



**Ministry of Finance**  
Public Debt Office

**2011 Annual Financing Plan**

**Santo Domingo, Distrito Nacional**



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## Introduction

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The main purpose of the 2011 Annual Financing Plan is to present the financing requirements and the issuance strategy of external and domestic debt of the Central Government for 2011, which is consistent with the Medium-Term Debt Management Strategy.

The Annual Financing Plan is not only a tool for planning, but one for increasing transparency, and the predictability in the country's debt management.

This document is structured in two sections. Section one details the fiscal deficit budgeted and re-estimated for the year 2010, as well as the financing sources stipulated in the budget and the financing resources received during 2010.

The second section, presents an estimate of the gross borrowing requirements for the year 2011, describing the characteristics of the new funding in terms of financing sources (external and domestic), instruments and maturities, among others; as well as the estimate of the Central Government debt outstanding balance for the end of the year given the financing and the amortizations stipulated in the 2011 budget.

## I. Budget Outturn 2010

### Ia. Brief Summary on Fiscal Situation and its Impact on the Financing Plan

The “*Budget and Public Revenue and Expenditures Law*” for 2010 was formulated on the basis of a countercyclical fiscal policy, set to stimulate the aggregate demand during the first half of the year, to later move into a gradual process of fiscal consolidation during the second semester of the year that will secure the sustainability of the public debt.

Therefore, the budget contemplated a fiscal deficit result of US\$1,262.0 million (RD\$47,828.4 million)<sup>1</sup>, equal to 2.6% of the estimated GDP for 2010. As a result, the budget stipulated a gross financing of US\$3,059.8 million (RD\$115,964.6 million) and financial applications of US\$1,797.8 million (RD\$68,136.2 million), resulting a net financing of US\$1,262.0 million (RD\$47,828.4 million).

The midyear revision of the fiscal balance denoted that the revenues were lower than what was programmed, as a consequence of a delayed and more pronounced effect of the deceleration of the economic growth in 2009 in the tax collection; as well as difficulties in the execution of the improvements in the tax administration and the rationalization of tax exemptions.

On the expenditure side, the difficulties on the execution of the electrical sector's reforms and the increase in oil prices resulted in subsidies to the sector greater than budgeted in 0.4% of GDP. In addition, the budget was formulated under the assumptions of the reformulation of the Central Bank Recapitalization Law, which implied lower interest payments (0.2% of GDP). Finally, the Government decided to not require the modification of the law and therefore maintaining the original plan to recapitalize the Central Bank, which represented an increase of 0.8% of GDP on current expenditures.

In this context, two budget reformulations were presented to the Congress, the first increased the total income of the Central Government's Budget for year 2010 by US\$104.0 million (RD\$3,943.7 million), representing 0.2% of GDP, as well as the increase in total public expenditure for the same amount; and the second, redirecting current and capital spending to higher interest payments.

In 2010, the Central Government received gross financing for US\$3,295.6 million, made principal repayments for US\$1,459.3 million, increased its financial assets by US\$467.6 million and reduced its accounts payable by US\$85.2 million, for a net financing of US\$1,283.6 million.

The Central Government received external resources for US\$2,460.6 million, of which US\$936.7 million came from multilateral agencies (IADB, WB, IMF) to finance programs and for budget support purposes, US\$413.0 million through the Petrocaribe Agreement, US\$750.0 million from the placement of bonds in international markets and the remaining US\$361.0 million was multilateral, bilateral and international commercial banks resources to finance public investment projects.

Moreover, through the domestic bonds issuance program, in 2010 US\$814.1 million were placed in the domestic market. From local commercial banks the government received US\$20.9 million, which resulted from the execution of guarantees to the free trade zones by the Central Government. (See Table 1)

<sup>1</sup> Converted at the average exchange rate of RD\$/US\$=37.9

**Table 1: 2010 Financial Requirements and Sources**

Figures in US\$ million

	Original 2010 Budget	2010 Budget Execution
<b>GROSS FINANCING REQUIREMENTS</b>	<b>3,059.7</b>	<b>3,295.6</b>
<b>I. Global Deficit Result ( 1 - 2 )</b>	<b>(1,262.0)</b>	<b>(1,283.6)</b>
<b>II. Financial Applications ( 3 + 4 + 5 )</b>	<b>1,797.8</b>	<b>2,012.0</b>
3. Public Debt Amortizations	1,714.8	1,459.3
4. Financial Assets	-	467.6
5. Reduction of Accounts Payable	83.0	85.2
<b>FINANCING SOURCES ( I + II )</b>	<b>3,059.8</b>	<b>3,295.6</b>
<b>I. External Financing</b>	<b>2,135.0</b>	<b>2,460.6</b>
<b>Investment Projects</b>	<b>700.0</b>	<b>361.0</b>
<b>Global Bonds</b>	<b>600.0</b>	<b>750.0</b>
<b>Budget Support</b>	<b>835.0</b>	<b>1,349.7</b>
Bilaterals (Petrocaribe)	260.0	413.0
Multilaterals	575.0	936.7
IADB	275.0	371.9
WB	150.0	150.0
IMF	150.0	414.7
<b>II. Domestic Financing</b>	<b>924.8</b>	<b>835.0</b>
<b>Domestic Bonds</b>	<b>924.8</b>	<b>835.0</b>
<b>Domestic Credit</b>		

Source: Public Debt Office.

Considering the total gross financing and principal amortizations, the balance of the Central Government's gross debt ended the year 2010 at US\$14,627.5 million, representing 28.3% of GDP (US\$51,657.6 million).

This amount results from adding to the balance of the Central Government's debt in 2009 of US\$12,992.8 million, the gross financing received of US\$3,295.6 million and subtracting the principal payments and waivers for US\$1,460.3 million and an exchange rate variation adjustment for US\$200.7 million. At year end 2010, the debt balance of the Non-Financial Public Sector totaled US\$14,818.0 million and represented 28.7% of GDP.

**Table 2: 2009-2010 Central Government Debt Balance Variation**

Figures in US\$ million

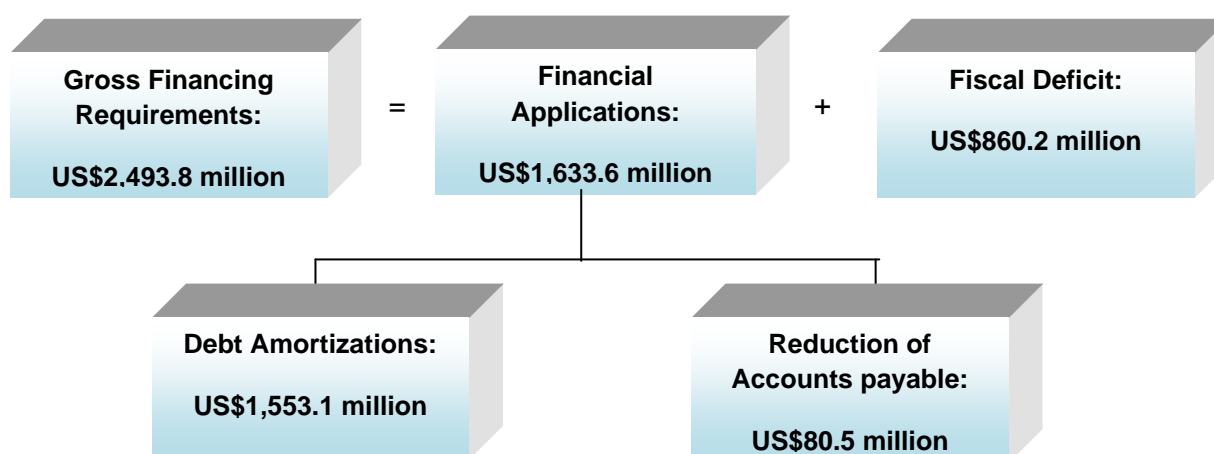
<b>I. 2009 Central Government Debt Balance</b>	<b>12,992.8</b>
<b>II. Liabilities Increment</b>	<b>3,295.6</b>
1. Fiscal Deficit Funding (+)	1,283.6
2. Debt Amortization Funding (+)	1,459.3
3. Reduction of Accounts Payable Financing (+)	85.4
4. Financial Assets (+)	467.3
<b>III. Central Government Sub-Total Debt ( I + II )</b>	<b>16,288.4</b>
<b>IV. Liabilities Reduction</b>	<b>1,460.3</b>
5. Debt Amortization (-)	1,459.3
<i>External Debt</i>	689.9
<i>Domestic Debt</i>	769.4
6. Principal Waivers (-)	1.0
<b>V. Exchange Rate Variation (-)</b>	<b>200.7</b>
<b>VI. 2010 Central Government Debt Balance ( III - IV - V )</b>	<b>14,627.5</b>
<b>VII. Gross Financing</b>	<b>3,295.6</b>
<b>VIII. Net Financing</b>	<b>1,283.6</b>

Source: Public Debt Office.

## II. 2011 Financing Requirements

The *National Budget Law* for 2011<sup>2</sup> stipulates a gross financing requirement of US\$2,493.8 million (RD\$97,259.0 million)<sup>3</sup>, equivalent to 4.6% of GDP. This amount is the result of a fiscal deficit of US\$860.2 million (RD\$33,547.9 million), plus financial applications that include principal amortizations for US\$1,553.1 million (RD\$60,571.0 million) and the reduction of accounts payable for US\$80.5 million (RD\$3,140.0 million).

**Chart 1: Financing Requirements**



Source: Public Debt Office and Budget Office.

### Ila. 2011 Issuance Strategy

Identified financing sources are described below:

**Table 3: 2011 Financing Requirements and Sources**

Figures in million

	Amount in DOP	Amount in USD
<b>GROSS FINANCING REQUIREMENTS</b>	<b>97,259.0</b>	<b>2,493.8</b>
<b>I. Global Deficit Result ( 1 - 2 )</b>	<b>(33,547.9)</b>	<b>(860.2)</b>
1. Total Revenues and Grants	293,216.8	7,518.4
2. Total Expenditures	(326,764.7)	(8,378.6)
<b>II. Financial Applications ( 3 + 4 )</b>	<b>63,711.0</b>	<b>1,633.6</b>
3. Public Debt Amortizations	60,571.0	1,553.1
4. Reduction of Accounts Payable	3,140.0	80.5
<b>FINANCING SOURCES (I + II)</b>	<b>97,259.0</b>	<b>2,493.8</b>
<b>External Financing</b>	<b>69,057.3</b>	<b>1,770.7</b>
<i>Investment Projects</i>	<i>21,165.3</i>	<i>542.7</i>
<i>Global Bonds</i>	<i>19,500.0</i>	<i>500.0</i>
<i>Budget Support</i>	<i>28,392.0</i>	<i>728.0</i>
Bilaterals (Petrocaribe)	10,920.0	280.0
Multilaterals	17,472.0	448.0
IADB	4,992.0	128.0
WB	2,730.0	70.0
IMF	9,750.0	250.0
<b>Domestic Financing</b>	<b>28,201.7</b>	<b>723.1</b>
<i>Domestic Bonds</i>		
<i>Domestic Credit</i>	<b>28,201.7</b>	<b>723.1</b>

Source: Public Debt Office.

<sup>2</sup> Deposited in Congress as of September 29, 2010.

<sup>3</sup> Converted at average exchange rate of RD\$ / US\$ = 39.0

## **External Financing**

Of total financing needs, an amount of US\$1,770.7 million (RD\$69,057.3 million) would be from external sources, which will be used to finance public investment projects as well as budgetary support.

### *Public Investment Projects*

Financing for investment projects from multilateral and bilateral entities as well as international commercial banks, will total US\$542.7 million (RD\$21,165.3 million), which will be disbursed through existing financing contracts as well as new loans contracts to be approved during the fiscal year 2011. These new loans contracts will be mainly aimed to finance projects already in execution as well as new public investment projects.

### *Global Bonds*

In order to increase the maturity of the portfolio and to structure the future maturity profile of the debt service leveling monthly payments, the medium-term debt management strategy provides an increase in market securities within the debt portfolio. In this sense, the Financing Plan contemplates the placement of global bonds in international markets by a minimum of US\$500.0 million (RD\$19,500.0 million) to be placed at the most favorable conditions for the country to a minimum term of five (5) years.

### *Budget Support*

Budget support financing is estimated at US\$728.0 million (RD\$28,392.0 million) for 2011:

- Petrocaribe Agreement: US\$280.0 million (RD\$10,920.0 million)
- Multilateral Institutions: US\$448.0 million (RD\$17,472.0 million):
  - Inter-American Development Bank (IADB): US\$128.0 million (RD\$4,992.0 million)
  - International Bank for Reconstruction and Development (IBRD): US\$70.0 million (RD\$2,730.0 million)
  - International Monetary Fund (IMF): US\$250.0 million (RD\$9,750.0 million)

Resources via the Petrocaribe Agreement provide long term (23 years) and low interest rate (1.0%) concessional financing. Financing from multilateral agencies (IADB and IBRD) is also long-term debt and provides flexibility in adapting the principal repayments to the desired profile structure, as well as interest rates conversion options; the IMF debt is medium-term financing at low interest rates.

## **Domestic Financing**

The Central Government stipulates to receive financing from domestic sources for an amount of US\$723.1 million (RD\$28,201.7 million) through bond issuance in the local debt market, new loans contracts with local commercial banks and the issuance of administrative debt bonds.

### *Domestic Bonds*

As part of the strategy to increase the maturity of domestic debt and within the Program for Domestic Bond Issuances and the strategy for development of the public debt's local market, the Annual Financing Plan offers the issuance and allocations of bonds through public auction, with maturities of 5, 7 and 10 years. The coupons will be determined according to the evolution of the main macroeconomic variables of the financial market.

### *Domestic Credit*

As part of domestic financing, the Plan contemplates new medium-term loans contracts (3-years maturity) with the local commercial bank.

### *Administrative Debt Bonds*

The financing plan also stipulates a bond issuance of US\$76.9 million (RD\$3,000.0 million) to pay non-covered commitments with local suppliers contracted prior to the Public Debt Law, No. 6-06, upon the validation of the Domestic Public Debt Evaluation Commission. These securities will be issued at a fixed coupon maximum rate of 5% and a minimum term of 5 years.

## **IIb. 2011 Public Debt Balance**

The balance of the Central Government's debt at the end of 2011 is estimated to total US\$15,451.9 million<sup>4</sup>, representing 28.8% of the estimated GDP for 2011<sup>5</sup>. This amount is calculated by adding the balance of the Central Government's debt at 2010 of US\$14,627.5 million, gross financing in 2011 of US\$2,493.8 million, and subtracting principal amortizations for US\$1,553.1 million and negative exchange rate variation for US\$116.3 million. The Non-Financial Public Sector debt is estimated to represent 29.2% of the estimated GDP at end 2011.

**Table 4: 2010-2011 Central Government Debt Balance Variation**  
Figures in US\$ million

<b>I. 2010 Central Government Debt Balance</b>	<b>14,627.5</b>
<b>II. Liabilities Increment</b>	<b>2,493.8</b>
1. Fiscal Deficit Financing (+)	860.2
2. Debt Amortization Financing (+)	1,553.1
3. Reduction of Accounts Payable (+)	80.5
<b>III. Central Government Sub-Total Debt (I + II)</b>	<b>17,121.3</b>
<b>IV. Liabilities Reduction</b>	<b>1,553.1</b>
5. Debt Amortization (-)	1,553.1
<i>External Debt</i>	718.6
<i>Domestic Debt</i>	834.5
6. Principal Waivers (-)	-
<b>V. Exchange Rate Variation (-)</b>	<b>116.3</b>
<b>VI. 2011 Central Government Debt Balance (III - IV - V)</b>	<b>15,451.9</b>
<b>VII. Gross Financing</b>	<b>2,493.8</b>
<b>VIII. Net Financing</b>	<b>860.2</b>

Source: Public Debt Office.

<sup>4</sup> Figures subject to resolution of the Interinstitutional Committee for the Central Bank Recapitalization of the action/issuance plan of 2011.

<sup>5</sup> Estimated GDP for 2011 RD\$2,095,445.9 million, equivalent to US\$53,700.0 million.