FOR
AGENDA

EBS/82/238

CONFIDENTIAL

December 28, 1982

To: Members of the Executive Board

From: The Acting Secretary

Subject: Dominican Republic - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from the Dominican Republic for a purchase equivalent to SDR 42.75 million under the compensatory financing facility. A draft decision appears on page 12.

It is proposed that this subject, together with the staff report for the 1982 Article IV consultation with the Dominican Republic and the Dominican Republic's request for an extended arrangement (EBS/82/239, to be issued) be brought to the agenda for discussion on Friday, January 21, 1983.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research and the Western Hemisphere Departments

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

Approved by Wm. C. Hood and E.W. Robichek

December 27, 1982

The Managing Director has been informed that the authorities of the Dominican Republic will shortly request a purchase of SDR 42.75 million, equivalent to 51.8 per cent of quota, under the compensatory financing decision. The request is being made with respect to a shortfall in merchandise exports for the 12 months ended September 1982, and, if approved, would raise the Dominican Republic's total drawings outstanding under the facility from 48.2 to 100 per cent of quota. A request for use of Fund resources under an extended facility arrangement in an amount equivalent to SDR 371.25 million (450 per cent of quota) is expected to be considered by the Executive Board concurrently with the present CF request. If approved, the proposed CF purchase would raise Fund holdings of the member's currency from 178 per cent of quota to 229 per cent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement would be required and is being proposed.

This paper is being circulated in advance of the formal request from the Dominican Republic. The present request is being made some eight months after the approval by the Executive Board on May 6, 1982 (EBS/82/69) of a CF request by the member for a purchase of SDR 36.0 million in respect of a shortfall for the 12-month period ended August 1982. At the time of the earlier request, six months of export earnings in the shortfall year (March-August 1982) were estimated. The staff subsequently reported on the final calculation of the shortfall when actual data for the entire shortfall year became available, concluding that the previous purchase did not involve overcompensation (EBS/82/197, 10/22/82). The present request relates to a shortfall year ended September 1982, which overlaps the earlier shortfall year by 11 months; the calculations are based on actual earnings for the entire shortfall year. The first three sections of this paper update the information contained in EBS/82/69 regarding the Dominican Republic's balance of payments, cooperation with the Fund, and the estimation of the shortfall. The fourth section compares the shortfalls associated with the two 12-month periods ended August 1982 and September 1982, respectively. The last section contains the staff appraisal and proposed decision. The relations between the Fund and the Dominican Republic are summarized in the annex.

1. Balance of payments position

The Dominican Republic experienced increasing balance of payments difficulties during the five-year period ending in 1982 (Table 1). While the current account deficit as a proportion of GDP improved from 10.1 per cent in 1980 to 5.4 per cent in 1981 and 1982, the overall balance of payments deficit increased from 1.8 per cent of GDP during 1978-80, to 2.0 per cent of GDP in 1981, and is estimated to reach 4.2 per cent of GDP in 1982. These balance of payments deficits have been financed largely through the accumulation of payments arrears and delays in the delivery of foreign exchange to local banks for the payment of letters of credit. The aggregate of both types of delayed payments is estimated to exceed SDR 400 million by the end of 1982 (Table 1).

The increasing deterioration in the balance of payments of the Dominican Republic in 1981 and 1982 was the result of sluggish market conditions for its primary commodity exports (except for sugar in 1981), somewhat higher oil import prices (in 1981), greater interest payments on the external debt, and reduced access to foreign financing for both the public and the private sectors. The Dominican peso has remained pegged to the U.S. dollar at par in the official exchange market, and in 1982 the peso had a value vis-a-vis the currencies of the trading partners of the Dominican Republic in real effective terms similar to that existing in 1977 in this market. By contrast, in real effective terms, the peso depreciated by about 20 per cent between 1977 and 1982 in the parallel market.

The trade balance is estimated to have deteriorated in 1982, as a 30 per cent fall in export receipts is expected to be only partly offset by a continued decline in imports. The decline in imports reflects the further slowdown in economic activity this year, the reluctance of commercial banks to increase their exposure in letters of credit to finance imports, and additional measures adopted by the authorities to tighten the import system and to reduce the value of imports payments made at the official exchange rate. During 1982, however, the deficit on services was reduced mostly because of an increase in tourist receipts. While the current account deficit in 1982 is estimated to have worsened by just SDR 50 million, the overall balance of payments deficit is forecast at SDR 303 million, some SDR 170 million larger than in 1981, because access to foreign financing has continued to be curtailed. Although net capital receipts of the public sector have increased somewhat during 1982, there has been a swing in private capital flows from a net inflow of SDR 75 million in 1981 to a net outflow of SDR 80 million, because of a reduction in commercial credit, and a decline in the exposure of foreign banks in the Dominican Republic. About half of the overall balance of payments deficit is expected to be financed by the accumulation of arrears and delayed letters of credit, and the remainder by a drawdown of reserves and use of Fund credits.

Table 1. Dominican Republic: Balance of Payments, 1978-82

	1978	1979	1980	1981 Prel.	1982 Proj.
	(In millions of SDRs)				
A. Current account	-249.1	-256.4	-514.6	-344.2	-393.3
Merchandise	-230.8	-304.0	-554.5	-343.8	-481.2
Exports, f.o.b.	(539.5)	(672.3)	(739.1)	(1,007.5)	(710.0)
Imports, c.i.f.	(-770.3)	(-976.3)	(-1,293.6)	(-1,351.3)	(-1,191.2)
Services (net)	-138.0	-111.7	-104.4	-164.1	-94.9
Of which:					
Travel (net)	(-27.2)	(-26.5)	(5.2)	(66.6)	(138.7)
Transfers (net)	119.7	159.3	144.3	163.7	182.8
B. Capital account (net)	160.5	161.6	400.3	222.6	90.9
Public sector 1/	125.7	151.2	280.8	147.6	170.7
Private sector 2/	34.8	10.4	119.5	75.0	-79.8
C. Unrequited earnings 3/	12.6	27.1	23.8	-6.4	-1.0
D. Overall balance	-76.0	-67.7	-90.5	-128.0	-303.4
E. Financing	76.0	67.7	90.5	128.0	303.4
Net use of IMF credit	--	57.5	-49.8	-30.1	45.6
Other 4/	76.0	10.2	140.3	158.1	257.8
	(As per cent of GDP)				
Memorandum items:					
Current account	134.0	6.0	10.1	5.4	5.4
Overall balance	2.0	1.6	1.8	2.0	4.2
	(In millions of SDRs)				
Gross official reserves, end of year	134.0	218.4	211.4	240.3	201.9
Arrears and overdue letters of credit, end of year	--	33.6	114.9	268.3	411.0
	(In months of imports)				
Gross official reserves/imports	2.1	2.7	2.0	2.1	2.0

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

1/ Includes short-term capital.
2/ Includes errors and omissions.
3/ Includes SDR allocation, gold monetization, and gold revaluation.
4/ Includes other Central Bank foreign assets and liabilities, and net foreign assets of the commercial banks.

2. Cooperation with the Fund

The proposed purchase by the Dominican Republic would raise outstanding CF purchases above 50 per cent of its quota, and, for this reason, Board approval of the request requires that the Fund be satisfied that the Dominican Republic has been cooperating with it in efforts to find appropriate solutions for its balance of payments difficulties. The staff considers that this requirement is met by the adoption by the Dominican Republic of a financial program in support of which the authorities are requesting use of Fund resources under an extended arrangement. The Dominican Republic has maintained multiple currency practices and exchange restrictions that remained unapproved in the past. The staff is recommending in the accompanying extended arrangement paper (EBS/82/239) approval for these practices until the end of the first year of the extended arrangement or the next Article IV consultation, whichever is earlier.

3. Estimation of the shortfall

After exhibiting strong growth in the two pre-shortfall years (an average annual increase of 35 per cent), export earnings in the shortfall year declined by 36 per cent. Earnings in the post-shortfall period are projected to recover, rising at an average annual rate of 10 per cent. On the basis of these movements, the export shortfall is calculated at SDR 127.7 million (Table 2).

The calculated shortfall was adjusted to avoid double compensation for the CF purchase made in May 1982 and for a buffer stock purchase with respect to sugar made in July 1982. In accordance with established practice, the buffer stock purchase is treated as unrecorded exports distributed equally over the 12 months preceding the purchase. The shortfall based on the adjusted export data, calculated at SDR 122.1 million, is SDR 5.6 million less than that based on unadjusted data. The double compensation arising from the earlier CF purchase of SDR 36 million amounts to SDR 33 million since 11 months of the present shortfall year overlap with the earlier shortfall year (i.e., SDR 33 million = SDR 36 million x 11/12). Consequently, the calculated shortfall is reduced by SDR 38.6 million to SDR 89.1 million, more than twice the proposed purchase of SDR 42.75 million.

4. Comparison between export shortfalls for the years ended August 1982 and September 1982

The shortfall of SDR 127.7 million calculated for the year ended September 1982 compares with shortfalls calculated for the year ended August 1982 of SDR 74.5 million on the basis of partly estimated data, and SDR 104.1 million on the basis of actual data (Table 5 and Chart 1).

Export earnings during the first nine months of 1982 fell substantially below expectations because commodity prices--particularly those of sugar and cocoa--continued to weaken, and because the recovery in foreign demand for mineral products failed to materialize as the recession in industrial countries continued. Consequently, the resumption of ferronickel operations,

Table 2. Dominican Republic: Estimation of the Export Shortfall

(In millions of SDRs)

	Years Ending September				
				Projected 1/	
	1980	1981	1982	1983	1984
Total exports	770.1	1,033.2	666.7	755.0	790.0
Shortfall			127.7		
Compensable shortfall (a-b)			89.1		
a. Adjusted export shortfall 2/			(122.1)		
b. Double compensation 3/			(33.0)		
Proposed purchase			42.5		

1/ Based on judgmental projections (Tables 3 and 4).

2/ With export earnings adjusted to avoid double compensation arising from the buffer stock purchase of SDR 10.547 made in July 1982 (EBS/82/114). In accordance with established practice, that purchase is treated as unrecorded export earnings, with one twelfth of the amount being allocated to each of the 12 months preceding the purchase. Thus, earnings in the years ended September 1981 and September 1982 are raised by SDR 2.637 million and SDR 7.91 million, respectively.

3/ The double compensation arises from a CF purchase of SDR 36.0 million made in May 1982 (EBS/82/69) with respect to an export shortfall for the year ended August 1982, which overlaps the present shortfall year by 11 months (October 1981-August 1982).

Table 3. Dominican Republic: Export Earnings and Shortfalls by Major Commodities

	Years Ending September								Shortfall	
	1977	1978	1979	1980	1981	1982	1983	1984	Geometric	Arithmetic
	(In millions of SDRs)									
Total exports	679.9	597.7	569.5	770.1	1,033.2	666.7	755.0	790.0	127.7	136.3
Agricultural goods	411.6	385.4	299.3	359.6	596.8	350.9	412.9	420.6	69.2	77.3
Crude sugar	211.1	160.9	138.6	193.7	455.5	204.3	260.0	245.8	54.1	67.6
Coffee beans	96.6	124.0	53.9	91.7	53.9	76.6	72.1	76.3	-3.5	-2.5
Cocoa beans	77.0	62.9	70.9	39.1	36.8	46.0	45.1	49.3	-3.0	-2.7
Tobacco	26.9	37.6	35.9	35.1	50.6	24.0	35.7	49.2	13.6	14.9
Metals	171.1	123.5	164.2	294.8	299.6	183.0	199.3	210.7	49.5	54.5
Ferronickel	107.8	49.8	68.8	103.9	88.1	31.6	57.5	62.2	31.9	37.1
Gold & silver	45.5	56.1	77.7	176.4	195.6	145.4	140.8	147.1	14.3	15.7
Bauxite	17.8	17.6	17.7	14.5	15.9	6.0	1.0	1.4	-1.5	1.8
Other exports	97.2	88.8	106.0	115.7	136.8	132.8	142.8	158.7	3.8	4.6
	(Percentage changes)									
Total exports		-12.1	-4.7	35.2	34.2	-35.5	13.2	4.6		
Agricultural goods		-6.4	-22.3	20.1	66.0	-41.2	17.7	1.9		
Crude sugar		-23.8	-13.9	39.8	135.2	-55.1	27.3	-5.5		
Coffee beans		28.4	-56.5	70.1	-41.2	42.1	-5.9	5.8		
Cocoa beans		-18.3	12.7	-44.9	-5.9	25.0	-2.0	9.3		
Tobacco		39.8	-4.5	-2.2	44.2	-52.6	48.8	37.8		
Metals		-27.8	33.0	79.5	1.6	-38.9	8.9	5.7		
Ferronickel		-53.8	38.2	51.0	-15.2	-64.1	82.0	8.2		
Gold & silver		23.3	38.5	127.0	10.9	-25.7	-3.2	4.5		
Bauxite		-1.1	0.6	-18.1	9.7	-62.3	-83.3	40.0		
Other exports		-8.6	19.4	9.2	18.2	-2.9	7.5	11.1		

Table 4. Dominican Republic: Value, Volume and Unit Value Indices by Major Commodities

(1982=100)

	Value Share in Total Exports in 1982 (In Per Cent)	Years Ending September 1977	1978	1979	1980	1981	1982	1983	1984	Shortfall in Per Cent of Level in Shortfall Year
Value	57.3	136	114	96	121	179	100	123	126	27.4
Agricultural goods	52.6	117	110	85	103	170	100	118	120	19.9
Crude sugar	30.6	103	79	68	95	223	100	127	120	26.4
Coffee beans	11.5	126	162	70	120	70	100	94	100	-4.6 (excess)
Cocoa beans	6.9	167	137	154	85	80	100	98	107	-6.5 (excess)
Tobacco	3.6	112	157	150	146	211	100	149	205	56.6
Ferronickel	4.7	341	158	218	329	279	100	182	197	101.1
Volume		158	144	135	126	129	100	124	123	19.9
Agricultural goods		130	135	118	106	116	100	119	118	11.5
Crude sugar		157	143	126	106	120	100	131	121	15.1
Coffee beans		77	127	68	94	90	100	90	91	-7.1 (excess)
Cocoa beans		82	81	95	72	85	100	102	103	-8.5 (excess)
Tobacco		164	202	252	209	234	100	148	201	70.8
Ferronickel		465	243	329	346	270	100	174	185	97.5
Unit value		86	79	71	96	139	100	99	102	6.1
Agricultural goods		90	81	72	97	146	100	99	102	7.4
Crude sugar		66	55	54	89	187	100	97	99	9.8
Coffee beans		163	128	103	128	78	100	105	110	2.9
Cocoa beans		205	169	163	117	94	100	96	104	1.9
Tobacco		68	78	59	70	90	100	100	102	-8.5 (excess)
Ferronickel		73	65	66	95	103	100	105	106	1.7

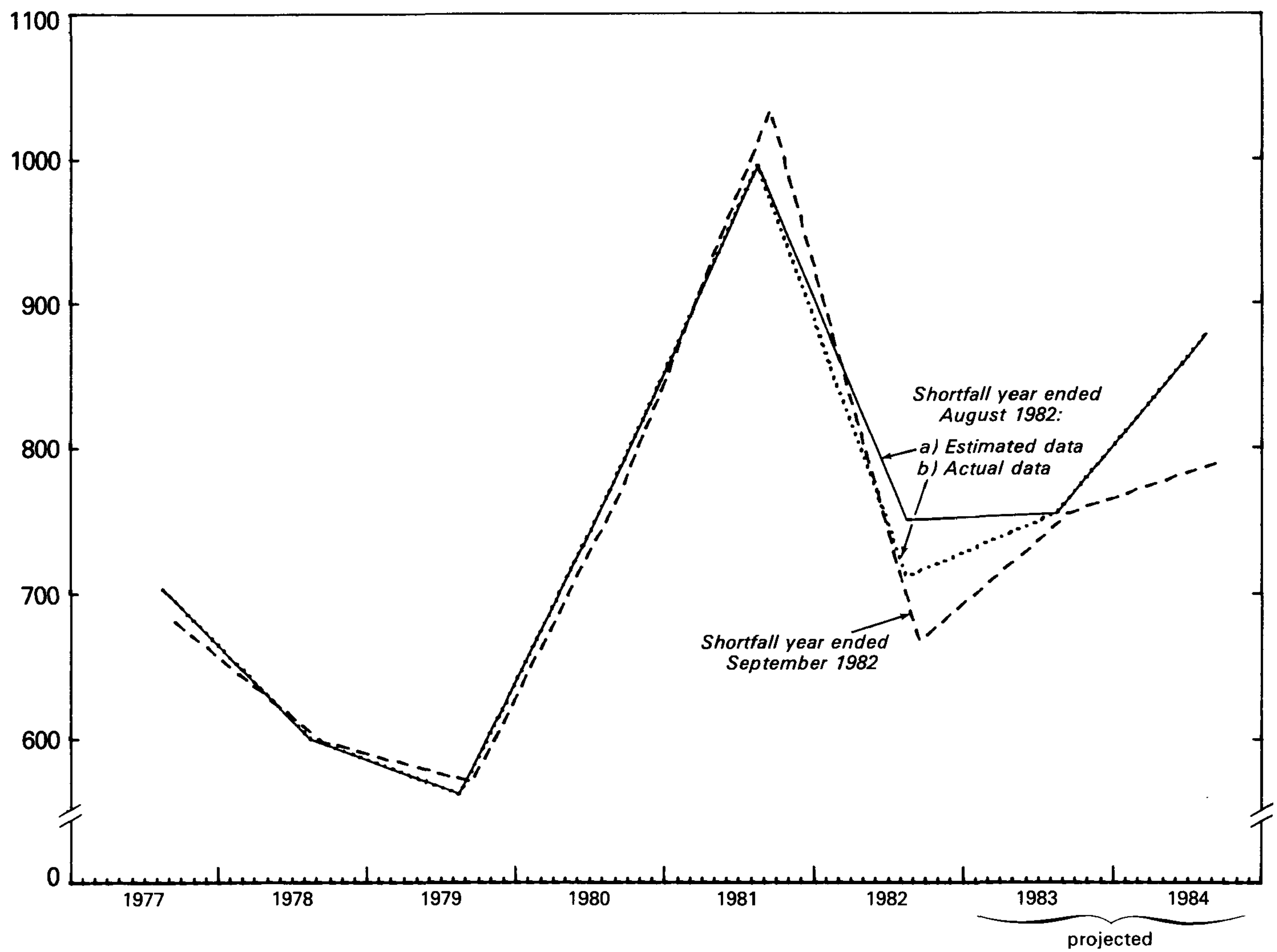
Table 5. Dominican Republic: Comparison of Export Earnings for Shortfall Years Ended August 1982 and September 1982

	Years Ending August				Years Ending September			Geometric Shortfall Year Ended		
	Average Annual 1980-81	1982 Est.	1982 Actual	Average Annual 1983-84	Average Annual 1980-81	1982	Average Annual 1983-84	August 1982 Est.	August 1982 Actual	September 1982
Total exports	875.0	750.0	711.9	814.6	892.0	666.7	772.3	74.5	104.1	127.7
Agriculture	457.7	403.4	384.6	470.5	463.3	350.9	416.1	47.8	62.3	69.2
Sugar	288.6	247.9	234.4	293.3	297.0	204.3	252.8	33.9	44.2	54.1
Coffee	72.9	74.9	72.8	83.9	70.3	76.6	74.2	2.6	4.3	-3.5
Cocoa	38.3	39.9	44.9	44.7	37.9	46.0	47.2	1.2	-2.8	-3.0
Tobacco	40.6	40.7	32.5	48.4	42.1	24.0	41.9	2.9	9.2	13.6
Metals	291.6	196.5	190.0	174.5	297.2	183.0	204.9	23.0	28.0	49.5
Ferronickel	93.8	51.7	36.8	55.9	95.7	31.6	59.8	16.0	26.4	31.9
Bauxite	15.6	8.3	7.1	11.0	15.2	6.0	1.2	3.6	4.5	-1.5
Gold and silver	181.1	136.5	146.1	107.7	185.7	145.4	143.1	2.5	-5.2	14.3
Other	120.9	150.1	137.3	169.4	125.8	132.8	150.5	-5.6	4.6	3.8

CHART 1

DOMINICAN REPUBLIC

COMPARISON OF TRENDS IN EXPORT EARNINGS FOR SHORTFALL YEARS ENDING AUGUST 1982 AND SEPTEMBER 1982



scheduled for June, was postponed by three months and bauxite mining was suspended until 1985. In addition, heavy rains adversely affected the volume and quality of the second tobacco crop, and marketing difficulties led to a further reduction in the volume of sugar exports. Higher than anticipated earnings were recorded by cocoa, gold, and silver, reflecting a larger volume of cocoa exports and a firming in the world price of gold.

Export earnings in the post-shortfall period ending September 1984 are projected to average SDR 772 million compared with SDR 815 million projected earlier for the post-shortfall period ending August 1984. The current outlook for a gradual recovery in economic activity in industrial countries and in primary commodity prices indicates a weaker export performance than had previously been forecast for the Dominican Republic in the post-shortfall period. Prices for its major exports, which account for three fifths of total export receipts, now are projected to increase by 1 per cent per year, compared with an 8 per cent average annual rate of growth previously projected. Export volumes, as earlier anticipated, are projected to approach their pre-shortfall levels (Table 6).

Sugar exports in the post-shortfall period ending September 1984 are projected to average SDR 253 million compared with an average of SDR 293 million previously projected for the two-year period ending August 1984. This reduction reflects, in part, a structural shift in the Dominican Republic's market as a consequence of the imposition of sugar import quotas by the United States, which has been the principal outlet. The Dominican Republic has been allocated a 17.6 per cent share of the total U.S. import quota which, for the year beginning October 1982, amounts to 447 thousand metric tons. While preferential prices for sugar shipped to the United States are expected to offset partially the reduced volume of sales, increased exports to other markets at depressed prices are projected to reduce the average realized unit price in the two post-shortfall years ending September 1984. Free market prices of sugar, which averaged 10 U.S. cents per pound in the first half of 1982, dropped to less than 6 U.S. cents per pound in September and, in view of the current large world surplus, are projected to improve only gradually. The volume of sugar exports, however, is projected to exceed earlier expectations because sugar production from the 1981/82 crop (October/September) amounted to a record level of 1.2 million metric tons, 16 per cent higher than the year before. The Dominican Republic is obligated to accumulate 167.3 thousand tons of special stocks in accordance with the provisions of the International Sugar Agreement prior to December 31, 1983. To date, 66.9 thousand tons of special stocks have been accumulated by the country which were financed by a purchase of SDR 10.547 million under the buffer stock financing facility.

Mining exports are projected to average SDR 205 million per year in the post-shortfall period ending September 1984, a 17 per cent increase over earlier projections for the period ending August 1984. Ferronickel operations resumed in September 1982, although production in the post-shortfall period is expected to remain substantially below that realized in the pre-shortfall period. Export earnings from gold and silver are projected

Table 6. Dominican Republic: Value, Volume and Unit Value Indices by Major Commodities

(1982=100)

	Value in Share of Total Exports Year Ended September 1982	Years Ending August 1/			Years Ending September		
		Average 1980-81	1982	Average 1983-84	Average 1980-81	1982	Average 1983-84
Value	57.3	131	100	125	147	100	124
Agriculture	52.6	119	100	122	132	100	119
Sugar	(30.6)	(123)	(100)	(125)	(146)	(100)	(123)
Coffee	(11.5)	(100)	(100)	(115)	(92)	(100)	(97)
Cocoa	(6.9)	(85)	(100)	(99)	(82)	(100)	(102)
Tobacco	(3.6)	(125)	(100)	(149)	(176)	(100)	(175)
Ferronickel	4.7	255	100	152	303	100	189
Volume		116	100	116	127	100	123
Agriculture		103	100	113	111	100	118
Sugar		(101)	(100)	(114)	(113)	(100)	(126)
Coffee		(99)	(100)	(107)	(92)	(100)	(90)
Cocoa		(82)	(100)	(92)	(78)	(100)	(102)
Tobacco		(158)	(100)	(146)	(221)	(100)	(172)
Ferronickel		261	100	151	306	100	179
Unit value		113	100	108	116	100	101
Agriculture		115	100	108	119	100	101
Sugar		(122)	(100)	(110)	(129)	(100)	(98)
Coffee		(101)	(100)	(107)	(100)	(100)	(107)
Cocoa		(104)	(100)	(108)	(105)	(100)	(100)
Tobacco		(79)	(100)	(102)	(79)	(100)	(101)
Ferronickel		98	100	101	99	100	105

1/ Based on actual data.

to remain virtually unchanged from their shortfall year levels. The cessation of bauxite mining in the Dominican Republic until 1985 has significantly altered export prospects for this commodity, and earnings, representing only a liquidation of inventories built up in 1979-80, are projected to average SDR 1.2 million per annum.

Earnings from other exports are projected to advance at an average annual rate of 9 per cent compared with 8 per cent anticipated earlier. Adjustments in domestic demand management and exchange rate policies adopted in the context of the medium-term adjustment program are expected to assist these exports.

5. Staff appraisal and proposed decision

The authorities of the Dominican Republic are expected to request a purchase of SDR 42.75 million (equivalent to 51.8 per cent of quota) under the compensatory financing facility in respect of a shortfall in export earnings for the 12 months ended September 1982. This purchase would raise outstanding purchases under the compensatory financing facility to 100 per cent of quota.

In 1982, the current account deficit is forecast to have widened by about SDR 50 million to SDR 393 million, reflecting a sharp deterioration in the trade balance, which was only partly offset by greater receipts from tourism. Net capital inflows in 1982, however, are estimated at less than half the level received in 1981, reflecting, for the most part, the Dominican Republic's reduced access to foreign financing. The overall balance of payments is forecast to record a deficit of SDR 303 million, equivalent to 4.2 per cent of GDP, and to be financed by a drawdown of official reserves, use of Fund credits and a further accumulation of arrears and delayed letters of credit. During 1982, gross official reserves are estimated to have fallen by about SDR 40 million, and to amount to about two months of imports at the end of the year. The staff believes that the balance of payments need of the Dominican Republic justifies the proposed purchase under the compensatory financing facility.

Export earnings in the shortfall year ended September 1982 declined by 36 per cent after registering strong growth in the pre-shortfall period but are projected to recover in the post-shortfall period. The overall shortfall is calculated at SDR 127.7 million with export shortfalls being registered for sugar (SDR 54 million), tobacco (SDR 14 million), ferronickel (SDR 32 million), gold and silver (SDR 14 million) and other exports (SDR 4 million), which are only partially offset by export excesses calculated for coffee (SDR 4 million), cocoa (SDR 3 million), and bauxite (SDR 2 million) (Tables 3 and 4). The shortfall in export earnings is due to both volume and price factors. The drop in sugar export earnings reflects the sharp decline in international sugar prices and marketing difficulties which arose in the aftermath of the imposition of import quotas by the United States, traditionally the major outlet for the Dominican Republic's sugar. The decline in tobacco export earnings was solely on account of a reduced volume of exports because of disease and excessive rainfall which severely damaged the crop.

Ferronickel mining operations were suspended for nine months of the shortfall year because of weak external demand. The shortfall on account of gold and silver exports reflects mainly the sharp drop in international prices in the shortfall year compared with those of the pre-shortfall period. Earnings from other exports were also affected adversely by the global slowdown in economic activity which curtailed foreign demand. Earnings in the post-shortfall period are projected to advance by 10 per cent per year on average primarily as the result of a recovery in export volume, reflecting a return to normal weather conditions, a tobacco-mold eradication program, and the resumption of the ferronickel operations already initiated. The volume of sugar exports is projected to exceed that realized in the two pre-shortfall years because of record production from the 1981/82 crop. Prices of most of the Dominican Republic's exports are projected to remain weak in the post-shortfall period. The staff considers that the shortfall in export earnings is related to external factors and is attributable to circumstances largely beyond the control of the member. The staff also considers that, in view of the projected recovery in export earnings in the post-shortfall period, the shortfall is temporary in character.

The staff also considers that the Dominican Republic has been cooperating with the Fund in efforts to find appropriate solutions for its balance of payments difficulties, as evidenced by the adoption by the Dominican Republic of a financial program under an extended arrangement which is to be considered by the Board concurrently with the request for a CF purchase. The request for a compensatory financing purchase is expected to include a statement that the Dominican Republic will cooperate with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficuties. The staff considers that the request meets all the requirements set forth in the compensatory financing decision. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request from the Government of the Dominican Republic for a purchase of SDR 42.75 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Fund Relations with the Dominican Republic
(As of October 31, 1982)

Date of membership: December 28, 1945.

Status: Article VIII.

Quota: SDR 82.5 million.

Fund holdings of Dominican pesos:

	Millions of SDRs	Per Cent of Quota
Total	146.57	177.66
Under tranche policies	96.27	116.69
Under compensatory financing facility	39.75	48.18
Under buffer stock financing facility	10.55	12.79

SDR Department:

	Millions of SDRs	Per Cent of Quota
Net cumulative allocation	31.59	100.00
Holdings	0.60	1.91

Direct distribution of profits from gold sales (July 1, 1976 - July 31, 1980): US$6.82 million.

Gold distribution (four distributions): 36,800.979 ounces.

Exchange system: 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 about RD$1.50 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).

Last Article IV consultation: The 1981 Article IV consultation discussions were held in April-May 1981 (SM/81/144) and the consultation procedure was concluded at EBM/81/107 (7/22/81).