

Dominica: 2018 Article IV Consultation-Press
Release and Staff Report



DOMINICA

2018 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

August 2018

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2018 Article IV consultation with Dominica, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 18, 2018 consideration of the staff report that concluded the Article IV consultation with Dominica.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 18, 2018 following discussions that ended on April 23, 2018 with the officials of Dominica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 30, 2018.
- An **Informational Annex** prepared by the IMF staff.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes the 2018 Article IV Consultation with Dominica

On June 18, 2018, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Dominica.

On September 18, 2017, category 5 Hurricane Maria hit Dominica while the country was still recovering from tropical storm Erika. Maria was Dominica's worst natural disaster with damage estimated at US\$1.3 billion (226 percent of GDP). Most economic sectors sustained significant damage and losses, with public infrastructure carrying the brunt. The output collapse and costs of reconstruction resulted in large fiscal and current account deficits. Fiscal performance deteriorated sharply due to the fall in tax revenue after the hurricane, but was partially offset by a surge in grants and buoyant Citizenship-by-Investment (CBI) sales revenues. With limited revenue, drawdown of large government deposits, grants, and an insurance payout helped meet financing needs. The hurricane also exacerbated weaknesses in the financial sector, particularly of non-bank institutions, which face undercapitalization, low profitability and high non-performing loans. Credit to the private sector has been flat and inflation remains subdued.

In 2018, output is projected to decline by 14 percent and to take about 5 years to recover to pre-hurricane levels. The fall in output and government revenue, coupled with increased expenditure for rehabilitation and reconstruction, will lead to a substantial worsening of fiscal and external deficits. However, signs of recovery, particularly in construction and the public sector, have already started to emerge. The risks to the outlook include the budget becoming financially constrained and unable to sustain adequate investment given high debt, limited buffers, weak revenue, and urgent needs for reconstruction spending. Other risks include financial instability stemming from undercapitalization of systemic financial institutions, recurrent natural disasters with low resilience, uncertainty regarding CBI and grant income, and external competitiveness challenges.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with country officials' economic developments and policies. Upon return to headquarters, staff prepare a report, which serves as the basis for discussion by the Executive Board.

Executive Board Assessment²

Directors commended the authorities' efforts in responding to the humanitarian crisis and significant devastation wrought by Hurricane Maria. Directors stressed the need to implement cost effective fiscal policies and reforms to support recovery while containing expansion of public debt. They recommended containing current spending extraneous to recovery, and enhancing the efficiency of capital investment while protecting critical social and recovery spending. Given Dominica's vulnerability to natural disasters, directors noted that investment in resilient infrastructure was appropriate, despite its higher cost. They encouraged the authorities to create a savings fund for natural disasters. Once output recovers, directors recommend fiscal consolidation to sustain reconstruction while generating a primary surplus sufficient to set public debt on a downward trajectory.

Directors highlighted the need for stronger financial sector regulation and supervision to address vulnerabilities exacerbated by Hurricane Maria. They stressed the importance of decisive action to reduce non-performing loans and capital shortfalls, as well as adequate preparedness for possible liquidity pressures in line with recommendations of Fund's technical assistance. Directors recommended maintaining a proactive stance to mitigate the risk of withdrawal of correspondent banking relationships including continued strengthening of the AML/CFT framework. They supported the phasing out of the off-shore bank sector and welcomed cessation of new license issuance.

Directors agreed that enhancing growth prospects requires higher private sector participation and improving the business environment. To this end, directors recommended identification and removal of costs and barriers that affect investment and profitability. They advocated that public sector compensation decisions consider their impact on private wages and competitiveness. Directors stressed the need to improve the business environment, including efforts to reduce the costs of dealing with the government. They urged strict enforcement of construction and zoning regulations given vulnerability to natural disasters.

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Dominica: Selected Economic and Financial Indicators, 2012-23

	2014	2015	2016	Est. 2017	Projected		2020	2021	2022	2023
					2018	2019				
Output and prices										
Real GDP 1/	4.2	-3.7	2.6	-4.7	-14.1	9.4	6.8	3.6	2.3	1.5
Nominal GDP 1/	3.9	1.3	8.7	-4.1	-12.9	11.2	8.7	5.5	4.4	3.2
Consumer prices, end of period	0.5	-0.5	-0.2	1.4	1.4	1.8	1.8	2.0	2.0	2.0
Central government balances 2/										
Revenue	27.1	31.5	47.1	46.8	37.0	34.8	27.8	27.2	27.3	27.3
Expenditure	31.7	32.4	43.3	46.1	41.0	38.9	36.2	34.2	26.3	26.5
Primary balance	-3.0	1.0	5.4	2.0	-2.1	-2.3	-6.6	-5.2	2.9	2.6
Overall balance (incl. ND cost buffers), of which:	-4.6	-0.9	3.8	0.7	-5.5	-5.6	-9.9	-8.5	-0.5	-0.7
Central government debt (incl. guaranteed) 3/	78.7	75.3	71.7	82.7	87.7	83.3	86.1	87.8	87.1	85.2
External	61.0	58.1	54.7	66.0	71.1	68.1	72.8	75.8	75.7	74.7
Domestic	17.7	17.1	17.1	16.7	16.6	15.2	13.2	12.1	11.4	10.5
Balance of payments 4/										
Current account balance, of which:	-7.1	-1.9	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9
Exports of goods and services	51.6	50.1	48.3	42.6	33.2	41.4	44.2	43.4	43.7	43.7
Imports of goods and services 5/	63.4	58.8	54.0	67.2	83.1	81.0	75.7	70.3	61.5	58.5
External debt (gross) 6/	83.7	86.5	77.9	88.8	99.6	95.6	99.7	101.9	102.2	101.0
Net imputed international reserves:										
End-year (millions of U.S. dollars)	99.9	125.4	220.9	210.9	210.7	208.9	206.5	202.1	210.6	215.3
Months of imports of goods and services	3.6	4.8	8.4	6.8	6.3	5.7	5.6	5.6	6.4	6.6
Saving-Investment Balance	-7.1	-1.9	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9
Saving	7.6	14.3	20.0	10.8	-6.3	-1.0	-2.2	-6.7	-5.0	-6.0
Investment	14.8	16.2	19.2	23.3	25.4	21.1	18.2	14.6	9.2	5.9

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/ BoP data prior to 2014 are compiled on BPM5 basis and revised to conform with BPM6 methodology but are not fully comparable.

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.



DOMINICA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION

May 30, 2018

Context. Category 5 Hurricane Maria hit Dominica on September 18, 2017 while it was still recovering from tropical storm Erika, which had damaged the island on August 27, 2015. While Erika had caused severe damage, estimated at 96 percent of GDP, Maria was Dominica's worst natural disaster with damage estimated at US\$1.3 billion (226 percent of GDP). Prior to the disaster, the government had been making progress on fiscal consolidation commitments associated with the October 28, 2015 disbursement under the Rapid Credit Facility (SDR 6.15 million), which had sought to generate primary surpluses adequate to reduce the debt to GDP ratio to 60 percent by 2030.

Outlook and risks. Output is projected to decline by 14 percent in 2018 and to take about 5 years to recover to pre-hurricane levels. The fall in output and government revenue, coupled with increased expenditure for rehabilitation and reconstruction, will lead to a substantial worsening of fiscal and external deficits. Given high debt, limited buffers, weak revenue, and urgent needs for reconstruction spending, the budget could become financially constrained and unable to sustain adequate investment. Other risks include financial instability from undercapitalization of systemic financial institutions, recurrent natural disasters with low resilience, uncertainty regarding citizenship-by-investment and grant income, and external competitiveness challenges.

Main Policy Recommendations. Cost-effective fiscal policies should support the recovery while containing expansion of public debt. A fiscal consolidation plan that is mindful of the recovery appears necessary. Stronger financial oversight and crisis management frameworks for non-bank institutions and decisive actions to resolve NPLs are key for financial stability and to support private sector recovery. A more prominent role for the private sector is crucial for recovery, which requires identification and removal of costs and barriers that affect investment and profitability.

Authorities Views. The authorities concurred with staff's assessment and welcomed the policy recommendations. They confirmed their commitment to fiscal sustainability while addressing critical social needs and reconstruction spending, and concurred with the need for cost-effective and well targeted fiscal policies to leave room for investment. They agreed on identified risks to financial stability, and will work to enhance monitoring and strengthen capitalization, including with expert assistance. They emphasized building a state resilient to natural disasters as a priority, and are preparing a national development plan with assistance from development partners with this overarching objective.

Approved By
Robert Rennhack
(WHD) and **Ali**
Mansoor (SPR)

Discussions took place in Roseau during April 10–23, 2018. Staff representatives were Alejandro Guerson (head), Carolina Castellanos, Joshua Charap (all WHD), Alla Myrvoda (MCM), and Sandra Marcelino (FIN); Ann Marie Wickham (ECCU local economist) joined the beginning of the mission. They were assisted by, Wei Guo, Yuebo Li, and Sheng Tibung.

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BACKGROUND

1. **Dominica was recovering from tropical storm Erika that hit the island on August 27, 2015 when Category 5 Hurricane Maria made landfall on September 18, 2017.** While Erika had caused severe damage, estimated at 96 percent of GDP, Maria was Dominica's worst natural disaster—with more than thirty deaths and damage estimated at US\$1.3 billion, 226 percent of GDP. In October 2015, Dominica requested a disbursement under the Rapid Credit Facility (RCF) (75 percent of quota, or SDR 6.5 million) to support immediate financing needs. The government had been making progress with fiscal consolidation committed to in the RCF to achieve fiscal sustainability.¹

RECENT DEVELOPMENTS

2. **Hurricane Maria affected almost every household and economic sector, most of which were insufficiently insured.** Recovery cost is estimated at US\$1.3 billion (text table). 58 percent of losses and damage fell on the private sector, where private housing damage was equivalent to 61 percent of GDP. Insurance coverage is low, except for housing with mortgages—about 30 percent of the housing stock. Losses and damage in the tourism sector, which is largely privately-owned, amounted to about 16 percent of GDP, heavily concentrated in hotels. Labor-intensive sectors sustained substantial loss and damage, particularly agriculture (31 percent of GDP), transport (17 percent of GDP), and commerce (microbusiness, 13 percent of GDP). The remaining damage fell on the public sector, with infrastructure carrying the brunt (43 percent of GDP). Public education and health facilities also incurred significant damage.

Damage, Losses, and Recovery Costs after Hurricane Maria									
Sector	Damage ^{1/}			Losses ^{2/}			Recovery Cost ^{3/}		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
(in millions of U.S. dollars)									
Agriculture	38	18	55	0	124	124	50	23	73
Forestry	28	0	28	0	0	0	15	0	15
Fisheries	0	2	3	0	1	1	0	2	2
Commerce/Microbusiness	0	70	70	0	7	7	0	73	73
Tourism	0	20	20	0	71	71	0	26	26
Education	49	25	74	2	1	3	61	32	93
Health	11	0	11	7	0	7	22	0	22
Transport	162	39	201	49	8	58	261	64	325
Roads	144	39	182	44	8	53	238	64	302
Ports and Airports	19	0	19	5	0	5	23	0	23
Water and Sanitation	24	0	24	13	25	38	56	0	56
Electricity	33	0	33	33	0	33	51	0	51
Telecommunications	0	47	48	0	8	8	0	47	48
Housing	0	354	354	3	25	28	260	260	520
Other 4/	26	-20	6	75	-71	4	38	-26	12
Total	372	556	928	183	199	382	815	501	1316
(in percent of GDP) ^{5/}									
Agriculture	6.5	3.0	9.5	0.0	21.4	21.4	8.6	4.0	12.5
Forestry	4.9	0.0	4.9	0.0	0.0	0.0	2.6	0.0	2.6
Fisheries	0.1	0.4	0.5	0.0	0.1	0.1	0.0	0.3	0.4
Commerce/Microbusiness	0.0	12.1	12.1	0.0	1.2	1.2	0.0	12.6	12.6
Tourism	0.0	3.5	3.5	0.0	12.2	12.2	0.0	4.5	4.5
Education	8.4	4.3	12.7	0.4	0.2	0.6	10.5	5.4	16.0
Health	1.9	0.0	1.9	1.2	0.0	1.2	3.8	0.1	3.8
Transport	27.9	6.6	34.6	8.5	1.4	9.9	44.8	11.0	55.8
Roads	24.7	6.6	31.3	7.6	1.4	9.0	40.9	11.0	51.9
Ports and Airports	3.2	0.0	3.2	0.8	0.0	0.8	3.9	0.0	3.9
Water and Sanitation	4.1	0.0	4.1	2.3	4.3	6.6	9.7	0.0	9.7
Electricity	5.7	0.0	5.7	5.7	0.0	5.7	8.8	0.0	8.8
Telecommunications	0.1	8.1	8.2	0.0	1.4	1.4	0.1	8.2	8.2
Housing	0.0	60.9	60.9	0.6	4.3	4.9	44.7	44.7	89.4
Other	4.5	-3.5	1.1	12.8	-12.2	0.6	6.6	-4.5	2.1
Total	64.0	95.6	159.6	31.4	34.3	65.7	140.1	86.2	226.3

Source: Commonwealth of Dominica Post-Disaster Risk Assessment, November 2017.

1/ Includes mainly replacement cost of structures.

2/ Includes flow losses, typically in terms of output foregone.

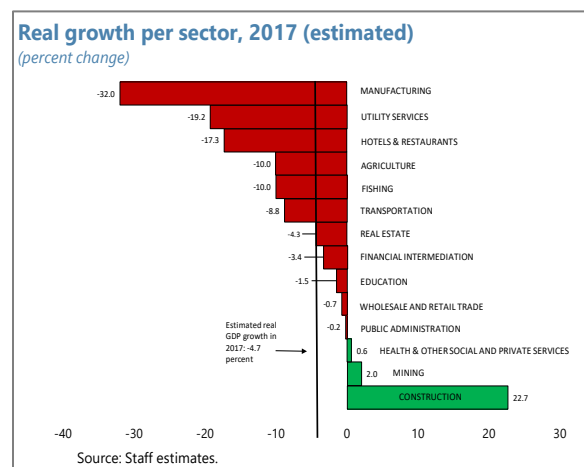
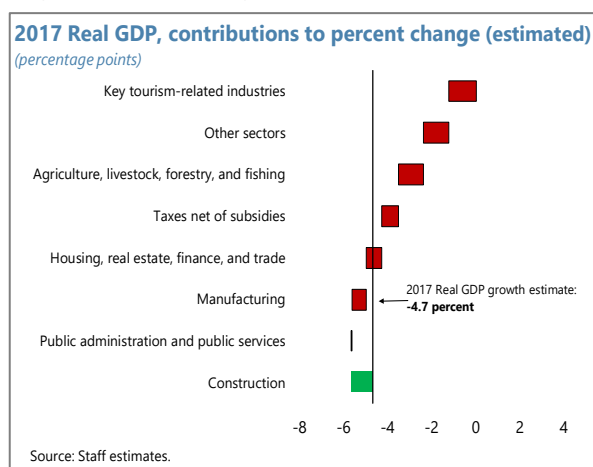
3/ Captures the costs of reconstruction of structures with resilience to natural disasters.

4/ Includes costs for disaster-risk reduction and other cross-cutting costs.

5/ Based on 2016 GDP.

¹ The RCF included a commitment to fiscal consolidation of more than 6 percent of GDP over five years. Prior to Hurricane Maria, the government was broadly on track toward their medium-term targets.

3. The destruction of roads, bridges, and public utility systems in the last quarter of 2017 underpin an estimated 4.7 percent output contraction. Agriculture, livestock and fisheries sectors were devastated with output estimated at about ¼ of pre-hurricane levels due to loss of crops, substantial destruction to trees and livestock, and significant equipment loss. Manufacturing also suffered severe damage to production facilities. Tourism room capacity was halved, also affecting services such as transport, restaurants, and wholesale and retail trade services. Public services and transport were severely affected by damage to electricity, water and sanitation infrastructure. Many secondary roads, critical to access arable land and transport labor and agricultural products to markets and ports, remain inaccessible. Construction, on the other hand, had a positive contribution to growth, reflecting pre-hurricane investments and rehabilitation and reconstruction.



4. The fall in tax revenue after the hurricane led to a sharp deterioration in fiscal performance, partially offset by a surge in grants and buoyant CBI revenues. Excluding CBI revenue, the FY2016/17 deficit was 17.7 percent of GDP. After the hurricane, tax revenue declined by 23 percent while expenditure increased by 18 percent, mainly due to rehabilitation costs, public investment, and wage advances to public employees. With the revenue collapse, drawdown of large government deposits helped meet financing needs.² As of December 2017, the authorities had deposits in the banking system equivalent to 24 percent of GDP, largely from their

Pledges and Donations Received		
	in US\$ million	in percent of GDP ^{2/}
Bilateral	3.1	0.5
St. Vincent and the Grenadines	0.1	0.0
Colombia	0.1	0.0
United Kingdom	0.1	0.0
Singapore	0.1	0.0
India	0.1	0.0
Jamaica	0.1	0.0
Qatar	0.1	0.0
Kuwait	0.2	0.0
China	0.8	0.1
Grenada	0.2	0.0
Other	1.4	0.2
Multilateral	7.7	1.3
United Nations ^{1/}	0.2	0.0
Organization of American States	0.0	0.0
CARICOM	0.0	0.0
World Bank	7.1	1.2
ECCB	0.4	0.1
Total	10.9	1.9

Source:

^{1/} Includes grants from the UN consulate and UNDP.

^{2/} Based on 2016 GDP.

² Government deposits are held at the domestic bank, Drawdown of government deposits is unlikely to result in liquidity pressures in the banking sector given banks' liquid reserves in excess of government deposits, largely held at the central bank.

Citizenship-By-Investment (CBI) program.³ In addition to in kind support, Dominica received an insurance payout of US\$20.6 million from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and grants amounting to US\$10.9 million as of end-March 2018 (text table).

Recent Fiscal Developments ^{1/}										
(In percent of GDP)										
	FY2016/17	FY2017/18	Jul-16	Jul-17	FY2016/17		FY2017/18		Nominal change	
		Est.	to	to	Jul-Sep	Oct-Feb	Jul-Sep	Oct-Feb	Jul-Sep	Oct-Feb
			Feb-17	Feb-18			Pre-Maria	Post-Maria	(in percent)	
Revenue and grants	47.1	46.8	27.1	29.9	12.7	14.4	10.3	19.5	-25.4	24.2
Tax Revenue	23.5	18.9	14.8	13.3	5.4	9.4	5.4	7.9	-7.7	-23.3
Taxes on income	4.4	3.2	2.5	2.4	1.0	1.5	1.1	1.3	3.3	-22.7
Taxes on goods and services	13.4	11.4	8.6	7.9	3.1	5.5	3.1	4.9	-9.0	-19.0
Taxes on property	0.6	0.4	0.4	0.3	0.1	0.2	0.2	0.1	26.7	-66.3
Taxes on intern. transactions	5.1	4.0	3.3	2.7	1.2	2.1	1.1	1.6	-16.8	-29.9
Non-tax revenue	22.7	18.7	12.1	11.0	7.3	4.8	4.9	6.1	-38.0	14.9
of which: CBI ²	21.6	13.9	11.4	10.3	7.0	4.4	4.7	5.6	-38.9	16.3
Grants	0.9	9.1	0.2	5.6	0.1	0.1	0.0	5.6	-100.0	3,936.2
Total Expenditure	43.3	46.1	24.5	29.6	8.7	15.9	9.2	20.4	-3.0	17.9
Current	27.4	29.8	17.4	19.5	5.9	11.4	7.1	12.4	8.8	-0.6
Wages and salaries	10.0	12.9	6.6	9.1	2.5	4.1	2.7	6.4	1.4	41.2
Goods and services	8.8	8.6	5.2	5.0	1.6	3.6	2.2	2.8	29.0	-29.4
Interest	1.6	1.3	1.1	1.0	0.4	0.6	0.4	0.6	-7.0	-18.5
Transfers and subsidies	7.0	7.0	4.5	4.3	1.5	3.0	1.7	2.7	4.2	-20.0
Capital Expenditure	15.9	16.3	7.2	10.1	2.7	4.4	2.1	8.0	-28.8	65.4
Overall balance ³	3.8	0.7	2.6	0.3	4.0	-1.5	1.2	-0.9	-73.5	-44.4
Overall balance excl. CBI	-17.7	-13.2	-8.8	-10.0	-3.0	-5.9	-3.5	-6.5	7.9	1.2

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

¹ Fiscal year July-June.

² Staff estimate for 2017H1 based on actual CBI collections. CBI revenues have not yet been recorded in the budget.

³ Projections exclude the cost of natural disasters of 1.5 percent of GDP.

5. The hurricane exacerbated weaknesses in the financial sector, particularly of non-bank institutions. Prior to the hurricane, low bank profitability and high NPLs (15 percent of total loans) constrained credit to the private sector which, despite ample liquidity, was on a declining trend.⁴ After the hurricane, Banks NPLs increased to 17.4 percent of loans, while provisioning nearly doubled to reach 80 percent of NPLs by end-2017. Credit unions, which account for over half of financial intermediation, increased credit modestly, given less demanding requirements. However, capital in this sector is below regulatory requirements.⁵ Credit unions could pose systemic risk given their size (assets of 51 percent of GDP), concentration in the sector, and links to banks (domestic banks deposits of 5.3 percent of GDP).⁶ While post-hurricane financial soundness indicators are not available, NPLs are likely to have increased and, after further capital losses, several institutions—possibly some systemic—could be undercapitalized. The insurance sector can face insolvency of

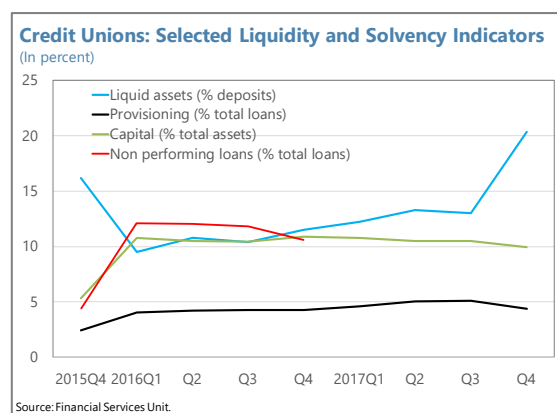
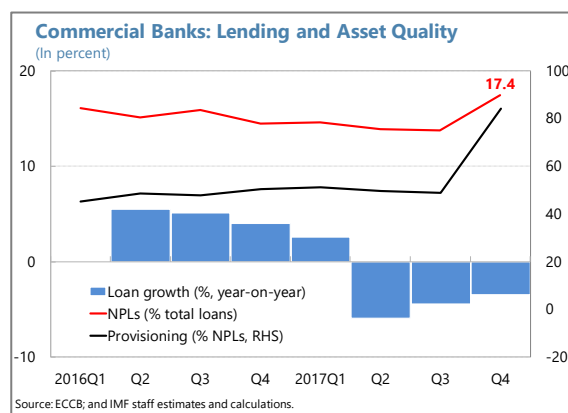
³ The CBI is a program whereby foreigners may obtain citizenship through either a cash contribution of US\$100,000 or investment of US\$200,000 in a pre-selected real estate project.

⁴ Reported NPLs may be underestimated due to forbearance.

⁵ Credit union capital was 7.4 percent of assets as of September 2017, below the 10 percent minimum required. Moreover, the capital ratio of the smallest credit unions, with 30 percent of the sector's assets, was below 4 percent.

⁶ One credit union has assets of 36 percent of GDP.

some operators given outstanding claims of 15 percent of GDP and undercapitalization.⁷ Staff technical assistance to prepare a crisis management plan for credit unions and insurance was provided in March 2018.



OUTLOOK AND RISKS

6. The impact of the hurricane presents Dominica with severe sustainability challenges, compounded by systemic financial risk. The output collapse and the costs of reconstruction will lead to large fiscal and current account deficits, that would be covered with identified financing and government deposits in the next five years. This financing is subject to uncertainty, however, as CBI inflows are difficult to predict, and grants and official and bilateral loan disbursements depend on limited execution capacity. If this financing does not materialize, the fiscal and current account deficits would be lower than projected. Public debt is expected to rise near 90 percent of GDP with the identified financing, increasing fiscal and external sustainability challenges.

Dominica: Macroeconomic Outlook

	2016	Est. 2017	2018	2019	Projected				
					2020	2021	2022	2023	
Output and prices									
Real GDP 1/	2.6	-4.7	-14.1	9.4	6.8	3.6	2.3	1.5	
Overall fiscal balance 2/	3.8	0.7	-4.0	-4.1	-8.4	-7.0	1.0	0.8	
Overall fiscal balance, excl. CBI 2/	-17.7	-13.2	-11.8	-9.9	-11.9	-9.8	-1.7	-2.0	
Public debt 3/	71.7	82.7	87.7	83.3	86.1	87.8	87.1	85.2	
Current account balance	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9	
Credit to the private sector growth 4/	3.1	-3.0	-1.0	0.5	0.5	0.6	0.5	0.5	

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/ Includes estimated commitments under the Petrocaribe arrangement with Venezuela.

4/ annual percent change.

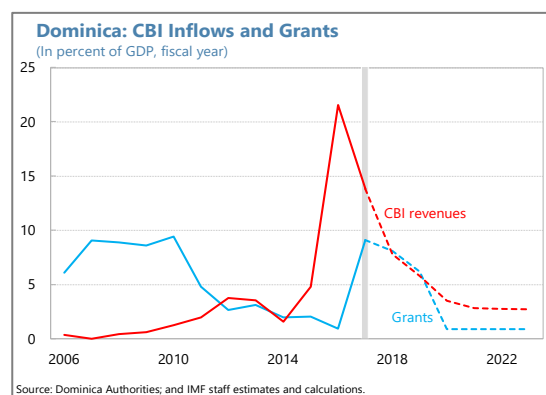
⁷ Insurance payouts since hurricane Maria amount to 20 percent of GDP.

7. Output is projected to fall by over 14 percent in 2018, largely due to the steep decline in agriculture and tourism services. Based on sectoral assessments, the projection assumes that output recovers to pre-hurricane levels in 5 years, although it could take longer. First, restoring electricity services requires significant effort.⁸ Second, weak logistic capacity at the port has delayed importation of construction materials. Third, there is insufficient labor for reconstruction, particularly workers with specialized skills. Fourth, the private sector is under-insured and payouts are slow, with bulking of claims and financial weakness of key providers. Most representatives of the business sector are waiting for insurance payments before reinvesting. Fifth, access to private financing is expected to remain limited due to the fall in household and investor income after the hurricane. On the positive side, the forecast envisages large private investment projects financed under the CBI program, albeit with a hurricane-induced delay. The government will soon resume construction of a geothermal electricity plant that should become operational by end-2020. The recovery of agriculture is likely to require government support for soil rehabilitation, training, and feeder road restoration.

8. Fiscal performance will deteriorate significantly with the deficit expected to peak at 8.4 percent of GDP in 2020 and to improve gradually thereafter. Staff expect average deficits of 5.9 percent of GDP through 2018–21, or 10.9 percent excluding CBI revenues. Revenue will decline due to lower output and extension of post-hurricane temporary import tax exemptions on construction materials. Expenditure will increase due to rehabilitation and reconstruction spending, transfers for social relief, and purchases of goods and services.

9. A Climate Resiliency Executing Agency of Dominica (CREAD) will be established to boost execution of large public investment projects with resilience to natural disasters. CREAD will operate as an independent agency, report to Parliament, be funded by DFID grants, and be managed by non-government technical experts. It will be responsible for meeting the administrative requirements of donors and official creditors, thus speeding disbursements, and will operate on a temporary basis and eventually merge into the Ministry of Public Works. The decision to include financing and investment expenditure in the budget is appropriate to ensure transparency and accountability, and could improve access to additional grant financing.

10. The outlook depends obtaining adequate grants and concessional financing, as well as continued success of the CBI program. The forecast assumes that: (i) CBI revenue follows a conservative path and declines gradually from 13.9 percent of GDP in 2017 to near 2.5 percent of GDP over the medium term; (ii) grants peak at 9.1 percent of GDP in the current fiscal year; and (iii) largely concessional loan disbursements



⁸ Grid repairs have progressed significantly, with major towns having access to the electricity albeit with connection delays given damage to homes and capacity constraints affecting reconnection. Relatively more remote areas remain without service.

from international financial institutions materialize in the near term. If financing flows were to be lower than projected, government spending and thus growth and fiscal and current account deficits would be smaller.

11. The external current account deficit is projected to deteriorate in 2018 to 31.7 percent of GDP, and then improve with recovery.

Exports of goods and services will decline by approximately 32 percent considering the damage to agriculture and tourism infrastructure. Imports are expected to increase by 7.5 percent, mainly due to demand for reconstruction materials and the restocking of durables, partially offset by restrained importation of consumption goods and services. The financing constraints assumed in the forecast lead to narrowing external current account deficits.

12. The near-term current account deficits are financed mainly with official and bilateral loans, grants, and use of government deposits.

The outlook includes net official capital inflows averaging 6 percent of GDP annually in the next five years. The World Bank has approved a financing package of US\$115 million over 3 years, of which US\$75 million are IDA credits and the remainder, IDA grants. The Caribbean Development Bank (CDB) is considering topping up an undisbursed US\$50 million loan with US\$40 million from its Special Development Fund as well as US\$0.2 million in grants. Other sources, including bilateral grants and loans, are expected to total US\$111 million.⁹

13. Private sector recovery is constrained by uncertainty regarding insurance payouts and limited financing.

Progress with payment of claims since the hurricane has been significant, especially by foreign companies, with total payments of about 20 percent of GDP—remaining outstanding claims are 15 percent of GDP. The sole domestic insurer holds a large proportion of outstanding claims and has been making payments, but it now turned illiquid, has a capital shortfall of 2 percent of GDP, and is pressuring for government financial support to comply with remaining payouts. The projected recovery is underpinned by the insurance payouts, particularly on mortgages and relatively large businesses in the tourism, retail and wholesale sectors. Banks and credit unions are not expected to provide significant financing due to the deterioration of asset quality and household incomes after the hurricane—which exacerbated long-standing structural factors that limit access to credit.¹⁰ Although access to credit union loans is generally easier than from banks, the deterioration in their portfolio quality will constrain lending capacity, including due to possible liquidity pressures. With a financially constrained government, public financial institutions also face funding constraints.

14. In the medium term, constraints to continued debt accumulation could limit the fiscal space to maintain the reconstruction.

The government is projected to become financially constrained by FY2022/23 considering the eventual depletion of deposits and the normalization of official financing and donor grants down to historical norms. Public debt increases to near 90

⁹ Staff estimate based on observed capital grants and loans after the storm and disbursement prospects; and US\$47½ million of current grants.

¹⁰ Structural factors affecting access to credit include insufficient bankable projects, protracted court processes that introduce uncertainty in seizing collateral, and limited borrower capacity to meet loan application requirements.

percent of GDP with identified official and bilateral loans. Fiscal space would become insufficient to sustain the post-hurricane increase in spending and, assuming recurrent spending is downwardly rigid, the space for public investment would decline to near 3 percent of GDP, insufficient for capital replacement. Dominica continues to be rated as under high risk of debt distress based on projected increase in public debt and fiscal sustainability challenges augmented with the hurricane.

15. The main risks to the outlook stem from public financing uncertainties, possible financial sector instability, and capacity constraints affecting reconstruction. The speed and extent of the recovery depends critically on the availability of grants, administrative capacity to meet requirements for the disbursement of official loans, and CBI program performance. Fiscal and current account deficits would be smaller, however, should financing be lower than projected. Discontinuation of Petrocaribe financing flows of near 1 percent of GDP per year could add to looming financing constraints. The recovery also depends on reconstruction capacity constraints, including possible bottlenecks on the availability of construction materials and specialized labor, and the success of CREAD. Natural disasters remain a recurrent threat. Key private sector projects add upside and downside risks to the outlook, including from some large construction projects in the tourism sector, the geothermal power plant—with significant upside if it results in lower electricity tariffs, the resumption of construction of a new hospital, and the return of the two medical schools to Dominica and continuation of their pre-hurricane expansion.

16. Risks to financial stability are significant, and could be systemic. NPLs could increase significantly, intensifying liquidity pressures and capital shortfalls, especially in the credit unions, and could lead to sizable contingent liabilities. Credit union links with banks, mainly liquid deposits in reserve, implies financial contagion risk. The risk of loss of correspondent banking relations (CBRs) could affect the ability to make international payments and transfers.

Box 1. Risk Assessment Matrix¹

Source of risk and direction if materialized	Likelihood	Impact	Policy response
Slow pace of recovery (↓) Slow recovery due to supply bottlenecks of and financing constraints.	High	High	Identify and address supply bottlenecks, especially capacity at the ports and with skilled labor needed for reconstruction. Ensure CREAD becomes operational as soon as possible.
Natural disasters (↓) Extreme events could further undermine external and fiscal sustainability.	High	High	Build infrastructure resilient to natural disasters. Strengthen PFM, procurement and reporting to facilitate access to grants from green funds to invest in resilience.
Petrocaribe financing (↓) Support from Venezuela could cease.	High	High	Identify alternative sources of financing, especially grants. Monitor and gradually improve the underlying primary fiscal balance.

Box 1. Risk Assessment Matrix (continued)

<p>Reduced financial services by correspondent banks (↓) Significant curtailment of cross-border financial services in emerging and developing economies.</p>	High	Medium	Continue strengthening the AML/CFT framework in line with the 2012 FATF standard and ensure effective implementation. Effectively communicate efforts undertaken by banks and authorities to address perceived risks.
<p>Policy uncertainty (↑/↓) Two-sided risks to U.S. growth with uncertainties about the positive short-term impact of the tax bill on growth and the extent of potential medium-term adjustment to offset its fiscal costs; uncertainty associated with negotiating post-Brexit arrangements and NAFTA and associated market fragmentation risks; and evolving political processes, including elections in several large economies, weigh on the whole on global growth.</p>	Medium	Medium	Lay the groundwork for fiscal adjustment measures to address fiscal sustainability challenges.
<p>Tighter global financial conditions. (↓) Against the backdrop of continued monetary policy normalization and increasingly stretched valuations across asset classes, an abrupt change in global risk appetite (e.g., due to higher-than-expected inflation in the U.S) could lead to sudden, sharp increases in interest rates and associated tightening of financial conditions. Higher debt service and refinancing risks could stress leveraged firms, households, and vulnerable sovereigns, including through capital account pressures in some cases.</p>	High	Medium	Implement structural reforms to boost competitiveness. Ensure debt issuance to finance the reconstruction is not indexed to global interest rates when possible.
<p>Financial sector instability (↓) Persistently high NPLs and low earnings further weaken the capital base, which could precipitate a systemic event. Liquidity pressures in financial institutions due to severe decline in loan portfolio performance.</p>	Medium	High	Promptly implement remaining elements of regional strategy to strengthen indigenous banks in the ECCU. Strengthen regulation and supervision of credit unions. Adopt crisis management TA recommendations for credit unions and insurance sectors.
<p>Large-scale investment projects (↑) Large construction projects in the tourism sector, the geothermal power plant, a new hospital and medical school expansion could lift growth in the medium term.</p>	Medium	Medium to High	Continue improving the business environment.
<p>Citizenship program demand (↑/↓) If citizenship revenues are high, and the program is managed prudently, they could help finance reconstruction. A sudden stop could create a financing gap.</p>	Medium	Medium to High	Once immediate reconstruction needs are met, create a government fund for debt reduction, resilient infrastructure investment, and reconstruction after natural disasters. Reduce sudden stop risks by maintaining strict governance standards and further strengthening program integrity.

Box 1. Risk Assessment Matrix (concluded)

<p>Weaker than expected global growth Structurally weak growth in key advanced economies: Low productivity growth (U.S., euro area and Japan), high debt, and failure to fully address crisis legacies by undertaking structural reforms amidst persistently low inflation euro area and Japan) undermine medium-term growth. Significant U.S. slowdown and its spillovers: As the current recovery ages and vulnerabilities build up, the risks of a sharper-than-expected slowdown increase. The proximate causes could be a fiscal contraction associated with the eventual planned withdrawal of the tax stimulus or market fears of overheating. A sharp adjustment necessitated by relatively limited fiscal policy space would create global spillovers.</p>	<p>Medium to High</p>	<p>Medium</p>	<p>Adopt structural reforms to increase competitiveness. In particular, (i) enhance institutions for fiscal management that support fiscal sustainability; (ii) support regional efforts to strengthen banks' balance sheets and enhance regulation and supervision of credit unions to improve private access to credit; (iii) review labor market regulations to facilitate worker's mobility across sectors and to fit the needs of sectors with competitive advantage such as tourism and agriculture; (iii) reduce energy cost by maximizing the reduction in electricity tariffs from geothermal generation; (iv) build infrastructure resilient to natural disasters.</p>
<p>¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the active policies path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the active policies scenario ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). 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.</p>			

POLICY DISCUSSIONS

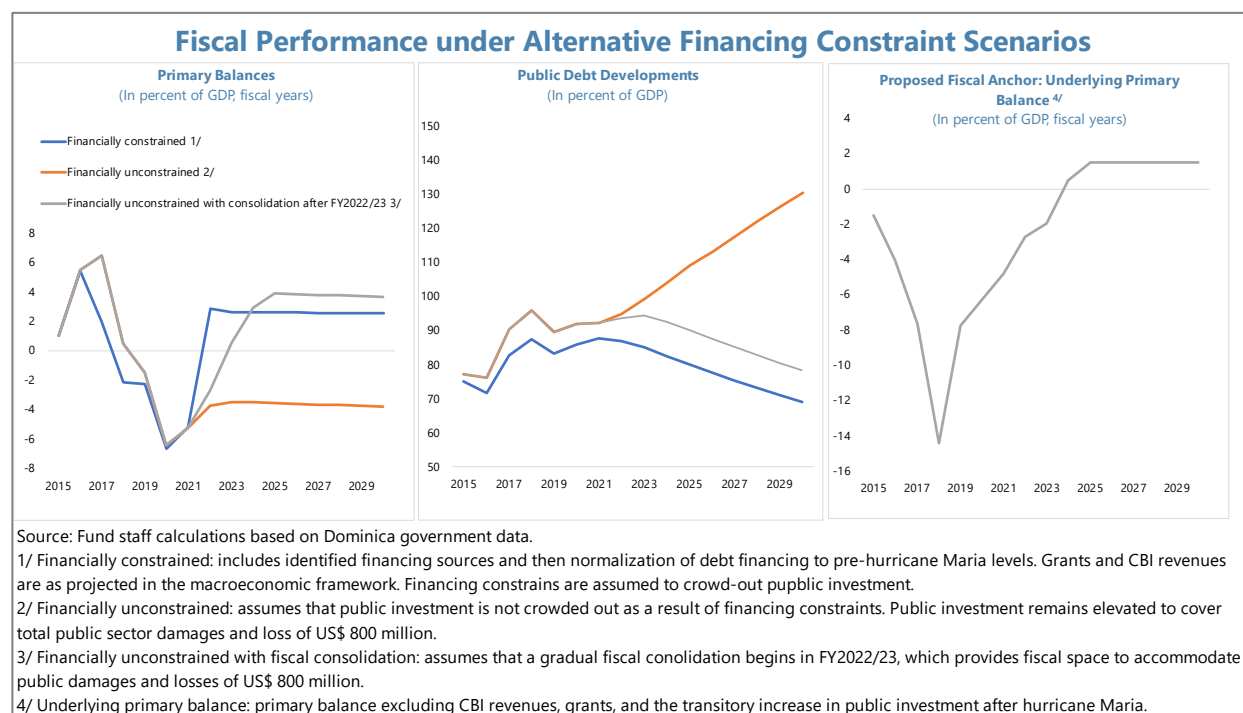
Discussions focused on policies to provide social support and facilitate the recovery, with a view to minimizing the long-term fiscal burden and mitigating constraints affecting private sector recovery, including to safeguard financial stability.

A. Fiscal Policy

With debt rising and financing constraints intensifying, cost-effective fiscal policies are key to support the recovery with social relief programs and reconstruction investment while containing the inevitable expansion of public debt. A fiscal consolidation plan that is mindful of the recovery appears necessary at a later stage, after output has recovered closer to pre-hurricane levels.

17. With debt rising and financing constraints looming, careful sequencing and cost-effective fiscal policies are needed to sustain social relief and reconstruction. Prior to the hurricane, Dominica was addressing fiscal sustainability challenges with progress on the consolidation plan it had committed to in the October 28, 2015 RCF disbursement. In the aftermath of Hurricane Maria, that plan is no longer viable. Reconstruction spending and social relief transfers should be accommodated within a new medium-term plan that is mindful of financing constraints, and poverty and income distribution implications, while accommodating fiscal space to complete reconstruction. The plan should be anchored on the underlying primary balance excluding CBI revenues, hurricane-related grants, and the transitory increase in reconstruction expenditure. This

balance should be monitored regularly to track the gap vis-à-vis the level consistent with fiscal sustainability, with a view to adopting a consolidation plan at a later stage, after recovery takes hold. To that end, fiscal measures identified at the time of the 2015 RCF disbursement remain relevant, and early preparation is needed for timely implementation.¹¹ Illustrative simulations indicate that a gradual consolidation after FY2022/23 of 4 percent of GDP, plus the unwinding of hurricane-related expenditures, would lead to a primary balance surplus of 2.2 percent of GDP by 2025, sufficient to set public debt on a downward trajectory and to provide fiscal space to maintain public investment for reconstruction.¹² Early communication of this plan would support positive expectations about the economic outlook and improve the investment climate.

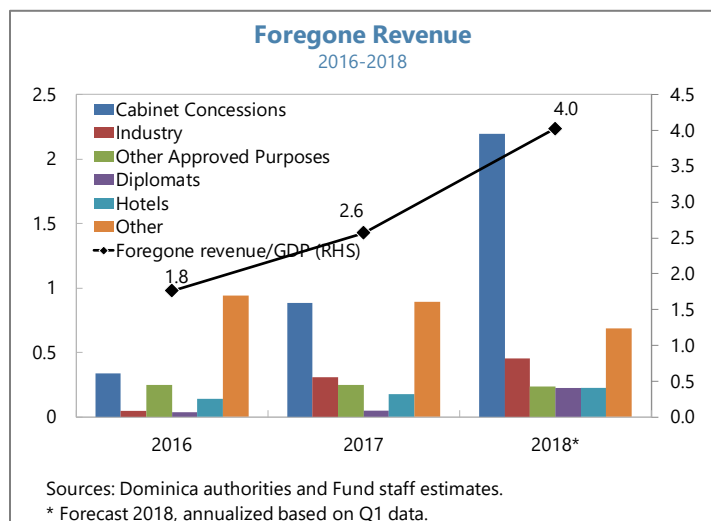


18. Regarding revenue, supporting a gradual recovery of tax revenues, restoring compliance, and ensuring sustainability of non-tax resources are key. The three-month import tariff exemption on construction materials should not be extended; it could be compensated with temporary and well-targeted transfers. Additional tax auditors and postponement of the planned increase in the income tax threshold that was included in the FY2017/18 budget will contain revenue

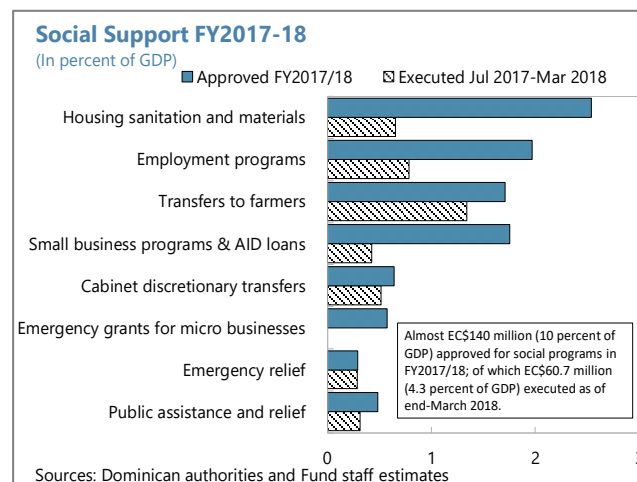
¹¹ The fiscal measures in the RCF disbursement included public wage restraint to reduce the wage bill as a share of GDP, a departure tax, a solid waste charge, property tax reform, review of fuel taxes and import tariffs, income-targeted cost recovery fees on health care services, reducing and limiting discretionary tax incentives, and increasing tax auditing resources for the identification and collection of tax arrears.

¹² These projections include a fiscal cushion of 1.5 percent of GDP per year as an additional annual cost of future natural disasters. This amount is calculated based on the historical damage and losses of past natural disasters. In addition, a Monte-Carlo experiment based on the distribution of shocks to output and government revenues and expenditures after natural disasters confirmed this annual cost. See Selected Issues Paper (SM/16/189) in the 2016 Article IV consultation. ¹³ The average additional cost of resilience is approximately 50 percent above replacement, based on estimates in the Post-Disaster Needs Assessment prepared by the World Bank.

losses. Given the importance of CBI revenue, the government should strengthen program integrity with enhanced due diligence process, while continuing to improve transparency, building on the progress since 2017 with on-budget recording of the full amount of program revenues. Tax exemptions should be reformed to minimize revenue loss, including an annual ceiling on discretionary concessions (text charts). To bolster Social Security Fund sustainability, contribution increases should continue as envisaged.



19. On the expenditure side, it is important to focus on protecting fiscal space for social relief and investment. Pressures for public wage increases, which have heightened after the hurricane, should be resisted. Efficient targeting of social transfer and import tariff concessions, with size and allocation mindful of poverty and income distribution implications, are key for cost-effective relief. To this effect, the FY2018/19 budget could increase transfer program allocations to the most vulnerable sectors, limiting untargeted support and cabinet discretionary transfers (text chart). Social transfers granted after the hurricane, including a new unemployment program, require monitoring to ensure efficient allocation according to need, with a view to unwind them gradually as household incomes recover. Expenditures on goods and services, which increased after the hurricane, should be examined to identify the scope for efficiency gains.

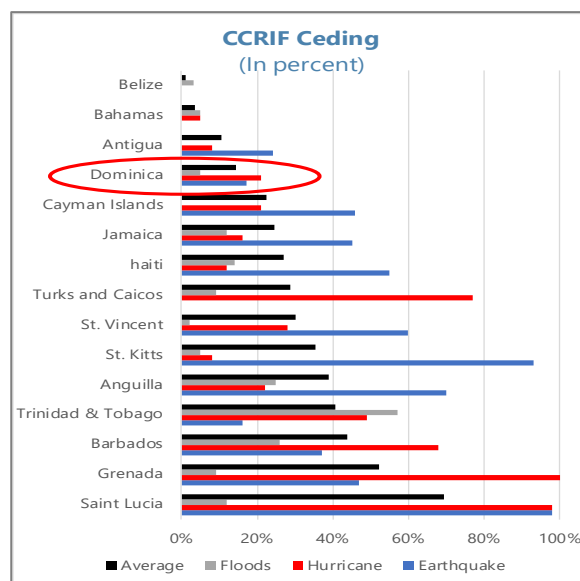


20. Public investment should be prioritized and sequenced according to its contribution to recovery and employment with due consideration of capacity constraints. Precedence should be given to critical investment for recovery of output and private income, thereby facilitating withdrawal of hurricane-related social transfers, especially in labor-intensive sectors of social importance such as agriculture and fisheries. Public investment execution should be consistent with supply constraints, including specialized labor and construction materials, to limit inflation and erosion of external competitiveness. To minimize debt issuance, the government should improve its capacity to access grants, including by reviewing its Public Financial Management (PFM) and procurement systems.

21. The government decision government decision to invest in resilient infrastructure is appropriate, despite its higher upfront cost.¹³ This additional cost is justified given the historically high frequency of natural disasters. Staff analysis, based on a model calibrated to Dominica, indicates that resilient infrastructure can have positive effects on output, private wages, and employment. Assuming that a natural disaster with damage in line with historical averages occurs every five years, the increase in public investment expenditures due to the higher cost of resilient structures would be recovered in the form of higher tax revenues from improved economic performance. The decline in the expected loss from natural disasters increases private investment wages, and output, while reducing out-migration of labor (top text chart). The simulations indicate that output gains from resilient investment more-than-offset its additional cost by a factor of 3, including the reduced output loss with resilient capital and the improved long-term effect on output.

22. Maintaining progress on structural fiscal reforms will support sustainability and can increase access to donor grants. Moving forward with preparations for adoption of a fiscal rule will provide institutional support of the fiscal anchor to limit debt accumulation, including prior to the regional agreements of the ECCB Monetary Council if needed. The rule can be mindful of specific needs, including escape clauses for natural disasters based on verifiable criteria. Adopting a medium-term budget framework would contribute to anchoring expectations of fiscal sustainability, which would improve the business environment by promoting tax system predictability. Progress on PFM and procurement processes should continue with emphasis on addressing weaknesses that could undermine access to donor grants.

23. The government commitment to create a saving fund for natural disasters is commendable, topped up with higher coverage under the Caribbean Catastrophe Risk Insurance Facility (CCRIF).¹⁴ The government should advance legislation to create a saving fund to support immediate financing needs after natural disasters and resilient infrastructure investment, with a view to making it operational as soon as feasible. These savings should be complemented with the purchase of additional coverage under CRRIF, for which Dominica remains significantly below the maximum eligible (text chart). CCRIF would provide additional funding after extreme natural disasters, when parametric insurance triggers of CRRIF are more likely to activate.

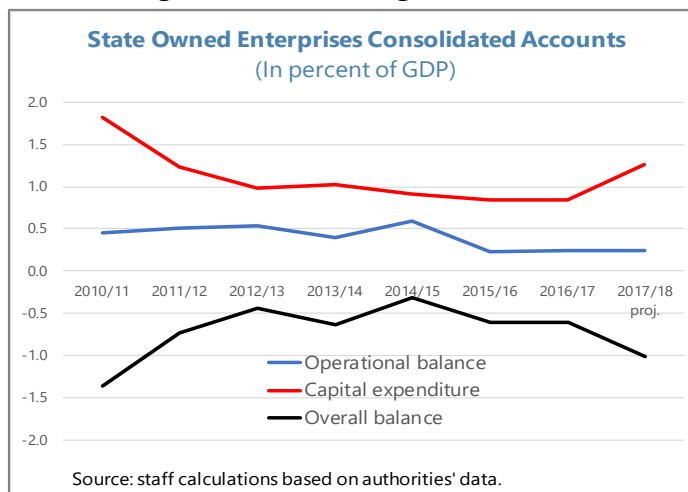


¹³ The average additional cost of resilience is approximately 50 percent above replacement, based on estimates in the Post-Disaster Needs Assessment prepared by the World Bank.

¹⁴ The government committed to the creation of a saving fund for natural disasters in the October 2015 Fund RCF disbursement. Technical assistance was provided in 2016.

24. A framework for oversight and monitoring fiscal risks arising from state-owned enterprises (SOEs) is needed.

While most SOEs are operationally balanced, they depend on central government grants to finance investments of significant magnitude (text table). This has allowed SOEs to maintain debt at around 12 percent of GDP in recent years. SOEs compliance with the mandate to submit audited annual financial statements and preparation of an annual risk statement will improve fiscal management. The hurricane



imposed additional financial sustainability challenges on SOEs, with the need to access additional financing to repair damage to structures, and also with the decision to build with resilience. While this investment will increase interest expenditure, it will result in long-term cost savings given recurrence of natural disasters, while supporting overall economy performance (Annex III).

Authorities' Views

25. The authorities were in broad agreement with the policy recommendations, and welcomed staff support in an advisory role. They indicated that they will prepare a fiscal plan with technical support from official development partners. They appreciated frequent and regular staff contributions on fiscal policy and with technical assistance.¹⁵ They emphasized their commitment to fiscal sustainability, including with recurrent spending restraint, non-extension of hurricane-related import tariffs exemptions, increase in the income tax threshold, containing discretionary tax concessions, and allocation of CBI resources to public investment. They will resume progress to establish a fund for natural disasters, in line with staff technical assistance recommendations. They agreed with staff's conservative CBI program revenue projections, and explained that they will continue improving its governance. While the authorities explained that they will consider fiscal rules, they noted the need to retain fiscal policy discretion in the near term given extreme uncertainty after hurricane Maria.

B. Financial Sector

Hurricane Maria increased the risk of financial instability, given high NPLs and undercapitalization of most financial institutions. Stronger financial oversight and crisis management frameworks for non-

¹⁵ For example, staff have contributed with the macroeconomic section of the Post-Disaster Needs Assessment Report led by the World Bank; supported technically the ministry of finance with cash flow analysis; provided feedback on macroeconomic implications on the pace of public investment for reconstruction, and provided key inputs for the formulation of the macroeconomic and fiscal framework for the FY2018/19 budget under preparation. The authorities rely on staff for fiscal and external sustainability analysis, and regularly consult staff on fiscal measures.

bank institutions and decisive actions to resolve NPLs and a strategy to strengthen nonbank institutions are key for financial stability and to support private sector recovery.

26. Ongoing efforts to reduce bank NPLs have gained importance after the hurricane and should be intensified. Reducing NPLs could also increase space for private sector financing needed to support reconstruction and rebuild productive capital. Staff highlighted the importance of redoubling ongoing efforts to reduce NPLs.

27. Banks' loan service relief granted for 4-6 months after the hurricane should be assessed, and a plan to unwind capital forbearance is needed. Insurance payouts and early signs of output recovery imply that the expiration of debt service relief is unlikely to lead to significant portfolio underperformance. A plan should be established to assess the impact of forbearance on banks, and to normalize compliance with regulatory requirements. Clear guidelines to acquire required capital should be adopted, including close institutional monitoring and specific timeframes.

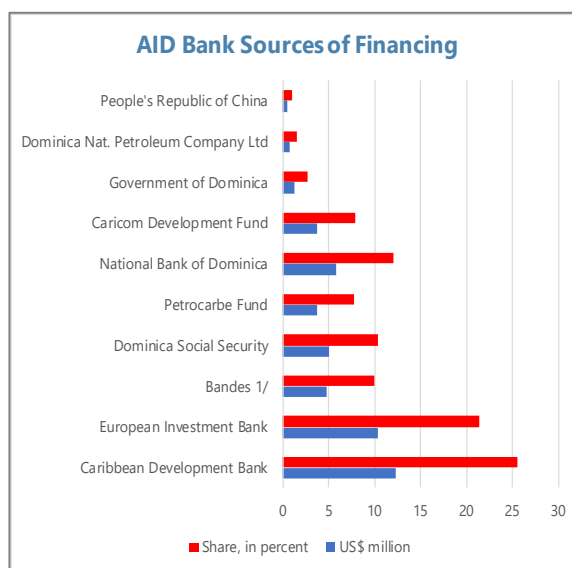
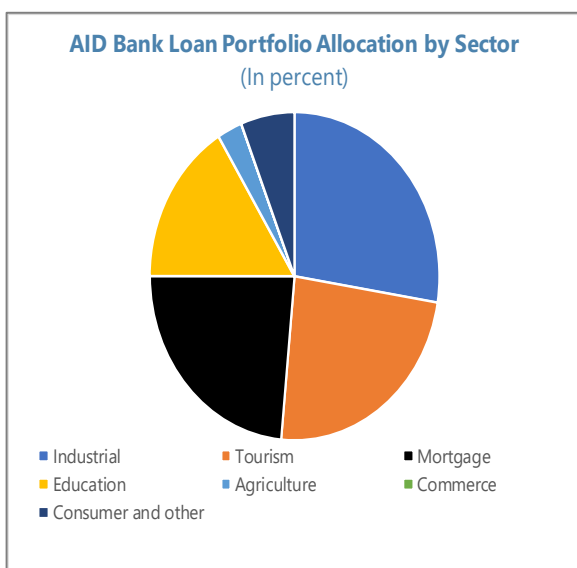
28. Enhanced foreclosure procedures aligned with incentives for timely loan repayment are needed to support NPL reduction. New regulations effective after July 2018 will increase reported NPLs and provisioning, thus requiring banks to raise capital.¹⁶ The extraordinary powers granted to the Eastern Caribbean Asset Management Corporation should be used to resolve NPLs if it becomes fully operational.¹⁷ The government should also use its representation powers on the Monetary Council to phase out the Minimum Saving Rate to strengthen bank profitability and reduce interest rates, which can support capitalization with retained earnings.

29. While publicly-financed lending programs to support private recovery could be considered, they should be efficiently targeted and limited in scope. The government provided financing to increase the amount and scope of credit lines to support recovery through the Agricultural and Industrial Development (AID) Bank, the public development agency.¹⁸ The amount of these credit lines is limited at 0.3 percent of GDP. They are funded with CDB loans and CBI resources, and target the agriculture, tourism, manufacturing, and housing sectors. Given NPLs of 29 percent and the need to preserve fiscal space, these plans should remain limited in scope, and well targeted to ensure good repayment prospects. Lending programs should focus on addressing supply constraints and rebuilding the capital stock, thereby facilitating output recovery, as opposed to consumer lending programs that would mostly increase aggregate demand and consumer imports.

¹⁶ Valuation rules were issued in December 2017 and will be effective in July 2018, provisioning guidance will be issued in October 2018, and IFRS 9 will become binding in 2019.

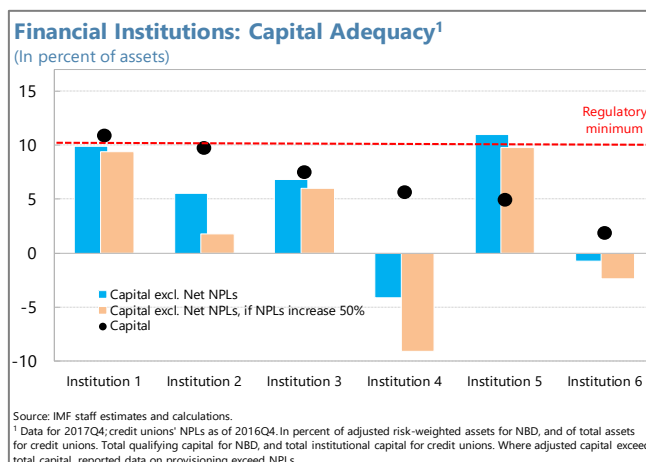
¹⁷ These legal powers were provided for in the 2017 Eastern Caribbean Asset Management Corporation Act.

¹⁸ The government is considering reform of an NBD credit program to broaden its scope and increase the amount available to support private reconstruction. The AID launched a new mortgage program for reconstruction financing with subsidized terms.



30. A crisis management plan and the identification of capital shortfalls in the credit union sector is urgently needed.

The damages from the hurricane will most likely weaken the performance of credit unions, which were already weighed down by high NPLs and weak capital before the hurricane struck. Illustrative simulations indicate that a 50 percent increase in NPLs would result in capital shortfalls in most credit unions, and could lead to possible liquidity pressures (text chart). A crisis



management plan should be prepared, guided by recommendations from March 2018 staff technical assistance. Stronger regulation and stricter supervision of credit unions is needed, including automatic, nondiscretionary, and effective responses to institutions in distress. This is important to safeguard financial stability, protect membership savings, and ensure sustainability of the financial inclusion benefits of this sector. The resources and capacity of the regulator, the Financial Services Unit (FSU), need to be strengthened urgently, including legal powers to impose sanctions for non-compliance. These reforms can be passed before a regional agreement for regulation harmonization is reached.

31. Stronger regulation and supervision in the insurance sector is also key. 33 percent of claims, mostly property, are still outstanding, much relating to the largest insurer, the sole domestic insurance company. The FSU should use its powers to enforce regulations of the insurance sector, redressing the domestic insurer's capital shortfall and payment of outstanding claims within the April 2019 timeline set by the FSU. Lack of recovery within the agreed timeline should result in resolution. Possible financing of capital requirements with social security funds or loans from the

national development agency, the AID bank, would compound fiscal sustainability challenges and should be avoided. Given the risk of hurricanes, the FSU should establish a contingency reserve for the insurance sector. The government should use its representation powers to advance harmonized regional regulation for the insurance sector, which would reduce insurance costs with the increase in scale, risk diversification, and competition. The insurance sector should play a key role in risk sharing for natural disasters.

32. The government proactive stance will mitigate the risk of withdrawal of CBRs. While CBR withdrawals have not taken place, banks and money transfer companies report increased costs and administrative burdens to maintain CBRs. AML/CFT legislation should continue to be strengthened in line with the FATF 2012 standard, while taking steps to ensure effective implementation. Improving information sharing agreements between respondent and correspondent banks, and exploring options for bundling financial services (i.e. credit card clearing, remittances), would be beneficial. The phase out of the off-shore banking sector should continue, following cessation of new license issuance since 2017. Strengthening the regulatory framework would support their phasing out and address perceived reputational and CBRs risk.¹⁹

Authorities' Views

33. The authorities explained that they remain committed to strengthening the financial sector and will continue to explore options to increase capital buffers and reduce NPLs. They will intensify efforts to obtain additional capital for the indigenous bank with capital calls while continue engaging with regional banks for new capital. With regards to the credit union sector, the authorities agreed on the need for enhanced monitoring and will seek technical support to conduct on-site supervisions to assess capitalization. While they agreed with staff concerns about the impact of the hurricane on credit unions' loan portfolios, they expect that stronger capital in the largest credit union would ultimately allow mergers with undercapitalized institutions, a trend observed in recent years. They concurred on the need for stronger regulation of this sector, and are supportive of regional harmonization. The authorities will continue with unwinding of the offshore banking sector which, they noted, presents Dominica with reputational risks without commensurate benefits. The authorities will continue monitoring CBRs, and expressed commitment to reach full compliance with AML/CFT international standards.

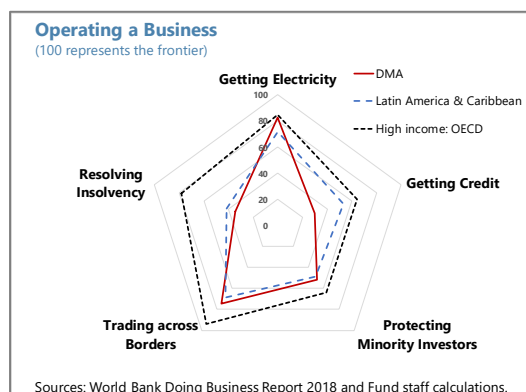
C. Growth and Competitiveness

A more prominent role for the private sector is crucial for recovery, which requires identification and removal of costs and barriers that affect investment and profitability. Increasing labor productivity, lowering costs, especially in energy, and addressing large infrastructure gaps will be key.

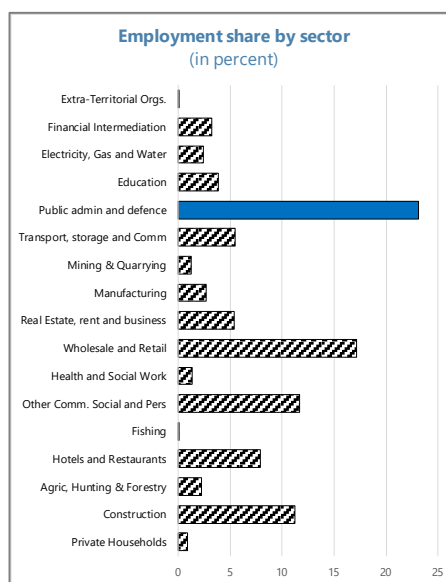
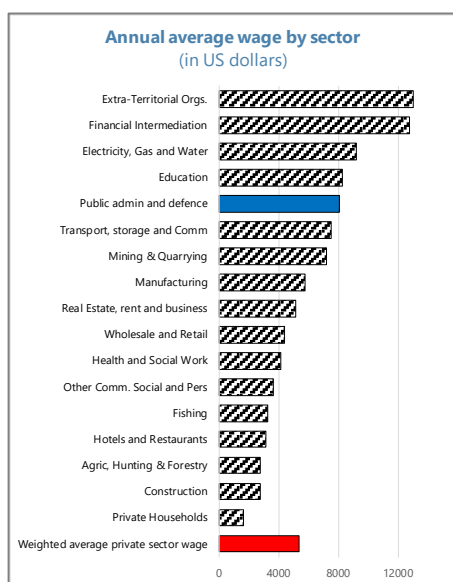
¹⁹ The government should expedite approval of revisions to the Offshore Banking Act recommended by the Caribbean Technical Assistance Center, which includes higher capital requirements, reform of the new license application process, and enactment of regulations.

34. Addressing structural constraints to growth will improve growth prospects after the reconstruction phase. Policies towards reconstruction and near-term recovery should progress in tandem with long-standing structural reforms to enhance competitiveness. Key policies include:

- *Financing private investment.* Address structural factors that limit bank credit to boost private sector recovery. Bank credit is constrained by insufficient information about borrower quality, and costly and protracted legal processes for loan contract enforcement and seizing collateral. A review of legislation affecting loan contract enforcement could also counterbalance the increase in bank risk aversion in recent years. The regional plan to establish a credit bureau should be advanced.



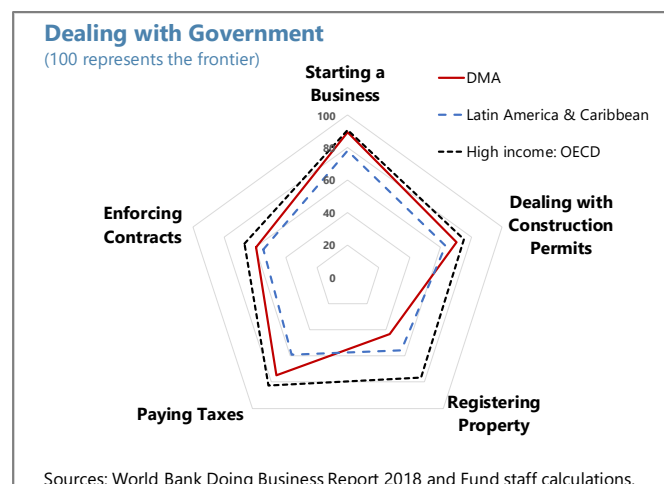
- *Employment and the labor market.* Remove rigidities in working hours and review severance payments for redundancy. Private sector employers point at educational gaps that undermine labor force adaptability. Improving adaptability would facilitate mobility across sectors, especially given the seasonal nature of demand in key sectors, mainly tourism and agriculture. Accordingly, addressing education gaps and increasing educational attainment will improve labor productivity and mobility across sectors, especially given the seasonal nature of labor demand in key sectors such as tourism and agriculture. The authorities should also enhance education targeting, including shorter training programs to improve alignment between labor force skills and the needs of the most promising sectors, in consultation with employers. Public sector compensation decisions should consider their impact on private wages and competitiveness.²⁰



²⁰ Within CARICOM there is full labor mobility, which can address shortages of specialized labor, especially during the reconstruction.

35. Public services and infrastructure.

Reduce the cost of dealing with government, particularly in terms of resolving insolvency and registering property, paying taxes, and obtaining construction permits. Ongoing efforts to review construction and zoning regulations should be enforced strictly given vulnerability to natural disasters. While progress with development of geothermal electricity generation is welcome, competitiveness benefits will depend on lowering electricity costs, now among the highest in the world. Geothermal power could reduce dependence on imported fossil fuels, thus improving external sustainability.



Authorities' Views

36. The authorities concurred on the need to support private entrepreneurship, and highlighted ongoing efforts to improve the business environment. They highlighted the introduction of an online payment system to pay taxes, including tutorials to boost utilization. They concurred on the importance of reducing electricity prices to enhance competitiveness, and explained that they will explore options in light of the low cost of geothermal electricity generation. On labor market rigidities, they explained the need to gather support from private sector and social organizations. On education and training to improve employment opportunities, they agreed on the need to better align existing incentives, including through financing, with the demands of the productive sectors and national development goals. They also reiterated their commitment to build a resilient state to natural disasters, which will be fully specified in the upcoming National Resilient Development Strategy 2018-2030. They welcomed staff analysis to assess the output and tax revenue returns of costly resilient investment.

STATISTICS

37. Dominica continues to strengthen data provision. Dominica has shortcomings due to capacity constraints in the statistical agency, including weaknesses in coverage, accuracy, frequency, and timeliness of data. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation.

STAFF APPRAISAL

38. The economy is recovering from the destruction wrought by hurricane Maria. After an estimated output decline of 4.7 percent in 2017 and a humanitarian crisis, economic activity is picking up from a low base, led by construction. Nevertheless, significant capacity and financing constraints slow recovery and returning to pre-Maria output levels could take 5 or more years.

Identified government financing, mainly official loans, donor grants, and use of deposits from the CBI program, will support domestic demand while output rebounds. The collapse of tax revenues and the increase in expenditures for reconstruction will raise fiscal deficits to 5.9 percent of GDP on average during 2018–22, with public debt increasing to near 90 percent. Private sector recovery, however, will be constrained by insufficient financing, and will need to rely on inadequate insurance payouts and savings. Scope for financial sector lending to the private sector is limited given undercapitalization and high NPLs, both of which are expected to deteriorate after the hurricane. While government financing will support imports, export collapse will lead to significant external current account deficits, projected to average 20 percent of GDP during 2018–23. These deficits will gradually narrow as output and exports gradually recover. This outlook is subject to significant uncertainty. If financing was lower than projected, fiscal and external deficits would be lower, and output recovery would take more time.

39. Looming fiscal pressures require cost-efficient policies to protect fiscal space for social support and reconstruction investment. Identified financing is insufficient to complete reconstruction, critical for full recovery. The government should address inefficiencies in policies to support recovery, which include untargeted tax concessions and discretionary transfers, and allocate resources according to needs. Public investment should be prioritized based on contribution to employment and output, thereby restoring household incomes. Resilient investments to natural disasters is justified despite its relatively high cost, in light of disaster frequency and intensity. CREAD, the new investment execution agency, will help address administrative and execution capacity constraints affecting public investment, while ensuring resilience to natural disasters and with the potential to attract additional grant financing. Recurrent spending not related to supporting the recovery should be contained. With identified financing, fiscal consolidation will be required at a later stage to create space for reconstruction, after output recovers. Indicative simulations point at a fiscal consolidation of 4 percent of GDP to sustain reconstruction investment, with a primary surplus of over two percent of GDP, as needed to set public debt on a downward trajectory.

40. Maintaining momentum with structural fiscal reforms will support the recovery and provide resilience to natural disasters within fiscal sustainability bounds. These include continued strengthening of CBI program integrity to reduce revenue uncertainty; a saving fund for natural disasters; enhancement of public financial management and procurement systems to meet donor and green funds' requirements and increase access to grants; and fiscal rules in line with regional commitments.

41. Stronger financial oversight, crisis management frameworks, and decisive action to resolve NPLs, are key for financial stability and to support the recovery. Ongoing efforts to reduce bank NPLs have gained importance after the hurricane and should be intensified. The impact of loan service forbearance should be assessed and a plan developed to normalize compliance with regulatory requirements. Appropriate loan classification and provisioning should be strictly enforced, and foreclosure procedures aligned with incentives for timely loan repayment. Progress on NPL reduction could increase space for private sector financing needed to support reconstruction and rebuild productive capital. Recommendations in the ECCB Asset Quality Reviews should be implemented; and the extraordinary powers granted to the Eastern Caribbean Asset Management

Corporation should be used to resolve NPLs once it becomes fully operational. The government should also use its representation powers at the Monetary Council to phase out the Minimum Saving Rate to strengthen bank profitability and reduce interest rates, ultimately supporting capitalization and NPL reduction.

42. A crisis management plan and the identification of capital shortfalls in the credit union and insurance sector is needed. Credit union portfolio performance will inevitably deteriorate with the hurricane and, given pre-hurricane NPLs and undercapitalization, the risk of financial instability in this sector increased. A crisis management plan should be prepared, guided by staff recommendations from March 2018 technical assistance. Stronger regulation with appropriate regulation enforcing powers and stricter supervision of credit unions is needed to protect membership savings, support financial inclusion, and safeguard financial stability. Financial and human resources of the FSU need to be strengthened.

43. Stronger regulation and supervision in the insurance sector is key. The FSU should use its powers to assess the solvency position of insurance companies with on-site supervision, and implement a plan to enforce capital and liquidity requirements if necessary. Lack of recovery within the agreed timeline should result in resolution, and possible financing of capital requirements with government funds should be avoided. Given the risk of natural disasters, strong regulation and enforcement would enhance competition in the insurance market by facilitating participation of internationally-diversified institutions and risk transfer, while consider establishing a contingency reserve for the sector. The government should use its representation powers to advance harmonized regional regulation for the insurance sector, thereby reducing costs with the increase in scale, risk diversification, and competition.

44. The government should maintain its proactive stance to mitigate the risk of withdrawal of CBRs. The authorities should continue strengthening the AML/CFT framework and ensure effective implementation on time for the 2018 CFATF mutual evaluation. The phase out of the off-shore banking sector should continue, following cessation of new license issuance in 2017. Approval of revisions to the Offshore Banking Act with higher capital requirements, license application process reform, and enactment of regulations should be expedited.

45. A more prominent role for the private sector is crucial, which requires identification and removal of costs and barriers that affect investment and profitability.

- While prospects for early recovery of lending are difficult, to mobilize credit, information about borrower quality needs improvement, and legal processes for loan contract enforcement and seizing collateral should be revised for faster resolution and in protection of property rights. The regional plan to establish a credit bureau should be advanced.
- To increase employment, legal constraints on working hours should be removed and severance payments for redundancy should be reviewed. Addressing educational gaps, in consultation with private employers, will help address labor force adaptability and will facilitate mobility across sectors. Public sector compensation decisions should consider their impact on private wages

and competitiveness, mindful of the need to retain and attract qualified professionals to enhance capacity.

- To improve the business environment, the government should maintain efforts to reduce the cost of dealing with government. This includes resolving insolvency and registering property, paying taxes, and obtaining construction permits. Ongoing efforts to review construction and zoning regulations should be enforced strictly given vulnerability to natural disasters. While progress with development of geothermal electricity generation is welcome, competitiveness benefits will depend on lowering electricity prices. Geothermal power will reduce dependence on imported fossil fuels, improving external sustainability.

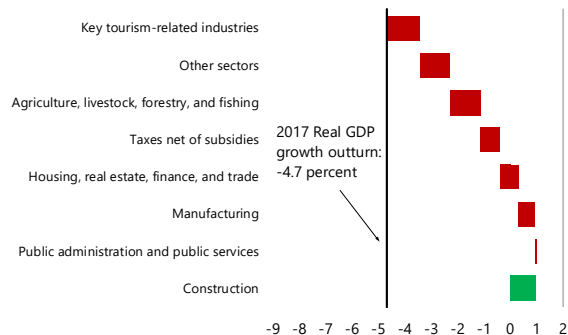
46. Data provision has shortcomings due to capacity constraints in the statistical agency, including weaknesses in coverage, accuracy, frequency, and timeliness of data. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation. Surveillance would benefit from more timely and improved data pertaining to the national and fiscal accounts, labor market, the balance of payments, and non-bank financial institutions.

47. It is recommended that the next Article IV Consultation with Dominica be held on the standard 12-month cycle.

Figure 1. Dominica: Economic Performance

Hurricane Maria caused sharp decline in output...

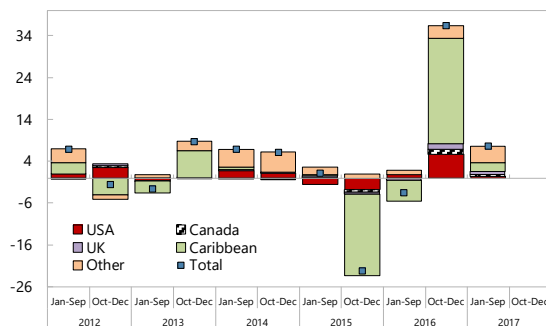
Contributions to Percent Change in 2017 Real GDP
(Percent)



Sources: ECCB and Fund staff calculations.

...although tourism has been doing well prior to the hurricane...

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

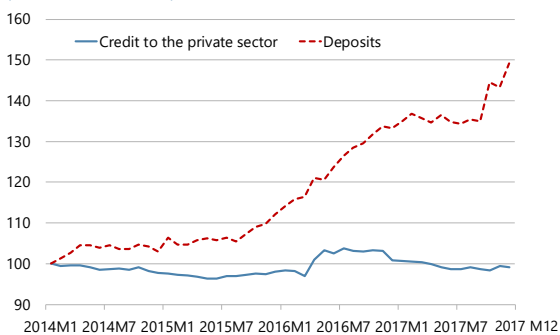


Sources: Caribbean Tourism Organization and Fund staff calculations.

Banking sector credit to the private sector has been flat, which is not supportive of growth...

Credit to the Private Sector

(Indexes, Jan 2014 = 100)

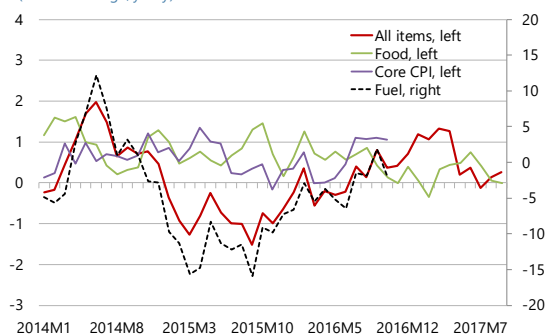


Sources: ECCB and Fund staff calculations.

...while inflation remains subdued.

CPI Inflation, by Major Component

(Percent change, y-o-y)



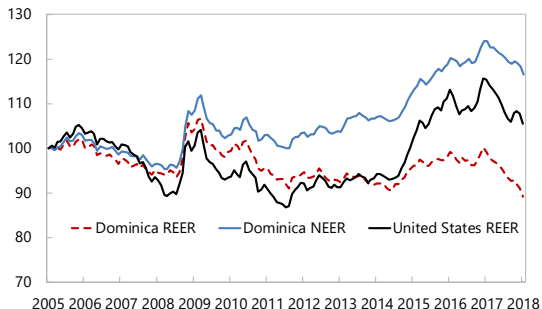
Sources: Central Statistics Office, Dominica and Fund staff calculations.

Figure 2. Dominica: External Sector

While a weakening U.S. dollar is boosting competitiveness...

Nominal and Real Effective Exchange Rates

(Indexes, January 2005 = 100)

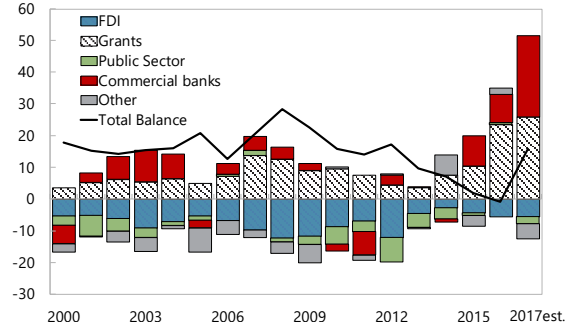


Source: Fund staff calculations.

...the current account deficit is growing due to the hurricane-related fall in exports and increase in reconstruction-related imports. .

Current Account Deficit and Financing

(Percent of GDP)

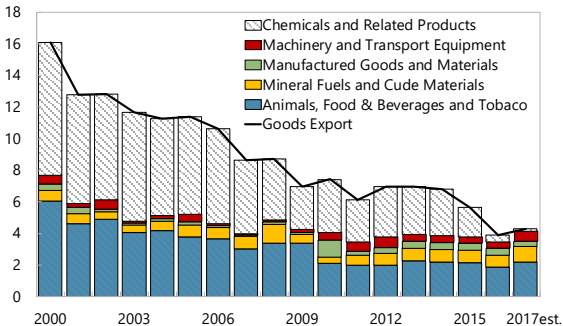


Sources: Dominican authorities and Fund staff calculations.

Good exports are on a downward trend...

Goods Export by Major Components

(Percent of GDP)

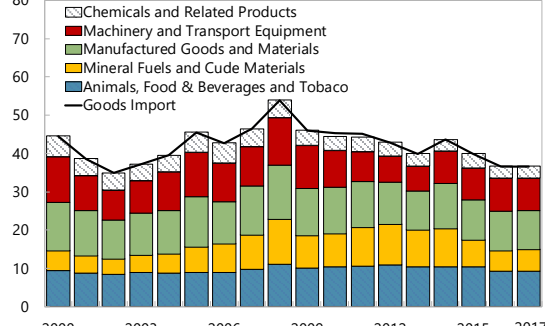


Sources: Dominican authorities and Fund staff calculations.

...while goods imports were also trending downward.

Goods Import by Major Components

(Percent of GDP)



Sources: Dominican authorities and Fund staff calculations.

Trade cargo volumes preempt sharp deteriorations in the

Trade balance after the hurricane...

Cargo Landed

(1,000 Metric Tonnes)

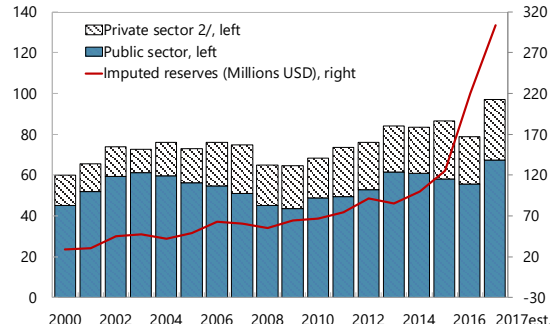


Sources: Dominican authorities and Fund staff calculations.

Putting pressure on debt and external sustainability

External Debt

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

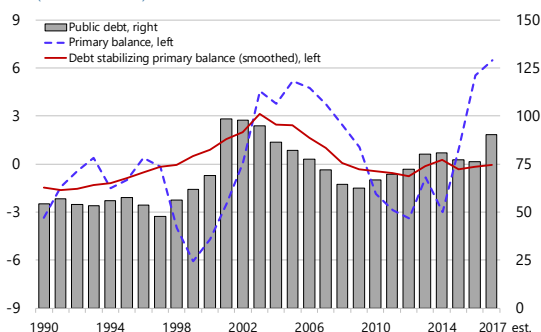


Sources: Dominican authorities and Fund staff calculations.

Figure 3. Dominica: Fiscal Sector

The primary fiscal balance will deteriorate sharply....

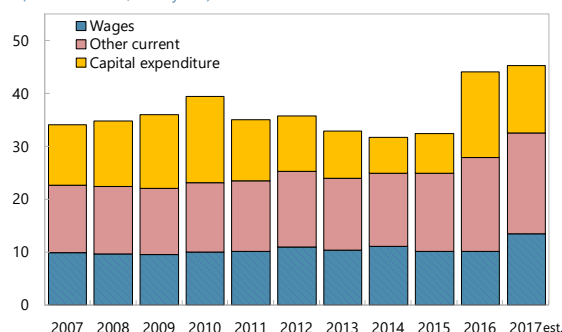
Public Debt and Fiscal Primary Balance
(Percent of GDP)



Source: Fund staff calculations.

...with capital spending still high after the 2015 tropical storm.

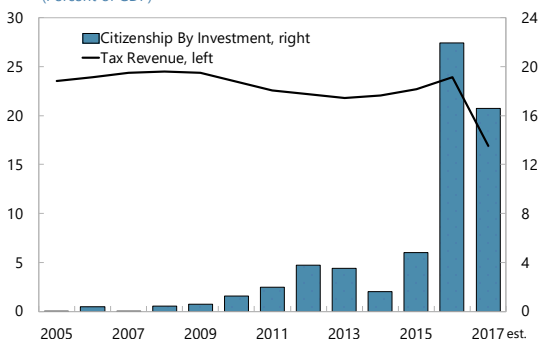
Government Expenditures
(Percent of GDP, fiscal years)



Sources: Dominican authorities and Fund staff calculations.

Although CBI revenue has been high, it fell in 2017....

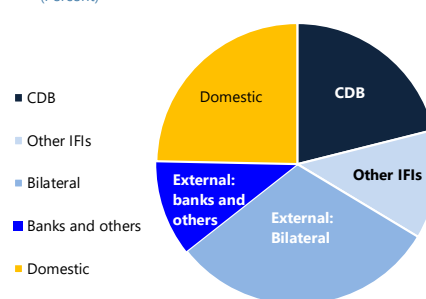
Revenues
(Percent of GDP)



Sources: Dominican authorities and Fund staff calculations.

Reconstruction will depend on grants and concessional financing....

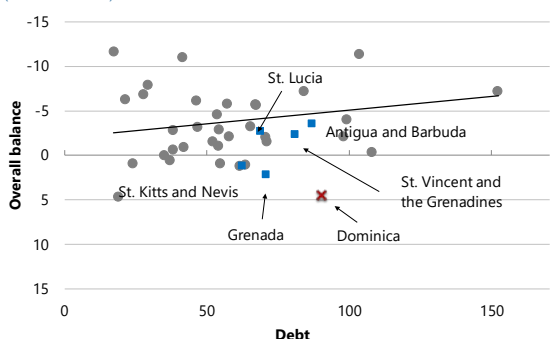
Public Sector Debt
(Percent)



Sources: Country Authorities and IMF staff calculations.

...raising the debt burden...

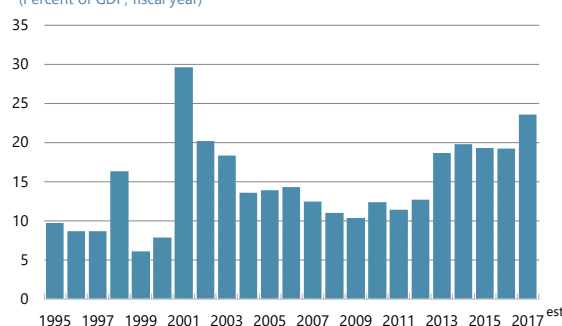
Emerging Economies: General Government Balance and Debt, 2017
(Percent of GDP)



Sources: Fund staff calculations.

...including in the broader public sector.

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



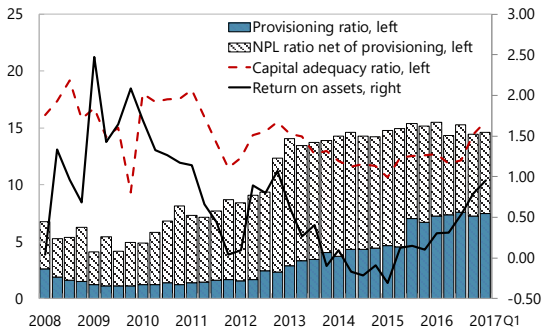
1/ Includes SOE's debt and Petrocaribe debt.
Sources: Fund staff calculations.

Figure 4. Dominica: Monetary Sector

Financial soundness indicators showed some improvement before the hurricane.

Financial Soundness Indicators

(Percent)

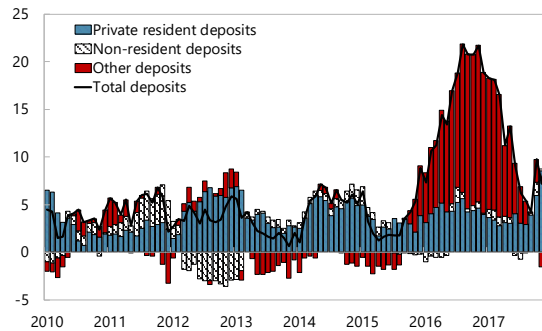


Sources: ECCB and Fund staff calculations.

Bank deposits increased from government and the private sector...

Contributions to Real Deposits Growth

(Percent, y-o-y)

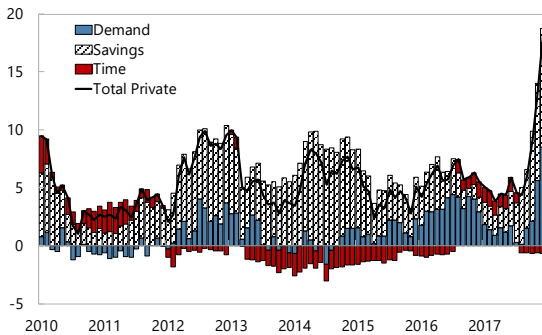


Sources: ECCB and Fund staff calculations.

...especially the demand deposits

Contributions to Private Deposits Growth

(Percent, y-o-y)

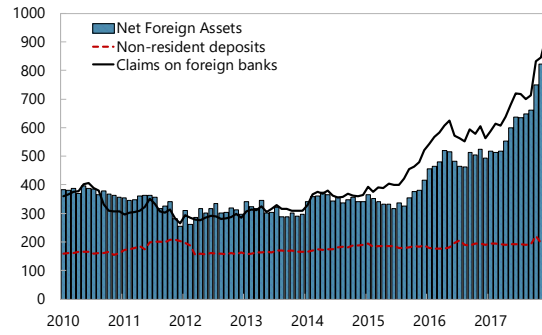


Sources: ECCB and Fund staff calculations.

25 banks are holding more assets abroad...

NFA of Commercial Banks

(Millions ECD)

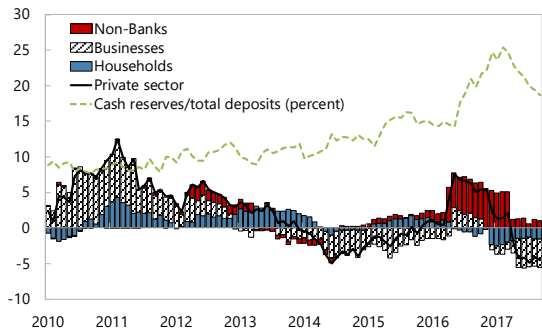


Sources: ECCB and Fund staff calculations.

...with weak credit dynamics and accumulation of liquid assets...

Contributions to Real Private Credit Growth

(Percent, y-o-y)

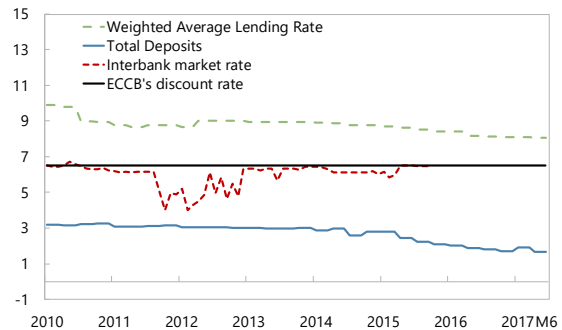


Sources: ECCB and Fund staff calculations.

Excess liquidity continues to drive down interest rates...

Normal Interest Rates

(Percent)



Sources: ECCB and Fund staff calculations.

Table 1. Dominica: Selected Economic Indicators

I. Social and Demographic Indicators												
Area (sq. km.)	754					Adult literacy rate (percent, 2016)			94			
Population (2016)	73,126					Unemployment rate (2016)			23			
Total	73,126											
Annual rate of growth (percent)	-0.1											
Density (pr)	97.0					Gross Domestic Product (2016)						
Population characteristics						Millions of E.C. dollars			1,570			
Life expectancy at birth (years, 2016)	76					Millions of U.S. dollars			581			
Infant mortality (per thousand live births, 2016)	12.38					U.S. dollars per capita			7,952			
II. Economic Indicators												
	2012	2013	2014	2015	2016	Est. 2017	2018	2019	Projected 2020	2021	2022	2023
Output and prices												
(annual percent change, unless otherwise specified)												
Real GDP 1/	-1.1	0.8	4.2	-3.7	2.6	-4.7	-14.1	9.4	6.8	3.6	2.3	1.5
Nominal GDP 1/	-3.0	4.6	3.9	1.3	8.7	-4.1	-12.9	11.2	8.7	5.5	4.4	3.2
Consumer prices												
Period average	1.4	0.0	0.8	-0.8	0.0	0.6	1.4	1.6	1.8	1.9	2.0	2.0
End of period	1.3	-0.4	0.5	-0.5	-0.2	1.4	1.4	1.8	1.8	2.0	2.0	2.0
Central government balances 2/												
(in percent of GDP, unless otherwise specified)												
Revenue	30.3	30.0	27.1	31.5	47.1	46.8	37.0	34.8	27.8	27.2	27.3	27.3
Taxes	22.2	21.8	22.1	22.7	23.5	18.9	20.1	21.7	22.3	22.4	22.6	22.6
Non-tax revenue	5.4	5.1	3.0	6.8	22.7	18.7	8.8	6.8	4.5	3.8	3.8	3.7
Grants 3/	2.7	3.1	2.0	2.1	0.9	9.1	8.1	6.2	0.9	0.9	0.9	0.9
Expenditure	35.6	32.8	31.7	32.4	43.3	46.1	41.0	38.9	36.2	34.2	26.3	26.5
Current primary expenditure	23.2	21.9	23.3	23.0	25.8	27.5	25.1	23.5	22.9	22.2	21.3	21.5
Interest payments	2.0	2.0	1.6	1.9	1.6	1.3	1.9	1.8	1.8	1.9	1.9	1.9
Capital expenditure	10.4	8.9	6.8	7.5	15.9	17.3	14.1	13.6	11.5	10.2	3.1	3.1
Primary balance	-3.4	-0.8	-3.0	1.0	5.4	2.0	-2.1	-2.3	-6.6	-5.2	2.9	2.6
Overall balance (incl. ND cost buffers), of which:	-5.4	-2.8	-4.6	-0.9	3.8	0.7	-5.5	-5.6	-9.9	-8.5	-0.5	-0.7
annualized cost of natural disasters (ND)	...	...	...	...	...	...	1.5	1.5	1.5	1.5	1.5	1.5
Central government debt (incl. guaranteed) 4/												
External	72.4	80.1	78.7	75.3	71.7	82.7	87.7	83.3	86.1	87.8	87.1	85.2
Domestic	52.8	61.6	61.0	58.1	54.7	66.0	71.1	68.1	72.8	75.8	75.7	74.7
Domestic	19.6	18.5	17.7	17.1	17.1	16.7	16.6	15.2	13.2	12.1	11.4	10.5
Money and credit (annual percent change)												
Broad money (M2)	9.7	2.2	7.8	4.0	6.0	17.4	-0.9	-0.4	0.0	0.5	1.0	1.5
Real credit to the private sector	3.0	-0.3	-2.7	0.9	3.1	-3.0	-1.0	0.5	0.5	0.6	0.5	0.5
Balance of payments 5/												
Current account balance, of which:												
Exports of goods and services	-17.3	-9.7	-7.1	-1.9	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9
Imports of goods and services 6/	32.6	38.1	51.6	50.1	48.3	42.6	33.2	41.4	44.2	43.4	43.7	43.7
Capital and financial account balance	51.4	47.9	63.4	58.8	54.0	67.2	83.1	81.0	75.7	70.3	61.5	58.5
FDI	-11.7	11.7	6.7	11.4	29.6	41.4	1.3	-3.5	-9.0	-12.5	-8.2	-5.9
Capital grants	-12.0	-4.6	-2.6	-4.2	-5.4	-5.2	-6.8	-6.4	-6.2	-5.6	-4.4	-4.4
Other (incl. errors and omissions)	4.5	3.6	7.6	10.3	23.5	22.1	16.5	9.1	5.5	4.0	3.7	3.6
External debt (gross) 7/	0.7	0.7	1.9	8.2	22.1	18.8	12.4	7.3	4.6	3.1	2.8	2.7
76.0	84.0	83.7	86.5	77.9	88.8	99.6	95.6	99.7	101.9	102.2	101.0	
Saving-Investment Balance												
Saving	-17.3	-9.7	-7.1	-1.9	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9
Investment	-2.1	3.9	7.6	14.3	20.0	10.8	-6.3	-1.0	-2.2	-6.7	-5.0	-6.0
Public	15.2	13.6	14.8	16.2	19.2	23.3	25.4	21.1	18.2	14.6	9.2	5.9
Private	3.7	2.3	0.7	4.2	12.2	17.3	17.9	14.6	13.2	11.6	7.4	3.9
2.7	2.9	6.0	8.0	7.0	6.0	7.5	6.5	5.0	3.0	1.8	2.0	
Memorandum items:												
Nominal GDP (EC\$ millions)	1,312	1,373	1,426	1,445	1,570	1,505	1,310	1,456	1,583	1,670	1,743	1,799
Nominal GDP, fiscal year (EC\$ millions)	1,342	1,399	1,435	1,507	1,537	1,408	1,383	1,520	1,627	1,707	1,771	1,830
Net imputed international reserves:												
End-year (millions of U.S. dollars)	91.8	85.4	99.9	125.4	220.9	210.9	210.7	208.9	206.5	202.1	210.6	215.3
Months of imports of goods and services	4.4	4.2	3.6	4.8	8.4	6.8	6.3	5.7	5.6	5.6	6.4	6.6

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/ Does not include grants received but not spent.

4/ Includes estimated commitments under the Petrocaribe arrangement with Venezuela.

5/ BoP data prior to 2014 are compiled on BPM5 basis and revised to conform with BPM6 methodology but are not fully comparable.

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

7/ Comprises public sector external debt, foreign liabilities of commercial banks, and other private debt.

Table 2. Dominica: Balance of Payments

	2012	2013	2014	2015	2016	Est. 2017	2018	2019	Projected			
	(in millions of U.S. dollars)											
Current account balance	-84.2	-49.4	-37.7	-10.3	4.8	-69.7	-153.9	-119.2	-119.7	-131.8	-91.8	-79.1
Exports of goods and services, of which: 1/	158.4	193.5	272.7	267.9	281.1	237.7	161.0	223.2	258.9	268.3	281.9	291.1
Goods	36.7	38.4	38.5	33.9	26.3	23.2	20.7	23.5	25.8	28.3	31.2	32.1
Tourism	76.1	102.6	215.7	214.8	235.2	195.6	123.9	181.2	212.1	216.1	225.5	232.7
Imports of goods and services	249.9	243.7	334.7	314.7	313.9	374.6	403.2	437.1	443.5	434.7	397.0	389.6
Fuel	41.3	40.4	42.1	29.4	28.0	30.1	35.5	33.2	31.7	30.9	30.6	30.6
Food	35.3	34.2	41.5	38.9	37.3	35.9	34.6	39.9	41.1	41.7	42.2	42.7
Other goods 2/	106.7	104.1	119.0	120.0	123.0	155.1	166.2	171.8	174.2	166.9	139.8	135.5
Services	66.6	65.0	132.0	126.4	125.5	153.5	167.0	192.2	196.5	195.2	184.3	180.8
Net income, of which:	-9.5	-19.5	-23.0	-18.8	-19.7	-21.4	0.0	2.7	2.4	-27.0	-40.8	-46.8
Interest payments (public sector)	-5.1	-6.9	-5.6	-6.7	-7.2	-4.7	-4.4	-5.5	-5.6	-6.4	-7.5	-8.1
Net current transfers	16.8	20.3	47.3	55.3	57.3	88.7	88.4	92.0	62.5	61.6	64.0	66.1
Capital account	21.8	18.2	40.0	55.2	136.4	123.1	79.9	49.2	32.3	25.1	23.7	24.3
Capital transfers	21.8	18.2	40.0	55.2	136.4	123.1	79.9	49.2	32.3	25.1	23.7	24.3
General government 3/	18.4	14.8	29.7	11.1	7.9	18.5	19.6	10.1	5.4	5.7	5.9	6.1
Other 4/	3.3	3.4	10.3	44.1	128.5	104.6	60.3	39.1	26.9	19.4	17.9	18.2
Financial account 5/	-78.6	41.1	-4.7	6.0	35.6	107.8	-73.8	-68.2	-85.1	-102.3	-76.6	-63.5
Public sector flows	-37.5	-22.1	-19.5	-4.4	4.1	-11.6	-27.2	-21.5	-38.8	-49.1	-29.8	-14.3
PetroCaribe financing flows	6.1	5.6	4.2	2.2	0.8	1.8	2.4	1.9	1.5	1.2	1.0	0.8
Foreign direct investment	-58.5	-23.3	-14.0	-22.7	-31.6	-28.8	-33.2	-34.4	-36.2	-34.8	-28.4	-29.3
Commercial banks	15.3	0.1	-4.8	51.4	51.2	138.4	-6.1	-6.0	-5.4	-19.0	-14.0	-18.1
Other private flows 6/	-3.9	-7.0	29.4	-20.4	11.2	8.0	-9.7	-8.1	-6.2	-0.6	-5.3	-2.6
Errors and omissions 7/	-9.3	65.9	7.5	-12.8	-9.9	44.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.8	-6.5	14.5	26.2	95.7	-10.0	-0.2	-1.9	-2.4	-4.4	8.5	8.7
Overall financing	6.8	-6.5	14.5	26.2	95.7	-10.0	-0.2	-1.9	-2.4	-4.4	8.5	8.7
Change in ECCB NFA, of which:	17.4	-6.5	14.5	26.2	95.7	-10.0	-0.2	-1.9	-2.4	-4.4	8.5	8.7
IMF reserve liabilities	0.8	2.7	1.6	-6.5	1.6	1.2	1.6	1.6	0.6	2.4	2.1	1.8
Change in foreign reserve assets	-10.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing from RCF	...	...	...	8.7	...	...	...	...	...	...	...	...
	(in percent of GDP)											
Current account balance	-17.3	-9.7	-7.1	-1.9	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9
Exports of goods and services, of which: 1/	32.6	38.1	51.6	50.1	48.3	42.6	33.2	41.4	44.2	43.4	43.7	43.7
Goods	7.6	7.5	7.3	6.3	4.5	4.2	4.3	4.4	4.4	4.6	4.8	4.8
Tourism	15.7	20.2	40.8	40.1	40.4	35.1	25.5	33.6	36.2	34.9	34.9	34.9
Imports of goods and services	51.4	47.9	63.4	58.8	54.0	67.2	83.1	81.0	75.7	70.3	61.5	58.5
Fuel	8.5	7.9	8.0	5.5	4.8	5.4	7.3	6.2	5.4	5.0	4.7	4.6
Food	7.3	6.7	7.9	7.3	6.4	6.4	7.1	7.4	7.0	6.7	6.5	6.4
Other goods 2/	22.0	20.5	22.5	22.4	21.2	27.8	34.2	31.8	29.7	27.0	21.7	20.3
Services	13.7	12.8	25.0	23.6	21.6	27.5	34.4	35.6	33.5	31.5	28.5	27.1
Net income, of which:	-2.0	-3.8	-4.3	-3.5	-3.4	-3.8	0.0	0.5	0.4	-4.4	-6.3	-7.0
Interest payments (public sector)	-1.1	-1.4	-1.1	-1.2	-1.2	-0.8	-0.9	-1.0	-0.9	-1.0	-1.2	-1.2
Net current transfers	3.5	4.0	8.9	10.3	9.9	15.9	18.2	17.0	10.7	10.0	9.9	9.9
Capital account	4.5	3.6	7.6	10.3	23.5	22.1	16.5	9.1	5.5	4.0	3.7	3.6
Net acquisition of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital transfers	4.5	3.6	7.6	10.3	23.5	22.1	16.5	9.1	5.5	4.0	3.7	3.6
General government 3/	3.8	2.9	5.6	2.1	1.4	3.3	4.0	1.9	0.9	0.9	0.9	0.9
Other 4/	0.7	0.7	1.9	8.2	22.1	18.8	12.4	7.3	4.6	3.1	2.8	2.7
Financial account 5/	-16.2	8.1	-0.9	1.1	6.1	19.3	-15.2	-12.6	-14.5	-16.5	-11.9	-9.5
Public sector flows	-7.7	-4.4	-3.7	-0.8	0.7	-2.1	-5.6	-4.0	-6.6	-7.9	-4.6	-2.1
PetroCaribe financing flows	1.3	1.1	0.8	0.4	0.1	0.3	0.5	0.4	0.3	0.2	0.1	0.1
Foreign direct investment	-12.0	-4.6	-2.6	-4.2	-5.4	-5.2	-6.8	-6.4	-6.2	-5.6	-4.4	-4.4
Commercial banks	3.2	0.0	-0.9	9.6	8.8	24.8	-1.3	-1.1	-0.9	-3.1	-2.2	-2.7
Other private flows 6/	-0.8	-1.4	5.6	-3.8	1.9	1.4	-2.0	-1.5	-1.1	-0.1	-0.8	-0.4
Errors and omissions 7/	-1.9	13.0	1.4	-2.4	-1.7	8.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.4	-1.3	2.7	4.9	16.5	-1.8	0.0	-0.3	-0.4	-0.7	1.3	1.3
External financing from RCF	...	...	...	1.6	...	...	...	...	...	...	...	...
Memorandum items:												
Trade balance (percent of GDP)	-30.2	-27.6	-31.1	-28.8	-27.9	-35.5	-44.4	-41.0	-37.7	-34.1	-28.1	-26.5
Services balance (percent of GDP)	11.3	17.7	19.3	20.1	22.2	10.9	-5.5	1.4	6.2	7.3	10.3	11.7
Net imputed international reserves:												
Millions of U.S. dollars	91.8	85.4	99.9	125.4	220.9	210.9	210.7	208.9	206.5	202.1	210.6	215.3
Months of imports of goods and services	4.4	4.2	3.6	4.8	8.4	6.8	6.3	5.7	5.6	5.6	6.4	6.6
Gross external debt 8/	76.0	84.0	83.7	86.5	77.9	88.8	99.6	95.6	99.7	101.9	102.2	101.0
Public sector	52.8	61.6	61.0	58.1	54.7	66.0	71.1	68.1	72.8	75.8	75.7	74.7
Private sector	23.2	22.4	22.7	28.4	23.2	22.8	28.5	27.6	26.8	26.1	26.5	26.3
GDP (in US\$ millions)	485.9	508.4	528.2	535.1	581.5	557.4	485.3	539.4	586.2	618.6	645.7	666.2

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/ Differs from grants reported on the Statement of Central Government Operations (tables 2a and 2b) based on timing, as this table reports transactions on a calendar-year basis, and the inclusion of private sector capital grants in the totals reported on this table.

4/ Other flows include inflows related to the Economic Citizenship Program.

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

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

7/ Large errors and omissions in 2016 are presumed to be driven by unrecorded CBI revenues.

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

Table 3a. Dominica: The Statement of Operations of the Central Government ^{1/2/}
(In millions of Eastern Caribbean dollars)

	2012	2013	2014	2015	2016	Projected						
						2017	2018	2019	2020	2021	2022	2023
	(in millions of Eastern Caribbean dollars)											
Revenue	406.3	419.9	389.0	475.3	724.8	658.2	512.0	529.0	451.9	463.9	483.5	499.0
Taxes	297.5	305.0	317.0	342.0	361.5	266.4	277.5	330.5	363.5	383.2	400.6	414.1
Taxes on income	57.3	58.9	60.0	71.3	67.4	45.6	43.5	53.3	62.6	67.2	72.8	75.2
Taxes on property	6.7	7.7	7.7	6.8	9.7	5.3	5.8	8.5	9.1	9.6	10.0	10.3
Taxes on goods and services	176.1	179.2	184.7	194.1	205.6	159.9	164.7	195.1	214.1	224.9	233.4	241.2
Taxes on international trade and transactions	57.3	59.3	64.6	69.7	78.7	55.6	63.6	73.5	77.6	81.5	84.5	87.4
Grants 3/	35.9	43.9	28.7	30.9	14.3	128.2	112.3	94.7	14.6	15.3	15.8	16.4
Other revenue	73.0	70.9	43.3	102.4	349.0	263.6	122.2	103.9	73.8	65.4	67.0	68.6
Property income	5.0	2.0	2.0	1.2	1.1	0.6	0.6	0.7	0.7	0.8	0.8	0.8
Sales, fees, and fines	10.9	13.2	11.9	10.8	11.4	8.9	8.8	9.6	10.3	10.8	11.2	11.6
Other nontax revenue, of which:	57.1	55.7	29.4	90.3	336.5	254.1	112.8	93.6	62.7	53.9	55.0	56.2
Citizenship-by-Investment	50.7	49.7	23.0	72.7	331.8	195.0	107.9	88.1	56.9	47.8	48.7	49.7
Expenditure	478.2	459.6	454.9	488.3	665.8	648.9	567.6	590.8	588.6	584.1	465.6	485.2
Expense	338.2	334.6	356.7	375.3	420.8	404.7	372.7	384.3	401.7	410.2	410.9	428.7
Compensation of employees	146.8	144.5	159.5	152.9	154.0	182.0	158.6	159.6	168.5	169.2	170.0	179.5
Purchase of goods and services	97.0	93.1	100.2	106.0	135.8	121.0	119.0	121.0	123.9	124.4	119.9	123.9
Interest	26.6	28.1	22.8	28.4	24.2	18.3	26.0	27.5	28.8	31.9	33.2	34.6
Grants and social benefits (transfers and subsidies)	68.8	68.9	74.6	88.3	107.2	98.4	78.1	79.2	81.1	85.1	88.3	91.2
Other expense	-1.0	0.0	-0.4	-0.3	-0.4	-15.0	-9.0	-3.0	-0.4	-0.5	-0.5	-0.5
Net lending	-1.0	0.0	-0.4	-0.3	-0.4	-15.0	-9.0	-3.0	-0.4	-0.5	-0.5	-0.5
Net acquisition of nonfinancial assets	140.0	125.0	98.2	113.0	245.0	244.2	194.9	206.5	186.9	173.9	54.7	56.6
Grant-financed capital expenditure	35.9	43.9	28.7	30.9	14.3	49.9	52.9	27.2	14.6	15.3	15.8	16.4
Other capital expenditure	106.6	81.4	69.7	82.2	230.8	194.4	142.2	179.5	172.5	158.8	39.1	40.4
Capital revenue	-2.4	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Gross operating balance	68.1	85.4	32.3	100.0	304.1	253.5	139.3	144.7	50.2	53.7	72.7	70.4
Natural disaster (ND) annualised cost 4/	0.0	0.0	0.0	0.0	0.0	0.0	20.8	22.8	24.4	25.6	26.6	27.5
Net lending/borrowing (overall balance, excl. ND cost)	-71.9	-39.6	-66.0	-13.0	59.0	9.4	-55.7	-61.8	-136.8	-120.2	17.9	13.8
Net lending/borrowing (overall balance, incl. ND cost)	-71.9	-39.6	-66.0	-13.0	59.0	9.4	-76.4	-84.6	-161.2	-145.8	-8.6	-13.6
Net financial transactions	-71.9	-39.6	-66.0	-13.0	59.0	9.4	-76.4	-84.6	-161.2	-145.8	-8.6	-13.6
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	-59.7	34.7	36.8	31.0	50.4	-32.6	0.3
Currency and deposits	0.0	0.0	0.0	0.0	0.0	-59.7	34.7	36.8	31.0	50.4	-32.6	0.3
Net incurrence of liabilities	43.5	28.4	-11.2	-1.9	-31.9	50.4	41.7	47.8	130.1	95.4	41.2	13.3
Domestic	10.0	-24.8	-3.4	-3.5	-16.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	33.5	53.2	-7.9	1.7	-15.7	50.4	41.7	47.8	130.1	95.4	41.2	13.3
Other flows 5/	28.5	11.2	77.2	14.9	-27.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Primary balance	-45.4	-11.5	-43.2	15.3	83.3	27.6	-29.7	-34.3	-108.0	-88.3	51.1	48.4
Primary balance (excl. CBI)	-96.0	-61.2	-66.2	-57.3	-248.5	-167.4	-137.6	-122.4	-164.9	-136.1	2.4	-1.3
Primary balance (excl. CBI and ND cost)	-96.0	-61.2	-66.2	-57.3	-225.4	-146.3	-116.9	-99.7	-140.5	-110.5	28.9	26.2
Overall balance (excl. CBI)	-122.6	-89.3	-89.0	-85.7	-272.7	-185.6	-163.6	-149.9	-193.7	-168.0	-30.8	-35.9
Public sector debt 6/	971	1,122	1,130	1,135	1,103	1,164	1,213	1,266	1,400	1,499	1,543	1,559
Domestic	263	260	255	258	262	235	229	231	215	206	203	192
Central Government	232	208	204	201	185	185	185	185	185	185	185	185
Rest of public sector	30	52	50	58	78	51	45	47	31	21	18	8
Foreign	709	862	875	876	841	929	983	1,035	1,185	1,293	1,341	1,367
Central Government	597	650	642	644	628	678	720	768	898	993	1,035	1,048
Rest of public sector	112	212	234	233	213	251	264	267	287	300	306	319
Nominal GDP, fiscal year (EC\$ millions)	1,342	1,399	1,435	1,507	1,537	1,408	1,383	1,520	1,627	1,707	1,771	1,830

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 the results of a Monte-Carlo experiment that simulates natural disaster shocks and their impact on output and government finances.

5/ Other flows are driven by off-budget revenue from CBI.

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

Table 3b. Dominica: The Statement of Operations of the Central Government ^{1/2/}
(In percent of GDP)

	2012	2013	2014	2015	2016	Projected							
						2017	2018	2019	2020	2021	2022	2023	
	(in percent of GDP)												
Revenue	30.3	30.0	27.1	31.5	47.1	46.8	37.0	34.8	27.8	27.2	27.3	27.3	
Taxes	22.2	21.8	22.1	22.7	23.5	18.9	20.1	21.7	22.3	22.4	22.6	22.6	
Taxes on income	4.3	4.2	4.2	4.7	4.4	3.2	3.1	3.5	3.9	3.9	4.1	4.1	
Taxes on property	0.5	0.5	0.5	0.5	0.6	0.4	0.4	0.6	0.6	0.6	0.6	0.6	
Taxes on goods and services	13.1	12.8	12.9	12.9	13.4	11.4	11.9	12.8	13.2	13.2	13.2	13.2	
Taxes on international trade and transactions	4.3	4.2	4.5	4.6	5.1	4.0	4.6	4.8	4.8	4.8	4.8	4.8	
Grants 3/	2.7	3.1	2.0	2.1	0.9	9.1	8.1	6.2	0.9	0.9	0.9	0.9	
Other revenue	5.4	5.1	3.0	6.8	22.7	18.7	8.8	6.8	4.5	3.8	3.8	3.7	
Property income	0.4	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Sales, fees, and fines	0.8	0.9	0.8	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	
Other nontax revenue, of which:	4.3	4.0	2.0	6.0	21.9	18.0	8.2	6.2	3.9	3.2	3.1	3.1	
Citizenship-by-Investment	3.8	3.6	1.6	4.8	21.6	13.9	7.8	5.8	3.5	2.8	2.8	2.7	
Expenditure	35.6	32.8	31.7	32.4	43.3	46.1	41.0	38.9	36.2	34.2	26.3	26.5	
Expense	25.2	23.9	24.8	24.9	27.4	28.8	26.9	25.3	24.7	24.0	23.2	23.4	
Compensation of employees	10.9	10.3	11.1	10.1	10.0	12.9	11.5	10.5	10.4	9.9	9.6	9.8	
Purchase of goods and services	7.2	6.7	7.0	7.0	8.8	8.6	8.6	8.0	7.6	7.3	6.8	6.8	
Interest	2.0	2.0	1.6	1.9	1.6	1.3	1.9	1.8	1.8	1.9	1.9	1.9	
Grants and social benefits (transfers and subsidies)	5.1	4.9	5.2	5.9	7.0	7.0	5.6	5.2	5.0	5.0	5.0	5.0	
Other expense	-0.1	0.0	0.0	0.0	0.0	-1.1	-0.7	-0.2	0.0	0.0	0.0	0.0	
Net lending	-0.1	0.0	0.0	0.0	0.0	-1.1	-0.7	-0.2	0.0	0.0	0.0	0.0	
Net acquisition of nonfinancial assets	10.4	8.9	6.8	7.5	15.9	17.3	14.1	13.6	11.5	10.2	3.1	3.1	
Grant-financed capital expenditure	2.7	3.1	2.0	2.1	0.9	3.5	3.8	1.8	0.9	0.9	0.9	0.9	
Other capital expenditure	7.9	5.8	4.9	5.5	15.0	13.8	10.3	11.8	10.6	9.3	2.2	2.2	
Capital revenue	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Gross operating balance	5.1	6.1	2.2	6.6	19.8	18.0	10.1	9.5	3.1	3.1	4.1	3.8	
Natural disaster (ND) annualised cost 4/	0.0	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)	-5.4	-2.8	-4.6	-0.9	3.8	0.7	-4.0	-4.1	-8.4	-7.0	1.0	0.8	
Net lending/borrowing (overall balance, incl. ND cost)	-5.4	-2.8	-4.6	-0.9	3.8	0.7	-5.5	-5.6	-9.9	-8.5	-0.5	-0.7	
Net financial transactions	-5.4	-2.8	-4.6	-0.9	3.8	0.7	-5.5	-5.6	-9.9	-8.5	-0.5	-0.7	
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	-4.2	2.5	2.4	1.9	3.0	-1.8	0.0	
Currency and deposits	0.0	0.0	0.0	0.0	0.0	-4.2	2.5	2.4	1.9	3.0	-1.8	0.0	
Net incurrence of liabilities	3.2	2.0	-0.8	-0.1	-2.1	3.6	3.0	3.1	8.0	5.6	2.3	0.7	
Domestic	0.7	-1.8	-0.2	-0.2	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Foreign	2.5	3.8	-0.5	0.1	-1.0	3.6	3.0	3.1	8.0	5.6	2.3	0.7	
Other flows 5/	2.1	0.8	5.4	1.0	-1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memorandum items:													
Primary balance	-3.4	-0.8	-3.0	1.0	5.4	2.0	-2.1	-2.3	-6.6	-5.2	2.9	2.6	
Primary balance (excl. CBI)	-7.2	-4.4	-4.6	-3.8	-16.2	-11.9	-9.9	-8.1	-10.1	-8.0	0.1	-0.1	
Primary balance (excl. CBI and ND cost)	-7.2	-4.4	-4.6	-3.8	-14.7	-10.4	-8.4	-6.6	-8.6	-6.5	1.6	1.4	
Overall balance (excl. CBI)	-9.1	-6.4	-6.2	-5.7	-17.7	-13.2	-11.8	-9.9	-11.9	-9.8	-1.7	-2.0	
Public sector debt 6/	72.4	80.1	78.7	75.3	71.7	82.7	87.7	83.3	86.1	87.8	87.1	85.2	
Domestic	19.6	18.5	17.7	17.1	17.1	16.7	16.6	15.2	13.2	12.1	11.4	10.5	
Central Government	17.3	14.8	14.2	13.3	12.0	13.1	13.3	12.1	11.4	10.8	10.4	10.1	
Rest of public sector	2.2	3.7	3.5	3.8	5.0	3.6	3.2	3.1	1.9	1.2	1.0	0.4	
Foreign	52.8	61.6	61.0	58.1	54.7	66.0	71.1	68.1	72.8	75.8	75.7	74.7	
Central Government	44.4	46.4	44.7	42.7	40.8	48.2	52.0	50.5	55.2	58.2	58.4	57.2	
Rest of public sector	8.4	15.2	16.3	15.4	13.9	17.8	19.1	17.6	17.7	17.6	17.3	17.4	
Nominal GDP, fiscal year (EC\$ millions)	1,342	1,399	1,435	1,507	1,537	1,408	1,383	1,520	1,627	1,707	1,771	1,830	

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 the results of a Monte-Carlo experiment that simulates natural disaster shocks and their impact on output and government finances.

5/ Other flows are driven by off-budget revenue from CBI.

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

Table 4. Dominica: Summary Accounts of the Banking System

	2012	2013	2014	2015	2016	Prel. 2017	Projected					
							2018	2019	2020	2021	2022	2023
(in millions of Eastern Caribbean dollars, end of period)												
Net foreign assets	545	528	612	755	1,090	1,437	1,420	1,398	1,376	1,339	1,348	1,340
Central Bank	248	230	270	339	596	569	569	564	558	546	569	581
Commercial Banks (net)	297	297	342	417	494	868	851	835	820	769	731	682
Net domestic assets	587	628	635	541	284	177	179	194	217	262	269	301
Public sector credit, net (real terms)	-133	5	27	-64	-311	-313	-264	-236	-212	-166	-202	-204
Central Government	-31	127	122	28	-215	-211	-175	-137	-104	-52	-83	-81
From ECCB	-34	-9	-18	-24	-41	-74	-41	-41	-41	-41	-41	-41
From commercial banks	3	135	140	52	-173	-136	-133	-95	-63	-11	-42	-40
Other public sector	-102	-122	-95	-92	-96	-103	-89	-99	-108	-114	-119	-123
Private sector credit (real terms)	796	791	773	776	798	785	788	806	825	846	867	889
Other items (net)	-77	-167	-166	-170	-203	-295	-345	-376	-395	-418	-396	-385
Money and quasi-money (M2)	1,132	1,156	1,247	1,297	1,375	1,614	1,599	1,592	1,593	1,601	1,617	1,641
Money	221	211	232	259	301	423	420	419	420	422	427	433
Currency outside banks	46	42	47	47	53	65	66	67	67	68	69	69
Demand deposits	176	169	186	212	248	358	354	353	353	354	358	363
Quasi-money, of which:	911	946	1,014	1,038	1,074	1,191	1,179	1,173	1,173	1,179	1,190	1,208
Time deposits	249	236	217	208	224	216	213	212	212	213	216	219
Savings deposits	628	686	760	802	818	950	941	936	936	941	950	964
Foreign currency deposits	34	24	36	27	32	25	24	24	24	24	25	25
(12-month percentage change)												
Net foreign assets	19.3	-3.1	15.9	23.5	44.3	31.8	-1.2	-1.6	-1.6	-2.7	0.7	-0.6
Net domestic assets, of which:	2.1	7.1	1.0	-14.8	-47.5	-37.8	1.2	8.7	11.8	20.7	2.7	11.7
Public sector credit, net (real terms)	38	-103	490	-334	384	1	-16	-11	-10	-22	22	1
Private sector credit (real terms)	4.3	-0.7	-2.2	0.3	2.9	-1.6	0.3	2.3	2.3	2.6	2.5	2.5
Broad money	9.7	2.2	7.8	4.0	6.0	17.4	-0.9	-0.4	0.0	0.5	1.0	1.5
NFA contribution	8.6	-1.5	7.3	11.5	25.8	25.2	-1.0	-1.4	-1.4	-2.3	0.6	-0.5
NDA contribution	1.2	3.7	0.6	-7.5	-19.8	-7.8	0.1	1.0	1.4	2.8	0.4	1.9
Money	18.2	-4.8	10.4	11.4	16.2	40.8	-0.7	-0.3	0.2	0.6	1.0	1.4
NFA contribution	25.1	-7.9	18.7	29.6	99.6	-9.0	-0.1	-1.2	-1.5	-2.8	5.4	3.0
NDA contribution	-6.9	3.1	-8.3	-18.2	-83.4	49.7	-0.6	0.9	1.7	3.4	-4.4	-1.5
Broad money (real terms)	8.4	2.6	7.3	4.6	6.2	15.8	-2.2	-2.2	-1.8	-1.4	-1.0	-0.5
(in percent of GDP)												
Net foreign assets	41.5	38.5	42.9	52.3	69.4	95.5	108.4	96.0	86.9	80.2	77.3	74.5
Net domestic assets	44.7	45.8	44.5	37.5	18.1	11.7	13.6	13.3	13.7	15.7	15.4	16.7
Public sector credit, net	-10.2	0.3	1.9	-4.4	-19.8	-20.8	-20.1	-16.2	-13.4	-9.9	-11.6	-11.3
Private sector credit	60.7	57.6	54.2	53.7	50.8	52.2	60.1	55.3	52.1	50.6	49.7	49.4
Broad Money	86.3	84.2	87.4	89.7	87.5	107.2	122.0	109.3	100.6	95.9	92.8	91.2
Money	16.9	15.3	16.3	17.9	19.2	28.1	32.1	28.8	26.5	25.3	24.5	24.1
Quasi-money	69.4	68.9	71.1	71.8	68.4	79.1	90.0	80.5	74.1	70.6	68.3	67.2
Interest rates (percent) 1/												
ECCB policy rate	6.5	6.5	6.5	6.5	6.5	6.5	...	...	...	...	...	...
U.S. policy rate	0.1	0.1	0.1	0.4	0.6	1.3	...	...	...	...	...	...
Interbank market rate	6.3	6.4	6.0	n.a.	0.0	0.0	...	...	...	...	...	...
Time deposit rate	4.5	4.3	4.2	4.0	3.6	3.3	...	...	...	...	...	...
Demand deposit rate	0.7	0.4	0.4	0.2	0.2	0.1	...	...	...	...	...	...
Savings deposit rate	3.3	3.3	3.0	2.2	2.1	2.2	...	...	...	...	...	...

Sources: Eastern Caribbean Central Banks (ECCB); and Fund staff estimates and projections.

1/ End-period rates.

Annex I. Debt Sustainability Analysis¹

Risk of external debt distress:	High
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Dominica continues to be at high risk of debt distress. However, hurricane Maria in September 2017 caused severe social hardship and deterioration of fiscal and external balances, weakening sustainability. In addition, Dominica's debt carrying capacity as measured by the three-year CPIA average declined.² Thus, setting public and publicly guaranteed total and external debt on a declining path would require prudent and efficient fiscal policies that safeguard fiscal space for social relief and reconstruction investment. A fiscal consolidation plan is needed after recovery takes hold to sustain reconstruction investment. Donor grant mobilization is key to minimize the debt burden. Main risks to the debt sustainability outlook include sudden stop in citizenship-by-investment (CBI) program revenues, financial instability from weakened balance sheets, and recurrent natural disasters.

A. Background

1. Category 5 hurricane Maria hit Dominica in September 2017, causing estimated losses and damage of 226 percent of GDP.

About 58 percent of losses and damage fell on the private sector, where private housing damage was equivalent to 61 percent of GDP. Main sectors – including tourism, agriculture, and transport – sustained significant losses and damage (text table). Within the public sector, infrastructure carried the brunt of the damage (43 percent of GDP). Prior to the worst natural disaster in Dominica's history, the government was making progress in implementing a medium-term fiscal consolidation plan of over 6 percent of GDP in cumulative adjustment. In addition to the initial

Estimated Losses and Damages after Hurricane Maria									
(In percent of GDP) ^{1/}									
Sector	Damage ^{2/}			Losses ^{3/}			Recovery Cost ^{4/}		
	Public	Private	Total	Public	Private	Total	Public	Private	Total
Agriculture	6.5	3.0	9.5	0.0	21.4	21.4	8.6	4.0	12.5
Forestry	4.9	0.0	4.9	0.0	0.0	0.0	2.6	0.0	2.6
Fisheries	0.1	0.4	0.5	0.0	0.1	0.1	0.0	0.3	0.4
Commerce/Microbusiness	0.0	12.1	12.1	0.0	1.2	1.2	0.0	12.6	12.6
Tourism	0.0	3.5	3.5	0.0	12.2	12.2	0.0	4.5	4.5
Education	8.4	4.3	12.7	0.4	0.2	0.6	10.5	5.4	16.0
Health	1.9	0.0	1.9	1.2	0.0	1.2	3.8	0.1	3.8
Transport	27.9	6.6	34.6	8.5	1.4	9.9	44.8	11.0	55.8
Water and Sanitation	4.1	0.0	4.1	2.3	4.3	6.6	9.7	0.0	9.7
Electricity	5.7	0.0	5.7	5.7	0.0	5.7	8.8	0.0	8.8
Telecommunications	0.1	8.1	8.2	0.0	1.4	1.4	0.1	8.2	8.2
Housing	0.0	60.9	60.9	0.6	4.3	4.9	44.7	44.7	89.4
Other ^{5/}	4.5	-3.5	1.1	12.8	-12.2	0.6	6.6	-4.5	2.1
Total	64.0	95.6	159.6	31.4	34.3	65.7	140.1	86.2	226.3
<i>Memorandum items:</i>									
Total (in millions of U.S. dollars)	372	556	928	183	199	382	815	501	1316

Source: Commonwealth of Dominica Post-Disaster Risk Assessment, November 2017.

1/ Based on 2016 GDP.

2/ Includes mainly replacement cost of structures.

3/ Includes flow losses, typically in terms of output foregone.

4/ Captures the costs of reconstruction of structures with resilience to natural disasters.

5/ Includes costs for disaster-risk reduction and other cross-cutting costs.

¹ This joint Bank-Fund DSA has been cleared by Robert Rennhack (IMF) and Paloma Anos Casero (IDA).

² Dominica's performance category shifted from "strong" to "medium" based on its latest 3-year average CPIA score (2014-16) of 2.63. As a result, the relevant policy thresholds have tightened somewhat from last DSA. Debt burden thresholds corresponding to medium policy performers are as follows: 150 for the PV of debt in percent of exports, 40 for the PV of debt in percent of GDP, 250 for the PV of debt in percent of revenue and 20 for the debt service in percent of export or revenue.

fiscal measures discussed in the context of the 2015 Rapid Credit Facility (RCF) disbursement, the government also passed additional measures, including comprehensive reforms to increase tax revenues and broaden the tax base, and contain current expenditures, to further strengthen the fiscal position.

2. Prior to the hurricane, Dominica was grappling with fiscal sustainability concerns while making progress on the consolidation plan it had committed to in the October 28, 2015 RCF disbursement.

Dominica's overall public debt was on a declining path with the implementation of first-generation fiscal consolidation measures committed in the 2015 RCF disbursement. As of end-FY2016/17, the stock of public sector debt (central government and rest of the public sector,³ henceforth public debt) is estimated to be around 72 percent of GDP. About $\frac{3}{4}$ of the stock is external debt, owed largely to multilateral and bilateral creditors, and the remainder is held domestically, mostly by commercial banks and other financial institutions. The debt of the rest of the public sector (state owned enterprises and Petrocaribe debt, which accounts to about $\frac{1}{4}$ of total debt) is about 20 percent of GDP (text table).

Total Public Sector Debt (In percent of GDP, fiscal years ^{1/})			
	FY2014/15	FY2015/16	FY2016/17
Public sector debt 2/	78.7	75.3	71.7
PPG external debt	61.0	58.1	54.7
Central government debt	44.7	42.7	40.8
Bilateral	16.4	14.9	13.4
Multilateral	19.0	19.3	18.4
Commercial	9.3	8.5	9.0
Government guaranteed debt	16.3	15.4	13.9
Bilateral	8.9	8.7	8.0
Multilateral	7.4	6.7	5.9
PPG domestic debt	17.7	17.1	17.1
Central government debt	14.2	13.3	12.0
Government guaranteed debt	3.5	3.8	5.1

Source: Dominican authorities.
1/ Fiscal year run from July to June.
2/ Public sector includes Central Government, State Owned Enterprises, and staff estimate of PetroCaribe arrangement.

3. Debt sustainability is highly dependent on access to grants and concessional financing, and the continued success of the CBI program, as highlighted below under the customized scenarios. The debt sustainability analysis includes disbursement of US\$115 million in commitments approved by the World Bank⁴; US\$90 million assumed financing option from the Caribbean Development Bank (CDB); and conservative assumptions on donor grant disbursements and CBI revenues. An annualized cost of reconstruction after natural disasters of 1.5 percent of GDP per year is included in all scenarios, in line with historical costs, to ensure consistency of the projections with the recurrent nature of natural disasters.

³ Debt of the rest of the public sector also includes staff's estimate of the Petrocaribe arrangement. The estimation is based on the Petrocaribe loan agreement. It should be noted, however, that Petrocaribe debt service payments have been cancelled or rescheduled in the last three years, a pattern that may continue into the coming years. However, this DSA includes these obligations for prudence given the uncertainty about the continuation of this practice.

⁴ The US\$115 million in World Bank support includes support to the Geothermal Risk Mitigation Project (US\$17 million), the Agriculture Resilience and Livelihoods Enhancement Project (US\$25 million), the Dominica Housing Reconstruction Project (US\$40 million), and additional financing to the Dominica Disaster Vulnerability Reduction Project (US\$31 million).

B. Underlying Assumptions

4. The baseline scenario captures expected outcomes consistent with identified financing sources and anticipated policies. Due to losses and damage sustained after hurricane Maria, the baseline scenario has been revised significantly to accommodate post-storm recovery and reconstruction. In this scenario, return of financing flows to historical norms results in a financing constraint that limits fiscal space to maintain reconstruction. The government becomes financially constrained by FY2022/23. Fiscal space becomes insufficient to sustain post-hurricane increases in public investment with the depletion of deposits, under the assumption of downwardly rigid recurrent spending. The fiscal space for public investment declines to 3 percent of GDP, insufficient for capital replacement. Public debt increases to near 90 percent of GDP.

5. Macroeconomic assumptions underlying the DSA are summarized in Box 1. The main differences relative to the DSA in the 2017 Staff Report are as follows:

- The Country Policy and Institutional Assessment (CPIA) score has been revised from “strong” to “medium”, which serves to tighten policy-dependent thresholds in the context of the DSA. The long-term fiscal outlook has deteriorated due to higher capital spending and tax revenue losses, mostly related to hurricane Maria.
- Observed CBI revenues have been lower than previously estimated, and hence projections have been revised down. These flows are unpredictable and subject to the risk of a sudden stop. The increased dependence on these inflows for government and external financing add to overall risks.
- Grants have been revised upward in the near-term to reflect donor support post-hurricane Maria.
- The longer-term external outlook has deteriorated, as imports surged and exports collapsed following hurricane Maria, and time will be required to re-establish the momentum of exports.
- In the immediate wake of the hurricane, economic growth has been revised downward significantly. But growth should increase as reconstruction spending underpins output back toward potential rates though the medium term.
- National Accounts, historical debt, and corresponding debt service obligations have been revised by the authorities.

Key Macroeconomic and Fiscal Assumptions (In percent of GDP, unless otherwise indicated)										
	2014	2015	2016	Projections						
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Current DSA										
Real GDP growth (in percent)	0.2	-0.6	-1.1	-9.3	-3.2	8.0	5.1	2.9	1.9	1.5
Inflation rate (GDP deflator, in percent)	2.4	5.6	3.1	0.9	1.6	1.7	1.8	1.9	1.8	1.8
Primary balance ^{1/}	-3.0	1.0	5.4	2.0	-3.6	-3.8	-8.1	-6.7	1.4	1.1
Current account balance	-7.1	-1.9	0.8	-12.5	-31.7	-22.1	-20.4	-21.3	-14.2	-11.9
2017 DSA										
Real GDP growth (in percent)	4.2	-1.8	1.0	3.6	3.3	2.2	2.1	1.7	1.5	1.5
Inflation rate (GDP deflator, in percent)	-0.3	-0.3	0.0	0.6	1.4	1.6	1.8	1.9	2.0	1.6
Primary balance ^{1/}	-3.1	1.1	0.8	2.3	2.0	2.1	2.1	2.7	3.2	2.9
Current account balance	-9.5	-8.0	-11.8	-12.1	-16.6	-16.0	-13.2	-10.3	-9.7	-10.6

Sources: Dominican authorities; and staff estimates and projections.
1/ Primary balance of the central government. Starting in 2018, includes 1.5 percent of GDP per year of natural disaster costs. Data corresponds to Fiscal years (July-June).

Box A1. Underlying Assumptions (2017–37)

The baseline scenario assumes an increase in public investment for post-Maria reconstruction of public infrastructure through 2018–22, leading to a widening fiscal deficit. Increased investment spending boosts growth, while higher imports worsen the external current account. Over the medium-term, the fiscal position is projected to improve as public investment eases due to financial constraints, and gradual recovery of output and exports, and the normalization of imports. Output growth declines gradually to 1.5 percent per year.

- **Fiscal position.** The primary balance sharply deteriorates in the near term as fiscal revenues decline and public investment increases in the aftermath of hurricane Maria. Over the medium term, investment spending declines to 3 percent of GDP as the government becomes financially constrained, improving the fiscal balance.
- **CBI revenues.** The baseline scenario assumes conservative revenues from the CBI program, which are projected to decline to 2.7 percent of GDP over the medium-term.
- **Grants.** In the near-term, grants are assumed to support reconstruction efforts, and then are expected to decline to 1 percent of GDP. This is a conservative assumption as it stands below historical averages, but is justified given global trends.
- **Real GDP.** Real GDP growth peaks at over 9 percent in the near term as output rebounds after the hurricane, underpinned by reconstruction spending, and then gradually declines towards 1.5 percent growth by 2023.
- **Inflation.** Inflation is projected to remain near 2 percent, in line with international inflation, and consistent with the quasi-currency board arrangement of the Eastern Caribbean dollar.

Box A1. Underlying Assumptions (2017–37) (concluded)

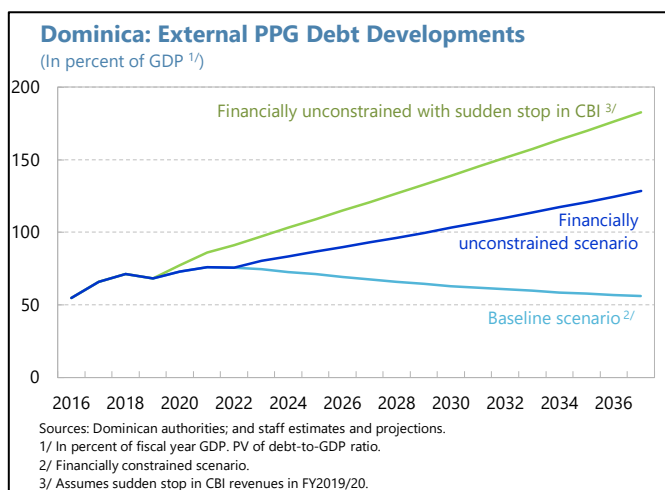
- **Balance of Payments.** The current account deficit deteriorates substantially after the hurricane, with increase in imports and a collapse in exports, mainly driven by decline in tourism services and agriculture output. The current account is financed by official debt flows, CBI revenues, grants, and FDI inflows. Over the medium- to long-term, the current account deficit is expected to be financed by FDI inflows, and to lesser extent, by CBI revenues.

C. External DSA

6. The risk of debt distress rating assigned to PPG external debt remains “high.” In the baseline scenario, and without further shocks, the PV of the debt-to-GDP ratio is breached over the entire projection period (see Figure A1). Other debt stock and debt service measures, however, remain at or below the policy-dependent indicative thresholds during the entire forecast period in the baseline scenario.

7. External PPG debt dynamics become unsustainable under the historical and alternative scenarios. Several risk thresholds are breached in the historical and alternative shock scenarios. Under the historical scenario – which assumes non-interest current account balance, FDI, real GDP growth, and the GDP deflator remain at their 10-year historical average – all debt stock and debt service measures take an increasing trajectory and both the PV of debt-to-GDP and the PV of debt-to-exports ratios breach the thresholds. In addition, under the alternative scenario assuming a shock to non-debt flows⁵, the PV of debt-to-GDP remains above the threshold for the entire forecast horizon, while other debt stock and debt service measures all breach their respective thresholds for most of the projection period.

8. Under customized scenarios, designed to pinpoint sources of high risk, the debt trajectory continues to rise to unsustainable levels. Based on the main potential risks to external debt sustainability, two additional customized scenarios are included in the analysis: financially unconstrained and financially unconstrained with a sudden stop in CBI inflows (text chart). First, under the *financially unconstrained scenario*, the public sector is assumed to continue accumulating debt to finance post-Maria reconstruction, as capital spending remains at historical levels. Under this scenario public debt would take an increasing trajectory. Second, *financially unconstrained scenario*



⁵ This alternative scenario assumes net non-debt creating flows at historical average minus one standard deviation in 2018-2019.

with a sudden stop in CBI revenues in FY2019/20 highlights the downside risk of increasing reliance on unpredictable and volatile CBI revenues and exacerbates debt dynamics further. The simulations indicate that materialization of these risks would result in a permanent breach of the PV of debt-to-GDP ratio threshold with an upward trajectory, rendering debt dynamics unsustainable.

9. Based on the threshold breaches in the baseline, alternative, and customized scenarios, Dominica’s external PPG debt is rated as “high risk of debt distress”. Given the challenges associated with post-Maria recovery, the customized scenarios, which also simulate an upward trending PV of debt-to-GDP, are attached significant weight in the risk assessment as they attempt to capture important vulnerabilities in the economy overlooked by the standardized tests.

D. Public DSA

10. Dominica’s rating of “high risk of external debt distress” is reinforced by vulnerabilities related to PPG domestic debt. Under the baseline scenario, the PV of total public-sector debt is expected to remain above the corresponding benchmark until 2032. Both the PV of the debt-to-revenue and debt service-to-revenue ratios increase in the near term. In the long-term, while the PV of the debt-to-revenue ratio declines marginally, the trajectory of the debt service-to-revenue ratio remains flat (see Figure A2).

11. PPG debt levels also breach the benchmark under alternative shock scenarios. The most extreme shock – which assumes one-time real depreciation of 30 percent in 2018 – leads to an unsustainable and increasing PV of debt-to-GDP ratio. Under the “fixed primary balance” scenario – which assumes that the primary balance-to-GDP ratio remains at its 2017 level – the PV of debt-to-GDP ratio falls below the threshold by 2021. Similar debt dynamics are also observed under the historical scenario, where key macroeconomic variables are set at their 10-year historical averages.

12. Under the customized scenarios, total PPG debt takes on an increasing trajectory. Under the two customized scenarios – financially unconstrained and financially unconstrained with a sudden stop in CBI revenues – which are included to highlight some of the main risks not captured in the standard stress tests, the PV of debt-to-GDP, debt-to-revenue, and debt service-to-revenue ratios continue to increase throughout the forecast period (text chart).

E. Conclusion

13. In light of the high debt burden and the significant risks to the debt sustainability outlook, Dominica is assessed at a “high risk of debt distress.” This assessment is based on debt dynamics presented in the baseline policies scenario and in alternative scenarios, and reinforced by the risks in the customized scenarios. Under the baseline scenario, the government becomes financially constrained by FY2022/23. Under the macroeconomic projection in this DSA, and the assumption that recurrent government spending is downward rigid, Dominica would need of a fiscal consolidation of about 4 percent of GDP in order to create the fiscal space for public investment, as required for public capital replacement and to sustain the reconstruction.

14. The authorities concurred with Staff that Dominica remains at a high risk of debt distress.

They agreed on the importance of grants and CBI flows to finance post-Maria reconstruction. In addition, they acknowledged the need to focus on cost-effective fiscal policies with a view to adopt a consolidation plan to restore sustainability when recovery takes hold. The fiscal consolidation measures committed to after the October 2015 RCF disbursement

remain eligible, with appropriate recalibration. Finally, while Petrocaribe debt remains a gross liability of the government. The authorities did not indicate the existence of a contingency plan in case Petrocaribe flows do not materialize.

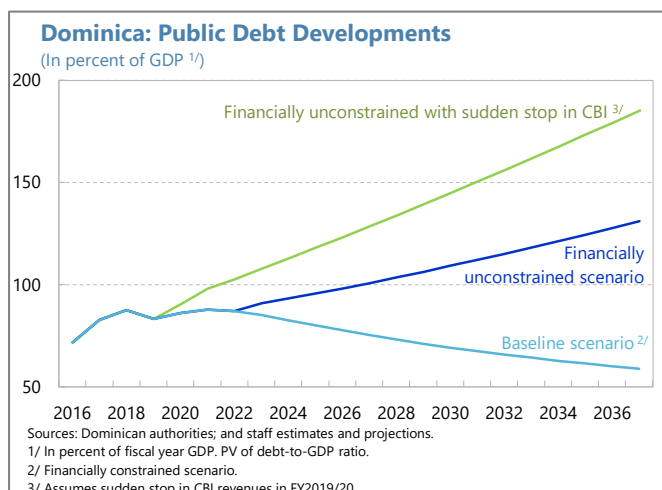
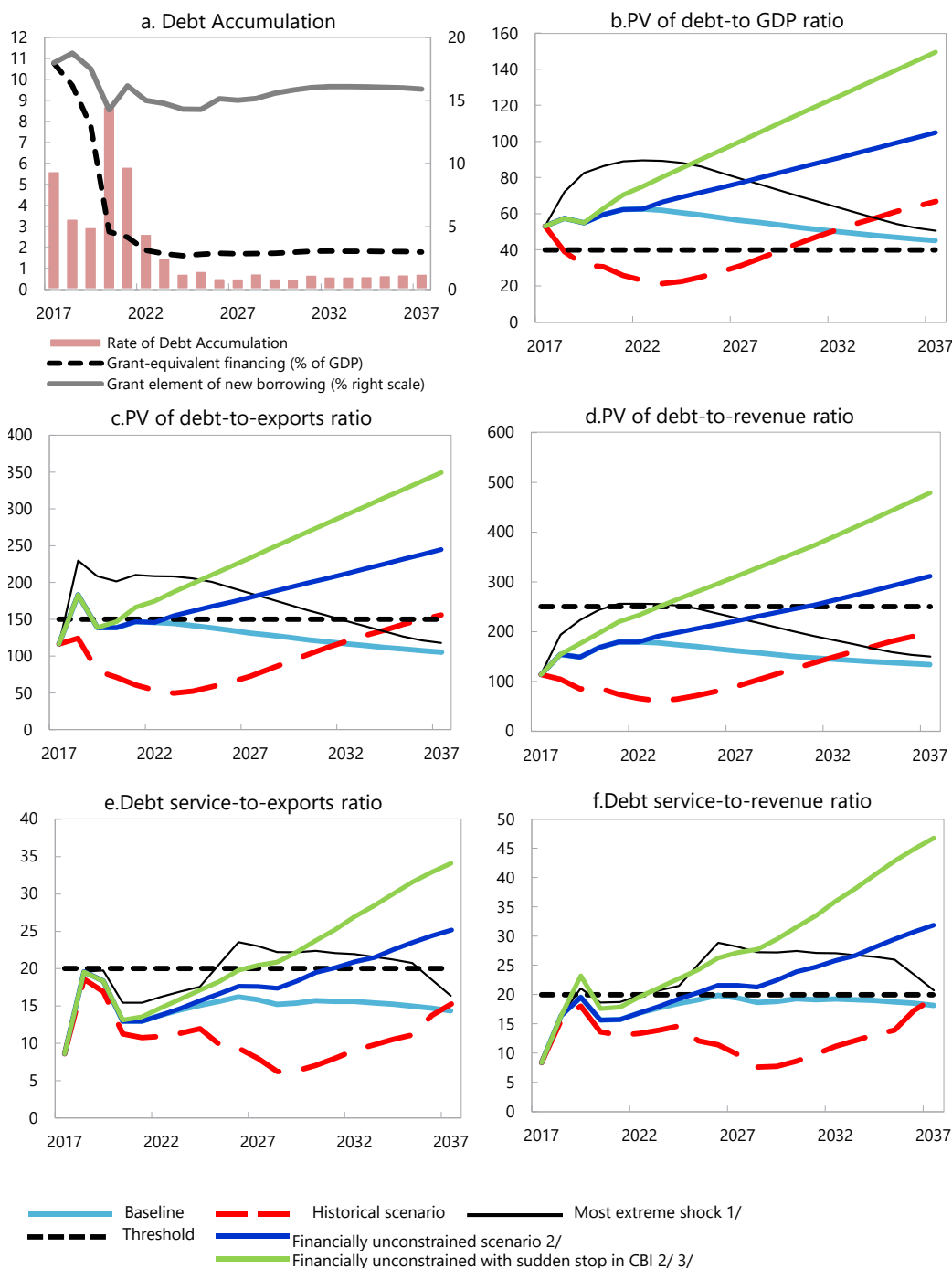


Figure A1. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2017–37 (Baseline Scenario) ¹



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In all figures it corresponds to net non-debt creating flows at historical average minus one standard deviation in 2018-2019. Shocks are applied to baseline scenario.

2/ Customized scenarios.

3/ Sudden stop in CBI scenario assumes a complete stop of CBI inflows starting in FY2019/20.

Table A1. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2014–37
(In percent of GDP, unless otherwise indicated) ¹

	Actual			Historical ^{7/} Average	Standard ^{7/} Deviation	Projections										
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-2022 Average		2027	2037	2023-2037 Average
External debt (nominal) 1/	86.5	83.8	77.7			91.5	99.1	95.3	99.3	102.1	102.1				95.1	82.6
<i>of which: public and publicly guaranteed (PPG)</i>	61.0	58.1	54.7			66.0	71.1	68.1	72.8	75.8	75.7				67.5	56.0
Change in external debt	2.4	-2.7	-6.1			13.8	7.6	-3.8	4.1	2.8	0.0				-1.7	-1.3
Identified net debt-creating flows	2.4	-6.4	-8.0			15.7	26.6	7.8	9.3	12.6	7.8				2.1	1.6
Non-interest current account deficit	4.1	-1.1	-4.0	10.3	8.9	10.9	26.9	17.9	16.6	17.2	10.1				3.9	3.6
Deficit in balance of goods and services	11.7	8.4	5.8			26.3	47.3	38.0	30.6	26.3	17.5				10.4	8.8
Exports	51.3	48.0	49.4			45.6	31.4	39.7	43.0	42.4	43.0				42.9	42.9
Imports	62.9	56.4	55.1			71.9	78.7	77.7	73.6	68.8	60.5				53.3	51.7
Net current transfers (negative = inflow)	-8.9	-9.9	-10.1	-5.6	2.8	-17.0	-17.3	-16.3	-10.4	-9.7	-9.8				-9.2	-8.1
<i>of which: official</i>	-2.6	-3.2	-3.2			-9.2	-8.5	-8.6	-4.2	-4.2	-4.2				-3.6	-2.6
Other current account flows (negative = net inflow)	1.3	0.4	0.3			1.6	-3.1	-3.8	-3.7	0.6	2.3				2.8	2.9
Net FDI (negative = inflow)	-2.6	-4.1	-5.6	-7.7	3.5	-5.5	-6.5	-6.1	-6.0	-5.5	-4.3				-4.3	-4.1
Endogenous debt dynamics 2/	0.9	-1.2	1.5			10.3	6.2	-4.0	-1.3	0.8	2.0				2.4	2.1
Contribution from nominal interest rate	3.0	2.9	3.2			2.5	3.1	3.3	3.3	3.6	3.9				3.8	3.3
Contribution from real GDP growth	-0.2	0.5	0.9			7.9	3.0	-7.3	-4.6	-2.8	-1.9				-1.4	-1.2
Contribution from price and exchange rate changes	-2.0	-4.6	-2.5			...	...	...	...	...	...				...	...
Residual 3/	0.0	3.6	2.0			-1.9	-18.9	-11.6	-5.2	-9.8	-7.8				-3.8	-2.8
<i>of which: Capital transfers 4/</i>																
<i>of which: Commercial Banks and other private flows</i>																
<i>of which: exceptional financing</i>	0.0	0.0	0.0													
PV of external debt 5/	...	...	66.1			78.6	85.5	82.2	86.1	88.7	89.0				84.0	71.8
In percent of exports	...	...	133.8			172.5	272.2	207.4	200.2	208.9	207.1				195.6	167.4
PV of PPG external debt	...	...	43.0			53.2	57.5	55.0	59.6	62.3	62.6				56.4	45.2
In percent of exports	...	...	87.2			116.6	183.0	138.8	138.6	146.9	145.7				131.4	105.4
In percent of government revenues	...	...	78.2			113.9	154.0	148.5	168.1	178.8	178.8				161.5	133.8
Debt service-to-exports ratio (in percent)	12.2	14.0	14.2			11.9	24.3	22.3	16.4	16.7	17.7				19.9	17.9
PPG debt service-to-exports ratio (in percent)	9.0	10.3	10.5			8.6	19.5	18.3	12.9	12.9	13.8				15.8	14.3
PPG debt service-to-revenue ratio (in percent)	13.6	13.0	9.5			8.4	16.4	19.6	15.7	15.8	16.9				19.4	18.2
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.1	0.1	0.1	0.1	0.1	0.1				0.1	0.1
Non-interest current account deficit that stabilizes debt ratio	1.7	1.6	2.1			-2.9	19.3	21.7	12.5	14.5	10.1				5.6	4.8
Key macroeconomic assumptions																
Real GDP growth (in percent)	0.2	-0.6	-1.1	1.0	2.4	-9.3	-3.2	8.0	5.1	2.9	1.9	0.9	1.5	1.5	1.5	1.5
GDP deflator in US dollar terms (change in percent)	2.4	5.6	3.1	2.5	1.8	0.9	1.6	1.7	1.8	1.9	1.8	1.6	2.0	2.0	2.0	2.0
Effective interest rate (percent) 6/	3.6	3.6	3.8	4.4	0.9	2.9	3.4	3.7	3.7	3.8	3.9	3.6	4.1	4.1	4.1	4.1
Growth of exports of G&S (US dollar terms, in percent)	40.9	-1.8	4.9	7.9	16.0	-15.5	-32.3	38.6	16.0	3.6	5.1	2.6	3.5	3.5	3.5	3.5
Growth of imports of G&S (US dollar terms, in percent)	37.3	-6.0	-0.2	5.6	15.1	19.3	7.6	8.4	1.5	-2.0	-8.7	4.4	3.6	2.3	2.5	2.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	18.0	18.7	17.5	14.2	16.2	15.0	16.6	15.0	15.9	15.5	15.5
Government revenues (excluding grants, in percent of GDP)	34.0	38.0	55.0			46.7	37.3	37.1	35.4	34.9	35.0				34.9	33.8
Aid flows (in Billions of US dollars) 8/	0.0	0.0	0.0			0.1	0.0	0.0	0.0	0.0	0.0				0.0	0.0
<i>of which: Grants</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0				0.0	0.0
<i>of which: Concessional loans</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0				0.0	0.0
Grant-equivalent financing (in percent of GDP) 9/	...	...	...			10.8	9.7	7.8	2.7	2.5	1.9				1.7	1.8
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			58.8	58.6	51.5	19.8	23.2	25.4				27.3	27.7
Memorandum items:																
Nominal GDP (Billions of US dollars)	0.5	0.6	0.6			0.5	0.5	0.6	0.6	0.6	0.7				0.8	1.1
Nominal dollar GDP growth	2.6	5.0	2.0			-8.4	-1.7	9.9	7.0	4.9	3.8	2.6	3.5	3.5	3.5	3.5
PV of PPG external debt (in Billions of US dollars)	...	...	0.2			0.3	0.3	0.3	0.4	0.4	0.4				0.4	0.5
(PVt-PVt-1)/GDPt-1 (in percent)	...	...	...			5.6	3.4	3.0	8.7	5.8	2.6	4.9	0.5	0.7	0.7	0.7
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...				...	...
PV of PPG external debt (in percent of GDP + remittances)	...	...	43.0			53.2	57.5	55.0	59.6	62.3	62.6				56.4	45.2
PV of PPG external debt (in percent of exports + remittances)	...	...	87.2			116.6	183.0	138.8	138.6	146.9	145.7				131.4	105.4
Debt service of PPG external debt (in percent of exports + remittances)	...	...	10.5			8.6	19.5	18.3	12.9	12.9	13.8				15.8	14.3

Sources: Dominican authorities; and staff estimates and projections.

1/ Includes public and private sector external debt. In percent of fiscal year GDP.

2/ Derived as $[r - g - \rho(1+g)] / (1+g+\rho+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Public and private capital transfers include CBI inflows and insurance payments.

5/ Assumes that PV of private sector debt is equivalent to its face value.

6/ Current-year interest payments divided by previous period debt stock.

7/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

8/ Defined as grants, concessional loans, and debt relief.

9/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table A2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario, 2017–37

	Projections							2037
	2017	2018	2019	2020	2021	2022	2027	
PV of debt-to-GDP ratio								
Baseline	53	58	55	60	62	63	56	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	53	39	32	31	26	23	31	67
A2. New public sector loans on less favorable terms in 2017-2037 2/	53	59	59	66	71	72	73	77
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	53	56	59	64	67	67	61	49
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	53	48	49	54	57	57	52	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	53	58	56	61	64	64	58	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	53	72	83	87	89	90	79	51
B5. Combination of B1-B4 using one-half standard deviation shocks	53	54	66	70	73	74	66	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	53	82	78	85	88	89	80	64
PV of debt-to-exports ratio								
Baseline	117	183	139	139	147	146	131	105
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	117	124	80	71	61	54	73	156
A2. New public sector loans on less favorable terms in 2017-2037 2/	117	189	148	153	167	169	169	180
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	117	183	139	139	147	146	131	105
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	117	112	138	139	148	147	134	114
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	117	183	139	139	147	146	131	105
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	117	230	208	201	210	209	185	118
B5. Combination of B1-B4 using one-half standard deviation shocks	117	121	149	147	155	153	138	103
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	117	183	139	139	147	146	131	105
PV of debt-to-revenue ratio								
Baseline	114	154	148	168	179	179	162	134
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2017-2037 1/	114	104	85	86	74	66	89	198
A2. New public sector loans on less favorable terms in 2017-2037 2/	114	159	158	186	203	207	208	229
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	114	151	160	181	192	192	174	144
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	114	128	133	152	162	162	149	131
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	114	155	151	171	182	182	165	136
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	114	193	223	244	256	256	228	150
B5. Combination of B1-B4 using one-half standard deviation shocks	114	146	178	199	210	211	190	146
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	114	219	211	239	254	254	229	190

Table A2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Baseline Scenario, 2017–37 (concluded)

	Projections							2027	2037
	2017	2018	2019	2020	2021	2022			
Debt service-to-exports ratio									
Baseline	9	20	18	13	13	14	16	14	
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	9	19	17	11	11	11	8	15	
A2. New public sector loans on less favorable terms in 2017-2037 2/	9	20	17	12	13	13	18	20	
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	9	20	18	13	13	14	16	14	
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	9	14	19	14	14	15	16	15	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	9	20	18	13	13	14	16	14	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	9	20	20	15	15	16	23	16	
B5. Combination of B1-B4 using one-half standard deviation shocks	9	13	17	13	13	14	17	14	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	9	20	18	13	13	14	16	14	
Debt service-to-revenue ratio									
Baseline	8	16	20	16	16	17	19	18	
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2017-2037 1/	8	16	18	14	13	13	10	19	
A2. New public sector loans on less favorable terms in 2017-2037 2/	8	16	19	15	16	16	22	26	
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2018-2019	8	16	21	17	17	18	21	20	
B2. Export value growth at historical average minus one standard deviation in 2018-2019 3/	8	16	19	15	15	16	18	18	
B3. US dollar GDP deflator at historical average minus one standard deviation in 2018-2019	8	17	20	16	16	17	20	19	
B4. Net non-debt creating flows at historical average minus one standard deviation in 2018-2019 4/	8	16	21	19	19	20	28	21	
B5. Combination of B1-B4 using one-half standard deviation shocks	8	16	20	17	17	19	23	20	
B6. One-time 30 percent nominal depreciation relative to the baseline in 2018 5/	8	23	28	22	22	24	28	26	
<i>Memorandum item:</i>									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	12	12	12	12	12	12	12	12	

Sources: Dominican authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table A3. Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2014–37
(In percent of GDP, unless otherwise indicated)

	Actual			Average ^{5/}	Standard Deviation ^{5/}	Estimate						Projections			
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt 1/	78.7	75.3	71.7			82.7	87.7	83.3	86.1	87.8	87.1		75.4	58.9	
<i>of which: foreign-currency denominated</i>	61.0	58.1	54.7			66.0	71.1	68.1	72.8	75.8	75.7		67.5	56.0	
Change in public sector debt	-1.4	-3.5	-3.5			11.0	5.0	-4.4	2.8	1.7	-0.7		-2.4	-1.2	
Identified debt-creating flows	-5.7	-2.9	-5.3			6.4	7.0	-2.3	4.4	4.5	-2.7		-1.9	-2.8	
Primary deficit	-5.8	-0.9	-5.9	-2.3	4.1	-2.1	2.8	2.7	7.0	5.6	-2.5	2.3	-2.0	-2.8	
Revenue and grants	36.0	40.1	55.9			55.8	45.4	43.3	36.3	35.8	35.9		35.8	34.7	
<i>of which: grants</i>	2.0	2.1	0.9			9.1	8.1	6.2	0.9	0.9	0.9		0.9	0.9	
Primary (noninterest) expenditure	30.2	39.2	50.1			53.7	48.3	46.0	43.3	41.3	33.4		33.8	31.9	
Automatic debt dynamics	0.2	-2.0	0.6			8.5	4.2	-5.0	-2.5	-1.0	-0.2		0.1	0.1	
Contribution from interest rate/growth differential	0.6	0.2	1.7			8.3	4.0	-5.6	-3.0	-1.1	-0.3		0.2	0.1	
<i>of which: contribution from average real interest rate</i>	0.8	-0.3	0.9			0.9	1.2	0.9	1.1	1.4	1.4		1.3	1.0	
<i>of which: contribution from real GDP growth</i>	-0.1	0.5	0.8			7.3	2.8	-6.5	-4.1	-2.5	-1.6		-1.1	-0.9	
Contribution from real exchange rate depreciation	-0.5	-2.2	-1.2			0.2	0.2	0.6	0.4	0.0	0.1		...	...
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	4.2	-0.5	1.8			4.6	-2.0	-2.1	-1.7	-2.8	2.0		-0.5	1.6	
<i>of which, use of deposits</i>						4.2	-2.5	-2.4	-1.9	-3.0	1.8		-0.6	0.0	
Other Sustainability Indicators															
PV of public sector debt			60.1			69.9	74.1	70.3	72.8	74.4	74.1		64.3	48.0	
<i>of which: foreign-currency denominated</i>	...	...	43.0			53.2	57.5	55.0	59.6	62.3	62.6		56.4	45.2
<i>of which: external</i>	...	...	43.0			53.2	57.5	55.0	59.6	62.3	62.6		56.4	45.2
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	0.2	5.0	0.3			5.4	11.5	15.0	16.0	14.2	6.5		8.0	7.2	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	107.4			125.3	163.0	162.3	200.4	208.0	206.2		179.5	138.5
PV of public sector debt-to-revenue ratio (in percent)	...	...	109.2			149.8	198.4	189.5	205.5	213.4	211.5		184.1	142.2
<i>of which: external 3/</i>	...	...	78.2			113.9	154.0	148.5	168.1	178.8	178.8		161.5	133.8
Debt service-to-revenue and grants ratio (in percent) 4/	16.8	14.7	11.0			13.4	19.1	28.3	24.7	24.0	25.2		28.0	28.9	
Debt service-to-revenue ratio (in percent) 4/	17.8	15.4	11.2			16.0	23.3	33.1	25.3	24.7	25.8		28.8	29.7	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.4	2.6	-2.4			-13.1	-2.1	7.1	4.2	3.8	-1.8		0.4	-1.6	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.2	-0.6	-1.1	1.0	2.4	-9.3	-3.2	8.0	5.1	2.9	1.9	0.9	1.5	1.5	
Average nominal interest rate on forex debt (in percent)	2.3	2.0	2.3	2.7	1.3	1.6	2.5	2.7	2.8	2.9	3.0	2.6	3.1	3.3	
Average real interest rate on domestic debt (in percent)	2.0	-2.0	1.0	1.9	2.6	3.9	4.6	5.6	5.9	5.5	5.5	5.2	5.7	6.3	
Real exchange rate depreciation (in percent, + indicates depreciation)	-0.7	-3.6	-2.0	-0.6	1.7	0.4	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	2.4	5.6	3.1	2.5	1.8	0.9	1.6	1.7	1.8	1.9	1.8	1.6	2.0	2.0	
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.0	29.1	26.3	5.3	11.9	-2.7	-12.9	3.0	-1.1	-1.8	-17.7	-5.5	1.7	-2.0	
Grant element of new external borrowing (in percent)	...	...	...	...	...	18.0	18.7	17.5	14.2	16.2	15.0	16.6	15.0	15.9

Sources: Dominican authorities; and staff estimates and projections.

1/ Public sector includes Central Government, State Owned Enterprises, and staff estimate of PetroCaribe arrangement. In percent of fiscal year GDP.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

**Table A4. Dominica: Sensitivity Analysis for Key Indicators of Public Debt,
Baseline Scenario, 2017–37**
(In percent of GDP)

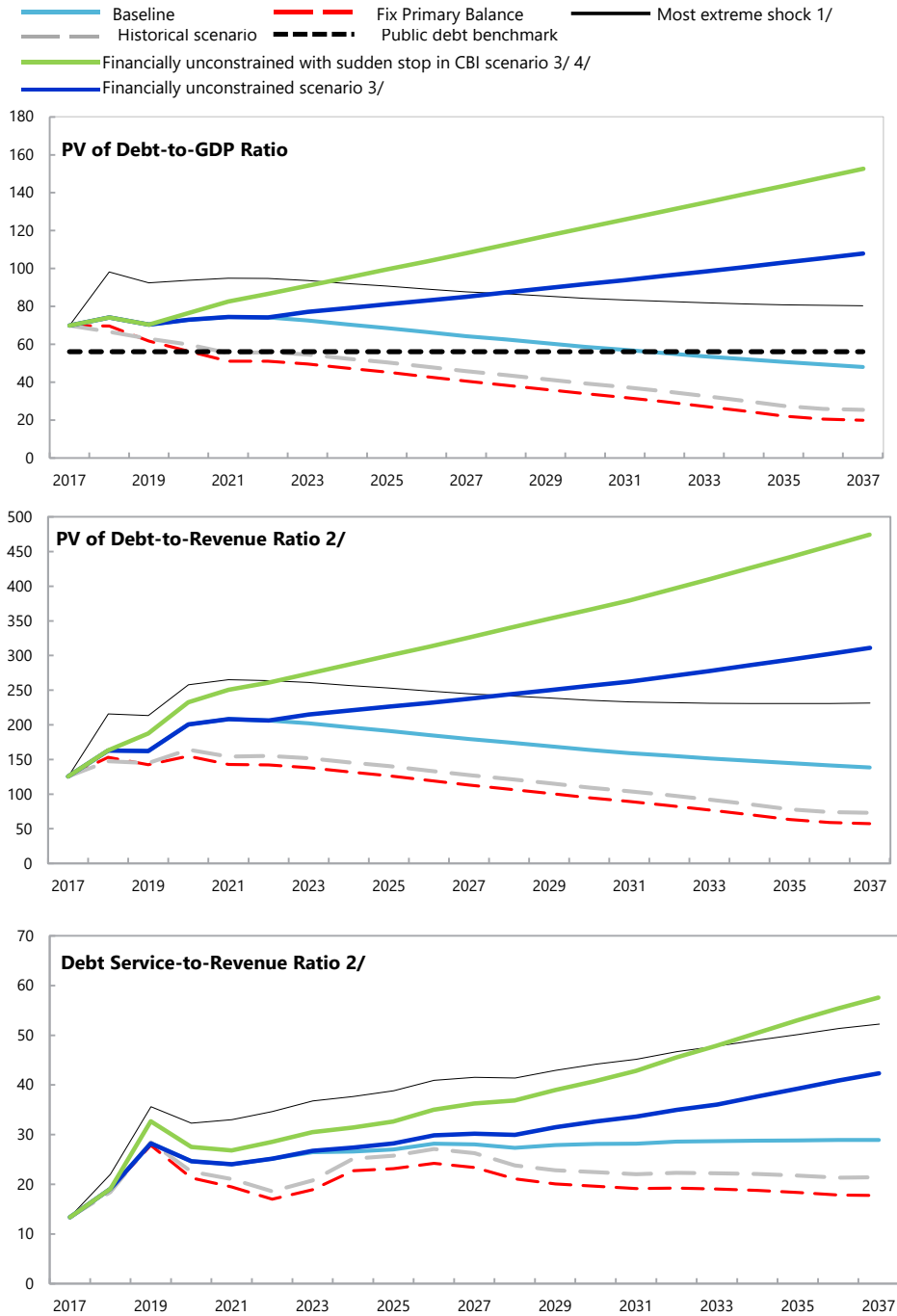
	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	70	74	70	73	74	74	64	48
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	70	67	63	60	55	56	46	25
A2. Primary balance is unchanged from 2017	70	70	62	56	51	51	41	20
A3. Permanently lower GDP growth 1/	70	75	72	75	78	78	77	91
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	70	72	78	83	87	89	91	98
B2. Primary balance is at historical average minus one standard deviations in 2018-201	70	73	69	71	73	73	63	46
B3. Combination of B1-B2 using one half standard deviation shocks	70	69	68	73	76	77	75	74
B4. One-time 30 percent real depreciation in 2018	70	98	92	94	95	95	88	80
B5. 10 percent of GDP increase in other debt-creating flows in 2018	70	83	79	81	83	82	73	57
PV of Debt-to-Revenue Ratio 2/								
Baseline	125	163	162	200	208	206	179	139
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	125	147	145	164	154	155	127	73
A2. Primary balance is unchanged from 2017	125	153	142	155	143	142	113	57
A3. Permanently lower GDP growth 1/	125	164	165	206	217	218	215	261
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	125	159	177	227	242	247	253	284
B2. Primary balance is at historical average minus one standard deviations in 2018-201	125	161	159	196	204	202	175	134
B3. Combination of B1-B2 using one half standard deviation shocks	125	153	157	200	212	215	209	214
B4. One-time 30 percent real depreciation in 2018	125	216	213	258	265	264	245	231
B5. 10 percent of GDP increase in other debt-creating flows in 2018	125	183	182	223	231	229	203	164
Debt Service-to-Revenue Ratio 2/								
Baseline	13	19	28	25	24	25	28	29
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	13	18	28	23	21	19	26	21
A2. Primary balance is unchanged from 2017	13	19	28	21	19	17	23	18
A3. Permanently lower GDP growth 1/	13	19	29	25	25	26	32	42
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2018-20	13	19	30	26	28	29	35	46
B2. Primary balance is at historical average minus one standard deviations in 2018-201	13	19	28	24	23	25	28	28
B3. Combination of B1-B2 using one half standard deviation shocks	13	19	29	24	23	27	30	37
B4. One-time 30 percent real depreciation in 2018	13	22	36	32	33	35	41	52
B5. 10 percent of GDP increase in other debt-creating flows in 2018	13	19	29	30	25	27	31	32

Sources: Dominican authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

Figure A2. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2017–37 (Baseline Scenario)



Sources: Dominican authorities; and staff estimates and projections.
 1/ The most extreme stress test is the test that yields the highest ratio on or before 2027.
 2/ Revenues are defined inclusive of grants.
 3/ Customized scenarios.
 4/ Financially unconstrained scenario with sudden stop in CBI scenario assumes a complete stop of CBI inflows starting in FY2019/20.

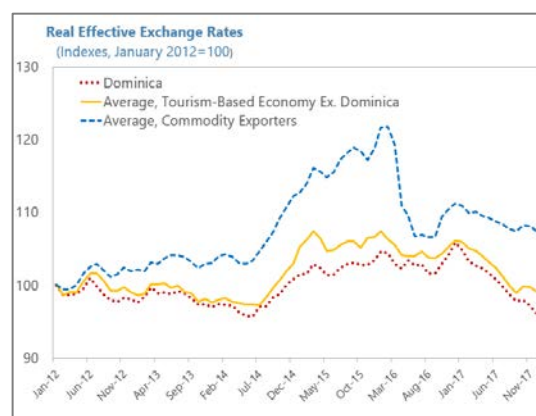
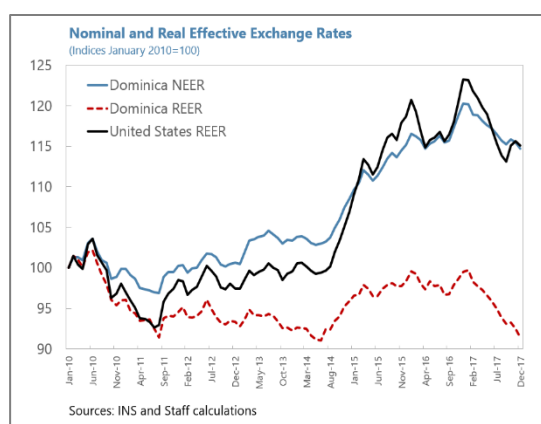
Annex II. External Sector Assessment

In 2017, Dominica's external position was weaker than the level consistent with medium-term fundamentals and desirable policy settings. A solid and sustainable external sector requires policies and structural reforms geared toward improving competitiveness in the medium term. While reserves decreased modestly in 2017, and remain adequate, their shock-absorbing capacity is constrained given the regional quasi-currency board arrangement.

1. The current account switched from a surplus of 0.8 percent of GDP in 2016 to an estimated deficit of 12.5 percent of GDP in 2017. After Hurricane Maria on September 18, 2017, exports of goods and services collapsed due to severe damage, notably to agriculture and tourism infrastructure. Imports and transfers increased due to post-hurricane reconstruction needs and higher external support, respectively. Given projected increases in imports for reconstruction and decreased Citizenship-By-Investment (CBI) revenue, the current account deficit is expected to increase further to 31.7 percent of GDP in 2018, then decline from 2019.¹

A. Nominal and Real Effective Exchange Rate Assessment

2. Due to a weaker U.S. dollar, the real effective exchange rate (REER) depreciated in 2017. Dominica's currency, the East Caribbean dollar, is pegged to the U.S. dollar. While the average nominal effective exchange rate (NEER) appreciated by 0.5 percent, a weakening U.S. dollar—albeit from a relatively high level—contributed a real effective exchange rate (REER) depreciation of 2.8 percent during the same period. Measures of the REER in other Caribbean, tourism-based countries, suggest a deterioration of about 2.1 percent in Dominica's competitiveness in 2017. Appreciation could ensue if relatively stronger growth and higher interest rates in the United States lead to a strengthening of the U.S. dollar. Moreover, inflation is expected to rise from 1.4 percent in 2017 (period-average) to around 2 percent (period-average) in the medium term, boosting the real exchange rate.



¹ The CBI is a program whereby foreigners may obtain citizenship through either a cash contribution of US\$100,000 or an investment of US\$200,000 in a government pre-selected real estate project.

B. External Stability Assessments

3. Quantitative estimates of Dominica's external position suggest that it is moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings.

- Based on the EBA-Lite current account (CA) regression model (after accounting for Dominica-specific factors), in 2017, staff assessed the cyclically-adjusted current account balance to be - 25.9 percent of GDP, and the cyclically-adjusted current account norm to be - 9.7 percent of GDP. Accordingly, the resulting current account gap is -16.1 percent of GDP. The assumed

Current Account and Real Exchange Rate Assessments (In percent of GDP)			
	CA Model	ES Approach	I-REER Model
CA Actual	-12.5	-12.5	
Cyclically Adjusted CA	-25.9	-14.4	
Cyclically Adjusted CA Norm	-9.7	-6.6	
CA Gap	-16.1	-7.6	
Of which: Policy Gap	-8.1		
<i>Fiscal Policy</i>	-8.4		
<i>Private Credit</i>	0.3		
<i>Change in Reserves</i>	-0.04		
<i>Capital Controls</i>	0.0		
Residual	6.6		
Real Exchange Rate Gap ¹	17.5	15.2	9.5

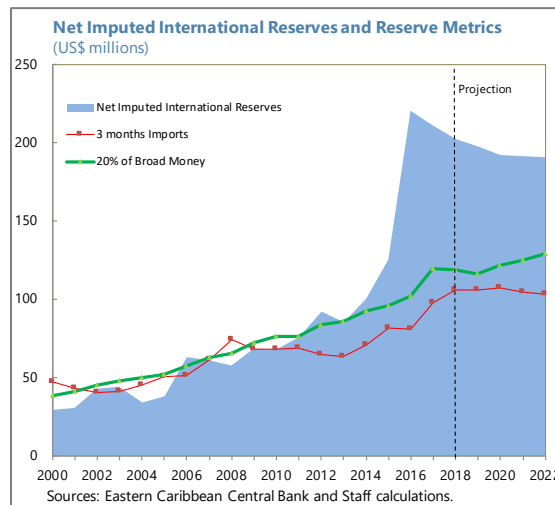
Source: IMF staff estimates.

1/ Data reflect over or undervaluation (in percent). Positive numbers indicate that REER is overvalued and negative numbers indicate that the REER is undervalued.

elasticity of the CA to the REER is -0.96. Macroeconomic policies contributed - 8.1 percent of GDP to the gap, specifically: (i) fiscal policy (-8.4 percent of GDP); (ii) private credit (0.3 percent of GDP); and, (iii) change in reserves (-0.04 percent of GDP). The remaining gap of 6.6 percent of GDP would need to be closed through structural policies aimed at improving competitiveness in the medium term. The cyclically adjusted fiscal balance in the steady state reflects: (i) a desired underlying primary balance of 1.5 percent of GDP after a 4 percent of GDP fiscal consolidation; (ii) CBI revenues of 1 percent of GDP; and, (iii) interest payments of 2.2 percent of GDP — reflecting rising global interest rates and higher debt in Dominica. An additional temporary adjustment of 14.6 percent of GDP was included to reflect: (i) a difference of 19.3 percent of GDP from the extraordinary CBI revenue of 20.3 percent GDP in 2017 and the projected CBI revenue of 1 percent of GDP in the steady state; and, (ii) 4.7 percent of GDP from public investment of 12.2 percent of GDP financed by high CBI in 2017 and the projected public investment of 7.5 percent of GDP with a fiscal consolidation of 4 percent of GDP. This consolidation is required to continue reconstruction with fiscal sustainability. This would be in line with the tapering of hurricane-related official and bilateral financing.

- The external sustainability (ES) approach sets a medium-term current account norm at the level that would bring the net foreign assets-to-GDP ratio to zero in ten years. On this basis, the estimated norm is a deficit of 6.6 percent of GDP, compared to a cyclically-adjusted current account deficit of 14.4 percent of GDP.

- The EBA-Lite methodologies suggest a range of REER gap estimates. Each method indicates that the REER is overvalued. Specifically, according to the CA model, a REER adjustment of 17.5 percent would be necessary to close the current account gap of -16.1 percent of GDP. At the same time, the ES approach and the Index REER model found that the REER needs to be adjusted by 15.2 and 9.5 percent, respectively.



Our calculations indicate a REER gap of 14 percent overvaluation on average using the three methodologies.

C. Reserve Adequacy

4. Dominica's reserve position worsened slightly in 2017. Dominica is a member of the Eastern Caribbean Currency Union, and under this quasi-currency board, foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. The imputed reserves method is used as a proxy for net foreign assets held with the ECCB.² Dominica had an estimated level of imputed reserves of US\$220.9 million at end-2016, which covered 8.4 months of imports and 43 percent of broad money, exceeding the typical benchmarks of reserve adequacy of 3 months of imports and 20 percent of broad money. By end-2017 reserves had fallen 4.5 percent to US\$210.9 million, which cover 6.8 months of imports and 35 percent of broad money.⁴

D. Conclusion

5. Dominica's external position is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policy settings in 2017. Considering the damage caused by Hurricane Maria, and the consequent revenue losses and reconstruction spending needs, the external position will weaken significantly in the medium term. In due course, once the recovery takes hold, the authorities will need to implement a fiscal consolidation plan to restore sustainability by generating a primary surplus while providing

² 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.

³ 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.

⁴ 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.

space for infrastructure spending. More generally, supportive structural reforms – improving labor productivity, addressing emigration and brain drainage, reducing electricity costs, increasing access to finance, as well improving the business environment – are necessary to boost productivity, improve competitiveness, and raise prospects for export diversification.

Annex III. State-Owned Enterprises

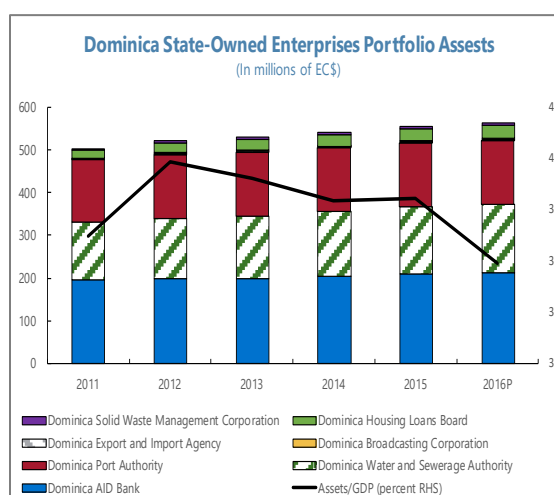
The ongoing sustainability challenges of state-owned enterprises (SOEs) worsened with the hurricane, given the damage to key public infrastructure and the deterioration in the loan portfolios of public financial institutions. While most SOEs are operationally balanced, they depend on central government grants to finance large investment, which has allowed SOEs to maintain debt at approximately 12 percent of GDP in recent years. The hurricane imposed additional financial sustainability challenges with the need to access financing to repair damage to structures, and with the decision to build with resilience. While this investment will increase interest expenditure, it will result in long-term cost savings given recurrence of natural disasters, while supporting overall economy performance.

A. Background

1. SOE activities include banking and financial services, utilities, housing, industry, and education. There are 8 commercial SOEs (excluding social security) that engage in revenue generating activities and 6 non-commercial SOEs.¹

B. Financial Performance through end-2016

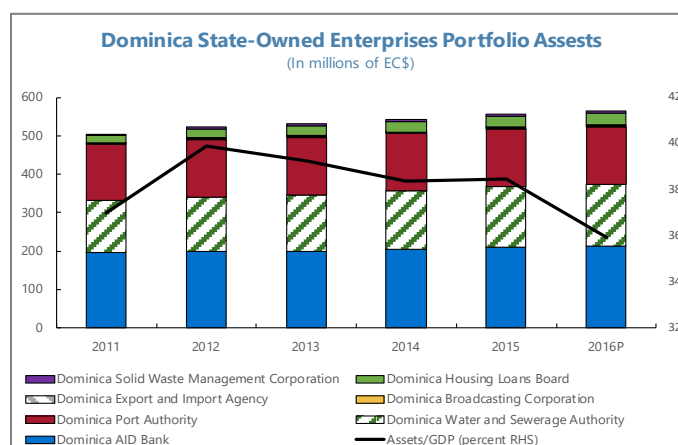
2. The size of SOEs in Dominica is significant, with assets estimated at EC\$560 million or approximately 36 percent of 2016 GDP. The largest SOE is the Dominica Agricultural, Industrial, and Development Bank (AID Bank), which held almost 40 percent of SOE assets at end-2016 (13.5 percent of 2016 GDP), followed by the Dominica Water and Sewerage Authority with 29 percent of assets (about 10 percent of GDP). The Dominica Port Authority accounted for 26 percent of assets.



¹ The commercial SOEs are the Dominica Export Import Agency, the Dominica Broadcasting Corporation, the Dominica Solid Waste Management Corporation, the Dominica Water and Sewerage Company, the Dominica Air and Sea Port Authority, the Public Works Corporation, the Agricultural Industrial Development Bank, and the Government Housing Loans Board. The non-commercial SOEs are the Dominica Bureau of Standards, the Invest Dominica Authority, the National Telecommunications Regulatory Commission, the Independent Regulatory Commission, the Discover Dominica Authority, and the Dominica State College.

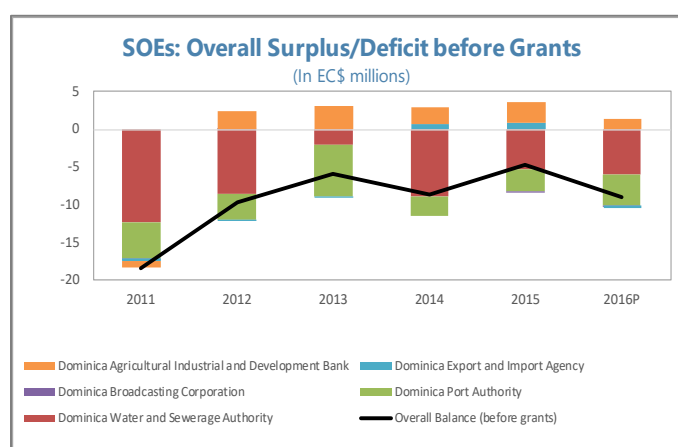
3. The SOE sector grew by 12 percent in the last 5 years, with assets of 35 percent of GDP.

This increase in assets was driven by 3 entities, the AID Bank, the Dominica Water and Sewerage Authority, and the Dominica Air and Sea Port Authority. As a share of GDP, however, the combined size of SOEs declined from 2011, as GDP growth outpaced SOE asset growth.



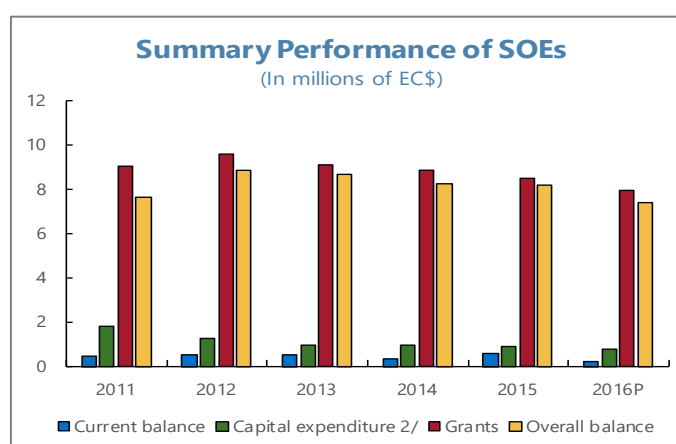
4. Financial performance varies cross SOEs.

Since 2011, three of the five SOEs for which data is available have typically run deficits (net of grants). Among these, the Water and Sewerage Authority accounted for largest share of the operating deficits, followed by the Port Authority. The AID Bank reported surpluses from 2012 after a deficit in 2011. Grants to SOEs, including from the central government, have offset the deficits of some SOEs.



5. The stock of SOE debt has risen gradually over the years while declining slightly as a share of GDP (see Table 1). At end-2016, SOEs debt was

12.2 percent of 2016 GDP (US\$71 million, US\$7 million higher than in 2012). AID Bank accounts for the largest share of this debt. On average, 40 percent of debt is borrowing from the Caribbean Development Bank, while other creditors include Dominica Social Security and the Government of Dominica.



6. There is weak oversight of SOE performance. The Macro Unit within the Ministry of Finance has an informal role in the oversight of SOE performance. The legal framework for SOEs is decentralized wherein the primary responsibility for SOE oversight is in the line

ministry charged with supervision of individual SOEs. Accordingly, SOEs are governed by the specific legislation that established each enterprise. In 2014, a CARTAC technical assistance mission advised the government on improving the management and oversight of its SOEs and several reform initiatives were suggested. An SOE oversight committee was established and performance monitoring guidelines were developed.

Dominica: Financial Performance of State Owned Enterprises 1/

	2011	2012	2013	2014	2015	2016 ^P
	(In millions of Eastern Caribbean dollars)					
Consolidated Accounts						
Current revenue	55.67	60.38	59.92	60.08	62.55	60.35
Current expenditure	49.60	53.71	52.74	54.73	54.31	57.01
Wages and salaries	21.80	22.39	22.15	22.58	23.04	23.82
Interest	6.24	7.19	7.78	7.45	7.48	7.51
Other	21.28	23.76	22.94	24.70	23.79	25.67
Current balance	6.07	6.66	7.19	5.35	8.25	3.34
<i>of which:</i>						
<i>Dominica Water and Sewerage Author</i>	3.29	4.46	5.03	4.61	6.03	1.52
<i>Dominica Export and Import Agency</i>	-0.26	-0.05	0.01	0.64	0.92	1.44
<i>Dominica Port Authority</i>	0.46	-0.19	-0.97	-2.24	-1.41	-1.33
<i>Dominica Broadcasting Corporation</i>	0.00	1.51	0.00	0.00	1.73	1.75
<i>Dominica Aid Bank</i>	2.57	2.45	3.12	2.33	2.70	1.70
Capital expenditure 2/	24.37	16.37	13.10	13.89	12.86	12.17
Overall balance (before grants)	-18.30	-9.71	-5.92	-8.55	-4.52	-8.83
Grants	121.93	126.02	123.10	125.30	122.48	125.16
Overall balance	103.63	116.31	117.19	116.75	117.96	116.33
<i>of which</i>						
<i>Dominica Water and Sewerage Author</i>	-12.37	-4.46	-0.86	-5.88	-5.20	-5.88
<i>Dominica Export and Import Agency</i>	-0.31	-0.16	-0.11	0.64	0.85	-0.20
<i>Dominica Port Authority</i>	117.14	118.58	115.13	119.66	119.52	120.96
<i>Dominica Broadcasting Corporation</i>	-0.02	0.08	0.00	0.00	0.22	0.24
<i>Dominica Aid Bank</i>	-0.82	2.36	3.03	2.33	2.70	1.45
	<i>In Percent of GDP</i>					
Current revenue	4.12	4.60	4.42	4.25	4.33	3.84
Current expenditure	3.67	4.09	3.89	3.87	3.76	3.63
Current balance	0.45	0.51	0.53	0.38	0.57	0.21
Capital expenditure 2/	1.80	1.25	0.97	0.98	0.89	0.77
Grants	9.01	9.60	9.08	8.86	8.48	7.97
Overall balance	7.66	8.86	8.65	8.26	8.16	7.41
Memorandum item:						
<i>Debt (in EC\$ millions)</i>		171.50	176.62	179.54	180.43	191.72
<i>In percent of GDP</i>		13.07	13.03	12.70	12.49	12.21
<i>In EC\$ million</i>						

Sources: Ministry of Finance; and Fund staff estimates.

1/ Data covers the five largest SOEs.

2/ On a cash basis.

C. Impact of Hurricane Maria

7. The destruction of roads, bridges, and public utility systems affected all SOEs.

Public services and transport were severely affected in light of the damage sustained by electricity and, water and sanitation infrastructure. As of end-April 2018, the electricity company reported that, while most generation and transmission facilities been repaired, their

load was 40 percent of pre-hurricane levels because many consumers had not rebuilt their properties sufficiently to restore consumption. The water and sewage company indicated that service had been restored to 96 percent of customers; for locations without electricity, they had purchased generators that will remain on site as a backup power source that will boost resilience. The Port authority stated that, although operations at the main airport were restored quickly, arrivals in December 2017 were 35 percent lower than in December 2016. While the seaport had recovered from the initial post-hurricane surge in shipments—from an average of 80 containers per week to a peak of 300 containers per week—there was a still severe shortage of storage space.

8. Identifying financing for post-Maria reconstruction is a challenge. Reconstruction of the water and sewage company infrastructure, for example, was initially financed by the combination of own savings, insurance payments, and an advance from the central government.

9. While restoration of services remains a priority, rebuilding resilient infrastructure is key to long-term sustainability. The water and sewage company, for example is collaborating with the CDB to develop a climate vulnerability strategy. The company is also partnering with intranational donors to make their system more resilient to natural disasters. The electricity sector is undertaking a similar resiliency study in collaboration with the CDB.

10. The AID Bank continues to provide concessional financing to support post-Maria recovery. The AID Bank is a developmental institution that provides financing on a concessional basis to government-identified sectors including agriculture, tourism, manufacturing, housing, and education. The Bank is funded primarily by my multilateral institutions, including the Caribbean Development Bank. The central government also provides funds for on-lending to promote development and post-Maria recovery.

11. The AID bank asset portfolio was severely affected by hurricane Maria. A preliminary assessment of the AID Bank indicated that approximately 45 percent of properties in their portfolio suffered physical damage, with the largest shares in agriculture (about 80 percent) and manufacturing (about 60 percent), and the lowest in housing (about 30 percent) and transportation (about 25 percent). To help clients recover, the bank had granted a payment moratorium of 6 months to the agricultural sector and 4 months to other sectors. They reported that NPLs had increased from 25 percent before the hurricane to 29 percent as at end-April, and a further increase is likely.



DOMINICA

STAFF REPORT FOR THE 2018 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 30, 2018

Prepared By

The Western Hemisphere Department

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FUND RELATIONS

(As of April 30, 2018)

Membership Status Joined December 12, 1978; Article VIII.

General Resources Account	SDR Million	Percent of Quota
Quota	11.50	100.00
Fund holdings of currency	11.49	99.93
Reserve Tranche Position	0.01	0.08

SDR Department	SDR Million	Percent of Allocation
Net cumulative allocation	7.84	100.00
Holdings	0.40	5.12

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	7.79	67.74
ESF RAC Loan	0.98	8.5

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	12/29/03	12/28/06	7.69	7.69
Stand-By	08/28/02	01/02/04	3.28	2.97
SAF	11/26/86	11/25/89	2.80	2.80

Projected Payments to the Fund (SDR Million):^{1/}

	2018	2019	Forthcoming		2022
			2020	2021	
2022 Principal	0.53	1.07	1.41	1.64	1.44
Charges/Interest	0.05	0.06	0.06	0.06	0.06
Total	0.58	1.13	0.47	1.70	1.50

Exchange Rate Arrangement: Dominica is a member of the Eastern Caribbean Currency Union, which has a common central bank, the Eastern Caribbean Central Bank, and currency, the Eastern Caribbean dollar. Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar. Dominica has accepted the obligations of Article VIII, Sections 2, 3, and 4. Dominica maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

¹ Based on existing use of resources and present holdings of SDRs.

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in April 2016 and found that the ECCB has maintained generally strong controls over its key operations. External audit and financial reporting practices remain sound. The ECCB financial statements are compliant with International Financial Reporting Standards and are published on a timely basis. The internal audit function needs to be reformed to align it with leading international practices and oversight could be further strengthened by enhancing the financial expertise of the audit committee.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on May 12, 2017. Dominica is on a 12-month cycle.

Technical Assistance: Dominica has received significant technical assistance from Caribbean Regional Technical Assistance Center (CARTAC) and the IMF. Technical assistance missions focused on tax reform, revenue administration, expenditure rationalization, financial sector, and Public Financial Management (PFM):

PFM Missions

- June 2013: Deliver workshop on cash flow forecasting and planning
- November 2013: Restructure cash flow unit and continue to build capacity and expertise in bank reconciliation
- January 2014: Investigate and resolve data integrity issues with Smart-Stream
- January 2014: Wrap up bank reconciliation and ascertain further needs
- March 2014: Work with M. Smith to review Dominica
- March 2014: Follow-up on earlier TA on bank account reconciliation
- March 2014: Introduce new Adviser
- March 2014: Assist authorities to build capacity for new Procurement staff
- April 2014: Assist Dominica procurement in continuing to navigate and implement action plan
- May 2014: Finalize implementation of updated automated bank reconciliation software
- July-August 2014: Assist in closure of 2013/14 financial year and carry forward un-reconciled bank reconciliation discrepancies
- September 2014: Assist with planning of 2015/16 budget and develop draft budget call circulars
- October 2014: Examine and provide recommendations to strengthen oversight and monitoring of State Owned Enterprises
- February 2015: Undertake a gap analysis of the Internal Audit systems
- March 2015: Deliver presentations and hold discussions on redraft of PFM Legislation

DOMINICA

- March 2015: Provide TA to Budget Department with the revised budget process and develop Cabinet Decision Table
- March 2015: Develop Concept Note for undertaking a PEFAQ in October 2015
- August 2016: Building a PFM Action Plan following the recent PEFA
- November 2016: PFM Legislation/Regulations Revisions
- March 2017: Treasury Assessment

Revenue Administration Missions

- June 2013: Tax and Customs Administration
- June 2013: Tax and Customs Administration
- June 2013: To work on outline for Regional Audit Manual with STX Brian Dawe
- August 2013: Assist Dominica Inland Revenue and Customs Department with their Risk Management program (Support to SEMCAR)
- September 2013: Continue to assist with IRD reorganization and capacity building in audit
- September 2013: Introductory Meetings with Senior IRD Officials; liaise with STX Dawe on IRD reorganization
- September 2013: to introduce new LTX Advisor to Senior IRD officials; liaise with STX Dawe on IRD reorganization
- October 2013: Liaise with STX Macleod on PAYE Administration support
- October 2013: Deliver PAYE audit training; assist with development of Audit program and procedures circulars
- November 2013: Work at home: Development of Audit Manual
- November 2013: Co-facilitate regional seminar on Tax Arrears Collections and Enforcement
- November 2013: Co-facilitate the Regional Collections Enforcement Seminar for Supervisors
- November 2013: To continue to assist with IRD reorganization and capacity building in audit
- November 2013: To assist in the development and upgrade of collections enforcement procedures
- November 2013: Supporting the development of Valuation procedures and policy for the Customs Administration
- January 2014: Help design the IRD Corporate Strategic Plan
- March 2014: Post Clearance Audit Training and Support to the Customs Administration
- April 2014: Extension of Tax Administration Adviser
- April 2014: Project Management Support and Building Audit Capacity – IRD reorganization project
- September 2014: To conduct Tax review

- September/October 2014: Review of Dominica Income Tax
- January 2015: Building Capacity and Supporting the Establishment of the HQ Design Monitoring and Large and Medium Taxpayer Sections (LMTS)
- January 2015: DMS and Large and Medium Taxpayers compliance measurement
- March 2016: Small Business Reform – Revenue Modelling for VAT and Presumptive tax
- August 2016 : To Provide Training and Guidance to Strengthen the Post-Clearance Audit Function in Customs
- September 2016: Meeting with the Comptroller of Customs to Discuss Technical Assistance Needs
- October 2016: Building Capacity in Data Analytics and Computer-Assisted Audit Techniques
- October 2016: Compliance management framework
- November 2016: Develop Taxpayer Service Strategy
- February 2017: Tax Administration-Assist IRD to finalize its taxpayer services strategy

Financial Sector Missions

- December 2013: Insurance Supervision and Credit Union Supervision
- January 2014: Follow-up mission—onsite review of offshore banks and continued training of Supervisors
- April 2014: Consolidated Supervision - Training
- November 2014: Risk Based Supervision and Consolidated Supervision
- April 2016: Risk Based Supervision
- August 2016: Supervisory Interventions Banks and Non-Banks
- November 2016: Risk-Based Supervision Training
- January 2017: Development of a Stress-Testing Framework and Methodology for Credit Union Sector
- February 2018: Crisis Management Plan for the Non-Bank Sector

Economic and Financial Statistics

- May 2013: National Accounts – Quarterly
- April 2014: Joint CARTAC/STA IIP Mission
- February 2015: Training for Survey Respondents (ECCU Countries)
- June 2016: Balance of Payments Statistics and IIP
- June 2017: External Sector Statistics
- January 2018: National Accounts

Macroeconomics and Programming Analysis

- November 2013 – Needs assessment of Macroeconomic Policy Unit; create a forward technical assistance work plan
- January 2014: To assist authorities with their medium-term macroeconomic framework
- November 2014 – Produce framework to update macroeconomic projections on a quarterly basis
- February 2015: Technical assistance to train staff in macroeconomic and fiscal forecasting as well as to prepare for IMF Article IV visit
- February 2016: Assist Macro Policy unit with update of their macroeconomic projections for upcoming Budget
- November 2016: Coordinate Macro Program with Macro Advisor

FSAP: A joint IMF/World Bank team performed an assessment of the financial sector of the member states of the ECCU, in two missions—September 1–19 and October 20–31, 2003. The principal objective of the missions was to assist the authorities in assessing the development needs and opportunities for the financial sector and identifying potential vulnerabilities of financial institutions and markets to macroeconomic shocks, as well as the risks to macroeconomic stability from weaknesses and shortcomings in the financial sector. The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF’s external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

AML/CFT: The most recent assessment of Dominica’s AML/CFT regime was conducted by the Caribbean Financial Action Task Force in 2009. Since this assessment, Dominica has taken steps to strengthen its AML/CFT framework. Dominica has not yet been assessed against the prevailing 2012 FATF standard which includes an emphasis on the effectiveness of the framework in place.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: <http://financesapp.worldbank.org/en/countries/Dominica/>
- Caribbean Development Bank: <http://www.caribank.org/about-cdb/member-countries/regional-members/dominica>

STATISTICAL ISSUES

(As of April 30, 2018)

Dominica — STATISTICAL ISSUES APPENDIX
I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has shortcomings due to capacity constraints in the statistical agency, and collection at the regional level. Dominica participates in the General Data Dissemination System. However, the metadata were last updated in January 2006 for the national accounts and external sector statistics and December 2002 for the government finance statistics. including weaknesses in coverage, accuracy, frequency, and timeliness of data. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation. Particularly, staff’s analysis would benefit from more timely and improved data pertaining to the fiscal accounts, labor, agriculture, and the balance of payments. Efforts to prepare national accounts at a quarterly frequency would also be welcome. The authorities could pursue such improvements in a more cost-effective manner by exploring proposals to centralize statistics.</p>
<p>National accounts: Staff turnover and limited source data have hampered the improvement on real sector statistics. The Central Statistics Office (CSO) currently produces and disseminates annual estimates of GDP by production approach at current and constant 2006 prices; as well as annual current price estimates for GDP by expenditure approach, with private final consumption expenditure derived as a residual. The CSO has been trying to develop quarterly GDP by production approach since 2012, but progress has been minimal due to limited staff capacity and source data. A census was conducted in 2011.</p>
<p>Price Statistics: CPI data are compiled monthly. The weights are based on the 2008/09 Household Income and Expenditure Survey (HIES) with a base period of June 2010. There is a program to develop export and import price indexes (XMPIs), but a shortage of staff working on price statistics limits developments in CPI methodology and the likelihood that XMPIs will be developed expediently. Data on employment are sparse and there are no official data on producer prices.</p>
<p>Government Finance Statistics: Statistical capacity problems affect the timely production of quality government finance statistics. Monthly data can be obtained, but they show some important shortcomings. Fiscal data should be reconciled between the Inland Revenue Department, Customs, and the Treasury monthly. Efforts should also be directed towards reducing omissions and misclassifications in the data, which would help reduce the need for frequent revisions. Capital expenditure data would benefit from efforts to improve reporting and budgeting data for the public-sector investment program (e.g., project implementation rates, current expended resources, projected resource usage, estimated completion dates, etc.), which are fragmented and subject to continuous revisions. Attention should also be directed towards improving statistics on the financial position of public institutions outside the central government. An automation technology, mandatory for all ministries and suppliers of goods and services was installed in all line ministries in 2005 and is the basis for the reporting. Although progress has been made in improving the measurement of government debt, data show shortcomings and are not tracked continuously. Very limited financing data are available. The authorities do not provide consolidated nonfinancial public-sector data. Data for the rest of the public sector—Dominica Social Security and the</p>

public enterprises—are obtained directly from each entity with frequent delays and omissions. No government finance data are reported to STA for publication in the International Financial Statistics (IFS) or the Government Finance Statistics (GFS) Yearbook.

Monetary and Financial Statistics: Monetary statistics are compiled and reported to the Fund by the ECCB monthly based on a standardized report adopted in 2006. The institutional coverage of monetary statistics needs to be improved by including the accounts of mortgage companies, building societies, credit unions, and insurance companies. The lack of published data on credit unions is a serious shortcoming as the sector is large in Dominica. In this respect, coordination between the ECCB and Dominica’s Financial Services Unit (which supervises financial corporations other than those licensed under the Banking Act) could help to resolve this issue.

External sector statistics: In July 2017, the ECCB released annual estimates of 2014-2016 balance of payments and—for the first time—international investment position statistics. Estimates were based on the sixth edition of the Balance of Payments and International Investment Position Statistics Manual (BPM6) for the eight ECCU member economies, including Dominica. Travel estimates (credits) are sourced from visitor expenditure surveys and now include education-related travel services. Further work is required to release consistent historical data series and improve the timeliness and the coverage of the data, particularly, direct investment transactions due to the low response rates to the surveys. Actions need to be undertaken in collaboration with the ECCB, which coordinates the compilation of external sector statistics of the ECCU economies.

Debt statistics: The debt unit of the Ministry of Finance maintains a database on external debt statistics. These include, public and publicly-guaranteed external loans, debt securities, and other debt instruments that provides detailed information on disbursements, debt service, and debt stocks (the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) is used). Public and publicly guaranteed external debt data are reported to the World Bank’s Quarterly External Debt Statistics (QEDS). Data on private sector external debt stocks are not available, other than from the monetary survey, in the case of the commercial banks.

II. Data Standards and Quality

Dominica is a participant in the enhanced General Data Dissemination System (e-GDDS since September 2000. Its metadata published on the Fund’s Dissemination Standards Bulletin Board (<http://dsbb.imf.org>) was last updated in September 2004.

A Data ROSC for the monetary sector was conducted in 2007, covering the ECCB and ECCU member countries, including Dominica.

**Dominica: Table of Common Indicators Required for Surveillance
(As of April 23, 2018)**

	Date of Latest Observation	Date Received⁸	Frequency of Data⁸	Frequency of Reporting⁸	Frequency of Publication⁸
Exchange Rates ¹	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve liabilities of the Monetary Authorities ^{1,2}	01/2018	03/27/2018	M	M	M
Reserve/Base Money	01/2018	04/08/2018	M	M	M
Reserve/Base Money	1/31/2017	3/21/2017	M	M	M
Broad Money	01/2018	04/08/2018	M	M	M
Central Bank Balance Sheet	01/2018	04/08/2018	M	M	M
Consolidated Balance Sheet of the Banking System	1/31/2017	3/21/2017	M	M	M
Interest Rates ³	01/2018	04/08/2018	M	M	M
Consumer Price Index	12/2017	04/10/2018	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing ⁴ – General Government ⁵	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance, and Composition of Financing ⁴ – Central Government	01/31/2017	3/16/2017	M	M	Q
Stocks of Central Government and Central Government- Guaranteed Debt ⁶	2015/2016	3/08/2017	A	A	A
External Current Account Balance	2016	10/05/2017	A	A	A
Exports and Imports of Goods and Services	09/2017	02/23/2018	M	A	A
GDP/GNP	2016	12/05/2017	A	A	A
Gross External Debt	2015	2/20/2016	M	M	A
International Investment Position ⁷	2016	10/10/2017	NA	NA	NA

¹ Dominica is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US\$1 = EC\$2.70.

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

⁴ Foreign, domestic banks, and domestic nonbank financing.

⁵ The general government consists of the central government and state and local governments.

⁶ Currency and maturity composition are provided annually.

⁷ Data is not available from the authorities.

⁸ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA); Not Applicable (n.a.).