IMF Country Reports 22/040

Dominica: 2021 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Dominica

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/40

DOMINICA

February 2022

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DOMINICA

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 2021 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 February 2, 2022 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 February 2, 2022, following discussions that ended on November 22, 2021, 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 January 18, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Dominica.

The documents listed below have been or will be separately released.

Selected Issues

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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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR22/35

IMF Executive Board Concludes 2021 Article IV Consultation with Dominica

FOR IMMEDIATE RELEASE

Washington, DC – **February 14, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded on February 2 the Article IV consultation with Dominica.[1]

The COVID-19 pandemic took a heavy toll at the Dominican economy. GDP is estimated to have contracted by 11 percent in 2020 and is expected to recover modestly to 3.7 percent in 2021. The output decline, driven by a sharp reduction in tourism and related sectors, was contained by strong growth in the construction sector stemming from the large public investment program through 2020-21, financed by exceptionally high revenue from the Citizenship by Investment (CBI) program.

Despite record CBI revenue, the sharp decline in tax revenue and increase in health spending and social transfers led to large fiscal deficits in 2020 and 2021 and caused public debt to peak at an estimated 106 percent of GDP in 2020. The current account deficit estimate remained high at around 30 percent of GDP in 2020-21, owing to the loss of tourism exports and an increase in imports related to higher public investment and commodity prices—despite a decline in private demand for imports.

The financial sector has remained liquid and stable during the pandemic, but Non-Performing Loans (NPLs) remain above prudential benchmarks. The loan service moratoria authorized by the banks and credit union regulators supported firms and households facing income loss, containing a deterioration in portfolio performance.

In the medium term, growth is expected to recover underpinned by the return of tourism, expanding hotel capacity, and high public investment in infrastructure resilient to natural disasters financed by CBI revenue. Risks are skewed to the downside and include renewed worldwide and domestic Covid-19 contagion waves, CBI revenue and/or official financing below projected levels, which would slow public investment and economic activity. Weakness in the financial sector, particularly the credit unions, could amplify downside risks.

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[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 officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their pandemic response to support households and businesses. They noted that the outlook for medium-term growth is promising but remains subject to significant downside risks, including from the pandemic trajectory and recovery of tourism. This calls for continued efforts to contain the pandemic and support the recovery in the near term, including by addressing vaccine hesitancy. Looking ahead, Directors encouraged sustained reforms to ensure debt sustainability, strengthen the financial sector, and improve climate resilience.

Given the increase in public debt during the pandemic, Directors underscored the importance of maintaining momentum on fiscal consolidation. They welcomed the approval of the Fiscal Responsibility Act, which will support the reduction of public debt and the achievement of the regional debt target. Going forward, Directors recommended creating space for investment focused on building resilience to natural disasters, and prioritizing expenditure efficiency measures, including a civil service reform and better targeting of social transfers. They also encouraged measures to improve tax administration and broaden the tax base.

Directors stressed the need for prudent use of Citizenship by Investment (CBI) revenue. They encouraged the authorities to save part of CBI revenue for self-insurance against natural disasters and public debt reduction. Directors also considered that securing additional insurance, as part of a layered insurance framework, would help cover losses in the case of large and extreme disasters.

Directors noted that, while the financial sector remains liquid and stable, long-standing sectoral vulnerabilities persist, including high non-performing loans and capital adequacy gaps. In this regard, they welcomed banks' plans to strengthen capital buffers to meet increasing loan-loss provisioning requirements. For the non-bank sector, Directors highlighted the importance of addressing capital and liquidity requirements and strengthening supervision. They also encouraged maintaining progress on strengthening the AML/CFT framework to minimize risk to correspondent banking relationships.

Directors encouraged the authorities to implement structural reforms, aimed particularly at reducing informality in the economy and fostering inclusive, sustainable growth more broadly. They also noted that progress on structural reforms that boost

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[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 summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

competitiveness and build resilience to natural disasters, along with fiscal consolidation, would help strengthen external sustainability.

It is expected that the next Article IV consultation with Dominica will be held on the standard 12-month cycle.

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

I. Social and Demographic Indicators

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

II. Economic Indicators

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

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

DOMINICA

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

January 18, 2022

KEY ISSUES

Context. Dominica has been hit hard by the Covid-19 pandemic, with an estimated decline in GDP of 11 percent in 2020 underpinned by a sharp reduction in tourism receipts that affected connected sectors and by lockdown measures to limit virus contagion. The output decline was contained by health spending, social transfers, and public investment resilient to natural disasters which increased significantly, leading to an increase in public debt to 106 percent of GDP despite record-high Citizenship-by-Investment (CBI) revenue. The financial sector remained stable and liquid, but vulnerability continue to be significant in the under-capitalized non-bank sector.

Outlook and risks. High public investment to build resilience to natural disasters and the construction of an international airport, financed with CBI revenue, are expected to support the recovery, with GDP projected to reach the pre-pandemic level by 2023. Tourism would recover gradually over the medium term, but risks are significant given an ongoing local Covid-19 outbreak, slow vaccination rates due to hesitancy, and the contagion situation worldwide. The expiration of a moratorium on debt payments helped contain nonperforming loans (NPLs) in the financial sector, but risks to financial stability remain prominent in the non-banking sector. CBI revenue, which is difficult to predict, poses both upside and downside risks.

Main Policy Recommendations: (i) Continue with the implementation of fiscal reforms committed to in the Rapid Credit Facility (RCF) disbursement, including on income tax, additional streamlining of discretionary tax exemptions, and a property tax; (ii) Prioritize expenditure measures to increase government efficiency, including a civil service reform, better targeting of social transfers, and reassess pension sustainability; (iii) Reprioritize the use of CBI revenue with more allocation to financial insurance and debt service to reduce public debt and enhance near-term protection against natural disasters; (iv) Advance institutional fiscal reform to support fiscal and debt sustainability; (v) Introduce reforms to reduce economic informality; (vi) Address long-standing financial risks by enforcing NPLs' reduction and capitalization of banks and non-banks.

Approved By
Julie Kozack (WHD) and Natalia Tamirisa (SPR)

Discussions took place via video conference on November 8–22, 2021. The team comprised Mr. Guerson (head), Ms. Perez Marulanda, Ms. Brozdowski, and Ms. Khalid (all WHD). Mrs. Edwards (OED) supported the authorities. The IMF team held discussions with Prime Minister Hon. Roosevelt Skerrit, FS Ms. Edwards and other government officials. Ms. Garcia-Nunes and Ms. Aghababyan assisted in the preparation of the staff report.

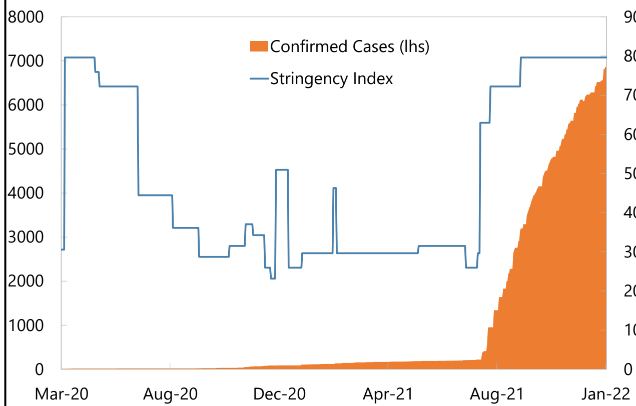
CONTENTS

ANNEXES

BACKGROUND

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

Dominica: Covid Cases and Policy Stringency



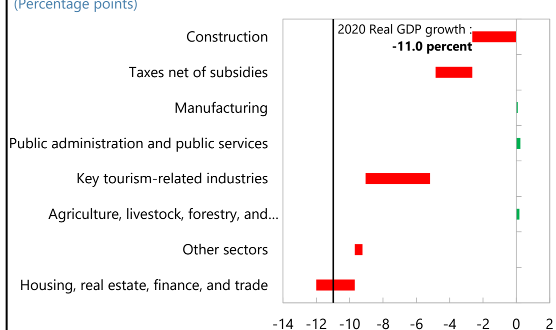
Sources: Johns Hopkins University and University of Oxford.

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

RECENT DEVELOPMENTS

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

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



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

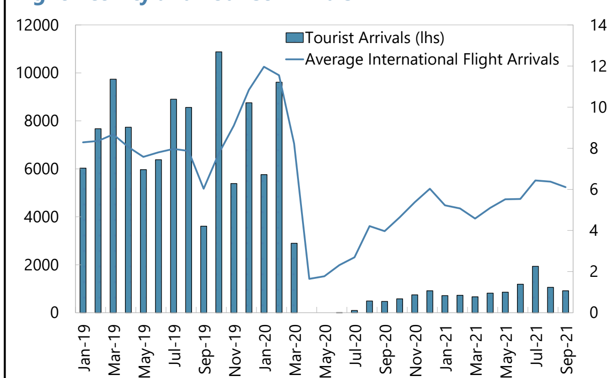
3.7 percent, buoyed by a rebound in construction activity (supported by large public investment and the building of new hotels) and the retail sector.

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

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

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

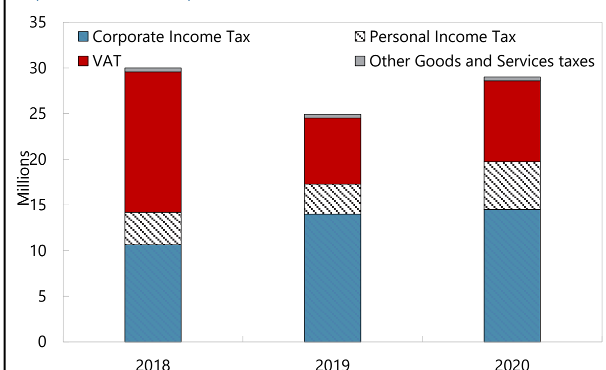
Flight Activity and Tourist Arrivals



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

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

Collection of Tax Arrears
(Millions of EC dollars)



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

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

[3] See External Sustainability Assessment annex.

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

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

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

Dominica: Structural Fiscal Consolidation Plan 1/							
	2020	2021	2022	2023	2024	2025	2026
Cumulative Fiscal consolidation (in percent of GDP)	**0.5**	**1.6**	**3.2**	**4.2**	**5.0**	**5.1**	**5.1**
Revenue measures	**0.5**	**1.0**	**2.0**	**3.0**	**3.4**	**3.4**	**3.4**
Restructuring of tax incentives for allocational efficiency	0.5	1.0	1.3	1.6	1.9	1.9	1.9
Better tax auditing and collection of arrears	0.0	0.0	0.3	0.6	0.6	0.6	0.6
Property tax reform	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Environmental reduction of preferential rate of diesel fuel	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Presumptive tax and streamlining of PIT exemptions	0.0	0.0	0.4	0.4	0.4	0.4	0.4
Review cost and income structure of water and sewage service	0.0	0.0	0.0	0.3	0.3	0.3	0.3
Expenditure measures	**0.0**	**0.6**	**1.1**	**1.2**	**1.6**	**1.7**	**1.9**
Wage bill containment in line with FRL 2/	0.0	0.0	0.5	0.5	0.8	0.8	1.0
Review of pension benefits 3/	0.0	0.0	0.0	0.1	0.2	0.2	0.3
Withdrawal of social transfers	0.0	0.6	0.6	0.6	0.6	0.6	0.6
Public sector debt without measures	**106.0**	**100.9**	**103.4**	**104.9**	**106.1**	**108.8**	**113.4**
Public sector debt with measures	**106.0**	**100.9**	**100.3**	**97.5**	**94.3**	**92.0**	**90.8**

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

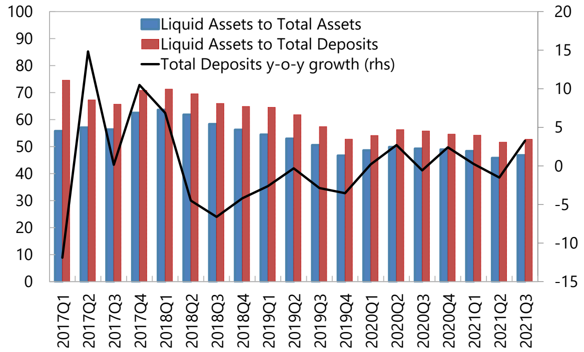
8. **The banking sector remained stable and liquid, supported by the debt service moratorium authorized by the Eastern Caribbean Central Bank (ECCB).** Bank deposits remained steady despite the pandemic pressure on household incomes, helping maintain high liquidity in the system. System liquidity was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

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

Source: ECCB.

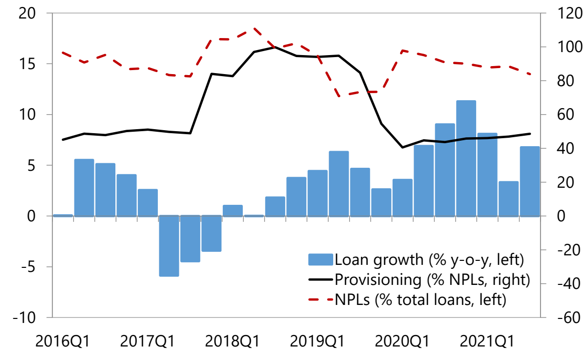
[6] The two foreign banks are Royal Bank of Canada and First Caribbean International Bank. The first sale was approved in 2020, the other is in progress.

Commercial Bank Liquidity Ratios
(Percent)



Sources: ECCB and Fund staf calculations.

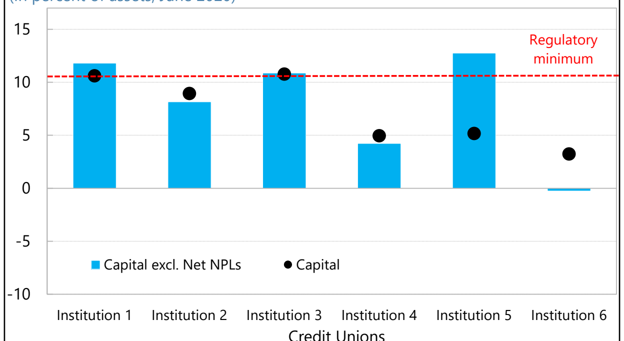
Commercial Banks: Lending and Asset Quality
(Percent)



Sources: ECCB and Fund staff calculations.

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

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



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

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

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

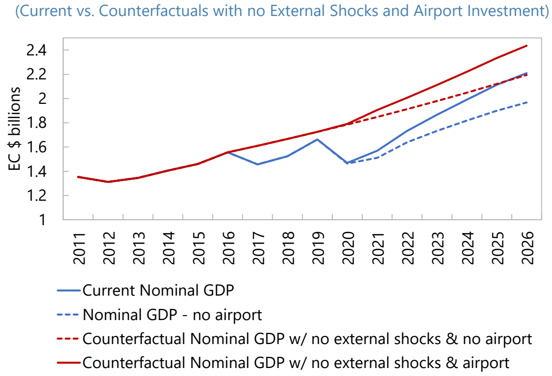
[7] The delisting was preceded by the forum's decision to grant Dominica a supplementary review on this matter. The country is now included in the list of jurisdictions that do not yet comply with all international tax standards but have committed to implementing good governance principles.

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

OUTLOOK AND RISKS

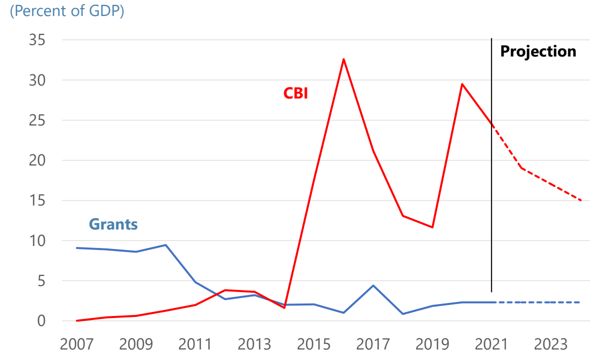
12. **The economy is projected to recover gradually from the pandemic, but high levels of public debt would remain for the foreseeable future.** The recovery is underpinned by the return of tourism, additional hotel capacity, and high public investment in infrastructure resilient to natural disasters.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

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



Sources: Fund staff calculations.

Grant and CBI Revenues
(Percent of GDP)



Source: Fund staff calculations based on authorities data.

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

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

Dominica: Macroeconomic Outlook
(Percent of GDP)

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

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

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

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

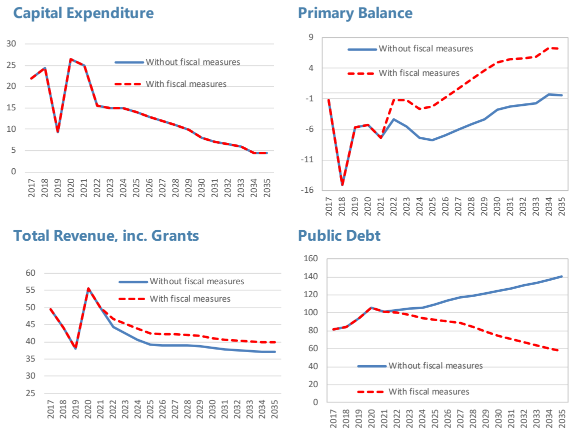
	2019	2020	2021	2022	2023	2024	2025	2026
Gross financing need	**312**	**180**	**82**	**213**	**185**	**126**	**119**	**124**
Overall deficit	127	112	158	63	71	102	97	67
Primary deficit	**89**	**79**	**122**	**21**	**23**	**53**	**49**	**19**
Debt service from Interest	**37**	**31**	**34**	**39**	**45**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

Source: IMF staff estimates.

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

Alternative Scenarios — Selected Fiscal Aggregates

(Percent of GDP)



Source: Fund staff estimates.

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

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

Box 1. Risk Assessment Matrix[1]

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

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

POLICY DISCUSSIONS

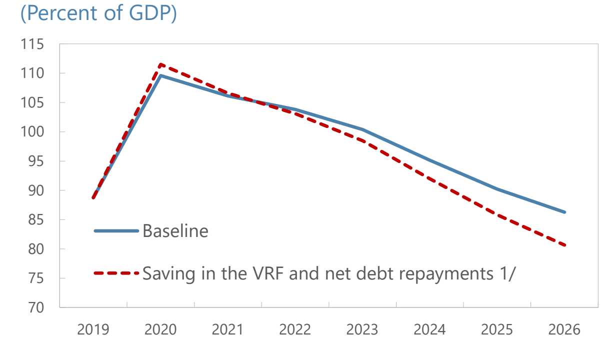
A. Fiscal Policy: Sustaining Investment in Resilience to Natural Disasters

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

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

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

Public Debt
(Percent of GDP)



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

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

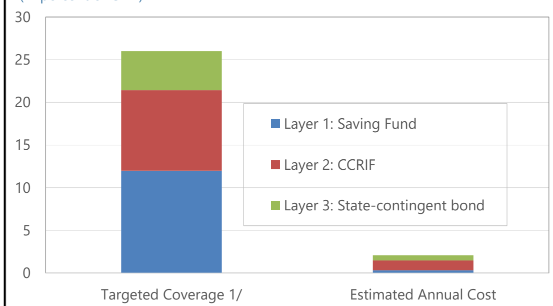
[10] In 2017, Dominica amended the Public Financial Management Act establishing the creation of the VRF, a saving fund for insurance and resiliency to natural disasters. Staff stochastic simulations indicate that this amount of savings is required for the sustainability of the VRF with a low probability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

(continued)

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

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

Dominica: Insurance Layering Framework
(In percent of GDP)



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

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

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

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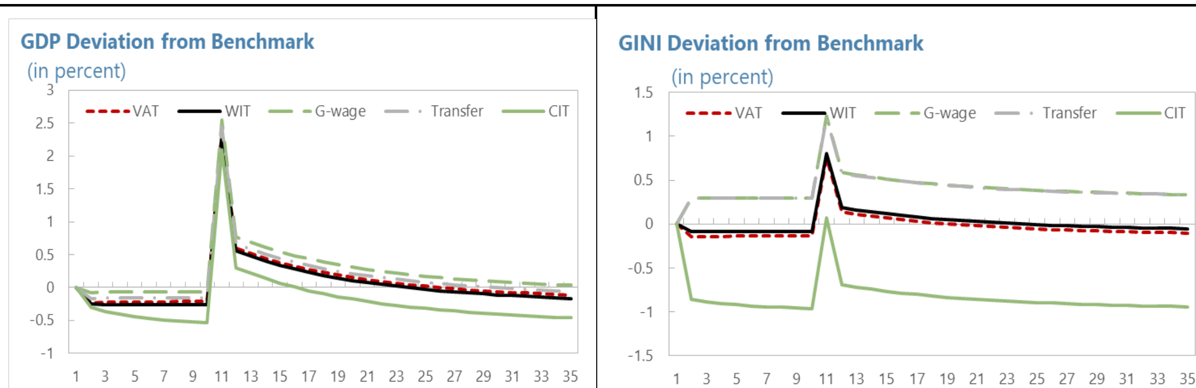
calibrated to alternative coverage options depending on risk aversion and cost considerations. The government has been saving resources in the VRF since its creation, but these remained below this requirement due to the natural disasters in 2015 and 2017, plus the Covid-19 pandemic.

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

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

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



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

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

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

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

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

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

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

Authorities' Views

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

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

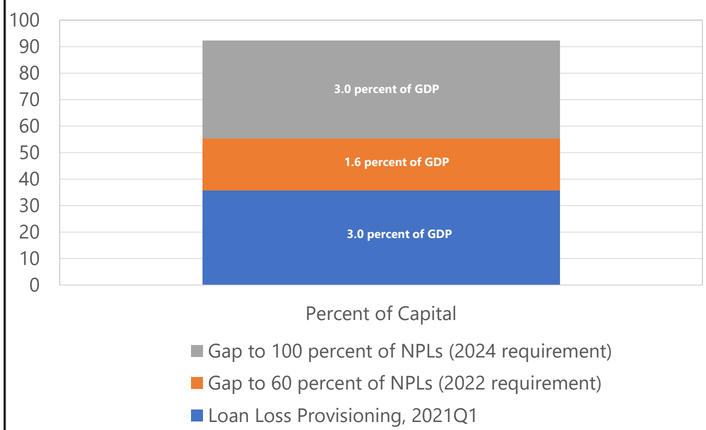
[15] Areas for improvement include on preparation structure, medium term macroeconomic and revenue forecasting, performance information, establishing a process for the identification of potential saving.

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

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

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

Loan Loss Provisioning Requirement



Source: Fund staff estimates based on ECCB data.

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

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

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

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

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

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

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

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

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

[19] A reevaluation is planned in 2022.

Authorities' Views

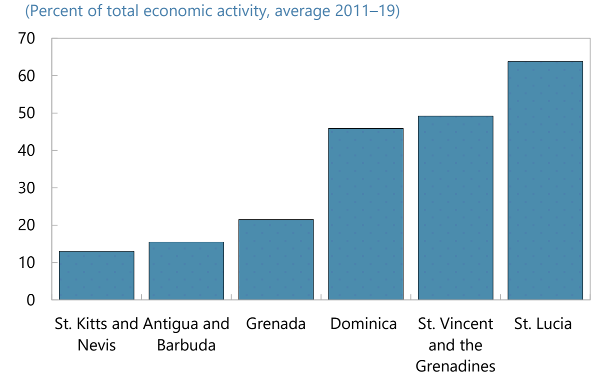
31. **The authorities agreed on the need to closely monitor risks to financial sector stability and interconnectedness of financial institutions.** They reiterated their commitment to work closely with ECCB to analyze risks associated with the acquisition of Royal Bank of Canada's local branch by the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

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

C. Addressing Economic Informality

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

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



Sources: Fund staff estimates.

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

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

Authorities' Views

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

D. Economic Statistics

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

Authorities' Views

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

STAFF APPRAISAL

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

38. The financial sector has remained liquid and stable during the pandemic, but NPLs are above prudential benchmarks. The loan service moratoria authorized by the regulators of banks and credit unions helped support firms and households affected by loss of income, helping contain a deterioration in portfolio performance. Despite an improvement relative to 2020, NPLs remain high, in the range of 11–14 percent of loans for banks and 10–17 percent for credit unions (the prudential benchmark is 5 percent in both sectors). To comply with the ECCB requirement, banks have prepared plans to increase provisioning to 100 percent of NPLs by 2024—pre-Covid precautionary increase in provisions with adoption of IFRS9 standards in 2018 is facilitating this process. Most loans under moratoria have normalized. The financial sector remains liquid with an increase in deposits underpinned by prudent private spending, government transfers, the loan moratoria, and increase in foreign remittances.

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

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

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

42. Sustained progress on the fiscal consolidation plan is important to reduce debt, improve government efficiency and expand space for the disaster resilience plan. Thus far the government established limits on discretional tax exemptions; advanced preparations of an income tax reform including a presumptive tax; and is studying a property tax reform to incentivize the use of idle property in prime urban areas. Beyond this, the government's intention to avoid additional new taxes or charges is welcome, consistent with the objective of creating a favorable environment for private investment while minimizing the burden on tax administration, which is affected by limited capacity. The actuarial analysis of the pension system by the Dominica Social Security (DSS) planed by early 2022 (delayed due to covid mobility restrictions) could trigger parametric amendments if needed for sustainability. These measures improve allocational efficiency while addressing long-term contingent liabilities. On the other hand, the introduction of a solid waste charge could be delayed or reconsidered, in light of the low potential revenue and the additional tax administration burden, while a reduction of the preferential rate on diesel to reduce its distortionary impact could become effective once the economy has recovered.

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

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

45. In 2021, the estimated external position was estimated to be moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings. Although the deterioration in tourism after the Covid-19 pandemic was severe, the current account deterioration was not as severe as the one experienced in 2018–19 after Hurricane Maria due to high Citizenship-by-Investment (CBI) receipts and lower imports. While the current account is expected to adjust in the medium term as the economy recovers, external sustainability depends on the successful implementation of structural reforms that boost competitiveness and resilient infrastructure; and fiscal consolidation supported by windfall CBI revenue for debt reduction, whilst remaining at risk of recurrent natural disasters and CBI revenue volatility.

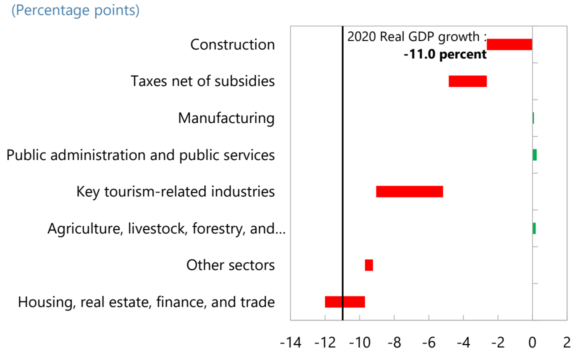
46. It is recommended that the next Article IV consultation takes place on the standard 12-months cycle.

Figure 1. Dominica: Economic Performance

GDP is estimated to have contracted by 11 percent…

2020 Real GDP, Contributions to Percent Change

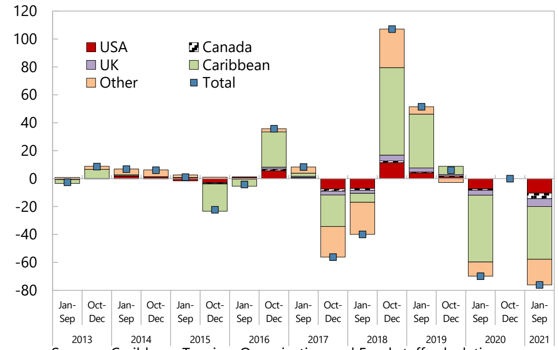
(Percentage points)



….as tourism arrivals collapsed.

Contributions to Growth of Stay-Over-Visitor Arrivals by Country

(Percent, y-o-y)

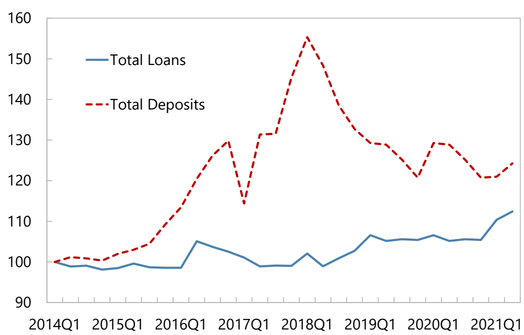


Sources: Caribbean Tourism Organization and Fund staff calculations.

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

Commercial Banks' Total Loans and Deposits

(Indices, 2014=100)

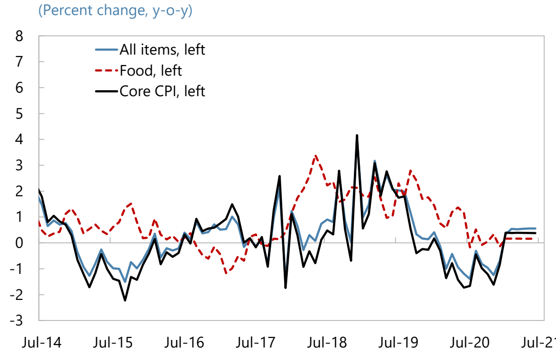


Sources: ECCB and Fund staff calculations.

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

CPI Inflation, by Major Component

(Percent change, y-o-y)



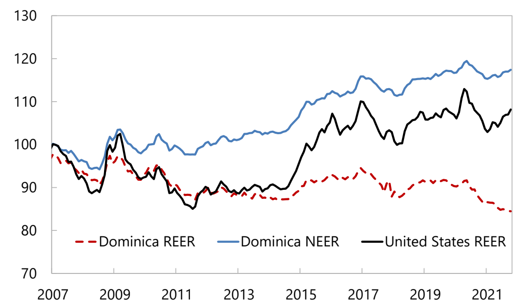
Sources: Central Statistics Office, Dominica and Fund staff calculations.

Figure 2. Dominica: External Sector

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

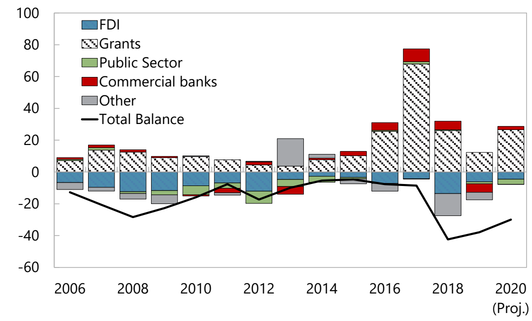
...while the current account deficit contracted due to the fall in imports.

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



Source: Fund staff calculations.

Current Account Deficit and Financing
(Percent of GDP)

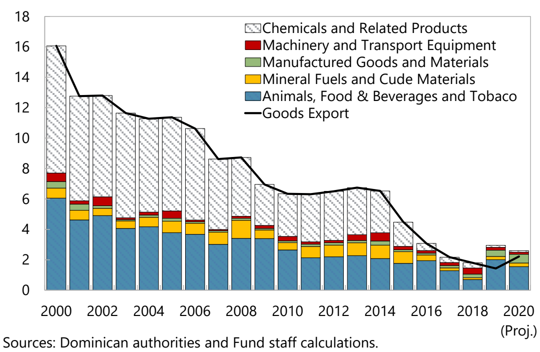


Sources: Dominican authorities and Fund staff calculations.

Goods exports contracted, due to international restrictions,

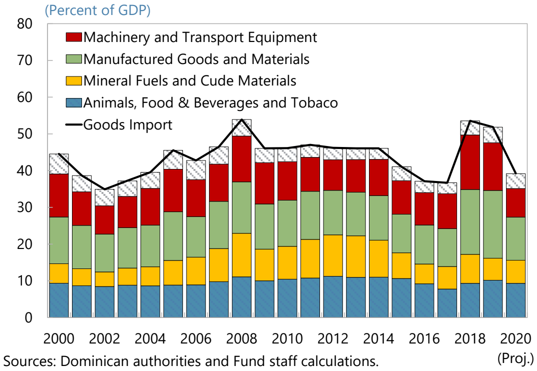
....while goods imports decreased sharply as domestic demand and tourism declined.

Goods Export by Major Components
(Percent of GDP)



Sources: Dominican authorities and Fund staff calculations.

Goods Import by Major Components
(Percent of GDP)

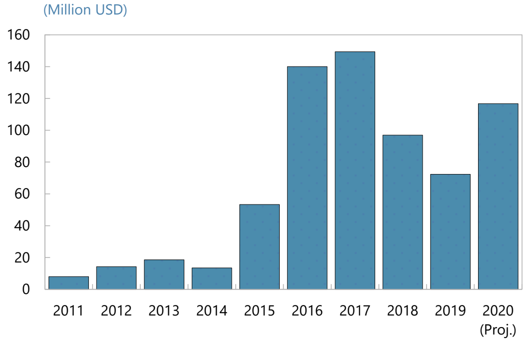


Sources: Dominican authorities and Fund staff calculations.

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

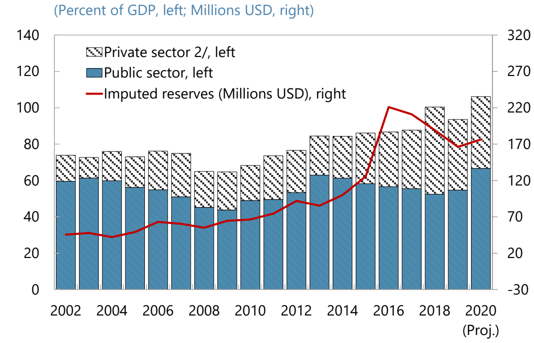
helping to finance public investment and containing the increase in public debt.

Citizenship-by-Investment Program
(Million USD)



Sources: Dominican authorities and Fund staff calculations.

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

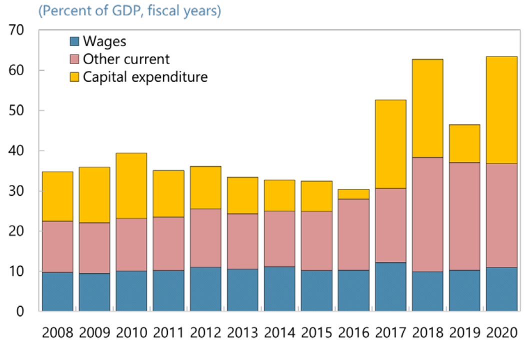


Sources: Dominican authorities and Fund staff calculations.

Figure 3. Dominica: Fiscal Sector

Government spending in resilient infrastructure increased sharply…

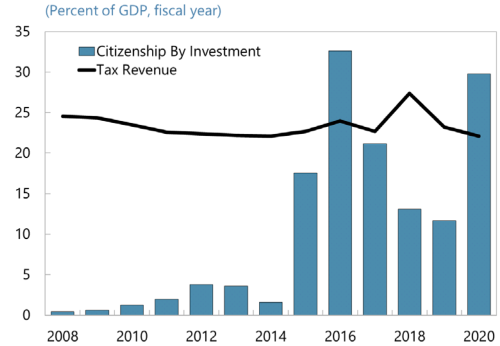
Government Expenditure
(Percent of GDP, fiscal years)



Sources: Dominican authorities and Fund staff calculations.

…largely financed with CBI revenue.

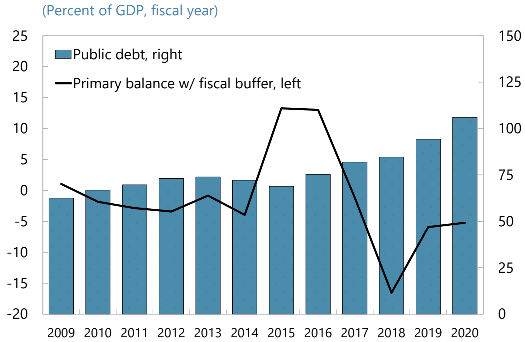
Revenue
(Percent of GDP, fiscal year)



Sources: Dominican authorities and Fund staff calculations.

Even as primary balance improved, public debt went up…

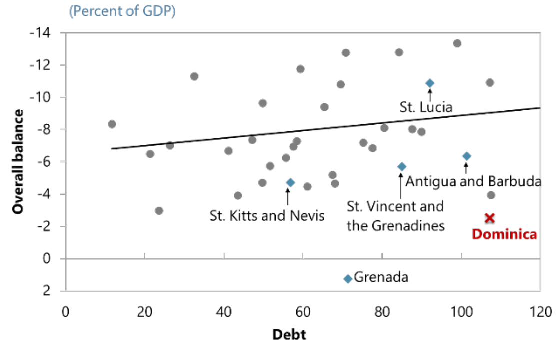
Public Debt and Fiscal Primary Balance
(Percent of GDP, fiscal year)



Source: Fund staff calculations.

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

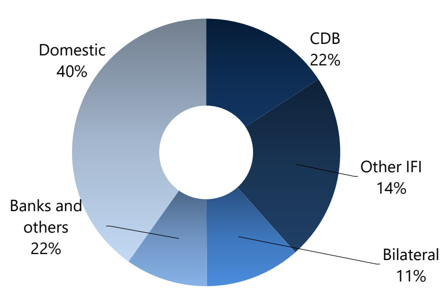
EM General Government Balance and Debt, 2020
(Percent of GDP)



Sources: Fund staff calculations.

The external component is significant…

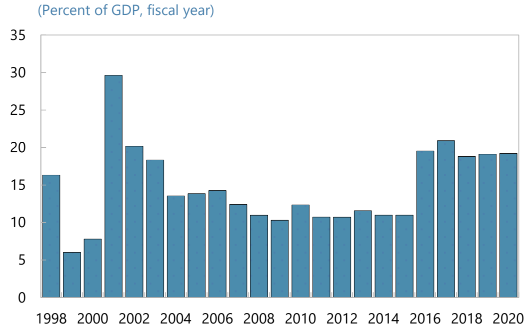
Composition of Public Sector Debt, end June 2021
(In percent of total)



Sources: Dominican authorities and Fund staff calculations.

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

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

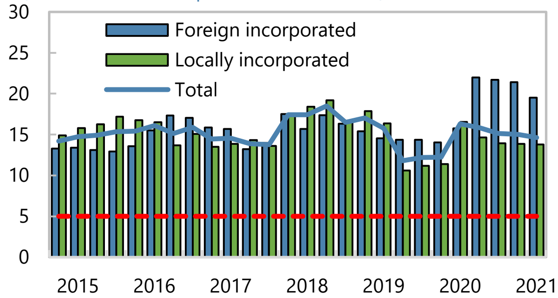


1/ Includes SOE debt and Petrocaribe debt.
Sources: Fund staff calculations.

Figure 4. Dominica: Monetary Sector

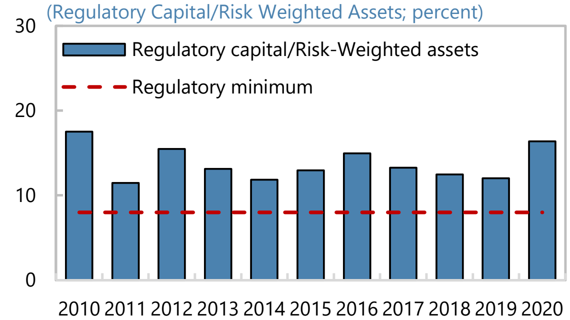
Non-Performing Loans increased markedly in 2020...

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



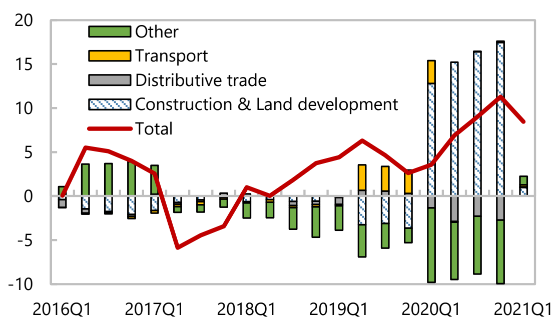
... but banks remain well-capitalized

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



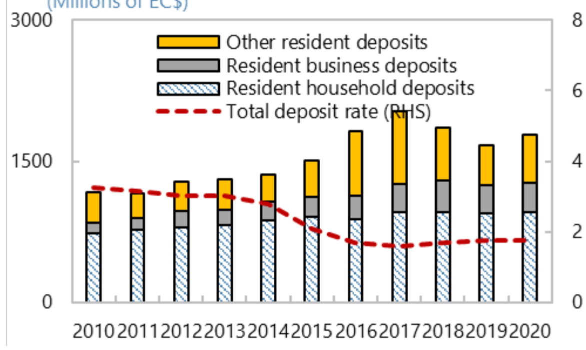
Credit to private sector grew, but primarily on account of lending for construction activities.

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



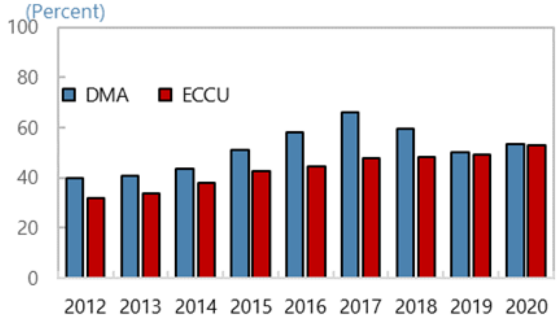
Despite the pandemic, deposits have remained steady amidst low deposit rates.

Commercial Banks Resident Deposits
(Millions of EC$)



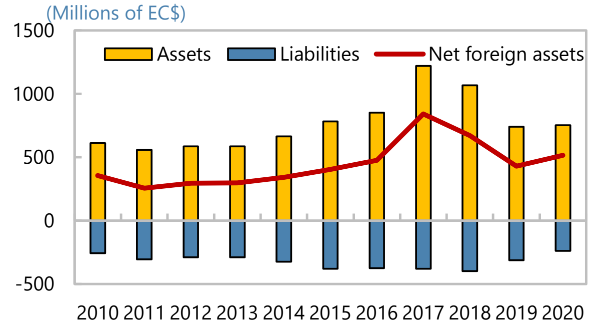
Liquidity is steady and close to the ECCU average ...

Liquid Assets to Liquid Liabilities and Deposits
(Percent)



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

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



Source: Country authorities, ECCB and IMF staff calculations.

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

I. Social and Demographic Indicators

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

II. Economic Indicators

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

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

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

(In millions of EC dollars)

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

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

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

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

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

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

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

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

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

(In percent of GDP)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Annex II. External Sector Assessment

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

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

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

Foreign Assets and Liabilities: Position and Trajectory

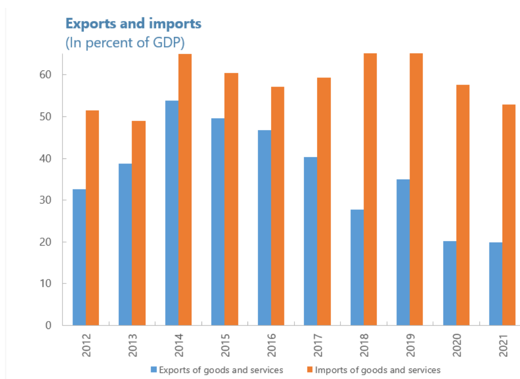
Background. The net international investment position (IIP) deficit increased from minus 50.2 percent of GDP in 2020 to minus 65.8 percent of GDP in 2021. In 2020, on the asset side, other investment (mostly currency and deposits) and reserve assets, were the largest assets, at 83.5 percent and 51.7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

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

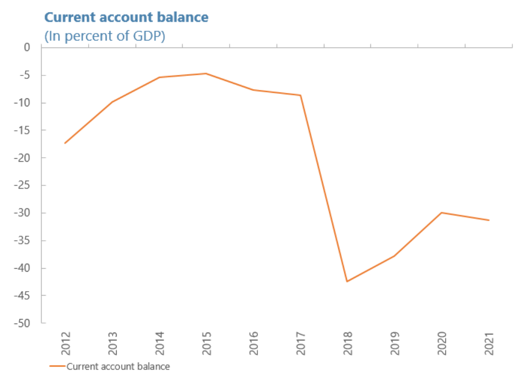
2021 (% GDP)	NIIP: -65.9	Gross Assets: 103.9	Debt Assets: 70.0	Gross Liabilities: -169.8	Debt Liabilities: -81.3

Current Account

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



Sources: Dominica Statistical Office and IMF staff calculations.



Sources: Dominica Statistical Office and IMF staff calculations.

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

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

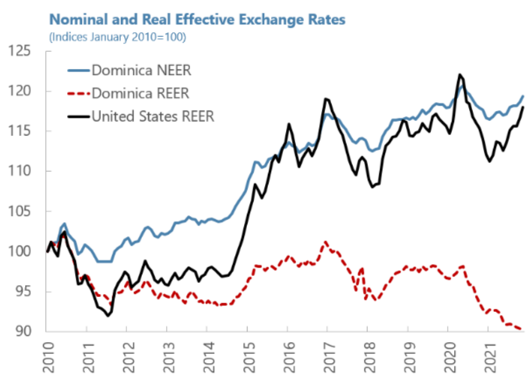
1/ Cyclically adjusted, including multilateral consistency adjustments.

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

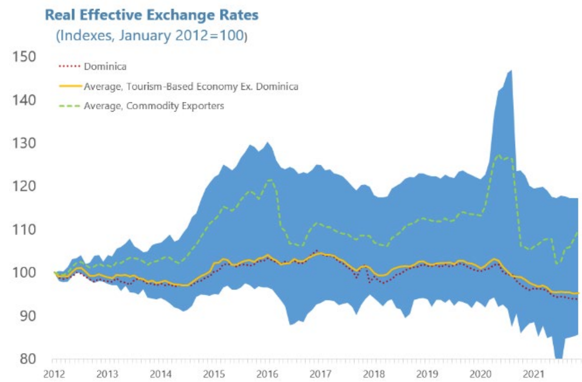
Real Exchange Rate

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

Assessment. Much of the decline in the REER was driven by inflation differentials—the NEER appreciated by 1.4 percent. The REER depreciated in 2021 driven by an increase in foreign inflation in fuel and food items which only moderately affected domestic consumer prices under low domestic demand. The REER was estimated to be overvalued by 4.10 percent. A comparison with other Caribbean tourism-based countries suggests an improvement of about 5.9 percent in Dominica's competitiveness.



Sources: INS and IMF staff calculations.



Sources: INS and IMF staff calculations.

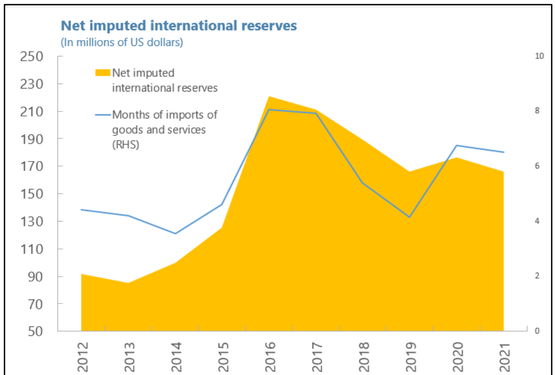
Capital and Financial Accounts: Flows and Policy Measures

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

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

FX Intervention and Reserves Level

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



Sources: ECCB and IMF staff calculations.

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

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

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

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

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

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

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

INTERNATIONAL MONETARY FUND

DOMINICA

January 18, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of December 31, 2021)

Membership Status Joined 12/12/78; 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	18.86	100.00
Holdings	11.05	58.61

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	15.41	133.96

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

Overdue Obligations and Projected Payments to the Fund (SDR Million; based on existing use of resources and present holdings of SDRs):[1]

			Forthcoming		
	2022	**2023**	**2024**	**2025**	**2026**
Principal	1.44	1.23	1.23	2.26	2.06
Charges/Interest	0.01	0.01	0.01	0.01	0.01
Total	**1.44**	**1.24**	**1.24**	**2.26**	**2.06**

Exchange Rate Arrangement: The exchange rate arrangement is a currency board. Dominica participates in a currency union with seven other members of the Eastern Caribbean Currency Union (ECCU) and has no separate legal tender. The common currency, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar since July 1976. Dominica has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions and multiple currency practices.

[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 August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on June 18, 2019. 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

- 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
- September 2018: Development of Stronger PFM Laws and Institutions
- August 2021: Strengthening Internal Audit FY22 (virtual)
- September 2021: Post-Hurricane Maria PFM Review Follow Up FY22 (virtual)
- November 2021: Developing Performance Targets and KPI (virtual)

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
- March 2020: COVID-19 Tax Policy Mission on Income Taxation and International Tax (virtual)
- October 2020: TADAT assessment (virtual mission)
- October 2021: Strengthening Treasury Operations FY22
- October 2021: Strengthening Core Business Functions- Arrears Management

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
- May 2018: Financial Health and Stability Indicators for the Credit Union Sector
- November 2018: Framework to Develop Macroprudential Regulation of SIFIs
- January 2019: Framework to Develop Macroprudential Regulation of SIFIs

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
- July 2018: External Sector Statistics
- May 2021: BOP CARTAC Mission
- August 2021: Joint BOP CARTAC/STA Mission (virtual)

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
- May 2021: Coordination of Macro Program with Resident 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 FINANCIAL INSTITUTIONS

(As of November 29, 2021)

- World Bank https://financesapp.worldbank.org/en/countries/Dominica/
- Caribbean Development Bank https://www.caribank.org/countries-and-members/borrowing-members/dominica

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings due to capacity constraints in the statistical agency, and collection at the regional level. 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.

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.

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.

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 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: Monthly monetary statistics are compiled and reported to the Fund by the ECCB, based on standardized report forms (SRF) for the central bank (SRF 1SR) and for other depository corporations (SRF 2SR), since July 2006. In April 2007, a data ROSC mission assessed the monetary statistics with reference to the GDDS and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, valuation adjustments are included in other liabilities. Accrued interest was not incorporated in the value of the interest-bearing assets and liabilities, and source data for the commercial banks did not provide the disaggregation recommended by the Monetary and Financial Statistics Manual and Compilation Guide, but in 2020 the ECCB implemented a new chart of accounts for commercial banks that has addressed these issues. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial. The ECCB submits Dominica's data on some basic indicators and series to the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

External sector statistics: The ECCB has been releasing annual balance of payments and international investment position statistics 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, since 2017. Travel estimates (credits) are sourced from visitor expenditure surveys. Further work is required to reassess the ratios used to estimate insurance and freight charges for goods imported. Actions need to be undertaken in collaboration with the ECCB, which coordinates the compilation of external sector statistics of the ECCU economies.

The debt unit of the Ministry of Finance maintains a database on 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) database. 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. Dominica has not fully implemented the e-GDDS as it does not have a National Summary Data Page (NSDP).

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 November 29, 2021)

Date of Latest Observation		Date Received[8]	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve liabilities of the Monetary Authorities [1,2]	09/2021	11/2021	M	M	M
Reserve/Base Money	09/2021	11/2021	M	M	M
Broad Money	09/2021	11/2021	M	M	M
Central Bank Balance Sheet	09/2021	11/2021	M	M	M
Consolidated Balance Sheet of the Banking System	09/2021	11/2021	M	M	M
Interest Rates[3]	09/2021	11/2021	M	M	M
Consumer Price Index	10/2021	12/2021	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 [-] – Central Government	10/2021	11/2021	M	M	Q
Stocks of Central Government and Central Government- Guaranteed Debt[6]	10/2021	11/2021	A	A	A
External Current Account Balance	2020	11/2021	A	A	A
Exports and Imports of Goods and Services	2020	11/2021	M	A	A
GDP/GNP	2020	08/2021	A	A	A
Gross External Debt	10/2021	11/2021	M	Q	A
International Investment Position[7]	2020	11/2021	A	A	A

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.).

DOMINICA

January 27, 2022

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Julie Kozak and Natalia Tamirisa (IMF) and Marcello Estevao and Robert R. Taliercio (IDA).

Prepared by the staffs of the International Monetary Fund and the International Development Association.

Dominica Joint Bank-Fund Debt Sustainability Analysis[2]	
Risk of external debt distress	*High*
Overall risk of debt distress	*High*
Granularity in the risk rating	*Sustainable*
Application of judgement	*No*

Dominica's debt is sustainable, but the country remains at high risk of debt distress with elevated levels of public and external debt. The COVID-19 pandemic compounded preexisting debt sustainability challenges, as the economy was still recovering from back-to-back natural disasters in 2015 and 2017. Public debt peaked at 106 percent of GDP in 2020. The authorities remain committed to the fiscal consolidation plan committed to in the 2020 IMF Rapid Credit Facility Disbursement. The plan would put debt on a downward trajectory and bring the debt-to-GDP ratio below the regional debt target of 60 percent of GDP by 2035. While the COVID-19 pandemic has worsened the debt trajectory, the execution of the fiscal consolidation plan, along with a sound recovery from the pandemic and continued CBI inflows, would put public and external debt on a sustainable path. Main downside risks to the debt sustainability outlook include a more prolonged impact of the COVID-19 pandemic resulting in slower growth and weaker tourism-related revenue, natural disasters, and weaker than projected revenues from the Citizenship-by-Investment program.

[1] The last published DSA for Dominica can be accessed here.

[2] The CI index for Dominica is 3.02 (medium debt carrying capacity) and is calculated based on data from the October 2021 WEO and the WB CPIA 2020 data.

PUBLIC DEBT COVERAGE

1. **Public sector debt includes central government direct and guaranteed debt.** Dominica's public and total external debts are high, estimated at 106 and 105 percent of GDP respectively, in 2020. Central government direct debt accounts for over 80 percent of total public debt. Guaranteed debts are directed to State Owned Enterprises (SOEs), including borrowing under the Petrocaribe arrangement with Venezuela.[3] Public and Publicly Guaranteed (PPG) external debt is mostly owed to multilateral creditors, while the National Bank of Dominica and the Dominica Social security are the main domestic creditors. Recent measures to improve coverage and timeliness of debt reporting include introducing an annual Debt Policy Review (DPR), including loan guarantees under the 2019 DPR, submitting the DPR to Parliament and publishing the DPR on the Ministry of Finance website. SOE's non-guaranteed debts, which are mostly domestic and mainly from National Bank of Dominica, the Agricultural and Industrial Development Bank of Dominica, and the Dominica Social Security, are not included in the public debt stock but they are expected to be small relative to their guaranteed part.[4] SOEs are not permitted to borrow externally without government guarantees. It is expected that all SOE debts will be included in the public debt with progress on monitoring the SOEs under the Public Procurement and Disposal of Public Property Act.[5] There are no Public-Private Partnerships in Dominica and therefore no related contingent liability has been included. There is no borrowing by local/state governments and no borrowing by the central bank on behalf of the government. External debt is defined using a residency criterion. There is no material difference between defining external debt on the residency or currency basis. The financial market contingency liability included is above the default to account for enhanced risk from natural disasters[6].

Text Table 1. Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

[3] Estimation of borrowing under Petrocaribe is based on the terms under its original loan agreement. It should be noted, however, that its debt service payments have been cancelled or rescheduled in recent years, a pattern that may continue in the coming years. Outstanding debt to Petrocaribe is estimated at 8.5 percent of the total debt stock as of 2020.

[4] Non-guaranteed SOE debt is collateralized against assets of the SOE.

[5] Debt service-to-revenue ratios may be biased favorably given incomplete coverage of SOE debt stock (i.e. non-guaranteed SOE debts) but complete coverage of SOE revenues in the fiscal accounts.

[6] The financial market contingent liability shock is calibrated at 7 percent of GDP (higher than the 5 percent of GDP default) to account for potentially higher fiscal costs of strengthening financial sector balance sheets in the event of a natural disaster given undercapitalization of non-bank financial institutions and high non-performing loans in Dominica.

Text Table 2. Contingency Liability Calibration Table

1	The country's coverage of public debt	The central government, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	7.0	Hurricane's impact on financial institutions
	Total (2+3+4+5) (in percent of GDP)		9.0	

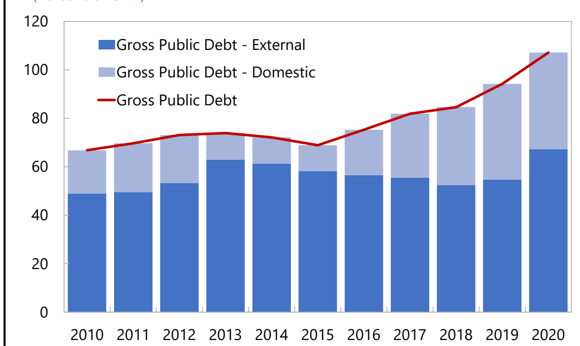
1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

2. Successive natural disasters have put public debt on an upward trajectory which peaked in the aftermath of the Covid-19 pandemic. Tropical storm Erika in 2015 and Hurricane Maria in 2017 resulted in large declines in public revenue while imposing sizeable reconstruction expenditures needs on the budget. Though strong CBI revenues provided significant financing for the reconstruction efforts, large and persistent primary deficits led to an increase in the public debt level from an average of 72 percent of GDP in 2012–15 to 94 percent of GDP by 2019. The onset of the pandemic further exacerbated debt dynamics, with an output contraction of 4.1 percent in FY 2020–21 resulting in the debt-to-GDP ratio reaching 106 percent, even as resurgent CBI revenues contained the fiscal deficit.

Text Figure 1. Gross Public Debt

(Percent of GDP)

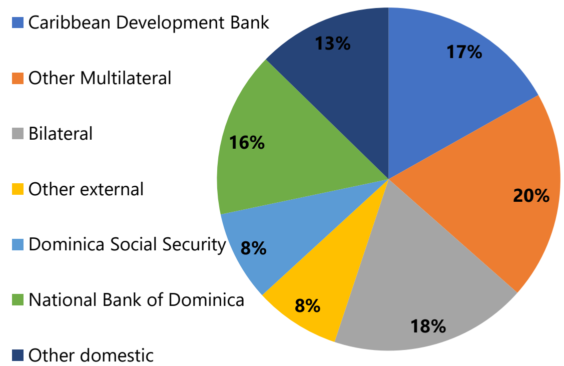


Sources: Authorities data and Fund Staff calculations.

3. External debt has risen on account of persistent current account (CA) deficits from large reconstruction needs, contained by high CBI revenue. Public and private investments in reconstruction work following Hurricane Maria in 2017 resulted in steep increases in imports during 2018-2019, with the import bill exceeding 50 percent of GDP in both years. While the pandemic greatly reduced the import bill by reducing economic activity during 2020, the sharp contraction in GDP resulted in the CA deficit remaining significantly higher than the pre-Maria average in percent of GDP terms. Moreover, while the PPG external debt had remained relatively contained in past years owing to strong CBI revenues and use of government deposits to finance reconstruction work, increased reliance on concessional financing for the pandemic translated into a steep increase in the PPG external debt in 2020.

4. Dominica has no access to international financial markets and borrows mainly from official creditors, resulting in hard constraints on debt accumulation. Two thirds of Dominica's debt is external, but 90 percent of the PPG external debt is owed to official bilateral and multilateral creditors. The Caribbean Development Bank is Dominica's largest creditor, holding 20 percent of the total external public debt stock. Venezuela's Petrocaribe is the largest bilateral creditor, followed by the French Development Agency and the Government of China. Additional external financing is obtained through bonds purchased by regional commercial banks and insurance companies and pension funds. Domestic financing comes primarily through direct credit from the National Bank of Dominica and local debt holders, mainly the Dominica Social Security. Reliance on domestic debt has increased owing to a larger amount of direct borrowing from the National Bank of Dominica during FY 2017–18, which coincided with Hurricane Maria, and increased use of their overdraft facility, most notably in 2018–19 when reconstruction costs were high and the level of grant financing low.

Text Figure 2. Composition of Public Debt
(Percent of Total, 2020)



Sources: Authorities data and Fund Staff calculations.

5. External and public debt sustainability forecasts are underpinned by assumptions of steady CBI revenue inflows which contribute to growth recovery through public investment. CBI revenue is projected to remain buoyant in the medium term, tapering gradually from a 30 percent of GDP outturn in 2020 to 14 percent of GDP by 2026. This assumption is supported by several years of sizeable inflows starting from 2014 which have remained resilient in the face of successive natural disasters and a pandemic. In FY 2020–21, CBI revenues increased 145 percent year-on-year despite the pandemic causing severe disruption in the rest of the economy and data from 2021 indicates a similar outturn for the current fiscal year.[7] The CBI revenue is expected to finance an ambitious public investment budget, which includes a new international airport and geothermal electricity generation plant. Higher public capital expenditures are expected to provide an impulse to growth in the medium term, with a more gradual recovery of the tourism sector beginning in 2022 providing further support to economic growth.[8] Official external financing is projected at 5 percent of GDP in the medium term (2024–26) and 4 percent of GDP in the long term (after 2026), in line with the historical average in 2012–14 (4 percent of GDP) before the surge in CBI revenue, that will cover the planned public investment along with the CBI revenue. Long-term growth projections and fiscal parameters incorporate the long-term impact of natural disasters.[9]

6. Growth projections include a permanent loss of output due to the pandemic, and the boost of the large public investment plan. The output decline during the pandemic is followed by a projected recovery with an average growth of 5.5 percent in 2021–26. This projection internalizes the execution of the large public investment plan and the recovery of the tourism sector under the assumption that the Covid-19 pandemic abates domestically and globally with increasing vaccination rates, and a continuing recovery from the impact of Hurricane Maria. The tourism

[7] Assumptions regarding CBI revenues and associated capital expenditures contrast from the projections made at the time of the previous Article IV. Current projections are underpinned by strong CBI outturn till 2020 and into October 2021. At the time of the previous Article IV, the persistence of CBI revenues remained uncertain.

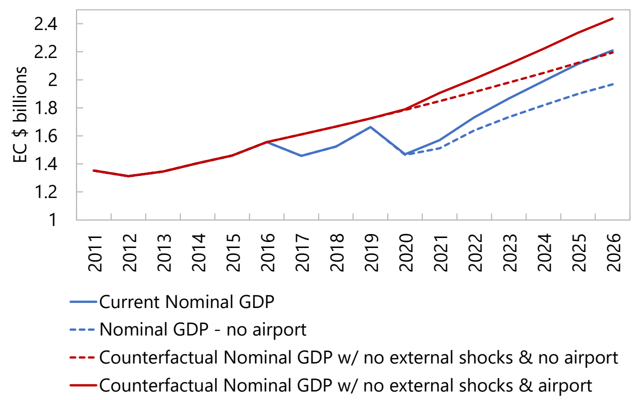
[8] Work on both the airport and geothermal project has already begun in the 2021–22 fiscal year.

[9] The fiscal deficit includes an annualized cost of natural disasters of 1.5 percent of GDP. This is in line with guidance from the WB–IMF Staff Guidance Note.

recovery is also boosted by new hotel facilities becoming operational. The large public investment is largely financed by the upward revision of CBI revenue relative to the projection in the 2020 Rapid Credit Facility Disbursement DSA. Without the public investment boost, output would show a permanent loss of about 10 percent relative to the counterfactual level without the impact of the pandemic (text chart). In the long term, after 2026, output is projected to gradually decline and to converge to a potential growth rate of 1.5 percent.

Text Figure 3. Nominal GDP Trajectory

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



Sources: Fund staff calculations.

7. **Relative to the baseline scenario for the 2020 Article IV, growth is more buoyant as a result of higher public capital expenditures.** Growth has been revised upwards to account for higher CBI inflows generating a higher public investment profile. Inflation has been revised upwards in line with global trends. The primary balance trajectory has deteriorated owing to a stronger than anticipated drag on the economy from the pandemic. The current account balance is expected to deteriorate as well, with capital expenditures fueling a larger import bill.

Text Table 3. IMF staff projections 2020 vs 2021

	2020 Article IV						2021 Article IV					
	2020	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024	2025
Real GDP growth	-1.3	3.5	3.0	2.1	1.6	1.5	-4.1	5.8	6.6	5.1	4.3	3.3
Inflation (eop)	1.4	1.6	1.9	2.0	2.0	2.0	1.1	2.8	2.2	2.0	2.0	2.0
CBI revenues 1/	8.0	6.8	4.5	4.0	4.0	4.0	29.5	24.5	25.0	22.0	19.0	16.0
Primary balance 1/	-1.4	2.2	3.8	3.4	3.4	3.3	-5.2	-7.4	0.3	0.3	2.8	2.4
Central government capital expenditure 1/	6.0	7.5	5.0	5.0	5.0	5.0	26.5	25.0	17.0	16.0	15.0	15.0
Current Account Balance 2/	-30.5	-24.8	-20.1	-13.5	-11	-10.1	-30	-31.4	-28.7	-24	-18.3	-17.1

1/ Percent of GDP, fiscal year basis.
2/ Percent of GDP, calendar year basis

BACKGROUND ON MACRO FORECASTS

8. **This DSA is built on the baseline scenario of the November 2021 Staff Report. General assumptions include:**

- **Fiscal position.** After a sharp deterioration in tax revenues and concurrent increase in spending on health, social transfers, and goods and services to support the recovery from the pandemic in 2020, tax revenues are projected to gradually recover in the medium term. The projection assumes the execution of a fiscal consolidation plan that with cumulative savings of 5.1 percent of GDP during 2022-26. The plan was fully identified prior to the Covid-19 pandemic, in the context of creating fiscal space to invest in building resilience to natural disasters, and progress has been made on several measures, with some adjustments to account for evolving circumstances as a result of Covid.[10] On the revenue side, several measures have already been passed or are under preparation, including streamlining of discretionary tax exemptions, income and property tax reform, and containment of recurrent spending (aid by the Parliament approval of a Fiscal Responsibility Act in December 2021). The elimination of the diesel fuel preferential rate will be considered once output has recovered. On the expenditure side, it includes measures to increase spending efficiency: a civil service reform (under preparation with technical support from CARICAD), better targeting of social transfers (which will be aid by the national census data planed in 2022), and a review of pension contributions to ensure the sustainability of the system (an actuarial assessment is planned in 2022). Together with the robust CBI revenue, the plan would result in a primary surplus by 2023.

- **CBI revenue.** The baseline scenario assumes steady revenues from the CBI program through the medium term, with inflows of 25 percent of GDP in 2021, tapering to 14 percent of GDP by 2026.

- **Grants.** Grants are projected at 2.3 percent of GDP, in line with the amount recorded in 2020 to assist with pandemic recovery.

- **Real GDP.** Real GDP in 2020 is estimated to have declined by 11 percent in 2020, as a result of travel restrictions that brought tourism exports to a halt and also by domestic lockdowns to prevent COVID-19 contagion. Growth is projected to rebound in 2021 owing to a significantly expanded portfolio of public sector investment projects. The largest project is the construction of a new international airport at an estimated cost of 65 percent of GDP, which the government plans to execute within the next 3–4 years. Other large projects include roads, housing resilient to natural disasters, a new hospital and health centers, a geothermal electricity plant, a resilient water and sewage network, an industrial park to support the development of agriculture processing, and schools. The baseline assumes an execution over 6 years given capacity constraints and available fiscal space. The public investment plan will have ripple effects in other sectors and aid the pandemic recovery, pushing GDP growth to a 5 percent average in the medium term..The government's intention to improve fiscal buffers by accumulating savings in the Vulnerability and Resiliency Fund (VRF) for self-insurance against natural disasters will further contribute to cushioning the growth impact of catastrophic climate events in the medium term. In the long term, after 2026, the output growth is projected to gradually decline and to converge to a potential growth rate of 1.5 percent based largely on the implementation of the public investment program and resultant increased resilience, improved built infrastructure, a new international airport, and geothermal developments, all of which should support improved long term growth potential.

- **Inflation.** Inflation is projected to rise to 3 percent in 2021 in line with global inflationary trends but tempered by administered prices for fuel and cement and strong domestic food

[10] Measures that have been reprioritized include the introduction of a solid waste charge in light of its low revenue potential and high tax administration burden, and a reduction of the preferential rate on diesel which is delayed till the economy shows stronger signs of recovery.

production. Inflation is expected to converge to 2 percent in the medium-term, in line with international inflation, and consistent with the fixed exchange rate under the currency board arrangement of the Eastern Caribbean Central Bank, the regional monetary authority.

- **Balance of Payments.** The current account deficit deteriorated substantially in 2020 to about 30 percent of GDP, owing largely to a decline of exports and remittances as a result of the pandemic. In 2021, the CA deficit is projected to deteriorate further to 30 percent of GDP as import growth accelerates due to large public investment projects coming on stream. In the medium term, the CA deficit is projected to decline as exports strengthen but it remains above the single-digits average in 2013–17. Export growth is driven by recovery of service exports in the tourism sector towards pre-Maria levels, combined with expanding hotel capacity.

Text Table 4. Dominica: Government Financing Needs and Sources

(In US$ million, fiscal years July–June)

	2021	2022	2023	2024	2025	2026
Gross Financing needs	**30**	**79**	**69**	**47**	**44**	**46**
Overall deficit	59	23	26	38	36	25
Primary deficit	**45**	**8**	**9**	**20**	**18**	**7**
Interest	**12**	**15**	**17**	**17**	**17**	**17**
External debt	4	6	7	8	8	8
Domestic debt	9	9	10	9	9	9
Principal repayments	**13**	**33**	**46**	**31**	**29**	**28**
External, new debt	0	0	0	0	0	1
o.w. contracted obligations in pipeline	13	21	21	20	17	16
Domestic	1	12	25	11	11	12
Other debt creating flows (use of deposits)	**-41**	**23**	**-2**	**-21**	**-19**	**-6**
Gross financing sources	**30**	**79**	**69**	**47**	**44**	**46**
External financing	**27**	**68**	**50**	**43**	**40**	**42**
Multilateral	27	68	50	43	40	42
WB	15	48	35	30	28	29
CDB	7	20	15	13	12	13
IMF	0	0	0	0	0	0
other	5	0	0	0	0	0
Bilateral	0	0	0	0	0	0
Commercial & other	0	0	0	0	0	0
Domestic financing	4	11	19	4	4	4

- **Financing conditions.** Dominica is projected to obtain financing from multilateral lenders and domestic borrowing, with negligible borrowing from other sources. Multilateral financing is expected to contribute the bulk of external financing in the medium term with ongoing projects to build resilience to natural disasters and to improve fiscal institutions.[11] Domestic debt is mostly held by the National Bank of Dominica, a majority-owned public bank, and the Dominica Social Security (DSS). Domestic debt is also issued in relatively favorable terms.[12] However, borrowing from DSS has reached its prudential limits and further borrowing will be limited in the near term under the current repayment schedule. The G20's Debt Service Suspension Initiative (DSSI) repayment schedule is reflected in the DSA assumptions.[13] The DSA, and baseline macroframework, assumes that the authorities do not use their SDR allocation.

9. **Results from applying DSA Realism Tools are affected by substantial growth volatility related to the pandemic (see Figure 4).** Real GDP growth paths implied from fiscal multipliers significantly diverge from baseline growth projections (see upper-right chart). Fiscal multipliers are not expected to produce accurate projections in the context of rebound from a pandemic and a primary surplus which is being financed by large CBI revenues which allow public investment of much higher levels than previously anticipated (see bottom left chart). Moreover, the extent of primary adjustment is overstated as the non-CBI primary balance remains a deficit. The projected relation between public investment and real GDP growth differs substantially from the historical relation due the impact of unexpected shocks from the pandemic and successive natural disasters in 2015 and 2017 which delink growth from fiscal spending (see lower-right chart).

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

10. **Indicative debt thresholds in this DSA are determined by the "Medium" rating of Dominica's debt carrying capacity.** The rating is based on the Composite Index (CI) score of the country, which assumes that the risk of debt distress is determined by the quality of institutions (measured by the World Bank Country Policy and Institutional Assessment (CPIA) score), and other country-specific factors such as economic growth, reserves level, and remittances.[14] The calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection, and the corresponding CPIA. Import coverage of reserves continues to be a factor

[11] World Bank financing in the projection period is assumed to have grace period of 10 years and maturity of 40 years, at 0.75 percent interest, CDB financing is assumed at 5-year grace, 25-year maturity and 1 percent interest rate. Other multilateral borrowing is assumed at 5 years grace, 30-year maturity and 1 percent interest rate.

[12] Domestic borrowing is assumed to accrue from the National Bank of Dominica. This takes the form of an overdraft facility, which is converted into long term bonds. These bonds have generous terms, with long maturities and low interest rates. The DSA assumes 0 years grace, 5-year maturity and 5 percent interest on domestic borrowing in the medium term. In the long term, domestic borrowing is assumed to have 7 year maturity, to account for the authorities' medium term debt strategy to extend debt maturity to 9 years. DSA assumptions remain more conservative than authorities' strategy in the medium and long term.

[13] Dominica has requested an extension on the repayment schedule till December 2021. The DSA assumptions are built on the original repayment schedule, incorporating the extension only in cases where the agreements with the creditors have been finalized.

[14] The CI indicator is calculated based on data from the October 2021 WEO and the WB CPIA 2020 data.

supporting this rating in Dominica. On the other hand, a declining trend in reserves coverage is contributing to a decline in its CPIA score. The rating remains unchanged from the previous DSA.

Text Table 5. Calculation of CI Index

Country	Dominica
Country Code	**321**
Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 3.02	Medium 2.99	Medium 2.87

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	180
GDP	40
Debt service in % of	
Exports	15
Revenue	18

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

11. Both external and public debt analysis consider standard-DSA alternative scenarios to this baseline. The DSA includes six standardized and a contingent liability stress tests. The financial market contingency liability included at 7 percent of GDP, above the default of 5 percent of GDP, to account for the risk from natural disasters. This adjustment is made to account for potentially higher fiscal costs of strengthening financial sector balance sheets in the event of a natural disaster given undercapitalization of non-bank financial institutions and high non-performing loans in Dominica. A customized "Catastrophic Climate Event" scenario is added, which assumes the reoccurrence of a Category 5 Hurricane in the second half of 2022. This scenario assumes declines in real GDP, exports, and revenues in line with those following hurricane Maria, as well as a considerable increase in expenditure in rehabilitation, albeit with a slower pace of recovery to account for more binding financing constraints.[15]

[15] The reconstruction after hurricane Maria included record-high public investment in resilient infrastructure which was possible with financing from large government deposits from the CBI program revenue accumulated before the hurricane.

EXTERNAL DSA

12. The external public debt to GDP and debt to exports ratios decline to below the threshold for countries of medium debt carrying capacity in the baseline scenario. The PV of external public debt-to-GDP is on a declining trend in the near term and falls below the threshold established for countries with "medium" debt carrying capacity by 2025 (Figure 1). However, the threshold is breached by a large margin in the event of a catastrophic climate event or the most extreme shock scenario of a reduction in exports to one standard deviation below its historical average. PV of external public debt to exports falls below the threshold more rapidly and is relatively more immune to a catastrophic climate event (Figure 2). However, the most extreme shock scenario of a reduction in exports causes significant deterioration of this metric in the near and longer term. Both the PV of external public debt-to-GDP and PV of debt-to-exports ratios remain close to the threshold in the medium term, implying high risk of breaching in the event of downside shocks. The historical scenario has a more rapid decline in the debt to GDP ratio in initial years, but a similar trajectory.

13. Debt service metrics are on a declining trend and remain below the threshold for most of the projection period. Hence the debt service to exports ratio remains below threshold from 2023 in all scenarios barring the most extreme shock. Moreover, debt service to revenue remains below the threshold for all shocks (Figures 3 and 4).

14. Based on the threshold breaches in the near term under the baseline, the risk of external debt distress is assessed as high. The conclusion is based on baseline debt projections breaching their respective thresholds mainly as a result of high debt stock as a starting point. In addition, the alternative scenarios reinforce this conclusion, with historical and catastrophic climate shock scenarios resulting in breaching of thresholds for most debt indicators in the projection.

OVERALL RISK OF PUBLIC DEBT DISTRESS

15. Under the baseline scenario, public debt is assessed to be sustainable but remains at high risk of debt distress. The fiscal consolidation plan, combined with continued robust CBI inflows to finance public investment projects and boost growth, result in a declining trajectory of the public debt. However, as discussed below, key metrics of debt sustainability remain elevated over most of the horizon owing mainly to the higher initial stock and are sensitive to stress scenarios. Relative to the historical scenario, debt declines more rapidly owing to stronger growth rebound following steeper than anticipated output reductions during the pandemic (see Figure 3). There is also smaller deposit accumulation from borrowing than historically projected.

16. PPG debt remains high and above the threshold under the baseline over much of the horizon. Under the baseline scenario assumptions, public debt remains on a declining trajectory, but the PV of total public-sector debt-to-GDP ratio remains above the corresponding benchmark until well into the projection period, only declining below the benchmark by 2029. All shocks result in large breaches of the benchmark. The debt service-to-revenue ratios increase in the near-term due to projected revenue losses during the pandemic and then decline.

RISK RATING, VULNERABILITY AND RECOMMENDATIONS

17. The stress tests omit important mitigating factors that cannot be internalized within the standardized framework in this DSA:

- *Resilience to natural disasters.* Large investments in physical and social resiliency to natural disasters, which underpin the large fiscal deficits in FY 2018–19 and most of FY 2019–20, will reduce rehabilitation and reconstruction spending following natural disasters and climate shocks in the long run by mitigating output and tax revenue declines after those events. This may reduce the fiscal deficit and debt financing parameters used in the stress test in the long term.

- *Fiscal buffers.* Large government deposits obtained from buoyant CBI revenue have been used to finance fiscal deficits since 2015. Without this buffer, the fiscal deficits in 2018–19 would have been significantly smaller due to constrained financing, which would result in lower debt in the standardized stress test for the historical and catastrophic climate event scenarios. The government intention to improve fiscal buffers in the medium term by accumulating savings in the Vulnerability and Resiliency Fund (VRF) for self-insurance against natural disasters will further cushion the financial impact of catastrophic climate events. Staff recommendation to reprioritize CBI revenues towards enhancing VRF contributions and paying down debt would further enhance debt sustainability by reducing borrowing needs following extreme climate shocks and lowering outstanding debt stock.

18. Non-resident deposits of Dominican expats reduce rollover risk of external debt while enhancing imputed international reserves. Nearly 20 percent of the stock of external debt, equivalent to about 19 percent of GDP, is composed of non-resident deposits held in the banking sector. These depositors are typically Dominica nationals that have migrated to developed nations but continue to have family and economic links with Dominica and therefore continue to maintain assets in the banking sector. This liability enhances overall stability of external debt given its low rollover risk. In addition, these deposit inflows generate an increase of imputed international reserves given the regional currency board arrangement.

19. With sustained progress on the fiscal consolidation plan and the commitment to continue seeking concessional financing terms, Dominica's external and overall debt are sustainable but remain at high risk of distress. The authorities' fiscal consolidation plans are sufficient to bring public and external debt on a downward path, although some key indicators remain above the relevant thresholds for much of the horizon. The planned accumulation of a liquid fiscal reserve in the VRF will help protect debt service capacity and resilience to natural disasters, thereby reducing risk of debt becoming unsustainable. Execution of the government development plan centered on building resilience to natural disasters will further strengthen public and external debt sustainability, by reducing spending in reconstruction and rehabilitation after natural disasters, containing output and employment losses with resilient structures, and increasing output in the long term by stimulating investment and employment (including by reducing out-migration) in a more resilient economy. Adherence to staff recommendations for enhancing contributions to the VRF and paying down debt with CBI revenues will further enhance debt sustainability.

20. The debt projections are underpinned by macro-framework assumptions which are subject to risk. CBI inflow projections are subject to downside risk if there is a long-term decline in the global demand for traveling, or if traveling restrictions are imposed by third nations, reducing the value of holding a Dominican passport, which is the main incentive to acquire Dominica citizenship. CBI also has upside risk, including with a possible rebound of traveling worldwide when the Covid-19 pandemic recedes. This upside risk has materialized in 2020 with the receipt of unprecedented inflows of CBI revenues. Slower than expected recovery of the tourism sector may continue to place a downward pressure on GDP growth, which may also lead to a deterioration in debt dynamics. However, relative to other countries in the regions, Dominica's reliance on tourism is lower and the assumptions underpinning growth recovery are determined primarily by high public investment. External grants have been projected conservatively and have upside risk. Market risks are contained as nearly 90 percent of the debt portfolio consists of fixed interest debt, and currency risks are limited by the currency board arrangement and external debt portfolio being dominated by USD and EC dollar debt.

21. Increased reliance on domestic borrowing heightened risks to public debt, which could become unsustainable should risk scenarios materialize. Higher than projected reliance on domestic debt during 2018–20 has resulted in larger debt service burdens arising from domestic borrowing which underscore a threat to financial stability due to the bank- and non-bank-sovereign nexus should unanticipated shocks threaten the government's ability to service its debts. Domestic debt service spikes in 2023 but moderates thereafter. The authorities should closely monitor the financial stability of local bond holders, particularly Dominica Social Security. The stress tests highlight the exposure to a catastrophic climate event as main risk, a shock that could increase debt into unsustainability, reinforcing the importance of the authorities' commitment to the fiscal consolidation plan in the 2020 RCF disbursement and of the continued multilateral and bilateral financial support on concessional terms.

AUTHORITIES' VIEWS

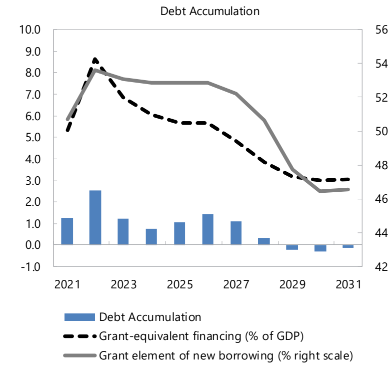
22. The authorities highlighted the direct link between climate change, cost of building resilience and Dominica's debt trajectory. They agreed with staff assessment that public debt is at high risk of distress. The authorities noted that prior to the impact of the pandemic, the country was on a path towards achieving the regional debt target. Moreover, in the absence of Hurricane Erika and Hurricane Maria, the overall public debt path would be significantly lower, output would be higher, and fiscal burden have been lower. Hence, the authorities view Dominica's debt problems as deriving from an external shock in 2017 which claimed over 200 percent of 2016 GDP in damages, followed by an unprecedented pandemic in 2020. They also highlighted that despite repeated shocks to the economy, Dominica has not faltered on its debt repayments to its creditors, nor is it seeking debt forgiveness, which is indicative of their high level of fiscal responsibility. They expressed confidence in their ability to meet the regional debt target of 60 percent of GDP by the extended deadline of 2035, supported by a strong plan of fiscal saving plan under execution and by institutional fiscal reforms, including a fiscal rule passed in December 2021.

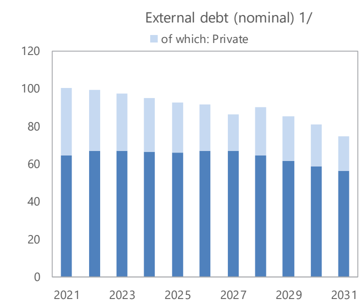
Table 1. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2018–41

(In percent of GDP, unless otherwise indicated)[1]

	Actual			Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	98.3	95.9	104.8	100.2	99.5	97.4	95.0	92.5	91.4	74.8	42.9	87.7	90.4
of which: public and publicly guaranteed (PPG)	52.4	54.7	66.7	64.4	66.7	66.9	66.3	66.2	67.1	56.2	36.2	57.1	64.1
Change in external debt	11.3	-2.4	8.9	-4.6	-0.7	-2.1	-2.4	-2.5	-1.1	-6.0	-1.7		
Identified net debt-creating flows	22.0	35.4	27.6	18.0	15.4	12.4	9.2	9.3	7.7	4.2	0.7	9.6	9.5
Non-interest current account deficit	39.1	38.7	27.6	28.3	26.3	21.8	16.5	15.5	13.3	8.9	4.5	15.3	16.5
Deficit in balance of goods and services	44.6	45.7	36.1	31.3	27.7	26.0	20.7	19.1	16.8	12.2	7.1	21.5	19.8
Exports	26.5	37.1	19.5	19.0	26.4	29.7	34.9	35.9	36.6	34.2	30.3		
Imports	71.1	82.9	55.7	50.3	54.2	55.7	55.6	55.0	53.4	46.4	37.4		
Net current transfers (negative = inflow)	-4.2	-4.3	-5.8	-3.8	-3.8	-3.9	-3.9	-4.0	-4.0	-4.1	-3.9	-6.0	-4.0
of which: official	-0.4	-0.9	-1.1	1.0	1.0	1.0	1.0	1.0	1.0	0.9	0.7		
Other current account flows (negative = net inflow)	-1.4	-2.7	-2.7	0.8	2.4	-0.2	-0.3	0.4	0.5	0.8	1.2	-0.2	0.6
Net FDI (negative = inflow)	-13.0	-6.5	-4.3	-6.4	-6.4	-6.2	-4.7	-4.5	-4.5	-4.5	-3.9	-6.5	-5.0
Endogenous debt dynamics 2/	-4.1	3.2	4.3	-3.9	-4.6	-3.2	-2.6	-1.7	-1.1	-0.3	0.1		
Contribution from nominal interest rate	1.5	1.5	1.3	1.5	1.4	1.4	1.3	1.2	1.1	0.9	0.8		
Contribution from real GDP growth	-4.5	2.1	4.0	-5.5	-5.9	-4.6	-3.9	-2.9	-2.2	-1.2	-0.6		
Contribution from price and exchange rate changes	-1.1	-0.4	-1.1	...	...	...	...	...	...	...	...		
Residual 3/	-10.6	-37.8	-18.7	-22.6	-16.1	-14.5	-11.6	-11.8	-8.9	-10.2	-2.4	-6.0	-12.3
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	48.2	45.6	44.2	42.4	40.6	39.5	39.3	32.7	20.1		
PV of PPG external debt-to-exports ratio	...	...	247.0	239.8	167.2	142.8	116.2	110.0	107.4	95.6	66.5		
PPG debt service-to-exports ratio	18.9	17.2	22.1	21.1	19.8	16.7	13.2	11.0	9.6	7.6	6.9		
PPG debt service-to-revenue ratio	9.7	14.1	7.0	7.1	9.9	9.7	9.2	8.1	7.2	5.5	5.2		
Gross external financing need (Million of U.S. dollars)	186.3	226.7	158.0	161.3	170.0	149.2	127.0	122.0	105.6	74.3	41.7		
Key macroeconomic assumptions 4/													
Real GDP growth (in percent)	5.6	-2.1	-4.1	5.7	6.4	5.0	4.3	3.3	2.5	1.5	1.5	-0.3	3.4
GDP deflator in US dollar terms (change in percent)	1.3	0.4	1.1	2.8	2.2	2.0	2.0	2.0	1.7	2.0	2.0	1.6	2.0
Effective interest rate (percent) 5/	1.8	1.5	1.4	1.6	1.5	1.5	1.4	1.3	1.2	1.2	1.8	2.2	1.3
Growth of exports of G&S (US dollar terms, in percent)	-28.1	37.5	-49.0	5.6	51.4	20.2	25.1	8.4	6.1	2.5	1.2	-0.4	11.9
Growth of imports of G&S (US dollar terms, in percent)	31.2	14.5	-34.8	-1.9	17.2	10.0	6.3	4.2	1.1	-2.9	1.3	3.7	3.9
Grant element of new public sector borrowing (in percent)	...	...	...	50.7	53.6	53.1	52.9	52.9	52.9	46.6	45.1	...	50.9
Government revenues (excluding grants, in percent of GDP)	51.8	45.2	61.8	56.1	52.8	51.4	50.0	48.7	48.5	46.9	40.0	47.2	49.7
Aid flows (in Million of US dollars) 6/	5.1	10.7	13.0	36.1	82.9	66.4	60.0	58.8	61.2	26.6	33.9		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	5.3	8.6	6.9	6.0	5.7	5.7	3.0	2.9	...	5.1
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	64.5	61.2	63.0	64.5	65.4	65.4	78.5	79.4	...	68.9
Nominal GDP (Million of US dollars)	590	580	563	611	665	711	757	797	831	1,018	1,440		
Nominal dollar GDP growth	6.9	-1.7	-3.0	8.6	8.8	7.0	6.4	5.3	4.2	3.5	3.5	1.3	5.6
Memorandum items:													
PV of external debt 8/	...	...	86.4	81.4	77.0	72.9	69.3	65.9	63.6	51.3	26.8		
In percent of exports	...	...	442.5	428.5	291.3	245.5	198.6	183.2	173.8	150.1	88.6		
Total external debt service-to-exports ratio	20.7	18.5	24.7	23.5	21.4	18.1	14.3	11.9	10.5	8.4	7.8		
PV of PPG external debt (in Million of US dollars)			271.3	278.4	293.8	301.8	307.2	315.0	326.5	332.4	290.0		
(PVt-PVt-1)/GDPt-1 (in percent)				1.2	2.5	1.2	0.7	1.0	1.4	-0.1	-0.3		
Non-interest current account deficit that stabilizes debt ratio 9/	27.8	41.1	18.7	32.9	27.0	24.0	18.8	18.0	14.5	15.0	6.2		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); other public sector flows; changes in gross foreign assets; valuation adjustments; and a external financing gap in 2020. For projections also includes contribution from price and exchange rate changes. In Dominica's case, the residual is mostly explained by the use of government deposits derived from CBI revenues and changes in privately held external debt.

4/ Macroeconomic variables are calculated on a fiscal year basis.

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

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

7/ 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).

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

9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2021–31

(In percent of GDP)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	PV of debt-to GDP ratio										
Baseline	**46**	**44**	**42**	**41**	40	39	39	37	36	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**46**	**42**	39	37	36	36	37	35	35	35	38
A2. Catastrophic Climate Event	**46**	**57**	**59**	**60**	**62**	**64**	**66**	**70**	**73**	**76**	**79**
B. Bound Tests											
B1. Real GDP growth	**46**	**51**	**56**	**53**	**52**	**52**	**51**	**49**	**47**	**45**	**43**
B2. Primary balance	**46**	**51**	**55**	**53**	**52**	**52**	**52**	**50**	**49**	**47**	**45**
B3. Exports	**46**	**54**	**65**	**62**	**61**	**61**	**60**	**59**	**57**	**55**	**52**
B4. Other flows 3/	**46**	**47**	**48**	**46**	**45**	**45**	**45**	**43**	**41**	40	38
B5. Depreciation	**46**	**56**	**49**	**46**	**45**	**45**	**44**	**42**	40	38	37
B6. Combination of B1-B5	**46**	**62**	**64**	**61**	**60**	**60**	**59**	**57**	**55**	**52**	**50**
C. Tailored Tests											
C1. Combined contingent liabilities	**46**	**51**	**49**	**47**	**46**	**45**	**45**	**44**	**42**	**40**	39
C2. Natural disaster	**46**	**52**	**51**	**50**	**49**	**49**	**49**	**48**	**47**	**46**	**45**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
	PV of debt-to-exports ratio										
Baseline	**240**	167	143	116	110	107	108	105	102	98	96
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**240**	158	130	105	100	99	104	100	100	102	110
A2. Catastrophic Climate Event	**240**	**241**	**191**	169	169	173	**184**	**198**	**209**	**220**	**231**
B. Bound Tests											
B1. Real GDP growth	**240**	167	143	116	110	107	108	105	102	98	96
B2. Primary balance	**240**	**192**	**186**	153	145	142	143	142	139	136	133
B3. Exports	**240**	**419**	**750**	**614**	**584**	**571**	**575**	**569**	**559**	**544**	**527**
B4. Other flows 3/	**240**	179	163	133	126	123	124	122	118	115	111
B5. Depreciation	**240**	167	130	105	100	97	97	95	91	87	85
B6. Combination of B1-B5	**240**	**352**	163	**336**	**319**	**312**	**313**	**308**	**300**	**288**	**280**
C. Tailored Tests											
C1. Combined contingent liabilities	**240**	**191**	164	134	127	124	125	123	120	117	114
C2. Natural disaster	**240**	**200**	173	143	137	136	138	138	136	135	134
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
	Debt service-to-exports ratio										
Baseline	21	20	17	13	11	10	9	9	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	21	21	19	15	13	12	11	11	11	10	9
A2. Catastrophic Climate Event	21	24	18	14	12	11	10	12	13	14	15
B. Bound Tests											
B1. Real GDP growth	21	20	17	13	11	10	9	9	8	8	8
B2. Primary balance	21	20	17	14	12	11	10	10	9	11	13
B3. Exports	21	43	63	52	43	38	35	35	34	37	41
B4. Other flows 3/	21	20	17	13	11	10	9	9	9	9	9
B5. Depreciation	21	20	17	13	11	9	9	8	8	8	7
B6. Combination of B1-B5	21	35	43	34	28	25	23	22	22	24	22
C. Tailored Tests											
C1. Combined contingent liabilities	21	20	17	14	11	10	9	9	9	9	8
C2. Natural disaster	21	20	18	14	12	11	10	10	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
	Debt service-to-revenue ratio										
Baseline	7	10	10	9	8	7	7	6	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	7	11	11	11	10	9	8	8	8	7	6
A2. Catastrophic Climate Event	7	11	11	10	9	8	8	9	9	10	11
B. Bound Tests	7	11	11	10	9	8	8	9	9	10	11
B1. Real GDP growth	7	12	13	12	11	10	9	8	8	8	7
B2. Primary balance	7	10	10	10	9	8	7	7	7	8	9
B3. Exports	7	10	11	11	9	8	8	7	7	8	9
B4. Other flows 3/	7	10	10	9	8	7	7	6	6	6	6
B5. Depreciation	7	12	12	11	10	9	8	8	8	7	6
B6. Combination of B1-B5	7	12	13	12	11	10	9	9	8	9	8
C. Tailored Tests											
C1. Combined contingent liabilities	7	10	10	10	8	8	7	7	6	6	6
C2. Natural disaster	7	10	10	10	9	8	7	7	7	7	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18
Memorandum item:											
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	49.8	**49.8**

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

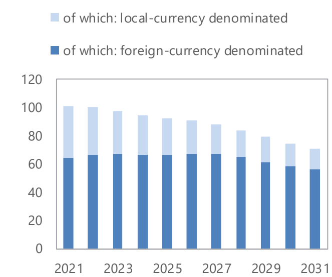
Table 3. Dominica: Public Sector Debt Sustainability Framework, 2018–41

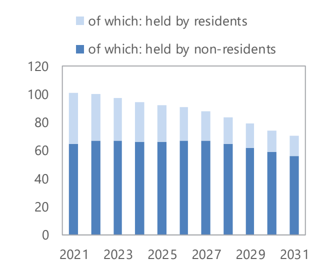
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	84.6	94.2	106.0	101.3	100.5	97.7	94.5	92.1	90.8	70.7	47.1	74.9	88.5
of which: external debt	52.4	54.7	66.7	64.4	66.7	66.9	66.3	66.2	67.1	56.2	36.2	57.1	64.1
Change in public sector debt	2.7	9.6	11.8	-4.7	-0.8	-2.8	-3.1	-2.4	-1.3	-3.8	-1.1		
Identified debt-creating flows 2/	10.8	8.2	9.0	1.6	-4.8	-3.1	-0.9	-0.4	-0.9	-6.5	-4.5	0.1	-3.1
Primary deficit	14.8	5.4	5.0	7.5	1.1	1.1	2.6	2.2	0.8	-5.4	-3.9	-0.6	-0.1
Revenue and grants	52.7	47.1	64.1	58.4	55.1	53.8	52.3	51.0	50.8	49.2	42.3	49.8	52.0
of which: grants	0.9	1.9	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3		
Primary (noninterest) expenditure	67.4	52.4	69.2	65.9	56.3	54.9	54.9	53.3	51.6	43.8	38.3	49.1	51.9
Automatic debt dynamics	-4.0	2.8	4.0	-5.9	-5.9	-4.3	-3.5	-2.6	-1.7	-1.1	-0.5		
Contribution from interest rate/growth differential	-4.6	2.0	3.9	-6.4	-6.3	-4.5	-3.7	-2.7	-2.0	-1.1	-0.5		
of which: contribution from average real interest rate	-0.3	0.2	-0.1	-0.7	-0.1	0.2	0.4	0.3	0.3	0.0	0.2		
of which: contribution from real GDP growth	-4.3	1.8	4.0	-5.7	-6.1	-4.7	-4.0	-3.0	-2.2	-1.1	-0.7		
Contribution from real exchange rate depreciation	0.6	0.8	0.0	...	...	...	...	...	...	...	...		
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	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 contingent liabilities (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		
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 debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 3/	-8.1	1.4	2.7	-5.8	4.3	0.6	-2.0	-2.0	-0.2	2.7	3.3	5.6	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	...	...	87.6	82.5	78.0	73.2	68.9	65.4	63.0	47.2	30.9		
PV of public debt-to-revenue and grants ratio	...	...	136.5	141.1	141.4	136.2	131.7	128.2	123.9	95.9	73.2		
Debt service-to-revenue and grants ratio 5/	12.9	-4.8	8.0	9.6	15.5	18.8	15.2	14.4	13.7	9.8	9.6		
Gross financing need 6/	21.5	3.1	10.1	13.1	9.6	11.3	10.5	9.6	`	-0.6	0.1		
Key macroeconomic and fiscal assumptions 7/													
Real GDP growth (in percent)	5.6	-2.1	-4.1	5.7	6.4	5.0	4.3	3.3	2.5	1.5	1.5	-0.3	3.4
Average nominal interest rate on external debt (in percent)	1.9	1.8	1.5	1.7	1.6	1.6	1.5	1.4	1.2	1.1	1.4	2.3	1.3
Average real interest rate on domestic debt (in percent)	0.0	0.6	-0.6	1.1	1.6	2.3	3.0	3.0	3.3	3.3	4.1	0.6	2.7
Real exchange rate depreciation (in percent, + indicates depreciation)	1.1	1.4	0.1	...	...	...	...	...	...	...	...	0.1	...
Inflation rate (GDP deflator, in percent)	1.3	0.4	1.1	2.8	2.2	2.0	2.0	2.0	1.7	2.0	2.0	1.6	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	20.1	-23.8	26.5	0.7	-9.1	2.4	4.2	0.3	-0.6	-0.8	-2.1	5.3	-0.7
Primary deficit that stabilizes the debt-to-GDP ratio 8/	12.0	-4.2	-6.7	12.2	2.0	3.9	5.7	4.7	2.2	-1.6	-2.8	0.4	3.1
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.
2/ Primary deficit coverage (revenue and expenditures) includes central government and SOEs.
3/ Residuals are mainly related to fluctuations in public sector deposits in the banking system, which have been accumulated mainly from CBI revenues. These deposits stood at 11 percent of GDP at end-2020.
4/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
5/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
6/ 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 and other debt creating/reducing flows.
7/ Macroeconomic variables are calculated on a fiscal year basis,
8/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Table 4. Dominica: Sensitivity Analysis for Key Indicators of Public Debt, 2021–31

(In percent of GDP)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
					PV of Debt-to-GDP Ratio						
Baseline	**82**	**78**	**73**	**69**	**65**	**63**	**60**	**57**	53	50	47
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	**82**	**82**	**80**	**76**	**72**	**70**	**68**	**68**	**69**	**71**	**75**
A2. Catastrophic Climate Event	**82**	**94**	**92**	**89**	**86**	**83**	**76**	**72**	**69**	**66**	**62**
B. Bound Tests											
B1. Real GDP growth	**82**	**97**	**117**	**124**	**131**	**141**	**149**	**157**	**164**	**172**	**180**
B2. Primary balance	**82**	**85**	**88**	**83**	**80**	**77**	**74**	**71**	**67**	**64**	**61**
B3. Exports	**82**	**85**	**91**	**86**	**83**	**80**	**77**	**74**	**70**	**67**	**63**
B4. Other flows 3/	**82**	**81**	**79**	**75**	**71**	**69**	**66**	**62**	**59**	**55**	53
B5. Depreciation	**82**	**83**	**74**	**65**	**58**	51	45	39	33	27	21
B6. Combination of B1-B5	**82**	**85**	**85**	**82**	**78**	**76**	**73**	**70**	**66**	**63**	**60**
C. Tailored Tests											
C1. Combined contingent liabilities	**82**	**85**	**80**	**76**	**72**	**70**	**67**	**63**	**60**	**57**	54
C2. Natural disaster	**82**	**88**	**83**	**79**	**76**	**74**	**72**	**69**	**66**	**63**	**61**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
					PV of Debt-to-Revenue Ratio						
Baseline	141	141	136	132	128	124	119	112	105	100	96
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	141	149	148	144	140	136	133	132	134	140	148
A2. Catastrophic Climate Event	141	204	189	181	176	166	150	143	137	132	127
B. Bound Tests											
B1. Real GDP growth	141	175	215	234	254	273	290	305	321	341	361
B2. Primary balance	141	155	163	159	156	152	146	140	133	128	124
B3. Exports	141	154	169	165	162	158	153	146	139	134	128
B4. Other flows 3/	141	147	147	143	140	135	130	123	117	112	107
B5. Depreciation	141	152	137	125	113	101	89	77	65	54	44
B6. Combination of B1-B5	141	155	158	156	153	149	144	137	131	126	121
C. Tailored Tests											
C1. Combined contingent liabilities	141	155	149	145	142	137	132	125	119	114	110
C2. Natural disaster	141	159	155	151	149	146	142	136	131	127	124
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	10	15	19	15	14	14	13	12	11	11	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	10	17	21	18	17	17	16	15	14	14	13
A2. Catastrophic Climate Event	10	20	22	17	16	15	13	12	11	12	13
B. Bound Tests											
B1. Real GDP growth	10	18	25	21	21	21	21	21	20	22	24
B2. Primary balance	10	15	19	16	15	15	14	13	12	13	14
B3. Exports	10	15	19	16	15	14	13	13	11	12	12
B4. Other flows 3/	10	15	19	15	15	14	13	12	11	11	11
B5. Depreciation	10	16	21	17	16	15	13	13	11	10	8
B6. Combination of B1-B5	10	16	21	17	16	15	14	14	13	12	11
C. Tailored Tests											
C1. Combined contingent liabilities	10	15	19	16	15	14	13	13	11	11	10
C2. Natural disaster	10	16	20	16	15	15	14	13	12	12	11
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-GDP Ratio						
Baseline	**5.6**	**8.5**	**10.1**	**7.9**	**7.3**	**7.0**	**6.5**	**6.1**	**5.5**	**5.2**	**4.8**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2031 2/	6	9	11	9	9	9	8	8	7	7	7
A2. Catastrophic Climate Event	6	9	11	9	8	7	7	6	6	6	6
B. Bound Tests											
B1. Real GDP growth	6	10	14	11	11	11	11	11	10	11	12
B2. Primary balance	6	9	10	8	8	8	7	7	6	6	7
B3. Exports	6	9	10	8	8	7	7	6	6	6	6
B4. Other flows 3/	6	9	10	8	7	7	7	6	6	5	5
B5. Depreciation	6	9	11	9	8	7	7	6	6	5	4
B6. Combination of B1-B5	6	9	11	9	8	8	7	7	6	6	6
C. Tailored Tests											
C1. Combined contingent liabilities	6	9	10	8	8	7	7	6	6	5	5
C2. Natural disaster	6	9	11	8	8	7	7	7	6	6	5
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

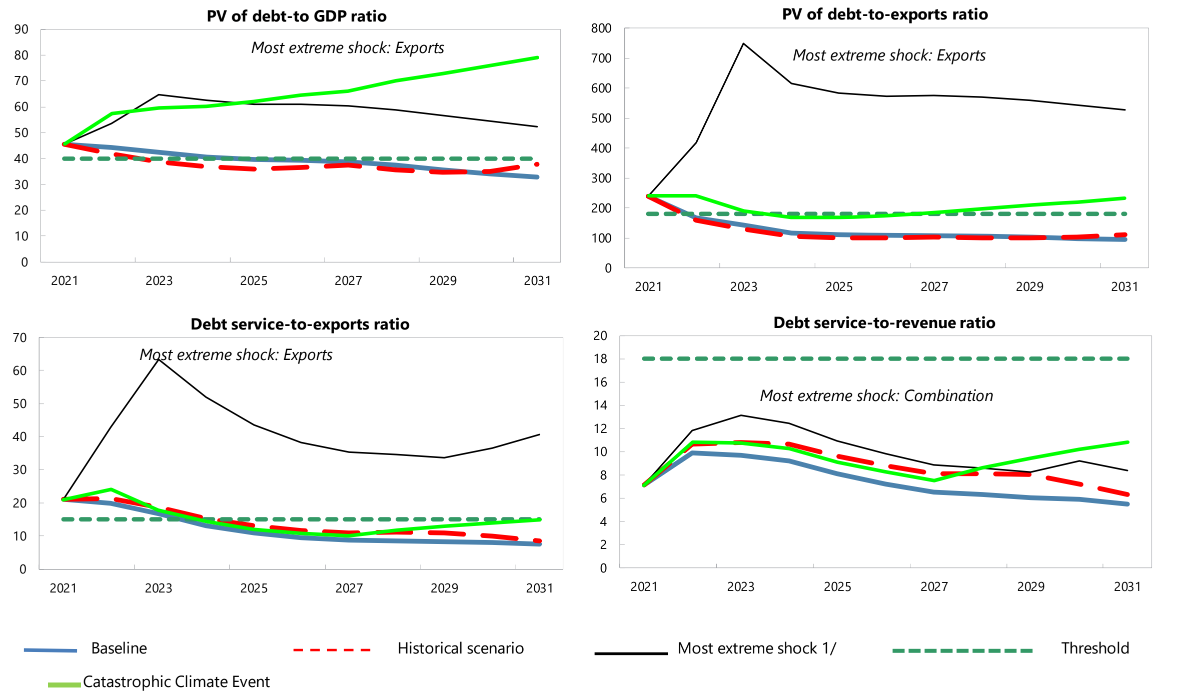
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2021–31[1]



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster 2/	No	No
Commodity price 3/	n.a.	n.a.
Market financing	n.a.	n.a.

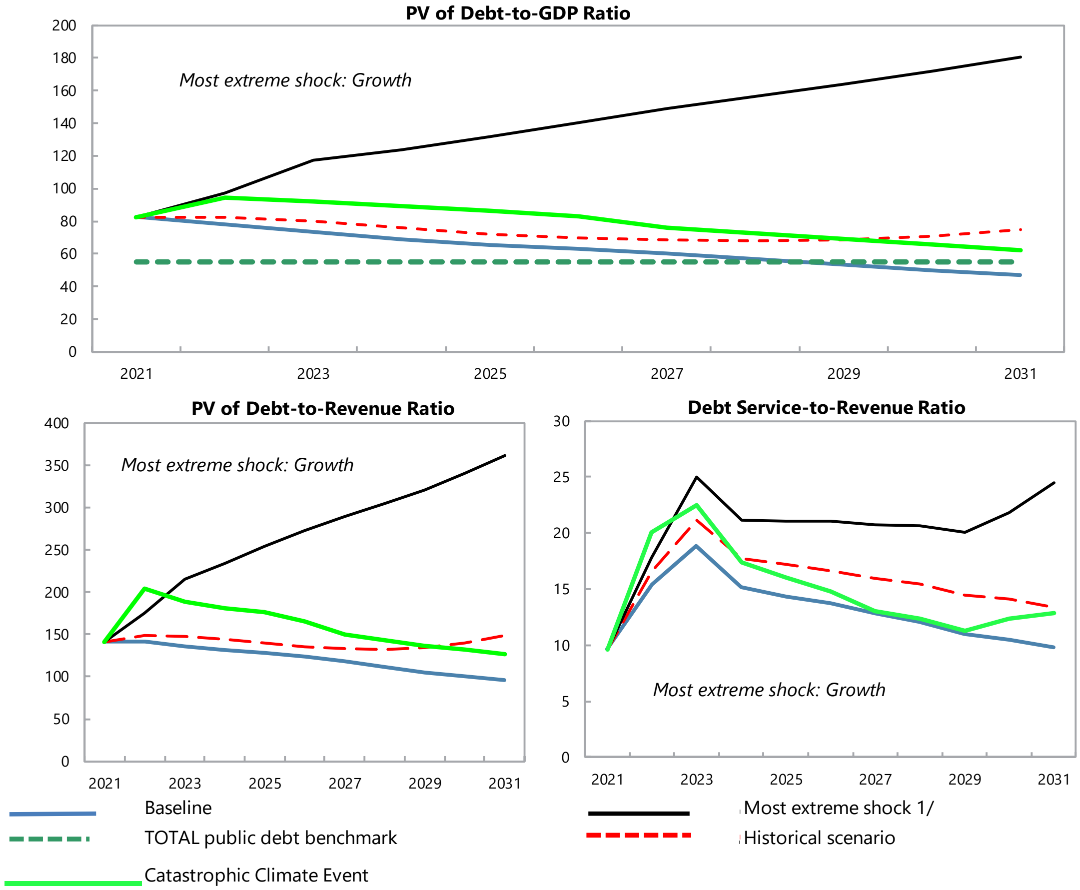
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	0.9%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	33	33
Avg. grace period	7	7

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ Natural disaster shock applies, but is generated as Customized Scenario (not as a Tailored Scenario) to more precisely mimic the impact of recent Hurricane Maria.
3/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2021–31



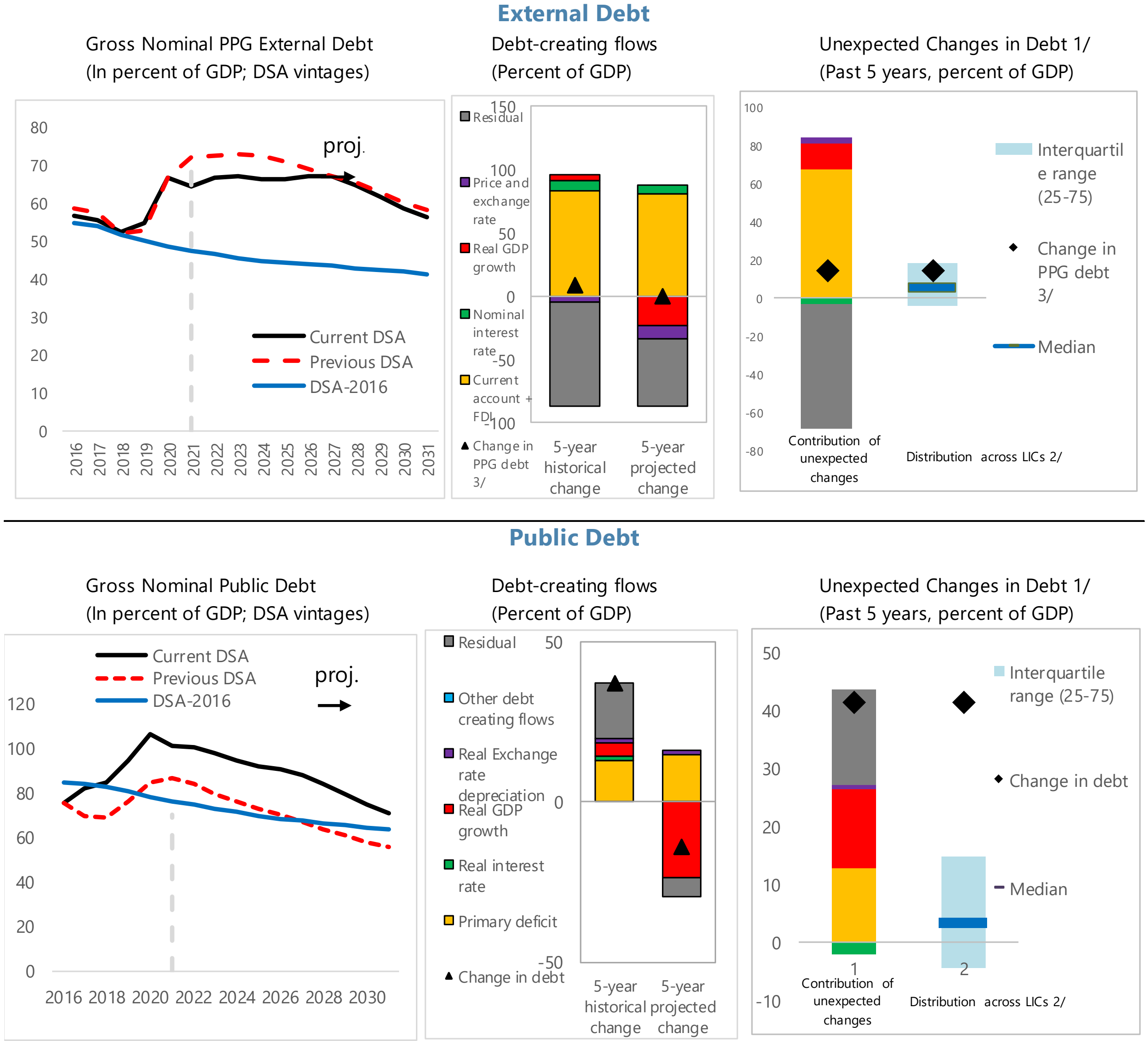
Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	68%	90%
Domestic medium and long-term	32%	10%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.9%	2.5%
Avg. maturity (incl. grace period)	33	15
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	3.0%	0.5%
Avg. maturity (incl. grace period)	5	15
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.5%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Figure 3. Dominica: Drivers of Debt Dynamics—Baseline Scenario



Sources: Country authorities; and staff estimates and projections.

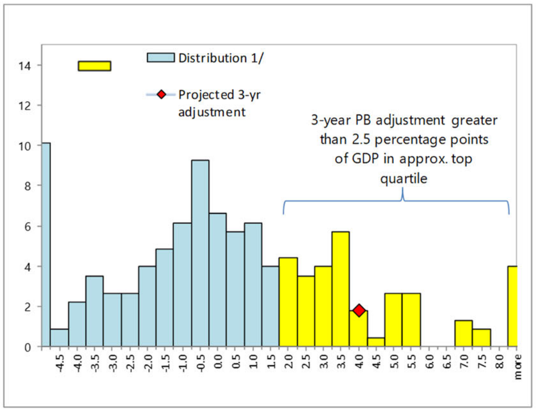
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

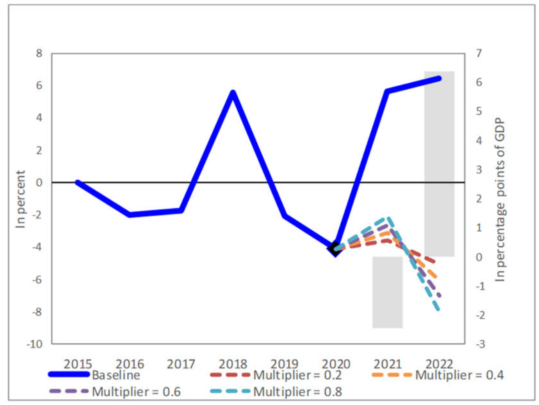
Figure 4. Dominica: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



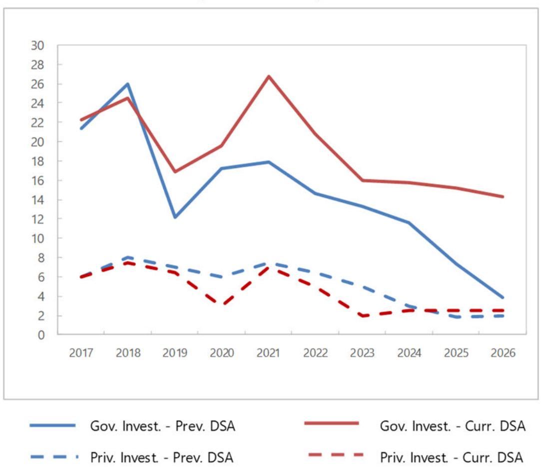
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

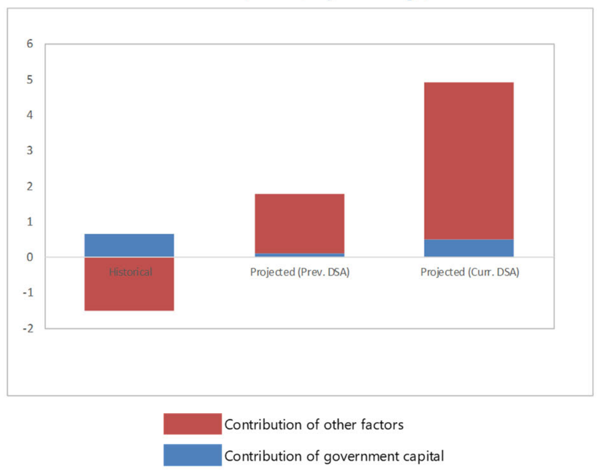


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



Contribution to Real GDP growth
(Percent, 5-year average)



Sources: Country authorities; and staff estimates and projections.

Statement by Mr. O'Brolchain and Ms. Edwards on Dominica

February 2, 2022

On behalf of the authorities of Dominica, we express gratitude to Mr. Alejandro Guerson and his team for constructive and candid discussions during the Article IV mission. **Our authorities have expressed satisfaction with the discussions and are in broad agreement with staff's assessment and recommendations.**

The authorities are focused on building a strategy that will facilitate post pandemic recovery while continuing to address the health situation. The government aims to vaccinate 70 percent of the population aged 18 and older and have accessed adequate vaccines to immunize the target population, but vaccine hesitancy is a major challenge. The authorities are therefore adopting several strategies, including working with social groups and civil society to increase vaccine uptake.

The Response to the COVID-19 Pandemic

The COVID-19 pandemic has hit Dominica hard, and the authorities have rightly prioritized preserving lives and livelihoods. Dominica has experienced two major waves of the pandemic. In the first wave in March 2020, borders were closed, and a domestic lockdown was instituted. The number of cases was relatively low, and no deaths were recorded. However, the second wave which started in August 2021 resulted in significant increases in cases, and the first COVID-related death was recorded. The authorities instituted another, less severe lockdown, but borders remained open.

To address the health situation, government revamped the health services and introduced new facilities to specifically provide medical services to COVID-positive people. Protective and other medical equipment were purchased for use in these new facilities, as well as at the island's main tertiary care facility. Free quarantine facilities for local patients were introduced and quarantine arrangements were made for visitors who tested positive on arrival to Dominica. In addition, widespread testing has been adopted, with residents having access to regular testing at no cost to them.

The government's response to the pandemic also addressed the economic impact and included the extension of the tax filing period, introduction of tax waivers, deferrals, incentives, and the elimination of import duties and VAT on cleaning and health products. Through the Social Security system, unemployment benefits were provided to employees and self-employed people whose livelihoods had been affected. All social transfers were maintained to protect the vulnerable. In addition, the authorities supported the measure of an ECCU-wide moratorium on loan repayments, to provide relief for borrowers.

Funding for government's response to the pandemic has been obtained from development partners, resources from the CBI program, and reallocation of budget priorities. In 2020, the Fund disbursed the equivalent of SDR 10.28 million (US$14 million; 89.39 percent of quota) under the Rapid Credit Facility (RCF), with additional concessional resources obtained from the World Bank (WB), the Caribbean Development Bank (CDB), and the OPEC Fund.

Recent Economic Developments

The economic impact of the pandemic has been severe. GDP is estimated to have declined 11 percent in 2020. The sectors which have been most affected include tourism, wholesale and retail trade, and construction. A modest recovery of 3.7 percent is estimated for 2021. This result is a consequence of the authorities' efforts to accelerate the implementation of the public sector investment program, construction of new hotels, and activity in the retail sector. Consumer prices declined in 2020 by 0.7 percent, reflecting lower import prices. However, prices have been rebounding with the consumer price index measuring 3.0 percent in 2021.
An overall fiscal deficit of 7.2 percent of GDP was recorded in fiscal year 2020/21. This reflected the impact of the various revenue measures and increased expenditures in response to the crisis. However, other recurrent spending remained contained, even with the implementation of a 1¼ percent wage increase agreed with labor unions. Public debt increased to 106 percent of GDP at end 2020, from 94 percent in 2019.
Measures implemented by the banking sector mitigated the impact of the pandemic in the financial sector, and the sector remained stable and liquid. Vulnerabilities exist in the non-bank sector especially among credit unions, some of which are under-capitalized. Overall, the level of non-performing loans is high and will need to be addressed.
Large current account deficits exceeding 30 percent of GDP were recorded in 2020 and 2021. These outcomes are largely as a result of the declines in the tourism sector and increases in public investment, but these were partly offset by lower imports of goods and services.

Economic Outlook

The risks to the economic outlook are tilted to the downside, with the trajectory of recovery subject to the path of the pandemic. Growth of 7.6 percent is projected in 2022 on the assumption that the health situation will improve, the tourism sector will re-emerge, and robust implementation of large public sector investment projects will take place. Growth over the medium term (2023 to 2025) will average five percent per annum.
Inflation is projected at 2.5 percent in 2022 and two percent in the medium term.
The current account deficit is expected to reduce to 28.7 percent of GDP in 2022 and to fall progressively to 14.7 percent of GDP by 2026.

Fiscal Policy

The immediate priority for the authorities is to bolster the post pandemic recovery even while starting the process of fiscal consolidation. Where necessary, fiscal relief measures will remain in place until the recovery firmly takes root. However, the focus will shift to rebuilding fiscal buffers into the medium term and advancing reforms to support fiscal and debt sustainability.
After making significant progress in reducing debt levels, a series of natural disasters forced the authorities to increase spending for rehabilitation and restoration. The authorities have signed on the ECCU target of a debt to GDP ratio of 60 percent by 2035 and are committed to reaching this target. The approval of the fiscal rule in December 2021 is a most important step and gives credibility to the authorities' commitment to achieve the debt target. Other

elements of the fiscal rules include establishing the primary fiscal balance as an operational target and the inclusion of contingent clauses in debt agreements, including for natural disasters and pandemics.
Dominica was impacted by the COVID-19 pandemic while it was still grappling with the effects of hurricane Maria, which hit the country in 2017 and resulted in loss and damage equivalent to 226 percent of GDP. The cost of the hurricane Maria rehabilitation has been significant, and initial spending was financed mostly by drawing down buffers which had been accumulated from revenues raised under the Citizenship By Investment Program (CBIP). A critical part of the fiscal consolidation strategy is to rebuild these buffers and strengthen financial resilience. Towards that end, the authorities have established a Vulnerability and Resiliency Fund (VRF), for self-insurance against natural disasters. This Fund is complementary to the participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF).
The authorities remain committed to continuing with the implementation of fiscal reforms pledged in the Rapid Credit Facility (RCF) disbursement, and progress is being made with implementation. They have proposed a phased fiscal consolidation plan of 5.1 percent of GDP, to be executed over five years. This includes amendments to the income tax regime, additional streamlining of discretionary tax exemptions, introduction of a property tax, public sector reform, better targeting of social transfers, and a review of the social security pension system to ensure that it remains sustainable and funded.
The authorities are pursuing an ambitious public investment program that includes construction of an international airport, a geothermal plant and resilient housing, and rehabilitation of major road infrastructure. Recognizing the capacity limitations, the Climate Resilient Execution Agency of Dominica (CREAD) was established to spearhead project implementation. That agency has proved to be useful in addressing the bottlenecks and implementation challenges normally associated with the implementation of large donor financed projects.
Revenues from the CBIP is critical to the success of the authorities' fiscal and debt performance. In addition to financing the public sector investment program and funding the VRF, the authorities intend to pay down debt using these resources.

Financial Sector

Maintaining financial sector stability remains crucial to support economic recovery, and actions to bolster financial system stability will deepen. The sector has weathered the pandemic well and is broadly sound. The authorities support banks' plans to strengthen capital buffers and to increase provisioning to 100 percent of NPLs by 2024, as set by the ECCB. With the purchase of the Dominica branch of the Royal Bank of Canada, the country's indigenous bank, namely the National Bank of Dominica, now has a significant share of the market accounting for 73 percent of total loans. The authorities are mindful that enhanced supervision for this entity is necessary.
The authorities also support the implementation of measures to address the shortcomings in the non-bank sector and especially within the credit union sector. The capacity of the Financial Services Unit (FSU), the non-bank regulator, is being strengthened to improve surveillance and equip staff to provide guidance on critical matters such as increasing capital, addressing NPLs, and preparation of crisis management plans.

The authorities continue to implement measures to improve the AML/CFT framework. Dominica made the necessary legislative changes to designate the ECCB as the competent authority for the AML/CFT regulation and supervision of the banking sector in 2020. The National Risk Assessment (NRA) was recently completed, and the report is being finalized. The Caribbean Financial Action Task Force (CFATF) is currently engaging Dominica in preparation for the fourth-round mutual evaluation, with the expectation that the report will be presented to the plenary session of the CFATF in November 2022.

Structural Reforms

Dominica is highly susceptible to natural disasters and especially to the impacts of climate change. Since the announcement of plans to make Dominica the first climate resilient nation, the authorities have ramped up efforts to enhance climate resilience and are focusing on 'climate proofing' new infrastructure. Access to financing for climate mitigation remains a challenge but the country is armed with a Disaster Resilience Strategy (DRS), which was prepared with assistance of the Fund. The DRS is an important tool to assist the authorities in seeking financing for its activities.
More broadly, the authorities will continue to pursue policies aimed at improving the business environment.

Concluding Remarks

The ongoing pandemic poses an immense challenge for service-based economies. The authorities are aware that risks are tilted to the downside and that the longer the pandemic lasts, the deeper will be the impact. They have therefore adopted a strategy to accelerate the implementation of the public sector investment projects to spur economic activity and create direct and indirect employment opportunities. The near-term priority is to protect lives and livelihoods and to protect the economic and social gains that have been made in the past. They do, however, acknowledge that they need to rebuild buffers and consolidate the fiscal position if they are to achieve durable and inclusive growth.