



DOMINICA

July 2016

2016 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 2016 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 July 13, 2016 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 July 13, 2016, following discussions that ended on April 11, 2016, 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 June 22, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Supplement** updating information on recent developments.
- 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.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: <http://www.imf.org>
Price: \$18.00 per printed copy

International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND



Press Release No. 16/346
FOR IMMEDIATE RELEASE
July 20, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes the 2016 Article IV Consultation with Dominica

On July 13, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Dominica.

The Dominican economy was hit hard by tropical storm Erika, with output estimated to have declined by 3.9 percent in 2015. While tourism activities have largely normalized following the resumption of full operations at the main airport, other sectors will likely need more time to be fully restored. Agricultural output and manufacturing declined sharply, as the storm affected crops and access to arable land, and prompted the closure of operations of the main industrial plant. In addition, the protracted decline of banks' credit to the private sector remains a drag on economic activity, underpinned by high non-performing loans. Inflation has remained subdued, mainly as a result of falling fuel prices. Notwithstanding weak exports of agriculture and tourism, the 2015 current account deficit remained contained on the back of lower oil imports.

Output growth is expected to remain subdued in 2016 at 1.3 percent as the economy slowly recovers from the storm and investment in reconstruction picks up. This growth, however, is largely conditional on donor grants proceeding according to expectations. Afterwards, growth is projected to accelerate somewhat as the economy continues to recover towards potential, and to stabilize at 1.7 percent per year over the medium-term. The current account is projected to deteriorate on the back of the increase in reconstruction investment, and then to gradually improve as exports of agriculture, tourism and manufacturing activities recover. The imbalances are expected to be financed primarily with external capital grants and official concessional loans.

The fiscal outturn for FY 2015/16 is strong, estimated at a surplus of 0.8 percent of GDP. However, the underlying fiscal performance is somewhat weaker than the outturn suggests, as it

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.

was underpinned by the collection of tax arrears (in part transitory), higher ECP revenues (subject to uncertainty), and low capital expenditure. Going forward, fiscal policy should be calibrated to allow space for reconstruction expenditure within fiscally sustainable bounds, consistent with the regional debt target commitment.

Executive Board Assessment²

Executive Directors noted the economic impact on Dominica caused by Tropical Storm Erika in August 2015 and commended the authorities for their policy response. The disbursement under the RCF program in October 2015 supported the immediate financing needs while providing time to specify measures consistent with the fiscal consolidation targets to restore fiscal sustainability. Looking forward, Directors underscored the importance of maintaining the reform momentum to achieve fiscal and debt sustainability in the medium term, strengthen the financial system, and encourage private sector-led growth in order to enhance the country's resilience to possible future natural disasters.

Directors supported the accommodation of reconstruction expenditures over the medium term, and emphasized the importance of financing the reconstruction activities within fiscally sustainable bounds. They noted that the fiscal measures already passed are appropriate and consistent with the commitments in the RCF, and that the improvements in tax administration are yielding additional resources. Given the uncertainty regarding revenues from the economic citizenship program (ECP) and the implementation risk of the remaining reforms, Directors suggested that any unanticipated revenue windfalls should be allocated to public debt reduction and to build fiscal buffers. Directors noted that a timely implementation of the fiscal consolidation plan is needed to attain the Eastern Caribbean Currency Union's debt target by 2030. They also supported the authorities' efforts to seek additional donor grants and concessional financing as part of their integrated fiscal consolidation strategy.

Directors encouraged the authorities to complement the fiscal measures with structural fiscal reforms to make fiscal consolidation gains durable. Such measures should focus on strengthening and supporting the budget process and its execution, including systems to improve public financial management, and improving the transparency of the ECP.

Directors welcomed the progress made in strengthening the financial sector, but noted that high levels of non-performing loans and low capitalization across the financial industry pose risks to financial stability. They encouraged the authorities to press ahead with efforts to improve financial regulation and supervision, and further strengthen AML/CFT legislation.

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

Directors agreed that enhancing growth prospects requires higher private sector participation and improving the business environment. To this end, they encouraged the authorities to continue pursuing structural reforms that facilitate an efficient operation of markets. In particular, they emphasized the importance of reforms to boost external competitiveness, including in the areas of labor markets, export diversification, access to finance, and energy costs. The ongoing plans to enhance the preparedness for and resilience to natural disasters should continue, as these shocks could be large and recurrent. In this regard, Directors encouraged the authorities to consider establishing a saving fund, using some of the ECP revenues.

Dominica: Selected Economic and Financial Indicators, 2012-18

	2012	2013	2014	2015	Projected		
					2016	2017	2018
Output and Prices							
	<i>(annual percent change, unless otherwise specified)</i>						
Real GDP 1/	-1.3	0.6	3.9	-3.9	1.3	2.8	2.7
Nominal GDP 1/	-3.3	4.4	3.5	-4.7	1.1	4.4	4.5
Consumer prices, end of period	1.3	-0.4	0.5	-0.1	-0.1	1.8	1.8
Real effective exchange rate (period average, depreciation -)	0.2	-0.6	-0.7	...	...	...	...
Central Government Balances 2/							
	<i>(in percent of GDP, unless otherwise specified)</i>						
Revenue	30.3	30.0	28.1	36.1	35.8	34.6	33.8
Expenditure	35.7	33.0	32.5	35.1	38.2	35.7	33.6
Primary balance	-3.4	-1.0	-2.9	3.3	-0.1	1.3	2.6
Excl. Economic Citizenship Program	-7.2	-4.6	-4.6	-1.6	-3.7	-2.2	-0.7
Overall balance (incl. ND cost buffers)	-5.4	-3.0	-4.4	0.9	-3.9	-2.6	-1.3
Excl. Economic Citizenship Program	-9.2	-6.6	-6.1	-4.0	-6.0	-4.6	-3.1
Central government debt (incl. guaranteed) 3/	72.6	74.7	83.9	85.5	87.7	87.3	85.4
External	52.6	52.6	53.4	56.6	56.4	55.8	53.2
Domestic	20.0	22.1	30.5	28.9	31.2	31.5	32.2
Balance of Payments							
Current account balance	-17.4	-9.8	-11.2	-9.4	-12.6	-13.7	-14.1
Exports of goods and services 4/	32.6	38.2	41.4	41.9	41.0	40.1	39.8
Imports of goods and services 5/	51.5	48.1	53.8	52.4	53.6	53.7	53.8
External debt (gross) 6/	75.1	74.4	81.6	93.5	91.6	89.8	88.1
Net imputed international reserves:							
Millions of U.S. dollar	91.8	85.4	99.9	125.4	116.6	118.5	120.4
Months of imports of goods and services	4.4	4.2	4.3	5.7	5.2	5.0	4.9
Savings-Investment Balance							
Savings	-2.1	3.9	3.7	3.1	4.5	3.1	0.7
Investment	15.2	13.7	14.9	12.5	17.1	16.8	14.8

Sources: Dominican authorities; Eastern Caribbean Central Bank; and Fund staff estimates and projections

1/ At market prices. Historical data reflect national accounts data revision published by the ECCB on July 2, 2015.

2/ Data for fiscal years running from July to June of the next year.

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

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

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

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



DOMINICA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

June 22, 2016

KEY ISSUES

Context. After tropical storm Erika in August 2015, the government has focused on infrastructure rehabilitation, social support, and the identification of financing for reconstruction. The approval of a disbursement under the RCF (SDR 6.15 million) in October 2015 has supported immediate financing needs while providing time to specify measures consistent with the fiscal consolidation targets committed to restore fiscal sustainability. Measures already passed and planned for the FY2016/17 budget are in line with the authorities' commitment during the RCF discussions. The storm has worsened long-standing competitiveness and fiscal sustainability problems. The difficulties related to restraining public wage expenditures and executing public investment further compound these challenges.

Outlook. Output is estimated to have declined by 3.9 percent in 2015 as a result of the storm, and is projected to recover in the near term before stabilizing at a potential growth rate of 1.7 percent per year. The recovery is underpinned by an increase in public investment for reconstruction, and a gradual normalization of economic activities, mainly tourism and agriculture. The current account and fiscal deficits are projected to deteriorate during the reconstruction phase, and to improve gradually over the medium-term on the back of the fiscal consolidation and the recovery of the main export sectors.

Risks. Main risks to the outlook stem from recurrent natural disasters, delays in reconstruction and grant disbursement, the increasing importance of ECP revenues that are difficult to predict, political resistance to the remaining fiscal consolidation, further strengthening of the US dollar weighing on competitiveness, and weaknesses in the financial sector affected by high NPLs and insufficient regulation and supervision of credit unions. The government has no fiscal cushion in case of another natural disaster, and a decline of grant or ECP revenues below expectations would severely affect fiscal and external sustainability.

Approved By
Charles Enoch (WHD)
and Bob Traa (SPR)

Discussions were held in Roseau over March 29-April 11, 2016. The team comprised Alejandro Guerson (head), Wayne Mitchell, Saji Thomas and Balazs Csonto (all WHD). Ronald James (WHD, Barbados) joined the mission for few days. Ms. Ke Wang (RES) contributed to the preparations for the mission. The mission was assisted from headquarters by Hanlei Yun, RoseMarie Fonseca, and Joy Villacorte. The mission met with Prime Minister Roosevelt Skerrit; senior government officials; labor unions; and private sector representatives.

CONTENTS

BACKGROUND	4
RECENT DEVELOPMENTS	4
OUTLOOK AND RISKS	6
POLICY RECOMMENDATIONS	11
A. Fiscal Policy	11
B. Financial Sector	16
C. Growth and Competitiveness	18
STAFF APPRAISAL	21
BOXES	
1. Risk Assessment Matrix	10
2. Structural Fiscal Reforms	16
FIGURES	
1. Economic Performance	24
2. External Sector Developments	25
3. Fiscal Developments	26
4. Monetary Developments	27
TABLES	
1. Fiscal Measures and Expected Yields, FY2015/15	12
2. Selected Economic and Social Indicators, Active Scenario	28
3. Balance of Payments, Active Scenario	29
4. Summary Accounts of the Banking System	30
5a. The Statement of Operations of the Central Government, Active (EC Dollars)	31
5b. The Statement of Operations of the Central Government, Active (% GDP)	32

6. Central Government Financing Needs and Sources, Active Scenario	33
--	----

ANNEXES

I. Debt Sustainability Analysis	34
II. External Sector Assessment	45

BACKGROUND

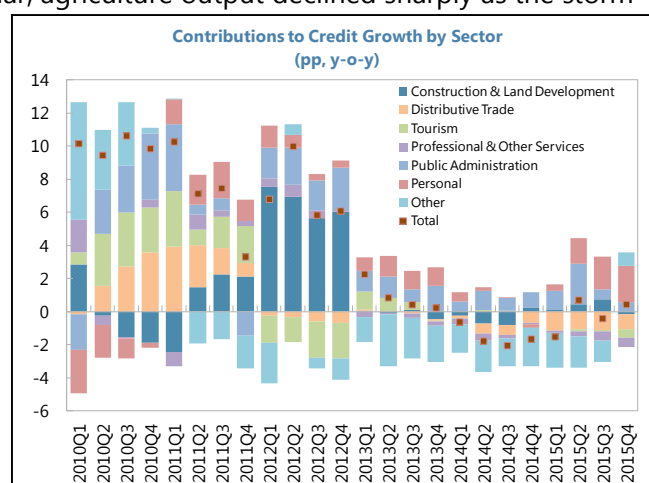
1. After tropical storm Erika in August 2015, the government focused on the rehabilitation of infrastructure and meeting the needs of those affected by the storm. Since then, the rehabilitation efforts have restored some normality to daily activities. The main airport is now fully operational; electricity generation has regularized; the main roads are usable; and several social and micro-businesses support programs are in place. Moreover, the government is providing shelter to displaced families and has made significant progress in the plans for the relocation of the affected population into safer areas. The public investment program has been re-prioritized, and there is progress in the identification of official lending and grant financing. However, core public reconstruction activities have been slow to start mainly as a result of delays in the disbursement of financing already committed and capacity constraints.

2. The government has developed a macroeconomic plan that is financially-sustainable and accommodates the large reconstruction expenditure, estimated at 65 percent of GDP. The broad parameters of this plan have been set out in the discussions leading to the disbursement under the Rapid Credit Facility (RCF) approved by the IMF's Executive Board in October 2015. Since then, the authorities have passed measures in line with their RCF commitments, and are finalizing the specification of measures committed under the RCF for FY2016/17; these are included in the budget proposal under discussion.

RECENT DEVELOPMENTS

3. Output is estimated to have declined by 3.9 percent in 2015 as a result of the storm, and the recovery is now estimated to be slower and more protracted than in the RCF estimates.

Tourism activities are returning to earlier levels following the resumption of full operations at the main airport. Visitor arrivals have recovered, although to levels that are lower than in the previous season, as a result of the storm and also because of a significant reduction in flights by the main regional airline as it restructures its operations. Other sectors have been slower to rebound, and will likely need more time to fully recover. In particular, agriculture output declined sharply as the storm affected crops and access to arable land, and significant areas are now in need of re-planting and soil treatment. Manufacturing is also significantly affected, as the storm prompted the closure of the main industrial plant. The protracted decline of banks' credit to the private sector remains a drag on economic activity, underpinned by high non-performing loans (NPLs) — more than 15 percent of total loans — and low profitability. Inflation has remained subdued, within a slightly negative range on a year-on-year basis, mainly as a result of falling fuel prices.



4. Notwithstanding weak exports of agriculture and tourism, the 2015 current account deficit remained contained at an estimate of 9.4 percent of GDP.¹

Imports have been resilient despite the loss of incomes, supported by an increase in remittances, donor grants, and social transfers provided by the government, all of which contributed to sustain private consumption. On the other side, lower oil imports following the decline in international prices contributed to contain the current account deficit. The external position is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policies (Annex II). Structural impediments, domestic policy gaps relative to other countries, and the appreciation of the US dollar are dominant contributors to the REER gap. Imputed reserves are assessed to be adequate and sufficient to absorb most shocks.²

	H1-FY 2014/15	H1-FY 2015/16
	(% of GDP)	
Revenue and Grants	14.9	17.4
Tax Revenue	11.4	12.1
Taxes on income	2.0	2.5
<i>Collection of arrears</i>	0.1	0.5
Taxes on goods & service	6.8	6.9
Taxes on property	0.2	0.2
Taxes on international tra	2.4	2.5
Non Tax Revenue	2.2	4.5
<i>of which : ECP</i>	1.6	4.1
Grants	1.3	0.8
Total Expenditure	15.4	14.7
Current	12.3	12.9
Wages and salaries	5.2	5.5
Goods and services	3.7	3.4
Interest	0.8	1
Transfers and subsidies	2.5	3
Capital Expenditure	3.1	1.8
Overall balance	-0.5	2.7
Primary balance	0.3	3.7
Primary balance (Excl. ECP)	-1.3	-0.4
Memo:		
Nominal GDP (EC\$ millions)	1382	1356

5. The fiscal outturn for FY 2015/16 is strong, but is partly explained by transitory factors.

In the first half of FY2015/16 the central government balance registered a surplus of about 3percent of GDP. This performance was supported by the collection of tax arrears, and low capital expenditures, which are largely transitory, and also by higher Economic Citizenship Program (ECP) revenues, which are difficult to predict. The low capital spending is in part explained by the low level of capital grants and also by significant time needed for investment planning because of the need to re-prioritize the public investment program. In the second semester, revenues are expected to benefit from the adoption of the fiscal measures committed in the RCF, mainly increasing several excise taxes and user fees, and also reinstating specific import duties.

(percent of GDP)		
State Owned Enterprises	Profit/loss	Guaranteed Debt
Air and Sea Ports Authority	-0.25	0.8
Water and Sewerage Authority	-0.04	0.1
Invest Dominica Authority	-0.01	0.0
Bureau of Standards	-0.01	0.0
Dominica Exports and Imports Agency	-0.07	0.1
Independent Regulatory Commission	0.01	0.0
Dominica Housing Loans Board	0.02	1.6
Dominica Broadcasting Corporation	0.02	0.0
Discover Dominica Authority	0.03	0.0
Public Works Corporation	0.04	0.6
Agricultural and Industrial Development Bank	0.13	8.7
All	-0.13	12.0
1/ Based on the latest available data for the SOEs.		
Source: Authorities and Staff estimates.		

On this basis, the fiscal balance is estimated at a surplus of 0.9 percent of GDP. The estimated yield of measures already approved is 0.7 percent of GDP, above the target of 0.5 percent of GDP

¹ The balance of payments (BOP) data for 2014 were revised by the Eastern Caribbean Central Bank and Dominica's Statistical Office from -13.1 percent of GDP to -11.2 percent of GDP. This reflects mainly the improved estimation of (i) tourism exports, (ii) transactions by offshore universities, and (iii) private remittances. Further improvements in BOP estimation are expected, particularly of FDI and portfolio flows by end-2016.

² This assessment does not consider the need for additional buffers to deal with significant natural disasters.

committed in the RCF. The significant improvement in revenue administration and tax auditing facilitated the identification of additional tax arrears, which is expected to broaden the tax base going forward. The state owned enterprises (SOEs) sector is affected by financial sustainability challenges. This sector is in general operationally balanced, but their resources are insufficient to cover capital replacement (text table). Their debt is significant, contributing 12 percent of GDP to the stock of public sector debt, and it is mostly concentrated in financial public entities (text table).

OUTLOOK AND RISKS

6. Output growth is expected to remain subdued in 2016 at 1.3 percent as the economy slowly recovers from the storm and investment in reconstruction picks up. This growth, however, is largely conditional on donor grants proceeding according to expectations –now revised to about two-thirds of the projection at the time of the RCF. A partial recovery of tourism and agriculture would also contribute to growth in 2016. Inflation is projected to remain subdued in the near term due to lower oil prices, notwithstanding the increase of several excise taxes.

7. Output growth is projected to accelerate in 2017 as the economy recovers towards potential, and to stabilize at 1.7 percent per year over the medium-term. This outlook is affected by

weakening expectations on global growth, and the recent appreciation of the US dollar, which could slow tourism exports going forward – including through the indirect effects from other Caribbean countries, the main origin of Dominica’s visitors. On the domestic front, credit to the private sector is projected to continue to decline as a percent of GDP given banks’ need to provision for NPLs, as they repair their balance sheets. The lending activities of the large credit unions sector, however, would ease private financing constraints. On the upside, the outlook could benefit from persistently low oil prices and its pass-through to electricity costs; and the construction of two large hotel projects that could boost construction activities and employment in the near-term while also increasing potential output. ECP revenues could also be higher than expected if the recent surge in demand persists, and also after recent changes to the program with a new investment option at a higher fee.

8. The fiscal consolidation continues in line with the discussions in the RCF. The strong implementation of measures so far and the formal requests for technical assistance for the second-generation reforms signal the authorities’ commitment to the fiscal consolidation targets discussed in the RCF. The authorities are finalizing the details of measures for the FY2016/17 budget, including

Dominica: Donor grants committed, FY 2015-16		
Country/Agency	Amount Committed	
	(US\$ millions)	(% of GDP)
Multilateral	0.3	0.1
FAO	0.3	0.1
Bilateral	98.6	18.9
European Union	7.3	1.4
UK	35.6	6.8
India	15.0	2.9
Turkey	0.0	0.0
Trinidad and Tobago	0.8	0.1
Venezuela	32.0	6.1
Mexico	5.0	1.0
Japan	1.7	0.3
Republic of Korea	0.1	0.0
Italy	1.2	0.2
Total	98.9	19.0
Source: Country Authorities		

a review of fuel excises, a presumptive tax, a departure tax, and a solid waste charge, while maintaining the efforts on tax compliance. The cumulative estimated yields to FY 2016/17 could reach 2 percent of GDP, which is above the RCF target of 1.1 percent of GDP. Given the strong implementation of measures, the fiscal outlook includes a gradual fiscal consolidation of 6.7 percent of GDP by FY 2020/21, in line with the continuation of the authorities' fiscal consolidation plan and with the RCF.³ This would entail reaching a primary surplus of 3.5 percent of GDP by FY2020/21, equivalent to an underlying primary surplus of 1.7 percent of GDP⁴.

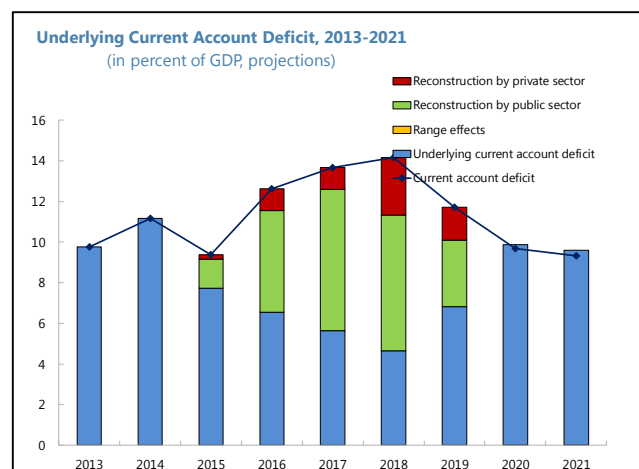
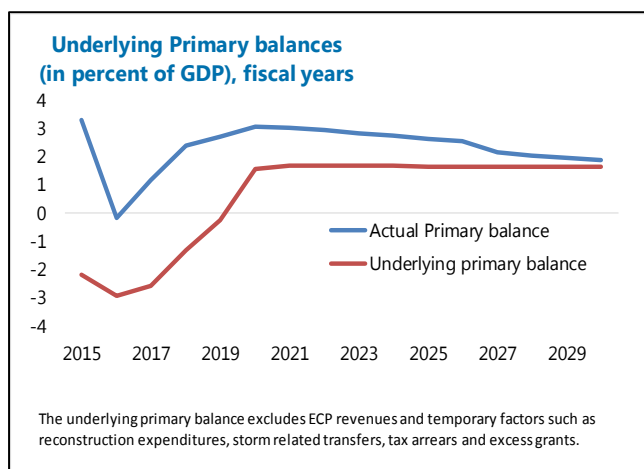
Dominica: Fiscal performance, current versus RCF						
<i>(in percent of GDP)</i>						
	2015/16		2016/17		2017/18	
	Current	RCF	Current	RCF	Current	RCF
Revenue	36.1	33.0	35.8	35.7	34.6	37.8
Tax revenue	24.9	21.2	24.5	21.4	23.9	23.1
Non-tax Revenue	6.9	5.6	5.2	5.1	5.0	5.0
Grants	4.2	6.2	6.1	9.1	5.7	9.6
Total Expenditure	35.1	35.4	38.2	38.3	35.7	37.9
Current	27.0	27.2	26.8	26.1	26.0	25.9
Wages	11.2	10.6	11.3	10.3	10.8	10.1
Goods and Services	7.4	8.5	7.4	7.6	7.4	7.6
Interest	2.4	2.3	2.3	2.4	2.4	2.5
Transfers	5.9	5.8	5.7	5.8	5.4	5.7
Capital	8.2	8.3	11.4	12.2	9.7	12.0
Overall balance	0.9	-2.4	-2.4	-2.6	-1.1	-0.1
Primary balance	3.3	-0.1	-0.1	-0.2	1.3	2.4

9. In this context, the external and fiscal deficits are projected to deteriorate before improving in the medium-term. Fiscal and external imbalances would initially deteriorate on the back of the increase in reconstruction investment, and then gradually improve as exports of agriculture, tourism and remaining manufacturing activities recover. Staggering the implementation of the fiscal measures in line with RCF commitments would result in a smooth improvement of the underlying fiscal and current account balances over the medium-term (text charts). The medium term fiscal outlook also benefits from a new investment option in the ECP⁵, and from the approval of parametric changes to strengthen the sustainability of the pension system, which has been a significant contingent liability. The imbalances are expected to be financed primarily with external capital grants and official concessional loans. The projected improvement of the fiscal and external imbalances, however, is conditional on the full implementation of the government's fiscal consolidation plan.

³ This amount of fiscal consolidation is 0.5 percent higher than in the RCF, reflecting the additional measures taken by the authorities and the base effect of the improvements in tax compliance.

⁴ The underlying primary balance is calculated as the primary balance excluding ECP revenues, one-off collection of tax arrears, temporary storm-related reconstruction and social assistance spending, and the transitory increase in grants projected after tropical storm Erika.

⁵ Any additional revenues from the higher fees would materialize starting in FY2018/19.



10. The road ahead remains challenging and subject to significant risk. That, plus the significant time required for investment planning under significant capacity constraints⁶, could delay reconstruction and reduce growth. Natural disasters will remain a recurrent threat (see SIP). ECP revenues are subject to increasing scrutiny from advanced economies, and are also facing increasing regional competition. However, they can also turn out better than projected in the active policies scenario if the higher demand observed in recent months is more durable than anticipated. Administrative capacity constraints and political resistance could delay the implementation of more complex structural fiscal reforms that have been committed to, especially the rationalization of tax expenditure and restraining the wage bill⁷. Additional appreciation of the US dollar may reduce competitiveness further. Petrocaribe inflows could come to a halt, especially given economic difficulties in Venezuela and the recent victory of the opposition in Congressional elections which supports the termination of the program. An important upside risk is the geothermal electricity project, which has been revised to a smaller but more realistic scale, and could boost investment above the current projections in the near term and increase potential output as result of lower electricity costs and additional export revenues.⁸ Persistently low oil prices is another source of upside and downside uncertainty. Finally, two large hotel projects are currently planned, and could boost activity conditional on the identification of financing (Box 1).⁹

11. The outlook for fiscal sustainability is highly dependent on the availability of grants and on the stability of ECP revenues. Donor grants, which are critical to finance reconstruction

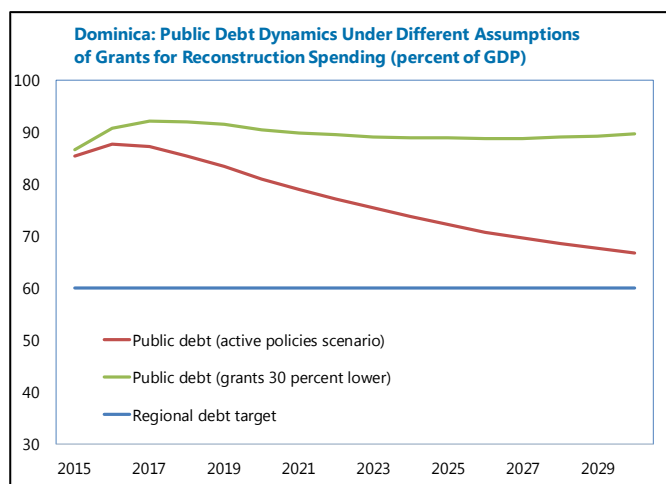
⁶ Resilient reconstruction requires topographic and hydrologic studies, which need the identification and hiring of specialized consultants.

⁷ Staff recommended the discontinuation of retroactive wage compensations during discussions for the RCF disbursement.

⁸ This project has been under preparation for several years, but protracted negotiations among the interested parties and the need to identify financing have delayed the start of investment activities.

⁹ This refers to projects for which the government is seeking financing (including with the new ECP investment option), which are expected to be administered by Kempinski and Hilton.

expenditure within fiscally sustainable bounds, have so far remained below expectations¹⁰. The outlook assumes grant financing of reconstruction expenditure in the range of 5-6 percent of GDP per year, which then tapers off to historical levels of about 3 percent of GDP. The underlying assumption is that grants already committed by the donor partners are disbursed over the first half of the reconstruction period, and a similar amount is disbursed in the later second half. It should be noted, however, that the fiscal outlook is highly sensitive to the performance of grant financing and ECP revenues, which are inherently uncertain and subject to a sudden stop. Deviations from the projected flows have sizable implications on the need for fiscal consolidation and the space for public investment. For example, should grants be 30 percent lower than projected, public debt would stabilize at around the current level with the projected amounts of fiscal consolidation and public investment for reconstruction (text chart).



12. The financial sector is also a source of risk with potential fiscal costs. The full impact of the storm on NPLs is yet to be fully reflected in the data given the recording lags, and could be higher than anticipated. The effect on the National Bank of Dominica (NBD) could also have fiscal implications in the case of a recapitalization –the asset quality review conducted in 2015 by the Eastern Caribbean Central Bank (ECCB) already points to elevated recapitalization needs of around 3 percent of GDP. The protracted decline in the share of time deposits in favor of demand and saving deposits, if sustained, implies a higher liquidity risk for banks, which could further slow credit to the private sector. The growth of the credit union sector, which is taking a larger share of the overall domestic financial business (total assets are approaching 50 percent of GDP¹¹), implies that financial intermediation is becoming increasingly subject to weaker regulatory and supervisory standards, a characteristic of this sector. Should a failure in the credit union sector occur, a government bailout of depositors remains a possibility even without explicit legal requirements. Also, a liquidity problem in the credit unions could spill over to the banking sector and ultimately to the real economy (see selected issues paper on credit unions). De-risking by banks operating in Dominica could result in the loss of correspondent banking relations (CBRs), affecting the ability to make international transactions.

¹⁰ A donor conference was held in December 2015.

¹¹ See the selected issues paper on credit unions.

Box 1. Risk Assessment Matrix¹

Source of risk and direction if materialized	Likelihood	Impact	Policy response
Poor fiscal policy implementation (↓) Remaining fiscal adjustment may be delayed either due to weak capacity or political resistance.	High	High	Implement credible multi-year fiscal adjustment strategy in line with the active policies scenario.
Natural disasters (↓) Extreme events could disrupt external and fiscal sustainability.	High	High	Build buffers and optimize insurance policies, with the assistance of the World Bank.
Petrocaribe financing (↓) Support from Venezuela could come to a halt.	High	High	Identify alternative sources of financing while maintaining fiscal consolidation momentum.
Persistently lower energy prices (↑) Costs may be kept down if supply factors reverse gradually or if demand weakens.	High	Medium	Take advantage of favorable conditions to begin fiscal adjustment when reconstruction needs permit.
Surge in US dollar (↓) Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge. This could also lead to real effective appreciation in Dominica, weakening competitiveness.	High	Medium	Improve competitiveness with public sector wage restraint, which may signal to the private sector; reduce energy prices; improve access to finance of small firms; improve labor productivity and the functioning of labor markets.
Financial sector instability (↓) Persistently high NPLs and low earnings may further weaken the capital base which could precipitate a systemic event.	Medium	High	Promptly implement remaining elements of regional strategy to strengthen indigenous banks in the ECCU. Strengthen regulation and supervision of credit unions.
Large-scale hotel constructions (↑) Two planned large-scale hotel projects could boost activity during construction and increase the tourism revenues.	Medium	High	Continue improving the business environment.

Box 1. Risk Assessment Matrix (Conclusion)

<p>Citizenship program demand (1/↓) If citizenship revenues are high, and the program is managed prudently, it could reduce fiscal risks and debt overhang. A sudden stop could create a financing gap.</p>	Medium	Medium to High	Create a government fund to direct receipts towards debt reduction, infrastructure investment, and reconstruction after natural disasters. Reduce sudden stop risks by maintaining strict governance standards and further strengthening its integrity.
<p>Bank's de-risking (↓) Loss of correspondent banking relations can affect international transactions.</p>	Medium	Medium	Strengthen the implementation of customer due diligence requirements in line with the FATF standard.
<p>Sharp asset price decline and decomposition of credit spreads (↓) Investors reassess underlying risk and respond to unanticipated changes in growth and financial fundamentals in large economies, Fed policy rate path, and increases in U.S. term premia, with poor market liquidity amplifying volatility.</p>	Medium	Low	Implement credible fiscal adjustment; prioritize grant financing; and seek to lower borrowing costs by maintaining a high the share concessional borrowing in public debt.
<p>¹ The Risk Assessment Matrix (RAM) shows events that could materially alter the active policies path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the active policies scenario ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.</p>			

POLICY RECOMMENDATIONS

A. Fiscal Policy

13. Fiscal policy should be calibrated to allow space for reconstruction expenditure within fiscally sustainable bounds. The fiscal consolidation measures identified since the RCF amount to 6.7 percent of GDP, sufficient to reduce public debt to 67 percent of GDP by 2030. This debt trajectory is higher than in the RCF mainly because it now includes the stock of Petrocaribe obligations which are guaranteed by the government (estimated at 9 percent of GDP).¹² This consolidation includes a provision of 1.5 percent of GDP per year to build fiscal buffers to address future natural disasters, which are also accounted as a fiscal cost in the active scenario. New measures with a total yield of 0.7 percent of GDP have already been passed in FY2015/16. The

¹² Excluding the estimated Petrocaribe debt stock the debt trajectory would decline to below 60 percent of GDP by 2030. This amount of fiscal measures is higher than committed in the RCF, mainly as a result of additional measures not included in the RCF and also as a result of progress in tax administration mentioned above.

measures planned for the FY2016/17 budget, including a review of fuel excises, a presumptive tax, and a solid waste charge, would yield an additional 1.3 percent of GDP. The remaining measures amounting to 4.7 percent of GDP have been identified, and the authorities are working to introduce them in the near term. Staff recommends a gradual adoption of the measures within the next five-year period to smooth their impact on economic activity (Table 1). The expansionary impact of the increase in public investment for reconstruction during this period would alleviate the drag on economic activity.

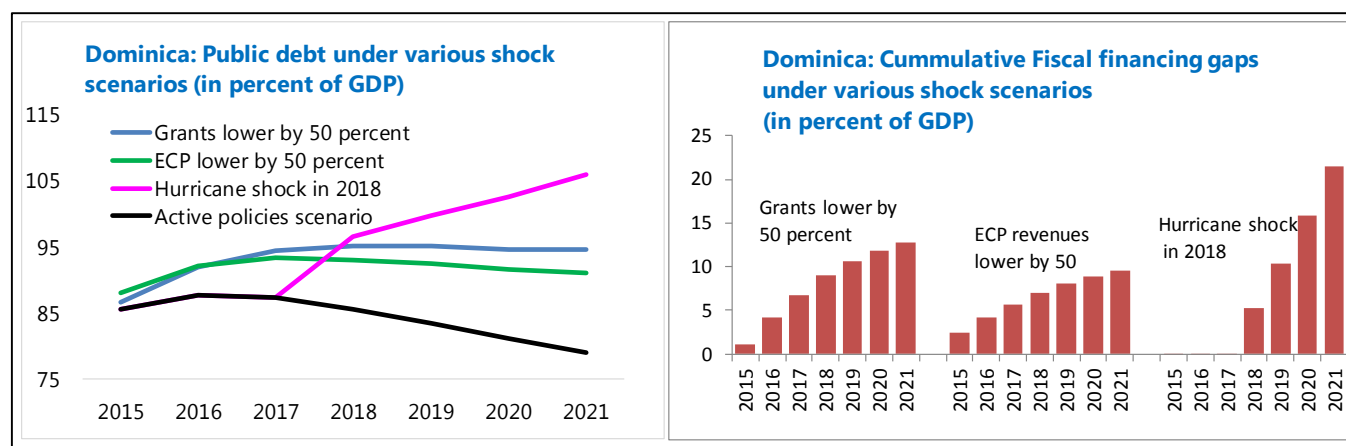
**Table 1. Dominica: Fiscal Measures and Expected Yields, FY2015/15
(Cumulative; in percent of GDP)**

Fiscal Measures	FY2015/16 (Est.)	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	Status
Revenue	0.7	1.2	1.4	1.7	2.0	2.2	
Increase in specific excises on alcohol, and tobacco by 10%	0.0	0.1	0.1	0.1	0.1	0.1	Done
Introduction of a highway maintenance levy	0.0	0.0	0.0	0.1	0.1	0.1	Done
Reinstatement of the import duty on meat imports at the 2008 level	0.1	0.1	0.1	0.2	0.2	0.3	Done
Increase in tax base due to better auditing and enforcement to collect tax arrears	0.5	0.6	0.7	0.7	0.7	0.7	Ongoing
Departure tax	0.0	0.1	0.1	0.1	0.1	0.1	Done
Reduction in discretionary concessions by rationalizing tax incentives 1/	0.0	0.0	0.0	0.2	0.4	0.5	Ongoing
Property tax reform 1/	0.0	0.0	0.0	0.0	0.0	0.0	Not done
Solid Waste charge	0.0	0.1	0.1	0.1	0.1	0.1	Budget 2016/17
Temporary reconstruction tax 1/	0.0	0.0	0.0	0.0	0.0	0.0	Not done
Increase fuel-related taxes and import charges 1/	0.0	0.0	0.0	0.0	0.0	0.0	Not done
Review of health care fees to improve cost-recovery 2/	0.0	0.1	0.1	0.1	0.1	0.1	Budget 2016/18
Introduction of a residential levy on all villa owners	0.0	0.0	0.0	0.0	0.0	0.0	Not done
Introduction of a new airport security levy	0.0	0.0	0.0	0.0	0.0	0.0	Not done
Introduction of a presumptive tax 3/	0.0	0.1	0.1	0.1	0.1	0.1	Budget 2016/19
Expenditure	0.0	0.8	1.3	2.3	3.2	4.4	
Wage restraint FY2016/17	0.0	0.3	0.5	0.7	0.9	1.0	Ongoing
Unwinding of reconstruction projects and investment re-prioritization	0.0	0.5	0.5	0.8	1.5	2.0	Ongoing
Unwinding of Erika storm-related social transfers	0.0	0.0	0.3	0.8	0.8	1.4	Begins in 2017/18
Additional measures not in the RCF	0.0	0.0	0.0	0.0	0.1	0.1	
Increase the excise tax on sugar confectionary, soft drinks and chocolates	0.0	0.0	0.0	0.0	0.1	0.1	Done
Introduction of new investment option in the ECP 4/	0.0	0.0	0.0	0.0	0.0	0.0	Done
Total Yield	0.7	2.0	2.7	4.0	5.2	6.7	

1/ Formally requested TA from IMF (FAD).
2/ TA requested from PAHO, expected before mid-2016.
3/ TA received from CARTAC. Fiscal projections assumes no revenues for FY 2016 for prudence.
4/ The active scenario conservatively assumes no revenues since the net effect from the ECP policy changes on revenues is not clear.

14. Staff recommended focusing on the full implementation of the fiscal measures already identified, and considering the introduction of additional measures once the recovery is on solid footing to meet the ECCU debt objective. Reducing the public debt to the regional target of 60 percent of GDP by 2030 (including Petrocaribe) would require additional fiscal consolidation of 0.8 percent of GDP. However, given the weaker recovery prospects compared with the RCF, introducing additional measures before 2021 could be countproductive from cyclical and structural perspectives – especially if more consolidation crowds out investment for reconstruction. The authorities effort should focus on delivering the fiscal consolidation plan that has already been

identified, and if the government debt target commitment is to be reached before 2030 (including Petrocaribe), then the remaining amount of measures could be identified and made effective after 2021. Given this, and in light of the significant risks outside the government control (significant financing gaps could emerge depending on the performance of grants, ECP revenues or the occurrence of another natural disaster; see text charts), the authorities' strategy to seek debt relief from bilateral creditors should continue; including at the Paris Club creditors meetings¹³ and also by way of bilateral negotiations on Petrocaribe debt service.¹⁴

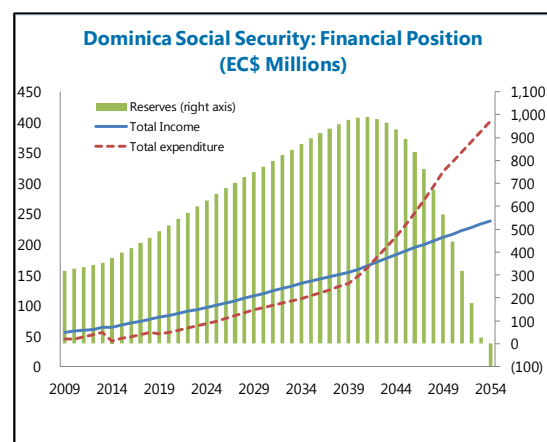
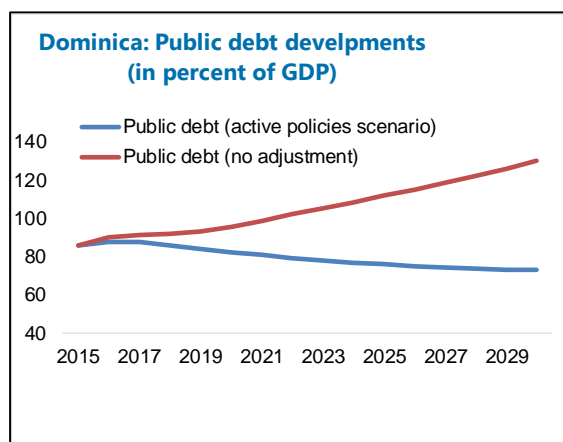


15. The progress in the implementation of the fiscal consolidation plan is commendable, but maintaining the reform momentum is crucial. The measures passed so far are not sufficient to achieve fiscal sustainability. For example, if no further measures were adopted, public debt would be on an upward trajectory (left text chart). The outlook assumes the gradual adoption of the remaining measures in line with the government plan, including the gradual unwinding of storm-related reconstruction investment and social assistance; further capital projects re-prioritization; wage restraint; and an update of off-shore bank licenses. The government should also start with no delay the specification of the second-generation fiscal measures, which are relatively more complex and require more time to develop. These include the rationalization of tax expenditures, a property tax reform, and a review of cost-recovery charges in the provision of health services. Technical assistance has already been requested for these reforms, as needed for a timely implementation. The medium term fiscal outlook also benefits from a new ECP investment option¹⁵, and from the approval of parametric changes to strengthen the sustainability of the pension system, which has been a significant contingent liability (right text chart).

¹³ Staff has supported the Dominica government request at the recent Paris Club meetings for debt cancellation and extension of maturities.

¹⁴ Debt service payments on Petrocaribe obligations that were due in the past three years have been either rescheduled or cancelled.

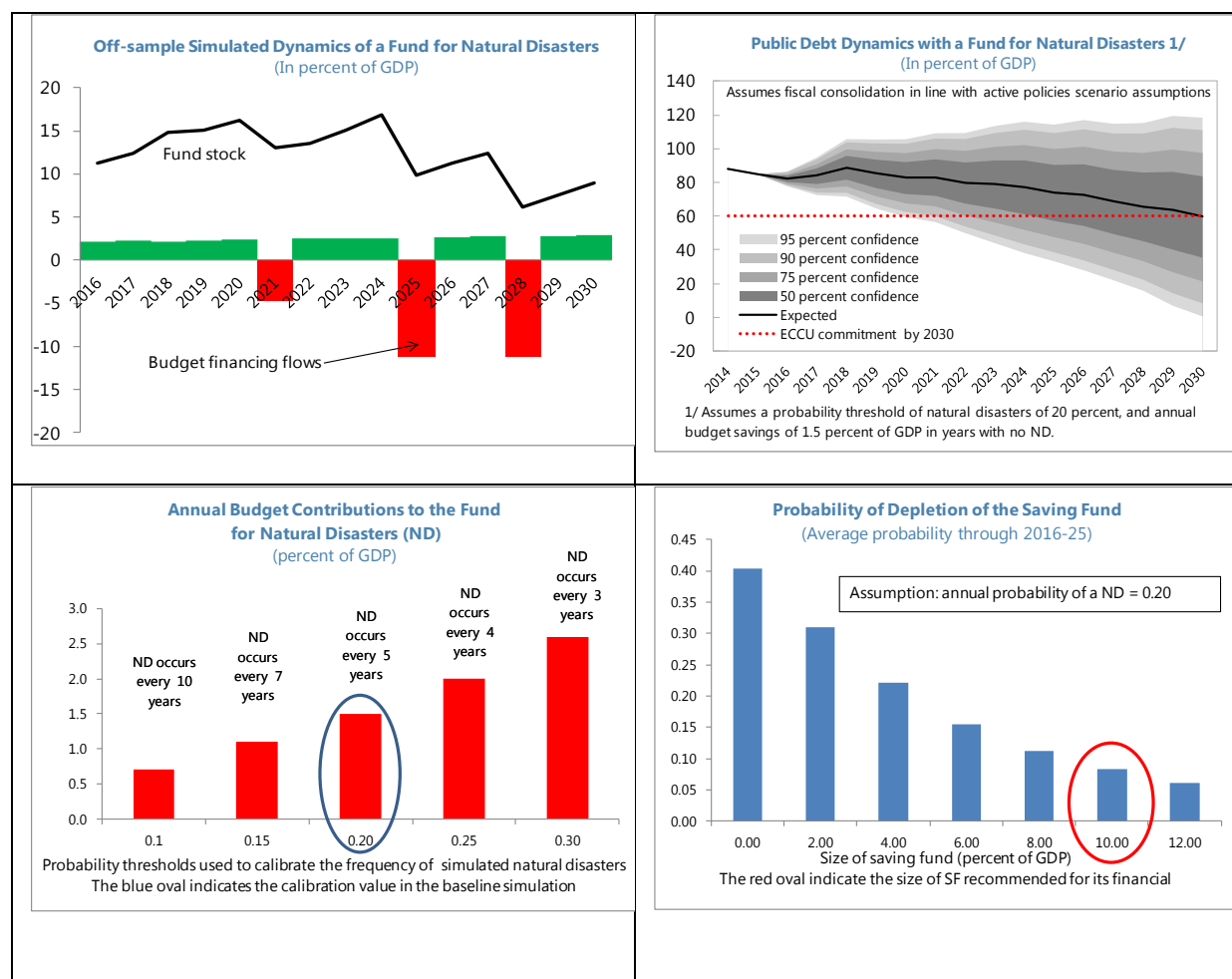
¹⁵ In 2015 the government revised the ECP by introducing a new real estate option that grants citizenship in exchange for making investments in Dominica.



16. Given the numerous and significant risks, staff recommends a prudent approach in the assessment of the fiscal balance required to achieve debt sustainability. In practice, this implies the need to remain flexible to adjust the public investment program, adopt additional measures or step up efforts to attract private investments, should grants or ECP revenues fall below expectations. In order to make this prudent approach operational, the progress of the fiscal consolidation should be measured in terms of the central government primary balance excluding ECP revenues and transitory factors (see text chart above with the underlying primary fiscal balance of the active scenario). This would support a more solid fiscal consolidation strategy, as it implies that any additional revenues from the ECP should not substitute for fiscal consolidation. Staff strongly recommends increasing the transparency of the ECP to protect the program's integrity and the sustainability of this important source of revenue, including by ensuring the effectiveness of the background check process, publishing periodic reports of its financial flows and balances, and elevating the risk profile of economic citizens through enhanced due diligence requirements, in particular for politically exposed persons.

17. Staff advises the creation of a savings fund financed with ECP revenues to support the fiscal consolidation strategy. Until a savings fund can be created, ECP revenues should initially be used to reduce public debt. Once the savings fund has been created, the scope of the fund could then be broadened to also allow some allocation for reconstruction after natural disasters. This would provide a cushion against future natural disasters while ensuring that unpredictable ECP revenues are not used for recurrent spending (which are more difficult to adjust) and as a result strengthening fiscal sustainability. To this end, it is critical that the savings fund is supported by a strong institutional design, including unambiguous budget contribution and disbursement rules, with triggers based on verifiable criteria, a clearly-stated objective, and strict information disclosure requirements to ensure the transparency of its operations. Staff simulations indicate that budget savings of about 1.5 percent of GDP per year and a saving fund of about 8-10 percent of GDP are

appropriate to ensure the financial sustainability of the savings fund with a low probability of depletion, while supporting public debt sustainability (text charts).¹⁶



18. The adoption of structural fiscal reforms is important to make fiscal consolidation gains durable. The structural fiscal measures should focus on strengthening and supporting the budget process and its execution within fiscally sustainable parameters with a solid Public Financial Management framework. The framework should include a medium-term fiscal plan. Consideration should also be given to the adoption of fiscal rules. Establishing a system to better monitor the financial position of the State Owned Enterprises would also contribute to reinforce the durability of the fiscal consolidation gains (Box 2).

¹⁶ The expected path of public debt projections in the fan chart shows a decline to 60 percent of GDP by 2030, including Petrocaribe obligations, which is below the projected value in the active policies scenario. This is based on estimated equations for output and government revenues and expenditures that mimic the cyclical behavior in the historical data.

Box 2. Structural Fiscal Reforms

- Adopt fiscal responsibility legislation establishing principles of responsible fiscal management and transparency, with explicit links between concurrent deficits and long-term debt targets. Consider a fiscal rule to support fiscal sustainability and anchor the formulation of the annual budget and its execution, including a correction mechanism after deviations.
- Develop a medium-term fiscal framework to overarch the annual budget process. Include a fiscal strategy statement in the annual budget, including a multi-year economic outlook and fiscal policy priorities.
- Restrict the use of contingency warrants used to authorize unbudgeted spending, and include in the budget a contingency reserve for unforeseen or emergency spending.
- Create a framework for the oversight and monitoring of SOEs' fiscal risk. SOEs should comply with the mandate to submit audited annual financial statements and prepare an annual risk statement. As a second step, the government should also seek to improve SOEs operational efficiency, and determine whether SOEs should remain outside of government or be divested.
- Improve the capital budgeting process. The Government should undertake a PEFA as soon as feasible to identify key areas of reform.
- Strengthen issuance and management of debt by modernizing debt legislation.
- Finalize the adoption of a treasury single account (TSA) and reconcile, close, or write-off outstanding advances and below-the-line accounts.
- Undertake a strategic review of the public service that covers government functions, public hiring and specifies civil service size, composition and remuneration structure.
- Adopt program and performance budgeting across government by linking budget allocations to economic and social priorities, and enacting results-based budgeting.

B. Financial Sector

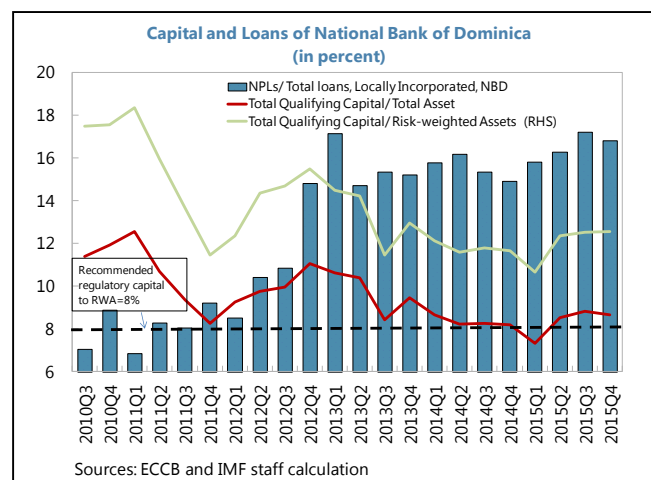
19. A strategic plan should be devised to achieve a gradual reduction of NPLs, which should be implemented without delay. The recent passing of the new Banking Act and Eastern Caribbean Asset Management Company (ECAMC) are important steps to enhance the regulatory and supervisory framework of the banking sector and address the NPL problem. The Banking Act includes higher capital requirements, a more effective bank resolution framework, and stronger protection for small depositors. The ECAMC Act will provide extraordinary powers to resolve NPLs. The financial institutions are taking some measures to address the NPL problem, typically including bilateral workouts with creditors in distress and significant provisioning. However, the bilateral workouts can result in loan rescheduling or restructurings that delay an appropriate resolution. More decisive action by the regulation authorities to enforce regulations with time-bound actions and capitalization requirements when needed is important for a credible NPL reduction strategy that addresses financial risk and supports growth. In order to facilitate NPL reduction further, the government could also use its representation power at the ECCB to eliminate the deposit rate floor. This would strengthen banks' profitability and facilitate a NPL provisioning. It would also reduce incentives for higher risk taking on loans as banks search for higher returns.

20. De-risking by international banks and the loss of CBRs by local institutions is an important risk that also requires action. CBRs are essential to carry out international transactions,

and are therefore important for international trade and investment transactions. In addition, the loss of CBRs could affect ECP revenue prospects. Although this risk has not materialized in Dominica, it has affected some of the ECCU members, especially in countries with significant participation of major US banks. In order to reduce this risk, the government should (i) monitor for possible termination or increase in cost of correspondent banking transactions; (ii) continue strengthening AML/CFT legislation and remove possible constraints for an effective implementation; and (iii) encourage banks to explore opportunities for mergers, since an important reason for the loss of CBRs has been the relatively small volume of business for the international banks.

21. In light of the high NPLs, the lending criteria of the NBD should be strengthened.

In recent years, the NBD has exhibited an erosion of its capital base and a significant increase in NPLs (text chart). The implementation of the recommendations from the Asset Quality Reviews (AQRs) by the ECCB is a priority in order to limit financial stability risks. Also, a recapitalization of the NBD should be considered, as needed to set it on a solid footing. In order to minimize the fiscal impact, the government could explore options for private shareholding participation.



22. The Agricultural and Industrial Development (AID) Bank should narrow its focus to lending activities affected by missing or incomplete credit markets, in consonance with national development strategies. This development bank provides financing to credit constrained sectors, including small farmers and small and medium enterprises. As such, this agency is not subject to the relatively stricter regulatory framework of the ECCB, and its loans are guaranteed by the government (8.7 percent of GDP). However, despite its development role on paper, it engages in commercial lending activities in search for profits, including mortgages and personal loans, which can distort the allocation of credit in the broader economy. In addition, it can be a source of implicit subsidization that is not transparently accounted in the budget. Although the AID Bank is legally required to remain financially sustainable, its asset portfolio quality is poor (NPLs are equivalent to 17 percent of total loans), which can result in fiscal costs. The strategic plan for NPL reduction should also be applied to the AID Bank. Also, consideration should be given to the consolidation with the NBD of the productive and commercial lending portfolio that cannot be justified on the basis of market failures or credit constraints; or alternatively seek the divestment of this share of the lending portfolio. The scope of AID Bank lending programs should be narrowed to ensure it targets specific development objectives in line with national strategies.

23. Strengthening the regulation and supervision of credit unions is imperative. The credit union sector is growing in size and it is taking an increasing share of total financial intermediation (over 50 percent of total lending in the financial system), supporting growth by offsetting weak

lending in the banking sector. However, the expansion of credit unions also increases the overall risk to financial stability given the weaker regulation and supervision of this sector. The regulatory legislation should be strengthened to allow for automatic, nondiscretionary, and effective regulatory responses to financial distress in non-bank institutions. The powers of the FSU should be increased to enforce timely and automatic issuance of penalties for non-compliance with the regulations. Given the significant size of this sector and its interconnections with banks (credit unions account for about one-third of the stock of banks' deposits) the FSU should consider developing a framework to monitor and manage macro-financial spillovers from this sector to banks and to the rest of the economy, including explicitly the possibilities of liquidity and solvency problems, in coordination with the ECCB.

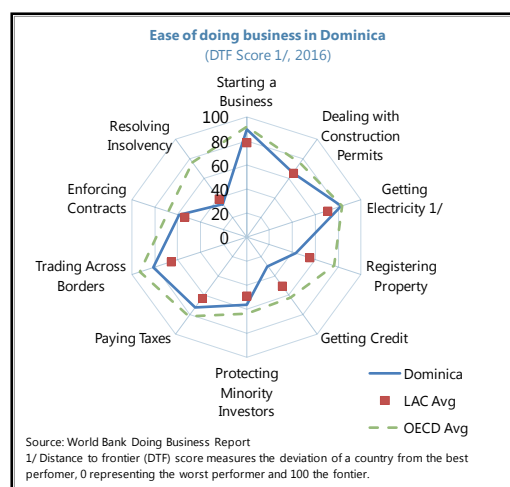
24. Strengthening the regulatory framework of the off-shore banking sector is also important. To this end, the government should expedite the approval of the revisions to the Offshore Banking Act recommended by Caribbean Technical Assistance Center (CARTAC), which includes a rise of capital requirements; a reform application process; and the enactment of regulations. This would also contribute to moderating the risk of loss of CBRs.

C. Growth and Competitiveness

25. The government's 2014-18 Growth and Social Protection Strategy identifies key areas to increase growth, and reaffirms the role of the private sector as the main driver. The key areas of focus include (i) diversification from traditional agriculture into non-traditional crops, promotion of exports, and increase in value added; (ii) investment in public infrastructure; (iii) increase of labor productivity with workfare programs that address skill mismatches through on-the-job training; and (iv) a reduction of energy costs so as to achieve a reduction of electricity tariffs.

26. Staff supports the government's strategy, and suggests additional areas of focus to deepen the extent of reform and further incentivize private investment:

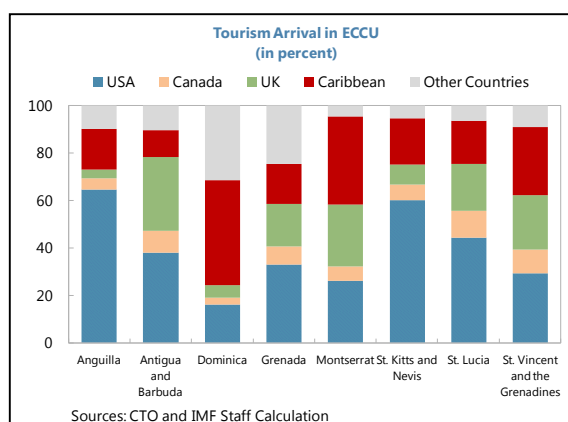
- *Enhance the business climate.* Dominica has room for improvement in most areas relevant for business development. Dominica's gap vis-à-vis other countries is larger in resolving insolvency; registering property; and obtaining credit. Other areas with potential gains include dealing with construction permits; and paying taxes. Most of these gaps can be addressed with regulatory and procedural requirements. A thorough review of these constraints would enable the development of a plan to (i) improve time and cost needed to resolve insolvency; (ii) expedite contract dispute



resolution processes; and (iii) reduce the number of procedures, time, and cost of registering property.

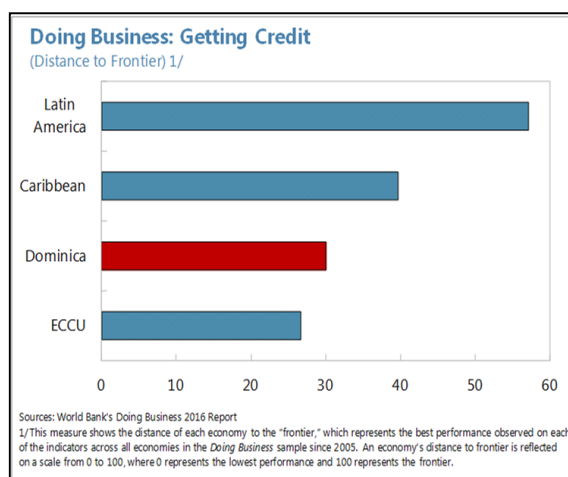
- *Devise a strategy for diversification into a broad set of areas with competitive advantage in addition to agriculture.*

Despite the existence of a strategy and some policies to further develop the sector, tourism is one area with potential for expansion. The majority of tourists visiting Dominica are from the English-speaking Caribbean, implying that there is room to attract tourists from other regions to levels closer to the Caribbean average. Also, backward linkages are still limited, and they could target other countries in the region for export.



- *Improve access and lower the cost of finance for businesses.* More than 60 percent of firms rank access to finance as a major constraint, around twice the OECS average (text chart). Also, access to bank financing is limited to few relatively

large firms and to employers in the formal sector with relatively high income and sufficient collateral. This is in part explained by the binding saving deposit rate floor at 2 percent which increases funding costs; and also the high NPL ratio. Other structural reasons include the difficulty to enforce contracts; the impending loss of value in the real-estate assets used as collateral; lack of information about borrowers' quality; insufficient bankable projects; and low capacity of firms to

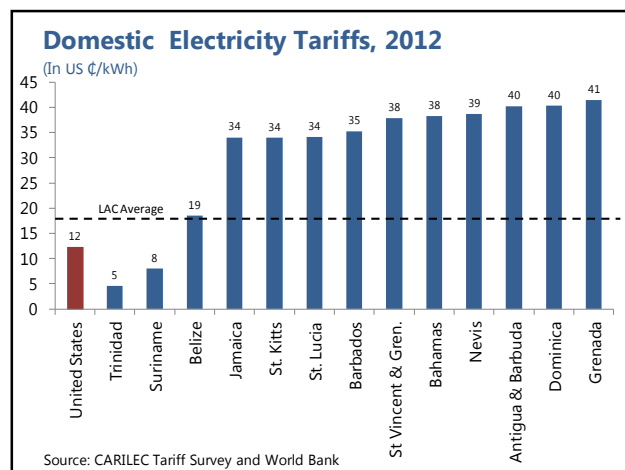


comply with loan application requirements. These conditions result in high lending rates but near-zero return on assets for the banks, weighing on banks' capital growth and reducing prospects for a lending-investment virtuous circle. The authorities broadly agree with this diagnostic, which is their basis to rationalize the lending activities of the NBD and the AID bank. In contrast, staff favors policies conducive to addressing the constraints that affect access to finance, including the creation of a credit registry to facilitate access to credit of small firms; a review of the legislation affecting loan contracts' enforcement; and a review of the administrative procedures for loan application and approval, including at the NBD.

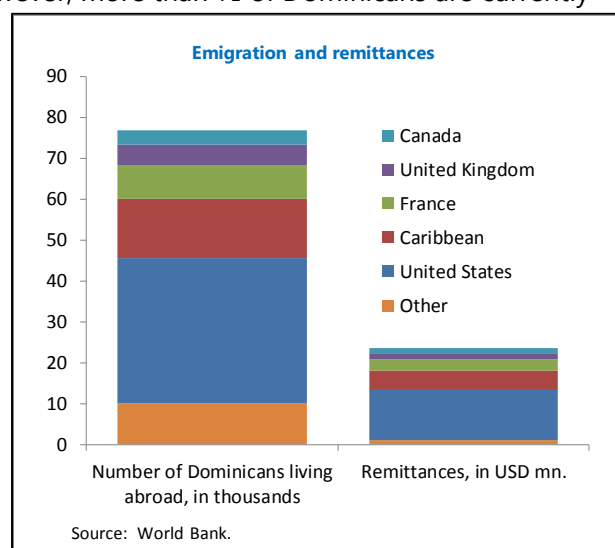
- *Increase the resilience of public infrastructure to natural disasters.* This would contribute to boost investment by protecting private capital and the ability to produce, transport and export after a

natural disaster. Construction codes should be bolstered, and zoning procedures revised to enhance the resilience of public and private infrastructure as soon as feasible, in line with World Bank recommendations. Timeliness is of essence to affect the reconstruction activities, in line with the recommendations in the World Bank damage assessment to “build back better”.

- Reduce energy costs.* Dominica has very high electricity costs, about twice the regional average, and two-thirds of firms have identified the high cost of electricity as a major constraint to do business. The government has been working on a geothermal project, which would contribute to reducing the electricity price and the reliability of the service, while also lowering the dependency on fossil fuels. In addition, other forms of electricity generation should be explored, such as hydro, wind and solar, which can be less demanding in terms of distribution infrastructure and could also be eligible for grant financing from donor conservation funds. Other measures for consideration are the introduction of voluntary energy efficiency standards for lighting, and upgrading the building codes for energy efficiency.



- Increase labor productivity and improve the functioning of labor markets.* Dominica ranks high in terms of primary and secondary school enrollment rates (100 and 97 percent in primary and secondary schools in 2014, respectively). However, more than ½ of Dominicans are currently living abroad, largely seeking better employment opportunities, leading to a significant flow of remittances. Given the macroeconomic relevance of these flows, the authorities should consider measures to facilitate transactions, including by lowering their costs. Efforts could focus on developing plans to improve educational attainment, as needed to mitigate skill mismatches identified as a constraint by the productive sector, and to boost labor mobility across sectors to facilitate labor reallocation and increase employment. Labor market legislation should be updated to remove rigidities, including to increase labor flexibility consistent with the needs of prominent sectors such as agriculture and tourism, and also to review the severance payments for redundancy to increase labor market flexibility. On wage setting, legislation could be



adopted to remove or cap the triennial back-pay compensation of public workers, for example by way of fiscal responsibility legislation. A periodic updating of the labor force survey should be a priority objective, which requires additional resources and training in the Central Statistics Office.

Authorities' views

27. The authorities were in broad agreement with the policy recommendations and expressed gratitude for the Fund support at this difficult juncture. They confirmed their commitment to the fiscal consolidation plan, consistent with their formal request for technical assistance after the mission on the second-generation fiscal reforms, but also re-stated that Dominica would not pursue a Fund program at this stage. The government expressed commitment to creating a saving fund for natural disasters, but explained that the immediate priority is to pursue reconstruction in the aftermath of tropical storm Erika. On the AID Bank and the NBD lending activities, the government underscored their importance to relieve credit constraints imposed by the banking sector and to support growth by providing low-cost financing to targeted sectors.

STAFF APPRAISAL

28. Tropical storm Erika hit the Dominican economy hard, resulting in an estimated output decline of 3.9 percent in 2015. Since the storm, tourism activities have largely normalized following the resumption of full operations at the main airport, and visitor arrivals showed some recovery. Other sectors will likely need more time to recover. Agriculture output declined sharply as the storm affected crops and access to arable land, and significant areas are now in need of re-planting and soil treatment. Manufacturing has taken a significant toll as the storm prompted the closure of operations of the main industrial plant. In addition, the protracted decline of banks' credit to the private sector remains a drag on economic activity, underpinned by high NPLs. Inflation has remained subdued, within a slightly negative range on a year-on-year basis, mainly as a result of falling fuel prices. Notwithstanding weak exports of agriculture and tourism, the 2015 current account deficit remained contained at an estimate of 9.4 percent of GDP on the back of lower oil imports.

29. Output growth is expected to remain subdued in 2016 at 1.3 percent as the economy slowly recovers from the storm and investment in reconstruction picks up. This growth, however, is largely conditional on donor grants proceeding according to expectations. Afterwards, growth is projected to accelerate somewhat as the economy continues to recover towards potential, and to stabilize at 1.7 percent per year over the medium-term. The current account is projected to deteriorate on the back of the increase in reconstruction investment, and then to gradually improve as exports of agriculture, tourism and manufacturing activities recover. The imbalances are expected to be financed primarily with external capital grants and official concessional loans.

30. The fiscal outturn for FY 2015/16 is strong, estimated at a surplus of 0.9 percent of GDP. It is benefitting from the increase of excise taxes and user fees, and the reinstatement of specific import duties. However, this is in part explained by transitory factors, especially the collection of tax

arrears, and also by, higher ECP revenues, which are subject to uncertainty. The low execution of public investment given delays in reconstruction activities also helped the fiscal outturn.

31. Maintaining the reform momentum is critical to ensure the financing of the reconstruction activities within fiscally sustainable bounds. The government should continue with its plan to adopt the reforms needed to support the recovery process and to ensure fiscal sustainability. The measures already passed are appropriate and consistent with the commitments in the RCF, and the improvements in tax administration are providing additional resources that are also expected to yield some improvement in the tax base going forward. This initial effort is commendable, but maintaining the reform momentum is critical. The government should start to work on the specification of the second-generation fiscal measures discussed in the RCF, which require more time to develop, in amounts consistent with public debt sustainability. The measures under consideration include the rationalization of tax expenditures, a property tax reform, the introduction of cost-recovery charges in the provision of health services, and measures to increase the efficiency of public education services. Given the uncertainty affecting ECP revenues and the risk of political resistance to the remaining reforms, any unanticipated revenue windfalls such as from ECP or the collection of tax arrears should be allocated to public debt reduction as a first priority, and avoid their allocation to recurrent spending.

32. Complementing the fiscal measures with structural fiscal reforms is important to make fiscal consolidation gains durable. Such measures should focus on strengthening and supporting the budget process and its execution, including systems to improve public financial management, and improving the transparency of the ECP. The development of medium-term macro-framework and fiscal projections would strengthen the control over longer-term objectives, including meeting the ECCU debt target. Finally, given the recurrence of natural disasters, the authorities should expedite their plans to build in sufficient fiscal space to be able to respond in case of such future events, and consider the creation of a saving fund, using some of the ECP revenues.

33. With regard to financial activities, the government has made substantial progress to revamp regulations, but significant risks continue to affect the sector. The recent passing of the new Banking Act and Eastern Caribbean Asset Management Company Act are important steps to mitigate these. Credit unions are in the process of consolidation, in agreement with the adoption of the regional initiatives to strengthen the regulatory and supervisory framework. Moreover, there has been significant progress in the AML/CFT legislation. However, the high level of NPLs and low capitalization across the financial industry pose risk to financial stability. Also, there is a risk of losing CBRs, as is currently occurring in other countries in the region. This risk requires decisive action, aimed at improving the information position of financial institutions, monitoring for possible termination or increase in cost of CBRs, continuing to strengthen AML/CFT legislation, and exploring merger possibilities. A review of the lending policies of the NBD and the AID Bank aimed at facilitating more targeted programs would minimize distortions in the allocation of credit and better support developmental needs.

34. Improving growth prospects will depend on structural reforms to facilitate the contribution of the private sector. The government's Growth and Social Protection Strategy

identifies key areas to increase growth, and reaffirms the role of the private sector as the main driver. The key areas of focus include the diversification of agriculture; investment in public infrastructure; increase of labor productivity; and the reduction in electricity tariffs. To further support private sector investment, the government should adopt measures to enhance the business climate; devise a strategy for diversification into a broader set of areas in addition to agriculture; remove impediments to backward linkages in agriculture and manufacturing; improve access to finance; increase the resilience of public infrastructure to natural disasters; improve and enforce construction and zoning codes; explore alternative sources to reduce the cost of electricity, including through developing the geothermal potential; and seek advice to improve education achievement and modernize labor regulations.

35. A safeguards assessment of the ECCB was completed in April 2016. The update assessment found that the ECCB continues to maintain a governance framework that provides for independent oversight. Transparency in financial reporting has been maintained and the external audit mechanism is sound. However, the involvement of internal audit in operational activities is a safeguards concern, as noted in the previous assessment, and the function only partially conforms to international standards.

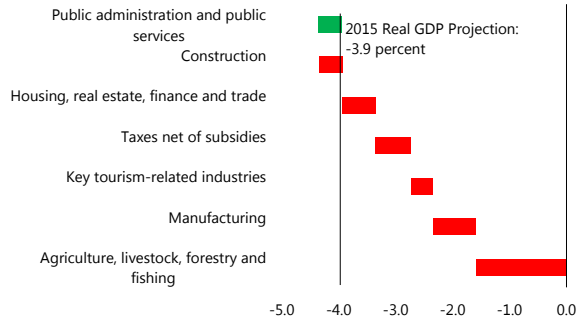
36. Data provision has shortcomings due to capacity constraints in the statistical agency, including weaknesses in coverage, accuracy, frequency, and timeliness of data. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation. Particularly,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

37. Staff recommends that the next Article IV Consultation for Dominica take place on the standard 12-month cycle.

Figure 1. Dominica: Economic Performance

Output was severely hit by the storm...

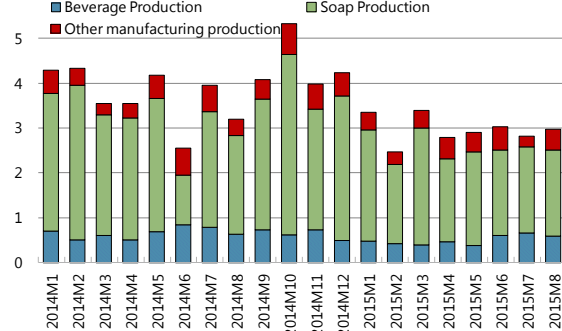
Contributions to Percent Change in 2015 Real GDP
(percentage points)



Sources: Fund staff estimates.

...especially manufacturing and agriculture.

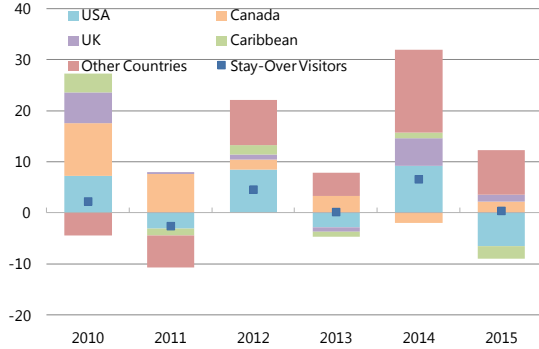
Dominica: Manufacturing Output Indicators
(in millions of EC\$)



Sources: CSO and Fund staff estimation

Tourism is holding...

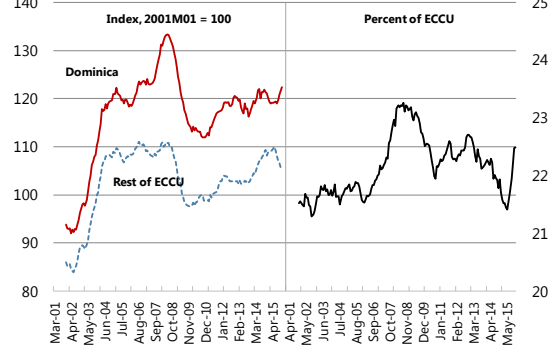
Contributions to Growth of Stay Over Visitor Arrivals By Country
(y-o-y, pp)



Sources: ECCB and fund staff estimates

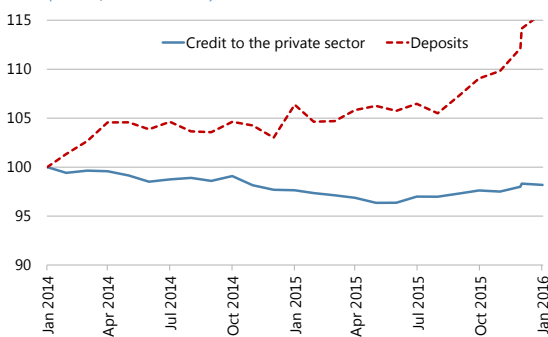
...despite the cancelation of the Creole Festival in 2015.

Total Visitor Arrivals: Dominica vs. ECCU
(Seasonal Adjusted, 12 MMA)



Private credit continues to cause drag on activity...

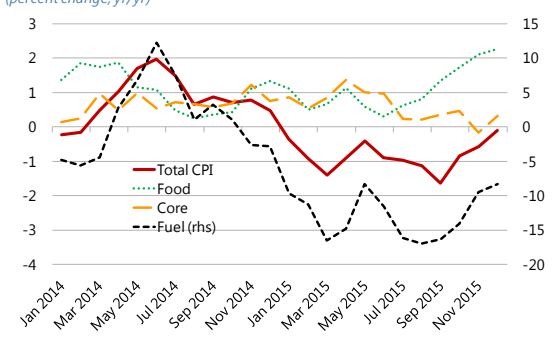
Credit to the Private Sector
(indexes, Jan 2014 = 100)



Sources: ECCB and Fund staff estimates.

...while inflation remains subdued, largely due to lower oil prices.

CPI Inflation, by Major Component
(percent change, yr/yr)

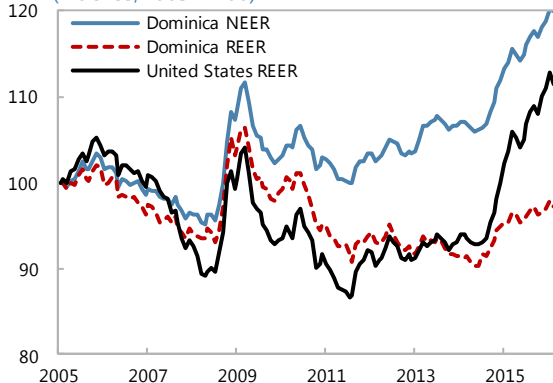


Sources: Central Statistics Office, Dominica, and Fund staff estimates.

Figure 2. Dominica: External Sector Developments

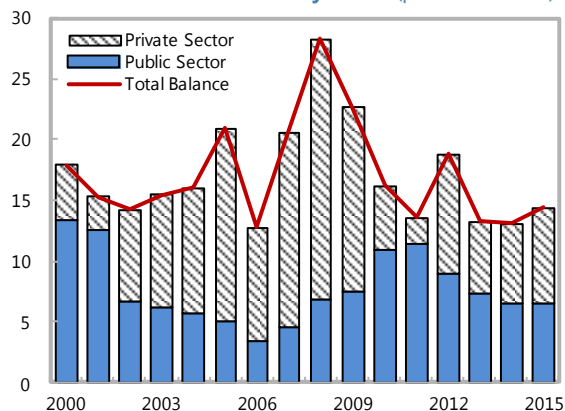
Competitiveness worsened on the back of US\$ appreciation...

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



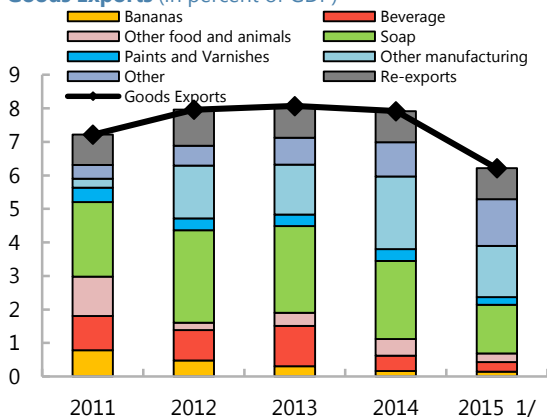
...and the external deficit increased due to the storm.

Current Account Deficit by Sector (percent of GDP)



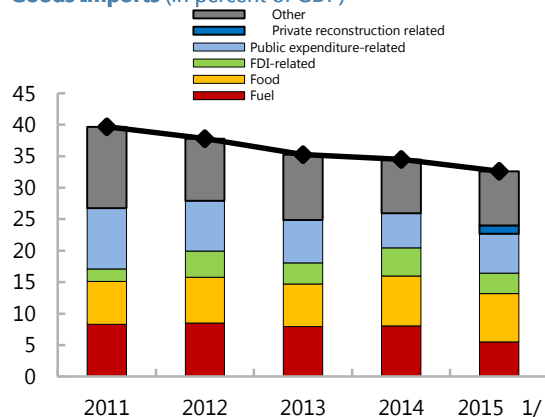
Exports declined significantly as a result of the storm...

Goods Exports (in percent of GDP)



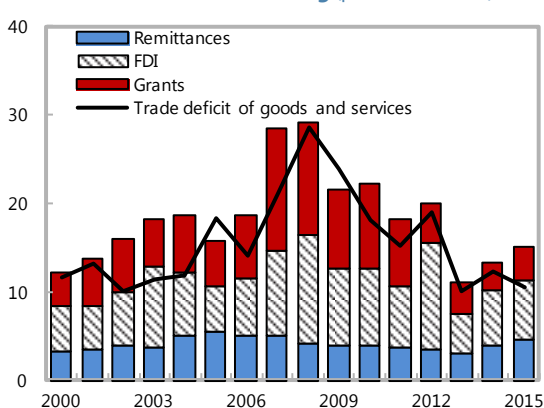
...while imports declined, in part due to lower fuel prices.

Goods Imports (in percent of GDP)



The storm triggered support in the form of remittances and external grants.

Trade Deficit and Financing (percent of GDP)



Private external debt increased underpinned by reconstruction financing and new private investments.

External Debt (percent of GDP)

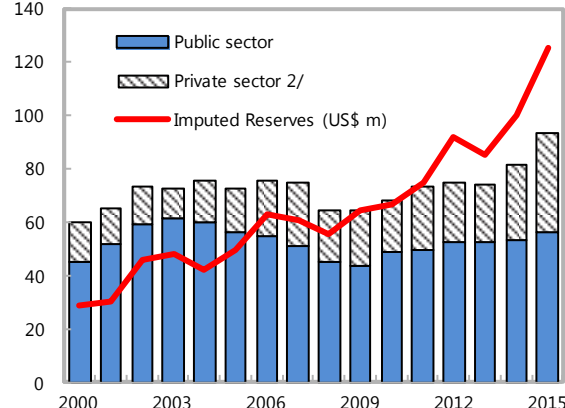
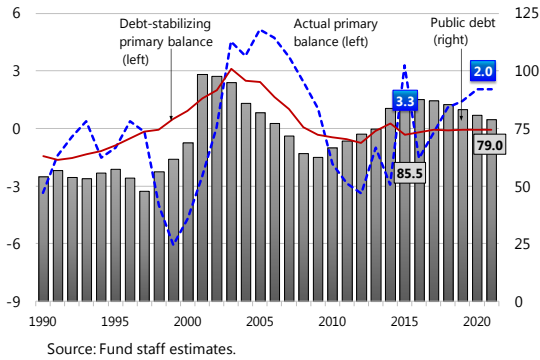


Figure 3. Dominica: Fiscal Developments

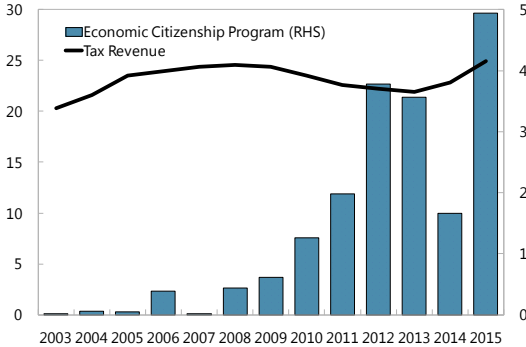
A process of fiscal consolidation is underway.

Public Debt and Fiscal Primary Balance
(In percent of GDP)



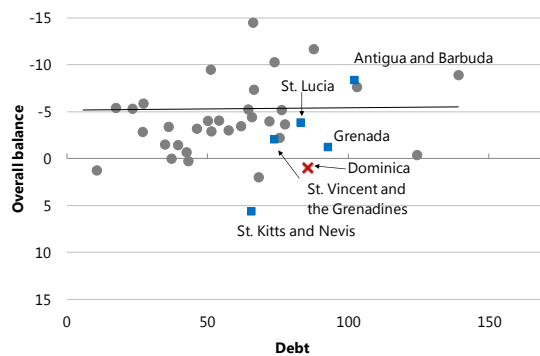
ECP revenues have increased significantly, providing relief to the financing needs.

Revenues
(In percent of GDP)



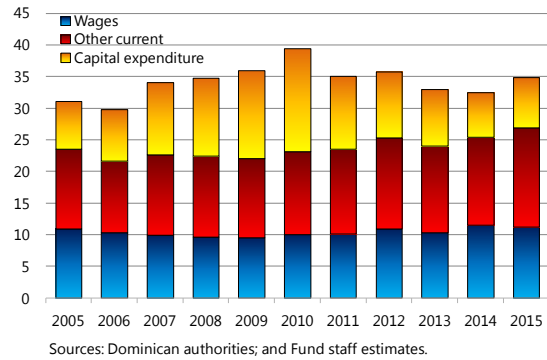
...putting pressure on debt sustainability in the near term...

Emerging Economies: General Government Balance and Debt, 2015
(Percent of GDP)



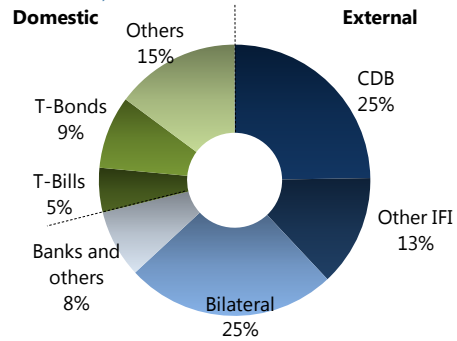
The increase in expenditures for reconstruction has been slow to start, as grants remained below expectations.

Government Expenditures
(percent of GDP, fiscal years)



Reconstruction financing will largely depend on external debt flows...

Composition of Public Sector Debt, 2014
(in percent of total)



...including in the broader public sector.

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

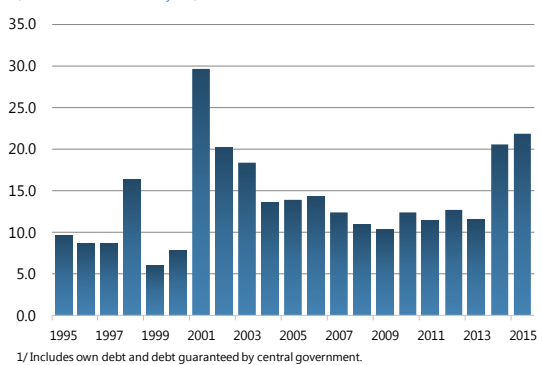
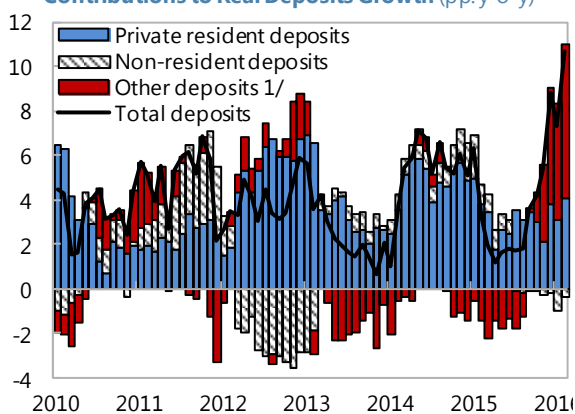


Figure 4. Dominica: Monetary Developments

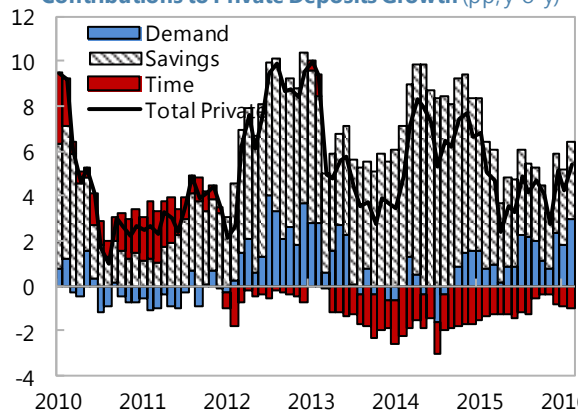
Banks' deposits are picking up...

Contributions to Real Deposits Growth (pp, y-o-y)



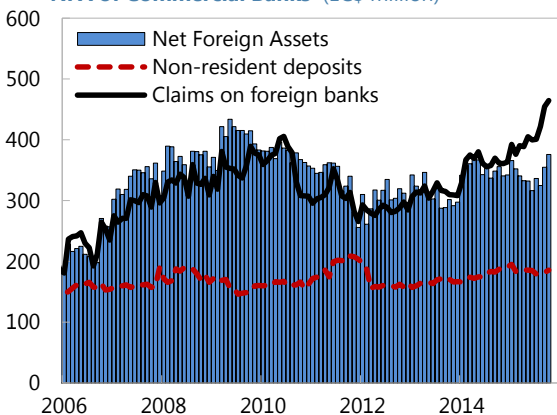
...but banks' liquidity risk is growing.

Contributions to Private Deposits Growth (pp, y-o-y)



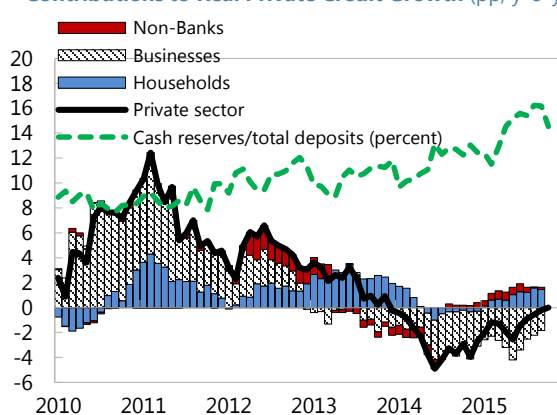
Banks are allocating more assets abroad...

NFA of Commercial Banks (EC\$ million)



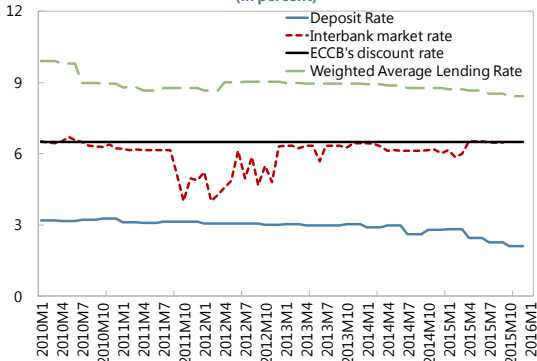
...and increasing their liquid assets holdings while reducing credit to the private sector...

Contributions to Real Private Credit Growth (pp, y-o-y)



...in part in response to the ECCB deposit rate floor ...

Nominal Interest Rates (in percent)



...which incentivizes higher risk taking and might play against the objective of reducing NPLs.

Financial Soundness Indicators (percent)

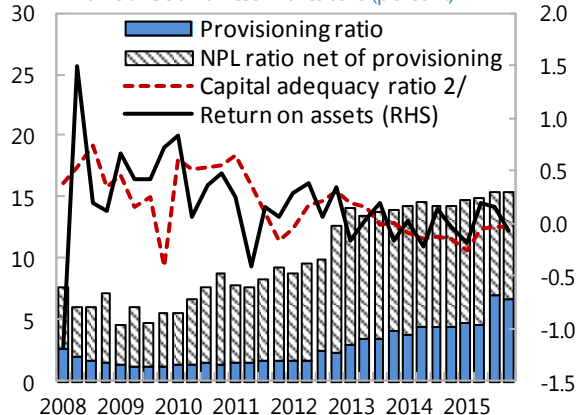


Table 2. Dominica: Selected Economic and Social Indicators, Active Scenario

I. Social and Demographic Indicators										
Area (sq. km.)	754								Adult literacy rate (percent, 2004)	88
Population (2011)								Unemployment rate (2011)	11	
Total	71,293									
Annual rate of growth (percent)	-0.1									
Density (per sq. km.)	94.6								Gross Domestic Product (2014)	
Population characteristics								Millions of E.C. dollars	1,349	
Life expectancy at birth (years, 2006)	74.1								Millions of U.S. dollars	500
Infant mortality (per thousand live births, 2006)	13								U.S. dollars per capita	7,007
II. Economic Indicators										
	2012	2013	2014	2015	Projected					
					2016	2017	2018	2019	2020	2021
Output and prices	(annual percent change, unless otherwise specified)									
Real GDP 1/	-1.3	0.6	3.9	-3.9	1.3	2.8	2.7	2.5	2.3	1.7
Nominal GDP 1/	-3.3	4.4	3.5	-4.7	1.1	4.4	4.5	4.6	4.5	3.9
Consumer prices										
Period average	1.4	0.0	0.8	-0.8	-0.2	1.6	1.8	2.1	2.2	2.2
End of period	1.3	-0.4	0.5	-0.1	-0.1	1.8	1.8	2.2	2.2	2.5
Potential GDP	1.2	1.1	1.1	1.1	1.2	1.3	1.5	1.6	1.7	1.7
Output gap (percent of potential GDP)	-0.7	-1.2	1.6	-3.4	-3.4	-2.0	-0.9	-0.4	-0.1	0.0
Real effective exchange rate (period average, depreciation -)	0.2	-0.6	-0.7	...	...	...	...	...	...	...
Central government balances 2/	(in percent of GDP, unless otherwise specified)									
Revenue	30.3	30.0	28.1	36.1	35.8	34.6	33.8	33.2	32.6	32.5
Taxes	22.2	21.9	22.9	24.9	24.5	23.9	23.7	24.0	24.1	24.1
Non-tax revenue	5.5	4.9	3.2	6.9	5.2	5.0	4.9	4.8	4.6	4.5
Grants 3/	2.7	3.2	2.1	4.2	6.1	5.7	5.2	4.5	3.9	3.9
Expenditure	35.7	33.0	32.5	35.1	38.2	35.7	33.6	32.7	31.4	31.3
Current primary expenditure	23.3	22.0	24.0	24.6	24.4	23.6	22.8	22.6	21.5	21.4
Interest payments	2.0	2.0	1.5	2.4	2.3	2.4	2.4	2.4	2.3	2.4
Capital expenditure	10.5	9.0	7.1	8.2	11.4	9.7	8.5	7.7	7.5	7.5
Primary balance	-3.4	-1.0	-2.9	3.3	-0.1	1.3	2.6	2.9	3.5	3.5
Overall balance (incl. ND cost buffers)	-5.4	-3.0	-4.4	0.9	-3.9	-2.6	-1.3	-1.0	-0.3	-0.3
Memo: cumulative fiscal adjustment measures	0.0	0.0	0.0	0.7	1.4	2.3	3.5	4.9	6.7	6.7
Central government debt (incl. guaranteed) 4/	72.6	74.7	83.9	85.5	87.7	87.3	85.4	83.4	81.0	79.0
External	52.6	52.6	53.4	56.6	56.4	55.8	53.2	51.8	50.3	49.1
Domestic	20.0	22.1	30.5	28.9	31.2	31.5	32.2	31.6	30.7	29.9
Money and credit (annual percent change)										
Broad money (M2)	9.7	2.2	7.8	4.0	1.1	4.7	4.5	4.6	4.7	4.0
Real credit to the private sector	3.0	-0.3	-2.7	0.4	-3.5	-2.6	-1.9	-1.2	-0.4	-0.5
Balance of payments										
Current account balance, o/w:	-17.4	-9.8	-11.2	-9.4	-12.6	-13.7	-14.1	-11.4	-9.6	-9.3
Exports of goods and services 5/	32.6	38.2	41.4	41.9	41.0	40.1	39.8	39.7	39.5	39.5
Imports of goods and services 6/	51.5	48.1	53.8	52.4	53.6	53.7	53.8	50.8	48.9	48.5
Capital and financial account balance	20.0	9.7	15.0	10.0	11.8	14.0	14.5	11.7	10.0	9.6
FDI	12.1	4.6	6.4	6.8	7.1	6.9	6.6	6.3	6.0	6.0
Capital grants	4.5	3.6	3.2	3.7	5.8	6.7	6.2	5.6	5.0	4.7
Other (incl. errors and omissions)	3.4	1.5	5.4	-0.5	-1.2	0.5	1.6	-0.2	-1.0	-1.1
External debt (gross) 7/	75.1	74.4	81.6	93.5	91.6	89.8	88.1	85.1	80.9	78.0
Saving-Investment Balance	-17.4	-9.8	-11.2	-9.4	-12.6	-13.7	-14.1	-11.4	-9.6	-9.3
Saving	-2.1	3.9	3.7	3.1	4.5	3.1	0.7	2.0	2.7	2.9
Investment	15.2	13.7	14.9	12.5	17.1	16.8	14.8	13.3	12.3	12.2
Public	12.6	11.0	9.1	9.0	11.1	11.8	10.3	9.3	8.8	8.7
Private	2.6	2.7	5.8	3.5	6.0	5.0	4.5	4.0	3.5	3.5
Memorandum items:										
Nominal GDP (EC\$ millions)	1,310	1,368	1,415	1,349	1,364	1,424	1,489	1,557	1,626	1,690
Nominal GDP, fiscal year (EC\$ millions)	1,339	1,392	1,382	1,356	1,394	1,456	1,523	1,592	1,658	1,721
Net imputed international reserves:										
End-year (millions of U.S. dollars)	91.8	85.4	99.9	125.4	116.6	118.5	120.4	122.4	124.6	126.5
Months of imports of goods and services	4.4	4.2	4.3	5.7	5.2	5.0	4.9	5.0	5.1	5.0

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

1/ At market prices. Historical data reflect national accounts data revision published by the ECCB on July 2, 2015.

2/ Data for fiscal years running from July to June of the next year.

3/ Does not include grants received but not spent.

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

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

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

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

Table 3. Dominica: Balance of Payments, Active Scenario

	2012	2013	2014	2015	Projected					
					2016	2017	2018	2019	2020	2021
	(millions of U.S. dollars)									
Current account balance	-84.2	-49.4	-58.6	-46.9	-63.7	-72.0	-77.9	-65.5	-58.1	-58.2
Exports of goods and services 1/	158.4	193.5	217.1	209.4	207.0	211.7	219.6	228.7	237.9	247.2
Goods	36.7	38.4	38.5	32.3	21.8	23.3	24.4	25.6	26.8	27.9
Tourism	76.1	102.6	127.2	125.2	127.0	131.7	136.8	142.0	147.2	153.0
Other services	45.5	52.5	51.4	52.8	58.2	56.7	58.4	61.1	63.9	66.4
Imports of goods and services	249.9	243.7	281.8	261.8	270.9	283.5	296.8	293.1	294.7	303.5
Fuel	41.3	40.4	42.1	29.4	24.1	28.4	31.7	33.2	34.7	36.0
Food	35.3	34.2	41.5	38.9	34.9	33.4	34.5	36.1	37.7	39.2
Other goods 2/	106.7	104.1	127.3	126.8	143.8	150.4	155.9	147.8	144.3	147.6
Services	66.6	65.0	70.9	66.7	68.2	71.3	74.6	75.9	78.0	80.7
Net income, o/w:	-9.5	-19.5	-19.3	-23.0	-24.0	-25.3	-26.9	-28.4	-29.9	-31.6
Interest payments (public sector)	-5.1	-6.9	-5.9	-5.1	-5.8	-5.9	-6.1	-6.2	-6.3	-6.6
Net current transfers	16.8	20.3	25.3	28.5	24.2	25.1	26.2	27.4	28.6	29.7
Capital and financial account	96.8	48.9	78.6	50.2	59.5	73.9	79.8	67.5	60.1	60.2
Grants 3/	21.8	18.2	16.9	18.5	29.5	35.3	34.3	32.4	29.8	29.2
Public sector flows	37.5	22.1	20.0	3.1	-0.5	8.9	5.2	3.2	5.4	4.7
PetroCaribe financing flows	6.1	5.6	4.2	2.2	0.0	0.7	0.9	0.9	0.9	0.9
Foreign direct investment	58.5	23.3	33.4	34.0	35.9	36.2	36.5	36.4	36.3	37.7
Commercial banks	-15.3	-0.1	-16.6	-27.7	1.3	-3.8	-4.0	-4.1	-4.2	-4.3
Other private flows 4/	-11.7	-4.2	20.7	20.0	-6.8	-3.3	7.0	-1.3	-8.0	-7.9
Errors and omissions	-5.8	-6.0	-2.2	9.5	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	6.8	-6.5	17.9	21.3	-4.2	1.9	1.9	2.0	2.0	2.0
Overall financing	-6.8	6.5	-17.9	-21.3	4.2	-1.9	-1.9	-2.0	-2.0	-2.0
Change in ECCB NFA, o/w:	-17.4	6.5	-14.6	-25.5	4.2	-1.9	-1.9	-2.0	-2.0	-2.0
IMF reserve liabilities	-0.8	-2.7	-1.6	6.5	-1.6	-1.2	-1.5	-1.5	-0.6	-2.3
Change in foreign reserve assets	10.6	0.0	-3.3	4.2	0.0	0.0	0.0	0.0	0.0	0.0
External financing from RCF	...	...	...	8.7	...	...	...	...	...	...
	(in percent of GDP)									
Current account balance	-17.4	-9.8	-11.2	-9.4	-12.6	-13.7	-14.1	-11.4	-9.6	-9.3
Exports of goods and services 1/	32.6	38.2	41.4	41.9	41.0	40.1	39.8	39.7	39.5	39.5
Goods	7.6	7.6	7.3	6.5	4.3	4.4	4.4	4.4	4.5	4.5
Tourism	15.7	20.3	24.3	25.1	25.1	25.0	24.8	24.6	24.4	24.4
Other services	9.4	10.4	9.8	10.6	11.5	10.8	10.6	10.6	10.6	10.6
Imports of goods and services	51.5	48.1	53.8	52.4	53.6	53.7	53.8	50.8	48.9	48.5
Fuel	8.5	8.0	8.0	5.9	4.8	5.4	5.8	5.8	5.8	5.8
Food	7.3	6.7	7.9	7.8	6.9	6.3	6.3	6.3	6.3	6.3
Other goods 2/	22.0	20.6	24.3	25.4	28.5	28.5	28.3	25.6	24.0	23.6
Services	13.7	12.8	13.5	13.4	13.5	13.5	13.5	13.2	12.9	12.9
Net income, o/w:	-2.0	-3.9	-3.7	-4.6	-4.7	-4.8	-4.9	-4.9	-5.0	-5.0
Interest payments (public sector)	-1.1	-1.4	-1.1	-1.0	-1.2	-1.1	-1.1	-1.1	-1.0	-1.1
Net current transfers	3.5	4.0	4.8	5.7	4.8	4.8	4.7	4.7	4.7	4.7
Capital and financial account	20.0	9.7	15.0	10.0	11.8	14.0	14.5	11.7	10.0	9.6
Grants 3/	4.5	3.6	3.2	3.7	5.8	6.7	6.2	5.6	5.0	4.7
Public sector flows	7.7	4.4	3.8	0.6	-0.1	1.7	0.9	0.6	0.9	0.7
PetroCaribe financing flows	1.3	1.1	0.8	0.4	0.0	0.1	0.2	0.2	0.2	0.1
Foreign direct investment	12.1	4.6	6.4	6.8	7.1	6.9	6.6	6.3	6.0	6.0
Commercial banks	-3.2	0.0	-3.2	-5.5	0.3	-0.7	-0.7	-0.7	-0.7	-0.7
Other private flows 4/	-2.4	-0.8	4.0	4.0	-1.3	-0.6	1.3	-0.2	-1.3	-1.3
Errors and omissions	-1.2	-1.2	-0.4	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.4	-1.3	3.4	4.3	-0.8	0.4	0.3	0.3	0.3	0.3
External financing from RCF	...	...	...	1.7	...	...	...	...	...	...
Memorandum items:										
Trade balance (percent of GDP)	-30.2	-27.7	-32.9	-32.6	-35.8	-35.8	-35.9	-33.2	-31.5	-31.1
Services balance (percent of GDP)	11.4	17.8	20.6	22.3	23.2	22.2	21.9	22.0	22.1	22.1
Net imputed international reserves:										
Millions of U.S. dollars	91.8	85.4	99.9	125.4	116.6	118.5	120.4	122.4	124.6	126.5
Months of imports of goods and services	4.4	4.2	4.3	5.7	5.2	5.0	4.9	5.0	5.1	5.0
Gross external debt 5/	75.1	74.4	81.6	93.5	91.6	89.8	88.1	85.1	80.9	78.0
Public sector	52.6	52.6	53.4	56.6	56.4	55.8	53.2	51.8	50.3	49.1
Private sector	22.5	21.8	28.3	36.9	35.1	34.0	34.9	33.3	30.6	28.9
GDP (in US\$ millions)	485.1	506.6	524.2	499.6	505.0	527.5	551.3	576.6	602.4	625.9

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

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

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

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

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

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

Table 4. Dominica: Summary Accounts of the Banking System

	2012	2013	2014	2015	Projected					
					2016	2017	2018	2019	2020	2021
	(in millions of Eastern Caribbean dollars, end of period)									
Net foreign assets	545.0	527.9	611.9	755.5	728.2	743.7	759.8	765.2	771.1	776.2
Central Bank	248.0	230.5	269.8	338.7	314.9	320.0	325.2	330.6	336.4	341.6
Commercial Banks (net)	297.0	297.4	342.1	416.8	413.3	423.7	434.6	434.6	434.6	434.6
Assets	586.4	586.5	665.5	777.4	774.2	797.0	821.1	821.1	821.1	821.1
Liabilities	-289.3	-289.1	-323.4	-360.5	-360.8	-373.3	-386.4	-386.4	-386.4	-386.4
Net domestic assets	586.8	628.4	634.8	541.1	582.9	629.2	675.1	735.1	799.2	856.4
Public sector credit, net	-133.2	4.7	21.4	-64.2	-64.1	-67.1	-70.2	-73.6	-76.9	-79.8
(real terms)	-130.1	4.6	20.9	-62.8	-62.8	-64.5	-66.3	-68.0	-69.6	-70.4
Central Government	-30.7	126.6	116.2	28.0	29.1	30.3	31.5	32.9	34.3	35.8
From ECCB	-34.2	-8.8	-23.8	-23.5	-19.5	-19.5	-19.5	-19.5	-19.5	-19.5
From commercial banks	3.4	135.5	140.0	51.6	48.6	49.8	51.0	52.3	53.8	55.3
Other public sector	-102.4	-122.0	-94.8	-92.3	-93.2	-97.4	-101.8	-106.4	-111.2	-115.6
Private sector credit	796.5	790.9	773.2	775.6	747.3	741.5	741.0	748.3	761.7	776.4
(real terms)	778.0	775.9	755.0	758.2	731.6	712.9	699.7	691.1	688.6	685.1
Other items (net)	-76.5	-167.2	-159.9	-170.3	-100.3	-45.2	4.4	60.3	114.5	159.8
Money and quasi-money (M2)	1,131.8	1,156.3	1,246.7	1,296.6	1,311.1	1,372.9	1,434.9	1,500.3	1,570.3	1,632.6
Money	221.3	210.6	232.4	258.9	261.8	274.1	286.5	297.2	313.4	323.5
Currency outside banks	45.6	41.6	46.9	46.6	47.1	49.3	51.6	54.0	56.4	58.8
Demand deposits	175.7	169.0	185.6	212.3	214.7	224.8	235.0	243.2	257.0	264.7
Quasi-money, of which:	910.5	945.7	1,014.2	1,037.7	1,049.3	1,098.7	1,148.4	1,203.1	1,256.8	1,309.2
Time deposits	248.8	235.8	217.5	208.2	210.5	220.4	230.4	241.4	252.1	262.6
Savings deposits	628.2	686.4	760.4	802.3	811.3	849.5	887.9	930.2	971.8	1,012.2
Foreign currency deposits	33.5	23.5	36.4	27.2	27.5	28.8	30.1	31.5	32.9	34.3
	(12-month percentage change)									
Net foreign assets	19.3	-3.1	15.9	23.5	-3.6	2.1	2.2	0.7	0.8	0.7
Net domestic assets, of which:	2.1	7.1	1.0	-14.8	7.7	7.9	7.3	8.9	8.7	7.2
Public sector credit, net	37.9	-103.5	361.0	-399.4	-0.2	4.6	4.7	4.8	4.6	3.7
(real terms)	36.2	-103.5	358.9	-399.8	0.0	2.8	2.8	2.5	2.4	1.2
Private sector credit	4.3	-0.7	-2.2	0.3	-3.7	-0.8	-0.1	1.0	1.8	1.9
(real terms)	3.0	-0.3	-2.7	0.4	-3.5	-2.6	-1.9	-1.2	-0.4	-0.5
Broad money	9.7	2.2	7.8	4.0	1.1	4.7	4.5	4.6	4.7	4.0
NFA contribution	8.6	-1.5	7.3	11.5	-2.1	1.2	1.2	0.4	0.4	0.3
NDA contribution	1.2	3.7	0.6	-7.5	3.2	3.5	3.3	4.2	4.3	3.6
Money	18.2	-4.8	10.4	11.4	1.1	4.7	4.5	3.7	5.5	3.2
NFA contribution	25.1	-7.9	18.7	29.6	-9.2	2.0	1.9	1.9	2.0	1.7
NDA contribution	-6.9	3.1	-8.3	-18.2	10.3	2.7	2.6	1.8	3.5	1.6
Broad money (real terms)	8.4	2.6	7.3	4.1	1.3	2.8	2.7	2.3	2.5	1.5
	(in percent of GDP)									
Net foreign assets	41.6	38.6	43.2	56.0	53.4	52.2	51.0	49.2	47.4	45.9
Net domestic assets	44.8	45.9	44.9	40.1	42.8	44.2	45.4	47.2	49.1	50.7
Public sector credit, net	-10.2	0.3	1.5	-4.8	-4.7	-4.7	-4.7	-4.7	-4.7	-4.7
Private sector credit	60.8	57.8	54.6	57.5	54.8	52.1	49.8	48.1	46.8	45.9
Broad Money	86.4	84.5	88.1	96.1	96.2	96.4	96.4	96.4	96.5	96.6
Money	16.9	15.4	16.4	19.2	19.2	19.2	19.2	19.1	19.3	19.1
Quasi-money	69.5	69.1	71.7	76.9	77.0	77.1	77.1	77.3	77.3	77.5
Interest rates (percent per year) 1/										
ECCB policy rate	6.5	6.5	6.5	6.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
U.S. policy rate	0.1	0.1	0.1	0.4	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Interbank market rate	6.3	6.4	6.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Time deposit rate	4.5	4.3	4.2	4.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Demand deposit rate	0.7	0.4	0.4	0.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Weighted average lending rate	3.3	3.3	3.0	2.2	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

1/ End-of-period rates.

Table 5a. Dominica: The Statement of Operations of the Central Government, Active Scenario (EC Dollars)

	2012	2013	2014	2015	Projected					
					2016	2017	2018	2019	2020	2021
	(in millions of Eastern Caribbean dollars)									
Revenue	406.3	417.6	388.8	488.9	498.7	503.4	515.2	528.9	540.0	558.5
Taxes	297.5	305.0	315.9	337.9	340.9	347.3	361.6	382.1	399.2	414.3
Taxes on income	57.3	58.9	59.8	75.3	71.8	66.1	64.6	65.2	65.8	68.2
Taxes on property	6.7	7.7	7.7	6.5	6.4	6.7	7.0	8.9	9.2	9.6
Taxes on goods and services	176.1	179.2	183.8	187.5	189.6	198.1	210.2	222.9	232.2	241.0
Taxes on international trade and transactions	57.3	59.3	64.6	68.6	73.1	76.4	79.9	85.1	92.0	95.4
Grants 3/	35.9	43.9	28.7	57.3	85.2	82.5	79.0	71.1	64.0	66.4
Other revenue	73.0	68.6	44.2	93.8	72.5	73.5	74.6	75.7	76.8	77.8
Property income	5.0	2.0	2.0	2.0	2.0	2.1	2.2	2.3	2.4	2.5
Sales, fees, and fines	10.9	13.2	10.5	10.3	10.6	11.1	11.6	12.1	12.6	13.1
Other nontax revenue	57.1	53.4	31.7	81.5	59.9	60.4	60.8	61.3	61.8	62.3
Of which: ECP	50.7	49.7	23.0	67.0	50.0	50.0	50.0	50.0	50.0	50.0
Expenditure	478.2	459.6	449.7	476.3	531.8	520.0	512.3	520.5	519.9	538.2
Expense	338.2	334.6	351.6	365.5	372.9	379.1	383.1	397.2	395.8	409.4
Compensation of employees	146.8	144.5	159.5	152.4	158.2	157.0	158.5	163.0	163.2	169.4
Purchase of goods and services	97.0	93.1	99.9	100.9	103.7	108.3	113.3	118.4	123.4	128.0
Interest	26.6	28.1	20.6	32.0	32.3	35.1	36.6	38.2	38.7	40.5
Grants and social benefits (transfers and subsidies)	68.8	68.9	71.7	80.3	78.8	78.7	74.7	77.7	70.5	71.5
Other expense	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	140.0	125.0	98.1	110.7	158.9	141.0	129.2	123.3	124.0	128.7
Grant-financed capital expenditure	35.9	43.9	28.7	52.3	85.2	82.5	79.0	71.1	64.0	66.4
Other capital expenditure	106.6	81.4	69.7	58.8	74.0	58.8	50.6	52.5	60.4	62.7
Capital revenue	-2.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4	-0.4
Gross operating balance	68.1	83.0	37.1	123.4	125.7	124.3	132.1	131.6	144.1	149.1
Natural disaster (ND) annualised cost 4/	0.0	0.0	0.0	0.0	20.9	21.8	22.8	23.9	24.9	25.8
Net lending/borrowing (overall balance, excl ND cost)	-71.9	-42.0	-61.0	12.7	-33.2	-16.6	2.9	8.4	20.1	20.4
Overall balance, rest of public sector	-1.3	-4.3	-6.1	-6.5	-7.1	-7.7	-7.9	-8.3	-8.6	-8.9
Public sector balance 5/	-73.2	-46.2	-67.1	6.1	-40.2	-24.3	-5.0	0.1	11.5	11.5
Net lending/borrowing (overall balance, incl ND cost)	-71.9	-42.0	-61.0	12.7	-54.1	-38.5	-19.9	-15.5	-4.8	-5.5
Net financial transactions	-71.9	-42.0	-61.0	12.7	-54.1	-38.5	-19.9	-15.5	-4.8	-5.5
Net acquisition of financial assets	-31.8	-16.7	18.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-31.8	-16.7	18.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	25.2	78.9	-4.9	-12.7	54.1	38.5	19.9	15.5	4.8	5.5
Domestic	-15.9	23.4	13.7	-3.5	15.0	10.7	5.5	4.3	1.3	1.5
Foreign	41.1	55.5	-18.6	-9.1	39.0	27.8	14.4	11.2	3.4	3.9
Statistical discrepancy	-14.9	53.6	-84.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	...	...	...	88.6	162.3	181.7	157.1	179.4	178.6	192.4
Overall deficit	...	...	...	-12.7	54.1	38.5	19.9	15.5	4.8	5.5
Debt repayments	...	...	...	101.3	108.2	143.2	137.2	163.9	173.8	187.0
External	...	...	...	69.4	73.8	79.7	92.6	100.8	105.3	113.8
Domestic	...	...	...	31.8	34.5	63.5	44.5	63.1	68.5	73.2
of which: short-term	...	...	...	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Gross financing sources	...	...	...	65.1	162.3	181.7	157.1	179.4	178.6	192.4
Debt issuance	...	...	...	65.1	162.3	181.7	157.1	179.4	178.6	192.4
External	...	...	...	36.8	112.8	107.5	107.0	112.0	108.7	117.7
Domestic	...	...	...	28.3	49.5	74.2	50.1	67.4	69.8	74.7
of which: short-term	...	...	...	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Financing Gap	...	...	...	23.5	0.0	0.0	0.0	0.0	0.0	0.0
of which: Rapid Credit Facility	...	...	...	23.5	...	...	...	...	...	...
Memorandum items:										
Primary balance	-45.4	-13.9	-40.4	44.6	-0.9	18.4	39.5	46.5	58.8	60.9
Underlying primary balance 6/	-96	-64	-63	-30	-41	-38	-20	-4	26	29
Public sector debt 7/	971	1,040	1,160	1,159	1,222	1,271	1,301	1,327	1,343	1,360
Domestic	268	308	422	392	436	459	491	503	509	515
Central Government	207	230	244	240	255	266	272	276	277	279
Rest of public sector	61	78	178	151	180	193	220	227	232	236
Foreign	704	732	738	768	787	812	810	824	834	845
Central Government	595	651	632	623	662	690	704	715	719	723
Rest of public sector	108	81	106	145	125	122	106	109	115	122
Cumulative adjustment measures	0	0	0	-10	-25	-33	-56	-81	-111	-115
Nominal GDP, fiscal year (EC\$ millions)	1,339	1,392	1,382	1,356	1,394	1,456	1,523	1,592	1,658	1,721

Sources: Ministry of Finance; and Fund staff estimates and projections.

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

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

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

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

5/ Includes state owned enterprises.

6/ The underlying primary balance is calculated as the primary balance excluding ECP revenues, one-off collection of tax arrears, temporary storm-related reconstruction and social assistance spending, and the transitory increase in grants projected after tropical storm Erika.

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

Table 5b. Dominica: The Statement of Operations of the Central Government, Active Scenario (% GDP)

	2012	2013	2014	2015	Projected					
					2016	2017	2018	2019	2020	2021
	(in percent of GDP)									
Revenue	30.3	30.0	28.1	36.1	35.8	34.6	33.8	33.2	32.6	32.5
Taxes	22.2	21.9	22.9	24.9	24.5	23.9	23.7	24.0	24.1	24.1
Taxes on income	4.3	4.2	4.3	5.6	5.1	4.5	4.2	4.1	4.0	4.0
Taxes on property	0.5	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Taxes on goods and services	13.2	12.9	13.3	13.8	13.6	13.6	13.8	14.0	14.0	14.0
Taxes on international trade and transactions	4.3	4.3	4.7	5.1	5.2	5.2	5.2	5.3	5.5	5.5
Grants 3/	2.7	3.2	2.1	4.2	6.1	5.7	5.2	4.5	3.9	3.9
Other revenue	5.5	4.9	3.2	6.9	5.2	5.0	4.9	4.8	4.6	4.5
Property income	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees, and fines	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other nontax revenue	4.3	3.8	2.3	6.0	4.3	4.1	4.0	3.9	3.7	3.6
Of which: ECP	3.8	3.6	1.7	4.9	3.6	3.4	3.3	3.1	3.0	2.9
Expenditure	35.7	33.0	32.5	35.1	38.2	35.7	33.6	32.7	31.4	31.3
Expense	25.3	24.0	25.4	27.0	26.8	26.0	25.2	25.0	23.9	23.8
Compensation of employees	11.0	10.4	11.5	11.2	11.3	10.8	10.4	10.2	9.8	9.8
Purchase of goods and services	7.2	6.7	7.2	7.4	7.4	7.4	7.4	7.4	7.4	7.4
Interest	2.0	2.0	1.5	2.4	2.3	2.4	2.4	2.4	2.3	2.4
Grants and social benefits (transfers and subsidies)	5.1	5.0	5.2	5.9	5.7	5.4	4.9	4.9	4.3	4.2
Other expense	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	10.5	9.0	7.1	8.2	11.4	9.7	8.5	7.7	7.5	7.5
Grant-financed capital expenditure	2.7	3.2	2.1	3.9	6.1	5.7	5.2	4.5	3.9	3.9
Other capital expenditure	8.0	5.8	5.0	4.3	5.3	4.0	3.3	3.3	3.6	3.6
Capital revenue	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	5.1	6.0	2.7	9.1	9.0	8.5	8.7	8.3	8.7	8.7
Natural disaster (ND) annualised cost 4/	0.0	0.0	0.0	0.0	1.5	1.5	1.5	1.5	1.5	1.5
Net lending/borrowing (overall balance, excl ND cost)	-5.4	-3.0	-4.4	0.9	-2.4	-1.1	0.2	0.5	1.2	1.2
Overall balance, rest of public sector	-0.1	-0.3	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Public sector balance 5/	-5.5	-3.3	-4.9	0.5	-2.9	-1.7	-0.3	0.0	0.7	0.7
Net lending/borrowing (overall balance, incl ND cost)	-5.4	-3.0	-4.4	0.9	-3.9	-2.6	-1.3	-1.0	-0.3	-0.3
Net financial transactions	-5.4	-3.0	-4.4	0.9	-3.9	-2.6	-1.3	-1.0	-0.3	-0.3
Net acquisition of financial assets	-2.4	-1.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	-2.4	-1.2	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	1.9	5.7	-0.4	-0.9	3.9	2.6	1.3	1.0	0.3	0.3
Domestic	-1.2	1.7	1.0	-0.3	1.1	0.7	0.4	0.3	0.1	0.1
Foreign	3.1	4.0	-1.3	-0.7	2.8	1.9	0.9	0.7	0.2	0.2
Statistical discrepancy	-1.1	3.9	-6.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	...	...	...	6.5	11.6	12.5	10.3	11.3	10.8	11.2
Overall deficit	...	...	...	-0.9	3.9	2.6	1.3	1.0	0.3	0.3
Debt repayments	...	...	...	7.5	7.8	9.8	9.0	10.3	10.5	10.9
External	...	...	...	5.1	5.3	5.5	6.1	6.3	6.3	6.6
Domestic	...	...	...	2.3	2.5	4.4	2.9	4.0	4.1	4.3
of which: short-term	...	...	...	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Gross financing sources	...	...	...	4.8	11.6	12.5	10.3	11.3	10.8	11.2
Debt issuance	...	...	...	4.8	11.6	12.5	10.3	11.3	10.8	11.2
External	...	...	...	2.7	8.1	7.4	7.0	7.0	6.6	6.8
Domestic	...	...	...	2.1	3.6	5.1	3.3	4.2	4.2	4.3
of which: short-term	...	...	...	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Financing gap	...	...	...	1.7	0.0	0.0	0.0	0.0	0.0	0.0
of which: Rapid Credit Facility	...	...	...	1.7	...	...	...	...	...	...
Memorandum items:										
Primary balance	-3.4	-1.0	-2.9	3.3	-0.1	1.3	2.6	2.9	3.5	3.5
Underlying primary balance 6/	-7.2	-4.6	-4.6	-2.2	-2.9	-2.6	-1.3	-0.3	1.6	1.7
Public sector debt 7/	72.6	74.7	83.9	85.5	87.7	87.3	85.4	83.4	81.0	79.0
Domestic	20.0	22.1	30.5	28.9	31.2	31.5	32.2	31.6	30.7	29.9
Central Government	15.4	16.5	17.6	17.7	18.3	18.3	17.8	17.3	16.7	16.2
Rest of public sector	4.6	5.6	12.9	11.2	12.9	13.2	14.4	14.3	14.0	13.7
Foreign	52.6	52.6	53.4	56.6	56.4	55.8	53.2	51.8	50.3	49.1
Central Government	44.5	46.8	45.7	45.9	47.5	47.4	46.3	45.0	43.4	42.0
Rest of public sector	8.1	5.8	7.6	10.7	8.9	8.4	6.9	6.9	6.9	7.1
Cumulative adjustment measures	0.0	0.0	0.0	-0.7	-1.8	-2.3	-3.7	-5.1	-6.7	-6.7
Nominal GDP, fiscal year (EC\$ millions)	1,339	1,392	1,382	1,356	1,394	1,456	1,523	1,592	1,658	1,721

Sources: Ministry of Finance; and Fund staff estimates and projections.

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

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

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

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

5/ Includes state owned enterprises.

6/ The underlying primary balance is calculated as the primary balance excluding ECP revenues, one-off collection of tax arrears, temporary storm-related reconstruction and social assistance spending, and the transitory increase in grants projected after tropical storm Erika.

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

Table 6. Dominica: Central Government Financing Needs and Sources, Active Scenario

	2015	2016	2017	2018	2019	2020	2021
	(in millions of Eastern Caribbean dollars)						
Gross financing needs	88.6	162.3	181.7	157.1	179.4	178.6	192.4
Overall deficit	-12.7	54.1	38.5	19.9	15.5	4.8	5.5
Debt repayments	101.3	108.2	143.2	137.2	163.9	173.8	187.0
External	69.4	73.8	79.7	92.6	100.8	105.3	113.8
Domestic	31.8	34.5	63.5	44.5	63.1	68.5	73.2
of which: short-term	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Gross financing sources	65.1	162.3	181.7	157.1	179.4	178.6	192.4
Debt issuance	65.1	162.3	181.7	157.1	179.4	178.6	192.4
External	36.8	112.8	107.5	107.0	112.0	108.7	117.7
Domestic	28.3	49.5	74.2	50.1	67.4	69.8	74.7
of which: short-term	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Use of deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	23.5	0.0	0.0	0.0	0.0	0.0	0.0
of which: Rapid Credit Facility	23.5	...	...	...	...	...	...
Memo: central government deposits	69.0	69.0	69.0	69.0	69.0	69.0	69.0
	(in percent of GDP)						
Gross financing needs	6.5	11.6	12.5	10.3	11.3	10.8	11.2
Overall deficit	-0.9	3.9	2.6	1.3	1.0	0.3	0.3
Debt repayments	7.5	7.8	9.8	9.0	10.3	10.5	10.9
External	5.1	5.3	5.5	6.1	6.3	6.3	6.6
Domestic	2.3	2.5	4.4	2.9	4.0	4.1	4.3
Short-term domestic debt rollover	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Gross financing sources	4.8	11.6	12.5	10.3	11.3	10.8	11.2
Debt issuance	4.8	11.6	12.5	10.3	11.3	10.8	11.2
External	2.7	8.1	7.4	7.0	7.0	6.6	6.8
Domestic	2.1	3.6	5.1	3.3	4.2	4.2	4.3
of which: short-term	1.5	1.4	1.4	1.3	1.3	1.2	1.2
Use of deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	1.7	0.0	0.0	0.0	0.0	0.0	0.0
of which: Rapid Credit Facility	1.7	...	...	...	...	...	...
Memo: central government deposits	5.1	4.9	4.7	4.5	4.3	4.2	4.0
Memo: nominal GDP, FY basis (EC\$ millions)	1,356	1,394	1,456	1,523	1,592	1,658	1,721

Sources: Fund staff estimates and projections.

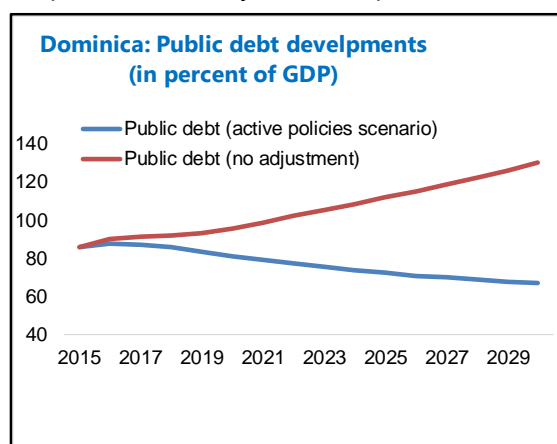
1/ Fiscal year (July-June) basis.

Annex I. Debt Sustainability Analysis¹

Dominica continues to be at high risk of debt distress. The fiscal adjustment program being pursued by the authorities (active policies scenario) would put debt on a sustainable path but above the ECCU regional debt target. Customized scenarios (assuming no further fiscal consolidation, lower donor grants, lower ECP revenues and a hurricane shock in 2018) are used to inform the external risk rating, given the challenging medium-term fiscal consolidation. Should the planned fiscal consolidation take hold and the debt outlook move firmly along the sustainable path projected under the active policies scenario, an improvement of the risk rating could be considered in a future assessment.

1. Dominica’s overall public debt has been increasing steadily since 2010, reflecting the weakening fiscal position. As of end-FY 2014/15, the stock of public sector debt (central government and rest of the public sector, henceforth public debt) is estimated to be around 84 percent of GDP. Over 70 percent of the public debt is external, owed mainly to multilateral creditors and the remaining is held domestically, mostly by commercial banks and other financial institutions. The debt of the rest of public sector (state owned enterprises and Petrocaribe) is about 21 percent of GDP.

2. In accordance with the fiscal consolidation measures discussed under the RCF, public debt is assessed to be sustainable. The authorities have committed to a gradual fiscal consolidation over the next five years, supported by comprehensive reforms to improve revenue collection, broaden the tax base, and contain current expenditures. They have adopted the initial fiscal measures in the RCF, and have undertaken new measures to further strengthen the fiscal position. If the fiscal consolidation plan is fully implemented, the debt outlook would improve significantly. This consolidation includes a provision of 1.5 percent of GDP per year to lower debt and to build buffers to address future natural disasters, providing a degree of resilience to the fiscal consolidation strategy. However, if the authorities did not take any additional fiscal consolidation measures, public debt would be on an upward trajectory and become unsustainable – reaching 130 percent of GDP by 2030 (text chart, no adjustment scenario).



The main differences relative to the DSA in the RCF Staff Report are as follows:

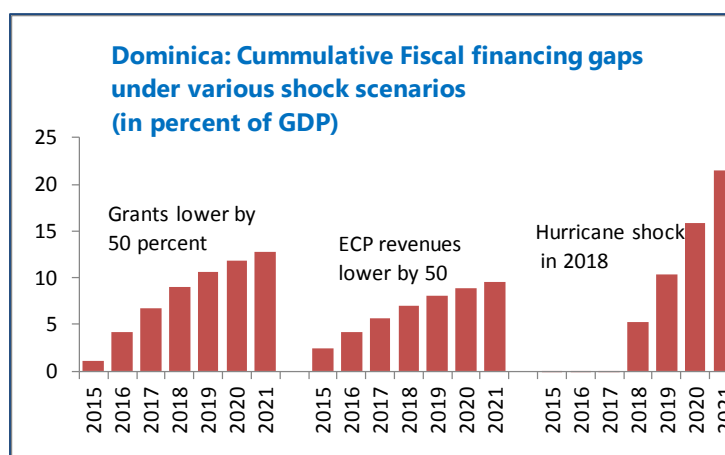
¹ This DSA has been cleared by Mr. Bob Traa (IMF) and Mr. John Panzer (World Bank).

- The growth projections for 2015 have been revised downwards as the latest data reflect a more protracted negative impact of the storm on growth.
- The debt projections now include the expected fiscal costs of future natural disasters. An annual average reconstruction cost of 1.5 percentage point of GDP is included as an expenditure on account of possible costs for reconstruction in the event of other natural disasters. This augments the deficit and worsens debt dynamics relative to the RCF. In the RCF we considered the need for an additional primary surplus of 1.5 percentage point of GDP to build a cushion for natural disasters, but the cost of natural disasters was not included in the deficit and debt projections.
- The public debt for FY 2015/16 now incorporates the Petrocaribe debt estimated at 9 percent of GDP. The estimation is based on the Petrocaribe loan agreement. It should be noted, however, that Petrocaribe debt service payments have been cancelled or rescheduled in the last three years, a pattern that may continue into the coming years. However, the revised DSA includes these obligations for prudence given the uncertainty about the continuation of this practice.

Debt Related to the Petrocaribe Agreement (percent of GDP)							
	Est.	Proj.					
	2015	2016	2017	2018	2019	2020	2021
Imports Under Petrocaribe	2.0	1.6	1.8	1.9	1.9	1.9	1.9
<i>of which: financed with borrowing</i>	0.8	0.4	0.5	0.6	0.6	0.6	0.6
Debt Under Petrocaribe	8.8	8.7	8.5	8.3	8.1	7.9	7.7

- On the positive side, the authorities' fiscal program is over-performing slightly (0.7% of GDP) based on the fiscal measures undertaken in FY 2015/16 and those proposed in the budget for FY 2016/17. In addition, the recent parametric reforms undertaken by the Dominica Social Security program (higher employee contributions and increase in retirement age) also improve public debt dynamics.

3. Although in the active scenario public debt is sustainable, the large number and potential size of risks merit the classification of Dominica as “high risk of debt distress”. All the external debt and debt service ratios are below their relevant thresholds in the active scenario, which assumes a full implementation of the fiscal consolidation plan. However,



under the customized scenarios several thresholds are breached. One customized scenario (no adjustment) assumes that fiscal performance follows passively from the current set of policies in place and no additional measures are adopted. In the customized scenario, the average annual external debt service obligations are estimated around US\$39.3 million (7.3% of GDP) during the next three fiscal years (FY2015-17), which could pose a financing risk. Staff simulations indicate that the materialization of other risks would also breach the debt thresholds and render unsustainable debt dynamics as shown in Figures A1 and A2 for other customized scenarios. This is particularly plausible in the cases of (i) a reduction of grants (to 50 percent of the active scenario); (ii) lower ECP revenues (to 50 percent of the active scenario); and (iii) the occurrence of a natural disaster in 2018. It should be noted that these events are largely or completely outside the government control.

4. The precarious debt sustainability prospects, even if the fiscal consolidation plan was fully implemented, prompted the government to seek debt relief from bilateral creditors. In light of the high debt burden, the large fiscal costs of the reconstruction of public infrastructure after the tropical storm, and its protracted effects on output, the authorities have formally requested debt relief from bilateral creditors as part of their fiscal consolidation strategy – including from the Paris Club and also on Petrocaribe debt service flows. Should any of the risks to debt sustainability mentioned above materialize, there would be no realistic amount of fiscal consolidation that could cover the resulting financing gap. In that case, the insufficient revenues would force a compression government spending which would most likely affect capital expenditures and reduce growth prospects.

5. As a result, the public and publicly guaranteed (PPG) external debt risk rating remains high. This assessment is based on the risks reflected in the customized scenarios and the significant risks explained above, which carry significant weight in this assessment. Under the customized scenario, the debt path takes an increasing trajectory and breaches two solvency thresholds (Figure A1).

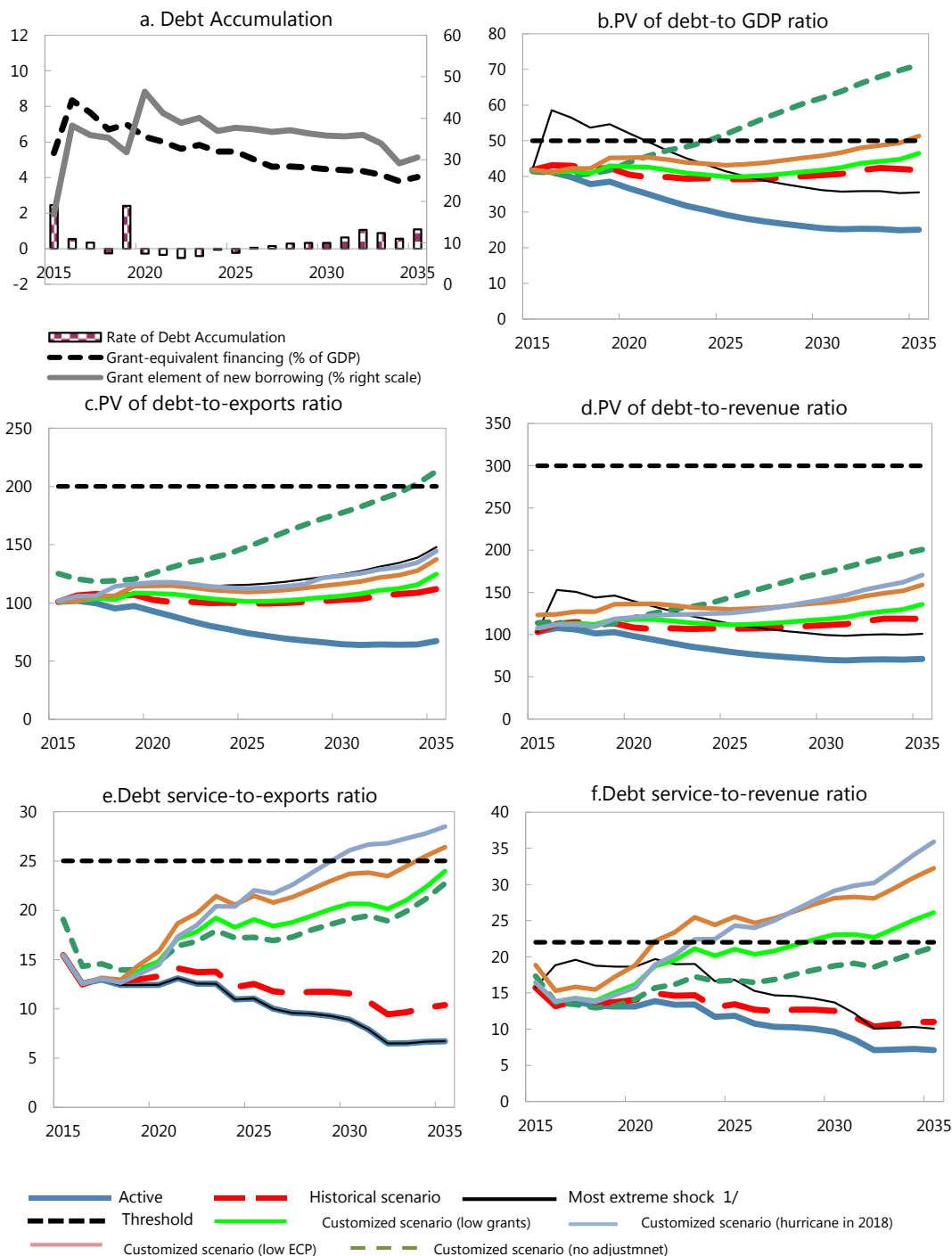
6. The authorities concurred with staff that Dominica remains at high risk of debt distress. They agreed that the debt dynamics could easily become unsustainable even if the fiscal consolidation committed in the RCF is fully implemented. They explained that the expenditure in rehabilitation and reconstruction after tropical storm Erika was largely non-optional, as required to restore normal functioning of the economy and the provision of basic public services. Given this situation, they expressed concern that shortages in grant revenues relative to current expectations or in other sources of revenue, or other natural disaster events, could result in higher debt issuance (mostly concessional) and a breaching of the debt thresholds. However, they explained that they remain fully committed to fiscal sustainability and to this end they are also pursuing debt relief from bilateral partners as part of their debt consolidation strategy.

Conclusion

7. The risk rating assigned to PPG external debt is high. Under a customized scenario (without further fiscal adjustment), debt would exceed two solvency thresholds in the medium term.

The other customized scenarios (with lower grants, lower ECP and hurricane shock) show breaches of debt service thresholds. Moreover, given the challenges associated with fiscal consolidation in the wake of storm Erika, the customized scenarios are attached significant weight in the risk assessment. Nevertheless, the authorities have expressed commitment to the fiscal adjustment program (active scenario) that would put public debt on a sustainable trajectory. As the planned fiscal consolidation takes hold, further increasing confidence in the active policies scenario, an upgrade of the risk rating could be considered in a future assessment.

Figure A1. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2015-35 (Active Scenario) ^{1/}



^{1/} The most extreme stress test is the test that yields the highest ratio on or before 2025. In figure b, it corresponds to a Customized scenario (no adjustment) shock; in c, to a Customized scenario (no adjustment) shock; in d, to a Customized scenario (no adjustment) shock; in e, to a Customized scenario (no adjustment) shock and in figure f, to a Customized scenario (no adjustment) shock

Table A1. Dominica: External Debt Sustainability Framework, Active Scenario, 2012-35 1/
(In percent of GDP)

	Actual			Historical Average	Standard Deviation	Projections						2015-2020 Average	2025	2035	2021-2035 Average
	2012	2013	2014			2015	2016	2017	2018	2019	2020				
External debt (nominal) 1/	74.7	77.7	85.8			92.6	91.0	90.2	87.2	83.7	80.1		69.1	53.5	
<i>of which: public and publicly guaranteed (PPG)</i>	52.6	52.6	53.4			56.6	56.4	55.8	53.2	51.8	50.3		45.8	37.5	
Change in external debt	1.9	3.0	8.1			6.8	-1.6	-0.8	-3.0	-3.5	-3.6		-1.8	-3.4	
Identified net debt-creating flows	7.6	7.1	3.3			9.2	2.1	2.9	3.3	5.8	4.7		3.8	3.0	
Non-interest current account deficit	11.7	13.8	6.6	13.7	5.2	8.5	6.5	9.3	10.3	11.0	8.5		7.2	8.6	7.5
Deficit in balance of goods and services	14.3	11.1	11.4			11.6	13.1	13.8	12.6	10.3	9.2		9.6	9.0	
Exports	35.5	39.8	41.7			41.4	40.6	40.0	39.7	39.6	39.5		39.5	37.3	
Imports	49.8	51.0	53.1			53.0	53.7	53.8	52.3	49.9	48.7		49.1	46.3	
Net current transfers (negative = inflow)	-3.7	-4.4	-5.3	-4.3	0.7	-5.2	-4.8	-4.7	-4.7	-4.7	-4.7		-4.8	-4.5	-4.7
<i>of which: official</i>	-0.6	-1.1	-1.1			-0.9	-0.6	-0.6	-0.6	-0.6	-0.6		-0.6	-0.5	
Other current account flows (negative = net inflow)	1.2	7.1	0.4			2.1	-1.9	0.2	2.5	5.4	4.1		2.3	4.0	
Net FDI (negative = inflow)	-6.3	-6.4	-6.9	-9.7	2.6	-5.9	-5.8	-6.5	-7.1	-5.4	-4.2		-4.6	-4.5	-5.0
Endogenous debt dynamics 2/	2.1	-0.3	3.6			6.6	1.5	0.1	0.2	0.2	0.3		1.2	-1.1	
Contribution from nominal interest rate	2.5	2.6	3.1			3.2	2.6	2.5	2.5	2.3	2.1		2.4	0.9	
Contribution from real GDP growth	0.9	-0.4	-3.0			3.4	-1.1	-2.5	-2.3	-2.1	-1.8		-1.1	0.0	
Contribution from price and exchange rate changes	-1.3	-2.4	3.6			-1.8	-1.4	-1.4	-1.6	-1.7	-1.5		-1.3	-2.0	
Residual (3-4) 3/	-5.7	-4.1	4.8	-3.9		-2.4	-3.7	-3.7	-6.3	-9.3	-8.3		-5.6	-6.4	
<i>of which: Capital transfers</i>	...	...	...			4.8	6.3	6.5	6.1	5.3	4.8		3.9	3.6	
<i>of which: Commercial Banks and other private flows</i>	...	...	...			-1.5	-0.9	0.5	-0.7	0.6	1.2		-0.6	0.0	
<i>of which: exceptional financing</i>	0.0	0.0	0.0			1.7	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	70.9			77.8	75.8	75.4	73.0	71.5	67.5		53.2	41.0	
In percent of exports	...	...	170.1			187.7	186.9	188.6	183.6	180.5	170.8		134.7	109.9	
PV of PPG external debt	...	...	38.4			41.8	41.2	41.0	38.9	39.5	37.7		29.8	25.1	
In percent of exports	...	...	92.2			100.9	101.6	102.5	98.0	99.9	95.4		75.5	67.1	
In percent of government revenues	...	...	109.9			103.0	107.6	109.2	104.5	105.7	100.9		81.1	71.2	
Debt service-to-exports ratio (in percent)	16.5	13.0	16.6			19.7	16.9	17.4	16.9	16.7	16.7		15.0	7.7	
PPG debt service-to-exports ratio (in percent)	11.6	8.5	12.5			15.4	12.5	13.0	12.5	12.5	12.5		11.3	6.7	
PPG debt service-to-revenue ratio (in percent)	11.2	9.5	14.9			15.8	13.3	13.9	13.4	13.3	13.3		12.2	7.1	
Total gross financing need (Billions of U.S. dollars)	0.1	0.1	0.0			0.1	0.0	0.1	0.1	0.1	0.1		0.1	0.1	
Non-interest current account deficit that stabilizes debt ratio	9.9	10.8	-1.6			1.7	8.1	10.1	13.3	14.5	12.2		9.1	12.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-1.3	0.6	3.9	2.1	3.1	-3.9	1.3	2.8	2.7	2.5	2.3	1.3	1.7	0.0	1.6
GDP deflator in US dollar terms (change in percent)	1.8	3.3	-4.4	1.3	2.6	2.1	1.5	1.6	1.8	2.0	1.9	1.8	2.0	3.7	2.1
Effective interest rate (percent) 5/	3.5	3.6	3.9	4.5	0.9	3.7	2.9	2.9	2.8	2.7	2.7	2.9	3.5	1.6	2.9
Growth of exports of G&S (US dollar terms, in percent)	1.5	16.7	3.9	5.2	6.1	-2.4	0.5	3.0	3.9	4.1	4.0	2.2	3.7	0.0	3.3
Growth of imports of G&S (US dollar terms, in percent)	-4.1	6.5	3.4	4.2	7.6	-2.0	4.1	4.7	1.7	-0.4	1.8	1.6	3.5	0.2	3.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	16.9	38.3	30.7	35.3	31.6	46.4	33.2	37.7	30.6	36.0
Government revenues (excluding grants, in percent of GDP)	36.8	35.7	35.0	...	...	40.6	38.3	37.5	37.3	37.4	37.3		36.7	35.2	36.4
Aid flows (in Billions of US dollars) 7/	0.1	0.0	0.0			0.0	0.1	0.1	0.0	0.1	0.1		0.1	0.1	
<i>of which: Grants</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
<i>of which: Concessional loans</i>	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			5.4	8.3	7.8	6.7	6.9	6.3		5.5	4.0	4.8
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			48.5	69.9	62.0	70.7	56.4	69.2		67.3	63.2	65.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.5	0.5	0.5			0.5	0.5	0.5	0.6	0.6	0.6		0.7	1.1	
Nominal dollar GDP growth	0.5	3.9	-0.7			-1.9	2.8	4.5	4.5	4.5	4.2	3.1	3.7	3.7	3.7
PV of PPG external debt (in Billions of US dollars)	...	...	0.2			0.2	0.2	0.2	0.2	0.2	0.2		0.2	0.3	
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...			2.6	0.6	1.6	-0.3	2.4	-0.3	1.1	-0.3	1.1	0.2
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...
PV of PPG external debt (in percent of GDP + remittances)	...	...	38.4			41.8	41.2	41.0	38.9	39.5	37.7		29.8	25.1	
PV of PPG external debt (in percent of exports + remittances)	...	...	92.2			100.9	101.6	102.5	98.0	99.9	95.4		75.5	67.1	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	12.5			15.4	12.5	13.0	12.5	12.5	12.5		11.3	6.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table A2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Active Scenario, 2015-35

	Projections							2035
	2015	2016	2017	2018	2019	2020	2025	
PV of debt-to GDP ratio								
Baseline	42	41	41	39	40	38	30	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	42	43	45	44	44	42	40	42
A2. New public sector loans on less favorable terms in 2015-2035 2	42	43	44	44	47	46	46	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	42	42	43	41	42	40	32	27
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	42	42	43	41	41	40	31	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	42	42	43	41	42	40	32	27
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	42	41	41	39	40	38	30	25
B5. Combination of B1-B4 using one-half standard deviation shocks	42	40	41	39	40	38	30	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	42	59	58	55	56	54	42	36
PV of debt-to-exports ratio								
Baseline	101	102	102	98	100	95	75	67
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	101	107	111	110	110	106	101	112
A2. New public sector loans on less favorable terms in 2015-2035 2	101	105	111	110	118	117	117	148
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	101	102	102	98	100	95	75	67
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	101	104	113	108	110	105	83	73
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	101	102	102	98	100	95	75	67
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	101	101	103	99	101	96	76	68
B5. Combination of B1-B4 using one-half standard deviation shocks	101	96	96	92	94	90	71	65
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	101	102	102	98	100	95	75	67
PV of debt-to-revenue ratio								
Baseline	103	108	109	104	106	101	81	71
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	103	113	119	117	117	112	109	119
A2. New public sector loans on less favorable terms in 2015-2035 2	103	112	118	117	124	124	126	157
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	103	110	116	111	112	107	86	76
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	103	109	114	110	111	106	85	73
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	103	111	115	111	112	107	86	75
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	103	107	110	105	107	102	82	72
B5. Combination of B1-B4 using one-half standard deviation shocks	103	106	110	105	106	101	81	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	103	153	155	148	150	143	115	101

Table A2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Active Scenario, 2015-35 (concluded)

Debt service-to-exports ratio								
Baseline	15	13	13	13	13	13	11	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	15	12	13	13	13	13	13	10
A2. New public sector loans on less favorable terms in 2015-2035 2	15	13	12	12	11	12	10	11
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	15	13	13	13	13	13	11	7
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	15	13	14	13	13	13	12	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	15	13	13	13	13	13	11	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	15	13	13	13	13	13	11	7
B5. Combination of B1-B4 using one-half standard deviation shocks	15	12	13	12	12	12	11	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	15	13	13	13	13	13	11	7
Debt service-to-revenue ratio								
Baseline	16	13	14	13	13	13	12	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2015-2035 1/	16	13	14	14	14	14	14	11
A2. New public sector loans on less favorable terms in 2015-2035 2	16	13	12	12	12	12	11	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2016-2017	16	14	15	14	14	14	13	8
B2. Export value growth at historical average minus one standard deviation in 2016-2017 3/	16	13	14	14	13	13	13	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2016-2017	16	14	15	14	14	14	13	7
B4. Net non-debt creating flows at historical average minus one standard deviation in 2016-2017 4/	16	13	14	13	13	13	12	7
B5. Combination of B1-B4 using one-half standard deviation shocks	16	14	15	14	14	14	13	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2016 5/	16	19	20	19	19	19	17	10
<i>Memorandum item:</i>								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	26	26
Sources: Country authorities; and staff estimates and projections.								
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.								
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.								
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly : an offsetting adjustment in import levels).								
4/ Includes official and private transfers and FDI.								
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.								
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.								

Table A3. Dominica: Public Sector Debt Sustainability Framework, Active Scenario, 2012-35
(in percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate					Projections			
	2012	2013	2014			2015	2016	2017	2018	2019	2020	2015-20 Average	2025	2035 Average
Public sector debt 1/	72.6	74.7	83.9			85.5	87.7	87.3	85.4	83.4	81.0		72.3	59.1
<i>of which: foreign-currency denominated</i>	52.6	52.6	53.4			56.6	56.4	55.8	53.2	51.8	50.3		45.8	37.5
Change in public sector debt	2.8	2.2	9.2			1.6	2.2	-0.4	-1.8	-2.1	-2.4		-1.6	-3.4
Identified debt-creating flows	5.0	-0.3	4.4			0.1	1.9	-0.8	-2.1	-2.2	-2.5		-2.3	-3.6
Primary deficit	3.7	0.5	1.6	-2.6	5.7	-4.4	1.9	0.6	-0.6	-0.8	-1.3	-0.8	-2.0	-1.7
Revenue and grants	39.5	38.9	37.0			44.8	44.4	43.2	42.5	41.9	41.2		40.6	38.2
<i>of which: grants</i>	2.7	3.2	2.1			4.2	6.1	5.7	5.2	4.5	3.9		3.9	3.0
Primary (noninterest) expenditure	43.1	39.4	38.7			40.4	46.3	43.8	41.8	41.1	39.9		38.6	36.5
Automatic debt dynamics	1.4	-0.8	2.7			4.5	0.0	-1.4	-1.5	-1.5	-1.2		-0.3	-1.9
Contribution from interest rate/growth differential	1.4	0.1	-0.7			4.4	-0.3	-1.7	-1.5	-1.5	-1.3		-0.3	-1.2
<i>of which: contribution from average real interest rate</i>	0.5	0.5	2.1			1.1	0.7	0.8	0.7	0.6	0.6		0.9	-0.2
<i>of which: contribution from real GDP growth</i>	0.9	-0.4	-2.8			3.4	-1.1	-2.4	-2.3	-2.1	-1.8		-1.2	-1.0
Contribution from real exchange rate depreciation	0.0	-0.9	3.4			0.1	0.3	0.3	0.1	0.0	0.1		0.0	-0.6
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0
Residual, including asset changes	-2.2	2.5	4.8			1.5	0.3	0.3	0.3	0.2	0.1		0.8	0.2
Other Sustainability Indicators														
PV of public sector debt	...	...	68.9			70.7	72.5	72.5	71.2	71.1	68.4		56.3	46.6
<i>of which: foreign-currency denominated</i>	...	...	38.4			41.8	41.2	41.0	38.9	39.5	37.7		29.8	25.1
<i>of which: external</i>	...	...	38.4			41.8	41.2	41.0	38.9	39.5	37.7		29.8	25.1
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...
Gross financing need 2/	11.0	6.6	9.2			5.4	9.7	10.6	7.7	8.6	8.2		8.0	3.2
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	186.1			157.8	163.1	167.8	167.7	169.9	166.0		138.7	122.0
PV of public sector debt-to-revenue ratio (in percent)	...	...	197.2			174.2	189.2	193.1	191.0	190.2	183.1		153.3	132.4
<i>of which: external 3/</i>	...	...	109.9			103.0	107.6	109.2	104.5	105.7	100.9		81.1	71.2
Debt service-to-revenue and grants ratio (in percent) 4/	18.6	15.7	20.4			21.8	17.5	23.1	19.6	22.3	23.0		24.8	12.9
Debt service-to-revenue ratio (in percent) 4/	20.0	17.1	21.6			24.1	20.3	26.6	22.4	24.9	25.4		27.4	13.9
Primary deficit that stabilizes the debt-to-GDP ratio	0.8	-1.7	-7.5			-6.0	-0.3	1.1	1.2	1.3	1.1		-0.5	1.7
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	-1.3	0.6	3.9	2.1	3.1	-3.9	1.3	2.8	2.7	2.5	2.3	1.3	1.7	1.7
Average nominal interest rate on forex debt (in percent)	1.6	1.6	2.6	2.5	0.9	2.7	1.5	1.4	1.4	1.2	1.0	1.5	2.1	1.3
Average real interest rate on domestic debt (in percent)	2.9	2.5	8.6	3.5	2.9	2.5	3.7	3.7	3.4	3.3	3.4	3.3	3.2	0.4
Real exchange rate depreciation (in percent, + indicates depreci)	-0.1	-1.7	6.7	0.7	2.7	0.1	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	1.8	3.3	-4.4	1.3	2.6	2.1	1.5	1.6	1.8	2.0	1.9	1.8	2.0	3.7
Growth of real primary spending (deflated by GDP deflator, in p	0.8	-8.2	1.9	-0.5	2.8	0.4	16.2	-2.8	-2.0	0.7	-0.7	2.0	3.2	-3.5
Grant element of new external borrowing (in percent)	...	...	...	...	...	16.9	38.3	30.7	35.3	31.6	46.4	33.2	37.7	30.6

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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

3/ Revenues excluding grants.

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

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

Table A4. Dominica: Sensitivity Analysis for Key Indicators of Public Debt, Active Scenario, 2015-35 (in percent of GDP)

	Projections							
	2015	2016	2017	2018	2019	2020	2025	2035
PV of Debt-to-GDP Ratio								
Baseline	71	72	72	71	71	68	56	47
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	71	69	67	65	64	60	44	21
A2. Primary balance is unchanged from 2015	71	68	65	61	58	53	32	-2
A3. Permanently lower GDP growth 1/	71	73	74	74	75	74	71	91
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	71	75	80	80	81	80	76	79
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	71	74	75	74	74	71	59	48
B3. Combination of B1-B2 using one half standard deviation shocks	71	72	73	73	74	71	63	59
B4. One-time 30 percent real depreciation in 2016	71	90	89	87	86	83	67	56
B5. 10 percent of GDP increase in other debt-creating flows in 2016	71	80	80	79	79	76	64	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	158	163	168	168	170	166	139	124
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	158	155	155	152	152	145	109	55
A2. Primary balance is unchanged from 2015	158	153	149	143	138	128	78	-6
A3. Permanently lower GDP growth 1/	158	165	172	174	179	178	174	237
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	158	168	183	187	193	193	186	205
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	158	166	175	175	177	173	146	127
B3. Combination of B1-B2 using one half standard deviation shocks	158	162	169	171	175	173	156	155
B4. One-time 30 percent real depreciation in 2016	158	203	206	205	207	200	164	146
B5. 10 percent of GDP increase in other debt-creating flows in 2016	158	180	185	185	188	184	157	137
Debt Service-to-Revenue Ratio 2/								
Baseline	22	18	23	20	22	23	25	13
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	19	17	22	19	22	22	21	9
A2. Primary balance is unchanged from 2015	19	17	22	18	21	22	19	5
A3. Permanently lower GDP growth 1/	19	17	23	20	23	24	25	21
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2016-2017	19	17	24	20	24	25	26	19
B2. Primary balance is at historical average minus one standard deviations in 2016-2017	19	17	23	19	22	23	23	14
B3. Combination of B1-B2 using one half standard deviation shocks	19	17	23	20	23	24	24	16
B4. One-time 30 percent real depreciation in 2016	19	20	28	24	28	28	29	20
B5. 10 percent of GDP increase in other debt-creating flows in 2016	19	17	23	20	23	23	24	15

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Figure A2. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2015-35 (Active Scenario) 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2025.

2/ Revenues are defined inclusive of grants.

Annex II. External Sector Assessment

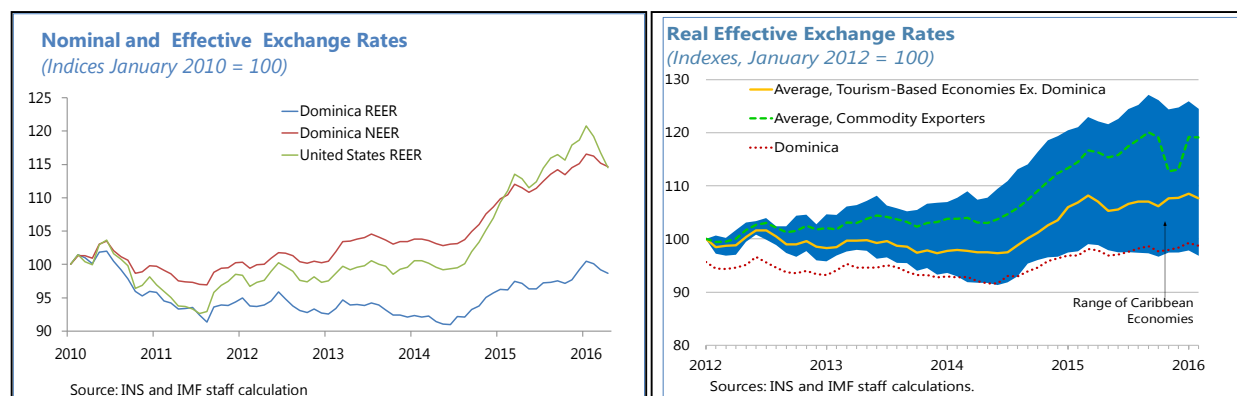
Dominica's external position in 2015 is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policy settings. Achieving a strong and sustainable external sector requires policies and structural reforms over the medium term particularly geared at increasing external competitiveness. Reserves are assessed to be adequate and sufficient to absorb most shocks.

The decline in oil prices, higher than expected tourism receipts and increased inflows of private remittances offset the decline in exports and the increase in imports for reconstruction material following the damages caused by Tropical Storm Erika last August. These developments improved Dominica's current account to a deficit of 9.4 percent of GDP in 2015 from an 11.2 percent of GDP deficit the previous year.¹ Given the forecast for higher imports for reconstruction activity, the REER appreciation and a no-policy change scenario, the current account would worsen in the medium term.

A. Nominal and Real Effective Exchange Rate Assessment

Dominica's nominal effective exchange rate (NEER) appreciated by 7.6 percent on average in 2015 mainly because of the strengthening of the U.S. dollar to which the EC dollar, the regional currency, is pegged. Further appreciation could continue in the near future should relatively stronger growth and higher interest rates in the United States cause the U.S. dollar to strengthen. In comparison the CPI based real effective exchange rate (REER) appreciated by 4.8 percent during the same period and its end-December 2015 index was 99.2 relative to the January 2010 base. Measures of the REER in tourism-competitor Caribbean countries suggest a mild deterioration of about 1 percent in Dominica's competitiveness since June 2015. The recovery in manufacturing and food production following damages sustained from Tropical Storm Erika as well as low energy prices should marginally reduce the headline price level in Dominica in 2016.

¹ The BOP data for 2014 was revised by the Eastern Caribbean Central Bank and Dominica's Statistical Office the National of Trinidad and Tobago (CBTT) to reflect the improved estimation of (i) tourism expenditure, which was previously based on outdated estimates, (ii) transactions by offshore universities and (iii) private remittances. The current account deficit in 2014 has improved from -13.1 percent of GDP to -11.2 percent of GDP. The new data are incomplete. Further improvements in BOP estimation is expected, particularly to FDI and Portfolio flows, as the statistical agencies make progress in BOP compilation using BPM6 methodologies. The revisions could be finalized by the fourth quarter of 2016. CARTAC's technical assistance in 2015 and early 2016 has been instrumental in these developments.



B. External Stability Assessments

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

- Drawing on the EBA-Lite regression model (after adjusting the results to account for Dominica-specific factors) staff assesses the cyclically-adjusted current account balance and cyclically-adjusted current account norm to be -7.8 percent of GDP and -3.4 percent of GDP, respectively in 2015. The resulting current account gap is -4.4 percent of GDP. Macroeconomic policies contributed -0.2 percent of GDP to the gap. Fiscal policy gaps in other countries contributed -0.9 percent of GDP while reserve adequacy and private credit gaps jointly accounted for 0.8 percent of GDP. The remaining gaps would need to be closed by structural policies to improve competitiveness over the medium term.
- The EBA-Lite methodologies suggest a wide range of Real Effective Exchange Rate (REER) gap estimates. The Current Account regression estimates a REER adjustment of 17.3 percent would be needed to close the current account gap of -4.4 percent of GDP using a standard elasticity. The Index REER regression uses the REER from the INS database and includes policy and fundamental variables that would affect the REER directly or indirectly, through changes to the current account balance indicates. This approach indicates that the REER gap is -1.6 percent (undervalued) and that it is broadly in line with its estimated current account norm.

Current Account and Real Exchange Rate Assessments (In percent of GDP)			
	CA Model	ES Approach	I-REER Model
CA Actual	-9.4	-9.4	
Cyclically Adjusted CA	-7.8	-9.7	
Cyclically Adjusted CA Norm	-3.4	-6.3	
CA Gap	-4.4	-3.4	
Of which: Policy Gap			
Fiscal Policy	-0.9		
Private Credit	0.3		
Change in Reserves	0.5		
Capital Controls	-0.1		
Residual	-4.2		
Real Exchange Rate Gap ¹	17.3	13.2	-1.6

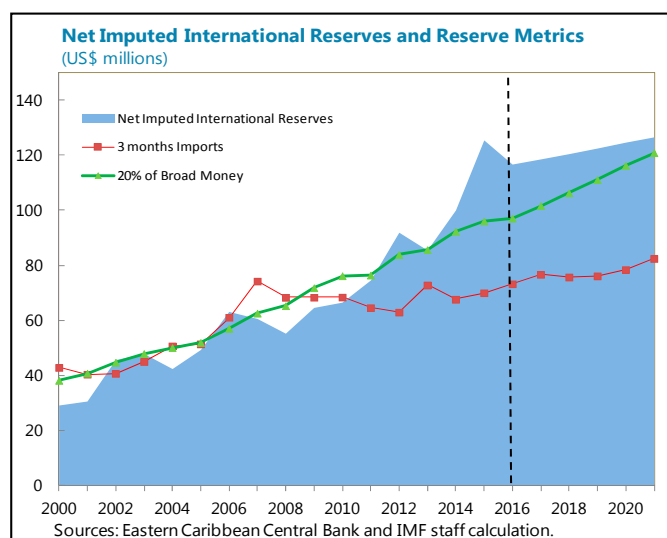
Source: IMF staff estimates.
1/ Data reflect percentage over or under valuation. Positive numbers indicate that REER is overvalued and negative numbers indicate that the REER is undervalued.

- The external sustainability approach sets a medium-term current account norm at the level that would bring net foreign assets-to-GDP to zero in ten years, by end-2025. On this basis, the estimated norm is a deficit of 6.3 percent of GDP, compared to the underlying current account

forecast of a deficit of 8.5 percent of GDP over the 10-year period. A REER adjustment of 13.2 percent would be needed to close the current account gap.

C. Reserve Adequacy

Dominica's reserve position improved in 2015. Dominica is a member of the Eastern Caribbean Currency Union. Under the quasi-currency board arrangement foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. The imputed reserves method is used as a proxy for net foreign assets held with the ECCB.² At US\$125 million, Dominica's imputed reserves at end-2015 covered 5.6 months of imports (forward cover) and 26 percent of broad money exceeding the typical benchmarks of reserve adequacy such as 3 months of imports and 20 percent of broad money, respectively.^{3,4} In the active scenario, reserve levels are expected to marginally decline to 4.9 months of imports through 2021 but are adequate for cushioning external shocks and preventing disorderly market conditions.⁵



D. Conclusion

Dominica's external position in 2015 is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policy settings. Notwithstanding the adequate foreign exchange reserves, staff estimates that the external position would weaken over the medium and growth would remain sub-optimal. Fiscal consolidation aiming for a small primary surplus over the medium term while providing space for infrastructure spending to ease supply bottlenecks would improve the current account position and help stabilize reserves. Supportive structural reforms - improving labor productivity, reducing the electricity costs, increasing access to finance as well as reforms to promote the business environment - are also needed to boost productivity, improve competitiveness and prospects for export diversification.

² The computation of the imputed reserves of the individual ECCB member countries are the differences between the assets held by the member countries with the ECCB and the liabilities of the member countries to the ECCB.

³ IMF 2015, *Assessing Reserve Adequacy – Specific Proposals*. Reserve adequacy assessments for currency unions should consider the reserve needs of the consolidated union level. This should be supplemented by a discussion of factors that have a bearing on the size of reserves, such as the union's financial architecture and supportive institutions, and the correlation of shocks faced by union members.

⁴ Information on short term debt and other liabilities is unavailable and consequently assessments against other reserve adequacy metrics such as the IMF's composite Assessment Reserve Adequacy (ARA) metric cannot be computed.

⁵ This assessment does not consider the need for additional buffers to deal with significant natural disasters.



DOMINICA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

June 22, 2016

Prepared by

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS	2
RELATIONS WITH THE WORLD BANK	7
RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)	10
STATISTICAL ISSUES	12

FUND RELATIONS

(As of March 31, 2016)

Membership Status Joined 12/12/78; Article VIII

General Resources Account	SDR Million	Percent of Quota
Quota	11.5	100.00
Fund holdings of currency	11.49	99.93
Reserve Tranche Position	0.01	0.08

SDR Department	SDR Million	Percent of Allocation
Net cumulative allocation	7.84	100.00
Holdings	0.62	7.91

Outstanding Purchases and Loans:	SDR Million	Percent of Quota
RCF Loans	8.20	71.30
ESF RAC Loan	2.30	19.97
ECF Arrangements	0.35	3.03

^{1/} Emergency Assistance may include ENDA, EPCA, and RFI.

Latest Financial Arrangements:

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

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

	2016	2017	Forthcoming		
			2018	2019	2020
Principal	0.68	0.86	1.07	1.07	0.41
Charges/Interest	0.00	0.01	0.01	0.01	0.00
Total	0.68	0.87	1.07	1.07	0.41

^{1/} Based on existing use of resources and present holdings of SDRs.

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

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

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on June 6, 2015; the relevant document is IMF Country Report no. 15/31. 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):^{1/}

^{1/}The most recent assessment of Dominica's AML/CFT regime has been conducted by the Caribbean Financial Action Task Force (CFATF) in 2008.

PFM Missions

- June 2013 (CARTAC): Deliver workshop on cash flow forecasting and planning
- November 2013 (CARTAC): Restructure cash flow unit and continue to build capacity and expertise in bank reconciliation
- January 2014 (CARTAC): Investigate and resolve data integrity issues with Smart-Stream
- January 2014 (CARTAC): Wrap up bank reconciliation and ascertain further needs
- March 2014 (CARTAC): Work with M. Smith to review Dominica
- March 2014 (CARTAC): Follow-up on earlier TA on bank account reconciliation
- March 2014 (CARTAC): Introduce new Adviser
- March 2014 (CARTAC): Assist authorities to build capacity for new Procurement staff
- April 2014 (CARTAC): Assist Dominica procurement in continuing to navigate and implement action plan

- May 2014 (CARTAC): Finalize implementation of updated automated bank reconciliation software
- July-August 2014 (CARTAC): Assist in closure of 2013/14 financial year and carry forward un-reconciled bank reconciliation discrepancies
- September 2014 (CARTAC): Assist with planning of 2015/16 budget and develop draft budget call circulars
- October 2014 (CARTAC): Examine and provide recommendations to strengthen oversight and monitoring of SOE's
- February 2015 (CARTAC): Undertake a gap analysis of the Internal Audit systems
- March 2015 (CARTAC): Deliver presentations and hold discussions on redraft of PFM Legislation
- March 2015 (CARTAC): Provide TA to Budget Department with the revised budget process and develop Cabinet Decision Table
- March 2015 (CARTAC): Develop Concept Note for undertaking a PEFAQ in October 2015

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 Adviser 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
- 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)
- April 2014: Project Management Support and Building Audit Capacity – IRD reorganization project
- September 2014: To conduct Tax review
- January 2015: DMS and Large and Medium Taxpayers compliance measurement

Financial Sector Supervision Missions

- December 2013 (CARTAC): Insurance Supervision and Credit Union Supervision
- January 2014: Follow-up mission—onsite review of offshore banks and continued training of Supervisors
- April 2014 (CARTAC): Consolidated Supervision - Training
- November 2014 (CARTAC): Risk Based Supervision and Consolidated Supervision

Economic and Financial Statistics

- May 2013 (CARTAC): National Accounts – Quarterly
- April 2014: Joint CARTAC/STA IIP Mission
- February 2015 (CARTAC): Training for Survey Respondents (ECCU Countries)

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

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. A detailed assessment of the AML/CFT regimes of Dominica was conducted in September 2008 by the Caribbean Financial Action Task Force (CFATF). 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.

RELATIONS WITH THE WORLD BANK GROUP

(As at May 2016)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Board of the Executive Directors of the World Bank Group has endorsed the new OECS Regional Partnership Strategy (RPS) which will cover the period FY15-19. The high-level objective of the new RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the program is planned to be organized around three main areas of engagement. Under the first one, the WBG is planning to support "competitiveness". Growth and job creation in the private sector will be supported both horizontally – by improving the business environment– and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters.

Constrained in general by the small size of investments in the OECS, the IFC and MIGA will contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC will focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA faces limited opportunities for engagement because of the small market size of the OECS countries.

The indicative IBRD lending program for the six OECS countries is expected to be around US\$120 million, or up to a maximum of US\$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS is equal to SDR61.3 million, an increase of around 22 percent over the IDA16 OECS allocation (SDR50.3 million). With regard specifically to Dominica, the IDA-17 indicative country allocation is equal to SDR14.1 million.

A. Projects

Dominica participates in only one active Bank-financed lending operation: the Regional Disaster Vulnerability Reduction Project, which was approved by the WB Board of Executive Directors on May 1, 2014 and declared effective on September 8, 2014. The total amount of this project is equal to USD 38 million (of which 17 million IDA credit; and USD 12 million Grant and USD 9 million concessional loan from the Strategic Climate Fund). The development objective of the project is to reduce vulnerability to natural hazards and climate change impacts in Dominica through: (i) investment in resilient infrastructure, and (ii) improved hazard data collection and monitoring systems. The project is complex, relatively large, and requires a lot of attention by the

WB team to ensure timely implementation, due to the low capacity of the country and the weak familiarity with WB processes and procedures.

The Bank and IFC are also engaging with Dominica to provide advisory services for the exploitation of its geothermal resources. The objective is the identification of a coordinated set of activities where the World Bank Group could bring its global expertise in developing geothermal renewable resources that would complement the assistance being provided by other development partners, taking into account the Government's priorities.

B. Non-Lending Activities

The Bank has completed a series of analytical products relating to public expenditure, fiscal and debt sustainability, growth and competitiveness, the financial sector, public sector management and social protection. The ongoing dissemination of these reports represents a key instrument for policy dialogue with the OECS governments, including Dominica.

Comprehensive Debt Framework - At the request of the Heads of Government of CARICOM, the Bank put together a Comprehensive Debt Framework that proposes a strategy for addressing the high debt challenge faced in the OECS in a sustainable way. This Framework proposes a holistic approach around four interdependent pillars (Supporting private sector led growth, including private sector development and financial sector stability; Enhancing fiscal sustainability; Improving climate change resilience and Disaster Risk Management; and Debt resolution). The Framework has been rolled out in all the OECS, including Dominica. The Government expressed interest in principle, in continue to work with the World Bank and other development partners to develop policy measures that could help stimulate growth and reduce debt in the country.

The Caribbean Growth Forum (CGF)

The Caribbean Growth Forum (CGF) is a multi-stakeholder platform designed to identify, prioritize and implement a set of activities to improve the growth enabling environment in the Caribbean, while promoting participatory public policy making. It has so far engaged more than 2,500 representatives from business associations, civil society organizations, Government, private sector, media, indigenous groups, and international development agencies on themes such as Logistics and Connectivity; Investment Climate; and, Skills and Productivity.

Low growth, high unemployment, especially for youth and women, high debt ratios (eight of the top twelve most indebted countries in the world are in Caribbean), high incidence of crime, and, growing vulnerability to external shocks characterize the region. In the wake of the global financial crisis, the high debt/low growth challenge has become even more acute.

A number of Caribbean countries reached out to international donors to find an innovative approach to the growth challenge in the region. A suggestion was made to launch a genuinely participatory growth initiative. Following consultations and some preparatory work, the program started in mid-2012 with a regional launch event in Jamaica. The process is supported and facilitated by the World Bank, the Inter-American Development Bank, the Caribbean Development Bank, Compete Caribbean and the European Union.

Key Outcomes

Positive outcomes are tangible: twelve countries formally joined the process by establishing their national CGF chapter and have completed the first phase of national dialogue. This effort has led to the prioritization of concrete and actionable activities and draft action plans are now available, with details on each activity' implementation plan (e.g., accountabilities, milestones, timeline, funding).

The results of each country's dialogue were presented at two regional forum in The Bahamas in June 2013 and in St. Kitts and Nevis in 2014. This allowed national stakeholders from government, private sector and civil society to compare notes on each other's' priorities and exchange ideas on solutions to each identified challenges with technical specialists and peers. The next regional forum is expected to take part in St. Lucia in mid-June 2015.

Each government involved in the CGF also committed to follow-up on implementation of the reform agenda, to report back periodically on progress (every 4-5 months) and to enable independent monitoring of the reforms by private sector and civil society representatives.

Financial Relations (In millions of U.S. Dollars)			
Operation	Original Principal	Available¹	Disbursed¹
Dominica Disaster Vulnerability Reduction Project	38	1.58	0.73
Total	38	36.7	0.76
1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.			

Disbursements and Debt Service (Fiscal Year) (In millions of U.S. Dollars)													
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total disbursements	2.8	3.9	1.6	0.0	1.3	1.3	0.6	1.6	0.7	0.6	0.9	0.6	0.7
Repayments	0.3	0.6	0.7	0.8	1.0	1.3	1.2	0.9	0.9	0.9	0.7	0.7	0.5
Net disbursements	2.5	3.4	0.9	-0.8	0.2	0.2	-0.6	0.6	-0.2	-0.3	0.2	-0.1	0.1
Interest and fees	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of May 4, 2016)

The CDB has played a significant role in Dominica's development process. Bank support has been provided through the provision of investment loans and technical assistance grants, as well an economic stabilization loan during a crisis in 2003–2004. The Bank has also extensively utilized its Basic Needs Trust Fund for poverty reduction interventions in at-risk communities. These resources have gone towards boosting the productive capacity of the economy, strengthening human resource development and, in particular, improving economic management systems, expanding agricultural output, improving critical economic infrastructure, upgrading ecotourism sites, promoting shelter development and supporting development in the territory reserved for Dominica's indigenous people, the Kalinago. Disaster rehabilitation works have also been a frequent element of interventions. This is continuing with CDB support following Tropical Storm Erika.

Total loans and grants approved over the period 1970–2015 amounted to USD272 million, making Dominica the eighth largest beneficiary among the Bank's 19 borrowing members. At April 2016, CDB's loan exposure to Dominica was approximately USD90.5 million, which represented 5.6 percent of CDB's total disbursed debt outstanding.

Resource flows from CDB to Dominica have fluctuated in the past ten years. Net resource flows were negative from 2006 through 2009, reflecting some caution on the part of the Dominica government to after a debt restructuring in 2004, particularly since efforts to maintain prudent fiscal policies and enhance debt sustainability had been facilitated by strong inflows of grant resources. Net resource flows were positive between 2010 and 2012, with disbursements reflecting the implementation of key interventions programmed in CDB's Country Strategy Paper (CSP) for Dominica for the period 2010 to 2012¹. These included: a line of credit for productive sector development and an education enhancement project. Since 2013 resource flows have been negative, as projects neared completion. Other factors contributing to the negative outflow are also likely to have been the authorities' concern about ensuring fiscal sustainability given the protracted effects of the financial crisis. With new post-Tropical Storm Erika loans agreed in 2015, the resource flow is likely to turn positive again from 2016.

¹ The Bank intends to prepare a new CSP for Dominica in 2017.

Dominica: Loan Disbursement, Service and Resource Flow											
<i>(In millions of U.S. dollars)</i>											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net disbursement	3.8	-0.5	-1.1	-1.5	0.3	3.0	6.3	4.6	1.3	-1.0	-3.0
Disbursement	6.2	2.2	2.4	3.1	4.2	7.1	10.6	8.3	5.0	3.1	3.3
Amortization	2.4	2.8	3.4	4.7	3.9	4.1	4.3	3.7	3.6	4.1	6.2
Interest and charges	2.4	2.5	2.5	2.4	2.3	2.2	2.3	2.4	2.5	2.6	2.5
Net resource flow	1.4	-3.0	-3.6	-4.0	-1.9	0.8	4.1	2.2	-1.2	-3.6	-5.4

STATISTICAL ISSUES

(As of May 15, 2016)

Data provision has shortcomings due to capacity constraints in the statistical agency, including weaknesses in coverage, accuracy, frequency, and timeliness of data. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation. 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 collection at the regional level. Dominica participates in the General Data Dissemination System. However, the metadata were last updated in January 2006 for the national accounts and external sector statistics and December 2002 for the government finance statistics.

Real Sector

Nominal GDP data are compiled using the production and expenditure approaches on an annual basis. Real GDP data are compiled only using the production approach. Since 2011, real GDP estimates are compiled with 2006 as the new base year. GDP estimates are available about four months after the end of the year and are usually finalized with a two-year lag. CPI data are compiled on a monthly basis. 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 in the near future. Data on employment are sparse and there are no official data on producer prices. A census was conducted in 2011.

Government Finance

Statistical capacity problems affect the timely production of quality government finance statistics. Monthly data can be obtained, but they show some important shortcomings. In particular, fiscal data should be reconciled between the Inland Revenue Department, Customs, and the Treasury on a monthly basis. 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 Statistics

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

External Sector and the Balance of Payments

Balance of payments data are compiled by the ECCB on an annual basis and published in the IFS through 2012. The Balance of Payments data are not produced according to the sixth edition of the *Balance of Payments Manual*. External sector statistics would benefit efforts to more accurately measure merchandise exports and resume publishing these series on a monthly basis. Improved statistics on remittances would also be welcome. Efforts could also be directed towards the compilation of the balance of payments on a quarterly basis and the compilation of the international investment position on an annual basis. To this end, an external statistics expert has been appointed by CARTAC to provide assistance to Dominica and the other ECCU members. The authorities have received technical assistance from the Fund and are laying the groundwork for preparing statistics on the international Investment Position.

External Debt

The ministry of finance maintains a database on public and publicly-guaranteed external loans that provides detailed and reasonably current information on disbursements, debt service, and debt stocks, while the Treasury maintains the data on bonds placed abroad. Data from the two databases are not consolidated, requiring further adjustments to measure the total debt stock. In addition, information on payments by creditor (actual and scheduled) should be available to the compilation agencies at least on a monthly basis, in order to produce timely debt stock data. Data on private external debt stocks are not available, other than from the monetary survey, in the case of the commercial banks.

Dominica: Table of Common Indicators Required for Surveillance
(As of May 15, 2016)

	Date of Latest Observation	Date Received⁸	Frequency of Data⁸	Frequency of Reporting⁸	Frequency of Publication⁸
Exchange Rates ¹	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve liabilities of the Monetary Authorities ^{1,2}	12/30/2015	2/20/2015	M	M	M
Reserve/Base Money	2/28/2016	3/20/2016	M	M	M
Broad Money	2/28/2016	3/20/2016	M	M	M
Central Bank Balance Sheet	2/28/2016	3/20/2016	M	M	M
Consolidated Balance Sheet of the Banking System	2/28/2016	3/20/2016	M	M	M
Interest Rates ³	2/28/2016	3/20/2016	M	M	M
Consumer Price Index	2/28/2016	3/20/2016	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing ⁴ – Central Government ⁵	03/31/2016	4/20/2016	M	M	A
Stocks of Central Government and Central Government- Guaranteed Debt ⁶	12/31/2015	3/31/2016	M	M	A
External Current Account Balance	2015	2/20/2016	A	A	A
Exports and Imports of Goods and Services	2015	2/20/2016	M	A	A
GDP/GNP	2015	2/20/2016	A	A	A
Gross External Debt	2015	2/20/2016	M	M	A
International Investment Position ⁷	NA	NA	NA	NA	NA

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

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

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

⁴ Foreign, domestic bank, 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

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

July 6, 2016

Approved By
Charles Enoch

Western Hemisphere Department

The FY2016/17 budget draft projects a deficit of 4.3 percent of GDP (staff projection is 2.4 percent of GDP). The deficit is underpinned by an unprecedented increase in public investment for the reconstruction effort after tropical storm Erika, financed with a record revenue projection of the Economic Citizenship Program (ECP) and an increase of grants. Execution capacity and financing constraints, however, make it unlikely that the FY2016/17 budget is executed as projected.

DRAFT BUDGET FY2016

The budget projection of revenues is optimistic, underpinned by a significant increase in ECP revenues. Tax revenues are broadly in line with Staff estimates (Table 1). However, non-tax revenues are significantly higher mainly as a result of the collection of ECP revenues at 11.9 percent of GDP – which would be an historical record and an increase of 7 percent of GDP relative to FY2015/16. Non-tax revenues are also improved by the increase of grants in support of the reconstruction effort after tropical storm Erika. This revenue projection is highly optimistic –a significant increase in applications has taken place but it has slowed in recent months, plus the constrains in terms of processing capacity.¹

Expenditure projections also appear optimistic given capacity constraints in the execution of public investment. The budget proposal includes a major increase of capital spending in FY2016/17, to 22 percent of GDP –which would be a record high for Dominica. However, achieving this high level of execution would be very challenging, for several reasons. First, historically, execution rates of public investment have been of around 70 percent of budget targets. Second, capacity constraints in the administration and execution of the public investment projects is limited –the highest investment rate in recent years has been 16 percent of GDP, and the average is closer to 10 percent of GDP.² Also, there is no sufficient productive capacity in Dominica (i.e. specialized labor, machinery raw materials). The later also implies that the increase in investment would result in inflation pressures and to private investment crowding out. Third, financing constraints could reduce expenditure execution, especially if ECP revenues, grants, and official loans do not become available in the amounts projected –Dominica has no access to international financial markets, and the space for domestic borrowing is limited. Based on these reasons, staff expects lower capital expenditures than projected in the budget.³

If the budget was executed as projected, public debt would increase to near 90 percent of GDP, about 2 percent more than in the staff projection. This, however, is conditional on the availability of debt financing.

¹ The processing of the applications requires significant background verification and due diligence activities, which are critical to protect the integrity of the ECP and the sustainability of this increasingly important revenue source.

² The authorities have indicated that capacity constraints could be moderated with the hiring of external contractors.

³ The increase in capital expenditure would also result in higher expenditure in goods and services and wages compared to staff estimates (see Table 1), although the increase in these items does not appear commensurate to the amount of the increase of capital expenditures in the budget.

Table 1. Dominica: Fiscal Developments, FY2015-16

	FY2016			FY2016 Draft		
	FY2015	(Est.)	Budget	FY2015	(Est.)	Budget
	(EC\$ millions)			(% of GDP)		
Revenue and Grants	488.9	498.7	634.4	36.1	35.8	45.5
Revenue	431.7	413.4	531.2	31.8	29.7	38.1
Tax Revenue	337.9	340.9	341.7	24.9	24.5	24.5
Taxes on Income, Profit & Capital Gains	75.3	71.8	67.9	5.6	5.1	4.9
Taxes on Property (land sale and transfers)	6.5	6.4	7.6	0.5	0.5	0.5
Taxes on Domestic Goods & Services	187.5	189.6	191.3	13.8	13.6	13.7
Taxes on International Trade & Transactio	68.6	73.1	74.9	5.1	5.2	5.4
Non Tax Revenue	93.8	72.5	189.5	6.9	5.2	13.6
<i>of which</i> : ECP	67.0	50.0	166.0	4.9	3.6	11.9
Grants	57.3	85.2	103.2	4.2	6.1	7.4
Current	5.0	0.0	5.0	0.4	0.0	0.4
Capital	52.3	85.2	98.2	3.9	6.1	7.0
Total Expenditure	476.6	532.1	694.8	35.1	38.2	49.8
Current	365.5	372.9	385.0	27.0	26.8	27.6
Wages and Salaries	152.4	158.2	160.4	11.2	11.3	11.5
Goods & Services	100.9	103.7	111.4	7.4	7.4	8.0
Interest Payments	32.0	32.3	25.1	2.4	2.3	1.8
Transfers & Subsidies	80.3	78.8	88.1	5.9	5.7	6.3
Capital Expenditure	111.0	159.2	309.8	8.2	11.4	22.2
Domestic sources (Incl. ECP)	58.8	74.0	211.6	4.3	5.3	15.2
Grant funded	52.3	85.2	98.2	3.9	6.1	7.0
Overall balance	12.4	-33.5	-60.4	0.9	-2.4	-4.3
Primary balance	44.3	-1.2	-35.3	3.2	-0.1	-2.5
Memo:						
Nominal GDP (EC\$ millions)	1,356	1,394	1,394			
Total Public Debt	1,159	1,222	1,250	85.5	87.7	89.7

**Statement by Mr. James Haley, Executive Director for Dominica
and Messrs. Michael McGrath, Alternate Executive Director, and Niall Feerick, Advisor to
the Executive Director
July 13, 2016**

Introduction

On behalf of our authorities in Dominica, we welcome the staff report and the ongoing constructive engagement. Our authorities are in broad agreement with staff on the content and magnitude of challenges facing the country – the need to reduce the debt burden, massive infrastructure reconstruction requirements, and a need to diversify the economy and ensuring that growth is inclusive. While there is a shared recognition of the challenges, there are, as would be expected, some nuanced differences of views on certain issues.

Background

At the outset, it is worth reiterating the devastating impact of Storm Erika in 2015, which overarches all discussions. This storm of historic proportions resulted in the loss of human life and displaced a significant portion of the population of Dominica. The economic cost of the storm is estimated to have totaled 96 percent of GDP damage to the country, with two thirds of that cost to be borne by the government. Economic growth contracted by nearly 4 percent last year and the recovery, which is underway, is now projected to be more gradual than initially expected.

Our authorities would like to again acknowledge the contribution made by the IMF in the provision of the RCF (about 2 percent of GDP) which supported some immediate financing needs. Given the scale of the necessary reconstruction and the domestic fiscal constraints, grants were expected to fund a substantial part of the reconstruction. It is fair to say that grants have not been as forthcoming as expected and we would ask Directors to relay a request for favorable consideration to their authorities. Moreover, given the scale of the challenges, there is also a case to be made for debt forgiveness / debt restructuring to be part of the toolkit to address Dominica's longer term sustainability. Our authorities welcome the role played by the Fund in advocating debt restructuring for Dominica at the Paris Club.

The staff report notes that the government's policy response since Erika has been broadly appropriate and has helped to restore normality to daily lives of its citizens. This response included the provision of emergency accommodation and social protection schemes to the displaced, as well as the rebuilding of necessary infrastructure. Specifically, primary roads are once again accessible, the main airport is now fully operational – key to reviving the important tourist industry - while electricity generation, water and telecommunication services have been restored. These are important and necessary first steps in the rebuilding of the country's

infrastructure. Importantly, these measures have been coupled with a targeted fiscal consolidation to underpin the sustainability of the public finances.

Fiscal Situation

Under the RCF agreed last year, Dominica agreed to pursue a fiscal adjustment package of 0.5 percent of GDP in 2015/2016. What actually has been implemented is a suite of measures which are estimated to deliver a package of 0.7 percent of GDP, primarily composed of increases in excise taxes, user fees and enhanced collection of tax arrears. With regard to the forthcoming Budget, likely to be published in late July, the authorities are again targeting an over performance relative to their RCF commitments. In conjunction with this appropriate focus on consolidation, the Budget will not neglect the importance of the denominator for debt, with targeted initiatives in high value added sectors such as tourism and agriculture. The forthcoming Budget, coupled with technical assistance requests for implementation of structural fiscal reforms, underscores the authorities' commitment to ambitious, but necessary fiscal repair to ensure the sustainability of the public finances.

Notwithstanding this commitment, it is clear that there are risks and challenges to fiscal sustainability. The staff report correctly highlights the importance of donor grants on debt sustainability. Indeed, the text box on page 9 exemplifies this better than words. If grants are 30 percent lower than expected, debt will increase and remain above 90 percent in the period to 2030. This compares to the active policies scenario, where debt is expected to fall towards the 60 percent of GDP threshold for ECCU members over the same period.

We note that as a result of a reclassification of petrocaribe debt, that Dominica's debt-to-GDP ratio was revised up by some 9 percentage points to 86 percent of GDP. This is higher than originally envisaged under the RCF. While the overarching goal of returning debt to the 60 percent of debt-to-GDP threshold remains an anchor for fiscal policy over the longer term, our authorities agree with staff, that it would be unwise to alter, at this point, the medium-term consolidation plan in response to this statistical change given the pressing reconstruction, social and economic needs.

There is an acknowledgement amongst our authorities that there are limited, if any, fiscal buffers to cope with another natural disaster. Some of the ideas discussed during the Mission have already been put in train. For example, given the prevalence and predictability of natural disasters, it is envisaged that a savings fund be established to provide for future reconstruction costs. Staff suggest that this savings fund could be resourced from ECP revenues, which given their unpredictable nature, may be a sensible strategy. On this particular point, the authorities wish to point out that they have increased staffing in the CBI Office and enhanced the robustness of the processes. While the exact modalities for the establishment of such a fund remain unclear, the selected issues paper is instructive in terms of funding structure. It should also be noted that

the Dominican authorities have requested Fund Technical Assistance to ensure the envisaged savings fund benefits from international best practice.

Economic Growth

In terms of the economic outlook, short-term prospects are driven by reconstruction efforts with a return to potential growth of around 1¾ percent over the medium term. Given the size of the economy, it is quite clear that discrete developments in individual sectors can have material impact on the potential growth rate of the economy. Indeed, staff acknowledge the significant upside potential from tourism. In this regard, it is encouraging to note that developers representing Kempinski, Hilton and Marriott have been discussing potential ventures in Dominica.

It is important to note that our authorities are continually scanning the horizon to deliver a more balanced and equitable growth model. The 2014-2018 Growth and Social Protection Strategy identified key areas for growth and policy levers which can be used to deliver a successful outcome. Core to this strategy is the primacy of the private sector in driving growth. A large number of these strategies dovetail with the recommendations in the staff report for improving the business environment, such as reducing the administrative burden on registering property, and improving the insolvency regime. Something we would draw attention to is the recent upgrade of the Online Business Registry as part of the Business Entry Reform Project, in partnership with the World Bank. Indeed, Dominica is the first country in the Caribbean to have online business registry which will make applying to set up a business more efficient and cheaper. This is but one example of the continuous structural improvements being made in incentivizing private sector investment. More generally, our authorities are in broad agreement with the policy proposals from staff regarding enhancing potential growth and will study the advice of Fund staff with due consideration.

Data

The provision of quality policy advice is dependent on reliable data on which to base analysis. Despite best efforts, this is not presently the case in Dominica and our authorities recognize that there are deficiencies. Given limited capacity, the authorities have requested Fund TA to enhance statistical data collection and analysis.

Financial Sector

With regard to the financial sector, it is fair to say that the performance and outlook is mixed. On the plus side, the authorities, including the ECCB, have undertaken a series of regulatory reforms which will enhance the stability and resilience of the sector. The recent ECAMC Act provides extraordinary powers to resolve non-performing loans. However, as in any other jurisdiction, there is a delicate balancing act between loan workouts, write downs and potential

recapitalization of banks. Separately, staff point to the deposit floor as a barrier to bank profitability. While noting staff's views, this issue goes beyond our authorities' direct purview given that the monetary policy stance is decided by the Monetary Council of the ECCU and should be framed in the context of the ECCU Article IV.

On the remit of the Agricultural, Industrial and Development Bank (AIDB), our authorities have a slightly different take than staff and consider that the AIDB is fulfilling a vital market function by providing low-cost credit to targeted sectors which have limited scope to access credit from the commercial banks or the Credit Unions. We welcome the interesting selected issues paper on the Credit Union sector and note the findings. It is clear that the Credit Union sector is growing in importance with regard to financial intermediation and is, given its interconnectedness with the banking system, macrocritical. Our authorities, are continuing the efforts to enhance the capacity of the FSU to regulate and supervise the sector.

As with the rest of the region, the potential loss of important correspondent banking relationships (CBRs) is a significant concern to our authorities. Given the capacity constraints faced by the administration, appropriate technical assistance has been requested to ensure that AML/CFT legislation is amongst best in class. As this Chair has noted before, this is a necessary but not sufficient condition to ensure the maintenance of CBRs. We would encourage the Fund to play a leading role in conducting research to understand the underlying causes and designing solutions to resolve the issues associated with the loss of CBRs

Conclusion

While the task ahead is substantial and challenging, rehabilitation is not optional. The resolute actions taken by the government outlined earlier in this statement show the seriousness with which they regard fiscal sustainability. They have requested and received technical assistance while also seeking to overachieve commitments under the RCF to convince partner countries and institutions of their intent to adopt appropriate and prudent policies. Our Dominican authorities remain committed to pursuing policies that will put debt on the right path, strengthen financial stability and encourage economic growth in an equitable manner. Finally, the authorities also wish to place on record their appreciation for the extensive TA that they have received and to express thanks to the mission chief in particular for his support, guidance and collaboration.