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# Monetary and Banking Legislation of the Dominican Republic 1947

*by*

HENRY C. WALLICH AND ROBERT TRIFFIN

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# of the

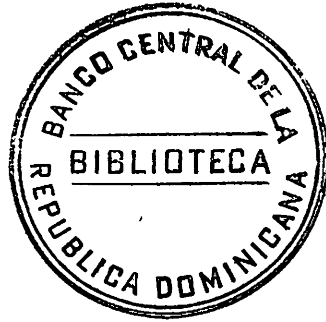
# Dominican Republic

# 1947

With Reports and Letter of Transmittal

*by*

HENRY C. WALLICH AND ROBERT TRIFFIN

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## FOREWORD

This study brings together the principal results of work carried out by economists of the Federal Reserve System in connection with a monetary and banking reform undertaken by the Dominican Republic in 1947. The banking mission to the Dominican Republic was one of a series of cooperative efforts in which the Federal Reserve System has made central banking technicians available to assist the governments of other countries in revising their monetary and banking statutes. The Dominican mission had the services of Dr. Henry Wallich, then on the staff of the Federal Reserve Bank of New York, and Dr. Robert Triffin, then a member of the staff of the Board of Governors of the Federal Reserve System. As in the case of other missions of a similar nature, the Federal Reserve System did not assume responsibility for nor direction of the work actually undertaken.

Because banking requirements and economic characteristics vary widely from country to country, each of the banking reforms in which Federal Reserve technicians have participated over the past decade has necessarily been somewhat different from all of the others. In the Dominican Republic, one of the principal problems that had to be faced was the transition from the existing dollar currency to the newly created Dominican peso. Partly for this reason, the legislation suggested by the Federal Reserve technicians and subsequently enacted places primary emphasis upon monetary stability. It is less concerned than that of many other countries with foreign exchange control and exchange rate variation, and goes somewhat further in providing restraint upon internal inflationary expansion.

The first chapter of this monograph presents background information on the Dominican economy and on its financial history and structure, much of which has not previously been available in English in this condensed form. The following chapters reproduce the reports which were submitted by Messrs. Wallich and Triffin in the fields of money, central banking, and commercial banking, together with the texts of the reform legislation, translated into English. The reports do not attempt to indicate the wide range of considerations arguing for or against specific recommendations. Instead, they explain the various parts of the monetary mechanism contemplated by the proposed legislation, and suggest the manner in which the powers granted by this legislation might be exercised. Translation of the legal texts was done by the staff of the Federal Reserve Bank of New York and checked by the Banco Central de la República Dominicana.

The Federal Reserve System has endeavored to provide helpful service to students of central banking by making readily available the results of such missions as that undertaken in the Dominican Republic. The System's function in publishing monographs of this type is conceived to be one of broadening access to knowledge, rather than of urging a given set of central banking principles for general acceptance or approval. The Board of Governors of the Federal Reserve System has published several similar studies of banking legislation in other countries, and the Federal Reserve Bank of New York is pleased to do its part by publishing the results of a mission in which one of its former staff members filled an important role.

ALLAN SPROUL,
*President.*

August 1953.

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*CHAPTER I*

# ECONOMIC AND MONETARY BACKGROUND

THE Dominican Republic comprises the eastern 70 per cent of the Caribbean island of Hispaniola, where Columbus founded the first Spanish settlement. According to the 1950 census, the country's population totals over 2.1 million people. While a good part of the Republic's area of 19,324 square miles is unsuitable for cultivation because of topographical conditions, the ratio of arable land to population is higher than in most countries of the Caribbean. According to an estimate for 1946, the national income amounted to $180.4 million, equal to $86 per capita.[1]

## SOURCES OF THE NATIONAL INCOME

The structure of the Dominican economy is reflected in the data on the national income by economic sectors presented in Table I. Agriculture, according to the table, accounted for

[1] An estimate of gross national product at factor cost, made by the Banco Central de la República Dominicana for the year 1950 (*Boletín Mensual*, June 1952), puts this figure at $136 per capita.

*TABLE I*

### NATIONAL INCOME BY SOURCE OF INCOME, 1940 AND 1946

(At factor cost)

| *Source of income* | 1940 *Millions of dollars* | 1940 *Per cent of total* | 1946 *Millions of dollars* | 1946 *Per cent of total* |
|---|---|---|---|---|
| Agriculture | 34.5 | 38.9 | 73.8 | 40.9 |
| Crops | (27.5) | (31.0) | (57.3) | (31.8) |
| Livestock | ( 7.0) | ( 7.9) | (16.5) | ( 9.1) |
| Forestry and Mining | 1.6 | 1.8 | 3.8 | 2.1 |
| Construction | 0.8 | 0.9 | 3.0 | 1.7 |
| Industry | 11.0 | 12.4 | 28.9 | 16.0 |
| Interest payments and rents | 9.3 | 10.5 | 13.7 | 7.6 |
| Transportation and communication services | 2.9 | 3.3 | 5.1 | 2.8 |
| Commercial services | 16.3 | 18.4 | 30.0 | 16.6 |
| Professional services | 2.8 | 3.2 | 3.7 | 2.1 |
| Government services | 6.5 | 7.3 | 14.4 | 8.0 |
| State | ( 6.0) | ( 6.8) | (13.8) | ( 7.7) |
| Municipalities | ( 0.5) | ( 0.5) | ( 0.6) | ( 0.3) |
| Other services | 2.9 | 3.3 | 4.0 | 2.2 |
| Total national income | 88.6 | 100.0 | 180.4 | 100.0 |

SOURCE: Research Department of the Banco Central de la República Dominicana.

about 40 per cent of the national income in 1946; it is the mainstay of the economy.

The bulk of agricultural production, with the exception of sugar cane growing, is carried on by small farmers. Production is well diversified, most of the land being devoted to the raising of basic subsistence crops, of which bananas of various types, beans, avocados, corn, rice, and peanuts are the most important. Four crops—sugar, cacao, coffee, and tobacco—are produced primarily for export. Sugar cane production is largely under the control of a small number of large sugar mills. Even in times of high sugar output only 25 per cent of the cane used by the mills is grown by small farmers.

More than 80 per cent of Dominican industrial production—the net value of which amounted to 16 per cent of the national income in 1946—consists of the processing for export of sugar, coffee, cacao, and tobacco. The establishments working for the domestic economy are predominantly small units processing foods for the domestic market, and artisans' shops.

Substantial parts of the existing larger-scale industries as well as some public utilities are owned by foreigners. Seven of the 14 large sugar mills in operation in 1949 were American-owned. Other important foreign investments are in banana plantations; electric power facilities; telephone service; the yucca, starch, and match industries; as well as petroleum distribution. For domestic investors, real estate seems to have retained its predominant attraction.

The Dominican Government has in recent years fostered the initiation of a number of industrial projects. The most notable of these are a peanut oil factory constructed in 1941, a meat-packing plant built in 1943, a textile mill completed in 1946, a cement plant built in 1947, an industrial alcohol plant completed in 1949, a brewery, a bag factory, and a hydroelectric plant installed in 1950.[2]

It is noteworthy that industry apparently contributes a smaller share to the Dominican national income than do wholesale and retail trade plus financial services. This is reflected in the dominant role of foreign trade in the economy, which calls for special comment.

## An Export Economy

The export sector is of outstanding importance for the working of the Dominican economy. As pointed out in the previous section, it absorbs a significant part of agricultural production as well as the bulk of the output of Dominican industry, which is primarily devoted to the processing of agricultural products. During 1940-46, exports accounted on the average for almost 28 per cent of the national income, a ratio that is large for a country enjoying a high degree of self-sufficiency in foodstuffs. It is also evident—although a quantitative appraisal would be difficult—that the export sector contains those activities that are most heavily capitalized and which are particularly suited to the country's basic natural resources. The country's general level of income is, therefore, closely linked to changes in the level of exports.

### *The Structure of Foreign Trade During the Last Thirty Years*

The structure of Dominican foreign trade has changed considerably during the last thirty years. Especially significant are the greater diversification of the country's exports, the declining importance of food imports as a result of increased self-sufficiency, and the increased importance of the United States as a source of supplies.

In the period since 1920, four staple commodities (sugar, coffee, cacao, and tobacco) have on the average produced 90 per cent of the exchange receipts from exports (see Table II). However, the relative positions of these items in the total have undergone significant changes.

Sugar and sugar by-products accounted for only 50.3 per cent of total exports in 1950, as against an average percentage of 73.9 during 1920-24. On the other hand, coffee increased its relative share to 14.7 per cent in 1950 from 1.6 per cent during 1920-24. While cacao and tobacco during the late Forties accounted on

[2] The construction of three new sugar mills was begun in 1950.

*TABLE II*

PERCENTAGE COMPOSITION OF EXPORTS BY PRODUCT, 1920-50*

| | 1920-24 | 1925-29 | 1930-34 | 1935-39 | 1940-44 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *Total exports in thousands of dollars* | *30,176* | *27,068* | *13,052* | *16,485* | *30,397* | *43,564* | *66,689* | *83,206* | *82,801* | *73,749* | *86,864* |
| Sugar products† | 73.9 | 61.2 | 62.6 | 64.1 | 69.3 | 55.5 | 56.9 | 65.2 | 51.2 | 52.8 | 50.3 |
| Coffee | 1.6 | 7.0 | 11.4 | 9.5 | 5.6 | 11.2 | 8.1 | 6.2 | 8.0 | 12.3 | 14.7 |
| Cacao | 11.9 | 17.2 | 13.1 | 12.3 | 9.5 | 7.1 | 6.7 | 15.6 | 20.5 | 10.2 | 16.9 |
| Tobacco | 7.2 | 6.8 | 3.8 | 1.8 | 1.2 | 7.4 | 13.2 | 5.5 | 4.9 | 7.8 | 5.4 |
| All other exports | 5.4 | 7.8 | 9.1 | 12.3 | 14.4 | 18.8 | 15.1 | 7.5 | 15.4 | 16.9 | 12.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

* Figures in first five columns are annual averages for the periods.
† Including molasses.

SOURCE: Computed from *Exportación de la República Dominicana,* various issues.

average for about the same percentages of total exports as in the early Twenties, their share has fluctuated considerably in recent years and was particularly high immediately after World War II. Moreover, during World War II and in the postwar period, a number of miscellaneous exports have become increasingly important, especially bananas, corn, frozen meats, and other processed foodstuffs, such as chocolate. It thus appears that measurable progress has been achieved in diversifying Dominican exports.

Important changes have also occurred in the composition of imports. The most noteworthy is the decline in the importance of foodstuffs. In 1950, foods accounted for 11.5 per cent of all imports, as against an average of 27.5 per cent in the 1925-29 period (see Table III). The major cause for this decrease has probably been the greatly increased national self-sufficiency in the production of rice. Rice imports absorbed an average of 8.0 per cent of the total from 1925 to 1929, but have required only negligible expenditure of foreign exchange since 1940.

As for other imports, textiles in 1950 contributed about the same proportion of total imports as they did 20 years earlier—although with a declining tendency during the late Forties. Purchases abroad of iron, steel, and chemical products, on the other hand, increased sharply, accounting in 1950 for 17.2 per cent of all imports, as against an average of 10.1 per cent for 1925-29.

The geographical structure of Dominican trade has likewise undergone some changes. As may be seen from Table IV, during 1925-29 the principal customers of Dominican exports were the United Kingdom, the United States, and Canada, which purchased on the average of 34.7, 23.7, and 12.8 per cent, respectively, of all exports, while continental European countries accounted for approximately 15 per cent. During the same period the United States was the country's most important source of supply, furnishing it with 62.1 per cent of total imports (see Table V).

In 1950, on the other hand, 43.3 per cent of Dominican exports went to the United Kingdom and only 2.9 per cent to other European countries. Thus, while the importance of the United Kingdom as the country's leading export market remained greater than ever, as a result of the bulk sales to Great Britain of the overwhelming portion of the sugar crop, export sales to the Continent had not yet recovered significantly from the low wartime levels. The percentage of Dominican exports shipped to the United States increased, although with substantial fluctuations; in 1950 it amounted to 38 per cent, as against 23.7 per cent in 1925-29. On the other hand, the United States share in Dominican imports amounted to 73.0 per cent in 1950, a notable increase over the late Twenties, although lower than immediately after the war.

*TABLE III*

PERCENTAGE COMPOSITION OF IMPORTS BY PRODUCT, 1925-50*

| | 1925-29 | 1930-34 | 1935-39 | 1940-44 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Total imports in thousands of dollars* | *25,264* | *10,614* | *10,869* | *13,323* | *18,126* | *27,664* | *53,448* | *65,329* | *46,014* | *42,985* |
| Foodstuffs | 27.5 | 24.5 | 15.2 | 11.9 | 15.4 | 13.0 | 14.4 | 13.5 | 12.9 | 11.5 |
| Liquors and beverages | ( 2.5) | ( 1.8) | ( 1.1) | ( 1.0) | ( 0.8) | ( 1.6) | ( 1.1) | ( 1.2) | ( 0.9) | ( 0.6) |
| Rice | ( 8.0) | ( 6.8) | ( 2.0) | ( n.a. ) | ( n.a. ) | ( n.a. ) | ( 1.7) | ( 0.1) | ( n.a. ) | ( n.a. ) |
| Wheat flour | ( 3.5) | ( 3.0) | ( 2.2) | ( 3.1) | ( 5.7) | ( 3.5) | ( 4.1) | ( 4.2) | ( 2.8) | ( 3.0) |
| Other | (13.5) | (12.9) | ( 9.9) | ( —) | ( —) | ( —) | ( 7.5) | ( 8.0) | ( —) | ( —) |
| Mineral oils | 7.0 | 8.9 | 6.9 | 6.1 | 4.1 | 3.6 | 4.2 | 5.3 | 6.5 | 6.5 |
| Crude petroleum | ( 1.3) | ( 1.5) | ( 1.6) | ( 1.8) | ( 1.1) | ( 1.3) | ( 1.2) | ( 1.7) | ( 2.3) | ( 2.0) |
| Gasoline | ( 3.7) | ( 4.5) | ( 2.8) | ( 2.4) | ( 1.7) | ( 1.3) | ( 1.7) | ( 2.0) | ( 2.8) | ( 3.1) |
| Other | ( 2.0) | ( 2.9) | ( 2.5) | ( 1.9) | ( 1.3) | ( 1.0) | ( 1.3) | ( 1.6) | ( 1.4) | ( 1.4) |
| Cement | 1.0 | 1.0 | 1.4 | 2.0 | 2.8 | 2.0 | 1.6 | 1.3 | 0.7 | 0.2 |
| Jute bags | 3.0 | 4.2 | 4.8 | 8.4 | 1.2 | 4.0 | 3.1 | 3.7 | 2.2 | 4.0 |
| Chemical and pharmaceutical products | 2.7 | 4.2 | 6.0 | 6.9 | 7.0 | 6.2 | 5.4 | 4.1 | 5.0 | 6.1 |
| Paper and its manufactures | 2.0 | 2.5 | 3.5 | 4.8 | 4.5 | 4.4 | 3.1 | 3.7 | 3.3 | 3.3 |
| Rubber and its manufactures | 1.5 | 1.4 | 1.7 | 1.7 | 2.1 | 2.5 | 2.2 | 2.5 | 1.7 | 2.3 |
| Cotton and its manufactures | 15.2 | 18.6 | 18.8 | 21.2 | 20.5 | 16.9 | 15.7 | 11.4 | 10.9 | 13.9 |
| Silk and its manufactures | 2.4 | 2.1 | 2.2 | 2.9 | 2.9 | 4.2 | 3.3 | 3.1 | 3.4 | 3.8 |
| Iron, steel, and their manufactures | 7.4 | 8.2 | 10.4 | 7.7 | 8.1 | 9.7 | 12.9 | 11.8 | 13.4 | 11.1 |
| Cars, carriages, and other vehicles | 5.2 | 2.5 | 4.9 | 2.8 | 2.8 | 4.5 | 6.7 | 7.9 | 6.0 | 6.9 |
| Automobiles | ( 2.7) | ( 1.2) | ( 2.3) | ( 1.0) | ( 0.3) | ( 0.7) | ( 2.0) | ( 3.2) | ( 2.3) | ( 3.5) |
| Trucks | ( 0.8) | ( 0.5) | ( 1.3) | ( 1.1) | ( 1.0) | ( 2.2) | ( 2.8) | ( 3.1) | ( 1.8) | ( 2.3) |
| Other | ( 1.7) | ( 0.8) | ( 1.3) | ( 0.7) | ( 1.5) | ( 1.6) | ( 1.9) | ( 1.6) | ( 1.9) | ( 1.1) |
| Agricultural machinery, implements, and tools | 0.8 | 1.2 | 1.4 | 0.6 | 1.4 | 0.9 | 0.9 | 0.8 | 1.0 | 1.0 |
| Other machinery and apparatus | 6.7 | 5.4 | 6.9 | 6.2 | 7.6 | 9.0 | 10.5 | 14.3 | 15.9 | 11.6 |
| All other imports | 17.6 | 15.0 | 15.9 | 16.8 | 19.6 | 19.1 | 16.0 | 16.6 | 17.1 | 17.8 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

n.a.—Not available.
* Figures in first four columns are annual averages for the periods.

SOURCE: Computed from *Importación de la República Dominicana*, various issues.

*TABLE IV*

PERCENTAGE COMPOSITION OF EXPORTS BY DESTINATION, 1925-50*

| | 1925-29 | 1930-34 | 1935-39 | 1940-44 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Total exports in thousands of dollars* | *27,068* | *13,052* | *16,485* | *30,397* | *43,564* | *66,689* | *83,206* | *82,801* | *73,748* | *86,864* |
| United States | 23.7 | 21.8 | 30.1 | 28.0 | 27.0 | 18.0 | 25.3 | 37.4 | 27.9 | 38.0 |
| United Kingdom | 34.7 | 35.6 | 36.6 | 51.3 | 37.5 | 42.8 | 41.4 | 28.7 | 42.3 | 43.3 |
| Canada | 12.8 | 3.4 | 0.1 | 5.9 | 12.8 | 9.4 | 10.4 | 20.4 | 4.3 | 0.7 |
| France | 6.8 | 18.5 | 11.8 | 0.7 | 1.3 | 3.1 | 1.3 | 0.2 | 0.2 | 0.2 |
| Germany | 3.9 | 3.7 | 2.6 | — | — | — | — | 0.1 | 0.6 | 0.4 |
| Netherlands | 5.6 | 2.3 | 3.3 | 0.1 | 0.2 | 3.9 | 2.0 | 2.7 | 2.7 | 2.3 |
| Netherlands West Indies | 0.4 | 1.2 | 1.7 | 2.6 | 3.4 | 2.6 | 2.1 | 1.1 | 1.6 | 1.1 |
| Puerto Rico | 5.3 | 6.1 | 2.1 | 3.8 | 5.6 | 9.0 | 3.7 | 4.2 | 6.6 | 4.4 |
| All other countries | 6.8 | 7.4 | 11.7 | 7.6 | 12.2 | 11.2 | 13.8 | 5.2 | 13.8 | 9.6 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

* Figures in first four columns are annual averages for the periods.

SOURCE: Computed from *Exportación de la República Dominicana,* various issues.

*TABLE V*

PERCENTAGE COMPOSITION OF IMPORTS BY COUNTRY OF ORIGIN, 1925-50*

| | 1925-29 | 1930-34 | 1935-39 | 1940-44 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|---|---|---|---|---|
| *Total imports in thousands of dollars* | *25,264* | *10,614* | *10,869* | *13,323* | *18,126* | *27,664* | *53,448* | *65,329* | *46,014* | *42,985* |
| United States | 62.1 | 57.3 | 52.5 | 71.1 | 79.9 | 77.1 | 78.3 | 78.6 | 74.8 | 73.0 |
| United Kingdom | 5.7 | 5.9 | 5.8 | 3.3 | 1.8 | 1.2 | 1.7 | 2.0 | 4.6 | 2.4 |
| Canada | 1.4 | 3.0 | 1.4 | 2.2 | 3.0 | 3.8 | 3.2 | 3.4 | 5.0 | 4.6 |
| France | 2.5 | 2.1 | 2.5 | 0.3 | — | 0.2 | 0.4 | 0.5 | 0.6 | 0.6 |
| Germany | 6.4 | 4.9 | 7.4 | 0.2 | — | — | — | 0.1 | 0.5 | 1.7 |
| Netherlands | 2.6 | 2.8 | 1.4 | 0.1 | — | 0.1 | 0.2 | 0.3 | 0.3 | 0.3 |
| Netherlands West Indies | 1.3 | 2.9 | 2.8 | 3.6 | 3.6 | 2.5 | 3.0 | 4.0 | 5.7 | 5.5 |
| Puerto Rico | 3.1 | 0.3 | 0.3 | 0.7 | 1.9 | 1.6 | 1.1 | 0.7 | 0.7 | 1.0 |
| India | 4.6 | 5.3 | 4.3 | 7.6 | 1.1 | 3.8 | 3.1 | 3.4 | 1.8 | 3.5 |
| Japan | 0.2 | 2.2 | 11.5 | 2.2 | — | — | — | — | 0.1 | 1.2 |
| All other countries | 10.1 | 13.3 | 10.1 | 8.7 | 8.7 | 9.7 | 9.0 | 7.0 | 5.9 | 6.2 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

* Figures in first four columns are annual averages for the period.

SOURCE: Computed from *Importación de la República Dominicana,* various issues.

The preponderant role that the United States now plays as a source of supplies for the Dominican Republic is to some extent a result of changes that have occurred in the composition of Dominican imports, particularly the rise in imports of capital goods. During the war and the early postwar years, when exportable surpluses of machinery and equipment were unavailable elsewhere, the Dominican Republic necessarily began to rely for these goods upon the United States.

Even though the Dominican Republic during the late Forties was drawing approximately three quarters of its imports from the United States while sending there only two fifths or less of its exports, the country has not suffered from the currency convertibility problems that have beset so many other countries in recent years. Sugar has traditionally been paid for in dollars, and the country's chief customer, the United Kingdom, has continued to pay in that currency even though the pound sterling has not been freely convertible for other purposes. During 1949 and 1950, moreover, sugar sales to Great Britain and a number of other European countries were partly financed with ECA dollars, ECA "offshore" purchases in the Dominican Republic amounting to $28.4 million in 1949 and $12.4 million in 1950.

### *The Terms of Trade and the Balance of International Accounts*

As in all export economies that produce foodstuffs and raw materials for the world market and import a wide range of capital and consumer goods, the well-being of the people is intimately affected by changes in the country's terms of trade. For the years 1920-50, a tentative and only very approximate calculation of these terms of trade is presented in Table VI, which takes a weighted average of sugar, coffee, cacao, and tobacco prices as the export price index, and a weighted mean of United States wholesale prices of foodstuffs, raw materials, and manufactures as the index of import prices.[3]

[3] The latter index was selected because it was deemed most representative of prices in those world markets where the Dominican Republic made the bulk of its purchases throughout the entire 1920-50 period.

*TABLE VI*

INDEX OF TERMS OF TRADE, 1920-50

| *Year* | *Index of import prices** (1925-28=100) | *Index of export prices†* (1925-28=100) | *Index of terms of trade‡* |
|---|---|---|---|
| 1920 | 151 | 442 | 293 |
| 1921 | 102 | 131 | 128 |
| 1922 | 97 | 98 | 101 |
| 1923 | 100 | 177 | 177 |
| 1924 | 97 | 162 | 167 |
| 1925 | 103 | 98 | 95 |
| 1926 | 102 | 89 | 87 |
| 1927 | 97 | 113 | 117 |
| 1928 | 99 | 100 | 101 |
| 1929 | 97 | 78 | 80 |
| 1930 | 89 | 59 | 66 |
| 1931 | 77 | 46 | 60 |
| 1932 | 69 | 33 | 48 |
| 1933 | 69 | 31 | 45 |
| 1934 | 77 | 39 | 51 |
| 1935 | 83 | 37 | 45 |
| 1936 | 83 | 39 | 47 |
| 1937 | 88 | 50 | 57 |
| 1938 | 81 | 39 | 48 |
| 1939 | 79 | 51 | 65 |
| 1940 | 80 | 52 | 65 |
| 1941 | 89 | 41 | 46 |
| 1942 | 101 | 95 | 94 |
| 1943 | 104 | 102 | 98 |
| 1944 | 104 | 108 | 104 |
| 1945 | 106 | 127 | 120 |
| 1946 | 122 | 146 | 120 |
| 1947 | 154 | 205 | 133 |
| 1948 | 167 | 224 | 134 |
| 1949 | 157 | 175 | 111 |
| 1950 | 163 | 230 | 141 |

* A weighted average of the following components of the United States Bureau of Labor Statistics index of wholesale prices: foodstuffs (weight 15), raw materials (weight 10), and manufactures (weight 75). The weights were selected on the basis of the percentage composition of the value of imports during 1930-47.

† A weighted average of the unit value of major export products. Weights, which were selected on the basis of the percentage composition of the value of exports during 1930-47, were as follows: cacao (weight 15), coffee (weight 9), sugar (weight 70), and tobacco (weight 6).

‡ Index of export prices divided by index of import prices. A rise in the index means an improvement in the terms of trade for the Dominican Republic.

SOURCE: Computed from United States Bureau of Labor Statistics, *Monthly Labor Review,* various issues; *Exportación de la República Dominicana,* various issues.

Owing to the particular sensitivity of raw material and foodstuff prices to the level of economic activity in the world's leading industrial countries, the Dominican Republic's terms of trade, as one would expect, have for the most part improved during boom periods and deteriorated during depressions. The major exception to this pattern occurred during the Twenties, when special conditions arising out of worldwide sugar overproduction caused sugar prices to drop sharply as early as 1925, several years before the decline in other agricultural prices.

From 1945 to 1948 the country's terms of trade have been more favorable than at any time since 1925 when the long decline in world sugar prices began. In 1949, declines in the prices of sugar, cacao, and tobacco led to a marked deterioration of the Dominican Republic's terms of trade in that year, but the 1949 trend was reversed in 1950.

Exports play a very large role in the Dominican balance of payments, accounting for 90 per cent of all current receipts. Moreover, virtually all other current-account items fluctuate together with exports, since such items as freight and insurance are directly related to merchandise transactions, while others are linked to movements in the national income and thus indirectly to the level of exports.

Throughout the period, the country's merchandise trade balance was positive (see Table VII). On other current transactions the country ran its normal deficit. The total balance on current account was slightly passive in 1940, and strongly so in 1948 when the export surplus was small. During the war and in early postwar years, the volume of exports was high and their value reached record figures, owing to the rise in the prices of key export products. At the same time, imports were not fully available. As a result, both the merchandise and the total current-account balances were strongly positive. The sizable current-account deficit incurred in 1948 was due to a sharp spurt in imports, partly for the account of the Government.

As shown in Table VII, there was, from 1939 on, a small but relatively steady flow of long-term private funds into the country, the greatest part of which were destined for investment in the new banana industry. On official account, the principal long-term transaction during recent years has been the repatriation of the external debt. Payments for this purpose totaled 13.2 million dollars during 1946 and 1947, and enabled the country to rid itself of the burden of service charges.

The recorded short-term capital movements of recent years have largely reflected the trends of the current-account items. The building-up of bank balances abroad and the increased holdings of gold and foreign exchange were the counterpart of the large export surpluses of 1942-45. A portion of this reserve accumulation helped to finance the larger imports of the later postwar years. Some unrecorded capital movements are no doubt contained in the large residual item present throughout the period.

## Monetary and Public Debt History

### *From Independence to Establishment of National Bank of Santo Domingo*

The monetary history of the Dominican Republic and the history of its public debt during the first forty-five years of its independence (which was interrupted by the temporary reannexation to Spain from 1861 to 1865) reflect the conditions of political instability that prevailed for prolonged periods, as well as, initially, the conflict with neighboring Haiti. These political uncertainties slowed the economic development of the country, and impeded the building-up of an effective fiscal system at home and the consolidation of the country's international credit standing.

Successive Governments issued paper money to meet their fiscal needs. The events following these issues formed a pattern that was repeated a number of times: (1) depreciation relative to silver, gold, and other currencies; (2) flight from the currency, and use of foreign silver and gold coins as circulating media; and finally (3) attempts to redeem the paper money at arbitrary rates.

*TABLE VII*

BALANCE OF PAYMENTS OF THE DOMINICAN REPUBLIC, 1939-50

(In millions of United States dollars)

| | 1939 | 1940 | 1941 | 1942 | 1943 | 1944 | 1945 | 1946 | 1947 | 1948 | 1949 | 1950 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Current transactions* | | | | | | | | | | | | |
| Merchandise transactions: | | | | | | | | | | | | |
| Exports | +19.3 | +18.4 | +17.3 | +35.0 | +39.0 | +41.0 | +48.1 | +67.4 | +83.2 | +82.3 | +73.7 | +83.5 |
| Imports | −11.7 | −11.0 | −11.9 | −11.6 | −14.5 | −18.6 | −18.2 | −27.7 | −53.5 | −78.3 | −46.0 | −42.0 |
| Balance | + 7.6 | + 7.4 | + 5.4 | +23.4 | +24.5 | +22.4 | +29.9 | +39.7 | +29.7 | + 4.0 | +27.7 | +41.5 |
| Service items, except return on investments (net) | − 2.2 | − 1.2 | − 1.2 | − 1.6 | − 1.7 | − 2.1 | − 3.1 | − 4.8 | − 7.7 | − 8.0 | − 8.6 | −12.0 |
| Return on investments (net) | − 4.0 | − 5.0 | − 0.6 | − 9.4 | − 7.5 | −10.1 | −10.0 | −15.3 | −18.1 | −15.9 | −12.4 | −11.8 |
| Donations (net) | — | − 2.1 | − 2.0 | − 1.1 | − 1.1 | − 2.0 | − 2.9 | − 0.9 | − 1.2 | − 0.5 | − 0.7 | − 1.0 |
| Balance on current account | + 1.4 | − 0.6 | + 1.6 | +11.4 | +14.2 | + 8.2 | +13.9 | +18.7 | + 2.7 | −20.4 | + 6.0 | +16.7 |
| *Capital transactions* | | | | | | | | | | | | |
| Long-term capital movements (net): | | | | | | | | | | | | |
| Private | + 0.4 | + 0.8 | + 1.3 | + 0.3 | − 0.6 | + 1.0 | + 1.6 | + 0.4 | + 1.5 | + 0.5 | + 0.2 | − 1.9 |
| Government | − 0.2 | − 0.2 | + 0.4 | + 0.4 | + 0.6 | + 0.6 | − 1.8 | − 1.2 | −12.0 | − 1.8 | − 0.4 | − 0.9 |
| Total | + 0.2 | + 0.6 | + 1.7 | + 0.7 | — | + 1.6 | − 0.2 | − 0.8 | −10.5 | − 1.3 | − 0.2 | − 2.8 |
| Movements of international reserves (net): | | | | | | | | | | | | |
| Dollar currency and coin movements | − 0.2 | − 0.5 | − 2.2 | − 2.8 | − 2.5 | − 1.8 | − 4.2 | − 2.8 | + 5.6 | + 3.9 | − 0.9 | − 1.1 |
| Changes in net bank balances | + 1.3 | − 1.8 | − 1.5 | − 6.3 | − 6.6 | − 6.1 | − 4.7 | + 0.5 | + 4.8 | + 6.8 | − 0.1 | − 4.5 |
| Monetary gold movements | + 0.3 | — | — | — | — | — | — | − 2.0 | — | − 2.0 | — | — |
| Total | + 1.4 | − 2.3 | − 3.7 | − 9.1 | − 9.1 | − 7.9 | − 8.9 | − 4.3 | +10.4 | + 8.7 | − 1.0 | − 5.6 |
| *Residual* | − 3.0 | + 2.3 | + 0.4 | − 3.0 | − 5.1 | − 1.9 | − 4.8 | −13.6 | − 2.8* | +13.0 | − 4.9* | − 8.3 |

* Slight discrepancies in totals are due to rounding.

SOURCES: 1939, 1946-50, International Monetary Fund; 1940-45, Banco Central de la República Dominicana, *Balanza de Pagos de la República Dominicana*, June 1951.

The first issue of paper money occurred one month after the independence of the Dominican Republic from Haitian rule had been secured, the new notes replacing a part of the Haitian paper money and copper coins. Although only 825,000 pesos were issued during the first term of President Pedro Santana (1844 to 1848), it is reported that by 1847 the paper peso had already depreciated from parity to a rate of 11 pesos to the Spanish *peso fuerte* (silver peso).

The issue of another 2½ million pesos during the first Presidency of Buenaventura Báez (1849 to 1852) caused a further depreciation to 50 pesos to the *peso fuerte.* This, however, was only a beginning; during the second term of President Báez (1856 to 1858), which ended in a civil war, new issues rose to more than 20 million pesos, causing the paper money to become virtually valueless, with 3,000 paper pesos exchanging for one *peso fuerte.* The paper pesos, which became known as *papeletas de Báez,* were finally converted at a 500-to-1 rate into internal loan certificates carrying 6 per cent interest and acceptable in payment of customs dues.

A similar fate befell the various civil war issues (1857-58), as well as the new *peso nacional,* of which 18 million pesos were issued during 1860. During the period of the Spanish reannexation (1861-65), a part of the paper money and Treasury bills was converted into Spanish pesos, but a high percentage of the money in circulation was repudiated as counterfeit. The revolution against Spain that began in 1863, the various provisional regimes of 1866-68, President Báez' third term (1870-74), and the 1873 revolution led to numerous additional issues. They took the form of Treasury bills, *piastre fuerte* notes (silver peso certificates), bank notes of the short-lived National Bank (1867), consolidated debt obligations acceptable for the payment of customs duties, and compensation bonds of the revolutionary forces.

By 1874 the Dominican public had almost wholly repudiated these domestic issues; and during the next 15 years, Mexican silver pesos as well as Venezuelan and other Latin American and European gold and silver coins served as circulating media.

The same factors that were responsible for the disturbed monetary conditions during these early years of the Republic's existence caused successive Governments to have recourse to international loan operations on terms that were often very onerous and which led to the creation of a burdensome internal floating debt. Domestic borrowing first became significant in 1866 with the setting-up of a syndicate of foreign merchants (Junta de Créditores) which subscribed to a 200,000 peso short-term loan at interest rates of 2 to 3 per cent a month. This syndicate device was used repeatedly in later years, until by 1887 the need to meet the costly interest service on the internal debt absorbed as much as one third of the total Government revenues.

The first sizable external loan transaction was the agreement with Hartmont & Company of London in 1869, which marked the beginning of a series of loans from British and Dutch bankers in which the interests of the promoters and of small groups in the Government were often better served than those of the country. Thus, of the Hartmont loan, with a nominal value of £757,700 ($3.8 million), only 5 per cent was actually received by the Dominicans.

After the default on the Hartmont loan in 1872, 16 years went by before the Dominican Government was able once more to float a foreign loan. This loan was the first of two deals with the Dutch house of Westendorp & Company, and was consummated in 1888. The contract called for an issue of £770,000 ($3.85 million) of 6 per cent gold bonds redeemable in 30 years. The proceeds were to be used in part for the conversion of the floating internal debt and of the Hartmont loan, which had been written down by 80 per cent, while the rest was to help in meeting the Treasury's immediate cash needs. The loan was guaranteed through the pledge of 30 per cent of all customs receipts, and the operation of the customs system was turned over to agents of the Dutch firm or-

ganized into an agency that became known as the "Caja de Recaudación" or "Regie". A second deal with Westendorp in 1890 involved an issue of £900,000 ($4.5 million) of 6 per cent bonds with a 55-year maturity, of which the greater part was to have been used to construct the Puerto Plata-Santiago Railroad. In the case of both Westendorp transactions, a considerable part of the funds is reported to have been applied for purposes other than those stipulated in the loan contracts.

*From Establishment of National Bank of Santo Domingo to Adoption of United States Gold Dollar as Sole Dominican Currency*

During his third term as President, Ulysses Heureaux carried through a number of monetary reforms. The French "Crédit Mobilier" was granted the concession to establish and operate a bank of issue, the National Bank of Santo Domingo. At the same time, the Dominican Republic joined the Latin Monetary Convention.

During the first two years, the National Bank issued 2.5 million pesos in gold coins, 9.6 million in silver coins, and 0.5 million in bronze coins, as well as a small amount of paper money convertible into gold or Mexican silver coins. The first issues of coins were made partly to meet the growing needs of the Treasury, as 50 per cent of the seigniorage profits went to the Government. However, in an attempt to raise more money, President Heureaux reduced the percentage of customs receipts that the "Regie" was allowed to retain to meet the debt service on the Westendorp loans. As a result, in 1892, the Government defaulted on both Westendorp loans, and in the same year the Westendorp contract and claims were transferred to a United States company known as the "Santo Domingo Improvement Company of New Jersey". It was through this transfer that American financial interests first became involved in the financial affairs of the Dominican Republic, a development that was to have far-reaching consequences for the country's subsequent monetary and debt history.

Following a disagreement between President Heureaux and the French directors of the National Bank over the President's personal loan transactions with the institution, the concession of the bank was transferred in 1895 from the Crédit Mobilier to the Improvement Company. In 1896, a new coinage of silver of inferior alloy, nominally valued at 2.5 million pesos, led to the depreciation of the silver coins in the free market to a 5-to-1 rate relative to the United States gold dollar. Although the total bank note issue amounted to only 361,000 pesos at this time, a run on the bank followed, which ended when the Government issued a decree that permitted payment of 20 to 50 per cent of export duties in bank notes. Following this action of the Government, the bank began to issue inconvertible paper money, which the Government guaranteed and declared to be legal tender. Within seven months 3,825,000 pesos of the new notes were put out, with the result that they depreciated to a 30-to-1 rate in relation to the United States dollar.

After President Heureaux's death in 1899, a determined effort was made to stop the depreciation by setting part of the customs receipts in United States dollars aside for the conversion of the paper money at a 6-to-1 rate. Finally, in 1900, all paper and silver money was demonetized and the outstanding notes redeemed under an auction system. At the first auction, 16 to 18 pesos were redeemed with one United States dollar, but, as the Government in 1900 alone purchased over 1.3 million paper pesos, the paper peso-United States dollar rate soon improved to 6 to 1. In subsequent years the Government carried out annual redemptions of a certain amount of the notes until in 1907 the remaining 1.6 million were exchanged against new Government dollar bonds at a 5-to-1 rate, and the country thereby returned to the use of foreign coins as a circulating medium. The situation was formalized in June 1905 when the United States gold dollar was adopted as the standard Dominican currency, its legal exchange rate for silver pesos being fixed at 1 to 5. The United States dollar remained the only means of payment in the Dominican Republic until 1937.

The deterioration in the monetary situation during the last ten years of President Heureaux's rule, 1889 to 1899, went hand in hand with the assumption of new foreign obligations. Between 1893 and 1897, five different loan and refunding operations were entered into with the Santo Domingo Improvement Company of New Jersey. The nominal amounts of these loans,[4] as well as other features, are set out in Table VIII.

[4] It should be noted that these loans were issued below par, the issue prices varying between 50 and 83½.

Within two years after the fifth deal with the Improvement Company, under which the unified debt obligations of 1897 had been issued, the Dominican Government was forced to suspend service on all the loans taken up by the company. At the time of President Heureaux's death in June 1899, the country's total indebted-

*TABLE VIII*

LOAN OPERATIONS OF THE DOMINICAN GOVERNMENT WITH THE SANTO DOMINGO IMPROVEMENT COMPANY OF NEW JERSEY, 1893-97

| *Title of issue* | *Year of issue* | *Nominal amount in thousands of dollars* | *Secured by* | *Purpose* |
|---|---|---|---|---|
| 4% Consolidated Gold Bonds (sterling) | 1893 | 8,925 | 50% of customs revenues, "Regie" put under Improvement Company for 66 years. In case of default, formation of International Commission of Bondholders. | Conversion of the 1888 and 1890 Westendorp loans, including arrears. Funding of internal debt and general Treasury needs. |
| 4% Dominican Gold Debentures (dollars) | 1893 | 1,250 | | |
| 4% Gold Debentures (dollars) | 1894 | 1,250 | | General Treasury needs. |
| 2¾% French-American Reclamation Bonds (dollars) | 1895 | 1,750 | | Payment of indemnities to French Government, which threatened intervention over National Bank of Santo Domingo. |
| 4% Railroad Bonds (sterling) | 1897 | 2,000 | | Construction of Santiago-Moca Railroad. |
| 4% Dominican Unified Debt (sterling) | 1897 | 7,500 | First lien on all customs receipts and other taxes, with up to 48% set aside for debt service. International Financial Commission set up with United States, French, and Belgian members to supervise "Regie". | Refunding of the 1893 gold bond and debenture issues which were in default, and of the 1895 French-American Reclamation Bonds. |
| 2% Gold obligations of Santo Domingo (sterling) | — | 13,684 | | |

SOURCES: De la Rosa, "Les Finances de Saint-Domingue", *Revue Générale de Droit International Public*, Vols. XVII, XVIII, XIX, XXI; Sumner Welles, *Naboth's Vineyard*, New York, 1928, Vols. I and II; J. M. Troncoso, "Notas para la historia de las finanzas", *Boletín del Archivo General de la Nación*", No. 8, 1939.

ness was estimated at $34 million, with 22 million owed abroad.

The successors of President Heureaux attempted to renegotiate the contract between the Dominican Government and the Improvement Company, but the objections of European bondholders and claimants blocked a new agreement. In January 1901, the Government canceled the contract under which the Improvement Company controlled the collection of customs duties, and stipulated that henceforth a percentage of customs receipts should be applied to the external and internal debt service under the supervision of an international commission. At the same time, the Government reached an agreement with Belgian and French bondholders under which 4 per cent Dominican unified scrip was issued to pay the bondholders of the 1897 loan an annual minimum in lieu of the interest and amortization payments that had been suspended. Under the same agreement, the European bondholders agreed to the abolition of the "Regie".

In February 1902, the United States Government officially intervened on behalf of the Improvement Company, insisting on a final settlement of American claims. During the next two years, a Dominican-United States arbitral tribunal scaled the Improvement Company's claims down to $4.5 million. Under an agreement of January 1903, which was never implemented, a United States financial agent was to have exercised customs control in the northern ports of the island in the event of a failure on the part of the Republic to settle the claims.

Protests by the Governments of France and Belgium against the tribunal award and against the failure of the Dominican Government to carry out the 1901 agreement with the French and Belgian bondholders, and in particular the threat of armed intervention by several European powers including Germany, led to comprehensive intervention on the part of the United States Government in December 1905. The United States took charge of the settlement of all Dominican obligations by assuming a measure of control over customs collection and the distribution of the revenues between the Dominican Treasury and the domestic and foreign creditors of the country.

*From Adoption of United States Gold Dollar as Legal Tender to Creation of Central Bank*

The comprehensive intervention by the United States Government that began in 1905 found definite legal expression in the United States-Dominican Convention of 1907.

This agreement, which was ratified by the United States Senate on February 25, 1907 and by the Dominican Congress on May 3 of that year, called for the assistance of the United States in the collection and application of the Dominican customs revenues as a basis for refunding the country's debt and for financing a public works program. As part of the Convention, the Dominican Government obligated itself not to increase its public debt, or to change the country's import duties except by previous agreement with the United States Government. The obligations of the Dominican Government were adjusted downward from $40.3 million to $17.0 million in a series of settlements under which the French and Belgian bondholders agreed to convert their claims at 50 per cent of face value into new bonds, the claims of the Improvement Company were converted at 90 per cent of the value fixed by arbitration, and other debts and claims were allowed at rates varying from 10 to 90 per cent of their face value.[5] The actual conversion was carried out by means of a refunding loan, in the form of a 5 per cent Customs Administration gold bond issue by the New York house of Kuhn, Loeb and Company, to a nominal value of $20 million. The net proceeds of $16.8 million were used to pay off the French and Belgian bondholders as well as the majority of domestic creditors.

During the United States customs receivership, customs revenues increased from $1.9 million in 1904 to $4.7 million by 1910, and the service on the 1908 refunding loan was punctually met. However, following the death of

[5] Among them were the $1.6 million in National Bank notes still outstanding, exchanged at 20 per cent: and other paper currency exchanged at 10 per cent of face value.

President Caceres in 1912, conditions of political instability prevailed for three years. As a result there was a rapid increase in the internal debt. These developments led to renewed intervention by the United States, the establishment of American control over the Dominican finances, and finally the creation of a military government by the United States which ruled the country during 1916-24.

One of the early measures of the military government was the formation of a Dominican Claims Commission, which scaled down the floating debt from $15.5 million to less than $5 million. During 1919 the adjusted debt was refunded into a 20-year 5 per cent internal bond issue guaranteed by a lien on customs revenues, which totaled $4.2 million.

The strict administration of Dominican finances by the American military government during the years 1915-24 made the United States capital markets receptive to the issue of several new Dominican obligations. Under the terms of the 1924 Convention between the United States and the Dominican Government, which continued in force most of the provisions of the Convention of 1907, the duration of the customs receivership was extended for the period of the loans issued in 1908, 1918, and 1922.

With the debt service secured under various clauses of the Convention, the Dominican Government was able to float further sizable loans in the United States for the purpose of carrying out a public works program, including important highway construction. The nominal amounts as well as other features of the foreign loans floated abroad during the period 1908-28 are set out in Table IX.

*TABLE IX*

FOREIGN LOANS OF THE DOMINICAN REPUBLIC 1908-28

| *Title of issue* | *Year of issue* | *Nominal amount in millions of dollars* | *Maturity* | *Year retired* | *Amortization provision* |
|---|---|---|---|---|---|
| 5% Customs Administration Gold Bonds...... | 1908 | 20.0 | 1958 | 1927 | Sinking fund operation. |
| 6% Treasury Gold Notes | 1913 | 1.5 | 1918 | 1917 | Amortization plan. |
| 5% Customs Administration Loan .................... | 1918 | 4.2 | 1938 | 1926 | Sinking fund operation. |
| 8% Bonds of the Dominican Republic ... | 1921 | 2.5 | 1925 | 1922 | Sinking fund operation. |
| 5½% Customs Administration Gold Loan of 1922-26, | | | | | |
| First Series ................. | 1922 | 6.7 | 1942, extended to 1961 | 1947 | Sinking fund operation. Started in 1930, suspended in 1931, resumed in 1934 at reduced rate. In 1940, additional amortization provided if Government revenues exceeded 12.5 million dollars. |
| Second Series ........... | 1926 | 3.3 | | | |
| 5½% Customs Administration Gold Loan of 1926-28, | | | | | |
| First Series ................. | 1927 | 5.0 | 1940, extended to 1969 | 1947 | |
| Second Series ........... | 1928 | 5.0 | | | |

SOURCE: Compiled from official sources and *Moody's Governments and Municipals.*

At the end of 1929, the total external debt amounted to $19.7 million, calling for annual interest payments of $0.9 million. In addition, the 1922, 1926, 1927, and 1928 loans involved annual amortization payments of $1.85 million, beginning in 1930.

The acute fall in the prices of the country's export products and the sharp decline in the national income caused by the world-wide depression that began in 1929 resulted in a spectacular fall in the revenues of the Dominican Government. This was aggravated by the effects of the hurricane of August 1930. With public revenues down to $7.3 million in 1931 from their $15 million level in 1929, the foreign debt service would have absorbed more than one third of total revenues. With the consent of the United States State Department, a moratorium on sinking fund payments was declared in October 1931, amortization payments being suspended for an emergency period of two years. However, interest payments were kept up throughout the depression.

In August 1934, the Dominican Government reached an agreement with the Foreign Bondholders' Protective Council on a new amortization scheme which (a) extended the loan maturities from 1940 and 1942 to 1961 and 1969; (b) reduced the annual sinking fund payments to a level not exceeding 1½ per cent of the nominal value of all bonds outstanding; and (c) made the loans callable at 101 after 1945.

The United States customs receivership remained in force until April 1941 when, under the terms of the Trujillo-Hull Treaty, the United States-Dominican Convention of 1924 was abrogated. Under the terms of the new treaty, the debt service and the outstanding external debt of $14.6 million were guaranteed by a lien on all Government revenues, and the Dominican Government agreed to deposit all Government funds in a single bank in the Dominican Republic. A representative of the bondholders was appointed in this bank by both Governments. The schedule of amortization payments under the 1934 agreement was modified by the inclusion of an "acceleration clause".

Developments in the field of Government debt during the last decade have been closely connected with the far-reaching changes that have taken place in the Dominican monetary system and in the country's banking structure.

In the monetary sphere, the outstanding event was the substitution in October 1947 of a new Dominican peso for the United States dollar as legal tender. This development had been foreshadowed by the reintroduction of Dominican subsidiary coins in February 1937.[6]

The switch-over to an independent monetary standard in 1947, which is fully described in subsequent sections, went hand in hand with the building-up of a Government-owned banking system. The first step was the purchase by the Dominican Government of the local branch of the National City Bank of New York in 1941. The branch, which had been the main depositor of Government funds and had acted as fiscal agent, was transformed into the "Banco de Reservas de la República Dominicana".[7] In 1945, the Agricultural and Mortgage Credit Bank was set up by the Government, which was later transformed into the Agricultural and Industrial Credit Bank.[8] Finally, in 1947, the central bank, monetary, and banking legislation discussed in the latter part of this volume was approved by the Dominican Government, and the Banco Central de la República Dominicana began operations in October of that year.

These institutional changes, and the accumulation of very sizable gold and foreign exchange balances during the war and early postwar years, enabled the Dominican Government to amortize its foreign debt obligations at an accelerated rate during 1940 to 1946. By the end of the latter year, the outstanding external obligations of the Dominican Republic had been reduced to $13.3 million, including the outstanding balance of a loan of $3 million received from the United States Export-Import

[6] Ley de la Moneda No. 1259, February 21, 1937.
[7] Law No. 586, October 24, 1941.
[8] Laws No. 908 of June 1, 1945, and No. 1779 of August 14, 1948.

Bank in June 1941.[9] Virtually the entire external debt was paid off during 1947, when the Dominican Government called in for redemption at 101 the outstanding bonds of the 1922 and 1926 5½ per cent gold loan issues.[10] As a result of this action, the functions of the representative of the foreign bondholders were terminated.

The funds needed for the retirement of the external Government debt were raised in part by setting aside certain Government revenues and partly through an internal bond issue that was largely taken up by the official banks. Beside this issue, a good number of short-term and long-term obligations have been placed internally by the Dominican Government in recent years. The type of issues and the amounts of external and internal public debt outstanding as of December 31, 1950 are shown in Table X.

## Monetary and Banking Trends, 1936-50

The monetary and public debt history of the Dominican Republic has been reviewed in broad outline in the previous chapter. The historical account presented there and the general description of the country's economy are supplemented in this chapter by a more detailed discussion of the structure of the banking system and of banking and monetary trends during the years 1936 to 1950.

### *The Banking System*

At the end of 1950, the Dominican banking system consisted of the Central Bank (Banco Central de la República Dominicana), four commercial banks, and an agricultural and industrial credit bank. The Banco Central de la República Dominicana is Government owned, and makes direct loans to other banks only. The largest commercial bank is the likewise Government-owned Banco de Reservas de la República Dominicana, while the other two important commercial banks are branches of Canadian institutions, the Royal Bank of Canada and the Bank of Nova Scotia. The fourth commercial

[9] Outstanding external bonds totaled $11.4 million, and the balance of the Export-Import Bank loan totaled $1.9 million.

[10] Law No. 1484 of July 18, 1947.

*TABLE X*

**OUTSTANDING DEBT OBLIGATIONS OF THE DOMINICAN GOVERNMENT AS OF DECEMBER 31, 1950**

(In thousands of dollars/pesos)

| *Type of obligation* | *Balance outstanding** |
|---|---|
| Internal debt: | |
| Long-term: | |
| Banco de Reservas—Treasury Certificates—6th series, 1948 | 93 |
| Banco de Crédito Agrícola e Industrial— | |
| Treasury Certificates—4th series, 1949 | 1,397 |
| Treasury Certificates—5th series, 1950 | 950 |
| Centennial bonds, 1943 | 174 |
| Hotel development bonds, 1947 | 638 |
| Bonds of the Republic, 1948-53 | 3,332 |
| Bonds of the Republic, 1950-58 | 4,800 |
| Banco de Reservas credit for reform of monetary system | 80 |
| Purchase of national salt monoply | 1,371 |
| Salt industry development bonds | 150 |
| Claims against the Government | 838 |
| Social Security Fund loans | 294 |
| Total | 14,117 |
| Short-term: | |
| Treasury bonds, | |
| Series 1950 B | 2,500 |
| Series 1950 C | 2,500 |
| Series 1950 D | 3,500 |
| Series 1950 E | 2,000 |
| Total | 10,500 |
| Total internal debt | 24,617 |
| External debt (Export-Import Bank loan) | 73† |
| Total public debt | 24,690 |

* The balances outstanding on December 31, 1950 include only those issues actually negotiated by that date. A large part of the 1950 salt industry development issue had not yet been negotiated at the end of the year.

† At the end of 1950, the holders of $181,500 of the foreign bond issues repaid in 1947 had not yet collected from the agent of the Dominican Government, in whose hands sufficient funds to pay off the entire issue had been placed.

Source: *Boletín de Hacienda*, Secretaría del Estado del Tesoro y Crédito Público, Vol. IV, 1950, No. 2.

bank is the locally owned Banco de Crédito y Ahorros. The Government-owned agricultural and industrial credit bank, Banco de Crédito Agrícola e Industrial de la República Dominicana (formerly called Banco Agrícola e Hipotecario de la República Dominicana), makes specialized and predominantly long-term credit available to agriculture and industry out of funds that are supplied by the Government or, to a lesser extent, raised through the sale of mortgage bonds. The work of these institutions is supplemented, in the consumer credit field, by the Monte de Piedad, a Government-owned small loan agency, which conducts a pawn business and discounts the salary checks of Government employees and workers in private enterprises.

All the banks have their main offices in the capital, Ciudad Trujillo. Of the fourteen branch offices, one, belonging to the Banco de Reservas, is also in the capital while the other thirteen are in provincial centers. Of these, nine are branches of the Banco de Reservas and four of the Royal Bank of Canada.

The position of the Dominican banking system as of December 31, 1950, as shown in Tables XI and XII, was characterized mainly by its strong reserve position, by the relatively high proportion of cash assets held by some of the banks in the form of foreign balances, and by the predominant role played by the Government-controlled banks (including the Central Bank) in the market for Government securities. The strong reserve position is as characteristic of the Government-controlled banks as it is of the privately owned commercial banks. The Government's Banco de Reservas, for instance,

*TABLE XI*

CONSOLIDATED BALANCE SHEET OF THE DOMINICAN BANKING SYSTEM AS OF DECEMBER 31, 1950

(In thousands of pesos)

| | *All banks* | *Private commercial banks* | *Government-controlled banks* |
|---|---|---|---|
| *Assets* | | | |
| Cash and deposits in Central Bank | 10,698 | 4,442 | 6,256 |
| Due from banks abroad | 10,762 | 1,251 | 9,511 |
| Loans and discounts | 25,592 | 8,560 | 17,032 |
| Government securities | 15,131 | — | 15,131 |
| Other Government obligations | 1,000 | — | 1,000 |
| Other assets | 3,161 | 1,396 | 1,765 |
| Total assets | 66,344 | 15,649 | 50,695 |
| *Liabilities* | | | |
| Capital and reserves | 11,721 | 300 | 11,421 |
| Deposits: | | | |
| Demand, time, and savings deposits | 47,260 | 14,279 | 32,531 |
| Other deposits | 3,435 | 415 | 3,020 |
| Mortgage bonds outstanding | 1,861 | — | 1,861 |
| Due to banks abroad | 390 | 390 | — |
| Other liabilities | 1,677 | 265 | 1,862 |
| Total liabilities | 66,344 | 15,649 | 50,695 |
| Total deposit liabilities | 50,695 | 14,694 | 35,551 |

SOURCE: Banco Central de la República Dominicana, *Memoria Anual*, 1950.

maintains an even higher ratio of readily available cash resources (cash and deposits with the Central Bank plus balances with banks abroad) to deposit liabilities than the branches of the two Canadian banking institutions.

At the end of December 1950, more than half of the readily available cash resources of the Dominican banking system (other than the Central Bank) took the form of balances with foreign correspondents or head offices. Dollar balances held by the Banco de Reservas with correspondent banks in the United States accounted for the bulk of the commercial banks' foreign assets. Of the private commercial banks, only the Royal Bank of Canada had sizable balances with its head office abroad.

The Banco de Reservas and the Central Bank are virtually the only banking institutions that have been active in Government bond securities operations. At the end of 1950 they seem to have held over 90 per cent of the entire internal debt obligations of the Dominican Government.

The distribution of credit among the various private sectors of the economy is known approximately. A major part of commercial bank lending takes the form of short-term loans

*TABLE XII*

BALANCE SHEET OF THE CENTRAL BANK OF THE DOMINICAN REPUBLIC AS OF DECEMBER 31, 1950

(In thousands of pesos)

| *Assets* | |
|---|---|
| International reserves | |
| Gold | 4,045 |
| Foreign exchange | 15,323 |
| Gold contribution to International Monetary Fund | 1,250 |
| Total | 20,618* |
| Subsidiary coin | 4 |
| Discounts and advances to banks | 531 |
| Investments in Government securities | |
| For account of Central Bank | 6,323 |
| For account of fund for the regulation of the securities market | 735 |
| Total | 7,058 |
| Subscription to international institutions | |
| Peso subscription to International Monetary Fund | 3,750 |
| Subscription to International Bank for Reconstruction and Development | 400 |
| Total | 4,150 |
| Other assets | 135 |
| Total assets | 32,496 |

| *Liabilities* | |
|---|---|
| Internal monetary liabilities | |
| Note issue | 23,115 |
| Peso deposits | 4,579 |
| Total | 27,694 |
| Peso obligations to international institutions | |
| International Monetary Fund | 3,750 |
| International Bank for Reconstruction and Development | 359 |
| Total | 4,109 |
| Foreign exchange deposits | 15 |
| Capital | 100 |
| Reserves | 384 |
| Other liabilities | 194 |
| Total liabilities | 32,496 |

* Of the 20,618,000 pesos, 11,250 pesos are earmarked against the foreign exchange obligations of the Bank.

SOURCE: Banco Central de la República Dominicana, *Memoria Anual*, 1950.

and current-account advances, most of them destined to finance the activities of the export industries and the commercial sectors of the economy. The task of supplying the needs for medium-term and long-term credit thus rests upon the Banco de Crédito Agrícola e Industrial. Over 80 per cent of the latter's lending takes the form of long-term mortgage loans.

The Central Bank, apart from its note issue function, has performed predominantly two functions in the purely financial sphere since the relatively recent date of its creation. It has been an important investor in Government securities, and it has acted as the main holder of the country's international reserves. Central Bank lending to the other banks has been limited, as might be expected in view of the strong reserve position of most of the banks. Such lending amounted to little more than half a million pesos at the end of 1950. In addition, the Central Bank has been active in its role as adviser to the Government.

The extent of the change that the banking system and its operations have undergone in recent years becomes apparent when a comparison is made with the situation that prevailed in 1940. One of the main changes has been the great rise in the resources of the banks, which has far outstripped the 153 per cent increase in the cost-of-living index that took place between 1940 and 1950. The deposits alone of the commercial banks at the end of 1950 were 408 per cent of their 1940 level. A second major change has been the creation of a substantial source of noncommercial and longer-term credit, through the establishment of the Banco de Crédito Agrícola e Industrial. Hand in hand with these developments has gone a reduction in the average level of short-term and long-term interest rates. Finally, the substantial amount of credit granted to the Government through the purchase of domestic Government obligations contrasts strongly with the prewar situation, when the Government was virtually unable to sell domestic obligations to either private or bank investors. It is worth noting, however, that the emphasis on liquidity appears to have been an invariant characteristic throughout the period: in 1940 the readily available cash resources of the banks amounted to 61 per cent of their deposits, in 1950 they were 42 per cent.

*Origin and Composition of the Money Supply*

The institutional changes described in the previous section, together with recent world economic trends and domestic growth, are reflected in the assets underlying the money supply and in the composition of this supply. As shown in Table XIII, the total money supply (defined in the legislation as the total of Dominican currency and coin in the hands of the public plus checking deposits, excluding interbank deposits) amounted to 58.3 million pesos at the end of 1950, as against 9.3 million in 1940. Three main factors contributed to the creation of this money supply: (1) the building-up of international assets totaling 34 million, in the form of dollar currency in the hands of the banks and the public plus balances abroad in the hands of the banks; (2) net purchases of Government securities by the banking system aggregating 22.2 million; and (3) business financing (and miscellaneous operations) by the banking system to the amount of 27.8 million. On the other hand, the contribution of these money-creating factors was neutralized to the extent of 26.6 million by an increase in savings deposits, by the (presumed) hoarding of demonetized United States currency, and by the growth in bank capital and other miscellaneous nonmonetary liabilities of the banks. Of the total money supply of 58.3 million, 27.4 million or 47 per cent was fully covered by the foreign exchange resources of the banking system.

In reviewing the various factors that contributed to the expansion of the money supply during the years 1936-50, four periods with rather distinct characteristics are to be distinguished. During the years 1936 to 1941, variations in the banks' foreign assets and in the public's holdings of dollars reflected predominantly the cyclical ups and downs of the country's export trade. Financing of the Government was only of very minor significance. Nevertheless, it is worth noting that, despite the

*TABLE XIII*

## ORIGIN OF MONEY SUPPLY

(In millions of United States dollars)

| End of— | Factors in creation of money supply | | | | | Factors in neutralization of money supply | | | | Total money supply (total "creation" less total "neutralization") |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Financing of Government | | | | | | | | |
| | *International assets** | *Total seigniorage of coin issue* | *Bank holdings of Government debt* | *Financing of business* | *Total* | *Time and savings deposits in banks* | *United States notes and coin retained by public* | *Other factors of neutralization†* | *Total* | |
| 1936 | 5.0 | — | — | 3.9 | 8.9 | 3.5 | — | 0.1 | 3.6 | 5.3 |
| 1937 | 6.0 | — | — | 3.8 | 9.8 | 3.6 | — | 0.2 | 3.8 | 6.0 |
| 1938 | 6.3 | 0.3 | — | 3.7 | 10.3 | 4.0 | — | 0.2 | 4.2 | 6.1 |
| 1939 | 5.1 | 0.4 | — | 4.7 | 10.2 | 2.7 | — | 0.2 | 2.9 | 7.3 |
| 1940 | 8.4 | 0.4 | — | 3.9 | 12.7 | 3.2 | — | 0.2 | 3.4 | 9.3 |
| 1941 | 10.7 | 0.4 | 0.6 | 5.4 | 17.1 | 2.3 | — | 1.2 | 3.5 | 13.6 |
| 1942 | 18.0 | 0.4 | 0.7 | 5.9 | 25.0 | 3.1 | — | 1.3 | 4.4 | 20.6 |
| 1943 | 26.1 | 0.6 | 1.2 | 6.1 | 34.0 | 4.2 | — | 1.3 | 5.5 | 28.5 |
| 1944 | 34.2 | 0.7 | 1.3 | 4.3 | 40.5 | 8.3 | — | 1.4 | 9.7 | 30.8 |
| 1945 | 41.9 | 0.7 | 3.6 | 4.7 | 50.9 | 11.2 | — | 1.4 | 12.6 | 38.3 |
| 1946 | 45.7 | 0.7 | 4.8 | 7.4 | 58.6 | 9.0 | — | 4.0 | 13.0 | 45.6 |
| 1947 | 37.9 | 0.9 | 15.5 | 13.2 | 67.5 | 14.3 | — | 5.5 | 19.8 | 47.7 |
| 1948 | 27.3 | 0.9 | 21.2 | 19.7 | 69.1 | 14.8 | 4.6 | 8.6 | 28.0 | 41.1 |
| 1949 | 28.5 | 0.9 | 22.1 | 22.2 | 73.7 | 10.4 | 5.5 | 8.6 | 24.5 | 49.2 |
| 1950 | 34.0 | 0.9 | 22.2 | 27.8 | 84.9 | 10.5 | 6.6 | 9.5 | 26.6 | 58.3 |

* Comprising international reserves of banking system including the Central Bank, dollar holdings of public, and bullion value of Dominican coin.

† Other factors of neutralization include changes in the capital and reserves of banks, and in other nonmonetary liabilities. The item is a residual of the computation.

SOURCE: Computed from *Estadística Bancaria*, various issues.

absence of a central bank and of a coordinated monetary policy, the banking system was able during that period to compensate in some measure these externally imposed fluctuations. Such seems to have been the case in 1939, for instance, when the contracting effect exerted upon the money supply by foreign exchange outflow was compensated to some extent by an expansion of business financing by the banks.

The second easily distinguishable period in the development of the Dominican monetary situation is that of the wartime and immediate postwar years, from 1941 to 1946. This period was dominated by the intensely active balance of payments, which lifted the total exchange assets underlying the money supply from 8.4 million to 45.7 million. The consequent increase in the money supply amounted to only 36.3 million, owing to the neutralizing rise in savings deposits and other factors. Thus a foreign exchange coverage of over 100 per cent was available during a short period for the existing money supply.

Beginning in 1946, new trends developed that led to a very substantial modification of the assets underlying the money supply without, however, producing any but minor changes in the aggregate amount of the latter. A major expansion in business financing by the banking system got under way in 1946, in good part for the purpose of financing imports, which contributed 12.3 million to the assets underlying the money supply. At the same time, the Government increased its borrowing from the banking system from 5.5 million in 1946 to 22.1 million in 1948. A large part of this indebtedness was incurred to finance the redemption of the entire publicly held external debt, as well as for Governmental imports. The latter expenditures, which raised imports to a record level of 65.3 million in 1948, produced a substantial decline in foreign exchange reserves despite a satisfactorily maintained international demand for the country's exports. Thus, the proportion of the money supply covered by the foreign exchange holdings of the banking system declined to 55 per cent.

The concomitant contraction in the money supply from 47.7 million in 1947 to 41.1 million in 1948 is more apparent than real, however. Over two thirds of it is accounted for by the demonetization of that part of the estimated dollar circulation that was not offered for exchange during the currency reform. Since the estimate of the total dollar circulation is of an uncertain character, there is no assurance that these 4.6 million were actually in circulation or in hoards in 1948, and it is quite conceivable that earlier data on dollar circulation, and hence total money supply, are overstated to that extent. It is worth noting that the expansionary effect of bank credit upon the money supply was to some extent neutralized by the increase in the capitalization of the domestic sector of the banking system.

The final phase of Dominican monetary development is that covering the years 1949-50. During these years the means of payment increased sharply, rising from 41.1 million to 58.3 million. This expansion was the joint result of an expansion in business financing, which continued the steady upward trend that had begun in 1946, and of an inflow of foreign exchange. The active balance of payments of which this inflow was a reflection was due to a very sharp drop in imports in 1949 and to a rise in exports in 1950. The level of Government indebtedness to the banking system, and its contribution to the money supply, did not increase significantly after 1948.

In addition to the foregoing analysis of the money supply on the basis of its origin, a few further observations may be made regarding its composition (see Table XIV). The dollar currency in the hands of the public, before and after its demonetization in 1948, has had to be stated on the basis of estimates only, as previously indicated. These estimates were derived, first, from an estimate of the volume of the dollar circulation in 1936, which was believed to amount to 2.0 million, and, secondly, from the cumulative addition to this amount of officially reported currency shipments into and out of the country since that time. In view of the existing tourist traffic, and of the mildness of the control

## *TABLE XIV*

### COMPOSITION OF MONEY SUPPLY AND RELATED ELEMENTS

(In millions of United States dollars or Dominican pesos)

| End of— | Currency* | | | | Demand deposits† | | | Money supply | | Time deposits |
|---|---|---|---|---|---|---|---|---|---|---|
| | *U.S. notes and coins* | *Dominican coins* | *Dominican notes* | *Total currency* | *Private deposits* | *Official deposits* | *Total demand deposits* | *Excluding official deposits* | *Including official deposits* | |
| 1936 | 2.0 | ‡ | — | 2.0 | n.a. | n.a. | 3.3 | n.a. | 5.3 | 3.5 |
| 1937 | 2.6 | ‡ | — | 2.6 | n.a. | n.a. | 3.4 | n.a. | 6.0 | 3.7 |
| 1938 | 1.8 | 0.4 | — | 2.2 | n.a. | n.a. | 3.9 | n.a. | 6.1 | 4.0 |
| 1939 | 2.0 | 0.4 | — | 2.4 | n.a. | n.a. | 4.9 | n.a. | 7.3 | 2.7 |
| 1940 | 2.2 | 0.5 | — | 2.7 | 5.8 | 0.8 | 6.6 | 8.5 | 9.3 | 3.2 |
| 1941 | 4.2 | 0.6 | — | 4.8 | 7.0 | 1.8 | 8.8 | 11.8 | 13.6 | 2.3 |
| 1942 | 5.9 | 0.6 | — | 6.5 | 10.4 | 3.7 | 14.1 | 16.9 | 20.6 | 3.1 |
| 1943 | 7.1 | 0.8 | — | 7.9 | 14.8 | 5.8 | 20.6 | 22.7 | 28.5 | 4.2 |
| 1944 | 8.6 | 0.9 | — | 9.5 | 16.9 | 4.4 | 21.3 | 26.4 | 30.8 | 8.3 |
| 1945 | 11.7 | 1.1 | — | 12.8 | 21.2 | 4.3 | 25.5 | 34.0 | 38.3 | 11.2 |
| 1946 | 14.5 | 1.2 | — | 15.7 | 23.7 | 6.2 | 29.9 | 39.4 | 45.6 | 9.0 |
| 1947 | 8.9 | 1.2 | 7.6 | 17.7 | 22.0 | 7.9 | 29.9 | 39.7 | 47.7 | 14.3 |
| 1948 | ( 4.6)** | 1.3 | 12.6 | 13.9 | 18.6 | 8.6 | 27.2 | 32.5 | 41.1 | 14.8 |
| 1949 | ( 5.5)** | 1.3 | 14.8 | 16.1 | 24.8 | 8.3 | 33.1 | 40.9 | 49.2 | 10.4 |
| 1950 | ( 6.6)** | 1.5 | 18.0 | 19.5 | 25.0 | 13.8 | 38.8 | 44.5 | 58.3 | 10.5 |

n.a. Not available.
* Notes and coins in the hands of the public.
† Excluding interbank deposits.
‡ Less than 50,000 dollars/pesos.
** Retained by public.

SOURCE: Banco Central de la República Dominicana.

over certain foreign remittances during much of this period, it is to be assumed that there were flows of currency in both directions that are not included in the statistics. The figure of 4.6 million that emerges in 1948 as the unconverted part of the dollar circulation, as well as earlier data on dollar circulation, must therefore be regarded as somewhat hypothetical. Since 1948, however, the circulation figures are no longer subject to such uncertainty, since they comprise only currency and coin issued by the Central Bank and the Dominican Treasury, respectively.

Government deposits, which are carried in the Banco de Reservas, have been included as part of the money supply. This deviation from current practice seems justified by the fact that, as a practical and legal matter, the Dominican Government does not freely engage in money creation to meet predetermined budgetary needs, but allows itself to be guided in its budgetary policy to a substantial extent by the level of its cash balance. The monetary pressure exerted by the Government's cash balance, therefore, appears to be of a similar order to that exerted by private balances.

It is important to note that the Government's cash balances have become an increasingly important part of the total money supply in recent years. From a ratio of 8.6 per cent in 1940, when they were first reported separately, they rose to 23.7 per cent at the end of 1950. This growth seems to reflect mostly the great expansion of the national budget.

The volume of currency of all kinds in circulation has represented a high proportion of the total money supply throughout the period under review, as is to be expected in view of the structure of the Dominican economy. During the war years, the proportion of currency to total money supply diminished noticeably; in the postwar period it increased again, but by 1950 had not quite reverted to the average that had prevailed before the war.

Time deposits increased a good deal less than demand deposits. Before the war they exceeded demand deposits, but during 1949-50 they averaged little more than a quarter of demand deposits. It is not evident from the statistics whether the sharp movements in time deposits that took place during some of the postwar years represented a general tendency or merely the movement of a limited number of large accounts. Likewise not apparent from the statistics is the rate of turnover of time deposits, but it is believed that the turnover is comparatively high. Time deposits, although excluded from the legal definition of "money supply", therefore do have marked monetary characteristics.

*CHAPTER II*

# LETTER OF TRANSMITTAL

**Draft Laws for Monetary and Banking Reform and the Reports Pertaining Thereto**

Lic. JESÚS MARÍA TRONCOSO,
*Governor, Banco de Reservas de la República Dominicana,*
*Ciudad Trujillo, Dominican Republic.*

DEAR MR. GOVERNOR:

At the end of the work carried on under your distinguished guidance, it is a great pleasure for the undersigned to transmit to you herewith the draft laws for the reorganization of the Dominican monetary system, in accordance with the Presidential Message of October of last year. The drafts in question comprise the Monetary Law, the Central Bank Law, the General Banking Law, and the "Bretton Woods" Law, together with their respective reports. These law projects are closely interrelated, each constituting an integral part of the proposed reform.

The Monetary Law establishes the Dominican peso, which so far has had the character only of a subsidiary currency, as the national currency with full legal tender. The peso will be firmly based upon gold and foreign exchange, and will have the same value as the United States dollar. The peso will be at all times freely convertible into dollars for the purpose of payments abroad. The draft project provides for a transitional period during which the dollar and the peso will circulate side by side, until the public has become fully accustomed to the new currency.

The draft for the Central Bank Law provides for the creation of an institution to operate the monetary system, and in particular to maintain the stability of the peso and to regulate credit conditions and stimulate the development of the economy. The Bank is to be owned by the Government; its Governor and all the members of its Monetary Board are to be appointed by the President of the Republic. In its operations, the Bank is to maintain ample reserves to assure the stability of the currency. Strong powers of credit control are provided to enable it to meet inflationary and deflationary pressures. Among these powers is that of directing the general policies of the Banco de Reservas and the Banco Agrícola e Hipotecario, without interference, however, in the details of their affairs. The three Government banks thus will be coordinated in their policies. It is expected that the Central Bank will have only a small operating staff, since a large bank would be an unnecessary luxury.

The General Banking Law has as its main purpose that of protecting the banking system against the consequences of unsuitable operations and excesses which might be harmful to the stability of the currency and to the welfare of the country in general. The proposed law will not hamper the existing very conservative institutions in their legitimate functions. It will, however, provide a framework within which the future development of the Dominican banking system may take place along sound and orderly lines.

The "Bretton Woods" Law regulates the relations that the Dominican Republic is to establish with the International Monetary Fund and the International Bank

for Reconstruction and Development in accordance with the respective agreements signed by the Republic. The Central Bank is given exclusive representation of the Republic before these international institutions and is vested with the necessary powers to carry out the corresponding obligations.

The decision to establish an independent currency is a natural consequence of the steady economic progress of the Dominican Republic. The present legislation completes a series of steps that began with the introduction of the subsidiary Dominican currency in 1937 and continued with the debt service treaty of 1940, the purchase of the Banco de Reservas in 1941, the creation of the Banco Agrícola e Hipotecario in 1945, and the complete redemption of the foreign bond issues of 1922 and 1926. The monetary reform was announced by the message of President Trujillo of October 1946.

The new currency offers many advantages to the Republic. In international affairs, it will strengthen the position of the Republic and put it on an equal monetary footing with all other nations. It will facilitate participation in the Bretton Woods institutions. Through the action of the Central Bank, the Republic will have a means of defending itself, in some measure, against inflationary balance-of-payments pressures. In the domestic sphere, the new currency will facilitate the carrying-out of an independent monetary and credit policy, as well as the full utilization of the resources of the country through the proper distribution of credit. Through the elimination of the dollar circulation, moderate economies can be effected in the economic cost of the monetary system.

The new currency, however, also implies new problems and new responsibilities. The dollar, while in many respects inconvenient because it is not subject to the monetary policy of the nation, has provided the country with an entirely sound currency. Henceforth, the responsibility of maintaining sound money will rest upon the Central Bank and, ultimately, upon the Dominican Government. The Government, up till now, has demonstrated its intention to maintain stable money and credit conditions by the manner in which it has handled the administration of public finances and of the Banco de Reservas. The new task will be harder. In particular, the Government will have to weigh with increasing restraint any action that might involve an increase in its own use of bank credit. A sound management of public finances will always be essential to monetary stability. If the Government adheres to this principle, there is every reason to expect that the Central Bank will be able to maintain the desired stability.

The present is a particularly opportune moment to undertake the monetary reform. The monetary reserves of the country are very plentiful, exports are large and may continue so in 1948, and the financial position of the Government is strong. The adjustments, moreover, that the Republic may eventually have to make to meet changing world conditions can be effected more smoothly if an independent monetary system is already in existence.

The prospect that such adjustments may become necessary calls for special restrictions during the initial period of the new system. There is no way of foreseeing the level to which the circulation may have to shrink once conditions return to some degree of normality. Quite possibly this level may be considerably below the very high one achieved during the war and postwar years, although higher than

those prevailing during the Thirties. The scope of the future credit operations of the new Central Bank must be guided, therefore, not by the current money supply, but by the level that the money supply may attain within a few years. The transition to more normal monetary conditions is the chief problem that the monetary reform must face. The solution of this problem will give the Central Bank its first opportunity to demonstrate its effectiveness.

In concluding we should like to express our sincere appreciation of the opportunity you offered to us to discuss in detail the text of the draft projects with Dr. Raúl Prebisch of Buenos Aires. This consultation, during the visit that Dr. Prebisch made to Ciudad Trujillo during the course of the past year at your invitation, has been of great value for the definitive formulation of the proposed legislation. We likewise should like to express our appreciation of the valuable cooperation that we received from the officials of the Banco de Reservas and of the Banco Agrícola e Hipotecario.

With the expression of our sincere respect we remain,

HENRY C. WALLICH

ROBERT TRIFFIN

NEW YORK, N. Y.

WASHINGTON, D. C.

*October 20, 1947*

*CHAPTER III*

# THE MONETARY LAW

## REPORT ON THE MONETARY LAW

The Monetary Law establishes the necessary regulations for the effective functioning of the new monetary system created under Article 94 of the Constitution, and provides for the transition from the existing system based on the United States dollar to the new system based on the gold peso as the national monetary unit.

The Law is divided into six chapters, relating to the various aspects of the reform.

Chapter I, Monetary Unit (Articles 1-2), restates the initial clause of Article 94 of the Constitution, which establishes the gold peso as the national monetary unit. It further specifies the transactions for which the peso is to be the sole means of payment once the transition period has come to an end.

Chapter II, Monetary Issue (Articles 3-8), lays down the general conditions governing the issuance of currency and coin. These conditions are to be implemented, within the framework of the pertinent constitutional provisions, by the Central Bank Law.

Chapter III, International Parity of the Currency (Articles 9-10), specifies the relationship between the peso and other currencies.

Chapter IV, Exchange Control and External Convertibility of the Currency (Articles 11-17), regulates the manner in which the external stability and convertibility of the peso will be assured.

Chapter V, General Provisions and Sanctions (Articles 18-19), serves to implement the various other provisions of the Monetary Law.

Chapter VI, Transitory Provisions (Articles 20-21), contains the important regulations for the introduction of the new peso currency by successive stages.

The following comments aim to explain the reasons and purposes underlying the more important provisions and to serve as a guide in the administration of the Law.

### CHAPTER I MONETARY UNIT (ARTICLES 1-2)

Article 1 of the Law establishes the gold peso (RD$) as the basic monetary unit of the Dominican Republic. The new unit is equal to 0.888671 grams of fine gold, which gives it the same gold value as that of the United States dollar. This choice of unit adapts the new money to existing habits and practices, and allows a transition to the new system with a minimum of difficulty. The term "peso", employed until now almost universally in referring to the existing monetary unit and which in accordance with the Law of June 21, 1905 has been regarded as signifying the United States dollar, will in the future signify the Dominican gold peso.

Article 2, which will enter into full effect in the second stage of the monetary conversion, provides that all contracts, including those already in existence, and all payments, are to be denominated in gold pesos. This is essential to the proper functioning of the system, since the continued existence of dollar contracts and payments would deprive the monetary authorities of much of their power, and would run counter to the purpose of establishing a truly independent currency. To discourage attempts at evasion, it is provided that contracts made in any other currency, in contravention of the Law, shall be legally dischargeable in pesos, at the exchange rate prevailing at the time of the contract or at the time of payment, whichever should be more favorable to the debtor.

The Law exempts from the foregoing provisions certain contracts and payments which by their very nature may have to be made in foreign currencies. These are to be considered as dischargeable in funds abroad and hence not

affected by the unlimited legal tender power of the peso established in Article 5. They will remain subject, however, to the regulations concerning the control of bank transfers and other payment orders established by Law No. 51 of July 28, 1942, and to the regulations regarding international payments that may be issued by virtue of Article 17 of the Monetary Law.

### Chapter II Monetary Issue (Articles 3-8)

To safeguard the functioning of the currency system, it is important that the issuance of all forms of currency and coin be conducted by a single agency. Article 3 accordingly gives to the Banco Central de la República Dominicana, under the direction of the Monetary Board, the sole power to issue such currency and coins. The issuance of money tokens by private enterprises in payment of wages or supplies, such as has occasionally been practiced, will be contrary to the Law.

Subsidiary currency will be issued by the Central Bank for account of the State. The latter, however, will neither bear the expense thereof nor derive any seigniorage profits. All newly issued subsidiary currency will be put into circulation only as the needs of trade warrant, and against the cancellation of an equivalent amount of notes, so as to produce no increase in the aggregate money supply. Any seigniorage profit resulting from these operations will be neutralized by adding it to a special reserve fund in the Central Bank. This will eliminate all danger of the soundness of the currency being undermined by excessive subsidiary currency issues undertaken for the sake of a seigniorage profit.

The denomination, form, and other characteristics of the notes and coins are left to the discretion of the Executive Power, upon the recommendation of the Monetary Board (Article 4). It seems desirable to follow the practice adopted in connection with the creation of a national subsidiary currency in 1937, and adapt notes and coins to their equivalent units in United States money. Nevertheless, in view of the many unforeseen contingencies that may affect the cost and the availability of the materials employed, particularly for subsidiary coinage, the Law allows a maximum of flexibility in this respect.

The notes issued by the Central Bank will have unlimited legal tender power throughout the Dominican Republic, as provided in Article 5. This provision will be effective from the beginning of the first stage of the monetary conversion. It does not, however, affect the special types of contracts and payments enumerated in the second part of Article 2 which, as said before, are to be regarded as payable in funds abroad.

Various routine details regarding the interchangeability of notes of different denominations and the treatment of mutilated notes and coins are specified in Articles 6 and 7. It need hardly be said that in its dealings with the banks the Central Bank will maintain complete interchangeability between deposits and the notes and coins of different denominations.

The reduction in the Central Bank's liabilities that may result from the proven destruction, loss, or demonetization of its notes in circulation will constitute a windfall profit which is to be neutralized by adding it to the Bank's general reserves. Ordinarily the definitive loss or destruction of notes can be established only by calling in the entire currency issue and replacing it with a new one. The Bank may find it desirable to do so after a period of years, if there is reason to believe that losses and wear and tear have reduced the effective circulation considerably below that shown on its books. The inconvenience that the operation must occasion the public, however, suggests that it be postponed as long as possible. A decade or two probably will have to elapse before it could become warranted.

### Chapter III International Parity of the Currency (Articles 9-10)

The par value of the Dominican gold peso will correspond to its gold content of 0.888671 grams. This gold value will be communicated

to the International Monetary Fund. The value in terms of Dominican pesos of all other currencies that, like the peso, are based on gold follows automatically from their respective gold contents. These values are the legal exchange rates for the purposes of the International Monetary Fund Agreement.

Under that agreement, the possibility exists of a universal increase or reduction of the price of gold in terms of all currencies, and likewise the possibility of a change in the par value of individual member currencies. It may be observed that, for the Dominican Republic, participation in a universal change in the value of gold, as well as any other modification in the par value of the peso, would require special legislation. Should such a change be made, or should there be changes in the value of foreign currencies held by the Central Bank, there might be corresponding profits or losses on its gold or exchange holdings. The same would be true if a commercial bank should have gold or foreign exchange assets not balanced by equivalent liabilities. Article 10 deals with the treatment of profits or losses originating in this manner.

A profit resulting from a revaluation of the Central Bank's gold or exchange assets is not an organic one, inasmuch as it does not correspond to any productivity activity. From the viewpoint of the domestic economy it is purely a bookkeeping operation. To employ it for any kind of expenditures would have inflationary implications and would be disturbing to the economy. Much the same considerations apply to losses from this source. Hence the Law requires the Central Bank to exclude such profits or losses from its regular income and to sterilize them by entering them in an account entitled "Revaluation of Reserves". This treatment has the virtue of eliminating all nonorganic considerations of profits or losses from any decision regarding the above-mentioned possible changes in the value of gold. If, in connection with any such changes, a reduction or increase in the Dominican contribution to the International Monetary Fund or to the International Bank for Reconstruction and Development should become necessary under the terms of the respective agreements, these payments will be compensated against part of the loss or profit.

Related considerations apply to the profits or losses that the commercial banks might experience as a result of gold or exchange revaluations. To be completely protected against such movements, a bank must maintain a balanced exchange position; that is, it must operate so as to keep its assets in each currency always equal to its liabilities. A bank not following this policy but maintaining instead a short or long position in foreign currencies may have speculative profits or losses as a result of revaluation of these currencies, which by virtue of its private character it could not treat as mere bookkeeping operations as would the Central Bank. In view of the large scale of a bank's operations in relation to its capital, the possible losses from exchange positions might endanger its solvency. Possible profits might be wholly incommensurate with its normal earnings, and if sent abroad might deprive the economy of a sizable part of its foreign exchange assets.

To protect the banks against such risks, and to forestall unjustifiable speculative profits, the Law provides that all such profits and losses shall be for account of the Central Bank. If a commercial bank should suffer a loss as a result of the revaluation of an exchange position that it may have, the Central Bank will reimburse it. If there should be a profit, the commercial bank must turn it over to the Central Bank. The latter, in both cases, will enter the amount in its "Revaluation of Reserves" account. It should be understood, however, that these provisions do not apply to those fractional fluctuations in the exchange markets, such as most currencies are subject to, that may occur even when the official parities are maintained.

The Central Bank is given the power to exempt certain currencies from the above provisions. Under the Central Bank Law, it is also given the power to require the banks to balance their exchange position in any or all currencies. By employing this power at all times, the Bank could eliminate all need for the system of mutual compensation between it and the com-

mercial banks. This, however, would mean in practice that the commercial banks would have to sell to the Central Bank a large part of the dollar balances that they usually carry. Recognizing that these balances represent a significant part of the commercial banks' earning power, the Law has provided, through the mechanism indicated, a means by which the banks may continue to hold these balances without the possibility of large speculative profits or losses.

## Chapter IV Exchange Control and External Convertibility of the Currency (Articles 11-17)

The Central Bank is required to maintain not only the stability of the Dominican peso but also, in accordance with Article 11, its free convertibility. Stability implies that all exchange transactions must be carried on at or near the legal parity. Convertibility implies that any holder of Dominican pesos can convert these freely into foreign currency and that any holder of foreign currency can likewise convert it into pesos. To maintain both stability and convertibility the Central Bank must therefore stand ready to buy and sell gold or foreign exchange at or near parity in unlimited amounts.

To facilitate the task of the Central Bank, Article 12 concentrates all exchange dealings in the hands of the banks authorized for this purpose by the Monetary Board. Consequently any firm or individual wanting to buy or sell exchange can do so only through an authorized bank. The Central Bank itself will not ordinarily engage in exchange dealings with the public and thus will not enter into competition with the commercial banks.

To carry out its task of ensuring the stability and convertibility of the currency, the Central Bank will sell to the banks the exchange required by them and will buy from them such exchange as they want to dispose of, as required by Article 13. It must do so at rates that will permit the banks, in their own exchange dealings with the public, to remain within the 1 per cent above and below parity stipulated by the International Monetary Fund Agreement. Under this agreement, the Central Bank would be fully meeting its obligations if it did no more than to buy and sell gold freely at or near parity. Since such operations would not fit in well with the banking practices prevailing in the Dominican Republic, the Central Bank will probably find it advisable to operate mainly through the purchase and sale of dollar exchange, which it would negotiate at par or with a very slight margin, in order to reduce the cost of exchange operations for the banks. The Central Bank could also deal in such other currencies as the public may offer to or demand from the commercial banks. Unless, however, the Bank is willing to carry positions in these currencies, it would usually have to cover these operations against dollars in New York, which it could do no more advantageously than the commercial banks themselves. It may therefore limit itself to dollar dealings and leave it to the authorized banks to make the necessary conversions.

The Central Bank must insure, as pointed out before, that the exchange rates applied by the authorized banks remain within the limits of 1 per cent above and below parity. It will fix the maximum limits of the exchange margins and exchange commissions that the authorized banks may charge and will moreover make its policy in this matter felt in the market by fixing the relative margins and commissions chargeable by the Banco de Reservas.

Article 13 not only requires the Central Bank to buy and sell exchange offered or demanded by the authorized banks, but also empowers it to require the authorized banks to maintain a balanced exchange position in any or all currencies. It is desirable that the Central Bank make the least possible use of this power consistent with the needs of effective exchange management.

The Central Bank is authorized to issue special regulations to apply to foreign currencies that are not convertible. If it should decide not to deal in such currencies, it may find it necessary to take steps to prevent these currencies from being dealt in at a discount in the market

in possible contravention of the Monetary Fund Agreement.

By its exchange dealings with the authorized banks, the Central Bank will relieve them of a cost that they have hitherto had to bear: the expense of shipping currency to and from the United States. It is this expense which forms the basis of the banks' present exchange charges. The Banco Central, for its part, will have to shoulder the cost of printing and shipping the peso currency. It is only fair, therefore, to require the authorized banks to allow the Central Bank to participate in their earnings from exchange operations. Article 14 provides that the Monetary Board may fix a percentage of total purchases and sales of exchange by the authorized banks, up to one eighth of 1 per cent, that the latter must turn over to the Central Bank. In place of these percentages of purchases and sales, moreover, the Monetary Board may fix a percentage of gross receipts from commissions and exchange margins, up to a limit of 20 per cent.

It is not intended that this participation should unduly curtail the authorized banks' earnings from exchange business, which is known to be one of their primary sources of income. Since only these banks will henceforth be permitted to deal in exchange, it may be expected that they will be compensated, to some extent, by an increase in the volume of their business. Moreover, the authorized banks' buying and selling rates and commissions can be so adjusted as to leave an adequate profit. It must be remembered, however, that, if the cost of exchange dealings through the banks is made too high, it may become more difficult to enforce the ban on exchange dealings outside the banks.

Under the provisions of Article 15, the authorized banks are required to supply the Central Bank with information regarding their exchange transactions and position. This type of information is clearly necessary for the conduct of an effective monetary and exchange policy.

The commercial banks, under the provisions of Article 16, will be permitted to accept deposits in foreign currencies. This is in accord with the banking practice prevailing in most countries. The provision is of special importance in the Dominican Republic because of the role that the dollar has played in domestic trade, and which it will probably continue to play in the Republic's foreign trade. The possibility of carrying a dollar account with a Dominican bank will be a reassuring factor to many. It will also facilitate the operations of importers and exporters.

The foreign currency balances carried in such accounts cannot, however, be used by their owners to make payments within the territory of the Republic. Article 16 provides that, to use these funds for domestic payments, their owner will first have to convert them into pesos at the bank's buying rate. Likewise, to establish a deposit in foreign currency, the depositor must purchase the exchange from the bank, or else transfer to the bank foreign exchange already in his possession. For payments in the respective foreign countries, the deposit can be drawn on without payment of an exchange commission, but the banks may make a charge to cover their expenses. Foreign currency deposits will not be considered as part of the money supply.

The exchange liabilities arising for the banks out of such deposits would constitute a short position in foreign currency, unless the banks hold corresponding exchange assets to cover it. The Central Bank will have to take due account of this and other special problems arising for the banks from the existence of foreign currency deposits, and may have to issue supplementary regulations covering the operation of these accounts. In particular, the Central Bank will have to decide whether such deposits may be opened at the beginning of the monetary conversion or at some later date.

The Monetary Board cannot establish any control over exchange operations on its sole initiative, since the Central Bank is responsible

for maintaining the convertibility of the currency. Such controls may be introduced only with the special approval of the President of the Republic. Under the terms of Article 17, the Monetary Board may, with the approval of the Executive Power, subject to licensing all international credit and investment operations as well as the transfer of funds abroad. Such a licensing system would have to be regarded as a modification of the *control de giros* established under Law No. 51, dated July 28, 1942, of the existence of which the International Monetary Fund has been notified. In so far as such controls affected transactions regarded as "current" by the International Monetary Fund, they would be subject to the provisions of the International Monetary Fund Agreement as to their establishment and maintenance.

Controls of this type should not be employed, however, unless the Monetary Board and the Executive Power are convinced that they are necessary because of grave pressure on the balance of payments. This would be evidenced by the fall of the Central Bank's exchange reserves to a low level, or by a rapid rate of decline while they are still large. Unless made necessary by such pressure, effective exchange control would constitute a harmful interference with international trade and an undesirable deterrent to international investment. While the International Monetary Fund recognizes that control over capital movements, and under certain conditions over current transactions, is a necessary measure to protect the stability of exchange rates, it will ordinarily be preferable for the Dominican Republic to maintain entirely free exchange markets, as provided for by the present Law.

The exchange reserves that the Central Bank will hold after the monetary conversion has been completed will probably be very considerable. A substantial outflow of funds on current and capital accounts could therefore take place without endangering the currency and without creating a need for exchange control. In view of the very great expansion of the money supply in recent years, such an outflow is to be expected at some future time. This drain therefore need not perturb the monetary authorities, since it probably would signify merely the return of the volume of money to a more normal level.

### Chapter V General Provisions and Sanctions (Articles 18-19)

To assure both the execution of the Monetary Law and the effective establishment of the new monetary system, sanctions and penalties will have to be established against possible infractions of the relevant legal provisions. This is the purpose of Article 19 of the Law. An attempt has been made, however, to leave adequate latitude to the judicial authorities who will apply the sanctions, by creating a considerable margin between minimum and maximum penalties. These will permit the judicial selection of the appropriate sanction for each major or minor violation. An attempt has likewise been made to maintain the power of the judge to impose jail sentences or fines, or both, of varying severity according to the financial magnitude of the operations, the character of the infraction, and the degree of recurrence.

The provisions of Article 19 also subject to the same penalties any who refuse to accept the notes and coins of the new monetary system at their legal tender value. In view of the fact that jail sentences cannot effectively be imposed upon legal persons, the Law, in accordance with generally accepted judicial doctrine, subjects the latter to fines exclusively, in order to penalize infractions of this type without prejudice to the penalties to which the individuals responsible may likewise become subject.

Care has been taken, on the other hand, to leave explicitly in force the provisions of the Penal Code relating to the falsification of notes and coins, and similar violations, in order to broaden the scope of the present Law to the extent possible.

### Chapter VI Transitory Provisions (Articles 20-21)

The transitory provisions regulate the changeover from the present United States dollar sys-

tem to the independent Dominican gold peso currency, a process referred to previously as the monetary conversion. This change-over is to take place in successive steps, which are distinguished by the progressive reduction in the importance of the dollar from full legal-tender status in the first stage to its virtual elimination from circulation in the second.

With the beginning of the first stage, the Central Bank will issue peso currency against equal receipts of dollar currency; that is, it will put pesos into circulation, not through credit operations, but only against a 100 per cent dollar reserve. Consequently there will be no increase in the money supply and no inflationary influence of any kind from this operation. To stimulate the use of pesos the Central Bank will seek the cooperation of the Government, the banks, and some of the larger business enterprises. The two last named will obtain pesos against dollars from the banks—at par and without charges—and employ the new currency in their ordinary payments. The banks in turn will obtain the necessary pesos from the Central Bank under the same conditions. The banks will adopt the practice of paying out pesos against their deposits unless the depositor states his preference for dollars.

While the first stage continues, the Central Bank will stand ready to redeem pesos offered to it against dollar currency, at par and without charge. Since it does not deal directly with the public, it will name the banks as its agents. Any holder of pesos who prefers to hold dollars will therefore be perfectly free to exchange his pesos for dollars. During the first stage, all contracts based on dollars will retain this dollar character in a juridical sense, in accordance with the antecedent monetary legislation, and all new contracts made during this period will have the same character. Nevertheless, from the start of the first stage, the gold peso will be legal tender for the payment of all obligations, in the sense of Article 5 of the Monetary Law, while the dollar will retain its legal-tender status. Any debtor can therefore discharge his dollar obligations by paying either dollars or pesos—whichever he prefers—and the creditor is required to accept the currency offered. This will not be a disadvantage to the creditor, however, since he can exchange the pesos for dollars at his bank, or vice versa, if he so prefers. The deposit obligations of banks will be similarly treated; that is, they will become dischargeable in pesos or dollars at the option of the bank. Nevertheless, since the banks will act as agents for the Central Bank for the purpose of exchange currencies, they will, in paying out against a deposit, combine this operation with that of currency exchange and will therefore pay to the depositor the currency he demands.

There will be no need for the banks to carry a double set of accounts, one in dollars and another in pesos, during this or any of the succeeding stages. While their loans may be repaid in either dollars or pesos, the banks have the same right with respect to their deposits.

In so far as their function in exchanging one currency for another is concerned, the banks are fully covered by the obligation of the Central Bank to perform the same exchange for their benefit. In the hypothetical case that the peso should cease to be at par with the dollar, the fact that all contracts and obligations juridically remain in dollars, coupled with the legal-tender power of the peso, would have the result that payment in pesos could not be made at par, but only at the rate of the day, which would still leave the banks and all other creditors well protected. Such a deviation of the peso from parity is not conceivable, however, inasmuch as the Central Bank is standing ready to exchange each currency for the other. Since during this period it will have a dollar in reserve for each peso it has issued, there can be no doubt as to its ability to preserve absolute equality between dollar and peso. As long, therefore, as the banks maintain adequate liquidity of their investments—of which under present conditions there can hardly be any doubt—no problem can arise for them.

The core of the entire procedure during the first stage is the unconditional obligation of the Central Bank to exchange the two currencies for each other at par without charge. To assure its ability to meet this obligation, the Central Bank is enjoined, during the first stage, from

engaging in credit operations of any kind except in case of grave emergency and with the approval of the President of the Republic. The Bank must maintain its dollar assets in the form either of currency or of highly liquid assets eligible for the monetary reserve.

The first stage will last not less than three months and may continue as long as a demand for dollar currency remains in evidence, or while a substantial volume of dollars continues in active circulation. The Central Bank, in co-operation with public and private entities, must endeavor to stimulate the use of pesos instead of dollars, and seek to retire dollars from circulation whenever they reach its tills.

When the demand for exchange of pesos against dollars at the banks has practically ceased, the second stage will be introduced by a Presidential decree at the initiative of the Monetary Board. Beginning with this stage, the dollar ceases to be legal tender, and creditors now have the right to demand payment in pesos. The debtor therewith loses the right to pay in dollars that he had during the first stage. However, if creditor and debtor both agree to payment in dollars, such payments can legally be made. However, in that case the operation has more nearly the character of a barter transsaction.

All existing obligations and contracts, which during the first stage had remained without exception on a dollar basis, are automatically converted into peso contracts on the basis of the legal parities as of the date of the decree. All new contracts and obligations will be made in pesos, excepting only the contracts, obligations, and payments specifically enumerated in Article 2 of the Monetary Law. The Monetary Board will have to regulate in some detail the nature of these exemptions, and to make decisions in borderline cases. The implication of this change-over in the basis of contracts is that, in the hypothetical case of a deviation of the peso from parity with the dollar, all but the exempt contracts and obligations will be payable in pesos at face value. Dollar contracts made in contravention of the Law will be dischargeable in pesos at the parity established in the present Law or at the rate of the day, whichever is more favorable to the debtor, as provided in Article 2.

The Central Bank, during the second stage, will continue to pay out, without limitation and at par, Dominican peso notes in exchange for dollar notes, but it may suspend the exchange of dollar notes against pesos or limit this exchange to dollar notes of specific denominations. The Central Bank will have to be guided herein by the progress of the monetary conversion. It naturally will continue to sell dollar exchange to the banks in the form of drafts or cable transfers, and the banks will sell this exchange precisely as before, so that anyone requiring dollars for payment abroad will be able to obtain them as before. The international par value of the peso will therefore be maintained without question.

With the beginning of the second stage, the banks will be permitted to establish foreign currency accounts, as provided in Article 16, unless the Central Bank should have authorized this earlier. The usual exchange charge will have to be paid by those wishing to transfer local funds—whether dollar currency, peso currency, or a bank deposit—into a foreign exchange account. This will provide a partial substitute for the exchange of pesos against dollar currency, which the Central Bank may now suspend, and will serve to satisfy part of the remaining demand for domestic dollar holdings.

From the beginning of the second stage, the Central Bank will be free to engage in the credit and securities operations permitted by the present Law. It will have to proceed with extreme caution, however, until the progress of the monetary conversion has made it quite clear that a resurgence of the demand for dollar currency is not to be expected. It will only be then that the Bank can safely give up its policy of maintaining a 100 per cent reserve.

The second stage will end on a date that the Executive Power will specify by decree. Three months after the end of the second stage, the

Central Bank will no longer be obliged to accept dollar currency at par against pesos. To stimulate the withdrawal of dollars from circulation, the Bank may announce that after a certain period it will accept dollar currency only with a small discount. This discount may be as high as 3 per cent, but in practice it may prove desirable to fix it at a smaller figure. The Central Bank will have to give ample notice of the impending establishment of the discount, which would be applied only to dollar currency and not to the purchase of drafts.

The Bank may find it desirable to create special facilities to deal with currency brought in by travelers. If a discount has been imposed upon dollar bills, it may permit certain businesses patronized by travelers to obtain pesos at par against such currency, thus permitting the use of dollars by tourists without a discount.

# THE MONETARY LAW OF THE DOMINICAN REPUBLIC

October 9, 1947

(Translation*)

## CHAPTER I

### Monetary Unit

ART. 1.—The monetary unit of the Dominican Republic shall be the "gold peso", equal to eight hundred and eighty-eight thousand six hundred and seventy-one millionths (0.888671) of a gram of fine gold, the symbol of which shall be the following: RD$.

The peso shall be divided into one hundred equal parts known as "centavos". The symbol of the centavo shall be: ct.

ART. 2.—All prices, taxes, assessments, fees, wages, salaries, contracts, and obligations, of whatever type or kind, that are to be paid, collected, or executed in the Dominican Republic shall be expressed in and liquidated in pesos exclusively. Any qualifying or restricting clause that requires payments in silver or metallic gold, foreign currencies or exchange, or any monetary unit other than the peso, shall be null and void. Nevertheless, such nullity shall not invalidate the principal obligation, when the latter may be interpreted in terms of the national monetary unit, in which case the respective obligations shall be liquidated in pesos, the conversion being effected on the basis of the legal parities prevailing at the time of the consummation of the contract or at the time of payment, whichever is more favorable to the debtor.

The following are exempted from the foregoing limitations:

a) Obligations which call for payments from the Republic to foreign countries, or from foreign countries to the Republic, in accordance with the regulations the Monetary Board may formulate;

b) Remuneration to persons or entities actually domiciled outside the country, for services rendered temporarily within the country;

c) Obligations in favor of the State or other official entities, which by virtue of special agreements or regulations must be paid in gold or in foreign currency;

d) Bonds or securities that may be issued either by the State or by the Central Bank of the Dominican Republic, whenever required by the monetary policy in the interest of the country;

e) Deposits of foreign currency with local banks made in accordance with such pertinent regulations as the Monetary Board may formulate; and

f) Minor transactions effected by tourists and travelers, which shall be subject to the regulations that the Monetary Board may, as occasion arises, formulate in order to prevent the effective circulation of foreign coins or notes in the territory of the Republic.

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* Official Spanish text, LEY MONETARIA, No. 1528, published in *Gaceta Oficial*, October 13, 1947, No. 6699.

## CHAPTER II

### Monetary Issue

ART. 3.—Only the Central Bank of the Dominican Republic may issue notes and coins in the territory of the Republic, subject to the guaranties and limitations established in the Constitution and the laws pertaining thereto, especially the Organic Law of said Bank. No other person or entity, public or private, may issue or put into circulation notes, coins or other means of payment which, in the judgment of the Monetary Board, might circulate as currency. The Monetary Board may formulate the regulations which it deems appropriate to prevent the circulation, as means of payment, of foreign notes or coins within the territory of the Republic.

Fractional coins that may be issued hereafter as well as those in existence on the date of the promulgation of the present Law shall be the direct responsibility of the State. The Central Bank shall issue coins in the quantities required by public demand, through the exchange of an equal quantity of its own notes.

Of the notes thus received, the Central Bank must cancel a sum equal to the foreign exchange used in the total cost of the respective coins.

The remainder of the notes received in exchange for the coins shall also be canceled, and shall be used to form a special reserve for the enlargement of the Central Bank's capital.

ART. 4.—Notes shall have the denominations, dimensions, designs, legends, and other characteristics determined by the Executive Power, upon the proposal of the Monetary Board, and shall carry the signatures, in facsimile, of the Secretary of State for the Treasury and Public Credit and of the Governor of the Central Bank.

Coins shall have the weight, pattern, fineness, engravings and denominations that, up to the quantity of one gold peso, may be determined by the Executive Power upon the proposal of the Monetary Board.

Printing of notes and minting of fractional coins shall be done exclusively in the quantities, at the times, and under the conditions fixed by the Monetary Board, and only in the institutions, firms or mints contracted for this purpose by the Board.

Negotiations and expenses of printing and replacement of notes, as well as those relating to fractional coins, shall be for the account of the Central Bank.

However, with respect to notes which it was necessary to print prior to this Law, in order to execute the provisions of the same, the Monetary Board may propose and the Executive Power may determine, by Decree, approval of their denominations and dimensions, designs, legends and other characteristics. Said notes shall be delivered without cost to the Central Bank.

ART. 5.—Notes of the Central Bank of the Dominican Republic shall be legal tender and shall have unlimited cancelatory force for all debts, public and private, throughout the whole territory of the Republic.

Fractional coins issued by the Central Bank for the account of the State, as well as those issued by the State prior to the date of this Law, in conformity with Monetary Law Number 259 of February 21, 1937, also shall be legal tender and shall be accepted as payment in any transaction up to an amount equal to twenty-five times their denomination.

ART. 6.—The Central Bank of the Dominican Republic shall exchange, on sight, and without any charge whatsoever, notes and coins of any denomination for notes and coins of any other denomination which it has available.

ART. 7.—The Central Bank of the Dominican Republic shall exchange, for other notes or coins, notes and coins that have deteriorated through use and which are unfit for monetary circulation.

However, the Bank shall not be required to exchange notes and coins that can not be identified, notes that have lost more than two fifths of their surface, as well as those on which any kind of written notation appears and coins that show signs of filing, paring, or perforation. The Bank shall retire without compensation said notes and coins and shall demonetize them.

ART. 8.—The amount of each confirmed reduction in the note issue liabilities of the Central Bank, on account of loss, destruction or demonetization of the same, shall be used for the purposes established in the Organic Law of the Central Bank of the Dominican Republic.

## CHAPTER III.

### International Parity of the Currency

ART. 9.—The parity of the Dominican gold peso shall correspond to its gold content of eight hundred and eighty-eight thousand six hundred and seventy-one millionths (0.888671) of a gram of fine gold.

Legal exchange rates of foreign currencies freely and effectively convertible into gold shall correspond to the parities established in conformity with the Agreement on the International Monetary Fund or to the gold parity of the currencies of countries which are not members of said International Fund.

ART. 10.—Net profits or losses which may result from the revaluation of net assets, in gold or foreign currencies, of the Central Bank of the Dominican Republic and of any other banks established in the country, as a result of future modifications of the parities or legal exchange rates between the Dominican peso and other foreign currencies, or in the value of gold, shall be exclusively for the account of the Central Bank of the Dominican Republic. Said profits or losses, as they arise, shall be set off against the amounts which, as a consequence of these modifications, were debited by the country to the International Monetary Fund and the International Bank for Reconstruction and Development or by these institutions to the country and any remaining amount shall be credited or charged to a special sterilization account designated "Revaluation of Reserves" whose net balance shall appear either as a liability or an asset of the Central Bank of the Dominican Republic, depending on whether it corresponds to net profits or losses. Consequently, profits or losses of revaluation shall not enter into the calculation of annual profits and losses.

The Central Bank is empowered to fix the conditions under which the dispositions contained in this article shall be made effective.

The Bank, moreover, may rule that one or more currencies shall be exempt from the provision contained in the first paragraph of this article as far as the commercial banks are concerned. Said provision shall become effective only after the passage of eight days following notification of it to the banks by the Monetary Board.

## CHAPTER IV

### Exchange Control and External Convertibility of the Currency

ART. 11.—The Central Bank of the Dominican Republic shall assure free convertibility between the Dominican peso and foreign currencies, in accordance with the provisions of this chapter and with the treaties and agreements on monetary stabilization in force.

ART. 12.—Only those commercial banks which are so authorized by the Monetary Board may negotiate coined gold, gold bars or bullion, or foreign exchange, with any other nonbanking person or entity domiciled in the territory of the Republic.

Under no circumstances shall the Central Bank of the Dominican Republic effect exchange operations directly with the public.

Minor exchange transactions of tourists and travelers shall be excepted from the foregoing provisions. Transactions of this character shall be subject to regulation by the Monetary Board.

The Monetary Board, with the approval of the President of the Republic, may subject gold transactions to such rules as it may deem expedient.

ART. 13.—The Central Bank of the Dominican Republic shall purchase and sell to the banks, when they demand it, the exchange acquired or needed by them in the course of their exchange operations. In their turn, on demand of the Central Bank, the banks shall sell exchange purchased and held by them, in accordance with the provisions of Article 56 of the Organic Law of the Central Bank. The Central Bank may make special regulations for exchange that is not freely convertible.

The Central Bank shall fix foreign exchange rates in such manner as to permit the banks to negotiate sight drafts with the public at quotations which do not differ by more than one per cent from the parities established in Article 9, provided that the foreign currencies referred to in this article do not deviate in a larger proportion from their legal parities in the principal international markets.

ART. 14.—Each bank authorized to deal in foreign exchange shall periodically credit to the Central Bank a percentage of the amount of its sales and a percentage of that of its purchases of such exchange. Such percentages shall be fixed by the Monetary Board and shall in no case exceed one eighth of 1 per cent of the amount of the operations, provided that the total amount that the Central Bank receives from each commercial bank during the period of one year shall not exceed 20 per cent of the gross total of exchange commissions and margins collected. Instead of the percentages of the amounts of operations mentioned above, the Board may rule that the banks are to credit the Central Bank with a percentage of the gross total of exchange commissions and margins collected, provided that this percentage does not exceed the limit of 20 per cent. The Board, moreover, shall fix the dates on which said credits are to be made.

The Superintendent of Banks shall determine, when necessary, the extent and meaning of the terms and of the operations mentioned in the present article.

ART. 15.—The banks will supply the Central Bank, in the form prescribed by the latter, with information on all exchange and transfer operations with foreign countries realized by them as well as on the total amount of all accounts in each foreign currency.

ART. 16.—In accordance with the regulations formulated by the Monetary Board, the banks may accept special foreign currency deposits. Withdrawals of said deposits shall be made in the currency of the deposit and only for payment outside the country, subject to the provisions of the following article. Such withdrawals shall be made in the form of drafts or other documents that cannot circulate as money and in no case in foreign notes or coins. In order to be able to effect payment within the territory of the Republic, depositors must convert these deposits into Dominican pesos at the rate of exchange of the day, in accordance with Articles 13 and 14.

ART. 17.—The Monetary Board may, with the approval of the President of the Republic, submit to prior authorization the contracting or granting of credit to or from foreign sources, by private entities or by the banks, as well as any investment of foreign funds in the Dominican Republic, and the transfer of Dominican funds to foreign countries. In case it makes use of this faculty, the Board may delegate to the higher officials of the Central Bank, or to a special commission, the faculty to concede the above-mentioned authorization within such limits as the Board may establish.

However, with regard to operations defined as current, in the Agreement on the International Monetary Fund, the Monetary Board must be governed by the commitments assumed in said Agreement.

## CHAPTER V

### General Provisions and Sanctions

ART. 18.—The Monetary Board shall have the faculty to propose, for the approval of the Executive Power, regulations necessary for the execution of the present Law. Municipalities, public establishments, administrative departments and banks shall offer the Central Bank the collaboration it may require, and shall furnish it with the data and information it may request for the better execution of this Law.

ART. 19.—Those who violate the provisions of this Law shall be punished with fines of $60.00 to $2,000.00 and with imprisonment from two months to two years, or both, depending on the amount involved in the operation, the nature of the infraction, and recurrence. In cases where a legal person is also guilty of the infraction, said person shall also be punished with a fine in the amount prescribed above.

The same penalties shall apply to those who refuse to receive national coins and notes for the value they have as legal tender.

In the case of falsification, alteration, or discoloration of coins, or in the case of issue, introduction or expenditure of counterfeit, altered, or discolored coins, as well as in the case of counterfeiting of notes, or use, introduction or expenditure of counterfeit notes, infractions shall be punished in accordance with the provisions of the Penal Code; and the coins and notes shall be retained, confiscated, or destroyed in conformity with such regulations as the Executive Power may formulate.

## CHAPTER VI

### Transitory Provisions

ART. 20.—The execution of the present Law shall be carried out in three stages.

1. The first stage shall begin with the publication of this Law, and shall last, at least, three months. During this period, notwithstanding the provisions contained in

Article 2, all obligations of whatever kind or nature shall be regarded as having been contracted in United States dollars in conformity with the laws in force at the time of said publication. Both the dollar and the gold peso shall be legal tender and shall have cancelatory force for the payment of all debts, public and private. During this stage, the Central Bank shall exchange at par and without limitation, dollar notes of the United States of America, when presented, for Dominican gold pesos, and the latter for dollars, and for such purpose, may designate as its agents the banks established in the country.

During the first stage, the Central Bank must have on hand the quantity of dollar notes it considers necessary to take care of the requirements of the public. Said notes shall be a part of the monetary reserve as it is defined in Article 67 of the Organic Law of the Central Bank to serve as backing for the national currency.

2. The second stage shall begin on the date decreed by the Executive Power, on the proposal of the Monetary Board.

a) As of the beginning of the second stage, Article 2 of the present Law shall be applicable in the case of all contracts and obligations both existing and future. Contracts and obligations in force on said date shall be regarded as having been contracted in Dominican gold pesos, the conversion into new currency being calculated on the basis of the legal parities prevailing on the first day of the second stage. All deposits held in local banks shall also be interpreted as being denominated in pesos, unless the depositor requires the bank specifically to convert his deposit into a special deposit, under the system established in Article 16.

b) The Central Bank may authorize the opening of said deposits prior to the expiration of the first stage of the monetary reform, if it deems expedient.

c) During the second stage, the Central Bank shall continue exchanging, at par, dollar notes for Dominican pesos and the latter for dollars. It may, however, suspend delivery of dollars against receipt of gold pesos by the Bank, or limit delivery to such denominations of dollar notes as it may see fit to specify.

However, nothing set forth in this clause may be interpreted as a limitation of the obligation of the Central Bank to maintain the free convertibility of the gold peso internationally through the sale of drafts and other forms of transfers.

3. The second stage shall terminate on a date to be fixed by the Executive Power, by decree. Three months after said date the Central Bank shall not be obligated to exchange, at par, dollar notes for Dominican gold pesos, and it may, therefore, subject said purchases of dollar notes to a discount of not to exceed 3 per cent.

ART. 21.—The present Law revokes any other law, decree, regulation, or part of the same which may be contrary to it.

# CHAPTER IV

# THE CENTRAL BANK LAW

## REPORT ON THE CENTRAL BANK LAW

This report sets forth the principles underlying the major provisions of the Central Bank Law, and discusses some of the problems that the Bank may have to face and the policies that it may adopt.

The law establishing the Central Bank is divided into the following seven titles:

Title I Creation and Functions (Articles 1-5).

Title II Capital, Reserves, and Profits (Articles 6-9).

Title III Direction and Administration (Articles 10-33).

Title IV Operations of the Bank (Articles 34-61).

Title V Monetary and Credit Policy (Articles 62-69).

Title VI Research and Publications (Articles 70-73).

Title VII General and Transitory Provisions (Articles 74-78).

### TITLE I CREATION AND FUNCTIONS (ARTICLES 1-5)

The Central Bank is the center of the new monetary system. It carries the responsibility for the proper functioning of the system, and the present Law endows it with the powers needed to meet this task.

The purposes of a central bank differ fundamentally from those of commercial banks. The central bank is not an institution whose primary purpose is to grant credit, but an agency to regulate monetary and credit conditions. Credit creation is incidental to its regulatory functions. At times the central bank may find that economic conditions call for credit expansion, at other times for credit contraction. The success of the bank is to be judged in terms, not of the magnitude of its loan and investment portfolio, but of its contribution to the stability and development of the economy.

Nor is the success of a central bank to be appraised on the basis of the profits it makes. The benefits that the Government is to derive from the bank are of an indirect character; chief among them are the improvement of the public credit, and an increase in tax revenues, through the general strengthening of the economy. These results do not depend upon the financial returns realized by the bank, but should follow from the establishment of an independent monetary system and its proper functioning.

The statement of the purposes and functions of the Bank, contained in Article 4, supplies general guidance for the Bank's operations. The first task of the Bank, as long as the dollar continues to circulate, will be to supervise and expedite the replacement of this dollar circulation with Dominican pesos [Article 4a) 1)]. A variety of steps can be undertaken to stimulate the use of the national currency and the retirement of dollar currency. Once the exchange has been completed, the supervision of the technical aspects of the currency will remain as a minor function of the Bank.

The Central Bank's task of promoting and stabilizing productive activity [Article 4a) 2)] will be carried out primarily through its credit operations, but also through operations in securities authorized by the Law. Another important, although indirect, means of accomplishing this task will be the sponsorship of special research projects (Article 70). In its credit operations the Bank will have to place emphasis more on the proper direction of credit than upon an expansion of its volume. An increase in the total volume of money and credit should be restrained by the Bank unless warranted by an increase in economic activity, so as to avoid overexpansion and consequent pressure upon the balance of payments. It must be remembered that credit expansion that looks perfectly

safe in good times may be very hard to reverse later on when conditions change.

The concentration of commercial bank reserves in the Central Bank [Article 4a)3)] and the determination by it of legal reserve ratios provide it with one of the strongest weapons to carry out its monetary policy. The liquidity of the banks will be greatly aided by the credit facilities offered by the Central Bank, although in their present strong position the commercial banks probably will not need such assistance in the near future.

The proper distribution of credit [Article 4a)3)] will be one of the most important positive aspects of the Bank's credit operations. At present, the various sectors of the economy are very unevenly provided for, for reasons that are well known. The main instrument for bringing about a better distribution will be the Banco Agrícola e Hipotecario. The Central Bank, however, can aid that institution importantly through the fixing of favorable rediscount rates for certain purposes, and through the management of the guarantee fund for special credits.

The maintenance of the external value of the currency [Article 4b)1)], which will be one of the responsibilities of the Central Bank, is one of the fundamental features of the new system. A firmly maintained parity harmonizes with the traditions of the Republic, which has been accustomed to a stable currency for the last forty-two years. For the success of the monetary reform, the assurance of currency stability is of course essential. The maintenance of stability is also required by international agreement, by virtue of the Republic's participation in the International Monetary Fund. The Law does not permit the Bank, under any circumstances, to modify the value of the peso, and the Bank therefore cannot make use of the 10 per cent margin within which the International Monetary Fund Agreement permits members to change their parities.

In addition to maintaining stability, the Bank is required to maintain the convertibility of the currency, i.e., to ensure that everyone can purchase foreign exchange in the amounts and at the time they desire. Since no severe restrictions have ever been imposed by the Republic upon commercial transfers of funds to and from other countries, it is highly desirable that the new monetary system should preserve this freedom. From the purely economic viewpoint, too, the greatest practicable freedom from exchange restrictions is desirable. The Monetary Board is required to adhere, in its foreign exchange policy, to the provisions of the Monetary Law, Article 17; the report on that Law gives details concerning foreign exchange policy and operations.

The Bank is required to maintain international reserves in gold and foreign exchange [Article 4b)2)] that will be sufficient to meet, in the first place, any outflow of foreign exchange that can reasonably be expected when a passive balance of payments must be faced. The reserves should further be sufficient to take care of the additional outflow of exchange that would result if the Bank should undertake to offset, through a compensating policy of credit expansion, the contraction produced by the passive balance of payments. The Bank therefore should normally hold very substantial reserves, particularly at the outset of its career, when its soundness has not yet been proved in a crisis.

The Bank's ability to protect the economy against the consequences of fluctuations in the balance of payments will, of course, be fairly limited. Its instruments of monetary action are powerful, but in a country so heavily dependent upon foreign trade as the Dominican Republic, the forces released by balance-of-payments fluctuations will frequently be much stronger. Even under favorable circumstances, the help that the Bank may extend through credit expansion in order to overcome the effects of shrinking foreign markets can be only a palliative. Central Bank credit is no substitute for markets, and the opportunities for the diversion of productive resources from exports to the domestic market, without which a compensatory policy cannot be carried very far, are very limited in the Dominican Republic.

The Bank's powers will be somewhat more effective when the balance of payments is active instead of passive, and when the problem is

therefore one of counteracting inflation rather than deflation. Their use, however, will require a great deal of good judgment, as well as the courage to face criticism from interests adversely affected by Central Bank action. In any case, it must be clearly understood that the Central Bank cannot altogether block, but only soften, the impact of balance-of-payments fluctuations upon the economy. For it to try to do more would be to overtax its strength.

The Bank will have to seek a middle way between its obligation to offset so far as possible the effect of balance-of-payments fluctuations, and its further obligation to adjust the monetary and credit situation to these effects so as to maintain and re-establish equilibrium in the country's international accounts [Article 4b) 3) ]. Decisions in this sphere will be particularly critical when a passive balance of payments has to be faced. Compensatory action will intensify the drain on the Bank's exchange reserves. The Bank must therefore limit its action in accordance with the volume of its reserves and with the length of time that it expects the contraction to last. Where the cause of the passive balance is clearly of a short-run character—such as a drop in exports owing to a crop failure—the Bank can go far in endeavoring to offset through internal credit stimulation the blow to the economy. The resulting drain on reserves will not last long enough to be dangerous. Where the probable duration of a disequilibrium cannot be clearly established at the outset, the Bank must act more cautiously, since the drain on its reserves may continue longer. Where the factor producing a passive balance of payments threatens to be permanent, the Bank must primarily seek adjustment to this new situation, and should attempt compensatory action only in order to ease the transition. A long delay in coming to a full adjustment would result in a needless expenditure of exchange reserves and would probably be harmful to the economy. The correct appraisal of the character and probable duration of a disequilibrium in the balance of payments will be one of the most difficult and yet most vital tasks of the Bank.

## Title II Capital, Reserves, and Profits (Articles 6-9)

The Bank's capital of 100,000 pesos is small, but sufficient for its purposes; a larger capital would be an unnecessary burden for the Government, which is the sole contributor. A central bank, unlike a commercial bank, does not operate with its capital; since its notes are the legal tender of the country, all of its domestic operations inevitably are carried on through an increase or decrease in its monetary issue. Additional protection to the holders of the Bank's notes and deposits, beyond that provided by the soundness and solidity of the institution itself, is given through the Government's guarantee of these obligations.

The Bank, however, will accumulate substantial capital reserves, which will be derived from (1) its own profits; (2) a share in the profits of the Banco de Reservas, and the Banco Agrícola; and (3) occasional windfalls that may result from the reduction in liabilities through the proved destruction or loss of some of the Bank's notes. No payment will be made at any time to the Government, which as sole owner of the Bank will in any case be the residual beneficiary of all these accumulations. These capital reserves will allow the Bank correspondingly greater scope for compensatory action in bad times, should the need arise. They will thus become another instrument of anticyclical policy; their accumulation will have a mildly restraining influence upon monetary expansion during the upswing, and will permit greater support of the economy by the Bank during the downswing.

## Title III Direction and Administration (Articles 10-33)

The direction of the Central Bank is in the hands of a Monetary Board, which in accordance with the Constitution will be responsible for the regulation of the monetary and banking system of the Nation. This Board will also formulate the general policy of the Banco de Reservas and the Banco Agrícola when necessary, and will act as consultant to the Government on the latter's

domestic and foreign credit operations. The Monetary Board thus is not only the Board of Directors of the Central Bank, but also centralizes, to a degree, all of the Government's monetary policy functions.

The Monetary Board will consist of the following six members: (1) The Secretary of State for the Treasury and Public Credit; (2) the Governor of the Bank; (3) a member with industrial and commercial experience, who at the same time will serve as a member of the Board of the Banco de Reservas; (4) a member with experience in agricultural and livestock operations, who at the same time will serve as a member of the Comité Agrícola e Hipotecario of the Banco Agrícola e Hipotecario; (5) a member with generally recognized experience in the commercial banking field; and (6) a member versed in regional economic problems [Article 10]. The presence of the Secretary of State for the Treasury and Public Credit, who will be the Chairman of the Board, should help to establish closer liaison between the Government and the Bank, and his knowledge of the Bank's problems will enable him to be a valuable spokesman for the Bank in the cabinet. The members familiar with industrial, commercial, agricultural, livestock, and banking affairs will keep the Bank in touch with the different sectors of the economy. The fact that two of these members will serve on the boards of the other official banks should promote closer relations between these institutions and the Central Bank.

The Governor will be appointed by the President of the Republic. He will be the executive head of the Bank and as such will be its legal representative. He will attend the meetings of the boards of the Banco de Reservas and the Comité Agrícola e Hipotecario with the right to be heard but not vote, so as to be better able to coordinate the monetary and credit policies of the Central Bank with those of the other official banks. For the same purpose he will be empowered to supervise the administration of the Banco de Reservas and the Banco Agrícola e Hipotecario.

The functions of the Manager will be essentially those of internal administration. He will be appointed by the Monetary Board, and will be in charge of such operations of the Bank as come under his jurisdiction by virtue of the bylaws or as may be entrusted to him by his superior authorities.

The Monetary Board likewise will appoint a Discount Committee and such other committees as may prove necessary. The Discount Committee will decide on the eligibility of credit instruments presented to the Bank for rediscount or as collateral. The members of this and any other committee should be selected both from officials of the Bank and from individual businessmen. Service by businessmen on a committee will help to create closer contacts between the bank and the business world and will also prepare the incumbents for possible later service in positions of greater responsibility.

One of the most important features of the Bank's management structure is the relationship between the Monetary Board and the Banco de Reservas and the Banco Agrícola. This relationship derives from the Board's power to direct, whenever it sees a need for doing so, the credit policies of the two latter banks; this power is further implemented through the interlocking of directors and executives. Without such a relationship, the Central Bank would find it difficult to carry out its purpose, because in their present state the Dominican money and credit markets would not be easily controllable through purely central banking operations.

The Monetary Board will not concern itself with specific business operations or with the administration of the Banco de Reservas and the Banco Agrícola. These will remain entirely in the hands of the Board of Directors of the Banco de Reservas, and the Comité Agrícola, respectively.

## Title IV Operations of the Bank (Articles 34-61)

In viewing the operations that the Central Bank is authorized to conduct, it is important to note one essential difference between a cen-

tral bank and a commercial bank. When a commercial bank purchases an asset, or pays off an obligation, this action ordinarily results in a reduction of the notes in its till or of its deposits with another bank. Likewise, in receiving a payment, a commercial bank adds the notes received to its assets. When a central bank acquires an asset or discharges a liability, however, it does so with its own issue power since its notes are legal tender. Likewise, when the central bank receives its own notes in payment, it cannot carry these among its assets, but must withdraw them from the monetary issue. The operations of the Central Bank, therefore, like those of any other central bank, inevitably involve changes in its monetary issue, so that the issuing of money is an automatic result of these operations, and not a separate and deliberate action.

For this reason, the Central Bank must be authorized to issue notes for any purpose that it may legitimately perform, within the limits stated in the Law. These limits, which constitute the safeguard against overissue of notes, take the form partly of restrictions upon the volume of loans and security purchases that the Bank is permitted to make, and partly of requirements as to the coverage of notes and other liabilities with gold and foreign exchange.

The Law treats of the operations of the Bank under the following chapters:

Chapter I The Monetary Reserve (Articles 34-38).

Chapter II Credit Operations (Articles 39-45).

Chapter III Purchase and Sale of Securities (Articles 46-50).

Chapter IV The Monetary Issue (Articles 51-54).

Chapter V Bank Deposits and Legal Reserves (Articles 55-58).

Chapter VI The Issuing of Securities (Articles 59-61).

The following comments are intended to clarify the main aspects of each of these categories.

*Chapter I The Monetary Reserve (Articles 34-38)*

The international reserves of the Central Bank are assets representing international means of payments, chiefly gold and foreign exchange. The function of the international reserve is to ensure the convertibility of the peso for payments abroad. By buying and selling gold or exchange freely at the legal parity, or with a small margin to supplement its income, the Central Bank stabilizes and maintains the value of the peso.

The Bank is given a free hand in determining the form in which the international reserves are to be held, subject to the requirement that 25 per cent of the legal minimum be in gold and to the warning against the acquisition of blocked currencies if avoidable. Likewise, the Bank is to concentrate its foreign exchange holdings in those currencies which are of particular importance in the country's balance of payments. Such concentration serves the purposes both of convenience and of safety.

At the present time, the United States dollar undoubtedly occupies the first place in this respect, since by far the greater part of the country's exports as well as imports are liquidated in dollars. In so far as reserves are not carried in gold, therefore, they should preferably be carried in dollars.

The Bank may find it convenient to carry a good part of its foreign exchange holdings in the form of high-grade securities of foreign governments, in order to increase its revenues. In making such investments, the Monetary Board will have to use sound judgment so as to place foreign exchange funds that might be needed soon in the shortest maturities. Other funds may be invested in somewhat longer maturities, provided no undue market risks are incurred. Although the Bank is authorized, under certain conditions, to buy dollar obligations of the Dominican Republic, these can in no case form part of the monetary reserve.

Since the power to draw upon the International Monetary Fund also represents a resource for international payments, the Central

Bank is permitted to consider as part of its monetary reserve its creditor position therein, if any. The Monetary Board must remember, however, that these resources cannot be counted upon unconditionally, since the right to draw upon the Fund will be subject to certain conditions established by the laws of that institution.

The real strength of the Bank's international assets becomes apparent only by taking into account its foreign exchange liabilities. The Law therefore requires the Bank to earmark part of its international assets against such liabilities, in proportions depending upon the maturity of the latter. Among these obligations will be those that may arise from purchases of foreign exchange from the International Monetary Fund, to the extent that as a result of such purchases the total of Dominican currency held by the Fund exceeds the amount of the Dominican quota. The monetary reserve must be stated on a net basis, that is, after deducting the amounts earmarked for foreign exchange obligations.

*Chapter II Credit Operations (Articles 39-45)*

The Central Bank will make direct loans only to banks operating in the country, not to the public nor to any private or official agency. Its loan powers are broadly defined, in order to leave it a sufficiently free hand in determining credit policy and in adapting its operations to market conditions.

The maturities and the general character of the rediscounts and advances that the Central Bank may make are in keeping with the nature and rhythm of the various types of commercial and productive operations.

The Bank, in determining its credit policy, will have to watch both the money supply as a whole and the use made by commercial banks of the funds obtained from the Bank. In this connection it is important to note that the purposes underlying the specific credit instruments submitted to the Central Bank for rediscount or as collateral are not necessarily those which will govern the borrowing bank's use of the Central Bank funds therewith obtained. A commercial bank might rediscount, in other words, a credit instrument arising from a past operation of one type and employ the proceeds for an operation of quite another character. The Central Bank is therefore authorized to make access to its credit dependent upon the composition of the borrowing bank's loan portfolio in general and upon the rates charged thereon, as well as upon the character and interest rates of the specific instruments offered to the Central Bank.

The Central Bank may influence the volume of its credit operations not only through changes in its discount and loan rates, but also through the changes in eligibility requirements indicated above and through the fixing of maximum credit lines for the various banks. These lines should be fixed for each bank on an equitable basis, and may be communicated to the banks at the pleasure of the Central Bank. Under certain circumstances, which are defined in Title V of the Law, the Central Bank must refuse all credit applications; in case of a banking crisis, on the other hand, credit may be extended against any sound asset.

These provisions give the Central Bank ample power to control the over-all volume of its credit operations. Within the limits established by it, the Bank naturally must treat all banks equitably.

The form that its credit operations may take, as between rediscounts and advances, rests with the Bank. The Bank may prefer to make advances rather than to rediscount since in this case it is slightly better protected by the margin of collateral required. A further advantage of advances, as contrasted with rediscounts, is that this method establishes more clearly the indebtedness of the borrowing bank on its balance sheet, and permits the operation to be liquidated more simply prior to maturity.

The Central Bank is authorized to make loans against the security of current account credits. The Bank may find it desirable to make only sparing use of this power, however, so as not to encourage that form of lending.

*Chapter III Purchase and Sale of Securities (Articles 46-50)*

The Central Bank is authorized to purchase securities for the purposes of general monetary and fiscal policy, and for the regulation of the securities market. The limits for the respective operations are fixed in accordance with their character and monetary effects.

Once the first stage of the monetary reform is over, during which the Bank is not permitted to engage in security purchases of any kind except in certain special cases defined by law, the Bank will be allowed to buy Government securities, external or internal, up to an amount fixed as a proportion of Government tax revenues. The maximum so established will remain in force during the first three years following the Bank's establishment. Within these limits are included all advances that the Bank may have made to the banking system against the pledge of Government obligations, so that the total of loans on and purchases of Government securities is limited in the same form as purchases alone. Moreover, in order to protect the Bank's exchange reserves during this period the Law permits purchases of Government securities only if monetary reserves are not thereby reduced to less than 150 per cent of their legal minimum. This means in practice that the Bank cannot make such purchases unless its note issue is covered to the extent of 75 per cent by its monetary reserves.

These limitations are to remain in effect for three years after the start of operations, in order to protect the Bank during the process of adjustment through which the world economy may be expected to pass in the next few years and of which the end is not yet in sight. Restraint during this period will help to forestall the danger that the high present level of reserves might induce the Bank to expand its loans and investments beyond what would be safe in more normal times. At the end of the three-year period, economic and financial trends should have become clarified sufficiently to enable the Bank to judge the feasibility of further security purchases. At that moment, the amount of permissible purchases will be raised to a somewhat higher percentage of tax revenues, and the requirements as to the level of monetary reserves will be relaxed so as to permit such purchases provided that they do not cause the reserve ratio to fall below its legal minimum. The maximum amount of Government securities that the Bank may buy or loan against will nevertheless remain conservative. All these operations, moreover, are subject to the restrictions imposed upon credit operations and investments in times of clearly defined expansion of the money supply, under Article 65 of the present Law.

While the fiscal implications of Government security purchases can never be eliminated altogether no matter how these purchases are made, the intention of the Law is that considerations of monetary policy shall predominate in the Bank's operations as much as possible. The Banco de Reservas will remain the Government's banker and is to be guided in this respect by its own liquidity needs, as heretofore, within the limits established by the General Banking Law for the purchase of securities.

Apart from and in addition to the operations outlined above, the Central Bank is authorized to engage in security purchases and sales for the purpose of regulating the securities market. To this end, it is authorized to create a Fund for the Regulation of the Securities Market to which it will make available, from its own resources, amounts up to 10 per cent of the securities outstanding of each of the issues in which the Fund is authorized to deal. Under special conditions, this limit may be raised to 20 per cent.

The Fund's operations will ensure for security holders a degree of liquidity that otherwise would be obtainable only as a result of a very broad market with a large volume of dealings. Such liquidity will constitute an important incentive for investment in public securities.

The operating principles by which the Fund is to be guided deserve some comment. In the first place, the Fund should make it quite clear to the investing public that it is not obligated

to stabilize prices. If the Fund were to endeavor to stabilize security prices at all costs, it might find itself going counter to basic economic trends and would run the risk of exhausting its resources and suffering substantial losses. It should rather endeavor to make investors realize that the risk of losses from price declines below par is compensated, to some extent, by the possibility of increases above par. To investors who wish to reduce to a minimum the risks inherent in price fluctuations, the Fund should point out the advantages of short-term securities.

The Fund will have to avoid, so far as possible, the accumulation of a permanent portfolio which would reduce its liquid resources. It should always seek to sell the securities it has bought as soon as market conditions permit, even if sometimes this should involve a small loss. In particular, the Fund should in no case be employed for the placement of new Government issues, even though it may have idle funds available. To facilitate a gradual reduction of its holdings even when sales in the market are not possible, arrangements could be made to redeem part of its holdings with the sums that the Treasury must allocate to periodic amortization of all Government obligations. It may be desirable to insert the necessary provisions for such use of amortization funds in the laws authorizing future issues of Government securities.

As long as reasonable stability prevails in the market, the Fund will probably operate profitably. Its main risk will lie in its being caught with large holdings in a substantial decline. The Fund should accumulate a sizable reserve against losses, out of profits and interest receipts. Since losses in excess of this reserve would fall upon the Central Bank itself, the latter likewise should set up a contingency reserve in this respect, until the Fund's own reserve has reached an adequate level.

Finally, it is important to note that the operations of the Fund, although undertaken to regulate the securities market and not the money market, will in fact have monetary effects. Purchases by the Fund will increase the supply of money in the hands of the public and may also increase commercial bank reserves. One of the risks inherent in the operation of the Fund is that the money paid out in the purchase of securities might be employed by the sellers for the purpose of capital exports. In that case, the operations of the Fund would lead to a loss of monetary reserves by the Central Bank. For these reasons, the operations of the Fund are placed under the immediate control of the Monetary Board, which must endeavor to coordinate them with its over-all monetary policy.

### *Chapter IV The Monetary Issue (Articles 51-54)*[1]

The monetary issue of the Central Bank consists of its notes in the hands of the public and of the banks, plus the demand deposits in Dominican currency in the Central Bank. The act of monetary issue, as noted above, is the automatic result of the Central Bank's operations described so far—the acquisition of international reserves, the granting of loans, the purchase of domestic securities, and similar operations. In each of these instances, the Bank pays with its own notes and thus increases the monetary issue. Any decision, therefore, to expand the volume of its assets inevitably implies an addition to the monetary issue.

Thus, to keep the monetary issue within safe limits, it is necessary to limit the operations that serve to increase it. To this end, the Law permits the Central Bank to engage only in certain specific types of operations, and also limits the volume of these operations. The limitations imposed are of a twofold character: (1) restrictions on the total amount of certain types of investments that the Bank may make; and (2) the requirement of a minimum legal reserve. The latter means in practice that the Bank cannot grant credits or purchase securities beyond a certain point unless it is increasing its international reserves at the same time. The details of the two limitations are discussed below.

[1] See also Article 75 of Title VII.

The subsidiary currency, which does not form part of the monetary issue of the Central Bank, will be placed in circulation by the Bank for account of the Government. Nevertheless, when a deposit is made in the Central Bank in the form of subsidiary currency, this deposit will become part of the monetary issue of the Bank. The details relating to the issue of subsidiary currency are given in the report on the Monetary Law.

Article 75 of the Central Bank Law provides, in accordance with Article 94 of the Constitution, that the notes issued by the Central Bank will be guaranteed without limit by the Government. This means that, while the Government does not guarantee the convertibility of the monetary issue, it must, in case of losses or any other factor that might prevent the Bank from meeting its obligations, assure the Bank's solvency so as to enable it to honor these obligations. In conformity with this provision, Article 75 of the Central Bank Law extends this guarantee to deposit obligations of the Central Bank in Dominican currency. Since these obligations come into being through the deposit of notes of the Bank, the guarantee that protects the notes remains in force when these notes are converted into deposits with the issuing institution.

### *Chapter V Bank Deposits and Legal Reserves (Articles 55-58)*

While legal reserves are of importance in maintaining the liquidity of the commercial banks, their most important function is to serve as an instrument of monetary policy. The raising and lowering of the amounts that the banks must carry as reserves against their deposit liabilities is one of the most convenient means that the Central Bank has to reduce or increase funds which the banks have available for lending and thus to influence the volume of commercial bank credit.

Articles 55-57 give maximum flexibility to this weapon of policy. The Monetary Board may fix different reserve requirements against different types of deposits, within the range of 10 to 50 per cent. Ordinarily reserve requirements against the less volatile time and savings deposits will be fixed at a lower figure than those against demand deposits, but this is not essential. The Board may subject other obligations of the banks that call for payment on demand or upon notice, as for instance unused balances of current-account credits, to the same requirements. From the viewpoint of monetary policy, as well as from that of the banks' liquidity, such obligations have much the same significance as deposits.

The Monetary Board may reduce any category of reserve requirements by as much as 33 per cent for those banks willing to meet certain standards that the Board may establish as to interest rates and composition of those banks' loan portfolios. This measure can be employed as a means of qualitative credit control, to direct bank credit toward channels that the Board regards as particularly desirable. A reduction in reserve requirements may be a considerable inducement to the banks to adapt their credit policies to the Board's standards, if they can employ profitably the funds thus freed.

At a time of rapidly growing deposits, the Board may find it convenient, instead of raising reserve requirements against all deposits, to impose special requirements upon future increases in deposits. This measure has the advantage that it affects all banks equally. A rise in overall reserve requirements, in contrast, would affect much more severely those banks which are fully loaned up than those with large idle resources. The Board may fix reserve requirements against future deposit increases as high as 100 per cent. A requirement of that magnitude, for which in practice there would be opportunity only on very rare occasions, would completely bar the use of any part of the additional deposits for new loans and investments.

In view of the very great fluctuations to which bank deposits and reserves are traditionally exposed in the Dominican Republic, the Monetary Board must be prepared to fix, at certain times, the highest reserve requirements permitted by law if it wants to make its policy effective. The Board must recognize, however, that

high reserve requirements may interfere with the banks' ability to obtain adequate earnings. The Board therefore is authorized, but not required, to pay interest to banks on that part of their legal reserves which exceeds 50 per cent of the deposits against which they must be held. Its decision to do so will depend on the state of the commercial banks' earnings.

The Board may further authorize the banks to maintain up to 50 per cent of their required reserves in the form of Government securities, provided that the banks availing themselves of this privilege maintain a total portfolio of Government securities equal to at least twice that part of the portfolio which is included in the required reserves.

Special provisions apply to deposits in foreign currencies. Against these deposits, the Board may fix reserve requirements of up to 100 per cent, but it may permit these reserves to be carried with correspondents abroad, or in the form of foreign short-term Government securities, instead of with the Central Bank. In view of the importance that balances with foreign correspondents, including head offices, have had for the banks, the Board may permit the carrying of at least a major part of such reserves in this form, unless special circumstances make their concentration in the Central Bank essential.

The Board is further authorized, in Article 56, to require the banks to maintain a balanced position in any or all currencies. That is to say, it may request the banks to adjust their assets in each currency so as to equal their liabilities in that currency. With such a balanced position, the banks would be immune to the effects of fluctuations in the value of foreign currencies.

It is important to note that the power to require the banks to balance their positions, in conjunction with the reserve requirements against foreign currency deposits, may be used by the Board to concentrate all of the banking system's exchange holdings in the Central Bank. In order to balance their exchange positions when the Board so requires, the banks will have to sell to the Central Bank the excess, if any, of their foreign currency assets over their liabilities. In order to meet a 100 per cent reserve requirement against foreign currency deposits when the Board has instituted such a requirement and is also requiring that such reserves be held in the Central Bank, the banks would have to deposit all of their remaining exchange assets (with certain possible qualifications) in the Central Bank. This would give the Central Bank effective control over the exchange resources of the entire banking system.

This implicit power of the Board is indispensable because the effective conduct of monetary policy requires that at moments of stress the Central Bank should be able to employ the full exchange resources of the economy. The concentration of the commercial banks' holdings is the first obvious step in that direction. In times of monetary ease, however, the Monetary Board can and should give the banks all possible freedom in the disposition of their funds, including the holding of foreign exchange.

It may be added that the Board is authorized to pay interest to the banks on the excess reserves in Dominican currency that may result from the requirement to carry a balanced position.

### *Chapter VI The Issuing of Securities (Articles 59-61)*

Another instrument of monetary policy is represented by the open market operations that the Central Bank may conduct in its own obligations issued for the purpose. These operations have the same end as open market dealings in securities that the Bank holds in its portfolio. Sales and issues of securities are undertaken to absorb excess funds in the market, purchases and redemptions are made to increase the market's liquidity when necessary. It need hardly be said that none of these transactions have anything in common with the ordinary flotations of securities undertaken by private and public bodies, the purpose of which is to raise funds needed for business and other expenditures.

In principle it makes no difference whether the Bank carries on these operations by selling

and purchasing existing securities, or by creating and selling new securities and redeeming these. The second method, however, has the advantage of greater flexibility. Instead of selling securities from its portfolio that may not quite meet the demands of the market, the Bank can issue a new security whose interest rate, maturity, and other features make it attractive to the market. The security could be a simple obligation of the Central Bank referred to in Article 59 as a stabilization bond, or could be issued as a certificate of participation in some of the Central Bank assets. These assets would then have to be segregated and would be held by the Bank under a trust arrangement for the benefit of the certificate holders. Which of the two types of securities it would be preferable to issue will depend upon the Bank's appraisal of their respective salability. Either security can be issued in pesos or, if this increases its attractiveness, in dollars or other foreign currencies. It goes without saying that the securities here referred to are in no way related to the non-interest-bearing instruments that the Central Bank is authorized to issue in favor of the International Monetary Fund and the International Bank for Reconstruction and Development according to the "Bretton Woods" Law.

The Central Bank may call both types of securities for redemption prior to maturity, if it wants to increase the liquidity of the market. It may also repurchase them in the market, in which case it must immediately cancel the instrument. The Central Bank, through the Fund for the Regulation of the Securities Market, may also undertake these purchases for the purpose of stabilizing their market value—always canceling the instruments that it acquires. It must remember, however, that by stabilizing the price too rigidly it would deprive the instrument of its main purposes as a means of absorbing funds. With its price firmly stabilized, the instrument would become as liquid as money itself.

The issuance of certificates of participation and of stabilization bonds naturally will cost the Central Bank interest. This cost must be faced as one arising out of the Bank's duties as the guardian of monetary stability. It may be added that sales of securities from the Bank's open market portfolio involve much the same cost, in the form of earnings foregone.

## TITLE V MONETARY AND CREDIT POLICY (ARTICLES 62-69)

Title V of the present Law deals with the rules and policies to which the Bank will have to adhere. They relate both to the volume of its own loans and investments and to the influence that the Law accords it over operations carried on in the money and capital markets. They are treated under the following chapters:

Chapter I Relations with the Government (Articles 62-63).

Chapter II Rules of Monetary Policy (Articles 64-69).

### *Chapter I Relations with the Government (Articles 62-63)*

The financial operations of the Government frequently have important effects upon money and credit conditions, which make them of considerable interest to the Monetary Board. The timing of tax collections, for instance, and the disposition of the proceeds affect the liquidity of the banks and the public. Government borrowing or debt repayment, as well as all other operations with the public debt, strongly influence the money market. International credit operations have similar monetary effects, and in addition influence the balance of payments and the monetary reserve of the Central Bank. In a broader sense, the entire economic policy of the Government has its impact upon monetary policy. Public-works, agricultural, labor, and foreign trade policies, as well as others, create the setting within which monetary policy must operate.

For these reasons, the Bank is required, in Article 62, to collaborate closely with the Government in the coordination of the latter's economic, financial, and fiscal policies with the monetary policies of the Central Bank. The Bank must act as an adviser to the Government, particularly with regard to the credit operations of the Government and other official entities.

In particular, the Monetary Board will have to maintain close contact with the Treasury. Failure to cooperate fully would be harmful and would probably end with a weakening of the position of the Central Bank. The Bank will have to show proper understanding for the special problems of the Treasury, which at times may run counter to what the Bank may regard as desirable from the viewpoint of monetary policy. On the other hand, it should always remain clear that the Bank is responsible for the stability of money, credit, and exchange—factors so intimately related to the welfare of the country that they should ordinarily take precedence over budgetary needs. The presence of the Secretary of State for the Treasury and Public Credit on the Bank's Monetary Board will help to assure close contact and understanding. Beyond that the Bank will have to rely on the prestige that its counsel carries with the Government, which in turn will depend largely upon the quality and prestige of the Bank's management and personnel.

*Chapter II Rules of Monetary Policy (Articles 64-69)*

Since the Central Bank's function is to regulate and direct monetary affairs, the Monetary Board must at all times pursue a clearly defined policy. The Board must specify its aims, and be conscious of the means at its disposal to realize these objectives. The scope of its aims is indicated by the statement of the Central Bank's purposes in Article 4. The means are set forth in Articles 26 and 27 of this Law, relating to the principal powers of the Board, and throughout Title IV, dealing with the Bank's operations.

Summarizing the various specific purposes stated in Article 4, one may say that the main task of the Central Bank will be to contribute to the stability and growth of the economy. The main problems with which it will have to cope by the use of its diverse powers will be those created by the intense fluctuations to which the Dominican economy tends to be exposed. These fluctuations must be expected to continue in the future. They may have a twofold origin: (1) internal, through the expansion of bank credit, in connection with private or public borrowing, or through crop failures and other developments in the sphere of production; and (2) external, through active or passive movements in the balance of payments, resulting from the ups and downs of world markets.

Against inflationary trends produced internally, through credit expansion, the Monetary Board has strong means of action. If the expansion is produced by private borrowers, the Board may raise reserve requirements, sell securities in the market or issue its own obligations for the purpose, curtail its own rediscounts and advances, and restrict the credit operations of the two official banks. With such means the Monetary Board should be fully able to control an undesirable expansion of private credit.

The overexpansion of credit as a result of Governmental borrowing is limited by the restraints imposed: (1) by the Law of the Banco de Reservas, which limits the amounts of direct loans to the Government; (2) by the General Banking Law, which limits purchases of Government securities by the commercial banks; and (3) by the Central Bank Law, which limits purchases of and loans against Government securities by the Central Bank. Equally important for the Central Bank's ability to carry out its functions is the joint responsibility imposed upon Government and Central Bank to coordinate the economic, fiscal, and financial policies of the first with the monetary policies of the second. In periods of inflationary pressure, this joint responsibility means that the Government should restrict its own expenditures as much as possible and devote a maximum of tax receipts to the repayment of the public debt.

As an indication of whether credit expansion is excessive or not, the Central Bank may be guided by the movement of prices, provided prices abroad are stable. In the event of such external stability, a significant rise of internal prices probably would denote undue credit expansion, which the Board would have to combat. If prices abroad are changing, however, the domestic price movement ceases to be a good indicator of internal credit trends. In any case,

a rapid expansion of the money supply always would call for intensive study by the Board. Article 66 requires the Board to take certain steps if the rate of expansion of the money supply has exceeded 15 per cent in the course of a twelve-month period, but the Board may find it desirable to initiate its measures at an earlier point.

The second type of disturbances that the Monetary Board will have to combat are those emanating from fluctuations in exports. These usually follow a very characteristic pattern, the proper appraisal of which is requisite if the Board is to take effective countermeasures. When demand and prices rise in world markets, the exports of the Republic usually increase sharply, and the balance of payments turns active. The rise in export proceeds increases the exchange reserves of the banking system as well as its deposits. The banks tend to expand both because of the greater supply of funds and because of rising demand for credit. Domestic prices and incomes rise. Capital may enter from abroad, further increasing the money supply and contributing to the vigor of the upswing. If this development is intense or continues for a long time, inflationary conditions will develop, which will prove unsettling to the economy and harmful to large groups of the population, though they may be very profitable to a few.

Eventually, the trend of world markets may turn down again, and the process then reverses itself. Exports fall, but imports, which have become large owing to the increased money supply and greater income, continue high, and the balance of payments turns passive. If an outflow of capital develops, it will aggravate the situation. The money supply shrinks, and so do the exchange reserves of the banking system. Credit tends to contract because of the reduction in available funds and the growing risk of lending. Prices and incomes in the country fall, and a depression develops.

It is the expansion and contraction of bank reserves and of the money supply brought about by this process that the Central Bank must combat. The Bank can do nothing about the basic cause of cyclical fluctuations, since these have their origin in the fluctuations of world markets. But the Bank has the means to counteract the resulting fluctuations in bank reserves, and, to some extent, in the money supply. By doing this effectively, it will soften, although by no means eliminate, the impact of fluctuations abroad upon the Dominican economy.

During the upswing, therefore, the Central Bank will have to avoid credit expansion of its own, and to limit the credit expansion of the private and official banks. Under Article 65, when the Board finds that a clearly defined trend toward an increase in the money supply is in progress, be it as a result of domestic credit expansion or because of a cyclical upswing in world markets, the Central Bank must avoid any expansion of its credit volume and domestic securities portfolio. The Law makes an exception for cases of emergency, since unforeseeable circumstances may always arise, but this exception is intended to apply only to extreme situations and not to mild financial embarrassments. The Board, therefore, must continually observe the changes that are occurring in the money supply, in order to be able to determine whether a clearly defined upward trend is under way.

In addition to avoiding further expansion of its own operations, the Bank during such periods of increasing money supply will endeavor to reduce its loans and investments so far as possible. The Bank must, of course, continue to buy all the foreign exchange offered to it, since this is essential for it to fulfill its obligation of maintaining the external stability of the peso.

In curtailing its credit operations during the upswing, the Central Bank will be doing the opposite of what commercial banks usually do, whose tendency at such times is to increase the volume of credits. This may possibly expose the Bank to criticism on the part of some members of the public who fail to appreciate fully the difference in the purposes of a central bank and a commercial bank. The Monetary Board must do its best to provide full information about the policies pursued and their underlying motives,

but cannot otherwise allow itself to be swayed by such criticism. Nor must the Board be influenced in its decisions by the fact that its policies will probably reduce the earnings of the Central Bank.

In addition to limiting the credit operations of the Central Bank, the Monetary Board is required, under Article 66, to take all further action needed to counteract an inflationary increase in the money supply. To do this, it not only must attempt to limit the expansion of bank credit, but must also try to absorb some of the funds in the hands of the public through open market operations.

The primary purpose of the restrictive policy that the Board must pursue during the upswing is to avoid the harmful consequences of inflation. A second and equally important purpose, however, is that of laying the groundwork for a sound compensatory policy during the ensuing downswing. At that time, the Central Bank's task will be to exert a moderating influence upon the progress of the depression by supplying the banks with funds and by supporting the Government securities market. The aid that it gives under such circumstances, however, will result in a certain drain upon its monetary reserves, since part of the funds that the Bank puts into circulation will tend to flow abroad, in payment of imports and in other ways. Any circumstance, therefore, that further intensifies the drain upon the Bank's reserve at that time, reduces the Bank's ability to continue its compensatory program. The consequences that follow from credit expansion during the upswing constitute precisely such an aggravating circumstance.

During the downswing, the funds that entered the country from abroad as a result of the preceding upswing will tend to flow out again. If during the upswing there was a substantial expansion of bank credit in addition to the increase in liquidity due to the active balance of payments, these added funds will also tend to flow out in good part during the downswing. If that happens, the loss of exchange reserves during the downswing will tend to be greater than the preceding increment, unless the downward movement in world markets happens to be milder than the upward movement that went before.

This excessive loss of reserves during the downswing could be prevented, of course, by a sharp contraction of bank credit at that time, matching the expansion during the upswing. Such a contraction, however, would intensify the depression and would be precisely the opposite of the stabilizing influence that the Central Bank is intended to exert. To be able to fulfill its mission during the depression the Central Bank must therefore prepare the ground during the upswing, by avoiding credit expansion that would later interfere with the execution of its policies.

If the Central Bank has been reasonably successful in its anticyclical policy during the period of expansion, it will be able to lend substantial assistance during the downswing. This assistance may take the form of rediscounts and advances to the banking system, and of purchases of Government securities. The maximum extent of its assistance is governed by the fact that any credit expansion in which it engages will cause a drain upon its exchange reserves, and by the need to maintain sufficient reserves to preserve the stability of the currency. The Law therefore imposes limitations of various kinds upon the Bank's credit operations. The limitations upon operations based on Government securities are of a liberal character and are stated in Article 46 of the Law.

In addition to the quantitative limitations placed upon security purchases, the Bank's action during the downswing must be guided by its reserve requirements. Apart from the note coverage requirements, stipulated in Article 62, which are designed to give the note circulation the degree of coverage necessary to eliminate all doubts of the public as to the soundness of the currency, certain guides to monetary policy are stipulated in Article 68. These require the Bank to so operate as to maintain the aggregate net exchange resources of the banking system, including those of the commercial banks, at a level proportionate to actual and potential demand for foreign exchange. The minimum es-

tablished in the Law is an amount represented by the aggregate of 30 per cent of the annual average of the country's imports during the three preceding years, plus 60 per cent of the increase of the money supply over the lowest monthly level during the six preceding years.

The reason for relating exchange resources to imports and to the excess of the money supply over a certain minimum is that both of these two factors are to some extent indicative of potential needs for exchange. By maintaining exchange resources equal to a certain proportion of annual imports, the Bank makes sure that it can meet the country's import needs for a period, in case of a sudden drop in exports. By maintaining further reserves in proportion to the excess of the money supply over a certain low minimum figure, the Bank guards against the possibility of an outflow of those funds which are not required for a minimum level of business transactions and hence are susceptible to capital flight.

The use, in this computation, of the entire exchange resources of the banking system instead of only the monetary reserve of the Central Bank has obvious advantages from the point of view of monetary policy. It also avoids the possibility of a distortion in the ratio if the Central Bank should proceed to concentrate in its hands the exchange holdings of the commercial banks.

The coverage requirements contained in Article 67, which refer to the coverage of all of the Central Bank's sight obligations by gold, foreign exchange, and other assets, is an unconditional obligation, as required by the Constitution. By virtue of the mechanics of central bank operations, the Bank will always be in a position to meet this requirement. With regard to the requirement of a 50 per cent reserve in gold and foreign exchange, the possibility exists that the Bank may transitorily fail to meet it. The Law therefore does not establish for this latter case the same penalties that apply to other types of infractions. It merely imposes upon the Bank a financial penalty, in the form of a monthly payment equal to one half of 1 per cent of the deficiency in the reserve as long as this deficiency continues.

The possibility that the Bank may have to allow its monetary reserve to fall below 50 per cent of the total assets covering its issue derives from its unconditional obligation to maintain the stability of the currency. If reserves were at the legal minimum, a continued flow of funds abroad, making it necessary for the Bank to sell exchange, would cause reserves to fall below the minimum. If, to avoid this, the Bank should refuse to sell exchange, the exchange rate would drop below the legal level. Since maintenance of exchange stability obviously takes precedence over the preservation of reserve requirements, the Law envisages the possibility that the Bank may temporarily be unable to observe the latter.

If the provisions governing the relation of exchange resources to imports and money supply are not met, the Monetary Board must discontinue its anticyclical compensatory program. It must take such measures as are within its powers to re-establish balance-of-payments equilibrium and protect its monetary reserves, and must suggest to the Government such other measures as it thinks necessary for that purpose. The same applies when exchange resources have fallen more than 25 per cent within one year. Thus, while the requirement governing the relation between monetary reserve and total issue carries with it the financial penalty established in Article 67, the provisions of Article 68 do not impose such a penalty. These latter provisions, referring to the relation between the total exchange resources on one side and money supply and imports on the other have the character of a rule of policy only.

Once the low point of the depression has been passed, the cyclical process will tend to repeat itself. During the earliest phase of the upswing, the Monetary Board will have to be somewhat liberal, and may find it desirable to delay application of new restraints until the recovery has made good headway. Eventually, however, restrictions must again be imposed upon the expansionary process, to prevent it from getting out of hand.

During periods of stress the Bank may have occasion to make net purchases of foreign exchange from the International Monetary Fund. Since the assistance that the Fund is designed to give is of a short-term character, the Bank is required, under Article 69, to take steps leading toward the elimination of such a debtor position, and to suggest to the Government the economic and fiscal measures that will lead in the same direction. The Bank may find it useful to consult with the Fund on the nature and duration of its corrective program.

## Title VI Research and Publications (Articles 70-73)

### *Chapter I Economic Research Department (Article 70)*

The Law places particular emphasis upon the Economic Research Department of the Bank, because this Department is likely to be of importance not only to the Central Bank, but to the country as a whole. The Department's first duty will be, of course, to supply the Monetary Board and the officers of the Bank with the statistical and other economic information indispensable for the effective conduct of monetary policy. Beyond that, however, it may become the training ground for specialized personnel whose members later will pass into leading positions in the official banks, in Government departments, and perhaps in important Dominican business enterprises. The Economic Research Department should also offer scholarships to suitable candidates within and outside the Bank for training in foreign universities and central banks. The Department may also engage in broader research programs that go beyond the scope of the Bank's own functions but are of importance to the Dominican economy.

# THE ORGANIC LAW OF THE CENTRAL BANK OF THE DOMINICAN REPUBLIC

October 9, 1947

(Translation*)

## TITLE I

### CREATION AND FUNCTIONS

ART. 1.—There is hereby created a bank which shall be called the "Central Bank of the Dominican Republic", domiciled in Ciudad Trujillo, District of Santo Domingo, capital of the Dominican Republic.

ART. 2.—The Central Bank of the Dominican Republic is an autonomous entity, with assets of its own, constituting a legal personality, with the power to enter into contracts and to sue and be sued in its own name and right.

ART. 3.—The main objective of the Central Bank of the Dominican Republic is to promote the creation and maintenance of the monetary, credit, and exchange conditions most favorable to the stability and orderly development of the national economy, in accordance with the general provisions of the Monetary Law and of Article 4 of this Law.

ART. 4.—The purposes of the Central Bank are:

a) In the domestic sphere:

1) To establish a national monetary system, subject to the guaranties and limitations provided for in the Constitution and the laws, and to watch over its proper functioning;

2) To promote the stability and development of productive activities, adapt to them the means of payment and credit policy, and counteract any inflationary or speculative tendency detrimental to the permanent interests of the nation; and

3) To promote the liquidity and solvency of the banking system, and the adequate distribution of credit, in accordance with the interests of the national economy.

b) In the international sphere:

1) To maintain the external value and convertibility of the national currency and to carry out the exchange operations with which the Bank is charged by the Monetary Law;

2) To conserve and administer the international monetary reserves of the country, with the object of curbing, by means of an adequate monetary and credit policy, the detrimental effects of fluctuations in the balance of payments upon the money supply, credit, and economic activities in general; and

3) To strive for the maintenance or restoration of the international economic equilibrium of the country.

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* Official Spanish text, LEY ORGANICA DEL BANCO CENTRAL, No. 1529, published in *Gaceta Oficial*, October 13, 1947, No. 6699.

ART. 5.—The Bank shall act in accordance with the international monetary and banking agreements entered into and ratified by the Republic and with the laws relative thereto.

## TITLE II

### CAPITAL, RESERVES, AND PROFITS

ART. 6.—The initial capital of the Central Bank is ONE HUNDRED THOUSAND PESOS (RD$100,000), to be totally subscribed and paid in cash by the State in dollars of the United States of America.

The Monetary Board may increase the capital of the Bank, making use of the Reserve for the increase of the Bank's capital, to which reference is made in the last part of Article 3 of the Monetary Law.

State ownership of the Bank shall be established by means of certificates or title to shares of stock to be held on deposit in the Treasury of the Dominican Republic.

The Central Bank shall be exempt from the provisions of Articles 18; 19; and of clause d), paragraph 3 of clause e), and clause h) of Article 25 of the General Banking Law.

ART. 7.—The General Reserve Fund of the Bank shall be constituted:

a) By the net profits of the Bank, in accordance with Article 9 of this Law;

b) By that part of the profits of the Reserve Bank and the Agricultural and Mortgage Bank, which in accordance with the provisions of their respective organic laws, is destined for this fund; and

c) By the amount of the reduction of the obligations of the Central Bank under the circumstances provided for in Article 54.

ART. 8.—The General Reserve Fund may be applied, wholly or in part, to the purchase of securities issued or guarantied by the State when, in the judgment of the Monetary Board, such action is necessary to offset a marked decrease in the money supply. The amount of these operations shall not be considered as falling within the limitations imposed by Article 46.

ART. 9.—Net profits of the Bank shall be determined after all deductions that the Monetary Board deems necessary to insure the soundness of the assets of the Bank have been made, and shall go to the General Reserve Fund of the Bank, after the setting-aside of an amount determined by the Board for the creation of a Guaranty Fund for Special Credits of up to RD$200,000.00. The Board may extend this limit to the extent that it deems appropriate.

## TITLE III

### DIRECTION AND ADMINISTRATION

### CHAPTER I

### The Monetary Board

ART. 10.—In its character of superior organism of the Central Bank, the Monetary Board shall determine the monetary and credit policy of the Nation, the development of which is entrusted to the Bank. The Board shall be composed of the following members:

a) The Secretary of State for the Treasury and Public Credit, who shall preside;

b) The Governor of the Central Bank, who will act as Chairman of the Board in case of the absence of the Secretary of State for the Treasury and Public Credit;

c) A person of recognized experience in the field of commercial banking;

d) A person of recognized experience in the field of industry and commerce, who shall also become a member of the Board of Directors of the Reserve Bank of the Dominican Republic from the date of his appointment to the Monetary Board;

e) A person of recognized experience in the fields of agriculture and livestock production, who shall also become a member of the Agricultural and Mortgage Committee of the Agricultural and Mortgage Bank of the Dominican Republic from the date of his appointment to the Monetary Board; and

f) A person versed in regional economic questions of the country.

The Governor and members of the Monetary Board mentioned in clauses c), d), e), and f) shall be appointed by the Executive Power.

At least four of the members of the Monetary Board must be of Dominican nationality.

[By Law No. 2666 of December 31, 1950 the portions of Article 10 beginning with clause c) were voided and the following substituted: "c) Such regular members and alternates as the President of the Republic may appoint by decree. The majority of the regular members and alternates must be of Dominican nationality."]

ART. 11.—The Secretary of State for the Treasury and Public Credit may delegate his functions, when he deems fit, to the Under Secretary of the same office, who shall substitute for him as a member of the Board, but not as its chairman.

ART. 12.—The members mentioned in clauses c), d), e) and f) of Article 10 shall be appointed for periods of four years. Each one shall have an alternate, appointed in the same manner as the regular member.

However, the first appointment of members of the Monetary Board mentioned in clauses d) and e) must be made from among persons who, on the date of appointment, are members of the Board of Directors of the Reserve Bank of the Dominican Republic and of the Agricultural and Mortgage Committee of the Agricultural and Mortgage Bank of the Dominican Republic, respectively, who shall remain in their posts on the Board until the expiration of the term for which they were appointed in those bodies.

The first appointment of the members mentioned in clauses c) and f) of Article 10 shall be for terms that, together with the appointments mentioned in the foregoing paragraph, will ensure an appropriate overlapping of the terms of the four members appointed for definite terms.

[By Law No. 2666 of December 31, 1950, Article 12 was voided.]

ART. 13.—The alternates shall replace the respective regular members in case of the latter's absence or temporary incapacity. However, if the absence or incapacity of the regular member and his alternate occurs simultaneously, the other alternates shall replace the regular members in the order of seniority.

ART. 14.—The alternates, when not substituting for the regular members, may attend the sessions of the Board, with the right to be heard but not to vote.

ART. 15.—In case of the absence or temporary incapacity of the Governor, a Vice Governor, appointed in the same way as the Governor, shall substitute for him. The Vice Governor shall be the alternate of the Governor on the Monetary Board, and shall

preside over said Board in the absence of the Secretary of State for the Treasury and Public Credit and of the Governor of the Bank.

Art. 16.—Appointments of members of the Monetary Board to replace members whose terms have expired must be made within the sixty days prior to such expiration.

Regular members and alternates shall be eligible for reappointment.

[By Law No. 2666 of December 31, 1950, Article 16 was voided.]

Art. 17.—In case a vacancy occurs through death, resignation, incapacity, removal, or other permanent inability of a regular member or alternate to discharge the duties of his office, a new regular member or alternate shall be appointed, as the case may be, to complete the term of the lacking member.

[By Law No. 2666 of December 31, 1950, Article 17 was voided.]

Art. 18.—None of the following may be appointed Governor, Vice Governor, regular members of the Monetary Board for definite terms, or alternates of the same:

a) Persons less than 30 years of age;

b) Members of the National Congress;

c) Members of the judiciary;

d) Persons occupying remunerated public positions, whether by popular election or by appointment, in any agency of the State or of the Municipalities, except positions of an educational character, or in organizations designed to develop or organize the principal economic activities of the country;

e) Persons related within the fourth degree of consanguinity or second degree of affinity; or who belong to the same partnership; or who are members of the board of directors of the same corporation;

f) Persons who have been declared bankrupt and those against whom bankruptcy proceedings are pending;

g) Persons who are awaiting sentence or are serving sentence, or have been sentenced to penalties for crime; and

h) Persons who, for any reason whatsoever, are legally incompetent.

[By Law No. 2666 of December 31, 1950, Article 18 was modified as follows: In the first sentence, the words "for definite terms" were eliminated. Clauses b), d), and e) were voided.]

Art. 19.—Whenever any of the disqualifications mentioned in Article 18 is disclosed or occurs, the appointment or function of the member concerned shall end and action shall be taken to replace him in the manner provided for in the case of a vacancy. The Monetary Board shall be responsible for finding and declaring that the appointment or function has ended.

Notwithstanding the fact that the appointment or authority has ended, any acts or contracts authorized by the member prior to such ending shall not be invalidated, either with respect to the Central Bank of the Dominican Republic or with respect to third parties.

[By Law No. 2666 of December 31, 1950, Article 19 was voided.]

ART. 20.—Members of the Monetary Board appointed for a definite term may be removed only by a decision of the Supreme Court and only in the following cases:

a) When any of the disqualifications mentioned in Article 18 of this Law occurs, and the Monetary Board has not declared the ending of the appointment or function of the disqualified member;

b) When they are responsible for acts or operations of a fraudulent or illegal character, or manifestly opposed to the aims or interests of the institution;

c) When final sentence is passed upon a member in a criminal prosecution. In the case of detention awaiting trial, he shall be incapacitated for the discharge of his office and shall be replaced by the alternate.

The charge shall be made to the Attorney General of the Republic by the Superintendent of Banks or by any regular member or alternate of the same Board with the sole exception of the alternate of the member whose removal is being sought, and said Attorney General shall submit the matter to the Supreme Court. The Court shall immediately commission one of its judges to brief the matter and present it with the report in as short a time as possible, not to exceed 15 days. Said report shall be communicated in writing by the Secretary of the Court to the interested member of the Monetary Board, so that the latter may express in writing the form of defense that he deems appropriate, within 10 days after the date of said communication.

When the 10 days have expired, the Supreme Court, in private session [Cámara de Consejo], shall review the report of the commissioned judge and the defense brief, if there is one, and within a period of not more than one month shall decide if it approves or rejects the case for removal; this decision may not be appealed and shall be communicated to the Monetary Board, for compliance, within three days from its date.

As soon as a member of the Monetary Board is subjected to action before the Supreme Court, he shall cease exercising his functions and shall be replaced by the appointed alternate. If the decision rejects the alleged cause for removal, the member shall be, *ipso facto,* reinstated in his office unless he is prevented by other legal cause.

The special procedure established by this article is free of legal expenses, duties, taxes, costs, and fees of all kinds.

These same provisions shall be applicable to the alternates.

[By Law No. 2666 of December 31, 1950, Article 20 was changed to read "The members of the Monetary Board may be replaced, suspended, or removed from office exclusively by the President of the Republic."]

ART. 21.—The meetings of the Monetary Board shall be called by the Governor, or whoever takes his place, or by any two members, and shall take place at least twice a month.

The Board's meetings shall be legal if attended by five regular members or alternates, and its resolutions may be adopted by a simple majority of those present, except in cases where the Law requires a special majority. In case of a tie, the vote of the presiding officer of the Board shall be decisive.

ART. 22.— The Superintendent of Banks, the Manager, and the Director of the Department of Economic Research of the Central Bank shall participate in the Board's

deliberations, in the capacity of permanent advisers, with the right to be heard but not to vote.

ART. 23.—When the Board deems it appropriate, it may invite, as advisers, any other qualified persons, especially the representatives of the other financial institutions of the State and officials of the Central Bank, to participate in its proceedings, with the right to be heard but not to vote.

ART. 24.—Regular members and alternates and invited advisers shall have the right to a fixed fee for each session of the Monetary Board at which they are present, which shall be determined by the Board with the approval of the President of the Republic.

Said fees shall not be paid, however, to the members, alternates or advisers who receive regular remuneration from the Central Bank.

[By Law No. 2656 of December 31, 1950, Article 24 was changed to read as follows: "The positions of regular member and alternate member of the Monetary Board are honorary in character. With the exception of the position of the Governor and Vice Governor, they cannot be occupied by persons holding other positions in the Central Bank or in other banks.

"For those regular members or alternates who do not receive remuneration from the Government by virtue of another appointment, the President of the Republic, at their request, may fix a directors' fee not exceeding RD$25.00 for each meeting of the Board in which they participate."]

ART. 25.—Whenever the Board's discussion or resolution of a subject involves a personal or commercial interest of one of the participants, or that of private enterprises of which he is an officer, director, or member, or that of his relatives within the fourth degree of consanguinity or second degree of affinity, he may not participate in such discussion or resolution and must withdraw from the meeting.

This provision, however, does not include the member of the Monetary Board mentioned in clause c) of Article 10, in cases in which matters to be discussed concern monetary policy or general rules of the banking system.

ART. 26.—The principal functions of the Monetary Board are the following:

a) To formulate and submit to the approval of the Executive Power the regulations necessary for the execution of this Law, the Monetary Law, and the General Banking Law;

b) To formulate the Internal Regulations of the Central Bank;

c) To approve the annual budget of the Bank, and its amendments;

d) To appoint, suspend, or remove, upon the motion of the Governor, the Manager, the Director of the Department of Economic Research, the Secretary of the Bank (who shall also be that of the Board), and the other officials and employees of the Central Bank;

e) To appoint the Discount Committee and the other advisory Committees that it deems appropriate, with power to establish attendance fees for their members;

f) To approve annually the Bank's Report, balance sheet, and profit and loss statement;

g) To formulate regulations governing credit operations, purchase and sale of gold and exchange, purchase and sale of securities, and issuance and retirement of stabilization and participation bonds and certificates authorized by this Law, and to determine the limits and conditions under which Bank officials may carry on such operations;

h) To formulate the regulations governing the operations of the Fund for the regulation of the Securities Market and of the Guaranty Fund for Special Credits authorized by this Law, and to determine the limits and conditions under which Bank officials may carry on such operations, with the exception of those which, because of their nature and magnitude, the Board has reserved for its own decision;

i) To authorize the printing of notes and minting of coins, in accordance with the Law;

j) To decide on the acquisition of real estate only when it is necessary for the functioning of the Central Bank or to secure repayment of its credits, and to dispose, as soon as possible, of such real estate as the Central Bank does not need for its business, in accordance with the General Banking Law;

k) To establish and modify the legal reserves of the banks and to pay interest on that part of said reserves which is specified in the Law, in accordance with Articles 55, 56, and 57;

l) To fix the limits of maximum interest rates on savings deposits which the banks may pay and the maximum limits of exchange margins and commissions which the banks may charge over and above the exchange rates quoted by the Central Bank;

m) To authorize the commercial banks to carry out operations in gold and foreign exchange and to determine the conditions of such authorizations, in accordance with the provisions of Article 12 of the Monetary Law and Article 56 of the present Law;

n) To require prior authorization, with the approval of the President of the Republic, for international transfers and other operations referred to in Article 17 of the Monetary Law;

ñ) To appoint correspondents, and to establish and to close branches and agencies of the Central Bank in the country or abroad;

o) To deal with any other matter related to the monetary and credit policy with which the Bank is charged or to the interests of the Central Bank, or to the functions assigned to the Board by this Law and by other pertinent legal provisions and by the regulations.

[By Law No. 2666 of December 31, 1950, clause d) of Article 26 was changed to read as follows: "To install in their functions the Manager, the Director of the Department of Economic Research, the Secretary of the Bank, who shall also be that of the Board, and the other officials and employees of the Central Bank, and to fix, with the prior approval of the Executive Power, the remuneration of these officers and employees."]

Art. 27.—The Reserve Bank of the Dominican Republic, the Agricultural and Mortgage Bank of the Dominican Republic, and any other official credit institutions are to be considered as principal instruments of the Nation's monetary and credit policy with which the Monetary Board is charged and therefore must conform to the regulations set forth by the Board in carrying out the purposes of the Law. In this respect the Board shall:

a) Decide upon the amount of mortgage bonds of the Agricultural and Mortgage Bank that are to be issued and the conditions to govern their issuance; and

determine the composition and amount of the reserve to be held against said mortgage bonds;

b) Fix, when it deems necessary, the interest rates that said banks may charge on their loan operations, and those that the Reserve Bank may pay on its savings deposits, as well as the exchange margins and commissions that the latter may charge, adapting these regulations to the general measures taken under clause 1) of Article 26;

c) Determine, when it deems necessary and within the provisions of the General Banking Law, the general conditions under which the banks or official credit institutions may carry on their operations; and establish the over-all amounts that said banks or institutions may employ in such operations as a whole or in their principal groups or categories, without intervening in the consideration of individual cases.

Before making decisions authorized by this article, the Board shall hear the opinion of the directorate of the institution involved.

ART. 28.—The Monetary Board shall exercise its functions on its own exclusive responsibility, according to the provisions of the Law and the regulations.

## CHAPTER II

## The Governor of the Central Bank

ART. 29.—The Governor of the Central Bank must be a Dominican, over 30 years of age. He shall be the principal executive officer of the Bank and may not hold any office remunerated by the State, by autonomous organizations, or by private individuals, with the exception of that of professor.

The Governor shall have the following responsibilities:

a) To propose to the Monetary Board, when circumstances require it and in accordance with Articles 65, 66, and 68, the monetary and credit policy that in his judgment is appropriate, as well as the means for its execution;

b) To exercise legal representation of the Bank, with the power to delegate it;

c) To give direction to, and supervise, permanently, the administration of the Bank;

d) To call sessions of the Monetary Board in accordance with the provisions of Articles 21 of this Law;

e) To sign, with the Secretary of State for the Treasury and Public Credit, the notes of the Bank, it being permitted to use the facsimile signatures of both officials;

f) To present the report and sign the communications and correspondence of the Monetary Board, and to sign the balance sheets and profit and loss statements together with the Manager and the Accountant of the Bank;

g) To sign, with the Secretary of State for the Treasury and Public Credit, the Record of the meetings of the Monetary Board, and to sign with the latter, to-

gether with the other members of the Monetary Board, and with the Secretary, the Minutes of the meetings held by the Board;

h) To exercise such functions as may be delegated to him by the Board;

i) To be present at the meetings of the Board of Directors of the Reserve Bank and the Agricultural Committee of the Agricultural and Mortgage Bank, with the right to be heard but not to vote, and permanently to watch over the administration of both banks, with the power to delegate these functions to another official of the Central Bank;

j) To exercise the other functions with which he is charged by this Law.

## CHAPTER III

### The Management

ART. 30.—Without prejudice to the functions assigned to the Monetary Board and to the Governor of the Central Bank, the Manager, who shall be the superior officer of the personnel, shall be in immediate charge of the internal administration of the Central Bank.

ART. 31.—The Manager shall be appointed by the Monetary Board on the proposal of the Governor, and the provisions contained in Article 18 shall apply to him.

In case of absence or incapacity, the Manager shall be replaced by an employee designated by the Board.

The Manager shall have the following responsibilities:

a) To direct the execution of the operations of the Bank for which he is responsible in accordance with the Internal Regulations or those with which he is charged by decision of higher authority;

b) To prepare and submit to the Governor periodic information on the position of the Bank and a review of the matters within his competence that should be included in the agenda of the meetings of the Monetary Board;

c) To suggest to the Monetary Board, through the Governor, changes that are advisable in the organization and functioning of the Bank;

d) To watch over the observance of this Law, of the regulations, and of the resolutions of the Board;

e) To sign the balance sheets and profit and loss statements;

f) To exercise such functions as may be delegated to him by the Board;

g) To exercise the other functions with which he is charged by this Law.

## CHAPTER IV

### Discount Committee

ART. 32.—The Monetary Board shall establish a Discount Committee, which shall be made up of the Manager, who shall preside, and of two members elected by the Board, for one year, who may be re-elected.

These members should preferably be persons representative of the economic activities of the country but must not be directors or employees of credit institutions.

The Board shall designate alternates for the members of the Committee to replace the latter in cases of absence.

ART. 33.—The Discount Committee shall hold meetings daily when loan applications have been made.

The said Committee shall examine the documents presented to the Central Bank by the banks, from the viewpoint of the solvency of the signers and that of compliance with the conditions stipulated by the Law and the rules of eligibility that the Monetary Board shall establish.

If the Committee approves the documents, the Governor may approve the application presented by a bank, or shall submit it to the Board if the nature and magnitude of the operation makes this necessary, in accordance with the regulations in effect.

In case the Governor is not in agreement with the decision of the Committee, he shall present the case to the Monetary Board, except that the bank making application, when notified of this, may replace the document or withdraw the application.

## TITLE IV

## OPERATIONS OF THE BANK

### CHAPTER I

### The Monetary Reserve

ART. 34.—The Central Bank may purchase and sell gold and any kind of foreign exchange, in accordance with the Monetary Law, whether in the form of checks, sight drafts, or time drafts of no more than ninety days which bear a signature of recognized soundness, or cable transfers or foreign notes and coin. The Central Bank also may effect future operations in exchange. However, the Bank may not carry out said purchases and sales of exchange or future exchange with any public person or entity, with the exception of the banks authorized for this purpose by the Monetary Board.

ART. 35.—The monetary reserve of the Bank to which Article 67 refers and which forms part of the assets which are required to back the currency issue of the Bank, in accordance with said article, shall be calculated by deducting from the gross gold holdings, exchange, and other international assets, the amounts of obligations in foreign exchange, in the proportions established in Article 37, and shall have the following composition:

1) Gold deposited in the Republic or in foreign central banks or in international institutions, which may not be less than 25 per cent of the required minimum monetary reserve in accordance with Article 67;

2) Foreign currency and exchange, whether in the form of checks and drafts, or of sight or short-term deposits in central or first-class foreign commercial banks, or of first-class foreign government securities with no more than five years to run, or of foreign notes or coin; all in accordance with decisions of the Monetary Board which, moreover, shall see to it that as far as possible, the supply of

exchange takes primarily the form of currencies that are of recognized soundness and are of importance for the balance of payments of the Republic.

3) The amount that the Central Bank may draw from the International Monetary Fund, under the conditions stipulated by the corresponding Agreement, until the supply of Dominican currency in said Fund is increased to a sum equal to the quota of the Dominican Republic, that is to say, the balance of the credit position of the Central Bank in the Fund.

ART. 36.—The Central Bank shall avoid as much as possible the acquisition of foreign exchange that is not freely convertible. However, when balance-of-payments circumstances require the acquisition of important balances of such foreign exchange, they may be included in the monetary reserve if the Monetary Board shall so decide, in which case the Bank shall indicate their nature on its statements.

ART. 37.—To meet its obligations in foreign exchange, the Bank shall set aside from the total of its gold holdings, foreign exchange, and other international assets, the following sums, which shall be excluded from the monetary reserve:

a) The total amount of the Bank's obligations in gold or foreign exchange due at sight or maturing within thirty days or less, with the exception of deposit liabilities in foreign currency in favor of the banks in the Republic;

b) Seventy-five per cent of the Bank's obligations in gold or foreign exchange maturing after thirty days and within one year, and of the deposits in foreign currencies in favor of banks in the Republic;

c) Fifty per cent of the obligations of the Bank in gold or foreign exchange maturing within not less than one or more than three years, and of those of indefinite maturity, including the obligations to the International Monetary Fund by reason of purchase of foreign exchange;

d) Twenty-five per cent of the obligations of the Bank in gold or foreign exchange maturing after three years.

The Monetary Board shall decide, in any doubtful case, the degree and form in which the obligation in question shall be taken into account for the purposes of this article.

ART. 38.—The Central Bank may grant or receive credits and deal in general with foreign public entities and with banks or other foreign or international entities and act as agent or correspondent of the same. The Bank may pledge gold and other securities at its disposal against credits for which it applies.

## CHAPTER II

### Credit Operations

ART. 39.—The Central Bank may carry out with the other banks operating in the Republic, and in no case directly with the public nor with any other public or private institution, only the credit operations enumerated below:

1) It may rediscount, discount, purchase, or sell bills of exchange, drafts, promissory notes, or other credit documents, through simple endorsement, under the following conditions:

   a) When they arise from operations related to import, export, or transportation of products or merchandise easy to dispose of and with maturities that

do not exceed six months computed from the date of rediscount, discount, or purchase by the Central Bank;

b) When they arise from "bona fide" transactions of purchase or sale of products or merchandise with maturities that do not exceed six months computed from the date of rediscount, discount, or purchase by the Central Bank;

c) When they arise from the storage of agricultural, cattle raising or industrial commodities, duly insured, with maturities that do exceed six months, computed from the date of rediscount, discount, or purchase by the Central Bank;

d) When they arise from the financing of harvests of other agricultural and stockraising activities or from industrial activities of a current nature, such as the harvesting of agricultural products, cattle fattening, purchase of seeds and other production goods, provided these documents are secured by a pledge of an agricultural or industrial character relating to the operation to be financed, in a manner satisfactory to the Central Bank, and that they have maturities not exceeding one year from the date of rediscount, discount, or purchase by the Bank;

2) It may grant advances up to six months, renewable, in cases of emergency by the Monetary Board:

a) When guarantied by simple endorsement of the documents mentioned in clause 1) of this article, up to 80 per cent of their value;

b) When guarantied by negotiable securities of the national public debt. These operations may not at any time exceed 80 per cent of the current value of the bonds. New loans may not be granted when guarantied by bonds that at the time of being presented to the Central Bank are quoted at less than 80 per cent of their nominal value. Neither may new loans of the kind authorized in this clause be granted when their total amount, added to that of the investments made in accordance with clauses a) and b) of Article 46, exceeds the proportions stated in said article for each period;

c) When guarantied by the debit balances of the authorized credits on current account, up to 50 per cent of said balances, provided that the credits offered as guaranty have been reviewed by the Superintendent of Banks;

d) When guarantied by Mortgage Bonds issued by the Agricultural and Mortgage Bank of the Dominican Republic, or by other securities guarantied by the State, under the conditions established in part b) of this clause, provided that said securities have been duly issued, that where mortgage bonds are concerned the issuing bank is not the owner of same; and that the total amount of the securities of each issue given as guaranty does not exceed 30 per cent of the total of the respective issue;

e) In times of emergency when monetary or banking stability is directly threatened, when guarantied by any asset that the Monetary Board, upon the vote of four of its members, shall temporarily include among the acceptable guaranties, even if they should be securities mentioned in this article that are in excess of the foregoing limitations. So long as such advances are outstanding, the debtor bank may not increase the total volume of its loans or investments without the approval of the Monetary Board.

ART. 40.—All documents purchased, rediscounted, discounted, or accepted as guaranty by virtue of Article 39 shall carry the endorsement of the institution from which they were received by the Central Bank.

ART. 41.—The Monetary Board shall fix the rediscount and interest rates applicable to the operations specified in this chapter, according to their maturity and nature, taking into account the monetary situation, the needs of the market, and the composition of the portfolio of the Central Bank.

The Board may fix an individual credit line for each bank, which must be in proportion to the volume of the operations of said bank. It also may refuse to authorize new rediscounts or advances to the banks when the monetary situation so requires.

ART. 42.—The Monetary Board may establish, within the general provisions specified in the preceding articles, additional conditions to govern access to the credit of the Central Bank. Said conditions may refer to the interest rates charged by the banks and to the purposes of their loans in general, likewise to the interest rates and the purposes for which the documents offered to the Central Bank were issued, as well as to any other clearly definable element of the credit policy of the banks.

ART. 43.—The Board shall review, at least once a month, and by means of a summary report rendered to it by the Manager of the Central Bank, the composition of the portfolio of the Bank and shall formulate its credit policy for the following month, in order to carry out the general monetary and credit policy of the Central Bank, and to maintain a sufficient amount of highly liquid assets.

New credits shall not be granted for terms greater than four months so long as two thirds of the existing portfolio of Central Bank credits are due on a date more than four months from the date on which the Board has reviewed the portfolio, in conformance with the preceding paragraph. For the purposes of this paragraph, the credits granted by virtue of clauses 1d) and 2e) of Article 39 shall not be computed.

ART. 44.—Any document given in guaranty to the Central Bank under the conditions established by the preceding articles may be withdrawn at any time by the bank that presented it, after payment of the respective principal amount and interest.

ART. 45.—The Bank shall establish a Guaranty Fund for Special Credits for the purpose of facilitating the granting by the banks, of such credits as the Monetary Board considers in the interest of the economy of the country, and which, because of their maturity, interest, or guaranty terms, need an additional guaranty.

For the operations of the Fund the Bank shall have at its disposal the sums indicated in Article 9 of this Law and the product of the premiums which it collects from the banks. The Bank may not authorize guaranties chargeable to this Fund which raise the total of the existing guaranties above the capital at its disposal at the time the operation takes place. However, if for some reason said limit has been overreached, the guaranties in excess shall be valid and the Central Bank shall be responsible for them.

The Bank shall, preferably, grant only partial guaranties in order to assure adequate participation in the risk of the loan on the part of the bank that asks for the guaranty.

The Monetary Board shall establish the rules to govern the operations of the Guaranty Fund.

## Chapter III

### Purchase and Sale of Securities

Art. 46.—The Central Bank is authorized to purchase only the following securities:

a) During the first three years from the beginning of its operations, securities issued by the Dominican State, up to an amount that, added to the total of the advances granted against such securities as collateral under the authorization of Article 39, 2) b), is equal to 10 per cent of the annual average of the revenue of the State during the last two years. Said sum may be increased, upon the unanimous agreement of the Monetary Board, to 15 per cent of the average indicated. However, during this time the Bank may not purchase securities when, as a result of such an operation, the monetary reserve would fall below 150 per cent of its minimum level, in accordance with Article 67.

b) When three years have passed after the beginning of the operations of the Bank, it may purchase securities issued by the Dominican State, up to an amount that, added to the total of the advances granted against such securities as collateral under the authorization of Article 39, 2) b), is equal to 30 per cent of the annual average of the revenue of the State during the last two years. Said sum may be increased to 40 per cent of the average indicated, upon the unanimous agreement of the Monetary Board. However, the Bank may not purchase such securities when, as a result of such operation, the monetary reserve would fall below its minimum required level in accordance with Article 67.

c) Securities referred to in Articles 8, 47, 59, and clause 2) of Article 35.

The calculation of the annual average of the revenue of the State referred to in this article shall be made on the basis of the last 24 months, in accordance with the certification that is required in this connection from the Secretary of State for the Treasury and Public Credit.

Art. 47.—The Central Bank shall create a Fund for the Regulation of the Securities Market, the purpose of which shall be to stimulate investment of private capital in bonds and other fixed interest-bearing certificates issued by the Dominican State, by other public institutions, and by the Agricultural and Mortgage Bank, through purchases and sales in the open market tending to promote the liquidity and stability of said securities. With this end in view, the Bank shall try to assure, so far as possible, that the private holders of said securities shall find adequate demand for the securities they wish to sell. Effort will be made to avoid sharp fluctuations in quotations, without being obligated to counteract the fundamental tendencies of the market or to engage in operations that threaten the exhaustion of its liquid resources. Consequently, the Bank shall endeavor at all times to maintain and replenish cash holdings sufficient for the future fulfillment of the purposes of the Fund.

The Monetary Board shall determine the securities or other negotiable documents in which the Fund may deal, within the provisions of this article.

Art. 48.—For the operations of the Fund for the Regulation of the Securities Market, the Monetary Board may set aside, from the resources of the Central Bank, an amount equal to 10 per cent of the total issues of securities in circulation that the Fund is authorized to acquire, notwithstanding the provisions of Article 65.

However, in times of sudden and excessive offers of securities in the market, the Board may, upon the unanimous vote of its members, raise said limit to 20 per cent.

ART. 49.—The Monetary Board may adopt such measures as it deems necessary to assure the fact that the operations of the Fund for the Regulation of the Securities Market are carried out in accordance with Article 47, and, therefore, may rule that said Fund is to abstain from purchasing securities which, in the judgment of the Board, serve directly or indirectly to finance a new issue of the institution concerned.

ART. 50.—The remaining profits of the Fund, derived either from interest charges or from the purchase and sale of securities, shall be accumulated in a reserve which may be used in the same way as the Fund.

The losses of the Fund, if any, and the deductions which it is believed prudent to make, shall be charged against said reserve. In case the losses and deductions are in excess of the reserve, the excess shall be charged to the Profit and Loss Account of the Central Bank.

## CHAPTER IV

### The Monetary Issue

ART. 51.—The Central Bank of the Dominican Republic shall be the only entity with the power to issue notes and coins in the territory of the Republic, such issue being subject to the provisions of the Constitution, the Monetary Law, and this Law.

ART. 52.—By monetary issue of the Central Bank is meant the sum total of notes in circulation plus the Central Bank's sight deposit obligations in Dominican gold pesos.

Notes held by the Bank shall not be included in the monetary issue and shall not be considered as part of either the assets or the liabilities of the Bank.

Coins shall be issued by the Bank for the account of the State and consequently they shall not be included in the monetary issue of the Bank.

Also, deposits or other obligations in favor of the International Monetary Fund and the International Bank for Reconstruction and Development shall be excluded from the monetary issue.

Any increase in the monetary issue that is not in accordance with operations authorized by this Law is prohibited. The members of the Board and the Manager of the Bank who may be responsible for an intentional increase in the monetary issue through operations not authorized by this Law, shall incur the penalty of a fine of RD$200.00 to RD$1,000.00, without prejudice to any other greater penalty that may be applicable to them in accordance with other legal provisions.

ART. 53.—The Central Bank shall always accept national currency and coins in payment of obligations and for deposits.

Also, it shall pay upon demand of the depositors national currency and coins.

The Bank, moreover, shall exchange deteriorated currency and coins in the manner prescribed by the Monetary Law.

ART. 54.—The amount of each verified reduction in the note issue obligations of the Central Bank on account of loss, destruction, or demonetization, shall accrue to the General Reserve Fund of the Central Bank.

## CHAPTER V

### Bank Deposits and Legal Reserves

ART. 55.—The Central Bank may receive deposits from the banks operating in the country and from foreign or international entities. The commercial banks, in order to cover the deposits of their customers in national currency, shall maintain reserves in this currency, in the form of sight deposits at the Central Bank or in one of the forms indicated in Article 57. The ratio of these reserves shall be fixed by the Monetary Board, and may be changed by said Board when circumstances require, but it may not be less than 10 per cent or more than 50 per cent of the deposits in national currency held in the banks. However, the Monetary Board may require reserves of more than 50 per cent against deposits that exceed the amount held in the banks on the date on which such a measure becomes effective. In this case the Board may decide that interest be paid, at a rate not higher than the minimum rediscount rate of the Central Bank, on that part of the required reserves which exceeds 50 per cent of the deposits subject to such a requirement.

The Bank may not accept deposits from the public except in special cases authorized by the Superintendent of Banks.

ART. 56.—To cover their foreign currency deposits the commercial banks shall maintain reserves of no less than 10 per cent and up to 100 per cent for each currency. The reserve ratios shall be fixed by the Monetary Board, which may change them when necessary.

The required reserves shall be held as sight deposits in the Central Bank or in one of the forms authorized in Article 57. The Monetary Board may determine whether said reserves are to be held in foreign or Dominican currency, so long as this does not prevent the banks from balancing their assets and liabilities with respect to the foreign currencies in which they are operating.

The Board may, moreover, require the banks to maintain a balance between their assets and liabilities, both with respect to the Dominican gold peso, and with respect to any other currency in which they operate, when economic conditions or international agreements entered into by the Republic make such action necessary. The Board also may limit this requirement or authorize the banks to approach such a balance gradually. Such requirements may be limited by the Board to one or several of said currencies. The Board shall grant the banks an appropriate period of time in which to adjust themselves to these requirements.

On the excess reserves in national currency that may result from measures taken by virtue of this article, or on any part of said excess, the Board may authorize the payment to the banks of interest not to exceed the minimum rediscount rate of the Central Bank.

ART. 57.—Within the limits established in Articles 55 and 56 for deposits in national currency and foreign currencies, respectively, the Monetary Board may:

a) Fix, if it deems appropriate, different reserve requirements against sight, time, savings, and special deposits;

b) Fix, if it deems appropriate, reserve requirements against unused balances of credits on current account, unless the bank has reserved to itself the right to cancel the unused credit at any time;

c) Submit to legal reserve requirements any other liability accounts of the bank similar to deposits;

d) Reduce by as much as 33 per cent legal reserves established by virtue of this chapter for any bank fulfilling the conditions that the Board may establish with regard to maximum interest rates charged, placement of its loans, and any other clearly definable element of monetary and credit policy;

e) Authorize the banks to maintain up to 50 per cent of the required legal reserve against any kind of obligations, in securities of the Dominican State, provided they do not represent more than half of said securities in the portfolio of the bank in question. The securities that are substituted shall be given in custody to the Central Bank, the rest of the portfolio of State securities remaining subject to the supervision of the Superintendent of Banks in accordance with the rules established for notes held by the banks in Article 22 of the General Banking Law;

f) Authorize the banks to maintain up to 50 per cent of the legal reserve, against any obligations, in notes of the Central Bank and in subsidiary currency, provided the holdings of said notes and currency are reviewed by the Superintendent of Banks in accordance with Article 22 of the General Banking Law;

g) Authorize the banks to maintain reserves against deposits in foreign currency in the form of sight or short-term deposits in first-class banks outside the country, or in first-class short-term foreign government securities.

ART. 58.—The manner and frequency of interbank liquidations may be regulated by the Monetary Board.

## CHAPTER VI

### The Issuing of Securities

ART. 59.—When it is advisable to increase or reduce the monetary issue or money supply, as defined in Articles 52 and 65, for purposes of monetary regulation, the Bank is authorized to:

1) Issue, amortize, and purchase certificates of participation in its own name, either on State bonds that constitute a part of its portfolio or on the monetary reserve;

2) Issue, amortize, and purchase stabilization bonds in its own name.

ART. 60.—The securities mentioned in the preceding article shall be subject to such interest, maturity and other conditions as the Monetary Board may establish, and they may, if it is advisable, be in gold and foreign currency.

Said bonds and certificates shall be freely negotiable and may be acquired before maturity by the Central Bank at market prices or at par by drawing lots.

ART. 61.—All bonds and certificates issued by the Central Bank that are acquired, refunded, or amortized, ordinarily or extraordinarily, shall be retired immediately and shall not be considered as assets of the Bank.

# TITLE V

## MONETARY AND CREDIT POLICY

### CHAPTER I

### Relations with the Government

ART. 62.—The Monetary Board shall cooperate with the Public Administration in the coordination of economic and fiscal policy with the monetary policy of the Bank, and shall act as consultant of the Government with respect to the same, especially with respect to credit operations, internal as well as external, of the State, the Administrative Council of the District of Santo Domingo, the Municipalities, and public and semipublic establishments.

ART. 63.—The General Accounting Office of the Republic shall report monthly to the Central Bank regarding Treasury operations, fiscal receipts and expenditures, the public debt, and all that relates to the financial condition of the State.

### CHAPTER II

### Rules of Monetary Policy

ART. 64.—The Monetary Board shall formulate clearly the monetary and credit policy which it considers adequate, under existing conditions, to assure the fulfillment of the purposes outlined in Articles 3 and 4 of this Law.

Said policy shall be expressed in detail in the annual Report of the Bank, with a full explanation of the economic situation that has given rise to it.

ART. 65.—When, in the judgment of the Monetary Board, a phase of definite expansion in the money supply has begun, the Bank shall abstain from any new credit operation and any purchase of securities authorized in clauses a) and b) of Article 46 that would result in increasing the monetary issue of the Bank, unless emergency conditions require the carrying-on of such operations. Under the circumstances indicated, the Bank shall also make use of the other monetary policy measures authorized by this Law, including those mentioned in Articles 26 and 27, in order to prevent undesirable expansion of bank credit and of the money supply.

The Bank, moreover, shall strive, as much as possible, to liquidate its credits outstanding at the time and also to liquidate the portfolio of securities in its possession.

By "money supply" is meant the total of the two following elements:

a) National notes and coins held by the public;
b) Official and private deposits in national currency payable by check in all the banks, excluding interbank deposits.

ART. 66.—At any time when the money supply increases by more than 15 per cent within a period of twelve (12) months, the Monetary Board shall inform the Executive Power accordingly, pointing out the factors that in its judgment constitute the causes of the expansion, and shall report as occasion may arise on the measures adopted to combat them; it shall propose other fiscal and economic measures that in its judgment are necessary to achieve internal stability of the currency and shall continue presenting quarterly

reports to the Executive Power, as well as such recommendations as it deems appropriate, so long as an increase in the money supply in the proportion mentioned exists.

ART. 67.—The monetary issue of the Central Bank, composed of notes and deposits, must be totally backed by the assets provided for in the different operations authorized by law.

Of this backing, an amount equal to at least 50 per cent of the monetary issue must be constituted by the monetary reserve of the Bank, made up of gold and of foreign exchange or its equivalent in accordance with Article 35.

In case the monetary reserve should drop below the proportion indicated above, the Central Bank shall pay to the Public Treasury one-half per cent monthly on the difference. This sanction shall be applied upon the request of the Superintendent of Banks, once the difference has been verified by him, for the entire period that the difference exists.

ART. 68.—When the foreign exchange holdings of the banking system fall below a minimum level of safety, calculation of which is provided for in this article, or when they are reduced by more than 25 per cent of their amount within a period of 12 months, the Bank shall suspend, except in cases of great urgency, the expansion of its credits and investments, and shall make use of the monetary policy measures authorized by this Law in order to avoid an excessive reduction of the Monetary Reserve of the Central Bank or of the foreign exchange holdings of other banks.

The Monetary Board, in this case, shall inform the Executive Power about the situation, shall indicate the measures it has adopted, and shall propose, as this situation may warrant, other fiscal or economic measures that, in its judgment, are necessary in order to preserve an adequate supply of foreign exchange.

For the purposes of this article, the total of the Monetary Reserve of the Central Bank plus the excess of assets of the banks in foreign currencies over their obligations of the same kind are considered as the foreign exchange holdings of the banking system. The minimum level of safety of foreign exchange referred to in this article shall be equal to 60 per cent of the increase in the money supply over its minimum level during the last six years, plus 30 per cent of the annual average of imports during the last 36 months.

ART. 69.—When the Central Bank has effected purchases of foreign exchange from the International Monetary Fund that raise the supply of Dominican currency in the Fund above 75 per cent of the quota of the Republic, the Monetary Board shall take such action and shall propose to the Executive Power such a fiscal and economic policy as, in its judgment, should be followed in order to normalize the situation of the Republic with respect to the Fund.

## TITLE VI

## RESEARCH AND PUBLICATIONS

### CHAPTER I

### Economic Research Department

ART. 70.—The Central Bank shall have an Economic Research Department, with a Director and assistants who are specialists in economic and statistical science. The responsibilities of this Department shall be:

a) To prepare and submit to the Monetary Board an estimate of the foreign exchange position of the Republic at least once a month, and to submit annually

a general estimate of the prospective balance of payments for the following year. This calculation is to be reviewed and revised every three months in accordance with new information that becomes available;

b) To prepare calculations of the seasonal movements in the balance of payments and in other elements of the national economy that are of importance for the functioning of the Central Bank;

c) To cooperate in the preparation of monetary and banking statistics for the information of the Monetary Board;

d) To prepare any other statistical tables and economic and financial studies that, in the judgment of the Director, may be useful to the authorities of the Bank or with which the Department is charged by the Monetary Board or by the Governor;

e) To cooperate with the Secretary of State for Labor and National Economy, the National Statistical Council, the General Statistical Bureau and other Government departments in order to improve the statistical service;

f) To cooperate in the preparation of the annual Report of the Central Bank and to supervise other publications and public reports of the same;

g) To organize and administer the library of the Bank and to maintain an exchange of publications between the Bank and the central banks of other countries;

h) To cooperate in the training of a body of experts in money and banking, as well as in the other fields of economic science.

The officials and employees of the State, of the Administrative Council of the District of Santo Domingo, and of the Municipalities must supply data relating to the statistics of their respective offices when required to do so by the Economic Research Department of the Central Bank.

Banks, associations, societies, companies, and all other physical or legal entities, firms, or persons must supply to the Economic Research Department of the Central Bank all information of general interest or of a statistical nature relating to the operations of their establishments or firms, the practice of their professions, their properties, and their persons or their dependents.

Those who fail to supply the data and information requested from them in accordance with this article, or who do not supply them within the time limits fixed, or who falsify them shall incur the penalty of a fine of 10 to 25 pesos.

## CHAPTER II

### The Balance Sheet and Report

ART. 71.—The Central Bank shall publish its balance sheet at the close of each month. The statement shall be published within eight days from the date to which it refers, and shall appear in the *Official Gazette* [*Gaceta Oficial*] and in at least one of the newspapers with national circulation.

ART. 72.—Before the thirty-first of March of each year, the Central Bank shall publish an annual Report, signed by the Governor, which shall contain an exposition of the condition of the Bank and its operations during the last fiscal year; an analysis of the monetary, financial, and economic developments that have taken place in the country; and a detailed report of the monetary and credit policy followed by the Bank during the same period. Extracts of said analysis and report shall also be published in a newspaper of national circulation.

ART. 73.—There shall be published as appendices to the report mentioned in the preceding article all pertinent data, including:

a) Monthly changes in the money supply, distinguishing between coins, notes, and deposits payable by check, and giving the figures for international reserves and for money of internal origin created through the Central Bank and the other banks of the country;

b) The monthly movement of exchange rates and price indices in the Republic and its principal foreign markets;

c) An estimate of the balance of payments of the Republic for the preceding year;

d) The monthly movement of imports and exports;

e) A summary of the purchase and sale of drafts by the banks;

f) The monthly statement of the Central Bank and the consolidated monthly statements of the other commercial banks operating in the Republic, in the form determined by the Director of the Economic Research Department, as approved by the Monetary Board;

g) A list identifying the stabilization and participation bonds and certificates as well as the mortgage and guaranty bonds which have matured and been drawn by lot during the last 10 years but have not been presented for payment.

# TITLE VII

## GENERAL AND TRANSITORY PROVISIONS

### General Provisions

ART. 74.—The Central Bank is exempted from all taxes on real estate, furniture, and fixtures used in the Bank or its branches and agencies, as well as on the operations it carries out. This exemption shall not apply to properties acquired by the Bank in payment and protection of its credits, nor to charges for services received. All outside parties directing applications to the Central Bank shall likewise be exempt from the payment of all taxes in their dealings with the Central Bank in so far as they relate to banking operations.

ART. 75.—By virtue of Article 94 of the Constitution, currency issued by the Central Bank shall have the unlimited guaranty of the State. Said guaranty is also extended to the obligations of the Central Bank for deposits in Dominican currency.

For profits or losses that the Central Bank may suffer as a result of revaluations of its net assets in gold and foreign exchange, or as a result of arrangements that the Bank

may have made with the commercial banks for such revaluations, the provisions of Article 10 of the Monetary Law shall apply.

ART. 76.—In all cases not covered by this Law, the provisions of the General Banking Law, the Monetary Law, and other pertinent laws shall apply. All laws or regulations contrary to this Law are revoked.

## Transitory Provisions

ART. 77.—During the first stage of the monetary conversion, as defined in Article 20 of the Monetary Law, the Central Bank may not carry out any of the credit operations or purchases of securities mentioned in Article 8, and in Chapters II and III of Title IV of this Law, except in cases of serious monetary emergency upon the unanimous decision of the Monetary Board and with the approval of the President of the Republic.

During said stage the Central Bank shall be authorized to substitute dollar notes for the gold portion of the monetary reserve.

During the time mentioned above, the commercial banks shall maintain in national currency the legal reserve against all their deposits, in compliance with Article 55 of this Law. The Monetary Board, however, may authorize the banks to maintain their legal reserves in dollars or Dominican pesos, either in whole or in part, for such time as the favorable progress of the monetary conversion may make such action necessary.

The Central Bank is empowered, moreover, to establish fiscal and deposit agency relationships with the other banks, in order to assure the conversion referred to above. These deposits in dollar notes or Dominican pesos may be held in custody or in any other form without prejudice to the faculty of the Central Bank to establish at any time with the Reserve Bank of the Dominican Republic fiscal agency relationships of a broader nature.

ART. 78.—The Central Bank shall not begin to function nor carry on operations, nor may the banks be required to comply with the requirements to which they are subject under this Law, the General Banking Law, or the Monetary Law, until the Monetary Board has been formally installed and the capital of the Bank paid in and public notice thereof given by decree of the Executive Power.

*CHAPTER V*

# THE GENERAL BANKING LAW

## REPORT ON THE GENERAL BANKING LAW

The banks form an integral and important part of the monetary system. A general banking law, therefore, is a necessary complement of the new monetary legislation.

The present Law is divided into the following seven chapters:

Chapter I The Superintendency of Banks (Articles 1-8).

Chapter II Definitions and Authorizations (Articles 9-17).

Chapter III Capital and Reserves (Articles 18-19).

Chapter IV Deposits and Legal Reserve Requirements (Articles 20-23).

Chapter V Banking Operations (Articles 24-29).

Chapter VI Statements and Reports (Articles 30-32).

Chapter VII Inspections and Sanctions (Articles 33-36).

These sections are commented on below.

### Chapter I The Superintendency of Banks (Articles 1-8)

The application of the legal provisions regulating the status of the banks is placed in the hands of the Superintendent of Banks, who is appointed by the President of the Republic. These provisions have the double purpose of safeguarding the depositors and other creditors of the banks and of serving as an aid to monetary policy. In harmony with the administrative traditions of the Nation, the supervisory function of the Superintendent is placed under the general jurisdiction of the Treasury. The Superintendent will report to the Secretary of State for the Treasury and Public Credit on matters of importance arising in this field. The aspects of his work relating to monetary policy, however, are coordinated to the extent possible with the functions of the Monetary Board. To this end, the Superintendent will keep the Board informed regarding the execution by the banks of the decisions and rulings made by the Board. Decisions of the Superintendent that may affect the monetary and credit situation will require the approval of the Monetary Board. Moreover, all decisions of the Superintendent will be subject to appeal before the Board. In this form the Law seeks to harmonize the administrative traditions of the Republic with the need to assure coordination and avoid conflict between the acts of the Superintendent and the execution of a sound monetary and credit policy.

To enable the Superintendent to maintain close contact with the Central Bank on all matters under his jurisdiction, he will participate in the meetings of the Board and may be consulted by the Board and by the Governor on such questions.

The Law entrusts to the Superintendent a number of important functions with respect both to the banking system and to the Central Bank. For the exercise of his functions the Law gives him the standing and authority desirable to ensure compliance with his decisions. Of particular importance among the functions of the Superintendent provided for in the General Banking Law are the examination of banks; the reports to be rendered by him to the management of individual banks, to the Secretary of State for the Treasury and Public Credit, and to the Monetary Board regarding matters within their competence; the examination of notes and coin in the hands of the Central Bank; and the cooperation with the Manager of the Central Bank and the Administrators General of the two official banks on matters specified in the Law.

The banks that are subject by law to periodic examinations will contribute to the cost of these services. The amounts payable annually will be fixed by the Monetary Board, and must remain within reasonable limits.

The present chapter of the General Banking Law further treats of the qualifications to be required of candidates for the position of Superintendent. For him and his subordinates the Law specifies a series of prohibitions designed to ensure his absolute independence from the banks subject to his supervision.

To facilitate his functions, the Superintendent may employ the services of private accounting firms.

### Chapter II Definitions and Authorizations (Articles 9-17)

The Law defines clearly the nature of the businesses, whether conducted by individuals or by firms, that are to be considered as banks, and in particular as commercial banks, for the purposes of this Law. In view of the high degree of public interest vested in the banking system, the special authorization of the Monetary Board is required for the use of the term "bank" and related expressions, and for the establishment, merger, or change in statutes or capital of banks.

It is understood that the foreign banking institutions that currently operate in the country, and their respective branches, will receive the authorizations necessary for their continued functioning immediately after the present Law has become effective.

For enterprises that accept deposits from the public as an operation incidental to other activities, the Monetary Board may issue special regulations. Such merchant banking operations have traditionally been one of the sources from which new banks have grown, and their development is entirely to be welcomed. As soon as such enterprises have reached the point where, in the Monetary Board's opinion, they are engaging in full-scale banking operations, they will become subject to the general requirements of the General Banking Law, including those relating to the general form of their business.

In authorizing the establishment of new banks or branches, the Central Bank will have to consider the advantage of supplying as many communities as possible with banking services, as well as the dangers that may arise from inadequate earning opportunities.

The present Law permits the conduct of banking business by private interests in the corporate form of organization only. Foreign banking institutions may engage in the banking business in the Dominican Republic, provided that they are properly authorized for such purposes in their home country. This provision is to obviate, in so far as possible, the danger that the stability and continuity of the banks might be affected by the personal fortunes of their individual owners.

The present chapter further enumerates the data and other information that the Monetary Board may require in order to appraise the soundness and solvency of banks desiring to establish themselves in the Republic. It likewise enumerates other requirements for authorization by the Board that the Board will demand in order to ensure the full protection of the depositors and of the public in general.

### Chapter III Capital and Reserves (Articles 18-19)

The Law requires banks to have a capital equal to at least 10 per cent of their assets other than legal reserves, other cash, and balances abroad, since the capital required to safeguard depositors must be proportionate, not to a bank's total volume of assets or deposits, but to the volume of assets affected by some degree of risk. An absolute minimum of RD$100,000, plus a reserve equal to 20 per cent of the capital, is also established, low enough to facilitate the establishment of new banks but without encouraging the appearance of institutions that lack adequate resources.

Under this system, the mere growth of deposits cannot cause a bank to fall short of capital requirements, since uninvested resources do not affect the capital ratio. If rising loans and investments have produced a deficiency in the capital ratio, the bank must increase its capital out of earnings, or limit or reduce its loans and investments, until the required proportion is reached, in accordance with the decision of the

Superintendent of Banks with the approval of the Monetary Board. The Superintendent and the Board may postpone action, however, if in the view of the Board an intensification of deflationary tendencies already prevalent in the economy is to be feared from it. The two authorities will have to consider that a growth of loans and investments may be a temporary phenomenon caused by the business cycle that may not warrant a permanent increase of capital. On the other hand, the Superintendent, with the approval of the Board, may find it desirable to employ powers under Article 18 precisely to prevent the intensification of existing inflationary trends to which a continued expansion of bank credit would conduce. In that case, the banks failing to meet their capital requirements would have to be called upon to curtail loans and investments.

The branches of foreign banks that operate in the Dominican Republic at present have no capital assigned to them. The Law does not require them to establish an adequate capitalization immediately. Nevertheless, after a period of 10 years, which may be extended by the Board for another five years, these banks must adjust their capital to the requirements of Article 18. According to current estimates, these provisions should allow sufficient time to enable the foreign branches to meet their legal requirements without difficulty through the establishment of reserves out of their own profits and without the transfer of capital from their head office.

It should be noted that only limited significance attaches to the proof, referred to in Article 15, that the newly established branches of foreign banks may be required to furnish by the Monetary Board regarding the effective availability in the Republic of their assigned capital. So long as the Board does not require the banks to maintain a balanced exchange position, the latter can easily compensate the importation of capital funds into the Republic by holding a larger proportion of customers' funds abroad.

In cases where a bank fails to meet the capital requirements of the Law for lengthy periods, for reasons connected with the character of its own operations unrelated to the general economic situation, the Superintendent will give it an opportunity to present and discuss a long-run plan to work out its problems. It is only if a satisfactory plan cannot be developed that the Superintendent, with the approval of the Board, may take steps toward the liquidation of the bank.

## Chapter IV Deposits and Legal Reserve Requirements (Articles 20-23)

Article 20 defines different classes of deposits. The Superintendent, with the approval of the Board, is authorized to issue special regulations for the treatment of savings deposits, which will have to be worked out in close cooperation with the banks. If conditions permit, it may prove desirable to coordinate as much as possible the practices of the various banks regarding deposits.

The holders of small savings deposits are given special protection in the form of a preferred creditor status up to the sum of 1,000 pesos with respect to the aggregate assets of the bank. This privilege will become effective in case of bankruptcy or liquidation of a bank and will apply to every individual or firm owning a savings deposit in such bank. Deposits belonging to mutual or cooperative societies will enjoy such protection up to the amount of 3,000 pesos.

The legal reserves, that is, the cash resources that the banks are required to maintain in the form of deposits in the Central Bank or in such other form as the Law permits, have a double purpose: first, they are to assure the liquidity of the bank, and secondly, they are an important instrument of monetary policy. The power of the Monetary Board, expressed in the Central Bank Law, to vary the proportion and amount of these reserves is an essential instrument of monetary policy. The form, amount, and other aspects of these reserves are specified in Articles 55, 56, and 57 of the Central Bank Law, and are discussed in the report on that Law.

The banks may maintain part of their required reserves in the form of notes of the Central Bank and of coin, provided they are so

authorized by the Superintendent of Banks. They may likewise be authorized to carry Government securities as part of their reserve. Such reserve assets would have to be examined by the Superintendent at least once every six months. This examination, in accordance with Article 6e) of the present Law, will take place notwithstanding the provisions of Article 33.

Article 23 authorizes the Monetary Board to determine the manner in which the deposits subject to legal reserve requirements are to be calculated. The same article also establishes the penalties for reserve deficiencies that may occur. In case such deficiencies should become chronic or recur frequently, the Monetary Board may take steps to prevent these conditions from becoming a threat to the creditors of the bank. If the deficiency becomes chronic and thus reflects a basic weakness in the bank's position or policy, the Monetary Board will proceed as in the case of capital deficiencies. It may limit new loans and investments and regulate the disbursements of profits. It may try to work out with the bank a basic plan for the amelioration of the latter's position. If no satisfactory plan can be developed, the Superintendent of Banks, with the approval of the Monetary Board, may take steps toward the liquidation of the institution.

## Chapter V Banking Operations (Articles 24-29)

The Law does not undertake to regulate banking operations in detail. It permits the banks to carry out all normal banking operations within the limits of the pertinent legislation, including the present Law, the Monetary Law, and the Central Bank Law. The principle underlying the present Law is that the banks may carry out all operations that fall within the scope of normal banking practice and that are not prohibited by the three above-named laws. This principle is implicit also in the prohibitions imposed in Article 25 upon all banks regardless of their character, as well as in another group of prohibitions in Article 26 that relate only to commercial banks.

These prohibitions are less strict in general than the rules actually observed by the banks. Their principal aim is to protect effectively the banks' liquidity and solvency. Under these regulations, the commercial banks will be permitted, apart from their ordinary short-term commercial credit operations, to grant loans in certain limited amounts for periods exceeding three years with the authorization of the Superintendent of Banks or on the security of real estate mortgages; to make loans for periods of from one to three years and to purchase Government securities, subject in both cases to certain quantitative limitations; and to purchase securities issued by private enterprises, subject to specified conditions and to the approval of the Superintendent of Banks.

Particularly important among the limitations upon bank operations are those relating to the purchase of Government securities and mortgage *cédulas*. In the absence of a well-developed securities market, such investments have only limited liquidity. The ability of the Central Bank to add to their liquidity is likewise limited, owing to the restrictions imposed upon that institution by its own Law. Under these circumstances, investment of demand deposits in such securities might seriously endanger the liquidity of the banks once their present high reserves have been reduced to more normal proportions. Hence, it is of imperative necessity to restrict investments of this kind. The Law provides that the sum total of the aforesaid security holdings plus holdings of shares or fixed-interest obligations of other enterprises, plus loans for periods of more than one year, must not exceed the aggregate capital and reserves of a bank plus its savings and time deposits, plus other funds not subject to withdrawal within one year or less. The commercial banks are subject to the same limitations with respect to all types of loans that are for periods of one to three years.

Only a single exception is made relating to the purchase of Government securities in excess of the limits indicated in the foregoing paragraph. In the case of Treasury bonds issued in accordance with the respective legislation, the limits indicated may be raised by an amount

equal to 15 per cent of the sight deposits of the bank in question and, with the unanimous approval of the Monetary Board, up to 25 per cent. Since only the commercial banks are permitted to accept sight deposits, in accordance with Article 9 of the present Law, this exception in favor of Treasury bonds applies only to them.

It is understood that if the deposits of a bank should decline after the loans and investments referred to in the preceding paragraph have absorbed the permissible maximum of funds, the banks will not be required to liquidate any part of their existing portfolio or to restrict their remaining credit operations. The Monetary Board nevertheless will collaborate with the banks in seeking means by which these loans and investments may eventually be brought within the proper limits.

Wherever the special laws that govern the operations of official credit institutions prohibit operations not prohibited by the present Law, the provisions of the special laws retain their full validity. Wherever the reverse is true—that is, wherever the General Banking Law prohibits operations not prohibited by the special laws of the official credit institutions—the provisions of the General Banking Law will govern.

## Chapter VI Statements and Reports (Articles 30-32)

Adequate information as to the position of the banking system is essential for the conduct of monetary policy. This refers not only to quantitative data regarding the volume of credit and other operations, but also to certain qualitative information regarding the distribution, purposes, and similar aspects of these operations. For this purpose, the banking institutions are required to supply to the Superintendent of Banks, for his information and for that of the Monetary Board, the data required by the present Law, in the form prescribed by the Superintendent. The obligation to supply such information, which will be of a strictly confidential character, does not require the reporting institution to reveal the details of the operations of individual customers.

The provisions of the chapter on Statements and Reports further require the banks to publish their annual statements as of the end of their fiscal year, as well as condensed statements at the end of each quarter, in order to keep the public fully informed on their true condition.

## Chapter VII Inspections and Sanctions (Articles 33-36)

Bank examination serves the double purpose of ensuring the continued soundness of banking operations and compliance by the banks with the provisions of the General Banking Law and other pertinent legislation. The supervision of banking operations is a prerogative exercised by the monetary authorities of most countries, and one that is essential to the maintenance of sound banking conditions. Article 33 clearly specifies this prerogative as one of the powers of the Superintendent of Banks.

Nevertheless, the Monetary Board, at the suggestion of the Superintendent, may exempt from the general examinatory requirements those banks whose own internal controls are regarded as adequate by the Board and which are subject to inspection by an independent certified public accountant or, in case of foreign banks, their respective head offices. For this purpose, the banks will have to submit evidence as to the nature of their internal control, and must further submit proof of periodic outside inspection, together with such detailed information regarding the results of the inspections as the Monetary Board may stipulate. The Board in that case may exempt the respective banks partly or fully from the contribution to the cost of bank examination.

The foregoing provisions are designed to make it unnecessary for the banks to suffer the expenses and other inconveniences of more than one periodic examination. It is understood that the branches of the foreign banks currently operating in the Republic may be exempted in accordance with the foregoing provisions providing they supply the necessary documentation. The provision does not apply, however, to the examination of the currency, coin, or Domini-

can Government securities that the banks, by authorization of the Monetary Board, may hold in their vaults as part of their legal reserves.

In the present chapter the Law further provides that all data collected by the Superintendent of Banks are to remain strictly confidential. The Superintendent is authorized, of course, to reveal confidential data in the reports that, in accordance with his functions, he may submit to the Monetary Board or to the Secretary of State for the Treasury and Public Credit whenever such action may be necessary to the fulfillment of his examining function. Likewise, the Law does not impede the publication of data of a general character or of banking statistics elsewhere authorized by law. Nevertheless, the Superintendent is not permitted to reveal information relating to operations of individual bank customers unless these operations should involve grave violations of the Law or of rulings of the Board made in accordance with Article 6c) and d).

In view of the grave consequences that might follow from the violation of provisions of this Law, penalties are provided of sufficient severity to discourage so far as possible the occurrence of violations. Nevertheless, a sufficient margin has been allowed between the maximum and minimum of these penalties in order to permit freedom of action to the judge in such cases and to enable him to impose in each case a penalty appropriate to the amount and the character of the operation, as well as to the degree of recurrence. To permit speedy and efficient prosecution of violations the Superintendent of Banks is authorized to initiate the relevant legal action before the judicial authorities.

The Superintendent of Banks may, on the other hand, submit the banking institutions to a special procedure leading to dissolution and liquidation, which would involve a summary process to bring this about and would further involve provisional measures to ensure the protection of the assets of the bank in liquidation.

# THE GENERAL BANKING LAW OF THE DOMINICAN REPUBLIC

October 9, 1947

(Translation*)

## CHAPTER I

### The Superintendency of Banks

ART. 1.—The application and administration of the legal provisions pertaining to the banks shall be the responsibility of the Superintendent of Banks, under the Secretary of State for the Treasury and Public Credit.

ART. 2.—The Superintendent of Banks shall be appointed by the Executive Power.

ART. 3.—The resolutions and interpretations that, within his jurisdiction, the Superintendent of Banks may adopt shall be obligatory; appeal from them may be made to the Monetary Board, except in matters relating to the Central Bank, in which case appeals shall be made through petition before the Supreme Court of Justice, which shall hear the same in private session [Cámara de Consejo].

ART. 4.—The Superintendent of Banks shall attend the meetings of the Monetary Board and may be consulted by the latter or by the Governor of the Central Bank about questions concerning the Superintendency.

ART. 5.—The Superintendent of Banks must be a person of recognized ability and experience in accounting and banking practice. He and his subordinates may not be directors, managers, members, stockholders, administrators or employees of any entity subject to the control of the Superintendency, and may not apply for or accept loans from said institutions or firms without prior authorization of the Secretary of State for the Treasury and Public Credit. Neither may they accept directly or indirectly from the said institutions or firms or from their directors, members, stockholders, managers, administrators or employees any kind of promise or gratuity. Violations of the provisions of this article shall be punished by dismissal from office, without prejudice to other legal sanctions.

ART. 6.—The Superintendent shall be charged, principally, with the following functions:

a) To carry out, at least once a year, on a date not revealed in advance, a general and detailed inspection of all banks, or to require the presentation of certificates of inspection that, in accordance with Article 33, may convey total or partial exemption from said general inspections;

b) To report in writing to the board of directors, or in the appropriate case, to the executive officer of each inspected bank, on the result of the general inspection or of the study made of the certificates of inspection, pointing out the irregularities found, if there be any, and to propose a method of correcting them; to present a complete report on the position of the bank, when he deems convenient, and to make any observations and recommendations considered appropriate;

* Official Spanish text, LEY GENERAL DE BANCOS, No. 1530, published in *Gaceta Oficial,* October 13, 1947, No. 6699.

c) To notify the Secretary of State for the Treasury and Public Credit of the fulfillment of the inspections he carries out and to inform him of the irregularities or faults of a serious nature that he notices at any time in the operations of any bank that endanger the interests of the depositors and other creditors, indicating in his report the measures adopted to correct the irregularities or faults observed;

d) To inform the Monetary Board of serious violations by banks of those legal provisions whose application is the responsibility of said Board, or of the regulations that the latter has formulated by virtue of the powers given it by this Law, the Organic Law of the Central Bank, and the Monetary Law, and also to report on the other duties entrusted to him by the Board within its legal attributions;

e) To verify, without advance notice, at least once every six months, the unissued notes and coins held by the Central Bank, and the stock of notes and coins in the other banks;

f) To cooperate with the Manager of the Central Bank, the Administrators General of the Reserve Bank and the Agricultural and Mortgage Bank and with the executive officers of the other banks, to ensure the correctness of operations and a full compliance with the banking legislation, the regulations and the resolutions of the Monetary Board;

g) To promote, in cooperation with the Director of the Department of Economic Research of the Central Bank and with the executive officers of the other banks, a clear and uniform system of bank accounting and reports, and to watch over the publication of banking data ordered by this Law;

h) To exercise other functions and participate in other matters within his competence in so far as they are related to the interests of the institutions or firms subject to his control or to the interests of their creditors.

ART. 7.—The entities or firms subject to the provisions of this Law shall pay the costs of the inspection or supervision services to the extent that they are not exempted from this requirement by virtue of Article 33, with annual quotas that shall be determined in each case by the Monetary Board but that shall not exceed one twentieth of 1 per cent of the assets of each institution. If that amount is insufficient, the difference shall be made up by the Superintendency of Banks.

ART. 8.—The Superintendent of Banks may contract for the services of firms specialized in the auditing and examination of accounts, of recognized international prestige, to cooperate with him in his functions.

## CHAPTER II

### Definitions and Authorizations

ART. 9.—Any person or entity, public or private, who, within the territory of the Republic, engages in an habitual and systematic way in the business of lending funds received from the public in the form of deposits, bonds or other obligations of any kind, shall be considered as a bank for the purposes of this Law, and as such shall be subject to its provisions and to those of the Organic Law of the Central Bank of the Dominican

Republic and of the Monetary Law which are pertinent. Subsequent references in this Law to "commercial banks" shall be intended to cover those banks that receive sight deposits from the public subject to checks. Doubtful cases shall be settled by the Superintendent of Banks, who may require presentation of books and commercial papers from the person or entity whose activities give rise to the question.

Persons and entities who accept deposits occasionally shall not be considered as banks but may be submitted to special regulations to be formulated by the Monetary Board. Said regulations shall refer especially to the system of accounts which said persons and entities must maintain, to the guaranties they must offer and to the inspections by the Superintendent of Banks. However, in no case may authorization be given for the issuance of checks against deposits not held in banks or their branches and agencies.

The Monetary Board may also regulate the activities of persons and entities who act as bank agents.

ART. 10.—The authorization of the Monetary Board, through the Superintendent of Banks, and with the prior advice of the latter, shall be required for the following purposes:

a) The use of the words "bank", "banker" and "banking", in any language or in any form, in the name or firm name of any person or entity;

b) The opening of a new bank, a new branch or of a banking agency;

c) The merging of two or more banks when the sale of the entire business of a bank to another institution is not involved;

d) The modification of the statutes or of the capital of a bank.

The requirements of clause d) of this article shall be applied to the branches of foreign banks only with relation to the capital they have in the Republic and to the statutes that govern their local operations.

ART. 11.—Only stock companies [compañías por acciones] constituted in accordance with the laws of the Dominican Republic expressly and exclusively for the purpose of dedicating themselves to the business of banking, and the branches or agencies of foreign banking institutions, duly authorized for such operations in the country of origin, may be authorized for the purpose of Article 10.

The Superintendent of Banks and the Monetary Board shall require, from all applicants, the presentation of data and information that they deem necessary. When a request is made for the opening of a new bank, they shall require in particular:

a) The name or commercial designation, profession, domicile, nationality of the founders or organizers;

b) The name of the company;

c) The operations it proposes to carry out;

d) The legal domicile and location of the central office, branch or agency;

e) The amount of paid-in capital with which the company shall start its public operations;

f) A copy of the statutes and amendments or modifications, the number of directors, their names, profession, domicile and nationality, the number of shares owned by them, and the bond or pledge given in guaranty of the proper performance of their functions;

g) The name, profession, domicile and nationality of their executive officials and controllers.

There are excepted from the provisions of clause a) of Article 10 and of this article the official credit entities created or which may be created by special laws within the framework of the monetary and banking legislation, as well as the branches of foreign banks operating at present in the Republic.

ART. 12.—In case of the establishment of a branch or agency of a foreign bank, other than one of the foreign banks already established in the Republic, there shall be required, in addition to the requirements enumerated in Article 11, two duly legalized copies of the following documents:

a) The charter and the statutes in the country of origin;

b) The legal authorization under which it operates in the country of origin;

c) Proof that the bank may legally, in accordance with its statutes and with the laws of the country of origin, establish branches and agencies in the Republic;

d) The name of the legal representative or representatives in charge of the administration of the branch or agency in the Republic and their authorizations and powers;

e) The general balances, and annual reports of the bank for the last five years or the years it has been in existence, if less than five years;

f) The declaration of capital and reserves, assigned to the branch for its own operations;

g) The *Official Gazette* [*Gaceta Oficial*] containing the decree of the Executive Power which authorizes the institution to establish domicile in the Republic.

ART. 13.—Before granting the authorization requested for the purposes set forth in Article 10, the Monetary Board shall make sure, through such investigations as it considers necessary to carry out, that:

a) The public interest as well as general economic and legal conditions justify the granting of the requested authorization;

b) The sincerity, responsibility and other qualifications of the applicants inspire confidence.

Notice of the organization of a stock company constituted for the purpose of dedicating itself to the banking business must contain, in addition to the summary required by Article 42 of the Commercial Code, mention of the authorization of the Monetary Board required in Article 10 of this Law, as well as the data mentioned in Article 11.

ART. 14.—The decisions of the Monetary Board containing the authorizations that it grants by virtue of Article 10 shall be published in the *Official Gazette* [*Gaceta Oficial*] and, at least one daily newspaper of nation-wide circulation, with a summary of the data enumerated, as the case may be, in Articles 11 and 12 of this Law.

ART. 15.—Before starting operations, the branches or agencies of the foreign banks which in the future may be established in the country must prove the effective availability in the country of the capital and reserves assigned to them, in accordance with the decision made in each case by the Monetary Board.

ART. 16.—The branches or agencies of the foreign banks established in the Republic, or which in the future may be established, shall not be obliged to have a board of directors for the administration of their affairs within the territory of the Republic, but said banks must have one or more authorized officers domiciled in the Republic under the direct responsibility of the home office and must carry out, in the latter's name, the ordinary operations that are within the scope of the branch or agency.

ART. 17.—The assets which foreign banks have in the Republic including those that represent the capital and reserves of the branches or agencies shall guaranty preferentially the obligations of said banks in the Republic.

## CHAPTER III

### Capital and Reserves

ART. 18.—At any time when the proportion of paid-in capital and reserves of a bank is reduced to less than 10 per cent of its assets, excluding the required reserve and other cash as well as the deposits of the bank in banks abroad, or when said capital and reserves are reduced below the minimum of RD$100,000.00 mentioned in the following article, the Superintendent of Banks, with the approval of the Monetary Board, must rule that a part or all of the net profit of the bank be added to the reserves, and he must limit or prohibit the making of new loans or investments until the required proportion is arrived at, provided that this, in the judgment of the Monetary Board, does not tend to accentuate deflationary tendencies.

When a bank, as a result of acts of its own and unconnected with the general economic situation, has a serious and continuing deficiency in said proportion, and does not present to the Superintendent of Banks a satisfactory plan to eliminate it within a reasonable period of time, said official may, with the approval of the Monetary Board, request the appropriate judicial authority to liquidate such bank.

Branches of foreign banks established in the country on the date of the enactment of this Law shall be granted a delay of up to 10 years, which may be extended by the Monetary Board, after hearing the opinion of the Superintendent of Banks, for five years longer, in which their capital and reserves are to reach the minimum proportion established in this article. For the duration of this delay, the provisions of this Law dealing with the capital of the banks shall refer to the capital of the home offices.

ART. 19.—Any bank established in the future must have, before beginning operations, a capital of no less than RD$100,000.00, in addition to a reserve fund of no less than 20 per cent of its capital. The Monetary Board may, moreover, require an increase in the capital in relation to the number of branches that said bank proposes to establish.

## CHAPTER IV

### Deposits and Legal Reserve Requirements

ART. 20.—The term "sight deposits" shall apply to all deposits that can be demanded at sight by check.

The term "savings deposits" shall apply to deposits that cannot be demanded at sight by check, that are made under this designation and are subject to special provisions with regard to amount, interest or withdrawals. The Superintendent of Banks may establish uniform rules for these deposits, except with regard to the fixing of interest rates, which is the prerogative of the Monetary Board.

The term "time deposits" shall apply to all those deposits that are made for a fixed term or for an indefinite term with the condition that they are not to be withdrawn without prior notice.

The term "special deposits" shall apply to all deposit obligations that are not sight, savings or time deposits.

In no case may a bank pay interest on sight deposits.

ART. 21.—In case of bankruptcy or liquidation of a bank, the savings deposits shall have a privileged claim up to RD$1,000.00 per person or entity, on the general assets of said bank, immediately following the other categories of credits privileged in accordance with the laws and guarantied by special liens. The deposits of mutual societies or co-operatives shall have the same privilege up to RD$3,000.00.

ART. 22.—All commercial banks, private or official, national or foreign, must maintain legal reserves in the proportion and form indicated by the Monetary Board, in accordance with Articles 55 and following of the Organic Law of the Central Bank.

The amount of notes and coins that a bank maintains as part of its legal reserve with the authorization of the Monetary Board must be examined by the Superintendent of Banks at least once every six months, in accordance with clause e) of Article 6 of this Law, notwithstanding the provisions of Article 33 of same.

Government securities held by a bank in its portfolio must be examined in the same way under the circumstances mentioned in clause e) of Article 57 of the Organic Law of the Central Bank.

Deposits charged to the offices, branches or agencies which a bank maintains in the country shall be considered as a whole for the calculation of legal reserves.

ART. 23.—The legal reserve shall be calculated on the basis of the deposits for each day, in the form determined by the Monetary Board. On deficiencies that may result, the responsible bank shall pay to the Central Bank one tenth of 1 per cent per day, the amount to be credited to a fund established for the purpose of meeting the expenses incurred by the Superintendency of Banks. However, the Board may decide that the deficiencies that exist on one or more days be compensated by excesses on other days, within a reasonable period determined by it.

In case of prolonged or repeated failure of a bank to meet its legal reserve requirements, the Monetary Board may limit or prohibit its making new loans or investments

and rule that part or all of the net profits of the period during which the deficiency occurs shall be used to strengthen the position of the bank.

If the deficiency is serious and persistent and the bank does not take satisfactory measures to correct it within a reasonable time, the Superintendent of Banks, with the approval of the Monetary Board, may request the appropriate judicial authority to liquidate the bank.

## CHAPTER V

### Banking Operations

ART. 24.—The banks may carry out operations of a banking nature and other business ordinarily carried out by banking firms, provided they abide by the applicable legal provisions and regulations. The Superintendent of Banks shall make use of the powers delegated to him by this Law to decide any doubtful point regarding the nature of propriety of the operation.

ART. 25.—All banks, branches or agencies of banks established in the Republic are forbidden:

a) To acquire or keep, in a permanent way, real estate not necessary for the use of the bank, its branches or agencies. Real estate owned by a bank on the date of the promulgation of this Law, and not destined for its own use, as well as that which was transferred to a bank in payment of debts or acquired for the protection of its credits, must be disposed of within a period of not more than two years, which may be extended by the Monetary Board, with prior advice of the Superintendent of Banks.

b) To grant loans guarantied by mortgages for amounts that exceed 50 per cent of the commercial value of the properties offered in guaranty, deduction having been made for all other liens, or loans guarantied by a mortgage that is not a first lien mortgage, unless said guaranties are of a subsidiary nature.

c) To grant loans without real or personal guaranties for amounts in excess of one thousand pesos without taking into account a declaration of possessions on an appropriate date, unless the bank possesses reliable information regarding the situation of the applicant which in its judgment may take the place of said declaration of possessions.

d) To grant credits in any form to any private person or entity for a total amount in excess of 20 per cent of the paid-in capital and reserves of the bank. This limit may be increased to 30 per cent when said increase is represented by obligations in the form of negotiable documents issued against cash deposits or representing ownership of actual assets, or documents bearing two responsible signatures or guarantied by securities, merchandise, standing or harvested crops, or goods that can be easily sold and safely stored. However, with prior authorization of the Superintendent of Banks, said limit of 30 per cent may be raised to 50 per cent. The foreign banks operating in the Republic may take into account, for the purposes of this clause, the capital of their home office. Within the limits indicated, must be included all obligations of any kind, principal or accessory, direct or indirect or subsidiary, or in the form of stock charged to one and the same person or entity, with the exception of those represented by

payments in current account effected by checks on other banks. In the case of obligations of corporations of any kind, all obligations of the subsidiary corporations shall be included, and in the obligations of the latter those of the principal corporation. By subsidiary is meant any corporation in which, by whatever means, the power of decision is controlled by another one.

e) To grant loans, directly or indirectly:

1) To enable a person to pay, in whole or in part, the price of subscription to stock of the bank, itself, exempting from this provision the Treasury certificates that the State has issued for this purpose or may issue in the future by virtue of legal provisions;

2) Guarantied by its own stock;

3) Guarantied by stock of other banks in excess of 15 per cent of the paid-in capital and reserves of said banks or of its own paid-in capital and reserves;

f) To grant directly or indirectly loans to any of its directors or employees, except with the approval of the board of directors of the bank or, in the case of branches of foreign banks located in the country, with the approval of the principal executive officer, the approval of the home office being required for the loans granted to the latter. When the total of loans made to any of said directors or employees exceeds 5 per cent of the paid-in capital and reserves of the bank, the Superintendent of Banks shall be informed immediately.

Small loans guarantied by welfare funds in which the employee shares, established by the bank and subject to special regulations approved by its board of directors shall not be subject to these restrictions.

g) To give bond or contract obligations for undetermined amounts, except in cases authorized by the Superintendent of Banks;

h) To purchase securities issued or guarantied by the Dominican State for an amount which, added to that of the loans and investments made under the authorizations contained in clauses c), d) and e) of Article 26, exceed the total of the capital and reserves of the bank plus savings and time deposits and funds taken for a term of more than one year. However, in the case of Treasury bonds issued in accordance with the law, said limit may be increased by 15 per cent of the sight deposits of the bank and, with the unanimous approval of the Monetary Board, by 25 per cent.

Art. 26.—The commercial banks are also forbidden:

a) To take over the administration of the property of defaulting debtors for a term longer than two years; this term may be increased upon the decision of the Monetary Board in special cases, with prior advice of the Superintendent of Banks;

b) To participate directly or indirectly in any commercial, agricultural, industrial, or other enterprise, except for the purchase of the securities stipulated in clause c) of this article. Participations of the banks on the date of enactment of this Law or acquired subsequently for the protection of their credits must be liquidated within a period of two years; this period may be extended upon the decision of the Monetary Board in special cases, with prior advice of the Superintendent of Banks;

c) To purchase stock or obligations of other firms whose nominal value exceeds 20 per cent of the paid-in capital and reserves of each individual firm. The value on the books of the bank of the stock and obligations of each private firm may not exceed 10 per cent of the paid-in capital and reserves of the bank itself, and the total value on the same books of the sum total of stocks and obligations of private firms that a bank has in its portfolio may not exceed 15 per cent of the paid-in capital and reserves of said bank, unless such stock and obligations have been acquired for the protection of its credits. The authorization of the Superintendent of Banks shall be required for such investments. The Superintendent of Banks may except from these limitations securities of recognized soundness and solvency quoted on international exchanges and stocks of insurance companies or warehouses whose operations are closely allied to those of the bank that requests the authorization. The banks which on the date of this Law have investments in stocks or obligations of private firms for an amount in excess of the limits established, and those which may receive such securities for the protection of credits, shall have a delay of two years in which to adjust to the legal requirements; this term may be increased upon the decision of the Monetary Board in special cases, with prior advice of the Superintendent of Banks.

d) To grant loans for terms longer than three years, except with the authorization of the Superintendent of Banks or with guaranty of real estate, and upon the conditions that the total of said loans, added to that of investments in the stocks or obligations referred to in paragraph c), do not exceed, in any case, the paid-in capital and reserves of the bank, and provided said loans do not have maturities of more than five years; with the understanding that such loans shall be amortized in uniform installments at intervals not to exceed one year, within the time limit agreed upon for the same;

e) To grant loans of any kind for terms of more than one year but less than three years, unless said loans, added to the loans and investments referred to in clauses c) and d) of this article and clause h) of Article 25, do not exceed the limits indicated in this last clause;

f) To certify checks when the drawer has not sufficient funds in his account with the bank.

Art. 27.—The violation of the provisions of this Law in carrying out a banking operation shall not nullify said operation.

Art. 28.—When the Superintendent of Banks deems it necessary, he may require the banks to adjust their investments to their market value, to eliminate accounts that do not represent real assets and to decrease prudently the value of the doubtful ones, or to set up reserves for them. In cases where the losses suffered by a bank produce the complete draining-off of its reserves and surplus and a reduction of its capital to 50 per cent, the Superintendent of Banks may, with the approval of the Monetary Board, request the appropriate judicial authority to liquidate such a bank when he considers the measures of correction proposed by it to be unsatisfactory.

Art. 29.—The fiscal year of the banks shall be established with the approval of the Superintendent of Banks.

## CHAPTER VI

### Statements and Reports

ART. 30.—It shall be the obligation of the banks to publish, in the form and on the date prescribed by the Superintendent of Banks, their annual balances at the close of their fiscal year.

Foreign banks shall publish balances covering their operations within the country.

The banks, moreover, shall publish a condensed statement of their operations at the end of each three months.

ART. 31.—Each bank shall present, monthly, to the Superintendent of Banks a confidential and detailed statement of its operations in the form prescribed and shall supply, moreover, any explanatory or amplifying information required of it. These reports shall be signed by the principal executive officer and by the chief accountant or their authorized deputies, and shall demonstrate the condition of operations on the closing day of the month, and must be in the hands of the Superintendent within 20 days after said date.

ART. 32.—The branches and agencies of foreign banks operating within the country shall present, in addition, to the Superintendent of Banks, at least once a year, the general balance sheet and annual report of the home office, showing the operations of the institution as a whole.

## CHAPTER VII

### Inspections and Sanctions

ART. 33.—The banks shall be obliged to give the Superintendent of Banks and his staff access to their accounting books and to all books and documents justifying their operations.

Those banks, however, whose internal control over their operations and over the quality of their loans and investments is equivalent to a bank inspection by the Superintendent of Banks and which present, annually, a certificate of inspection by the home office or by a firm of public accountants, may be excepted, in whole or in part, from the obligations established in the preceding paragraph by the Monetary Board, with previous advice of the Superintendent of Banks.

The Monetary Board shall indicate, in each case, the nature and content of the information that must accompany said certificate of inspection. The Board, moreover, may reduce or eliminate the financial contributions of such banks to the inspection service provided for in Article 7.

ART. 34.—The data collected by the Superintendent shall be of a strictly confidential nature. Revelation on the part of officers and employees of the Superintendency, of the office of the Secretary of State for the Treasury and Public Credit, or of the Central Bank, of any information obtained in the course of their work, shall be punished with dismissal from office, without prejudice to other penalties that may apply. This prohibition shall not prevent the publication of reports of a general nature nor of consolidated banking statistics in the form prescribed by this Law and by the Monetary Board, nor the fulfillment of clauses c) and d) of Article 6 of this Law.

ART. 35.—Entities violating those provisions of this Law which do not call for other penalties shall be liable to fines of from RD$50.00 to RD$10,000.00; and persons guilty of the violation, who are not subject to greater penalty under the provisions of the Penal Code, shall be punished with the same fine or with imprisonment from six months to five years or both, according to the amount and the nature of the operations and the recurrence of the infraction. The same penalties shall apply to those who transgress the regulations which, within the limit of the powers given it by this Law, the Monetary Board shall issue.

Only the Superintendent of Banks may start lawsuits before the appropriate judiciary authorities against the person or entity responsible for the infraction, and this, only in cases in which, in his judgment, the errors committed are serious.

ART. 36.—If, at any time, the Superintendent of Banks considers that a bank is not in sound enough economic condition to continue its business or that its depositors or other creditors, or its stockholders, are in danger of being defrauded, or if a bank does not comply with the obligations referred to in Articles 18, 23, 28, and 33 of this Law, said official, with the approval of the Monetary Board, may request its liquidation from the Court of First Instance competent in commercial matters of the Judicial District where the principal office of the bank in question is located.

The authorized Court, after hearing the representative of the bank concerned, shall give its decision within a time limit of 10 days which may not be extended. It shall not be necessary to submit this proceeding to other formalities than those already mentioned. While the matter is being decided, the Superintendent, with the approval of the Monetary Board, may order the temporary suspension of the operations of the bank in question.

The decision of the Court of First Instance may not be appealed.

Once the sentence calling for liquidation has been passed and the bank has been notified, the Superintendent shall take over the assets and liabilities of the bank, its books, papers and files; he shall collect all credits and shall exercise the rights and claims he possesses; he shall pay the obligations and proceed with the liquidation as quickly as possible, for which purpose he may dispose of fixed and movable property and other assets of the bank.

The Superintendent of Banks shall be designated as Liquidator in all cases of liquidation of a bank, and as Receiver in cases of bankruptcy.

The Superintendent and his subordinates may not charge fees for carrying out these functions, without prejudice to the collection, from the proceeds, of expenses incurred.

*CHAPTER VI*

# THE "BRETTON WOODS" LAW OF THE DOMINICAN REPUBLIC

October 9, 1947

(Translation*)

ART. 1.—The Banco Central de la República Dominicana shall effect the contribution to the International Monetary Fund corresponding to the quota of the Republic in said Fund and amounting to the sum of five million United States dollars ($5,000,000), and shall also assume responsibility for the payment of the Dominican quota in the International Bank for Reconstruction and Development, amounting to a sum of two million United States dollars ($2,000,000).

The Banco Central shall carry out the provisions relating to the maintenance of the value of said contributions in accordance with Article 4, section 5 of the Articles of Agreement of the Fund, and with Article 2, section 9 of the Articles of Agreement of the International Bank, in conformity with the provisions of Article 10 of the Monetary Law.

ART. 2.—The Government of the Dominican Republic guarantees the Banco Central de la República Dominicana against all losses that the latter might suffer in consequence of the contributions made to the Fund and the International Bank as well as in consequence of any transaction, including a guaranty operation, that the Banco Central may carry out with said organizations, with the exception of the payment of commissions for exchange purchases from the Fund.

ART. 3.—The person occupying the position of titular Governor of the Banco Central de la República Dominicana shall be *ex officio* the Dominican Republic's Governor in the Fund and International Bank. He shall fill this position as long as he retains his position as Governor of the Banco Central and his appointment to perform the functions of the Dominican Republic's Governor in the Fund and International Bank shall be considered as legally renewed in case his term of office in these international institutions should have expired. The Monetary Board shall designate an alternate who may substitute for the Governor in the execution of said functions and who shall retain his position for five years unless the Monetary Board should revoke his appointment, and who shall be eligible for renomination.

ART. 4.—The Monetary Board shall formulate the general policy of the Republic in its relations with the Fund and the International Bank; shall represent the Republic in its negotiations with said institutions, which it may conduct through the intermediary of the Governor; and shall act in all those cases in which the respective Articles of Agreement provide for the intervention of the member countries, within the framework of the pertinent legal provisions.

ART. 5.—An account of the Board's conduct of affairs shall be given in the annual Report which the Banco Central shall publish in accordance with Article 72 of its Organic Law.

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* Official Spanish text, Ley que regula la actuación y representación del Banco Central de la República Dominicana frente a los Convenios Monetarios y Bancarios suscritos y ratificados, No. 1531 published in *Gaceta Oficial*, October 13, 1947, No. 6699.

ART. 6.—The Banco Central de la República Dominicana shall be the sole depositary of the Fund and the International Bank in the Republic.

ART. 7.—The Banco Central shall be exclusively authorized to effect transactions with the International Monetary Fund and shall have the power to carry out for this purpose all the operations provided for in the respective Articles of Agreement, within the framework of the pertinent legal provisions.

ART. 8.—The Banco Central shall be exclusively authorized to issue noninterest-bearing notes payable upon demand, mentioned in Article 3, section 5 of the Articles of Agreement of the Fund and in Article 5, section 12 of the Articles of Agreement of the International Bank.

The notes issued to date by the Dominican Republic in order to make its required contribution to the International Bank and which are deposited in the Banco Central de la República Dominicana as depositary of said International Bank must be replaced by notes of equivalent amount and under the same terms and conditions issued by the Banco Central; and shall be voided by the Secretary of State for the Treasury and Public Credit.

The Banco Central shall reimburse the Public Treasury for any sums that the Republic may have effectively disbursed prior to that date in favor of the Fund or International Bank in order to meet the aforementioned requirements.

ART. 9.—Only the Banco Central shall have power to issue the guarantees referred to in Article 3, section 4, sub-section (I) of the Articles of Agreement of the International Bank. The decision of the Monetary Board approving such guarantees must have the favorable vote of the Secretary of State for the Treasury and Public Credit.

ART. 10.—The Monetary Board shall act as adviser to the Government in all credit operations that a Government entity may transact with the International Bank, in accordance with Article 62 of the Organic Law of the Central Bank.

ART. 11.—Any profits or losses not comprised under Article 2 of the present Law shall be for the account of the Banco Central, subject to the provisions of Article 10 of the Monetary Law.

ART. 12.—The amount for which the Banco Central can draw on the Fund under the conditions stipulated in the Articles of Agreement before the Fund's holdings of Dominican currency reach the total of the country's quota, that is, the net credit position of the Banco Central in the Fund, shall form part of the monetary reserve in accordance with Article 35 of the Organic Law of the Central Bank.

ART. 13.—Against the liabilities that the Banco Central may incur to the Fund through purchases of foreign exchange, the Bank shall set aside an amount equal to 50 per cent thereof in gold and foreign exchange which amount shall be segregated from the monetary reserve of the Banco Central in accordance with Article 37 of its Organic Law.

ART. 14.—The information to be furnished to the Fund and International Bank in accordance with the respective Articles of Agreement shall be supplied to these institutions solely by the Banco Central. The agencies of the Government and all other public

or private entities shall be required to furnish to the Banco Central the data or information which in accordance with said Articles of Agreement are to be supplied to the Fund and International Bank.

ART. 15.—The Executive Power shall formulate, upon the request of the Monetary Board, such regulatory provisions under the present Law as eventually may become necessary for the effective conduct of affairs by the Republic in its relations with the Fund and International Bank.