FOR AGENDA

EBS/05/9

January 18, 2005

To: Members of the Executive Board

From: The Secretary

Subject: **Dominican Republic—Request for Stand-By Arrangement, Activation of the Trade Integration Mechanism, Cancellation of Current Arrangement, and Extension of Repurchase Obligation**

Attached for consideration by the Executive Directors is a paper on the request for a Stand-By Arrangement for the Dominican Republic, activation of the Trade Integration Mechanism, cancellation of the current Stand-By Arrangement, and extension of repurchase obligation. Draft decisions appear on pages 26 and 27. This paper, together with the letter of intent, memorandum of economic and financial policies, and technical memorandum of understanding from the government of the Dominican Republic (EBS/05/9, Sup. 1, 1/18/05), is tentatively scheduled for discussion on **Monday, January 31, 2005**. At the time of circulation of this paper to the Board, the Secretary's Department has not received a communication from the authorities of the Dominican Republic indicating whether or not they consent to the Fund's publication of this paper; such communication may be received after the authorities have had an opportunity to read the paper.

Questions may be referred to Mr. S. Phillips (ext. 37187), Mr. Lopetegui (ext. 39688), and Mr. Cubeddu (ext. 36231) in WHD.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, January 27, 2005; and to the European Commission and the Inter-American Development Bank, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

Request for Stand-By Arrangement, Activation of the Trade Integration Mechanism, Cancellation of Current Arrangement, and Extension of Repurchase Obligation

Prepared by the Western Hemisphere Department
(In consultation with other departments)

Approved by José Fajgenbaum and Michael Hadjimichael

January 18, 2005

Context. The program supported by the current Stand-By Arrangement (SBA) went off track in early 2004, with especially large deviations in fiscal policy. Loose monetary policy and failing confidence led to a major weakening of the peso that, in turn, triggered further fiscal slippage. While the banking crisis was contained, the bank reform agenda slipped. In the run-up to the May 2004 presidential election, few corrective measures were implemented. However, the election of a new President led to a turnaround in confidence, followed by a strong fiscal adjustment that began soon after the August inauguration. By end-2004, inflation was down sharply, arrears to official creditors had been cleared, and official reserves had begun to recover.

Request for Stand-By Arrangement. The authorities request a 28-month arrangement for SDR 437.8 million (86 percent of quota on an annual basis). SDR 52.54 million (24 percent of quota) would be available upon Board approval, with the remainder phased uniformly over the arrangement. The authorities also request TIM activation. At the same time, they request the cancellation of the current Stand-By Arrangement, which was approved on August 29, 2003, and extension of repurchase obligation.

New economic program. The program aims at re-establishing the basis for the high growth rates the Dominican Republic enjoyed in the 1990's by consolidating the recent macroeconomic stabilization and introducing structural reforms to address a range of governance issues in the fiscal, monetary, banking and electricity sectors. The key elements of the authorities' program are: (i) further fiscal adjustment, achieving a primary surplus to ensure debt sustainability; (ii) a balanced financing strategy to overcome the external liquidity crunch; (iii) reform of the institutional framework of fiscal policy to improve its design, execution and monitoring; (iv) a monetary policy focused on bringing inflation to single digits within a flexible exchange rate system; (v) strengthening of the financial system to establish sound financial intermediation; (vi) further strengthening of the central bank and the bank superintendency to improve the implementation of monetary policy as well as the regulation and supervision of the banking system; and (vii) a plan to improve the efficiency of the electricity sector, designed with collaboration from the World Bank and IDB, to enhance service and ensure its financial viability.

Discussions. The discussions included meetings with the President, Technical Secretary of the Presidency, Secretary of Finance, and Central Bank Governor. The staff team comprised S. Phillips (Head), L. Cubeddu, G. Lopetegui, O. Mandeng (Resident Representative), G. Peraza (all WHD), B. House (PDR), G. Palomba (FAD) M. Vera (ICM), and V. Lledo (FIN). J. Fajgenbaum (WHD) and R. Santana (OED) joined the missions. The team overlapped with MFD missions that included L. Cortavarria and A. Piris, and benefited from collaboration from World Bank and IDB missions.

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EXECUTIVE SUMMARY

Weakness in implementing the program adopted in August 2003 led to a major deterioration in the Dominican Republic's macroeconomic performance. Although the banking crisis was contained, the fiscal adjustment needed to confront this crisis was not implemented and monetary policy was excessively loose, triggering a loss of confidence and new wave of instability in late 2003 and early 2004: the peso depreciated markedly, monthly inflation rose to double digits, and public debt rose sharply. At the same time, the electricity sector collapsed and structural reforms in the banking sector lagged. An attempt to restart the program in early 2004 was unsuccessful, as fiscal policy again went off track.

Economic policies and confidence improved during the course of 2004, especially after the mid-year presidential election. Monetary policy was tightened, leading to some strengthening of the peso and a decline in inflation. The election of a new President in May sparked a turnaround in confidence, and a strong fiscal adjustment began soon after the new government took office in August, supported by a tight monetary policy. The former vicious circle began to reverse as the peso recovered strongly, inflation dropped sharply, and the balance of payments improved. These developments allowed the authorities to clear official arrears and begin to rebuild net international reserves.

The new economic program aims at consolidating the recent progress and envisages a series of actions on the structural front to address governance and transparency weaknesses in the fiscal, monetary, banking, and electricity sectors. The key elements of the authorities' program are: (i) a large fiscal adjustment to ensure public debt sustainability; (ii) a financing strategy to overcome the public sector's short-term liquidity crunch; (iii) a reform of the fiscal institutional framework to improve the design and execution of fiscal policy; (iv) a monetary policy focused on bringing inflation down to single digits within a flexible exchange rate system; (v) a strengthening of the financial system; (vi) a further strengthening of the central bank and the superintendency of banks to enhance policy implementation; and (vii) an improvement of the efficiency of the electricity sector to enhance its service, ensure its financial viability, and reduce its costs to the budget.

The tight fiscal policy and institutional reform in the fiscal area are at the heart of the program. The envisaged primary surpluses are designed to ensure a decline of the debt ratio over the medium-term, improve the prospect for regaining macroeconomic stability and re-establish—together with the normalization of the electricity supply—the basis for the strong growth experienced in the 1990's. To reduce the risks to monetary policy, the central bank will be strengthened, both financially and institutionally, while critical financial sector reforms will reduce the risk of a recurrence of banking problems.

The staff recommends approval of the request for a new SBA and the extension to an obligation schedule of the repurchase expectations for 2005. The program is strong, and its design aims to contain remaining risks, while addressing institutional shortcomings that undermined implementation of the previous program. The authorities' commitment is also strong, as evidenced by the upfront implementation of key measures—including in the fiscal monetary and structural reform areas, as well as the clearance of arrears to official creditors.

I. Background

1. **The Dominican Republic has struggled to overcome the crisis that began in early 2003.** At that time, the failure of some significant fraud-ridden banks was followed by a major bailout of depositors that in turn led to jumps in both public debt and monetary growth, a wave of inflation and peso depreciation, a generalized loss of confidence, and a macroeconomic crisis.

2. **To address that crisis, the government of then-President Mejía developed an economic program that was supported by a Stand-By Arrangement (SBA) that began in August 2003—but this soon foundered amid severe policy slippages.** Fiscal slippage was large, as the yield of ad hoc revenue measures fell short of expectations, and expenditure—especially extrabudgetary investment—ran far ahead of program (though as a result of data weaknesses, the extent of the end-2003 fiscal deviation was revealed only in May 2004).[1] Monetary policy was abruptly loosened, setting off a new round of peso depreciation, which prompted the government to interfere in the foreign exchange market. Loss-making electricity distribution companies were unexpectedly nationalized, at high cost. As such missteps undermined confidence further, the macroeconomic instability intensified in a vicious circle. The central bank began to experience difficulty in rolling over its short-term debt and had to rely on debt issues as short as one week, raising its exposure to rollover risk. While the banking crisis was contained, progress on financial sector reform was slow, with delays emerging early in the program in the inspections of banks and regulatory reform.

3. **In early 2004, the authorities assembled a new policy package, and the first review under the SBA was completed in support of a revised program for 2004; however, subsequent policy implementation was still not adequate to achieve program objectives.** Monetary policy was tightened, but not sufficiently at first. Markets continued to be skeptical in the run-up to the May presidential elections, and the peso remained weak for some time. Fiscal slippage continued in the first half of 2004, mainly reflecting expenditure overruns. The weakness of the peso, as well as rising oil import prices, fuelled inflation and raised fiscal costs, especially via the loss-ridden electricity sector. In the pre-election setting, few new measures were taken to put the program on track, and external arrears accumulated to official and private creditors. Some progress on banking reforms was made, but key measures fell behind schedule with delays in regulatory and institutional reform and resistance to recapitalization from the banking sector (Box 1). In this context, most performance criteria and structural reforms were not observed (Tables 1a and 1b) and no further program reviews could be completed.

4. **The electoral victory of former president Fernández in May marked a turning point for confidence but, while a tax package was developed, urgently-needed fiscal measures were left pending in the subsequent 3-month transition period.** After the election, the peso as well as bond prices began a marked recovery. The central bank continued with a tight monetary policy, and inflation steadily declined—from 25 percent in the first quarter to near zero in

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[1] The severe underestimation of the fiscal deficit (2.1 percent of GDP), and a related underestimation of contracting of external debt, gave rise to two instances of misreporting to the Fund (EBS/04/182).

Box 1. The Banking Sector Crisis and Financial Sector Reform

The Banking Crisis and the Initial Response

Before the outbreak of the crisis in early 2003, the banking system was already showing several weaknesses, including: (i) poor supervision; (ii) lax prudential regulation—including forbearance through permitting the deferral of loan loss provisions; and (iii) large unsupervised off-shore operations. In addition, enforcement capacity was weak, as the Superintendency of Banks lacked adequately trained staff in critical areas, such as on-site inspection and off-site analysis.

During the first half of 2003, the Dominican banking system came under severe stress due to financial scandals, rooted in fraud in three banks, with those banks suffering large deposit outflows. While these banks accounted for about ¼ of total deposits in the system, their true size was greatly understated reflecting the nonreporting of transactions and use of parallel accounts. There followed an uncoordinated and excessively large and costly bailout of depositors that severely burdened the central bank. In the end, the largest bank was closed; its assets are being liquidated or have been transferred to the central bank, while legal proceedings are underway against the former owners, including to try to recover some value from their other assets. The other two banks were transferred to new owners, with the central bank absorbing the losses through acquiring the bad assets.

Shortly after, a reform strategy was developed with Fund technical assistance with six key components: (i) bank recapitalization on the basis of internationally-assisted bank inspections; (ii) institutional reforms; (iii) legal and regulatory changes; (iv) rules for the provision of emergency liquidity; (v) actions for the resolution of weak banks; and (vi) restructuring of public banks.

Progress in Bank Recapitalization and Reform

Progress under the previous SBA was limited: (i) the assisted inspections were completed, but bank recapitalization did not proceed on that basis; (ii) a law governing bank resolution under conditions of systemic risk was approved by congress; (iii) rules for the provision of emergency liquidity were adopted, but no progress was made in establishing triggers for supervisory actions if liquidity support were requested; (iv) the completion of restructuring of the two resolved banks only finalized recently; and (v) key prudential rules are still pending. While the independent panel investigating regulatory and supervisory failures that contributed to the banking crisis completed its work, the new administration has requested an additional visit before making the panel's report public.

Condition and Composition of the Banking System

	12/ 02	12/ 03	9/ 04
Capital to risk-weighted assets 1/	12.0	11.4	10.5
NPLs to total gross loans	4.9	8.9	8.9
NPLs minus provisions to capital	8.8	21.4	6.4
Liquid assets to deposits and short-term liabilities	26.9	40.1	46.1
Return on equity	21.2	-0.5	15.4

1/ Excludes restructured banks.

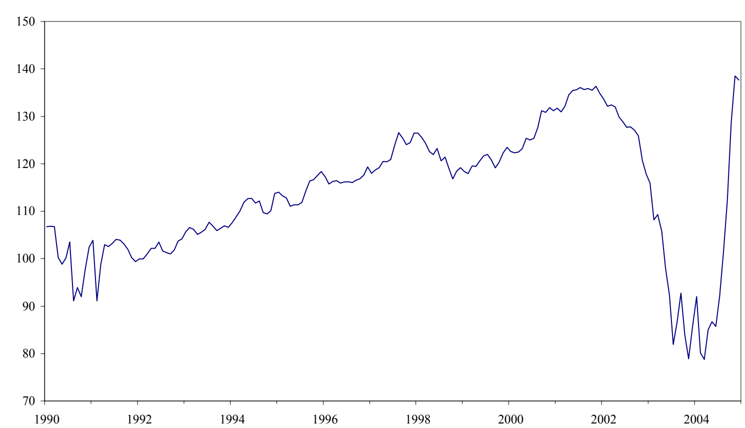
Of 13 commercial banks operating, nine are privately-owned by domestic groups, three are foreign-owned and one is publicly-owned, accounting for about 60 percent, 10 percent and 30 percent of the banking system, respectively. Preliminary data through September 2004 suggest banks have made some progress in increasing provisions and in improving their liquid asset position, while bank soundness (reflected in the ratio of NPLs to total loans) has remained unchanged. However, improvements in the ratio of unprovisioned nonperforming loans to capital also reflect the restructuring of the two resolved banks. Moreover, it is important to note that data still are not fully reliable due to lack of consolidation of accounting and supervision, regulatory forbearance, and inaccurate reporting.

the third quarter. Still, without a fiscal correction, arrears accumulated further, and by August the government was approaching default on all categories of its debt. Very little progress on bank reforms was made during the political transition period.

5. **At his inauguration on August 16, President Fernández announced an emergency plan for the first 100 days of his administration, emphasizing the need for immediate fiscal tightening and a new agreement with the Fund.** To underscore ownership of the new economic program, the new authorities preferred to cancel the existing arrangement and seek a new SBA. The fiscal effort began with prompt across-the-board expenditure restraint, followed by other measures that could be implemented by the executive branch: higher excises, cuts in LPG and electricity subsidies, and cuts in public employment. In a political breakthrough, the opposition-controlled congress approved a tax package—worth 1.7 percent of GDP on an annual basis, and including a 4 percentage point rise in the VAT rate—that took effect on October 1, 2004. On the financing side, the authorities reaffirmed their country's commitment to the terms of the April 2004 Paris Club agreement, including the need to obtain comparable treatment from non-Paris Club creditors. Late in the year, the government was able to eliminate all arrears to official creditors (though some US$45 million in late payments to foreign commercial banks and suppliers remained).

6. **Markets responded positively to these policy efforts.** Sovereign bond spreads have declined and the peso strengthened markedly—recovering its pre-crisis level in real terms. The stronger-than-expected peso recovery, in turn, further helped the fiscal accounts, by reducing electricity sector and debt service costs, initiating a virtuous cycle, and pulling down inflation. The decline in inflation and in inflation expectations prompted a market-led decline in interest rates on central bank paper, from near 60 percent in August to around 25 percent in December. Improvement in confidence also allowed the central bank to extend the average maturity of new issues of certificates, from less than 3 weeks to about 5 months. Meanwhile, the central bank kept liquidity growth low, even as it took the opportunity to begin rebuilding reserves (Figure 1).

Real Effective Exchange Rate (1990=100)

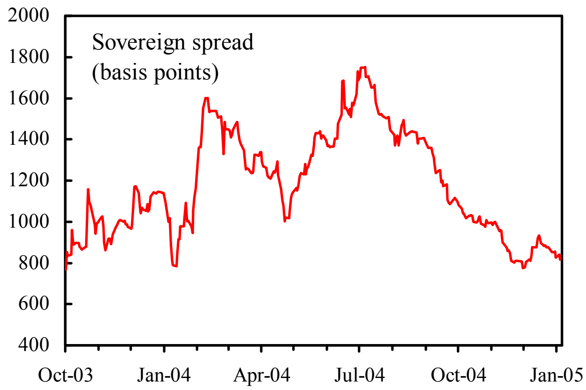


7. **Macroeconomic outcomes for 2004 were thus mixed, but in most areas tended to improve as the year progressed:**

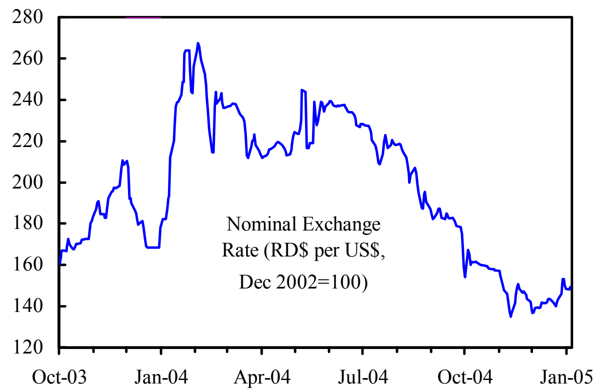
- A restrictive monetary policy took most of the policy burden in achieving a degree of stability, and in time became successful. While inflation for the year was far beyond program (29 percent compared to 14 percent), the entire deviation arose in the first

Figure 1. Dominican Republic: Selected Indicators

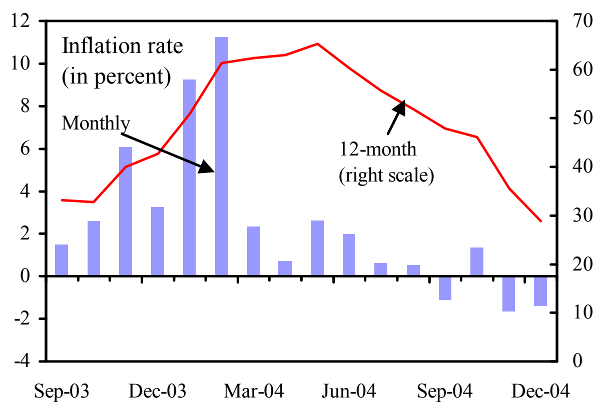
Sovereign spreads have declined markedly...



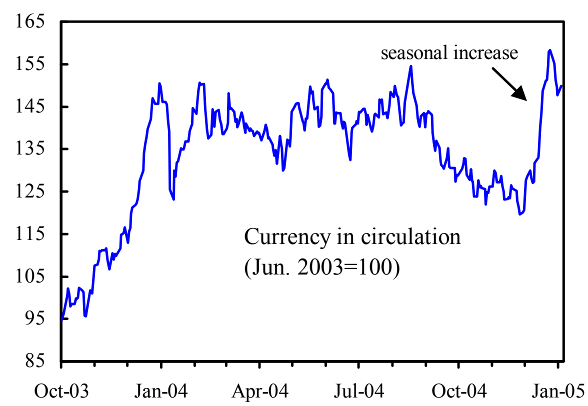
... and the peso also has recovered strongly since the May presidential elections.



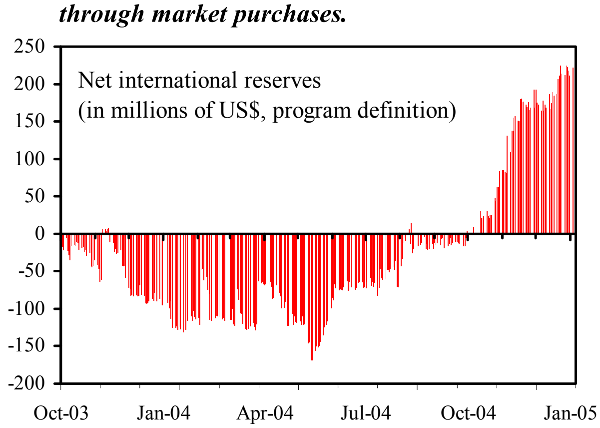
Inflation has fallen sharply...



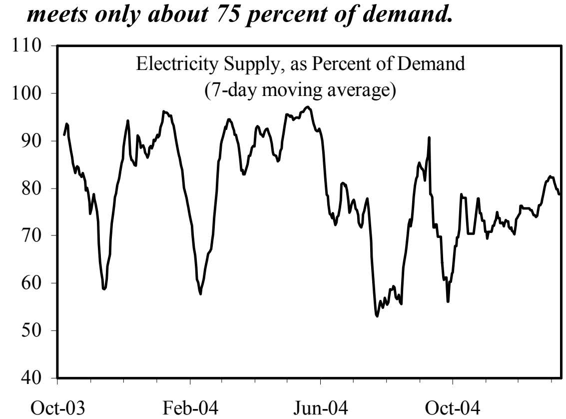
...as the central bank has been able to contain liquidity growth...



…while rebuilding international reserves through market purchases.



Electricity supply has been more stable lately, but meets only about 75 percent of demand.



Source: Central Bank of Dominican Republic, JP Morgan, Organismo Coordinador del Sistema Electrico, and Fund staff estimates.

quarter. Net international reserves ended the year some US$210 million above the program target.

- The critical deviation was on the fiscal side, as the strongest fiscal effort came only in the final quarter of 2004. For the year as a whole, the deficit of the nonfinancial public sector (NFPS) fell to 2.7 percent of GDP, but exceeded the program target by about 3 percent of GDP.

- The public debt ratio, however, declined slightly to 52 percent of GDP, as the effect of the fiscal slippage was offset by the effect of the peso's appreciation on the value of external debt.

- Owing to depressed private consumption and investment, the external current account showed an estimated surplus of 5.8 percent of GDP, which was largely offset by private capital outflows. However, as confidence began to recover in the second half of the year, private sector demand recovered and with the strengthening of the peso, the current account surplus began to moderate. Capital outflows also slowed.

- Real GDP grew by 1.4 percent in the first three quarters, despite the terms of trade shock from rising oil import prices. The economy is estimated to have grown by 2.0 percent in 2004, considerably stronger than anticipated

Performance under the Previous SBA

	2003		2004	
Key macroeconomic variables	Program 1/	Est.	Program 1/	Est.
Real GDP growth, percent	-1.3	-0.4	-1.0	2.0
Inflation, eop, percent	42.7	42.7	14.0	28.9
NFPS balance, percent of GDP	-2.7	-4.8	0.2	-2.7
Combined public sector balance, percent of GDP	-5.2	-7.5	-3.8	-6.7
External current account balance, percent of GDP	5.6	6.3	4.5	5.8
NIR, program definition, millions of US dollars	-95	-96	0	211
Gross official reserves, millions of US dollars	279	279	742	825

1 / EBS/04/08

II. The New Program

8. **The new program aims at consolidating the recent macroeconomic stabilization and envisages a series of actions on the structural front to address a range of governance and transparency weaknesses in the fiscal, monetary, banking and electricity sectors.** The key elements of the authorities' program are:

- A large fiscal adjustment to ensure public debt sustainability over the medium term;

- A financing strategy that will allow the public sector to overcome its short-term liquidity crunch;

- A reform of the fiscal institutional framework to improve the design, execution and monitoring of fiscal policy;
- A monetary policy focused on bringing inflation to single digits within a flexible exchange rate system;
- A strengthening of the financial system to establish sound financial intermediation;
- A further strengthening of the central bank and the bank superintendency to improve the implementation of monetary policy as well as the regulation and supervision of the banking system; and
- An improvement of the efficiency of the electricity sector to enhance its service, ensure its financial viability, and reduce its costs to the budget.

Together, these elements are intended to re-establish the basis for strong and sustainable economic growth, help avoid future crises and facilitate appropriate policy responses to adverse shocks.

A. Macroeconomic Framework

9. **The program envisages a gradual recovery of the economy and a sharp reduction in inflation.** Real GDP growth is projected to rise from 2 percent in 2004 to 2.5 percent in 2005 and to 4–5 percent a year over the medium-term, as confidence and domestic demand recover further. End-of-period inflation is targeted to drop from 29 percent during 2004 to 11–13 percent[2] during 2005 and to 8 percent in 2006. The external current account surplus is projected to decline from 5.8 percent of GDP in 2004 to 0.5 percent in 2006, reflecting mainly higher imports driven by the economic recovery and the recent strengthening of the peso, and higher oil prices, as well as the expected negative impact on exports of the elimination of textile quotas under the ATC. In parallel, private capital outflows are projected to decline, and net international reserves are targeted to increase by US$140 million in 2005 and by an additional US$300 million in 2006. Together with the purchases from the Fund under the proposed SBA, this would raise gross reserves to the equivalent of 2½ months of imports, and in line with short-term debt.

Main Macroeconomic Assumptions and Targets

	2004	Program	
	Est.	2005	2006
GDP growth (percent change)	2.0	2.5	4.3
Inflation (12-month percent change, eop)	28.9	11 - 13	8.0
External current account balance (in percent of GDP)	5.8	2.0	0.5
Gross international reserves (in US$ millions)	825	1257	1844
Net international reserves (in US$ millions, program definition)	211	350	650

[2] The 2005 inflation objective takes into account the impact of the planned further increases in LPG prices (see paragraph 12).

B. Fiscal Policy

10. **The program centers on the consolidation of the public finances through a large fiscal adjustment, for which much of the underlying policy measures are already in place**. This adjustment hinges on both a significant improvement in the nonfinancial public sector (NFPS) balance, and a reduction of the quasi-fiscal losses of the central bank. Owing largely to measures already adopted, including the maintenance of spending discipline envisaged in the 2005 budget, the NFPS balance is targeted to improve by 3.5 percentage points of GDP over the next two years—moving from a deficit of 2.7 percent of GDP in 2004 to one of 0.7 percent in 2005, and to a surplus of 0.7 percent by 2006. Together with a reduction in the quasi-fiscal deficit of the central bank, based on a projected decline in interest rates, the combined public sector balance would improve by 5 percentage points of GDP between 2004 and 2006. As a result, the debt of the combined public sector is estimated to fall from 52 percent of GDP in 2004 to about 48 percent by end-2006.[3]

Public Sector Summary Accounts
(percent of GDP)

	2004	2005	2006
Nonfinancial public sector balance	-2.7	-0.7	0.7
Quasi-fiscal balance of the central bank	-4.0	-3.2	-2.5
Consolidated public sector balance	-6.7	-3.9	-1.8
Primary balance	-0.9	1.9	3.3
Interest payments	-5.8	-5.8	-5.1
Gross public sector debt	52.1	49.1	48.3
External	33.5	30.3	30.2
Domestic	18.6	18.8	18.2

11. **As mentioned above, the government has adopted significant revenue measures.** These measures comprise: (i) a tax package implemented in October, including an increase in the VAT rate from 12 to 16 percent, and higher excises on alcohol and tobacco products; (ii) an upward adjustment on fuel excises, including for inflation; and (iii) an increase in the foreign exchange commission (an import surcharge) by 3 percentage points. Together, these measures will yield more than 2 percent of GDP in 2005 (MEFP ¶7).[4]

[3] The decline in the debt ratio also reflects the effect of the recent real appreciation of the peso on the external debt, of about 3.5 percentage points in 2005 (Annex I).

[4] However, the increase in revenue, when measured in relation to GDP, will be limited to 1.4 percentage points in 2005, reflecting the recent expiration of temporary measures (trade taxes) and the downward valuation effect on revenue from trade taxes due to the real appreciation of the peso.

12. **Expenditure measures supplement the effort made on the revenue side.** The government has already streamlined subsidies to liquefied gas (LPG) consumption, reduced the number of central government employees by more than 10 percent, and imposed a freeze on the level of central government employment. Electricity sector losses are projected to decline by almost half (see paragraph 14), and a further adjustment in LPG subsidies is envisaged in April 2005, through the targeted distribution of prepaid consumption cards to up to 500,000 poor households, on a monthly basis.[5] Finally, the public investment plan for 2005 has been rationalized, and priority has been given to repairing infrastructure damaged by a recent hurricane and key social infrastructure projects (MEFP ¶7 and ¶8).[6]

13. **These adjustment measures make room for increased social spending and a partial recovery of some expenditures that eroded in real terms over the past two years.** The 2005 budget envisages a phased increase of 30 percent in public sector wage rates (in two equal installments) and an increase of close to 50 percent in social expenditures.[7] In this regard, the government recently launched a new food assistance program (*Comer es Primero*), which is expected to benefit 125,000 families by end-2005, and is strengthening the school breakfast program (*Desayuno Escolar*) (MEFP ¶8).

14. **The government has developed a plan for the electricity sector, aimed at reducing the deficit of the sector in the short term and improving its efficiency to enhance service and ensure its financial viability over the medium term (MEFP ¶37).** The plan, prepared with assistance from the World Bank, the IDB, and USAID, aims at stabilizing the supply of electricity and hinges on decisive efforts to reduce losses and raise collections, to improve the cash-flow of distribution companies. This would be achieved by reducing subsidies to final consumers and ensuring that changes in generation costs are passed-through to consumers automatically and with a short lag. The plan also includes efforts to reduce fiscal costs through renegotiation of contracts with power generators. The successful implementation of the plan is expected to reduce the need for central government transfers to the electricity sector from an estimated US$600 million currently to US$350 million in 2005, and to a very small amount in 2006. Under the plan, the debts the government has incurred with private electricity operators are expected to remain unchanged in 2005, but interest on this debt will be recognized and paid in cash.

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[5] By issuing these cards, the government will provide poor households a minimum LPG consumption and will be able to control the amount of resources applied to the subsidy, as all other LPG will be sold at market price.

[6] The decline in the ratio of capital outlays to GDP in 2005 partly reflects the downward valuation effect of the peso's recovery on foreign-financed projects.

[7] Public sector wages were compressed over 2003–04, with the wage bill declining by 37 percent in real terms over the two years. As a share of GDP, the public sector wage bill fell from 6.3 percent of GDP in 2002 to 3.7 percent in 2004. This share will rise only to 4.2 percent in 2005, as the impact of the significant increase in real wage rates is largely offset by the recent cuts in government employment.

15. **The authorities are committed to take further measures, if necessary, to achieve the fiscal target.** The electricity sector plan in particular will be monitored monthly and any slippage will trigger the adoption of contingency measures, including the possibility of having a private firm participate in the management of the two state-owned distribution companies and of bringing forward elements of the planned tax reform (MEFP ¶8 and ¶38). Similarly, close monitoring of revenue performance will be needed. Should tax revenue fall short of projections, the authorities have committed to adjust expenditure to meet the fiscal targets (MEFP ¶8).[8]

16. **The efforts described above will be accompanied by structural reforms in the areas of tax policy and revenue administration, public expenditure control, and debt management.**

- **On tax policy, the government plans to implement a tax reform that aims at simplifying the tax system, broadening the tax base, and reducing distortionary taxes, while strengthening revenues over the medium term** (MEFP ¶19). In this regard, the authorities will define, with FAD technical assistance, the details of the tax reform by March 2005, and agree to a plan for its implementation by the time of the first review. This reform is intended to be broadly revenue-neutral, aimed at replacing revenues from other taxes that will in time be lost. Having recently pushed an ambitious revenue-raising tax package through an opposition-controlled congress, the authorities stressed that congressional approval of a further tax package before the May 2006 congressional elections would be unlikely. In the staff's view, however, the tax reform will need to be adopted in the context of the 2006 budget, to offset the revenue losses arising from the likely implementation of the Central American Free Trade Agreement (DR-CAFTA) and the phased elimination of distortionary taxes—particularly the foreign exchange commission (Box 2). The authorities recognized that the reform might need to be implemented earlier, depending on the timing of DR-CAFTA. In the meantime, they are taking several initial steps toward tax reform: (i) in January of this year, the President issued a decree reversing all tax and customs exemptions that had been granted administratively; and (ii) the government is preparing a bill eliminating special tax regimes for border zones and the tourism sector, which will be submitted to congress by March 2005.[9]

- **The authorities consider that strengthening revenue administration is critical to ensuring the success of the reform of the tax system.** In this regard, by April 2005, the authorities intend to develop, with technical assistance from the Fund and other

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[8] Subsequent to the development of the 2005 budget, inflation in late 2004 turned out below expectations, with downward implications for nominal GDP in 2005. Nevertheless, recent revenue performance does not suggest a significant shortfall. On the expenditure side, budgeted expenditures are somewhat smaller than assumed in the program, providing a degree of protection to the program's fiscal target.

[9] The elimination of exemptions granted administratively will give some additional revenue in 2005, but this has not been included in program projections due to a lack of precise information.

Box 2. Rationale and Main Features of the Planned Tax Reform

The Dominican Republic's tax system has been characterized by wide-ranging exemptions and, following the crisis in 2003, by highly distortionary taxes (e.g. the foreign exchange commission and the financial transactions tax). Since the tax package approved in 2004 focused mainly on increasing tax rates rather than widening the tax base, a reform of the tax system remains necessary to improve its quality, efficiency, and equity, aiming at simplifying the system, broadening the tax base, and phasing out distortionary features.

The reform must also offset several short- and medium-term revenue losses. These losses are expected on account of (i) the removal of the distortionary taxes; (ii) the lack of complete indexation to inflation of beer and cigarette excises; (ii) the decision to make the 1½ percent turnover tax creditable (and refundable) against the corporation tax; (iv) the expansion of personal income tax exemptions; (v) the eventual implementation of the trade agreement with the U.S. (DR-CAFTA); and (vi) the phasing-in of a special tax regime for border zones.

FAD experts recommended that the comprehensive tax reform focus on:

- Eliminating the foreign exchange commission and financial transactions tax.
- Strengthening the value added tax (VAT) by (i) scaling back existing exemptions; (ii) gradually raising the lower VAT rates to the standard rate; (iii) systematically including excises into the VAT base; and (iv) introducing an effective system for VAT refunds.
- Curtailing tax and customs exemptions that reduce revenue collection and undermine the transparency of the system, including: (i) the border zone tax incentive scheme; (ii) the tax holiday schemes, such as those for the tourism sector and the free trade zones; and (iii) the wide range of customs and tax exemptions, granted by legislation, Presidential decrees and other administrative tools.
- Exploiting the considerable revenue potential of excises by (i) eliminating the pre-announced reduction in the excises on beer and cigarettes; (ii) increasing excises on petroleum products that are very low by regional standards; and (iii) simplifying the excise regime on automobiles to improve revenue collection.
- Strengthening the personal income tax by (i) introducing measures on providers of professional services, such as a non-final withholding tax system or a simple presumptive tax; (ii) taxing interest income at the personal level; and (iii) reviewing the basic personal exemption, which currently is somewhat high.

institutions, an action plan (MEFP ¶20). The plan will include measures to enhance the institutional capacity of the tax authority while strengthening audit and enforcement procedures, and improving customs valuation and inspection. In parallel, the government will submit draft legislation making tax fraud and evasion a criminal offense by March 2005.

- **To improve the efficiency, transparency and accountability of fiscal management, legislation governing budget, procurement, treasury, public debt, internal controls, and financial management practices will be amended to conform with international standards.** The government, in collaboration with the IDB, is well advanced in the drafting of legislation in the above areas, and is expected to submit to Congress the package of laws by March 2005, after Fund staff has had an opportunity to review the proposals (MEFP ¶21). A key objective of the reform is to centralize responsibility for all aspects fiscal policy in one cabinet post. Other objectives include: (i) requiring congressional approval of a supplementary budget if expenditure were to exceed the original budget; (ii) enhancing procurement practices; (iii) establishing a unified Treasury account; (iv) centralizing debt management; and (v) substituting ex-ante expenditure controls for a modern system of internal controls. It is expected that this reform will be in place for the 2006 budget.

- **In the interim, expenditure control and monitoring procedures are being strengthened, in accordance with two decrees recently issued (MEFP ¶22 and ¶23).** These decrees are critically important to avoid a recurrence of misreporting, and to secure the objectives of the program, as they establish the need to: (i) implement a monthly cash-based budget; (ii) guarantee both the recording of central government expenditure in the integrated financial management system (SIGEF) and prior authorization for payments by the Treasury; (iii) tighten procedures for access to domestic credit; (iv) centralize the authorization to contract and negotiate any new external financing, including a prior analysis of such borrowing on debt sustainability; and (v) improve reporting of capital expenditure by decentralized agencies. In addition, externally-financed projects will be monitored closely by the National Planning Office, through an enhanced information system, to ensure that project execution remains within the budgeted amounts. In parallel, the large remaining portfolio of projects will be reviewed in light of investment priorities over the medium term, with a view to canceling those projects that do not meet priorities. Finally, the authorities will complete by March 2005 an inventory of verified domestic arrears outstanding as of end-December 2004, and by June 2005, they will (i) develop a timetable to clear these arrears, and (ii) put in place a system for monitoring and control of arrears.

C. Monetary and Exchange Rate Policies

17. **The monetary authorities are committed to reducing inflation to 11–13 percent during 2005, and to 8 percent in 2006.** The program targets monetary aggregates to grow somewhat faster than nominal GDP, as demand for real balances begins to recover. Achieving these goals, while allowing a buildup of international reserves to more comfortable levels, will require that the central bank increase its stock of certificates significantly over the two year

period.[10] In this regard, the central bank will continue using auctions of certificates as the main instrument to control liquidity and will set its policy interest rates (Lombard window and overnight deposits) to signal the direction of monetary policy (MEFP ¶14).

18. **The central bank will continue to maintain a floating exchange rate policy, with intervention focused mainly on achieving the reserve targets; it will aim also at improving the functioning of the foreign exchange market.** To improve transparency and competition in the foreign exchange market, the central bank will pursue the adoption of an electronic trading platform, and with cooperation from the IDB, will tender the trading platform to an internationally recognized firm by March 2005 (MEFP ¶15). The central bank also intends to introduce further improvements in the payments system more broadly.

19. **The authorities are well advanced in formulating a strategy to strengthen the central bank's balance sheet in order to improve its ability to conduct monetary policy.** This strategy has several components:

- Lengthening the maturity and deepening the market of certificates (MEFP ¶16). To limit quasi-fiscal losses and reduce the rollover risk of its liabilities, the central bank now has the ability to issue three types of longer-term indexed certificates: (i) certificates linked to inflation; (ii) certificates with variable interest linked to banks' deposit rates; and (iii) certificates linked to the exchange rate.[11] These instruments will be placed mainly through auctions, although limited direct placements, referenced to the auction result, will be allowed for small investors.
- Recapitalizing the central bank using public resources. Such recapitalization depends on the availability of government resources, which in the near-term is still limited, notwithstanding the fiscal adjustment effort. While an initial capital injection of US$65 million will be made in early 2005, the government will develop by March 2005 a comprehensive plan for recapitalizing the central bank, including the transfer for sale of non-financial assets in 2005 and a larger financial transfer in 2006 (MEFP ¶17).
- Developing a plan to manage and dispose of bank assets received as a result of the crisis. The monetary authorities recently created an independent trust fund to expedite the sale of assets acquired from the intervened banks (see ¶24).

D. Banking Policies

20. **The authorities are committed to implementing, without delays, the banking sector strategy initiated under the previous program.** This includes: (i) a time-bound plan for

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[10] The actual rate of increase will be lower than shown in Tables 7 and 9, inasmuch as the central bank (i) is successful in selling assets and (ii) receives capital injections from the government (see ¶19).

[11] To contain the central bank's exposure to peso depreciation, the authorities will limit the use of exchange rate-linked certificates to US$225 million in the first semester of 2005.

commercial banks to bring their capitalization fully up to international best practices; (ii) modernization of the regulatory framework, including through bringing asset valuation rules up to international best practices and the introduction of consolidated supervision; and (iii) strengthening the independence and accountability of the central bank and the superintendency of banks.

21. **The recapitalization of commercial banks is to take place in two steps:**

- As a first step, banks were required to meet a 10-percent capital ratio, according to local rules on asset valuation and without forbearance, as of December 2004. Full compliance with this target will be determined when banks submit their end-2004 financial statements in April 2005, at which point the superintendency of banks will also verify that the valuation of banks' capital increases is consistent with international best practices, international accounting standards and local regulations (MEFP ¶25).
- Starting January 2005, the banking system will transition from local to international best practices for asset valuation over a three-year period. In this regard, regulations were recently approved (i) defining the new asset valuation standards, and (ii) requiring commercial banks to submit—semi-annually, starting in May 2005—five-year business plans supporting their ability to comply with solvency requirements over the transition period. By December 2007, all banks will have to meet the 10-percent capital adequacy requirement based on international best practices for asset valuation (MEFP ¶26).

22. **The authorities are committed to further improving the banking regulatory framework (MEFP ¶27 and ¶28).** In this regard, the Monetary Board is expected to approve by March 2005 critically-needed regulations on consolidated accounting and supervision and treatment of market risks. The authorities and staff share some concern about one bank that may not, on a consolidated basis, meet regulatory requirements. The authorities are discussing with the owners of this bank the possible resolution of this issue, in accordance with the Monetary and Financial Law and Systemic Risk Law. In addition, the authorities are preparing regulations to strengthen the bank resolution process by defining: (i) rules governing the use of public funds under the Systemic Risk Law; and (ii) actions to be taken by the bank superintendency when banks request liquidity support from the central bank, in part to ensure that such liquidity assistance is recouped. These regulations will be approved in March and April 2005, respectively.

23. **These efforts will be complemented by institutional reforms that grant the central bank and the superintendency of banks increased independence while making them more accountable.** In this regard, the authorities are planning to develop, with assistance from the Fund, a specific proposal amending the current Monetary and Financial Law (MEFP ¶32). The proposal will seek to: (i) lengthen the mandates of the governor and superintendent of banks to at least 5 years; (ii) better delimit each institution's responsibilities regarding the financial sector; and (iii) ensure a more level playing field between public and private banks. These reforms of the legal framework will be accompanied by an institutional strengthening plan for the superintendency of banks that includes intensive capacity building for on-site inspection and financial analysis, and improved technological support.

24. **The central bank is setting up an investment trust fund to manage and dispose of bank assets received as a result of the crisis, as well as other assets on the central bank's books.** The trust will be a legal vehicle separated from the central bank, fully dedicated to maximizing the recovery value of these assets. Key staff will be appointed by February 2005, and a timetable for asset disposal will be developed. Upon completion of an inventory of the assets—including an assessment of their legal status—in March 2005, these will be transferred to the trust fund, at a value determined by a methodology based on market prices. In parallel, the legal department of the central bank has initiated the foreclosure of assets of the former owners of resolved banks (MEFP ¶30).

25. **The authorities are taking steps to tackle governance and transparency concerns in the handling of the banking problems of 2003.** A special prosecutor was recently named to pursue the state's interests in the criminal cases against the bank managers and owners responsible for the banking crisis. In the interest of transparency, and to send a signal regarding their resolve in pursuing these cases, the authorities have requested the Office of the Prosecutor General to publish periodic reports on progress with the prosecutions. Finally, in January 2005, at the request of the authorities, the panel of independent experts that investigated regulatory and supervisory failures that contributed to the banking crisis will return to Santo Domingo, to conduct additional interviews and discuss their findings with the new administration. The panel's final report will be published in March 2005 (MEFP ¶31).

III. Financing of the Program and the Balance of Payments

26. **Even with the envisaged fiscal adjustment, large financing needs arise during the program period.** With both the external current account and the public sector's primary balance in surplus, after substantial adjustments, and projected to remain so in 2005 and 2006, financing needs derive mainly from debt-servicing obligations, including the need to clear remaining external arrears. In the balance of payments, the overall balance will be in surplus in 2005 and 2006, as the current account surplus and official capital inflows exceed net private capital outflows (the latter are set to decline as confidence in the domestic financial system builds).

27. **The financing strategy features new money and reschedulings from a mix of official and private sources.** The strategy includes (i) issuance of domestic bonds to service obligations to clear arrears with local suppliers and some refinancing of loans from domestic banks; (ii) continued support from international financial institutions, through budget support loans, with the IDB and World Bank disbursing at least US$260 million in 2005; and (iii) oil import financing agreed with the government of Venezuela that in 2005 will provide about US$205 million in long-term financing, at concessional rates (MEFP ¶9).

28. **However, a remaining financing gap through end-2005 is estimated at about US$327 million, and a gap of US$637 million is projected in 2006.** The government is working on several fronts to fill these financing gaps (MEFP ¶9 and ¶10):

- *Restructuring of external bonds*: The authorities are well-advanced in designing a voluntary bond exchange that would restructure outstanding external securities totaling US$1.2 billion, and envisage cash flow relief of about US$40 million and US$500 million in 2005 and 2006, respectively.[12] The authorities hired financial advisors and conducted a roadshow in December to discuss with bondholders the need for restructuring, and expect the exchange operation to be launched in the first quarter of 2005.

- *Restructuring of external commercial banks' and suppliers' debt*: The authorities envisage cash flow relief for about US$80 million through end-2005, and about US$35 million in 2006. The authorities have begun discussions with external commercial banks to reschedule arrears accumulated during 2004 (about US$45 million at end-year) as well as amortizations due in 2005 and 2006. They intend to continue these negotiations in a manner consistent with the Fund's policy on lending-into-arrears. The authorities envisage concluding negotiations by April 2005 (after which no arrears, to any external creditor, will remain).
- *Paris Club rescheduling.* The authorities recently obtained financing assurances from the Paris Club for rescheduling pre-cut off date obligations falling due in 2005, with an envisaged cash flow relief of US$139 million. The authorities expect that the Paris Club request for comparability of treatment will be met through the restructurings of bond and bank debt mentioned above. Indeed, the Paris Club has linked negotiations of the 2005 rescheduling to the successful completion of the bond exchange noted above.[13]
- *New financing from commercial banks.* The authorities recently were able to negotiate a loan of US$70 million from a pool of private domestic banks, to be disbursed shortly after approval of the new SBA. These banks have indicated that they will channel these funds by drawing on external resources.

29. **To assist the Dominican Republic's orderly phase-out of textile quotas under the WTO's Agreement on Textiles and Clothing (ATC), the authorities are requesting activation of the Trade Integration Mechanism (TIM).** Clothing exports now represent more than one-third of the country's total exports, with a large share directed toward the U.S. market.[14] Should the impact of the elimination of these quotas on the balance of payments be significantly worse than currently anticipated (MEFP, Table 4, Scenario B) during the period of the arrangement, the authorities would like to reserve the possibility of availing themselves of an augmentation of access by up to 10 percent of quota (SDR 21.89 million) under the TIM's deviation feature (MEFP ¶12). To mitigate the effects of the end of these textile quotas and to maintain access to the United States market, the authorities are steadfastly taking the necessary steps to permit ratification of the recently negotiated DR-CAFTA.

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[12] Assuming a 100 percent participation rate. The authorities' baseline scenario envisages capitalization of 50 percent of coupon payments and a 5-year maturity extension for global bonds.

[13] While the Paris Club has not given assurances for a 2006 rescheduling, it has indicated willingness to consider this, once fiscal and financing plans for 2006 are more concrete.

[14] About 92 percent of the country's clothing exports to the U.S. are in categories for which the U.S. had imposed constraining quotas on other countries.

30. **Looking into the medium term, the balance of payments is expected to return to patterns observed through much of the 1990s.** As economic growth picks up and so long as oil prices remain high, imports are expected to recover while export growth is dampened by, *inter alia*, the end of textile quotas in the Dominican Republic's export markets. Developments in the trade account, as well as a rising private investment ratio, are expected to take the current account back into deficit from 2007 onward (Table 10b). Official capital inflows are expected to remain relatively stable in U.S. dollar terms, while declining as a proportion of the budget and GDP. On the assumption that the program is successfully implemented and confidence continues to recover, private capital outflows are conservatively projected to moderate, allowing the overall balance of payments to move more firmly into surplus from 2007. Under the adjustment path projected for the combined public sector finances, including maintaining a primary surplus between 3–3.5 percent of GDP, the total public sector debt is projected to gradually decline to around 44 percent of GDP by end-2009 (Table 14).

IV. Risks

31. **While the program remains subject to several risks, its design aims to contain these to acceptable levels, reflecting lessons learned from recent experience, especially on the fiscal side:**

- *Fiscal control and monitoring.* The recently-introduced institutional reforms provide the necessary tools to maintain fiscal discipline, but they must be implemented vigorously. The fiscal program has some built-in cushions against potential slippages (or adverse shocks), but implementation of contingency measures, including elements of the envisaged tax reform, could become necessary.

- *Fiscal costs of the electricity sector.* Much of the remaining improvement in the fiscal position is based on the plan for gradual reduction of electricity losses and subsidies. This depends especially on a significant, and timely, improvement in collection rates, which will require strong political determination and support at the highest policy level. Still, the targeted collection rates should be achievable, as they are similar to rates achieved only a few years ago. Moreover, the electricity sector financial projections are based on conservative exchange rate and oil import price assumptions, creating some up-side risk of fiscal overperformance.

- *Financial risks.* The central bank's exposure to rollover risk is declining but remains a potential source of monetary expansion and inflationary risk. Against this, the ongoing fiscal strengthening should continue to support growing confidence in all public debt, along with the plans for central bank recapitalization, including through an ambitious plan to sell assets.

- *Banking sector.* Though liquidity is generally adequate, the banking system will remain vulnerable to shocks as its capital is gradually built up. Obtaining cooperation of bank owners—particularly if bank profits were to decline as a consequence of a more stable environment—will require determination on the part of the authorities, and vigilance against capital increases that may not meet international best practices. More generally, questions about the meaningfulness of banking data make bank risk difficult to assess. In that respect, the planned implementation of consolidated accounting (as well as consolidated supervision) will be critical. Finally, although the banks' direct exposure to the government is limited, they have significant exposure to the electricity sector, which could affect earnings capacity if the government's plan for the sector were not implemented as envisaged.

- *Political factors.* While strong ownership and public support for the program have been demonstrated, the key risk is that continued success in stabilization could lead to complacency which in turn could slow further reforms. The government enjoys a popular mandate for change, but the political climate ahead of the May 2006 congressional elections could delay implementation of some structural reforms, particularly because the president's party lacks a majority in congress. On the positive side, those elections could represent an opportunity to solidify the reform mandate.

V. Access and Program Monitoring

32. **Access under the 28-month SBA is proposed at SDR 437.8 million—an average annual rate of 86 percent of quota, phased almost uniformly, and subject to quarterly reviews.[15]** The proposed level of access is driven by the substantial balance of payments need projected through 2007 and the imperative to raise gross international reserves from their current low level, about 1 ½ months of imports. Indeed, Fund resources will be used entirely to rebuild official reserves. The relatively high rate of access under the SBA is further justified by the strength of the authorities' program—including the substantial policy efforts already in place—the need for the Fund to provide a measure of burden sharing with other multilaterals and bilaterals in support of the program,[16] the relatively low indebtedness to the Fund (currently 60 percent of quota, Table 13), the strong probability that the Dominican Republic's debt will remain sustainable (Annex I, and Tables 15 and 16), and the Dominican Republic's good prospects of regaining access to capital markets following the conclusion of the arrangement. Although the Dominican Republic's financing needs are concentrated in the very near term, the arrangement has been phased quite uniformly, reflecting the upfront financing from other sources that will be catalyzed by the approval of the arrangement.

33. **The Dominican Republic's capacity to repay the Fund appears adequate (Table 13).** Repurchases and charges are projected to represent a negligible proportion of exports, and less

[15] The arrangement approved in August 2003 also was for SDR 437.8 million, but only SDR 131.3 million (60 percent of quota) was disbursed.

[16] The official capital flows section of Table 11 shows that substantial support has already been provided by other (i.e., non-IMF) external creditors. Meanwhile, the "Possible additional financing" sections of Tables 10 and 11 underscore the catalytic role the SBA-supported program will provide for further multilateral support, ongoing support from official bilaterals, and substantial new support from private creditors.

than 10 percent of both public debt service and gross international reserves through 2008. Total Fund credit outstanding will peak at about 230 percent of quota in 2007 and decline thereafter. In the past, the Dominican Republic has complied promptly with its debt-service obligations to the Fund, though recently it has accrued at various times arrears to other multilateral, official bilateral and private creditors (all but the latter have now been cleared).[17] To support the effort to rebuild reserves during the period of the arrangement, the authorities request that the SDR 10.95 million of repurchases now scheduled (on an expectations basis) for 2005 be extended to an obligations basis. Prospects for meeting repurchase expectations in 2006 will be assessed again in late 2005.

34. **Reviews under the program will include financing assurances reviews so long as the arrears to private external creditors (banks and suppliers) remain outstanding.** The first program review will focus on defining the content and timetable of the tax reform package and ensuring that commercial banks meet capitalization requirements. The second review will focus on progress in structural reforms in the areas of electricity, public expenditure and debt management, and accountability and independence of the central bank and superintendency of banks. As some external arrears to private creditors will remain at the outset of the proposed SBA, Fund policies on lending-into-arrears will apply, and financing assurances reviews are therefore envisaged until these arrears are cleared.

35. **A considerable set of key prior actions have established a solid basis for the success of the program, and thus will help safeguard Fund resources, while technical assistance will facilitate program implementation.** Prior actions center on ensuring the achievement of the fiscal targets in 2005, securing the financing of the program, and reinvigorating the banking sector reform, objectives that will strengthen confidence further. The program's significant structural conditionality emphasizes critical enhancements to the institutional framework of fiscal policy, the monetary and financial supervisory institutions, and the banking system. Technical assistance will aid the formulation and implementation of structural reforms. To improve coordination and program implementation, the government has established a high-level economic council, with clear responsibility on economic policy decisions. The authorities also have requested technical assistance from CARTAC to strengthen further their program monitoring framework.

36. **Progress has been made in implementing the recommendations of the Fund's Safeguards Assessment, although some steps are still in progress.** In 2004, the central bank established an independent committee to oversee the bank's external and internal audit functions, and recently, an independent audit of the central bank's accounting records, internal control system, and risk evaluation process was finalized. The assessment report was presented to the Monetary Board in December 2004. The central bank earlier established an interdepartmental committee to review and analyze the composition of international reserves and other program data, and by March 2005, the bank's internal audit committee will develop its audit plan. By

[17] Even where the country has avoided arrears, it has tended to take advantage of grace periods on its external debt. By end-2004, however, the authorities committed to stop this practice.

January and April 2005, respectively, the central bank will publish its 2003 and 2004 audited financial statements. A new safeguards assessment mission is expected in the first quarter of 2005.

VI. Staff Appraisal

37. **The failure to implement the previous program undermined confidence and set off a vicious circle, complicated by the presidential elections and the subsequent political transition period.** Over time, policies improved, but not soon enough to achieve the program objectives for 2004. Notwithstanding the volatile macroeconomic environment that prevailed during much of 2004, the economy showed its resilience, growing at a moderate rate.

38. **The new government's determination to formulate a strong program to address the country's pressing problems, and the considerable measures implemented after it took office, have led to a significant improvement in macroeconomic indicators and a major turnaround in expectations and confidence.** The multiple fronts of the program aim not only at eliminating macro imbalances in the short-run, but also at introducing institutional reforms to enhance governance and correct the sources of the policy failures that triggered the crisis in 2003. Especially significant has been the political consensus that prompted an opposition-controlled congress to approve a substantial tax package. This package, coupled with expenditure cutbacks, the resulting recovery of the peso, and the public's willingness to hold longer-maturity public debt, have contributed to a strengthening of the public finances.

39. **The design of the program reflects lessons drawn from the experience of failed implementation under the previous program.** Some of the slippages under that program were attributable to adverse shocks and the political incentives of an election year. However, the experience also revealed institutional shortcomings—most clearly in the public finances—that greatly complicated the achievement of basic program objectives. The new program addresses these problems squarely, including through prior actions.

40. **A tight fiscal policy and institutional reform in the fiscal area are at the heart of the program for 2005–06.** This will permit a rebalancing of monetary/fiscal policy mix. The shift to a significant primary surplus will ensure that the decline of the debt ratio continues over the medium-term, thus improving the prospect for regaining sustained macro stability and re-establishing the basis for the strong growth rates the country experienced in the 1990's, as well as access to external capital markets. Adjustment measures—both on revenue and expenditure sides—and a prudent budget are already in place to achieve the major improvement of the NFPS overall balance targeted for 2005. In addition, the recent institutional changes to the control and monitoring of public expenditure and debt provide a strong framework for the much-needed improvement in fiscal policy management. These changes must be rigorously applied, and followed-up with modifications to legislation that will consolidate and broaden these reforms. However, close monitoring of budget execution and readiness to adopt corrective measures promptly remain critical to achieve the fiscal targets.

41. **The plan to reduce electricity sector losses has been carefully designed to improve electricity service—critical to sustain the economic recovery—while reducing the need for**

central government support. As the authorities are well aware, decisive implementation of the electricity plan is required to achieve the program's fiscal targets. For 2005, fiscal savings from the gradual reduction of electricity sector losses are needed to make room for the envisaged recovery of expenditures that were compressed unsustainably in 2004. Moreover, the further strengthening of the public finances programmed for 2006 relies mainly on continued success of the electricity plan. The implementation and effectiveness of the plan will need to be monitored closely, and if necessary, contingency measures will need to put in place promptly.

42. **The authorities recognize that a comprehensive, structural tax reform will need to be adopted during the program period.** The key objectives of this reform are to improve the efficiency and equity of the tax system, by reducing its distortionary elements and widening its base. While it is expected that this reform will be broadly revenue neutral, it will be needed to offset revenue that will be lost from the expected implementation of DR-CAFTA, and from the reduction in the distortionary import surcharge that regrettably is still in use as an emergency measure. The authorities are committed to begin reducing this surcharge in January 2006, but staff would encourage an earlier start, as soon as conditions permit. The design of the tax reform needs to be completed in the coming months and a timetable for its implementation agreed as a condition for the first review of the program. In the staff's view, it would be important that the reform be in place for the 2006 budget, or even earlier, depending on the timetable for DR-CAFTA implementation.

43. **The central bank has demonstrated its commitment to a monetary policy consistent with low inflation, in the context of a floating exchange rate regime.** The maintenance of a tight monetary policy has helped reduce inflation and interest rates considerably. With fiscal policy now playing a supportive role, the burden on monetary policy is easing, and the authorities can expect to permit a gradual further decline in interest rates. In the event that stabilization triggers an unexpectedly strong increase in demand for pesos, consideration should be given to accumulating international reserves at a somewhat faster pace than programmed, given their still low level. Nevertheless, to avoid creating "one-way bets" and help absorb external shocks, it will be important that the exchange rate continues to move freely, in both directions.

44. **To ensure that monetary policy can remain effective in the future, a further strengthening of the central bank, both financially and institutionally, is essential.** The quasi-fiscal deficit, which represents a potential source of monetary expansion, will moderate as interest rates decline. To further reduce this deficit, the authorities are aware of the need to finalize and implement promptly a comprehensive strategy geared to increasing the bank's earnings capacity and reducing its liabilities. This strategy includes transfers of capital from the government (both interest-bearing bonds and marketable non-financial assets) as well as the sale of the considerable assets the central bank has previously acquired. In addition, the authorities intend to move ahead with legislation to lengthen the terms of the monetary and financial supervisory authorities and to subject their appointment to congressional ratification, among other institutional enhancements.

45. **The authorities have made a firm commitment to further reform of the financial sector.** While some progress was made during the previous program, this was from a weak base,

and the authorities are keenly aware that risks will remain until their reform agenda is fully implemented. A sustained effort has begun to ensure that all banks comply with the phased implementation of international best practices for asset valuation. Institutional reform and improvement of the supervisory and regulatory framework are important steps in minimizing the risk of a recurrence of banking problems. In this regard, the early implementation of consolidated accounting and supervision will provide an especially important tool to help ensure that recapitalizations reflect true injections of fresh funds. Finally, tangible progress in the prosecution of those responsible for the crisis and the recovery of failed bank assets would be important to clearly signal the authorities' commitment to accountability and legality, to the Dominican public and the international community.

46. **The authorities' financing strategy represents a balanced approach to addressing the remaining financing gap and setting the stage for regaining market access on sustainable terms.** Although the planned restructuring of private debt could have been avoided if policies under the previous program had been implemented, such restructuring is now an essential part of the financing strategy for 2005–06, including to meet the commitments to obtaining comparable treatment from private creditors required by the rescheduling of Paris Club debt. A new accumulation of external arrears must be avoided.

47. **The authorities will proceed as quickly as possible to conclude the sovereign debt restructuring with private creditors discussed above.** Staff welcomes the authorities' recent preparatory steps, their commitment to follow the principles of the Fund's policy on lending into arrears, and their wish to complete the restructuring and clear all arrears to private creditors by mid-2005. The authorities concluded a round of consultations with bondholders and commercial banks in mid-December. Consultations with creditors are continuing, in a second round with commercial banks in January 2005 and discussions with bondholders planned for February 2005. On this basis, and in light of the steps the authorities have taken to engage creditors in a collaborative process, staff is satisfied that the authorities have met the good-faith criterion established under the Fund's policy for lending into arrears, and urges the authorities to remain consistent with these criteria in the period leading up to the final agreement for the restructuring.

48. **The staff recommends approval of the request for a new SBA and the extension to an obligation schedule of the repurchase expectations for 2005.** The program is strong, and its design aims to contain remaining risks, while correcting institutional shortcomings that undermined implementation of the previous program. The authorities' commitment is also strong, as evidenced by the upfront implementation of key measures—including a significant fiscal adjustment and clearance of arrears to official creditors. Finally, it remains clear that the fundamentals of the Dominican economy and its prospects are favorable, and that implementation of the program can readily overcome the severe but transitory problems of low confidence and illiquidity, a process that has begun already.

VII. Proposed Decisions

The following draft decisions, which may be adopted by a majority of the votes cast, are proposed for adoption by the Executive Board:

A. Approval of Request for Stand-By Arrangement

1. The Dominican Republic has requested a Stand-By Arrangement in an amount equivalent to SDR 437.80 million for a period of twenty-eight months from [January 31, 2005 to May 31, 2007].

2. The Fund approves the Stand-By Arrangement for the Dominican Republic set forth in EBS/05/9 and decides that purchases may be made under the arrangement, on the condition that the information provided by the Dominican Republic on the implementation of measures specified as prior actions in Table 2 of the Memorandum of Economic Policies attached to the letter dated January 14, 2005 is accurate.

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

4. The Fund notes the intention of the Dominican Republic to request augmentation of the amount of the Stand-By Arrangement should the Dominican Republic experience balance of payments difficulties identified in paragraph 1 of Decision No. 13229-(04/33) on the Trade Integration Mechanism that are larger than those anticipated. The Fund will be prepared to consider such an augmentation in an amount not to exceed 10 percent of the Dominican Republic’s quota, in accordance with paragraph 3 of the Decision No. 13229-(04/33).

5. The Fund notes the cancellation by the Dominican Republic of its Stand-By Arrangement (EBS/03/116, Supp. 2, 09/17/2003) as of [January 31, 2005]).

B. Extension of Repurchase Expectations

1. The Dominican Republic has requested an extension to the obligations schedule of the time-based repurchase expectation in the credit tranches, in an amount equivalent to SDR 10.945 million, that arises in 2005 on December 2nd.

2. The Fund approves the request.

Table 1a. Dominican Republic: Quantitative Performance Criteria and Indicative Targets under the Previous SBA in 2004 1/

	Program				Actual			Est.	
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec	Comments
1. Quantitative Performance Criteria									
	(in DR$ millions)								
A. Non financial public sector (NFPS) balance (cumulative floor)	300	760	1,300	1,140	-12,884	-19,585	-18,581	-21,279	Not observed
B. Change in NFPS borrowing from the banking system (cumulative ceiling)	-5,250	-6,130	-7,180	-10,360	-1,121	5,277	2,308	7,310	Not observed
C. Central bank net domestic assets (ceiling) 2/	71,540	72,200	70,700	75,850	75,087	88,166	85,246	82,606	Not observed
	(in US$ millions)								
D.Gross accumulation of public sector external arrears (cumulative ceiling)	0	0	0	0	54	53	81	175	Not observed
E. Contracting of external debt (cumulative ceiling)	800	950	1,330	1,580	1,056	1,067	1,091	...	Not Observed (except Sep./Dec.)
F. Central Bank NIR (floor) 3/	-100	-100	-50	0	-67	-72	6	211	*Observed*
2. Indicative Targets									
	(in DR$ millions)								
A. Central government expenditures (cumulative ceiling)	24,700	49,600	74,050	101,000	40,560	80,575	115,924	149,335	Not observed
B. Quasi-fiscal loss of the central bank (cumulative ceiling)	6,740	13,300	19,200	25,050	5,651	14,200	22,769	31,034	Not observed (except March)
C. Change in central government deposits in central bank (cumulative floor)	4,770	5,300	6,000	8,350	4,780	-2,864	-3,268	-3,024	Not observed (except March)
D. Money base (ceiling) 4/	67,540	68,200	68,700	75,850	72,410	85,272	85,483	91,054	Not observed
Of which: Reserve requirement on investment certificates	...	...	...	...	7,765	12,680	12,680	12,680	

1/ For 2004, change is relative to end-Dec 2003.
2/ Defined as difference between money and NIR at accounting exchange rate of DR$40 per US$.
3/ Excludes reserves requirements on foreign currency deposits.
4/ Actual figures were redefined to include reserve requirements on investment certificates. Excludes reserve requirement in foreign currency deposits.

Table 1b. Dominican Republic: Structural Performance Criteria and Benchmarks under the Previous SBA in 2004 1/

	Date Expected	Outcome
Structural Performance Criteria		
1. Approval of MFL by-laws on capital adequacy, eliminating any existing forbearance on loan provisioning, and on prudential regulations governing loan classification and provisioning, on the basis of international best practices	Feb. 2004	Completed, but with delay. 1/
2. Finalize the design of a comprehensive strategy for the restructuring of undercapitalized banks	Feb. 2004	Completed.
3. Submission to congress of tax reform proposal.	Jul. 2004	Not completed.
4. No administrative interference in the foreign exchange market.	Continuous	Observed.
Structural Benchmarks		
1. Completion of all internationally assisted inspection reports.	Jan. 2004	Completed, but with delay
2. Approval of exchange market by-law.	Feb. 2004	Observed.
3. Establishment of a governance structure to manage and dispose of assets acquired as a result of the resolution of problem banks.	Feb. 2004	Not completed. Work is ongoing.
4. Completion of a plan for the institutional strengthening of the superintendency of banks.	Feb. 2004	Not completed. Work is ongoing.
5. Establishment of procedures for an independent review by the central bank controller of the program data reported to the Fund and the bank's accounting records; and initiation of an independent risk management and bank-wide internal control review of the central bank.	Feb. 2004	Partially completed. Work ongoing.
6. Technical discussion for a proposal of tax reform.	Mar. 2004	Completed, but with delay. 2/
7. Approval of by-laws on: (i) related-party credit and definition of economic groups, (ii) external auditors; (iii) consolidated accounting in line with international best practices; and (iv) fit and proper conditions for bank managers and shareholders.	Mar. 2004	Partially completed. 3/
8. Establishment of an independent committee at the central bank to oversee the bank's external and internal audit functions; approval of the new role, reporting lines, and scope of activities of the Internal Audit Department (IAD); and beginning of preparation of an action plan for strengthening capacity of the IAD.	Mar. 2004	Completed with delay. 4/

1/ Capital adequacy regulation passed only 30 March, 2004, and the elimination of forbearance was transferred to the asset evaluation regulation, which was approved on Dec.29, 2004.
2/ Completed in April 2004.
3/ Item (i) observed; (ii) completed August 2004; (iii) not completed (now rescheduled for March 2005); (iv) completed May 2004.
4/ Finalized in December 2004.

Table 1c. Dominican Republic: Quantitative Performance Criteria and Indicative Targets for 2005–06

	Estimate	Performance criteria		Indicative targets		
	Dec-04	Mar-05	Jun-05	Sep-05	Dec-05	Dec-06
I. Quantitative Performance Criteria 1/						
(In billions of Dominican Republic pesos)						
A. Nonfinancial public sector (NFPS) balance (cumulative floor) 2/	-2.7	-6.0	-6.6	-7.3	-9.1	7.1
B. Central Bank net domestic assets (ceiling) 3/	25.1	26.0	24.5	22.5	26.5	21.3
(In millions of U.S. dollars)						
C. Gross accumulation of public sector external arrears (continuous ceiling)	0	0	0	0	0	0
D. Contracting of external debt by the public sector (cumulative ceiling) 2/ 4/	200	380	655	855	1,105	950
E. Central Bank NIR, excluding bank's foreign currency deposits (floor)	211	150	200	225	350	650
II. Indicative Targets						
(In billions of Dominican Republic pesos)						
A. Change in NFPS net credit from the domestic banking system (cumulative ceiling) 2/ 5/	4.8	6.5	5.0	3.0	1.0	-7.5
B. Monetary base, excluding reserves on foreign currency deposits (ceiling) 6/	91.1	89.4	91.8	93.0	104.0	117.4

1/ As defined in the Technical Memorandum of Understanding. Performance criteria are proposed for March and June 2005. At the time of the first review, performance criteria will be set for September and December 2005.

2/ For 2005, cumulative from end-September 2004. For 2006, cumulative from the beginning of the year.

3/ Defined as currency in circulation less NIR (program definition) valued at the accounting exchange rate of DR$35 per US$.

4/ Ceilings exclude any new debt instruments issued as part of the process of debt restructuring and rescheduling.

5/ Credit is defined on a net (of deposits) basis, and includes the central bank.

6/ Include reserve requirement on investment certificates.

Table 2. Dominican Republic: Prior Actions

	Status/Comments
Fiscal policy	
Congressional approval of 2005 budget in line with the macroeconomic framework agreed with the IMF (MEFP, ¶8)	Done
Implementation of fiscal measures needed to achieve 2005 targets: (i) adjustment of oil excises and (ii) increase in foreign exchange commission (MEFP, ¶8).	Done
Issuance of decrees, establishing: (i) the administrative process to authorize contracting of external debt, including that associated with investment projects (MEFP ¶23); (ii) revision of all outstanding authorizations to contract new loans (MEFP ¶23); and (iii) strengthening of budget execution procedures, including registration of all central government expenditure in the SIGEF, and management of all public funds through the Treasury (MEFP, ¶22).	Done
Implementation of information systems to permit adequate monitoring of execution of external debt disbursements and investment projects, including: (i) full centralization of external and domestic debt management in a single office, with a full reconciliation of data; and (ii) specific monitoring and control systems on the largest investment projects.	Done
Issuance of legal instruments to eliminate custom and tax exemptions granted administratively (MEFP ¶19).	Done
External financing	
Completion of consultative phase of rescheduling/restructuring with private sector creditors (bondholders and commercial banks) (MEFP ¶10).	Done
Obtain financing assurances from external official creditors (MEFP ¶9).	Done
Clearance of all arrears to external official creditors (MEFP ¶9).	Being verified
Initiation of restructuring negotiations with private external creditors on debt still in arrears, consistent with Fund's LIA policy (MEFP ¶10).	Done
Banking sector	
Issue clarifications to the asset valuation regulation (MEFP ¶26).	Done
Issue a bank superintendency circular specifying procedures for bank recapitalization (MEFP ¶25).	Done
Complete evaluation of progress made in bank recapitalization as of September, 2004 (MEFP ¶25).	Done
Issue a Monetary Board resolution requesting that banks submit business plans based on the revised asset valuation regulation and audited 2004 financial statements (MEFP ¶26).	Done
Completion of the restructuring of two banks resolved in 2003 (MEFP ¶34).	Pending
Initiate foreclosure of assets placed in guarantee by former shareholders of the resolved banks (MEFP ¶30).	Done
Electricity Sector	
Issuance of presidential decree establishing high-level commission to ensure timely implementation of the electricity plan (MEFP ¶37).	Done

Table 3. Dominican Republic: Structural Performance Criteria and Structural Benchmarks

	Date
A. Structural performance criteria	
Fiscal policy	
Congressional approval of domestic debt issuance to pay debts to suppliers, maturing bonds, and recapitalize the Central Bank and Banco Reservas (MEFP, ¶11).	February 2005
Submission to congress of draft financial administration laws (budget, public credit, treasury, procurement, internal control), including centralization of fiscal policy management (revenue, expenditure, and financing) in one Ministry (MEFP ¶21).	March 2005
Verification and quantification of central government's domestic arrears as of December 2004 (MEFP ¶22).	March 2005
Banking sector	
Receive 2004 audited financial statements of commercial banks (including a supplementary report on the impact of the new asset valuation regulation), reflecting elimination of forbearance and compliance with the 10 percent minimum capital adequacy requirement (MEFP ¶25).	April 2005
Submit to Congress legislation requiring public banks to meet the same regulatory and capital quality requirements as private banks (MEFP ¶25).	April 2005
Receive five-year business plans submitted by the commercial banks (MEFP ¶26).	May 2005
Submit to Congress legislation to increase the independence and accountability of the central bank and bank superintendency (MEFP ¶32).	July 2005
Complete evaluation of the banks' business plans, and finalize negotiation on memoranda of understanding (MEFP ¶26).	July 2005
B. Structural Benchmarks	
Fiscal policy	
Submission to congress of draft law eliminating tax benefits to border zones and tourism (MEFP ¶19).	March 2005
Design of structural tax reform (MEFP ¶19).	March 2005
Banking sector	
Approve a prudential regulation on consolidated accounting, treatment of market risk and liquidty assistance (MEFP ¶27 and 28).	March 2005
Complete the inventory of central bank assets, and start transfer to the asset disposal unit using the market-based methodology to determine transfer prices (MEFP ¶30).	March 2005
Publish the report of the independent panel on the banking crisis (MEFP ¶31).	March 2005
Internal and external controls of the central bank are strengthened, in line with the recommendations of the Safeguards Assessment of 2003 (MEFP ¶39).	March 2005
Approve prudential regulations on consolidated supervision and rules governing use of public funds under the systemic risk law (MEFP ¶27).	April 2005
Issue a report on the verification by the Superintendency of the quality of capital increases made by commercial banks (MEFP ¶25).	July 2005
Develop plan to strengthen nonbank financial intermediaries (MEFP ¶35).	September 2005
Require commercial banks to submit the first update of their business plans on the basis of audited financial statements (MEFP ¶26).	December 2005
Make effective revised chart of accounts for financial institutions (MEFP ¶29).	December 2005
Complete implementation of a plan to bring the bank superintendency credit risk bureau to the highest regional standards (MEFP ¶33).	December 2005
Electricity sector	
Finalize audit of state-owned electricity distribution companies Edenorte and Edesur (MEFP ¶38).	September 2005

Table 4. Dominican Republic: Selected Economic Indicators

	2002	2003	2004	2005	2006	2007
(Annual percentage change, unless otherwise indicated)						
National accounts and prices						
Real GDP	4.3	-0.4	2.0	2.5	4.3	4.5
Consumer price index (period average)	5.2	27.4	51.5	7.7	9.8	6.4
Consumer price index (end of period)	10.5	42.7	28.9	12.0	8.0	5.0
Gross domestic investment (in percent of GDP)	22.5	23.0	20.5	19.8	19.6	20.0
Gross national savings (in percent of GDP)	18.8	29.3	26.3	21.8	20.1	19.3
External savings (in percent of GDP)	3.7	-6.3	-5.8	-2.0	-0.5	0.6
Social Indicators						
Unemployment rate (in percent)	16.1	17.0	…	…	…	…
Households below the poverty line (in percent)	41.0	…	…	…	…	…
Public finances 1/						
Central government balance	-2.2	-4.5	-2.9	-0.7	0.7	0.9
Total revenues (including grants)	16.9	16.2	16.3	18.0	18.0	18.1
Total expenditure	19.1	20.7	19.2	18.7	17.2	17.2
Nonfinancial public sector balance	-2.3	-4.8	-2.7	-0.7	0.7	0.9
Quasi-fiscal balance of the central bank	-0.3	-2.6	-4.0	-3.2	-2.5	-1.9
Consolidated public sector balance	-2.6	-7.5	-6.7	-3.9	-1.8	-1.0
Of which : primary balance	-1.4	-3.3	-0.9	1.9	3.3	3.4
Total public debt	26.8	54.3	52.1	49.1	48.3	45.7
(12-month percentage changes, unless otherwise indicated)						
Money and credit 2/						
Liabilities to private sector (M3)	13.2	28.7	12.7	21.0	14.5	10.0
Of which:						
Currency in circulation	9.8	62.3	9.8	16.0	12.6	9.7
Deposits	15.7	6.5	6.8	19.8	12.1	9.0
Net domestic assets of the banking system	80.0	25.2	-0.5	18.3	11.0	19.9
Of which: credit to the private sector	20.3	10.8	-6.1	13.1	10.8	9.9
M3, in percent of GDP	47.0	52.1	38.7	42.4	41.6	41.6
(In millions of U.S. dollars, unless otherwise indicated)						
Balance of payments						
Current account	-798	1,036	1,071	461	133	-162
Merchandise trade balance	-3,673	-2,156	-2,244	-2,744	-3,243	-3,761
Exports	5,165	5,471	5,710	5,384	5,314	5,290
Imports	-8,838	-7,627	-7,954	-8,128	-8,557	-9,052
Services and transfers (net)	2,875	3,192	3,315	3,205	3,376	3,599
Of which : interest on public debt	-215	-282	-350	-457	-459	-408
Capital and financial account	1,304	2,004	869	1,136	726	1,202
Of which: foreign direct investment	917	1,011	654	769	890	933
Overall balance	-640	-262	422	-129	-17	388
Of which : change in NIR (increase -)	586	252	-479	-143	-320	-204
Current account (in percent of GDP)	-3.7	6.3	5.8	2.0	0.5	-0.6
Exports of goods (in U.S. dollars, annual percentage change)	-2.1	5.9	4.4	-5.7	-1.3	-0.4
Imports of goods (in U.S. dollars, annual percentage change)	0.7	-13.7	4.3	2.2	5.3	5.8
Real effective exchange rate (end-period, depreciation -)	-11.4	-27.0	60.0	-17.3	-2.0	-2.0
International reserve position and external debt						
Gross official reserves	630	279	825	1,257	1,844	2,030
(in months of imports) 3/	1.1	0.5	1.4	2.1	2.6	2.6
(in terms of short term debt, percent)		22.5	59.3	63.9	121.1	133.0
Net international reserves	376	124	602	745	1,049	1,253
NIR, excluding FX reserve requirements	356	-96	211	350	650	850
Outstanding external public debt, in percent of GDP	21.5	36.6	33.5	30.3	30.2	28.2

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

1/ Expenditure projections include unidentified measures for 2006-07.
2/ Corrected to include hidden liabilities in banks in 2002.
3/ In relation to imports during the following year.

Table 5. The Dominican Republic: Fiscal Accounts

(In percent of GDP)

	2003		2004		2005	2006	2007
	EBS/04/8 3/	Prel.	EBS/04/8	Est.	Prog.	Prog. 6/	Proj. 6/
I. CENTRAL GOVERNMENT							
Total revenue and grants	**15.7**	**16.1**	**16.6**	**16.3**	**18.0**	**18.0**	**18.1**
Total revenue	**15.5**	**15.9**	**16.5**	**16.2**	**17.7**	**17.7**	**17.8**
Current revenue	**15.5**	**15.9**	**16.5**	**16.2**	**17.7**	**17.7**	**17.8**
Tax revenue 1/	14.5	14.8	15.6	15.0	16.4	16.4	16.6
Taxes on income	4.0	4.1	3.9	3.1	3.2	3.4	3.5
Taxes on property	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Taxes on goods and services	6.7	6.9	6.5	6.9	8.9	8.7	8.7
VAT	3.8	3.8	3.5	3.9	4.5	4.6	4.6
Excises	2.9	3.1	2.9	2.9	4.3	4.1	4.1
Taxes on international trade	3.5	3.5	5.0	4.7	4.1	4.1	4.2
of which: foreign exchange commission	0.7	0.7	1.7	1.9	2.3	2.3	2.4
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	1.0	1.1	0.9	1.2	1.3	1.3	1.2
Capital revenue	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**0.2**	**0.2**	**0.1**	**0.2**	**0.3**	**0.3**	**0.3**
Total expenditure 2/ 3/	**18.1**	**20.6**	**15.9**	**19.2**	**18.7**	**17.2**	**17.2**
Current expenditure	**11.8**	**11.8**	**13.2**	**12.9**	**13.7**	**12.5**	**12.4**
Wages and salaries	5.2	5.2	4.8	3.7	4.2	4.2	4.2
Other goods and services	1.8	1.9	1.8	1.6	2.0	2.2	2.2
Transfers (excl. electricity transfers)	2.4	2.8	3.2	3.7	3.5	3.5	3.5
Interest	1.9	1.9	2.4	1.9	2.5	2.4	2.3
Foreign	1.4	1.5	1.9	1.5	1.8	1.8	1.7
Domestic	0.5	0.5	0.6	0.4	0.6	0.6	0.6
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity transfers	0.5	0.0	0.9	2.0	1.5	0.2	0.2
Capital expenditure	**2.8**	**3.2**	**2.3**	**5.0**	**4.5**	**4.5**	**4.5**
Domestically-financed investment	...	...	0.8	2.3	2.2	2.2	2.3
Externally-financed investment 2/	...	...	1.4	2.7	2.3	2.2	2.2
Residual 2/ 4/	**3.5**	**5.6**	**0.5**	**1.3**	**0.6**	**0.3**	**0.3**
Overall balance central government	**-2.4**	**-4.5**	**0.7**	**-2.9**	**-0.7**	**0.7**	**0.9**
II. REST OF THE NONFINANCIAL PUBLIC SECTOR							
Overall balance rest of NFPS 5/	**-0.3**	**-0.3**	**-0.6**	**0.2**	**0.0**	**0.0**	**0.0**
III. NON FINANCIAL PUBLIC SECTOR							
Overall balance NFPS	**-2.7**	**-4.8**	**0.2**	**-2.7**	**-0.7**	**0.7**	**0.9**
Primary Balance	-0.8	-2.9	2.6	-0.9	1.7	3.1	3.2
Interest	-1.9	-1.9	-2.4	-1.9	-2.5	-2.4	-2.3
Financing NFPS							
External financing	4.1	5.9	2.5	1.9	0.9	-1.0	0.9
Domestic financing 7/	-1.4	-1.1	-2.6	0.8	-1.5	-2.3	-1.8
Financing gap	...	...	...	...	1.4	2.6	0.0
IV. QUASI-FISCAL BALANCE OF THE CENTRAL BANK							
Quasi-fiscal balance of the central bank	**-2.5**	**-2.6**	**-3.9**	**-4.0**	**-3.2**	**-2.5**	**-1.9**
V. COMBINED PUBLIC SECTOR							
Combined Public Sector Balance	**-5.2**	**-7.5**	**-3.8**	**-6.7**	**-3.9**	**-1.8**	**-1.0**
Primary Balance	-0.9	-3.3	2.5	-0.9	1.9	3.3	3.4
Interest	-4.3	-4.1	-6.2	-5.8	-5.9	-5.1	-4.4

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

1/ Tax package implemented effective October 2004. Yields from this package are included under the corresponding revenue items.

2/ Total expenditure includes an unidentified residual defined as the difference between financing below-the-line and the above-the-line overall balance. Starting in 2004, the residual excludes (i) externally-financed projects (included in capital expenditure) and (ii) unregistered transfers to the electricity sector.

3/ First column for 2003 refers to staff estimates at the time of the first review of the previous SBA (EBS/08/4). To facilitate comparison revenue figures have been altered apportioning tax measures to the corresponding revenue items.

4/ For 2004, residual includes 0.4 percent of GDP of identified domestic arrears accumulated during the fourth quarter.

5/ Including electricity distribution companies (Edenorte and Edesur). There is a break in the series between observed data and projections as large part of the projected deficit is covered by the central government.

6/ Excludes revenue losses from CAFTA and gradual reduction in foreign exchange commission. Program assumes that tax measures (still to be identified) will be implemented to fully offset these losses.

7/ Domestic financing in 2006 includes payment of US$300 million in arrears to the private electricity sector. In the external balance of payments it is assumed that these payments in turn will be transferred abroad.

Table 6. The Dominican Republic: Public Sector Debt

	2000	2001	2002	2003	Est. 2004	Prog. 2005	Prog. 2006	Proj. 2007
	In millions of U.S. dollars							
External 1/	3,684	4,177	4,636	5,984	6,166	6,942	7,308	7,064
Official	2,986	3,014	3,144	3,486	3,694	4,673	...	...
Multilateral	1,242	1,339	1,442	1,707	1,974	2,503	...	...
World bank	308	331	353	356	381	488	...	...
IDB	842	917	1,006	1,146	1,326	1,464	...	...
IMF	51	50	27	131	195	485	...	...
Other	41	41	56	74	72	-	...	...
Bilateral	1,744	1,675	1,702	1,779	1,721	2,170	...	...
Private	698	1,163	1,231	2,258	2,128	2,161	...	...
Short term and past due obligations	...	...	260	241	344	108	...	...
	In millions of Dominican Republic pesos							
Domestic	23,490	15,747	21,300	92,103	140,265	156,577	178,473	188,723
Central Government	19,158	12,486	14,394	32,095	42,136	38,327	36,401	28,884
Of which: Electricity sector	...	...	...	14,305	11,327	9,016	12,306	12,921
Central Bank Certificates	4,332	3,261	6,905	60,008	98,129	118,250	142,072	159,839
Memo items								
Total public sector debt (percent of GDP)	**25.8**	**23.3**	**26.8**	**54.3**	**52.1**	**49.1**	**48.3**	**45.7**
External debt	18.5	19.0	21.5	36.6	33.5	30.3	30.2	28.2
Domestic debt	7.3	4.3	5.3	17.7	18.6	18.8	18.2	17.5
Of which: Central bank certificates	1.3	0.9	1.7	11.9	12.6	13.8	14.2	14.5

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

1/ Includes medium and long term external debt of the central bank.

Table 7. Dominican Republic: Summary of the Banking System

(In millions of Dominican pesos, unless otherwise indicated) 1/

		2004	2005 Prog.				Prog.	Proj.
	2003	Proj.	Mar	Jun	Sep	Dec	2006	2007
		I. Central Bank						
Net international reserves	4,323	18,289	19,563	22,117	23,808	29,522	44,891	56,303
in US$ million	124	602	542	593	619	745	1,049	1,253
NIR Program definition (in US$ million) 2/	*-96*	*211*	*150*	*200*	*225*	*350*	*650*	*850*
Net domestic assets	80,743	84,644	82,029	82,342	82,344	88,104	87,536	88,760
Net credit to the nonfinancial public sector	-602	2,637	2,637	2,637	2,637	2,637	654	-7,478
Net credit to commercial banks	83,508	62,519	60,072	57,685	55,076	58,075	51,219	45,121
Assets (liquidity support)	106,505	106,219	106,219	106,219	106,219	106,219	106,219	106,219
Liabilities (certificates)	-22,998	-43,700	-46,146	-48,533	-51,142	-48,143	-54,999	-61,097
Central Bank certificates held by the private sector	-37,011	-54,430	-57,985	-61,773	-65,808	-70,106	-87,073	-98,742
Medium- and long-term external liabilities	-19,118	-15,048	-17,370	-17,647	-17,656	-17,853	-16,674	-12,805
Official capital and accumulated surplus (-)	52,670	87,718	94,050	100,959	107,802	115,402	140,909	165,957
Other assets net	1,296	1,248	626	481	293	-51	-1,499	-3,294
Monetary base	85,066	102,932	101,592	104,459	106,153	117,625	132,427	145,062
Currency in circulation	29,633	32,537	29,738	29,998	29,020	37,740	42,512	46,647
Cash-in-vault and bank deposits	55,433	70,396	71,854	74,461	77,133	79,885	89,915	98,415
o/w Investment requirement	…	12,680	12,680	12,680	12,680	12,680	12,680	12,680
o/w Reserves on foreign currency deposits	7,667	11,879	14,150	14,658	15,155	15,653	17,075	18,108
		II. Deposit Money Banks						
Net foreign assets	3,248	24,560	26,657	27,547	28,410	29,270	33,110	36,339
in US$ million	86	809	739	739	739	739	774	809
Net claims on central bank	-34,307	-17,603	-13,698	-8,704	-3,423	-3,669	13,216	27,814
Claims	72,198	88,616	92,521	97,515	102,796	102,549	119,435	134,033
Liabilities	-106,505	-106,219	-106,219	-106,219	-106,219	-106,219	-106,219	-106,219
Net domestic assets	231,163	206,750	217,499	219,968	222,332	230,454	240,742	248,842
Net credit to the nonfinancial public sector	8,116	12,187	12,786	10,896	8,973	7,331	669	-9,002
Credit to the private sector	174,483	163,796	163,705	169,119	174,430	185,215	205,299	225,599
Capital and accumulated surplus	9,232	7,655	7,655	7,655	7,655	7,655	7,655	7,655
Other assets net	39,331	23,111	33,353	32,298	31,274	30,253	27,120	24,589
Liabilities to the private sector	200,103	213,707	230,459	238,811	247,319	256,055	287,069	312,995
		III. Banking System						
Net foreign assets	7,571	42,849	46,220	49,663	52,218	58,792	78,001	92,641
in US$ million	209	1,411	1,281	1,332	1,358	1,484	1,823	2,062
Net domestic assets	259,176	257,824	271,962	280,918	289,929	305,109	338,652	365,743
Net credit to the nonfinancial public sector	7,514	14,824	15,422	13,532	11,609	9,967	1,322	-16,480
Credit to the private sector	174,483	163,796	163,705	169,119	174,430	185,215	205,299	225,599
Medium- and long-term external liabilities	-19,118	-15,048	-17,370	-17,647	-17,656	-17,853	-16,674	-12,805
Capital and accumulated surplus	61,901	95,373	101,705	108,614	115,457	123,058	148,564	173,612
Other assets net (includes valuation effects)	34,395	-1,120	8,499	7,299	6,088	4,723	141	-4,184
M3	266,747	300,674	318,182	330,581	342,147	363,902	416,654	458,384
Currency in circulation	29,633	32,537	29,738	29,998	29,020	37,740	42,512	46,647
Deposits	200,103	213,707	230,459	238,811	247,319	256,055	287,069	312,995
Central bank certificates held by the private sector	37,011	54,430	57,985	61,773	65,808	70,106	87,073	98,742
		(Percentage change, y-o-y)						
Central bank net credit to commercial banks	2,516	-25.1	-29.2	-25.7	-9.6	-7.1	-11.8	-11.9
Credit to the NFPS	-83.3	97.3	141.2	5.8	18.2	-32.8	-86.7	-1346.4
Credit to the private sector	10.8	-6.1	-8.9	-4.8	-1.3	13.1	10.8	9.9
Deposits	6.5	6.8	13.2	2.1	7.7	19.8	12.1	9.0
Base Money, excluding dollar reserve requirements	33.9	31.6	20.8	5.3	6.5	12.0	13.1	10.1
Currency in circulation	62.3	9.8	0.2	-0.3	3.6	16.0	12.6	9.7
M3	28.7	12.7	14.7	8.0	13.0	21.0	14.5	10.0
Memorandum items:								
Central bank certificates	60,008	98,129	104,131	110,306	116,950	118,250	142,072	159,839
Emision Monetaria	77,482	91,159	87,550	89,911	91,109	102,097	115,494	127,110
NDA, (Currency-NIR (Prog. Def.))	32,977	26,127	24,325	22,539	20,367	23,872	14,696	8,453

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

1/ Calculated to include the effect of the discovery of hidden liabilities in banks.

2/ Excludes reserve requirement on foreign currency deposits.

Table 8. Dominican Republic: Quasi Fiscal Balance of the Central Bank

	2003	Est. 2004	Prog. 2005	Prog. 2006	Proj. 2007
In millions of Dominican Republic pesos					
Primary Balance	**-996**	**46**	**1,819**	**1,794**	**1,900**
Net interest payments	-11,185	-31,080	-29,503	-27,300	-26,948
Interests received (excl. interest on rediscounts)	384	493	1,079	1,318	1,626
Interest paid	11,569	31,573	30,583	28,618	28,574
Of which: on central bank certificates	9,669	28,635	26,788	23,813	22,436
Overall balance	**-12,181**	**-31,034**	**-27,685**	**-25,506**	**-25,048**
In percent of GDP	-2.4	-4.0	-3.2	-2.5	-1.9
Memorandum items:					
Interest rate on certificates (implicit average, in percent)	27.8	37.9	24.0	17.8	14.3
Central bank certificates (average stock)	60,300	80,949	111,822	134,502	157,440
Central bank certificates (end year stock)	60,008	98,129	118,250	142,072	159,839

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

Table 9. Dominican Republic: Balance of Payments, 2003–07

(In millions of U.S. dollars, unless otherwise specified)

	2003	2004 Est. 5/	2005 Prog. Q1	Q2	Q3	Q4	Year	2006 Prog.	2007 Proj.
Current account	**1,036**	**1,071**	**484**	**181**	**-6**	**-199**	**461**	**133**	**-162**
Trade balance	-2,156	-2,244	-400	-531	-760	-1,052	-2,744	-3,243	-3,761
Exports f.o.b.	5,471	5,710	1,323	1,373	1,371	1,318	5,384	5,314	5,290
Imports f.o.b.	-7,627	-7,954	-1,722	-1,904	-2,131	-2,370	-8,128	-8,557	-9,052
Of which : oil	-1,416	-1,850	-634	-629	-627	-628	-2,517	-2,566	-2,455
Nonfactor services	2,254	2,322	760	509	615	469	2,353	2,466	2,594
Of which : travel	2,845	2,858	896	648	763	605	2,913	3,064	3,235
Factor services	-1,393	-1,468	-512	-377	-455	-407	-1,750	-1,853	-1,920
Of which : interest on public debt	-282	-350	-122	-107	-116	-112	-457	-459	-408
Of which : interest on add'l financing 1/	...	0	0	-8	0	-16	-25	-43	-76
Transfers	2,330	2,462	636	580	594	792	2,602	2,764	2,925
Official transfers	123	138	41	48	33	31	152	158	164
Private transfers	2,207	2,324	595	532	561	761	2,450	2,606	2,762
Capital account	**2,004**	**869**	**217**	**49**	**413**	**457**	**1,136**	**726**	**1,202**
Direct investment	1,011	654	143	146	109	372	769	890	933
Portfolio investment	-68	-30	-9	-7	-13	-2	-30	-31	-33
Other medium- and long-term investment	1,060	244	83	-90	317	87	397	-132	302
Public sector	1,209	102	125	-16	85	25	219	-318	77
Disbursements	1,719	703	255	203	206	255	919	945	920
Program loans	1,177	364	130	97	100	139	466	468	443
Project loans	542	338	125	106	106	116	453	477	477
Amortization	-510	-601	-130	-219	-121	-229	-700	-1,263	-843
Private sector	-149	143	-42	-74	232	62	179	186	225
Other capital, including errors and omissions 3/	-3,302	-1,518	-854	-257	-415	-200	-1,726	-876	-651
Overall balance	**-262**	**422**	**-153**	**-27**	**-8**	**59**	**-129**	**-17**	**388**
Financing	**262**	**-422**	**4**	**-51**	**-26**	**-126**	**-199**	**-620**	**-204**
Change in NIR (increase, -) 4/	252	-479	60	-51	-26	-126	-143	-320	-204
Change in GIR (increase, -) 4/	350	-545	-17	-122	-97	-197	-432	-587	-186
Net Fund purchases	102	64	77	71	71	71	289	267	-18
Change in other BCRD ST liabilities	-200	3	0	0	0	0	0	0	0
Exceptional financing	10	57	-56	0	0	0	-56	-300	0
Debt rescheduling/relief (incl. Paris III) 5/	6	0	177	0	0	0	177	0	0
Other refinancing	0	0	0	0	0	0	0	0	0
Net change in electrical sector arrears	-57	0	0	0	0	0	0	-300	0
Net change in public sector arrears	61	57	-232	0	0	0	-232	0	0
Financing gap	**0**	**0**	**149**	**78**	**34**	**67**	**327**	**637**	**-184**
Possible additional financing 6/	...	...	149	78	33	67	327	637	-184
Additional new official financing	...	...	0	0	0	0	0	0	0
FX loan from domestic banks	...	...	70	0	0	0	70	-35	-35
External bond restructuring	...	...	20	0	20	0	40	500	-133
External commercial bank restructuring	...	...	54	9	9	9	79	33	-16
Temporary use of grace periods on external deb	...	...	0	0	0	0	0	0	0
Possible Paris IV		...	5	70	5	59	138	139	0
Remaining gap	...	...	0	0	0	0	0	0	0
Memorandum items:									
Current account in percent of GDP	6.3	5.8	9.0	3.5	-0.1	-3.0	2.0	0.5	-0.6
Nonoil current account in percent of GDP	15.0	15.9	20.8	15.8	10.8	6.5	13.0	11.1	9.2
Exports of goods (percent change)	5.9	4.4	-0.9	-8.2	-6.1	-7.1	-5.7	-1.3	-0.4
Imports of goods (percent change)	-13.7	4.3	0.9	0.2	2.9	4.1	2.2	5.3	5.8
Tourism receipts (percent change)	14.1	1.1	1.8	0.1	1.2	6.2	2.2	5.2	5.5
Taxable imports (US$ millions)	2,977	3,842	874	983	1,158	1,294	4,308	4,483	4,864
Terms of trade (percent change)	-0.3	-2.5	...	...	...	...	-4.0	-6.0	-6.3
Gross international reserves (e.o.p.)	279	825	842	964	1,060	1,257	1,257	1,844	2,030
In months of domestic imports of g & nfs 7/	0.5	1.4	1.5	1.7	1.7	1.8	2.1	2.6	2.6
In percent of short-term debt 8/	22.5	59.3	...	...	...	...	63.9	121.1	133.0
Net international reserves (e.o.p.)	124	602	542	593	619	745	745	1,049	1,253
External public-sector debt (e.o.p.)	5,984	6,166	...	...	...	...	6,942	7,308	7,064
In percent of GDP	36.6	33.5	...	...	...	...	30.3	30.2	28.2
GDP (US$ millions)	16,357	18,429	5,373	5,120	5,756	6,606	22,924	24,232	25,045
WEO Oil price (US$/bbl)	31.1	40.7	50.5	48.4	46.4	44.9	47.5	42.1	38.6

Sources: Dominican authorities, and Fund staff estimates and projections.

1/ Based on preliminary indications from the DR authorities. Reflects possible financing from non-Paris Club creditors to secure comparable treatment.

2/ Does not include amortization of the possible additional external financing from 2005 to fill the external financing gap.

3/ In 2003, includes the government's transaction to purchase the outstanding shares of two electricity distribution companies (Edenorte and Edesur).

4/ Includes reserve requirements on foreign-currency deposits.

5/ From 2004, reflects treatment of reschedulable arrears from 2003 and current maturities in 2004 by Paris Club creditors under the April 2004 agreed minute.

6/ Based on preliminary indications from the DR authorities. Reflects possible financing from non-Paris Club creditors to secure comparable treatment. Negative values indicate amortization of this possible additional financing.

7/ In relation to imports during the following year.

8/ In relation to total external debt service obligations, including clearance of arrears and IMF obligations, during the following year on a residual maturity basis.

Table 10. Dominican Republic: Balance of Payments, 2003–09

(In millions of U.S. dollars, unless otherwise specified)

	2003	2004 Est. 5/	2005 Prog. 5/	2006 Prog. 5/	2007 Proj. 5/	2008 Proj. 5/	2009 Proj. 5/
Current account	**1,036**	**1,071**	**461**	**133**	**-162**	**-774**	**-842**
Trade balance	-2,156	-2,244	-2,744	-3,243	-3,761	-4,564	-4,847
Exports f.o.b.	5,471	5,710	5,384	5,314	5,290	5,363	5,436
Imports f.o.b.	-7,627	-7,954	-8,128	-8,557	-9,052	-9,927	-10,283
Of which: oil	-1,416	-1,850	-2,517	-2,566	-2,455	-2,479	-2,525
Nonfactor services	2,254	2,322	2,353	2,466	2,594	2,701	2,855
Of which: travel	2,845	2,858	2,913	3,064	3,235	3,410	3,599
Factor services	-1,393	-1,468	-1,750	-1,853	-1,920	-2,005	-2,111
Of which: interest on public debt	-282	-350	-457	-459	-408	-361	-319
Of which: interest on poss. add'l financing 1/	...	0	-25	-43	-76	-69	-62
Transfers	2,330	2,462	2,602	2,764	2,925	3,094	3,261
Capital account	**2,004**	**869**	**1,160**	**769**	**1,278**	**2,264**	**1,813**
Direct investment	1,011	654	769	890	933	1,023	1,120
Portfolio investment	-68	-30	-30	-31	-33	-35	-37
Other medium- and long-term investment	1,060	244	422	-89	379	1,276	729
Public sector	1,209	102	219	-318	77	977	424
Disbursements	1,719	703	919	945	920	1,792	1,181
Amortization 2/	-510	-601	-700	-1,263	-843	-816	-757
Private sector	-149	143	203	229	301	300	305
Banks	...	...	...	...	...	...	...
Other	...	...	...	...	...	...	...
Other capital, including errors and omissions 3/	-3,302	-1,518	-1,750	-919	-728	-1,105	-516
Overall balance	**-262**	**422**	**-129**	**-17**	**388**	**385**	**455**
Financing	**262**	**-422**	**-199**	**-620**	**-204**	**-236**	**-306**
Change in NIR (increase, -) 4/	252	-479	-143	-320	-204	-236	-306
Of which: change in NIR, prog. def. (increase, -)	452	-307	-139	-300	-200	-232	-302
Change in GIR (increase, -) 4/	350	-545	-432	-587	-186	-100	-100
Net Fund purchases	102	64	289	267	-18	-136	-206
Change in other BCRD ST liabilities	-200	3	0	0	0	0	0
Exceptional financing	10	57	-56	-300	0	0	0
Debt rescheduling/relief (incl. Paris III) 5/	6	0	177	0	0	0	0
Other refinancing	0	0	0	0	0	0	0
Net change in electrical sector arrears	-57	0	0	-300	0	0	0
Net change in public sector arrears	61	57	-232	0	0	0	0
Financing gap	**0**	**0**	**327**	**637**	**-184**	**-149**	**-149**
Possible additional financing 6/	**...**	**...**	**327**	**637**	**-184**	**-149**	**-149**
Remaining financing gap	...	...	0	0	0	0	0
Memorandum items:							
Current account in percent of GDP	6.3	5.8	2.0	0.5	-0.6	-3.0	-3.1
Nonoil current account in percent of GDP	15.0	15.9	13.0	11.1	9.2	6.5	6.1
Exports of goods (percent change)	5.9	4.4	-5.7	-1.3	-0.4	1.4	1.4
Exports of g & nfs (percent change)	8.4	4.4	-2.6	1.2	1.9	2.9	3.0
Imports of goods (percent change)	-13.7	4.3	2.2	5.3	5.8	9.7	3.6
Imports of g & nfs (percent change)	-13.0	4.7	2.4	5.2	5.6	9.2	3.6
Tourism receipts (percent change)	14.1	1.1	2.2	5.2	5.5	5.4	5.5
Taxable imports (US$ millions)	2,977	3,842	4,308	4,483	4,864	5,067	5,372
Terms of trade (percent change)	-0.3	1.7	0.7	0.6	0.1	0.6	0.0
Gross international reserves (e.o.p.)	279	825	1,257	1,844	2,030	2,130	2,230
In months of domestic imports of g & nfs 7/	0.5	1.4	2.1	2.6	2.6	2.6	2.7
In percent of short-term debt 8/	19.4	59.3	63.9	121.1	133.0	139.8	157.5
Net international reserves (e.o.p.)	124	602	745	1065	1,269	1,505	1,810
GDP (US$ millions)	16,357	18,429	22,924	24,232	25,045	26,116	27,488
WEO Oil price (US$/bbl)	31.1	40.7	47.5	42.1	38.6	37.3	36.3

Sources: Dominican authorities, and Fund staff estimates and projections.

1/ Based on preliminary indications from the DR authorities. Reflects possible financing from non-Paris Club creditors to secure comparable treatment.
2/ Does not include amortization of the possible additional external financing from 2005 to fill the external financing gap.
3/ In 2003, includes the government's transaction to purchase the outstanding shares of two electricity distribution companies (Edenorte and Edesur).
4/ Includes reserve requirements on foreign-currency deposits.
5/ From 2004, reflects treatment of reschedulable arrears from 2003 and current maturities in 2004 by Paris Club creditors under the April 2004 agreed minute.
6/ Based on preliminary indications from the DR authorities. Reflects possible financing from non-Paris Club creditors to secure comparable treatment.
Negative values indicate amortization of this possible additional financing.
7/ In relation to imports during the following year.
8/ In relation to total external debt service obligations, including clearance of arrears and IMF obligations, during the following year on a residual maturity basis.

Table 11. Dominican Republic: Gross External Financing Requirements, 2003–07

(In millions of U.S. dollars, unless otherwise indicated)

	2003	2004 Est.	2005 Prog. Q1	2005 Prog. Q2	2005 Prog. Q3	2005 Prog. Q4	2005 Prog. Year	2006 Prog.	2007 Proj.
Requirements	-399	114	-72	167	263	635	994	2,111	1,259
Current account deficit	-1,036	-1,071	-484	-181	6	199	-461	-133	162
Of which : trade of goods and nonfactor services	-98	-78	-360	22	145	584	391	778	1,168
Amortization of medium- and long-term debt	991	697	163	227	161	240	791	1,357	910
Public sector	510	601	130	219	121	229	700	1,263	843
Private sector	481	96	33	8	39	11	90	94	67
Change in gross reserves	-350	545	17	122	97	197	432	587	186
Of which: IMF repurchases	28	0	0	0	0	0	0	16	88
Clearance of arrears 1/	-4	-57	232	0	0	0	232	300	0
Sources	-399	114	-221	90	230	568	666	1,474	1,443
Direct investment	1,011	654	143	146	109	372	769	890	933
Debt creating flows and relief	-1,411	-540	-364	-56	122	196	-102	584	510
Public sector	1,849	767	332	274	277	325	1,208	1,228	991
Official creditors	864	711	320	263	264	314	1,161	1,180	944
Multilateral	322	373	177	139	144	190	651	654	442
IDB and World Bank	186	309	100	69	73	120	362	371	371
IMF	130	64	77	71	71	71	289	283	71
Other	6	0	0	0	0	0	0	0	0
Bilateral	542	338	143	123	120	124	510	526	502
Private creditors 2/	985	55	12	11	13	11	47	47	47
Private sector 3/	-3,266	-1,307	-873	-330	-155	-129	-1,487	-644	-480
Debt rescheduling/relief (incl. Paris III) 4/	6	0	177	0	0	0	177	0	0
Financing gap	0	0	149	78	33	67	327	637	-184
Possible additional financing 5/	...	...	149	78	33	67	327	637	-184
Additional new official financing	...	...	0	0	0	0	0	0	0
FX loan from domestic banks	...	...	70	0	0	0	70	-35	-35
External bond restructuring	...	...	20	0	20	0	40	500	-133
External commercial bank restructuring	...	...	54	9	9	9	79	33	-16
Temporary use of grace periods on external debt	...	...	0	0	0	0	0	0	0
Possible Paris IV	...	...	5	70	5	59	138	139	0
Remaining gap	...	...	0	0	0	0	0	0	0
Memorandum items:									
Gross international reserves (e.o.p.)									
Including Reserve requirements on FX deposits	279	825	842	963	1,060	1,257	1,257	1,844	2,030
Excluding Reserve requirements on FX deposits	60	434	450	570	666	862	862	1,445	1,627
Net international reserves (e.o.p.)									
Including Reserve requirements on FX deposits	124	602	542	593	619	745	745	1,049	1,253
Excluding Reserve requirements on FX deposits	-96	211	150	200	225	350	350	650	850

Source: Dominican authorities, and Fund staff estimates and projections.

1/ Includes changes in public and private arrears.
2/ During June–December 2003, includes private capital inflows of US$298 million reflecting the conversion by banks of liquidity requirements on FX deposits that were held abroad, into reserve requirements held at the Central Bank.
3/ Includes a US$600 million sovereign bond issue in January 2003.
4/ Reflects the treatment of reschedulable arrears from 2003 and current maturities in 2004 by Paris Club creditors under the Paris III agreed minute.
5/ Based on preliminary indications from the DR authorities. Reflects possible financing from non-Paris Club creditors to secure treatment comparable to April 2004 agreed minute. Negative values indicate amortization of this possible additional financing.

Table 12. Dominican Republic: Proposed Schedule of Purchases under Successor Stand-By Arrangement, 2005–07

	Proposed Schedule				
	SDR	US$	Percent of		Conditions
Date	million	million 1/	quota	cumulative	
31-Jan-05	52.54	77.12	24.0	24.0	Board approval of successor SBA
13-Jun-05	48.16	70.69	22.0	46.0	Observance of end-March 2005 performance criteria and completion of first review
12-Sep-05	48.16	70.69	22.0	68.0	Observance of end-June 2005 performance criteria and completion of second review
16-Dec-05	48.16	70.69	22.0	90.0	Observance of end-September 2005 performance criteria and completion of third review
13-Mar-06	48.16	70.69	22.0	112.0	Observance of end-December 2005 performance criteria and completion of fourth review
17-Jun-06	48.16	70.69	22.0	134.0	Observance of end-March 2006 performance criteria and completion of fifth review
17-Sep-06	48.16	70.69	22.0	156.0	Observance of end-June 2006 performance criteria and completion of sixth review
20-Dec-06	48.16	70.69	22.0	178.0	Observance of end-September 2006 performance criteria and completion of seventh review
30-Apr-07	48.14	70.67	22.0	200.0	Observance of end-December 2006 performance criteria and completion of eighth review
Total	437.80	642.64	200.00	200.00	

1/ Based on an exchange rate of US$1.4679/SDR from end-2004 for all undisbursed amounts.

Table 13. Dominican Republic: Indicators of Capacity to Repay the Fund, 2003–09

	2003	2004 Est.	2005 Prog.	2006 Prog.	2007 Proj.	2008 Proj.	2009 Proj.
Fund repurchases and charges 1/							
In millions of SDRs	20.9	3.4	7.8	24.8	78.4	108.4	152.3
In millions of U.S. dollars 2/	29.3	5.0	11.4	36.5	115.1	159.1	223.5
In percent of exports of goods and nonfactor services	0.3	0.1	0.1	0.4	1.2	1.7	2.3
In percent of external public debt service 3/	3.6	0.5	1.0	2.2	9.1	12.8	18.4
In percent of quota	9.6	1.6	3.6	11.4	35.8	49.5	69.6
In percent of gross international reserves	10.5	0.6	0.9	2.0	5.7	7.5	10.0
Fund credit outstanding							
In millions of SDRs	87.6	131.3	328.4	510.0	498.0	405.5	265.4
In millions of U.S. dollars 2/	122.4	192.8	482.0	748.7	731.0	595.2	389.6
In percent of exports of goods and nonfactor services	1.4	2.1	5.3	8.2	7.8	6.2	3.9
In percent of external public debt service 3/	14.9	20.3	42.6	44.2	57.9	47.9	32.0
In percent of quota	40.0	60.0	150.0	233.0	227.5	185.2	121.2
In percent of gross international reserves	43.8	23.4	38.3	40.6	36.0	27.9	17.5
Memorandum items							
Exports of goods and services (millions of U.S. dollars)	8,925	9,316	9,070	9,175	9,347	9,621	9,912
External public debt service (millions of U.S. dollars) 3/	819	951	1,132	1,696	1,263	1,242	1,216
Quota (millions of SDRs)	219	219	219	219	219	219	219
Quota (millions of U.S. dollars)	321	321	321	321	321	321	321
Gross international reserves (millions of U.S. dollars)	279	825	1,257	1844	2,030	2,130	2,230
U.S. dollars per SDR	0.68	0.68	0.68	0.68	0.68	0.68	0.68

Sources: Fund staff estimates and projections.

1/ Assuming repurchases are made on an obligations basis.
2/ Based on an exchange rate of US$1.4679/SDR for all undisbursed amounts.
3/ Includes IMF obligations.

Table 14. Dominican Republic: Public Sector Debt Sustainability Framework, 1999-2009
(In percent of GDP, unless otherwise indicated)

	Actual 1999	2000	2001	2002	2003	10-Year Historical Average	10-Year Standard Deviation	Est. 2004	Projections 2005	2006	2007	2008	2009	
									I. Baseline Projections					**Debt-stabilizing primary balance 10/**
1 **Public sector debt 1/**	26.8	25.9	23.6	26.8	54.3			**52.1**	**49.1**	**48.3**	**45.7**	**44.8**	**44.0**	**2.7**
o/w foreign-currency denominated	21.0	18.6	19.3	21.5	36.6			33.5	30.3	30.2	28.2	27.6	27.2	
2 Change in public sector debt	-1.6	-0.8	-2.3	3.2	27.5			-2.2	-3.0	-0.8	-2.6	-0.9	-0.8	
3 Identified debt-creating flows (4+7+12)	0.4	-1.2	-0.6	2.6	13.3			-2.7	-4.6	-2.1	-1.5	-0.4	-0.6	
4 Primary deficit	1.7	0.8	0.9	1.4	3.2			0.9	-1.9	-3.3	-3.4	-3.4	-3.4	
5 Revenue and grants	22.2	21.8	19.5	19.2	18.8			19.0	20.7	20.7	20.8	20.8	20.8	
6 Primary (noninterest) expenditure	23.9	22.6	20.4	20.6	22.0			19.9	18.8	17.4	17.4	17.4	17.4	
7 Automatic debt dynamics 2/	-1.2	-2.0	-1.5	1.2	10.1			-3.6	-2.7	1.1	1.9	2.9	2.8	
8 Contribution from interest rate/growth differential 3/	-2.4	-2.4	-2.0	-0.8	-1.2			-13.3	0.9	-1.9	0.0	2.0	2.4	
9 Of which contribution from real interest rate	-0.4	-0.6	-1.1	0.1	-1.5			-12.6	2.1	-0.1	2.0	3.9	4.3	
10 Of which contribution from real GDP growth	-2.0	-1.8	-0.9	-0.9	0.3			-0.7	-1.2	-1.8	-2.0	-1.9	-1.9	
11 Contribution from exchange rate depreciation 4/	1.2	0.4	0.5	2.0	11.3			9.7	-3.7	3.0	1.9	0.9	0.4	
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	
16 Residual, including asset changes (2-3)	-2.1	0.3	-1.8	0.6	14.2			0.4	1.7	1.3	-1.2	-0.5	-0.2	
Public sector debt-to-revenue ratio 1/	120.5	119.1	121.1	139.7	288.5			274.1	237.4	233.9	219.5	215.1	211.4	
Gross financing need 5/	7.3	8.0	9.2	84.8	177.7			123.0	116.5	104.8	99.6	97.1	94.1	
in billions of U.S. dollars	1.3	1.6	2.0	18.3	29.1			22.7	26.7	25.4	25.0	25.6	26.4	
Key Macroeconomic and Fiscal Assumptions						10-Year Historical Average	10-Year Standard Deviation							Projected Average
Real GDP growth (in percent)	8.0	7.9	4.0	4.3	-1.6	5.4	3.0	2.0	2.5	4.3	4.5	4.5	4.5	3.7
Average nominal interest rate on public debt (in percent) 6/	5.3	5.2	4.8	6.1	19.8	6.0	5.0	16.5	12.4	12.1	9.9	13.4	13.4	13.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	-1.2	-2.0	-4.6	0.8	-7.7	-3.6	3.1	-34.7	4.7	0.4	4.8	9.4	10.4	-0.8
Nominal appreciation (increase in US dollar value of local currency, in percent)	-5.5	-2.1	-3.0	-9.6	-39.7	-7.8	11.5	-26.9	12.6	-9.3	-6.0	-3.1	-1.3	-5.7
Inflation rate (GDP deflator, in percent)	6.5	7.2	9.4	5.2	27.6	9.5	6.8	51.2	7.7	11.7	5.2	4.0	3.0	13.8
Growth of real primary spending (deflated by GDP deflator, in percent)	11.7	1.9	-6.0	5.2	5.4	5.7	9.3	-8.0	-3.3	-3.4	4.9	4.5	4.5	-0.1
Primary deficit	1.7	0.8	0.9	1.4	3.2	0.8	1.6	0.9	-1.9	-3.3	-3.4	-3.4	-3.4	-2.4
								II. Stress Tests for Public Debt Ratio						**Debt-stabilizing primary balance 10/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2005-09 7/								**52.1**	**46.9**	**47.8**	**46.1**	**44.2**	**42.3**	**-2.5**
A2. No policy change (constant primary balance) in 2005-09								**52.1**	**51.9**	**55.4**	**57.3**	**61.4**	**65.9**	**4.1**
B. Bound Tests														
B1. Real interest rate is at historical average plus two standard deviations in 2005 and 2006								**52.1**	**48.2**	**48.4**	**45.7**	**44.8**	**44.1**	**2.7**
B2. Real GDP growth is at historical average minus two standard deviations in 2005 and 2006								**52.1**	**51.3**	**54.7**	**53.7**	**54.7**	**56.0**	**3.5**
B3. Primary balance is at historical average minus two standard deviations in 2005 and 2006								**52.1**	**55.0**	**61.5**	**59.4**	**59.4**	**59.5**	**3.7**
B4. Combination of B1-B3 using one standard deviation shocks								**52.1**	**51.2**	**56.7**	**54.3**	**54.0**	**53.8**	**3.3**
B5. One time 30 percent real depreciation in 2005 9/								**52.1**	**72.6**	**72.3**	**70.6**	**71.3**	**72.2**	**4.5**
B6. 10 percent of GDP increase in other debt-creating flows in 2005								**52.1**	**59.1**	**58.5**	**56.3**	**56.1**	**56.0**	**3.5**

1/ Gross debt of the nonfinancial public sector and central bank.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ The implied change in other key variables under this scenario is discussed in the text.
9/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).
10/ Assumes that key variables (real GDP growth, real interest rate, and primary balance) remain at the level in percent of GDP/growth rate of the last projection year.

Table 15. Dominican Republic: External Debt Sustainability Framework, 1999–2009
(In percent of GDP, unless otherwise indicated)

	Actual							Est.	Projections					
	1999	2000	2001	2002	2003			2004	2005	2006	2007	2008	2009	
									I. Baseline Projections					**Debt-stabilizing non-interest current account 7/**
External debt	21.8	22.2	23.6	26.1	41.7			**39.5**	**35.1**	**35.8**	**34.6**	**37.6**	**37.7**	**-2.7**
Change in external debt	-0.3	0.4	1.4	2.5	15.6			-2.2	-4.3	0.7	-1.2	3.0	0.1	
Identified external debt-creating flows (4+8+9)	-2.4	-1.9	-1.8	4.5	17.4			-2.5	0.9	-2.2	-2.6	1.8	-0.8	
Current account deficit, excluding interest payments	1.1	3.8	2.1	1.8	-8.8			-8.1	-4.3	-2.8	-1.4	1.2	1.5	
Deficit in balance of goods and services	7.4	9.5	7.6	8.9	-0.6			-0.4	1.7	3.3	4.8	7.4	7.5	
Exports	45.4	45.1	38.2	38.1	54.6			51.5	39.7	38.5	38.3	38.0	37.2	
Imports	52.8	54.6	45.9	47.0	54.0			51.1	41.4	41.8	43.1	45.3	44.6	
Net non-debt creating capital inflows (negative)	-2.8	-4.5	-3.1	0.4	15.3			4.2	3.7	-0.5	-1.6	0.2	-2.3	
Automatic debt dynamics 1/	-0.6	-1.2	-0.8	2.3	10.8			1.5	1.5	1.0	0.4	0.3	0.0	
Contribution from nominal interest rate	1.4	1.3	1.3	1.9	2.5			2.2	2.3	2.2	2.0	1.8	1.6	
Contribution from real GDP growth	-1.6	-1.5	-0.8	-1.0	0.6			-0.7	-0.8	-1.2	-1.6	-1.5	-1.6	
Contribution from price and exchange rate changes 2/	-0.3	-1.0	-1.3	1.4	7.8			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	2.0	2.3	3.2	-2.0	-1.8			-3.0	-12.6	2.6	2.1	1.5	0.6	
External debt-to-exports ratio (in percent)	48.0	49.3	61.8	68.4	76.3			76.6	88.4	93.1	90.3	99.1	101.4	
Gross external financing need (in billions of US dollars) 4/	0.3	0.6	0.7	1.6	2.6			0.4	1.0	0.5	0.8	1.8	1.2	
in percent of GDP	1.7	3.0	3.3	7.4	16.0	10-Year Historical Average	10-Year Standard Deviation	2.4	4.4	2.1	3.3	7.0	4.3	Projected Average
Key Macroeconomic Assumptions														
Real GDP growth (in percent)	8.2	7.8	4.0	4.3	-1.6	5.4	3.0	1.8	2.5	3.6	4.5	4.5	4.5	3.6
GDP deflator in US dollars (change in percent)	1.4	5.0	6.1	-5.7	-23.0	0.4	9.1	8.6	23.2	0.8	-2.0	-0.6	0.7	5.1
Nominal external interest rate (in percent)	6.8	6.9	6.3	7.8	7.2	6.2	1.0	5.9	7.2	6.6	5.8	5.5	4.6	5.9
Growth of exports (US dollar terms, in percent)	5.5	12.2	-6.4	-1.8	8.4	6.6	6.3	4.4	-2.6	1.2	1.9	2.9	3.0	1.8
Growth of imports (US dollar terms, in percent)	3.1	16.8	-7.3	0.9	-13.0	5.2	9.7	4.7	2.4	5.2	5.6	9.2	3.6	5.1
Current account balance, excluding interest payments	-1.1	-3.8	-2.1	-1.8	8.8	-0.1	3.4	8.1	4.3	2.8	1.4	-1.2	-1.5	2.3
Net non-debt creating capital inflows	2.8	4.5	3.1	-0.4	-15.3	0.5	5.7	-4.2	-3.7	0.5	1.6	-0.2	2.3	-0.6
									II. Stress Tests for External Debt Ratio					**Debt-stabilizing non-interest current account 6/**
A. Alternative Scenarios														
A1. Key variables are at their historical averages in 2004-08 5/								**39.5**	**41.8**	**45.2**	**45.6**	**46.4**	**47.4**	**-2.8**
A2. Country-specific shock in 2004, with reduction in GDP growth (relative to baseline) of one standard deviation 6/								**39.5**	**39.5**	**40.1**	**38.8**	**41.8**	**41.8**	**-2.4**
A3. Selected variables are consistent with market forecast in 2004-08								**39.5**	**32.0**	**35.5**	**44.6**	**51.1**	**56.2**	**6.7**
B. Bound Tests														
B1. Nominal interest rate is at historical average plus two standard deviations in 2004 and 2005								**39.5**	**35.4**	**36.6**	**35.4**	**38.5**	**38.5**	**-2.7**
B2. Real GDP growth is at historical average minus two standard deviations in 2004 and 2005								**39.5**	**36.2**	**38.4**	**37.0**	**39.9**	**39.7**	**-3.0**
B3. Change in US dollar GDP deflator is at historical average minus two standard deviations in 2004 and 2005								**39.5**	**51.4**	**64.1**	**61.2**	**62.2**	**60.3**	**-6.3**
B4. Non-interest current account is at historical average minus two standard deviations in 2004 and 2005								**39.5**	**46.3**	**56.8**	**56.2**	**59.6**	**59.6**	**-2.8**
B5. Combination of 1-4 using one standard deviation shocks								**39.5**	**54.3**	**68.2**	**65.8**	**68.5**	**67.6**	**-5.0**
B6. One time 30 percent nominal depreciation in 2004								**39.5**	**55.7**	**56.6**	**54.1**	**55.6**	**53.7**	**-5.4**

1/ Derived as [r - g - ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.
2/ The contribution from price and exchange rate changes is defined as [-ρ(1+g) + εα(1+r)]/(1+g+ρ+gρ) times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).
3/ For projection, series includes effects of price and exchange rate changes.
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period, plus net private capital outflows.
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.
6/ Nominal merchandise exports are 90 percent of baseline scenario and net FDI is 90 percent of baseline scenario. Assumes debt accumulation to maintain baseline scenario reserves.
7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and both non-interest current account and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

DOMINICAN REPUBLIC—PUBLIC DEBT SUSTAINABILITY

1. **The public sector debt ratio for end-2004 is estimated at 52.1 percent of GDP, compared with 54.3 percent in 2003.** Almost 65 percent of the total debt is external, denominated in foreign currency, while the domestic debt is mostly denominated in pesos. Average interest rates have been well into single digits before the macroeconomic crisis erupted in 2003. Central bank debt, which represents close to ¼ of total debt, is the most expensive, with an average interest rate close to 40 percent in 2004.

2. **Public sector debt is projected to gradually decline to around 44 percent of GDP by end-2009 under the adjustment path projected for the combined public sector** [1]. The debt will decline from around 280 percent of public sector revenue in 2004 to 210 percent in 2009. These results are based on the following assumptions: (i) a rebound of real GDP growth to 4-5 percent over the medium term; ii) a slight real depreciation of the peso over the medium term; (iii) some decline in average interest rates, reflecting improved confidence; and (iv) an increase of the primary surplus to around 3–3.5 percent of GDP over the medium term (Table 14).

3. **An alternative scenario based on maintaining key variables (growth, interest rates, and primary balance) at historical levels shows a reduction in the debt ratio to 42.3 percent of GDP in 2009**. If growth and interest rates follow the baseline projection but the authorities are unable to improve the primary balance, and thus maintain it at its historical average (deficit of 0.8 percent of GDP), the debt ratio will grow to 66 percent by 2009.

4. **Sensitivity analysis.** The trajectory of the debt ratio is particularly sensitive to changes in the real exchange rate. The first round impact of a 10 percent real depreciation, would add about 4 percentage points of GDP to the debt ratio. An interest rate shock of 3 percentage points—the standard deviation of the last decade—would add 1.5 percentage points to the debt ratio. The debt projections could be strongly affected if contingent liabilities materialize. For instance, a contingent liability of US$400 million (or nearly 2 percent of GDP) may arise if negotiations with investors in the Cogentrix electricity project—to reduce the cost of electricity purchases by the state-owned electricity holding—are not successful. Similarly, a new banking sector crisis could result in a second large shock to the public sector's balance sheet.

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[1] Relative to the DSA prepared for the first review of the previous SBA in early 2004, changes include: the upward revision of the fiscal deficit and debt stock outturns for 2003; a weaker balance of the combined public sector for 2004 and 2005 than previously projected; and an upward correction of the debt service projections. Also, receipts from asset sales (which are difficult to project) have been excluded from the analysis. Working in the opposite direction, however, the real appreciation of the currency with respect to previous projections has acted to reduce the debt/GDP ratio.

DOMINICAN REPUBLIC—FINANCIAL POSITION IN THE FUND
(As of November 30, 2004)

I. **Membership Status**: Joined December 28, 1945; Article VIII August 1953.

II. **General Resources Account**:	**SDR Million**	**Percent of Quota**
Quota	218.9	100.0
Fund holdings of currency	350.2	160.0
Reserve position in Fund	0.0	0.0

III. **SDR Department**:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	31.59	100.00
Holdings	1.02	3.22

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Stand-by Arrangements	131.34	60.0

V. **Financial Arrangements**:

Type of	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
Stand-by	08/29/03	08/28/05	437.8	131.3
Stand-by	07/09/93	03/28/94	31.8	16.8
Stand-by	08/28/91	03/27/93	39.2	39.2

VI. **Projected Obligations to the Fund (Expectations Basis)**:[1] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	**2005**	**2006**	**2007**	**2008**
Principal	0.0	10.95	60.20	54.73	5.47
Charges/Interest	0.0	5.26	4.31	2.07	0.74
Total	**0.0**	**16.21**	**64.51**	**56.80**	**6.21**

[1] This schedule presents all currently scheduled payments to the IMF, including repayment expectations and repayment obligations. The IMF Executive Board can extend repayment expectations (within predetermined limits) upon request by the debtor country if its external payments position is not strong enough to meet the expectations without undue hardship or risk.

Projected Obligations to the Fund (Obligations Basis):[2] (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2004	**2005**	**2006**	**2007**	**2008**
Principal			10.95	60.20	54.73
Charges/Interest		5.26	5.27	4.32	2.08
Total		**5.26**	**16.22**	**64.52**	**56.81**

[2] This schedule is not the currently applicable schedule of payments to the IMF. Rather, the schedule presents all payments to the IMF under the illustrative assumption that repayment expectations-except for SRF repayment expectations-would be extended to their respective obligation dates by the IMF Executive Board upon request of the debtor country. SRF repayments are shown on their current expectation dates, unless already converted to an obligation date by the IMF Executive Board.

VII. **Exchange Arrangements.** In January 2004, the authorities ceased their policy of intervening in the foreign exchange market to manage the exchange rate. Previously, the CBDR intervened occasionally in the market via a foreign exchange desk that managed purchases and sales of foreign exchange for the CBDR, the commercial banks, and foreign exchange dealers. As a result, effective January 31, 2004, the exchange rate arrangement of the Dominican Republic has been reclassified to the category *independently floating* from the category *managed floating with no preannounced path for the exchange rate*. The reference exchange rate is set daily by the CBDR as the weighted average of the previous day's rate at commercial banks and exchange houses.

VIII. **Safeguards Assessment.** Under the Fund's safeguards assessment policy, the Central Bank of Dominican Republic (CBDR) is subject to a full assessment with respect to the proposed arrangement. An earlier assessment was completed in 2003 with respect to the arrangement approved on August 29, 2003. The CBDR is in the process of implementing the recommendations of that assessment.

IX. **Article IV Consultation**. The last Article IV consultation was concluded by the Executive Board on August 29, 2003. The relevant staff report was EBS/03/116.

X. **Resident Representative**. Mr. Ousmene Mandeng was appointed IMF resident representative since August 2004.

XI. **Other.** The Dominican Republic has not yet ratified the Fourth Amendment.

DOMINICAN REPUBLIC—RELATIONS WITH THE WORLD BANK GROUP

The IBRD portfolio is composed of ten active projects with an undisbursed commitment of US$173 million (see Table below). Recent disbursements have been mainly channeled to water and irrigation, health, and education sectors as well as for supporting public expenditures targeted to reducing the social impact of the recent crisis.

Undisbursed commitments are mainly earmarked for the social sectors. The World Bank group CAS Progress Report presented at its Board on February 12, 2004 covers the 12-month-period of January-December 2004 and includes in the base case lending scenario, US$100 million for a Social Crisis Response Adjustment Loan (SCRAL), and US$20 million for two technical assistance loans for the electricity and financial sectors. US$50 million of the SCRAL were disbursed in March 2004. The disbursement of the remaining two floating tranches is still pending and conditioned upon: a) a satisfactory macroeconomic framework, and b) the fulfillment of social sector specific conditionalities.

In the high case lending scenario, the IBRD lending envelope could also include a programmatic power sector loan for US$150 million to help restructure the electricity sector. In addition to a satisfactory macroeconomic framework, approval of this loan—potentially in Spring 2005 – is conditioned upon the prior achievement of: a) tangible results from the implementation of the medium-term strategy for the financial recovery, currently under preparation, and b) a binding and viable agreement between the Government and private operators to settle arrears in the electricity sector. A Public Expenditure Review, a Fiduciary Assessment, Trade and Competitiveness Report and additional analytical work currently underway will form the analytical underpinnings of future IBRD lending for the next four years. A new CAS is under preparation and will be presented to the Board in May 2005.

The World Bank Group's portfolio also includes a substantial commitment from the IFC and MIGA (see tables below).

A. IBRD and IDA Operations 1/
(In millions of U.S. dollars)

	Commitments (net of cancellations)	Disbursements	Undisbursed Amount
Total	**1,110.6**	**893.1**	**172.9**
Agriculture and irrigation 2/	130.0	123.0	7.0
Education 3/	108.5	67.7	40.8
Energy	115.6	108.3	7.3
Environment 4/	2.8	2.8	0.0
Free-trade-zone development loan 5/	27.9	27.9	0.0
Health	85.0	36.6	48.4
Housing 6/	3.3	3.3	0.0
Hurricane reconstruction 7/	161.1	161.1	0.0
Mining	25.0	25.0	0.0
Population 8/	4.9	4.9	0.0
Telecommunications	12.3	7.9	4.4
Tourism 9/	42.4	42.4	0.0
Transport	229.7	229.7	0.0
Water	5.0	2.4	2.6
Financial Sector	12.5	0.0	12.5
Social Protection	100.0	50.0	50.0

B. IFC Operations 1/
(In millions of U.S. dollars)

	Loans	Equity	Quasi-Equity	Participants
Held	190.6	0.0	58.8	137.7
Disbursed	122.8	0.0	58.8	118.7

C. MIGA 10/
(Fiscal year; in millions of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004
Outstanding gross guarantees	18.0	42.5	152.4	181.3	242.8	183.7	172.9

D. IBRD and IDA Loan Transactions (Fiscal year) 1/

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Disbursements	34.1	31.9	16.0	11.3	42.8	77.0	50.9	52.4	41.9	71.2
Repayments	39.1	40.2	34.7	24.6	22.7	20.8	23.2	24.4	27.8	35.3
Net lending	-5.0	-8.3	-18.7	-13.3	20.1	56.2	27.7	27.9	14.1	35.9
Valuation adjustments	33.3	-35.8	-15.4	-17.7	6.7	0.3	-1.3	0.8		
Debt outstanding	321.5	277.4	243.3	212.3	239.1	295.6	322.0	350.7	365.3	401.2
Interest and charges	20.5	20.3	17.2	14.7	14.8	20.1	23.1	22.8	21.5	20.7
Net transfer	-25.5	-28.6	-35.9	-28.0	5.3	36.1	4.6	5.1	-7.4	15.2

Source: World Bank Group.

1/ As of Dec. 31, 2004
2/ US$1.65 million of Sugar Rehabilitation loan and US$0.42 million of the Cocoa and Coffee Development loan were canceled. US$0.367 million of the Irrigation and Watershed Management loan were cancelled.
3/ US$5.8 million of the Vocational Training loan was canceled. US$ 0.959 million of the Basic Education loan were cancelled.
4/ US$ 0.242 million of the National Environmental Policy loan were cancelled.
5/ US$2.13 million of Free-Trade-Zone Development loan was canceled.
6/ US$7.08 million of the Technical Assistance loan and US$22.15 million of the Sites and Services loan were canceled.
7/ US$0.0003 million of the Road Reconstruction III loan was canceled.
8/ US$0.13 million of the Population and Family Health loan was canceled.
9/ US$0.08 million of the First Puerto Plata Tourism loan and US$3.54 million of the Second Puerto Plata Tourism loan were canceled.
10/ As of June 30, 2004.

DOMINICAN REPUBLIC—RELATIONS WITH THE INTER-AMERICAN DEVELOPMENT BANK

The Inter-American Development Bank's overall investment program concentrates on projects designed to improve the delivery of basic social services aimed at alleviating the incidence of poverty. Effectively, 68 percent of the investment program is linked to these projects. Other areas of concentration include enhancing the country's competitiveness and improving the capacity of the government to respond to a growing demand for social services.

In 2004, given the 2003 banking crisis and its adverse economic and social consequences, the IDB approved an emergency loan and a financial sector loan.

Dominican Republic: Relations with the Inter-American Development Bank
(As of December 31, 2004, in millions of U.S. dollars)

A. Operations

	Commitments	Disbursements	Undisbursed amounts
Agriculture	107.0	51.6	55.4
Science and Technology	5.4	-	5.4
Urban Dev. And Housing	37.0	-	37.0
Education	132.0	26.4	105.6
Social Investment	216.9	159.5	57.4
Sanitation	31.3	4.0	27.3
State Modernization	211.5	91.5	120.0
Health	61.2	51.0	10.2
Transportation	48.0	22.6	25.4
Total	850.3	406.6	443.7

B. Loan Transactions

	1996	1997	1998	1999	2000	2001	2002	2003	2004 1/
Disbursements	71.6	43.4	57.4	77.9	58.3	142.4	184.1	155.1	254.2
Repayments	27.9	34.4	32.0	31.6	38.4	45.5	50.7	118.8	68.8
Net Lending	43.7	9.0	25.4	46.3	19.9	96.9	133.4	36.3	185.4
Interests and Charges	31.0	30.2	30.8	32.4	33.2	36.0	40.9	44.2	56.3
Subscriptions and Contributions	1.3	1.0	1.1	1.5	7.3	0.7	0.5	0.4	3.8
Net Transfer	11.4	-22.2	-6.5	12.4	-20.6	60.2	92.0	-8.3	125.3

1/ Estimate

DOMINICAN REPUBLIC—STATISTICAL ISSUES

General issues and data adequacy for surveillance

The authorities are working toward correcting a number of weaknesses in the statistical database. Despite these weaknesses, data are adequate for surveillance.

In March 2004, the authorities formally declared their intention to participate in the General Data Dissemination System (GDDS) and to adopt the GDDS as a framework for developing and improving macroeconomic statistics. Missions were fielded in March and July 2004 to assist the authorities in the preparation of metadata for the macroeconomic datasets. It is anticipated that the Dominican Republic will formally join the GDDS in 2005.

Real sector

Published GDP estimates use an outdated base year (1970), and their quality is undermined by the lack of comprehensive data sources and some methodological problems. A revision of the system of national accounts, with initial assistance from the UNDP, is being undertaken in line with the standards of the 1993 System of National Accounts to update the base year to 1991. The authorities are seeking an external review of the revised national accounts series before releasing them next year. Five STA missions have assisted the authorities from January 2002 through April 2004 in compiling consistent quarterly GDP estimates, and updating the base year of the annual series. Revised seasonally adjusted quarterly GDP estimates by the production and the expenditure approaches and chain linked indices were compiled and assessed. The last IMF technical assistance mission (April 2004) made recommendations for implementing a revision policy and data dissemination practices according to best practices recommended in the IMF Quarterly National Accounts Manual, 2001 and for undertaking a detailed evaluation of growth rates. The revised quarterly GDP estimates were posted at the central bank website in July 2004.

Data are not always reported to the IFS with the required timeliness and have weak coverage of major real sector indicators. There are no available series for producer prices and wages (except minimum wages). Quarterly and annual data on production volume of the most important industrial products are posted at the central bank website. New indices for consumer prices with updated consumption baskets and weights based on the third national survey on household income and expenditure (October 1997–September 1998), were published in April 1999 (the price reference period of the new indices is January 1999).

Fiscal sector

Data on fiscal revenues and expenditures lack consistency with data on financing, resulting in statistical discrepancies. These discrepancies are explained by problems found in the institutional coverage and sectorization, incomplete transaction coverage, different bases of recording, inconsistent methods of classification, and the limited coordination among the institutions involved in the compilation of fiscal data. Furthermore, information on local governments is often incomplete and available only with long delays, and uses compiling procedures different from those used for the compilation of central government data. In the case of public enterprises, the data are available on an accrual basis and adjusted to follow a cash basis. The implementation of the Integrated System of Financial Management project financed by the IADB is expected to improve both coverage and classification of the public accounts.

In the Progress Report on Technical Assistance completed by the authorities last year, they informed STA about the implementation of some recommendations provided by the 2002 multisector mission. Thus, the authorities incorporated in the New Manual on Budget the changes proposed by this mission in the institutional, revenue, and expenditure classifiers. The authorities also revised the reporting instructions for all entities of the nonfinancial public sector.

The authorities reported annual Government Finance Statistics (GFS) for publication in the 2004 GFS Yearbook and monthly data for the IFS. For the GFSY, the data reported was compiled using the GFS Manual 2001 analytical framework, but covered the central government data on a cash basis.

Monetary accounts

The monetary statistics currently reported to WHD are affected by the following issues: (i) lack of sufficient detail to allow for a proper sectorization of accounts and classification of financial instruments; (ii) concepts and principles underlying valuation, classification of financial instruments, and sectorization of institutional units are inconsistent with internationally accepted methodology; (iii) the institutional and financial instrument coverage is not comprehensive; and (iv) the system for reporting lacks a consistent methodology. To address these issues, a monetary statistics mission in April 2003 began the development of an integrated database to be used by the authorities, STA and WHD based on the methodology recommended in the Monetary and Financial Statistics Manual. After additional technical assistance provided in July 2004, the new database is expected to begin regular and timely production by December 2004. Although the methodology applied in the new database is sound, several problems related to insufficient data sources still remain. The most important remaining problems are the lack of data on financial cooperatives and offshore operations of resident banks. Following the recommendation of the July 2004 mission, data on offshore operations of resident banks should be available in early 2005.

Banking sector

The Superintendency of Banks (SB) provides on-line consultation to banks for a central registry with information on the credit risk of borrowers. The SB publishes a solvency index monthly. The SB publishes (in hardcopy form) its Boletín Informativo (on banking statistics) twice a year monthly banking statistics are available on-line with a lag of one month.

Balance of payments

Since February 1997, balance of payments statistics adopted the methodology suggested in the fifth edition of the Balance of Payments Manual. However, problems in coverage remain in imports, capital transfers, income, and the financial account, giving rise to large errors and omissions. Most recent revisions of the statistics were made in May 2002. The Monetary and Financial Law establishes sanctions for noncompliance with reporting obligations to the CBDR. Three missions of technical assistance took place (in late 2002, mid 2003, and late 2004) to assist the CBDR in improving balance of payments statistics and preparing the International Investment Position (IIP). IIP statistics should become available in early 2005. The compilation of the external accounts complies with the requirements of the GDDS in terms of periodicity and timeliness.

Data dissemination

The authorities publish quarterly reports on economic developments. The reports contain timely preliminary data on real GDP, consumer prices, interest rates, exchange rates, balance of payments, exports and imports, operations of the central government, and the banking system. The Quarterly Bulletin of the CBDR contains more detailed information on sectoral developments, but the bulletin is published with delays of about four months. The CBDR also maintains a website that presents selected data on a relatively timely basis. Participation in the General Data Dissemination System (GDDS) is expected by early 2005 after the completion of a comprehensive set of metadata, which is being translated in the IMF for immediate publication.

Dominican Republic—Core Statistical Indicators
As of December 23, 2004

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Government Revenue	Government Spending	GDP/ GNP	External Debt/ Debt Service
Date of Latest Observation	12/8/04	12/7/04	End-November 04	12/7/04	End-November 04	12/7/04	November 04	Q3 04	Q304	November 04	October 04	Q3 04	Q304
Date Received	Week of 12/10/04	Week of 12/10/04	Week of 11/19/04	Week of 12/10/04	Week of 12/17/04	Week of 12/10/04	Week of 12/10/04	10/15/04	10/15/04	11/19/04	11/19/04	11/15/04	10/15/04
Frequency of Data	Daily	Daily	Monthly	Daily	Monthly	Daily	Monthly	Quarterly	Quarterly	Monthly	Monthly	Quarterly	Quarterly
Frequency of Reporting	Daily	Daily	Monthly	Daily	Monthly	Daily	Monthly	Quarterly	Quarterly	Monthly	Monthly	Quarterly	Quarterly
Source of Data	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR	CBDR
Mode of Reporting	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail	E-mail
Confidentiality	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted
Frequency of Publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Quarterly	Monthly	Monthly	Quarterly	Quarterly

DOMINICAN REPUBLIC—STAND-BY ARRANGEMENT

Attached hereto is a letter, with its annexed Memorandum on Economic Policies (the "Memorandum") and Technical Memorandum of Understanding (the "Technical Memorandum"), dated **[___, ___],** from the Governor of the Central Bank, the Secretary of Finance, and the Technical Secretary of the Presidency of the Dominican Republic (the "Letter") **[(see EBS//--, _/_/_)]**, requesting a Stand-By Arrangement and setting forth:

(a) the objectives and policies that the authorities of the Dominican Republic intend to pursue for the period of this Stand-By Arrangement;

(b) the policies and measures that the authorities of the Dominican Republic intend to pursue the first year of this Stand-By Arrangement; and

(c) understandings of the Dominican Republic with the International Monetary Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of the Dominican Republic will pursue for the period of the Stand-By Arrangement.

To support these objectives and policies, the International Monetary Fund grants this Stand-By Arrangement in accordance with the following provisions:

1. For a period of twenty-eight months from **[January --, 2005**], the Dominican Republic will have the right to make purchases from the Fund in an amount equivalent to **[SDR 437.80 million]**, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2**.** (a) Purchases under this Stand-By Arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 52.54 million until June 13, 2005, the equivalent of SDR 100.70 million until September 12, 2005, the equivalent of SDR 148.86 million until December 16, 2005, the equivalent of SDR 197.02 million until March 13, 2006, the equivalent of SDR 245.18 million until June 17, 2006, the equivalent of SDR 293.34 million until September 17, 2006, the equivalent of SDR 341.50 million until December 20, 2006, and the equivalent of SDR 389.66 million until April 30, 2007.

(b) None of the limits in (a) above shall apply to a purchase under this Stand-By Arrangement that would not increase the Fund's holdings of the Dominican Republic's currency subject to repurchase beyond 25 percent of quota.

3. The Dominican Republic will not make purchases under this Stand-By Arrangement that would increase the Fund's holdings of the Dominican Republic's currency subject to repurchase beyond 25 percent of quota:

(a) during any period in which data at the end of the preceding period indicate that:

(i) the cumulative floor on the balance of the non-financial public sector; or

(ii) the ceiling on the net domestic assets of the central bank; or

(iii) the cumulative ceiling on the contracting of external debt by the public sector; or

(iv) the floor on the net international reserves of the central bank;

respectively, as referred to in **[paragraph 4]** of the Letter and specified in **[Table 1]** of the Memorandum and in **[Sections I.A, I.B, 1.D and 1.E]** of the Technical Memorandum, is not observed; or

(b) if the Dominican Republic has not carried out its intentions with regard to the following structural performance criteria:

(i) by February 28, 2005, Congressional approval of draft law authorizing: the refinancing of certain domestic obligations falling due in 2005, including the partial refinancing of bonds issued to domestic suppliers in 1999; the issuance of bonds to cover arrears to domestic suppliers accumulated up to 2003; and the use of bonds to recapitalize the Central Bank and Banco de Reservas, as referred to in **[paragraphs 11 and 17]** of the Memorandum and specified in Table 3 of the Memorandum; or

(ii) by March 31, 2005, submitted to Congress draft laws on financial administration involving budget, public credit, treasury, procurement and internal control, and including the centralization of fiscal policy management of revenue, expenditure and financing in one ministry, as referred to in **[paragraph 21]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(iii) by March 31, 2005, verified and quantified the central government's domestic arrears as of December 2004, as referred to in **[paragraph 22]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(iv) by April 30, 2005, received 2004 audited financial statements submitted by commercial banks, including supplementary reports on the impact of the new asset valuation regulation, and reflecting the elimination of forbearance and compliance with the 10 percent minimum capital adequacy requirement, as referred to in **[paragraph 26]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(v) by April 30, 2005, submitted to Congress a draft law requiring public banks to meet the same regulatory and capital quality requirements as private banks, as referred to in **[paragraph 25]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(vi) by May 31, 2005, received the five-year business plans submitted by the commercial banks, as referred to in **[paragraph 26]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(vii) by July 31, 2005, submitted to Congress a draft law to increase the independence and accountability of the central bank and of the bank superintendency, as referred to in **[paragraph 32]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(viii) by July 31, 2005, completed the evaluation of the business plans submitted by banks and approved the memoranda of understanding with senior bank managers committing them to maintaining the required solvency ratio as referred to in **[paragraph 26]** of the Memorandum and specified in **[Table 3]** of the Memorandum; or

(c) if at any time during the period of the Stand-By Arrangement, the central government, or any other entity of the nonfinancial public sector, or the central bank incurs any new arrears in the payment of their external obligations as specified in **[Table 3]** of the Memorandum and **[Section I.C]** of the Technical Memorandum; or

(d) after **June 12, 2005, and September 11, 2005,** respectively until the reviews contemplated in **[paragraph 4]** of the Letter are completed; or

(e) if at any time during the period of the Stand-By Arrangement, the Dominican Republic

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions; or

(ii) introduces or modifies multiple currency practices; or

(iii) concludes bilateral payments agreements that are inconsistent with Article VIII; or

(iv) imposes or intensifies import restrictions for balance of payments reasons; or

(f) [unless, for so long as the Dominican Republic has outstanding sovereign external arrears to private creditors, a financing assurances review has been completed.]

When the Dominican Republic is prevented from purchasing under this Stand-By Arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and the Dominican Republic and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. If at any time during the period of this arrangement, the Dominican Republic requests augmentation of the amount of the arrangement in accordance with paragraph 3 of Decision No. 13229-(04/33), a review shall take place to consider such a request.

5. The Dominican Republic will not make purchases under this Stand-By Arrangement during any period in which the Dominican Republic has: (i) an overdue financial obligation to the Fund or is failing to meet a repurchase expectation (a) in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (b) in respect of a purchase in support of debt and debt service reduction operations pursuant to Decision No. 9331-(89/167), or (c) pursuant to paragraphs 17 and 31 of Decision No. 8955-(88/126), on the Compensatory Financing Facility, or (d) in respect of a purchase under Decision No. 11627-(97/123) SRF on the Supplemental Reserve Facility and Contingent Credit Lines, or (e) pursuant to paragraph 1(b) of Decision No. 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114); or (ii) is failing to meet a repayment obligation to the PRGF Trust established by Decision No. 8759-(87/176) PRGF, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRGF Trust Instrument.

6. The Dominican Republic's right to engage in the transactions covered by this Stand-By Arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of the Dominican Republic. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and the Dominican Republic and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this Stand-By Arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of the Dominican Republic, the Fund agrees to provide SDRs at the time of the purchase.

8. The Dominican Republic shall pay a charge for this Stand-By Arrangement in accordance with the decisions of the Fund.

9. (a) The Dominican Republic shall repurchase the amount of its currency that results from a purchase under this Stand-By Arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchases as the Dominican Republic's balance of payments and reserve position improves.

(b) Any reductions in the Dominican Republic's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the Stand-By Arrangement the Dominican Republic shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to the Dominican Republic or of representatives of the Dominican Republic to the Fund. The Dominican Republic shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of the Dominican Republic in achieving the objectives and policies set forth in the attached Letter and annexed memoranda.

11. In accordance with **[paragraph 3]** of the attached Letter, the Dominican Republic will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 of this arrangement have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while the Dominican Republic has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning the Dominican Republic's balance of payments policies.