

### III. POSSIBLE REPERCUSSIONS ON THE ECONOMY IN 1979 AND 1980

It has already been mentioned that certain trends were present in the Dominican Republic economy that pointed towards situations of increasing disequilibria in the balance of payments and in the fiscal sectors, in spite of the measures taken by the present government aimed at mitigating the situation by renegotiating the debt - especially that of a group of decentralized enterprises -, so as to alleviate the balance of payments' situation as well as the public sector's financial position. On the other hand, the economy has been showing symptoms of decreasing rates of growth, with its consequent effects on the situation of unemployment traditionally afflicting the country. This chapter aims at specifying the salient problems that the economy will have to face in the following years, most of which have been aggravated by the effects of the recent hurricanes. This is preceded by a brief introduction.

#### 1. General considerations

In recent years the Dominican economy had shown signs of exhausting the elements upon which it had sustained its economic development until the middle of the 1970's, one of the most dynamic in Latin America. Mainly because of a slump in agricultural investment, the growth and diversification of exports was curbed, since it had not been possible to include non-traditional products to any significant extent. The industrial sector, whose installed capacity had expanded notably from mere incipient levels, began to face the obstacle to its eventual growth represented by the limited domestic market. To this must be added the fact that industry, except to a very modest extent, had not been able to enter the export market and that the country's productive structure is highly dependent on foreign sources, and consequently only limited dynamic intersectoral effects can be expected.

Mobilization of domestic public and private savings, and, increasingly, of external savings, made it possible to increase capital formation appreciably, to such an extent that in recent years it came to represent almost one fourth of the gross national product. As a

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result of this process, the national productive apparatus was expanded, which was most concretely reflected in expansion of the economic infrastructure, and in industrial, mining and tourism capacity. Examination of investment composition, however, shows that investment in construction clearly took precedence over investment in machinery and productive equipment. A very significant amount of capital was dedicated to projects of relatively low social returns, including the construction of residences for the upper-income market, shopping centres and urban renewal of the capital city, which at the present time boasts wide avenues and large recreational parks.

On the other hand, investment in economic and social infrastructure - particularly that of housing for the medium and low income strata - has shown a certain lag with respect to the needs of the population and the productive system.

To this situation - which could be considered one of relative prosperity in the modern urban sector, of moderate technification of agriculture and the persistence of deficits in social indicators, particularly with regard to employment - were added the effects of certain international circumstances that had special repercussions on the country: a widening of the balance of trade gap, to a certain extent related to the considerations expressed above; the increase in the level of foreign debt and its structural change in the direction of shorter-term obligations, and the emergence of inflationary pressures.

During the past year the public sector attempted to improve both the debt situation and efficiency levels in contracting for loans. For the first time the government undertook the centralization of the expenditures of the decentralized enterprises, whose liabilities amounted approximately to 90 million dollars at the end of 1978. Furthermore, various financial transfers were made to these enterprises through which they could modernize their equipment and enlarge their productive capacity. To some extent this was achieved by the negotiation of a loan with foreign commercial banks in the amount of 185 million dollars, which made it possible to finance the deficits of many decentralized enterprises, particularly the Dominican Electric Corporation.

The natural phenomena described in this document will have a profound adverse effect on the aforementioned tendencies, at least during the next two or three years. The hurricanes will have a negative effect on the balance of payments affecting the volume of some of the items exported and, on the other hand, a large amount of unusually high imports will be needed to replace the losses of goods and to cover import requirements for reconstruction. The financing of these inputs will be only partially compensated by insurance payments. The need is thus foreseen to acquire new financial foreign commitments to face the requirements necessary to continue with the economic and social development programmes and at the same time with the reconstruction of the considerable damages resulting from hurricanes David and Frederick. These matters are dealt with in more detail in the following pages.

Another problem of immediate concern that is foreseen is that involving the supply of energy. It has already been pointed out that projects for the expansion of electric power and water supply installed capacity and distribution systems have shown a certain lag over the past 10 years. The hydroelectric projects under way to remedy this situation will undoubtedly suffer setbacks, and it is consequently felt that over the next two or three years emergency measures will be required along the lines suggested in Section 4.

In summary, the following sections separately indicate the aspects considered to be most crucial within the evolution of the Dominican economy for 1979 and 1980: prospects concerning the external sector, production and employment trends, the energy situation, the public finances situation and investment requirements, and how those aspects were influenced by the natural disaster dealt with in this report.

## 2. The external sector

The deficit in the current account of the balance of payments of the Dominican Republic has increased in recent years, both because of the marked tendencies toward a decline in international prices of its principal agricultural exports and because of increases in the products it imports, particularly with regard to oil. Even taking into consideration the increases expected in unit prices of sugar, ferronickel and doré in 1979, a greater deficit in current account than in the preceding year was anticipated even prior to the hurricanes.

The consequences of the disaster point towards an increase in the current deficit and to the aggravation of the balance of payments problems, which could be partially counterbalanced in 1979 by the inflow of foreign capital and other remittances from abroad. In relation to the export of goods, Table 13 reveals, in a very preliminary form, that they may experience a contraction of 55 million dollars based on former predictions for the entire year. This relatively modest decrease is due to the fact, as already stated in Chapter II, that at the moment the natural disaster occurred the cane crop had been completed; had that not been the case, the damages would have been considerably larger. All in all, at the time of drafting of this report no precise information was available on the losses on the pending stocks of sugar for exports, nor whether the prolonged floods would provoke greater losses in the cane plantations. For this reason the estimates on the decrease of the export values could result to be extremely conservative. In balance, it had been foreseen that the exports of goods and services would have had an increase in 1979 of over 22% against the previous year. It is estimated that this percentage will now reach 14.5%, as a consequence of the disaster.

On the other hand, even the revised export projections which account for the damages of the hurricanes, reveal an increase in relation to the 1978 exports, due to inter alia, the increase in the prices for

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certain mining products. It is estimated that as a direct consequence of the hurricanes, foreign sales of green coffee and cacao will be reduced by 30 million dollars,<sup>1/</sup> and the remaining agricultural exports, mainly fruits, would decrease in 8 million dollars, whereas the industrial exports, already low, will decrease by another 15 million dollars. (See table 13.)

In the long run the consequences will be still more serious, since 7% of coffee plantations were totally destroyed and 32% partially destroyed. The same is true in the case of cacao, wherein 6% were totally destroyed and 43% partially destroyed. More than three years will be required to recuperate full production and rehabilitate crop lands. With respect to sugar, the 1979/1980 harvest may be somewhat delayed, since heavy rainfall causes yields to diminish and delays harvest preparations. However, this will not affect international deliveries and sugar futures.

With regard to imports, the consequences of the natural disaster, together with the historical trends anticipate that their amount will experience an important increase. For instance, the purchase of oil could amount to a value of 270 million dollars. (See Table 14.) In the short term, increases are also foreseen in the purchases of food, raw materials to replace stocks destroyed by flooding, and capital goods in as yet unspecified amounts. Partial estimates for 1979 indicate that imports could increase by more than 17% in comparison with the previous year, reaching a sum of some 1 088 million dollars. Not barring the effect of the hurricanes, imports would have amounted to 1 031 million dollars.<sup>2/</sup>

In brief, the tendencies observed in recent years with respect to the increase in the trade imbalance caused by the unequal growth of imports and exports will become more acute in the years to come.

<sup>1/</sup> The IMF has already granted a first loan of "compensatory financing" nature in order to compensate for the losses in foreign exchange equivalent to 30 million dollars.

<sup>2/</sup> Import coefficient of goods in 1979 measured at current prices, would have increased from 19% to 22% due to effects of the disaster.

Table 13  
DOMINICAN REPUBLIC: EXPORTS OF GOODS AND SERVICES  
(Millions of dollars)

	1978	1979		1980
		Estimate prior to the hurricane	Estimate including hurricane effects	
Total of goods and services	<u>826</u>	<u>946</u>	<u>1 109</u>	<u>1 275</u>
Total of goods	<u>676</u>	<u>771</u>	<u>903</u>	<u>1 028</u>
Traditional products	<u>607</u>	<u>693</u>	<u>813</u>	<u>921</u>
Sugar and by-products	209	254	297	344
Green and processed coffee	97	76	95	110
Cacao	86	84	93	96
Tobacco	46	40	46	52
Ferronickel	73	35	116	137
Gold and silver (doré)	73	118	137	150
Bauxite	23	26	29	32
Industrial products	<u>51</u>	<u>58</u>	<u>67</u>	<u>81</u>
Other goods	<u>18</u>	<u>20</u>	<u>23</u>	<u>26</u>
Non-financial services	<u>150</u>	<u>175</u>	<u>206</u>	<u>247</u>

Source: CEPAL, based on information provided by the Central Bank of the Dominican Republic.

Table 14

DOMINICAN REPUBLIC: IMPORTS OF GOODS AND SERVICES

(Millions of dollars)

	1970	1979		1980
		Before hurricanes	After hurricanes	
<u>Total of goods and services</u>	<u>1,219</u>	<u>1,349</u>	<u>1,424</u>	<u>1,663</u>
<u>Total of goods</u>	<u>926</u>	<u>1,031</u>	<u>1,088</u>	<u>1,304</u>
Foodstuffs	147	130	146	160
Other consumer goods	105	110	117	128
Hydrocarbons	194	265	269	300
Intermediate goods	200	315	323	354
Capital goods	182	211	233	266
<u>Total of non-financial services</u>	<u>293</u>	<u>310</u>	<u>336</u>	<u>359</u>
<u>Source: CEPAL, based on official information.</u>				

The perspectives of obtaining a sustained level of increment of both goods and services exports, and to limit the current import growth at a rate similar to that of the gross internal product would have allowed a reduction in the 1979 commercial balance deficit. However, due to the effects of the catastrophe as well as the structure of the foreign sector, an improvement in the foreign imbalance is not anticipated during the coming years. As far as external sales are concerned, the deficient growth rate will be accentuated because of the unfavourable international market conditions for some of the country's principal export products and because of the reduction in the exportable supply resulting from agricultural damages.

With respect to the exports of non traditional agricultural products, the Dominican Center for the Promotion of Exports (CEDOPEX), has provisionally banned the exports of such products as manioc, avocado, meat, citrus fruits, plantains, tomatoe, etc.

The situation will be very different as far as imports are concerned. To the increasing purchases abroad required by the development process must be added the undeferrable imports necessary to alleviate capital damages, cover the loss of inputs and, to a lesser extent, compensate for the decline in domestic supply of certain consumer goods. This situation will widen the gap between the demand for imports and the purchasing power provided by exports, and consequently will lead to greater use of external financing.

The trade deficit will thus be in the order of 320 million dollars for the entire year, increasing to some 400 million in 1980. With the inclusion of services, the trade deficit in goods and non-financial services will probably amount to 478 million dollars this year and approximately 550 million dollars next year. (See Table 15.)

The net payment of profits and interests on foreign capital will increase more rapidly than net transfers, thereby producing a deficit of 480 million dollars in current account (27% higher than in 1978) and almost 590 million dollars the following year.



Table 15

DOMINICAN REPUBLIC: BALANCE OF PAYMENTS

(Millions of dollars)

	1978	1979		1980
		Before hurricanes	After hurricanes	
<b>A. <u>Current account</u></b>				
Export of goods and services	826	1 011	946	1 109
Goods	676	825	771	903
Services	150	186	175	206
Imports of goods and services	1 219	1 349	1 424	1 663
Goods	926	1 031	1 088	1 304
Services	293	318	336	359
Trade balance	-393	-338	-478	-554
Net factor payments	-114	-145	-145	-190
Interests	-72	-98	-98	-139
Earnings	-42	-47	-47	-51
Net current transfers	130	143	143	157
Balance in current account	-377	-340	-480	-587
<b>B. <u>Capital account</u></b>				
Net foreign investment	40	45	45	50
Net loans to public sector	166	160	168	117
Net loans to private sector	28	9	9	56
Short-term capital	48	185	85	90
Loans from International Monetary Fund	-	41	51	-
Financing gap		-	122	274
Net external financing	367	340	480	587
Variations in the reserves	10	-	-	-

Source: CEPAL based on official information.

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As will be recalled, the existence of a parallel foreign exchange market has given the government the possibility of expanding this regime for the financing of non-essential imports and for which the Central Bank's registry for the granting of foreign exchange at the official rate, was closed. At present, these purchases represent approximately one fourth of the total goods imported<sup>3/</sup> and, in addition, according to official sources, approximately 35 to 40% of international transactions are made through this market. The premium, as has already been stated, is around 20% higher than the official exchange rate.

The growing deficit in the current account foreseen even before the disaster occurred would have been covered - as has been in the past - with an ever increasing foreign capital made up of direct investment and public and private loans. In spite of the above, in 1978 the country suffered a loss in its international monetary reserves of approximately 10 million dollars. A net capital inflow was contemplated for the present year to cover the entire deficit in current account; that is to say, no loss in the reserves was foreseen. More than half of these funds would originate from official loans previously approved but not yet disbursed (168 million dollars); short-term lines of credit (103 million) and direct investment (45 million). (See again Table 15.) The immediate circumstances after the hurricanes - and its repercussions on the balance of payments current account - anticipate a net additional requirement of approximately 140 million dollars, 20 of which could originate from credits already negotiated with international organizations by expediting disbursements, and the balance of approximately 120 million (referred to as the "financing gap" in Table 15) would have to be mobilized separately.

3/ To illustrate, the balance in current accounts in 1978, showed a deficit of 209 million dollars against 377 million in the balance of payments. The balance of the capital account also pointed to a decrease in the reserves of 9.4 million dollars and more recent estimates of the 1979 balance of payments anticipate a negative balance of approximately 50 million dollars.

This additional requirement for foreign financing compels a brief comment on the Dominican Republic's indebtedness capacity. The country was confronted with certain restrictions in connection with its foreseeable foreign debt capacity. These restrictions would have increased in 1979 even in the absence of the natural disaster, regardless of a rescheduling which defers part of the short and medium-term amortizations. In this manner, 18% of the income generated by the export of goods and services in 1979 would be destined to service the foreign debt. The higher debt levels which the country will be forced to reach to cope with this emergency (see Table 16), emphasizes the importance of improving the foreign debt structure in order to ensure an adequate capacity in this respect in future years. Thus, at the end of 1978 the external debt of the public sector amounted to 883 million dollars. Credits available were in the amount of 240 million dollars, constituted largely by two loans from the World Bank for a total of 40 million dollars and six from the Inter-American Development Bank for some 190 million. Although public sector indebtedness has increased in recent years, its structure, as far as the amortization period is concerned (see Table 16 again), shows that almost half is in loans at more than eight years and that only 17% was contracted for at less than one year. Nevertheless, analysis by sources of financing shows that 46% was obtained from international commercial banks,<sup>4/</sup> the source that State-affiliated corporations prefer in securing credit.

Unfortunately, due to the provisional type of information available, it was impossible to foresee the relation between the public foreign service debt and the exports for the coming years. However, a very first approximation tends to confirm that if the historical rate which took place during the present decade of exports growth and economic activity in general is recuperated, the Dominican Republic will not experience major difficulties in absorbing a larger flow of outside financing, if and when it is obtained under favorable conditions and according to the emergency situation which the country is facing today.

<sup>4/</sup> About one third of this percentage corresponds to three months term banking acceptances.

Table 16

DOMINICAN REPUBLIC: EXTERNAL PUBLIC DEBT BROKEN DOWN ACCORDING TO  
AMORTIZATION PERIODS AND SOURCES a/

(Millions of dollars)

	Total	Central Government			Remainder of public sector		
		Short <u>b/</u>	Medium <u>c/</u>	Long <u>d/</u>	Short <u>b/</u>	Medium <u>c/</u>	Long <u>d/</u>
<u>Total</u>	<u>833.4</u>	-	<u>67.6</u>	<u>268.5</u>	<u>152.9</u>	<u>226.3</u>	<u>168.1</u>
Inter-American Development Bank (IDB)	175.9	-	-	74.3	-	60.0	41.1
International Bank for Reconstruction and Development (IBRD)	12.3	-	-	5.6	-	-	6.7
International Development Association (IDA)	17.1	-	-	12.0	-	-	5.1
Agency for International Development (AID)	140.1	-	-	120.6	-	-	27.5
International Monetary Fund (IMF)	57.9	-	-	-	-	57.9	-
Bilateral governmental agreements	63.2	-	-	52.4	-	3.9	6.9
Commercial banks	400.9	-	67.6	3.1	152.9 <u>e/</u>	104.5	60.8

Source: Central Bank, Boletín de junio de 1979.

a/ As of 31 December 1978.

b/ One year or less.

c/ More than one year; up to eight inclusive.

d/ More than eight years.

e/ Includes 50 million dollars in banking acceptances at three months term.

### 3. Productive activities and employment

According to estimates provided by the National Planning Office (ONAPLAN) based on information on the first half of 1979, a growth rate of 5.6 per cent in the gross national product was forecast for this year, attributable mainly to improvement in agriculture - except sugar cane -, mining, industry and construction activities. Since the disaster, however, losses in agriculture, construction, transportation and communications, and in the electricity sector could produce a negative rate of 2.6 per cent that would reduce still further the average income of the population, which itself had become stagnated in 1978.<sup>5/</sup> (See Table 17.)

This negative impact will probably be most notable in the agricultural sector, the most affected by the disaster, since not only will it fail to increase by the 5 per cent previously predicted, but will show a negative rate of 12 per cent. The decline in this sector has decisive effects on the overall behaviour of the economy owing to its important role in the country's productive activities and to the fact it is the principal generator of employment and foreign exchange. In addition, this decline in production, whose effects will be reflected in supply problems to be encountered next year, is all the more negative in view of the growing imbalance in the external market, principally with regard to coffee and cacao.

However, plans for planting crops for domestic consumption will make it possible to recuperate in 1980 some of the expectations for this year, although, it is imagined, at lower levels than those required by domestic demand, except, perhaps, in the case of rice.

The Secretary of Agriculture has just launched the National Emergency Plan for the agricultural recovery. It includes the rehabilitation, reposition and new sowings up to December 1979 in an extension of 220,000 hectares with a cost of 54 million dollars, part of which is covered by foreign financing.

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<sup>5/</sup> An estimate of the evolution of gross domestic product for 1980 was not available, but undoubtedly the consequences of the meteorological phenomenon will still be present.

Table 17

DOMINICAN REPUBLIC: GROSS NATIONAL PRODUCT

	Millions of 1970 dollars						Growth rates		
	1979			1980			1979		
	1977	1978	Normal	Considering effects of hurricanes	Normal	Considering effects of hurricanes	Normal	Considering effects of hurricanes	1980
Gross national product	2 544	2 625	2 783	2 587	2 938	4 4	3.4	5.6	5.6
Agriculture	434	465	488	440	508	0.6	7.2	5.0	4.0
Secondary subtotal	796	795	844	815	898	5.3	-0.1	6.2	6.4
Mining	143	116	130	130	137	-2.3	-19.8	12.4	5.0
Industry	469	491	519	486	554	3.2	4.7	5.7	6.8
(Sugar)	(90)	(93)	(93)	...	(95)	...	(3.1)	(-)	(1.5)
Construction	184	188	195	199	207	18.3	2.2	4.0	5.0
Basic services subtotal	250	267	284	271	304	12.5	6.8	6.4	7.0
Transportation	185	195	205	...	219	10.7	5.6	5.0	7.0
Communications	20	28	31	...	33	7.5	9.3	6.1	6.9
Electricity	39	44	48	...	52	27.2	12.5	7.9	9.0
Tertiary subtotal	1 064	1 108	1 167	1 072	1 228	3.5	4.1	5.3	5.2
Commerce	425	441	468	...	498	2.7	3.8	6.0	6.5
Finance	58	62	65	...	67	6.6	7.4	4.0	4.0
Housing	172	175	184	...	193	8.4	2.2	5.0	5.0
Government	187	190	200	...	208	1.1	1.4	5.0	4.0
Other services	222	240	250	...	262	3.4	7.3	5.0	4.5

Source: CEPAL, based on information provided by the National Planning Office (ONAPLAN) and its own estimates.

A drop in the growth rate of the secondary sectors of an absolute value of some 29 million dollars (at 1970 prices) will be brought on primarily by the partial paralyzation of a certain number of industrial plants in Santo Domingo and Santiago and by the destruction of smaller plants in the provinces. In addition, the replacement of imported and agricultural products and inputs damaged by the hurricane, combined with foreseeable decline in domestic demand, with the exception of building materials and foodstuffs, will also have negative effects on the growth of the industrial sector.

Mining was little affected by the flooding, and it is expected that the construction industry will be activated, after a transition period, particularly private construction which had already shown a recovery during the first semester of 1979.

In basic services the most affected was electric power, especially with regard to the hydroelectric plants that supplemented the thermoelectric plants during the hours of peak consumption. Consequently, production will suffer from deficient supplies of energy. The added value of basic services, including transportation and communications, will probably only increase by 1.5 per cent instead of the 6.4 per cent foreseen. Lastly, in the tertiary sector, commerce and housing suffered the greatest losses.

The destruction of the productive basis of some sectors will to some extent aggravate the critical unemployment problem in the country. Although the reconstruction process may possibly produce positive results in this respect.

The agricultural sector, which provides employment to almost 45 per cent of the economically-active population, is characterized by diverse situations. On the one hand, it is predicted that both subsistence agriculture and sugar cane cultivations will soon be reactivated and will employ at least the same number of people who formerly worked such lands. On the other hand, however, even though the first stage in replanting areas dedicated to perennial crops will absorb a greater quantity of manpower, these effects will be offset by the reduction in the number of harvesters required.

The damages suffered by the manufacturing sector have led to practically no dismissals. In most companies workers are presently engaged in reconstruction work, but it is expected that within a short time production will be reactivated. As idle installed capacity usually exists in the production of non-durable consumer goods, which are preponderant in the Dominican productive structure, no significant investments are predicted in the short term, and therefore the generation of new sources of employment will be minimal.

It is expected that the construction industry will increase its work volume as a result of rehabilitation efforts, which, by their very nature, will demand a considerable amount of manpower. The multiplying effects of this industry will also reactivate the production of construction materials and transportation services.

Lastly, the social and community service sectors will initially create employment by undertaking massive vaccination and social welfare campaigns.

In summary, during 1979 and probably to some extent also in 1980, the Dominican Republic economy will experience a slump as a consequence principally of the damages caused by the hurricanes in the productive capacity of the agricultural, industrial and that of some of the basic services. The reconstruction process will bring up a certain degree of reactivation particularly in the construction activity and might have also a positive balance on the employment situation especially the one linked to the rehabilitation and repairing tasks.



#### 4. Energy supply

Although an in-depth and detailed analysis of the energy situation in the Dominican Republic is not yet available, existing partial information makes it possible to estimate not only the economy's vulnerability and dependence in this area, but also to foresee a negative and even critical situation in the near future.

In this respect it is appropriate to refer to the recent past. First, it should be noted that the previously referred to oil refinery was inaugurated barely at the beginning of the decade of the 1970s and that prior to this the country imported already-refined products. Furthermore, until 1975 electric power was insufficient and imposed serious limitations on industrial development, with the result that some industries had to acquire their own generators. Nevertheless, initiation of the operation of the Haina thermoelectric plants in late 1976 overcame these limitations. (See Table 18.)

In order to satisfy over 90 commercial energy demands, the Dominican Republic must depend on foreign sources for 95 per cent of its needs. In 1978, the country produced only 9 per cent of the demand for electric power from its own hydroelectric plants. Oil imports have increased from approximately 40 million dollars in 1973 to 190 million dollars in 1978, and it is estimated that these imports will reach 270 million dollars during the current year. This signifies 9 per cent of the total value of merchandise exports in 1973, 27 per cent in 1978 and the possibility of reaching 35 per cent in 1979. Furthermore, the situation will become even worse in accordance with the rises foreseen in the price of oil.

To this situation must be added the effects of the disaster. Although the repair of damages to the thermoelectric plants, the transmission networks and distribution systems will be able to be completed within a relatively short period of time, which will make it possible to recover virtually the entire installed capacity damaged,<sup>6/</sup>

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<sup>6/</sup> The relative proportion contributed by the Jimenoa hydroelectric plant is actually very low (between one and two per cent) in proportion to total generation.

Table 18

DOMINICAN REPUBLIC: DEMAND FOR ELECTRIC POWER AND GENERATION

	Real			Estimated <sup>a/</sup>		
	1975	1977	1978	1979	1980	1981
Power (MW)	241	396	411	451	500	555
Generation (millions of kWh)	1 425	1 859	2 037	2 201	2 441	2 710
Residential	428	481	459	548	601	660
Commerce and small industry	132	172	177	196	217	241
Industry	444	574	627	706	794	893
Government	120	155	146	157	170	183
Rural	120	166	171	190	211	235
Losses	211	311	387	404	448	498

Source: CEPAL, estimates based on official figures.

<sup>a/</sup> Estimates made without taking the effects of the disaster into account.

production will decline substantially, particularly industrial production. The losses deriving from transportation problems owing to the shortage of fuel caused by the breakdown in the refinery should also be taken into account in this respect.

Thus, not only are production problems and losses foreseen for the remainder of 1979, but also possible limitations on budget allocations for national reconstruction and development plans in the short and medium term as a result of the need to expend large sums of money for imports of oil.

5. Investment requirements and public finances

Losses in public and private fixed assets amounted to 580 million dollars, representing almost five per cent of the total capital stock. This value practically coincides with the investment made in the first eight months of the year (600 million dollars). These losses, which will produce stagnation in the accumulation of capital, will also have important repercussions on the overall context of the economy.

The repair and replacement of destroyed or damaged assets will require greater amounts of investment than in the past if the economic diversification process under way is not to be sacrificed. Even if the 1978 investment level were to be maintained, which was a relatively high 25 per cent of the gross national product in view of the recession foreseen in internal activity levels and consequently in savings levels, an increasing supplement of external financing will be required. This supplement will be added to that derived from the widening gap foreseen in the negative balance of the current account of the balance of payments.

Replacement of a substantial part of the country's property will consequently be the responsibility of the Government, which will increase its expenditures and in turn increase the budgetary imbalance of the preceding year.

It should be stressed, therefore, that if the above-mentioned investment efforts are not carried out, the economic growth of the coming years will be jeopardized. Furthermore, a substantial portion of such investment - namely the investment in reconstruction of basic infrastructure - should be made soon so as not to obstruct the process of economic recovery.

Improvement was foreseen in the public sector's financial situation for 1979 - the deficit should have been reduced by 44 million without considering extraordinary receipts - owing to an increase of 12.5 per cent in total receipts derived principally from foreign trade as a result of the increase in international prices for sugar, ferronickel and doré and the increase of imports subject to the payment of duties.

/Expenditures

Expenditures would have increased by only 3.8 per cent, mainly because of the reduction in capital outlays - (-8.8 per cent), especially in real investment, as may be seen in Table 19. However, in late August of this year, according to preliminary official estimates, it became obvious that these predictions were over-optimistic, since the fiscal apparent deficit of the Central Government amounted to 220 million dollars.<sup>7/</sup> For the entire year the deficit will increase still more because of the new responsibilities assumed by the public sector deriving from the natural disaster and from its repercussions on Government receipts. In effect, it is estimated that the reduced economic activity and the financial difficulties being faced by numerous private enterprises and individuals will cause tax revenues to decrease by 39 million dollars. Taxes collected from foreign trade will also be less than estimated, both because of reductions in exports and because of the slower growth rate of imports subject to custom duties during the last four months of 1979. This, in turn, will be brought about by the replacement of certain goods by others of a more essential nature destined for the emergency (foodstuffs, machinery and spare parts), the taxes on which are much lower or even non-existent.

State corporations and agencies have requested the principal users of their services to make advance payment on a large part of their bills for their estimated consumption for the rest of the year as a means of financing rehabilitation expenses, as, for example, with regard to electric power and telephone service. For other corporations, the irregularity of the public services they are able to supply will also imply reduced income.

Operating expenses and capital expenditures will have to increase in order to make it possible to replace the productive capacity in several sectors, a situation that may be alleviated in accordance with the nature of external donations received. In addition, the emergency

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<sup>7/</sup> This deficit was compensated, nevertheless by 190 million dollars of foreign capital and by 38 million transfers for the Central Bank.

Table 19

## DOMINICAN REPUBLIC: CENTRAL GOVERNMENT INCOME AND EXPENDITURES

(Millions of dollars)

	1977	1978	1979		1980	
			Initially budgeted	Revised after hurricanes	Initially budgeted	Revised after hurricanes
1. Current income	620	578	663	632	780	670
Tax revenues	589	552	621	595	738	631
Direct	126	129	143	149	185	151
Indirect consumer	140	144	160	170	182	173
On foreign trade	296	251	233	245	334	269
Others	26	28	30	30	42	39
Non-tax revenues	31	26	42	37	42	38
2. Operating expenses	367	442	439	617	567	...
Remunerations	180	229	264	313	311	...
Others	187	213	225	304	256	...
3. Current savings (1-2)	137	213	225	15	256	...
4. Capital expenditures	250	239	218	402	224	...
Real investment	170	148	193	165	118	...
Amortization of the debt	16	17	21	21		
Others	64	74	94	216	93	...
5. Total expenditures (2+4)	617	691	707	1 019	791	...
6. Fiscal result (1-5)	3	-103	-44	-337	-11	...

Source: CEPAL, based on information provided by the National Planning Office (ONAPLAN) and the National Budget Office.

actions that will have to be carried out during the last four months of 1979 will result in extra-budgetary spending in the neighbourhood of 114 million dollars. In this respect it should be mentioned that the Government has reduced new expenditures to a minimum by limiting non-essentials and has given greater attention to operating expenses and to replacing assets through the intensive use of manpower in reconstruction than to capital expenditures that would essentially depend on international foreign cooperation.<sup>8/</sup>

In summary, it is estimated that in 1979 current income will diminish by 31 million dollars, in relation to the projected figures, and in 1980, by almost 110 million dollars, due to direct and indirect effects of the natural disaster. At the same time, total expenditures will increase by almost 312 million dollars during the present year and by an as yet unknown quantity next year, which leads to the estimate that the fiscal deficit will reach some 390 million dollars in 1979, instead of 44 million originally envisaged.

It is, thus, beyond any doubt that the natural disaster had, and will continue to have, very severe effects on the public finance equilibrium. At the same time, it has posed the Government a wide range of responsibilities in the emergency and the reconstruction stages,

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<sup>8/</sup> As a means of speeding up rehabilitation and reconstruction projects, the President of the Dominican Republic has been granted powers through Law No. 53 of 9 September 1979 to provide by Decree for transfers of budgetary allocations within the law on public expenditures or to allocate those funds required for special public administration expenditures. In doing so, he is bound only to inform the National Congress of such actions. This provision will be in force until 31 December 1979.