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FINANCIALIZATION AND ECONOMIC DEVELOPMENT IN THE DOMINICAN REPUBLIC

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Abstract

In recent decades, productive and financial structures in the Dominican Republic have displayed traits similar to those throughout the region. In the financial sphere, there are similarities that line up with the financialization they have undergone, but with certain distinctive nuances. Analyzing the implications of this process is vital to understanding development in the country, as well as to making effective economic policies that achieve sustainable growth levels.

Keywords: Financialization; financial system; foreign direct investment; economic development.

1. INTRODUCTION

In recent decades, financialization in the region, characterized by the overwhelming presence of financial markets, financial actors, and financial institutions involved in transactions happening in national and international economies, has taken developing economies under its wing, too. Nevertheless, the conditions some countries face are very different than others.

The way in which the financial system and several aspects related to it, such as domestic and foreign financing, among other factors, have modified or conditioned the dynamics of developing countries in the region, especially the Dominican economy, by virtue of financialization, is the main focus of this paper. The role of foreign direct investment (FDI) and the internationalization of the financial system are aspects that cannot be disentangled from the financialization of the Dominican economy. Accordingly, they too shall be addressed.

Signs point to a situation in which the Dominican financial system, as well as the other related aspects mentioned, display very unique features of financialization with burgeoning levels of domestic and foreign debt, international reserves, FDI, and dynamics very similar to those seen in other developing countries in the region, but also with several differences, such as the paucity of foreign banking.

The rise of financialization in the Dominican Republic in recent decades poses a challenge to the economic authorities, as it brings with it both positive and negative effects. The former include better access to international funding through the mechanisms of a more developed financial system, from a regulatory standpoint, which now boasts a stock market, the Santo Domingo Stock Exchange (BVSD, in Spanish), and a more level playing field for the economic players, thanks to greater integration between the domestic and international markets, among other reasons. When it comes to the negative fallout, the country is now more financially dependent on foreign countries—with the exacerbating factor of a weak currency against the dollar—; monetary policy with no tie to productivity,[2] divorced from objectives, like employment, to give one example; extremely constrained fiscal policy, although at some times more than others;[3] and competition between the public and private sector for funding, to name just a few of the aspects discussed in this paper.

This study is divided into several sections. After conceptualizing financialization and its implications for development (see Section 2), I sketch out the financial outlook for the region (see Section 3), followed by an analysis of the financial system in the Dominican Republic through the effects of financialization on the composition of the banking subsystem, the role of foreign banking in the system, fluctuating domestic and foreign debt, the role of FDI and the BVSD, and the impact on development (see Section 4). Lastly, I present some final conclusions.

2. FINANCIALIZATION AND ITS IMPLICATIONS FOR DEVELOPMENT

According to Guttmann (2009), financialization refers to a complex process involving many different aspects, which has been dealt with by many economists, including Epstein (2005), who understood the term as the expanding role of financial motivations, financial markets, financial actors, and financial institutions in the transactions taking place in domestic and international economies.

To more rigorously illustrate the theoretical underpinnings of this study, Álvarez's (2013) study posits, in regard to financialization, the stances held by the post-Keynesian authors, the North American radicals, the French regulation school, and the Marxist economy.

In short, bear in mind, as discussed in this work, that the post-Keynesian school has tackled the interconnections between the new international financial context and changes in macroeconomic dynamics resulting from this context in depth (Arestis *et al.,* 2001, among other works). This standpoint complements that of several of the North American radical economists, tied to the Political Economy Research Institute, who have also investigated the phenomenon of financialization, focusing on the confrontation of interests taking place in the realm of enterprises (Epstein, 2005, among others).

Moreover, the French regulation school has pushed to the top of its research agenda the role of finances in the new "growth regime" (Aglietta, 2001; Boyer, 2000, among others). Outside of this regulatory school, other authors have also looked at the same focus of study in similar theoretical categories, like Plihon (2004), constituting the so-called "equity capitalism approach."

The contemporary Marxist economy has also spoken up in the debate on the financialization of the global economy. Such is the case of papers by Bellamy (2010), Chesnais (2003), Lapavitsas (2011), and others; they follow in the same vein as the Hilferding (1910) analysis from the earlier twentieth century.

As such, the phenomenon has been chipped away at by different schools of thought. According to Chesnais (2003), beginning in the mid-nineteen-eighties, financial capital's reach extended so far that it began to shape the level of and direction of investment, as well as the structure and distribution of income. Consequently, some economists hypothesized about the accumulation regime—which would be the successor of the Fordist regime—which would be a regime structured around relations originating away from the sphere of production and closer to the financial realm, coming to be known as a financial-dominated accumulation regime or a financialized accumulation regime.

The author also found that capital is valorized as a financial investment, and shares interests with corporate profits, representing the dominant fraction of capital, which drives accumulation forms and rates. The burgeoning importance of that capital is tied to the emergence of new systemic configurations and macroeconomic ties and unprecedented macro-social connections, at the heart of which are the financial markets and the new shareholders. With that said, according to Chesnais (2003), this still does not permit an affirmation, strictly speaking, that the world is facing a new accumulation regime, with institutions and relations able to keep conflicts and the contradictions inherent to capitalism reined in. Nor is the new viable accumulation regime endowed with any sort of stability. In the words of Arrizabalo (2014), the phenomenon of financialization does not exhibit any substantial content different outside of the arena of capitalism. The phenomenon, therefore, is embedded in the arena of capitalist imperialism.

Authors like Soto (2013) have studied financialization, and they serve as an interesting perch from which to gaze at the phenomenon in the Dominican economy. To that author, Latin America is facing a major need when it comes to productive financing—in opposition to financialization—which would allow it to access sustainable human development, in all senses of the word. The neoliberal model suggests that this development is attained via FDI, under a stable economic model, which is to say, with controlled inflation, a fiscal and trade balance or surplus, paving the way to productive modernization.

Because what underlies the different economic relationships between countries is the rational attitude of the economic players, according to the author, this attitude emanates from the fact that as a result of myriad crisis scenarios—increasingly common and profound—economic agents seek to protect themselves from the risks of financial transactions, and get ahead of the fallout of exchange rate and interest rate volatility, and the effects of over-leveraging. Likewise, the author claims, financial deregulation spurred greater competition for earnings, and the drive to earn more in as little time as possible, so every possible vehicle and tool began to be used, with agents resorting to all types of financial innovations, in particular, derivatives. The derivatives market by its nature is a self-regulated, opaque, over-leveraged, speculative, and highly risky market, where the majority of transactions take place in tax havens. The notional[4] value of the market went from 3.8 billion dollars in 1989 to 712 billion in 2012.

Characterizing a Financialized Economy

Given the background information described above briefly, any characterization of a financialized economy would depend on the theoretical framework used to explain it. Lapavitsas (2011), Panceira (2011), and Soto (2013) offer an interesting reference framework to looking at the financialization of the Dominican economy. Based on several of his positions, the idea is to showcase some relevant explanatory facts. The ultimate goal here is to demonstrate that the Dominican economy is not exempt from the financialization going on around the world and that the economy—especially its financial system—displays traits inherent to the financialization process, which could slow development progress in the country.

To Lapavitsas (2011), financialization means that companies gravitate toward open financial markets. Accordingly, as a result of the liberalization of capital accounts in developing countries, these countries have intensely experienced the effects of financialization, principally in the form of a tremendous inflow of capital in the form of FDI and investment in portfolios of foreign securities. As such, major amounts of international capital are flowing out of developed countries in search of profitable markets, especially developing countries.

A financialized economy, in the context of Latin America, to Soto (2013), is characterized by the following features, among others:

- Thanks to financial openness, interest rates no longer serve as a benchmark of national productivity and are rather set, in part, by considering the international financial markets and, especially, Federal Reserve rates, meaning the functional relation between interest rate and profit rate disappears.
- Competition for money between the public and private sector prevents the most dynamic sectors from getting financing from the market, distorting the prices of financial and non-financial assets and swaying how the participating economic agents behave.
- The shift in the financing pattern, via the privatization-foreignization of the banking system in the region, which went from a traditional model to one in which corporate subsidiaries have adopted the financial practices of their foreign parent companies, moving away from productive investment, has prompted profound economic stagnation. Big companies, as a result of the pressure to boost profits, have moved toward financialization, spurring the loss of productive functions (investment-employment), which have been supplanted by financial functions (the stock-marketization of liabilities and assets).
- Deregulation and liberalization throughout the region have narrowed the channels of funding, except in the transnational business segment. Also, the neoliberal financial model points to the privatization of elimination of the public development banking sector altogether, the objective of which is to grant credit to the national productive sector, as the drivers behind the reforms made to these institutions are inefficient and rather unproductive and push up the public deficit, so they should stop operating, or they should adopt private financial practices, like the use of derivatives.
- Financial innovations have led states to turn a blind eye to planning and depend a lot on foreign investment and income coming from the raw materials exported, including other sources of income. Small and medium-sized enterprises (SME) need to be financed by their suppliers or by the informal financial circuits. This means that heterogeneous financial systems, where practically only the large companies enjoy access to credit—both public and private—and SMEs that struggle to get it, which makes it impossible to build up a domestic market with its multiplicative benefits, with the ultimate purpose being human development.

3. FINANCIAL OUTLOOK FOR THE REGION

The current financial context in the region is permeated by the effects of the international financial crisis unleashed at the end of 2007. To Girón (2011), the regional financial crisis and its impact on development financing in Latin America precede the current financial crisis. The deepening of financial reforms, to a differing degree in each country, has weakened the zone's ability to confront volatility in both the financial markets and the markets for primary export products. The Latin American financial circuits belong to international financial circuits. The financial accumulation regime in the region is an evident fact, such that—as the author claims—financial intermediaries have managed to make growth over the past three decades in the region remain below that of other regions, especially when compared to the rates in the Asian countries.

Following in the footsteps of Vidal and Marshall (2016), several characteristics that fit right into the scenario in the region and the Dominican Republic emerge, in the wake of the Washington Consensus policies, promoted by banks in the United States and multilateral institutions like the IMF, plus with the support of large business segments and financial groups in Latin America, which changed the structures of the economies in the region fundamentally.[5] One of the most standout features is the loss of economic sovereignty in a large swath of the region, seen principally through: *a*) the independence of the central banks in many countries has moved monetary policy away from many of their domestic economies' principal needs, *b*) a pledge to do away with fiscal deficits, which, especially in times of crisis, entails an abdication of fiscal policy, *c*) the transformation of financial systems, dominated by public banking in systems characterized by the systemic presence of foreign banking, preventing countries from having a consistent national credit policy. Furthermore, there is a constraint on developing bank credit in national currency, producing a circuit that makes necessary resorting to foreign credit[6] and investments—made by the large companies in the region—in bonds in foreign currency.[7]

On the heels of the ideas above, when it comes to developing countries, Painceira (2011) offered a characterization of the financialization process. What stands out is that since 2000, particularly, when it comes to the United States—on which the Dominican Republic is still very dependent—international capital flows have taken off. Developing countries have also accumulated enormous reserves in foreign currency, with a net capital flow from developing to industrialized countries. As part of this process, as financial transactions between national and foreign investors were eased, both domestic and foreign debt have spiraled. In the words of the author, the development of the capitalist economy spurred the rise of the financial system endogenously, which in turn sparked even more capitalist development.

The outcome of this entire process, since 1990, according to the above author, is that in developing countries, there has been an increase in financial assets with respect to gross domestic product (GDP); moreover, short-term foreign debt has skyrocketed. The result is the intensification of financial exploitation of developing countries, spurred in part by the magnitude of the social costs of having reserves in foreign currency.

4. THE DOMINICAN FINANCIAL SYSTEM FROM THE PERSPECTIVE OF FINANCIALIZATION

The Evolution of the Dominican Financial System

Beginning with the springboard of financialization described above, below are several of the traits of how the Dominican financial system has evolved in recent years, composed principally of the banking subsystem and the stock exchange subsystem, the latter of which consists of the BVSD. This evolution took place in an environment defined by the set of economic policies derived from stand-by agreements signed with the IMF since 1985, when the first of these agreements was done.

Broadly speaking, growth is at 678.5%, looking at the volume of the financial assets in the Dominican financial system,[8] going from 175,224.40 million Dominican pesos to 1,645,481.59, in the period from December 2000 and March 2018. When it comes to diversification, added to the set of traditional financial instruments, at present, is the issuance of fixed- and variable-income instruments, both public and private, which the BVSA offers to investors.

Composition

The composition of the Dominican banking subsector has changed considerably in recent decades, with a shift from public to private banking.

According to Camacho (1991), the number of financial institutions participating in the regulated sector in 1989 was 85, of which 23 were commercial banks, 36 development banks, 16 mortgage-lending banks,[9] and 20 savings and loans associations. To these institutions are added others[10] subject to the control of the regulated sector: 491 financial, 33 credit card companies, 77 small-scale loan houses, 30 financial groups, 60 insurance companies, and one development foundation. Besides those, are eight other governmental institutions.

As far as major sources of funding for financial intermediaries (commercial banks, development banks, mortgage-lending banks, and savings and loan associations), returning to Camacho (1991), the paper pointed out that in 1987, 95% of commercial bank money came from the private sector and the rest from the Central Bank of the Dominican Republic. For development banks, the respective percentages are 54% and 46%. Finally, for mortgage-lending banks and savings and loan associations, their contributions are practically all to the private sector, 99% and 100%, respectively.

The share of commercial banking in credit markets in the nineteen-eighties fell significantly, driven primarily by the relative rise in the share of savings and loan associations. This change, according to Camacho (1991), seems to be the result of a significant increase in the share had by savings and loan associations. Despite the large number of specialized financial institutions, especially development and mortgage-lending banks, their proliferation has had a minimal impact on the distribution of total assets. In 1987, commercial banks granted 61% of all loans in the financial system, development banks, 9%, mortgage-lending banks, 18%, and savings and loan associations, 12%.

Development banking has played a limited role in mobilizing domestic resources, and commercial banks account for 62% of debt owed to the private sector. Development banks, 3%, mortgage-lending banks, 13%, and savings and loan associations, 22% (Camacho, 1991).

To the author, the financial viability of development banking is questionable, given high dependence on special resources—granted with preferential terms and rates—as was the case of the Investment Funds for Economic Development (FIDE, in Spanish), and the Investment Fund for Tourism Infrastructure (Infratur), principally, which have been on the downswing. Moreover, it is notable that the existence of these special funds has driven the concentration of resources in the hands of the upper economic and political echelons in the country.

When it comes to public banking, the Reserve Bank was the sole state commercial bank operating at the end of the nineteen-eighties, and was the largest financial intermediary in the country. Of the commercial banking sector, in 1987, it accounted for 37% of total loans, 25% of the deposits, 21% of capital and reserves—showing high financial leverage in comparison with other commercial banks, 36% of assets, and preferential treatment, evidenced by access to 45% of the Central Bank's resources (Camacho, 1991).

Since the end of 1986, according to Veloz (1990), the national financial system has behaved contingent on the conjugation of various factors, including, notably: *1*) the monetary authority's objective to put the brakes on the expansion of bank credit, shown in the setting of increasingly restrictive requirement' for commercial banks and commercial financial enterprises; *2*) the strong demand for credit derived from the economic reactivation induced by increased public spending; *3*) the change in the public's preferences for financial assets as a result of deteriorating exchange rate conditions and higher inflation. These aspects entailed concern for the prospects of the financial market as a whole, in light of the persistence of numerous pressures. On another note, the bankruptcy of diverse financial companies in the regulated sector entailed the loss of confidence in the stability of the financial system as a whole.

Likewise, to the author, the design of credit policy at that point in time sought to orient credit selectively, promote geographic and sectoral decentralization, shape the term structure of loans, and control the cost of money, with the ultimate purpose of facilitating financing to certain activities considered to be priority. Where credit policy is concerned, legal reserve, control of interest rates, advance and discount policies, and the allocation of money coming from specialized development funds were all used.

After three decades, the Dominican financial system showed many changes, including, importantly, the liberalization of interest rates,[11] the integration of national markets with international markets,[12] leading to banking law reforms (the reform of Law 708—initiated in 1992—and, subsequently, the approval of the Monetary and Financial Act, Law 183.02, which replaced Law 708), and the reduction of banking risk thanks to a new banking oversight model predicated on a consolidated foundation[13] and a risk-based approach, compared to the earlier accounting approach.

The number of financial institutions taking part in the regulated sector has changed a lot in recent years. In March 2018, there was a greater concentration (see Table 1) than there was in 1987.

Table 1. Composition of the Dominican Financial System
Volume of assets in millions of Dominican pesos as of March 2018 and percentage structure; 1987-March 2018

Type of Institution	*Number of Institutions Operating in 2018*	*Volume of Assets in 2018*	*Percentage Structure in 1987*[a]	*Percentage Structure in 2018*
All-Purpose (like Commercial) Banks	18	1 423 055.5	35.0	86.5
Savings and Loan Associations	10	177 137.0	58.0	10.8
Savings and Loan Banks[b]	18	35 808.0	7.0	2.2
Public Financial Intermediation Entities[c]	1	5 502.1	-	0.3
Credit Corporations[d]	11	3 978.9	-	0.2
Total Financial System (excluding foreign exchange and remission agents)	58	1 645 481.6	100.0	100.0

Notes: a) The classification in 1987 was different from how it is now: An All-Purpose Bank is considered the equivalent of a commercial bank, the National Housing and Production Development Bank (BNV) existed as a regulatory body, and the figure of credit corporations did not exist; b) Savings and Loan Banks include Development Banks and Mortgage Banks; c) Beginning on October 19, 2015, the BNV changed its fiscal name to the National Export Bank (Bandex); d) Credit Corporations include Financial Corporations and Small-Scale Loan Houses.

Source: Camacho (1991) and the Banking Superintendency.

The main sources of resources for financial intermediaries at present are from the private sector, which is very different from the situation at the end of the nineteen-eighties. The role of central banking as a financer of economic activity is now non-existent[14] and, therefore, the government's direct contribution to economic development via this form of financing is non-existent.

The distribution of total assets across different institutional groups with respect to 1987 is also different. At present, ownership of assets in the system held by commercial or what are called all-purpose banks is much higher than it was back then, and, on the other, savings and loan associations now have a lower share, which has entailed the migration of financial activity toward commercial banking, which has come to deal with financing consumption, production, and mortgage-related activities, among others; these functions were previously handled by the savings and loan associations and banks. To characterize the economic destinations of these loans, one important thing to note is that in April 2018, 40.1% of loans ended up being used for consumption and commerce, 17.0% to buying and remodeling housing and real

estate activities, and 8.7% to funding agricultural, livestock, similar, and manufacturing sectors. In the same period of 2018, multiple banking accounted for 86.5% of total obligations with the public, savings and loan associations, 10.9%, savings and loan banks, 2.2%, public financial intermediation entities, 0.3%, and credit corporations, 0.2%.

The Reserve Bank continues to boast a big piece of the total financial system asset pie (26.5% in March 2018). Notable is this entity's share in all funds available from all-purpose, or commercial, banks, at 30.7%, and 31.7% of the total loan portfolio held by these intermediation entities.

Credit policy at present is limited to the interest rate (known as the monetary policy rate), and legal reserves, principally.

On another note, the Agricultural Bank, the Reserve Bank, and the Export Development Bank (Bandex) also represent credit policy initiatives that have preferential rates with the goal of fueling the development of the country's productive structure. When it comes to micro-loans from the Reserve Bank, according to Sierra (2016), over the past four years (2012-2016), the Ministry of Industry and Commerce has fostered financing mechanisms to help SMEs access credit. Disbursements of this type in this time period climbed to nearly 20 billion Dominican pesos.

Table 2. Funding Micro, Small, and Medium-Sized Enterprises in the Dominican Republic. 1st and 2nd Tier Banks

	Micro-enterprises	*Small enterprises*	*Medium-sized enterprises*
1st tier	PROMIPYMES BNV BANRESERVAS	PROMIPYMES BNV BANRESERVAS Banco Agrícola	PROMIPYMES BNV BANRESERVAS Banco Agrícola
2nd tier	PROMIPYMES BANRESERVAS	PROMIPYMES BNV BANRESERVAS Banco Agrícola	PROMIPYMES BNV BANRESERVAS Banco Agrícola
Subsidies	GABINETE SOCIAL	GABINETE SOCIAL Banco Agrícola	Banco Agrícola

Source: Planet Finance (2011).

Foreign banking in the Dominican financial system

Unlike what happened in other countries in the region, like Mexico, Chile, and Argentina, among others, the Dominican Republic has not experienced a significant influx of foreign banks, given that the country has only a small market, so profit potential is modest as compared to what international banks can get by moving into other broader markets.

In the early nineteen-nineties, there were two major foreign banks operating in the country: Scotiabank and Citibank. At present, other banks have joined the ranks, like Bancamérica, Promérica, Banesco, and Lafise, with a share of total bank assets at 10.1% (144.0125 billion Dominican pesos as of March 2018),[15] and their share has grown since. However, international commercial banks clearly have a scant share on this indicator, which stands in contrast to other countries in the region, especially in Latin America.

Fluctuating Domestic and Foreign Debt

Another significant aspect of the changes ushered in by financialization in the Dominican Republic's economic model concerns changes in the debt structure, driven by both monetary policy design and the expansion of fiscal policy itself.

Given the commitments to price and exchange rate stability, sterilization has been the prime mechanisms wielded by the Dominican monetary authorities to counteract the inflationary fallout from the affluence of foreign capital originating from the accumulation of international reserves.

The consequence is that the rise in domestic debt in developing countries emanating from the financialization process is also visible in the case of the Dominican Republic (see Table 3). Between 2000 and 2017, domestic public debt rose 12.4%, moving to account for 14.4% of GDP (10.7223 billion dollars).

Table 3. Total Public Debt in the Dominican Republic
(in millions of dollars and in percentage)

Year (as of 31 December)	Domestic	Foreign	Total	% Public debt/GDP	% Domestic public debt/ GDP	% Foreign public debt/ GDP
2000	465.7	2 777.9	3 243.5	13.6	2.0	11.7
2001	619.0	3 338.5	3 957.5	16.1	2.5	13.6
2002	733.3	3 669.5	4 402.8	17.6	2.9	14.7
2003	558.6	5 185.6	5 744.2	28.1	2.7	25.4
2004	1 040.9	5 544.1	6 585.0	29.1	4.6	24.5
2005	974.9	5 847.1	6 822.0	20.2	2.9	17.3
2006	1 111.3	6 295.5	7 406.8	20.6	3.1	17.5
2007	1 002.6	6 555.6	7 558.2	17.2	2.3	14.9
2008	4 000.4	7 218.8	11 219.3	23.3	8.3	15.0
2009	5 039.3	8 214.7	13 254.0	27.5	10.5	17.1
2010	4 871.1	9 947.0	14 818.1	27.6	9.1	18.5
2011	4 967.5	11 625.6	16 593.1	28.5	8.5	19.9
2012	6 591.7	12 871.6	19 463.3	32.2	10.9	21.3
2013	8 284.4	14 919.4	23 203.8	37.9	13.5	24.4
2014	7 734.6	16 074.5	23 809.1	37.2	12.1	25.1
2015	7 907.6	16 246.1	24 153.7	35.1	11.5	23.6
2016	9 190.8	17 567.1	26 757.9	36.9	12.7	24.3
2017	10 722.3	18 821.3	29 543.6	38.9	14.4	24.8
Variation 2000-2017 (in millions of dollars and percentage points)	10 256.6	16 043.4	26 300.1	25.2	12.4	13.1

Source: Dominican Republic Office of Public Credit, <https://www.creditopublico.gov.do/>

Accordingly, the evolution of international reserves also evinces the country's insertion in the financialization processes taking place regionwide, particularly since the nineteen-nineties. Starting in the beginning of the aughts, reserve accumulation took off, skyrocketing from 384.9 million dollars in March 2003 to 6.9112 billion dollars in March 2018.

Recent years have witnessed an increase in foreign public debt by 13.1%, going from 11.7% to 24.8% of GDP, between 2000 and 2017, respectively.[16] As far as public debt, by virtue of the available statistics, it appears that in 2005, foreign debt came in at 5.8471 billion dollars, representing 17.3% of GDP. The balance held with multilateral creditors amounted to 1.7116 billion dollars, representing 29.3% of total foreign public debt, with the Inter-American Development Bank (IDB) the biggest player, with a balance of 1.2576 billion dollars. Bilateral debt was 2.3237 billion dollars (39.7% of total foreign public debt), as total private debt reached 1.8119 billion dollars (31.1% of foreign debt); the balance with international commercial banking amounted to 318.1 million dollars, accounting for 5.4% of foreign debt. Debt in bonds reached 1.1493 billion dollars, at 19.7% of foreign debt. On another debt, debt with foreign suppliers clocked in at 344.4 million dollars, equivalent to 5.9% of total foreign public debt.

As of December 31, 2017, Non-Financial Public Sector foreign public debt totaled 18.8213 billion dollars, equivalent to 24% of GDP. Of all foreign debt, 36.5% was debt contracted with official creditors (6.8637 billion dollars), of which multilateral bodies represented 23.6& and bilateral 12.8%. Debt with private creditors (11.9575 billion dollars) comprised 63.5% of the total, of which 61.4% were bonds, 2.1% with commercial banks, and the rest (0.03%) with other suppliers. The observation is thus a change in the composition of creditors over the time period analyzed, and, as such, an overall worsening of financing conditions, as the percentages of official and private debt practically inverted, which also lines up with the financing model from the standpoint of the finance supplier, as well as the expansion of debt, facilitated by easier access to capital markets.

It is important to keep in mind that according to Vidal and Marshall (2010), the border between foreign and domestic debt is blurry, due to the presence of financial derivatives and financial innovation. In the case of the Dominican Republic, in recent years, the government's domestic debt issues have likely come to be in part the property of foreigners, so they should be considered foreign debt, too, in the strictest sense, the but the statistics available do not contain this specific piece of information on the amount of debt in the hands of foreign investors.[17]

When it comes to exporting national resources to the rest of the world, in 2017, Table 4 shows the evolution of several relevant flows since the year 2000. In particular, in the period 2014-2017, capital flowed out to the rest of the world, consistent with the aforementioned highlighted trait of financialization. It has had a constraining impact on development.

The Role of FDI

In the time period 2000-2017 (see Table 4), FDI grew notably by 87.7%.[18] Many of the sectors previously dominated by national states, like hydrocarbons, electrical energy generation and distribution, telephone communications, commercial

banking, airports, ports, railroads, and other types of infrastructure, have started to be financed and/or operated by foreign investors through FDI. To the extent that financialization has entailed a greater flow of capital to the Dominican Republic, in particular, development funding has been conditioned by this phenomenon, linking the machinations of the Dominican economic system to FDI flows.[19] The role of GDI flows in funding Dominican development represents a major share of the same. According to the Central Bank, the cumulative amount in the time period 2010-2017 reached 19.8234 billion dollars. Development financing can happen through portfolio investments, which entered the country in 2017 for a value of 1.5001 billion dollars, lower than the FDI number, and which by nature, are less involved in economic development. Other sources include cross-border loans (public and private debt and other loans), but in 2017, positions were undone for a value of 2.8203 billion dollars. Remissions sent by immigrants (4.1964 billion dollars in 2017) are considered another source of development finance to many authors, but that is not exempt from a certain perversity.

Table 4. Net Inflow of Capital and Net Transfer of Resources from the Dominican Republic
(in millions of dollars)

	2000	2006	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net foreign direct investment	952.93	1 084.6	2 165.4	2 023.7	2 276.7	3 142.4	1 990.5	2 208.5	2 204.9	2 406.7	1 788.5
Current account balance	-1026.45	-1 287.4	-2 330.9	-4 006.3	-4 358.7	-3 970.6	-2 536.7	-2 140.6	-1 280.3	-977.6	326.2
Net capital inflow	957	1 632.1	2 968.7	4 473.0	4 698.1	3 422.7	3 680.4	2 333.8	1 687.2	1 757.2	-199.9
Net resource transfer	-84.27	-220.9	1 247.9	3 167.1	2 522.3	1 079.1	685.9	-930.8	-1 249.2	-1 606.4	-2 818.0

Source: ECLAC databases and statistical publications, <http://estadisticas.cepal.org/cepalstat/WEB_CEPALSTAT/estadisticasIndicadores.asp>

The Stock Market

The BVSD constitutes another instrument of financialization, and its development is noteworthy. On October 10, 2003, the Securities Superintendency gave it the authorization to operate and enroll in the Securities and Products Market Registry, after having met the requirements set out in the Securities Market Law No. 19-00, its Enforcement Regulations, and the provisions set forth in the First Resolution of the National Securities Council on December 17, 2002. Starting on October 10, 2003, and up until April 28, 2005, stock transactions were suspended so the market could be restructured. Transactions were reactivated on that latter date.

At present, it operates as a channeler of resources through a secondary market that promotes and facilitates the channeling of savings toward investment via the marketing of said securities, but does not play this function fully, as pursuant to the recent BVSD report (2016), of the set of volume traded through Primary Market (MP) and Secondary (MS) Fixed Income instruments, 45.1% were Central Bank instruments and 36.0% were Ministry of Finance instruments, both belonging to the secondary market. Stocks traded in 2016 amount to 150,666,761,626.5 Dominican pesos.

In the variable income market, the value traded in 2016 amounted to 2,460,670,341.5 Dominican pesos in the MP and 4,881,028,530.6 Dominican pesos in the MS. The Trust Law No. 189-11 entails a driver for the stock market, as does the increasingly relevant rise of investment funds (see Polanco, 2018).

5. FINAL CONSIDERATIONS

As has been demonstrated, the Dominican Republic shows traits of a financialized economy. Financial markets are increasingly open and receiving larger FDI and other capital flows. As far as FDI, however, and its tie to the national development strategy,[20] it is uncertain that it is a development instrument because the drivers of FDI exhibit a nature conditioned by profitability criteria, which do not automatically line up with development objectives.

Monetary policy in the country is coordinated through the inflation-targeting scheme and the resulting interest rate is known as the monetary policy rate, with no reference to national productivity. Knowing and looking at the evolution of productivity is relevant to a Central Bank because this variable is related to the price levels in an economy. Given that an increase in productivity has a positive impact on a country's production capacity, it offers some room to the Central Bank to carry out expansive policies to incentivize demand, like cutting the interest rate, without causing upward pressure on inflation, as the supply in the country will be able to satisfy growing demand. The inflation-targeting scheme also fuels the financialization of the financial system by increasing the levels of international reserves and domestic debt.

The banking system in the country has been privatized due to the practically non-existent role at present of development banks and mortgage banks that existed in the nineteen-eighties. In general, the holding is that the subsidiaries of multinational enterprises have their own financing mechanisms. National credit policy, in principle, would suffer the effects of other systems where the presence of foreign banking is stronger.

The source of financing for Dominican companies, which are fundamentally micro, small, and medium-sized enterprises at present, is limited.[21] According to Planet Finance (2011), the decision to reorganize the public productive development and financing scheme is an extremely complex policy decision, which is hard to solve. For that reason, Planet Finance contemplates several possibilities, like creating an MSME development agency (merging Promipymes, BNV, and the Agricultural Bank), and the reformulation of roles for each entity, among other strategies.

Competition for funding between the public and private sector—another characteristic of the financialization of the Dominican economy—can be observed in the fact that the BVSD, for example, transacts a large portion of public financial

assets (bonds, letters, and notes, among others), displacing the financing possibilities of private enterprises through the issuance of bonds. In 2016, 81.1% of fixed-income instruments traded in the primary and secondary markets were instruments issued by the Central Bank and the Ministry of Finance.

The country's financial dependence is exacerbated because the local currency is weak against the dollar, but nevertheless, exchange rate stability against the dollar is one of the monetary authorities' objectives, alongside price stability. On another note, the Dominican Republic plays a role of second-order asset in international speculation and does not have a big weight, as it is a small country.

Also, in accordance with Soto (2010), with respect to the region—and the Dominican Republic is no exception—in spite of all of the transformations of the finance and banking sector, specifically, they have not managed to achieve investment levels to develop a more dynamic domestic market,[22] which would foster job creation, given that the objective of much of the investment in the financial system is precisely the opposite: it seeks financial gain rapidly, although in a risky way, and this is achieved in the financial markets.

As such, it becomes necessary to rethink the functioning of the financial systems, and, in particular, of the banking system, as well as the role the monetary and financial authority must play to guarantee new paths to financing for the productive sector to jumpstart the economy and help it achieve sustainable growth levels that enable development.

In conclusion, these characteristics need to be kept as mind as weighty elements in any development strategy formulated, given that the Dominican Republic by its nature of financial insertion is affected by financialization. Its effects on the country are of a dual kind. First, they show some signs of the system to the extent that the country participates in the joint economic dynamics developed by different capitalist systems interacting economically with the country. Second, the effects reinforce the current conditions of pro-financialization in the measure that economic policy management is principally aligned with the framework of monetary fund adjustment policies, which are still present and observed, for example, through the "oversight" of said institution, through annual visits from its technicians.[23] It is therefore important to deeply study the negative effects of financialization to counteract their fallout as effectively as possible.

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[2] Rising productivity can lead to wage hikes, which are in turn conditioned by monetary policies.

[3] For example, at presence, given the lack of a stand-by agreement with the International Monetary Fund (IMF), there is certain control over public spending, but not as much as there would be under this sort of an agreement. Remember that a stand-by agreement is a typical credit instrument used by the IMF to grant loans to emerging and advanced markets.

[4] Notional value refers to the amount of foreign currency to be sold or bought. It is important to recall that when it comes to currency markets, there are always two notional values, as two currencies take part in the exchange. The participants in the transaction are always subject to two notional values; that of the currency being bought and that of the currency being sold.

[5] As a complement to that, as Girón stated (2011), development banking was fundamental to the development of Latin American countries in the institutional framework of the Bretton Woods System, up to the Washington Consensus, which deepened privatization and the foreignization of development and commercial banking. On another note, as Girón also pointed out, given that access to financing for much of the population fell behind in the last 30 years, social banking grew to fill the gap for development financing needs, which neither development nor commercial banking was able to meet.

[6] In the case of the Dominican Republic, as of 2017, loans amounted to 9,083.9 billion dollars, with loans to the government being the most important.

[7] In 2016, in the fixed-income market in the Dominican Republic, 9.7% of the trades came from corporate bonds, with some issuances in dollars.

[8] Financial statements from the consolidated national financial system of the Superintendency of Securities.

[9] Development banks and mortgage-lending banks were grouped under the name of Savings and Loan Banks.

[10] These institutions were run without being subject to the regulation of monetary authorities, adhering solely to the provisions of the Commerce Code, but beginning in 1985, the regularization process began (Veloz, 1990).

[11] In the nineteen-eighties began a process of financial deregulation and the reform of the financial system. Credit policy thus became less targeted and broader, extending the spectrum of portfolio decisions made by financial intermediaries. The deregulation of interest rates led to their free determination in the market; even the central Bank stop setting a basic liability rate. The policy brought with it real positive interest rates and fueled the integration of the financial system, by putting an end to the fragmentation and pressures on diverting funds. The financial system reform law expanded the oversight and audit powers of the financial entities, delivered greater autonomy, and earning objectives to state banks, and established that financial subsidies should be paid via budgetary allotments (Veloz, 1990).

[12] One consequence of the existence of fully-integrated financial markets is compliance with the single-price law, which means that financial assets with the same characteristics should have the same price. For example, if a company issues bonds in two different countries, it shall pay the same interest on buyers in the two countries. Likewise, if it issues shares, it should be the same regardless of the market where they are issued. This notion of financial integration also extends to the credit markets: a company or individual should be able to ask for a loan in the same conditions regardless of the bank from which financing is requested.

[13] This refers to the integral oversight that falls to a financial group or entities related to the financial sphere that comprise a group that can be consolidated, with the sole object of evaluating overall risk on the financial intermediation entity to determine equity needs at the aggregate level (Consolidated Base Supervision Regulation, 3rd Resolution from the Monetary Board, dated April 28, 2005).

[14] According to Article 15 of the Monetary and Financial Act, 2002: […] The duties that this law endows the Central Bank with shall not in any way violate the strict prohibition on granting credit to the Government or other public institutions, directly or indirectly, via financial entities or through the celebration of contracts whose price entails a subsidy for a public institution or, in any other mode, entails any type of subsidy. This prohibition shall not be understood as violated in cases where open-market transactions take place buying public debt bonds in the secondary market from financial entities, pursuant to the provisions of Article 26 of this law, nor in the execution of the stipulations of Article 84, paragraph b). […]

[15] In March 2001, Scotiabank and Citibank accounted for 7.3% (10.0803 billion Dominican pesos) of total private banking assets.

[16] The Dominican Republic Public Credit Office: new methodology

[17] An approximation is the sub-item for general government, in item 2.2 Debt Titles International Investment Position, which grew 934.7% between 2009 and 2017.

[18] Nevertheless, the FDI recorded by the Central Bank in 2017 climbed to 3.570 billion dollars, which would entail a major increase.

[19] The opening of the financial account in the nineteen-nineties was decisive in this process.

[20] In the National Strategy 2030, FDI is an extremely important indicator for the country, forecast to exceed 2.5 billion dollars by 2030.

[21] According to the Dominican Republic Social Security Treasury Financial Report (2012), less than 3% of registered companies (14) are large, as they employ more than five thousand employees.

[22] The investment rate has fallen, from 28.4% in 2007 to 21.8% in 2017.

[23] Despite the foregoing, on July 19, 2016, the Central Bank paid full payment of the balance of commitments entered into by the Dominican State with the FMI, as a result of expenditures pertaining to the stand-by agreement signed on October 6, 2009.

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