MINISTRY OF FINANCE
OF THE DOMINICAN REPUBLIC

Budgetary Policy for the Fiscal Year 2021

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1. Introduction

The Organic Law of the Ministry of Finance gives this institution the mission of preparing and proposing the fiscal policy of the government to the Executive Branch, as well as lead its execution and evaluation, ensuring fiscal sustainability in the short, medium and long term, all within the framework of the government's economic policy.

In his capacity as overseer of public finances and in compliance with the provisions of the Organic Law of Budget for the Public Sector (No. 423-06), the Ministry of Finance presents the Annual Budgetary Policy for the Non-Financial Public Sector (NFPS), which constitutes the frame of reference for the formulation of the General State Budget of the year next and is articulated from the updates of the Multiannual Financial Framework, Multiannual National Public Sector Plan and the Multiannual Budget.

Decree No. 492-07, which approves the Regulations for the Application of the Organic Budget Law for the Public Sector, establishes that the Annual Budgetary Policy consists of defining the orientations, priorities, regulations, production, main processes and other aspects to which must be adjusted by all the organisms governed by the Budget Law.

The elaboration of the Annual Budgetary Policy is an essential element to guarantee the sustainability of fiscal accounts, since it reconciles the public policy priorities of the government with the formulation and management of the annual budget, taking into account the relevant macroeconomic scenario for short-term fiscal policy design, contextualized with medium and long-term policy objectives.

2. Macroeconomic Context

In the face of the COVID-19 pandemic, the world economy is experiencing the greatest economic slowdown since the Great Depression. The IMF estimates in the June update of its report "Prospects for the World Economy" that in 2020 the global economy will suffer a sudden 4.9% contraction due to containment measures applied to contain progression of the virus. This represents a cut of 8.2 percentage points with respect to the forecast for beginning of the year.

For the first time in nearly a century, advanced economies and developing and emerging markets are jointly in a recession, which has exacerbated the uncertainty about the speed of economic recovery on a global scale. May Consensus Forecasts (CFC) estimates, which include the main analyst firms that carry out International projections, indicate that the US economy will contract 5.4%, more than twice as much as during the 2009 global financial crisis, while the Eurozone economy will suffer a 7.9% drop. Altogether, ECLAC projections point to the GDP of Latin America and the Caribbean falling by 5.3%, exhibiting the largest decline in its history.

During the first two months of 2020, domestic economic activity maintained a growth rhythm around its potential, a situation that was reversed with the cessation of non-essential economic activities, closure of the country's borders, the imposition of limitations on the mobility and the curfew to contain the first outbreaks of COVID-19 in the national territory, registered early March. These containment measures partially paralyzed productivity, severely impacting the Tourism, Commerce, Free Zones and Transport sectors, which meant that at the end of the first four months of the year economic activity exhibited a year-on-year decrease of 7.5%.

Suspension of operations of the foreign exchange generating sectors added to the accumulated fall of 4.6% in remittances during the first five months of the year, at the highest volatility in the flow of foreign capital and the increase in the demand for dollars for reasons precautionary and speculative, generated pressures on the exchange market that were translated in a greater slide of the exchange rate. Accumulated depreciation in mid-June was 9.7%, while in interannual terms it was 14.5%.

However, despite a higher currency depreciation, the domestic economy has enjoyed low inflationary pressures driven by the collapse of crude oil prices following the fall in global demand. Accumulated inflation during the first five months of the year stood at -1.25%, while the year-on-year variation measured from May 2019 to May 2020 was 0.99%, below the target range of 4.0% ± 1.0%. By extracting the most volatile components of the consumption basket in order to isolate the price movements associated with monetary conditions of the economy, a core inflation close to the lower limit of the target range is observed, with a year-on-year growth of 3.10%.

Beyond the domestic and international environment, the prospects for the Dominican economy are encouraging relative to what is projected for Latin America and the Caribbean. Multilateral organizations and risk rating firms stipulate that due to its solid macroeconomic foundations the

Dominican economy will be the least impacted in the region in terms of increase. With the de-escalation of containment measures, the economy is expected to return in the short term to the average levels of expansion experienced prior to the pandemic, which would allow growth in 2020 to gravitate to around [-1%, 1%]. By 2021, considering the economic rebound which will become evident after the different sectors recourse their usual activities post-economic de-escalation, coupled with a strong investment by the private sector supported by an aggressive investment plan by the Government, economic activity is expected to transit above its potential level, reaching the average growth recorded in the last eight years.

Regarding the evolution of prices, inflation is expected to remain below the limit lower than the goal established by the Central Bank during the rest of 2020. At the same time, it is estimated that the exchange rate registers an average depreciation of 11.2%, consistent with the higher pressures on the exchange market both on the supply side and on the demand side of foreign exchange. Despite higher real depreciation and lower international oil prices that will decrease the oil bill, an improvement is not expected in the current account balance of payments.

3. Budgetary Results of 2020

The 2020 General State Budget stipulates a primary balance for the government of RD$39,742.5 million, equivalent to 0.8% of projected GDP, and interest payments of RD$149,993.5 million, representing 3.0% of GDP. As a result, the overall balance is projected into a deficit of RD $ 110,251.0 million, corresponding to 2.2% of GDP.

The estimates contained in the 2020 Budget indicate that total income would amount to RD$750,823.4 million, representing 15.3% of GDP. However, the health crisis caused by the COVID-19 pandemic had significant repercussions on public finances, materialized in lower collections due to the weakening of economic activity, and expense pressures generated by the need to alleviate the lack of income generated in the more vulnerable sectors.

In this sense, the Commission to attend to Economic and Employment Affairs, made up of the Executive Branch under Presidential Decree No. 132-20, and coordinated by the Finance Minister, designed a plan with specific interventions and programs to support the most vulnerable groups of society, and guarantee the proper functioning of the economy in the face of the current health crisis caused by the COVID-19 pandemic.

The guidelines of the Economic Emergency Plan are as follows:

1. **Protection of income of vulnerable households and informal workers**: As a result of the necessary mobilization control measures taken by the government to contain the spread of the virus, economic activity will be reduced and therefore the income of informal workers. In response to this situation, the **"Quédate en Casa"** program was set up to initially subsidize 1,570,000 households identified as poor or vulnerable throughout the national territory, through the Sole System Beneficiary (SIUBEN). The program transfers RD$5,000 monthly to 811,003 families that currently benefit from "Eating Goes First". In

addition, it will increase coverage to include 758,997 new homes, over a 3-month period. For those families with vulnerable members, say with ages over 60 years and with health preconditions that place them at high risk, such as tuberculosis, diabetes and cardiovascular diseases, they will be given a transfer of RD$7,000, two thousand additional Dominican pesos during the same period.

On that note, in order to serve the workers who earn a living day by day of their families in independent businesses and who have not been able to work due to the measures of social distancing imposed by the pandemic, the "Pa´ Ti" program was launched. It covered those informal workers identified with loans with the formal financial system and excluded from the benefits of “Quédate en Casa” and the Employee Solidarity Assistance Fund (“FASE”). These beneficiaries will be provided with a monthly transitional transfer of 5,000 pesos to their bank accounts, for two months.

2. **Protection of jobs and income of formal workers**. Faced with the drastic fall in economic activity, hundreds of companies have been forced, or have strong incentives to suspend, part or all of its workforce. In view of this situation, “FASE” has been created with the objective of guaranteeing minimum income for suspended workers, but also to support the payment of wages to companies in order to minimize the number of suspensions.

   Through the first component of FASE, an equivalent of 70% of the salary they received gets transferred to those employees who have been suspended from their work, for a minimum transfer amount of RD$5,000 and a maximum of RD$8,500

   The other component of FASE is specifically dedicated to micro, small and medium companies from any sector and companies of any size in the manufacturing industry. This is a government contribution to companies that continue operating without suspending workers. The contribution consists of the State assuming the payment of RD$5,000 of the salary of each employee, while the company must comply with the payment of the rest of the salary and other remunerations.

   Under this component, FASE will assist in paying the wages of more than 250,000 employees, which will contribute to the protection of the same number of jobs as, if this assistance was not present, would be lost.

3. **Preserve the jobs that support Dominican families and support businesses**. In support of employment generating companies, mainly small and medium ones that would be among the most affected, a series of measures put in place aimed at improving cash flow and access to credit, such as extensions to the presentation of the Informative Declaration of Operations Made with Related Parties (DIOR), the payment of Income Tax (ISR) of Companies, and the deferral of the payment of the Income Tax of Legal Persons, in addition to other measures aimed at facilitating the regularization of taxpayers with arrears and to clear high priority goods.

Taken together, these spending measures and the effect on revenue of the weakening deficit press the budget result into reaching 5.0% of GDP, as illustrated in Table 1.

Table 1: Budgetary Result 2020
Central Government

Item	RD$ Millions		AS % of GDP	
	2020 Start	2021 End	2020	2021
Total Income	**750,823.4**	**673,107.8**	**15.3%**	**14.5%**
Fiscal income	748,295.1	670,113.5	15.2%	14.5%
Donations	2,528.3	2,994.3	0.1%	0.1%
Total Expenditure	**861,074.4**	**906,703.0**	**17.5%**	**19.6%**
Primary Expenditure	711,080.9	743,872.1	14.5%	16.1%
Interest	149,993.5	162,830.9	3.0%	3.5%
Primary Result GC	**39,742.5**	**(70,764.3)**	**0.8%**	**(+1.5%)**
Global Result GC	**(110,251.0)**	**(233,595.2)**	**(+2.2%)**	**(+5.0%)**

Source: Ministry of Finance

4. Budgetary Policy for 2021

The Budgetary Policy for 2021 contains an effort in terms of generating a primary balance that allows the reduction of the public sector's financing needs, without withdrawing stimulus to the economy in the post-COVI-19 recovery process in order to contribute to economic dynamism while preserving the sustainability of fiscal accounts. Similarly, it contemplates an aggressive investment plan that will seek to enhance economic recovery, due to the high degree of momentum that this sector has in generating jobs and in the economy as a whole.

In accordance with these objectives, the primary balance of the central government in 2021 has a projected deficit of RD$55,549.1 million, equivalent to -1.1% of GDP, while the global balance would reach a deficit of RD$218,080.9 million, corresponding to -4.3% of GDP.

Table 2: Budgetary Result 2020-2021
Central Government

Item	RD$ Millions		AS % of GDP	
	2020	2021	2020	2021
Total Income	**673,107.8**	**744,046.4**	**14.5%**	**14.7%**
Fiscal income	670,113.5	741,548.1	14.5%	14.7%
Donations	2,994.3	2,528.3	0.1%	0.0%
Total Expenditure	**906,703.0**	**962,157.3**	**19.6%**	**19.0%**
Primary Expenditure	743,872.1	799,625.5	16.1%	15.8%
Interest	162,830.9	162,531.8	**3.5%**	3.2%
Primary Result GC	**(70,764.3)**	**(55,549.1)**	**(+1.5%)**	**(+1.1%)**
Global Result GC	**(233,595.2)**	**(218,080.9)**	**(+5.0%)**	**(+4.3%)**

Source: Ministry of Finance

4.1. Revenues Policy

The main aspects that support the income policy of the 2011 General State Budget consider the global economic prospects, especially that of our main trading partners, and the prices of fuel and precious metals such as gold. It also considers the expected behavior of macroeconomic indicators of the country, such as growth, inflation, the exchange rate, among others.

It is important to note that the implementation of the 2020 income policies has been impacted by the spread of the Coronavirus (COVID-19) that led to the declaration of emergency, through Resolution No. 62-20, dated March 19, 2020, leading to the temporary closure of important economic sectors and the execution of various transitory tax measures by the Tax Administration, with a view to alleviating the cash flow of taxpayers and guaranteeing the compliance with tax obligations.

The impossibility of complying with many of the measures and policies included in the 2020 Budget has led to its postponement for next year, this being the case of the implementation of Law No. 46-20, on Transparency and Equity Revaluation, dated 10 February 2020.

Which is why, starting in 2021, a gradual reactivation of the local and international economy would be expected, and therefore, a gradual normalization of income. From what has been estimated a scenario without structural policy changes or modification of tax rates. Even so, There are several bills that, if approved by the National Congress, would impact on the Treasury resources, such as: the Project that Modifies Law No. 392-07 on PROINDUSTRIA; Draft Law on Solid Waste Management; the Draft Land Planning Law, Land Use and Human Settlement; the Mining Law Project; and the modification of Law No. 28-01 that creates a Special Border Development Zone.

The Tax Administration will be focused on implementing the measures and projects included in the strategic plans to reduce tax noncompliance and increase risk perception of the taxpayer.

Although it is true that lower income can be expected from the Income Tax of the natural and legal persons, as a result of the negative performance of some sectors in 2020, there will also be higher collections by the ITBIS and Selective Consumption Tax (ISC) on fuels, that is, those taxes directly related to the improvement of economic activity and, in particular, to the stabilization of public and private consumption.

Also, additional income in the order of 0.2% of the Gross GDP is expected, in view of the extension of the term of validity of the Transparency and Patrimonial Revaluation Law, allowing the taxpayer to benefit from a maximum period of 180 calendar days and granting them 365 calendar days to make the corresponding payment, without being subject to interest penalization.

Similarly, the General Directorate of Internal Taxes (DGII) will continue gradually implementing electronic invoicing, concluding by 2024; and other projects together with the DGA (customs authority), as is the case of the well-known Fiscal Control and Traceability System ("TRAFFIC"), to control the traceability of products that represent negative externalities to society.

Likewise, efforts will continue to keep the country updated on trends regarding digital services, carrying out the necessary surveys to evaluate the possibility of incorporating them into the tax field. Similarly, they will continue to comply with the international commitments made regarding tax transparency and exchange of information as well as to combat practices to erode the tax base and relocation of benefits.

4.2. Expenditures Policy

Regarding the Expenditure Policy, it is expected that the effect caused by the COVID-19 pandemic in the level of economic activity and employment, as well as the demand for more resources to meet the requirements of supplies and equipment in the health sector, will continue to impact during a considerable portion of 2021.

In a context of weakening national productive apparatus and a very uncertain international environment, the formulation of the public spending budget will require the Government to actively support the process of recovery at the activity level, for which the execution is expected of a public investment plan with a broad impact.

That said, for 2021, a preliminary total spending level of RD$962,157.3 million is estimated, corresponding to 19.0% of GDP, and a primary expenditure that would reach RD$799,625.5 million, at 15.8% of GDP. In this amount of primary expenditure, the establishment of a ceiling is contemplated during the next year for the hiring of new personnel in the Government, with the exception of the health, education, military and police sectors.

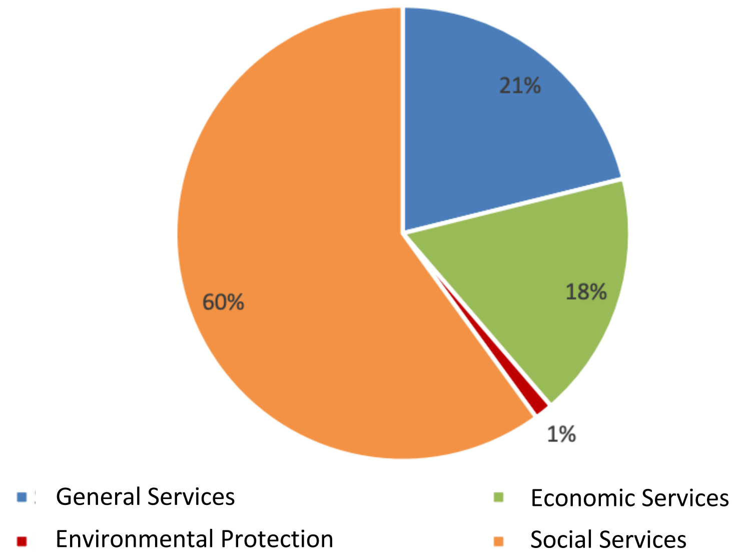
The social sector will continue, as in recent years, being the central axis of the spending public policy, giving priority to 4% of the GDP assigned for spending on pre-university education and to spending in the health sector, which, in addition to the effect of the pandemic, will have at least 15 new and / or remodeled hospitals, mainly the Luis Eduardo Aybar and the Cabral & Báez of greater dimension and service capacity in this sector.

In order to contribute to the revitalization of the economy, the strong investment plan for next financial year includes a portfolio of the following programs: the Domingo Savio urban project, which it will benefit people from the La Ciénaga and Los Guandules sectors. Also, resources will be included to continue the following projects: construction of the Santo Domingo' second Cable Car line, the Project for the Recovery of Vegetation Cover in Watersheds Hydrographic Offices of the Dominican Republic, the Integrated Solid Waste Management Plan "Dominicana Limpia", the expansion of the National System for Attention to Emergencies and Security 9-1-1, the construction of the Monte Grande Dam, the Sustainable Urban Mobility Plan, the expansion of service on Line 1 of the Santo Domingo Metro, the conclusion of Line 2-B of the Santo Domingo Metro from the 17th Bridge to Megacentro, and the Humanization Plan of Prison system.

Additionally, the pressure that would be caused by maintaining, even partially, the social programs mentioned above and the allocation of greater resources to public investment, in an environment of increase in the payment of interest on the debt, will require greater austerity in the rest of the expense in order to expand the fiscal space to accommodate the new levels required by the previously indicated concepts.

In line with the foregoing, it is contemplated that the operating expenses of the institutions of the Government, excluding payroll, only adjust, at most, for cumulative inflation this year, except in the education and health sectors. Current transfers to Central Government entities would remain at a level similar to the initial 2020 Budget and that transfers to the private sector begin to decrease as the economy starts to grow again.

Graph 1. Functional distribution of primary spending for 2021 (as % of primary spending)
Central Government



Source: Ministry of Finance

4.3. Financing Policy

By 2021, preliminary estimates point to a gross financing need of RD$322,471.8 million, 6.4% of GDP, less than the 8.8% of GDP budgeted for the previous year. This amount is made up of: financing requirements for the overall deficit result estimated at RD$218,080.9 million, 4.3% of GDP, and financial applications for RD$104,390.9 million, 2.1% of GDP.

In this context of fiscal consolidation strategy, the policy and guidelines for the management of public debt have been based on maintaining a balanced debt portfolio, reducing the main risks, in terms of reducing the percentage of debt in foreign currency, to variable interest rates and improving the debt maturity profile. This helps prevent volatility in market variables such as interest rates and exchange rates impact significantly serving public debt by putting pressure on public finances and generating greater need for financing.

Following the guidelines established in the Public Debt Council, for the Strategy of Medium Term Debt Management, and taking into account the current liquidity in the external and internal capital markets, as well as the availability of resources from multilateral organizations for the country, the main sources of financing for the year 2021 have been identified, which includes both local and international financial markets (bond issues), as well as bilateral and multilateral organizations. Additionally, financing is contemplated bilaterally and through international commercial banking for public investment projects.

The Financing Plan for 2021 estimates financing through internal sources of RD$102,918.3 million, being in 31.9% of total sources, while external ones would total RD$219,553.5 million, at 68.1%.

The aforementioned plan considers giving continuity to bond issues in international markets, as well as the local auctions program. Indicatively, it is estimated for 2021 financing through the placement of bonds in the local market for RD$102,918.3 million, while external bond issues are projected for some RD$160,191.0 million, which could be instruments issued in pesos, dollars or another foreign currency. The rest of the financing projects the use of multilateral and bilateral organizations for the budget support for some RD$35,630.5 million and financing for investment projects from multilateral and bilateral organizations and international commercial banks, for an amount of about RD$23,732.0 million. This investment will be destined, primarily, to financing of projects in improvement and sanitation of water and hydraulic resources, as well as the electricity, agricultural and infrastructure works sectors.

Table 3: 2021 Financing

Variables	RD$ Millions	As % of GDP
Gross Financing Need	**322,471.8**	**6.4%**
Global Deficit	218,080.9	4.3%
Financial Applications	104,390.9	2.1%
Funding Sources	**322,471.8**	**6.4%**
External	219,553.5	4.3%
Of which: Bonds	160,191.0	3.2%
Internal	102,918.3	2.0%

Source: Ministry of Finance

5. Medium Term Budgetary Policy 2020-2024

For the 2021-2024 period, an average income growth in the order of 10.3% is expected, which is above the estimated growth for the economy and that will allow for increases in the fiscal pressure of, on average, 0.1% per year. Additionally, a rationalization of the public spending at all levels of government, converging primary spending to nominal growth of 8.0% over the forecast horizon, while allocations are considered established by the different laws to different entities, and the continuity of the programs protected and prioritized with the aim of improving the living conditions of citizens.

Table 4: Budgetary Result 2020-2024
Central Government

Item	RD$ Millions					As % of GDP				
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024
Total Income	673,107.8	**744,076.4**	825,031.5	**907,134.4**	**994,590.6**	**14.5%**	**14.7%**	**14.9%**	**15.0%**	**15.1%**
Fiscal income	670,113.5	741,548.1	822,270.50	904,119.4	**991,298.3**	14.5%	14.7%	14.9%	15.0%	15.1%
Donations	2,994.3	2,528.3	2,761.00	3,015.0	**3,292.3**	0.1%	0.0%	0.1%	0.1%	0.0%
Total Expenditure	**906,703.0**	**962,157.3**	1,018,875.0	**1,070,550.2**	**1,124,463.4**	**19.6%**	**19.0%**	**18.5%**	**17.8%**	**17.1%**
Primary Expenditure	743,872.1	799,625.5	852,559.60	901,015.6	**948,400.8**	16.1%	15.8%	15.4%	14.9%	14.4%
Primary Result GC	**(70,764.3)**	**(55,549.1)**	(27,528.1)	**6,118.8**	**46,189.8**	**1.5%**	**1.1%**	**(+0.5%)**	**0.1%**	**0.7%**
Global Result GC	**(233,595.2)**	**(218,080.9)**	**(193,843.5)**	**(163,415.8)**	**(129,872.80)**	**5.0%**	**4.3%**	**(+3.5%)**	**(+2.7%)**	**(+2.0%)**

Source: Ministry of Finance

These greater efforts in terms of fiscal consolidation materialize through the generation of primary surpluses consistent with the most likely evolution of the real, monetary and external sectors of the Dominican economy, as well as with a reduction of the government's gross financing needs, thereby maintaining a sustainable trajectory of public debt in the medium and long term.

Finally, the Ministry of Finance reiterates its commitment to both the recovery process of the economy after the economic impact of the pandemic caused by COVID-19, as with macroeconomic stability, reflected in the design of a fiscal policy that promotes welfare of Dominican society through the responsible management of public finances that guarantees the fiscal sustainability, in a context of equity, progressiveness and improvement of the quality of spending public.