INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/246

DOMINICA

2023 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT FOR DOMINICA

July 2023

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 2023 Article IV consultation with Dominica, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on March 31, 2023, with the officials of Dominica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 18, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.

The documents listed below will be separately released.

Selected Issues

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

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/257

IMF Executive Board Concludes 2023 Article IV Consultation with Dominica

FOR IMMEDIATE RELEASE

Washington, DC – July 5, 2023: On June 7, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Dominica and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

The Dominican economy is recovering strongly following the pandemic. Real GDP growth is estimated to have reached 6.9 percent in 2021 and 5.7 percent in 2022, driven by construction of climate-resilient infrastructure, a partial rebound in tourism, and a substantial rise in agricultural output. High global commodity prices and shipping costs pushed inflation up to an estimated 7.5 percent in 2022, despite mitigating fuel price policies. The current account deficit remained elevated, at 26 percent of GDP, due to unfavorable terms of trade, large imports of investment goods, and incomplete recovery in tourism receipts.

Fiscal space remains tight. High Citizenship-by-Investment (CBI) revenue, nearing a record 30 percent of GDP in recent years, has supported public investment and crisis response measures. That said, the primary fiscal deficit expanded to 6.2 percent in FY21–22, with public debt reaching at 106 percent of GDP.

The financial sector remains stable. Tighter global financing conditions have not impacted bank deposit and lending rates given abundant liquidity and limited exposure of foreign capital markets., Banks have strengthened provisions in line with ECCB requirements and remain well capitalized. Recapitalization of credit unions is progressing. Meanwhile, credit to the private sector has underperformed relative to GDP growth, while bank exposure to the public sector has grown since the pandemic.

The economic outlook is positive, predicated on a continued expansion in tourism and implementation of the country's economic modernization and resilience building agenda The transition to local geothermal energy production and construction of a new airport, planned for the coming years, will sustain economic activity, reduce dependency on fossil fuels, bolster resilience to external shocks, and improve international connectivity. Prudent fiscal management, however, will be of essence to address external and domestic imbalances. The current account deficit is expected to narrow as tourism

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff hold separate annual discussions with the regional institutions responsible for common policies for the countries in four currency unions – the Euro-Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collect economic and financial information, and discuss with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the IMF Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report subsequently are considered an integral part of the Article IV consultation with each member."

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

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exports expand, commodity prices fall, and imports of fuel and investment goods soften, in line with fiscal consolidation. Meanwhile, public debt is set to decline gradually in coming years, supported by efforts to reduce current spending and strengthen tax collection. Building policy buffers and critical infrastructure will help address downside risks stemming from global economic uncertainty, climate change, and volatility of CBI revenue.

Executive Board Assessment

The Dominican economy is expanding strongly but faces headwinds. Severely affected by the pandemic, real GDP growth is estimated to have rebounded during 2021–22, driven by construction of climate-resilient infrastructure, a pickup in tourism following the full lifting of mobility restrictions, and a substantial rise in agricultural output. However, the scarring effects from the pandemic are expected to weigh on growth going forward, while tight fiscal space and volatile CBI revenue may constrain much needed public investment, including to deal with frequent and costly climate shocks.

To safeguard room for climate resilience investments and ensure compliance with the regional debt target, fiscal consolidation efforts should redouble. A consolidation path in line with the national fiscal rule—raising the primary balance to 2 percent of GDP by 2026—is necessary to ensure convergence to the 60 percent public debt target by 2035. The plan should be underpinned by a sizeable improvement of non-CBI fiscal balances, while protecting investment and other priority programs. Stronger fiscal consolidation would facilitate external rebalancing and reduce the exposure of the financial system to the public sector, mitigating sovereign-bank nexus risks.

More ambitious reforms will be necessary to underpin the growth friendly fiscal consolidation. Mobilizing tax revenue by streamlining tax incentives, reviewing PIT allowances, and strengthening tax administration and compliance risk management is a priority. As international fuel prices moderate, the reduction of VAT on electricity should be reversed and motor vehicle licenses revised up to compensate losses from the foregone highway levy. On the expenditure side, it remains critical to reduce the wage bill (through civil service reform), streamline pension spending (through reforms aimed at increasing in the minimum retirement age) and strengthen the financial position of the publicly-owned water and sewage public company (through higher tariffs that better reflect cost recovery). Efforts should continue to cut inefficient spending and better prioritize the medium-term public investment plan towards projects with greatest productivity, such as the geothermal plant and new airport. Given high exposure to climate change, allocating a higher share of CBI revenue, including all unexpected windfalls, to disaster insurance and debt amortization would bolster financial resilience and strengthen debt sustainability.

Meanwhile, social protection systems need strengthening. While conventional income-based targeting is hampered by widespread informality and capacity constraints, consideration should be given to pursuing avenues for proxy-targeting and tailoring social assistance to vulnerable households in a more systematized way. This would enable the streamlining of untargeted programs and deploying exceptional support swiftly and cost-effectively in the face of large shocks. As a first step, completing the ongoing population census, which would form the basis for a comprehensive social registry, is paramount.

Addressing longstanding constraints to financial intermediation is needed to prudently bolster credit to the private sector. The upcoming ECCU regional credit bureau and the already operating Eastern Caribbean partial credit guarantee scheme can facilitate credit access by streamlining lending processes and addressing collateral constraints for small businesses. Ongoing initiatives to support small business development and financial management will further facilitate MSMEs' access to credit. Efforts to modernize the national insolvency law remain essential to facilitate resolution of NPLs, which remain elevated, thereby encouraging prudent risk-taking.

Modernizing supervisory frameworks is crucial to preserve financial stability. Efforts are needed to bolster the resources and capacity of the national supervisor considering its large mandate, which expanded further with the adoption of the Virtual Assets Business Act in mid-2022. Modernizing supervisory regulations and granting statutory independence from the Ministry of Finance would further improve its effectiveness and support risk-based supervision. To foster financial resilience to climate change, supervisory frameworks should account for related risks. Meanwhile, the recapitalization of systemic credit unions should be given priority.

Continued efforts to modernize the economy and strengthen economic resilience are necessary, including through policies that foster diversification and inclusiveness. The transition to geothermal energy will be critical to reduce carbon emissions, lessen external vulnerabilities, and increase economic competitiveness over medium term through lower energy costs. Timely completion of the new international airport will significantly boost connectivity with large markets and enhance regional connectivity. Initiatives to support the agricultural sector should be furthered to broaden the export base and explore synergies with the growing tourism sector. Efforts to expand digitalization and professional training will support inclusive development and further boost productivity.

Advancing institutional reforms can help mitigate risks and support economic policymaking. Continued progress in strengthening AML/CFT legislation and procedures, in line with the recommendations of the upcoming CFAFT mutual evaluation report, will protect the integrity of CBI programs and the stability of CBRs. The publication of timely high-quality statistics is essential to inform policy decisions and monitor compliance with the fiscal rules. The implementation of the national fiscal rule necessitates an enhancement of public financial management processes, including for medium-term budgeting, fiscal reporting, treasury operations, and public investment management.

Dominica: Selected Economic Indicators

	2018	2019	2020	Est. 2021	Projected 2022	2023	2024	2025	2026	2027	2028
Output and prices											
Real GDP 1/	3.5	5.5	-16.6	6.9	5.7	4.7	4.6	4.2	2.9	2.7	2.7
Nominal GDP 1/	6.4	10.2	-17.5	10.1	13.6	11.1	7.1	6.3	4.9	4.7	4.7
Consumer prices											
Period average	1.0	1.5	-0.7	1.6	7.5	6.2	2.4	2.0	2.0	2.0	2.0
End of period	4.0	0.1	-0.7	3.5	7.3	5.0	2.2	2.0	2.0	2.0	2.0
Central government balances 2/											
Revenue	44.7	39.6	58.9	56.9	42.7	43.5	41.8	40.7	40.5	40.4	40.3
Taxes	27.7	24.1	23.3	21.2	20.1	21.9	22.2	22.1	21.8	21.7	21.6
Non-tax revenue	16.2	13.5	33.2	30.3	20.2	19.2	17.2	16.2	16.2	16.2	16.2
Grants	0.9	1.9	2.4	5.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Expenditure	62.9	48.1	66.6	65.6	46.7	47.8	45.0	43.6	42.9	42.3	42.1
Current primary expenditure	36.3	35.9	36.5	36.9	30.4	30.0	29.1	28.7	28.7	28.7	28.7
Interest payments	1.9	2.5	2.1	2.5	3.5	4.2	4.0	3.6	3.3	3.2	3.1
Capital expenditure	24.7	9.7	28.0	26.2	12.8	13.6	11.8	11.3	10.9	10.4	10.4
Primary balance	-16.2	-6.0	-5.5	-6.2	-0.5	-0.1	0.9	0.7	0.9	1.3	1.2
Primary balance, excluding CBI	-29.4	-18.1	-36.9	-34.9	-18.5	-17.1	-14.2	-13.3	-13.1	-12.8	-12.8
Overall balance	-18.1	-8.5	-7.7	-8.7	-4.0	-4.2	-3.2	-2.9	-2.4	-1.9	-1.9
Overall balance (incl. ND cost buffers), of which:	-18.1	-8.5	-7.7	-8.7	-5.5	-5.7	-4.7	-4.4	-3.9	-3.4	-3.4
annualized cost of natural disasters (ND)	…	…	…	…	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Central government debt (incl. guaranteed) 3/	85.6	97.7	112.5	106.3	97.6	93.5	91.0	90.3	90.1	89.5	89.0
External	53.1	56.6	70.9	68.6	63.6	60.2	59.3	59.6	60.6	62.1	63.5
Domestic	32.6	41.1	41.6	37.7	34.0	33.3	31.7	30.7	29.5	27.4	25.5
Money and credit (annual percent change)											
Broad money (M2)	1.4	-6.3	-9.9	1.8	1.5	6.5	6.2	5.4	4.9	4.7	4.7
Real credit to the private sector	-5.3	-6.1	0.4	0.0	-5.5	0.8	1.8	3.2	2.9	2.7	4.7
Balance of payments											
Current account balance, of which:	-43.7	-35.6	-35.4	-27.6	-26.2	-25.2	-17.7	-15.9	-14.3	-12.8	-11.1
Exports of goods and services	28.2	34.5	18.9	22.2	25.4	27.7	31.2	33.7	33.9	34.2	35.3
Imports of goods and services 4/	75.7	69.7	60.2	55.4	56.8	58.6	54.8	55.3	54.0	52.8	52.3
Capital and financial account, of which: 5/	38.7	37.7	33.2	27.5	26.3	25.3	17.8	16.1	14.4	12.9	11.2
FDI	14.1	10.3	4.3	6.1	6.6	6.4	4.8	4.6	4.5	4.5	4.5
Capital grants	26.5	9.8	20.2	22.2	24.4	14.6	12.8	11.6	9.9	7.7	7.5
Other (incl. errors and omissions)	-1.9	17.6	8.6	-0.8	-4.7	4.3	0.2	-0.2	0.0	0.7	-0.8
External debt (gross) 6/	102.1	84.9	102.6	82.9	77.9	74.3	72.3	72.1	72.7	73.9	75.0
Saving-Investment Balance	-43.7	-35.6	-35.4	-27.6	-26.2	-25.2	-17.7	-15.9	-14.3	-12.8	-11.1
Saving	-11.2	-12.1	-11.4	7.7	-1.2	-9.1	-1.6	-1.0	0.2	1.3	2.7
Investment	32.4	23.5	24.0	35.3	25.0	16.1	16.1	15.0	14.5	14.1	13.8
Public	24.9	17.0	21.0	28.3	20.0	14.1	13.6	12.5	12.0	11.6	11.3
Private	7.5	6.5	3.0	7.0	5.0	2.0	2.5	2.5	2.5	2.5	2.5
Memorandum items:											
Nominal GDP (EC$ millions)	1,498	1,651	1,361	1,499	1,703	1,893	2,027	2,155	2,261	2,368	2,479
Nominal GDP, fiscal year (EC$ millions)	1,575	1,506	1,430	1,601	1,798	1,960	2,091	2,208	2,314	2,424	2,538
Net imputed international reserves:											
End-year (millions of U.S. dollars)	189.2	166.2	165.6	165.2	166.0	172.4	181.0	191.7	203.1	214.8	227.3
Months of imports of goods and services	5.4	4.7	6.6	6.4	5.6	5.0	5.3	5.2	5.4	5.6	5.7
Holdings of SDRs (millions of SDRs)	1.5	0.4	0.2	11.1	9.6	9.6	9.6	9.6	9.6	9.6	9.6

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

1/ At market prices.

2/ Data for fiscal years from July to June. Figures shown for a given year relate to the fiscal year beginning on July 1 of that year.

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

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

5/ Positive sign means inflow.

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

INTERNATIONAL MONETARY FUND

DOMINICA

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

May 18, 2023

KEY ISSUES

Context. The economy is recovering gradually but faces headwinds from the cost-of-living crisis, more limited policy space, and more frequent and costly climate shocks. Tourism rebounded in the second half of last year, but scarring effects from the pandemic, on the heels of large natural disasters, could prove significant considering lengthy school closures, the deep GDP contraction and associated erosion of fiscal space. Dominica's climate adaptation and modernization agenda is driving growth, with priority being given to construction of a geothermal energy plant and a new international airport.

Outlook and Risks. A full recovery in the tourism sector and continued implementation of Dominica's large public investment program is expected to support growth and ensure the economy reaches pre-COVID levels by 2024. After peaking at 7.5 percent in 2022, inflation is expected to gradually recede along with global trends. The large current account deficit is expected to fall over time as commodity prices normalize, tourism exports continue to recover, and public investment decelerates. Public debt remains elevated but is expected to gradually decline as fiscal consolidation takes hold. Risks stem from global economic uncertainty, climate change, and volatility of Citizenship-by-Investment (CBI) revenues, on which the execution of large infrastructure projects hinges. Banks are well capitalized and liquid, although the non-bank sector is subject to risks from persistent undercapitalization and deteriorating asset quality.

Key Policy Recommendations. It remains critical to implement fiscal consolidation consistent with the national fiscal rule and regional debt target of 60 percent of GDP by 2035. This should be underpinned by efforts to (i) mobilize tax revenue by reducing tax expenditures and improving tax administration; (ii) reduce the wage bill and rationalize inefficient current spending; and (iii) strengthen social protection systems through better targeting. Prioritize capital spending on growth-enhancing projects that also build resilience to natural disasters. Longstanding constraints to private sector credit should be addressed by leveraging on the forthcoming ECCU regional credit bureau, modernizing insolvency laws, and streamlining regulatory requirements for business loans. Fostering resilience, competitiveness and economic diversification requires advancing the transition to renewable (geothermal) energy, improving connectivity and integration of tourism with other sectors, addressing informality, and investing on skills and digitalization.

Approved By
Luis Cubeddu (WHD) and Fabian Bornhorst (SPR)

Mission team: Joana Pereira (head), Yibin Mu, Camila Perez Marulanda and Sinem Kilic Celik, supported by Archit Singhal and Anahit Aghababyan (all WHD). Discussions took place in Roseau during March 20−31, 2023. The team met Prime Minister Hon. Roosevelt Skerrit, Minister of Finance Dr. Irving McIntyre, Financial Secretary Ms. Denise Edwards and other government officials, labor union, representatives of the opposition, private sector stakeholders, and members of the donor community. The mission was joined by Mr. Philip Jennings and Ms. Rosamund Edwards (OEDCO).

CONTENTS

BACKGROUND 4

RECENT DEVELOPMENTS 5

OUTLOOK AND RISKS 9

POLICY DISCUSSIONS 13

A. Fostering Climate Resilience and Inclusiveness under Tight Fiscal Space 13

B. Unlocking Financial Intermediation Constraints While Preserving Financial Stability 17

C. Modernizing and Strengthening Economic Resilience 19

D. Institutional Development 20

STAFF APPRAISAL 21

BOXES

1. Key Infrastructure Projects: Effects on Public and External Balances 9
2. Risk Assessment Matrix 12
3. Consolidation needs to meet the National Fiscal Rule 14

FIGURES

1. Real Sector Developments 24
2. Fiscal Sector Developments 25
3. External Sector Developments 26
4. Banking Sector Developments 27

TABLES

1. Selected Economic Indicators, 2018–28 28
2. Balance of Payments, 2018–28 29

3a. Statement of Operations of the Central Government, 2018–28 (In millions of EC dollars) 30

3b. Statement of Operations of the Central Government, 2018–28 (In percent of GDP) 31

4. Summary Accounts of the Banking System, 2018–28 32
5. Financial Stability Indicators, 2013–22 33

ANNEXES

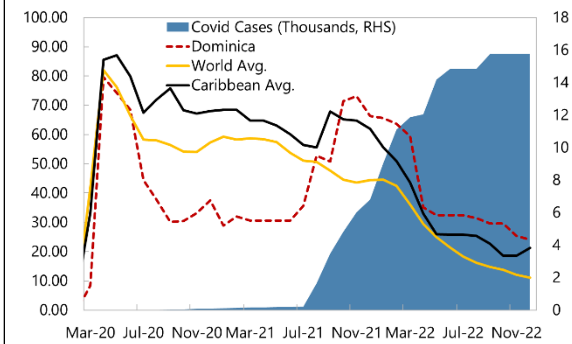
I. The Impact of Russia's War in Ukraine on Dominica 34
II. External Sector Assessment 35
III. Implementation of Fund's Past Policy Advice 38
IV. Geothermal Energy in Dominica 40

BACKGROUND

1. Economic recovery from the pandemic has taken hold, but Dominica faces headwinds from the cost-of-living crisis and scarring effects from the pandemic. Following a surge in COVID-19 case numbers in late 2021 the economy finally reopened in April 2022, somewhat later than regional peers. Despite reported improvements in employment and wages in 2022H2, high fuel and food prices are straining households' budgets. Temporary fuel subsidies mitigated the demand impact of the international oil price rise, but the suspension of operations by a key fuel supplier, amid peak demand and high import costs, led to shortages in end-2022. To secure provision, the government procured fuel on a one-off basis to build reserves and revised up the wholesale price structure to stabilize the market. Scarring effects from the pandemic could prove significant considering lengthy school closures—with associated learning losses and lower female labor supply—the relatively large GDP contraction and associated erosion of fiscal space.[1, 2]

COVID Restrictions Stringency and Confirmed Cases

(Index, In Thousand)



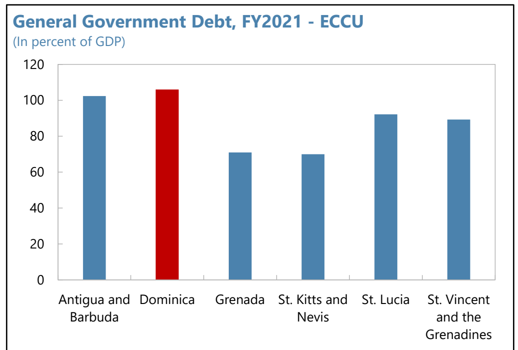
Sources: Oxford University and IMF staff calculations.

2. The country's climate adaptation and modernization agenda has driven economic growth. Implementation of the [2021 Disaster Resilience Strategy](#) (DRS) is advancing, with investments in resilient infrastructure—including roads, housing, schools, emergency shelters, hospitals, and a new international airport—rising to 26 percent of GDP in the last fiscal year. To foster financial resilience, the government increased its assets holdings (to 2 percent of GDP) in the Vulnerability and Resilience Fund (VRF), signed a catastrophe-contingent loan agreement (Cat DDO) with the World Bank, launched a parametric insurance instrument for the private sector, and strengthened its post-disaster response mechanisms in remote communities. The construction of a geothermal energy plant and a new airport, planned for the coming years, will sustain economic activity, reduce dependency on fossil fuels, bolster resilience to external shocks, and improve international connectivity.

[1] "Scarring Effects of the Pandemic on the ECCU", in IMF Country Report No. 22/254.

[2] Economic recovery from the pandemic was supported by the Fund's disbursement of the equivalent of SDR 10.28 million (US$14 million; 89.39 percent of quota) under the Rapid Credit Facility in 2020. An updated safeguards assessment of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of DCash introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

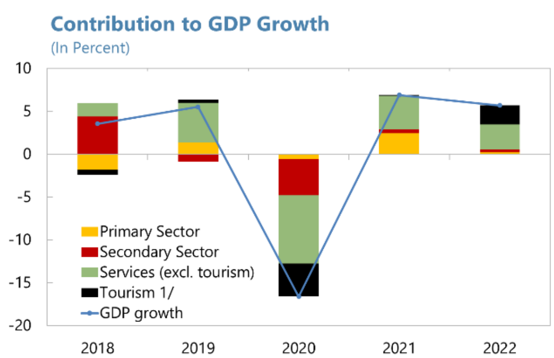
3. However, progress is conditioned by tight fiscal space. Four large shocks in less than a decade—tropical storm Erika (2015), hurricane Maria (2017), COVID-19, and Russia's war in Ukraine (Annex I)—left Dominica with the largest public debt ratio in the region. While private investment is envisaged to partially finance geothermal energy capacity, Dominica relies mostly on volatile Citizenship-by-Investment (CBI) revenues to advance priority projects in the near term.



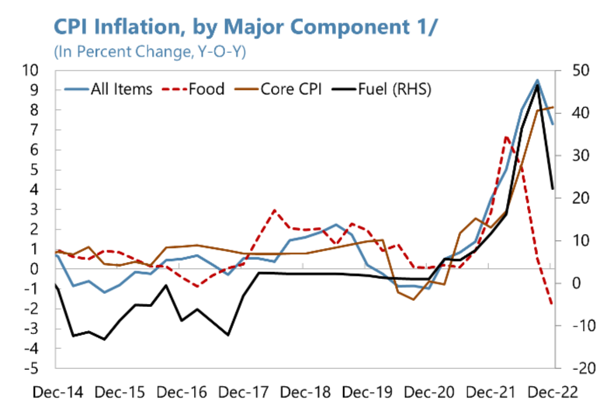
Source: WEO

RECENT DEVELOPMENTS

4. The economy is on a firm recovery path, but inflation reached a historical high. After contracting by nearly 17 percent in 2020, the economy is estimated to have expanded by 6.9 and 5.7 percent in 2021 and 2022, respectively, driven by construction of climate-resilient infrastructure and new hotels, a quick rebound in tourism since the full lifting of COVID-related restrictions, and a substantial rise in agricultural output (Figure 1). Rising demand and higher global commodity prices and shipping costs pushed average inflation up to an estimated 7.5 percent in 2022, despite temporary fuel price mitigation measures.[3]



Sources: Dominica's authorities and IMF Staff calculations.
1/ Tourism only includes direct contribution to the GDP.

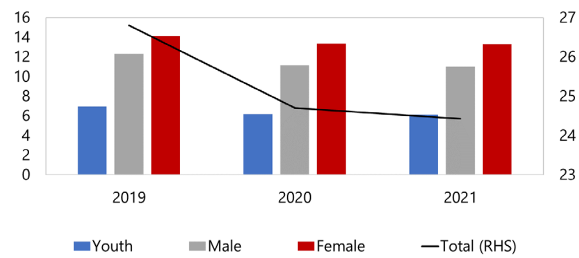


Sources: Central Statistics Office, Dominica and IMF staff calculations.
1/ Post 2021Q1 non-fuel inflation reflects staff estimates.

[3] In May 2022 the government announced a $EC15.00/gallon benchmark for the retail price of fuels, above which temporary custom fees' waivers and subsidies were triggered. This threshold was binding until October 2022, after which fuel price mitigation measures were discontinued.

5. The formal labor market is lagging the GDP recovery. Formal employment, estimated at about half of the labor force, has been slower to recover, remaining 9 percent below pre-pandemic levels in 2021. Younger and male workers seem to have been the most affected by the pandemic, in part reflecting the higher concentration of female formal workers in public administration. Meanwhile, real wages recovered in 2021, most notably in agriculture and tourism, where scarcity of skilled labor supply is most prevalent. Preliminary 2022 data suggests continued wage growth in the private sector, but some moderation in public administration.

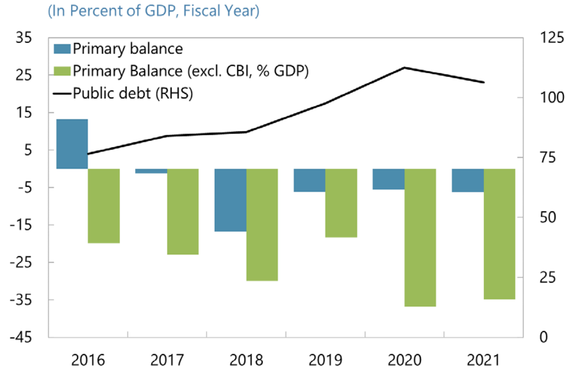
Formal Employment 1/
(Thousands of Workers)



Source: Dominica Social Security (DSS).
1/ Insured workers with active contributions to the DSS.

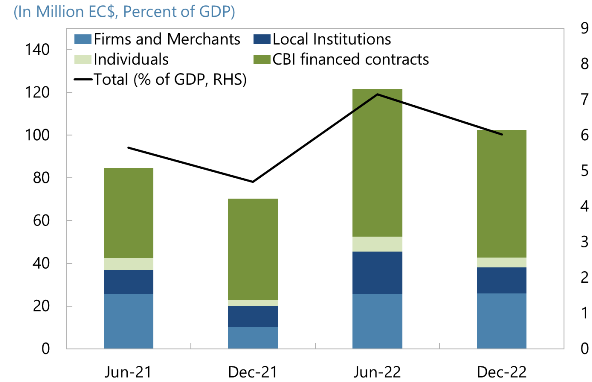
6. The fiscal deficit widened on account of pandemic-related support and a pick-up in infrastructure spending. Despite record high CBI inflows, nearing 30 percent of GDP, the primary deficit rose to 6.2 percent in FY21/22. This reflected a step-up in the construction of infrastructure (roads, housing, hospitals, shelters, and a new airport),[4] as well as measures implemented in response to the pandemic and the cost-of-living crisis (Figure 2). Gross public debt now stands at over 106 percent of GDP, although part of arrears with contractors (in CBI financed contracts) were cleared at the end of FY21/22 through the use of CBI revenues.

Public Debt and Fiscal Primary Balance
(In Percent of GDP, Fiscal Year)



Sources: Dominica's authorities and IMF staff calculations.

Government Unpaid Cheques
(In Million EC$, Percent of GDP)



Sources: Dominica's authorities.

[4] Public investment outlays include 4.4 percent of GDP in contractual fees related to the airport.

7. High commodity prices hindered external adjustment. While the services balance improved substantially in 2022, fuel imports rose to a historical peak of 8.5 percent of GDP in 2022 (3 percentage points more than in 2019). As such, the current account deficit (CA) is estimated to have remained elevated at over 26.2 percent of GDP, with CBI, Grants and FDI being the main financing sources. Meanwhile, the REER depreciated by a cumulative 7 percent in 2021–22, although the nominal appreciation of the Eastern Caribbean dollar could be hurting tourism competitiveness, especially when compared to non-ECCU Caribbean economies (Figure 3). Staff assesses the external position to be substantially weaker than the level consistent with medium-term fundamentals and desirable policy settings. While FDI flows serve as a mitigating factor, volatile CBI revenues constitute a source of external vulnerability (Annex II).

Dominica: EBA-lite Model Results, 2022

	CA model 1/	**REER model** 1/
	(in percent of GDP)	
CA-Actual	**-26.2**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustors (-) 2/	-3.3	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.7	
Adjusted CA	**-22.8**	
CA Norm (from model) 3/	**-15.2**	
CA Gap	**-7.5**	**2.9**
o/w Relative policy gap	1.2	
Elasticity	-0.3	
REER Gap (in percent)	**25.0**	**-9.8**

1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (3.3 percent of GDP). The 30 percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments.

8. Financial stability risks remain contained as banks are well capitalized and liquid and recapitalization of credit unions is progressing, but private sector credit continues to lag.

- Capital buffers in the banking sector stay comfortably above regulatory requirements, although dropped somewhat during 2022 reflecting in part losses on overseas investments, amid volatility in global financial markets, and operational expenditures related to the purchase of Royal Bank of Canada by the National Bank of Dominica (NBD), which hurt profitability.[5] Provisioning efforts continue, with banks now attaining the ECCB 2022 target, although still lagging regional peers.[6] Asset quality is improving gradually despite the expiry of loan moratoria in March 2022, although at 14 percent of total loans, banks' NPLs remain significantly above the ECCB's prudential limit of 5 percent (Figure 4).

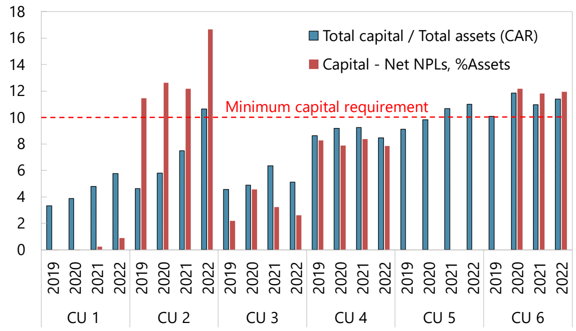
- Capitalization of credit unions is progressing, but balance sheets remain strained following recent shocks. Recapitalization plans monitored by the local non-bank supervisor (FSU) brough capital ratios generally above 5 percent, although these remain below the 10 percent 2026 target (regulatory minimum) for major credit unions. NPLs continued to grow in 2022, after expiry of loan moratoria in December 2021. Legacy problems in the insurance sector due to hurricane Maria are being resolved, yet total claims continue to rise at the margin.[7]

[5] NBD is currently the only locally incorporated bank (with 75 percent of assets as of 2022Q4).

[6] The ECCB set the requirement of 60 percent NPLs provisioning in 2022 and of 100 percent for "Loss" loans by 2024.

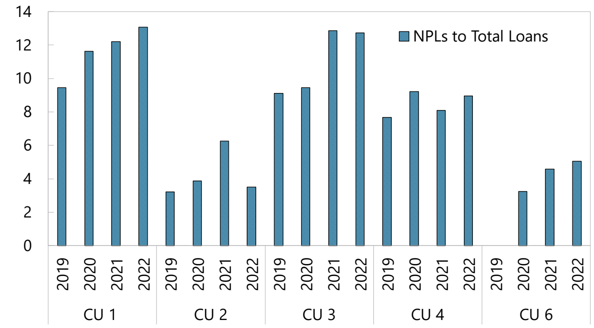
[7] Government contingent costs could reach 0.5 percent of GDP.

Capital Adequacy of Credit Unions
(In Percent)



Sources: Dominica's authorities and IMF staff calculations.

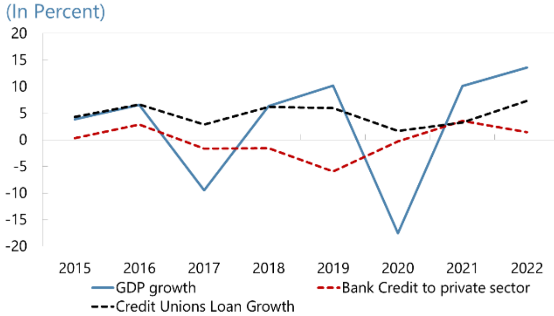
NPLs to Loans - Major Credit Unions 1/
(In Percent)



Sources: Dominica's authorities and IMF staff calculations.
1/ Loans that have been non-performing for over 12 months.

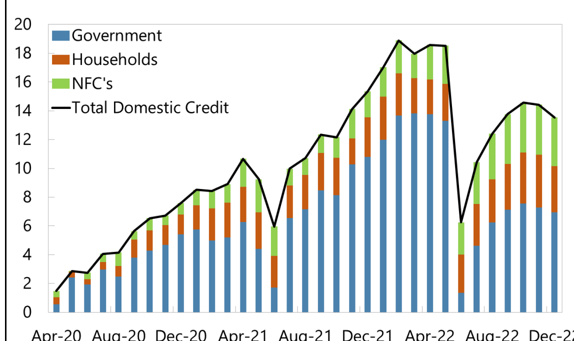
- Meanwhile, private sector credit remains subdued. Most bank lending since the pandemic has flown to the public sector, indicating a continued risk-off position of banks, with loans from credit unions to households and small businesses rising only gradually given strains in that sector (see below). Despite tighter global financial conditions, deposit and lending rates have remained low and stable, given structural ample liquidity in the financial system and low integration with foreign capital markets.

Commercial Banks' Credit, Credit Unions' Loan, and Nominal GDP Growth
(In Percent)



Sources: Dominica's authorities, ECCB and IMF staff calculations.

Cumulative Contributions to Change in Credit Stock
(In Percent Change)



Source: Eastern Caribbean Central Bank.

9. Implementation of the 2021 Article IV recommendations has been mixed (Annex III). The authorities have made significant progress in building resilience, including through their COVID-19 vaccination campaign, the expansion of health care capacity, the construction of key infrastructure projects, and accumulation of financial buffers specific to natural disasters. Capitalization of credit unions and NPL provisioning at the NBD are advancing, and FSU's resources have been expanded. Investments in digitalization and training programs for small entrepreneurs have stepped up. However, fiscal consolidation has been slower than anticipated, and only a few of the recommended measures were adopted in the FY22/23 budget. The modernization of financial regulatory frameworks is still pending, as well as actions to promote the formalization of the economy, including through the ongoing population census.

OUTLOOK AND RISKS

10. The growth outlook is predicated on a full recovery of the tourism sector by 2024 and continued implementation of Dominica's large public investment program. Although Dominica's tourism sector recovery lagged regional peers through most of 2022 (Selected Issues Paper), an expanded hotel capacity and larger tourism demand both from advanced economies and the Caribbean are expected to lift visitor numbers to pre-COVID levels by the 2023–24 tourism season. Construction of resilient infrastructure, the geothermal power plant (spanning the next 2 to 3 years) and a new airport (next 4 to 5 years) are expected to sustain investment and, through spillover effects, the overall economy. Real GDP growth is projected to moderate from 5.7 percent in 2022 to 4.7 percent in 2023, converging to 2.7 percent trend growth over the medium term. Credit conditions are assumed to remain favorable, but private sector credit is projected to pick-up only gradually given structural constraints in the financial sector (Table 4 and Section B).

11. Lower global fuel prices, along with tighter policies, are expected to support a reduction in inflation and the external deficit. Average fuel prices are expected fall this year, notwithstanding the recent uptick, and continue falling in the medium term along with international trends. Inflation is expected to ebb slightly to 6.2 percent in 2023, as core inflation remains elevated, and to recede towards 2.0 percent afterwards. Concomitantly, global fuel imports are projected to halve over the medium term, given lower international prices and transition to renewable energy. The ongoing expansion in tourism capacity and normalization of mobility/travel conditions should improve the services balance, while import of investment goods is expected to wane along with public investment (Box 1). The CA is thus expected to increase towards its norm by 2025–26.

Box 1. Key Infrastructure Projects: Effects on Public and External Balances

The international airport and geothermal energy projects entail significant fiscal costs in the short term. Airport construction efforts intensified in FY22/23 and are expected to continue until FY25/26, with an estimated total cost of 59 percent of 2022 GDP. In turn, developing the infrastructure for geothermal energy production and distribution requires about 25 percent of GDP in investments, distributed over the next three years, of which half are publicly financed (Annex IV). Together, the projects consume a large portion of fiscal space. While the international airport is financed through CBI resources—most of which would otherwise be spent in other public projects—new (concessional) borrowing is envisaged to finance the geothermal project.

Both projects benefit growth and the external position, opening policy space in the long run. Short-term growth effects are significant, given the projects' size, albeit tempered by a low estimated short-term multiplier.[1] The projects also improve the CA in the medium and long run—through the expansion in tourism exports[2] in the case of the airport and lower oil imports in the case of the geothermal project,[3] even if initially the CA balance drops on account of higher investment goods imports. While the public debt ratio worsens in the projection horizon, permanent benefits to growth will eventually broaden fiscal space, and fiscal risks decline with a more resilient economy.

Box 1. Key Infrastructure Projects: Effects on Public and External Balances (concluded)

	2022	2023	2024	2025	2026	2027	2028
Real GDP							
Baseline outlook	5.7	4.7	4.6	4.2	2.9	2.7	2.7
No new airport scenario 1/	5.3	4.3	4.2	4.0	2.6	2.4	2.4
No geothermal project scenario 1/	5.7	3.7	3.7	3.4	2.1	2.7	2.7
Central Government Debt (% of GDP)							
Baseline outlook	97.6	93.5	91	90.3	90.1	89.5	89
No new airport scenario	97.2	92.5	89.5	88.3	87.4	87.1	86.7
No geothermal project scenario	98.3	92.3	88.2	85.8	83.3	82.5	81.6
Current Account (% of GDP)							
Baseline outlook	-26.2	-25.2	-17.7	-15.9	-14.3	-12.8	-11.1
No new airport scenario	-25.8	-23.9	-16.4	-14.5	-12.9	-12.3	-11.7
No geothermal project scenario	-26.2	-23.3	-14.1	-12.1	-10.6	-11.4	-11.6

1/ Long term GDP impacts are only partially captured for "No airport" scenario and not estimated for "No geothermal" scenario.

[1] Consistent with findings in Alichi et al. (2019): 'Fiscal Policy Multipliers in Small States', IMF WP/2019/072. Furthermore, net growth effects in the case of the airport appear small in the Box table since it is assumed that most CBI revenue would otherwise still be used for public works.

[2] As the airlift capacity triples, staff estimates that tourism would expand by about 30 percent (see Selected Issues Paper). However, it is expected that such effect would be gradually phased-in over time.

[3] Currently, oil imports for energy generation are about one third of total. Given uncertainty regarding price changes and timing for exploration of geothermal energy export potential, the baseline scenario abstracts from medium-run growth effects.

12. **The fiscal balance in FY22/23 is projected to improve, but public debt will remain high over the medium term.** The primary fiscal deficit is projected to fall to 2 percent of GDP, reflecting lower investment and cuts in current spending from the unwinding of fuel subsidies and pandemic support. These spending cuts are expected to more than offset the projected decline in CBI revenue and moderately lower taxes from the expansion of income tax deductions and reduction of VAT on electricity. That said, the expansion of resilient roads and housing will continue to take priority, as well as the construction of the new airport—expected to more than triple airlift capacity—and investments in agriculture and digitalization. Associated gross financing needs are expected to be covered by multilateral creditors and a drawdown of government deposits at the NBD. Thus, public debt is projected to decline to 97.7 percent of the GDP in FY22/23 at the cost of lower liquidity buffers, and to slowly decline thereafter with gradual fiscal consolidation.

13. **Risks to the outlook stem from global economic uncertainty, climate change, and volatility of CBI revenues (Box 2).** An escalation of the war in Ukraine, heightened financial stress or increased protectionism could worsen supply constraints, renew pressure on commodity prices, and harm global growth. These events could disrupt Dominica's incipient recovery of the tourism sector and stress its external position. Intensification of natural disasters (ND) could bring large output and capital losses, weakening balance sheets and raising sustainability and financial stability risks. Lower-than-expected CBI revenue would hamper consolidation efforts and investment execution plans. A stall in fiscal consolidation could impair the financial system, given exposure to the sovereign. Meanwhile, a disruption of correspondent bank relationships (CBR)—due to poor governance perceptions or an interruption of CBI programs—could constitute a threat to trade and growth. On the positive side, sustained higher CBI revenue could allow faster implementation of resilience and growth enhancing projects, further boosting economic activity, and/or buildup of fiscal buffers.

Authorities' Views

14. The authorities broadly share staff's assessment of the economy and risks but expect higher CBI inflows in FY22/23. This would support larger infrastructure investments and thereby the overall economy, and potentially a more favorable sovereign debt outlook. Beyond the expansion of tourism and displacement of fossil fuels for energy generation, they noted that ongoing investments in agriculture and a new foreign university campus would contribute to a stronger external position over time.

Box 2. Risk Assessment Matrix[1]

Source and Direction of Risk	Relative Likelihood	Impact/ Time Horizon	Policy Response
Conjunctural Shocks and Scenarios--Global/External Risks			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, refugee flows, FDI and financial flows, and payment systems.	High	Medium ST/MT	Provide temporary and targeted fiscal support to affected households and sectors, within a sustainable medium-term fiscal plan.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation.	Medium	Medium ST/MT	Provide temporary fiscal support to affected sectors (mostly tourism) within a sustainable medium-term fiscal plan. Intensify efforts to diversify economic activity and export base.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts and export restrictions) and demand fluctuations (e.g., reflecting China reopening) causes recurrent commodity price volatility, external and fiscal pressures, and social and economic instability.	Medium	Medium ST/MT	Reduce reliance on imported commodities (fuels) through investments in alternative energy sources. Provide targeted social assistance to the poor while allowing pass-through of price signals.
Systemic financial instability. Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers, including through further pressure on CBRs.	Medium	Medium ST/MT	At the local level, tighten supervision efforts and macroprudential policies if needed. Strengthen AML/CFT frameworks. Pursue fiscal consolidation to aid domestic financial stability.
Structural risks			
Deepening geo-economic fragmentation. Broader and deeper conflict(s) and weakened international cooperation lead to a more rapid reconfiguration of trade and FDI, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	High	Medium ST/MT	Boost efforts to increase employment and productivity, foster regional integration, and strengthen export competitiveness.
Cyberthreats. Cyberattacks on critical domestic and/or international physical or digital infrastructure (including digital currency and crypto ecosystems) trigger financial and economic instability.	Medium	Low ST/MT	Strengthen Cybersecurity measures and contingency plans, especially for key infrastructure and institutions.
Extreme climate events. Extreme climate events cause more severe than expected damage to infrastructure (especially in smaller vulnerable economies) and loss of human lives and livelihoods, amplifying supply chain disruptions and inflationary pressures, causing water and food shortages, and reducing growth.	Medium	High ST/MT	Continue implementing the DRS, accelerate construction of resilient infrastructure and transition to local, renewable energy sources.
Domestic Risks			
Lower than expected CBI revenues or official financing (for example, owing to capacity constraints in project execution)**.** Disruption of CBRs remains a threat to trade and growth.	Medium	Medium ST/MT	Rationalize spending and mobilize revenue from other sources. Ex-ante, build fiscal buffers to enhance resilience to ND and fiscal shocks and strengthen governance frameworks to protect the integrity of the CBI program.

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

POLICY DISCUSSIONS

A. Fostering Climate Resilience and Inclusiveness under Tight Fiscal Space

Dominica faces a difficult balance between rebuilding fiscal buffers and meeting development and climate adaptation goals. While CBI inflows have been instrumental in recent years, their future is uncertain. By expanding the tax base and rationalizing current spending—while saving CBI windfalls—the government can ensure sustainability while protecting space for priority investments.

15. Fiscal consolidation has been slower than anticipated in the 2021 Article IV consultation, and currently planned measures will be insufficient to comply with national fiscal rule.

- On the revenue side, efforts to streamline tax expenditures have stalled, and in part reversed with the expansion of income tax deductions for private insurance and education spending, and VAT cuts on electricity.[8] Implementation of a presumptive PIT has been postponed to the next fiscal year, new increases in pension contributions are no longer expected, and progress in reducing tax arrears has been limited. These are being offset by a new tax on idle properties (with the first payment expected by August 2023), the lifting of exemption of import duties for vehicles, an unwinding of COVID-related tax relief, and higher import duties on CBI-financed projects (full instead of half). A long due review of water and sewerage tariffs is underway.

- On the spending side, efforts to reduce inefficient spending and unwind COVID-related social transfers are underway, but the Caribbean Centre for Development Administration (CARICAD)'s recent public service review could result in higher than previously projected personnel spending.

Dominica: Authorities' Fiscal Consolidation Plan 1/

	2022	2023	2024	2025	2026	2027	2028
Cumulative Fiscal consolidation (in percent of GDP)	**1.9**	**3.2**	**3.3**	**3.4**	**3.4**	**3.4**	**3.4**
Revenue measures	**1.0**	**2.4**	**2.5**	**2.5**	**2.5**	**2.5**	**2.5**
Restructuring of tax incentives for allocational efficiency	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Better tax auditing and collection of arrears	0.0	0.6	0.6	0.6	0.6	0.6	0.6
Property tax reform	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Environmental reduction of preferential rate of diesel fuel	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Presumptive income tax	0.0	0.4	0.4	0.4	0.4	0.4	0.4
Review cost and income structure of water and sewage service	0.0	0.3	0.3	0.3	0.3	0.3	0.3
Additional measures	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**	**0.9**
Withdrawal of fuel subsidies 2/	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Withdrawal of COVID related social transfers	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Estimated Shortfall (with respect to the National Fiscal Rule) 3/		**...**	**...**	**...**	**2.6**	**2.2**	**2.4**

Source: Fund staff estimates based on authorities' proposed measures.
1/ In fiscal years (July-June). Figures shown for a given year relate to the fiscal year beginning on July 1 of that year
2/ Includes waivers of custom service charge and excises
3/Necessary adjustment to meet a 2 percent primary balance from 2026 ownwards.

[8] To cushion the impact of higher fuel prices, the government eliminated VAT on fuel surcharges included in the electricity price and raised the number of VAT free individual consumption units. Although initially temporary, this measure has been made permanent.

While the current fiscal consolidation plan is welcome, taken together, the projected fiscal balances would result in a shortfall of 2½ percent of GDP to comply with the 2 primary balance in 2026 required by the National Fiscal Rule.[9]

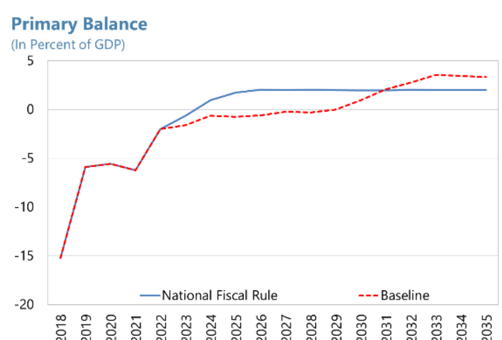
16. Fiscal consolidation efforts should redouble to ensure compliance with the national and regional fiscal targets and make space for much needed public investment. Under current policies the debt ratio would reach the regional target of 60 percent of GDP only in 2040; 5 years after the 2035 goal. As such, a stronger consolidation plan, consistent with the national fiscal rule approved in late-2021 is essential to reduce debt vulnerabilities (public debt is assessed to be at high risk of distress, Debt Sustainability Analysis), comply with the regional debt target, and reduce external imbalances. This necessitates additional measures equivalent to a cumulative 2½ percent of GDP by 2026 (Box 3). Adhering to the national fiscal rule should be supported by efforts to strengthen public financial management, notably medium-term budget planning, fiscal reporting, and the establishment of independent monitoring mechanisms and institutions (see ¶ 34). Strengthening public investment planning can also help reduce procyclicality and output volatility in a context of very volatile CBI revenue.

Box 3. Consolidation Needs to Meet the National Fiscal Rule

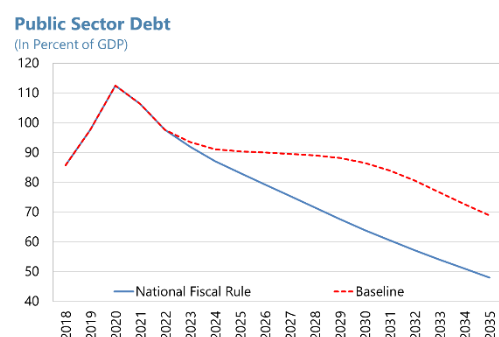
Dominica's national fiscal rule sets a primary balance floor of 2 percent of GDP when public debt surpasses the regional target of 60 percent of GDP. The rule applies from 2026 onwards. It includes correction mechanisms for (cumulative) deviations from the target, as well as escape clauses for NDs and other crisis events with significant fiscal impact.

Current policies are insufficient to meet the rule. Staff projects the primary balance including annualized ND costs to reach -1.1 percent of GDP in 2026, and public debt to reach 70 percent of GDP by 2035—10 p.p. above than the regional debt target.

An additional consolidation effort of 2½ percent of GDP is needed to comply with the rule in 2026. Sustaining a 2 percent of GDP primary balance after 2026 would then be sufficient to reach the regional debt target ahead of time (2030). However, high exposure to ND and yet insufficient savings accumulated in Dominica's VRF suggest that pursuing such buffer is desirable.[1]



Sources: Dominica's authorities and IMF staff estimates and calculations.

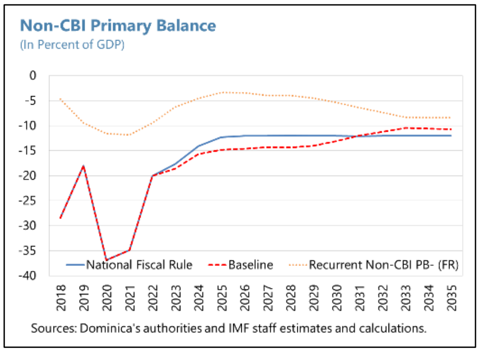


Sources: Dominica's authorities and IMF staff estimates and calculations.

[9] The difference accounts for a 1.5 percent of GDP annualized cost of natural disasters (see Table 3).

Box 3. Consolidation Needs to Meet the National Fiscal Rule (concluded)

The required fiscal consolidation represents a sizable adjustment of non-CBI balances. Given high uncertainty over CBI revenue, the necessary consolidation effort can usefully be measured by the change in the non-CBI primary balance—while a 5 percent of GDP improvement is currently expected through 2026 (mostly on account of less public investment, higher tax revenue and less public consumption), 8 p.p. would be needed to meet the fiscal targets, bringing the non-CBI primary balance (including ND costs) to -12 percent of GDP. This in turn corresponds to a non-CBI recurrent primary balance (i.e., non-CBI primary balance excluding non-grant-financed investment) of -3.4 percent of GDP in 2026 (from -9.5 in 2022), compared to a baseline projection of -6.1 percent of GDP.[2] Thus, if investment is to be unaffected by fiscal consolidation, fiscal reforms to mobilize revenue and reduce current spending should generate 3.3 percent of GDP in cumulative savings.



[1] See "Fiscal Rules for Disaster-Prone Countries: Implications for the ECCU", in IMF Country Report No. 22/254 and footnote 12 in the main text.
[2] CBI revenue is primarily earmarked to (and the main determinant of changes to) public investment.

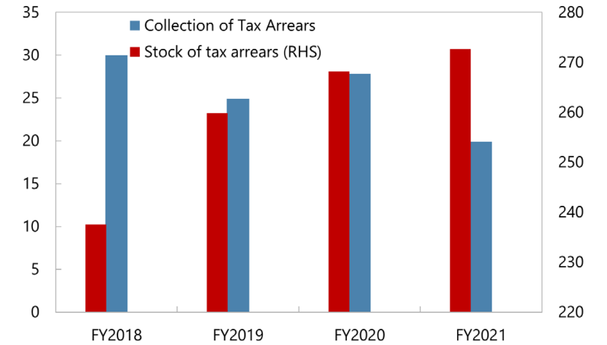
17. **Fiscal consolidation should entail a combination of revenue mobilization and spending reforms, combined with prioritization of public investment projects.**[10] On the revenue side, eliminating PIT exemptions and reviewing other tax incentives (in VAT, custom duties, and CIT) is a priority. There is also scope to raise revenue by strengthening tax administration and fostering compliance, given the large and rising stock of tax arrears. On the spending side, it remains critical to reduce the wage bill (currently above 11 percent of GDP) through civil service reform and rationalization of allowances, and to contain pension spending by raising the minimum pensionable (early retirement) age. A spending review to rationalize inefficient spending programs could reduce the weight of expenditure on goods and services. Importantly, the government's ambitious medium-term public investment plan (PSIP) will require re-prioritization within the currently envisaged envelope, given limited fiscal space. While the immediate response to hurricane Maria justified a focus on the construction of resilient housing and basic infrastructure, growth-enhancing projects—such as transition to geothermal energy and airport—should take greater priority. A combination of these measures would underpin the needed 2½ percent of GDP fiscal adjustment.[11] Should CBI revenue outturns prove lower than anticipated, consolidation measures, such as mobilizing tax revenue by broadening the tax base and reducing inefficient spending, would need to be frontloaded, to protect capital spending and other priority programs. Furthermore, allocating a higher share of CBI revenue to

[10] Positive growth and distributional effects from the recommended consolidation policies were analyzed in "Dominica: Selected Issues", IMF Country Report No. 22/041.

[11] The 2021 Article IV outlook for a reduction in tax expenditures and structural wage bill, for instance, entailed combined fiscal savings of 1.9 percent of GDP above current plans, equivalent to a large share of the required adjustment.

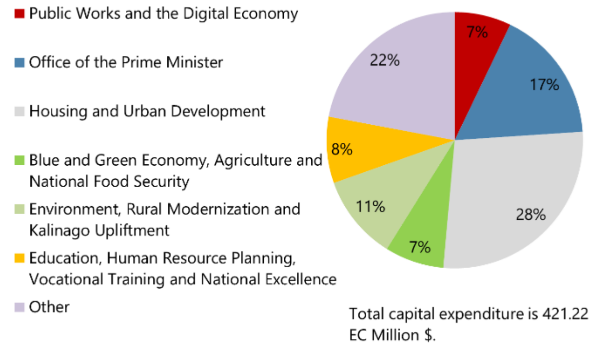
disaster insurance and debt amortization ex-ante will bolster financial resilience to natural disasters and fiscal shocks (including CBI volatility), reducing debt sustainability risks.[12]

Dominica: Tax Arrears
(In Million of EC$)



Sources: IRD and Dominica's authorities.

PSIP Budgeted Expenditure, FY2022
(In Percent)



Sources: Dominica's authorities.

18. Strengthening social protection systems through better targeting is essential to preserve social resilience in the face of large shocks and consolidation needs. Dominica's social assistance framework relies on unconditional cash transfers (UCT), social pensions for all persons over 65 who do not receive social security pensions, generalized subsidies and specific programs for the elderly, disabled and vulnerable children. Public works employment and free housing programs (both part of PSIP) are also in place. Yet, the World Bank estimates that only about 30 percent of poor households are covered by the UCT scheme, while social pensions still leave about 40 percent of elderly uncovered.[13] Prior to hurricane Maria, Dominica spent about 2 percent of GDP in social assistance—among the highest in the ECCU—and costs have since risen due to the devastating impact of the hurricane,[14] COVID-19, and fuel price subsidies. While income-based targeting is hampered by capacity constraints, the government could make use of proxy-targeting (e.g., contingent on family structure or other household characteristics), building on information from the ongoing population census to form a comprehensive social registry.

Authorities' Views

19. The authorities reaffirmed their commitment to prudent fiscal management, in line with national and regional fiscal rules. They agreed that consolidation should entail new revenue and expenditure measures and plan to further streamline inefficient recurrent spending, strengthen tax collection through legislative review and enhanced compliance management efforts, and mobilize new tax and non-tax revenue sources. Although new PIT exemptions reduce tax revenue, they were

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[12] The DRS assessed that a self-insurance fund (VRF) with 12 percent of GDP in savings is appropriate to cover expected costs from small to medium NDs (with costs of larger, rarer, NDs covered by other instruments); in addition to a 1.5 percent of GDP budget buffer already included in staff's baseline. The current VRF stock is 2 percent of GDP. While staff advised increasing annual contributions to the VRF, these have remained stable at 0.4 percent of GDP.

[13] Beazley at al., 2021. "Adaptive Social Protection in the Caribbean - Building Human Capital for Resilience: 360° Resilience Background Paper." World Bank.

[14] Social protection costs (cash transfers, social pensions, and public employment program) totaled 3.6 percent of GDP in FY21/22. The provision of resilient housing (so far untargeted and free of charge) added a further 1.8 percent of GDP.

introduced in tandem with measures to reduce public spending on tertiary education and health, which the authorities expect to have a net positive effect on the fiscal accounts. The PSIP program is already refocusing towards job creation and activity goals, for instance the new airport and modernization of the agricultural sector. Discussions are underway to review water and sewerage charges, which would bolster the financial position of the public water company, reducing contingent liabilities.

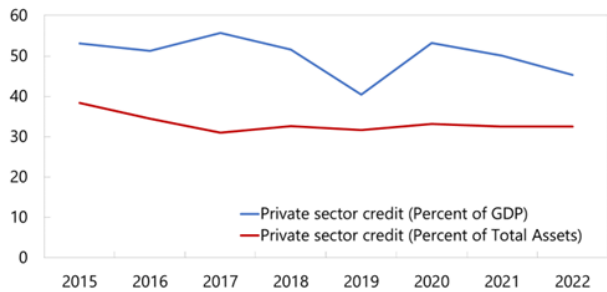
20. Strengthening financial and social resilience remains a key government priority. The authorities indicated that CBI revenue remains primarily reserved to finance resilient infrastructure investments, saving to the VRF, and debt amortization. Exceptionally, a part was used in recent years to finance social support in face of the pandemic. Furthermore, the authorities regard Dominica's social protection programs as crucial to combat poverty. To ensure sustainability, the government is reviewing the generosity of some programs, such as free housing, and strengthening governance to limit fraud.

B. Unlocking Financial Intermediation Constraints While Preserving Financial Stability

The financial system has ample liquidity, but intermediation is constrained by high NPLs and undercapitalization in the large credit union sector. Economic uncertainty and informality further weigh on credit to businesses and households. Fiscal prudence and stronger supervisory and regulatory frameworks are essential to ensure financial stability.

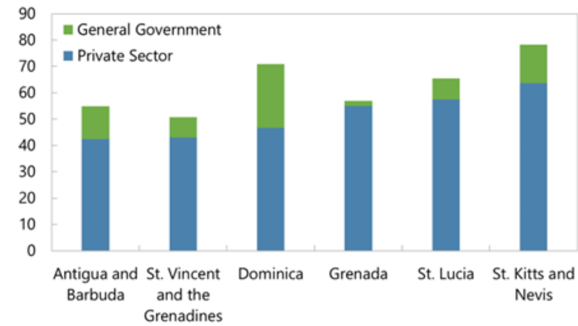
21. While overall financial sector assets exceed 200 percent of GDP, the system has played a limited financial intermediation role. Banks' private sector credit is less than 50 percent of GDP and 40 percent of assets—amid the lowest in the region—and total loans represent less than 60 percent of deposits. Instead, credit to the public sector accounts for about 17 percent of the banking-sector assets, which is relatively high among peers. Crowding-out effects have been limited given the large liquidity in the system but could intensify if the fiscal position weakens or under tighter regional financial conditions. Banks invest a large share of assets in overseas deposits and traded securities, making Dominica's banking system a net foreign creditor (Figure 4). In turn, credit unions' liquid assets are deposited at the NBD, yet their balance sheets remain strained. The government's development bank (AID) has played a prominent role in extending credit to MSMEs.

Commercial Banks' Credit to Private Sector
(In Percent)



Sources: Dominica's authorities and Eastern Caribbean Central Bank.
1/ Credit to private sector includes credit to private business, households, and non-bank financial institutions.

Commericial Banks' Credit to Private Sector and Government
(In Percent of GDP, 2022)



Sources: Eastern Caribbean Central Bank, WEO, and IMF staff calculations.

22. To support financial inclusion, Dominica should address structural constraints to lending and access to credit. In this regard, the authorities should: (i) encourage financial institutions to leverage on the just created ECCU regional credit bureau and registry (ii) modernize national insolvency laws, and (iii) streamline the required documentation for business loans, while encouraging formalization and ensuring that risks are appropriately managed. Small businesses' access to the recently launched regional partial credit guarantee scheme (Eastern Caribbean Partial Credit Guarantee Corporation, ECPCGC) should be facilitated, and credit scores for individuals who are also entrepreneurs could be used as proxy for their business. Training on business development and preparation of financial statements could facilitate MSMEs' access to credit.[15]

23. The national (non-bank) supervisor should continue to pursue capitalization of systemic credit unions to meet regulatory requirements. To strengthen supervisory effectiveness and compliance, further resources should be allocated to the national supervisor, as well as statutory independence from the Ministry of Finance, and enforcement mechanisms could be introduced. Further capitalization of banks may also be needed to cushion the impact of the 100 percent loan loss provisioning target for 2024 set by the ECCB, which could entail loan restructurings to normalize debt service, further sales of impaired assets to the Eastern Caribbean Asset Management Corporation (ECAMC), or capital calls (with potential fiscal costs).

24. To bolster financial sector resilience to climate change, national supervisory frameworks should account for related risks. This could be achieved by: (i) developing reporting structures for granular monitoring of physical climate risks and relevant transmission channels; (ii) conducting risk assessments and stress tests accounting both for the frequency/severity of natural disasters and mitigating factors, and (iii) developing regulatory measures to support climate risk-aware lending practices and avoid concentration of exposure.

25. Risks associated with crypto assets should be carefully monitored to safeguard financial intermediation, integrity, and cybersecurity. On June 2022 Dominica enacted the Virtual Assets

[15] See discussion of ECCU credit-enhancing policies in IMF Country Report No. 22/253.

Business Law, paving the way for the introduction of a crypto currency in the future. The passage of the legislative framework is welcome, and the Law appropriately designates the FSU as the relevant supervisory authority. However, FSU's resources and capacity need to be reinforced to enable an effective oversight and address emerging risks.

Authorities' Views

26. The authorities broadly concurred with recommended policies to promote credit and financial stability but see low credit to the private sector as reflecting low demand. They highlighted the benefits already felt from banks' resorting to the ECAMC and the ECPCGC to dispose NPLs and de-risk credit to SMEs. The government continues to enable credit to MSMEs through AID and expects the ECCU credit bureau to further promote credit to the private sector overall. Given high liquidity in the financial sector, public credit is not seen to crowd out private sector financing. As a significant share of investments is financed through CBI, overall private sector demand for credit is assessed to be low.

27. The authorities agreed on the importance of strengthening the capacity of the national supervisor, and are seeking IMF technical assistance in this area, including to enhance the regulatory and supervisory framework for digital asset businesses. They however remain of the view that the national supervisor de facto operates independently, and therefore statutory independence is not necessary.

C. Modernizing and Strengthening Economic Resilience

While the transition to geothermal energy and expansion of airlift capacity will support long term growth prospects, productivity enhancement investments – for example in human capital, digitalization, and economic diversification – and climate adaptation efforts are equally important to secure prosperity.

28. The transition to geothermal energy reduces external vulnerabilities, boosts potential growth, and contributes to Dominica's climate mitigation goals. The new geothermal plant is expected to generate over 70Gw per year; enough to cover domestic energy demand currently served by diesel-based electricity generation. The plant could later be expanded to allow further export capacity (Annex IV). Dominica has one of the highest electricity tariffs in the world. The switch to geothermal energy is expected to lower such cost significantly, benefiting households, boosting competitiveness, and enabling economic diversification. It will also shield Dominica from international fuel price volatility, afford for the phasing out of distortive fuel price controls, and reduce carbon emissions (from electricity generation and, potentially, transportation). Strengthening the regulatory framework—including general energy use/efficiency requirements, governance of relevant SOEs—could facilitate the transition.

29. Efforts should be strengthened to support diversification and integration of the tourism sector. Enhancing flight connectivity through regional efforts (potentially involving private-public partnerships) and upgrading the airport infrastructure would enable a larger and more consistent flow of visitors (see Selected Issues Paper). Supporting the expansion of hotel capacity and product offers into new markets, with a targeted advertisement strategy, further enhances resilience within the tourism sector. Exploring synergies with the sizable local agricultural sector—on which the government is stepping up investments—may reduce costs and incentivize farmers to move up the value chain.

30. Addressing economic informality, enhancing human capital through professional training, and investing in digitalization are essential to boost productivity. Facilitating land registration and upgrading social registries could help mobilize credit and formalize the economy. Efforts to broaden digital connectivity should be intensified, including to facilitate the provision of government services and training to individuals and small entrepreneurs. A recently piloted parametric insurance scheme (Flexible Hurricane Protection), with quick automatic payouts to small farmers/fishermen and households after major storms/hurricanes, could be further developed to enhance financial resilience.

Authorities' Views

31. The authorities highlighted ongoing efforts to bolster economic growth, resilience, and diversification. Beyond the construction of the new airport and transition to geothermal energy—with potential both to serve domestic consumption and to export in the future—they highlighted investments to triple agricultural production by 2030 and expand the export base, particularly to the region. CBI continues to support the expansion of the hotel capacity, while the opening of a new foreign medical university campus in 2023 will diversify services exports and carry beneficial spillovers to the local economy. Programs to assist businesses in upgrading management practices—including disaster preparedness—have been developed which can also help enhance economic formalization and access to credit.

D. Institutional Development

A strong institutional framework is crucial to support economic policy making and achieve Dominica's Sustainable Development Goals. Building on past achievements, the authorities should further efforts to improve governance, data management, public financial management and tax administration.

32. Continued progress on strengthening AML/CFT framework remains essential. Concerns expressed by the European Parliament and the U.S. in 2022 about the integrity of CBI programs should be addressed to reduce fiscal risks and avoid further pressures on CBRs. In a recent regional forum, Dominica agreed to a set of broad principles to address U.S concerns, several of which already under implementation.[16] Furthermore, designating the ECCB as the AML/CFT supervisor for banks in Dominica is a positive step towards strengthening overall AML/CFT supervisory arrangements.

[16] The agreed principles include the treatment of application denials by other counties, interviews, background checks, periodic reviews of the program law enforcement, and applications of Russians and Belarusians.

However, further efforts are needed to improve transparency and ensure the effective implementation of the recommendations of CFATF's fourth round mutual evaluation report.[17]

33. Better and more timely statistics are necessary to improve surveillance and macro-fiscal planning. Priority areas include the compilation of national accounts, CPI, and Balance of Payments and employment statistics, which require increasing the resources available to the Statistics Office and improving data sourcing and methodologies. Successful completion of the ongoing population census is crucial to ensure consistency of macro statistics and strengthen social protection systems.

34. Stronger fiscal institutions can support sustainability and reduce spending volatility.

- Improving **treasury operations, debt management, and public investment management** would support budget execution (notably multi-year projects), promote an efficient and transparent use of CBI resources, and support the implementation of Dominica's national fiscal rule. Timely publication of the Debt Portfolio Review, with comprehensive information on the government's balance sheet, would strengthen accountability and facilitate mobilization of private financing for climate resilience building in the future.

- Strengthening the **internal tax revenue office** capacity, including to facilitate auditing, bolstering compliance risk management processes, and refocusing the analysis of tax arrears to newer and/or larger cases would boost revenue collection.

Authorities' Views

35. The authorities agreed with the recommended institutional strengthening priorities. They highlighted continuous work on strengthening AML/CFT frameworks, which will contribute towards meeting CFAFT's recommendations, and the importance of regional coordination to protect the integrity of CBI programs. Given limited capacity of the national statistics office, further strained by the ongoing population Census—critical to measure progress towards the Sustainable Development Goals—the authorities are seeking additional TA resources to support the compilation of national accounts. They consider the agricultural and construction sectors to be notably undermeasured. Ongoing TA on tax administration is highly valued, and the authorities are seeking further TA support to strengthen treasury operations.

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36. The Dominican economy is expanding strongly but faces headwinds. Severely affected by the pandemic, real GDP growth is estimated to have rebounded during 2021–22, driven by construction of climate-resilient infrastructure, a pickup in tourism following the full lifting of mobility restrictions, and a substantial rise in agricultural output. However, the scarring effects from the pandemic are expected to weigh on growth going forward, while tight fiscal space and volatile CBI

[17] Dominica's mutual evaluation report will be discussed during the CFAFT plenary scheduled for late May 2023.

revenue may constrain much needed public investment, including to deal with frequent and costly climate shocks.

37. To safeguard room for climate resilience investments and ensure compliance with the regional debt target, fiscal consolidation efforts should redouble. A consolidation path in line with the national fiscal rule—raising the primary balance to 2 percent of GDP by 2026—is necessary to ensure convergence to the 60 percent public debt target by 2035. The plan should be underpinned by a sizeable improvement of non-CBI fiscal balances, while protecting investment and other priority programs. Stronger fiscal consolidation would facilitate external rebalancing and reduce the exposure of the financial system to the public sector, mitigating sovereign-bank nexus risks.

38. More ambitious reforms will be necessary to underpin the growth friendly fiscal consolidation. Mobilizing tax revenue by streamlining tax incentives, reviewing PIT allowances, and strengthening tax administration and compliance risk management is a priority. As international fuel prices moderate, the reduction of VAT on electricity should be reversed and motor vehicle licenses revised up to compensate losses from the foregone highway levy. On the expenditure side, it remains critical to reduce the wage bill (through civil service reform), streamline pension spending (through reforms aimed at increasing in the minimum retirement age) and strengthen the financial position of the publicly-owned water and sewage public company (through higher tariffs that better reflect cost recovery). Efforts should continue to cut inefficient spending and better prioritize the medium-term public investment plan towards projects with greatest productivity, such as the geothermal plant and new airport. Given high exposure to climate change, allocating a higher share of CBI revenue, including all unexpected windfalls, to disaster insurance and debt amortization would bolster financial resilience and strengthen debt sustainability.

39. Meanwhile, social protection systems need strengthening. While conventional income-based targeting is hampered by widespread informality and capacity constraints, consideration should be given to pursuing avenues for proxy-targeting and tailoring social assistance to vulnerable households in a more systematized way. This would enable the streamlining of untargeted programs and deploying exceptional support swiftly and cost- effectively in the face of large shocks. As a first step, completing the ongoing population census, which would form the basis for a comprehensive social registry, is paramount.

40. Addressing longstanding constraints to financial intermediation is needed to prudently bolster credit to the private sector. The upcoming ECCU regional credit bureau and the already operating Eastern Caribbean partial credit guarantee scheme can facilitate credit access by streamlining lending processes and addressing collateral constraints for small businesses. Ongoing initiatives to support small business development and financial management will further facilitate MSMEs' access to credit. Efforts to modernize the national insolvency law remain essential to facilitate resolution of NPLs, which remain elevated, thereby encouraging prudent risk-taking.

41. Modernizing supervisory frameworks is crucial to preserve financial stability. Efforts are needed to bolster the resources and capacity of the national supervisor considering its large mandate, which expanded further with the adoption of the Virtual Assets Business Act in mid-2022. Modernizing supervisory regulations and granting statutory independence from the Ministry of Finance would further improve its effectiveness and support risk-based supervision. To foster financial resilience to climate change, supervisory frameworks should account for related risks. Meanwhile, the recapitalization of systemic credit unions should be given priority.

42. Continued efforts to modernize the economy and strengthen economic resilience are necessary, including through policies that foster diversification and inclusiveness. The transition to geothermal energy will be critical to reduce carbon emissions, lessen external vulnerabilities, and increase economic competitiveness over medium term through lower energy costs. Timely completion of the new international airport will significantly boost connectivity with large markets and enhance regional connectivity. Initiatives to support the agricultural sector should be furthered to broaden the export base and explore synergies with the growing tourism sector. Efforts to expand digitalization and professional training will support inclusive development and further boost productivity.

43. Advancing institutional reforms can help mitigate risks and support economic policymaking. Continued progress in strengthening AML/CFT legislation and procedures, in line with the recommendations of the upcoming CFAFT mutual evaluation report, will protect the integrity of CBI programs and the stability of CBRs. The publication of timely high-quality statistics is essential to inform policy decisions and monitor compliance with the fiscal rules. The implementation of the national fiscal rule necessitates an enhancement of public financial management processes, including for medium-term budgeting, fiscal reporting, treasury operations, and public investment management.

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

Figure 1. Dominica: Real Sector Developments

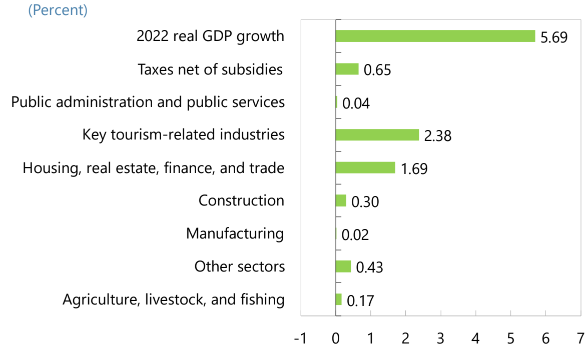
Construction and real estate lead growth in 2021,...

...while tourism was the main driver in 2022.

2021 Real GDP, Contributions to Percent Change
(Percent)

Sources: Dominica's authorities and IMF staff calculations.

2022 Real GDP, Contributions to Percent Change
(Percent)

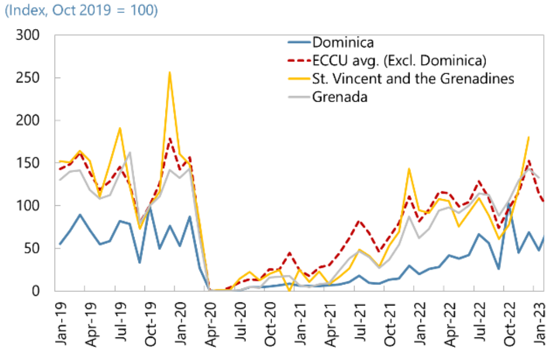


Sources: Dominica's authorities and IMF staff calculations.

Tourism recovery has been lagging peers in the ECCU, albeit from a lower pre-COVID base.

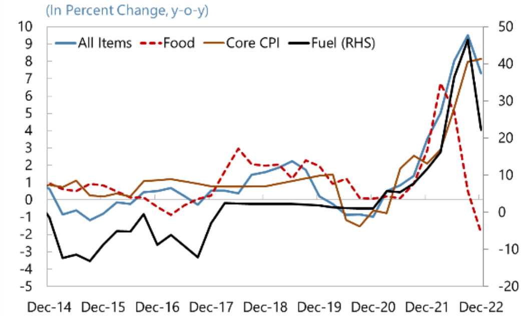
Fuel and food price inflation is estimated to have subsided in end 2022, but core inflation remains elevated.

Tourist Arrivals
(Index, Oct 2019 = 100)



Sources: Caribbean Tourism Organization and IMF staff calculations.

CPI Inflation, by Major Component 1/
(In Percent Change, y-o-y)

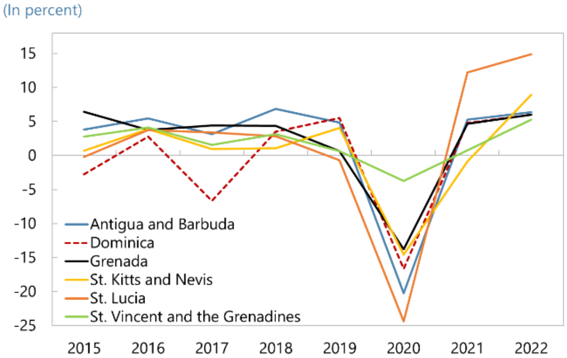


Sources: Central Statistics Office, Dominica and IMF staff calculations.
1/ Post 2021Q1 is a preliminery estimate.

GDP growth is in line with regional peers, ...

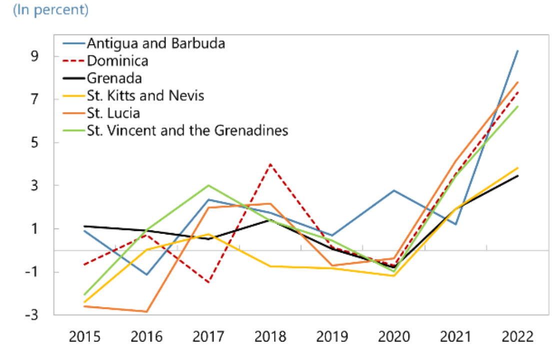
...as is estimated inflation in 2022.

Real GDP growth rates - ECCU countries
(In percent)



Source: WEO

Inflation - ECCU countries
(In percent)

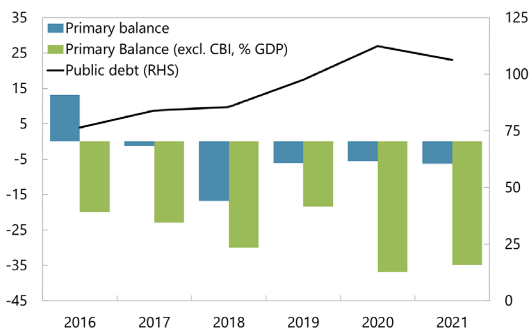


Source: WEO

Figure 2. Dominica: Fiscal Sector Developments

The fiscal balance has been improving since the COVID-19 shock, but the public debt ratio remains above pre-COVID levels…

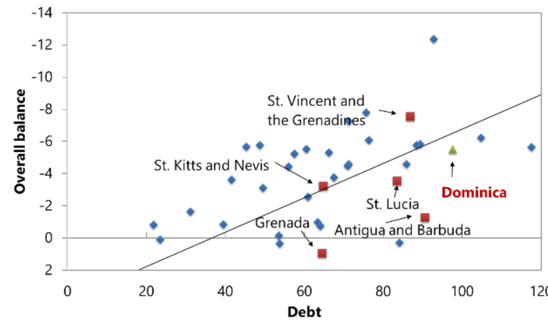
Public Debt and Fiscal Primary Balance
(In Percent of GDP, Fiscal Year)



Sources: Dominica's authorities and IMF staff calculations.

… and is one of the highest among peers.

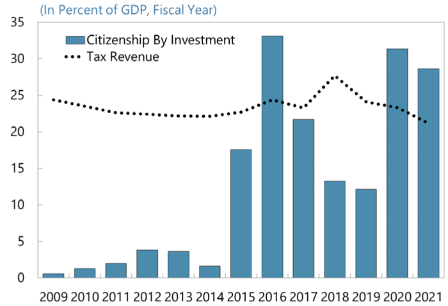
EM General Government Balance and Debt, 2022
(In Percent of GDP)



Sources: IMF staff calculations.

CBI revenue has been larger than tax revenue in the last two fiscal years.

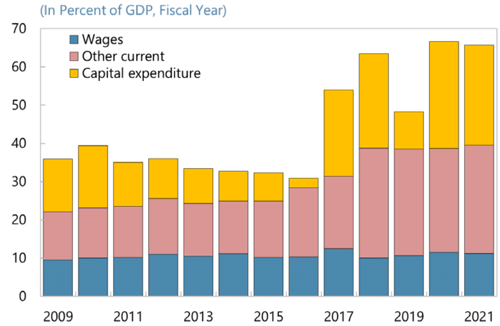
Total Revenue
(In Percent of GDP, Fiscal Year)



Sources: Dominica's authorities and IMF staff calculations.

Capital spending declined moderately in the last fiscal year, while recurrent expenditures increased at the margin.

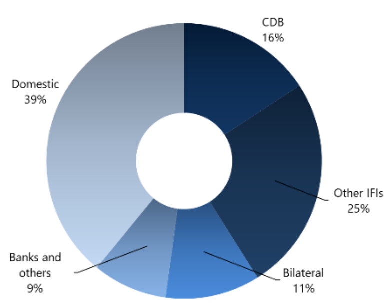
Government Expenditure
(In Percent of GDP, Fiscal Year)



Sources: Dominica's authorities and IMF staff calculations.

Nearly 40 percent of public debt is held by the systemic National Bank of Dominica.

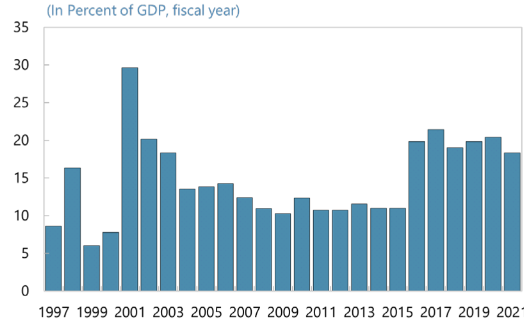
Composition of Public Sector Debt, end June 2022
(In Percent of Total Debt)



Sources: Dominican authorities and IMF staff calculations.

SOEs debt has been stable at around 20 percent of GDP.

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



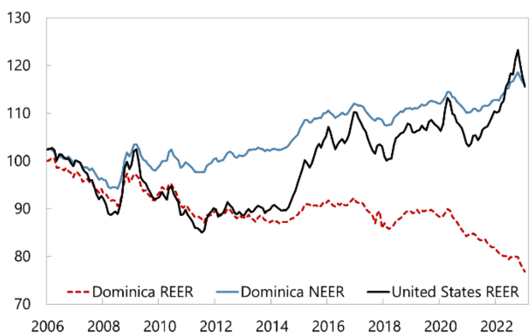
1/ Includes SOE debt and Petrocaribe debt.
Sources: IMF staff calculations.

Figure 3. Dominica: External Sector Developments

The REER depreciated due to higher imported commodity prices.

Nominal and Real Effective Exchange Rates

(Indices, January 2005 = 100)

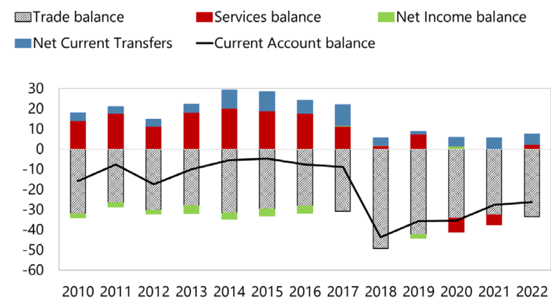


Sources: IMF Information Notice System, and IMF staff calculations.

A persistently large trade balance accounts for most of the CA deficit, while the services balance turned positive again in 2022.

Current Account Decomposition

(In Percent of GDP)

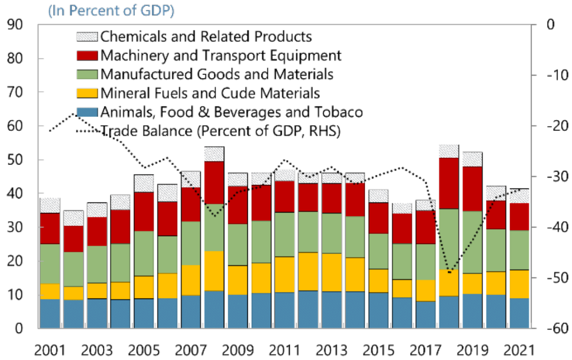


Sources: Dominica's authorities and IMF staff calculations.

Goods imports fell in 2020-21 due to demand compression.

Goods Import by Major Components

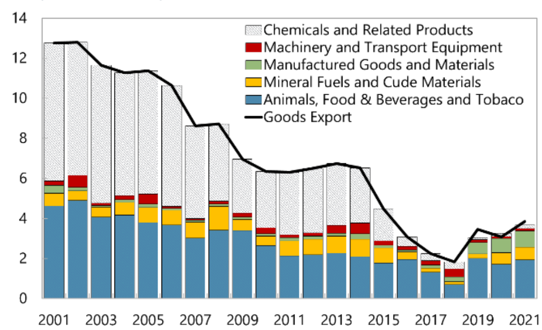
(In Percent of GDP)



Exports of primary and manufactured goods have kept up during the pandemic.

Goods Export by Major Components

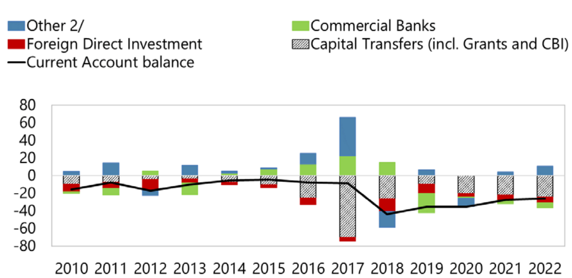
(In Percent of GDP)



CBI is the main source of external financing.

Current Account Deficit and Financing 1/

(In Percent of GDP)



Sources: Dominica's authorities and IMF staff calculations.

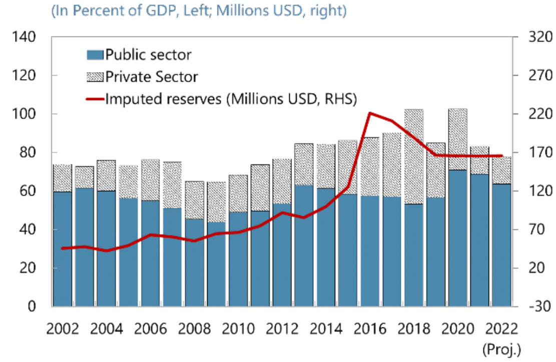
1/ Negative (positive) bar numbers reflect net inflows (outflows)

2/ Includes Errors and Omissions.

Private external debt is subsiding, but public external debt stabilized at high levels.

External Debt

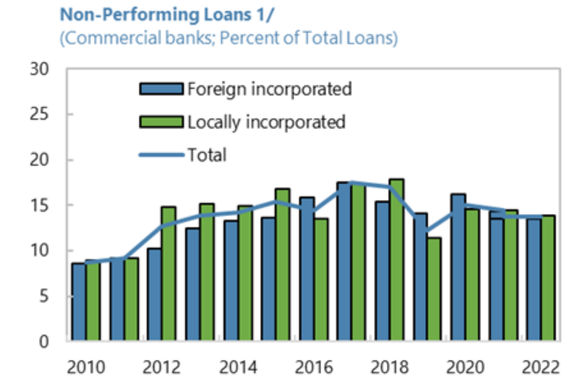
(In Percent of GDP, Left; Millions USD, right)



Sources: Dominica's authorities and IMF staff calculations.

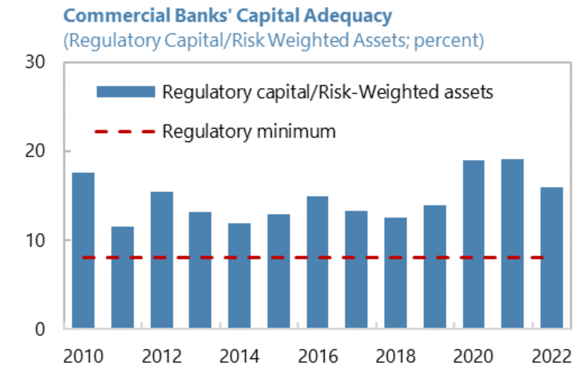
Figure 4. Dominica: Banking Sector Developments

While starting to decline, Non-Performing Loans remain elevated …



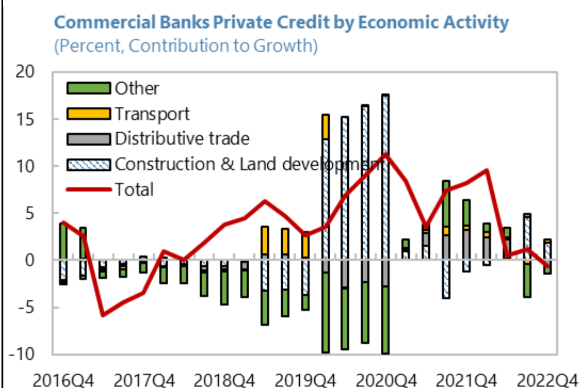
1/ End of quarter value for each year.
Sources: ECCB, Dominica authorities and Fund staff calculations.

… but banks remain well-capitalized



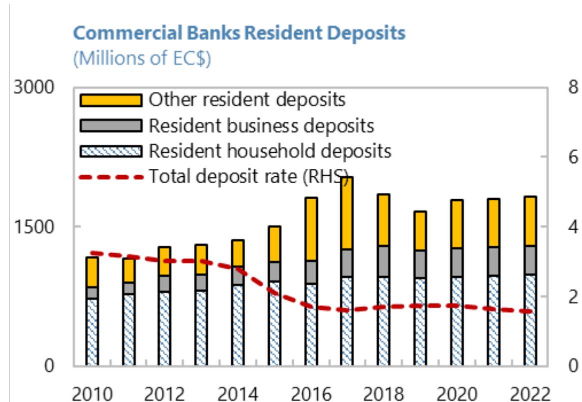
1/ End of quarter value for each year.
Sources: ECCB, Dominica authorities and Fund staff calculations.

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



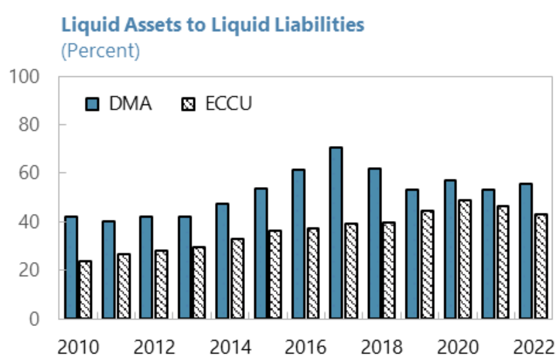
Sources: ECCB, Dominica authorities and Fund staff calculations.

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



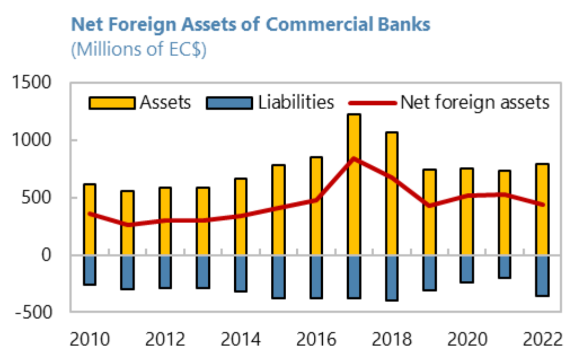
Sources: ECCB, Dominica authorities and Fund staff calculations.

Liquidity is steady and above the ECCU average.



Sources: ECCB, Dominica authorities and Fund staff calculations.

While foreign assets have remained steady, net foreign assets have declined slightly.



Sources: ECCB, Dominica authorities and Fund staff calculations.

Table 1. Dominica: Selected Economic Indicators, 2018–28

I. Social and Demographic Indicators

Area (sq. km.)	754	Adult literacy rate (percent, 2016)	94
Population (2020)		Unemployment rate (2016)	23
Total	73,370		
Annual rate of growth (percent)	1.6		
Density (per sq. km.)	97.3	Gross Domestic Product (2020)	
Population characteristics		Millions of E.C. dollars	1,361
Life expectancy at birth (years, 2016)	76	Millions of U.S. dollars	504
Infant mortality (per thousand live births, 2016)	12.38	U.S. dollars per capita	6,872

II. Economic Indicators

	2018	2019	2020	Est. 2021	Projected 2022	2023	2024	2025	2026	2027	2028
Output and prices	(annual percent change, unless otherwise specified)										
Real GDP 1/	3.5	5.5	-16.6	6.9	5.7	4.7	4.6	4.2	2.9	2.7	2.7
Nominal GDP 1/	6.4	10.2	-17.5	10.1	13.6	11.1	7.1	6.3	4.9	4.7	4.7
Consumer prices											
Period average	1.0	1.5	-0.7	1.6	7.5	6.2	2.4	2.0	2.0	2.0	2.0
End of period	4.0	0.1	-0.7	3.5	7.3	5.0	2.2	2.0	2.0	2.0	2.0
Central government balances 2/	(in percent of GDP, unless otherwise specified)										
Revenue	44.7	39.6	58.9	56.9	42.7	43.5	41.8	40.7	40.5	40.4	40.3
Taxes	27.7	24.1	23.3	21.2	20.1	21.9	22.2	22.1	21.8	21.7	21.6
Non-tax revenue	16.2	13.5	33.2	30.3	20.2	19.2	17.2	16.2	16.2	16.2	16.2
Grants	0.9	1.9	2.4	5.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Expenditure	62.9	48.1	66.6	65.6	46.7	47.8	45.0	43.6	42.9	42.3	42.1
Current primary expenditure	36.3	35.9	36.5	36.9	30.4	30.0	29.1	28.7	28.7	28.7	28.7
Interest payments	1.9	2.5	2.1	2.5	3.5	4.2	4.0	3.6	3.3	3.2	3.1
Capital expenditure	24.7	9.7	28.0	26.2	12.8	13.6	11.8	11.3	10.9	10.4	10.4
Primary balance	-16.2	-6.0	-5.5	-6.2	-0.5	-0.1	0.9	0.7	0.9	1.3	1.2
Primary balance, excluding CBI	-29.4	-18.1	-36.9	-34.9	-18.5	-17.1	-14.2	-13.3	-13.1	-12.8	-12.8
Overall balance	-18.1	-8.5	-7.7	-8.7	-4.0	-4.2	-3.2	-2.9	-2.4	-1.9	-1.9
Overall balance (incl. ND cost buffers), of which:	-18.1	-8.5	-7.7	-8.7	-5.5	-5.7	-4.7	-4.4	-3.9	-3.4	-3.4
annualized cost of natural disasters (ND)	...	...	...	...	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Central government debt (incl. guaranteed) 3/	85.6	97.7	112.5	106.3	97.6	93.5	91.0	90.3	90.1	89.5	89.0
External	53.1	56.6	70.9	68.6	63.6	60.2	59.3	59.6	60.6	62.1	63.5
Domestic	32.6	41.1	41.6	37.7	34.0	33.3	31.7	30.7	29.5	27.4	25.5
Money and credit (annual percent change)											
Broad money (M2)	1.4	-6.3	-9.9	1.8	1.5	6.5	6.2	5.4	4.9	4.7	4.7
Real credit to the private sector	-5.3	-6.1	0.4	0.0	-5.5	0.8	1.8	3.2	2.9	2.7	4.7
Balance of payments											
Current account balance, of which:	-43.7	-35.6	-35.4	-27.6	-26.2	-25.2	-17.7	-15.9	-14.3	-12.8	-11.1
Exports of goods and services	28.2	34.5	18.9	22.2	25.4	27.7	31.2	33.7	33.9	34.2	35.3
Imports of goods and services 4/	75.7	69.7	60.2	55.4	56.8	58.6	54.8	55.3	54.0	52.8	52.3
Capital and financial account 5/	38.7	37.7	33.2	27.5	26.3	25.3	17.8	16.1	14.4	12.9	11.2
FDI	14.1	10.3	4.3	6.1	6.6	6.4	4.8	4.6	4.5	4.5	4.5
Capital grants	26.5	9.8	20.2	22.2	24.4	14.6	12.8	11.6	9.9	7.7	7.5
Other (incl. errors and omissions)	-1.9	17.6	8.6	-0.8	-4.7	4.3	0.2	-0.2	0.0	0.7	-0.8
External debt (gross) 6/	102.1	84.9	102.6	82.9	77.9	74.3	72.3	72.1	72.7	73.9	75.0
Saving-Investment Balance	-43.7	-35.6	-35.4	-27.6	-26.2	-25.2	-17.7	-15.9	-14.3	-12.8	-11.1
Saving	-11.2	-12.1	-11.4	7.7	-1.2	-9.1	-1.6	-1.0	0.2	1.3	2.7
Investment	32.4	23.5	24.0	35.3	25.0	16.1	16.1	15.0	14.5	14.1	13.8
Public	24.9	17.0	21.0	28.3	20.0	14.1	13.6	12.5	12.0	11.6	11.3
Private	7.5	6.5	3.0	7.0	5.0	2.0	2.5	2.5	2.5	2.5	2.5
Memorandum items:											
Nominal GDP (EC$ millions)	1,498	1,651	1,361	1,499	1,703	1,893	2,027	2,155	2,261	2,368	2479
Nominal GDP, fiscal year (EC$ millions)	1,575	1,506	1,430	1,601	1,798	1,960	2,091	2,208	2,314	2,424	2538
Net imputed international reserves:											
End-year (millions of U.S. dollars)	189.2	166.2	165.6	165.2	166.0	172.4	181.0	191.7	203.1	214.8	227.3
Months of imports of goods and services	5.4	4.7	6.6	6.4	5.6	5.0	5.3	5.2	5.4	5.6	5.7
Holdings of SDRs (millions of SDRs)	1.5	0.4	0.2	11.1	9.6	9.6	9.6	9.6	9.6	9.6	9.6

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

1/ At market prices.

2/ Data for fiscal years from July to June. Figures shown for a given year relate to the fiscal year beginning on July 1 of that year.

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

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

5/ Positive sign means inflow.

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

Table 2. Dominica: Balance of Payments, 2018–28

	2018	2019	2020	Est. 2021	Projected 2022	2023	2024	2025	2026	2027	2028
					(in millions of U.S. dollars)						
Current account balance	**-242.2**	**-217.5**	**-178.7**	**-153.2**	**-165.1**	**-176.4**	**-133.1**	**-127.3**	**-119.9**	**-112.2**	**-102.3**
Exports of goods and services, of which: 1/	156.6	211.2	95.4	123.4	159.9	194.0	234.6	268.7	283.8	300.2	324.2
Goods	11.6	21.2	15.5	21.3	22.5	23.7	25.3	26.9	28.1	29.4	30.7
Tourism	88.4	135.3	30.0	23.3	75.1	100.9	135.0	162.8	172.9	184.1	202.6
Imports of goods and services	420.2	426.0	303.3	307.8	358.1	410.7	411.4	441.6	452.0	463.3	480.2
Fuel	37.9	34.0	23.4	38.8	53.9	45.5	43.0	40.7	38.6	37.2	38.7
Food	40.2	42.4	33.5	36.3	38.3	38.8	40.3	41.8	43.1	44.6	46.7
Other goods 2/	206.4	204.5	130.8	127.6	142.5	190.9	179.4	201.5	203.5	205.5	210.0
Services	135.7	145.1	115.7	105.2	123.4	135.5	148.7	157.6	166.8	175.9	184.8
Net income, of which:	0.8	-10.7	7.2	0.9	0.0	4.7	5.9	5.7	6.3	6.9	7.7
Interest payments (public sector)	-6.9	-6.6	-5.5	-4.5	-5.5	-6.9	-7.7	-8.0	-8.3	-8.7	-9.3
Net current transfers	20.6	8.1	22.0	30.3	32.9	35.5	37.8	40.0	42.0	43.9	46.0
Capital account	**147.2**	**59.8**	**102.0**	**123.4**	**153.7**	**102.3**	**96.2**	**92.9**	**82.9**	**67.2**	**68.5**
Financial account 3/	**-67.7**	**-170.9**	**-65.4**	**-29.3**	**-12.3**	**-75.0**	**-37.8**	**-35.2**	**-37.9**	**-45.8**	**-34.7**
Public sector flows	0.4	-4.7	-33.0	-45.6	-23.9	-14.2	-17.6	-25.4	-30.1	-34.9	-38.6
PetroCaribe financing flows	2.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment	-78.2	-63.0	-21.9	-33.8	-41.9	-45.0	-36.0	-36.7	-38.1	-39.9	-41.7
Commercial banks	82.5	-134.7	-6.2	-19.5	-36.1	-12.0	-4.5	-2.7	-2.8	-2.8	-2.9
Other private flows 4/	-81.4	67.7	-15.0	69.5	89.6	-3.8	20.3	29.6	33.0	31.8	48.6
Errors and omissions 5/	**6.4**	**-36.2**	**10.6**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-20.9**	**-23.0**	**-0.6**	**-0.5**	**0.8**	**0.8**	**0.8**	**0.9**	**0.9**	**0.9**	**0.9**
					(in percent of GDP)						
Current account balance	**-43.7**	**-35.6**	**-35.4**	**-27.6**	**-26.2**	**-25.2**	**-17.7**	**-15.9**	**-14.3**	**-12.8**	**-11.1**
Exports of goods and services, of which: 1/	28.2	34.5	18.9	22.2	25.4	27.7	31.2	33.7	33.9	34.2	35.3
Goods	2.1	3.5	3.1	3.8	3.6	3.4	3.4	3.4	3.4	3.4	3.3
Tourism	15.9	22.1	6.0	4.2	11.9	14.4	18.0	20.4	20.6	21.0	22.1
Imports of goods and services	75.7	69.7	60.2	55.4	56.8	58.6	54.8	55.3	54.0	52.8	52.3
Fuel	6.8	5.6	4.6	7.0	8.5	6.5	5.7	5.1	4.6	4.2	4.2
Food	7.3	6.9	6.6	6.5	6.1	5.5	5.4	5.2	5.1	5.1	5.1
Other goods 2/	37.2	33.4	25.9	23.0	22.6	27.2	23.9	25.2	24.3	23.4	22.9
Services	24.5	23.7	22.9	19.0	19.6	19.3	19.8	19.7	19.9	20.1	20.1
Net income, of which:	0.1	-1.7	1.4	0.2	0.0	0.7	0.8	0.7	0.7	0.8	0.8
Interest payments (public sector)	-1.2	-1.1	-1.1	-0.8	-0.9	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Net current transfers	3.7	1.3	4.4	5.5	5.2	5.1	5.0	5.0	5.0	5.0	5.0
Capital account	**26.5**	**9.8**	**20.2**	**22.2**	**24.4**	**14.6**	**12.8**	**11.6**	**9.9**	**7.7**	**7.5**
Net acquisition of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.2	0.3
Capital transfers	26.5	9.8	20.2	22.2	24.4	14.6	12.8	11.6	9.9	7.7	7.5
Financial account 3/	**-12.2**	**-27.9**	**-13.0**	**-5.3**	**-1.9**	**-10.7**	**-5.0**	**-4.4**	**-4.5**	**-5.2**	**-3.8**
Public sector flows	0.1	-0.8	-6.5	-8.2	-3.8	-2.0	-2.3	-3.2	-3.6	-4.0	-4.2
PetroCaribe financing flows	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign direct investment	-14.1	-10.3	-4.3	-6.1	-6.6	-6.4	-4.8	-4.6	-4.5	-4.5	-4.5
Commercial banks	14.9	-22.0	-1.2	-3.5	-5.7	-1.7	-0.6	-0.3	-0.3	-0.3	-0.3
Other private flows 4/	-14.7	11.1	-3.0	12.5	14.2	-0.5	2.7	3.7	3.9	3.6	5.3
Errors and omissions /5	**1.1**	**-5.9**	**2.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-3.8**	**-3.8**	**-0.1**	**-0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**	**0.1**
Memorandum items:											
Trade balance (percent of GDP)	-49.2	-42.5	-34.1	-32.6	-33.6	-35.9	-31.6	-32.2	-30.7	-29.4	-28.8
Services balance (percent of GDP)	1.7	7.3	-7.1	-4.9	2.2	5.0	8.1	10.5	10.6	10.8	11.8
Net imputed international reserves:											
Millions of U.S. dollars	189.2	166.2	165.6	165.2	166.0	172.4	181.0	191.7	203.1	214.8	227.3
Months of imports of goods and services	5.4	4.7	6.6	6.4	5.6	5.0	5.3	5.2	5.4	5.6	5.7
Gross external debt (in percent of GDP) 6/	102.1	84.9	102.6	82.9	77.9	74.3	72.3	72.1	72.7	73.9	75.0
Public sector	53.1	56.6	70.9	68.6	63.6	60.2	59.3	59.6	60.6	62.1	63.5
Private sector	49.0	55.4	71.4	55.8	40.7	38.8	34.2	28.8	23.8	19.4	13.6
GDP (in US$ millions)	554.8	611.5	504.2	555.3	630.7	701.0	750.8	798.2	837.4	877.0	918.3

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 disaster

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

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

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

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

Table 3a. Dominica: Statement of Operations of the Central Government, 2018–28 1/2/

				Prel.	Projected						
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	(in millions of Eastern Caribbean dollars)										
Revenue	**704.4**	**595.9**	**843.1**	**911.2**	**768.5**	**853.3**	**874.7**	**899.5**	**937.6**	**978.1**	**1,022.3**
Taxes	436.3	363.0	333.3	338.9	361.5	429.1	463.3	487.2	505.4	525.5	548.4
Taxes on income	68.1	64.2	57.1	50.2	47.0	85.3	95.2	100.5	105.3	110.3	115.5
Taxes on property	8.7	9.4	9.6	8.1	8.3	10.4	13.2	13.9	14.6	15.2	16.0
Taxes on goods and services	248.1	208.0	194.3	211.2	226.7	235.2	254.2	267.5	277.6	288.8	301.4
Taxes on international trade and transactions	111.4	81.5	72.3	69.4	79.5	98.2	100.8	105.3	107.9	111.2	115.5
Grants	13.7	29.0	35.0	86.7	43.8	47.8	51.0	53.8	56.4	59.1	61.8
Other revenue	254.4	203.9	474.8	485.6	363.2	376.4	360.4	358.5	375.8	393.5	412.0
Property income	1.3	3.5	1.6	2.2	2.5	2.7	2.9	3.1	3.2	3.4	3.5
Sales, fees, and fines	21.1	10.5	12.7	12.3	23.2	25.3	27.0	28.5	29.9	31.3	32.7
Other nontax revenue, of which:	232.0	189.9	460.5	471.0	337.5	348.4	330.6	327.0	342.7	358.9	375.8
Citizenship-by-Investment	208.3	182.4	448.0	458.6	323.6	333.2	314.4	309.9	324.8	340.1	356.1
Expenditure	**990.1**	**724.0**	**952.8**	**1,050.9**	**840.2**	**936.4**	**941.2**	**963.0**	**993.2**	**1,024.3**	**1,069.4**
Expense	**601.8**	**577.9**	**552.8**	**631.8**	**609.2**	**668.9**	**693.5**	**714.2**	**741.7**	**773.1**	**806.4**
Compensation of employees	157.7	160.5	164.5	180.1	163.4	186.2	198.6	209.7	219.9	230.2	241.1
Purchase of goods and services	268.6	263.2	247.3	300.9	247.0	256.5	260.0	265.7	278.5	291.7	305.4
Interest	30.6	37.2	30.3	40.2	62.4	81.5	84.5	80.0	76.9	76.9	77.4
Grants and social benefits (transfers and subsidies)	153.9	120.0	111.0	111.1	136.9	145.3	150.8	159.2	166.9	174.8	183.0
Other expense	-9.0	-3.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6
Net lending	-9.0	-3.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6
Net acquisition of nonfinancial assets	**388.3**	**146.1**	**400.0**	**419.1**	**231.0**	**267.5**	**247.7**	**248.8**	**251.5**	**251.2**	**263.1**
Grant-financed capital expenditure	13.7	19.2	39.9	52.4	43.8	47.8	51.0	53.8	56.4	59.1	61.8
Other capital expenditure	374.6	128.1	362.0	368.8	189.6	222.3	199.5	197.9	198.2	195.4	204.6
Capital revenue	0.0	-1.2	-1.9	-2.1	-2.4	-2.6	-2.8	-3.0	-3.1	-3.2	-3.4
Natural disaster (ND) annualised cost 3/	**0.0**	**0.0**	**0.0**	**0.0**	**27.0**	**29.4**	**31.4**	**33.1**	**34.7**	**36.4**	**38.1**
Net lending/borrowing (excl. ND cost)	**-285.7**	**-128.1**	**-109.7**	**-139.7**	**-71.7**	**-83.1**	**-66.5**	**-63.5**	**-55.6**	**-46.2**	**-47.2**
Net lending/borrowing (incl. ND cost)	**-285.7**	**-128.1**	**-109.7**	**-139.7**	**-98.6**	**-112.5**	**-97.8**	**-96.6**	**-90.4**	**-82.5**	**-85.2**
Net financial transactions	**-285.7**	**-128.1**	**-109.7**	**-139.7**	**-98.6**	**-112.5**	**-97.8**	**-96.6**	**-90.4**	**-82.5**	**-85.2**
Net acquisition of financial assets	**155.7**	**-0.9**	**-32.3**	**43.1**	**50.0**	**40.0**	**30.0**	**10.0**	**5.0**	**2.0**	**0.0**
Currency and deposits	155.7	-0.9	-32.3	43.1	50.0	40.0	30.0	10.0	5.0	2.0	0.0
Net incurrence of liabilities	**139.7**	**124.0**	**142.1**	**86.0**	**62.9**	**72.6**	**67.9**	**86.7**	**85.4**	**80.6**	**85.3**
Domestic	142.5	102.8	-22.2	-2.3	19.0	44.7	7.7	12.8	2.1	-16.5	-16.0
Foreign	-2.9	21.2	164.3	88.3	43.9	27.9	60.1	73.8	83.3	97.1	101.3
Other flows	**-9.7**	**5.0**	**-0.2**	**10.6**	**-14.2**	**-0.1**	**-0.1**	**-0.1**	**-0.1**	**0.0**	**0.0**
Memorandum items:											
Primary balance	-255.0	-90.9	-79.3	-99.4	-9.3	-1.7	18.0	16.5	21.3	30.7	30.3
Primary balance (excl. CBI)	-463.4	-273.3	-527.3	-558.1	-332.9	-334.9	-296.3	-293.4	-303.5	-309.4	-325.9
Primary balance (excl. CBI and ND cost) 4/	-439.7	-250.7	-505.9	-534.1	-305.9	-305.5	-265.0	-260.2	-268.8	-273.1	-287.8
Overall balance (excl. CBI)	-494.0	-310.5	-557.6	-598.3	-395.3	-416.3	-380.8	-373.4	-380.5	-386.3	-403.3
Public sector debt 5/	1,348	1,471	1,608	1,702	1,755	1,832	1,904	1,995	2,085	2,170	2,260
Domestic	513	618	595	603	611	653	663	678	682	665	648
Central Governement	443	546	524	521	540	585	593	606	608	591	575
Rest of public sector	70	72	71	82	71	68	70	73	74	74	73
Foreign	835	853	1,014	1,099	1,144	1,179	1,241	1,316	1,403	1,505	1,612
Central Governement	606	627	791	879	923	951	1,011	1,085	1,168	1,266	1,367
Rest of public sector	230	226	222	220	221	228	229	231	234	239	245
Nominal GDP, fiscal year (EC$ millions)	1,575	1,506	1,430	1,601	1,798	1,960	2,091	2,208	2,314	2,424	2,538

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

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

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

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

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

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

Table 3b. Dominica: Statement of Operations of the Central Government, 2018–28 1/2/

	2018	2019	2020	Prel. 2021	Projected 2022	2023	2024	2025	2026	2027	2028
				(in percent of GDP)							
Revenue	**44.7**	**39.6**	**58.9**	**56.9**	**42.7**	**43.5**	**41.8**	**40.7**	**40.5**	**40.4**	**40.3**
Taxes	27.7	24.1	23.3	21.2	20.1	21.9	22.2	22.1	21.8	21.7	21.6
Taxes on income	4.3	4.3	4.0	3.1	2.6	4.4	4.6	4.6	4.6	4.6	4.6
Taxes on property	0.6	0.6	0.7	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Taxes on goods and services	15.8	13.8	13.6	13.2	12.6	12.0	12.2	12.1	12.0	11.9	11.9
Taxes on international trade and transactions	7.1	5.4	5.1	4.3	4.4	5.0	4.8	4.8	4.7	4.6	4.6
Grants	0.9	1.9	2.4	5.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Other revenue	16.2	13.5	33.2	30.3	20.2	19.2	17.2	16.2	16.2	16.2	16.2
Property income	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees, and fines	1.3	0.7	0.9	0.8	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other nontax revenue, of which:	14.7	12.6	32.2	29.4	18.8	17.8	15.8	14.8	14.8	14.8	14.8
Citizenship-by-Investment	13.2	12.1	31.3	28.6	18.0	17.0	15.0	14.0	14.0	14.0	14.0
Expenditure	**62.9**	**48.1**	**66.6**	**65.6**	**46.7**	**47.8**	**45.0**	**43.6**	**42.9**	**42.3**	**42.1**
Expense	**38.2**	**38.4**	**38.6**	**39.5**	**33.9**	**34.1**	**33.2**	**32.3**	**32.0**	**31.9**	**31.8**
Compensation of employees	10.0	10.7	11.5	11.3	9.1	9.5	9.5	9.5	9.5	9.5	9.5
Purchase of goods and services	17.1	17.5	17.3	18.8	13.7	13.1	12.4	12.0	12.0	12.0	12.0
Interest	1.9	2.5	2.1	2.5	3.5	4.2	4.0	3.6	3.3	3.2	3.1
Grants and social benefits (transfers and subsidies)	9.8	8.0	7.8	6.9	7.6	7.4	7.2	7.2	7.2	7.2	7.2
Other expense	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**24.7**	**9.7**	**28.0**	**26.2**	**12.8**	**13.6**	**11.8**	**11.3**	**10.9**	**10.4**	**10.4**
Grant-financed capital expenditure	0.9	1.3	2.8	3.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Other capital expenditure	23.8	8.5	25.3	23.0	10.5	11.3	9.5	9.0	8.6	8.1	8.1
Capital revenue	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Natural disaster (ND) annualised cost 3/	**0.0**	**0.0**	**0.0**	**0.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Net lending/borrowing (overall balance, excl. ND cost)	**-18.1**	**-8.5**	**-7.7**	**-8.7**	**-4.0**	**-4.2**	**-3.2**	**-2.9**	**-2.4**	**-1.9**	**-1.9**
Net lending/borrowing (overall balance, incl. ND cost)	**-18.1**	**-8.5**	**-7.7**	**-8.7**	**-5.5**	**-5.7**	**-4.7**	**-4.4**	**-3.9**	**-3.4**	**-3.4**
Net financial transactions	**-18.1**	**-8.5**	**-7.7**	**-8.7**	**-5.5**	**-5.7**	**-4.7**	**-4.4**	**-3.9**	**-3.4**	**-3.4**
Net acquisition of financial assets	**9.9**	**-0.1**	**-2.3**	**2.7**	**2.8**	**2.0**	**1.4**	**0.5**	**0.2**	**0.1**	**0.0**
Currency and deposits	9.9	-0.1	-2.3	2.7	2.8	2.0	1.4	0.5	0.2	0.1	0.0
Net incurrence of liabilities	**8.9**	**8.2**	**9.9**	**5.4**	**3.5**	**3.7**	**3.2**	**3.9**	**3.7**	**3.3**	**3.4**
Domestic	9.1	6.8	-1.6	-0.1	1.1	2.3	0.4	0.6	0.1	-0.7	-0.6
Foreign	-0.2	1.4	11.5	5.5	2.4	1.4	2.9	3.3	3.6	4.0	4.0
Other flows	**-0.6**	**0.3**	**0.0**	**0.7**	**-0.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Primary balance	-16.2	-6.0	-5.5	-6.2	-0.5	-0.1	0.9	0.7	0.9	1.3	1.2
Primary balance (excl. CBI)	-29.4	-18.1	-36.9	-34.9	-18.5	-17.1	-14.2	-13.3	-13.1	-12.8	-12.8
Primary balance (excl. CBI and ND cost) 4/	-27.9	-16.6	-35.4	-33.4	-17.0	-15.6	-12.7	-11.8	-11.6	-11.3	-11.3
Overall balance (excl. CBI)	-31.4	-20.6	-39.0	-37.4	-22.0	-21.2	-18.2	-16.9	-16.4	-15.9	-15.9
Public sector debt 5/	85.6	97.7	112.5	106.3	97.6	93.5	91.0	90.3	90.1	89.5	89.0
Domestic	32.6	41.1	41.6	37.7	34.0	33.3	31.7	30.7	29.5	27.4	25.5
Central Governement	28.1	36.2	36.6	32.6	30.1	29.9	28.4	27.4	26.3	24.4	22.7
Rest of public sector	4.4	4.8	5.0	5.1	3.9	3.4	3.4	3.3	3.2	3.0	2.9
Foreign	53.1	56.6	70.9	68.6	63.6	60.2	59.3	59.6	60.6	62.1	63.5
Central Governement	38.5	41.6	55.3	54.9	51.4	48.5	48.4	49.1	50.5	52.2	53.9
Rest of public sector	14.6	15.0	15.6	13.7	12.3	11.6	11.0	10.5	10.1	9.9	9.6
Nominal GDP, fiscal year (EC$ millions)	1,575	1,506	1,430	1,601	1,798	1,960	2,091	2,208	2,314	2,424	2,538

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

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

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

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

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

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

Table 4. Dominica: Summary Accounts of the Banking System, 2018–28

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projected						
	(in millions of Eastern Caribbean dollars, end of period)										
Net foreign assets	**1,182**	**879**	**963**	**970**	**875**	**860**	**871**	**893**	**917**	**943**	**971.2**
Central Bank	511	449	447	446	448	465	489	518	548	580	613.7
Commercial Banks (net)	671	430	516	525	427	395	383	375	369	363	357.5
Net domestic assets	**463**	**663**	**426**	**444**	**560**	**669**	**752**	**817**	**877**	**936**	**996.6**
Public sector credit, net	-24	187	88	173	225	266	298	310	317	322	324.0
(real terms)	-23	178	85	160	194	219	240	244	245	244	241
Central Government	83	259	299	387	439	480	512	524	531	536	538
Private sector credit	773	727	725	751	761	805	839	883	927	971	1,037.1
(real terms)	737	692	694	694	656	662	674	696	716	735	770
Other items (net)	-286	-251	-387	-480	-426	-403	-385	-376	-367	-356	-365
Money and quasi-money (M2)	**1,645**	**1,542**	**1,389**	**1,415**	**1,436**	**1,529**	**1,623**	**1,710**	**1,794**	**1,879**	**1,968**
Money	441	367	330	460	485	520	553	583	612	641	670.9
Quasi-money	1,204	1,175	1,059	955	950	1,009	1,070	1,127	1,183	1,239	1,296.9
	(12-month percentage change)										
Net foreign assets	**-18.3**	**-25.6**	**9.5**	**0.8**	**-9.8**	**-1.7**	**1.3**	**2.5**	**2.7**	**2.8**	**3.0**
Net domestic assets, of which:	**165.0**	**43.3**	**-35.7**	**4.2**	**26.2**	**19.3**	**12.4**	**8.8**	**7.3**	**6.8**	**6.4**
Public sector credit, net	-92.3	-873.6	-52.7	96.0	29.8	18.6	11.9	4.0	2.3	1.3	0.7
(real terms)	-92.6	-872.5	-52.3	89.3	21.0	12.9	9.5	2.0	0.3	-0.7	-1.2
Private sector credit	-1.5	-6.0	-0.3	3.5	1.4	5.8	4.1	5.3	5.0	4.8	6.8
(real terms)	-5.3	-6.1	0.4	0.0	-5.5	0.8	1.8	3.2	2.9	2.7	4.7
Broad money	**1.4**	**-6.3**	**-9.9**	**1.8**	**1.5**	**6.5**	**6.2**	**5.4**	**4.9**	**4.7**	**4.7**
NFA contribution	-16.3	-18.4	5.4	0.6	-6.7	-1.0	0.7	1.3	1.4	1.4	1.5
NDA contribution	17.8	12.2	-15.3	1.3	8.2	7.5	5.4	4.1	3.5	3.3	3.2
Money	2.2	-16.7	-10.1	39.3	5.5	7.2	6.3	5.5	4.9	4.7	4.7
NFA contribution	-13.6	-14.1	-0.5	-0.4	0.5	3.6	4.5	5.2	5.3	5.1	5.3
NDA contribution	15.9	-2.6	-9.6	39.6	5.0	3.6	1.8	0.3	-0.4	-0.4	-0.6
Broad money (real terms)	**-2.5**	**-6.4**	**-9.3**	**-1.7**	**-5.4**	**1.4**	**3.8**	**3.3**	**2.9**	**2.7**	**2.7**
	(in percent of GDP)										
Net foreign assets	**78.9**	**53.2**	**70.7**	**64.7**	**51.4**	**45.4**	**43.0**	**41.4**	**40.6**	**39.8**	**39.2**
Net domestic assets	**30.9**	**40.2**	**31.3**	**29.6**	**32.9**	**35.3**	**37.1**	**37.9**	**38.8**	**39.5**	**40.2**
Public sector credit, net	-1.6	11.3	6.5	11.6	13.2	14.1	14.7	14.4	14.0	13.6	13.1
Private sector credit	51.6	44.0	53.2	50.1	44.7	42.6	41.4	41.0	41.0	41.0	41.8
Broad Money	**109.8**	**93.4**	**102.0**	**94.4**	**84.3**	**80.8**	**80.1**	**79.4**	**79.4**	**79.4**	**79.4**
Money	29.4	22.2	24.3	30.7	28.5	27.5	27.3	27.1	27.1	27.1	27.1
Quasi-money	80.4	71.1	77.8	63.7	55.8	53.3	52.8	52.3	52.3	52.3	52.3
Interest rates (percent) 1/											
ECCB policy rate	6.5	6.5	2.0	2.0	2.0	...	...	...	...	...	...
U.S. policy rate	2.3	1.6	0.1	0.1	4.1	...	...	...	...	...	...
Time deposit rate	3.2	3.1	3.1	3.1	3.1	...	...	...	...	...	...
Demand deposit rate	0.1	0.1	0.1	0.1	0.1	...	...	...	...	...	...
Savings deposit rate	2.1	2.1	2.1	2.1	2.0	...	...	...	...	...	...

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

1/ End-period rates.

Table 5. Dominica: Financial Stability Indicators, 2013–22

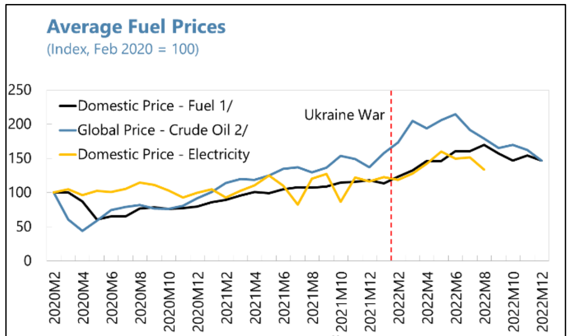
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Capital Adequacy										
Regulatory capital ratio 1/	13.1	11.9	12.9	15.0	13.3	12.5	13.9	18.9	19.1	15.9
Asset quality										
Nonperforming loans to total gross loans	13.9	14.2	15.1	14.5	17.4	17.0	12.2	15.0	14.4	13.8
Nonperforming loans net of provisions to capital	114.4	111.9	105.3	93.7	72.2	73.7	101.2	116.5	69.5	74.4
Earnings and Profitability										
Return on Assets	-0.1	-0.1	0.1	0.8	-1.5	-0.8	2.9	0.9	0.2	-0.9
Return on Equity	-1.8	-1.9	2.4	22.2	-39.1	-15.0	60.4	24.0	3.0	-14.3
Interest Margin to Gross Income	57.2	48.0	49.6	56.3	56.5	54.3	59.8	50.3	48.8	52.1
Liquidity										
Liquid Assets to Short-term liabilities	42.0	47.5	53.9	61.2	70.5	61.7	53.2	56.8	53.1	55.6
Liquid Assets to Total Assets	36.9	39.8	46.9	54.5	62.5	56.3	46.7	48.9	46.1	48.1

Source: ECCB
1/ Total Capital over risk weighted assets.

Annex I. The Impact of Russia's War in Ukraine on Dominica

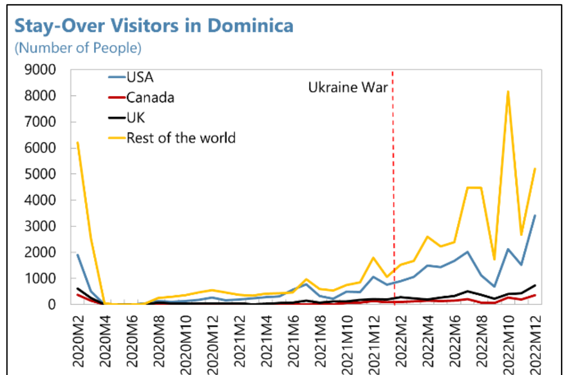
The war in Ukraine has impacted the Dominican economy mainly through disruptions in commodity markets and slowdown in global growth, while financial linkages have been less important:

1. Commodity prices. Dominica fully relies on imported fuels for transportation and to produce about 70 percent of its electricity. Higher global energy prices pushed average inflation up to 7.5 percent in 2022 from 1.6 percent in 2021, despite the temporary fuel price subsidies and waiving of custom duties, which fiscal cost rose to just under half a percentage of GDP.[1] Although Dominica produces a large share of the food it consumes, the rise in global food prices has also passed through due to imports of processed foods.



Sources: Dominica authorities, ECCB; and IMF staff calculations.
1/ Average of gasoline, diesel and kerosene.
2/ Simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh.

2. Lower global growth and resulting deceleration in tourism demand. Tourism is a major sector of Dominica's economy. The war in Ukraine has slowed down the global economic recovery, particularly the European region. This has hindered the pickup in tourist arrivals to Dominica and Dominica's economic recovery. In addition, the late reopening further negatively impacted the recovery of tourism in Dominica relative to peers (see Selected Issues Paper).



Sources: ECCB.

3. Financial conditions. The war in Ukraine also contributed to a tightening of financial conditions due to inflationary pressures and intensified uncertainty. However, Dominica is relatively isolated from international financial markets, as sovereign external debt is mostly concessional, and the private sector (including systemic financial institutions) does not rely on foreign funding. Furthermore, lending and deposit rates have remained low in Dominica (and the ECCU) due to low integration with external financial markets and ample liquidity. However, domestic banks (NBD) faced losses on their large foreign investments due the decline in asset prices. Foreign-owned banks could also face liquidity constraints.

[1] Preliminary estimates pointed to a 3 percent of GDP annualized cost. However, fuel price policies were implemented for 6 months only, and the cost of subsidies was somewhat lower than initially envisaged.

Annex II. External Sector Assessment

Overall Assessment: *Dominica's estimated external position in 2022 is substantially weaker than the level implied by fundamentals and desirable policies.[1] High commodity prices (particularly fuel) and a late re-opening of the economy due to COVID-19 related restrictions, leading to a delayed recovery in tourism, prevented a faster reduction of the current account (CA) deficit, which narrowed from 27.6 percent of GDP in 2021 to 26.2 percent in 2022. A small improvement of the CA balance is expected in 2023 as the construction of large infrastructure projects will sustain high imports, but to rise in the medium term as tourism exports and terms of trade improve, and as public investment (and, thus, imports) declines. However, Dominica's vulnerability to national disasters and high dependency on commodity imports raise external sustainability risks.*

Potential Policy Responses: *To mitigate vulnerability to natural disasters—reducing potential impact on external debt—continue to earmark CBI revenue to spending on resilience building projects and increase the allocation to the government's self-insurance fund (VRF) and to debt amortization. Pursue fiscal consolidation in line with the ECCU's regional debt target and Dominica's national fiscal rule. Implement reforms to improve competitiveness, broadening the export base, and advance the transition to renewable energy generation, reducing reliance on imported fossil fuels.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (IIP) was -55.6 percent of GDP in 2021 and is estimated to have remained flat in 2022, as the CA deficit was mostly financed with CBI revenues. In 2021, most (57% of) assets were held by deposit-taking institutions other than the central bank, either in the form of currency and deposits (47% of total assets) or equity and fund shares (10% of total assets). Reserve assets constitute ¼ of total assets. On the liability side, half of obligations pertain to FDI (close to 100 percent of GDP), while 1/3 are general government loans and debt securities.

Assessment. The large share of FDI and concessional (long maturity) loans to the general government in total liabilities mitigate potential risks and is expected to persist. The deterioration of the NIIP in 2021-22 does not constitute a significant concern for external debt sustainability, and the expected improvement in the current account over the medium term is expected to stabilize the NIIP.

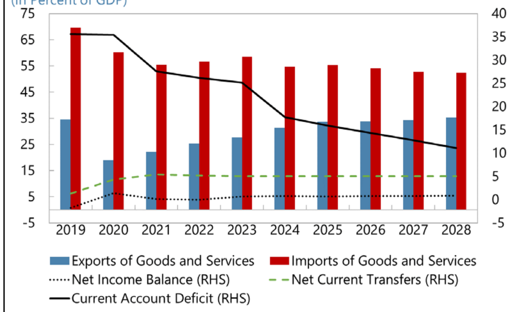
2022 (% GDP)	NIIP: -55.6	Gross Assets: 112.3	Debt Assets: 74.4	Gross Liab.: -167.9	Debt Liab.: -83.9

Current Account

Background. In 2022, the estimated CA deficit fell to 26.2 percent of GDP, from 26.7 percent of GDP in 2021. An increase of tourism exports worth 7.7 percent of GDP was the main driver of the CA improvement—even if the number of visitors is still below pre-COVID levels—compensating the effect of worse terms of trade on the trade balance and slightly worse income and transfer balances. The adjustment is expected to continue in 2023, despite a rebound in investment goods' imports related to infrastructure. From 2024 onwards, the steady fall in public works spending, improvement in terms of trade and expanded tourism export capacity will sustain the CA adjustment.

Assessment. The external position in 2022 was substantially weaker than the level consistent with medium-term fundamentals and desirable policy settings. Dominica has shown persistently large CA deficits since 2017's hurricane Maria, due to reconstruction and resilience building efforts and lower export capacity. The COVID-19 shock has added to these factors, hampering tourism exports still in 2022. According to the CA model, the CA norm is -15.2 percent of GDP, and the gap was -7.5 percent of GDP. Policy contributions to the gap pertain mostly to external factors. Although Dominica's fiscal position is weaker than its desirable medium-term level, similar gaps in the rest of the world balanced out the effect on the CA in 2022. As the recovery takes hold, the external position is expected to continue improving on the back of the recovery in tourism exports, fiscal consolidation and, in the medium term, a reduced pace of public infrastructure investment.

Trade and Current Account Outlook
(In Percent of GDP)



Sources: ECCB and IMF staff estimates (2022) and projections (2023-28).

Dominica: EBA-lite Model Results, 2022

	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-26.2**	
Cyclical contributions (from model) (-)	0.6	
COVID-19 adjustors (-) 2/	-3.3	
Additional temporary/statistical factors (-)	0.0	
Natural disasters and conflicts (-)	-0.7	
Adjusted CA	**-22.8**	
CA Norm (from model) 3/	**-15.2**	
CA Gap	**-7.5**	**2.9**
o/w Relative policy gap	1.2	
Elasticity	-0.3	
REER Gap (in percent)	**25.0**	**-9.8**

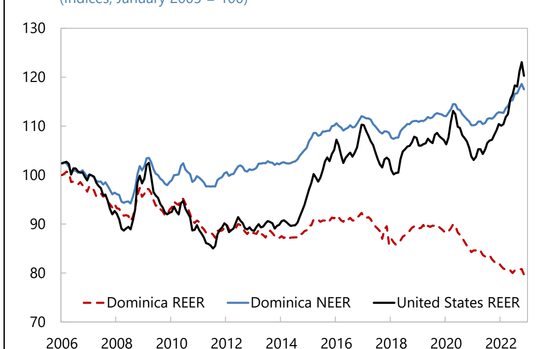
1/ Based on the EBA-lite 3.0 methodology
2/ Additional cyclical adjustment to account for the temporary impact of the tourism (3.3 percent of GDP). The 30 percent of the shock to tourism is assumed temporary.
3/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER depreciated by 2.8 percent in 2022, and by a cumulative 10 percent since end-2019.[2]

Assessment. Although the CA model approach would imply a substantial (22 percent) overvaluation of the REER, the IREER model indicates a 9.8 percent undervaluation. The decline in the REER in 2021–22 is largely driven by rising foreign inflation, as the NEER has appreciated during the period, especially fuel and food prices. Such trend is expected to wane going forward as domestic prices are catching up.

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



Capital and Financial Accounts: Flows and Policy Measures

Background. Dominica has historically relied on FDI and, more recently, CBI revenues to finance its external deficits. FDI averaged 8.3 percent of GDP since hurricane Maria (6.6 percent of GDP in 2022), while CBI revenues are volatile but have been consistently above 12 percent of GDP in the same period, and close to 30 percent of GDP in the last two fiscal years.

Assessment. FDI and concessional lending to the government are likely to remain stable sources of external financing to Dominica. However, CBI revenue could prove volatile. To the extent that CBI continues to be earmarked to public investment, which has a large import component, the impact of a CBI fall on the external accounts is partially mitigated by resulting lower imports.

FX Intervention and Reserves Level

Background. In 2022, Dominica's reserve position is estimated to have remained broadly stable, increasing marginally in nominal terms (from $165.2 in 2021 to $166.6 in 2022). As a member of the Eastern Caribbean Currency Union, Dominica is under a quasi-currency board arrangement. Foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. Therefore, the imputed reserves method is used as a proxy for net foreign assets held at the ECCB.[3,4] The 2021 SDR allocation to Dominica of 11.022 million SDRs (about US$15.5 million) has been kept at the ECCB as a liquidity buffer.

Assessment. Estimated imputed reserves cover 5.6 months of imports and 31 percent of broad money, exceeding the typical benchmarks of 3 months of imports and 20 percent of broad money.[5]

[1] Official balance of payments and IIP data are available only until 2021. This assessment is based on 2022 staff estimates and will be updated once official data is released. This assessment is subject thus to uncertainty arising from previous major external shocks (hurricane Maria), data revisions, and the 2022 COVID-19 tourism adjustors.

[2] The Eastern Caribbean dollar, the currency of Dominica, is pegged to the U.S. dollar.

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

[4] 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.

[5] 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.

Annex III. Implementation of Fund's Past Policy Advice

Recommendations from 2021 Article IV	Authorities' Actions
Strengthening the COVID-19 vaccination campaign	
Continue to contain the pandemic and support recovery by sound public communication and education campaigns to address vaccine hesitancy and building additional health care centers.	Vaccine coverage is now at 53 percent of the target population and a digital vaccination card is available. The authorities have expanded health care capacity with a new (ND resilient) hospital including services such as an ICU, an operating theatre and a dialysis unit.
Maximizing the efficiency of CBI revenue allocation	
Save a portion of CBI revenue to help (i) better balance public investment needs with fiscal resilience and debt sustainability goals, and (ii) reduce policy procyclicality and output volatility.	The government is saving EC$0.5 million per month in the VRF, which cumulative stock stands at EC$15million. A portion of CBI revenue was used for clearance of government arrears in FY21/22.
Implementing fiscal consolidation	
Revenue measures	
Implement tax reform to raise revenue without increasing the burden of tax administration or discouraging private investment.	A tax on idle properties was introduced in the budget, but the implementation of the presumptive tax was postponed to the next fiscal year.
Expenditure measures	
Implement cost-saving expenditure efficiency measures.	The government is finishing a civil service review with support from CARICAD, but it might result in higher wages. Tighter rules for compensation were put in place (for example, stricter conditions to compensate travel costs).
Improve the public investment efficiency and procurement.	The government plans to implement a centralized public procurement system.
Debt sustainability	
Monitor state-owned enterprises to identify contingent liabilities and take measures to help their financial positions. Return to	The review of water and sewerage tariffs is on track, which will help the financial position of the public water company. The actuarial analysis of the pension system by the Dominica Social Security, which was delayed

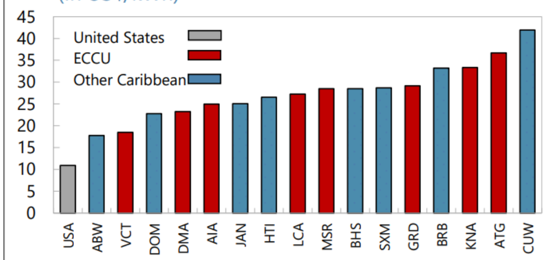
periodic assessments of the pension system to keep track of its sustainability and to address long-term contingent liabilities.	due to mobility restrictions during the pandemic, has been completed but not yet published. The additional increase in pension contribution rates (beyond the schedule already under implementation) is no longer expected.
Addressing potential risks in the financial sector	
Strengthen banks' provisions to meet ECCB targets (60 percent by 2022 and 100 percent of loss loans by 2024)	The 60 percent of NPL provisioning target by 2022 has been achieved.
Bring credit unions' capital above the regulatory minimum	The FSU is working with credit unions to enhance capitalization. All credit unions are currently above 5 percent capital and continue to bring capital ratio to 10 percent by 2026.
Modernize foreclosure legislation	Yet under consideration.
Modernize regulatory framework for of credit unions	A draft bill has been prepared but has not yet been submitted to parliament.
Enhance human/financial resources and independence of supervisory agency (FSU)	The government hired two new staffers at the FSU and is seeking TA to support its capacity.
Further strengthen the AML/CFT framework to minimize risks to CBRs.	The CFAFT assessment on AML/CFT was conducted in 2022 and the report is coming up in mid-2023.
Address economic informality to promote efficiency and resilience, and broaden the tax base.	
Incentivize formalization of workers and small businesses, e.g., by reducing land registration costs; digitalizing government services and registration in government systems; and improving internet connectivity. Update the population database to help targeting and efficiency of social assistance.	Land transfer fees were reduced in the 2022–23 budget. Digitalization is part of the government's investment priorities, as reflected in the PSIP. A population Census is being conducted, with expected conclusion in mid-2023.

Annex IV. Geothermal Energy in Dominica

1. **A large share of Dominica's electricity consumption can potentially be covered by geothermal power.** In 2022, 30 percent of domestic electricity demand (16 MW) was met through hydropower, while 70 percent relied on diesel-based generation. Hydropower is currently running at close to full capacity; thus, in the absence of alternative power sources, the share of fuel-based energy is bound to rise over time, as the economy expands. As a young volcanic island, however, Dominica has significant geothermal resource potential. Technical studies to explore such potential in the Laudat region (close to the capital Roseau) initiated in 2011, with successful results, and the construction several steam production wells and a reinjection well have since been completed. The site has proven resources to fully replace the current fuel-based electricity generation once the plant project is complete.

2. **Transition to geothermal power is motivated by high electricity costs, climate mitigation goals, and resilience building goals.** As other countries in the region, Dominica faces notably high energy costs, with electricity tariffs at about twice the U.S. level. Although final electricity prices after transition to geothermal power are yet uncertain, a drop of up to 40 percent is expected, which can meaningfully impact costs of doing business and households' budgets. The transition will also afford displacement of fossil fuels directly (energy generation accounts for 30–40 percent of total oil imports) and indirectly by promoting electrification in transportation, reducing emissions and exposure to international oil price fluctuations. Last, geothermal power infrastructure (and complementary underground transmission lines) provides for a stable, long-lasting, and weather-resistant source of energy.

Domestic Electricity Tariffs: 2021
(In US¢/kWh)



Source: Cable Co UK.

3. **Forthcoming investments will focus on the construction of the power plant and resilient transmission lines.** The authorities are seeking agreements with foreign private investors to develop a 10MW generation capacity (power plant), initially, with the potential to expand such capacity to 15 MW in the medium-term. Concurrently, the government will invest in resilient (underground) transmission lines, connecting the Roseau valley in a first phase—representing about half of the country's energy needs—and other areas in a second phase. The total estimated cost of the project for the next 3 years is about 25 percent of GDP, half of which financed by public debt.

4. **Dominica may also tap into geothermal resources to export green energy in the future.** It is estimated that Laudat's production site could be leveraged to build additional 50 MW in generation capacity at a later stage. Most of such energy production would thus be catered to external markets, possibly to neighboring countries. Furthermore, the government has recently signed a framework agreement with a foreign decarbonization projects developer

for the establishment of an Industrial Scale Green Hydrogen Geothermal Development in the northern part of the country, with potential generation capacity of 200–400 MW, primarily for exporting.

INTERNATIONAL MONETARY FUND

DOMINICA

May 18, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS ____ 2

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS ____ 8

STATISTICAL ISSUES ____ 9

FUND RELATIONS

(As of March 31, 2023)

Membership Status Joined 12/12/78; Article VIII

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

SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	18.86	100.00
Holdings	9.49	50.29

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	13.97	121.48

Latest Financial Commitments:

Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
ECF 1/	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

Outright Loans:

Type	**Approval Date**	**Expiration Date**	**Amount Approved (SDR Million)**	**Amount Drawn (SDR Million)**
RCF	04/28/20	04/30/20	10.28	10.28
RCF	10/28/15	11/05/15	6.15	6.15
RCF	01/11/12	01/18/12	2.05	2.05

1/ Formerly PRGF.

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

	Forthcoming				
	2023	**2024**	**2025**	**2026**	**2027**
Principal	1.23	1.23	2.26	2.06	2.06
Charges/Interest	0.24	0.33	0.32	0.32	0.32
Total	**1.47**	**1.56**	**2.58**	**2.38**	**2.38**

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

Safeguards Assessment: Under the Fund's safeguards policy, the Eastern Caribbean Central Bank (ECCB) is subject to a full safeguards assessment on a four-year cycle. An update assessment was completed in August 2021 and found that the ECCB has maintained strong external audit and financial reporting practices that continue to be aligned with international standards, and further improvements in the capacity of the internal audit function. Legal reforms were recommended to further strengthen operational autonomy of the ECCB and align its Agreement Act with leading practices. The issuance of digital currency (DCash) introduces new risks that require additional controls and oversight, and the assessment made recommendations to enhance the related project-governance framework.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on February 14, 2021. Dominica is on a 12-month cycle.

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

PFM Missions

- June 2013: Deliver workshop on cash flow forecasting and planning
- November 2013: Restructure cash flow unit and continue to build capacity and expertise in bank reconciliation
- January 2014: Investigate and resolve data integrity issues with Smart-Stream
- January 2014: Wrap up bank reconciliation and ascertain further needs
- March 2014: Work with M. Smith to review Dominica

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

- March 2014: Follow-up on earlier TA on bank account reconciliation
- March 2014: Introduce new Adviser
- March 2014: Assist authorities to build capacity for new Procurement staff
- April 2014: Assist Dominica procurement in continuing to navigate and implement action plan
- May 2014: Finalize implementation of updated automated bank reconciliation software
- July–August 2014: Assist in closure of 2013/14 financial year and carry forward un-reconciled bank reconciliation discrepancies
- September 2014: Assist with planning of 2015/16 budget and develop draft budget call circulars
- October 2014: Examine and provide recommendations to strengthen oversight and monitoring of State-Owned Enterprises
- February 2015: Undertake a gap analysis of the Internal Audit systems
- March 2015: Deliver presentations and hold discussions on redraft of PFM Legislation
- March 2015: Provide TA to Budget Department with the revised budget process and develop Cabinet Decision Table
- March 2015: Develop Concept Note for undertaking a PEFAQ in October 2015
- August 2016: Building a PFM Action Plan following the recent PEFA
- November 2016: PFM Legislation/Regulations Revisions
- March 2017: Treasury Assessment
- September 2018: Development of Stronger PFM Laws and Institutions
- August 2021: Strengthening Internal Audit FY22 (virtual)
- September 2021: Post-Hurricane Maria PFM Review Follow Up FY22 (virtual)
- November 2021: Developing Performance Targets and KPI (virtual)
- April 2022: Developing Performance Targets and KPI (virtual)

Revenue Administration Missions

- June 2013: Tax and Customs Administration
- June 2013: Tax and Customs Administration
- June 2013: To work on outline for Regional Audit Manual with STX Brian Dawe
- August 2013: Assist Dominica Inland Revenue and Customs Department with their Risk Management program (Support to SEMCAR)
- September 2013: Continue to assist with IRD reorganization and capacity building in audit
- September 2013: Introductory Meetings with Senior IRD Officials; liaise with STX Dawe on IRD reorganization

- September 2013: to introduce new LTX Advisor to Senior IRD officials; liaise with STX Dawe on IRD reorganization
- October 2013: Liaise with STX Macleod on PAYE Administration support
- October 2013: Deliver PAYE audit training; assist with development of Audit program and procedures circulars
- November 2013: Work at home: Development of Audit Manual
- November 2013: Co-facilitate regional seminar on Tax Arrears Collections and Enforcement
- November 2013: Co-facilitate the Regional Collections Enforcement Seminar for Supervisors
- November 2013: To continue to assist with IRD reorganization and capacity building in audit
- November 2013: To assist in the development and upgrade of collections enforcement procedures
- November 2013: Supporting the development of Valuation procedures and policy for the Customs Administration
- January 2014: Help design the IRD Corporate Strategic Plan
- March 2014: Post Clearance Audit Training and Support to the Customs Administration
- April 2014: Extension of Tax Administration Adviser
- April 2014: Project Management Support and Building Audit Capacity – IRD reorganization project
- September 2014: To conduct Tax review
- September–October 2014: Review of Dominica Income Tax
- January 2015: Building Capacity and Supporting the Establishment of the HQ Design Monitoring and Large and Medium Taxpayer Sections (LMTS)
- January 2015: DMS and Large and Medium Taxpayers compliance measurement
- March 2016: Small Business Reform – Revenue Modelling for VAT and Presumptive tax
- August 2016 : To Provide Training and Guidance to Strengthen the Post-Clearance Audit Function in Customs
- September 2016: Meeting with the Comptroller of Customs to Discuss Technical Assistance Needs
- October 2016: Building Capacity in Data Analytics and Computer-Assisted Audit Techniques
- October 2016: Compliance management framework
- November 2016: Develop Taxpayer Service Strategy
- February 2017: Tax Administration-Assist IRD to finalize its taxpayer services strategy
- March 2020: COVID-19 Tax Policy Mission on Income Taxation and International Tax (virtual)
- October 2020: TADAT assessment (virtual mission)

- September 2021: Improving Property Tax Collections
- October 2021: Strengthening Treasury Operations FY22 (virtual mission)
- October 2021: Strengthening Core Business Functions- Arrears Management
- May 2022: Strengthening Audit Capacity - Training in Audit Computer Audit Techniques
- September 2022: Strengthening Capacity to Audit Computerized Taxpayer Records
- March 2023: Revenue administration management and governance arrangements-CRM - (hybrid)
- May 2023: Strengthening Risk Management Framework (CRM)

Financial Sector Missions

- December 2013: Insurance Supervision and Credit Union Supervision
- January 2014: Follow-up mission—onsite review of offshore banks and continued training of Supervisors
- April 2014: Consolidated Supervision—Training
- November 2014: Risk Based Supervision and Consolidated Supervision
- April 2016: Risk Based Supervision
- August 2016: Supervisory Interventions Banks and Non-Banks
- November 2016: Risk-Based Supervision Training
- January 2017: Development of a Stress-Testing Framework and Methodology for Credit Union Sector
- February 2018: Crisis Management Plan for the Non-Bank Sector
- May 2018: Financial Health and Stability Indicators for the Credit Union Sector
- November 2018: Framework to Develop Macroprudential Regulation of SIFIs
- January 2019: Framework to Develop Macroprudential Regulation of SIFIs

Economic and Financial Statistics

- May 2013: National Accounts—Quarterly
- April 2014: Joint CARTAC/STA IIP Mission
- February 2015: Training for Survey Respondents (ECCU Countries)
- June 2016: Balance of Payments Statistics and IIP
- June 2017: External Sector Statistics
- January 2018: National Accounts
- July 2018: External Sector Statistics
- May 2021: BOP CARTAC Mission

- August 2021: Joint BOP CARTAC/STA Mission (virtual)
- July 2022: BOP - Source Data (virtual)
- September 2022: GDP Diagnostic
- April 2023: GDP – Improving GDP

Macroeconomics and Programming Analysis

- November 2013: Needs assessment of Macroeconomic Policy Unit; create a forward technical assistance work plan
- January 2014: To assist authorities with their medium-term macroeconomic framework
- November 2014: Produce framework to update macroeconomic projections on a quarterly basis
- February 2015: Technical assistance to train staff in macroeconomic and fiscal forecasting as well as to prepare for IMF Article IV visit
- February 2016: Assist Macro Policy unit with update of their macroeconomic projections for upcoming Budget
- November 2016: Coordinate Macro Program with Macro Advisor
- May 2021: Coordination of Macro Program with Resident Advisor

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

AML/CFT: Dominica designated the ECCB as the competent authority for AML/CFT regulation and supervision in the banking sector in 2020, while the government (Financial Intelligence Unit and Financial Services Unit) retains responsibility regarding all other sectors. The last assessment of Dominica's AML/CFT regime was conducted by the Caribbean Financial Action Task Force (CFAFT) in August 2022 and the evaluation report will be discussed during the CFAFT plenary scheduled for May 28, 2023.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

(As of May 4, 2023)

World Bank https://financesapp.worldbank.org/en/countries/Dominica/

Caribbean Development Bank https://www.caribank.org/countries-and-members/borrowing-members/dominica

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance

General: Data provision has shortcomings due to capacity constraints in the statistical agency, and collection at the regional level. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation. Particularly, staff's analysis would benefit from more timely and improved data pertaining to national accounts, consumer prices, fiscal accounts, labor, agriculture, and the balance of payments. Efforts to prepare national accounts at a quarterly frequency would also be welcome. The authorities could pursue such improvements in a more cost-effective manner by exploring proposals to centralize statistics.

National accounts: Staff turnover and limited source data have hampered the improvement on real sector statistics. The Central Statistics Office (CSO) currently produces and disseminates annual estimates of GDP by production approach at current and constant 2006 prices; as well as annual current price estimates for GDP by expenditure approach, with private final consumption expenditure derived as a residual. The CSO has been trying to develop quarterly GDP by production approach since 2012, but progress has been minimal due to limited staff capacity and source data. A census was conducted in 2011 and an update is under preparation.

Price Statistics: CPI data are compiled monthly, but the overall CPI has not been published since 2021Q1. The weights are based on the 2008/09 Household Income and Expenditure Survey (HIES) with a base period of June 2010. There is a program to develop export and import price indexes (XMPIs), but a shortage of staff working on price statistics limits developments in CPI methodology and the likelihood that XMPIs will be developed expediently. Data on employment are sparse and there are no official data on producer prices.

Government Finance Statistics: Statistical capacity problems affect the timely production of quality government finance statistics. Monthly data can be obtained, but they show some important shortcomings. Fiscal data should be reconciled between the Inland Revenue Department, Customs, and the Treasury monthly. Efforts should also be directed towards reducing omissions and misclassifications in the data, which would help reduce the need for frequent revisions. Capital expenditure data would benefit from efforts to improve reporting and budgeting data for the public-sector investment program (e.g., project implementation rates, current expended resources, projected resource usage, estimated completion dates, etc.), which are fragmented and subject to continuous revisions. Attention should also be directed towards improving statistics on the financial position of public institutions outside the central government. An automation technology, mandatory for all ministries and suppliers of goods and services was installed in all line ministries in 2005 and is the basis for the reporting. Although progress has been made in improving the measurement of government debt, data show shortcomings and are not tracked continuously. Very limited financing data are available. The authorities do not provide consolidated nonfinancial public-sector data. Data for the rest of the public sector—Dominica Social Security and the public enterprises—are obtained directly from each entity with frequent delays and omissions. No government finance data are reported to STA for publication in the International Financial Statistics (IFS) or the Government Finance Statistics (GFS) Yearbook.

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

External sector statistics: The ECCB has been releasing annual balance of payments and international investment position statistics based on the sixth edition of the Balance of Payments and International Investment Position Statistics Manual (BPM6), for the eight ECCU member economies, including Dominica, since 2017. Travel estimates (credits) are sourced from visitor expenditure surveys. Further work is required to reassess the ratios used to estimate insurance and freight charges for goods imported. Actions need to be undertaken in collaboration with the ECCB, which coordinates the compilation of external sector statistics of the ECCU economies.

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

II. Data Standards and Quality

Dominica is a participant in the enhanced General Data Dissemination System (e-GDDS since September 2000. Dominica has not fully implemented the e-GDDS as it does not have a National Summary Data Page (NSDP). A Data ROSC for the monetary sector was conducted in 2007, covering the ECCB and ECCU member countries, including Dominica.

Dominica: Table of Common Indicators Required for Surveillance (As of May 4, 2023)						
Date of Latest Observation		**Date Received**[8]	**Frequency of Data**[8]	**Frequency of Reporting**[8]	**Frequency of Publication**[8]
Exchange Rates[1]	Fixed Rate	n.a.	n.a.	n.a.	n.a.
International Reserve Assets and Reserve liabilities of the Monetary Authorities[1,2]	02/2021	04/2023	M	M	M
Reserve/Base Money	02/2023	04/2023	M	M	M
Broad Money	02/2023	04/2023	M	M	M
Central Bank Balance Sheet	02/2023	04/2023	M	M	M
Consolidated Balance Sheet of the Banking System	12/2022	03/2023	M	M	M
Interest Rates[3]	12/2021	03/2023	M	M	M
Consumer Price Index	03/2021	04/2023	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[4] – General Government[5]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance, and Composition of Financing – Central Government	02/2023	03/2023	M	M	Q
Stocks of Central Government and Central Government - Guaranteed Debt[6]	02/2023	03/2023	A	A	A
External Current Account Balance	2021	12/2022	A	A	A
Exports and Imports of Goods and Services	2021	12/2022	M	A	A
GDP/GNP	2021	03/2023	A	A	A
Gross External Debt	02/2023	03/2023	M	Q	A
International Investment Position[7]	2021	12/2022	A	A	A

1 Dominica is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1 = EC$2.70.
2 Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
3 Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
4 Foreign, domestic banks, and domestic nonbank financing.
5 The general government consists of the central government and state and local governments.
6 Currency and maturity composition are provided annually.
7 Data is not available from the authorities.
8 Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA); Not Applicable (n.a.).

DOMINICA

May 18, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—DEBT SUSTAINABILIT ANALYSIS[1]

Approved By
Luis Cubeddu and Fabian Bornhorst (IMF) and Manuela Francisco and Robert R. Taliercio (IDA)

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

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

Dominica's debt is sustainable, but the country remains at high risk of debt distress, with elevated levels of public and external debt. The COVID-19 pandemic and global economic effects from Russia's invasion of Ukraine compounded preexisting debt sustainability challenges, as the economy was still recovering from back-to-back natural disasters (ND) in 2015 and 2017. Public debt peaked at 112.5 percent of GDP in 2020, declining to 106 percent of GDP in 2021. While it is expected to continue falling over the medium and long run, current policies are insufficient to meet the regional debt target (60 percent of GDP) by 2035, and the present value of the public debt ratio remains above the benchmark for a protracted period, signaling persistent risks. Implementation of fiscal consolidation consistent with national fiscal rule approved in 2021 (primary balance target of 2 percent of GDP by 2026), along with a sound tourism recovery and continued Citizenship-by-investment (CBI) inflows, would put public and external debt on a firm sustainable path, reducing vulnerabilities. Main downside risks to the debt sustainability outlook include slower global growth and weaker tourism-related revenue, ND, and weaker than projected revenues from the CBI program.

[1] The last published DSA for Dominica can be accessed here. This DSA follows the Guidance Note of the Join Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018.

[2] Dominica's score in the Composite indicator (CI) is 3.04 which implies a medium debt carrying capacity. The CI is calculated based on data from the October 2022 WEO and the 2021 CPIA data.

PUBLIC DEBT COVERAGE

1. Public sector debt includes central government direct and guaranteed debt. Dominica's public and total external debts are high, estimated at 106.3 and 82 percent of GDP respectively, in 2021. Central government direct debt accounts for over 80 percent of total public debt. Guaranteed debts are directed to State Owned Enterprises (SOEs), including borrowing under the Petrocaribe arrangement with Venezuela.[3] Public and Publicly Guaranteed (PPG) external debt is mostly owed to multilateral creditors, while the National Bank of Dominica (NBD) and the Dominica Social Security (DSS) are the main domestic creditors. There is no borrowing by local/state governments and no borrowing by the central bank on behalf of the government. External debt is defined using a residency criterion, but there is no material difference between using a residency or currency basis definition. SOE's non-guaranteed debts, which are mostly domestic and mainly pertain to the NBD, the Agricultural and Industrial Development Bank of Dominica (AID), and the DSS, are not included in the public debt stock but are expected to be small compared to their guaranteed part.[4] Other SOEs are not permitted to borrow externally without government guarantees. It is expected that all SOE debts will be included in the public debt with progress on monitoring the SOEs under the Public Procurement and Disposal of Public Property Act.[5] Recent measures to improve coverage and timeliness of debt reporting include introducing an annual Debt Portfolio Review (DPR), including loan guarantees under the 2019 DPR, submitting the DPR to Parliament and publishing the DPR on the Ministry of Finance website.

2. The Contingent Liability stress test has been calibrated to reflect risks associated with debt not captured in the baseline. There are no Public-Private Partnerships in Dominica and therefore no related contingent liability has been included. The financial market contingent liability shock is calibrated at 7 percent of GDP (higher than the 5 percent of GDP default) to account for potentially higher fiscal costs of strengthening financial sector balance sheets in the event of a natural disaster given undercapitalization of non-bank financial institutions and high non-performing loans in Dominica.

[3] Estimated borrowing under Petrocaribe is based on the terms under its original loan agreement. It should be noted, however, that its debt service payments have been cancelled or rescheduled in recent years, a pattern that may continue in the coming years. Outstanding debt to Petrocaribe is estimated at 6 percent of the total debt stock as of 2021.

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

[5] Debt service-to-revenue ratios may be biased favorably given incomplete coverage of SOE debt stock (since no data is available on non-guaranteed SOE debts) but complete coverage of SOE revenues in the fiscal accounts.

Table 1. Dominica: Coverage of Public Sector Debt

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

Table 2. Dominica: Contingency Liability Calibration Table

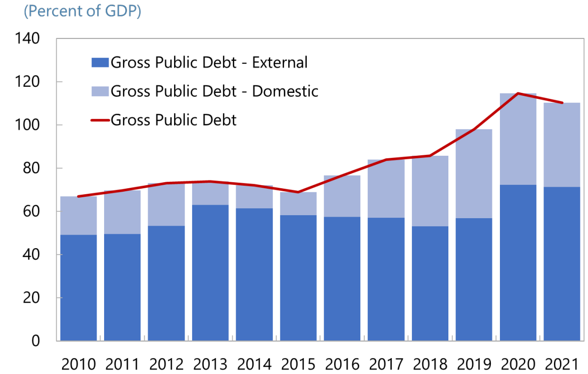
1	The country's coverage of public debt	The central government, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed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

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

BACKGROUND ON DEBT

3. Successive ND put public debt on an upward trajectory, which peaked in the aftermath of the COVID-19 pandemic. Tropical storm Erika in 2015 and hurricane Maria in 2017 resulted in large declines in public revenue while imposing sizeable reconstruction expenditure needs on the budget. Though strong CBI revenues provided significant financing for the reconstruction efforts, large and persistent primary deficits led to an increase in the public debt level from an average of 72 percent of GDP in 2012–15 to 98 percent of GDP by 2019. The effects of pandemic further worsened debt dynamics, with an output contraction of 5.9 percent in FY20/21, resulting in the debt-to-GDP ratio reaching 113 percent. The debt-to-GDP ratio came down to 106 percent in FY21/22 mostly as a result of high nominal output growth, while the deficit remained elevated in part due to support measures (transfers and subsidies) to cushion the effects of the pandemic and the war in Ukraine.

Text Figure 1. Gross Public Debt
(Percent of GDP)

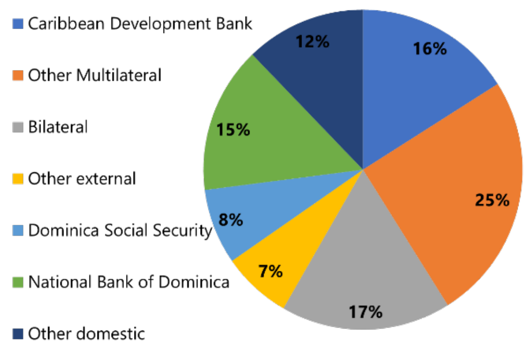


Sources: Authorities data and Fund Staff calculations.

4. External debt has risen on account of persistent current account (CA) deficits from large reconstruction needs, contained by high CBI revenue. Public and private investments in reconstruction work following hurricane Maria in 2017 resulted in steep increases in imports during 2018–19, with the import bill exceeding 70 percent of GDP in both years. While the economic contraction in 2020 led to a reduction in (nominal) imports, exports fell by a similar measure, and the CA deficit remained significantly higher than the pre-Maria average as a percent of GDP. More recently, the rebound in tourism supported some adjustment of the CA, while record high CBI inflows helped finance investment goods imports. However, the PPG external debt ratio increased sharply during the pandemic, given extensive reliance on concessional financing, and remained elevated in 2021–22.

5. Dominica has no access to international financial markets and borrows mainly from official creditors. Two thirds of Dominica's PPG debt is external, but 90 percent of it is owed to official bilateral and multilateral creditors. The World Bank is Dominica's largest creditor, holding 29 percent of the total external public debt stock. Venezuela's Petrocaribe is the largest bilateral creditor, followed by the Government of China and the French Development Agency. Additional external financing is obtained through bonds purchased by regional commercial banks, insurance companies, and pension funds.

Text Figure 2. Composition of Public Debt
(Percent of Total, 2021)



Sources: Authorities data and Fund Staff calculations.

6. Domestic financing is primarily composed of direct credits from the NBD and local debt holders, mainly the DSS. As of June 2022, domestic debt accounted for 35 percent of total public sector debt. Reliance on domestic financing has increased since hurricane Maria, with large recourse to direct borrowing from the NBD during FY17/18 and increased use of their overdraft facility, most notably in 2018–19 when reconstruction costs were high and the level of grant financing low.

BACKGROUND ON MACRO FORECASTS

7. Growth projections include a permanent output loss due to the pandemic, as well as a boost from the large public investment plan. While real output rebounded strongly in 2021, scarring effects from the pandemic—related to lower labor supply, extended school closures, and narrower fiscal space—are expected to weigh on growth potential through the medium term. Still, GDP is expected to continue recovering at an average growth rate of 3.9 percent in FY22–27, considering the execution of Dominica's large public investment plan and the recovery of the tourism sector. The tourism recovery is also expected to be boosted by the new airport and new hotel facilities becoming operational. The large public investment is largely financed by CBI revenue and has positive spillovers on the overall economy.[6] In the long term, after 2026, output growth is projected to gradually decline and to converge to a potential growth rate of 2.7 percent.

8. Relative to the baseline scenario in the 2021 IMF Article IV Staff Report, growth is less buoyant given a less favorable external environment. Growth has been revised downwards to account for the impact of Russia's invasion of Ukraine on global growth. This compounds the effect of a large downward revision in 2019–20 growth rates, which pushed the debt ratio upwards. Inflation has been revised upwards, mostly to reflect the pass through of higher global oil and food prices. The latter also explains a higher CA deficit than previously anticipated, even if tourism is expected to recover. The overall fiscal balance trajectory has deteriorated owing to a slower implementation of the initial fiscal consolidation plan.

Table 3. Dominica: IMF Staff Projections 2023 vs. 2021

	2023 Article IV						2021 Article IV					
	2021	2022	2023	2024	2025	2026	2021	2022	2023	2024	2025	2026
Real GDP 1/3/	6.9	5.7	4.7	4.6	4.2	2.9	3.7	7.6	5.4	4.6	4.1	2.5
Inflation (EoP) 3/	3.5	7.3	5.0	2.2	2.0	2.0	3.0	2.5	2.0	2.0	2.0	2.0
Overall fiscal balance 2/4/	-8.7	-4.0	-4.2	-3.2	-2.9	-2.4	-11.0	-1.8	-2.0	-3.3	-2.9	-1.4
CBI revenue 4/	28.6	18.0	17.0	15.0	14.0	14.0	24.5	19.0	17.0	15.0	14.0	14.0
Public Capital Expenditure 2/4/	26.2	12.8	13.6	11.8	11.3	10.9	24.9	15.4	14.9	14.9	13.9	12.9
Current account balance 2/4/	-27.6	-26.2	-25.2	-17.7	-15.9	-14.3	-31.4	-28.7	-24.0	-18.3	-17.1	-14.7

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.
1/ At market prices.
2/ Data for fiscal years from July to June.
3/ Annual percent change.
4/ Percent of GDP.

9. This Debt Sustainability Analysis (DSA) is built on the baseline scenario of the June 2023 IMF Article IV Staff Report. Long-term growth projections and fiscal parameters incorporate the long-term impact of ND.[7] Specific assumptions include:

- **Fiscal position.** After a sharp deterioration in tax revenues and concurrent increase in spending—on health, social transfers, subsidies, and goods and services—to support the economy in 2020–21, tax revenues (other than from imports) are projected to gradually recover in the medium term, while spending will moderate both on the back of less government consumption and investment. As such, the primary balance (including ND costs) is expected to increase from -6.2 percent of GDP in FY21/22 to -0.3 percent in the medium term. The projection assumes implementation of fiscal consolidation measures (excluding investment changes) generating cumulative savings of 3.4 percent of GDP during 2023–28. The plan is less ambitious than envisaged in the 2021 Article IV consultation, in part due to the policy response to external shocks—COVID-19 and the war in Ukraine. Efforts to streamline tax expenditures have stalled, and in part reversed with the expansion of income

[6] Work on both the airport and geothermal project has already begun in the 2022–23 fiscal year.

[7] The fiscal deficit includes an annualized cost of ND of 1.5 percent of GDP. This is in line with guidance from the WB– MF Staff Guidance Note.

tax deductions for private insurance and education spending, and VAT cuts on electricity.[8] Implementation of a presumptive personal income tax was postponed to the next fiscal year, while progress in reducing tax arrears has been slow. A tax on idle properties was however introduced, as expected, with the first payment expected to take place in August 2023. Exemption of import duties for vehicles was also lifted as planned and a review of water and sewerage tariffs is also track. Efforts to reduce inefficient spending are underway, but CARICAD's recent public service review could result in higher spending, and an additional increase in pension contribution rates (beyond the current schedule) is no longer expected.

- **CBI revenue.** CBI revenue is projected to remain buoyant in the medium term, although declining substantially from close to 30 percent of GDP in FY21/22 to 18 percent of GDP in FY22/23, tapering to 14 percent of GDP by 2025. This assumption is supported by several years of sizeable inflows starting in 2014, which have remained resilient in the face of successive ND and a pandemic. In FY21/22, CBI reached 29.4 percent of GDP, only slightly lower than in the previous year. The FY22/23 projection conservatively assumes a decline in CBI revenue for the fiscal year, albeit still high compared to historical levels.[9] CBI is expected to remain essentially earmarked to public investment, debt amortization and accumulation of savings.[10]

- **Grants.** Grants are projected at 2.4 percent of GDP, in line with the historical average.

- **Real GDP.** Real GDP in 2021 is estimated to have rebounded by 6.9 percent, driven by construction in public works and the expansion of hotel capacity, after a contraction of nearly 17 percent in 2020. Output is projected to have grown 5.7 percent in 2022 owing to a recovery in tourism, retail, and other related activities. The growth outlook is predicated on a full recovery of the tourism sector by 2024 and continued implementation of Dominica's large public investment program**.** The largest projects include the geothermal energy plant (expected in the next 2 to 3 years) and a new airport (in the next 4 to 5 years), with positive spillover effects on overall economic activity and competitiveness. In the long term, after 2026, the output growth is projected to gradually decline and to converge to a growth rate of 2.7 percent.

- **Inflation.** Inflation is estimated to have peaked at 7.5 percent in 2022 driven by the pickup in economic activity and higher global energy prices, but to converge to 2 percent in the medium-term, in line with US inflation (consistent with the fixed exchange rate under the currency board arrangement of the Eastern Caribbean Central Bank, the regional monetary authority).

[8] As part of the set of measures to mitigate the rise of fuel prices, the government eliminated VAT levied on fuel surcharges included in the electricity price and raised the number of VAT free individual consumption units. Although initially temporary, the measure has been made permanent.

[9] Current projections are underpinned by strong CBI outturn in 2021 and outrun into December 2022.

[10] The government is recurrently saving a small part of CBI to its Vulnerability and Resilience Fund. A Debt Repayment Fund is also under implementation.

- **Balance of Payments.** The CA deficit improved in 2021, to 27.6 percent of GDP, due to a pick-up in goods' exports and higher remittances. In 2022, tourism exports supported another (more modest) improvement, to 26.2 percent of GDP, even if imports increased in hand with high commodity prices. In the medium term, the CA deficit is projected to steadily decline, as exports strengthen and imports wane, but is to remain above 10 percent of GDP until 2028.

- **Financing conditions.** Dominica is expected to obtain financing both from multilateral lenders and domestic creditors (mostly though the rollover of existing debt), with negligible borrowing from other sources. Multilateral financing is expected to contribute the bulk of external financing in the medium term, associated with projects to build resilience to ND, transition to geothermal energy, and improve fiscal institutions.[11] Official external financing is projected at 4 percent of GDP in the medium term (2024–26) and 2 percent of GDP in the long term (after 2026), and it will cover the planned public investment along with the CBI revenue. Domestic debt is issued in relatively favorable terms.[12] The baseline assumes partial use of deposits (Table 4). The G20's Debt Service Suspension Initiative (DSSI) repayment schedule is reflected in the DSA assumptions.[13] Furthermore, the DSA and baseline macroframework assume that the authorities do not use their SDR allocation.

[11] World Bank financing in the projection period is assumed to have grace period of 10 years and maturity of 40 years, at 1.28 percent interest, CDB financing is assumed at 10-year grace, 20-year maturity and 2.5 percent interest rate. Other multilateral borrowing is assumed at 5 years grace, 10-year maturity and 2 percent interest rate.

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

[13] Dominica benefited from the DSSI initiative until 2021, but payments have resumed since then and are reflected in the DSA projections.

Table 4. Dominica: Government Financing Needs and Sources
(In US$ million, fiscal years July-June)

	2022	2023	2024	2025	2026	2027
Gross Financing needs	**59**	**92**	**77**	**77**	**79**	**78**
Overall deficit	38	43	37	37	35	32
Primary deficit	**13**	**12**	**5**	**6**	**5**	**2**
Interest	**23**	**30**	**31**	**30**	**28**	**28**
External debt	6	7	7	8	8	8
Domestic debt	17	23	24	22	20	20
Principal repayments	**23**	**50**	**41**	**41**	**45**	**48**
External, new debt	0	0	0	0	1	1
o.w. contracted obligations in pipeline	10	21	20	17	15	13
Domestic	13	29	21	24	29	33
Other debt creating flows (use of deposits) 1/	**-19**	**-15**	**-11**	**-4**	**-2**	**-1**
Deposit stock:	**51**	**36**	**25**	**21**	**19**	**19**
Gross financing sources 2/	**41**	**77**	**66**	**73**	**77**	**78**
External financing	**21**	**31**	**42**	**44**	**47**	**50**
Multilateral	21	31	42	41	37	40
WB	17	20	30	27	23	25
CDB	4	12	12	13	14	14
IMF	0	0	0	0	0	0
other	0	0	0	0	0	0
Bilateral	0	0	0	0	4	5
Commercial & other	0	0	0	4	5	5
Domestic financing	20	46	24	29	30	27

Source: IMF staff estimates.

1/ Use of government deposits from excess CBI

2/ Gross Financing Sources equals Gross Financing Needs minus Use of Deposits

10. Debt dynamics have been driven by unexpected shocks (see Figure 3). Back-to-back ND and the pandemic resulted in higher-than-expected primary deficits and lower GDP growth, which translated into an increase in the debt/GDP ratio. The projected recovery in GDP growth after the pandemic and the envisaged fiscal consolidation plan are the main determinants of the debt dynamics in the next five years.

11. Results from applying DSA Realism Tools are affected by substantial growth volatility related to the pandemic (see Figure 4). Real GDP growth paths implied from some fiscal multipliers are similar to the baseline growth projections (see upper-right chart). Moreover, the extent of primary adjustment is overstated as the non-CBI primary balance remains a deficit. The projected relation between public investment and real GDP growth differs substantially from the historical relation due the impact of unexpected shocks from the pandemic and successive ND in 2015 and 2017 which delink growth from fiscal spending (see lower-right chart).

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

Table 5. Dominica: Calculation of CI Index

Country	Dominica
Country Code	**321**

Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 3.04	Medium 2.97	Medium 3.02

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

13. Both external and public debt analysis consider standard-DSA alternative scenarios to this baseline. The DSA includes six standardized and a contingent liability stress test. The financial market contingency liability is included at 7 percent of GDP, above the default of 5 percent of GDP, to account for the risk from ND. This adjustment is made to account for potentially higher fiscal costs of strengthening financial sector balance sheets in the event of a natural disaster given undercapitalization of non-bank financial institutions and high non-performing loans in Dominica. A customized "Catastrophic Climate Event" scenario is added, which assumes the reoccurrence of a Category 5 hurricane in the second half of 2023. This scenario assumes declines in real GDP, exports, and revenues in line with those following hurricane Maria, as well as a considerable increase in expenditure in rehabilitation, albeit with a slower pace of recovery to account for more binding financing constraints.[15]

[14] The CI indicator is calculated based on data from the October 2022 WEO and the 2021 CPIA data.

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

EXTERNAL DSA

14. The PV of external public debt to GDP and debt to exports ratios are close to the threshold for countries of medium debt carrying capacity in the baseline scenario. The PV of external public debt-to-GDP is on a declining trend in the near term and remains below the threshold established for countries with "medium" debt carrying capacity through 2032 (Figure 1). However, the threshold is breached by a large margin in the event of a catastrophic climate event or the most extreme shock scenario of a reduction in exports to one standard deviation below its historical average. PV of external public debt to exports falls below the threshold throughout the projection horizon but goes well above the threshold in the case of the most extreme export shock.[16] The debt service to exports ratio is above the threshold in 2023, given that exports are still below their pre pandemic levels; but the ratio stays below its threshold after 2024. Both the PV of external public debt-to-GDP and PV of debt-to-exports ratios remain below the threshold in the medium term. The historical scenario has a similar trajectory in the debt to GDP ratio in initial years but leads to higher debt accumulation in the medium term.

15. Debt service metrics are on a declining trend and remain below the threshold for most of the projection period. Hence the debt service to exports ratio remains below threshold from 2025 in all scenarios barring the most extreme shock. Moreover, debt service in relation to revenue remains below the threshold for all shocks.

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

17. Residuals are high but on a declining trend. Residuals are high in the historical period and peak in 2019 but decline consistently throughout the projection period. The residual is mostly explained by the use of government deposits derived from CBI revenues and changes in private external debt, and they become smaller as the use of deposits becomes lower from 2023 onwards.

OVERALL RISK OF PUBLIC DEBT DISTRESS

18. Under the baseline scenario, public debt is assessed to be sustainable but remains at high risk of debt distress. Risks are somewhat higher than assessed in the 2021 Article IV consultation. The current fiscal consolidation plan, combined with continued CBI inflows to finance public investment projects and boost growth, result in a declining trajectory of the public debt, but is insufficient to reach the regional debt target of 60 percent of GDP by 2035 (as was previously expected). Furthermore, as discussed below, key metrics of debt sustainability remain elevated over most of the horizon owing mainly to the higher initial debt ratio (due to large downward revisions to

[16] Given that Dominica is in a currency union with other OECS countries, constraints around debt-to-exports ratios are much less important. In the case of a catastrophic climate event, given the geographical alignment of OECS members, it is unlikely that all, or even several, would be hit simultaneously.

the 2019–20 growth rates) and are sensitive to stress scenarios. Relative to the historical scenario, debt declines more rapidly owing to a stronger growth rebound after the pandemic, driven by sustained high public investment (see Figure 3).

19. PPG debt remains high and above the threshold under the baseline over the horizon. Under the baseline scenario assumptions, public debt remains on a declining trajectory, but the PV of total public-sector debt-to-GDP ratio remains above the corresponding benchmark throughout the projection period. All shocks result in large breaches of the benchmark. The debt service-to-revenue ratios increase in the near-term due to slow recovery in tax revenue following the pandemic but decline afterwards.

RISK RATING, VULNERABILITY AND RECOMMENDATIONS

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

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

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

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

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

23. The debt projections are underpinned by macro-framework assumptions which are subject to risk. CBI inflow projections are subject to downside risk if traveling restrictions are imposed by third nations, reducing the value of holding a Dominican passport, which is the main incentive to acquire Dominica citizenship. CBI also has upside risk, as staff's projection is conservative relative to recent historical patterns. This upside risk has materialized in 2020 and 2021 with the receipt of unprecedented inflows of CBI revenues. Slower than expected recovery of the tourism sector may continue to place a downward pressure on GDP growth, which may also lead to a deterioration in debt dynamics. However, relative to other countries in the region, Dominica's reliance on tourism is lower and the assumptions underpinning growth recovery are determined primarily by high public investment. External grants have been projected conservatively and have upside risk. Market risks are contained as nearly 90 percent of the debt portfolio consists of fixed interest debt, and currency risks are limited by the currency board arrangement and external debt portfolio being dominated by USD and EC dollar debt.

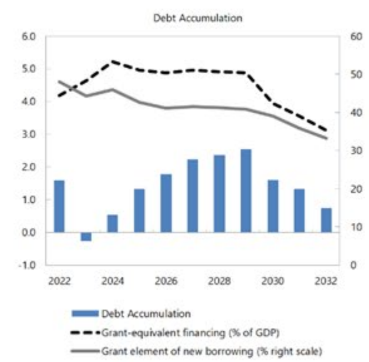
24. Increased reliance on domestic borrowing heightened risks to public debt, which could become unsustainable should risk scenarios materialize. Higher than projected reliance on domestic debt during 2018–21 has resulted in larger debt service burdens arising from domestic borrowing which underscore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

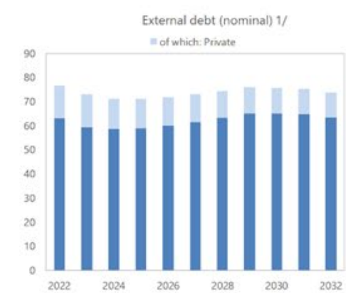
Table 6. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2019–42

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

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	87.6	101.1	82.0	76.6	73.0	71.1	71.1	71.8	73.1	73.8	45.9	87.8	73.8
of which: public and publicly guaranteed (PPG)	56.6	70.9	68.6	63.1	59.3	58.5	58.9	60.0	61.5	63.5	37.9	59.9	62.0
Change in external debt	-12.1	13.5	-19.1	-5.4	-3.6	-1.8	-0.1	0.8	1.2	-1.4	-3.0		
Identified net debt-creating flows	32.2	34.2	9.4	14.7	14.9	9.5	8.7	7.7	6.2	5.6	4.1	10.9	7.9
Non-interest current account deficit	37.4	32.3	24.4	23.8	22.8	15.6	14.1	12.5	11.1	9.8	7.7	17.5	13.5
Deficit in balance of goods and services	38.5	39.3	31.1	29.8	29.9	22.8	21.2	19.6	18.2	17.5	14.4	23.4	20.6
Exports	37.9	18.0	20.8	24.0	26.7	30.3	32.9	33.1	33.4	32.7	29.1		
Imports	76.4	57.3	51.9	53.8	56.6	53.1	54.0	52.7	51.6	50.2	43.5		
Net current transfers (negative = inflow)	-1.4	-4.2	-5.1	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.9	-4.8	-5.7	-4.9
of which: official	-0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	0.4	-2.8	-1.6	-1.0	-2.2	-2.3	-2.2	-2.2	-2.2	-2.7	-1.8	-0.2	-2.3
Net FDI (negative = inflow)	-11.3	-4.1	-5.7	-6.3	-6.2	-4.7	-4.5	-4.4	-4.4	-4.5	-3.7	-6.9	-4.8
Endogenous debt dynamics 2/	6.0	6.1	-9.4	-2.8	-1.7	-1.4	-0.9	-0.4	-0.4	0.3	0.1		
Contribution from nominal interest rate	1.5	1.4	1.4	1.0	1.6	1.6	1.5	1.5	1.4	1.7	1.0		
Contribution from real GDP growth	6.1	5.5	-5.7	-3.8	-3.3	-3.0	-2.4	-1.9	-1.8	-1.4	-0.9		
Contribution from price and exchange rate changes	-1.6	-0.8	-5.1	...	...	...	...	...	...	...	...		
Residual 3/	-44.3	-20.8	-28.4	-20.2	-18.5	-11.3	-8.8	-6.9	-5.0	-7.0	-7.1	-10.1	-8.7
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	39.3	36.4	33.2	31.6	31.2	31.4	32.1	33.4	17.6		
PV of PPG external debt-to-exports ratio	...	...	188.9	151.6	124.1	104.3	94.8	94.9	96.1	102.0	60.3		
PPG debt service-to-exports ratio	16.3	22.5	20.6	9.3	17.5	14.2	11.1	9.9	8.7	7.7	7.7		
PPG debt service-to-revenue ratio	13.2	6.2	7.1	4.6	9.4	9.0	7.8	7.0	6.3	5.5	5.0		
Gross external financing need (Million of U.S. dollars)	183.2	173.5	139.3	134.5	157.0	121.1	110.9	100.3	88.7	90.5	107.8		
Key macroeconomic assumptions 4/													
Real GDP growth (in percent)	-5.8	-5.9	6.3	5.2	4.6	4.4	3.5	2.8	2.7	2.0	2.0	-0.3	3.2
GDP deflator in US dollar terms (change in percent)	1.6	0.9	5.3	6.8	4.2	2.2	2.0	2.0	2.0	2.0	2.0	2.2	2.7
Effective interest rate (percent) 5/	1.5	1.5	1.6	1.3	2.2	2.3	2.2	2.2	2.1	2.4	2.2	2.1	2.1
Growth of exports of G&S (US dollar terms, in percent)	34.9	-54.8	29.4	29.7	21.3	20.9	14.5	5.6	5.8	2.8	2.3	0.9	10.7
Growth of imports of G&S (US dollar terms, in percent)	1.4	-28.8	1.5	16.3	14.7	0.2	7.4	2.3	2.5	0.8	2.5	4.4	5.7
Grant element of new public sector borrowing (in percent)	...	...	...	48.0	44.3	46.0	42.6	41.1	41.6	33.2	39.7	...	41.2
Government revenues (excluding grants, in percent of GDP)	46.8	65.1	60.0	48.8	49.7	48.0	47.0	46.7	46.6	46.2	44.7	50.4	47.2
Aid flows (in Million of US dollars) 6/	10.7	13.0	32.1	32.7	37.5	48.8	47.4	48.4	52.4	34.7	38.3		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	4.2	4.6	5.2	5.0	4.9	5.0	3.1	2.5	...	4.5
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	68.8	62.7	61.5	59.3	58.2	58.3	65.8	91.6	...	61.2
Nominal GDP (Million of US dollars)	558	530	593	666	726	774	818	857	898	1,112	1,653		
Nominal dollar GDP growth	-4.3	-5.0	11.9	12.3	9.0	6.7	5.6	4.8	4.7	4.0	4.0	2.0	5.9
Memorandum items:													
PV of external debt 8/	...	...	52.7	49.9	46.8	44.2	43.3	43.3	43.7	43.7	25.5		
In percent of exports	...	...	253.2	207.7	175.2	145.9	131.9	130.7	130.6	133.5	87.7		
Total external debt service-to-exports ratio	17.7	25.5	22.9	11.1	19.0	15.4	12.2	10.9	9.7	8.5	8.7		
PV of PPG external debt (in Million of US dollars)			233.1	242.5	240.6	244.6	254.8	269.4	288.5	371.0	290.4		
(PVt-PVt-1)/GDPt-1 (in percent)				1.6	-0.3	0.5	1.3	1.8	2.2	0.8	-1.1		
Non-interest current account deficit that stabilizes debt ratio 9/	49.5	18.8	43.5	29.3	26.4	17.4	14.1	11.8	9.8	11.2	10.7		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

Table 7. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–32

(In percent of GDP)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	36	33	32	31	31	32	33	34	34	34	33
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	36	32	31	33	35	39	**44**	**49**	**54**	**57**	**61**
A2. Catastrophic Climate Event	36	**46**	**47**	**50**	**53**	**57**	**61**	**67**	**72**	**77**	**81**
B. Bound Tests											
B1. Real GDP growth	36	38	**42**	**41**	**42**	**43**	**44**	**45**	**45**	**45**	**44**
B2. Primary balance	36	40	**45**	**44**	**45**	**45**	**46**	**47**	**47**	**47**	**47**
B3. Exports	36	**42**	**56**	**55**	**55**	**56**	**56**	**57**	**57**	**57**	**56**
B4. Other flows 3/	36	37	40	39	39	**40**	**41**	**42**	**42**	**42**	**41**
B5. Depreciation	36	**42**	34	34	34	35	36	37	38	38	37
B6. Combination of B1-B5	36	**48**	**49**	**48**	**49**	**49**	**50**	**52**	**52**	**52**	**50**
C. Tailored Tests											
C1. Combined contingent liabilities	36	39	38	37	38	38	39	**40**	**40**	**40**	40
C2. Natural disaster	36	**41**	40	40	**41**	**42**	**43**	**45**	**45**	**46**	**46**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	152	124	104	95	95	96	96	100	102	103	102
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	152	119	104	99	106	116	127	145	162	174	**187**
A2. Catastrophic Climate Event	152	**190**	147	149	158	168	177	**198**	**216**	**233**	**248**
B. Bound Tests											
B1. Real GDP growth	152	124	104	95	95	96	96	100	102	103	102
B2. Primary balance	152	149	148	135	134	135	134	139	141	143	143
B3. Exports	152	**262**	**510**	**464**	**461**	**462**	**454**	**469**	**475**	**480**	**477**
B4. Other flows 3/	152	140	131	119	119	120	118	123	125	126	125
B5. Depreciation	152	124	91	82	83	84	84	88	90	91	90
B6. Combination of B1-B5	152	**217**	124	**229**	**229**	**230**	**228**	**237**	**241**	**243**	**240**
C. Tailored Tests											
C1. Combined contingent liabilities	152	148	125	114	114	115	114	118	120	122	121
C2. Natural disaster	152	156	134	123	125	127	127	134	137	141	142
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	9	18	14	11	10	9	8	8	8	8	8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	9	**19**	**16**	13	12	11	10	10	11	11	11
A2. Catastrophic Climate Event	9	**21**	**15**	12	11	10	10	11	13	14	15
B. Bound Tests											
B1. Real GDP growth	9	**18**	**14**	11	10	9	8	8	8	8	8
B2. Primary balance	9	**18**	**15**	12	11	10	9	9	9	9	11
B3. Exports	9	**31**	**45**	**39**	**35**	**31**	**29**	**28**	**28**	**28**	**31**
B4. Other flows 3/	9	**18**	**15**	12	11	9	9	8	8	8	9
B5. Depreciation	9	**18**	**14**	11	10	8	8	8	8	7	7
B6. Combination of B1-B5	9	**25**	**30**	**23**	**21**	**19**	**17**	**17**	**17**	**16**	**19**
C. Tailored Tests											
C1. Combined contingent liabilities	9	**18**	**15**	12	10	9	9	8	8	8	8
C2. Natural disaster	9	**18**	**15**	12	11	10	9	9	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	5	9	9	8	7	6	6	6	6	6	5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	5	10	10	9	8	8	8	8	8	8	8
A2. Catastrophic Climate Event	5	10	10	9	8	7	7	8	9	10	11
B. Bound Tests	5	10	10	9	8	7	7	8	9	10	11
B1. Real GDP growth	5	11	12	10	9	8	8	8	7	7	7
B2. Primary balance	5	9	9	9	8	7	7	7	6	6	8
B3. Exports	5	10	10	10	9	8	8	7	7	7	8
B4. Other flows 3/	5	9	9	8	7	7	6	6	6	6	6
B5. Depreciation	5	12	11	9	9	8	7	7	7	7	7
B6. Combination of B1-B5	5	11	12	11	10	9	8	8	8	8	8
C. Tailored Tests											
C1. Combined contingent liabilities	5	9	9	8	7	7	6	6	6	6	6
C2. Natural disaster	5	9	9	8	8	7	6	6	6	6	6
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18
Memorandum item:											
Grant element assumed on residual financing (i.e., financing required above baseline)	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5	39.5

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

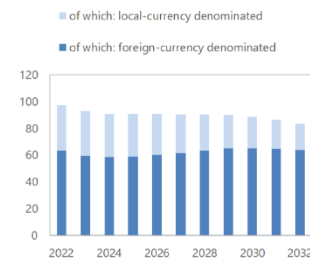
Table 8. Dominica: Public Sector Debt Sustainability Framework, 2019–42

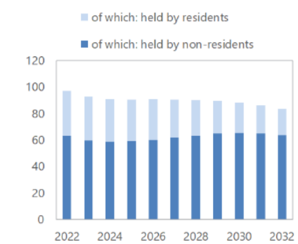
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	**97.7**	**112.5**	**106.3**	**97.0**	**92.7**	**90.7**	**90.5**	**90.6**	**90.3**	**83.3**	**50.8**	**82.0**	**89.9**
of which: external debt	**56.6**	**70.9**	**68.6**	**63.1**	**59.3**	**58.5**	**58.9**	**60.0**	**61.5**	**63.5**	**37.9**	**59.9**	**62.0**
Change in public sector debt	12.0	14.8	-6.1	-9.3	-4.4	-1.9	-0.2	0.1	-0.3	-2.8	-2.5		
Identified debt-creating flows 2/	**10.8**	**11.8**	**-4.8**	**-6.6**	**-2.4**	**-0.7**	**0.1**	**0.2**	**-0.2**	**-2.8**	**-2.5**	**-0.3**	**-1.5**
Primary deficit	**5.6**	**5.4**	**6.0**	**2.0**	**1.4**	**0.5**	**0.6**	**0.5**	**0.2**	**-2.8**	**-2.3**	**-0.3**	**-0.1**
Revenue and grants	48.7	67.5	65.4	51.3	52.2	50.5	49.4	49.2	49.0	48.6	47.0	**53.1**	**49.6**
of which: grants	1.9	2.4	5.4	2.4	2.4	2.4	2.4	2.4	2.4	2.3	2.3		
Primary (noninterest) expenditure	54.3	72.9	71.4	53.3	53.6	50.9	50.0	49.7	49.2	45.8	44.7	**52.8**	**49.5**
Automatic debt dynamics	**5.2**	**6.4**	**-10.9**	**-8.6**	**-3.8**	**-1.2**	**-0.6**	**-0.3**	**-0.4**	**0.0**	**-0.2**		
Contribution from interest rate/growth differential	5.1	6.2	-10.3	-8.7	-3.5	-1.2	-0.5	-0.2	-0.3	0.0	-0.2		
of which: contribution from average real interest rate	-0.2	0.1	-3.7	-3.5	0.8	2.7	2.6	2.2	2.0	1.7	0.8		
of which: contribution from real GDP growth	5.3	6.1	-6.6	-5.2	-4.3	-3.9	-3.1	-2.4	-2.4	-1.7	-1.0		
Contribution from real exchange rate depreciation	0.1	0.2	-0.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 3/	**1.2**	**3.0**	**-1.3**	**-2.6**	**-2.3**	**-1.2**	**-0.3**	**-0.2**	**-0.1**	**0.0**	**0.0**	**6.0**	**-0.6**
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	**...**	**...**	**77.0**	**70.4**	**66.5**	**63.8**	**62.8**	**62.0**	**60.9**	53.2	30.4		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**117.7**	**137.2**	**127.5**	**126.4**	**127.1**	**126.2**	**124.3**	**109.5**	**64.8**		
Debt service-to-revenue and grants ratio 5/	**16.6**	**-8.0**	**7.9**	**13.0**	**22.2**	**20.4**	**19.5**	**19.6**	**19.8**	**16.5**	**11.5**		
Gross financing need 6/	13.6	0.0	11.2	8.7	13.0	10.8	10.3	10.1	`	5.2	3.1		
Key macroeconomic and fiscal assumptions 7/													
Real GDP growth (in percent)	-5.8	-5.9	6.3	5.2	4.6	4.4	3.5	2.8	2.7	2.0	2.0	**-0.3**	**3.2**
Average nominal interest rate on external debt (in percent)	1.8	1.5	1.5	0.9	2.0	2.2	2.1	2.0	1.9	2.3	1.9	**2.3**	**2.0**
Average real interest rate on domestic debt (in percent)	-0.6	-0.1	-4.5	0.7	5.4	8.5	7.9	6.9	6.7	6.9	7.2	**-0.1**	**6.3**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.2	0.4	-0.8	...	...	...	...	...	...	...	...	**-0.3**	**...**
Inflation rate (GDP deflator, in percent)	1.6	0.9	5.3	6.8	4.2	2.2	2.0	2.0	2.0	2.0	2.0	**2.2**	**2.7**
Growth of real primary spending (deflated by GDP deflator, in percent)	-24.9	26.2	4.2	-21.6	5.2	-0.7	1.7	2.0	1.7	-0.1	1.8	**6.7**	**-0.7**
Primary deficit that stabilizes the debt-to-GDP ratio 8/	-6.5	-9.4	12.2	11.3	5.8	2.4	0.8	0.4	0.4	0.0	0.2	**-1.2**	**2.0**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt . Definition of external debt is Residency-based.

2/ Primary deficit coverage (revenue and expenditures) includes central government and SOEs.

3/ Residuals are mainly related to fluctuations in public sector deposits in the banking system, which have been accumulated mainly from CBI revenues. These deposits stood at 11 percent of GDP at end-2020.

4/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

6/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

7/ Macroeconomic variables are calculated on a fiscal year basis,

8/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

Table 9. Dominica: Sensitivity Analysis for Key Indicators of Public Debt, 2022–32

(In percent of GDP)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	PV of Debt-to-GDP Ratio										
Baseline	**70**	**67**	**64**	**63**	**62**	**61**	**60**	**59**	**57**	**55**	53
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**70**	**70**	**69**	**70**	**70**	**70**	**71**	**71**	**71**	**72**	**74**
A2. Catastrophic Climate Event	**70**	**83**	**83**	**84**	**85**	**82**	**77**	**76**	**75**	**73**	**71**
B. Bound Tests											
B1. Real GDP growth	**70**	**83**	**104**	**114**	**125**	**135**	**146**	**155**	**165**	**175**	**184**
B2. Primary balance	**70**	**74**	**79**	**77**	**77**	**75**	**74**	**73**	**72**	**70**	**67**
B3. Exports	**70**	**73**	**83**	**82**	**81**	**79**	**78**	**77**	**75**	**74**	**71**
B4. Other flows 3/	**70**	**71**	**72**	**71**	**70**	**69**	**68**	**66**	**65**	**63**	**61**
B5. Depreciation	**70**	**72**	**65**	**60**	**55**	51	46	42	37	32	28
B6. Combination of B1-B5	**70**	**73**	**75**	**74**	**73**	**73**	**72**	**71**	**69**	**68**	**65**
C. Tailored Tests											
C1. Combined contingent liabilities	**70**	**74**	**71**	**70**	**69**	**68**	**67**	**65**	**64**	**62**	**60**
C2. Natural disaster	**70**	**76**	**74**	**73**	**73**	**72**	**72**	**71**	**70**	**69**	**67**
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
	PV of Debt-to-Revenue Ratio										
Baseline	137	128	126	127	126	124	122	120	118	113	110
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	137	133	136	140	141	142	142	143	144	146	149
A2. Catastrophic Climate Event	137	192	183	182	179	171	158	156	154	149	145
B. Bound Tests											
B1. Real GDP growth	137	157	202	227	250	272	293	314	334	352	373
B2. Primary balance	137	142	156	157	156	154	152	150	147	143	139
B3. Exports	137	141	164	165	164	162	160	158	155	150	146
B4. Other flows 3/	137	135	143	143	142	140	138	136	134	129	125
B5. Depreciation	137	138	128	121	113	104	95	86	77	67	57
B6. Combination of B1-B5	137	140	147	149	149	147	146	144	142	138	134
C. Tailored Tests											
C1. Combined contingent liabilities	137	141	140	141	140	138	136	134	131	127	123
C2. Natural disaster	137	146	146	148	148	147	146	145	143	140	137
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	13	22	20	20	20	20	20	19	18	17	17
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	13	24	23	22	23	24	24	23	23	23	22
A2. Catastrophic Climate Event	13	30	25	23	22	21	20	19	18	17	19
B. Bound Tests											
B1. Real GDP growth	13	25	27	27	28	29	30	29	29	29	30
B2. Primary balance	13	22	21	21	21	21	21	20	19	18	19
B3. Exports	13	22	21	21	21	21	21	19	19	18	18
B4. Other flows 3/	13	22	21	20	20	20	20	19	18	18	17
B5. Depreciation	13	22	22	21	20	20	20	18	17	17	15
B6. Combination of B1-B5	13	23	22	21	22	22	22	21	20	19	19
C. Tailored Tests											
C1. Combined contingent liabilities	13	22	21	20	20	20	20	19	18	18	17
C2. Natural disaster	13	23	21	20	21	21	21	20	19	18	18
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-GDP Ratio										
Baseline	6.7	11.6	10.3	9.7	9.6	9.7	9.6	9.0	8.7	8.4	8.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	7	12	11	11	11	12	12	12	11	11	11
A2. Catastrophic Climate Event	7	13	11	10	10	10	10	9	9	9	9
B. Bound Tests											
B1. Real GDP growth	7	13	14	13	14	14	15	14	14	14	15
B2. Primary balance	7	12	11	10	10	10	10	10	9	9	9
B3. Exports	7	12	10	10	10	10	10	9	9	9	9
B4. Other flows 3/	7	12	10	10	10	10	10	9	9	9	8
B5. Depreciation	7	12	11	10	10	10	10	9	8	8	7
B6. Combination of B1-B5	7	12	11	11	11	11	11	10	10	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	7	12	11	10	10	10	10	9	9	9	8
C2. Natural disaster	7	12	11	10	10	10	10	10	9	9	9
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Figure 1. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2022–32

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

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

Borrowing Assumptions On Additional Financing Needs Resulting From The Stress Tests*	Default	User Defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	1.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	31	31
Avg. grace period	8	8

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

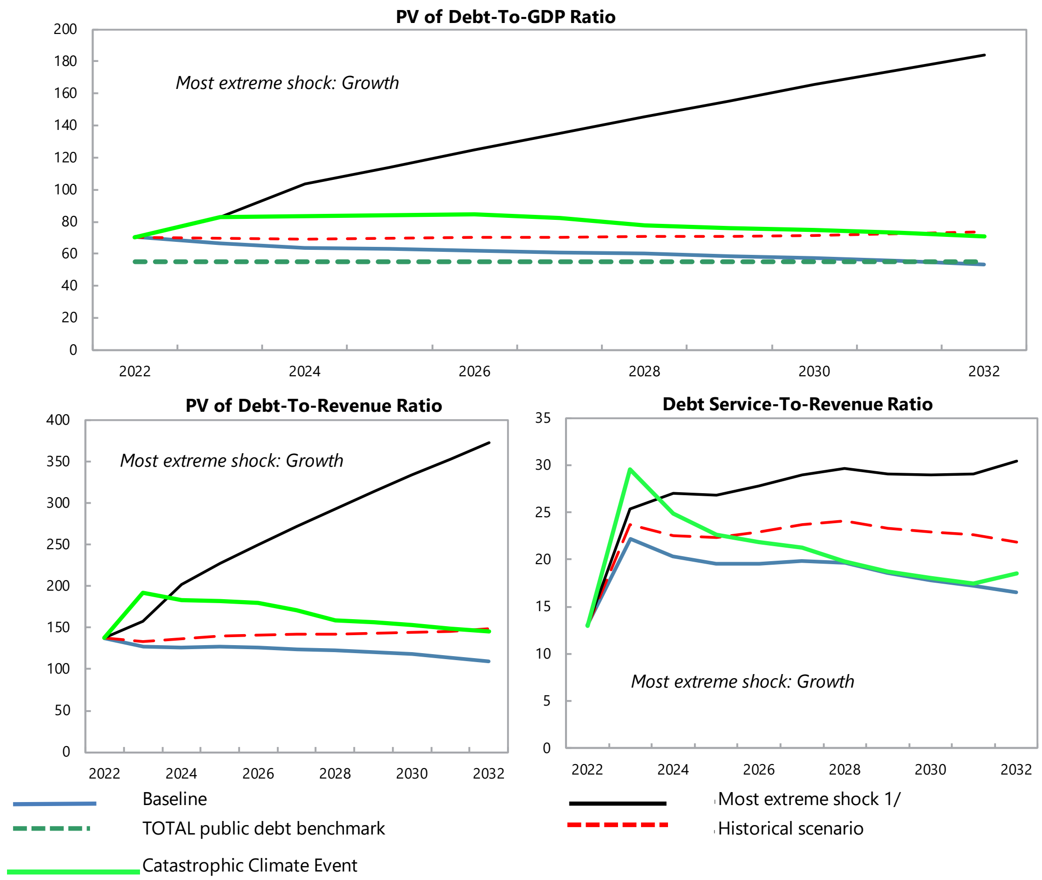
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ Natural disaster shock applies, but is generated as Customized Scenario (not as a Tailored Scenario) to more precisely mimic the impact of recent Hurricane Maria.

3/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2022–32



Borrowing Assumptions On Additional Financing Needs Resulting From The Stress Tests*	Default	User Defined
Shares of marginal debt		
External PPG medium and long-term	42%	90%
Domestic medium and long-term	58%	10%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.7%	2.5%
Avg. maturity (incl. grace period)	31	15
Avg. grace period	8	8
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.3%	0.5%
Avg. maturity (incl. grace period)	5	15
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.5%

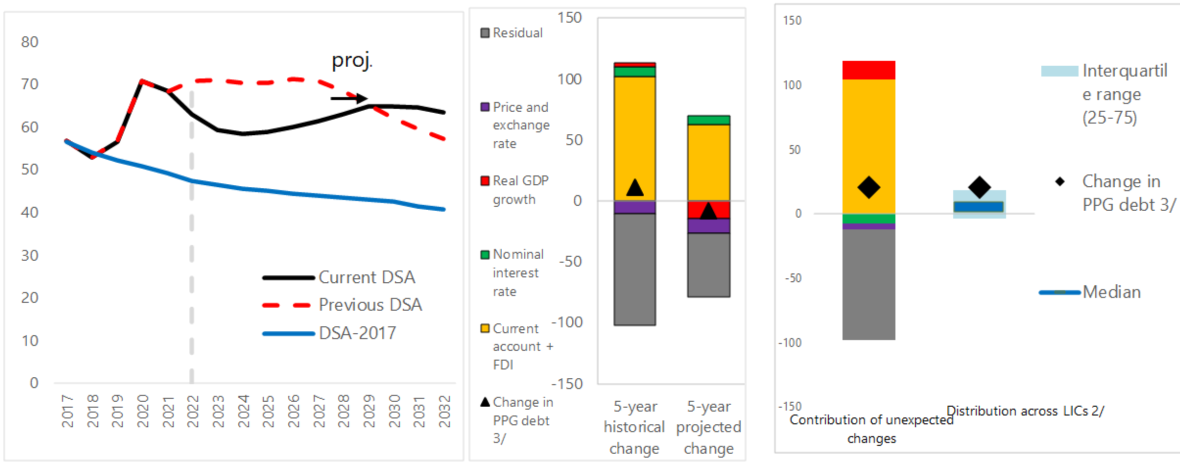
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

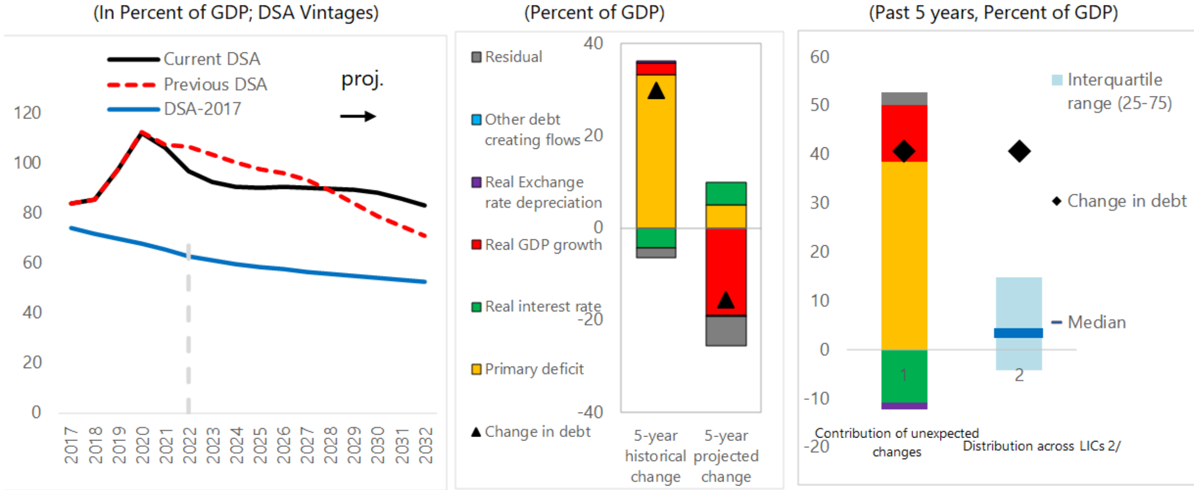
Figure 3. Dominica: Drivers of Debt Dynamics—Baseline Scenario

Gross Nominal PPG External Debt (In Percent of GDP; DSA Vintages) | Debt-Creating Flows (Percent of GDP) | Unexpected Changes in Debt 1/ (Past 5 years, Percent of GDP)



Public Debt

Gross Nominal Public Debt (In Percent of GDP; DSA Vintages) | Debt-creating flows (Percent of GDP) | Unexpected Changes in Debt 1/ (Past 5 years, Percent of GDP)



Sources: Country authorities; and staff estimates and projections.

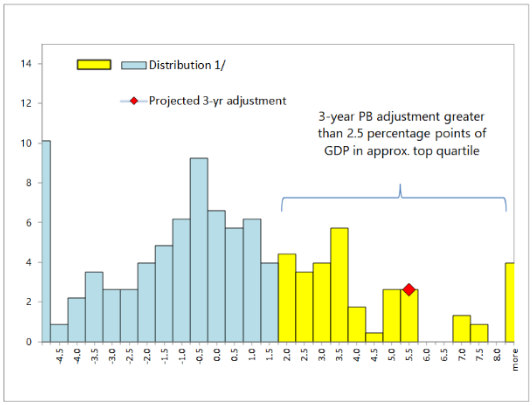
1/ Difference between anticipated and actual contributions on debt ratios.

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

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

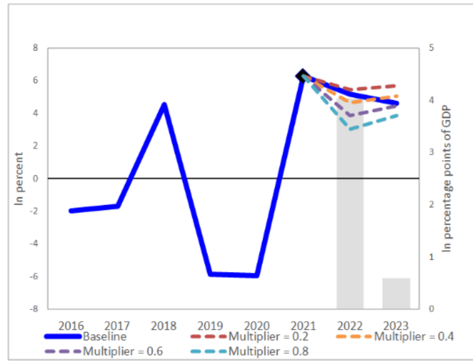
Figure 4. Dominica: Realism Tools

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



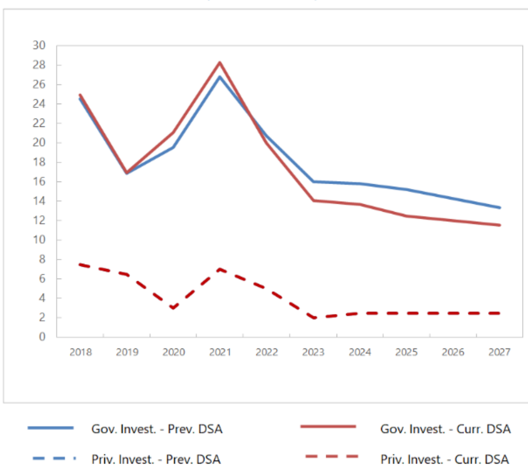
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

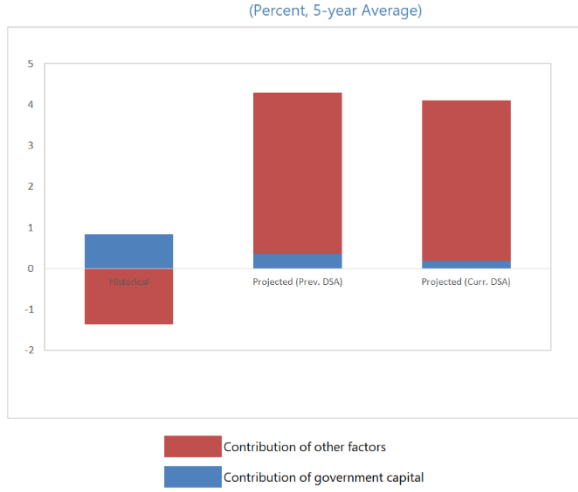


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)



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



Sources: Country authorities; and staff estimates and projections.