OFFERING MEMORANDUM

US$300,000,000

The Dominican Republic

8.625% AMORTIZING BONDS DUE 2027

Interest payable on April 20 and October 20

The bonds will mature on April 20, 2027. Payments of principal on the bonds will be made in three equal installments on April 20, 2025, April 20, 2026 and April 20, 2027. Interest will accrue from March 20, 2006 and will be payable on April 20 and October 20 of each year, beginning October 20, 2006.

The bonds will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic and will rank equally with all other existing and future unsubordinated and unsecured public external debt of the Republic. The bonds will be backed by the full faith and credit of the Republic. For a more detailed description of the bonds, see "Description of the Bonds" beginning on page 106.

Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange. The bonds are expected to be designated as eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages (PORTAL) Market of the National Association of Securities Dealers, Inc.

Investing in the bonds involves risks. See "Risk Factors" beginning on page 7.

PRICE: 100% AND ACCRUED INTEREST, IF ANY.

The bonds have not been registered under the U.S. Securities Act of 1933, as amended, or the "Securities Act", or the securities laws of any other jurisdiction. The bonds will be offered only to qualified institutional buyers in the United States under Rule 144A of the Securities Act and to persons outside the United States under Regulation S of the Securities Act. Prospective purchasers of the bonds are hereby notified that sellers of the bonds may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

The initial purchasers expect to deliver the bonds in book-entry form through The Depository Trust Company, the Euroclear System and Clearstream Banking, société anonyme on or about March 20, 2006.

MORGAN STANLEY ***JPMORGAN***

UBS ***CITIGROUP*** ***BEAR STEARNS***

March 13, 2006

You should rely only on the information contained in this offering memorandum. The Republic has not authorized anyone to provide you with different information. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.

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This offering memorandum has been prepared by the Republic solely for use in connection with the proposed offering of the bonds and may be used solely for the purposes for which it has been published. This offering memorandum does not constitute an offer to the public generally to subscribe for or otherwise acquire securities. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to herein.

After having made all reasonable inquiries, the Republic confirms that:

- the information contained in this offering memorandum is true and correct in all material respects and is not misleading as of the date of this offering memorandum;

- changes may occur in the Republic's affairs after the date of this offering memorandum;

- certain statistical, economic, financial and other information included in this offering memorandum reflects the most recent reliable data readily available to the Republic as of the date hereof;

- the Republic holds the opinion and intentions expressed in this offering memorandum;

- the Republic has not omitted other facts the omission of which makes this offering memorandum, as a whole, misleading; and

- the Republic accepts responsibility for the information it has provided in this offering memorandum and assumes responsibility for the correct reproduction of the information contained herein.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The Republic has furnished the information contained in this offering memorandum. The initial purchasers have not independently verified any of the information contained herein and assume no responsibility for the accuracy or completeness of any such information.

Neither the U.S. Securities and Exchange Commission, any state securities commission nor any other U.S. regulatory authority has approved or disapproved the bonds, nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.

In making an investment decision, you must rely on your own examination of the Republic and the terms of the offering, including the merits and risks involved. You should not construe anything in this offering memorandum as legal, business or tax advice. You should consult your own advisors as needed to make your investment decision and as to whether you are legally permitted to acquire the bonds under applicable legal investment or similar laws or regulations. You should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us or the initial purchasers and may also be obtained at the office of the Luxembourg listing agent.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The bonds are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such bonds will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

FOR NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

ENFORCEMENT OF CIVIL LIABILITIES

The Republic is a sovereign state. Consequently, it may be difficult for investors to obtain or realize in the United States or elsewhere upon judgments against the Republic. To the fullest extent permitted by applicable law, the Republic will irrevocably submit to the non-exclusive jurisdiction of any New York state or U.S. federal court sitting in The City of New York, Borough of Manhattan, and any appellate court thereof, in any suit, action or proceeding arising out of or relating to the bonds or the Republic's failure or alleged failure to perform any obligations under the bonds, and the Republic will irrevocably agree that all claims in respect of any such suit, action or proceeding may be heard and determined in such New York state or U.S. federal court. The Republic will irrevocably waive, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of any suit, action or proceeding and any objection to any proceeding whether on the grounds of venue, residence or domicile. To the extent that the Republic has or hereafter may acquire any sovereign or other immunity from jurisdiction of such courts with respect to any suit, action or proceeding arising out of or relating to the bonds or the Republic's failure or alleged failure to perform any obligations under the bonds (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), the Republic has, to the fullest extent permitted under applicable law, including the U.S. Foreign Sovereign Immunities Act of 1976, irrevocably waived such immunity in respect of any such suit, action or proceeding; provided, however, that under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment, and that under the laws of the Republic, the property and revenues of the Republic are exempt from attachment or other form of execution before or after judgment. See "Description of the Bonds—Governing Law" and "—Submission to Jurisdiction."

Notwithstanding the preceding paragraph, the Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under the U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a U.S. court against the Republic unless such court were to determine that the Republic is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. Further, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. Execution upon property of the Republic located in the United States to enforce a U.S. judgment may not be possible except under the limited circumstances specified in the U.S. Foreign Sovereign Immunities Act of 1976.

DEFINED TERMS AND CONVENTIONS

Certain Defined Terms

All references in this offering memorandum to the "Republic" are to the issuer, and all references to the "Government" are to the central government of the Dominican Republic and its authorized representatives.

The terms set forth below have the following meanings for the purposes of this offering memorandum:

- Gross domestic product, or "GDP", is a measure of the total value of final products and services produced in a country in a specific year. Nominal GDP measures the total value of final production in current prices. Real GDP measures the total value of final production in constant prices of a particular year, thus allowing historical GDP comparisons that exclude the effects of inflation. In this offering memorandum, real GDP figures are based on constant 1970 prices, the year used by the *Banco Central de la República Dominicana*, the Dominican Central Bank or the "Central Bank", for purposes of maintaining real GDP statistics. GDP growth rates and growth rates included in this offering memorandum for the various sectors of the Dominican economy are based on real figures.

- For balance of payments purposes, imports and exports are calculated based upon statistics reported to the Republic's customs agency upon entry and departure of goods into the Dominican Republic on a free-on-board basis, or "FOB basis", at a given point of departure.

- The inflation rate provides an aggregate measure of the rate of change in the prices of goods and services in the economy. The Republic measures the inflation rate by the percentage change between two periods in the consumer price index, or "CPI", unless otherwise specified. The CPI is based on a basket of goods and services identified by the Central Bank that reflects the pattern of consumption of Dominican households. The price for each good and service that makes up the basket is weighted according to its relative importance in order to calculate the CPI. The annual percentage change in the CPI is calculated by comparing the index as of a specific December against the index for the immediately preceding December. The annual average percentage change in the CPI is calculated by comparing the average index for a twelve-month period, against the average index for the immediately preceding twelve-month period. The Republic does not compile statistics to calculate a producer price index or a wholesale price index, which are other indices often used to measure inflation.

Currency of Presentation and Exchange Rate

Unless we specify otherwise, references to "U.S. dollars," "dollars" and "US$" are to United States dollars, and references to "pesos" and "DOP" are to Dominican pesos. Unless otherwise indicated, we have converted pesos into dollars and dollars or any other currency into pesos for each year at the weighted average exchange rate for such year, as used by the International Monetary Fund, the "IMF", in calculating the Republic's GDP in U.S. dollars, using information published in the Central Bank Monthly Bulletin. This weighted average exchange rate is based on both the Central Bank and private-market foreign exchange rates. We have done all currency conversions, including conversions of pesos to U.S. dollars, for the convenience of the reader only and you should not construe these conversions as a representation that the amounts in question have been, could have been or could be converted into any particular denomination, at any particular rate or at all.

At March 6, 2006, the DOP/U.S. dollar exchange rate for the sale of dollars, as reported by the Central Bank, was DOP32.87 per US$1.00. The Central Bank exchange rate is used for transactions involving the Central Bank and the Government, particularly in connection with external debt payments and disbursements of external loans. At March 3, 2006, the private-market DOP/U.S. dollar exchange rate for the sale of dollars was DOP32.89 per US$1.00. See "The Monetary System—Foreign Exchange and International Reserves—Foreign Exchange."

Presentation of Financial and Economic Information

The Republic has presented all annual information in this offering memorandum based upon January 1 to December 31 periods, unless otherwise indicated. Totals in some tables in this offering memorandum may differ from the sum of the individual items in those tables due to rounding.

The Central Bank conducts a review process of the Republic's official financial and economic statistics. Accordingly, certain financial and economic information presented in this offering memorandum may be subsequently adjusted or revised. In particular, certain information and data contained in this offering memorandum for 2004 and for the first three quarters of 2005 are preliminary and subject to review and possible adjustments by the Central Bank and other agencies to ensure their accuracy. The Government believes that this review process is substantially similar to the practices of industrialized nations. The Government does not expect revisions of the data contained in this offering memorandum to be material, although we cannot assure you that it will not make material changes.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts, including statements about the Republic's beliefs and expectations. These statements are based on current plans, estimates and projections, and, accordingly, you should not place undue reliance on them. Forward-looking statements speak only as of the date they are made. The Republic undertakes no obligation to update any of these statements in light of new information or future events.

Forward-looking statements involve inherent risks and uncertainties. The Republic cannot assure you that actual events or results will not differ materially from any forward-looking statements contained in this offering memorandum. In particular, a number of important factors could cause actual results to differ materially from the Republic's expectations. Such factors include, but are not limited to:

- adverse external factors, such as:
  - changes in the international prices of commodities and/or international interest rates, which could increase the Republic's current account deficit and budgetary expenditures;
  - changes in import tariffs and exchange rates, recession or low economic growth affecting the Republic's trading partners, all of which could lower the growth or the level of exports of the Dominican Republic, reduce the growth or the level of income from tourism of the Dominican Republic, reduce the growth rate or induce a contraction of the Dominican economy and, indirectly, reduce tax revenues and other public sector revenues, adversely affecting the Republic's fiscal accounts;
  - increased costs of crude oil resulting from increased international demand or from political or social instability or armed conflict in oil-producing states, such as Venezuela and countries in the Middle East;
  - a decline in foreign direct investment, which could adversely affect the Republic's balance of payments, the stability of the exchange rate and the level of the Central Bank's international reserves; and
  - a decrease in remittances from Dominicans residing and working abroad;
- adverse domestic factors, such as lower than expected fiscal revenues, which could induce higher domestic interest rates and an appreciation of the real exchange rate. These factors could lead to lower economic growth, a decline in exports and income from tourism and a decrease in the Central Bank's international reserves; and
- other adverse factors, such as climatic or political events.

SUMMARY

This summary highlights information contained elsewhere in this offering memorandum. It is not complete and may not contain all of the information you should consider before purchasing the bonds. You should carefully read the entire offering memorandum, including "Risk Factors" before purchasing the bonds.

Selected Economic Information

(in millions of US$, except as otherwise indicated)

	2000	2001	2002	2003	2004	For the nine months ended September 30, 2004[1]	2005[1]
Domestic economy							
GDP (at current prices)	19,815	21,680	21,715	16,626	18,653	11,072	19,132
GDP (in millions of DOP, at current prices)	324,562	366,232	402,432	503,300	777,188	501,907	558,609
Real GDP (in millions of DOP, at constant 1970 prices)	6,668	6,910	7,217	7,082	7,220	5,223	5,602
Real GDP growth rate[2]	8.1	3.6	4.4	(1.9)	2.0	1.3	7.3
Consumer price index (annual rate of change)	9.0	4.4	10.5	42.7	28.7	31.1	6.1
Unemployment rate (annual average)[3]	13.9	15.6	16.1	17.0	18.4	19.7[12]	18.4[13]
Open unemployment rate (annual average)[4]	5.8	6.5	5.9	6.5	5.3	5.6[12]	5.8[13]
Balance of payments[5]							
Total current account	(1,026.5)	(740.8)	(797.9)	1,036.2	1,087.6	897.4	(137.4)
Of which:							
Trade balance	(3,741.8)	(3,503.0)	(3,672.7)	(2,156.0)	(2,096.3)	(1,515.5)	(2,661.4)
Income from tourism	2,860.2	2,798.3	2,730.4	3,127.8	3,151.6	2,450.2	2,797.8
Workers' remittances	1,689.0	1,807.9	1,959.6	2,060.5	2,230.2	1,618.4	1,700.5
Total capital account	1,596.6	1,703.5	383.1	(16.3)	249.2	607.0	396.5
Of which:							
Foreign direct investment	952.9	1,079.1	916.8	613.0	758.4	599.0	728.5
Errors and omissions[6]	(618.1)	(447.8)	(139.9)	(1,566.3)	(790.5)	(1,313.4)	291.7
Overall balance of payments, excluding impact of gold valuation adjustment[7]	(48.0)	515.0	(554.7)	(546.5)	546.2	191.0	550.8
Change in Central Bank gross international reserves (period end)	69.5	(518.5)	526.5	358.0	(541.8)	(311.8)	(732.0)
Central Bank net international reserves (period end)	441.9	962.2	376.0	123.6	602.2	372.9	1,272.7
Public sector balance							
Central government revenue[8]	3,157.1	3,568.2	3,642.4	2,680.0	3,062.0	2,094.7	4,053.1
As a % of GDP	15.9	16.5	16.8	16.1	16.4	18.9	21.2
Central government expenditure[9]	3,051.1	3,829.9	4,046.8	3,294.5	3,643.9	2,263.8	3,752.5
As a % of GDP	15.4	17.7	18.6	19.8	19.5	20.4	19.6
Central government balance	(416.8)	(479.0)	(335.4)	(879.6)	(680.5)	(571.2)	257.6
As a % of GDP	2.1	2.2	1.5	5.3	3.6	5.2	1.3
Overall non-financial public sector balance[10]	(391.7)	(519.8)	(291.6)	(1,004.7)	(644.2)	(518.6)	359.4
As a % of GDP	(2.0)	(2.4)	(1.3)	(6.0)	(3.5)	(4.7)	1.9
Public sector debt							
Public sector external debt[11]	3,679.4	4,176.1	4,536.4	5,987.0	6,379.7	6,481.0	6,545.5
As a % of GDP	18.6	19.3	20.9	36.0	34.2	58.5	34.2
Public sector domestic debt	462.8	601.0	510.3	596.7	998.1	859.3	953.3[14]
As a % of GDP	2.3	2.8	2.4	3.6	5.4	7.8	3.3[15]
Total public sector debt	4,142.2	4,777.1	5,046.7	6,583.7	7,377.8	7,340.3	n.a.
As a % of GDP	20.9	22.0	23.2	39.6	39.6	66.3	n.a.
Public sector external debt service:							
Amortizations	886.0	836.8	667.4	862.0	457.8	307.4	309.0
Interest payments	226.3	206.7	215.3	263.4	322.0	225.1	208.9
Total external debt service	1,112.4	1,043.6	882.7	1,125.4	779.8	532.5	517.9
As a % of exports of goods and services	12.5	12.5	10.8	12.8	9.1	7.7	7.1

(1) Preliminary data.
(2) Percentage change from previous year.
(3) Refers to population at or above the legal working age that is not employed and is willing to work (even if not actively seeking work), as a percentage of the total labor force.
(4) Refers to population at or above the legal working age that is not employed and is actively seeking work, as a percentage of the total labor force.
(5) Revised data for 2004 and the nine months ended September 30, 2004 and preliminary data for the nine months ended September 30, 2005.
(6) Represents errors and omissions in compiling balance of payment accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices

(footnotes continued on next page)

(7) As presented in the above table, gold reserves have been valued at their corresponding market prices as of December 31 of each year.
(8) Includes total revenue and foreign cash or in-kind transfers to support public sector expenditures.
(9) Includes unidentified expenditures that consist of non-cash items, such as food, clothing and other items received by the Government as aid. Also includes expenditures made in periods different from the current period and that were not currently registered.
(10) The non-financial public sector includes the central government and non-financial public sector institutions (such as state-owned enterprises and other decentralized government-owned institutions).
(11) External debt is defined as all public sector foreign-currency denominated debt, independent of the holder's nationality.
(12) As of October 31, 2004.
(13) As of April 30, 2005.
(14) As of December 31, 2005. Data exclude intra-governmental debt.
(15) Based on GDP for 2005.

Sources: Central Bank, Ministry of Finance and IMF.

n.a. = Not Available.

Recent Developments

Recovery and Growth of the Dominican Economy

The Dominican Republic's economic recovery following the economic crisis of 2003 commenced in the second half of 2004 and continued in 2005, reflecting continuing increases in economic activity and liquidity. The following are selected preliminary economic and financial results (which are subject to adjustment, revision or reconciliation) for 2005 and at December 31, 2005:

- real GDP increased by 9.3% in 2005 as compared to an increase of 2.0% in 2004;
- the peso appreciated by 27.5% in 2005. The average private-market DOP/US$ exchange rate for the purchase of dollars in 2005 was DOP30.07 per US$1.00, compared to DOP41.45 per US$1.00 for 2004;
- the Central Bank's net international reserves totaled US$1.5 billion as of December 31, 2005, compared to US$602.2 million as of December 31, 2004;
- inflation was 7.4% in 2005, as compared to 28.7% in 2004; and
- the nominal domestic interest rate on deposits of the banking sector was 11.6% at December 31, 2005, compared to 21.2% at December 31, 2004.

Stand-By Arrangement with the IMF

On January 31, 2005, the Republic entered into a new two-year stand-by arrangement of approximately US$665.2 million with the IMF (the "IMF Stand-By Arrangement"), conditioned on the Republic's commitment to implementing measures designed to promote macroeconomic stabilization and structural reforms in the fiscal, monetary, financial and electricity sectors. On August 29, 2005, the IMF announced that the Republic's performance under the IMF Stand-By Arrangement remained on track, that preliminary information suggested that the quantitative performance criteria for the first and second quarters of 2005 had been met and that progress had been made in the area of structural reforms, including the drafting of legislation to enhance fiscal management and strengthen monetary and financial institutions. On September 29, 2005, the Republic submitted a letter of intent and technical memorandum of understanding to the IMF, requesting completion of the first and second reviews under the IMF Stand-By Arrangement and waivers of certain structural reform requirements pending approval of these reforms by the Dominican Congress. The IMF announced completion of the first and second reviews on October 18, 2005, which entitles the Republic to borrow up to US$139.0 million under the IMF Stand-By Arrangement. The IMF is currently undertaking the third and fourth reviews under the IMF Stand-By Arrangement simultaneously, which are expected to be completed in the second quarter of 2006.

External Debt Restructuring

In 2005, the Government successfully implemented a comprehensive strategy for the restructuring of its outstanding external debt, including the following:

- In May and July 2005, the Republic exchanged approximately US$1.07 billion, or 97% aggregate principal amount, of its outstanding 9.50% bonds due 2006 and 9.04% bonds due 2013 for new 9.50% amortizing bonds due 2011 and new 9.04% amortizing bonds due 2018. This restructuring adjusted the Republic's scheduled debt service to improve the Government's fiscal balance in line with macroeconomic forecasts agreed with the IMF in the IMF Stand-By Arrangement and enabled the Republic to comply with the comparability of treatment requirement in its April 2004 agreement with the Paris Club.
- In October 2005, the Republic signed an agreement with several international commercial banks to reschedule debt service payments due in 2005 and 2006 in the amount of US$147 million. Repayment

of the rescheduled amounts will be made in six equal semi-annual installments through January 1, 2010. As part of the rescheduling of this debt, the Republic paid US$30 million in arrears owed to the commercial banks through December 2004. This agreement was approved by the Dominican Congress on February 9, 2006. In addition, in January 2006, the Republic entered into an agreement with a creditor to reschedule commercial debt totaling approximately US$33 million, which will be submitted to the Dominican Congress for approval. If this agreement is not approved by the Dominican Congress on or before March 30, 2006, the agreement will terminate and the original commercial debt will remain outstanding in accordance with its terms. As of the date of this offering memorandum, approximately US$8 million of this debt was past due. The Republic is also currently negotiating with two other private creditors the rescheduling of past due supplier financing amounting to approximately US$10 million.

- In October 2005, the Republic signed an agreement with the Paris Club to reschedule approximately US$137 million of debt service payments falling due in 2005. This agreement is in addition to the Republic's agreement with the Paris Club signed in April 2004, in which the Republic rescheduled debt service payments falling due in 2004 and arrears totaling US$193 million.

- In August 2005, the Republic signed a memorandum of understanding with Unión Fenosa, a Spanish company, to restructure the Republic's payment obligations in connection with the repurchase from Unión Fenosa of two electricity distribution companies in 2003. Pursuant to this memorandum of understanding, as amended in December 2005, the Republic may exercise an option by March 31, 2006 to pre-pay all of the remaining installments of the purchase price due to Unión Fenosa at their present value as of the date of prepayment calculated in accordance with the provisions of the memorandum of understanding. As of March 3, 2006, the present value of these installments amounted to approximately US$294.1 million. The Republic intends to use the proceeds from this offer of bonds for this purpose. See "Use of Proceeds."

Implementation of the DR-CAFTA

In September 2005, the Dominican Congress approved the Dominican Republic – Central American Free Trade Agreement (the "DR-CAFTA"), which followed its ratification by the U.S. Congress in the summer of 2005. The DR-CAFTA is expected to be fully implemented on or about July 1, 2006. Under the DR-CAFTA, the Republic is required to eliminate a 13% foreign exchange commission, which accounted for 13.4% of the Government's total tax revenue in 2004 and approximately 13.5% of total tax revenue in the first nine months of 2005. The Government's 2006 budget, approved by the Dominican Congress on February 13, 2006, establishes a 13% transitory tariff on certain imported products, which is scheduled to expire on July 1, 2006. The transitory tariff is intended to help compensate for the projected revenue losses in the second half of 2006 resulting from the elimination of the foreign exchange commission.

PetroCaribe Agreement with Venezuela

On June 29, 2005, the Republic entered into the PetroCaribe Agreement, which replaced certain important provisions of the Caracas Energy Cooperation Agreement. Under the PetroCaribe Agreement, which includes a total of 13 Caribbean basin countries, Venezuela has agreed to continue providing the Republic up to 50,000 barrels of oil per day at market prices and on favorable financing terms. The agreement establishes a new graduated financing scheme under which the amount of available financing increases as the price per barrel increases, with a maximum of 50% financing available at prices of US$100 per barrel or above. If the price of oil falls below US$40 per barrel, the amounts financed are repayable over a period of 17 years at an interest rate of 2% per year. If the price of oil rises above US$40 per barrel, the amounts financed are repayable over 25 years and bear interest at a rate of 1% per year. A two-year grace period is also available on principal amortization payments and the Republic may pay in goods and services under certain conditions. In addition, short-term financing of up to 90 days is available for cash amounts due and transportation charges are billed at cost to the Republic.

The Offering

The following summary contains basic information about the bonds and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the bonds, see "Description of the Bonds."

Issuer	The Dominican Republic.
Securities Offered	US$300,000,000 principal amount of 8.625% Amortizing Bonds due 2027.
Final Maturity Date	April 20, 2027.
Principal Amortization	The Republic will make payment of principal on the bonds in three equal installments on April 20, 2025, April 20, 2026 and April 20, 2027.
Interest Rate	Interest on the bonds will accrue from March 20, 2006, on the outstanding principal amount of the bonds, at a rate 8.625% per year.
Interest Payment Dates	Each April 20 and October 20, commencing on October 20, 2006.
Form and Denominations	The Republic will issue the bonds in the form of global bonds, without coupons, registered in the name of a nominee of DTC, as depositary, for the accounts of its participants (including Clearstream Banking and Euroclear). Bonds in definitive certificated form will not be issued in exchange for the global bonds except under limited circumstances. See "Book-Entry Settlement and Clearance." Any bonds sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act will be in fully registered form, without interest coupons attached, only in minimum denominations of US$100,000 and in integral multiples of US$1,000 in excess thereof. Any bonds sold pursuant to Rule 144A of the Securities Act will be issued in fully registered form in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof.
Redemption or Sinking Fund	The Republic may not redeem the bonds prior to their scheduled maturity, except for scheduled principal payments. The bonds will not have the benefit of any sinking fund.
Ranking	The bonds will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic, will rank equally in right of payment with all of the Republic's existing and future unsubordinated and unsecured Public External Debt (as defined) and will be backed by the full faith and credit of the Republic. See "Description of the Bonds—Ranking."
Covenants	The Republic will not allow any Lien (other than Permitted Liens) on its assets or revenues as security for any of its Public External Debt, unless the Republic's obligations under the bonds are secured equally and ratably with that Public External Debt. See

	"Description of the Bonds—Negative Pledge Covenant" and "—Defined Terms." The Republic has agreed to comply with several other covenants as described under "Description of the Bonds."
Use of Proceeds	The Republic will use the net proceeds to finance the approximately US$294.1 million pre-payment of the remaining installments of the purchase price due to Unión Fenosa in connection with the Republic's purchase of the electricity distribution companies Ede Norte and Ede Sur.
Listing	Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange. The bonds are expected to be designated as eligible for trading in the PORTAL Market of the National Association of Securities Dealers, Inc.
Transfer Restrictions; Absence of a Public Market for the Bonds	The bonds have not been registered under the Securities Act and will be subject to restrictions on transferability and resale. The bonds will be new securities, and there is currently no established market for the bonds. The Republic and the initial purchasers cannot assure you that a liquid market for the bonds will develop. The initial purchasers have advised the Republic that they currently intend to make a market in the bonds. However, they are not obligated to do so, and any market making with respect to the bonds may be discontinued without notice.
Risk Factors	An investment in the bonds involves a high degree of risk. Before deciding to purchase the bonds, you should read carefully all the information contained in this offering memorandum, including, in particular, the "Risk Factors" section beginning on page 7 of this offering memorandum.
Taxation	The Republic will make all interest payments on the bonds without withholding or deducting any Dominican taxes, unless required by law. If Dominican law requires the Republic to withhold or deduct taxes, the Republic will pay bondholders, subject to certain exceptions, additional amounts to provide the equivalent of full payment of interest to bondholders. See "Description of the Bonds—Additional Amounts" and "Taxation" for important information regarding possible tax consequences to holders of the bonds.
Trustee, Principal Paying Agent, Transfer Agent and Registrar	The Bank of New York.
Luxembourg Paying Agent and Transfer Agent	The Bank of New York (Luxembourg) S.A.
Luxembourg Listing Agent	The Bank of New York Europe Limited
Governing Law	State of New York.

RISK FACTORS

An investment in the bonds involves a high degree of risk. Before deciding to purchase the bonds, you should read carefully all of the information contained in this offering memorandum, including in particular, the following risk factors.

Risks Relating to Owning the Bonds

There is no established trading market for the bonds, and the price at which the bonds will trade in the secondary market is uncertain.

The bonds will be a new issue of securities with no established trading market. The Republic does not know the extent to which investor interest will lead to the development of an active trading market for the bonds or how liquid that market may become. If the bonds are traded after their initial issuance, they may trade at a price lower than their principal amount, depending upon prevailing interest rates, the market for similar securities and general economic conditions in the United States, the Dominican Republic and elsewhere.

The Republic has submitted an application to list the bonds on the Euro MTF market of the Luxembourg Stock Exchange. The bonds are also expected to be designated for trading in the PORTAL Market of the National Association of Securities Dealers, Inc. The Republic cannot assure you that a trading market for the bonds will develop or that the price at which the bonds will trade in the secondary market will be sustainable. If an active market for the bonds fails to develop or continue, this failure could harm the trading price of the bonds.

The ability of holders to transfer bonds in the United States and certain other jurisdictions will be limited.

The bonds issued pursuant to this offer will not be registered under the Securities Act and, therefore, may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the Securities Act and applicable U.S. state securities laws. Offers and sales of the bonds may also be subject to transfer restrictions in other jurisdictions. You should consult your financial or legal advisors for advice concerning applicable transfer restrictions in respect of the bonds.

Any investment in securities of a sovereign issuer in an emerging market involves significant risks.

The Dominican Republic is an emerging market economy and investing in securities of emerging markets issuers generally involves risks, including, among others, political, social and economic instability that may affect economic and fiscal results. Instability in the Dominican Republic and in other Latin American and emerging market countries has been caused by many different factors, including, among others, the following:

- high interest rates;
- devaluation or depreciation of the currency;
- inflation;
- exchange controls;
- wage and price controls;
- changes in governmental economic, tax or other policies; and
- the imposition of trade barriers.

Any of these factors, as well as volatility in the markets for securities similar to the bonds, may adversely affect the liquidity of, and trading market for, the bonds.

The Republic is a sovereign state and it may be difficult to obtain or enforce judgments against it.

The Republic is a sovereign state. Consequently, while the Republic has irrevocably submitted to the jurisdiction of U.S. state or federal courts sitting in the Borough of Manhattan, The City of New York, with respect to the bonds, which are governed by New York law, it may be difficult for holders of the bonds or the trustee in respect of the bonds to obtain or enforce judgments of courts in the United States or elsewhere against the Republic. No treaty currently exists between the United States and the Dominican Republic providing for reciprocal enforcement of foreign judgments.

Additionally, while the Republic has, to the fullest extent permitted under applicable law, including the U.S. Foreign Sovereign Immunities Act of 1976, irrevocably waived sovereign or other immunity from jurisdiction with respect to any suit, action or proceeding arising out of or relating to the bonds or the Republic's failure or alleged failure to perform any obligations under the bonds (whether through service of notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise), there are important exceptions to this waiver. It may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. In addition, under the laws of the Republic, the property and revenues of the Republic are exempt from attachment or other form of execution before or after judgment. See "Description of the Bonds—Governing Law" and "—Submission to Jurisdiction."

Moreover, the Republic has not consented to service or waived sovereign immunity with respect to actions brought against it under the U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Republic with respect to such actions, it would not be possible to obtain a judgment in such an action brought in a U.S. court against the Republic unless such court were to determine that the Republic is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. Further, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment. Execution upon property of the Republic located in the United States to enforce a U.S. judgment may not be possible except under the limited circumstances specified in the U.S. Foreign Sovereign Immunities Act of 1976.

Risks Relating to the Republic

The Republic recently experienced a major economic crisis, which impaired its ability to make payments on its outstanding external and domestic debt.

In 2003, the Dominican economy experienced severe setbacks that led to a major crisis, which included a decrease in real GDP, a substantial increase in the public sector deficit, a loss of confidence in the banking sector and the Republic's financial system generally, a substantial reduction in the levels of the Central Bank's net international reserves, a sharp depreciation of the Dominican peso, an increase in domestic real interest rates, a 30.5% increase in public debt, social unrest and a substantial increase in the unemployment rate. Beginning in 2003 and continuing in 2004, the Republic went into arrears on public sector external debt owed to multilateral institutions, bilateral creditors (both Paris and non-Paris Club members), commercial banks and suppliers. Throughout this crisis, the Republic remained current on its debt obligations to external bondholders.

Although the Dominican economy has since rebounded, with real GDP growing 9.3% in 2005 and the Republic's external debt profile improving considerably following the successful implementation of its debt restructuring and the IMF Stand-By Arrangement, we cannot guarantee that the Republic will not experience economic problems in the future, which may have a material adverse effect on its financial condition and its ability to service its debt.

A significant appreciation of the Dominican peso could adversely affect the competitiveness of Dominican exports and hinder the Dominican Republic's economic growth.

The Dominican peso appreciated 27.5% against the U.S. dollar in 2005 compared to 2004. Any significant appreciation in the value of the peso relative to the currencies of the Republic's major trading partners and trade competitors could make Dominican exports less competitive with goods from other sources and lead to decreased export revenue. Decreased export earnings could have a material adverse effect on the Republic's financial condition and the ability of the Republic to service its debt, including the bonds.

The Republic is dependent on assistance provided under agreements with multilateral institutions, including the IMF, and if the Republic is unable to comply with these agreements, this assistance may be reduced.

On January 31, 2005, the IMF approved the IMF Stand-By Arrangement, which provides for loans to the Republic of up to approximately US$665.2 million, subject to compliance with certain conditions. The Republic successfully completed the first and second reviews under the IMF Stand-By Arrangement in October 2005, which entitles the Republic to borrow up to US$139 million under the IMF Stand-By Arrangement. The third and fourth reviews are expected to be completed in the second quarter of 2006. Any failure by the Republic to meet the fiscal and technical targets agreed with the IMF may preclude the future availability of funds under the IMF Stand-By Arrangement. If the Republic loses access to the financing from the IMF, the Republic may not be able to make current payments on its indebtedness. See "The Economy—Recent Developments."

The Dominican Republic's economy may contract in the future, which could have a material adverse effect on public finances and on the market price of the bonds.

The Dominican economy has experienced significant volatility in recent decades, including the economic crisis in 2003. Although the Dominican economy has grown significantly in the past few months, the Republic cannot offer any assurance that the Dominican economy will grow in the future. Economic growth depends on a variety of factors, including, among others, international demand for Dominican exports, the stability and competitiveness of the peso against foreign currencies, confidence among Dominican consumers and foreign and domestic investors and their rates of investment in the Republic, the willingness and ability of businesses to engage in new capital spending and the rate of inflation. Some of these factors are outside the Republic's control. If the Dominican economy contracts, the Republic's revenues may decrease materially, the ability of the Republic to service its public debt, including the bonds, may be adversely affected and the market price of the bonds may be impaired.

The Republic may be unable to obtain financing on satisfactory terms in the future and its ability to service its public debt may be adversely affected.

The Republic's future fiscal results (*i.e.,* tax receipts excluding interest payments on the Republic's public debt) may be insufficient to meet its debt service obligations and it may have to rely in part on additional financing from the domestic and international capital markets in order to meet future debt service obligations. In the future, the Republic may not be able or willing to access the international or domestic capital markets, and the Republic's ability to service the Republic's public debt, including the bonds, may be adversely affected.

An increase in inflation could have a material adverse effect on the Dominican Republic's economy.

Depreciation of the peso created pressure on the domestic price system that generated high rates of inflation in 2003 and 2004. Although inflation rates dropped significantly in 2005, the Republic cannot assure you that inflation rates will not rise again in the future. Significant inflation could have a material adverse effect on the Dominican economy and the ability to service the Republic's debt, including the bonds.

The Republic's banking and financial sector remains vulnerable to domestic shocks, which could threaten the financial system and lead to significant new government liabilities, adversely affecting the Republic's public finances and the ability of the Republic to service its public debt, including the bonds.

In May 2003, Banco Intercontinental, or BanInter, the country's second largest commercial bank in terms of deposits, collapsed amid allegations of fraud and losses of approximately US$2.5 billion, which led to the intervention of BanInter by the Banking Superintendency. With public confidence in the banking system severely eroded, many depositors withdrew their deposits from banks, causing two other private domestic banks, Bancrédito and Banco Mercantil, to experience liquidity crises and near collapse that resulted from runs on the banks' deposits.

As a result, the Central Bank was forced to provide substantial financial aid to these banks and the Government financed the costs of the banking crisis by guaranteeing deposits and honoring interbank liabilities domestically and abroad. The 2003 banking crisis provoked a broader deterioration of the economy, which included a decrease in real GDP, a substantial increase in the non-financial public sector deficit, a sharp depreciation of the peso, a substantial reduction in the levels of the Central Bank's net international reserves, an increase in domestic real interest rates and an increase in unemployment and social unrest.

Despite recent reforms of the banking sector, the Republic cannot assure you that future shocks, such as the failure of one or more banks or a run on deposits, will not occur or that the Republic would choose to or be able to effectively intervene to prevent a collapse of the financial system. In February 2006, allegations of fraud and losses at Banco del Progreso, a local commercial bank, led to an ongoing criminal investigation of several high-ranking officers of the bank. Although these allegations have not required the Central Bank to grant financial assistance to or intervene Banco del Progreso, the Republic cannot assure you that it will not be required to do so in the future. Any required intervention of financial institutions could lead to substantial liabilities for the Republic, which could undermine the Republic's public finances and have a material adverse effect on both the Republic's prospects for economic growth and its ability to service its public debt, including the bonds.

A significant decrease in remittances from Dominicans living abroad may adversely affect the ability of the Republic to service its external debt, including the bonds.

Remittances from Dominicans living abroad, which in 2004 totaled US$2.2 billion, are one of the most important sources of foreign exchange in the Republic. Remittances, which are primarily denominated in U.S. dollars, provide a portion of the foreign currency required to pay for imports and for the Government to make payments on its external debt, and are a source of net transfers to the Republic's current account. A significant decrease in remittances may lead to depreciation of the peso and negatively affect the ability of the Republic to meet its external debt obligations.

The Dominican economy remains vulnerable to external shocks, which could have a material adverse effect on economic growth and the Republic's ability to make payments on its debt.

A significant decline in the economic growth of any of the Republic's major trading partners, especially the United States, could have a material adverse effect on the Republic's balance of trade and adversely affect the Republic's economic growth. The United States is the Republic's largest export market. A decline in demand for Dominican imports in the United States could have a material adverse effect on exports and the Republic's economic growth. In addition, because international investors' reactions to the events occurring in one emerging market economy sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavored by international investors, the Republic could be adversely affected by negative economic or financial developments in other emerging market countries. The Republic cannot assure you that events affecting other markets will not have a material adverse effect on the Republic's growth and its ability to service its public debt, including the bonds.

A significant rise in interest rates in developed economies such as the United States could have a material adverse effect on the economies of the Dominican Republic's trading partners and adversely affect Dominican economic growth and the ability of the Republic to service its public debt.

If interest rates increase significantly in developed economies, including the United States, the Republic's trading partners could find it more difficult and expensive to borrow capital and refinance existing debt, which could adversely affect economic growth in those countries. Decreased growth on the part of the Republic's trading partners could have a material adverse affect on the markets for Dominican exports and, in turn, adversely affect the Dominican economy. An increase in interest rates in developed economies would also increase the Republic's debt service requirements with respect to its debt obligations that accrue interest at floating rates, which could adversely affect the ability of the Republic to service its public debt generally, including the bonds.

The on-going crisis in the electricity sector could have a material adverse impact on the Republic's economic growth and, ultimately, on the Republic's ability to service its public debt, including the bonds.

Electricity generators and distributors have been beset by financial problems that have resulted in frequent blackouts, widespread public protests and several temporary and permanent shutdowns of generating plants. Distributors, which have experienced financial difficulties because of late payments and collection problems, have been unable to meet all of their payment obligations to generators, which have consequently incurred significant debt to finance operations. In September 2003, the Government was forced to renationalize two of the Republic's three distribution companies for a purchase price of US$699.6 million (including interest) and reassume their management due to severe financial and operating difficulties.

Persistent problems in the electricity sector have had, and may continue to have, a wide range of adverse affects on the economy. Foreign investors may find the Republic less appealing due to the costs and increased risks of investing in an infrastructure with inadequate power supply. Foreign trade, particularly in the export-based manufacturing free trade zones, may be negatively affected by electricity shortages and resulting production interruptions during blackouts. Current subsidies may be politically difficult to eliminate until certain structural reforms are made and stability of energy prices is achieved and may contribute to the fiscal deficit. See "The Economy—Secondary Production—Electricity, Gas and Water—Electricity."

Any revision to the Republic's official financial or economic data resulting from any subsequent review of such data by the Central Bank or other government entities could have a material adverse effect on the Republic's ability to service its public debt.

Certain financial and other information presented in this offering memorandum may subsequently be materially adjusted or revised to reflect new or more accurate data, as a result of the periodic review of the Republic's official financial and economic statistics. Such revisions could reveal that the Republic's economic and financial conditions as of any particular date are materially different from those described in this offering memorandum. The Republic can offer no assurance that such adjustments or revisions will not have a material adverse effect on the interests of the Republic's creditors, including any purchasers of the bonds pursuant to this offer.

The expiration of the WTO Agreement on Textiles and Clothing may continue to have an adverse effect on Dominican exports.

The Dominican economy has been and is likely to continue to be adversely affected by the elimination of global quotas on textiles following the expiration of the WTO Agreement on Textiles and Clothing on January 1, 2005. As a result, textile exports, a key source of foreign currency for the Republic, no longer enjoy preferential access to the United States' market, and have decreased significantly due to greater foreign competition, principally from China and India. See "The Economy—Principal Sectors of the Economy—Secondary Production—Manufacturing—Free Trade Zones" and "Balance of Payments and Foreign Trade—Foreign Trade." The Republic cannot predict the future impact of the expiration of the WTO Agreement on Textiles and Clothing on the Republic's foreign trade and economic condition generally.

The DR-CAFTA may have an adverse effect on certain aspects of the Dominican economy.

The DR-CAFTA was ratified by the Dominican Congress in 2005 and is expected to be fully implemented by the Dominican Republic, the United States, and its five Central American members during 2006. The trade agreement will further open the United States to Dominican products, which will likely have a positive impact on the Republic's export-oriented sectors. In particular, textile exports, which have been adversely affected by greater global competition following the expiration of the WTO Agreement on Textiles and Clothing, may benefit from preferential access to the U.S. market.

However, certain sectors of the Dominican economy may suffer due to increased competition from foreign imports, particularly from the United States, as a result of the reduction of import tariffs. The Republic cannot predict the full implications of the DR-CAFTA on the Republic's foreign trade and economic condition generally. In addition, the Republic is required to eliminate several key sources of revenue and foreign currency, including the 13% foreign exchange commission, as a prerequisite to full implementation of the DR-CAFTA. Fiscal reforms implemented in December 2005 and a transitory tariff of 13% on certain imported goods, which are in part intended to compensate for revenue losses resulting from the elimination of the foreign exchange commission, may have unpredictable effects on the Dominican economy.

Future political support for the Government's economic reform program, including servicing of the external debt, is not assured.

The Fernández administration's party, the *Partido de la Liberación Dominicana*, does not control a majority in either house of the Dominican Congress. Future changes in the political environment, including the results of the May 2006 congressional elections, may lead to a shift in economic policy and a resulting reduction in the proportion of the Government's budget devoted to debt service or have other adverse effects on the Republic's ability to meet its debt obligations in the future.

The Republic relies heavily on foreign oil supplies, which may be disrupted or increase in cost in the future.

The Republic is dependent on oil imports to satisfy domestic energy consumption. In June 2005, the Republic entered into the PetroCaribe Agreement under which the government of Venezuela has agreed to supply oil to the Republic on financing terms that currently are more favorable than those generally available in the market. See "The Economy—Principal Sectors of the Economy—Secondary Production—Manufacturing—Free Trade Zones" and "Public Sector Debt—External Debt—Paris Club and Other Bilateral Creditors." The Republic cannot guarantee that this agreement, or any future agreement with Venezuela or any other country, will not be terminated. Furthermore, any disruption of oil supplies or a significant increase in international oil prices may have a material adverse effect on the Dominican economy.

USE OF PROCEEDS

The net proceeds from the sale of the bonds will be approximately US$299,475,000, less any expenses payable by the Republic. See "Plan of Distribution."

The Republic will use the net proceeds to prepay the remaining installments of the purchase price due to Unión Fenosa for the Republic's purchase of electricity distribution companies Ede Norte and Ede Sur. The prepayment will be made in accordance with the terms of the memorandum of understanding entered into by the Republic and Unión Fenosa in August 2005, as amended in December 2005. For a description of the terms of the prepayment, see "The Economy—Privatization and Role of the State in the Dominican Economy—Privatization" and "Public Sector Debt—Domestic Debt—Debt Related to the Private Electricity Sector."

THE DOMINICAN REPUBLIC

Territory and Population

The Dominican Republic is located on the eastern two-thirds of the Caribbean island of Hispaniola, which lies between the islands of Cuba to the west and Puerto Rico to the east, and is situated approximately 670 miles southeast of Florida. Its territory covers an area of approximately 48,442 square kilometers, including a 1,600-kilometer coastline and a 275-kilometer land frontier that it shares with Haiti, which occupies the western portion of the island. The Dominican Republic's major cities are Santo Domingo de Guzmán (the nation's capital), Santiago de los Caballeros, La Vega, La Romana and Puerto Plata.

The Dominican Republic has a tropical maritime climate, with average annual temperatures of about 78 degrees Fahrenheit (equivalent to approximately 26 degrees Celsius), and only slight seasonal temperature variations throughout the year. The location of the Dominican Republic often puts it in the path of hurricanes that sweep the Caribbean region between the months of June and November. The occurrence of a major hurricane, and the threat of future hurricanes in the region, could adversely affect the Dominican economy.

The Dominican Republic's population of approximately 8.6 million is multi-racial and multi-cultural, with a predominant Spanish cultural influence. Approximately 36.4% of the population resides in rural areas. According to the most recent national census conducted in 2002, the population grew at an estimated average annual rate of 1.5% in the period from 1999 to 2002.

The Dominican Republic's adult literacy rate is approximately 84.4%. The education system consists of public and private schools that offer pre-school (ages 3-5), primary (ages 6-13), and secondary (ages 14-17) education. There is one public university in the country – the Autonomous University of Santo Domingo, founded in 1538 and the oldest university in the Western Hemisphere – and 33 private universities, which offer undergraduate programs lasting three to five years. The Autonomous University of Santo Domingo, and several private universities, also offer graduate programs that typically last one to two years. In addition, various private and public institutions offer vocational programs for students who have not completed their secondary education. In the 2001-2002 school year, approximately 85.6% of children aged 6 to 13 attended primary school, while enrollment at the secondary school level was approximately 56.1%. Approximately 10.5% of Dominicans pursued higher education during the 2001-2002 school year.

The World Bank classifies the Dominican Republic as a middle-income developing country. The following table sets forth comparative GNP figures and selected other comparative statistics for the periods indicated.

	Dominican Republic	Jamaica	Guatemala	El Salvador	Panama	Colombia	Costa Rica	Mexico	United States
Per capita GNP(1)	US$6,823	US$4,104	US$4,148	US$6,107	US$6,854	US$6,702	US$9,606	US$9,168	US$37,562
United Nations index of human development (world ranking)(1)	95	98	117	104	56	69	47	53	10
Life expectancy at birth (in years)(1)	67.2	70.8	67.3	70.9	74.8	72.4	78.2	75.1	77.4
Infant mortality (% of live births)(1)	29.0%	17.0%	35.0%	32.0%	18.0%	18.0%	8.0%	23.0%	7%(2)
Adult literacy rate(1)	87.7%	87.6%	69.1%	79.7%	91.9%	94.2%	95.8%	90.3%(4)	99.0%(6)
% of population below the poverty line(3)	25.8%(5)	19.0%(6)	56.0%(6)	58.0%(6)	17.6%(6)	22.6%(6)	9.5%	26.3%	n.a.

(1) 2003 data. *Source*: World Bank. Human Development Index 2005.
(2) 2002 data. *Source*: World Bank.
(3) Poverty in this offering memorandum is defined as an income of US$2 a day per capita per household, adjusted by differences in purchasing power.
(4) 1999 data.
(5) 1998 data.
(6) 2000 data.
n.a. = Not Available.

History, Government and Political Parties

History

Founded as a colony of Spain in 1492, the Dominican Republic was under Spanish rule until 1821, when it declared its independence from Spain. Following a month-long period of independence, the Dominican Republic was invaded by Haiti, which occupied the country until 1844. After successfully waging a battle for independence against Haiti, political factions within the Dominican Republic battled for control, and the country underwent various changes of government, including voluntary annexation to Spain in the 1860s. Factional infighting continued until the United States occupied the country from 1916 to 1924. A democratic government established in 1924 was followed by the military dictatorship of Rafael Leonidas Trujillo, who ruled the Dominican Republic from 1930 until he was assassinated in 1961. A brief period of political instability followed during which the Dominican Republic was governed by a series of different factions and was subject to foreign military intervention under the auspices of the Organization of American States.

Juan Bosch, then leader of the *Partido Revolucionario Dominicano* (the Dominican Revolutionary Party, or the "PRD"), and a reformist social-democratic politician, was elected president in 1962. In September 1963, the military, backed by the business elite and factions of the Dominican Catholic Church unhappy with Bosch's reformist orientation, deposed Bosch's government in favor of a civilian junta led by Donald Reid Cabral, a member of the country's business elite. The ruling junta soon became unpopular, and in April 1965, a civil-military coup attempted to return Bosch to power. The United States, propelled by fears of the spread of communism in the region, invaded the Dominican Republic four days after the attempted coup. Shortly thereafter, conservatives and PRD members signed an agreement that established a provisional government and called for new elections.

Conservative Joaquín Balaguer, of the center-right *Partido Reformista,* later transformed into the *Partido Reformista Social Cristiano* (the Christian Social Reform Party, or the "PRSC"), was elected president in 1966. Balaguer governed for 12 years (1966-78) and went on to become a dominant political figure in the Dominican Republic for the next decades. Balaguer's administration was based on a compromise among the traditional agrarian and industrial elites, the rising urban middle class and the military. The United States supported Balaguer's administration, guaranteeing its stability. In 1978, Antonio Guzmán, of the PRD, was elected president. Guzmán was followed in 1982 by Salvador Jorge Blanco, also of the PRD.

In 1986, Balaguer regained the presidency and was reelected in 1990 and again in 1994 after defeating José Francisco Peña Gómez, of the PRD, in a hotly-contested election. Controversy surrounding the legitimacy of the reelection of Balaguer in 1994 and charges of election fraud led to a political compromise by which Balaguer agreed to shorten the term for which he was elected, from four to two years. This compromise also led to major constitutional reforms that, among other things, instituted pivotal changes in the electoral and judicial systems.

These changes secured the autonomy of the judiciary and enhanced the Dominican electoral process. For a description of the 1994 amendments to the Constitution, see "—Government."

In the 1996 presidential elections, Leonel Fernández, of the *Partido de la Liberación Dominicana* (the Dominican Liberation Party, or the "PLD"), a party founded by Juan Bosch following his split from the PRD, defeated Peña Gomez as a result of an alliance with Balaguer and the PRSC. Fernández was succeeded as president in 2000 by Hipólito Mejía, of the PRD. Mejía held a controversial and unsuccessful reelection bid against Fernández in May 2004, in which Fernández was again elected president after obtaining 57% of the votes cast (followed by Mejía with 33.6% and PRSC candidate, Eduardo Estrella, with 8.7%). On August 16, 2004, Leonel Fernández was inaugurated as president for his second non-consecutive four-year term.

Government

The Dominican Republic is politically organized as a representative democratic government, and is geographically and administratively divided into 31 provinces and one national district, each with its own civil government. The 1966 Constitution, last amended in July 2002, provides for a presidential system of government in which national powers are divided among independent executive, legislative and judicial branches.

Executive power is exercised by the president, who appoints the cabinet, enacts laws passed by the legislative branch, and is the commander-in-chief of the armed forces. The president and vice president run for office on the same ticket and are elected by direct majority vote to one four-year term. Pursuant to the 2002 amendments to the Constitution, a president may be elected for only two consecutive terms. In addition, the 1994 constitutional amendments require that a second electoral round be held if the first round does not result in a majority vote for any one presidential candidate (a majority in the first round constitutes 50% plus one vote of the total votes cast). Presidential elections are held separately from legislative and municipal elections.

The legislative branch is composed of a 32-member Senate and a 150-member Chamber of Deputies, which together constitute the Congress. Each province and the *Distrito Nacional* (the National District of the capital city, Santo Domingo) is represented by one senator and two or more deputies, depending on the size of its population. Members of Congress are elected by popular vote to four-year terms, with congressional elections taking place in the middle of the presidential term. All congressional seats are up for election at the end of each four-year cycle. The next congressional elections will be held on May 16, 2006.

Most legislative initiatives originate with the executive power. In matters of monetary policy and banking law, legislative initiatives that do not originate in the Central Bank must be approved by a qualified majority of senators and deputies.

As a result of the 1994 constitutional reforms, the 16 members of the Supreme Court are appointed for life by the *Consejo Nacional de la Magistratura* (the National Council of the Judiciary), a body that was created solely for this purpose. The National Council of the Judiciary is composed of the President of the Republic, the president of the Senate, a senator from a political party different from that of the president of the Senate, the president of the Chamber of Deputies, a deputy from a party different from that of the president of the Chamber of Deputies, the president of the Supreme Court, and another Supreme Court judge appointed by the Supreme Court. The Supreme Court has exclusive jurisdiction over actions against the President, designated members of the cabinet and members of Congress. The Supreme Court may also hear appeals from lower courts. The Dominican judicial system is also composed of the following courts:

- Courts of First Instance, which have jurisdiction over all cases the jurisdiction of which is not expressly granted to other courts;

- Courts of Appeals, which review judgments rendered by the Courts of First Instance; and

- Peace Courts, which handle a broad variety of minor cases.

In addition, specialized courts handle administrative, labor, traffic and land registration disputes. Under the 1994 constitutional amendments, lower court judges are appointed by the Supreme Court.

Political Parties

The principal political parties in the Dominican Republic are the PLD (democratic left), the PRSC (conservative) and the PRD (populist). The following is a brief explanation of the history and orientation of each principal party.

Partido de la Liberación Dominicana. The PLD has a democratic left social orientation and supports socially-oriented market policies. The PLD was founded by late former President Juan Bosch, who died in November 2001, after his split with the PRD. Its principal leaders are President Leonel Fernández, former presidential candidate Danilo Medina, and former Vice President Jaime David Fernández Mirabal. The PLD derives its political support primarily from the middle class and certain professional and intellectual circles.

Partido Reformista Social Cristiano. The PRSC is a conservative Christian democratic party that advocates free-market principles. Its principal leader, the late former President Joaquín Balaguer, died in July 2002. Other important leaders include Federico Antún Batlle, Johnny Jones and Victor Gómez Bergés. During the rule of

President Balaguer, the PRSC established close ties with certain business sectors, particularly in the fields of industry and construction. Since President Balaguer's death, the PRSC has undergone a process of reorganization.

Partido Revolucionario Dominicano. The PRD is a populist party. Its principal leader, José Francisco Peña Gómez, died in 1998. Other important leaders include former President Hipólito Mejía, former Vice President Milagros Ortíz Bosch, party president Vicente Sánchez Baret and Rafael Suberví Bonilla. The PRD derives its political support primarily from the lower and lower-middle classes. The PRD holds an absolute majority in the Senate and is the largest party in the Chamber of Deputies.

The first Fernández administration (1996-2000) emphasized macroeconomic stability, modernization of the Dominican economy and of governmental institutions, economic and political integration with the Caribbean region and the global economy, strengthening of the judiciary, and modernization of the education system. The current Fernández administration faced considerable challenges when it took office, including stressed public finances and economic instability following a banking crisis and a downturn in GDP growth in 2003. In its first two years in office, the Fernández administration has focused on restoring order to public finances, fostering an economic recovery and tackling the structural problems that contributed to the 2003 crisis by adopting measures to strengthen state institutions, improve banking supervision and regulation and combat corruption. Several of the Fernández administration reforms have successfully been carried out, while others are still in the process of being implemented. See "The Economy—Economic Policies of the Fernández Administration" and "The Monetary System—Supervision of the Financial System—Reforms of the Financial System."

Congressional representation of each of the political parties since the most recent election is as follows:

	Senate		Chamber of Deputies	
	Seats	**%**	**Seats**	**%**
Partido Revolucionario Dominicano and allied parties(1)	29	90.6%	72	48.0%
Partido de la Liberación Dominicana and allied parties(2)	1	3.1	42	28.0
Partido Reformista Social Cristiano	2	6.3	35	23.3
Partido Popular Cristiano	–	–	1	0.7
Total	32	100.0%	150	100.0%

(1) Allies: *Partido Quisqueyano Demócrata Cristiano, Partido Renacentista Nacional, Partido de Unidad Nacional, Unidad Demócrata* and *Partido Humanista Dominicano.*

(2) Allies: *Bloque Institucional Social Demócrata, Partido Alianza por la Democracia, Partidos de los Trabajadores Dominicanos, Unión Demócrata Cristiana, Partido Liberal de la República Dominicana* and *Fuerza Nacional Progresista*.

Source: Congress of the Dominican Republic.

The next congressional elections are scheduled for May 2006.

Foreign Policy and Membership in International and Regional Organizations

The Dominican Republic has not been involved in any significant international conflicts in recent years. This has allowed the country to focus its foreign policy principally on developing economic ties with other nations. The Dominican Republic maintains diplomatic relations with more than 73 countries and is a member of 17 regional and international organizations, including:

- the United Nations (founding member), including many of its specialized agencies;
- the Caribbean Forum of African, Caribbean and Pacific States;
- the Economic Commission for Latin America and the Caribbean;
- the Inter-American Development Bank (the "IDB");
- the Inter-American Investment Corporation;
- the Caribbean Development Bank;

- the IMF;
- the International Bank for Reconstruction and Development (the "World Bank");
- the International Centre for Settlement of Investment Disputes;
- the International Finance Corporation;
- the International Labour Organization;
- the Multilateral Investment Guaranty Agency;
- the Organization of American States; and
- the World Trade Organization (the "WTO").

In addition, the Dominican Republic participates in several regional initiatives designed to promote trade and foreign investment. The most significant of these initiatives are the following:

- Since 1983, the Dominican Republic has been one of the 24 beneficiaries of the Caribbean Basin Initiative, a program of unilateral trade preferences granted by the United States and intended to promote economic development in the region. The Dominican Republic supplies approximately 24% of the products that enter the U.S. market under this trade program. In May 2000, the United States expanded its Caribbean Basin Initiative. The resulting U.S.-Caribbean Textile Parity Agreement (the "Textile Parity Agreement"), in effect until 2008, grants certain textiles and garments produced in the Dominican Republic and other Caribbean countries preferential access similar to that granted to products from Mexico and Canada under the North American Free Trade Agreement ("NAFTA"). On January 1, 2005, U.S. quotas on textiles from other countries were eliminated as a result of the expiration of the WTO Agreement on Textiles and Clothing. This is expected to have a substantial adverse impact on Dominican exports to the United States. See "The Economy—Secondary Production—Manufacturing—Free Trade Zones."

- Since 1989, the Republic has been a party to the Cotonou Agreement (formerly known as the Lomé IV Agreement), pursuant to which the European Union offers economic cooperation and assistance to former colonies in Africa, the Caribbean and the Pacific. Under this agreement, the Dominican Republic benefits from donations, development loans and technical cooperation provided by the European Union.

- In 1994, the Republic participated in the establishment of the Association of Caribbean States, whose purpose is to promote regional economic integration and cooperation. Through its involvement in this association, the Republic has been able to establish dialogues and working relationships with its neighbors on a series of important issues, such as trade liberalization, tourism, disaster relief, transportation and foreign investment.

- In 1994, the Republic participated in the Summit of the Americas in Miami, which led to the establishment of the Free Trade Agreement of the Americas. This trade agreement seeks to create a free trade zone in the Western Hemisphere, which, if implemented, would grant preferential treatment to Dominican goods and services exported to other member countries.

- In April 1998, the Republic signed a free trade agreement with the members of the Central American Common Market, which lowered tariffs and established trade rules in areas such as foreign investment, public procurement, rules of origin, customs procedures, safeguard measures, sanitary requirements, technical barriers to trade, unfair trade practices, promotion of competition, intellectual property and dispute resolution. This agreement was approved by the Dominican Congress in March 2001, and became effective for each of the signatory Central American countries once approved by their respective governments. In August 2002, Nicaragua was the last country to approve the agreement.

- In August 1998, the Republic signed a free trade agreement with the Caribbean Community ("Caricom") covering areas similar to those addressed by the free trade agreement with the Central American Common Market. This agreement was approved by the Dominican Congress in February 2001 and took effect on December 1, 2001.

- In March 2004, the Republic signed the DR-CAFTA with the United States and several Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). The DR-CAFTA will increase the percentage of Dominican exports to the United States that will be free of tariffs from 91% to 99.7%. The DR-CAFTA has been ratified by the Dominican Congress and the U.S. Congress, and is scheduled to enter into force in 2006.

- In addition, the Republic recently entered into a bilateral trade agreement with Panama and intends to initiate negotiations with Venezuela and Canada related to trade agreements with those countries.

The Republic has also worked closely with the World Bank and the IDB to promote economic development and financial stability. Currently, these multilateral organizations are financing several projects in the Republic in areas such as education, agriculture, public sector reform, transportation, telecommunications, disaster relief, public health, environmental reform and financial sector reform. The aggregate amount of the loans extended by the World Bank and the IDB for these outstanding projects is approximately US$2.7 billion.

In May 2005, the World Bank approved a 17-year, US$150 million loan aimed at alleviating the financial problems in the electricity sector. This loan is intended to finance the implementation of measures to improve cash recovery and impose tighter cost controls in order to achieve financial sustainability, thereby stabilizing the power supply and preventing recurrent power outages. See "The Economy—Secondary Production—Electricity, Gas and Water—Electricity." In addition, in May 2005, the World Bank announced a package of technical assistance loans of up to US$360 million to be granted between 2006 and 2009, of which US$12.5 million are to strengthen the financial sector and US$7.3 million are to provide technical assistance to the electricity sector.

In March 2004, the IDB approved a 20-year, US$37 million loan aimed at improving living conditions in marginalized communities, including the development of basic infrastructure, such as drinking water, sewers, drainage ditches, streets and lighting. The IDB is considering five additional credit facilities for 2006 and 2007 totaling approximately US$300 million. The proceeds of these loans will be used for social sector reforms, natural disaster prevention and public sector statistics and finances reforms.

Litigation involving the Republic

The Dominican Republic is currently a defendant in the following two cases before international tribunals:

- *Cayman Power Barge I, Ltd. vs. Dominican Corporation of State Electricity Companies (CDEEE).* In November 2001, Cayman Power Barge I, Ltd. ("Cayman Power Barge") initiated proceedings against the *Corporación Dominicana de Empresas Eléctricas Estatales* (Dominican Corporation of State Electricity Companies, "CDEEE") in the International Court of Arbitration. Cayman Power Barge, a power generator, seeks monetary damages for an alleged failure by CDEEE to pay amounts owed under a power purchase agreement. On May 30, 2005, the arbitral tribunal ruled in favor of Cayman Power Barge and ordered CDEEE to pay US$5,431,476.01 to Cayman Power Barge. CDEEE intends to pay this amount, which has been accounted for in its budget for 2006.

- *Smith-Enron Cogeneration Partnership vs. CDEEE.* In June 2002, Smith-Enron Cogeneration Partnership ("Smith-Enron") initiated proceedings against CDEEE in the International Court of Arbitration. Smith-Enron, a power generator, seeks monetary damages for CDEEE's failure to pay amounts owed under a power purchase agreement between the parties for the sale of electricity to CDEEE. The case was suspended by the arbitral tribunal at the request of the parties in August 2004.

- *Empresa Generadora de Electricidad Itabo, S.A. (EGE Itabo) vs. CDEEE and Reformed Companies Capital Fund (FONPER).* In July 2004, CDEEE, as shareholder of EGE Itabo, filed suit against EGE Itabo in Dominican courts following the discovery of anomalies in the use of certain funds by EGE Itabo's external auditors, seeking a complete rendering of accounts by EGE Itabo and an unspecified amount of damages. The court of first instance and the court of appeals declined to consider the case, ruling that it was subject to arbitration in accordance with EGE Itabo's constitutive documents. In January 2006, CDEEE appealed these rulings before the Dominican Supreme Court. In February 2005, EGE Itabo initiated proceedings against CDEEE and FONPER in the International Court of Arbitration for failure to follow contractual arrangements in relation to the settlement of disputes and interference with the management and administration of EGE Itabo. The parties are in the process of submitting briefs, and oral arguments are scheduled for April-May 2006.

In addition, the Dominican Republic was recently involved in WTO proceedings brought by Honduras in October 2003 alleging that the Republic's application of certain laws and regulations violated the General Agreement on Tariffs and Trade (the "GATT") as applied to several Honduran goods. The complaint included objections to several different practices affecting imports of Honduran cigarettes, such as the imposition of stamp taxes, alleged procedural abuses in the administration of taxes on cigarettes, the requirement that importers post a bond to guarantee the payment of taxes and a foreign exchange commission imposed on imported goods. See "The Monetary System—Central Bank." In November 2004, a WTO panel ruled against the Republic on all issues except the bond requirement. In January 2005, the Republic appealed certain issues decided by the panel and in April 2005, the WTO Appellate Body determined that the stamp and bond requirements imposed by the Republic on cigarettes violated the GATT. The Republic has committed to bring the measures at issue into conformity by May 2007, including the foreign exchange commission. See "Balance of Payments—Foreign Trade."

Relations with Haiti

The Dominican Republic generally maintains friendly relations and close ties with Haiti. The two countries have entered into several bilateral agreements in areas of mutual interest such as immigration, reforestation of the border region, agriculture and livestock and education. In addition, Haiti and the Dominican Republic are seeking to develop free trade zones on the Dominican Republic-Haiti border. On April 8, 2002, the Presidents of these two countries inaugurated the first free trade zone on that border.

National and international agencies estimate that approximately 500,000 Haitians currently live in the Dominican Republic. This population is generally comprised of three distinct subgroups: seasonal agricultural workers; undocumented immigrants; and political refugees. Most Haitians living in the Dominican Republic are undocumented, and illegal immigration occasionally becomes a source of tension between the two countries.

Although the Government has not made any explicit commitment towards Haitian immigrants in terms of healthcare, education or social security, the Haitian population in the Dominican Republic generally benefits from the Government's social services, particularly with respect to healthcare. Additionally, the Government seeks to improve living conditions in the *bateyes,* which are communities within the sugar cane areas that are inhabited principally by Haitian immigrants.

Haitians in the Dominican Republic work mainly in the construction and agricultural sectors. The Haitian labor force is generally comprised of unskilled workers earning low wages. The increased availability of low-wage Haitian workers may have an adverse effect on the living conditions of low-wage Dominican workers, with whom they compete.

THE ECONOMY

History and Background

In the 1930s and after the end of World War II, many countries in Latin America pursued policies of industrialization through import substitution. These policies were based on the following tenets:

- state intervention in the economy through the creation of barriers to protect domestic production from foreign competition and through the expansion of state-owned enterprises that provided large numbers of jobs;
- protection of certain local industries; and
- broadening of domestic markets.

The policies of import substitution took place in the Dominican Republic approximately between 1945 and 1985. During this period, the Government promoted industrialization primarily through fiscal incentives and investments in infrastructure. The Dominican economy expanded through growth in several industry sectors, improvements in education and increased government spending. This economic expansion, in turn, led to opportunities for upward social mobility and the rise of an urban middle class. At the same time, the urban working class expanded due to rural-urban migration.

In the late 1970s and 1980s, import substitution policies based on fiscal incentives to local industries generated significant structural economic weaknesses. These policies limited fiscal revenues and reduced productivity growth. The results were:

- fiscal deficits;
- current account deficits; and
- low economic growth as a result of limited domestic markets and lower productivity.

The oil crisis in 1979 exacerbated these fiscal and current account imbalances. The situation deteriorated further with the decline in prices of Dominican export commodities and a worldwide recession. The Dominican Republic, along with most other Latin American economies, plunged into a debt crisis that led to a shift in development policies.

In the mid-1980s, the Government adopted policies to increase exports and improve the fiscal balance. Liberalization of the exchange rate, combined with the imposition of new taxes, contributed to the improvement of the external accounts and the fiscal balance. The dynamism in tourism and export manufacturing in industrial parks called *zonas francas,* or "free trade zones," stimulated economic growth, employment and income. For a description of the free trade zones, see "—Secondary Production—Manufacturing." Workers' remittances also increased dramatically during the 1980s, becoming one of the Republic's main sources of foreign currency. By the late 1980s, however, high government spending on infrastructure projects (principally roads, highways, dams and tourism facilities) resulted in a public sector deficit that was domestically financed, and, in turn, resulted in an increase in inflation.

In 1990, the Government successfully implemented stabilization and economic reforms that resulted in a fiscal balance, and created the internal conditions for rapid and sustainable economic growth and price stability. The central elements of the Government's economic policy consisted of a series of structural reforms, including tariff, tax, financial and labor reforms, gradual adjustments in the price of oil and oil derivatives, interest rate liberalization and improved banking supervision. On the basis of these policies, the IMF and the Republic agreed on two stand-by loan arrangements.

The Government implemented further reforms in 1995, when the Dominican Congress passed a foreign investment law that dismantled various restrictions on foreign direct investment. Those restrictions had included:

- a ban on foreign investments in certain sectors of the economy; and
- a limit on the profits that foreign investors could repatriate.

The 1995 foreign investment law also ensured the equal treatment of investors regardless of nationality, by eliminating requirements such as the need to obtain Central Bank approval before profits could be repatriated.

The various reforms that the Government adopted during the 1990s succeeded in curbing inflation and restoring growth, in part by controlling the expansion of public sector expenditures, reducing state intervention in the economy, increasing the competitiveness of the Dominican economy and rationalizing the Government's fiscal and monetary policies. Additionally, economic growth, higher employment, stable prices and rising real wages led to modest improvements in income distribution and a decline in poverty. During the 1990s the Republic's real GDP grew at an average annual rate of 5.8%, which placed it among the fastest growing economies in Latin America.

2000-2004 Developments

In 2000, the Republic's real GDP grew 8.1% compared to 1999, continuing the trend of robust growth experienced in the 1990s. The economic growth was primarily attributable to:

- the growth in capital investment; and
- increased productivity due to increased efficiency resulting from the structural reforms that the Government implemented in the 1990s.

During the period from 2001 to 2002, the economic growth began to decline as a result of several external shocks, including:

- the aftermath of the terrorist attacks of September 11, 2001;
- the economic slowdown in the United States and the member countries of the European Union, leading to weakened external demand for the export of Dominican goods and services;
- the depreciation of the euro; and
- an increase in oil prices in the last quarter of 2000 and in 2002.

Several sectors of the economy that had contributed significantly to the country's growth during the 1990s slowed as a result of these shocks and the consequent reduction in demand, including tourism, free trade zones, construction and wholesale and retail trade.

In 2003, the Dominican economy experienced severe setbacks that led to an acute crisis. The economic crisis was precipitated by the collapse of BanInter, the country's second largest commercial bank in terms of deposits, in May 2003. BanInter was intervened by the Banking Superintendency in response to accusations of fraud and losses of approximately US$2.5 billion. With public confidence in the banking system severely eroded, many depositors withdrew their deposits from banks, causing two other private domestic banks, Bancrédito and Banco Mercantil, to experience liquidity crises and near collapse that resulted from runs on the banks' deposits. The Central Bank provided liquidity assistance to Bancrédito and Banco Mercantil of approximately DOP5.9 billion (US$194.9 million) and the Government financed the costs of the banking crisis, guaranteeing deposits and honoring interbank liabilities domestically and abroad. In order to cover the costs of this bailout, the Central Bank relaxed its monetary policy, increasing the money supply as it financed lost deposits. This led to an increase in inflation, a depreciation of the peso and an increase in domestic real interest rates.

The banking crisis provoked a broader deterioration of the economy, which included a decrease in real GDP (which declined 1.9% in 2003 compared to 2002), a substantial increase in the non-financial public sector deficit, a sharp depreciation of the peso, a substantial reduction in the levels of the Central Bank's net international reserves (from US$376 million at December 31, 2002 to US$123 million at December 31, 2003), an increase in domestic real interest rates as a result of the Central Bank's open-market operations to curb inflation, and an increase in unemployment. The economic crisis gave rise to social unrest as economic conditions deteriorated and labor strikes and street demonstrations became prevalent.

As a result of significant pressure on the peso and concerns of further economic deterioration, the Republic requested the assistance of the IMF and agreed to a US$600 million financing program in August 2003. As part of the program, the Government agreed to a package of economic reforms and political measures designed to strengthen the country's financial system, public finances and the Central Bank's monetary policy. The IMF suspended the facility in September 2003, after the Government deviated from the economic program agreed to with the IMF in connection with the stand-by arrangement in effect at the time by re-purchasing two electrical distribution companies from Spanish company Unión Fenosa that had previously been privatized by the Mejía administration. See "—Privatization and Role of the State in the Economy—Privatization" and "Public Sector Debt—Debt Owned to Official Institutions—IMF."

The economic crisis negatively affected the Government's fiscal receipts and liquidity, resulting in arrears and the eventual restructuring of public sector external debt owed to multilateral institutions, bilateral creditors (both Paris Club and non-Paris Club members), private banks and suppliers. While the economy as a whole contracted by 1.9% in 2003 compared to 2002, trade from the free trade zones grew by 3.5% and the tourism sector grew 14.6%, primarily due to the depreciation of the peso that led to cheaper exports and tourism costs, which increased external demand for these goods and services.

During the first half of 2004, economic performance and the Government's public sector finances were adversely affected by the ongoing economic crisis and by the uncertainty surrounding the presidential election held in May 2004. In the second half of 2004, however, the Dominican economy started to show signs of improvement, particularly during the fourth quarter, with the appreciation of the peso against the dollar by 35.1% during the second half (compared to a depreciation of 2.2% in the first half), a decreased rate of inflation and an improved fiscal balance during this period. In 2004, real GDP increased by 2.0%, as compared with 2003, the Central Bank's net international reserves increased to US$602.2 million at December 31, 2004, from US$123.6 million at December 31, 2003 and the rate of inflation decreased to 28.7%, as compared to 42.7% in 2003.

Recent Developments

The Republic's economic recovery continued in 2005, reflecting continuing increases in economic activity and liquidity. The following are selected preliminary economic and financial results (which are subject to adjustment, revision or reconciliation) for 2005 and at December 31, 2005:

- real GDP increased by 9.3% in 2005 as compared to an increase of 2.0% in 2004;
- the peso appreciated by 27.5% in 2005. The average private-market DOP/US$ exchange rate for the purchase of dollars in 2005 was DOP30.07 per US$1.00, compared to DOP41.45 per US$1.00 for 2004;
- the Central Bank's net international reserves totaled US$1.5 billion as of December 31, 2005, compared to US$602.2 million as of December 31, 2004;
- inflation was 7.4% in 2005, as compared to 28.7% in 2004; and
- the nominal domestic interest rate on deposits of the banking sector was 11.6% at December 31, 2005, compared to 21.2% at December 31, 2004.

On January 31, 2005, the IMF approved the new two-year IMF Stand-By Arrangement of approximately US$665.2 million, conditioned on the Republic's commitment to implementing measures designed to promote macroeconomic stabilization and structural reforms in the fiscal, monetary, financial and electricity sectors specified in the stand-by facility. On August 29, 2005, the IMF announced that the Republic's performance under the IMF Stand-By Arrangement for the first and second quarters of 2005 had been met and that progress had been made in the area of structural reforms, including the drafting of legislation to enhance fiscal management and strengthen monetary and financial institutions. On September 29, 2005, the Republic submitted a letter of intent and technical memorandum of understanding to the IMF, requesting completion of the first and second reviews under the IMF Stand-By Arrangement and waivers of certain structural reform requirements pending approval of these reforms by the Dominican Congress. The IMF announced the completion of the first and second reviews on October 18, 2005, which entitles the Republic to borrow up to approximately US$139.0 million under the IMF Stand-By Arrangement. The IMF is currently undertaking the third and fourth reviews under the IMF Stand-By Arrangement simultaneously, which are expected to be completed in the second quarter of 2006.

In 2005, the Government successfully implemented its comprehensive strategy for the restructuring of its outstanding debt, including the following:

- In May and July 2005, the Republic exchanged approximately US$1.07 billion, or 97% aggregate principal amount of its outstanding 9.50% bonds due 2006 and 9.04% bonds due 2013 for new 9.50% amortizing bonds due 2011 and new 9.04% amortizing bonds due 2018.

- In October 2005, the Republic signed an agreement with several international commercial banks to reschedule debt service payments due in 2005 and 2006 in the amount of US$147 million. Repayment of the rescheduled amounts will be made in six equal semi-annual installments through January 1, 2010. As part of the rescheduling of this debt, the Republic paid US$30 million in arrears owed to the commercial banks through December 2004. This agreement was approved by the Dominican Congress on February 9, 2006. In addition, in January 2006, the Republic entered into an agreement with a creditor to reschedule commercial debt totaling approximately US$33 million, which will be submitted to the Dominican Congress for approval. If this agreement is not approved by the Dominican Congress on or before March 30, 2006, the agreement will terminate and the original commercial debt will remain outstanding in accordance with its terms. As of the date of this offering memorandum, approximately US$8 million of this debt was past due. The Republic is also currently negotiating with two other private creditors the rescheduling of past due supplier financing amounting to approximately US$10 million.

- In October 2005, the Republic signed an agreement with the Paris Club to reschedule approximately US$137 million of debt service payments falling due in 2005. This agreement is in addition to the Republic's agreement with the Paris Club signed in April 2004, in which the Republic rescheduled debt service payments falling due in 2004 and arrears totaling US$193 million.

- In August 2005, the Republic signed a memorandum of understanding with Unión Fenosa, a Spanish company, to restructure the Republic's payment obligations in connection with the repurchase from Unión Fenosa of two electricity distribution companies in 2003. Pursuant to this memorandum of understanding, as amended in December 2005, the Republic may exercise an option by March 31, 2006 to pre-pay all of the remaining installments of the purchase price due to Unión Fenosa at their present value as of the date of prepayment calculated in accordance with the provisions of the memorandum of understanding. As of March 3, 2006, the present value of these installments amounted to approximately US$294.1 million. The Republic intends to use the proceeds from this offer of bonds for this purpose. See "Use of Proceeds" and "—Privatization and Role of the State in the Dominican Economy—Privatization."

In September 2005, the Dominican Congress approved the DR-CAFTA, which followed its ratification by the U.S. Congress in the summer of 2005. The provisions of the DR-CAFTA are expected to be implemented in full during 2006. As a condition to entering into the DR-CAFTA, the Republic is required to eliminate the 13% foreign exchange commission, which accounted for 13.4% of the Government's total tax revenue in 2004 and approximately 13.5% of total tax revenue in the first nine months of 2005. The elimination of the foreign exchange commission and the gradual phase-out of import tariffs under the DR-CAFTA will amount to an estimated fiscal shortfall equivalent to 2.8% of the Republic's GDP for 2005.

The Economic Policies of the Fernández Administration

The Fernández administration, within the parameters agreed with the IMF, has established the following objectives for its economic policy:

- promoting macroeconomic and structural policies aimed at stabilizing prices and ensuring the resumption of sustained growth;
- containing government spending and increasing fiscal revenue;
- formulating a debt restructuring and liability management program to overcome the Government's financing gap and liquidity constraints;
- strengthening the financial system to improve the operating sufficiency, transparency and efficiency of domestic banks;
- improving the efficiency of the electricity sector to ensure its financial viability; and
- increasing the independence and accountability of the Central Bank and other government institutions in the financial sector.

These policy objectives form the basis for the various economic reforms and initiatives that the Fernández administration has pursued since it assumed office in August 2004, which include, among others:

- the IMF Stand-By Arrangement that extends a credit line of up to approximately US$665.2 million through May 2007 (see "Public Sector Debt—External Debt—IMF");
- the restructuring of substantially all of the Republic's portfolio of external debt (see "Public Sector Debt—Debt Restructuring");
- tax reforms designed to increase tax revenues and improve the fiscal balance, including an increase in the value-added tax, higher tax rates on luxury goods and a new 10% tax on telecommunications services (see "Public Sector Finances—Tax Regime");
- adoption of regulations to improve the governance and supervision of the Republic's banking sector and financial system (see "The Monetary System—Supervision of the Financial System—Post-Crisis Reforms of the Financial System");
- the implementation of the DR-CAFTA (see "The Dominican Republic—Foreign Policy and Membership in International and Regional Organizations" and "Balance of Payments and Foreign Trade—Foreign Trade");
- the launch of a new food assistance program, *Comer es Primero* (Eating is First);
- the implementation of an educational program, *Incentivo a la Asistencia Escolar* (School Attendance Incentive), which, together with the Eating is First program, constitutes the Government's new economic assistance program, *Programa Solidaridad* (Solidarity Program); and
- the establishment of a new system for identifying public aid beneficiaries.

As part of its economic stabilization and reform agenda, the Fernández administration has introduced measures to improve the Government's fiscal health, including:

- a central government hiring freeze;
- measures to eliminate government subsidies on propane gas for industrial and commercial use; and
- limiting government subsidies for electricity consumption to families that consume less than 200 kilowatts of electricity per month, in conjunction with a plan to reform the electricity sector.

In addition, to mitigate the negative impact of the internal shocks that have affected the Republic's economy since 2003, the Central Bank implemented a more restrictive monetary policy during the fourth quarter of 2004 to minimize inflation and the depreciation of the peso against the U.S. dollar. Specifically, the Central Bank sought to eliminate the excess liquidity caused by the bank bailout in 2003. See "The Monetary System—Monetary Policy."

Gross Domestic Product and Structure of the Economy

The Dominican economy is driven primarily by private consumption, private sector investment and exports. In particular, at September 30, 2005, private consumption accounted for approximately 72.5% of GDP, compared to government consumption of 10.4% of GDP. At that same date, private investment was approximately 15.1% of GDP while public sector investment accounted for approximately 5.3% of GDP.

The following tables set forth the Republic's GDP by expenditure for the periods indicated.

Gross Domestic Product by Expenditure
(in millions of US$ and as a % of total GDP at current prices)(1)

	2000		2001		2002		2003		2004(2)		For the nine months ended September 30, 2004(2)		2005(2)	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Government consumption	1,656.9	8.4	1,944.5	9.0	2,026.9	9.3	1,424.5	8.6	1,656.4	8.9	1,151.1	10.4	1,986.8	10.4
Private consumption	15,375.1	77.6	16,452.6	75.9	16,661.9	76.7	11,226.8	67.5	12,236.7	65.6	6,640.5	60.0	13,866.1	72.5
Total consumption	17,032.0	86.0	18,397.1	84.9	18,688.8	86.1	12,651.3	76.1	13,893.1	74.5	7,791.6	70.4	15,852.9	82.9
Gross investment:														
Public sector	858.3	4.3	1,454.5	6.7	1,469.0	6.8	1,399.6	8.4	1,108.0	5.9	653.7	5.9	1,014.4	5.3
Private sector	3,853.0	19.4	3,505.2	16.2	3,472.3	16.0	2,482.2	14.9	3,418.9	18.3	2,339.3	21.1	2,897.7	15.1
Total gross investment	4,711.3	23.8	4,959.7	22.9	4,941.3	22.8	3,881.8	23.3	4,527.0	24.3	2,993.0	27.0	3,912.1	20.4
Exports of goods and services	8,924.3	45.0	8,386.6	38.7	8,235.7	37.9	8,939.6	53.8	9,282.5	49.8	6,935.3	62.6	7,504.5	39.2
Imports of goods and services	(10,853.1)	(54.8)	(10,063.2)	(46.4)	(10,151.2)	(46.7)	(8,846.4)	(53.2)	(9,049.4)	(48.5)	(6,647.8)	(60.0)	(8,137.1)	(42.5)
Net exports (imports)	(1,928.8)	(9.7)	(1,676.6)	(7.7)	(1,915.5)	(8.8)	93.2	0.6	233.1	1.2	287.5	2.6	(632.6)	(3.3)
GDP	19,814.5	100.0	21,680.2	100.0	21,714.6	100.0	16,626.3	100.0	18,653.2	100.0	11,072.2	100.0	19,132.4	100.0

(1) Based on the weighted average exchange rate for each year.
(2) Preliminary data.
Source: Central Bank

Gross Domestic Product by Expenditure

(in millions of DOP and as % change from prior year, at current prices)

	2000		2001		2002		2003		2004		For the nine months ended September 30, 2004[1]		2005[1]	
	DOP$	%	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%
Government consumption	27,140.5	10.5	32,847.1	21.0	37,564.1	14.4	43,121.9	14.8	69,013.4	60.0	52,180.5	77.9	58,008.9	11.2
Private consumption	252,670.4	21.8	278,648.3	10.3	309,129.8	10.9	345,822.9	11.9	517,238.5	49.6	306,880.9	48.7	407,217.4	32.7
Total consumption	279,810.9	20.6	311,495.4	11.3	346,693.9	11.3	388,944.8	12.2	586,251.9	50.7	359,061.4	52.3	465,226.3	29.6
Gross Investment:														
Public sector	14,059.3	(13.1)	24,569.6	74.8	27,225.5	10.8	42,368.3	55.6	46,166.1	9.0	29,632.8	14.0	29,618.5	—
Private sector	63,111.9	23.1	59,212.0	(6.2)	64,351.1	8.7	75,138.3	16.8	142,450.3	89.6	106,042.0	95.0	84,603.1	(20.2)
Total gross investment	77,171.2	14.4	83,781.6	8.6	91,576.6	9.3	117,506.6	28.3	188,616.4	60.5	135,674.8	68.8	114,221.5	(15.8)
Exports of goods and services	145,615.7	13.9	141,164.5	(3.1)	151,880.0	7.6	266,655.9	75.6	382,884.8	43.6	311,303.0	65.8	217,928.4	(30.0)
Imports of goods and services	(178,036.1)	19.8	(170,209.4)	(4.4)	(187,718.2)	10.3	(269,807.2)	43.7	(380,565.6)	41.1	(304,132.0)	61.0	(238,767.5)	(21.5)
Net exports (imports)	(32,420.5)	56.2	(29,044.8)	(10.4)	(35,838.2)	23.4	(3,151.4)	(91.2)	2,319.2	(173.6)	7,171.0	(692.1)	(20,839.1)	(390.6)
GDP	324,561.6	16.5	366,232.1	12.8	402,432.4	9.9	503,300.0	25.1	777,187.5	54.4	501,907.3	59.4	558,608.6	11.3

(1) Preliminary data.
Source: Central Bank.

Gross Domestic Product by Expenditure

(in millions of DOP and as % change from prior year, at constant 1970 prices)

	2000		2001		2002		2003		2004[1]		For the nine months ended September 30, 2004[1]		2005[1]	
	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%
Government consumption	509.9	(13.3)	586.1	14.9	628.7	7.3	667.9	6.2	709.7	6.2	526.2	7.2	482.9	(8.2)
Private consumption	4,474.6	12.4	4,593.6	2.7	4,932.5	7.4	4,320.3	(12.4)	4,399.8	1.8	3,109.2	1.4	3,645.3	17.2
Total consumption	4,984.6	9.1	5,179.7	3.9	5,561.1	7.4	4,988.2	(10.3)	5,109.5	2.4	3,635.4	2.2	4,128.2	13.6
Gross investment:														
Public sector	429.9	(18.6)	697.1	62.2	721.9	3.6	777.8	7.8	474.9	(38.9)	299.2	(41.9)	358.0	19.7
Private sector	1,810.3	15.3	1,587.8	(12.3)	1,615.6	1.8	1,267.7	(21.5)	1,446.3	14.1	1,039.5	6.3	1,022.5	(1.6)
Total gross investment	2,240.2	6.8	2,284.9	2.0	2,337.4	2.3	2,045.5	(12.5)	1,921.2	(6.1)	1,338.6	(10.3)	1,380.4	3.1
Exports of goods and services	3,171.1	6.1	2,942.4	(7.2)	2,841.3	(3.4)	3,063.0	7.8	3,191.7	4.2	2,552.4	5.1	2,754.3	7.9
Imports of goods and services	(3,727.6)	6.9	(3,496.5)	(6.2)	(3,523.3)	0.8	(3,015.2)	(14.4)	(3,002.7)	(0.4)	(2,303.2)	(0.7)	(2,661.0)	15.5
Net exports (imports)	(556.6)	11.5	(554.1)	(0.4)	(682.0)	23.1	47.8	(107.0)	189.1	295.6	249.2	130.2	93.3	(62.6)
Real GDP	6,668.2	8.1	6,910.5	3.6	7,216.6	4.4	7,081.5	(1.9)	7,219.8	2.0	5,223.2	1.3	5,601.9	7.3

(1) Preliminary data.
Source: Central Bank.

From 2000 to 2002, economic growth was primarily a result of growth in capital investment, principally in:

- construction of tourism facilities, infrastructure projects and residential homes;
- machinery and equipment used by businesses in sectors such as manufacturing (including the free trade zones), construction and communications, among others; and
- improvements in technology and growth in the existing capital stock of the country that increased employment and raised worker productivity.

During this period, the Dominican economy experienced an increase in total gross investment, primarily as a result of increased investment in the private sector.

Beginning in 2003, certain GDP components deteriorated as part of the economic crisis, including the following:

- private consumption and capital investment decreased substantially; and
- domestic investment as a percentage of GDP decreased slightly from 23.8% of GDP in 2000 to 23.3% of GDP in 2003, principally as a result of the domestic economic slowdown.

In 2004, domestic investment increased slightly to 24.3% of GDP, reflecting a relative improvement in domestic investor confidence. During the first nine months of 2005, domestic investment declined to 20.4% of GDP as compared to the same period in 2004 due to a relatively large increase in GDP as compared to investment. However, measured in U.S. dollars, domestic investment increased approximately US$1.0 billion during the first nine months of 2005 as compared to the same period in 2004. This increase resulted primarily from recovery in the construction sector in the second and third quarters of 2005, and an increase in imports of capital goods.

The following table sets forth investment and savings in U.S. dollars and as a percentage of total GDP at current prices for the periods indicated.

Investment and Savings
(in millions of US$ and as a % of total GDP at current prices)

	2000		2001		2002		2003		2004[(1)]		For the nine months ended September 30, 2004[(1)]		2005[(1)]	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Domestic investment	4,711.3	23.8	4,959.7	22.9	4,941.3	22.8	3,881.8	23.3	4,527.0	24.3	2,993.0	27.0	3,912.1	20.4
Domestic savings:														
Public savings	507.3	2.6	900.1	4.2	1,003.5	4.6	595.7	3.6	554.2	3.0	131.1	1.2	1,459.0	7.6
Private savings	3,080.7	15.5	3,270.7	15.1	3,113.0	14.3	4,094.2	24.6	5,174.7	27.7	3,613.7	32.6	2,274.7	11.9
Total domestic savings	3,587.9	18.1	4,170.8	19.2	4,116.5	19.0	4,689.9	28.2	5,728.9	30.7	3,744.8	33.8	3,733.7	19.5
External savings[(2)]	1,026.5	5.2	740.8	3.4	797.9	3.7	(1,036.2)	(6.2)	(1,087.6)	(5.8)	(897.4)	(8.1)	137.4	0.7
Total savings	4,614.4	23.3	4,911.6	22.7	4,914.4	22.6	3,653.7	22.0	4,641.3	24.9	2,847.4	25.7	3,871.1	20.2

(1) Preliminary data.
(2) Calculated as the inverse negative of the current account balance.
Source: Central Bank.

Domestic savings generally declined between 2000 and 2002 due primarily to external shocks. In 2003 and 2004, domestic savings, particularly private savings, increased due to a reduction in demand for imports that was caused by the depreciation of the peso. During the first nine months of 2005, domestic savings declined slightly compared to the same period in 2004, as a sharp increase in public savings was more than offset by a decline in private savings attributable to a significant increase in private consumption.

During the 2000 to 2002 period, economic growth and improved employment levels resulted in generally rising per capita GDP and per capita income, with a slight decrease in 2002. In 2003, the economic crisis resulted in a significant drop in per capita GDP and per capita income to pre-1999 levels. In 2004, these levels increased but remained below per capita income levels recorded between 2000 and 2002.

The following table sets forth annual per capita GDP and per capita income in U.S. dollars for the years indicated.

Per Capita GDP[1] and Per Capita Income[2]
(in US$ at current prices)[3]

	2000	2001	2002	2003	2004[4]	2005[4]
Per capita GDP	2,398.1	2,577.5	2,536.0	1,907.4	2,102.2	3,247.4
Per capita income	2,501.7	2,688.1	2,665.5	2,012.1	2,190.0	3,339.1

(1) Without adjustment to reflect changes in purchasing power.
(2) Per capita national disposable income, which is equal to GDP plus net investment and financial income from abroad plus foreign remittances divided by the country's population.
(3) Based on the weighted average exchange rate for each year.
(4) Preliminary data.
Source: Central Bank.

Principal Sectors of the Economy

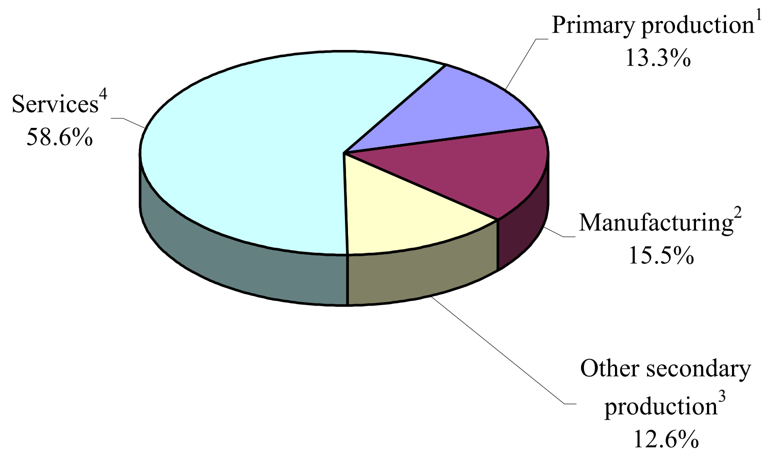
The principal economic activities in the Dominican Republic are:

- manufacturing;
- agriculture and livestock;
- wholesale and retail trade;
- construction;
- communications;
- public administration; and
- tourism (which has secondary effects on various sectors of the economy).

The contribution of these sectors to GDP, coupled with the value they added to other sectors of the economy, contributed to the overall growth of the Dominican economy during the period from 2000 to 2002. The decline in the Dominican economy in 2003 reflected declines in nearly all of these sectors in 2003. In 2004, the Dominican economy showed improvement in certain sectors from 2003 levels, but the performance of some sectors remained below levels achieved between 2000 and 2002.

The following chart sets forth graphically the principal sectors of the economy as of December 31, 2004.

Sectors of the Dominican Economy
(as a % of GDP for 2004, at constant 1970 prices)



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(1) Includes agriculture, livestock, fishing and forestry; and mining.
(2) Includes traditional manufacturing and free trade zones.
(3) Includes electricity, gas and water; and construction.
(4) Includes wholesale and retail trade; communications; hotels, bars and restaurants; and other service industries.

The following tables set forth the distribution of GDP in the Dominican economy, indicating for each sector its percentage contribution to GDP and its annual growth rate for the periods indicated, in each case as compared to the comparable period in the prior year.

Gross Domestic Product by Sector

(in millions of DOP and as a % of GDP, at constant 1970 prices)

	2000		2001		2002		2003		2004[(1)]		For the nine months ended September 30, 2004[(1)]		2005[(1)]	
	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%
Primary production:														
Agriculture, livestock, fishing and forestry	754.8	11.3	816.0	11.8	836.1	11.6	814.4	11.5	842.5	11.7	598.8	11.5	629.8	11.2
Mining	124.4	1.9	105.0	1.5	102.1	1.4	111.1	1.6	115.2	1.6	84.8	1.6	82.4	1.5
Total primary production	879.1	13.2	921.0	13.3	938.2	13.0	925.5	13.1	957.8	13.3	683.6	13.1	712.2	12.7
Secondary production:														
Manufacturing:														
Traditional	923.9	13.9	898.5	13.0	966.1	13.4	924.8	13.1	921.1	12.8	675.4	12.9	702.2	12.5
Free trade zones	202.8	3.0	193.5	2.8	178.2	2.5	184.4	2.6	195.9	2.7	149.4	2.9	138.1	2.5
Total manufacturing	1,126.7	16.9	1,091.9	15.8	1,144.2	15.9	1,109.2	15.7	1,117.0	15.5	824.9	15.8	840.3	15.0
Electricity, gas and water	139.5	2.1	165.2	2.4	178.0	2.5	163.0	2.3	131.1	1.8	99.4	1.9	103.0	1.8
Construction	872.8	13.1	876.9	12.7	905.0	12.5	827.5	11.7	775.4	10.7	549.9	10.5	538.4	9.6
Total secondary production	2,139.1	32.1	2,134.1	30.9	2,227.3	30.9	2,099.7	29.7	2,023.4	28.0	1,474.2	28.2	1,481.7	26.4
Services:														
Wholesale and retail trade	880.7	13.2	889.5	12.9	932.2	12.9	804.5	11.4	805.3	11.2	588.7	11.3	700.6	12.5
Hotels, bars and restaurants	450.0	6.7	439.3	6.4	443.1	6.1	502.0	7.1	525.0	7.3	381.9	7.3	402.9	7.2
Transportation	451.6	6.8	447.5	6.5	468.6	6.5	430.1	6.1	431.0	6.0	271.2	5.2	291.9	5.2
Communications	389.3	5.8	528.7	7.7	603.8	8.4	696.7	9.8	823.9	11.4	698.8	13.4	877.0	15.7
Financial services	264.4	4.0	271.9	3.9	279.8	3.9	264.6	3.7	261.9	3.6	188.9	3.6	195.5	3.5
Real estate	266.4	4.0	272.4	3.9	278.5	3.9	284.4	4.0	290.5	4.0	221.0	4.2	225.7	4.0
Public administration	478.4	7.2	520.8	7.5	548.3	7.6	571.4	8.1	580.0	8.0	415.0	7.9	408.4	7.3
Other	469.2	7.0	485.4	7.0	496.7	6.9	502.7	7.1	521.0	7.2	299.9	5.7	306.1	5.5
Total services	3,649.9	54.7	3,855.4	55.8	4,051.1	56.1	4,056.4	57.3	4,238.6	58.7	3,065.4	58.7	3,408.0	60.8
Total GDP	6,668.2	100.0	6,910.5	100.0	7,216.6	100.0	7,081.5	100.0	7,219.8	100.0	5,223.2	100.0	5,601.9	100.0

(1) Preliminary data.
Source: Central Bank.

Gross Domestic Product by Sector

(% change from prior year, at constant 1970 prices)

	2000	2001	2002	2003	2004[(1)]	For the nine months ended September 30, 2004[(1)]	2005[(1)]
Primary production:							
Agriculture, livestock, fishing and forestry	5.6	8.1	2.5	(2.6)	3.5	5.3	5.2
Mining	13.3	(15.6)	(2.7)	8.8	3.7	4.0	(2.8)
Total primary production	6.6	4.8	1.9	(1.4)	3.5	5.1	4.2
Secondary production:							
Manufacturing:							
Traditional	10.1	(2.8)	7.5	(4.3)	(0.4)	1.6	4.0
Free trade zones	4.6	(4.6)	(7.9)	3.5	6.2	7.2	(7.6)
Total manufacturing	9.1	(3.1)	4.8	(3.1)	0.7	2.6	1.9
Electricity, gas and water	7.0	18.4	7.8	(8.5)	(19.6)	(21.1)	3.6
Construction	5.6	0.5	3.2	(8.6)	(6.3)	(8.7)	(2.1)
Total secondary production	7.5	(0.2)	4.4	(5.7)	(3.6)	(3.8)	0.5
Services:							
Wholesale and retail trade	9.3	1.0	4.8	(13.7)	0.1	(4.0)	19.0
Hotels, bars and restaurants	14.7	(2.4)	0.9	13.3	4.6	2.9	5.5
Transportation	8.9	(0.9)	4.7	(8.2)	0.2	0.3	7.6
Communications	23.9	35.8	14.2	15.4	18.3	13.2	25.5
Financial services	3.2	2.8	2.9	(5.5)	(1.0)	(0.6)	3.5
Real estate	2.3	2.2	2.2	2.1	2.1	1.9	2.1
Public administration	4.3	8.8	5.3	4.2	1.5	2.9	(1.6)
Other	4.2	3.5	2.3	1.2	3.6	2.0	2.1
Total services	8.9	5.6	5.1	0.1	4.5	3.0	11.2
Real GDP growth	8.1	3.6	4.4	(1.9)	2.0	1.3	7.3

(1) Preliminary data.
Source: Central Bank.

Primary Production

Agriculture, Livestock, Fishing and Forestry

The Dominican agriculture, livestock, fishing and forestry sector is dominated by small-scale producers of sugarcane, grains (such as rice and beans), coffee, cocoa, fruits, vegetables, root crops, milk, poultry and beef. The sector exhibited 5.4% average growth between 2000 and 2002, but fell 2.6% in 2003 due to the economic crisis**.** The sector grew 3.5% in 2004. During the first nine months of 2005, the sector exhibited growth of 5.2%, compared to 5.3% for the same period of 2004. The decrease in the production of crops was balanced by an increase in livestock production.

While historically the Government has intervened substantially in the agricultural sector, its current involvement is limited to establishing price-stabilization arrangements for certain agricultural goods and to providing financing for small producers, through *Banco Agrícola de la República Dominicana* (the Agricultural Bank of the Dominican Republic, or the "Agricultural Bank").

The following table sets forth the production of selected primary goods for the years indicated.

Selected Primary Goods Production(1)
(in millions of US$, at current prices)(2)

						For the nine months ended September 30,	
	2000	**2001**	**2002**	**2003**	**2004(3)**	**2004(3)**	**2005(3)**
Crops:							
Fruits	US$ 215.8	US$ 264.2	US$ 259.1	US$ 194.1	US$ 179.3	US$ 33.3	US$ 51.5
Rice	197.5	220.8	178.9	106.6	195.7	143.8	181.4
Root crops	113.8	135.1	123.3	92.9	103.3	57.0	73.8
Vegetables	136.6	120.4	96.6	88.5	93.3	63.0	89.5
Cocoa	27.8	45.0	97.0	69.2	55.3	51.7	41.4
Sugar cane	107.6	118.8	109.6	65.3	83.9	73.6	102.8
Coffee	114.5	65.5	83.5	64.9	93.4	67.5	75.3
Legumes	35.1	43.9	46.0	33.1	32.1	24.2	33.0
Corn	5.7	7.9	6.6	7.9	8.8	7.1	8.5
Tobacco	4.2	5.4	13.5	7.6	9.3	9.1	19.1
Oleaginous crops	1.8	1.7	2.0	1.2	1.8	1.2	0.9
Other agricultural	104.6	107.2	105.9	62.6	68.7	52.6	100.6
Total crops	US$ 1,065.0	US$ 1,135.8	US$ 1,122.1	US$ 794.0	US$ 925.0	US$ 584.1	US$ 777.9
Livestock:							
Poultry	US$ 231.2	US$ 224.2	US$ 210.0	US$ 144.7	US$ 153.6	US$ 107.4	US$ 175.6
Milk	146.5	162.7	180.1	138.6	183.4	107.8	190.7
Beef	151.2	162.7	158.6	133.8	241.2	154.6	337.3
Eggs	61.1	66.2	74.2	64.4	81.1	63.6	87.7
Pork	23.9	26.1	23.9	17.9	28.2	28.2	50.4
Lamb	3.8	5.0	5.2	n.a.	n.a.	n.a.	n.a.
Total livestock	US$ 617.7	US$ 646.8	US$ 652.0	US$ 499.4	US$ 687.5	US$ 461.5	US$ 841.8
Honey and bees' wax	US$ 1.8	US$ 2.3	US$ 2.7	US$ 1.8	n.a.	n.a.	n.a.
Fishing and forestry(4)	US$ 35.6	US$ 55.2	US$ 69.3	US$ 40.1	US$ 64.7	US$ 36.9	US$ 42.8

(1) Value of total production based on producer prices. Conversion to U.S. dollars based on the weighted average exchange rate for each year.
(2) Available information only allows for an estimate of current prices on an annual basis.
(3) Preliminary data.
(4) Forestry data revised by the *Dirección General Forestal* (General Forestry Management).
Source: Central Bank.
n.a. = Not Available.

The following table sets forth the annual percentage change in production of selected primary goods for the periods indicated, based on constant 1970 prices.

Selected Primary Goods Production
(% change from previous year, at constant 1970 prices)

	2000	2001	2002	2003	2004(1)	For the nine months ended September 30, 2004(1)	2005(1)
Crops:							
Fruits	13.8	22.1	0.6	12.4	(12.4)	(6.2)	(13.9)
Rice	4.8	23.1	(0.1)	(16.7)	(5.3)	8.4	(0.7)
Root crops	(3.8)	6.5	9.1	5.8	(22.4)	(13.8)	(16.4)
Vegetables	(4.4)	(2.5)	(13.4)	10.0	(3.2)	3.8	13.4
Cocoa	69.1	46.7	2.1	0.9	(4.4)	1.9	(42.2)
Sugarcane	1.3	7.0	6.7	(2.6)	10.5	7.1	(15.0)
Coffee	3.8	1.9	4.9	(15.2)	(4.3)	1.6	(11.3)
Legumes	(2.6)	10.9	8.6	(0.5)	(32.5)	(24.9)	(4.8)
Corn	(21.1)	52.7	(17.1)	45.1	(14.2)	(1.6)	(5.8)
Tobacco	(83.1)	104.8	10.8	28.5	(1.7)	(1.7)	30.8
Oleaginous plants	(42.6)	15.5	23.6	(14.3)	(31.1)	31.0	(11.3)
Other agricultural	33.0	2.0	(4.0)	(5.1)	(16.3)	(18.2)	33.8
Livestock:							
Poultry	9.5	(3.4)	(7.1)	(9.6)	16.6	18.9	26.9
Milk	4.0	6.6	23.2	14.5	3.8	3.8	5.7
Beef	5.3	7.2	1.3	5.0	4.4	4.4	2.4
Eggs	10.0	12.3	5.4	(7.4)	(4.1)	0.5	13.4
Pork	54.9	12.9	1.6	0.2	(3.7)	4.9	(3.7)
Lamb	0.4	29.0	6.5	n.a.	n.a.	n.a.	n.a.
Honey and bees' wax	3.1	(0.1)	15.8	85.6	n.a.	n.a.	n.a.
Fishing and forestry	7.7	49.1	33.9	(10.1)	11.7	11.3	2.6

(1) Preliminary data.
Source: Central Bank.
n.a. = Not Available.

Mining

The mining sector is concentrated in the production of nickel-iron, marble and quarry products, such as sand, coarse sand and lime sulfate. The mining sector represents a relatively small part of the Dominican economy, accounting for only 1.6% of GDP in 2004 and 1.5% of GDP for the nine months ended September 30, 2005. This sector grew by 13.3% in 2000, but declined in 2001 by 15.6% and continued to decrease in 2002 by 2.7%, mainly due to the decrease in the international price of nickel-iron. In 2003 and 2004, the mining sector grew by 8.8% and 3.7%, respectively, primarily as a result of an increase in the international price of nickel-iron.

Secondary Production

Manufacturing

The principal components of the manufacturing sector are:

- traditional manufacturing, principally flour, vegetable oils, fertilizers, cement, sugar, alcoholic beverages (beer, rum and whiskey), cigarettes, steel bars, plastic derivatives and pharmaceutical products; and

- manufacturing and assembly in the free trade zones, primarily of textiles, electronics, tobacco and its derivatives and footwear.

The manufacturing sector grew and contracted intermittently as a percentage of GDP in the period from 2000 to 2004:

- in 2000, the manufacturing sector grew 9.1% compared to the prior year, due to investment in equipment and increased consumer demand;

- in 2001, the manufacturing sector decreased 3.1% compared to the prior year, primarily as a result of a 2.8% decline in traditional manufacturing, due to a decrease in domestic demand and a 4.6% decline in free trade zones manufacturing that resulted from the slowdown of the U.S. economy and a consequent decline in global demand;

- in 2002, the manufacturing sector grew 4.8% compared to the prior year due to improving global and domestic economic conditions and increased domestic demand, with traditional manufacturing growing 7.5% and free trade zones manufacturing declining 7.9%;

- in 2003, the manufacturing sector decreased by 3.1% compared to the prior year, with traditional manufacturing declining 4.3%, reflecting lesser domestic demand due to the economic crisis, and the free trade zones growing 3.5% due to increasing global demand and more competitive pricing of Dominican export goods as a result of the depreciation of the peso;

- in 2004, the manufacturing sector grew 0.7% compared to the prior year, with traditional manufacturing declining 0.4% due to increased costs of supply, insufficient electricity and the effects of Hurricane Jeanne. Free trade zones manufacturing grew 6.2%, as 40 new companies initiated operations; and

- during the first nine months of 2005, the manufacturing sector grew by 1.9% compared to the same period in 2004. Traditional manufacturing grew 4.0% due to the improved performance of certain industries, such as beer, milk, flour and cement. The free trade zones declined 7.6% compared to the same period in 2004, reflecting the closing of approximately 60 companies since September 2004 due to a decline in the production of textiles resulting from the expiration of the WTO Agreement on Textiles and Clothing. See "The Economy—Principal Sectors of the Economy—Secondary Production—Manufacturing—Free Trade Zones" and "Balance of Payments and Foreign Trade—Foreign Trade."

Between 2000 and 2004, the manufacturing sector represented on average approximately 16.0% of GDP.

Traditional Manufacturing. Traditional manufacturing grew at an average annual rate of 5.0% between 2000 and 2002, notwithstanding a decline of 2.8% in 2001 compared to 2000. In 2003, traditional manufacturing declined 4.3%, reflecting the overall slowdown of the economy. In 2004, traditional manufacturing declined 0.4%. During the first nine months of 2005, however, this sector showed an increase of 4.0%, compared to 1.6% during the same period of 2004, due to the strong performance of certain industries, such as beer, milk, flour and cement.

The following tables set forth information regarding traditional manufacturing production for the periods indicated:

Production of Selected Manufacturing Goods
(in volumes as specified)

	2000	2001	2002	2003	2004(1)	For the nine months ended September 30, 2004(1)	2005(1)
Raw sugar (in metric tons)	437,873	482,258	493,598	496,073	547,471	482,665	401,336
Refined sugar (in metric tons)	107,853	112,730	132,388	127,688	124,029	123,445	122,839
Beer (in thousands of liters)	366,926	317,596	355,384	355,262	354,702	264,022	319,071
Cigarettes (in thousands of packs of 20 units)	194,884	166,896	175,433	173,462	172,297	129,071	122,921
Rum (in thousands of liters)	44,856	45,179	49,003	49,349	54,660	39,812	35,781
Milk (in thousands of liters)	56,669	62,477	68,388	79,013	62,615	45,119	52,335
Flour (in thousands of pounds)	2,452,144	2,700,940	2,568,189	2,303,940	2,516,370	1,762,547	2,079,834
Cement (in metric tons)	2,505,461	2,745,980	3,050,430	2,783,167	2,646,639	1,970,465	2,105,686
Paint (in metric tons)	29,341	29,416	28,315	22,075	16,303	11,380	8,751

(1) Preliminary data.
Source: Central Bank.

Production of Selected Manufacturing Goods
(% change from previous period, by volume)

	2000	2001	2002	2003	2004(1)	For the nine months ended September 30, 2004(1)	2005(1)
Raw sugar (in metric tons)	17.0	10.1	2.4	0.5	10.4	7.3	(16.8)
Refined sugar (in metric tons)	32.4	4.5	17.4	(3.6)	(2.9)	(1.4)	(0.5)
Beer (in thousands of liters)	11.1	(13.4)	11.9	—	(0.2)	3.9	20.9
Cigarettes (in thousands of boxes of 20 units)	(6.8)	(14.4)	5.1	(1.1)	(0.7)	3.3	(4.8)
Rum (in thousands of liters)	3.4	0.7	8.5	0.7	10.8	14.6	(10.1)
Milk (in thousands of liters)	42.9	10.2	9.5	15.5	(20.8)	(24.8)	16.0
Flour (in thousands of pounds)	10.9	10.1	(4.9)	(10.3)	9.2	7.8	18.0
Cement (in metric tons)	9.7	9.6	11.1	(8.8)	(4.9)	(7.8)	6.9
Paint (in metric tons)	(16.8)	0.3	(3.7)	(22.0)	(26.1)	(30.8)	(23.1)

(1) Preliminary data.
Source: Central Bank.

Raw sugar production grew at an average annual rate of 9.8% between 2000 and 2002, and at an annual rate of 0.5% in 2003. Refined sugar production grew at an average rate of 18.1% in the period between 2000 and 2002 after the state-owned sugar mills were leased to private investors for 30-year terms in 2000. This arrangement increased the productivity of sugar mills due to the greater resources private operators were able to invest to modernize the mills' facilities and optimize their production capacity. However, in 2003 refined sugar production declined 3.6% due to a decrease in demand. In 2004, raw sugar production increased 10.4% and refined sugar production decreased 2.9% as compared to 2003. During the first nine months of 2005 raw sugar production declined 16.8% and refined sugar declined 0.5%, compared to the same period in 2004 primarily due to the burning of plantations and a drought that affected the quality of sugar cane.

Between 2000 and 2002, the production of other manufactured goods (beer, cigarettes, rum, milk, flour, cement and paint) grew 5.7%. In 2003, this production declined by 3.7% compared to 2002, in part due to higher production costs. In 2004, the production of these manufactured goods was 4.7% lower than in 2003. During the first nine months of 2005 the production of these manufactured goods grew 3.4% as compared to the same period in 2004 due to the strong performance of certain industries, such as beer, milk, flour and cement.

Free Trade Zones. The free trade zones are industrial parks that are set aside for manufacturing of a variety of products almost exclusively for export. These industrial parks operate in a nearly free trade environment. Some of the manufacturing in the free trade zones consists of *maquiladoras* (assembly manufacturing), with the raw materials imported into the Dominican Republic free of import duties and then assembled to produce finished goods. Intermediate and capital goods entering the free trade zones are likewise not subject to import tariffs, and goods manufactured in the free trade zones enter the United States free of import duties or with preferential duties under the Caribbean Basin Initiative. The free trade zones also exempted companies from Dominican income taxes through 2003 with respect to revenues generated by their respective plants in these zones. This was most beneficial to Dominican companies, since foreign companies have to pay income taxes in their country of origin.

At September 30, 2005, there were 51 free trade zones located throughout the Dominican Republic, compared to 58 at December 31, 2004. At September 30, 2005, total employment in the free trade zones was 153,732, compared to 195,262 at December 31, 2000.

Manufacturing in the free trade zones declined 5.7% during the period from 2000 to 2004, attributable mainly to a contraction of this sector in 2001 and 2002. The contraction experienced by this sector during 2001 and 2002 was attributable primarily to the slowdown of the U.S. economy, given that the U.S. market is the destination of more than 90% of the Dominican Republic’s free zone exports. In the period from 2000 to 2004, the free trade zones contributed on average approximately 2.7% to annual GDP.

Exports from free trade zones totaled US$4.5 billion in 2004. During the first nine months of 2005, exports from the free trade zones totaled US$3.4 billion, compared to US$3.3 billion during the same period in 2004. According to U.S. Census Bureau statistics, the Dominican Republic’s textile exports to the United States have declined gradually between 2000 and 2004. This trend was principally due to increased competition from China and other Asian countries, as well as Central America. See “Balance of Payments and Foreign Trade—Foreign Trade.” Total textile exports from free trade zones decreased by 17.6% from 2000 to 2004, and fell by 5.2% during the first nine months of 2005, as compared to the same period in 2004. Textiles accounted for 46.8% of exports as measured in export revenue from the free trade zones in 2004.

Since 2000, exports from the free trade zones have benefited from the preferential trade treatment accorded by the United States to certain textile products under the Textile Parity Agreement. On January 1, 2005, quotas restricting Asian exports of clothing to the U.S. market were eliminated as a result of the expiration of the WTO Agreement on Textiles and Clothing, which has had a significant adverse effect on textile exports from the free trade zones. See “The Economy—Principal Sectors of the Economy—Secondary Production—Manufacturing—Free Trade Zones” and “Balance of Payments and Foreign Trade—Foreign Trade.”

The following table sets forth the principal economic indicators for the free trade zones for the periods indicated.

Principal Economic Indicators of the Free Trade Zones

						For the nine months ended September 30,	
	2000	**2001**	**2002**	**2003**	**2004[1]**	**2004[1]**	**2005[2]**
Existing parks	46	51	53	54	58	57	51
Employees	195,262	175,078	170,833	173,367	189,853	180,659	153,732
Exports (in millions of US$)	4,770.6	4,481.6	4,317.3	4,406.8	4,497.3	3,314.5	3,421.6
As a percentage of GDP	24.1	20.7	19.9	26.5	24.1	29.9	17.9
Of which:							
Textile exports (in millions of US$)	2,555.4	2,314.4	2,226.8	2,200.4	2,105.1	1,552.0	1,471.1
Net foreign exchange earnings (in millions of US$)	1,708.1	1,655.2	1,716.9	1,875.9	2,022.6	1,311.1	1,494.7
Average monthly salary (in US$)[3]							
Technicians	456.1	477.7	363.0	266.2	243.8	n.a.	n.a.
Workers	194.0	202.8	170.8	127.2	108.6	n.a.	n.a.

(1) Revised data.
(2) Preliminary data.
(3) Calculated according to the weighted average exchange rate for each year.
Sources: Consejo Nacional de Zonas Francas de Exportación ("National Council of Free Trade Zones") and Central Bank.
n.a. = Not Available.

Electricity, Gas and Water

In the period from 2000 to 2002, the electricity, gas and water sectors collectively grew at an average annual rate of 11.0%. In 2003, however, these sectors collectively contracted 8.5% as a result of the economic slowdown and regulatory and operational problems in the electricity sector. Throughout the period between 2000 and 2004, the contribution of the sector to GDP remained between 1.8% and 2.5% of GDP.

Electricity. Between 2000 and 2002, the electricity sector grew from US$405.3 million in total production in 2000 to US$524.8 million in 2002, driven by increased demand resulting from the growth of the Dominican economy. In 2003, the electricity sector contracted to US$374.2 million as a result of infrastructure-related problems, financial difficulties experienced by privatized generation and distribution companies, and the overall slowdown of the Dominican economy. See "—Privatization and Role of the State in the Dominican Economy—Privatization." In 2004, this sector further contracted to US$330.2 million due to the effect of the depreciation of the peso on distribution companies and the Government's inability to pay subsidies to the sector in a timely manner. The electricity sector grew to US$343.0 million during the first nine months of 2005 as compared to US$205.5 million during the same period of 2004.

According to the most recent national census, 92.3% of all Dominican households had access to electricity in 2002 and 80.6% of households in rural areas had electricity, compared to 98.7% of households in urban areas. As of December 31, 2005, the Republic's installed generation capacity was 3,364 megawatts, which exceeded peak demand by approximately 1,600 megawatts.

The electricity sector is currently divided into three subsectors: generation, transmission and distribution. The Government regulates all three subsectors, primarily through the state-controlled electricity company CDEEE. The Electricity Superintendency, established by the *Ley General de Electricidad* (General Electricity Law) is responsible for regulating the electricity sector.

There are five types of electricity generators in the Dominican Republic:

- independent private producers;
- thermoelectric plants operated by private companies holding a 50% ownership stake in the plants, with the remaining 50% owned by CDEEE;
- hydroelectric plants operated and owned by CDEEE;
- merchant plants which are private producers without power purchase agreements; and
- back-up generators owned by private businesses.

In 2005, approximately 81.6% of total electricity production was generated by thermoelectric plants in which electricity is produced by burning gas, coal or diesel fuel, and the remaining 19.4% was generated by hydroelectric plants. At present, 66.4% of generation is produced by the private sector with the remaining 33.6% generated by CDEEE.

CDEEE owns most of the country's power grid and is the only company that offers transmission services. CDEEE charges US$0.0065 per kilowatt hour to transmit electricity produced by generation companies at high voltage through the country's power grid. Distribution is provided by companies that purchase electricity from generation companies to sell in regulated and unregulated markets to end users. At present, 70% of distribution is controlled by CDEEE and the remaining 30% is controlled by the private sector.

Prior to 2000, the electricity sector suffered for many years from a severe lack of generation capacity due to poorly maintained plants and inadequate capital investment. To address this problem, many industries, retail businesses, hotel chains and private residences acquired back-up generators. CDEEE was solely responsible for distribution and provided approximately half of the Dominican Republic's generation, with the remainder provided by independent private producers, which began selling energy to CDEEE in 1993. These conditions led to frequent blackouts, which impaired economic activity. During this period, the sector suffered from:

- inefficient use of generation capacity, as reflected in high energy loss;
- low collection rates, which included both the failure of public institutions and private consumers to pay CDEEE for distribution services and the failure of CDEEE-operated distribution companies to pay independent private producers; and
- CDEEE's high operating costs.

In 2000 and 2001, robust economic growth and the privatization of the electricity sector attracted considerable private investment that increased generation capacity and expansion of the distribution infrastructure. However, during this period, public institutions continued to accumulate arrears with the three new partially-privatized distribution companies, which limited the cash flow available to distributors for payment to generation companies and transmission services. In addition, the financial condition of the electricity sector was further adversely affected by the inability of distribution companies to improve collections. This situation resulted in recurring blackouts throughout the country.

During 2002, the electricity sector experienced further financial difficulties due to:

- annual losses of approximately US$121 million incurred by CDEEE, as a result of its agreements with independent private producers to purchase energy at prices higher than CDEEE's selling prices to distribution companies;
- a government subsidy regime which prohibited distribution companies from increasing prices to consumers to cover their increased costs. This subsidy regime, in turn, led the distribution companies

to deduct these cost increases from payments to CDEEE. In addition, the inability to pass on increased costs to consumers caused distribution companies to accumulate arrears with generation companies; and

- the failure of public institutions to fully pay for their energy consumption, which also caused distribution companies to withhold payments to CDEEE.

In order to resolve the financial crisis in the electricity sector, in May 2002 the Government established an electricity commission, which since then has taken the following actions:

- With the exception of its power purchase agreements with *Compañía de Electricidad de San Pedro de Macorís* (the Electricity Company of San Pedro de Macorís, or "Cogentrix") and Smith-Enron, CDEEE terminated substantially all of its remaining agreements with independent private producers and has begun paying its accrued debt with these producers. Nonetheless, CDEEE has maintained commercial relationships with METALDOM, DPP, CEPP and Seaboard, each an independent private producer that has continued to sell, and from which CDEEE has continued to purchase, electricity in the spot market.

- The Government and the distribution companies reached an agreement to adjust the indexation formula used to set electricity prices charged to consumers, which allowed price adjustments for changes in fuel costs, inflation and exchange rates.

- CDEEE's role as the financial intermediary between public entities and distribution companies was eliminated. As a result, distribution companies began charging these public entities directly for their electricity consumption.

In 2003, the electricity sector suffered from the collective impact of rising oil prices and the depreciation of the peso, which significantly increased generation costs. In addition, severe economic problems, which affected the ability of privatized electricity distribution companies to reliably deliver energy to the country's power grid, forced the Government to renationalize Ede Norte and Ede Sur, two of the three distribution companies that had been privatized in 1999, for aggregate compensation of US$699.6 million (including interest to be accrued over the payment period of this amount) and reassume their operational control in September 2003. See "—Privatization and Role of the State in the Economy—Privatization." The proceeds of the sale of bonds offered pursuant to this offering memorandum will be used to prepay the Republic's remaining payment obligations to Unión Fenosa, the former owner of Ede Norte and Ede Sur, in connection with this renationalization. See "Use of Proceeds."

Both generators and distributors continue to face financial difficulties that have resulted in frequent blackouts, public protests and demonstrations, and several temporary and permanent shutdowns of generating plants. The financial strain on the government caused by the 2003 economic crisis resulted in late and missed payments of subsidies by the government to distributors. Distributors, already experiencing financial difficulties because of late payments and collection problems with customers, were unable to meet all of their payment obligations to generators.

The most pressing problems currently facing the electricity sector include:

- decisions taken by distribution companies to limit their purchase of electricity in the spot market when prices are high, thereby limiting the supply of electricity to consumers. Distribution companies purchase electricity from generators under previously agreed contracts and in the spot market. Under the contracts, the purchase price is determined by a formula that takes into account certain cost variations. Although the Electricity Superintendency has instituted a price cap to keep prices in the spot market within the range of applicable contract prices, distributors often limit their spot purchases to control purchase costs, thereby limiting the supply of electricity available to consumers;

- pending negotiations of energy purchase contracts between the Government and Cogentrix. Cogentrix, an independent power producer, provided approximately 5.3% of the Dominican Republic's total demand for electricity in 2005. Under the terms of its current contracts with Cogentrix, the Government purchases electricity from Cogentrix and distributes it at a loss. A failure to successfully renegotiate these contracts may contribute to continued operational losses in the electricity sector in 2006;

- operational problems experienced by electricity generator *Empresa Generadora de Electricidad Itabo, S.A.* after its plant adopted coal as a source of fuel;

- higher oil import prices;

- high technical and commercial electricity distribution losses; and

- low collection rates.

The Fernández administration has adopted a variety of measures to deal with the persistent problems of the electricity sector, including the following:

- In 2005, the Government approved receipt of a US$150 million loan that the World Bank agreed to provide in 2003 to finance the implementation of measures to improve cash recovery and impose tighter cost controls in the electricity sector. The World Bank has withheld disbursement of the first US$50 million tranche of this loan, pending negotiation of the restructuring of electricity rates and payment of accrued debt with power generation companies, pursuant to a condition in its agreement with the Republic.

- In 2005, the World Bank agreed to provide a US$7.3 million technical assistance loan aimed at improving regulatory performance, policy formulation and portfolio management in the electricity sector as well as to address concerns in the wholesale electricity market.

- In January 2005, the Fernández administration established a committee charged with reforming the electricity sector, negotiating debt payment plans with private generation companies, and formulating a strategy with the IMF and the World Bank. The committee aims to:

  - increase the collection rate of fees from consumers;

  - reduce the level of government subsidies in accordance with the budget target of US$350 million;

  - formulate a strategy to eliminate additional government subsidies for 2006;

  - freeze intercompany debt;

  - facilitate the re-privatization of Ede Norte and Ede Sur in the medium term; and

  - ensure the financial sustainability of the electricity sector in the medium and long term.

- Following a failure on the part of managers in the electricity sector to meet specified targets for the electricity sector, the Government recently initiated a "Contingency Plan" that replaced the previous managers with international experts who will work to improve the efficiency and financial health of electricity distributors. This plan is being financed in part with the US$150 million loan from the World Bank.

- On June 29, 2005, the Republic entered into the PetroCaribe Agreement, which replaced certain important provisions of the Caracas Energy Cooperation Agreement. Under the PetroCaribe Agreement, which includes a total of 13 Caribbean basin countries, Venezuela has agreed to continue providing the Republic up to 50,000 barrels of oil per day at market prices and on favorable financing terms. The agreement establishes a new graduated financing scheme under which the amount of available financing increases as the price per barrel increases, with a maximum of 50% financing available at prices of US$100 per barrel or above. If the price of oil falls below US$40 per barrel, the amounts financed are repayable over a period of 17 years at an interest rate of 2% per year. If the price of oil rises above US$40 per barrel, the amounts financed are repayable over 25 years and bear interest at a rate of 1% per year. A two-year grace period is also available on principal amortization payments and the Republic may pay in goods and services under certain conditions. In addition, short-term financing of up to 90 days is available for cash amounts due and transportation charges are billed at cost to the Republic.

- In February 2006, the Republic accepted bids from Emirates Power DR, S.A. and Sichuan Machinery Equipment Import and Export Corp. for the construction of two 610-megawatt coal-fired power plants. Emirates Power DR signed a contract with the Republic in late February 2006 and is expected to begin construction of a plant located in Pueblo Viejo in March 2006. Sichuan Machinery Import and Export is expected to sign a contract with the Republic for the construction of a plant in the town of Pepillo, Salcedo.

In addition, as a result of the ongoing problems in the electricity sector, in 2005, the Government was forced to raise subsidies to the electricity sector above levels set forth in the 2005 budget.

The following table sets forth certain operational data for the electricity sector during 2005:

	Projected	Actual
Oil prices (US$/barrel)	47	60
Percentage of demand met	70 – 75%	80 – 85%
Total deficit (in millions of US$)	350	602

The following table sets forth information with respect to the development of the electricity sector for the periods indicated.

Principal Economic Indicators of the Electricity Sector[1]

						For the nine months ended September 30,	
	2000	2001	2002	2003	2004[2]	2004[2]	2005[2]
Production of electricity sector (in millions of US$)[3]:	405.3	508.6	524.8	374.2	330.2	205.5	343.0
Energy Production:							
Generators and CDEEE (in MW/hr):							
Thermal	2,218,391	2,887,798	3,878,821	3,182,925	2,102,429	1,312,653	1,960,366
Hydroelectric	933,649	738,125	893,192	1,198,772	1,598,704	1,267,412	1,397,732
Gas	2,102,168	1,326,103	517,181	619,681	319,210	236,895	237,417
Diesel	7,281	7,554	7,620	17,867	9,174	9,070	1,086
Total generators and CDEEE	5,261,489	4,959,580	5,296,813	5,019,245	4,029,517	2,826,030	3,596,600
Independent private producers (in MW/hr)	4,439,652	4,833,782	5,152,129	5,468,357	4,694,212	3,645,599	3,793,736
Total energy production (in MW/hr)	9,701,140	9,793,362	10,448,942	10,487,602	8,723,729	6,471,628	7,390,337
Losses, transmission and distribution (in MW)	4,138,700	3,233,188	3,411,420	4,025,693	3,523,742	2,540,192	3,263,707
Total energy loss/production, as a % of total production	42.7	33.0	32.6	38.4	40.4	39.3	44.2
Consumption by economic sector (in MW/hr):							
Residential	1,937,607	2,785,896	2,894,658	2,795,298	2,312,358	1,754,055	1,837,733
Industrial	1,864,164	1,908,906	2,195,002	2,160,678	1,655,282	1,255,960	1,291,895
Government	909,290	813,539	826,336	709,485	611,781	457,144	461,252
Commercial	613,883	819,642	892,381	556,838	408,969	317,316	329,047
Factory consumption	237,497	232,191	229,145	239,609	211,598	146,962	206,703
Total consumption	5,562,440	6,560,174	7,037,522	6,461,908	5,199,988	3,931,437	4,126,630
Energy sale income (in millions of US$)	617.7	704.6	748.5	661.3	598.7	411.4	668.4

(1) Based on the weighted average exchange rate for each year.
(2) Preliminary data.
(3) Calculated using electricity sector percentage share of real GDP, multiplied by nominal GDP in U.S. dollars.
Source: Central Bank.

The following table sets forth certain key indicators in the electricity distribution sector during the periods indicated:

	2003	2004	2005
Total interrupted hours......................	752	2,253	2,028[1]
Total energy generated (GW)	10,296	8,868	9,823
Energy distribution losses (%)..........	29.6	36.4	38.4[2]
Collection on billed amounts (%)	73.9	76.9	86.2[2]
Cash recovery index[3] (%)................	52.0	48.4	53.1[2]

(1) Preliminary data.
(2) Through October 2005.
(3) Measures weighted year-end average of cash recovered by the electricity sector after accounting for total technical and commercial losses.

Gas. Propane gas is a widely used energy source in the Dominican Republic. Propane gas is imported primarily through three terminals: *Refinería Dominicana de Petróleo*, *Operadora Puerto Viejo*, *S.A.* and *Coastal Petroleum Dominicana*. A large number of private companies distribute propane gas. During the first nine months of 2005, the Dominican Republic consumed approximately 232.2 million gallons of propane gas, equivalent to approximately 27.1 gallons per capita. In 2004, the Government eliminated propane gas subsidies for commercial and industrial use, but maintained propane gas subsidies for personal use and the transportation sector. The Government eliminated natural gas subsidies in 2001.

Water. The water sector is in need of significant investment. As of 2002, 37.4% of all Dominican households had access to potable water in their homes, while 43.7% had outside access to potable water, generally at a site within 15 minutes of their homes. The Government has considered privatizing water distribution and has recently privatized the fee collection business. However, the fact that the Government supplies water at subsidized prices poses a challenge to private sector participation, as customers are likely to object to the increase in rates that would necessarily accompany privatization of this sector. In 2001, *Corporación de Acueductos y Alcantarillados de Santo Domingo*, a public company, began installing water meters in selected areas of Santo Domingo in order to increase collections.

The following table sets forth information with respect to the development of the water sector for the periods indicated.

Principal Economic Indicators of the Water Sector[1]

						For the nine months ended September 30,	
	2000	2001	2002	2003	2004	2004[2]	2005[2]
Production of water sector (in millions of US$)[3]	9.3	9.8	10.9	8.4	8.6	5.3	8.8

(1) Based on the weighted average exchange rate for each year.
(2) Preliminary data.
(3) Calculated using water sector percentage share of real GDP, multiplied by nominal GDP in U.S. dollars.
Source: Central Bank.

Construction

Between 2000 and 2002, the construction sector grew at an average annual rate of 3.1%. In 2003 and 2004 however, the construction sector contracted by 8.6% and 6.3%, respectively. Between 2000 and 2004, the contribution of this sector to GDP ranged between 10.7% and 13.1% of GDP per year.

Construction of tourism-related facilities, as well as dams, highways, roads, bridges, tunnels, shopping centers, housing units and office buildings, contributed to the growth of the construction sector between 2000 and 2002. Growth during this period was fueled by substantial public and private investment. Private investment was directed mostly towards residential, commercial and hotel construction projects. The Government made significant investment in construction of transportation infrastructure, schools and hospitals, and low-cost single-unit housing. Construction activity decreased significantly in 2003 as a result of the economic crisis and the accompanying decrease in foreign direct investment. Construction continued to decline in 2004 and during the first nine months of 2005. However, this sector began to show signs of recovery in the second and third quarters of 2005, growing 3.3% during this period. This growth was due to a decline in interest rates and prices for supplies of goods, such as cement and paint.

Services

Wholesale and Retail Trade

Between 2000 and 2002, wholesale and retail trade grew at an average annual rate of 5.0%, principally due to the following factors:

- an increase in per capita income;
- the effects of the 1990 tariff reform; and
- the elimination of restrictions on foreign investment.

In 2003, this sector contracted 13.7% primarily as a result of weakened consumer demand caused by the recession, and remained stagnant in 2004. During the first nine months of 2005, the wholesale and retail trade sector grew 19%, as compared to the same period in 2004.

In the period from 2000 to 2004, wholesale and retail trade accounted for an average of 12.3% of GDP per year, making it the second largest component of the economy. During this period, however, the sector's share of GDP decreased from 13.2% in 2000 to 11.2% in 2004. During the first nine months of 2005, the sector's share of GDP increased to 12.5% of GDP.

The composition of the Dominican retail market has changed in recent years, with the entrance of a number of multinational corporations, some through the use of franchises, and with a focus primarily on mega-store supermarkets and the fast food and clothing businesses, which has in turn spurred domestic investment in retail trade.

Hotels, Bars and Restaurants

Driven primarily by tourism, the hotel, bar and restaurant sector was an important contributor to the Dominican economy between 2000 and 2004, accounting on average for 6.7% of GDP. At December 31, 2004, there were approximately 58,932 hotel rooms available in the country, an increase of 7,016 rooms as compared to the total available at December 31, 2000.

While the sector's growth slowed in 2002 to 0.9%, primarily as a result of the impact on tourism of the terrorist acts of September 11, 2001, it grew 13.3% in 2003 as the tourism sector rebounded after depreciation of the peso made the Dominican Republic a relatively cheaper tourist destination. This sector continued to grow showing an increase of 4.6% in 2004. During the first nine months of 2005, the sector grew 5.5%, compared to the same period in 2004.

In October 2001, the Government enacted the *Ley de Fomento al Desarrollo Turístico* (Tourism Development Incentive Law). The law grants tax exemptions to entities that develop tourism-oriented projects in the less-developed regions of the country with the objective of promoting investment and economic growth in the tourism sector.

Since 1985, tourism has been the primary source of foreign currency for the Dominican economy. In 2004**,** 3.7 million foreign tourists visited the Dominican Republic. See "Balance of Payments and Foreign Trade—Foreign Trade—Services Trade" for additional information regarding the tourism sector.

Transportation

The transportation sector, which consists of passenger and merchandise transportation by air, land and sea, grew intermittently in the period from 2000 to 2004. After a substantial 8.2% contraction in 2003, this sector grew at a reduced rate in 2004 until expanding at a rate of 7.6% during the first nine months of 2005. This growth was due to the increase in the transport of agriculture, livestock, fishing, forestry and manufacturing products.

Communications

The Dominican Republic was one of the first countries in Latin America to have a privatized telephone service. Privatization of the telecommunications sector took place in 1930. From 1930 to 1992, *Compañía Dominicana de Teléfonos* (the Dominican Telephone Company), currently a subsidiary of Verizon known as Verizon Dominicana, had a virtual monopoly in this sector. In 1992, the creation of Tricom introduced competition into the telephony market. Tricom is the only Dominican company that has ever been listed on the New York Stock Exchange. New competition continued to emerge in the 1990s with the entry of Turitel in 1993 and Economitel in 1997, both of which specialize in domestic and international long distance calling card services. In 2000, France Telecom (Orange) and Centennial Dominicana (a subsidiary of Centennial Communication Corporation) entered the domestic market for international long distance telephone and wireless services. Increased competition has expanded the variety of communication services offered and resulted in an appreciable reduction in rates.

Summary of Communications Sector Information

	2000	2001	2002	2003	2004	2005[(1)]
Lines (per 100 residents)						
Fixed wire	11.2	11.8	10.6	10.5	10.6	10.2
Cellular	8.8	15.7	19.9	24.5	28.8	38.6
Total lines	20.0	27.5	30.5	34.9	39.4	48.8
Internet accounts (number of accounts)	52,761	64,382	82,518	96,391	104,147	116,769

(1) As of September 30, 2005.
Source: Instituto Dominicano de las Telecomunicaciones (Dominican Telecommunications Institute).

Between 2000 and 2004**,** the communications sector registered the highest rate of growth in the Dominican economy, with an average annual growth rate over the period of 21.5%. This sector's share of the economy as a percentage of GDP reached 11.4% in 2004, as compared to 5.8% in 2000. During the first nine months of 2005, the communications sector grew 25.5% as compared to the same period of 2004.

Cellular service grew from 8.8 lines per 100 residents in 2000 to 38.6 lines per 100 residents at September 30, 2005**,** accounting for almost the entire increase in the number of phone lines over this period. As of September 30, 2005, the number of telephone lines and beepers in the Dominican Republic was approximately 4.3 million. Among a variety of factors, telephone service has grown due to prominent advertising campaigns, the proliferation of prepaid cellular plans and handsets and significant growth of foreign direct investment in this sector. Internet access has also increased significantly in recent years, as computers and Internet use have proliferated.

The Government has launched initiatives to enhance the communications sector, including:

- allocation of 60% of the 2% excise tax imposed on communication services to improve access to telephone and other communication services;
- development of programs to provide Internet access in public schools; and

- development of programs to increase access to telecommunications in rural areas.

Financial Services

Between 2000 and 2002, the financial services sector grew at an average annual rate of 3.0%, which was lower than the average annual growth rate for the entire Dominican economy. This modest rate of growth resulted from the slow process of opening the Dominican financial sector to international competition. In 2003 and 2004, however, the financial services sector contracted by 5.5% and 1.0%, respectively, mainly as a result of the Republic's banking crisis. During the first nine months of 2005, the financial services sector grew 3.5% as compared to the same period in 2004 due to a growth in the granting of credit and an increase in the number of insurance premiums.

The Fernández administration is committed to continuing the process of opening up the financial services sector to foreign private investment, with the goal of increasing the efficiency and solvency of the Dominican financial system.

Public Administration

Between 2000 and 2004, the public administration sector exhibited an average growth rate of 4.8%, higher than the average growth rate for the Dominican economy as a whole, which was due to an increase in the Government's payroll.

In 2005, the Fernández administration established a cap on the public administration payroll, in part by instituting a hiring freeze. During the first nine months of 2005, the public administration sector contracted by 1.6% as compared to the same period in 2004.

Real Estate and Other Services

Real estate expanded at a modest rate in the period from 2000 to 2004. The annual growth rate for this sector was between 2.1% and 2.3% during this period. During the first nine months of 2005, the real estate sector grew by 2.1% as compared to the same period in 2004.

Other services supplied in the Dominican economy include personal services, cleaning services, services rendered to private companies and computer services.

Privatization and Role of the State in the Economy

Privatization

During the first Fernández administration from 1996 to 2000, the Government began a process of privatization in a number of sectors that the Mejía administration continued with mixed success.

Pursuant to the *Ley General de Reforma de la Empresa Pública* (the Public Enterprise Reform Law), the privatization of state-owned companies in the Dominican Republic must be effected primarily through a process of share purchases (which is referred to under Dominican law as "capitalization"). Under the capitalization process, private sector companies contribute a sum equal to or greater than the value of the state-owned company subject to privatization to create a new company, 50% of which is owned by the Government as required by law. This law also gives discretion to the *Comisión de la Reforma a la Empresa Pública* (the Commission for the Reform of Public Enterprises) to implement the Government's privatization initiatives through franchising, concessions, transfers of shares or assets, or the sale of assets. Under this law, funds obtained through the privatization process, including concession fees, are placed in the *Fondo Patrimonial* (the Privatization Fund).

The state-owned companies and assets that have been subject to privatization since the enactment of the Public Enterprise Reform Law include the following:

- CDEEE;
- the sugar mills owned by the National Sugar Board;
- companies owned by the *Corporación Dominicana de Empresas Estatales* (the Dominican State Enterprises Corporation, or "CORDE"), a holding company with interests in companies operating in a wide range of economic activities;
- hotels owned by the *Corporación de Fomento de la Industria Hotelera* (the Hotel Industry Promotion Corporation, or "CORPHOTELES"); and
- airports managed by the Government.

The following summarizes the steps taken to privatize these companies:

- The privatization of CDEEE, which was launched in 1999, divided the company into thee separate parts, each dealing with a different segment of the electricity market – generation, distribution and transmission. As a result of these measures, three new mixed (private and state-owned) companies – *Distribución del Norte* ("Ede Norte"), *Distribución del Sur* ("Ede Sur") and *Distribución del Este* ("Ede Este") – were established to assume the power distribution business. The Government sold 50% ownership interests and management control in Ede Norte and Ede Sur to Spanish company Unión Fenosa and in Ede Este to U.S.-based AES in separate transactions. In addition, two new mixed (private and state-owned) companies – *Empresa Generadora de Electricidad Itabo, S.A.* and *Empresa Generadora de Electricidad Haina, S.A.*– were established to assume the power generation business conducted through thermoelectric plants. In September 2003, however, the Republic repurchased Unión Fenosa's interest in Ede Norte and Ede Sur for US$699.6 (including interest) and re-assumed operational control of the two distributors. The purchase price is payable in 144 monthly installments through September 2015. The Republic's payment obligations are secured by the assignment of customer receivables of Ede Norte and Ede Sur selected by Unión Fenosa representing 115% of each price installment. Collections on these receivables are paid to an escrow account and are released solely for payment of the purchase price installments to Unión Fenosa. In August 2005, the Republic signed a memorandum of understanding with Unión Fenosa that grants the Republic the option, exercisable through March 31, 2006, to pre-pay all of the remaining purchase price installments for approximately US$294.1 million and release Ede Norte and Ede Sur from their obligations under the receivables assignment agreement. The Republic intends to use the proceeds of the sale of bonds offered pursuant to this offering memorandum for this purpose, which it expects will allow Ede Norte and Ede Sur to recover a significant portion of their operating cash flow and recapitalize their operations, thus reducing the level of government subsidies to these companies. See "Use of Proceeds" and "Secondary Production—Electricity, Gas and Water—Electricity."
- In June 1999, the Government decided to lease the sugar mills owned by the National Sugar Board to private sector operators, in an effort to improve their performance. To date, the National Sugar Board's ten sugar mills have been leased to four private consortia, which have invested resources to optimize the mills' production capabilities, and to improve the quality of the mills' facilities.
- The privatization of CORDE was launched in 1999 with the privatization of two of its subsidiaries, *Molinos Dominicanos* and *Molinos del Norte*. These two companies merged into *Molinos del Ozama*, which was capitalized by *Malla y Cía* (a privately-owned company). In December 1999, the Government authorized the lease of two CORDE subsidiaries, *Minas de Sal y Yeso* and *Marmolería Nacional*, to two privately-owned companies, *Cementos Nacionales* (a subsidiary of *Cementos de México*, *S.A. de C.V.*) and *Marmotech*, *S.A.* The privatization of CORDE continued in January 2000, when its three tobacco subsidiaries were merged into a single entity that was capitalized by *CITA Caribe* (a subsidiary of *CITA Tabacos de Canarias*). All but three of the CORDE companies have been liquidated. The three that remain in existence are currently not in operation.

- Thirteen of the CORPHOTELES's 24 hotels have been leased to private operators. The remainder are either not in operation or have been donated to non-profit organizations.

- In 1999, the Government also privatized the management of four of the country's international airports. *Aeropuertos Dominicanos Siglo XXI, S.A.* (a private consortium known as Aerodom) was selected though a competitive bidding process to operate the airports for a period of 25 years. In addition, Aerodom built an airport in La Isabela, near Santo Domingo, which began flight operations in February 2006 and is currently in the process of building an airport in El Catey, near the Samaná resort area.

- The Government is also promoting private sector investment in other public endeavors, such as the development of sulfide deposits and the construction and management of highways. During 2001 and 2002, the Government granted concessions to private companies for the construction and management of five highways, and is in the process of approving two additional concessions. In February 2006, one of these concessionaires, *Autopistas del Nordeste*, issued US$163 million of bonds due 2026 to finance construction of a new toll road from Santo Domingo to Samaná. The bonds are secured by the concessionaire's rights under the concession agreement, including the right to receive from the Republic payment of (i) a US$29 million contribution to construction costs (of which US$15 million has already been contributed), (ii) a guaranteed minimum revenue amount in the event toll revenues fall below set targets in any operating quarter (which ranges from a maximum amount of approximately US$5.3 million to a maximum amount of US$13.6 million in constant U.S. dollars per quarter from June 2008 through February 2026) and (iii) a termination fee in the event the concession is terminated, which will be at least sufficient to cover the concessionaire's then outstanding liabilities.

- In February 2005, the Government announced that it plans to auction concessions of cruiseship sea ports in four cities to improve tourism infrastructure. The Republic expects that it will issue a request for proposals for the first of these concessions in 2006.

The privatization process has encountered significant difficulties in the electricity sector. Both generators and distributors of electricity have been beset by financial losses that have resulted in frequent blackouts, widespread public protests, a persistent deficit in electricity output, and several temporary and permanent shutdowns of generating plants. See "—Secondary Production—Electricity, Gas and Water—Electricity." In November 2004, AES sold its ownership interest in Ede Este to U.S.-based TCW Energy Advisors.

Role of the State in the Economy

Following enactment of the Public Enterprise Reform Law on June 24, 1997, the Government reduced its direct involvement in the Dominican economy. While in the early 1990s the Government maintained a 100% equity ownership in public enterprises, the Government has reduced its ownership stakes in many of those enterprises.

The Fernández administration is intent on continuing the privatization process and deregulating the Dominican economy by promoting private sector involvement in areas that were previously restricted to the Government or to firms in which the Government was a stakeholder. The Fernández administration aims to:

- reform the energy sector, including fuel and other sources of energy;

- construct and maintain infrastructure, such as roads, airports, ports and sanitation projects; and

- support new investment in the mining sector, such as the new concession to the Canadian gold company Placer Dome to mine gold and silver in the Pueblo Viejo mine.

As of the date of this offering memorandum, the Government holds the specified equity ownership interests in the following companies:

Company	Government Equity Ownership	Description
CDEEE (generation and transmission)	100%	Operates the Republic's generation plants and transmission lines.
CDEEE (generation and distribution)		
Ede Sur and Ede Norte	100%	Owns distribution facilities.
Ede Este	50%	Ownership interest in privatized distribution facilities.
National Sugar Board	100%	Owns the Republic's sugar mills and land. All sugar mills are leased to the private sector.
Corporación de Acueducto y Alcantarillado de Santo Domingo (Aqueduct and Sewer Corporation of Santo Domingo)	100%	Owns and operates the aqueducts and sewers of Santo Domingo.
Corporación de Acueducto y Alcantarillado de Santiago (Aqueduct and Sewer Corporation of Santiago)	100%	Owns and operates the aqueducts and sewers of Santiago.
Banco de Reservas de la República Dominicana	100%	Commercial bank.
Banco Agrícola (Agricultural Bank)	100%	Development bank that provides financing for small farmers.
Compañia de Seguros San Rafael (San Rafael Insurance Company)	100%	Offers insurance services to the public.
CORDE	100%	Holding company of the Government's interest in many companies.
CORPHOTELES	100%	Owns 18 hotels throughout the Republic.
Refinería Dominicana de Petróleo (Dominican Petroleum Refinery)	50%	Imports oil and oil derivatives, operates the Republic's refinery, and sells gasoline and other fuel products to oil derivative distributors.
Falconbridge Dominicana	10%	Operates the Republic's nickel-iron mines and exports nickel-iron to foreign markets.

Employment and Labor

Employment

Economic growth in the period 2000 to 2001 stimulated job creation, although unemployment increased in 2001 and 2002 due to a decrease in the economic growth rate in those years. Unemployment continued to increase in 2003 as a result of the economic crisis and remained above pre-2003 levels in 2004 and 2005. The unemployment rate increased in 2004 due to a greater number of people looking for jobs following the recession of 2003, which had discouraged individuals from actively seeking employment. However, in part due to the ongoing economic recovery, the unemployment rate, which stood at 19.7% at October 30, 2004, declined to 17.5% at October 30, 2005.

The principal sectors in terms of numbers of jobs are, wholesale and retail trade, manufacturing, agriculture, transportation and other services.

The following table sets forth employment statistics as of the periods indicated.

Employment and Labor
(in %)

	2000	2001	2002	2003[5]	2004	2005[5]
Participation rate[1]	55.2	54.3	55.1	54.7	56.3	56.1
Employment rate[2]	47.6	45.8	46.2	45.4	46.0	45.8
Unemployment rate[3]	13.9	15.6	16.1	17.0	18.4	18.4
Open unemployment rate[4]	5.8	6.5	5.9	6.5	5.3	5.8

(1) Labor force as a percentage of the total population at or above the minimum working age (including both active and inactive segments of the population).
(2) Employment as a percentage of the total population at or above the minimum working age.
(3) Refers to population at or above the minimum working age that is not employed and is willing to work (even if not actively seeking work), as a percentage of the total labor force.
(4) Refers to population at or above the minimum working age that is not employed and is actively seeking work, as a percentage of the total labor force.
(5) As of April 30.
Source: Central Bank.

The following table sets forth information on employment by sector (as a percentage of total employment) as of the periods indicated.

Employment
(% by sector)

	2000	2001	2002	2003[1]	2004	2005[2]
Agriculture, livestock, fishing and forestry	15.9%	14.8%	15.9%	13.8	14.8	14.4
Mining	0.2	0.2	0.2	0.2	0.2	0.2
Manufacturing	17.1	15.4	14.2	14.7	15.4	14.9
Construction	6.3	6.6	5.9	7.1	6.6	6.5
Electricity, gas and water	0.8	0.9	0.8	0.9	0.8	0.8
Transportation and communications	6.2	7.6	7.4	7.7	7.3	7.3
Wholesale and retail trade	21.7	21.6	21.2	20.7	20.3	21.7
Financial services	1.9	1.8	2.0	2.1	1.7	1.9
Public administration and defense	4.2	4.8	5.1	4.4	4.4	4.5
Hotels, bars and restaurants	5.3	5.7	5.6	5.5	5.6	6.0
Other services	20.6	20.7	21.8	22.9	22.8	21.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) As of October 31.
(2) As of April 30.
Source: Central Bank.

The Dominican economy has a significant "informal sector" that provides employment to many people, including a significant number of women. The term "informal sector" refers to economic activities that take place outside of the formal norms for economic transactions established by the state or developed through formal business practices. The informal sector includes small businesses that are the result of individual or family initiatives. It generally involves the production and exchange of goods and services without the appropriate business permits, without reporting of tax liability, without complying with labor regulations and without legal guarantees for suppliers and end users. The informal sector provides economic opportunities, albeit limited, for the urban poor. The Central Bank estimates that 52.9% of the total labor force was employed in the informal sector in 2004.

Wages and Labor Productivity

The *Comité Nacional de Salarios* (the National Committee on Salaries) sets minimum wages by industry every two years in a process in which representatives from labor, management and the public sector participate.

Effective January 2005, the National Committee on Salaries approved a 30% increase in the minimum wage for most sectors of the economy. At present, the minimum wage in the private sector is DOP6,400 per month, which is equivalent to approximately US$194.71 per month at the Central Bank's exchange rate of DOP32.87 per US$1.00 at March 6, 2006.

In 2004, the real minimum wage recorded in the private sector for large size companies was 66.8% of the level recorded in 2000; for medium size companies, 66.8% of the 2000 level and for small size companies, 66.7% of the wage recorded in 2000. The real minimum wage recorded in the free trade zone in 2004 was 71.3% of the level recorded in 2000. In the public sector, the real minimum wage recorded in 2004 was 79.6% of the wage recorded in 2000.

The following table sets forth information on real minimum wages by sector and labor productivity for the years indicated.

Index of Real Minimum Wages and Labor Productivity
(1999 = 100)

	2000	2001	2002	2003	2004
Private sector wages:					
Large size companies[(1)]	94.7	104.3	98.8	73.2	67.6
Medium size companies[(2)]	92.9	102.3	96.9	75.8	68.3
Small size companies[(3)]	92.1	101.6	96.2	75.2	68.9
Free trade zone wages	92.9	98.8	90.2	73.3	70.3
Public sector wages	93.3	101.9	95.7	74.2	68.7
Labor productivity[(4)]	106.0	111.2	112.3	110.4	108.7

(1) Capitalization greater than DOP500,000. In November 2004, this threshold was increased to DOP4.0 million.
(2) Capitalization greater than DOP200,000 and lower than DOP500,000. In November 2004, this range was increased to DOP2.0 million and DOP4.0 million.
(3) Capitalization lower than DOP200,000. In November 2004, this threshold was increased to DOP2.0 million.
(4) Labor productivity index is based on a ratio of real GDP and total employment (average labor productivity).
Source: *Secretaría de Estado de Trabajo* (Ministry of Labor) and Central Bank.

Poverty and Income Distribution

The incidence of poverty in the Dominican Republic declined during the 1990s, primarily as a result of rapid economic growth during this period. Another factor that has helped to ameliorate poverty has been the considerable rise in remittances from workers living and working abroad, which has grown even during the economic crisis. See "Balance of Payments and Foreign Trade—Remittances." Poverty in the Dominican Republic results primarily from unemployment and underemployment, marked class disparities in access to education, health care and jobs, and the significant differences in income between skilled and unskilled workers.

Since 2000, poverty in the Dominican Republic has increased significantly as a result of high inflation, the slowing economy and an increase in unemployment. According to data from the *Oficina Nacional de Planificación* (National Planning Office), approximately 7.5% of the population lived in extreme poverty (household earnings of less than US$1 per day) in 2002, as compared to 28% in 2000. Approximately 42.2% of Dominicans lived in poverty (defined as household earnings of less than US$2 per day) in 2002, as compared to 54% in 2000.

In 2001, a new social security law that overhauled the Republic's pension system went into effect. For a discussion of the Republic's social security reform, see "Public Sector Finances—Social Security."

The Government has also adopted a plan to improve the Dominican educational system, particularly as sub-standard education is considered to be one of the principal causes of poverty. The Dominican educational system has suffered from a lack of resources, out-of-date curricula and inadequate teacher training. The Government has taken steps to improve Dominican schools, including the following:

- continuing the *Plan Decenal de Educación* (the Decennial Plan for Education), a program started in 1992 with support from the IDB, the World Bank and private donors, which is aimed at increasing the efficiency of the school system and improving the coverage of public education for children;

- strengthening the student-breakfast program for children attending public schools;

- adopting a program to provide Internet access in public schools;

- encouraging private companies to sponsor public schools; and

- implementing the School Attendance Incentive program.

Other measures the Government has implemented to combat poverty include:

- subsidizing selected households living in poverty (*e.g.*, single-mother households and households where the wage earner is disabled or retired);

- investing in poor neighborhoods to improve sanitation, pave roads and repair sub-standard housing;

- subsidizing public transportation;

- providing credits for small businesses;

- reforming the public healthcare and workers' compensation systems;

- implementing the Eating is First program; and

- establishing the Unified Beneficiary System, which monitors the Government's poverty programs.

Environment

The most serious environmental problems currently confronting the Dominican Republic are water contamination and deforestation. The Government expects to address these environmental problems through greater supervision and regulation, as well as through community and private-sector awareness and involvement. In 2000, the Government created the *Secretaría de Estado de Medio Ambiente y Recursos Naturales* (the Environmental Ministry) to centralize the various functions relating to the environment previously carried out by multiple governmental entities. The 2006 budget allocates DOP1.2 billion for environmental protection.

The Government requires environmental impact studies before authorizing any public or private construction project. The Government undertook reforestation projects, beginning in the late 1990s, which involved community groups and private and public organizations. The drive for reforestation yielded favorable results. While in the 1980s the annual rate of deforestation, as measured by the World Bank, reached 400 square kilometers per annum, that rate was reduced to 264 square kilometers per annum in the period from 1990 to 1995. In addition, a study has suggested that the total area covered by forest grew by 550 kilometers between 1980 and 1998, increasing the covered area from 19.6% to 27.5%. In 1998, the *Secretaría de Estado de Agricultura* (the Ministry of Agriculture) reported that 2.0 million hectares were covered by natural vegetation, representing 42% of the total area suitable for agricultural purposes.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The balance of payments is used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is composed of two accounts:

- the current account, which comprises:
  - net exports of goods and services (the difference in value of exports minus imports);
  - net financial and investment income; and
  - net transfers; and
- the capital account, which is the difference between financial capital inflows and financial capital outflows.

Current Account

One of the most important components of the current account is the trade balance. The four primary factors that drive the trade balance are:

- the relative rate of economic growth of a country as compared to that of its trading partners – generally, if a country's economy grows faster than that of its trading partners, its relative level of consumption of goods and services will tend to rise, and its level of imports will tend to increase more rapidly than its level of exports;

- the relative level of domestic prices against foreign prices, as reflected by the real exchange rate – generally, if a country's domestic prices rise relative to those of its trading partners, there is a tendency for the country's level of exports to decline, and for its level of imports to increase;

- changes in production costs, technology, and worker skills – more efficient production will tend to lower production cost, which in turn will tend to lower prices. As prices fall, there will be a tendency for the country's level of exports to increase; and

- changes in consumer tastes, which may affect the demand for a country's goods and services abroad, and the demand for foreign products in the domestic market.

Between 2000 and 2002, the Republic's current account registered annual deficits, which were offset by yearly surpluses in the capital account. During this period, the current account deficit fluctuated between 5.2% (2000) and 3.4% (2001) of GDP. In 2003 and 2004, the Republic's current account registered surpluses of US$1.0 billion and US$1.1 billion, which equaled 6.2% and 5.8% of GDP, respectively. During the first nine months of 2005, the current account showed a deficit of US$137.4 million, equal to 0.7% of GDP, as compared to a surplus of US$897.4 million, equal to 8.1% of GDP, during the same period in 2004.

The current account deficits between 2000 and 2002 reflected trade deficits due to strong demand for imported goods.

The current account surpluses in 2003 and 2004 primarily reflected:

- the overall slowdown of the Dominican economy, which lowered domestic demand and consumption; and

- the 64.1% depreciation of the Dominican peso in 2003, which further depressed imports and made Dominican exports relatively more attractive to the Republic's trading partners.

The current account deficit during the first nine months of 2005 reflected a significant increase in imports and the impact of higher oil prices that resulted in a significant imbalance between the value of imports as compared to exports.

Capital Account

The capital account reflects foreign direct investment and monetary flows into and out of a nation's financial markets. Between 2000 and 2002, the capital account registered annual surpluses and offset the current account deficit in each year during this period. From 2000 to 2001, the Republic attracted considerable foreign direct investment, as reflected in capital account surpluses of US$1.6 billion in 2000 and US$1.7 billion in 2001.

In 2002, the capital account surplus decreased approximately 78%, as compared to 2001, due to a decrease in foreign direct investment and a substantial decrease in net portfolio investment provoked by the global economic downturn and reflecting the increase in net portfolio investment in 2001 as a result of the US$500 million sovereign bond offering. In 2003, the capital account registered a deficit of US$16.3 million as foreign direct investment decreased sharply due to economic and political instability in the country. The Government's repurchase of the electricity distribution companies Ede Norte and Ede Sur from Spanish-based Unión Fenosa in September 2003 also contributed to the capital account deficit. The US$1.7 billion in outflows of "other capital" registered in 2003 was the result of capital flight and a decrease in private sector external debt, which reduced payments to foreign creditors in 2004.

In 2004, the capital account registered a surplus of US$249.2 million. Foreign direct investment increased to US$758.4 million in 2004 as compared to US$613.0 million in 2003. In 2004, foreign currency-denominated deposits in commercial banks increased from US$136.6 million in 2003 to US$408.0 million while medium- and long-term private sector external debt payments decreased from US$363.2 million in 2003 to US$160.0 million.

At September 30, 2005, the capital account registered a surplus of US$396.5 million, as compared to a surplus of US$607.0 million registered at September 30, 2004, despite a significant increase in foreign direct investment, which amounted to US$728.5 million during the first nine months of 2005 as compared to US$599.0 million during the same period of 2004. This increase in foreign direct investment reflected growing investor confidence in the Republic following the presidential election in May 2004.

The Republic's capital markets have deterred portfolio investment, which contributes to the capital accounts of some countries. Modest portfolio investment, however, has had some positive side effects; the Republic, for instance, has not suffered from the volatility often associated with "hot money" capital inflows.

The following table sets forth information regarding the Republic's balance of payments for the periods indicated.

Balance of Payments
(in millions of US$)

	2000	2001	2002	2003	2004[4]	For the nine months ended September 30, 2004[4]	For the nine months ended September 30, 2005[5]
Current account:							
Trade balance:							
Exports (FOB):							
National	US$ 966.1	US$ 794.7	US$ 847.7	US$ 1,064.0	US$ 1,250.7	US$ 922.0	US$ 1,015.4
Free trade zones	4,770.6	4,481.6	4,317.3	4,406.8	4,497.3	3,314.5	3,421.6
Total exports	US$ 5,736.7	US$ 5,276.3	US$ 5,165.0	US$ 5,470.8	US$ 5,748.0	US$ 4,236.5	US$ 4,437.0
Imports (FOB):							
National	US$ (6,416.0)	US$ (5,952.9)	US$ (6,237.3)	US$ (5,095.9)	US$ (5,369.6)	US$ (3,829.0)	US$ (5,255.2)
Free trade zones	(3,062.5)	(2,826.4)	(2,600.4)	(2,530.9)	(2,474.7)	(1,923.0)	(1,843.2)
Total imports	(9,478.5)	(8,779.3)	(8,837.7)	(7,626.8)	(7,844.3)	(5,752.0)	(7,098.4)
Trade balance	US$ (3,741.8)	US$ (3,503.0)	US$ (3,672.7)	US$ (2,156.0)	US$ (2,096.3)	US$ (1,515.5)	US$ (2,661.4)
Services balance, net[1]	1,854.3	1,826.4	1,757.3	2,249.4	2,290.7	1,803.0	2,029.1
Of which:							
Income from tourism	2,860.2	2,798.3	2,730.4	3,127.8	3,151.6	2,450.2	2,797.8
Financial and investment income, net	(1,041.3)	(1,091.7)	(1,151.8)	(1,393.1)	(1,634.3)	(1,199.4)	(1,427.3)
Current transfers, net	1,902.3	2,027.5	2,269.3	2,335.9	2,527.5	1,809.3	1,922.3
Of which:							
Workers' remittances	1,689.0	1,807.9	1,959.6	2,060.5	2,230.2	1,618.4	1,700.5
Current account balance	US$ (1,026.5)	US$ (740.8)	US$ (797.9)	US$ 1,036.2	US$ 1,087.6	US$ 897.4	US$ (137.4)
Capital account:							
Foreign direct investment	952.9	1,079.1	916.8	613.0	758.4	599.0	728.5
Portfolio investment, net	264.5	603.7	(25.7)	543.8	(27.4)	(23.7)	(54.4)
Other medium- and long-term capital	184.2	322.4	413.2	509.2	119.4	249.9	(24.5)
Of which:							
Disbursements to the public sector	350.8	499.1	678.1	881.8	771.1	668.4	418.5
Other capital, including short-term capital	195.0	(301.7)	(921.3)	(1,682.3)	(601.3)	(218.2)	(253.0)
Capital account balance	US$ 1,596.6	US$ 1,703.5	US$ 383.1	US$ (16.3)	US$ 249.2	US$ 607.0	US$ 396.5
Errors and omissions[2]	(618.1)	(447.8)	(139.9)	(1,566.3)	(790.5)	(1,313.4)	291.7
Total balance of payments	US$ (48.0)	US$ 515.0	US$ (554.7)	US$ (546.5)	US$ 546.2	US$ 191.0	US$ 550.8
Financing:							
Change in gross official reserves	US$ 69.5	US$ (518.5)	US$ 526.5	US$ 358.0	US$ (541.8)	US$ (311.8)	US$ (732.0)
Use of IMF resources	—	—	(25.6)	92.9	65.7	65.7	79.9
Extraordinary financing, net[3]	(21.5)	3.5	53.8	95.6	(70.1)	55.1	101.3
Total financing	US$ 48.0	US$ (515.0)	US$ 554.7	US$ 546.5	US$ (546.2)	US$ (191.0)	US$ (550.8)
Memorandum item:							
Current account balance (as a % of GDP)	(5.2)	(3.4)	(3.7)	6.2	5.8	8.1	(0.7)

(1) Includes income from tourism and other services, less expenses from tourism, freight and other services.
(2) Represents errors and omissions in compiling balance of payment accounts based on double-entry accounting resulting from incomplete or overlapping coverage, different prices and incomplete times of recording and conversion practices.
(3) Comprised of debt aid, debt restructuring and arrears, among other financing.
(4) Revised data.
(5) Preliminary data.
Source: Central Bank.

Foreign Trade

In recent years, the Dominican economy has been one of Latin America's most open economies to foreign trade, as reflected in its relatively low effective average import tariffs and the lack of import tariffs in the free trade zones. In 2004, the combined value of the Republic's imports and exports of goods equaled 72.9% of the country's GDP, reflecting the high degree of openness of the Dominican economy to foreign trade.

The trade deficit remained at approximately US$3.7 billion each year in the period from 2000 to 2002. In 2003, the trade deficit decreased to US$2.1 billion, primarily due to lower demand for imports and the positive effect of the peso's depreciation on exports, and held steady at US$2.1 billion in 2004. Total exports (including exports from free trade zones) decreased from US$5.7 billion to US$5.2 billion between 2000 and 2002. Total exports increased to US$5.5 billion in 2003 and to US$5.7 billion in 2004, primarily due to an increase in nickel-iron and certain free trade zone-based exports, which helped offset a continued decline in textiles exports. Total imports (including imports into free trade zones) decreased from US$9.5 billion in 2000 to US$8.8 billion in 2002. In 2003, imports decreased to US$7.6 billion, as a result of the slowdown in the Dominican economy and the depreciation of the peso. In 2004, imports increased slightly to US$7.8 billion.

During the first nine months of 2005:

- the trade deficit reached US$2.7 billion, reflecting an increase of 75.6% as compared to the same period in 2004;
- total exports were US$4.4 billion, as compared to US$4.3 billion for the same period in 2004;
- imports totaled approximately US$7.1 billion, as compared to US$5.8 billion during the same period in 2004, which reflected growing domestic demand for imported consumer goods; and
- imports of durable goods and refined petroleum products increased by 160% and 55%, respectively, as compared to the first nine months of 2004.

The Republic maintains close commercial ties with the United States, its principal trading partner. During the first nine months of 2005, 79.8% of the Republic's total exports were bound for the United States and Puerto Rico, while 46.7% of total imports came from U.S. ports.

In August 2004, the Dominican Republic and the United States signed the DR-CAFTA, which, upon its implementation in July 2006, will immediately eliminate 80% of tariffs on goods imported into the Republic from the U.S., with the remaining 20% to be phased out over a 5- to 20-year period. An estimated 99.7% of Dominican exports to the United States will enter the United States tariff-free. The DR-CAFTA was ratified by the Dominican Congress and the U.S. Congress in the summer of 2005, and is expected to be implemented on or about July 1, 2006.

Import quotas on textiles were eliminated in all WTO member countries on January 1, 2005, with the expiration of the WTO Agreement on Textiles and Clothing. The Republic's textiles exports to the United States and other markets have decreased significantly primarily as a result of greater competition from China and India. Prior to 2005, the Republic had benefited from preferential access to the U.S. market through the Textile Parity Agreement. See "The Economy—Principal Sectors of the Economy—Secondary Manufacturing—Free Trade Zones."

In 2004, exports from the Republic consisted primarily of:

- exports from free trade zones (such as textiles, electronics and jewelry) valued at US$4.5 billion, representing 78.2% of total exports;
- traditional exports (consisting of products, such as sugar, tobacco and coffee) valued at US$588.9 million, representing 10.2% of total exports; and
- non-traditional exports (consisting of other products that the Republic currently exports, such as beer and fruits) valued at US$233.9 million, representing 4.1% of total exports.

The following tables set forth further information regarding exports for the periods indicated.

Exports
(in millions of US$ and as a % of total exports)

	2000		2001		2002		2003		2004(1)		For the nine months ended September 30, 2004(1)		2005(2)	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Free trade zones:														
Textiles	2,555.4	44.5	2,314.4	43.9	2,226.8	43.1	2,196.4	40.1	2,105.1	36.6	1,552.0	36.6	1,471.1	33.2
Footwear	265.8	4.6	278.1	5.3	201.5	3.9	202.5	3.7	234.7	4.1	158.9	3.8	230.2	5.2
Electronics	568.2	9.9	456.6	8.7	498.9	9.7	577.6	10.6	630.5	11.0	448.3	10.6	508.9	11.5
Tobacco manufacturing	329.1	5.7	326.1	6.2	303.4	5.9	287.6	5.3	308.6	5.4	227.0	5.4	238.8	5.4
Jewelry	354.6	6.2	398.4	7.6	438.1	8.5	466.8	8.5	600.9	10.5	438.8	10.4	444.0	10.0
Medical products	320.2	5.6	306.3	5.8	317.9	6.2	320.7	5.9	288.3	5.0	229.9	5.4	169.5	3.8
Other	377.3	6.6	401.7	7.6	330.7	6.4	355.0	6.5	329.0	5.7	259.6	6.1	359.1	8.1
Total free trade zones	4,770.6	83.2	4,481.6	84.9	4,317.3	83.6	4,406.8	80.6	4,497.3	78.2	3,314.5	78.2	3,421.6	77.1
Traditional:														
Sugar and related products	89.6	1.6	88.8	1.7	99.2	1.9	96.9	1.8	94.1	1.6	93.8	2.2	92.6	2.1
Coffee	33.0	0.6	11.1	0.2	12.8	0.2	16.5	0.3	5.7	0.1	5.0	0.1	6.7	0.2
Cocoa	26.1	0.5	42.7	0.8	67.0	1.3	77.0	1.4	55.9	1.0	50.6	1.2	35.6	0.8
Tobacco	44.7	0.8	30.4	0.6	25.5	0.5	19.9	0.4	43.2	0.8	26.7	0.6	15.6	0.4
Nickel-iron	237.4	4.1	145.2	2.8	156.2	3.0	238.7	4.4	390.0	6.8	282.3	6.7	281.4	6.3
Total traditional	430.8	7.5	318.2	6.0	360.7	7.0	449.0	8.2	588.9	10.2	458.4	10.8	431.9	9.7
Total non-traditional(3)	183.1	3.2	142.3	2.7	112.8	2.2	151.8	2.8	233.9	4.1	168.8	4.0	247.0	5.6
Total other	352.2	6.1	334.2	6.3	374.2	7.2	463.2	8.5	427.9	7.4	294.8	7.0	336.5	7.6
Total exports	5,736.7	100.0	5,276.3	100.0	5,165.0	100.0	5,470.8	100.0	5,748.0	100.0	4,236.5	100.0	4,437.0	100.0

(1) Revised data.
(2) Preliminary data.
(3) Includes goods sold at port.
Source: Central Bank.

Geographic Distribution of Exports
(% of total exports)

	2000	2001	2002	2003	2004[(2)]	For the nine months ended September 30, 2004[(2)]	2005[(3)]
United States[(1)]	87.2%	87.4%	85.2%	83.3%	79.1%	81.1%	79.8%
Canada	0.7	0.6	1.3	1.0	1.4	1.4	0.6
Mexico	0.2	0.1	0.2	0.1	0.1	0.2	0.1
Total North America	88.1	88.0	86.7	84.4	80.7	82.7	80.5
Argentina	—	0.1	—	—	—	—	—
Brazil	—	—	—	—	1.9	—	—
Colombia	—	—	0.1	—	—	—	0.1
Costa Rica	0.1	0.1	0.1	0.1	0.1	0.1	0.1
El Salvador	0.1	0.1	—	—	—	—	—
Guatemala	—	0.1	0.1	0.1	0.1	0.1	0.1
Haiti	2.0	1.0	2.1	2.4	1.5	1.3	2.8
Honduras	0.3	0.4	0.6	0.3	0.4	0.4	0.2
Jamaica	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Venezuela	0.1	0.2	—	0.1	0.1	0.1	0.1
Other	1.3	1.3	1.0	0.9	1.2	1.1	1.2
Total Latin America and Caribbean	4.2	3.4	4.2	4.2	5.5	3.3	4.7
Belgium	1.7	1.7	1.2	0.9	0.5	0.6	0.8
France	0.6	1.1	0.7	0.3	0.4	0.5	0.3
Germany	0.6	0.8	0.8	0.5	0.8	0.9	0.9
Italy	0.5	0.5	0.5	0.4	0.6	0.6	0.5
The Netherlands	1.1	1.8	1.5	1.4	2.6	2.7	2.2
Spain	0.4	0.7	0.9	0.7	0.6	0.6	0.7
Other	0.9	1.3	1.9	1.8	1.6	1.7	2.1
Total Europe	5.8	7.9	7.5	5.9	7.0	7.4	7.5
Japan	0.2	0.5	0.7	0.4	1.0	1.0	0.9
Other	0.8	0.1	0.9	1.6	2.7	2.6	2.4
Total Asia	1.0	0.6	1.5	2.1	3.6	3.7	3.3
Africa	0.1	0.1	0.1	0.1	—	—	0.1
Other	0.7	—	—	3.4	3.3	2.9	3.8
Total exports	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes Puerto Rico.
(2) Revised data.
(3) Preliminary data.
Source: Central Bank

In 2004, imports into the Republic consisted of:

- consumer goods valued at US$2.6 billion, representing 32.8% of total imports;
- intermediate goods valued at US$2.0 billion, representing 24.9% of total imports;
- capital goods valued at US$0.8 billion, representing 10.8% of total imports; and
- imports into the free trade zones valued at US$2.5 billion, representing 31.5% of total imports.

The following table sets forth further information regarding imports for the periods indicated.

Imports
(in millions of US$ and as a % of total imports)

	2000		2001		2002		2003		2004[1]		For the nine months ended September 30, 2004[1]		2005[2]	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Consumer goods:														
Durable goods	631.8	6.7	576.0	6.6	764.4	8.6	315.3	4.1	381.1	4.9	236.0	4.1	612.8	8.6
Refined petroleum products	1,096.3	11.6	944.8	10.8	947.6	10.7	977.1	12.8	1,087.9	13.9	790.8	13.7	1,221.6	17.2
Other	1,459.2	15.4	1,354.2	15.4	1,372.1	15.5	1,116.6	14.6	1,101.8	14.0	787.6	13.7	951.2	13.4
Total consumer goods	3,187.3	33.6	2,875.0	32.7	3,084.1	34.9	2,409.0	31.6	2,570.8	32.8	1,814.4	31.5	2,785.6	39.2
Intermediate goods:														
Crude oil and reconstituted fuel	408.9	4.3	307.4	3.5	349.4	4.0	438.8	5.8	579.6	7.4	417.6	7.3	587.3	8.3
Other	1,622.6	17.1	1,485.2	16.9	1,514.5	17.1	1,332.9	17.5	1,374.6	17.5	997.3	17.3	1,097.9	15.5
Total intermediate goods	2,031.5	21.4	1,792.6	20.4	1,863.9	21.1	1,771.7	23.2	1,954.2	24.9	1,414.9	24.6	1,685.2	23.7
Capital goods	1,197.2	12.6	1,285.3	14.6	1,289.3	14.6	915.2	12.0	844.6	10.8	599.7	10.4	784.4	11.1
Imports into the free trade zones	3,062.5	32.3	2,826.4	32.2	2,600.4	29.4	2,530.9	33.2	2,474.7	31.5	1,923.0	33.4	1,843.2	26.0
Total imports	9,478.5	100.0	8,779.3	100.0	8,837.7	100.0	7,626.8	100.0	7,844.3	100.0	5,752.0	100.0	7,098.4	100.0

(1) Revised data.
(2) Preliminary data.
Source: Central Bank.

Geographic Distribution of Imports[1]
(% of total imports)

	2000	2001	2002	2003	2004[2]	For the nine months ended September 30, 2004[2]	2005[3]
United States[4]	60.6%	58.6%	56.7%	57.2%	50.8%	49.6%	46.7%
Canada	0.5	0.6	0.7	1.4	0.7	1.0	0.5
Mexico	4.7	4.5	4.0	5.3	4.7	3.2	5.4
Total North America	65.8	63.6	61.4	63.9	56.2	53.8	52.5
Argentina	0.2	0.4	0.9	1.0	1.1	1.2	0.9
Brazil	1.0	1.3	2.0	2.8	3.4	3.5	2.8
Chile	0.2	0.3	0.3	0.4	0.3	0.4	0.3
Colombia	0.8	1.0	1.8	3.8	5.0	3.9	5.5
Guatemala	0.3	0.3	0.6	0.6	0.5	0.5	0.5
Panama	1.7	1.6	1.7	1.8	1.5	1.4	1.8
Trinidad and Tobago	0.5	0.5	0.3	1.6	2.2	1.4	3.2
Venezuela	10.4	8.5	9.2	3.1	7.3	3.8	8.1
Other	1.7	3.2	3.7	4.6	3.7	12.3	4.2
Total Latin America and the Caribbean	16.8	17.2	20.4	19.7	25.1	28.5	27.3
Spain	2.7	2.7	2.9	2.4	2.5	2.7	2.0
Denmark	0.5	0.5	0.6	0.4	0.5	0.5	0.5
Germany	1.6	1.9	1.2	1.4	1.2	1.2	1.6
Italy	0.9	1.0	1.1	1.5	1.2	2.1	1.3
France	0.7	0.7	0.7	0.8	0.5	0.5	0.5
Belgium	0.3	0.4	0.4	0.6	0.5	0.4	0.3
Norway	0.2	0.2	0.3	0.2	0.2	0.2	0.3
Other	1.5	1.8	1.9	2.0	2.1	2.0	2.2
Total Europe	8.4	9.2	9.0	9.3	8.6	9.6	8.8
Japan	3.0	4.0	4.4	2.5	2.0	2.0	3.7
China and Taiwan	2.1	2.4	2.4	1.9	1.8	3.4	3.6
South Korea	1.6	1.4	1.1	0.7	0.4	0.4	1.0
Other	1.8	1.6	1.0	1.7	3.5	1.7	1.7
Total Asia	8.4	9.4	8.9	6.8	7.8	7.5	10.0
Africa	0.3	0.4	0.1	0.2	0.6	0.5	0.3
Oceania	0.2	0.3	0.3	0.2	0.2	0.1	0.2
Other regions	—	—	—	—	1.5	—	0.9
Total imports	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Based on the country of origin specified by the importer upon entry of goods into the Republic. The origin specified usually refers to the last port the merchandise came from prior to arrival in the Republic.
(2) Revised data.
(3) Preliminary data.
(4) Includes Puerto Rico.
Source: Central Bank.

The tariff reform approved in 2000 reduced the maximum tariff from 35% to 20%, and the number of tariffs from nine to five. These changes represented the second of two tariff reforms that the Republic undertook in the last 15 years. In the first of these two reforms, which took place in 1990, the maximum tariff was set at 35% from a level that had previously exceeded 200%.

The current import tariff structure is as follows:

- a 20% tariff (which replaced the 35%, 30% and 25% tariffs) that applies to the large majority of imported consumer goods;
- a 14% tariff (which replaced the 20% tariff) that applies to certain intermediate goods;

- an 8% tariff (which replaced the 15% and 10% tariffs) that applies primarily to raw materials and capital goods;

- a 3% tariff (which replaced the 10% and 5% tariffs) that applies primarily to raw materials that are essential for the production of foods; and

- a 0% tariff (which replaced the 1.5% tariff) that applies to supplies, machinery and equipment destined for use in the textile, agricultural and livestock sectors, and to educational materials.

Upon the implementation of the DR-CAFTA, approximately 80% of imported consumer and industrial goods from DR-CAFTA members will be entitled to duty-free treatment, and remaining tariffs on such goods will be phased out over a ten-year period. Over 50% of agricultural imports will become duty-free immediately, and remaining tariffs on such goods will be eliminated within 20 years.

The Republic currently imposes a 13% foreign exchange commission on imported goods purchased abroad that is calculated based on the CIF value of an imported good at the selling rate of foreign exchange. This commission, which is required to be eliminated in order for the Republic to fully implement the DR-CAFTA, is scheduled to be eliminated by July 1, 2006. In addition, the Republic has imposed a transitory tariff of 13% on certain imported products that will expire on July 1, 2006. The transitory tariff is intended to help compensate for the projected tax revenue losses in the second half of 2006 resulting from the elimination of the foreign exchange commission.

In 2004, the effective average import tariff was 8.7%, as compared to 10.1% in 2003. The Government estimates that the effective average import tariff was approximately 10.0% in 2005.

Services Trade

The Dominican Republic's services trade consists primarily of tourism. Tourism is a principal source of foreign currency in the Dominican economy, and has contributed to annual surpluses in the Republic's services trade. Various sectors of the economy benefit from tourism, including agriculture, wholesale and retail trade, restaurants, bars and hotels, construction, real estate and transportation. Income from tourism increased from US$2.9 billion (14.4% of GDP) in 2000 to US$3.2 billion (17.1% of GDP) in 2004. This increase in 2004 resulted primarily from greater investment in the tourism sector that resulted in a 13.5% increase in available hotel rooms and a 4.0% increase in the average hotel occupancy rate from 2000 levels.

The terrorist attacks of September 11, 2001 had a negative impact on tourism in the Republic in 2001 and 2002. Income from tourism decreased by 9.3% during the first nine months of 2002, as compared to the same period in 2001. Tourism started to recover in October 2002 and tourist arrivals increased 27.1% in November 2002 and 27.8% in December 2002, as compared to the same months in 2001. Income from tourism in 2003 was US$3.2 billion, representing a 14.6% increase compared to 2002 and reflected strong tourism demand resulting in part from the depreciation of the peso, which made travel to the Republic cheaper in dollar and euro terms. In 2004, income from tourism remained at US$3.2 billion. During the first nine months of 2005, income from tourism was US$2.8 billion, representing an increase of 14.2% over tourism income during the same period in 2004.

According to the Caribbean Tourism Organization, the Dominican Republic ranks third among Caribbean tourist destinations in terms of income, after Puerto Rico and Cancun, Mexico. The Dominican Republic attracts visitors primarily from Europe and the United States and Canada and to a lesser extent, from Central and South America and other countries, as well as Dominicans visiting from abroad. The following table sets forth certain additional information on tourism in the Dominican Republic for the periods indicated.

Tourism Statistics

	2000	2001	2002	2003	2004(1)	For the nine months ended September 30, 2004(2)	For the nine months ended September 30, 2005(3)
Arrivals by airplane (number of passengers):							
Total arrivals	3,325,335	3,199,318	3,131,179	3,583,847	3,783,628	2,874,462	3,112,300
Foreign non-resident arrivals	2,463,497	2,394,823	2,308,869	2,758,550	2,872,891	2,226,865	2,382,552
Average length of stay (number of nights):							
Non-resident foreigners	10	10	10	9	9	9	9
Non-resident Dominicans	16	20	22	20	19	19	17
Hotel activity:							
Number of rooms available(4)	51,916	54,034	54,730	56,393	58,932	56,467	56,052
Occupancy rate (in %)	70.2%	66.3%	62.8%	72.7%	74.2%	76.4%	75.6%
Aggregate value of hotels, bars and restaurants (in millions of US$)	1,337	1,378	1,333	1,179	1,356	810	1,376
Income from tourism (in millions of US$)	2,860	2,798	2,730	3,128	3,152	2,450	2,798
Expenses from tourism (in millions of US$)	(309)	(291)	(295)	(272)	(310)	(219)	(272)
Balance (income less expenses)	2,551	2,507	2,435	2,856	2,842	2,231	2,526

(1) Published data.
(2) Revised data.
(3) Preliminary data.
(4) The number of rooms available at September 30, 2004 reflects the temporary closure of approximately 6,000 rooms due to the effects of Hurricane Jeanne.
Source: Central Bank.

Remittances

Remittances consist of funds sent to people and institutions in the Republic by Dominicans residing and working abroad. Remittances have grown substantially in recent years, particularly from Dominicans living in the United States. According to the 2000 U.S. census, nearly 800,000 people of Dominican origin live in the United States. Between 2000 and 2004, remittances grew an aggregate of 30.3%, from US$1.6 billion at December 31, 2000 to US$2.2 billion at December 31, 2004.

Remittances are one of the most important sources of foreign exchange in the Republic's private currency exchange market and provide the foreign currency required to pay for imports that are not paid through the official currency exchange market *(i.e.,* all imports with the exception of crude oil). In addition, remittances have been one of the most stable variables in the Republic's balance of payments. For the first nine months of 2005, remittances totaled US$1.7 billion, a 5.1% increase over the US$1.6 billion received in the first nine months of 2004.

Foreign Direct Investment

Foreign direct investment in the Republic grew considerably after enactment of the foreign investment law in 1995, which dismantled barriers to foreign direct investment. For a discussion of this law, see "The Economy—History and Background." During the period from 2000 to 2003, foreign direct investment fluctuated, ranging from a high of US$1.1 billion in 2001 to a low of US$613 million in 2003. Foreign direct investment in the period from 2000 to 2002 was driven by the influx of foreign capital in connection with the Government's privatization program, in particular the partial privatization of electrical generation and distribution facilities owned by CDEEE. See "The Economy—Privatization and Role of the State in the Economy—Privatization."

Foreign direct investment in 2003 decreased primarily as a result of the economic crisis. In 2004, foreign direct investment significantly increased, primarily as a result of growth in the wholesale and retail trade and tourism sectors. During the first nine months of 2005, foreign direct investment totaled US$728.5 million, as compared to US$599.0 million during the same period in 2004.

During the period from 2000 to 2002, foreign direct investment was primarily directed towards the tourism, communications, wholesale and retail trade, and electricity sectors. This trend continued in 2003 and 2004, with the exception of investment in the electricity sector, which significantly decreased following the re-nationalization of Ede Norte and Ede Sur in 2003. During the first nine months of 2005, foreign direct investment in the electricity sector experienced further decline, and was the only sector in which foreign direct investment was negative, due to ongoing problems in the electricity sector, which have deterred foreign investors. See "The Economy—Secondary Production—Electricity, Gas and Water—Electricity."

The following table sets forth information on foreign direct investment by sector for the years indicated.

Foreign Direct Investment by Sector
(in millions of US$ and as a % of total foreign direct investment)

	2000		2001		2002		2003		2004(1)		For the nine months ended September 30, 2004(1)		2005(2)	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Electricity	281.9	29.6	401.9	37.2	143.0	15.6	1.2	0.2	10.0	1.3	51.1	8.5	(6.1)	(0.8)
Communications	272.2	28.6	223.3	20.7	260.2	28.4	146.5	23.9	199.7	26.3	104.8	17.5	165.8	22.8
Wholesale and retail trade	153.7	16.1	166.6	15.4	194.2	21.2	102.9	16.8	277.4	36.6	244.6	40.8	98.0	13.5
Tourism	73.7	7.7	155.3	14.4	211.8	23.1	78.5	12.8	129.4	17.1	96.5	16.1	238.5	32.7
Financial services	45.3	4.8	15.1	1.4	27.3	3.0	99.4	16.2	58.3	7.7	49.8	8.3	35.3	4.8
Other	126.2	13.2	116.9	10.8	80.5	8.8	184.5	30.1	83.6	11.0	52.2	8.7	197.0	27.0
Total	952.9	100.0	1,079.1	100.0	916.8	100.0	613.0	100.0	758.4	100.0	599.0	100.0	728.5	100.0

(1) Revised data.
(2) Preliminary data.
Source: Central Bank.

The following table sets forth information on foreign direct investment by country of origin (and as a percentage of total foreign direct investment) for the periods indicated.

Foreign Direct Investment by Country of Origin
(in millions of US$ and as a % of total foreign direct investment)

	2000		2001		2002		2003(1)		2004(1)	
	US$	%	US$	%	US$	%	US$	%	US$	%
United States	201.6	21.2%	433.5	40.2%	382.1	41.7	461.6	75.3	285.3	37.6
Canada	133.2	14.0	10.2	0.9	18.4	2.0	(22.7)	(3.7)	130.1	17.2
France	97.5	10.2	60.6	5.6	109.6	12.0	33.0	5.4	89.2	11.8
Spain	190.1	19.9	193.4	17.9	35.0	3.8	(13.3)	(2.2)	74.4	9.8
Chile	21.6	2.3	0.3	—	—	—	(0.7)	(0.1)	6.5	0.9
Switzerland	14.0	1.5	2.0	0.2	4.0	0.4	5.8	0.9	6.2	0.8
Italy	15.5	1.6	0.7	0.1	5.0	0.5	5.1	0.8	3.8	0.5
The Netherlands	36.0	3.8	245.2	22.7	119.4	13.0	25.1	4.1	2.8	0.4
England	17.4	1.8	2.0	0.2	(0.2)	—	(25.2)	(4.1)	1.6	0.2
Cayman Islands	37.0	3.9	—	—	(13.7)	(1.5)	(9.1)	(1.5)	0.1	—
Other	189.0	19.8	131.2	12.2	257.2	28.1	153.4	25.0	158.4	20.9
Total	952.9	100.0	1,079.1	100.0	916.8	100.0	613.0	100.0	758.4	100.0

(1) Revised data.
Source: Central Bank.

Foreign direct investment in the Republic has mainly originated from the United States, accounting for 41.7%, 75.3% and 37.6% of total foreign direct investment that entered the Republic in 2002, 2003 and 2004, respectively.

Foreign Portfolio Investment

With respect to portfolio investment, the Republic has not been a significant recipient of short-term speculative capital, mainly as a result of its incipient stock market. To discourage speculative capital from entering the country, the Central Bank has established a minimum reserve requirement with respect to foreign capital deposited in Dominican banks.

THE MONETARY SYSTEM

The Monetary and Financial Administration

The *Ley Monetaria y Financiera* (the "Monetary and Financial Law") was enacted in November 2002 and sets forth the rules and policies governing the Republic's monetary and financial systems. The primary goal of the Monetary and Financial Law is to maintain a stable currency and a sound financial system. The Monetary and Financial Law also created the Monetary and Financial Administration, which regulates the monetary and financial system. The Monetary and Financial Administration is composed of the *Junta Monetaria* (the Monetary Board), the Central Bank and the *Superintendencia de Bancos* (the Banking Superintendency).

As a result of the banking crisis in 2003 and to facilitate future economic growth and stability, the Fernández administration has developed a number of policy changes and institutional reforms to strengthen the monetary system and the regulatory framework of the financial sector, in accordance with the IMF Stand-By Arrangement.

The Monetary Board

The role of the Monetary Board is to establish the monetary, exchange rate and financial policies that are implemented by the Central Bank. The Monetary Board oversees the Central Bank and the Banking Superintendency and consists of nine members, specifically:

- three ex-officio members (the Governor of the Central Bank, the Secretary of Finance and the Banking Superintendent); and

- six members selected by the President on the basis of their experience and knowledge of the monetary and banking system.

The Fernández administration has announced that it will propose an amendment to the Monetary and Financial Law that will lengthen the term of Monetary Board members from two to at least four years.

Central Bank

The Central Bank was established in 1947 pursuant to the *Ley Orgánica del Banco Central* (the Central Bank Organic Law), as restated in 1962 and subsequently amended. The Central Bank is the sole issuer of Dominican currency and is also responsible for implementing monetary policy, managing the country's international reserves and supervising foreign exchange. The Fernández administration has made reform of the Central Bank a key policy issue, specifically targeting new measures to ensure the Central Bank's independence and accountability.

Under the Monetary and Financial Law, Central Bank loans to the Government or any other public institution are prohibited, except in the case of national emergencies.

To maintain net international reserves of the Central Bank, the Government has implemented a variety of measures, including:

- beginning in 2000, issuing certificates of participation ("COPs") that are sold to the private sector;

- in 2000, enacting the Fuel Tax Law to increase taxes on fuel and thereby recover the fiscal revenue losses that led to the need for Central Bank financing in 2000. The Fuel Tax Law removed administrative and political discretion from the determination of domestic fuel prices and provides the Government a steady source of revenues (approximately 1.6% of GDP for 2003). Currently, the Fuel Tax Law requires that 95% of the revenue collected by virtue of the fuel tax be applied to service the Republic's external debt; and

- charging a 13% commission on foreign exchange transactions, directed towards the servicing of the public sector external debt (11.25% of which is directed to the Government's external debt and 1.75% of which is directed to the Central Bank's external debt). This commission was raised from 4.75% to 10% in October 2003 and to 13% effective January 1, 2005, and will be eliminated in 2006, as required pursuant to the terms of the DR-CAFTA. See "Balance of Payments and Foreign Trade—Foreign Trade." In 2004, the foreign exchange commission generated revenues of US$377.3 million, equivalent to 2.0% of GDP.

Despite these measures, the Central Bank's quasi-fiscal deficit increased from US$62.9 million in 2002 to US$1.0 billion in 2004. This was primarily due to an increase in interest payments on debt issued to finance the US$2.1 billion in losses that the Government assumed in 2003 in connection with the banking crisis. See "Public Sector Finances—Consolidated Public Sector" and "Public Debt Sector—External Debt."

As part of the financial sector reforms agreed to with the IMF, the Government issued DOP2.3 billion in bonds in April 2005, the proceeds of which are to be used to recapitalize the Central Bank and reduce its quasi-fiscal deficit. In addition, a high-level commission has been formed to formulate a comprehensive strategy to recapitalize the Central Bank. The commission is expected to announce its plan by the end of March 2006.

Reform of the Monetary System and Banking Sector

Following the collapse of BanInter and its subsequent intervention by the Banking Superintendency in 2003, the financial system experienced severe instability provoked by a run on banks by depositors. In the aftermath of the collapse of BanInter and the near insolvency of other financial institutions, the Government moved to rescue depositors, which in turn strained public finances and monetary policy. The broad impact of the financial crisis underscored the necessity of imposing discipline on monetary policy and strengthening the regulatory framework of the financial sector as part of a comprehensive economic reform program. Reform of the monetary and financial systems has been a key policy objective of the Fernández administration and is an integral part of the Republic's IMF Stand-By Arrangement.

The following sections provide information about the various inter-related facets of the Dominican monetary and financial system, including detailed information regarding the Fernández administration's numerous policy changes and institutional reforms.

Monetary Policy

The Central Bank's monetary policy is intended to control inflation and foster a stable macroeconomic environment. Although the Central Bank does not have direct control over the pace of economic growth or over other economic factors (such as the value of the currency or price levels) it uses various policy tools to accomplish its goals.

From 2000 to 2001, the Central Bank balanced competing goals and objectives, including:

- fostering economic growth while forestalling significant inflation;
- maintaining currency values that permitted the Republic's exports and services to be priced competitively with those of Mexico and other countries in Central America and the Caribbean;
- setting banking reserves at levels that safeguarded the health and strength of the financial system while ensuring enough liquidity to foster economic growth; and
- increasing net international reserves to support the currency and the money supply.

These goals reflect the challenges that the Central Bank faced from economic growth experienced during the period. The Central Bank managed these challenges through monetary policies that resulted in relatively low rates of inflation and a stable real exchange rate.

In 2002 and 2003, the Central Bank used its monetary policy to attempt to stabilize the real exchange rate, including the following measures:

- executing open-market operations, involving the buying and selling of COPs. The Central Bank sells COPs to reduce the money supply and thus avoid losses of reserves and a devaluation of the peso, and repurchases COPs to increase the liquidity of the local currency;

- executing foreign exchange transactions in the private exchange market to maintain the stability of the exchange rate and to avoid excessive appreciation or depreciation of the peso;

- modifying capital reserve requirements to safeguard the banking system against problem loans and unexpected withdrawals by customers; and

- reducing the interest rates payable by the Central Bank on short-term deposits, thereby establishing a lower benchmark for short-term interest rates.

The Central Bank's policies with respect to the exchange rate are also an important part of the implementation of monetary policy. See "—Foreign Exchange and International Reserves."

During 2001, the Central Bank was able to lower interest rates by reducing the issuance of COPs. This strategy allowed for a reduction in weighted average interest rates on bank loans of 3.2 percentage points in 2001. However, beginning in the fourth quarter of 2001, a decrease in the growth of exports and other generators of foreign exchange such as tourism, followed by an the increase in oil prices during 2002, put downward pressure on the peso.

In order to mitigate the adverse impact on the exchange rate and inflation, the Central Bank intervened by selling international reserves, which reduced the supply of local currency. This decrease in the money supply increased interest rates, with average lending rates reaching 26.1% in 2002, as compared to 23.6% in 2001. Rates continued to increase in 2003 as the peso continued to depreciate, with nominal lending rates increasing to 31.4%.

In the last quarter of 2004, the Central Bank adopted a more restrictive monetary policy to control inflation and to reduce exchange market pressures by eliminating the excess liquidity generated in 2003.

The Central Bank's primary monetary tool has been open market operations to control the monetary base. Despite the increase in the issuance of COPs, interest rates have decreased, which has led to a decrease in the Central Bank's interest payments on these instruments. At September 20, 2005, the weighted average interest rate on zero-coupon COPs was 11.31%, as compared to interest rates between 50% and 60% during the first half of 2004. In addition, the Central Bank has extended the maturities on COPs, which at September 30, 2005 were on average nine months, as compared to less than a month during the first half of 2004.

During the first nine months of 2005, monetary policy has focused on reducing inflation by the establishment of monetary targets and coordination with the Government's fiscal policies. The Republic's inflation rate decreased from 47.8% at September 30, 2004 to 4.2% at September 30, 2005. In addition, the Republic has met the monetary base targets set forth in the IMF Stand-By Arrangement and reduced the quasi-fiscal deficit of the Central Bank.

Supervision of the Financial System

The *Superindendencia de Bancos* (the "Banking Superintendency") was created in 1947 and forms part of the Monetary and Financial Administration. The Banking Superintendency supervises financial institutions in order to verify their compliance with regulations promulgated under the Monetary and Financial Law.

Rules Governing the Financial System

In 1992, the Banking Superintendency initiated a program with assistance from the IDB to reform its regulatory framework for banking supervision. As part of this program, the Banking Superintendency implemented measures that included the following:

- a capital adequacy ratio that requires capital and reserves as a percentage of risk-weighted assets to equal 10%;

- programs for regulatory on-site audits and periodic reporting requirements that are published in national newspapers, which are intended to ensure that banks comply with regulatory standards;

- uniform accounting rules for the financial system;

- evaluation of market risk based on:

  - liquidity risk, which derives from the incapacity of a financial institution to cover the requested resources generated by its liabilities and other obligations, in both local and foreign currency;

  - interest rate risk, which refers to the potential losses of net income or in the capital base due to the incapacity of the institution to adjust the return on its productive assets (loan portfolio and financial investment) with the fluctuation in the cost of its resources, produced by fluctuations in interest rates; and

  - exchange rate risk, which refers to potential losses that could occur due to short positions or term unbalance of assets and liabilities denominated in foreign currency, in the event of exchange rate movements;

- solvency indicators similar to those proposed under the Basel Accord; and

- a more rigorous method for classifying financial assets in terms of risk.

This method of risk-based classification reduced the number of risk categories and increased the amounts financial institutions are required to reserve in order to mitigate potential losses arising from certain loans ("loan-loss reserves"). With respect to loan-loss reserves, current regulations impose reserve requirements based on risk categories of financial assets. The Banking Superintendency revises its regulations in accordance with international standards and with the goal of increasing the average quality of the financial system's loan portfolio. The current legal reserve requirement mandates that all commercial banks deposit 20% of their aggregate deposits with the Central Bank.

The following table sets forth the Banking Superintendency's current risk categories and the corresponding loan-loss reserve requirements:

Risk Categories and Required Loan-loss Reserves
(as a % of total portfolio)

	Commercial Loans		**Consumer Loans**		**Mortgage Loans**	
Category	**Loan-loss reserve**	**Criteria[(1)] (days past due)**	**Loan-loss reserve**	**Criteria[(1)] (days past due)**	**Loan-loss reserve**	**Criteria[(1)] (days past due)**
A	1%	1-30	1%	1-30	1%	0-30
B	3%	31-60	3%	31-60	3%	31-60
C	20%	61-90	20%	61-120	20%	61-180
D	60%	91-365	60%	121-180	60%	181-270
E	100%	>365	100%	>180	100%	>270

(1) These criteria apply only to consumer mortgage loans. For commercial mortgage loans, a borrower's financial statements are taken into account to determine a borrower's ability to pay, as well as its credit history and guarantees.
Source: Banking Superintendency.

The following tables set forth information regarding loans of the banking system by risk category and past-due loans by type of institution, as of September 30, 2005.

Classification of Aggregate Assets of the Dominican Financial System
(as a % of total loans)

	As of September 30, 2005			
Category	**Commercial loans**	**Consumer loans**	**Mortgage loans**	**Total**
A	39.39%	87.45%	91.14%	57.51%
B	13.25%	4.24%	4.15%	9.93%
C	29.42%	2.59%	3.24%	19.67%
D	13.24%	1.31%	0.55%	8.77%
E	4.70%	4.41%	0.93%	4.12%
Total	100.0%	100.0%	100.0%	100.0%

Source: Banking Superintendency.

The Dominican Financial System — Past-Due Loans
(as a % of total loans)

	As of September 30, 2005		
	Loans 31-90 days past due(1)	**Loans >90 days past due(1)**	**Total past-due loans(1)**
Commercial banks	0.48%	5.19%	6.67%
Development banks	0.02%	0.19%	0.21%
Mortgage banks	0.02%	0.43%	0.45%
Savings and loan associations	0.01%	0.04%	0.04%
Finance institutions	—	—	—
Small loans lending institutions	—	0.05%	0.05%
Government-owned financial institutions	0.17%	0.49%	0.66%
Total past-due loans	0.70%	6.39%	7.10%

(1) Includes only outstanding principal.
(2) Corresponds to provisions for all loan categories.
Source: Banking Superintendency.

The Dominican Financial System — Loan-loss Reserve by Type of Financial Institutions

	As of September 30, 2005	
	Loan-loss reserve by type of financial institution	
	As a % of past-due loans	**As a % of total loans**
Commercial banks	106.83%	7.59%
Development banks	74.82%	8.83%
Mortgage banks	51.87%	6.19%
Savings and loan associations	27.64%	5.12%
Finance institutions	421.58%	4.46%
Small loans lending institutions	27.17%	1.49%
Government-owned financial institutions	80.05%	3.98%
Total loan-loss reserves(1)	98.82%	7.01%

(1) Weighted average of total loan-loss reserve for all financial institutions as a percentage of past-due and total loans.
Source: Banking Superintendency.

The Monetary and Financial Law establishes minimum capital requirements for financial institutions:

- DOP163.0 million (US$5.5 million) for banks that offer multiple financial services;

- DOP33.0 million (US$1.1 million) for savings and loan associations; and

- DOP9.0 million (US$307,700) for credit corporations.

The Monetary and Financial Law establishes a contingency fund to be financed with mandatory contributions from financial institutions and managed by the Central Bank. On an annual basis, the contributions must amount to a minimum of 0.1% of each financial institution's total deposits. The fund will serve as insurance for deposits and will insure up to DOP500,000 (US$17,000) per depositor.

The Monetary Board has set limits on the aggregate amount that financial institutions may lend to a single person (or group of related persons or institutions) or business, which for unsecured credits may not exceed 10% of the financial institution's total capital and reserves. This percentage increases to 20% for secured credits (*e.g.*, where tangible goods serve as collateral).

Reforms of the Financial System

In response to the banking crisis of 2003, the Government instituted numerous reforms of the financial system. The purposes of these reforms are to strengthen the regulation of domestic banks and to ensure the solvency of the financial system. The reform program includes the following new measures:

- *Related-Party Lending.* The Monetary Board approved a resolution that regulates lending by financial institutions to related parties to prevent financial institutions from extending credit to related parties on more favorable terms (as measured in installment periods, interest rates and adequacy of collateral) than to non-related parties. "Related parties" are defined as shareholders, members of the board of directors, officers, managers, legal counsel, employees and any other entities that directly or indirectly control a financial institution. Under the resolution:

  - unsecured credit to related parties may not exceed 10% of a financial institution's total assets;

  - credit secured with a first mortgage or equivalent collateral may not exceed 20% of a financial institution's total assets; and

  - loans to managers and employees may not exceed 10% of a financial institution's total assets.

- *Off-Shore Entities.* The Monetary Board imposed requirements on banks that maintain or establish off-shore entities or foreign branches, agencies and offices. To establish a foreign operation, a domestic bank must obtain the authorization of the Monetary Board through the Banking Superintendency. In determining whether to grant such authorization, the Monetary Board considers the financial and operational sufficiency of the financial institution. In addition, domestic banks must provide financial and operating information for their off-shore entities, on an individual and collective basis.

- *Auditor Independence.* The Monetary Board established new rules that govern external auditors and their independence with respect to financial institutions and exchange agents. Principal provisions include:

  - an external auditor may not maintain an economic interest in any financial institution that it audits nor provide consulting services to a financial institution that it has been engaged to audit;

  - a member of the audit team may not have served as a consultant or advisor for three years prior to auditing a financial institution;

  - external auditors must be registered with the Banking Superintendency, and a financial institution must notify the Banking Superintendency within 15 days of contracting the services of an external auditor;

  - external auditors must rotate the partners responsible for auditing a financial institution or exchange agency every three years; and

- external auditors must conform with the International Standards on Auditing.

- *Internal Controls.* External auditors are required to evaluate the internal controls of financial institutions that they audit. Aspects and operations of a financial institution subject to review include:

  - corporate governance;
  - liquidity risk;
  - asset and credit risk assessment;
  - financial and market risk controls;
  - related party, inter-branch and inter-office activities;
  - derivative activities;
  - investment policy;
  - foreign currency transactions;
  - credit and debit cards;
  - registration of deposit instruments; and
  - asset valuation.

- *Business Plans.* The Monetary Board requires that all banks submit five-year business plans, which are to be subsequently reviewed by the Banking Superintendency. These business plans must be updated twice a year on the basis of financial statements audited by an internationally-recognized accounting firm from an investment grade country.

- *Capital Adequacy.* The Banking Superintendency established new procedures for determining the net worth of domestic banks and re-capitalization. Banks are required to submit audited financial statements to prove compliance with a 10% capital adequacy ratio of risk-weighted assets. Credit market and liquidity risks, considered on a consolidated basis, are subject to this requirement. Any bank that is undercapitalized is required to submit and adhere to a remediation plan.

- *Liquidity Assistance.* The Banking Superintendency has begun implementing stricter regulation of liquidity assistance to banks. Under this plan, if a bank requests liquidity support exceeding:

  - 20% of its capital, the bank must suspend lending activities;
  - 50% of its capital, the bank must submit a plan to collect associated loans within two weeks; or
  - 100% of its capital, the bank's shareholders must pledge their shares as collateral.

- *Non-Bank Financial Institutions.* The Banking Superintendency is in the process of developing a plan to strengthen savings and loan associations, government-owned financial institutions, and other non-bank financial institutions. This plan is expected to be implemented by December 2006.

- *Consolidated Financial Statements.* Financial institutions integrated in an economic or financial group as well as financial intermediaries, which directly or indirectly control other entities that provide related services, are required to publish consolidated financial statements.

- *Consolidated Supervision.* The Monetary Board enacted new measures regarding consolidated supervision with the purpose of assessing the risk of financial conglomerates to determine its capital needs at aggregate levels.

- *Systemic Risk Prevention.* The Monetary Board implemented an exceptional risk prevention program for financial institutions through the creation of a fund with the purpose of protecting depositors and minimizing systemic risk.

- *Financial Services Consumer Protection.* The Monetary Board has established a set of rules to protect consumers' rights in connection with services provided by financial institutions.

- *Credit Portfolio Inspection.* The Banking Superintendency will inspect and evaluate 80% of banks' credit portfolios, which is intended to assess the quality of the information with respect to debtors and their ability to pay in respect of loans outstanding.

- *Banking Superintendency Risk Department.* The Banking Superintendency is in the process of strengthening its Risk Department in order to provide updated information to financial institutions with respect to debtors' credit history and to reinforce the Banking Superintendency's supervisory authority.

- *Hiring and Training Initiatives.* As part of the measures adopted to improve the Banking Superintendency's supervisory authority, the Banking Superintendency has implemented a program to train technical personnel and hire highly qualified professionals.

- *Sanctions.* A new set of guidelines has been implemented that establishes a legal framework to be used by the Central Bank and the Banking Superintendency for applying and enforcing sanctions set forth in the Monetary and Financial Law.

Financial Sector

As of December 31, 2005, the Dominican financial sector was comprised of 131 financial institutions, including:

- 12 commercial banks;

- 18 development banks (which cannot receive sight deposits or participate in the foreign exchange markets);

- 18 savings and loan associations;

- 54 *financieras* (small finance institutions which originally were unregulated);

- one mortgage bank;

- 23 small lending institutions; and

- five government-owned financial institutions.

Other participants in the financial sector include 32 insurance companies (as of December 31, 2004), including the state-owned insurance company *Seguros Banreservas,* 7 pension funds (as of December 31, 2005) including the state-owned pension fund *AFP Banreservas,* and the Dominican Stock Exchange.

Banco de Reservas is the state-owned commercial bank and, as of September 30, 2005, ranked first among Dominican commercial banks in terms of total assets. The Government acquired *Banco de Reservas* in 1941. *Banco de Reservas* is subject to the same regulations that govern other commercial banks and provides retail services similar to those provided by private commercial banks. In addition, *Banco de Reservas* receives all deposits of public sector entities and pays all checks issued by the Government. *Banco de Reservas* reported net profits of US$37.5 million for the fiscal year ended December 31, 2004 and US$46.5 million for the first nine months of 2005.

The following table identifies the number of financial institutions and percentage of loans and deposits corresponding to each category as of the dates indicated.

Number of Financial Institutions and Percentage of Loans and Deposits(1)

	As of December 31,						As of December 31, 2005	
	2000	2001	2002	2003	2004	2005	Loans	Deposits
Commercial banks(2)	15	12	14	13	13	12	80.75	81.34
Development banks	17	17	15	16	14	18	4.00	2.22
Mortgage banks	1	1	1	1	1	1	0.04	0.02
Savings and loan associations	18	18	18	18	18	18	12.51	15.11
Financieras	78	75	71	60	58	54	1.49	0.90
Small lending institutions	27	24	23	23	23	23	0.21	0.07
Government-owned financial institutions	5	5	5	5	5	5	1.02	0.34
Credit card issuing entities	—	—	—	—	—	—	—	—
Total	161	152	147	136	132	131	100.0%	100.0%

(1) Excludes insurance companies, private pension funds and the Dominican Stock Exchange.
(2) Includes banks authorized to offer multiple banking services, including the *Banco de Reservas*.
Source: Banking Superintendency.

The following table shows the percentage interest in total assets of the financial system held by various categories of financial institutions as of the dates indicated.

Number of Financial Institutions in Operation and Share of Total Assets of the Financial System

	Number of Institutions			Share of Total Assets
	As of December 31, 2003	As of December 31, 2004	As of December 31, 2005	As of December 31, 2005
Commercial banks(1)	13	12	11	54.57
Of which:				
Banco de Reservas	1	1	1	24.09
Savings and loan associations	18	18	18	15.85
Development banks	16	14	18	2.67
Mortgage banks	1	1	1	0.03
Financieras	60	58	54	1.04
Small lending institutions	23	23	23	0.13
Government-owned financial institutions	5	5	5	1.61
Total(2)	136	132	131	100.0%

(1) Includes banks authorized to offer multiple banking services.
(2) Excludes insurance and reinsurance companies, private pension funds and the Dominican Stock Exchange.
Source: Banking Superintendency.

The Dominican financial system grew significantly between 2000 and 2004, and total assets of the financial system increased from 51.5% of GDP in 2000 to 54.8% of GDP in 2004.

Since 2000, the banking system has experienced significant consolidation, driven principally by the need to increase the range of product offerings and benefits from economies of scale. The most significant acquisitions included the following (dates refer to the approval of the acquisition by the Monetary Board):

- *Banco del Exterior Dominicano* by *Banco Intercontinental* (June 2000);
- *Banco Gerencial y Fiduciario* by *Banco BHD* (November 2000);

- *Banco Metropolitano* by *Banco Dominicano del Progreso* (December 2000);
- *Banco Osaka* by *Banco Intercontinental* (November 2001); and
- *Banco Global* by *Banco Mercantil* (June 2002).

Subsequent to the collapse of BanInter in 2003, two other domestic commercial banks, Bancrédito and Banco Mercantil, experienced severe liquidity problems and were later acquired by other banks. Bancrédito was acquired by *Banco Profesional* and Banco Mercantil by Trinidad and Tobago-based Republic Bank Limited.

There are no formal restrictions for foreign direct investment in the banking system if a foreign bank establishes a branch in the Dominican Republic. At present, Citibank and the Bank of Nova Scotia are the only foreign banks with branches in the Dominican Republic, although several Dominican banks have foreign investors as minority shareholders.

The following table sets forth the total gross assets of the Dominican financial system for the periods indicated:

Total Gross Assets of Dominican Financial System(1)
(in millions of current DOP and % change from prior year)

	Financial System		Commercial Banks	
As of December 31,	**DOP**	**Growth rate (%)**	**DOP**	**Growth rate (%)**
2000	176,888.1	23.8	134,386.1	26.1
2001	220,940.8	24.9	164,575.3	22.5
2002	246,614.4	11.6	193,764.2	17.7
2003	326,899.6	32.6	264,697.1	36.6
2004	365,520.9	11.8	285,760.5	8.0
2005(2)				
January	369,967.3	1.2	288,440.1	0.9
February	372,953.2	2.0	290,004.0	1.5
March	380,300.1	4.0	294,403.0	3.0
April	388,157.7	6.2	302,130.6	5.7
May	391,253.0	7.0	305,425.4	6.9
June	396,651.3	8.5	309,914.0	8.5
July	398,052.2	8.9	310,293.1	8.6
August	400,614.2	9.6	312,354.8	9.3
September	407,698.9	11.5	318,497.2	11.5

(1) Excludes insurance companies, private pension funds and the Dominican Stock Exchange.
(2) From January 2005 to September 2005 growth rates are with respect to December 31, 2004.
Source: Banking Superintendency.

Total Gross Assets of Dominican Financial System(1)
(in millions of US$ and % change from prior year)

	Financial System		Commercial Banks	
As of December 31,	**US$**	**Growth rate (%)**	**US$**	**Growth rate (%)**
2000	10,701.0	17.5	8,129.8	20.4
2001	13,019.5	21.7	9,698.0	19.3
2002	14,044.1	7.9	11,034.4	13.8
2003	8,731.3	(37.8)	7,069.9	(35.9)
2004	12,669.7	45.1	9,905.0	40.1
2005(2)				
January	12,402.5	(2.1)	9,669.5	(2.4)
February	12,927.3	2.0	10,052.1	1.5
March	13,452.4	6.2	10,414.0	5.1
April	13,745.0	8.5	10,698.7	8.0
May	13,632.5	7.6	10,642.0	7.4
June	13,725.0	8.3	10,723.7	8.3
July	13,763.9	8.6	10,729.4	8.3
August	13,814.3	9.0	10,770.9	8.7
September	13,402.3	5.8	10,470.0	5.7

(1) Based on the weighted exchange rate at period end. Excludes insurance companies, private pension funds and the Dominican Stock Exchange.
(2) From January 2005 to September 2005 growth rates are with respect to December 31, 2004.
Source: Banking Superintendency.

Commercial banks are the principal source of private sector financing and accounted for 87.7% of all loans to the private sector during the first nine months of 2005. In the period from 2000 to 2004, the private sector received on average 88.3% of the total credits issued by the financial system, while the public sector received only 11.7%. Major private sector borrowers included companies engaged in wholesale and retail trade (31.7% of total loans), construction (19.4% of total loans) and manufacturing (7.0% of total loans). In the period from 2000 to 2004, lending to individuals accounted on average for 10.9% of total loans. The following tables set forth information regarding the allocation of loans to each sector of the economy.

Loans of the Financial System by Sector
(in millions of current DOP)

	2000	2001	2002	2003	2004	As of September 30, 2004	As of September 30, 2005
Private sector:							
Manufacturing	DOP 9,976.6	DOP 14,213.2	DOP10,340.6	DOP10,485.6	DOP7,811.0	DOP8,295.0	DOP6,071.3
Mining	105.6	265.0	321.3	368.1	662.4	150.3	110.5
Agriculture	4,325.8	6,161.5	6,410.3	6,674.1	6,129.0	5,747.6	5,884.9
Construction	23,633.1	29,755.3	35,323.7	33,467.9	29,073.8	29,272.6	32,020.3
Electricity, gas and water	697.6	1,557.8	1,854.5	1,679.3	895.7	1,243.9	648.3
Wholesale and retail trade	32,753.2	36,524.3	44,385.7	84,592.4	62,351.3	62,159.8	60,655.0
Loans to individuals	13,676.5	15,278.8	18,209.3	16,562.1	21,369.9	18,612.9	31,544.4
Transportation, warehousing and communications	2,439.5	2,023.9	2,737.5	1,641.8	1,257.8	1,188.8	1,094.1
Other	11,766.0	17,408.1	21,111.0	22,909.1	33,664.7	32,892.7	34,617.9
Total private sector loans	99,373.9	123,187.9	140,693.9	178,380.4	163,215.6	159,563.6	172,646.7
Total public sector loans	9,531.1	15,821.0	18,151.5	24,341.4	28,806.6	25,012.6	29,890.1
Total loans	DOP108,905.0	DOP139,008.9	DOP158,845.4	DOP202,721.8	DOP192,022.2	DOP184,576.2	DOP202,536.8

Sources: Central Bank and Banking Superintendency.

Loans of the Financial System by Sector
(in millions of US$)

	2000	2001	2002	2003	2004	For the nine months ended September 30, 2004[(1)]	For the nine months ended September 30, 2005[(1)]
Private sector:							
Manufacturing	US$602.5	US$837.5	US$588.9	US$282.5	US$257.2	US$270.3	US$194.6
Mining	6.4	15.6	18.3	9.9	21.8	4.9	3.5
Agriculture	261.2	363.1	365.1	179.8	201.8	187.3	188.6
Construction	1,427.1	1,753.4	2,011.6	901.6	957.3	953.8	1,026.3
Electricity, gas and water	42.1	91.8	105.6	45.2	29.5	40.5	20.8
Wholesale and retail trade	1,977.9	2,152.3	2,527.7	2,278.9	2,053.1	2,025.4	1,944.1
Loans to individuals	825.9	900.3	1,037.0	446.2	703.7	606.5	1,011.0
Transportation, warehousing and communications	147.3	119.3	155.9	44.2	41.4	38.7	35.1
Other	710.5	1,025.8	1,202.2	617.2	1,108.5	1,071.8	1,109.5
Total private sector loans	6,000.8	7,259.2	8,012.2	4,805.5	5,374.2	5,199.2	5,533.5
Total public sector loans	575.5	932.3	1,033.7	655.7	948.5	815.0	958.0
Total loans	US$6,576.4	US$8,191.4	US$9045.9	US$5,461.3	US$6,322.8	US$6,014.2	US$6,491.6

(1) Preliminary data.
Sources: Central Bank and Banking Superintendency.

Loans of the Financial System by Sector
(as a % of total loans)

	2000	2001	2002	2003	2004	For the nine months ended September 30, 2004	2005(1)
Private sector:							
Manufacturing	9.2%	10.2%	6.5%	5.2%	4.1%	4.5%	3.0%
Mining	0.1	0.2	0.2	0.2	0.3	0.1	0.1
Agriculture	4.0	4.4	4.0	3.3	3.2	3.1	2.9
Construction	21.7	21.4	22.2	16.5	15.1	15.9	15.8
Electricity, gas and water	0.6	1.1	1.2	0.8	0.5	0.7	0.3
Wholesale and retail trade	30.1	26.3	27.9	41.8	32.5	33.7	29.9
Loans to individuals	12.6	11.0	11.5	8.2	11.1	10.1	15.6
Transportation, warehousing and communications	2.2	1.5	1.7	0.8	0.7	0.6	0.5
Other	10.8	12.5	13.3	11.3	17.5	17.8	17.1
Total private sector loans	91.2	88.6	88.6	88.1	85.0	86.4	85.2
Total public sector loans	8.8	11.4	11.4	11.9	15.0	13.6	14.8
Total loans	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Preliminary data.
Sources: Central Bank and Banking Superintendency.

The following table sets forth the bank credit by currency for the years shown.

Bank Credit by Currency
(as a % of total credit)

	Private Commercial Banks		*Banco de Reservas*	
	DOP	Foreign Currency	DOP	Foreign Currency
2000	57.0	23.5	18.3	1.3
2001	56.0	24.5	17.8	1.7
2002	49.7	26.9	20.4	3.0
2003	44.6	25.8	21.5	8.1
2004	56.7	14.6	18.7	10.0
2005 (as of September 30)	55.4	15.7	19.5	9.5

Source: Banking Superintendency.

Foreign currency lending is extended mainly to sectors that generate foreign currency revenues, such as tourism, free-trade zones and export-oriented activities. In the period from 2000 to 2002, foreign currency lending as a portion of total bank credit increased primarily as a result of restrictions imposed on monetary policy that led to higher domestic interest rates. Foreign currency lending decreased significantly in 2004 as a result of the depreciation of the peso, falling from 25.8% of total credit extended by private commercial banks in 2003 to 14.6% in 2004. As of September 30, 2005, foreign currency lending was 15.7% of total credit extended by private commercial banks.

Even though commercial lending usually is in the form of medium-term loans and short-term lines of credit in the Dominican Republic, private commercial banks also make available long-term financing to the private sector, primarily in foreign currency, with resources obtained from foreign development banks and multilateral lending institutions. Private development banks and the Agricultural Bank offer medium- and long-term loans to finance projects in some sectors, such as agriculture, tourism, manufacturing, services and transportation. Savings and loan associations provide medium and long-term loans for residential housing and also provide resources to the construction and tourism sectors.

Since 1991, interest rates in the Dominican Republic have floated freely based on supply and demand, although the Central Bank engages in open market operations to influence interest rates in accordance with its monetary policy. For a discussion of the Central Bank's activities in this regard, see "—Monetary Policy."

The following table sets forth information on interest rates charged by commercial banks on loans for the periods indicated.

Interest Rates on Commercial Bank Loans(1)
(in annual %, nominal unless otherwise indicated)

	2000	2001	2002	2003	2004	2005
Loans of:						
0-90 days	26.6	22.8	24.5	29.5	31.6	24.5
91-180 days	26.9	23.6	24.5	29.9	30.9	21.1
181-360 days	26.4	23.3	25.8	30.9	31.5	23.3
Weighted average	26.8	23.6	26.1	31.4	32.7	24.6
Real	17.8	19.3	15.6	(11.3)	3.9	16.0
Prime rate	23.4	19.5	21.5	28.1	30.3	22.8

(1) Includes banks authorized to offer multiple banking services. Refers to annual average or, in the case of 2005 average for the period January 1, 2005 to September 30, 2005.
Source: Central Bank.

The following table sets forth information on interest rates applicable to deposits for the periods indicated.

Interest Rates on Deposits Paid by Commercial Banks(1)
(in annual %, nominal unless otherwise indicated)

	2000	2001	2002	2003	2004	2005
Deposits for:						
30 days	17.5	15.4	16.6	20.3	21.0	16.1
60 days	18.0	15.2	16.8	20.1	21.3	14.6
90 days	18.8	15.8	17.0	20.9	21.3	12.0
180 days	18.7	15.7	16.0	23.1	17.3	10.6
360 days	16.4	15.1	22.1	24.4	24.6	13.0
Weighted average	17.7	15.4	16.8	20.5	21.2	14.9
Real	8.7	11.0	6.3	(22.1)	(7.6)	6.1
Savings	4.3	4.3	4.4	4.3	4.4	4.2

(1) Includes banks authorized to offer multiple banking services. Refers to annual average or, in the case of 2005 average for the period January 1, 2005 to September 30, 2005.
Source: Central Bank.

Liquidity and Credit Aggregates

There are several money-supply measures currently in place in the Dominican Republic. The most significant are Ml and M2, which generally are composed of the following:

- Ml: currency held by the public and demand deposits; and
- M2: M1 plus savings and time deposits (including financial certificates).

The sources for the monetary base are net international reserves plus net internal credit of the Central Bank and its uses are all reserves held by the Central Bank and all currency in circulation.

The following table sets forth growth in M1 and M2 as of the dates indicated.

Selected Monetary Indicators
(% change from previous year)[1]

	As of December 31,					As of September 30,	
	2000	2001	2002	2003	2004	2004[2]	2005[2]
M1	(10.0)	24.7	5.6	77.4	5.8	2.2	8.9
M2	13.6	29.6	11.6	64.8	9.3	5.9	7.9

(1) Changes based on figures in DOP.
(2) Preliminary data.
Source: Central Bank.

In the period from 2000 to 2002, the Republic's monetary base grew in aggregate at a rate of 16.2%. This increase was driven by the growth in the international reserves of the Central Bank. M1 grew at an average annual rate of 13.3% during this period, while M2 grew 39.3% due to greater demand for certificates of deposit issued by commercial banks. In 2000, M1 decreased 10.0%, in contrast to a 13.6% increase in M2, due to a shift towards long-term deposits over short-term deposits as a result of a tighter monetary policy and a rise in interest rates in 2000. The monetary policy implemented by the Central Bank during 2002, which was intended to minimize the effects of external shocks on the peso, led to a reduction in the international reserves of the Central Bank. As a result, during 2002, the monetary base decreased by 3.6%. In 2003, M1 and M2 increased significantly, primarily due to the Central Bank's bailout of BanInter and the partial bailouts of Bancrédito and Banco Mercantil. In 2004, M1 and M2 slightly increased, as compared to 2003. During the first nine months of 2005, M1 and M2 grew at approximately the same rate as in 2004.

The following table sets forth the composition of the Republic's monetary base (expressed in terms of the Central Bank's monetary liabilities) and international reserves as of the dates indicated.

Monetary Base and Central Bank's International Reserves
(in millions of US$)[1]

						As of September 30,	
	2000	2001	2002	2003	2004	2004	2005[2]
Currency in circulation and cash in vaults at banks	1,181.8	1,271.1	1,387.4	1,010.3	1,336.9	1,131.3	1,138.2
Commercial bank deposits at the Central Bank	813.3	996.1	799.0	1,077.0	1,247.2	1,244.3	1,361.2
Monetary base	1,995.1	2,267.2	2,186.4	2,087.3	2,584.1	2,375.6	2,499.4
Gross international reserves	636.8	1,155.3	629.8	279.4	824.8	587.0	1,557.4
Net international reserves	441.9	962.2	376.0	123.6	602.2	372.9	1,272.7
Exchange rate (DOP/USD)	16.56	16.97	17.56	37.12	30.37	30.69	31.20

(1) Based on the period-end exchange rate.
(2) Preliminary data.
Source: Central Bank.

As of December 31, 2004, the ratio of gross international reserves to the monetary base was approximately 1 to 2.2, as compared to 1 to 8.2 as of December 31, 2003. As of September 30, 2005, this ratio had improved to approximately 1 to 0.9.

The following table shows liquidity and credit aggregates as of the dates indicated.

Liquidity and Credit
(in millions of US$)(1)

						As of September 30,	
	2000	**2001**	**2002**	**2003(5)**	**2004(5)**	**2004(5)**	**2005(5)**
Monetary aggregates							
Currency in circulation	911	980	880	799	1,072	925	937
Ml	1,927	2,345	2,025	2,009	2,598	2,483	2,754
M2	6,178	7,820	7,139	6,575	8,787	8,417	9,229
Credit by sector(2)							
Public sector	412	738	695	537	804	660	772
Private sector	4,499	5,619	5,410	4,003	4,395	4,245	4,498
Other(3)	—	15	9	—	—	—	—
Total credit aggregates	4,911	6,372	6,113	4,540	5,198	4,905	5,270
Deposits(2)(3)							
Local currency	US$ 1,831	US$ 2,271	US$ 1,788	US$ 1,750	US$ 2,350	US$ 2,364	US$ 2,683
Foreign currency	822	1,349	1,625	1,580	1,932	1,839	2,067
Other(4)	2,609	3,214	2,839	2,427	3,419	3,342	3,523
Total deposits	US$ 5,262	US$ 6,834	US$ 6,252	US$ 5,758	US$ 7,702	US$ 7,545	US$ 8,273

(1) Based on the official period-end exchange rate.
(2) Includes only commercial banks.
(3) Includes preliminary data for credit and other banking institutions, as of September 30, 2005.
(4) Includes certificates of deposit, bonds and other deposits.
(5) Preliminary data.
Source: Central Bank.

Inflation

Prices remained relatively stable in the period from 2000 to 2001. The rate of inflation began to accelerate in the last quarter of 2002 and continued to do so through 2004. This resulted primarily from the depreciation of the peso and the elimination of Government subsidies, particularly in the energy sector, which drove consumer prices up. In 2003 and through most of 2004, the rate of inflation increased sharply as a result of excess liquidity spurred by government spending, the continued depreciation of the peso and higher commodity prices, including energy prices. See "—Monetary Policy." In 2005, inflation decreased significantly as a result of the appreciation of the peso and a more disciplined monetary policy, despite the effect of rising world oil prices. At December 31, 2005, the rate of inflation was 8.0%, and the average rate of inflation for 2005 was 4.2%.

The Government has projected inflation for 2006 to be between 6.0 and 8.0%.

The following table shows changes in the CPI for the periods indicated.

	Consumer Price Index(1) (% change)	
	End of period	**Average**
2000	9.0	7.7
2001	4.4	8.9
2002	10.5	5.2
2003	42.7	27.5
2004	28.7	51.5
2005	7.4	4.2

(1) For a description of how the CPI and its rates of change are calculated, see "Certain Defined Terms and Conventions—Certain Defined Terms."
Source: Central Bank.

Foreign Exchange and International Reserves

Foreign Exchange

In 1991, the Republic adopted a flexible foreign exchange rate regime that remains in effect. Prior to 1991, the Republic fixed the official exchange rate, but devalued the currency periodically. At present, pursuant to resolutions issued by the Monetary Board, the exchange rate system operates with a unified and flexible exchange rate and a foreign exchange market operated by the Central Bank, financial institutions, and exchange agents.

When the Dominican peso came into existence in 1947, the Republic had a fixed exchange rate system with an exchange rate of DOP1.00/US$l.00. The refusal to devalue the currency in the 1960s stimulated the creation of a parallel foreign exchange market and the gradual transfer of current account transactions from the official market to the parallel market. In 1985, the exchange rates of both markets were aligned and the process of transferring the current account transactions from the official market to the parallel market continued. This transfer process was completed in 2003.

During the first nine months of 2005, the private foreign exchange market performed all foreign exchange transactions.

The free market exchange rate reflects the supply and demand of foreign currency. The Central Bank does not impose limits on the extent to which the free market exchange rate can fluctuate.

Sources of foreign exchange for the private foreign exchange market include:

- tourism;
- free trade zones;
- remittances;
- exports of goods;
- foreign direct investment; and
- private-sector foreign-currency denominated loans.

The sole source of foreign exchange for the Central Bank market is public-sector foreign-currency denominated loans.

The Central Bank exchange rate is used for transactions involving the Central Bank and the Government, most importantly for external debt payments and disbursements of external loans.

The following table shows the peso/U.S. dollar exchange rates for the dates and periods indicated.

Exchange Rates
(DOP per US$)

						As of September 30,	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005**
End of period (Central Bank)(1)	16.53	16.97	17.56	37.44	28.86	36.95	30.42
End of period (private market)(1)	16.57	16.95	21.24	37.11	29.16	36.99	30.60
Exchange rate differential (in % of Central Bank rate)	4.0%	(2.0)%	368.0%	(33.0)%	29.5%	3.5%	17.8%
Weighted year average	16.38	16.89	18.53	30.27	41.67	45.33	29.20
Weighted end of period	16.59	17.00	20.68	32.37	30.28	43.18	30.54

(1) Exchange rate for purchase of U.S. dollars.
Source: Central Bank.

The Central Bank exchange rate is set to the weighted average of the daily transactions made by authorized financial institutions and exchange agents. As a result, there is only a nominal difference between the Central Bank exchange rate and the private market rate. The Central Bank expects to maintain a flexible floating exchange rate system and only intervenes in the foreign exchange market as necessary to achieve the Government's monetary reforms and avoid excessive volatility in the exchange rate. The Central Bank supports the creation of an electronic trading platform for foreign exchange transactions.

The Dominican peso experienced the following trends in the period from 2000 to September 30, 2005:

- in 2000 and 2001, the peso depreciated against the dollar in a controlled and gradual manner;
- in 2002, the terrorist attacks of September 11, 2001 and their negative effects on the U.S. and global economies put significant pressure on the value of the peso. In response, the Central Bank tightened its monetary policy and sold international reserves in an effort to maintain the value of the peso against the U.S. dollar. For 2002, the cumulative depreciation of the peso thus totaled 25.5%;
- in 2003, the banking crisis and the Central Bank's loose monetary policy contributed to one of the largest one-year devaluations of the peso in the Republic's history, with a decline of the peso against the U.S. dollar of 113.2%. See "—Monetary Policy"; and
- beginning in the second half of 2004, a tighter monetary policy facilitated a gradual appreciation of the peso against the U.S. dollar, which continued in 2005. During the first nine months of 2005, the exchange rate remained stable.

International Reserves

The Central Bank's net international reserves increased to US$602.2 million as of December 31, 2004 from US$123.6 million as of December 31, 2003. At September 30, 2005, net international reserves of the Central Bank were US$1.3 billion and at December 31, 2005, international reserves were US$1.5 billion.

The following table shows the composition of the international reserves of the Republic's banking system as of the dates indicated.

Net International Reserves of the Banking System
(in millions of US$ at period end)

	2000	2001	2002	2003	2004	As of September 30, 2004	As of September 30, 2005[(1)]
Central Bank							
Assets	636.8	1,155.3	629.8	279.4	824.8	587.0	1,557.4
Liabilities	194.9	193.1	253.8	155.7	222.6	214.1	284.7
Total (assets less liabilities)	441.9	962.2	376.0	123.6	602.2	372.9	1,272.7
Total, net of sovereign bonds[(1)]	441.9	464.7	376.0	(26.4)	602.2	372.9	1,272.7
Banco de Reservas							
Assets	211.7	221.5	393.4	483.8	641.9	636.2	739.7
Liabilities	225.9	270.0	455.2	476.8	627.9	623.2	726.6
Total (assets less liabilities)	(14.2)	(48.5)	(61.8)	6.9	13.9	13.0	13.1
Private banks							
Assets	1,627.4	2,139.3	2,368.7	1,792.0	1,964.0	1,933.9	2,024.9
Liabilities	1,460.8	1,891.8	2,152.6	1,528.1	1,672.5	1,598.7	1,684.2
Total (assets less liabilities)	166.6	247.5	216.1	264.0	291.5	335.2	340.7
Net international reserves of the banking system	594.3	1,161.2	530.3	394.5	907.7	721.0	1,626.6
Total, net of sovereign bonds[(2)]	594.3	663.7	530.3	244.5	907.7	721.0	1,626.6
Memorandum items:							
Gross reserves of the Central Bank	818.2	1,340.8	828.9	489.2	1,045.4	800.8	1,712.3
Total, net of sovereign bonds[(2)]	818.2	843.3	828.9	339.2	1,045.4	800.8	1,712.3
Gross reserves of commercial banks	1,839.1	2,360.8	2,762.1	2,275.8	2,605.9	2,570.0	2,764.7
Gross reserves of the banking system	2,657.3	3,701.6	3,591.0	2,765.0	3,651.3	3,370.8	4,477.0
Total, net of sovereign bonds[(2)]	2,657.3	3,204.1	3,591.0	2,615.0	3,651.3	3,370.8	4,477.0
Gross reserves of the Central Bank (in months of total imports)	1.0	1.8	1.1	0.8	1.6	1.3	2.2
Total, net of sovereign bonds (in months of total imports)[(2)]	1.0	1.2	1.1	0.5	1.6	1.3	2.2
Gross reserves of the banking system[(3)]	3.4	5.1	4.9	4.4	5.6	5.3	5.7
Total, net of sovereign bonds (in months of total imports)[(2)]	3.4	4.4	4.9	4.1	5.6	5.3	5.7

(1) Preliminary data.
(2) Includes the Republic's two global bond offerings in September 2001 (9.50% bonds due 2006) and January 2003 (9.04% bonds due 2013).
(3) As a ratio of total gross reserves of the banking system (*i.e.,* Central Bank, *Banco de Reservas* and other commercial banks) to total monthly imports.
Source: IMF and Central Bank.

In the period from 2000 to 2004, the Central Bank's gross international reserves, measured in terms of total monthly imports (*i.e.,* the ratio of the Central Bank's gross reserves to total monthly imports) fluctuated between 1.8 months in 2001 and 0.8 months in 2003. Since all balance of payment transactions are covered by financial institutions and exchange agents, a more relevant figure for the Dominican economy is the ratio of total gross reserves of the banking system (*i.e.,* Central Bank, *Banco de Reservas* and other commercial banks) to total monthly imports. This ratio grew from 3.4 in 2000 to 4.4 in 2003.

At September 30, 2005, the ratio of Central Bank reserves to months of total imports was approximately 2.2. The ratio of banking system reserves to months of total imports was approximately 5.7.

Gold Reserves

At December 31, 2005, the total amount of gold reserves of the Central Bank was approximately US$9.4 million, as compared to US$8.0 million at December 31, 2004.

Securities Markets

The *Ley de Mercado de Valores* (the "Securities Market Law"), approved in 2000, created a regulatory framework for the Dominican securities market. In 2003, the *Superintendencia de Valores de la República Dominicana* (the "Dominican Securities Superintendency"), established by the Securities Market Law, began operating. It is responsible for promoting, regulating and supervising the Dominican securities market.

The Dominican Republic has one securities exchange, the *Bolsa de Valores de la República Dominicana* (the "Dominican Stock Exchange"), which has been in operation since 1991. The Dominican Stock Exchange is a private institution that has been subject to regulation by the Dominican Securities Superintendency since October 2003.

The primary activity of the Dominican Stock Exchange has been the public trading of commercial paper and bond instruments. Since 1997, when the Dominican Stock Exchange became a national exchange, only private sector commercial paper has traded on the Dominican Stock Exchange. As a result of the approval of the Securities Market Law and its regulations, and increased participation by key private sector participants, trading volume reached US$1.3 billion in 2001 and US$1.2 billion in 2002, as compared to US$249.8 million in 2000. However, in 2003, trading volume fell to US$552.2 million due to a decrease in available credit generally and the transition to the new regulatory framework. In October 2003, trading on the Dominican Stock Exchange was suspended while a comprehensive regulatory scheme was implemented. Trading on the Dominican Stock Exchange resumed on April 18, 2005.

Dominican Stock Exchange
Transaction Volume
(in US$)(1)

	2000	2001	2002	2003	2004	As of September 30, 2005(4)
Transaction volume	249,795,480	1,358,934,151	1,194,326,289	552,174,648(2)	—(3)	25,838,712

(1) Based on the weighted average exchange rate for the given period.
(2) Through October 10, 2003.
(3) Trading on the Dominican Stock Exchange was suspended during 2004.
(4) Following the reopening of the Dominican Stock Exchange on April 18, 2005.
Source: Dominican Stock Exchange and Dominican Securities Superintendency.

PUBLIC SECTOR FINANCES

Consolidated Public Sector

The Dominican public sector consists of the central government, the provincial and municipal governments, non-financial public sector institutions, which include non-financial state-owned enterprises and government agencies such as the *Instituto Nacional de Estabilización de Precios* (the National Institute for Price Stabilization), and financial public sector institutions, such as the Central Bank, *Banco de Reservas* and other state-owned banks.

The Fernández administration has sought to impose fiscal discipline by adopting fiscal policies that address both the expenditure and revenue sides of the fiscal accounts. The foundation of the Government's reform of public sector finances is the IMF Stand-By Arrangement. As part of its agreement, the Government committed to make several fiscal and monetary reforms, including:

- a series of tax reforms that went into effect in October 2004. See "—Tax Regime";
- a reduction in public expenditures, most importantly, the public sector payroll and energy subsidies;
- a reduction in public indebtedness and implementation of a financing strategy to resolve short term liquidity problems experienced by the Government; and
- the strengthening of the Dominican banking and financial sectors through increased regulatory supervision to ensure more efficient credit markets and stability in the economy.

Central Government

The central government of the Dominican Republic encompasses the Republic's executive branch, the ministries, and various government agencies such as the *Dirección General de Impuestos Internos* (the "Internal Revenue Agency") and the *Dirección General de Aduanas* (the "Customs Agency").

Between 2000 and 2002, the central government's fiscal balance, on an accrual basis, had an average deficit of 1.9% of GDP. In 2003, the fiscal balance worsened significantly despite a reduction in total expenditures in 2003 as compared to 2002. At December 31, 2003, the central government's fiscal deficit reached US$879.6 million, representing 5.3% of GDP for that year.

This deterioration of the fiscal balance in 2003 was the result of several factors, including primarily the following:

- the impact of the economic crisis, which resulted in a decrease in tax revenue in 2003 and the first half of 2004;
- the impact of the depreciation of the peso on external debt service and on the electricity tariff;
- high subsidies for propane gas and electricity;
- no adjustment of the fuel tax for inflation; and
- lower than estimated collection of new taxes, such as the 5% tax on exports.

Since 2003, the central government's financing gap has been completely covered with internal and external financing.

In 2004, the central government's fiscal balance improved, but still registered a deficit of 3.6% of GDP.

During the first nine months of 2005, the central government registered a fiscal surplus, on a cash basis of approximately US$257.6 million (1.3% of GDP), including a current account surplus (including grants) of US$1.2 billion (6.2% of GDP) and a capital account deficit of US$888.6 million (4.6% of GDP). Total current revenue amounted to US$4.0 billion (21% of GDP), total current expenditures amounted to US$2.9 billion (15% of GDP) and total capital expenditures amounted to US$888.6 million (4.6% of GDP). Total domestic financing was negative (*i.e.*, repaid rather than incurred) in the amount of US$658.5 million and total foreign financing was US$299.0 million.

The Government derives its revenues primarily from:

- tax collections; and
- import tariffs.

The Government also receives transfers from the national lottery and dividends from companies in which the Government has an ownership interest.

Total central government revenues (including grants) increased in 2004, reflecting a 14.3% increase in tax revenues compared to 2003 as a result of the expansion of the Dominican economy. During the first nine months of 2005, the central government's fiscal revenue was 93.5% higher than during the same period in 2004, reflecting the same positive trend. This gain was due primarily to increased tax collection, which was 98.6% higher than during the comparable period in 2004.

In the first nine months of 2005, the Government registered tax revenues of US$3.8 billion, as compared to US$1.9 billion during the same period in 2004. During this period, the primary sources of tax revenue were:

- the value-added tax, which accounted for 27.7% of tax revenue;
- income tax, which accounted for 20.5% of tax revenue;
- taxes on international trade, which accounted for 25.2% of tax revenue, and of which the foreign exchange commission comprised 53.4%, or 13.5% of tax revenue; and
- the fuel tax, which accounted for 10.0% of tax revenue.

Government expenditures consist primarily of:

- wages and salaries paid to public sector employees;
- interest payments on debt;
- goods and services;
- public investment; and
- transfers to public sector entities (in particular to CDEEE) and to the private sector (primarily in the form of consumer subsidies of propane gas and electricity).

Central government expenditures for 2004 totaled US$3.6 billion, or 19.5% of GDP, as compared to US$3.3 billion, or 19.8% of GDP, for 2003, as decreases in wages and salaries in 2004 were offset by an increase in current transfers to government agencies and to the private sector in the form of subsidies for propane gas and electricity. In the first nine months of 2005, central government expenditures totaled US$3.8 billion, which was approximately 65.8% higher than for the same period in 2004. This was primarily attributable to an increase in current transfers to subsidize the electricity sector as well as to an increase of 94.7% in wages to the public sector.

Current savings, which is the difference between current revenues and current expenditures, reached US$1.2 billion for the first nine months of 2005, as compared to US$352.7 million for the comparable period in 2004.

As set forth in its IMF economic reform program, the Government committed to reducing the fiscal deficit of the central government to 0.7% of GDP in 2005 and achieving a fiscal balance in 2006. In 2006, the Government projects that fiscal revenue will be US$5.4 billion (18.9% of GDP) and expenditures will be US$5.3 billion (18.6% of GDP).

To increase revenues, the Government implemented the following tax measures in 2005:

- increasing the value-added tax rate from 12% to 16% and applying the value-added tax to 200 previously-exempt goods;
- increasing the fuel tax; and
- increasing excise taxes on alcohol and cigarettes.

To control expenditures, the Government has implemented the following measures:

- freezing central government hiring at the same level as in October 2004;
- eliminating propane gas subsidies for industrial use, hotels and restaurants;
- scaling back public investment projects; and
- centralizing management and control of investment projects with external financing under the *Secretariado Técnico de la Presidencia* (the "Technical Secretary of the Presidency").

In addition, the Government's renegotiation of the Republic's external debt with the Paris Club, private banks, suppliers and sovereign bondholders has provided significant debt relief and is expected to reduce short-term liquidity constraints. See "Public Sector Debt—2005 Debt Restructuring."

Longer-term objectives to improve the Government's fiscal management include the following measures, as part of the Republic's structural reforms under the IMF Stand-By Arrangement:

- amending the budget law to require congressional approval of fiscal spending in excess of budget ceilings;
- subjecting public purchases, contracts and other public procurement to strict public tender rules based on international standards, and introducing an electronic procurement system;
- establishing a single Treasury account to improve cash-flow management and budgetary projections and execution;
- reforming the Government's financial management system to improve the accuracy of budgetary information;
- adopting consolidated guidelines to unify the roles of the Ministry of Finance and the Technical Secretary of the Presidency in matters of fiscal policy; and
- creating a Secretariat of Planning and Development, responsible for monitoring the Dominican economy and evaluating the impact of public policy.

The following table sets forth information regarding central government accounts for the periods indicated.

Central Government Accounts[1]
(in millions of US$ and as a % of GDP, at current prices)

	2000		2001		2002		2003		2004		As of September 30, 2004		As of September 30, 2005[7]	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Fiscal revenue and grants:														
Current revenue:														
Tax revenue:														
Income tax	687.2	3.5	940.9	4.3	899.8	4.1	687.2	4.1	587.3	3.1	423.2	3.8	776.9	4.1
Property tax	41.1	0.2	44.4	0.2	48.1	0.2	41.2	0.2	46.6	0.2	34.0	0.3	99.0	0.5
Taxes on goods and services	1,156.7	5.8	1,655.5	7.6	1,698.9	7.8	1,139.6	6.9	1,283.3	6.9	814.9	7.4	1,957.1	10.2
Of which:														
Value-added tax	609.9	3.1	843.9	3.9	899.8	4.1	633.6	3.8	734.5	3.9	485.6	4.4	1,049.0	5.5
Fuel tax[2]	169.2	0.9	444.7	2.1	437.1	2.0	273.4	1.6	266.0	1.4	161.3	1.5	378.8	2.0
Taxes on international trade	1,087.8	5.5	794.1	3.7	797.2	3.7	580.5	3.5	893.5	4.8	632.9	5.7	955.6	5.0
Of which:														
Foreign exchange commission	208.3	1.1	191.5	0.9	161.3	0.7	111.1	0.7	377.3	2.0	262.4	2.4	510.7	2.7
Other taxes	2.1	—	2.0	—	2.2	—	21.4	0.1	4.6	—	3.4	—	2.3	—
Total tax revenue	2,974.9	15.0	3,436.9	15.9	3,446.1	15.9	2,469.8	14.9	2,815.3	15.1	1,908.4	17.2	3,791.0	19.8
Non-tax revenue	151.0	0.8	93.7	0.4	131.0	0.6	178.3	1.1	214.7	1.2	161.1	1.5	231.1	1.2
Total current revenue	3,126.0	15.8	3,530.7	16.3	3,577.2	16.5	2,648.1	15.9	3,029.9	16.2	2,069.5	18.7	4,022.1	21.0
Capital revenue	4.2	—	12.7	0.1	42.2	0.2	1.3	—	0.1	—	—	—	—	—
Total fiscal revenue	3,130.1	15.8	3,543.3	16.3	3,619.4	16.7	2,649.4	15.9	3,030.0	16.2	2,069.6	18.7	4,022.1	21.0
Grants[3]	26.9	0.1	24.9	0.1	22.9	0.1	30.6	0.2	32.0	0.2	25.1	0.2	31.0	0.2
Total fiscal revenue and grants	3,157.1	15.9	3,568.2	16.5	3,642.4	16.8	2,680.0	16.1	3,062.0	16.4	2,094.7	18.9	4,053.1	21.2
Expenditures:														
Current expenditures:														
Wages and salaries	1,107.1	5.6	1,272.5	5.9	1,344.9	6.2	862.5	5.2	715.5	3.8	448.7	4.1	873.7	4.6
Goods and services	327.6	1.7	362.5	1.7	418.3	1.9	317.6	1.9	358.6	1.9	202.1	1.8	410.8	2.1
Interest	179.5	0.9	196.4	0.9	281.9	1.3	336.4	2.0	398.2	2.1	300.1	2.7	350.0	1.8
Current transfers[4]	591.1	3.0	719.7	3.3	574.7	2.6	564.9	3.4	1,254.5	6.7	765.7	6.9	1,229.3	6.4
Other	74.1	0.4	39.6	0.2	3.2	—	0.9	—	0.8	—	0.0	—	—	—
Total current expenditures	2,279.4	11.5	2,590.8	11.9	2,623.0	12.1	2,082.3	12.5	2,727.6	14.6	1,716.8	15.5	2,863.9	15.0
Capital expenditures:														
Fixed investment	550.7	2.8	869.1	4.0	939.3	4.3	979.3	5.9	492.8	2.6	370.7	3.3	569.9	3.0
Capital transfers[4]	211.3	1.1	366.8	1.7	471.4	2.2	218.8	1.3	410.5	2.2	172.3	1.6	310.3	1.6
Other	9.8	—	3.3	—	13.1	0.1	14.1	0.1	13.0	0.1	4.1	—	8.4	—
External investment	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total capital expenditures	771.8	3.9	1,239.1	5.7	1,423.8	6.6	1,212.2	7.3	916.3	4.9	547.1	4.9	888.6	4.6
Total expenditures	3,051.1	15.4	3,829.9	17.7	4,046.8	18.6	3,294.5	19.8	3,643.9	19.5	2,263.8	20.4	3,752.5	19.6
Fiscal balance:														
Current account balance (including grants)	873.5	4.4	964.7	4.4	977.1	4.5	596.4	3.6	334.3	1.8	377.9	3.4	1,189.2	6.2
Capital account deficit	(767.6)	(3.9)	(1,226.5)	(5.7)	(1,381.5)	(6.4)	(1,210.9)	(7.3)	(916.3)	(4.9)	(547.0)	(4.9)	(888.6)	(4.6)
Current account balance (including grants) minus capital account deficit	106.0	0.5	(261.7)	(1.2)	(404.4)	(1.9)	(614.5)	(3.7)	(582.0)	(3.1)	(169.2)	(1.5)	300.6	1.6
Errors and omissions[5]	(522.7)	(2.6)	(217.3)	(1.0)	69.0	0.3	(265.1)	(1.6)	(98.5)	(0.5)	(402.0)	(3.6)	(43.0)	(0.2)
Fiscal surplus (deficit)	(416.8)	(2.1)	(479.0)	(2.2)	(335.4)	(1.5)	(879.6)	(5.3)	(680.5)	(3.6)	(571.2)	(5.2)	257.6	1.3
Financing:														
Domestic financing:														
Banking system	114.0	0.6	(289.9)	(1.3)	153.2	0.7	28.1	0.2	194.8	1.0	78.8	0.7	(651.7)	(3.4)
Private sector[6]	198.2	1.0	244.2	1.1	(38.8)	(0.2)	(58.0)	(0.3)	(0.2)	—	(76.0)	(0.7)	(6.8)	—
Total domestic financing	312.3	1.6	(45.7)	(0.2)	114.5	0.5	(29.9)	(0.2)	194.6	1.0	2.8	—	(658.5)	(3.4)
Total foreign financing	79.4	0.4	565.6	2.6	177.1	0.8	1,034.6	6.2	449.6	2.4	515.8	4.7	299.0	1.6
Total financing	391.7	2.0	519.8	2.4	291.6	1.3	1,004.7	6.0	644.2	3.5	518.6	4.7	(359.4)	(1.9)

(1) On an accrual basis. Conversion was made using a weighted average exchange rate.
(2) In November 2000, Congress enacted the Fuel Tax Law. For a discussion of the old and new fuel taxes, see "Public Sector Finances—Tax Regime—Excise Taxes."
(3) Foreign cash or in-kind transfers.
(4) Reflects national transfers to public enterprises to service their external debt.
(5) These consist of non-cash items, such as food, clothing and other items received by the Government as aid. Also includes expenditures made in periods different from the current period that were not correctly registered and statistical discrepancies.
(6) Includes the accumulation of unrecorded arrears.
(7) Preliminary data.
Source: Ministry of Finance and IMF.
n.a. = Not Available.

Tax Regime

All taxes in the Dominican Republic are collected through three agencies: the Internal Revenue Agency, the Customs Agency, and the *Tesorería Nacional* (the "National Treasury"). The following table sets forth the composition of the Republic's tax revenues for the periods indicated.

Tax Revenue of the Republic
(includes financing and grants)
(as a % of total tax revenue)

						As of September 30,	
	2000	**2001**	**2002**	**2003**	**2004**	**2004**	**2005(1)**
Income tax	23.5	26.8	26.0	27.9	20.8	22.1	20.5
Property tax	1.5	1.3	1.5	1.7	1.7	1.8	2.6
Taxes on goods and services	37.8	48.1	48.6	46.4	45.6	42.7	51.6
Of which:							
Value-added tax	21.5	26.1	27.0	26.4	26.1	25.4	27.7
Fuel tax	3.8	13.4	12.9	11.2	9.4	8.5	10.0
Taxes on international trade	36.0	22.6	22.7	22.9	31.7	33.2	25.2
Of which:							
Foreign exchange commission	7.0	5.9	5.1	4.7	13.4	13.8	13.5
Other taxes	1.2	1.2	1.2	1.0	0.2	0.2	0.1

(1) Preliminary data.
Source: Ministry of Finance.

On December 8, 2005, Law No. 557-05 (the "2005 tax law") was enacted. The 2005 tax law implements fiscal reforms contemplated by the IMF Stand-By Arrangement and measures intended to compensate for the elimination of the foreign exchange commission and other sources of fiscal revenue required by the DR-CAFTA. In addition, the Government's 2006 budget, approved by the Dominican Congress on February 13, 2006, establishes a transitory 13% tariff on certain imported products, which is scheduled to expire on July 1, 2006. Following is a brief description of the main provisions of the Republic's tax code, as amended by the 2005 tax law, followed by a brief description of the Republic's tax enforcement record.

Income Taxes

The Republic's tax laws provide for the following progressive income tax brackets, which are adjusted annually to reflect inflation:

Annual Income (in DOP)	**Rate (%)**
0 – 257,280	—
257,280.01 – 385,920.00	15.0
385,920.01– 536,000.00	20.0
536,000.01– 900,000.00	25.0
>900,000.01	30.0

Source: 2005 tax law.

The 2005 tax law raised the annual income brackets and corresponding rates. Under the 2005 tax law, the marginal income tax rate is 30%, as compared to 25% under prior tax laws, and is applied to annual income over DOP900,000, as compared to DOP500,000 under prior tax laws. This rate will be reduced incrementally to a rate of 25% by 2009.

Under the 2005 tax law, companies are required to pay a flat 30% tax on net annual taxable income. This rate will be reduced incrementally to a rate of 25% by 2009. In addition, companies with more than DOP5.0 million in annual gross income are required to pay a minimum corporate tax of 1.5% of annual gross income. Under the 2005 tax law, this minimum corporate income tax is paid in the form of equal monthly advances, which are based on the previous year's annual gross income. Adjustments are then made at year-end to reflect the changes in annual gross income for the current year.

During the first nine months of 2005, income tax revenues represented 4.1% of GDP, as compared to revenues of 3.8% of GDP registered during the same period in 2004.

Value-Added Tax

The Government imposes a value-added tax ("VAT") of 16% on all goods, except certain consumer food products and services. The 2005 tax law eliminated exemptions for over 200 goods. VAT paid in respect of capital goods may be deducted from the total VAT owed on the goods produced with such capital goods. During the first nine months of 2005, VAT receipts represented 5.5% of GDP, reflecting an increase of 116% in VAT receipts as compared to the same period in 2004.

Excise Taxes

The Government applies excise taxes on a variety of selected goods such as cigarettes, alcoholic beverages, fuels and certain luxury goods (*e.g.,* electronic appliances, caviar, rugs and yachts). The following table presents a sampling of the applicable excise tax rates, as amended by the 2005 tax law.

Product	**Tax** (in DOP per absolute alcohol liter)			
	2005	**2006**	**2007**	**2008**
Whiskey	302.04	335.18	307.87	280.54
Rum	160.85	222.23	251.42	280.54
Wine	221.42	270.68	275.65	280.54
Beer	302.99	235.94	308.29	280.54

Source: 2005 tax law.

The following table presents the tax rates for cigarettes:

Product	**Tax** (in DOP per box)
Cigarettes (10 unit box)	8.13
Cigarettes (20 unit box)	16.25

Source: 2005 tax law.

The Government applies an excise tax of 10% on telecommunication services, and a tax of 0.15% of the value of each transaction on checks and money transfers. However, under the 2005 tax law, the tax on checks and money transfers will be reduced annually by 0.05% beginning in 2007 and will be completely eliminated in 2009.

The fuel tax is the most important excise tax imposed by the Republic in terms of contribution to revenues. It is an excise tax denominated in constant pesos per gallon, payable at the time of sale. The following table sets forth the tax rates for gasoline products, which are adjusted quarterly to reflect inflation.

Product	Tax (in DOP per gallon)
Premium gasoline	50.59
Regular gasoline	31.36
Premium diesel	13.95
Regular diesel	18.17

Source: Fuel Tax Law, as amended by the 2005 tax law.

Gasoline prices in the Dominican Republic are adjusted on a weekly basis, based on import prices for oil and the U.S. dollar/Dominican peso exchange rate.

The fuel tax generated revenues of US$266 million or 1.4% of GDP for 2004. During the first nine months of 2005, the fuel tax generated US$378.8 million, as compared to US$161.3 million during the same period in 2004. Currently, approximately 91% of fuel tax revenues must be directed towards the payment of the Republic's public sector external debt, approximately 8.3% must be transferred to the Republic's provinces and municipalities, approximately 0.5% is applied toward alternative energy, and 0.25% (0.5% during election years) is divided among the Republic's political parties.

Real Estate Taxes

Under the 2005 tax law, a flat tax is applied to residential property without regard to its appraised value. Commercial, industrial and professional properties are not subject to property taxes directly and instead are taxed on the basis of their assets.

Tax Amnesty

In 2000, the Government offered amnesty until 2001 to individuals and corporations with the objective of promoting transparency in income tax statements. Corporations that opted to take advantage of the tax amnesty avoided being audited for the last four years (including 2000), but were required to pay in 2001 taxes of 1.3% of the gross sales they reported for 1999. Similarly, individuals that opted to take advantage of the amnesty avoided being audited, and in exchange had to pay in 2001 0.5% of the difference between their real wealth and the wealth they reported on their income tax statement for 1999.

In 2004, the Government permitted individuals and corporations that did not take advantage of the 2000 tax amnesty to pay 1.0% of adjusted assets by December 31, 2004.

Tax Enforcement

The Government has been seeking to improve its tax-enforcement record. Although the Internal Revenue Agency withholds taxes and imposes penalties for tax evasion, its limited resources have prevented it from significantly reducing tax evasion. The Internal Revenue Agency has experienced particular difficulties in monitoring the earnings of self-employed workers. Evasion of property taxes has also been a significant problem due to the widespread use of misleading property values that have proved difficult for the Internal Revenue Agency to verify.

The Government has traditionally been more effective in enforcing value-added taxes and, in particular, excise taxes. These taxes must be paid on a monthly basis based on readily verifiable values such as sales volume, in the case of excise taxes, and invoiced amounts, in the case of value-added taxes. However, a growing number of establishments are suspected of charging value-added taxes to their customers but not reporting the collections to the Internal Revenue Agency.

Recent efforts to combat tax evasion include:

- Adoption of a minimum 1.5% tax on a company's estimated gross annual income. This tax requires businesses to make a minimum tax contribution based on values that the Internal Revenue Agency may easily verify. In 2004, the Government's collections from this tax reached DOP5.6 billion (US$134.7 million). The Internal Revenue Agency has heavily fined or closed several businesses that have failed to pay the minimum corporate tax.

- Changes in the Internal Revenue Agency, which include:

    - internal restructuring in order to rationalize the responsibilities of its various departments and employees, to ensure that tax auditors have adequate training, and to improve the supervision of local offices throughout the country;

    - optimization of collection and monitoring methods through the use of improved information technologies;

    - simplification of tax-payment methods through reductions in paperwork and increased use of computerized systems;

    - creation of a consumer hotline and Internet sites through which tax evasion may be easily reported;

    - establishment of adequate channels of communication with other government agencies in order to improve the sharing of information and facilitate monitoring;

    - development of a computerized mechanism by which to monitor VAT withholdings on credit card purchases; and

    - implementation of new systems to monitor tax collection and track tax evasion and delinquent tax payments.

- Improvements in the national taxpayer identification system through the implementation of new data-base systems, and the adoption of fees and penalties for failure to register;

- Submission to the Dominican Congress of a draft law criminalizing tax evasion; and

- Submission to the Dominican Congress of a plan to improve revenue administration, including:

    - conversion of the general directorates of taxes and customs into semi-autonomous entities with separate budgets;

    - various legislative reforms to the tax code; and

    - implementation of an improved mechanism for VAT refunds.

Budget

Under the Budget Law for the Public Sector enacted on December 11, 1969 (the "Budget Law"), the Technical Secretary of the Presidency, acting through the *Oficina Nacional de Presupuesto* (the "National Budget Office"), is responsible for preparing the Republic's annual budget, which must be approved by Congress. The Government's annual budget sets forth spending limits for the various public entities. The President, acting through the National Budget Office, retains full discretion to adjust the amounts allocated to each of these entities based on actual revenue streams and macroeconomic conditions. This discretion gives the President considerable power to control public spending.

The annual budget is prepared on the basis of:

- proposals submitted by the various public entities;

- revenue estimates;

- assessments as to the possible impact of proposed fiscal changes; and

- Central Bank projections of macroeconomic variables.

The proposed budget for the next fiscal year is generally submitted by the President to the Congress in November of each year. Under the Budget Law, if Congress fails to approve the budget proposed by the President, the executive branch may operate on the basis of the budget that was approved for the previous year. The Budget Law does not provide for automatic adjustments of the budget to reflect the rate of inflation.

The following table sets forth the principal macroeconomic assumptions on which the Government's 2006 budget is based:

Principal Budgetary Assumptions for 2006

Projected real GDP growth	4.5%
Projected inflation	7.2%
Projected external revenues	US$1.0 billion

Sources: IMF, Central Bank and Ministry of Finance.

The Government's 2006 budget projects fiscal revenues of DOP190.0 billion (US$5.3 billion). This amount does not take into account external and internal financing resources. The budget projects public expenditures of DOP193.3 billion (US$5.4 billion), including grants.

The following table summarizes the Government's preliminary principal budgetary targets for 2006.

Principal Economic Targets for 2006

Overall consolidated public sector deficit	(2.0)% of GDP(1)
Gross public sector debt denominated in foreign currency	US$7.5 billion
Change in net international reserves of the Central Bank relative to December 2005(2)	US$200 million

(1) Including a surplus of 0.7% for the non-financial public sector.
(2) Excluding reserve requirements on foreign currency deposits.
Source: IMF, Central Bank and Ministry of Finance.

Social Security

In May 2001, the *Ley de Seguridad Social* (the "Social Security Law") was enacted by the executive branch. This law implements significant changes to the health insurance and pension systems in the Dominican Republic. Under the prior social security system, current social security contributions were used to pay for the benefits that were currently being provided by the Government. This "pay-as-you-go" system had one of the lowest levels of coverage in Latin America and the Caribbean. The small size of this system facilitated its reform, since its liabilities or implicit pension debt were relatively low, amounting to 9.3% of the Republic's GDP at the time of its enactment.

The Social Security Law requires participation in the new individual capitalization system. Under this system, workers may select the pension fund administrator of their choice and may switch to another pension fund administrator only once a year.

The social security system is based on three regimes:

- a contributory regime, that covers public and private workers, and consists of individual retirement savings accounts, 30% of which will be funded by the worker and 70% by the employer. The yearly combined contribution of the worker and the employer to each account must equal 10% of the worker's annual salary;

- a subsidized regime, which has been gradually implemented since November 2002, that covers disabled individuals, indigent individuals over 60 years of age and female heads of indigent households who can prove they receive a monthly income of less than 50% of the private sector minimum wage. Eligible beneficiaries receive a publicly-funded pension equal to 60% of the public sector minimum wage; and

- a subsidized contributory regime, which has not yet gone into effect, will cover all self-employed workers earning an average wage equal to or higher than the minimum wage. The minimum pension under this regime is equal to 70% of the private sector minimum wage. Each eligible worker whose pension under this regime does not reach the minimum pension established will receive a supplemental pension equal to the difference between the worker's actual pension under the contributory regime and the minimum guaranteed pension. The subsidized contributory regime will be funded with contributions from the state and beneficiaries.

PUBLIC SECTOR DEBT

The Republic's total public debt consists of foreign-currency denominated and peso-denominated debt. The Republic's total public external debt consists of loans from foreign creditors to the Central Bank, the Government and public sector entities, as well as bonds issued by the Government and public sector entities outside of the Dominican Republic. The Ministry of Finance is responsible for the management of the Republic's debt with respect to the non-financial public sector, and the Central Bank manages the Republic's Brady Bonds and other external debt of the financial sector.

External Debt

The Republic's external indebtedness consists of all debt with foreign creditors. As of September 30, 2005, the Republic's public external debt totaled approximately US$6.5 billion, compared to US$6.4 billion as of December 31, 2004.

The Republic's external debt includes:

- multilateral and other official loans;
- public bonds;
- commercial bank loans; and
- credit extended by suppliers of goods and services to the Government.

As of September 30, 2005, approximately 86.1% of the Republic's external debt was denominated in U.S. dollars.

The following tables set forth information concerning the Republic's public external debt as of the dates indicated.

Public Sector External Debt by Creditor

(in millions of US$ and as a % of total public sector external debt)

	2000		2001		2002		2003		2004		As of September 30, 2005	
	US$	%	US$	%	US$	%	US$	%	US$	%	US$	%
Official creditors:												
Multilateral debt:												
IDB	842.3	22.9	917.4	22.0	1,006.8	22.2	1,145.8	19.1	1,343.3	21.1	1,382.73	21.1
World Bank	294.0	8.0	317.5	7.6	353.2	7.8	352.0	5.9	380.6	6.0	424.55	6.5
IDA(1)	14.0	0.4	13.4	0.3	12.7	0.3	12.0	0.2	11.4	0.2	11.05	0.2
IFAD(2)	8.8	0.2	8.9	0.2	10.6	0.2	14.4	0.2	14.9	0.2	12.72	0.2
IMF	51.7	1.4	49.9	1.2	26.9	0.6	130.1	2.2	203.9	3.2	266.52	4.1
OPEC(3)	10.7	0.3	7.9	0.2	5.9	0.1	4.4	0.1	2.1	—	1.43	—
Other	21.4	0.6	25.6	0.5	27.9	0.6	33.8	0.6	34.4	0.5	30.97	0.5
Total multilateral debt	1,242.9	33.8	1,340.6	32.0	1,444.0	31.8	1,692.5	28.3	1,990.7	31.2	2,129,97	32.5
Bilateral debt:												
United States	745.0	20.2	626.4	15.0	564.3	12.5	639.4	10.7	756.2	11.9	768.00	11.7
Spain	540.2	14.7	509.0	12.2	496.1	10.9	460.6	7.7	392.9	6.2	354.17	5.4
Japan	168.8	4.6	151.4	3.6	171.2	3.8	192.8	3.2	192.7	3.0	174.78	2.7
Venezuela	104.7	2.8	80.4	1.9	69.8	1.5	62.9	1.1	43.8	0.7	109.68	1.7
Other countries	184.8	5.0	231.5	5.5	384.0	8.5	647.5	10.5	746.8	11.7	797.13	12.2
Total bilateral debt	1,743.5	47.3	1,598.7	38.2	1,685.4	37.1	2,023.2	33.1	2,132.5	33.4	2,203.75	33.7
Total official debt	2,986.4	81.2	2,939.4	70.3	3,129.4	69.0	3,675.7	61.4	4,123.2	64.6	4,333.74	66.2
Private creditors:												
Banking(4)	658.0	17.9	707.0	17.0	846.1	18.7	802.4	13.4	780.5	12.2	722.52	11.0
Bonds	–	–	500.0	12.0	500.0	11.0	1,100.0	18.4	1,100.0	17.2	1,149.32	17.6
Suppliers	35.0	1.0	29.7	0.7	60.9	1.3	408.3	6.8	376.0	5.9	339.87	5.2
Total private sector debt	693.0	18.9	1,236.7	29.7	1,407.0	31.0	2,310.7	38.6	2,256.5	35.4	2,211.71	33.8
Total public sector debt	3,679.4	100.0	4,176.1	100.0	4,536.4	100.0	5,987.0	100.0	6,379.7	100.0	6,545.5	100.0
Total public sector external debt as a percentage of:												
GDP		18.6		19.3		20.9		36.0		34.2		34.2
Total Exports		41.4		50.0		55.4		68.0		68.7		89.7

(1) International Development Association.
(2) International Fund for Agricultural Development.
(3) Organization of Petroleum Exporting Countries.
(4) Includes Brady Bonds.
Source: Ministry of Finance and Central Bank.

Public Sector External Debt Structure, by Maturity Date
(in millions of US$ and as a % of total public sector external debt)

As of September 30, 2005

Medium- and long-term	US$ 6,533.26
Short-term(1)	US$ 12.17
Short-term debt (as a % of total public sector external debt)	0.19%

(1) Debt due within a year, on a residual maturity basis.
Source: Ministry of Finance and Central Bank.

Summary of Public Sector External Debt by Currency
(in millions of U.S. dollars, except percentages)

	As of September 30, 2005	
Currency	**Amount (US$)(1)**	**%**
U.S. dollar	5,635.23	86.1
Special drawing rights (SDRs)(2)	287.73	4.4
Euro	227.57	3.5
Japanese yen	193.01	2.9
IDB unit of account(3)	161.94	2.5
Canadian dollar	16.96	0.3
Danish crown	6.94	0.1
Pound sterling	4.24	0.1
Swedish crown	4.08	0.1
Norwegian crown	4.01	0.1
Swiss franc	3.74	0.1
Total	6,545.45	100.0

(1) In currencies converted as of September 30, 2005.
(2) The unit of account used by the IMF. As of September 30, 2005, each SDR was equal to US$1.4494.
(3) The financial unit in which U.S. dollar obligations to the IDB are expressed. These obligations are pending payments and are expressed in the different currencies that are accounted for in the central currency account of the IDB. As of September 30, 2005, the value of one unit of account was US$1.5933.
Source: Ministry of Finance and Central Bank.

Public Sector External Debt, Net of Reserves
(in millions of US$)

	2000	**2001**	**2002**	**2003**	**2004**	**As of September 30, 2005(1)**
Public sector external debt	3,679.4	4,176.1	4,536.4	5,987.0	6,379.7	6,545.5
Gross international reserves of the Central Bank	636.8	1,155.3	629.8	279.4	824.8	1,557.4
Public sector external debt, net of reserves	3,042.6	3,020.8	3,906.6	5,707.6	5,554.9	4,988.0

(1) Preliminary data.
Source: Ministry of Finance and Central Bank.

Debt Owed to Official Institutions

Historically, the IMF, the IDB and the World Bank have provided the Dominican Republic with financial support subject to the Government's compliance with stabilization and reform policies. As conditions to its lending, the IMF has established quantitative and qualitative performance criteria, including:

- *quantitative performance criteria*, designed to assess the Government's fiscal and monetary management and debt administration, including fiscal targets, limits on the expansion of domestic credit and the accumulation of new debt, and targets for maintaining or increasing the Government's net international reserves; and

- *qualitative performance criteria*, designed to assess structural reforms of the financial system and the public sector.

These criteria generally evolve through a dialogue between the Government and the IMF and have a significant impact on Government policies. For further discussion of the criteria currently in place between the Government and the IMF, see "— IMF."

Generally, the World Bank and the IDB have made funding conditional on compliance with IMF criteria as well as other conditions. The financial support of the World Bank and the IDB includes sector-specific and structural loans intended to finance social programs, public works and structural adjustments at the national and local levels.

From 2000 through 2004, the total amount of debt owed by the Government to multilateral creditors increased 60.1%, from US$1.2 billion in 2000 to US$2.0 billion in 2004. As of September 30, 2005, the Government owed US$2.1 billion to multilateral creditors, representing 32.5% of the Republic's total public external debt. In 2004, the Government made net payments to multilateral lenders (including the IMF, the IDB, the World Bank and other institutions) in an aggregate amount of US$190.4 million (including payments of principal, interest and commissions). During the first nine months of 2005, the net amount of these payments was US$147.0 million.

IDB

The IDB is the Government's single largest creditor. As of September 30, 2005, the Government owed the IDB a total of US$1.4 billion, representing 65.0% of the Republic's total multilateral debt and 21.1% of its total public external debt. Loans from the IDB have been destined primarily for projects relating to agriculture, environment, rural development, education, social investment and financial sector reform. Under an emergency loan program established in 2004, the IDB made a US$50 million disbursement to the Republic in March 2005. The Government applied the proceeds from the loan to partially finance its 2005 budget deficit. During the first nine months of 2005, net principal inflows from the IDB (equal to disbursements minus principal amortizations) totaled US$58.3 million, while disbursements minus principal and interest amortizations resulted in net inflows of US$14.7 million.

The IDB is currently in the process of formulating its lending policy towards the Republic for the next four-year period. The Republic expects the IDB's lending policies to continue to be focused on supporting development projects, partially financing future budget deficits and providing technical assistance to the Government.

World Bank

As of September 30, 2005, the Government owed a total of US$424.6 million to the World Bank, representing 20.0% of the Republic's total multilateral debt and 6.5% of its total public external debt. World Bank loans have funded projects relating to agriculture and irrigation, education, health, energy and transportation. As part of the World Bank's emergency loan program with the Republic, the Government received US$50.0 million, disbursed in two tranches of US$25.0 million in April and August 2005, that was directed towards reducing the social impact of the economic crisis in the electricity sector.

During the first nine months of 2005, the Republic received US$34.7 million in World Bank inflows. Taking into account interest payments, the Republic had net World Bank inflows totaling US$23.1 million as of September 30, 2005.

IMF

As of September 30, 2005, the Government owed the IMF a total of US$266.5 million, which equaled approximately 84.0% of its IMF borrowing quota at that date.

The Government currently has in place the IMF Stand-By Arrangement with the IMF for approximately US$665.2 million (based on the exchange rate between the U.S. dollar and the IMF's lending units, known as SDRs, as of December 31, 2004). This facility was approved by the IMF on January 31, 2005 and is designed to support the Republic's economic program with the IMF through May 2007. The first disbursement under the IMF Stand-By Arrangement was made on February 2, 2005 in the amount of US$79.9 million, and the second disbursement was made on October 19, 2005 in the amount of US$139.0 million.

Disbursements under the IMF Stand-By Arrangement are to be made quarterly during 2005 and 2006 and will accrue interest at 2.3% annually. The Republic's access to the facility is also conditioned on the Government meeting certain quantitative and qualitative performance criteria, including the following:

- the implementation of macroeconomic policies to stabilize prices and promote sustainable growth;
- an increase in taxes and a reduction in public expenditures;
- an improvement in the non-financial public sector balance to (0.7)% of GDP in 2005 and a fiscal balance in 2006;
- a reduction in public indebtedness and the implementation of a financing strategy to resolve short term liquidity problems experienced by the Government;
- the implementation of a financing strategy that includes as a key component the renegotiation of indebtedness with Paris Club creditors and the rescheduling of debts owed to commercial banks and suppliers;
- the strengthening of the Dominican banking and financial sectors through increased regulatory supervision to ensure more efficient markets and stability in the economy;
- a system-wide audit of the Dominican banking sector, focusing on accounting practices, control systems and asset valuation practices;
- the introduction of legislation to increase the supervision and regulatory control over the banking sector; and
- the appointment of a special prosecutor to conduct judicial actions against the management and shareholders of BanInter, Bancrédito and Banco Mercantil.

Prior to the IMF Stand-By Arrangement, the Government and the IMF had entered into a two year stand by credit facility of approximately US$600 million in August 2003, following significant pressure on the peso and concerns of further economic deterioration as a result of the country's banking crisis. The IMF suspended the facility in September 2003, after the Government deviated from the economic program agreed to with the IMF in connection with the stand by facility when it repurchased from Unión Fenosa two electrical distribution companies that had previously been privatized by the Mejía administration. See "The Economy—Privatization and Role of the State in the Economy—Privatization." Following the reinstatement of the facility in February 2004, the IMF suspended disbursements for a second time in March 2004 due to the Republic's failure to meet agreed first quarter fiscal targets. The failure was the result of misreporting of non-financial public sector debt in the preparation of the Government's economic plan with the IMF. The IMF Stand-By Arrangement cancelled and replaced the suspended 2003 facility.

Paris Club and Other Bilateral Lenders

As of September 30, 2005, the Government owed a total of US$1.7 billion to members of the Paris Club and an additional US$419.7 million to other bilateral lenders. The Republic had arrearages with Paris Club lenders totaling US$85.2 million, and no arrearages with other bilateral lenders, as of September 30, 2005. As of December 31, 2005, the Republic had no arrearages with Paris Club lenders and arrearages with other bilateral lenders totaling approximately US$370,000.

The Republic renegotiated the payment terms on US$137 million of indebtedness owed to Paris Club member countries in October 2005. For further information on the Republic's restructuring, see "—Debt Restructuring—2005 Debt Restructuring."

On June 29, 2005, the Republic entered into the PetroCaribe Agreement, which replaced certain important provisions of the Caracas Energy Cooperation Agreement. Under the PetroCaribe Agreement, which includes a total of 13 Caribbean basin countries, Venezuela has agreed to continue providing the Republic up to 50,000 barrels of oil per day at market prices and on favorable financing terms. The agreement establishes a new graduated financing scheme under which the amount of available financing increases as the price per barrel increases, with a maximum of 50% financing available at prices of US$100 per barrel or above. If the price of oil falls below US$40 per barrel, the amounts financed are repayable over a period of 17 years at an interest rate of 2% per year. If the price of oil rises above US$40 per barrel, the amounts financed are repayable over 25 years and bear interest at a rate of 1% per year. A two-year grace period is also available on principal amortization payments and the Republic may pay in goods and services under certain conditions. In addition, short-term financing of up to 90 days is available for cash amounts due and transportation charges are billed at cost to the Republic. See "The Economy—Secondary Production—Electricity, Gas and Water—Electricity."

Public External Bonds

As of September 30, 2005, the Republic's outstanding public external indebtedness totaled approximately US$6.5 billion, and was composed of:

- US$1.1 billion outstanding principal amount of global bonds, consisting of the bonds due 2011 and 2018 issued by the Republic pursuant to the exchange offers conducted in 2005 and the remaining bonds due in 2006 and 2013 that were not tendered in the Republic's exchange offers; and

- US$407.6 million outstanding principal amount of discount bonds and past-due interest bonds, which are obligations of the Central Bank issued in 1994 in connection with a renegotiation of the Republic's external commercial bank debt (the "Brady Restructuring") with the following basic terms:

  - US$328.6 million outstanding principal amount of 30-year discount bonds due 2024, which are collateralized by zero-coupon U.S. Treasury bonds; and

  - US$79.0 million outstanding principal amount of 15-year past-due interest bonds, which are due in 2009 and are referred to in this offering memorandum as "PDI bonds."

For more information on the Brady Restructuring, see "—Debt Restructuring—History of Debt Restructuring."

The Government has made late payments in the past with respect to its public external bonds. In April 2004, the Republic incurred penalty interest in connection with a late payment made on its PDI bonds. In addition, the Republic has occasionally made payments during the 30-day grace period provided under the payment terms instead of on the due date. In February 2005, the Republic made a US$27.1 million interest payment on its global bonds due 2013 that was due in January 2005 and in April 2005, the Republic made a US$23.75 million interest payment on the global bonds due 2006 that was due in March 2005.

External Debt Owed to Commercial Lenders and Suppliers

The Government owed US$314.9 million to commercial bank creditors and US$339.9 million to suppliers of goods and services to the Republic as of September 30, 2005. As of the same date, the Republic's total arrears with its commercial bank creditors and suppliers were US$134.3 million. As of December 31, 2005, the Government owed US$303.2 million to commercial bank creditors and US$338.0 million to suppliers of goods and services to the Republic. As of the same date, the Republic's total arrears with commercial bank creditors and suppliers totaled US$30.7 million.

Under its commitment with the Paris Club to restructure its indebtedness with private creditors on terms comparable to those granted by its Paris Club creditors, the Government renegotiated the terms of its external commercial debt. Discussions between the Republic and its commercial bank creditors also addressed the treatment of approximately US$30 million of principal arrears outstanding as of December 31, 2004. For a discussion of the Republic's renegotiation of its indebtedness owed to commercial creditors, see "—Debt Restructuring—2005 Debt Restructuring."

Public External Debt Service

Total public sector external debt service decreased from 6.8% of GDP in 2003 to 2.7% at September 30, 2005. Public sector external debt service measured as percentage of total exports of goods and services decreased from 12.8% in 2003 to 7.1% at September 30, 2005.

The following tables set forth information regarding the Republic's public sector external debt service for the periods indicated.

Public Sector External Debt Service(1)
(in millions of US$)

	2000	2001	2002	2003	2004	As of September 30, 2005(2)
Interest payments	226.3	206.7	215.3	263.4	322.0	208.9
Amortization	886.0	836.8	667.4	862.0	457.8	309.0
Total public sector external debt service(1)	1,112.3	1,043.5	882.7	1,125.4	779.8	517.9

(1) Includes external debt service of Central Bank.
(2) Preliminary data.
Source: Ministry of Finance and Central Bank.

Public Sector External Debt Service Ratios(1)

	2000	2001	2002	2003	2004	As of September 30, 2005(2)
As a percentage of total exports	12.5	12.5	10.8	12.8	9.1	7.1
As a percentage of GDP	5.6	4.8	4.1	6.8	4.2	2.7
As a percentage of current income	35.6	29.6	24.7	42.5	25.7	12.9
As a percentage of gross reserves	174.1	90.3	140.2	402.8	94.6	33.3

(1) Includes external debt service of Central Bank.
(2) Preliminary data.
Source: Ministry of Finance and Central Bank.

The following table sets forth the Republic's estimated public external debt service through 2010.

Estimated Public Sector Debt Service by Debtor[1]
2006-2010
(in millions of US$, except for %)

	2006			2007			2008			2009			2010		
	Principal	**Interest**	**Total**	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**	**Principal**	**Interest**	**Total**
Central Bank:															
Reserve liabilities:															
IMF	15.6	17.2	32.8	86.0	5.9	91.9	244.0	2.5	246.5	294.9	1.8	296.6	172.1	6.3	178.4
Total reserve liabilities	15.6	17.2	32.8	86.0	5.9	91.9	244.0	2.5	246.5	294.9	1.8	296.6	172.1	6.3	178.4
Non-reserve liabilities	26.6	24.5	51.1	26.6	24.2	50.7	26.2	22.7	48.9	26.2	21.4	47.6	7.7	20.0	27.7
DEFINPRO[2]	17.8	2.9	20.8	17.9	1.8	19.8	5.9	0.9	6.8	4.5	0.7	5.2	2.6	0.6	3.2
Total Central Bank	60.0	44.6	104.7	130.5	31.9	162.4	276.1	26.1	302.2	325.5	23.9	349.4	182.4	27.0	209.3
Public Sector															
Non-financial public sector															
Central Government	486.3	250.2	736.5	660.2	273.4	933.6	549.5	235.6	785.1	497.5	200.8	698.3	452.9	172.6	625.5
Other governmental institutions:															
CDEEE	25.5	40.9	66.5	25.7	38.4	64.2	27.7	35.7	63.4	28.5	32.7	61.3	30.4	29.3	59.7
Unión Fenosa	12.9	38.7	51.6	16.1	37.0	53.1	19.8	34.9	54.7	24.0	32.3	56.4	28.9	29.1	58.1
INDRHI	0.9	0.2	1.2	0.9	0.2	1.1	0.9	0.1	1.1	0.9	0.1	1.0	0.1	—	0.1
Total other	26.5	41.2	67.6	26.7	38.6	65.3	28.7	35.8	64.5	29.5	32.8	62.3	30.6	29.3	59.9
Public enterprises[3]	0.7	0.9	1.6	0.7	0.9	1.6	0.7	0.9	1.6	0.7	0.8	1.5	—	0.8	0.8
Privately publicly guaranteed	2.3	0.6	2.9	2.3	0.6	2.8	2.3	0.5	2.8	2.3	0.4	2.7	1.0	0.3	1.3
Total non-financial public sector	515.8	292.9	808.6	689.9	313.5	1,003.4	581.2	272.8	854.0	530.0	234.8	764.8	484.4	203.0	687.4
Financial public sector	6.7	0.6	7.3	3.4	0.2	3.6	0.1	0.1	0.1	0.1	0.1	0.1	—	0.1	0.1
Of which:															
Banco de Reservas	6.7	0.6	7.3	3.4	0.2	3.6	0.1	0.1	0.1	0.1	0.1	0.1	—	0.1	0.1
Total public sector	522.5	293.4	815.9	693.3	313.6	1,006.9	581.2	272.9	854.1	530.00	234.9	764.9	484.4	203.0	687.5
Total public sector debt[4]	582.5	338.1	920.6	823.8	345.5	1,169.3	857.3	298.9	1,156.3	855.5	258.8	1,143.0	666.8	230.0	896.8

(1) Preliminary estimates conducted in January 2006, based on disbursed debt as of January 25, 2006. Includes restructurings conducted in 2005 with the Paris Club, private bondholders and commercial banks.
(2) *Departmento de Desarrollo y Financiamiento de Proyectos* (Department of Financing and Development of Projects).
(3) Includes Rosario Dominicana.
(4) Includes the total Central Bank debt service.
Source: Ministry of Finance.

Domestic Debt

As of December 31, 2005, the Republic's domestic debt primarily consisted of:

- DOP8.5 billion (US$249.3 million) outstanding principal amount of peso-denominated bonds issued by the Government in the local market;
- peso-denominated loans totaling DOP19.2 billion (US$562.5 million) and dollar-denominated loans totaling US$136.8 million from *Banco de Reservas*; and
- dollar-denominated loans totaling US$4.7 million from other domestic commercial banks.

As of December 31, 2005, approximately 85.3% of the Republic's domestic debt was denominated in pesos, while the balance was denominated in U.S. dollars.

The following table sets forth the Republic's total public sector domestic debt:

Total Public Sector Domestic Debt
(in millions of US$)(1)

	2000	2001	2002	2003	2004(2)	2005(2)
Treasury Bonds (Law 104-99)	95.39	104.32	113.89	77.19	117.15	–
Treasury Bonds (Law 172-03)	–	–	–	–	135.31	137.29
Treasury Bonds (Law 121-05)	–	–	–	–	–	112.04
Treasury Certificates	9.2	6.0	–	–	–	–
Other liabilities(3)	358.2	490.6	396.4	519.5	745.6	703.98
Total	462.79	600.92	510.29	596.69	998.06	953.31
Total public sector domestic debt as a % of GDP	2.34%	2.77%	2.35%	3.59%	5.35%	3.30%(4)

(1) Converted to U.S. dollars using the weighted average exchange rate at year-end or period-end.
(2) Preliminary data.
(3) Includes indebtedness of the non-financial public sector with domestic commercial banks.
(4) Based on estimated GDP for year-end 2005.
Source: Ministry of Finance.
n.a. = Not Available

The Republic issued the following domestic bonds in 2005:

- a DOP1.9 billion issuance, the proceeds of which are planned to be used to pay arrears on domestic debt owed by the Government to private sector creditors. The bonds accrue interest at 2.0% per year, adjusted for inflation, and mature in December 2009;

- a DOP2.6 billion issuance, the proceeds of which are planned to be used to pay arrears on domestic debt owed by the Government to the private sector. The bonds accrue interest at 7% per year and mature in April 2009;

- a DOP2.3 billion issuance by the Government, the proceeds of which are planned to be used to reduce the Central Bank's quasi-fiscal deficit and comply with capital requirements agreed to with the IMF as part of the country's financial sector reforms. The bonds accrue interest at 2%, adjusted for inflation, and mature in ten years following the date of their issuance; and

- a DOP1.5 billion issuance by the Government to capitalize *Banco de Reservas*. The bonds accrue interest at 2%, adjusted for inflation, and mature in ten years following the date of their issuance.

Additionally, in 2004 the Government negotiated a credit facility in the amount US$130 million with *Banco de Reservas*. The first disbursement of US$60 million, released on December 31, 2004, was used to service public sector external debt.

Domestic Debt Service

As of December 31, 2005, arrears due to domestic suppliers of goods and services to the Government amounted to DOP6.3 billion, as compared to DOP3.4 billion as of December 31, 2004.

Under the IMF Stand-By Arrangement, the Republic committed to partially pay arrears accumulated with its domestic creditors, which amounted to DOP6.3 billion as of December 31, 2005, using the proceeds from domestic bonds issued in 2005.

The Government has also taken steps to improve the administration of the Republic's domestic debt obligations, including:

- placing the *Comisión Evaluadora de Deuda* (the Commission of Debt Evaluation) under the supervision of the Republic's general auditors;

- consolidating the function of the administration of the Republic's debt to the Ministry of Finance, with the exception of the Republic's Brady Bonds, which are administered by the Central Bank;

- modernizing debt-related systems and information technology; and

- adopting programs to train personnel, and streamline and modernize procedures related to debt, with assistance from the IDB.

Debt Related to the Private Electricity Sector

Fiscal deficits and disputes between the Government and private operators over the management and tariff regulation of the electricity sector have led to disputes between parties and missed payments by the Government. In August 2004, the Government cleared arrears it owed to distributors of electricity. See "The Economy—Secondary Production—Electricity, Gas and Water—Electricity."

As of December 31, 2005, the Government owed approximately US$557 million in arrears to private generation companies in the electricity sector. At the end of 2004, these private generation companies agreed to defer principal payments on the debt owed by the Government for one year in exchange for the payment of interest accruing on this debt during 2005. On March 1, 2006, the Government reached an agreement with electricity distribution and generation companies that granted a new one-year deferral of principal payment on this debt in exchange for the Government's undertaking to continue paying accrued interest and to pay current payables in 2006.

In September 2003, as a result of persisting financial and operating problems in the electricity sector, the Government entered into a purchase agreement with Unión Fenosa to reacquire its 50% ownership interests in the power distribution companies Ede Norte and Ede Sur. See "The Economy—Privatization and Role of the State in the Economy—Privatization." Under the agreement, the Republic agreed to pay Unión Fenosa a total purchase price of US$699.6 million (including interest) over 12 years, which is secured by certain customer receivables payable to the distributors. The outstanding portion of the purchase price accrues interest at 4% per year and, together with amortization payments, is payable under a mortgage-style schedule. In addition to the purchase price installments, the Republic paid Unión Fenosa an up-front fee of US$15.0 million in cash, which the Republic financed through borrowings from *Banco de Reservas*. The Republic's payment obligations are secured by the assignment of customer receivables of Ede Norte and Ede Sur selected by Unión Fenosa and representing 115% of each installment payment due. Collections on these receivables are paid to an escrow account and are released solely for payment of the purchase price installments to Unión Fenosa. In August 2005, the Republic signed a memorandum of understanding with Unión Fenosa, which was amended in December 2005, that grants the Republic the option, exercisable through March 31, 2006, to pre-pay all of the remaining purchase price installments due to Unión Fenosa at their present value as of the date of prepayment calculated in accordance with the provisions of the memorandum of understanding and release Ede Norte and Ede Sur from their obligations under the receivables assignment agreement. See "—Debt Restructuring—2005 Debt Restructuring." The Republic intends to use the proceeds from the sale of the bonds offered hereby to prepay the debt due to Unión Fenosa, which it expects will allow Ede Norte and Ede Sur to recover a significant portion of their operating cash flow and recapitalize their operations, thus reducing the level of government subsidies to these companies. As of March 3, 2006, the present value of these installments amounted to approximately US$294.1 million. See "Use of Proceeds."

Debt Restructuring

History of Debt Restructuring

In November 1991, the Republic restructured US$771 million of indebtedness owed to the Paris Club. As a result of this restructuring, the Republic obtained the following extensions with respect to indebtedness maturing in the period from September 1991 to March 1993:

- a 20-year extension for concessionary credits and credits issued in connection with development projects, with a 10-year grace period;
- a 15-year extension for non-concessionary credits, with an 8-year grace period; and
- a 10-year extension on interest on arrears, with a 5-year grace period.

The Republic returned to the Paris Club in April 2004 and rescheduled US$155 million of maturities falling due in 2004 (amounts due fell from US$479 million to US$293 million) and US$38 million of arrears owed to Paris Club creditors. The rescheduling included:

- 12-year repayment term, with a 5-year grace period;
- no increase in interest rates for borrowed amounts targeted at development projects, and market rates for the Republic's other credits; and
- a requirement that the Government seek comparable treatment from non-Paris Club bilateral and private creditors, which the Paris Club normally assesses in terms of the effect of private treatment, compared to the effects of Paris Club treatment, on:
  - maturity extensions;
  - effect of the agreement on net present value of the repayment profile; and
  - cash flow relief.

In February 1994, the Republic carried out a refinancing agreement of its medium- and long-term debt owed to commercial banks through the issuance by the Central Bank of two series of public sector external bonds. The Brady Restructuring reduced the Republic's international commercial debt from US$1.3 billion to US$328.6 million in 30-year discount bonds and US$191.3 million in 15-year past-due interest bonds. The discount bonds are collateralized by zero-coupon U.S. Treasury bonds, and the payments of principal and interest under both series of bonds are guaranteed by the Republic.

2005 Debt Restructuring

As an integral component of the IMF Stand-By Arrangement and the Republic's agreement with the Paris Club in April 2004, the Government developed a comprehensive debt restructuring plan for 2005. This plan, which was successfully carried out during the course of 2005 and is expected to be completed in early 2006, consists of the following measures:

- On May 11, 2005, the Republic concluded the successful restructuring of two outstanding global bond issues, totaling US$1.1 billion, by means of an exchange offer. The exchange offer was open to holders of the 9.50% bonds due 2006 and the 9.04% bonds due 2013, who were invited to exchange their bonds for new amortizing bonds due 2011 and 2018, respectively. Approximately US$1.03 billion was tendered, amounting to approximately 94% of the aggregate principal amount outstanding of both series of bonds. A reopening of the exchange offer, which closed on July 20, 2005, resulted in the tender of an additional US$37.0 million, thereby raising total participation in the global bond restructuring to approximately 97% of the aggregate principal amount outstanding. This restructuring adjusted the Republic's scheduled debt service to improve the Government's fiscal balance in line with IMF-approved macroeconomic forecasts.

- On October 17, 2005, the Republic announced it had successfully concluded an agreement with respect to the rescheduling of certain maturities falling due to commercial bank creditors in 2005 and 2006. The agreement permits the Republic to defer payment of outstanding debt in 2005 and 2006 in the amount of US$147 million. Repayment of the rescheduled amounts will be made in six equal and semi-annual installments through January 1, 2010. As part of the rescheduling of this debt, the Republic agreed to pay US$30 million in principal arrears outstanding through 2004. This agreement was approved by the Dominican Congress on February 9, 2006. In addition, in January 2006, the Republic entered into an agreement with a creditor to reschedule commercial debt totaling approximately US$33 million, which will be submitted to the Dominican Congress for approval. If this agreement is not approved by the Dominican Congress on or before March 30, 2006, the agreement will terminate and the original commercial debt will remain outstanding in accordance with its original terms. As of the date of this offering memorandum, approximately US$8 million of this debt was past due. The Republic is also currently negotiating with two other private creditors the rescheduling of past due supplier financing amounting to approximately US$10 million.

- On October 21, 2005, the Republic concluded an agreement with the Paris Club to reschedule approximately US$137 million of maturities falling due in 2005, which is expected to reduce debt service due to Paris Club creditors from US$357 million to US$222 million. The rescheduling was conducted on the same terms as the Republic's preceding agreement with the Paris Club in 2004.

- In August 2005, the Republic signed a memorandum of understanding with Unión Fenosa, a Spanish company, to restructure the Republic's obligations relating to a purchase agreement with Unión Fenosa entered into in September 2003, under which the Government repurchased Ede Norte and Ede Sur. The Republic intends to exercise an option to satisfy all of the remaining installments of the purchase price due to Unión Fenosa for approximately US$294.1 million, which under the terms of the memorandum of understanding, as amended, must be done by March 31, 2006.

Debt Record

Following the Brady Restructuring, the Republic has serviced its external debt without default, subject to the following:

- between 1994 and 1997, a default by the Republic in respect of payments owed to the Commodity Credit Corporation, due to a dispute concerning the amount of such debt. This dispute was settled in 1997, and payment was made immediately thereafter;

- amounts in arrears owed to NISSHO Iwai and the Marubeni Corporation did not qualify for inclusion in the Brady Restructuring. These amounts were reconciled and settled in 1997;

- a debt deferral granted by the Paris Club in respect of amounts coming due between September 1998 and December 31, 1999 in consideration of losses suffered by the Republic as a result of Hurricane Georges. The IMF did not consider the deferral granted by the Paris Club as a default on external debt service;

- a five-year debt rescheduling granted by Venezuela after Hurricane Georges;

- arrears in payments due to OPEC of US$10 million, which were settled in 1996, continued to appear as arrears until 1998 since the rescheduling was not approved by the Dominican Congress until 1999;

- arrears of principal payments due to Paris Club creditors of approximately US$40 million, which were settled in December 2004 and January 2005; and

- arrears in payments due to the Republic's commercial creditors and suppliers, which totaled US$134.3 million as of September 30, 2005 and US$30.7 million as of December 31, 2005.

DESCRIPTION OF THE BONDS

The bonds will be issued under an indenture, dated as of May 11, 2005, between the Republic and The Bank of New York, as trustee.

This section of this offering memorandum is intended to be an overview of the material provisions of the bonds and the indenture. Because this section is only a summary, you should refer to the indenture for a complete description of the Republic's obligations and your rights as a holder of the bonds. The Republic has filed copies of the indenture at the offices of the trustee and the Luxembourg listing agent, where they will be made available to you free of charge.

The definitions of certain capitalized terms used in this section are set forth under "—Defined Terms."

General

Basic Terms

The bonds will:

- be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic and will be backed by the full faith and credit of the Republic;
- be initially issued in an aggregate principal amount of US$300,000,000;
- provide for payment of principal in three equal installments to be made on April 20, 2025, April 20, 2026 and April 20, 2027, respectively;
- not be subject to optional redemption prior to their scheduled maturity;
- have a final maturity date of April 20, 2027;
- be issued in denominations of US$100,000 and in integral multiples of US$1,000 in excess thereof; and
- be represented by one or more registered bonds in global form, but in certain limited circumstances may be represented by bonds in certificated form. See "Book-Entry Settlement and Clearance."

Interest

Interest on the bonds will:

- accrue at the rate of 8.625% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually in arrears on April 20 and October 20 of each year, commencing on October 20, 2006 to the holders of record on the April 1 and October 1 immediately preceding the related interest payment date; and
- be computed on the basis of a 360-day year comprised of twelve 30-day months.

Payment

Principal of, and interest on, the bonds will be payable at the offices or agencies maintained by the Republic for such purpose (which initially will be the offices of the payment agents specified on the inside back cover page of this offering memorandum). Payment of principal of and interest on bonds in global form registered in the name of or held by The Depository Trust Company (or "DTC") or its nominee, will be made in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of the global bonds. If any of the bonds are no longer represented by global bonds, payment of interest on the bonds in physical, certificated form may, at the Republic's option, be made by check mailed directly to holders at their registered addresses.

The Republic will maintain a principal paying agent, a transfer agent and a registrar in New York City and a paying agent and a transfer agent in Western Europe (which, so long as the bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of the Exchange so require, will be in Luxembourg). The Republic undertakes that it will ensure that it maintains a paying agent in a European Union member state that will not be obliged to withhold or deduct tax pursuant to the directive regarding taxation of savings income. See "Taxation—European Union Tax Reporting and Withholding." The Republic will give prompt notice to all holders of bonds of any future appointment or any resignation or removal of any paying agent, transfer agent or registrar or of any change by any paying agent, transfer agent or registrar in any of its specified offices. The Republic will also give notice to the Luxembourg Stock Exchange of any changes of any paying agent or transfer agent.

If any date for an interest or principal payment is not a business day, the Republic will make the payment on the next business day. Such payments will be deemed to have been made on the due date, and no interest on the bonds will accrue as a result of the delay in payment. For the purpose of this section, a "business day" means any day that is not a Saturday or Sunday, and that is not a day on which banking or trust institutions are authorized generally or obligated by law, regulation, or executive order to close in New York City.

Claims against the Republic for the payment of principal of, or interest on, the bonds (including additional amounts) must be made within five years of the date on which that payment first became due.

The registered holder of a bond will be treated as its owner for all purposes.

Transfer, Exchange and Replacement of Bonds

The bonds may be transferred or exchanged in whole or in part at the offices or agencies maintained by the Republic for such purpose (which initially will be the offices of the transfer agents specified on the inside back cover page of this offering memorandum) together with an executed instrument of transfer or exchange.

No service charge will be made for any registration of transfer or exchange of bonds, but the Republic may require payment of an amount sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith.

If a bond becomes mutilated, defaced, destroyed, lost or stolen, the Republic may issue, and the trustee will authenticate and deliver, a substitute bond. In each case, the applicant for a substitute bond will be required to furnish to the Republic and to the trustee (or to any paying agent at whose offices the applicant presents the bonds for exchange) an indemnity under which it will agree to pay the Republic, the trustee and any other agent for any losses they may suffer relating to the bond that was mutilated, defaced, destroyed, lost or stolen. The Republic and the trustee may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen bond.

Further Issuances

The Republic may from time to time, without the consent of bondholders, create and issue further bonds having the same terms and conditions as the bonds in all respects, except for issue date, issue price and the first payment of interest thereon. Additional bonds issued in this manner will be consolidated with and will form a single series with the previously outstanding bonds.

Ranking

The bonds will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic and will be backed by the full faith and credit of the Republic. The bonds will be Public External Debt of the Republic. The bonds will rank equally among themselves and with all other existing and future unsubordinated and unsecured Public External Debt of the Republic.

Additional Amounts

Payments of principal of and interest on the bonds are not currently subject to withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature in the Republic. The Republic will make payments in respect of the bonds without withholding or deduction for any present or future taxes imposed by the Republic or any of its political subdivisions or taxing authorities, unless otherwise required by Dominican law. If Dominican law requires the Republic or any of its political subdivisions or taxing authorities to deduct or withhold taxes, the Republic will pay the bondholders the additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

The Republic will not, however, pay any additional amounts where the bondholder is subject to such withholding or deduction due to one of the following reasons:

- the bondholder has some connection with the Republic other than merely owning the bond or the receipt of principal of or interest on the bond;
- the bondholder has failed to comply with any certification, identification or other reporting requirement concerning its nationality, residence, identity or connection with the Republic, provided that:
  - ➢ compliance is required by the Republic, or any of its political subdivisions or taxing authorities, as a precondition to exemption from such withholding or deduction;
  - ➢ at least 30 days prior to the first payment date with respect to which such requirements will apply, the Republic notifies all holders of bonds that the holders will be required to comply with these requirements; and
  - ➢ these requirements are not materially more onerous to such holders (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administrative practice (such as U.S. Internal Revenue Service Forms W-8 and W-9); or
- the bondholder has failed to present its bond (where such presentation is required by the terms of the bonds) within 30 days from when the Republic makes available to the bondholder a payment of principal or interest except to the extent the bondholder would have been entitled to additional amounts in presenting the bond for payment on any date during such 30-day period.

All references in this offering memorandum to principal of or interest on the bonds will include any additional amounts payable by the Republic in respect of such principal or interest.

Negative Pledge Covenant

So long as any bond remains outstanding, the Republic may not allow any Lien on its assets or revenues as security for any of its Public External Debt, unless the Republic's obligations under the bonds are secured equally and ratably with such Public External Debt. The Republic may, however, grant or agree to any Permitted Lien (as defined under "—Defined Terms") on its assets or revenues.

Events of Default

Each of the following is an event of default with respect to the bonds:

1. *Non-Payment*:
   - failure to pay for 20 days principal of the bonds when due; or
   - failure to pay for 30 days interest on the bonds when due; or

2. *Breach of Other Obligations*: failure to observe or perform any of the covenants or agreements provided in the bonds or the indenture (other than those referred to in paragraph 1 above) for a period of 60 days following written notice to the Republic by the trustee or holders representing at least 25% in principal amount of the then outstanding bonds to remedy such failure; or

3. *Cross Default*:
   - failure by the Republic, beyond any applicable grace period, to make any payment when due on Public External Debt (other than with respect to the outstanding 9.50% bonds due 2006 and the 9.04% bonds due 2013) in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies); or
   - acceleration of any Public External Debt (other than with respect to the outstanding 9.50% bonds due 2006 and the 9.04% bonds due 2013) in an aggregate principal amount greater than or equal to US$25,000,000 (or its equivalent in other currencies) due to an event of default, unless such acceleration is rescinded or annulled; or

4. *Moratorium*: declaration by the Republic of a general suspension of, or a moratorium on, payments of Public External Debt (other than with respect to the outstanding 9.50% bonds due 2006 and the 9.04% bonds due 2013); or

5. *Validity*:
   - the Republic contests any of its obligations under the bonds or the indenture in a formal administrative, legislative or judicial proceeding; or
   - the Republic denies any of its obligations under the bonds or the indenture; or
   - any constitutional provision, treaty, law, regulation, decree, or other official pronouncement of the Republic, or any final decision by any court in the Republic having jurisdiction, renders it unlawful for the Republic to pay any amount due on the bonds or to perform any of its obligations under the bonds or the indenture; or

6. *Judgments*: any writ, execution, attachment or similar process is levied against all or any substantial part of the assets of the Republic in connection with any judgment (other than with respect to the outstanding 9.50% bonds due 2006 and the 9.04% bonds due 2013) for the payment of money exceeding US$25,000,000 (or its equivalent in other currencies) and failure by the Republic either to satisfy or discharge such judgment, or adequately bond, contest in good faith or receive a stay of execution or continuance in respect of such judgment, within a period of 120 days; or

7. *Membership in International Monetary Fund*: failure by the Republic to maintain its membership in, and its eligibility to use the general resources of, the IMF, and such failure continues for a period of 60 days.

If any of the events of default described above occurs and is continuing, the trustee, by written notice to the Republic, or the holders of not less than 25% of the aggregate principal amount of the outstanding bonds may, by written notice to the Republic with a copy to the trustee, may declare all the bonds then outstanding to be immediately due and payable. Accordingly, holders of less than 25% of the aggregate principal amount of the outstanding bonds may not, on their own, declare the bonds due and payable immediately. The trustee or the holders of the bonds may exercise these acceleration rights only by providing such written notice to the Republic, with a copy to the trustee (in the case of a declaration by holders), at a time when the event of default is continuing.

The Republic will notify the trustee promptly upon becoming aware of the occurrence of any event of default or potential event of default.

Upon any declaration of acceleration, the principal of, and interest and all other amounts payable on, the bonds will become immediately due and payable on the date on which the Republic receives written notice of the declaration, unless the Republic has remedied the event or events of default prior to receiving the notice. The holders of not less than a majority of the aggregate principal amount of the outstanding bonds may, on behalf of all holders, waive any existing defaults or events or default and their consequences or rescind a declaration of acceleration, if:

- following the declaration of the bonds due and payable immediately, the Republic deposits forthwith with the trustee a sum sufficient to pay all overdue installments of principal, interest and other amounts in respect of the bonds as well as the reasonable fees and compensation of the trustee; and
- all other events of default have been remedied.

Meetings, Amendments and Waivers

The Republic may call a meeting of the holders of the bonds at any time regarding the bonds or the indenture. The Republic will determine the time and place of the meeting and will notify the holders of the time, place and purpose of the meeting not less than 30 and not more than 60 days before the date set for the meeting.

In addition, the trustee will call a meeting of the holders of the bonds if holders of not less than 10% of the aggregate principal amount of the outstanding bonds have delivered a written request to the trustee setting forth the action they propose to take. The trustee will notify the holders of the time, place and purpose of any meeting called by the holders not less than 30 and not more than 60 days before the meeting.

Only holders and their proxies are entitled to vote at a meeting of holders. Holders or proxies representing a majority of the aggregate principal amount of the outstanding bonds will normally constitute a quorum. However, if a meeting is adjourned for lack of quorum, then holders or proxies representing not less than 25% of the aggregate principal amount of the outstanding bonds will constitute a quorum when the meeting is rescheduled. In the absence of a quorum, a meeting may be adjourned for a period of not less than 10 days. Notice of the reconvening of any meeting need be given only once, but must be given not less than 10 days and not more than 20 days prior to the reconvened meeting. For purposes of a meeting of holders that proposes to discuss "reserved matters" (specified below), holders or proxies representing not less than 75% of the aggregate principal amount of the outstanding bonds of the affected series (66 2/3% of the aggregate principal amount of the outstanding bonds of all series in the case of reserved matters with respect to all series) will constitute a quorum. The trustee will set the procedures governing the conduct of any meeting.

The Republic, the trustee and the holders may generally modify or take actions with respect to the terms of the bonds of a series or the indenture insofar as it affects the bonds of that series:

- with the affirmative vote of the holders of not less than 66 2/3% of the aggregate principal amount of the outstanding bonds of that series that are represented at a duly called and held meeting; or
- with the written consent of the holders of not less than 66 2/3% of the aggregate principal amount of the outstanding bonds of that series (without the need for a meeting of holders or a vote of such holders at a meeting).

However, special requirements apply with respect to any amendment, modification, change or waiver with respect to the bonds or the indenture insofar as it affects the bonds that would:

- change the due date or dates for the payment of principal of, or interest on, the bonds;
- reduce the principal amount of the bonds;
- reduce the principal amount of the bonds that is payable upon acceleration of the maturity date;
- reduce the interest rate applicable to the bonds;
- change the currency in which any amount in respect of the bonds is payable or the place or places in which such payment is to be made;
- reduce the percentage of the aggregate principal amount of the outstanding bonds held by holders whose vote or consent is needed to modify, amend or supplement the terms and conditions of the bonds or the indenture or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action;
- change the definition of "outstanding" with respect to the bonds;
- change the Republic's obligation to pay any additional amounts in respect of the bonds as set forth under "—Additional Amounts;"
- change the governing law provision of the bonds;
- change the courts of the jurisdiction of which the Republic has submitted, the Republic's obligation to appoint and maintain an agent for the service of process in New York City or the Republic's agreement not to claim, and to waive irrevocably, immunity (sovereign or otherwise) in respect of any suit, actions or proceedings arising out of or relating to the indenture or to the bonds;
- in connection with an exchange offer for, or offer to acquire all or any portion of, the bonds, amend any event of default under the bonds; or
- change the ranking of the bonds, as described under "—Ranking."

The above-listed matters are "reserved matters" and any amendment, modification, change or waiver with respect to a reserved matter is a "reserved matter modification." A reserved matter modification, including a change to the payment terms of the bonds, may be made without a holder's consent, as long as the requisite supermajority of the holders (set forth below) agrees to the reserved matter modification.

Any reserved matter modification to the terms of the bonds or to the indenture insofar as it affects the bonds may generally be made, and future compliance therewith may be waived, with the consent of the holders of not less than 75% in aggregate principal amount of the bonds at the time outstanding.

If the Republic proposes any reserved matter modification to the terms of multiple series of bonds issued pursuant to the indenture (including the Bonds) or to the indenture insofar as it affects multiple series of bonds issued pursuant to the indenture (including the Bonds), in either case as part of a single transaction, the Republic may elect to proceed pursuant to provisions of the indenture providing that such reserved matter modifications may be made, and future compliance therewith may be waived, for any affected series if made with the consent of the Republic and:

- holders of not less than 85% in aggregate principal amount of the outstanding bonds of all the series affected by that reserved matter modification (taken in aggregate); and
- holders of not less than 66 2/3% in aggregate principal amount of the outstanding bonds of all the series (taken separately).

If any reserved matter modification is sought in the context of a simultaneous offer to exchange the bonds for new debt securities of the Republic or of any other Person, the Republic will ensure that the relevant provisions of the affected bonds, as amended by such reserved matter modification, are no less favorable to the holders thereof than the provisions of the new debt security being offered in the exchange, or, if more than one debt security is so offered, no less favorable than the new debt security issued having the largest aggregate principal amount.

The Republic agrees that it will not issue new bonds of a series or reopen any existing series of bonds with the intention of placing bonds of that series with holders expected to support any modification proposed or to be proposed by the Republic for approval pursuant to the modification provisions of the indenture or the terms of any series of bonds outstanding.

Any modification consented to or approved by the holders of the bonds of a series pursuant to the above provisions will be conclusive and binding on all holders of the bonds of such series (whether or not such holders have given such consent or were present at a meeting of holders at which such action was taken) and on all future holders of the bonds of such series (whether or not notation of such modification is made upon the bonds of such series). Any instrument given by or on behalf of any holder of a bond in connection with any consent to or approval of any such modification will be conclusive and binding on all subsequent holders of that bond.

The Republic and the trustee may, without the vote or consent of any holder of the bonds, modify, amend or supplement the bonds or the indenture insofar as it affects bonds for any of the following purposes:

- to add to the Republic's covenants for the benefit of the bondholders;
- to surrender any of the Republic's rights or powers;
- to provide security or collateral for the bonds;
- to cure any ambiguity, or correct or supplement any defective provision contained in the bonds or the indenture; or
- to change the terms and conditions of the bonds or the indenture in any manner which the Republic and the trustee may determine so long as any such change does not, and will not, adversely affect the interests of any bondholder.

For purposes of determining whether the required percentage or percentages of holders of the bonds are present at a meeting of holders for quorum purposes or have approved any amendment, modification or change to, or waiver of, the bonds or the indenture insofar as it affects the bonds, or whether the required percentage or percentages of holders have delivered a written notice of acceleration of the bonds, any bonds owned, directly or indirectly, by or on behalf of the Republic or any public sector instrumentality of the Republic will be disregarded and deemed not to be "outstanding," except that in determining whether the trustee will be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only bonds that the trustee knows to be so owned will be so disregarded.

As used in the preceding paragraph, "public sector instrumentality" means the Central Bank of the Republic, any department, ministry or agency of the Republic or any corporation, trust, financial institution or other entity owned or controlled by the Republic or any of the foregoing. The term "control" means, in turn, the power, directly or indirectly, through the ownership of voting securities or other ownership interests, to direct the management of, or elect or appoint a majority of, the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

Prior to any vote or consent on a reserved matter modification affecting the bonds, the Republic will deliver to the trustee a certificate signed by an authorized representative of the Republic specifying, for the Republic and each relevant public sector instrumentality, any bonds deemed to not be outstanding as described above or, if no bonds are owned or controlled by the Republic or any public sector instrumentality, a certificate signed by an authorized representative of the Republic to that effect.

Notices

The Republic will mail notices to bondholders at their registered addresses, as reflected in the books and records of the trustee. The Republic will consider any mailed notice to have been given five business days after it has been sent.

The Republic will also publish notices to the bondholders in leading newspapers having general circulation in New York City and London. The Republic anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, so long as the bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange and the rules of that Exchange so require, the Republic will publish notices to the bondholders in a leading newspaper having general circulation in Luxembourg and on the website of the Luxembourg Stock Exchange (www.bourse.lu). The Republic anticipates that it will initially make its newspaper publication in the *d'Wort*. If publication in a leading newspaper in Luxembourg is not practical, the Republic will publish such notices in one other leading English language daily newspaper with general circulation in Europe. The Republic will consider any published notice to be given on the date of its first publication.

Governing Law

The indenture and the bonds will be governed by, and construed in accordance with, the law of the State of New York.

Submission to Jurisdiction

The Republic is a foreign sovereign state. Consequently, it may be difficult for bondholders to obtain judgments from courts in the United States or elsewhere against the Republic. Furthermore, it may be difficult for investors to enforce, in the United States or elsewhere, the judgments of U.S. or foreign courts against the Republic.

In connection with any legal action or proceeding arising out of or relating to the bonds (subject to the exceptions described below), the Republic has agreed:

- to submit to the jurisdiction of any New York State or U.S. federal court sitting in New York City in the Borough of Manhattan and any appellate court of either thereof;
- that all claims in respect of such legal action or proceeding may be heard and determined in such New York state or U.S. federal court and will waive, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding; and
- to appoint as its process agent CT Corporation System, with an office currently at 111 Eighth Avenue, New York, New York 10011, United States.

The process agent will receive on behalf of the Republic and its property service of copies of any summons and complaint and any other process which may be served in any such legal action or proceeding brought in such New York State or U.S. federal court sitting in New York City in the Borough of Manhattan. Service may be made by mailing or delivering a copy of such process to the Republic at the address specified above for the process agent.

A final non-appealable judgment in any of the above legal actions or proceedings will be conclusive and may be enforced by a suit upon such judgment in any other courts that may have jurisdiction over the Republic.

In addition to the foregoing, the bondholders may serve legal process in any other manner permitted by applicable law. The above provisions do not limit the right of any bondholder to bring any action or proceeding against the Republic or its property in other courts where jurisdiction is independently established.

To the extent that the Republic has or hereafter may acquire or have attributed to it any sovereign or other immunity under any law, the Republic has agreed to waive, to the fullest extent permitted by law, such immunity in respect of any claims or actions regarding its obligations under the bonds, except that the Republic will not waive immunity from attachment prior to judgment and attachment in aid of execution under Dominican law.

The bondholders may be required to post a bond or other security with the Dominican courts as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the bonds in those courts.

The Republic reserves the right to plead sovereign immunity under the U.S. Foreign Sovereign Immunities Act of 1976 with respect to actions brought against it under U.S. federal securities laws or any state securities laws, and the Republic's appointment of the process agent will not extend to such actions. Without a waiver of immunity by the Republic with respect to such actions, it would be impossible to obtain a U.S. judgment in such an action against the Republic unless a court were to determine that the Republic is not entitled under the U.S. Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such action. However, even if a U.S. judgment could be obtained in any such action under the U.S. Foreign Sovereign Immunities Act of 1976, it may not be possible to enforce in the Republic a judgment based on such a U.S. judgment.

A judgment obtained against the Republic in a foreign court can be enforced in the courts of the Republic, if such judgment is ratified by the Dominican courts. Based on existing law, Dominican courts will ratify such a judgment:

- if there exists a treaty with the country where such judgment was issued providing for reciprocal enforcement of foreign judgments (no such treaty exists at the present time between the Republic and the United States); or
- if such judgment:
  - complies with all formalities required for the enforceability thereof under the laws of the country where the same was issued;
  - has been translated into Spanish, together with related documents, and satisfies the authentication requirements of Dominican law;
  - was issued by a competent court after valid service of process upon the parties to the action;
  - was issued after an opportunity was given to the defendant to present its defense;
  - is not subject to further appeal; and
  - is not against Dominican public policy.

The Republic agrees to cause an appearance to be filed on its behalf and to defend itself in connection with any legal action or proceeding instituted against it. However, a default judgment obtained in the United States against the Republic, resulting from the Republic's failure to appear and defend itself in any suit filed against the Republic, or from the Republic's deemed absence at the proceedings, may not be enforceable in the Dominican courts.

Currency Indemnity

The obligation of the Republic to any bondholder under the bonds will be discharged only to the extent that the bondholder may purchase U.S. dollars with any other currency paid to that bondholder in accordance with any judgment or otherwise. If the bondholder cannot purchase U.S. dollars in the amount originally to be paid, the Republic agrees to pay the difference. The bondholder, however, agrees that, if the amount of the U.S. dollars purchased exceeds the amount originally to be paid to such bondholder, the bondholder will reimburse the excess to the Republic. The bondholder, however, will not be obligated to make this reimbursement if the Republic is in default of its obligations under the bonds.

Concerning the Trustee

The indenture contains provisions relating to the obligations and duties of the trustee, to the indemnification of the trustee and to the trustee's relief from responsibility for actions that it takes. The trustee is entitled to enter into business transactions with the Republic or any of its affiliates without accounting for any profit resulting from such transactions.

Defined Terms

The following are certain definitions used in the bonds:

"External Debt" means obligations (other than the bonds) of, or guaranteed (whether by contract, statute or otherwise) by, the Republic for borrowed money or evidenced by bonds, debentures, notes or similar instruments denominated or payable, or which, at the option of the holder thereof, may be payable, in a currency other than Dominican pesos or by reference to a currency other than Dominican pesos, regardless of whether that obligation is incurred or entered into within or outside the Republic.

"Lien" means any lien, pledge, mortgage, security interest, deed of trust, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any obligations with or from the proceeds of any assets or revenues of any kind.

"Permitted Liens" means:

- any Lien on property to secure Public External Debt arising in the ordinary course to finance export, import or other trade transactions, which Public External Debt matures (after giving effect to all renewals and refinancing thereof) not more than one year after the date on which such Public External Debt was originally incurred;
- any Lien on property to secure Public External Debt existing on such property at the time of its acquisition or incurred solely for the purpose of financing any acquisition by the Republic of such property, and any renewal or extension of any such Lien which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof;
- any Lien securing Public External Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, provided that:
  - the holders of such Public External Debt agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Debt; and
  - the property over which such Lien is granted consists solely of such assets and revenues;
- any Lien in existence as of the original issuance date of the bonds; and
- any Lien securing Public External Debt which, together with all other Public External Debt secured by Liens (excluding Public External Debt secured by other Permitted Liens), does not exceed US$25,000,000 principal amount (or its equivalent in other currencies) in the aggregate.

"Public External Debt" means any External Debt that is in the form of, or represented by, bonds, notes or other securities that are or may be quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market.

BOOK-ENTRY SETTLEMENT AND CLEARANCE

Global Bonds

The bonds will initially be issued in the form of two registered bonds in global form, without interest coupons, as follows:

- bonds sold to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1933, as amended (the "Securities Act") will be represented by a global bond (the "Rule 144A Global Bond"); and

- bonds sold in offshore transactions to non-U.S. persons in reliance on Regulation S will be represented by a global bond (the "Regulation S Global Bond").

Upon issuance, each of the global bonds will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each global bond will be limited to persons who have accounts with DTC (the "DTC participants") or persons who hold interests through DTC participants. The Republic expects that under procedures established by DTC:

- upon deposit of each global bond with DTC's custodian, DTC will credit portions of the principal amount of the global bond to the accounts of the DTC participants designated by the initial purchasers; and

- ownership of beneficial interests in each global bond will be shown on, and transfers of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each global bond).

Beneficial interests in the Regulation S Global Bond will initially be credited within DTC to Euroclear and Clearstream Banking on behalf of the owners of such interests. During the 40-day period commencing on the closing date of the offering of the bonds (the "40-day restricted period"), beneficial interests in the Regulation S Global Bond may be:

- held only through Euroclear or Clearstream Banking; and

- transferred only to non-U.S. persons under Regulation S or qualified institutional buyers under Rule 144A.

Investors may hold their interests in the Regulation S Global Bond directly through Euroclear or Clearstream Banking, if they are participants in those systems, or indirectly through organizations that are participants in those systems. Investors may also hold their interests in the Regulation S Global Bond through organizations other than Euroclear or Clearstream Banking that are DTC participants. Each of Euroclear and Clearstream Banking will appoint a DTC participant to act as its depositary for the interests in the Regulation S Global Bond that are held within DTC for the account of each of these settlement systems on behalf of its respective participants.

Beneficial interests in the global bonds may not be exchanged for bonds in physical certificated form except in the limited circumstances described below.

Each global bond and beneficial interests in each global bond will be subject to restrictions on transfer as described under "Transfer Restrictions."

Exchanges between the Global Bonds

Beneficial interests in one global bond may generally be exchanged for interests in another global bond. Depending on whether the transfer is being made during or after the 40-day restricted period, and to which global bond the transfer is being made, the trustee may require the seller to provide certain written certifications in the form provided in the indenture.

A beneficial interest in a global bond that is transferred to a person who takes delivery through another global bond will, upon transfer, become subject to any transfer restrictions and other procedures applicable to beneficial interests in the other global bond.

Book-Entry Procedures for the Global Bonds

All interests in the global bonds will be subject to the operations and procedures of DTC, Euroclear and Clearstream Banking. The Republic provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Republic nor the initial purchasers are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the initial purchasers; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC’s nominee is the registered owner of a global bond, that nominee will be considered the sole owner or holder of the bonds represented by that global bond for all purposes under the indenture. Except as provided below, owners of beneficial interests in a global bond:

- will not be entitled to have bonds represented by the global bond registered in their names;
- will not receive or be entitled to receive physical, certificated bonds; and
- will not be considered the owners or holders of the bonds under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a global bond must rely on the procedures of DTC to exercise any rights of a holder of bonds under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the bonds).

Payments of principal and interest with respect to the bonds represented by a global bond will be made by the trustee to DTC's nominee as the registered holder of the global bond. Neither the Republic nor the trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a global bond, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a global bond will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream Banking will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream Banking, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream Banking. To deliver or receive an interest in a global bond held in a Euroclear or Clearstream Banking account, an investor must send transfer instructions to Euroclear or Clearstream Banking, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream Banking, as the case may be, will send instructions to its DTC depositary to take action to effect final settlement by delivering or receiving interests in the relevant global bonds in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream Banking participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream Banking.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant that purchases an interest in a global bond from a DTC participant will be credited on the business day for Euroclear or Clearstream Banking immediately following the DTC settlement date. Cash received in Euroclear or Clearstream Banking from the sale of an interest in a global bond to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Banking cash account as of the business day for Euroclear or Clearstream Banking following the DTC settlement date.

DTC, Euroclear and Clearstream Banking have agreed to the above procedures to facilitate transfers of interests in the global bonds among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Republic nor the trustee will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Bonds

Bonds in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related bonds only if:

- DTC notifies the Republic at any time that it is unwilling or unable to continue as depositary for the global bonds and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the U.S. Securities Exchange Act of 1934 and a successor depositary is not appointed within 90 days;

- the Republic, at its option, notifies the trustee that it elects to cause the issuance of certificated bonds; or

- certain other events provided in the indenture occur.

TRANSFER RESTRICTIONS

The bonds are subject to the following restrictions on transfer. By purchasing bonds, you will be deemed to have made the following acknowledgements, representations to and agreements with the Republic and the initial purchasers:

(1) You acknowledge that:

- the bonds have not been registered under the Securities Act or any other securities laws and are being offered for resale in transactions that do not require registration under the Securities Act or any other securities laws; and

- unless so registered, the bonds may not be offered, sold or otherwise transferred except under an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act or any other applicable securities laws, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) You represent that you are not an affiliate (as defined in Rule 144 under the Securities Act) of the Republic, that you are not acting on the Republic's behalf and that either:

- you are a qualified institutional buyer (as defined in Rule 144A) and are purchasing bonds for your own account or for the account of another qualified institutional buyer, and you are aware that the initial purchasers are selling the bonds to you in reliance on Rule 144A; or

- you are not a U.S. person (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person, other than a distributor, and you are purchasing bonds in an offshore transaction in accordance with Regulation S.

(3) You acknowledge that neither the Republic nor the initial purchasers nor any person representing the Republic or the initial purchasers has made any representation to you with respect to the Republic or the offering of the bonds, other than the information contained in this offering memorandum. You represent that you are relying only on this offering memorandum in making your investment decision with respect to the bonds. You agree that you have had access to such information concerning the Republic and the bonds as you have deemed necessary in connection with your decision to purchase bonds, including an opportunity to ask questions of and request information from the Republic.

(4) You represent that you are purchasing bonds for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case not with a view to, or for offer or sale in connection with, any distribution of the bonds in violation of the Securities Act, subject to any requirement of law that the disposition of your property or the property of that investor account or accounts be at all times within your or their control and subject to your or their ability to resell the bonds pursuant to Rule 144A or any other available exemption from the registration requirements of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing bonds, and each subsequent holder of the bonds by its acceptance of the bonds will agree, that until the end of the resale restriction period (as defined below), the bonds may be offered, sold or otherwise transferred only:

(a) to the Republic;

(b) pursuant to a registration statement that has been declared effective under the Securities Act;

(c) for so long as the bonds are eligible for resale under Rule 144A, to a person whom the seller reasonably believes is a qualified institutional buyer that is purchasing for its own account or for the account of another qualified institutional buyer and to whom it has given notice that the transfer is being made in reliance on Rule 144A;

(d) through offers and sales that occur outside the United States within the meaning of Regulation S; or

(e) under any other available exemption from the registration requirements of the Securities Act;

subject in each of the above cases to any requirement of law that the disposition of the seller's property or the property of an investor account or accounts be at all times within the seller or such account's control.

You also acknowledge that:

- the above restrictions on resale will apply from the closing date of the offering of the bonds until the date that is two years after the later of the closing date and the last date that the Republic or any of its affiliates was the owner of the bonds or any predecessor of the bonds (the "resale restriction period"), and will not apply after the resale restriction period ends;

- the Republic and the trustee reserve the right to require, in connection with any offer, sale or other transfer of bonds before the resale restriction period ends under clauses (d) and (e) above, the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Republic and the trustee; and

- each bond will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION. THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES, TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") THAT IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY), ONLY (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON WHOM IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A) THAT IS PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT, OR (E) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE REPUBLIC'S AND THE TRUSTEE'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D) OR (E) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

You acknowledge that the Republic, the initial purchasers and others will rely upon the truth and accuracy of the above acknowledgments, representations and agreements. You agree that if any of the acknowledgments, representations or agreements you are deemed to have been made by your purchase of bonds is no longer accurate, you will promptly notify the Republic and the initial purchasers. If you are purchasing any bonds as a fiduciary or agent for one or more investor accounts, you represent that you have sole investment discretion with respect to each of those accounts and that you have full power to make the above acknowledgments, representations and agreements on behalf of each account.

TAXATION

The following discussion provides a general summary of certain Dominican and U.S. federal income tax considerations that may be relevant to you if you purchase, own or sell the bonds. This summary is based on tax laws, regulations, rulings and decisions in effect on the date of this offering memorandum. All of these laws and authorities are subject to change, and any change could be effective retroactively. No assurances can be given that any change in these laws or authorities will not affect the accuracy of the discussion set forth herein. This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. This summary only addresses initial purchasers of the bonds that purchase the bonds at their initial offering price and hold the bonds as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules, such as a bank, thrift, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects "mark-to-market" treatment, investor that will hold the bonds as a hedge against currency risk or as a position in a "straddle" or conversion transaction, partnership or other pass-through entity for U.S. federal income tax purposes, person subject to the U.S. federal alternative minimum tax, tax-exempt organization or a United States person (as defined below) whose "functional currency" is not the U.S. dollar.

You should consult your tax adviser about the tax consequences of holding the bonds, including the relevance to your particular situation of the considerations discussed below, as well as of state, local or other tax laws.

U.S. Internal Revenue Service Circular 230 Notice

To ensure compliance with Internal Revenue Service Circular 230, prospective investors are hereby notified that (a) any discussion of U.S. federal tax issues contained or referred to in this offering memorandum or any other document referred to herein is not intended or written to be used, and cannot be used, by prospective investors for the purpose of avoiding penalties that may be imposed on them under the U.S. Internal Revenue Code, (b) such discussion is written for use in connection with the promotion or marketing of the transactions or matters addressed herein, and (c) prospective investors should seek advice based on their particular circumstances from an independent tax advisor.

Dominican Taxation

The following summary of certain Dominican tax matters is based on a review of the *Código Tributario* (Tax Code) Law No. 11-92 enacted in 1992, as amended and its rules for application; and Law No. 5-06 dated January 11, 2006. This summary contains a description of the principal tax consequences in the Dominican Republic of the purchase, ownership and disposition of the bonds, but it does not purport to be a comprehensive description of all tax consequences that may be relevant to a decision to purchase the bonds.

This summary is based upon the tax laws of the Dominican Republic as in effect on the date of this offering memorandum, which are subject to change. Prospective purchasers of the bonds (including residents of the Dominican Republic, if any) should consult their own tax advisors as to the consequences of the purchase, ownership and disposition of the bonds.

Pursuant to Article 4 of Law No. 5-06, interest paid on the bonds issued under this law is exempt from the tax withholding established under Article 306 of the Tax Code as well any other kind of withholding, commission or charge. Payments of principal of the bonds to a foreign non-resident holder generally will not be subject to withholding tax or any other type of withholding in the Dominican Republic. Capital gains realized on the disposition by a foreign non-resident holder of the bonds will not be subject to Dominican taxes, provided that such disposition occurs outside the Dominican Republic.

The foregoing tax treatment assumes that the bonds will remain in the form of global bonds registered in the name of a nominee of DTC and will not be issued in definitive, certificated form.

A foreign non-resident holder of the bonds generally will not be liable for estate, gift, inheritance or similar taxes with respect to such bonds.

The extent of the tax exemptions for any Dominican source income is defined in and limited by Article 4 of Law No. 5-06.

United States Taxation

As used herein, the term "United States person" means an individual who is a citizen or resident of the United States, a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a U.S. court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions, and the term "United States" means the United States of America (including the States and the District of Columbia), its possessions, territories and other areas subject to its jurisdiction.

If you are a United States person, the interest you receive on the bonds will generally be subject to United States taxation and will be considered ordinary interest income on which you will be taxed in accordance with the method of accounting that you use for tax purposes. When you sell, exchange or otherwise dispose of the bonds, you generally will recognize gain or loss equal to the difference between the amount you realize on the transaction and your tax basis in the bonds (except that any amount attributable to accrued and unpaid interest will be treated as a payment of interest for federal income tax purposes). Your tax basis in a bond generally will equal the cost of the bond to you. If you are an individual and the bond being sold, exchanged or otherwise disposed of is a capital asset held for more than one year, you may be eligible for reduced rates of taxation on any capital gain realized. Your ability to deduct capital losses is subject to limitations.

Under United States federal income tax law as currently in effect, holders of bonds that are not United States persons will not be subject to United States federal income taxes, including withholding taxes, on payments of interest on the bonds so long as the requirements described in the second succeeding paragraph are satisfied, unless:

(i) the holder is an insurance company carrying on a United States insurance business, within the meaning of the United States Internal Revenue Code of 1986, to which the interest is attributable, or

(ii) the holder has an office or other fixed place of business in the United States to which the interest is attributable and the interest either (a) is derived in the active conduct of a banking, financing or similar business within the United States or (b) is received by a corporation the principal business of which is trading in stock or securities for its own account, and such corporation is otherwise engaged in the conduct of a trade or business in the United States.

The gain realized on any sale or exchange of the bonds by a holder that is not a United States person will not be subject to United States federal income tax, including withholding tax, unless (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States (and an applicable income tax treaty does not provide otherwise) or (ii) in the case of gain realized by an individual holder, the holder is present in the United States for 183 days or more in the taxable year of the sale and either (A) such gain or income is attributable to an office or other fixed place of business maintained in the United States by such holder or (B) such holder has a tax home in the United States.

The paying agents will be required to file information returns with the United States Internal Revenue Service with respect to payments made to certain United States persons on the bonds. In addition, certain United States persons may be subject to United States backup withholding tax in respect of such payments if they do not provide their taxpayer identification numbers to the relevant paying agent, and may also be subject to information reporting and backup withholding requirements with respect to proceeds from a sale of the bonds. Persons holding bonds who are not United States persons may be required to comply with applicable certification procedures to establish that they are not United States persons in order to avoid the application of such information reporting requirements and backup withholding tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or credit against your United States federal income tax liability, provided that you furnish the required information to the United States Internal Revenue Service.

A bond held by an individual holder who at the time of death is not a United States person will not be subject to United States federal estate tax.

European Union Tax Reporting and Withholding

Under European Council Directive 2003/48/EC on the taxation of savings income, Member States of the European Union are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have agreed to adopt similar measures (some of which involve a withholding system). As indicated above under "Description of the Bonds—Additional Amounts", no additional amounts will be payable in respect of any taxes other than those imposed by the Republic (or any of its political subdivisions or taxing authorities). You should consult your own tax advisors regarding the application of Directive 2003/48/EC or any similar Directive.

PLAN OF DISTRIBUTION

Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc. are acting as joint bookrunning managers of the offering, and are acting as representatives of the initial purchasers named below. Subject to the terms and conditions in the purchase agreement dated the date of this offering memorandum, each initial purchaser named below has agreed to purchase, and the Republic has agreed to sell to that initial purchaser, the principal amount of the bonds set forth opposite such initial purchaser's name.

Initial Purchaser	Principal Amount
Morgan Stanley & Co. Incorporated	US$138,750,000
J.P. Morgan Securities Inc.	US$138,750,000
UBS Securities LLC	US$7,500,000
Citigroup Global Markets Inc.	US$7,500,000
Bear, Stearns & Co. Inc.	US$7,500,000
Total	US$300,000,000

The purchase agreement provides that the obligations of the initial purchasers to purchase the bonds are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the bonds if they purchase any of the bonds.

The Republic has been advised that the initial purchasers propose to resell the bonds at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Transfer Restrictions." The price at which the bonds are offered may be changed at any time without notice.

The bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Transfer Restrictions."

Accordingly, in connection with sales outside the United States, each initial purchaser has agreed that, except as permitted by the purchase agreement and set forth in "Transfer Restrictions", it will not offer or sell the bonds within the United States or to, or for the account or benefit of, U.S. persons as part of the distribution of the bonds.

In addition, until 40 days after the commencement of this offering, an offer or sale of bonds within the United States by a dealer that is not participating in this offering may violate the registration requirements of the U.S. Securities Act of 1933 if that offer or sale is made otherwise than in accordance with Rule 144A.

The initial purchasers will represent and warrant in the purchase agreement that they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Market Act 2000 of the United Kingdom) in connection with the issue or sale of the bonds in circumstances in which Section 21(1) of Financial Services and Market Act 2000 of the United Kingdom does not apply to the Republic and that they have complied and will comply with all applicable provisions of the Financial Services and Market Act 2000 of the United Kingdom with respect to anything done by them in relation to any bonds in, from or otherwise involving the United Kingdom.

The bonds will constitute a new class of securities with no established trading market. Application has been made to list the bonds on the Official List of the Luxembourg Stock Exchange and to trade them on the Euro MTF market of the Luxembourg Stock Exchange. The bonds are also expected to be eligible for trading in the Portal

Market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for resale under Rule 144A. However, the Republic cannot assure you that the prices at which the bonds will trade in the market after this offering will not be lower than the initial offering price or that an active trading market for the bonds will develop and continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the bonds. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the bonds at any time without notice. In addition, market-making activity may be subject to the limits imposed by applicable securities laws. Accordingly, the Republic cannot assure you as to the liquidity of or the trading market for the bonds.

In connection with the issue of the bonds, the initial purchasers (the "Stabilizing Managers") (or persons acting on behalf of any Stabilizing Managers) may over-allot bonds or effect transactions with a view to supporting the market price of the bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilizing Managers (or persons acting on behalf of a Stabilizing Manager) will undertake stabilization action. Such stabilizing, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

The Republic estimates that its portion of the total expenses of this offering will be approximately US$400,000.

The Republic has agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

OFFICIAL STATEMENTS

Information in this offering memorandum whose source is identified as a publication of the Republic or one of its agencies or instrumentalities relies on the authority of such publication as a public official document of the Republic.

VALIDITY OF THE BONDS

The validity of the bonds will be passed upon for the Republic by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the Republic, and by the *Consultor Jurídico del Poder Ejecutivo* (Legal Counsel to the Executive Branch) of the Republic, and for the initial purchasers by Simpson Thacher & Bartlett LLP, United States counsel to the initial purchasers, and Pellerano & Herrera, Dominican counsel to the initial purchasers.

As to all matters of Dominican law, Cleary Gottlieb Steen & Hamilton LLP may rely on the opinion of the *Consultor Jurídico del Poder Ejecutivo* (Legal Counsel to the Executive Branch) of the Republic, and Simpson Thacher & Bartlett LLP may rely upon the opinion of Pellerano & Herrera. As to all matters of United States law, the *Consultor Jurídico del Poder Ejecutivo* (Legal Counsel to the Executive Branch) of the Republic may rely on the opinion of Cleary Gottlieb Steen & Hamilton LLP, and Pellerano & Herrera may rely on the opinion of Simpson Thacher & Bartlett LLP.

GENERAL INFORMATION

Clearing

The bonds have been accepted into DTC's book-entry settlement system. The bonds also have been accepted for clearance through the Euroclear and Clearstream clearance systems. The relevant trading information is set forth in the following table.

Bonds Offered	CUSIP Number	ISIN Number	Common Code
Rule 144A	25714PAJ7	US25714PAJ75	024823725
Regulation S	P3579EAG2	USP3579EAG28	024823792

Where You Can Find More Information

As long as the bonds are listed on the Euro MTF market of the Luxembourg Stock Exchange, you may inspect or receive copies, free of charge, of the following documents on any business day at the offices of the paying agent in Luxembourg:

- the indenture incorporating the forms of the bonds;
- an English translation of *Ley de Bonos* (Bond Law) No. 5-06;
- the most recent annual economic report of the Republic (of which English translations are available); and
- this offering memorandum.

The Republic

The creation and issuance of the bonds were authorized pursuant to Bond Law No. 5-06, dated January 11, 2006.

Except as disclosed in this offering memorandum, since December 31, 2005, there has been no material adverse change in the revenues or expenditures, or financial position, of the Republic.

APPENDIX

Dominican Republic: Global Public Sector External Debt as of September 30, 2005

(in millions of US$)[1]

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
MULTILATERAL INSTITUTIONS					
INTERNATIONAL DEVELOPMENT ASSOCIATION					
International Development Association	Central Bank	19-May-1971	0.75 as commission	15-Nov-2020	2.36
International Development Association	Government	17-Jan-1973	0.75 as commission	15-Nov-2022	6.83
International Development Association	Government	18-Feb-1971	0.75 as commission	01-Oct-2020	1.86
Total International Development Association					11.05
INTER-AMERICAN DEVELOPMENT BANK					
Inter-American Development Bank	Government	18-Apr-1978	0.50 as commission	18-Apr-2028	1.05
Inter-American Development Bank	Government	24-Sep-1981	2.00	24-Sep-2021	0.38
Inter-American Development Bank	CDEEE	06-Mar-1972	Fixed	06-Mar-2022	2.60
Inter-American Development Bank	Government	13-Jan-1986	6.97	24-Mar-2006	0.96
Inter-American Development Bank	Government	26-Jan-1973	1.25	24-Jan-2013	6.16
Inter-American Development Bank	Government	09-May-1973	2.00	08-May-2013	0.41
Inter-American Development Bank	Government	09-May-1973	2.00	08-May-2013	5.24
Inter-American Development Bank	Government	09-Aug-1974	2.00	09-Aug-2014	4.97
Inter-American Development Bank	Government	25-Oct-1974	2.00	24-Oct-2014	11.62
Inter-American Development Bank	Government	22-May-1975	2.00	20-May-2015	11.53
Inter-American Development Bank	PUCMM	06-Jan-1977	2.00	06-Jan-2017	1.35
Inter-American Development Bank	Government	31-May-1977	2.00	24-May-2017	8.25
Inter-American Development Bank	Government	02-Apr-1979	2.00	06-Apr-2019	1.60
Inter-American Development Bank	Government	02-Apr-1979	2.00	06-Apr-2019	27.32
Inter-American Development Bank	Government	15-Oct-1979	2.00	15-Oct-2019	12.83
Inter-American Development Bank	Government	13-Feb-1990	6.14	13-Aug-2011	46.67
Inter-American Development Bank	Government	15-Oct-1979	2.00	15-Oct-2019	11.41
Inter-American Development Bank	Government	13-Feb-1990	5.99	13-Aug-2011	2.28
Inter-American Development Bank	Government	07-Dec-1979	2.00	24-Nov-2019	17.80
Inter-American Development Bank	Government	07-Dec-1979	2.00	24-Nov-2019	18.34
Inter-American Development Bank	Government	26-Jan-1981	2.00	24-Jan-2021	6.36

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Inter-American Development Bank	Government	16-Mar-1981	2.00	16-Mar-2021	13.32
Inter-American Development Bank	Government	13-May-1981	2.00	13-May-2021	3.91
Inter-American Development Bank	Government	24-Sep-1981	2.00	24-Sep-2021	3.09
Inter-American Development Bank	Government	23-Sep-1982	2.00	23-Sep-2022	25.85
Inter-American Development Bank	Government	03-Mar-1982	2.00	06-Mar-2022	11.49
Inter-American Development Bank	INTEC	03-Jun-1982	2.00	24-May-2022	3.11
Inter-American Development Bank	Government	14-Feb-1984	2.00	14-Feb-2024	1.21
Inter-American Development Bank	Government	20-Nov-1994	Variable (IDB)	20-Nov-2019	13.85
Inter-American Development Bank	FUNDAPEC	08-Feb-1990	2.00	08-Feb-2030	16.20
Inter-American Development Bank	Government	13-Feb-1990	2.00	13-Feb-2030	33.32
Inter-American Development Bank	Government	12-Dec-1991	2.00	12-Dec-2031	25.84
Inter-American Development Bank	Government	08-Jan-1993	2.00	08-Jan-2033	31.73
Inter-American Development Bank	Government	18-Nov-1997	Variable (IDB)	13-Oct-2026	48.61
Inter-American Development Bank	Government	01-Jun-1994	2.00	01-Jun-2034	49.07
Inter-American Development Bank	Government	13-Nov-1994	Variable (IDB)	30-Sep-2021	47.35
Inter-American Development Bank	Government	20-Nov-1994	2.00	20-Nov-2034	13.25
Inter-American Development Bank	Government	20-Feb-1998	Variable (IDB)	20-Feb-2023	54.78
Inter-American Development Bank	Government	20-Feb-1998	Variable (IDB)	20-Feb-2023	18.18
Inter-American Development Bank	Government	20-Feb-1998	Variable (IDB)	20-Feb-2023	11.18
Inter-American Development Bank	Government	18-Jul-1998	Variable (IDB)	18-Jul-2023	9.66
Inter-American Development Bank	Government	03-Oct-1998	Variable (IDB)	03-Oct-2023	27.00
Inter-American Development Bank	Government	03-Oct-1998	Variable (IDB)	03-Oct-2023	7.93
Inter-American Development Bank	Government	02-Dec-1998	Variable (IDB)	02-Dec-2023	73.15
Inter-American Development Bank	Government	27-Apr-1999	Variable (IDB)	27-Apr-2019	21.57
Inter-American Development Bank	Government	05-Sep-1999	Variable (IDB)	05-Sep-2024	4.44
Inter-American Development Bank	Government	22-Sep-1999	Variable (IDB)	22-Sep-2019	13.68
Inter-American Development Bank	Government	22-Sep-1999	Variable (IDB)	22-Sep-2019	0.33
Inter-American Development Bank	Government	10-Nov-2000	Variable (IDB)	10-Nov-2025	0.02
Inter-American Development Bank	Government	14-Feb-2001	Variable (IDB)	14-Feb-2026	16.80
Inter-American Development Bank	Government	02-Aug-2001	Variable (IDB)	02-Aug-2021	17.67
Inter-American Development Bank	Government	14-Feb-2001	Variable (IDB)	14-Feb-2026	167.40
Inter-American Development Bank	Government	02-Aug-2001	Variable (IDB)	02-Aug-2021	4.38
Inter-American Development Bank	Government	29-Apr-2002	Variable (IDB)	29-Apr-2027	32.60
Inter-American Development Bank	Government	23-Nov-2002	Variable (IDB)	23-Nov-2027	6.03
Inter-American Development Bank	Government	25-Mar-2003	Variable (IDB)	24-Mar-2028	3.37
Inter-American Development Bank	Government	05-Nov-2003	Variable (IDB)	05-Nov-2023	0.57
Inter-American Development Bank	Government	23-Jan-2004	LIBOR 6m	23-Jan-2009	1.57
Inter-American Development Bank	Government	01-Mar-2004	LIBOR 6m + 4.00	01-Mar-2009	200.00

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Inter-American Development Bank	Government	01-Mar-2004	LIBOR 6m	23-Sep-2024	40.00
Inter-American Development Bank	Central Bank	22-Jun-1987	7.85	06-Jul-2007	14.64
Inter-American Development Bank	Central Bank	01-Dec-1987	7.10	24-Nov-2007	9.85
Inter-American Development Bank	Central Bank	05-Apr-1976	2.00	06-Apr-2016	3.77
Inter-American Development Bank	Central Bank	10-Jan-1980	2.00	06-Jan-2021	3.73
Inter-American Development Bank	Central Bank	21-Nov-1995	Variable (IDB)	21-Nov-2015	73.68
Inter-American Development Bank	Central Bank	01-Jun-1976	n.a.	19-Dec-1978	4.43
Total Inter-American Development Bank					1,382.73
WORLD BANK					
World Bank	Government	16-Sep-1976	4.90	15-Jan-2001	*
World Bank	Government	23-Jan-1984	Variable (World Bank)	15-Mar-2001	*
World Bank	Government	08-Aug-1985	Variable (World Bank)	15-May-2002	*
World Bank	Government	02-Jun-1992	Variable (World Bank)	15-Mar-1998	0.35
World Bank	Government	13-Dec-1991	Variable (World Bank)	15-Mar-1998	0.06
World Bank	Government	17-Jan-1997	1.47	15-Oct-2015	65.60
World Bank	Government	09-Mar-1998	LIBOR 6m	15-Oct-2014	24.05
World Bank	Government	09-Mar-1998	LIBOR 6m	15-Apr-2015	2.30
World Bank	Government	02-Jun-1992	LIBOR 6m	15-Sep-2011	0.67
World Bank	Government	02-Jun-1992	Variable (World Bank)	15-Sep-2011	44.94
World Bank	Government	13-Dec-1991	Variable (World Bank)	15-Sep-2011	8.73
World Bank	Government	14-Nov-1995	LIBOR 6m	15-May-2015	15.67
World Bank	Government	14-Nov-1995	Variable (World Bank)	01-May-2015	0.29
World Bank	Government	31-Oct-1996	LIBOR 6m	15-Oct-2015	28.23
World Bank	Government	31-Oct-1996	Variable (World Bank)	15-Oct-2015	0.48
World Bank	Government	11-Dec-1998	2.15	15-Apr-2014	92.05
World Bank	Government	11-Aug-1999	4.61	15-Sep-2013	7.44
World Bank	Government	20-Apr-2000	LIBOR 6m	15-Apr-2017	4.72
World Bank	Government	31-Oct-2000	LIBOR 6m	15-Oct-2017	2.70
World Bank	Government	29-Jun-2001	4.88	15-Apr-2018	9.17
World Bank	Government	16-Jul-1998	Variable (World Bank) (LIBOR 6m)	01-May-2007	0.46
World Bank	Government	03-Jul-1999	Variable (World Bank)	01-May-2007	0.88
World Bank	Government	06-Dec-2002	5.47	15-Oct-2019	4.09
World Bank	Government	27-Jun-2003	LIBOR 6m + 5.32	15-Apr-2020	1.85
World Bank	Government	13-Feb-2004	LIBOR 6m	15-Oct-2020	100.00
World Bank	Government	09-Mar-2004	LIBOR 6m + 2.00	15-Oct-2020	0.13
World Bank	Government	09-Mar-2004	LIBOR 6m	15-Oct-2020	0.07

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
World Bank	Central Bank	04-Dec-1989	Variable (World Bank)	15-Apr-2009	9.60
Total World Bank					424.55
EUROPEAN DEVELOPMENT BANK					
European Investment Bank	Government	10-Dec-1994	2.00	30-Jun-2011	10.43
European Investment Bank	Government	26-May-2000	1.00	20-Apr-2020	10.21
Total European Investment Bank					20.64
INTERNATIONAL AGRICULTURE DEVELOPMENT FUND					
International Agriculture Development Fund	Government	23-May-1989	4.00	15-Jan-2008	1.24
International Agriculture Development Fund	Government	12-Dec-1995	4.00	15-Jul-2014	3.46
International Agriculture Development Fund	Government	19-Jan-1999	Variable (IADF)	15-Jan-2019	8.02
Total International Agriculture Development Fund					12.72
NORDIC DEVELOPMENT FUND					
Nordic Development Fund	Government	28-Sep-1993	0.75 as commission	15-Jun-2033	7.08
Nordic Development Fund	Government	09-Jul-1998	0.50 as commission	15-Jun-2038	1.40
Total Nordic Development fund					8.48
ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)					
Organization of Petroleum Exporting Countries	Government	09-Dec-1996	Fixed	09-Jun-2006	1.43
Total Organization of Petroleum Exporting Countries					1.43
INTERNATIONAL INVESTMENT CORPORATION					
International Investment Corporation	Central Bank	14-Dec-1999	n.a.	31-Oct-2007	1.25
Total International Investment Corporation					1.25
INTERNATIONAL MONETARY FUND					
International Monetary Fund	Central Bank	22-Oct-1998	Variable (IMF)	02-Nov-2003	190.37
International Monetary Fund	Central Bank	27-Aug-2003	Variable (IMF)	02-Aug-2010	76.15
Total International Monetary Fund					266.52
MULTILATERAL INVESTMENT FUND					
Multilateral Investment Fund	Central Bank	30-Jul-2002	n.a.	n.a.	0.60
Total Multilateral Investment Fund					0.60
TOTAL MULTILATERAL INSTITUTIONS					**2,129.97**

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
FOREIGN GOVERNMENTS					
AB SVENSK EXPORTKREDIT	Government	16-Oct-2000	Fixed	01-Mar-2012	2.60
ABN AMRO Bank, N.V.	Government	02-Jun-1999	5.91	24-Jul-2010	6.00
ABN AMRO Bank, N.V.	CDEEE	29-Nov-2000	7.25	24-Dec-2010	2.95
ABN AMRO Bank, N.V.	Government	20-Feb-2001	5.39	06-Jul-2012	6.20
ABN AMRO Bank, N.V.	CDEEE	21-Jul-2000	6.25	01-Jul-2013	0.50
ABN AMRO Bank, N.V.	Government	22-Dec-2000	LIBOR 6m + 0.50	01-Jul-2015	24.90
ABN AMRO Bank, N.V.	Government	01-Nov-2002	LIBOR 6m + 0.60	01-Dec-2015	39.98
ABN AMRO Bank, N.V.	Government	27-Oct-2000	LIBOR 6m + 0.20	22-Oct-2014	43.90
AKA Ausfunhrkredit -Gesellschaft	Government	10-May-2002	5.14	30-Dec-2007	6.40
AKA Ausfunhrkredit -Gesellschaft	Government	10-May-2002	5.14	30-Dec-2007	0.40
ARTIGIANCASSA	Government	24-May-1989	1.50	25-Sep-2009	17.50
ARTIGIANCASSA	Government	06-Nov-1990	1.50	14-Jan-2011	2.70
ARTIGIANCASSA	Government	23-Apr-1991	1.50	17-May-2011	2.39
Banca Populare Di Varona	INDRHI	17-Sep-1998	6.27	17-Mar-2010	1.20
Banco Bilbao Vizcaya Argentaria	CDEEE	10-Mar-2000	7.58	28-Aug-2009	5.90
Banco Bilbao Vizcaya Argentaria	Government	21-Mar-2000	5.42	15-Nov-2006	1.80
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	03-Jan-2000	6.75	15-May-2006	*
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	01-Jul-2000	6.92	15-Nov-2005	0.50
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	27-Sep-1999	6.44	15-Aug-2007	4.35
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	19-Oct-1999	7.77	15-May-2006	0.95
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	23-Oct-1999	6.84	15-May-2009	3.67
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	27-Oct-1999	6.80	15-Nov-2007	3.64
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	27-Oct-1999	6.62	15-Aug-2005	*
Banco Bilbao Vizcaya Argentaria (a. ARGENTARIA)	Government	04-Jan-2000	6.94	15-Feb-2006	0.38
Banco Bilbao Vizcaya Argentaria (a. Bco. Ext. de España)	Government	05-Mar-1998	6.77	15-May-2006	0.50
Banco Bilbao Vizcaya Argentaria, Milan	Government	27-Sep-2002	4.83	31-Mar-2014	25.15
Banco Bradesco	Government	17-Mar-1999	9.00	23-Dec-2007	1.55
Banco de Comercio Exterior de Colombia, S.A.	Government	14-Jul-2000	LIBOR 6m + 3.00	15-May-2007	17.50
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	07-Sep-1998	5.38	16-Feb-2006	2.27
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	01-Oct-1997	6.06	14-Jun-2014	7.51
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	06-Jun-2002	6.15	21-Jul-2010	6.23
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	27-Dec-2003	4.75	03-Sep-2016	42.04
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	08-Oct-2003	5.63	14-Oct-2009	3.27
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	07-Oct-1999	7.91	18-Dec-2014	129.09
Banco de España	Government	23-Jun-1992	3.00	31-Dec-2011	13.79
Banco Español de Crédito, S. A.	Government	05-Jan-2000	7.58	28-Jul-2008	6.85
Banco Español de Crédito, S. A.	Government	10-Feb-2000	6.75	19-Apr-2007	0.59

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Banco Español de Crédito, S. A.	Government	28-Nov-2001	4.62	31-Jan-2008	3.57
Banco Nacional de Comercio Exterior de Mexico	Government	23-Nov-2000	8.50	04-Oct-2014	5.10
Banco Nacional de Desenvolvimento Econômico y Social	Government	27-Aug-1985	9.50	30-Dec-2002	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	07-Feb-1986	6.00	30-Jun-2003	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	16-Jan-1992	6.00	30-Dec-2002	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	31-Jan-1994	6.00	30-Dec-1999	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	14-Nov-1996	Variable (IDB)	30-Dec-2001	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	24-Apr-1995	9.25	30-Dec-2000	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	24-Apr-1995	9.25	30-Dec-2000	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	24-Apr-1995	2.00	30-Dec-1998	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	24-Apr-1995	2.00	30-Jun-2000	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	24-Apr-1995	2.00	30-Jun-2000	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	24-Apr-1995	2.00	30-Jun-2000	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	25-Mar-1999	Variable (IDB)	30-Dec-2010	10.24
Banco Nacional de Desenvolvimento Econômico y Social	Government	07-Jan-2000	Variable (IDB)	30-Jun-2007	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	27-Apr-2000	Variable (IDB)	30-Dec-2006	*
Banco Nacional de Desenvolvimento Econômico y Social	Government	15-Aug-2000	Variable (IDB)	30-Dec-2013	28.10
Banco Nacional de Desenvolvimento Econômico y Social	Government	20-May-2004	Variable (IDB)	30-Dec-2008	0.40
Banco Santander Central Hispano (previously BCH)	CDEEE	03-Jul-1996	7.07	19-Feb-2008	2.06
Banco Santander Central Hispano (previously Bco. Santander)	CDEEE	03-Jul-1996	7.30	01-Mar-2006	0.64
Banco Santander Central Hispano (previously Bco. Santander)	CDEEE	14-Mar-1997	7.07	19-Jun-2007	1.58
Banco Santander Central Hispano (previously Bco. Santander)	CDEEE	08-May-1997	7.11	12-Oct-2006	1.69
Banco Santander Central Hispano (previously Bco. Santander)	CDEEE	26-Mar-1999	5.91	31-Jul-2008	3.88
Banco Santander Central Hispano, Madrid	Government	22-May-2000	7.03	15-Aug-2008	4.58
Banco Santander Central Hispano, Milan	Government	13-Jun-2000	7.26	03-Oct-2011	23.11
Bank of America	Government	31-Jul-2001	LIBOR 6m + 0.30	25-Apr-2013	4.72
Bank of America	Government	31-Jul-2001	LIBOR 6m + 0.30	25-Apr-2013	1.25
Bank of France	Government	26-Jun-1992	2.90	16-Sep-2012	2.60
Bank of France	Government	26-Jun-1992	2.90	16-Sep-2012	0.18
Bank of France	Government	26-Jun-1992	9.00	16-Sep-2007	1.15
Banque National DE Belgique	Government	08-Jan-2002	LIBOR 6m + 1.05	16-Oct-2012	12.60
Bayerische Hypo-und Vereinsbank AG	CDEEE	15-Feb-2001	LIBOR 6m + 0.75	30-Jun-2009	5.10
Bayerische Hypo-und Vereinsbank AG	CDEEE	15-Feb-2001	LIBOR 6m + 0.75	30-Jun-2009	0.47
BNP Paribas	Government	12-Feb-2002	LIBOR 6m + 1.30	25-Oct-2013	5.13
BNP Paribas	Government	12-Feb-2002	LIBOR 6m + 1.30	25-Oct-2013	4.68
Central Bank of Brazil	Central Bank	15-Aug-1974	LIBOR 3m + 1.00	n.a.	0.19
Central Bank of Chile	Central Bank	02-May-1968	n.a.	n.a.	0.05
Central Bank of Colombia	Central Bank	02-May-1968	LIBOR 3m + 1.00	n.a.	0.12

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Central Bank of Peru	Central Bank	31-Mar-1993	3.00	16-Dec-2012	4.71
Citibank, N.A.	Government	25-May-2001	6.84	28-Nov-2013	19.09
Citibank, N.A., Madrid	Government	26-Mar-1999	5.60	22-Nov-2007	5.83
Commodity Credit Corporation	Government	13-Jan-1984	4.00	03-Dec-2003	3.92
Commodity Credit Corporation	Government	18-Aug-1986	4.00	02-Feb-2006	3.99
Commodity Credit Corporation	CHASE M.BANK	24-Aug-1989	4.00	29-Oct-2008	6.66
Commodity Credit Corporation	Government	30-Oct-1992	7.25	30-Jun-2007	97.90
Commodity Credit Corporation	Government	30-Oct-1992	7.25	31-Mar-2001	0.01
Commodity Credit Corporation	Government	30-Oct-1992	3.50	30-Jun-2012	62.32
Compañia Española de Seguros y Crédito a la Exportación	Government	24-Jun-1992	LIBOR 6m + 0.50	30-Jun-2007	101.90
Compañia Española de Seguros y Crédito a la Exportación	Government	24-Jun-1992	10.00	30-Jun-2007	2.80
Department of Defense	Government	30-Oct-1992	7.53	02-Jul-2007	3.70
Deutsche Bank, S.N.	Government	22-Oct-2003	LIBOR 6m + 0.65	17-Jan-2010	14.34
Deutsche Bank, S.N.	Government	13-Mar-2000	7.65	16-Aug-2007	4.30
Deutsche Bank, S.N.	Government	19-Dec-1999	7.65	16-May-2006	0.63
Deutsche Bank, S.N.	Government	02-Feb-2000	7.43	15-Nov-2006	0.64
Deutsche Bank, S.N.	Government	28-Feb-2001	5.49	14-Oct-2013	27.70
Deutsche Bank, S.N.	Government	28-Feb-2001	4.97	05-Mar-2010	7.33
Deutsche Bank, S.N.	Government	28-Feb-2001	5.14	16-May-2008	3.53
European Investment BankRC	Government	21-Dec-1998	4.50	21-Dec-2013	7.08
Export Development Corporation	Government	01-Nov-2002	LIBOR 6m + 1.00	23-Dec-2015	0.48
Export Development Corporation	Government	01-Nov-2002	LIBOR 6m + 3.50	15-May-2015	1.62
Export Development Corporation	Government	01-Nov-2002	LIBOR 6m + 1.00	15-May-2015	58.62
Export-Import Bank of Korea	Government	20-Jun-2002	LIBOR 6m + 2.95	02-Dec-2007	2.85
Export-Import Bank of Korea	Government	27-Dec-2001	4.45	28-Oct-2007	10.22
Export-Import Bank of Korea	Government	20-Jun-2002	4.56	02-Jun-2008	15.73
Export-Import Bank of the United States	Government	30-Oct-1992	NY EXIMBANK rates	02-Jul-2007	62.23
Fortis Bank, N.V.	Government	13-Jul-2001	LIBOR 6m + 1.00	25-Feb-2013	2.69
Fortis Bank, N.V.	Government	13-Jul-2001	LIBOR 6m + 1.00	27-Feb-2013	16.39
Fortis Bank, N.V.	Government	13-Dec-2001	LIBOR 6m + 1.00	28-May-2014	41.01
French Development Agency	Government	23-Jun-1997	3.00	30-Apr-2017	1.90
French Development Agency	Government	13-Apr-2000	2.25	30-Apr-2025	3.15
French Development Agency	Government	13-Apr-2000	2.50	31-Oct-2019	0.46
French Development Agency	Government	27-Aug-2001	2.50	31-Oct-2018	4.42
French Foreign Trade Insurance Company	Government	26-Jun-1992	9.00	30-Jun-2007	6.38
French Foreign Trade Insurance Company	Government	26-Jun-1992	4.80	15-Sep-2007	0.37
Gob. Belgica	Government	15-Apr-1991	n.a.	31-Dec-2020	1.03
Gob. Belgica	Government	05-Jan-2002	0.20 as commission	10-May-2019	2.59

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Hermes Kreditversicherungs-AG	Government	02-Dec-1992	8.20	30-Jun-2007	0.83
Hermes Kreditversicherungs-AG	Government	02-Dec-1992	8.20	30-Jun-2007	11.01
HSBC Bank, PLC	Government	06-Feb-2003	LIBOR 6m + 0.50	15-May-2015	57.40
HSBC Bank, PLC	Government	18-Mar-2003	LIBOR 6m + 0.50	15-May-2015	63.95
IDA Guarantees - Federal Home Loan Bank	BNV	15-Apr-1973	8.00	01-Jul-1996	1.28
ING Bank, N.V.	Government	27-Dec-2001	4.45	28-Oct-2017	7.15
International Development Agency	Government	25-May-1966	2.50	10-Jun-2006	0.84
International Development Agency	Government	30-Jun-1966	2.50	12-Aug-2006	1.53
International Development Agency	Government	30-Jun-1966	2.50	12-Feb-2007	2.98
International Development Agency	Government	01-Apr-1968	2.50	03-Jun-2008	3.28
International Development Agency	Government	30-Sep-1982	3.00	30-Aug-2009	32.30
International Development Agency	Government	30-Nov-1964	2.50	23-Sep-2006	0.13
International Development Agency	Government	16-Feb-1965	2.50	19-Sep-2006	0.10
International Development Agency	Government	29-Mar-1966	2.50	17-Aug-2006	0.51
International Development Agency	Government	05-Oct-1966	2.50	28-Jul-2007	1.13
International Development Agency	Government	26-Apr-1967	2.50	07-Jul-2007	1.41
International Development Agency	Government	10-Jan-1968	2.50	08-Nov-2008	0.77
International Development Agency	Government	10-Jan-1968	2.50	14-May-2008	0.29
International Development Agency	Government	28-May-1968	2.50	02-Jan-2009	0.84
International Development Agency	Government	28-Mar-1969	2.50	25-Jun-2010	0.77
International Development Agency	Government	15-Apr-1969	2.50	27-Jan-2010	2.06
International Development Agency	Government	12-Feb-1971	3.00	11-May-2011	0.61
International Development Agency	Government	07-Nov-1972	3.00	01-May-2013	1.90
International Development Agency	Government	14-Jun-1967	2.50	06-Nov-2007	0.68
International Development Agency	Government	16-Oct-1974	3.00	05-Feb-2015	6.07
International Development Agency	Government	30-Sep-1976	3.00	11-Mar-2017	8.72
International Development Agency	Government	14-Dec-1978	3.00	15-May-2004	0.24
International Development Agency	Government	28-Sep-1979	3.00	13-Aug-2005	1.52
International Development Agency	Government	03-Jan-1980	3.00	19-May-2005	1.46
International Development Agency	Government	31-Aug-1981	3.00	09-Nov-2007	2.28
International Development Agency	Government	22-Apr-1982	3.00	13-Dec-2008	1.89
International Development Agency	Government	30-Jun-1983	3.00	17-Oct-2009	4.62
International Development Agency	Government	30-Jun-1983	3.00	12-Dec-2009	1.57
International Development Agency	Government	30-Jun-1983	3.00	26-Jul-2009	5.79
International Development Agency	Government	15-Sep-1987	5.00	07-Dec-2014	4.57
International Development Agency	Government	01-Oct-1975	3.00	15-Apr-2016	2.61
International Development Agency	Government	23-Nov-1978	3.00	20-May-2005	0.93
International Development Agency	Government	28-Dec-1978	3.00	12-Dec-2004	0.61

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
International Development Agency	Government	26-Sep-1981	3.00	05-Nov-2007	1.34
International Development Agency	Government	30-Jun-1983	3.00	25-Aug-2013	1.01
International Development Agency	Government	22-Apr-1982	3.00	06-Feb-2009	0.85
International Development Agency	Government	03-Mar-1986	5.00	20-Jan-2014	1.23
International Development Agency	Government	22-Nov-1991	2.83	30-Jun-2012	36.10
International Development Agency	Government	22-Nov-1991	7.90	30-Jun-2007	3.09
International Development Agency	Central Bank	04-Dec-1965	2.50	23-Nov-2006	0.50
International Development Agency	Central Bank	25-Nov-1969	3.00	29-Dec-2010	2.60
International Development Agency	Central Bank	30-Sep-1982	3.00	04-Aug-2008	0.72
International Development Agency	Central Bank	29-Mar-1983	3.00	01-May-2011	0.85
International Development Agency	Central Bank	23-Aug-1985	3.00	25-Aug-2011	2.01
International Development Agency	Central Bank	23-Aug-1985	3.00	25-Aug-2011	2.86
International Development Agency	Central Bank	23-Aug-1985	3.00	14-Nov-2011	2.35
International Development Agency	Central Bank	30-Sep-1982	3.00	03-Jun-2013	1.05
International Development Agency	Central Bank	23-Aug-1985	3.00	01-Jan-2012	0.25
International Development Agency	Central Bank	23-Aug-1985	3.00	27-Oct-2011	0.53
Japanese International Cooperation Bank	Government	13-Jun-1980	4.25	20-Jun-2005	3.40
Japanese International Cooperation Bank	Government	11-May-1983	4.25	20-May-2008	22.18
Japanese International Cooperation Bank	Government	31-Mar-1994	3.00	20-Mar-2024	69.87
Japanese International Cooperation Bank	Government	12-Sep-1995	4.30	30-Jun-2012	45.21
Kookmin Bank	Government	23-Jan-2003	3.23	15-May-2008	8.91
Kredit Für Wiederaufbau	CDEEE	14-Jun-1996	VARIABLE (KFW) + 8.75	26-May-2007	0.74
Kredit Für Wiederaufbau	CDEEE	14-Jun-1996	VARIABLE (KFW)	16-May-2007	1.42
Kredit Für Wiederaufbau	CDEEE	14-Jun-1996	VARIABLE (KFW)	16-May-2007	1.65
Kredit Für Wiederaufbau	Government	07-Dec-1979	2.00	31-Dec-2009	3.11
Kredit Für Wiederaufbau	Government	07-Dec-1979	2.00	31-Dec-2009	1.04
Kredit Für Wiederaufbau	Government	30-Jun-1986	4.50	30-Jun-2006	0.89
Kredit Für Wiederaufbau	Government	21-Nov-1996	2.00	30-Dec-2026	8.87
Kredit Für Wiederaufbau	Government	28-Dec-1996	2.00	30-Dec-2026	9.11
Kredit Für Wiederaufbau	Government	02-Dec-1992	3.75	30-Jun-2012	1.10
Kredit Für Wiederaufbau	Government	02-Dec-1992	3.50	30-Jun-2012	12.43
Kredit Für Wiederaufbau	CDEEE	24-Mar-1999	VARIABLE (KFW) + 0.88	30-Sep-2009	6.13
Kredit Für Wiederaufbau	CDEEE	24-Mar-1999	VARIABLE (KFW) + 0.88	30-Jun-2009	1.12
Kredit Für Wiederaufbau	Government	25-Aug-2000	4.50	30-Dec-2020	2.27
Kredit Für Wiederaufbau	Government	25-Sep-2002	4.50	30-Dec-2032	3.12

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Kredit Für Wiederaufbau	Central Bank	06-Dec-1982	2.00	31-Dec-2005	0.48
Kredit Für Wiederaufbau	Banco de Reservas	30-Jul-2002	LIBOR 6m + 2.40	30-Jun-2007	13.34
M&T Bank	Government	01-Aug-2002	LIBOR 6m + 0.85	25-Mar-2012	50.26
Ministry of Economy, Commerce and Industry, Government of Japan	Government	10-Feb-1993	8.00	31-Dec-2006	34.11
Natexis Banque Populaires (previously Credit National)	Government	09-May-1984	2.00	30-Jun-2016	2.93
Natexis Banque Populaires (previously Credit National)	Government	13-May-1996	3.60	31-Dec-2018	4.47
Official Credit Institute	Government	01-Mar-1999	n.a.	01-Mar-2030	22.85
Official Credit Institute	Government	23-Jun-1992	3.00	30-Jun-2012	9.52
Official Credit Institute	Government	21-Oct-2003	2.00	06-Nov-2019	11.72
Official Credit Institute	Government	10-Jul-1995	1.50	08-Aug-2025	5.55
Official Credit Institute	Government	22-Feb-1996	1.50	11-Mar-2026	6.25
Official Credit Institute	Government	02-Feb-1998	1.00	04-Feb-2028	5.07
Official Credit Institute	Government	02-Feb-1998	1.00	04-Aug-2028	5.50
Official Credit Institute	Government	17-Aug-1998	1.00	28-Feb-2029	3.21
Official Credit Institute	Government	10-Dec-1998	1.00	14-Dec-2028	3.89
Official Credit Institute	Government	10-Dec-1998	4.75	14-Dec-2028	2.80
Official Credit Institute	Government	10-Dec-1998	1.00	14-Dec-2028	2.37
Official Credit Institute	Government	01-Mar-1999	1.00	20-May-2029	10.79
Official Credit Institute	Government	27-May-1999	1.50	09-Jul-2009	7.94
Official Credit Institute	Government	29-Mar-1999	3.00	24-May-2014	1.14
Official Credit Institute	Government	05-Jun-2000	3.70	24-Aug-2030	2.10
Official Credit Institute	Government	11-Jun-2001	1.00	15-Jan-2032	3.68
Official Credit Institute	Government	02-Jan-2002	2.60	10-Jan-2018	11.21
Paribas y Natexis	CDEEE	21-Mar-1984	10.70	31-Jan-2005	2.65
Petróleos de Venezuela	Government	06-Nov-2004	2.00	20-Oct-2020	70.94
Private Export Funding Corporation	Government	18-Sep-2001	LIBOR 6m + 1.10	20-Oct-2010	17.64
Private Export Funding Corporation	Government	23-Apr-2001	8.75	15-Jun-2007	8.36
Private Export Funding Corporation	Government	20-Mar-2002	LIBOR 6m + 1.75	15-Feb-2011	10.80
Private Export Funding Corporation	Government	15-Apr-2002	LIBOR 6m + 1.60	20-Jul-2013	20.16
Regions Bank	Government	25-Feb-2002	LIBOR 6m + 0.75	15-Dec-2010	16.96
Sanpaolo Bank Ireland Plc.	Government	13-Aug-1999	4.60	31-Mar-2008	4.34
Société Generale	CDEEE	30-Nov-2000	7.18	19-Jul-2012	4.78
Société Generale	Government	10-Dec-2003	LIBOR 6m + 1.00	07-Dec-2015	9.78
Special Industry of Industrial Financing	Government	26-Oct-1999	8.56	10-May-2008	4.58
Special Industry of Industrial Financing	Government	26-Oct-1999	8.56	29-Nov-2007	0.67
Special Industry of Industrial Financing	Government	11-Apr-2002	6.34	06-Nov-2009	5.44
Special Industry of Industrial Financing	Government	11-Apr-2002	6.59	03-Dec-2009	4.35
Special Industry of Industrial Financing	Government	11-Apr-2002	6.34	06-Nov-2009	7.29

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Special Industry of Industrial Financing	Government	16-May-2002	6.59	03-Dec-2009	5.00
Special Industry of Industrial Financing	Government	28-Feb-2002	6.59	03-Dec-2009	4.49
Sun Trust Bank	Government	24-Nov-2000	LIBOR 6m + 0.75	25-Jul-2009	5.17
Sun Trust Bank	Government	06-Feb-2003	LIBOR 6m	15-Aug-2015	54.37
Sun Trust Bank	Government	30-Mar-2001	LIBOR 6m + 1.00	05-Mar-2010	4.03
The International Bank of Miami	Government	01-Aug-2002	LIBOR 6m + 1.75	15-Jun-2015	41.76
The International Commercial Bank of China	Government	29-Sep-1999	3.50	15-May-2011	1.29
The International Commercial Bank of China	Government	15-Jun-2001	3.50	15-May-2026	3.46
UBS AG	INDRHI	13-Oct-1997	LIBOR 6m + 1.13	07-Sep-2009	2.78
TOTAL FOREIGN GOVERNMENTS					**2,203.76**
COMMERCIAL BANKS					
ABN AMRO Bank, N.V.	Government	27-Oct-2000	LIBOR 6m+ 3.75	27-Oct-2005	4.29
ABN AMRO Bank, N.V.	Government	22-Dec-2000	LIBOR 6m + 3.75	22-Dec-2006	3.19
ABN AMRO Bank, N.V.	Government	28-Dec-2001	LIBOR 6m + 3.75	28-Dec-2006	27.23
ABN AMRO Bank, N.V.	Government	01-Nov-2002	LIBOR 6m + 3.75	01-Nov-2005	5.06
ABN AMRO Bank, N.V.	Government	19-Dec-2003	LIBOR 6m + 3.75	19-Dec-2006	22.70
ABN AMRO Bank, N.V.	Government	10-Aug-2005	LIBOR 6m + 3.75	01-Jul-2008	7.57
AKA Ausfunhrkredit -Gesellschaft	Government	10-May-2002	LIBOR 6m + 3.75	25-Oct-2004	*
American Express Bank (previously TIBOM, previously Carimex, INC)	Government	01-Aug-2002	LIBOR 6m + 1.75	01-Oct-2004	0.19
American Express Bank (previously TIBOM, previously Carimex, INC)	Government	21-Jul-2003	LIBOR 6m + 1.75	31-Jul-2005	2.53
ARGO F.L.	Government	02-Mar-2005	1.00	28-Nov-2008	13.19
ARGO F.L.	Government	07-Dec-2001	5.23	02-Dec-2007	3.95
ARGO F.L.	Government	01-Aug-2002	LIBOR 6m + 1.85	25-Mar-2012	7.44
ARGO F.L.	Government	30-Nov-2004	4.10	13-Jun-2009	4.01
ARGO F.L.	Government	30-Nov-2004	LIBOR 6m + 3.50	13-Jun-2006	0.73
Banca March, S.A.	Government	16-Dec-1981	11.00	22-Feb-1988	0.45
Banco Bilbao Vizcaya Argentaria	Government	04-Jul-2000	7.28	15-Aug-2006	0.76
Banco Bilbao Vizcaya Argentaria	Government	25-Oct-2000	7.17	15-Aug-2006	5.94
Banco Bilbao Vizcaya Argentaria	Government	08-Oct-2000	7.28	15-Aug-2006	5.69
Banco Bilbao Vizcaya Argentaria	Government	07-Nov-2000	6.85	15-Aug-2007	8.54
Banco Bilbao Vizcaya Argentaria	Government	26-Jan-2001	6.26	15-Feb-2007	3.07
Banco Bilbao Vizcaya Argentaria	Government	27-Apr-2001	5.71	15-Feb-2007	5.20
Banco Bilbao Vizcaya Argentaria	Government	27-Apr-2001	5.43	15-May-2007	13.84
Banco Bilbao Vizcaya Argentaria	Government	27-Apr-2001	5.43	15-May-2007	5.24
Banco Bilbao Vizcaya Argentaria	Government	06-May-2002	5.14	15-May-2008	5.00
Banco Bilbao Vizcaya Argentaria	Government	06-Aug-2002	4.22	14-Nov-2008	10.84
Banco Bilbao Vizcaya Argentaria	Government	28-Nov-2001	3.23	31-Jan-2009	6.88

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Banco Bilbao Vizcaya Argentaria	Government	28-Nov-2001	LIBOR 6m + 3.50	31-Jan-2006	1.00
Banco Bilbao Vizcaya Argentaria	Government	27-Sep-2002	EURIBOR 6m + 0.65	12-Jul-2006	4.88
Banco Bilbao Vizcaya Argentaria	Government	27-Sep-2002	EURIBOR 6m + 0.65	11-Nov-2007	1.63
Banco Santander Central Hispano (previously RIOGERSA, S.A.)	Government	23-Jul-2004	Fixed	15-Jul-2005	10.24
Bank Leumi Le-Israel	Government	12-Feb-2002	LIBOR 6m + 1.25	25-Jun-2006	6.03
Bank of New York	Government	14-Sep-2001	9.50	27-Sep-2011	503.05
Bank of New York	Government	16-Jan-2003	9.04	23-Jan-2018	612.97
Citibank, N.A.	ROSARIO DOM.	24-Feb-1994	LIBOR 6m + 0.81	30-Aug-2009	2.86
Citibank, N.A.	ROSARIO DOM.	24-Feb-1994	LIBOR 3m + 0.81	30-May-2024	12.08
Citibank, N.A.	Central Bank	14-Feb-2004	LIBOR 6m + 0.81	30-Aug-2009	74.50
Citibank, N.A.	Central Bank	14-Feb-1994	LIBOR 6m + 0.81	30-Aug-2009	1.52
Citibank, N.A.	Banco de Reservas	14-Feb-1994	LIBOR 6m + 0.81	30-Aug-2009	0.19
Citibank, N.A.	Central Bank	14-Feb-1994	LIBOR 6m + 0.81	30-Aug-2024	309.26
Citibank, N.A.	Central Bank	14-Feb-1994	LIBOR 6m + 0.81	30-Aug-2024	6.40
Citibank, N.A.	Banco de Reservas	14-Feb-1994	LIBOR 6m	30-Aug-2024	0.82
Deutsche Bank, S.N.	Government	09-Feb-2001	5.35	28-Aug-2006	23.02
Deutsche Bank, S.N.	Government	28-Feb-2001	LIBOR 6m + 3.50	18-Feb-2006	0.04
Deutsche Bank, S.N.	Government	30-Nov-2004	4.45	20-Dec-2006	3.00
Deutsche Bank, S.N.	Government	30-Nov-2004	4.45	20-Dec-2006	5.89
Deutsche Bank, S.N.	Government	16-Dec-1982	3.32	20-Mar-2008	19.79
Fortis Bank, N.V.	Government	04-Aug-2000	LIBOR 6m + 1.00	25-Aug-2006	8.37
HSBC Bank, PLC	Government	25-Oct-2001	LIBOR 6m + 3.50	06-Feb-2008	11.90
HSBC Bank, PLC	Government	06-Nov-2000	LIBOR 6m + 3.50	18-Mar-2008	20.09
ING Bank, N.V.	Government	05-Dec-2000	LIBOR 6m + 2.95	28-Oct-2007	3.07
J.P. Morgan Chase Bank	Government	27-Sep-2001	9.50	27-Sep-2006	19.77
J.P. Morgan Chase Bank	Government	16-Jan-2003	9.04	23-Jan-2013	13.53
Sanpaolo Bank Ireland Plc.	Government	27-Apr-2001	LIBOR 6m + 1.00	31-Mar-2008	0.45
Société Generale	CDEEE	20-Feb-2001	LIBOR 6m + 2.00	20-Jun-2005	*
Société Generale	Government	06-Nov-2002	LIBOR 6m + 3.75	07-Jun-2009	9.17
Société Generale	Government	10-Dec-2003	LIBOR 6m + 0.75	22-Jun-2011	5.34
The Bank of Nova Scotia	Government	15-May-2003	2.00	20-Nov-2006	0.30
The Bank of Nova Scotia	Government	06-Feb-2003	2.38	12-Nov-2007	7.21
TOTAL COMMERCIAL BANKS					**1,871.86**
SUPPLIERS					
Alfa Laval[(2)]	CFI	01-Dec-1965	n.a.	n.a.	0.08
Asea Browns Boveri[(2)]	CDEEE	03-Nov-1980	n.a.	31-Dec-1989	1.04
Atmospherics Incorporated[(2)]	CDEEE	27-Jan-1984	n.a.	30-Dec-1986	0.06

Lender	Borrower	Issue Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of September 30, 2005
Burns & Roe Enterprise(2)	CDEEE	14-Feb-1984	n.a.	31-Dec-1989	0.56
Geolidro, S.p.A.(2)	CDEEE	29-Mar-1984	14.50	31-Dec-1988	*
Caterpillar Financial Services Corporation(2)	Government	18-Sep-2001	LIBOR 6m + 3.50	20-Sep-2006	1.23
EMB Group, INC	Government	15-Apr-2002	LIBOR 6m + 1.45	20-Jul-2006	1.26
Fiat Marelli, SPA(2)	CDEEE	30-Jul-1980	7.75	07-Nov-1985	0.31
Fiat TTG(2)	CDEEE	18-Aug-1983	10.00	30-Apr-1987	8.82
Harza Engineering Co. Intl.	CDEEE	23-Sep-1985	n.a.	31-Dec-1989	0.98
R. O. & G. International	Government	04-Oct-2000	LIBOR 6m + 2.00	15-May-2006	*
Systems Control Inc(2)	CDEEE	27-Nov-1980	Prime + 8.55	31-Dec-2009	0.30
Unión Fenosa - DIDOEL	Government	10-Sep-2003	12.00	30-Sep-2015	331.16
TOTAL SUPPLIERS					**339.87**
TOTAL					**6,545.45**

(1) Currencies other than U.S. dollars are calculated at a rate published by the IMF on September 30, 2005.
(2) Debts that are in litigation or negotiation by CDEEE.
* Represents less than US$0.01 million.

BNV	=	*Banco Nacional de la Vivienda* (National Housing Bank)
CDEEE	=	*Corporación Dominicana de Electricidad* (Dominican Electricity Corporation)
CFI	=	*Corporación de Fomento Industrial* (Industrial Development Corporation)
EURIBOR	=	Euro Inter-Bank Offered Rate
FUNDAPEC	=	APEC Educational Credit Foundation
INDRHI	=	*Instituto Nacional de Recursos Hidráulicos* (National Hydraulics Resource Institute)
INTEC	=	*Instituto Tecnológico de Santo Domingo* (Santo Domingo Technological Institute)
LIBOR	=	London Inter-Bank Offered Rate
n.a.	=	Not Available
PUCMM	=	*Pontificia Universidad Católica Madre y Maestra*
ROSARIO DOM.	=	*Rosario Dominicana*

Source: Ministry of Finance.

ISSUER

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