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**BANCO CENTRAL DE LA REPUBLICA DOMINICANA**

SANTO DOMINGO. R. D.

## Report to the Monetary Board

December 1983

**Samuel Montagu & Co. Limited**

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BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
REPORT TO THE MONETARY BOARD: DECEMBER 1983

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BANCO CENTRAL DE LA REPUBLICA DOMINICANA  
REPORT TO THE MONETARY BOARD: DECEMBER 1983

Introduction

1. The purpose of this report is to give a brief account of progress since our last report (May 1983) in carrying out the programme of work which we are undertaking in collaboration with officials from the Banco Central under the agreement between the Banco Central and Samuel Montagu & Co. Limited. This is covered in paragraphs 2-9 below. This report also sets out some of the additional subjects which we hope to discuss during our coming visit to Santo Domingo, and these are covered in paragraphs 10-18 below.

Foreign commercial bank refinancing/debt control system

2. During the period under review, we were involved in advising the Banco Central on terms which they ought to be seeking in the negotiations; we reviewed the documentation and commented on it; we attended the negotiations, and helped in discussions between the Working Committee and the CEA consortium. The negotiations on the main agreement have now been successfully concluded. However, there are a number of conditions precedent which must be met by the end of this year, one of which is that the documentation of the CEA refinancing agreement should have been agreed, and this is still not the case. A draft of the CEA agreement has been approved by the Royal Bank of Canada as Chairman of the Working Committee of banks, and as soon as we receive a copy, we will make our detailed comments.

3. As the borrower under the main refinancing agreement, the Banco Central will be obliged to ensure that the conditions precedent in the agreement - both documentation and payments - are met. As these are complex, we felt it might be helpful if we were to prepare a schedule of the payments which the Banco Central would have to make through the Conversion Date, insofar as we could identify the amounts payable and some of the payment dates without access to the Banco Central's detailed records. We sent this schedule in the form of a telex, and this is attached as Appendix A. We will be pleased to provide further assistance to the Banco Central on this matter on our forthcoming visit to Santo Domingo.

4. In August 1982, Samuel Montagu prepared a preliminary paper at the Banco Central's request, based on precedents established in other countries in the region, on the control of foreign borrowing and debt repayment through the establishment of a Public Debt Office (Appendix B). In view of the payments to be made by the Banco Central under the bank refinancing agreement, the question of a centralized system of debt control reassumes importance, and on our next visit to Santo Domingo we would like to raise the issue afresh with the Banco Central.

Rosario Dominicana

5. In May 1983 we approached Credit Suisse, Zurich, with regard to an advance facility against future gold sales for Rosario Dominicana. Negotiations have proceeded slowly, but Credit Suisse have indicated that they are interested in coming to an arrangement and are considering a US\$8m facility with a 90-day grace period, a repayment period of 4-5 months, and the



possibility of some form of renewal at the borrower's option. If the agreement operates efficiently, Credit Suisse might consider increasing the amount in any second facility. Negotiations continue, and we hope to discuss this matter further with officials of the Banco Central during our next visit.

#### Freeports and foreign private direct investment

6. We have prepared a detailed paper on the attractions to foreign investors of the freeports in the Dominican Republic, to form the basis for a brochure to be published by the Banco Central. This contains background information on the Dominican Republic, as well as information on the fiscal and other incentives offered to freeport investors. We have made a proposal to the Banco Central under which, with the help of our office in Hong Kong, we would seek out potential interested parties in the Far East (see Appendix C). We have also considered a parallel approach to US investors, in view of the additional incentive of duty free access for some goods to the US provided by the Caribbean Basin Initiative.

#### Financial report

7. Our financial report on the Dominican Republic was updated in September 1983 and was distributed, with the Banco Central's permission, to the international financial community. A list of the banks and financial institutions to whom it was sent is attached in Appendix D.

#### Paris Club

8. Earlier in the year we discussed with the Banco Central the possibility of the Dominican Republic going to the Paris Club. First written contact was made with the French Treasury by the Banco Central in September, and from our recent telephone conversations with the French Treasury it seems that the date for the Paris Club meeting is likely to be in early January, after the next phase of the IMF agreement under the Extended Fund Facility is in place.

9. We would be pleased to assist in the preparations for meeting the Paris Club creditors and in advising on terms which it would be reasonable to expect from them, given the regional precedents. We would also be pleased to assist in the subsequent bilateral negotiations. As background we attach

- (a) a table of Paris Club reschedulings (Appendix E);
- (b) a paper on Paris Club bilaterals (Appendix F); and
- (c) a table of Latin American commercial bank reschedulings (Appendix G).

#### Investment of foreign reserves

10. In October 1982, Samuel Montagu prepared a paper on the management of the Banco Central's foreign reserves (Appendix H). During our next visit to Santo Domingo we hope to discuss procedures for handling the foreign reserves, as the gross level of reserves held by the Banco Central is prescribed to

increase under the IMF agreement. In view of the above and of the complications introduced by the refinancing agreement, it may be that the existing arrangement with the Federal Reserve Bank of New York should be reviewed again.

11. We would also like to review the nature of the Banco Central's correspondent banking relationships to provide the most rational spread of banks, taking into account the need for new credit facilities especially for critical imports, the danger of offset in a default situation, and the need to make deposits with those banks which provide credit facilities. Another matter for discussion would be how best the International Department could pursue a geographical extension of the Banco Central's relationships with international financial institutions.

#### Parallel foreign exchange market

12. We already have experience of the operation of parallel foreign exchange markets in the region, and are familiar with the problems associated with it. We would like to discuss with the Banco Central the possibilities of central bank intervention in the parallel market, and the use of swap transactions as well as the development of a forward exchange market. In the forward market commercial banks would undertake to purchase forward entitlements to foreign exchange and sell spot and forward foreign exchange to cover transactions with importers who held import quotas. This market would be regulated by the Banco Central.

13. We would also like to discuss with officials of the Banco Central possibilities for preventing capital flight and increasing the supply of US dollars in the Republic by

(a) remittance schemes, and

(b) deposit schemes.

#### Gold operations

14. During our next visit to Santo Domingo we hope to discuss with officials of the Banco Central and Rosario Dominicana the financial implications to the Government of developing new gold mining capacity.

15. Also during our next visit we would like to resume discussions on the gold sales policy of the Banco Central. A copy of the principal telex sent regarding gold swaps and forward transactions is attached as Appendix I.

16. It has been suggested in the past that Samuel Montagu might be able to assist in providing training programmes for gold and foreign exchange dealers in London, should this prove to be necessary, and we would be pleased to discuss this idea further. During our visits we are always happy to conduct seminars for the officials from the Banco Central on any topic related to operations in international financial markets felt to be of interest.



Official finance

17. On previous visits we have discussed with officials of the Banco Central the possibility of Dominican membership of the Lome Convention. Membership of Lome would inter alia provide the Dominican Republic with duty-free access to the European Community, and with eligibility for more generous aid funding than is at present available to it from that source. Dominican membership of Lome has been refused in the past, largely because there are other countries in the region which it would be difficult to exclude if the Dominican Republic were admitted. Previous difficulties may be less obtrusive now. In addition the prospect of the accession by Spain to the European Communities might strengthen the case for Dominican accession to the Convention. We would be pleased to assist the Dominican Republic in preparing a detailed policy memorandum on the advantages and disadvantages of membership, bearing in mind that negotiations for arrangements to cover the period 1985-1990 have recently started.

18. Another fresh source of official finance which has not yet been tapped by the Dominican Republic is that of a World Bank Structural Adjustment Loan ("SAL"). We have discussed an application for an SAL with officials of the Banco Central on several occasions, but the conditionality of such a loan was felt to be too onerous. However, considering that the IMF targets have been met, the Banco Central might find it easier to meet the conditions imposed by the World Bank without imposing any serious additional strains on the economy. If this was felt to be the case, we would be pleased to assist the Banco Central with an approach to the World Bank.

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TO BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO,  
 DOMINICAN REPUBLIC.

ATTN: SARAH ALMONTE, INTERNATIONAL DEPARTMENT

PAYMENTS UNDER THE REFINANCING AGREEMENT  
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FURTHER TO OUR TELEPHONE CONVERSATION, WE HAVE STUDIED THE RBC REFINANCING AGREEMENT, AND ON OUR UNDERSTANDING OF THE TEXT AND THE FIGURES WE SET OUT BELOW A BROAD FRAME WORK OF THE PAYMENTS WHICH WILL HAVE TO BE MET BY THE BANCO CENTRAL BETWEEN THE EFFECTIVE DATE AND THE CONVERSION DATE. WITHOUT ACCESS TO THE BANCO CENTRAL'S DETAILED RECORDS WE ARE NOT IN A POSITION TO GIVE ACCURATE FIGURES, BUT WE HOPE THAT THOSE WE HAVE PREPARED WILL BE SUFFICIENTLY ACCURATE TO BE OF HELP IN PREPARING THE FOREIGN EXCHANGE BUDGET. THIS TELEX DOES NOT ADDRESS THE OTHER OBLIGATIONS UNDER THE AGREEMENT AND IN PARTICULAR DOES NOT LIST ALL THE CONDITIONS PRECEDENT.

1. THE REFINANCING AGREEMENT DISTINGUISHES BETWEEN TWO SORTS OF DEBT, 'A' DEBT AND 'B' DEBT (SECTION 1.01)

'A' DEBT COMPRISES:

(I) DOMESTIC RATE BASED DEBT (AND PRACTICALLY ALL SUCH DEBT IS PRIME RATE BASED DEBT) MATURED BEFORE 30.11.82,

(II) DOMESTIC RATE BASED DEBT FALLING DUE BETWEEN 1.12.82 THROUGH THE EFFECTIVE DATE, AND

(III) LIBOR BASED DEBT AND BANKERS' ACCEPTANCE RATE BASED DEBT WHOSE INTEREST PAYMENT DATES FALL DUE ON THE EFFECTIVE DATE. FOR THE PURPOSES OF THIS TELEX WE HAVE ASSUMED THIS TO BE NIL.

'B' DEBT COMPRISES:

(I) ALL DEBT FALLING DUE BETWEEN EFFECTIVE DATE + 1 THROUGH 31.12.83; AND

(II) ALL LIBOR RATE BASED DEBT AND BANKERS' ACCEPTANCE RATE BASED DEBT EXCEPT AS IN (III) ABOVE.

2. THE EFFECTIVE DATE IS DETERMINED BY THE AGENT BANK, ALLOWING SUFFICIENT TIME FOR THE CONDITIONS PRECEDENT TO BE MET. FOR THE PURPOSES OF THIS TELEX WE HAVE ASSUMED THIS TO BE 30.11.83.

3. FIRST TERM LOANS ARE MADE ON THE EFFECTIVE DATE, AND COMPRISE 95PCT OF 'A' DEBT, EXCEPT 'A' DEBT FOR WHICH THE CORRESPONDING PESOS HAVE NOT BEEN DEPOSITED BY THE ORIGINAL PRIVATE OBLIGOR. FOR THE PURPOSES OF THIS TELEX WE HAVE ASSUMED THESE UNCOVERED 'A' DEBTS TO BE NIL.

4. INTERIM LOANS COMPRISE 95PCT OF 'B' DEBT AND ARE MADE ON THE EARLIER OF

(I) DUE DATE OF A 'B' DEBT

(II) FIRST INTEREST PAYMENT DATE AFTER EFFECTIVE DATE

(III) FIVE BUSINESS DAYS PRIOR TO CONVERSION DATE.

EXCEPT 'B' DEBT FOR WHICH PESOS HAVE NOT BEEN DEPOSITED BY THE ORIGINAL PRIVATE OBLIGOR. FOR THE PURPOSES OF THIS TELEX WE HAVE ASSUMED THESE UNCOVERED 'B' DEBTS TO BE NIL.

5. THE CONVERSION DATE IS 18.1.84 WHICH IS WHEN INTERIM LOANS BECOME SECOND TERM LOANS.

6. ON THE ASSUMPTIONS ABOUT 'A' AND 'B' DEBT NOTED ABOVE, AND ASSUMING THE EFFECTIVE DATE TO BE 30.11.83, WE ARRIVE AT THE FOLLOWING APPROXIMATE TOTALS FOR 'A' DEBT AND 'B' DEBT:

'A' DEBT (I) 220.7 + (II) 52.3 + (III) NIL = USDLRS 273.0M.  
'B' DEBT (I) 5.0 + (II) 234.7 = USDLRS 239.7M.

7. THE FOLLOWING PAYMENTS MUST BE MADE TO MEET THE TERMS OF THE AGREEMENT:

(I) ON THE SIGNING DATE: AGENT'S FEE OF USDLRS 65,000 (SECTION 3.04 (B))

(II) ON THE EFFECTIVE DATE, TO EACH INDIVIDUAL BANK CREDITOR: (SECTION 2.01)

(A) 5PCT OF ITS 'A' DEBT OUTSTANDING, WHICH ON OUR FIGURES AMOUNTS IN TOTAL TO USDLRS 13.7M.

(B) ALL INTEREST AND FEES OUTSTANDING AND ACCRUED ON ITS 'A' DEBT, PLUS ARREARS (IF ANY), AND THESE AMOUNTS CAN ONLY BE CALCULATED BY REFERENCE TO THE LAST DATES ON WHICH INTEREST PAYMENTS WERE MADE ON SUCH DEBT.

(III) ON THE EFFECTIVE DATE, TO THE AGENT BANK (SECTION 3.04) A REFINANCING FEE OF 1 1/4PCT OF THE AGGREGATE AMOUNT OF THE FIRST TERM LOANS, WHICH ON OUR FIGURES AMOUNTS TO USDLRS 3.2M.

(IV) ON THE DATE OF EACH INTERIM LOAN, TO EACH INDIVIDUAL BANK CREDITOR: (SECTION 2.04)

(A) 5PCT OF ITS 'B' DEBT OUTSTANDING. OVER THE PERIOD 30.11.83 TO 13.1.84 THESE WILL TOTAL SOME USDLRS 12.0M.

(B) ALL INTEREST AND FEES OUTSTANDING AND ACCRUED ON ITS 'B' DEBT PLUS ARREARS (IF ANY), AND THESE AMOUNTS CAN ONLY BE CALCULATED BY REFERENCE TO THE LAST DATES ON WHICH INTEREST PAYMENTS WERE MADE ON SUCH DEBT.

(V) ON THE CONVERSION DATE, TO THE AGENT BANK: (SECTION 2.05, 3.01, 3.02, 3.04)

(A) 1 1/4PCT OF THE AGGREGATE INTERIM LOANS, WHICH ON OUR FIGURES TOTALS USDLRS 2.8M.

(B) INTEREST PAYABLE ON FIRST TERM LOANS BETWEEN THE EFFECTIVE DATE (30.11.83) AND 18.1.84. ASSUMING 49 DAYS DUE AT THE CURRENT PRIME RATE OF 11 PCT PA PLUS THE NEW MARGIN OF 2 1/8PCT PA (=13 1/8PCT PA) THIS WILL BE IN THE REGION OF USDLRS 4.6M.

(C) INTEREST PAYABLE ON INTERIM LOANS BETWEEN THE DATE EACH LOAN IS MADE AND 18.1.84. ASSUMING AN AVERAGE OF 25 DAYS (BEING HALF THE PERIOD BETWEEN THE EFFECTIVE DATE AND THE CONVERSION DATE) DUE AT THE CURRENT LEVEL OF 3 MONTH USDLRS LIBOR OF 9 7/8PCT PA PLUS THE NEW MARGIN OF 2 1/4PCT PA (=12 1/8PCT PA), THIS WILL BE IN THE REGION OF US DLRS 1.9M.



8. INCLUDED IN THE ABOVE FIGURES ARE THE US DOLLAR EQUIVALENTS OF THREE DM LETTERS OF CREDIT. THESE THREE SMALL AMOUNTS HAVE BEEN CONVERTED AT THE CURRENT EXCHANGE RATE (USDLRS 1:DM2.67). UNDER THE TERMS OF THE REFINANCING AGREEMENT THESE DM AMOUNTS WILL BE CONVERTED INTO USDLRS ADVANCES AT THE EXCHANGE RATE RULING TWO BUSINESS DAYS BEFORE THE EFFECTIVE DATE. THE 5PCT PAYMENT WILL BE PAYABLE IN DMS BUT THE 1 1/4PCT REFINANCING FEE WILL BE PAYABLE IN US DOLLARS AND CALCULATED ON THE AMOUNT OF THE USDLRS ADVANCES RELATING TO THE DM LETTERS OF CREDIT.

9. IN ADDITION, ON THE DATE EACH FIRST TERM AND INTERIM LOAN IS PROVIDED, A PAYMENT IS TO BE MADE TO EACH INDIVIDUAL CREDITOR BANK OF A DEFERRAL FEE. THIS FEE, PAYABLE ONLY IF THE NEW MARGIN IS THE HIGHER, IS THE DIFFERENCE BETWEEN THE MARGIN EACH BANK WOULD HAVE RECEIVED ON ITS ORIGINAL DEBT, IF SUCH DEBT HAD BORNE THE MARGIN AS SET OUT IN THE REFINANCING AGREEMENT, AND THE MARGIN EACH BANK IS DUE TO RECEIVE UNDER ANY EXISTING AGREEMENT, FOR THE PERIOD BETWEEN THE DATE OF THE REFINANCING AGREEMENT (15.9.83) AND THE DATE SUCH A DEBT BECOMES A FIRST TERM LOAN OR AN INTERIM LOAN. THESE FEES ARE AS FOLLOWS:

(A) ON FIRST TERM LOANS: ASSUMING 76 DAYS DUE (15.9.83 TO THE EFFECTIVE DATE 30.11.83) AND AN AVERAGE MARGIN DIFFERENTIAL OF 1PCT PA, THEY WOULD AMOUNT TO ABOUT USDLRS 0.5M.

(B) ON INTERIM LOANS, ASSUMING AN AVERAGE OF 101 DAYS (BEING 76 DAYS TO THE EFFECTIVE DATE + 25 DAYS BEING HALF THE PERIOD BETWEEN THAT DATE AND THE CONVERSION DATE), AND AN AVERAGE MARGIN DIFFERENTIAL OF 1PCT PA, THEY WOULD AMOUNT TO ABOUT USDLRS 0.6M.

10. THE SIGNING OF THE CEA LOAN OF USDLRS 57.76M (REPRESENTING 95PCT OF THE EXISTING CEA DEBT) IS ONE OF THE CONDITIONS PRECEDENT UNDER THE REFINANCING AGREEMENT. WE HAVE NOT SEEN A COPY OF THE NEW CEA AGREEMENT, BUT WE UNDERSTAND THAT THE BASIC FINANCIAL TERMS ARE IDENTICAL TO THOSE IN THE REFINANCING AGREEMENT. THIS WILL MEAN THAT THE FOLLOWING AMOUNTS UNDER THE CEA AGREEMENT WILL BE PAYABLE ON OR BEFORE THE CONVERSION DATE:

- (I) 5 PCT OF THE AMOUNT OUTSTANDING: USDLRS 3.0M
- (II) 1 1/4PCT OF THE REFINANCED PORTION: USDLRS 0.7M
- (III) ALL INTEREST AND FEES OUTSTANDING AND ARREARS (IF ANY) AND
- (IV) DEFERRAL FEES, IF ANY ARE PAYABLE UNDER THE CEA AGREEMENT.

11. WE WOULD LIKE TO EMPHASISE THAT THE ABOVE ARE ONLY ESTIMATES OF THE AMOUNTS OUTSTANDING. WITHOUT BEING IN SANTO DOMINGO OURSELVES WE CANNOT PREPARE ACCURATE FIGURES. ARNOLD SHIPP SPOKE TO EDUARDO GARCIA MICHEL ON WEDNESDAY WHO SAID THAT HE WOULD TALK TO YOU TO ESTABLISH A FIRM DATE FOR OUR NEXT VISIT.

BEST REGARDS

PAUL RICHARDS  
JOHN SLEEMAN  
CLARE BROADHURST  
SAMUEL MONTAGU AND CO LIMITED.

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## BANCO CENTRAL DE LA REPUBLICA DOMINICANA: THE CASE FOR A PUBLIC DEBT OFFICE

### Introduction

1. The purpose of this paper is to set out the disadvantages of the present systems within the Dominican Republic of approving foreign currency borrowings and to recommend how these disadvantages may be overcome by the establishment of a Public Debt Office. The advice which we give is based partly upon the experience we have gained in dealing with similar offices in other Latin American countries.

2. This paper is divided into six main sections:

(a) The first section sets out our understanding of the present systems whereby public and private borrowers in the Dominican Republic obtain the necessary permissions to enable them to borrow in foreign currency.

(b) The second section describes how in practice we understand that these permissions are obtained and which organisations and bodies are responsible for approving the terms and conditions of the borrowings.

(c) The third section comments on the Office of the Director General of Public Credit.

(d) Following on from the first three sections, the fourth section lists the disadvantages which we see in the present systems.

(e) The fifth section describes how these disadvantages could be overcome by the establishment of a Public Debt Office and suggests how this office may be established within the framework of existing institutions in the Dominican Republic.

(f) The last section briefly suggests how the Public Debt Office should be set up and under whose authority it should operate.

### The present system of approvals

3. We understand that four different chains of approval exist at present for borrowing foreign currency, dependent upon the status of the borrower. These four systems are described below.

4. Central Government, including ministries, require Congressional approval before borrowing foreign currency, but do not require the approval of the Monetary Board. In the loan documentation for such borrowers, Congressional approval has usually been a condition precedent; that is to say, before drawdown is permitted by the lenders such approval must have been obtained by the borrower. In practice, Congressional approval has not always been given and so certain loans, although negotiated and documented, have never been drawn down.

5. Autonomous Government entities (e.g. the State sugar company CEA, the State holding company CORDE and other companies owned by the State), with the exception of the Banco Central, require permissions from:

(a) their own board;

(b) the board of a State holding company, if the borrower is a subsidiary of such a company:

(c) the Presidency of the Republic, and this approval usually requires a law or decree to be issued by the President; and

(d) the Monetary Board.

It is only once all these approvals have been obtained that a borrower may sign the loan document. Thus it is not possible to include such approvals as conditions precedent to drawdown in any loan agreement.

6. The Banco Central, if it borrows for periods of under one year, requires no approvals whatsoever other than its own internal ones. If the Banco Central borrows for over one year, then it requires the approval of the Monetary Board and of Congress. Again, only once such approvals have been obtained is the Banco Central in a position to sign the loan agreement. Thus the approvals cannot be made conditions precedent to drawdown within such agreements.

7. The private sector is not required to obtain any approvals to borrow foreign currency and no controls are exercised over their borrowings or upon the terms of those borrowings. To repay funds due under such borrowings, private sector borrowers need to obtain the appropriate foreign exchange from the Banco Central, at which point the Banco Central will become aware of the existence of the borrowings. The question of private sector borrowings is not addressed by this paper which concentrates solely upon public sector borrowings. Without changing formal exchange controls and appropriate legislation, it is difficult to see how future borrowings by the private sector can be regulated in the way that we contemplate regulations being imposed upon the public sector.

#### The present system for negotiating terms and conditions

8. In a similar way that different types of borrower need different types of approvals, we understand that the system of negotiating foreign currency borrowings varies from one type of borrower to another. These different systems are considered below.



9. When negotiations take place with the World Bank and other international agencies (excluding IFC) who lend directly to the Government or to a State entity against a Government guarantee, then such negotiations are conducted by the borrower and by the Banco Central even if the Banco Central is not an obligor or a guarantor. The Ministry of Finance and the Technical Secretariat of the Presidency may also be involved in the negotiations. Quite often, however, the Ministry of Finance and the Technical Secretariat are not parties to the negotiations and rely upon the Banco Central to achieve the best terms and conditions available to the borrower.

10. If, however, the Central Government borrows from commercial institutions, then no institution other than the Ministry of Finance is involved in the negotiations. In particular, the Banco Central has no role to play when such borrowings occur.

11. Autonomous Government entities when borrowing without a State guarantee negotiate directly with the lenders and neither the Banco Central nor the Ministry of Finance participate in those negotiations. The agreed loan documentation is not filed either with the Banco Central or the Ministry of Finance and the Banco Central only becomes aware of the terms and conditions of such borrowings through the Monetary Board and through the requests received by the Banco Central from the entities concerned for foreign currency to service the loan.

12. Autonomous Government entities when borrowing with a State guarantee enter into negotiations with the lenders with a representative of the Ministry of Finance. No representative of the Banco Central is present. Again, it is difficult for the Banco Central to establish the terms and conditions agreed upon at those negotiations.

13. The Banco Central negotiates its own borrowings without participation from any other government body.

14. The private sector negotiates directly with potential lenders without the need of any governmental participation. Private sector borrowers are not required to file information regarding their borrowings with any public authority.

#### The Office of Director General of Public Credit

15. In many Latin American countries the type of unit which this paper concludes by proposing is called the Office of the Director General of Public Credit. There currently exists in the Dominican Republic an official reporting to the Ministry of Finance called the Director General of Public Credit but, as far as we understand, the office concerned merely fulfils the role of collecting the details of loan arrangements entered into by public sector borrowers and of producing statistics in respect of them.



16. Despite the coincidence of name (and for the reasons set out in paragraph 22 below) we do not consider on the information available to us that the Director General of Public Credit, or indeed the Ministry of Finance to which the office concerned reports, would be suitable for fulfilling the functions of a Public Debt Office as proposed in this paper.

#### Disadvantages of the present systems

17. There are several major disadvantages in the present systems whereby public sector entities borrow foreign currency. To overcome the disadvantages, we recommend the establishment of a Public Debt Office in the Banco Central as a Secretariat to the Monetary Board.

18. First, when facilities are being negotiated by public sector borrowers, there is no common unit involved in the negotiations. Because of this lack of a common unit, there is an apparent absence of a means for enforcing any common consensus on the terms and conditions of the loan agreements. That is to say there is no common policy within the Dominican Republic regarding the maturity of the loan, the margin over LIBOR payable on loans, etc.

19. Secondly, when negotiations occur on the documentation of loans, there is no common unit to ensure consistency of the conditions upon which the loans are made. There is a large number of clauses that need to be considered carefully within any loan document, including those concerning covenants, events of default, definition of LIBOR and waiver of sovereign immunity. For example, it is important to avoid cross default clauses in documentation which could result in an event of default being called in relation to a major Central Government borrowing because of a small default by a minor State-owned entity.

20. The third disadvantage in the present systems relates to the Office of the Director General of Public Credit. It is our understanding that the Director General may not have all the figures relating to public sector obligations (e.g. the Director General is unlikely to have all the statistics relating to Banco Central borrowings) and thus there is no one institution within the Dominican Republic which has complete knowledge of the amount of the present public sector foreign currency debt or of the maturity profile of that debt.

#### Proposed Public Debt Office

21. We recommend that the above disadvantages in the present systems could be remedied by the establishment of a Public Debt Office.

22. For three main reasons we believe that this Public Debt Office should be established as a Secretariat in the Banco Central reporting to the Monetary Board. These reasons are as follows:

(a) A review of the first section of this paper highlights the fact that the Monetary Board is required to give its approval for most public sector borrowings. The two main types of borrowing falling outside the jurisdiction of the Monetary Board are (i) direct borrowing by the Central Government and (ii) short term borrowings by the Banco Central. In the case of borrowings of the Central Government, the Banco Central is generally involved in negotiations unless the Government is borrowing directly from commercial institutions. We do not view the Banco Central's ability to borrow for under one year without approval as being an important deficiency in our proposals.

(b) The Monetary Board is located within the Banco Central and takes advantage of the administration and information systems of the Banco Central. A Technical Secretariat responsible to the Monetary Board would thus naturally work in close co-operation with the Banco Central with mutual advantage to both.

(c) The Monetary Board is composed of the Governor of the Banco Central and representatives from the Government and from the private sector. The Board is thus a representative body and is a natural focus for such a monitoring role, in the same way as the Banco Central (as the custodian of the foreign exchange reserves of the State) is responsible for disbursing foreign exchange to meet all foreign currency debts falling due.

23. The Monetary Board should refer all submissions that come to it for approval to the Public Debt Office for checking. The Public Debt Office will be able to examine each submission in much greater detail than is possible by members of the Monetary Board and will be able to apply to each submission those general principles on terms and conditions that the Board will have previously established. The Board should only give its approval for a foreign currency borrowing after the Public Debt Office has indicated that the terms and conditions of the borrowing are consistent with the Board's policy.

24. We have stated above that the Central Government can borrow foreign currency commercially without the approval of the Monetary Board. However, Central Government does require Congressional approval and we believe that Congress would be more sympathetic in giving that approval if it knew that the Public Debt Office had approved all the terms and conditions negotiated by the Government. Naturally, the Public Debt Office cannot ensure that Congress would not withhold its approval on political grounds, but nevertheless the fact that there has been a prior examination by the Public Debt Office should help in obtaining the necessary approval.



25. We further believe that the Public Debt Office should be present during all negotiations conducted by public sector entities concerning foreign currency borrowings. We believe that public sector entities themselves would wish this to occur because they will be aware that in almost all cases Public Debt Office approval will eventually be needed as to the terms and conditions negotiated.

26. We believe that the above proposals will not require any legislation to be passed or decrees to be issued. Once it is seen that the Public Debt Office's approval is important, then potential public sector borrowers will wish to involve the Office at an early stage to ensure the easiest possible passage for their proposed borrowings.

#### The formation of the Public Debt Office

27. We recommend that the Public Debt Office should be a Secretariat of the Monetary Board. In this way it will effectively operate as a sub-committee of that Board operating under the latter's control. The Public Debt Office should be headed by a person who has extensive knowledge of international eurocurrency loan markets and who has been responsible for both negotiating and documenting foreign currency borrowings, preferably with experience of the lender's point of view. This person will be directly responsible to the Monetary Board and will need a small staff to assist him.

28. The Public Debt Office will operate within strict guidelines laid down by the Monetary Board. The terms and conditions upon which foreign currency is borrowed should be determined by the Monetary Board acting upon the advice given by the Public Debt Office. Given constantly changing market conditions, these guidelines will need constant revision, which will be a function of the Public Debt Office.

29. In summary, the functions of the Public Debt Office will be fourfold:

(a) to suggest from time to time to the Monetary Board guidelines as to the terms and conditions for foreign currency borrowings by the public sector;

(b) to approve foreign currency borrowings by the public sector, within such guidelines as to terms and conditions as are established from time to time by the Monetary Board;

(c) to assist borrowers in negotiating such foreign currency borrowings; and

(d) to collect statistics on all foreign currency borrowings in order that a correct position can be determined on the Dominican Republic's total foreign indebtedness.

BANCEN 3450052  
887213 SMC0 X G  
ZCZC MSGN 1884  
OCT 20 19-51 HRS

TO: BANCO CENTRAL DE LA REPUBLICA DOMINICANA, SANTO DOMINGO  
ATTN: LIC BERNARDO VEGA, GOVERNOR

WITH REFERENCE TO OUR VARIOUS CONVERSATIONS ABOUT WAYS IN WHICH SAMUEL MONTAGU COULD ASSIST THE DOMINICAN REPUBLIC IN SECURING INVESTMENTS FROM THE FAR EAST FOR DOMINICAN FREE TRADE ZONES, WE WOULD LIKE TO MAKE A PROPOSAL FOR ACTION ALONG THE FOLLOWING LINES:

1. SAMUEL MONTAGU WILL WRITE TO A SPECIALLY CHOSEN LIST OF COMPANIES IN JAPAN AND SOUTH KOREA, MAKING IT CLEAR THAT WE ARE WRITING UNDER INSTRUCTIONS FROM YOU. WE WILL ENCLOSE WITH OUR LETTER COPIES OF THE BROCHURE WHICH WE ARE DRAFTING ON FREE TRADE ZONES AND OF ANY OTHER BACKGROUND MATERIAL WHICH MAY BE RELEVANT. WE WILL ASK THE COMPANIES CONCERNED IF THEY HAVE ANY INTEREST IN PRINCIPLE IN LEARNING MORE ABOUT THE DOMINICAN FREE TRADE ZONES AND MEETING DOMINICAN REPRESENTATIVES. SOUTH KOREA AND JAPAN HAVE BEEN CHOSEN SINCE, AFTER CONSULTING OUR COLLEAGUES IN THE FAR EAST, WE FEEL THAT THESE COUNTRIES, RATHER THAN HONG KONG ITSELF, OFFER THE BEST POSSIBILITIES FOR ATTRACTING FOREIGN INVESTMENT TO THE DOMINICAN REPUBLIC. THE MAIN POINT HERE IS THAT HONG KONG RESIDENTS TEND TO BE MORE INTERESTED IN INVESTMENT IN FINANCIAL MARKETS OR PROPERTY THAN IN DIRECT INVESTMENT.
2. ASSUMING THAT THE REPLIES TO THE INITIAL LETTER ARE SUFFICIENTLY ENCOURAGING, SAMUEL MONTAGU WILL ORGANISE A SHORT VISIT TO JAPAN AND SOUTH KOREA BY DOMINICAN REPRESENTATIVES IN ORDER TO EXPLAIN THE BACKGROUND PERSONALLY AND IN MORE DETAIL. THIS WOULD INVOLVE MEETING COMPANIES INDIVIDUALLY AND MAKING A FULL PRESENTATION. IT COULD ALSO INVOLVE OTHER FORMS OF PROMOTION TO BE AGREED.
3. IF THE RESULTS OF THIS VISIT ARE SUFFICIENTLY ENCOURAGING, SAMUEL MONTAGU WOULD TRY TO ORGANISE VISITS TO THE DOMINICAN REPUBLIC BY SMALL GROUPS OF JAPANESE AND/OR KOREAN BUSINESSMEN IN ORDER TO EXAMINE INVESTMENT POSSIBILITIES ON THE GROUND. COSTS OF THESE VISITS WOULD BE BORNE BY THE COMPANIES THEMSELVES AND THE GOVERNMENT OF THE DOMINICAN REPUBLIC WOULD BE RESPONSIBLE FOR MAKING ALL THE LOCAL ARRANGEMENTS.

FOR YOUR INFORMATION SAMUEL MONTAGU HAVE HAD A LONG ASSOCIATION WITH THE FAR EAST AND NOW HAVE IN HONG KONG BOTH A BULLION TRADING COMPANY AND A BRANCH OFFERING A FULL RANGE OF MERCHANT BANKING SERVICES. SAMUEL MONTAGU HAS 60 (SIXTY) EMPLOYEES IN HONG KONG WHO ARE RESPONSIBLE BOTH FOR THE HONG KONG OPERATIONS AND FOR MARKETING THE BANK'S SERVICES IN SOUTH KOREA, CHINA, TAIWAN AND THE PHILIPPINES. SAMUEL MONTAGU ALSO HAVE A BRANCH IN SINGAPORE AND A REPRESENTATIVE OFFICE IN TOKYO. SAMUEL MONTAGU HONG KONG, IN CONJUNCTION WITH THE TOKYO OFFICE, WOULD ACT AS THE COORDINATOR IN THE SELECTION OF COMPANIES IN SOUTH KOREA AND JAPAN AND IN ARRANGING VISITS TO THOSE COMPANIES EXPRESSING AN INTEREST IN DOMINICAN FREE TRADE ZONES.

I WOULD ALSO BE GRATEFUL IF YOU WOULD INDICATE WHETHER OR NOT YOU WISH US TO MAKE A SEPARATE PROPOSAL COVERING THE UNITED STATES.

REGARDS  
ARNOLD SHIPP  
SAMUEL MONTAGU + CO LIMITED, LONDON  
DG

BAHAMAS

Banco de Santander,  
Bank of Boston Trust Company - Bahamas Limited,  
Bank of Montreal,  
Roycan International Banking Corporation Limited,  
SFE Banking Corporation Limited,  
Royal Bank of Canada International Limited,  
The Toronto-Dominion Bank,

BAHRAIN

Arab Banking Corporation,  
Gulf International Bank BSC,  
United Gulf Bank,

BELGIUM

Kredietbank NV,  
Societe Generale de Banque,

BRAZIL

Banco do Brasil SA,  
Banco do Estado de Sao Paulo SA,

CANADA

National Bank of Canada,  
The Toronto-Dominion Bank,  
Canadian Imperial Bank of Commerce,  
The Bank of Nova Scotia,  
Bank of Montreal,

COLOMBIA

Banco de Bogota,

DOMINICAN REPUBLIC

Banco de Reservas de la Republica Dominicana,  
Bank of America N.T. & S.A.,  
Citibank N.A.,

FRANCE

Credit Lyonnais  
Banque Francaise du Commerce  
Exterieur,  
Banque NMB Interunion,  
Banque Nationale de Paris,



Banque Sudameris,  
Banque Paribas,  
Caisse Nationale de Credit Agricole,  
Compagnie Francaise d'Assurance  
pour le Commerce Exterieur,  
Credit Commercial de France,  
Societe Central de Banque,  
Societe Generale,

#### HOLLAND

Algemene Bank Nederland NV,  
Amsterdam-Rotterdam Bank NV,  
Nederlandsche Creditverzekering  
Maatschappij NV,  
R.B.C. Finance B.V.,

#### HONG KONG

The Hong Kong and Shanghai Banking  
Corporation,

#### INDIA

Indian Overseas Bank,

#### ISRAEL

Bank Leumi Le-Israel BM,

#### ITALY

Banca Commerciale Italiana,  
Banca Nazionale del Lavoro,  
Banca Nazionale dell'Agricoltura,  
Banco di Napoli,  
Banco di Roma,  
Banco di Sicilia,  
Sezione Speciale per l'Assicurazione  
del Credito all'Esportazione,

#### JAPAN

The Toyo Trust & Banking Co. Ltd.,  
The Bank of Tokyo Ltd.,  
The Bank of Yokohama Ltd.,  
The Dai-Ichi Kangyo Bank Ltd.,  
The Export-Import Bank of Japan,  
The Fuji Bank, Limited,  
The Industrial Bank of Japan Ltd.,  
The Mitsui Trust & Banking Co. Ltd.,  
The Sumitomo Bank, Limited,  
The Sumitomo Trust & Banking Co. Ltd.,

KUWAIT

The National Bank of Kuwait SAK,

NETHERLANDS ANTILLES

Inarco International Bank N.V.,

PERU

Arab Latin American Bank,

PUERTO RICO

Banco Popular de Puerto Rico,  
Banco de Ponce,  
Union Trust Company,  
Banco Comercial de Mayaguez,  
Girod Trust,

REPUBLIC OF PANAMA

Bladex,  
Banco Cafetero (Panama),  
Banco Union,  
Banco de Colombia,  
Credit Commercial De France,

SPAIN

Banco de Santander,  
Banco Atlantico S.A.,  
Banco Exterior de Espana,  
Banco de Bilbao SA,  
Banco de Vizcaya,

SWITZERLAND

Geschäftsstelle für die Export Risiko Garantie,  
Noreco Finance Corp. A.G.,  
Viscaya Finanz A.G.,

U.K.

Associated Japanese Bank (Int.) Limited,  
Banco Urquijo Hispano Americano Ltd.,  
Banco de Vizcaya,  
Banco de la Provincia de Buenos Aires,  
Banco do Brasil,  
Barclays Bank International Ltd.,  
Euro-Latinamerican Bank Ltd.,  
Export Credit Guarantees Department,

International Commercial Bank Ltd.,  
International Mexican Bank Ltd.,  
J. Henry Schroeder Wagg & Co.,  
Japan International Bank Ltd.,  
Jugobanka,  
LLOYds Bank International Limited,  
Libra Bank Limited,  
Midland Bank Limited,  
Midland and International Banks Ltd.,  
National Westminster Bank Ltd.,  
Nordic Bank Limited,  
Orion Royal Bank Limited,  
Saudi International Bank,  
Scandinavian Bank Limited,  
Standard Chartered Bank Ltd.,  
Sun Alliance & London,  
Insurance Group,  
The Bank of Tokyo Trust Company,  
The Taiyo Kobe Bank Limited,  
UBAF Bank Limited,

CHANNEL ISLES, U.K.

SOFIS Limited,

UNITED ARAB EMIRATES

National Bank of Abu Dhabi,

USA

Connecticut National Bank,  
Algemene Bank Nederland NV,  
Allied Bank International,  
American Express International Banking Corporation,  
Amsterdam Rotterdam Bank NV,  
Banca Commerciale Italiana,  
Banco Atlantico S.A.,  
Banco Exterior de Espana,  
Banco Industrial de Venezuela,  
Banco Nacional de Mexico SA,  
Banco Real SA,  
Banco de Bilbao,  
Banco de Bogota Trust Co.,  
Banco de Iberoamerica,  
Banco de Santander,  
Banco de Vizcaya,  
Banco de la Nacion Argentina,  
Bancomer SA,  
Bank Bumiputra Malaysia Berhad,  
Bank Hapoalim BM,  
Bank Leumi Trust Co. of New York,  
Bank fur Gemeinwirtschaft,  
Bank of America N.T. & SA.,  
Bank of China,

Bank of Credit and Commerce Int. S.A.,  
Bank of Montreal,  
Bank America International,  
Bankers Trust Company,  
Banque Francaise du Commerce Exterieur,  
Banque Nationale de Paris,  
Banque de Paris et des Pays-Bas,  
Barclays Bank International Limited,  
Bayerische Hypotheken und Wechsel Bank AG,  
Bayerische Landesbank Girozentrale,  
Bayerische Vereinsbank AG,  
Berliner Handels-und Frankfurter Bank,  
Chase Bank International,  
Chase Manhattan Overseas Corporation,  
Chemical Bank,  
Citibank N.A.,  
Commerzbank AG,  
Consolidated Bank, NA.,  
Continental Bank International,  
Credit Commercial de France,  
Credit Industriel et Commercial,  
Credit Lyonnais,  
Credit Suisse,  
Credito Italiano,  
Deutsche Bank AG.,  
Dresdner Bank AG,  
Eagle National Bank of Miami,  
European American Bank and Trust Co.,  
First Chicago International,  
First Interstate Bank of California,  
First Jersey National Bank,  
First National Bank of Boston,  
First National State Bank of New Jersey,  
First Pennsylvania Bank N.A.,  
First Wisconsin International Bank,  
First Wisconsin National Bank,  
Flagship National Bank of Miami,  
Fleet National Bank,  
Girard Bank N.A.,  
Gulf International Bank BSC,  
Hanil Bank Limited,  
Hessische Landesbank Girozentrale,  
Huntingdon Bank of Northeast Ohio,  
Huntington National Bank,  
International Bank of Miami, N.A.,  
Irving Trust Company,  
Irving Trust International Bank,  
Israel Discount Bank of New York,  
Kredietbank NV,  
Kyowa Bank Limited,  
Libra Bank Limited,  
Lincoln First Bank NA.,  
Lloyds Bank International Limited,  
Manufacturers Hanover Trust Company,  
Manufacturers National Bank of Detroit,  
Marine Midland International Bank,  
Mellon Bank International,  
Mellon Bank,



Merchants National Bank & Trust Co.  
Merchants National Bank of Indiana,  
Midland and International Banks Limited,  
Midlantic National Bank,  
Morgan Guaranty Trust Co. of New York/Morgan Guaranty  
International,  
Multibanco Comermex S.A.,  
NCNB National Bank,  
National Bank of North America,  
National Bank of Washington,  
National Westminster Bank Limited,  
Nederlandsche Middenstandsbank NV,  
New England Merchants National Bank,  
Old Stone Bank,  
Pan American Bank International,  
Philadelphia National Bank,  
Republic National Bank of Miami,  
Republic National Bank of New York,  
Saudi International Bank,  
Security Pacific National Bank,  
Shawmut Boston International Banking Corporation,  
Skandinaviska Enskilda Banken,  
Societe General,  
Societe Generale de Banque,  
Southeast First National Bank of Miami,  
Standard Chartered Bank Limited,  
State Street Bank International,  
Swiss Bank Corporation,  
The Bank of Tokyo Limited,  
The Bank of Tokyo, Limited,  
The Bank of Yokohama, Ltd.,  
The Chase Manhattan Bank N.A.,  
The Dai-Ichi Kangyo Bank Limited,  
The First National Bank of Chicago,  
The Fuji Bank Limited,  
The Industrial Bank of Japan Limited,  
The Mitsubishi Bank Limited,  
The Mitsubishi Trust & Banking Corp.,  
The Mitsui Bank, Limited,  
The Mitsui Trust & Banking Co. Limited,  
The Nippon Credit Bank Limited,  
The Riggs National Bank of Washington DC.,  
The Royal Bank of Canada,  
The Sanwa Bank Limited,  
The Sumitomo Bank Limited,  
The Sumitomo Trust and Banking Co. Ltd.,  
The Toyo Trust and Banking Co. Ltd.,  
The Yashuda Trust and Banking Co. Limited,  
UBAF Arab American Bank,  
Union Bank of Switzerland,  
Union Chelsea National Bank,  
United States Trust Co. of New York,  
Wells Fargo Bank International,  
Westdeutsche Landesbank Girozentrale,

WEST GERMANY

Bayerische Landesbank Girozentrale,  
Bayerische Vereinsbank AG,  
Commerzbank AG,  
Deutsch-Sudamerikanische Bank AG,  
Deutsche Bank AG,  
Dresdner Bank AG,  
Hermes Kreditversicherung A G,

Paris Club reschedulings 1980-83

Country	Date of agreement	Consolidation period	Type of debt	Amount (US\$m)	Repayment Period (years)	Grace Period (years)	Proportion rescheduled (%)
<u>Latin America</u>							
Brazil	23.11.83	1.8.83-31.12.84	P I A	3,800	4	4	85
Costa Rica	10.1.83	1.7.82-31.12.83	P I A	190	5	3.5	85
Cuba	1.3.83	1.9.82-31.12.83	P	413	5	3	95
Ecuador	28.7.83	1.6.83-31.5.84	P I	262	5	3	85
Mexico	22.6.83	1.7.83-31.12.83	P A As + I	2,000	3	3	90
Peru	26.7.83	1.5.83-30.4.84	P I	1,400	5	3	90
<u>Other</u>							
Central African Rep.	12.6.81	1.1.81-31.12.81	P I A	72	5	4	85
Liberia	19.12.80	1.7.81-31.12.81	P I	30	5	4	90
	16.12.81	1.1.82-30.6.83	P I	25	6	3.5	90
Madagascar	30.4.81	1.1.81-30.6.82	P I A	140	4	4	85
	13.7.82	1.7.82-30.6.82	P I A As Rs	107	5	4	85
Malawi	22.9.82	1.7.82-30.6.83	P I	25	5	3.5	85
	27.10.83	1.7.83-30.6.84	P I	30	5	3.5	85
Morocco	25.10.83	1.9.83-31.12.84	P I A	600	4	4	85
Niger	14.11.83	1.10.83-30.9.84	P I	?	4.5	4.5	90P 60I
Poland	28.4.81	1.5.81-31.12.81	P I A	2,200	4	4	90
Romania	9.7.82	1.1.82-31.12.82	P I A	234	3.5	3	80
	18.5.83	1.1.83-31.12.83	P	211	3.5	3	60
Senegal	13.10.81	1.7.81-30.6.82	P I	75	5	4	85
	29.11.82	1.7.82-30.6.83	P I	74	5	4	85
Sierra Leone	8.2.80	1.7.79-31.12.81	P I A	39	7	4	90
Sudan	18.3.82	1.7.81-31.12.82	P I A	80	5.5	5	90
	4.2.83	1.1.83-31.12.83	P I A Rs	507	10	5.5	100
Togo	20.2.81	1.1.81-31.12.82	P I	92	6	3.5	85
	12.4.83	1.1.83-31.12.83	P I A Rs	200	5	5	90
Turkey	23.7.80	1.7.80-30.6.83	P I A As Rs	3,000	7	4	90
Uganda	18.11.81	1.7.81-30.6.82	P I A	30	5	4	90
	1.12.82	1.7.82-30.6.83	P I	10	5	4.5	90
Zaire	9.7.81	1.1.81-31.12.81	P I Rs	500	7	3.5	90
Zambia	16.5.83	1.1.83-31.12.83	P I A As	300	5	5	90

Key:

P - Principal, medium and long-term debt

I - Interest, medium and long-term debt

A - Arrears, medium and long-term debt

\* As per agreed minute. In the event, 1982 maturities were not rescheduled.

As - Arrears, short-term debt

Rs - Rescheduling on amounts already rescheduled

Paris Club bilateral agreements

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

(a) specify the individual debts to be covered;

(b) specify the rate of interest to be paid on rescheduled debt; and

(c) reflect the general principles of the agreed minute in the manner appropriate to the individual legal and institutional framework of the creditor country.

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

Structure of the agreement

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

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

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

Interest rates

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



(eg. rescheduling interest on a 3% PL 480 loan should generally be 3%). Loans from export credit institutions (eg. the US or Japanese EXIMBANKS) should if possible carry the same rates as before. There is likely to be pressure for some increase, which should clearly be kept to a minimum (eg.  $\frac{1}{4}$ %).

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

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

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

#### Fees

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

#### Debt covered

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

#### Most-favoured nation clause

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

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

Payment dates

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

Information on other agreements

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

December 1983

LATIN AMERICAN COUNTRIES' GOVERNMENT DIRECT OR GOVERNMENT-GUARANTEED FOREIGN  
CURRENCY BORROWINGS FROM COMMERCIAL BANKS - RESCHEDULED TERMS SINCE AUGUST 1982

Country	% Arrears/ Maturities refinanced	Consolidation Period	Amount (US\$m)	Maturity (years)	Grace Period (years)	Int. Margin above LIBOR (% p.a.)	Int. Margin above PRIME (% p.a.)	Fees (% flat)	Date of signing
<u>Smaller countries</u>									
Bolivia		No real terms 1983, 1984 and have yet 1985 maturities emerged.							
Costa Rica	100	(a) mid-81 to end 1983 (b) 1984	(a) 515 (b) 140	(b) 7 1/2 (b) 6 1/2	(a) 3 1/2 (b) 3 1/4	2 1/4	2 1/8	1 3/8	Agreed, not signed
Cuba	100	1 Sept. 82 to 31 Dec. 83 maturities	128	7	2 1/2	2 1/4	-	1 1/4	Agreed, not signed
Dominican Republic	95	All arrears at 30/11/82 plus Dec. 82 to Dec. 83 maturities	590	6	2	2 1/4	2 1/8	1 1/4	Signed 15/9/83
Ecuador	(a) 90 over 7 yrs 10 over 1 1/2 yrs average (b) No real terms yet have emerged.	Nov. 82 to Dec. 83 maturities  1984 maturities	1,050	7	1	2 1/4	2 1/8	1 front-end 1/4 by end 1983	Agreed, not signed
Honduras	90 over 8 yrs 10 over 2 1/4 yrs to 2 1/4	1983 & 1984 maturities	c. 200	8	4	2 1/4	2 1/8	Average in excess of 1 1/4%	Not agreed
Jamaica	100	1/7/83 to 31/ 3/85 maturities	160	6 1/2	2 1/2	2 1/2	2 3/8	?	Not agreed



Country	% Arrears/ Maturities refinanced	Consolidation Period	Amount (US\$m)	Maturity (years)	Grace Period (years)	Int. Margin above LIBOR (% p.a.)	Int. Margin above PRIME (% p.a.)	Fees (% flat)	Date of signing
Panama	100	July 1982- 31/12/83 maturities	c. 185	6	3	2 1/4	2 1/8	1 1/2	Agreed, not signed
Peru	(a) 100	March 83-March 84 maturities	380	8	3	2 1/4	2 1/8	1 1/4	Signed 29/7/83
	(b) Statement of intent	April 84-April 85	400	8	-	-	-	-	
Uruguay	90	1/7/83 to 31/12/ 84 maturities	629	6	2	2 1/4	2 1/8	1 3/8	Signed 27/7/83
<u>Larger Countries</u>									
Argentina	100	Arrears at 30/ 11/82 plus 1983 maturities	5,500	8 1/2	3	2 1/8	2	1 1/8	Agreed, not signed
Brazil	100	1983 maturities	4,700	8	2 1/2	2 1/8	1 7/8	1 1/2	Agreed, not signed
		1984 maturities	5,500	9	5	2	1 3/4	1	
Chile	100	31/1/83 to 31/ 12/84 maturities	3,400	8	4	2 1/8	2	1 1/4	Framework agreement signed early Aug.
Mexico	100	Aug. 82 to Dec. 19, 84 maturities	700	7 3/4	4	1 7/8	1 3/4	1	First agreement signed 25/8/83
Venezuela	No agreement expected before election.								

## MANAGEMENT OF THE FOREIGN RESERVES

### Introduction

1. We have reviewed the report on the subject of the management of the Banco Central's foreign reserves dated March 1980. The report is both descriptive and normative. It describes the different types of financial instruments available in the international financial markets in which the Banco Central could invest its foreign reserves. The report is also normative in the sense that it makes a number of suggestions about the Banco Central's investment policy. In this paper we concentrate on those aspects of the report that relate to investment policy.

### Liquid and non-liquid reserves

2. The foreign reserves can be divided into liquid and non-liquid reserves. Liquid reserves can be defined as foreign reserves that can be encashed in order to finance a deficit on the foreign exchange budget. Treasury bills, Federal funds, repurchase agreements, bank deposits and certificates of deposit (in the US domestic and eurocurrency markets), bankers' acceptances, commercial paper, US government securities, domestic US and eurodollar bonds all meet this criterion in principle. However, in practice, term bank deposits cannot necessarily be encashed until they mature, and securities (including CDs) cannot necessarily be encashed at their face value. They can only be encashed at the market price prevailing at the moment of sale.

3. The Banco Central also holds non-liquid reserves, which cannot be encashed, such as subscriptions of international institutions. Some of the other foreign reserves in the Banco Central's portfolio must be classified as non-liquid as well. Although they can be encashed, the policy of the Banco Central is either not to encash them (e.g. holdings of SDRs) or to hold them above a minimum level (e.g. foreign notes and coin). Investment policy relates by definition to the liquid rather than the non-liquid reserves.

### Gold reserves

4. Holdings of gold in the foreign reserves of the Banco Central have traditionally been regarded as non-liquid in the sense that the Banco Central's policy has until recently been to leave the level of gold in the foreign reserves unchanged. However, the recent decision to sell a proportion of the Banco Central's gold reserves raises the question of whether an active investment policy in respect of the gold reserves is going to be followed in future. If an active investment policy was followed, the level of the gold reserves would change from time to time, depending on the Banco Central's requirements for foreign exchange and its views about the outlook for the gold price. Gold holdings in the reserves would be increased by taking a proportion of Rosario Dominicana's production into the reserves rather than allowing Rosario Dominicana to sell it on the market. Gold holdings would be reduced by making sales on the market from the

Banco Central's reserves as well as from Rosario Dominicana's production. So long as Rosario Dominicana was compensated at the market price for gold taken into the foreign reserves of the Banco Central, Rosario Dominicana's cash flow would not be affected by any change in the Banco Central's investment policy.

#### Currency distribution of the reserves

5. Apart from gold, the main policy considerations affecting the investment of the liquid reserves concern their currency distribution, maturity structure and asset composition. As far as we are aware all the liquid foreign currency reserves are currently denominated in US dollars. There is a strong case for continuing the policy in which the foreign reserves are all invested in US dollars, for three reasons. First, the exchange rate of the Dominican peso is tied to the US dollar. Secondly, the greater part of Dominican foreign trade is denominated in US dollars. Thirdly, a far larger proportion of the foreign debt of the Dominican Republic is denominated in US dollars than in any other currency. Although there may from time to time be investment grounds for switching a small proportion of the foreign reserves into other convertible currencies (e.g. Deutsche marks, Swiss francs and Japanese yen), it is important to take account of the exchange risk involved when investing in currencies other than the US dollar.

#### Maturity structure of the reserves

6. Under the agreement whereby the Federal Reserve Bank of New York manages the Banco Central's Treasury bill portfolio, the Federal Reserve invests Treasury bills up to a specified minimum amount in overnight repurchase agreements. While the level of liquid reserves remains low, it is important to maintain all the liquid reserves in very short dated financial instruments in order to maximise the Banco Central's ability to encash them without loss or delay should the need arise. However, if the liquid reserves increase above the level required for working balances, a proportion of the reserves can be invested in slightly longer dated negotiable financial instruments. This will have the effect of increasing the return achieved on the Banco Central's reserve portfolio in conditions in which US dollar interest rates are falling. It can be done either by directing the Federal Reserve Bank of New York, or by taking over the management of that part of the reserve portfolio currently managed by the Federal Reserve and making investment decisions within the Banco Central.

#### Asset composition of the reserves

7. The liquid reserves must be invested in prime quality financial instruments. At least a proportion of the reserves should always therefore be held in the form of US Treasury bills. But if the whole of the reserve portfolio is kept in the form of US Treasury bills, the return on the portfolio is likely to be lower than if a proportion of the reserves is



invested in similarly dated bank certificates of deposit or commercial paper. The use of bank deposits will also have the effect of widening the range of bank counterparties which might be prepared to provide credit lines to the Banco Central. However, in conditions in which arrears exist on the Dominican Republic's foreign payments, a policy of widening the range of the Banco Central's counterparties through the placement of bank deposits has to be followed with extreme caution, because of the possibility that banks will use the deposits placed with them as offsets against arrears. Business can be given to bank counterparties without the risk of offsets arising if the Banco Central directs banks to purchase Treasury bills on its behalf as well as making use of the Federal Reserve Bank of New York.

#### Investment return on the reserves

8. As the Banco Central's report makes clear, investment policy is a matter of obtaining the highest return on the reserves compatible with the security and liquidity of the financial instruments in which investment is made. Apart from investment considerations arising from changes in interest rates, there are three additional factors that need to be taken into account in optimising the return on the Banco Central's liquid reserves: the speed with which foreign currency receipts are channelled through the commercial banks to the Banco Central; the extent to which the Banco Central can earn interest on its working balances with foreign banks (e.g. by consolidating these balances into larger amounts); and the ability to switch a proportion of the reserves out of Treasury bills into higher yielding financial instruments of a similar maturity.

#### Investment guidelines

9. In the recent past, the potential for the active management of the Banco Central's foreign reserves has been relatively limited because the level of liquid reserves has been extremely low. This position is likely to change under an IMF agreement, which is likely to prescribe an increase in the gross level of liquid reserves to be held by the Banco Central over the period of the agreement. In these circumstances, we consider that it would be appropriate to construct a set of investment guidelines (to be approved by the Monetary Board) within which the reserve managers in the Banco Central can make day to day decisions about the investment of the Banco Central's foreign reserves, and we would be willing to draft a set of possible investment guidelines for consideration within the Banco Central, if appropriate.

#### Investment information

10. The ability of the reserve managers to obtain the best results is likely to be enhanced in the following circumstances: (a) up to date information is available about the currency distribution, maturity structure and asset composition of the Banco Central's foreign reserve portfolio on the Banco Central's computer; (b) regular information is received

from foreign banks and dealers (especially from New York) about investment opportunities available to the Banco Central within the investment guidelines; and (c) the reserve managers have a short period of training with financial institutions in international financial markets to increase their knowledge of the workings of the markets.

OPR/dss  
22.10.82

TO BANCO CENTRAL DE LA REPUBLICA DOMINICANA SANTO DOMINGO  
FM SAMUEL MONTAGU LONDON 16 SEPT 82 PMS

ATTENTION : JULIO LLIBRE, GENERAL MANAGER AND MANUEL COCCO,  
----- DIRECTOR, INTERNATIONAL DEPARTMENT

1. FOLLOWING OUR TELEPHONE CONVERSATIONS WITH MANUEL COCCO, THE PURPOSE OF THIS TELEX IS TO EXPLAIN THE WAY IN WHICH THE BANCO CENTRAL COULD RAISE FOREIGN EXCHANGE FOR ONE MONTH BY MEANS OF A GOLD SWAP (PARAGRAPHS 2-11) OR MAKE AN OUTRIGHT SALE (PARAGRAPHS 12-15)

POSSIBLE COUNTERPARTIES

2. THE BEST POSSIBLE COUNTERPARTIES IN NEW YORK ARE IN OUR VIEW : MORGAN GUARANTY (TELEX 420230), AND PHILIPP BROTHERS (TELEX 620327), AND IN LONDON: MOCATTA + GOLDSMID (TELEX 889231) SHARPS PIXLEY (TELEX 883319); N.M. ROTHSCHILD + SONS (TELEX 8812101) AND JOHNSON MATTHEY BANKERS (TELEX 884491). WE OURSELVES HAVE FREQUENTLY CARRIED OUT GOLD SWAPS IN THE PAST, BUT WE UNDERSTAND THAT WE WOULD BE PRECLUDED FROM DOING SO IN THE PRESENT CASE BECAUSE OF THE NATURE OF OUR ADVISORY AGREEMENT WITH THE BANCO CENTRAL.

3. WE SUGGEST THAT YOU TRY THE NEW YORK HOUSES BEFORE THE LONDON HOUSES, AS THE BANCO CENTRAL'S GOLD IS HELD AT THE FEDERAL RESERVE BANK OF NEW YORK. HOWEVER, THE MARKET IN GOLD SWAPS IS BASED ON LONDON. A GOLD SWAP WITH A LONDON HOUSE WOULD INVOLVE THE MOVEMENT OF GOLD BETWEEN NEW YORK AND LONDON, WHICH WOULD BE LIKELY TO RESULT IN EXTRA CHARGES. BOTH MORGAN GUARANTY AND PHILIPP BROTHERS (THROUGH DERBY + CO.) HAVE OFFICES IN LONDON.

NATURE OF TRANSACTION

4. PURCHASE OF SPOT GOLD BY THE COUNTERPARTY FOR SETTLEMENT IN US DOLLARS AGAINST DELIVERY OF PHYSICAL GOLD AT A DELIVERY POINT TO BE AGREED, MATCHED BY A SIMULTANEOUS ONE MONTH FORWARD SALE BY THE COUNTERPARTY OF AN EQUIVALENT AMOUNT OF GOLD.

AMOUNT

5. THE COUNTERPARTIES LISTED SHOULD BE ABLE TO HANDLE THE AMOUNT OF GOLD THAT THE BANCO CENTRAL HAS AVAILABLE TO SWAP.

PRICE STRUCTURE

6. THE PRICE FOR THE SPOT PURCHASE OF GOLD BY THE COUNTERPARTY WOULD GENERALLY BE THE LONDON GOLD MARKET MORNING FIXING PRICE ON THE DAY OF THE CONTRACT, EXPRESSED IN US DOLLARS PER TROY OUNCE (I.E. US DLR 447.25 TODAY). THE PRICE FOR THE ONE MONTH FORWARD SALE BY THE COUNTERPARTY WOULD BE THE SPOT PRICE PLUS A PREMIUM CALCULATED ON THE BASIS OF ONE MONTH LIBOR PLUS A MARGIN TO BE AGREED.

7. WE SUGGEST THAT YOU LOOK FOR A MARGIN OF 1/2 PCT OVER LIBOR IN THE FIRST INSTANCE, THOUGH YOU SHOULD BE PREPARED TO NEGOTIATE ON THIS. SPOT TRANSACTIONS WOULD BE FOR TWO WORKING DAYS' SETTLEMENT (I.E. A TRANSACTION ON THURSDAY WOULD BE SETTLED ON MONDAY). SPECIAL ARRANGEMENTS COULD PROBABLY BE MADE FOR ONE DAY'S SETTLEMENT.

COMMITMENT PERIOD  
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8. IT SHOULD BE POSSIBLE FOR THE BANCO CENTRAL TO HAVE AN OPTION TO RENEW THE SWAP AT THE MATURITY OF THE CONTRACT.

PRICE ADJUSTMENT  
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9. A MECHANISM FOR PRICE PROTECTION IS USUALLY EMPLOYED BY COUNTERPARTIES UNDERTAKING GOLD SWAPS, SO THAT EFFECTIVELY A TRANSACTION IS UNDERTAKEN AT A DISCOUNT TO THE RULING GOLD PRICE. THE LEVEL OF THE DISCOUNT IS A MATTER OF NEGOTIATION, BUT IS TYPICALLY ABOUT 20 PCT (I.E. AN EFFECTIVE PRICE OF US DLR 357.80 ON A MARKET PRICE OF US DLR 447.25). THE MECHANISM WOULD INCLUDE A PROCEDURE FOR 'TOPPING UP' IN ORDER TO MAINTAIN THE AGREED MARGIN IN THE EVENT OF A FALL IN THE GOLD PRICE.

STORAGE AND INSURANCE  
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10. THE COUNTERPARTY WOULD UNDERTAKE TO STORE THE GOLD AT ITS EXPENSE FROM THE CONTRACT DATE UNTIL THE FINAL FORWARD MATURITY. IF THE BANCO CENTRAL WAS PREPARED TO ACCEPT THE RISK OF NON-INSURANCE, THE COUNTERPARTY WOULD PROBABLY REQUIRE A WAIVER TO THAT EFFECT. INSURANCE CHARGES ARE GENERALLY OF THE ORDER OF 1/1000 PER ANNUM.

ACCOUNTING TREATMENT  
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11. SPECIAL ATTENTION SHOULD BE PAID TO THE ACCOUNTING TREATMENT. NORMALLY A GOLD SWAP WOULD INVOLVE A REDUCTION IN THE GOLD RESERVES REPORTED BY THE SELLER UNTIL THE DATE OF THE FORWARD REPURCHASE.

OUTRIGHT SALE  
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12. IN THE EVENT THAT YOU MAKE AN OUTRIGHT SALE INSTEAD OF A SWAP, WE CONSIDER THAT THE AMOUNT YOU SUGGESTED OF 40,000 OUNCES SHOULD NOT HAVE A MATERIAL EFFECT ON THE MARKET.

13. IN ORDER TO ESTABLISH A PRICE THAT COULD BE SEEN BY THE MONETARY BOARD TO BE FAIR, WE SUGGEST THAT YOU CONTACT PHILIPP BROTHERS AND MORGAN GUARANTY IN NEW YORK TODAY AND ASK THEM TO QUOTE TO THE BANCO CENTRAL ON THE BASIS OF THE LONDON FIXING AT 3PM FRIDAY AFTERNOON LONDON TIME (10 AM FRIDAY MORNING SANTO DOMINGO TIME). THEY WILL QUOTE TO YOU TODAY A PRICE BASED ON WHATEVER IS ESTABLISHED TOMORROW AFTERNOON (LONDON TIME) AS THE LONDON FIXING PRICE. IF YOU OBTAIN TWO QUOTATIONS, YOU CAN CHOOSE THE CHEAPER.

14. NOTE THAT THE GOLD FIXING PRICE IS ESTABLISHED FOR DELIVERY IN LONDON. AS YOU WOULD BE SELLING GOLD LOCO NEW YORK, THERE MAY BE A SMALL ADJUSTMENT IN THE PRICE LOCO NEW YORK COMPARED WITH THE PRICE LOCO LONDON.

15. FINAL ORDERS FOR THE LONDON FIXING HAVE TO BE GIVEN NOT LESS THAN FIFTEEN MINUTES BEFORE THE FIXING (I.E. 9.45 A.M. TOMORROW MORNING SANTO DOMINGO TIME).

16. PLEASE LET ME KNOW IF THERE IS ANY FURTHER INFORMATION YOU REQUIRE.

WITH KIND REGARDS  
PAUL RICHARDS  
DIRECTOR  
SAMUEL MONTAGU