FOR AGENDA

SM/84/161

CONTAINS CONFIDENTIAL INFORMATION

July 5, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Dominican Republic - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with the Dominican Republic, which will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. González, ext. (5)8637.

Att: (1)

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INFORMATION

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

Staff Report for the 1984 Article IV Consultation

Prepared by the Western Hemisphere Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E. Wiesner and M. Guitián

July 5, 1984

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I. Introduction

The Article IV consultation discussions with the Dominican Republic 1/ were held in Santo Domingo and at headquarters over a period extending from late 1983 October to late May 1984.2/ These discussions were held in conjunction with the consultation on the policies of the second year of the extended arrangement with the Dominican Republic, which was scheduled to be completed before January 1, 1984 but in the end could not be concluded. The Dominican Republic representatives in these consultations included the Secretary of the Presidency; the Governor of the Central Bank; the Technical Secretary of the Presidency; the Secretaries of State for Finance, Industry and Commerce, Agriculture, and Labor; the Comptroller General; the Economic Adviser of the President; members of the Monetary Board; and other senior officials from the Central Bank, the ministries, and various government agencies and enterprises. The mission held a number of meetings with the President of the Republic. The staff representatives in one or more of the various visits to Santo Domingo were Messrs. Gonzalez (Head), van Beek, Pujol, Loser, Decarli, Incer (all WHD), Lipton, Boutros-Ghali (both ETR), Griffith, Shome (both FAD), Mrs. Cooke and Ms. Kriegsman (Secretaries-both WHD), and Ms. Duran (Secretary-BLS).3/ Mr. Kafka, Executive Director for the Dominican Republic, participated in several of the policy discussions at headquarters.

The previous Article IV consultation with the Dominican Republic was concluded by the Executive Board on January 21, 1983 (EBM/83/15). At the same time, the Fund approved an extended arrangement for the Dominican Republic (EBS/82/239, 12/29/82), covering the three-year period 1983-85, in an amount equivalent to SDR 371.25 million (450 percent of the old quota or 331.2 percent of the new quota), of which SDR 115.5 million is from ordinary resources and SDR 255.75 million from borrowed resources. Also at the same time, the Fund approved a request for a purchase under the CFF in an amount equivalent to SDR 42.75 million (51.8 percent of the old quota or 38.1 percent of the new quota), which raised the Fund's holdings of Dominican pesos under this facility to 100 percent of old quota (73.6 percent of new quota).

1/ The Dominican Republic has accepted the obligations of Article VIII, Sections 2, 3, and 4, of the Articles of Agreement.

2/ The discussions were initiated in Santo Domingo in the period October 21-November 11, 1983, and were continued at headquarters from November 28 through December 2, 1983, in Santo Domingo again from February 7 through March 1, 1984, from April 2 through April 7, and from April 25 through May 25; they were concluded at headquarters in the period from May 29 through June 1, 1984.

3/ Mr. R. Newfarmer, from the IBRD, visited Santo Domingo from April 25 through May 8, 1984, and participated in many of the meetings during that period.

II. Background and Performance Under the EFF Arrangement

1. Background

The Dominican Republic economy has experienced severe external and internal imbalances since the late 1970's. The overall balance of payments deficit increased from about US$90 million a year in 1978-1979 to US$150 million in 1981, financed mostly by the accumulation of external payments arrears. In 1982 alone the payments deficit more than doubled to US$310 million, more than one third of which was reflected in a further accumulation of payments arrears. The prevalence of adverse external conditions during much of the period since 1976 was a factor behind these developments, but the expansionary stance of fiscal policies since 1978 was of major importance in the deterioration of the balance of payments.

The rate of growth of real GDP slowed from close to 5 percent a year in 1979-81 to about 1 1/2 percent in 1982 (Table 1). The slowdown was centered in the mining, construction, and housing sectors, which showed absolute declines in output, and in agricultural crop production which grew relatively little in 1982. The pace of economic activity picked up in 1983, as agricultural production recovered and construction was boosted by the step-up in government investment and housing programs; the preliminary estimates suggest that real GDP increased by almost 4 percent in 1983.

Table 1. Dominican Republic: Selected Economic Indicators

(Percentage change from preceding year)

	1977	1978	1979	1980	1981	1982	Prel. 1983
GDP at market prices	16.1	3.1	16.1	20.7	9.1	9.0	10.9
Real GDP	5.0	2.1	4.5	6.1	4.1	1.6	3.9
Terms of trade	-2.2	-16.3	1.9	22.5	4.1	-13.4	0.5
Consumer prices	12.8	3.5	9.2	16.8	7.5	7.6	6.9

Sources: Central Bank of the Dominican Republic; and Fund staff estimates.

Following a rapid run-up of prices in the aftermath of the September 1979 hurricane, the rate of inflation as measured by the CPI slowed down, and from about the middle of 1980 through the end of 1983 consumer prices rose at an annual rate of about 7 1/2 percent. The existence of price controls on certain basic commodities and the overvaluation of the peso in the official market contributed to holding down inflation during this period. However, the rate of price increase began to accelerate in late 1983 and the early months of 1984, in apparent response to the

depreciation of the peso in the parallel exchange market, the stepped-up transfer of imports to that market, and increases in import duties. In January 1984 the CPI was 1.4 percent higher than in December 1983, and in February-March combined it rose another 4.3 percent.

The deficit in the current account of the balance of payments reached a record US$670 million (10 percent of GDP) in 1980 (Table 2), or about twice the levels registered in 1978 and 1979, reflecting a sharp rise in merchandise imports associated in large part with the reconstruction effort following the damages inflicted by hurricane David in September 1979. Imports fell in 1981 while exports rose strongly because of markedly higher sugar export prices. As a result, and despite a steep climb in net payments of investment income, the current account deficit declined to US$400 million (5 1/2 percent of GDP). With the subsequent drop of world sugar prices and declines in other commodity prices as well, exports declined by more than US$400 million (35 percent) in 1982. Imports also came down (by more than 13 percent), due to weakening demand and reduced availability of foreign exchange at the official rate, and receipts from tourism surged. As a result, the current account deficit did not widen much in 1982 in absolute terms and remained unchanged in relation to GDP.

The reduction of the current account deficit in 1981 was accompanied by a marked decline in the net inflow of capital from the 1980 level, which had been unusually large because of the post-hurricane reconstruction needs. In 1982 the net inflow of capital was reduced by close to one half, to US$145 million. While net foreign borrowing by the public sector increased, mainly on account of U.S. government assistance under the Caribbean Basin Initiative, the private capital account shifted from a net inflow to a sizable net outflow.

As the overall payments deficit tended to widen over the years, the premium for the U.S. dollar in the parallel foreign exchange market rose from an average of about 22 percent (selling) in 1979 to 30 percent in December 1981 and 50 percent in December 1982. At the end of 1982, the net international reserves of the Central Bank were negative by US$680 million, of which US$435 million represented external payments arrears; gross foreign assets were US$172 million, equivalent to only six and one half weeks of imports.

The contraction of foreign trade and lax fiscal policy led to an increase in the overall financing requirement of the consolidated nonfinancial public sector to the equivalent of 6 1/4 percent of GDP in 1982 (Table 3), from 1 1/2 percent in 1977. This weakening reflected: (1) a drop in tax collections in relation to GDP from about 13 percent in 1976-77 to only 8.4 percent in 1982, a consequence of a reduction in export taxes, a rise in tax exemptions, and an erosion of the tax base because of heavy reliance on specific rates of taxation; (2) a sharp increase in the Central Government's curent expenditures in 1978-80, associated with both sizable wage increases granted to public sector employees and a large increase in employment; and (3) the poor financial performance of the major state enterprises, in particular the sugar corporation (CEA), whose sale prices covered less than 75 percent of

Table 2. Dominican Republic: Balance of Payments Summary

(In millions of U.S. dollars)

	1979	1980	1981	1982	Prog. 1983	Prel. 1983
Current account	-331.3	-669.8	-405.9	-441.9	-269.7	-421.1
Merchandise trade balance	-268.9	-557.8	-263.7	-489.6	-300.3	-497.0
Exports	(868.6)	(961.9)	(1,188.0)	(767.7)	(819.7)	(785.2)
Imports	(-1,137.5)	(-1,519.7)	(-1,451.7)	(-1,257.3)	(-1,120.0)	(-1,282.2)
Services (net)	-268.2	-299.8	-335.2	-157.3	-176.4	-139.1
Travel	(-34.3)	(6.8)	(78.5)	(179.1)	(195.6)	(233.0)
Investment income	(-187.7)	(-210.2)	(-293.1)	(-254.1)	(-267.0)	(-297.1)
Other	(-46.2)	(-96.4)	(-120.6)	(-82.3)	(-105.0)	(-75.0)
Transfers (net)	205.8	187.8	193.0	205.0	207.0	215.0
Capital account (net)	208.8	521.0	262.5	146.3	84.7	63.8
Private (including residual item)	13.4	155.5	88.4	-65.7	0.9	79.7
Official	195.4	365.5	174.1	212.0	83.8	-15.9
SDR allocation	7.2	7.3	6.6	--	--	--
Gold revaluation and monetization	27.8	23.7	-14.1	-15.0	--	-16.0
Overall balance	-87.5	-117.8	-150.9	-310.6	-185.0	-373.3
Extraordinary finance	--	--	--	--	165.0 1/	294.5 2/
Net international reserves (increase -)	87.5	117.8	150.9	310.6	20.0	78.8
Of which: external payments arrears (decline -)3/	(43.4)	(106.2)	(166.8)	(119.9)	(-100.0)	(-67.4)

Sources: Central Bank of the Dominican Republic; and Fund staff estimates.

1/ Special loans sought for the State Sugar Company (CEA) and the Rosario Mining Company.
2/ Includes rescheduled debt (US$152 million) and unpaid obligations relating to proposed reschedulings (US$143 million); for a complete definition, see Statistical Appendix Table 40 in the RED paper.
3/ Includes delays in the delivery of foreign exchange under letters of credit.

Table 3. Dominican Republic: Public Sector Operations

	1979	1980	1981	1982	Prog. 1983	Prel. 1983
(In millions of Dominican pesos)						
Central government current revenue	681.5	879.8	909.2	745.1	790.9	917.4
Central government current expenditure	614.9	719.7	756.2	778.5	719.1	871.5
Central government current account surplus or deficit (-)	66.6	160.1	153.0	-33.4	71.8	45.9
Rest of public sector current account surplus or deficit (-)	-41.9	-66.8	-122.1	-76.3	-27.3	1/-126.9
Public sector current account surplus or deficit (-)	24.7	93.3	30.9	-109.7	44.5	-81.0
Capital revenue	21.0	18.0	20.6	22.6	19.0	33.3
Capital expenditure	359.6	513.4	470.7	351.2	395.7	425.9 2/
Overall public sector deficit (-)	-313.9	-402.1	-419.2	-438.3	-332.2	-473.6
Central Government	-303.5	-186.7	-154.9	-218.3	-197.0	-219.1
Rest of public sector	-10.4	-215.4	-264.3	-220.0	-135.2	-254.5
Residual 3/	32.1	5.1	-29.2	-53.9	-20.0	-12.2
Financing	281.8	397.0	448.4	492.2	352.2	485.8
Foreign 4/	155.7	297.0	105.6	108.6	152.2	113.0
Domestic	126.1	100.0	342.8	383.6	200.0	372.8
Banking system	(126.1)	(100.0)	(342.8)	(383.6)	(200.0)	(312.8)
Other	(--)	(--)	(--)	(--)	(--)	(60.0)5/
(In percent of GDP)						
Central government current account surplus or deficit (-)	1.2	2.4	2.1	-0.4	0.8	0.5
Rest of the public sector current account surplus or deficit (-)	-0.7	-1.0	-1.6	-1.0	-0.3	-1.4
Public sector current account surplus or deficit	0.4	1.4	0.4	-1.4	0.5	-0.9
Overall public sector deficit (-)	-5.7	-6.1	-5.8	-5.6	-3.7	-5.4
Central Government	-5.5	-2.8	-2.1	-2.8	-2.2	-2.5
Rest of public sector	-0.2	-3.3	-3.7	-2.8	-1.5	-2.9
Financing	5.1	6.0	6.2	6.2	3.9	5.6

Sources: National Budget Office; Central Bank of the Dominican Republic; and Fund staff estimates.

1/ Based on four major entities, namely, the State Sugar Company (CEA), the Electricity Corporation (CDE), the Price Stabilization Institute (INESPRE), and the holding company for a group of government-owned enterprises (CORDE).

2/ Includes investment in housing for RD$60 million by the National Housing Institute (INVI).

3/ Discrepancy between overall public sector deficit and public sector financing.

4/ Includes only net disbursements to the nonfinancial public sector.

5/ Includes tax certificates and domestic arrears with private contractors.

production costs in 1982, the electricity corporation (CDE), which has been carrying out an ambitious investment program in the face of inadequate revenue collections, and the Price Stabilization Institute (INESPRE), which incurred a very large deficit in 1981 in connection with storage and marketing problems.

With the exception of 1980, when as noted above foreign borrowing was unusually high, these large fiscal deficits have forced the public sector to resort increasingly to borrowing from the domestic banking system, reducing the availability of credit to the private sector and bringing pressure to bear on the net international reserves of the Central Bank (summary monetary indicators are shown in Table 4). In 1981 some 90 percent of the increase in the net domestic assets of the banking system took the form of credit to the public sector, and in 1982 this proportion was 75 percent; net credit to the private sector showed a small decline (2 1/2 percent) in 1981 followed by an increase of 9 percent in 1982. At the same time that public sector demand for credit stayed high, the flow of funds into the domestic banking system was sluggish. As a proportion of GDP, banking system liabilities to the private sector dropped from more than 25 percent in 1978-79 to about 21 1/2 percent in 1982, in the face of rising interest rates abroad and competition from other financial intermediaries at home. During the period of rising international inflation and interest rates, only marginal adjustments were made to the legal ceilings on deposit interest rates in the Dominican Republic (in 1977 and in July-August, 1981), and the rate on time and savings deposits at banks was not raised above 8 1/2 percent.

Faced with declining foreign reserves and mounting arrears, the monetary authorities sought to moderate the expansion of bank credit and reduce the demand for import payments in the official exchange market. In a series of moves starting in mid-1980, rediscounts to commercial banks were curtailed, reserve requirements were raised, and the scope of the advance import deposit scheme was widened. Import payments for capital goods and automobile parts were transferred to the parallel market and quotas were established on the availability of foreign exchange for imports of raw materials (other than petroleum), staple foods, and medicines. In addition, increases in the prices of gasoline and sugar for domestic consumption were put into effect and electricity rates were raised and linked to petroleum prices. In June 1981 imports of automobiles were prohibited for a period of one year; this prohibition was renewed, again for one year, in August 1982 and extended to a large number of products deemed to be nonessential.1/

2. Objectives and policies for the first year of the extended arrangement and performance under the program

The Administration which took office in August 1982 prepared a financial and economic program in support of which it requested the EFF arrangement. The main aim of this program was to achieve a viable

1/ The restriction on automobile imports was lifted partially in November 1983.

Table 4. Dominican Republic: Monetary Indicators

	Level Dec. 31 1981	Change from Previous Year December 31 1979	1980	1981	1982	Prog. 1983	Prel. 1983 1/
I. Central Bank							
(In millions of Dominican pesos)							
Net international reserves	-322.3	-124.0	-107.3	-109.6	-356.3	-20.0	-59.2
Net domestic assets	718.2	193.4	114.5	156.0	391.6	84.0	114.9
Currency issue	395.9	69.4	7.2	46.4	35.3	64.0	55.7
(Percentage change)2/							
Net domestic assets		70.9	33.5	44.6	98.9	19.1	26.6
Currency issue		25.4	2.1	13.3	8.9	14.5	12.9
II. Banking System							
(In millions of Dominican pesos)							
Net international reserves	-391.2	-87.5	-117.8	-151.0	-309.5	-20.0	-79.9
Net domestic assets	2,237.9	298.1	228.5	380.2	510.9	311.6	443.6
Public sector	(995.6)	(126.1)	(100.0)	(342.8)	(383.5)	(200.0)	(312.8)
Private sector	(1,019.9)	(66.2)	(151.4)	(-24.6)	(93.6)	(121.6)	(147.8)
Medium- and long-term foreign liabilities	259.0	14.0	67.6	70.8	100.1	97.6	160.6 3/
Liabilities to private sector	1,587.7	196.6	43.1	158.4	101.3	194.0	203.1
(Percentage change)4/							
Net domestic assets		25.1	16.5	26.6	32.2	16.5	26.3
Liabilities to private sector		16.5	3.1	11.1	6.4	9.9	12.0

Sources: Central Bank of the Dominican Republic; and Fund staff estimates.

1/ Without rearrangement of liabilities due to refinancing with foreign commercial banks.
2/ In relation to currency issue at the beginning of the period.
3/ Includes refinancing of amortization payments due to foreign commercial banks in 1983 for an estimated US$103.7 million.
4/ In relation to liabilities to the private sector at the beginning of the period.

external payments position in the context of a high and sustained rate of economic growth. The program's balance of payments target was to limit the loss in the net international reserves of the Central Bank to US$20 million in 1983 and to attain surpluses in 1984 and in 1985, to be achieved through fiscal, monetary and external sector policies (Table 5 presents selected program parameters in relation to GDP and Table 6 presents other selected economic and financial indicators).

Regarding fiscal policy, the overall deficit of the nonfinancial public sector was to be reduced from a level initially estimated at 7 percent of GDP in 1982 to 3.9 percent in 1983, with a concomitant reduction in the domestic financing requirement from 5.8 percent of GDP initially estimated for 1982 to 2.2 percent. A large part of the projected improvement in fiscal performance was expected to derive from a package of tax measures approved in late 1982 and early 1983, which included the introduction of a broad-based sales tax of the value added type that was expected to yield more than RD$100 million of additional revenue (equivalent to some 1.1 percent of GDP). The rest of the projected improvement was to result from tight control over current expenditure in the Central Government and a streamlining of the operations of the public enterprises.

Regarding monetary policy, ceilings were established over the expansion of the net domestic credit of the Central Bank and the expansion of the combined net domestic credit to the nonfinancial public sector extended by the Central Bank and Banco de Reservas (the state-owned commercial bank). To foster the growth of private financial savings, high-yield financial certificates were introduced in late 1982, and interest rates on certain domestic financial instruments were increased.

Regarding external sector policies, the key elements were to be adjustment of the effective exchange rate of the peso and reform of the exchange system. Transfers of import payments to the parallel foreign exchange market were to be accelerated, while traditional exporters were to be permitted to benefit partially from the more depreciated parallel market exchange rate through the introduction of an exchange certificate system.1/ External payments arrears were scheduled to be reduced by US$100 million in 1983 and totally eliminated within the program period.

1/ This system was established in November 1982 as a means of increasing profitability in the production of the major traditional agricultural export products, namely, raw sugar and molasses, coffee, cocoa, and tobacco. Exporters of these products received freely negotiable exchange certificates equivalent to a fixed share of export receipts (initially 20 percent for raw sugar and 10 percent for the other products). These certificates entitled the bearer to buy foreign exchange at the official exchange rate for purposes of making any payments abroad for which the Central Bank made foreign exchange available as of December 31 1981. For a further description and update of this system, see Section VI.6 of the Recent Economic Developments paper.

Table 5. Dominican Republic: Macroeconomic Flows

(In percent of GDP)

	1979	1980	1981	1982	Prog. 1983	Prel. 1983	Program 1984	Program 1985
I. Balance of Payments								
Current account surplus or deficit (-)	-6.0	-10.1	-5.6	-5.6	-3.0	-4.8	-2.6	-2.6
Trade balance	-4.9	-8.4	-3.6	-6.2	-3.4	-5.7	-3.2	-2.9
Investment income	-3.4	-3.2	-4.0	-3.2	-3.0	-3.3	-2.4	-2.4
Other services and transfers	2.3	1.5	2.0	3.8	3.4	4.2	3.0	2.7
Capital account	4.4	8.3	3.4	1.7	1.0	0.5	3.4	3.3
Private capital 1/	1.4	2.9	1.1	-1.0	--	0.9	0.3	0.4
Nonfinancial public sector 2/	2.8	4.5	1.5	1.4	-0.1	-0.2	2.4	3.4
Financial public sector	0.2	0.9	0.8	1.3	1.1	-0.2	0.7	-0.5
Overall balance	1.6	1.8	2.0	4.9	2.0	4.3	-0.8	-0.7
Net monetary movements (increase -)3/	1.6	1.8	2.0	4.9	0.2	0.9	-0.8	-0.7
Special financing	--	--	--	--	1.8	3.4	--	--
II. Nonfinancial Public Sector 2/								
Public sector savings	0.5	1.4	0.4	-1.4	0.5	-0.9	1.6	2.6
Central Government current account surplus or deficit (-)	1.2	2.4	2.1	-0.4	0.8	0.5	1.6	2.1
Revenue	(12.3)	(13.2)	(12.6)	(9.5)	(8.9)	(10.5)	(9.7)	(10.2)
Expenditure	(-11.1)	(-10.8)	(-10.5)	(-9.9)	(-8.1)	(-10.0)	(-8.1)	(-8.1)
Rest of public sector current account surplus or deficit (-)	-0.7	-1.0	-1.7	-1.0	-0.3	-1.4	--	0.5
Capital revenue	0.4	0.3	0.3	0.3	0.2	0.4	0.2	0.1
Public sector capital expenditure	6.6	7.8	6.5	4.4	4.4	4.9	5.3	5.7
Fixed investment	5.4	5.0	4.8	3.6	3.9	4.5	4.8	5.3
Other capital expenditure	1.2	2.8	1.7	0.8	0.5	0.4	0.5	0.4
Overall deficit	-5.7	-6.1	-5.8	-5.5	-3.7	-5.4	-3.5	-3.0
Residual deficit	0.6	0.1	-0.4	-0.7	-0.2	-0.2	--	--
Financing	5.1	6.0	6.2	6.2	3.9	5.6	3.5	3.0
Foreign	2.8	4.5	1.5	1.4	1.7	1.3	2.4	3.4
Domestic	2.3	1.5	4.7	4.8	2.2	4.3	1.1	-0.4
III. Savings and Investment								
Fixed capital formation	25.4	25.7	24.3	20.8	22.1	21.1	23.4	24.6
Public sector	5.4	5.0	4.8	3.6	3.9	4.5	4.8	5.3
Private sector 4/	20.0	20.7	19.5	17.2	18.2	16.6	18.6	19.3
Savings	25.4	25.7	24.3	20.8	22.1	21.1	23.4	24.6
Foreign savings	6.0	10.1	5.6	5.6	3.0	4.8	2.6	2.6
National savings	19.4	15.6	18.7	15.2	19.1	16.3	20.8	22.0
Public sector	(0.5)	(1.5)	(0.4)	(-1.4)	(0.5)	(-0.9)	(1.6)	(2.6)
Private sector	(18.9)	(14.1)	(18.3)	(16.6)	(18.6)	(17.2)	(19.2)	(19.4)
Memorandum item								
Rate of growth of real GDP	4.5	6.1	4.1	1.6	2.0	3.9	3.5	5.0

Sources: Central Bank of the Dominican Republic; and Fund staff estimates.

1/ Includes unrequited transfers, gold monetization, and errors and omissions.
2/ Includes short-term borrowing. Includes four public financial institutions: the Agricultural Bank, the Industrial Development Corporation (CFI), the Cooperative Development and Credit Institute (IDECOOP), and the Workers Savings Bank. Prior to 1981 the foreign financing of the nonfinancial public sector includes movements in some private debt with public guarantee.
3/ Includes the Central Bank and the commercial banks.
4/ Includes changes in inventories.

Table 6. Dominican Republic: Selected Economic and Financial Indicators

	1980	1981	1982	Prog. 1983	Prel. 1983
(Annual percent changes, unless otherwise specified)					
National income and prices					
GDP at constant prices	6.1	4.1	1.6	2.0	3.9
GDP deflator	13.8	4.8	7.4	9.0	6.7
Consumer prices (average)	16.8	7.5	7.6	9.0	6.9
External sector (on the basis of U.S. dollars)					
Exports, f.o.b.	10.7	23.5	-35.4	4.6	2.3
Imports, f.o.b.	33.6	-4.5	-13.4	-6.3	2.0
Export volume	-17.6	10.9	-26.3	7.8	-0.3
Import volume	21.7	-10.7	-14.6	-8.8	--
Terms of trade (deterioration -)	22.5	4.1	-13.4	-5.5	0.5
Effective exchange rate 1/					
Official market					
Nominal	1.1	6.1	4.2	...	4.1
Real	3.3	3.6	7.3	...	6.7
Parallel market					
Nominal	-1.9	4.3	-8.5	...	-5.8
Real	-0.2	1.8	-5.8	...	-3.5
Central Government					
Revenue	29.0	4.0	-18.5	18.5	22.3
Expenditure	8.4	0.3	-10.0	1.3	17.4
Money and credit 2/					
Domestic credit (net) 3/	24.8	36.1	45.7	23.6	34.3
Public sector 3/	(9.5)	(32.5)	(32.5)	(14.7)	(22.9)
Private sector 3/	(14.5)	(-2.3)	(7.9)	(8.9)	(10.8)
Money and quasi-money (M2)	0.6	11.9	15.9	15.6	7.9
Velocity (GDP relative to M2, level)	4.9	6.1	5.8	5.9	5.9
Interest rate 4/	7.5	8.5	8.5	9.5	9.5
(In percent of GDP)					
Central government savings	2.4	2.1	-0.4	0.8	0.5
Overall public sector deficit	-6.0	-6.2	-6.2	-3.9	-5.6
Domestic financing	(1.5)	(4.7)	(4.8)	(2.2)	(4.3)
Foreign financing	(4.5)	(1.5)	(1.4)	(1.7)	(1.3)
Gross domestic investment	25.7	24.3	20.8	22.1	21.1
Gross national savings	15.6	18.7	15.2	19.1	16.3
BOP-current account deficit	-10.1	-5.6	-5.6	-3.0	-4.8
External public debt 5/	29.0	30.7	34.0	...	33.2
(In percent of exports of goods, nonfactor services, and private transfers)					
Debt service 6/	22.0	24.3	34.1	...	42.5
Interest payments 6/	10.0	10.0	18.6	...	18.9
(In millions of SDRs)					
Overall balance of payments	-90.5	-128.0	-281.3	-169.3	-349.2
Change in net international reserves (increase +)	-90.5	-128.0	-281.3	-18.3	-73.7
Gross official reserves (weeks of imports)	8.8	9.2	6.4	12.0	8.3
External payments arrears (stocks outstanding at year-end)	115.0	268.0	395.6	324.7	74.7 7/

Sources: Central Bank of the Dominican Republic; and Fund staff estimates.

1/ Depreciation (-).
2/ Excludes nonbank financial intermediaries.
3/ Changes in relation to broad money outstanding at the beginning of period.
4/ Term deposits exceeding 180 days.
5/ Debt of all maturities, including use of Fund credit, arrears, and all other foreign reserve liabilities.
6/ On external debt as defined in footnote 5.
7/ SDR 353.4 million excluding the effect of the conversion of arrears into medium-term liabilities resulting from the refinancing with foreign commercial banks.

Recourse to external borrowing was to be limited, especially in the maturity range of less than ten years, and accordingly ceilings were set on disbursements of foreign loans to the public sector.

The performance of the Dominican Republic during the first year of the program was not as had been expected, and the degree of adjustment achieved was not as large as had been planned. The Dominican Republic made all the purchases that were available to it during the first year, totaling SDR 123.8 million, as all performance criteria through September 1983 were met (Table 7 and Chart 1). The lack of relationship between the observance of the criteria and the attainment of the objectives of the program was due to two main factors. First, the larger than programmed fiscal imbalance, although it began before midyear, was heavily concentrated in the last months of the year. Second, the Dominican Republic began negotiations with commercial banks late in 1982 and although agreement was not reached until December 1983, amortization payments due to banks in 1983 were not made, a development that had not been anticipated in the program. Similarly, the Dominican Republic suspended payments to official creditors after approaching the Paris Club in August 1983 with a request for a rescheduling. Some of these unpaid obligations were not matched by local currency deposits in the Central Bank and did not come under the ceiling on payment arrears as defined in the extended arrangement.

During the last quarter of 1983, the quantitative criteria were indicative and no purchase from the Fund was linked to them. In this period, the ceiling on net credit to the public sector by the Central Bank and Banco de Reservas was exceeded by RD$32 million (11.5 percent of the credit expansion which the ceiling allowed for the whole of 1983).1/ There was a large margin under the foreign borrowing ceiling at the end of 1983 because direct disbursements of foreign loans with a maturity of less than ten years were small during the year (the ceiling on cumulative disbursements of foreign loans with maturity of less than ten years was US$370 million).

Performance under the other ceilings and targets at the end of 1983 was affected by the refinancing agreement with commercial banks. On signature of the agreement last December 21, 1983, total obligations to banks in an amount of US$454.3 million were converted into a government-guaranteed five-year loan to the Central Bank.2/ An important part of the refinanced obligations had been classified as central bank foreign reserve liabilities (US$310 million, of which US$291 million were arrears

1/ In addition, the amount of checks issued by the Central Government but not debited to its accounts appears to have been larger at the end of 1983 than at the end of 1982.

2/ A further US$34.3 million of obligations to banks was similarly converted on February 21, 1984 (the "conversion date"). Agreement has not been reached as yet on refinancing a US$61 million export financing loan to the State Sugar Company (CEA), negotiations on which had been proceeding in tandem with the negotiations of the bigger package.

Table 7. Dominican Republic: Extended Arrangement Quantitative Performance Criteria for 1983

	Aug. 31 1982 Actual	Dec. 31, 1982 Est.	Dec. 31, 1982 Act.	March 31, 1983 Target or Limits	March 31, 1983 Act.	June 30, 1983 Targets or Limits	June 30, 1983 Act.	Sept. 30, 1983 Targets or Limits	Sept. 30, 1983 Act.	Dec. 31, 1983 Targets or Limits	Dec. 31, 1983 Prel.
				(In millions of Dominican pesos)							
Net domestic assets of the Central Bank 1/	924	1,113	1,113	1,103	1,069	1,114	1,059	1,135	1,060	1,197	922 (1,231)2/
Net credit of the Central Bank and Banco de Reservas to the non-financial public sector 3/	1,235	1,466	1,388	1,505	1,495	1,535	1,533	1,585	1,550	1,666	1,698 (1,698)2/
				(In millions of U.S. dollars)							
Net international reserves of the Central Bank 4/	-562	-673	-682	-698	-698	-709	-690	-725	-682	-693	-435 (-745)2/
External payments arrears of the Central Bank 5/	365	453	436	439	428	414	408	394	393	353	78 (369)2/
Cumulative disbursements of foreign loans to the public sector with maturity of less than: 6/7/											
1 year	...	...	...	200	0.5	200	5.5	200	10.5	200	10.5
3 years	...	...	...	220	0.5	220	8.9	220	29.2	220	41.0
10 years	...	...	...	370	0.5	370	8.9	370	34.0	370	55.8
Transfers of import payments from the official to the parallel foreign exchange market 8/	...	...	...	40	40	15	15	15	17	15	15

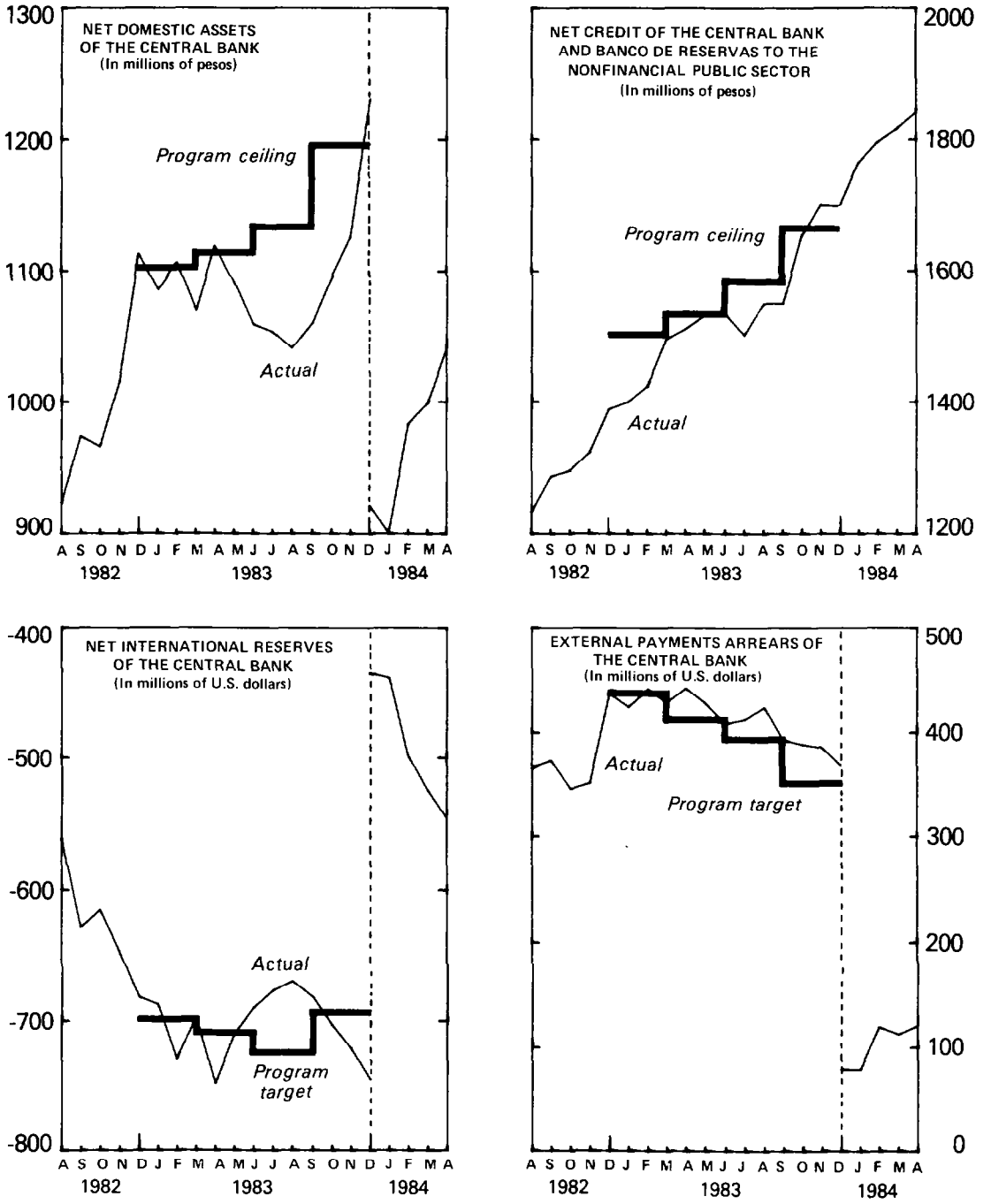
Sources: Central Bank of the Dominican Republic; and the Memorandum on the Economic Policies of the Dominican Republic attached to the text of the extended arrangement approved on January 21, 1983 (EBS/82/239, Supplement 1, 1/26/83).

1/ Defined as the difference between the currency issue and the net international reserves.
2/ Excluding the effect of the conversion of foreign reserve liabilities into medium-term liabilities resulting from the refinancing with commercial banks.
3/ As defined in Table 1 annexed to the Memorandum on the Economic Policies of the Dominican Republic.
4/ As defined in Table 4 annexed to the Economic Policies Memorandum.
5/ As defined in Table 3 annexed to the Economic Policies Memorandum.
6/ Excluding loans to the Central Bank.
7/ These limits are applied throughout the period.
8/ These targets refer to the quarters ending on the dates indicated.

CHART 1

DOMINICAN REPUBLIC

EXTENDED ARRANGEMENT SELECTED QUANTITATIVE PERFORMANCE CRITERIA FOR 1983[1]



Source: Central Bank of Dominican Republic.

[1]Stock changes resulting from the refinancing agreement with commercial banks that became effective on December 21, 1983 are not shown until the end of the year. These changes affected the Central Bank's net domestic assets, net international reserves, and external payments arrears.

and US$19 million were acceptances). With the refinancing, these obligations ceased to be considered reserve liabilities (which the arrangement defined as those with maturities of less than five years) and as a result, the targets for net international reserves and central bank arrears and the ceiling on net domestic assets were met with ample margins. The resulting stock changes show an increase in the net international reserves of US$310 million, a similar decline in net domestic assets, and a US$291 million decrease in arrears.

Adjusting for these stock changes, however, at the end of 1983 the target on net international reserves would have been missed by US$52 million (the net international reserves would have fallen by some US$63 million in 1983, compared with the decline of US$11 million allowed for in the target); also, the ceiling on net domestic assets of the Central Bank would have been exceeded by some RD$34 million (40 percent of the increase allowed for within the program); and the target for central bank arrears would not have been met by US$16 million (central bank arrears would have been reduced by US$67 million, compared with a reduction of US$83 million implicit in the ceiling) (see Table 7).

III. Economic Prospects and Policies

As was indicated above, the consultation discussions were conducted in conjunction with the negotiations of the program for the second year of the extended arrangement. However, it has not been possible to reach understandings on the policies and measures for such a program. One major obstacle has been the subsidy granted to consumers of petroleum products by allowing oil to be imported at the official exchange rate. The staff considers the elimination of this subsidy--which is very large at the current level of oil imports and overvaluation of the official exchange rate--essential for improving the efficiency of the exchange system and the economy at large. However, the authorities were unable in the end to proceed with significant and timely action in this regard. Furthermore, while it was agreed that the need to strengthen the foreign reserve position of the Central Bank--without further depreciation of the peso in the parallel market--and provide adequate credit to the private sector precluded the extension of net bank credit to the public sector, it was not possible to reach understanding on the measures to be taken for closing the financing gap of the public sector to the levels compatible with available foreign financing.

The Dominican Republic authorities expressed serious concern about the inflationary consequences of the exchange rate action proposed by the staff. The mission noted that certain prices in the Dominican Republic had been shielded for many years through the dual exchange rate system and the subsidization it implied, and that an adjustment of these prices was an inevitable part of the process of restoring economic efficiency through more appropriate relative prices. One of the purposes of the financial program was precisely to ensure that the adjustment of these prices would not lead to an inflationary process over time. Thus,

with the appropriate fiscal and monetary policies in place and with adequate control over wages, it should be possible to contain the rate of price increase under the program within the 10-15 percent range.

Furthermore, the mission noted, the danger of an inflationary process was much more real in the case that the demand management action proposed for the program were not taken. For in that case, the result would undoubtedly be a spiral of inflation fueled by exchange rate depreciation in the parallel market.

1. External policies

The overall deficit in the balance of payments amounted to some US$370 million in 1983--including in the reserve loss all forms of special financing and increases in unpaid obligations--compared with US$310 million in 1982 (see Table 2). The deficit in the current account was, at US$420 million, only slightly less in 1983 than 1982, representing a decline in relation to GDP from 5.6 percent to 4.8 percent; the original program projection was for a deficit of US$270 million (3 percent of GDP). Merchandise exports were up 2 1/4 percent from 1982 but 4 1/4 percent below projection, while imports were 2 percent above the 1982 level and 14 1/2 percent above projection. The net inflow of capital in 1983 was about US$20 million below the program projection (of US$85 million), but the amount of debt renegotiations was much larger than had been expected (US$300 million compared with US$165 million). There was, in fact, a small net outflow of public sector capital of US$15 million (based on scheduled amortization), compared to a "normal" net inflow of around US$170-200 million a year. In the first four months of 1984 the Central Bank lost another US$100 million in net international reserves, and at end-April 1984 the Central Bank's gross foreign assets were down to US$145 million.

Pressures also developed in the parallel foreign exchange market, where the peso depreciated sharply during the second half of 1983. As the Exchange Commission,1/ consisting of representatives from the exchange banks and chaired by the Central Bank, attempted to hold down the depreciation of the currency by administrative controls, the result was widespread operations in a black market. By end-1983 the exchange rate in the black market was around RD$1.95 per U.S. dollar, while the rate in the regulated parallel market was RD$1.81 per U.S. dollar, and the rate in the official market remained fixed at RD$1 per U.S. dollar. Following the sharp expansion of credit in the last quarter of 1983 the peso depreciated sharply in the black market, to about RD$2.50 per U.S. dollar in the second half of January 1984, while in the parallel market

1/ In late 1983 the monetary authorities proceeded to implement the regulations for authorized exchange banks that had been promulgated in August. Under these regulations, exchange houses were no longer allowed to operate unless they converted into exchange banks and met the same conditions for foreign exchange operations that apply to commercial banks (see Section VI.1 of the Recent Economic Developments paper).

the peso was allowed to depreciate to only RD$1.84 per U.S. dollar. Rate setting by the Exchange Commission was abandoned in late January and since then the peso has fluctuated in the range of RD$2.7-3.0 per U.S. dollar in the parallel market, with occasional quotations above RD$3 and with increased spreads between buying and selling rates. (Chart 2 shows the movements in the real and nominal effective exchange rates of the peso in the official and parallel foreign exchange markets over the period since January 1978.)

a. Exchange system

In reviewing developments in the exchange system under the program, the Dominican Republic representatives said that while the experience with the exchange certificate system for traditional exports initiated in late 1982 (see Section II.2 above) had been favorable in some respects, they feared that in the circumstances, it had contributed to the tendency toward "dollarization" of the economy. They had noted that certain companies preferred to hold the certificates, and a rather active market in certificates had developed. Some companies, by selling their certificates for dollars, had been able to reduce their revenues (in pesos), and thereby their tax liability, by recording the dollar proceeds on their books converted into pesos at the official exchange rate of 1:1.

To deal with some of these difficulties, in late 1983 the system was replaced by a compensation fund in the Central Bank, which functioned until mid-April 1984. This fund provided the peso equivalent of the exchange incentive to the exporters--ranging from 10 percent to 20 percent over the official exchange rate--and sold the U.S. dollar counterpart in the parallel exchange market, through the intermediation of the Banco de Reservas. However, the peso equivalent was based not on the current parallel rate but on an average for the past six months, and the conversion rate could not in any case exceed RD$2 per U.S. dollar.

Nontraditional exports are subject to a separate scheme of exchange incentives, linked to the parallel market exchange rate premium.1/ The exchange incentives for such exports were raised to 100 percent of the premium for agricultural products in late 1983 and to 85 percent for industrial products in early 1984, from the system of differential incentives averaging some 50 percent of the rate, which prevailed earlier for both types of products.

Following the transfer in late January of about US$40 million (annual rate) of imports of raw materials from the official to the parallel market, it was estimated that some US$970 million (1984 annual rate) of imports of goods and services (other than interest payments, estimated at US$220 million) remained in the official market, including imports of petroleum (US$450 million), raw materials (US$65 million), medicines (US$55 million), certain basic foodstuffs (US$100 million), miscellaneous products such as newsprint, books (US$12 million), and

1/ See Section VI.6 of the Recent Economic Developments paper.

airline tickets (US$4 million). Export receipts in the official market were projected at US$844 million for 1984, including US$660 million of traditional exports, US$40 million of nontraditional exports and US$144 million of services. All in all, the official exchange balance was projected to show a very sizable deficit in 1984 and a large amount of imports would have to be transferred to the parallel market in order to ensure a modest accumulation of gross foreign reserves for the year.

The Dominican Republic authorities acknowledged that the sharp depreciation of the peso in the parallel exchange market had for all intents and purposes made the present exchange system unworkable at an official exchange rate of RD$1 per U.S. dollar. Nevertheless, they continued to rule out an official devaluation because of the legal and political obstacles but they proposed the establishment of an "intermediate" market for certain current transactions that had access to foreign exchange at the official rate. The exchange rate in the intermediate market would be set at a level depreciated in relation to the official exchange rate, and could be adjusted over time to equate it to the parallel rate so as to bring about a unified exchange rate that would apply to all current transactions except interest on the public and preexisting registered private debt (an estimated US$203 million and US$17 million in 1984, respectively). The latter, together with the corresponding amortization payments and disbursements of public debt, would continue to be transacted at the official exchange rate, but all new private borrowing would be done through the parallel market. Regarding the external public debt, the mission noted that before the end of the extended arrangement a start should also be made with transferring these transactions to the parallel or intermediate market, and especially those of the public enterprises.

Several variants of this scheme were examined in the discussions. In the simplest version, only petroleum would have access to the intermediate rate on the import side; all other imports of goods and services (other than interest and dividend payments) still in the official market would be transferred to the parallel market. Initially, the exchange rate for petroleum imports would be adjusted to RD$1.5 per U.S. dollar as of around the middle of 1984; this would be followed by adjustments to RD$1.75 per U.S. dollar in early 1985 and RD$2 per U.S. dollar in mid-1985, and if necessary an adjustment to the parallel exchange rate before the end of 1985. Exporters of traditional products and services would continue to surrender their foreign exchange earnings to the Central Bank at the official exchange rate, but they would receive an exchange incentive related to the subsidies eliminated by the transfer of imports to the parallel market and to the intermediate exchange rate applicable to oil imports.

The transfer to the parallel market of all imports other than petroleum (but excluding payments of interest and dividends) was implemented on April 17, 1984;1/ at the same time, exporters of traditional products

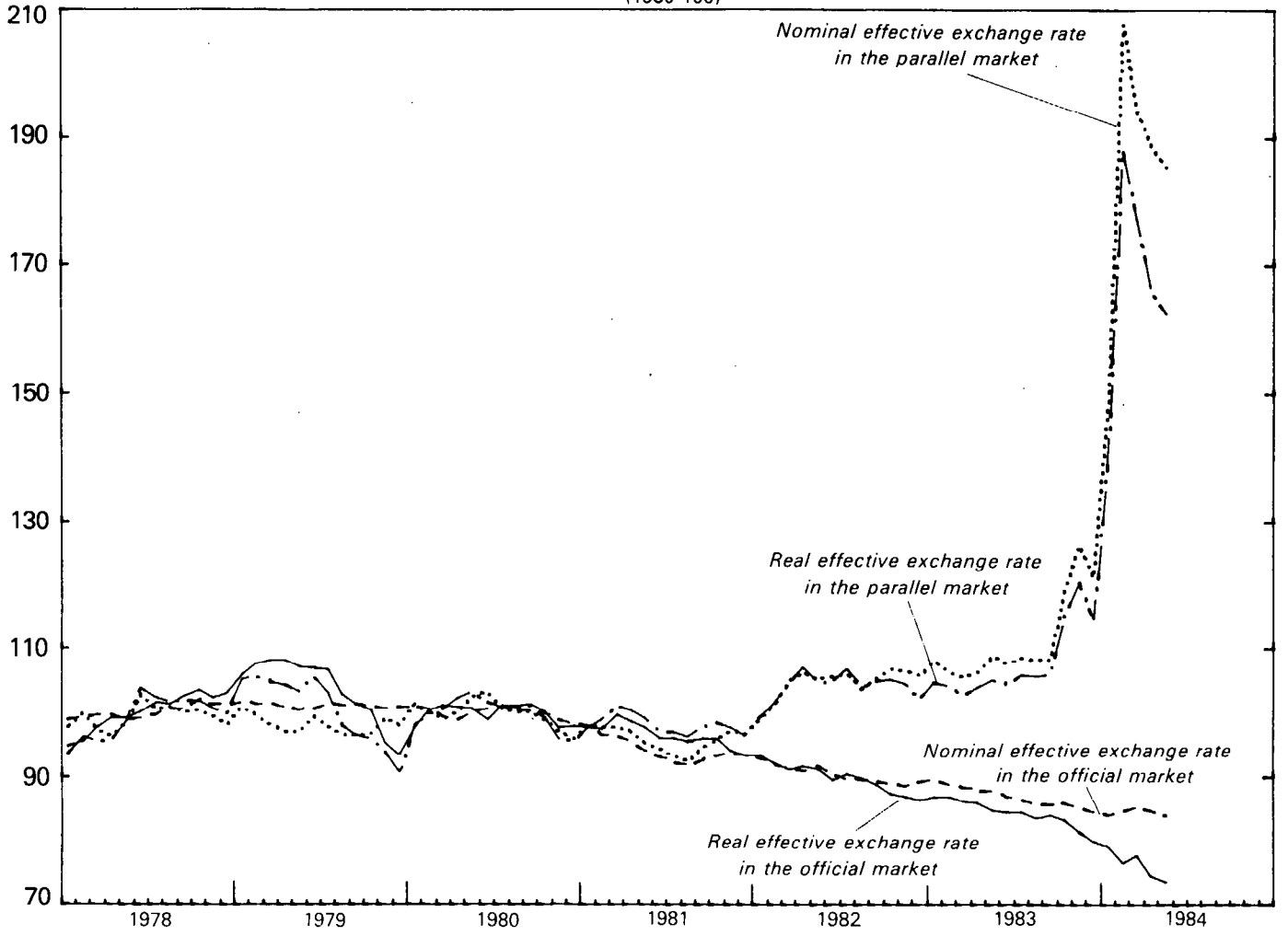
1/ A minor exception was made for central government expenditures in foreign currency, which remain in the official market.

CHART 2

DOMINICAN REPUBLIC

REAL AND NOMINAL EFFECTIVE EXCHANGE RATES[1]

(1980=100)



Sources: Central Bank of the Dominican Republic, *IFS*, and Fund staff estimates.

[1]Import weighted indices defined in terms of pesos per unit of foreign exchange. Decline reflects appreciation.

and services were granted an exchange incentive of RD$0.48 per U.S. dollar. Also, the exchange rate guarantee for private foreign borrowing was abolished. This was followed on May 10 by the transfer of certain outstanding central bank obligations for letters of credit and accumulated requests for dividend remittances for which no peso deposits had been lodged. As a result of the April transfers, prices (including controlled prices) of many basic foodstuffs and other basic products were increased sharply, giving rise to strong popular protest and civil disturbances in the capital and other parts of the country. The situation was aggravated by the development of temporary scarcities in those cases where the controlled prices were not, or not fully, adjusted.

In view of these developments, by late May the Dominican Republic authorities had concluded, reluctantly, that it would not be prudent politically to proceed with the adjustment of the exchange rate for petroleum imports as scheduled. They explained that they had failed to secure support for this measure from any of the major constituencies in the country, and that now such action probably could not be taken before the beginning of 1985.

They recognized that their decision meant that the extended arrangement could not be continued and asked that the feasibility of a stand-by arrangement in its stead be explored. The staff explained that the failure to adjust the oil import exchange rate carried with it a sizable additional cost, which would have to be covered in some fashion if a viable stand-by program were to be worked out.

As regards the exchange system, apart from the dual exchange market, the Dominican Republic maintains three other multiple currency practices, resulting from (1) the exchange incentive of RD$0.48 per U.S. dollar for exports subject to surrender at the Central Bank; (2) the partial exemption from the surrender requirement for certain nontraditional exports; and (3) the levying of a tax on remittances of profits from foreign investments, including a surtax on the amount of this tax. In addition, as of May 18, 1984 the Dominican Republic still had outstanding some US$109 million of external payments arrears for which peso deposits have been lodged with the Central Bank. Also, an amount of dividend remittances totaling around US$80 million had accumulated for which the Central Bank has failed to make foreign exchange available at the official rate, but for which no peso deposits are maintained under a special ruling of the Monetary Board. These aspects of the Dominican Republic's exchange system are subject to Article VIII jurisdiction and are described in detail in the Exchange and Trade System section of the Recent Economic Developments paper. Fund approval of these restrictions and multiple currency practices was granted on January 21, 1983 and lapsed at the end of the first program year.

Under the refinancing arrangement with commercial banks, delays in the delivery of foreign exchange by the Central Bank under letters of credit were eliminated as of December 21, 1983, but close to US$20 million of such delays had re-emerged as of May 18, 1984.

b. External debt

With the refinancing of short-term debt with the banks,1/ the Dominican Republic's medium- and long-term external public debt stood at US$2.2 billion at the end of 1983, some US$445 million or 25 percent above the 1982 level. The refinancing reduced sharply the debt service burden in 1983, and further relief was obtained from the ongoing renegotiation of the CEA export loan and the standstill of payments since the approach to the Paris Club (see Section II.2 above). The actual debt service ratio (on total public debt) is estimated to have been 21 percent in 1983, whereas in the absence of the refinancing and other debt relief it would have been 36 percent (Table 8). The medium-term projections for the servicing of the Dominican Republic's external public debt (including projected disbursements in 1984-88) show the debt service ratio peaking at almost 45 percent in 1984 and then declining to less than 35 percent in 1988, with the declines centered in 1985 and 1988.2/ The debt service due in 1984 includes US$74 million of amortization payments to banks, which the Dominican Republic authorities are requesting to have rescheduled, and US$111 million of amortization and interest payments to Paris Club creditors.

2. Fiscal and monetary policies

a. Fiscal policy

The financing requirement of the consolidated public sector in 1983 was, at just below RD$490 million, about the same as in 1982, which represented a decline in relation to GDP from 6.2 percent to 5.6 percent, compared with the program projection of 3.9 percent (see Table 3). External financing was only slightly larger than in 1982, and far below the level anticipated in the program. Domestic financing was slightly smaller in 1983 than in 1982, but at almost RD$375 million (4 1/4 percent of GDP) it was far above the program target of RD$200 million (2 1/4 percent of GDP).

The deficit of the Central Government declined from 2.8 percent of GDP in 1982 to 2.5 percent in 1983, compared with a programmed decline to 2.2 percent. The strong growth of revenues that had started in the last months of 1982, apparently due in part to improvements in tax administration, continued through 1983 with total revenues for the year

1/ The refinancing is for a period of five years (including one year grace), with amortization to be made in 17 quarterly installments starting January 1985; interest is to be paid quarterly at either 2 1/4 percent over three-month LIBOR or 2 1/8 percent over the U.S. prime rate (at the option of the participating banks). A downpayment of 5 percent was required.

2/ These projections are highly tentative, given the uncertain outlook for the Dominican Republic's external payments situation as no agreement on a program with the Fund has yet been reached and certain key policy decisions remain to be made.

Table 8. Dominican Republic: Projected Debt Service on Public and Publicly Guaranteed Debt, 1983-88

	Est. 1983	Projected 1984	1985	1986	1987	1988
	(In millions of U.S. dollars)					
Debt service on:						
Medium- and long-term debt	303	336	487	500	519	535
Amortization	161	193	295	294	300	300
Interest	142	173	192	206	219	235
IMF	15	28	28	64	73	45
Repurchases	8	10	11	48	61	37
Charges	7	18	17	16	12	8
Other reserve liabilities	85	162	80	90	100	110
Amortization	55	140 1/	50	60	70	80
Interest	30	22	30	30	30	30
Short-term debt	102	77	73	41	36	36
Amortization	81 3/	65	65	35	30	30
Interest	21	12	8	6	6	6
Total	505 2/	711	668	695	728	726
Amortization	305 3/	420	421	437	461	447
Interest	200	225	247	258	267	279
	(In percent)					
Debt service ratio on:						
Total debt	35.5 2/	44.8	41.1	39.9	38.9	34.7
Of which: medium- and long-term debt	19.0	23.1	30.0	28.7	27.8	25.5
Debt to IMF	1.5	1.8	1.7	3.7	3.9	2.1
Memorandum item:						
Exports of goods, nonfactor services, and private transfers (millions of U.S. dollars)	1,426	1,586	1,626	1,740	1,870	2,094

Sources: Central Bank of the Dominican Republic; and staff estimates.

1/ Excludes the elimination of arrears reported by the Central Bank at the end of 1983, an amount equal to US$78.2 million.

2/ Includes all amortization and interest paid in 1983 plus US$247 million in interest and amortization either rescheduled in 1983 or unpaid in connection with proposed reschedulings. This sum is composed of US$104 million of amortization rescheduled with commercial banks and two amounts relating to proposed reschedulings: US$82 million in interest and amortization due to official creditors and US$61 million due to a consortium of banks by the State Sugar Company. Excluding these amounts, actual debt service totals US$298 million equivalent to 20.9 percent of exports.

3/ For short-term debt, only net amortization is included.

as a whole reaching 10.6 percent of GDP, compared with 9.6 percent in 1982; a number of new taxes and revenue measures were introduced in late 1982-early 1983, including in particular a temporary (one year) surcharge of 10 percent on imports. Total expenditures which had been programmed to decline from 12.4 percent of GDP in 1982 to 11.1 percent in 1983, jumped to 13.1 percent of GDP. Current outlays rose by 12 percent, with increases ranging from 5.7 percent for wages and salaries to 20 percent or more in other categories (including purchases of goods and services and transfers to both the public and private sectors). Capital outlays were up by almost 40 percent, as both investment spending and transfers to the rest of the public sector were stepped up sharply.

An ambitious housing construction program undertaken by the National Housing Institute (INVI) led to a sharp widening of the deficit of the decentralized government agencies, to more than RD$60 million in 1983 from RD$7 million in 1982. This program was financed partly by transfers from the Central Government and mostly through the issuance of special bonds redeemable for paying income taxes in future years.1/ Mainly as a result of this development, the combined deficit of the rest of the public sector increased slightly from 2.8 percent of GDP percent in 1982 to 2.9 percent in 1983; the program had called for a decline to 1.5 percent of GDP. Among the major enterprises, the CEA reduced its deficit by about RD$20 million, due mainly to the 20 percent exchange incentive it received, and INESPRE also cut its deficit by a small amount. The deficit of the CDE remained unchanged, as investment spending was cut back sharply while the current account deficit widened.

In reviewing the fiscal outcome under the 1983 program, the Dominican Republic authorities said that starting before the middle of the year Government spending had been stepped up in an effort to support economic activity and employment. However, they noted that the performance of revenues had been much stronger than projected and that new revenue measures had been introduced, such as the increase in the cigarette tax in June 1983. The mission pointed out that the general tenor of fiscal policy had not been conducive to a successful execution of the program. Early in the year, gasoline prices were reduced, at a fiscal loss of some RD$27 million (1983 annual rate). The housing construction program had ended up putting claims on 1984 revenues to the tune of at least RD$40 million. The general sales tax went into effect in late November 1983, five months later than originally scheduled, and a broad list of exemptions had been included in the law; in addition, its application was limited to industrial sales by a last-minute administrative decree, so that its yield in 1984 would be about RD$80 million, much less than estimated originally and most of it collected on imports. The staff recalled that the general sales tax had been intended as a cornerstone of the effort to bring about a structural reform of the tax

1/ For more details on this program, see the Review paper (EBS/83/155, 7/27/83, pp. 16-17) and Section III.3 of the Recent Economic Developments paper.

As regards the rest of the public sector, the projection of the staff is now for a small decline in the combined deficit of the four major enterprises in 1984. The State Sugar Company (CEA) is expected to reduce its deficit by RD$30 million--reflecting mainly the increased exchange incentive as of April 17, but also increased operating efficiency and a 20 percent increase in domestic sugar prices that took effect in April. The deficit of the CDE would come down even more sharply, mainly because of higher revenues reflecting the budgeted payment by the Central Government of the electricity bills of a number of decentralized public sector entities and also substantial reductions achieved in fraudulent electricity losses. The performance of the companies in the Corporation of State Enterprises (CORDE) is expected to be about the same as in 1984, now that the price of cement was raised in late May. However, the deficit of INESPRE would rise sharply, due to the substantial amount of subsidies extended on certain key products and more generally through its "popular sales" program, and also because of timing problems of matching sales to the availability of CCC financing.

All in all, the staff now estimates an overall fiscal deficit for the consolidated nonfinancial public sector in 1984 of about the same absolute magnitude as in 1983, or 4 percent of GDP (compared to 5 1/2 percent in 1983), of which about two thirds would be covered by foreign financing. While actual foreign financing may fall short of the amount projected, this would most likely be reflected in a shortfall of investment spending (particularly by the Central Government and the CDE), leaving a gap (domestic financing requirement) of some RD$110 million.

As regards 1985, the staff estimates an overall deficit for the nonfinancial public sector on the order of RD$500 million, of which at most RD$300 million would likely be covered by foreign financing. These calculations are sensitive to the (average) exchange rate that is assumed for petroleum imports (RD$1.5 per U.S. dollar) and the amount of the pass-through to product prices (full for everything except electricity tariffs). In this connection, the mission stressed to the authorities that adjustments in electricity tariffs should not be delayed for long once petroleum prices were raised. The offset to the assumed oil import exchange rate is of course found in the exchange losses that would be incurred by the Central Bank. The Central Government's deficit would be boosted by the general inelasticity of the tax system and the continued weakness of foreign trade, and more specifically by the need to start making a sizable payment of interest on the bonded debt to the Central Bank, in order to help cover the operating losses of that institution (see Section III.2 b below). These projections incorporate the first full-year effect of the recent increase in the minimum wage, but do not allow for any further wage increases.

While the authorities agreed with the staff that the need to strengthen the balance of payments precluded any domestic financing of the public sector in 1984 and 1985, they did not commit themselves to any specific measures to achieve the required fiscal outcome--other than noting that domestically financed investment spending was running below

the budgeted target, with a potential saving of perhaps RD$50 million in central government outlays in 1984. The staff noted that further expenditure cuts might be difficult to implement and that another major tax package, of some RD$200 million, should be implemented without delay. In order to be fully effective in 1985, such a package should be centered around the value-added tax (broadening the base by eliminating exemptions and raising the rate) and include a few other key tax measures (such as reductions in investment tax credits and exemptions from import duties). Furthermore, it was essential that the public enterprises be allowed to set remunerative prices. The staff also noted that the public sector investment spending contemplated for 1984 is considerably higher than what the World Bank has recommended in its recent report (see Section III.3 below).

b. Monetary policy

The expansion of banking system credit to the public sector in 1983 amounted to about RD$310 million (3.6 percent of GDP)--far above the program target of RD$200 million but still some 20 percent less than in 1982--and accounted for some 67 percent of the increase in the total net domestic assets of the banking system (see Table 4). Credit to the private sector grew by more than 13 percent in 1983, compared with an increase in nominal GDP of 11 percent. Total credit expanded by more than 26 percent of liabilities to the private sector and resulted in a decline in the net international reserves of the banking system of RD$80 million, despite the rollover of certain foreign liabilities. Notwithstanding the measures taken in late 1982 to raise the return on financial assets, the growth of savings deposits slowed down sharply in 1983 (to 8 1/2 percent), as did the growth of narrow money (to 7 1/4 percent); demand deposits declined slightly in absolute terms, while currency in circulation was up almost 16 percent in apparent reflection of the exchange rate uncertainties that began to affect financial markets toward the end of 1983.

In the absence of measures that would assure the restoration of confidence, the growth of money and quasi-money would be expected to be weak in 1984. Also, in order to strengthen the peso in the parallel market and provide for domestic financial stability, the growth of the monetary base (reserve deposits plus currency issue) should be kept quite limited in 1984. In 1983 such resources grew by only RD$24 million, or 3 percent, and even with some allowance for an acceleration of inflation in 1984, their growth should not exceed 10 percent during the year. In addition, the Central Bank will incur a very large foreign exchange loss in 1984, due to the failure to adjust the oil import exchange rate in the face of the RD$0.48 per U.S. dollar exchange incentive for traditional exports granted in April 1984. Also, in 1984 and future years the Bank will incur sizable losses due to the external debt it assumed under the bank refinancing arrangement; interest payments on that account in 1984 are estimated at some US$60 million. Accordingly, and in view of the need to strengthen the Central Bank's gross foreign reserve position, and repay reserve liabilities, there is no room for any central bank credit to the public sector in 1984, as was noted earlier.

Indeed, even with zero credit to the public sector and the commercial banks, the Central Bank would have an unfinanced gap of some RD$370 million in 1984, consisting of RD$320 million in exchange losses and an operating loss estimated at RD$50 million. Only a small part of the gap could be covered through monetary measures, such as increases in rediscount rates and reductions in rediscount lines, placement of so-called stabilization bonds, and increases in deposit interest rates; in late January the Central Bank had been directed by the Monetary Board to prepare studies on some of these measures. While the mission could readily endorse most of these measures on their own merits, it noted that both the Central Bank's exchange losses (on account of the subsidy implicit in the exchange system) and its operating losses (which were due to the failure to charge and collect adequate interest rates on credit to the public sector) needed to be eliminated through fiscal measures.

As regards interest rate policy, the mission urged that a flexible approach be instituted promptly, in order to contain capital outflows and permit the financial system to adapt itself to the requirements of the flexible exchange rate regime that was evolving--whether under a program with the Fund or not. An important first step could be to lower the minimum denominations of the high-yield financial certificates that were introduced in late 1982, to a size that would make them accessible to small savers.1/ It was also important to make a start on raising the ceilings on deposit interest rates.

In 1985, again with no net credit extension to the public sector and a planned further strengthening of the Central Bank's net foreign reserve position, the Bank's unfinanced gap could be reduced to a more manageable proportion. Exchange losses would be very much smaller as the oil import exchange rate would have been adjusted (to the assumed average of RD$1.5 per U.S. dollar) and as foreign exchange would be available to the Bank for sale in the parallel market; the latter would depend in large part on fulfillment of the assumption that the refinancing of debt due to commercial banks and Paris Club creditors in 1985 takes place as outlined above. The Bank's operating loss could be covered with an adequate payment of interest by the Central Government on its debt to the Bank (see above).

3. Supply-side policies

Subsidization is widespread in all aspects of the Dominican Republic economy. The mission noted that many of the corrective policies in the fiscal, monetary, and exchange areas discussed above would serve to eliminate or reduce subsidies and hence would have significant beneficial effects on the efficiency of the economy. The subsidies extended to imports of petroleum and other products with access to the official

1/ These minimum denominations now range from RD$50,000 to RD$100,000 and are scheduled to be reduced further to a range of RD$10,000 to RD$50,000 by the end of 1985.

exchange rate not only have encouraged excessive consumption, but they have been made mainly at the expense of the export of traditional products. Similarly, domestic production of various agricultural commodities, and especially edible oils and the like, has been seriously hampered by the availability of imports made at the official exchange rate and priced inappropriately. In the industrial sector, import-competing activities are subsidized through extensive exemptions from customs duties and income taxes (mainly under Law 299 of 1968). In the monetary area, many activities--including the public sector--receive preferential lending rates, while saving is being discouraged through inadequate interest returns, particularly on low-denomination savings deposits that make up the bulk of financial savings. These various structural distortions are analyzed in detail in the recent World Bank Report on the Dominican Republic (No. 4735-DO, 1/31/84).

The mission recalled that in the Executive Board discussion of the Dominican Republic's request for the extended arrangement, and again at the time of the mid-term review, a number of Directors had voiced criticisms as to a lack of specificity of structural adjustment measures in the medium-term program, the absence of a World Bank endorsement of the public investment program, and more generally the relatively low level of World Bank lending to the country. The mission stressed to the authorities the importance of making tangible progress in adapting the public investment program to the recommendations made by the World Bank and of moving promptly to implement the Bank's report recommendations for structural adjustment. The Dominican Republic authorities said that these issues were under consideration, but that no specific follow-up had been made yet.

In its report, the Bank staff recommends that the public investment program be scaled down substantially from the levels contemplated in the current three-year plan. For 1984, it suggests that public investment be limited to RD$265 million and presents an illustrative revised program in line with its analysis of priorities and resource availability. The mission noted that the Central Government budget alone calls for investment spending of about RD$175 million, and an even larger amount appears to be budgeted for the rest of the public sector.

The mission urged the authorities to try and expedite as much as possible the implementation of the project loan for the CEA and the ongoing negotiations with the World Bank for a major loan to the CDE. The US$40 million loan to the CDE would be in support of a program for power rehabilitation and reduction of electricity losses through control of fraudulent tapping. The US$35 million loan to the CEA is primarily for the rehabilitation of mills and improvement in the transportation system.

As was noted above, the mission stressed the importance of allowing sufficient flexibility in the pricing of the goods and services sold by the public enterprises. In this connection, the mission welcomed the recent decision to raise the price of cement to compensate for increased

costs of imported inputs. In February the Government had taken action to strengthen the price control mechanism and freeze the prices of some 28 commodities that were deemed to be essential to low and middle income consumers. As was noted above, many of these controlled prices were adjusted in April when all remaining non-oil imports were transferred to the parallel market and when the support prices for certain domestically produced foodstuffs were raised.

IV. Staff Appraisal

The Dominican Republic has experienced severe external and internal imbalances since the late 1970s. From that time on, the overall balance of payments deficit has widened substantially and the premium for the U.S. dollar in the parallel foreign exchange market risen sharply, the fiscal performance of the nonfinancial public sector has shown a marked deterioration, and the pace of economic activity has slowed down. These developments have been the result of adverse external factors, inadequate demand management policies, and an inappropriate exchange rate policy which subsidized imports and penalized exports.

The Government which took office on August 16, 1982 adopted a medium-term economic program which was supported by an extended arrangement approved by the Fund on January 21, 1983. This program was aimed at achieving a viable external payments position in the context of a satisfactory rate of economic growth. The implementation of the program for the first year of the arrangement did not produce the degree of adjustment that had been sought. The overall financing requirement of the nonfinancial public sector remained unchanged in absolute terms in 1983, and the domestic financing requirement was only marginally smaller than in 1982. Balance of payments performance did not improve in 1983, as the current account deficit declined very little and the overall payments deficit was larger than in 1983 (when defined to include special financing and increases in unpaid obligations).

The departure from the fiscal adjustment envisaged in the program was concentrated in the last few months of the year, and the Dominican Republic was able to make all the purchases under the arrangement in the first program year, as all performance criteria through September 1983 were observed; the quantitative criteria for the last quarter of 1983 were indicative and no purchase was linked to them. The Dominican Republic did not meet the subceiling on net credit to the public sector by the Central Bank and the Banco de Reservas for the last quarter of 1983. The measurement of performance under the other ceilings and targets during the last quarter of 1983 was affected by the signing of the refinancing agreement with commercial banks in December. This agreement eliminated some US$310 million from the stocks of arrears and other foreign reserve liabilities of the Central Bank by converting them into a medium-term obligation.

The lack of adequate adjustment in the first year of the arrangement and the inability to reach understandings on the policies and measures for the second year have made it even harder to accomplish the objectives of the medium-term program. The staff is well aware of the magnitude of the task confronting the authorities. But if determined action is not taken, adjustment will only be more severe. Depreciation of the effective exchange rate of the peso will come about in any event, whether or not there is a program with the Fund. If it is to bring about the desired improvements in international competitiveness and general efficiency of the economy, however, it needs to reflect an adequate exchange rate policy supported by firm fiscal and credit policies. Otherwise confidence will not be restored and there will be a serious risk of accelerating inflation and further currency depreciation. Of course, for adjustment of the effective exchange rate of the peso to have the desired effects, its impact should be transmitted into price adjustments of the hitherto subsidized imports.

The authorities have recognized that the recent sharp depreciation of the peso in the parallel market is making the present dual market exchange system unworkable. Recently, in an effort to move toward unification, they took action to transfer to the parallel market all payments for current transactions (other than petroleum imports and debt service) as well as letters of credit and other outstanding obligations of the Central Bank, and abolished the exchange rate guarantee for private borrowing abroad. At the same time, the exchange incentive for traditional exports was increased and extended to exports of services. These are important steps toward the resolution of the Dominican Republic's balance of payments problem. In the view of the staff, these steps need to be followed at the earliest possible opportunity by adjustments in the exchange rate applicable to petroleum imports. A start should also be made in transferring debt service and capital transactions to the parallel exchange market, particularly for the public enterprises. Gradual exchange rate adjustments for these transactions might help to prevent "over-adjustment" of prices to a parallel exchange rate which could appreciate from its present level if firm demand management policies are put into place and adjustment takes hold.

It is very important that economic policies make provision for a meaningful improvement in the net foreign reserve position of the Central Bank, which by the end of April 1984 was still negative by close to some US$500 million even after the refinancing of the arrears on letters of credit. The remaining arrears, estimated at some US$130 million, should be reduced in the period ahead in order to help restore the Dominican Republic's international creditworthiness. Also, the Central Bank's gross reserves need to be increased to help ease its cash flow management. In addition, a substantial balance of payments surplus will be required in both 1984 and 1985 to enable the country to manage its heavy debt servicing schedule.

The authorities have approached the banks on a possible refinancing of public and private debt amortization due in 1984 and 1985. While recognizing the relief which this would offer, the staff notes that

the Dominican Republic's debt service problems will be solved on a lasting basis only through improvement in the fiscal position, thereby limiting growth of the public debt, and through achievement of strong and sustained export growth.

The authorities recognize that the need to strengthen the balance of payments position precludes any domestic financing of the public sector in 1984 and 1985, but they have not yet taken the steps needed to ensure such a result. The new revenue measures are welcome, but they are not sufficient to cover the gap. Apart from expenditure cuts and further tax increases--particularly a broadening of the base of the general sales tax and an increase in its rate--it is essential that the public enterprises be allowed to set remunerative prices. In this connection it is important to note that failure to adjust electricity tariffs in line with the exchange rate for oil imports will add a heavy burden to the budget in 1985. Another claim on fiscal resources, for which the 1985 budget should start making allowance, is the loss to the Central Bank resulting from not charging or collecting adequate interest rates on credit to the public sector.

In the monetary area, the authorities recognize the need for adjustment of domestic interest rates, but action is awaiting the results of a study. The staff urges that a flexible approach be implemented promptly, allowing interest rates to be determined by market forces. This would assist in the efficient management of credit policy, discourage capital outflows, and permit the financial system to adapt itself to the evolving flexible exchange rate regime. An important first step in this direction could be the reduction in the minimum denomination of the high-yield financial certificates that were introduced in late 1982.

The staff appreciates the authorities' concern that the adjustment effort requires sizable increases in the prices of particular products. However, these effects are inevitable in as much as they reflect the elimination of long-standing subsidization, mainly through the overvalued official exchange rate (and the resulting hidden tax on exports); if the adjustment effort is to lay the conditions for improving economic efficiency, relative prices must be permitted to guide resource allocation. Firm fiscal and credit policies along the lines described above are called for precisely to help ensure that these corrective price changes are implemented without setting off an inflationary spiral. When combined with a restrained incomes policy that would help to mitigate adverse effects on employment, there should be little or no need for price controls, which run the risk of obstructing adjustment.

Adjustment of the exchange rate, adoption of a flexible interest rate policy, and fiscal reform should help promote a more efficient allocation of resources and thus contribute to the achievement of the medium-term program's objectives as regards economic growth and employment. However, other structural reforms are needed to improve economic efficiency, and the staff urges the authorities to move promptly to

implement the World Bank's recommendations in this regard. It also would be advisable that the public investment program be adapted along the lines proposed by the World Bank.

The magnitude of the adjustment still required in the Dominican Republic's economy is large and the staff recognizes the difficulty of the task faced by the authorities. The staff stands ready to help the authorities in the continuation of their adjustment effort.

The Dominican Republic's exchange system involves practices subject to approval by the Fund under Article VIII, Sections 2 and 3. These practices consist of restrictions on the making of payments and transfers for current international transactions in the form of payments arrears and multiple currency practices arising from: (1) a dual foreign exchange market; (2) exchange incentives for exports subject to surrender at the Central Bank; (3) a partial exemption from surrender requirement for certain exports; and (4) a tax on profit remittances abroad, including a surcharge on the amount of tax. The staff believes that the continued maintenance of external payments arears is hindering the country's effort to re-establish its creditworthiness; it also believes that the move toward a realistic unitary exchange rate system would contribute to the elimination of distortions in the economy and to the improvement of the balance of payments. The staff recognizes the efforts made so far to correct the economy's imbalances. However, further action would seem to be needed to ensure the temporariness of the existing restrictions. For this reason, Executive Board approval of these exchange practices is not recommended.

It is recommended that the next Article IV consultation with the Dominican Republic be held on the standard 12-month cycle.

Dominican Republic - Fund Relations
(As of May 31, 1984)

I. Membership Status

(a) Date of membership: December 28, 1945
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)

		Millions of SDRs	Percent of Quota
(a)	Quota:	112.10	
(b)	Fund holdings of Dominican pesos:	343.60	306.50
(c)	Fund credit:	231.50	206.51
	Of which: CFF	78.75	70.25
	Buffer stock	23.19	20.69
	Credit tranche	5.81	5.18
	EFF	61.88	55.20
	Enlarged access under EFF	61.88	55.20
(d)	Reserve tranche position:	--	--
(e)	Current Operational Budget:	--	--
(f)	Lending to the Fund:	--	--

III. Current Stand-By or Extended Arrangement and Special Facilities

(a) Current extended arrangement

(i) Duration: From January 21, 1983 to January 20, 1986
(ii) Amount: SDR 371.25 million
(iii) Utilization: SDR 123.75 million
(iv) Undrawn balance: SDR 247.50 million

(b) Previous stand-by and extended arrangements since 1974: None

(c) Special facilities since 1974:

Facility	Date of purchase	Amount
CFF	January 1983	SDR 42.75 million
BSFF	July 1982	SDR 10.55 million
CFF	May 1982	SDR 36.00 million
CFF	September 1979	SDR 27.50 million
CFF	January 1979	SDR 6.00 million
BSFF	January 1979	SDR 11.51 million

IV. SDR Department

(a) Net cumulative allocation: SDR 31.59 million
(b) Holdings: SDR 146,638 (0.46 percent of net cumulative allocation)
(c) Current designation plan: Not in designation plan

B. Nonfinancial Relations

V. Exchange Rate Arrangement

The Dominican peso has been linked to the U.S. dollar, the intervention currency, at RD$1 per U.S. dollar since the initial par value of the Dominican peso was established in February 1948. A parallel exchange market also exists and the rate in this market recently has fluctuated at around RD$2.80 per U.S. dollar. The Fund's holdings of Dominican pesos are valued on the basis of a representative exchange rate under Rule O-2, paragraph (b)(i).

Apart from the dual exchange market, the Dominican Republic maintains three other multiple currency practices, resulting from (1) the exchange incentive of RD$0.48 per U.S. dollar for exports subject to surrender at the Central Bank; (2) the partial exemption from the surrender requirement for certain nontraditional exports; and (3) the levying of a tax on remittances of profits from foreign investments, including a surtax on the amount of this tax. In addition, as of May 18, 1984 the Dominican Republic still had outstanding some US$109 million of external payments arrears for which peso deposits have been lodged with the Central Bank. Also, an amount of dividend remittances totaling around US$80 million had accumulated for which the Central Bank has failed to make foreign exchange available at the official rate, but for which no peso deposits are maintained under a special ruling of the Monetary Board. Fund approval of these restrictions and multiple currency practices was granted on January 21, 1983 and lapsed at the end of the first year of the extended arrangement.

VI. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on January 21, 1983 (EBM/83/15), at the same time that the current extended arrangement was approved. The relevant staff reports were SM/82/239 and SM/83/1. For consultation purposes, the Dominican Republic is in the 12-month cycle. The last review under the EFF was concluded by the Executive Board on August 24, 1983 (EBM/83/121). The relevant staff report was EBS/83/155.

VII. Technical Assistance

The Bureau of Statistics provided technical assistance in June 1984 in the field of government finance statistics, with special reference to the (1) reconciliation of fiscal data compiled by the Ministry of Finance and the Central Bank; (2) the compilation of data on central government financing and debt; and (3) the compilation of data on the fiscal operations of the local governments.

World Bank Group Financial Relations with the Dominican Republic

(In millions of U.S. dollars)

A. IBRD Operations (as of February 29, 1984)

	Commitments (net of cancellations)	Disbursements	Undisbursed Amount
Agriculture and irrigation	69.0	28.2	40.8
Industry	25.0	25.0	--
Tourism	46.0	32.3	13.7
Transport	65.0	61.1	3.9
Population	5.0	5.0	--
Education	12.0	12.0	--
Housing	25.4	2.0	23.4
Sugar rehabilitation	35.0	1.2	33.8
Urgent imports requirements	25.0	25.0	--
Local government	7.1	--	7.1
Energy	3.8 1/	--	3.8
Total	318.3	191.8	126.5
Repayments		25.0	
Total outstanding		166.8	

B. IFC Operations (as of February 29, 1984)

	Loans	Equity	Total
Commitments	16.0	2.9	18.9
Total held by IFC	8.9	2.9	11.8
Total undisbursed	3.6	0.4	4.0

C. IBRD Loan Transactions

	Actual			
	1980	1981	1982	1983
Disbursements	39.1	33.8	24.9	26.9
Repayments	2.1	2.3	2.3	4.0
Net lending	37.0	31.5	22.6	22.9

Source: IBRD.

1/ Not yet effective.

Dominican Republic - Basic Data

Area and population	
Area	48,400 sq. kilometers
Population (mid-1983)	6.1 million
Annual rate of population increase (1978-83)	2.9 percent
GDP (1983)	US$8.7 billion
GDP per capita (1983)	US$1,429

	1980	1981	1982	1983
Origin of GDP		(percent)		
Agriculture and fishing	16.7	16.9	17.2	17.2
Mining and manufacturing	22.5	22.4	21.8	22.2
Construction	6.8	6.6	6.2	6.8
Commerce, transportation, and communications	24.2	24.4	25.0	24.3
Government	9.6	9.9	10.3	10.0
Other	20.2	19.8	19.5	19.5
Ratios to GDP				
Exports of goods and services	19.8	21.1	14.6	14.2
Imports of goods and services	32.8	29.4	22.8	21.4
Current account of the balance of payments	-10.1	-5.6	-5.6	-4.8
Central government revenues	13.4	12.8	9.6	10.6
Central government expenditures	16.2	15.0	12.4	13.1
Central government savings	2.4	2.1	-0.4	0.5
Public sector overall surplus or deficit (-)	-6.0	-6.2	-6.2	-5.6
External debt (end of year)1/	29.0	30.7	34.0	33.2
Gross national savings	15.6	18.7	15.2	16.3
Gross domestic investment	25.7	24.3	20.8	21.1
Money and quasi-money (end of year)2/	15.9	16.3	17.3	16.8
Annual percentage changes in selected economic indicators				
Real GDP per capita	3.1	1.2	-1.3	1.0
Real GDP	6.1	4.1	1.6	3.9
GDP at current prices	20.7	9.1	9.0	10.9
Domestic expenditures (at current prices)	24.5	3.6	9.8	9.7
Investment	(22.0)	(3.3)	(-6.9)	(12.5)
Consumption	(25.3)	(3.6)	(14.9)	(9.0)
GDP deflator	13.8	4.8	7.4	6.7
Cost of living (annual averages)	16.8	7.5	7.6	6.9
Central government revenues	29.0	4.0	-18.5	22.3
Central government expenditures	8.4	0.3	-10.0	17.4
Money and quasi-money 2/	0.6	11.9	15.9	7.9
Money	(-1.9)	(12.8)	(12.4)	(7.3)
Quasi-money	(3.6)	(10.9)	(19.8)	(8.5)
Net domestic bank assets 3/	24.8	36.1	45.7	34.3
Credit to public sector (net)	(9.5)	(32.5)	(32.5)	(22.9)
Credit to private sector	(14.5)	(-2.3)	(7.9)	(10.8)
Merchandise exports (f.o.b., in U.S. dollars)	10.7	23.5	-35.4	2.3
Merchandise imports (f.o.b., in U.S. dollars)	33.6	-4.5	-13.4	2.0

Central government finances	1980	1981	1982	1983
	(millions of Dominican pesos)			
Revenues	890.8	926.0	754.6	923.2
Expenditures	1,077.5	1,080.9	972.9	1,142.3
Current account surplus or deficit (-)	160.1	153.0	-33.4	45.9
Overall surplus or deficit (-)	-186.7	-154.9	-218.3	-219.1
External financing (net)	117.6	60.2	48.4	81.3
Internal financing (net)	69.1	94.7	169.9	137.8

Balance of payments				
	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	961.9	1,188.0	767.7	785.2
Merchandise imports (f.o.b.)	-1,519.7	-1,451.7	-1,257.3	-1,282.2
Investment income (net)	-210.2	-293.1	-254.1	-297.1
Travel (net)	6.8	78.5	179.1	233.0
Other services and transfers (net)	91.4	72.4	122.7	140.0
Balance on current and transfer accounts	-669.8	-405.9	-441.9	-421.1
Official capital (net)	365.5	174.1	212.0	-15.9
Private capital and errors and omissions (net)4/	186.5	80.9	-80.7	63.7
Extraordinary finance	--	--	--	294.5 5/
Change in banking system net reserves (increase -)	117.8	150.9	310.6	78.8

International reserve position	December 31			
	1980	1981	1982	1983
	(millions of U.S. dollars)			
Central Bank (gross)	275.2	283.5	172.4	204.3
Central Bank (net)	-212.7	-322.3	-679.6	-428.1
Rest of banking system (net)	-27.5	-68.8	-22.2	-42.8

1/ Debt of all maturities, including use of Fund credit, arrears, and all other foreign reserve liabilities.

2/ Includes only banking system liabilities.

3/ Changes in relation to broad money outstanding at the beginning of the year.

4/ Includes counterpart entries to the increase in reserves resulting from allocations of SDRs and from gold revaluation and monetization.

5/ Includes rescheduled debt and unpaid obligations relating to proposed reschedulings.