



US\$750,000,000

The Dominican Republic

7.500% Amortizing Bonds due 2021

The bonds will bear interest at the rate of 7.500% per year. Interest on the bonds will accrue from May 6, 2010 and is payable on May 6 and November 6 of each year, beginning on November 6, 2010. The bonds will mature on May 6, 2021. Payments of principal on the bonds will be made in three equal installments on May 6, 2019, May 6, 2020 and May 6, 2021. The bonds are not redeemable prior to maturity.

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 obligations of the Republic. The bonds will be backed by the full faith and credit of the Republic.

There is currently no market for our bonds. The Republic has applied to list the bonds on the Official List of the Luxembourg Stock Exchange and for trading on the Euro MTF market of the Luxembourg Stock Exchange.

Investing in the bonds involves risks. See “Risk factors” beginning on page 7.

The bonds have not been and will not be 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 that are qualified institutional buyers are hereby notified that the sellers of the bonds may be relying on an exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A under the Securities Act. Outside the United States, the offering is being made in reliance on Regulation S under the Securities Act.

Price for bonds: 100.00% plus accrued interest, if any, from May 6, 2010.

The initial purchasers expect to deliver the bonds to purchasers on or about May 6, 2010 only in book-entry form through the facilities of The Depository Trust Company, Euroclear and Clearstream, Luxembourg.

Barclays Capital**Citi**

April 29, 2010

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 is confidential. This offering memorandum has been prepared by the Republic solely for use in connection with the proposed offering of the securities described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire securities. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the Republic's bonds. Distribution of this offering memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without the Republic's prior written consent, is prohibited. 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 in this offering memorandum.

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

- o 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;
- o changes may occur in the Republic's affairs after the date of this offering memorandum;
- o 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;
- o the Republic holds the opinion and intentions expressed in this offering memorandum;
- o the Republic has not omitted other facts the omission of which makes this offering memorandum, as a whole, misleading; and
- o 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.

In making an investment decision, prospective investors must rely on their own examination of the Republic and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

The Republic has furnished the information in this offering memorandum. You acknowledge and agree that the initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of such information, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers. 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.

The distribution of this offering memorandum and the offering and sale of the bonds in certain jurisdictions may be restricted by law. The Republic and the initial purchasers require persons into whose possession this offering memorandum comes to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer of, or an invitation to purchase, any of the bonds in any jurisdiction in which such offer or sale would be unlawful.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

Neither the U.S. Securities and Exchange Commission ("SEC") nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

The bonds are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled “Plan of Distribution” and “Transfer Restrictions.”

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES (“RSA”) 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 IMPLIES THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT ANY EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A 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.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM

The bonds may not be offered or sold to any person in the United Kingdom, other than to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom.

ENFORCEABILITY 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, including the limitation mandated by the Constitution of the Dominican Republic which submits to Dominican Law and Dominican Courts all agreements executed between the Dominican Government (and any Public Entity) with foreign entities or individuals domiciled in the Dominican Republic, 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” or the “Central 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 values referenced to their nominal level in 1991, 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 or 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 the close of business on December 31, 2009, the DOP/U.S. dollar exchange rate for the sale of dollars, as reported by the Central Bank, was DOP36.06 per US\$1.00 and DOP 36.34 for US\$1.00 on March 31, 2010. 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. 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. 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 material changes will not be made.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements. Forward-looking statements are statements that are not historical facts, and include 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:
 - o changes in the international prices of commodities and/or international interest rates, which could increase the Republic's current account deficit and budgetary expenditures;
 - o 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;
 - o 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;
 - o international financial uncertainty that reduces the Republic's ability to obtain loans to finance planned infrastructure projects; and
 - o 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, geological 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)

	As of, and for the year ended, December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Domestic economy					
GDP (at current prices).....	33,775	35,897	41,228	45,718	46,712
GDP (in millions of DOP, at current prices).....	1,020,002	1,189,802	1,364,210	1,576,163	1,678,763
Real GDP (in millions of DOP, in constant 1991 pesos).....	262,051	290,015	314,593	331,127	342,564
Real GDP growth rate ⁽²⁾	9.3%	10.7%	8.5%	5.3%	3.5%
Consumer price index (annual rate of change).....	7.4%	5.0%	8.9%	4.5%	5.8%
Unemployment rate ⁽³⁾	17.9%	16.2%	15.6%	14.1%	14.9%
Open unemployment rate ⁽⁴⁾	5.6%	4.9%	4.5%	4.2%	4.8%
Exchange rate (weighted end of period, in DOP).....	33.15	33.08	33.52	35.24	36.10
Balance of payments⁽⁵⁾					
Total current account ⁽⁵⁾	(473.0)	(1,287.6)	(2,167.2)	(4,528.8)	(2,326.8)
<i>Of which:</i>					
Trade balance.....	(3,724.7)	(5,563.7)	(6,436.8)	(9,245.4)	(6,820.4)
Income from tourism.....	3,518.3	3,916.8	4,064.2	4,165.9	4,064.9
Workers' remittances.....	2,429.8	2,737.8	3,045.7	3,221.5	3,041.5
Total capital and financial account ⁽⁵⁾	1,635.9	1,541.4	2,224.8	4,454.6	2,680.9
<i>Of which:</i>					
Foreign direct investment.....	1,122.7	1,084.6	1,562.9	2,970.8	2,158.1
Errors and omissions ⁽⁶⁾	(458.0)	(59.6)	569.0	(251.6)	55.4
Overall balance of payments, excluding impact of gold valuation adjustment ⁽⁷⁾	704.9	194.2	626.5	(325.8)	409.5
Change in Central Bank gross international reserves (period end).....	1,104.5	321.6	695.3	(284.1)	645.0
Central Bank net international reserves (period end).....	1,519.8	1,787.8	2,394.9	2,165.4	2,851.9
Public sector balance					
Central government revenue ⁽⁸⁾	5,255.6	5,823.6	7,256.1	7,235.8	6,399.7
As a % of GDP.....	15.6%	16.2%	17.6%	15.8%	13.7%
Central government expenditure ⁽⁹⁾	5,542.0	6,258.6	7,173.7	8,689.3	8,017.7
As a % of GDP.....	16.4%	17.4%	17.4%	19.0%	17.2%
Central government balance.....	(286.4)	(435.3)	41.2	(1,455.5)	(1,618.0)
As a % of GDP.....	(0.8)%	(1.2)%	0.1%	(3.2)%	(3.5)%
Overall non-financial public sector balance ⁽¹⁰⁾	(176.0)	(325.2)	41.2	(1,503.9)	(1,443.7)
As a % of GDP.....	(0.5)%	(0.9)%	0.1%	(3.3)%	(3.1)%
Public sector debt⁽¹¹⁾					
Public sector external debt ⁽¹²⁾	6,775.5	7,237.5	7,544.9	8,130.9	9,033.8
As a % of GDP ⁽¹²⁾	20.1%	20.2%	18.3%	17.8%	19.3%
Public sector domestic debt ⁽¹³⁾	4,806.2	5,735.8	6,105.7	7,162.7	8,061.7
As a % of GDP.....	14.2%	16.0%	14.8%	15.7%	17.3%
Total public sector debt.....	11,581.7	12,973.3	13,650.6	15,293.6	17,095.4
As a % of GDP.....	34.3%	36.1%	33.1%	33.5%	36.6%
Public sector external debt service:					
Amortizations.....	538.0	1,016.8	981.2	1,039.3	1,373.0
Interest payments.....	290.4	395.3	427.6	371.8	326.4
Total external debt service.....	828.4	1,412.1	1,408.7	1,411.0	1,699.4
As a % of exports of goods and services.....	13.5%	21.4%	19.7%	20.9%	31.1%

(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 2005-2008 and preliminary data for 2009.

(footnotes continued on next page)

- (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.
- (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) Consolidated public sector debt. Excludes debt owed by *Banco de Reservas* to foreign creditors.
- (12) External debt is defined as all public sector debt issued in foreign countries and under the jurisdiction of a foreign court, independent of the holder's nationality.
- (13) Net of Central Government liabilities held by the Central Bank.

Sources: Central Bank, Ministry of Finance and IMF

Recent Developments

2009 Macroeconomic Outlook

During 2009 the Republic's real GDP growth was 3.5%; the international economic crisis slowed the Republic's growth trajectory, which averaged 5.8% for the 2003-2008 period. Inflation was kept within the Central Bank's 6.0%-7.0% target range, reaching 5.8%, as a result of the combined effects of the reversal of the high food and oil prices of 2008 and the contraction in domestic demand. Fiscal deficits have been cut in half, from roughly 9.0% of GDP in 2003 to about 4.5% in 2009, while the public debt-to-GDP ratio reached 36.6%.

Following a period of high economic growth, averaging 8.5% per year for the period 2005-2008, GDP growth slowed to 3.5% in 2009 compared to 2008. Notwithstanding these results, the Dominican Republic managed to achieve positive growth throughout the international economic crisis and even outperformed other emerging and developing economies that averaged a 1.7% GDP growth rate. In addition, world prices were also affected as global inflation plummeted to 3.5%. The disinflationary pressures were systemic and risks of a deeper and extended downturn surfaced when advanced economies registered deflation. Prices for goods and services in the Dominican Republic and the peso/dollar exchange rate remained stable throughout the year, as the peso depreciated by approximately 2% against the dollar.

The resilience of the Dominican economy is primarily a result of the coordinated and timely response from both the Central Bank and the Ministry of Finance, each of which implemented counter-cyclical monetary and fiscal policy measures to counter the effects of the global crisis.

Stand-by Arrangement with the IMF

In November 2009, the Republic entered into a US\$1.7 billion multiyear stand-by arrangement with the IMF (the "Stand-by Arrangement"), which made it possible for the Dominican authorities to implement a fiscal stimulus response to the global economic crisis. The Stand-by Arrangement is intended to enable the authorities to implement a macroeconomic program and a well-balanced structural reform agenda to face the adverse external environment. The Stand-by Arrangement contemplates, among other things, a number of measures to improve taxation on fuels, including a shift in the management of excise tax collection for fuels to the *Dirección General de Impuestos Internos* (the Internal Revenue Agency), or DGII, greater transparency in the calculation of fuel parity price used to determine the final market price, and the rationalization of fuel exemptions, as well as a general review of all tax legislation and the strengthening of tax and customs administration.

In addition, in September 2009 the Central Bank received an allocation of special drawing rights (SDRs) from the IMF equivalent to US\$275.3 million, increasing the Central Bank's reserves to US\$2,700 million and its liquid reserves to over US\$1,500 million. In April 2010, the IMF approved the first review of the program and announced it would disburse an additional US\$119.9 million.

Recent Measures in the Electricity Sector

The Republic has recently made significant progress in reforming the electricity sector, which has historically suffered from a severe lack of generation capacity and poorly maintained transmission and distribution networks. In 2007, the Dominican Congress passed the Law of Incentives for Renewable Energy, which has stimulated the development of several new fuel and power generation projects, including an expansion of the Republic's hydroelectric generation capacity and new wind energy generation projects. The *Corporación Dominicana de Empresas Eléctricas Estatales* (the Dominican Corporation of Electricity Transmission), or CDEEE, is currently working on completing a new project in the second half of 2010 that is expected to eliminate the transmission system's current inability to carry electricity between the southern and the northern regions of the country to meet demand.

In 2009, the Republic entered into loan agreements with the World Bank and the IDB for an aggregate amount of US\$82.0 million to finance the Electricity Distribution Network Rehabilitation Project, which aims to

reduce the distribution companies' technical and non-technical losses and make better use of the metering systems. In addition, in order to reduce electricity subsidies, in June 2009 the *Superintendencia de Electricidad* (the Electricity Superintendence), or SIE, approved a 12.3% increase in tariffs and the application of a "technical tariff", both of which are scheduled to become effective by the end of 2010. The technical tariff is intended to compensate distributors for their costs of distribution (within certain efficiency parameters) and to pass on to consumers increases in fuel purchase costs through indexation mechanisms. The SIE further agreed to modify the tariff categories so that individual tariffs become more cost reflective over time.

Haitian Crisis and Relief Efforts

On January 12, 2010, a devastating earthquake occurred approximately 16 miles west of Port-au-Prince, Haiti's capital, causing widespread destruction and an estimated 222,517 deaths and leaving an estimated 1.2 million people homeless. In addition, the earthquake severely damaged or destroyed numerous government buildings, causing an institutional and security crisis in Haiti. The international community reacted quickly following the earthquake and mobilized to provide humanitarian relief and assistance in the reconstruction of the affected areas in Haiti. According to the United Nations Office for Coordination of Humanitarian Affairs (OCHA), as of February 2010, the main priorities for assistance continue to include the supply of shelter and sanitation, and the removal of rubble and clean-up of the affected areas. The Republic has actively participated in these relief efforts, playing an important role in particular in coordination and logistics of the relief efforts. The measures adopted by the Republic include opening the border to allow free flow of aid to Haiti from the Dominican side, making Dominican hospitals located near the Haitian border available to assist victims of the earthquake as well as the donation of kitchen sets (*cocinas móviles*) to enable the continuance of feeding programs, among other humanitarian measures.

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\$750,000,000 principal amount of 7.500% Amortizing Bonds due 2021.
Final Maturity Date	May 6, 2021.
Principal Amortization	The Republic will make payment of principal on the bonds in three equal installments on May 6, 2019, May 6, 2020 and May 6, 2021.
Interest Rate.....	Interest on the bonds will accrue from May 6, 2010, on the outstanding principal amount of the bonds, at a rate of 7.500% per year.
Interest Payment Dates	Each May 6 and November 6, commencing on November 6, 2010.
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. 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.”
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.
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 Mellon.
Luxembourg Listing Agent, Paying Agent and Transfer Agent.....	The Bank of New York Mellon (Luxembourg) S.A.
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 the Republic

The effects of the global economic crisis may adversely affect the Republic's ability to make payments on its outstanding external and domestic debt, including the bonds.

Starting in September 2008, the global economy has experienced a steep downturn, sparked by uncertainty in credit markets and deteriorating consumer confidence. This downturn has resulted in lower levels of economic growth in the Dominican Republic, which in turn has resulted in lower levels of tax revenues. In addition, the downturn has affected many of the countries that have traditionally imported goods from the Dominican Republic, such as the United States and the European Union, which has resulted in lower levels of exports. Remittances from Dominicans living abroad have also decreased since 2008. Although the global economy has since shown some signs of improvement, the Republic is not able to assure you that the global economy will recover in the near future, or that the Dominican economy will benefit from this recovery. In addition, the Republic cannot guarantee that it 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, including the bonds.

The Dominican 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 positive growth since the 2003 crisis. However, since 2006, the rate of growth has declined significantly, and the Republic cannot offer any assurance that the Dominican economy will continue to 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. An economic contraction could result in a material decrease in the Republic's revenues, which in turn would materially and adversely affect the ability of the Republic to service its public debt, including the bonds.

The Republic may be unable to obtain financing on satisfactory terms in the future, which could adversely affect its ability to service its public debt, including the bonds.

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 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 international or domestic capital markets, and the Republic's ability to service the Republic's public debt, including the bonds, may be adversely affected.

The Republic also relies on the IDB, which was its largest single lender at December 31, 2009, and on the IMF and other multilateral lenders for financing certain projects and for budget support. In certain cases, disbursements under these financing arrangements are subject to compliance by the Republic with specific fiscal, performance and other targets. Under the current Stand-by Arrangement with the IMF, for example, the Republic is required not to accumulate any public arrears to electricity generators as well as of public external debt, among other matters. Failure to comply with these debt targets suspends disbursements under the Stand-by Arrangement. The Republic's ability to comply with public debt and other targets may be adversely affected particularly in the context of a local or international economic crisis that, in turn, could adversely affect its access to financing from bilateral and multilateral lenders. See "Public Sector Debt—External Debt—Debt Owed to Official Institutions".

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 totaled US\$3.2 billion in 2008 compared to US\$3.0 billion in 2009, 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, including the bonds.

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, including the bonds.

A further 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. The recent decline in demand for Dominican imports in the United States may 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. In addition, the recession in the United States has resulted in declines in tourism and foreign direct investment, which are important factors in the Republic's economy. 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, including the bonds.

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 effect 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 (Ede Norte and Ede Sur) for a purchase price of US\$699.6 million (including interest) and reassume their management due to severe financial and operating difficulties. In 2009, the Government repurchased the third distribution company (Ede Este). The repurchase followed a settlement of claims brought against CDEEE and the Republic by Société Générale and its affiliates based on a bilateral investment treaty with France. In recent years, the Government has provided an annual subsidy to the state-controlled electricity company CDEEE to cover operating deficits resulting from increases in fuel costs and continued inefficiencies in collections and operations.

The estimated deficit for the electricity sector was US\$1.3 billion in 2008, primarily due to increased fuel costs not recovered through tariffs and inefficiencies in collections and operations. This deficit decreased in 2009 to US\$696.2 million.

Persistent problems in the electricity sector have had, and may continue to have, a wide range of adverse effects 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. All of this could, ultimately, adversely affect the ability of the Republic to service its public debt generally, including the bonds. See “The Economy—Principal Sectors of 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, including the bonds.

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.

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*, currently controls a majority in both houses of the Dominican Congress. However, future changes in the political environment, including the results of the May 2010 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 experience an 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 Lenders.” The Republic cannot guarantee that this agreement, or any future agreement with Venezuela or any other country, will not be terminated. Furthermore, any disruption in oil supply or a significant increase in international oil prices may have a material adverse effect on the Dominican economy and could adversely affect the ability of the Republic to service its public debt generally, including the bonds.

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 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 with respect to 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 market 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;
- changes in governmental economic, tax or other policies;
- the imposition of trade barriers;
- fluctuations in international fuel prices; and
- dependence on remittances and tourism.

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 to obtain or enforce judgments with respect to the bonds from 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 and including the limitation mandated by the Constitution of the Dominican Republic which submits to Dominican Law and Dominican Courts all agreements executed between the Dominican Government (and any Public Entity) with foreign entities or individuals domiciled in the Dominican Republic, irrevocably waived sovereign or other immunity from jurisdiction with respect to any suit, action or proceeding arising from 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. See “Enforceability of Civil Liabilities.”

USE OF PROCEEDS

The net proceeds from the sale of the bonds will be approximately US\$747,750,000, less any offering expenses payable by the Republic. See “Plan of Distribution.”

The Republic will use the net proceeds to finance infrastructure projects, as well as to provide economic support to other sectors of the economy.

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 1,288-kilometer coastline and a 360-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, San Pedro de Macoris, 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 9.7 million is multi-racial and multi-cultural, with a predominant Spanish cultural influence. Slightly less than half 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 1.8% in the period from 1993 to 2002.

The Dominican Republic's adult literacy rate is approximately 89%. 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.

The World Bank classifies the Dominican Republic as an upper middle-income developing country. The following table sets forth comparative GDP figures and selected other comparative statistics for 2007.

	<u>Dominican Republic</u>	<u>Jamaica</u>	<u>Guatemala</u>	<u>El Salvador</u>	<u>Panama</u>	<u>Colombia</u>	<u>Costa Rica</u>	<u>Mexico</u>	<u>United States</u>
Per capita GDP (PPP).....	US\$6,706	US\$6,079	US\$4,562	US\$5,804	US\$11,391	US\$8,587	US\$10,842	US\$14,104	US\$45,592
United Nations index of human development (world ranking).....	90	100	122	106	60	77	54	53	13
Life expectancy at birth (in years).....	72.4	71.7	70.1	71.3	75.5	72.7	78.7	76.0	79.1
Adult literacy rate	89.1%	86.0%	73.2%	82.0%	93.4%	92.7%	95.9%	92.8%	n.a.
% of population below the poverty line ⁽¹⁾	15.1%	5.8%	24.3%	20.5%	17.8%	27.9%	8.6%	4.8%	n.a.

(1) Poverty is defined as an income of US\$2 a day per capita per household, adjusted by differences in purchasing power.

n.a. = Not Available.

Source: United Nations Human Development Report 2009. Data refer to the most recent year currently 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 reform agenda, 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 following two 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 highly-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 the result of an alliance with Balaguer and the PRSC. Fernández was succeeded as President in 2000 by Hipólito Mejía, of the PRD. In 2004, Fernández was again elected President after obtaining 57% of the votes cast (followed by Mejía with 33.6% and the 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. President Fernández was re-elected in 2008 after obtaining 53.8% of the votes cast (followed by Miguel Vargas with 40.5% and Amable Aristy with 4.6%). President Fernández’s term will end in 2012, with no possibility of consecutive re-election.

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 on January 26, 2010, 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. 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 at least 50% plus one vote of the total votes cast).

Pursuant to the 2010 amendments to the Constitution, a President may not be reelected for a consecutive term and presidential elections must be held together with legislative elections while municipal elections must be held separately.

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 in May 2010, and for this sole time, members of Congress shall be elected for a six-year term, so as to allow for the next congressional elections to be carried out together with the presidential election, as determined by the 2010 amendment.

Most legislative initiatives originate with the executive branch. 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. Pursuant to the 2010 constitutional reforms, the National Council of the Judiciary has the authority to appoint the President of the Supreme Court and the two substitute justices, all of whom hold office for a 7-year term and may be re-elected for one consecutive 7-year term. 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 that do not have jurisdiction 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. Under the 2010 constitutional amendments, the *Tribunal Constitucional* (Constitutional Court) was created. It is composed of 13 judges elected by the National Council of the Judiciary who serve for a 9-year term. All decisions of this Court are final.

Political Parties

The principal political parties in the Dominican Republic are the *Partido de la Liberación Dominicana* or PLD (democratic left) and the *Partido Revolucionario Dominicano* or 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 leader is President Leonel Fernández. The PLD derives its political support primarily from the middle class and certain professional and intellectual circles. The PLD and its allies

(known as the *Bloque Progresista* or “Progressive Bloc”) have an absolute majority in the Senate and in the Chamber of Deputies.

Partido Revolucionario Dominicano. The PRD is a populist party. Its principal leader, José Francisco Peña Gómez, died in 1998. The party’s current leader is former Presidential candidate Mr. Miguel Vargas. The PRD derives its political support primarily from the lower and lower-middle classes. The Grand National Alliance, composed of the PRSC and the PRD, is the minority bloc in the Senate and 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 2004-2008 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.”

The priorities of the current Fernández administration (2008-2012) include the following:

- a reform of the Constitution to consolidate democracy, fortify state institutions, include social, environmental and cultural rights and transfer more power to citizens, which was recently approved by the Congress in January 2010; and
- execution of an ambitious infrastructure plan, including the first Santo Domingo subway line, which started commercial operations in January 2009.

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

	Senate		Chamber of Deputies	
	Seats	%	Seats	%
Partido de la Liberación Dominicana and allied parties	22	68.8%	96	53.9%
Partido Revolucionario Dominicano and allied parties	6	18.8	60	33.7
Partido Reformista Social Cristiano (PRSC) ⁽¹⁾	4	12.5	22	12.4
Total	32	100.0%	178	100.0%

(1) The PRSC is a small conservative Christian democratic party that advocates free-market principles.

Sources: *Junta Central Electoral* and Congress of the Dominican Republic

Significant litigation

The Central Government and the *Ministerio de Obras Públicas y Comunicaciones* (Ministry of Public Works) are currently party to an arbitration process resulting from a suit filed by *Concesionaria Dominicana de Autopistas y Carreteras S.A.* (Dominican Road and Highway Concession), or CODACSA, before the International Chamber of Commerce of Paris on June 23, 2008. The claim is for US\$145.5 million. CODACSA claims that the Republic is responsible for CODACSA’s failure to duly comply with their concession agreement because, among other reasons, the Republic has not granted guarantees, has not allowed an increase in tolls nor the construction of a toll plaza and has not paid certain invoices. The Republic has argued that CODACSA has not completed the construction in due time pursuant to the concession agreement, has not complied with its maintenance and safety obligations and has not obtained adequate financing for the project and unjustly benefited because the toll fees that CODACSA has been collecting on the *Las Américas* highway since 2003, in the aggregate, exceeded CODACSA’s construction costs and expenses related to the project and has further defaulted on the concession agreement by paying dividends to its shareholders before construction was completed.

Foreign Policy and Membership in International and Regional Organizations

The Dominican Republic maintains diplomatic relations with 129 countries and is a member of several 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;
- the World Trade Organization (the “WTO”);
- the Central American Integration System (the “SICA”);
- the Central American Monetary Council (the “CMCA”); and
- the Central American Bank for Economic Integration (the “CABEI”).

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:

- The Dominican Republic – Central America Free Trade Agreement, or “DR-CAFTA”, with the United States and several Central American countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). DR-CAFTA, which replaced the prior U.S.-Caribbean Textile Parity Agreement, increases the percentage of Dominican exports to the United States that will be free of tariffs. DR-CAFTA became effective in 2007.
- Free trade agreements with the members of the Central American Common Market, Panama and the Caribbean Community (“Caricom”), each of 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.

- The LOME IV Convention, which in 2000 became the Cotonou 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 Republic benefits from donations, development loans and technical cooperation provided by the European Union.
- The Economic Partnership Agreement (the “EPA”), in effect since 2007, among the Caricom Countries and the European Union, pursuant to which all goods exported to the European Union (except for firearms) from Caricom Countries enter European markets free from import duties. In addition, the EPA provides a framework for liberalization in the services trade between the Dominican Republic and members of the European Union, liberalizes investment regulations, and strengthens protection of intellectual property rights.
- The Free Trade Agreement of the Americas, which seeks to create a free trade zone in the Western Hemisphere. Negotiations continue as to the implementation of this agreement, and the Republic has continued to participate in the periodic Summits of the Americas since 1998.
- 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.

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 loans extended by the IBRD under the World Bank and the IDB from 2005 until 2009 is approximately US\$1,604 million. Most recently, in 2009 the IDB granted a loan of US\$500 million for a liquidity and growth sustainability program, and both the IDB and the IBRD under the World Bank approved loans for the electricity sector in an aggregate amount of US\$82 million for the rehabilitation of the electricity distribution network. Also in 2009, the World Bank granted a loan of US\$80 million intended for disaster prevention and emergency recovery.

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 a binational free trade zone on that border.

An estimated 1 million 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.

On January 12, 2010, a devastating earthquake occurred approximately 16 miles west of Port-au-Prince, Haiti's capital, causing widespread destruction and an estimated 222,517 deaths and leaving an estimated 1.2 million people homeless. In addition, the earthquake severely damaged or destroyed numerous government buildings, provoking an institutional and security crisis in Haiti. The international community reacted quickly following the earthquake and mobilized to provide humanitarian relief and assistance in the reconstruction of the affected areas in Haiti. According to the United Nations Office for Coordination of Humanitarian Affairs (OCHA), as of February 2010 the main priorities for assistance continue to include the supply of shelter and sanitation, and the removal of rubble and clean-up of the affected areas. The Republic has actively participated in these relief efforts, playing an important role in particular in coordination and logistics of the relief efforts. The measures adopted by the Republic include opening the border to allow free flow of aid to Haiti from the Dominican side, making Dominican hospitals located near the Haitian border available to assist victims of the earthquake as well as the donation of kitchen sets (*cocinas móviles*) to enable the continuance of feeding programs, among other humanitarian measures.

Before this earthquake, Haiti was the second most important destination for Dominican exports, which reached US\$699.2 million in 2009. The political stabilization of Haiti in the period 2005-2009 had been creating more favorable conditions for productive economic activities. Damages caused by the earthquake have been estimated at US\$7,754.2 million, representing 121% of Haiti's GDP. Financing needs are estimated to require a contribution of US\$7,590.3 million in the next three years for the reconstruction of infrastructure, the environment, risk management and supporting the recovery of productive and institutional improvements, among other aspects.

The reconstruction of Haiti could have a favorable impact on Dominican exports in the immediate future, if certain conditions, such as the following, are met:

- Haiti manages to develop an institutional infrastructure that ensures at minimum security, legal certainty and transparency in the processes of allocation of resources for reconstruction. Dominican companies may be able to benefit from the Republic's geographic proximity that enables them to serve the Haitian market efficiently and promptly.
- Donations and resources from the international community for reconstruction efforts in Haiti and budget support are freely available for a quick recovery and strengthening of productive activities, employment and the financial system so that private consumption returns to pre-crisis levels.
- Non-tariff measures such as restrictions on the control of imports of eggs and chickens from the Dominican Republic to Haiti are eliminated.
- Haiti's government is capable of successfully managing the reconstruction efforts in the medium- and long-term so that recovery of production and poverty reduction measures are possible.

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 trade in order 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
- an expansion 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 due to 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 the following:

- 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—Free Trade Zones.” 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. Between 1992 and 1999, the Republic's real GDP grew at an average annual rate of 6.8%, which placed it among the fastest growing economies in Latin America.

The Republic continued to experience robust economic growth through 2000. However, from 2001 economic growth began to decline as a result of several external shocks, including the aftermath of the terrorist attacks of September 11, 2001 and the economic slowdown in the United States and the European Union. These shocks led to weakened demand for the export of Dominican goods and services, the depreciation of the peso and a further steady increase in oil prices which had started in the last quarter of 2000.

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. The Banking Superintendency intervened in Baninter in response to accusations of fraud and losses of approximately US\$2.5 billion. Public confidence in the banking system severely eroded, leading many depositors to withdraw their deposits from banks, causing two other private domestic banks, Bancrédito and Banco Mercantil, to experience liquidity crises and near collapse. 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 0.3% 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 over 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 agreed economic program set forth in the IMF stand-by arrangement in effect at the time by re-purchasing two electrical distribution companies from Spanish company Unión Fenosa, which 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 lenders (both Paris Club and non-Paris Club members), private banks and suppliers. Nevertheless, although the economy as a whole contracted by 0.3% in 2003 compared to 2002, trade from the free trade zones grew by 2.1% and the tourism sector

grew 13.6%, 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 peso appreciating 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 1.3%, 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.

2005-2009 Developments

The Republic's economic recovery from its 2003-2004 domestic financial crisis continued in 2005, reflecting continuing increases in economic activity and liquidity. In 2005, real GDP increased by 9.3%, the peso appreciated by 27.5% against the dollar, and 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 increased by US\$917.5 million in 2005 and inflation was 7.4%, as compared to 28.7% in 2004. 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 a new two-year Stand-by Arrangement (the "2005 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 Arrangement. On August 29, 2005, the IMF announced that the Republic's performance under the 2005 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 2005 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 entitled the Republic to borrow up to approximately US\$139.0 million under the 2005 Stand-by Arrangement.

The IMF and the Republic agreed on various quantitative measures of economic performance for 2006, including criteria regarding the performance of the electricity sector. The criteria established in the Stand-by Arrangement for 2005 were successfully met despite the accumulated financial deficit in the electricity sector. Dominican authorities intended to search for equilibrium in the finances of the non-financial public sector in order to lower the national debt as a percentage of GDP. Similarly, the government successfully implemented its monetary policies, achieving single-digit inflation and significantly increasing the international reserves of the Central Bank.

In December 2005, the Government approved a tax reform that sought to expand the goods that incurred value added tax (VAT) and increased income and excise taxes. See "Public Sector Finances – Tax Regime". As part of an institutional reform, Congress further approved new initiatives, including the creation of the Public Debt Office in January 2006. The Government created a single account administered by the Department of Treasury in order to promote efficiency and transparency regarding public assets. Finally, the gradual increase in international oil prices adversely impacted the electricity sector causing an increase in government subsidies.

In 2005, the Government successfully implemented its comprehensive strategy for the restructuring of its outstanding debt, including the exchange of approximately US\$1.07 billion, or 97% of the aggregate outstanding principal amount of its 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; the rescheduling of past due supplier financing and debt service payments due in 2005 and 2006 to several international commercial banks and to members of the Paris Club; and the refinancing of the Republic's payment obligations in connection with the repurchase from Unión Fenosa of two electricity

distribution companies in 2003. See “—Privatization and Role of the State in the Dominican Economy—Privatization.”

The Republic’s economy continued to grow during the period from 2006 through 2009. In 2006, real GDP grew at an annual rate of 10.7% primarily due to an increase in primary production (8.8%), secondary production (6.4%) and services (10.9%). The peso depreciated against the US dollar in 2006 by 10.0%, with the average private-market DOP/US\$ exchange rate for the purchase of dollars in 2006 reaching DOP33.07 per US\$1.00, compared to DOP30.07 per US\$1.00 for 2005. The Central Bank’s net international reserves increased by US\$268.1 million in 2006 compared to 2005; inflation was 5.0% in 2006 as compared to 7.4% in 2005; and the average nominal domestic interest rate on deposits of the banking sector was 10.1% in 2006, compared to 13.6% in 2005.

In 2007, the Republic’s real GDP grew at an annual rate of 8.5%, which was largely driven by an increase of 9.3% in the services sector, and to a lesser extent, increase in secondary and primary production at a rate of 2.9% and 1.0%, respectively. The peso appreciated against the US dollar by 0.21% in 2007, and the average private-market DOP/US\$ exchange rate for the purchase of dollars in 2007 was DOP33.00 per US\$1.00, compared to DOP33.07 per US\$1.00 for 2006. The Central Bank’s net international reserves increased by US\$607.1 million in 2007, inflation was 8.9% in 2007, as compared to 5.0% in 2006; and the average nominal domestic interest rate on deposits of the banking sector was 7.0% in 2007, compared to 10.1% in 2006.

The Republic’s real GDP grew by 5.3% in 2008, supported by an 8.1% growth in the services sector and a 2.5% increase in secondary production, which more than offset a 5.7% decrease in primary production, in each case compared to 2007. The peso depreciated by 4.3% against the dollar and the average private-market DOP/US\$ exchange rate for the purchase of dollars in 2008 was DOP34.40 per US\$1.00, compared to DOP33.00 per US\$1.00 for 2007. The Central Bank’s net international reserves decreased by US\$229.5 million in 2008; inflation was 4.5% in 2008 as compared to 8.9% in 2007; and the nominal domestic interest rate on deposits of the banking sector was 10.5% at December 31, 2008, compared to 7.0% at December 31, 2007.

In 2009, real GDP grew by 3.5%, due primarily to growth in the final consumption category (4.9%) as a result of expansionary measures applied by the monetary authorities at the beginning of 2009 in order to lessen the negative effects of the world crisis. At December 31, 2009, cumulative inflation was 5.7% compared to 4.5% at December 31, 2008. Despite the international economic crisis, the balance of payments at December 31, 2009 reached an overall positive balance of US\$409.5 million, compared to negative balance of US\$325.8 million recorded at December 31, 2008. The current account deficit was US\$2.3 billion at December 31, 2009, primarily due to the decline in export revenue, tourism and remittances as a result of the deteriorating world economy, which was more than offset by a greater reduction in the international market price of oil and other imports. The international economic crisis affected adversely the competitiveness of Dominican companies, which had a strong impact on tax revenues, contributing significantly to the deficit in the government accounts in 2009.

The Economic Policies of the Fernández Administration

The Fernández administration 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;
- 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 following:

- the US\$1.7 billion multiyear Stand-by Arrangement entered by the Republic with the IMF in November 2009 that made it possible for the Government to implement a response to the global economic crisis, in the form of a fiscal stimulus (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 VAT, 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);
- the establishment of a new system for identifying public aid beneficiaries;
- initiation of social security health insurance, *Seguro Nacional de Salud* (National Health Insurance), for persons employed in the formal sector of the economy and their family members; and
- construction and operation of the Santo Domingo subway.

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

- measures to eliminate government subsidies on propane gas for industrial and commercial use;
- subsidy for transport and domestic use (*Bonogas*);
- 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;
- implementing tax vouchers (*comprobantes fiscales*) to register transactions and reduce tax evasion; and
- implementing a simplified tax procedure (*Procedimiento Simplificado de Tributación*) for small businesses.

Gross Domestic Product and Structure of the Economy

The Dominican economy is driven primarily by private consumption, investment and exports. In particular, in 2009, private consumption accounted for approximately 85.3% of GDP, compared to government consumption of 7.8% 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⁾

	As of December 31,									
	2005		2006		2007		2008 ⁽²⁾		2009 ⁽²⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Government consumption	2,262.8	6.7	2,573.1	7.2	3,067.4	7.4	3,492.1	7.6	3,658.9	7.8
Private consumption	27,784.5	82.3	29,583.3	82.4	34,109.8	82.7	40,142.6	87.8	39,867.1	85.3
Total consumption	<u>30,047.3</u>	89.0	<u>32,156.4</u>	89.6	<u>37,177.1</u>	90.2	<u>43,634.7</u>	95.4	<u>43,526.0</u>	93.2
Total gross investment ..	5,576.1	16.5	6,606.9	18.4	7,801.4	18.9	8,370.3	18.3	6,924.5	14.8
Exports of goods and services	10,142.7	30.0	10,766.0	30.0	11,864.2	28.8	11,651.6	25.5	10,392.4	22.2
Imports of goods and services	(11,991.4)	(35.5)	(13,632.0)	(38.0)	(15,614.6)	(37.9)	(17,939.0)	(39.2)	(14,131.3)	(30.3)
Net imports	<u>(1,848.7)</u>	(5.5)	<u>(2,866.1)</u>	(8.0)	<u>(3,750.5)</u>	(9.1)	<u>(6,287.4)</u>	(13.8)	<u>(3,738.9)</u>	(8.0)
GDP	<u>33,774.7</u>	100.0	<u>35,897.2</u>	100.0	<u>41,228.1</u>	100.0	<u>45,717.6</u>	100.0	<u>46,711.6</u>	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)

	As of December 31,									
	2005		2006		2007		2008		2009 ⁽¹⁾	
	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%
Government consumption	68,337.9	21.1	85,284.2	24.8	101,497.5	19.0	120,394.7	18.6	131,497.1	9.2
Private consumption	839,097.0	18.2	980,528.7	16.9	1,128,669.0	15.1	1,383,957.8	22.6	1,432,777.4	3.5
Total consumption	<u>907,434.9</u>	18.4	<u>1,065,812.9</u>	17.5	<u>1,230,166.5</u>	15.4	<u>1,504,352.5</u>	22.3	<u>1,564,274.5</u>	4.0
Total gross investment ...	<u>168,397.8</u>	24.2	<u>218,983.7</u>	30.0	<u>258,143.8</u>	17.9	<u>288,574.0</u>	11.8	<u>248,858.8</u>	(13.8)
Exports of goods and services	306,312.1	(20.4)	356,834.8	16.5	392,577.4	10.0	401,703.0	2.3	373,490.8	(7.0)
Imports of goods and services	(362,142.8)	(4.1)	(451,829.5)	24.8	(516,677.4)	14.4	(618,466.8)	19.7	(507,861.5)	(17.9)
Net exports (imports)	<u>(55,830.7)</u>	(895.8)	<u>(94,994.7)</u>	70.1	<u>(124,100.0)</u>	30.6	<u>(216,763.8)</u>	74.7	<u>(134,370.7)</u>	(38.0)
GDP	<u>1,020,002.0</u>	12.2	<u>1,189,801.9</u>	16.6	<u>1,364,210.3</u>	14.7	<u>1,576,162.8</u>	15.5	<u>1,678,762.6</u>	6.5

(1) Preliminary data.

Source: Central Bank

Gross Domestic Product by Expenditure
(in millions of DOP and as % change from prior year, in constant 1991 pesos)

	As of December 31,									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%
Government consumption..	9,063.1	10.2	10,064.1	11.0	11,074.7	10.0	11,923.6	7.7	11,522.3	(3.4)
Private consumption.....	222,245.3	15.7	248,926.2	12.0	271,083.3	8.9	292,293.8	7.8	307,601.5	5.2
Total consumption.....	<u>231,308.4</u>	15.4	<u>258,990.3</u>	12.0	<u>282,157.9</u>	8.9	<u>304,217.4</u>	7.8	<u>319,123.8</u>	4.9
Total gross investment	48,416.7	13.1	58,463.4	20.8	65,738.5	12.4	71,772.3	9.2	61,231.9	(14.7)
Exports of goods and services.....	110,051.5	(1.2)	110,771.2	0.7	114,334.7	3.2	109,737.2	(4.0)	101,589.9	(7.4)
Imports of goods and services.....	(127,725.3)	11.3	(138,209.7)	8.2	(147,638.2)	6.8	(154,600.1)	4.7	(139,381.5)	(9.8)
Net exports (imports).....	<u>(17,673.8)</u>	430.3	<u>(27,438.5)</u>	55.2	<u>(33,303.5)</u>	21.4	<u>(44,862.8)</u>	34.7	<u>(37,791.6)</u>	(15.8)
Real GDP.....	<u>262,051.3</u>	9.3	<u>290,015.2</u>	10.7	<u>314,592.9</u>	8.5	<u>331,126.8</u>	5.3	<u>342,564.1</u>	3.5

(1) Preliminary data.

Source: Central Bank

From 2005 to 2009, economic growth was primarily a result of growth in capital investment and consumption.

From 2005 to 2008, the Dominican economy experienced an increase in total gross investment, primarily as a result of increased investment by the private sector and the construction of a subway in Santo Domingo. In 2009, however, total gross investment declined by 14.7% compared to 2008 due primarily to the effects of the global economic crisis.

Private consumption also increased from 2005 through 2009, largely as a result of an increase in employment from 2005 to 2008, exchange rate stability and reduced rates of inflation from 2005 to 2009, all of which contributed to increased economic activity. The increase in private consumption was also driven by an increase in bank lending and an increase in the imports of goods used for consumption.

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)

	As of December 31,									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Domestic investment	2,501.0	7.4	5,402.4	15.0	6,725.9	16.3	8,361.5	18.3	6,904.9	14.8
Domestic savings:										
Public savings	632.5	1.9	878.3	2.4	1,530.8	3.7	502.7	1.1	(189.8)	(0.4)
Private savings	1,395.5	4.1	3,236.5	9.0	3,099.4	7.5	3,330.0	7.3	4,767.9	10.2
Total domestic savings...	2,028.0	6.0	4,114.8	11.5	4,630.2	11.2	3,832.7	8.4	4,578.1	9.8
External savings ⁽²⁾	473.0	1.4	1,287.6	3.6	2,095.7	5.1	4,528.8	9.9	2326.8	5.0
Total savings	2,501.0	7.4	5,402.4	15.0	6,725.9	16.3	8,361.5	18.3	6,904.9	14.8

(1) Preliminary data.

(2) Calculated as the inverse negative of the current account balance.

Source: Central Bank

Domestic savings increased between 2005 and 2007. In 2008, domestic savings decreased sharply as a result of the increased demand for imports. In 2009, however, domestic savings recovered to pre-2008 levels.

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⁾

	As of December 31,				
	2005	2006	2007	2008 ⁽⁴⁾	2009 ⁽⁴⁾
Per capita GDP	3,739.1	3,903.9	4,404.5	4,797.8	4,815.6
Per capita income	3,826.9	4,044.4	4,545.2	4,981.8	4,960.5

(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

During the 2005 to 2009 period, economic growth and the improved employment levels registered until 2008 resulted in generally rising per capita GDP and per capita income.

Principal Sectors of the Economy

The principal economic activities in the Dominican Republic are:

- manufacturing;
- agriculture and livestock;
- wholesale and retail trade;
- construction;

- communications;
- transportation;
- real estate; 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 2005 to 2009. The annual average growth rate of GDP for 2005-2009 was 7.5%.

The following table sets forth the principal sectors of the economy as of December 31, 2009.

Sectors of the Dominican Economy
(as a % of GDP for 2009, in constant 1991 pesos)

	<u>As of December 31, 2009</u>
Primary production ⁽¹⁾	7.9
Manufacturing ⁽²⁾	21.3
Other Secondary Production ⁽³⁾	5.7
Services ⁽⁴⁾	52.6
Taxes (less subsidies)	12.4

(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.

Source: Central Bank

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, in constant 1991 pesos)

	As of December 31,									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	DOP	%	DOP	%	DOP	%	DOP	%	DOP	%
Primary production:										
Agriculture, livestock, fishing and forestry	22,063.7	8.4	23,954.2	8.3	24,250.2	7.7	23,435.5	7.1	26,353.9	7.7
Mining	2,093.3	0.8	2,323.7	0.8	2,290.4	0.7	1,596.7	0.5	767.5	0.2
Total primary production	24,157.0	9.2	26,277.9	9.1	26,540.6	8.4	25,032.2	7.6	27,121.3	7.9
Secondary production:										
Manufacturing:										
Traditional	55,862.2	21.3	59,072.9	20.4	61,915.9	19.7	63,920.1	19.3	64,544.6	18.8
Free trade zones	12,474.1	4.8	11,482.0	4.0	10,338.3	3.3	10,223.7	3.1	8,730.6	2.5
Total manufacturing	68,336.3	26.1	70,554.9	24.4	72,254.2	23.0	74,143.8	22.4	73,275.2	21.3
Electricity, gas and water	3,756.3	1.4	3,994.7	1.4	4,382.8	1.4	4,834.9	1.5	4,980.3	1.5
Construction	11,676.0	4.5	14,546.9	5.0	15,017.5	4.8	14,951.5	4.5	14,362.1	4.2
Total secondary production	83,768.6	32.0	89,096.5	30.8	91,654.5	29.2	93,930.2	28.4	92,617.6	27.0
Services:										
Wholesale and retail trade	22,654.2	8.6	25,203.3	8.7	28,698.7	9.1	30,140.9	9.1	29,296.7	8.6
Hotels, bars and restaurants ...	19,880.6	7.6	20,852.6	7.2	21,618.6	6.9	22,359.6	6.8	21,582.7	6.3
Transportation	15,098.6	5.8	15,701.7	5.4	16,765.2	5.3	17,472.4	5.3	17,551.7	5.1
Communications	30,066.4	11.5	37,524.7	12.9	43,132.2	13.7	51,727.3	15.6	58,973.0	17.2
Financial services	6,892.1	2.6	8,516.8	2.9	10,697.9	3.4	12,167.1	3.7	13,173.5	3.8
Real estate	16,099.4	6.1	16,550.4	5.7	17,125.5	5.4	17,696.8	5.3	18,243.8	5.3
Public administration	3,435.4	1.3	3,596.9	1.2	3,665.0	1.2	3,689.7	1.1	3,785.8	1.1
Other	16,982.7	6.6	17,389.2	6.1	17,098.5	5.5	16,471.5	4.9	17,609.1	5.1
Total services	131,109.4	50.1	145,335.6	50.1	158,801.6	50.5	171,725.3	51.8	180,216.3	52.6
Total GDP ⁽²⁾	262,051.3	100.0	290,015.2	100.0	314,592.9	100.0	331,126.8	100.0	342,564.1	100.0

(1) Preliminary data.

(2) Includes taxes less subsidies.

Source: Central Bank

Gross Domestic Product by Sector
(% change from prior year, in constant 1991 pesos)

	As of December 31,				
	2005	2006	2007	2008 ⁽¹⁾	2009 ⁽¹⁾
Primary production:					
Agriculture, livestock, fishing and forestry.....	5.9	8.6	1.2	(3.4)	12.5
Mining.....	(0.1)	11.0	(1.4)	(30.3)	(51.9)
Total primary production.....	5.3	8.8	1.0	(5.7)	8.3
Secondary production:					
Manufacturing:					
Traditional.....	7.6	5.7	4.8	3.2	1.0
Free trade zones.....	0.9	(8.0)	(10.0)	(1.1)	(14.6)
Total manufacturing.....	6.3	3.2	2.4	2.6	(1.4)
Electricity, gas and water.....	4.8	6.3	9.7	10.3	3.0
Construction.....	9.2	24.6	3.2	(0.4)	(3.9)
Total secondary production.....	6.7	6.4	2.9	2.5	(1.4)
Services:					
Wholesale and retail trade.....	15.8	11.3	13.9	5.0	(2.8)
Hotels, bars and restaurants.....	9.0	4.9	3.7	3.4	(3.5)
Transportation.....	8.7	4.0	6.8	4.2	0.5
Communications.....	24.8	24.8	14.9	19.9	14.0
Financial services.....	(0.7)	23.6	25.6	13.7	8.3
Real estate.....	3.2	2.8	3.5	3.3	3.1
Public administration.....	(0.1)	4.7	1.9	0.7	2.6
Other.....	(9.2)	2.4	(1.7)	(3.7)	6.9
Total services.....	8.8	10.9	9.3	8.1	4.9
Real GDP growth.....	9.3	10.7	8.5	5.3	3.5

(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, beef, eggs, pork and poultry. The sector exhibited a 5.0% average annual growth between 2005 and 2009. This sector grew from 2005 through 2007, but in 2008 decreased by 3.4% because of six tropical storms that hit the Dominican Republic between 2007 and 2008, which had devastating effects on traditional export crops and other crops. In 2009, this sector recovered strongly, exhibiting growth of 12.5%, influenced, among others, by the measures and actions taken by the Government through the Secretary of State for Agriculture (SEA) and the *Banco Agrícola de la República Dominicana* (Agricultural Bank) and the implementation of various assistance programs to support producers. The Government's current involvement in the agricultural sector is limited to establishing price-stabilization arrangements for certain agricultural goods and for providing financing for small producers.

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)

	As of December 31,				
	2005	2006	2007 ⁽²⁾	2008 ⁽²⁾	2009 ⁽²⁾
Crops:					
Fruits.....	213.2	256.0	278.9	260.6	356.0
Rice.....	302.6	296.3	363.9	448.1	376.8
Root crops.....	128.3	124.5	150.4	178.3	154.3
Vegetables.....	117.9	120.7	133.4	183.9	212.7
Cocoa.....	27.6	43.2	49.0	102.2	96.9
Sugar cane.....	123.0	142.2	146.1	181.9	196.8
Coffee.....	102.6	106.1	111.2	96.1	107.2
Legumes.....	43.9	61.0	50.8	40.3	53.2
Corn.....	11.2	10.2	8.9	12.5	13.0
Tobacco.....	19.1	22.3	30.8	20.0	25.1
Oleaginous crops.....	1.4	1.9	2.0	2.1	2.1
Other agricultural (Plantains).....	130.1	139.6	157.4	187.4	154.2
Total crops.....	<u>1,220.9</u>	<u>1,323.9</u>	<u>1,482.9</u>	<u>1,713.5</u>	<u>1,748.3</u>
Livestock:					
Poultry.....	456.2	412.9	389.8	389.5	336.9
Milk.....	213.9	212.5	232.0	249.9	254.3
Beef.....	483.7	494.0	483.2	480.1	484.9
Eggs.....	106.9	94.8	103.5	95.3	144.4
Pork.....	224.8	222.2	195.8	187.8	140.7
Lamb.....	5.8	5.4	n.a.	n.a.	n.a.
Total livestock.....	<u>1,491.4</u>	<u>1,441.8</u>	<u>1,404.3</u>	<u>1,402.5</u>	<u>1,361.2</u>
Honey and bees' wax.....	2.2	1.5	n.a.	n.a.	n.a.
Fishing and forestry.....	40.5	49.5	53.8	52.1	46.2

(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) Preliminary data.

n.a.= Not Available.

Sources: *Secretaría de Estado de Agricultura* (Ministry of Agriculture) and Central Bank

The following table sets forth the annual percentage change in production of selected primary goods for the periods indicated, referenced to their nominal level in 1991.

Selected Primary Goods Production
(% change for the period indicated, in constant 1991 pesos)

	As of December 31,				
	2005	2006	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Crops:					
Fruits.....	(17.3)	35.0	(7.3)	(15.7)	45.1
Rice.....	11.8	10.7	4.9	3.9	9.0
Root crops.....	(8.0)	9.3	7.1	(8.3)	22.3
Vegetables.....	1.9	6.0	(2.8)	1.6	13.4
Cocoa.....	(29.0)	48.7	(9.7)	7.2	10.3
Sugar cane.....	(10.7)	(4.8)	2.5	(1.9)	(0.5)
Coffee.....	5.2	1.3	(0.1)	(11.2)	(5.5)
Legumes.....	(5.9)	29.9	(7.4)	(20.7)	45.1
Corn.....	4.1	(21.3)	(4.8)	(6.4)	27.2
Tobacco.....	30.8	(7.0)	37.9	(32.3)	30.3
Oleaginous crops.....	3.7	(14.5)	24.8	(22.0)	59.6
Other agricultural (Plantains).....	33.4	30.8	(7.0)	(30.3)	47.0
Livestock:					
Poultry.....	24.5	5.8	2.4	(9.9)	3.7
Milk.....	20.0	11.1	7.0	11.3	6.5
Beef.....	2.4	2.9	3.1	2.8	2.7
Eggs.....	13.4	13.2	6.2	(2.0)	5.5
Pork.....	(3.7)	9.1	7.2	(1.0)	4.2
Lamb.....	0.8	1.6	n.a.	n.a.	n.a.
Honey and bees' wax.....	33.7	(32.3)	n.a.	n.a.	n.a.
Fishing and forestry.....	5.0	2.8	3.5	1.5	(2.0)

(1) Preliminary data.

n.a.= Not Available.

Sources: *Secretaría de Estado de Agricultura* (Ministry of Agriculture) and Central Bank

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 0.2% of GDP in 2009. Between 2005 and 2006, the mining sector grew by an average of 5.5% per year, but decreased an average of 27.9% per year between 2007 and 2009, mainly due to the decrease in the international price of nickel-iron.

Secondary Production

Manufacturing

The principal components of the manufacturing sector are:

- the manufacture of grain mill products, sugar, beverage and tobacco, and other manufacturing products, and;
- the manufacture and assembly in free trade zones, primarily of the textiles and other activities such as electronics, tobacco and its derivatives and footwear.

The manufacturing sector grew as a percentage of GDP in the period from 2005 to 2009, as follows:

- in 2005, the manufacturing sector expanded by 6.3% compared to 2004, primarily as a result of an increase of 20.0% in the beer industry, 10.6% in the milk industry, 9.2% in the cement industry, 1.1% in

the flour industry, and 0.9% in free trade zone manufacturing, all of which more than offset a decrease of 9.9% in the sugar industry;

- in 2006, the manufacturing sector expanded by 3.2% compared to 2005 due to improving global and domestic economic conditions. These factors were partially offset by a decrease of 8.0% in free trade zone manufacturing that resulted from the expiration of the WTO Agreement on Textiles and Clothing. See “—Secondary Production—Manufacturing—Free Trade Zones” and “Balance of Payments and Foreign Trade—Foreign Trade”;
- in 2007, the manufacturing sector expanded by 2.4% compared to 2006, with traditional manufacturing industries growing by 4.8%, which was partially offset by a decrease of 10.0% in free trade zones manufacturing due to a decrease in global demand, the closing of certain manufacturing companies and a decline in the production of textiles;
- in 2008, the manufacturing sector grew 2.6% compared to 2007, with traditional manufacturing industries increasing 3.2% due primarily to an increase in the sugar, petroleum and milk industries. Free trade zone manufacturing declined by 1.1%; and
- in 2009, the manufacturing sector contracted by 1.4%, in spite of a 5.1% increase in grain mill products, a 4.5% increase in sugar and a 2.4% increase in other manufacturing industries. The free trade zones declined by 14.6% compared to 2008, reflecting the lower demand for textile goods from the United States. See “—Secondary Production—Manufacturing—Free Trade Zones” and “Balance of Payments and Foreign Trade—Foreign Trade”.

Between 2005 and 2009, the manufacturing sector represented, on average, approximately 23.5% of GDP.

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

Production of Selected Manufacturing Goods
(in volumes as specified)

	As of December 31,				
	2005	2006	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Raw sugar (in metric tons)	470,275	485,860	488,195	497,776	522,440
Refined sugar (in metric tons).....	140,095	151,728	145,399	143,522	151,914
Beer (in thousand of liters) ⁽²⁾	467,948	489,177	431,746	451,973	413,679
Cigarettes (in thousands of packs of 20 units).....	165,015	154,004	124,512	128,455	107,948
Rum (in thousands of liters).....	49,900	48,574	56,139	58,139	51,229
Milk (in thousands of liters).....	65,836	70,357	68,299	75,268	81,471
Flour ⁽³⁾	2,543,166	3,032,725	3,075,091	3,013,069	2,409,071
Cement (in metric tons).....	2,898,379	3,706,784	4,077,337	4,206,612	3,852,176
Paint (in metric tons).....	25,002	28,610	47,323	57,078	48,334

(1) Preliminary data.

(2) Includes light and dark beer.

(3) In *quintales* (unit of mass, equivalent to 45 kg.).

Sources: *Muestra de Empresas Productoras de Bienes Manufacturados* and Central Bank

Production of Selected Manufacturing Goods
(% change from prior year, by volume)

	As of December 31,				
	2005	2006	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Raw sugar (in metric tons)	(14.1)	3.3	0.5	2.0	5.0
Refined sugar (in metric tons)	13.0	8.3	(4.2)	(1.3)	5.8
Beer (in thousands of liters) ⁽²⁾	20.0	4.5	(11.7)	4.7	(8.5)
Cigarettes (in thousands of packs of 20 units)	(4.2)	(6.7)	(19.1)	3.2	(16.0)
Rum (in thousands of liters)	(8.7)	(2.7)	15.6	3.6	(11.9)
Milk (in thousands of liters)	10.6	6.9	(2.9)	10.2	8.2
Flour ⁽³⁾	1.1	19.2	1.4	(2.0)	(20.0)
Cement (in metric tons)	9.2	27.9	10.0	3.2	(8.4)
Paint (in metric tons)	(19.3)	14.4	65.4	20.6	(15.3)

(1) Preliminary data.

(2) Includes light and dark beer.

(3) In *quintales* (unit of mass, equivalent to 45 kg.).

Sources: *Muestra de Empresas Productoras de Bienes Manufacturados* (Exhibition of Manufacturing Goods Companies) and Central Bank

Raw sugar production decreased at an average annual rate of 0.7% from 2005 to 2009. In 2005, the production of raw sugar declined 14.1% as a result of increases in operational costs and in input prices. In 2006 and 2007, raw sugar production recovered slightly, increasing by 3.3% and 0.5%, respectively, resulting in a 35.8% increase in sugar exports in 2006, and higher yields obtained in the milling process in 2007. In 2008, the production of raw sugar increased by 2.0% compared to 2007 due to higher levels of sucrose in the sugar cane being processed and investment in modern equipment and machinery, which has increased efficiency. In 2009, the production of raw sugar grew 5.0% compared to 2008 due to the 5.5% increase in yields, resulting from improvements introduced into the production process.

Refined sugar production grew at an average annual rate of 4.3% in the period from 2005 to 2009. In 2005, the production of refined sugar increased 13.0% due to the beginning of the harvest ahead of schedule, as well as a greater amount of raw sugar that was made available for refining in order to satisfy local demand. In 2006, production of refined sugar increased by 8.3% because of increased efficiency in the production process and higher demand. In 2007, refined sugar production declined by 4.2% because of a delay in the beginning of the sugarcane harvest. In 2008, refined sugar production declined by 1.3%, primarily because existing refined sugar stocks were sufficient to ensure adequate supply of the domestic market. During 2009 refined sugar production grew 5.8%, due to the increase of raw sugar used for refining, in order to supply the domestic market. Raw sugar exports increased by 5.9%, meeting the sugar quota and entering the European Union market.

Between 2005 and 2008, the increase in production of other manufactured goods was led by cement and paint, offsetting declines in beer and cigarette production. During 2009 the production of beer, rum, cigarettes, flour, cement and paint declined as a result of a reduced demand.

Free Trade Zones

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 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. As of September 30, 2009, there were 47 free trade zone parks located throughout the Republic, compared to 48 at December 31, 2008, and total employment in the free trade zones declined to 113,293 in March 31, 2009, compared to 124,517 at December 31, 2008.

Manufacturing in the free trade zones declined an average 6.6% during the period from 2005 to 2009, attributable primarily to the expiration of the WTO Agreement on Textiles and Clothing in 2005, elimination of export quotas and an international environment in which Asian countries have comparative advantages with respect to textile

manufacturing. In the period from 2005 to 2009, the contribution of free trade zones to annual GDP has decreased from 4.8% to 2.5%.

In 2009, free zone exports decreased by 13.1% as a result of a decrease in demand for products due to the international crisis during the period. Exports from free trade zones totaled US\$4.4 billion in 2008 and US\$3.8 billion in 2009. According to U.S. Census Bureau statistics, the Republic's textile exports to the United States have declined gradually between 2005 and 2008. This trend is 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 50.7% from 2005 to 2009. By 2008, textiles only accounted for 17.3% of total exports.

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

	As of December 31,				
	2005	2006	2007	2008 ⁽¹⁾	2009 ⁽¹⁾
Existing parks	57	56	53	48	47 ⁽³⁾
Employees	154,781	148,411	128,002	124,517	113,293 ⁽⁴⁾
Exports (in millions of US\$)	4,749.6	4,678.8	4,525.1	4,354.1	3,784.9
As a percentage of GDP	14.1	13.0	11.0	9.5	8.1
<i>Of which:</i>					
Textile exports (in millions of US\$)	1,904.6	1,724.4	1,366.9	1,165.7	939.0
Net foreign exchange earnings (in millions of US\$)	2,246.5	2,063.7	2,025.4	1,925.3	1,459.5
Average monthly salary (in US\$) ⁽²⁾					
Technicians	359.8	364.0	378.9	410.7	n.a.
Workers.....	179.3	177.2	179.4	192.1	n.a.

(1) Preliminary data.

(2) Calculated according to the weighted average exchange rate for each year.

(3) As of September 30, 2009.

(4) As of March 31, 2009.

n.a. = Not Available.

Sources: Consejo Nacional de Zonas Francas de Exportación (National Council of Free Trade Zones) and Central Bank

Electricity, Gas and Water

From 2005 to 2009, the electricity, gas and water sectors collectively grew at an average annual rate of 6.8%, and contributed approximately 1.4% to GDP each year.

Electricity. Between 2006 and 2007, electricity production grew at an annual average rate of 9.2% and electricity consumption increased at an average annual rate of 8.0%. In 2005, electricity production increased by 13.6% and consumption grew by 5.6%. In 2006, electricity production increased by 9.9% and electricity consumption grew by 7.9%. In 2007, electricity production increased by 4.2% and electricity consumption increased by 10.4%. In 2008, electricity production increased by 3.2% and electricity consumption by 10.5%. In 2009, electricity production declined by 2.0%, while electricity consumption increased by 3.1%.

In terms of service coverage, according to the most recent households survey (ENIGH 2007), 93.7% of all Dominican households had access to electricity in 2007. At December 31, 2009, total installed generation capacity was 2,992.6 megawatts, which exceeded peak estimated demand by approximately 700 megawatts. However, the electricity generated during 2009 was not enough to cover the estimated demand. Specifically, in 2009, electricity generation reached 11,530 gigawatts while estimated demand was 15,159 gigawatts, which represents a deficit of 24% of estimated demand for the year.

The electricity sector is divided into three sub-sectors: generation, transmission and distribution. The Government coordinates all three sub-sectors, primarily through the state-controlled electricity company CDEEE. The SIE is responsible for regulating the electricity sector.

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

- independent private producers (IPP);
- 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 *Empresa de Generación Hidroeléctrica Dominicana* (Hydroelectric Generation Company), or EGEHID, a subsidiary of CDEEE;
- merchant plants which are private producers without power purchase agreements; and
- back-up generators owned by private businesses and homeowners.

Of total electricity production during 2009, 87.2% was generated by thermoelectric plants that use gas, coal, heavy fuel oil or diesel oil, while the remaining 12.8% was generated by hydroelectric plants, which are owned by the public company EGEHID. The high voltage transmission company (known as ETED), which is a subsidiary of CDEEE, owns most of the country's power grid and is the only company that offers transmission services. At December 31, 2009, ETED charged US\$0.00691 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 electricity generators to sell in regulated and unregulated markets to end users. At present, 100% of distribution is controlled by CDEEE through three distribution companies: *Empresa Distribuidora de Electricidad del Norte, S.A.* or "Ede Norte", *Empresa Distribuidora de Electricidad del Sur, S.A.* or "Ede Sur" and *Empresa Distribuidora de Electricidad del Este, S.A.* or "Ede Este".

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.

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:

- losses 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), “CESPM” formerly “Cogentrix” and *Generadora San Felipe*, formerly Smith-Enron, CDEEE terminated substantially all of its remaining agreements with independent private producers and began paying its accrued debt to these producers. The re-negotiated contracts between distributors and generators (known collectively as the *Acuerdo de Madrid*) expire in 2016. The *Acuerdo de Madrid* was re-negotiated to extend its term and to change the indexation necessary to reflect the cost of fuel used by each generation plant instead of having one sole fuel index for all plants;
- 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; and
- 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 accrued interest) and reassume their operational control in September 2003. See “—Privatization and Role of the State in the Economy—Privatization.” However, both generators and distributors continued 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.

In 2005, the Republic entered into the PetroCaribe Agreement, which replaced certain important provisions of the Caracas Energy Cooperation Agreement. Under the PetroCaribe Agreement, 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. See “Public Sector Finance—External Debt—Paris Club and Other Bilateral Lenders.”

Since 2005, the Republic has made significant progress in improving the electricity sector, including the following:

- The creation of the *Programa Nacional de Reducción de Apagones* (the National Blackout Reduction Program), or “PRA” which was subsequently replaced by the *Programa de Subsidio Eléctrico* (Electricity Subsidy Program), which is a program whereby the Government grants electricity subsidies targeted at low-income homeowners in specified areas referred to as PRA areas. Eligible low-income homeowners receive a cash subsidy called “Bonoluz” via special debit cards issued by the Government, with payments going directly to the corresponding local distribution company. The Government estimates that less than one third of consumers who received benefits under the PRA program will be eligible to receive subsidies under the revised Bonoluz Program.
- The reduction of technical and non-technical energy losses in the distribution network, from 44.9% in 2005 (92.8% in PRA areas and 38.8% in Non-PRA areas) to 34.9% in 2009 (88.3% in PRA areas and 28.1% in Non-PRA areas).

- Improvements in the collections performance indicator (which measures electricity invoiced over distribution charges), which increased from 88.0% in 2005 to 91.8% in 2009.
- An increase in the cash recovery index (which is the collections performance indicator adjusted for different tariffs charged to end-users) from 48.5% in 2005 (7.2% in PRA areas and 53.8% in Non-PRA areas) to 59.7% in 2009 (11.7% in PRA areas and 65.9% in Non-PRA areas).
- The execution of various loan agreements with the World Bank and the IDB for projects in the electricity sector, including, most recently, a US\$82.0 million loan from the World Bank and the IDB to finance the Electricity Distribution Network Rehabilitation Project, which aims to reduce the distribution companies' technical losses and make better use of metering systems.
- The completion of projects to improve the transmission network, including most recently the connection backbone and substations Santo Domingo – Santiago Project, which is expected to be completed in the second half of 2010 and is expected to eliminate the current inability of the transmission system to carry electricity in the amounts demanded between the southern and the northern regions of the country.
- The completion of projects to increase the generation capacity of the hydroelectric system by 239 MW, including the Pinalito Project, located in Constanza, which began operations in August 2009 with a total capacity of 50 MW.
- The adoption of the Law of Incentives to Renewable Energy, which has stimulated the development of several new fuel and power production projects (although it is expected that these projects will play a marginal role in meeting growing demand for power).

However, because of historically high international fuel prices, since 2005 the Government had also been forced to increase the subsidies provided to the electricity sector on an annual basis. In 2005, subsidies were US\$505.3 million, rising 8.1% to US\$546.0 million in 2006 and decreasing by 7.7% to US\$503.8 million in 2007. As a result of the spike in international fuel prices during 2008, the Government was forced to raise subsidies to the electricity sector to approximately US\$1.2 billion, which was an increase of 133.4% from 2007. In 2009, subsidies provided to the electricity sector amounted to US\$569.2 million.

The chart below shows the evolution of transfers made by the Central Government to the CDEEE from 2006 to 2009, as a percentage of GDP.

Transfers by the Central Government to CDEEE
(as a % of GDP)

As of December 31,	
2006	1.4
2007	1.1
2008	2.4
2009 ⁽¹⁾	1.0

(1) Preliminary data.
Source: Central Bank

In June 2009, in an effort to reduce subsidies to the electricity sector, the SIE agreed to a 12.3% increase in electricity tariffs (which had been frozen since January 2006), and the application of a “technical tariff” that will become effective by the end of 2010. The technical tariff is intended to compensate distributors for their costs of distribution (within certain efficiency parameters) and to pass on to consumers increases in fuel purchase costs through indexation mechanisms. The SIE further agreed to modify the tariff categories so that individual tariffs become more cost reflective over time.

The Republic has also taken significant steps in institutional reform of the electricity sector, including reform of the administration of CDEEE, which was compelled to improve its operations, improve the quality of service and show a greater transparency in its management. In furtherance of these goals, in August 2009 the Fernández administration appointed a new management team at the CDEEE with the goal of isolating the institution from political influence, including the appointment of Mr. Celso Marranzini, a well-known local businessman, as executive vice-president of CDEEE.

In 2009, the Republic acquired control over the 50% of Ede Este owned by TCW, an affiliate of Société Générale. The repurchase followed a settlement on May 26, 2009, of arbitration proceedings brought by TCW and Société Générale against various state entities of the Republic in 2007 and 2008 under bilateral investment treaties and private agreements among the parties. By settling the claims brought by TCW and Société Générale, the Republic sought to improve the quality of services (which the Republic believes had deteriorated under private ownership due to mismanagement and a lack of investment) and reduce uncertainty in the electricity sector created by the pending proceedings.

Also in 2009, the Republic and Venezuela reached an agreement in principle for the purchase by Venezuela’s state oil company, *Petróleos de Venezuela S.A.*, or PDVSA of a 49% stake in *Refinería Dominicana S.A.* (REFIDOMSA), the national oil refinery, which is wholly-owned by the Republic following the Republic’s acquisition of the 50% stake held by its former partner, Royal Dutch Shell Plc. Although discussions relating to the terms of the purchase by PDVSA, including price, are ongoing, the deal is expected to close for approximately US\$131.5 million.

The most pressing problems currently facing the electricity sector include the following:

- higher international oil prices, partially offset by the PetroCaribe Agreement;
- the high prices of electricity resulting from the fact that the distribution companies purchase over 80% of their electricity from generators under previously agreed contracts with unfavorable terms. Under the contracts, the purchase price is determined by a formula that takes into account different cost factors in a way that generally results in high levels of electricity prices;
- the high financial losses caused by the energy purchase contract signed with CESP (Cogentrix) which is one of the largest power producers in the Republic. Under the terms of its current contract with Cogentrix, CDEEE purchases electricity from Cogentrix at higher prices than those applied to consumers. CDEEE and Cogentrix are currently negotiating an agreement for the conversion of a power

station to natural gas from the more costly diesel fuel that it currently uses and an amendment to the existing energy purchase contract in order to reduce losses;

- the need to build at least two new coal or natural gas-fired generating plants of 600 MW each in order to meet increasing demand and to replace obsolete plants and plants with high costs of generation; and
- the need to further improve the management of distribution companies to reduce losses and increase collection levels to optimal levels.

The current and future measures to be taken by the Republic to address the problems of this sector, include, among others, the following:

- investing in distribution assets to reduce theft and implementing strong enforcement of the anti-theft provisions set forth in the Electricity Law, approved in 2007, to achieve a reasonable cash recovery index;
- to reduce transfers to CDEEE to 0.8% or less of GDP;
- regularization of supplies to unbilled customers primarily in the PRA areas but also elsewhere, with subsidies targeted at low-income families through the Bonoluz scheme;
- reduction of generation costs by:
 - o increasing utilization of natural gas through the conversion of existing generation plants;
 - o procuring 150 MW of generation on the basis of a medium term contract (in hand);
 - o using short- and medium-term contracts for the purchase of electricity to replace spot market purchases;
 - o considering new contracts overlapping the end of the *Acuerdo de Madrid* contract periods;
 - o completing hydro-electric projects targeted at contributing 239 MW of peak capacity, starting with the Pinalito Project which came on line in August 2009 adding 50MW to the current generation capacity; and
 - o improving the operation of the wholesale (spot) market to eliminate inefficiencies;
- investments in distribution network assets, to be supported by the loan agreement signed in May 2008 with the World Bank for US\$42.0 million, the loan agreement signed in March 2009 with the IDB for US\$40.0 million to finance the Electricity Distribution Network Rehabilitation Project, which aims to reduce the distribution companies' technical and non-technical losses and make better use of metering systems and the Government's contribution to rehabilitate the distribution grid in the PRA areas during 2010;
- new generation projects, based mainly on coal and natural gas and to a lesser extent on wind power, to achieve significant efficiencies and cost savings. It is expected that by 2015 the expensive oil fueled generation plants will be suppliers of system reserve and peak power needs only and the new generation system will be able to operate with levels of reserve capacity consistent with international norms;
- efficient use of generating capacity by the improvement of the transmission system. The principal transmission network will be increased from 138kV to 345kV, and the important north-south 345kV link (Santo Domingo-Santiago) will be completed by the third quarter of 2010. By 2016 the main power flows will be at the more efficient 345kV level, linking the main existing and new generation units to the principal areas of demand; and

- reduction of operating costs of Government owned companies in the sector, by means of an agreement that has been reached with the IDB for funding technical assistance for a re-design of the business processes of CDEEE and its companies to achieve further efficiencies and improved internal control of both revenues and costs, seeking to achieve a permanent solution to this problem.

Principal Economic Indicators of the Electricity Sector⁽¹⁾

	As of December 31,				
	2005	2006	2007	2008 ⁽²⁾	2009 ⁽²⁾
Production of electricity sector (in millions of US\$) ⁽³⁾	703.0	775.3	823.51	901.0	901.6
Energy Production:					
Generators and CDEEE (in MW/hr):					
Thermal.....	2,061,761.0	2,427,304.7	2,399,515.0	2,236,723.8	2,121,917.6
Hydroelectric	1,935,337.8	1,781,409.6	1,694,883.0	1,437,656.0	1,464,704.8
Gas	22,549.5	94,833.4	372,750.6	342,012.5	471,927.0
Diesel	1,948,289.4	2,138,536.8	2,239,814.4	2,154,710.3	2,036,386.9
Total generators and CDEEE.....	5,967,937.7	6,442,084.5	6,706,963.0	6,171,102.6	6,094,936.3
Independent private producers (in MW/hr)	3,941,875.3	4,450,206.1	4,640,230.9	5,537,708.6	5,337,268.9
Total energy production (in MW/hr)	9,909,813.1	10,892,290.6	11,347,193.9	11,708,811.1	11,472,205.2
Consumption by economic sector (in MW/hr):					
Residential	2,390,256.4	2,669,639.5	2,929,242.2	3,275,929.9	3,362,893.5
Industrial.....	1,699,046.8	1,786,109.0	1,950,591.5	2,051,632.8	2,229,390.7
Government.....	690,208.8	665,984.6	785,987.1	837,160.6	894,823.9
Commercial	442,469.5	482,461.7	544,423.4	610,795.6	629,651.9
Factory consumption	270,738.2	322,287.4	333,826.5	455,895.2	338,026.7
Total consumption	5,492,719.7	5,926,482.2	6,544,070.8	7,231,414.1	7,454,786.7
Energy sale income (in millions of US\$).....	872.1	1,001.2	1,076.9	1,142.7	1,188.1
Distribution Efficiency Indicators:					
Energy delivered (GWh)					
PRA (GWh).....	1,008.7	1,168.3	1,237.4	1,251.7	1,158.0
Non-PRA (GWh)	7,953.4	8,345.5	8,567.5	8,959.0	9,067.8
Total energy delivered (GWh)	8,962.1	9,513.9	9,804.9	10,210.7	10,225.8
Collection on billed amounts	88.0%	88.5%	90.1%	94.0%	91.8%
Cash Recovery Index (CRI).....	48.5%	47.7%	52.9%	57.5%	59.7%
PRA	7.2%	7.2%	10.3%	10.8%	11.7%
Non-PRA	53.8%	53.4%	59.1%	64.1%	65.9%
Clients.....	1,077,819	985,360	1,118,993	1,220,929	1,341,415
PRA	—	—	—	—	—
Non-PRA	1,077,819	985,360	1,118,993	1,220,929	1,341,415

(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.

n.a. = Not Available.

Sources: Central Bank and CDEEE

Losses in the Electricity Sector

	As of December 31,				
	2005	2006	2007	2008 ⁽¹⁾	2009 ⁽¹⁾
Energy distribution losses	44.9%	46.1%	41.2%	38.8%	34.9%
PRA.....	92.8%	92.8%	89.7%	89.2%	88.3%
Non-PRA	38.8%	39.6%	34.2%	31.7%	28.1%

(1) Preliminary data.

Source: CDEEE

Gas. Propane gas is a widely used energy source in the 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. 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. According to the most recent household survey (ENIGH 2007) 41.9% of all Dominican households had access to potable water in their homes. The Government has considered privatizing water distribution and has privatized the fee collection business for the water sector. 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 state-owned company, began installing water meters in selected areas of Santo Domingo in order to increase collections.

The production of the water sector increased at an annual average rate of 8.6% for the period 2006 to 2009. Production decreased from US\$104.8 million as of December 31, 2008 to US\$100.0 million as of December 31, 2009.

Construction

Between 2005 and 2007, the sector grew at an average of 12.3% per year. Construction of tourism-related facilities, highways, roads, bridges, tunnels, shopping centers, housing units and office buildings contributed to the growth of the construction sector between 2005 and 2007. 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. Between 2005 and 2007, the contribution of this sector to GDP ranged between 4.5% and 5.0% of GDP per year. Construction activity decreased in 0.4% in 2008 as a result of the global economic crisis and the accompanying decrease in foreign direct investment. Construction continued to decline by 3.9% in 2009 primarily as a result of the international economic crisis, which adversely affected buyers' confidence in the real estate market.

Services

Wholesale and Retail Trade

Between 2005 and 2009, wholesale and retail trade grew at an average annual rate of 8.6% due to an increase in per capita income, among other factors.

In the period from 2005 to 2009, wholesale and retail trade accounted for an average of 8.8% of GDP, making it the third largest component of the economy.

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 2005 and 2009, accounting on average for 7.0% of GDP, while the sector grew at an average rate of 3.5% during the comparable period. This performance was due to an increase in the number of hotel rooms in the country. At December 31, 2009, there were approximately 67,197 hotel rooms in the country, an increase of 11.8% as compared to the total number of rooms at December 31, 2005.

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 2009, 3.4 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 at an average of 4.8% per year in the period from 2005 to 2009.

Communications

The Dominican Republic was one of the first countries in Latin America to have 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 Mexican telecommunications company América Móvil, had a virtual monopoly in this sector. In 1992, the creation of Tricom introduced competition into the telephony market, and competition continued to increase 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

	As of December 31,				
	2005	2006	2007	2008	2009
Lines (per 100 residents)					
Fixed wire.....	9.7	9.6	9.6	10.3	9.9
Cellular.....	39.3	49.2	58.1	75.0	88.6
Total lines.....	49.0	58.8	67.7	85.3	98.5
Internet accounts (number of accounts).....	134,545	183,876	264,284	320,891	428,961

Source: *Instituto Dominicano de las Telecomunicaciones* (Dominican Telecommunications Institute)

Between 2005 and 2009, the communications sector registered the highest rate of growth in the Dominican economy, with an average annual growth rate over the period of 19.7%. During the 2009, the communications sector grew 14.0%, as compared to the same period in 2008. This sector’s share of the economy as a percentage of GDP reached 17.2% in 2009, as compared to 11.5% in 2005.

Cellular service grew from 8.2 lines per 100 residents in 2000 to 88.6 lines per 100 residents at 2009, accounting for almost the entire increase in the number of phone lines over this period. As of 2009, the number of telephone lines in the Republic was approximately 9.9 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

In 2005 the financial services sector contracted by 0.7%, mainly as a result of the Republic's banking crisis in 2003. However, between 2006 and 2009, the sector grew at an average annual rate of 17.8%, which was higher than the average annual growth rate for the entire Dominican economy, due to growth in the granting of credit because of excess liquidity and an increased focus on consumer credit.

Public Administration

Between 2005 and 2009, the public administration sector exhibited an average growth rate of 2.0%, which was due to an increase in the Government's payroll. In 2009, the public administration sector grew by 2.6% as compared to the same period in 2008.

Real Estate and Other Services

Real estate expanded at a modest rate in the period from 2005 to 2009. The annual growth rate for this sector was 3.2% during this period. During 2009, the real estate sector grew by 3.1% as compared to the same period in 2008.

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.

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 continues to be 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:

- *Corporación Dominicana de Electricidad* (CDE), CDEEE's legal predecessor;

- the sugar mills owned by the *Consejo Estatal del Azúcar* (National Sugar Board, or “CEA”);
- 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”);
- airports managed by the Government; and
- *Refinería Dominicana de Petróleo* (“REFIDOMSA”).

The following summarizes the steps taken to privatize these companies:

- The privatization of CDEEE, in 1999, divided the company into three 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 – *Distribuidora de Electricidad del Norte* (“Ede Norte”), *Distribuidora de Electricidad del Sur* (“Ede Sur”) and *Distribuidora de Electricidad 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.* “EGE ITABO” and *Empresa Generadora de Electricidad Haina, S.A.* “EGE HAINA” – 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 million (including interest) and re-assumed operational control of the two distributors. The purchase price was payable in 144 monthly installments through September 2015. The Republic’s payment obligations were secured by the assignment of customer receivables of Ede Norte and Ede Sur selected by Unión Fenosa representing 115% of each price installment. In August 2005, the Republic signed a memorandum of understanding with Unión Fenosa that granted 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 exercised this option in March 2006. In May 2009, the Republic repurchased the 50% of Ede Este owned by TCW, an affiliate of Société Générale, following a settlement of TCW and Société Générale’s arbitration claims against the Republic. See “—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 *CEMEX S.A.B. 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.
- Sixteen 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 through 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 an airport in El Catey, near the Samaná resort area, which began flight operations in November 2006.
- 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 for the construction or widening of highways. In February 2006, concessionaire *Autopistas del Nordeste*, issued US\$163 million of bonds due 2026 to finance construction of a new toll road connecting 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 range 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. The highway, named the “Coral Highway” commenced operations in 2009 and is still under construction.
- In February 2005, the Government announced that it plans to auction concessions of cruise ship sea ports in four cities to improve tourism infrastructure. In that same year, a concession was granted for the Sans Souci port, the terms of which require the rehabilitation of the existing Sans Souci and Don Diego cruise ship terminals, which are located on the shores of the Ozama River in Santo Domingo. This project is expected to contribute to the clean-up of pollution and improvements to the navigation channel in that river.
- The Republic and Venezuela reached an agreement in principle for the purchase by Venezuela’s state oil company, PDVSA, of a 49% stake in REFIDOMSA, the national oil refinery, which is wholly owned by the Republic, following the Republic’s acquisition of the 50% stake held by its former partner, royal Dutch Shell Plc. Although discussions relating to the terms of the purchase by PDVSA, including price, are ongoing, the deal is expected to close for approximately US\$131.5 million.

The privatization process has encountered significant difficulties in the electricity sector due to the persistent cash flow problems arising from theft and non-payment of invoices by consumers. 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, which sold the company back to the Government in 2009.

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, such as the sale of 49% of REFIDOMSA to PDVSA;

- involve the private sector in the construction and maintenance of infrastructure, such as roads, airports and ports; and
- support new investment in the mining sector, such as the concession to the gold company Placer Dome Dominicana Corporation, owned by the Canadian company Barrick Gold Corp. to mine gold and silver in the Pueblo Viejo mine (formerly owned by Rosario Dominicana).

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

<u>Company</u>	<u>Government Equity Ownership</u>	<u>Description</u>
<i>Empresa de Generación Hidroeléctrica Dominicana</i> (EGEHID), which is a public institution under CDEEE's leadership and coordination, according to article 138 of the General Electricity Law and Decree No. 923-09, dated December 30, 2009	100%	Operates the Republic's generation plants
<i>Empresa de Transmisión Eléctrica Dominicana</i> (ETED), which is a public institution under CDEEE's leadership and coordination, according to article 138 of the General Electricity Law and Decree No. 923-09, dated December 30, 2009	100%	Operates the Republic's transmission lines
<i>Ede Sur, Ede Norte and Ede Este</i> , which are owned by the Republic, through FONPER and CDEEE	Approx. 99%	Owns distribution facilities
<i>EGE ITABO and EGE HAINA</i> , partially owned by the Republic, through FONPER	Approx. 50%	Operates power generation business through thermoelectric plants
<i>Consejo Estatal del Azúcar</i> (CEA, National Sugar Board)	100%	Owns the Dominican Republic's sugar mills and land. All sugar mills are leased to the private sector
<i>Corporación de Acueducto y Alcantarillado de Santo Domingo</i> (CAASD, Aqueduct and Sewer Corporation of Santo Domingo)	100%	Owns and operates the aqueducts and sewers of Santo Domingo
<i>Corporación de Acueducto y Alcantarillado de Santiago</i> (CORAASAN, Aqueduct and Sewer Corporation of Santiago)	100%	Owns and operates the aqueducts and sewers of Santiago
<i>Banco de Reservas de la República Dominicana</i>	100%	Commercial bank
<i>Banco Agrícola</i> (Agricultural Bank)	100%	Development bank that provides financing for small farmers
<i>Compañía de Seguros San Rafael</i> (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 16 hotels throughout the Dominican Republic
<i>Refinería Dominicana de Petróleo</i> (Dominican Petroleum Refinery)	100%	Imports oil and oil derivatives, operates the Dominican Republic's refinery, and sells gasoline and other fuel products to oil derivative distributors ⁽¹⁾
<i>Falconbridge Dominicana</i>	10%	Operates the Dominican Republic's nickel-iron mines and exports nickel-iron to foreign markets

(1) A sale of a 49% stake in the refinery is currently being negotiated with PDVSA.

Employment and Labor

Employment

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 %)

	As of December 31,				
	2005	2006	2007	2008	2009
Participation rate ⁽¹⁾	55.9	56.0	56.1	55.6	53.8
Employment rate ⁽²⁾	45.9	46.9	47.4	47.7	45.8
Unemployment rate ⁽³⁾	17.9	16.2	15.6	14.1	14.9
Open unemployment rate ⁽⁴⁾	5.6	4.9	4.5	4.2	4.8

- (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.

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)

	As of December 31,				
	2005	2006	2007	2008	2009
Agriculture, livestock, fishing and forestry	14.6	14.9	14.5	14.0	14.9
Mining	0.2	0.1	0.2	0.3	0.2
Manufacturing	14.9	14.2	13.9	13.2	10.5
Construction	6.5	7.0	7.0	6.9	6.2
Electricity, gas and water	0.8	0.8	0.9	0.9	0.8
Transportation and communications	7.3	7.1	7.3	7.5	7.6
Wholesale and retail trade	21.6	20.8	20.6	21.2	21.8
Financial services	1.9	1.9	2.1	2.1	2.3
Public administration and defense	4.5	4.3	4.3	4.3	4.6
Hotels, bars and restaurants.....	5.8	6.1	6.3	6.3	6.1
Other services	21.9	22.7	23.1	23.5	24.8
Total.....	100.0	100.0	100.0	100.0	100.0

Sources: Encuesta Nacional de Fuerza de Trabajo and 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 more than half of the total labor force was employed in the informal sector in 2008.

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 DOP5,821.4 per month (approximately US\$162.0 per month).

In 2009, the real minimum wage recorded in the private sector for large, medium and small size companies increased by 2.8% from the levels recorded in 2008. The real minimum wage recorded in the free trade zone in 2009 decreased by 4.5% from the level recorded in 2008. In the public sector, the real minimum wage recorded in 2009 increased by 31.5% from the wage recorded in 2008.

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

Index of Real Minimum Wages (1999 = 100)

	As of December 31,				
	2005	2006	2007	2008	2009
Private sector wages:					
Large size companies ⁽¹⁾	92.0	87.6	89.5	88.5	91.0
Medium size companies ⁽²⁾	90.3	86.0	87.9	87.0	89.4
Small size companies ⁽³⁾	89.8	85.5	87.4	86.5	88.9
Free trade zone wages.....	75.3	77.8	71.5	74.5	71.2
Public sector wages.....	63.5	64.2	59.0	78.3	103.0

(1) Capitalization greater than DOP4.0 million.

(2) Capitalization greater than DOP2.0 million and lower than DOP4.0 million.

(3) Capitalization lower than DOP2.0 million.

Sources: *Secretaría de Estado de Trabajo* (Ministry of Labor) and Central Bank

Poverty and Income Distribution

The incidence of poverty in the Republic declined during the 1990s, primarily as a result of rapid economic growth during the 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 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 Republic has increased significantly as a result of high inflation, the slowing economy and an increase in unemployment. According to data from the *Ministerio de Economía, Planificación y Desarrollo* (Ministry of Economy, Planning and Development), approximately 10.4% of the population lived in extreme poverty in 2009, as compared to 9.0% in 2000. Approximately 34.0% of Dominicans lived in poverty in 2008, as compared to 27.7% in 2000.

The Republic’s most important initiative to reduce poverty is *Programa Solidaridad* (Solidarity Program). The Solidarity Program aims improve the income of families so as to enable them to invest in the education and health of their children. In this program, poor families receive cash transfers in exchange for meeting a series of requirements. The Solidarity Program has three basic components:

- *Comer es Primero* (Eating is First): In this component, each beneficiary family receives monthly financial assistance to purchase food, the amount of which is determined based on a basic basket of consumer and retail prices.
- *Incentivo a la Asistencia Escolar* (School Attendance Initiative): Through this component, each family with children and adolescents aged between 6 and 16 years (between the first and eighth grades of basic education) receives a monthly financial stipend which is conditioned on school attendance.
- *Dominicanos y Dominicanas con Nombre y Apellido* (Dominicans with Name): This component offers a free and preferential procedure to issue identity documents to families receiving conditional cash transfers.

In addition, 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 substandard 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 Initiative 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 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 Ministry of the Environment and Natural Resources) to centralize the various functions relating to the environment previously carried out by multiple governmental entities.

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%. According to studies conducted by the Economic Commission for Latin America and the Caribbean in 2007, the Dominican Republic had 10,529.4 km² of protected areas.

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:

- the current account, which comprises:
 - o net exports of goods and services (the difference in value of exports minus imports);
 - o net financial and investment income; and
 - o net transfers; and
- the capital and financial accounts, which comprise 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 2005 and 2009, the Republic's current account registered annual deficits, which were offset by yearly surpluses in the capital and financial accounts. During this period, the current account deficit fluctuated between 1.4% (2005) and 9.9% (2008) of GDP.

The current account deficits between 2005 and 2007 were due primarily to strong domestic demand for imported goods, driven in part by economic growth. The higher current account deficit in 2008 reflects the significant increase in oil and commodity prices experienced during the first half of the year.

In 2009, the current account registered a deficit of US\$2.3 billion, compared to a current account deficit of US\$4.5 billion in 2008. The reduction in the current account deficit in 2009 is the result of lower demand for oil and reduced oil prices in the international markets and continued uncertainty as to the length and depth of the global economic crisis, which resulted in slower growth in demand for goods and services.

Capital and Financial Accounts

The capital and financial accounts quantify foreign direct investment and monetary flows into and out of a nation's financial markets.

From 2005 to 2008, the Republic attracted a considerable amount of foreign direct investment, which is reflected in capital account surpluses of US\$1.6 billion in 2005, which grew to approximately US\$4.4 billion in 2008. Portfolio investment, which was US\$244.2 million in 2005, US\$773.8 million in 2006 and US\$949.0 million in 2007, also contributed to the capital account surpluses in these years. In 2006, the private sector made its first entry into the international debt capital markets, with a private firm issuing bonds for US\$421.9 million, which encouraged other private firms to issue bonds in 2007. These amounts represented approximately 27.4% and 18.5%, respectively, of the capital and financial accounts for 2006 and 2007, respectively.

In 2008, the capital and financial accounts registered the highest level of surplus ever, primarily due to foreign direct investment inflows of US\$2.9 billion and all-terms net debt payments of US\$873.4 million, which increased other medium- and long-term capital.

In 2009, the capital and financial account registered a surplus of US\$2.7 billion, which is almost US\$1.8 billion less than the surplus of US\$4.5 billion registered in 2008. The lower capital and financial account surplus reflects the decrease in foreign direct investment as a result of the global economic slowdown and the reduction of investment flows towards emerging markets.

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

Balance of Payments
(in millions of US\$)

	As of December 31,				
	2005	2006 ⁽¹⁾	2007 ⁽²⁾	2008 ⁽²⁾	2009 ⁽²⁾
Current account					
Trade balance:					
Exports:					
National.....	1,395.1	1,931.4	2,635.1	2,393.4	1,677.8
Free trade zones.....	4,749.6	4,678.8	4,525.1	4,354.1	3,785.1
Total exports.....	6,144.7	6,610.2	7,160.2	6,747.5	5,462.9
Imports:					
National.....	(7,366.3)	(9,558.8)	(11,097.3)	(13,564.0)	(9,957.9)
Free trade zones.....	(2,503.1)	(2,615.1)	(2,499.7)	(2,428.9)	(2,325.4)
Total imports.....	(9,869.4)	(12,173.9)	(13,597.0)	(15,992.9)	(12,283.3)
Trade balance.....	(3,724.7)	(5,563.7)	(6,436.8)	(9,245.4)	(6,820.4)
Services balance, net:					
Credits.....	3,913.2	4,542.5	4,797.5	4,922.1	4,934.8
Debits.....	(1,456.4)	(1,557.5)	(1,745.8)	(1,959.8)	(1,847.1)
Service balance.....	2,456.8	2,985.0	3,051.7	2,962.3	3,087.7
Income balance:					
Credits.....	418.1	699.7	811.5	712.6	474.7
Debits.....	(2,320.4)	(2,552.7)	(2,994.8)	(2,471.2)	(2,364.3)
Income balance.....	(1,902.2)	(1,853.0)	(2,183.3)	(1,758.6)	(1,889.6)
Net current transfers					
Workers' remittances.....	2,429.8	2,737.8	3,045.7	3,221.5	3,041.5
Social remittances.....	166.8	143.2	159.1	171.8	165.5
Insurance compensation.....	111.1	114.6	127.1	136.6	131.3
Other transfers.....	(10.6)	148.5	69.3	(17.0)	(42.8)
Total net current transfers.....	2,697.1	3,144.1	3,401.2	3,512.9	3,295.5
Current account balance.....	(473.0)	(1,287.6)	(2,167.2)	(4,528.8)	(2,326.8)
Capital and financial account					
Capital account ⁽³⁾	—	254.2	195.1	135.0	106.5
Financial account:					
Foreign direct investment.....	1,122.7	1,084.6	1,562.9	2,970.8	2,158.1
Portfolio investment.....	244.2	773.8	949.0	(375.8)	(450.9)
Public and private debt, med. and LT (net).....	84.4	342.8	135.7	478.5	743.7
Public and private debt, short term (net).....	(38.8)	267.7	(115.8)	394.9	(179.2)
Currency and deposits.....	(9.7)	23.1	(9.8)	(1.7)	2.0
Other ⁽⁴⁾	233.2	(1,204.8)	(492.3)	852.9	300.7
Financial account.....	1,635.9	1,287.2	2,029.7	4,319.6	2,574.4
Capital and financial account.....	1,635.9	1,541.4	2,224.8	4,454.6	2,680.9
Errors and omissions	(458.0)	(59.6)	569.0	(251.6)	55.4
Overall balance ⁽⁵⁾	704.9	194.2	626.5	(325.8)	409.5
Financing:					
Foreign assets (increase).....	(1,108.7)	(344.3)	(682.5)	309.2	(641.1)
Use of fund credit and loans.....	219.1	37.5	62.8	(41.7)	274.5
Transfers (debt relief).....	—	35.9	10.8	9.4	11.6
Portfolio investment (liabilities).....	—	—	—	—	—
Other investment-liabilities ⁽⁶⁾	184.7	76.7	(17.6)	48.9	(54.5)
Financing.....	(704.9)	(194.2)	(626.5)	325.8	(409.5)

(1) Revised data. Import data presents a valuation change introduced by the *Dirección General de Aduanas* (Custom Agency) in 2006 as a result of which the variable and data are not comparable with prior years.

(2) Preliminary data.

(3) Excludes components classified as financing in V group in accordance with the Fifth Version of the IMF Balance of Payments Manual.

(4) Includes commercial credits and other.

(5) Represents the sum of current account balance, plus capital and financial account and errors and omissions.

(6) Includes disbursements on new loans and advanced reimbursements on loans.

Source: International Department, Balance of Payments Sub direction, Balance of Payments Division

Foreign Trade

In 2008, the combined value of the Republic's imports and exports of goods equaled 49.7% of the country's GDP, reflecting the high degree of openness of the Dominican economy to foreign trade.

In 2009:

- the trade deficit totaled US\$6.8 billion, reflecting a decrease of 26.2% as compared to US\$9.2 billion in the comparable period in 2008;
- total exports were US\$5.5 billion, as compared to US\$6.8 billion for the comparable period in 2008, principally due to the decision of Xstrata Nickel to shut down its operations for a period in order to perform maintenance on its nickel mines, resulting in US\$488.3 million decrease in nickel-iron exports;
- imports totaled approximately US\$12.3 billion, as compared to US\$16.0 billion during the comparable period of 2008, which reflected a contraction of domestic demand for imported consumer goods during 2009;
- imports of durable goods decreased by 32.2% as compared to 2008; and
- the value of imports of petroleum products decreased by 31.3% as compared to 2008, reflecting a slow-down in economic growth.

The Republic maintains close commercial ties with the United States, its principal trading partner. During 2009, 58.8% of the Republic's total exports were bound for the United States and Puerto Rico, while 41.0% of total imports came from U.S. ports.

In August 2004, the Republic and the United States signed DR-CAFTA, eliminating 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. All Dominican exports to the United States are expected to enter the United States tariff-free upon full implementation. DR-CAFTA was ratified by the U.S. Congress in the summer of 2005 and by the Dominican Congress in March 2007. DR-CAFTA has helped mitigate the negative effects of the expiration of the WTO Textiles Agreement for the Republic because it grants Dominican textiles preferential access to the US markets. 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." However, 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. As a result, 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.

In addition, since 2007, Haiti has become an increasingly important destination for Dominican exports of intermediate goods from free trade zones. These goods are typically finished in Haiti and re-exported.

In 2009, exports from the Republic consisted primarily of:

- exports from free trade zones (such as textiles, electronics and jewelry) valued at US\$3.8 billion, representing 69.3% of total exports;
- traditional exports (consisting of products, such as sugar, tobacco, coffee and nickel-iron) valued at US\$320.7 million representing 5.9% of total exports; and
- non-traditional exports (consisting of other products that the Republic currently exports, such as beer and fruits) valued at US\$1,024.5 million, representing 18.8% 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)

	As of December 31,									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Free trade zones:										
Textiles.....	1,904.6	31.0	1,734.4	26.2	1,366.9	19.1	1,165.7	17.3	939.0	17.2
Footwear.....	315.3	5.1	276.1	4.2	258.7	3.6	234.7	3.5	214.0	3.9
Electronics.....	700.3	11.4	695.7	10.5	743.3	10.4	794.7	11.8	496.1	9.1
Tobacco manufacturing.....	334.1	5.4	366.9	5.6	393.6	5.5	429.9	6.4	386.3	7.1
Jewelry.....	602.9	9.8	625.9	9.5	678.4	9.5	505.4	7.5	435.9	8.0
Medical products.....	284.1	4.6	293.9	4.4	270.9	3.8	293.2	4.3	326.6	6.0
Other.....	608.3	9.9	685.9	10.4	813.3	11.4	930.5	13.8	987.2	18.1
Total free trade zones.....	4,749.6	77.3	4,678.8	70.8	4,525.1	63.2	4,354.1	64.5	3,785.1	69.3
Traditional:										
Sugar and related products.....	101.1	1.6	132.6	2.0	129.3	1.8	108.4	1.6	119.6	2.2
Coffee.....	7.6	0.1	18.4	0.3	13.2	0.2	16.9	0.3	19.6	0.4
Cocoa.....	41.6	0.7	67.0	1.0	91.1	1.3	106.5	1.6	165.7	3.0
Tobacco.....	18.3	0.3	11.4	0.2	16.5	0.2	13.4	0.2	11.7	0.2
Nickel-iron.....	380.8	6.2	709.8	10.7	1,098.8	15.3	492.4	7.3	4.1	0.1
Total traditional.....	549.4	8.9	939.2	14.2	1,348.9	18.8	737.6	10.9	320.7	5.9
Total non-traditional....	508.9	8.3	617.1	9.3	871.6	12.2	1,113.3	16.5	1,024.5	18.8
Total other ⁽²⁾	336.8	5.5	375.1	5.7	414.6	5.8	542.5	8.0	332.6	6.1
Total exports.....	6,144.7	100.0%	6,610.2	100.0%	7,160.2	100.0%	6,747.5	100.0%	5,462.9	100.0%

(1) Preliminary data.

(2) Includes goods sold at port.

Source: Central Bank

Geographic Distribution of Exports
(% of total exports)

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽²⁾
United States ⁽¹⁾	77.6	70.9	60.2	57.3	58.8
Canada.....	0.7	1.8	0.6	0.6	0.5
Mexico.....	0.1	0.1	0.2	0.2	0.5
Total North America.....	<u>78.4</u>	<u>72.7</u>	<u>61.0</u>	<u>58.2</u>	<u>59.8</u>
Brazil.....	—	—	—	0.2	0.2
Colombia.....	0.1	0.1	—	0.1	0.1
Costa Rica.....	0.1	0.2	0.3	0.5	0.4
El Salvador.....	0.1	0.1	0.1	0.1	0.2
Guatemala.....	0.1	0.2	0.2	0.2	0.2
Haiti.....	2.7	5.1	7.7	9.3	12.8
Honduras.....	0.2	0.3	0.6	0.5	0.6
Jamaica.....	0.2	0.4	0.4	1.0	0.8
Venezuela.....	0.1	0.1	0.1	0.3	0.4
Other.....	1.3	1.5	3.0	4.4	3.8
Total Latin America and Caribbean.....	<u>4.9</u>	<u>8.0</u>	<u>12.5</u>	<u>16.6</u>	<u>19.5</u>
Belgium.....	0.8	1.1	1.9	2.6	1.8
France.....	0.2	0.2	0.2	0.6	0.3
Germany.....	0.8	0.5	0.8	0.8	1.0
Italy.....	0.4	0.6	0.5	0.5	0.4
The Netherlands.....	2.9	2.4	5.7	2.9	2.1
Spain.....	0.7	0.9	1.4	2.6	1.7
Other.....	2.0	1.8	2.1	2.1	2.4
Total Europe.....	<u>7.9</u>	<u>7.7</u>	<u>12.7</u>	<u>12.1</u>	<u>9.8</u>
Japan.....	0.7	0.6	1.4	0.6	1.3
Other.....	2.6	5.3	6.4	4.1	3.3
Total Asia.....	<u>3.3</u>	<u>5.9</u>	<u>7.7</u>	<u>4.7</u>	<u>4.6</u>
Africa.....	0.1	—	—	0.2	0.2
Others.....	5.5	5.7	6.0	8.2	6.3
Total exports.....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

(1) Includes Puerto Rico.

(2) Preliminary data.

Source: Central Bank

In 2009, imports into the Republic consisted of:

- consumer goods valued at US\$5.3 billion, representing 43.5% of total imports;
- intermediate goods valued at US\$3.0 billion, representing 24.6% of total imports;
- capital goods valued at US\$1.6 billion, representing 12.9% of total imports; and
- imports into the free trade zones valued at US\$2.3 billion, representing 18.9% 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)

	As of December 31,									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Consumer goods:										
Durable goods	841.4	8.5	699.2	5.7	1,020.1	7.5	946.6	5.9	641.9	5.2
Refined petroleum products	1,659.4	16.8	1,835.6	15.1	2,303.7	16.9	2,999.8	18.8	2,062.1	16.8
Other	1,391.3	14.1	2,313.4	19.0	2,487.1	18.3	2,910.6	18.2	2,637.1	21.5
Total consumer goods	<u>3,892.1</u>	<u>39.4</u>	<u>4,848.2</u>	<u>39.8</u>	<u>5,810.9</u>	<u>42.7</u>	<u>6,857.0</u>	<u>42.9</u>	<u>5,341.1</u>	<u>43.5</u>
Intermediate goods:										
Crude oil and reconstituted fuel	791.7	8.0	952.6	7.8	920.3	6.8	1,241.5	7.8	592.7	4.8
Other	1,554.2	15.7	2,201.9	18.1	2,569.2	18.9	3,333.2	20.8	2,434.6	19.8
Total intermediate goods	<u>2,345.9</u>	<u>23.8</u>	<u>3,154.5</u>	<u>25.9</u>	<u>3,489.5</u>	<u>25.7</u>	<u>4,574.7</u>	<u>28.6</u>	<u>3,027.3</u>	<u>24.6</u>
Capital goods	1,128.3	11.4	1,556.1	12.8	1,796.9	13.2	2,132.2	13.3	1,589.5	12.9
Imports into the free trade zones	<u>2,503.1</u>	<u>25.4</u>	<u>2,615.1</u>	<u>21.5</u>	<u>2,499.7</u>	<u>18.4</u>	<u>2,428.9</u>	<u>15.2</u>	<u>2,325.4</u>	<u>18.9</u>
Total imports	<u>9,869.4</u>	<u>100.0</u>	<u>12,173.9</u>	<u>100.0</u>	<u>13,597.0</u>	<u>100.0</u>	<u>15,992.8</u>	<u>100.0</u>	<u>12,283.3</u>	<u>100.0</u>

(1) Preliminary data.
Source: Central Bank

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

	As of December. 31,				
	2005	2006	2007	2008 ⁽²⁾	2009 ⁽²⁾
United States ⁽³⁾	46.1	43.8	43.4	39.1	41.0
Canada	0.6	1.4	1.5	1.0	1.1
Mexico	5.5	5.2	6.0	5.4	4.7
Total North America	<u>52.2</u>	<u>50.4</u>	<u>50.9</u>	<u>45.6</u>	<u>46.8</u>
Argentina	1.0	1.3	1.2	1.0	1.5
Brazil	2.9	2.9	2.7	2.6	2.4
Chile	0.3	0.4	0.4	0.4	0.4
Colombia	5.3	5.1	4.7	5.0	4.6
Guatemala	0.5	0.8	0.6	0.7	0.9
Panama	1.7	2.1	1.8	1.2	1.0
Trinidad and Tobago	3.2	2.2	2.5	2.2	1.5
Venezuela	8.0	7.7	5.6	7.8	6.5
Other	4.7	6.3	5.0	6.1	7.0
Total Latin America and the Caribbean	<u>27.7</u>	<u>28.7</u>	<u>24.5</u>	<u>26.9</u>	<u>25.8</u>
Spain	2.0	2.3	2.5	2.6	2.1
Denmark	0.5	0.6	0.6	0.6	0.6
Germany	1.5	1.5	1.5	1.4	2.0
Italy	1.2	0.9	1.0	1.1	1.4
France	0.6	0.6	0.8	0.8	0.7
Belgium	0.3	0.4	0.4	0.4	0.3
Norway	0.3	0.2	0.2	0.2	0.3
Other	2.3	2.9	2.7	3.9	3.1
Total Europe	<u>8.7</u>	<u>9.5</u>	<u>9.7</u>	<u>11.1</u>	<u>10.5</u>
Japan	3.7	2.7	2.8	2.1	1.4
China and Taiwan	4.3	5.7	6.9	8.3	10.1
South Korea	1.0	0.8	0.4	0.4	0.2
Other	1.2	1.3	1.7	2.1	2.5
Total Asia	<u>10.2</u>	<u>10.6</u>	<u>11.9</u>	<u>13.0</u>	<u>14.2</u>
Africa	0.3	0.2	0.3	0.2	0.1
Others	0.9	0.6	2.5	3.2	2.6
Total imports	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(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) Preliminary data.

(3) Includes Puerto Rico.

Source: Central Bank

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

Before 2006, the Republic imposed a 13% foreign exchange commission on imported goods purchased abroad, which was calculated based on the CIF value of an imported good at the selling rate of foreign exchange. This commission was eliminated on June 30, 2006, in order for the Republic to fully implement the DR-CAFTA. In addition, the Republic had imposed a transitory tariff of 13% on certain imported products that expired on July 1, 2006. The transitory tariff was 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.

Services Trade

The 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\$3.5 billion in 2005 (10.4% of GDP) to US\$4.1 billion (8.7% of GDP) in 2009. This growth resulted primarily from greater investment in the tourism sector, which led to an 11.8% increase in the number of hotel rooms and a 10.6% increase in foreign non-resident arrivals as compared to 2005 levels.

Between 2005 and 2008, annual tourism income increased from US\$3.5 billion to US\$4.2 billion as a result of increased foreign non-resident arrivals and an increase in the number of hotel rooms. In 2009, income from tourism was US\$4.1 billion, representing a decrease of 2.4% compared to 2008, mainly reflecting a 1.0% decrease in foreign non-resident arrivals. The lower number of foreign non-resident arrivals was primarily the result of a decrease in tourism resulting from the global economic crisis, and is consistent with the 4.0% reduction in international tourism as reported by the World Tourism Organization.

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

Tourism Statistics

	As of December 31,				
	2005	2006	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Arrivals by airplane (number of passengers):					
Total arrivals	4,081,295	4,383,765	4,428,005	4,398,743	4,414,756
Foreign non-resident arrivals	3,088,247	3,342,106	3,398,374	3,447,730	3,415,616
Average length of stay (number of nights):					
Non-resident foreigners	9.2	9.3	9.3	9.2	9.2
Non-resident Dominicans	18.3	17.1	15.5	16.4	17.8
Hotel activity:					
Number of rooms	60,088	63,549	65,072	66,192	67,197
Occupancy rate (in %)	73.9%	73.0%	72.2%	70.4%	66.0%
Aggregate value of hotels, bars and restaurants (in million of US\$)	3,916.1	4,178.3	4,404.2	4,634.9	4,423.7
Income from tourism (in millions of US\$)	3,518.3	3,916.8	4,064.2	4,165.9	4,064.9
Expenses from tourism (in millions of US\$)	(352.2)	(333.0)	(325.9)	(327.0)	(350.2)
Balance (income less expenses)	<u>3,166.1</u>	<u>3,583.8</u>	<u>3,738.3</u>	<u>3,838.9</u>	<u>3,714.7</u>

(1) Preliminary data.

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 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. 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.

Between 2005 and 2008, remittances grew by 32.6%, from US\$2.4 billion in 2005 to US\$3.2 billion in 2008. In 2009, remittances totaled US\$3.0 billion, a 5.6% decrease from 2008. This reduction is a result of the contractions of the United States economy and the economies of European countries that are the origin of most remittances. Total remittances have averaged between 6.5% and 7.6% of GDP for the last five years.

The following chart shows the evolution of workers' remittances for the period 2006-2010.

Workers' Remittances (in millions of US\$ and as a % of GDP)

	As of December 31,				
	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽²⁾	2009 ⁽²⁾	2010 ⁽³⁾
Total remittances	2,737.8	3,045.7	3,221.5	3,041.5	3,166.1
% of GDP	7.6	7.4	7.0	6.5	6.5

(1) Revised data.

(2) Preliminary data.

(3) Projected data.

Source: Central Bank

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 2005 to 2009, foreign direct investment grew from US\$1.1 billion in 2005 to US\$2.2 billion in 2009.

The significant increase in foreign direct investment is primarily a result of growth in the wholesale and retail trade, real estate and mining sectors. Between 2006 and 2008 the real estate sector, particularly real estate related to the tourism sector, accounted for a significant portion of foreign direct investment. In addition, Barrick Corp.'s Pueblo Viejo gold mine contributed to high levels of foreign direct investment in 2008.

In 2009, direct investment decreased from US\$2,970.8 million as of December 31, 2008, to US\$2,158.1 million at December 31, 2009, the largest decrease being in the wholesale and retail trade sector. Investment in the mining sector continued to increase, representing 35.1% of the total foreign direct investment in 2009.

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)

	As of December 31,									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Electricity	117.1	10.4	(51.6)	(4.8)	58.7	3.8	148.2	5.0	182.7	8.5
Communications.....	111.8	10.0	340.4	31.4	(144.9)	(9.3)	213.0	7.2	296.5	13.7
Wholesale and retail trade.....	199.4	17.8	(168.5)	(15.5)	184.0	11.8	583.2	19.6	120.4	5.6
Tourism	312.1	27.8	284.9	26.3	540.9	34.6	228.4	7.7	181.2	8.4
Financial services ...	44.0	3.9	104.2	9.6	27.9	1.8	167.8	5.6	154.0	7.1
Free trade zones.....	174.7	15.6	130.5	12.0	70.4	4.5	44.6	1.5	64.0	3.0
Mining	30.5	2.7	106.9	9.9	(74.4)	(4.8)	413.7	13.9	758.0	35.1
Real estate.....	133.1	11.9	337.8	31.1	900.3	57.6	526.9	17.7	401.2	18.6
Transport	—	—	—	—	—	—	645.0	21.7	—	—
Other	—	—	—	—	—	—	—	—	0.1	—
Total.....	<u>1,122.7</u>	<u>100.0%</u>	<u>1,084.6</u>	<u>100.0%</u>	<u>1,562.9</u>	<u>100.0%</u>	<u>2,970.8</u>	<u>100.0%</u>	<u>2,158.1</u>	<u>100.0%</u>

(1) 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)

	As of December 31									
	2005		2006		2007		2008 ⁽¹⁾		2009 ⁽¹⁾	
	US\$	%	US\$	US\$	%	%	US\$	%	US\$	%
United States.....	457.1	40.7	663.9	61.2	549.4	35.2	362.5	12.2	589.4	27.3
Spain.....	214.5	19.1	307.2	28.3	604.3	38.7	181.0	6.1	172.1	8.0
Canada.....	110.7	9.9	142.5	13.1	8.4	0.5	439.4	14.8	769.5	35.7
Cayman Islands.....	(58.7)	(5.2)	(40.8)	(3.8)	4.4	0.3	0.7	—	24.2	1.1
England.....	94.8	8.4	55.3	5.1	59.7	3.8	590.3	19.9	(3.3)	(0.2)
Chile.....	17.5	1.6	(6.4)	(0.6)	(33.3)	(2.1)	24.6	0.8	—	—
Switzerland.....	48.1	4.3	(359.1)	(33.1)	(14.2)	(0.9)	35.6	1.2	2.8	0.1
The Netherlands.....	41.3	3.7	40.9	3.8	58.1	3.7	(36.5)	(1.2)	72.8	3.4
Italy.....	0.1	—	2.8	0.3	32	2.0	10.8	0.4	11.6	0.5
France.....	80.9	7.2	35.9	3.3	110.3	7.1	87.5	2.9	69.2	3.2
Mexico.....	(1.3)	(0.1)	83.5	7.7	(123.4)	(7.9)	1,055.1	35.5	267.4	12.4
Other.....	117.7	10.5	158.9	14.7	307.2	19.7	219.8	7.4	182.4	8.5
Total.....	<u>1,122.7</u>	<u>100.0</u>	<u>1,084.6</u>	<u>100.0</u>	<u>1,562.9</u>	<u>100.0</u>	<u>2,970.8</u>	<u>100.0</u>	<u>2,158.1</u>	<u>100.0</u>

(1) Preliminary data.

Source: Central Bank

Foreign direct investment in the Republic has mainly originated from the United States, Spain and Canada. In 2008, England and Mexico accounted for 19.9% and 35.5%, respectively, of foreign direct investment in the Republic, reflecting significant investments in the communications and other sectors (in the case of Mexico) and the purchase of an alcoholic beverage company (in the case of the United Kingdom).

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 relatively new 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* (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* (Monetary Board), the Central Bank and the *Superintendencia de Bancos* (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.

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.

Central Bank

The Central Bank was established in 1947 pursuant to the *Ley Orgánica del Banco Central* (Organic Law of the Central Bank), as restated in 1962 and subsequently amended. The Central Bank is the only entity that can print and issue Dominican currency and is 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 the Central Bank's international reserves, the Government has implemented a variety of measures, including the issuance of certificates of participation (COPs) to the private sector and the allocation of special drawing rights from the International Monetary Fund. In 2009, however, the sale of COPs to the public was temporarily suspended, and indirect instruments, such as *letras* and *notas* issued by the Central Bank, have been used to control monetary expansion. In August 2009, the Central Bank received an allocation of special drawing rights (SDR) from the International Monetary Fund (IMF) equivalent to US\$275.3 million, increasing its reserves to US\$2.7 billion and liquid reserves to US\$1.5 billion.

Reform of the Monetary System and Banking Sector

Following the collapse of Baninter and its subsequent takeover 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.

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.

The *Superintendencia de Bancos* currently complies with the recommendations of the IMF and the World Bank under the Financial Sector Assessment Program, or FSAP, conducted in the Republic at the beginning of 2009 and is working to achieve the full compliance with FSAP guidelines, having introduced those recommendations in its strategic plan for the period 2009-2011. Furthermore, it is working to achieve reinforcing the 25 Basel Core Principles as well as improving and strengthening the practices of the Risk Based Supervision of the financial sector.

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. 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."

From 2005 to 2009, the Central Bank's policy was focused on price stability, while facing several challenges, including the following:

- fostering economic growth;
- maintaining currency values that permitted the Republic's exports and services to be priced competitively against 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 Peso and expanding the money supply.

During 2005, monetary policy focused on reducing inflation by establishing monetary targets and coordination with the Government's fiscal policies. The Republic's annual inflation rate decreased from 28.7% in 2004 to 7.4% in 2005. This reduction was achieved in an environment of decreasing interest rates and lengthening of maturity of COPs. In addition, the Republic met the targets set forth in the IMF Stand-by Arrangement.

During 2006, monetary policy focused on consolidating past successes and meeting the framework of the then current IMF Stand-by Arrangement. The results of 2006 were focused on three main pillars: the inflation rate reached 5% at the end of the year, the cautious handling of the Central Bank's quasi-fiscal deficit made possible a reduction to 2.3% of GDP, and net international reserves of the Central Bank increased by US\$268.1 million during the year, in each case exceeding the goals set forth in the Stand-by Arrangement.

During 2007, monetary policy decisions were conditioned by adverse international shocks that affected the economy through the increase of oil and food prices, particularly in the second half of the year. At the same time, the country suffered the impact of two storms that destroyed agriculture plantations and vital infrastructure, increasing inflationary pressures. Despite these unfavorable events, inflation ended the year at 8.9% primarily as a result of the active use of open market operations. The quasi-fiscal deficit of the Central Bank continued to decrease, ending 2007 at 1.8% of GDP.

In 2008, monetary policy was more restrictive due to the increase in inflationary pressures as a result of higher commodities prices. The Central Bank increased its policy rate from 7.0% in December 2007 to 9.5% in August

2008 and tightened the reserve requirements for financial intermediaries. These measures provoked an increase of market lending interest rates of 8.6 percentage points and an increase of 6.9 percentage points in savings rates.

In 2009, the international financial crisis changed the economic landscape, creating liquidity constraints and reducing international trade. These changes in international conditions and the deterioration of domestic demand resulted in the relaxation of monetary policy. The policy rate was reduced by 5.5% from 9.5% to 4.0%, the reserve requirement ratio for financial intermediaries was lowered by 2.5 percentage points, from 20.0% to 17.5% of aggregate deposits and the Central Bank was less active in the weekly auction of bills and reduced significantly the interest rates of COPs issued through the direct window, and later temporarily closed it. These measures led to a reduction of market interest rates and recovery of credit to the private sector.

Supervision of the Financial System

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:
 - o 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;
 - o 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
 - o 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 17.5% of their aggregate deposits with the Central Bank.

The following tables sets forth information regarding loans of the Republic's financial system by risk category and past-due loans by type of institution as of December 31, 2009:

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

	As of December 31, 2009		
	Loans 31-90 days past due ^{(1) (2)}	Loans >90 days past due ⁽¹⁾	Total past-due loans ⁽¹⁾
Commercial banks.....	0.1%	3.9%	4.0%
Savings and loans associations.....	0.1	3.5	3.6
Saving and credit banks.....	0.5	4.5	5.0
Credit corporations.....	1.2	12.8	14.0
Government-owned financial institution	1.6	9.3	10.9
Total past-due loans.....	0.1	4.0	4.1

(1) Includes outstanding principal and interest.

Source: Central Bank

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

	As of December 31, 2009	
	Loan-Loss reserve by type of financial institution	
	As a % of past-due loans ^{(1) (2)}	As a % of total loans ^{(1) (2)}
Commercial banks.....	114.8%	4.5%
Savings and loans associations.....	99.7	3.6
Saving and credit banks.....	111.8	5.5
Credit corporations.....	81.2	11.3
Government-owned financial institution	86.7	9.5
Total loan-loss reserves.....	111.4	4.5

(1) Includes only outstanding principal.

(2) Corresponds to provisions for all loan categories.

Source: Central Bank

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

- DOP163.0 million (US\$4.5 million) for banks that offer multiple financial services;
- DOP33.0 million (US\$0.9 million) for savings and credit banks; and
- DOP9.0 million (US\$0.2 million) for credit corporations.

In addition, 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\$13,917) per depositor.

Moreover, 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 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:
 - o unsecured credit to related parties may not exceed 10% of a financial institution’s total assets;
 - o credit secured with a first mortgage or equivalent collateral may not exceed 20% of a financial institution’s total assets; and
 - o 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 rules that govern external auditors and their independence with respect to financial institutions and exchange agents. Principal provisions include:
 - o 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;
 - o a member of the audit team may not have served as a consultant or advisor for three years prior to auditing a financial institution;
 - o 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;
 - o external auditors must rotate the partners responsible for auditing a financial institution or exchange agency every three years; and
 - o 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:
 - o corporate governance;
 - o liquidity risk;
 - o asset and credit risk assessment;
 - o financial and market risk controls;

- o related party, inter-branch and inter-office activities;
 - o derivative activities;
 - o investment policy;
 - o foreign currency transactions;
 - o credit and debit cards;
 - o registration of deposit instruments; and
 - o 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 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:
 - o 20% of its capital, the bank must suspend lending activities;
 - o 50% of its capital, the bank must submit a plan to collect associated loans within two weeks; or
 - o 100% of its capital, the bank's shareholders must pledge their shares as collateral.
 - *Non-Bank Financial Institutions.* The Banking Superintendency implemented a plan to strengthen savings and loan associations, government-owned financial institutions and other non-bank financial institutions. As a result, five savings and loans institutions were acquired by other institutions and one institution was closed.
 - *Consolidated Financial Statements.* Financial institutions integrated in an economic or financial group and financial intermediaries that directly or indirectly control other entities that provide related services are required to publish consolidated financial statements.
 - *Consolidated Supervision.* The Monetary Board enacted 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.

- *Banking Superintendency Risk Department.* The Banking Superintendency strengthened 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.* The Banking Superintendency has implemented a program to train technical personnel and hire highly qualified professionals.
- *Sanctions.* A 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. Both the Banking Superintendency and Central Bank are implementing the legal framework on sanctions and the Banking Superintendency is in the process of restructuring the sanctions department.
- *Operational Risks.* On April 2, 2009, the Monetary Board approved a resolution establishing the policies and minimum procedures that entities engaged in financial intermediation must perform to identify, measure, evaluate, monitor and control operational risk.

In January and February 2009, a joint mission of the IMF and the World Bank visited the Republic in order to update the Financial Sector Assessment for the Republic, which was last conducted in 2001. The 2009 Financial Sector Assessment concluded that financial sector indicators show healthy capitalization, provisioning, liquidity and profitability ratios for commercial banks and that Dominican banks are resilient to a moderate economic slowdown, but that some banks would require additional capital to meet regulatory requirements under a more severe scenario. In addition, the Financial Sector Assessment noted that substantial progress had been made on many regulatory issues.

Financial Sector

As of December 31, 2009, the Dominican financial sector comprised 75 financial institutions, including:

- 12 commercial banks;
- 27 savings and credit banks;
- 13 savings and loan associations;
- 22 credit corporations; and
- 1 government-owned financial institution.

As of December 31, 2009, other participants in the financial sector include 36 insurance companies, including the state-owned insurance company *Seguros Banreservas*, 5 pension funds, including the state-owned pension fund *AFP Reservas*, and the Dominican Republic Stock Exchange.

Banco de Reservas is the state-owned commercial bank and, as of December 31, 2009, 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.

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,					Loans	Deposits
	2005	2006	2007	2008	2009		
Commercial banks.....	12	12	12	12	12	81.6%	82.9%
Development banks.....	18	18	—	—	—	—	—
Mortgage banks.....	1	1	—	—	—	—	—
Savings and loan associations.....	18	18	17	16	13	12.4	12.4
<i>Financieras</i>	54	50	—	—	—	—	—
Small lending institutions.....	23	19	—	—	—	—	—
Government-owned financial institutions.....	5	5	5	1	1	1.4	1.7
Savings and credit banks.....	—	—	24	27	27	4.3	2.6
Credit corporations.....	—	—	28	23	22	0.4	0.3
Credit card issuing entities.....	—	—	—	—	—	—	—
Total.....	131	123	86	79	75	100.0%	100.0%

(1) Excludes insurance companies and reinsurance companies, private pension funds and the Dominican Republic Stock Exchange.
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⁽¹⁾

	Number of Institutions				Share of Total Assets
	As of December 31, 2006	As of December 31, 2007	As of December 31, 2008	As of December 31, 2009	As of December 31, 2009
Commercial banks.....	11	11	11	11	55.1%
<i>Of which:</i>					
<i>Banco de Reservas</i>	1	1	1	1	26.0
Savings and loan associations.....	18	17	16	13	12.9
Development banks.....	18	—	—	—	—
Mortgage banks.....	1	—	—	—	—
<i>Financieras</i>	50	—	—	—	—
Small lending institutions.....	19	—	—	—	—
Government-owned financial.....	5	5	1	1	2.3
Savings and credit banks.....	—	24	27	27	3.3
Corporate credit.....	—	28	23	22	0.3
Total.....	123	86	79	75	100.0%

(1) Excludes insurance and reinsurance companies, private pensions funds and the Dominican Republic Stock Exchange.
Source: Banking Superintendency

Since 2000, the banking system has experienced significant consolidation, driven principally by the need to increase the range of product offerings and benefits through 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);
- Banco Global by Banco Mercantil (June 2002); and
- Banco BHD acquired significant assets and liabilities from Republic Bank (October 2006).

After 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, which was later acquired by BHD in 2006.

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	
	DOP	Growth rate (%)	DOP	Growth rate (%)
As of December 31,				
2005.....	436,843.1	19.5	343,843.3	20.3
2006.....	497,636.0	13.9	397,501.5	15.6
2007.....	563,295.7	13.2	460,986.4	16.0
2008.....	626,315.2	11.2	511,099.9	10.9
2009.....	675,372.6	7.8	548,015.0	7.2

(1) Excludes insurance companies and reinsurance companies, private pension funds and the Dominican Republic Stock Exchange.
Source: Banking Superintendency

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

As of December 31,	Financial System		Commercial Banks	
	US\$	Growth rate (%)	US\$	Growth rate (%)
2005.....	12,589.1	(0.6)	9,909.0	—
2006.....	14,014.0	11.3	11,194.1	13.0
2007.....	16,596.8	18.4	13,582.4	21.3
2008.....	17,762.8	7.0	14,495.2	6.7
2009.....	18,695.0	5.3	15,169.6	4.7

(1) Based on the weighted exchange rate at period end. Excludes insurance companies, private pension funds and the Dominican Republic Stock Exchange.

Source: Banking Superintendency

In the period from 2005 to 2009, the private sector received on average 88.6% of the total credits issued by the financial system, while the public sector received only 11.3%. Major private sector borrowers included companies engaged in wholesale and retail trade (27.9% of total loans from 2005 to 2009), construction (6.2% of total loans from 2005 to 2009) and manufacturing (3.0% of total loans from 2005 to 2009). 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 US\$)

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Private Sector:					
Manufacturing.....	195.1	242.3	252.1	300.8	321.5
Mining.....	3.8	9.1	10.7	21.2	18.7
Agriculture.....	384.0	305.2	364.4	390.5	485.3
Construction.....	376.1	478.5	572.7	680.9	638.9
Electricity, gas and water.....	13.1	46.9	42.4	53.3	73.6
Wholesale and retail trade.....	1,808.1	2,077.4	2,721.5	2,744.3	2,936.0
Loans to individuals.....	2,006.0	2,864.3	3,761.2	4,077.4	4,245.2
Transportation, warehousing and communications.....	49.9	61.1	63.5	103.7	101.0
Other.....	842.2	459.5	534.3	623.9	727.0
Total private sector loans.....	5,678.3	6,544.2	8,322.8	8,995.9	9,547.2
Total public sector loans.....	773.8	854.2	685.2	1,207.9	1,582.9
Total loans.....	6,452.0	7,398.4	9,008.0	10,203.8	11,130.1

(1) Preliminary data.

Source: Central Bank

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

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Private Sector:					
Manufacturing.....	3.0%	3.3%	2.8%	2.9%	2.9%
Mining.....	0.1	0.1	0.1	0.2	0.2
Agriculture.....	6.0	4.1	4.0	3.8	4.4
Construction.....	5.8	6.5	6.4	6.7	5.7
Electricity, gas and water.....	0.2	0.6	0.5	0.5	0.7
Wholesale and retail trade.....	28.0	28.1	30.2	26.9	26.4
Loans to individuals.....	31.1	38.7	41.8	40.0	38.1
Transportation, warehousing and communications.....	0.8	0.8	0.7	1.0	0.9
Other.....	13.1	6.2	5.9	6.1	6.5
Total private sector loans.....	88.0	88.5	92.4	88.2	85.8
Total public sector loans.....	12.0	11.5	7.6	11.8	14.2
Total loans.....	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Preliminary data.
Source: Central Bank

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

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

As of December 31,	Private Commercial Banks		Banco de Reservas	
	DOP	Foreign Currency	DOP	Foreign Currency
2005.....	49.6	13.5	28.6	8.3
2006.....	54.7	10.5	29.0	5.8
2007.....	57.7	9.9	24.7	7.7
2008.....	51.5	13.1	26.5	8.9
2009.....	51.3	13.1	26.7	8.9

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. As of December 2009, foreign currency lending was 13.1% 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.

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 December 31, 2009.

Classification of aggregate assets of the Dominican Financial System
(as a % of total loans)

Category	As of December 31, 2009			Total
	Commercial loans	Consumer loans	Mortgage loans	
A	56.1%	90.2%	90.7%	69.4%
B	15.3	3.6	3.8	10.7
C	13.1	2.2	3.2	9.1
D	9.6	1.7	0.9	6.4
E	6.0	2.3	1.5	4.4
Total	100.0%	100.0%	100.0%	100.0%

Source: Banking Superintendency

Solvency Index in the Banking System
(values in %)

As of December 31,	
2006	12.3
2007	13.1
2008	13.4
2009 ⁽¹⁾	14.1

(1) Preliminary data.

Source: Banking Superintendency

Since 1991, interest rates in the 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)

	As of December 31,				
	2005	2006	2007	2008	2009
Loans of:					
0-90 days.....	22.8%	18.3%	14.4%	17.9%	16.5%
91-180 days.....	20.9	18.0	14.7	18.2	16.1
181-360 days.....	22.0	19.3	16.0	20.2	16.6
Weighted average.....	23.2	19.3	15.7	20.0	17.7
Real.....	15.8	14.3	6.8	15.5	11.9
Prime rate	21.2	15.7	11.5	16.0	12.1

(1) Includes banks authorized to offer multiple banking services. Refers to annual average.

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)

	As of December 31,				
	2005	2006	2007	2008	2009
Deposits for:					
30 days	14.7	10.1	6.3	8.7	7.0
60 days	12.5	10.2	6.6	11.2	7.8
90 days	12.1	10.2	7.0	10.8	7.5
180 days	11.1	9.2	7.5	12.1	7.9
360 days	13.1	11.1	7.7	11.2	6.9
Weighted average.....	13.6	10.1	7.0	10.5	7.5
Real.....	6.2	5.1	(1.9)	6.0	1.7
Savings	4.1	3.5	3.1	3.0	2.9

(1) Includes banks authorized to offer multiple banking services. Refers to annual average.

Source: Central Bank

Liquidity and Credit Aggregates

There are several money-supply measures currently in place in the Dominican Republic. The most significant are M1, M2 and M3, which generally are composed of the following:

- M1: currency held by the public plus demand deposits in domestic currency;
- M2: M1 plus savings and time deposits in domestic currency (including financial certificates); and
- M3: M2 plus savings and time deposits in foreign currency.

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. Bank reserves are included in measure of the money supply published by the Central Bank.

The following table sets forth growth in M1, M2 and M3 according to new data released by the Central Bank in 2009 within the framework of an IMF data harmonization project for Central America and the Republic.

Selected Monetary Indicators
(% change from prior year)⁽¹⁾

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽²⁾
M1.....	20.7%	29.4%	26.5%	(8.1)%	18.7%
M2.....	3.6	6.2	17.5	4.3	14.2
M3.....	7.2	5.7	16.9	5.1	13.4

(1) Changes based on figures in DOP.

(2) Preliminary data.

Source: Central Bank

From 2005 to 2009, the Republic's monetary base grew at a average rate of 10.6% per year. This increase was driven by the growth in the net international reserves of the Central Bank, which increased from US\$1,519.7 million in 2005 to US\$2,851.9 million in 2009. M1, M2 and M3 increased sharply at an average annual rate of 17.4%, 9.2% and 9.7%, respectively, during this period. Currency in circulation, M1, showed a decline of 8.1% in 2008 compared to 2007. This decrease is primarily due to the behavior of demand deposits that decreased by 14.9% in the same period. This behavior is consistent with the composition of the agents' portfolio, which, in response to higher interest rates, changed demand deposits for higher yielding assets such as certificates of deposit. However, in 2009 these monetary

aggregates fully recovered from the slowdown experienced in 2008, growing at rates of 18.7% 14.2% and 13.4% respectively, due to the effects of expansive monetary measures taken by the Central Bank during the year.

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 DOP and in millions of US\$)

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Monetary base (millions of DOP)	92,710.9	107,612.6	122,098.9	134,130.6	138,275.4
Currency in circulation and cash in vaults at banks (millions of DOP)	49,986.6	53,498.2	62,290.9	62,470.4	70,162.3
Commercial banks deposits at Central Bank (millions of DOP).....	42,724.3	54,114.4	59,808.0	71,660.1	68,113.1
Broad monetary base (millions of DOP).....	157,112.5	154,895.3	177,029.3	181,787.5	187,280.1
Gross international reserves (millions of US\$).....	1,929.3	2,250.9	2,946.2	2,662.1	3,307.1
Net international reserves (millions of US\$).....	1,519.7	1,787.8	2,394.9	2,165.4	2,851.9
Exchange rate (DOP/US\$) ⁽²⁾	34.70	33.50	33.94	35.26	36.06

(1) Preliminary data.

(2) Based on the period-end exchange rate.

Source: Central Bank

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

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

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽²⁾
Monetary aggregates					
Currency in circulation ⁽³⁾	1,440.5	1,597.0	1,835.3	1,771.7	1,945.7
M1	2,458.1	3,294.5	4,112.8	3,640.0	4,226.1
M2	8,820.1	9,702.6	11,254.3	11,293.4	12,608.5
M3	10,971.9	12,015.1	13,861.9	14,020.9	15,549.0
Credit by sector					
Public sector	773.8	854.4	685.2	1,207.9	1,582.8
Private sector	5,678.3	6,546.1	8,322.8	8,995.9	9,546.6
Total credit aggregates	6,452.1	7,400.6	9,008.0	10,203.8	11,129.3
Deposits					
Local currency.....	4,162.7	5,190.0	6,342.6	6,025.0	6,859.3
Foreign currency	2,159.0	2,347.1	2,739.1	2,799.4	3,013.7
Total deposits	6,321.7	7,537.1	9,081.7	8,824.4	9,873.0

(1) Based on the official period-end exchange rate.

(2) Preliminary data.

(3) Included in M1.

Source: Central Bank

Inflation

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. In 2006, the rate of inflation reached 5.0%, lower than the 7.4% reached in 2005. In 2007, the inflation rate increased to 8.9% although it was still in the range established by the

IMF Stand-by Arrangement. At December 31, 2008, the rate of inflation was 4.5% and at December 31, 2009, the rate of inflation was 5.7%. The Government had projected inflation for 2009 to be between 6.0% and 7.0%.

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

As of December 31,	Consumer Price Index ⁽¹⁾	
	End of period	Average
	(% change)	
2005	7.4	4.2
2006	5.0	7.6
2007	8.9	6.1
2008	4.5	10.6
2009	5.7	1.4

(1) For a description of how the CPI and its rates of change are calculated, see “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\$1.00. 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.

Since February 2003, the private foreign exchange market has 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 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 December 31,				
	2005	2006	2007	2008	2009
End of period (Central Bank) ⁽¹⁾	33.12	33.09	33.52	35.26	36.09
End of period (private market) ⁽¹⁾	33.17	33.07	33.52	35.23	36.11
Exchange rate differential (in % of Central Bank rate).....	5.2%	(1.6)%	(0.1)%	(2.5)%	2.4%
Weighted year average ⁽¹⁾	30.07	33.07	33.00	34.40	35.88
Weighted end of period ⁽¹⁾	33.15	33.08	33.52	35.24	36.10

(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 policy 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 2005 to 2009:

- during 2005, a tighter monetary policy facilitated a gradual appreciation of the peso against the U.S. dollar;
- between 2005 and 2008, the peso depreciated against the dollar in a controlled and gradual manner; and
- during 2009, the exchange rate remained stable.

International Reserves

The Central Bank's net international reserves increased to US\$2,851.9 million as of December 31, 2009 from US\$1,519.8 million as of December 31, 2005.

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)

	As of December 31,				
	2005	2006	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾
Central Bank					
Assets ⁽²⁾	1,929.3	2,250.9	2,946.2	2,662.1	3,307.1
Liabilities	(409.5)	(463.1)	(551.3)	(496.7)	(455.2)
Total (assets less liabilities)	1,519.8	1,787.8	2,394.9	2,165.4	2,851.9
Banco de Reservas					
Assets	655.4	684.2	909.4	1,089.7	1,214.2
Liabilities	(670.7)	(707.8)	(922.5)	(1,107.6)	(1,212.6)
Total (assets less liabilities)	(15.3)	(23.6)	(13.1)	(17.8)	1.6
Private banks					
Assets	1,957.8	2,064.6	2,375.7	2,408.7	2,475.9
Liabilities	(1,748.3)	(1,853.4)	(2,071.0)	(2,171.7)	(2,286.3)
Total (assets less liabilities)	209.6	211.1	304.7	237.0	189.5
Net international reserves of the banking system	1,714.0	1,975.3	2,686.5	2,384.6	3,043.1
<i>Memorandum items:</i>					
Gross assets of the Central Bank	2,120.3	2,463.1	3,172.7	3,278.7	3,927.7
Gross reserves of commercial banks	2,613.2	2,748.8	3,285.1	3,498.4	3,690.1
Gross reserves of the banking system	4,733.5	5,211.9	6,457.8	6,777.1	7,617.8
Gross reserves of the Central Bank (in months of total imports)	2.6	2.4	2.8	2.5	3.8
Gross reserves of the banking system (in months of total imports) ⁽³⁾	5.8	5.1	5.7	5.1	7.4

(1) Preliminary data.

(2) Gross international reserves.

(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.

Sources: IMF and Central Bank

In the period from 2005 to 2009, 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) grew from 2.6 months at December 31, 2005 to 3.8 months in December 31, 2009. 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 fluctuated between 5.8 times at December 31, 2005 and 7.4 times at December 31, 2009.

Gold Reserves

At December 31, 2009, the total amount of gold reserves of the Central Bank was approximately US\$19.9 million, as compared to US\$9.4 million at December 31, 2005.

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 Republic has one securities exchange, the *Bolsa de Valores de la República Dominicana* (Dominican Republic Stock Exchange), which has been in operation since 1991. The Dominican Republic 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 Republic Stock Exchange has been the public trading of commercial paper and bond instruments. Since 1997, when the Dominican Republic Stock Exchange became a national exchange, only private sector commercial paper has traded on the Dominican Republic Stock Exchange. The trading volume in the Dominican Republic Stock Exchange has increased steadily since 2005, from approximately US\$38 million at December 31, 2005 (following its reopening on April 18, 2005 after it had been closed in 2004) to US\$768 million at December 31, 2009.

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* (National Institute for Price Stabilization), and financial public sector institutions, such as the Central Bank and *Banco de Reservas*.

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 Government committed to make several fiscal and monetary reforms, including:

- three tax reforms that went into effect from October 2004 through 2009. See “—Tax Regime”;
- improving the quality of public expenditures and tailoring subsidies to protect the most vulnerable sectors;
- reducing public indebtedness and implementation of a financing strategy to resolve short term liquidity problems experienced by the Government, including reducing subsidies to the electricity sector. See “The Economy— Principal Sectors of the Economy—Secondary Production—Electricity, Gas and Water—Electricity”; and
- reforms of the financial management system to improve accuracy of public information.

Central Government

The Central Government encompasses the executive branch, the ministries, and various government agencies such as the *Dirección General de Impuestos Internos* (Internal Revenue Agency) and the *Dirección General de Aduanas* (Customs Agency).

During the period from 2005 through 2009, the Central Government has generally recorded deficits in its fiscal balance, which generally have been covered with internal and external financing. From 2005 through 2007, the Central Government recorded an average deficit of 0.6% of GDP, reaching a surplus of US\$41.2 million, or 0.1% of GDP in 2007. However, in 2008 the fiscal balance deteriorated, reaching a deficit of US\$1,455.5 million, or approximately 3.2% of GDP. This deterioration was the result of several factors, including lower economic growth which resulted in decreased tax revenue, high subsidies for propane gas, electricity and commodities due to higher international prices for these materials, and higher expenditures due in part to damage caused by six tropical storms.

In 2009, the Central Government’s fiscal deficit reached 3.5% of GDP. Total fiscal revenue in 2009 was US\$6.4 billion (13.7% of GDP) and expenditures totaled US\$8.0 billion (17.2% of GDP). The 2009 deficit was mainly due to the fiscal stimulus adopted in the second half of 2009 to offset the effects of the global financial crisis, which led to a significant decrease in revenues in 2009.

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) decreased in 2008, reflecting a 1.8 percentage point reduction as a share of GDP in tax revenues compared to 2007 as a result of the deceleration of the Dominican

economy. During 2009, the Central Government's fiscal revenue was 2.1 percentage points lower as a share of GDP than in 2008. This decrease in revenues was due primarily to the tax collection rate, which was 1.9 percentage points lower than the rate recorded during 2008.

In 2009, the Government registered tax revenues of US\$6.1 billion compared to US\$6.8 billion in 2008, resulting in a decrease of 10.2%. During 2009, the primary sources of tax revenue were:

- the VAT, which accounted for 30.9% of total revenue;
- income and property tax, which accounted for 29.2% of total revenue; and
- taxes and tariffs on international trade, which accounted for 9.7% of total revenue.

As of June 30, 2006, the foreign exchange commission, which in 2005 had accounted for 52.9% of revenues from taxes on international trade, was eliminated in order for the Republic to qualify for membership in the DR-CAFTA.

Government expenditures consist primarily of:

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

Overall spending by the Central Government for 2008 totaled US\$8.7 billion, or 17.2% of GDP, as compared to US\$7.2 billion, or 19.1% of GDP, for 2007. In 2009, overall spending by Central Government totaled US\$8.0 billion, approximately 7.7% lower than in 2008. The Government's long-term objectives to improve fiscal management include the following measures:

- continuing the Reform of Public Financial Administration laws;
- 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;
- implementing the reforms of the Government's financial management system to improve the accuracy of budgetary information;
- adopting consolidated guidelines to consolidate certain functions currently shared by the *Secretaría de Estado de Hacienda* (Ministry of Finance) and the *Secretaría de Economía, Planificación y Desarrollo* (Ministry of Economy, Planning and Development) in matters of fiscal policy; and
- maintaining debt sustainability of between 30% and 35% of GDP.

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

Fiscal Accounts
(in millions of US\$ and as a % of GDP, at current prices)

	As of December 31,									
	2005		2006		2007		2008		2009 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Central Government										
Total revenues and grants:										
Tax revenues	4,915.5	14.6	5,400.0	15.0	6,596.5	16.0	6,841.5	15.0	6,138.3	13.1
Income and property ⁽²⁾	1,098.7	3.3	1,428.0	4.0	2,020.2	4.9	2,075.2	4.5	1,841.9	3.9
Income	980.4	2.9	1,212.9	3.4	1,690.4	4.1	1,722.8	3.8	1,538.4	3.3
Property	118.3	0.4	215.1	0.6	329.8	0.8	352.5	0.8	303.5	0.6
VAT	1,371.7	4.1	1,623.7	4.5	2,020.2	4.9	2,155.7	4.7	1,949.7	4.2
Excises, <i>of which</i>	1,182.7	3.5	1,536.9	4.3	1,855.3	4.5	1,882.0	4.1	1,734.3	3.7
Fuel tax	458.8	1.4	713.1	2.0	904.0	2.2	982.9	2.1	844.3	1.8
International trade, <i>of which</i>	1,251.7	3.7	808.5	2.3	700.9	1.7	725.8	1.6	612.2	1.3
Import duties	477.4	1.4	525.5	1.5	577.2	1.4	614.4	1.3	510.4	1.1
Export duties	0.4	—	2.1	—	—	—	3.7	—	2.9	—
F/X commission	662.2	2.0	170.8	0.5	—	—	5.6	—	8.3	—
Other	111.6	0.3	110.1	0.3	—	—	—	—	120.5	0.3
Non-tax revenue	302.5	0.9	332.3	0.9	577.2	1.4	310.2	0.7	163.1	0.3
Capital revenue	—	—	0.5	—	—	—	—	—	—	—
Total revenue	5,218.0	15.4	5,732.7	16.0	7,173.7	17.4	7,152.3	15.6	6,301.4	13.5
Grants	37.6	0.1	90.8	0.3	82.5	0.2	83.5	0.2	98.4	0.2
Total revenue and grants	5,255.6	15.6	5,823.6	16.2	7,256.1	17.6	7,235.8	15.8	6,399.7	13.7
Primary expenditures:										
Wages and salaries	1,254.9	3.7	1,336.5	3.7	1,443.0	3.5	1,725.5	3.8	1,911.1	4.1
Goods and services	677.3	2.0	821.7	2.3	948.2	2.3	972.8	2.1	825.7	1.8
Transfers, <i>of which</i>	1,817.2	5.4	1,944.7	5.4	2,185.1	5.3	3,232.0	7.1	2,592.7	5.6
Gas subsidy	137.4	0.4	173.7	0.5	164.9	0.4	223.3	0.5	0.0	0.0
Electricity transfers	558.7	1.7	488.7	1.4	494.7	1.2	1,215.4	2.7	605.7	1.3
Other	1,121.2	3.3	1,282.3	3.6	1,525.4	3.7	1,793.3	3.9	1,987.0	4.3
Capital expenditure	1,413.2	4.2	1,712.7	4.8	1,937.7	4.7	2,265.6	5.0	1,675.0	3.6
Domestically-financed	998.3	3.0	1,102.4	3.1	1,278.1	3.1	2,036.2	4.5	1,498.2	3.2
Externally-financed	414.9	1.2	610.3	1.7	659.6	1.6	229.5	0.5	176.8	0.4
Statistical discrepancy ⁽³⁾	(61.5)	(0.2)	(55.8)	(0.2)	—	—	(263.7)	(0.6)	121.6	0.3
Primary expenditures ⁽³⁾	5,101.1	15.1	5,759.9	16.0	6,514.0	15.8	7,932.3	17.4	7,126.1	15.3
Primary balance	154.50	0.5	63.4	0.2	700.9	1.7	(696.5)	(1.5)	(726.3)	(1.6)
Interest:										
Foreign	300.31	0.9	360.8	1.0	371.1	0.9	375.8	0.8	315.3	0.7
Domestic ⁽⁴⁾	140.55	0.4	137.9	0.4	288.6	0.7	381.2	0.8	576.3	1.2
Interest	440.85	1.3	498.7	1.4	659.6	1.6	757.0	1.7	891.6	1.9
Overall balance	(286.4)	(0.8)	(435.3)	(1.2)	41.2	0.1	(1,455.5)	(3.2)	(1,618.0)	(3.5)
Rest of the non-financial public sector										
Overall balance rest of NFPS ⁽⁵⁾	110.3	0.3	110.0	0.3	—	—	(48.4)	(0.1)	174.2	0.4
Non-financial public sector										
Overall balance NFPS:										
Primary balance	311.1	0.9	187.8	0.5	700.9	1.7	(746.9)	(1.6)	(552.1)	(1.2)
Interest	487.2	1.4	513.1	1.4	659.6	1.6	(757.0)	(1.7)	891.6	1.9
Overall balance NFPS	(176.0)	(0.5)	(325.2)	(0.9)	41.2	0.1	(1,503.9)	(3.3)	(1,443.7)	(3.1)
Financing NFPS:										
External financing	329.7	1.0	510.2	1.4	206.1	0.5	78.0	0.2	973.6	2.1
Domestic financing	(153.7)	(0.5)	(176.0)	(0.5)	(164.9)	(0.4)	1,377.5	3.0	733.6	1.6
Financing NFPS	176.0	0.5	325.2	0.9	(41.2)	(0.1)	1,503.9	3.3	1,443.7	3.1
Quasi-fiscal deficit of the Central Bank										
Quasi-fiscal balance of the central bank	(844.9)	(2.5)	(783.8)	(2.2)	(742.1)	(1.8)	(590.7)	(1.3)	(626.3)	(1.3)
<i>of which</i> non interest	44.6	0.1	(47.3)	(0.1)	41.2	0.1	161.2	0.4	236.0	0.5
Combined public sector										
Primary balance	355.7	1.1	140.5	0.4	742.1	1.8	(585.8)	(1.3)	(316.1)	(0.7)
Interest	1,376.6	4.1	1,249.6	3.5	1,401.8	3.4	1,508.8	3.3	1,753.9	3.8
Combined public sector balance	(1,020.9)	(3.0)	(1,109.1)	(3.1)	(700.9)	(1.7)	(2,094.6)	(4.6)	(2,070.0)	(4.4)
Memorandum items:										
Interest for central bank recapitalization	—	—	—	—	176.1	0.4	265.0	0.6	345.0	0.7
Primary spending excl. electricity and gas	4,405.1	13.0	5,097.4	14.2	5,854.4	14.2	6,493.6	14.2	6,520.4	14.0
Overall spending by central government	5,542.0	16.4	6,258.6	17.4	7,173.7	17.4	8,689.3	19.0	8,017.7	17.2
GDP	33,774.7	—	35,897.2	—	41,228.1	—	45,717.6	—	46,711.6	—

(1) Preliminary data.

(footnotes continued on next page)

(2) Includes social security contributions. For 2007 and 2008 includes the capital gains windfall of Verizon (0.5 as % of GDP) and Brugal (0.3 as % of GDP), respectively.

(3) Primary expenditures include the difference between the financing below the line and the overall balance registered above the line.

(4) Includes interest payments on Central Bank recapitalization bonds.

(5) Including electricity distribution companies (Edenorte, Edesur and Edeeste).

Sources: Ministry of Finance, Central Bank and Fund Staff estimates

Tax Regime

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

Current Revenue of the Republic (excludes financing and grants) (as a % of total revenue)

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Tax revenue.....	94.2	94.2	92.0	95.7	97.4
Income tax.....	18.8	21.2	23.6	24.1	24.4
Property tax.....	2.3	3.8	4.6	4.9	4.8
VAT.....	26.3	28.3	28.2	30.1	30.9
Excises.....	22.7	26.8	25.9	26.3	27.5
Taxes on international trade.....	24.0	14.1	9.8	10.1	9.7
Non-tax revenue.....	5.8	5.8	8.0	4.3	2.6

(1) Preliminary data.

Sources: Ministry of Finance, Central Bank and IMF Staff estimates

In December 2005, Law No. 557-05 (the "2005 Tax Law") was enacted. The 2005 Tax Law implemented fiscal reforms contemplated by the IMF Stand-by Arrangement and measures intended to compensate for the foreign exchange commission and other sources of fiscal revenue that required to be eliminated pursuant to by the DR-CAFTA. In February 2006, the Central Bank eliminated the foreign exchange commission levied by the Central Bank and substituted it with a transitory 13% charge on the value of imported goods, which expired on July 1, 2006. In addition, the 2005 Tax Law provided for, among other things, the following:

- an increase from 2% to 5% in the withholding tax on payments from the Government;
- a decrease from 15% to 10% of the withholding tax on interest paid or credited in foreign institutions;
- establishment of a 1% assets tax (*Impuesto a los Activos*);
- amendment of the luxury property tax (*Impuesto sobre Viviendas Suntuarias y Solares*);
- introduction of a 17% tax on the CIF value (cost, insurance and freight) for the issuance of the first registration of motor vehicles;
- establishment of a 13% excise tax on the consumption of fossil fuels and oil products, except for electricity generation;
- an increase of the income tax rate from 25% to 30%, which would later be reduced gradually by year: 2007 (29%), 2008 (27%) and 2009 (25%);
- creation of a requirement that corporations and businesses make tax advance payments equal to 1.5% of their gross income;
- an increase of the excise tax rates imposed on the sale of certain appliances (such as microwaves, vacuum cleaners, toasters, radios and CD players);

- gradual removal of the tax on financial transfers and checks over a period of three years: 0.1% for 2007 (0.1%), 2008 (0.05%) and 2009 (zero);
- reduction of customs tariffs to zero on 2,903 tariff subheadings for raw materials, inputs, machinery and equipment once DR-CAFTA came into effect; and
- an increase to 10% of the tax on professional fees paid to individuals.

In December 2006, another fiscal reform was enacted by Law No. 495-06 (the “2006 Tax Law”), which was intended to counteract the fiscal imbalance which had resulted from lower-than-expected tax revenues and a lack of progress in reforming the electricity sector, which continued to require government subsidies to cover operating losses. Moreover, the 2006 Tax Law was intended to correct some of the shortcomings of the previous reform. The 2005 Tax Law did not compensate for the loss of revenue due to the elimination of the foreign exchange commission on imports and therefore, the fiscal target established in the IMF Stand-by Arrangement could not be achieved, leading to a deficit of GDP in 2006. The measures implemented in the 2006 Tax Law included:

- the substitution of the VAT on insurance services with a 16% excise tax;
- the indefinite postponement of the removal of the tax on checks and financial transfers;
- the establishment of an upper limit of US\$30,000 on the FOB value of the exemptions on vehicles, except for those granted by special laws;
- the implementation of several administrative measures, including tax vouchers and advance pricing agreements between related companies (targeting the tourism sector);
- the inclusion of the excise tax in the tax base of the VAT on alcoholic beverages and cigarettes;
- the creation of a new excise tax on cigarettes and alcoholic beverages equal to 100% and 15%, respectively of the retail price of these products;
- an increase of DOP3.00 in the excise tax per gallon on diesel and DOP5.00 for regular gasoline;
- an increase in the tax on imported fuel from 13% to 16%;
- the introduction of a tax on vehicles based on the value of the automobile, replacing the tax on license plates;
- an increase of taxes on betting parlors, slot machines and casino gaming tables; and
- the establishment of a tax on lottery shops of DOP31,000 per year.

During 2009, the Republic’s leading economic indicators weakened as a result of the global economic crisis. The Government implemented a program to stimulate recovery through short-term counter-cyclical policies of increased public spending and a reduction of the tax burden on consumers. Furthermore, the Government maintained the level of budgetary expenditures in those institutions that carry out infrastructure works, without neglecting social spending.

Some of the measures implemented since late 2008, were:

- elimination of the tariff per cargo paid by commercial airlines;
- granting of subsidies to the electricity sector, to the consumption of liquid petroleum gas (LPG), on fuel prices and to exporting companies established in free zones; and

- exemptions from the payment of income tax advances, tax on assets and income tax withholding on payments made by the Government to the agricultural sector.
- tax incentives to bookstores and libraries;
- debt forgiveness to all employers with delays or omissions in the payment of the contributions to the Dominican Social Security System (SDSS);
- tax breaks for individuals on education expenses;
- 0.5% reduction in tax withholding on payments made by the Government for the procurement of goods and services and an exemption from the payment of the 2.0% ad-valorem tax for re-registration of a second mortgage and from excise taxes on insurance services to companies in the agricultural sector;
- creation of a DOP200.0 million fund for 2009 to meet requests for the compensation of the VAT on affordable housing bought by low income families; and
- changes to the incentives provided under the affordable housing project.

The 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 personal income tax brackets, which are adjusted annually to reflect inflation:

Annual Income ⁽¹⁾ (in DOP)	Rate (%) ⁽¹⁾
0 – 349,326.00	Exempt
349,326.01– 523,988.00	15.0% of the surplus of DOP 349,326.01
523,988.01– 727,761.00	DOP 26,199.00 plus 20.0% of the surplus of DOP 523,988.01
> 727,761.01	DOP 66,954.00 plus 25.0% of the surplus of DOP 727,761.01

(1) 2010 adjusted values by Internal Revenue Agency.
Source: Law No. 172-07

Under the 2005 Tax Law, the highest marginal personal income tax rate had been 30% (and was scheduled to be reduced gradually to 25% in 2009) and was applied to annual income over DOP900,000. However, on June 21, 2007, Law No. 172-07 (the “2007 Tax Law”) modified the annual income brackets and eliminated the gradual reduction of the highest marginal income tax rate, leaving it at 25% for annual income in excess of DOP604,672.01.

In addition, the 2005 Tax Law had set the corporate income tax rate at 30% (which was scheduled to be reduced gradually to 25% in 2009). However, the 2007 Tax Law eliminated the gradual reduction and set a 25% corporate income tax rate.

All businesses and corporations must make advance tax payments in twelve equal monthly installments. In the case of taxpayers whose effective tax rate is less than or equal to 1.5%, the amount of the advance tax payment is calculated by applying the 1.5% rate to the gross income declared in the previous fiscal year. For taxpayers whose effective tax rate is greater than 1.5%, the amount of the tax payment is equal to the tax paid on their previous tax statement. However, taxpayers that are considered small- and medium-sized enterprises are not required to make advance tax payments, but can make use of the special payment regime. In all cases, adjustments are made at year-end to reflect the changes in annual gross income for the current year.

The tax payment regime for businesses and legal entities was restructured on November 24, 2008, by Act No. 758-08, which approved the *Procedimiento Simplificado de Tributación* (Simplified Taxation Procedure). This

procedure allows certain taxpayers to pay income tax based on their purchases or gross income, and to pay VAT based on the difference between their income and purchases. Business suppliers that sell in bulk or detail with purchases reaching a maximum of DOP30,000,000 annually, as well as those without organized accounting whose income does not exceed DOP6,532,800 annually may use the special payment regime.

In 2008 and 2007, the income tax generated revenues of US\$1.7 billion in each year. During 2009, income tax revenues decreased by US\$184.4 million to US\$1.5 billion, as compared to revenues recorded during the comparable period in 2008.

Value-Added Tax

The Government imposes a VAT of 16% on all goods except for certain exempt 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. In 2008, VAT receipts generated US\$2.2 billion, compared to US\$2.0 billion in 2007. During 2009, VAT receipts generated US\$1.9 billion, reflecting a decrease of 9.6% as compared to the comparable period in 2008.

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.

Product	As of December 31,					February 2010 ⁽²⁾
	2005 ⁽¹⁾	2006 ⁽¹⁾	2007	2008	2009	
Whiskey ⁽³⁾	302.0	346.8	279.1	303.9	317.6	335.9
Rum ⁽³⁾	160.9	229.9	279.1	303.9	317.6	335.9
Wine ⁽³⁾	221.4	280.1	342.2	372.6	389.4	411.9
Beer ⁽³⁾	303.0	347.6	342.2	372.6	389.4	411.9
Cigarettes (in DOP per 10 unit box).....	6.7	8.4	8.4	14.2	14.8	15.6
Cigarettes (in DOP per 20 unit box).....	13.4	16.8	16.8	28.3	29.6	31.3

(1) Through December 1.

(2) 2010 values adjusted for projected annual inflation of 5.8%.

(3) in DOP per absolute alcohol liter.

Source: Internal Revenue Agency and 2005 Tax Law

On July 17, 2007, by Law No. 175-07, the Government decreased the excise tax applied to cigarettes and alcoholic beverages. The 100% excise tax on cigarettes was reduced to 20% and the 15% tax on alcoholic beverages to 7.5%. In addition, Law 288-04 of August 26, 2004 applied excise taxes on certain services, such as a 10.0% tax on telecommunication services, a 0.15% tax on the value of each transaction on checks and financial transfers, and a 16.0% tax on insurance services. 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 and a 16.0% tax rate on sale prices, each payable at the time of sale and which are required to be adjusted quarterly to reflect inflation. However, no adjustments for inflation have been made since April 2007. The following table sets forth the peso-denominated excise tax rates for gasoline products.

Product	Tax ⁽¹⁾ (December 2009)	Tax ⁽¹⁾ (January 2010)
	(in DOP per gallon)	
Premium gasoline.....	58.8	60.2
Regular gasoline.....	53.2	54.4
Premium diesel.....	34.2	34.9
Regular diesel.....	29.9	30.5

(1) Tax on fuel includes both the 16.0% VAT and the excise tax per gallon of gasoline.

Source: Fuel Tax Law, as amended by the 2005 Tax Law

Gasoline prices are adjusted by the Secretary of State for Trade and Industry 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\$982.9 million or 2.1% of GDP for 2008. In 2009, the fuel tax generated US\$844.3 million, recording a decrease of 14.1% as compared to 2008, and representing 1.8% of the GDP. Currently, by law, certain percentages of fuel tax revenues must be directed towards the payment of the Republic's public sector external debt, transferred to the Republic's provinces and municipalities, applied toward alternative energy, and divided among the Republic's political parties.

Tax Amnesty

In July 2007, with Law No. 183-07, the Government offered amnesty with respect to unpaid taxes that had accrued until 2006 to self-employed individuals and corporations with the objective of promoting transparency in income tax, VAT and real estate tax statements. Corporations and individuals that opted to take advantage of the tax amnesty and that prior to participating in the amnesty had not been audited were required to pay taxes based on the difference between the income tax paid in 2006 and the income tax generated in 2007 based on effective tax rates calculated by the Internal Revenue Agency. Similarly, taxpayers that had not declared their properties for purposes of real estate taxes could make use of the tax amnesty and pay unpaid taxes without surcharges.

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 VAT 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 VAT. However, a growing number of establishments are suspected of charging VAT to their customers but not reporting the collections to the Internal Revenue Agency.

Recent efforts to combat tax evasion include:

- Adoption of mandatory advance tax payments based 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.
- Changes in the Internal Revenue Agency, which include:
 - o 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;
 - o optimization of collection and monitoring methods through the use of improved information technologies;
 - o simplification of tax-payment methods through reductions in paperwork and increased use of computerized systems;
 - o creation of a consumer hotline and Internet sites through which tax evasion may be easily reported;
 - o establishment of adequate channels of communication with other government agencies in order to improve the sharing of information and facilitate monitoring;

- o implementation of tax vouchers (número de comprobante fiscal), which are required to be used in all sales;
- o development of a computerized mechanism by which to monitor VAT withholdings on credit and debit card purchases;
- o development of a computerized mechanism (impresoras fiscales) by which to monitor VAT withholdings on cash purchases; and
- o 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 database systems, and the adoption of fees and penalties for failure to register.
- Improvements in tax administration, including:
 - o Decree 369-09 which established an inter-institutional committee of public sector agencies to oversee the importation, distribution and consumption, of the hydrocarbon sector;
 - o Laws 226-06 and 227-06, which converted general directorates of taxes and customs into semi-autonomous entities with separate budgets;
 - o Law 173-07, which improved tax collection efficiency by eliminating taxes whose collection costs were higher than actual collected income and by clarifying and modifying tax payment procedures;
 - o Law 227-06, which made the Internal Revenue Agency an autonomous agency within the Central Government;
 - o Act No.10-04, which required employers to provide salary data to the Internal Revenue Agency to allow it to determine the amounts of social security and income taxes due by employees; and
 - o improvements in the mechanisms for VAT refunds, which are now either directly reimbursed (from a separate account which is funded with 0.5% of VAT revenues collected each month) or are used to offset other taxes owed.

Additionally, in November 2009, the Government and the IMF entered into a Stand-by Arrangement, for a term of 28 months, which outlines an economic program to strengthen the Government's capacity to respond to the global economic crisis. The main objective of this program is to boost economic recovery in an environment of macroeconomic stability and strengthen growth prospects by conducting a countercyclical policy in the short-term while achieving sustainability in the medium-term. This Stand-by Arrangement sets forth improvements in tax administration and compliance:

- In regards to the fuel tax, the Stand-by Arrangement envisions:
 - o improvement of the collection of the excise tax on fuels by shifting its management to the Internal Revenue Agency, as per Decree 924-09;
 - o transparency in the calculation of fuel parity price used to determine the final market price; and
 - o rationalization of fuel exemptions.
- Other measures included in the Stand-by Arrangement are the following:

- o the review of all legislation regarding tax breaks and exemptions with a view to improve the supervision and control of the incentives granted, eliminating those that do not conform with the objective of the legislation; and
- o strengthening of tax and customs administration through the increase in the level of integration between the two tax collection institutions (DGII and DGA) for the exchange of information and exploitation of synergies.

Budget

Under the Budget Law for the Public Sector, which was 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 of the Central Government and the municipalities. 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 Executive Branch 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 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 prior 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 2010 budget is based:

Principal Budgetary Assumptions for 2010

Projected real GDP growth.....	2.5%
Projected inflation	7.2
Projected external revenue	US\$2,135 million

Sources: IMF, Central Bank and Ministry of Finance

The Government’s 2010 budget projects fiscal revenues of DOP263.0 billion (US\$6.9 billion). This amount does not take into account external and internal financing resources. The budget projects public expenditures of DOP310.9billion (US\$8.2 billion), including grants.

The following table summarizes the Government’s preliminary principal budgetary targets for 2010.

Principal Economic Targets for 2010

Overall consolidated public sector deficit.....	4.0% of GDP ⁽¹⁾
Floor for 2010 on net international Reserves of the Central Bank.....	US\$2,015 million

(1) Including a balance of 0.0% for the rest of the non-financial public sector.

Sources: 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 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 contribution under this regime does not reach the minimum pension contribution established by law 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 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 December 31, 2009, the Republic's public external debt totaled approximately US\$9.0 billion, compared to US\$8.1 billion as of December 31, 2008.

The Republic's external debt includes:

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

As of December 31, 2009, approximately 80.9% 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)

	As of December 31,									
	2005		2006		2007		2008		2009 ⁽¹⁾	
	US\$	%	US\$	%	US\$	%	US\$	%	US\$	%
Official creditors:										
Multilateral debt:										
IDB.....	1,360.8	20.1	1,416.5	19.6	1,367.0	18.1	1,336.0	16.4	1,690.4	18.7
World Bank.....	411.7	6.1	438.9	6.1	472.2	6.3	450.3	5.5	748.1	8.3
IMF.....	400.5	5.9	459.4	6.3	547.0	7.2	492.3	6.1	766.5	8.5
CAF.....	—	—	—	—	—	—	55.4	0.7	75.0	0.8
Other.....	54.6	0.8	56.7	0.8	55.7	0.7	49.7	0.6	92.6	1.0
Total multilateral debt.....	2,227.6	32.9	2,371.5	32.8	2,441.9	32.4	2,383.7	29.3	3,372.6	37.3
Bilateral debt:										
Brazil.....	242.2	3.6	313.8	4.3	331.1	4.4	493.7	6.1	572.9	6.3
United States.....	775.5	11.4	553.6	7.6	504.1	6.7	444.1	5.5	375.4	4.2
Spain.....	346.6	5.1	317.8	4.4	322.9	4.3	466.8	5.7	361.3	4.0
Japan.....	169.3	2.5	147.6	2.0	137.1	1.8	161.9	2.0	145.8	1.6
Venezuela.....	194.5	2.9	480.9	6.6	733.1	9.7	1,261.7	15.5	1,487.1	16.5
Other countries.....	616.4	9.1	803.7	11.1	901.6	11.9	895.7	11.0	892.8	9.9
Total bilateral debt.....	2,344.5	34.6	2,617.5	36.2	2,930.0	38.8	3,723.9	45.8	3,835.3	42.5
Total official debt.....	4,572.1	67.5	4,989.0	68.9	5,371.8	71.2	6,107.6	75.1	7,207.9	79.8
Private creditors:										
Banks.....	318.1	4.7	366.2	5.1	418.0	5.5	395.5	4.9	324.5	3.6
Bonds ⁽³⁾	1,541.0	22.8	1,868.6	25.8	1,743.4	23.1	1,618.2	19.9	1,493.1	16.5
Suppliers.....	344.4	5.1	13.7	0.2	11.7	0.2	9.6	0.1	8.3	0.1
Total private sector debt.....	2,203.5	32.5	2,248.5	31.1	2,173.1	28.8	2,023.3	24.9	1,825.9	20.2
Total public sector debt.....	6,775.5	100.0	7,237.5	100.0	7,544.9	100.0	8,130.9	100.0	9,033.8	100.0
Total public sector external debt as a percentage of:										
GDP ⁽⁴⁾		20.1		20.2		18.3		17.8		19.3
Total exports.....		110.3		118.5		105.4		117.0		165.4

(1) Preliminary data.

(2) Excludes private guaranteed sector debt.

(3) Includes Global and Brady Bonds.

(4) GDP 1991 base.

Sources: 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 December 31, 2009
Medium- and long-term.....	US\$8,164.3
Short-term ⁽¹⁾	US\$869.5
Short-term debt (as a % of total public sector external debt).....	9.6%

(1) Debt due within a year, on a residual maturity basis.

Sources: Ministry of Finance and Central Bank

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

<u>Currency</u>	<u>Amount ⁽¹⁾</u>	<u>%</u>
U.S. dollar.....	7,304.6	80.9
Euro	711.6	7.9
Special drawing rights (SDRs) ⁽²⁾	788.2	8.7
Japanese yen	162.6	1.8
IDB Unit of Account ⁽³⁾	16.5	0.2
Canadian dollar	13.6	0.2
Korean won	17.2	0.2
Danish crown.....	7.0	0.1
Swiss franc	3.6	—
Norwegian crown	3.7	—
Pound sterling.....	2.7	—
Swedish crown	2.3	—
Total	<u>9,033.8</u>	<u>100.0</u>

(1) In currencies converted as of December 31, 2009.

(2) Unit of account used by the IMF. As of December 31, 2009, each SDR was equal to US\$1.6.

(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 December 31, 2009, each IDB Unit of Account was equal to US\$1.77.

Sources: Ministry of Finance and Central Bank

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

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Public sector external debt	6,775.5	7,237.5	7,544.9	8,130.9	9,033.8
Gross international reserves of the Central Bank	1,929.3	2,250.9	2,946.2	2,662.1	3,307.1
Public sector external debt, net of reserves	<u>4,846.2</u>	<u>4,986.6</u>	<u>4,598.7</u>	<u>5,468.8</u>	<u>5,726.7</u>

(1) Preliminary data.

Sources: Ministry of Finance and Central Bank

Debt Owed to Official Institutions

Historically, the IMF, the IDB and the World Bank have provided the Republic with financial support subject to the Government's compliance with stabilization and reform policies. As conditions to its lending under the 2009 Stand-by Arrangement, the IMF required the Republic to meet certain 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 arrears, 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, which evolved through a dialogue between the Government and the IMF, had a significant impact on Government policies. For further discussion of compliance with the criteria established by the IMF, see "— IMF."

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 2005 through 2009, the total amount of debt owed by the Republic to multilateral creditors increased 51.4%, from US\$2.2 billion in 2005 to US\$3.4 billion in 2009, representing 37.3% of the Republic's total public external debt. In 2009, the Republic made payments to multilateral lenders (including the IMF, the IDB, the World Bank and other institutions) in an aggregate amount of US\$316.1 million (including payments of principal, interest and commissions).

IDB

The IDB is the Republic's largest multilateral creditor. As of December 31, 2009, the Republic owed US\$1.7 billion to IDB, representing 50.1% of the Republic's total multilateral debt and 18.7% 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, as well as for budgetary support. In 2009, financing net of principal payments to the IDB (equal to disbursements minus principal amortizations) totaled US\$342.1 million, while disbursements minus principal and interest amortizations resulted in net total financing of US\$299.9 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 focus on supporting development projects, partially financing future budget deficits and providing technical assistance to the Government. For 2010, The Republic is expecting to receive disbursements for US\$425.0 million from the IDB of which US\$201.0 million are for the financing of various investment projects and for general budget support, US\$24.0 million correspond to the Facility against Natural Disasters and US\$200.0 million correspond to the final disbursement of the Fiscal Support loan of US\$500.0 million approved in 2009.

World Bank

As of December 31, 2009, the Republic owed a total of US\$748.1 million to the World Bank, representing 22.2% of the Republic's total multilateral debt and 8.3% of its total public external debt. World Bank loans have funded projects relating to agriculture and irrigation, education, health, energy and transportation, and have financed budgetary support programs.

In 2009, the Republic received financing net of principal payments of US\$297.5 million to the World Bank. Taking into account interest payments, the Republic received net financing from the World Bank totaling US\$277.2 million.

IMF

As of December 31, 2009, the Republic owed the IMF a total of US\$766.5 million, which equaled approximately 224% of its IMF borrowing quota at that date.

The IMF has signed three Stand-by Arrangements with the Republic, of which two are currently outstanding. The IMF approved on January 31, 2005 a Stand-by Arrangement for SDR\$437.8 million (approximately US\$665.2 million). This facility was designed to support the Republic's economic program with the IMF through May 2007, but was extended in February 2007 for an additional eight months, and concluded in January 2008. The Republic drew SDR\$437.8 million (US\$661.1 million) under this facility.

On November 9, 2009 the IMF approved a 28-month Stand-by Arrangement for the Republic in the amount of SDR\$1,094.5 million (approximately US\$1,754.1 million), to support economic measures designed to address the adverse effects of the global economic crisis. As of March 31, 2010, the Republic drew SDR\$200.0 million (US\$ 320.6 million) under this facility. In April 2010, the IMF approved the first review of the program and announced it would disburse an additional SDR\$79.27 million (US\$119.9 million). See "The Economy—2005-2009 Developments".

The Republic's access to the facility was conditioned on the Government meeting certain quantitative and qualitative performance criteria, which are shown in the tables below:

Dominican Republic: Quantitative Performance Criteria 2009-2010^{(1) (2)}

	Dec. 2009	2010			
		Mar	Jun	Sep	Dec
Fiscal Targets					
Overall balance of the central administration (floor) ⁽²⁾⁽³⁾	(51.5)	(68.0)	(83.0)	(91.0)	(98.5)
Overall balance of the consolidated public sector (floor) ⁽²⁾⁽³⁾	(74.5)	(97.5)	(119.5)	(133.0)	(147.0)
Monetary Targets					
Net international reserves (floor) ⁽⁴⁾	1,815	1,715	1,665	1,715	1,815
Net domestic assets (ceiling) ⁽³⁾	—	—	—	65.0	80.0
Debt Targets					
Accumulation of public arrears with electricity generators (ceiling) ⁽²⁾⁽⁴⁾	—	—	—	—	—
Accumulation of external public arrears ⁽⁴⁾⁽⁵⁾	—	—	—	—	—

- (1) Targets defined in the Technical Memorandum of Understanding (TMU).
(2) Cumulative flows from December 2009.
(3) In billions of DOP.
(4) In millions of U.S. Dollars.
(5) Continuous target.

Dominican Republic: Structural Benchmarks for 2009-10

<u>Measure</u>	<u>Timing</u>
Tax Administration Reform	
A. Design a strategy to rationalize and limit tax exemptions, strengthen tax administration, and continue modernizing customs to achieve the medium-term revenue objectives of the program.	March 2010
Financial Sector Reform	
B. Design a plan to achieve compliance with all Basel core principles for effective bank supervision by 2012	March 2010
C. Design a plan to formally adopt a full-fledge inflation targeting framework by early 2012	June 2010
Recovery and Growth Enhancement	
D. Design a strategy to reform the electricity sector, including by eliminating indiscriminate electricity subsidies to achieve the medium-term budgetary expenditure objectives of the program	December 2009
E. Design a strategy to develop domestic capital markets and debt management including by lowering the country risk and the borrowing costs for the economy	September 2010
Social Safety Net	
F. Increase the permanent coverage of the conditional cash transfer program by 70,000 families living in extreme poverty	December 2009

Paris Club and Other Bilateral Lenders

As of December 31, 2009, the Republic owed a total of US\$1.7 billion to members of the Paris Club and an additional US\$2.1 billion to other bilateral lenders. As of December 31 2009, the Republic had no arrearages with Paris Club lenders or bilateral lenders. The Republic renegotiated the payment terms on US\$137.0 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. *Petróleos de Venezuela S.A.*, or PDVSA, is the Republic's single largest private creditor with an outstanding balance as of December 31, 2009 of US\$1.5 billion owed under the PetroCaribe Agreement. Under the PetroCaribe Agreement, Venezuela agreed to provide 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 70% financing available at prices of US\$150 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. Transportation charges are billed at cost to the Republic. See “The Economy— Principal Sectors of the Economy—Secondary Production—Electricity, Gas and Water—Electricity.”

Recently, bilateral lending from Brazil has increased significantly, a product of the fact that an increased number of contracts for investment projects have been awarded to Brazilian companies. These projects are financed by the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES), a Brazilian development bank that is government-owned, on terms that are equal to the most favorable terms offered by private banks.

Public External Bonds

As of December 31, 2009, the Republic's outstanding public external bonds totaled approximately US\$1.5 billion, and was composed of:

- US\$865.4 million outstanding principal amount of global bonds, consisting of bonds due 2011 and 2018 issued by the Republic pursuant to the exchange offers conducted in 2005 and the remaining bonds due in 2013 that were not tendered in the Republic's exchange offers;
- US\$328.6 million outstanding principal amount of Brady bonds which are discount bonds due in 2024, collateralized by zero-coupon U.S. Treasury 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"); and
- US\$300.0 million outstanding principal amount 8.625% amortizing bonds due 2027.

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\$23.8 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\$324.5 million to commercial bank creditors and US\$8.3 million to suppliers of goods and services to the Republic as of December 31, 2009. As of the same date, the Republic's total arrears with its suppliers were US\$6.0 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 in 2005. 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 increased from 3.1% of GDP in 2008 to 3.6% in 2009. Public sector external debt service measured as percentage of total exports of goods and services increased from 20.9% in 2008 to 31.1% in 2009.

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\$)

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
Interest payments	290.4	395.3	427.6	371.8	326.4
Amortization	538.0	1,016.8	981.2	1,039.3	1,373.0
Total public sector external debt service	828.4	1,412.1	1,408.7	1,411.1	1,699.4

(1) Preliminary data.

(2) Includes prepayment of installments owed to Union Fenosa for the repurchase of Ede Norte and Ede Sur.

Sources: Ministry of Finance and Central Bank

Public Sector External Debt Service Ratios⁽¹⁾⁽²⁾

	As of December 31,				
	2005	2006	2007	2008	2009 ⁽¹⁾
As a percentage of total exports.....	13.5%	21.4%	19.7%	20.9%	31.1%
As a percentage of GDP.....	2.5	3.9	3.4	3.1	3.6
As a percentage of current income	15.9	24.9	19.8	19.7	27.0
As a percentage of Central Bank's gross international reserves.....	42.9	62.7	47.8	53.0	51.4

(1) Preliminary data.

(2) GDP 1991 base.

Sources: Ministry of Finance and Central Bank

The following table sets forth the Republic's estimated public external debt service through 2014.

Estimated Public Sector Debt Service by Debtor⁽¹⁾
2010-2014
(in millions of US\$)

	2010			2011			2012			2013			2014		
	Principal	Interest	Total	Principal	Interest	Total									
Central Bank:															
Reserve liabilities due to															
IMF	164.2	13.6	177.8	188.8	27.8	216.6	123.2	39.7	162.9	85.8	39.2	125.0	350.7	29.3	380.0
Non-reserve liabilities	11.2	10.4	21.6	10.7	10.7	21.4	9.3	14.9	24.2	8.6	16.3	24.9	8.6	16.9	25.5
Total Central Bank	175.4	24.0	199.4	199.5	38.5	238.0	132.5	54.6	187.1	94.4	55.5	149.9	359.3	46.2	405.5
Public Sector															
Non-financial public sector															
Central Government.....	742.2	464.1	1,206.3	681.8	289.2	971.0	555.4	257.6	813.0	870.5	237.1	1,107.6	994.8	202.0	1,196.8
Privately publicly guaranteed	1.0	0.3	1.3	1.0	0.3	1.3	1.0	0.3	1.3	1.0	0.3	1.3	1.0	0.3	1.3
Total non-financial public sector	743.2	464.4	1,207.6	682.8	289.5	972.3	556.4	257.9	814.3	871.5	237.4	1,108.9	995.8	202.3	1,198.1
Financial public sector	1.4	0.2	1.6	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.2
Of which:															
Banco de Reservas	1.3	0.1	1.4	-	-	-	-	-	-	-	-	-	-	-	-
Total public sector	744.6	464.6	1,209.2	682.9	289.6	972.5	556.5	258.0	814.5	871.6	237.5	1,109.1	995.9	202.4	1,198.3
Total public sector debt⁽²⁾	920.0	488.6	1,408.6	882.4	328.1	1,210.5	689.0	312.6	1,001.6	966.0	293.0	1,259.0	1,355.2	248.6	1,603.8

(1) Preliminary estimates conducted in February 2010, based on disbursed debt as of December 31, 2009.

(2) Includes total Central Bank debt service.

Sources: Ministry of Finance and Central Bank

Domestic Debt

As of December 31, 2009, the Republic's domestic debt primarily consisted of:

- DOP32.5 billion (US\$900.9 million) outstanding principal amount of peso-denominated bonds and US\$250.0 million of dollar-denominated bonds issued by the Government in the local market;
- peso-denominated loans totaling DOP37.0 billion (US\$1.0 billion) and dollar-denominated loans totaling US\$246.5 million from *Banco de Reservas* to the Government;
- peso-denominated loans totaling DOP5.8 billion (US\$159.6 million) from other domestic commercial banks totaling US\$95.7 million from *Banco de Reservas* to other public sector institutions;
- peso-denominated certificates totaling DOP194.0 billion (US\$5.4 billion) issued by the Central Bank; and
- peso-denominated bonds totaling DOP82.7 billion (US\$2.3 billion) issued by the Central Government for the Central Bank Recapitalization Plan.

As of December 31, 2009, approximately 92.7% 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⁾

	As of December 31,				
	2005	2006	2007	2008 ⁽²⁾	2009 ⁽²⁾
Treasury Bonds (Law 104-99)	—	—	—	—	—
Treasury Bonds (Law 172-03)	137.3	139.9	138.1	132.9	130.0
Treasury Bonds (Law 119-05)	—	35.4	75.5	72.6	—
Treasury Bonds (Law 120-05)	—	—	7.8	45.9	45.1
Treasury Bonds (Law 121-05)	112.0	114.2	112.7	108.5	106.1
Treasury Bonds (Law 359-07)	—	—	—	141.8	92.4
BC Recap Bonds (Law 167-07)	—	—	—	1,954.6	2,294.7
Treasury Bonds (Law 490-08)	—	—	—	250.0	250.0
Treasury Bonds	—	—	—	—	527.3
Central Bank Certificates	3,899.5	4,693.9	5,171.5	5,182.7	5,381.5
Central Government other liabilities ⁽³⁾	577.1	639.6	469.6	938.7	1,338.5
Other public sector institutions liabilities ⁽³⁾	148.4	182.2	198.9	355.4	255.2
Gross domestic debt total	4,874.3	5,805.2	6,174.2	9,183.2	10,420.9
Consolidated domestic debt total ⁽⁴⁾	4,806.2	5,735.8	6,105.7	7,162.7	8,061.7
Total public sector domestic debt as % of GDP	14.2%	16.0%	14.8%	15.7%	17.3%

(1) Converted to U.S. dollars using the exchange rate at the end of the period.

(2) Preliminary data.

(3) Includes indebtedness of the non-financial public sector with domestic commercial banks.

(4) Gross domestic debt minus Central Government liabilities of the Central Bank's hands (Laws No. 121-05 and 167-07).

Sources: Ministry of Finance and Central Bank

In 2008, the Republic issued US\$250.0 million in domestic bonds, the proceeds of which were transferred to the CDEEE to cover the deficit of the national electric sector. The bonds accrue interest at 8.0% per year and were issued in three series, which mature in June 2010, 2011 and 2012.

Central Bank Recapitalization Plan

In 2008, Congress approved Law No.167-07, which contained the Central Bank Recapitalization Plan, intended to establish the legal and financial mechanisms through which the accumulated losses of the Central Bank are to be covered completely and continuously in order to achieve the total recapitalization and to define the treatment applicable going forward in relation to the operational results of the Central Bank.

The Recapitalization Plan is designed to cover the Central Bank's total losses through the issuance by the Government of treasury bills and bonds over a ten-year period, which will be held by the Central Bank. The issuance of these treasury bills and bonds started on January 1, 2008. These issuances generate interest at a rate that is linked to the coupon rates of instruments issued by the Central Bank with the same maturity. Payment of interest by the Republic to the Central Bank will allow the Central Bank to reduce its operational losses, also known as the quasi-fiscal deficit. The interest payments generated by the treasury bills and bonds will be stipulated in the national budget for each year according to the following scale:

<u>Year</u>	<u>Payments as a % of GDP</u>	<u>Year</u>	<u>Payments as a % of GDP</u>
2007	0.5	2012	1.0
2008	0.6	2013	1.1
2009	0.7	2014	1.2
2010	0.8	2015	1.3
2011	0.9	2016	1.4

On January 1, 2008, the Ministry of Finance issued four series of discount treasury bills with maturities of three, six, nine and twelve months, each in a principal amount of DOP5.0 billion in an aggregate principal amount of DOP20.0 billion and bonds with maturities of three, five and seven years in an aggregate principal amount of US\$50.1 billion. The bills were replaced at maturity by bonds and at the end of 2008, the aggregate principal outstanding amount of the instruments for the Recapitalization Plan was DOP68.9 billion, consisting of bonds with maturities of three, five and seven years.

On January 1, 2009, the Ministry of Finance issued bonds to the Central Bank with maturities of three, five and seven years in an aggregate principal amount of DOP13.8 billion. Of that amount, DOP10.0 billion corresponded to bonds maturing in three and five years, with coupon rates of 16.0% and 17.0% respectively. The remaining DOP3.8 billion were allocated to bonds maturing in seven years with a coupon rate of 18.0%. As of December 31, 2009, the aggregate principal outstanding amount of the instruments for the Recapitalization Plan was DOP82.7 billion, consisting of bonds maturing in three, five and seven years.

Moreover, in compliance with the provisions of Law No.167-07, during 2009 the Ministry of Finance made interest payments to the Central Bank for a total of DOP17.4 billion, of which DOP5.1 billion corresponded to interests due in 2008 that were programmed to be paid in the fiscal year 2009, according to the Law amending the total expenditure approved in the Public Income and Expenditure Budget Law for 2009, while the remaining DOP12.4 billion corresponded to accrued interest due in year 2009.

Pursuant to Articles 8 and 11 of Law No.167-07, these instruments are not redeemable in cash. They will be replaced at their maturity by new instruments with terms and conditions consistent with the market existing conditions (interest rates and maturity). After the Central Bank is fully recapitalized, the capital repayment will be done with the surplus generated by the Central Bank in each year.

The Interinstitutional Committee for the Recapitalization Plan, composed of Central Bank and Ministry of Finance technical staff, is currently in the process of reviewing of the Recapitalization Law and evaluating the merits of the current annual interest payment scale versus a more flexible schedule in terms of meeting fiscal and debt sustainability criteria in accordance with the Republic's monetary policy and balance of payments estimates.

Auction Program

In March 2009, the Ministry of Finance initiated a public auction program for the sale of bonds. The program contemplates monthly auctions published in the annual calendar of the Public Debt Office. Financial intermediaries such as commercial banks, savings and loans associations and brokerage firms authorized by the Securities Superintendency are invited to participate in the auctions.

The public auction serves as a reliable source of local financing for the Ministry of Finance and marks an important step for the diversification of the Central Government's debt portfolio into local currency instruments. The first approved series of bonds to be auctioned consisted of three series with maturities of two, three and five years in amounts of DOP5.5 billion, DOP12.0 billion and DOP1.5 million, respectively. The structure of the debt issuances is designed to increase liquidity in the secondary market for these maturities, which are to serve as the "benchmark" or the basis for establishing interest rates in the domestic market.

In order to promote the standardization of fixed income instruments in the region, the Ministry of Finance adopted the standards for the harmonization of national debt markets agreed upon in the Central American Monetary Council. The Public Debt Office intends to fully automate the auction process with the implementation of an electronic auction platform to allow participants to directly enter their bids electronically.

Law 498-08 (the Public Income and Expenditure Budget Law for 2009) covers all bonds issued through the Ministry of Finance's monthly public auction that are coordinated through the Public Debt Office. This law extends the favorable tax treatment of debt issued by the Government, making debt instruments issued by the Dominican Republic more attractive to investors. Investors may use bonds issued through these auctions to pay any type of obligation contracted with the Government, including the payment of taxes, debts, or other types of obligations.

Administrative Domestic Debt Service

As of December 31, 2009, arrears due to domestic suppliers of goods and services to the Government amounted to DOP4.2 billion, as compared to DOP3.8 billion as of December 31, 2008.

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

- placing the *Comisión Evaluadora de Deuda* (Commission on 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— Principal Sectors of the Economy—Secondary Production—Electricity, Gas and Water—Electricity."

Although the Government made an aggregate of US\$85 million in monthly average transfers (including payment for electricity services of some government institutions) to CDEEE in 2008 and certain generators accepted US\$250 million in treasury bonds as payment for arrearages, high oil prices and insufficient tariffs resulted in a current

debt to generators of US\$324.5 million in December 2009 compared to approximately US\$181.1 million in December 2008.

Nevertheless, the Government has made progress towards reform of the electricity sector, with transmission and distribution losses declining, and an increase in the cash recovery index from 48.5% from 2005 to 59.7% in 2009. However, challenges remain to ensure that the electricity sector has sufficient cash to purchase fuel and avoid curtailments in generation, and to address structural problems that have led to recurring financial shortfalls.

In May 2009, the Republic announced the re-nationalization of the distribution company EdeEste after reaching an agreement to pay US\$26.5 million to shareholder TCW for 51% of the company. In exchange, TCW agreed to give up all of its claims under international arbitration.

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:

- a 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:
 - o maturity extensions;
 - o effect of the agreement on net present value of the repayment profile; and
 - o 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 consummated during the course of 2005 and was completed in- 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 was submitted to the Dominican Congress and was approved in August 2006. The Republic also negotiated with two other private creditors the rescheduling of past due supplier financing amounting to approximately US\$8 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 reduced the debt service due to Paris Club creditors from US\$357 million to US\$220 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 exercised an option to satisfy all of the remaining installments of the purchase price due to Unión Fenosa for approximately US\$294.1 million using the proceeds of its 2006 bond offering.

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 Mellon (formerly 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\$750,000,000;
- provide for payment of principal in three equal installments to be made on May 6, 2019, May 6, 2020 and May 6, 2021, respectively;
- not be subject to optional redemption prior to their scheduled maturity;
- have a final maturity date of May 6, 2021;
- 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 7.500% per annum;
- accrue from the date of issuance or the most recent interest payment date;
- be payable semi-annually in arrears on May 6 and November 6 of each year, commencing on November 6, 2010 to the holders of record on the April 15 and October 15 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:
 - o 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;
 - o 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
 - o 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 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 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 9.04% 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 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 *Luxemburger 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, subject to the limitation mandated by the Constitution of the Dominican Republic which submits to Dominican Law and Dominican Courts all agreements executed between the Dominican Government (and any Public Entity) with foreign entities or individuals domiciled in the Dominican Republic,

- 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 the person from time to time discharging the function of Consul General of the Republic in New York City, with offices at 1501 Broadway, Suite 410, New York, New York 10036, 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:
 - o 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
 - o 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 depository 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 depository 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 depository for the global bonds and a successor depository 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 depository 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 the principal 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, financial institution, real estate investment trust, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects to use the mark-to-market method of accounting, investor that will hold the bonds as a hedge against currency risk or as a position in a “straddle” or conversion transaction or as part of a “synthetic security” or other financial integrated 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.

This discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular investor’s decision to invest in the bonds. 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 adviser.

Dominican Taxation

The following summary of the principal 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. 48-10 dated March 18, 2010. 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 advisers as to the consequences of the purchase, ownership and disposition of the bonds.

Pursuant to Article 7 of Law No. 48-10, 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 7 of Law No. 48-10.

United States Taxation

The following summary of the principal U.S. federal income tax matters is based on provisions of the U.S. Internal Revenue Code of 1986, as amended, and U.S. Treasury Regulations, rulings and judicial decisions in effect on the date of this offering memorandum. This summary does not address any tax consequences under U.S. federal estate, gift or other tax laws. For purposes of this summary, the term “United States person” means an individual who is a citizen or resident of the United States, a corporation or other entity treated as a corporation for U.S. federal income tax purposes 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 U.S. 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 one or more United States persons have the authority to control all of the trust’s substantial decisions or (ii) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a United States person. The term “United States” means the United States of America (including the States and the District of Columbia). If a partnership holds the bonds, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the bonds, you should consult your tax adviser.

Payments of Interest and Sale, Exchange or other Disposition of the Bonds

If you are a United States person, the interest you receive on the bonds will generally be subject to U.S. taxation and will be considered ordinary interest income on which you will be taxed at the time that such interest is accrued or received, in accordance with the method of accounting that you use for tax purposes.

If you are a United States person, 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 U.S. federal income tax purposes, which will be taxable as such). Your tax basis in a bond generally will equal the cost of the bond to you (reduced by any payments of principal received on the bonds by you before maturity). 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 U.S. federal income tax law as currently in effect, holders or beneficial owners of bonds that are not United States persons will not be subject to U.S. federal income taxes, including withholding taxes, on payments of interest on the bonds so long as the requirements described under “Backup Withholding and Information Reporting” are satisfied, unless the holder or beneficial owner 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, exchange or other disposition of the bonds by a holder that is not a United States person will not be subject to U.S. 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 certain other conditions are met.

Backup Withholding and Information Reporting

The paying agents will be required to file information returns with the U.S. 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 U.S. backup withholding tax in respect of such payments, unless such United States person (i) comes within certain exempt categories and demonstrates this fact, or (ii) provides a correct taxpayer identification number on a U.S. Internal Revenue Service Form W-9, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. 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 as a credit against your U.S. federal income tax liability, provided that you furnish the required information to the U.S. Internal Revenue Service.

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, Luxembourg and Austria instead (unless during that period they elect otherwise) 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 advisers regarding the application of Directive 2003/48/EC or any similar Directive.

PLAN OF DISTRIBUTION

Barclays Capital Inc. and Citigroup Global Markets Inc. are acting as joint book-running managers of the offering and as representatives of the initial purchasers named below. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each initial purchaser named below has severally agreed to purchase, and the Republic has agreed to sell to that initial purchaser, the principal amount of the bonds set forth opposite the initial purchaser's name.

Initial Purchaser	Principal Amount of Bonds
Barclays Capital Inc.....	US\$375,000,000
Citigroup Global Markets Inc.	375,000,000
Total	US\$750,000,000

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 initial purchasers may offer and sell the bonds through certain of their affiliates.

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 or any state securities laws 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."

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 Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

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. However, the Republic cannot assure you that the prices at which the bonds will sell 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.

The Republic estimates that its portion of the total expenses of this offering will be approximately US\$1,800,000.

In connection with the offering, the initial purchasers may purchase and sell bonds in the open market. Purchases and sales in the open market may include short sales, purchases to cover short positions and stabilizing purchases.

Short sales involve secondary market sales by the initial purchasers of a greater number of bonds than they are required to purchase in the offering.

Covering transactions involve purchases of bonds in the open market after the distribution has been completed in order to cover short positions.

Stabilizing transactions involve bids to purchase bonds so long as the stabilizing bids do not exceed a specified maximum.

Purchases to cover short positions and stabilizing purchases, as well as other purchases by the initial purchasers for their own accounts, may have the effect of preventing or retarding a decline in the market price of the bonds. They may also cause the price of the bonds to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

The Republic expects that delivery of the bonds will be made to investors on or about May 6, 2010, which will be the fifth business day following the date of this offering memorandum (such settlement being referred to as "T+ 5"). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, as amended, trades in the secondary market are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade bonds prior to the delivery of the bonds hereunder will be required, by virtue of the fact that the bonds initially settle in T+ 5, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the bonds who wish to trade the bonds prior to their date of delivery hereunder should consult their advisors.

The initial purchasers have performed commercial banking, investment banking and advisory services for the Republic from time to time for which they have received customary fees and reimbursement of expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for the Republic in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses.

Investors who purchase the bonds from the initial purchasers may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price set forth on the cover page of this offering memorandum.

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.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of bonds described in this offering memorandum may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the bonds that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or

- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of bonds described in this offering memorandum located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an “offer to the public” in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the bonds have not authorized and do not authorize the making of any offer of bonds through any financial intermediary on their behalf, other than offers made by the initial purchasers with a view to the final placement of the bonds as contemplated in this offering memorandum. Accordingly, no purchaser of the bonds, other than the initial purchasers, is authorized to make any further offer of the bonds on behalf of the sellers or the initial purchasers.

Notice to Prospective Investors in the United Kingdom

This offering memorandum is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) 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 (each such person being referred to as a “relevant person”). This offering memorandum and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

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 Squire, Sanders & Dempsey Peña Prieto Gamundi, 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 Squire, Sanders & Dempsey Peña Prieto Gamundi. 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 Squire, Sanders & Dempsey Peña Prieto Gamundi 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.

<u>Bonds Offered</u>	<u>CUSIP Number</u>	<u>ISIN Number</u>	<u>Common Code</u>
Rule 144A	25714P AK4	US25714PAK49	050735036
Regulation S	P3579E AH0	USP3579EAH01	050735273

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. 48-10;
- 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 Law 48-10, dated March 18, 2010.

Except as disclosed in this offering memorandum, since December 31, 2009, 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 December 31, 2009 (in millions of US\$)⁽¹⁾

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
MULTILATERAL INSTITUTIONS					
INTERNATIONAL DEVELOPMENT ASSOCIATION					
International Development Association	Government	21-Apr-1973	0.75 as commission	15-Nov-2022	5.07
International Development Association	Government	12-May-1971	0.00	1-Oct-2020	1.32
International Development Association	Central Bank	11-Sep-1971	0.75	15-Nov-2020	1.68
Total International Development Association					8.07
INTER-AMERICAN DEVELOPMENT BANK					
Inter-American Development Bank	Government	14-Jun-1982	2.00	24-Sep-2021	0.35
Inter-American Development Bank	CDEEE	17-Jul-1972	0.00	6-Mar-2022	2.17
Inter-American Development Bank	Government	15-Jul-1978	0.50	18-Abr-2028	0.94
Inter-American Development Bank	Government	12-May-1973	1.25	24-Ene-2013	2.87
Inter-American Development Bank	Government	11-Ago-1973	2.00	8-May-2013	0.18
Inter-American Development Bank	Government	01-Ene-1974	2.00	24-Nov-2013	2.46
Inter-American Development Bank	Government	05-Oct-1974	2.00	9-Ago-2014	2.76
Inter-American Development Bank	Government	25-Nov-1974	2.00	24-Oct-2014	6.12
Inter-American Development Bank	Government	03-Abr-1976	2.00	20-May-2015	6.34
Inter-American Development Bank	Government	16-Nov-1977	2.00	24-May-2017	5.60
Inter-American Development Bank	Government	15-May-1979	2.00	6-Abr-2019	1.13
Inter-American Development Bank	Government	15-May-1979	2.00	6-Abr-2019	19.04
Inter-American Development Bank	Government	29-Dic-1979	2.00	15-Oct-2019	9.05
Inter-American Development Bank	Government	30-Abr-1990	6.46	6-Ene-2010	5.88
Inter-American Development Bank	Government	31-Dic-1979	2.00	15-Oct-2019	8.09
Inter-American Development Bank	Government	20-Ene-1980	2.00	24-Nov-2019	12.35

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Inter-American Development Bank	Government	20-Ene-1980	2.00	24-Nov-2019	13.08
Inter-American Development Bank	Government	15-Ene-1982	2.00	24-Ene-2021	4.86
Inter-American Development Bank	Government	15-Sep-1981	2.00	16-Mar-2021	10.66
Inter-American Development Bank	Government	13-Jun-1982	2.00	13-May-2021	2.98
Inter-American Development Bank	Government	14-Jun-1982	2.00	24-Sep-2021	2.36
Inter-American Development Bank	Government	16-Nov-1982	2.00	23-Sep-2022	21.53
Inter-American Development Bank	Government	18-Jun-1982	2.00	6-Mar-2022	9.48
Inter-American Development Bank	Government	31-May-1984	2.00	14-Feb-2024	0.95
Inter-American Development Bank	Government	25-Ene-1995	Variable (IDB)	20-Nov-2019	10.61
Inter-American Development Bank	Government	30-Abr-1990	2.00	13-Feb-2030	29.24
Inter-American Development Bank	Government	20-Feb-1992	2.00	12-Jun-2031	21.87
Inter-American Development Bank	Government	15-Jul-1993	2.00	8-Jul-2032	28.70
Inter-American Development Bank	Government	25-Jul-1997	Variable (IDB)	13-Oct-2026	38.43
Inter-American Development Bank	Government	15-Nov-1994	2.00	1-Jun-2034	45.76
Inter-American Development Bank	Government	15-Jul-1997	Variable (IDB)	30-Sep-2021	37.04
Inter-American Development Bank	Government	25-Ene-1995	2.00	20-Nov-2034	11.80
Inter-American Development Bank	Government	29-Ago-1998	Variable (IDB)	20-Feb-2023	45.92
Inter-American Development Bank	Government	31-Ago-1998	Variable (IDB)	20-Feb-2023	15.32
Inter-American Development Bank	Government	31-Ago-1998	Variable (IDB)	20-Feb-2023	8.79
Inter-American Development Bank	Government	26-Sep-2000	Variable (IDB)	18-Jul-2023	7.60
Inter-American Development Bank	Government	11-Ago-1999	Variable (IDB)	3-Oct-2023	36.83
Inter-American Development Bank	Government	22-May-1999	Variable (IDB)	3-Oct-2023	6.00
Inter-American Development Bank	Government	24-Jun-1999	Variable (IDB)	2-Dic-2023	55.36
Inter-American Development Bank	Government	24-Jun-1999	Variable (IDB)	2-Dic-2023	16.32
Inter-American Development Bank	Government	28-Mar-2001	Variable (IDB)	27-Abr-2019	16.81
Inter-American Development Bank	Government	13-Oct-2000	Variable (IDB)	5-Sep-2024	13.75
Inter-American Development Bank	Government	26-Sep-2000	Variable (IDB)	22-Sep-2019	6.73
Inter-American Development Bank	Government	26-Sep-2000	Variable (IDB)	22-Sep-2019	1.79
Inter-American Development Bank	Government	28-Mar-2001	Variable (IDB)	10-Nov-2025	15.75

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Inter-American Development Bank	Government	27-Nov-2001	Variable (IDB)	14-Feb-2026	36.37
Inter-American Development Bank	Government	21-Nov-2001	Variable (IDB)	2-Ago-2021	133.92
Inter-American Development Bank	Government	27-Nov-2001	Variable (IDB)	14-Feb-2026	7.05
Inter-American Development Bank	Government	21-Nov-2001	Variable (IDB)	2-Ago-2021	26.08
Inter-American Development Bank	Government	26-Feb-2003	Variable (IDB)	29-Abr-2027	49.92
Inter-American Development Bank	Government	30-Ene-2004	Variable (IDB)	30-Jul-2027	60.86
Inter-American Development Bank	Government	23-Mar-2004	Variable (IDB)	24-Mar-2028	4.74
Inter-American Development Bank	Government	06-Ago-2004	4.82	8-Ago-2023	8.40
Inter-American Development Bank	Government	02-Nov-2005	Variable (IDB)	4-Nov-2028	3.44
Inter-American Development Bank	Government	23-Mar-2004	4.82	23-Sep-2023	84.85
Inter-American Development Bank	Government	24-Ago-2005	Variable (IDB)	24-Ago-2023	5.17
Inter-American Development Bank	Government	13-Ene-2007	Variable (IDB)	15-Jul-2030	6.48
Inter-American Development Bank	Government	03-Ago-2007	Variable (IDB)	5-Ago-2026	150.00
Inter-American Development Bank	Government	14-Ago-2007	Variable (IDB)	16-Feb-2032	4.08
Inter-American Development Bank	Government	04-Jul-2008	LIBOR 6m + 0.09	6-Jul-2030	1.05
Inter-American Development Bank	Government	04-Jul-2008	Variable (IDB)	6-Jul-2032	10.50
Inter-American Development Bank	Government	04-Jul-2008	Variable (IDB)	6-Jul-2032	20.00
Inter-American Development Bank	Government	07-Jul-2008	Variable (IDB)	9-Jul-2030	0.28
Inter-American Development Bank	Government	31-Dic-2008	Variable (IDB)	9-Jul-2030	0.53
Inter-American Development Bank	Government	04-Jun-2009	Variable (IDB)	6-Dic-2028	60.00
Inter-American Development Bank	Government	12-Nov-2009	Variable (IDB)	15-Ago-2014	300.00
Inter-American Development Bank	Government	18-Dic-2009	Variable (IDB)	30-Sep-2034	39.00
Inter-American Development Bank	Central Bank	25-Mar-1976	2.00	6-Abr-2016	2.40
Inter-American Development Bank	Central Bank	31-Dic-1980	2.00	6-Ene-2021	2.87
Inter-American Development Bank	Central Bank	15-Nov-1995	Variable (IDB)	21-Nov-2015	46.33
Inter-American Development Bank	Central Bank	N/A	0.00	19-Dic-1978	4.43
Total Inter-American Development Bank					<u>1,690.40</u>

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
WORLD BANK					
World Bank	Government	15-Sep-1997	1.37	15-Oct-2012	30.11
World Bank	Government	29-Ago-1998	LIBOR 6m	15-Oct-2014	14.34
World Bank	Government	23-Ago-1998	LIBOR 6m	15-Abr-2015	1.26
World Bank	Government	30-Oct-1992	Variable (World Bank)	15-Sep-2011	0.26
World Bank	Government	30-Oct-1992	Variable (World Bank)	15-Sep-2011	14.48
World Bank	Government	20-Feb-1992	Variable (World Bank)	15-Sep-2011	2.78
World Bank	Government	31-Ene-1997	LIBOR 6m	15-May-2015	9.93
World Bank	Government	31-Ene-1997	Variable (World Bank)	1-May-2015	0.17
World Bank	Government	25-Jun-1997	LIBOR 6m	15-Oct-2015	18.58
World Bank	Government	25-Jun-1997	Variable (World Bank)	15-Oct-2015	0.32
World Bank	Government	8-Jun-1999	7.18	15-Abr-2014	39.42
World Bank	Government	10-Dic-2000	4.90	15-Sep-2015	6.22
World Bank	Government	15-Oct-2000	LIBOR 6m	15-Abr-2017	3.39
World Bank	Government	20-May-2001	LIBOR 6m	15-Oct-2017	2.10
World Bank	Government	31-Dic-2001	5.73	15-Abr-2018	18.52
World Bank	Government	14-Nov-2003	5.88	15-Oct-2019	24.83
World Bank	Government	31-Dic-2004	4.88	15-Abr-2020	25.78
World Bank	Government	3-Mar-2004	5.49	15-Oct-2020	91.66
World Bank	Government	10-Ago-2005	4.88	15-Oct-2020	5.25
World Bank	Government	4-Mar-2004	Variable (World Bank)	15-Oct-2020	6.11
World Bank	Government	10-Dic-2005	Variable (World Bank)	15-Abr-2022	100.00
World Bank	Government	14-Sep-2007	LIBOR 6m	15-Oct-2022	7.71
World Bank	Government	15-Nov-2008	LIBOR 6m + 0.50	15-May-2024	1.71
World Bank	Government	7-Abr-2009	LIBOR 6m	15-Nov-2037	23.08
World Bank	Government	7-Abr-2009	LIBOR 6m	15-Nov-2037	0.11
World Bank	Government	23-Nov-2009	5.29	15-Nov-2032	150.00

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
World Bank	Government	18-Nov-2009	5.29	15-Nov-2032	150.00
Total World Bank					748.10
EUROPEAN INVESTMENT BANK					
European Investment Bank	Government	15-Jul-1997	2.00	30-Jun-2014	7.00
European Investment Bank	Government	28-Feb-2001	1.00	20-Abr-2020	8.88
Total European Development Bank					15.88
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION					
Central American Bank for Economic Integration	Government	2-Jun-2009	Variable (CABEI)	6-Jun-2024	46.30
Total Central American Bank for Economic Integration					46.30
INTERNATIONAL AGRICULTURAL DEVELOPMENT FUND					
International Agricultural Development Fund	Government	30-Nov-1996	4.00	15-Ene-2014	1.99
International Agricultural Development Fund	Government	30-Sep-1999	Variable (IADF)	15-Ene-2019	8.69
Total International Agricultural Development Fund					10.67
NORDIC DEVELOPMENT FUND					
Nordic Development Fund	Government	23-Ago-1998	0.00	15-Jun-2033	6.94
Nordic Development Fund	Government	23-Ago-1998	0.75	15-Jun-2038	4.11
Total Nordic Development Fund					11.04
ANDEAN DEVELOPMENT CORPORATION					
Andean Development Corporation	Government	30-Dic-2008	LIBOR 6m + 1.80	29-Dic-2020	75.00
Total Andean Development Corporation					75.00
INTERNATIONAL MONETARY FUND					
International Monetary Fund	Government	12-Nov-2009	Variable FMI	1-Nov-2014	313.54
International Monetary Fund	Central Bank	N/A	Variable FMI	16-Feb-2011	452.96
Total International Monetary Fund					766.50

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
MULTILATERAL INVESTMENT FUND					
Multilateral Investment Fund	Central Bank	N/A	0.00	N/A	0.60
Total Multilateral Investment Fund					0.60
TOTAL MULTILATERAL INSTITUTIONS					3,372.56
FOREIGN GOVERNMENTS					
AB SVENSK EXPORTKREDIT	Government	16-Oct-2000	0.00	1-Mar-2012	1.04
ABN AMRO BANK, Spain	Government	31-Oct-1999	5.91	23-Jul-2010	1.20
ABN AMRO BANK, Spain	CDEEE	11-Ene-2002	7.25	24-Dic-2010	0.53
ABN AMRO BANK, Spain	Government	25-Mar-2002	5.39	6-Jul-2012	2.62
ABN AMRO BANK, Spain	CDEEE	9-Sep-2003	6.25	13-Sep-2013	5.40
ABN AMRO BANK, Stocolm	Government	7-Jul-2003	LIBOR 6m + 0.20	31-Jul-2013	21.95
ABN AMRO BANK, Copenhagen	Government	7-Jul-2003	LIBOR 6m + 0.50	1-Jul-2015	21.67
ABN AMRO BANK, Copenhagen	Government	24-Jun-2003	LIBOR 6m + 0.60	1-Dic-2015	25.00
French Development Agency	Government	15-Mar-1999	3.00	30-Abr-2017	1.38
French Development Agency	Government	15-Dic-2000	2.25	30-Abr-2025	3.88
French Development Agency	Government	31-Mar-2000	2.50	31-Oct-2019	0.51
French Development Agency	Government	30-Jun-2002	2.50	31-Oct-2018	21.42
International Development Agency	Government	23-Feb-2006	2.50	25-Jun-2010	0.06
International Development Agency	Government	23-Feb-2006	2.50	27-Ene-2010	0.16
International Development Agency	Government	23-Feb-2006	2.00	11-May-2011	0.13
International Development Agency	Government	23-Feb-2006	3.00	1-May-2013	0.67
International Development Agency	Government	23-Feb-2006	3.00	5-Feb-2015	2.99
International Development Agency	Government	23-Feb-2006	2.00	11-Mar-2017	4.99
International Development Agency	Government	26-May-1988	4.28	7-Dic-2014	2.62
International Development Agency	Government	23-Feb-2006	2.00	15-Abr-2016	1.42
International Development Agency	Government	23-Feb-2006	2.00	25-Ago-2013	0.42
International Development Agency	Government	2-Nov-1986	3.00	20-Ene-2014	0.71

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
International Development Agency	Government	20-Oct-1993	2.83	30-Jun-2012	10.22
International Development Agency	Government	23-Feb-2006	4.75	1-Oct-2016	1.28
International Development Agency	Government	23-Feb-2006	2.82	1-Oct-2016	37.64
International Development Agency	Government	5-Dic-2006	4.88	1-Oct-2017	0.95
International Development Agency	Government	5-Dic-2006	2.82	1-Oct-2017	24.46
International Development Agency	Central Bank	6-Jun-1970	3.00	29-Dic-2010	0.39
International Development Agency	Central Bank	16-Sep-1982	3.00	1-May-2011	0.18
International Development Agency	Central Bank	15-Nov-1981	3.00	25-Ago-2011	0.66
International Development Agency	Central Bank	15-Nov-1981	3.00	25-Ago-2011	0.94
International Development Agency	Central Bank	15-Nov-1981	3.00	14-Nov-2011	0.77
International Development Agency	Central Bank	16-Oct-1982	3.00	3-Jun-2013	0.40
International Development Agency	Central Bank	15-Nov-1981	3.00	1-Ene-2012	0.09
International Development Agency	Central Bank	15-Nov-1981	3.00	27-Oct-2011	0.17
AKA Ausfunhrkredit -Gesellschaft	Government	20-Feb-2004	4.99	1-Ene-2022	35.05
AKA Ausfunhrkredit -Gesellschaft	Government	10-Ene-2007	0.28	1-Abr-2020	39.66
ARTIGIANCASSA	Government	6-Nov-1990	1.50	14-Ene-2011	0.85
ARTIGIANCASSA	Government	31-Ene-1992	1.50	17-May-2011	0.67
Bank of France	Government	20-Oct-1993	2.90	30-Jun-2012	0.83
Bank of France	Government	20-Oct-1993	2.90	30-Jun-2012	0.06
Bank of France	Government	23-Feb-2006	2.46	1-Oct-2016	0.47
Bank of France	Government	23-Feb-2006	2.46	1-Oct-2016	0.49
Bank of France	Government	23-Feb-2006	4.45	1-Oct-2016	0.47
Bank of France	Government	5-Dic-2006	2.52	1-Oct-2017	0.31
Bank of France	Government	5-Dic-2006	2.52	1-Oct-2017	0.43
Bank of France	Government	5-Dic-2006	4.45	1-Oct-2017	0.39
Banco de Comercio Exterior de Colombia	Government	5-Mar-2004	4.00	10-Sep-2011	7.51
Banco Nacional de Comercio Exterior de Mexico	Government	28-Nov-2001	8.50	4-Oct-2014	2.68
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	16-Jul-1983	Variable (IADF)	30-Dic-2009	1.73
Banco de Desarrollo y Social de Venezuela (previously FIV)	Government	16-Jul-1983	Variable (IADF)	30-Dic-2011	11.73

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Bank of America	Government	8-May-2002	LIBOR 6m + 0.30	25-Abr-2013	2.06
Bank of America	Government	8-May-2002	LIBOR 6m + 0.30	25-Abr-2013	0.55
Banco Bilbao Vizcaya Argentaria	Government	29-Abr-2006	5.43	17-Ago-2011	2.75
Banco Bilbao Vizcaya Argentaria	Government	27-Jul-2006	5.43	17-Ago-2011	2.87
Banco Bilbao Vizcaya, Milán	Government	28-Ene-2004	4.83	30-Sep-2014	14.11
Banca Popolare S.C., London	INDRHI	29-Dic-2000	6.27	17-Mar-2010	0.12
The International Commercial Bank of China	Government	11-Ago-1999	4.50	21-Dic-2013	3.33
Banco Nacional de Desenvolvimento Econômico y Social	Government	1-Oct-1997	6.62	22-Jul-2013	1.14
Banco Nacional de Desenvolvimento Econômico y Social	Government	23-Ene-2003	6.15	21-Jul-2010	1.25
Banco Nacional de Desenvolvimento Econômico y Social	Government	16-Ene-2004	4.75	3-Mar-2016	73.28
Banco Nacional de Desenvolvimento Econômico y Social	Government	22-Abr-2002	7.91	18-Dic-2014	71.72
Banco Nacional de Desenvolvimento Econômico y Social	Government	30-Sep-2005	6.09	18-Oct-2017	49.47
Banco Nacional de Desenvolvimento Econômico y Social	Government	5-Jul-2007	6.48	18-Jul-2019	71.26
Banco Nacional de Desenvolvimento Econômico y Social	Government	18-Jul-2007	7.12	18-Jul-2019	81.18
Banco Nacional de Desenvolvimento Econômico y Social	Government	25-Ago-2008	6.33	25-Feb-2021	10.17
Banco Nacional de Desenvolvimento Econômico y Social	Government	25-Ago-2008	5.89	25-Feb-2021	33.76
Banco Nacional de Desenvolvimento Econômico y Social	Government	31-Oct-2008	6.63	19-May-2021	67.90
Banco Nacional de Desenvolvimento Econômico y Social	Government	15-Nov-2008	6.53	4-Dic-2020	54.73
Banco Nacional de Desenvolvimento Econômico y Social	Government	5-Jul-2007	8.61	18-Jul-2017	17.78
Banco Nacional de Desenvolvimento Econômico y Social	Government	14-Jul-2009	3.42	14-Jul-2019	18.39
Banco Nacional de Desenvolvimento Econômico y Social	Government	14-Jul-2009	3.56	14-Jul-2019	20.78
BNP PARIBAS, Belgium	Government	12-Ago-2007	EURIBOR 6m + 0.20	22-Sep-2019	138.97
BNP PARIBAS, Belgium	Government	8-Ene-2002	LIBOR 6m + 1.05	16-Oct-2012	5.04
BNP PARIBAS, France	Government	12-Feb-2002	LIBOR 6m + 1.30	25-Ago-2013	13.88
BNP PARIBAS, France	Government	12-Feb-2002	LIBOR 6m + 1.30	25-Jun-2013	8.21
Banco Santander Central Hispano , Milán	Government	12-Abr-2001	7.26	3-Oct-2011	7.06
Brazil Central Bank	Central Bank	N/A	LIBOR	N/A	0.11
Chile Central Bank	Central Bank	N/A	LIBOR	N/A	0.10
Commerzbank Belgium	Government	16-Mar-2004	LIBOR 6m + 0.20	10-May-2019	5.36

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Commodity Credit Corporation	Government	20-Oct-1993	3.50	30-Jun-2012	17.15
Commodity Credit Corporation	Government	23-Feb-2006	4.88	1-Oct-2016	37.01
Commodity Credit Corporation	Government	23-Feb-2006	3.64	1-Oct-2016	13.90
Commodity Credit Corporation	Government	5-Dic-2006	5.75	1-Oct-2017	27.36
Commodity Credit Corporation	Government	5-Dic-2006	3.50	1-Oct-2017	8.60
Compañía Española de Seguros y Crédito a la Exportación	Government	23-Feb-2006	LIBOR 6m + 0.40	1-Oct-2016	35.73
Compañía Española de Seguros y Crédito a la Exportación	Government	23-Feb-2006	EURIBOR 6m + 0.40	1-Oct-2016	1.16
Compañía Española de Seguros y Crédito a la Exportación	Government	5-Dic-2006	LIBOR 6m + 0.40	1-Oct-2017	29.71
Compañía Española de Seguros y Crédito a la Exportación	Government	5-Dic-2006	EURIBOR 6m + 0.40	1-Oct-2017	0.94
Citibank	Government	15-Nov-2001	6.84	25-May-2013	8.92
French Foreign Trade Insurance Company	Government	23-Feb-2006	4.45	1-Oct-2016	4.71
French Foreign Trade Insurance Company	Government	23-Feb-2006	LIBOR 3m + 0.5	1-Oct-2016	0.12
French Foreign Trade Insurance Company	Government	5-Dic-2006	4.45	1-Oct-2017	3.16
French Foreign Trade Insurance Company	Government	5-Dic-2006	LIBOR 3m + 0.5	1-Oct-2017	0.10
Deutsche Bank, S.A.E	Government	20-Feb-2004	0.275	30-Sep-2020	34.77
Deutsche Bank, S.A.E	Government	14-Ago-2001	5.50	16-Sep-2018	28.08
Deutsche Bank, S.A.E	Government	14-Ago-2001	5.12	17-Mar-2014	4.12
Deutsche Bank, S.A.E	Government	14-Ago-2001	4.97	5-Mar-2010	0.81
Deutsche Bank, S.A.E	Government	18-Jul-2006	4.52	18-Ago-2014	11.01
Deutsche Bank, S.A.E	Government	10-Ene-2007	EURIBOR 6m + 0.125	29-Mar-2019	38.27
Deutsche Bank, S.A.E	Government	20-Feb-2004	5.23	8-Jun-2021	37.18
Deutsche Bank, N.Y.	Government	22-Ene-2004	LIBOR 6m + 0.65	15-Ene-2010	1.59
Deutsche, London	Government	10-Ene-2007	EURIBOR 6m + 0.275	30-Nov-2018	32.39
Department of Defense	Government	23-Feb-2006	4.88	1-Oct-2016	1.49
Department of Defense	Government	5-Dic-2006	5.00	1-Oct-2017	1.10
Export Development Corporation	Government	1-Nov-2002	LIBOR 6m + 1.00	23-Jun-2016	29.96
Export Development Corporation	Government	1-Nov-2002	LIBOR 6m + 1.00	15-May-2015	32.24
Euler Hermes	Government	23-Feb-2006	4.20	1-Oct-2016	4.89

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Euler Hermes	Government	5-Dic-2006	4.20	1-Oct-2017	4.04
Export-Import Bank of the United States	Government	23-Feb-2006	UST + 0.5	1-Oct-2016	19.91
Export-Import Bank of the United States	Government	5-Dic-2006	UST + 0.5	1-Oct-2017	17.75
Fortis Bank, N.V.	Government	13-Jul-2001	LIBOR 6m + 1.00	27-Feb-2013	1.26
Fortis Bank, S.A. Spain	Government	12-Ene-2007	EURIBOR 6m + 0.125	30-Nov-2018	14.24
Fortis Bank, N.V.	Government	13-Jul-2001	LIBOR 6m + 1.00	27-Feb-2013	7.65
Fortis Bank, N.V.	Government	13-Dic-2001	LIBOR 6m + 1.00	28-May-2014	21.07
Fortis Bank, N.V.	Government	27-Mar-2004	EURIBOR 6m + 1.00	8-Nov-2014	6.55
Belgium Government	Government	31-Dic-1993	LIBOR 6m + 0.20	31-Dic-2020	0.82
HSBC Bank	Government	2-May-2003	LIBOR 6m + 0.50	15-Nov-2014	36.22
HSBC Bank	Government	3-May-2003	LIBOR 6m + 0.50	15-Nov-2014	43.96
HSBC Bank	Government	13-Ene-2004	LIBOR 6m + 0.75	15-Jun-2015	38.88
Industrial and Commercial Bank of China	Government	30-Nov-2000	3.50	15-May-2011	0.32
International Cooperation and Development Fund-CHINA	Government	15-Jun-2001	3.50	15-May-2026	3.33
Official Credit Institute	Government	20-Oct-1993	3.00	30-Jun-2012	2.64
Official Credit Institute	Government	21-Oct-2003	2.00	6-Nov-2019	11.16
Official Credit Institute	Government	10-Jul-1995	1.50	8-Ago-2025	4.44
Official Credit Institute	Government	22-Feb-1996	1.50	11-Mar-2026	5.03
Official Credit Institute	Government	2-Feb-1998	1.00	4-Feb-2028	4.58
Official Credit Institute	Government	2-Feb-1998	1.00	4-Feb-2028	4.96
Official Credit Institute	Government	17-Ago-1998	1.00	31-Ago-2028	2.97
Official Credit Institute	Government	10-Dic-1998	1.00	14-Dic-2028	3.61
Official Credit Institute	Government	10-Dic-1998	4.75	14-Dic-2028	2.59
Official Credit Institute	Government	10-Dic-1998	1.00	14-Dic-2028	2.20
Official Credit Institute	Government	28-Feb-2001	1.00	4-Jul-2030	22.85
Official Credit Institute	Government	1-Mar-1999	1.00	20-May-2029	10.26
Official Credit Institute	Government	29-Mar-1999	3.00	24-May-2014	0.57
Official Credit Institute	Government	10-Dic-2000	3.70	24-Feb-2030	2.10

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Official Credit Institute	Government	11-Ene-2002	1.00	15-Jul-2031	3.68
Official Credit Institute	Government	2-Ene-2002	2.60	10-Jul-2017	8.54
Official Credit Institute	Government	23-Feb-2006	2.50	1-Oct-2016	1.49
Official Credit Institute	Government	9-Feb-2006	2.50	1-Oct-2016	2.15
Official Credit Institute	Government	5-Dic-2006	2.50	1-Oct-2017	1.29
Official Credit Institute	Government	5-Dic-2006	2.50	1-Oct-2017	1.86
Official Credit Institute	Government	20-Oct-1993	3.00	30-Jun-2012	3.82
Japan International Cooperation Agency (a JBIC-OECF)	Government	12-Oct-1994	3.00	20-Mar-2024	67.31
Japan International Cooperation Agency (a JBIC-OECF)	Government	20-Oct-1993	4.30	30-Jun-2012	15.12
Japan International Cooperation Agency (a JBIC-OECF)	Government	23-Feb-2006	1.50	1-Oct-2016	21.55
Japan International Cooperation Agency (a JBIC-OECF)	Government	5-Dic-2006	1.50	1-Oct-2017	14.73
Export-Import Bank of Korea	Government	9-May-2007	1.70	20-Ago-2027	17.24
Kredit Für Wiederaufbau	Government	25-Jun-1997	2.00	30-Dic-2026	8.76
Kredit Für Wiederaufbau	Government	20-Jun-1998	2.00	30-Dic-2026	9.00
Kredit Für Wiederaufbau	Government	20-Oct-1993	3.75	30-Jun-2012	0.35
Kredit Für Wiederaufbau	Government	20-Oct-1993	3.50	30-Jun-2012	3.98
Kredit Für Wiederaufbau	Government	26-Feb-2005	4.50	30-Dic-2020	17.78
Kredit Für Wiederaufbau	Government	14-Oct-2003	3.43	30-Jun-2032	3.53
Kredit Für Wiederaufbau	Government	5-Dic-2006	3.06	1-Oct-2017	3.23
Land Bank of Taiwan	Government	24-Ago-2005	LIBOR 6m + 1.00	4-Ago-2021	13.09
M&T BANK	Government	14-Ene-2003	LIBOR 6m + 0.85	25-Mar-2012	19.33
Ministry of Economy, Commerce and Industry, Government of Japan	Government	23-Feb-2006	YLD JYP + 0.5	1-Oct-2016	14.85
Ministry of Economy, Commerce and Industry, Government of Japan	Government	23-Feb-2006	YLD JYP + 0.5	1-Oct-2017	12.29
NATIXIS	Government	14-May-1986	2.00	30-Jun-2016	1.64
NATIXIS	Government	13-May-1996	3.60	31-Dic-2018	3.36
Peru Central Bank	Central Bank	N/A	3.00	16-Dic-2012	2.04
Petróleos de Venezuela, S.A.	Government	6-Sep-2005	1.00	20-Mar-2034	1,401.51
Petróleos de Venezuela, S.A.	Government	31-Dic-2004	2.00	23-Sep-2021	72.15
Private Export Funding Corporation	Government	22-Nov-2002	LIBOR 6m + 1.75	15-Dic-2014	21.98

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
Private Export Funding Corporation	Government	25-Nov-2001	1.10	20-Sep-2010	3.00
Private Export Funding Corporation	Government	16-Nov-2002	LIBOR 6m + 4.169	15-Feb-2011	2.95
Private Export Funding Corporation	Government	24-Sep-2002	LIBOR 6m + 1.6	20-Jul-2013	10.08
Region Bank	Government	3-Mar-2006	LIBOR 6m + 0.75	15-Dic-2011	2.30
SCPB (A. AMEX)	Government	29-Abr-2006	LIBOR 6m + 1.75	15-Ago-2015	31.18
Société Generale - Canada	Government	6-Mar-2004	LIBOR 6m + 1.00	7-Dic-2015	36.55
Société Generale - Canada	Government	6-Mar-2004	LIBOR 6m + 0.75	22-Dic-2018	60.91
Société Generale - Canada	Government	6-Mar-2004	LIBOR 6m + 0.75	22-Dic-2010	14.13
Société Generale - Paris	CDEEE	31-Dic-2001	7.18	19-Ene-2012	1.81
Société Generale - Paris	Government	12-Ene-2007	4.75	18-Dic-2018	39.16
Suntrust Bank	Government	6-Feb-2003	LIBOR 6m	15-Feb-2015	31.48
Suntrust Bank	Government	28-Ago-2002	LIBOR 6m + 1.00	5-Mar-2010	0.45
Suntrust Bank	Government	3-Mar-2006	LIBOR 6m + 0.50	15-Jun-2015	10.64
WODA INT'L. CONS. E SERV. LTD. & COM./ S.N.	BNV	N/D	9.00	14-Abr-2020	1.00
TOTAL FOREIGN GOVERNMENTS					3,835.33

COMMERCIAL BANKS

ARGO FUND	Government	10-Ago-2006	7.63	30-Ene-2016	33.70
ABN, CHICAGO	Government	29-Ago-2006	LIBOR 6m + 3.25	22-Sep-2011	22.55
SCOTIABANK, CANADA	Government	23-Feb-2006	LIBOR 6m	2-Ene-2010	0.86
DEUTSCHE	Government	11-Ago-1999	7.50	2-Ago-2016	7.00
DEUTSCHE	Government	20-Feb-2004	EURIBOR 6M + 3.75	12-Feb-2014	27.56
DEUTSCHE	Government	30-Sep-2005	LIBOR 6m + 3.75	23-Dic-2010	5.56
DEUTSCHE	Government	14-Ago-2001	LIBOR 6m + 3.5	16-Jul-2009	-
DEUTSCHE	Government	23-Feb-2006	LIBOR 6m + 0.75	2-Ene-2010	5.90
DEUTSCHE	Government	22-Jun-2001	LIBOR 6m + 1.00	22-Nov-2017	51.93
BBVA	Government	23-Feb-2006	LIBOR 6m + 0.75	2-Ene-2010	7.88
BBVA	Government	23-Feb-2006	LIBOR 6m + 3.00	2-Ene-2010	0.17

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
ABN, HOLANDA	Government	23-Feb-2006	LIBOR 6m + 3.25	2-Ene-2010	3.63
ABN, COPENHAGEN	Government	23-Feb-2006	LIBOR 6m + 3.25	2-Ene-2010	0.56
ABN, HOLANDA	Government	23-Feb-2006	LIBOR 6m + 3.25	2-Ene-2010	0.48
ABN, HOLANDA	Government	23-Feb-2006	LIBOR 6m + 3.25	1-Ene-2010	0.35
ABN, HOLANDA	Government	28-Ago-2006	LIBOR 6m + 3.25	6-Oct-2011	7.50
ABN, HOLANDA	Government	9-Ago-2007	LIBOR 6m + 3.00	29-Ago-2016	24.67
BNP PARIBAS PARIS	Government	12-Ene-2007	EURIBOR 6M + 2.85	9-Mar-2014	12.98
FORTIS (USA)	Government	23-Feb-2006	LIBOR 6m + 0.50	2-Ene-2010	1.11
BNP PARIBAS PARIS	Government	5-Jul-2007	LIBOR 6m + 3.30	17-Jul-2014	25.00
HSBC	Government	23-Feb-2006	LIBOR 6m + 3.00	2-Ene-2010	1.13
HSBC	Government	23-Feb-2006	LIBOR 6m + 3.00	1-Ene-2010	1.67
DEUTSCHE	Government	31-Oct-2008	LIBOR 6m + 2.85	22-Nov-2015	20.00
DEUTSCHE	Government	5-Jul-2006	EURIBOR 6M + 4.00	26-Nov-2009	-
DEUTSCHE	Government	10-Ene-2007	EURIBOR 6M + 0.35	27-Mar-2014	33.39
Deutsche Bank, S.A.E	Government	28-Oct-2009	LIBOR 6m + 7.75	29-Dic-2015	20.00
BBVA, MILAN	Government	23-Feb-2006	EURIBOR 6M + 0.50	1-Ene-2010	0.94
BNP PARIBAS, BELGICA	Government	12-Ago-2006	EURIBOR 6M + 3.25	22-Sep-2011	7.92
CITIUK	ROSARIO DOM.	28-Jun-1994	LIBOR 6m + 0.8125	30-Ago-2009	-
CITIUK	ROSARIO DOM.	30-Ago-1994	LIBOR 6m + 0.8125	30-Ago-2024	12.08
BANK NY	Government	14-Ene-2003	9.04	23-Ene-2013	13.53
BANK NY	Government	25-Ene-2006	8.63	20-Abr-2027	300.00
BANK NY	Government	13-Abr-2005	9.50	27-Sep-2011	210.89
BANK NY	Government	13-Abr-2005	9.04	43123	640.99
CITIBANK Bonds w/ discount	Central Bank	28-Jun-1994	Libor	30-Ago-2024	309.25
CITIBANK Bonds w/ discount	Central Bank	28-Jun-1994	Libor	30-Ago-2024	6.40
TOTAL COMMERCIAL BANKS					1,817.62

Lender	Borrower	Approval Date (dd/mm/yyyy)	Interest Rate (as a %)	Maturity Date (dd/mm/yyyy)	Outstanding Amount as of December 31,2009
SUPPLIERS					
ATMOSPHERICS	CDEEE	27-Ene-1984	3.50	31-Dic-1989	0.07
BURNS & ROE	CDEEE	14-Feb-1984	3.50	31-Dic-1989	0.54
SYSTEMS C.	CDEEE	27-Nov-1980	8.55	31-Dic-1989	0.30
ASEA B.B.	CDEEE	30-Nov-1980	EURIBOR 6m + 0.275	31-Dic-1989	0.57
FIAT TTG	CDEEE	18-Ago-1983	10.00	31-Dic-1989	3.52
FIAT MARELLI	CDEEE	30-Jul-1980	7.75	31-Dic-1989	0.12
GEOLIDRO	CDEEE	29-Mar-1984	14.50	31-Dic-1989	0.38
HARZA	CDEEE	23-Sep-1985	LIBOR 6m + 3.00	31-Dic-1989	0.47
GMO TRUST	Government	15-Sep-2005	0.00	15-Sep-2011	2.29
TOTAL SUPPLIERS					8.26
TOTAL					9,033.76

(1) Currencies other than U.S. dollars are calculated at a rate published by the IMF on December 31, 2009.

(2) Debts that are in litigation or negotiation by CDEEE.

* Represents less than US\$0.01 million.

BNV	=	<i>Banco Nacional de la Vivienda</i> (National Housing Bank)
CDEEE	=	<i>Corporación Dominicana de Electricidad</i> (Dominican Electricity Corporation)
EURIBOR	=	Euro Inter-Bank Offered Rate
INDRHI	=	<i>Instituto Nacional de Recursos Hidráulicos</i> (National Hydraulics Resource Institute)
LIBOR	=	London Inter-Bank Offered Rate
N/A	=	Not Available
PROMIPYME	=	<i>Promoción y Apoyo a la Micro, Pequeña y Mediana Empresa</i>
ROSARIO DOM.	=	<i>Rosario Dominicana</i>

Source: Ministry of Finance and Central Bank.

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Attention: Global Finance – Corporate Trust

LUXEMBOURG LISTING AGENT, PAYING AGENT AND TRANSFER AGENT

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