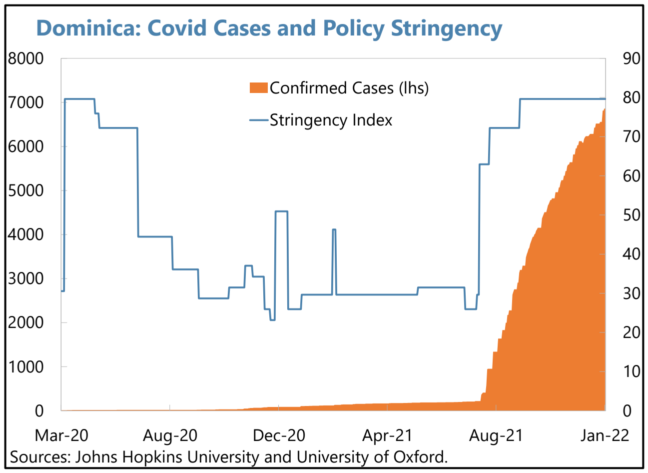
BACKGROUND

1. **The Covid-19 pandemic continues to hit Dominica hard.** After having a minimal number of Covid-19 cases through mid-2021, an outbreak since August is stretching the capacity of the country's health system. Total infections have surpassed 5 percent of the population–only 40 percent of the population has received two doses—mainly due to vaccine hesitancy; vaccine availability is sufficient to vaccinate a large share of the population.[1] Mobility restrictions have been reinstated in response to the outbreak.

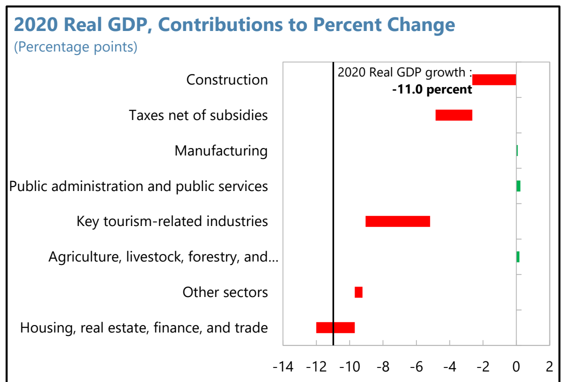


Sources: Johns Hopkins University and University of Oxford.

2. **To support the government's response to the pandemic, in 2020 the Fund disbursed the equivalent of SDR 10.28 million (US$14 million; 89.39 percent of quota) under the Rapid Credit Facility (RCF).** The RCF helped Dominica address urgent balance of payments needs, scale up health spending, and catalyze additional concessional financing from the World Bank (WB) and the Caribbean Development Bank (CDB). It was anchored on policy commitments to ensure fiscal and external sustainability, including a phased fiscal consolidation plan of 5.7 percentage points of GDP, to be executed over 5 years. The government has used the resources to increase testing capacity, acquire medical supplies and adapt healthcare facilities, as well as to fund transfer programs to support households and businesses.

RECENT DEVELOPMENTS

3. **Domestic and international movement restrictions to prevent the spread of Covid-19 led to a decline in output estimated at 11 percent in 2020.** The pandemic interrupted the recovery from Hurricane Maria in 2017, reversing two years of growth. The most affected sectors have been tourism (due to the international travel restrictions) and wholesale and retail trade, and construction activity (owing to domestic mobility restrictions). Output is estimated to recover partially in 2021 growing



[1] In September 2021, Dominica received 11,700 out of 46,800 Pfizer vaccine doses donated by the US government. This is significant considering a population of about 72 thousand people.

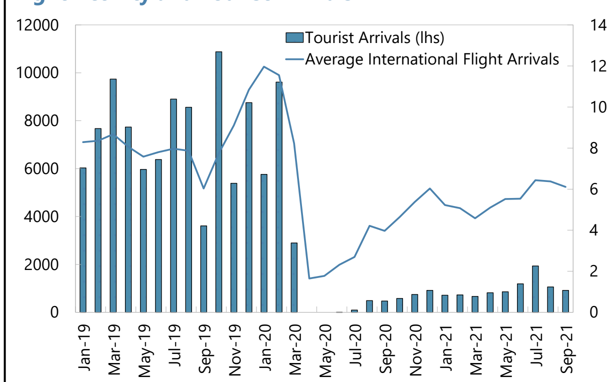
3.7 percent, buoyed by a rebound in construction activity (supported by large public investment and the building of new hotels) and the retail sector.

4. The government promptly implemented appropriate measures to mitigate the decline in economic activity and to support household income. The measures included an extension for filing personal and corporate taxes and waiving of penalties for late filing. It also provided corporate tax cuts to companies committing to keep employment of at least 80 percent of their staffing. Import duties and VAT were eliminated on cleaning and health products, and funding to the Ministries of Health and Agriculture was increased. Cash transfers were provided to farmers and income support to the unemployed and the elderly. An ECCU-wide moratorium on loan repayments was extended to March 2022 (from September 2021) to contain pressures on households, firms, and banks, while the domestic regulator extended the loan moratorium to credit unions.

5. The sharp decline in economic activity and official borrowing for pandemic-related spending led to an increase of public debt in FY2020/21. The overall fiscal balance showed a large deficit of 7.2 percent of GDP in FY2020/21 underpinned by a decline in tax revenue and the additional spending on health and social transfers. Public investment peaked at 26.5 percent of GDP, an annual increase of over 17 percentage points, mostly allocated to the construction of infrastructure resilient to natural disasters, largely financed with buoyant CBI revenue of 29.5 percent of GDP. Official loans and domestic short-term borrowing with the National Bank of Dominica (NBD), plus the output decline, pushed public debt to 106 percent of GDP at end 2020 (from 94 percent in 2019). Recurrent spending remained contained outside pandemic-related one-off allocations, including a 1¼ percent wage increase agreed with labor unions. Financing included official loans of 4 percent of GDP, aid by debt service relief of 1 percent of GDP (27 percent of the FY2020/21debt service) under the G20's Debt Service Suspension Initiative (DSSI). The Fund-wide Special Drawing Rights (SDR) allocation provided Dominica with SDR 11 million (US$15.65 million), which has been retained as international reserves.

6. The collapse in tourism exports and the increase in public investment led to record-high external current account deficits of over 30 percent of GDP in 2020 and 2021. The external current account deficits were partially cushioned by a reduction in imports of goods and services associated with the decline in income and aggregate demand. In 2021, tourism receipts are estimated to fall by an additional 0.5 percent of GDP with the spike in contagions and a full-year impact on the sector, while imports of goods and services would

Flight Activity and Tourist Arrivals

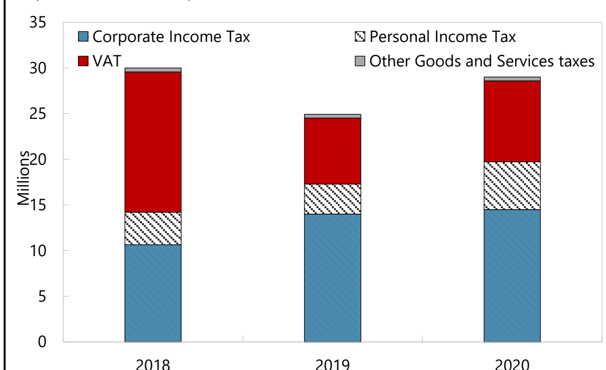


Sources: FlightRadar and Caribbean Tourism Organization

increase with the public investment push, causing further widening of the current account deficit.[2] External financing needs are projected to be covered by official lending, CBI revenue, and foreign direct investment—no significant decline on imputed net international reserves is expected given the regional currency board arrangement, maintaining high reserve coverage. The real effective exchange rate (REER) depreciated in 2020 and 2021 driven by an increase in foreign inflation in fuel and food items which only moderately affected domestic consumer prices under low domestic demand. Based on 2021 staff estimates, the external position is assessed moderately weaker than the level consistent with medium-term fundamentals and desirable policies, and the REER was estimated to be overvalued by 4.1 percent.[3]

7. **Despite the challenges posed by the pandemic, the government has made progress on the fiscal consolidation measures it has committed to in the RCF disbursement, with some adjustments going forward.** Progress includes establishing limits on discretionary tax exemptions on imports; advancing preparations to simplify the income tax by including a presumptive tax (which the government intends to pass in FY2022); enacting a property tax reform to incentivize the use of idle property in prime urban areas; and strengthening the collection of tax arrears with improved auditing capacity and collection effort. These savings, however, have been offset by transitory tax exemptions to support the recovery.[4] The government is also set to prepare some of the remaining reforms. These include an updated analysis of pension system sustainability, which is planned by early 2022 (delayed due to covid mobility restrictions) and would trigger parametric adjustments if needed for sustainability.[5] It also includes a civil service reform (under preparation with support of CARICAD) to increase the public workforce efficiency and to better retain qualified professionals. However, other remaining measures are being reconsidered. The introduction of a solid waste charge is unlikely to be pursued in light of the low potential revenue and the additional tax administration burden, while a reduction of the preferential rate on diesel would be considered later once the economy has recovered. Based on these revisions and some reassessment of the saving

Collection of Tax Arrears
(Millions of EC dollars)



Sources: Dominican authorities; and Fund staff estimates and projections.

[2] This assessment is based on 2021 staff estimates and will be updated once official data are released. Because of the preliminary nature of this assessment, it is subject to uncertainty arising from previous major external shocks and subsequent data updates.

[3] See External Sustainability Assessment annex.

[4] The government has received Fund technical assistance to prepare this reform. Includes exemptions of VAT on hatching eggs, residential income tax in 2021, tax deductions for interest on student loans, and home insurance and health insurance premiums that will take effect in 2022.

[5] The Dominica Social Security (DSS) is currently implementing a phased increase in pension contributions of 0.25 percent per year and an increase in the retirement age from 60 to 65 years by 6 months per year until 2035.

yields, the estimated cumulative savings of the fiscal consolidation plan have declined by 0.6 percent of GDP to 5.1 percent over a five-year period.

Dominica: Structural Fiscal Consolidation Plan 1/

	2020	2021	2022	2023	2024	2025	2026
Cumulative Fiscal consolidation (in percent of GDP)	**0.5**	**1.6**	**3.2**	**4.2**	**5.0**	**5.1**	**5.1**
Revenue measures	**0.5**	**1.0**	**2.0**	**3.0**	**3.4**	**3.4**	**3.4**
Restructuring of tax incentives for allocational efficiency	0.5	1.0	1.3	1.6	1.9	1.9	1.9
Better tax auditing and collection of arrears	0.0	0.0	0.3	0.6	0.6	0.6	0.6
Property tax reform	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Environmental reduction of preferential rate of diesel fuel	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Presumptive tax and streamlining of PIT exemptions	0.0	0.0	0.4	0.4	0.4	0.4	0.4
Review cost and income structure of water and sewage service	0.0	0.0	0.0	0.3	0.3	0.3	0.3
Expenditure measures	**0.0**	**0.6**	**1.1**	**1.2**	**1.6**	**1.7**	**1.9**
Wage bill containment in line with FRL 2/	0.0	0.0	0.5	0.5	0.8	0.8	1.0
Review of pension benefits 3/	0.0	0.0	0.0	0.1	0.2	0.2	0.3
Withdrawal of social transfers	0.0	0.6	0.6	0.6	0.6	0.6	0.6
Public sector debt without measures	**106.0**	**100.9**	**103.4**	**104.9**	**106.1**	**108.8**	**113.4**
Public sector debt with measures	**106.0**	**100.9**	**100.3**	**97.5**	**94.3**	**92.0**	**90.8**

Source: Fund staff estimates
1/ In fiscal years (July-June).
2/ Increase in public employment efficiency with category reclasification and rationalization of allowances.
3/ Review of pension formula commensurate with contribution effort.

8. **The banking sector remained stable and liquid, supported by the debt service moratorium authorized by the Eastern Caribbean Central Bank (ECCB).** Bank deposits remained steady despite the pandemic pressure on household incomes, helping maintain high liquidity in the system. System liquidity was also supported by a loan moratorium to support firms and households in financial distress was complemented by supervisory flexibility, including a temporary classification freeze for loans under moratoria. Bank capitalization increased, but loan loss provisions remain low despite high non-performing loans (NPLs) of 14 percent of total loans as of 2021: Q3. The Eastern Caribbean Central Bank (ECCB) authorized an extension of the loan service moratoria by six months to March 2022 to contain further deterioration of NPLs. However, the bulk of the loan portfolio is no longer under moratorium. The purchase of two foreign banks operating in the region by a consortium of indigenous banks[6], of which the Dominica National Bank is a member, has increased its size and systemic importance, concentrating 73 percent of the banks' loans.

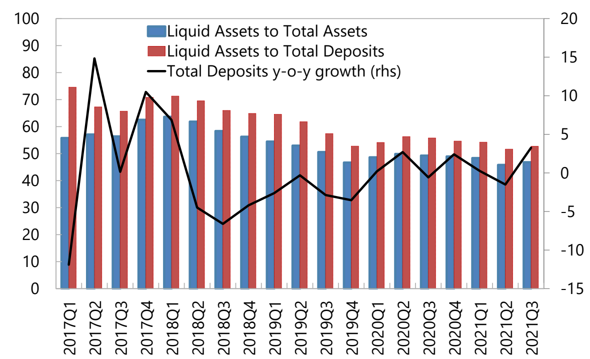
Dominica: Financial Stability Indicators

	2019Q3	2019Q4	2020Q1	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2	2021Q3
Nonperforming loans to total gross loans	12.2	12.2	16.3	15.9	15.1	15.0	14.6	14.7	14.0
Nonperforming loans net of provisions to capital	64.4	101.2	182.6	131.6	126.5	116.5	72.5	69.3	67.9
Regulatory capital to risk-weighted assets (CAR)	14.9	12.0	12.2	14.6	15.7	16.4	16.4	13.6	17.8
Return on Avg Equity	11.1	60.4	54.7	70.5	74.5	24.0	41.7	19.2	9.6
Liquid Assets/Total Assets	49.4	46.2	48.6	49.9	49.3	48.9	48.4	45.8	46.8
Liquid Assets/Current Liabilities (Short-term liabilities	56.8	53.2	55.3	56.9	57.3	56.8	56.5	53.6	54.6

Source: ECCB.

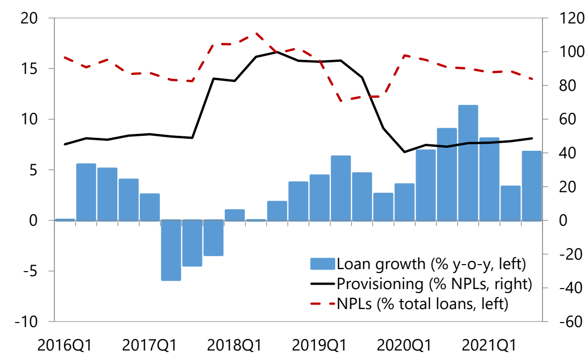
[6] The two foreign banks are Royal Bank of Canada and First Caribbean International Bank. The first sale was approved in 2020, the other is in progress.

Commercial Bank Liquidity Ratios
(Percent)



Sources: ECCB and Fund staf calculations.

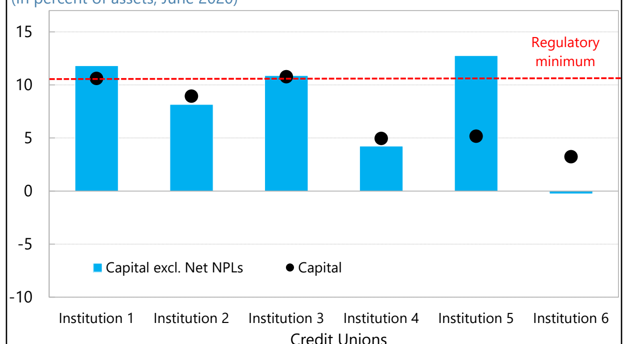
Commercial Banks: Lending and Asset Quality
(Percent)



Sources: ECCB and Fund staff calculations.

9. **The large credit unions sector also remained stable, but it is undercapitalized.** Total credit union assets were 62 percent of GDP as of 2020: Q2, with total deposits at 56 percent of GDP, underscoring the sector's macro criticality. Their lending plateaued in 2020 and deposits remained steady, following years of strong growth. Some entities in the sector, however, are below the capital adequacy regulatory requirement of 10 percent. NPLs are at 7 percent of total loans, with adequate loan-loss provisioning at 85 percent. The impact of the pandemic is yet to show in the data due to a moratorium granted by the non-bank regulator, which expired in September 2021.

Credit Unions: Capital Adequacy[1]
(In percent of assets, June 2020)



Source: Data from authorities and IMF staff estimates.
[1] Data for 2020Q2. In percent of total assets. Total institutional capital for credit unions.

10. **Dominica has been removed from the list of non-cooperative tax jurisdictions by the European Union,** after receiving a "partially compliant" rating from the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes in February 2021.[7]

11. **Safeguard's assessment.** An updated safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash)

[7] The delisting was preceded by the forum's decision to grant Dominica a supplementary review on this matter. The country is now included in the list of jurisdictions that do not yet comply with all international tax standards but have committed to implementing good governance principles.

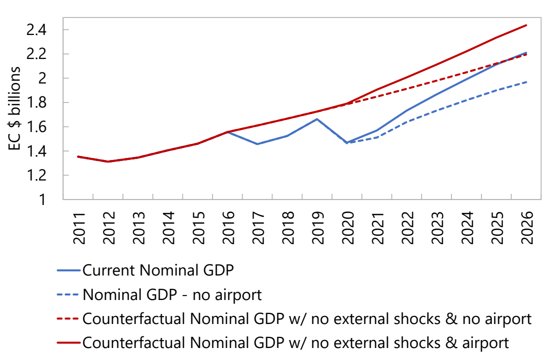
introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

OUTLOOK AND RISKS

12. **The economy is projected to recover gradually from the pandemic, but high levels of public debt would remain for the foreseeable future.** The recovery is underpinned by the return of tourism, additional hotel capacity, and high public investment in infrastructure resilient to natural disasters. In the baseline, output is projected to return to the 2019 level by 2023. The outlook includes a significant upward revision of CBI revenue compared to the 2020 RCF projection, based on the high levels observed in the past years and a steady stream of applicants. This revenue is projected to finance an increase in public investment of 16 percent of GDP on average through 2022–26, consistent with the government plans. The largest project is the construction of a new international airport at an estimated cost of 65 percent of GDP, which the government plans to execute within the next 3–4 years. Other large projects include roads, housing resilient to natural disasters, a new hospital and health centers, a geothermal electricity plant, a resilient water and sewage network, an industrial park to support the development of agriculture processing, and schools. The baseline assumes an execution over 6 years given capacity constraints and available fiscal space. The public investment plan will have ripple effects in other sectors and aid the pandemic recovery, pushing GDP growth to a 5 percent average in the medium term. Despite the high CBI revenue in the baseline projection, progress on debt reduction remains limited due to the prioritization of public investment, taking 5 years to return to pre-pandemic debt ratio.[8] The baseline assumes that the government continues to make progress on the fiscal consolidation plan. The contractionary impact of the fiscal consolidation is expected to be more than compensated by the increase in public investment, with a larger fiscal multiplier.

Nominal GDP Trajectory

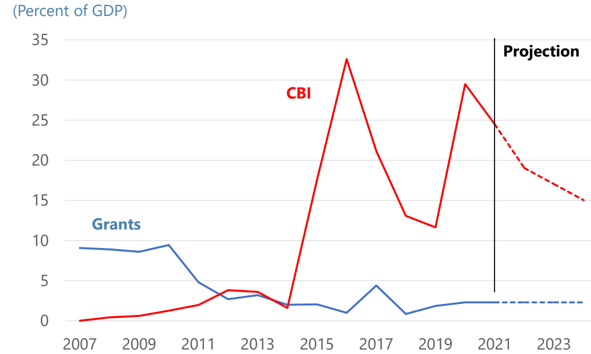
(Current vs. Counterfactuals with no External Shocks and Airport Investment)



Sources: Fund staff calculations.

Grant and CBI Revenues

(Percent of GDP)



Source: Fund staff calculations based on authorities data.

[8] In the baseline, it takes 14 years to reach the regional debt ceiling of 60 percent of GDP by 2035. The regional debt target was postponed by 5 years to 2035 in February 2021. See the 2021 ECCU consultation for the analysis and details.

13. The projected recovery of output and tourism exports, underpinned by the assumption of a receding pandemic, would gradually reduce the current account deficit. In 2022, the current account deficit is projected to narrow to 28.7 percent of GDP, and to decline towards 14.7 percent of GDP by 2026. This outlook rests on a recovery of tourism exports to the 2019 level by 2024 and the narrowing fiscal deficits. Imports are projected to increase in line with higher public investment and the recovery of domestic demand.

Dominica: Macroeconomic Outlook
(Percent of GDP)

		Est.	Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP 1/ 4/	7.5	-11.0	3.7	7.6	5.4	4.6	4.1	2.5
Overall fiscal balance 2/	-8.2	-7.2	-11.0	-3.3	-3.5	-4.8	-4.4	-2.9
Overall fiscal balance, excl. CBI 2/	-19.8	-36.7	-33.9	-20.9	-19.1	-18.4	-16.9	-15.4
Public Capital Expenditure 2/	9.3	26.3	24.9	15.4	14.9	14.9	13.9	12.9
Public debt 2/ 3/	94.2	106.0	100.9	100.3	97.5	94.3	92.0	90.8
Current account balance	-37.9	-30.0	-31.4	-28.7	-24.0	-18.3	-17.1	-14.7
Credit to the private sector growth 4/	-6.0	-0.3	1.6	3.5	3.5	3.8	5.1	4.6

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.
1/ At market prices.
2/ Data for fiscal years from July to June.
3/ Includes estimated commitments under the Petrocaribe arrangement with Venezuela.
4/ Annual percent change.

14. Gross financing needs are projected to be covered by multilateral creditors. Following the RCF disbursement, multilateral creditors committed to providing significant financing to Dominica. These commitments are materializing in the form of loan disbursements, which are assumed to continue over the medium term as the government makes progress on the corresponding reform programs. Dominica has no access to international financial markets.

Dominica: Gross Financing Needs of the Central Government
(EC Million)

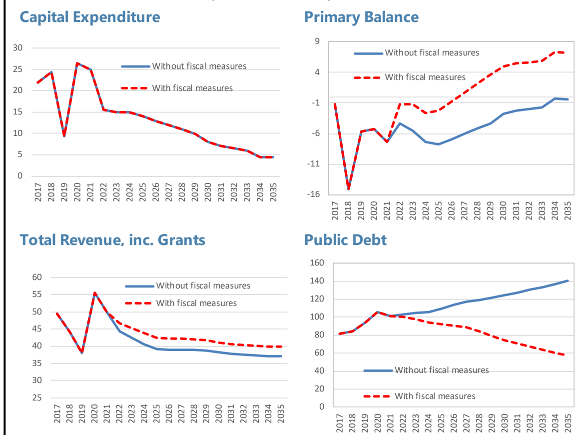
	2019	2020	2021	2022	2023	2024	2025	2026
Gross financing need	**312**	**180**	**82**	**213**	**185**	**126**	**119**	**124**
Overall deficit	127	112	158	63	71	102	97	67
Primary deficit	**89**	**79**	**122**	**21**	**23**	**53**	**49**	**19**
Debt service from Interest	**37**	**31**	**34**	**39**	**45**	**46**	**45**	**45**
External	17	11	10	16	19	21	21	21
Domestic	20	20	23	23	26	25	25	24
Debt Service from Amortization	**98**	**44**	**36**	**89**	**123**	**84**	**77**	**77**
External	66	36	34	57	56	54	47	42
Domestic	32	9	1	32	67	29	31	32
Other debt creating flows (use of deposits)	**88**	**26**	**-110**	**63**	**-6**	**-57**	**-52**	**-17**
Total available financing (loan disbursements)	**312**	**180**	**82**	**213**	**185**	**126**	**119**	**124**
External financing	**83**	**180**	**72**	**183**	**135**	**115**	**109**	**114**
Multilateral	65	179	72	183	135	115	109	114
WB	22	108	41	129	95	80	76	79
CDB	6	63	19	54	41	34	33	34
IMF	36	0	0	0	0	0	0	0
other	0	9	12	0	0	0	0	0
Bilateral	0	0	0	0	0	0	0	0
Commercial & other	18	1	0	0	0	0	0	0
Domestic financing	**230**	**0**	**10**	**30**	**50**	**11**	**10**	**10**
Memo item: Stock of government deposits	227	253	143	206	200	143	91	74

Source: IMF staff estimates.

15. In a scenario without progress on fiscal consolidation, public debt would exceed 140 percent of GDP by 2035. In the baseline, with implementation of the fiscal consolidation plan, the primary surplus reaches 3.6 percent of GDP by 2029, and public debt trends downward to 60 percent of GDP by 2035. The scenario without fiscal measures assumes that public investment remains at the high baseline level and the fiscal deficit is financed with external public debt.

Alternative Scenarios — Selected Fiscal Aggregates

(Percent of GDP)



Source: Fund staff estimates.

16. The main risks to the outlook are a prolonged pandemic with a slower recovery in tourism and a decline in CBI revenue. The recent local outbreak could intensify or last longer than assumed in the baseline, delaying the recovery and requiring additional government spending. Other external risks include additional waves of Covid-19 contagion, a sharp rise in global risk premia which could reduce liquidity and drive savings out of the region in search for yield while also slowing tourism demand; volatility in the oil market; rising protectionism and natural disasters—including of higher severity with climate change which could delay the execution of resilient investments. Lower-than-projected CBI revenue or official financing would reduce the fiscal space for public investment, slowing growth and worsening the debt-to-GDP trajectory. Capacity constraints could delay the fiscal consolidation and investment execution plans. These multiple downside risks could further deteriorate the public debt outlook, which is rated at “high risk of distress” in the baseline scenario.

17. Risks to financial stability remain significant. The large and undercapitalized credit union sector could result in further capital loss if the downside risks materialize and could affect the connected banks. A delayed economic recovery and unwinding of pandemic policies could place additional stress on the financial sector. A worsening of Covid-19 contagion may require the reinstitution of movement restrictions which would slow the recovery, potentially straining financial sector liquidity and eroding asset quality further. Disruption of correspondent bank relationships (CBRs) remains a threat to trade and growth—there was no loss of CBRs in 2020 and 2021. On the positive side, higher CBI revenue could push the economy above the baseline projection especially if used to finance additional public investment, and the recovery of tourism could occur more quickly than projected in the baseline if the Covid-19 pandemic is controlled globally and domestically. The risk of financial instability in a downside scenario, in particular the credit unions and insurance sectors, implies contingent fiscal liabilities, which could increase public debt further, reducing the fiscal space for investment and lowering growth relative to the baseline.

Box 1. Risk Assessment Matrix[1]

Source and Direction of Risk	Relative Likelihood	Impact/ Time Horizon	Policy Response
Conjunctural Shocks and Scenarios--Global/External Risks			
Uncontrolled Covid-19 local outbreaks and subpar/volatile growth in affected countries (↓). Outbreaks in slow-to-vaccinate countries force new lockdowns. For many Emerging Markets and Low-Income Countries, policy response to cushion the economic impact is constrained by lack of policy space, with some market access countries facing additional financial tightening as a reassessment of growth prospects triggers capital outflows, depreciations, and debt defaults.	High	Medium ST/MT	If needed, reinstate pandemic relief measures while designing/communicating a medium-term plan to preserve fiscal sustainability. Continue the public education campaign to address vaccine hesitancy. Work to secure vaccine supplies from producers, particularly COVAX.
Global resurgence of the Covid-19 pandemic (↓). Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	Medium ST/MT	Widen fiscal space and intensify medical preparedness for an increase in cases, including those of new variants.
Disorderly transformations (↓). Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects, and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries. .	Medium	Medium ST/MT	Provide fiscal support to affected sectors within a sustainable medium-term fiscal plan.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia (↓). A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	Medium	Medium ST/MT	Tighten financial conditions.
Widespread social discontent and political instability (↓). Social tensions erupt as a withdrawal of pandemic-related policy support results in unemployment and, amid increasing prices of essentials, hurts vulnerable groups (often exacerbating pre-existing inequities).	Medium	Low ST/MT	Provide fiscal support to affected sectors within a sustainable medium-term fiscal plan.
Rising commodity prices amid bouts of volatility (↓). Commodity prices increase by more than expected against a weaker U.S. dollar, post-pandemic pent-up demand and supply disruptions, and for some materials, accelerated plans for renewable energy adoption. Uncertainty surrounding each of these factors leads to bouts of volatility, especially in oil prices.	Medium	Medium ST/MT	Redouble efforts to strengthen export competitiveness and continue plans to move towards adopting alternative energy supply options.
Structural risks			
Intensified geopolitical tensions and security risks (↓). Geopolitical tensions in selected countries/regions cause economic/political disruption, disorderly migration, higher volatility in commodity prices (if supply is disrupted), and lower confidence, with spillovers to other countries.	High	Medium ST/MT	Boost efforts to increase employment and strengthen export competitiveness.
Cyber-attacks (↓), on critical infrastructure, institutions, and financial systems trigger systemic financial instability or widespread disruptions in socio-economic activities and remote work arrangements.	Medium	Low ST/MT	Strengthen Cybersecurity measures and contingency plans, especially for key infrastructure and institutions.
Domestic Risks			
Lower than expected CBI revenues or official financing (for example, owing to capacity constraints in project execution) **(↓).** Disruption of correspondent bank relationships (CBRs) remains a threat to trade and growth.	Medium	Medium ST/MT	Rationalize spending and mobilize revenue from other sources.
Higher frequency and severity of natural disasters related to climate change (↓), cause severe damage to smaller economies susceptible to disruptions. A sequence of severe events in large economies reduces global GDP and raise commodity price levels and volatility (low probability).	Medium	High ST/MT	Continue implementing the Disaster Resilience Strategy, accelerate construction of resilient infrastructure and transition to local, renewable energy sources.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 and 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

POLICY DISCUSSIONS

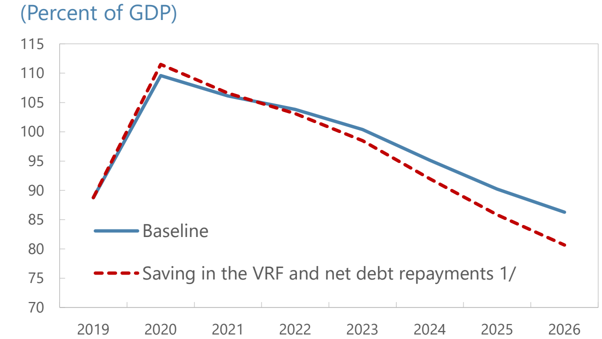
A. Fiscal Policy: Sustaining Investment in Resilience to Natural Disasters

Prudent use of windfall CBI revenue while maintaining progress on institutional fiscal reform would better address the risks to the outlook and support the execution of the government's development plan to build resilience to natural disasters. This involves (i) increasing the allocation of CBI revenue to disaster insurance and debt service; (ii) maintaining progress on the fiscal consolidation plan with more focus on the expenditure efficiency measures going forward; and (iii) further developing budgetary and public financial management practices for an effective implementation of the Fiscal Responsibility Act.

18. The risks to the outlook require a rebalancing the allocation of CBI revenue to sustain the execution of the government's resilient investment plan. Thus far, the authorities have used the majority of CBI revenue to invest in resilient infrastructure. This is understandable considering the exposure to large natural disasters. However, estimates in the national development plan and the Disaster Resilience Strategy (DRS)[9] indicate that the total cost of resilience is $2.8 billion, about 5-times Dominica's GDP. This implies that it will take many years of sustained high investment rates to achieve a critical mass of physical resilience.

19. To strengthen the sustainability of the plan, a share of CBI revenue should be used for financial resilience and debt service. In the near term, government saving in the VRF could provide a buffer against additional health costs in case of recurrent Covid-19 contagion bouts. In addition, given the long horizon needed to build resilience, the use of CBI revenue could be reprioritized with higher allocations to financial resilience and debt service. To strengthen financial resilience, more CBI revenue could be allocated to the Vulnerability and Resiliency Fund (VRF) specifically created to save for natural disasters. The allocation of CBI revenue to the VRF could cover the following priorities: (i) a saving fund for self-insurance against natural disasters (12 percent of the large stock of government deposits from CBI revenue plus 1.5 percent of GDP per year);[10]

Public Debt
(Percent of GDP)



Source: Staff calculations based on authorities' data.
1/ Assumes the reallocation of 2 percent of GDP to saving in the VRF and 1.5 percent of GDP to net debt amortization per year relative to the baseline.

[9] The DRS was produced with the support of Fund staff, as one of the two first pilot cases. The policies in this staff report update and follow up on the government progress on the DRS.

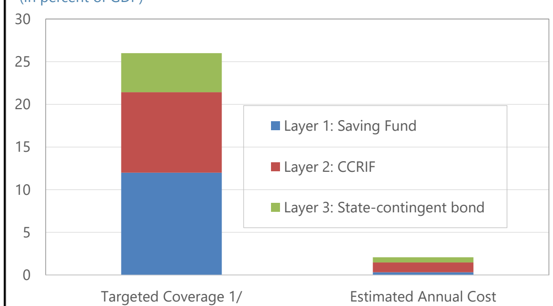
[10] In 2017, Dominica amended the Public Financial Management Act establishing the creation of the VRF, a saving fund for insurance and resiliency to natural disasters. Staff stochastic simulations indicate that this amount of savings is required for the sustainability of the VRF with a low probability of depletion. This amount has been calibrated to target a high level of coverage equivalent to 99 percent of the estimated fiscal cost of natural disasters. This could be

(continued)

(ii) net public debt repayments for the next budget cycle (while public debt is above the regional ceiling of 60 percent, targeting a level below the ceiling); (iii) investment in resilient infrastructure financed by the CBI revenue remaining after funding for self-insurance and net debt payments. Relative to the baseline and assuming no natural disasters, this allocation of CBI revenue would reduce the fiscal space for public investment, resulting in an estimated reduction in the level of GDP of about 4 percentage points in the medium term. However, it would better support the debt sustainability outlook by reducing the need to borrow after natural disasters while supporting the post-disaster recovery and by accelerating the pace of public debt reduction.

20. Self-insurance in the VRF should be topped up with additional coverage for large and extreme disasters, as part of a layered insurance framework. The first layer in the VRF would cover relatively more recurrent but less damaging disasters. A second layer could include the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which the government is already accessing but with a re-calibration of the triggers to more severe disasters with higher disbursement per event. The government should also consider a third layer using state-contingent debt instruments for extreme events, with due consideration to fiscal constraints given their cost.[11]

Dominica: Insurance Layering Framework
(In percent of GDP)



Source: Dominica authorities and Fund staff calculations.
1/ Calibrated to cover 99 percent of estimated fiscal cost of natural disasters.

21. Maintaining progress on the fiscal consolidation plan is important to increase government efficiency and to create additional fiscal space for the disaster resilience plan. The government should prioritize cost-saving expenditure and efficiency measures: the civil service reform; better targeting of social transfers; and a review of pension contributions to ensure the sustainability of the system. Measures could be taken to reduce informality and increase the tax base (Fund staff estimates indicate that 46 percent of the Dominica economy is informal), including by ensuring the registration with the DSS of workers employed in the public investment projects and with the introduction of the presumptive tax.

22. The increase in government efficiency would accelerate growth with more fiscal space for resilient investment and better protection against natural disasters, especially the poor who are disproportionately affected. Staff analysis with a fiscal policy model calibrated to the Dominica economy indicates that fiscal consolidation to create fiscal space for investment in resilient infrastructure would increase output and employment if it relies on saving from recurrent

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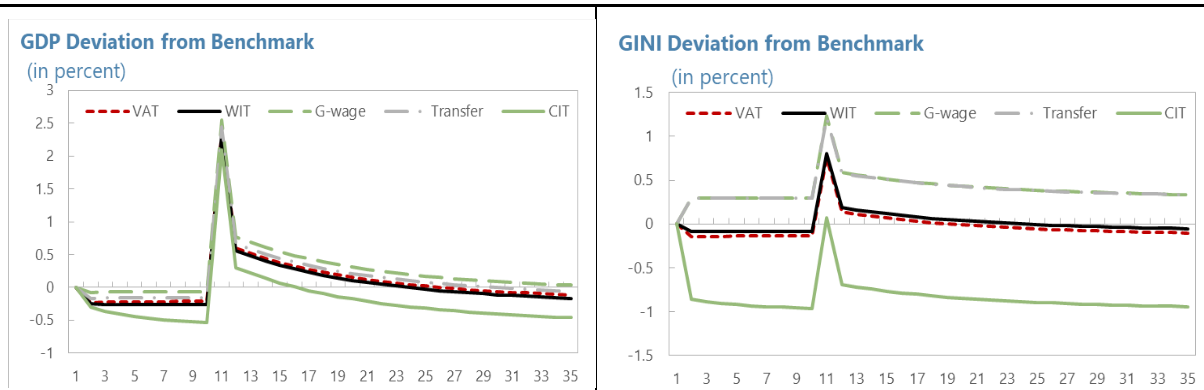
calibrated to alternative coverage options depending on risk aversion and cost considerations. The government has been saving resources in the VRF since its creation, but these remained below this requirement due to the natural disasters in 2015 and 2017, plus the Covid-19 pandemic.

[11] Examples of CDIs include catastrophe bonds or access to the World Bank's CATDDO. This insurance framework has been incorporated in Dominica's national development plan in the Disaster Resilience Strategy, produced by the government with the technical support of Fund staff.

spending.[12] Combined with better targeting of social transfers, the model also suggests that a fiscal consolidation of this nature would also reduce income inequality—including by improving social resilience given that the poorest members of society are also the most exposed to the adverse effects of natural disasters. This implies that the expenditure measures in the fiscal consolidation plan (civil service reform and efficiency of social transfers) plus further reduction of tax expenditures on import duties should be prepared as soon as feasible. To increase the efficiency of social transfers, the government should create a database of beneficiaries with eligibility criteria. Model simulations indicate that a natural disaster hitting Dominica after 10 years of resilient investment would contain output loss and income inequality if the fiscal consolidation prioritizes the efficiency of transfers and contains public wage spending with a civil service reform. These benefits are expected to be larger with the increase in intensity and frequency of natural disasters under climate change.

Growth and Income Distribution Impact of Alternative Fiscal Consolidation Instruments to Finance Investment in Resilient Infrastructure with a Natural Disaster Shock



Source: Staff calculations based on a general equilibrium model calibrated to the Dominica economy.

Note: VAT refers to the Value Added Tax; WIT is labor tax; G-wage is government expenditure in wages and salaries; Transfer is government transfers to households.

23. Maintaining progress on institutional fiscal reforms will support debt sustainability and increase efficiency. The approval of the fiscal rule in December 2021 is an important step. It includes a ceiling on the primary fiscal balance[13], a public debt target consistent with the regional

[12] This is because the empirical evidence on the size of fiscal multipliers for small states indicates that the government consumption multipliers are significantly smaller than investment multipliers. See for example Alichi et. al. (2019).

[13] Specifically, the primary fiscal balance has to reach surplus of 2 percent of GDP by 2026, and to remain above that level afterwards when the debt to GDP ratio is above 60 percent. When the cumulative difference between the actual primary balance and the target is greater than 2 percent of GDP, a corrective action needs to be taken to reduce the difference to 0 within 3 years, with at least one third adjustment in first year.

commitment, and escape clauses including for natural disasters and pandemics.[14] The rule adds credibility to the achievement of the debt target, especially with the introduction of the primary fiscal balance as operational target. The baseline projection, however, indicates that meeting the fiscal balance targets may require additional saving, and can lead to procyclical spending. The effective implementation of the rule would benefit from strengthening Public Financial Management, including budget planning and preparation,[15] enhancing fiscal reporting, and improving internal auditing and treasury operations (including bank account reconciliation and payments' digitalization). The fiscal rule could be further strengthened by establishing mechanisms to monitor implementation—including more specificity on correction mechanisms for deviations from targets and an independent fiscal council to monitor compliance which could be established at a regional level to pool scarce resources. The publication of fiscal data would strengthen the transparency and accountability of its implementation.

24. Other ongoing reforms support the application of the rule. These include a new Public Procurement and Disposal of Public Property Act already submitted to the Cabinet and a framework to monitor state-owned enterprises, important to identify contingent liabilities and fiscal planning. The budget process should be improved to ensure a realistic projection of revenue, spending and financing sources that are consistent with the achievement of the targets in the fiscal rule. Further progress on ongoing revenue administration reforms would broaden the tax base and can increase revenue without increasing tax rates, which could be important for competitiveness.[16]

Authorities' Views

25. The government agreed with the advice to prioritize expenditure efficiency measures and noted their intention to increase tax revenue without weakening the business environment. They are committed to prepare the civil service reform and agreed on the objective to increase the efficiency of social transfers with better targeting and design to avoid duplication and abuse. They confirmed the intention to review pension contributions and benefits if needed to ensure the long-term sustainability of the system after the completion of the actuarial review planned in 2022. On the revenue side, the government intends to improve revenue collection by expanding the tax base and intend to avoid the introduction new taxes to favor the business

[14] Escape clauses include (i) for natural disasters, epidemics, civil unrest, or war resulting in State of Emergency declaration; (ii) real GDP decline of 2 percent in single year or cumulative 3 percent over 2 consecutive years; (iii) ECCB certifying financial sector crisis in writing and Minister establishes that fiscal costs of this crisis will exceed 4 percent of GDP; and (iv) the prime minister determines that observing rules will unduly harm public finances and macroeconomic/financial stability.

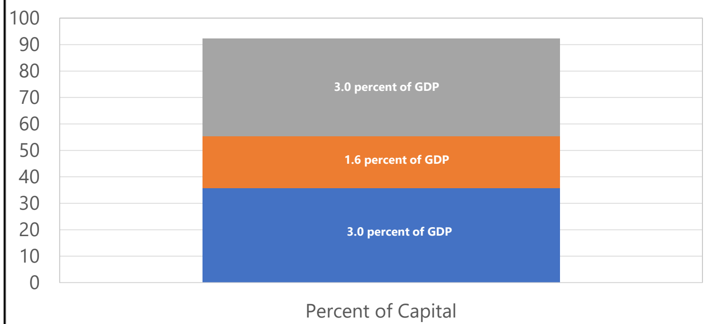
[15] Areas for improvement include on preparation structure, medium term macroeconomic and revenue forecasting, performance information, establishing a process for the identification of potential saving.

[16] With support from CARTAC, the government is implementing a 20-month action plan to address weaknesses identified by the TADAT assessment, including to (i) start a compliance improvement plan for large and medium-sized taxpayers and high-risk sectors; (ii) improve the audit program by focusing on large taxpayers and industries less impacted by the pandemic; (iii) select audit cases based on the assessed risk; (iv) focus on high frequency taxes such as PAYE and VAT; (v) increase audit coverage by using issue-oriented audits; and (vi) ensure auditors are properly trained in analyzing financial data.

environment. They are committed to improving tax compliance by strengthening the collection of tax arrears and the tax administration to ensure accurate reporting and to improve auditing.[17]

26. The government also agreed with the recommendation to reserve part of buoyant CBI revenue for self-insurance against natural disasters and debt repayment. They indicated plans to move in this direction once the economic and fiscal pressures posed by the pandemic abate. They intend to increase contributions to the Vulnerability and Resilience Fund for self-insurance against natural disasters, and to avoid the use of CBI revenue on recurrent spending—which was not feasible in the pandemic. They remarked that some of the CBI revenue has already been used in the past to service public debt.

Loan Loss Provisioning Requirement



Source: Fund staff estimates based on ECCB data.

B. Strengthening the Financial Sector to Support Pandemic Recovery and Disaster Resilience

A plan for domestic banks' capitalization is needed to cushion the provisioning targets set by the ECCB, and in the large credit unions sector. Long-standing plans to modernize the regulation of credit unions should be advanced in the near term. Legacy weaknesses in the insurance sector should be addressed without fiscal cost.

27. The domestic banking sector should prepare a plan to strengthen capital buffers in 2022–24, including to meet increasing loan-loss provisioning requirements. The ECCB announced the requirement of 60 percent NPLs provisioning in 2022 and of 100 percent by 2024. Based on 2021: Q2 data with an NPL ratio of 14.2 percent, domestic banks would have to increase provisioning by 55 percent in 2022 (an amount equivalent to 1.6 percent of GDP and near 20 percent of capital) and by 160 percent by 2024 (3 percent of GDP and near 60 percent of capital) relative to the 2021: Q2 value. The possible increase in NPLs with the expiration of the loan moratorium would add to this need. The capitalization plan should consider a wide menu of options and a prioritized timetable, including loan-by-loan workouts for targeted debt service normalization and capital calls—which would imply a fiscal cost for institutions with public ownership of up to about 2.5 percent of GDP. This is feasible if supported by profits' retention through no distribution

[17] Dominica is benefitting from a comprehensive technical assistance program from CARTAC on tax administration, inland revenue, and customs.

of dividends[18] and complemented by the capital calls as needed. The authorities should closely monitor the risks associated with the recent acquisition of Royal Bank of Canada's local branch by the NBD, which increased its market share to 73 percent of total loans.

28. National regulatory authorities should stress test credit unions and insurance companies in light of the risks to the outlook. While loan moratorium and restructuring has helped maintain financial stability during the pandemic, a plan for their normalization should be prepared on a loan-by-loan basis. To support banks and credit unions, foreclosure legislation should be reviewed to facilitate the resolution of new and longstanding NPLs, to become effective once the economy recovers from the pandemic, while ensuring the National Bank continues engaging with the Eastern Caribbean Asset Management Corporation to dispose NPLs. Loan loss provisioning should internalize a slow recovery and the risks to the outlook.

29. The regulator should enforce a plan to bring all credit unions' capital above the regulatory minimum and prepare other structural reforms to support financial stability. In light of the risks to non-bank financial institutions (NBFIs), the authorities should evaluate options to provide liquidity assistance to the sector. This is critical considering their size and macro criticality—assets of credit unions and insurance companies exceed 75 percent of GDP, and credit unions deposit their liquid assets at the National Bank. The non-bank regulator should be endowed with additional human and financial resources, and a structure independent of the Ministry of Finance to strengthen supervision effectiveness and help accelerate compliance. The capitalization of credit unions and progress on regulatory reform are critical to support private sector growth, while reducing the risk of government support after a shock, thereby improving the public debt outlook.

30. Continued progress in strengthening the AML/CFT framework is important to minimize risks to correspondent banking relationships. Dominica completed its third-round mutual evaluation process with the Caribbean Financial Action Task Force during 2008–14 and has since addressed most identified deficiencies.[19] With the passage of legislative amendments in 2020, Dominica designated the ECCB as the competent authority for the AML/CFT regulation and supervision of the banking sector. Strengthening of resources and independence of the national regulator will help address weaknesses in the oversight of NBFIs and non-financial businesses, especially risk assessment capacity. Meeting the RCF commitment to Maintain high due-diligence standards of the CBI program will also strengthen the integrity of the AML/CFT framework. These commitments are critically important considering the significant contribution the program makes to government revenues and concerns about the vulnerability of CBRs. Dominica plans to adopt the digital currency launched by the ECCB in 2020. As the DCash platform is owned by the ECCB and transactions will be limited to registered participants who have acquired a Dwallet, there is potential to reduce ML/TF vulnerability. However, this potential is unlikely to materialize, until use of DCash is relatively widespread. which could help strengthen AML/CFT compliance.

[18] Profits of banks in need for capitalization have been consistently positive, equivalent to about 15 percent of total qualifying capital in 2021.

[19] A reevaluation is planned in 2022.

Authorities' Views

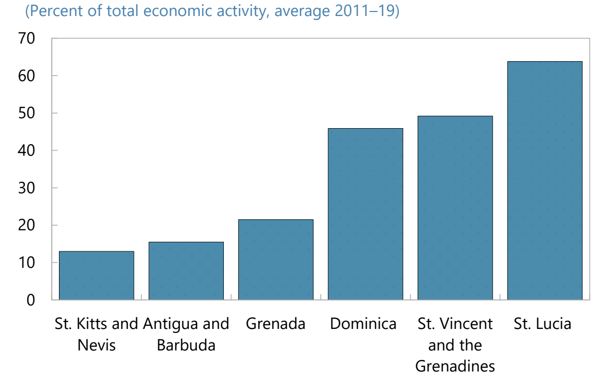
31. **The authorities agreed on the need to closely monitor risks to financial sector stability and interconnectedness of financial institutions.** They reiterated their commitment to work closely with ECCB to analyze risks associated with the acquisition of Royal Bank of Canada's local branch by the NBD). Given that NBD is the repository of all the deposits of the credit union sector, they also noted the risk arising from interconnectedness of the bank and non-bank financial sector.

32. **The authorities stressed the de-facto independence of the financial regulator.** The government noted that they have never interfered with the workings of the financial regulator, which is therefore operating independently despite being housed inside the Ministry of Finance.

C. Addressing Economic Informality

33. **The economic impact of the pandemic and natural disasters underscores the importance of addressing economic informality.** Estimates indicate that about 46 percent of the economy is informal, on the high end of the ECCU.[20] This has been a challenge in designing social policies during the pandemic and after natural disasters because informal workers are often not registered in government systems, complicating the targeting and effectiveness of social assistance.[21] To strengthen social resilience, the government should incentivize the formalization of workers and small businesses. Some policy options include: (i) a reduction in the cost of land registration to formalize ownership; (ii) digitalization of government services to facilitate registration in government systems; (iii) improve access to online services. Updating the population database would help targeting and efficiency of social assistance. These reforms would also pay dividends in terms of enhancing private sector efficiency and supporting investment, including by facilitating access to credit with proof of collateral and income, while strengthening fiscal performance by broadening the tax base.

MIMIC Model Estimates for Size of Shadow Economy
(Percent of total economic activity, average 2011–19)



Sources: Fund staff estimates.

[20] The size of the shadow economy, which includes all economic activities that are hidden from official authorities, is difficult to measure by nature. Given the limited availability of direct measures such as household or enterprise surveys, it has been calculated using indirect methods. The multiple indicators multiple variables (MIMIC) model finds that higher tax rates, lower regulatory quality of the government and the size of the agriculture sector are key in explaining the prevalence of informal businesses and workers in Dominica.

[21] The number of applicants to the social assistance programs in the pandemic was lower than initially estimated by the government, and many applicants did not qualify due to inability to submit the required documentation.

Authorities' Views

34. **The authorities agreed that the size of economic informality in some sectors is considerable.** They highlighted that most of the agricultural sector is informal, and not accounted properly in the economic statistics. A similar situation is observed in the sector that provide ancillary services for tourism and has been significantly affected by the pandemic. They expect that the presumptive tax and the 2022 census will help to improve registration and provide data to address informality.

D. Economic Statistics

35. **Improvement of statistics is a priority to improve surveillance and economic management.** This is especially the case for national accounts and the balance of payments. Main areas in need for improvement are the enforcement of data submission deadlines, training, and additional resources to the statistics office.

Authorities' Views

36. **The authorities concurred with the importance of enhancing economic statistics and requested Fund technical support.** They valued the significant technical assistance program from CARTAC on economic statistics and are seeking additional resources to improve the quality and reduce the data publication lags, which have been negatively affected by the mobility and lockdown restrictions during the pandemic.

STAFF APPRAISAL

37. **The Covid-19 pandemic took a heavy toll on the Dominican economy.** GDP is estimated to have contracted by 11 percent in 2020 and is expected to post a modest recovery of 3.7 percent in 2021 underpinned by a sharp reduction in tourism and related sectors, worsened by the Covid-19 outbreak that forced a lockdown in August. The output decline was contained by strong growth in the construction sector due to the large public investment program in housing and infrastructure resilient to natural disasters, financed with record-high CBI revenue of 30 percent of GDP. Sharp declines in tax revenue and increases in spending in health and social transfers led to significant fiscal deficits in 2020 and 2021 and to a peak of public debt at 106 percent of GDP in 2020 with higher official borrowing, despite large CBI revenue. In this context, the current account deficit remained abnormally high in 2020 at 30 percent of GDP and is estimated to reach 31.4 percent of GDP in 2021. The loss of tourism exports, increase in imports related the public investment, and increase in commodity prices—albeit contained by a decline in private demand for imports—prevented the current account from returning to pre-hurricane ranges.

38. **The financial sector has remained liquid and stable during the pandemic, but NPLs are above prudential benchmarks.** The loan service moratoria authorized by the regulators of banks and credit unions helped support firms and households affected by loss of income, helping contain a deterioration in portfolio performance. Despite an improvement relative to 2020, NPLs remain

high, in the range of 11–14 percent of loans for banks and 10–17 percent for credit unions (the prudential benchmark is 5 percent in both sectors). To comply with the ECCB requirement, banks have prepared plans to increase provisioning to 100 percent of NPLs by 2024—pre-Covid precautionary increase in provisions with adoption of IFRS9 standards in 2018 is facilitating this process. Most loans under moratoria have normalized. The financial sector remains liquid with an increase in deposits underpinned by prudent private spending, government transfers, the loan moratoria, and increase in foreign remittances.

39. In the near term, containing the pandemic and supporting the recovery remain the key policy priorities. Continuing public communication and education campaigns to address vaccine hesitancy and building additional health care centers could prove critical in possible additional contagion outbreaks.

40. The growth outlook is promising, supported by the large public investment program and the projected gradual recovery in tourism with added hotel capacity. The government plans to maintain high levels of public investment into the medium term financed mainly by CBI revenue. Key projects include a new international airport, housing resilient to natural disasters, roads, a resilient water and sewage network, increase in the hospital capacity (including a new hospital financed by the People's Republic of China), an industrial park to support the development of agriculture processing, and a geothermal electricity plant. These projects will accelerate growth in the near term during the construction phase and will also increase potential output in the long term—including spillovers in tourism and reduction of fossil fuel dependency, all of which improve Dominica's external sustainability and competitiveness.

41. Saving a portion of CBI revenue would help better balance public investment needs with fiscal resilience and debt sustainability goals, reducing policy procyclicality and output volatility. Thus far, the authorities have used the majority of CBI revenue to invest in infrastructure resilient to natural disasters. This is understandable considering Dominica's significant exposure and important to boost potential output. However, Dominica's high exposure to natural disasters, rising fiscal vulnerabilities, and significant risks to the outlook justify the allocation of a larger share of CBI revenue to the VRF for self-insurance against natural disasters and to public debt reduction once output recovers. This would increase fiscal buffers, speed up post-disaster recovery, and create space to access external financing in the event of a large natural disaster or additional pandemic bouts. Self-insurance in the VRF should be topped up with additional coverage for large and extreme disasters, as part of a layered insurance framework. The recent Parliament approval of a fiscal rule will strengthen debt sustainability and support the achievement of the regional public debt ceiling of 60 percent of GDP by 2035. The fiscal rule has potential to play an important role in reducing procyclicality of fiscal policy and increasing its credibility.

42. Sustained progress on the fiscal consolidation plan is important to reduce debt, improve government efficiency and expand space for the disaster resilience plan. Thus far the government established limits on discretional tax exemptions; advanced preparations of an income tax reform including a presumptive tax; and is studying a property tax reform to incentivize the use of idle property in prime urban areas. Beyond this, the government's intention to avoid additional

new taxes or charges is welcome, consistent with the objective of creating a favorable environment for private investment while minimizing the burden on tax administration, which is affected by limited capacity. The actuarial analysis of the pension system by the Dominica Social Security (DSS) planed by early 2022 (delayed due to covid mobility restrictions) could trigger parametric amendments if needed for sustainability. These measures improve allocational efficiency while addressing long-term contingent liabilities. On the other hand, the introduction of a solid waste charge could be delayed or reconsidered, in light of the low potential revenue and the additional tax administration burden, while a reduction of the preferential rate on diesel to reduce its distortionary impact could become effective once the economy has recovered.

43. **The government should now prioritize the cost-saving expenditure efficiency measures in the plan.** These include a civil service reform including a review of allowances, and better targeting of social transfers (the national census needed to update the Ministry of Social Services' database is planned in 2022). Measures could be taken to reduce informality and increase the tax base (Fund staff estimates indicate that 46 percent of the Dominica economy is informal), including by ensuring the registration with the DSS of workers employed in the public investment projects and with the introduction of the presumptive tax. Further steps in improving public investment efficiency and procurement would also be welcome.

44. **The financial sector weathered the pandemic without disruptions, but long-standing vulnerabilities require decisive policy action.** The banks' plans to strengthen capital buffers in 2022–24 to meet increasing loan-loss provisioning requirements set by the ECCB would strengthen the financial stability outlook but it will require immediate action including limits on dividend distribution and capital calls, as needed. In the credit union sector, the regulator should enforce a plan to bring all credit unions' capital above the regulatory minimum and prepare other structural reforms to support financial stability, including to provide liquidity assistance to the sector which includes large systemic institutions connected with banks. While the loan moratorium and restructuring has helped maintain financial stability during the pandemic, credit unions should prepare a plan to reduce NPLs. The modernization of foreclosure legislation could facilitate seizing collateral and aid NPLs' resolution. Long-standing plans to modernize the regulation of credit unions aligned with the regional harmonization strategy should be advanced in the near term. Additional human and financial resources, and independence from the Ministry of Finance, would strengthen supervision effectiveness and accelerate compliance. The capitalization of financial institutions and progress on regulatory reform are critical to support private sector growth, while reducing the need of government support after a shock, thereby improving the public debt outlook. Maintaining progress on strengthening the AML/CFT framework is important to minimize risk to correspondent banking relationships.

45. **In 2021, the estimated external position was estimated to be moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings.** Although the deterioration in tourism after the Covid-19 pandemic was severe, the current account deterioration was not as severe as the one experienced in 2018–19 after Hurricane Maria due to high Citizenship-by-Investment (CBI) receipts and lower imports. While the current account is

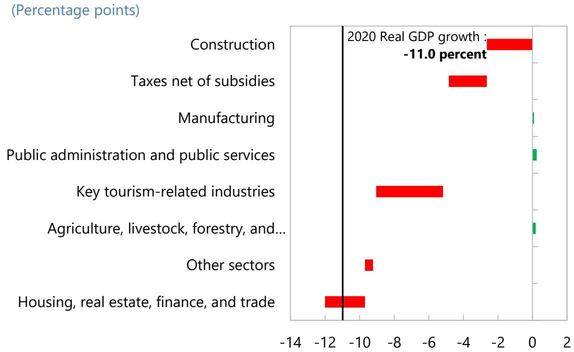
expected to adjust in the medium term as the economy recovers, external sustainability depends on the successful implementation of structural reforms that boost competitiveness and resilient infrastructure; and fiscal consolidation supported by windfall CBI revenue for debt reduction, whilst remaining at risk of recurrent natural disasters and CBI revenue volatility.

46. It is recommended that the next Article IV consultation takes place on the standard 12-months cycle.

Figure 1. Dominica: Economic Performance

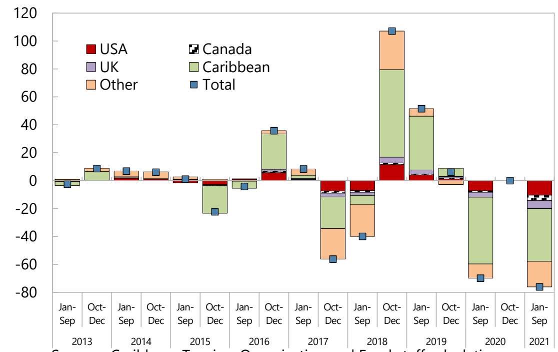
GDP is estimated to have contracted by 11 percent…

2020 Real GDP, Contributions to Percent Change
(Percentage points)



….as tourism arrivals collapsed.

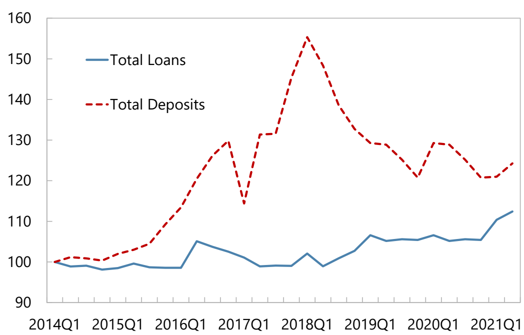
Contributions to Growth of Stay-Over-Visitor Arrivals by Country
(Percent, y-o-y)



Sources: Caribbean Tourism Organization and Fund staff calculations.

However, banking sector credit to the private sector and deposits are growing …

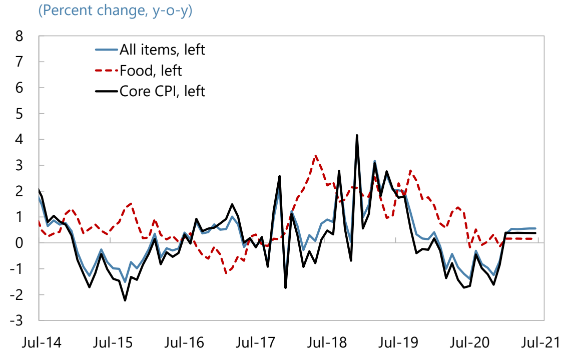
Commercial Banks' Total Loans and Deposits
(Indices, 2014=100)



Sources: ECCB and Fund staff calculations.

…while inflation has picked up driven by food and gas prices.

CPI Inflation, by Major Component
(Percent change, y-o-y)

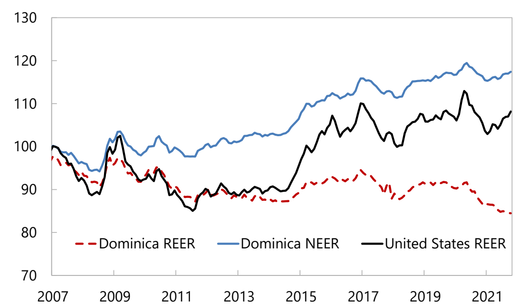


Sources: Central Statistics Office, Dominica and Fund staff calculations.

Figure 2. Dominica: External Sector

An increase in foreign inflation resulted in a depreciation of the real exchange rate....

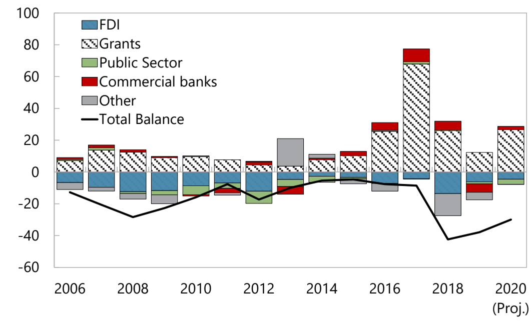
Nominal and Real Effective Exchange Rates
(Indexes, January 2005 = 100)



Source: Fund staff calculations.

...while the current account deficit contracted due to the fall in imports.

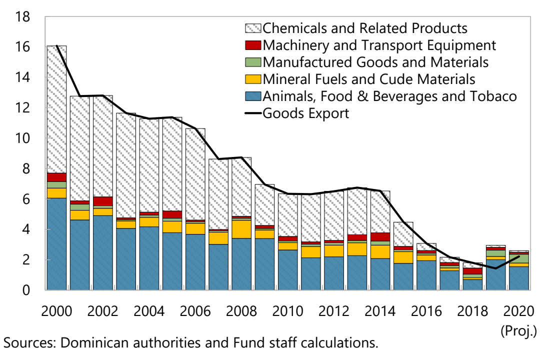
Current Account Deficit and Financing
(Percent of GDP)



Sources: Dominican authorities and Fund staff calculations.

Goods exports contracted, due to international restrictions,

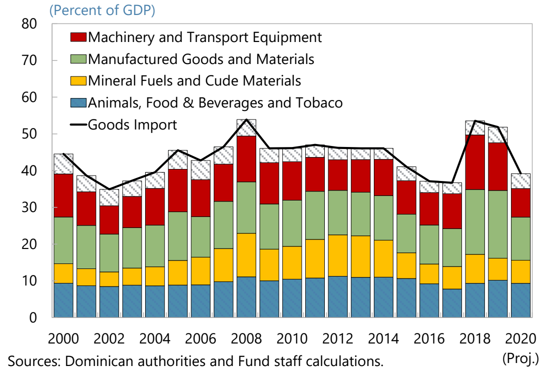
Goods Export by Major Components
(Percent of GDP)



Sources: Dominican authorities and Fund staff calculations.

....while goods imports decreased sharply as domestic demand and tourism declined.

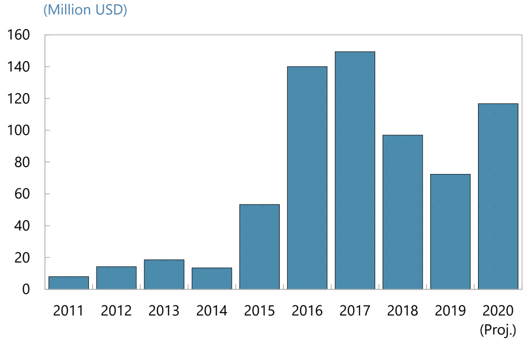
Goods Import by Major Components
(Percent of GDP)



Sources: Dominican authorities and Fund staff calculations.

Citizenship-by investment increased to record high levels...

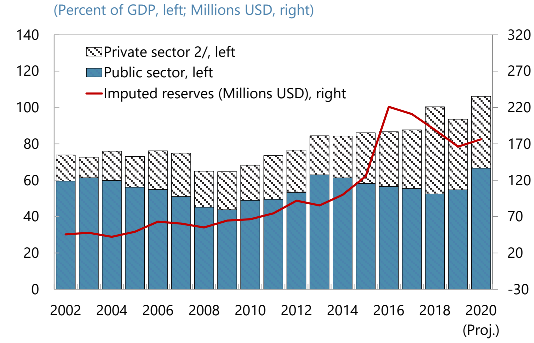
Citizenship-by-Investment Program
(Million USD)



Sources: Dominican authorities and Fund staff calculations.

helping to finance public investment and containing the increase in public debt.

External Debt
(Percent of GDP, left; Millions USD, right)

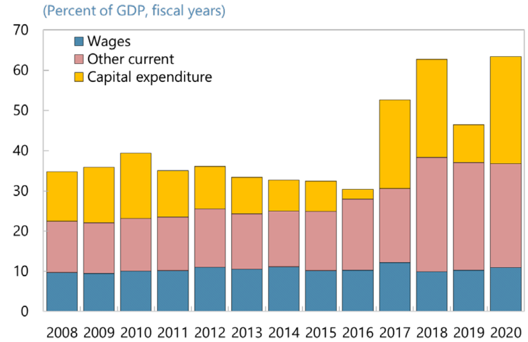


Sources: Dominican authorities and Fund staff calculations.

Figure 3. Dominica: Fiscal Sector

Government spending in resilient infrastructure increased sharply...

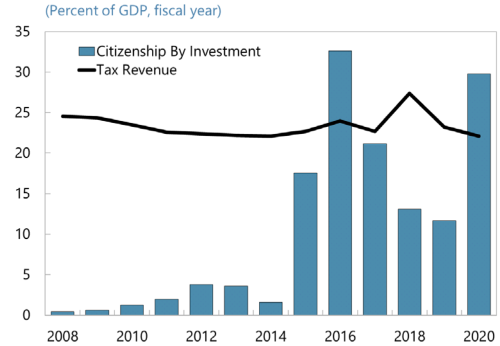
Government Expenditure
(Percent of GDP, fiscal years)



Sources: Dominican authorities and Fund staff calculations.

...largely financed with CBI revenue.

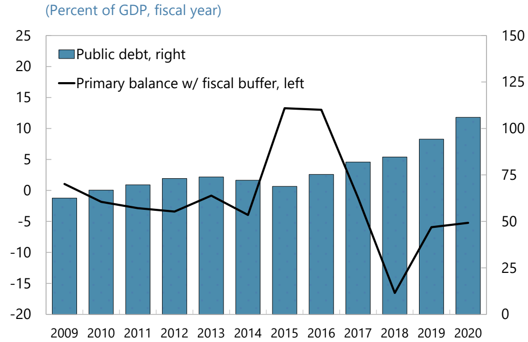
Revenue
(Percent of GDP, fiscal year)



Sources: Dominican authorities and Fund staff calculations.

Even as primary balance improved, public debt went up...

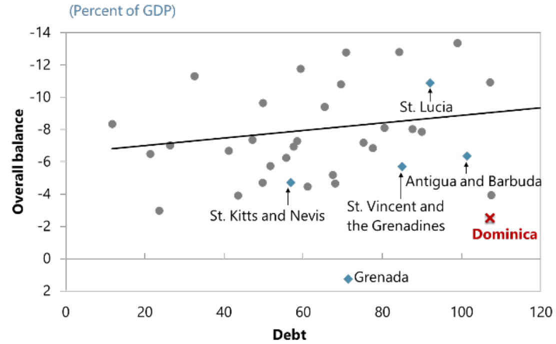
Public Debt and Fiscal Primary Balance
(Percent of GDP, fiscal year)



Source: Fund staff calculations.

... reaching one of the highest debt levels in the ECCU.

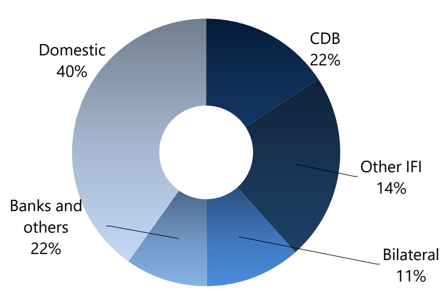
EM General Government Balance and Debt, 2020
(Percent of GDP)



Sources: Fund staff calculations.

The external component is significant...

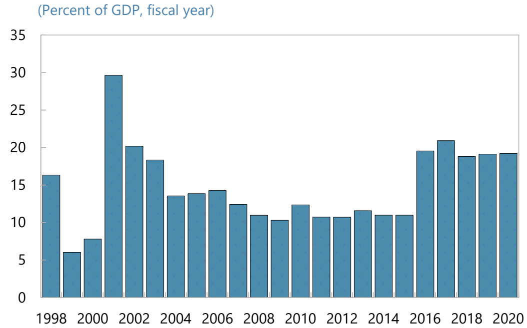
Composition of Public Sector Debt, end June 2021
(In percent of total)



Sources: Dominican authorities and Fund staff calculations.

... and public corporations' debt also contributes to general government indebtedness

Debt of Public Corporations 1/
(Percent of GDP, fiscal year)

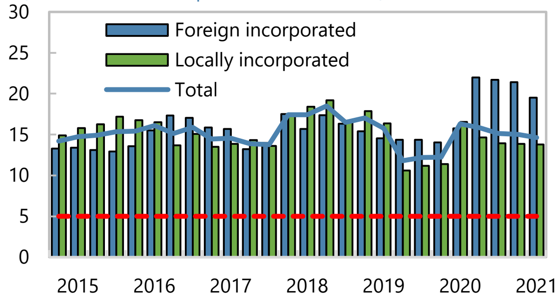


1/ Includes SOE debt and Petrocaribe debt.
Sources: Fund staff calculations.

Figure 4. Dominica: Monetary Sector

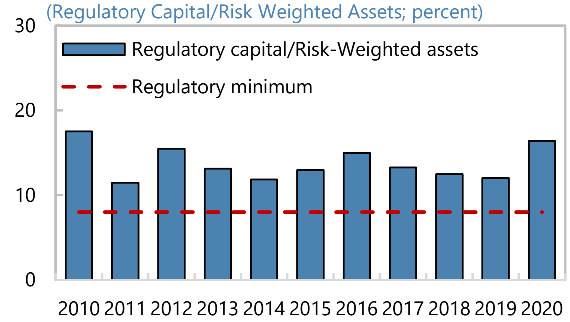
Non-Performing Loans increased markedly in 2020…

Non-Performing Loans
(Commercial banks; percent of total loans)



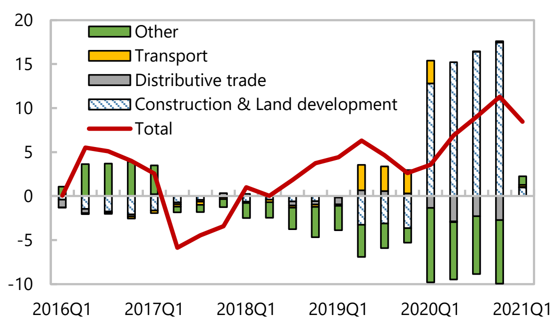
… but banks remain well-capitalized

Commercial Banks' Capital Adequacy
(Regulatory Capital/Risk Weighted Assets; percent)



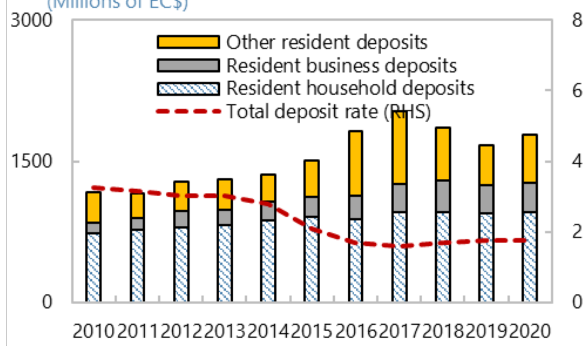
Credit to private sector grew, but primarily on account of lending for construction activities.

Commercial Banks Private Credit by Economic Activity
(Percent, contribution to growth)



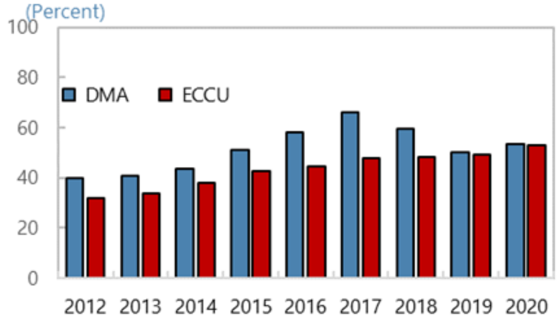
Despite the pandemic, deposits have remained steady amidst low deposit rates.

Commercial Banks Resident Deposits
(Millions of EC$)



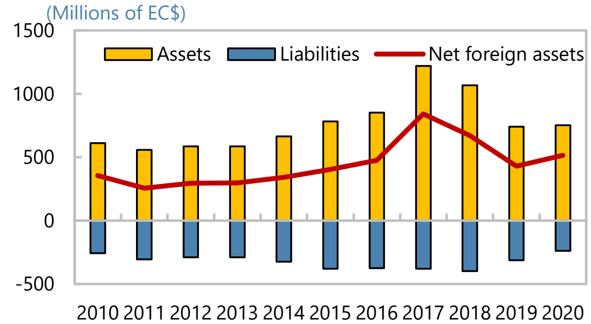
Liquidity is steady and close to the ECCU average…

Liquid Assets to Liquid Liabilities and Deposits
(Percent)



while foreign assets have remained steady, foreign liabilities have declined.

Net Foreign Assets of Commercial Banks
(Millions of EC$)



Source: Country authorities, ECCB and IMF staff calculations.

Table 1. Dominica: Selected Social and Economic Indicators, 2016–26

I. Social and Demographic Indicators

Area (sq. km.)	754	Adult literacy rate (percent, 2016)	94
Population (2020)		Unemployment rate (2016)	23
Total	71,991		
Annual rate of growth (percent)	-1.8		
Density (per sq. km.)	95.5	Gross Domestic Product (2019)	
Population characteristics		Millions of E.C. dollars	1,663
Life expectancy at birth (years, 2016)	76	Millions of U.S. dollars	616
Infant mortality (per thousand live births, 2016)	12.38	U.S. dollars per capita	8,553

II. Economic Indicators

	2016	2017	2018	2019	Est. 2020	Projected 2021	2022	2023	2024	2025	2026
Output and prices	(annual percent change, unless otherwise specified)										
Real GDP 1/	2.8	-6.6	3.5	7.5	-11.0	3.7	7.6	5.4	4.6	4.1	2.5
Nominal GDP 1/	6.6	-6.3	4.6	9.1	-11.6	6.8	10.3	7.5	6.7	6.1	4.6
Consumer prices											
Period average	0.1	0.3	1.0	1.5	-0.7	3.0	2.5	2.0	2.0	2.0	2.0
End of period	0.7	-1.5	4.0	0.1	-0.7	3.0	2.5	2.0	2.0	2.0	2.0
Central government balances 2/	(in percent of GDP, unless otherwise specified)										
Revenue	58.7	49.4	44.2	38.1	55.5	49.9	46.5	45.1	43.7	42.4	42.1
Taxes	24.0	22.7	27.4	23.2	21.9	21.3	23.0	23.6	24.2	23.9	23.6
Non-tax revenue	33.7	22.4	16.0	13.0	31.3	26.3	21.2	19.2	17.2	16.2	16.2
Grants 3/	1.0	4.4	0.9	1.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Expenditure	30.4	51.6	62.1	46.2	62.7	59.3	48.4	47.2	47.0	45.2	43.5
Current primary expenditure	26.3	27.6	35.9	34.5	34.4	32.4	30.9	30.0	29.9	29.3	28.6
Interest payments	1.6	2.0	1.9	2.4	2.0	2.0	2.2	2.3	2.3	2.1	2.0
Capital expenditure	2.4	22.0	24.4	9.3	26.3	24.9	15.4	14.9	14.9	13.9	12.9
Primary balance	29.9	-0.2	-16.0	-5.8	-5.2	-7.4	0.3	0.3	-1.1	-0.8	0.6
Primary balance, excluding CBI	-19.6	-21.4	-29.1	-17.5	-34.7	-31.9	-18.7	-16.7	-16.1	-14.8	-13.4
Overall balance	28.3	-2.2	-17.9	-8.2	-7.2	-11.0	-1.8	-2.0	-3.3	-2.9	-1.4
Overall balance (incl. ND cost buffers), of which:	28.3	-2.2	-17.9	-8.2	-7.2	-11.0	-3.3	-3.5	-4.8	-4.4	-2.9
annualized cost of natural disasters (ND)	…	…	…	…	…	…	1.5	1.5	1.5	1.5	1.5
Central government debt (incl. guaranteed) 4/	75.3	81.9	84.6	94.2	106.0	100.9	100.3	97.5	94.3	92.0	90.8
External	56.6	55.5	52.4	54.7	66.7	64.2	66.5	66.7	66.0	66.0	66.8
Domestic	18.7	26.4	32.2	39.5	39.3	36.8	33.8	30.9	28.3	25.9	24.0
Money and credit (annual percent change)											
Broad money (M2)	6.0	18.0	1.4	-6.3	-9.9	1.6	5.6	2.8	5.7	5.2	4.6
Real credit to the private sector	2.2	-0.2	-5.3	-6.1	0.4	-1.3	1.0	1.5	1.8	3.1	2.5
Balance of payments											
Current account balance, of which:	-7.7	-8.6	-42.4	-37.9	-30.0	-31.4	-28.7	-24.0	-18.3	-17.1	-14.7
Exports of goods and services	46.8	40.3	27.7	35.0	20.2	20.0	27.4	30.7	36.0	36.8	37.3
Imports of goods and services 5/	57.2	59.3	74.4	78.0	57.6	52.8	56.2	57.5	57.3	56.3	54.4
Capital and financial account balance	41.7	85.5	14.7	-9.5	21.3	2.6	10.6	1.1	1.7	4.6	1.9
FDI	-7.2	-4.2	-13.6	-6.1	-4.5	-6.7	-6.6	-6.5	-4.8	-4.6	-4.5
Capital grants	25.5	67.9	26.1	12.3	26.6	16.1	21.0	13.9	11.3	12.1	9.6
Other (incl. errors and omissions)	23.4	21.9	2.2	-15.7	-0.8	-6.8	-3.9	-6.3	-4.8	-2.9	-3.1
External debt (gross) 6/	86.7	87.7	100.4	93.5	106.1	101.9	100.8	98.7	96.3	93.7	92.6
Saving-Investment Balance	-7.7	-8.6	-42.4	-37.9	-30.0	-31.4	-28.7	-24.0	-18.3	-17.1	-14.7
Saving	13.1	19.7	-10.3	-14.5	-7.4	2.4	-3.0	-6.0	0.0	0.6	2.1
Investment	20.8	28.3	32.0	23.4	22.5	33.8	25.8	18.0	18.3	17.7	16.8
Public	13.8	22.3	24.5	16.9	19.5	26.8	20.8	16.0	15.8	15.2	14.3
Private	7.0	6.0	7.5	6.5	3.0	7.0	5.0	2.0	2.5	2.5	2.5
Memorandum items:											
Nominal GDP (EC$ millions)	1,556	1,457	1,524	1,663	1,469	1,569	1,730	1,859	1,983	2,104	2,200
Nominal GDP, fiscal year (EC$ millions)	1,506	1,490	1,593	1,566	1,519	1,649	1,794	1,921	2,043	2,152	2,243
Net imputed international reserves:											
End-year (millions of U.S. dollars)	220.9	210.9	189.2	166.2	176.4	165.7	183.8	189.5	194.8	200.7	211.2
Months of imports of goods and services	8.0	7.9	5.4	4.2	6.8	6.5	6.1	5.7	5.6	5.5	5.7
Holdings of SDRs (millions of SDRs)	11.5	11.5	11.5	11.5	11.5	11.5	22.5	22.5	22.5	22.5	22.5

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.
1/ At market prices.
2/ Data for fiscal years from July to June.
3/ Does not include grants received but not spent.
4/ Includes estimated commitments under the Petrocaribe arrangement with Venezuela.
5/ Includes public capital expenditure induced imports from 2019 onwards to account for possible mitigation of natural disasters.
6/ Comprises public sector external debt, foreign liabilities of commercial banks, and other private debt. Calendar year basis.

Table 2a. Dominica: Central Government Operations, 2016–26 1/ 2/

(In millions of EC dollars)

	2016	2017	2018	2019	Prel. 2020	Projected 2021	2022	2023	2024	2025	2026
	(in millions of Eastern Caribbean dollars)										
Revenue	**883.6**	**736.8**	**704.4**	**595.9**	**843.2**	**822.8**	**835.3**	**867.0**	**892.3**	**911.9**	**945.0**
Taxes	361.5	337.9	436.3	363.0	333.3	351.6	413.4	453.8	493.6	513.5	529.8
Taxes on income	67.4	51.8	68.1	64.2	57.1	62.5	82.8	100.2	112.2	118.2	123.2
Taxes on property	9.7	6.0	8.7	9.4	9.6	10.4	11.3	13.4	16.3	17.2	17.9
Taxes on goods and services	205.6	203.8	248.1	208.0	194.3	201.9	236.3	251.5	272.6	284.5	293.7
Taxes on international trade and transactions	78.7	76.3	111.4	81.5	72.3	76.8	83.1	88.7	92.4	93.6	94.9
Grants 3/	15.1	65.5	13.7	29.0	35.0	38.0	41.4	44.3	47.1	49.6	51.7
Other revenue	507.1	333.4	254.4	203.9	474.9	433.2	380.5	368.9	351.6	348.8	363.5
Property income	1.1	0.8	1.3	3.5	1.6	1.7	1.9	2.0	2.2	2.3	2.4
Sales, fees, and fines	11.4	9.1	21.1	10.5	12.7	13.8	22.2	23.8	25.3	26.6	27.8
Other nontax revenue, of which:	494.6	323.5	232.0	189.9	460.5	417.6	356.4	343.1	324.1	319.8	333.4
Citizenship-by-Investment	491.2	315.4	208.3	182.4	448.0	404.0	341.5	327.2	307.2	302.0	314.8
Expenditure	**457.3**	**769.4**	**990.1**	**724.0**	**952.8**	**978.7**	**868.3**	**906.1**	**960.7**	**973.5**	**975.3**
Expense	**420.8**	**441.4**	**601.8**	**577.9**	**552.8**	**568.4**	**592.8**	**620.8**	**657.2**	**674.9**	**686.5**
Compensation of employees	154.0	181.6	157.7	160.5	164.5	168.9	169.5	178.4	189.8	199.9	208.3
Purchase of goods and services	135.8	145.1	268.6	263.2	247.3	251.6	262.3	268.7	285.8	287.4	285.3
Interest	24.2	29.7	30.6	37.2	30.3	33.6	39.2	44.9	46.0	45.4	44.6
Grants and social benefits (transfers and subsidies)	107.2	99.9	153.9	120.0	111.0	114.8	122.2	129.4	136.1	142.8	148.8
Other expense	-0.4	-15.0	-9.0	-3.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Net lending	-0.4	-15.0	-9.0	-3.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Net acquisition of nonfinancial assets	**36.6**	**328.0**	**388.3**	**146.1**	**400.0**	**410.3**	**275.5**	**285.3**	**303.5**	**298.6**	**288.8**
Grant-financed capital expenditure	14.3	65.5	13.7	29.0	35.0	38.0	41.4	44.3	47.1	49.6	51.7
Other capital expenditure	22.3	262.6	374.6	118.2	366.9	374.3	236.4	243.5	259.0	251.7	239.9
Capital revenue	-0.1	-0.1	0.0	-1.2	-1.9	-2.1	-2.3	-2.4	-2.6	-2.7	-2.8
Natural disaster (ND) annualised cost 4/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**24.7**	**26.9**	**28.8**	**30.7**	**32.3**	**33.6**
Net lending/borrowing (excl. ND cost)	**426.3**	**-32.6**	**-285.7**	**-128.1**	**-109.6**	**-155.9**	**-33.0**	**-39.1**	**-68.4**	**-61.6**	**-30.3**
Net lending/borrowing (incl. ND cost)	**426.3**	**-32.6**	**-285.7**	**-128.1**	**-109.6**	**-180.6**	**-59.9**	**-68.0**	**-99.1**	**-93.9**	**-64.0**
Net financial transactions	**426.3**	**-32.6**	**-285.7**	**-128.1**	**-109.6**	**-180.6**	**-59.9**	**-68.0**	**-99.1**	**-93.9**	**-64.0**
Net acquisition of financial assets	**0.0**	**-16.8**	**184.8**	**-88.4**	**-25.8**	**109.7**	**-63.0**	**6.0**	**57.0**	**52.0**	**17.0**
Currency and deposits	0.0	-16.8	184.8	-88.4	-25.8	109.7	-63.0	6.0	57.0	52.0	17.0
Net incurrence of liabilities	**-33.0**	**69.0**	**139.7**	**124.0**	**145.5**	**46.3**	**123.0**	**62.1**	**42.2**	**42.0**	**47.0**
Domestic	-17.3	88.5	142.5	102.8	-22.2	8.6	-2.2	-17.3	-18.4	-20.6	-21.9
Foreign	-15.7	-19.5	-2.9	21.2	167.8	37.7	125.2	79.3	60.5	62.6	69.0
Other flows	**-393.3**	**-19.6**	**-38.8**	**92.5**	**-10.1**	**24.6**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Memorandum items:											
Primary balance	450.5	-2.9	-255.0	-90.9	-79.3	-122.3	6.2	5.8	-22.4	-16.2	14.3
Primary balance (excl. CBI)	-40.6	-318.3	-463.4	-273.3	-527.2	-526.3	-335.3	-321.4	-329.6	-318.3	-300.5
Primary balance (excl. CBI and ND cost) 5/	-18.0	-295.9	-439.5	-249.8	-504.5	-501.5	-308.4	-292.6	-299.0	-286.0	-266.9
Overall balance (excl. CBI)	-64.9	-348.0	-494.0	-310.5	-557.6	-559.9	-374.5	-366.3	-375.6	-363.6	-345.1
Public sector debt 6/	1,134	1,221	1,348	1,475	1,610	1,665	1,799	1,874	1,927	1,979	2,036
Domestic	282	393	513	618	597	607	606	593	578	558	538
Central Governement	212	301	443	546	524	532	530	513	494	474	452
Rest of public sector	70	93	70	72	74	74	76	80	84	85	86
Foreign	852	827	835	857	1,013	1,058	1,193	1,281	1,349	1,421	1,499
Central Governement	628	608	606	627	795	832	957	1,037	1,097	1,160	1,229
Rest of public sector	224	219	230	230	218	226	235	244	252	261	270
Nominal GDP, fiscal year (EC$ millions)	1,506	1,490	1,593	1,566	1,519	1,649	1,794	1,921	2,043	2,152	2,243

Sources: Dominican authorities; and Fund staff estimates and projections.

1/ The GFSM 2001 format presentation is an approximation, and is based on the GFS 1986 format data.

2/ Fiscal year (July-June) basis. Figures shown for a given year relate to the fiscal year beginning on July 1 of that year.

3/ Does not include grants that were received but not spent.

4/ Natural disaster costs are annualised estimated costs for reconstruction expenditures. It is calculated based on a Monte-Carlo experiment that simulates natural disaster shocks and their impact on output and government finances.

5/ The underlying primary balance is calculated as the primary balance excluding CBI revenues, one-off collection of tax arrears, temporary storm-related reconstruction and social assistance spending, and the transitory increase in grants projected after tropical storms Erika (2015) and Maria (2017).

6/ Includes debt of SOEs guaranteed by the central government, and commitments under the Petrocaribe arrangement with Venezuela.

Table 2b. Dominica: Central Government Operations, 2016–26 1/ 2/

(In percent of GDP)

	2016	2017	2018	2019	Prel. 2020	Projected 2021	2022	2023	2024	2025	2026
					(in percent of GDP)						
Revenue	**58.7**	**49.4**	**44.2**	**38.1**	**55.5**	**49.9**	**46.5**	**45.1**	**43.7**	**42.4**	**42.1**
Taxes	24.0	22.7	27.4	23.2	21.9	21.3	23.0	23.6	24.2	23.9	23.6
Taxes on income	4.5	3.5	4.3	4.1	3.8	3.8	4.6	5.2	5.5	5.5	5.5
Taxes on property	0.6	0.4	0.5	0.6	0.6	0.6	0.6	0.7	0.8	0.8	0.8
Taxes on goods and services	13.7	13.7	15.6	13.3	12.8	12.2	13.2	13.1	13.3	13.2	13.1
Taxes on international trade and transactions	5.2	5.1	7.0	5.2	4.8	4.7	4.6	4.6	4.5	4.3	4.2
Grants 3/	1.0	4.4	0.9	1.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other revenue	33.7	22.4	16.0	13.0	31.3	26.3	21.2	19.2	17.2	16.2	16.2
Property income	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees, and fines	0.8	0.6	1.3	0.7	0.8	0.8	1.2	1.2	1.2	1.2	1.2
Other nontax revenue, of which:	32.8	21.7	14.6	12.1	30.3	25.3	19.9	17.9	15.9	14.9	14.9
Citizenship-by-Investment	32.6	21.2	13.1	11.6	29.5	24.5	19.0	17.0	15.0	14.0	14.0
Expenditure	**30.4**	**51.6**	**62.1**	**46.2**	**62.7**	**59.3**	**48.4**	**47.2**	**47.0**	**45.2**	**43.5**
Expense	**27.9**	**29.6**	**37.8**	**36.9**	**36.4**	**34.5**	**33.0**	**32.3**	**32.2**	**31.4**	**30.6**
Compensation of employees	10.2	12.2	9.9	10.3	10.8	10.2	9.4	9.3	9.3	9.3	9.3
Purchase of goods and services	9.0	9.7	16.9	16.8	16.3	15.3	14.6	14.0	14.0	13.4	12.7
Interest	1.6	2.0	1.9	2.4	2.0	2.0	2.2	2.3	2.3	2.1	2.0
Grants and social benefits (transfers and subsidies)	7.1	6.7	9.7	7.7	7.3	7.0	6.8	6.7	6.7	6.6	6.6
Other expense	0.0	-1.0	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	0.0	-1.0	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**2.4**	**22.0**	**24.4**	**9.3**	**26.3**	**24.9**	**15.4**	**14.9**	**14.9**	**13.9**	**12.9**
Grant-financed capital expenditure	0.9	4.4	0.9	1.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other capital expenditure	1.5	17.6	23.5	7.6	24.2	22.7	13.2	12.7	12.7	11.7	10.7
Capital revenue	0.0	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Natural disaster (ND) annualised cost 4/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Net lending/borrowing (overall balance, excl. ND cost	**28.3**	**-2.2**	**-17.9**	**-8.2**	**-7.2**	**-9.5**	**-1.8**	**-2.0**	**-3.3**	**-2.9**	**-1.4**
Net lending/borrowing (overall balance, incl. ND cost)	**28.3**	**-2.2**	**-17.9**	**-8.2**	**-7.2**	**-11.0**	**-3.3**	**-3.5**	**-4.8**	**-4.4**	**-2.9**
Net financial transactions	**28.3**	**-2.2**	**-17.9**	**-8.2**	**-7.2**	**-11.0**	**-3.3**	**-3.5**	**-4.8**	**-4.4**	**-2.9**
Net acquisition of financial assets	**0.0**	**-1.1**	**11.6**	**-5.6**	**-1.7**	**6.7**	**-3.5**	**0.3**	**2.8**	**2.4**	**0.8**
Currency and deposits	0.0	-1.1	11.6	-5.6	-1.7	6.7	-3.5	0.3	2.8	2.4	0.8
Net incurrence of liabilities	**-2.2**	**4.6**	**8.8**	**7.9**	**9.6**	**2.8**	**6.9**	**3.2**	**2.1**	**2.0**	**2.1**
Domestic	-1.1	5.9	8.9	6.6	-1.5	0.5	-0.1	-0.9	-0.9	-1.0	-1.0
Foreign	-1.0	-1.3	-0.2	1.4	11.0	2.3	7.0	4.1	3.0	2.9	3.1
Other flows	**-26.1**	**-1.3**	**-2.4**	**5.9**	**-0.7**	**1.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Primary balance	29.9	-0.2	-16.0	-5.8	-5.2	-7.4	0.3	0.3	-1.1	-0.8	0.6
Primary balance (excl. CBI)	-2.7	-21.4	-29.1	-17.5	-34.7	-31.9	-18.7	-16.7	-16.1	-14.8	-13.4
Primary balance (excl. CBI and ND cost) 5/	-1.2	-19.9	-27.6	-16.0	-33.2	-30.4	-17.2	-15.2	-14.6	-13.3	-11.9
Overall balance (excl. CBI)	-4.3	-23.3	-31.0	-19.8	-36.7	-33.9	-20.9	-19.1	-18.4	-16.9	-15.4
Public sector debt 6/	75.3	81.9	84.6	94.2	106.0	100.9	100.3	97.5	94.3	92.0	90.8
Domestic	18.7	26.4	32.2	39.5	39.3	36.8	33.8	30.9	28.3	25.9	24.0
Central Governement	14.1	20.2	27.8	34.9	34.5	32.3	29.5	26.7	24.2	22.0	20.1
Rest of public sector	4.7	6.2	4.4	4.6	4.9	4.5	4.2	4.2	4.1	3.9	3.8
Foreign	56.6	55.5	52.4	54.7	66.7	64.2	66.5	66.7	66.0	66.0	66.8
Central Governement	41.7	40.8	38.0	40.0	52.3	50.5	53.4	54.0	53.7	53.9	54.8
Rest of public sector	14.9	14.7	14.4	14.7	14.4	13.7	13.1	12.7	12.3	12.1	12.0
Nominal GDP, fiscal year (EC$ millions)	1,506	1,490	1,593	1,566	1,519	1,649	1,794	1,921	2,043	2,152	2,243

Sources: Dominican authorities; and Fund staff estimates and projections.

1/ The GFSM 2001 format presentation is an approximation, and is based on the GFS 1986 format data.

2/ Fiscal year (July-June) basis. Figures shown for a given year relate to the fiscal year beginning on July 1 of that year.

3/ Does not include grants that were received but not spent.

4/ Natural disaster costs are annualised estimated costs for reconstruction expenditures. It is calculated based on a Monte-Carlo experiment that simulates natural disaster shocks and their impact on output and government finances.

5/ The underlying primary balance is calculated as the primary balance excluding CBI revenues, one-off collection of tax arrears, temporary storm-related reconstruction and social assistance spending, and the transitory increase in grants projected after tropical storms Erika (2015) and Maria (2017).

6/ Includes debt of SOEs guaranteed by the central government, and commitments under the Petrocaribe arrangement with Venezuela.

Table 3. Dominica: Balance of Payments, 2016–26

					Est.	Projected					
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
					(in millions of U.S. dollars)						
Current account balance	**-44.2**	**-46.2**	**-239.1**	**-233.2**	**-163.0**	**-182.2**	**-183.9**	**-165.2**	**-134.5**	**-133.3**	**-119.8**
Exports of goods and services, of which: 1/	269.6	217.5	156.5	215.3	109.9	116.1	175.7	211.3	264.3	286.5	303.9
Goods	25.4	13.0	11.6	8.8	12.1	14.1	15.5	16.6	17.6	18.7	19.5
Tourism	197.5	160.9	88.4	144.8	43.3	43.8	96.1	125.9	173.2	189.8	202.9
Imports of goods and services	329.4	319.9	419.7	480.5	313.2	307.1	359.9	396.0	420.9	438.6	443.5
Fuel	28.1	29.3	37.9	34.1	23.2	39.1	46.7	52.4	50.2	48.7	50.8
Food	37.4	35.3	40.2	38.6	35.5	41.2	39.2	44.3	41.8	47.0	49.1
Other goods 2/	122.5	109.6	225.5	163.0	134.4	160.1	204.6	226.5	232.9	249.7	225.2
Services	141.4	145.7	135.2	161.3	99.7	66.7	69.5	72.9	96.0	93.2	118.3
Net income, of which:	-21.1	1.8	-0.6	6.9	7.6	-14.4	-25.1	-8.1	-7.5	-12.7	-13.2
Interest payments (public sector)	-7.2	-6.7	-6.9	-6.6	-5.5	-4.3	-5.2	-6.8	-7.8	-8.2	-8.3
Net current transfers	36.7	54.3	24.7	25.1	32.7	23.2	25.4	27.6	29.6	31.5	33.0
Capital account	**147.0**	**366.4**	**147.2**	**75.8**	**144.5**	**93.3**	**134.9**	**95.8**	**83.1**	**94.2**	**77.8**
Financial account 3/	**93.4**	**95.2**	**-64.4**	**-134.4**	**-28.6**	**-78.2**	**-67.1**	**-87.9**	**-70.3**	**-58.3**	**-62.0**
Public sector flows	4.1	7.7	0.4	-7.5	-32.4	-37.4	-34.4	-43.0	-30.3	-26.5	-29.0
PetroCaribe financing flows	0.8	1.7	2.7	2.0	-0.5	2.3	3.2	3.7	3.2	2.6	2.6
Foreign direct investment	-41.4	-22.7	-76.5	-37.9	-24.5	-38.8	-42.4	-44.4	-35.2	-35.9	-37.0
Commercial banks	75.7	116.7	82.5	-89.3	31.7	-0.4	6.5	-3.4	-6.0	-3.6	-3.7
Other private flows 4/	-28.8	-2.8	-80.1	-1.8	-3.1	-3.8	-0.1	-0.8	-1.9	5.0	5.5
Errors and omissions 5/	**86.123**	**-235**	**6.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.4**
Overall balance	**95.5**	**-10.0**	**-20.9**	**-23.0**	**10.2**	**-10.7**	**18.1**	**18.5**	**18.8**	**19.2**	**19.6**
External financing gap	4.1	7.7	0.4	-7.5	-32.4	-37.4	-34.4	-43.0	-30.3	-26.5	-29.0
					(in percent of GDP)						
Current account balance	**-7.7**	**-8.6**	**-42.4**	**-37.9**	**-30.0**	**-31.4**	**-28.7**	**-24.0**	**-18.3**	**-17.1**	**-14.7**
Exports of goods and services, of which: 1/	46.8	40.3	27.7	35.0	20.2	20.0	27.4	30.7	36.0	36.8	37.3
Goods	4.4	2.4	2.1	1.4	2.2	2.4	2.4	2.4	2.4	2.4	2.4
Tourism	34.3	29.8	15.7	23.5	8.0	7.5	15.0	18.3	23.6	24.4	24.9
Imports of goods and services	57.2	59.3	74.4	78.0	57.6	52.8	56.2	57.5	57.3	56.3	54.4
Fuel	4.9	5.4	6.7	5.5	4.3	6.7	7.3	7.6	6.8	6.2	6.2
Food	6.5	6.5	7.1	6.3	6.5	7.1	6.1	6.4	5.7	6.0	6.0
Other goods 2/	21.3	20.3	40.0	26.5	24.7	27.6	31.9	32.9	31.7	32.0	27.6
Services	24.5	27.0	24.0	26.2	18.3	11.5	10.8	10.6	13.1	12.0	14.5
Net income, of which:	-3.7	0.3	-0.1	1.1	1.4	-2.5	-3.9	-1.2	-1.0	-1.6	-1.6
Interest payments (public sector)	-1.2	-1.2	-1.2	-1.1	-1.0	-0.7	-0.8	-1.0	-1.1	-1.0	-1.0
Net current transfers	6.4	10.1	4.4	4.1	6.0	4.0	4.0	4.0	4.0	4.0	4.0
Capital account	**25.5**	**67.9**	**26.1**	**12.3**	**26.6**	**16.1**	**21.0**	**13.9**	**11.3**	**12.1**	**9.6**
Net acquisition of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Capital transfers	25.5	67.9	26.1	12.3	26.6	16.1	21.0	13.9	11.3	12.1	9.6
Financial account 3/	**16.2**	**17.6**	**-11.4**	**-21.8**	**-5.3**	**-13.5**	**-10.5**	**-12.8**	**-9.6**	**-7.5**	**-7.6**
Public sector flows	0.7	1.4	0.1	-1.2	-5.9	-6.4	-5.4	-6.2	-4.1	-3.4	-3.6
PetroCaribe financing flows	0.1	0.3	0.5	0.3	-0.1	0.4	0.5	0.5	0.4	0.3	0.3
Foreign direct investment	-7.2	-4.2	-13.6	-6.1	-4.5	-6.7	-6.6	-6.5	-4.8	-4.6	-4.5
Commercial banks	13.1	21.6	14.6	-14.5	5.8	-0.1	1.0	-0.5	-0.8	-0.5	-0.5
Other private flows 4/	-5.0	-0.5	-14.2	-0.3	-0.6	-0.7	0.0	-0.1	-0.3	0.6	0.7
Errors and omissions /5	**14.9**	**-43.5**	**1.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**16.6**	**-1.8**	**-3.7**	**-3.7**	**1.9**	**-1.8**	**2.8**	**2.7**	**2.6**	**2.5**	**2.4**
External financing gap	**0.7**	**1.4**	**0.1**	**-1.2**	**-5.9**	**-6.4**	**-5.4**	**-6.2**	**-4.1**	**-3.4**	**-3.6**
Memorandum items:											
Trade balance (percent of GDP)	-28.2	-29.9	-51.8	-36.8	-33.3	-38.9	-42.9	-44.5	-41.8	-41.9	-37.5
Services balance (percent of GDP)	17.8	10.9	1.7	7.3	-0.3	6.1	14.2	17.7	20.5	22.4	20.4
Net imputed international reserves:											
Millions of U.S. dollars	220.9	210.9	189.2	166.2	176.4	165.7	183.8	189.5	194.8	200.7	211.2
Months of imports of goods and services	8.0	7.9	5.4	4.2	6.8	6.5	6.1	5.7	5.6	5.5	5.7
Gross external debt (in percent of GDP) 6/	86.7	87.7	100.4	93.5	106.1	101.9	100.8	98.7	96.3	93.7	92.6
Public sector	56.6	55.5	52.4	54.7	66.7	64.2	66.5	66.7	66.0	66.0	66.8
Private sector	30.1	32.2	47.9	58.7	61.2	58.0	51.6	48.6	46.7	43.8	41.7
GDP (in US$ millions)	576.2	539.7	564.4	615.7	544.1	581.1	640.7	688.5	734.3	779.4	814.8

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); donor organizations; and Fund staff estimates and projections.

1/ Includes revised historical data from 2014 onwards on exports of tourism services.

2/ Includes public capital expenditure induced imports from 2019 onwards, to account for possible mitigation of natural disasters.

3/ Positive values indicate net outflows (i.e., net acquisition of financial assets).

4/ Assumed to cover the residual financing needs over the projection period.

5/ Large errors and omissions in 2016 and 2017 are presumed to be driven by inconsistent timing of the recording of CBI revenue; the 2016-17 errors and omissions average is 6 percent of GDP.

6/ Comprises external public sector debt, gross liabilities of commercial banks, and other private debt that covers the projected financing needs. Calendar year basis.

Table 4. Dominica: Summary Accounts of the Banking System, 2016–26

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Projected					
	(in millions of Eastern Caribbean dollars, end of period)										
Net foreign assets	**1,090**	**1,437**	**1,182**	**879**	**992**	**962**	**1,028**	**1,034**	**1,033**	**1,039**	**1,065**
Central Bank	596	569	511	449	476	447	496	512	526	542	570
Commercial Banks (net)	494	868	671	430	516	515	532	523	507	497	495
Net domestic assets	**284**	**184**	**463**	**663**	**397**	**449**	**461**	**496**	**586**	**663**	**715**
Public sector credit, net	-311	-313	-24	187	88	223	157	160	217	268	281
(real terms)	-304	-310	-23	178	85	208	143	142	189	229	235
Central Government	-215	-211	83	259	299	434	368	371	428	479	492
Private sector credit	798	785	773	727	725	737	762	789	819	861	901
(real terms)	779	778	737	692	694	685	692	702	715	737	755
Other items (net)	-203	-287	-286	-251	-416	-511	-459	-453	-450	-465	-467
Money and quasi-money (M2)	**1,375**	**1,622**	**1,645**	**1,542**	**1,389**	**1,411**	**1,489**	**1,531**	**1,618**	**1,702**	**1,780**
Money	301	431	441	367	330	335	356	370	392	413	432
Quasi-money	1,074	1,191	1,204	1,175	1,059	1,076	1,133	1,161	1,226	1,289	1,348
	(12-month percentage change)										
Net foreign assets	**44.3**	**31.8**	**-17.8**	**-25.6**	**12.9**	**-3.0**	**6.9**	**0.6**	**-0.2**	**0.6**	**2.5**
Net domestic assets, of which:	**-47.5**	**-35.1**	**150.9**	**43.3**	**-40.1**	**13.0**	**2.7**	**7.7**	**18.0**	**13.3**	**7.8**
Public sector credit, net	384.3	0.7	-92.3	-873.6	-52.7	152.6	-29.6	1.7	35.6	23.5	4.9
(real terms)	380.9	2.2	-92.6	-872.5	-52.3	145.2	-31.3	-0.3	32.9	21.1	2.8
Private sector credit	2.9	-1.6	-1.5	-6.0	-0.3	1.6	3.5	3.5	3.8	5.1	4.6
(real terms)	2.2	-0.2	-5.3	-6.1	0.4	-1.3	1.0	1.5	1.8	3.1	2.5
Broad money	**6.0**	**18.0**	**1.4**	**-6.3**	**-9.9**	**1.6**	**5.6**	**2.8**	**5.7**	**5.2**	**4.6**
NFA contribution	25.8	25.2	-15.7	-18.4	7.3	-2.2	4.7	0.4	-0.1	0.4	1.5
NDA contribution	-19.8	-7.3	17.2	12.2	-17.2	3.7	0.9	2.4	5.8	4.8	3.0
Money	16.2	43.3	2.2	-16.7	-10.1	1.3	6.6	3.8	5.9	5.4	4.6
NFA contribution	99.6	-9.0	-13.6	-14.1	7.5	-8.8	14.6	4.3	3.9	4.1	6.8
NDA contribution	-83.4	52.3	15.9	-2.6	-17.5	10.0	-8.1	-0.5	2.1	1.3	-2.3
Broad money (real terms)	**5.3**	**19.8**	**-2.5**	**-6.4**	**-9.3**	**-1.4**	**3.0**	**0.8**	**3.7**	**3.1**	**2.5**
	(in percent of GDP)										
Net foreign assets	**70.1**	**98.6**	**77.6**	**52.9**	**67.5**	**61.3**	**59.4**	**55.7**	**52.1**	**49.4**	**48.4**
Net domestic assets	**18.3**	**12.7**	**30.4**	**39.9**	**27.0**	**28.6**	**26.6**	**26.7**	**29.5**	**31.5**	**32.5**
Public sector credit, net	-20.0	-21.5	-1.6	11.2	6.0	14.2	9.1	8.6	10.9	12.7	12.8
Private sector credit	51.3	53.9	50.7	43.7	49.3	47.0	44.1	42.4	41.3	40.9	40.9
Broad Money	**88.3**	**111.3**	**107.9**	**92.7**	**94.6**	**89.9**	**86.1**	**82.3**	**81.6**	**80.9**	**80.9**
Money	19.3	29.6	28.9	22.1	22.5	21.3	20.6	19.9	19.8	19.6	19.6
Quasi-money	69.0	81.7	79.0	70.7	72.1	68.6	65.5	62.4	61.9	61.3	61.3
Interest rates (percent) 1/											
ECCB policy rate	6.5	6.5	6.5	6.5	2.0	2.0	...	...	...	...	
U.S. policy rate	0.6	1.0	1.8	2.2	0.4	0.1	...	...	...	...	
Time deposit rate	3.6	3.3	3.2	3.1	3.1	3.1	...	...	...	...	
Demand deposit rate	0.2	0.1	0.1	0.1	0.1	0.1	...	...	...	...	
Savings deposit rate	2.1	2.2	2.1	2.1	2.1	2.1	...	...	...	...	

Sources: Eastern Caribbean Central Banks (ECCB); and Fund staff estimates and projections.
1/ End-period rates.

Annex I. Implementation of Fund's Past Policy Advice[1]

Recommendations from the 2020 DRS and RCF Policy Strategy	Authorities' Actions
Increasing fiscal consolidation	
Revenue measures	
1. Implement a tax policy reform and restructure tax incentives to maximize returns while minimizing revenue loss through discretionary concessions, with prioritized allocation to support investment, job creation, and social needs.	• In 2021, the government made important advances on its tax policy reform. It established limits on discretional tax exemptions on imports and collection of tax arrears; and it is at an advanced stage of an income tax reform including (i) a presumptive tax to the corporate income tax (CIT) framework to widen the income tax base and reduce informality; and (ii) a property tax to incentivize the use of idle property in prime urban areas. FAD TA is expected to be completed in early 2022, on time to be introduced in the FY2022/23 budget.
2. Implement additional revenue measures, including: (i) increasing pension contributions and retirement age; (ii) introducing cost-recovery fees on public health services, and (iii) applying a solid waste charge.	• The government is on track on the parametric reform of pension contributions, which are increased by 0.25 percent per year, and the retirement age. The acceleration with faster increase in contributions and retirement age of this reform has been discarded considering social resistance and the transitory nature of the yield. The Dominica Social Security is set to conduct an actuarial assessment in the first quarter of 2022, after which it plans to adjust pension contributions to ensure the system's sustainability. • Cost recovery fees on health services and the solid waste charge have been deprioritized due to the low revenue potential and the increased tax administration burden affected by limited capacity.
3. Increase tax auditing resources to boost revenue.	• In 2021, the authorities increased tax audits in customs to improve importers compliance. The government also received FAD TA on tax audit in August 2021.
Expenditure measures	
4. Prioritize expenditure efficiency measures, including: (i) curbing wage bill growth below nominal GDP in the long term; (ii) implementing a civil service	• The authorities agreed on these recommendations. The civil service reform is already under preparation with technical support from CARICAD; the increase in efficiency of transfers with better targeting and design will be aided by data to be

[1] This annex provides a focused follow-up on past Article IV recommendations, covering only those areas that are critical for the Covid-19 pandemic crisis and recovery.

reform, including public employment reclassification and rationalization of allowances; (iii) increasing the efficiency of transfers with better targeting and design; (iv) identifying nonpriority projects in the public sector investment plan of about 5 percent of GDP, (v) reviewing pension contributions and benefits to ensure long-term sustainability after an actuarial update planned in 2022; and (vi) maximizing social transfers targeting with proxy means testing and better household and social information systems.	collected in a census planned in early 2022; several capital projects not related to rehabilitation and reconstruction of critical infrastructure have been discontinued after hurricane Maria and will be scrutinized to identify additional efficiency savings. Social transfers through targeting proxy improved during Covid-19. However, the review of pension contributions and benefits has delayed due to the pandemic.
Maximizing the efficiency of CBI revenue allocation	
5. Allocate a portion of CBI revenue to the Vulnerability and Resiliency Fund (VRF) for self-insurance against natural disasters.	• The government have saved resources in the VRF in 2020 and 2021, albeit in amounts that are below the requirements considering the large potential damage of natural disasters. The government confirmed its intention to increase the amount of savings in line with Fund staff recommendations once the economy from the covid pandemic.
6. Top self-insurance in the VRF with additional coverage for large and extreme disasters, as part of a layered insurance framework.	• The government has increased coverage with CCRIF, financed with grants from Canada. It will continue to review the trigger thresholds to target coverage under less frequent but more damaging natural disasters as the VRF savings for self-insurance increase over time.
7. Passing of a Fiscal Responsibility Law (FRL).	The Parliament approved an FRL in October 2021, with technical support from the World Bank and Fund staff.
Addressing potential risks in the financial sector	
8. Central Bank authorities to closely monitor risk of increase in NPLs and provisioning requirements with the risks to asset quality posed by the economic developments during the pandemic, including after the expiration of the moratoria on loan service payments.	• To comply with the ECCB requirement, banks have prepared plans to increase provisioning to 100 percent of NPLs by 2024—pre-Covid precautionary increase in provisions with adoption of IFRS9 standards in 2018 has facilitated this process. Most loans under moratoria have currently normalized. • The Eastern Caribbean Central Bank has approved the acquisition of the Royal Bank of Canada's Dominica branch by the National Bank of Dominica (NBD) which now has an even larger market share (73 percent of total loans). Potential risks may emerge due to its interconnectedness with the largest

	credit unions with liquid assets in the form of deposits at the NBD.
9. Intensify surveillance in the credit union sector, which has capital shortages in some institutions and high NPLs. Move the non-bank financial institutions regulators outside the Ministry of Finance and endow with own revenue resources to ensure its independence.	• Partially adopted. The on-bank regulator remains part of the Ministry of Finance. It has hired new staff that will strengthen its surveillance capacity. • Progress have been made to increase capital in one institution with capital calls to the membership, which have been made voluntarily. Other credit unions are considering similar steps.
Strengthening the Covid-19 vaccination campaign	
10. Continue maximizing the effort to increase vaccination.	• The government agrees and is continuing the public communication and education campaigns to address vaccine hesitancy and building additional health care centers could prove critical in possible contagion outbreaks.
Improving data and statistics	
11. Strengthen data compilation, quality, and timeliness.	• Staff at the National Statistics Office and the Ministry of Finance have been receiving TA from STA and CARTAC on methodological compilation and improvement of macroeconomic statistics.

Annex II. External Sector Assessment

Overall Assessment: *In 2021, Dominica's external position was estimated to be moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings.[1] Although the deterioration in tourism after the Covid-19 pandemic was severe, the current account deterioration was not as severe as the one experienced in 2018–19 after Hurricane Maria. In 2021, the current account deficit did not increase with respect to 2020 as much due to high Citizenship-by-Investment (CBI) receipts and lower imports. While the current account is expected to adjust in the medium term as the economy recovers, external sustainability depends on the successful implementation of fiscal consolidation supported by windfall CBI revenue for debt reduction, whilst remaining at risk of recurrent natural disasters and CBI revenue volatility. Structural reforms, including maintaining investment in infrastructure resilient to natural disasters, will improve competitiveness and reduce the debt impact of natural disasters.*

Economic Developments: *The Covid-19 pandemic took a heavy toll on the economy. GDP is estimated to have contracted by 11 percent in 2020 and is expected to have a modest recovery of 3.7 percent in 2021 underpinned by a sharp reduction in tourism and related sectors, worsened by the Covid-19 outbreak. The output decline was contained by strong growth in construction due to the large public investment program in housing and infrastructure resilient to natural disasters, financed with record-high CBI revenue of 30 percent of GDP. Sharp declines in tax revenue and increases in spending in health and social transfers led to significant fiscal deficits in 2020 and 2021 and to an increase of public debt to 106 percent of GDP in 2020 with higher official borrowing, despite large CBI revenue. In this context, the current account deficit is estimated to have widened to 30 percent of GDP, underpinned by the loss of tourism exports, and increase in imports related the public investment, and the increase in commodity prices—albeit contained by a decline in private demand for imports.*

Potential Policy Responses: *Near-term policies should support the recovery from the Covid-19 pandemic by prioritizing the allocation of CBI revenue for public investment, but keeping the government saving fund as a self-insurance buffer for natural disasters and external debt service. Authorities should also accelerate progress on structural reforms to improve private sector competitiveness and the business environment.*

Foreign Assets and Liabilities: Position and Trajectory

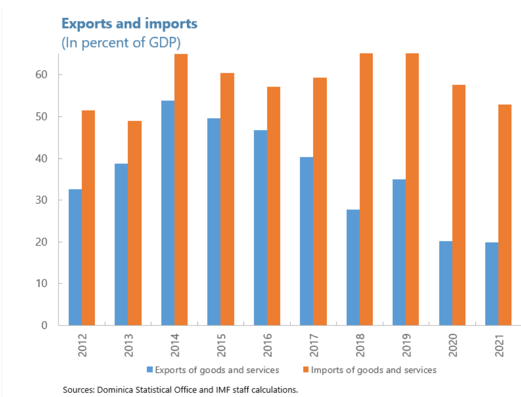
Background. The net international investment position (IIP) deficit increased from minus 50.2 percent of GDP in 2020 to minus 65.8 percent of GDP in 2021. In 2020, on the asset side, other investment (mostly currency and deposits) and reserve assets, were the largest assets, at 83.5 percent and 51.7 percent of the NIIP, respectively. On the liability side, FDI and other investment (mostly currency and deposits) were the largest liabilities, at 134.5 and 114.4 percent of NIIP, respectively. Most of the external debt is in the form of loans, particularly long-term general government loans (89.3 percent of loans), and currency and deposits (16.5 percent of other investment).

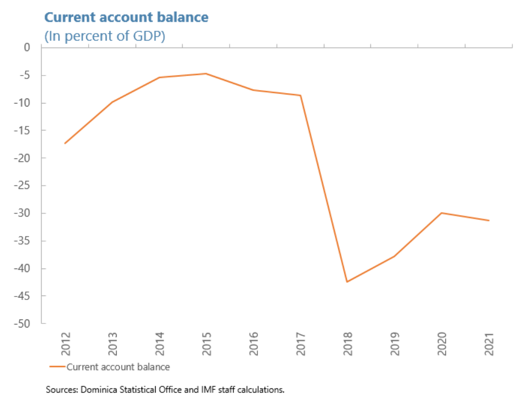
Assessment. The large share of FDI liabilities mitigate potential risks. The deterioration of the NIIP in 2021 does not constitute a significant concern for external debt sustainability, and the expected improvement in the current account in 2022 will likely stabilize the NIIP, which will probably continue improving in the medium term.

2021 (% GDP)	NIIP: -65.9	Gross Assets: 103.9	Debt Assets: 70.0	Gross Liabilities: -169.8	Debt Liabilities: -81.3

Current Account

Background. In 2021, the estimated current account deficit increased from 30 percent of GDP in 2020 to 31.4 percent of GDP in 2021. From 2020 to 2021, Dominica experienced a drop in tourism receipts (0.5 percentage points of GDP), which were partly offset by lower imports (4.7 percentage points of GDP), higher public transfers (2 percentage points of GDP), and high CBI revenue (a total of 24.5 percent of GDP, but 5 percentage points of GDP lower than in 2020).





Assessment. The external position was moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings. The persistence of large current account deficits in Dominica since Covid is mainly explained by the impact of Covid on tourism.

The large domestic fiscal gap contributed to the current account gap, moderated by the large fiscal expansions in the model's global comparator countries.[2] There were no exchange rate movements or significant changes in the structural fundamentals. According to the CA model, the REER gap was of 4.10 percent while the IREER model indicates a REER gap of 0.13 percent. Once recovery takes hold, the external position is expected to improve with the recovery of tourism and economic activity, supported by the ongoing implementation of the government's fiscal consolidation plan.

In percent of GDP	**CA model**	**IREER-Model**
CA-Actual	**-31.4**	
Cyclical contributions (from model) (-)	1.3	
COVID-19 tourism adjustor (+)	12.9	
Additional temporary/statistical factors (+)	0.0	
Natural disasters and conflicts (-)	0.3	
Adjusted CA	**-20.0**	
CA Norm (from model) 1/	**-18.7**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-18.7**	
CA Gap	**-1.3**	
o/w Relative policy gap	2.0	
Elasticity	-0.32	
REER Gap (in percent)	**4.10**	**0.13**

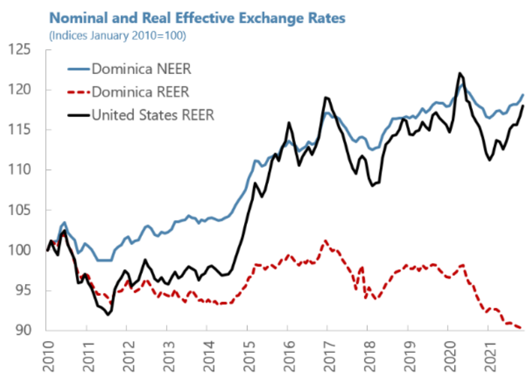
1/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

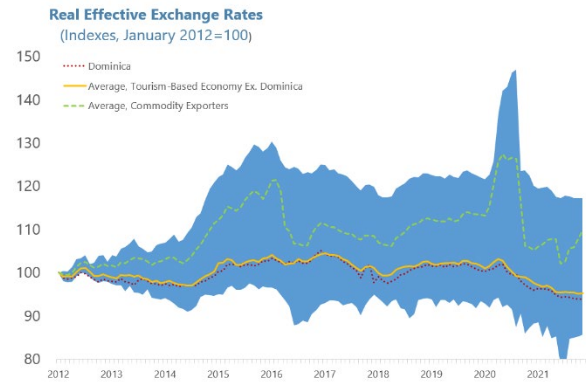
Background. In 2021, the real effective exchange rate (REER) depreciated by 2.7 percent.[3]

Assessment. Much of the decline in the REER was driven by inflation differentials—the NEER appreciated by 1.4 percent. The REER depreciated in 2021 driven by an increase in foreign inflation in fuel and food items which only moderately affected domestic consumer prices under low domestic demand. The REER was

estimated to be overvalued by 4.10 percent. A comparison with other Caribbean tourism-based countries suggests an improvement of about 5.9 percent in Dominica's competitiveness.



Sources: INS and IMF staff calculations.



Sources: INS and IMF staff calculations.

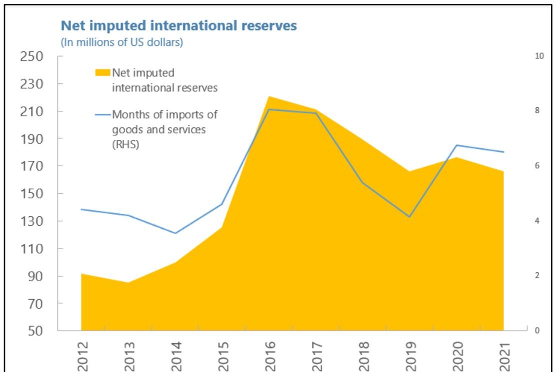
Capital and Financial Accounts: Flows and Policy Measures

Background. Dominica has heavily relied on FDI to finance the external saving-investment imbalance. It has had substantial CBI inflows, averaging 22.1 percent of GDP from 2016 to 2021, including 24.5 percent of GDP in 2020.

Assessment. The Covid-19 pandemic continued the previous large current account deficits caused by Hurricane Maria. The current account deficit was financed mostly by FDI, use of government deposits from CBI revenue, other investment (currency and deposits) and portfolio investment.

FX Intervention and Reserves Level

Background. In 2021, Dominica's reserve position worsened. As a member of the Eastern Caribbean Currency Union, Dominica is under a quasi-currency board arrangement. Foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[4,5]



Sources: ECCB and IMF staff calculations.

Assessment. From 2020 to 2021, estimated imputed reserves decreased by 5.7 percent, from US$176.4 million in 2020 to US$166.3 million in 2021. Imputed reserves covered 6.5 months of imports and 11.7 percent of broad money, which exceeds the typical benchmark of 3 months of imports but is below the 20 percent of broad money benchmark.[6] In 2021, with the IMF membership wide SDR allocation, Dominica received 11.022 million SDRs (about US$15.5 million). The government has not made a final decision on the use of the SDR allocation.

[1] Official balance of payments and IIP data are available only until 2020. This assessment is based on 2021 staff estimates and will be updated once official data are released. Because of the preliminary nature of this assessment, it is subject to uncertainty arising from previous major external shocks (Hurricane Maria), subsequent data updates, and the 2021 Covid-19 tourism adjustors.

[2] The ESA model includes a Covid-19 cyclical adjustor to account for the temporary impact of the pandemic on a country's external position. In the case of Dominica, the entirety of the adjustment was done using the Covid-19 tourism adjustor, yielding a total adjustment of 12.9 percent of GDP.

[3] The Eastern Caribbean dollar, the currency of St. Kitts and Nevis, is pegged to the U.S. dollar.

[4] According to the ECCB by-laws, the imputed reserves of each ECCB member are calculated as the difference between the member's reserve money and net domestic assets. The ECCB has the mandate to maintain a foreign exchange cover of 60 percent of total demand liabilities.

[5] IMF 2015, *Assessing Reserve Adequacy–Specific Proposals*. Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level. This should be supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial architecture and supportive institutions, and the correlation of shocks faced by union members.

[6] Information on short term debt and other liabilities is unavailable and consequently assessments against other reserve adequacy metrics such as the IMF's composite Assessment Reserve Adequacy (ARA) metric cannot be computed.