



# **Ministry of Finance**

Public Debt Office

## **2018 Annual Financing Plan**

**Santo Domingo, Distrito Nacional**



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## 1. Introduction

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According to the Public Credit Law No. 6-06 of January 20th 2006 and the implementing regulations under the Decree No. 630-06 dated December 27th 2006, The Public Debt Council is responsible of *"proposing the highest level of domestic and external debt that the government may incur in the next fiscal year, to be included in the National Budget Project"*.

The following Annual Financing Plan for the year 2018 includes the financing needs, as well as the external and domestic debt issuance proposal to cover them. It is an important planning tool for the debt manager and it helps to increase transparency and improve forecast ability in the government debt management.

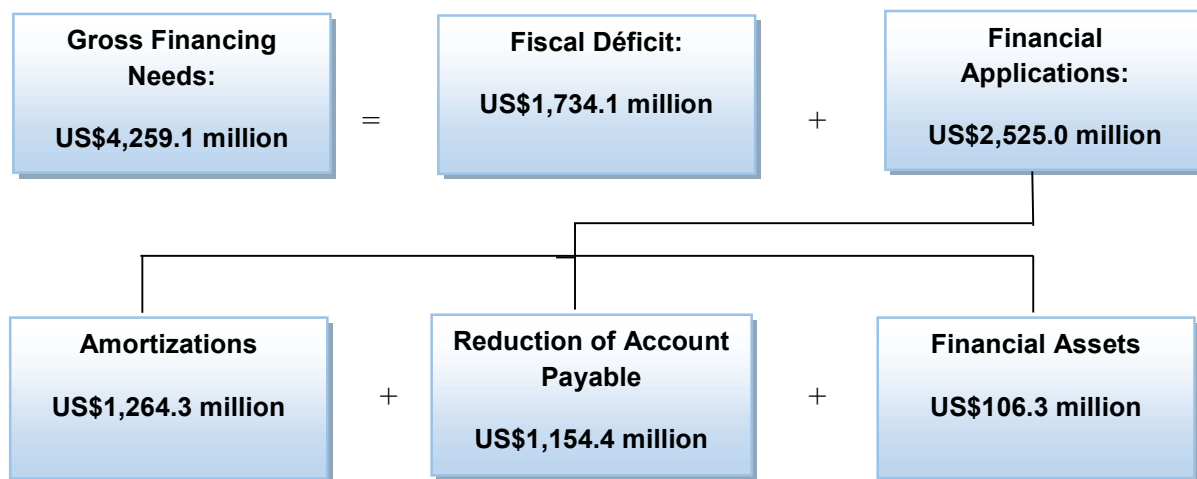
The Annual Financing Plan arises from the Medium Term Debt Management Strategy of the Dominican Republic for the 2016-2020 period. The strategy establishes the guidelines and the goals for the medium term, and the annual plan contributes to its achievement outlining the domestic and the external government debt issuances during the current year.

This document brings forward the estimates of gross financing needs for the year 2018 and it describes the features of the new financing such as sources (external and internal), financing instruments and terms. It also states the projection of the debt stock of the central government given the financing and the amortization estimated for 2018.

## 2. 2018 Gross Financing Needs

The National Budget Law for 2018 stipulates a gross financing requirement of US\$4,259.1 million (RD\$213,678.3 million<sup>1</sup>), equivalent to 5.5% of the estimated GDP for the year<sup>2</sup>. This amount is the result of a fiscal deficit of US\$1,734.1 million (RD\$86,999.2 million), equivalent to 2.2% of GDP, plus financial applications which include debt amortization, reduction of account payable and financial assets for US\$2,525.0 million (RD\$126,679.1 million), equivalent to 3.3% of GDP.

**Figure 1: Financing Needs**



Source: Public Debt Office, Fiscal Policy Unit and Budget Office.

## 3. 2018 DEBT SERVICE

The estimated debt service for the year 2018 is US\$3,947.8 million (RD\$198,059.6 million). Principal payments accounts for US\$1,264.3 million (RD\$63,428.0 million) and interest and commissions payments for US\$2,683.5 million (RD\$134,631.6 million).

<sup>1</sup> Converted at the average exchange rate of RD\$/US\$= 50.17

<sup>2</sup> Estimated Nominal GDP RD\$3,885,937.9 million (US\$77,456.0 million)

**Table 1: 2018 Public Debt Service**  
Preliminary amounts in millions of US\$ and RD\$

DEBT SERVICE	DEBT SOURCE	AMOUNT IN US\$	AMOUNT IN RD\$
AMORTIZATION	EXTERNAL	886.6	44,482.7
	DOMESTIC	377.6	18,945.3
<b>Total AMORTIZATION</b>		<b>1,264.3</b>	<b>63,428.0</b>
INTEREST	EXTERNAL	1,173.9	58,892.8
	DOMESTIC	1,482.9	74,398.2
<b>Total INTEREST</b>		<b>2,656.8</b>	<b>133,291.0</b>
COMMISSIONS	EXTERNAL	26.1	1,309.5
	DOMESTIC	0.6	31.1
<b>Total COMMISSIONS</b>		<b>26.7</b>	<b>1,340.6</b>
<b>TOTAL DEBT SERVICE</b>		<b>3,947.8</b>	<b>198,059.6</b>

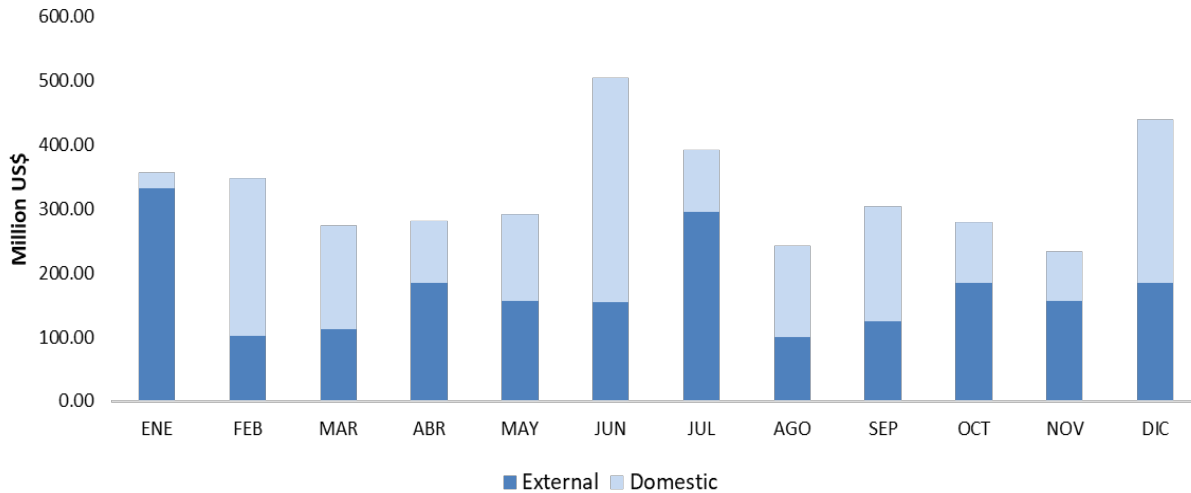
Of the total debt service for 2018 US\$2,135.2 million (RD\$107,124.2 million), equivalent to 54.1%, are payments in foreign currency, and the remaining US\$1,812.6 million (RD\$90,935.5 million) are payments in local currency.

**Table 2: 2017 Public Debt Service by Currency**  
Preliminary amounts in millions of US\$ y RD\$

CURRENCY TYPE	DEBT SERVICE	AMOUNT IN US\$	AMOUNT IN RD\$
FOREIGN	AMORTIZATION	888.1	44,556.5
	INTEREST	1,221.0	61,257.1
	COMMISSIONS	26.1	1,310.6
<b>FX DEBT SERVICE</b>		<b>2,135.2</b>	<b>107,124.2</b>
LOCAL	AMORTIZATION	376.2	18,871.5
	INTEREST	1,435.8	72,033.9
	COMMISSIONS	0.6	30.1
<b>LOCAL DEBT SERVICE</b>		<b>1,812.5</b>	<b>90,935.5</b>
<b>TOTAL DEBT SERVICE</b>		<b>3,947.8</b>	<b>198,059.6</b>

The debt service is well balanced throughout the year, between the 24% and 27% of the total payments are programmed to be paid in each quarter, being the month of June the most concentrated month with estimated payments amounting around US\$504.8 million (RD\$25,323.3 million) each month.

**Figure 2: Monthly Debt Service**  
Figures in millions of US\$



## 4. 2018 ISSUANCE STRATEGY

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The identified financing sources for 2018 are described below:

### A. External Financing

The external financing for the year 2018 represent US\$2,863.8 million (RD\$143,678.3 million), which will be focus in financing public investment projects and budgetary support.

The external financing sources contemplated are consistent with the Medium Term Debt Management Strategy, which considers the debt service flows and needs in foreign currency and their impact in the foreign exchange market. The external disbursement to be received will cover the debt service payments in foreign currency equivalent to US\$2,135.2 million. This will allow the government to be able to deal with its obligations without affecting the Dominican exchange market.

**Table 3: 2018 Financing Needs and Sources**  
Preliminary amounts in millions and as % of GDP

	RDS	US\$	% GDP
<b>GROSS FINANCING NEEDS</b>	<b>213,678.3</b>	<b>4,259.1</b>	<b>5.5%</b>
<i>I. Overall Balance</i>	<i>(86,999.2)</i>	<i>(1,734.1)</i>	<i>-2.2%</i>
<b>II. Financial Applications</b>	<b>126,679.1</b>	<b>2,525.0</b>	<b>3.3%</b>
<b>Public Debt Amortizations</b>	<b>63,428.0</b>	<b>1,264.3</b>	<b>1.6%</b>
<i>External Debt</i>	<i>44,482.7</i>	<i>886.6</i>	<i>1.2%</i>
<i>Domestic Debt</i>	<i>18,945.3</i>	<i>377.6</i>	<i>0.5%</i>
<b>Reduction of Payable Accounts</b>	<b>57,917.1</b>	<b>1,154.4</b>	<b>1.5%</b>
<b>Financial Assets</b>	<b>5,334.0</b>	<b>106.3</b>	<b>0.1%</b>
<b>FINANCING SOURCES</b>	<b>213,678.3</b>	<b>4,259.1</b>	<b>5.5%</b>
<b>External Financing</b>	<b>143,678.3</b>	<b>2,863.8</b>	<b>3.7%</b>
<i>Multilaterals, Bilaterals, Commercial Banks (Investment Projects)</i>	<i>17,325.0</i>	<i>345.3</i>	<i>0.4%</i>
<i>Global Bonds</i>	<i>105,357.0</i>	<i>2,100.0</i>	<i>2.7%</i>
<i>Budget Support</i>	<i>20,996.3</i>	<i>418.5</i>	<i>0.5%</i>
Bilaterals	1,003.4	20.0	0.0%
Multilaterals	19,992.9	398.5	0.5%
<b>Domestic Financing</b>	<b>70,000.0</b>	<b>1,395.3</b>	<b>1.8%</b>

Source: Public Debt Office and Fiscal Policy Unit.

### *Public Investment Projects*

Financing for investment projects from multilateral and bilateral entities as well as international commercial banks, will total US\$345.3 million (RD\$17,325.0 million), which will be disbursed through existing financing contracts as well as new loans contracts to be approved during the fiscal year 2018. These new loans contracts will finance new investment projects as well as new phases of the projects that are currently in execution.

### *Global Bonds*

According to the Medium Term Debt Management Strategy, the Ministry of Finance will continue the issuance program in the international markets. In this sense, the Financing Plan for the year 2018 contemplates the placements of global bonds for an amount of US\$2,100.0 million (RD\$105,357.0 million) to be placed at the most favorable conditions for the country.

### *Multilateral and Bilateral Financing*

Budgetary support financing for the year 2018 represents US\$418.5 million (RD\$20,996.3 million) and will be contracted with multilaterals and bilateral entities.

The Dominican Government will receive an amount of US\$20.0 million from bilateral entities (RD\$1,003.4 million) including the Petrocaribe Agreement disbursements, whose financing are on concessional terms (23 years) and low interest rate (1.0%).

Moreover, US\$398.5 million (RD\$19,992.9 million) will come from multilateral entities, offering repayment terms between 20 and 25 years and the possibility to structure repayments according to the existing maturity profile, allowing the smoothening of future payments schedule.

### **B. Domestic Financing**

One of the most important guidelines of the Medium Term Debt Management Strategy is to increase funding in Dominican pesos in order to reduce the exchange rate risk. The domestic financing for the year 2018 is estimated at US\$1,395.3 million (RD\$70,000.0 million), an increase of 6.7% relative to local currency funding budgeted for 2017. This funding is higher than the debt repayments in local currency equivalent to US\$376.2 million (RD\$18,871.5 million), for which is expected an increase of the total domestic debt in local currency within the portfolio of the nonfinancial public sector debt. The domestic financing source will be the issuance of bonds in the domestic debt market by monthly public auction program.

#### *Domestic Bonds*

In line with the strategy for the development of the domestic public debt market, the Annual Financing Plan contemplates bond issuances through public auctions with a minimum maturity of three (3) years, and are expected to increase the average time to maturity of domestic debt. The coupon rates will be determined according to the evolution of market conditions.



The Ministry of Finance will continue the monthly single price bond issuance auction program to contribute to the development of the domestic yield curve. Taking into consideration the demand of investors, the issuance size and maturity will be determined in line with the objective of increasing the liquidity of government bonds in the secondary market and of improving the debt profile, through the issuance of “benchmark” securities, the reopening of existing series and the implementation of liability management operations.

### **C. 2018 Financing Law**

The dynamics of the debt markets and the changing financing options and conditions require that the public debt managers have the flexibility to adjust, for being able to contract debt at the most favorable conditions. Considering the latter, the Financing Law for 2018 approved by Congress authorizes the government through the Ministry of Finance, to attain the financing amount approved in the international or domestic capital markets, in Dominican pesos or foreign currency, based on the favorability of market conditions.

Moreover, the law allows an increase in the amount of issuance in the capital markets approved by the National Budget, in case of any change in the financing sources stipulated, provided that this increase does not lead to an increase in the gross financing approved.

In addition, it authorizes the government through the Ministry of Finance, to implement liability management operations during 2018, which aim to reduce the debt stock or the servicing of external and domestic debt of the nonfinancial public sector, through swap or repurchase of debt, as well as the use of financial derivatives<sup>3</sup>.

The main objective of the financing law is to provide the necessary flexibility to the Dominican government for obtaining financing under the most convenient cost conditions in the short, medium and long term, considering the levels of risks of the debt portfolio and the fiscal sustainability of the public debt.

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<sup>3</sup> The Public Debt Office of most developed countries use liability management operations for: (i) attain faster progress towards the desired composition of the debt; (ii) take advantage of opportunities offered by the financial markets to reduce portfolio risk or improve liquidity of the securities offered in the local market and the yield curve; and (iii) diversify funding sources preserving risk management parameters of the medium-term strategy.

## 5. PUBLIC DEBT STOCK FOR 2018

At the end of 2018, the Central Government estimated debt will be around US\$31,483.8 million<sup>4</sup>, representing the 40.6% of the estimated GDP for 2018<sup>5</sup>. This amount results of the estimated debt for 2017 of US\$28,861.5 million, plus the estimated gross financing for 2018 of US\$4,259.1 million, minus debt amortizations for US1,264.3 million, plus a negative exchange rate variation of US\$372.5 million.

**Table 4: Evolution of the Central Government Debt Stock 2017-2018**  
Figures in million of US\$

<b>I. Central Government Debt Stock 2017</b>	<b>28,861.5</b>
<b>II. Liabilities Increase</b>	<b>4,259.1</b>
1. Fiscal Deficit Financing (+)	1,734.1
2. Debt Amortizations Financing (+)	1,264.3
3. Accounts Payable Reduction Financing (+)	1,154.4
4. Financial Assets (+)	106.3
<b>III. Sub-total Central Government Debt (I + II)</b>	<b>33,120.6</b>
<b>IV. Liabilities Reduction</b>	<b>1,264.3</b>
5. Debt Amortizations(-)	1,264.3
<i>External Debt</i>	886.6
<i>Domestic Debt</i>	377.6
6. Principal Waivers (-)	-
<b>V. Exchange Rate Variation</b>	<b>(372.5)</b>
<b>VI. Central Government Debt Stock 2018 (III - IV + V)</b>	<b>31,483.8</b>
<b>VII. Gross Financing</b>	<b>4,259.1</b>
<b>VIII. Net Financing</b>	<b>1,734.1</b>

Source: Public Credit Office.

At the end of 2018, the non-financial public sector debt is estimated at 41.5% of the estimated GDP.

<sup>4</sup> This figure do not contemplate new issuance for Central Bank Recapitalization nor any other operation excluded in the General Budget for 2017.

<sup>5</sup> Nominal Estimated GDP RD\$3,885,937.9 million (US\$77,456.0 million).

## ANNEX I – AUCTION PROGRAM CALENDAR 2018

**AUCTION CALENDAR  
PUBLIC DEBT BONDS  
JANUARY- DECEMBER 2018**

LEYEND	
	AUCTION
	SETTLEMENT

JANUARY 2018						
M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

FEBRUARY 2018						
M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28				

MARCH 2018						
M	T	W	T	F	S	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

APRIL 2018						
M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30						

MAY 2018						
M	T	W	T	F	S	S
						1
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

JUNE 2018						
M	T	W	T	F	S	S
						1
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

JULY 2018						
M	T	W	T	F	S	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

AUGUST 2018						
M	T	W	T	F	S	S
			1	2	3	4
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

SEPTEMBER 2018						
M	T	W	T	F	S	S
						1
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

OCTOBER 2018						
M	T	W	T	F	S	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

NOVEMBER 2018						
M	T	W	T	F	S	S
						1
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

DECEMBER 2018						
M	T	W	T	F	S	S
						1
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						