

EBS/85/237
Correction 1

CONFIDENTIAL

November 22, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Dominican Republic - Staff Report for the 1985 Article IV
Consultation and Review, Technical Modification, and
Waiver Under the Stand-By Arrangement

The following corrections have been made in EBS/85/237 (10/30/85):

Page 10, Table 6, last column, line 7: for "430.0" read "460.0"

Page 22, Table 8, 2nd column, line 7: for "430" read "460"

Corrected pages are attached.

Att: (2)

Table 5. Dominican Republic: Summary Accounts of the Central Bank and the Banking System, 1981-85

(In millions of Dominican pesos)

	1981	1982	1983	1984	1984 1/	Prog. 1985 1/	1984 2/	Proj. 1985 2/
I. Central Bank								
Net international reserves	-322.3	-678.6	-428.1	-335.9	-940.5	-636.1	-1,007.7	-799.8
Assets	283.5	172.4	204.3	268.5	751.8	826.0	805.5	834.3
Liabilities	-605.8	-851.0	-632.4	-604.4	-1,692.3	-1,462.1	-1,813.2	1,634.1
Net domestic assets	718.2	1,109.8	915.0	1,027.5	1,632.1	1,467.4	1,699.3	1,578.9
Claims on the public sector (net)	688.0	970.5	1,223.8	1,341.8	1,341.8	1,341.8	1,341.8	1,341.8
Central Government	(542.5)	(739.7)	(866.6)	(937.4)	(937.4)	(937.4)	(937.4)	(937.4)
Counterpart funds of foreign aid (mostly PL-480)	(-6.4)	(-7.7)	(-30.5)	(-2.1)	(-2.1)	(-2.1)	(-2.1)	(-2.1)
Public financial institutions	(146.5)	(151.2)	(149.6)	(148.2)	(148.2)	(148.2)	(148.2)	(148.2)
Rest of the public sector	(5.4)	(87.3)	(238.1)	(258.3)	(258.3)	(249.9)	(258.3)	(258.3)
Credit to commercial banks (net)	-39.8	201.0	301.9	231.4	231.4	155.5	231.4	115.9
Credit to the rest of the financial system	133.0	157.9	190.7	215.3	215.3	215.9	215.3	338.7 3/
Medium- and long-term foreign liabilities	-259.0	-359.1	-808.2	-868.8	-2,432.6	-2,545.7	-2,606.4	-2,682.3 4/
Revaluation account	--	--	--	--	2,168.5	2,185.7	2,409.4	2,583.6
Deposits from U.S. grants (Plan Reagan)	--	--	--	-50.0	-50.0	-50.0	-50.0	-411.2 5/
Net unclassified assets	196.0	139.4	6.8	157.8	157.8	174.7	157.8	292.4
Currency issued	395.9	431.2	486.9	691.6	691.6	831.3	691.6	779.1
Currency in circulation	323.8	357.1	414.7	592.8	592.8	724.2	592.8	672.0
Cash in vaults	72.1	74.1	72.2	98.8	98.8	107.1	98.8	107.1
II. Banking System								
Net foreign assets	-391.2	-700.7	-479.2	-362.5	-1,015.0	-710.6	-1,087.5	-879.6
Net domestic assets (net)	1,978.9	2,389.5	2,425.4	2,751.3	3,403.8	3,566.5	3,476.3	3,588.3
Of which: credit to the public sector	995.6	1,379.1	1,661.7	1,830.5	1,830.5	1,767.6	1,830.5	1,776.2
credit to the private sector	1,019.6	1,113.5	1,261.3	1,413.0	1,413.0	1,744.8	1,413.0	1,527.0
Liabilities to the private sector	1,587.7	1,688.8	1,946.2	2,388.8	2,388.8	2,855.9	2,388.8	2,708.7
Of which: quasi-money	626.3	703.7	755.2	1,140.7	1,140.7	1,338.5	1,140.7	1,247.0
	553.1	662.7	719.2	779.9	779.9	997.4	779.9	820.0

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

- 1/ Foreign exchange transactions valued at RD\$2.80 per U.S. dollar.
- 2/ Foreign exchange transactions valued at RD\$3.00 per U.S. dollar.
- 3/ Includes loans extended by FIDE to the financial system with IDB funds.
- 4/ Includes IDB loan for US\$45 million for the PRI program.
- 5/ Includes funds from the 1984 U.S. grants that were revalued in March 1985 plus funds from the 1985 U.S. grants.

Table 6. Dominican Republic: Summary Balance of Payments, 1981-85

(In millions of U.S. dollars)

	1981	1982	1983	Prel. 1984	Prog. 1985	Proj. 1985
<u>Current account</u>	<u>-405.9</u>	<u>-442.0</u>	<u>-421.1</u>	<u>-218.3</u>	<u>-29.3</u>	<u>-46.5</u>
Trade balance	-263.7	-489.7	-497.0	-379.8	-350.0	410.5
Exports, f.o.b.	(1,188.0)	(767.6)	(785.2)	(871.7)	(800.0)	(789.5)
Imports, f.o.b.	(-1,451.7)	(-1,257.3)	(-1,282.2)	(-1,251.5)	(-1,150.0)	(-1,200.0)
Services (net)	-335.2	-157.3	-139.1	-105.5	5.7	14.0
Receipts	(336.4)	(378.5)	(451.5)	(507.3)	(609.0)	(609.9)
Of which:						
travel	/206.3/	/266.1/	/320.0/	/370.0/	/477.7/	/460.0/
Payments	(-671.6)	(-535.8)	(-590.6)	(-612.8)	(-603.3)	(-595.0)
Of which:						
interest	/-304.9/	/-285.5/	/-304.0/	/-296.0/	/-236.2/	/-255.0/
Transfers (net)	193.0	205.0	215.0	267.0	315.0	350.0
Private	(176.3)	(190.0)	(195.0)	(210.0)	(215.0)	(230.0)
Public	(16.7)	(15.0)	(20.0)	(57.3)	(100.0)	(120.0)
<u>Capital account</u>	<u>296.3</u>	<u>85.7</u>	<u>68.4</u>	<u>63.6</u>	<u>-120.3</u>	<u>-84.2</u>
Direct investment	79.7	-1.4	22.0	68.0	42.0	42.0
Medium- and long-term loans (net)	153.6	150.5	24.1	34.0	-143.0	-152.0
Drawings	(320.2)	(355.8)	(248.7)	(324.0)	(280.0)	(264.0)
Amortization	(-166.6)	(-205.3)	(-224.6)	(-290.0)	(-423.0)	(-416.0)
Other ^{1/}	63.0	-63.4	22.3	-38.4	-19.3	25.8
<u>Overall balance</u>	<u>-109.6</u>	<u>-356.3</u>	<u>-352.7</u>	<u>-154.7</u>	<u>-149.6</u>	<u>-130.7</u>
<u>Financing</u>	<u>109.6</u>	<u>356.3</u>	<u>352.7</u>	<u>154.7</u>	<u>149.6</u>	<u>130.7</u>
Net foreign assets of the Central Bank (increase -)	109.6	356.3	58.2 ^{2/}	-92.2	-108.7	-69.3
Assets	(-8.3)	(111.1)	(-31.9)	(-63.7)	(-27.0)	(...)
Liabilities	(117.9)	(245.2)	(90.1)	(-28.5)	(-81.7)	(...)
Use of Fund credit	/-25.5/	/48.6/	/174.6/	/-25.0/	/29.2/	/44.7/
Arrears	/166.8/	/119.9/	/-67.4/	/34.3/	/-12.5/	/.../
Other liabilities	/-23.4/	/76.7/	/-17.1/	/37.7/	/-98.4/	/.../
Arrears (decrease -) ^{3/}	--	--	142.6	246.9	-77.5 ^{4/}	-108.0
Debt relief	--	--	151.9	--	335.8 ^{5/}	308.0

Sources: Data provided by the Central Bank of the Dominican Republic; and Fund staff estimates and projections.

^{1/} Includes SDR allocation in 1981, short-term public and private capital (net), gold revaluation and monetization, and errors and omissions (net) through 1984.

^{2/} In December 1983 an amount of US\$309.7 million of central bank reserve liabilities was converted into a medium-term loan as a result of a rescheduling with commercial banks.

^{3/} Outside the Central Bank.

^{4/} Reduction of arrears through cash payment.

^{5/} Financing gap that was expected to be met with debt relief.

As regards exports, prospects are especially poor for sugar, the single most important export product. Uneconomical prices in the free market coupled with uncertainties regarding the size of the quota in the U.S. market underscore the urgent need to reduce the economy's reliance on sugar. With the prospective exhaustion of known gold and silver deposits, new exploration would need to be undertaken or alternatively other export opportunities would have to be developed. The most promising among the latter would be nontraditional export products, tourism, and the free trade zones. A policy environment necessary to effect the required structural changes would include flexible exchange rate policy, the removal of taxes and tariffs that discriminate against the export sector, and the maintenance of cautious monetary and fiscal policies.

The time element of the adjustment process is quite important because of the modalities of the debt rescheduling, especially with commercial banks. The MYRA that was recently negotiated in principle with the banks provides for a rescheduling of 100 percent of principal payments for 1985-89 and end-1984 arrears to be repaid in 1988-97 (the total amount to be rescheduled was US\$787 million). The repayment profile is quite favorable with annual repayments starting in 1988 at US\$9 million and only increasing gradually to US\$111 million by 1994. Nonetheless, from 1991 onward substantial amounts will need to be amortized and the current account would need to have undergone sufficient improvement to allow for nondisruptive servicing of these and other prospective obligations.

The prospects for the balance of payments over the medium term are presented in Table 8. Underlying this scenario is the assumption that the adjustment effort initiated in 1985 will be maintained in the coming years and, in particular, that fiscal and monetary policies will remain sufficiently restrained and be supported by appropriate exchange rate policies.

The trade deficit is expected to widen from about US\$410 million in 1985 to US\$560 million in 1990. This is primarily a result of limited prospects for traditional exports and the expected cessation of gold mining in 1989. Thus, while nontraditional exports are projected to grow at 16 percent a year in 1986-90, total exports would increase by only 4 1/2 percent per year during this period. Imports are projected to rise at an average annual rate of 5 1/4 percent. The surplus on services is forecast to increase from US\$14 million in 1985 to about US\$140 million in 1990, on the basis of a strong performance of the tourist sector (made possible by the flexible exchange rate) and the stabilization of interest payments (due to improvement in the structure of the external debt). Accordingly, the current account is projected to record a small deficit by 1990.

For 1986 it is likely that the capital account will continue to register an outflow, but of a smaller magnitude than in 1985. From 1987 to 1990 net inflows of public and private capital are projected, on

Table 8. Dominican Republic: Medium-Term Balance of Payments, 1984-90

(In millions of U.S. dollars)

	Prel.	Projections					
	1984	1985	1986	1987	1988	1989	1990
<u>Current account</u>	-218	-46	-2	25	42	-38	-29
Trade balance	-380	-410	-421	-414	-431	-546	-560
Exports, f.o.b.	(872)	(790)	(815)	(886)	(942)	(904)	(990)
Imports, f.o.b.	(-1,251)	(-1,200)	(-1,236)	(-1,300)	(-1,373)	(-1,450)	(-1,550)
Services (net)	-106	14	77	85	108	129	137
Receipts	(507)	(609)	(660)	(690)	(735)	(783)	(833)
Of which: travel	/371/	(460)	/522/	/567/	/606/	/647/	/690/
Payments	(-613)	(-595)	(583)	(-605)	(-627)	(-654)	(-696)
Of which: interest	/-296/	/-255/	/-239/	/-233/	/-237/	/-249/	/-270/
Transfers	267	350	342	354	366	380	394
Private	(210)	(230)	(242)	(254)	(266)	(280)	(294)
Public	(57)	(120)	(100)	(100)	(100)	(100)	(100)
<u>Capital account</u>	63	-84	-75	55	161	267	320
Direct investment	68	42	50	60	65	70	75
Medium- and long-term loans	34	-152	-125	-5	96	197	245
Drawings	(324)	(264)	(259)	(328)	(379)	(386)	(407)
Amortization	(-290)	(-416)	(-383)	(-333)	(-283)	(-189)	(-163)
Other	-39	23	--	--	--	--	--
<u>Overall balance</u>	-155	-131	-77	80	203	229	291
<u>Financing</u>	155	131	77	-80	-203	-229	-291
Net foreign assets of the							
Central Bank (increase -) ^{1/}	-92	-69	-20	-150	-200	-150	-150
Assets	(-64)	(...)	(...)	(...)	(...)	(...)	(...)
Liabilities	(-28)	(...)	(...)	(...)	(...)	(...)	(...)
Use of Fund credit	/-25/	/45/	/-22/	/-49/	/-44/	/-71/	/-56/
Arrears	/34/	/.../	/.../	/.../	/.../	/.../	/.../
Others	/-38/	/.../	/.../	/.../	/.../	/.../	/.../
Arrears (decrease -)	247	-108 ^{2/}	-100 ^{2/}	--	--	--	--
Debt relief	...	308	141	53	60	-18	-120
Financing gap	56	17	-63	-61	-21

Sources: Data provided by the Dominican authorities; and Fund staff estimates and projections.

^{1/} Includes increase in gross reserves of at least US\$50 million per year in 1987-90.^{2/} Reduction of arrears through cash payment.