

EBS/85/260

CONFIDENTIAL

November 25, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Dominican Republic - Real Effective Exchange Rate -
Information Notice

Attached for the information of the Executive Directors is an information notice on the real effective exchange rate of the Dominican peso.

Mr. González (ext. 8637) is available to answer technical or factual questions relating to this paper.

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CONFIDENTIAL

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

Real Effective Exchange Rate--Information Notice

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and Exchange and Trade Relations Departments

(In consultation with the Legal and Research Departments)

Approved by E. Wiesner and Manuel Guitián

November 25, 1985

The recent evolution of the real effective exchange rate of the Dominican Republic, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of September 1985 the Dominican peso had appreciated by more than 10 percent since the last occasion on which exchange rate developments in the Dominican Republic were discussed by the Executive Board--the request for a stand-by arrangement in April 1985 (EBM/85/59, 4/15/85). The appreciation is estimated to have amounted to 12 percent.

In the context of an economic and financial program for 1985, the Dominican authorities unified the exchange markets and adopted a freely floating exchange rate policy on January 23, 1985. Prior to that date, the Dominican Republic's exchange arrangements comprised a dual exchange market, consisting of an official market in which transactions were conducted at an exchange rate of RD\$1 per U.S. dollar and a parallel market in which transactions were conducted at a freely determined rate; moreover, a number of special exchange rates for certain transactions were in effect in 1984. At the time of unification, temporary surcharges were imposed on most exports of goods and services. 1/

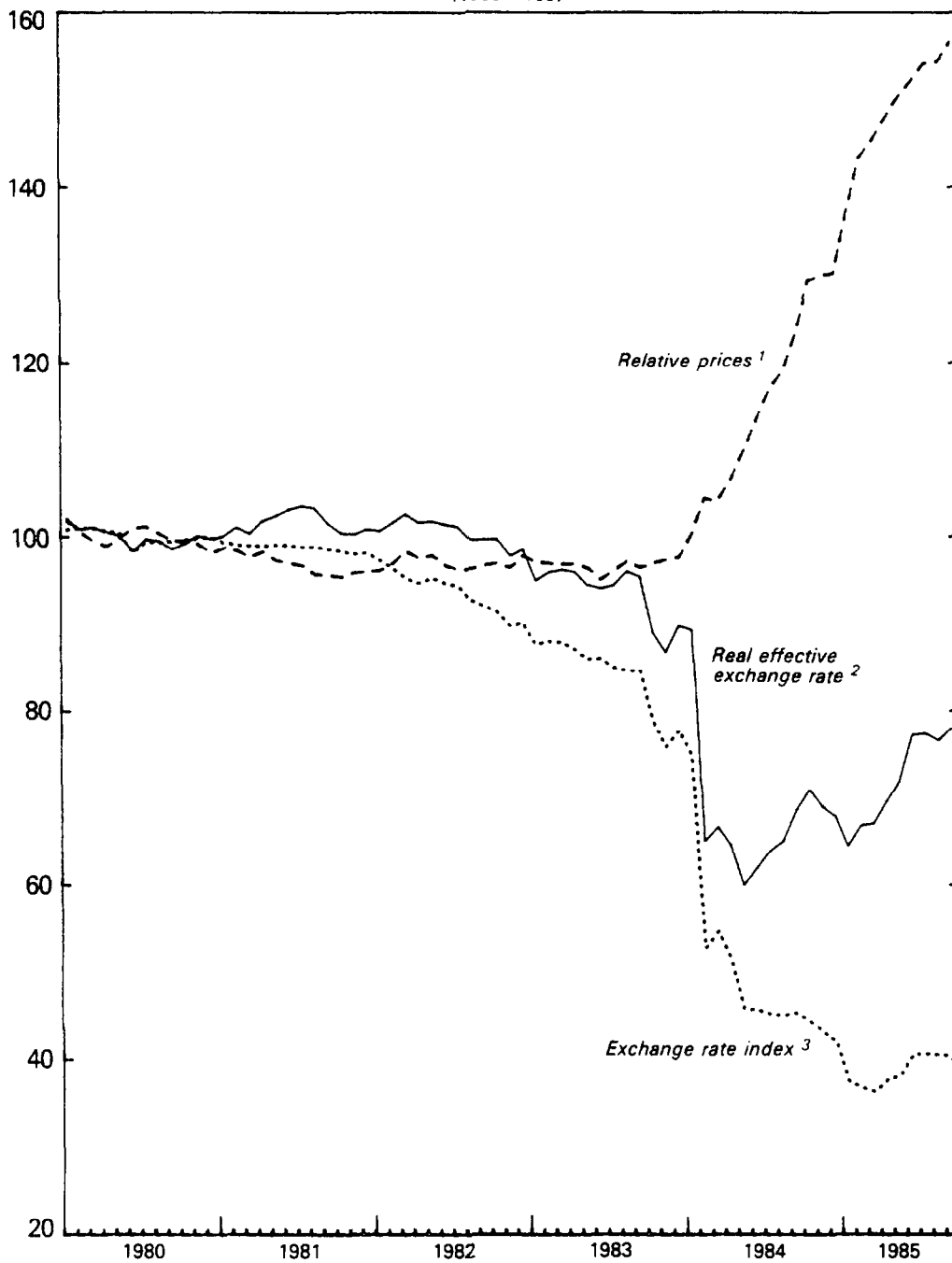
In the period since the stand-by arrangement was approved (mid-April to September) the nominal effective exchange rate of the peso has appreciated by 5.9 percent and relative prices have increased by 5.8 percent. The relatively rapid increase in consumer prices so far in 1985 reflects the upward adjustment of certain key administered prices and the aftereffects of the corrective exchange rate action.

1/ Prior to January 1985, the exchange rate index in the information notice system was a composite of the then prevailing exchange rates. Since January the index reflects the freely floating rate, net of the surcharges on exports.

As indicated in EBS/85/237, the Dominican authorities have been pursuing cautious fiscal and monetary policies in 1985 and, in addition, effectively increased interest rates. These factors, coupled with a revival in external and internal confidence are believed to be largely responsible for the appreciation in the effective exchange rate since the end of the first quarter of 1985. It should be noted that, despite this recent appreciation of the peso, in September 1985 the real effective exchange rate was still some 22 percent below the average level prevailing during the period 1980-82. These developments are reviewed in more detail in EBS/85/237 (10/30/85), Staff Report for the 1985 Article IV Consultation and Review, Technical Modification, and Waiver Under the Stand-By Arrangement, which is scheduled to be discussed by the Board on November 27, 1985.

Performance to date under the stand-by arrangement has been satisfactory and all performance criteria were observed through end-September. As explained in EBS/85/237, the unification of the exchange system with a freely floating exchange rate, and the substantial progress in realigning domestic prices to reflect costs, have been crucial in coming to grips with the economic crisis. In the letter attached to EBS/85/237, the Dominican authorities confirm their commitment to the pursuit of cautious economic and financial policies and their intention to maintain the existing freely floating exchange rate policy.

CHART
DOMINICAN REPUBLIC
EXCHANGE RATE DEVELOPMENTS
(1980 = 100)



¹Seasonally adjusted relative consumer prices.

²Trade-weighted index of nominal exchange rates deflated by relative consumer prices, increases mean appreciations.

³U.S. dollars per Dominican peso.



Table 1. Dominican Republic: Real Effective Exchange Rate and Related Series

(Indices: 1980 = 100)

	Real Effective Exchange Rate <u>1/</u> <u>2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (Local Currencies)	Exchange Rate in Terms of U.S. Dollars <u>1/</u>	Consumer Price Index (Seasonally Adjusted)	Consumer Price Index (Not Seasonally Adjusted)
Quarterly						
1980						
I	101.3	100.6	100.7	100.9	96.6	96.8
II	99.7	99.8	99.9	99.7	98.9	98.3
III	99.3	98.9	100.4	99.5	101.5	100.8
IV	99.8	100.8	99.0	99.9	103.0	104.1
1981						
I	100.5	102.2	98.3	99.2	105.3	105.5
II	102.4	105.0	97.5	99.0	106.9	106.3
III	102.8	107.0	96.0	98.8	108.1	107.3
IV	100.6	105.0	95.8	98.2	110.0	111.0
1982						
I	101.6	104.5	97.2	96.4	113.2	113.6
II	101.6	104.3	97.4	94.9	115.4	115.0
III	100.2	103.8	96.5	93.1	116.4	115.5
IV	98.8	101.7	97.1	90.5	118.2	118.9
1983						
I	95.8	98.7	97.0	87.9	118.9	119.4
II	94.9	98.6	96.2	86.4	119.5	119.2
III	95.3	98.6	96.6	84.8	121.8	121.0
IV	88.5	90.9	97.3	77.5	124.9	125.4
1984						
I	73.7	71.9	102.9	60.8	134.3	134.9
II	62.2	56.6	109.9	47.7	145.3	145.2
III	65.9	55.0	119.8	45.2	160.2	159.1
IV	69.3	53.4	129.8	43.3	176.4	176.9
1985						
I	66.1	46.6	142.0	36.9	195.6	196.6
II	73.0	48.0	150.1	38.8	209.7	209.4
III	77.3	49.9	155.0	40.5	218.2	216.6
Monthly						
1985						
April <u>3/</u>	69.7	47.1	147.9	37.7	205.9	204.1
May	72.0	47.9	150.3	38.2	210.0	209.5
June	77.2	50.8	152.1	40.6	213.1	214.6
July	77.4	50.2	154.1	40.6	216.4	215.4
August	76.6	49.6	154.3	40.5	217.2	215.2
September	78.0	49.8	156.5	40.4	221.1	219.2
Percentage change						
April 1985- Sept. 1985	12.0	5.9	5.8	7.1	7.4	7.4

Source: Information Notice System.

- 1/ Increases mean appreciation.
2/ Using seasonally adjusted price indices.
3/ Date of latest consideration by Executive Board.

