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EBD/87/332

December 22, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Dominican Republic - Exchange Arrangements

Attached for the information of the Executive Directors is a paper on recent changes in the exchange arrangements of the Dominican Republic.

Mr. Quirk (ext. 8520) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

Exchange Arrangements

Prepared by the Western Hemisphere Department
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by S. T. Beza and Eduard Brau

December 21, 1987

In the attached communication the Dominican Republic authorities have notified the Fund that with effect from November 12, 1987 the market-determined exchange rate system has been re-established for all foreign exchange transactions, restrictions on the use of foreign exchange have been removed, and commercial banks and exchange houses are again permitted to deal freely in the exchange market. In addition, the foreign exchange commission on most imports has been raised from 5 percent to 20 percent, the proceeds of which are to be earmarked for external debt servicing. Also with the aim of relieving monetary pressures, a 90-day interest-bearing deposit requirement has been established for 10 percent of the proceeds from exports. The previous 2 percent exchange commission on exports was abolished.

On November 20, 1987, an exchange surcharge was levied on sugar and mineral exports, equivalent to the excess of local currency receipts valued at the current exchange rate over receipts valued at RD$4 per U.S. dollar. This constituted an effective ad valorem rate of 20 per cent as of December 11.

On June 17, 1987, the Dominican Republic authorities had suspended the free market float and a dual market subsequently emerged. Approvals for imports were centralized in the Central Bank, and authorizations for certain imports considered to be nonessential were deferred. Limits had also been put on the provision of foreign exchange for invisibles, (SM/87/217, 8/17/87). As a result of the November measures, the requirements for certification of imports and limits on invisibles payments have been eliminated, and outward capital remittances may again be made freely through commercial banks, subject to prior registration of all such remittances in the Central Bank. Other features of the new exchange and trade system, including surrender requirements for export proceeds, are similar to those in effect prior to the June 17, 1987 measures, except that the exchange commission and surcharge on trade transactions, which constitute multiple currency practices, have been increased.

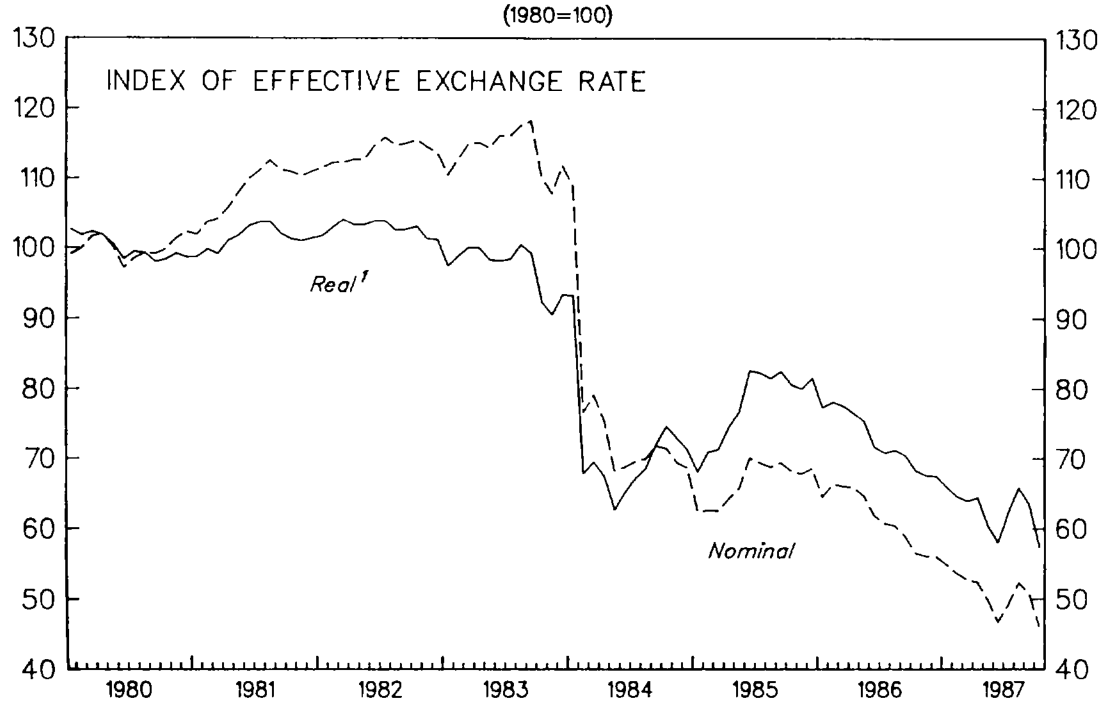
As of December 11, 1987, the exchange rate applied to surrendered export receipts and corresponding payments, which is set at the average exchange rate in the exchange market on the preceding day, was RD$4.83 = US$1 (the average rate for all other transactions was RD$4.85 = US$1). The official exchange rate had first been fixed in June at RD$3.85 = US$1, moved in stages to RD$3.2 = US$1, and then adjusted to RD$3.5 = US$1 in October 1987. Over the same period, the free market exchange rate had appreciated from RD$4.2 = US$1 to RD$3.6-3.7 = US$1 in July, and then had depreciated. The real effective exchange rate for the peso appreciated by 13 percent from June to August, but subsequently reversed, depreciating by 12 percent through October. 1/

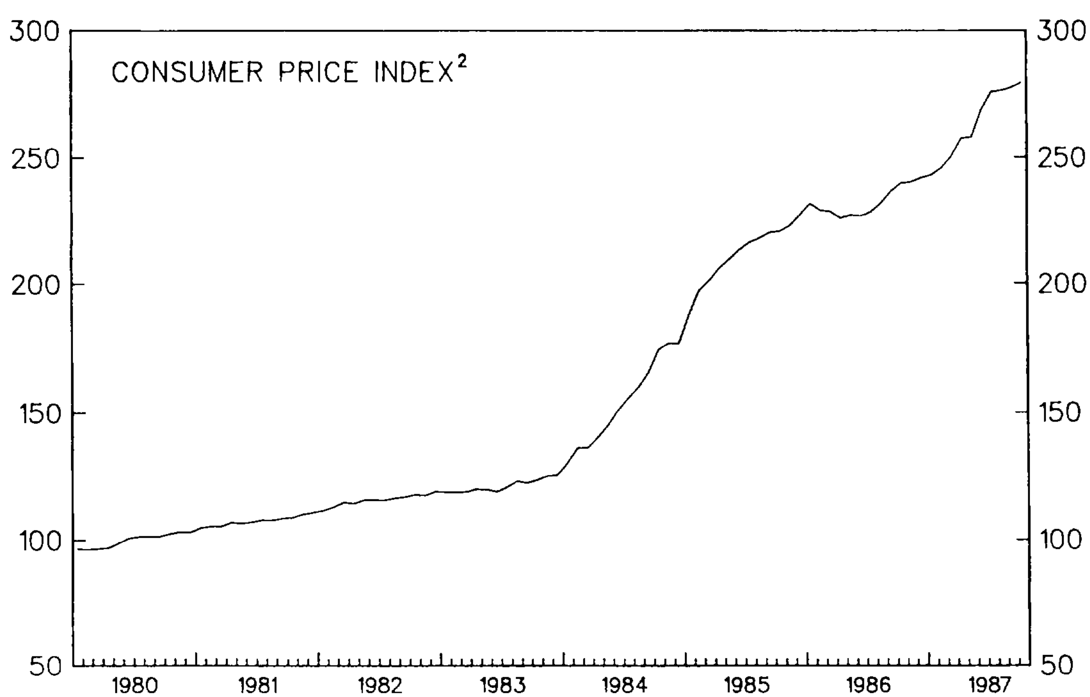
The Chairman's summing up at the conclusion of the 1987 Article IV consultation with the Dominican Republic on August 14, 1987 noted that Directors urged the authorities to return soon to a unified free exchange system, so as to re-establish incentives to the export sector. The staff is of the view that the recent measures, other than the increases in exchange taxes, are consistent with these objectives but would encourage the authorities to adopt appropriate supporting demand policies. The authorities have recently announced a number of fiscal and monetary measures, and are in the process of finalizing a comprehensive economic program for 1988.

1/ Since these and more recent developments in exchange rate and in exchange rate policy are discussed in this paper, no separate information notice will be issued. Movements in the real effective exchange rate for the peso through October are shown in the attached chart.

CHART 1
DOMINICAN REPUBLIC
INFORMATION NOTICE SYSTEM INDEX OF
EFFECTIVE EXCHANGE RATE

(1980=100)





Source: Information Notice System.
1 Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.
2Seasonally adjusted.

ATTACHMENT

SANTO DOMINGO, DOMINICAN REPUBLIC
NOVEMBER 13, 1987
02-8518-87

TO: MR. ALEXANDRE KAFKA
EXECUTIVE DIRECTOR
INTERNATIONAL MONETARY FUND

FROM: CENTRAL BANK OF THE DOMINICAN REPUBLIC

I AM PLEASED TO SEND YOU BELOW A SUMMARY OF THE MEASURES ADOPTED BY THE MONETARY BOARD ON NOVEMBER 12, 1987:

1. THE EXCHANGE RATES WERE UNIFIED, USING THE FREE MARKET RATE FOR OFFICIAL AND FREE MARKET OPERATIONS. THE OFFICIAL MARKET WILL RECEIVE THE FOREIGN EXCHANGE PROCEEDS FROM EXPORTS AND CERTAIN SERVICES AND WILL PAY FOR PETROLEUM IMPORTS, THE EXTERNAL DEBT OF THE PUBLIC SECTOR AND GOVERNMENT-GUARANTEED DEBT, AND PRIORITY IMPORTS OF THE PUBLIC SECTOR.

2. THE FOREIGN EXCHANGE COMMISSION ON IMPORTS WAS RAISED FROM 5 PERCENT TO 20 PERCENT OF THE F.O.B. VALUE, IMPORTS OF FOODSTUFFS, FERTILIZERS, PETROLEUM, MEDICINES, AND OTHER ITEMS BEING EXEMPTED FROM PAYMENT. THIS MEASURE COULD DEMONETIZE RD$700 MILLION A YEAR, AS THE FUNDS WILL BE COLLECTED DIRECTLY BY THE CENTRAL BANK.

3. THE 2 PERCENT EXCHANGE COMMISSION ON EXPORTS WAS ABOLISHED AND A 90-DAY EXCHANGE DEPOSIT WAS CREATED AMOUNTING TO 10 PERCENT OF THE PROCEEDS OF THE FOREIGN CURRENCY EXCHANGES BY EXPORTERS, WHICH WOULD BEAR INTEREST AT AN ANNUAL RATE OF 12 PERCENT. AT THE END OF 90 DAYS, THE EXPORTERS WOULD AUTOMATICALLY RECEIVE THE MONEY IN THEIR COMMERCIAL BANKS. THIS LASTE MEASURE IS DESIGNED TO PROTRACT THE PROCESS OF MONETIZING EXPORTS.

4. THE SPECIAL DOLLAR ACCOUNTS IN COMMERCIAL BANKS WERE RE-ESTABLISHED. APPROVAL WAS GIVEN FOR FOREIGN CURRENCY ACCOUNTS IN EXCHANGE BANKS ABROAD AND THE BUYING AND SELLING OF THE FOREIGN EXCHANGE OF EXCHANGE BANKS BETWEEN THEMSELVES WILL BE AUTHORIZED.

ROBERTO B. SALADIN SELIN
GOVERNOR
BANCENTRAL