



# **Ministry of Finance**

Public Debt Office

## **2021 Annual Financing Plan**

Santo Domingo, Distrito Nacional

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## **I. INTRODUCTION**

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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 2021 annual financing plan is consistent with the mid-term debt management strategy that establishes the guidelines and mid-term public debt objectives. Among the principal guidelines are:

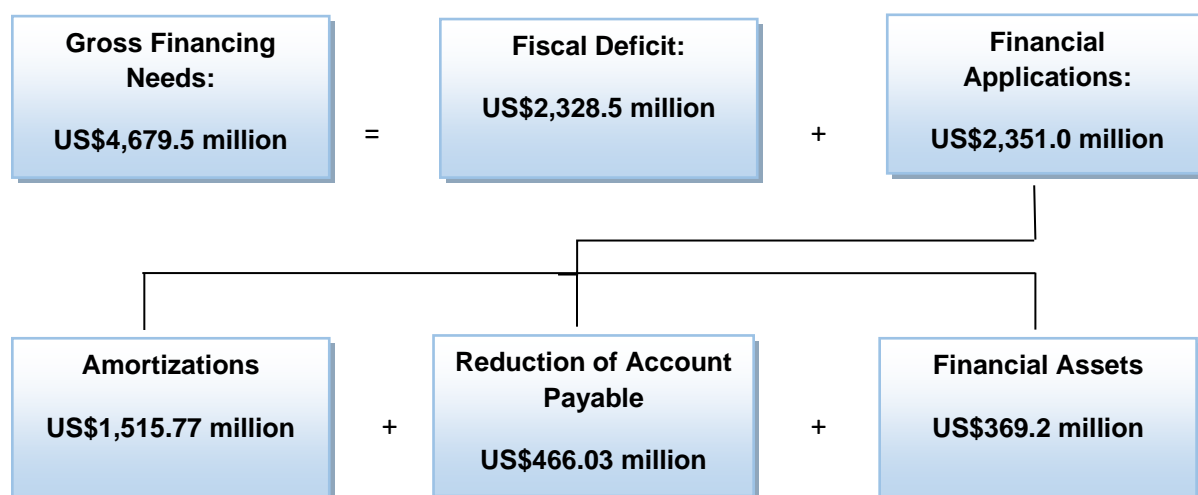
- i. Cover the Government's gross financing needs, at the lowest possible cost in the medium and long-term, with a prudent risk exposure.
- ii. The main source of financing will be capital markets, prioritizing financing in domestic currency, considering demand and prevailing financial conditions at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

This document presents an estimate of the gross financing needs for the year 2021, 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 2021.

## II. 2021 FINANCING NEEDS

For the year 2021 the state's general Budget stipulates gross financing needs of US\$4,679.5 million (RD\$291,528.5 million<sup>1</sup>), equivalent to 5.9%<sup>2</sup> of GDP. This amount is the result of the budgetary deficit of US\$2,328.5 million (RD\$145,065.5 million) equivalent to 3.0% of GDP, plus financial applications which include debt amortizations, reduction of accounts payable, and increases in financial assets for US\$2,351.0 million (RD\$149,463.5 million) equivalent to 3.0% of GDP.

**Figure 1: Financing Needs**



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

## III. 2021 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.

<sup>1</sup> Converted to the average Exchange rate of RD\$/US\$=60.43.

<sup>2</sup> 2021 estimated nominal GDP RD\$5,837,063.8 million (US\$96,597.1 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 2021 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 2021 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 2021 financing plan considers financing through internal sources of RD\$91,067.6 million, which corresponds to 31.2% of total sources, while external sources would total RD\$200,462.9 million, a 68.8%. 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 2021 General State Budget (RD\$291,528.5 million).

**Table 1: 2021 Financing Needs and Sources**

Preliminary amounts in millions and as a percentage of GDP

2022 BUDGET	RD\$	US\$	% GDP
<b>GROSS FINANCING NEEDS</b>	<b>291,528.5</b>	<b>4,679.5</b>	<b>5.9%</b>
<b>I. Overall Balance</b>	<b>(145,065.0)</b>	<b>(2,328.5)</b>	<b>-3.0%</b>
<b>II. Financial Applications</b>	<b>146,463.5</b>	<b>2,351.0</b>	<b>3.0%</b>
1. Debt Amortization	94,430.2	1,515.8	1.9%
External Debt	65,676.1	1,054.2	1.3%
Domestic Debt	28,754.0	461.6	0.6%
3. Payable Accounts Reduction	49,033.4	787.1	1.0%
4. Financial Assets	3,000.0	48.2	0.1%
<b>FINANCING SOURCES (I + II)</b>	<b>291,528.5</b>	<b>4,679.5</b>	<b>5.9%</b>
<b>External Financing</b>	<b>200,462.9</b>	<b>3,217.8</b>	<b>4.1%</b>
<b>Multilaterals, Bilaterals, Commercial Banks (Investment Projects)</b>	<b>26,265.5</b>	<b>421.6</b>	<b>0.5%</b>
<b>Global Bonds</b>	<b>140,171.9</b>	<b>2,250.0</b>	<b>2.9%</b>
<b>Budget Support</b>	<b>34,025.6</b>	<b>546.2</b>	<b>0.7%</b>
Bilaterals	15,574.7	250.0	0.3%
Multilaterals	18,450.9	296.2	0.4%
<b>Domestic Debt</b>	<b>91,065.5</b>	<b>1,461.8</b>	<b>1.9%</b>

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

## 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.

### *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\$2,250.0 million (RD\$140.171.0 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\$546.2 million (RD\$34,025.6 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\$421.6 million (RD\$26,265.5 million). The disbursement of funds will be according to current financial agreements, and new agreements to be executed during fiscal year 2021. 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. These operations can be realized through instruments issued in both the domestic and international market.

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\$91,065.5 million (US\$1,461.8 million) for 2021. 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\$18,175.0 million (US\$291.7 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 and/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. 2021 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. 2021 DEBT SERVICE**

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For the year 2021, the estimated debt service totals US\$4,482.6 million (RD\$279,266.3 million). Of this amount, US\$1,515.7 million (RD\$94,430.2 million) correspond to principal amortization payments, while US\$2,966.9 million (RD\$184,836.1 million) correspond to the payment of interest and commissions.

**Table 2: 2021 Public Debt Service**  
 Preliminary amounts in millions of US\$ and RD\$

Debt Service	Debt Source	Amount in US\$	Amount in RD\$
<b>Amortization</b>	External	1,054.2	65,676.1
	Domestic	461.5	28,754.0
<b>Total Amortization</b>		<b>1,515.7</b>	<b>94,430.2</b>
<b>Interest</b>	External	1,607.9	100,170.0
	Domestic	1,338.2	83,368.0
<b>Total Interest</b>		<b>2,946.0</b>	<b>183,538.0</b>
<b>Commissions</b>	External	20.1	1,255.0
	Domestic	0.7	43.1
<b>Total Commissions</b>		<b>20.8</b>	<b>1,298.1</b>
<b>Total Debt Service</b>		<b>4,482.6</b>	<b>279,266.3</b>

1/ Average Exchange rate for 2021: RD\$/US\$=62.3

2/ Includes interest destined for recapitalization of the Central Bank equivalent to 0.6% of GDP.

Source: Public Debt Office

It is important to highlight that of the total 2021 debt service, US\$2,894.5 million (RD\$180,324.5 million), accounting for 64.6% of the total, are payments in foreign currency, while US\$1,588.2 million (RD\$98,941.8 million) are payments in local currency.

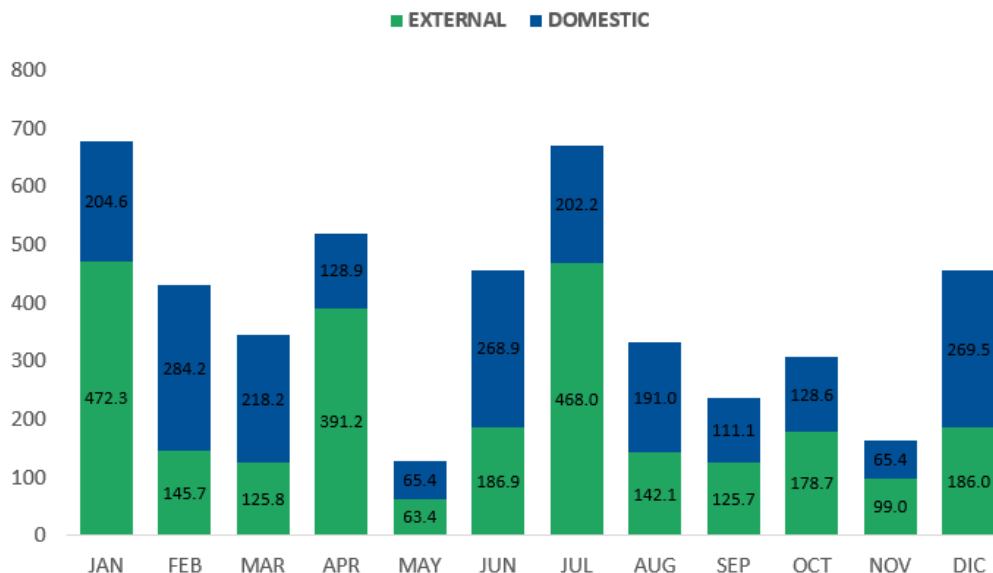
**Table 3: 2021 Public Debt Service by Currency Denomination**  
 Preliminary amounts in millions of US\$ and RD\$

Currency	Service	Amount in US\$	Amount in RD\$
<b>Foreign</b>	Amortization	1,224.0	76,255.2
	Interest	1,650.2	102,809.8
	Commission	20.2	1,259.6
<b>Service in Foreign Currency</b>		<b>2,894.5</b>	<b>180,324.5</b>
<b>Domestic</b>	Amortization	291.7	18,175.0
	Interest	1,295.8	80,728.2
	Commission	0.6	38.5
<b>Service in Domestic Currency</b>		<b>1,588.2</b>	<b>98,941.8</b>
<b>Service Total</b>		<b>4,482.6</b>	<b>279,266.3</b>

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% and 35% of the total service. May has the highest payments with an estimated US\$665.0 million (RD\$41,431.4 million).

**Figure 2: 2021 Monthly Debt Service**

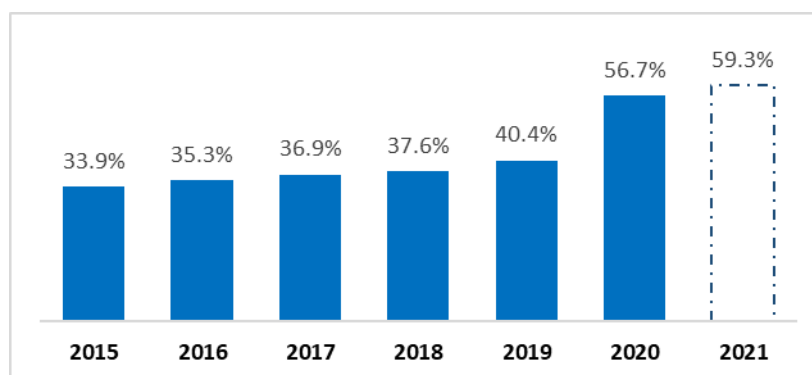
Amounts in millions of US\$



## V. 2021 PUBLIC DEBT AND STRATEGIC OBJECTIVES

At the end of 2021, the Central Government debt stock will total approximately US\$46,669.4 million<sup>3</sup>, representing 59.3% of GDP for 2021<sup>4</sup>. This amount is the result of the sum of the estimated debt of US\$44,606.0 million at the end of 2021, and 2021 gross financing for US\$4,679.5 million, minus debt amortizations of US\$1,515.7 million and a negative exchange rate variation of US\$1,100.4 million<sup>5</sup>.

**Figure 3: Debt Evolution NFPS (%GDP)**



<sup>3</sup> This amount does not consider new bond issuances for the recapitalization of the Central Bank, nor any other operation not stipulated in the 2021 national budget.

<sup>4</sup> 2021 estimated nominal GDP RD\$4,902,249.4million (US\$ 78,689.60 million).

<sup>5</sup> Given an average estimated exchange rate for 2021 of RD\$/US\$=62.30

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 2021<sup>6</sup>.

Through the public debt service strategies, the government provides guidance on how it will finance the fiscal deficit and make principal and interest payments on existing debt, where investors observe the intentions, giving confidence by complying with the goals and strategy established. As a result, there may be an increased demand for Dominican sovereign instruments in international markets and a better outlook for debt service by risk ratings.

The Public Debt Service Strategy has been designed focusing on 4 pillars:

- I. Reducing the cost of debt through liability management operations.
- II. Increasing the proportion of debt with multilaterals and bilaterals.
- III. Encourage bond issuance in local currency and decrease the proportion of foreign currency debt, as permitted by market conditions.
- IV. Maintain a presence in international markets within long-term benchmarks and in local currency.

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<sup>6</sup> The targets correspond to the indicators objective to 2021 established in the Medium Term Public Debt Management Strategy designed in 2020.

## VI. ANNEX I – 2021 AUCTION CALENDAR

MINISTRY OF FINANCE OF THE DOMINICAN REPUBLIC  
 PUBLIC DEBT OFFICE

ORDINARY AUCTION CALENDAR  
 PUBLIC DEBT BONDS  
 PERIOD: JANUARY – DECEMBER 2021

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