tried to demonstrate in this synthesis, there is a clear and definite national development policy, since the necessary and adequate actions are being taken in order to undertake important basic development projects in the priority economic fields of the country, such as: the agriculture and livestock development and the improvement of the irrigation systems

of extended cultivated areas throughout the country, the increase in electric power output and rural electrification, as well as the development of the tourist industry. The industrial sector has also received and shall continue to receive, a wide support from the Government by means of important actions and incentive laws.

We wish to express our gratitude to the international organizations such as the Interamerican Development Bank, the World Bank, the International Monetary Fund, the Interamerican Committee for the Alliance for Progress, the Organization of American States, and the specialized agencies of the United Nations for the technical and financial assistance given the country in its execution of development projects and not only for the expert mission they have send, but also because of the visits of their top executives, like Lic. Antonio Ortiz Mena, President of the IDB, Dr. Gerald Alter, Regional Vicepresident for Latin America and the Caribbean of the IBRD, and Dr. Galo Plaza, Secretary General of the OAS.

It may be clearly noticed that our development strategy is defined by the facts and programs mentioned above, which shall be carried out in the key sectors of the economy. This is the most evident proof that there is a determination of facing the structural problems of our economy at their very source, which require the modernizing and dynamic force of a

joint private and official efforts.

Finally, after having extended a little beyond our original plan, though I preferred to do so due to the importance and transcendency of the subjects considered herein for our economic future, I wish to conclude today with the same words as in my last year's speech before this same audience. At that time we expressed what today more than ever we wish to assert:

"In this occasion, we have tried to describe the problems affecting our economy and what can be done and must be done to face them. The accelerated and continuous growth of our economy, in recent years, has created many of these problems. The fact that we are passing through a period of very high sugar prices and that, as a consequence, we do not face immediate problems, should not prompt us to refuse to take preventive measures; to make us feel complacent and confident; to make us postpone decisions and to let us be affected by a collective euphoria, stimulated by the high sales levels, each day ever increasing, of our commerce and industry.

Precisely, we must take opportunity of the bonanza and the resources which we enjoy today, to prepare ourselves

to avoid the lean years which, in economic cycles, generally follows the good years. We must with good sense integrate our reserves by following the biblical example and hoard in the years of good harvest.

My message of today, is, therefore, cautionness, orientation, rational use of resources. That is why it is so important, at this moment, that we have the necessary coordination between the programs of the Executive Power with those of the Monetary Authorities.

Only taking conscience of our own weaknesses, and with the decision and courage necessary to eliminate or neutralize them, can we guarantee the continuation of the high rate of growth which we have had in recent years, so that we can also obtain the necessary distribution of wealth generated by the different social classes of our nation, each day larger and each day more conscious of its own destiny".

Thank you.

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