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Dominican Republic: Letter of Intent and Technical Memorandum of Understanding

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Santo Domingo, September 29, 2005

Rodrigo de Rato y Figaredo
Managing Director
International Monetary Fund
Washington DC, USA

Dear Mr. de Rato:

1. Developments under the economic program have been favorable, and the end-June 2005 quantitative performance criteria were met with comfortable margins. Despite some delays in the structural reform agenda, attributable mostly to the complexity of the task of reconfiguring the institutional framework, we remain committed to implementing the reforms set out in the January 2005 Memorandum of Economic and Financial Policies (MEFP), as well as those outlined in this Letter of Intent. We are therefore requesting the pertinent waivers and ask the Executive Board to conclude the first and second reviews under the arrangement.

2. The program will continue to be monitored through regular quarterly reviews. Quantitative performance criteria have been set for end-September and end-December 2005, and new structural performance criteria and benchmarks have also been set. Since end-September fiscal data will not be available by the time of the Board meeting, we request a waiver of applicability of the associated performance criteria. Observance of the end-September performance criteria will remain a condition for the purchase pursuant to the Third Review under the arrangement. The third review, scheduled for completion by end-December 2005, will focus on agreeing the details of macroeconomic policies for 2006, including the 2006 budget, and on assessing the progress in Congress of the draft laws on modernizing fiscal policy management and increasing the independence of the central bank and the Superintendency of Banks. Progress in strengthening the Superintendency's capacity and the evaluation of the banks' business plans will also be assessed. The fourth review is scheduled to be completed by end-March 2006.

Macroeconomic performance

3. The Dominican economy is expanding at a faster pace than anticipated, with real GDP growth of 5.8 percent in the first half of 2005. The continued implementation of prudent monetary and fiscal policies led to a significant reduction in inflation and interest rates, which helped boost private sector confidence. Based on the growth achieved in the first half of the year and the expected recovery of domestic demand, we have raised our projection of real GDP growth in 2005 from 2.5 percent to 4.5 percent. In this regard, the external current account surplus is expected to decline from 7.6 percent of GDP in 2004 to 1.6 percent this year, largely reflecting a steep increase in nonoil imports and higher international oil prices. Inflation has dropped sharply, with the twelve-month rate decreasing from 28.7 percent in December 2004 to -0.2 percent in August 2005. Based on this improvement,

inflation is expected to fall to single-digit levels by end-2005, compared with the original target of 11-13 percent.

Fiscal and Monetary Policies

4. The fiscal and public debt targets for end-March and end-June 2005 were met by wide margins. The overall balance in the nonfinancial public sector (NFPS) for end-June exceeded the program target by more than one percent of GDP. This performance reflects an improvement in revenue over the projected levels, delays in the execution of public investment, and lower interest payments owing to some initial overestimation and a more appreciated exchange rate. The latter factor also reduced the level of externally financed investment.

5. Although the pace of public expenditure will pick up in the latter half of the year, the government is determined not to exceed the program's overall deficit and debt ceilings for 2005. Accordingly, savings on interest payments and externally financed investment will be used to meet a number of needs that will push primary spending above the program projections. These needs include: (i) increased social emergency expenditure; (ii) postponement in the reduction of the liquefied gas subsidy and larger transfers to the electricity sector; (iii) wage slippages; and (iv) other spending related to the under-budgeting of utility payments (electricity and communications). As a result of increases in public expenditure, the primary surplus is estimated at about 1 percent of GDP in 2005.

6. The government is in the process of preparing the draft Budget Law for 2006 with a view to achieving the targeted NFPS surplus of 0.7 percent of GDP. As pointed out in paragraph 12, the draft budget will eliminate the practice of using the budgetary surplus (*excedente presupuestario*) and replace it with a budget appropriation for the Office of the President (up to 5 percent of current revenues) and another budget appropriation to deal with natural disasters and emergency situations (up to 1 percent of current revenues). To ensure attainment of the fiscal targets for 2006, and in view of the new commitments undertaken in 2005, we envisage establishing tight limits on the central government wage bill, energy subsidies, transfers, and capital spending (*prior action*). As provided in the Law, the government will submit the draft Budget for 2006 in mid-November and will seek its approval by end-December 2005 (structural performance criteria).

Nonfinancial Public Sector Balance

(in percent of GDP)

	2004	2005		2006	
	Prel.	Prog.	Proj.	Prog.	Proj.
Central government					
Revenues	16.4	18.0	18.6	18.0	18.6
Primary spending	17.8	16.3	17.6	14.8	16.2
Interest	2.1	2.5	1.8	2.4	1.7
Rest of NFPS overall balance	0.2	0.0	0.0	0.0	0.0
NFPS overall balance	-3.3	-0.7	-0.8	0.7	0.7
NFPS primary balance	-1.2	1.7	1.1	3.1	2.4

7. With regard to the monetary program, the performance criteria for net international reserves (NIR) and net domestic assets (NDA) for end-March and end-June 2005 were met by comfortable margins and base money was in line with the indicative program targets. A sizable inflow of private capital allowed the central bank to accumulate NIR to a level well above the program floor. Meanwhile, NDA have remained substantially below the program ceiling, as central bank certificates were issued to sterilize foreign exchange purchases and prevent further appreciation of the peso. The monetary authorities will continue to adhere to the NDA and NIR program targets for 2005. For this purpose, and to improve the management of monetary policy, the central bank recently revised the structure of its lending rate (Lombard rate) and borrowing rate (overnight deposits window) to ensure that future rate changes can provide the market with the necessary signals regarding the possible tightening or easing of monetary policy.

8. Despite the increase in the stock of central bank certificates in late 2004 and the first half of 2005, the sharp decline in interest rates will ensure that quasi-fiscal losses remain within the program estimates. There has also been some progress in implementing a short-term strategy to strengthen the central bank's balance sheet. In this regard, (i) the average maturity of the certificates was extended from three months in September 2004 to seven months, with a further extension to nearly one year expected by December 2005 as a result of the decision to place certificates with maturities of 1-1/2 and 2 years; (ii) congress authorized the issuance of a DR\$2.3 billion bond to recapitalize the central bank; and (iii) the auction of central bank assets by the Assets Recovery Commission (COPRA) has begun as envisaged under the program (see paragraph 18). Moreover, the draft 2006 budget will include transfers to the central bank to compensate fully for the revenue losses incurred in connection with the elimination of the share of the exchange commission tax transferred to the central bank (see paragraph 10).

9. The government is developing a medium-term plan to recapitalize the central bank and permanently reduce its quasi-fiscal deficit. For this purpose, a high-level commission will be appointed (*prior action*), with the participation of the Technical Secretary of the Presidency, the Secretary of Finance, and the Governor of the central bank. This commission expects to complete the design of this plan by end-March 2006 (*structural performance criterion*), which will include: (i) an estimate of the necessary recapitalization; (ii) the identification of public assets that can be transferred to the central bank, with a tentative timetable for their sale by COPRA; (iii) a program of annual transfers to the central bank for inclusion in the central government's budget until the recapitalization objective is achieved; and (iv) an analysis of alternative options for financing these transfers.

Fiscal Reforms

10. The government developed a tax reform proposal intended to compensate for the revenue losses expected to result from the implementation of DR-CAFTA, the elimination of the exchange commission tax, and the phase-out of the tax on financial transactions. The reform proposal has been sent to Congress for approval (*prior action*) to ensure that the implementation of DR-CAFTA does not generate any revenue losses (*structural performance*

criterion). To prevent recurring changes to the tax system, the draft law on tax reform will include a timetable for gradual implementation of the compensatory measures, in the event that the above-mentioned taxes are gradually phased out. Concurrently, and as a major complement to the tax reform program, Congress recently approved legislation eliminating special tax arrangements in border zones; and the government plans to submit to Congress a draft law to eliminate tax privileges in the tourism sector (*prior action*).

11. The tax reform will be accompanied by efforts to improve tax and customs administration. As a first step, the government submitted a draft law to Congress that criminalizes tax evasion and launched a public campaign to combat it. The government is in the process of preparing a wide-ranging plan to improve revenue administration with implementation expected to get under way by end-March 2006 (*structural benchmark*). The legal changes needed to implement this plan were submitted to Congress in tandem with the tax reform proposal and include measures for: (i) converting the general directorates of taxes and customs into semi-autonomous entities with their own career streams and budgets; (ii) reforming the tax codes and related legislation; and (iii) devising an effective mechanism for VAT refunds. The legislative changes will be accompanied by efforts to reform the organization and staffing of tax and customs administration and strengthen the management, operations, procedures, and controls of each administration.

12. Given the complexities involved in redesigning the institutional framework for fiscal management and control, a key objective of our economic program, the submission to Congress of a number of draft laws has been delayed. *We therefore request a waiver for these delays*. The government intends to take the following steps to correct this situation:

- The proposed amendments to the laws on Procurement, Public Credit, Treasury, and Internal Controls are before Congress, with approval expected by end-January 2006 (*structural performance criterion*). The implementing decrees for these laws will be drafted 180 days after each law is approved.
- The draft Organic Budget Law will be sent to Congress shortly (*prior action*), and incorporates the following key objectives: (i) responsibility for all aspects of budget management will be centralized in one cabinet post; and (ii) any spending above the budget ceilings must be approved by Congress through a supplementary budget, eliminating the current procedure of administrative authorization of spending through the use of the budgetary surplus (*excedente presupuestario*). The proposal will also place limits on the discretionary authority of the executive to change budget appropriations by establishing a budget appropriation of up to 5 percent of current revenues for the Office of the President, and another budget appropriation of up to 1 percent of current revenues to deal with natural disasters and other emergency situations. The latter budget appropriation will be used in accordance with strict criteria and any resources that are not used during the year will reduce net public sector indebtedness. The president will report to Congress on the use of both budget appropriations, taking into account the criteria established in the applicable law. Congressional approval of the Organic Budget Law by end-June 2006 (*structural performance criterion*) will be sought, so that it can go into effect on January 1, 2007.

- The draft Planning and Public Investment Law will be sent to Congress in tandem with the Organic Budget Law, with the objective of providing a framework for planning investment over the medium and long term on the basis of cost-benefit criteria, as well as to formulate an annual public investment plan that will be incorporated into the budget with due regard for the established expenditure ceilings. Congressional approval of the Public Investment Law will be sought by end-June 2006, so that it can be implemented in 2007.
- The fiscal management reform includes the creation of: a) a Secretariat of Finance, responsible for all aspects of fiscal policy including the formulation, management, and administration of tax revenues, expenditure, and financing, as well as public debt and the budget and b) a Secretariat of Planning and Development responsible for (i) monitoring economic developments and evaluating the impact of public policy, so that timely and adequate policy decisions are taken; (ii) formulating medium- and long-term strategic development goals, including coordinating among the different levels of government to ensure that their policies are consistent with the overall national objectives; and (iii) evaluating and prioritizing public investment. The government will submit the draft laws effecting this reorganization (Organic Law on the Secretariat of State for Finance, the Organic Law on the Secretariat of State for Planning and Development, and the Financial Administration Law) to Congress by end-October 2005 (*structural performance criterion*), and will seek their congressional approval by end-June 2006 (*structural performance criterion*) with a view to entry into force of the new legal framework on January 1, 2007 (*structural performance criterion*). A plan is being developed, with technical assistance from the IDB and the IMF, to launch the centralization process, with phased objectives established beginning in 2006 (*prior action*). This plan includes the drafting of implementing regulations for the above-mentioned laws and a training and institutional development program.

13. The government has identified domestic arrears accrued through end-2004, but the task of validating the supporting documentation has proven more complicated than anticipated, owing in part to the need to coordinate with numerous government agencies and delays of private creditors in submitting the requisite legal documentation, particularly with regard to public works projects. We recently validated arrears on current expenditure accrued in 2004 and expect to complete the validation of current expenditure arrears accumulated before 2004 by October 2005. The validation all arrears, including those on public works projects, will be completed by end-March 2006 (*structural performance criterion*). Consequently, *we are requesting a waiver for non-observance of the end-March 2005 performance criterion*. By October 2005 we expect to complete a strategy and a timetable for normalizing these arrears. We are in the process of establishing a mechanism to monitor domestic arrears, including ensuring that agencies of the rest of the nonfinancial public sector report arrears with domestic suppliers on a quarterly basis to the Secretariat of Finance.

Banking Sector Reforms

14. We are continuing to implement the new regulations envisaged in the program, and for this reason we are focused on strengthening the supervisory capacity of the Superintendency of Banks. The Monetary Board has completed the revisions to the regulatory framework envisaged under the program through the recent approval of the following regulations: (i) consolidated accounting; (ii) consolidated supervision; (iii) treatment of market risk; (iv) liquidity risks; and (v) the use of public funds under the systemic risk law (*prior action*). In addition, the Monetary and Financial Authority will broaden coordination between the central bank, the Superintendency of Banks, the Superintendency of Securities, the Superintendency of Pensions, and the Superintendency of Insurance to ensure the adoption of effective consolidated supervision, consistent with the Monetary and Financial Law. The revisions to the chart of accounts governing financial intermediaries—to bring it into line with the new regulations and international financial reporting standards—will be completed by end-September 2005 with a view to entry into force starting January 1, 2006 (*structural benchmark*).

15. As planned, the banks submitted audited financial statements demonstrating their compliance with the 10 percent minimum capital ratio as of December 2004, in accordance with local asset-valuation rules. The statements were audited by international accounting firms and included preliminary reports on the impact of the new rules on asset valuation and loan loss provisioning introduced in January 2005. Because the submission of the above-mentioned financial statements and preliminary impact reports was delayed by a week, we request *a waiver for nonobservance of the end-April 2005 performance criterion on a timely basis*. The Superintendency of Banks will continue supervising compliance with the 10 percent minimum capital requirement in the context of the new regulatory system, and should the solvency of any bank fall below this level, the Superintendency of Banks will ensure that its capital is increased by the shareholders within the time frame specified in the Monetary and Financial Law. If shareholders cannot recapitalize their institutions, and new investors cannot be found, the monetary authorities will adopt appropriate measures to strengthen banks. To improve transparency, the Superintendency will begin disseminating financial indicators of banks on a quarterly basis beginning in October 2005.

16. The Superintendency of Banks recently received five-year business plans from all the banks and expects to complete their evaluation with assistance from an international consulting firm by end-December 2005 (*structural performance criterion*). The business plan evaluation will be accompanied, when required, by a memorandum of understanding reached between the bank and the Superintendency of Banks. *We therefore request a waiver for nonobservance of the end-July 2005 performance criterion on evaluation of the business plans*. We will perform this evaluation on the basis of financial statements updated as at June 30, 2005. These financial statements and business plans will reflect strict compliance with the asset valuation regulation currently in force (including with regard to the valuation of collateral and the classification of loans to the public sector and the electric power sector). Accordingly, in October 2005, the Superintendency will carry out a special inspection of the collateral valuation procedure followed by commercial banks, and its findings will govern preparation of the above-mentioned reports. Beginning in December 2005, the business plans

will be updated twice a year, in March and September, on the basis of financial statements for the previous December and June, respectively. The financial statements will continue being audited by an internationally recognized accounting and audit firm, which, for each year's December financial statements, will include the participation of a partner from an investment-grade country. The Superintendency will continue requiring each external auditor to report on the extent to which banks comply with prudential regulations, including those related to capital requirements, foreign exchange position, and credit limits applicable to related party lending. By end-March 2006, banks will send their first updated business plans (*structural benchmark*), and the Superintendency is expected to complete the evaluation by June 2006.

17. The monetary and banking authorities are developing a plan to strengthen nonbank financial intermediaries, specifically: (i) savings and loan associations; (ii) savings and credit banks and credit corporations; and (iii) specialized public sector financial institutions. The plan will be completed by end-December 2005 (*structural benchmark*) and fully implemented by December 2006.

18. Progress is being made in the administration and disposal of commercial bank assets received by the central bank primarily as a result of the restructuring of the three resolved banks. The final inventory of assets has been completed and the procedures for tendering and selection of the winning firms in the public bidding process were recently published. Furthermore, COPRA recently launched an auction for the sale and administration of assets in an amount equivalent to US\$150 million and final contracts will be awarded soon. In light of these results, the central bank, in cooperation with an international firm with expertise in the sale and management of assets, has been evaluating the procedures and mechanisms for the disposal of assets followed during the first auction, with a view to strengthening them. This technical cooperation will include advisory assistance in drawing up a schedule of auctions for the next 12 months and will be published in November 2005.

Strengthening Financial Sector Institutions

19. Even though the Monetary Board promptly approved the draft law to ensure that state-owned banks are subject to the same regulatory and supervisory requirements as private banks, the imminent end of the current regular legislative period left insufficient time for the draft law to be submitted to Congress for approval. Accordingly, and to avoid multiple amendments to the Monetary and Financial Law, the draft law would be included with other proposed amendments. While ensuring that the level of supervision and prudential requirements for state-owned banks match those applied to private banks, the amendments are designed, among other things, to strengthen the Monetary Board, substantially enhance the independence and accountability of the central bank and the Superintendency of Banks, and allow for the full adoption of the Basel core principles. The draft will be forwarded to the Monetary Board in October 2005 and the final draft will be submitted to Congress by end-November 2005 (*structural performance criterion*). *In view of this new timetable, we are requesting a waiver for nonobservance of the respective end-April and end-July 2005 performance criteria.* Congressional approval is expected no later than June 2006.

20. The proposal for enhancing the independence of the Superintendency of Banks is being buttressed by the strengthening of its supervisory capacity, to ensure that the banking system performs in a prudent and professional manner. Thus, the Superintendency recently began executing an action plan that includes a timetable of activities agreed with IMF staff. The plan to strengthen the Superintendency's capacity, which counts on the financial support from the IDB and the World Bank, envisages the building of onsite and offsite supervision capacity, and the adoption of models for monitoring liquidity and assessing banking risk. In addition, the plan includes bringing the credit risk bureau up to the highest regional standards by end-December 2005 (*structural benchmark*). Accordingly, data on consolidated credit concentration for individual borrowers will be available to banks in September 2005, and information on individual borrowers by economic sector will be introduced by end-2005.

21. Progress is being made in investigating the management of the banks that have undergone intervention. Three international accounting firms were selected to investigate how liquidity support was used by the three failed banks, as well as the treatment of their external liabilities. The final report will be published in December 2005.

22. In strict compliance with the current legal framework, the Dominican government remain committed to pursuing the ongoing legal processes to their final conclusion in order to determine the liability of the owners and directors of the banks that failed in the crisis of 2003. The Assistant Prosecutor handling these will continue publishing updates on their progress.

Energy Sector Reforms

23. The World Bank approved a US\$150 million loan to aid the reform of the electricity sector. This loan is part of a support program to improve the quality of electric power services and ensure the financial sustainability of the sector. In the first few months of 2005, the quantitative performance indicators for the electric power distribution sector—in particular the cash-recovery index (CRI)—have been somewhat weaker than anticipated under the program, and this may call for additional fiscal resources in 2005. The government remains committed to taking all necessary steps to minimize slippages in budgetary aid to the energy sector programmed for 2005 and to rehabilitate the sector's financial position. In this respect, we recently activated a "Contingency Plan" by appointing and installing a group of international managers and experts with broad experience in the sector (*prior action*), to whom the government has given absolute freedom to take any decisions necessary to carry out the plan aimed at improving the efficiency and finances of the distribution firms.

Program Financing Assurances

24. We have made considerable progress in restructuring the government's external debt with the aim of obtaining cash flow relief during 2005-06 and ensuring a sustainable profile for debt service in the medium term.

- The offer to restructure two external bonds expired in July and was then reinstated, with approximately 97 percent of holders accepting the offer. It is estimated that the

bond exchange will provide cash flow relief in the amount of US\$576 million during 2005-06. The government plans to honor under the original terms the obligations to bondholders that refused the offer, pending legal consultation.

- In June, an agreement was reached with the London Club to restructure principal amounts falling due in 2005 and 2006 with participating commercial banks (US\$198 million). It is expected that the final agreement will be signed in October 2005, and that all arrears with external commercial banks (at end-2004) will be cleared shortly after. We recently concluded a pre-agreement on debt restructuring with an external supplier and it is expected that the operation will be completed by the end of the year. The terms of the restructuring operations will be consistent with those offered to the bondholders.
- Some bilateral agreements with Paris Club creditors have been finalized, and we expect to sign the remaining agreements by end-October, and will seek their approval by Congress by end-2005. The government is confident that the recently completed restructuring of external debt will meet Paris Club comparability of treatment criteria and will allow for the rescheduling of principal payments on pre-cutoff-date debt maturing in 2005 and 2006. Regrettably, the government temporarily incurred minor arrears on a bilateral loan following a judicial order barring payment—upon resolution of this issue the arrears were cleared. *We request a waiver for the nonobservance of the continuous performance criteria on the non-accumulation of arrears to external official creditors.*

25. The government has also made progress in refinancing and normalizing its liabilities to domestic creditors. Congress approved various financing laws providing for: (i) the refinancing of certain domestic liabilities maturing in 2005; (ii) the use of bonds to capitalize the central bank and Banco Reservas; and (iii) the payment of arrears to suppliers. *However, in view of congressional delays in approving the respective laws, we request a waiver for nonobservance of the end-February 2005 performance criteria.*

Final Remarks

26. The objectives, policies, goals, and commitments of the economic program remain the same as those described in the Letter of Intent and Memorandum of Economic and Financial Policies of January 2005, except as amended in this Letter of Intent and in the amendments to the attached Technical Memorandum of Understanding.

27. In consideration of the progress made by the Dominican government in stabilizing and ensuring the recovery of the economy, as well as the commitments made previously, we call upon the international financial community to continue to grant financial assistance to the Dominican Republic.

28. In view of the progress achieved under the new program and our policy commitments, we hereby request completion of the first and second reviews of the stand-by arrangement. As we implement the program, we will continue to confer closely on policy issues with the Fund and the rest of the international community.

Very truly yours,

/s/
Héctor Valdez Albizu
Governor
Central Bank

/s/
Temístocles Montás
Technical Secretary of the
Presidency

/s/
Vicente Bengoa
Secretary of Finance

Attachments:
Annex to the Technical Memorandum of Understanding

ANNEX TO THE TECHNICAL MEMORANDUM OF UNDERSTANDING

All aspects of the Technical Memoranda of Understanding (EBS/05/9, Supplement 1, Annex II), issued on January 18, 2003, remain in effect, except for the revisions indicated below.

I. QUANTITATIVE PERFORMANCE CRITERIA: DEFINITION OF VARIABLES

Cumulative Floor on the Nonfinancial Public Sector (NFPS) Balance

For end-December 2004, end-March, end-June, and end-September 2005 the cumulative floor will be measured from end-September 2004. For end-December of 2005 the cumulative floor will be measured from end-December 2004.

II. QUANTITATIVE PROGRAM TARGETS

Performance criteria are being added for end-September and end-December 2005, for: (i) the cumulative balance of the nonfinancial public sector; (ii) cumulative incurrence of external debt by the public sector; (iii) net international reserves of the central bank; and (iv) net domestic assets of the central bank.

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

	Dec-05		Mar-05		Jun-05		Performance criteria		Indicative Target Dec-06
	Prog.	Act.	Prog.	Est.	Prog.	Est.	Sep-05	Dec-05	
I. Quantitative Performance Criteria 1/									
(In billions of Dominican Republic pesos)									
A. Nonfinancial public sector (NFPS) balance (cumulative floor) 2/	-2.7	-2.2	-6.0	2.6	-6.6	7.9	-7.3	-6.4	6.5
B. Central Bank net domestic assets (ceiling) 3/	25.1	25.1	26.0	12.5	24.5	7.3	22.5	26.5	21.3
(In millions of U.S. dollars)									
C. Gross accumulation of public sector external arrears (continuous ceiling) 7/	0	0	0	0	0	0	0	0	0
D. Contracting of external debt by the public sector (cumulative ceiling) 2/ 4/	200	0	380	160	655	167	855	1,105	950
E. Central Bank NIR, excluding bank's foreign currency deposits (floor)	201	345	150	437	200	583	225	350	650
II. Indicative Targets									
(In billions of Dominican Republic pesos)									
A. Change in NFPS net credit from the domestic banking system (cumulative ceiling) 2/ 5/	4.8	6.5	6.5	-0.3	5.0	-3.4	3.0	1.0	-7.5
B. Monetary base, excluding reserves on foreign currency deposits (ceiling) 6/	91.1	91.1	89.4	88.4	91.8	89.5	93.0	104.0	117.4

1/ As defined in the Technical Memorandum of Understanding. Performance criteria are proposed for September and December 2005.

At the time of the third review, performance criteria will be set for March and June 2006.

2/ For March, June and September 2005, cumulative from end-September 2004. For December 2005, and for 2006, cumulative from the beginning of the year.

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

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

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

6/ Includes reserve requirements in the form of investment certificates.

7/ Arrears with a bilateral creditor were incurred temporarily and cleared by end-June 2005.

Table 2. Prior Actions for Completion of the Reviews under the SBA

Fiscal sector

Identify measures to ensure compliance with 2006 fiscal targets (LOI, ¶6).

Submit to congress tax reform to offset the implementation of DR-CAFTA and the elimination of other distortive taxes (LOI, ¶10).

Submit to congress draft law eliminating preferential tax regimes for the tourism sector (LOI, ¶10).

Submit to congress the organic budget law, envisaging the centralization of fiscal functions and the elimination of excedente presupuestario (LOI, ¶12).

Prepare timetable for implementing the centralization of fiscal functions (LOI, ¶12).

Monetary and Banking sector

Issue presidential decree establishing a high level commission in charge of developing a plan to recapitalize the central bank (LOI, ¶9).

Issue implementing regulation on the use of public funds under the systemic risk law (LOI, ¶14).

Electricity Sector

Appoint private management to run the two state-owned distribution companies (LOI, ¶23).

Table 3. Dominican Republic: Structural Performance Criteria and Structural Benchmarks Oct. 2005–2007

	Date
A. Structural performance criteria	
Fiscal policy	
1. Submit to congress draft laws (Ley de Administración Financiera, Ley Orgánica de la Secretaria de Hacienda, Ley Orgánica de la Secretaria de Planificación y Desarrollo) providing for the reorganization of fiscal management (LOI, ¶12).	End-Oct. 2005
2. Approval by congress of budget for 2006 consistent with a NFPS overall surplus of 0.7 percent of GDP and the elimination of the excedente presupuestario for 2006 (LOI, ¶6).	End-Dec. 2005
3. Tax reform to become effective in tandem with the implementation of DR-CAFTA (LOI, ¶10).	Continuous
4. Approval by congress of proposed amendments to the Public Credit, Treasury, Procurement and Internal Controls Laws (LOI, ¶12)	End-Jan. 2006
5. Validate all domestic arrears incurred prior to December 31, 2004 (LOI, ¶13).	End-Mar. 2006
6. Approval by congress of laws (Ley Orgánica del Presupuesto, Ley Orgánica de la Secretaria de Hacienda, Ley Orgánica de la Secretaria de Planificación y Desarrollo, Ley de Administración Financiera) centralizing fiscal management and eliminating the excedente presupuestario (LOI, ¶12).	End-Jun. 2006
7. Full implementation of the reorganization of fiscal management (LOI, ¶12).	January 1, 2007
Banking sector	
8. Submit to congress draft legislation aimed at increasing the independence and accountability of the central bank and bank superintendency. The draft law will also ensure that state-owned banks are subject to the same regulatory requirements as private banks (LOI, ¶19).	End-Nov. 2005
9. Complete evaluation of the banks' business plans, and finalize negotiation on memoranda of understanding with banks, as required (LOI, ¶16).	End-Dec. 2005
10. Design plan to recapitalize the central bank and address the quasi-fiscal deficit problem (LOI, ¶9).	End-Mar. 2006
B. Structural Benchmarks	
Fiscal policy	
1. Initiate implementation of plan to reform the tax and customs administration (LOI, ¶11).	End-Mar. 2006
Banking sector	
2. Complete plan to strengthen nonbank financial intermediaries (LOI, ¶17).	End-Dec. 2005
3. Complete implementation of a plan to bring the bank superintendency credit risk bureau to the highest regional standards (LOI, ¶20).	End-Dec. 2005
4. Make effective revised chart of accounts for financial institutions (LOI, ¶14).	January 1, 2006
5. Receive from commercial banks the first update of their business plans on the basis of audited financial statements (LOI, ¶16).	End-Mar. 2006