



Ministry of Finance

Public Debt Office

2020 Annual Financing Plan

Santo Domingo, National District



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I. INTRODUCTION

The Dominican government is committed to the implementation of a fiscal consolidation strategy geared towards reducing public sector gross financing needs with the goal of maintaining a sustainable public debt trajectory.

In this context, the basis of the public debt management strategy is an efficient management of public debt that maintains a balanced debt portfolio and reduces the main associated risks. This in turn will place the country in a better position and allow it to face the uncertainties of the international environment and the volatility that may present itself in international financial markets.

The 2020 annual financing plan is consistent with the mid-term debt management strategy for the 2016-2020 period that establishes the guidelines and mid-term public debt objectives. Among the principal guidelines are:

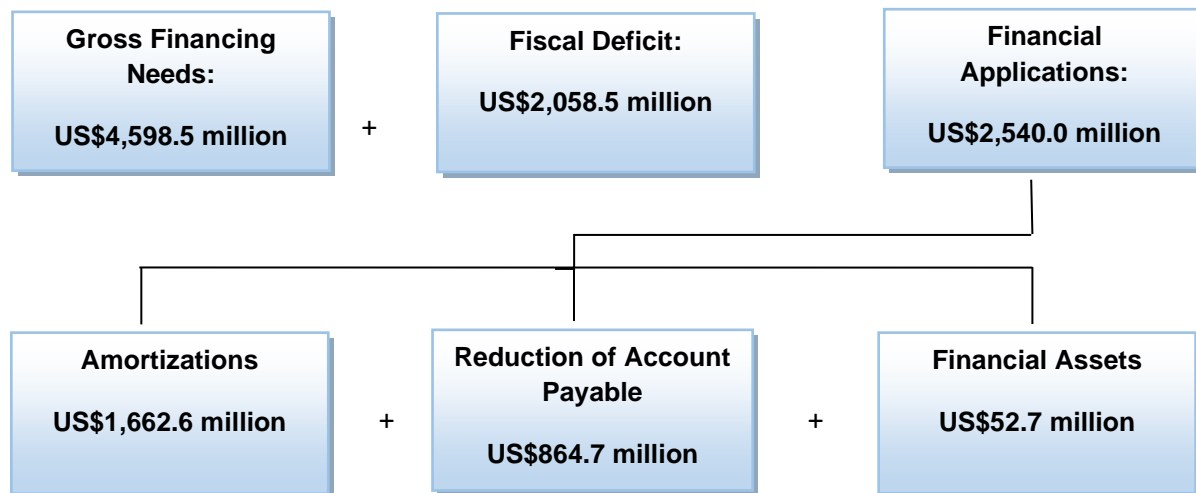
- i. Cover the Government's gross financing needs, at the lowest possible cost in the medium and long-term, with a prudent risk exposure.
- ii. The main source of financing will be capital markets, prioritizing financing in domestic currency, considering demand and prevailing financial conditions at the time of issuance.

This document presents an estimate of the gross financing needs for the year 2019, while describing the issuance strategy, the features of said financing in terms of financing sources (external and domestic), instruments and terms, among others; also the forecast of the government's debt stock given estimated financing and amortizations for the year 2019.

II. 2020 FINANCING NEEDS

For the year 2020 the state’s general Budget stipulates gross financing needs of US\$4,598.5 million (RD\$246,295.8 million¹), equivalent to 5.0%² of GDP. This amount is the result of the budgetary deficit of US\$2,058.5 million (RD\$110,251.0 million), equivalent to 2.2% of GDP, plus financial applications which include debt amortizations, reduction of accounts payable, and increases in financial assets for US\$2,540.0 million (RD\$136,044.8 million) equivalent to 2.8% of GDP.

Figure 1: Financing Needs



Fuente: Public Debt Office, Fiscal Policy Office, and Budget Office.

III. 2020 FINANCING STRATEGY

The Dominican government has been implementing a fiscal consolidation strategy geared towards reducing public sector gross financing needs with the goal of maintaining a sustainable trajectory of the public debt.

In the context of fiscal consolidation strategy, the basis for the policy and guidelines for public debt management is to maintain a balanced portfolio, while reducing the main associated risks.

¹ Converted to the average exchange rate of RD\$/US\$=53.56.

² 2019 estimated nominal GDP RD\$4,918,407.8 million (US\$91,836.3 million)

The goal is to reduce the percentage of debt in foreign currency and at variable interest rates, while improving the maturity profile of the debt. This helps to avoid that the volatility in market variables, such as interest rates and exchange rates, significantly affects the debt service, pressures public finances and increases financing needs.

The primary sources of funding for 2020 have been identified following the guidelines established by the Public Debt Counsel for the medium-term debt management strategy, and taking into consideration foreign, and domestic capital market liquidity, and the availability of funds from multilateral organizations. These include foreign and domestic financial markets (bond issuances), and multilateral organizations. In addition, bilateral and international commercial banking for public investment projects are also considered.

Therefore, the 2020 financing policy will maintain flexibility to adapt to markets evolution for being able to obtain favorable financial conditions in terms of the maturities and cost of new debt. For this the policy contemplates following the evolution of financial markets with the objective of identifying financing opportunities for the government given access to different markets, instruments, and currencies, amongst others.

The 2020 financing plan considers financing through internal sources of RD\$86,312.1 million, which corresponds to the 35.0% of total sources, while external sources would total RD\$159,983.7 million. It is important to highlight that within external sources, and as part of the strategy to reduce foreign exchange risk, there is the possibility of issuances in Dominican pesos in international markets thus increasing the percentage of local currency financing.

With the objective of covering the financing needs at the best possible financial conditions, given a prudent level of risk, the Government has the flexibility to redistribute the indicative amounts of each source, depending on market conditions and fulfillment of disbursement conditions from each of the sources. In this sense, the amounts described for each source in the following table and subsequent sections are indicative distributions. The sources redistribution cannot result in an increase in the gross financing needs stipulated by the General State Budget 2020 (RD\$246,295.8 million).

Table 1: 2020 Financing Needs and Sources

Preliminary amounts in millions and as percentage of GDP

2020 BUDGET	RD\$	US\$	% GDP
GROSS FINANCING NEEDS	246,295.8	4,598.5	5.0%
<i>I. Overall Balance</i>	<i>(110,251.0)</i>	<i>(2,058.5)</i>	<i>-2.2%</i>
II. Financial Applications	136,044.8	2,540.0	2.8%
1. Debt Amortization	86,908.6	1,622.6	1.8%
<i>External Debt</i>	<i>56,479.5</i>	<i>1,054.5</i>	<i>1.1%</i>
<i>Domestic Debt</i>	<i>30,429.1</i>	<i>568.1</i>	<i>1.6%</i>
3. Payable Accounts Reduction	46,311.2	864.7	0.9%
4. Financial Assets	2,825.0	52.7	0.1%
FINANCING SOURCES (I + II)	246,295.8	4,598.5	5.0%
External Financing	159,983.7	2,987.0	3.3%
<i>Multilaterals, Bilaterals, Commercial Banks (Investment Projects)</i>	<i>24,102.0</i>	<i>450.0</i>	<i>0.5%</i>
<i>Global Bonds</i>	<i>107,120.0</i>	<i>2,000.0</i>	<i>2.2%</i>
<i>Budger Support</i>	<i>28,761.7</i>	<i>537.0</i>	<i>0.6%</i>
Bilaterals	10,712.0	200.0	0.2%
Multilaterals	18,049.7	337.0	0.4%
Domestic Debt	86,312.1	1,611.5	1.8%

A. External Financing

The external debt strategy is oriented towards achieving a better balance of portfolio risks, smoother maturity profiles, reduced financing costs, and a wider investor base, among others.

The Ministry of Finance will implement a strategy which considers sources and financial instruments types diversification and will evaluate the possibility of executing liability management operations that result in an improved maturity profile and reduced financing costs.

In this sense, it is important to highlight that in line with the guidelines established in the medium term debt strategy, which takes into account the possible impact in the foreign exchange market given debt service flows and foreign exchange needs, the resources estimated in foreign currency will cover the public debt service in foreign currency totaling US\$2,479.7 million. This would allow the government to service its debt obligations without increasing pressure on the local foreign exchange market.

Budgetary Support

In agreement with the guidelines established in the medium-term debt strategy, the Ministry of Finance will continue with its bond issuances program in international markets. The national budget considers the placement of global bonds totaling US\$2,000.0 million (RD\$107,120.0 million), in instruments issued in USD, Dominican Pesos, or other foreign currency in agreement with international financial market conditions and the financial conditions that are most favorable to the country.

On the other hand, multilateral and bilateral organizations resources for budgetary support financing is estimated to total US\$537.0 million (RD\$28,761.7 million). Multilateral organizations provide financing at favorable costs and longer maturity, and the possibility of customizing the repayment schedule, features then used to smoothen the debt's maturity profile.

Investment Projects

Financing for investment projects coming from multilateral, bilateral, and international commercial banks will total US\$450.0 million (RD\$24,102.0 million). The disbursement of funds will be according to current financial agreements, and new agreements to be executed during fiscal year 2019. The new agreements will fund new investment projects and new phases of current investment projects. This investment will be destined primarily for improvement projects for wastewater and hydraulic resources, energy sector, infrastructure, health, education, and social assistance.

B. Domestic Financing

The main objectives for the domestic debt strategy will be: (i) Continued development of the local capital market (ii) strengthening the liquidity and efficiency of operations, as well as the price formation process (iii) to design and implement a strategy for the creation and maintenance of reference series (benchmark). In this sense, the monthly public bonds auctions will continue in order to contribute to the development of a yield curve. These auctions will occur on the first Tuesday of each month, with the amounts and instruments announced the week before.

In addition, liability management operations such as repurchases, and exchanges, among others will be considered and evaluated, for execution when market conditions are favorable, to contribute to the development of the local market, reduce financing cost and improve amortization profile.

Considering liquidity in the local market, and local and international investors demand, the financing through bonds placements in the local market is estimated at RD\$86,312.1 million (US\$2,987.0 million). It is important to highlight that the auction program of the Ministry of Finance will maintain its flexibility to adapt to prevailing financial market conditions. The local currency financing is higher than the debt amortizations in local currency equivalent to RD\$25,297.4 million (US\$472.3 million), for which would result in an increase in Non-Financial Public Sector debt in local currency.

The maturities and size of the issuances will be determined by the objective of improving the debt profile and increasing the liquidity of government bonds in the secondary market while considering investors demand. The Ministry will continue its strategy of issuing “benchmark” instruments with 10, 15 or 20-year maturities, making reopening’s and liability management operations. The coupon rates will be determined according to the evolution of interest rates in financial markets.

C. 2020 Financing Law

The dynamics of the debt markets and the changing financing options and conditions require that public debt managers have the flexibility to adjust, for being able to contract debt at the most favorable conditions. Considering the latter, the 2020 financing law authorizes the executive branch through the Ministry of Finance, to issue the approved amount in local and foreign capital markets in Dominican pesos, American dollars, or Euros depending 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 2020, which aim to reduce the debt stock or the external and domestic debt service of the nonfinancial public sector, through swap or repurchase of debt, as well as the use of financial derivatives.

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.

IV. 2020 DEBT SERVICE

For the year 2020, the estimated debt service totals US\$4,743.5 million (RD\$254,059.4 million). Of this amount, US\$1,662.6 million (RD\$86,908.6 million) correspond to principal amortizations payments, while US\$3,120.8 million (RD\$167,150.7 million) correspond to the payment of interest and commissions.

Table 2: 2020 Public Debt Service

Preliminary amounts in millions of US\$ and RD\$

DEBT SERVICE	DEBT SOURCE	AMOUNT IN US\$	AMOUNT IN RD\$
AMORTIZATION	EXTERNAL	1,054.5	56,479.5
	DOMESTIC	568.1	30,429.1
Total AMORTIZATION		1,622.6	86,908.6
INTEREST	EXTERNAL	1,405.0	75,252.2
	DOMESTIC	1,690.5	90,540.8
Total INTEREST		3,095.5	165,793.0
COMMISSIONS	EXTERNAL	24.6	1,318.3
	DOMESTIC	0.7	39.4
Total COMMISSIONS		25.3	1,357.7
TOTAL DEBT SERVICE		4,743.5	254,059.3

1/ Average exchange rate 2019: RD\$/US\$=52.18

2/ Includes interest destined for recapitalization of the Central Bank equivalent to 0.7% of GDP.

It is important to highlight that of the total 2020 debt service, US\$2,479.7 million (RD\$132,813.5 million), are payments in foreign currency, and account for 57.9% of the total, while US\$2,263.7 million (RD\$121,245.9 million) are payments in local currency.

Table 3: 2019 Public Debt Service by Currency Denomination

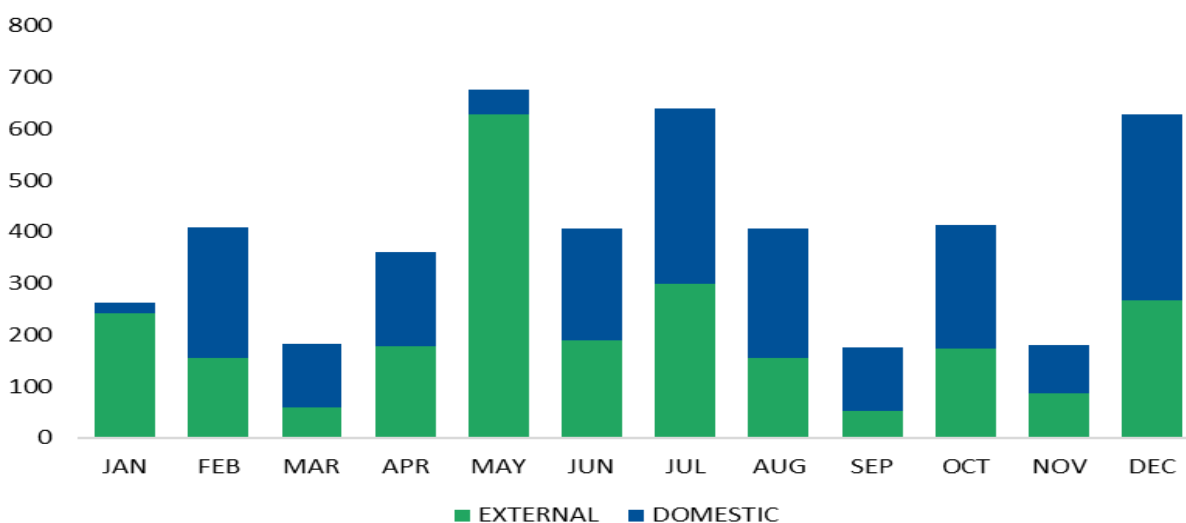
Preliminary amounts in millions of US\$ and RD\$

	SERVICE	AMOUNT IN US\$	AMOUNT IN RD\$
FOREIGN	AMORTIZATION	1,150.3	61,611.3
	INTEREST	1,308.3	70,070.8
	COMMISSION	21.1	1,131.4
SERVICE IN FOREIGN CURRENCY		2,479.7	132,813.5
DOMESTIC	AMORTIZATION	472.3	25,297.4
	INTEREST	1,787.2	95,722.2
	COMMISSION	4.2	226.4
SERVICE IN DOMESTIC CURRENCY		2,263.7	121,245.9
TOTAL SERVICE		4,743.5	254,059.4

On the other hand, in terms of the monthly maturity profile, the debt service is for the most part balanced during months of the year with payments programmed to be between 18% to 30% of the total service. May has the highest payments with an estimated US\$676.2 million (RD\$36,219.3 million) given the maturity of a tranche of an international bond maturing in 2021, for an amount of US\$500.0 million.

Figure 2: Monthly Debt Service

Amounts in millions of US\$



V. 2020 PUBLIC DEBT AND STRATEGIC OBJECTIVES

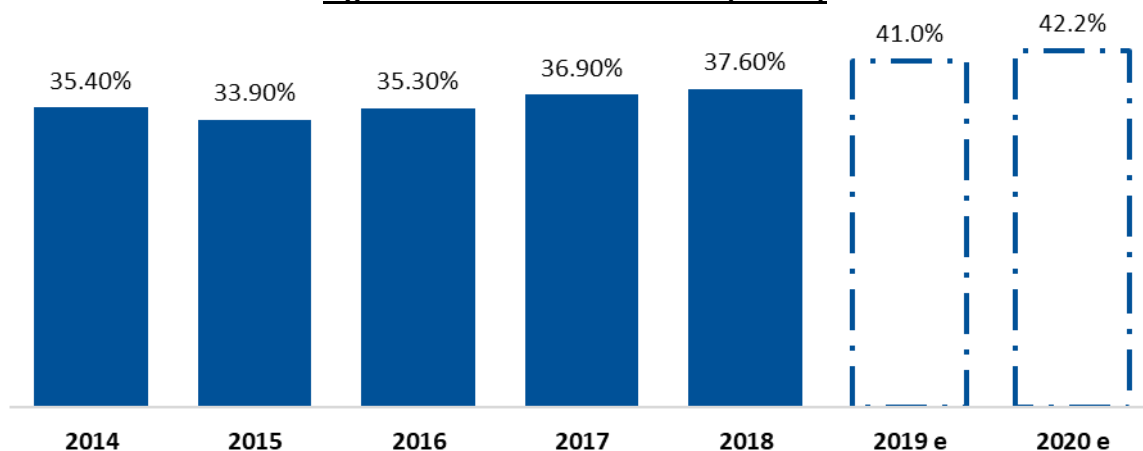
At the end of 2020, the Central Government debt stock will total approximately US\$38,019.8 million³, representing 41.4% of GDP for 2020⁴. This amount is the result of the sum of the estimated debt of US\$35,360.5 million at the end of 2019 and 2020 gross financing for US\$4,598.5 million, minus debt amortizations of US\$1,622.6 million and a negative exchange rate variation of US\$316.5 million⁵. The Non-Financial Public Sector debt at the end of 2020 is forecasted to represent 42.2% of GDP for 2020.

³³ This amount does not consider new bond issuances for the recapitalization of the Central Bank, nor any other operation not stipulated in the 2020 national budget

⁴ 2020 estimated nominal GDP RD\$4,918,407.8 million (US\$91,836.3 million)

⁵ Given the exchange rate estimation for the end of 2019 of RD\$/US\$=53.56

Figure 3: Debt Evolution NFPS (%GDP)



Given the implementation of the guidelines established in the medium term debt management strategy, through the execution of the financing plan previously laid out, which seeks to reduce the financing cost and the mitigation of portfolio risks, the main strategic targets are expected to improve at the end of 2020.

The estimated ranges for the end of 2020 consider various scenarios in issuance strategy, such as:

- International market conditions that allow for medium to long term bond issuances in USD, and DOP.
- Issuance scenarios in the local market focused on the short term or distributed in maturities of 5, 10, or 15 years, or with issuances focused on the long term.

Table 4: Strategic Targets

Indicator	Strategy Target 2020	Est. 2019	Est. 2020 (Range)
Foreign Exchange Risk			
% debt in foreign currency	77% ± 3%	70.7%	67%- 69%
Refinancing Risk			
% short term debt	≤ 12	5.1%	5.0%
TPM internal debt (in years)	7 ± 1	6.5	6.7 - 7.5
Interest rate risk			
% debt that refixes rates in a year	17% ± 3%	18%	17.8%

ANNEX I – 2020 AUCTION CALENDAR

Leyenda						
■	Auction					
■	Settlement					
JANUARY						
Su	Mo	Tu	We	Th	Fr	Sa
			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						
Su	Mo	Tu	We	Th	Fr	Sa
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23	24	25	26	27	28	29
MARCH						
Su	Mo	Tu	We	Th	Fr	Sa
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29	30	31				
APRIL						
Su	Mo	Tu	We	Th	Fr	Sa
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12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		
MAY						
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31						
JUNE						
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28	29	30				
JULY						
Su	Mo	Tu	We	Th	Fr	Sa
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26	27	28	29	30	31	
AUGUST						
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30	31					
SEPTEMBER						
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27	28	29	30			
OCTOBER						
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NOVEMBER						
Su	Mo	Tu	We	Th	Fr	Sa
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22	23	24	25	26	27	28
29	30					
DECEMBER						
Su	Mo	Tu	We	Th	Fr	Sa
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27	28	29	30	31		