

Ministry of Finance

Public Debt Office

Debt Management Plan 2009

Executive Summary

The main purpose of the Debt Management Plan is to present to the public the Central Government's public debt policy, its guidelines and the strategy to implement the objectives. Also, the Debt Management Plan should measure the progress in meeting the objectives established and determine whether the objectives and strategies presented each year were achieved. The Debt Plan is not only a planning instrument, but also a tool that increases transparency, and is a way to increase predictability in the country's debt management.

The overall objective of the public debt management policy of the Dominican Republic is to capture funds to enable the Ministry of Finance to meet its debt obligations and to finance current fiscal expenditure, including investment and social programs. The financing should be under the most favorable and low cost conditions possible for the medium and long term, according to a prudent level of risk and within a context of sustainability.

The objectives and guidelines established in the Debt Management Strategy are:

- To assure that the government's financing needs are satisfied and that the public debt service obligations is met on time.
- To minimize the costs in the medium term, consistent with a prudent risk level.
- To assure that cost and risk objectives are consistent with the results of the fiscal sustainability model for the Dominican Republic.
- To encourage the development of the local debt market, both primary and secondary.

Since one of the main objectives in public debt management is to maintain a balance between financing costs and the risk level, is of extreme importance that the medium term debt management strategy is focused in the construction of a balanced portfolio, with a lower risk exposure and a smaller incidence of the debt service in total the public expenditure. For meeting these objectives, the debt management strategy is based on:

- Develop a domestic public debt market in Pesos with the objective of reducing the proportion of foreign currency debt within the country's debt portfolio. As a result, the exposure to the exchange rate risk will be reduced, which is the one that affects the debt level and service when unexpected fluctuations in the exchange rate of the Dominican peso in relation to the other foreign currencies occur.
- Maintain a balanced proportion in fixed and variable rate financing thus decreases the vulnerability of debt service to the unexpected variations of the interest rates in the financial markets.

- Increase the average time to maturity of the portfolio by extending the maturities for the new debt contracted, allowing the government to extend the repayment period of debt service and reduce refinancing risk.
- Increase the proportion of market instruments, mainly bonds, in the public debt portfolio. The preferences order for the new financing is as follows:
 - Concessional loans
 - Bonds
 - Multilateral loans
 - Bilateral loans
 - Long-term commercial banks credits
 - Short-term commercial banks credits

Financial Sources of 2009 Budget

The National Budget for 2009 stipulates a Central Government's net financing maximum amount of RD\$ 30,886.7 million, equivalent to the 1.7% of the estimated GDP for the year end 2009. These resources will finance the fiscal deficit stipulated on the Budget for the same amount. In addition the National Budget contemplates financial allocations for an amount of RD\$46,207.7 million, for which the Gross Financing Needs for 2009 totals RD\$77,094.4 million.

The plan for 2009 includes debt financing through domestic and external sources totaling RD\$20,013.0 million and RD\$57,081.4 million, respectively, as detailed below:

Table 1: Financing Sources for 2009 Budget
(figures in RD\$)

FINANCING SOURCES	Amount (RD\$)
Domestic Financing	20,013,000,000
Domestic Credit	19,013,000,000
Administrative Bonds Issues	1,000,000,000
External Financing	57,081,438,294
Bilateral	
Petrocaribe	11,145,000,000
Multilaterals	26,125,457,794
World Bank	
Inter-American Development Bank	
Andean Development Corporation	
Investment Projects Financing	19,810,980,500
TOTAL	77,094,438,294

Domestic Credit - The debt plan contemplates the issuance up to RD\$19,013.0 million of debt instruments in the local market that would be placed by public auction or by another mechanism determined by the Public Debt Office (PDO). An important objective of the Debt Management Plan is the development of an efficient and liquid domestic public debt market that could serve as an important Central Government financing source.

An auction calendar will be programmed starting March 2009 for monthly issuances of instruments with maturities of two (2), three (3) and five (5) years according on demand and financing needs. The issuance of the securities will start after the publication of a presidential decree which will define the characteristics of the instruments, based on the congressional authorization in the National Budget of 2009.

The amount of RD\$1,000.0 million corresponds to bonds issuances for payments of obligations to local private suppliers contracted before the entry into force of the Public Credit Law 6-06 and which are previously validated by the Domestic Public Debt Assessment Committee (Comisión Evaluadora de la Deuda Pública Interna). The bond issuance for Administrative Debt payments will be made after the publication of a presidential decree which will define the characteristics of the instruments, based on the congressional authorization in the National Budget of 2009.

External Credit - External financing consists of: a) RD\$11,145.0 million (US\$300.0 million), from Petrocaribe agreement, b) RD\$26,125.4 million (US\$703.2 million) would be provided as budget support, by the multilateral agencies and c) RD\$19,811.0 million (US\$533.3 million) for the financing of specific investment projects.

The financing via Petrocaribe will be received according to the terms of stipulated in the agreement signed between the Dominican Government and the Government of the Bolivarian Republic of Venezuela.

The financing for budget support from multilateral agencies is composed of both loans already in execution as per new debt, which are authorized in the Budget Law 2009. Of the total, RD\$3,715.0 million (US\$100 million) will come from existing contracts while the rest will be received from new debt contracts. Most of these new loans, for its characteristic of being fast-disbursing and for budget support are conditioned on the fulfillment of certain measures of economic and social policy.

The financing, via external resources from multilateral, bilateral and international commercial banks, for investment projects will add RD\$19,810.1 million (US\$533.3 million) of which more than RD\$7,430.0 million (US\$200 million) will be disbursed under previously contracted loans while the rest will be from new debt contracts to be made during fiscal year 2009.

New Presentation Methodology of the Public Debt

As of 2009, the public debt will be presented as the contracted by the **non financial public sector (NFPS)**, domestic and external, direct and indirect, excluding the **financial public sector (FPS)**. This is in compliance with the provisions of Article III of Law No. 6-06.¹

The Central Government's domestic debt will include the bond issues made in compliance with the Law No.167-07 of Central Bank's Recapitalization Plan, as well as the private guaranteed sector debt not paid by the original debtor, and for which the guarantee is executed and therefore becomes a Central Government obligation.

Non Financial Public Sector Debt Stock 2008

According to the new presentation methodology, at the end of the year 2008 the non financial public sector debt, both domestic and external, totaled US\$11,218.3 million, increasing in US\$3,660.0 million compared to December 31st 2007, which amounted US\$7,558.3 million, and representing the 24.3% of GDP in 2008 which was US\$46,154 million.²

This increase was mainly as a result of:

- ✚ Issuance of bills and bonds to recapitalize the Central Bank amounting US\$2,011.2 million plus a negative exchange variation (due to the appreciation of the dollar against the peso), of US\$56.7 million, for which the debt stock at the end of the year totaled US\$1,954.6 million (RD\$68,914.1 million). (See Annex I, Table 3).
- ✚ Net increase of US\$794.7 million in bilateral debt, mainly as a result of disbursements received under the Petrocaribe agreement framework for an amount of US\$522.6 million (RD\$17,952.3 million).
- ✚ Net increase in Central Government's domestic debt of US\$906.4 million as a result of:
 - ✓ Bond issues of US\$435.9 million (RD\$15,166.3 million), of which US\$146.1 million (RD\$5,000.0 million) were through the Bond Law No. 359-07 destined to national reconstruction due to the damages caused by Tropical Storm Noel, US\$39.8 million (RD\$1,351.7 million) were used to pay administrative debt with Bond Law No. 120-05 and US\$250.0 million (RD\$8,814.6 million) that were used to pay arrears to electricity generators.
 - ✓ Domestic debt's positive net flows³ to commercial banks for US\$470.5 million, given the contracting and disbursement of new loans for US\$597.8 million (RD\$21,039.0 million), under Law No. 490-08 which authorized an increase in the Central Government's deficit and the modification of the financing sources stated in the original Budget and its modifications.

¹ See detailed annex I.

² GDP estimation by the Central Bank of the Dominican Republic.

³ Disbursements less principal repayments.

NFPS Debt Estimates for 2009

To estimate the Non Financial Public Sector debt stock for year end 2009, we consider the stock at December 31st 2008 as the starting balance (US\$11,218.3 million), under the new presentation format, as well as disbursements and principal repayments estimates for 2009 in accordance with the approved National Budget for 2009:

- ✚ External financing for RD\$57,081.4 million (US\$1,536.5 million), as well as principal repayments of Central Government's obligations (Central Government's debt and the Rest of NFPS), for RD\$28,529.3 million (US\$767.9 million).
- ✚ Domestic financing for RD\$20,013.0 million (US\$538.7 million) and principal repayments for the debt domestic service of Central Government and Private Guaranteed Sector for RD\$10,655.4 million (US\$286.8 million). On the other hand, new issues for an amount of RD\$13,826.7 million (US\$372.2 million) are estimated for the Central Bank's Recapitalization Plan, which do not represent capital's income to the Central Government, but a transfer of liabilities of the Central Bank to the Central Government (represented by the Ministry of Finance).

To estimate the total stock of the non financial public debt at December 31st 2009, including domestic debt of the rest of the NFPS, whose management is not made in this PDO, it was assumed that would represent the same percentage of GDP at 2008 in the year 2009. The domestic debt for the rest of NFPS represented 0.8% of GDP in 2008, so that for 2009 we estimate a balance of US\$366.1 million.

As of year end 2009 it is estimated a Non-Financial Public Sector debt of US\$12,621.7 million, presenting an increase of US\$1,403.4 million from the stock at December 31st 2008 (US\$11,218.3 million) and will represent a 26.5% of estimated GDP for year-end, US\$47,557.0 million.⁴

Table 2: Non Financial Public Sector Debt Stock-Evolution 2007-2008 and estimates 2009

Description	Stock Dec 2007	Disbursements/In debtbness 2008	Payments 2008	Stock Dec 2008	Disbursements/In debtbness 2009	Payments 2009	Stock Dec 2009
Central Government	7,312.6	4,405.6	805.4	10,827.1	2,447.4	1,045.3	12,229.2
<i>External Debt</i>	6,508.9	1,351.4	678.2	7,184.1	1,536.5	758.5	7,962.1
<i>Domestic Debt</i>	803.7	3,054.2	127.2	3,643.0	910.9	286.8	4,267.1
%GDP	0.2			23.5%			25.7%
Rest of NFPS	245.7	511.5	361.5	391.1	-	9.4	392.5
<i>External Debt</i>	46.8	-	11.9	35.8	-	9.4	26.4
<i>Domestic Debt</i>	198.9	511.5	349.6	355.3	-	-	366.1
%GDP	0.0			0.8%			0.8%
Total Public Debt	7,558.3	4,917.1	1,166.9	11,218.3	2,447.4	1,054.8	12,621.6
<i>External Debt</i>	6,555.7	1,351.4	690.1	7,219.9	1,536.5	767.9	7,988.5
<i>Domestic Debt</i>	1,002.6	3,565.7	476.8	3,998.4	910.9	286.8	4,633.2
Public Debt as % GDP	18.3%			24.3%			26.5%
GDP	41,246.0			46,154.0			47,557.0

⁴ GDP estimates by the Central Bank of the Dominican Republic.

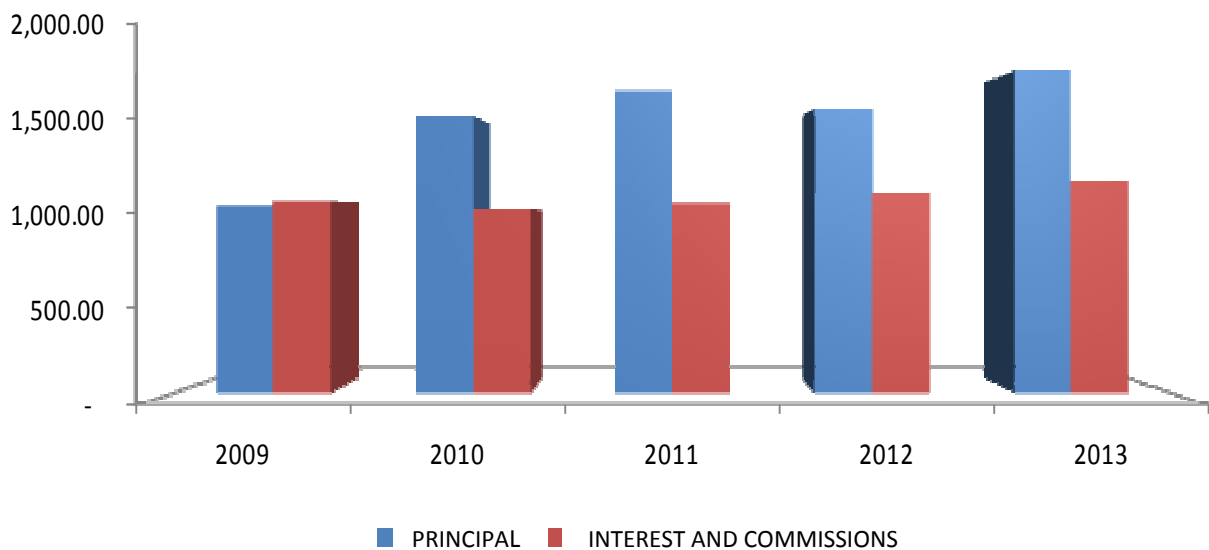
Public Debt Service Projections

The National Budget for 2009 stipulates external debt service for an amount of RD\$43,459.4 million (US\$1,169.8 million) and domestic debt service for RD\$35,903.7 million (US\$966.5 million) for a total of RD\$79,363.1 million (US\$2,136.3 million). Of this total, RD\$39,184.8 million (US\$1,054.8 million) correspond to principal payments while the remaining RD\$40,178.4 million (US\$1,081.5 million) to interest s and commissions payments.

The projections contemplate the debt service of contracted and disbursed debt as of December 31st 2008, as well as contracted but undisbursed debt and new debt to be contracted. Of these new loans some are already identified and in process of signature and/or congressional approval, while others are the result of future new financing needs, according to a zero fiscal deficit scenario for the period, that is, disbursements equal to amortization (net debt increase is zero).

For these projections a number of assumptions were made, which include, profile of disbursements and exchange and interest rates estimates.⁵

Figure 1: Debt Service Projections 2009-2013 (figures in million US\$)



⁵ See detailed annex II.

ANNEX I

New Presentation Methodology and Public Debt Definition

Starting 2009, the Public Debt will refer to the liabilities, direct and indirect, domestic and external, contracted by the non financial public sector (NFPS), excluding the financial public sector. That is, pursuant to the provisions of Article III of the Law No. 6-06 in which states:

“The following public sector institutions are subject to the regulations laid down in the present Law and its enforcement rules, the central government, non financial decentralized and autonomous institutions, social security institutions, non financial public enterprises and the municipal governments and the National District. Excluded from the provisions of this law are the following public institutions: financial decentralized and autonomous institutions and public financial enterprises”.

Table 3: Non Financial Public Sector Debt Stock-Evolution (figures in million US\$)

Debtor/Financing Source	Stock 31/12/2007	Disbursement / Indebtedness	Capitalization	Debt Service Evolution January - December 2008				Principal Waiver	Exchange Rate Variation	Stock 31/12/2008
				Principal	Interest	Commissions	Total			
	(a)	(b)	(c)	(d)				(e)	(f)	(g) ^{1/}
TOTAL PUBLIC DEBT	7,558.3	4,917.1	11.5	1,166.9	590.8	7.6	1,765.3	0.8	(100.9)	11,218.3
EXTERNAL PUBLIC DEBT	6,555.7	1,351.4	11.5	690.2	326.1	7.0	1,023.2	0.8	(7.8)	7,219.8
DOMESTIC PUBLIC DEBT	1,002.6	3,565.7	-	476.8	264.7	0.6	742.1	-	(93.1)	3,998.5
Central Government Obligations	7,359.4	4,405.6	11.5	817.4	562.2	7.2	1,386.7	0.8	(95.4)	10,862.9
Central Government	7,312.7	4,405.6	11.5	805.4	560.1	7.2	1,372.8	0.8	(96.3)	10,827.2
External Debt	6,508.9	1,351.4	11.5	678.2	324.0	7.0	1,009.2	0.8	(8.7)	7,184.1
Multilateral Institutions	1,816.4	208.4	4.4	206.0	72.5	1.0	279.5	0.8	(3.5)	1,818.9
Bilateral	2,892.4	1,037.6	5.6	242.9	101.9	4.9	349.7	-	2.2	3,694.9
Commercial Banks	418.0	105.4	1.5	122.0	26.6	1.0	149.5	-	(7.4)	395.5
Bonds	1,376.3	-	-	105.4	122.6	0.0	228.1	-	-	1,270.9
Suppliers	5.7	-	-	1.9	0.5	-	2.4	-	0.0	3.8
Domestic Debt	803.7	3,054.2	-	127.2	236.1	0.2	363.5	-	(87.6)	3,643.1
Commercial Banks ^{2/}	469.6	607.2	-	127.2	69.7	-	196.9	-	(12.8)	936.8
Bonds	334.1	435.9	-	-	46.5	0.2	166.7	-	(18.2)	751.8
Recap. Plan of BC Bonds ^{3/}	-	2,011.2	-	-	119.9	-	-	-	(56.7)	1,954.6
Rest NFPS	46.8	-	-	11.9	2.1	0.0	14.0	-	0.9	35.8
External Debt	46.8	-	-	11.9	2.1	0.0	14.0	-	0.9	35.8
Multilaterals	2.7	-	-	0.2	-	0.0	0.2	-	(0.5)	2.0
Bilaterals	24.6	-	-	11.0	1.4	0.0	12.4	-	1.6	15.2
Commercial Banks	-	-	-	-	-	-	-	-	-	-
Bonds	13.5	-	-	0.7	0.6	-	1.4	-	-	12.8
Suppliers	6.0	-	-	-	-	-	-	-	(0.2)	5.8
Rest NFSP Obligations^{4/}	198.9	511.5	-	349.6	28.6	0.4	378.6	-	(5.5)	355.4
Domestic Debt	198.9	511.5	-	349.6	28.6	0.4	378.6	-	(5.5)	355.4
Commercial Banks	198.9	511.5	-	349.6	28.6	0.4	378.6	-	(5.5)	355.4

1/ Debt Stock: (g) = (a) + (b) + (c) - (d) - (e) + (f)

2/ Includes la execution of the guarantee of the Government to the Free Zone companies loans.

3/ The disbursements do not represent a capital income, is an increase of the debt due to the transfer of a liability of the Central Bank to the Central Government.

4/ Debt of public institutions contracted directly with the Banco de Reservas. Source: Banco de Reservas of the Dominican Republic.

ANNEX II

Debt Service Projections Assumptions

Tables No.5 and No. 6 details the estimates of exchange and interest rates, respectively that were assumed to estimate the debt service for the period 2009-2016.

Table 5: Exchange Rates

Exchange Rate	2009	2010	2011	2012-2016
FX/USD				
CAD	1.22	1.22	1.21	1.19
CHF	1.15	1.15	1.13	1.09
DKK	5.74	5.75	5.77	5.74
DOP	37.15	39.15	42.16	Dep 5%
EUR	0.77	0.77	0.77	0.77
GBP	0.67	0.67	0.67	0.67
IDB	0.58	0.59	0.59	0.59
JPY	91.16	90.72	89.20	82.55
KRW	1317.80	1355.76	1336.38	1302.10
NOK	6.68	6.68	6.73	6.90
SDR	0.68	0.70	0.70	0.70
SEK	7.99	7.98	7.96	7.99

Table 6: Interest Rates

Interest Rate	2009	2010	2011	2012-2016
ESTIMATED RATES				
JAPAN BOND YLD	0.9229	0.9384	1.1287	1.5111
6M WB	7.6800	7.6090	8.4070	8.7050
WB VARIABLE RATE LOANS	6.1400	6.7540	7.4294	8.1723
EURIBOR 3M	2.2289	1.7966	2.8604	4.0687
EURIBOR 6M	2.2641	1.6680	2.9640	4.1264
LIBOR 3M	2.1607	1.6732	2.3257	3.7149
LIBOR 6M	2.2720	1.5173	2.5307	3.7615
LIBOR 60M	2.5576	2.9412	3.3824	3.8898
IADB NOPOOL RATE 6M	4.9300	5.4230	5.9653	6.5618
IADB POOL RATE 6M	4.2600	4.6860	5.1546	5.6701
US TREASURY RATE	2.8255	2.9852	3.5422	4.0301
IFAD VARIABLE	2.1400	2.1400	2.1400	2.1400