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Dominican Republic: First Review Under the Stand-By Arrangement, Requests for Waivers of Applicability and Modification of Performance Criteria—Staff Report; Staff Supplement; Informational Annex; Press Release on the Executive Board Discussion.

In the context of the first review under the stand-by arrangement, requests for waivers of applicability and modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the First Review Under the Stand-By Arrangement, Requests for Waivers of Applicability and Modification of Performance Criteria prepared by a staff team of the IMF, following discussions that ended on February 15, 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 March 25, 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.

- A staff supplement of April 6, 2010 updating information on recent developments.

- An informational annex.

- A Press Release summarizing the views of the Executive Board as expressed during its April 7, 2010 discussion of the staff report that completed the request and/or 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

First Review Under the Stand-By Arrangement, Requests for Waivers of Nonobservance and Modification of Performance Criteria

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

Approved by Rodrigo Valdés and Dominique Desruelle

March 25, 2010

EXECUTIVE SUMMARY

- **Arrangement**. To safeguard the macroeconomic achievements of the last several years and against the background of unfavorable external conditions due to the global recession, the Executive Board approved a 28-month Stand-By Arrangement (SBA) for the Dominican Republic in support of the authorities' program in the amount of SDR 1,094.5 million (500 percent of quota) on November 9, 2009. The main objective of the program is to limit the procyclicality of policies while strengthening medium-term sustainability to lay the foundations for a gradual recovery and sustained growth.
- **Developments**. After a period of high growth since the 2003 financial crisis, the economy recorded anemic growth in the first half of 2009. The announcement of a countercyclical macroeconomic program in the second half of 2009 improved confidence and fostered aggregate demand. Driven primarily by a likely inventory cycle, output accelerated at the end of the year and real GDP growth is estimated at 3½ percent for 2009 as a whole. Inflation remained subdued due to large unutilized capacity; core inflation declined to 3¼ percent in December 2009. Monetary policy remained accommodative with a record low policy rate. Fiscal policy became countercyclical and the consolidated public deficit increased by 2 percent of GDP in the second half of 2009. The external current account deficit declined to 5 percent of GDP in 2009 as imports fell faster than exports and the terms of trade improved. The earthquake in Haiti will likely put some pressure on the fiscal accounts in the short-run, while the reconstruction effort will likely increase external demand.
- **Review**. The authorities reiterated their commitment to the program policies in a supplement letter of intent. Despite the non-observance of two performance criteria for end-December 2009 (for which the authorities are requesting waivers), the program remains on track. All structural benchmarks for end-2009 were observed. Minor modifications are proposed on the central administration deficit and international reserves targets for 2010. The main challenges for the rest of 2010 are to: (i) maintain a countercyclical policy as the economy recovers; (ii) switch policy emphasis to sustainability issues in the second half of the year; (iii) rationalize tax exemptions to improve collections; (iv) implement electricity reform to gradually eliminate indiscriminate subsidies; and (v) join the international effort to reconstruct Haiti within the program framework.
- **Discussions**. These took place during February 2–15, 2010, in Santo Domingo. The mission met with Central Bank Governor Valdez, Finance Minister Bengoa, Economy Minister Montás, senior government officials, representatives of the banking community, and the private sector. The staff team consisted of A. Santos (head), G. Bannister, A. Alichi, J. Araujo (all WHD), and K. Hosono (SPR). The mission liaised with the World Bank and IDB staff in Santo Domingo. Mr. J. Estrella (OED) participated in the meetings.
- **Appraisal**. Staff supports the waiver requests and the completion of the first SBA review given the proposed actions and satisfactory performance.

LIST OF ACRONYMS

BCP	Basel Core Principles
BCRD	Central Bank of the Dominican Republic
BONOLUZ	Targeted Electricity Subsidy
CDEEE	Public Electricity Company
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
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
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 Bank
SBA	Stand-By Arrangement
SDR	Special Drawing Rights
TA	Technical Assistance
TMU	Technical Memorandum of Understanding
UNDP	United Nations Development Program
WB	World Bank
WHD	Western Hemisphere Department

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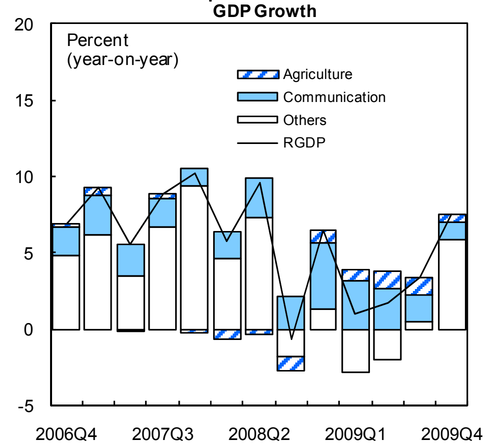
I. Background

A. Developments

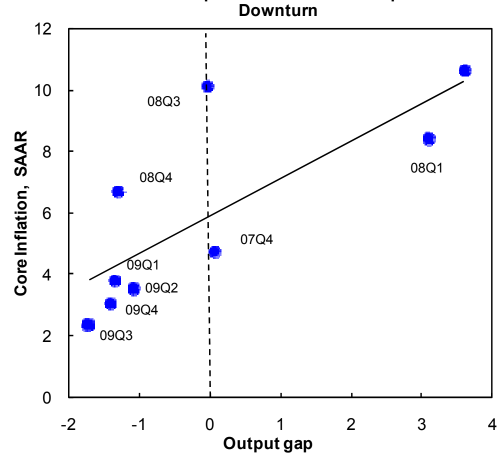
1. **Context.** The onset of the global economic and financial crisis in late 2008 depressed external demand and economic conditions in the Dominican Republic, leading to a sharp contraction in tax revenues, exports and imports in 2009. The ongoing credit crunch limited the sources of financing for the budget and forced an inadequate procyclical fiscal stance in the first half of 2009 while the efforts of the Central Bank of the Dominican Republic (BCRD) to relax monetary policy reached a limit. Against this background, the authorities negotiated a multi-year Stand-By Arrangement (SBA) in the second half of 2009 to address their increasing balance of payments need and conduct countercyclical policies in a first phase of the program (with the aim of mitigating the drastic downturn); and then to focus on a fiscal consolidation effort (with the aim of strengthening medium-term sustainability). An agreement in principle on a Fund-supported program was announced in September 2009; a letter of intent was signed and made public in October 2009 and the Board approved the SBA in November 2009. The program got off to a good start, mobilizing substantial resources from IFIs, improving confidence, preventing a deepening of the recession, and creating the conditions for an economic rebound.

2. **Output**. The economy has started to grow but the recovery remains fragile. After an extended economic expansion, growth decelerated rapidly in late 2008 and economic activity was almost stagnant in the first half of 2009. Preliminary data indicate that real GDP accelerated in the last quarter of 2009 (7½ percent yoy), leading to a 3½ percent growth for 2009 as a whole. Despite the stronger-than-expected output performance in the second half of 2009, the economy remains weak, and final domestic demand seems to be recovering slowly. Real GDP growth in the third quarter of 2009 was sustained mainly by positive growth in net exports, the result of a large decline in imports. The expansion in the fourth quarter appears to be related to stockbuilding rather than a strong final demand given the weaknesses in other indicators (negative growth in exports, non-oil imports and tax collections). It is estimated that the output gap remains negative and would reach -4½ percent by mid-2010.

Dominican Republic: Contribution to Real GDP Growth

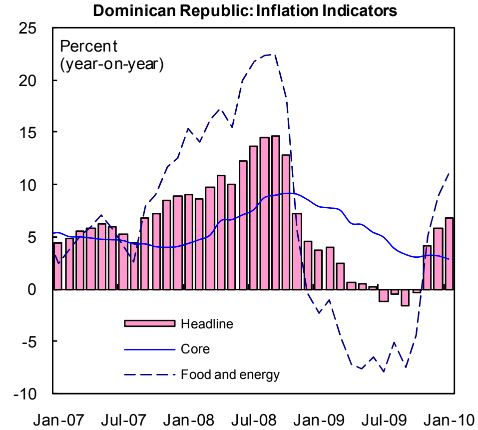


Dominican Republic: Inflation and Output in the Downturn



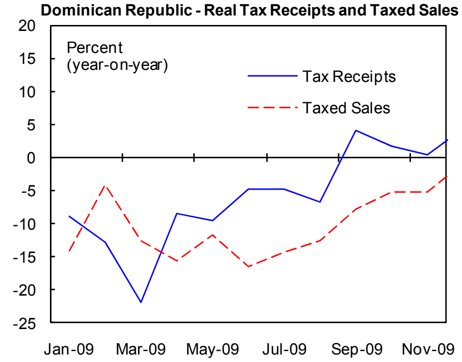
3. **Inflation.** No noticeable price pressures were observed in 2009 and headline inflation ended the year at 5¾ percent (yoy), below the central bank target range of 6-7 percent, while core inflation (excluding food and fuel prices) reached 3¼ percent. For January 2010, headline inflation increased to 7 percent (yoy), reflecting mostly higher fuel prices as core inflation remained low.

Dominican Republic: Inflation Indicators

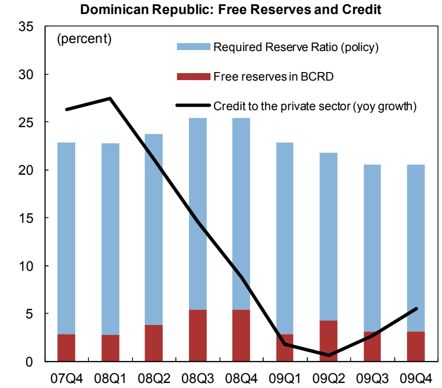


4. **Fiscal position.** The program objective of mobilizing a fiscal expansion in the last quarter of 2009 to help reignite economic activity was achieved. Following approval of the program, budgetary support from multilaterals (including the Fund) of about US$1 billion (2 percent of GDP) allowed for an expansion of the combined public sector deficit from 2¼ percent of annual GDP in the first 9 months to 4½ percent of GDP for 2009 as a whole. At the Central Administration level, the fiscal expansion was stronger than envisaged in the program as lower-than-expected tax revenues and higher transfers to the state-owned electricity company (due to higher generation costs), and other decentralized agencies, led to an overall deficit of 3½ percent of GDP. At the consolidated public sector level, the overrun in the Central Administration was compensated by higher-than-expected profits of state-owned enterprises (particularly the state-owned refinery REFIDOMSA), and a marginally lower quasi-fiscal deficit of the central bank. Although capital expenditures came in below program levels, they increased by 1½ percent of GDP in the final quarter of 2009 providing for a significant fiscal impulse.

Dominican Republic - Real Tax Receipts and Taxed Sales



Dominican Republic: Free Reserves and Credit



5. **Monetary conditions.** The central bank maintained a loose policy stance to support the economic recovery, keeping the policy rate at a record low of 4 percent and reserve requirements at 15 percent after cutting them aggressively in the first half of 2009. The central bank left the policy rate unchanged in their latest monetary policy meeting in late February 2010. Notwithstanding a contraction in the net domestic assets of the central bank by almost ¼ in 2009 with respect to 2008, there is evidence of an incipient recovery of private sector lending at the end of 2009. The rebound is attributed partly to

Dominican Republic: Monetary Indicators

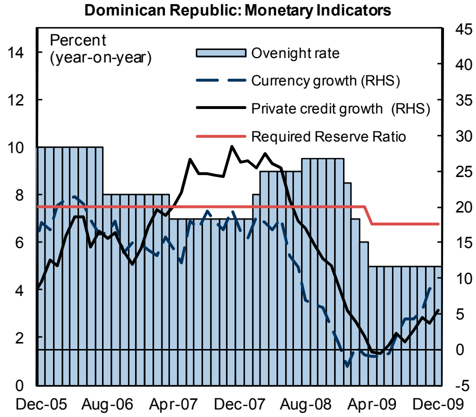
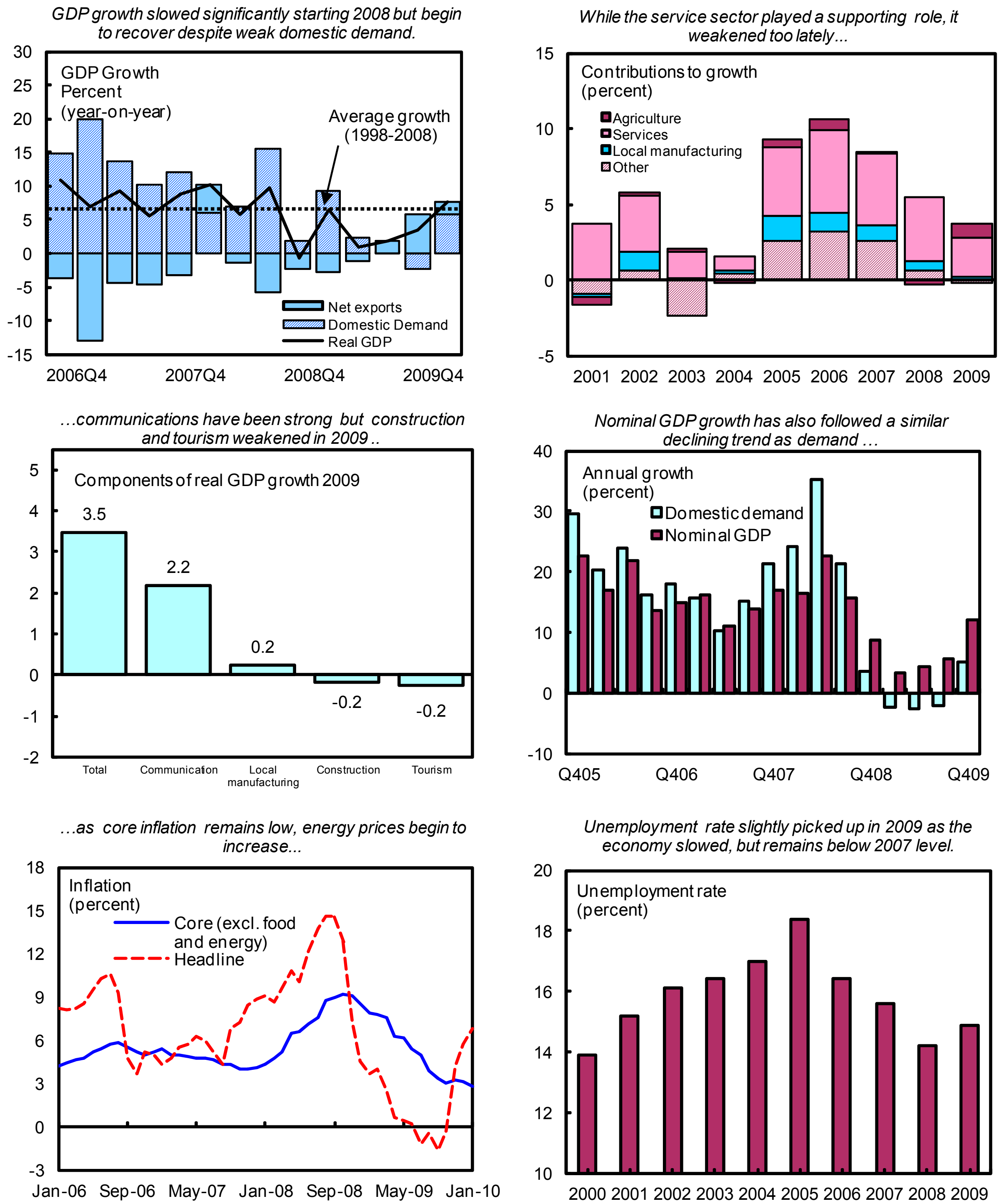


Figure 1. Dominican Republic: Real Sector Developments

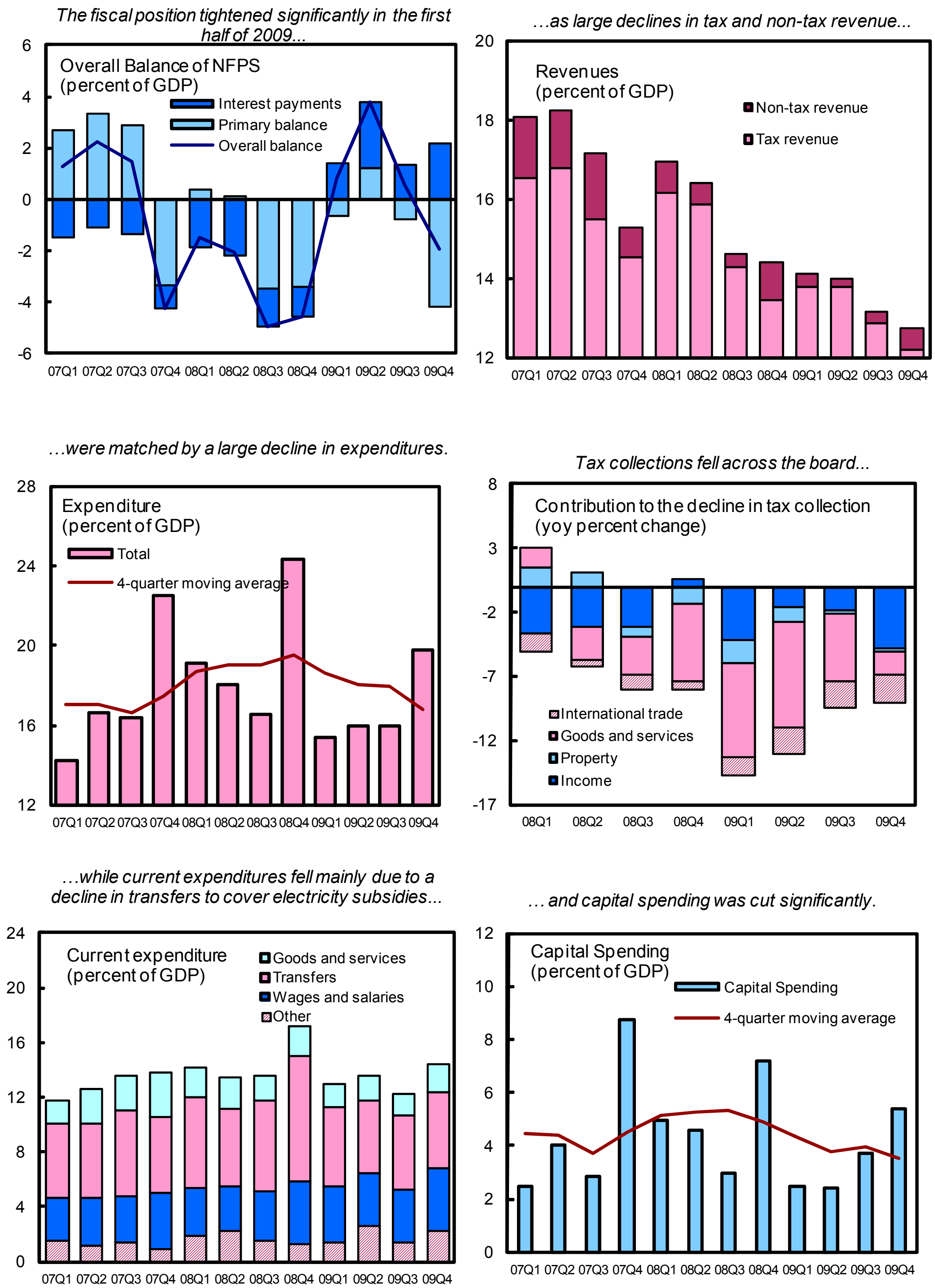
GDP growth starts to recover while inflation remains subdued on the back of weak external environment and domestic demand. Unemployment has picked up.



Sources: Dominican authorities; and Fund staff estimates.

Figure 2. Dominican Republic: Fiscal Developments

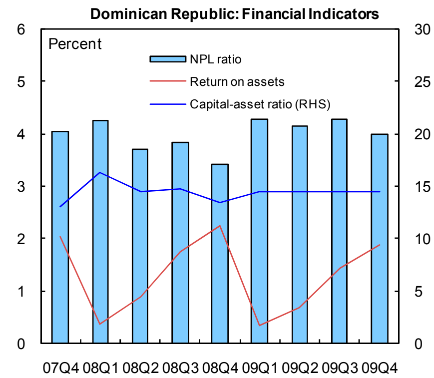
Fiscal policy was relaxed in 2008, as tax exemptions were introduced and energy subsidies increased, but it was tightened considerably in the first half of 2009 as large declines in revenues were matched by cuts in expenditure.



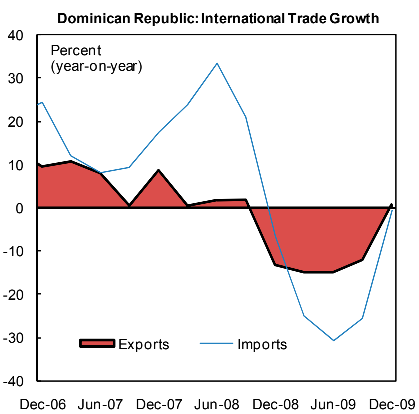
Source: Dominican Authorities; and Fund staff calculations.

increased confidence in the economic recovery.

6. **Financial system.** There are no signs of stress in the banking system. Non-performing loans (NPLs) have remained low. Many banks are now reporting a rebound in their profitability and the banking system remains well capitalized. Moreover, there is still plenty of liquidity in the system due to the banks' previous cautiousness in credit extension. The cut in reserve requirements translated to a reduction in actual reserves, but banks continue to maintain large liquidity buffers at the central bank.



7. **External sector.** The current account deficit declined by almost one-half to around 5 percent of GDP in 2009, which is about one percentage point lower than originally projected, mainly due to the weaker than envisaged imports, and stronger-than-expected tourism and remittance receipts. The capital account registered a large surplus due to sizeable disbursements from the World Bank and the Inter-American Development Bank (IDB) at the end of the year, as well as foreign direct investment and some additional transitory capital inflows beyond the original projection. As a result, the net international reserve accumulation exceeded the target (floor) by some US$650 million (under the program definition). [1]



8. **Earthquake.** The most powerful earthquake in half a century was felt in the eastern part of the island of Hispaniola on January 12, 2010. While the earthquake devastated neighboring Haiti, it only had limited impact on the Dominican Republic. Haiti is the second largest destination for Dominican exports and the earthquake greatly disrupted trade flows. There was a need to provide emergency food and fuel support to Haiti and to attend Haitian citizens in Dominican hospitals during the crisis. It is estimated that these actions have put pressure on budgetary resources for about 0.1 percent of GDP in the first quarter of 2010. A summit on the reconstruction of Haiti was organized by President Fernández on January 18. A technical meeting is scheduled for mid-March ahead of the U.N. conference in New York on this issue at end-March. Another summit is scheduled to take place in Santo Domingo in early June 2010.

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[1] The authorities conducted an exercise to verify the validity of claims of several foreign suppliers to the public electricity company (CDEEE) for some US$6 million from the late 1980's (less than 0.03 percent of total public debt). The exercise showed that the claims were not valid and staff recommended to take these amounts out of the debt reporting system.

9. **Politics.** There will be parliamentary elections in May 2010, which could increase risks to policy implementation under the program. Some polls predict that the incumbent Liberation Party (PLD) of President Fernández would be able to maintain a slim majority in Congress. The Congress approved a final version of President Fernández's proposed Constitution. The new Constitution includes the possibility of re-election for President in non-consecutive terms. This constitutional change would allow President Fernández to rerun for election in 2016 (after his current term come to an end in 2012).

10. **Social.** Tensions eased with the increased public spending supported by the program, but there is still continued sporadic social unrest over poor delivery of social services, mainly electricity and drinking water. Some bold corrective actions by the new electricity administration and government's partial settlement of salary disputes with social workers in the areas of education and healthcare have helped to dissipate friction. However, the influx of displaced Haitians looking for jobs and healthcare could create social stress.

B. Performance

11. **Quantitative targets**. Three out of five quantitative performance criteria (PC) under the program for end-December 2009 were observed:

- ***Combined public sector fiscal deficit.*** The floor on the overall balance of the combined public sector (4.5 percent of GDP) was observed with a very narrow margin, as the excess on the balance of the central administration was compensated by higher profits from state-owned enterprises and a marginally lower-than-expected quasi-fiscal deficit of the central bank.

- ***Central administration fiscal deficit.*** The floor on the overall balance for the central administration was exceeded by 0.4 percent of GDP (3.5 percent of GDP compared to limit of 3.1 percent of GDP) due to higher-than-expected transfers to the state owned electricity company mainly as a result of the higher cost of generation (driven by higher contractual fuel prices) and tax shortfalls (despite a stronger recovery). To signal the authorities' commitment to the program, they proposed to strengthen the fiscal target for the Central Administration for calendar year 2010 by about ½ of the deviation in 2009. A waiver is being requested by the authorities for the deviation in observing this performance criterion. Staff supports the request given the strengthened target for 2010.

Dominican Republic: Performance Criteria
(Quantitative targets for end-December 2009)

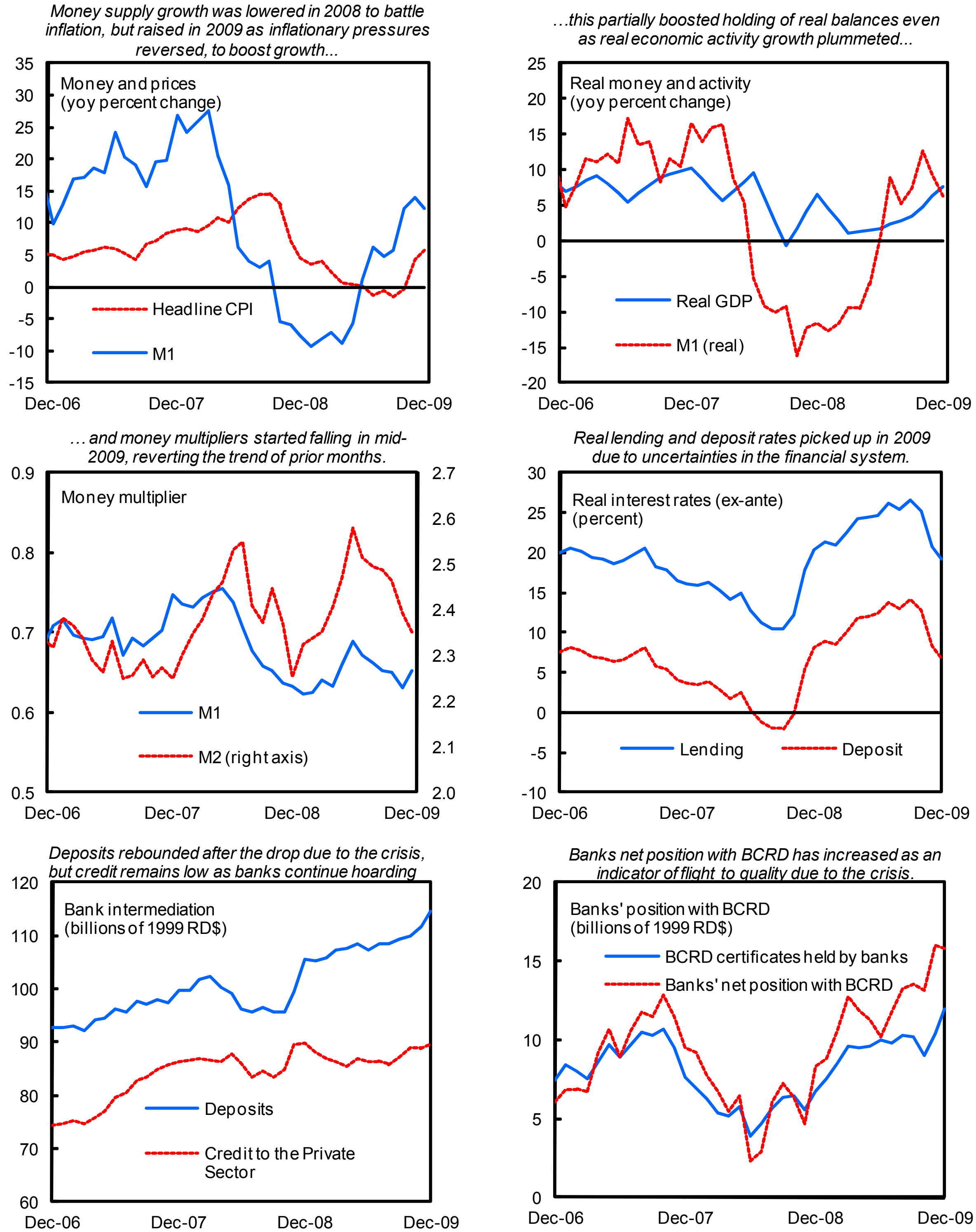
	Prog.	Actual	
(In percent of GDP)			
Fiscal Targets			
Consolidated public sector deficit	4.5	4.4	✓
Central administration deficit	3.1	3.5	x
(In percent of base money)			
Monetary Targets			
Net international reserves	49.4	67.0	✓
(In percent of payments due)			
Debt Targets			
External arrears	0.0	0.0	✓
Arrears to electricity generators	0.0	6.7	x

Source: Dominican authorities and Fund staff estimates.

- ***Net international reserves*** (NIR) were higher than programmed in December 2009 by some US$650 million, partly due to large central bank purchases of foreign exchange from the government. The authorities remain committed to saving a portion of the reserve accumulation above the program target in 2009 and have agreed to

Figure 3. Dominican Republic: Monetary Developments

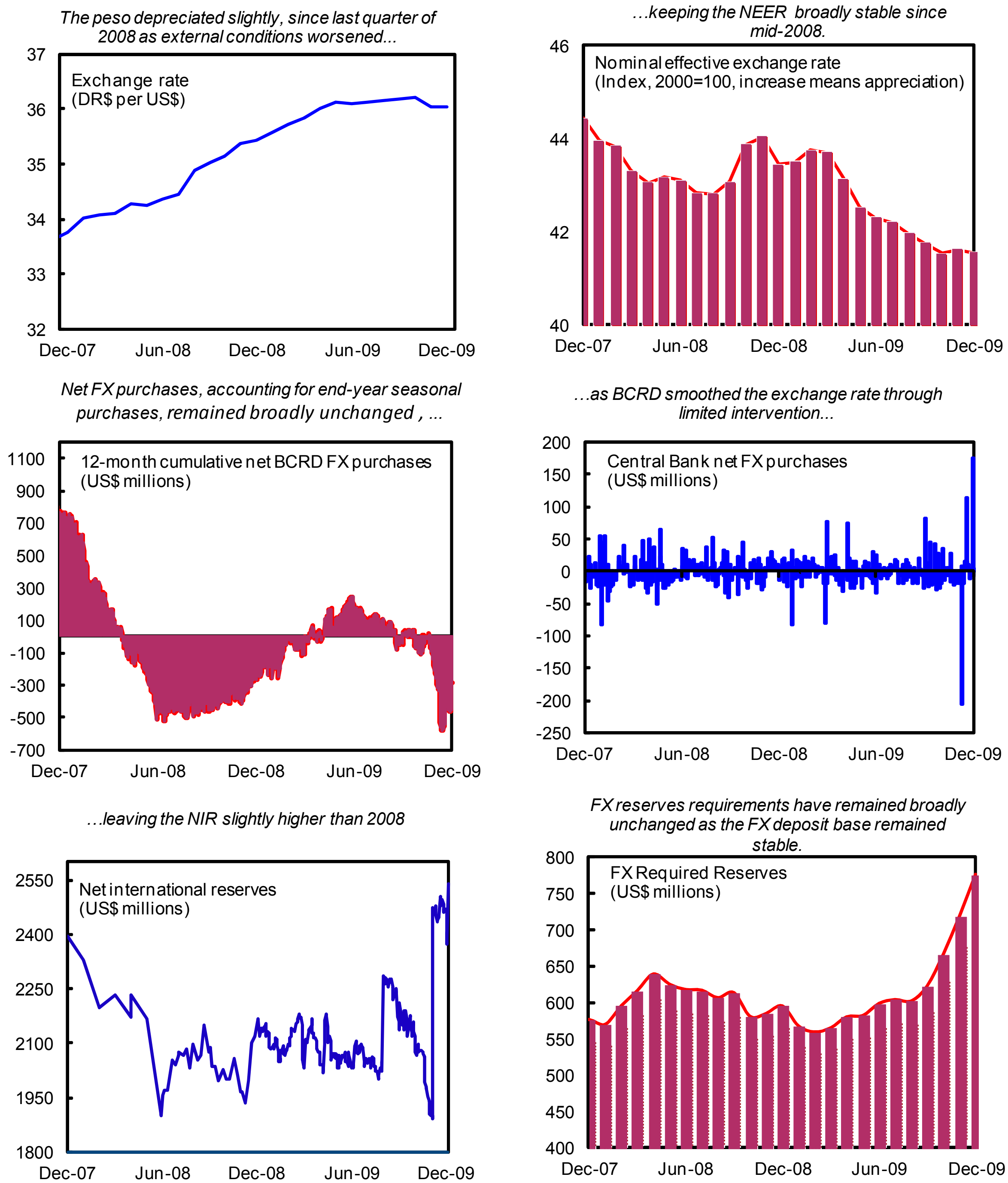
Monetary policy has been expansive in 2009 in response to lower inflationary pressures and slower economic activity, but credit has not picked up as demand remains dampened.



Sources: Dominican authorities; and Fund staff estimates.

Figure 4. Dominican Republic: Exchange Rate Developments

The Dominican peso has gradually depreciated since 2008, as the Central Bank has smoothed fluctuations in the exchange rate, keeping NEER broadly unchanged, and NIR slightly higher than 2008 levels.



Sources: Dominican authorities; and Fund staff estimates.

increase the target for accumulation in 2010 (formerly zero) to US$200 million by end-2010.

- ***Arrears to electricity generators.*** The target on zero arrears to electricity generators (under program's definition) was missed in December 2009, by some $100 million (0.2 percent of GDP). This was partially due to increases in costs related to higher contractual fuel prices and partially because the public electricity company (CDEEE) was legally forced to pay part of old debt to generators. To resolve this issue, the authorities have cleared these arrears and have enhanced a transfer mechanism between the ministry of finance and the CDEEE to prevent payment delays in the future. A waiver is being requested by the authorities for the delay in observing this performance criterion. Staff supports the request given the actions taken.

- ***External arrears.*** The continuous performance criterion on the non-accumulation of external arrears was met.

12. **Structural benchmarks**. The two structural measures for end-2009 were observed:

- ***Electricity.*** The authorities presented a strategy for the reform of the electricity sector aimed at gradually eliminating untargeted subsidies and improving collections to achieve the medium-term budgetary expenditure objectives of the program. The plan was used as a basis for developing structural benchmarks in electricity sector reform for the rest of the program (Box 1).

Dominican Republic: Structural Benchmarks for December 2009

Policy Action		Status
1. Design a strategy to reform electricity sector to eliminate indiscriminate subsidies	●	**Fully met**. Satisfactory action plan provided in December 2009
2. Increase coverage of the conditional cash transfer program to 70,000 families	●	**Fully met**. Coverage increased by 70,170 families

Source: Dominican authorities and Fund staff estimates.

- ***Social safety net*.** The permanent coverage of the conditional cash transfer program (*Solidaridad*) was increased by over 70,000 families living in extreme poverty. Further investments in public education and health infrastructure are expected for 2010 (Box 2).

C. Perspective

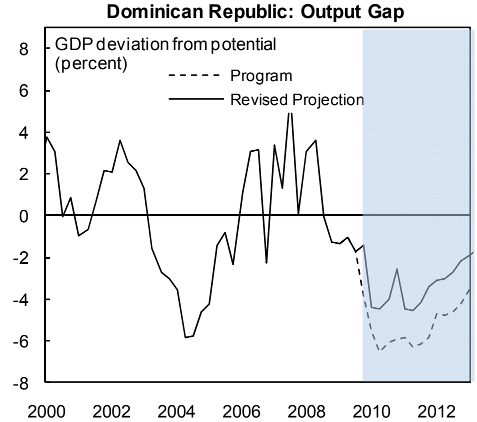
13. **Outlook and risks.** The outlook for growth is improving with the recovery of the international economy, and while downside risks have moderated, they are still dominant. The rapid expansion of output in the fourth quarter seems to be related to inventory accumulation in the private sector, but private demand continues to be fragile. Further risks to the outlook arise from a softening of the world economy, should the recovery not be as robust as expected. In addition, while in the medium-term the effect of reconstruction in Haiti could be positive, the short-term effect of the Haiti earthquake on growth is expected to be negative, as this country was the second largest importer of products from the Dominican Republic (following the United States). The risk of contagion from credit events in emerging markets or a tightening of access to international bond markets could also have a significant

effect on growth, particularly as the program's financing depends upon access to the international bond market for at least US$600 million.

II. Discussions

14. **Focus**. Discussions centered on the adequacy of the program and the policies needed to achieve program's objectives. The authorities were of the view that the program remains broadly adequate but proposed some minor modifications to address the outcomes for 2009. They stressed that their policies aim at achieving the program's objectives. The mission also discussed how to move the structural reform agenda forward (especially in the electricity sector and tax collections) and how to implement the already announced "exit strategy", particularly the unwinding of the expansionary policy stance after mid-2010, when the negative output gap is expected to begin shrinking. The central bank has managed interest rates flexibly in the past and is prepared to tighten policy at the earliest signs of inflationary pressures or overheating. The ministry of finance felt that it was difficult to fine tune policy and had a preference for aiming at already agreed targets following the spirit of the original program.

Dominican Republic: Output Gap



A. Macroeconomic Management

15. **Macroeconomic framework**. Economic conditions appear to be better than anticipated but the underlying situation might be weaker than official data indicate (as suggested by a still depressed level of tax collections, exports and non-oil imports). The macroeconomic outlook for 2010 is qualitatively similar to that reported at the time of approval of the SBA (November 2009), namely a gradual recovery with low inflation. However, growth has been revised upward by 1 percentage point, while inflation is expected to remain subdued as the economy remains below potential. Fiscal policy is expected to follow program projections and the external position will weaken somewhat on account of the delay in the resumption of nickel exports and higher oil prices. The output gap remains negative and is expected to continue deteriorating in 2010, justifying the fiscal stimulus in the first half of 2010 (Box 3).

Dominican Republic: Macroeconomic Framework

	2008	Prog. 2009	Est. 2009	Prog. 2010	Proj. 2010
(Annual percent change, unless noted)					
Real GDP	5.3	½-1½	3.5	2-3	3-4
Output gap (% from potential)	1.3	-3.0	-1.4	-6.0	-3.9
Headline inflation (e.o.p)	4.5	6-7	5.7	6-7	6-7
Core inflation (e.o.p.)	8.6	…	3.2	…	3.5
(In percent of GDP)					
External current account	-10.0	-6.2	-5.0	-6.0	-6.1
Primary fiscal balance 1/	-1.3	-0.8	-0.7	0.0	0.0
Fiscal deficit 1/	-4.6	-4.5	-4.4	-4.0	-4.0
Fiscal impulse 2/	-1.6	-1.0	-1.5	0.8	0.5
Public debt 1/	35.5	39.0	39.0	40.3	40.3

Source: Dominican authorities and Fund staff estimates.
1/ Consiolidated public sector.
2/ Non-financial public sector. Negative implies an expansionary policy.

Box 1. Dominican Republic: Benchmark on Electricity Reform Strategy

The electricity sector has performed poorly for many years. The clients receive poor quality for expensive service, the state-owned distributors run large deficits that are finally covered by the government, and the (mostly) private generators suffer from cash flow problems due to late payments of distributors. As a result, confidence in the sector has remained low, leading to very little investment in the past several years. This poor performance is attributed to weak planning and management in the sector and slow progress in implementation of the electricity theft criminalization law. Previous efforts to address shortcomings of the sector only had limited results as they were responses to the crises, usually sparked by increases in global fuel and oil prices. In the context of the current SBA program, the authorities have presented a comprehensive reform plan for the sector that has both short-term and medium-term elements.

The objective of the authorities' plan is providing reliable service to all clients while eliminating untargeted subsidies, consistent with the medium-term budgetary objectives of the program. This would require a comprehensive planning, including investment in areas of generation, distribution, and transmission, to meet the demand, at tariffs that are reasonable by standards of the industry. In addition, in the short term, there is a need to increase consumer tariffs (beyond the currently high levels) to avoid blackouts and financial problems. Over the medium-term, as efficiency improves, tariffs will be readjusted to reasonable levels. The government will remain committed to providing transparent subsidies to the poor clients under a new program (BONOLUZ), which replaced the old program (PRA).

Dominican Republic: Strategy for Electricity Reform

	2009	2010	2012	2015
Pricing				
Tariff regime 1/	A	I	T	T
Costs				
Number of clients (million)	1.4	2.1	2.2	2.3
Cash Recovery Index (CRI) (%)	61	69	78	85
Energy loss by disributors (%)	32	28	20	14
Reduction in operational costs (yoy, %)	10	25	10	0
Subsidies (targeted)				
Number of beneficiery clients (,000)	11	50	200	320
Generation				
Electricity production (,000 GWh)	14.8	14.5	14.9	17.9
Investment (US$ million)	80	150	150	100
Budget				
Budgetary transfers (% of GDP)	1.3	0.8	0.2	0.0
Reduction in transfers (US$ million)	607	224	280	100

Source: Dominican authorities and Fund staff estimates.
1/ A=Tariff currently applied. I=Indexed tarff as calculated by the Superintendency of Electricity (SIE); and T=Technical tariff, to be calculated by the SIE.

There are many specific actions under the authorities' strategy, some of them include:

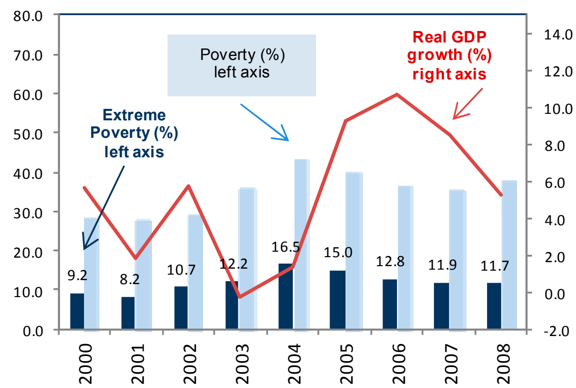
- ***Reform the tariff mechanism.*** The government will implement a flexible tariff mechanism with a view to adopt a "technical tariff" (which covers the costs of generation, transmission and distribution). As an intermediate step, the gap between the current (applied) tariff and the "indexed tariff" (which covers the generation costs) will be eliminated (a gap of about 20 percent).
- ***Improve invoicing and collection, and reduce operational costs.*** The electricity distribution companies (EDEs) will convert all users to clients in the medium-term.
- ***Increase targeted subsidies.*** The government will increase the coverage of targeted subsidies to all poor clients in the medium-term.
- ***Increase generation and improve distribution and transmission.*** There will be investment projects for conversion of generation plants to more cost-efficient technologies as well as projects for building new plants. There will also be investment in improving the distribution and transmissions networks.

Box 2. Dominican Republic: Benchmark on Poverty Alleviation

The 2003 financial crisis had a negative and lasting effect on poverty. The period of 2002-03 brought a large increase in food and consumption good prices, which resulted in significant real income losses, inducing poverty headcount (families with income lower than cost of minimum caloric intake food basket and basic non-food expenditures) index to escalate. This figure jumped from 29 percent in 2002 to over 43 percent in 2004 and despite the prosperity lived in the country in the following years, poverty rate has eased only gradually and still remains higher than in pre-crisis period.

Social policies had to be designed after the crisis to mitigate the poverty situation. The conditional cash transfer program (*Solidaridad*) was created in 2005 as part of a social assistance reform initiated in 2002 that aimed to rationalize social expenditure towards efficient and effective programs. The design of the program links cash transfers to human capital investments through the following steps: (i) the "Food First Program" (*Comer es Primero*), which provides about US$20 per month for families that comply with nutrition and health care training, and growth development assessment and immunization for children below five years; and (ii) "School Attendance Incentive Program" (*Incentivo a la Asistencia Escolar*), which provides between US$8 and US$15 per month (depending on number of children) for families in which children are enrolled and attend school from 1st to 8th grade.

Poverty Headcount Index and Growth



The SBA included a structural benchmark to strengthen the social safety net that was met. In mid-2009 the number of families living in poverty amounted to around 625,000 of which about 75 percent were covered by the Food First Program (and some 34 percent also covered under the School Attendance Incentive Program). To improve efficiencies in targeting and gaps in coverage, and as part of the SBA structural benchmarks for 2009, over 70,000 additional families living in extreme poverty (over 11 percent) were incorporated in the *Solidaridad* Program by the end of 2009. All in all, over 85 percent of the families living in poverty were covered by the conditional cash transfer program. Nonetheless, challenges still remain in including part of the poorer level of the population that does not own identification cards.

Dominican Republic: Human Development Obstacles

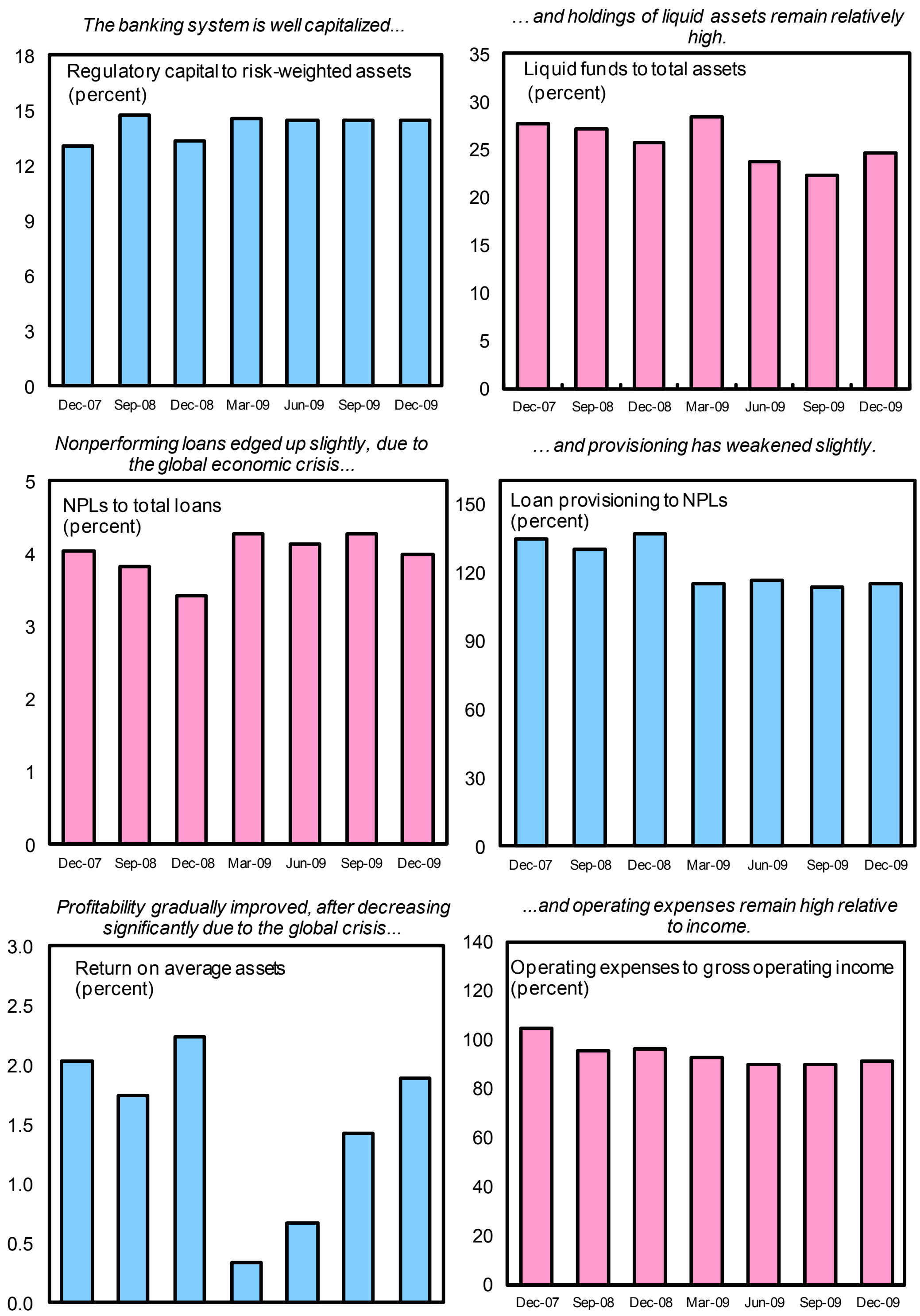
	Nation-wide (%)	Extreme Poor (%)
Undernutrition at age of 6 months	8.5	10.6
Infant mortality	3.2	--
Maternal mortality	0.2	--
Incomplete basic education (for ages of 16-18)	31.0	65.0

Source: IDB and World Bank

Future work is needed to alleviate poverty permanently. Regional comparisons reveal that indicators of nutrition, child-mother care and primary education are still weak. To improve the provision of health and education services and support the expansion of *Solidaridad*, the government plans to target social spending in 2010 in nutrition supplements distribution; hospital rehabilitation and re-equipment; and school construction, rehabilitation and supplies. However, considerable more resources would be needed over the medium-term to successfully reduce poverty.

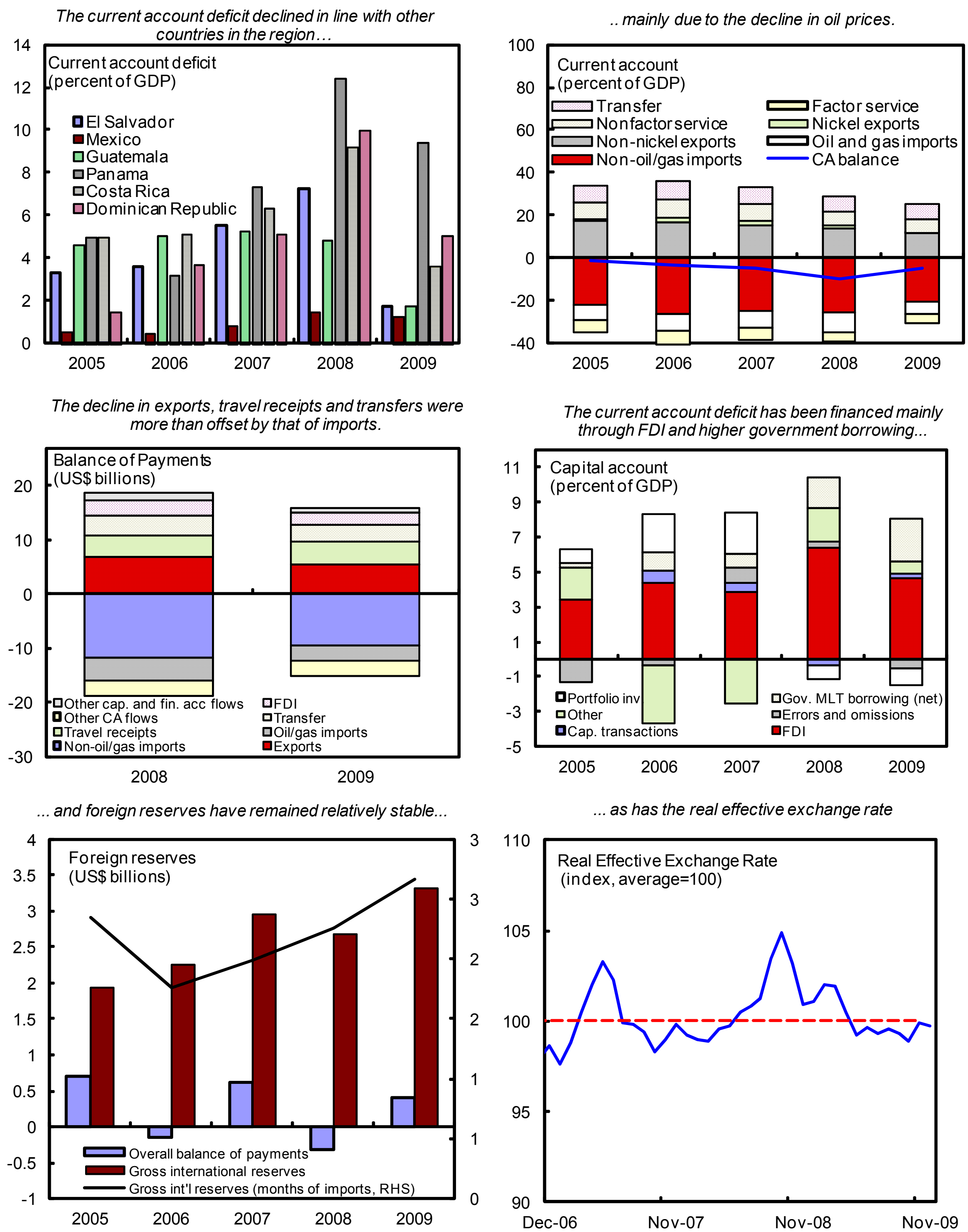
Figure 5. Dominican Republic: Financial Soundness Indicators

The banking system is well-capitalized and liquid, but nonperforming loans have slightly increased, provisioning weakened. Profitability has rebounded after suffering from the recent global financial crises.



Sources: Dominican authorities; and Fund staff estimates.

Figure 6. Dominican Republic: External Sector Developments



Source: Dominican Authorities; and IMF staff calculations.

16. **Fiscal policy**. The authorities expect fiscal policy to remain broadly as in the program, namely maintaining the fiscal stimulus in the first half of 2010 and a gradual move towards fiscal consolidation beginning in the second half of the year.[2] To demonstrate their commitment, the authorities proposed to strengthen the fiscal position of the Central Administration for calendar year 2010 by about ½ of the deviation in 2009 (i.e., 0.2 percent of GDP). They intend to achieve this by transferring part of the profits from state-owned enterprises to the Treasury to prevent an undue compression of expenditures at the time the economy remains weak. Consequently, the revised projection for 2010 assumes higher non-tax revenues than in the program (0.2 percent of GDP), and broadly the same level of expenditure in nominal terms as in the original program, leading to a smaller deficit for the calendar year by 0.2 percent of GDP compared to the program. At the consolidated public sector level, the projection for the fiscal balance remains the same in nominal terms (i.e., a deficit of about 4 percent of GDP for 2010), while the quarterly phasing assumes a primary deficit of 1 percent of annual GDP in the first half of the year, gradually moving to a balance of zero by the end of the year.[3] Staff stressed the importance of implementing the investment program and controlling current spending.

Dominican Republic: Fiscal Program
(In percent of GDP)

	2008	2009 Prog.	2009 Est.	2010 Prog.	2010 Proj.
Central Government					
Revenues	15.8	14.0	13.7	14.5	14.3
o/w taxes	15.0	13.6	13.1	14.1	13.8
Expenditures	19.1	17.1	17.2	17.1	16.7
Current	14.1	13.0	13.6	12.6	12.3
Capital	5.0	4.1	3.6	4.5	4.4
Overall balance	**-3.2**	**-3.1**	**-3.5**	**-2.6**	**-2.4**
Primary balance	-1.5	-1.1	-1.6	-0.4	-0.2
Rest of Public Sector					
Rest of NFPS	-0.1	0.0	0.4	0.0	-0.1
Quasi-fiscal balance BCRD	-1.3	-1.4	-1.3	-1.4	-1.4
Consolidated Public Sector					
Overall balance	**-4.6**	**-4.5**	**-4.4**	**-4.0**	**-3.9**
Primary balance	-1.3	-0.8	-0.7	0.0	0.0
Memorandum item:					
Fiscal impulse 1/	-1.6	-1.0	-1.5	0.8	0.5

Source: Dominican authorities and Fund staff estimates.
1/ Non-financial public sector. Negative implies an expansionary policy.

17. **Policy towards Haiti.** President Fernández was the first head of state to visit Port-au-Prince, and the government of the Dominican Republic was one of the first to provide direct assistance to Haiti after the tragic earthquake of January 12. The Dominican government has provided about 0.1 percent of GDP in direct assistance to Haiti (mostly on food, fuel assistance and hospital care for immigrants in need of attention) and at least a similar amount might be required in the rest of the year. The government expects that a significant amount of aid for the relief and reconstruction of Haiti could be channeled through the Dominican Republic, and is prepared to set up a special relief fund for Haiti (financed with external grants) with the appropriate safeguards to ensure the effective use of this aid and its

[2] The 2010 budget includes primary expenditures that are about 2 percent higher than in the program to reflect historic rates of budgetary under-execution.

[3] The fiscal performance criteria are measured as cumulative flows from December 2008. The overrun of 0.4 percent of GDP in the fiscal target of the Central Administration for December 2009 would require a fiscal adjustment of the same magnitude for March 2010, unless a modification of the target is made. The revised program allows for an adjustment of only 0.2 percent of GDP throughout the whole calendar year 2010, which is equivalent to a relaxation of 0.2 percent in the cumulative target from December 2008 (i.e., 0.4 percent of deviation through December 2009 minus 0.2 percent of GDP of adjustment in 2010).

accounting outside the Dominican budgetary framework to shield the fiscal program agreed with the Fund (Box 4).

18. **Public credit policy.** As in 2009, a preponderance of financing for the fiscal stimulus in the first half of 2010 is expected to come from external sources. The government is expecting to issue a sovereign bond in the second quarter of the year for a minimum of US$600 million, and has recently received congressional approval of a law authorizing the placement of this bond. The government is expected to access the international bond market at an opportune time, given the relatively low spreads on Dominican debt (some 400 basis points). In addition, the government is expected to receive around US$650 million in multilateral budget support and about US$260 million from Petrocaribe. The remaining financing (around US$500 million) is expected to come from issuance of bonds in the domestic market and the sale of state assets (about US$80 million).

19. **Monetary policy**. While the policy stance is programmed to remain loose in support of economic recovery, the authorities are committed to saving a portion of the reserve accumulation above the program target in 2009 and have agreed to increase the net international reserves target for accumulation in 2010 (formerly at zero) by US$200 million by end-2010. As credit conditions have not been fully restored, there will be no change in the performance criteria on the central bank's net domestic assets (NDA) for the second half of the year to avoid the perception of a tightening in credit policy. The central bank reiterated that they are ready to change stance as soon as underlying price pressures are detected or the output gap is closed.

Dominican Republic: Monetary Program
(Changes in percent of base money the previous period)

	2008	2009 Prog.	2009 Est.	2010 Prog.	2010 Proj.
Base money	**9.8**	**0.4**	**3.2**	**8.9**	**8.8**
Net domestic assets	**13.8**	**7.8**	**-9.0**	**8.9**	**22.6**
Public sector (net)	0.8	-0.4	0.5	0.0	-0.9
Banks (net)	5.3	-14.3	-19.4	-21.3	2.0
Private sector (non-bank)	-13.8	0.8	-1.0	27.3	26.6
Other items (net)	21.5	21.7	10.8	3.0	-5.0
Net international reserves	**-4.0**	**-7.5**	**12.2**	**0.0**	**-13.8**

Source: Dominican authorities and Fund staff estimates.

20. **External policy**. The exchange rate has remained relatively stable (depreciating by about 2¼ percent during 2009), in the context of solid accumulation of foreign reserves and enhanced confidence in the economy following the approval of the SBA. The central bank follows a managed floating exchange rate regime and is prepared to increase the flexibility of its policy to enhance the working of the foreign exchange market. While the current account deficit is expected to widen somewhat in 2010 due to the higher oil price, the foreign direct investments, sovereign bond issuance, and multilateral lending including purchases from the Fund,

Dominican Republic: Balance of Payments
(In percent of GDP)

	2008	2009 Prog.	2009 Est.	2010 Prog.	2010 Proj.
Current account	**-10.0**	**-6.2**	**-5.0**	**-6.0**	**-6.1**
Exports	14.8	11.6	11.7	12.1	11.0
Imports	-35.1	-26.7	-26.3	-27.0	-26.2
Other	10.3	8.9	9.6	8.8	9.0
Capital account	**9.3**	**5.5**	**5.9**	**6.0**	**5.1**
Public sector (net)	1.7	2.0	2.3	2.8	2.6
Private sector (net) 1/	7.6	3.4	3.5	3.2	2.5
Overall balance	**-0.7**	**-0.7**	**0.9**	**0.0**	**-1.0**

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

Box 3. Dominican Republic: Countercyclical Fiscal Policy

Fiscal policy under the program was designed to reverse a procyclical tightening in the first half of 2009 which would have persisted had external financing not been available. In the event, the combined effects of an expansionary fiscal and monetary policy, and a resurgence of confidence in the private sector following the announcement of a Fund-supported program, seem to have had a stronger simulative effect than expected. Growth in the last quarter of 2009 rebounded and for the year is estimated to have reached 3½ percent compared to the 1 to 1½ percent originally envisioned in the program. Revised calculations of the output gap for 2009 and 2010 are correspondingly smaller.

A lower output gap in 2009 makes the measured fiscal impulse larger. Compared to the original program, the smaller output gap in 2009 means that a larger proportion of the change in the non-energy primary balance (line D in the table) is attributed to changes in discressionary policy (the fiscal impulse, row E) rather than the effects of the economic cycle (automatic stabilizers, row F). In this case, while the fiscal impulse was originally estimated to be relatively timid (0.9 percent of GDP) compared to the large decline in output growth that was expected, it ended up being larger (1.5 percent of GDP) compared to a smaller deceleration in output. For 2010, where the program originally envisioned a negative fiscal impulse of 0.8 percent of GDP with an output gap of 5 percent, the revised estimates indicate a smaller negative impulse (0.5 percent of GDP) relative to a smaller gap.

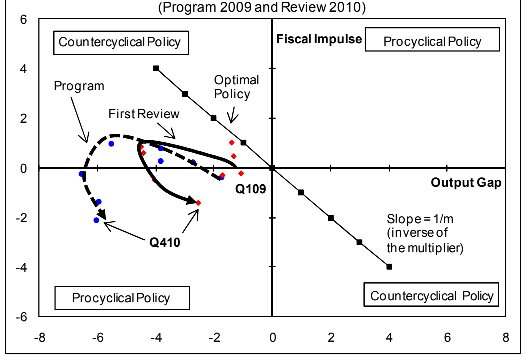
Dominican Republic: Fiscal Impulse Calculations
(In percent of GDP)

	Prog. 1/ 2009	Rev. 2009	Prog. 1/ 2010	Rev. 2010
Fiscal Stance				
A. Non-energy primary balance (B + C) 2/	0.0	0.1	0.4	0.4
B. Cyclically adjusted primary balance 2/	0.4	0.3	1.2	0.8
C. Cyclical primary balance 2/	-0.3	-0.2	-0.7	-0.4
Fiscal Stimulus				
D. Primary momentum (ΔA = ΔB + ΔC) 3/	-1.6	-1.5	0.4	0.3
E. Fiscal impulse (ΔB) 3/	**-0.9**	**-1.5**	**0.8**	**0.5**
F. Automatic stabilizers (ΔC) 3/	-0.7	0.0	-0.4	-0.2
Memorandum item:				
Energy subsidies	1.1	1.3	0.8	0.8
Output gap (percent of potential)	-2.5	-1.4	-5.1	-3.9

Source: Dominican authorities and Fund staff calculations.
1/ Figures from EBS/09/165.
2/ Primary balance of the NFPS excluding energy subsidies.
3/ Negative implies an expansionary policy (i.e., a reduction in the primary non-energy balance).

However, the fiscal stimulus is still appropriate and needs to be maintained. The chart shows the quarterly path of the fiscal impulse relative to the quarterly estimates of the output gap for the original program (dashed line) and the first SBA review (solid line). The northwest (NW) and southeast (SE) quadrants correspond to points in which the output gap and fiscal impulse are of opposite sign (countercyclical policy) while the other quadrants (NE and SW) correspond to points where policy is procyclical. The diagonal line corresponds to what might be an optimal policy combination (assuming a multiplier of 1). Moving along the lines, policy switched into the procyclical quadrant (SW) at the beginning of 2009 and then was pulled back into the countercyclical quadrant (NW) by the end of the year as a result of the spending under the Fund-supported program. It is interesting to note that the revision of the output gap puts the policy path under the review closer to the optimal policy compared to the original program.

Dominican Republic: Procyclicality of Fiscal Policy
(Program 2009 and Review 2010)

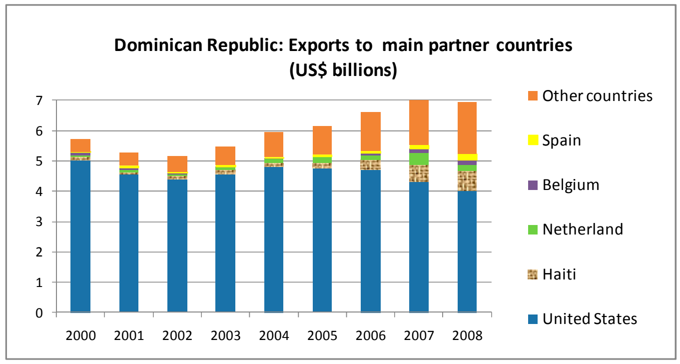


Fiscal consolidation will require some pro-cyclicality for the second half of 2010. Both the program and the review paths envision beginning with a countercyclical policy but moving towards a slightly pro-cyclical stance as the options for further financing become limited. At this point, private sector spending and external demand will have to take up the slack.

Box 4. Dominican Republic: The Effect of the Haiti Earthquake

The earthquake that devastated Haiti in early January 2010 could have a significant effect on the Dominican economy this year. Although it is still early to assess the full scope of the damage, some estimates range from 40 to 60 percent of GDP. The Haitian economy is one-seventh the size of the Dominican economy, but its population is the same size, and the country is a significant importer of Dominican goods. In addition to direct trade, the two economies are linked through migration, and they compete in the same world markets for textile exports and (to some extent) tourism.

The short-term effect is expected to be negative. Haiti has become a significant importer of Dominican goods in the last 10 years, with its share of total Dominican Republic exports rising from 2 percent in 2000 to 9 percent in 2008, becoming the second most important trading partner after the United States. Exported products range from food, (particularly staples and chicken), to processed and light manufactures. These exports are expected to have fallen in the immediate aftermath of the earthquake, further weakening external demand for Dominican products. Some observers are also expecting a decline in tourism as fears of further earthquakes on the Dominican side of the island take the luster off the country as a vacation destination.



In the medium-term, however, the effects could be positive as reconstruction efforts create a further demand for Dominican products and services. In the immediate aftermath of the earthquake a transportation corridor was set up through the Dominican Republic to ship essential relief products to Haiti that entered through Dominican ports. Eventually, however, many products for reconstruction may need to be sourced directly from the Dominican economy, creating an additional source of demand. Examples range from processed foods, construction materials such as cement and reinforcement bars, and services such as hotel and business services that may not be available in Port-au-Prince for some time to come. A post-disaster needs assessment will be conducted by UNDP and the World Bank in March, and a donor's conference set to take place in Santo Domingo in June, will allow for a better idea of reconstruction needs and their modalities.

In the meantime, the Dominican authorities stand ready to assist in any way possible. Migration to the Dominican Republic has picked up as an estimated 600,000 Haitians have moved to rural areas in the northwest of Haiti near the border after the earthquake. This has increased demand for social services in the Dominican Republic. The Dominican government spent 0.1 percent of GDP in the first month after the earthquake on relief for victims of the earthquake and expects that this amount could double for the year.

are expected to finance the deficit and sustain the foreign reserves in line with the program. Over the medium-term, the current account deficit is expected to decline gradually with the forthcoming gold exports.

B. Institutional Strengthening

21. **Tax issues.** A central component of the fiscal adjustment under the program is the increase in tax revenues by ½ percent of GDP per year (for the next 3 years), to be obtained through improvements in tax and customs administration and the rationalization of tax exemptions. To aid the authorities in reaching this goal, a technical assistance (TA) mission from the Fiscal Affairs Department (FAD) visited Santo Domingo in early February 2010, to advice on a strategy to improve tax administration in the internal revenue department (DGI) and customs (DGA).[4] The submission of this strategy is a structural benchmark under the program for March 2010, and the strategy will be used to set future structural benchmarks under the program. In its preliminary evaluation, the technical assistance mission confirmed that while some gains from improvements in administration are possible (particularly in customs), the bulk of gains will have to come from the elimination of exemptions. Tax exemptions have increased rapidly since 2007, and the authorities have estimated their fiscal cost at 5.8 percent of GDP in 2010, so that there is ample scope for gains from their rationalization. The authorities have indicated that removal of key exemptions will require the passage of new legislation. Staff suggested that reform of exemptions valued at 1.5 percent of GDP (i.e., ½ percent of GDP for 3 years) could provide the gains necessary to reach the medium-term goals under the program. The authorities are preparing legislation to this end. Staff is of the view that the revenue target is feasible once the proper legislation to reduce tax exemptions is enacted.

22. **Public financial management**. Following an FAD mission to assess the framework for public financial management, the authorities have recently identified reform priorities which will be important to improve public financial management and to move towards implementing a medium-term expenditure framework (MTEF). These include strengthening the application of the single treasury account, improving information systems, improving macroeconomic and fiscal forecasting and analysis capacity, and developing the budget module of the government management information system (SIGEF). FAD has maintained close contact with the authorities and will provide further TA in these areas, which will be discussed further with the authorities and could become part of the program.

23. **Prudential issues.** The Superintendent of Bank (SIB) has made significant progress in developing a plan to increase compliance with the Basel Core Principles (BCPs) by 2012—a structural benchmark for end-March 2010 under the Stand-By Arrangement. To support the authorities efforts, a TA mission from the Monetary and Capital Markets Department (MCM) visited Santo Domingo in early February 2010 and concluded that work

[4] The technical assistance mission from FAD also provided a clear framework for rationalization of tax exemptions, including a management mechanism to approve measure and evaluate them.

is well advanced and on the right track to meet the target but noted that successful implementation of the plan would require the SIB to prioritize work, identify explicitly key risks, improve guidelines, and enhance training.

24. **Central bank recapitalization**. The ministry of finance transferred about 1 percent of GDP to the central bank in 2009 in accordance with the recapitalization law. For 2010 the authorities are working to reform the law to allow for a more gradual path for recapitalization, as discussed in the October 2009 letter of intent. Under the new proposal, transfers to the central bank will be spread over 15 years, instead of 10, and the annual amount to be transferred will be subject to review if tax revenue falls significantly below the amount projected in the annual budget. The mission reviewed a draft bill, and encouraged the authorities to secure its passage in the legislature as soon as possible.

25. **Electricity reform.** The government has developed a strategy for the reform of the electricity sector, which includes the following concrete actions that will serve as structural benchmarks for the implementation of the electricity reform (Table 2):

- ***Tariff reform.*** The current tariff has been largely fixed (with some periodical adjustments) since 2006, and remains below the "indexed tariff" which reflects the changes in generation costs since that time. While the government objective is to adopt a "technical tariff" that reflects the costs of generation, transportation and distribution of energy, as a first step, the government will begin adjusting tariffs in the second half of 2010, with a view to eliminating the gap between the current tariff and the "indexed tariff" by the end of 2010 (structural benchmark). In mid-2010 the World Bank will assist the authorities in calculating a "technical tariff", which the authorities will begin to implement in 2011.

- ***Improving invoicing***. One of the major sources of losses in the electricity sector is a high number of users who are not registered clients of the distribution companies (EDEs). The distribution companies (EDEs) will increase the number of their registered clients by about one-third from 1.4 million in 2009 to 1.9 million by end-September 2010 (structural benchmark); this would entail attaining a (redefined) cash recovery index of about 70 percent, which takes into account the elimination of indiscriminate regional subsidies (PRA areas).

- ***Targeted subsidies***. As part of the authorities' efforts to focus electricity subsidies, the government will increase the coverage of the BONOLUZ program (which replaces indiscriminate regional subsidies with targeted subsidies based on household income) from about 7 thousand clients at end-2009 to 50 thousand by end-December 2010 (structural benchmark).

C. Poverty Alleviation

26. **Social policy.** In line with the original aims of the program, the government will continue to increase expenditures on public education and health services to cover the increased demand for these services that results from the expansion of the conditional cash transfer program (*Solidaridad*) to a larger percentage of families living in extreme poverty

starting in 2009. As more families are covered by the conditional cash transfer program, further extension of coverage would naturally slow down in 2010, leaving room for devoting more resources to investment and service improvement projects. In particular, the government will increase spending on the construction and rehabilitation of public schools (RD$3.4 billion) and medical services in poor areas (RD$0.6 billion), and on nutritional supplements for poor children (RD$0.1 billion). While the government is aiming for an additional expenditure of 0.75 percent of GDP in 2010, there might be some implementation constraints, especially in the area of health.

III. Miscellaneous

27. **Conditionality**. The attached letter of intent restates the authorities' commitment to the program and proposes some changes to performance criteria on the fiscal deficit of the Central Administration (as explained in ¶16) and the net international reserves of the BCRD (as explained in ¶19) and new structural benchmarks (as explained in ¶24). Structural conditionality will continue to be augmented during the program as strategies and plans are designed in different areas. Performance criteria for 2011 will be established at the time of the fourth review in December 2010.

28. **Safeguards**. The central bank has been subject to an update safeguards assessment in the context of the new arrangement. The assessment, which is substantially complete, has found continued improvement in the safeguards framework of the central bank. Furthermore, given that part of the Fund resources are used for budgetary support, the central bank and the ministry of finance have signed a memorandum of understanding delineating the responsibility of each agency to cover obligations to the Fund. Nevertheless, some areas require further attention to address potential risks to the central bank's autonomy in current legislative provisions, and to strengthen accounting conventions

IV. Appraisal

29. **Overall**. Performance under the new program has been satisfactory. A meaningful countercyclical fiscal policy was implemented, preventing a deepening of the recessionary environment of the first half of 2009 and nurturing the incipient economic recovery, supported by an accommodative monetary policy. Despite deviations in two performance criteria, the authorities remain committed to the policies and objectives of the program. However, this episode highlights the need for greater coordination within different public agencies that the inter-institutional working group on program implementation (GIMPO) would need to address in the coming months. Structural benchmarks were met, and notably, the government has its own strategy to address the problems in the electricity sector.

30. **Fiscal.** The short-term objectives of the program at the end of 2009, supplying a fiscal stimulus to support the economic recovery, were met. Looking forward to 2010, it will be important to implement the fiscal program throughout the year with appropriate phasing, both to secure a robust economic recovery and to begin the process of fiscal consolidation. On the revenue side, reaching the targeted level of tax revenue will require the passage of new law eliminating the rampant exemptions that have been granted in recent years. The government should begin to prepare the ground so that a rapid approval can be secured after

the May 2010 Congressional elections and the most egregious exemptions are phased out. In this area the report of the recent FAD technical assistance mission will help guide the authorities in the preparation of a strategy. On the expenditure side, the full implementation of the government's investment program will be key, and this will depend in part on the control of current spending, which could be increasingly challenging in an election year. In this connection, the reform of the electricity sector will be essential to reduce the need for current transfers to the public distribution companies.

31. **Monetary.** The central bank has maintained a loose monetary stance in support of smoothing the business cycle. The expansionary policies of 2009 have contributed to the recovery of credit and economic activity. The central bank has a good track record of adjusting monetary policy flexibly and in a timely manner once there is evidence of a change in economic conditions. Dollarization continues to be a challenge, although it is expected to decline gradually as the policy framework is strengthened. The government successfully completed its 2009 commitments for recapitalization of the central bank. Going forward, it is important that the authorities continue with the recapitalization of the central bank, even if it is under a modified schedule that would require 15 rather than 10 years. It would be helpful for fiscal and monetary planning purposes that any modification to the recapitalization law be passed by the Congress as soon as possible.

32. **Exchange rate**. The exchange rate has remained relatively stable in the context of solid accumulation of foreign reserves, and enhanced confidence in the economy following the approval of the SBA. The authorities see relative exchange rate stability as important to maintaining confidence. While the pass-through from the exchange rate to prices remains high in the Dominican Republic, the central bank needs to gradually introduce more flexibility in the exchange rate, to allow more flexibility of monetary policy, especially if the global environment turns out to be weaker than expected and puts pressures on the balance of payments. This is especially important given the relatively low level of gross international reserves by regional and international standards.

33. **Reform**. The authorities are to be commended on the implementation of the structural reform agenda so far, which is key to achieving the medium-term objectives of the program. The program has had a strong start with the timely design of a comprehensive electricity reform agenda and the ambitious strengthening of the social safety net. Looking ahead, the main structural pillars of the program will be the strengthening of tax administration to enhance collections by rationalizing exemptions, and the gradual elimination of indiscriminate electricity subsidies. Both reforms are quite complex and will require strong resolve to implement.

34. **Risks**. Going forward, there is the risk of a feeble international recovery, which could lead to lower growth at home and make implementation of the program more difficult. This risk is compounded by the election cycle in mid-2010 which could increase pressure to spend beyond program projections and shift the composition towards current spending. Strict implementation of the program will enhance the government's credibility, which is particularly important as they intend to access international bond markets. Difficulties accessing the international bond market could put into question the financing of the program and lead to a more procyclical fiscal policy, and/or a crowding out of the private sector from

the domestic financial market during the economic recovery. On the other side, if the fragile recovery firms up (especially if the reconstruction of Haiti moves forward quickly), there is a chance of a strong growth in 2010, which would require the full use of automatic stabilizers in the upswing.

35. **Review**. Staff supports program modifications, requests for waivers, and completion of the first SBA review in light of the overall satisfactory performance, the corrective measures and the strong ownership of the program.

Table 1. Dominican Republic: Quantitative Performance Criteria 2009 1/

	2009			Target Modified for 2010	2010			
	Program	Actual	Margin		Program			
	Dec				Mar	Jun	Sep	Dec
Fiscal Targets								
1. Overall balance of the central administration (floor) 2/ 3/	-51.5	-58.0	-6.5	Y	-73.7	-88.4	-95.8	-102.3
2. Overall balance of the consolidated public sector (floor) 2/ 3/	-74.5	-74.2	0.3	N	-97.5	-119.5	-133.0	-147.0
Monetary Targets								
3. Net international reserves (floor) 4/	1,815	2,464	649	Y	1,765	1,765	1,865	2,015
4. Net domestic assets (ceiling) 3/	…	45.4	…	N	…	…	65.0	80.0
Debt Targets								
5. Accumulation of public arrears with electricity generators (ceiling) 2/ 4/	0.0	100.5	100.5	N	0.0	0.0	0.0	0.0
6. Accumulation of external public debt arrears 4/ 5/	0.0	0.0	0.0	N	0.0	0.0	0.0	0.0
Memorandum Items								
1A. Original target for overall balance of central administration 2/ 3/	…	…	…		-68.0	-83.0	-91.0	-98.5
3A. Original target for net international reserves 4/ 6/	…	…	…		1,715	1,665	1,715	1,815

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

2/ Cumulative flows from December 2008.

3/ In billions of Dominican Republic pesos.

4/ In millions of U.S. dollars.

5/ Continuous target.

6/ As defined in EBS/09/165

Table 2. Dominican Republic: Structural Benchmarks for 2009-10

Measure	Timing	Original Program	First Review		Status
Public Sector Reform					
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	✓		⚠	**In progress** Tax agencies are working on a strategy. An FAD mission provided assitance on this issue in February 2010
Financial Sector Reform					
B. Design a plan to achieve compliance with all Basel core principles for effective bank supervision by 2012	Mar 2010	✓		⚠	**In progress** Superintendency of banks have a draft strategy that they are refining. An MCM mission provided assitance on this issue in February 2010
C. Design a plan to formally adopt a full-fledged inflation targeting framework by early 2012	Jun 2010	✓		⚠	**In progress** The Monetary Programming Department of the BCRD is working on this issue
Recovery and Growth Enhancement					
D. 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	✓		●	**Done** Satisfactory action plan provided to Staff in December 2009.
E. Increase the number of regulated clients of the distribution companies (EDES) to 1.9 million	Sep 2010		✓	○	**New benchmark**
F. Adopt a flexibile 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		✓	○	**New benchmark**
G. 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	✓		⚠	**In progress** The Monetary Programming Department of the BCRD is working on this issue
Social Safety Net					
H. Increase the permanent coverage of the conditional cash transfer program by 70,000 families living in extreme poverty	Dec 2009	✓		●	**Done** More than 70,000 families were incorporated into the Solidaridad program
I. Increase the coverage of the BONOLUZ program to 50 thousand clients	Dec 2010		✓	○	**New benchmark**

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	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	Adult literacy rate (percent, 2007)	95.1

	2006	2007	2008	Prog. 2009	Prel. 2009	Proj. 2010
National accounts and prices	**(12-month percentage changes, unless otherwise indicated)**					
Nominal GDP (RD$ billion)	1,190	1,364	1,576	1,648	1,678	1,857
Dollar GDP (US$ billion)	35.3	41.0	45.5	45.5	46.6	50.1
Real GDP	10.7	8.5	5.3	0.5-1.5	3.5	3.0-4.0
Consumer price index (period average)	7.6	6.1	10.6	1.5-2.5	1.4	6-7
Consumer price index (eop)	5.0	8.9	4.5	6-7	5.8	6-7
Exchange rate (RD$/US$ - period average)	33.7	33.3	34.6	…	35.9	…
Exchange rate (RD$/US$ - eop)	33.8	34.3	35.5	…	36.1	…
Social Indicators						
Unemployment rate (in percent)	16.4	15.6	14.2	…	14.9	…
Public finances 1/	**(In percent of GDP)**					
Central government primary balance	0.2	1.7	-1.5	-1.1	-1.6	-0.2
Total revenues (including grants)	16.2	17.6	15.8	14.0	13.7	14.3
Primary spending	16.0	15.8	17.4	15.1	15.3	14.5
Interest expenditure	1.4	1.6	1.7	2.0	1.9	2.2
Nonfinancial public sector overall balance	-0.9	0.1	-3.3	-3.1	-3.1	-2.5
Quasi-fiscal balance of the central bank	-2.2	-1.8	-1.3	-1.4	-1.3	-1.4
Consolidated public sector balance	-3.1	-1.7	-4.6	-4.5	-4.4	-3.9
Of which: primary balance	0.4	1.8	-1.3	-0.8	-0.7	0.0
Total public debt	39.5	35.8	39.1	39.0	41.2	42.2
Of which: foreign currency denominated	20.6	18.5	18.3	19.2	20.0	21.6
Money and credit	**(12-month percentage changes, unless otherwise indicated)**					
Liabilities to private sector (M3)	12.7	16.0	8.8	11.5	11.1	9.1
Currency issue	7.0	16.4	0.3	12.5	12.3	8.0
Deposits	4.5	17.0	10.7	12.0	14.9	13.3
Net domestic assets of the banking system	11.5	13.0	16.8	16.3	10.9	14.7
Credit to the private sector	14.3	26.3	8.8	6.0	5.5	14.8
M3, in percent of GDP	37.1	37.5	35.3	37.7	36.9	36.4
Balance of payments	**(In millions of U.S. dollars, unless otherwise indicated)**					
Current account	-1,288	-2,167	-4,529	-2,814	-2,327	-3,071
Merchandise trade balance	-5,564	-6,437	-9,245	-6,881	-6,820	-7,583
Exports	6,610	7,160	6,748	5,272	5,463	5,534
Imports	-12,174	-13,597	-15,993	-12,154	-12,283	-13,117
Of which: oil and gas	-2,788	-3,224	-4,241	-2,640	-2,655	-3,307
Services and transfers (net)	4,276	4,270	4,717	4,067	4,494	4,512
Of which: interest on public debt 2/	-396	-428	-372	-442	-473	-570
Capital and financial account	1,598	2,203	4,384	2,135	3,001	2,548
Of which: foreign direct investment	1,528	1,541	2,900	1,966	2,158	1,863
Errors and omissions	-147	591	-181	359	-267	0
Overall balance	164	627	-326	-320	408	-523
Of which: change in NIR (increase -)	-268	-607	230	350	-373	523
Current account (in percent of GDP)	-3.6	-5.3	-10.0	-6.2	-5.0	-6.1
Exports of goods (in US$, annual percentage chg)	7.6	8.3	-5.8	-22.3	-19.0	1.3
Imports of goods (in US$, annual percentage chg)	23.3	11.7	17.6	-23.8	-23.2	6.8
International reserve position and external debt						
Gross official reserves	2,251	2,946	2,661	2,566	3,303	3,164
(in months of imports) 3/	1.8	2.0	2.3	2.1	2.7	2.4
Net international reserves 4/	1,788	2,395	2,165	1,815	2,538	2,015
Outstanding external public debt, in percent of GDP	20.0	18.0	16.5	17.6	17.6	18.1
Oil price (WEO) (US$/bbl)	64.3	71.1	97.0	61.5	61.8	78.3

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

1/ Fiscal projections include unidentified measures.

2/ Includes interests on loans and bonds.

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

4/ 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)

	2007	2008	2009 Prel.	2009 Prog.	2010 Rev. Prog. Jan-Mar	2010 Rev. Prog. Jan-Jun	2010 Rev. Prog. Jan-Sep	2010 Rev. Prog. Year	2010 Orig. Prog. Year
A. Central Government									
Total revenue and grants	**17.6**	**15.8**	**13.7**	**14.0**	**3.4**	**7.0**	**10.6**	**14.3**	**14.5**
Total revenue	**17.4**	**15.6**	**13.5**	**13.8**	**3.3**	**6.9**	**10.4**	**14.1**	**14.3**
Tax revenues	16.0	15.0	13.1	13.6	3.3	6.8	10.2	13.8	14.1
Income and property 1/	4.9	4.5	3.9	4.1	1.0	2.1	2.9	3.9	4.0
VAT	4.9	4.7	4.2	4.3	0.9	2.0	3.1	4.2	4.3
Excises	4.5	4.1	3.7	3.8	0.9	1.9	2.9	4.0	4.1
International trade	1.7	1.6	1.3	1.4	0.4	0.9	1.3	1.8	1.8
Other	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	1.4	0.7	0.3	0.2	0.1	0.1	0.2	0.3	0.2
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**0.2**	**0.2**	**0.2**	**0.2**	**0.0**	**0.1**	**0.1**	**0.2**	**0.2**
Primary expenditures 2/	**15.8**	**17.4**	**15.3**	**15.1**	**4.0**	**8.1**	**11.3**	**14.5**	**14.9**
Wages and salaries	3.5	3.8	4.1	4.1	0.8	1.7	2.5	3.8	3.8
Goods and services	2.3	2.1	1.8	1.7	0.6	1.1	1.5	2.0	2.0
Transfers, *o/w*:	5.3	7.1	5.6	5.1	1.1	2.2	3.5	4.4	4.5
Gas subsidy	0.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity transfers	1.2	2.7	1.3	1.1	0.2	0.4	0.6	0.8	0.8
Other	3.7	3.9	4.3	4.0	0.9	1.8	3.0	3.6	3.7
Capital expenditure	4.7	5.0	3.6	4.1	1.5	3.1	3.7	4.4	4.5
Statistical discrepancy 2/	0.0	-0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**1.7**	**-1.5**	**-1.6**	**-1.1**	**-0.6**	**-1.1**	**-0.7**	**-0.2**	**-0.4**
Interest	**1.6**	**1.7**	**1.9**	**2.0**	**0.3**	**0.6**	**1.3**	**2.2**	**2.2**
Foreign	0.9	0.8	0.7	0.7	0.1	0.3	0.5	0.9	0.9
Domestic 3/	0.7	0.8	1.2	1.3	0.1	0.3	0.8	1.3	1.3
Overall balance	**0.1**	**-3.2**	**-3.5**	**-3.1**	**-0.8**	**-1.6**	**-2.0**	**-2.4**	**-2.6**
B. Rest of the Non-Financial Public Sector									
Overall balance rest of NFPS 4/	**0.0**	**-0.1**	**0.4**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**
C. Non-Financial Public Sector (A+B)									
Overall balance NFPS	**0.1**	**-3.3**	**-3.1**	**-3.1**	**-0.9**	**-1.7**	**-2.1**	**-2.5**	**-2.6**
Primary balance	1.7	-1.6	-1.2	-1.1	-0.6	-1.1	-0.8	-0.4	-0.4
Interest	1.6	-1.7	1.9	2.0	0.3	0.6	1.3	2.2	2.2
Financing NFPS	**-0.1**	**3.3**	**3.1**	**3.1**	**0.9**	**1.7**	**2.1**	**2.5**	**2.6**
External financing	0.5	0.2	2.1	2.5	0.7	1.5	2.2	2.9	3.1
Domestic financing	-0.4	3.0	1.6	0.6	0.2	0.3	0.0	-0.4	-0.5
D. Central Bank									
Quasi-fiscal balance of the central bank	**-1.8**	**-1.3**	**-1.3**	**-1.4**	**-0.4**	**-0.7**	**-1.0**	**-1.4**	**-1.4**
Of which: non interest	0.1	0.4	0.5	0.3	0.1	0.2	0.3	0.3	0.4
E. Consolidated Public Sector (C+D)									
Consolidated public sector balance	**-1.7**	**-4.6**	**-4.4**	**-4.5**	**-1.3**	**-2.4**	**-3.2**	**-3.9**	**-4.0**
Primary balance	1.8	-1.3	-0.7	-0.8	-0.6	-1.0	-0.6	0.0	0.0
Interest	3.4	3.3	3.8	3.7	0.7	1.5	2.6	3.9	4.0
Memorandum items:									
Interest for central bank recapitalization	0.4	0.6	0.7	0.6	0.2	0.4	0.6	0.8	0.8
Primary spending excl. electricity and gas	14.2	14.2	14.0	14.0	3.8	7.7	10.7	13.7	14.0
Overall spending by central government	17.4	19.0	17.2	17.1	4.2	8.7	12.6	16.7	17.1

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes social security contributions. For 2007 includes the capital gains windfall of Verizon for 0.5 percent of GDP.

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.

4/ Including electricity distribution companies (Edenorte and Edesur).

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

					Rev. Prog.				Orig. Prog.
			Prel.	Prog.	Jan-Mar	Jan-Jun	Jan-Sep	Year	Year
	2007	2008	2009		2010				2010
					A. Central Government				
Total revenue and grants	**240.1**	**249.5**	**229.4**	**230.3**	**62.9**	**130.7**	**196.1**	**265.2**	**262.5**
Total revenue	**237.4**	**246.6**	**225.8**	**227.2**	**62.0**	**128.9**	**193.4**	**261.6**	**258.9**
Tax revenues	218.3	235.9	220.0	224.1	60.7	126.7	190.1	255.6	255.6
Income and property 1/	66.8	71.5	66.0	66.9	18.6	38.8	54.7	72.4	72.4
VAT	66.8	74.3	69.9	70.6	17.4	37.5	58.1	77.2	77.2
Excises	61.4	64.9	62.2	63.4	16.6	34.7	53.4	73.4	73.4
International trade	23.2	25.0	21.9	23.2	8.1	15.8	23.9	32.6	32.6
Other	0.0	0.1	3.5	0.5	0.0	0.0	0.0	0.0	0.0
Nontax revenue	19.1	10.7	5.8	3.1	1.3	2.2	3.4	6.0	3.4
Capital revenue	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	2.7	2.9	3.5	3.1	0.9	1.8	2.7	3.6	3.6
Primary expenditures 2/	**216.9**	**270.9**	**255.4**	**248.1**	**73.6**	**150.3**	**209.6**	**268.9**	**268.9**
Wages and salaries	47.7	59.5	68.5	68.3	15.6	31.4	47.0	69.7	69.7
Goods and services	31.4	33.5	29.6	28.1	10.4	20.5	27.4	36.2	36.2
Transfers, *o/w*:	72.3	111.4	92.9	84.0	20.5	41.2	65.8	80.8	80.9
Gas subsidy	5.5	7.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity transfers	16.4	41.9	21.7	18.1	3.6	7.3	10.9	14.5	14.5
Other	50.5	61.8	71.2	65.9	16.9	33.9	54.9	66.3	66.3
Capital expenditure	64.4	78.1	60.0	67.7	27.0	57.3	69.5	82.1	82.1
Statistical discrepancy 2/	1.1	-11.6	4.4	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance	**23.2**	**-21.5**	**-26.0**	**-17.8**	**-10.7**	**-19.6**	**-13.5**	**-3.7**	**-6.4**
Interest	**21.8**	**26.1**	**32.0**	**33.7**	**5.0**	**10.8**	**24.3**	**40.6**	**40.6**
Foreign	12.4	12.4	11.3	11.6	2.7	6.0	8.7	16.5	16.5
Domestic 3/	9.4	13.6	20.7	22.1	2.3	4.7	15.7	24.1	24.1
Overall balance	**1.4**	**-47.6**	**-58.0**	**-51.5**	**-15.7**	**-30.4**	**-37.8**	**-44.3**	**-47.0**
					B. Rest of the Non-Financial Public Sector				
Overall balance rest of NFPS 4/	**0.0**	**-1.7**	**6.2**	**0.0**	**-1.1**	**-1.4**	**-2.0**	**-3.0**	**0.0**
					C. Non-Financial Public Sector (A+B)				
Overall balance NFPS	**1.4**	**-49.2**	**-51.7**	**-51.5**	**-16.8**	**-31.8**	**-39.8**	**-47.3**	**-47.0**
Primary Balance	23.2	-23.2	-19.8	-17.8	-11.8	-21.0	-15.5	-6.7	-6.4
Interest	21.8	-26.1	32.0	33.7	5.0	10.8	24.3	40.6	40.6
Financing NFPS	**-1.4**	**49.2**	**51.7**	**51.5**	**16.8**	**31.8**	**39.8**	**47.3**	**47.0**
External financing	6.8	0.0	34.9	41.5	13.8	27.7	41.5	55.3	55.3
Domestic financing	-5.5	47.6	26.3	10.0	2.7	3.8	-2.0	-8.3	-8.3
					D. Central Bank				
Quasi-fiscal balance of the central bank	**-24.6**	**-20.4**	**-22.4**	**-23.0**	**-6.5**	**-13.5**	**-19.0**	**-25.5**	**-25.5**
Of which: non interest	1.4	5.6	8.5	4.9	1.6	3.2	4.8	6.4	6.4
					E. Consolidated Public Sector (C+D)				
Consolidated public sector balance	**-23.2**	**-69.6**	**-74.2**	**-74.5**	**-23.3**	**-45.3**	**-58.8**	**-72.8**	**-72.5**
Primary Balance	24.6	-17.6	-11.3	-12.9	-10.2	-17.9	-10.7	-0.3	0.0
Interest	46.4	52.0	62.9	61.6	13.1	27.4	48.1	72.5	72.5
Memorandum items:									
Interest for central bank recapitalization	5.8	9.1	12.4	12.4	3.6	7.3	10.9	14.5	13.9
Primary spending excl. electricity and gas	195.1	221.3	233.7	230.0	69.9	143.1	198.8	254.4	249.3
Overall spending by central government	238.7	297.0	287.4	281.8	78.6	161.1	233.9	309.5	306.8

Sources: Dominican authorities; and Fund staff estimates.
1/ Includes social security contributions. For 2007 includes the capital gains windfall of Verizon for 0.5 percent of GDP.
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.
4/ Including electricity distribution companies (Edenorte and Edesur).

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

	Annual	Q1	Q2	Q3	Q4	Annual
	2009	2010				
Gross Financing Requirements	**2,543**	**788**	**758**	**518**	**467**	**2,531**
Non-Financial Public Sector Deficit	1,418	**454**	**424**	183	132	1,193
Amortizations	828	334	334	334	334	1,337
Floating Debt	298	0	0	0	0	0
Financing Sources	**2,543**	**788**	**758**	**518**	**467**	**2,531**
External	**1,893**	**387**	**1,185**	**351**	**212**	**2,135**
Budget Support	1,120	83	253	188	53	575
World Bank	350	0	0	150	0	150
IDB	450	15	215	0	15	245
CAF	20	30	0	0	0	30
IMF	300	38	38	38	38	150
Project Financing	533	240	267	98	95	700
Petrocaribe	240	65	65	65	65	260
Sovereign Bonds	0	0	600	0	0	600
Domestic	**650**	**400**	**-426**	**167**	**254**	**396**
Bonds	180	400	-426	88	254	317
Banking system	470	0	0	0	0	0
Other	0	0	0	79	0	79
Gap	**0**	**0**	**0**	**0**	**0**	**0**

Sources: Dominican authorities; and Fund staff estimates.

Table 7. Dominican Republic: Summary Accounts of the Monetary Authority 1/
(In billions of Dominican pesos, unless otherwise specified)

			Prel.	Prog.	Rev. Proj.				Orig. Prog.
			Dec		Mar	Jun	Sep	Dec	Dec
	2007	2008	2009		2010 2/				2010
Monetary base	**121.9**	**133.8**	**138.1**	**134.3**	**132.8**	**133.3**	**133.9**	**151.5**	**146.3**
Currency issue	62.3	62.5	70.2	70.3	62.7	61.6	60.6	75.8	75.9
Reserve requirements (peso deposits)	59.6	71.3	67.9	64.0	70.1	71.8	73.3	75.7	70.4
Net international reserves	**81.3**	**76.3**	**92.6**	**66.3**	**64.4**	**64.4**	**68.1**	**73.6**	**66.3**
(In millions of U.S. dollars) 3/	2394.9	2165.4	2538.4	1815.4	1765.4	1765.4	1865.4	2015.4	1815.4
Net domestic assets	**40.7**	**57.5**	**45.4**	**68.0**	**68.4**	**68.9**	**65.8**	**77.9**	**80.0**
Nonfinancial public sector (net) 4/	3.6	4.6	5.3	4.0	4.0	4.0	4.0	4.0	4.0
Central government	0.6	1.5	-2.3	1.0	1.0	1.0	1.0	1.0	1.0
Rest of NFPS	3.1	3.0	7.6	3.0	3.0	3.0	3.0	3.0	3.0
Commercial banks (net)	-57.9	-51.5	-77.4	-70.6	-64.3	-83.4	-97.8	-87.9	-99.2
Monetary control notes and bills	-32.7	-25.6	-36.7	-40.3	-25.7	-44.0	-57.6	-45.8	-64.2
Reserve requirements (FX deposits)	-19.6	-21.0	-28.0	-23.2	-24.8	-25.2	-25.7	-26.7	-26.4
Overnight facility	-12.7	-14.6	-19.5	-14.1	-20.7	-20.9	-21.4	-22.2	-15.7
Liquidity support	7.1	9.7	6.8	7.0	6.8	6.8	6.8	6.8	7.0
Nonfinancial private sector (certificates)	-144.1	-160.9	-162.2	-159.8	-153.7	-135.8	-126.1	-125.5	-123.2
Other items (net) 5/	239.0	265.3	279.7	294.5	282.4	284.0	285.7	287.3	298.4
Recapitalization account	232.9	262.6	273.5	290.4	273.5	273.5	273.5	273.5	290.4
Accumulated profits and losses	22.5	18.1	20.0	20.7	21.6	23.3	24.9	26.6	23.0
Peso counterpart to IMF budget support			12.5	11.0	13.8	15.2	16.6	17.9	16.4
Other, net	-16.3	-15.4	-26.2	-27.6	-26.6	-28.0	-29.3	-30.7	-31.4
					(Percentage change, y-o-y)				
Memorandum items:									
Monetary base	13.7	9.7	3.2	0.4	7.2	9.7	10.3	9.7	8.9
Currency issue	16.4	0.3	12.3	12.5	13.0	11.4	9.2	8.0	8.0
Quasi-fiscal balance (in percent of GDP)	-2.2	-1.3	-1.4	-1.4	-0.3	-0.6	-0.9	-1.4	-1.4

Sources: Dominican authorities; and Fund staff estimates.
1/ The Central Bank's balance sheet is adjusted to incorporate the reserve liability from the IMF budgetary support for 2009 and onwards.
2/ Foreign currency denominated accounts valued at DR$36.5 per U.S. dollar.
3/ Projections for 2009-12 assume SBA purchases are made.
4/ Excludes transfers related to Central Bank recapitalization.
5/ Includes transfers related to Central Bank recapitalization.

Table 8. Dominican Republic: Summary Accounts of the Banking System
(In billions of Dominican pesos, unless otherwise specified)

			Prel.	Prog.	Rev. Proj.				Orig. Prog.
			Dec		Mar	Jun	Sep	Dec	Dec
	2007	2008	2009		2010 1/				2010
					Central Bank 2/				
Monetary base	**121.9**	**133.8**	**138.1**	**134.3**	**132.8**	**133.3**	**133.9**	**151.5**	**146.3**
Currency issue	62.3	62.5	70.2	70.3	62.7	61.6	60.6	75.8	75.9
Reserve requirements (peso deposits)	59.6	71.3	67.9	64.0	70.1	71.8	73.3	75.7	70.4
Net international reserves	**81.3**	**76.3**	**92.6**	**66.3**	**64.4**	**64.4**	**68.1**	**73.6**	**66.3**
(In millions of U.S. dollars) 3/	2394.9	2165.4	2538.4	1815.4	1765.4	1765.4	1865.4	2015.4	1815.4
Net domestic assets	**40.7**	**57.5**	**45.4**	**68.0**	**68.4**	**68.9**	**65.8**	**77.9**	**80.0**
Nonfinancial public sector (net) 4/	3.6	4.6	5.3	4.0	4.0	4.0	4.0	4.0	4.0
Commercial banks (net)	-57.9	-51.5	-77.4	-70.6	-64.3	-83.4	-97.8	-87.9	-99.2
Nonfinancial private sector (certificates)	-144.1	-160.9	-162.2	-159.8	-153.7	-135.8	-126.1	-125.5	-123.2
Other items (net) 5/	239.0	265.3	279.7	294.5	282.4	284.0	285.7	287.3	298.4
					Banking System 6/				
Net foreign assets	**123.7**	**103.4**	**116.1**	**93.5**	**89.4**	**89.4**	**93.0**	**98.5**	**94.8**
(In millions of U.S. dollars)	3649.8	2886.1	3221.9	2567.0	2448.9	2448.9	2548.9	2698.9	2567.0
Net domestic assets	**388.2**	**453.5**	**502.8**	**527.3**	**535.8**	**540.3**	**545.4**	**576.5**	**565.7**
Net credit to the nonfinancial public sector	233.9	288.3	331.2	338.3	331.1	332.3	333.5	333.5	341.9
Of which : excluding quasi-fiscal related	1.1	25.7	57.7	47.9	57.6	58.8	60.0	60.0	51.5
Credit to the private sector	259.1	281.9	297.4	298.9	314.6	320.2	325.0	341.5	334.5
Medium- and long-term external liabilities	-11.6	-10.5	-9.2	-9.7	-9.3	-9.3	-9.3	-9.3	-9.7
Capital and accumulated surplus	15.8	6.2	4.8	8.2	6.5	8.1	9.8	11.4	10.4
Other assets net (includes valuation effects)	-109.0	-112.4	-121.5	-108.5	-107.1	-111.0	-113.6	-100.6	-111.4
M3	**511.9**	**556.9**	**618.9**	**620.8**	**625.1**	**629.6**	**638.4**	**675.0**	**660.5**
Currency in circulation	51.2	51.7	56.3	57.6	50.7	49.5	48.9	60.5	61.8
Deposits	298.9	330.9	380.1	370.7	396.5	405.8	415.4	430.7	408.5
Central bank certificates held outside banks	161.7	174.3	176.5	175.9	164.0	153.4	149.1	143.9	148.8
Commercial bank certificates held by the public 7/	0.0	0.0	6.0	16.5	14.0	21.0	25.0	40.0	41.3
					(Percentage change, y-o-y)				
Memorandum items:									
Credit to the private sector	26.3	8.8	5.5	6.0	15.6	14.8	14.1	14.8	11.9
Deposits	17.0	10.7	14.9	12.0	17.0	16.9	16.2	13.3	10.2
M3	16.0	8.8	11.1	11.4	11.4	9.4	9.1	9.1	6.4
M3 Velocity	2.7	2.8	2.7	2.7	2.7	2.9	2.8	2.8	2.7

Sources: Dominican authorities; and Fund staff estimates.
1/ Foreign currency denominated accounts valued at DR$36.5 per U.S. dollar.
2/ The Central Bank's balance sheet is adjusted to incorporate the reserve liability from the IMF budgetary support for 2009 and onwards.
3/ Projections for 2009-12 assume SBA purchases are made.
4/ Excludes transfers related to Central Bank recapitalization.
5/ Includes transfers related to Central Bank recapitalization.
6/ Includes the Central Bank, Banca de Reservas, and all other multiple banks. Excludes other financial institutions.
7/ For 2010 onwards, projections assumes that private banks issue certificates to the public, so that the sum of certificates of the banking system in hands of the public grows at an annual rate of 10 percent.

Table 9. Dominican Republic: Selected Financial Soundness Indicators of the Banking System

(In percent)

	2006	2007	2008	Mar 2009	Jun 2009	Sep 2009	Dec 2009
Capital adequacy							
Net w orth to total assets	10.0	9.5	9.7	8.7	9.2	9.4	9.1
Regulatory capital to risk-w eighted assets	12.4	13.0	13.4	14.5	14.5	14.5	14.5
Asset quality							
Loan grow th	24.7	27.1	15.3	16.5	15.0	11.5	12.4
NPLs to total loans	4.5	4.0	3.5	4.3	4.1	4.3	4.0
Loan provisions to NPLs	144.7	134.5	133.1	114.9	116.3	113.4	114.8
NPLs net of provisions to net w orth	-10.8	-8.2	-7.2	-4.2	-4.3	-3.5	-3.8
Fixed and net foreclosed assets to net w ort	52.0	57.2	58.0	60.9	57.4	53.5	51.3
Earnings and efficiency							
Return on average assets	1.9	2.0	2.1	0.3	0.7	1.4	1.9
Return on average equity	19.7	21.3	21.4	3.9	7.0	14.8	20.0
Gross operating income to average assets	9.9	9.8	2.4	0.4	0.8	1.7	2.3
Financial margin to average assets	6.8	6.7	6.9	1.3	2.7	5.8	7.7
Operating expenses to net financial margin	107.1	104.4	96.3	92.4	89.4	89.9	91.1
Liquidity							
Liquid funds to deposits	33.0	32.3	33.1	27.8	26.0	25.2	28.1
Liquid funds to total assets	27.7	27.2	28.4	23.7	22.3	21.5	23.8

Sources: Dominican authorities; and Fund staff estimates.

Table 10. Dominican Republic: Balance of Payments

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

			Prog.	Est.	Projections		
	2007	2008	2009		2010	2011	2012
Current account	**-2,167**	**-4,529**	**-2,814**	**-2,327**	**-3,071**	**-3,000**	**-2,133**
Trade balance	-6,437	-9,245	-6,881	-6,820	-7,583	-7,827	-7,513
Exports f.o.b.	7,160	6,748	5,272	5,463	5,534	6,269	7,549
Of which: nickel	1,099	492	0	4	0	185	232
Of which: gold	0	0	0	0	0	288	1,180
Imports f.o.b.	-13,597	-15,993	-12,154	-12,283	-13,117	-14,095	-15,063
Of which: oil and gas	-3,224	-4,241	-2,640	-2,655	-3,307	-3,541	-3,692
Nonfactor services	3,052	2,962	2,868	3,088	3,171	3,442	3,815
Of which: travel receipt	4,064	4,166	3,885	4,065	4,126	4,477	4,924
Factor services	-2,183	-1,759	-1,985	-1,890	-2,068	-2,280	-2,490
Of which: interest on public debt 1/	-428	-372	-442	-473	-570	-640	-706
Transfers	3,401	3,513	3,185	3,296	3,409	3,665	4,056
Capital and financial account	**2,203**	**4,384**	**2,135**	**3,001**	**2,548**	**3,480**	**2,670**
Capital account	195	135	86	107	132	301	332
Financial account	2,008	4,249	2,049	2,895	2,416	3,179	2,339
Direct investment, net	1,541	2,900	1,966	2,158	1,863	2,107	2,323
Portfolio investment, net	949	-376	-563	-451	100	337	78
Other investment, net	-482	1,725	646	1,188	453	735	-63
Of which: public sector MLT, net	290	760	927	1,094	709	542	162
Disbursements	942	1,367	1,593	1,717	1,385	1,380	1,225
Amortization	-652	-607	-666	-623	-676	-838	-1,063
Other	-772	965	-280	94	-256	193	-225
Of which: SDR allocation	0	0	266	275	0	0	0
Errors and omissions	591	-181	359	-267	0	0	0
Overall balance	**627**	**-326**	**-320**	**408**	**-523**	**481**	**537**
Financing	**-627**	**326**	**320**	**-408**	**523**	**-481**	**-537**
Change in NIR (increase, -)	-607	230	350	-365	523	-481	-537
Change in GIR (increase, -)	-695	284	96	-641	139	-981	-594
Net Fund purchases	63	-42	254	276	384	500	57
Exceptional financing	-7	58	-30	-43	0	0	0
Debt rescheduling	34	0	0	0	0	0	0
Debt forgiveness	11	9	4	12	0	0	0
Net change in arrears	-51	49	-34	-55	0	0	0
Memorandum items:							
Current account in percent of GDP	-5.3	-10.0	-6.2	-5.0	-6.1	-5.5	-3.5
Non-oil-gas current account in percent of GDP	2.6	-0.6	-0.4	0.7	0.5	1.0	2.6

Sources: Dominican authorities; and Fund staff estimates.

1/ Includes interests on loans and bonds.

Table 11. Dominican Republic: Indicators of External Vulnerability

	2006	2007	2008	Prel. 2009
Merchandise exports (percentage change)	7.6	8.3	-5.8	-19.0
Merchandise imports (percentage change)	23.3	11.7	17.6	-23.2
Real effective exchange rate (percentage change, appreciation ·	-5.2	1.8	1.4	1.5
Current account balance (percent of GDP)	-3.6	-5.3	-10.0	-5.0
Capital and Financial account balance (percent of GDP)	4.5	5.4	9.6	6.4
Foreign direct investment, net (percent of GDP)	4.3	3.8	6.4	4.6
Portfolio investment, net (percent of GDP)	2.2	2.3	-0.8	-1.0
Other investment, net (percent of GDP)	-2.7	-1.2	3.8	2.5
External debt (percent of GDP)	24.9	25.2	25.2	27.2
Debt service (in percent of exports of GNFS) 1/	15.2	14.0	17.1	18.3
Gross reserves (in millions of U.S. dollars)	2,251	2,946	2,662	3,303
Gross reserves (in months of imports of GNFS)	1.8	2.0	2.3	2.7

Sources: Dominican authorities; and Fund staff estimates.

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

Table 12. Dominican Republic: Schedule of Reviews and Purchases

Date	Amount of Purchase 1/ Millions of SDRs Central Bank	Ministry of Finance	Total	Percent of Quota	Conditions
	Purchases already made				
November 9, 2009	0.00	200.00	200.00	91.4	Approval of arrangement
	Purchases to be made				
March 15, 2010	54.27	25.00	79.27	36.2	First review and end-December 2009 performance criteria
June 15, 2010	54.27	25.00	79.27	36.2	Second review and end-March 2010 performance criteria
September 15, 2010	54.26	25.00	79.26	36.2	Third review and end-June 2010 performance criteria
December 15, 2010	84.45	25.00	109.45	50.0	Fourth review and end-September 2010 performance criteria
March 15, 2011	109.45	0.00	109.45	50.0	Fifth review and end-December 2010 performance criteria
June 15, 2011	109.45	0.00	109.45	50.0	Sixth review and end-March 2011 performance criteria
September 15, 2011	109.45	0.00	109.45	50.0	Seventh review and end-June 2011 performance criteria
December 15, 2011	109.45	0.00	109.45	50.0	Eighth review and end-September 2011 performance criteria
February 28, 2012	109.45	0.00	109.45	50.0	End-December 2011performance criteria
Total	**794.50**	**300.00**	**1094.50**	**500.0**	

Source: Fund staff estimates.
1/ All purchases are made by the member country. The 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 paragraph 30 of EBS/09/165

Table 13. Dominican Republic: Medium-Term Scenario 2006-14

(In percent of GDP, unless specified)

			Projections				
	2008	2009	2010	2011	2012	2013	2014
Growth and prices							
Real GDP growth	5.3	3.5	3.5	6.0	8.0	8.0	8.0
CPI inflation, end of period	4.5	5.8	6.0	4.0	3.0	3.0	3.0
CPI inflation, average	10.6	1.4	6.9	5.0	3.5	3.0	3.0
Nominal GDP (billions of U.S. dollars)	45.5	46.6	50.1	54.7	59.2	64.1	69.3
Gross investment	18.2	16.8	17.3	18.4	18.4	18.4	18.4
National Savings	8.2	11.8	11.2	12.9	14.9	14.7	15.0
Public Sector							
Revenue	15.8	13.7	14.3	15.3	15.7	15.7	15.7
Expenditure	20.4	18.1	18.2	18.3	17.7	17.7	17.7
Noninterest expenditure	17.1	14.4	14.5	14.3	13.7	13.7	13.7
Overall balance	-4.6	-4.4	-4.0	-3.0	-2.0	-2.0	-2.0
Primary balance	-1.3	-0.7	-0.2	1.0	2.0	2.0	2.0
Balance of payments and external debt							
External current account (millions of U.S. dollars)	-4529	-2327	-3071	-3000	-2133	-2447	-2467
In percent of GDP	-10.0	-5.0	-6.1	-5.5	-3.5	-3.7	-3.4
Official reserves (millions of U.S. dollars)	2661	3303	3164	4145	4739	5084	5215
In months of imports goods and non-factor services	2.3	2.7	2.4	2.9	3.1	3.1	3.1
Public external debt	18.3	20.0	21.6	19.4	17.6	16.5	15.5

Sources: Dominican authorities; and Fund staff estimates.

APPENDIX 1: WORK PROGRAM

Mission	Dates
First SBA Review	
Mission	February 2–15, 2010
Board Meeting	Early April, 2010
Second SBA Review	
Mission	May 17–31, 2010
Board Meeting	June 30, 2010
Third SBA Review	
Mission	August 3–17, 2010
Board Meeting	September 25, 2010
Memorandum item:	
SBA Approval	November 9, 2009

ATTACHMENT 1: LETTER OF INTENT

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

Santo Domingo, Dominican Republic
March 19, 2010

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

Dear Mr. Strauss-Kahn:

1. **Background**. The government's economic program announced in our letter of intent (LOI) of October 6, 2009 is generating immediate results and performing better than expected. Economic growth is beginning to pick up preventing a sharp increase in unemployment while confidence has firmed up. The purpose of this letter is to: (i) update and supplement our October 2009 letter and Memorandum of Economic and Financial Policies (MEFP); (ii) describe performance under the government's economic program for end-2009; (iii) propose marginal revisions to the macroeconomic program for 2010 to adjust to the changing regional and international realities; (iv) set structural benchmarks in the electricity sector for 2010; (v) request two waivers for a minor delay and a small deviation in implementing our policies; and (vi) request completion of the first review under the Stand-by Arrangement (SBA). Revised targets and benchmarks for 2010 are included in tables 1 and 2.

2. **Economic performance.** There are early signs of improvement in the economy, but external and domestic risks to recovery are still high.

- ***Growth***. Real GDP rebounded in the last quarter of 2009 and it is estimated to have grown by 3.5 percent for 2009 as a whole, helped by swift action on monetary policy in the first half of the year and an important fiscal impulse at the end of the year. For 2010 we expect growth to continue between 3 and 4 percent, but risks remain high. In particular, the international economy may not recover as quickly as expected, and domestic private demand may continue to be weak.

- ***Inflation***. Headline and core inflation have remained subdued, below the target range of the central bank. Headline inflation came in at 5.7 percent for 2009 and is expected to be in the range of 6-7 percent in 2010, whereas core inflation (which excludes food and energy prices) remained low and stable at around 3 percent.

- ***Balance of payments***. The external current account deficit reached about 5 percent of GDP for 2009, around 1 percent of GDP lower than expected, and private capital flows were higher than anticipated, which permitted the accumulation of international reserves beyond the level anticipated in the program. The exchange rate has remained relatively stable.

- ***Financial system***. Financial soundness indicators continue to point to a healthy financial system with low levels of non-performing loans, high liquidity and solvency and an adequate capital base, although the economic slowdown is being felt by banks.

3. **Performance under the program.** Most targets were observed but there was a transitory deviation in one fiscal target and a short delay in clearing domestic arrears:

- ***Fiscal.*** The government met the target for the overall balance of the consolidated public sector, but there was a deviation of about 0.4 percent of GDP in the deficit of the Central Administration, which is mostly explained by higher-than-anticipated transfers to the public electricity company (CDEEE) facing higher costs (partly related to higher international oil prices) that were not passed to the customers. At the consolidated public sector level, the higher transfers to the electricity company were offset by lower quasi-fiscal loses of the Central Bank and higher profits of the oil refinery (REFIDOMSA), which could not be transferred to the budget before the end of the year. More importantly, access to external financing under the program allowed for a significant increase in expenditures on important investment projects, from 2.1 percent of GDP through the third quarter of 2009, to 3.6 percent of GDP for the year as a whole, providing a timely fiscal impulse which has helped to reactivate the economy, while allowing the construction of important infrastructure projects to further support the economic recovery and productive capacity. Social expenditures also increased to meet the target under the program of increasing the coverage of the conditional cash transfer program by 70,000 families living in extreme poverty. At the same time, the government met its obligations under the Central Bank recapitalization law by transferring about 1 percent of GDP to the Central Bank in 2009.

- ***Monetary***. The central bank maintained an accommodative monetary policy stance to support the economic recovery, keeping reserve requirements on domestic currency deposits at 17 percent (after lowering them from 20 percent in early-2009) and maintaining the policy rate unchanged at a low of 4 percent. These policies allowed for an expansion of bank lending to the private sector, especially in the last quarter of

2009, which helped the recovery of economic activity. At the same time, the target on net international reserves (NIR) was exceeded by some $650 million due to a better-than-expected performance in the balance of payments, some of which is expected to be transitory.

- ***Debt.*** The performance criterion on the non-accumulation of external arrears was met, but the performance criterion on the non-accumulation and clearance of domestic arrears with electricity generators was not met mostly due to higher-than-estimated fuel costs. The public electricity company (CDEEE) finished the year with arrears amounting to some US$100 million to the electricity generators under the program definition (i.e., allowing for a 45 day delay to pay due bills). However, these arrears were cleared during March 2010. The government is now current in its obligations to the private electricity generators.

- ***Structural benchmarks***. The two structural benchmarks for end-December 2009 (the design of an electricity sector reform strategy; and the increase in the coverage of the conditional cash transfer program) were met.

- ***Waiver.*** On the basis of corrective actions taken to achieve our objectives, we request a waiver for the non-observance of two performance criteria, one on the fiscal balance of the Central Administration, and the other on the non-accumulation and clearance of arrears with private electricity generators.

4. **Policies for 2010.** The government will continue to follow the guidelines of its program, as presented in the Memorandum of Economic and Financial Policies of the Dominican Republic attached to the Letter of Intent signed on October 6, 2009. However, based on the economic outcome for 2009, and the recent devastating earthquake in Haiti, we propose the following limited revisions to the program:

- ***Quantitative targets***. To demonstrate the authorities' commitment to the program, we propose to strengthen the fiscal target for the Central Administration by about RD$2,700 million in 2010 (about 0.2 percent of GDP), which is about one-half of the deviation in 2009 and to leave the target for the consolidated public sector at the same level (table 1).

- ***Fiscal policy***. The 2010 Budget approved by Congress in December 2009 broadly reflects the fiscal policy envisaged in the October 2009 letter of intent. We reiterate our commitment to the original target for the overall balance of the consolidated public sector of 4 percent of GDP, independently of the adjustments to the Central Bank Recapitalization Law. Risks to the implementation of this budget include: (i) timely access to financing; and (ii) additional expenditure related to the Haitian disaster relief and reconstruction. With regard to the former, the government intends to issue at least $600 million of sovereign bonds during the year, as originally planned in our MEFP of October 2009. With regard to the latter, the government has provided budgetary support during the first quarter of 2010 on hospitals in border towns to assist injured Haitians after the earthquake and provide other relief, including donations of food and fuel. We expect to provide further assistance to Haitian citizens during the rest of the year. Looking ahead, the government will work closely with the international community to assist Haiti in its relief and reconstruction efforts without compromising macroeconomic management in the country. We continue to recognize the need to maintain an appropriate countercyclical fiscal stance, and intend to continue using economic stabilizers in the upswing by saving excess revenues that might materialize should the economy grow considerably faster than expected during 2010 or early signs of overheating be observed. Once we have achieved an adequate level of taxation consistent with fiscal sustainability, we would devote additional revenues derived from improvements in tax administration to continue expanding priority spending, mostly in the social and investment areas.

- ***Monetary policy***. Although the economy remains weak and there are no inflationary pressures, the Central Bank remains prepared to act flexibly and in a timely manner (as demonstrated during 2008 and 2009) to respond to a more rapid closing of the negative output gap. The Central Bank does not anticipate unwinding the reduction in reserve requirements that took place in early-2009, and is expected to maintain its interest rate policy. However, given the large reserve accumulation in December 2009 and the relatively low level of international reserves in the country, we propose saving part of the NIR over-performance. Our conservative estimates, agreed with Fund staff, indicate that about one third of the excess reserve accumulation in 2009 represents a permanent gain which would warrant increasing the floor on the NIR target by $200 million for 2010 (although there are significant upside risks), and we propose to change the performance criterion for 2010 accordingly (Table 1).

- ***Structural policies***. The government has developed a strategy for the reform of the electricity sector, which includes the following concrete actions that will serve as structural benchmarks for the implementation of the electricity reform (Table 2):

    - ***Tariff reform.*** The Government will implement a more flexible pricing mechanism for electricity tariffs with a view to adopt a “technical tariff” (which will cover the cost of generation, transmission and distribution, and the efficiency losses in the system). As an intermediate step, the government will eliminate gradually the gap between the current tariffs and the “indexed tariff” (which covers existing generation costs) as published by the Superintendency of Electricity, starting in the second half of 2010, with a view to eliminate the gap by the end-December 2010 (structural benchmark).

    - ***Improving invoicing***. The electricity distribution companies (EDEs) will increase the number of their regulated clients by about one-third from 1.4 million in 2009 to 1.9 million by end-September 2010 (structural benchmark); this would entail attaining a (redefined) Cash Recovery Index (CRI) of about 70 percent, which takes into account the customers in former PRA areas.

- ***Targeted subsidies***. The government will increase the coverage of the BONOLUZ program from 11 thousand clients at end-2009 to 50 thousand by end-December 2010 (structural benchmark).

- ***Social policy***. In line with the original aims of the program, the government will continue to increase expenditures on public education and health services to cover the increase in the demand for these services that results from the expansion of the conditional cash transfer program to a larger percentage of families living in extreme poverty. In particular, the government will increase spending on the construction and rehabilitation of public schools and medical services in poor areas, and on nutritional supplements for poor children.

5. **Ownership**. The government believes that the policies set forth in the MEFP attached to the LOI of October 6, 2009, and the modifications indicated above, are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. 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 the MEFP), and will continue providing Fund staff with all the relevant information required to complete program reviews and monitor performance.

6. **Publication**. As part of our communication policy, we intend to publish this letter on the websites of the Central Bank, the Ministry of Finance, and the Ministry of Economy, Planning and Development to maintain our citizens and domestic economic agents informed about our policy actions and policy 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/	/s/	/s/
Héctor Manuel Valdez	Vicente Bengoa	Temístocles Montás
Governor of the Central Bank	Minister of Finance	Minister of Economy

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

	2010			
	Mar	Jun	Sep	Dec
Fiscal Targets				
1. Overall balance of the central administration (floor) 2/ 3/	-73.7	-88.4	-95.8	-102.3
2. Overall balance of the consolidated public sector (floor) 2/ 3/	-97.5	-119.5	-133.0	-147.0
Monetary Targets				
3. Net international reserves (floor) 4/	1,765	1,765	1,865	2,015
4. Net domestic assets (ceiling) 3/	…	…	65.0	80.0
Debt Targets				
5. Accumulation of public arrears with electricity generators (ceiling) 2/ 4/	0.0	0.0	0.0	0.0
6. Accumulation of external public debt arrears 4/ 5/	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.

3/ In billions of Dominican Republic pesos.

4/ In millions of U.S. dollars.

5/ Continuous target.

Table 2. Dominican Republic: Structural Benchmarks for 2010

Measure	Timing
Public Sector Reform	
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
Financial Sector Reform	
B. Design a plan to achieve compliance with all Basel core principles for effective bank supervision by 2012	Mar 2010
C. Design a plan to formally adopt a full-fledged inflation targeting framework by early 2012	Jun 2010
Recovery and Growth Enhancement	
D. 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
E. Increase the number of regulated clients of the distribution companies (EDEs) to 1.9 million	Sep 2010
F. 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
Social Safety Net	
G. Increase the coverage of the BONOLUZ program to 50 thousand clients	Dec 2010

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 *Memorandum of Economic and Financial Policies (MEFP)*, 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 will also include grants. Central government expenditures are recorded on an accrual basis and will include transfers to other government units as well as all transfers to the 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 sale of public assets and the net change in the stock of domestic and external arrears, including arrears to electricity distributors. 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. 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 in 2009: (i) clearance of central government domestic arrears incurred before end-December 2008; (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 by end-December 2008. 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

Cumulative Balance (from December 31, 2008)	Floor (In billions of RD$)
End-October 2009 (actual)	-28.3
End-November 2009 (actual)	-37.9
End-December 2009 (actual)	-58.0
End-January 2010 (program projection)	-58.4
End-February 2010 (program projection)	-62.4
End-March 2010 (performance criterion)	-73.7
End-April 2010 (program projection)	-72.8
End-May 2010 (program projection)	-75.8
End-June 2010 (performance criterion)	-88.4
End-July 2010 (program projection)	-92.6
End-August 2010 (program projection)	-94.1
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

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) 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). Given uncertainties on interest payments of the central bank by the end of 2009, the cumulative floor on the consolidated public sector will be adjusted downward by up to a limit of RD$0.5 billion for interest payments in excess of RD$27.5 billion for 2009. No adjustments will be applied for 2010 unless agreed between the authorities and the Fund staff in case there is a change in the recapitalization plan of the central bank. Changes in the recapitalization law will be reflected in 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. 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.

Fiscal targets for 2009 and 2010 will be measured as a cumulative floor measured from end-December 2008.

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

Cumulative Balance (from December 31, 2008)	Floor (In billions of RD$)
End-October 2009 (actual)	-42.2
End-November 2009 (actual)	-52.6
End-December 2009 (actual)	-74.2
End-January 2010 (program projection)	-76.7
End-February 2010 (program projection)	-82.9
End-March 2010 (performance criterion)	-97.5
End-April 2010 (program projection)	-98.9
End-May 2010 (program projection)	-104.2
End-June 2010 (performance criterion)	-119.5
End-July 2010 (program projection)	-125.6
End-August 2010 (program projection)	-128.8
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

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.

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.

3. Targets on the Consolidated Net International Reserves

Outstanding Stock	Floor (In millions of US$)
End-October 2009 (actual)	2075
End-November 2009 (actual)	1901
End-December 2009 (actual)	2538
End-January 2010 (actual)	2305
End-February 2010 (actual)	2123
End-March 2010 (performance criterion)	1765
End-April 2010 (program projection)	1765
End-May 2010 (program projection)	1765
End-June 2010 (performance criterion)	1765
End-July 2010 (program projection)	1799
End-August 2010 (program projection)	1832
End-September 2010 (performance criterion)	1865
End-October 2010 (program projection)	1915
End-November 2010 (program projection)	1965
End-December 2010 (performance criterion)	2015

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.

4. External Program Disbursements

Cumulative Flows (from December 2008)	(In million US$)
Actual	
End-October 2009	104
End-November 2009	104
End-December 2009	794
Program Projections	
End-January 2010	794
End-February 2010	830
End-March 2010	830
End-April 2010	1430
End-May 2010	1437
End-June 2010	1437
End-July 2010	1793
End-August 2010	1793
End-September 2010	1793
End-October 2010	1793
End-November 2010	1819
End-December 2010	1819

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 working days of each relevant month.

5. Targets on the Net Domestic Assets

Outstanding Stock	Ceiling (In billions of RD$)
End-October 2009 (actual)	44
End-November 2009 (actual)	55
End-December 2009 (actual)	45
End-January 2010 (actual)	45
End-February 2010 (actual)	51
End-March 2010 (program projection)	64
End-April 2010 (program projection)	65
End-May 2010 (program projection)	66
End-June 2010 (program projection)	67
End-July 2010 (program projection)	66
End-August 2010 (program projection)	67
End-September 2010 (performance criterion)	65
End-October 2010 (program projection)	70
End-November 2010 (program projection)	75
End-December 2010 (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. Ceiling on the Accumulation of Arrears of Public Electricity Distributors with Generators

The government will regularize all outstanding domestic arrears (as defined in section IA above) with electricity generators using the available financial mechanisms before the end of the year. 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.

F. 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.

- 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 distibutors 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

First Review Under the Stand-By Arrangement, Requests for Waivers of Applicability and Modification of Performance Criteria

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

Approved by Rodrigo Valdés and Dominique Desruelle

April 6, 2010

This supplement provides information on developments and performance since the issuance of the staff report for the First Review Under the SBA, Requests for Waivers of Nonobservance and Modification of Performance Criteria, and supports the authorities' request for waivers of applicability of the relevant end-March 2010 performance criteria. The information contained in this supplement does not change the thrust of the staff report.

I. RECENT DEVELOPMENTS

1. **Recent indicators are in line with an incipient recovery, but the economy remains fragile.** There is no evidence of price pressures in the first quarter of the year and tax collections appear to be rebounding.

- ***Inflation remains in check.*** Headline inflation for February 2010 was 0.1 percent, taking the 12-month rate of inflation to 6½ percent and the cumulative inflation in the first 2 months of 2010 to 1½ percent. Core inflation (excluding food and fuels) remained low at below 3 percent in the 12 months prior to February 2010.

- ***Monetary policy continues to be accommodative***. At the last meeting of the monetary council (on March 30), it was decided to leave interest rates unchanged.

- ***Tax collections are recovering.*** There is evidence of a rebound in tax collections in March. However, preliminary information indicates that the fiscal stance in the first two months of the year remained expansionary.

II. PERFORMANCE CRITERIA [1]

2. **Staff has received information on 2 of the 5 quantitative performance criteria for end-March 2010, and the information confirms that those criteria were observed.** Concretely**,** the authorities have confirmed that: (i) there are no arrears to external creditors (which implies compliance with the continuous performance criterion on this area);[2] and (ii) there are no arrears to private electricity generators (performance criteria for end-March).

3. **Although there is no final information on the other 3 quantitative performance criteria for end-March 2010, the authorities are confident that they have been observed**. Preliminary data suggests that net international reserves (NIR) in late March were some 10 percent above the program floor for the end of the month. On the fiscal targets, preliminary data suggests that, as of end-February, the fiscal deficit of the Central Administration and the consolidated public sector were equivalent to 75-80 percent of the ceilings for the first quarter set under the program, but the authorities are confident that the end-March performance criteria for both variables will be met, especially as tax collections firmed up in March.

Dominican Republic: Performance Criteria
(Quantitative targets for end-March 2010)

	Prog.	Actual/ Est.	Status	Waiver of Applicability
(In percent of GDP)				
Fiscal Targets				
Consolidated public sector deficit	1.3	1.0 1/	?	Y
Central administration deficit	0.8	0.6 1/	?	Y
(In percent of base money)				
Monetary Targets				
Net international reserves	48.5	54.0 2/	?	Y
(In percent of payments due)				
Debt Targets				
External arrears	0.0	0.0	✓	N
Arrears to electricity generators	0.0	0.0	✓	N

Source: Dominican authorities and Fund staff estimates.
1/ Preliminary estimate for end-February; data for end-March still not available.
2/ Preliminary estimate for March 29; data for end-March still not available.

III. STRUCTURAL BENCHMARKS

4. **The authorities have prepared two strategy papers in connection with the structural benchmarks for end-March**. In particular, the authorities recently provided staff documents containing: (i) a strategy to rationalize and limit tax exemptions, strengthen tax administration and continue modernizing customs administration; and (ii) a plan to achieve compliance with all Basel core principles for effective bank supervision. Staff is evaluating these strategies and will report to the Board on the formal status of the corresponding benchmarks at the time of the next review.

[1] Given the timing of the Board meeting on the completion of the first SBA review, the end-March 2010 performance criteria are the controlling targets, and it is therefore no longer necessary to waive the nonobservance of the two end-December 2009 performance criteria that were missed (see Proposed Decision). In the attached letter, the authorities request waivers of applicability of the relevant end-March 2010 performance criteria.

[2] The zero external arrears performance criterion has been observed continuously through the date of the Board meeting. Moreover, the authorities have also confirmed that they have met all other standard continuous performance criteria (i.e., no imposition or intensification of exchange restrictions, or of import restrictions for balance of payments reasons, and no introduction or modification of multiple currency practices).

IV. Miscellaneous

5. **Safeguards Assessment**. The safeguards assessment is substantially complete and the report has been discussed with the authorities, but does not yet include their formal comments. The recommendations in the draft report do not require action in the context of the first review and will be closely monitored going forward. On this basis, staff recommends the completion of the review, despite the safeguards assessment not being completely finalized.

6. **Waivers of applicability**. Staff supports the authorities request for waivers of applicability of end-March 2010 performance criteria for which full information is still not available.

Banco Central de la República Dominicana

Santo Domingo, Dominican Republic
April 5, 2010

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

Dear Mr. Strauss-Kahn:

In addition to our letter of March 19, 2010 which reiterates our commitment to the program supported by a Stand-By Arrangement from the Fund, I am sending this letter to request waivers of applicability for the relevant end-March 2010 performance criteria in view of delays in the Board discussion of the first program review to April 7. As you know, we do not have the full information to assess performance under all the criteria but we are confident that they were observed.

Sincerely yours,

_________/s/_________
Clarissa de la Rocha de Torres
Acting Governor of the Central Bank,
Alternate Governor to the IMF

INTERNATIONAL MONETARY FUND

DOMINICAN REPUBLIC

First Review Under the Stand-By Arrangement, Request for Waivers of Applicability and Modifications of Performance Criteria—Informational Annex

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

Approved by Rodrigo Valdés and Dominique Desruelle

April 5, 2010

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Annex I—Relations With the Fund

(As of March 31, 2010)

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

II. General Resources Account:	SDR Million	Percent of Quota
Quota	218.9	100.00
Fund holdings of currency	707.84	332.36
Reserve Tranche Position	0.00	0.00

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	208.83	100.00
Holdings	174.89	85.75

IV. Outstanding Purchases and Loans:	SDR Million	Percent of Quota
Stand-By Arrangements (SBA)	488.94	223.36

V. Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
SBA	Nov 9, 2009	Mar 8, 2012	1,094.50	200.00
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	96.32	110.76	72.23	109.63	100.00
Charges/Interest	4.37	4.52	3.27	2.18	0.91
Total	100.69	115.28	75.50	118.10	100.91

1/ 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. The BCRD was subject to a safeguards assessment with respect to the Stand-By Arrangement approved on January 31, 2005. The assessment, completed on April 27, 2005, noted that the BCRD implemented a number of earlier safeguards recommendations, but also identified vulnerabilities in the areas of internal controls over the reporting of monetary data to the IMF, financial reporting and external audit. An update safeguards assessment was conducted with respect to the Stand-By Arrangement approved by the Board on November 9, 2009. The assessment, which is substantially complete, has found continued improvement in the safeguards framework for the central bank. Furthermore, given that part of Fund resources under the program are used for budgetary support, the central bank and the ministry of finance have signed a memorandum of understanding delineating the responsibility of each agency to cover the obligations to the Fund. Nevertheless, some areas require further attention to address potential risks to the central bank's autonomy in current legislative provisions, and to strengthen accounting conventions.

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.

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

Annex II—Relations With the World Bank Group

(As of March 31, 2010)

1. The World Bank's total loan commitments in the Dominican Republic amounts to US$316.2 million, of which US$237.0 million remains to be disbursed. The loan portfolio consists of ten 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); two for Technical Assistance (Financial Sector and Energy Sector); and an Emergency Recovery Loan.

2. The Municipal Development Project is expected to be signed no later than April 24, 2010, and its approval by Congress will take place after the congressional elections in May, 2010. The Additional Financing of Social Protection is expected to be ratified by Congress before May.

3. Last year (2009) was a record year for World Bank engagement with the Dominican Republic. The Board approved 5 operations for a total of US$668 million. This included: two DPLs for a total of US$300 million, two investment operations for a total of US$58 million and, one additional financing for US$10 million.

4. The second programmatic DPL (US$150 million) of the Performance and Accountability in the Social Sectors series is planned to be prepared during 2010. The World Bank Group portfolio also includes additional commitments from the IFC and MIGA.

5. Portfolio performance in the Dominican Republic has improved substantially in terms of effectiveness delays and disbarment rates since February 2009. The portfolio review held form 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.

6. 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 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%). Today, it is higher than that of the Caribbean (DR: 19.3%; Caribbean: 18.9%)

7. 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 (FSAP), 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 were prepared. The Bank is preparing several non-lending technical assistance

projects (NLTA) targeting: i) social sectors, ii) competitiveness, iii) quality of public expenditures and iv) risk management and climate change.

A. IBRD and IDA Operations (As of March 30, 2010)
(In millions of U.S. dollars)

Active Projects	Sector	Commitments	Disbursements	Undisbursed Amount
(APL1)Water & Sanitation in Tourist Areas	Water	27.5	0.1	27.4
EARLY CHILDHOOD EDUCATION PROJECT	Education	42.0	30.9	11.1
Financial Sector Technical Assistance	Energy	12.5	5.9	6.6
Pow er Sector TA Project	Energy	7.3	6.9	0.4
Electricity Distribution and Rehabilitation	Energy	42.0	0.1	41.9
Social Sectors Investment Program	Social Protection	29.4	2.1	27.3
Municipal Development	Agriculture and Rural Development	20.0		20.0
Youth Development Project	Social Protection	25.0	9.0	16.0
(APL2) Health Ref II	Health	30.5	1.1	29.4
Emergency Recovery & Disaster Mgmt.	Emergency	80.0	23.1	56.9
Total		316.2	79.2	237.0

B. IFC Operations (As of March 26, 2010)
(In millions of U.S. dollars)

	Loans	Equity	Quasi-Equity	Participants	Total
Held	99.3	33.9	49.7	6.2	189.1
Disbursements	79.3	33.9	79.7	6.2	169.1

C. MIGA (As of December 31, 2009)
(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009
Outstanding Gross Guarantees	91.3	78.7	157.3	127.9	126.0	99.6

D. IBRD and IDA Loan Transactions (Fiscal year)
(In millions of U.S. dollars)

	2004	2005	2006	2007	2008	2009
Disbursements	71.2	40.4	39.4	69.1	74.8	8.5
Repayments	34.6	37.9	35.5	36.9	40.6	22.0
Net lending	36.6	2.5	3.9	32.2	34.3	-13.4
Debt outstanding	401.2	393.0	402.6	432.2	478.0	461.2
Interest and charges	18.8	19.9	21.1	22.6	25.0	10.7

Annex III—Relations With the Inter-American Development Bank

(As of March 26, 2010)

1. In 2010, the IDB estimates making disbursements for US$450.7 million, of which, US$200.00 million correspond to the Fiscal Strengthening Program. There will also be a $60.0 million disbursement from the Productive Development and Competitiveness Program.

Dominican Republic: Relations With the Inter-American Development Bank

(In millions of U.S. dollars)

A. Operations

Sector	Commitments	Disbursed	Undisbursed Amounts
Agriculture	55.0	55.0	0.0
Science and Technology	-	-	-
Urban Dev. And Housing	-	-	-
Education	130.0	65.7	64.3
Labor Market, Training, and Transfers	10.0	6.7	3.3
Sanitation	31.3	8.5	22.8
State Modernization	584.0	338.2	245.5
Health	-	-	-
Transportation	50.0	10.5	39.5
Private Sector Development	-	-	-
Disaster Prevention	5.0	0.3	4.7
Energy	40.0	-	40.0
Social Investment	70.0	39.3	30.7
Total	975.3	524.3	450.7

B. Loan Transactions

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Disbursements	142.4	184.1	155.1	254.2	135.7	118.1	109.5	137.4	485.0	450.7
Repayments	45.5	50.7	118.8	63.9	67.0	75.5	171.7	167.4	134.2	95.0
Net Lending	96.9	133.4	36.3	190.3	68.7	42.6	-62.2	-30.0	350.8	355.7
Interests and Charges	36.0	40.9	48.0	52.0	56.0	66.1	66.0	62.3	53.1	49.3
Subscriptions and Contributions	0.7	0.5	0.4	4.0	3.8	2.1	1.9	0.0	0.0	0.0
Net Transfer	60.2	92.0	-12.1	134.3	8.9	-25.6	-130.1	-92.3	297.7	306.4

2. For 2010, the Bank will work on the preparation of six loans in the areas of education (US$ 50 million), natural disasters insurance policy (US$24 million), agricultural innovation (US$ 30 million), water and sanitation (US$ 35 million), productive development and competitiveness (US$ 70 million) and social protection (US$70 million). Additionally, in the first semester of the year the Bank is expected to approve the Country Strategy for the period 2010–13.

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the Stand-By Arrangement with the Dominican Republic

The Executive Board of the International Monetary Fund (IMF) has completed the first 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 79.27 million (about US$119.9 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 279.27 million (about US$422.3 million).

The SBA was approved on November 9, 2009 (see Press Release No. 09/393), for an amount equivalent to SDR 1.09 billion (about US1.66 billion), or 500 percent of the Dominican Republic's IMF quota.

The Executive Board also approved waivers of applicability for end-March performance criteria, as data on performance were not available at the time of the Executive Board meeting. The Executive Board also approved modifications to a number of performance criteria for the rest of 2010.

Following the Executive Board's discussion of the Dominican Republic on April 7, 2010, Mr. John Lipsky, First Deputy Managing Director and Acting Chair, made the following statement:

"Performance of the Dominican Republic economy has been satisfactory under the Fund-supported program, and the authorities' generous response to the Haitian earthquake is praiseworthy. A substantial fiscal stimulus, supported by an accommodative monetary policy, has served to mitigate the adverse effects of the global crisis and start a recovery. Progress has been made on structural reforms, including on developing a strategy to reform the electricity sector that aims at eliminating indiscriminate subsidies while significantly improving service to all clients.

"The authorities remain committed to the program's objectives and policies. Strong program implementation will enhance the government's credibility, and support a successful placement of bonds in international markets, which is an important component of the authorities' financing strategy.

"Under the program, fiscal policy will shift from an expansionary stance to consolidation in the second half of 2010. Full implementation of the government's investment program and control of current spending will help support a sustained recovery. Swift elimination of tax exemptions and strengthened tax administration will be important for achieving the planned fiscal tightening in the second half of 2010 and beyond.

"The central bank continues its flexible handling of monetary policy, maintaining stability and supporting growth. While relative stability of the exchange rate is important to maintain confidence, a gradual introduction of greater flexibility will strengthen the authorities' ability to respond to external shocks, especially if the global environment turns out to be weaker than expected. It is essential to continue with the recapitalization of the central bank in order to enhance the credibility and flexibility of monetary policy.

"Implementation of the structural reform agenda will be of paramount importance to achieve the authorities' medium-term objectives. Reform of the electricity sector will reduce the drain on public finances and make room for poverty alleviation efforts. While the banking system remains sound, the authorities are preparing a plan to further enhance banking supervision."