

**Dominican Republic: Fourth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion—Staff Report; Informational Annex; Press Release on the Executive Board Discussion**

In the context of fourth review under the stand-by arrangement and Request for Waiver of Nonobservance of Performance Criterion, the following documents have been released and are included in this package:

- The staff report for the Dominican Republic: Fourth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on November 9, 2010, with the officials of Dominican Republic on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 3, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- An informational annex.
- A Press Release summarizing the views of the Executive Board as expressed during its December 17, 2010 discussion of the staff report that completed the review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Dominican Republic\*  
Technical Memorandum of Understanding\*

\*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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# INTERNATIONAL MONETARY FUND

## DOMINICAN REPUBLIC

### **Fourth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion**

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

Approved by Rodrigo Valdés and Dominique Desruelle

December 3, 2010

#### **EXECUTIVE SUMMARY**

- **Arrangement.** Against the backdrop of an unfavorable external environment due to the global financial crisis, the Executive Board approved a 28-month Stand-By Arrangement (SBA) for the Dominican Republic in the amount of SDR 1,094.5 million (500 percent of quota) on November 9, 2009. The first SBA review was completed on April 7, 2010. The second and third reviews were completed on October 22, 2010. The main objective of the authorities' program is to limit procyclical policies in the short-run while strengthening debt sustainability and growth prospects over the medium-term through a combination of fiscal consolidation and a deepening of the structural reform agenda.
- **Developments.** Macroeconomic performance continues to be very positive, but the risk of overheating is rising. The economy expanded 7½ percent in the 12 months to September 2010 (yoy), after reaching near-stagnation in mid-2009. Staff estimates that the output gap is closing rapidly. There was an uptick in inflation in September and October but headline inflation remains contained at 6¼ percent in October 2010 (yoy), against a target of 6–7 percent for the year; core inflation stood at about 4¼ percent in October 2010 (yoy). The external current account deficit has widened somewhat more than expected and is heading for 7½ percent of GDP in 2010.
- **Reviews.** The program remains on track. All but one performance criterion and all benchmarks for end-September 2010 were observed. The limit on arrears to electricity generators was not met but a waiver was already granted by the Board at the time of the previous review. A data revision for December 2009 led to a small breach of the performance criterion on the consolidated public deficit, and a revision of the data on the balance of the public administration, for which the authorities are requesting a waiver.
- **Policies.** With the first part of the program successfully implemented (i.e., fiscal accommodation), the authorities are focused in implementing the second part which involves a gradual fiscal consolidation. Despite difficulties encountered in raising revenues and lowering electricity subsidies, the authorities remain committed to the objectives and policies of the program. They submitted to Congress two supplementary budgets in 2010 to align the fiscal position with the program targets. They also submitted a budget for 2011 consistent with the program. The Central Bank has begun removing monetary policy accommodation by increasing the policy rate by 100 basis points in two months (September and October) to 5 percent.
- **Appraisal.** Staff supports the waiver request and the completion of the fourth SBA review in view of the positive macroeconomic results and satisfactory performance.

**LIST OF ACRONYMS**

BCP	Basel Core Principles
BCRD	Central Bank of the Dominican Republic
BONOLUZ	Targeted Electricity Subsidy
CCT	Conditional Cash Transfer
CDEEE	Public Electricity Company
COMA	Open Market Committee
CRI	Cash Recovery Index
DGA	Customs Office
DGI	Domestic Tax Office
EDENORTE	Northern Electricity Distribution Company
EDEs	Electricity Distribution Companies
EDEESTE	Eastern Electricity Distribution Company
EDESUR	Southern Electricity Distribution Company
FAD	Fiscal Affairs Department
FETE	Stabilization Fund for the Electricity Tariff
GDP	Gross Domestic Product
GIMPO	Inter-institutional Program Monitoring Group
IDB	Inter-American Development Bank
ITBIS	VAT on Industrialized Commodities and Services
LEG	Legal Department
LOI	Letter of Intent
MCM	Monetary and Capital Markets Department
MEFP	Memorandum of Economic and Financial Policies
NDA	Net Domestic Assets
NFPS	Nonfinancial Public Sector
NIR	Net International Reserves
NPL	Nonperforming Loans
OSFI	Office of the Superintendent of Financial Institutions
PC	Performance Criteria
PFM	Public Financial Management
PLD	Dominican Liberation Party
PRA	Blackout Reduction Program
REFIDOMSA	Public Refining Company
SB	Structural Benchmark
SIB	Superintendent of Banks
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
UNDP	United Nations Development Program
VAT	Value Added Tax
WB	World Bank
WHD	Western Hemisphere Department

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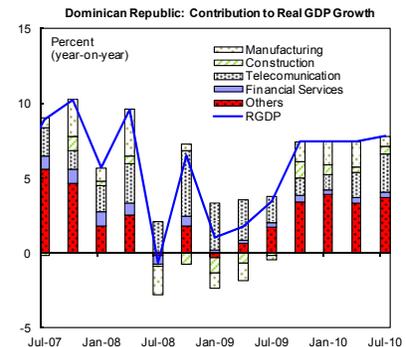
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## I. BACKGROUND <sup>1</sup>

1. **Context.** During a sharp economic deceleration in 2009—consequence of the global and financial crisis—fiscal policy became procyclical, at least in the first half of the year. The Central Bank (BCRD) managed to loosen monetary policy by reducing its policy rate from 9 to 4 percent, but the Ministry of Finance was forced to tighten its fiscal stance due to lack of domestic and external financing while tax collections collapsed. Against the background of an almost stagnant economy and difficult external and budgetary positions, the authorities negotiated a multi-year Stand-By Arrangement (SBA) in the third quarter of 2009 which included two phases: (i) a supportive one aimed at limiting the procyclical policy bias with a fiscal impulse, which went through mid-2010; and (ii) a tightening phase focusing on fiscal consolidation and structural reforms, which will go from the second half of 2010 through early-2012 (the end of the arrangement). The Board approved the SBA in November 2009. The first SBA review was completed in April 2010 and the second and third reviews were completed simultaneously in October 2010. The first phase of the program has been successfully completed; the economy started a recovery when the program was announced, and it is currently in a clear upward trajectory. The second phase began at an appropriate time as the economy is operating near full capacity.

### A. Developments

2. **Output.** A vigorous economic expansion continues for the fourth consecutive quarter. Real GDP grew  $7\frac{3}{4}$  percent year-on-year (yoy) in the third quarter of 2010, similar to the rate of expansion observed in the previous three quarters. While public investment decelerated in the third quarter of 2010, private demand gained strength, with imports expanding 25 percent (yoy). Exports of food and construction material to Haiti have been a source of dynamism. Growth is broad-based, with construction, commerce and telecommunication sectors reaching double digit growth rates in January-September of 2010. Staff estimates that the economy is operating near capacity, with the output gap (estimated at  $-\frac{1}{2}$  percent in 2010) narrowing rapidly.

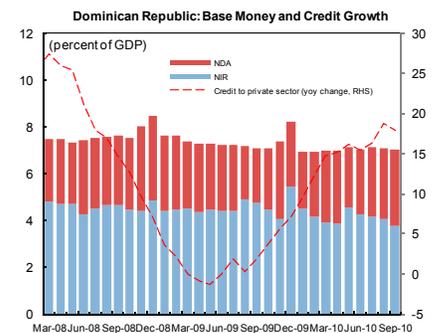
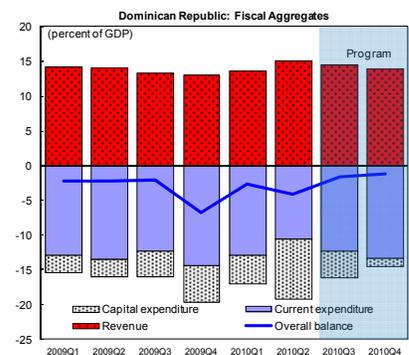
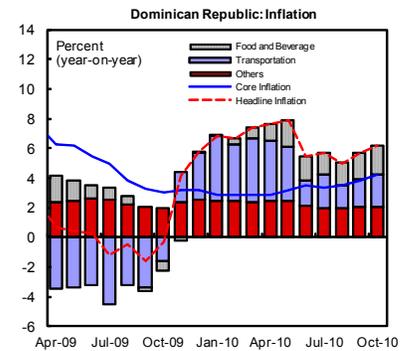
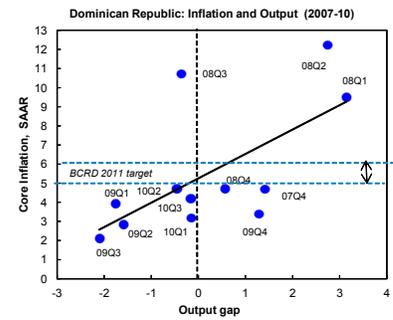


<sup>1</sup> Discussions took place during October 27-November 9, 2010 in Santo Domingo. The mission met with President Fernandez, Central Bank Governor Valdez, Finance Minister Bengoa, Economy Minister Montás, members of Congress, senior government officials, representatives of the banking community, and the private sector. The staff team consisted of A. Santos (head), G. Bannister, A. Alichí, J. Araujo (all WHD), R. Espinoza (SPR) and E. Crivelli (FAD). Mr. Dehesa (WHD) the appointed Resident Representative to the Dominican Republic accompanied the mission to be formally introduced to the authorities and as part of his pre-assignment trip. Mr. Estrella (OED) participated in the meetings.

3. **Inflation.** Despite strong domestic demand, inflation remains broadly on track to achieve the BCRD target with upticks in prices in September and October 2010. Headline inflation increased to 6¼ percent in October 2010 (yoy) (from a low of 5 percent in August 2010), within the 6–7 percent BCRD target. Core inflation (which excludes food and fuels) has also edged up to 4¼ percent (yoy) in October 2010 (from below 3 percent in January 2010), partly reflecting spillovers from higher food and fuel prices into other prices in the economy, but also the use of slack capacity.

4. **Fiscal position.** The authorities have continued tightening policies to meet end-year targets, in line with the gradual fiscal consolidation under the program. Tax revenues continue to be below the program level (albeit in line with revised projections for December). To compensate, the authorities have begun to implement their first supplementary budget (submitted in June and approved by Congress in September 2010) reducing overall spending (particularly investment) and reallocating some expenditure to cover the overruns on the electricity transfers. In addition, after the approval of the second and third reviews by the Board, the authorities submitted a second supplementary budget seeking authorization for additional transfers to cover the interest to be paid to the central bank under the recapitalization law, which was not fully included in the original budget.<sup>2</sup> The authorities increased electricity tariffs by 11 percent across the board in December 2010 to reduce indiscriminate subsidies.

5. **Monetary stance.** The BCRD has started to remove the policy accommodation. After almost a year of stimulative policy, the central bank increased its policy rate by 75 and 25 basis points, respectively, in September and October 2010, to 5 percent. Mindful of further possible need to tighten interest rates in the near-term as the output gap is closing and inflation is at target, recent official communications

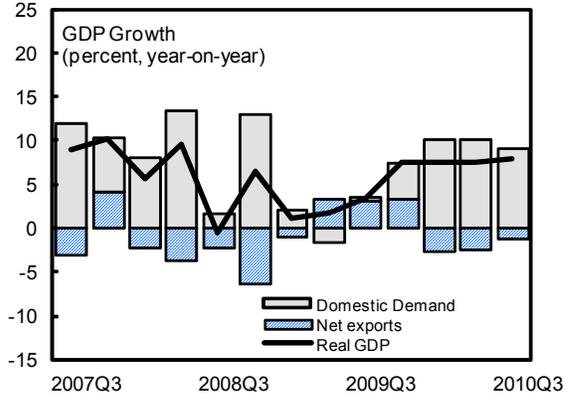


<sup>2</sup> The 2010 budget was designed on the assumption that the BCRD recapitalization law was going to be modified. However, the authorities decided to keep the current law. The full amount of transfers mandated by law (RD\$ 14.5 billion) is included in the program as interest expenditures on an accrual basis, although only a part of the transfers (RD\$4 billion) were included in the authorities' original budget for 2010.

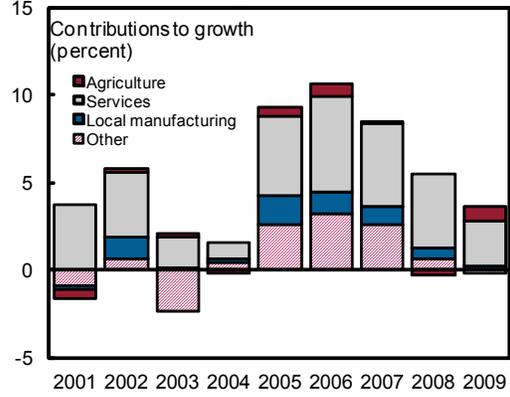
**Figure 1. Dominican Republic: Real Sector Developments**

*GDP growth strengthened significantly while inflation remained subdued on the back of a negative output gap and stable exchange rate. Unemployment has improved slightly.*

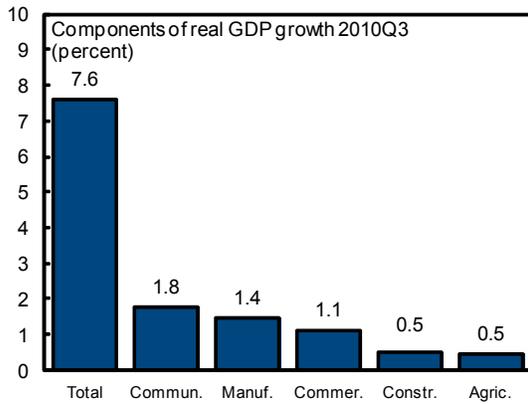
*After slowing down significantly in 2009, GDP growth has recovered.*



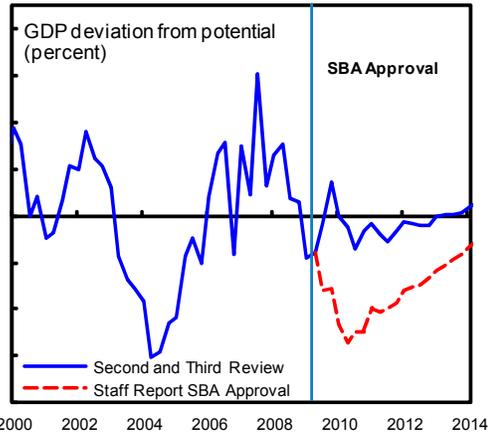
*While the services and agriculture sectors were the main drivers of growth in 2009, ...*



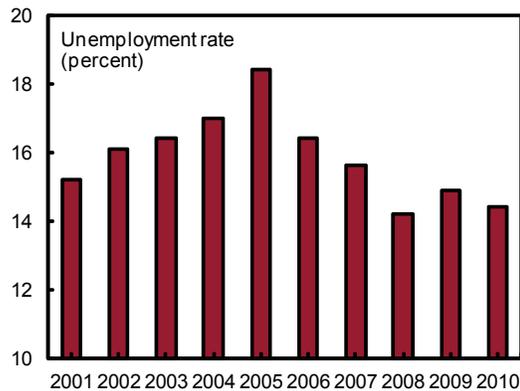
*...GDP growth is now broad-based with largest contribution from manufacturing, telecommunications and commerce.*



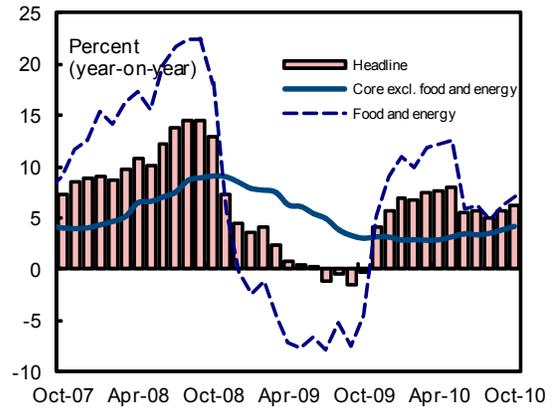
*Faster growth has significantly reduced the negative output gap,...*



*... and has lowered the unemployment rate in 2010.*



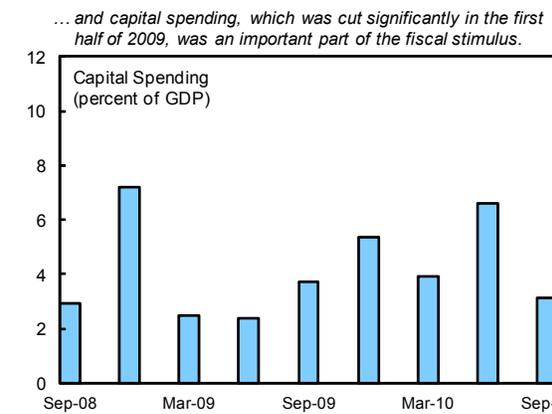
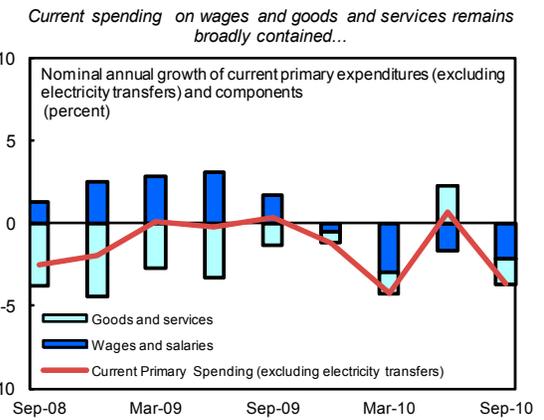
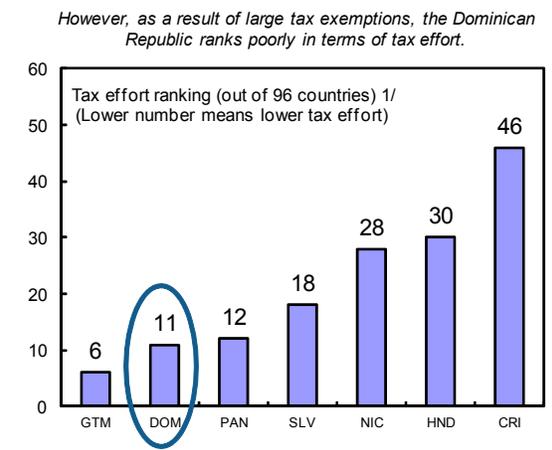
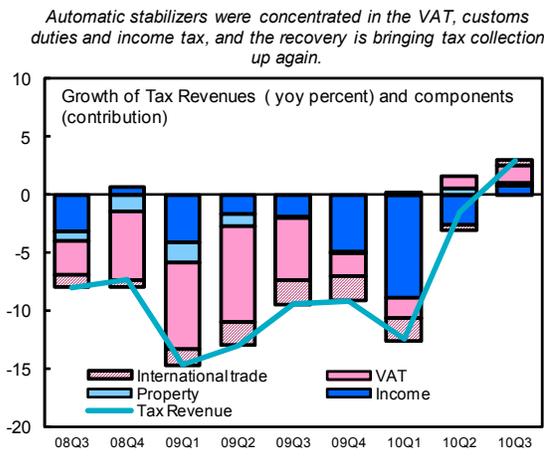
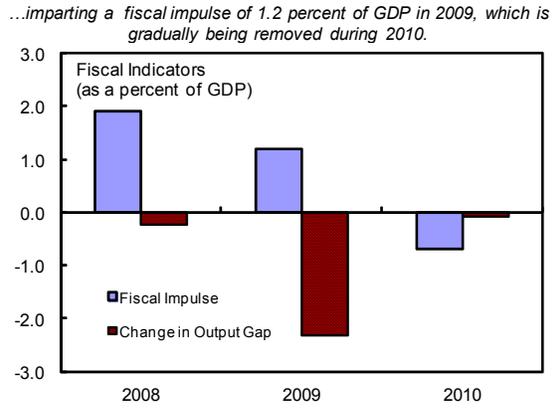
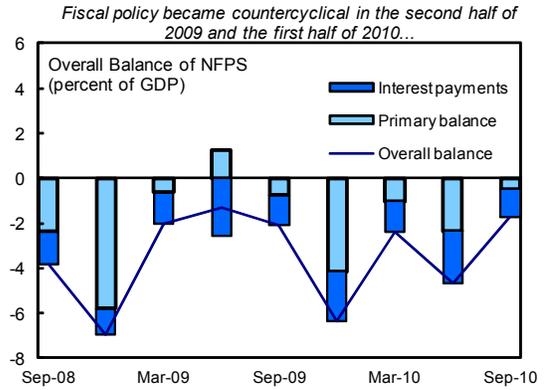
*Headline inflation fell, but largely tracking energy prices.*



Sources: Dominican authorities; and Fund staff estimates.

**Figure 2. Dominican Republic: Fiscal Developments**

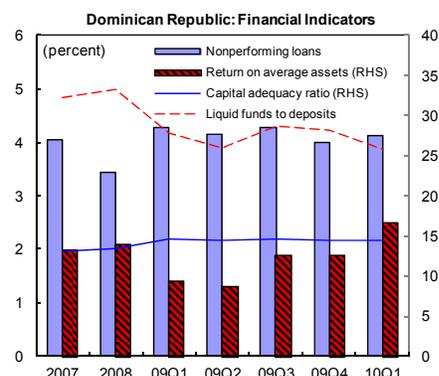
The fiscal stimulus imparted in the second half of 2009 and the first half of 2010 is now being withdrawn as the fiscal consolidation is implemented.



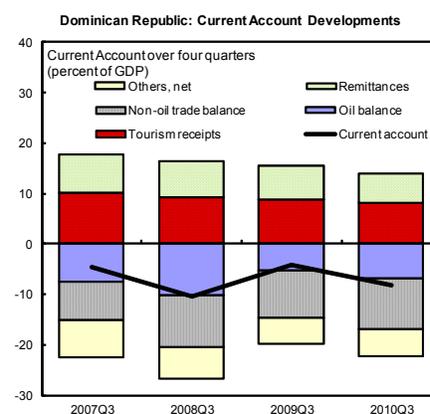
Source: Dominican Authorities; and Fund staff calculations.  
 1/ Tax effort is defined as the gap between a country's maximum tax revenue capacity (as determined by its economic, social, institutional, and demographic characteristics) and its actual tax collection. See Fenochietto, R. and Pessino, C., (forthcoming), "Determining Countries' Tax Effort."

of the Open Market Committee (COMA) emphasize the monetary authority's commitment to its inflation target and its readiness to take necessary measures to achieve that objective. Monetary aggregates continue expanding at healthy rates; M1 and M2 grew about 14 and 15½ percent in October 2010 (yoy), respectively, and credit to the private sector grew about 18 percent (yoy) in October 2010. Net international reserves (NIR) stood at US\$1.8 billion at end-October 2010 after exceeding program levels in end-September 2010.

6. **Financial system.** There are no signs of stress in the banking system. Banking soundness indicators through end-September 2010 signal adequate capital (13½ percent of assets), regained profitability (a ROA of about 2¼ percent) and low non-performing loans (3½ percent of total loans). Banks remain liquid, although they have been reducing their previously high liquidity positions to finance the rebound in private credit.



7. **External sector.** The external current account deficit widened in the third quarter, reaching almost 8 percent of GDP in the year to September 2010. The increase in the deficit was driven by strong non-oil imports (30 percent increase in the year to September 2010, excluding free zones) which are seasonally high in anticipation of end year holidays, and a high hydrocarbon bill (almost 7 percent of GDP). Exports were booming (growing about 35 percent in the year to September 2010, excluding free zones) and tourism receipts recovered (3 percent growth over the same period), but remittances declined (by 4¾ percent). The current account deficit is being financed by FDI in the mining and telecommunication sectors, and by public borrowing. External public borrowing includes the US\$750 million bond that was placed in April and disbursements expected to total US\$ 940 million for the year, coming from the IDB, the World Bank, and *Petrocaribe*. The nominal exchange rate has remained stable in 2010, depreciating by 2½ percent to the dollar at end of September 2010 and appreciating 7½ percent to the euro. The real effective exchange rate depreciated by 2 percent during the third quarter of 2010 and 4 percent since January 2010.



8. **Regional issues.** The impact of the recovery of the Haitian economy (following the devastating earthquake of January 2010) continues to be felt even though the reconstruction efforts are advancing at a considerably slower pace than initially expected. Foreign aid to Haiti amounted to over US\$1½ billion in the first three quarters of 2010 (a five-fold increase from last year), which helped finance imports from the Dominican Republic (of about US\$650 million). As a result, Haiti has become the most important trade partner of the Dominican Republic (excluding free trade zones), demanding large amounts of cement, light consumer goods, clothing and processed foods, particularly in border towns where much of the trade is informal. This trade link has recently been temporarily disrupted as the

authorities have closed the border to assess the health implications of the cholera outbreak in Haiti.

9. **Politics.** The ruling Dominican Liberation Party (PLD) of President Fernández gained an overwhelming majority in the Senate, the Chamber of Deputies and many municipalities in the May 2010 elections. This has given President Fernández a vote of confidence on his policies and his economic program. President Fernández’s high popularity has led to calls from some politicians and political organizations to nominate him for re-election in May 2012. However, the new Constitution approved in January 2010 prevents a former President from being elected for two consecutive terms (unless determined by a referendum). The next political cycle is expected to begin in the second half of 2011, before which political parties are expected to nominate candidates.

10. **Social.** Tensions have eased since the approval of the program. The poverty rate fell by about 3 percentage points to 34½ percent in 2009 and is expected to have fallen further in 2010. The government’s program continues strengthening social safety nets and the increase in salaries of public workers in the health sector (where tensions were highest after a long salary freeze) has eased stress. However, as the tightening phase of fiscal policy progresses, there could be additional social tensions, especially related to public services in electricity, drinking water and education. The earthquake in Haiti has resulted in immigration to the Dominican Republic from Haitians looking for jobs and demanding social services, and the closing of border markets by the Dominican authorities as a preventive measure against cholera has led to sporadic social unrest.

## B. Performance

11. **Macro.** All performance criteria under the program for end-September 2010 were met except for the zero limit on the arrears of the government to the electricity generators, which was temporarily exceeded:

- **Central administration overall balance.** The overall deficit of the central government reached 1.7 percent of GDP through September 2010—0.3 percent of GDP below the program target— as the shortfall in tax revenues (0.6 percent of GDP) and excess electricity subsidies (0.1 percent of GDP) were more than offset with lower spending on goods and services and investment.<sup>3</sup>
- **Consolidated public sector overall balance.** The deficit of the combined public sector was observed by a very narrow margin (RD\$1.3 billion, or less than 0.1 percent of GDP). A higher-than-expected deficit at the level of the rest of the non-financial public sector (NFPS) was compensated by the margin on the deficit of the central administration and by a lower-than-expected quasi-fiscal deficit of the central bank,

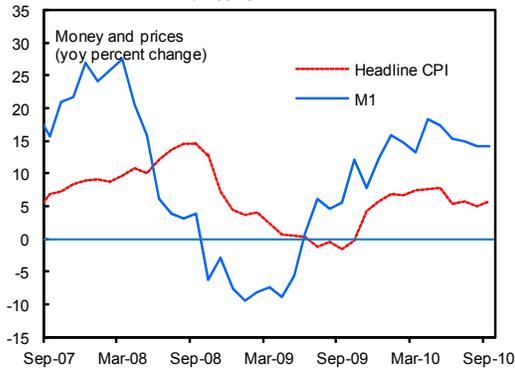
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<sup>3</sup> Nevertheless, transfers to the electricity sector were contained. The electricity company (CDEEE) had to finance their remaining losses with loans from the state bank which led to the higher than expected deficit of the rest of the NFPS.

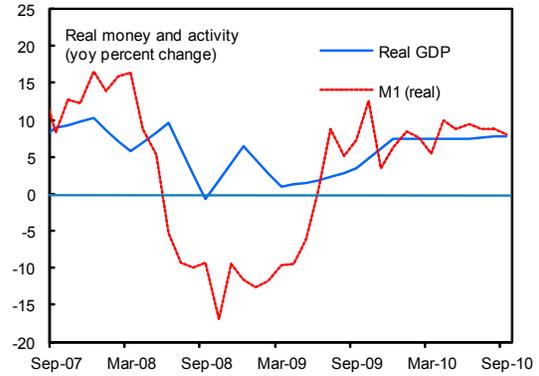
**Figure 3. Dominican Republic: Monetary Developments**

*Monetary policy, which was stimulative since 2009, started tightening in September 2010 as real activity recovered. Private sector credit and deposits have recovered to pre-crisis levels.*

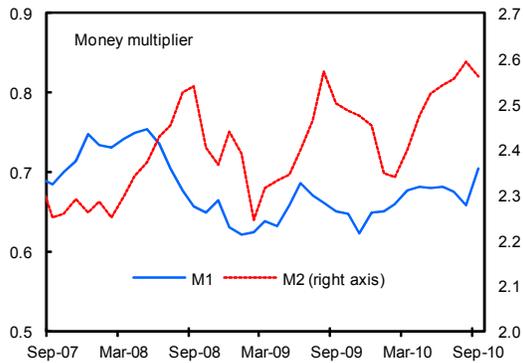
*After a large contraction during 2008 and early 2009, growth in monetary aggregates has rebounded...*



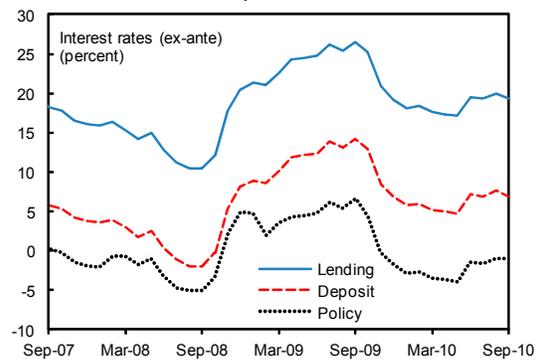
*...reflecting the recovery in real economic activity...*



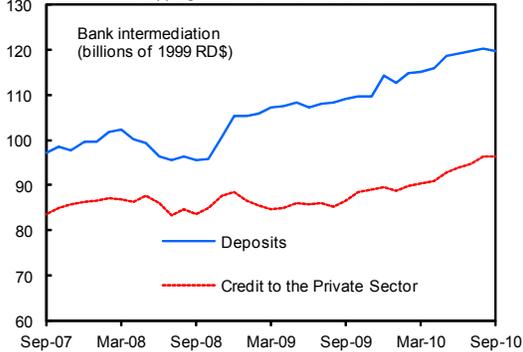
*... while money multipliers are increasing due to lower reserve requirements.*



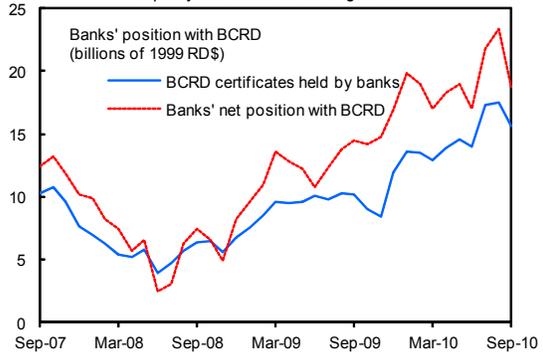
*After falling in most of 2010, real rates are increasing as monetary stimulus is removed.*



*Private sector credit and deposits have rebounded after dropping in 2008-2009 due to the crisis.*



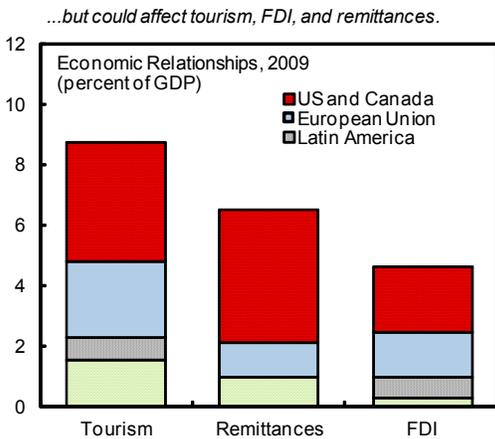
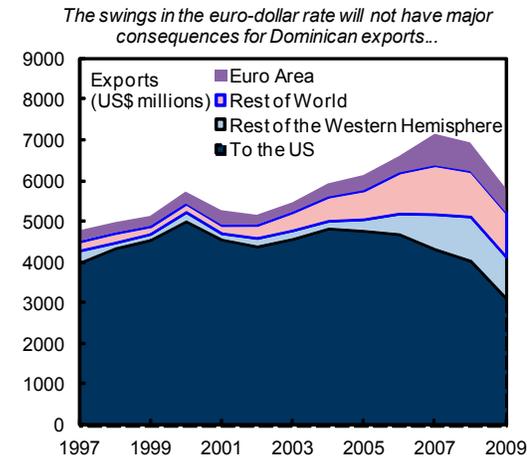
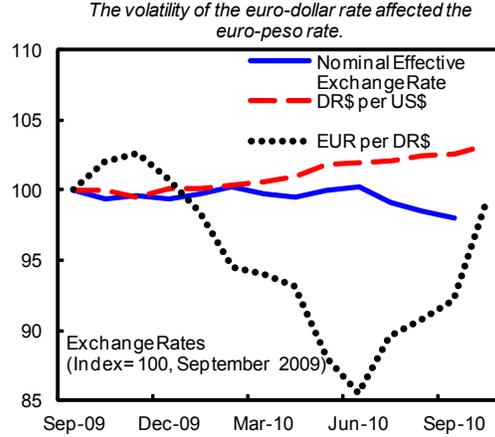
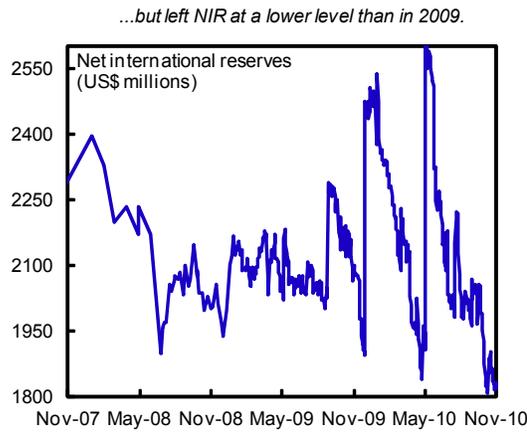
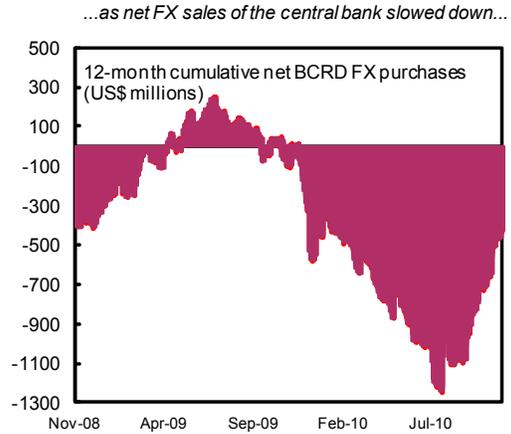
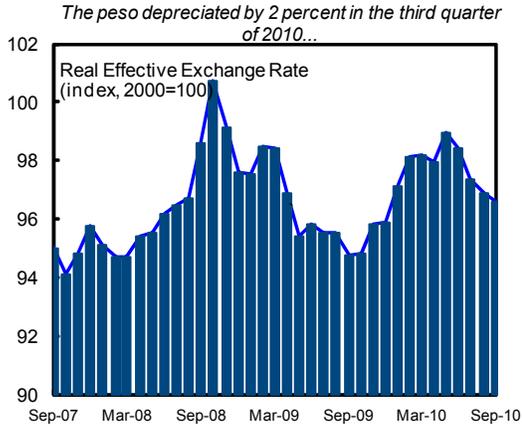
*Banks' net position with BCRD increased indicating higher liquidity and still weak credit growth.*



Sources: Dominican authorities; and Fund staff estimates.

**Figure 4. Dominican Republic: Exchange Rate Developments**

*The movements in the peso were moderate in the last twelve months. The central bank intervened to smooth fluctuations, leaving reserves at a lower level than in 2009. The recent swings in the euro-dollar rate underline the importance of exchange rate flexibility.*



Source: Direction of Trade Statistics; Haver Analytics; World Economic Outlook; National Authorities; and Fund staff calculations.

related to some extraordinary revenues from a transaction recovering outstanding debts dating back to the financial crisis of 2003 (Box 1).

- **Net international reserves.** The floor on net international reserves (NIR) of the monetary authority, at about US\$2 billion, exceeded the end-September 2010 target by over US\$300 million.
- **Net domestic assets.** The ceiling on net domestic assets of the central bank stood at about RD\$59 billion at end-September, meeting the program target with a margin of about RD\$14 billion.
- **Arrears to electricity generators.** The performance criterion on zero arrears to the private electricity generators (under the program definition of no more than 45 days of unpaid balances) was missed at end-September by a margin of about US\$91 million, partly due to delays in the approval and implementation of the first supplementary budget, which authorized additional transfers to the state electricity company CDEEE. These arrears were consequently cleared in the first week of October 2010 and the government remains current on its obligations in the electricity sector. The Board granted a waiver of non-observance of this target in its October 22, 2010 meeting, which completed the second and third SBA reviews.

Dominican Republic: Performance Criteria (Quantitative targets for end-September 2010)			
	Prog.	Actual	
(In percent of GDP)			
<b>Fiscal Targets</b>			
Central administration deficit	-2.0	-1.7	✓
Consolidated public deficit	-3.2	-3.0	✓
(In percent of base money)			
<b>Monetary Targets</b>			
Net international reserves	50.9	53.9	✓
Net domestic assets	49.1	46.1	✓
(In percent of payments due)			
<b>Debt Targets</b>			
External arrears	0.0	0.0	✓
Arrears to generators	0.0	3.9	x

Source: Dominican authorities and Fund staff estimates.

- **Accumulation of external public debt arrears.** The government did not accumulate external public debt arrears during the period and it remains current on its external debt obligations.
12. **Structural.** The two structural benchmarks for end-September 2010 were observed.
- **Capital Market Development.** The authorities presented a plan to develop domestic public debt markets and debt management. Following the recent extension of the domestic public debt yield curve and access to international markets, the Ministry of Finance has gained considerable credibility in the financial markets. The new strategy envisions key steps during 2010 and 2011 to develop the infrastructure for secondary market trading in public debt, coordinating a debt management strategy between the Ministry of Finance and the Central Bank, and removing impediments to the participation of foreign and local investors to foster liquidity (Box 2).

### Box 1. Dominican Republic: Asset Recovery Efforts by BCRD

**The banking crisis of 2003 required significant intervention from the Central Bank.** In April 2003 the Central Bank took over *Baninter (Banco Intercontinental)* which declared bankruptcy in May and was dissolved in June. *Baninter* had been receiving liquidity support since September of 2002. Later in the year, two other banks, *Bancredito* and *Banco Mercantil*, received liquidity support to deal with deposit withdrawals. Overall, the direct cost of Central Bank liquidity support amounted to about RD\$ 104 billion pesos, or 15 percent of GDP. Of this support, *Baninter* received RD\$ 74.0 billion, *Bancredito* received RD\$ 22.7 billion, and *Banco Mercantil* RD\$ 7.3 billion.

**After being intervened, the bad assets of *Bancredito* were taken over by the Central Bank and it was sold to a prominent local industrial group.** As a result of this operation, the former owners were taken to court, subsequently incarcerated and became liable for a large part of the losses absorbed by the Central Bank. After the recovery of some assets, the final amount of the former owner's liabilities to the Central Bank was determined to be RD\$ 17.8 billion.

**In 2005 the Central Bank re-stated its financial statements to bring them closer to international financial reporting standards (IFRS).** As a consequence, it revalued the assets it had acquired in the crisis at their expected recovery value, resulting in a write-down of about 82 percent on average. Of the original RD\$ 104.0 billion of assets, it wrote down RD\$ 85 billion, leaving only RD\$ 19 billion on its balance sheet. For *Bancredito* in particular, the reduction in the value of assets was slightly higher (86 percent), and the original RD\$ 17.8 billion was valued on books at RD\$ 2.5 billion.

**In 2010, after substantial negotiations with the former owners of *Bancredito*, the Central Bank agreed on a settlement.** The Central Bank agreed to reduce its claims on the former owners of *Bancredito* by 42 percent (to RD\$ 10.3 billion), and to accept payment through the transfer of a number of different assets. In exchange, the former owners were released from the remaining liabilities and their jail sentence was reduced. The assets included:

- The shares of an industrial park in a free trade zone (Zona Franca San Isidro);
- The shares of a small telecommunications company (TRICOM);
- 12 percent of the shares of one of the largest electricity generators in the country (EGEHAINA); and
- A 12-year note guaranteed with the shares of the largest newspaper in the country, a number of offshore banks in liquidation and some high quality investment accounts.

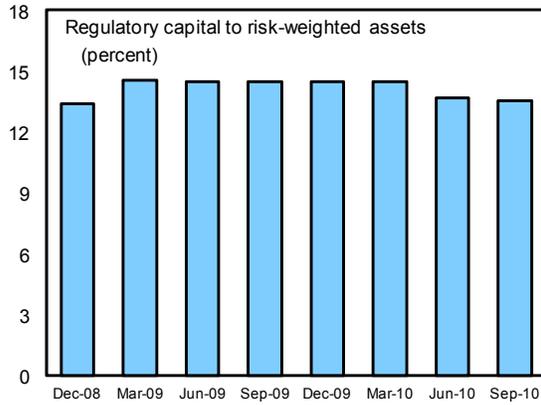
1. Liabilities of former Bancredito owners	17.8
2. Less discount of 42 percent	10.3
3. Assets to be transferred to BCRD	10.3
Shares of Zona Franca San Isidro	2.6
Shares in TRICOM	0.1
12 percent shares of EGEHAINA	3.9
12-year guaranteed note	3.7
4. Value of Bancredito assets on BCRD books	2.5
5. Net gain from transfer of assets	7.8

**The transaction results in a large net gain on the balance sheet of the Central Bank.** The transaction substitutes assets valued at RD\$ 10.3 billion for other assets that were formerly valued at RD\$ 2.5 billion, resulting in a net gain of RD\$7.8 billion. In order not to distort the path of fiscal adjustment, the program allows the recognition of only part of these gains (about \$40 million or 18 percent) per year.

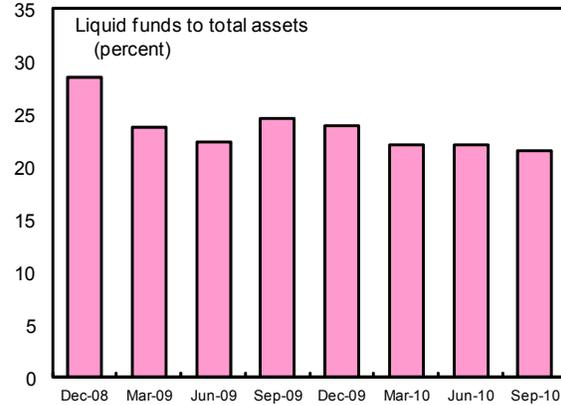
**Figure 5. Dominican Republic: Financial Soundness Indicators**

*The banking system is well-capitalized and liquid, and non-performing loans have fallen to their pre-crisis levels, but provisioning has weakened slightly. Profitability has also rebounded after suffering from the recent global financial crisis.*

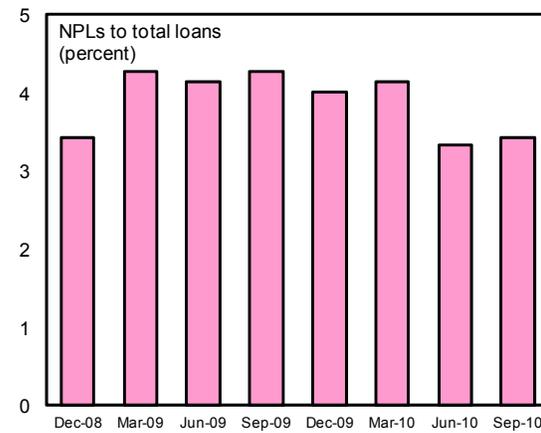
*The banking system is well capitalized...*



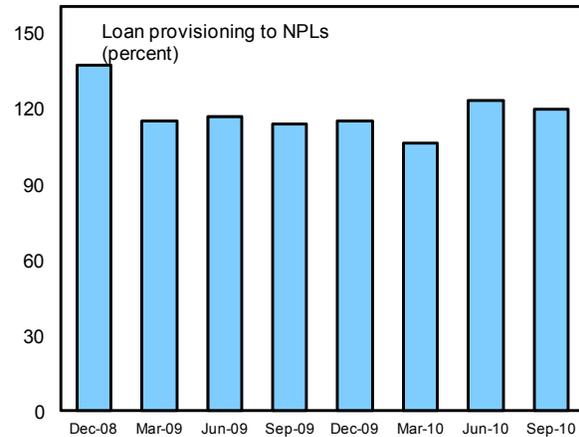
*... and holdings of liquid assets remain relatively high.*



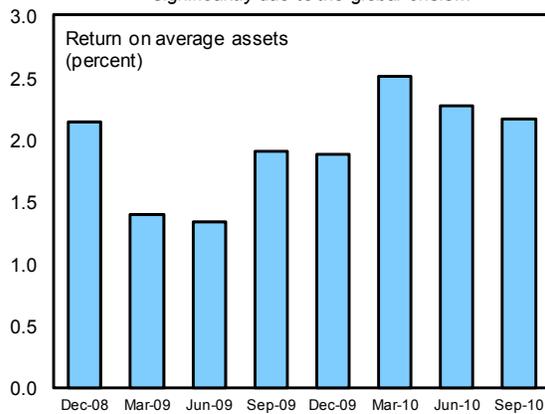
*Nonperforming loans edged up slightly due to the global economic crisis, but have fallen to pre-crisis levels...*



*... and provisioning weakened slightly relative to 2008.*



*Profitability gradually improved, after decreasing significantly due to the global crisis...*



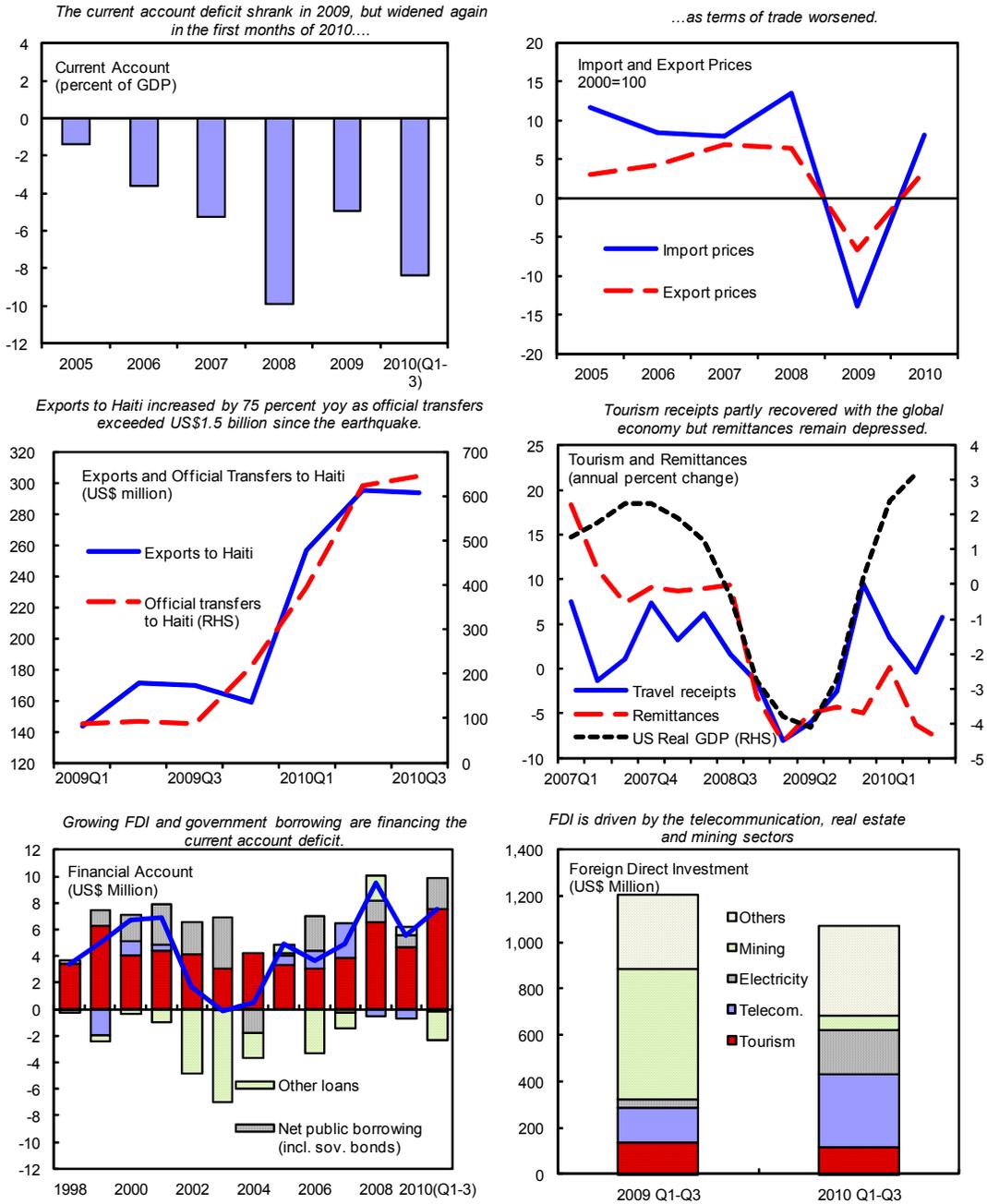
*...although operating expenses remain high relative to income.*



Sources: Dominican authorities; and Fund staff estimates.

Figure 6. Dominican Republic: External Sector Developments

The current account deteriorated in 2010, as terms of trade worsened and the domestic economy recovered. The growing current account deficit was primarily financed by FDI and government borrowing.



Source: Dominican Republic authorities and Fund Staff estimates.

- **Electricity sector clients.** The state-owned distribution companies (EDEs) have managed to convert more than 70 percent of users in the old PRA zones (i.e., users that receive indiscriminate subsidies within an area) into regularized clients, meeting the September 2010 structural benchmark of 1.9 million new clients with a margin of about 30,000 clients.

Dominican Republic: Structural Benchmarks		
Policy Action	Timing	Status
1. Design a strategy to develop domestic capital markets and debt management including by lowering the country risk and the borrowing costs for the economy	Sep 2010	● Fully met. Satisfactory strategy provided in late September 2010
2. Increase the number of regulated clients of the distribution companies (EDEs) to 1.9 million	Sep 2010	● Fully met. Number of clients increased to 1.93 million

Source: Dominican authorities and Fund staff estimates.

### C. Perspective

13. **Outlook.** The rapid recovery of the Dominican Republic's economy contrasts with other countries in the Caribbean and Central America which are experiencing much less robust growth. A large part of this success has been due to a diversification of trading partners (including a switch in tourism receipts away from the U.S. and Western Europe to Eastern Europe and South America), reduced reliance on remittances, and the ability to stimulate domestic demand. Looking ahead, the pace of economic growth is expected to decelerate, as fiscal and monetary stimulus is removed, but the economy should be able to maintain a rate of growth consistent with potential GDP. However, this will increasingly depend on private sector led investment and improving competitiveness in international markets.

14. **Risks.** The outlook presents balanced risks. Upside risk includes the reconstruction efforts in Haiti, which could continue providing a solid demand boost to the local economy, even as economic policy normalization proceeds. The strong momentum of domestic demand could persist for longer than expected, leading to some overheating. Downside risk may come from a slower than projected recovery in the international economy, which could affect foreign and local private investment and tourism. Finally, higher-than-expected oil prices also pose a risk, as the Dominican Republic's economy is highly dependent on imported fuels.

## II. POLICY DISCUSSIONS

15. **Focus.** Discussions focused on policies necessary to ensure that the end-2010 and 2011 targets are observed. The authorities were of the view that the program remains broadly adequate but noted that the budget situation was tight for the last quarter of 2010. With two supplementary budgets for 2010 issued to meet end-2010 targets, the 2011 budget sent to Congress fully in line with the program, the electricity tariff adjustment announced in late November and the Central Bank beginning its tightening phase,

Dominican Republic: Macroeconomic Framework				
	2009	Prog. 2010	Rev. Proj. 2010	Prog. 2011
(Annual percent change, unless noted)				
Real GDP	3.5	3-4	6½-7	5½-6
Output gap (% of potential)	-1.0	-5.1	-0.5	-0.4
Headline inflation (e.o.p)	5.8	6-7	6-7	5-6
Core inflation (e.o.p.)	3.2	...	4.5	5.5
(In percent of GDP)				
External current account	-4.6	-6.1	-7.5	-6.4
Primary fiscal balance 1/	-0.5	0.0	-0.1	1.1
Fiscal deficit 1/	-4.4	-3.9	-3.8	-3.0
Public debt 1/ 2/	36.9	37.2	35.7	35.3

Source: Dominican authorities and Fund staff estimates.  
 1/ Consolidated public sector.  
 2/ Excluding BCRD recapitalization bonds.

## Box 2. Dominican Republic: Strategy to Develop Domestic Debt Markets

After the financial crisis of 2003 the government faced significant obstacles in local debt markets which resulted in a high cost of debt and uncertainty in financing central government operations. The local market was dominated by central bank instruments (amounting to 15 percent of GDP), issued in 2003-04 to mop up liquidity injected into distressed banks and rescue depositors of failed banks. This issuance significantly fragmented the market, created competition for the central government, and led to uncertainty about the capitalization of the central bank. In addition, problems in budgetary management, cash forecasting, decentralized and poor control over expenditure, and failures to make timely payments to creditors and suppliers undermined the perceived creditworthiness of the central government.

Starting in 2004 the government began to address these issues. The Ministry of Finance committed itself to promptly honoring its local debts and issued bonds to cover arrears. It underwent organizational and functional restructuring to reform budgetary procedures and control expenditure. In January 2006 a new public credit law laid the basis for more orderly government financing. In 2005-06 the central government refinanced its external debt and placed a successful sovereign bond issue. In 2007 the government passed a law ensuring the recapitalization of the central bank.

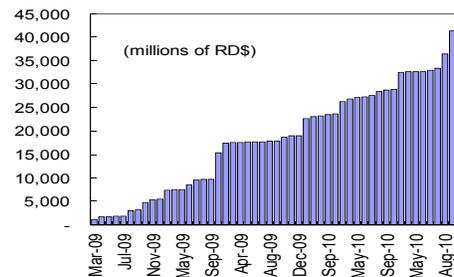
More recently, the Ministry of Finance began developing the local market for its paper, extending the local yield curve. In 2009 the government began to reform the primary market by publishing a calendar for issuance of standardized Ministry of Finance bonds (excluding bonds for recapitalization and settlement of arrears) and to lengthen maturities. The outstanding value of these standardized bonds has risen ten-fold from 0.2 percent of GDP in March 2009 to 2.2 percent of GDP in September 2010. At the same time, between 2009 and 2010 the maximum maturity has increased from three to ten years, while yields have steadily declined.

The strategy to develop local debt markets follows on these successes by improving primary and secondary market development to enhance the liquidity and depth of the market:

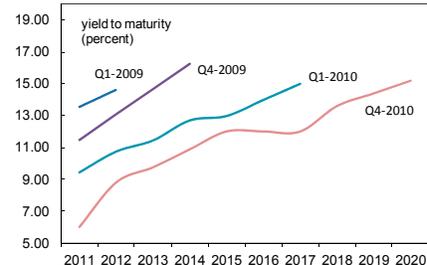
- **Primary market:** To improve the functioning of the primary market the Ministry of Finance will coordinate future debt issuance decisions with the BCRD; clarify the operational procedures for debt buy-backs and exchanges, and; initiate a program of market makers for 2011.
- **Secondary market:** To improve functioning of the secondary market, the authorities will develop the legal infrastructure for repos; dematerialize BCRD securities; facilitate the participation of foreign investors in the market by equalizing tax treatment and removing other obstacles, and; enhance the platform for secondary market trading through Bloomberg's Ebond system.

These actions are expected to continue to allow the Government to improve its debt management strategy. They will allow the Ministry of Finance to increasingly access the domestic market at interest rates that are in line with macroeconomic fundamentals, progressively substituting BCRD paper, which now dominates in the market, and possibly speeding up the process of central bank recapitalization

Dominican Republic: Ministry of Finance Standardized Bond Issuance



Dominican Republic: Domestic Market Yield Curves



all policy elements are in place to meet program targets. Two issues arose in measuring performance criteria: (i) small data revisions for end-December 2009 increased the deficit of the Central Administration and the Consolidated Public Sector; and (ii) extraordinary revenues (mostly illiquid) obtained by BCRD in the context of its asset recovery efforts required special treatment (Box 1).

### A. Macroeconomic Management

16. **Fiscal policy.** The program calls for a tightening of policies in the second half of the year. Given the deviations in tax collections and electricity subsidies with respect to original program projections, the bulk of the adjustment is being borne by retrenchment of public investment, deteriorating the quality of the adjustment. Staff's fiscal projections for 2010 are broadly the same in nominal terms as those made at the time of the second and third SBA reviews despite upward revisions to real GDP growth; this partly reflects temporary delays in implementing revenue measures. These projections are conservative to ensure that planned expenditures reflect the tighter revenue position and are in line with the end-2010 performance criteria. The 2011 fiscal stance in this review is unchanged compared to the third program review. The budget submitted to Congress in September 2010, and expected to be approved before end-2010, is fully consistent with the 2011 nominal revenue and expenditure projections shown in this report.

- **Revenues.** The authorities implemented administrative measures in September, estimated to increase revenues by 0.3 percent of GDP in the rest of 2010:
  - *Proindustria.* The VAT on imports from companies previously exempt under the Proindustria Law is now collected at customs for all companies benefitting from the exemption (previously only a critical mass of companies were involved). This has resulted in an increase in VAT collections from the companies under Proindustria of 30 percent for September (yoy). The estimated increase in revenues, as a result of this measure, is 0.1 percent of GDP for the rest of 2010.
  - *Withholding income tax.* Withholding on casino and lottery prize gains has been implemented. As a result, income tax revenue is expected to be in line with the program notwithstanding the reduction in corporate profits during 2009. This measure is expected to yield 0.1 percent of GDP.

<b>Dominican Republic: Fiscal Program</b>				
(In percent of GDP)				
		Rev.		
		Prog.	Proj.	Prog.
	2009	2010		2011
<b>Central Government</b>				
Revenues	13.7	14.3	13.7	13.8
o/w taxes	13.1	13.8	13.1	13.1
Expenditures	17.2	16.7	15.9	15.3
Current	13.6	12.3	12.2	11.6
Capital	3.6	4.4	3.7	3.7
<b>Overall balance</b>	<b>-3.5</b>	<b>-2.4</b>	<b>-2.3</b>	<b>-1.6</b>
Primary balance	-1.6	-0.2	-0.3	0.8
<b>Rest of Public Sector</b>				
Rest of NFPS	0.4	-0.1	-0.2	0.0
BCRD quasi-fiscal	-1.3	-1.4	-1.3	-1.4
<b>Consolidated Public Sector</b>				
<b>Overall balance</b>	<b>-4.4</b>	<b>-3.9</b>	<b>-3.8</b>	<b>-3.0</b>
Primary balance	-0.5	0.0	-0.1	1.1

Source: Dominican authorities and Fund staff estimates.

- *Indexation of specific taxes.* Reinstating indexation of the specific tax on hydrocarbons to inflation has been only partially implemented but is expected to be fully implemented by end 2010. However, the ad-valorem tax on hydrocarbons is likely to compensate for potential shortfalls arising from these delays as the price of oil has increased in the third quarter and is expected to remain high.
- ***Expenditures.*** A policy of expenditure restraint began to be implemented in the third quarter of 2010 and primary expenditures were below program projections in the three quarters to September 2010. The low level of tax collections continues to result in pressure for careful implementation of spending to meet the fiscal targets. The authorities agreed that there was little space for deviations from programmed levels of expenditure to meet the end-year fiscal targets.
  - *Administrative measures.* These measures are expected to reduce spending in goods and services (0.3 percent of GDP) and to keep most other expenditure items in line with the program during the last quarter of 2010.
  - *Capital expenditures.* There will be a need to reduce capital spending in the last quarter to ensure that fiscal targets are met. For the year as a whole, capital spending is expected to be some  $\frac{3}{4}$  of a percent of GDP below original program projections but similar to the level observed in 2009 in terms of GDP.
  - *Electricity transfers.* Authorities considered that the deviation in the electricity subsidy at the end of the year was a source of concern and the main risk to program targets. The recent increase in electricity tariffs of 11 percent across the board in December reduces, but does not eliminate, the risk of further deviations. The mission stressed the importance of adjusting prices to actual costs to limit indiscriminate subsidies.
- ***Revenue effort and investment.*** The authorities and staff reiterated understandings for 2011 under the previous letter of intent that call for more ambitious tax collections efforts with the understanding that such collections above the level of the program could be spent on public investment, leaving the program target for the fiscal outcome unchanged.
- ***Budgetary financing.*** The authorities and staff confirmed their understandings on the financing of the budget for 2011 and reiterated their intention to tap international capital markets again with issuance of at least US\$500 million.

17. **Monetary policy.** The monetary program remains appropriate and there was no need to modify the monetary targets. The recent increases in the policy rate are welcome given the strength of the economy and the closing output gap. Both rate increases were announced as preventive measures against inflation, given strong aggregate demand growth. The central bank has appropriately signaled that it is ready to continue removing policy accommodation to maintain its inflation forecast consistent with its target. Staff analysis (Box 3) suggests that to ensure inflation at 6 percent with a zero output gap the policy rate needs to rise further (estimates of the neutral interest rate are around 7 percent). The envisaged fiscal tightening will also help reduce aggregate demand pressures somewhat in the short run, and greater exchange rate flexibility in the current environment could also take some pressure off the pace of policy rate normalization going forward. The central bank is confident in achieving its inflation objectives and did not see risks in observing performance criteria on NDA and NIR for end-December 2010.

	2009	Rev.		2011
		Prog.	Proj.	
<b>Base money</b>	3.2	11.2	11.2	7.2
<b>Net domestic assets</b>	-9.0	25.0	24.9	0.1
Public sector (net)	-2.9	2.4	-4.4	5.2
Banks (net)	-20.5	-5.9	-32.3	-35.1
Private sector (non-bank)	-1.0	26.6	20.0	27.4
Other items (net)	15.4	1.9	41.6	2.6
<b>Net international reserves</b>	12.2	-13.8	-13.8	7.1

Source: Dominican authorities and Fund staff estimates.

18. **External policy.** Tighter monetary and fiscal policies are likely to reduce the current account deficit and attract private flows to sustain international reserves. The widening of the current account deficit is also expected to reverse in 2011 as the nickel mine will start exporting again in the second quarter and the gold mine in the last quarter of the year. Full capacity would be reached in 2012 and could increase export receipts by more than US\$1½ billion (about 3 percent of GDP). This will help reduce the current account deficit to 6½ percent of GDP in 2011 and 4½ percent of GDP in 2012. In parallel, net public sector borrowing is expected to decline. The central bank's commitment to increase flexibility of the exchange rate, within its managed floating regime, will help build credibility for the transition to inflation targeting, planned for early 2012.

	2009	Rev.		2011
		Prog.	Proj.	
<b>Current account</b>	-4.6	-7.0	-7.5	-6.4
Exports	11.8	12.3	12.7	12.8
Imports	-26.3	-28.5	-28.5	-27.6
Other	9.8	9.3	8.3	8.3
<b>Financial account</b>	5.5	5.9	6.5	6.9
Public sector (net)	1.7	2.6	2.1	1.6
Private sector (net) 1/	3.8	3.3	4.4	5.3
<b>Overall balance</b>	0.9	-1.0	-1.0	0.5

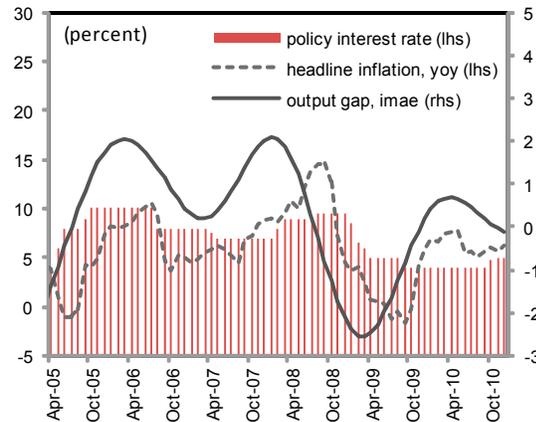
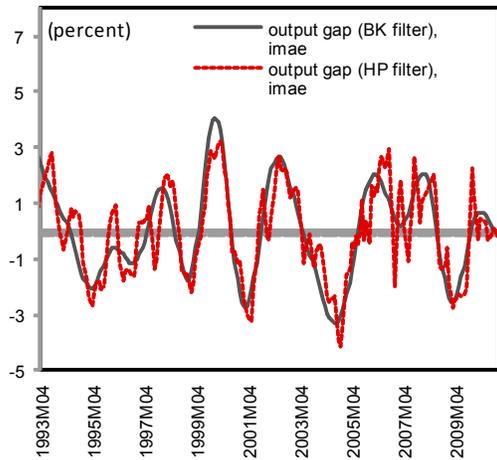
Source: Dominican authorities and Fund staff estimates.  
1/ Includes errors and omissions.

## B. Institutional Strengthening

19. **Tax issues.** Reforms are in train to strengthen tax collections through a rationalization of tax exemptions and improvements in tax administration. In line with the benchmarks under the program, the government is preparing two key measures to improve tax collection: (i) a decree to centralize power to grant tax exemptions in the Ministry of Finance; and (ii) the strengthening of the intelligence unit at the Ministry of Finance to analyze the system of exemptions, make recommendations for reform, and bolster coordination efforts between the domestic revenue administration and customs. A structural benchmark has been set under the program for March 2011 to conduct a cost-benefit analysis of the current system of

**Box 3. Dominican Republic: The Output Gap and the Monetary Stance**

**The output gap is rapidly closing.** The Index of Monthly Economic Activity (IMAE) points to an economy running close to capacity. The output gap measured by the percent difference between the IMAE and its potential (estimated using a Baxter and King filter and data from 1991 and 2012) shows that the output gap in 2010 is close to 0.4 percent. An alternative methodology (using an HP filter and the same data) points to an output gap for 2010 of -0.1 percent.



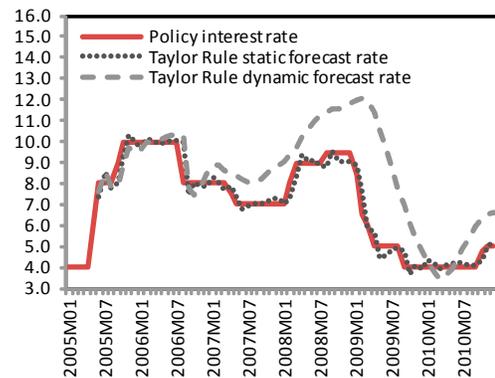
**The headline inflation has mostly followed the IMAE output gap with a lag.** A priori one would expect that a slowdown in economic activity, leading it to operate below capacity, is eventually translated into lower inflation and vice-versa. This relationship is clearly observed in Dominican Republic in the period of 2005-10 where the peaks and troughs in headline inflation have lagged the economic activity cycle by 4 to 8 months (which could reflect price rigidities).

**Dominican Republic: Reaction Function**

	Coefficient	
	Inflation	Output Gap
Taylor Rule	1.5	0.5
BCRD Rule (Est.)	1.3	2.3

Source: Fund staff estimates.

**A Taylor rule approach points to a broadly appropriate monetary stance thus far.** A Taylor Rule for Dominican Republic is estimated for the period of 2005-10 using lagged actual inflation and lagged output gap to explain movements in the policy rate. The results attribute a larger response of the interest rate to output gap changes than to inflation changes, but the high degree of interest rate smoothing during the sample period help explaining the policy rate dynamics. Over the medium-term, the inflation coefficient of 1.3 resembles a Taylor rule but a stronger DR output gap coefficient is found. With a zero output gap and inflation rate at 6 percent (sample average), an implied policy rate of 8 percent is obtained (against a sample average of 7¼ percent).



exemptions (which includes some 25 laws granting mostly open ended exemptions), assess the consistency between their objectives and the observed outcome, and make specific recommendations for their reform or elimination. In the interim, no new incentives would be granted without the explicit authorization of the Ministry of Finance.<sup>4</sup>

20. **Capital market development.** The government presented a strategy to develop local public debt markets and discussed a specific action plan to improve the functioning of the primary and secondary public bond markets (Box 2). An important first step in this direction—agreed by the authorities—is to improve the coordination of future debt issuance decisions between the Ministry of Finance and the Central Bank.<sup>5</sup> In the context of the action plan, staff recommended the authorities consider the possibility of using public debt management operations to transfer Central Bank debt (accumulated as a result of the 2003 banking crisis) to the Ministry of Finance, accelerating the recapitalization of the Central Bank. The authorities acknowledged the potential positive effects of the policy recommendation but mentioned that such proposal would require further analysis.

21. **Financial issues.** Progress continues towards: (i) adoption of an inflation targeting framework for monetary policy; and (ii) financial sector supervision reform with the final objective of implementing consolidated risk-based supervision. The authorities have presented a plan to transition to inflation-targeting by 2012 (observed structural benchmark for June 2010). They also presented a plan to adopt all Basel core principles for effective banking supervision in the medium-term (observed structural benchmark for March 2010). The authorities believe they are on track to meet various program benchmarks that were introduced from these plans. While advancing on all future benchmarks, BCRD is finalizing the groundwork for issuing new securities in a dematerialized form, after end-December 2010 (structural benchmark), and the Superintendency of Banks is coordinating with BCRD and other relevant authorities to finalize the drafts of the Monetary and Financial Law and the Financial and Industrial Conglomerates law with a view to send them to Congress by end-March 2011 (structural benchmark).

22. **Electricity reform.** While electricity reform has moved ahead in 2010, it has produced disappointing financial results with transfers to the sector over 50 percent above

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<sup>4</sup> The new unit will centralize information to cross check the granting of exemptions. Currently there is a wide dispersion of entities involved in the creation, approval and control of tax incentives. A new entity (usually an industry council) is created each time a law is issued to grant a tax incentive developing alongside vested interests to keep them for an open ended period. There is no integrated information system on tax incentives and they are processed and recorded manually with an unknown administrative cost.

<sup>5</sup> The Central Bank routinely issues notes and bonds in the domestic market to finance its quasi-fiscal deficit. This paper is currently used for secondary market trading in the interbank market and has a relatively high degree of liquidity. However, under current operations the Ministry of Finance and the Central Bank have been known to compete for the same investors in the local market, particularly in the first quarter of the year when financing needs for both institutions are higher.

original program projections. The change in the management of all the EDEs in September 2010 (by appointing highly reputable professionals with international experience) is a welcome development towards improving efficiency in the sector. The new management will likely play a key role in strengthening bill collection and improving the provision of service, resulting in a considerable reduction in the deficit of the last quarter of 2010 and onward. Nonetheless, as of end-September, transfers from the government to the state-owned electricity holding company (CDEEE) were beyond program projections for the year, partly due to higher fuel prices which are not reflected in tariffs. Notwithstanding the high deficit of the first 3 quarters of the year, the authorities believe that annual indiscriminate electricity subsidies in 2010 will be capped at the revised program level of US\$604 million, about 1.2 percent of GDP. The increase of electricity tariffs by 11 percent in December 2010 signals the authorities' resolve to reduce electricity sector losses. They also remain committed to further adjust tariffs in 2011 to achieve the "indexed" tariff level (reflecting changes in generation costs), which would be essential in continuing to lower losses. It is expected that all the reform efforts in the sector will lead to significant savings and a reduction in the current deficit to US\$350 million in 2011 (about 0.6 percent of GDP).<sup>6</sup>

### C. Poverty Alleviation

23. **Social policy.** The authorities remain committed to implement the conditional cash transfer program "*Solidaridad*". The program has two branches, the Food First Program (*Comer es Primero*) and School Attendance Incentive Program (*Incentivo a la Asistencia Escolar*).<sup>7</sup> There are 200,000 families that are eligible for the Food Comes First Program, but do not yet receive the benefit due to documentation constraints.<sup>8</sup> The authorities' objective is to include 60,000 additional families in the program by 2011 with priority given to the 14,000 families that live in extreme poverty. The targeted electricity subsidy program, BONOLUZ, is being expanded and the current (October 2010) number of clients amounted to 135 thousand, about half of the increase of clients targeted by end-December 2011.

### III. PROGRAM ISSUES

24. **LOI.** The attached letter of intent (LOI) reiterates the authorities' commitment to the program. Policies are on-track to meet the program targets for December 2010. The government submitted its 2011 Budget to the congress, in line with the fiscal targets described in the previous letter for intent, and is committed to moving towards a flexible electricity tariff starting in 2011 in order to safeguard the finances of the electricity sector.

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<sup>6</sup> In addition, the authorities are considering reducing government obligations with private electricity generators. Under the program definition, unpaid balances to generators cannot exceed 45 days. Given the high interest rate charged on these balances, the authorities intend to reduce these amounts, in which case the performance criterion on these unpaid balances would be measured with no delay (0 days) rather than the current 45 days.

<sup>7</sup> See Box 2 in the staff report for the first SBA review (IMF Country Report No. 11/70).

<sup>8</sup> The World Bank continues to work with the authorities to improve coverage of the program through providing documentation for the poorest of families.

No new structural benchmarks are being introduced, but the authorities remain committed to the structural policies mentioned in the LOI of October 7, 2010.

25. **TMU.** The BCRD concluded a complex asset recovery operation in September with the former owners of the defunct bank “*Bancredito*” on emergency lines of credit (highly provisioned by now) granted during the 2003 financial crisis (Box 1). This operation generated an unexpected transfer of financial and non-financial assets to the BCRD in the third quarter of 2010 of RD\$7.8 billion (0.4 percent of GDP) in excess of the previously provisioned value of the credit. Given that a large part of these assets is not liquid and there is uncertainty about their value, staff and the authorities agreed to consider about 20 percent of the transaction (0.08 percent of GDP) as financial revenue for program purposes. This is close to the value of the liquid assets transferred.<sup>9</sup> The mission and authorities also agreed to cap additional financial revenue from the sale of these assets (or other asset recovery operations) to US\$20 million per quarter for the rest of the program (as specified in the revised TMU). This approach would strike a balance between limiting the financing of additional spending with one-off revenues and giving credit to the BCRD for efforts recovering bad assets.

26. **MOU.** The authorities have agreed to modify the memorandum of understanding (MOU) between the BCRD and the Ministry of Finance delineating the responsibility of each agency to cover obligations with the Fund in the context of a reallocation of Fund resources between the BCRD and the Ministry of Finance. This agreement and the expected signing of this memorandum strengthen the safeguards assessment exercise (Box 4).

27. **Capacity to repay.** The Dominican Republic’s capacity to repay the Fund remains comfortable. Fund credit outstanding peaks at about 40 percent of net international reserves in 2011, but is projected to fall steadily thereafter to reach half that level by 2014. Repurchases and charges would rise to a relatively high level as a percent of debt service in 2014 (19 percent) but this reflects a projected decline in debt service as fiscal consolidation goes forward. The Dominican Republic’s debt burden is one of the lowest in the region, even after SBA purchases, and the government is fully committed to macroeconomic stability and prudent policies.

#### IV. STAFF APPRAISAL

28. **Overall.** Performance under the program continues to be uneven but satisfactory. The first phase of the program was successfully implemented. The objectives of conducting countercyclical policies and supporting aggregate demand were achieved. Economic growth increased from virtual stagnation in mid-2009 to about 7½ percent for most of 2010. While the second phase of the program had a difficult start with a delayed review, the authorities

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<sup>9</sup> Once the value of the recovered assets is better assessed—including by conducting partial sales—the profits can be recorded more accurately. BCRD believes that the value of the recovered assets is not lower than the current estimates given the meticulous due diligence conducted by them and their conservative valuations.

**Box 4. Dominican Republic: Safeguards Assessment of the BCRD**

**A safeguard assessment completed on June 1, 2010 reported solid progress since the previous assessment in 2005, but also found some remaining weaknesses.** Areas requiring attention include: (i) financial statements reporting where accounting policies are not fully based on international recognized standards; and (ii) the Monetary and Financial law where central bank autonomy needs strengthening.

**The safeguards assessment found important improvements.** In particular: (i) the former internal audit department was incorporated in the office of the Comptroller, and its independence was enhanced with the transfer of previous operational responsibilities to other areas of the bank; (ii) timely external audits of BCRD are now being conducted in accordance to international standards; and (iii) a memorandum of understanding was put in place between the BCRD and Ministry of Finance to clarify responsibilities for servicing obligations to the IMF.

**The accounting weaknesses include the preparation of financial statements that do not fully comply with the internationally recognized financial reporting standards (IFRS).** In addition there is no methodology for separately calculating realized from unrealized foreign currency gains/losses. The notes to the bank's financial statement disclose the differences between accounting practices but not their quantification. However, the authorities are already seeking reputable and experienced auditing consultants to quantify the difference between accounting practices and to suggest a methodology to prevent the risk of distribution of unrealized gains.

**The BCRD continues to be governed by the 2002 Monetary and Financial law (MFL).** The MFL contains some shortcomings as compared with current trends in central bank legislation. Recommended amendments include (i) the lengthening and staggering of appointment terms of the Monetary Board longer than the electoral cycle, (ii) the elimination of voting rights of the Minister of Finance, (iii) the involvement of bodies further to the President in the members appointment process of decision-making bodies, (iv) the explicit reference of the exclusive holding and management responsibility by the BCRD of the country's foreign reserves; and (v) the prohibition of distribution of unrealized gains by way of dividends in case of profits.

have taken corrective action (mostly in the form of two supplementary budgets cutting expenditures) to keep the program back on track and observe end-year targets.

29. **Fiscal.** Consolidation efforts seem to be on track for 2010. In the face of lower tax revenues, the authorities have made significant efforts to cut expenditure and meet fiscal targets. It is unfortunate that the strategy to raise tax revenues through improvements in tax and non-tax administration and the rationalization of exemptions has been delayed, leading to a deterioration in the quality of fiscal adjustment. For 2011, the authorities are working towards improving tax revenues, and the most likely outcome is that the conservative estimates for tax pressure under the program will be exceeded, providing more room for public investment. Nevertheless, one of the important vulnerabilities of the Dominican Republic's tax system remains its low yield, largely due to the complicated and highly disperse system of tax exemptions, which results in a high level of tax expenditure. The authorities' efforts in the next few months to improve the institutional capacity to analyze the costs and benefits of the current system of exemptions and to develop and implement a strategy for reform will be key to facilitate the pace of fiscal adjustment while maintaining or increasing the level of public expenditure on health, education and infrastructure.

30. **Monetary.** The central bank has started withdrawing the monetary policy accommodation as the output gap is closing. By and large, monetary policy was successful in facilitating the economic recovery and re-establishing credit flows. The central bank has a good track record of conducting monetary policy flexibly and credibly and stands ready to further tighten its stance as needed. As credit growth has picked up, the central bank should be mindful of its performance criterion on NDA. The government and the central bank should be commended for their efforts to transfer resources in support of the recapitalization of the central bank according to current legislation. Keeping the pace of recapitalization will foster central bank credibility to conduct monetary policy freely.

31. **Exchange rate.** Against the background of considerable liquidity in international financial markets and high risk appetite from investors, it is possible that the Dominican peso is exposed to appreciation pressures over the next months. The increasing interest rate differential with the U.S. dollar could add to this dynamic. It will be important to increase exchange rate flexibility to both accommodate these shocks and strengthen the credibility of the switch to inflation targeting. Greater flexibility could also take pressure off the pace of monetary policy normalization.

32. **Structural.** Progress in implementing the structural agenda continues. Reforms in the electricity sector are key to the success of the program. The authorities have taken some important steps to improve the management of the electricity distribution companies, and also raised tariffs by 11 percent across the board in December 2010. However, further efforts and concrete actions are needed to reach the ambitious target for the deficit in the sector of US\$350 million in 2011. It will be important to continue with the process of tariff reform in 2011 to implement a more flexible tariff regime to insulate the sector financially from fluctuations in the international price of oil. On the development of domestic capital markets there are many virtuous circles ongoing which could yield important dividends for the cost of financing going forward. A deeper and more liquid public debt market would provide opportunities for debt management operations that could hasten central bank recapitalization,

improve the overall structure and maturity of public debt, and provide an important benchmark for the development of a well-functioning private capital market. The government has come a long way in the last year in establishing a primary market for Ministry of Finance debt and improving its position in the local market. It will thus be important for the government to continue its efforts in this direction and the recently released strategy is very welcome in this regard.

33. **Risks.** The authorities' program faces manageable risks. On the one hand, the closing of the output gap is proceeding faster than expected, and the additional stimulus from exports to Haiti might risk some overheating. Should this occur, the program contemplates the removal of fiscal stimulus and in addition, the BCRD has the instruments to implement a more rapid monetary tightening, and has been willing to use them in the past. On the other hand, a weaker international environment could lead to a renewed widening of the output gap. The Dominican Republic does not have much additional fiscal space to use under these circumstances, but the pace of consolidation could be slowed. More difficult to manage would be the risk of slower-than-expected implementation of reforms in the electricity sector and tax exemptions. Delays in these reforms may come from vested interests and would represent a challenge to the will of the authorities to use political capital for these purposes. The space for creating political consensus seems to exist, given the ruling party's dominance in congress, but this could begin to narrow ahead of elections in May of 2012.

34. **Review.** Staff supports the completion of the fourth SBA review in light of the overall satisfactory performance.

Table 1. Dominican Republic: Quantitative Performance Criteria 2010-11 1/

	Prog.	Actual	Margin	Prog.	Actual	Margin	Prog.	Actual	Margin	Prog.	Prog.				
	Mar	Mar		Jun	Jun		Sep	Sep		Dec	Mar	Jun	Sep	Dec	
	2010										2011				
<b>Fiscal Targets</b>															
1. Overall balance of the central administration (floor) 2/ 3/	-73.7	-69.9	3.8 ✓	-88.4	-88.1	0.3 ✓	-95.8	-91.2	4.6 ✓	-102.3	-14.9	-21.3	-27.9	-33.5	
2. Overall balance of the consolidated public sector (floor) 2/ 3/	-97.5	-91.9	5.6 ✓	-119.5	-119.0	0.5 ✓	-133.0	-132.3	0.7 ✓	-147.0	-21.5	-35.6	-49.5	-63.8	
<b>Electricity Targets</b>															
3. Overall current balance of the public electricity sector (floor) 4/	...	-201.4	...	...	-279.6	...	...	...	...	...	-77.0	-145.2	-241.6	-350.0	
<b>Monetary Targets 4/</b>															
4. Net international reserves (floor) 5/	1,730	2,025	296 ✓	1,888	2,128	240 ✓	1,643	1,967	324 ✓	2,015	1,665	1,765	1,865	2,315	
5. Net domestic assets (ceiling) 3/	...	57.5	...	...	50.9	...	73.2	59.1	14.1 ✓	80.0	80.0	80.0	80.0	80.0	
<b>Debt Targets</b>															
6. Accumulation of public arrears with electricity generators (ceiling) 2/ 5/	0.0	0.0	0.0 ✓	0.0	0.0	0.0 ✓	0.0	91.2	91.2 X	0.0	0.0	0.0	0.0	0.0	
7. Accumulation of external public debt arrears 5/ 6/	0.0	0.0	0.0 ✓	0.0	0.0	0.0 ✓	0.0	0.0	0.0 ✓	0.0	0.0	0.0	0.0	0.0	

1/ Targets for end of the month, defined in the Technical Memorandum of Understanding.

2/ Cumulative flows from December 2008 for targets in 2010 and cumulative flows from December 2010 for targets in 2011.

3/ In billions of Dominican Republic pesos.

4/ Program targets are adjusted for shortfalls/excesses in external budgetary financing according to the Technical Memorandum of Understanding.

5/ In millions of U.S. dollars.

6/ Continuous target.

Table 2. Dominican Republic: Structural Benchmarks for 2009-11

Measure	Timing	SBA Approval	First Review	Second and Third Review	Status
<b>Public Sector Reform</b>					
A. Design a strategy to rationalize and limit tax exemptions, strengthen tax administration, and continue modernizing customs to achieve the medium-term revenue objectives of the program.	Mar 2010	☀			● <b>Done</b> Strategy provided on time.
B. Issue a decree to centralize the power to grant tax exemptions in the Ministry of Finance.	Dec 2010			☀	⚠ <b>In progress</b> Authorities are discussing a draft.
C. Create a unit at the Ministry of Finance to conduct cost-benefit analyses of current and future exemptions and make recommendations to the Minister of Finance on granting and rationalizing exemptions.	Dec 2010			☀	⚠ <b>In progress</b> Authorities are making administrative arrangements.
D. Prepare a list of additional revenue administration measures to yield 0.5 percent of GDP in 2011 with a timetable for their implementation.	Dec 2010			☀	⚠ <b>In progress</b> Authorities are finalizing a draft.
E. Prepare a report on the costs and benefits of the current exemption regime and a timetable for the rationalization and reduction of exemptions to help achieve the government's tax revenue target of 15 percent of GDP.	Mar 2011			☀	⚠ <b>In progress</b> Work at early stage.
<b>Financial Sector Reform</b>					
F. Design a plan to achieve compliance with all Basel core principles for effective bank supervision by 2012.	Mar 2010	☀			● <b>Done</b> Plan designed by Superintendency of Banks by March 2010.
G. Design a plan to formally adopt a full-fledged inflation targeting framework by early 2012.	Jun 2010	☀			● <b>Done</b> Plan designed by BCRD by June 2010.
H. New Central Bank securities will be dematerialized.	Dec 2010			☀	⚠ <b>In progress</b> Technical groundwork in progress.
I. Send to congress amendments to the Monetary and Financial Law to eliminate legal impediments to introduce the Basel core principles and risk based supervision.	Mar 2011			☀	⚠ <b>In progress</b> A draft law is being prepared.
J. Send to congress a new law on consolidated supervision of financial and industrial groups with a view to facilitate risk based supervision.	Mar 2011			☀	⚠ <b>In progress</b> A draft law is being prepared.
K. Publish the first monetary policy report under inflation target for informational purposes only.	Jun 2011			☀	⚠ <b>In progress</b> Work at early stage.
L. Publish a monetary program for 2012 (as established by law) within the new inflation target framework.	Dec 2011			☀	⚠ <b>In progress</b> Work at early stage.
<b>Recovery and Growth Enhancement</b>					
M. Design a strategy to reform the electricity sector, including by eliminating indiscriminate electricity subsidies to achieve the medium-term budgetary expenditure objectives of the program.	Dec 2009	☀			● <b>Done</b> Satisfactory action plan provided to Staff in December 2009.
N. Increase the number of regulated clients of the distribution companies (EDES) to 1.9 million.	Sep 2010		☀		● <b>Done</b> The number of regulated clients as of end-September 2010 was 1.93 million.
O. Design a strategy to develop domestic capital markets and debt management including by lowering the country risk and the borrowing costs for the economy.	Sep 2010	☀			● <b>Done</b> Presented a satisfactory strategy.
P. Adopt a flexible pricing mechanism for electricity tariffs with a view to eliminate the gap between current tariffs and the "indexed" tariff as defined by the Superintendency of Electricity.	Dec 2010		☀		⚠ <b>In progress</b> Tariffs were adjusted 11 percent across the board in November 2010. Tariffs will be further adjusted to reach indexed tariff in 2011.
Q. Increase the number of regulated clients of the electricity companies (EDEs) to 2.15 million.	Jun 2011			☀	⚠ <b>In progress</b> Work at early stage.
<b>Social Safety Net</b>					
R. Increase the permanent coverage of the conditional cash transfer program by 70,000 families living in extreme poverty.	Dec 2009	☀			● <b>Done</b> More than 70,000 families were incorporated into the Solidaridad program
S. Increase the coverage of the BONOLUZ program to 50 thousand clients.	Dec 2010		☀		● <b>Done</b> More than 100 thousand clients benefit from Bonoluz in July 2010.
T. Increase the coverage of the Bonoluz program from the 50,000 target of December 2010 to 250,000 clients.	Dec 2011			☀	⚠ <b>In progress</b> Work at early stage.
U. Increase the permanent coverage of the conditional cash transfer program (Solidaridad) by 60,000 additional families to 590,000 families.	Dec 2011			☀	⚠ <b>In progress</b> Work at early stage.

**Table 3. Dominican Republic: Selected Economic Indicators**

Main export products: tourism, textiles, nickel						Income share of highest	
GDP per capita (U.S. dollars, 2009 PPP)	4,500.2					10 percent (percent, 2006)	39.0
Population (millions, 2009 estimate)	10.1					Poverty (headcount index, 2008)	37.8
Life expectancy at birth (years, 2008)	73.3					Extreme poverty (headcount index, 2008)	11.7
Under 5 mortality rate (per thousand, 2008)	31.0					Adult literacy rate (percent, 2007)	95.1
	2008	2009	Prog. 2010	Proj. 2010	Proj. 2011		
<b>National accounts and prices</b>	<b>(12-month percentage changes, unless otherwise indicated)</b>						
Nominal GDP (RD\$ billion)	1,576	1,679	1,857	1,901	2,126		
Dollar GDP (US\$ billion)	45.5	46.7	50.1	51.9	55.8		
Real GDP	5.3	3.5	3.0-4.0	6.5-7.0	5.5-6.0		
Consumer price index (period average)	10.6	1.4	6.0-7.0	6.4	5.5		
Consumer price index (eop)	4.5	5.8	6.0-7.0	6.0-7.0	5.0-6.0		
Exchange rate (RD\$/US\$ - period average)	34.6	35.9	...	...	...		
Exchange rate (RD\$/US\$ - eop)	35.5	36.1	...	...	...		
<b>Social Indicators</b>							
Unemployment rate (in percent)	14.2	14.9	...	...	...		
<b>Public finances</b>	<b>(In percent of GDP)</b>						
Central government primary balance	-1.4	-1.6	-0.2	-0.3	0.8		
Total revenues (including grants)	15.8	13.7	14.3	13.7	13.8		
Primary spending	17.2	15.3	14.5	13.9	13.0		
Interest expenditure	1.7	1.9	2.2	2.0	2.3		
Nonfinancial public sector overall balance	-3.1	-3.1	-2.5	-2.5	-1.6		
Quasi-fiscal balance of the central bank	-1.3	-1.3	-1.4	-1.3	-1.4		
Consolidated public sector balance	-4.4	-4.5	-3.9	-3.8	-3.0		
<i>Of which: primary balance</i>	-0.9	-0.5	0.0	-0.1	1.1		
Total public debt	38.1	41.8	42.2	41.3	42.0		
<i>Of which: foreign currency denominated</i>	17.8	19.4	21.6	21.2	21.6		
Total public debt (excluding BCRD recapitalization bonds)	33.7	36.9	...	35.7	35.3		
<b>Money and credit</b>	<b>(12-month percentage changes, unless otherwise indicated)</b>						
Liabilities to private sector (M3)	8.7	10.0	10.3	13.0	10.1		
Currency issue	0.3	12.3	11.0	10.8	9.8		
Deposits	10.5	14.7	24.2	21.1	21.3		
Net domestic assets of the banking system	17.1	8.8	16.6	21.9	9.8		
Credit to the private sector	7.0	7.2	14.9	17.5	13.9		
M3, in percent of GDP	35.3	36.4	36.3	36.4	35.8		
<b>Balance of payments</b>	<b>(In millions of U.S. dollars, unless otherwise indicated)</b>						
Current account	-4,519	-2,159	-3,493	-3,903	-3,542		
Merchandise trade balance	-9,245	-6,741	-8,140	-8,226	-8,221		
Exports	6,748	5,519	6,152	6,572	7,159		
Imports	-15,993	-12,260	-14,291	-14,798	-15,379		
<i>Of which: oil and gas</i>	-4,241	-2,641	-3,384	-3,465	-3,544		
Services and transfers (net)	4,727	4,582	4,646	4,322	4,679		
<i>Of which: interest on public debt</i>	-372	-427	-525	-412	-544		
Capital and financial account	4,209	2,655	2,967	3,377	3,842		
<i>Of which: foreign direct investment</i>	2,870	2,067	1,354	1,530	1,990		
Errors and omissions	-16	-90	0	0	0		
Overall balance	-326	406	-526	-526	300		
<i>Of which: change in NIR (increase -)</i>	230	-370	523	523	-300		
Current account (in percent of GDP)	-9.9	-4.6	-7.0	-7.5	-6.4		
Exports of goods (in US\$, annual percentage chg.)	-5.8	-18.2	11.5	19.1	8.9		
Imports of goods (in US\$, annual percentage chg.)	17.6	-23.3	16.6	20.7	3.9		
<b>International reserve position and external debt</b>							
Gross official reserves	2,662	3,303	3164.1	3,157	3,954		
(in months of imports) 1/	2.3	2.4	2.4	2.2	2.5		
Net international reserves 2/	2,165	2,535	2,015	2,015	2,315		
Outstanding external public debt, in percent of GDP	18.3	20.0	18.1	21.6	19.5		
Oil price (WEO) (US\$/bbl)	97.0	61.8	78.3	77.1	80.0		

Sources: Dominican authorities; World Bank; and Fund staff estimates.

1/ In relation to imports of goods and nonfactor services of the following year.

2/ The projections for 2010-12 assume that all prospective purchases under the proposed SBA will be made to meet the gross reserves objectives of the balance of payments projections.

**Table 4. Dominican Republic: Fiscal Accounts**  
(In percent of GDP)

	2008	2009		2010		2011		Prog. 2011
		Previous	Revised	Prog. Jan-Sep	Actual	Prog. Jan-Dec	Proj.	
<b>A. Central Government</b>								
<b>Total revenue and grants</b>	<b>15.8</b>	<b>13.7</b>	<b>13.7</b>	<b>10.6</b>	<b>10.1</b>	<b>14.3</b>	<b>13.7</b>	<b>13.8</b>
<b>Total revenue</b>	<b>15.7</b>	<b>13.5</b>	<b>13.5</b>	<b>10.4</b>	<b>10.1</b>	<b>14.1</b>	<b>13.6</b>	<b>13.6</b>
Tax revenues	15.0	13.1	13.1	10.2	9.6	13.8	13.1	13.1
Income and property 1/	4.5	3.9	3.9	2.9	2.8	3.9	3.8	3.7
VAT	4.7	4.2	4.2	3.1	3.2	4.2	4.3	4.2
Excises	4.1	3.7	3.7	2.9	2.7	4.0	3.6	3.8
International trade	1.6	1.3	1.3	1.3	0.9	1.8	1.4	1.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	0.7	0.3	0.3	0.2	0.4	0.3	0.5	0.5
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grants</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>
<b>Primary expenditures 2/</b>	<b>17.2</b>	<b>15.2</b>	<b>15.3</b>	<b>11.3</b>	<b>10.5</b>	<b>14.5</b>	<b>13.9</b>	<b>13.0</b>
Wages and salaries	3.8	4.1	4.1	2.5	2.6	3.8	3.8	3.7
Goods and services	2.1	1.8	1.8	1.5	1.2	2.0	1.6	1.5
Transfers, o/w:	7.1	5.5	5.5	3.5	3.5	4.4	4.8	4.1
Gas subsidy	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity transfers	2.7	1.3	1.4	0.6	0.7	0.8	1.2	0.6
Other	3.9	4.2	4.1	3.0	2.8	3.6	3.6	3.4
Capital expenditure	5.0	3.6	3.6	3.7	3.3	4.4	3.7	3.7
Statistical discrepancy 2/	-0.6	0.3	0.3	0.0	-0.1	0.0	0.0	0.0
<b>Primary balance</b>	<b>-1.4</b>	<b>-1.6</b>	<b>-1.6</b>	<b>-0.7</b>	<b>-0.5</b>	<b>-0.2</b>	<b>-0.3</b>	<b>0.8</b>
<b>Interest</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>	<b>1.3</b>	<b>1.3</b>	<b>2.2</b>	<b>2.0</b>	<b>2.3</b>
Foreign	0.8	0.7	0.7	0.5	0.4	0.9	0.8	0.8
Domestic 3/	0.8	1.2	1.2	0.8	0.8	1.3	1.2	1.5
<b>Overall balance</b>	<b>-3.0</b>	<b>-3.5</b>	<b>-3.5</b>	<b>-2.0</b>	<b>-1.7</b>	<b>-2.4</b>	<b>-2.3</b>	<b>-1.6</b>
<b>B. Rest of the Non-Financial Public Sector</b>								
<b>Overall balance rest of NFPS</b>	<b>-0.1</b>	<b>0.4</b>	<b>0.4</b>	<b>-0.1</b>	<b>-0.4</b>	<b>-0.1</b>	<b>-0.2</b>	<b>0.0</b>
<b>C. Non-Financial Public Sector (A+B)</b>								
<b>Overall balance NFPS</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-2.1</b>	<b>-2.1</b>	<b>-2.5</b>	<b>-2.5</b>	<b>-1.6</b>
Primary balance	-1.5	-1.2	-1.2	-0.8	-0.9	-0.4	-0.5	0.8
Interest	1.7	1.9	1.9	1.3	1.2	2.2	2.0	2.3
<b>Financing NFPS</b>	<b>3.1</b>	<b>3.1</b>	<b>3.1</b>	<b>2.1</b>	<b>2.1</b>	<b>2.5</b>	<b>2.5</b>	<b>1.6</b>
External financing	0.2	2.1	2.1	2.2	1.7	2.9	3.2	1.9
Domestic financing	1.9	1.6	1.0	0.0	0.4	-0.4	-0.7	-0.4
<b>D. Central Bank</b>								
<b>Quasi-fiscal balance of the central bank</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-1.0</b>	<b>-0.9</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-1.4</b>
Of which: non interest	0.6	0.7	0.7	0.3	0.3	0.3	0.4	0.3
<b>E. Consolidated Public Sector (C+D)</b>								
<b>Consolidated public sector balance</b>	<b>-4.4</b>	<b>-4.4</b>	<b>-4.5</b>	<b>-3.2</b>	<b>-3.0</b>	<b>-3.9</b>	<b>-3.8</b>	<b>-3.0</b>
Primary balance	-0.9	-0.5	-0.5	-0.6	-0.6	0.0	-0.1	1.1
Interest	3.6	3.9	3.9	2.6	2.4	3.9	3.7	4.2
<b>Memorandum items:</b>								
Interest for central bank recapitalization	0.6	0.7	0.7	0.6	0.5	0.8	0.8	0.9
Primary spending excl. electricity and gas	14.1	13.9	13.9	10.7	9.8	13.7	12.7	12.4
Overall spending by central government	18.9	17.1	17.2	12.6	11.8	16.7	16.0	15.4
Nominal GDP (DR\$ billion)	1576	1678	1678	1857	1884	1857	1901	2126
Real GDP Growth (percent)								

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes social security contributions.

2/ Primary expenditures include the difference between financing below the line and the overall balance above the line.

3/ Includes interest payments on Central Bank recapitalization bonds.

**Table 5. Dominican Republic: Fiscal Accounts**  
(In billions of Dominican pesos)

	2008	Previous	Revised	Prog.	Actual	Prog.	Proj.	Prog. 2011
		2009		2010		2010		
				Jan-Sep		Jan-Dec		
<b>A. Central Government</b>								
<b>Total revenue and grants</b>	<b>249.8</b>	<b>229.4</b>	<b>229.7</b>	<b>196.1</b>	<b>191.3</b>	<b>265.2</b>	<b>259.8</b>	<b>293.2</b>
<b>Total revenue</b>	<b>246.9</b>	<b>225.8</b>	<b>226.2</b>	<b>193.4</b>	<b>189.4</b>	<b>261.6</b>	<b>257.8</b>	<b>289.3</b>
Tax revenues	236.2	220.0	220.3	190.1	181.8	255.6	248.3	277.7
Income and property 1/	71.5	66.0	66.0	54.7	53.3	72.4	71.6	78.1
VAT	74.7	69.9	69.9	58.1	60.4	77.2	81.8	90.2
Excises	64.9	62.2	62.9	53.4	51.1	73.4	68.9	80.9
International trade	25.0	21.9	21.9	23.9	17.1	32.6	26.1	28.5
Other	0.0	3.5	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	10.7	5.8	5.8	3.4	7.6	6.0	9.5	11.7
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Grants</b>	<b>2.9</b>	<b>3.5</b>	<b>3.5</b>	<b>2.7</b>	<b>1.8</b>	<b>3.6</b>	<b>2.0</b>	<b>3.9</b>
<b>Primary expenditures 2/</b>	<b>271.3</b>	<b>255.4</b>	<b>256.4</b>	<b>209.6</b>	<b>200.0</b>	<b>268.9</b>	<b>264.6</b>	<b>276.8</b>
Wages and salaries	59.5	68.5	68.5	47.0	50.1	69.7	72.3	78.8
Goods and services	32.5	29.6	29.6	27.4	23.0	36.2	31.0	32.9
Transfers, o/w:	111.4	92.9	92.8	65.8	66.3	80.8	90.6	86.2
Gas subsidy	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity transfers	41.9	21.7	23.9	10.9	13.1	14.5	22.4	13.6
Other	61.8	71.2	68.9	54.9	53.2	66.3	68.2	72.6
Capital expenditure	78.1	60.0	60.0	69.5	63.5	82.1	70.7	78.9
Statistical discrepancy 2/	0.0	4.4	5.5	0.0	-3.3	0.0	0.0	0.0
<b>Primary balance</b>	<b>-21.5</b>	<b>-26.0</b>	<b>-26.7</b>	<b>-13.5</b>	<b>-8.7</b>	<b>-3.7</b>	<b>-4.8</b>	<b>16.4</b>
<b>Interest</b>	<b>26.1</b>	<b>32.0</b>	<b>32.0</b>	<b>24.3</b>	<b>23.9</b>	<b>40.6</b>	<b>38.9</b>	<b>49.9</b>
Foreign	12.4	11.3	11.3	8.7	8.5	16.5	15.7	17.9
Domestic 3/	13.6	20.7	20.7	15.7	15.4	24.1	23.2	32.0
<b>Overall balance</b>	<b>-47.6</b>	<b>-58.0</b>	<b>-58.6</b>	<b>-37.8</b>	<b>-32.6</b>	<b>-44.3</b>	<b>-43.7</b>	<b>-33.5</b>
<b>B. Rest of the Non-Financial Public Sector</b>								
<b>Overall balance rest of NFPS</b>	<b>-1.7</b>	<b>6.2</b>	<b>6.2</b>	<b>-2.0</b>	<b>-7.8</b>	<b>-3.0</b>	<b>-4.6</b>	<b>0.0</b>
<b>C. Non-Financial Public Sector (A+B)</b>								
<b>Overall balance NFPS</b>	<b>-49.3</b>	<b>-51.7</b>	<b>-52.4</b>	<b>-39.8</b>	<b>-40.4</b>	<b>-47.3</b>	<b>-48.3</b>	<b>-33.5</b>
Primary Balance	-23.2	-19.8	-20.4	-15.5	-17.2	-6.7	-9.4	16.4
Interest	26.1	32.0	32.0	24.3	23.1	40.6	38.9	49.9
<b>Financing NFPS</b>	<b>49.3</b>	<b>51.7</b>	<b>52.4</b>	<b>39.8</b>	<b>40.4</b>	<b>47.3</b>	<b>48.3</b>	<b>33.5</b>
External financing	24.3	34.9	35.6	41.5	31.9	55.3	61.3	40.8
Domestic financing	30.7	26.3	16.7	-2.0	8.4	-8.3	-13.1	-7.4
<b>D. Central Bank</b>								
<b>Quasi-fiscal balance of the central bank</b>	<b>-20.7</b>	<b>-22.4</b>	<b>-22.4</b>	<b>-19.0</b>	<b>-17.1</b>	<b>-25.5</b>	<b>-23.9</b>	<b>-30.3</b>
Of which: non interest	9.1	11.6	11.6	4.8	5.3	6.4	6.9	8.4
<b>E. Consolidated Public Sector (C+D)</b>								
<b>Consolidated public sector balance</b>	<b>-70.0</b>	<b>-74.2</b>	<b>-74.8</b>	<b>-58.8</b>	<b>-57.5</b>	<b>-72.8</b>	<b>-72.2</b>	<b>-63.8</b>
Primary Balance	-14.1	-8.2	-8.8	-10.7	-11.2	-0.3	-2.5	24.8
Interest	56.0	66.0	66.0	48.1	46.3	72.5	69.7	88.6
<b>Memorandum items:</b>								
Interest for central bank recapitalization	9.1	12.4	12.4	10.9	10.2	14.5	14.5	18.9
Primary spending excl. electricity and gas	221.3	233.7	232.5	198.8	186.9	254.4	242.2	263.1
Overall spending by central government	297.0	287.4	288.3	233.9	223.9	309.5	303.5	326.7

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes social security contributions.

2/ Primary expenditures include the difference between the financing below the line and the overall balance registered above the line.

3/ Includes interest payments on Central Bank recapitalization bonds.

**Table 6. Dominican Republic: Public Sector Gross Financing Requirements and Sources 1/**  
(In millions of U.S. dollars)

	2009	2010		2011		2011
		Prog. Jan-Sep	Actual	Prog. Jan-Dec	Proj.	
<b>Gross Financing Requirements</b>	<b>2,579</b>	<b>2,064</b>	<b>2,380</b>	<b>2,531</b>	<b>3,038</b>	<b>2,617</b>
Non-Financial Public Sector Deficit	1,440	1,061	1,101	1,193	1,315	880
Amortizations	841	1,003	1,279	1,337	1,723	1,737
Floating Debt	298	0	0	0	0	0
<b>Financing Sources</b>	<b>2,576</b>	<b>2,064</b>	<b>2,380</b>	<b>2,531</b>	<b>3,038</b>	<b>2,617</b>
<b>External</b>	<b>1,893</b>	<b>1,923</b>	<b>1,389</b>	<b>2,135</b>	<b>2,371</b>	<b>1,826</b>
Budget Support	1,120	523	66	575	926	503
World Bank	350	150	0	150	150	70
IDB	450	230	27	245	367	183
CAF	20	30	0	30	0	0
IMF	300	113	38	150	408	250
Project Financing	533	605	281	700	365	543
Petrocaribe	240	195	292	260	330	280
Sovereign Bonds	0	600	750	600	750	500
<b>Domestic</b>	<b>683</b>	<b>141</b>	<b>992</b>	<b>396</b>	<b>667</b>	<b>791</b>
Bonds	213	62	527	317	527	556
Banking system	470	0	345	0	21	235
Other	0	79	120	79	120	0
<b>Gap</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Sources: Dominican authorities; and Fund staff estimates.

1/ Non-financial public sector.

**Table 7. Dominican Republic: Quasi-fiscal Balance of the Central Bank**

(In billions of Dominican pesos, unless otherwise specified)

	2008	2009	Proj.		Prog.
			Jan-Sep	Jan-Dec	2011
	2010				
<b>Revenues</b>	<b>13.7</b>	<b>17.0</b>	<b>12.5</b>	<b>17.5</b>	<b>20.6</b>
Interest	13.4	15.8	11.0	15.9	20.5
International reserves	3.7	1.3	1.0	1.1	1.3
BCRD recapitalization	9.2	12.9	9.7	14.5	18.9
Other	0.6	1.5	0.2	0.4	0.3
Other revenues	0.3	1.2	1.6	1.6	0.1
<b>Expenditures</b>	<b>34.5</b>	<b>39.4</b>	<b>29.7</b>	<b>41.4</b>	<b>50.9</b>
Administrative	4.2	5.1	3.9	5.6	8.3
Interest	29.8	34.0	25.6	35.6	38.7
Securities	26.8	31.9	24.3	33.7	36.5
Other	3.0	2.1	1.3	1.9	2.2
Cost of issuing money bills	0.4	0.3	0.2	0.2	0.1
Other expenditures	0.1	0.0	0.0	0.0	3.8
<b>Quasi-fiscal balance</b>	<b>-20.7</b>	<b>-22.4</b>	<b>-17.1</b>	<b>-23.9</b>	<b>-30.3</b>
	(Percent of GDP)				
<b>Revenues</b>	<b>0.9</b>	<b>1.0</b>	<b>0.7</b>	<b>0.9</b>	<b>1.0</b>
Interest	0.9	0.9	0.6	0.8	1.0
International reserves	0.2	0.1	0.1	0.1	0.1
BCRD recapitalization	0.6	0.8	0.5	0.8	0.9
Other	0.0	0.1	0.0	0.0	0.0
Other revenues	0.0	0.1	0.1	0.1	0.0
<b>Expenditures</b>	<b>2.2</b>	<b>2.3</b>	<b>2</b>	<b>2.2</b>	<b>2.4</b>
Administrative	0.3	0.3	0.2	0.3	0.4
Interest	1.9	2.0	1.3	1.9	1.8
Securities	1.7	1.9	1.3	1.8	1.7
Other	0.2	0.1	0.1	0.1	0.1
Printing money bills	0.0	0.0	0.0	0.0	0.0
Other expenditures	0.0	0.0	0.0	0.0	0.0
<b>Quasi-fiscal balance</b>	<b>-1.3</b>	<b>-1.3</b>	<b>-0.9</b>	<b>-1.3</b>	<b>-1.4</b>
<b>Memo items:</b>					
Quasi-fiscal primary balance	9.1	11.6	8.5	11.7	8.4
In percent of GDP	0.6	0.7	0.4	0.6	0.4
Securities (eop)	192.8	202.1	211.0	225.6	217.7
In percent of GDP	12.2	12.0	11.1	11.9	10.4

Sources: BCRD, and Fund staff estimates.

**Table 8. Dominican Republic: Consolidated Accounts of the Public Electricity Sector**  
(In millions of U.S. dollars)

	2009	2010	Prog. 2011
<b>Revenue (A)</b>	<b>1,348.8</b>	<b>1,533.4</b>	<b>1,867.1</b>
Electricity Distribution Companies (EDE's)	<b>1,146.9</b>	<b>1,312.9</b>	<b>1,601.6</b>
Regular Clients	1,007.8	1,154.4	1,399.8
Priority Clients 1/	85.6	117.6	139.4
Municipalities	25.4	30.00	45.9
Others	28.1	11.0	16.4
CDEEE and Others 2/	<b>201.9</b>	<b>220.5</b>	<b>265.5</b>
Energy Sales	199.5	220.0	263.5
Other	2.4	0.5	2.0
<b>Current Expenditure (B)</b>	<b>2,093.1</b>	<b>2,137.4</b>	<b>2,217.1</b>
Electricity distribution Companies (EDE's)	<b>1,574.2</b>	<b>1,665.6</b>	<b>1,781.9</b>
Operating Costs	204.8	158.8	130.0
o/w Personnel	74.3	60.4	54.1
o/w Suppliers	109.7	86.0	65.4
o/w Others	20.8	12.4	10.5
Energy Purchases	1,311.5	1,454.9	1,595.9
Interests	32.5	35.0	24.0
Others	25.4	16.9	32.0
CDEEE and Others 2/	<b>518.9</b>	<b>471.8</b>	<b>435.2</b>
Operating Costs	82.9	40.0	40.0
Energy Purchases	397.6	382.3	347.2
Interests	38.4	49.5	48.0
<b>Current Balance (C=A-B)</b>	<b>-744.3</b>	<b>-604.0</b>	<b>-350.0</b>
<b>Capital Expenditure (D)</b>	<b>248.5</b>	<b>112.0</b>	<b>119.0</b>
Electricity Distribution Companies (EDE's)	<b>78.2</b>	<b>50.0</b>	<b>70.0</b>
CDEEE and Others 2/	<b>170.3</b>	<b>62.0</b>	<b>49.0</b>
<b>Overall Balance (E=C-D)</b>	<b>-992.8</b>	<b>-716.0</b>	<b>-469.0</b>
<b>Financing</b>	<b>992.8</b>	<b>716.0</b>	<b>469.0</b>
<b>Current Financing</b>	<b>744.3</b>	<b>604.0</b>	<b>350.0</b>
Government Transfers	606.0	706.0	330.0
Bonoluz	28.5	0.0	20.0
Net Credit from the Banking System	43.2	0.0	0.0
Accumulation of Arrears (Net) 3/	102.0	0.0	0.0
Payment of Arrears of the Previous Years	-35.4	-102.0	0.0
<b>Capital Financing</b>	<b>248.5</b>	<b>112.0</b>	<b>119.0</b>
Externally Financed	170.3	69.0	49.0
Domestically Financed	78.2	43.0	70.0
o/w Government Transfers	66.6	0.0	30.0
o/w with Own Resources	11.6	43.0	40.0

1/ Clients that by law cannot be cut off from electricity supply.

2/ Includes EGEHID, ETED and UERS.

3. Under the definition of zero days of arrears to private electricity generators.

**Table 9. Dominican Republic: Summary Accounts of the Monetary Authority 1/**

(In billions of Dominican pesos, unless otherwise specified)

	2008	2009	Prog.	Actual	Prog.	Proj.	Prog.	
			2010 2/		2011 2/			
			Sep	Dec				
<b>Monetary base</b>	<b>133.8</b>	<b>138.1</b>	<b>133.9</b>	<b>130.2</b>	<b>153.5</b>	<b>153.5</b>	<b>164.5</b>	
Currency issue	62.5	70.2	60.6	62.0	77.9	77.7	85.5	
Reserve requirements (peso deposits)	71.3	67.9	73.3	68.1	75.6	75.8	79.0	
<b>Net international reserves</b>	<b>76.3</b>	<b>92.6</b>	<b>68.1</b>	<b>70.2</b>	<b>73.6</b>	<b>73.6</b>	<b>84.5</b>	
(In millions of U.S. dollars) 3/	2165.4	2538.4	1865.4	1924.1	2015.4	2015.4	2315.4	
<b>Net domestic assets</b>	<b>57.5</b>	<b>45.4</b>	<b>65.8</b>	<b>60.0</b>	<b>80.0</b>	<b>80.0</b>	<b>80.0</b>	
Nonfinancial public sector (net) 4/	4.6	0.7	4.0	2.6	4.0	-5.4	3.5	
Central government	1.6	-2.3	1.0	-0.5	1.0	-8.5	-0.4	
Rest of NFPS	3.0	3.0	3.0	3.1	3.0	3.1	3.9	
Commercial banks (net)	-51.2	-77.7	-97.8	-105.3	-85.8	-122.3	-156.7	
Monetary control notes and bills	-25.6	-36.7	-57.6	-67.0	-43.7	-89.1	-108.9	
Reserve requirements (FX deposits)	-21.0	-24.6	-25.7	-27.4	-26.7	-27.5	-33.9	
Overnight facility	-15.5	-23.2	-21.4	-13.8	-22.2	-8.4	-19.9	
Liquidity support	10.9	6.8	6.8	3.0	6.8	2.6	6.0	
Nonfinancial private sector (certificates)	-160.9	-162.2	-126.1	-151.4	-125.5	-134.6	-92.6	
Other items (net)	264.4	284.6	285.7	314.0	287.3	342.3	325.9	
Capital account	280.7	290.1	297.0	297.0	301.1	299.6	312.4	
Cumulative losses	295.8	318.2	335.3	335.3	337.7	342.1	373.7	
Cumulative Government transfers	-15.1	-28.0	-38.3	-38.3	-36.6	-42.5	-61.4	
Medium and long term external liabilities	-10.5	-9.2	-9.0	-9.0	-9.3	-8.8	-8.9	
Peso counterpart to IMF budget support	0.0	11.4	16.6	12.8	17.9	26.0	35.2	
Other, net	-5.8	-7.8	-18.9	13.3	-22.4	25.6	-12.9	
			<b>(Percentage change, y-o-y)</b>					
Memorandum items:								
Monetary base	20.3	3.2	12.3	9.2	11.2	11.2	7.2	
Currency issue	0.3	12.3	9.2	11.8	11.0	10.8	9.8	
Quasi-fiscal balance (in percent of GDP)	-1.3	-1.3	-0.9	-0.9	-1.4	-1.3	-1.4	

Sources: Dominican authorities; and Fund staff estimates.

1/ Central Bank's balance sheet is adjusted to incorporate the reserve liabilities from the IMF budgetary support.

2/ Foreign currency denominated accounts valued at DR\$36.5 per U.S. dollar for December 2009 and onwards..

3/ Projections for 2010-12 assume that all SBA purchases are made.

4/ Excludes transactions related to Central Bank recapitalization.

**Table 10. Dominican Republic: Summary Accounts of the Banking System**

(In billions of Dominican pesos, unless otherwise specified)

	2008	2009	Prog.	Actual	Prog.	Proj.	Proj.
			Sep	2010 1/	Dec	2011 2/	
<b>Central Bank 2/</b>							
<b>Monetary base</b>	<b>133.8</b>	<b>138.1</b>	<b>133.9</b>	<b>130.2</b>	<b>153.5</b>	<b>153.5</b>	<b>164.5</b>
Currency issue	62.5	70.2	60.6	62.0	77.9	77.7	85.5
Reserve requirements (peso deposits)	71.3	67.9	73.3	68.1	75.6	75.8	79.0
<b>Net international reserves</b>	<b>76.3</b>	<b>92.6</b>	<b>68.1</b>	<b>70.2</b>	<b>73.6</b>	<b>73.6</b>	<b>84.5</b>
(In millions of U.S. dollars) 3/	2165.4	2538.4	1865.4	1924.1	2015.4	2015.4	2315.4
<b>Net domestic assets</b>	<b>57.5</b>	<b>45.4</b>	<b>65.8</b>	<b>60.0</b>	<b>80.0</b>	<b>80.0</b>	<b>80.0</b>
Nonfinancial public sector (net) 4/	4.6	0.7	4.0	2.6	4.0	-5.4	3.5
Commercial banks (net)	-51.2	-77.7	-97.8	-105.3	-85.8	-122.3	-156.7
Nonfinancial private sector (certificates)	-160.9	-162.2	-126.1	-151.4	-125.5	-134.6	-92.6
Other items (net)	264.4	284.6	285.7	314.0	287.3	342.3	325.9
<b>Banking System 6/</b>							
<b>Net foreign assets</b>	<b>101.9</b>	<b>117.5</b>	<b>89.4</b>	<b>91.8</b>	<b>98.5</b>	<b>89.0</b>	<b>99.9</b>
(In millions of U.S. dollars)	2886.1	3226.7	2450.4	2505.4	2698.9	2438.3	2738.3
<b>Net domestic assets</b>	<b>454.5</b>	<b>494.4</b>	<b>582.6</b>	<b>545.0</b>	<b>576.5</b>	<b>602.6</b>	<b>661.5</b>
Net credit to the nonfinancial public sector 4/	30.8	53.1	57.4	51.1	60.0	45.9	49.5
Credit to the private sector	277.3	297.2	329.2	333.2	341.5	349.1	397.7
Other assets net (includes valuation effects)	146.4	144.1	196.0	160.7	175.0	207.6	214.3
<i>Of which</i> : Recapitalization account	262.6	278.1	295.0	303.6	299.8	298.3	327.5
Medium- and long-term external liabilities of Central Bank	-10.5	-9.2	-8.9	-9.0	-9.3	-8.8	-8.8
Capital and accumulated surplus	6.2	5.4	-8.1	-10.9	11.4	7.2	7.3
<b>M3</b>	<b>556.4</b>	<b>611.8</b>	<b>672.1</b>	<b>636.8</b>	<b>675.0</b>	<b>691.6</b>	<b>761.4</b>
Currency in circulation	51.7	56.3	51.0	50.5	60.5	62.3	68.5
Deposits	220.2	247.6	288.6	285.6	299.3	311.2	343.0
Central bank certificates held outside banks	174.3	176.5	161.0	172.9	143.9	170.3	136.2
Commercial bank certificates held by the public 7/	110.2	131.4	171.4	127.8	171.4	147.8	213.7
<b>(Percentage change, y-o-y)</b>							
Memorandum items:							
Credit to the private sector	7.0	7.2	16.5	17.9	14.9	17.5	13.9
Deposits and commercial bank certificates	10.5	14.7	16.7	15.9	24.2	21.1	21.3
M3	8.7	10.0	15.0	9.0	10.3	13.0	10.1
M3 Velocity	2.8	2.7	2.7	3.0	2.8	2.7	2.8

Sources: Dominican authorities; and Fund staff estimates.

1/ Foreign currency denominated accounts valued at DR\$36.5 per U.S. dollar for December 2009 and onwards.

2/ Central Bank's balance sheet is adjusted to incorporate the reserve liability from the IMF budgetary support.

3/ Projections for 2010-12 assume that all SBA purchases are made.

4/ Excludes transactions related to Central Bank recapitalization.

5/ Includes transactions related to Central Bank recapitalization.

6/ Includes the Central Bank, Banco de Reservas, and all other multiple banks. Excludes other financial institutions.

7/ For 2011 and onwards, projections assume that private banks issue certificates to the public, so that the sum of certificates of the banking system in hands of the public, increases at least by 10 percent, annually.

**Table 11. Dominican Republic: Selected Financial Soundness Indicators of the Banking System**  
(In percent)

	2007	2008	2009	Sep 2010
<b>Capital adequacy</b>				
Net worth to total assets	9.5	9.7	9.1	8.9
Regulatory capital to risk-weighted assets	13.0	13.4	14.5	13.5
<b>Asset quality</b>				
Loan growth	27.1	15.3	12.4	18.6
NPLs to total loans	4.0	3.5	4.0	3.4
Loan provisions to NPLs	134.5	133.1	115.0	119.4
NPLs net of provisions to net worth	-8.2	-7.2	-3.9	-4.4
Fixed and net foreclosed assets to net worth	57.2	58.0	51.4	50.4
<b>Earnings and efficiency</b>				
Return on average assets	2.0	2.1	1.9	2.2
Return on average equity	21.3	21.4	19.9	34.3
Gross operating income to average assets	9.8	2.4	2.3	2.6
Financial margin to average assets	6.7	6.9	7.7	7.7
Operating expenses to net financial margin	104.4	96.3	91.4	95.8
<b>Liquidity</b>				
Liquid funds to deposits	32.3	33.1	28.1	25.2
Liquid funds to total assets	27.2	28.4	23.9	21.5

Sources: Dominican authorities; and Fund staff estimates.

**Table 12. Dominican Republic: Balance of Payments**

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

	2008	2009	Prog.	Prel.	Prog.	Proj.	Proj.
			Jan-Sep	Jan-Sep	Jan-Dec	Jan-Dec	2011
			2010				
<b>Current account</b>	<b>-4,519</b>	<b>-2,159</b>	<b>-1,996</b>	<b>-3,170</b>	<b>-3,493</b>	<b>-3,903</b>	<b>-3,542</b>
Trade balance	-9,245	-6,741	-5,343	-6,361	-8,140	-8,226	-8,221
Exports f.o.b.	6,748	5,519	4,325	4,903	6,152	6,572	7,159
<i>Of which:</i> nickel	492	4	0	0	0	0	357
<i>Of which:</i> gold	0	0	0	0	0	0	207
Imports f.o.b.	-15,993	-12,260	-9,668	-11,264	-14,291	-14,798	-15,379
<i>Of which:</i> oil and gas	-4,241	-2,641	-2,465	-2,601	-3,384	-3,465	-3,544
Nonfactor services	2,962	3,046	2,498	2,383	3,113	3,093	3,329
<i>Of which:</i> travel receipt	4,166	4,051	3,268	3,237	4,259	4,239	4,540
Factor services	-1,748	-1,769	-1,705	-1,509	-1,888	-1,941	-2,062
<i>Of which:</i> interest on public debt 1/	-372	-427	-338	-300	-525	-412	-544
Transfers	3,513	3,305	2,555	2,317	3,421	3,170	3,412
<b>Capital and financial account</b>	<b>4,209</b>	<b>2,655</b>	<b>2,753</b>	<b>2,845</b>	<b>2,967</b>	<b>3,377</b>	<b>3,842</b>
Capital account	135	107	88	57	87	87	107
Financial account	4,074	2,548	2,665	2,789	2,880	3,290	3,735
Direct investment, net	2,870	2,067	1,699	1,277	1,354	1,530	1,990
Portfolio investment, net	-376	-450	518	558	523	895	825
Other investment, net	1,579	931	448	954	1,002	865	920
<i>Of which:</i> public sector MLT, net	760	794	738	186	500	363	452
Disbursements	1,367	1,417	1,204	605	1,148	970	1,076
Amortization	-607	-623	-458	-420	-648	-607	-624
Other	819	137	-290	768	502	502	468
<i>Of which:</i> SDR allocation	0	275	0	0	0	0	0
Errors and omissions	-16	-90	-876	-300	0	0	0
<b>Overall balance</b>	<b>-326</b>	<b>406</b>	<b>-119</b>	<b>-625</b>	<b>-526</b>	<b>-526</b>	<b>300</b>
<b>Financing</b>	<b>326</b>	<b>-406</b>	<b>119</b>	<b>625</b>	<b>526</b>	<b>526</b>	<b>-300</b>
Change in NIR (increase, -)	230	-363	119	622	523	523	-300
Change in GIR (increase, -)	284	-638	-154	589	145	143	-797
Net Fund purchases	-42	275	273	33	378	380	497
Exceptional financing	58	-43	0	3	3	3	0
Debt rescheduling	0	0	0	0	0	0	0
Debt forgiveness	9	301	0	4	3	3	0
Net change in arrears	49	-344	0	-1	0	0	0
Memorandum items:				0			
Current account in percent of GDP	-9.9	-4.6	-5.6	-8.4	-7.0	-7.5	-6.4
Non-oil-gas current account in percent of GDP	-0.6	1.0	1.3	-1.5	-0.2	-0.8	0.0

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes interests on loans and bonds.

**Table 13. Dominican Republic: External Financing Requirements and Sources**  
(In millions of U.S. dollars)

	2008	2009	Proj.	
			2010	2011
<b>Financing requirement</b>	<b>4,842</b>	<b>3,419</b>	<b>4,368</b>	<b>5,023</b>
Current account deficit	4,519	2,159	3,903	3,602
Amortization of public sector medium- and long-term	607	623	607	624
Change in gross reserves (increase =+)	-284	638	-143	797
<b>Financing sources</b>	<b>4,842</b>	<b>3,419</b>	<b>4,368</b>	<b>5,023</b>
Capital transfer	135	107	87	107
Foreign Direct Investment, net	2,870	2,067	1,530	1,990
Portfolio investment, net	-376	-450	895	886
Public sector medium- and long-term loans	1,367	1,417	970	1,076
Net Fund purchases	-42	275	380	497
Other 1/	887	4	505	468

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes other private capital flows, exceptional financing and errors and omissions.

**Table 14. Dominican Republic: Indicators of External Vulnerability**

	2007	2008	2009	Sep 2010
Merchandise exports (percentage change)	8.3	-5.8	-18.2	17.3
Merchandise imports (percentage change)	11.7	17.6	-23.3	27.7
Real effective exchange rate (percentage change, appreciation)	1.8	1.4	1.5	[2.72]
Current account balance (percent of GDP)	-5.3	-9.9	-4.6	-8.4
Capital and Financial account balance (percent of GDP)	5.8	9.2	5.7	7.6
Foreign direct investment, net (percent of GDP)	4.1	6.3	4.4	3.4
Portfolio investment, net (percent of GDP)	2.3	-0.8	-1.0	1.5
Other investment, net (percent of GDP)	-1.1	3.5	2.0	2.5
External debt (percent of GDP)	26.4	25.4	27.2	29.8
Debt service (in percent of exports of GNFS) 1/	14.0	17.1	18.9	19.7
Gross reserves (in millions of U.S. dollars)	2,946	2,662	3,307	2,979
Gross reserves (in months of imports of GNFS)	2.0	2.3	2.4	2.0

Sources: Dominican authorities; and Fund staff estimates.

1/ Interest payments and medium- and long-term debt amortization.

**Table 15. Dominican Republic: Schedule of Reviews and Purchases**  
(In millions of SDRs, unless otherwise specified)

Date	Original UFR Composition		Amount of Purchase 1/					Percent of Quota	Conditions
	2/ Central Bank	3/ Ministry of Finance	Revised UFR Composition						
			2/ Central Bank	Ministry of Finance			Total		
				3/ External Payments	4/ BCRD Recap.	Total SBA			
<b>Purchases Already Made</b>									
November 9, 2009	0.00	200.00	0.00	200.00	0.00	200.00	200.00	91.4	Approval of arrangement
April 7, 2010	54.27	25.00	54.27	25.00	0.00	25.00	79.27	36.2	First review and end-December 2009 performance criteria
October 22, 2010	54.27	25.00	0.00	25.00	54.27	79.27	79.27	36.2	Second review and end-March 2010 performance criteria
October 22, 2010	54.26	25.00	0.00	25.00	54.26	79.26	79.26	36.2	Third review and end-June 2010 performance criteria
<b>Purchases To Be Made</b>									
December 15, 2010	84.45	25.00	26.31	25.00	58.14	83.14	109.45	50.0	Fourth review and end-September 2010 performance criteria
March 15, 2011	109.45	0.00	67.78	0.00	41.67	41.67	109.45	50.0	Fifth review and end-December 2010 performance criteria
June 15, 2011	109.45	0.00	67.78	0.00	41.67	41.67	109.45	50.0	Sixth review and end-March 2011 performance criteria
September 15, 2011	109.45	0.00	67.78	0.00	41.67	41.67	109.45	50.0	Seventh review and end-June 2011 performance criteria
December 15, 2011	109.45	0.00	67.78	0.00	41.67	41.67	109.45	50.0	Eighth review and end-September 2011 performance criteria
February 28, 2012	109.45	0.00	109.45	0.00	0.00	0.00	109.45	50.0	End-December 2011 performance criteria
<b>Total</b>	<b>794.50</b>	<b>300.00</b>	<b>461.07</b>	<b>300.00</b>	<b>333.43</b>	<b>633.43</b>	<b>1094.50</b>	<b>500.0</b>	
<b>Memorandum item:</b>									
2009	0.00	200.00	0.00	200.00	0.00	200.00	200.00	91.37	
2010	247.25	100.00	80.58	100.00	166.67	266.67	347.25	158.63	
2011	437.80	0.00	271.13	0.00	166.67	166.67	437.80	200.00	
2012	109.45	0.00	109.45	0.00	0.00	0.00	109.45	50.00	

Source: Fund staff estimates.

1/ The original split between the Central Bank and the Ministry of Finance reflects the intention of the member to assign Fund resources to different entities as explained in the LOI of October 2009. The revised split reflects the changes due to the central bank recapitalization plans as explained in the revised LOI of October 2010.

2/ Purchases made for reserve accumulation purposes.

3/ Purchases made to cover external debt obligations and public sector imports of goods and services.

4/ Purchases made to cover interest payments on bonds issued to recapitalize the Central Bank, that the Central Bank will use for reserve accumulation purposes.

**Table 16. Dominican Republic: Medium-Term Scenario 2008-14**  
(In percent of GDP unless specified)

	2008	2009	Projections				
			2010	2011	2012	2013	2014
<b>Growth and prices</b>							
Real GDP growth	5.3	3.5	6.5-7.0	5.5-6.0	6.0	6.0	6.0
CPI inflation, end of period	4.5	5.8	6.0-7.0	5.0-6.0	4.0-5.0	4.0	4.0
CPI inflation, average	10.6	1.4	6.4	5.5	4.5	4.0	4.0
Nominal GDP (billions of U.S. dollars)	45.5	46.7	51.9	55.8	60.3	65.2	70.5
Gross investment	18.2	16.8	17.3	18.4	18.4	18.4	18.4
National Savings	8.2	12.1	9.8	12.1	14.0	14.7	15.0
<b>Public Sector</b>							
Revenue	15.8	13.7	13.7	13.8	14.9	15.6	15.6
Expenditure	20.3	18.1	17.5	16.8	17.0	17.6	17.6
Noninterest expenditure	16.7	14.2	13.8	12.7	13.0	13.7	13.7
Overall balance	-4.4	-4.4	-3.9	-3.0	-2.0	-2.0	-2.0
Primary balance	-0.9	-0.5	-0.1	1.1	2.0	1.9	1.9
<b>Balance of payments and external debt</b>							
External current account (millions of U.S. dollars)	-4519	-2159	-3903	-3542	-2681	-2447	-2467
In percent of GDP	-9.9	-4.6	-7.5	-6.4	-4.4	-3.7	-3.4
Official reserves (millions of U.S. dollars)	2662	3303	3157	3954	4637	4841	4972
In months of imports goods and non-factor services	2.3	2.4	2.2	2.5	2.7	2.7	2.9
Public external debt	18.3	20.0	21.6	19.5	16.5	15.9	14.7

Sources: Dominican authorities; and Fund staff estimates.

Table 17. Dominican Republic: Indicators of Capacity to Repay the Fund

	2008	2009	Projections				2014
			2010	2011	2012	2013	
<b>Fund repurchases and charges</b>							
In millions of SDRs	119.2	35.4	104.4	127.1	96.3	151.6	373.2
In millions of U.S. dollars	188.5	54.6	158.2	193.1	146.6	231.0	569.3
In percent of exports 1/	1.6	0.5	1.3	1.5	1.0	1.4	3.2
In percent of external public debt service	13.3	2.6	11.1	12.2	9.9	9.9	18.8
In percent of quota	54.5	16.2	47.7	58.0	44.0	69.3	170.5
In percent of gross international reserves	7.1	1.7	5.0	4.9	3.2	4.8	11.5
<b>Fund credit outstanding</b>							
In millions of SDRs	319.6	488.9	739.9	1,066.9	1,104.1	974.7	619.0
In millions of U.S. dollars	505.2	754.2	1121.7	1621.8	1680.1	1485.1	944.3
In percent of exports 1/	4.3	7.2	9.6	12.9	11.2	9.1	5.3
In percent of external public debt service	35.7	36.0	78.6	102.4	113.7	63.5	31.1
In percent of quota	146.0	223.4	338.0	487.4	504.4	445.3	282.8
In percent of gross international reserves	19.0	22.9	35.5	41.0	36.2	30.7	19.0
<b>Memorandum items</b>							
Exports of GNFS (millions of U.S. dollars)	11,670	10,437	11,734	12,597	14,993	16,350	17,701
External public debt service (millions of U.S. dollars) 2/	1,414	2,096	1,427	1,584	1,478	2,339	3,032
Quota (millions of SDRs)	218.9	218.9	218.9	218.9	218.9	218.9	218.9
Quota (millions of U.S. dollars)	346.1	337.7	331.9	332.7	333.1	333.5	334.0
Gross international reserves (millions of U.S. dollars)	2,662	3,300	3,157	3,954	4,637	4,841	4,972
U.S. dollars per SDR (period average)	0.63	0.65	0.66	0.66	0.66	0.66	0.66

Sources: Fund staff estimates and projections.

1/ Goods and non-factor services (GNFS).

2/ Amortization and interest payments.

**APPENDIX 1: WORK PROGRAM**

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Mission	Dates
<b>Fourth SBA Review</b>	
Mission	Oct 27–Nov 9, 2010
Board Meeting	Mid-December 2010
<b>Fifth SBA Review</b>	
Mission	February 2-15, 2011
Board Meeting	March 16, 2011
<b>Sixth SBA Review</b>	
Mission	May 4-17, 2011
Board Meeting	June 15, 2011
<b>Memorandum items:</b>	
SBA Approval	November 9, 2009
First SBA Review	April 7, 2010
Second and Third SBA Review	October 22, 2010

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**ATTACHMENT 1: LETTER OF INTENT**

***Banco Central de la República Dominicana***  
***Ministerio de Hacienda***  
***Ministerio de Economía, Planificación y Desarrollo***

Santo Domingo, Dominican Republic  
December 3, 2010

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. **Background.** Our economic program supported by the Stand-by Arrangement (SBA) from the Fund continues to yield strong results, confirming that our strategy to counteract the effects of the global financial crisis has been successful. The Dominican Republic's economy is among the best performers in Latin America with robust growth and controlled inflation. The purpose of this letter is to: (i) update and supplement previous Letters of Intent (LOI);<sup>1</sup> (ii) describe performance under the government's economic program; and (iii) request completion of the fourth review under the SBA based on compliance with the quantitative performance criteria and structural benchmarks for end-September 2010.

2. **Economic developments.** The economy is experiencing a dynamic expansion based on growth of domestic demand:

- **Growth.** Real GDP growth accelerated to 7.8 percent in the third quarter (year-on-year, y-o-y) bringing the cumulative rate to 7.6 percent (y-o-y). Growth continues to be broad-based with high participation of manufacturing, construction, commerce and other services. Based on this performance we have revised upward our expectation of real GDP growth for 2010 from the 5.5-6.0 percent range to the 6.5-7.0 percent range.

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<sup>1</sup> The previous LOIs include: (i) the letter of October 6, 2009 (SBA approval); (ii) the letter of March 19, 2010 (first SBA review); and (iii) the letter of October 7, 2010 (second and third SBA reviews).

- ***Inflation.*** The monthly rate of headline inflation was 0.8 percent in September 2010 taking the 12-month rate to 5.7 percent, which is still below the Central Bank's target of 6-7 percent for the year as a whole. The monthly rate of core inflation (which excludes food and fuels) reached 1.0 percent in September 2010 taking the 12-month rate to 3.9 percent.
  - ***Balance of payments.*** The current account deficit has widened slightly due to an increase in the pace of growth of imports, led by the robust expansion of domestic demand and the recent increase in the international price of petroleum, bringing our projections for the end of the year up slightly to 7.5 percent of GDP. This deficit is still amply financed by strong inflows of foreign direct investment and other long-term capital inflows channeled through the central government.
  - ***Banking sector.*** The financial system continues to be healthy with low levels of non-performing loans, high solvency and an adequate capital base. Private sector credit is expanding at 18 percent (yoy) to September supporting the economic expansion, while excess liquidity is being reduced.
3. **Policy response.** Reacting to the faster than expected growth and to prevent a possible overheating of the economy, the central bank raised its policy rate by 75 basis points at the September policy meeting and then by another 25 basis points at the October policy meeting, bringing the policy rate to 5 percent. In its communiqué the Monetary Policy Committee stressed that these were pre-emptive measures that seek to safeguard the inflation path for 2011, and that the expected inflation outcome for 2010 remains within the central bank's target of between 6 and 7 percent.
4. **Performance under the program.** All monetary and fiscal performance criteria under the program were met, but there was a transitory deviation in the limit on arrears to the electricity generators:
- ***Fiscal.*** The government met the floor on the deficit of the central government with a margin (0.3 percent of GDP) despite a shortfall in tax revenues relative to what was projected. At the level of the consolidated public sector the limit was met with a small margin (less than 0.1 percent of GDP) as a higher than expected deficit at the level of the rest of the non-financial public sector was compensated by the margin in the central administration balance and revenues from an extraordinary transaction at the central bank related to the resolution of debts dating back to the financial crisis of 2003.
  - ***Monetary.*** The floor on the net international reserves (NIR) of the central bank was met by a wide margin of US\$324 million and the ceiling on the net domestic assets (NDA) of the central bank was met by a margin of RD\$ 14 billion.

- **Debt targets.** The ceiling of zero on the accumulation of arrears on external public debt was met, but the ceiling on the accumulation of arrears of the government with the electricity generators was breached by US\$91 million due to the fact that the Congress did not approve the supplementary budget in time. However the delay was short-lived (arrears were cleared by October 6) and the government remains current in its obligations.
- **Structural benchmarks.** The two structural benchmarks under the program for end-September 2010 were also met. The first benchmark, to increase the number of regulated clients of the electricity distribution companies to 1.90 million, was met as the regulated clients reached 1.92 million by end-September. The second benchmark, to prepare a strategy to develop domestic capital markets and public debt management, was satisfied as the government presented a strategy in mid-September, and has published it on the Ministry of Finance web site ([www.Hacienda.gov.do](http://www.Hacienda.gov.do)).

5. **Policies for the rest of 2010 and 2011.** The government reiterates its commitment to the strategy and policies described in the previous letters of intent, which envisage a consolidation phase in the second part of the SBA to regain fiscal space through efficiency gains in both revenue and expenditure, to be able to increase social investment and strengthen debt sustainability while keeping output growth in line with its potential.

- **Fiscal policy.** Policies are on-track to meet the program targets for December 2010. In addition to the supplementary budget discussed in the previous letter of intent, the government has submitted a second supplementary budget to authorize the transfer of additional interest payments to the central bank in accordance with the recapitalization law. The government has also submitted its 2011 budget to congress, in line with the fiscal target of a consolidated public deficit of 3.0 percent of GDP and a central administration deficit of 1.6 percent of GDP as described in our previous letter of intent. The budget contemplates the placement of an external sovereign bond in the first half of 2011. We have also begun implementation of the strategy to rationalize tax exemptions by creating a working group to develop the necessary intelligence to revise the way exemptions are granted and make proposals for their elimination, in line with the structural benchmarks under the program for 2011.
- **Electricity sector.** The finances of the electricity sector are on track to limit the deficit financed by transfers from the central administration to US\$604 million in 2010. For 2011 we reiterate our commitment to continue reforms to reach a current deficit of US\$350 million. To support the reduction of the current deficit of the electricity sector for 2011, we have announced an 11 percent increase in the electricity tariff across the board in late November. This increase is expected to reduce the current deficit for 2011 by about US\$150 million. We also reiterate our commitment to safeguarding the finances of the electricity sector by moving towards a flexible tariff which reflects changes in generation costs, in early 2011. As mentioned in the

previous letter of intent, the government also intends to eliminate all accounts payable to private electricity generators (which have previously been kept at 45 days, in line with the program), significantly lowering their financing costs. Once these transactions are completed, CDEEE will limit accounts payable to electricity generators to a level that does not require the payment of interest (effectively maintaining zero days of arrears), and the performance criteria on arrears to private electricity generators will be redefined accordingly.

- **Monetary policy.** The Central Bank policy is expected to move gradually to a more neutral monetary stance, consistent with the reduction of the central bank's target inflation rate to between 5 and 6 percent in 2011 (from between 6 and 7 percent in 2010). For 2011 we continue to envision a relatively neutral credit policy, with central bank net domestic assets stable throughout the year, and all increases in the demand for money being accommodated by an increase in net international reserves. In addition, for 2011 we will continue to move towards the implementation of a full-fledged inflation targeting regime in early-2012.

6. **Assurances.** The government believes that the policies set forth in previous LOIs, and the additions and modifications in this LOI, are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose, while refraining from taking any measure that is inconsistent with the program. The government will maintain the productive and fruitful dialogue we have had with the Fund in the past. In this spirit of cooperation, the government will consult with the Fund on the adoption of these measures (and in advance of revisions to the policies contained in these LOIs), and will continue providing Fund staff with all the relevant information required to complete program reviews and monitor performance.

7. **Transparency.** We have already published the staff report for the 2009 Article IV Consultation which included the original SBA program (October, 2009) and intend to publish the subsequent staff reports with all the program reviews once they are translated. In addition, as part of our communication strategy we intend to publish this letter on the websites of the Central Bank to maintain our citizens, and the international investment community, informed about our policy actions and intentions. We also authorize the Fund to publish this letter to facilitate a wider access and review of our policies by the international community.

Sincerely yours,

\_\_\_\_\_/s/\_\_\_\_\_  
Héctor Manuel Valdez  
Governor of the Central Bank

\_\_\_\_\_/s/\_\_\_\_\_  
Vicente Bengoa  
Minister of Finance

\_\_\_\_\_/s/\_\_\_\_\_  
Temístocles Montás  
Minister of Economy

Attachments

[The LOI includes tables 1-16 of the staff report]

## **ATTACHMENT 2: TECHNICAL MEMORANDUM OF UNDERSTANDING**

This Technical Memorandum Understanding (TMU) presents the definitions of the variables included in the quantitative performance criteria annexed to the Letter of Intent (LOI), and the information requirements needed to ensure adequate monitoring of economic and financial developments.

### **I. Quantitative Performance Criteria: Definition of Variables**

#### **A. Cumulative Floor on the Central Government Balance**

The overall balance of the central government covers government activities as specified in the budget.

Revenues are recorded when the funds are deposited in the Treasury account. Revenues also include grants. Central government primary expenditures are recorded on an accrual basis and include transfers to other government units as well as all transfers to the public electricity sector. Interest payments, however, will be recorded on a due basis. Capital expenditure will include any in-kind capital expenditures defined as the externally financed investment projects (through loans and grants) in case they are not included in the execution of the budget.

The balance of the central government will be measured from below-the-line as the change in the central government's net financial position (assets minus liabilities). The net financial position of the central government includes: (a) non-bank central government debt, external and domestic, including debt with the IMF for budgetary support and short-term debt approved by the Ministry of Finance; (b) external and domestic bank borrowing (net of deposits), including deposits in the central bank; and (c) any other nonbank financing, domestic or external, including the net change in the stock of domestic and external arrears, including arrears to electricity distributors, and the sale of public assets. Domestic arrears of the nonfinancial public sector are defined as delays in the payment of contractual obligations beyond the grace period set in the respective loan or debt contract or 30 days in case the grace period is not specified. Capitalizations or purchases of equity in public companies will be treated as an above-the-line expenditure transaction. Privatizations and sales of public assets will be recorded below-the-line as offsetting financing items with no impact on the deficit. External debt flows (i.e., disbursements and debt service), will be converted to Dominican Republic pesos at the exchange rate of the day in which the transaction takes place.

The following uses of funds will not affect the deficit and will be recorded below-the-line: (i) clearance of central government domestic arrears incurred the year before; (ii) amortization of loans and bonds; (iii) bonds issued for the recapitalization of the Central Bank and Banco de Reservas; and (iv) other arrears with suppliers incurred in previous years. A memorandum

line in the information reporting the Central Government fiscal operations will report items (i) to (iv) in this paragraph.

In the event of a change in the central bank recapitalization law that affects interest payments from the central administration to the central bank, the target on the overall balance of the central government will be adjusted accordingly. Any decline (increase) in interest payments relative to the program value will result in a higher (lower) overall balance target by the same amount.

### 1. Targets on the Overall Balance of the Central Government

	Floor
	(In billions of RD\$)
Cumulative Balance (from December 31, 2008)	
End-September 2010 (performance criterion)	-95.8
End-October 2010 (program projection)	-96.5
End-November 2010 (program projection)	-98.6
End-December 2010 (performance criterion)	-102.3
Cumulative Balance (from December 31, 2010)	
End-January 2011 (program projection)	-5.0
End-February 2011 (program projection)	-9.9
End-March 2011 (performance criterion)	-14.9
End-April 2011 (program projection)	-17.0
End-May 2011 (program projection)	-19.2
End-June 2011 (performance criterion)	-21.3
End-July 2011 (program projection)	-23.5
End-August 2011 (program projection)	-25.7
End-September 2011 (performance criterion)	-27.9
End-October 2011 (program projection)	-29.7
End-November 2011 (program projection)	-31.6
End-December 2011 (performance criterion)	-33.5

## **B. Cumulative Floor on the Consolidated Public Sector Balance**

The consolidated public sector comprises: (i) the operations of the nonfinancial public sector; and (ii) the quasi-fiscal operations of the central bank. The balance of the nonfinancial public sector comprises the overall balances of the central government (as defined before) and the rest of the nonfinancial public sector (municipalities, decentralized entities, social security entities, and public enterprises).

The rest of the nonfinancial public sector includes the following non-financial public enterprises: Corporación Dominicana de Empresas Eléctricas Estatales (CDEEE, including Empresa de Generación Hidroeléctrica Dominicana), Empresas Distribuidoras de Electricidad del Norte (EDENORTE), Empresas Distribuidoras de Electricidad del Sur (EDESUR), Empresas Distribuidoras de Electricidad del Este (EDESTE), Consejo Estatal del Azúcar, Corporación de Fomento Hotelero y Desarrollo Turístico, Corporación de Acueducto y Alcantarillado de Santo Domingo, Acueducto y Alcantarillado de Santiago, Acueducto y Alcantarillado de Moca, Acueducto y Alcantarillado de la Romana, Instituto Nacional de Aguas Potables y Alcantarillados, Corporación de Acueducto y Alcantarillado de Puerto Plata, Proyecto de la Cruz de Manzanillo, Instituto Postal Dominicano, Corporación Estatal de Radio y Televisión, Instituto Nacional de la Vivienda, Lotería Nacional, Autoridad Portuaria Dominicana, Refinería Dominicana de Petróleo.

The overall balance of the rest of the nonfinancial public sector will be measured from below-the-line as the change in the net financial position (assets minus liabilities) on the basis of changes in: (i) net domestic bank credit and deposits; (ii) domestic and external arrears, and (iii) external disbursements less amortizations.

The quasi-fiscal balance of the central bank included in the consolidated public sector balance is measured as all the administrative and financial revenues minus costs (including costs of monetary policy and interest on the central bank debt and operational expenditures). While it is not the policy of the government to change the BCRD recapitalization law, should such a change take place to reduce interest payments made by the Ministry of Finance to the BCRD, the program will be adjusted to reflect a lower interest bill for the central government and a higher quasi-fiscal deficit for the central bank in the same amount, so that the overall deficit of the combined public sector does not change. In this case, the target of the overall balance of the central government will be modified accordingly. Profits and losses arising from valuation changes of foreign currency denominated assets and liabilities will not be considered to determine the balance of the nonfinancial public sector. Financial revenues include earnings from the asset recovery as described below related to the transaction in support of the banking system during 2003-05 between the central bank and *Bancredito*, *Banco Mercantil* and *Baninter*.

Fiscal targets for 2010 will continue to be measured as cumulative floors from end-December 2008. Fiscal targets for 2011 will be measured as cumulative floors from end-December 2010.

The information to compute the overall balance of the nonfinancial public sector will be provided to the Fund by the central bank, based on information provided by the government's accounting office (expenditure) and various units of the Secretaría de Hacienda (revenue, nonbank domestic debt and arrears, external debt and arrears, and externally financed capital expenditure).

## 2. Targets on the Overall Balance of the Consolidated Public Sector

	Floor (In billions of RD\$)
Cumulative Balance (from December 31, 2008)	
End-September 2010 (performance criterion)	-133.0
End-October 2010 (program projection)	-135.9
End-November 2010 (program projection)	-140.1
End-December 2010 (performance criterion)	-147.0
Cumulative Balance (from December 31, 2010)	
End-January 2011 (program projection)	-7.2
End-February 2011 (program projection)	-14.3
End-March 2011 (performance criterion)	-21.5
End-April 2011 (program projection)	-26.2
End-May 2011 (program projection)	-30.9
End-June 2011 (performance criterion)	-35.6
End-July 2011 (program projection)	-40.2
End-August 2011 (program projection)	-44.8
End-September 2011 (performance criterion)	-49.5
End-October 2011 (program projection)	-54.2
End-November 2011 (program projection)	-59.0
End-December 2011 (performance criterion)	-63.8

The financial revenues included in the calculation of the quasi-fiscal balance of the central bank for the purposes of the program will be capped by the asset recovery limit on gains achieved by the central bank following the negotiation and litigations with *Bancredito*, *Banco Mercantil*, or *Baninter*. This will not affect the official accounting of the Central Bank.

For the purpose of adjusting the quasi fiscal deficit of the central bank of 2010, the values of the asset recovery will be measured as cumulative flows from September 2010 onwards. For the purpose of adjusting 2011, the values of the asset recovery will be measured as cumulative flows from December 2010. The transaction with *Bancredito* is capped at US\$40 million per year in 2010 and 2011 (as reverse provisioning). In case further liquid assets are recovered in the negotiation and litigation of *Bancredito*, *Banco Mercantil* or *Banniter*, or current assets are made liquid, the total additional current income that can be counted in the quasi-fiscal deficit of the period, including the reverse provisioning, will be subject to the limits in the table below.

### 3. Asset Recovery Limit

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	(In millions of US\$)
Cumulative Balance (from December 31, 2009)	
End-September 2010	40
End-October 2010	47
End-November 2010	54
End-December 2010	60
Cumulative Balance (from December 31, 2010)	
End-January 2011	7
End-February 2011	14
End-March 2011	20
End-April 2011	27
End-May 2011	34
End-June 2011	40
End-July 2011	47
End-August 2011	54
End-September 2011	60
End-October 2011	67
End-November 2011	74
End-December 2011	80

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#### C. Floor on Central Bank Consolidated Net International Reserves (NIR)

For program monitoring purposes, the consolidated NIR is defined as the difference between gross international reserves of the central bank and reserve liabilities, including debt of the Ministry of Finance with the IMF as follows:

Gross international reserves include claims against non-residents, denominated in foreign convertible currencies that are in the direct effective control of the central bank and are readily available for such purposes as foreign exchange market intervention. Such assets

include gold (valued in dollars at end-2008 prices), cash, deposits abroad (excluding funds used as collateral for central bank or other nonfinancial public sector liabilities), holdings of SDRs, and the IMF reserve position.

Reserve liabilities include debt with the IMF, including that of the Ministry of Finance, and short-term (up to one year) foreign-currency-denominated liabilities, including commitments to sell foreign exchange from derivatives or other contracts, and other guarantees or contingent liabilities.

The consolidated NIR definition does not modify the central bank balance sheet accounting rules. The consolidated NIR as defined above differs from the NIR definition included in the previous 2005 Stand-By Arrangement that excluded reserve requirements on foreign currency deposits, and government and bank deposits in foreign currency as they were considered part of the reserve liabilities.

#### 4. Targets on the Consolidated Net International Reserves

Outstanding Stock	Floor (In millions of US\$)
End-September 2010 (performance criterion)	1865
End-October 2010 (program projection)	1915
End-November 2010 (program projection)	1965
End-December 2010 (performance criterion)	2015
End-January 2011 (program projection)	1899
End-February 2011 (program projection)	1782
End-March 2011 (performance criterion)	1665
End-April 2011 (program projection)	1699
End-May 2011 (program projection)	1732
End-June 2011 (performance criterion)	1765
End-July 2011 (program projection)	1915
End-August 2011 (program projection)	2065
End-September 2011 (performance criterion)	1865
End-October 2011 (program projection)	2015
End-November 2011 (program projection)	2165
End-December 2011 (performance criterion)	2315

To meet this performance criterion at each relevant date, the 5-day average of daily consolidated NIR values must be above the floor. The 5-day average will be calculated on the basis of the last five working days of each relevant month.

Consolidated NIR targets will also be adjusted upward (downward) by the surplus (shortfall) in program disbursements up to US\$300 million. Program disbursements are defined as uncommitted external disbursements, and external sovereign bond issuance, that are usable for the financing of the overall central government budget (this includes the World Bank, IDB, CAF and external sovereign bond placements). For the purpose of adjusting the NIR in 2011, the values of the program disbursements will be measured as cumulative flows from December 2010.

## 5. External Program Disbursements

		(In millions of US\$)
Cumulative Flows (from December 2008)		
End-September 2010		1793
End-October 2010		1793
End-November 2010		1819
End-December 2010		1819
Cumulative Flows (from December 2010)		
End-January 2011		0
End-February 2011		0
End-March 2011		0
End-April 2011		0
End-May 2011		0
End-June 2011		500
End-July 2011		500
End-August 2011		500
End-September 2011		535
End-October 2011		535
End-November 2011		535
End-December 2011		698

### D. Ceiling on Central Bank Net Domestic Assets (NDA)

Central Bank net domestic assets (NDA) are defined as the difference between the monetary base and Consolidated NIR, as defined above. For the purposes of the program the monetary base is defined as equivalent to *emisión monetaria*, which includes currency issue (currency in circulation plus cash in vault) plus peso reserve requirements held by financial institutions at the central bank.

To meet this performance criterion at each relevant date, the 5-day average of daily NDA values must be below the ceiling. The 5-day average will be calculated on the basis of the last five working days of each relevant month.

## 6. Targets on the Net Domestic Assets

Outstanding Stock	Ceiling (In billions of RD\$)
End-September 2010 (performance criterion)	65
End-October 2010 (program projection)	70
End-November 2010 (program projection)	75
End-December 2010 (performance criterion)	80
End-January 2011 (program projection)	80
End-February 2011 (program projection)	80
End-March 2011 (performance criterion)	80
End-April 2011 (program projection)	80
End-May 2011 (program projection)	80
End-June 2011 (performance criterion)	80
End-July 2011 (program projection)	80
End-August 2011 (program projection)	80
End-September 2011 (performance criterion)	80
End-October 2011 (program projection)	80
End-November 2011 (program projection)	80
End-December 2011 (performance criterion)	80

For accounting purposes, dollar accounts will be converted to *pesos* at the accounting exchange rate of RD\$36.5 per dollar.

NDA targets will be adjusted upward (*downward*) for any increase (*decrease*) in reserve requirement deposits (*encaje*) associated with peso deposits at the central bank. NDA targets will be adjusted downward (*upward*) by the surplus (*shortfall*) in program disbursements up to US\$300 million.

### E. Cumulative Floor on the Current Balance of the Public Electricity Sector

The public electricity sector comprises: (i) Corporación Dominicana de Empresas Eléctricas Estatales (CDEEE); (ii) Empresa de Generación Hidroeléctrica Dominicana (EGEHID); (iii) Empresa de Transmisión Eléctrica Dominicana (ETED); (iv) Unidad de Electrificación Rural y Suburbana (UERS); (v) Empresas Distribuidoras de Electricidad del Norte (EDENORTE);

(vi) Empresas Distribuidoras de Electricidad del Sur (EDESUR); and (vii) Empresas Distribuidoras de Electricidad del Este (EDESTE).

The overall balance of the public electricity sector will be measured from below-the-line as the change in the electricity sector's net financial position (assets minus liabilities). The net financial position of the public electricity sector includes: (a) transfers from the government to the electricity sector; (b) changes in arrears with electricity generators; (c) changes in the net credit of the banking system to the electricity sector companies; and (d) external disbursements to the electricity sector.

The current balance of the public electricity sector will be measured as the overall balance of the public electricity sector plus externally financed investment in the public electricity sector and the programmed domestically financed investment in the public electricity sector.

For the purpose of the program, domestically financed investment in the public electricity sector for 2011 will be capped at US\$ 60 million. In the event of domestically financed investment in the public electricity sector exceeding US\$ 60 million, the excess amount would be considered additional current deficit of the electricity sector.

Payment of arrears do not constitute deficit of the public electricity sector. In the event of clearance of arrears of the electricity sector by the Ministry of Finance, the transaction will be recorded as a net transfer from Ministry of Finance and a corresponding reduction in arrears without any effect on the below-the-line deficit of the public electricity sector or the central administration.

It is expected that priority clients (no-cortables) and municipalities (ayuntamientos) will cover their electricity bills through the budget, and that all Bonoluz bills will be paid by clients.

## 7. Targets on the Current Balance of the Public Electricity Sector

	Floor
	(In millions of US\$) 1/
Cumulative Balance (from December 31, 2009)	
End-September 2010 (program projection)	-445
End-October 2010 (program projection)	-498
End-November 2010 (program projection)	-551
End-December 2010 (program projection)	-604
Cumulative Balance (from December 31, 2010)	
End-January 2011 (program projection)	-26
End-February 2011 (program projection)	-51
End-March 2011 (performance criterion)	-77
End-April 2011 (program projection)	-100
End-May 2011 (program projection)	-122
End-June 2011 (performance criterion)	-145
End-July 2011 (program projection)	-177
End-August 2011 (program projection)	-209
End-September 2011 (performance criterion)	-242
End-October 2011 (program projection)	-278
End-November 2011 (program projection)	-314
End-December 2011 (performance criterion)	-350

1/ Value each flow monthly at the exchange rate of the corresponding month.

## F. Ceiling on the Accumulation of Arrears of Public Electricity Distributors with Generators

The government will regularize any outstanding domestic arrears (as defined in section IA above) with private electricity generators using the available financial mechanisms and will remain current on its obligations. Arrears to private energy generating companies are defined as the balance of current invoices for energy sales to electricity distribution companies for which no payment has been made within 45 days following the contractual due date.

In the event the Ministry of Finance covers payments of arrears which are within 45 days from the contractual due date, these payments will not constitute deficit of the electricity sector. The transaction will be recorded as a net transfer below the line from the Ministry of Finance to the public electricity sector and as a corresponding reduction in arrears without any effect on the below-the-line deficit of the electricity sector or the central administration. In this case the arrears performance criterion will be modified and measured with zero days (i.e., no delays).

### **G. Continuous Ceiling on the Gross Accumulation of Public Sector External Arrears**

The central government and any other entity of the nonfinancial public sector, as defined above, as well as the central bank, will not incur new arrears in the payment of their external obligations at any time during the program. Arrears are defined as a delay in the payment of contractual obligations beyond the grace period set in the respective loan or debt contracts or 30 days in case the grace period is not specified.

## **II. Information Requirements**

To ensure adequate monitoring of economic variables and reforms, the authorities will provide the following information:

### **A. Daily**

- Deposits in the banking system, exchange rate in the official and free markets, interest rates on bank loans and deposits, Consolidated NIR, currency in circulation, deposits held by financial institutions at the central bank, excess reserves of the banking sector in local and foreign currency, liquidity assistance to banks, central bank certificates, and all other remunerated liabilities of the central bank. These data will be provided with a lag of no more than 5 working days.
- Deposit of, and liquidity assistance to, troubled institutions, by institution.
- Central bank purchases and sales of foreign currency.
- Central bank intervention operations in domestic currency, including results of auctions of central bank paper (interest rates, details of bids, including minimum and maximum rates, volumes, and maturities).

### **B. Monthly**

- Tax collection and expenditure of the central government, with a lag of no more than two weeks after the closing of each month.
- Starting in September 2009, revenue, expenditure, and financing of the nonfinancial public sector, including decentralized agencies and public enterprises of the previous

month. These data, and all other data required to assess the performance criteria on the overall balance of the consolidated public sector as specified in Section I.B, will be provided with a lag of no more than five weeks.

- Saving-investment account of the central government.
- Net financial position of the central government (as defined in section I.A.) with a lag of no more than two weeks after the end of each month.
- Central government's domestic interest, contractually due in the period and effectively paid, with a lag of no more than two weeks after the end of each month.
- Authorizations and stock of administrative debt, including the economic classification of the expenditure that has been financed with such debt, with a lag of no more than two weeks after the end of each month.
- Value of outstanding checks issued by the Treasury with a lag of no more than two weeks after the end of each month, starting in September 2009.
- Legal measures that affect the revenue of the central government (tax rates, import tariffs, exemptions, etc).
- In-kind capital expenditure statistics.
- Balance sheet of the central bank, including the net domestic assets as specified in Section I.D, *Banco de Reservas*, and deposit money banks (cable file), will be provided with a lag of no more than two weeks.
- Balance sheet of the central bank excluding operations related to the recapitalization of the central bank and quasi fiscal.
- Quasi-fiscal balance of the central bank.
- Stock of central bank certificates, notes and bills each by type of holder.
- Maturity of certificates, detailing amortizations in the following 12 months (i.e., following the end of the current month).
- Public external debt service for the preceding month and revised monthly projections for the forthcoming year, with a lag of no more than two weeks.
- Monthly external public disbursements and revised monthly projections for the forthcoming year, with a lag of no more than two weeks.
- Monthly contracting of external public debt and monthly stock of contracted, but not disbursed external public debt, with projections of the stock of debt contracted, but not disbursed for the forthcoming year.
- Foreign exchange cash flow of the central bank (la balanza cambiaria).
- Electricity sector collections, losses, cash recovery index and central government transfers to the electricity sector, according to the following definitions: Collection

rate: is defined as the ratio between the electricity invoices effectively paid (collected) and electricity invoices issued by electricity distributors in any given period. Loss rate: is defined as the ratio between electricity lost and electricity purchased by electricity distributors in any given period. Electricity lost is the difference between electricity invoiced and electricity purchased. Central government transfers to the electricity sector: is the sum of all transfers to the sector from the central government, including remaining PRA subsidies, FETE (*Fondo de Estabilización de la Tarifa Eléctrica*) and transfers to electricity companies, and all payments related to Bono Luz. The CDEEE will provide on a monthly basis (with a maximum 21-day lag) information on the arrears of the immediate past month that CDEEE and other distributors accumulate with the generation companies on energy purchases and transmission fees.

- The CDEEE will provide current information on electricity tariffs at the beginning of each month (with a maximum 10-day lag) or at any moment the tariff changes, including 43 prices and fees related to different consumption brackets, of which 13 are fixed fees related to the types of client, 7 are fixed fees related to power and 23 are prices related to energy.
- Monthly net credit of the banking system to the companies of the public electricity sector.
- Monthly investment in the public electricity sector specifying total domestically financed investment and externally financed investment.
- Price of each fuel as set in the contracts for the purchase of electricity by each distributor and CDEEE from each producer for the next 6 months for coal and 3 months for other fuels.
- Purchases of electricity by each of the three distributors and CDEEE from each generator. This includes quantity of electricity purchased (in KWh) and the unit price of each fuel charged by type of fuel and the quantity used in electricity generation. In addition report the quantity and unit price of electricity purchased by each distributor and CDEEE in the spot market.

### C. Quarterly

- Revised balance of payments outturn for the preceding quarter and quarterly projections for the forthcoming year, with a lag of no more than four weeks.
- Revised estimates of the stock of short-term and medium- and long-term public external debt, by creditor, at the end of quarter, with a lag of no more than four weeks.

- Stock of public sector domestic debt, including public sector debt in the electricity sector.
- Stock of *avales* and any other guarantees or contingent liabilities of the public sector.
- Revised estimates of the quarterly disbursements, debt service and stocks of short-term and medium- and long-term private external debt, by debtor, at the end of quarter, with a lag of no more than two weeks.
- Stock of public external late payments and arrears (program definition), by debtor and creditor, with details on new arrears incurred in the last month and clearance of old arrears, with a lag of no more than 5 working days.
- Stock of domestic arrears, starting with figures for December 2008, with details on new arrears incurred in the period and clearance of old arrears.

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

**Fourth Review Under the Stand-By Arrangement and Request for Waiver of  
Nonobservance of Performance Criterion—Informational Annex**

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

Approved by Rodrigo Valdés and Dominique Desruelle

December 14, 2010

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**Annex I: Relations With the Fund**  
(As of November 30, 2010)

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

<b>II. General Resources Account:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Quota	218.90	100.00
Fund holdings of currency	858.95	392.39
Reserve Tranche Position	0.00	0.00

<b>III. SDR Department:</b>	<b>SDR Million</b>	<b>Percent of Allocation</b>
Net cumulative allocation	208.83	100.00
Holdings	84.28	40.36

<b>IV. Outstanding Purchases and Loans:</b>	<b>SDR Million</b>	<b>Percent of Quota</b>
Stand-By Arrangements (SBA)	640.05	292.4

**V. Latest Financial Arrangements:**

<b>Type</b>	<b>Date of Arrangement</b>	<b>Expiration Date</b>	<b>Amount Approved (SDR Million)</b>	<b>Amount Drawn (SDR Million)</b>
SBA	Nov 9, 2009	Mar 8, 2012	1,094.50	437.80
SBA	Jan 31, 2005	Jan 30, 2008	437.80	437.80
SBA	Aug 29, 2003	Jan 31, 2005	437.80	131.34

**VI. Projected Payments to Fund: 1/**

(SDR million: based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2010	2011	2012	2013	2014
Principal	9.63	110.76	72.23	129.45	218.90
Charges/Interest		8.64	7.25	5.99	3.69
<b>Total</b>	9.63	119.40	79.48	135.44	222.59

<sup>1/</sup> When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

**VII. Safeguards Assessment.** An update of the previous safeguards assessment of the Banco Central de la República Dominicana (BCRD), which was completed in April 2005, was conducted in the context of the Stand-By Arrangement approved by the Board on November 9, 2009. The assessment was completed on June 1, 2010 and noted that the BCRD had implemented some of the previous safeguards recommendations relating to its external and internal audit mechanisms, and the internal control framework. In addition, periodic reviews have been instituted by the Internal Audit Division of the compilation, reconciliation, and reporting of Net International Reserves and Net Domestic Assets at each test date under the SBA program, against definitions agreed under the Technical Memorandum of Understanding. The report also found some remaining weaknesses which include financial statements reporting where accounting policies are not fully based on international financial reporting standards and the Monetary and Financial law where central bank autonomy needs strengthening.

**VIII. Article IV Consultation.** The last Article IV consultation was concluded by the Executive Board on November 9, 2009.

**IX. FSAP Participation.** An FSAP update was completed in March, 2009. A Financial System Stability Assessment report for the Dominican Republic was issued on May 20, 2002. The corresponding FSAP report was issued in November 2001.

**X. Technical Assistance** has been substantial since 2004, and concentrated on financial sector supervision, tax reform and administration, and national accounts statistics.

**XI. Resident Representative.** The Fund representative office was closed in July 2008 and reopened on December 1, 2010. Mr. Mario Dehesa is now working as resident representative.

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

## **Annex II: Joint Management Action Plan (JMAP)**

1. **The IMF and World Bank Dominican Republic teams held joint meetings and coordinated extensively in 2009-2010.**<sup>1</sup> There exists a close cooperation between the staff of the IMF and the World Bank. The regular meetings also included staff of the Inter-American Development Bank (IDB). The main focus of cooperation has been on electricity sector reform, an important part of the World Bank portfolio and of the structural reforms under the IMF Stand-By Arrangement (SBA). Discussions also included broad macroeconomic issues including fiscal and tax administration reforms, as well as poverty alleviation and external financing. In the fall of 2009, teams from all three international financial institutions (IFIs) met with President Fernández to establish a path for electricity sector reform, which eventually lead to the official reform strategy of the government. Subsequently, following the approval of the Stand-By Arrangement in November 2009, the three IFIs provided considerable external financing to help the government implement a counter-cyclical fiscal policy and address important structural reforms. The most recent meetings included participation of the IMF team in the ROC discussion of the second PASS loan that was presented at the WB board in November 2010.

2. **Successful coordination between the WB and IMF teams has resulted in significant synergies between the policies supported by both institutions.** In practice this has meant a close cooperation in the design of policies in the IMF SBA and those supported by the forthcoming WB loan. Given the relevance of the electricity sector for macro balances, competitiveness and growth, it is expected that the cooperation between the IMF and the WB teams will continue in the future. The WB expertise on structural issues is well established and the IMF team is keen on cooperating with the WB to reinforce the momentum for structural reforms which are expected to support macro balance in the near to medium term. The call for cooperation has also arisen from the IMF board during its meeting for the discussion of the SBA on Nov 9, 2009, where several EDs reiterated the need for close cooperation with the WB on electricity and social issues.

3. **The WB and IMF teams meet informally in Washington every fortnight, have held joint meetings in the Dominican Republic and frequently share information and data.** Bi-weekly meetings are used to update country teams on developments and to discuss joint strategy in moving forward on country programs. In the course of 2010, IMF and WB missions have purposely overlapped in the Dominican Republic and the teams have had the opportunity to meet jointly with government officials, including the President of Dominican

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<sup>1</sup> The World Bank country director is Yvonne Tsikata and the IMF mission chief is Mr. Alejandro Santos. The list of staff members attending regular meetings include: Ali Alichí (IMF), Pedro Antmann (WB), Juliana Araujo (IMF), Geoffrey Bannister (IMF), Philippe Benoit (WB), Laura Berman (WB), Maurizio Bussolo (WB), Juan Miguel Cayo (WB), Rodrigo Chaves (WB), Carine Clert (WB), Ernesto Crivelli (IMF), Raphael Espinoza (IMF), Kenji Hosono (IMF), David Reinstein (WB), and Roby Senderowitsch (WB).

Republic, to discuss reforms of the energy sector. As a matter of routine, IMF missions have meetings with World Bank and IDB resident representatives.

**4. The key macroeconomic and structural policy areas that have benefited from close coordination include:**

- ***Macroeconomic management*** (IMF). The current Stand-By Arrangement seeks to implement a gradual fiscal consolidation through 2012 to safeguard debt sustainability and anchor medium-term growth. The strategy is based on two pillars: improvements in tax administration and the rationalization of exemptions to increase tax pressure; and reform in the electricity sector to make it financially self-sustaining and reduce the transfers from the budget, freeing up resources for public investment.
- ***Institutional strengthening*** (IMF, World Bank and IDB). Structural reforms in a number of key areas to support growth and fiscal consolidation are included in the Stand-By Arrangement.
  - *Tax administration* (IMF, World Bank and IDB). A mission from the Fund in early 2010 identified priorities in tax administration reform and rationalization of tax exemptions. This effort is also being supported by World Bank and IDB projects which seek to establish a medium-term fiscal analysis and budgeting framework and improve the quality and efficiency of public expenditure.
  - *Prudential regulations* (IMF and World Bank). Based on the joint IMF-World Bank analysis of needs identified during the FSAP-Update, performed in early 2009, the Fund program seeks to introduce new practices in risk-based prudential regulation in line with Basel core principles.
  - *Inflation targeting* (IMF). The authorities have presented a plan to introduce a fully-fledged inflation targeting framework for monetary policy by early 2012.
  - *Reforming the energy sector* (IMF, World Bank and IDB). The institutions agreed on a path of reform that will improve the functioning of the electricity sector while reducing its impact on the government budget. The WB and the IDB have focused on management issues in the electricity distribution companies (EDEs) and other issues of microeconomic efficiency. Fund staff has concentrated on the integration of the electricity sector finances in the

budget, reducing untargeted transfers to the sector, and overall macroeconomic implications of the sector.

- *Capital market development* (IMF, World Bank). The authorities have made significant efforts to develop the local government debt market and plan to continue work to improve the primary and secondary markets for government debt, including by reforms to the regulatory and tax frameworks and institutional arrangements for market-making and clearing.
- *Social safety net* (World Bank and IDB). Multilateral development banks continue to devote a substantial portion of their portfolio to development projects in the health and education sectors, as well as sanitation and other pro-poor spending. The IMF has supported these efforts by including the expansion of the Solidaridad conditional cash transfer program and widening the coverage of the Bonoluz program (a targeted electricity subsidy program) as structural benchmarks under the SBA.

### **Annex III: Relations with the World Bank Group**

(As of November 23, 2010)

1. The World Bank's total loan commitments in the Dominican Republic (DR) amount to US\$308.9 million, of which US\$222.5 million remains to be disbursed. The loan portfolio consists of nine loans: seven for investment (Water and Sanitation in Tourist Areas, Early Childhood Education, Municipal Development, Health Sector Reform II, Youth and Development, Social Protection -including an additional financing of US\$10 million -, and Energy Distribution); one for Technical Assistance (Financial Sector) and an Emergency Recovery Loan.
2. The Municipal Development Project (US\$20 million) has been approved by the Lower Chamber and is expected to become effective before December 10th. The second programmatic DPL (US\$150 million) of the Performance and Accountability of Social Sectors series was approved by the Executive Board and signed on November 23th and is expected to be disbursed in December.
3. Portfolio performance in the Dominican Republic has improved substantially in terms of effectiveness delays and disbursement rates since February 2009. The portfolio review held from March 10-12, 2010, indicated a 35% decrease (on average) in effectiveness delays and an increase of almost a factor of four (on average) in the disbursement rate. Effectiveness delays went from 13.7 months to 8.9 months between February 2009 and March 2010. Disbursement rates went from 4.9% to 19.3% in the same period of time.
4. Both indicators also showed relative improvements when compared to LAC and the Caribbean region. In February 2009, effectiveness delays (on average) in DR were twice as high as those of the LAC Region. Today, they are almost the same (DR: 8.9 months; LAC: 13.7 months). The same was also true for the disbursement rate when compared to the Caribbean region. In February 2009, the DR disbursement rate was twice as low as the Caribbean (10.7%).
5. A comprehensive set of analytical studies has been completed in recent years. In FY 2009, a Growth Study CEM (Country Economic Memorandum), an update of the Financial Sector Assessment Program, a new Country Partnership Strategy (FY09-FY13), an update of the Report of the Observance of Standards and Codes (ROSC) in Accounting and Auditing and a set of Policy Notes that fed the National Development Strategy. The Bank is preparing several additional loans targeting: i) social sectors, ii) competitiveness, iii) quality of public expenditures and iv) risk management and climate change.

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**Dominican Republic: Recent Technical Assistance Mission**


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<b>Mission title</b>	<b>Start Date</b>	<b>End Date</b>	<b>Number of Members</b>
Bank restructuring	1/23/2006	2/2/2006	1
Monetary policy and operations	3/18/2006	3/31/2006	8
Central Bank recapitalization	3/20/2006	3/27/2006	3
Debit management	3/20/2006	3/27/2006	4
Asset recovery	6/26/2006	7/1/2006	1
Consolidated supervision	7/17/2006	7/21/2006	5
Debt management and central bank recapitalization	11/6/2006	11/15/2006	5
Banking law	3/12/2007	3/13/2007	2
Asset recovery	3/15/2007	3/23/2007	1
Financial Sector	3/5/2007	3/9/2007	6
NLTA Development Policy Loan	11/23/2009	11/27/2009	1
Accountability of Social Sectors	1/27/2010	1/29/2010	3
Education	6/6/2010	6/11/2010	2
Quality of Public Expenditure	7/21/2010	7/23/2010	2
Competitiveness	8/3/210	8/6/2010	1

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**A. IBRD and IDA Operations (As of November 23rd, 2010)**  
(In millions of U.S. dollars)

<b>Active Projects</b>	<b>Sector</b>	<b>Commitments</b>	<b>Disbursements</b>	<b>Undisbursed amount</b>
DO(APL1) Water and sanitation in tourist areas	Water	27.5	1.1	26.4
DO-Early childhood education project	Education	42.0	35.7	6.3
DO Financial sector technical assistance	Energy	12.5	7.0	5.5
DO Electricity distribution and rehabilitation	Energy	42.0	0.4	41.6
DO Social sectors investment program	Social Protection	29.4	3.9	25.5
DO Municipal Development	Agriculture and rural development	20.0	0.0	20.0
DO Youth development project	Social Protection	25.0	12.3	12.7
DO (APL2) Health reform, II	Health	30.5	2.1	28.4
DO Emergency recovery and disaster management	Emergency	80.0	23.9	56.1
<b>Total</b>		<b>308.9</b>	<b>86.4</b>	<b>222.5</b>

Source: World Bank

**B. IFC Operations (As of September 30th, 2010)**  
(In millions of U.S. dollars)

	Loans	Equity	Quasi-equity	Participants	Total
Held	117.6	33.9	44.7	3.1	199.2
Disbursements	87.6	33.9	39.7	3.1	164.2

Source: World Bank

**C. MIGA (As of September 30th, 2010)**  
(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009	2010
Outstanding gross guarantees	91.3	78.7	157.3	127.9	126.0	99.6	107.6

Source: World Bank

**D. IBRD and IDA Loan Transactions (fiscal year 2010 as of November 23rd)**  
(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009	2010
Disbursements	71.2	40.4	39.4	69.1	19.9	351.2	21.2
Repayments	34.6	37.9	35.5	36.9	40.3	52.3	58.5
Net lending	36.6	2.5	3.9	32.2	-20.4	298.9	-37.3
Valuation adjustments	...	...	...	...	...	...	-0.4
<b>Debt outstanding</b>	<b>401.2</b>	<b>393.0</b>	<b>402.6</b>	<b>435.2</b>	<b>447.1</b>	<b>748.6</b>	<b>711.0</b>
Interest and Charges	18.8	19.9	21.1	22.6	23.8	20.7	20.9

Source: World Bank

\* Observed differences with previous versions of this Annex are due to changes in methodology and accounting by the Dirección General de Crédito Público.

**Annex IV: Relations With the Inter-American Development Bank**  
(As of November 24, 2010)

1. In 2010, the IDB estimates making disbursements for US\$415 million, of which, US\$200.00 million correspond to the Fiscal Strengthening Program. There will also be a \$110.0 million disbursement from the Program to Support Competitiveness Policy – Phase II.

**Dominican Republic: Relations with the Inter-American Development Bank**  
(In millions of U.S. dollars)

A. Operations

Sector	Commitments	Disbursed	Undisbursed Amounts
Agriculture	85.0	55.0	30.0
Science and Technology	-	-	-
Urban Dev. And Housing	-	-	-
Education	130.0	77.2	53.1
Labor Market, Training, and Transfers	10.0	8.3	1.6
Sanitation	66.3	8.8	57.8
State Modernization	682.5	526.4	155.9
Health	-	-	-
Transportation	50.0	12.7	37.3
Private Sector Development	-	-	-
Disaster Prevention	5.0	0.6	4.4
Energy	40.0	0.1	39.9
Social Investment	170.0	66.3	103.7
<b>Total</b>	<b>1,238.8</b>	<b>755.5</b>	<b>483.6</b>

B. Loan Transactions

**B. Inter-American Development Bank Loan Transactions**  
(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009	2010
Disbursements	254.2	135.7	118.1	109.5	137.4	485.0	415.0
Repayments	63.9	67.0	73.3	173.6	168.9	134.2	95.3
Net lending	790.3	68.7	44.8	-64.1	-31.5	350.8	319.7
Interest and Charges	52.0	56.0	60.7	64.3	56.1	53.1	48.7
Subscriptions and Contributions	40.0	3.8	1.9	1.9	0.0	748.6	0.0
Net Transfers	134.3	8.9	-17.8	-130.3	-87.6	297.7	271.0

Source: Inter-American Development Bank

2. For 2010, the Bank has approved five new loans in the areas of education (US\$ 50 million), agricultural innovation (US\$ 30 million), water and sanitation (US\$ 35 million), support competitiveness policy (US\$ 120 million) and social protection (US\$100 million). On October 4, the Bank approved the Country Strategy for the period 2010–13.



Press Release No. 10/506  
FOR IMMEDIATE RELEASE  
December 20, 2010

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Completes Fourth Review Under Stand-By Arrangement for Dominican Republic, Approves US\$168.1 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed the fourth review of the Dominican Republic's economic performance under a program supported by a 28-month Stand-By Arrangement (SBA). The completion of the review enabled the immediate disbursement of an amount equivalent to SDR 109.45 million (about US\$168.1 million at current rates), bringing total disbursements to an amount equivalent to SDR 547.25 million (about US\$840.4 million at current rates). Data revisions indicate that the end-December 2009 performance criterion on the consolidated public sector deficit was temporarily breached by a small amount which was deemed to be irrelevant from a macroeconomic perspective and the Executive Board approved the relevant waiver of the related condition.

The SBA was approved on November 9, 2009 (see [Press Release No. 09/393](#)), for an amount equivalent to SDR 1,094.5 billion (about US\$1.7 billion), or 500 percent of the Dominican Republic's IMF quota. The first review of the program was completed on April 7, 2010 (see [Press Release No. 10/137](#)), for an amount equivalent to SDR 79.27 million (about US\$121.7 million at current rates). The second and third reviews were completed on October 22, 2010 (see [Press Release No. 10/399](#)), for a combined amount equivalent to SDR 158.53 million (about US\$243.5 million at current rates).

Following the Executive Board's discussion of the Dominican Republic on December 17, Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

“The economic recovery remains robust and fiscal consolidation and structural reforms under the program are moving forward. However, significant challenges remain in raising fiscal revenues and lowering untargeted electricity subsidies. The risk of overheating also needs to be considered.

“The authorities have taken measures to raise revenues and cut expenditures to meet the 2010 fiscal targets. They have also submitted the 2011 budget to the Congress in line with the fiscal consolidation under the program. If revenues above program projections materialize, they could be used to finance additional public investment, leaving the program targets unchanged.

“The central bank is committed to remove policy accommodation by raising the policy rate, as the output gap is narrowing and inflation is close to the central bank’s target. It would be important to increase exchange rate flexibility to accommodate external shocks. The central bank is also working toward a smooth transition to an inflation targeting framework. The authorities remain committed to the central bank recapitalization plan to safeguard the credibility of monetary policy.

“The electricity sector reform remains one of the principal challenges facing the authorities. The recent change in the management of the electricity distribution companies and the increase in the electricity tariffs in December are important first steps in this process. It will be important to continue tariff reform in 2011 toward a flexible regime.

“The authorities plan to continue pursuing an active structural reform agenda to improve the tax system, mostly through rationalization of exemptions; advance the electricity sector reform to eliminate untargeted electricity subsidies; improve banking supervision; develop local debt markets; introduce full inflation targeting; and improve the coverage of the social safety nets.”