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Battling an economic downturn that has left the country depleted of international reserves, the Dominican Republic may issue government bonds to replenish the Treasury and pay its debts. The idea has economists and politicians debating the advisability of increasing the national debt.

President of the Camara de Diputados Rafaela Alburquerque has called for consultations with the public in search of consensus and clarity. She told the press that a bond issue, which the Congreso Nacional is to take up shortly, would be of great benefit to the struggling system. She attributed that view to conversations she has already had with people in the private sector. "Businesspeople, bankers, and other economic sectors have told me that now is when the bonds are necessary, that now is when they are really needed," she said. But Alburquerque's personal opinion is that "I'm very afraid of these bonds, because they put in play the sovereignty of the Dominican Republic, and that must be preserved."

At issue is US$750 million in bonds to be privately placed on the international market. Part of the proceeds will go to paying the state's debt to the country's private banks, "so that our banking system can be strengthened, which will greatly dynamize the economy," added the deputy. She also pointed out that, even though this was the kind of financing that the deceased former President and now legend Joaquin Balaguer (1960-1962, 1966-1978, 1986-1996) would have eschewed (see NotiCen, 2002-07-18), "we have to recognize that we live in a new economic world in which all countries resort to this kind of loan."

Sage advice from beyond the grave

Balaguer was known to prefer internal financing, but it must also be remembered, Alburquerque said, that Balaguer approved the first bonds that President Hipolito Mejia ever issued. "But unfortunately he is no longer with us," she lamented. "I remember he told me these bonds he was approving would lead to others and would continue indebting the country. And look how wise, how visionary a man he was, because time has proven him right, because already the government has another bond issue ready to go." Alburquerque said, however, that this means of financing is preferable to dealing with the International Monetary Fund (IMF), an institution with which the Dominican Republic has had "bitter experience."

As to the bonds' advisability from a macroeconomic standpoint, economist Rafael Camilo opposes the idea. Camilo, ex-director of the Oficina Nacional de Planificacion (ONAPLAN), said that it puts the Dominican economy and the government's financial resources in an unsustainable position. People are already paying more taxes (see NotiCen, 2001-04-26) because the Central Bank has, in the first eight months of this year, sold US$580 million worth of paper. He said that most of the public works that the government funded with the proceeds were against the law, because the rate of return did not exceed the interest (9.5%).

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Additionally, the largest public works, like the Juan Pablo Duarte Bridge and major highways, were built with external contracts through which the borrowed money escaped the island. "We are now living with the macroeconomic result of the bonds because the government spent excessively in the midst of a negative international situation," he said, referring to the global recession.

From January to June of this year, government spending rose 26% while income rose 11%. "This breech was financed with internal and external debt," said Camilo. Also in the first six months of the year, the public payroll increased 17.8%. Camilo insists that the new bond issue needs to be evaluated in light of the experience of the first. Such analysis would lead to a decision against the current plan, he said.

Back on the political side of the argument, senators of the Partido Revolucionario Dominico (see NotiCen, 2002-05-23) will support the debt measure after a period for consideration of the most propitious way of structuring it and selecting one of the dozens of international banking institutions currently eager to manage the offering. The sentiments expressed by the individual senators range from unrealistic expectation that this bond will diminish the world economic crisis to the more wistful view of Senator Vicente Castillo. "It is lamentable that we have to pay debt by making more debt; it's a problem," he said. "I'm in disagreement with things as they are, but if this is the only way out, we have to take it, even if against our will."

Opposing that view, several members of the Partido Reformista Social Cristiano (PRSC), all of whom are vying for their party's nomination for the presidency of the republic, jointly rejected the emission of debt instruments at this time. Carlos Morales Troncoso, Josecito Hazim, Eduardo Estrella, and Jacinto Peynaldo each said separately that the party's Comision Executivo has passed a resolution against the measure, and they wished to make clear that they would stand by that position.

Morales Troncoso said that the people would only accept the bonds if President Mejia were to agree to fiscal responsibility and not incur any more international debt. The former vice president said that it would be a grave error to commit the country to a new loan of US$750 million with a national economy that is not going in the right direction, with the huge increase of current expenditure, and the "banquet" of loans with international organizations and local commercial banks. "If the government assumes a totally responsible fiscal policy that includes a decrease in public spending and freezing local bank financing and doesn't incur new international loans, it would create greater confidence in the management of public finances," said Troncoso.

Only under those conditions would a new bond issue have credibility and the support of the Dominican people. Otherwise the country's financial crisis will grow in coming months. 2

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