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DEVELOPMENT FINANCE AND MACRO-ECONOMIC BALANCES:

THE FISCAL CRISIS OF THE DOMINICAN STATE

(1970 - 87)

A Research Paper presented by

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INTRODUCTION.

During the period 1966-77, the Dominican Republic achieved remarkable progress in terms of institutional stability and a favourable climate for private domestic and foreign investment. This was reflected in one of the highest rate of growth in the world, when GDP expanded at an annual real rate of 11% in the period 1968-74. As a result per capita national income, more than doubled in this period.¹

After the mid-seventies, the D.R. has experienced a sharp deterioration of its growth performance and its external position. By 1985 it had an external debt/GDP ratio of 64%, which is above the average of 62% for the Latin America and Caribbean region as a whole.² The D.R.'s debt crisis that emerged in the 1980s, like other indebted developing countries was in part caused by adverse external conditions; in part, however, it was the result of domestic policy choices. Among the latter, large fiscal imbalances are arguably the most important.³

The aim of this paper is to examine the role played by the Dominican fiscal sector in the industrialization process and in the adjustment to external macroeconomic shocks.

One of the objectives of this paper is to analyse the imbalances in the external, private, and fiscal sectors of the economy in order to identify the multiple factors, that in our view are the responsible for the fiscal crisis of the 80s.

The paper contains five parts and an statistical appendix. The first part is a review of the economic literature on the financing of economic development, which will lay the basis for the analysis of the our case study. The second part is a historical overview of the development process in the Dominican Republic and tries to show how the different conjunctures both at the internal and external level have come about to drive the development process of the country. The third part is the construction of a consistent data framework in which to base our case study. This part will provide our

¹ World Bank (1978) "Dominican Republic: It's Main Economic Development Problems".

² See Statistical Appendix, Table 1.

³ See Cuddington, J. and Asilis, C. (1990) Journal of Latin American Studies. Vol.22, No.2.

research with the necessary quantitative framework, which is indispensable in any study of macroeconomic analysis. This part will be followed by a fourth part , where we analyse the key macroeconomic trends in terms of their historical behaviour. And the fifth part is composed of the role of the Dominican state in the development process of the country. It contains a review of the incentive scheme within which, the process of industrialisation of the country has been taking place, and finally, an analysis of fiscal policies during adjustment is made in order to trace certain causal hypotheses as regards the different pattern of responses between sectors during external shocks, mainly between the fiscal policies and the concomitant responses of the non-state sector.

The paper will conclude that in the actual context the Dominican state is in its worst fiscal crisis and is unable to generate the necessary amount of domestic resources to service the debt and manage the economy so as to carry-out the tasks that the logic of accumulation requires.

I) FINANCING ECONOMIC DEVELOPMENT: A THEORETICAL FRAMEWORK.

In order to carry-out the complex tasks of socioeconomic development, developing countries need to have access to certain level of resources to achieve certain level of accumulation. The economic performance of developing countries is usually determined by the performance of few sectors in which the countries have a comparative advantage related to geographical and natural endowments factors. In this sense, a successful domestic accumulation process, given an unstable world economy, should be based in a transformation of the economic structure as a whole and increased labour productivity in the leading sectors of the economy. Increased accumulation and rapid economic development can be achieve by a continuous expansion of production and rapid growth of national product.

Development finance is channelized towards development targets through the use of fiscal policy. In one or other way fiscal policy is understood as measures to increase the general welfare through the public control of resources by means of public spending, resource mobilization and so on⁴. More explicitly, fiscal policy is concern with the receipts and expenditures of the central government, with the relation between these two flows, and with the economic effects of these receipts and expenditures, for all the functions in which governments engage⁵.

The fiscal capacity of a country can be assess both at the macro and micro levels. The macro approach looks at the determinants of taxation capacity by means of macro indicators, such as national product, foreign trade, etc., whereas the micro approach takes into account potential tax bases derived from personal income, business income, property, general sales, excise and foreign trade taxes. Nevertheless, developing countries differ from one another in their development finance structures. These differences are usually the result of the particular socio-political and institutional settings prevalent in each country. There are many alternative techniques of mobilizing resources as well as different sources of finance, in order to allocate them towards investment. However, two broad categories of finance can be identified, namely internal and external finance.

Development finance provides real resources to increase the production

⁴ See Wolfson, D. (1979) "Public Finance and Development Strategy".

⁵ See Hope, K. (1987) "Development Finance and the Development Process".

and welfare standards in developing countries. Although production as such is not the only economic policy goal in LDCs, policies to raise the level of output form the most part of the country's development plans, because growth is seen as a precondition for improving the general level of welfare, and growth is crucial for the other development objectives such as employment creation, redistribution of income and wealth, and social capital⁶.

The major sources of development finance in developing countries, as we mention earlier, come from both internal and external sources. At the internal level, we can distinguish, domestic savings in its various forms, taxation, and deficit finance. At the external level the main sources are, foreign borrowing, foreign aid, and foreign direct investment.

1. Internal and External Savings.

Savings have been regarded as the main source of finance in developing countries in order to provide adequate resources to finance the required level of investment without creating inflation⁷. The rate of savings, historically, have been regarded as a key performance indicator in the development process and developing countries have always been encouraged to increase their savings ratio as a necessary step for achieving economic growth. Increases in this ratio were expected to reduce the dependence for foreign aid by the LDCs⁸.

The total supply of these resources is equal to the sum of domestic savings and foreign savings. Domestic savings arise from the public and the private sector. Government savings are mainly the excess of government revenues over government consumption, where government consumption consists of current and capital expenditures. Private savings arise from the business sector and the household sector. Furthermore, the domestic savings categories can be regarded as voluntary, involuntary, and savings generated through policies to increase output in situations of unemployed or underemployed resources. Voluntary savings are savings that arise from the voluntary reduction in consumption out of disposable income from the business and household sectors. By contrast, all forms of taxation, and schemes for compulsory lending to governments, constitute traditional measures involving

⁶ See Thirlwall, A.P. (1976) "Financing Economic Development".

⁷ See Eshag, E. (1983) "Fiscal and Monetary Policies and Problems in Developing Countries".

⁸ See Hope, K. (1987); World Development Report (1983) and (1988).

involuntary reduction in consumption. Moreover, consumption may be reduced by the process of inflation, and this is regarded as "forced savings"⁹.

The level of voluntary savings and the ratio of voluntary savings to national income, will depend on a variety of economic and non-economic factors. Thirlwall¹⁰ has argued that economic factors largely determine the ability to save, but the willingness to save may depend on non-economic factors as well. The main determinants of the ability to save will be the average level of per capita disposable income, the distribution of per capita disposable income and the size of the capitalist surplus¹¹. The willingness to save, in turn, will depend on such monetary factors as the existence of acceptable and reliable institutions in which to deposit savings; the interest rate in relation to risk and time preference; and, in addition, societal attitudes towards the accumulation of capital¹².

Most of the developing world still has to supplement domestic savings with finance from abroad. The inflow of foreign resources eases the savings constraint and the foreign exchange constraint. As long as the developing country is spending more on investment and government expenditures than it is earning from the domestic resources released through private savings and taxation, there will be a domestic resource gap that will spill over into the balance of payments, with imports greater than exports. This follows from national income analysis, in which the uses of national income must equal the disposal of national income. The internal imbalance in the resource gap is translated into the external imbalance in the foreign exchange gap.

The resource gap is filled by imports being greater than exports in the balance of trade, so that foreign resources are filling the domestic resource gap and are allowing the excess of investment and government expenditures to be validated in real terms. The foreign exchange gap, however must be filled by a capital inflow from overseas, through official development assistance, commercial bank loans, or private foreign investment. External debt accumulates when the foreign loans are used to finance an excess of imports over exports plus interest payments on existing debt. The working out of the

⁹ See Thirlwall, A.P. (1972) "Growth and Development".

¹⁰ Ibidem.

¹¹ See Thirlwall (1972).

¹² Ibidem.

external debt will depend, in turn, on a reduction in the resource gap, lower interest rates, and a declining current account deficit. The working out of debt will be more prolonged the slower the growth rate of national output, the lower the debtor country's marginal saving rate, and the less productive its capital investment¹³.

One of the main problems of developing countries is the limitation on development that posses a possible shortage of foreign exchange, as a result of which countries may be unable to acquire from abroad the goods and services necessary for promoting domestic development. One of the most widely used approaches is the "two gap" approach introduced by Chenery and Bruno in 1962. This approach operates in two dimensions: while arguing that development is a function of investment it also holds that such investment, which requires domestic savings, is not sufficient to ensure that development takes place. It must also be possible to obtain from abroad the goods and services that are complementary to those available at home¹⁴.

In order to achieve a particular target rate of growth, a country needs both savings and imports. If domestic savings is less than the level necessary to achieve the target rate of growth, there is said to exist a savings-investment gap. Similarly, if the minimum import requirements to achieve the growth target are greater than the maximum feasible level of exports, there is said to exist an export-import or foreign exchange gap. In the absence of foreign borrowing, growth will proceed at the highest rate permitted by the most limiting factor. Traditionally, the role of foreign borrowing was to supplement deficient domestic savings. The distinctive contribution of the dual-gap analysis to development theory is that if foreign exchange is the dominant constraint it points to the additional role of foreign borrowing in supplementing foreign exchange, without which a fraction of domestic savings might go unutilized because actual growth would be constrained by the inability to import necessary inputs¹⁵.

Kalecki¹⁶ explains that in evaluating foreign aid we should see clearly its double function: a) To what extent has the inflow of foreign aid improved

¹³ See Meier, G. (1989) "Leading Issues in Economic Development".

¹⁴ See Hawkins (1968) "Measuring Capital Requirements".

¹⁵ See Thirlwall, A. (1972).

¹⁶ See Kalecki, M. (1976) "Essays on Developing Economies".

the country's balance of payments position; and has this improvement been used to remove the bottlenecks in the supply of capital goods, necessities, luxuries or intermediate goods?; b) Were the additional financial resources instrumental in raising the rate of growth by increasing investment over the level of domestic savings or releasing local savings for consumption of necessities, of luxuries or materialise in a higher volume of social services? In other words, aid may be considered appropriately utilised if it adds, *ceteris paribus*, to investment other than those increasing the output of luxuries; or it adds, *ceteris paribus*, to the consumption of "essentials" and/or the output of social services.

Another question that arises regarding the flow of aid to developing countries, is the "absorptive capacity" of the country in question. In other words, how much aid can a country take? In theory, any amount of economic aid can be absorbed, as an inflow of foreign capital will always increase the volume of aggregate domestic expenditure and, if properly used, will result in a higher rate of growth of national income. But, the higher this rate, the higher the share of imports in the increment of the national income, because of the lack of free productive capacities, including the skilled labour force. In other words, the effectiveness of the foreign aid measured by the marginal ratio of the increment of national income to the additional imports will tend to 0, while the ratio of the increment of the aggregate expenditure to the additional imports will tend to 1¹⁷. But before this limit is reached, two other factors will set the ceiling to the absorptive capacity of the country. Kalecki argues that in the one hand, there will be a problem of financial capacity to service the debt if the country decides in taking credits for some years. On the other hand, the absorptive capacity will depend to a great extend on the country's availability of skilled manpower of different grades and types.

In analysing the impact of foreign aid to the development process of a country, obviously, one has to take into account the type or the form of aid. As we mention earlier, foreign aid can be broadly divided in the form of grants, credits, and foreign direct investment. Grants should be considered as the most desirable type of foreign assistance, since they represent a net addition to the resources available for development purposes and, being free gifts do not have to be repaid. In the same way, concessional loan when

¹⁷ Ibidem.

compared with commercial loans, have a larger development potential; the larger their degree of concessionality, as indicated by their grant element, the greater this potential¹⁸.

Loans given on better conditions than in standard commercial transactions, usually tied to specific investment projects and associated with some form of technical assistance, constitute the bulk of foreign economic aid given to developing countries. The evaluation of credits depends on the cost of servicing and the modalities of such repayment. At the same time, the cost of servicing depends on: the grace period, the length of the credit and the rate of interest. The average yearly burden decreases with the length both of the grace period and of the credit itself and increases with the level of the rate of interest. An evaluation also can be made depending on the modalities with respect to the method of repayment: a) Repayment in hard currency; b) Repayment in local currency; c) Repayment in goods. From the point of view of the burden of servicing foreign loans and the balance of payments constraint on development, the most desirable non-concessional loans are those linked to international trade in such a way that repayment is made in the form of goods exported to the creditor countries¹⁹.

The last form of foreign aid is private foreign direct investment. Given the world shortage of capital, individual countries must compete with each others for the attraction of foreign investors. This can be done by creating a favourable environment characterized by political stability, security, facilities for the remittance of profits, dividends and interest, and guarantees of full compensation in the event of expropriation or nationalisation²⁰.

A vast literature of development economics has concentrated in the analysis of the benefits and costs of private foreign direct investment on LDCs. The main conclusion that emerges from these analyses is that the profits transferred abroad may exceed the cost of servicing a foreign loan, while the reinvested profits add to the book value of foreign investment with no further inflow of foreign capital. Kalecki argues that profits earned by foreign investors from these reploughed profits will again be transferred, at least

¹⁸ See Eshag, E. (1983).

¹⁹ See Kalecki, M. (1976).

²⁰ See Thirlwall, A. (1972).

partly abroad. We are thus in the presence of an endless snowballing process, as contrasted with a loan which creates obligations for a definite number of years. It may be easily shown that in the long run the impact of continuous foreign direct investment on the balance of payments of the recipient country must be negative, unless the inflow of foreign investment grows substantially from year to year²¹. For similar reasons, Eshag (1983) argues that if we measure the cost of foreign capital in terms of profits remitted on direct investment and of interest paid on loans, will generally be higher for direct investment.

On the benefit side, Thirlwall (1972) argues that the demand for labour will increase; tax revenue will rise; external economies may be generated; and the foreign investment may set up backward and forward linkages and act as a stimulus to domestic investment. Furthermore, direct investment from abroad is often accompanied by advanced technology and technical expertise. The potential is there for a profound impact on indigenous industry, on attitudes, and the state of competition. As long as the total increase in productivity is not appropriated by the investors and remitted abroad, the less developed country will gain from private foreign investment.

2. Taxation.

Taxation is one of the main mechanisms by which government can raise their level of revenues. It is argue that taxation is a mechanism to achieve efficient resource allocation, full employment with price stability, a satisfactory distribution of income, and a highly stable rate of economic growth. In order to evaluate taxes and the way in which the previous goals can be achieved, some criteria have to be taken into account, namely allocational efficiency, equity, administrative feasibility, and revenue productivity. The fist criterion, allocational efficiency, is concerned with the economic effects of taxation on the pattern of resource allocation. Equity refers to different taxes and how each tax redistributes income and wealth among the citizenry in order to reduce income inequalities. Administrative feasibility refers to the problem of how efficiently can a particular tax be administered. And finally, revenue productivity means the ability of a tax to maximize government revenues. Although there is much consensus in these criteria in order to evaluate taxes, there is not agreement on what an ideal tax system

²¹ See Kalecki, M. (1976).

for all countries should be. Nevertheless, it is believed that a tax system should be adequate, flexible, and in harmony with the emerging pattern of economic activity²².

In most of the literature on tax structure in LDCs it is agreed that the tax system must transfer resources from the private to the public sector so that the public sector will be capable of carrying-out those functions related to the development of the countries. Eshag (1983) points out that taxation performs two important and distinct functions in the strategy of economic development. The first function is to restrain the growth of private consumption in order to increase the volume of resources available for investment purposes. The second function of taxation is to transfer resources from the private to the public sector. Moreover, taxes put resources in the hands of governments and these resources can be used for carrying-out certain investment programs that are supposed to be productive to the economy in the long run. Also within the private sector, the tax system must induce a transfer of resources from low-priority towards high-priority uses.

One of the main problems of taxation in developing countries is the politically narrow and administratively rigid tax base. Of the two categories of taxes, direct and indirect, the latter has dominated the tax structure in LDCs, particularly taxes on trade. This is because, export taxes and import tariffs are in administrative terms easy to collect. Other types of indirect taxes, such as sales tax and value added tax present serious collection problems. This is because of the administrative difficulty of verifying the turnover of a large number of manufactures and retailers who tend not to keep adequate records of transactions. Unless major reforms are applied in the tax system, there is little point in using these kind of taxes in most developing countries which lack the fiscal machinery for their efficient administration²³.

Not only administrative constraints affect taxation in developing countries. As Wolfson²⁴ points out, the profile of taxation in LDCs is dominated by serious sociopolitical, and economic constraints. In the administrative side Wolfson argues that the tax administrators in developing

²² See Hope, K. (1987).

²³ See Eshag, E. (1983).

²⁴ See Wolfson, D. (1979).

countries are faced with few hard facts of life: "a poorly conceived tax structure; poorly drafted tax laws that are neither responsive to the domestic sociocultural environment nor sufficiently able to counteract the tricks of large foreign corporations; a partly illiterate population that requires intensive canvassing; poorly developed networks of roads and telecommunications, which hamper assessment and inspection by a field staff. Add to this that tax administrators in LDCs compared with the DCs, are poorly educated, poorly paid, and lack a long-standing tradition of *esprit de corps*. At the sociocultural level the existence of sharp differences in the distribution of income often accompany a feeling among privileged classes that they are above the law and can ignore taxed people. Also variations in tax effort might be explained to a great extend by differences in the political philosophy and the willingness to tax on the part of the governments concerned. Economic constraints are regarded as problems of excess burden and horizontal equity, which have serious distributional consequences given large income disparities in LDCs".

It is agreed in the economic literature that no universal tax policy can be prescribed to suit all countries²⁵. Nevertheless, it is essential when setting up a taxation system for any country to take into account its economic, social and political characteristics, particularly relevant are the structures of production and trade and the quality of the administrative machinery²⁶.

Moreover, Eshag argues that some essential characteristics of a taxation system should be taken into account when considering a taxation strategy: a) Equity: measures designed to restrict the growth of private consumption should be directed, in the first instance, at the consumption of the higher income groups. The degree of these reductions in consumption should depend on the level of per capita income. In other words an implementation of a progressive system of direct taxation from which the large sectors of the population whose income is below subsistence level is exempted. When increasing indirect taxes for revenue purposes, these should be levied more heavily on luxuries than on necessities; b) Incentives to production: material incentives appear to be necessary to stimulate effort on the part of individual producers. However, this does not imply that production effort is in every case positively

²⁵ See Thirlwall, A.P. (1972); Hope, K. (1987); and Eshag, E. (1983).

²⁶ See Thirlwall, A. (1972).

correlated with material reward and that an increase in tax need necessarily reduce such effort; c) Simplicity of the tax system: in most developing countries there is a lack of reliable institutions with the administrative capabilities for assuring and collecting taxes. Therefore, a simple taxation system is important; d) Growth in taxation income: in order to allow investment to rise faster than consumption, the tax revenues should be income elastic. This may be done by the introduction and practice of a progressive system of direct taxation, the introduction of new taxes as national income grows, and increases in the rates of taxation, whether direct or indirect, to bring about a faster rate of growth in tax revenue than in private income and expenditure; e) Stability of revenue: tax revenue should be stable and not subject to violent short-term fluctuations. This can be ensured by the diversification of the tax base. However, in LDCs this is usually difficult since they rely heavily on the production of one or two primary commodities as main exports, from which the bulk of indirect taxes are obtained. In this sense export taxes present serious drawbacks: Firstly, they are levied on actual production for export markets, rather than on the production potential of agricultural land, and, as such, provide no financial incentive to increasing land yields through investment and through a more intensive cultivation of land. Secondly, export taxes although paid by merchants, must eventually be borne by producers. They are, therefore, proportionate to the volume of production of individual farmers rather than being progressive. Thirdly, international primary commodities' prices are subject to short-term violent fluctuations. Lastly, the volume of production may be affected largely by climatic conditions.

3. Deficit Finance.

The level of real output and real savings can be increased by governments running budget deficits financed either by printing money or by issuing government bonds to the banking system or the public. Although deficit finance is likely to be inflationary in the short-run, there is an important analytical distinction between the means by which additional resources are made available for investment through deficit finance and the means by which savings are generated by inflation. In the former case savings are generated for the increase in real output; in the latter case, by a reduction in real

consumption²⁷.

Whether the domestic financing of public deficits is inflationary or not depends in the short-term on who takes over the respective claims. If it is the Central Bank or the Consolidated Banking System, then there is an immediate and direct connection between deficit financing and the expansion of the monetary base or money supply. On the other hand, deficit finance via non-banks is not linked to monetary expansion, or at least not directly. For that reason the non-inflationary financing of public debt is generally identified with the sale of public bonds to the private sector²⁸.

The need for growth of a developing economy will require more money to facilitate its transactions and to serve as a liquid asset. The counterpart of the increase money stock may include lending to the government by the Central Bank and the commercial banks. If the increase in the money stock - and the counterpart in the form of loans and investments of the banking system- does not exceed the quantity that enterprises and households desire to hold at stable prices, money creation to finance the government deficit will not be inflationary²⁹. Furthermore, Goode argues that how much the banking system can lend to the government and other borrowers without causing inflation depends on how much money people are willing to hold at stable prices. When financing of government expenditure by money creation exceeds the non-inflationary limit, total spending in the country becomes greater than production valued at stable prices. Prices rise and the balance of payments tends to go into deficit. The non-inflationary limit of money creation is not rigidly fixed, and there may be some delay in reactions. Especially if prices have been stable in the recent past, people may temporarily add to their money holdings, and money transactions may take place at the old prices for a time. Nevertheless, the experience of inflation in countries during the past decade, has made people sensitive to rising prices and has shortened the lags in adjustments³⁰.

Tanzi and Blejer (1984) point out that when foreign borrowing is

²⁷ See Thirlwall, A. (1972).

²⁸ See Reisen, H. and van Traostsenburg, A. (1988) "Developing Country Debt: The Budgetary and Transfer Problem".

²⁹ See Goode, R. (1984) "Government Finance in Developing Countries".

³⁰ Ibidem.

rationed, financing the budget deficit through bonds is the only non-inflationary alternative in the short to medium term. Like tax capacity, the potential for domestic bond financing is, however, limited. It depends primarily on the existing volume of the domestic bond market, which again is determined mainly by past and expected interest returns³¹.

In this sense, Friedman argues that if a government does not succeed in financing the budget deficit through the private non-banking sector or abroad, it has to fall back on printing money or on credit from the domestic banking system. This type of financing will involve money creation except when public loans are substituted for those extended to the private sector. Money creation results in higher nominal expenditures, which is inflationary unless it is matched by expanded domestic supply or larger imports³².

4. Domestic Policy Responses to External Shocks.

It is clearly understood in economic theory and demonstrated in development experience that no developing country can or should isolate itself from the world economy. Developing countries can be benefited from the opportunities that international trade and capital flows offer. However, by linking itself to the world economy, a country also exposes itself to external shocks, that is, it can experience economic disturbances that originate in events outside the country and are outside the control of the government³³. In this sense economic policy making in developing countries consists, to a great extent, in reacting to external conditions.

During the decade of the 1970s, the external conditions for most developing countries was not unfavourable since commodity prices were relatively good and international finance was available and cheap due to the recycling of OPEC and OECD surpluses. However, during the decade of the 1980s, financial flows to the South diminished sharply while the servicing of accumulated debt had a depressive effect on trade as the South contained

³¹ See Tanzi, V. and Blejer, M. (1984) "Fiscal Deficits and Balance of Payments Disequilibrium in IMF Adjustment Programs".

³² See Friedman, M. (1956) "The Quantity Theory of Money - A Restatement".

³³ See Krugman, P. (1988) "External Shocks and Domestic Policy Responses".

imports in order to free foreign exchange for debt payments³⁴.

Policy responses for external shocks are necessary, in the one hand, because an unfavourable shift in the world economic environment produces a balance of payments problem, and in the other hand, because these external shocks also have repercussions on the domestic economy. In this sense governments are faced with three choices. Firstly, governments must decide whether external shocks should be met by financing or by adjustment. Secondly, they must decide if adjustment should be concentrate on expenditure reduction or expenditure switching -that is, on cutting public and private demand or on trying to shift that demand, and the demand of foreigners as well, from foreign-produced goods to domestically-produced goods. Finally, expenditure switching can be attempted either through devaluation or through commercial policies³⁵. Since we have already dealt with the subject of financing and its implications according to the different sources of finance in the previous sections, we will concentrate on adjustment policies.

In adjusting to external shocks, a country should aim to improve the trade balance. In the one hand, this may be done by policies such as tax increases, cuts in government spending, and restrictions on the credit of the banking system. These policies reduce spending in the domestic economy, which lowers the demand for imports and, by releasing resources from industries serving the domestic market, may in an indirect way lead to increased exports. In the other hand, policies such as export subsidies, import controls, and devaluation may be used to encourage both indigenous and foreign residents to switch their spending from foreign to domestic goods, thus raising exports and cutting imports. All of this policies can have adverse effects. Expenditure-reducing policies, by reducing the demand for domestic goods as well as imports, typically lead to unemployment and excess capacity. The immediate economic and social costs can be large; furthermore, much of the burden often falls on investment, which reduces the economy's future growth prospects. Expenditure-switching policies have been regarded as inflationary and can easily offset any improvements in the trade balance³⁶.

During the decade of the 1980s, most of the developing countries have

³⁴ See FitzGerald, E.V.K., Jansen, K., and Vos, R. (1988).

³⁵ See Krugman, P. (1988).

³⁶ Ibidem.

dealt with external shocks by changing the distribution of expenditures between macroeconomic categories to achieve adjustment from ex-ante disequilibrium to ex-post equilibrium at the national level. Nevertheless, multilateral institutions, such as the World Bank (1988) have stated that the solution for external disequilibrium is to be found in cutting public spending and raising additional revenue, thus freeing resources for exports and debt service. Balance of payments and foreign debt problems are at least aggravated, and are often caused by imprudent fiscal policy³⁷. Indeed, debates on domestic adjustment have tended to concentrate on changes in the balance of the fiscal sector taking the private sector as a residual or, at best, assuming that the private sector reacts to changes in the fiscal and external sectors. Among multilateral and financial institutions the currently predominant view on this interaction appears to be that fluctuations in the fiscal balance result -directly or indirectly- in compensatory changes in the external balance. This is understood to be the explanation for indebtedness in the first place, and implies a cure for it in the future (FitzGerald et al, 1988). Furthermore, it is argued by these authors that to hold that the fiscal deficit is reflected directly in the external balance in practice implies that the private sector can always maintain its own ex-ante accumulation balance (i.e. $Sg - Ig$) into the ex-post macroeconomic equilibrium, which is a crucial assumption and implies the existence of a well-functioning domestic capital market or at least easy access to international capital markets with the interest rate acting so as return the private sector to its previous equilibrium position.

The World Bank (1988) and IMF (1987) approaches to domestic policy reform in developing countries have focused on macroeconomic adjustment in order to recover debt servicing capacity through a reduction of the trade deficit. This is to be achieved by increased private investment in traded goods sectors financed from voluntary savings stimulated by financial reform or out of new profits. Broadly, the position of the multilateral agencies would seem to be that a structural reduction in the size and intervention of the state would bring about this desirable situation. In addition, capital inflows would result from such sound economic policies: not only of new loans and aid, but also of returning capital flight. This form of adjustment would enable LDCs to service their debt and gradually resolve the debt crisis. Non-

³⁷ See World Bank (1988) World Development Report.

attainment of such a desirable state of affairs is attributed to policy failures on the part of governments. However, critics of this approach, although agree with the desirability of the outcome, argue that standard adjustment packages do not achieve this in theory or in practice (e.g. Taylor, 1988; Cornia, Jolly and Stewart, 1987; Dell, 1987). It is suggested that forced adjustment has in fact taken an undesirable form which involves reduced imports and lower economic activity, drastic cuts in government social expenditure, and lower rates of private investment combined with forced savings adjustment through reduced consumption on the part of the labour force. Moreover, these measures do little to improve debt servicing capacity, and exacerbate poverty and reduce long-term growth capacity by lowering accumulation rates³⁸.

In this section we have looked at the role of finance in the process of accumulation and the major sources of development finance in developing countries. We feel that the literature on this topic deals with the subject at a aggregated level and in a static perspective. No mention is made about the dynamics between public and private sectors, with the exception of fiscal studies. Merely a definition of the different sources of finance is given, but the different patterns of responses that the private sector adopts as a result of government policies is not made clear. That is, the process of adjustment of different economic agents in the economy under conditions of macroeconomic disequilibria at both the internal and external levels.

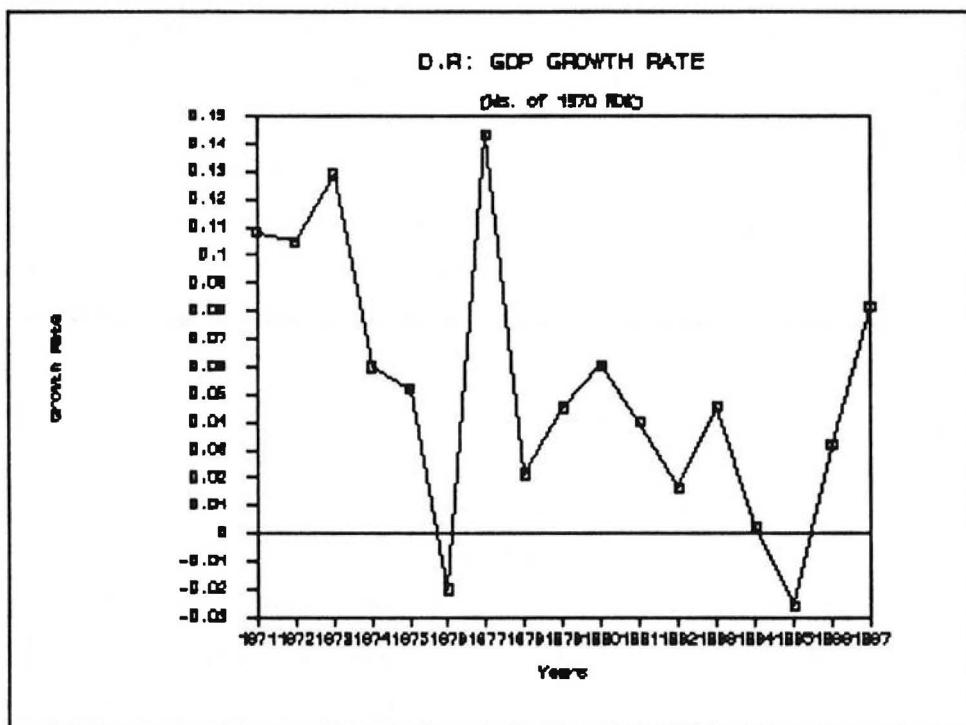
In the next section we will look at how the government in the case of Dominican Republic has engaged in different development strategies, which involved high levels of investment and therefore higher levels of finance and how the private sector adjusted to the concomitant policies. The analysis of the accumulation balance is taken as a departure point to understand properly the dynamics among the public and private sectors under different external conjunctures, which will underpin the nature of the process of adjustment which relates to the partial absorption of the state sector of external shocks and the concomitant responses by the non-state sector.

³⁸ For further development of World Bank and IMF contentions see FitzGerald et al (1988) as well as for empirical evidence on the shifts in the ex-post accumulation balances for different groups of DCs. Also, for empirical evidence see FitzGerald and Sarmad (1990).

II) THE DEVELOPMENT PROCESS OF THE DOMINICAN REPUBLIC.

As other Latin American and Caribbean small open economies, the Dominican Republic's economic performance have been largely determined by its export performance and the external terms of trade. Nevertheless, the country's substantial and steady investment rate -on the order of 23% of GDP during 1970-79- increased productive capacity and growth, particularly in the first half of the seventies when the investments had high rates of return³⁹.

In the recent past, three periods can be identified: the 1968-74 period, when real GDP grew at 11 percent a year, the 1975-81 period, when this growth rate declined to 4 percent, and the 1982-87 period of frustrated stabilization efforts and crisis itself.

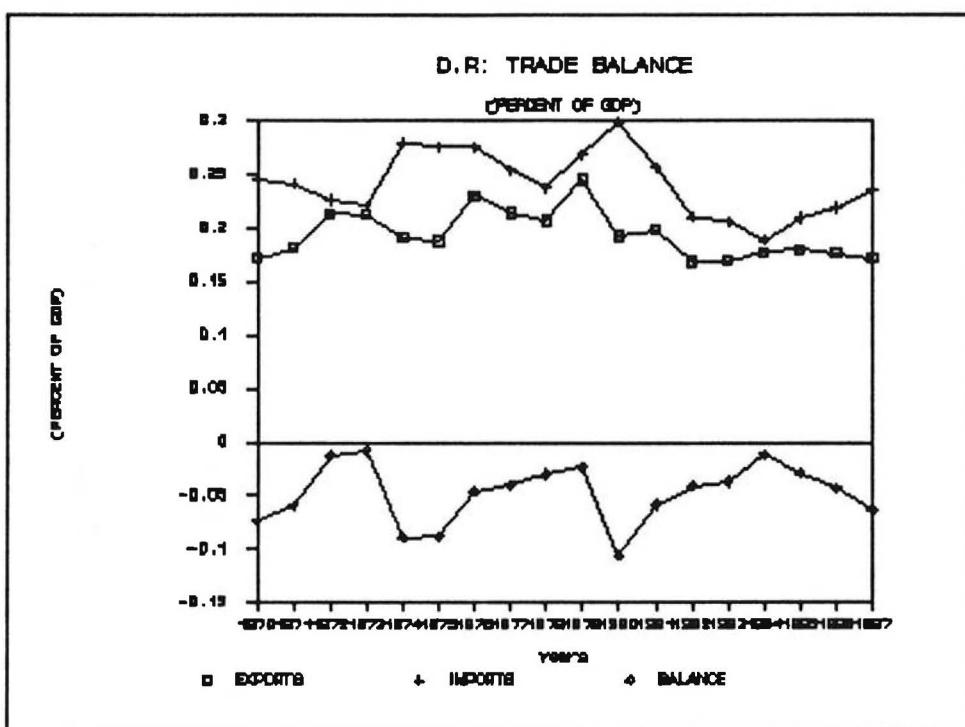


1. The Period of Fast Growth (1968-74).

This period was one of a favourable external environment without major cycles. It was the period when the country was recovering from the Trujillo era and the social disorders and intervention of the mid-1960s. During this period export earnings grew at an annual average rate of 23 percent; in no

³⁹ See World Bank (1985) "Dominican Republic: Economic Prospects and Policies to Renew Growth". And, Statistical Appendix, Table 2.a.

single year was the increase below 10 percent. Export prices and volume grew at 15 and 9 percent, respectively. Real value added in mining grew 38 percent a year, although it started from a low base: manufacturing by 14 percent a year; and construction by 18 percent a year. This period stressed those major sectors where the country had a strong comparative advantage: raw sugar exports reached one million metric tons, ferronickel reached 80 thousand metric tons, and tourism began to expand. Manufacturing was directed towards import-substitution possibilities⁴⁰. Thus, export expansion was the main driving force of growth.



As the economy was growing rapidly, it was experimenting dramatic structural transformations because of the emergence of import substitution industries. In this sense, economic policy tended to provide stimuli to investments in a potential industrial sector. At this stage the country lacked an industrial base and, the implementation of the Law 299 (1968) for industrial incentives was the vehicle used by the authorities to stimulate the creation of the industrial infrastructure. Tax exemptions were provided

⁴⁰ Ibidem.

as well as easy access to national and foreign credit via the Fund for Industrial Development (FIDE). It is argue that these incentives generated enough new employment in the industrial sector to offset the frozen wages in the public sector during these years⁴¹.

The growth of the economy was impelled by a strong expansion of both public and private domestic investment, as well as foreign direct investment in the mining sector. During this period gross domestic investment increased from 19 percent of GDP in 1970 to 26 percent in 1974, whereas capital expenditures of the central government passed from 32 percent of total expenditures to 43 percent in the same period. The increase in public investment was finance by 81 percent with current savings and 18 percent with capital revenues, which means that 99 percent of public investment was financed with internal resources, without the need of external finance or inflationary finance from the Central Bank⁴². The bulk of the increase in capital expenditures was financed out of the reduction of current expenditures, which share as percent of GDP diminished from 12 percent in 1970 to 9 percent in 1974.

Given that 99 percent of current and capital expenditures were finance with internal resources; the dramatic increase in aggregate demand; and the rigidity of supply to respond in the short-term to public and private expenditures, it would have been likely that the substantial growth of the economy would have been constrained by problems of balance of payments and inflationary pressures. But, the fact is that the necessary imports in order to sustain GDP growth were financed out of the extraordinary revenues from the increase in export prices plus a positive flow of foreign investment in the mining sector, and long term concessional aid to the public sector.

Despite the good economic performance during this period, these policies laid the bases for the crisis that was to come. The tax and tariff incentives provided under the industrial incentives (299) and tourism law (153, 1971) were initially effective in promoting private investment, but these tax concessions soon began to eat away at public savings⁴³. Furthermore, the government decided to postpone adjustment to the new external prices from the

⁴¹ See Fundacion Economia y Desarrollo, Inc. (1989) "Impacto del Sector Privado en la Economia Dominicana".

⁴² See Giuliani (1987) "El Sistema Tributario Dominicano".

⁴³ World Bank (1987) "Dominican Republic: An Agenda for Reform".

oil shock of 1974, by subsidizing oil prices with earnings from sugar. Another critic of the World Bank (1987)⁴⁴ was that the incentive framework channelled much new investment into sectors that were not internationally competitive and whose existence was predicated on implicit subsidies through the pricing, tariff or financial systems. For example, industry, producing for a highly protected domestic market, grew by more than 9 percent during the period 1966-76. Non-tradable sectors also grew rapidly, most notably construction at more than 13 percent per year. These investments left the economy poorly positioned to respond to the additional shocks that were to come.

2. The Period of Stagnation and Descent into the Crisis (1975-81).

Since 1974 several new external factors came into play to decide to a great extend the future of the economy. In this sense export prices, particularly that of sugar, became substantially more volatile adding constraints to the short-term manageability of the economy. Exports prices reached a peak in 1975, declined by 30 percent in the 1977-79 period, reached a new peak in 1981, and fell drastically by 40 percent in 1982. The oil price shocks of 1974 and 1979-80 increased the fuel import bill tenfold, reaching US\$500 million by 1981. As a result of these changes in relative prices, terms of trade deteriorated severely. In 1977 only the petroleum bill absorbed 60 percent of all sugar export earnings, but by 1982 it had risen to 133 percent of sugar earnings⁴⁵.

Apart from the deterioration in the terms of trade, a second external factor was the decline in export volume induced primarily by the recession in the industrialized countries. By 1982, the volume index of exports had declined one fifth below its 1978 value⁴⁶.

A third external factor was the abrupt rise in interest rates in the OECD countries; this pushed up the cost of the Dominican Republic's foreign borrowing. Service payments on public foreign debt rose from US\$88 million in 1978 to US\$246 in 1979 and, after dropping slightly in 1980-81, rose to US\$256

⁴⁴ See also Giuliani (1987) "El Sistema Tributario Dominicano".

⁴⁵. See World Bank (1985) "Dominican Republic: Economic Prospects and Policies to Renew Growth".

⁴⁶ Ibidem.

million in 1982⁴⁷.

The combination of these factors -terms of trade, export volume declines, and interest rate rises- caused GNP to be 8.8% lower in the 1979-81 period than it would have been in the absence of the shocks. Forty-seven percent of the cumulative effects of the shocks were due to the decline in terms of trade; 35 percent were attributable to export volume; and 23 percent were due to interest rates effects (MacCarthy, 1984)⁴⁸.

These external shocks came at a time when long-term structural weaknesses were becoming evident in the economy. Namely, an import substitution style of development with a disarticulated industrial sector from the rest of the economy; an export sector based on traditional primary products; and government finances which heavily relied on revenues from trade. In these sense, Cuddington and Asilis (1990), argue that one the crucial aspects of fiscal policy in understanding the deterioration of the D.R.'s current account was the collapse in the government's revenue raising ability after 1974, in part due to its overdependence on export and import taxation. The latter created a "direct connection" between adverse terms of trade shocks, which affected the trade deficit and the domestic fiscal deficit. Although these authors recognised the "direct impact" of external shocks in the current account, the GNP and in government finances, still their thesis is that the structural problems concerning fiscal policy were a "primary cause" of the D.R.'s growing current account deficits in the late 1970s and early 1980s. However, Cuddington and Asilis (1990) express that the sharp increase in sugar export prices in 1975 enabled the D.R. to rebound quickly from the adverse effect of the 1974 oil price shock on the terms of trade. As sugar export boom subsided, however, the current account deteriorated sharply. Thus, the current account deterioration reflected largely the worsening of net exports of goods and nonfactor services. There was also, an increase in the deficit on net factor payments (especially interest payments), which was only partially offset by a surge in unrequited transfers from abroad after 1975. This fact have been recognized to represent a 23 percent of the external shocks by MacCarthy (1984) compared with 47 percent of the shocks due to decline in

⁴⁷ See Statistical Appendix, Table 1.

⁴⁸ See World Bank (1985) "Dominican Republic: Economic Prospects and Policies to Renew Growth"; and, Desmond MacCarthy (1984) "Macroeconomic Policy Alternatives in the Dominican Republic: An Analytical Framework". World Bank Staff Working Papers, No. 649.

terms of trade and 35 percent attributable to export volume.

But a discussion of the transmission mechanism, rather than the excessive external borrowing by the central government, regarding the effects of fiscal deficit on the external deficit in order to identify the direction of the causal relationship among this two variables, is not made clear. This raises questions as regard the relative importance of the different factors that are responsible for the deterioration of D.R.'s external position, i.e. terms of trade deterioration, export volume declines, and interest rate rises.

The World Bank (1985) argues that government policy responses were insufficient to cope with external shocks and secular stagnation. In spite of the unfavourable external environment, imports kept growing at rates above that of GDP growth. During the period 1975-80, capital goods and raw materials imports grew at 8 percent a year in real terms, largely financed by increasing private and public external borrowing. The growth in imports and borrowing was encouraged by an exchange rate policy which made imports artificially cheap and effectively eliminated exchange rate risks to private borrowers⁴⁹.

The fiscal situation also suffered a continuous deterioration. Current savings declined sharply and even became negative by 1982, as the current revenues did not keep up with expenditures. Central government revenues fell from 15 percent of GDP in 1970 to 10 percent in 1982⁵⁰.

Cuddington's views on the factors that contributed to the current financial crisis and economic slowdown in the D.R. concentrate particularly on the domestic factors contributing to the build-up of external debt rather than on external shocks. In this sense, four long-term changes account for much of the growth in debt: i) major changes in investment and savings behaviour of the public and private sector; ii) the erosion of the public sector finances; iii) the surge in government consumption after 1976; and iv) sharply adverse trends in government's revenue raising ability.

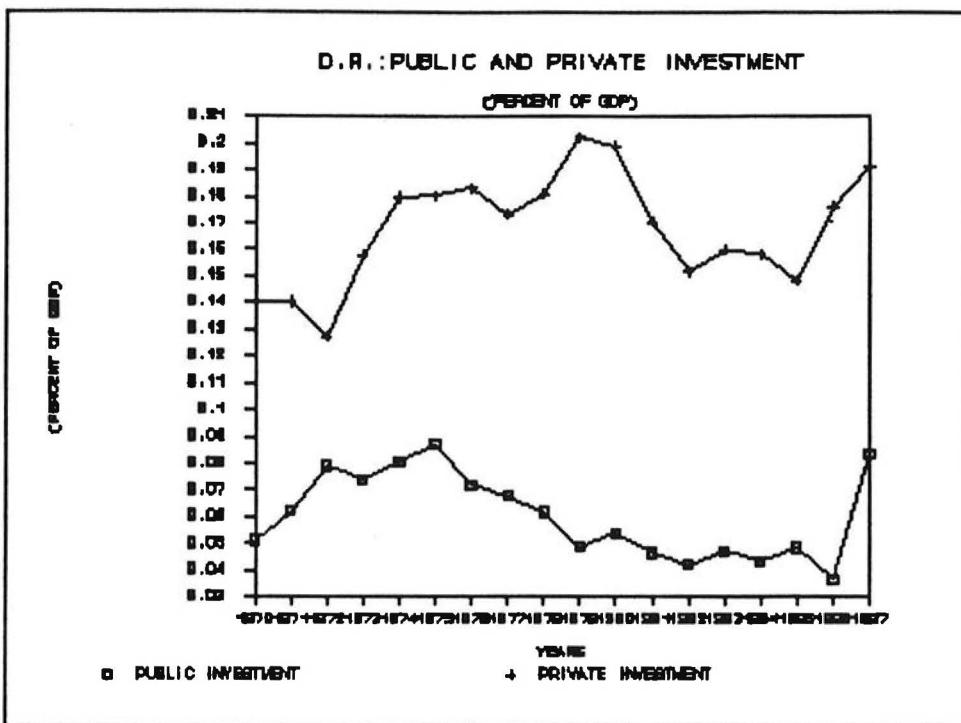
Cuddington's analysis on the changes in investment and savings behaviour of the public and private sectors uses as a period of analysis the mid-1960s and the 1970s to explain the transition of D.R. from a low investment to a high investment economy. However, we believe that in order to understand properly the dynamics of investment and savings one has to analyse the trends in these variables during the decade of the 1970s and the 1980s. This is

⁴⁹ World Bank (1985)

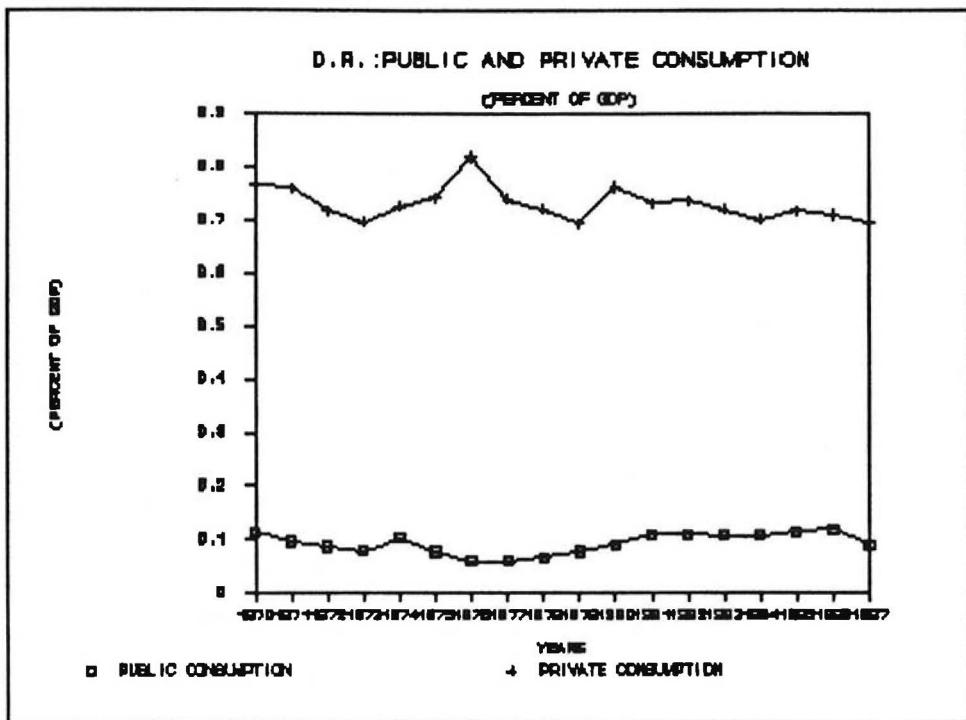
⁵⁰ See Statistical Appendix, Table 3.

because the D.R. as we mention earlier is a highly open economy whose overall performance depends largely to its export performance, and it is after 1976 that different external factors come about to mark these changes in the macroeconomic performance of the country. Obviously after 1966 when the Constitutional Government was elected, the D.R. entered a new phase in its development history. The aim of the government was to create that industrial private sector that the country lacked prior to the 1970s. Indeed, during the decade of the 1970s the country achieved an average investment ratio of 23 percent. Our analysis is mainly concerned with those internal and external factors that during the decade of the 1970s and the 1980s have determined the stagnation of both public and private investment. There is no justification to assume that the transition from a low investment economy in the 1960s to a high investment economy in the 1970s, *per se*, is a major cause of the build-up of external debt. Rather we believe that the domestic policies regarding the incentives scheme and the style of import-substitution industrialisation adopted by the authorities during the early 1970s and the external shocks arising from the surge in oil prices, the recession in the industrialised countries plus the debt shock of the 1980s constitute the major underpinnings of the current account deterioration and the fiscal deficit.

The second point which stresses the divergent trends in private and public sector investment and saving also suffers from the same problem. No account is taken as regards the process of adjustment by the state sector and the concomitant responses by the non-state sector after the mid-1970s and the 1980s. No divergent trends can be identify prior to the 1970s and during this decade, as in the former period the rapidly rising share of private investment in GDP was accompanied by and equally rapid rise in public investment. If we compare the decade of the 70s with the decade of the 80s we can see that public investment decreased and private investment stagnated. In fact public investment averaged 7 and 5 percent respectively whereas private investment averaged 17 percent in both decades. This leads to the fact that adjustment to external shocks was met by the state sector and resulted in increased private savings. However, we will discuss these trends in more detail later on.



The third point regarding the surge of government consumption after 1976 as an important cause of the growing deficit does not take into account the fact recognized by the World Bank (1987), that the incentive scheme, with large amounts of exemptions under the industrial and tourism laws provided to the private sector was one of the main factors contributing to the eating away of public savings and the resulting deterioration of the fiscal deficit. Indeed our figures revealed that public consumption decreased by 1 percent of GDP between 1970-73 and 1974-77, and then increased again by 1 percent in the period 1978-81, whereas private consumption surged from 74 to 76 percent in the first two periods. Again we believe that in any case, such increase in public consumption, per se, given its magnitude, can not be regarded as a main cause of the fiscal deficit.



Rather the important factor was the erosion of public savings accompanied by a decreased in international trade taxes from 49 percent of current revenues in the decade of the 70s to 37 percent in the decade of the 80s. Indeed this constitutes the fourth point expressed by Cuddington and Asilis (1990) when they talk about the adverse trends in government's revenue raising ability. Nevertheless the analysis of the macroeconomic trends underlying the current account deterioration and the increase in external indebtedness is quite exclusive and is made almost in isolation of the set of domestic policies and the external shocks that we consider relevant in explaining ultimately the fiscal crisis of the Dominican state, i.e. the import-substitution style of industrialisation, the incentives scheme, the narrow tax base, terms of trade deterioration, etc. No account is taken of the process regarding the dynamics of adjustment and the interrelationships between the different economic agents, as the private sector is assumed to adjust rationally to government monetary and fiscal policies.

Disequilibria both at the internal level and the external level put severe pressures on international reserves and eventually the fixed exchange rate. The government increasingly financed its operations with foreign borrowing. The country's total external debt grew from US\$812 million in 1976

to US\$2.2 billion in 1980⁵¹. The situation by 1982 was grave: the overall public sector deficit was 6 percent of GDP, the current account deficit of the balance of payments was 6.5 percent, and international reserves of the Central Bank fell to an unprecedented figure of minus US\$679 million. Arrears were accumulating and international commodity prices offered no relief. The government could not longer meet its debt service of US\$396 million and could not meet the demand for dollars at the official rate. The country had no recourse other than stabilization and debt rescheduling⁵².

3. Stabilization Efforts (1982-87).

In 1983 an Extended Facility Agreement was approved by the IMF for a period of three years. The objective of the program was to achieve a sustainable position of the balance of payments. The main goal was to diminish the loss of international reserves of the Central Bank by reducing the deficit on current account and avoiding a further deterioration of the capital account.

Regarding the fiscal policy, the goal was to reduce the public sector deficit from 7 percent of GDP to 4 percent. This was expected to be achieved by the introduction of new taxes, which included a sales tax (ITBI)⁵³, the reduction of government current expenditures; and the reduction of the operational losses of the public enterprises by eliminating subsidies and readjusting prices, among other measures.

At the external level, the aim was to accelerate the transfers of imports from the official to the parallel market, and the rescheduling of US\$660 million in foreign debt. But the government abandoned the program in the mid-1983 and adopted an expansionary policy in an attempt to offset the fall in GDP.

Throughout 1984 the authorities began to implement a transition program with the consent of the IMF which resulted in an increased of food and other consumer prices, a raise in petroleum prices, credit austerity, and strict control of public expenditures. It also transferred all imports except oil and debt service to the parallel market.

⁵¹ See Statistical Appendix, Table 1.

⁵² World Bank (1987) "Dominican Republic: An Agenda for reform". And, Statistical Appendix, Table 1.

⁵³ Impuesto a las Transferencias de Bienes Industrializados.

In 1985, the government approved a new stabilization program supported by a one year Stand-by arrangement with the IMF. The program was built upon the full effective devaluation of the peso through unification of the exchange markets at a free floating rate of about RD\$3 : US\$1. The Central Bank was proscribed from intervening in the exchange market. To correct the fiscal imbalance the government introduced several tax measures, which included a temporary surcharge of 36 percent on traditional exports. The public sector deficit was reduced to under 1 percent of GDP. However, the fiscal program depended largely from the traditional exports surcharge of 36 percent and the implicit tax included in the higher prices of petroleum derivatives⁵⁴.

An evaluation of the stabilization policies during the period will lead to the conclusion that the Dominican Republic was affected positively in some areas and negatively in others. As Messina (1988)⁵⁵ argues, the unification of the exchange rate, together with tight fiscal and monetary policies allowed the Central Bank to absorb considerable foreign exchange, and helped to stabilize the exchange rate and increase the international reserves. Furthermore, Giuliani (1985)⁵⁶ argues that these policies made possible the renegotiation of large part of the foreign debt, and thus alleviated one of the main strains on the balance of payments. Nevertheless, these achievements were at cost of a fall of GDP of 2.2 percent, a decrease of 4.5 percent in agricultural production, 4.9 percent in manufacturing, and 10.3 percent in the construction sector. It is possible that the fiscal and monetary policies were too restrictive in 1985, most of all, because of their effects on bank credits to the industrial and agricultural sectors, as well as on public investment⁵⁷. Furthermore, Pellerano (1989) argues that the fiscal and monetary restrictions imposed by the IMF assumed that the main cause of the external imbalance was the excess of aggregate demand stemming from the fiscal and monetary policies at the internal level, when the relevant causes were exogenous to the Dominican economy, as the drastic deterioration in the terms of trade since the early 80s.

⁵⁴ See World Bank (1987) and Pellerano (1989) "Programas de Estabilización en la República Dominicana".

⁵⁵ See Messina (1988) "Memorias del Ajuste de una Economía en Crisis".

⁵⁶ See Giuliani (1985) "Políticas de Estabilización".

⁵⁷ See Pellerano (1989) "Programas de Estabilización en la República Dominicana 1982-86".

Although in theory the Fund recognizes this issue, in practice, the lack of a more gradual treatment in the application of policies with a greater inflow of resources, altogether with other complementary policies did not allow a process of growth based in a diversification of exports structure in the longer term.

The devaluation of 200 percent of the exchange rate did not result in a better performance of the export sector as argue by the Bank⁵⁸. Indeed, in an economy like Dominican Republic where 90 percent of exports consist of primary products, which in turn are characterized by a low elasticity of supply, a devaluation would not result in an increase in net exports⁵⁹.

Regarding the fiscal policy we believe that the burden of adjustment concerning the fiscal deficit could have been distributed in a more equitable way if the new taxes would have been on property and income instead of the indirect taxes which were applied on consumption and led to social disruption in april 1984.

In 1986, the Balaguer administration took office and pursued a policy of selective moratorium on repayments of principals. Interest payments to official creditors such as the IMF, World Bank, and Interamerican Development Bank have been maintained, but those to private creditors have in some cases been in arrears. In 1987 and 1988, external debt repayments (excluding the oil financing facilities payments) amounted to US\$352 and US\$341 million respectively, at a time when no new credit was requested. Meanwhile, talks with the IMF on a new accord have been suspended and both the main candidates in the 1990 presidential elections (Balaguer and Bosch) made clear their opposition to a new agreement with the Fund⁶⁰.

⁵⁸ See World Bank (1987)

⁵⁹ See Pellerano (1989).

⁶⁰ See Cuddington and Asilis (1990) "Fiscal Policy, the Current Account and the External Debt Problem in the Dominican Republic". Journal of Latin American Studies. Vol. 22, No. 2.

III) CONSTRUCTION OF A CONSISTENT DATA BASE.

1. Need for a Disaggregated Framework.

The macroeconomic analysis of any economy requires an integrated and consistent system of accounts covering national income and expenditures, as well as financial flows, as its main quantitative basis. The key accounting identity for the study of finance is the balance between savings and investment. This overall macroeconomic identity integrates the balances for two principal categories of transactions that take place within an economy: commodity transactions refer as to the production and acquisition of goods and services, and financial transactions, that is, the acquisition of financial assets and the use of sources of investment finance⁶¹.

In developing countries, such as the Dominican Republic, the lack of an efficient institutional framework, skilled accountants as well as sometimes the use of rudimentary bookkeeping techniques, represents a major constraint for the analysis of macroeconomic phenomena at a disaggregated level, so as to understand properly the different behavioural trends and interrelationships between key variables and among the economic actors (i.e. government, corporate, and household sectors) in the economy.

In order to provide our research with the necessary quantitative basis, we have tried to construct a consistent data set, which will provide us, in the present and in future research, with the necessary data for the analysis of key macroeconomic trends. Thus, the study will be carried-out of the construction of a data set for the Dominican economy since 1970, which covers the central elements of the accumulation account itself (from which the private sector balances are derived by definition), the fiscal accounts, the external sector accounts, and to extend that available data permits so, a number of distributional variables, among others.

By doing this, we want to look at the nature of external shocks stemming from changes in foreign flows of funds and trade (F , M and X), and its impact over investment (I) and the different categories of savings (S_d , and S_n). Later on all this categories are disaggregated in order to assess the sectoral trends and behaviour, and to trace certain causal hypotheses among different variables.

⁶¹ See FitzGerald and Vos (1989).

The data set is contained in the statistical appendix, and not all the components are used in the present analysis, rather the provision of the set as a whole is an attempt to lay the basis for future research. In the next section we will concentrate on the main sources and methodology used in the construction of such data framework.

2. Sources and Methodology.

The statistical appendix consist of seven main tables from which other sub-tables are derived. The former are given on a yearly basis from 1970 to 1987, and the latter are grouped in seven sub-periods: 1970-79, 1980-87, 1970-73, 1974-77, 1979-81, 1982-85, and 1986-87. This is done, firstly, in order to stress the different governmental periods which determine to a great extent the behaviour of main macro variables due to domestic policy packages apply by the administrations in question (expansionary policies, stabilization policies, etc.), and secondly, to take into account the different conjunctures of the international economy which affect largely the performance of small open economies like the Dominican Republic (i.e. the oil shocks of the mid-seventies and early-eighties, the commodity boom of the early-seventies, the interest rates shock of the early-eighties, the recession in the industrialized economies and so on).

The first table is composed of some general indicators, foreign trade transactions, and external debt. The foreign trade indicators are given in US dollars and have been taken from World Tables (World Bank, 1989, various issues), with the exception of the structure of imports, comprising raw materials and capital goods for the different sectors, which have been taken from ECLA (Statistical Yearbook for Latin America and the Caribbean, various issues). The balances are deducted as the difference between the credit and debit sides of the categories in question (only where applicable). The external debt indicators are taken from Word Debt Tables (World Bank, 1989, various issues). The item "Transfer of Resources from (to) the North" is the sum of the increase in long-term debt plus factor services plus direct investment.

The second table comprises the main macroeconomic aggregates given in constant prices of 1970. It includes the GDP and its components: Consumption (C), Investment (I) and Savings which are disaggregated in public and private sectors. The domestic absorption is just the sum of total consumption and investment. Gross Domestic Savings (GDS) is the difference between GDP and

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Table No.6

Dominican Republic: Current Account of the Balance of Payments.
(Millions of US\$)

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Current Account Balance	-102	-129	-47	-97	-241	-73	-129	-129	-312	-331	-720	-389	-443	-418	-163	-108	-119	-347	-131
Trade Balance	-133	-147	-77	-128	-276	-112	-255	-268	-462	-537	-925	-583	-648	-633	-129	-164	-390	-702	-551
Exports of Goods & Services	259	292	413	516	735	1015	853	940	849	1167	1313	1524	1146	1249	1375	1344	1426	1568	1750
Merchandise, fob	214	241	348	442	637	894	716	781	676	869	962	1188	768	785	868	739	722	711	890
Nonfactor Services	43	50	64	72	93	116	128	147	153	266	309	325	374	457	502	584	687	857	861
Factor Services	2	2	2	3	5	5	9	12	21	32	42	12	4	7	6	22	17	12	8
Imports of Goods & Services	392	439	490	644	1011	1127	1108	1208	1311	1704	2238	2107	1794	1882	1804	1808	1816	2270	2301
Merchandise, fob	278	310	338	422	673	773	764	849	862	1138	1520	1462	1257	1279	1257	1286	1266	1591	1608
Nonfactor Services	86	99	104	142	243	236	226	248	292	347	399	367	277	299	300	275	283	678	693
Factor Services	27	30	48	80	95	118	118	111	157	220	319	288	259	304	247	248	267	318	326
Current Transfers, net	31	17	31	31	35	39	126	140	150	206	205	193	205	215	265	356	271	355	419
Workers' Remittances	25	15	24	24	27	28	112	124	132	161	183	183	190	195	205	242	242	242	242

Source: World Tables and IMF (1989), "Dominican Republic: Recent Economic Developments."

Table No.6.a (Average per Period)

Concept/Years	1970-79	1980-88	1970-73	1974-77	1978-81	1982-85	1986-88
Current Account Balance	-233	-118.37	-93.75	-143	-438	-283	-199
Trade Balance	-406	-175	-121.25	-227.75	-627	-544	-548
Exports of Goods & Services	1039	628	370	885.75	1213	1279	1581
Merchandise, fob	708	534	311.25	757	924	790	774
Nonfactor Services	320	89	57.25	121	263	179	802
Factor Services	12	5	2.25	7.75	27	10	12
Imports of Goods & Services	1445	802	491.25	1113.5	1840	1822	2129
Merchandise, fob	996	551	337	764.75	1246	1270	1488
Nonfactor Services	294	173	107.75	238.25	351	288	551
Factor Services	188	78	46.25	110.5	246	265	304
Current Transfers, net	173	56	27.5	85	189	260	348
Workers' Remittances	124	47	22	72.75	165	208	242

Source: Table No.6

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Wages and Prices																		
Nominal Wage Rate, Manufacturing																		
Skilled																		
Unskilled																		
Real Wage Rate, Deflated with CPI																		
Skilled																		
Unskilled																		
Consumer Price Index	36	37	40	47	53	60	65	73	76	86	100	108	116	124	151	212	233	270
Wholesale Price Index																		
Domestic Agriculture																		
Domestic Nonagriculture																		
Imported Goods																		
Domestic Terms of Trade																		
GDP Deflator	43	41	47	50	58	69	71	78	79	88	100	105	114	118	151	209	230	
Domestic Absorption	44	46	48	51	58	64	71	79	83	92	100	105	116	119	153	218	227	
Agriculture	38	35	38	41	55	67	61	73	68	77	100	96	96	98	125	208	229	
Industry	48	47	49	49	59	75	76	78	82	87	100	104	123	121	156	203	228	
Domestic Terms of Trade	79	75	76	90	93	90	81	94	83	88	100	92	78	81	80	102	101	
Export Price Index	27	27	32	40	66	78	70	79	79	86	100	91	80	82	82	75	90	
Nonfuel Primary Commodities	27	27	30	38	65	80	71	81	73	85	100	90	78	80	80	71	65	
Fuels	4	6	6	9	37	36	38	42	42	61	100	113	102	93	90	88	45	
Manufactures	40	37	39	50	67	66	67	72	76	90	100	99	95	91	89	89	103	
Import Price Index	24	25	26	32	55	55	64	62	67	81	100	104	97	94	98	91	86	
External Terms of Trade	114	108	123	125	119	142	110	129	118	107	100	88	82	87	88	83	104	
Nominal Exchange Rate (NER)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.37	2.15	2.71	3.53
Real Exchange Rate	1.03	1.02	0.99	0.97	1.02	0.98	0.95	0.89	0.90	0.93	0.90	0.92	0.87	0.82	0.93	1.05	1.17	1.34
NER/Nominal Wage Rate																		
NER × X Price Index/GDP deflator	0.63	0.62	0.67	0.81	1.13	1.13	1.00	1.02	1.00	0.99	1.00	0.86	0.70	0.69	0.68	0.92	0.00	
NER × M Price Index/GDP Deflator	0.55	0.57	0.54	0.65	0.95	0.80	0.91	0.79	0.85	0.92	1.00	0.98	0.85	0.80	0.94	0.93	1.02	
X Price Index/Industry GDP Deflator	56.04	56.76	64.30	81.54	111.36	104.02	93.11	101.67	96.57	98.74	100.00	87.97	64.98	67.30	52.63	36.90	39.39	
Productivity and Efficiency																		
Manufacturing Output per Employed																		
	Index, 1980=100																	
	53	59	59	72	73	80	98	83	83	90	100	104	86	88	86	80		

Sources:

1) World Bank, World Tables (1989)

2) Central Bank of the Dominican Republic

total Consumption and if we add to this Net Factor Payments (NFP) we obtain Gross National Savings (GNS). Private Savings is the difference between (GNS) and Government Savings (Sg), where (Sg) is the difference between current revenues and current expenditures. Foreign Savings are equal to (NFP) plus Imports (M) minus Exports (X). The data on (GDP, C, I, M, and X) are taken from the Central Bank of the Dominican Republic; and, (NFP) come from IFS Yearbook (International Monetary Fund, 1989). The figures for (Sg) and (NFP) are normalized with the GDP Deflator (1970=100).

The third table resumes the Central Government Finances: Revenues, and Expenditures by Economic type and by Function, as well as the financing of the deficit. The data have been taken form Government Finance Statistics (International Monetary Fund, various issues) and have been updated with different reports from the World Bank (1987) and IMF (1989) on Dominican Republic, as well as with National Office of the Budget (1989).

The fourth table is an attempt to quantify the level of capital flight. Three different measurements have been apply: the Cuddington, Dooley, and Morgan Measurements. The data for these measurements have been taken from World Tables, (World Bank, various issues) and International Financial Statistics (IMF Yearbook, 1990) and for the different techniques we referred to J. Cuddington, M. Dooley, Morgan Guaranty, R. Lessar and J. Williamson. The Cuddington method of measuring capital flight consists in adding up the amount of "errors and omissions" and "net private short term capital"; the Dooley measurement is the difference between the "change in long term external debt disbursement, and the "current account balance" and the "net private short-term capital"; the Morgan measurement is the equal to "direct investment" plus "change in long-term external debt" minus "current account balance" plus "gross bank assets". Finally the amount of "private nonbank deposits in all foreign banks", published by the IMF International Financial Statistics, since 1981, can give certain idea on the level of capital flight⁶².

The fifth comprises the accumulation balance and the data have been taken from National Planning Office and Central Bank of the Dominican

⁶² See J. T. Cuddington (1987) "Capital Flight" in European Economic Review no. 31. North-Holland.

See M. Dooley (1983) "Capital Flight" in IMF Staff Working Papers.

See D. Lessard and J. Williamson (1987) Capital Flight and the Third World Debt. Institute for International Economics: Washington.

Republic. The standard national accounting framework has been used:

GDP identity is:

$$(1) \text{ GDP} = \text{C} + \text{I} + \text{X} - \text{M}$$

where,

C = consumption

I = Investment

X = non-factorial exports

M = non-factorial imports

To derive the accumulation balance:

$$(2) \text{ I} = \text{GDP} - \text{C} + \text{M} - \text{X}$$

$$(2a) \text{ I} = \text{Sd} + (\text{M} - \text{X})$$

where,

Sd = domestic savings

If net factor payments are included:

$$(3) \text{ GDP} - \text{F} = \text{C} + \text{I} - \text{F} + \text{X} - \text{M}$$

then

$$(4) \text{ I} = (\text{GDP} - \text{C} - \text{F}) + (\text{F} + \text{M} - \text{X})$$

where,

(GDP - F - C) = Sn = national savings

(F + M - X) = Se = external savings

Rearranging identity (4) we have the accumulation balance:

$$(5) \text{ I} - \text{Sn} = (\text{F} + \text{M} - \text{X})$$

$$(5a) \text{ Sn} = \text{I} - \text{F} + (\text{M} - \text{X})$$

The sixth table is just the current account of the balance of payments and the data is taken from World Tables (World Bank, various issues) and updated with IMF (Dominican Republic: Recent Economic Developments, 1989).

In the last table we attempt to present a series of indices on wages and prices. Nevertheless, lack of data on wages and labour statistics did not allow for a more complete version of it.

The analysis of the data will reveal in the first place, the evolution of the trade sector, showing that the stagnant exports and therefore the foreign exchange inflow have not been able to finance the necessary level of imports, resulting in a deficitary balance of trade and increase external indebtedness.

Secondly, an analysis of the fiscal structure will lead to the conclusion that the tax system in the Dominican Republic is dependent on a very narrow tax base, which provides a low degree of elasticity to the tax system, given

an overreliance on international trade taxes, and therefore, the level of revenues have not been able to keep up with expenditure needs as the economy grows.

Lastly, and most important, the relationship between the accumulation in the public and private sectors will reveal that the expansion of the state during the 1970s was in favour of the private sector and that this expansionary policies led to an erosion of public savings, which was aggravated during the early-1980s, because of the oil shock and the debt shock, which were partially absorbed by the state sector, resulting in drastic fiscal deficits and the need of the government to finance its investment with external sources. The response in the private sector has been higher savings and stagnant investment.

It is worth mentioning that the information regarding the accumulation balance and capital flight is not readily available in the official data, thus constituting a major weakness of the existing data framework. In order to reconcile the data we have used a considerable amount of sources. This reconciliation of the fiscal, external, and private sectors in one set constitutes a major step towards understanding the major problems of capital accumulation in the Dominican Republic.

3. Analysis of Main Macroeconomic Trends (1970-8)

3.1 Accumulation Balance.

There is a clear periodization of D.R.'s investment, which is explain by the different economic and political approaches of the administration in question, and by the existent external environment in each particular moment.

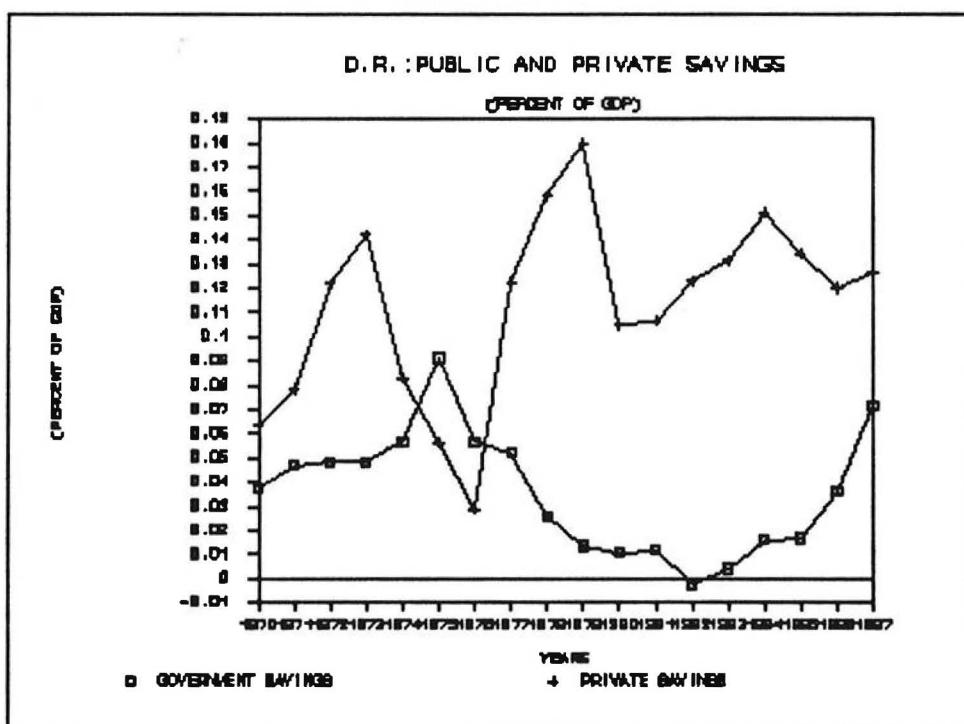
The Austerity Law implemented in the period (1970-77) aimed at cutting current expenditures and increasing capital expenditures in order to create an industrial base, whereas during the period (1978-85) the policy was to cut capital expenditures and expand current expenditures mainly in the form of subsidies and transfers to the private sector.

The increase of private investment during the decade of the 70s can be explained by the willingness of the government in creating a strong industrial base. The mechanism utilized for this was the Law 299 of Industrial Incentives in order to provide stimuli to create a wide industrial infrastructure. The authorities offered incentives via tax exemptions and easy access to domestic and foreign credit. After the 80s government policy was to reduced capital expenditure and investment to divert resources towards current expenditures

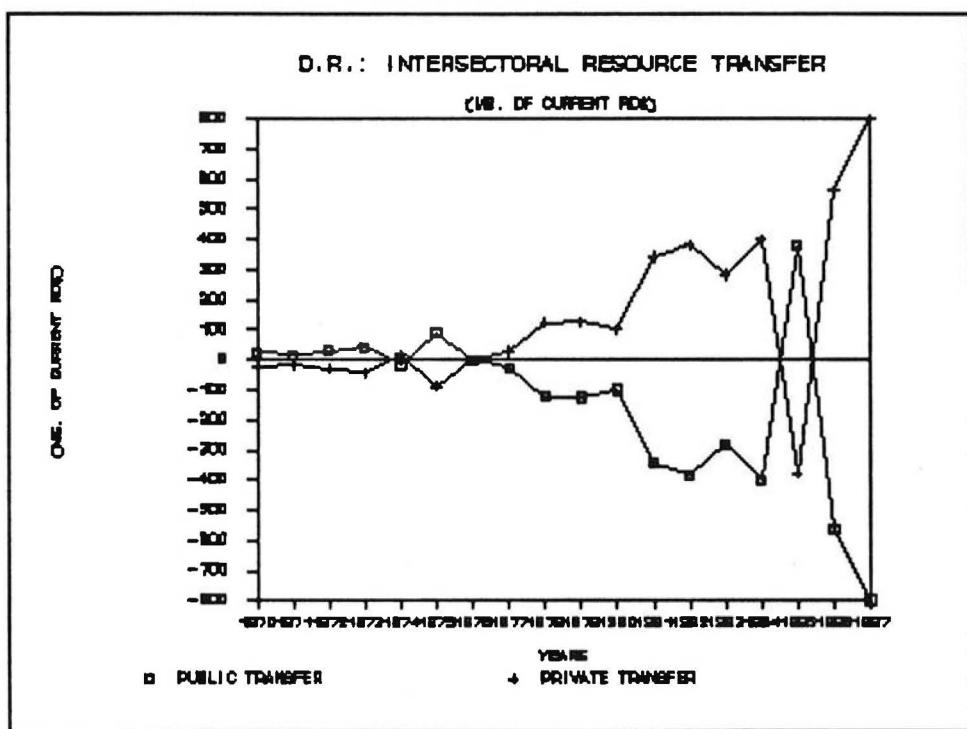
mainly on foodstuffs via subsidies to the Price Stabilization Institute (INESPRE). In fact public investment fell to an average of 5% of GDP and private investment adjusted downwards. In 1987, the policies of the 70s are retaken.

Public and private savings show quite different trends according to periods. Government savings reached 9% of GDP in 1975, whereas private savings decreased sharply from 14% in 1973 to 8% in 1974, and 6% in 1975. But, in the second sugar price shock (1980), government savings declined abruptly to 1% of GDP and less in the subsequent years, whereas private savings recorded 10% of GDP. This fact suggests that the oil shock of the early 80s was mainly absorbed by the public sector, which implemented policies towards subsidizing gas.

During the decade of the 70s public investment averaged 7.1% of GDP and private investment 14.9%. In the decade of the 80s the averages were 4.7% and 17.1% respectively. Public savings have been the more depressed in the early 80s due to the oil shock, and private savings to a lesser extend. Both variable show a recovery in 1987. On average in the decade of the 70s internal finance came from the public sector, and in the 80s from the private sector. From the 70s to the 80s public savings fell by 5% of GDP and private savings increased by 5% of GDP.



External finance was absorbed by the private sector in both periods, and the public deficit increased by more than 4% from the 70s to the 80s. All the above trends suggest that in the decade of the 80s the Dominican state is in a fiscal crisis, and that its role to allocate and mobilize resources in the economy has been deteriorated. Given an unfavourable external environment, i.e. terms of trade deterioration, disarticulation of the traditional export sector, high indebtedness, etc. and a dramatic process of structural transformation in the productive base which have led towards new patterns of ownership and appropriation in the economic sectors, the state becomes anaemic performing its role in the Dominican society.



On averaged, the macroeconomic performance of the country was erratic between the decade of the 70s and the 80s. In this sense, total investment fell from 23% to 22% of GDP; public investment fell from 7% to 5%; private investment averaged 17% in both decades; private savings increased from 10% to 12%; government savings fell from 5% to 2%; and, the external gap average -5% in both decades.

All the above trends suggest that between the decade of the 1970s and the 1980s there has been a major shift from the public to the private sector in terms of the participation of each sector in the production process, and in the distribution and allocation of the economic surplus. In the decade of

the 1970s the state became an active agent in the production process, and the strong expansion of private investment was accompanied by a similar expansion of public investment; the state could rebound from external shocks such as the increase in oil prices of the mid-1970s due the large amount of resources that the sugar sector provided; and furthermore, the state provided enough finance and infrastructure for the private sector to develop rapidly. However, during the decade of the 1980s the role of the state is undermined by its inability to generate the necessary resources for accumulation and its position is weakened in from of the civil society. Thus, constituting the fiscal crisis of the Dominican state.

3.2 Foreign Trade.

The balance of trade of the Dominican Republic has been showing a systematic deterioration, this being most remarkably in the early 80s. Nevertheless, external shocks have affected the economy in certain periods, and this shocks have not been met by domestic policies in order to adjust the economy. The most important shocks refer to: firstly, the 1975 boom in sugar prices, which resulted in a surplus of the trade balance of US\$ 121 million. However, these resources were mainly used to finance higher level of imports of raw materials and consumer goods. Secondly, the oil shock of 1980, which provoked a sharp deficit of the balance of trade of US\$678 million, an increase of almost 100%; this shock was not met by a concomitant increase in the volume of exports, but rather a sharp deterioration of traditional exports happened. And thirdly, the debt shock of the 80s, which has been met mainly by the state sector, in detriment of government savings.

Despite these shocks, historically the balance of trade has shown deficitary trends and export revenues has not been able to meet import demand, which reflects the high dependency on imports of the Dominican economy.

Exports averaged US\$583 million in the decade of the 70s and US\$860 million during the 80s, whereas imports averaged US\$729 and US\$1433 million respectively.

One of the main structural weaknesses of the Dominican economy is reflected in both the structure and the dynamic of the exporting sector. Primary commodities have accounted for the largest share of total exports and manufactures for a smaller share. During the decade of the 70s primary goods accounted for 82 percent of total exports whereas manufactures accounted for 18 percent. In the decade of the 80s these shares were very similar, those of

80 percent and 20 percent respectively. This means that the manufacturing industry has not been developed at all and that the country's foreign exchange earnings is subject to the drastic fluctuations in international primary commodity prices. Furthermore, the country is highly dependent on imports of capital goods and raw materials. The data reveals that whereas exports have grown by 47 percent between the two decades, imports have grown by 97 percent, which in turn resulted in an increased of the balance of trade deficit of 452 percent from the 70s to the 80s.

Thus, the problem is not only the lack of diversification of the exporting sector but also that the sector itself has not been promoted so as to develop more quickly. Domestic policies tended to promote industry and in the meantime no attention was given to the agricultural sector which was partially abandoned. This, in turn, means that given the failure of the import-substitution industrialisation strategy during the 70s, the country, during the 80s, practically did not count with any significant means of foreign exchange earnings, which of course resulted in an increased demand for foreign loans and a unsustainable external debt position.

3.3 External Indebtedness.

The Dominican Republic's debt problems began after 1976 when the total external debt rose from US\$812 million to US\$1121 million in 1977 and US\$2979 million on average during the decade of the 80s. This process has its origins in both external factors and the dynamic of the accumulation process at the domestic level. At the internal level we believe that the process of indebtedness is closely linked to the style of industrialisation of the 70s and the loss of dynamism of the traditional exporting sector.

One of the main structural problems of the Dominican economy is its high dependency on imports which is exacerbated during the import-substitution industrialisation of the 70s. During the decade of the 70s imports of raw materials and capital goods were above 50 percent, reaching in the decade of the 80s more than 70 percent, mainly because of the dramatic increase in oil prices during the second oil shock. The debt problem is reinforced by the stagnation of the exporting sector. In this sense exports of goods and non-factor services grew at 11.6 percent during the period 1968-77, whereas in the period 78-86 they only registered a rate of annual growth of 1.4 percent. These two factors led to an external imbalance which could have been met by an inflow of foreign exchange from foreign direct investment. But the fact is

that there was a drastic fall in this kind of finance from 13.2 percent of imports of goods and services in the period 1968-77 to 4 percent in 78-81 and 2.6 percent in 1982-86⁶³.

The "Transfer of Resources from the North" between the decade of the 70s and the 80s have only increase slightly from US\$95 million to US\$116 million, which has not been enough to finance the necessary level of imports and resulting in increase external debt.

Another fundamental problem was the incapability of the government of implementing a fiscal reform. Indeed the tax structure was design to stimulate the urban industrial sector, and was characterized by the large amount of exemptions, which in turn, did not allowed for a greater degree of elasticity of the tax system to cope with increasing expenditure needs.

The debt crisis is mainly reflected in a debt service ratio mounting from 15% in the decade of the 70s to 27% in the 80s; a debt/GDP ratio that doubled from 21% to 42% in the same period.

The main problematic that the previous analysis show is that there has been a major shift from the public to the private sector originated in the style of import-substitution industrialisation, resulting in a deterioration of public finances, which in turn, has made the government to finance its deficit with external resources leading to an unsustainable external debt problem.

⁶³ See Ceara Hatton, M. (1990).

IV) THE ROLE OF THE STATE IN THE DEVELOPMENT PROCESS.

Since the late-seventies, in many Latin American countries, state expansion had served to provide support for the industrialization process, but in so doing had generated a steadily worsening fiscal crisis as the tax base both failed to keep up with expenditure and exacerbated an inequitable income distribution⁶⁴.

After the Second World War, Latin American states have tried to implement import-substitution industrialisation strategies in order to create an industrial base. In this sense the states became active agents in the process of development by facilitating the institutional framework for capitalist industrialisation. This participation⁶⁵ took the form of intervention in the process of exchange and the process of production by price controls, raising import tariffs, manipulation of exchange rates, investment finance and infrastructure.

This is the case in the Dominican Republic where the state has had a deep involvement in the industrialisation strategy of the seventies. The import substitution industrialisation strategy was based in a badly designed import tariff system, import exonerations and prohibitions, as well as a dual foreign exchange market. There was not a quid pro quo criteria when applying these measures, which at the end tended to erode fiscal resources. Moreover, the contribution of the manufacturing sector to GDP has increased only slightly during the last decade. In the 1960s and early 1970s, industrial output grew rapidly but began to stagnate in the late 1970s. The industrial share in GDP has not increased since the mid-1970s, apparently betraying the promise industry once held for diversifying the sugar-based economy⁶⁶.

1. The Incentives for Import Substitution.

The current system of tariffs is based on many complicated laws which operate in a cumulative manner: in addition to Law 170 of 1971 (the main tariff law) and Law 173 of 1964 (unifying several previous tariff laws), import duties are also established by a) Law 361 of 1964 which added a 20

⁶⁴ See FitzGerald (1978) and (1983).

⁶⁵ See FitzGerald (1978) "Fiscal Crisis of the Latin American State", in J. Toye: Taxation and Economic Development.

⁶⁶ See World Bank (1985) "Prospects and Policies to Renew Growth in D.R."

percent ad valorem tax on all imports, excluding exonerated imports; b) Law 136 which established a 4 percent surcharge; c) Law 346 of 1972 establishing a minimum tariff of 10 percent; d) Law 597 of 1977, raising the tariff rate on machinery, equipment, and spare parts to 20 percent; and finally, e) Law 48 of 1982, which established a one-year additional 10 percent import tax.

The resulting tariff system is extremely complex to administer. Additive tariff laws have specific and ad-valorem tariffs requiring that each product be calculated individually. All many cases of total or partial exonerations arising from special contracts between particular enterprises and the Government create special laws granting specific tariff exonerations. The most important source of tariff exoneration is Law 299, which grants to registered import-substitution firms substantial exonerations -up to 95 percent- on import tariffs on raw materials and intermediate inputs, as well as significant tax exemptions for reinvestment.

2. The Incentive Structure for Non-Traditional Exports.

The Export Incentives Law (Law 69), implemented in mid-1980, grants incentives to non-traditional exports by providing both foreign exchange and fiscal incentives. The former partially exempts exporters from the surrender requirements of currencies obtained from non-traditional exports. The latter included a tax certificate credit (Certificado de Abono Tributario -CAT) until October 1983 and a drawback system to admit imported inputs to export production.

2.1 Foreign Exchange Incentives.

The foreign exchange incentive scheme allows exporters of non-traditional products to keep a fixed portion of their foreign exchange earnings by exempting these exporters from the requirement that they surrender all foreign exchange earnings to the Central Bank. The percentage exemption varies between 20 percent and 100 percent according to several factors. The most important seems to be the domestic value added, which also establishes the eligibility criteria for granting the incentive. To be eligible exports have to have a domestic component of at least 30 percent of their f.o.b. price. Other factors include the development of new products and new markets for exports, the net foreign exchange earned, and the region where the product is produced. The return portion can be sold on the parallel market, thus increasing the peso receipts of the exporter.

The number of products granted by the foreign exchange incentive

increased from 105 as of December 1981 (22 agricultural products, 18 agro-industrial products, and 65 manufacturing products) to 173 as of December 1982 (40, 32, and 101 respectively). The exemption for non-traditional agricultural products was until 1982, 50 percent, while the incentive for agro-industrial and manufacturing products ranged from 20 percent to 90 percent. As of October 1983, a group of 83 non-traditional agricultural products were granted 100 percent exemption. Nevertheless, the incentive fell substantially short of the potential incentive. After 1983, efforts to reduce the amount of documentation necessary to apply for preferential status under Law 69, eliminate of the full application for the incentive for each shipment instead of a simple copy of the invoice, and manage the disbursement of the incentive via the commercial banks instead of via the Central bank, have been undertaken. But still due to corruption and political links the system have not provided the intended results.

2.2 Fiscal Incentives.

The CAT was a negotiable tax credit certificate initially granted to all new export products for up to 15 percent of the export f.o.b. value or up to 25 percent of exports that incorporated a high proportion of domestic agricultural inputs and proved a need for the additional incentive. As of 1981 the CAT was granted only in cases in which the exporter profits (including the foreign exchange incentive) was less than 6 percent of the export value. As a result of this change, the number of CAT approvals decreased from 35 products in 1980 to only about five yearly in 1981-82. The overall impact of CATs on promoting exports was minimal, therefore it was ended in 1983.

2.3 The Temporary Import System.

Under this system, import duties are waived for any imports used to manufacture non-traditional products exported within a year. As with CATs, this incentive has had little impact. By the end of 1982, only 26 firms, with imports amounting to only RD\$1.5 million, had used this specific provision. The widespread import tariff exonerations provided by Law 299 have made this system redundant. Under law 299 exporters are granted not only tariff relief on imports of materials, but also avoid the special customs procedures required of beneficiaries of the temporary import scheme.

The industrialisation strategy under the above-mentioned incentives scheme has not provided the intended results, namely a competitive and

diversified industry, which articulates to the rest of the sectors in the economy. Administrative complexity and political corruption, among other factors, have led to a crisis of the state itself and to the inability of mobilizing resources in the economy in order to promote growth and social welfare.

3. Fiscal Policies, External Shocks and Macro-Management Capacity.

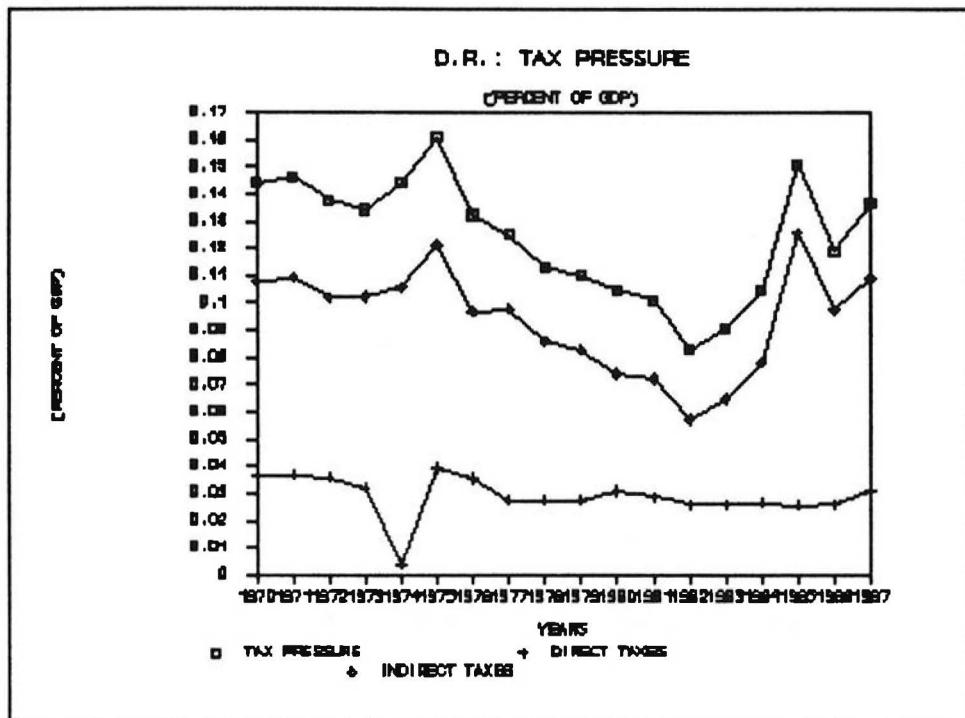
The Dominican Republic is experiencing the worst fiscal crisis in the country's recent history. In order to understand the process properly, one has to look at the dynamics of the public sector itself, the private sector and the external sector. In this way we can see that the origins of the fiscal crisis of the state in Dominican Republic is the result of a large set of elements, stemming from the complex interrelationships among the actors in the domestic economy and the world economy.

As we mention in the previous section, the Dominican Republic, as well as other Latin American countries engaged in a process of import-substitution industrialisation after the mid-sixties in an attempt to diversify the sugar-based economy. The way in which this process was undertaken laid the basis for the crisis after the mid-1970s. This crisis was materialized by the different external shocks that affected the region. At this moment the country lack a fiscal structure that would have permitted the necessary adjustments.

3.1 Fiscal Structure.

The fiscal structure of the Dominican Republic is characterized by a tax structure which is not able to keep up expenditure needs under an unfavourable external environment. The narrow tax base and the administrative complexity of tax collection will lay the basis for the analysis of Dominican fiscal crisis, and the further conclusion that the state has been both incapable and unable to adjust and stabilized the economy during external shocks in order to facilitate the process of accumulation and growth. Indeed, current revenues in the D.R. are totally depressed. In 1987 they only reached the share of GDP of 1970, that of 15%, which means that under the presence of external shocks, such as the fall in commodity prices, the oil shocks, and the debt shock, the government have been left with practically no resources in order to meet these shocks. The highest and exceptional share was in 1975, that of 17% of GDP, which is explained by the highest international trade tax collection, that of 55% as percent of current revenues. Since then trade taxes have been

depressed, only recovering in 1985. The low tax pressure of the D.R. represents a constraint on the government's manageability of public services deterioration.



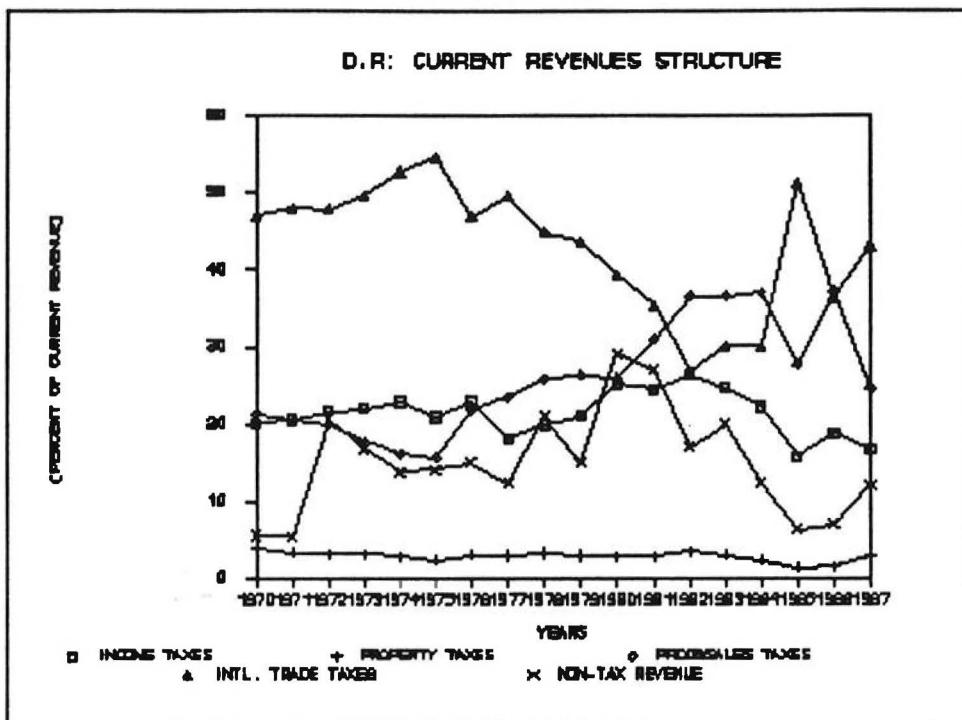
Given the aggressive investment policy of the government after 1986, current expenditures, mainly on social welfare have been cut drastically, being education, health, and housing the most affected.

Total expenditures declined from 16% of GDP to 14% from the decade of the 70s to the 80s, whereas current expenditures minus interest averaged 9% in both decades. The overall deficit more than doubled between the two decades. Total taxes are unchanged in the whole period, accounting for an average of 95% of current revenues. The primary deficit averaged 1.83% of GDP in the 70s and 1.47% in the 80s, which means that without the presence of interest payments on external debt the overall balance of the fiscal sector would be on surplus, or if in deficit, perfectly manageable.

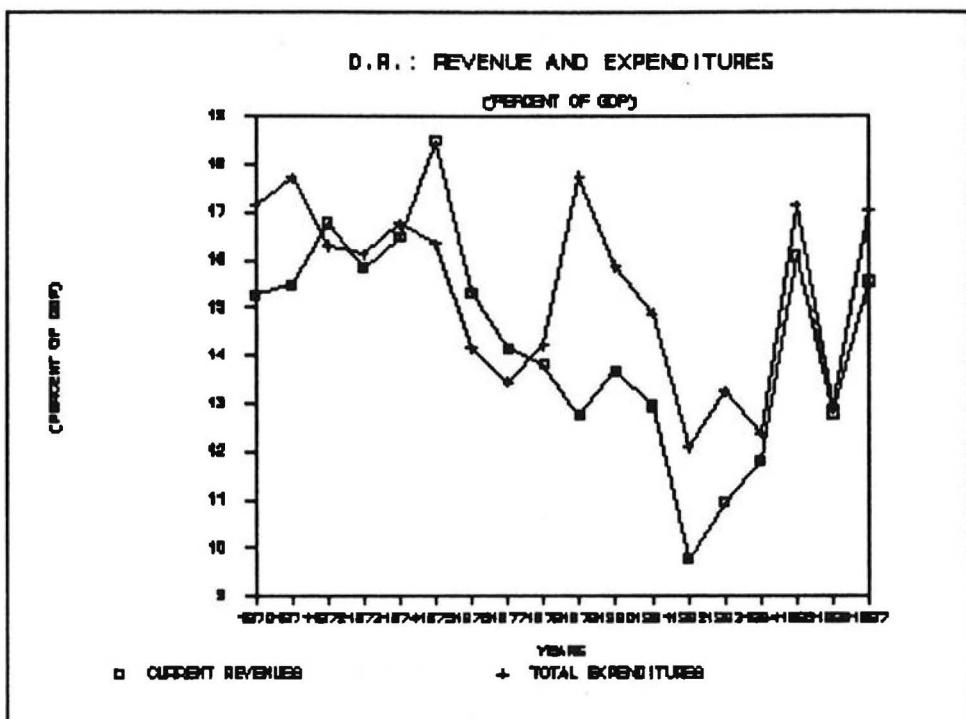
Income taxes increased by less than 1% of current revenues from the 70s to the 80s, and property taxes decreased by more than 1% of current revenues in the same period.

Indirect taxes, which account for the highest share of current revenues were unchanged from the 70s to the 80s, averaging 71%. This level was maintained because the decline in international trade taxes of 12% was offset

by an increase of 12% in production and sales taxes, which led to social disruption in 1984. Non-tax revenue increase 4% from 12% in the 70s to 16% in the 80s.



As % of total expenditure, current expenditures increased by 11%; capital expenditures decreased by 12%; and, total investment fell by 14%, between the 70s and the 80s. Social security, health, education, and housing expenditures all fell on average terms.



3.2 Fiscal Performance and External Trade.

The tax system of the Dominican Republic is extremely dependent on international trade taxes. The external shock arising from a deterioration of commodity prices after the mid-1970s had a direct impact in the level of exports of the country, not to mention the drastic reductions in export quotas. Since in the Dominican Republic, as in other small Latin American countries, economic growth requires increasing the level of imports, the final result is that of an increase in the trade deficit of the country. This trade deficit at the same time has led to an increase in external debt in order to finance the required level of imports. With constant import requirements and decreasing exports, and therefore, declining export taxes, it is very likely that there will be an aggravation of the fiscal deficit.

One of the main contentions of the new-orthodoxy paradigm is that there is a close and causal relationship between the fiscal deficit and the external deficit. In order to test this hypothesis for the Dominican Republic we ran econometric regressions relating, firstly, the public sector deficit with the current account deficit, and secondly, the public sector deficit with the trade deficit.

In this sense Cuddington and Asilis (1990)⁶⁷ argue that there is a very high correlation between the public sector deficit and the current account deficit in the Dominican Republic. Indeed our testing reflects that there is certain degree of association between these two variables but this relationship changes according to the period of analysis. As we mention in chapter two Cuddington's analysis only takes into consideration the decade of the 1970s, and it is our belief that there are some radical changes between this decade and the decade of the 1980s affecting the current account deficit and the public sector finances in such a way that this causal relationship can not be established at all, given especially the negative effect of external shocks in both the position of the current account due to terms of trade deterioration and higher interest rates, and thus in the position of public sector finances due to deterioration of the revenue-raising ability by the government. Our estimation for the period of 1970-79, suggests that there is a positive relationship between the public sector deficit and both the current account deficit and trade deficit. But for the period of 1980-87 there is no relationship at all as suggested by our estimates.

The results were as follows:

$$\begin{aligned}
 (1970-79): \quad dB &= -0.0443 + 1.1035 dD & R-square: 48 \% \\
 &\quad (2.74) & \\
 dB^* &= -0.0405 + 0.7728 dD & R-square: 40 \% \\
 &\quad (2.29) & \\
 (1980-87): \quad dB &= -0.0337 + 0.6163 dD & R-square: 7 \% \\
 &\quad (0.66) & \\
 dB^* &= -0.0105 + 0.7647 dB & \\
 \text{where,} &\quad (0.76) & R-square: 9 \% \\
 B &= \text{Current Account Deficit as percent of GDP} \\
 B^* &= \text{Trade Deficit as percent of GDP} \\
 D &= \text{Public Sector Deficit as percent of GDP} \\
 &\quad t-in parenthesis
 \end{aligned}$$

A large amount of literature has dealt with this issue and a significant relationship for some countries has been found, whereas for many other countries the result was negative⁶⁸. The conclusion of most of these authors in the case of a positive relationship between the current account deficit and the public sector deficit, as Mansur (1989) explains for the case of the

⁶⁷ See Cuddington and Asilis (1990) p.341

⁶⁸ See for example Milne (1979); Kelly (1982); Tahari (1978); in Mansur (1989); and Cuddington and Asilis (1990).

Philippines is that "notwithstanding the strong relationship between the fiscal deficit and the trade balance, it should nevertheless be emphasized that the deterioration in the Philippines' trade and current account balances during 1981-82 was mainly attributable to adverse external developments, which reduced export receipts". Furthermore he argues that the reduction of the overall deficit alone was probably not sufficient to reverse the developments in the current account deficit during 1981-82. However, and as we mention earlier we have noticed that these studies based their analysis in the period of the seventies and early eighties. Our case study suggests that many new factors, such as the deterioration of the terms of trade, devaluation, rate of inflation, and most of all the application of standard adjustment programmes during the decade of the 1980s have come about to show a different picture regarding the dynamics of both internal and external balances. It our contention that further assessment concerning the relative importance of the different components of the current account of the balance of payments taking into account pre-adjustment periods and the adjustment period itself should be made in order to disentangle the real causes of the external imbalance. Furthermore, a deeper assessment of the different sets of domestic policies prevailing before and during adjustment should throw some light on how the ability of the state to manage the economy by the mobilization and allocation of resources in the leading sectors of the economy have been undermined by the deterioration of the export sector and the concomitant foreign exchange receipts as well as by the narrow tax base which is politically constrained and has ultimately left the state sector with practically no sound means of financing its investment program. We believe that the import-substitution style of industrialisation and the incentives scheme led to an erosion of public savings and a deterioration of the fiscal deficit, which was further exacerbated by the drastic reduction of revenues from export taxes due the deterioration of the terms of trade.

3.3 Fiscal Policies and Investment.

Another main contention of the orthodox models is that public investment crowds-out private investment. The fact is that during the decade of the seventies, the government in the Dominican Republic adopted an aggressive investment program in order to create the necessary infrastructure to facilitate capitalist industrialisation. The growth of the economy was impelled by a sustain growth of both public and private investment. Public

investment expanded rapidly and private investment followed. But the incentive scheme explained before was neither set in a performance basis nor in a quid pro quo basis. The large amount of exemptions provided under the different incentives laws tended to erode public savings whereas the low tax pressure resulted in increased private savings, which in turn resulted sometimes in capital flight. This means that in the decade of the eighties the fiscal sector is in a crisis that it has to finance its expenditures for investment with internal credit, given that the external funds are very tight because of the debt problem.

We run some econometric regressions relating public and private investment in order to test how public investment affects private investment through the "crowding-in" effect of infrastructure provision. We tested for different periods, and we obtained that for the period 1970-87 there was a negative relation between the two variables, whereas for shorter periods no statistical relationship was found.

The results were as follows:

$$\begin{aligned}(1970-87): \quad dI_p &= 0.1999 - 0.6849 dI_g \\ &\quad (2.02) \quad \text{R-square: 20 \%} \\ (1970-79): \quad dI_p &= 0.2217 - 1.0299 dI_g \\ &\quad (1.66) \quad \text{R-square: 26 \%} \\ (1980-87): \quad dI_p &= 0.1545 + 0.3489 dI_g \\ &\quad (0.55) \quad \text{R-square: 5 \%}\end{aligned}$$

where,

I_p = Private Investment as percent of GDP
 I_g = Public Investment as percent of GDP
t-in parentheses

This raises questions as regards the composition of public investment, especially infrastructure, during different periods and the overall effect on private investment. But most of all this implies that other factors have to be taken into account when looking at the determinants of private investment in the D.R., such as availability of foreign exchange, profit expectations, etc. We tested also private investment as a lagged function of public investment and no significant statistical relation could be found. If any relation at all, it would be positive as suggested by our estimates for three to five lags.

The results were as follows:

Lag(-1): $dI_p = 0.1822 - 0.3785 dI_g$
(0.98) R-square: 6 %

Lag(-2): $dI_p = 0.1656 - 0.0381 dI_g$
(0.10) R-square: 0.08 %

Lag(-3): $dI_p = 0.1549 + 0.1899 dI_g$
(0.60) R-square: 2 %

Lag(-4): $dI_p = 0.1369 + 0.4917 dI_g$
(1.53) R-square: 16 %

Lag(-5): $dI_p = 0.1416 + 0.4189 dI_g$
(1.13) R-square: 10 %

In order to test for the financial "crowding-out" effect on private investment due to the net resource transfer from the private to the public sector ($Z = I_g - S_g - F_g$) we ran a regression relating (I_p) with (Z) to see to what extend government investment financing with internal and external credit crowds-out private investment. The regression yielded a positive coefficient of (Z) with a significant t-value and a coefficient of determination of 38%. This might imply that the private sector has other sources of finance and that the net domestic transfer of resources does not necessarily reduce the resources available to the private sector.

The results were as follows:

(1970-87): $dI_p = 0.1512 + 0.6647 dZ$
(3.11) R-square: 38 %

(1970-79): $dI_p = 0.1513 + 1.1504 dZ$
(2.66) R-square: 47 %

(1980-87): $dI_p = 0.1629 + 0.2878 dZ$
(0.89) R-square: 12 %

where,

I_p = Private Investment

$Z = (I_g - S_g) - F_g$

$(I_g - S_g)$ = Domestic Transfer

F_g = External Finance to the Public Sector.

The World Bank (1988) argues that when the private sector does not have access to foreign capital markets, then domestic borrowing by the government (Z) leads to a decline in private investment due to lack of funds when total credit supply is constrained. But the case of the Dominican Republic is completely the opposite side of the coin. Indeed in the D.R. most of the investment finance comes from the firm's own resources, and most of all other resources are readily available for the private sector given the large amounts

of fiscal transfers and subsidies provided by the state and the special incentives offered to specific sectors. Regarding the access of the private sector to foreign capital markets we can see that during the decade of the 70s and 80s external finance to the private sector accounted for 4.3 and 4.0 percent of GDP compared to 1.5 and 2.7 percent accruing to the public sector, respectively. Furthermore if we take into account that the large firms of D.R. are usually gathered in conglomerates, which include industrial activities, banking, "financieras", insurance companies, and so on and so forth, there is no a priori reason to believe that the use by the public sector of domestic and external resources, given its magnitude, crowds-out private investment.

V) CONCLUSIONS.

In this paper we have attempted to provide an analytical framework for the study of finance in the Dominican Republic which will reveal the process of capital accumulation in the country's recent history as well as the different conjunctures and institutional settings under which this process has evolved.

The economic theory on the subject of finance have identified the major sources of development finance and how it is channelized towards development purposes through the use of fiscal policy, which at the same time is understood as the set of measures to increase the general welfare of a country through the public control of resources by means of public spending, resource mobilisation and so on.

The major sources of development finance come from both internal and external sources, but it is agreed that most of the developing world still has to supplement some internal sources of finance with finance from abroad. This is because economic and non-economic factors tend to undermine the ability of governments in generating and mobilising resources in the domestic economy. The fact that in many LDCs domestic resources released through private savings and taxation are not sufficient to meet the country's expenditure requirements has led, especially after the mid-1970s, to an internal imbalance in the resource gap which is translated into the external imbalance in the foreign exchange gap, which in turn must be filled by capital inflows from overseas either through official development assistance, commercial lending, or private foreign investment. When foreign loans are used to finance an excess of imports over exports plus interest payments on existing debt, external debt accumulates. If the resource gap is not reduced, interest rates increase, and the current account deteriorates, the case for many LDCs, further debt accumulates.

The theory with which we have dealt in this paper is a good starting point for the identification of the problems that at the aggregated level have determined the major imbalances of many LDCs. However, we believe that a further degree of disaggregation on the accumulation balance would be the best starting point for understanding the real underpinnings of the debt problem, that is, the different patterns of behaviour of both public and private investment and savings as well as the main components of the current account and the flows of external finance to different sectors in the economy.

Our main contribution for achieving this task have been the construction of a data base for the Dominican Republic which takes into account the central elements of the accumulation account itself from which the private sector balances are derived by definition, the fiscal accounts, and the external sector accounts. This is a major step for the analysis of macroeconomic phenomena in the D.R. since the official available data is usually too aggregated and disperse so as to provide the necessary quantitative basis for any study of finance and capital accumulation.

The main conclusion that emerges from our study is that the fiscal crisis by which the Dominican Republic is going through in the decade of the 1980s is the result of a multiple set of factors. At the internal level the major factor contributing to the current crisis have been the role of the Dominican state in the process of accumulation and allocation of resources. During the decade of the 1970s state expansion had served to provide support for the industrialisation process, but in so doing had generated a steadily worsening systemic fiscal crisis as the tax base both failed to keep up with expenditure and exacerbated and inequitable income distribution (FitzGerald, 1978; 1983). Indeed, the major cause of the erosion of public savings and the deterioration of the fiscal deficit has been the provision to the private sector of an incentives scheme which did not provide the intended results in terms of economic returns and failed to develop an efficient and productive industry. This problem have been further exacerbated by the unexpected set of external shocks stemming from the recession in the industrial market economies and the deterioration of commodity prices. All of this resulted in a debt problem which in the decade of the 80s the government can not longer manage as it confronts large political obstacles to tax reform and thus fails to perform the tasks that the logic of capital accumulation requires, namely, the mobilisation and allocation of resources by means of fiscal policy in order to increase growth and development.

Our empirical evidence has shown that the interrelationship among economic agents in the Dominican economy and the way in which the fiscal, external, and private balances are structured within the accumulation balance, has changed substantially from the decade of the 1970s to the decade of the 1980s, so as to deny: Firstly, that in the decade of the 1980s, the most important cause of the deterioration of the country's external position has been the large fiscal deficits; secondly, there has been a change in the dynamics of public and private sectors accumulation, so as to determine, in

the one hand, that private investment is subject to crowding-in by public investment, due to the infrastructure effect, and in the other hand, that the net resource transfer from the private to the public sector has not resulted in crowding-out of private investment. And thirdly, that the transition to a high investment economy from a low investment economy is not, *per se*, the main cause of the deterioration of public finances and thus the current account balance as argue by the some authors⁶⁹, but rather the import-substitution style of industrialisation, the incentives scheme, and the deterioration in the revenue-raising ability of the government, are the main responsible for the fiscal crisis of the Dominican state. Most of all, adjustment to external shocks during the decade of the 1980s has been met by the state sector and has resulted in increased private savings and capital flight⁷⁰.

Our research is not completely exhaustive, although it throws some light on the economic and non-economic factors underlying the fiscal crisis of the state in the Dominican Republic. Nevertheless further research is needed in order to understand more fully the different determinants of public and private investment and savings behaviour as major underpinnings of the accumulation process in the Dominican Republic. Some models and more sophisticated econometric work are needed which will allow the analysis to take into consideration a larger number of factors determining fiscal, and investment-savings behaviour in the economy.

⁶⁹ See Cuddington and Asilis (1990).

⁷⁰ See Statistical Appendix, Table No.4. Gordon and Levine (1989) argue that capital flight occurs when exogenous economic events interact with existing policies and/or provoke new policies which cause perceived private returns on domestic investments to fall. The two adverse economic events most frequently cited as triggering capital flight in the 1980s are deleterious movements in the terms of trade and soaring international interest rates.

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STATISTICAL APPENDIX

File: DR-Trade
 Table No.1
 Dominican Republic: Economic Indicators, 1970-1987

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
General																		
Population	4,423	4,541	4,663	4,788	4,916	5,048	5,172	5,298	5,428	5,561	5,697	5,804	5,974	6,118	6,265	6,416	6,564	6,708
GDP	1,495	1,567	1,987	2,345	2,926	3,599	3,952	4,587	4,734	5,490	6,631	7,267	7,964	8,523	10,355	13,866	17,501	19,298
Long-Term Debt	363	391	435	470	578	673	787	913	1,032	1,163	1,474	1,633	2,091	2,997	5,189	8,659	8,774	12,611
Gov. Total Expenditures	255	295	324	378	490	588	560	617	673	975	1,063	1,081	963	1,142	1,291	2,376	2,271	3,293
Debt Service	39	46	48	62	67	95	108	138	164	305	379	396	432	470	540	942	1,391	1,183
Conversion Factor	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.09	1.26	2.06	3.11	2.90	3.01
Foreign Trade																		
Exports	257	290	411	514	730	1,010	844	927	828	1,135	1,272	1,513	1,142	1,242	1,370	1,323	1,405	1,568
Goods	214	241	348	442	637	894	716	791	676	869	962	1,188	768	785	868	739	720	711
Nonfuel Primary	204	229	285	342	555	761	567	653	548	675	796	1,002	665	627	669	535	510	
Fuels	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0
Manufactures	10	12	69	101	114	132	149	127	127	194	166	186	103	155	199	200	208	
Nonfactor Services	43	49	64	72	94	116	128	147	152	266	310	325	374	457	502	584	685	857
Factor Services	2	2	2	3	5	5	9	12	21	32	42	42	4	7	6	22	17	
Imports	304	358	388	489	808	889	878	975	987	1,213	1,640	1,668	1,441	1,471	1,416	1,487	1,468	
Goods	278	310	338	422	673	773	764	849	862	1,138	1,520	1,452	1,257	1,279	1,257	1,286	1,263	1,592
Construction Materials	14	17	17	22	35	47	61	40	29	43	40	37	36	36	27			
Capital Goods For Agriculture	10	13	13	17	24	32	43	10	13	10	21	14	5	7				
Capital Goods for Industry	57	70	73	78	113	118	114	137	130	136	184	177	153	137				
Capital Goods for Transport	17	22	23	24	35	59	63	71	72	82	86	85	51	53				
Raw Materials	96	112	116	173	247	297	281	355	396	450	503	452	429	444				
Consumer Goods	92	103	106	141	197	202	192	174	164	181	234	214	156	52				
Nonfactor Services	86	99	104	142	243	236	226	248	292	347	399	367	277	299	300	275	282	
Factor Services	27	30	48	60	95	118	118	111	157	220	319	288	259	304	247	248	266	
Long-term Interest	13	14	16	20	23	33	34	48	61	78	121	141	127	131	120	145	182	
Balances	(49)	680	23	25	780	121	340	(480)	(159)	(78)	(369)	(155)	(300)	(229)	(360)	(160)	(280)	
Goods	(64)	659	10	20	363	121	(47)	(659)	(187)	(269)	(559)	(269)	(490)	(369)	(540)	(540)		
Nonfactor Services	(43)	(49)	(41)	(71)	(150)	(120)	(99)	(101)	(139)	(81)	(89)	(42)	97	158	202	310	103	
Factor Services	(26)	(29)	(47)	(77)	(90)	(113)	(109)	(96)	(136)	(188)	(277)	(277)	(250)	(241)	(226)	(249)		
Total Debt Stocks	360	403	439	470	588	673	812	1,121	1,334	1,604	2,002	2,294	2,519	2,923	3,111	3,199	3,640	3,843
Long-term	363	391	435	470	578	673	787	913	1,032	1,163	1,474	1,633	1,918	2,379	2,519	2,649	3,025	3,281
Public and Publicly Guar.	212	233	278	313	354	411	506	610	736	868	1,220	1,400	1,666	2,198	2,363	2,698	2,879	3,151
Private	141	159	157	157	224	262	281	303	296	295	251	233	252	181	156	151	146	133
Short-Term	NR	NR	NR	NR														
Use of IMF credit	7	12	4	0	11	0	25	41	48	124	49	23	71	246	221	297	304	284
Debt Service	39	46	48	62	67	95	108	138	164	305	379	396	396	373	262	303	459	308
On Public Debt	12	18	16	29	32	49	55	69	88	246	154	229	256	221	261	201	273	182
Interest Payments	4	5	7	9	11	18	18	24	40	56	92	120	108	107	101	130	176	94
Effective Interest Rate	1.9%	2.2%	2.5%	2.9%	3.12	4.4%	3.6%	3.9%	5.4%	6.5%	7.5%	8.6%	6.5%	4.9%	4.3%	4.8%	6.1%	3.0%
On Private Debt	28	28	31	33	35	46	53	69	77	59	102	51	50	96	40	23	15	25
Interest Payments	8	9	9	11	13	15	16	25	21	22	29	24	18	24	11	10	11	12
Effective Interest Rate	5.7%	5.7%	5.7%	7.0%	5.8%	5.7%	5.7%	8.3%	7.12	7.5%	11.4%	10.3%	7.12	13.3%	7.12	6.6%	7.5%	9.0%
Debt Service Ratio	15.2%	15.9%	11.7%	12.1%	9.2%	9.4%	12.8%	14.9%	19.8%	25.9%	29.8%	26.2%	31.7%	30.0%	19.1%	22.9%	32.7%	19.6%
Debt/GDP Ratio	23.8%	23.5%	21.9%	20.0%	19.7%	18.7%	19.9%	19.9%	21.0%	21.2%	22.2%	22.5%	26.3%	31.8%	50.1%	63.9%	50.1%	65.3%
Debt/Gov. Expenditures	11.0%	11.8%	11.0%	13.2%	11.6%	14.1%	13.7%	15.1%	15.9%	26.2%	25.7%	24.3%	20.6%	15.7%	10.4%	10.6%	15.2%	9.4%
LIBOR (6 months US\$ deposits)					6.0%	9.4%	10.8%	7.8%	6.12	6.4%	9.2%	12.2%	14.0%	16.7%	13.6%	9.9%	11.3%	6.6%
Transfer of Resources from (to) the "North"	59	42	12	71	46	90	257	117	163	313	65	600	200	(40)	199	400	292	

Sources:
 1) World Bank, World Tables (1989).
 2) World Bank, World Debt Tables (1989).
 3) ECLA, Statistical Yearbook for Latin America and Caribbean, various issues.

Table No.1.a

Concept/Years	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
General			Thousands				
Population	4,984	6,197	4,604	5,109	5,630	6,193	6,636
GDP	3,277	11,438	1,871	3,766	6,031	10,202	18,400
Long-Term Debt	679	5,453	412	737	1,325	4,784	10,692
Gov. Total Expenditures	516	1,683	313	564	946	1,441	2,782
Debt Service	107	709	49	102	311	596	1,257
Foreign Trade			Millions of US\$				
Exports	583	860	313	760	924	788	718
Goods	582	843	311	757	924	790	716
Nonfuel Primary	480	686	265	629	755	624	510
Fuels	0	0	0	0	0	0	0
Manufactures	104	174	48	131	168	164	208
Nonfactor Services	113	462	57	121	263	479	685
Factor Services	9	16	2	8	27	10	17
Imports	729	1,433	385	888	1,377	1,462	1,433
Goods	641	1,363	337	765	1,243	1,270	1,427
Construction Materials	32	36	17	46	37	32	
Capital Goods For Agriculture	18	12	13	27	15	6	
Capital Goods for Industry	103	163	69	121	157	145	
Capital Goods for Transport	47	70	22	58	81	54	
Raw Materials	252	457	124	295	450	436	
Consumer Goods	155	164	111	191	198	104	
Nonfactor Services	202	314	108	238	351	287	282
Factor Services	87	269	46	110	246	265	266
Long-term Interest	34	138	16	35	101	131	182
Balances	(34)	(189)	(17)	(10)	(190)	(193)	(28)
Goods	(59)	(469)	(26)	(8)	(319)	(480)	(543)
Nonfactor Services	(89)	148	(51)	(117)	(88)	192	403
Factor Services	(91)	(260)	(45)	(103)	(219)	(255)	(249)
Total Debt Stocks	780	2,979	418	799	1,809	3,013	3,742
Long-term	679	2,385	412	737	1,325	2,416	3,155
Public and Publicly Guar.	452	2,197	259	470	1,056	2,231	3,015
Private	227	188	154	267	269	185	140
Short-Term	74	408	0	41	423	390	293
Use of IMF credit	27	187	6	20	61	209	294
Debt Service	107	360	49	102	311	334	384
On Public Debt	61	222	19	51	179	235	228
Interest Payments	19	116	6	18	77	112	135
Effective Interest Rate	3.6%	5.7%	2.4%	3.7%	7.0%	5.1%	4.5%
On Private Debt	46	50	30	51	72	52	20
Interest Payments	17	17	9	17	24	16	12
Effective Interest Rate	6.4%	9.0%	6.0%	6.4%	9.1%	8.5%	8.3%
Debt Service Ratio	14.8%	26.9%	13.7%	11.6%	25.7%	26.7%	26.2%
Debt/GDP Ratio	21.0%	41.9%	22.3%	19.6%	21.9%	43.8%	57.7%
Debt/Gov. Expenditures	14.4%	16.5%	11.8%	13.6%	23.0%	14.3%	12.3%
LIBOR (6 months US\$ deposits)	8.5%	11.6%	7.7%	7.8%	13.0%	10.9%	6.9%
Transfer of Resources from (to) the 'North'	95	116	38	116	165	74	126

Source: Table No.1

File: DR-Macro
Table No.2

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	
Macroeconomic Aggregates		Million of 1970 Pesos.																	
GDP	1,486	1,646	1,818	2,053	2,176	2,289	2,243	2,565	2,620	2,738	2,904	3,020	3,069	3,209	3,218	3,135	3,231	3,498	
Consumption (C)	1,310	1,411	1,455	1,594	1,804	1,879	1,973	2,049	2,062	2,114	2,175	2,541	2,601	2,664	2,605	2,610	2,682	2,755	
Public	172	160	159	163	223	179	136	152	175	213	261	332	337	347	346	361	387	318	
Private	1,138	1,251	1,307	1,431	1,580	1,700	1,639	1,897	1,887	1,901	2,215	2,209	2,263	2,316	2,259	2,249	2,295	2,437	
Changes in Inventories																			
Investment (I)	264	333	375	476	566	612	573	619	636	688	735	655	594	665	648	617	689	961	
Public	76	102	144	152	175	200	162	174	162	134	157	141	129	152	139	152	119	292	
Private	208	231	231	324	391	413	411	415	473	551	578	514	465	512	509	465	570	669	
Domestic Absorption (C+I)	1,594	1,744	1,840	2,069	2,370	2,491	2,516	2,667	2,698	2,802	3,210	3,196	3,195	3,328	3,253	3,227	3,371	3,716	
Public (Cg+Ig)	248	262	303	314	399	379	297	326	337	347	418	473	466	500	485	513	506	611	
Private (Cp+Ip)	1,346	1,482	1,538	1,755	1,971	2,112	2,250	2,342	2,361	2,455	2,793	2,723	2,729	2,829	2,768	2,714	2,865	3,106	
Exports (X)	256	299	369	437	415	430	516	550	548	672	560	598	519	541	572	564	572	602	
Imports (M)	365	397	411	451	603	632	619	652	621	736	867	774	645	663	607	657	709	821	
Trade Balance (X-M)	(109)	(380)	(222)	(170)	(194)	(202)	(103)	(102)	(78)	(64)	(307)	(176)	(126)	(119)	(36)	(92)	(137)	(219)	
Gross Domestic Savings (GDP-C)	176	235	353	169	372	410	270	517	557	624	429	479	469	546	613	525	552	742	
Private Savings (GDP+NFP)-(C+Sg)	94	129	222	292	181	129	65	314	413	493	305	321	378	422	486	421	388	442	
Government Savings (Sg)	56	77	88	100	124	209	128	134	69	37	32	36	73	13	52	53	118	251	
External Savings, trade gap (X-M)	(109)	(380)	(222)	(170)	(194)	(202)	(103)	(102)	(78)	(64)	(307)	(176)	(126)	(119)	(36)	(92)	(137)	(219)	
Net Factor Income Payments (NFP)	-26	-29	-43	-67	-67	-72	-77	-69	-75	-94	-92	-122	-98	-111	-75	-51	-46	-49	
Gross National Savings (GDP-C+NFP)	150	205	310	391	305	338	193	118	422	530	337	357	371	435	538	474	506	693	
Foreign Savings (NFP+M-OO)	63	69	(21)	(51)	127	130	27	34	3	(30)	215	54	28	8	(40)	41	90	169	
GDP Deflator (1970=100)	100	101	109	114	134	157	162	179	181	201	228	241	259	269	322	442	541	622	
NFP Millions of Current RD\$	(26)	(29)	(47)	(77)	(90)	(113)	(124)	(123)	(135)	(180)	(210)	(293)	(250)	(297)	(241)	(226)	(250)	(306)	
Current Savings Mts. of Current RD\$	56	78	95	114	167	329	207	240	124	75	73	86	(18)	36	167	234	638	1,562	
Macroeconomic Aggregates		%																	
% of GDP																			
Consumption (C)	66%	86%	81%	78%	83%	82%	88%	80%	79%	77%	85%	84%	85%	83%	81%	83%	83%	79%	
Public	12%	10%	9%	8%	10%	8%	6%	6%	7%	8%	9%	11%	11%	11%	11%	11%	12%	9%	
Private	77%	76%	72%	70%	73%	74%	82%	74%	72%	69%	76%	73%	74%	72%	70%	72%	71%	70%	
Changes in Inventories																			
Investment (I)	19%	20%	21%	23%	26%	27%	26%	24%	24%	25%	25%	22%	19%	21%	20%	20%	21%	27%	
Public	5%	6%	8%	7%	8%	9%	7%	7%	6%	5%	5%	5%	4%	5%	4%	4%	5%	8%	
Private	14%	14%	13%	15%	18%	18%	18%	17%	16%	20%	20%	17%	15%	16%	15%	15%	18%	19%	
Domestic Absorption (C+I)	107%	106%	101%	101%	109%	109%	114%	104%	103%	102%	111%	106%	104%	104%	104%	101%	103%	104%	106%
Public (Cg+Ig)	17%	16%	17%	15%	18%	17%	13%	13%	13%	13%	14%	16%	15%	15%	15%	16%	16%	17%	
Private (Cp+Ip)	91%	90%	85%	85%	91%	92%	100%	91%	90%	90%	96%	90%	89%	88%	86%	87%	89%	89%	
Exports (X)	17%	18%	21%	21%	19%	19%	23%	21%	21%	23%	19%	20%	17%	17%	16%	18%	18%	17%	
Imports (M)	25%	24%	23%	22%	28%	28%	28%	25%	24%	27%	30%	26%	21%	21%	19%	21%	22%	23%	
Trade Balance (X-M)	-7%	-6%	-12	-12	-9%	-9%	-5%	-4%	-3%	-22	-112	-6%	-4%	-4%	-12	-3%	-4%	-6%	
Gross Domestic Savings (GDP-C)	12%	14%	19%	22%	17%	18%	12%	20%	21%	23%	15%	16%	15%	17%	17%	17%	17%	21%	
Private Savings (GDP+NFP)-(C+Sg)	6%	8%	12%	14%	8%	6%	3%	12%	16%	18%	10%	11%	12%	13%	15%	13%	12%	13%	
Government Savings (Sg)	4%	5%	5%	5%	6%	6%	6%	5%	3%	12	12	12	8%	8%	2%	2%	4%	7%	
External Savings, trade gap (X-M)	-7%	-6%	-12	-12	-9%	-9%	-5%	-4%	-3%	-22	-112	-6%	-4%	-4%	-12	-3%	-4%	-6%	
Net Factor Income Payments (NFP)	-2%	-2%	-22	-32	-32	-32	-32	-32	-32	-32	-32	-4%	-4%	-3%	-2%	-2%	-2%	-12	
Gross National Savings (GDP-C+NFP)	10%	13%	17%	19%	14%	15%	9%	17%	18%	19%	12%	12%	14%	17%	15%	16%	16%	20%	
Foreign Savings (NFP+M-OO)	6%	4%	-12	-22	6%	6%	12	12	0%	-12	7%	2%	12	12	0%	-12	12	5%	

Sources:

1) Central Bank of the Dominican Republic.
 2) Oficina Nacional de Presupuesto (ONAPLAN).
 3) IFS, Yearbook (1989).

Table No.2.a

Concept/Years	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
Macroeconomic Aggregates							
GDP	2,163	3,161	1,751	2,318	2,820	3,158	3,366
Consumption (C)	1,766	2,617	1,445	1,926	2,298	2,620	2,719
Public	173	336	163	172	245	348	353
Private	1,593	2,280	1,282	1,754	2,053	2,272	2,366
Changes in Inventories							
Investment (I)	516	695	367	592	678	631	825
Public	148	160	118	178	148	143	206
Private	368	535	249	415	530	488	619
Domestic Absorption (C+I)	2,282	3,312	1,812	2,519	2,976	3,251	3,543
Public (Cg+Ig)	321	496	282	350	394	491	558
Private (Cp+Ip)	1,961	2,816	1,530	2,169	2,583	2,760	2,985
Exports (X)	451	567	345	478	593	550	587
Imports (M)	550	718	407	628	750	643	765
Trade Balance (X-M)	(99)	(151)	(61)	(150)	(156)	(93)	(178)
Gross Domestic Savings (GDP-C)	397	544	306	392	522	538	647
Private Savings (GDP+NFP)-(C+Sg)	233	395	184	172	383	427	415
Government Savings (Sg)	102	69	80	149	43	28	185
External Savings, trade gap (X-M)	(99)	(151)	(61)	(150)	(156)	(93)	(178)
Net Factor Income Payments (NFP)	(62)	(80)	(41)	(71)	(96)	(84)	(48)
Gross National Savings (GDP-C+NFP)	335	464	264	321	427	455	599
Foreign Savings (NFP+M-(X))	37	71	20	79	60	9	130
Macroeconomic Aggregates							
	% of GDP						
Consumption (C)	82%	83%	83%	83%	81%	83%	81%
Public	8%	11%	9%	8%	9%	11%	11%
Private	74%	72%	74%	76%	73%	72%	70%
Changes in Inventories							
Investment (I)	23%	22%	21%	26%	24%	20%	24%
Public	7%	5%	7%	8%	5%	5%	6%
Private	17%	17%	14%	18%	19%	15%	18%
Domestic Absorption (C+I)	106%	105%	104%	109%	105%	103%	105%
Public (Cg+Ig)	15%	16%	16%	15%	14%	16%	17%
Private (Cp+Ip)	90%	89%	88%	94%	92%	87%	89%
Exports (X)	21%	18%	20%	21%	21%	17%	17%
Imports (M)	25%	23%	23%	27%	27%	20%	23%
Trade Balance (X-M)	-5%	-5%	-4%	-7%	-5%	-3%	-5%
Gross Domestic Savings (GDP-C)	18%	17%	17%	17%	19%	17%	19%
Private Savings (GDP+NFP)-(C+Sg)	10%	12%	10%	7%	14%	13%	12%
Government Savings (Sg)	5%	2%	5%	6%	2%	1%	5%
External Savings, trade gap (X-M)	-5%	-5%	-4%	-7%	-5%	-3%	-5%
Net Factor Income Payments (NFP)	-3%	-3%	-2%	-3%	-3%	-3%	-1%
Gross National Savings (GDP-C+NFP)	15%	15%	15%	14%	15%	14%	18%
Foreign Savings (NFP+M-(X))	2%	2%	2%	4%	2%	0%	4%

Source: Table No.2

File: Dr-fisc1.
Table No.3.

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	
Millions of Current RD\$																			
GDP	1,486	1,667	1,987	2,345	2,926	3,599	3,952	4,587	4,731	5,490	6,631	7,267	7,964	8,623	10,355	13,866	17,501	19,298	
Rate of Growth M1 GD	17	10	18	18	38	3	8	16	8	16	2	4	12	12	42	23	53	24	
Central Government Finances																			
Current Revenues	227	258	333	371	482	665	606	649	654	700	908	942	779	944	1,223	2,231	2,240	3,002	
Total Expenditures	255	295	324	378	490	588	560	617	673	975	1,053	1,081	963	1,142	1,281	2,376	2,271	3,293	
Current Expenditures, less interest	171	180	193	216	269	280	335	359	456	557	655	682	709	774	949	1,695	1,601	1,440	
Current Savings	56	78	96	114	167	329	207	210	121	75	73	86	180	36	157	231	638	1,562	
Overall Surplus (Deficit)	(10)	(19)	(7)	(17)	(180)	69	25	13	(46)	(286)	(161)	(155)	(218)	(219)	(86)	(156)	(187)	(386)	
Net Domestic Financing	3	8	8	6	39	(2)	(6)	(6)	(6)	72	67	83	174	150	(26)	(26)	(265)	(63)	
Net Foreign Financing	10	10	1	10	(5)	(5)	(32)	(39)	(11)	211	91	67	51	41	97	227	139	132	
Primary Deficit T-(G-i)-Ig	(6)	(68)	37	30	91	219	105	109	69	21	117	108	(41)	39	168	157	104	671	
Seigniorage	1.12	0.57	0.90	0.76	1.29	0.10	0.19	0.35	0.17	0.29	0.03	0.06	0.15	0.14	0.41	0.17	0.30	0.12	
Revenues																			
Taxes	214	244	274	315	422	579	524	575	537	605	696	734	661	782	1,084	2,097	2,082	2,638	
Direct Taxes	54	62	71	75	12	142	140	126	129	151	204	210	205	224	274	356	454	593	
Income Taxes	16	53	63	73	100	127	124	109	111	132	183	188	181	200	248	336	420	500	
Property Taxes	9	9	9	10	12	15	16	18	18	18	21	22	24	25	27	29	31	33	
Indirect Taxes	160	182	203	240	310	438	384	419	408	455	492	525	456	558	810	1,741	1,705	2,111	
Production & Sales Taxes	18	53	58	59	70	95	119	141	141	166	169	238	253	236	414	586	631	738	
International Trade Taxes	107	124	138	164	230	332	255	296	251	276	287	272	185	243	336	1,093	817	1,293	
Non-Tax Revenues	13	14	59	56	60	86	82	74	117	95	211	207	117	162	139	134	158	364	
Income Elasticities of Direct Taxes	0.04	0.03	0.01	-0.11	0.19	0.00	-0.02	0.02	0.03	0.05	0.01	-0.01	0.03	0.03	0.02	0.03	0.08		
Income Elasticities of Indirect Taxes	0.12	0.06	0.10	0.12	0.19	-0.15	0.10	-0.28	0.05	0.05	0.05	-0.10	0.15	0.15	0.27	-0.01	0.23		
Expenditures																			
Current Expenditures	173	183	195	221	275	286	311	368	418	615	720	756	779	871	1,028	1,947	1,624	1,453	
Purchase of Goods & Services	21	23	26	36	54	59	71	75	90	122	127	139	135	163	227	351	297	282	
Interest Payments	2	3	3	4	7	6	9	9	12	58	65	74	69	97	79	52	23	23	
Transfers & Subsidies	41	41	47	52	72	60	94	104	122	149	171	167	167	194	290	342	517	387	
Capital Expenditures	82	112	129	157	215	302	216	249	225	360	333	325	184	271	274	474	618	1,541	
Total Investment	62	86	104	124	123	167	166	181	151	121	135	152	111	131	106	179	234	992	
Capital Transfers	19	26	25	33	93	126	41	65	72	227	188	162	76	114	148	276	336	552	
Central Government Finances																			
Expenditures By Function																			
Millions of Current RD\$																			
General Administration	1	1	1	1	1	1	1	1	1	101	88	104	106	105	116	159	200	191	
Defense	35	48	55	64	72	86	101	88	104	106	105	105	116	159	200	191			
Social Security & Welfare	17	22	39	39	42	51	72	77	88	91	104	119	139	156	146				
Education	59	64	65	70	80	96	132	141	163	172	185	210	253	286	324				
Health	48	60	43	55	60	70	88	104	114	115	127	149	177	203	310				
Housing	16	22	40	46	45	23	25	16	19	21	19	7	19	na	259				
Other	18	24	5	8	7	8	34	63	49	51	73	48	56	26	26				
Economic Development	146	219	317	211	248	277	340	416	436	322	358	488	657	1,062	1,761				
Interest Payments	2	3	3	4	7	6	9	9	12	58	65	74	69	97	79	52	23		
Meno Itens:																			
Overall Surplus (Deficit)	(10)	(19)	(7)	(17)	(180)	69	25	13	(46)	(286)	(161)	(155)	(218)	(219)	(78)	(146)	(134)	(247)	
Capital Expenditures	82	112	129	157	215	302	216	249	225	360	333	325	184	271	253	474	618	1,541	

Sources:

- 1) Central Bank of the Dominican Republic.
- 2) Oficina Nacional de Presupuesto (ONAPRES).
- 3) Secretariado Técnico de la Presidencia y Oficina Nacional de Planificación (ONAPLAN).
- 4) IDB Economic and Social Progress in Latin America.
- 5) World Bank, World Tables 1988.
- 5) World Bank (1987) Dominican Republic: An Agenda for Reform.
- 6) IMF (1989) Dominican Republic: Recent Economic Developments.
- 7) IMF, Government Finance Statistics.

Table No. 3.a (Average)

Concept/Years	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
(Millions of Current RD\$)							
GDP	3,277	11,438	1,871	3,766	6,031	10,202	18,400
Rate of Growth M1 (%)	15	22	16	16	8	22	38
Central Government Finances							
Current Revenues	495	1,533	297	601	801	1,294	2,621
Total Expenditures	515	1,682	313	564	945	1,441	2,782
Current Expenditures, less interest	299	1,088	190	311	582	1,082	1,521
Current Savings	149	347	86	236	90	105	1,100
Overall Surplus (Deficit)	(29)	(201)	(13)	22	(162)	(180)	(286)
Net Domestic Financing	11	12	6	5	54	68	(164)
Net Foreign Financing	20	106	8	(8)	90	104	136
Primary Deficit T-(G-i)-Ig	67	203	13	131	79	81	537
Seigniorage	0.57	0.17	1	0	0	0	0
Revenues							
Taxes	429	1,347	262	525	643	1,156	2,360
Direct Taxes	96	315	66	105	173	265	524
Income Taxes	94	282	58	115	154	241	460
Property Taxes	13	34	9	15	20	26	64
Indirect Taxes	323	1,050	196	395	470	891	1,908
Production & Sales Taxes	95	444	54	106	184	387	786
International Trade Taxes	217	566	133	278	272	464	1,055
Non-Tax Revenues	66	187	35	76	158	138	261
Income Elasticities of Direct Taxes	0.02	0.03	0.03	0.01	0.03	0.02	0.05
Income Elasticities of Indirect Taxes	0.04	0.10	0.10	0.06	-0.03	0.12	0.11
Expenditures							
Current Expenditures	311	1,148	193	318	635	1,156	1,543
Purchase of Goods & Services	58	215	27	65	119	219	289
Interest Payments	11	60	3	8	52	74	23
Transfers & Subsidies	78	279	46	82	152	248	452
Capital Expenditures	205	503	120	245	311	301	1,080
Total Investment	129	242	94	159	140	132	563
Capital Transfers	73	231	26	82	162	153	444
Financial Investment							
(Millions of Current RD\$)							
Central Government Finances							
Expenditures By Function							
General Administration			1	1	ERR	ERR	ERR
Defense	66	134	35	60	95	121	195
Social Security & Welfare	40	115	17	35	72	113	151
Education	81	217	59	70	133	205	305
Health	61	161	48	54	94	140	256
Housing	31	45	16	38	21	17	129
Other	15	49	18	11	39	57	26
Economic Development	251	712	146	249	367	506	1,411
Interest Payments	11	60	3	8	52	74	23
Memo Items:							
Overall Surplus (Deficit)	(29)	(169)	(13)	22	(162)	(164)	(191)
Capital Expenditures	205	500	120	245	311	296	1,080

Source: Table No.3

Table No.3.b

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Central Government Finances																		
Current Revenues	15.29	15.49	16.78	15.83	16.49	18.49	15.32	14.15	13.81	12.75	13.69	12.96	9.77	10.95	11.81	16.09	12.80	15.56
Total Expenditures	17.15	17.71	16.30	16.11	16.76	16.33	14.16	13.44	14.22	17.76	15.88	14.87	12.09	13.25	12.37	17.13	12.97	17.06
Current Expenditures, less interest	11.50	10.79	9.70	9.23	9.18	7.77	8.48	7.83	9.19	10.15	9.88	9.38	8.90	8.98	9.16	13.67	9.15	7.46
Current Savings	3.78	4.70	4.83	4.87	5.72	9.14	5.25	5.23	2.63	1.36	1.10	1.19	-0.22	0.41	1.62	1.69	3.65	8.10
Overall Surplus (Deficit)	-0.70	-1.13	-0.37	-0.72	-0.62	1.92	0.64	0.26	-0.94	-5.20	-2.43	-2.13	-2.74	-2.54	-0.63	-1.41	-1.07	-2.00
Net Domestic Borrowing	0.22	0.46	0.38	0.27	1.12	-0.06	-0.14	-0.12	-0.12	1.31	1.01	1.15	2.18	1.74	-0.25	-0.19	-1.51	-0.32
Foreign Borrowing	0.64	0.61	0.07	0.42	-0.16	-0.15	-0.30	-0.19	-0.23	3.04	1.41	0.92	0.64	0.47	0.94	1.64	0.79	0.68
Primary Deficit T-(G-i)-Ig	-0.10	-0.48	1.65	1.30	3.11	6.07	2.65	2.37	1.43	0.39	1.77	1.49	-0.52	0.46	1.62	1.14	2.31	3.47
Seigniorage	0.08	0.03	0.05	0.03	0.04	0.00	0.00	0.01	0.00	0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenues																		
% of Current Revenues	94.41	94.50	94.98	95.37	96.77	96.18	96.59	96.02	95.91	95.79	95.63	95.61	95.66	95.63	97.13	98.50	92.95	87.87
Taxes	23.83	23.83	24.73	22.60	2.71	23.27	25.84	21.06	23.05	23.83	26.04	27.31	29.70	27.70	24.55	16.71	20.29	19.71
Direct Taxes	20.04	20.57	21.65	22.01	22.84	20.85	22.84	18.12	19.91	20.92	25.16	24.48	26.24	24.65	22.20	15.80	18.75	16.65
Income Taxes	3.83	3.29	3.12	3.14	2.80	2.42	3.00	2.94	3.22	2.91	2.88	2.84	3.47	3.04	2.38	1.36	1.54	3.09
Property Taxes	70.57	70.57	70.25	72.57	71.13	71.91	70.75	74.96	72.89	71.96	67.59	68.30	65.96	68.93	72.58	81.78	76.14	70.33
Indirect Taxes	21.23	20.42	19.95	17.72	16.10	15.60	21.84	23.47	25.77	26.30	30.93	36.64	36.54	37.09	27.54	37.25	24.58	
Production & Sales Taxes	47.09	48.04	47.87	49.65	52.79	54.61	46.35	49.51	44.92	43.65	39.48	35.37	26.79	30.06	30.08	51.33	36.49	48.09
International Trade Taxes	5.59	5.50	20.51	16.04	13.83	14.17	15.02	12.39	20.87	15.02	29.99	26.98	16.95	19.98	12.41	6.31	7.05	12.13
Expenditures																		
% of Total Expenditures	67.86	61.92	60.25	58.41	56.12	49.60	61.47	59.70	66.52	63.06	68.39	69.96	80.85	76.29	80.24	81.95	71.53	44.41
Current Expenditures	8.36	7.79	8.15	9.63	11.05	10.09	12.76	12.10	13.37	12.51	12.04	12.83	14.02	14.26	17.71	14.79	13.07	8.55
Purchase of Goods & Services	0.78	1.02	0.77	1.16	1.33	1.04	1.55	1.49	1.84	5.91	6.16	6.88	7.21	8.51	6.17	2.19	1.00	0.70
Interest Payments	16.01	14.81	11.57	13.74	14.58	10.12	16.80	16.91	18.19	15.28	16.20	15.41	17.39	16.94	22.61	14.38	22.77	11.76
Transfers & Subsidies	32.14	38.08	39.75	41.56	43.88	51.10	38.53	40.30	33.48	36.94	31.61	30.04	19.15	23.71	21.38	19.96	27.24	46.80
Capital Expenditures	24.37	29.23	32.07	32.87	24.98	28.46	29.60	29.41	22.36	12.45	12.81	14.05	11.50	11.44	8.30	7.53	10.31	27.08
Total Investment	7.30	8.94	7.69	8.68	19.90	21.44	7.88	10.51	10.62	23.31	17.83	14.99	7.85	9.99	11.52	11.62	14.82	16.77
Central Government Finances																		
Expenditures By Function																		
General Administration	0.16%	0.12%	0.20%	0.11%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Defense	9.29%	9.81%	9.37%	11.40%	11.72%	12.82%	10.31%	8.36%	9.64%	10.96%	9.22%	9.07%	6.68%	8.79%	5.79%			
Social Security & Welfare	4.47%	4.47%	6.45%	6.33%	6.08%	7.62%	7.30%	7.35%	8.11%	9.44%	9.06%	9.28%	5.0%	6.89%	4.44%			
Education	15.56%	12.95%	11.11%	12.53%	12.93%	14.21%	13.58%	13.40%	15.12%	17.82%	16.15%	16.37%	10.65%	12.60%	9.8%			
Health	12.78%	12.15%	7.28%	9.88%	9.75%	10.48%	9.01%	9.91%	10.5%	11.92%	11.13%	11.12%	7.4%	8.92%	9.40%			
Housing	1.24%	1.49%	6.74%	8.17%	7.28%	3.48%	2.51%	1.52%	1.77%	2.19%	1.65%	0.56%	0.79%	ERR	7.86%			
Other	1.71%	4.96%	0.80%	1.34%	1.18%	1.19%	3.50%	5.97%	1.54%	5.24%	6.36%	3.72%	2.36%	1.14%	0.78%			
Economic Development	38.70%	44.56%	53.88%	37.66%	40.23%	41.22%	34.86%	39.54%	40.30%	33.42%	31.33%	38.09%	36.08%	45.76%	53.46%			
Interest Payments	0.78%	1.02%	0.77%	1.16%	1.33%	1.04%	1.55%	1.49%	1.8%	5.91%	6.16%	6.88%	7.21%	8.51%	6.17%	2.19%	1.00%	0.70%
Memo Items:																		
Overall Surplus (Deficit)	-1.08%	-6.37%	-2.25%	-4.45%	-3.67%	11.77%	4.50%	2.09%	-6.64%	-29.28%	-15.29%	-22.66%	-19.16%	-6.06%	-6.01%	-5.89%	-7.51%	
Capital Expenditures	32.14%	38.08%	39.75%	41.56%	43.88%	51.10%	38.53%	40.30%	33.48%	36.94%	31.61%	30.04%	19.15%	23.71%	19.76%	19.96%	27.24%	46.80%

Source: Table No.3

Table No. 3.c

Concept/Years	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
Central Government Finances	% of GDP						
Current Revenues	15.44	12.95	15.84	16.11	13.30	12.16	14.18
Total Expenditures	16.00	14.45	16.82	15.17	15.68	13.71	15.02
Current Expenditures, less interest	9.38	9.22	10.30	8.32	9.65	10.18	8.30
Current Savings	4.75	2.19	4.55	6.33	1.57	0.87	5.87
Overall Surplus (Deficit)	-0.68	-1.89	-0.73	0.56	-2.68	-1.88	-1.53
Net Domestic Borrowing	0.33	0.48	0.33	0.20	0.84	0.87	-0.92
Foreign Borrowing	0.45	0.94	0.44	-0.20	1.48	0.92	0.74
Primary Deficit T-(G-i)-Ig	1.83	1.47	0.57	3.55	1.27	0.67	2.89
Seigniorage	0.03	0.00	0.05	0.01	0.00	0.00	0.00
Revenues	% of Current Revenues						
Taxes	95.56	95.00	94.81	96.14	95.74	96.98	90.41
Direct taxes	21.50	24.26	23.80	18.22	25.56	24.67	20.01
Income Taxes	20.97	21.74	21.07	21.16	22.60	22.22	17.70
Property Taxes	3.07	2.58	3.35	2.79	2.96	2.56	2.32
Indirect Taxes	71.77	71.45	71.02	72.19	70.18	72.31	73.23
Production & Sales Taxes	20.84	32.07	19.83	19.25	27.25	34.45	30.91
International Trade Taxes	48.51	36.58	48.16	50.96	40.84	34.56	39.79
Non-Tax Revenues	13.97	16.35	12.11	13.85	22.96	13.91	9.59
Expenditures	% of Total Expenditures						
Current Expenditures	60.39	71.70	62.12	56.47	66.98	79.83	57.97
Purchase of Goods & Services	10.58	13.41	8.48	11.50	12.69	15.19	10.81
Interest Payments	1.69	4.85	0.93	1.35	5.20	6.02	0.85
Transfers & Subsidies	15.10	17.18	14.79	14.60	16.27	17.83	17.26
Capital Expenditures	39.61	27.49	37.88	43.53	33.02	21.05	37.02
Total Investment	26.58	12.88	29.64	28.11	15.42	9.69	18.70
Capital Transfers	12.52	13.17	8.13	14.68	16.69	10.25	15.79
Financial Investment							
Central Government Finances							
Expenditures By Function	% of Total Expenditures						
General Administration							
Defense							
Social Security & Welfare							
Education							
Health							
Housing							
Other							
Economic Development							
Interest Payments	1.69%	4.85%	0.93%	1.35%	5.20%	6.02%	0.85%
Memo Items:							
Overall Surplus (Deficit)	-3.84%	-12.11%	-4.29%	3.67%	-16.38%	-13.48%	-6.70%
Capital Expenditures	39.61%	27.28%	37.88%	43.53%	33.02%	20.64%	37.02%

Source: Table No. 3

File: DR-Cflight
Table No.4

Concept/Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Capital Flight	Millions of US\$																	
1. Direct Investment	(59)																	
2. Errors and Omissions	(4)																	
3. Current Account Balance	(125)																	
4. Change in L-T External Debt Disbursement	(11)																	
5. Net Private Short-term Capital	35																	
6. Gross Banks' Assets	7																	
Cuddington Measurement (2 + 5)	39																	
Dooley Measurement (4 - 3 + 5)	94																	
"Morgan" Measurement ((1 + 4 - 3 + 6))	174																	
Private Nonbank Deposits in all Foreign Banks	710																	
Proportion of Outstanding Long-Term Debt	45%																	
	34%																	
	16%																	
	34%																	
	29%																	
	23%																	
	26%																	

Sources: World Bank, World Tables (1989).
IMF, International Financial Statistics Yearbook (1989).

Table No.4.a (Average)

Concept/Year	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
Capital Flight	Millions of US\$						
1. Direct Investment	49	58	52	56	57	38	70
2. Errors and Omissions	(6)	9	(11)	16	(20)	11	14
3. Current Account Balance	(125)	(34)	(99)	(206)	(441)	(280)	(276)
4. Change in L-T External Debt Disbursement	(26)		38	18	(12)	(52)	
5. Net Private Short-term Capital	41	27	27	65			
6. Gross Banks' Assets	22	152	9	26	121	129	148
Cuddington Measurement (2 + 5)	35	20	17	42	45		
Dooley Measurement (4 - 3 + 5)				216	248		
"Morgan" Measurement ((1 + 4 - 3 + 6))	224	273	279	180	146		
Private Nonbank Deposits in all Foreign Banks				683	765		
Proportion of Outstanding Long-Term Debt				28%	24%		

Source: Table No.4

File: AccBal.

Table No. 5

Dominican Republic: Accumulation Balance of the Public and Private Sectors.
Millions of Current RD\$

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
GDP	1485.5	1666.5	1987.4	2344.7	2925.6	3699.2	3951.6	4587.1	4734.1	5490.2	6630.7	7266.9	7964.1	8623.2	10355.3	13865.6	17501.3	21745.4
Investment	284.4	291.6	391.7	518.1	683.0	882.2	881.8	999.5	1130.2	1394.2	1648.6	1701.6	1595.8	1824.9	2208.0	2720.9	3165.4	5616.0
Public	76.1	120.6	161.5	171.5	224.8	342.5	293.3	343.2	296.8	251.3	345.2	329.0	289.5	344.1	350.4	670.9	790.8	1648.3
Private	208.3	171.0	230.2	346.6	458.2	539.7	588.5	656.3	633.1	1142.9	1303.4	1372.6	1312.3	1480.8	1857.6	2050.0	2374.6	3972.7
Savings	154.4	151.6	348.4	454.7	454.6	861.2	667.0	748.1	720.0	956.6	820.1	1295.0	1010.9	1285.3	1645.2	1953.2	2492.7	3957.6
Public	66.0	98.9	156.5	153.9	155.2	407.0	297.0	311.4	148.5	-30.5	-51.8	-119.4	-274.3	-68.6	-346.6	8.2	64.1	713.3
Private	88.4	52.7	191.9	300.8	299.4	454.2	370.0	436.7	571.5	987.1	871.9	1414.1	1285.2	1373.9	1991.8	1946.0	2428.6	3244.3
Internal Finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	-23.8	-15.1	-29.4	-41.8	17.7	-68.2	-1.1	27.6	123.9	126.1	100.0	342.8	365.6	282.8	100.4	-378.7	561.7	798.0
Private	23.8	15.1	29.4	41.8	-17.7	68.2	1.1	-27.6	-123.9	-126.1	-100.0	-342.8	-365.6	-282.8	-100.4	378.7	-561.7	-798.0
External Finance	130.0	140.0	43.3	63.4	228.4	21.0	214.8	251.4	410.2	437.6	828.5	406.6	584.9	539.6	562.0	767.7	672.7	1658.4
Public	33.9	36.8	34.4	59.4	51.9	23.7	-2.6	4.2	24.4	155.7	297.0	105.6	174.2	149.9	296.6	1041.4	165.0	132.0
Private	96.1	103.2	8.9	4.0	176.5	-2.7	217.1	247.2	365.8	281.9	531.5	301.0	410.7	389.7	266.2	-273.7	507.7	1526.4
Exports	289.2	327.3	451.9	574.6	817.0	1170.6	991.7	1101.5	1020.1	1373.2	1589.1	1921.0	1655.6	1937.2	3780.1	4100.7	4055.3	5836.9
Imports	419.2	467.3	495.2	638.0	1045.4	1191.6	1206.5	1352.9	1430.3	1810.8	2117.6	2327.6	2240.5	2476.8	4942.9	4868.4	4729.0	7495.3
Public deficit/ surplus	-10.1	-21.7	-5.0	-17.6	-69.6	64.5	3.7	-31.8	-148.3	-281.8	-397.0	-148.1	-557.8	-132.7	-697.0	-662.7	-726.7	-930.0

Sources: Oficina Nacional de Planificación (ONPLAN).
Banco Central de la República Dominicana.

Table No.5.a (Average)

Concept/Years	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
GDP	3277.2	11744.1	1871.0	3765.9	6030.6	10202.1	19623.4
Investment	745.7	2560.2	371.5	861.6	1468.7	2087.4	4990.7
Public	228.2	594.7	132.4	301.0	305.6	412.2	1217.1
Private	517.5	1965.5	239.0	560.7	1163.1	1675.2	3173.7
Savings	551.7	1807.5	277.3	682.7	947.9	1473.7	3225.2
Public	176.4	-11.9	118.8	292.7	-13.3	-175.3	388.7
Private	375.3	1819.4	158.5	380.1	961.2	1649.0	2836.5
Internal Finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	9.6	311.3	-27.5	-11.0	173.2	172.0	679.9
Private	-9.6	-311.3	27.5	11.0	-173.2	-172.0	-679.9
External Finance	194.0	752.7	94.2	179.9	520.7	613.8	1165.6
Public	42.2	295.2	41.1	19.3	145.7	415.5	148.5
Private	151.8	457.4	53.1	159.6	375.1	199.2	1017.1
Exports	811.7	3109.5	410.8	1020.2	1475.9	2668.4	4946.1
Imports	1005.7	3862.1	504.9	1199.1	1956.6	3482.2	6111.7
Public deficit/ surplus	-51.8	-606.5	-13.6	-8.3	-318.9	-587.6	-828.4

Source: Table No.5

Table No.5.a

Concept/Years	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
(Percent of GDP)																		
Investment	19.1	17.5	19.7	22.1	23.3	24.5	22.3	21.8	23.9	25.4	24.9	23.4	20.0	21.2	21.3	19.6	18.1	25.8
Public	5.1	7.2	8.1	7.3	7.7	9.5	7.4	7.5	6.3	4.6	5.2	4.5	3.6	4.0	3.4	4.8	4.5	7.5
Private	14.0	10.3	11.6	14.8	15.7	15.0	14.9	14.3	17.6	20.8	19.7	18.9	16.5	17.2	17.9	14.8	13.6	18.3
Savings	10.4	9.1	17.5	19.4	15.5	23.9	16.9	16.3	15.2	17.4	12.4	17.8	12.7	14.9	15.9	14.1	14.2	18.2
Public	4.4	5.9	7.9	6.6	5.3	11.3	7.5	6.8	3.1	-0.6	-0.8	-1.6	-3.4	-1.0	-3.3	0.1	0.4	3.3
Private	6.0	3.2	9.7	12.8	10.2	12.6	9.4	9.5	12.1	18.0	13.1	19.5	16.1	15.9	19.2	14.0	13.9	14.9
Internal Finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	-1.6	-0.9	-1.5	-1.8	0.6	-2.5	0.0	0.6	2.6	2.3	1.5	4.7	4.8	3.3	3.9	-2.7	3.2	3.7
Private	1.6	0.9	1.5	1.8	-0.6	2.5	0.0	-0.6	-2.6	-2.3	-1.5	-4.7	-4.8	-3.3	-3.9	2.7	-3.2	-3.7
External Finance	8.8	8.4	2.2	2.7	7.8	0.6	5.4	5.5	8.7	8.0	12.5	5.6	7.3	6.3	5.4	5.5	3.8	7.6
Public	2.3	2.2	1.7	2.5	1.8	0.7	-0.1	0.1	0.5	2.8	4.5	1.5	2.2	1.7	2.9	7.5	0.9	0.6
Private	6.5	6.2	0.4	0.2	6.0	-0.1	5.5	5.4	8.1	5.1	8.0	4.1	5.2	4.5	2.6	-2.0	2.9	7.0
Exports	19.5	19.6	22.7	24.5	27.9	32.5	25.1	24.0	21.5	25.0	24.0	26.4	20.8	22.5	36.5	29.6	23.2	26.8
Imports	28.2	28.0	24.9	27.2	35.7	33.1	30.5	29.5	30.2	33.0	36.5	32.0	28.1	28.7	41.9	35.1	27.0	34.5
Public deficit/ surplus	-0.7	-1.3	-0.3	-0.8	-2.4	1.8	0.1	-0.7	-3.1	-5.1	-6.0	-6.2	-7.0	-5.0	-6.7	-4.8	-4.2	-4.3

Source: Table No.5

Table No.5.b

Concept/Years	1970-79	1980-87	1970-73	1974-77	1978-81	1982-85	1986-87
Investment	22.0	21.8	19.6	23.0	24.4	20.5	22.0
Public	7.1	4.7	7.0	8.0	5.1	3.9	6.0
Private	14.9	17.1	12.7	15.0	19.2	16.6	15.9
Savings	16.2	15.0	14.1	18.2	15.7	14.4	16.2
Public	5.8	-0.8	6.2	7.7	0.0	-1.9	1.8
Private	10.3	15.8	7.9	10.4	15.7	16.3	14.4
Internal Finance	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public	-0.2	2.8	-1.4	-0.3	2.8	2.3	3.4
Private	0.2	-2.8	1.4	0.3	-2.8	-2.3	-3.4
External Finance	5.8	6.8	5.5	4.8	8.7	6.1	5.7
Public	1.5	2.7	2.2	0.6	2.3	3.6	0.8
Private	4.3	4.0	3.3	4.2	6.4	2.6	5.0
Exports	24.2	26.2	21.6	27.4	24.2	27.3	25.0
Imports	30.0	33.0	27.1	32.2	32.9	38.5	30.7
Public deficit/ surplus	-1.2	-5.5	-0.7	-0.3	-5.1	-5.9	-4.2

Source: Table No.5.a

