INTERNATIONAL MONETARY FUND

IMF Country Report No. 24/192

DOMINICA

June 2024

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR DOMINICA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Dominica, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 31, 2024 consideration of the staff report that concluded the Article IV consultation with Dominica.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 31, 2024, following discussions that ended on March 14, 2024, 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 13, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- A **Statement by the Executive Director** for Dominica.

The 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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PRESS RELEASE

PR 24/247

IMF Executive Board Concludes 2024 Article IV Consultation with Dominica

FOR IMMEDIATE RELEASE

Washington, DC – **June 27, 2024:** On May 31, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Dominica.

The Dominican economy has recovered strongly following the pandemic shock. Real GDP grew by 5.6 percent in 2022 and an estimated 4.7 percent in 2023 returning to pre-pandemic output levels. These outturns reflect a rebound in tourism supported by public investment and buoyant Citizenship by Investment (CBI) revenues. Inflation fell from its 2022 peak of 9¾ percent to 2¼ percent by end of 2023, largely on account of softening world commodity prices.

Fiscal and external imbalances have narrowed in recent years but remain large. The fiscal primary balance improved by 1.3 percentage points to a deficit of 4¼ percent of GDP in FY2022/23, reflecting higher CBI revenues that were partly offset by higher capital spending. Public debt has steadily declined from its pandemic peak but remains elevated above 100 percent of GDP. The current account (CA) deficit had been narrowing since 2019 but widened to 33.7 percent of GDP in 2023, as higher imports for the construction of strategic infrastructure projects outweighed higher tourism receipts.

The financial system remains stable. Banks are well-capitalized and liquid, although non-performing loans are elevated, and provisioning has fallen below the Eastern Caribbean Central Bank's (ECCB's) regional prudential requirement. Recapitalization of credit unions is continuing. Credit to the private sector has lagged nominal GDP growth, while bank exposure to the public sector has decreased but remains elevated.

Dominica's economic outlook is positive, predicated on a continued recovery in tourism and the implementation of the country's economic modernization and resilience building agenda. The transition to local geothermal energy production, as well as expanded airport and hotel capacity, is expected to sustain economic activity, reduce the dependency on fossil fuels, and boost tourism. The current account deficit is expected to narrow as tourism exports expand while import growth slows as the construction of large infrastructure projects is gradually completed. Meanwhile, public debt is set to decline gradually in coming years supported by prudent fiscal management but remains vulnerable to shocks.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. Directors welcomed the Dominican economy's full recovery to pre pandemic levels. They noted, however, that fiscal

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

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

and external imbalances remain high with risks—including from external shocks, natural disasters, and volatile Citizenship by Investment (CBI) revenues—tilted to the downside. Directors concurred that the ongoing economic recovery offers an opportunity to rebuild buffers and advance reforms to modernize the economy and foster sustainable and resilient growth.

Directors noted that a more ambitious fiscal consolidation would help Dominica meet the fiscal rule, self-insure against disaster risks, and reduce debt vulnerabilities. They recommended broadening the non-CBI revenue base by streamlining tax incentives, reintroducing the VAT applied to the electricity price fuel surcharge, equalizing diesel and gasoline excise rates, and strengthening tax administration and compliance management. Removing the stamp duty on outbound money transfers would also be important. Directors saw scope to rationalize inefficient spending while prioritizing critical public investments with economic returns. They encouraged tariff adjustments on key public services to reduce the fiscal costs of state-owned enterprises. Directors concurred that Dominica’s financing strategy should continue to prioritize non debt creating flows.

Directors underscored the need to protect the most vulnerable by enhancing the efficiency and sustainability of the social protection framework, including by better targeting social assistance programs. Reforming the pension scheme to ensure its long-term sustainability amid rising demographic pressures would also be important.

Directors emphasized the need to strengthen financial system oversight and reduce balance sheet vulnerabilities, in particular with regard to credit unions. Granting statutory independence to the Financial Services Unit would help improve its effectiveness and support risk-based supervision of non-bank financial institutions. Directors underscored the importance of addressing structural impediments to financial intermediation and supported the authorities’ efforts in this regard. They encouraged further strengthening CBI program frameworks and addressing remaining AML/CFT deficiencies.

Directors welcomed Dominica’s modernization and climate adaptation agenda, including the authorities’ Climate Resilience and Recovery Plan. They noted that the ongoing transition to renewables alongside reforms to improve the business environment and address labor market frictions would further enhance competitiveness and growth prospects. Directors underscored the importance of improving statistical compilation, tax administration, and public financial management frameworks—including CBI reporting systems—to enhance policy management. They encouraged the authorities to leverage IMF technical assistance to support their reform efforts.

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

Table 1. Dominica: Selected Economic Indicators, 2019–29

					Est.	Projected					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output and prices	(annual percent change, unless otherwise specified)										
Real GDP 1/	5.5	-16.6	6.9	5.6	4.7	4.6	4.3	3.3	2.9	2.9	2.4
Nominal GDP 1/	10.2	-17.5	10.1	9.4	8.4	7.5	6.4	5.3	5.0	5.0	4.4
Consumer prices											
Period average	1.5	-0.7	1.6	7.7	3.5	2.8	2.1	2.0	2.0	2.0	2.0
End of period	0.1	-0.7	3.5	8.7	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Central government balances 2/	(in percent of GDP, unless otherwise specified)										
Revenue	39.6	59.1	58.8	62.1	43.5	41.2	40.3	40.0	40.0	39.9	39.7
Taxes	24.1	23.3	22.3	22.3	21.9	22.1	22.1	21.9	21.9	21.7	21.5
Non-tax revenue	13.5	33.3	30.9	38.2	20.1	17.6	16.6	16.6	16.6	16.6	16.6
Grants	1.9	2.4	5.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Expenditure	48.1	66.6	67.0	69.3	47.4	44.6	43.2	42.7	42.2	41.8	41.2
Current primary expenditure	35.9	36.5	37.5	31.2	29.5	28.7	28.3	28.3	28.3	28.3	28.3
Interest payments	2.5	2.1	2.6	2.9	4.2	4.1	3.7	3.6	3.3	3.2	3.0
Capital expenditure	9.8	28.0	26.8	35.2	13.6	11.8	11.2	10.8	10.7	10.4	9.9
Primary balance	-6.1	-5.4	-5.6	-4.3	0.4	0.7	0.8	0.9	1.1	1.2	1.5
Primary balance, excluding CBI	-18.2	-36.7	-34.8	-40.9	-17.6	-14.7	-13.7	-13.6	-13.4	-13.3	-13.0
Overall balance	-8.6	-7.5	-8.2	-7.2	-3.8	-3.4	-2.9	-2.7	-2.2	-2.0	-1.5
Central government debt (incl. guaranteed) 3/	97.7	112.5	108.5	103.3	97.5	98.8	95.9	93.8	91.7	89.6	87.4
External	56.6	70.9	70.2	65.8	63.0	68.1	65.0	66.4	67.0	67.7	68.8
Domestic	41.1	41.6	38.3	37.4	34.5	30.7	30.9	27.5	24.7	22.0	18.6
Money and credit (annual percent change)											
Broad money (M2)	-8.5	-9.9	1.9	-1.3	-0.4	5.5	5.5	5.3	5.0	5.0	4.4
Credit to the private sector	-6.0	-0.3	3.6	2.7	-3.6	4.0	5.3	5.4	5.0	7.1	6.5
External Sector	(in percent of GDP, unless otherwise specified)										
Terms of Trade (% change)	-5.2	11.9	-11.9	-7.0	2.4	-0.9	-0.1	-0.4	-0.7	-0.9	-1.1
Current account balance, of which:	-38.1	-37.4	-32.9	-26.7	-33.7	-21.7	-19.8	-17.7	-15.8	-13.4	-13.3
Exports of goods and services	33.1	19.6	21.2	28.7	28.1	33.9	36.3	36.7	37.4	38.8	38.2
Imports of goods and services 4/	71.0	60.0	56.5	57.8	62.9	57.9	58.4	56.7	55.5	54.6	54.1
Capital and financial account, of which: 5/	40.3	35.2	30.2	27.0	33.8	20.8	18.9	16.9	15.0	12.6	12.6
FDI	10.3	4.6	4.7	3.0	3.3	4.8	4.6	4.5	4.5	4.5	4.5
Capital grants	9.8	23.0	29.1	21.6	27.0	7.7	10.8	9.0	6.7	6.5	8.9
Citizenship By Investment	11.8	23.2	30.2	33.0	26.9	16.6	14.9	14.4	14.5	14.4	14.5
Other (incl. errors and omissions)	8.4	-15.5	-33.8	-30.6	-23.3	-8.4	-11.4	-11.2	-10.7	-12.9	-15.4
External debt (gross) 6/	90.2	108.0	87.3	97.3	92.6	97.9	91.6	92.2	91.1	88.4	83.7
Saving-Investment Balance	-38.1	-37.4	-32.9	-26.7	-33.7	-21.7	-19.8	-17.7	-15.8	-13.4	-13.3
Saving	-14.7	-13.4	2.4	10.6	-6.6	-5.5	-4.8	-3.2	-1.6	0.6	0.3
Investment	23.5	24.0	35.3	37.2	27.1	16.1	15.0	14.5	14.2	14.0	13.6
Public	17.0	21.0	28.3	32.2	25.1	13.6	12.5	12.0	11.7	11.5	11.1
Private	6.5	3.0	7.0	5.0	2.0	2.5	2.5	2.5	2.5	2.5	2.5
Memorandum items:											
Nominal GDP (EC$ millions)	1,651	1,361	1,499	1,640	1,777	1,911	2034	2142	2249	2361	2466
Nominal GDP, fiscal year (EC$ millions)	1,506	1,430	1,570	1,709	1,844	1,972	2088	2196	2305	2413	2523
Net imputed international reserves:											
End-year (millions of U.S. dollars)	166.2	165.6	165.2	182.3	164.2	169.7	180.0	191.7	203.4	216.1	228.4
Months of imports of goods and services	4.6	6.6	6.3	6.2	4.8	5.0	4.9	5.1	5.3	5.4	5.5
Holdings of SDRs (millions of SDRs)	0.4	0.2	11.1	9.6	8.0	7.9	7.9	7.9	7.9	7.9	7.9

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 2024 ARTICLE IV CONSULTATION

May 13, 2024

KEY ISSUES

Context. Dominica is a small island developing state that is vulnerable to external shocks. Key economic drivers (agriculture and ecotourism) have limited downstream integration and are vulnerable to disaster shocks. During the past decade, consecutive natural disasters (NDs) followed by the pandemic and cost of living shocks have taken its toll on Dominica's economy. Policy responses have eroded essential fiscal buffers, despite large Citizenship by Investment (CBI) revenues which have supported reconstruction, infrastructure development, and climate adaptation. The country remains exposed to shocks, while tight fiscal space constrains development initiatives. The ongoing economic expansion provides an opportunity to rebuild essential buffers and reorient policies towards increasing prospects for more sustained and resilient growth.

Outlook and Risks. Dominica's output has recovered to its pre-pandemic level, reflecting a rebound in tourism and public investment, supported by buoyant CBI revenues. Inflation has subsided from its 2022 peak, but external imbalances have deteriorated modestly. Banks remain well capitalized and liquid although credit-unions (CUs) suffer from persistent weak capital and asset quality. The outlook is subject to downside risks, especially from climate change, volatile tourism receipts, commodity prices, and CBI revenues. Meanwhile, longstanding impediments to private investment and employment weigh on growth and productivity.

Key Policy Recommendations. Policy priorities are to address fiscal and external imbalances while enhancing the basis for sustained and resilient growth. These priorities span three broad areas: *Fiscal consolidation* should be stepped-up to (i) rebuild policy space and achieve objectives under the fiscal rule and regional debt target; (ii) adequately self-insure against ND risks; and (iii) reduce reliance on domestic financing. This requires concurrent policies to broaden the revenue base (by streamlining exemptions, aligning fuel taxes, and rolling back temporary tax relief), rationalize expenditures (goods and services and transfers), improve social spending efficiency, and prioritize investment with clear economic returns. *Financial sector* policies should seek to improve financial intermediation and strengthen oversight, particularly for CUs, including by transforming the Financial Services Unit (FSU) into an independent agency with adequate enforcement powers. *Structural policies* should support growth and resilience by (i) facilitating the transition to renewables; (ii) improving the business environment, including by streamlining regulations and reducing compliance costs; and (iii) addressing labor market frictions that hinder employment and productivity.

Approved By
Ceyda Oner (WHD) and Fabian Bornhorst (SPR)

Mission team: Christopher Faircloth (head), Yibin Mu, Sinem Kilic Celik, and Hou Wang, supported by Archit Singhal and Laila Azoor. Discussions took place in Roseau during March 5–14, 2024. The team met Prime Minister Hon. Roosevelt Skerrit, Minister of Finance Dr. Irving McIntyre, Financial Secretary Ms. Denise Edwards and other government officials, labor unions, representatives of the opposition, and private sector stakeholders. The mission was joined by Mr. Philip Jennings and Ms. Sylvia Gumbs (OEDCO).

CONTENTS

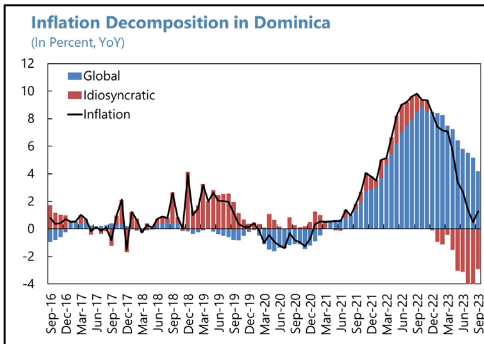
ANNEXES

CONTEXT

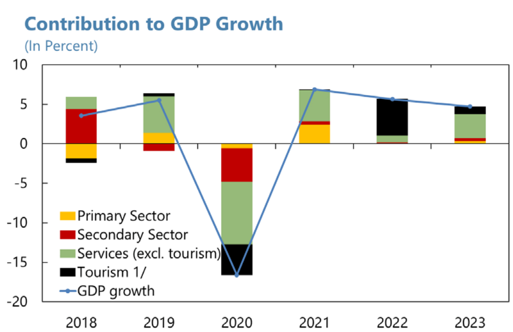
1. **Dominica's narrow economic base, exposure to NDs, and reliance on CBI flows leave it vulnerable to shocks while limited fiscal space constrains development plans.** Policy responses to repeated shocks since 2015 have depleted fiscal buffers, as reflected by a 43½ percentage point increase in the public debt-to-GDP ratio at the pandemic peak. Fallout from the pandemic and subsequent supply shocks have partially delayed implementation of self-insurance initiatives elaborated in Dominica's Disaster Resilience Strategy (DRS). On balance, limited fiscal space constrains development plans, which are currently heavily reliant on CBI inflows to complete potentially transformational infrastructure projects. The entrenched economic recovery provides an opportunity to rebuild fiscal buffers consistent with Dominica's fiscal rule and the broader ECCU regional debt target, while prioritizing reforms to enhance resilient and inclusive growth.

RECENT DEVELOPMENTS

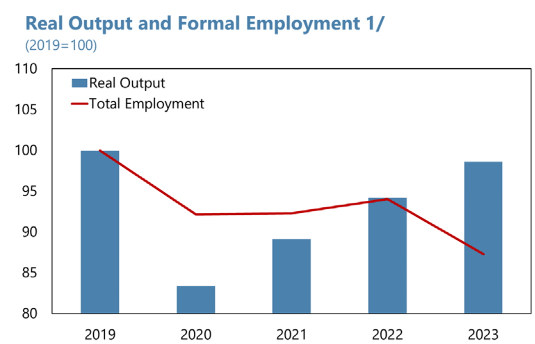
2. **The economy has fully recovered to pre-pandemic-levels, but fiscal and external imbalances remain large.** Real GDP grew by 5.6 percent in 2022 and an estimated 4.7 percent in 2023 returning to pre-pandemic output levels (Figure 1). The recovery has been underpinned by robust wholesale/retail trade, an ambitious public investment plan, a rebound in tourism (despite reduced airlift), and modest growth in agricultural output. Inflation fell from its 2022 peak of 9¾ percent to 2¼ percent (year-on-year) by end of 2023, largely on account of softening world commodity prices. The current account (CA) deficit widened to 33.7 percent in 2023, as the improvement in the tourism receipts only partially offset rising imports to support the construction of large infrastructure projects (Figure 2). Financing costs were only minimally impacted by tighter global financial conditions due to the large share of concessional financing. Meanwhile, data suggests that the recovery of the formal labor market has lagged the economic rebound, signaling potential pandemic-induced scarring.



Sources: ECCB and IMF staff calculations.

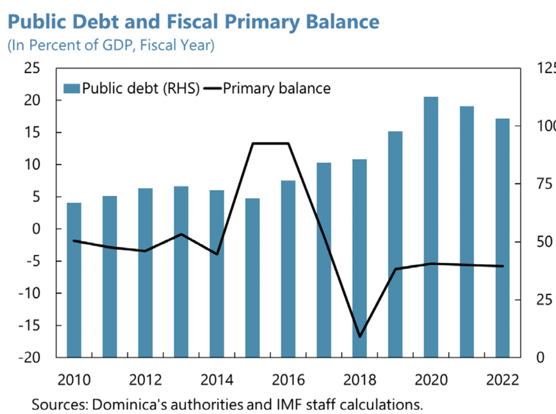


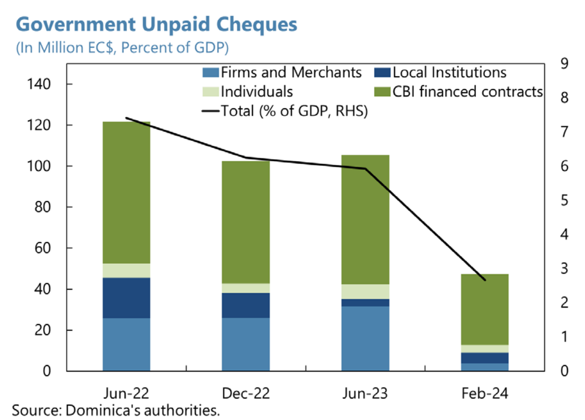
Sources: Dominica's authorities and IMF staff calculations.
1/ Tourism only includes direct contribution to the GDP.



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

3. The improvement in the fiscal position has been slower than anticipated, with public debt remaining above pre-pandemic levels (Figure 3). The fiscal primary balance moderately improved by 1.3 percentage points (ppts) to a deficit 4¼ percent of GDP in FY2022/23, reflecting higher CBI revenues that were mostly offset by a weakening in grant flows and higher capital spending. Public debt has fallen further (9 ppts from its pandemic peak) but remains elevated at 103¼ percent of GDP. The authorities' FY2023/24 budget targets a primary surplus of 0.9 percent of GDP, underpinned by a limited set of revenue measures (taxing idle properties, excises on alcohol and tobacco, stamp duty on outbound money transfers, and license fees for financial institutions and CBI agents) alongside efforts to rationalize public wages and recurrent expenditures and further reduce arrears. The Public Sector Investment Program (PSIP) envisions investment spending of over 30 percent of GDP, financed mainly by CBI inflows.[1] A Debt Repayment Fund (DRF) was established to complement the Vulnerability Risk and Resilience Fund (VRF) in managing fiscal vulnerabilities.[2] Year to date information for FY2023/24 suggests that the authorities are likely to underperform the primary surplus target by roughly ½ percent of GDP.





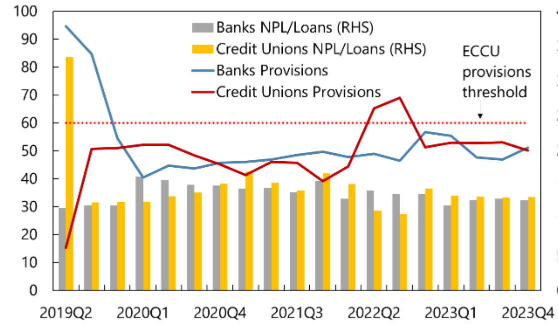
4. Financial stability risks are contained amidst lackluster credit growth and deteriorating profitability and asset quality. The financial landscape comprises of two banks and six CUs with respective assets equivalent to around 136 and 64 percent of GDP. Banks remain well capitalized and liquid, benefitting from a stable deposit base at low costs, with a substantial portion of assets invested in foreign portfolio holdings (Figure 4, Table 5a). Banks' exposure to the government has declined in recent years but remains elevated from a regional standpoint suggesting scope for further balance sheet diversification. Bank non-performing loans (NPLs) remain elevated, and provisioning has fallen below the Eastern Caribbean Central Bank's (ECCB's) 60 percent prudential requirement. Meanwhile, CUs remain vulnerable, with low capital adequacy, elevated NPLs, and declining profitability (Figure 5 and Table 5b). As a result, total private sector credit (from both banks

[1] The uncertain and volatile nature of CBI inflows creates cash management challenges that have, at times, necessitated the use of costly overdraft facilities.

[2] The VRF was established in October 2020 with a target of accumulating 12 percent of GDP from CBI revenues at a rate of 1½ percent of GDP annually. As of March 2024, VRF assets only amounted to 1.1 percent of GDP. The DRF is also intended to be funded by CBI flows with a 1.3 percent of GDP target.

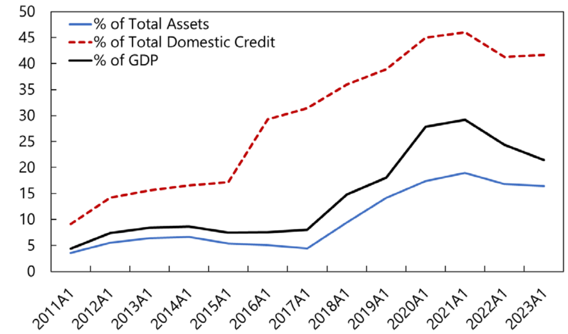
and CUs) has been subdued, slowing from 4.8 percent in 2022 to 1.5 percent in 2023, where nearly half of private-sector credit is provided by CUs.

NPL Ratios and Provisions in Percent of NPLs
(In Percent)



Sources: ECCB BBB, Dominica authorities, and IMF staff calculations.

Dominica - Bank Credit to General Government
(In Percent)



Source: ECCB

OUTLOOK AND RISKS

5. **Economic growth is expected to converge to 2 percent in the long term as the impulse from key infrastructure investments recedes.** Annual real growth is projected to average 4½ percent during 2024-25, supported by investments in agricultural and key infrastructure projects mainly financed by CBI revenues—notably the geothermal production plant, a new international airport, and a variety of climate-resilient infrastructure and hotel projects—which are expected to boost tourism's growth contribution and further improve the CA balance. Long-term growth is projected to gradually slow in the context of sustained fiscal consolidation and the withdrawal of the construction impulse, converging to around 2 percent. Similarly, inflation is expected to converge to 2 percent (broadly in line with the U.S. price dynamics) and the CA deficit narrow to its norm of 15-16 percent of GDP by 2027-28 (Annex I).[3] The sustained economic recovery and gradual fiscal consolidation will reduce public debt to under 90 percent of GDP by 2028, maintaining public debt sustainability despite high risk of debt distress (see Debt Sustainability Analysis (DSA)). The outlook is predicated on sustained CBI flows, which are expected to converge to 14.5 percent of GDP over the medium term reflecting ongoing efforts to strengthen the integrity of the CBI regime (Box 1).

Macroeconomic Outlook
(Percent of GDP)

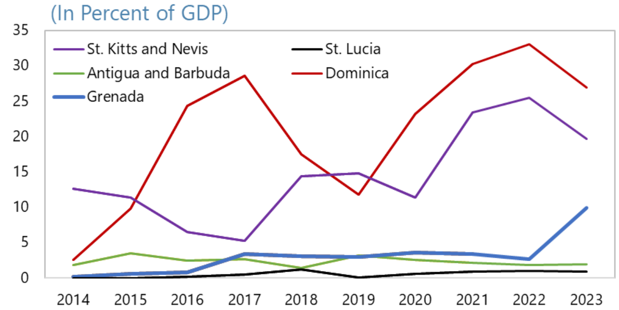
	Est.	Proj.					
	2023	2024	2025	2026	2027	2028	2029
Real GDP 1/ 4/	4.7	4.6	4.3	3.3	2.9	2.9	2.4
Inflation (end of period)	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance	0.4	0.7	0.8	0.9	1.1	1.2	1.5
Overall fiscal balance 2/	-5.3	-4.9	-4.4	-4.2	-3.7	-3.5	-3.0
Overall fiscal balance, excl. CBI 2/	-21.8	-18.8	-17.4	-17.2	-16.7	-16.4	-16.0
Public Capital Expenditure 2/	13.6	11.8	11.2	10.8	10.7	10.4	9.9
Public debt 2/ 3/	97.5	98.8	95.9	93.8	91.7	89.6	87.4
Current account balance	-33.7	-21.7	-19.8	-17.7	-15.8	-13.4	-13.3
Credit to the private sector growth 4/	-3.6	4.0	5.3	5.4	5.0	7.1	6.5

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

[3] The baseline incorporates a reduction in annual fuel imports used for electricity generation by roughly half once the geothermal powerplant becomes operational in 2026.

Box 1. Dominica's Citizenship by Investment (CBI) Program

CBI Revenues
(In Percent of GDP)



Sources: Country authorities; and IMF staff estimates.

Dominica's CBI program is a critical source of revenue that finance post-disaster reconstruction and development. Individuals applying for the program have two options to obtain Dominican citizenship: (i) contributing US$100,000/applicant to the Economic Diversification Fund (EDF); or (ii) investing a minimum of US$200,000 in various government approved real-estate projects plus an additional US$25,000/applicant in fees. Dominica's CBI revenues are the highest among the five ECCU jurisdictions with programs—peaking above 30 percent of GDP in 2022. These inflows have funded the bulk of disaster reconstruction and strategic infrastructure projects to boost resilient and inclusive growth.

Recent heightened international scrutiny of CBI regimes threatens the viability of flows. Third-party concerns create uncertainties as to the magnitude of flows going forward. The European Commission, United Kingdom, and United States have raised security concerns owing to a lack of transparency and perceived weak vetting processes, while the OECD has cited tax evasion and money laundering risks. These concerns threaten short-term visa free access to third party countries (including the Schengen area) by CBI countries—a key program benefit. Indeed, the United Kingdom revoked Dominica's visa-free access in 2023 on security grounds.

Dominica has taken steps to strengthen the integrity of its CBI regime including by deepening regional cooperation on CBI matters to safeguard programs. Dominica has been engaging with the United States and European countries on options that address security concerns and preserve the financial integrity of their program. Following the landmark 2023 U.S.-Caribbean CBI Roundtable where six enhancement principles were agreed, Dominica introduced new CBI regulations to improve: (i) due diligence and vetting systems; (ii) information sharing frameworks; (iii) passport recall powers; and (iv) eligibility criteria for authorized agents. Building on these efforts, Dominica has joined other ECCU CBI jurisdictions in signing a Memorandum of Agreement (MoA) in March 2024 that sets out common regional standards to further buttress the integrity CBI programs. The MoA outlines a regional framework to raise transparency and information exchange processes, strengthen regulatory oversight, bolster due diligence and intelligence systems, and enhance coordination on pricing to avoid revenue erosive race-to-the bottom practices.

6. **Risks to the outlook are elevated and tilted to the downside (Annex II).** Heightened geopolitical tensions, volatile commodity prices, an abrupt global slowdown, and increased geo-economic fragmentation could disrupt Dominica's tourism exports and external competitiveness via trade and price channels. Tighter and volatile global financial conditions may fuel a rebalancing of bank assets to overseas, raise sovereign borrowing costs, damage so-far stable FDI inflows, and create financing challenges with wider economic spillovers. Extreme climate events could severely damage infrastructure and compromise growth. Domestic risks, such as fiscal underperformance and lower-than-expected CBI inflows, could jeopardize the completion of key infrastructure projects, with knock-on effects to growth and debt. A deterioration in CU asset quality could disrupt economic activity while delays enacting social security reform would exacerbate fiscal vulnerabilities.

At the same time, better than expected dividends from the ongoing runway extension or higher growth in major trading partners could boost tourism exports and pose upside risks to the outlook.

Authorities' Views

7. The authorities broadly concurred with staff's assessment of the economic outlook and the balance of risks. They agreed that ongoing infrastructure-related activity is expected to sustain growth in the near and medium term and saw potential for larger contributions to growth from the agriculture sector as initiatives under the Agriculture and Fisheries Sustainable Development Plan are operationalized. The lagging recovery of stayover tourist arrivals to pre-pandemic norms was seen as a transitory phenomenon, reflecting bottlenecks in air travel. The runway extension project and completion of the international airport are expected to eliminate airlift bottlenecks. The authorities noted that economic dividends from key transformational projects could deliver higher steady state growth. They agreed that the balance of risks weigh on the downside and highlighted disruptions to CBI inflows as a key concern. In this context, the authorities highlighted ongoing efforts to allay third-party concerns by enhancing the integrity and transparency of Dominica's CBI regime.

POLICY DISCUSSIONS

With economic growth now firmly entrenched, policies should reorient to address large fiscal and external imbalances while enhancing the basis for sustained and resilient growth. Priorities include: (i) rebuilding fiscal buffers while prioritizing critical investment; (ii) improving financial intermediation while safeguarding financial stability; and (iii) eliminating structural constraints to investment, employment, and productivity to strengthen competitiveness.

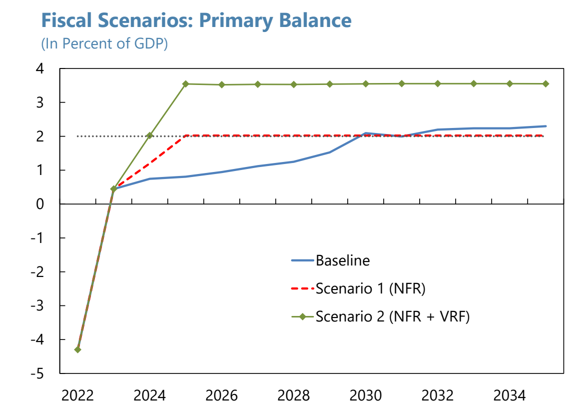
A. Safeguarding Fiscal Sustainability and Rebuilding Buffers

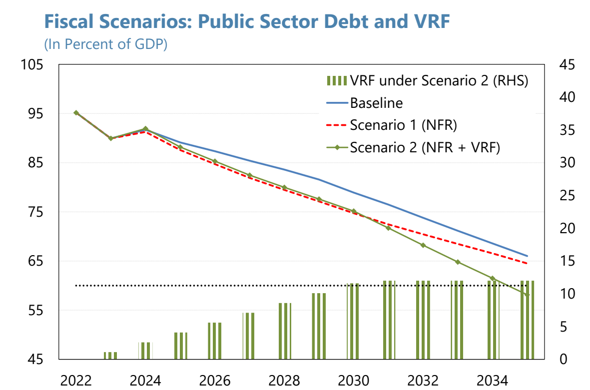
8. More ambitious fiscal consolidation is necessary to comply with Dominica's fiscal rule and adequately fund disaster self-insurance. On current policies (baseline), the authorities are projected to miss the fiscal objectives set forth by the national fiscal rule (NFR).[4] Specifically, the primary surplus in 2026 is expected to fall short of the minimum 2.0 percent of GDP benchmark by 1¼ ppts and public debt is expected to exceed the 60 percent of GDP threshold in 2035 by 6 ppts. However, a "minimum" reform scenario that only achieves the primary surplus target (Scenario 1) would be insufficient to achieve the public debt target. Moreover, accumulating 1½ percent of GDP annually in the VRF as targeted would require additional fiscal effort beyond achieving the fiscal targets (see ftn. 2). Therefore, staff advocates targeting a primary surplus of 3½ percent of GDP from

[4] Dominica approved a Fiscal Responsibility Act in 2021 that requires achieving a *minimum* primary surplus of 2 percent of GDP by 2026 to reduce public debt below 60 percent of GDP by 2035, as required by Eastern Caribbean Currency Union (ECCU) member jurisdictions. The minimum primary surplus is to be sustained as long as public debt exceeds the 60 percent threshold with exceptions in the event of natural disasters, financial, or economic crises. If the cumulative difference between the primary balance and the minimum targeted balance exceeds 2 percent of GDP, corrective revenue or expenditure policies need to be introduced to eliminate the difference over three fiscal years.

FY2025/26 onwards (Scenario 2), which can ensure Dominica achieve both the fiscal objectives in the NFR as well as the VRF accumulation targets.[5] Such a path would provide stability and fiscal buffers to deal with possible shocks, including from lower CBI inflows (Box 2). A stronger fiscal consolidation, along with competitiveness-enhancing structural reforms (see below), would also support the rebalancing of the external position, which staff assesses to be substantially weaker than the level implied by fundamentals and desirable policies (see Annex I).

Dominica: Fiscal Scenario Analysis





Sources: Dominica authorities and IMF staff estimates and calculations.

Box 2. Economic Adjustment Under a Strengthened Consolidation Scenario

The recommended adjustment path involves a reprioritization of the policy mix to resolve economic imbalances without compromising development priorities for resilient growth. The proposed active scenario involves a package of consolidation measures to: (i) broaden non-CBI revenues; (ii) streamline spending inefficiencies; and (iii) save a greater portion of CBI revenues. Doing so would improve Dominica's resilience to external shocks—by strengthening the external position and restoring critical fiscal buffers as envisioned under NFR and DRS—while prioritizing the completion of key infrastructure investments that drive growth prospects in the near and long term (e.g., international airport, geothermal plant, and expansion of tourism capacity).

An illustrative economic scenario is presented to demonstrate the impact of the proposed fiscal consolidation strategy. The adjustment is phased evenly over two years, involving measures to broaden the revenue base (EC$10 million) and scale back expenditures (EC$55 million). Debt dynamics would

Macroeconomic Outlook
(Percent of GDP)

	Est.	Proj.					
	2023	2024	2025	2026	2027	2028	2029
Real GDP 1/ 4/	4.7	4.6	4.2	3.2	3.1	3.0	2.4
Inflation (end of period)	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Primary fiscal balance	0.4	2.0	3.5	3.5	3.5	3.5	3.5
Overall fiscal balance 2/	-3.8	-2.1	-0.2	-0.1	0.2	0.3	0.5
Overall fiscal balance, excl. CBI 2/	-21.8	-17.6	-14.6	-14.6	-14.3	-14.1	-14.0
Public Capital Expenditure 2/	13.6	10.8	9.2	8.9	8.9	8.8	8.6
Public debt 2/ 3/	97.5	99.1	95.0	91.8	88.7	86.0	83.4
Current account balance	-33.7	-21.1	-17.9	-15.2	-13.5	-11.3	-11.6
Credit to the private sector growth 4/	-3.6	4.0	5.3	5.3	5.2	7.1	6.5

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

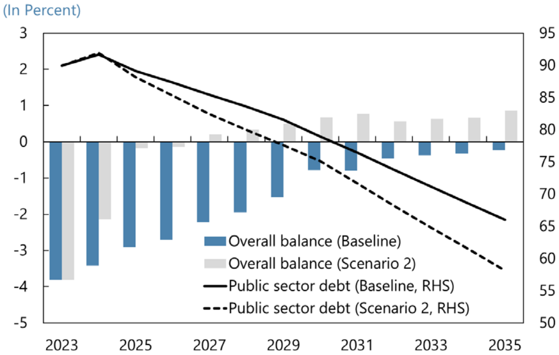
[5] Excess annual VRF savings are dedicated to debt reduction once 12 percent of GDP in VRF reserves is accumulated, consistent with the stated objectives of the newly created DRF. Petrocaribe obligations are excluded for the purposes of assessing compliance with the 60 percent of GDP debt target, as these obligations are also excluded from both Dominica's and the ECCB's definition of public debt.

also improve substantially under the proposed strategy, with public debt reaching 58.1 percent of GDP by 2035

Box 2. Economic Adjustment Under a Strengthened Consolidation Scenario (concluded)

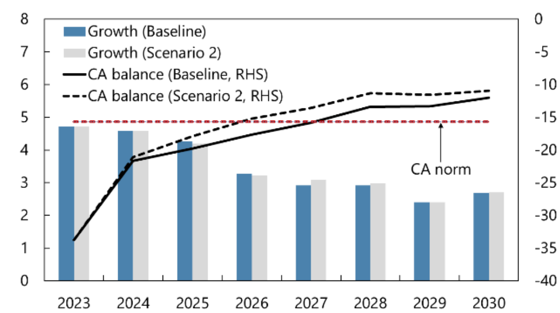
as compared to 66 percent under the baseline. Importantly, the proposed consolidation path would also allow for the VRF to be fully capitalized to the targeted 12 percent of GDP by 2031, while it would remain undercapitalized at 1.1 percent of GDP under the baseline. On the external side, the current account would improve by more than 2 percent of GDP relative to the baseline from lower imports related to the re-prioritization of the PSIP outlays, implying an earlier convergence to its estimated norm by two years. The impact on growth could be minimized, as in the illustrative scenario (0.1 ppt lower growth relative to the baseline during 2025-26), by (i) preserving key infrastructure investments that are expected to drive growth under the baseline; and (ii) clearing more of the government arrears to suppliers, which can support economic activity and largely offset the growth effects of the consolidation.

Fiscal Balance and Debt Under Alternative Scenarios
(In Percent)



Sources: Country authorities and IMF staff projections.

Growth and External Balance Under Alternative Scenarios 1/
(In Percent)



Sources: Country authorities and IMF staff projections.
1/ CA balance is on calendar year basis.

9. **A comprehensive and balanced consolidation strategy would include reforms to broaden the revenue base, bolster spending efficiency, and prioritize investment with economic returns.** Achieving and sustaining a 3½ percent primary surplus from FY2025/26 onwards would require identifying roughly EC$65 million in measures, phased in over two years. Staff advocates a combination of revenue measures to reduce the dependence on CBI flows and expenditure reforms that both prioritizes efficient outlays with clear economic dividends and protects the most vulnerable. A menu of options is presented below, building upon recommendations from the 2023 Article IV (Annex III):

- On the *revenue side*, VAT on the fuel surcharge included in electricity prices should be reintroduced, the excise tax on diesel increased to align with that of gasoline, and the highway levy tax restored. Operationalizing the tax on idle properties would be a useful first step towards a comprehensive property tax regime.[6] The stamp duty on outgoing money transfers, assessed

[6] A comprehensive property tax is not feasible in the short- to medium-term given inadequate administrative infrastructure and capacity constraints.

as an exchange restriction,[7] should be repealed in favor of more substantive base-broadening tax reform measures, including rationalizing PIT exemptions and fully eliminating duty exemptions on the importation of vehicles. There is scope to strengthen the transparency and accountability of exemption frameworks by eliminating discretionary concession powers. Improved data exchange mechanisms between government units, including via dedicated digitalization/IT systems, could enhance tax administration and compliance to reduce sizable tax arrears (estimated at 17.3 percent of GDP).

Cumulative Fiscal Savings from a Menu of Policy Options 1/ 2/

	Percent of GDP	EC$ millions	Percent of total
Revenue measures	**1.1**	**20.1**	**26.1**
VAT on fuel surcharge (electricity)	0.2	4.5	5.8
Highway levy	0.1	1.9	2.5
Increase diesel excise tax to match gasoline	0.2	4.5	5.9
Property/idle tax	0.0	0.6	0.7
End discretionary import duty exemptions (Cabinet concessions)	0.5	8.6	11.2
Expenditure measures	**3.1**	**57.0**	**73.9**
Rationalize goods and services (excluding CBI due diligence)	0.6	11.6	15.0
Tariff adjustment on water and sewage and hospital services	0.5	9.2	12.0
Rescaling National Employment Program (decrease by one-third)	0.9	16.7	21.6
Rescaling Housing Program (decrease by one-fifth)	1.1	19.5	25.3
Total	**4.2**	**77.1**	**100.0**

1/ Cumulative savings over two years.

2/ IMF staff estimates.

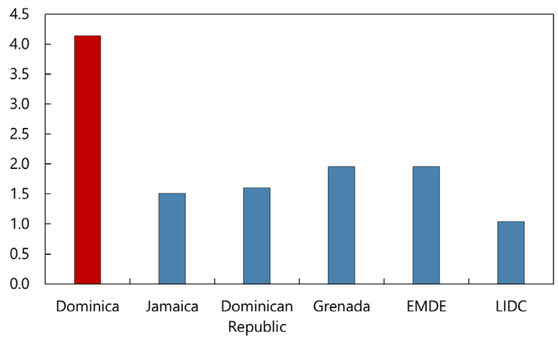
- On the *expenditure side*, rationalizing recurrent spending should continue, notably goods and services where a further reduction of ½ percent of GDP is recommended to restore comparability with the pre-Hurricane Maria average (adjusted for CBI due diligences outlays that should be preserved). Tariff adjustments on key services—notably water and sewage and hospital charges—are necessary to reduce current transfers and ensure key state-owned entities (SOEs) run on commercial terms. Reforms to enhance the efficiency and sustainability of social protection frameworks are required (see below), including by rescaling the National Employment Program (NEP) back to its original mandate (skills training). The scale of the ambitious housing program should be reassessed on a need's basis given the current fiscal context, with a view to integrate means-testing and cost recovery components into the various schemes. On capital expenditures, financing flows should prioritize the completion of existing key infrastructure projects. PSIP processes should be strengthened to ensure the prioritization of projects with the greatest economic return without compromising broader fiscal and external objectives.

10. Policies to enhance the targeting and sustainability of social protection programs are needed to secure inclusion and maintain social resilience as consolidation proceeds.

[7] On January 1, 2024, Dominica introduced a 2 percent stamp tax on all outbound money transfers sent through money transfer companies (MTCs) under the Act to Amend the Stamp Tax. Said tax gives rise to an exchange restriction, since it applies to all outbound money transfers sent via MTCs, including payments of international current transactions, as defined under the Fund's Articles of Agreement. Prospective yields from the stamp tax are low at around 0.05 percent of GDP.

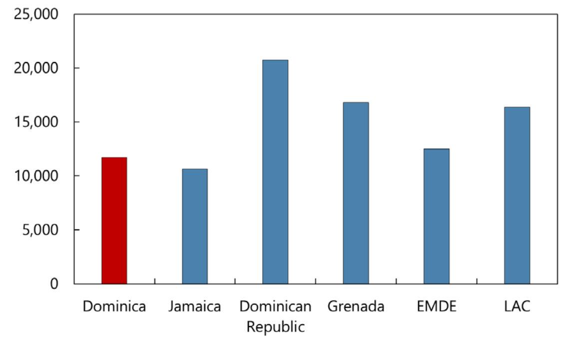
- The framework of social protection in Dominica is fragmented across sectors and ministries, largely unconditional, and relatively generous from an expenditure standpoint. Indeed, Dominica's social assistance spending[8] is roughly twice that of its peers in the Latin America and the Caribbean (LAC) region and the wider emerging market and developing economies (EMDE) grouping, even though per capita income is modestly lower than that in EMDEs and LAC by around 5 and 30 percent, respectively.[9] Streamlining and consolidating these social programs to reduce overlap and tailor social assistance to the most vulnerable households is a priority. This requires establishing a centralized information system or unified database to maintain accurate records of all beneficiaries, track support received, and identify gaps or duplications in coverage. The completion of the ongoing population census would further support establishing a comprehensive social registry, which can allow social assistance to be better targeted.

Total Social Assistance Spending
(In Percent of GDP)



Sources: Country authorities and IMF staff calculations.

Gross Domestic Product Per Capita, 2023
(In 2017 PPP International Dollars)



Source: WEO

- Dominica's pension system is projected to exhaust its reserves by 2063. While the pension reform package approved in 2006 was an important step in the right direction, additional reforms are needed to address long-term sustainability challenges (Annex IV). Priorities include increasing contribution rates, reducing replacement rates, aligning the statutory retirement age for both private and public employees at 65 years, and diversifying the system's investment portfolio towards international markets.

11. Dominica's financing strategy should continue to prioritize non-debt creating flows. This involves continuing to prioritize saving CBI revenues, grants, and concessional lending, where concessional loans are carefully vetted in terms of economic dividends and consistency with debt objectives, especially considering Dominica's high risk of debt distress.

Authorities' Views

12. The authorities agreed on the need for further fiscal consolidation and will carefully consider the proposed set of consolidation options. They noted that they have already initiated

[8] Excludes NEP and housing project expenditures.

[9] Per capita income is used as a proxy (albeit imperfect) for poverty and inequality as these indicators are not available for Dominica.

reform in several priority areas. On the revenue side, they acknowledged the importance of strengthening non-CBI revenues to minimize uncertainty and exposure to external shocks. They noted the proposed set of base-broadening measures, which will be carefully considered including in the context of FY2024/25 budget deliberations. On the expenditure side, the authorities reaffirmed the importance of achieving strong efficiencies in public expenditure and are exploring options to that end. In that context, they stressed the principle that SOEs be run on commercial terms to the extent possible and indicated that tariffs on the water and sewerage have been adjusted while fees for specialized health services are under review. They noted that PSIP expenditures are carefully vetted based on economic return considerations and stressed the principle that programs be effectively targeted. While the authorities acknowledged that the NEP had evolved in size and mandate, they indicated that an audit of the program is underway and will inform forward-looking reform priorities.

13. Strengthening the effectiveness and efficiency of social protection programs remains a key priority. The authorities acknowledged there were issues with reporting and access to social safety net data. They are seeking to operationalize a centralized database system that will help shape social assistance reform. While acknowledging the relative generosity of Dominica's assistance framework, double-dipping is not seen as a major risk. The authorities are cognizant of the pension system's sustainability challenges and noted that options are under review, including an economy-wide alignment of the retirement age.

14. The authorities remain committed to prioritizing non-debt creating financing or financing on highly concessional terms. The authorities confirmed they continue to prioritize non-debt or concessional financing. They highlighted the recently negotiated concessional loan with the Saudi Development Fund (SDF) (see DSA)—which is intended to upgrade climate resilient infrastructure—as striking an effective balance of financing considerations and development needs.

B. Strengthening Financial System Balance Sheets and Intermediation

15. Reducing balance sheet vulnerabilities and strengthening oversight are priorities, particularly for CUs given their importance in Dominica's financial system (Annex V). Specifically:

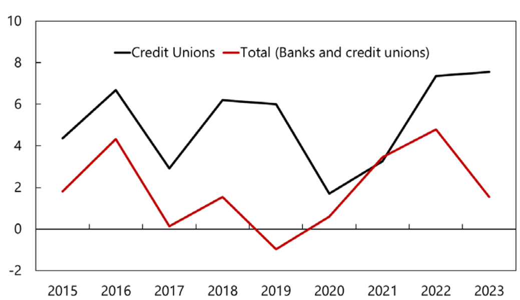
- **Banking sector:** The ongoing economic expansion offers an opportunity for banks to step-up provisioning with ECCU requirements and expedite long-dated NPLs disposal.[10] Vigilant risk management of growing foreign portfolios and public-sector credit exposures is important to mitigate potential shocks to banks' profitability and public finance.
- **Credit Unions:** There is scope to further strengthen and modernize CU supervision and regulation to help underpin financial stability. This includes granting the national financial

[10] Progress to resolve long-dated NPLs has been slow, constrained by the absence of a secondary market, underfunding of the Eastern Caribbean Asset Management Company (with designated special powers to support resolution), legislative constraints, as well as challenges to sale of underlying collateral (thin property market).

services unit (FSU)—the primary regulatory authority for non-bank financial institutions (NBFI)—statutory independence in its operations and increased risk-based supervision. The FSU should advocate sound underwriting practices, proper classification, and provisioning of assets. CUs lacking capital should submit credible, time-bound restoration plans. Strengthening national resolution frameworks for CUs is essential, with timely regulatory actions. Participating in the ECCB-led initiative to establish a regional standards-setting body (RSSB) for CUs and other NBFIs is encouraged. This should involve regularizing data sharing with the ECCB. Consideration should be given to enhancing internal auditing capacity and board member qualifications. Larger CUs would benefit from dedicated risk managers and annual on-site examinations, with less frequent examinations for smaller ones. Furthermore, national supervisory frameworks should integrate climate risks for enhanced financial resilience.

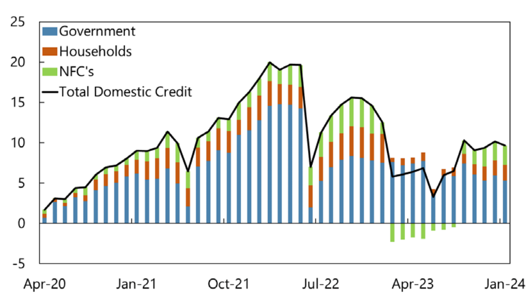
16. **Addressing longstanding structural challenges that constrain private sector credit remains a priority** (see Annex V). The ongoing modest recovery in credit has been supported by increased lending from CUs, where post-pandemic lending by banks has been dominated by credit to government, partly due to lending constraints that narrow opportunities. The operationalization of the regional credit bureau should help streamline the lending process and enhance credit quality, while the development of a movable collateral framework could also help ease credit-access constraints. The Eastern Caribbean Partial Credit Guarantee Corporation (ECPCGC) could be further utilized to support micro, small and medium enterprises (MSMEs) in meeting documentation and collateral requirements to boost access to finance. The modernization of national foreclosure and bankruptcy legislation is critical to facilitate the resolution of NPLs.

Private Sector Credit Growth
(In Percent)



Sources: Dominica authorities, ECCB and IMF staff calculations.

Cumulative Contributions to Change in Bank Credit Stock
(In Percent Change, Since Feb-2020)



Sources: ECCB and IMF staff calculations.

17. **There is scope to improve AML/CFT and CBI program frameworks and strengthen the supervision of digital asset businesses to mitigate risks to the financial system.** The authorities have set up a working group to address the Caribbean Financial Action Task Force (CFATF) Mutual Assessment's findings. Key concerns include inadequate vetting of CBI applicants, governance weaknesses in program administration, and a lack of transparency regarding CBI beneficiary information. In this regard, the authorities are encouraged to strengthen safeguards in risk assessment/management, vetting, and transparency in program operations. Specifically, utilizing the Financial Intelligence Unit database is central for evaluating CBI agent applicants. Opportunities to standardize best practices and enhance information sharing from a regional perspective should be

explored. Monitoring new crypto assets is important for integrity and cybersecurity, and the FSU's resources and capacity should be promptly bolstered to address such risks.

18. The ECCB has taken steps to address most of the 2021 safeguards recommendations. However, there remains scope to strengthen governance arrangements, including through legal reforms to further strengthen the operational autonomy of the ECCB and align its Agreement Act with leading practices. The related safeguards recommendations remain pending.

Authorities' Views

19. The authorities broadly concurred with recommended policies to enhance financial intermediation. They emphasized the legacy aspect of banks' exposure to the public sector, emphasizing the trend decline in credit to the government in recent years. They asserted that public credit is not at risk of crowding out private sector credit given ample liquidity in the financial sector, pointing instead to longstanding structural constraints and low demand for credit as explaining subdued private credit growth. The authorities indicated the importance of fostering an environment where access to credit is available to individuals and MSMEs, noting that the Agricultural, Industrial and Development (AID) bank continues to prioritize support to MSMEs as part of their mandate. They expect the operationalization of the ECCU's credit bureau will help bolster overall private sector credit and supported ongoing innovations to the regional PCGS to play a bigger role in MSME finance.

20. The authorities agreed on the importance of modernizing CU regulation and supervision noting that the FSU has de facto independence in its operations. The authorities acknowledged the need to strengthen risk-based supervision and ensure adequate capital metrics among CUs. They supported the FSU's ongoing efforts in these areas, including the intention for CUs to reach 10 percent capital adequacy by 2026. They also expressed support for the RSSB initiative for CUs as a helpful exercise to establish common minimum regulatory standards for non-bank financial institutions (NBFIs). They stressed the need for robust communication with members during standards formulation, emphasizing that ECCU jurisdictions should retain oversight responsibilities with the potential exception of the insurance sector. They noted their efforts to implement key recommendations from the recent CFATF Mutual Assessment, including by increasing related staffing. The authorities acknowledged the need to strengthen the FSU's capacity and intend to seek IMF technical assistance for this purpose, including to enhance the regulatory and supervisory framework for digital asset businesses including for AML/CFT.

C. Structural Reforms to Boost Sustainable, Inclusive, and Resilient Growth

21. Dominica's climate mitigation and adaptation strategy is advancing, which aims to reduce external vulnerabilities while improving competitiveness and growth potential. Dominica is highly vulnerable to NDs and climate change, suffering tremendous losses during recent disaster events that remain an ever-present risk.[11] Against this backdrop, the Climate Resilience and Recovery Plan (CRRP) prioritizes infrastructure in roads and bridges, water systems, houses, medical clinics, and emergency shelters. The transition to a fully renewable energy production mix is on track, owing to the geothermal energy production plant expected to be completed next year, with positive spillovers for growth and external rebalancing (Annex VI). Finally, the authorities are pursuing financial resilience via the multi-layered insurance strategy envisioned under the Disaster Resilience Strategy, which includes insurance from the World Bank's catastrophe-contingent loan window (US$20 million) and the Caribbean Catastrophe Risk Insurance Facility (US$30 million), the capitalization of the Vulnerability and Resilience Fund (EC$0.5 million/month), as well as a Flexible Hurricane Protection program—a voluntary parametric insurance for households and firms—that is available through CUs.

22. Enhancing the private sector's role in economic development requires policies to improve the underlying business environment. Reform efforts should seek to improve public service access, streamline regulations, and reduce compliance costs, which could also help reduce informality incentives and foster MSME growth. Upgrading government services with digital technology can help improve its delivery but needs to be complemented by digital training for government staff and the general public to fully reap benefits. Efforts to integrate the sizable agricultural sector to service the tourism industry should be accelerated to grow agricultural processing and move the sector up the value chain.

23. A well-functioning labor market with skills attuned to economic needs is critical for growth, but frictions persist. Dominica's growth has steadily decelerated from an average of 3 percent during 2000-08 to below 1 percent in the decade before the pandemic, largely reflecting shrinking total factor productivity and weakening contributions from labor and human capital.[12] Longstanding labor market frictions have contributed to these generalized trends, including rigid hiring/firing practices, high informality rates, limited economic diversification, emigration of skilled workers, and skills and competency mismatches. Scarring from the pandemic has potentially compounded these challenges, with data indicating a rise in the number of youths who are not in employment since the pandemic. Employers have generally highlighted difficulties in finding skilled workers due to a combination of emigration and skill mismatches.

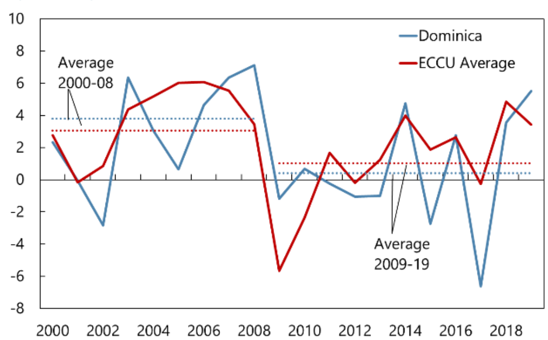
24. Addressing these labor market frictions and improving outcomes requires a multipronged effort. While the absence of recent labor force data in Dominica seriously constrains evidence-based labor market policy recommendations, there is scope to consider a recalibration of policy across several dimensions.

[11] During 1997-2017, Dominica was the country with highest GDP losses to climate-related natural disasters and ranked in the top 10 percent among 182 countries for climate-related fatalities. In 2017 alone, Hurricane Maria devastated the island with an estimated loss and damage of 226 percent of GDP (Dominica: Disaster Resilience Strategy, 2021).

[12] Eastern Caribbean Currency Union – Selected Issues (June 2017), IMF Country Report No. 17/151.

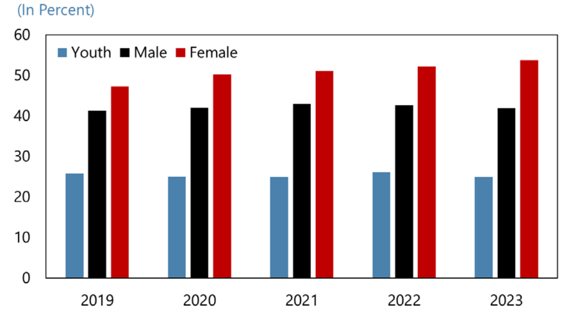
- **Labor market institutions**: Like many EMDEs, Dominica has favored employment protection legislation (EPL) over targeted unemployment insurance (UI) schemes. Unduly generous employment protections, including burdensome dismissal processes and costly severance payments, can negatively impact the efficient turnover of labor, disincentivize additional hiring (particularly at times of uncertainty), and incentivizes labor informality. Reducing uncertainty about the cost and duration of dismissal procedures has been shown to be a more effective and less distortionary form of protection than the level of severance payments and it is recommended that the stringency of EPL be linked to the buildup of the benefit system. This finding is relevant in Dominica's case where the introduction of a UI scheme is in an exploratory phase. Protection frameworks should be reviewed and recalibrated as part of this process, giving priority to achieving higher employment.

Real GDP Growth
(In Percent)



Sources: ECCU and IMF staff estimates.

Shares of Formal Employment 1/
(In Percent)



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

- **Youth gaps:** High youth unemployment and low labor force participation rates highlight scope to improve educational attainment—including vocational education and training—to alleviate skill mismatches and promote improved labor outcomes. Dominica could collaborate with development partners in this context, review of education programs to strengthen employability, and tailor social programs to tackle non-economic barriers to employment, particularly among boys.

Authorities' Views

25. **The authorities highlighted ongoing efforts to improve climate resilience and promote diversification.** They pointed to the steady implementation of the CRRP and reiterated their commitment to the timely completion of the key infrastructure projects, notably the geothermal transition and international airport. They further highlighted digitalization progress where sixteen innovation hubs have been created around the country to improve government services delivery and offer digital technology training. The authorities underscored the importance of sectoral integration, particularly between the agricultural and tourism to help achieve the goal of tripling agriculture's GDP footprint by 2030. To that end, they are implementing agriculture programs to bolster climate resilient practices and youth participation.

26. They concurred that persistent labor market frictions can hinder employment outcomes and constrain growth potential. Skills mismatches and emigration pressures were regarded as particular challenges. They agreed that educational reform—including modernizing curricula to meet current economic needs—can help address skill mismatches and regarded enhanced training programs as a priority, highlighting the NEP's important role in this context. Gender gaps challenges were not seen as a pressing issue given high female participation and representation across the labor force. The authorities clarified that a UI framework is being developed and will be informed by an International Labor Organization (ILO)-sponsored feasibility study.

D. Institutional Strengthening

27. Reforms to enhance institutional capacity remain important for effective surveillance, economic planning, and policy making. While data provided to the Fund is adequate for surveillance, it has shortcomings that complicate analysis and the formulation of policy advice (Annex VII). These are largely attributable to binding resource constraints within the Central Statistical Office (CSO) in staffing and overall funding that impact the timely compilation of GDP figures and have given rise to prolonged disruptions in the production of CPI and execution of Labor Force Surveys. Weaknesses in PFM and tax administration frameworks, including opaque recording of CBI flows, outmoded frameworks, and capacity constraints, also pose challenges to economic planning and policy making, including the efficient use of CBI flows. Cash management challenges have required the use of costly overdraft facilities and a backlog of unpaid cheques. Strengthened Treasury processes in terms of the use of IT systems, sharing of the latest cash forecast information, and accounting practices could alleviate pressures.

Authorities' Views

28. Bolstering institutional capacity is a priority that requires sustained support in terms of capacity development (CD). The CSO is benefiting from Fund/CARTAC assistance to improve national accounts and price compilation. The authorities highlighted additional CD needs to update the supply-use table, operationalize a tourism satellite account framework, complete the GDP rebasing, and conduct a survey to assess the informal sector. The census is to be completed by end-year to help inform ongoing policy deliberations. Efforts are ongoing to enhance PFM from an accountability and transparency standpoint. Specifically, a committee was established to provide regular financial oversight of public entities, a semi-annual reporting framework is set to be introduced within the CBI unit, and CD recommendations to strengthen Treasury functions are under review. The authorities clarified that transparency practices are an evolving process where progress is being made, particularly as regards Dominica's CBI scheme. They highlighted regulatory modifications in late 2023 to address third-party security concerns and regional commitments under the recently signed MoA commitments to enhance the integrity of its CBI regime through common due diligence, pricing, and disclosure standards.

STAFF APPRAISAL

29. Dominica has exhibited a strong recovery from a series of external shocks that have exacerbated fiscal and external imbalances. During the past decade, consecutive NDs followed by the pandemic and cost of living shocks have depleted fiscal buffers and pushed debt to a peak of 112½ percent of GDP in 2020. At the same time, post-disaster reconstruction and development infrastructure needs (funded by robust CBI inflows) widened Dominica's already large CA deficit. However, the economic context has strengthened in recent years with the post-pandemic recovery transitioning into a sustained expansion. Real GDP grew by 5.6 percent in 2022 and an estimated 4.7 percent in 2023, returning to pre-pandemic output levels.

30. The ongoing economic expansion provides an opportunity to rebuild essential economic buffers thus setting the stage for resilient growth. Growth is expected to average 4½ percent during 2024-25, as stayover tourism returns to pre-pandemic levels, agriculture expansion initiatives take hold, and priority infrastructure projects advance further over the medium term. The transition to geothermal energy production, the new international airport and hotel projects to expand tourism capacity, and projects to bolster resilient infrastructure are expected to yield long-term growth dividends and reduce external imbalances. Public debt is set to decline in coming years, albeit slowly, supported by a consolidation of public finances.

31. More ambitious fiscal consolidation is needed to achieve objectives under Dominica's fiscal rule and adequately self-insure against disaster risks. Such a strategy would attain fiscal objectives while also building critical buffers to safeguard against uncertain CBI flows and ever-present ND risks. It would involve identifying roughly EC$65 million in fiscal consolidation measures, phased in over two years, to attain and sustain a primary surplus of 3.5 percent of GDP from FY2025/26 onwards. This consolidation strategy should be underpinned by a sizeable improvement in non-CBI fiscal balances, while protecting investment and other priority programs to safeguard growth and the most vulnerable. A stronger fiscal consolidation would also support the rebalancing of the external position, which staff assesses to be substantially weaker than the level implied by fundamentals and desirable policies, and reduce the financial system's exposure to the public sector.

32. The recommended consolidation strategy involves broadening the revenue base, strategically rationalizing expenditures, and prioritizing investment with economic returns. Priorities on the revenue-side include streamlining tax incentives, reintroducing VAT on the fuel surcharge included in electricity prices, equalizing diesel and gasoline excise rates, and strengthening tax administration and compliance management. The stamp duty on outbound money transfers is assessed as an exchange restriction; the authorities have not requested approval and staff does not recommend it. It should be repealed in favor of less distortive measures to mobilize revenues and broaden the non-CBI tax base. Strengthening the efficiency and prioritization of expenditures is critical to save a higher proportion of CBI revenues and adequately self-insuring against NDs. The decline in the public wage bill is welcome and should be preserved. Efforts should further rationalize inefficient spending and prioritize PSIP outlays on projects with clear economic returns. Tariff adjustments on key public services should be pursued to strengthen the financial position of SOEs, thus reducing contingent liability risks and current transfers. The NEP has evolved beyond its original mandate and should be reassessed from a cost-benefit standpoint.

33. At the same time, it is critical to safeguard the social protection system and support the vulnerable. The framework of social protection in Dominica is fragmented, partly reflecting capacity constraints and widespread informality in the labor market that hamper the use of conventional income-based targeting. Streamlining and consolidating these programs to reduce overlap and tailor social assistance to the most vulnerable households is a priority. This involves operationalizing a centralized information system or unified database to track support and identify gaps. The completion of the ongoing population census would further support establishing a comprehensive social registry. A package of parametric reforms should also be pursued to safeguard the long-term viability of the national pension scheme as demographic pressures rise.

34. Addressing structural impediments to financial intermediation that constrain private sector credit remains a priority. The operationalization of the regional credit bureau should help streamline the lending process and enhance credit quality. Introducing a movable collateral framework could also help ease credit-access constraints. Recent enhancements to the Eastern Caribbean Partial Credit Guarantee Corporation could better support MSMEs in meeting documentation and collateral requirements for enhanced access to finance. Modernizing national foreclosure and bankruptcy legislation is critical for resolving NPLs.

35. A modern supervisory framework is necessary to underpin financial stability. Granting the FSU statutory independence from the Ministry of Finance would further improve its effectiveness and support risk-based supervision. The FSU should pursue sound underwriting practices, proper asset classification and provisioning, and require CUs with capital shortfalls to submit credible restoration plans. Participating in ECCB-led initiatives, such as to establish a Regional Standards Setting Body for non-bank financial institutions and regularize data sharing, as well as integrating climate risks into supervisory frameworks are also recommended to enhance overall financial resilience.

36. Structural reforms to modernize the economy will support sustainable, inclusive, and resilient growth. The transition to geothermal energy is pivotal for meeting climate mitigation goals while both enhancing competitiveness and reducing external imbalances. Initiatives to support the agricultural sector and broaden the export base are welcome and should explore synergies with the growing tourism sector. Reforms to improve the business environment and reduce labor market frictions that hamper inclusive growth are also priorities. This includes policies to reduce burdensome administrative costs and persistent skills mismatches.

37. Institutional reforms to help mitigate risks and support economic policymaking should continue. Ongoing efforts to strengthen AML/CFT legislation and procedures in line with the latest CFATF mutual evaluation report should help protect correspondent bank relationships and the integrity of the CBI program. The MoA between ECCU countries with CBI programs to establish common standards on pricing, information sharing, transparency, and due diligence is a welcome step to protect a critical source of revenue. Weaknesses in statistical compilation, tax administration, and PFM frameworks—including under-developed internal CBI reporting systems—complicate policy management. Strengthening institutional capacity in statistical compilation and PFM processes for medium-term budgeting, fiscal reporting, treasury operations, and public investment management remain priorities.

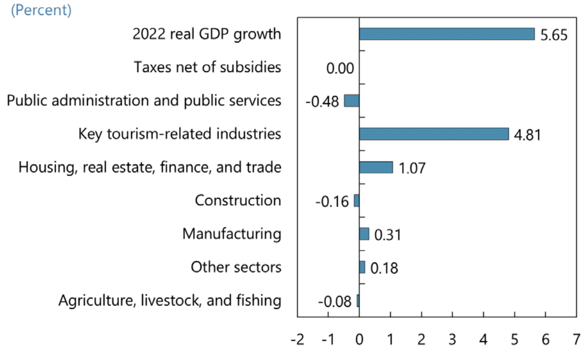
38. It is recommended that the next Article IV consultation takes place on the standard 12-months cycle.

Figure 1. Dominica: Real Sector Developments

Tourism played the leading role in 2022 growth and while total arrivals have fully recovered…

2022 Real GDP, Contributions To Percent Change

(Percent)

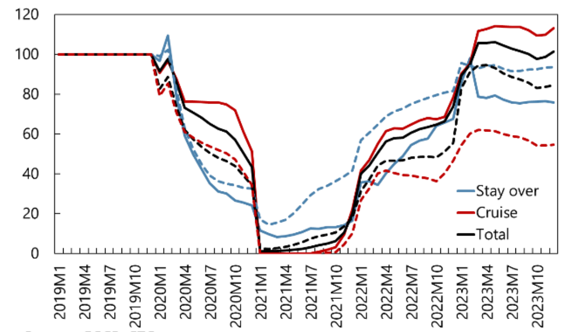


Sources: Dominica's authorities and IMF staff calculations.

… the increased share of cruise arrivals has potential long-term implications given larger multipliers from stayover tourism.

Tourism At a Glance in Dominca 1/

(Baseyear 2019=100)



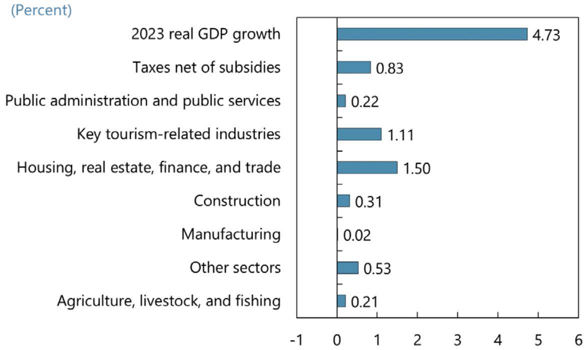
Sources: ECCB, CTO

1/ Dashed lines represent corresponding values for ECCU-6 excluding Dominica.

Wholesale/retail trade and tourism were the main drivers in 2023…

2023 Real GDP, Contributions To Percent Change

(Percent)

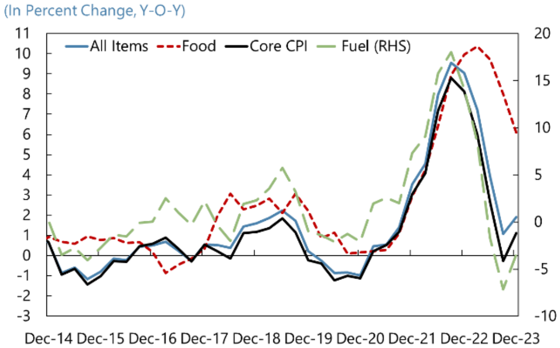


Sources: Dominica's authorities and IMF staff calculations.

…which saw a marked decline in fuel and core price inflation with food inflation remaining elevated.

CPI Inflation, By Major Component 1/

(In Percent Change, Y-O-Y)



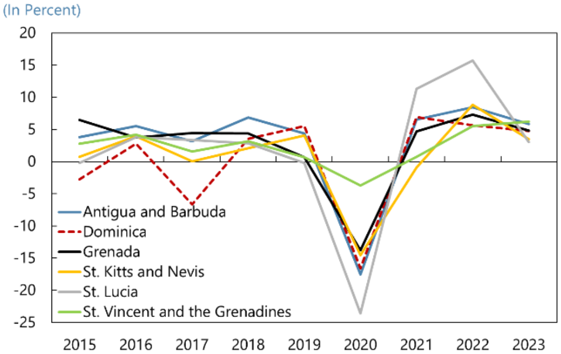
Sources: Central Statistics Office, Dominica and IMF staff calculations.

1/ Post 2021Q1 non-fuel inflation reflects staff estimates.

From a regional standpoint, Dominica's growth is below the ECCU average…

Real GDP Growth Rates - ECCU Countries

(In Percent)

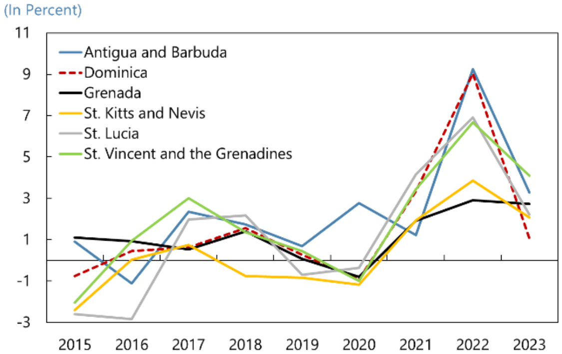


Source: WEO

…. which has contributed to relatively subdued inflation.

Inflation - ECCU Countries

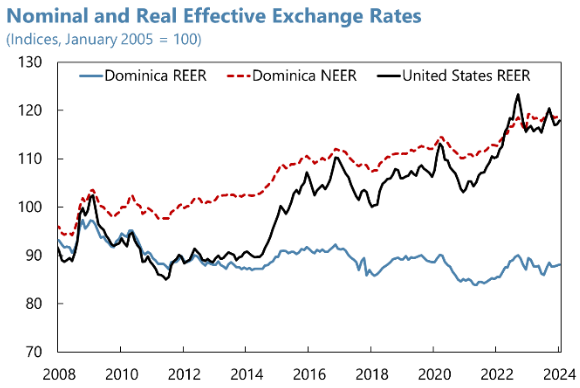
(In Percent)



Source: WEO

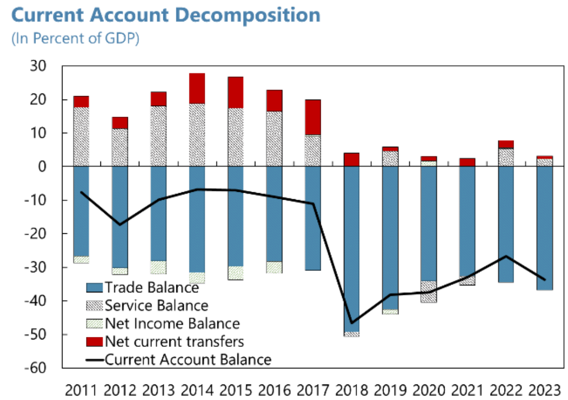
Figure 2. Dominica: External Sector Developments

The REER stabilized in 2023 as domestic inflation started to catch up with rising foreign inflation.



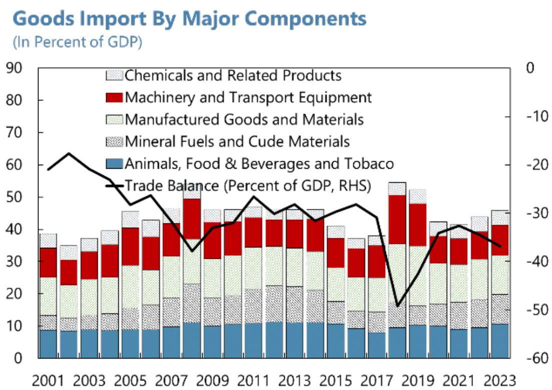
Sources: IMF Information Notice System, and IMF staff calculations.

The external position deteriorated in 2023 on account of growing trade deficit and slowing service balance growth.



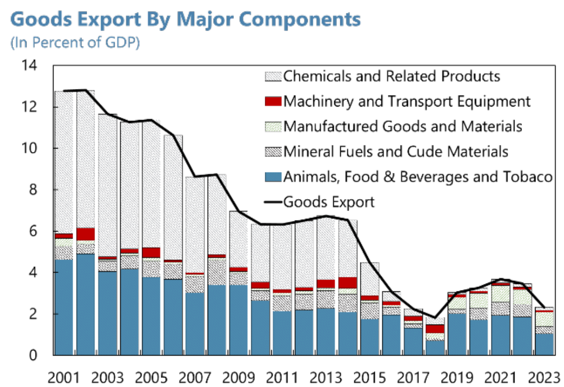
Sources: Dominica's authorities and IMF staff calculations.

High commodity prices, re-opening of the economy, as well as continued infrastructure projects, all led to sustained high imports…



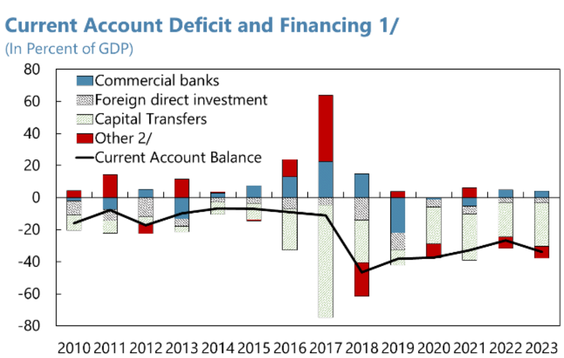
Source: ECCB

…while exports of primary and manufactured goods saw lackluster growth.



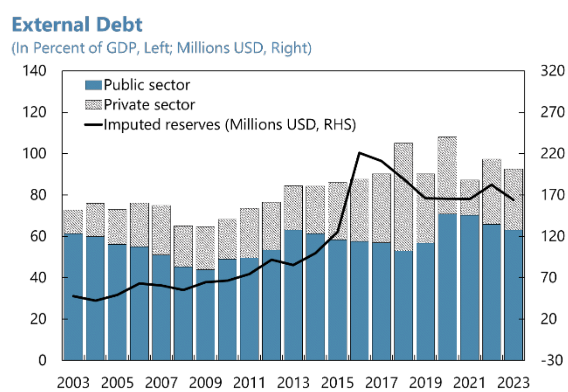
Source: ECCB

CBI continues to be the main source of external financing.



Sources: Dominica's authorities and IMF staff calculations.
1/ Negative (positive) bar numbers reflect net inflows (outflows)
2/ Includes Errors and Omissions.

While public external debt is trending down, it remains elevated.



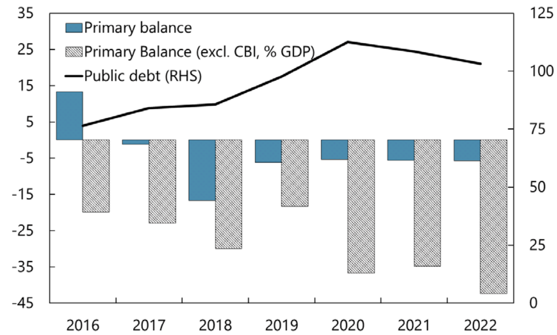
Sources: Dominica's authorities and IMF staff calculations.

Figure 3. Dominica: Fiscal Sector Developments

The fiscal balance has been improving moderately since the pandemic, but the public debt ratio remains elevated…

Public Debt and Fiscal Primary Balance

(In Percent of GDP, Fiscal Year)

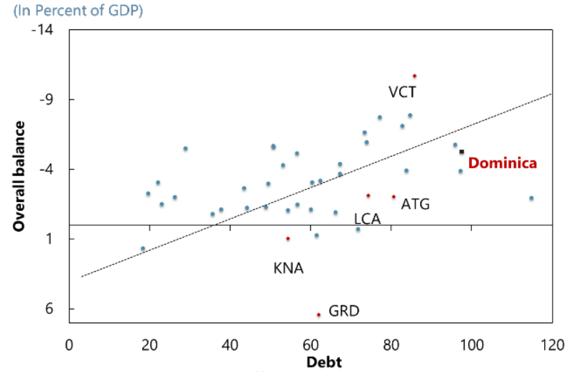


Sources: Dominica's authorities and IMF staff calculations.

…and is one of the highest among peers, well above the ECCU regional target of 60 percent of GDP.

EM General Government Balance and Debt, 2023

(In Percent of GDP)

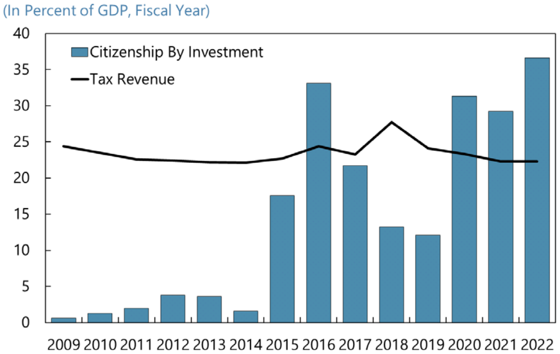


Sources: WEO, and IMF staff calculations.

Volatile and uncertain CBI flows have exceeded tax revenue in the last three fiscal years…

Total Revenue

(In Percent of GDP, Fiscal Year)

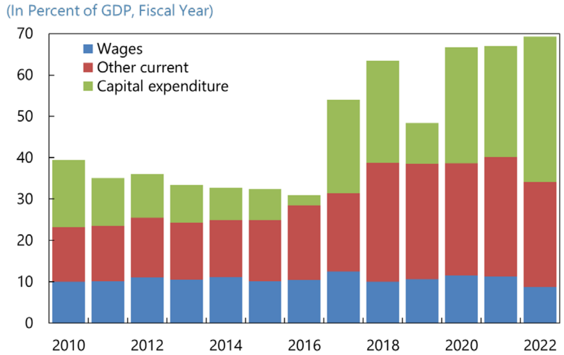


Sources: Dominica's authorities and IMF staff calculations.

…supporting an increase in capital spending while recurrent expenditures have fallen moderately.

Government Expenditure

(In Percent of GDP, Fiscal Year)

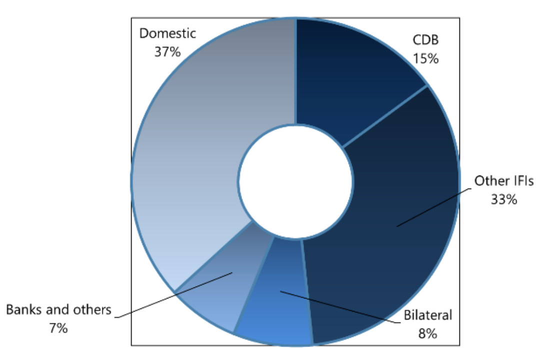


Sources: Dominica's authorities and IMF staff calculations.

More than 35 percent of public debt is held by the systemically important National Bank of Dominica.

Composition of Public Sector Debt, End June 2023

(In Percent of Total Debt)

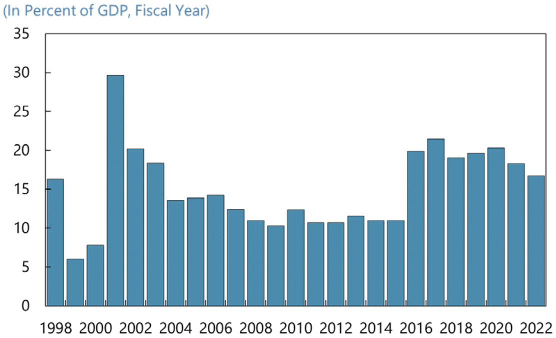


Sources: Dominica's authorities and IMF staff calculations.

Debt of SOEs has been declining recent years.

Debt of Public Corporations 1/

(In Percent of GDP, Fiscal Year)



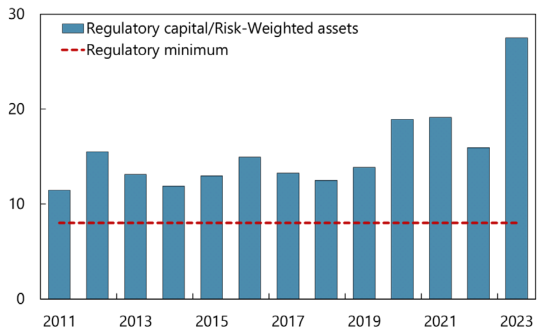
Source: IMF staff calculations.

1/ Includes guaranteed SOE debt and Petrocaribe debt.

Figure 4. Dominica: Banking Sector Developments

Since the pandemic, banks remain well capitalized…,

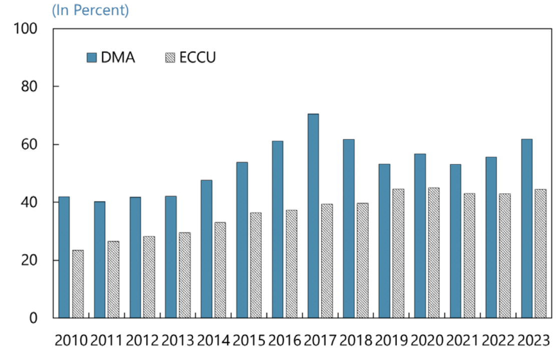
Commercial Banks' Capital Adequacy
(Regulatory Capital/Risk Weighted Assets; Percent)



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

…enjoy a high degree of liquidity…

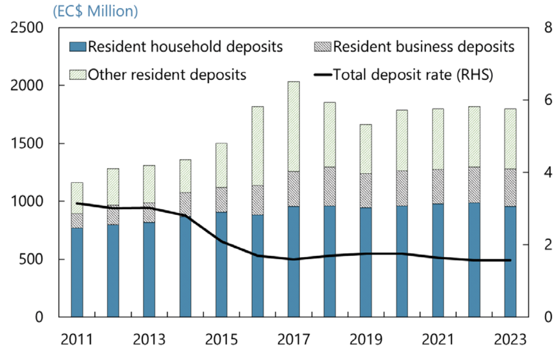
Liquid Assets to Liquid Liabilities
(In Percent)



Sources: ECCB, Dominica authorities and Fund staff calculations.

… and benefit from a stable deposit base with low interest rates.

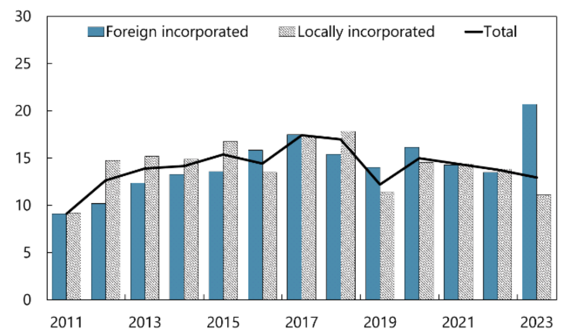
Commercial Banks Resident Deposits
(EC$ Million)



Sources: ECCB, Dominica authorities and Fund staff calculations.

Despite improving asset quality, the NPL ratio remains elevated.

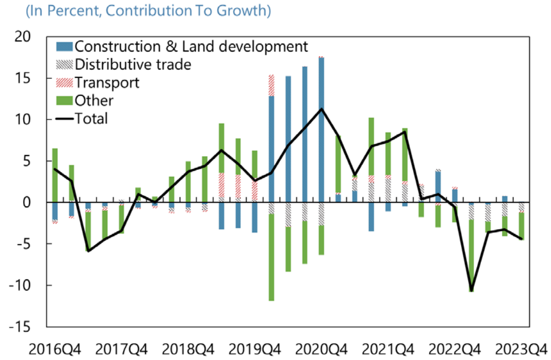
Non-Performing Loans 1/
(Commercial Banks; Percent of Total Loans)



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

Credit to the private sector remains lackluster…,

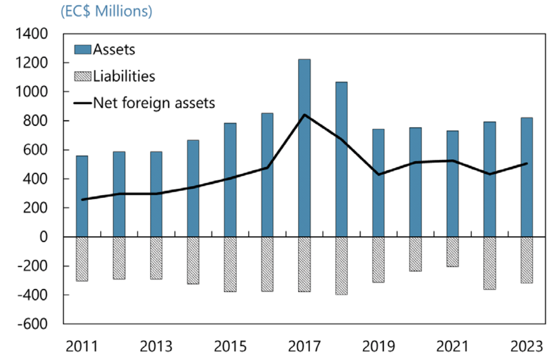
Commercial Banks Private Credit By Economic Activity
(In Percent, Contribution To Growth)



Sources: ECCB, Dominica authorities and Fund staff calculations.

… while foreign assets exhibit a modest increasing trend.

Net Foreign Assets of Commercial Banks
(EC$ Millions)



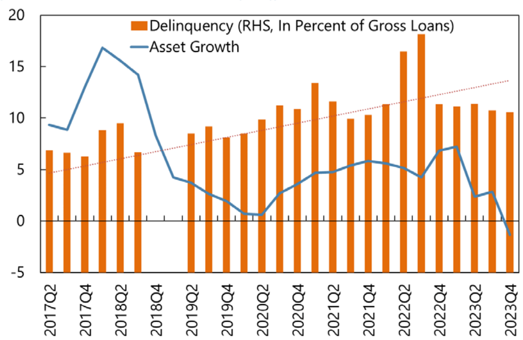
Sources: ECCB, Dominica authorities and Fund staff calculations.

Figure 5. Dominica: Credit Union Developments

Asset growth has moderated while asset quality has deteriorated.

Assets Growth and NPL Ratio

(In Percent, Percent of Gross Loans (RHS))

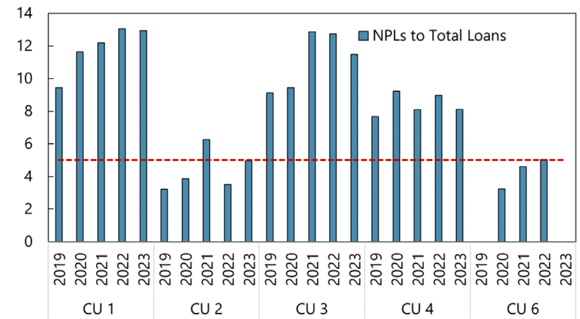


Sources: Dominica authorities and IMF staff compilation.

NPLs are unevenly distributed with three CUs having elevated NPL ratios.

NPLs to Loans - Major Credit Unions 1/

(In Percent)

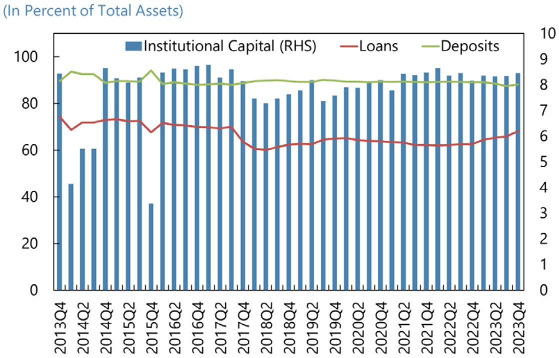


Sources: Dominica's authorities and IMF staff calculations.
1/ Loans that have been non-performing for over 12 months.

Loans and deposits in percent of total assets are stable, but capital at the aggregate level remains weak...

Institutional Capital, Loans, and Deposits of Credit Unions

(In Percent of Total Assets)

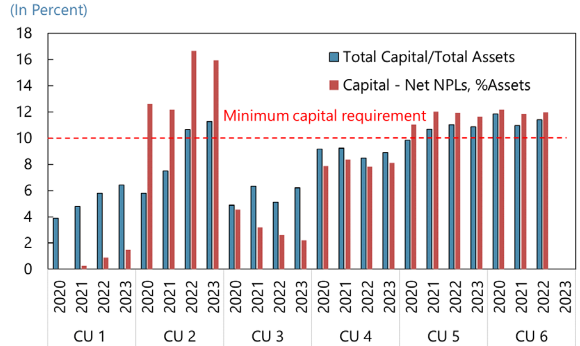


Source: Dominica authorities.

...and is unevenly distributed, with low capital adequacy among major CUs.

Capital Position of Credit Unions

(In Percent)

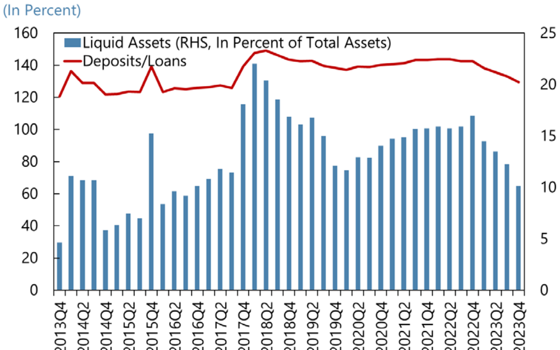


Sources: Dominica's authorities and IMF staff calculations.

Deposits/Loans ratio and liquidity are relatively stable...

Liquidity and Deposits-to-Loans Ratio

(In Percent)

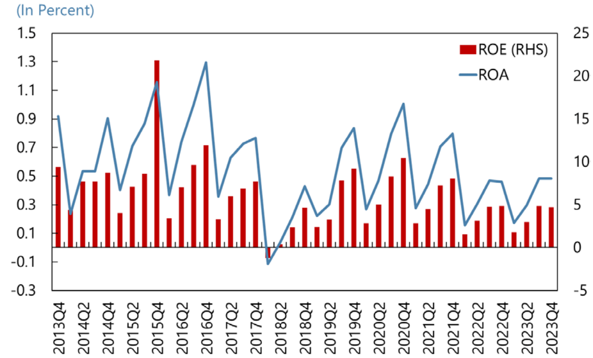


Source: Dominica authorities.

....but profitability is volatile and on a declining trend.

Return on Assets and Return on Equity

(In Percent)



Sources: Dominica authorities and IMF staff compilation.

Table 1. Dominica: Selected Economic Indicators, 2019–29

I. Social and Demographic Indicators

Area (sq. km.)	754	Adult literacy rate (percent, 2016)	94
Population (2022)		Unemployment rate (2016)	23
Total	72,737		
Annual rate of growth (percent)	0.4		
Density (per sq. km.)	96.5	Gross Domestic Product (2022)	
Population characteristics		Millions of E.C. dollars	1,640
Life expectancy at birth (years, 2021)	73	Millions of U.S. dollars	607
Infant mortality (per thousand live births, 2021)	32	U.S. dollars per capita	8,351

II. Economic Indicators

					Est.	Projected					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Output and prices	(annual percent change, unless otherwise specified)										
Real GDP 1/	5.5	-16.6	6.9	5.6	4.7	4.6	4.3	3.3	2.9	2.9	2.4
Nominal GDP 1/	10.2	-17.5	10.1	9.4	8.4	7.5	6.4	5.3	5.0	5.0	4.4
Consumer prices											
Period average	1.5	-0.7	1.6	7.7	3.5	2.8	2.1	2.0	2.0	2.0	2.0
End of period	0.1	-0.7	3.5	8.7	2.3	2.2	2.0	2.0	2.0	2.0	2.0
Central government balances 2/	(in percent of GDP, unless otherwise specified)										
Revenue	39.6	59.1	58.8	62.1	43.5	41.2	40.3	40.0	40.0	39.9	39.7
Taxes	24.1	23.3	22.3	22.3	21.9	22.1	22.1	21.9	21.9	21.7	21.5
Non-tax revenue	13.5	33.3	30.9	38.2	20.1	17.6	16.6	16.6	16.6	16.6	16.6
Grants	1.9	2.4	5.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Expenditure	48.1	66.6	67.0	69.3	47.4	44.6	43.2	42.7	42.2	41.8	41.2
Current primary expenditure	35.9	36.5	37.5	31.2	29.5	28.7	28.3	28.3	28.3	28.3	28.3
Interest payments	2.5	2.1	2.6	2.9	4.2	4.1	3.7	3.6	3.3	3.2	3.0
Capital expenditure	9.8	28.0	26.8	35.2	13.6	11.8	11.2	10.8	10.7	10.4	9.9
Primary balance	-6.1	-5.4	-5.6	-4.3	0.4	0.7	0.8	0.9	1.1	1.2	1.5
Primary balance, excluding CBI	-18.2	-36.7	-34.8	-40.9	-17.6	-14.7	-13.7	-13.6	-13.4	-13.3	-13.0
Overall balance	-8.6	-7.5	-8.2	-7.2	-3.8	-3.4	-2.9	-2.7	-2.2	-2.0	-1.5
Central government debt (incl. guaranteed) 3/	97.7	112.5	108.5	103.3	97.5	98.8	95.9	93.8	91.7	89.6	87.4
External	56.6	70.9	70.2	65.8	63.0	68.1	65.0	66.4	67.0	67.7	68.8
Domestic	41.1	41.6	38.3	37.4	34.5	30.7	30.9	27.5	24.7	22.0	18.6
Money and credit (annual percent change)											
Broad money (M2)	-8.5	-9.9	1.9	-1.3	-0.4	5.5	5.5	5.3	5.0	5.0	4.4
Credit to the private sector	-6.0	-0.3	3.6	2.7	-3.6	4.0	5.3	5.4	5.0	7.1	6.5
External Sector	(in percent of GDP, unless otherwise specified)										
Terms of Trade (% change)	-5.2	11.9	-11.9	-7.0	2.4	-0.9	-0.1	-0.4	-0.7	-0.9	-1.1
Current account balance, of which:	-38.1	-37.4	-32.9	-26.7	-33.7	-21.7	-19.8	-17.7	-15.8	-13.4	-13.3
Exports of goods and services	33.1	19.6	21.2	28.7	28.1	33.9	36.3	36.7	37.4	38.8	38.2
Imports of goods and services 4/	71.0	60.0	56.5	57.8	62.9	57.9	58.4	56.7	55.5	54.6	54.1
Capital and financial account 5/	40.3	35.2	30.2	27.0	33.8	20.8	18.9	16.9	15.0	12.6	12.6
FDI	10.3	4.6	4.7	3.0	3.3	4.8	4.6	4.5	4.5	4.5	4.5
Capital grants	9.8	23.0	29.1	21.6	27.0	7.7	10.8	9.0	6.7	6.5	8.9
Citizenship By Investment	11.8	23.2	30.2	33.0	26.9	16.6	14.9	14.4	14.5	14.4	14.5
Other (incl. errors and omissions)	8.4	-15.5	-33.8	-30.6	-23.3	-8.4	-11.4	-11.2	-10.7	-12.9	-15.4
External debt (gross) 6/	90.2	108.0	87.3	97.3	92.6	97.9	91.6	92.2	91.1	88.4	83.7
Saving-Investment Balance	-38.1	-37.4	-32.9	-26.7	-33.7	-21.7	-19.8	-17.7	-15.8	-13.4	-13.3
Saving	-14.7	-13.4	2.4	10.6	-6.6	-5.5	-4.8	-3.2	-1.6	0.6	0.3
Investment	23.5	24.0	35.3	37.2	27.1	16.1	15.0	14.5	14.2	14.0	13.6
Public	17.0	21.0	28.3	32.2	25.1	13.6	12.5	12.0	11.7	11.5	11.1
Private	6.5	3.0	7.0	5.0	2.0	2.5	2.5	2.5	2.5	2.5	2.5
Memorandum items:											
Nominal GDP (EC$ millions)	1,651	1,361	1,499	1,640	1,777	1,911	2034	2142	2249	2361	2466
Nominal GDP, fiscal year (EC$ millions)	1,506	1,430	1,570	1,709	1,844	1,972	2088	2196	2305	2413	2523
Net imputed international reserves:											
End-year (millions of U.S. dollars)	166.2	165.6	165.2	182.3	164.2	169.7	180.0	191.7	203.4	216.1	228.4
Months of imports of goods and services	4.6	6.6	6.3	6.2	4.8	5.0	4.9	5.1	5.3	5.4	5.5
Holdings of SDRs (millions of SDRs)	0.4	0.2	11.1	9.6	8.0	7.9	7.9	7.9	7.9	7.9	7.9

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

1/ At market prices.

2/ Data for fiscal years from July to June. 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, 2019–29

	2019	2020	2021	2022	Est. 2023	Projected 2024	2025	2026	2027	2028	2029
					(in millions of U.S. dollars)						
Current account balance	**-233.2**	**-188.6**	**-182.6**	**-162.0**	**-221.9**	**-153.2**	**-149.0**	**-140.1**	**-131.8**	**-116.9**	**-121.7**
Exports of goods and services, of which: 1/	202.7	98.6	117.7	174.0	185.1	240.2	273.4	291.0	311.2	339.2	349.3
Goods	21.2	15.5	21.3	25.1	23.2	24.7	26.3	27.5	28.7	30.0	31.3
Tourism	135.3	34.9	25.2	75.2	94.8	129.6	155.8	167.3	181.5	203.1	207.2
Imports of goods and services	434.4	302.3	313.7	351.0	414.1	409.7	440.1	449.6	462.4	477.4	494.0
Fuel	29.7	32.7	45.4	52.5	53.7	53.8	52.3	48.2	45.8	44.0	45.6
Food	48.1	40.6	39.5	45.7	46.1	48.0	50.0	51.6	53.5	56.2	58.7
Other goods 2/	203.1	114.3	117.7	136.0	177.8	172.8	194.5	197.1	201.6	206.7	211.0
Services	153.5	114.6	111.2	116.8	148.6	135.1	143.3	152.7	161.5	170.5	178.7
Net income, of which:	-9.5	8.7	0.5	1.9	1.8	0.4	-0.3	-0.5	-0.4	0.5	1.1
Interest payments (public sector)	-6.6	-5.5	-4.5	-7.2	-7.9	-6.3	-6.6	-6.2	-6.2	-6.9	-7.4
Net current transfers	8.1	6.4	12.9	13.0	5.3	15.8	18.0	19.0	19.9	20.9	21.9
Capital account	**59.8**	**115.7**	**161.4**	**131.0**	**177.6**	**54.7**	**81.4**	**71.5**	**55.7**	**56.6**	**81.6**
Net acquisition of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	1.0	0.0	0.3	1.3	2.3	3.3
Capital transfers	59.8	115.7	161.4	131.0	177.6	54.7	81.4	71.5	55.7	56.6	81.6
of which Citizenship By Investment	72.3	116.7	167.9	200.7	177.1	117.6	112.2	114.7	120.5	126.3	132.1
Financial account 3/	**-186.6**	**-61.6**	**-6.1**	**-33.0**	**-45.1**	**-92.4**	**-61.3**	**-62.2**	**-69.5**	**-53.6**	**-33.3**
Public sector flows	-4.7	-33.0	-46.1	-20.7	-11.0	-40.5	-36.4	-21.1	-34.5	-32.6	-35.6
Foreign direct investment	-63.0	-23.2	-26.0	-18.4	-21.5	-34.0	-34.6	-36.1	-37.9	-39.8	-41.5
Commercial banks	-134.7	-6.2	-29.9	29.7	26.7	-5.5	-3.3	-3.4	-3.5	-3.6	-3.6
Other private flows 4/	52.0	-9.9	81.2	-38.9	-20.5	-12.4	13.0	-1.7	6.3	22.3	47.4
Errors and omissions 5/	**-36.2**	**10.6**	**14.8**	**15.2**	**-18.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-23.0**	**-0.7**	**-0.4**	**17.2**	**-18.1**	**-6.2**	**-6.3**	**-6.4**	**-6.5**	**-6.7**	**-6.8**
					(in percent of GDP)						
Current account balance	**-38.1**	**-37.4**	**-32.9**	**-26.7**	**-33.7**	**-21.7**	**-19.8**	**-17.7**	**-15.8**	**-13.4**	**-13.3**
Exports of goods and services, of which: 1/	33.1	19.6	21.2	28.7	28.1	33.9	36.3	36.7	37.4	38.8	38.2
Goods	3.5	3.1	3.8	4.1	3.5	3.5	3.5	3.5	3.4	3.4	3.4
Tourism	22.1	6.9	4.5	12.4	14.4	18.3	20.7	21.1	21.8	23.2	22.7
Imports of goods and services	71.0	60.0	56.5	57.8	62.9	57.9	58.4	56.7	55.5	54.6	54.1
Fuel	4.9	6.5	8.2	8.6	8.2	7.6	6.9	6.1	5.5	5.0	5.0
Food	7.9	8.1	7.1	7.5	7.0	6.8	6.6	6.5	6.4	6.4	6.4
Other goods 2/	33.2	22.7	21.2	22.4	27.0	24.4	25.8	24.8	24.2	23.6	23.1
Services	25.1	22.7	20.0	19.2	22.6	19.1	19.0	19.2	19.4	19.5	19.6
Net income, of which:	-1.6	1.7	0.1	0.3	0.3	0.1	0.0	-0.1	-0.1	0.1	0.1
Interest payments (public sector)	-1.1	-1.1	-0.8	-1.2	-1.2	-0.9	-0.9	-0.8	-0.7	-0.8	-0.8
Net current transfers	1.3	1.3	2.3	2.1	0.8	2.2	2.4	2.4	2.4	2.4	2.4
Capital account	**9.8**	**23.0**	**29.1**	**21.6**	**27.0**	**7.7**	**10.8**	**9.0**	**6.7**	**6.5**	**8.9**
Net acquisition of nonproduced, nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.2	0.3	0.4
Capital transfers	9.8	23.0	29.1	21.6	27.0	7.7	10.8	9.0	6.7	6.5	8.9
of which Citizenship By Investment	11.8	23.2	30.2	33.0	26.9	16.6	14.9	14.4	14.5	14.4	14.5
Financial account 3/	**-30.5**	**-12.2**	**-1.1**	**-5.4**	**-6.9**	**-13.1**	**-8.1**	**-7.8**	**-8.3**	**-6.1**	**-3.7**
Public sector flows	-0.8	-6.5	-8.3	-3.4	-1.7	-5.7	-4.8	-2.7	-4.1	-3.7	-3.9
Foreign direct investment	-10.3	-4.6	-4.7	-3.0	-3.3	-4.8	-4.6	-4.5	-4.5	-4.5	-4.5
Commercial banks	-22.0	-1.2	-5.4	4.9	4.1	-0.8	-0.4	-0.4	-0.4	-0.4	-0.4
Other private flows 4/	8.5	-2.0	14.6	-6.4	-3.1	-1.8	1.7	-0.2	0.8	2.5	5.2
Errors and omissions /5	**-5.9**	**2.1**	**2.7**	**2.5**	**-2.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-3.8**	**-0.1**	**-0.1**	**2.8**	**-2.8**	**-0.9**	**-0.8**	**-0.8**	**-0.8**	**-0.8**	**-0.7**
Memorandum items:											
Trade balance (percent of GDP)	-42.5	-34.1	-32.6	-34.4	-38.7	-35.3	-35.9	-34.0	-32.7	-31.7	-31.1
Goods Export Volumes (% change)	93.0	-27.1	36.6	16.8	-8.6	5.8	6.2	4.5	4.5	4.5	4.5
Goods Import Volumes (% change)	-1.3	-25.5	-4.8	7.5	15.7	2.8	8.3	-0.4	0.5	0.8	1.6
Goods Terms of Trade (% change)	-5.2	11.9	-11.9	-7.0	2.4	-0.9	-0.1	-0.4	-0.7	-0.9	-1.1
Services balance (percent of GDP)	4.6	-6.2	-2.7	5.3	2.0	11.4	13.8	14.0	14.5	15.9	15.2
Goods and Services Export Volumes (% change)	37.1	-51.3	19.4	47.9	6.3	29.8	13.8	6.4	6.9	9.0	3.0
Goods and Services Import Volumes (% change)	8.5	-31.0	2.9	11.0	17.1	-1.9	7.4	2.2	2.9	3.2	3.5
Net imputed international reserves:											
Millions of U.S. dollars	166.2	165.6	165.2	182.3	164.2	169.7	180.0	191.7	203.4	216.1	228.4
Months of imports of goods and services	4.6	6.6	6.3	6.2	4.8	5.0	4.9	5.1	5.3	5.4	5.5
Gross external debt (in percent of GDP) 6/	90.2	108.0	87.3	97.3	92.6	97.9	91.6	92.2	91.1	88.4	83.7
Public sector	56.6	70.9	70.2	65.8	63.0	68.1	65.0	66.4	67.0	67.7	68.8
Private sector	33.6	37.2	17.1	31.4	29.7	29.8	26.6	25.8	24.1	20.7	14.9
GDP (in US$ millions)	611.5	504.2	555.3	607.4	658.2	707.7	753.2	793.5	833.0	874.4	913.3

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 natu

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, 2019-29 1/ 2/

					Prel.	Projected					
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	(in millions of Eastern Caribbean dollars)										
Revenue	**595.9**	**845.2**	**922.2**	**1,060.2**	**803.0**	**812.5**	**841.1**	**878.5**	**922.3**	**962.5**	**1,000.7**
Taxes	363.0	333.3	350.2	380.9	403.9	435.4	462.2	480.1	504.1	524.6	542.8
Taxes on income	64.2	57.1	50.2	54.4	59.4	65.6	73.6	77.4	85.9	90.0	94.0
Taxes on property	9.4	9.6	8.1	8.7	10.7	13.4	14.2	14.9	15.7	16.4	17.2
Taxes on goods and services	208.0	194.3	211.2	228.4	239.4	257.7	271.4	282.1	293.7	305.8	316.7
Taxes on international trade and transactions	81.5	72.3	80.7	89.3	94.4	98.7	102.9	105.5	108.8	112.4	115.0
Grants	29.0	35.0	86.7	26.0	28.1	30.1	31.8	33.5	35.1	36.8	38.5
Other revenue	203.9	476.9	485.3	653.3	371.0	347.0	347.1	365.0	383.1	401.2	419.4
Property income	3.5	1.6	2.1	1.8	2.0	2.1	2.3	2.4	2.5	2.6	2.7
Sales, fees, and fines	10.5	12.7	12.3	13.0	23.8	25.4	26.9	28.3	29.7	31.1	32.6
Other nontax revenue, of which:	189.9	462.6	470.9	638.5	345.2	319.4	317.9	334.3	350.9	367.4	384.1
Citizenship-by-Investment	182.4	448.0	458.6	625.3	331.0	304.2	301.8	317.3	333.1	348.8	364.7
Expenditure	**725.2**	**952.8**	**1,051.0**	**1,183.7**	**873.5**	**879.9**	**901.8**	**938.0**	**973.5**	**1,009.6**	**1,039.3**
Expense	**577.9**	**552.8**	**629.8**	**582.6**	**622.5**	**646.6**	**667.0**	**700.1**	**727.6**	**758.5**	**789.3**
Compensation of employees	160.5	164.5	177.4	149.5	160.7	171.9	181.9	191.3	200.9	210.3	219.9
Purchase of goods and services	263.2	247.3	300.7	244.6	246.2	250.2	256.5	269.8	283.2	296.5	310.0
Interest	37.2	30.3	41.1	49.3	77.8	81.1	76.6	79.2	75.9	76.0	75.8
Grants and social benefits (transfers and subsidies)	120.0	111.0	111.1	139.6	138.3	144.0	152.4	160.3	168.3	176.2	184.2
Other expense	-3.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6
Net lending	-3.0	-0.4	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.6	-0.6	-0.6
Net acquisition of nonfinancial assets	**147.3**	**400.0**	**421.1**	**601.1**	**251.0**	**233.2**	**234.8**	**237.9**	**245.9**	**251.1**	**250.0**
Grant-financed capital expenditure	19.2	39.9	84.1	86.5	28.1	30.1	31.8	33.5	35.1	36.8	38.5
Other capital expenditure	128.1	362.0	337.1	523.2	225.5	205.9	205.9	207.6	214.0	217.7	215.1
Capital revenue	0.0	-1.9	-0.1	-8.6	-2.6	-2.8	-2.9	-3.1	-3.2	-3.4	-3.5
Net lending/borrowing (overall balance)	**-129.3**	**-107.6**	**-128.8**	**-123.5**	**-70.4**	**-67.3**	**-60.7**	**-59.5**	**-51.2**	**-47.1**	**-38.6**
Net financial transactions	**-129.3**	**-107.6**	**-128.8**	**-123.5**	**-70.4**	**-67.3**	**-60.7**	**-59.5**	**-51.2**	**-47.1**	**-38.6**
Net acquisition of financial assets	**-0.9**	**-32.3**	**43.1**	**87.2**	**40.0**	**30.0**	**10.0**	**5.0**	**2.0**	**0.0**	**0.0**
Currency and deposits	-0.9	-32.3	43.1	87.2	40.0	30.0	10.0	5.0	2.0	0.0	0.0
Net incurrence of liabilities	**124.0**	**142.1**	**86.2**	**44.7**	**62.7**	**147.1**	**49.7**	**53.5**	**48.1**	**45.9**	**37.4**
Domestic	102.8	-22.2	-2.3	15.8	28.1	19.8	68.3	-37.0	-14.8	-15.7	-34.4
Foreign	21.2	164.3	88.5	28.9	34.6	127.3	-18.6	90.5	62.9	61.6	71.7
Other flows	**6.2**	**-2.3**	**-0.5**	**-8.4**	**-4.6**	**-80.2**	**32.3**	**34.0**	**35.7**	**37.4**	**39.1**
Memorandum items:											
Primary balance	-92.1	-77.2	-87.6	-74.2	7.4	13.8	15.9	19.7	24.7	28.9	37.3
Citizenship By Investment, fiscal year (U.S. million dollars)	67.5	165.9	169.9	231.6	122.6	112.7	111.8	117.5	123.4	129.2	135.1
Primary balance (excl. CBI)	-274.4	-525.2	-546.3	-699.5	-323.7	-290.5	-285.9	-297.6	-308.5	-319.9	-327.4
Overall balance (excl. CBI)	-311.6	-555.5	-587.4	-748.8	-401.5	-371.6	-362.5	-376.9	-384.3	-395.9	-403.2
Public sector debt 3/	1,471	1,608	1,703	1,764	1,798	1,949	2,003	2,060	2,113	2,163	2,205
Domestic	618	595	601	639	636	605	645	603	569	530	469
Central Governement	546	524	521	537	565	585	653	616	602	586	551
Rest of public sector	72	71	79	102	71	20	-9	-13	-33	-56	-83
Foreign	853	1,014	1,102	1,125	1,161	1,344	1,358	1,457	1,544	1,633	1,736
Central Governement	627	791	880	908	943	1,070	1,052	1,142	1,205	1,267	1,339
Rest of public sector	226	222	222	217	218	273	306	315	339	367	398
Nominal GDP, fiscal year (EC$ millions)	1,506	1,430	1,570	1,709	1,844	1,972	2,088	2,196	2,305	2,413	2,523

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/ 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, 2019-29 1/ 2/

(In percent of GDP)

	2019	2020	2021	2022	Prel. 2023	Projected 2024	2025	2026	2027	2028	2029
			(in percent of GDP)								
Revenue	**39.6**	**59.1**	**58.8**	**62.1**	**43.5**	**41.2**	**40.3**	**40.0**	**40.0**	**39.9**	**39.7**
Taxes	24.1	23.3	22.3	22.3	21.9	22.1	22.1	21.9	21.9	21.7	21.5
Taxes on income	4.3	4.0	3.2	3.2	3.2	3.3	3.5	3.5	3.7	3.7	3.7
Taxes on property	0.6	0.7	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Taxes on goods and services	13.8	13.6	13.5	13.4	13.0	13.1	13.0	12.8	12.7	12.7	12.6
Taxes on international trade and transactions	5.4	5.1	5.1	5.2	5.1	5.0	4.9	4.8	4.7	4.7	4.6
Grants	1.9	2.4	5.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other revenue	13.5	33.3	30.9	38.2	20.1	17.6	16.6	16.6	16.6	16.6	16.6
Property income	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees, and fines	0.7	0.9	0.8	0.8	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Other nontax revenue, of which:	12.6	32.3	30.0	37.4	18.7	16.2	15.2	15.2	15.2	15.2	15.2
Citizenship-by-Investment	12.1	31.3	29.2	36.6	18.0	15.4	14.5	14.5	14.5	14.5	14.5
Expenditure	**48.1**	**66.6**	**67.0**	**69.3**	**47.4**	**44.6**	**43.2**	**42.7**	**42.2**	**41.8**	**41.2**
Expense	**38.4**	**38.6**	**40.1**	**34.1**	**33.8**	**32.8**	**31.9**	**31.9**	**31.6**	**31.4**	**31.3**
Compensation of employees	10.7	11.5	11.3	8.8	8.7	8.7	8.7	8.7	8.7	8.7	8.7
Purchase of goods and services	17.5	17.3	19.2	14.3	13.4	12.7	12.3	12.3	12.3	12.3	12.3
Interest	2.5	2.1	2.6	2.9	4.2	4.1	3.7	3.6	3.3	3.2	3.0
Grants and social benefits (transfers and subsidies)	8.0	7.8	7.1	8.2	7.5	7.3	7.3	7.3	7.3	7.3	7.3
Other expense	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**9.8**	**28.0**	**26.8**	**35.2**	**13.6**	**11.8**	**11.2**	**10.8**	**10.7**	**10.4**	**9.9**
Grant-financed capital expenditure	1.3	2.8	5.4	5.1	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Other capital expenditure	8.5	25.3	21.5	30.6	12.2	10.4	9.9	9.5	9.3	9.0	8.5
Capital revenue	0.0	-0.1	0.0	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Net lending/borrowing (overall balance)	**-8.6**	**-7.5**	**-8.2**	**-7.2**	**-3.8**	**-3.4**	**-2.9**	**-2.7**	**-2.2**	**-2.0**	**-1.5**
Net financial transactions	**-8.6**	**-7.5**	**-8.2**	**-7.2**	**-3.8**	**-3.4**	**-2.9**	**-2.7**	**-2.2**	**-2.0**	**-1.5**
Net acquisition of financial assets	**-0.1**	**-2.3**	**2.7**	**5.1**	**2.2**	**1.5**	**0.5**	**0.2**	**0.1**	**0.0**	**0.0**
Currency and deposits	-0.1	-2.3	2.7	5.1	2.2	1.5	0.5	0.2	0.1	0.0	0.0
Net incurrence of liabilities	**8.2**	**9.9**	**5.5**	**2.6**	**3.4**	**7.5**	**2.4**	**2.4**	**2.1**	**1.9**	**1.5**
Domestic	6.8	-1.6	-0.1	0.9	1.5	1.0	3.3	-1.7	-0.6	-0.7	-1.4
Foreign	1.4	11.5	5.6	1.7	1.9	6.5	-0.9	4.1	2.7	2.6	2.8
Other flows	**0.4**	**-0.2**	**0.0**	**-0.5**	**-0.3**	**-4.1**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Memorandum items:											
Primary balance	-6.1	-5.4	-5.6	-4.3	0.4	0.7	0.8	0.9	1.1	1.2	1.5
Primary balance (excl. CBI)	-18.2	-36.7	-34.8	-40.9	-17.6	-14.7	-13.7	-13.6	-13.4	-13.3	-13.0
Overall balance (excl. CBI)	-20.7	-38.8	-37.4	-43.8	-21.8	-18.8	-17.4	-17.2	-16.7	-16.4	-16.0
Public sector debt 3/	97.7	112.5	108.5	103.3	97.5	98.8	95.9	93.8	91.7	89.6	87.4
Domestic	41.1	41.6	38.3	37.4	34.5	30.7	30.9	27.5	24.7	22.0	18.6
Central Governement	36.2	36.6	33.2	31.4	30.7	29.7	31.3	28.1	26.1	24.3	21.9
Rest of public sector	4.8	5.0	5.0	6.0	3.9	1.0	-0.4	-0.6	-1.4	-2.3	-3.3
Foreign	56.6	70.9	70.2	65.8	63.0	68.1	65.0	66.4	67.0	67.7	68.8
Central Governement	41.6	55.3	56.0	53.2	51.1	54.3	50.4	52.0	52.3	52.5	53.1
Rest of public sector	15.0	15.6	14.2	12.7	11.8	13.8	14.7	14.3	14.7	15.2	15.8
Nominal GDP, fiscal year (EC$ millions)	1,506	1,430	1,570	1,709	1,844	1,972	2,088	2,196	2,305	2,413	2,523

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/ 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, 2019–29

	2019	2020	2021	2022	2023	Projected 2024	2025	2026	2027	2028	2029
	(in millions of Eastern Caribbean dollars, end of period)										
Net foreign assets	**879**	**963**	**971**	**925**	**949**	**948**	**968**	**991**	**1016**	**1043**	**1069**
Central Bank	449	447	446	492	443	458	486	518	549	584	617
Commercial Banks (net)	430	516	525	433	505	490	482	474	467	460	453
Net domestic assets	**663**	**426**	**444**	**471**	**442**	**518**	**580**	**639**	**696**	**753**	**807**
Public sector credit, net	187	118	200	197	171	202	214	222	226	228	231
(real terms)	178	113	185	168	142	165	171	173	173	172	170
Central Government	259	299	387	349	390	422	434	441	445	448	450
Private sector credit	727	725	751	771	744	774	815	859	902	966	1029
(real terms)	692	694	695	657	619	630	651	672	692	727	759
Other items (net)	-251	-416	-507	-497	-472	-458	-449	-442	-432	-441	-453
Money and quasi-money (M2)	**1,542**	**1,389**	**1,415**	**1,397**	**1,390**	**1,467**	**1,548**	**1,630**	**1,711**	**1,797**	**1,877**
Money	367	330	460	485	490	522	551	581	609	639.7	668.2
Quasi-money	1,175	1,059	955	912	900	945	997	1,050	1,102	1,156.9	1,208.4
	(12-month percentage change)										
Net foreign assets	**-25.6**	**9.5**	**0.9**	**-4.7**	**2.5**	**0.0**	**2.0**	**2.5**	**2.5**	**2.7**	**2.5**
Net domestic assets, of which:	**31.6**	**-35.7**	**4.1**	**6.1**	**-6.2**	**17.3**	**11.9**	**10.1**	**8.9**	**8.3**	**7.1**
Public sector credit, net	-873.6	-37.0	70.1	-1.3	-13.5	18.7	5.9	3.3	1.9	1.1	1.1
(real terms)	-872.5	-36.6	64.3	-9.2	-15.5	16.1	3.8	1.3	-0.1	-0.9	-0.9
Private sector credit	-6.0	-0.3	3.6	2.7	-3.6	4.0	5.3	5.4	5.0	7.1	6.5
(real terms)	-6.1	0.4	0.1	-5.5	-5.8	1.8	3.3	3.3	3.0	5.0	4.4
Broad money	**-8.5**	**-9.9**	**1.9**	**-1.3**	**-0.4**	**5.5**	**5.5**	**5.3**	**5.0**	**5.0**	**4.4**
NFA contribution	-18.0	5.4	0.6	-3.2	1.7	0.0	1.3	1.5	1.5	1.6	1.5
NDA contribution	9.4	-15.3	1.3	1.9	-2.1	5.5	4.2	3.8	3.5	3.4	3.0
Money	-16.7	-10.1	39.3	5.4	1.0	6.5	5.6	5.3	5.0	5.0	4.4
NFA contribution	-14.1	-0.5	-0.3	10.1	-10.1	3.0	5.3	5.7	5.5	5.6	5.2
NDA contribution	-2.6	-9.6	39.6	-4.6	11.1	3.5	0.3	-0.4	-0.5	-0.7	-0.7
Broad money (real terms)	**-8.7**	**-9.3**	**-1.6**	**-9.2**	**-2.7**	**3.2**	**3.4**	**3.3**	**2.9**	**2.9**	**2.4**
	(in percent of GDP)										
Net foreign assets	**53.2**	**70.7**	**64.8**	**56.4**	**53.4**	**49.6**	**47.6**	**46.3**	**45.2**	**44.2**	**43.4**
Net domestic assets	**40.2**	**31.3**	**29.6**	**28.7**	**24.9**	**27.1**	**28.5**	**29.8**	**30.9**	**31.9**	**32.7**
Public sector credit, net	11.3	8.6	13.3	12.0	9.6	10.6	10.5	10.3	10.0	9.7	9.4
Private sector credit	44.0	53.2	50.1	47.0	41.8	40.5	40.1	40.1	40.1	40.9	41.7
Broad Money	**93.4**	**102.0**	**94.4**	**85.2**	**78.2**	**76.8**	**76.1**	**76.1**	**76.1**	**76.1**	**76.1**
Money	22.2	24.3	30.7	29.6	27.6	27.3	27.1	27.1	27.1	27.1	27.1
Quasi-money	71.1	77.8	63.7	55.6	50.7	49.5	49.0	49.0	49.0	49.0	49.0
Interest rates (percent) 1/											
ECCB policy rate	6.5	2.0	2.0	2.0	2.0	...	...	...	...	...	
U.S. policy rate	1.6	0.1	0.1	4.1	5.5	...	...	...	...	...	
Time deposit rate	3.1	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	2.0	2.0	...	...	...	...	...	

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

1/ End-period rates.

Table 5a. Dominica: Financial Stability Indicators—Commercial Banks, 2013–23

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Capital Adequacy											
Regulatory capital ratio 1/	13.1	11.9	12.9	15.6	13.3	12.5	13.9	18.9	18.3	15.9	27.51
Asset quality											
Nonperforming loans to total gross loans	13.9	14.2	15.1	14.5	17.4	17.0	12.2	15.0	15.7	13.8	12.9
Nonperforming loans net of provisions to capital	114.4	111.9	105.3	93.7	72.2	73.7	101.2	116.5	78.4	74.4	55.5
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	0.94
Return on Equity	-1.8	-1.9	2.4	22.2	-39.1	-15.0	60.4	24.0	3.0	-14.3	13
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	54.25
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	58.22
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	50.45

Source: ECCB

1/ Total Capital over risk weighted assets.

Table 5b. Dominica: Financial Stability Indicators—Credit Unions, 2013–23

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Capital Adequacy											
Regulatory capital ratio	8.45	8.65	3.38	8.75	8.13	7.64	7.58	8.19	8.48	8.17	8.47
Asset quality											
Nonperforming loans to total gross loans	7.59	8.78	40.93	14.53	15.06	13.89	12.70	15.31	16.79	14.61	13.41
Nonperforming loans net of provisions to capital	36.70	40.71	770.96	81.82	83.42	69.07	53.30	65.46	74.99	54.46	53.90
Earnings and Profitability											
Return on Assets	0.92	0.91	1.16	1.30	0.77	0.43	0.84	1.00	0.79	0.46	0.48
Return on Equity	9.38	8.71	21.81	11.92	7.72	4.67	9.19	10.42	8.05	4.84	4.68
Liquidity											
Liquid Assets to Total Assets	4.62	5.83	15.23	10.12	18.08	16.86	12.09	14.06	15.71	16.95	10.13

Annex I. External Sector Assessment

Overall Assessment: *Dominica's external position in 2023 is estimated to be substantially weaker than the level implied by fundamentals and desirable policies.*[1] *The current account (CA) deficit has widened to 33.7 percent in 2023 from 26.7 percent in the previous year, as improvements in tourism receipts were more than offset by an increase in imports from the construction of large infrastructure projects. The imbalances are expected to decline over the medium term; however, the country's vulnerability to natural disasters and high dependency on commodity imports raise external sustainability risks.*

Potential Policy Responses: *Stronger efforts are needed to pursue fiscal consolidation in line with the ECCU's regional debt target and Dominica's national fiscal rule. Mitigating vulnerability to shocks requires earmarking CBI revenue to high-quality resilience building projects, while increasing the allocation to the government's self-insurance fund (VRF) and to external debt amortization. Reforms are needed to improve competitiveness, broaden the export base, and advance the transition to renewable energy generation, thus reducing the country's reliance on imported fossil fuels. The proposed mix of fiscal consolidation and competitiveness-enhancing structural reforms is critical to strengthen Dominica's resilience to shocks—including from natural disasters—and bring the external sector back to balance.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The net international investment position (IIP) was -56.9 percent of GDP in 2022 and is estimated to have remained mostly unchanged in 2023, as the CA deficit was largely financed with CBI revenues. In 2023, roughly half (52.7 percent) of the assets were held by deposit-taking institutions other than the central bank, either in the form of currency and deposits (52.8 percent of total assets) or equity and fund shares (4.9 percent of total assets). Reserve assets constitute 22.6 percent of total assets. On the liability side, nearly half of obligations pertain to FDI (close to 82 percent of GDP), while one-third 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, with near-term public external debt service at 4-5 percent of GDP. The minimum change in the NIIP in 2022-23 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.

2023 (Percent of GDP)	NIIP: -56.4	Gross Assets: 117.9	Debt Assets: 86.2	Gross Liab.: -174.2	Debt Liab.: -94.4

Current Account

Background. In 2023, the estimated CA deficit increased to 33.7 percent of GDP (from 26.7 percent of GDP in 2022), driven mainly by worsening balances in both goods and services trade, plus slightly lower income and transfer balances. The trade balance deteriorated due to lackluster goods exports growth and relatively larger increases in goods imports related to the ongoing large infrastructure construction. Tourism exports continue to grow, albeit at a slower pace than expected, reflecting the gradual recovery of stay-over arrivals. The current account adjustment is expected to resume in 2024 and beyond, as tourism exports improve (including from expansion in capacity), public investment related imports normalize from earlier peaks, and fuel imports for electricity generation decline after the geothermal powerplant comes into production in 2026.

Assessment. Dominica has shown persistently large CA deficits since 2017's hurricane Maria, mainly due to the immediate fallout in curtailed tourism sector activity as well as subsequent reconstruction and resilience building efforts. According to the CA model, the norm corresponds to a deficit of 15.7 percent of GDP, implying a CA gap relative to actual in excess of 18.4 percent of GDP. Policy contributions to the gap pertain mostly to external factors (such as increased fiscal deficit and public health spending from trading partners). 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 2023. A higher current account is necessary to stabilize Dominica's NIIP (-56.4 percent of GDP) and meet external debt service payments.

Dominica: EBA-lite Model Results, 2023

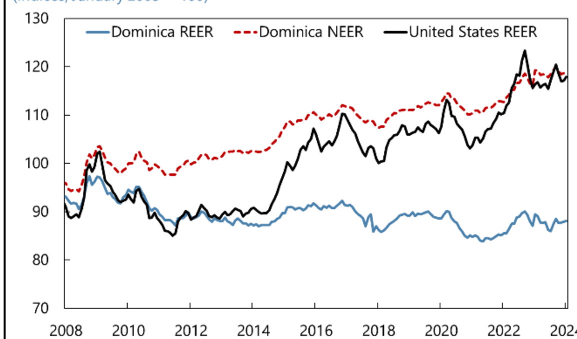
	CA model 1/	REER model 1/
	(in percent of GDP)	
CA-Actual	**-33.7**	
Cyclical contributions (from model) (-)	0.4	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-34.1**	
CA Norm (from model) 2/	**-15.7**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-15.7**	
CA Gap	**-18.4**	**-0.3**
o/w Relative policy gap	2.8	
Elasticity	-0.3	
	0.0	
REER Gap (in percent)	**61.8**	**1.0**

1/ Based on the EBA-lite 3.0 methodology
2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. The REER depreciated in 2020-21, as foreign prices increased faster than those in Dominica. This depreciation trend reversed in mid-2022, as domestic prices started to catch up. The REER depreciated by less than 1 percent in 2023, ending the year close to the level in end-2019.[2]

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



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

Assessment. Although the CA model approach would imply a substantial (61.8 percent) overvaluation of the REER, the IREER model indicates only 1.0 percent overvaluation. This divergence is partly explained by the fact that the CA model does not account for the temporary nature of elevated import flows associated with large CBI-financed disaster reconstruction and strategic infrastructure investments (including a transition to geothermal energy), which are expected to improve Dominica's external balances over the long term. Indeed, other competitiveness measures do not suggest a large misalignment. Price indicators, such as goods terms of trade and the evolution of Dominica's real exchange rate against key trading partners, have remained relatively stable over the past decade. Moreover, the speed of the post-pandemic tourism recovery was in line with peers. Specifically, total tourism arrivals have recovered beyond pre-pandemic levels, with cruise arrivals outpacing peers and stayover arrivals lagging somewhat due to structural constraints in terms of reduced airlift into the country. That said, elevated input prices such as electricity and labor costs reflect longstanding challenges to competitiveness, which the ongoing energy transition reform effort is expected to partially alleviate.

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 6.7 percent of GDP since hurricane Maria (3.3 percent of GDP in 2023), while CBI revenues have been consistently above 11.8 percent of GDP during the same period, rising to around 30 percent of GDP during 2021-23.

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 could be partially mitigated by resulting lower imports. Moreover, public investment could also strengthen the external balance through improvements in tourism capacity and lower energy imports. Lower-than-expected CBI flows could jeopardize the completion of key projects and therefore weaken the external balance.
FX Intervention and Reserves Level
Background. In 2023, Dominica's reserve position is estimated to have remained broadly stable, increasing marginally in nominal terms (from US$182.3 in 2022 to US$164.2 in 2023). 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 2023 SDR allocation to Dominica of 11.5 million SDRs (about US$15.4 million) has been kept at the ECCB as a liquidity buffer. **Assessment.** Estimated imputed reserves cover 4.8 months of imports and 30 percent of broad money in 2023, 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 until 2023. This assessment is subject to uncertainty arising from previous major external shocks (hurricane Maria), and data revisions. [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 II. 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 or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism that disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium ST/MT	Provide temporary and targeted fiscal support to affected households and sectors, within a sustainable medium-term fiscal plan. Monitor financial risks closely, including risks to FDI, in coordination with the ECCB.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	High	Medium ST/MT	Strengthen the social safety net to better support the vulnerable, allow pass-through of international prices to domestic prices and avoid broad-based measures. Accelerate transition to renewable energy.
Abrupt global slowdown. Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. **U.S.**: Amid tight labor markets, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing, and commercial real estate market correction.	Medium	High 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. Adopt measures to assist job search, upskill workers, and improve labor mobility. Monitor financial risks closely, in coordination with the ECCB.
Systemic financial instability. High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs.	Medium	Medium ST/MT	At the local level, tighten supervision efforts and macroprudential policies if needed. Pursue fiscal consolidation to aid domestic financial stability.
Sovereign debt distress. Domino effects of higher global interest rates, a growth slowdown in advanced economies (AEs), unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, an increase in risk premia, and loss of market access.	Medium	Medium MT	Strengthen the fiscal framework to rebuild buffers and communicate credible medium-term fiscal plans.
Structural Risks			
Deepening geo-economic fragmentation. Broader conflicts, inward-oriented populist policies, and weakened international cooperation result in a less efficient reconfiguration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a	High	Medium ST/MT	Boost efforts to increase employment and productivity, foster regional integration/collaboration, and strengthen economic competitiveness.

[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.

Source and Direction of Risk	Relative Likelihood	Impact/ Time Horizon	Policy Response
fracturing of international monetary and financial systems, and lower growth.			
Cyberthreats. Cyberattacks on physical or digital infrastructure and service providers (including digital currency and crypto assets) or misuse of AI technologies 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 driven by rising temperatures cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**High** ST/MT	Continue implementing the Disaster Resilience Strategy, accelerate the construction of resilient infrastructure and transition to local, renewable energy sources.
Domestic Risks			
Fiscal underperfomance, lower than expected/mismanaged CBI revenues, and reputational risks could threaten (i) the completion of transformational capital projects, (ii) compromise the realization of economic benefits, and (iii) entail protective steps from concerned jurisdictions that compromise growth prospects and, in turn, exacerbate debt vulnerabiliies.	**Medium**	**High** ST/MT	Rationalize spending and broaden the revenue base from non-CBI sources. Strengthen governance frameworks to enhance the transparency and integrity of the CBI program, including via the management of resources.
Delays in reforms to develop the tourism sector could undermine economic dividends from ambitious PSIP (e.g., new airport) and increase debt-related risks.	**Medium**	**Medium** ST/MT	Reenforce structural reforms to diversify the economy and improve the business environment.
A deterioration in CU asset quality and/or disruption of correspondent bank relationships could reduce growth.	**Medium**	**Medium** ST/MT	Enhance CU balance sheets. Monitor asset quality and ensure adequate loan loss provisioning.
Delays in enacting social security system reforms to address looming sustainability pressures would deplete buffers and increase vulnerabilities to shocks	**Medium**	**Medium** MT/LT	Advance pension system reform to buttress its sustainability.

Annex III. Implementation of Fund's Past Policy Advice

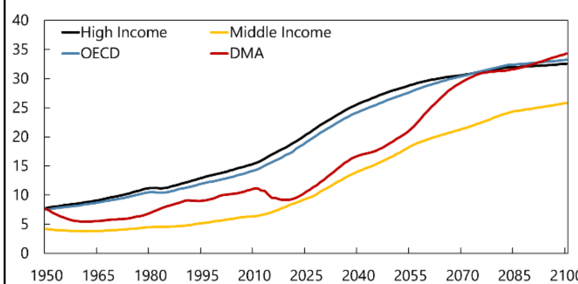
Recommendations from Last Article IV	Authorities' Actions
Fiscal Consolidation Measures	
Revenue Measures	
Streamline tax incentives, review PIT allowances, and strengthen tax administration and compliance risk management to maximize tax revenue.	Yet under consideration.
Reverse the reduction of VAT on electricity and revise up motor vehicle license fees to compensate losses from the foregone highway levy.	The temporary 50 percent reduction in motor vehicle license fees during FY2022/23 has been reversed. Reversing the reduction of the VAT on the fuel surcharge is under discussion.
Expenditure Measures	
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).	Wage bill reduced to 8.7 percent of GDP in FY2022/23, partly due to the phasing out of one-off bonuses and reclassification of health sector wages as transfers. Adjustments to tariffs of some of the public services including water are under consideration.
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.	The authorities prioritize projects with high productivity during the budget process. Efficiency gains have been pursued in terms of Goods and Services spending and the National Employment Program is under review.
CBI Revenue Allocation	
Allocating a higher share of CBI revenue, including all unexpected windfalls, to disaster insurance and debt amortization to bolster financial resilience and strengthen debt sustainability.	The government has capitalized the Disaster Vulnerability Risk and Resilience Fund in the amount of 1.2 percent of GDP as of February 2024. They also established the Debt Repayment Fund in April 2023 with a target capitalization of 1.3 percent of GDP.
Strengthening Social Protection System	
Pursue avenues for proxy-targeting and tailored social assistance to vulnerable households in a more systematized way to streamline untargeted programs and swiftly deploy exceptional support cost-effectively in the face of large shocks.	Ongoing. The government is working to operationalize a beneficiary registry and management information system for social programs, including a digital registration process and payment reconciliation mechanism.
Complete the ongoing population census to form the basis for a comprehensive social registry.	Ongoing. Statistics office aims to complete the Census by end 2024.
Preserving Financial Stability	
Bring credit unions' capital above the regulatory minimum.	The capital ratios of all credit unions (CUs) have been bolstered to surpass 5 percent. The FSU remains committed to collaborating with CUs to bring capital ratios to 10 percent by 2026.
Modernize regulatory framework for credit unions.	The CU legislation is outdated, with a decade-old draft currently with attorney general's office now also considered obsolete. The FSU is seeking to revise the legislation to incorporate more risk-based supervision and regulation principles.

Recommendations from Last Article IV	Authorities' Actions
Enhance human/financial resources and statutory independence of supervisory agency (FSU).	Following the hiring of two new staffers last year, the FSU is now in the process of hiring more supervisors. The authorities remain of the view that the FSU has adequate *de-facto* independence.
Addressing Long-Standing Constraints to Financial Intermediation	
Streamline lending processes and address collateral constraints for small businesses.	Ongoing. The authorities support regional initiative such as the regional credit bureau and partial credit guarantee scheme to streamline lending processes and alleviate collateral constraints for small businesses.
Modernize national insolvency law to facilitate resolution of NPLs.	Options are under consideration, including alternative solutions such as tribunal, arbitration, etc. No concrete decisions have been taken.
Utilize ECCU regional credit bureau to facilitate lending.	They are collaborating with the ECCU regional credit bureau to establish operations in Dominica.
Fostering Diversification and Inclusiveness to Modernize the Economy and Strengthen Economic Resilience	
Transition to geothermal energy to increase economic competitiveness via lower energy costs.	Ongoing. The geothermal powerplant is expected to be operational in early 2026 to serve the capital region. The authorities are actively seeking financing to expand the transmission network to the North to service the entire country from renewable sources.
Timely complete the new international airport to boost connectivity with large markets and enhance regional connectivity.	Ongoing. Airport construction is progressing and is expected to be operational in 2026/27.
Support the agricultural sector to broaden the export base and explore synergies with the growing tourism sector.	Ongoing. The Ministry of Agriculture is implementing the Agriculture and Fishery Sustainability Development Plan and is working with the Ministries of Tourism, Health, and Education to improve climate resilience, youth participation, and food safety.
Expand digitalization and professional training to support inclusive development and further boost productivity.	Ongoing. The authorities are advancing with the digitalization agenda, including improving telecommunications infrastructure, digital skills training, and creating individual digital identification numbers.
Advancing Institutional Reforms to Help Mitigate Risks and Support Economic Policy Making	
Further strengthen the AML/CFT framework to minimize risks to CBRs.	Ongoing. The most recent CFATF Mutual Assessment for Dominica was published in mid-2023. Authorities have been addressing key recommendations, with a particular focus on enhancing the transparency of the CBI program.
Timely publish high-quality statistics.	Ongoing. With CARTAC's assistance, the statistics office has been endeavoring to resume the publication of CPI by mid-2024.

Annex IV. The Social Security Scheme in Dominica[1]

1. **The Dominica Social Security (DSS) scheme confronts challenges associated with growth and demographic trends as well as its underlying generosity.** The DSS covers both employed and self-employed people with a defined benefits pay-as-you-go system, where all benefits are financed by contributions collected on employment earnings up to a wage ceiling paid by employers, employees, and self-employed persons. Low growth and population aging put pressure on the system in terms of a shrinking contribution base and high old-age dependency ratio. Dominica's share of population aged 65 and older is expected to reach levels comparable to OECD countries, with subdued long-term growth relative to emerging market economies (EMEs). Challenges associated with these trends are further complicated DSS' relatively generous pension scheme, characterized by low contribution rates and high and front-loaded accrual rates compared to OECD countries. And while the DSS' statutory retirement age of 65 years is broadly in line with peers, a lower statutory retirement age applies to public servants (60 years), which requires providing an unfunded bridge pension that adds to fiscal pressures and inequities in the system.

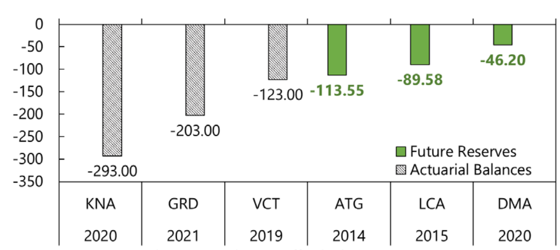
Share of Population Aged 65+
(In Percent)



Sources: UN Populations Projections; and IMF staff calculations.

2. **DSS reserves are projected to be depleted within 50 years despite parametric reforms that are currently in train**. The authorities endorsed a package of parametric reforms in 2006. While some measures took effect at that time (e.g. the reduction of the accrual rate to 1 percent and maximum accrual rate to 60 (from 70) in 2008), other measures, such as increases in the retirement age and contribution rates were gradually phased-in; e.g. the retirement age rose to 65 in 2021, while contribution rates will reach 15.75 percent only in 2031. While these reforms were in the right direction, they would not be sufficient to preserve the long-term sustainability of the DSS: On current policies, DSS reserves (30 percent of GDP in 2020) are expected to be depleted in 2063 and accumulate a deficit of 46 percent of GDP by 2080 (equivalent to a fiscal burden of around 1 percent of GDP a year) absent further parametric reforms.[2]

Reserves and Actuarial Balances Over 60 Years
(In Percent of GDP)



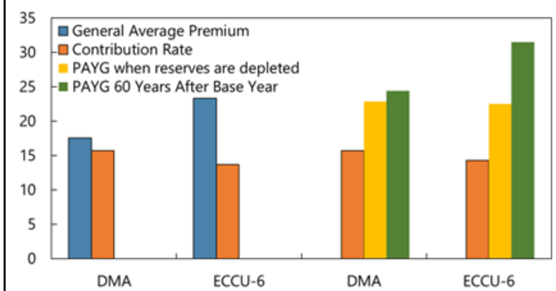
Sources: Country authorities, and IMF staff calculations.
Note: Actuarial balance was reported in the latest available actuarial reports of GRD, KNA, and VCT while reserves are available for all ECCU countries. For ATG, reserves are projected by staff based on flow data. For ATG, GRD, and VCT the reserves and actuarial balances do not reflect the recently approved reforms, which were approved after the last available actuarial report.

[1] Prepared by S. Kilic Celik drawing on the analysis presented in the 2024 Eastern Caribbean Currency Union Selected Issues Paper (IMF Country Report No. 24/93).

[2] Another key measure besides future reserves to assess the financial sustainability of a pension scheme is the actuarial balance. Depending on certain assumptions, the resulting actuarial balance to GDP ratio may differ from future reserves. Nevertheless, they can help explain the relative severeness of the financial situation of a pension scheme.

3. **In particular, the statutory contribution rate is too low to cover the paid benefits, creating intergenerational inequities.** The viability of a pension scheme can be assessed by comparing the current contribution rates with the general average premium (GAP), which is the contribution rate needed to cover the total expenditure over the next 60 years. On that basis, Dominica's 15.75 percent (by 2031) is almost 2 percentage points below the estimated GAP of 17.6 percent. Similarly, the pay as go (PAYG) rate—defined as the contribution rate necessary to pay all expenditures in a given year—is estimated at 22.9 percent when reserves are fully depleted in 2063 and projected to increase further to 24.4 percent in 2080. As such, the later the needed adjustments are implemented, the larger the adjustments would be to ensure sustainability and improve intergenerational equity.

NIS Sustainability Indicators
(In Percent)



Sources: Country authorities; and IMF staff calculations.
Notes: ATG, DMA, GRD, and VCT are rates after ongoing and just approved reforms.

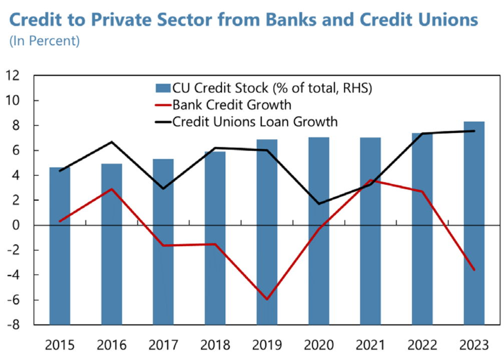
4. **A comprehensive package of parametric reforms is therefore needed to ensure a financially sustainable, fair, and efficient pension scheme.** Given that Dominica's demographic trends are expected to resemble that of OECD countries, parametric reforms to increase in contribution rates by around 2 percentage points to better align with OECD norms is recommended. Priorities also include reducing both the accrual and replacement rates closer to OECD and EME averages to prevent depletion of reserves. Shifting from a front-loaded accrual rate during the vesting period to a uniform accrual rate would incentivize longer careers. Finally, aligning the statutory retirement age for both private and public employees at 65 years would allow for the costly and inequitable bridge pension framework to be phased out, improving the sustainability and equity of the system.

Annex V. The Role of Financial Intermediation and Growth in Dominica[1]

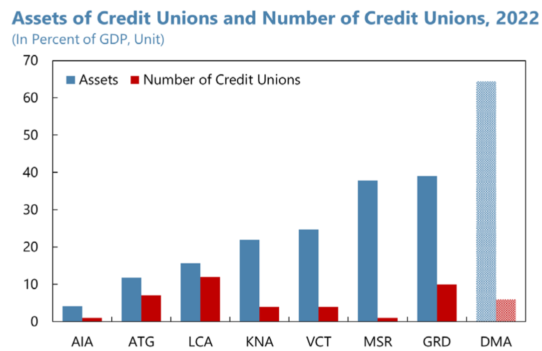
Financial intermediation in Dominica is subdued, hindered by external developments and longstanding structural constraints. The Fund's Growth-at-Risk analysis confirms the critical role of financial conditions in shaping the growth outlook, highlighting the importance of reforms to enhance credit-market efficiencies.

A. Financial Landscape in Dominica

1. External developments have changed the financial landscape in Dominica, giving greater prominence to credit unions. The generalized de-risking process of global financial institutions in recent decades significantly reduced Dominica's correspondent banking relationships (CBRs), with the country losing 75 percent of its CBRs by the mid-2010s (Alleyne and others 2017). While CBRs have since stabilized, foreign banks have largely exited the ECCU region. This process has reduced the relative role of banks in financial intermediation in Dominica, with credit unions (CUs) growing to become systemically important as they filled the void. CU assets now comprise 32 percent of credit institutions' total assets (the highest in the region on a GDP basis) and nearly half of total private credit, compared with 68 percent and 51 percent of banks, respectively.

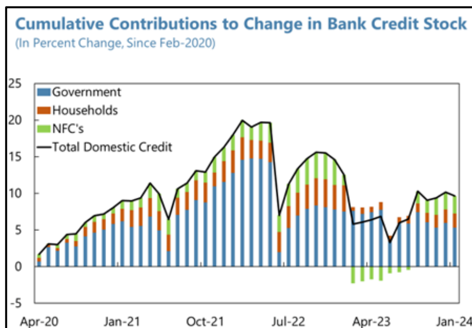


Sources: Dominica authorities, ECCB and IMF staff calculations.



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

2. Private credit growth has been subdued despite an ongoing economic expansion and ample liquidity. Credit growth has averaged only 1.9 percent over the past decade and tends to lag nominal GDP growth. Persistently weak credit growth is partly explained by an ongoing de-risking posture due to balance sheet weakness.[2] Since the onset of the pandemic, most bank lending has gone to the public sector, partly reflecting a lack of bankable projects and longstanding structural constraints to financial intermediation.



Sources: ECCB and IMF staff calculations.

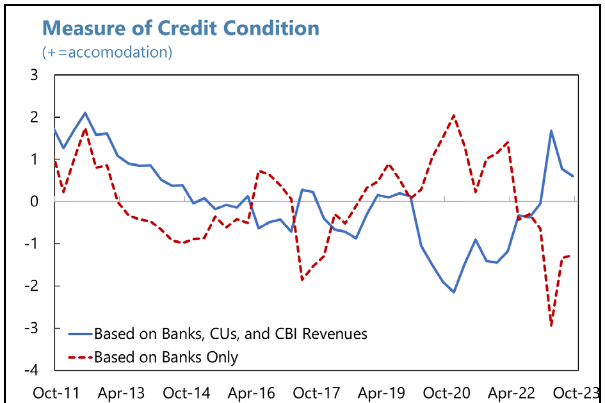
[1] Prepared by Y. Mu and H. Wang.

[2] While the financial system is stable and liquid, bank NPLs have declined only gradually and remain elevated at 12.9 percent . Provisioning falls below the ECCU regulatory threshold by 4.5 percentage points as of end 2023. Major CUs exhibit relatively low capital adequacy, elevated NPL ratios (13.4 percent) with volatile and declining profitability.

3. Structural challenges impede private sector credit and hinder growth prospects. Loan terms offered by credit institutions do not always meet borrowers' needs, particularly for rural communities seeking tailored agricultural loans calibrated to harvest cycles. Access to finance is also exacerbated by insufficient qualified collateral, inadequate insurance coverage, and complex communal land ownership structures. Informal economic practices, including: i) prevalent cash transactions, ii) a weak culture of formal book-keeping, and iii) limited financial literacy, tend to alienate individuals and small businesses from formal financial services and establishing credit histories. Dominica lacks a modern solvency and foreclosure framework, making it challenging for lenders to address NPLs effectively, ultimately increasing borrowing costs and creating burdensome institutional vetting processes for loan requests.

B. Financial Conditions and Growth-At-Risk in Dominica

4. The IMF's Growth-at-Risk (GaR) framework is utilized to investigate the link between financial conditions and Dominica's growth outlook. This framework, linking macrofinancial conditions and the probability distribution of growth prospects (IMF 2017), enables policymakers to evaluate the impact of financial conditions on the outlook for growth (Prasad and others 2019). First, a set of financial variables is partitioned into three groups specific to Dominica, which builds on the 2019 GaR analysis customized for the ECCU modified to include credit from CUs, CBI inflows, and effective lending rates (Text Table 1) in addition to bank credit. This approach provides a richer assessment of effective credit-conditions as bank credit developments are not fully representative of Dominica's credit landscape. Then, a principal component analysis (PCA) is used to extract common trends from each of the three groups to form representative measures of risk pricing, credit conditions, and external conditions, respectively, before feeding them into the quantile regression.



Sources: Country authorities and IMF staff calculations.

Text Table 1. Partition Groups

Price of Risk	Credit Aggregates	External Conditions
Average prime rate	Bank credit	global_fci
Average mortgage rate	Credit union credit	vix
	credit_gap	oil_price_yoy
	CBI	

Source: IMF staff calculations.

5. The quantile regression of Koenker and Roger (2005) is applied to predict the conditional quantiles of growth outlook across various time horizons. Quantile regressions are estimated using the following specification.

$$Y_{t+h,q} = C_{t,q}^{h} + \gamma_{y,q}^{h} Y_t + \alpha_{p,q}^{h} PR_t + \beta_{a,q}^{h} CA_t + \Phi_{f,q}^{h} EC_t + \varepsilon_{t,q}^{h}$$

Where:

Y represents the quantile (q) of the future distribution of GDP growth (y) h quarters ahead.

PR, CA, and EC are the three predictors corresponding to the price of risk, credit conditions, and external conditions, respectively.

$C_{t,q}^{h}$ and $\varepsilon_{t,q}^{h}$ are the intercept and error term, respectively.

6. Overall, quantile regression results confirm the importance of credit conditions in Dominica's growth outlook. It reveals a nonlinear relationship between financial conditions and future GDP growth, with financial indices offering insights by time horizon (Figure 1). Specifically:

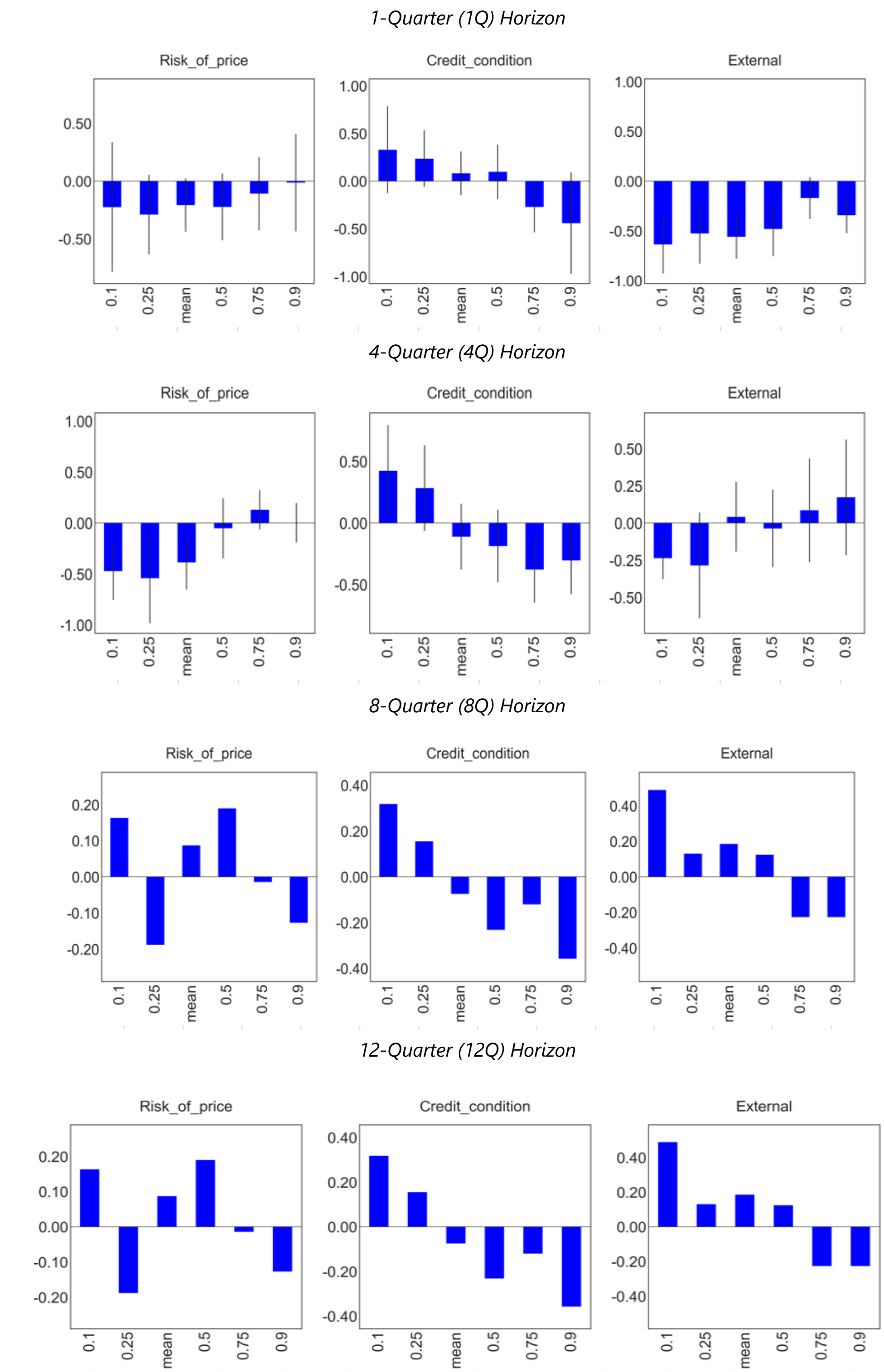
- *Credit conditions* significantly influence growth dynamics. Accommodative credit conditions signal upside risks to the outlook when the economy is growing below its potential (left of mean) but downside risks when the economy is growing above potential (right of mean), reflecting overheating risks. At the mean and middle of the distribution—which represents the economy's potential GDP growth—accommodative credit conditions signal slight upside risks to GDP growth in the near term, but downside risks over the longer term (4 quarters to 12 quarters). This result contrasts with the Brito and Komatsuzaki (2019) analysis, which finds strong downside risks to growth outlook from banks' credit. Our results appear more sensible, as conventionally credit has a positive role when growth is below potential.

- *The price of risk (e.g., lending rates)* emerges as a robust predictor for downside risks to growth over one to four quarters. A higher price of risk appears to exert a stronger impact on the outlook when the economy is growing below potential than when expanding above potential. This supports the view of asymmetries in the output response. However, its predicative power diminishes over longer horizon.

- Adverse *external conditions*, such as higher global oil price or tighter global financial conditions, are likely to have a negative impact on Dominica's economic activity, as the country is highly dependent on oil imports and the tourism industry. After four quarters or more, those effects start to diminish. Nevertheless, considerable uncertainty remains, as indicated by the wide confidence intervals around the estimates.

7. Sensitivity analysis finds that improved credit conditions boost the near-term growth outlook, albeit temporarily. Specifically, a 100-percent improvement in credit conditions is associated with a 1.3 percentage point increase in growth at the mean distribution over a one-quarter horizon, which subsides by 0.1 percentage point over four-quarters (Figure 2). Sensitivity analysis also confirms that improved credit conditions positively influence the growth outlook across quantiles in the near term (1Q) (left chart). Over the longer horizon, improved credit conditions exert positive/negative impacts on growth outlook when the economy is growing below/above potential growth (right chart). Notably, if the economy is growing below potential, the probability to achieve the same growth outlook improves with an improvement in credit conditions. Nevertheless, if the economy is overheating, the probability of achieving the same growth outlook decreases with an improvement of credit conditions.

Annex V. Figure 1. Dominica: Quantile Regressions Coefficients

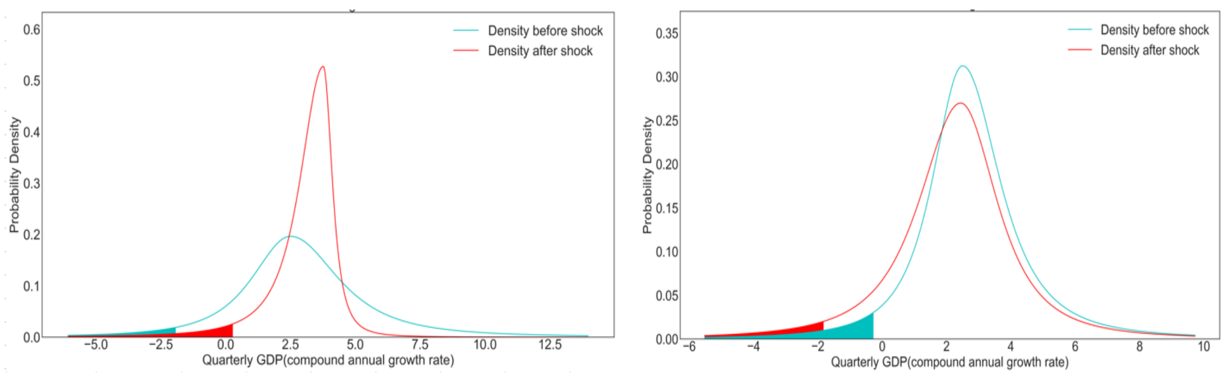


Source: IMF staff calculations.
Note: The vertical lines in the blue bars denote confidence intervals at 10 percent and, when they cross the x - axis, this signals the absence of statistical significance of the predictor.

Annex V. Figure 2. Dominica: Scenario Analysis

1-Quarter Ahead

4-Quarters Ahead



Source: IMF staff compilations.

8. These findings highlight an important role of financial intermediation in driving Dominica's growth outlook. During economic slowdowns (below potential), favorable credit conditions can spur growth, while tighter financial conditions can mitigate growth risks during periods of economic overheating. Given Dominica's pegged regime, the absence of conventional monetary policy tools highlights the importance of expediting structural reforms to ensure efficient financial intermediation that can bolster economic prospects.

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Annex VI. Macroeconomic Implications of Dominica's Energy Transition[1]

Dominica is a volcanic island transitioning towards self-sufficiency in geothermal electricity generation. A partial equilibrium framework calibrated to Dominica's case indicates substantial economic gains associated with this energy transition in terms of increasing output, reducing external imbalances, and possibly doubling potential growth in the long term.

A. Current Energy Sector Landscape and Challenges

1. Dominica's energy production framework is mostly fossil fuel-based—which imposes economic costs and exacerbates vulnerabilities—with challenges to scale up production. Current electricity demand is around 18 megawatts in a typical year, of which 70 percent is generated from fossil fuel and the rest from hydropower. The current energy mix faces several challenges (Figure 1), including:

- **High dependence on expensive fuel imports.** Fuel imports exceed 8 percent of GDP annually, of which roughly one third is used for electricity generation. And, while energy production from fuel-power generators is relatively stable, Dominica's heavy reliance on expensive fossil fuel imports translates into some of the highest energy prices globally as well as exacerbates vulnerabilities to shocks (see below). At nearly 0.23 USD per kw/h, Dominica's electricity price is more than double the average price in the United States and 50 percent more than the global average price, which affects its international competitiveness (see Annex I).

- **Exposure to oil price shocks.** Volatile global fuel prices imply volatile import bills that can complicate macroeconomic management. The variation in Dominica's fuel imports in nominal terms is historically driven by global fuel price developments (explaining around 60 percent). Furthermore, oil price shocks create pressures for populist policies (e.g., fuel subsidies) that can exacerbate already large fiscal imbalances.

- **Energy stability and scale challenges**. Hydropower is vulnerable to climate events, such as drought or landslides, while water resource constraints limit scope for expansion. Energy demand is expected to grow as lower-middle-income countries catch up with developed countries. This is particularly true in Dominica's case as the implementation of its development strategy will increase electrical needs.

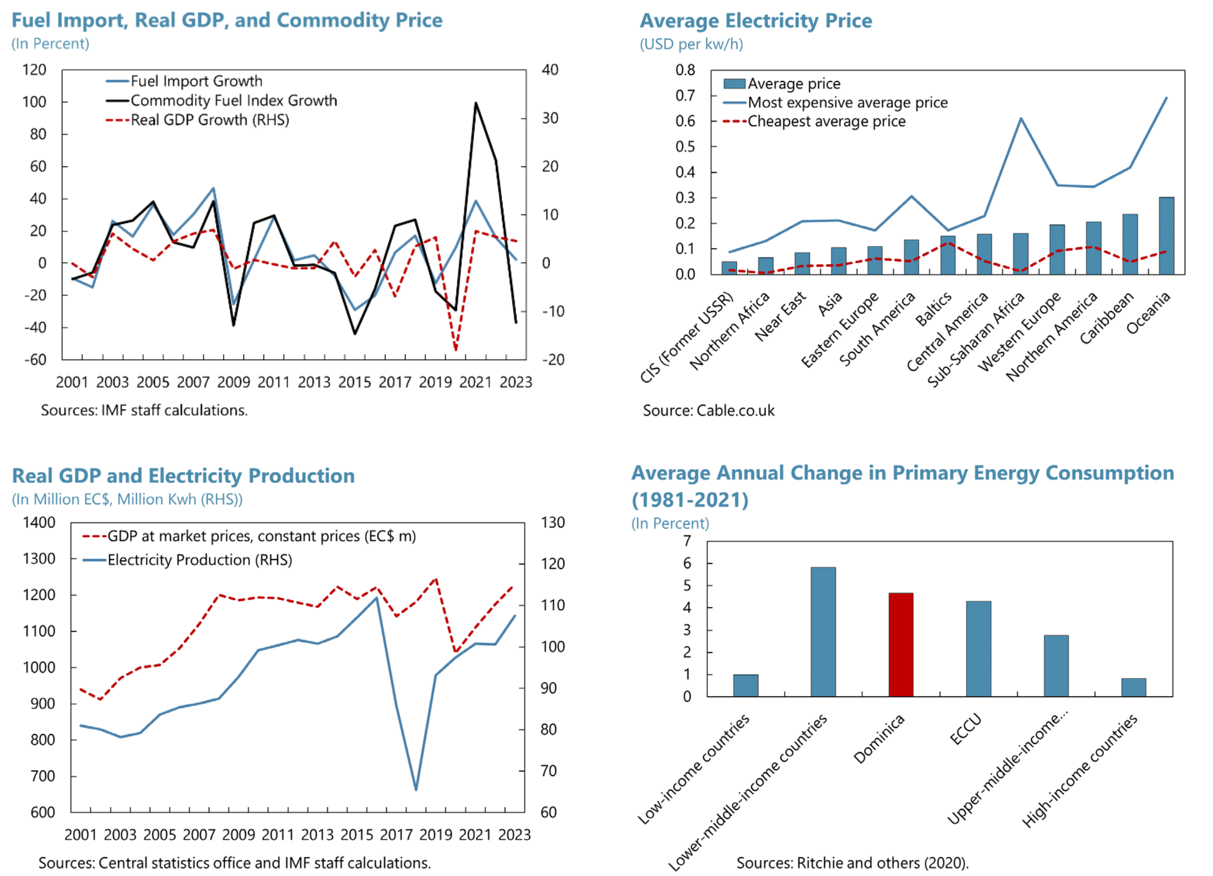
2. Dominica has begun a phased transition to a geothermal electricity generation framework to improve stability and deliver economic gains. The country has a proven abundance of geothermal energy, which can deliver a stable and self-sufficient energy source with excess capacity for regional export when fully developed. The energy transition is proceeding in three phases. The *first phase* (ongoing) includes drilling wells, fabricating a geothermal powerplant, and building-out an upgraded transmission network to supply electricity to the Roseau Valley area.[2]

[1] Prepared by S. Kilic Celik and H. Wang.

[2] Transmission lines in both phases of the project are designed to be climate resilient, including from hurricanes and other natural disasters shocks.

The project follows a build-operate-transfer model, where the private builder (which is also the operator) enters a guaranteed price arrangement with the electricity company (DOMLEC) for 25 years, after which operations and all infrastructure is transferred back to the authorities. Financing of the first phase has been secured—mostly from World Bank loans—and construction is proceeding to have the powerplant operational by early 2026. Meanwhile, the authorities are actively seeking financing for the *second phase* of the project, where additional transmission lines will be built to eventually supply electricity to the entire country from the geothermal generation hub. Given ample geothermal capacity, the authorities envision a *third phase*, where electricity is exported to nearby islands via undersea transmission lines.

Annex VI. Figure 1. Dominica's Energy Context



B. Macroeconomic Implications

3. The transition to renewables can have meaningful economic impacts. The reduced cost of electricity can boost output immediately after the transition, while lower fuel imports directly feed into the current account (CA) with the implication of reducing the CA deficit and lowering external imbalances. Over the long term, improved competitiveness and the development of new energy-intensive industries via lower input costs may lead to higher potential growth.

Near and Medium-Term Impacts of Energy Transition

4. In the short run, cheaper electricity can have a modest but immediate impact on the level of GDP. Preliminary estimates suggest that the geothermal transition could reduce the unit price of electricity by 10 to 30 percent[3], where input costs savings to downstream industries allow for a scaling up of production. The immediate economic impact of this price impulse is assessed at the sectoral level following Chailloux and others (2024) via an input-output framework.[4] This economic impact on the level of real GDP varies according to the price reduction, where a central 15-percent electricity price decrease scenario yields a 0.7 percent increase in real GDP (Table A1, Scenario B).[5] The GDP impact of a smaller or larger price reductions are symmetric ranging between 0.4 percent (Scenario A) and 1.0 percent (Scenario C) respectively.

Annex VI. Table 1. Dominica: Potential Impact on the Real GDP Level

	Scenario A (Less Optimistic)	Scenario B (Central)	Scenario C (More Optimistic)
Reduction in Electricity Cost (In Percent)	10	15	20
GDP Impact (in percent)	0.4	0.7	1

Source: Staff calculation.

5. The transition to geothermal energy would also lower fuel imports and improve external balances in the near and medium-term. Our baseline economic scenario assumes the completion of the *first phase* of the energy transition in 2026, after which roughly half of the country's electricity demand would be supplied by geothermal sources. The associated decline in fuel imports implies a structural improvement in the CA deficit of around 1 ppt of GDP relative to a hypothetical scenario without geothermal energy production (Table A2, year 2026-2030). A further ramp-up of geothermal production to 20 megawatts under the *second phase* of the transition would supply the whole country's electricity (not embedded in the current baseline), which could further improve the CA by 1 ppt of GDP from 2031 (see Table A2, last column). Potential CA gains from the energy transition in either phase would be constrained by the transportation sector's heavy reliance on fossil fuel, which accounts for roughly two-thirds of current oil imports (or nearly 5 percent of GDP). In the longer run, as Dominica becomes a regional energy exporter in the *third phase*, cheaper electricity generation may accelerate the transition to electric vehicles, thus bolstering potential CA gains further.

[3] The final electricity price is subject to many factors. Power plant operating costs, transmission and distribution system maintenance costs, storage and battery costs, as well as regulation, could all affect the final price of electricity.

[4] Implicitly we assume either linear separability of electricity in the production function, or that capital and labor can scale up accordingly. This simplified assumption is appropriate in an economy where electricity has constrained production.

[5] This analysis does not account for the possible emergence of new industries.

Annex VI. Table 2. Dominica: Potential Impact on the Current Account
(In percent of GDP)

Scenarios	2026	2027	2028	2029	2030	2031-35*
With Geothermal Project	-17.7	-15.8	-13.4	-13.3	-12.0	-10.6
Without Geothermal Project	-18.1	-16.6	-14.4	-14.3	-13.0	-12.4
Difference	0.5	0.8	1.1	1.0	1.0	1.8

Note: Assuming constant geothermal electricity production at 10 megawatts per year for the first five years, gradually phased-in the first three years.
*Assuming that the geothermal production ramps up to 20 megawatts a year starting in 2031.
Source: Staff calculation.

Long-Term Impact of Energy Transition

6. In the longer run, Dominica's energy transition can bolster productivity, leading to a prospective doubling in potential growth. Enhanced productivity from the transition stems from various channels, such as improved labor productivity (e.g., due to automation), a better allocation of capital and labor towards more energy-efficient sectors, and through economic diversification, including into new energy-intensive sectors (e.g. energy-export potential). Based on a panel data of 116 countries between 2000-2019, Chailloux and others (2024) examine the impact of energy transition on long-run productivity growth using difference-in-differences approach. Their results suggest a renewable energy transition along the lines envisioned by Dominica could increase total factor productivity (TFP) growth by 2.5 percentage points on average after 5 years, effectively doubling long term growth to 4 percent if potential TFP gains a fully realized. Like in the previous exercise, whether the economy can fully achieve its increased potential depends on many factors.[6] Structural policies to enhance financial market intermediation, strengthen the labor market, and improve business environment, should complement the energy transition to help fully transform elevated TFP growth into higher potential growth in the long run.

[6] Considerable uncertainty remains, due to data limitation, simplifying assumptions, as well as the missing general-equilibrium considerations. Future work will be focused on developing a general equilibrium model to study the impact of energy transition.

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Annex VII. Data Issues

Annex VII. Table 1. Dominica: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
C							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	C	B	C	B	C	C
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	B	C	B	C	B		
Granularity 3/	C		B	C	B		
			C		B		
Consistency			C	B		C	
Frequency and Timeliness	C	C	B	C	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Annex VII. Table 1. Dominica: Data Adequacy Assessment for Surveillance (concluded)

Rationale for staff assessment. ***Real Sector.*** GDP data are not reported quarterly and annual figures are subject to significant delays. The authorities have temporarily suspended their production of a CPI series due to technical complications from a software upgrade and outdated basket/weights. Price information compiled by the ECCB has been used in the interim. The compilation of labor force information has been suspended and an updated census is overdue, creating challenges in evaluating economic activity and identifying policy priorities. ***Fiscal Sector***. Reporting frameworks are not fully integrated, resulting in irregular data transmission with limited coverage and where data is prone to inconsistencies/subject to revision. There is scope to improve the transparency of CBI-related flows, where information is not publicly available and often comes with both significant lags and limited detail that hampers the assessment of broad fiscal trends and risks. Publicly accessible debt information is hard to find systematically, which complicates internal data verification exercises. ***External Sector.*** Capital account and financial account flows do not adequately capture CBI which obscures the underlying financing dynamics. The ECCB relies on available cash-based fiscal data on CBI flows to estimate external sector flows. These are subject to estimation and classification risks. ***Monetary and Financial Sectors***. Historical data is adequate for surveillance where the provision of information for credit unions (CUs) has improved in recent years.
Changes since the last Article IV consultation. The authorities have made progress to resume the release of CPI, which was suspended since February 2021 due to system failures in the Price Index Processor System (PIPS)). Software (CPI+) to replace PIPS was procured but the new system remains at the implementation stage. In the meantime, the Central Statistical Office (CSO) has continued its price data collection citing challenges with missing items due to supply chain disruptions. Preliminary price information has been compiled since January 2023 but is under review prior to dissemination. CARTAC capacity development (CD) is ongoing to support an early resumption of the CPI reporting (expected in 2024). A CD mission on external sector statistics was conducted in July 2023 and the recommended action plan is under review. The authorities have started to provide NPLs for CUs with delinquency over three months in addition to over twelve months. Finally, the authorities are exploring regulation to improve the dissemination of CBI investment flows to the CBI unit to improve data transparency and coverage.
Corrective actions and capacity development priorities. The mission consulted with the authorities on measures to strengthen data adequacy. CD priorities include ongoing CARTAC support to resume CPI compilation and reporting; GDP compilation; updating the Supply-Use Table (SUT) and operationalizing a Tourism Satellite Account framework; operational support to implement Balance of Payments recommendations; and engagement to resume the preparation of labor force/employment statistics. On CBI revenues, the mission advocated transparency standards in place in other ECCU jurisdictions, which include publishing CBI revenues and expenditure breakdowns as well as the number and national origin of applications in the pipeline and of issued of passports.
Use of data and/or estimates different from official statistics in the Article IV consultation. Public debt information differs from official statistics as it includes debt to Venezuela under the PetroCaribe facility (estimated as 51 million US dollars, 8.1 percent of GDP as of FY2022/23). The difference in definition stems from debt relief that the authorities contend was granted by Venezuela following recent disaster shocks, the details of which have not yet been shared with the Fund. This issue is under review pending additional information.
Other data gaps. GDP components on expenditure side, labor market data, climate data, details on CBI revenue including the number of passports issued and the origin country of the passport holders.

Annex VII. Table 2. Dominica: Data Standards Initiatives

Dominica participates in the Enhanced General Data Dissemination System (e-GDDS) and first posted its metadata in September 2000 but is yet to disseminate the data recommended under the e-GDDS.

Annex VII. Table 3. Dominica: Table of Common Indicators Required for Surveillance
(As of May 2024)

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Dominica	Expected Timeliness[6,7]	Dominica
Exchange Rates	Apr-24	May-24	M	M	D	...	NA	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Feb-24	Apr-24	M	M	M	...	1M	...
Reserve/Base Money	Feb-24	Apr-24	M	M	M	...	2M	...
Broad Money	Feb-24	Apr-24	M	M	M	...	1Q	...
Central Bank Balance Sheet	Feb-24	Apr-24	M	M	M	...	2M	...
Consolidated Balance Sheet of the Banking System	Feb-24	Apr-24	M	M	M	...	1Q	...
Interest Rates[2]	Feb-24	Apr-24	M	M	M	...	NA	...
Consumer Price Index	Dec-23	Mar-24	M	M	M	...	2M	...
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	NA	NA	NA	NA	A	...	3Q	...
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Dec-23	Jan-23	M	M	Q	...	1Q	...
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Jun-23	Nov-23	A	I	Q	...	2Q	...
External Current Account Balance	Dec-23	Apr-24	A	A	A	...	1Q	...
Exports and Imports of Goods and Services	Dec-23	Apr-24	A	A	A	...	12W	...
GDP/GNP	Dec-22	Nov-23	Q	Q	Q	...	1Q	...
Gross External Debt	Jun-23	Nov-23	A	I	Q	...	2Q	...
International Investment Position	Dec-23	Apr-24	A	A	A	...	3Q	...

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("I") irregular; and ("NA") not available.
[7] Recommended frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected.

INTERNATIONAL MONETARY FUND

DOMINICA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

May 13, 2024

Prepared By

Western Hemisphere Department
(In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2024)

Membership Status: Joined: December 12, 1978; Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	11.50	100.00
IMF's Holdings of Currency (Holdings Rate)	11.49	99.93
Reserve Tranche Position	0.01	0.08

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	18.86	100.00
Holdings	7.86	41.67

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
RCF Loans	12.74	110.78

Latest Financial Commitments:

Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF [1/]	Dec 29, 2003	Dec 28, 2006	7.69	7.69
Stand-By	Aug 28, 2002	Jan 02, 2004	3.28	2.97
SAF	Nov 26, 1986	Nov 25, 1989	2.80	2.80

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Apr 28, 2020	Apr 30, 2020	10.28	10.28
RCF	Oct 28, 2015	Nov 05, 2015	6.15	6.15
RCF	Jan 11, 2012	Jan 18, 2012	2.05	2.05

[1/] Formerly PRGF.

Overdue Obligations and Projected Payments to Fund [2/]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2024	2025	2026	2027	2028
Principal	1.23	2.26	2.06	2.06	2.06
Charges/Interest	0.34	0.45	0.45	0.45	0.45
Total	**1.57**	**2.71**	**2.51**	**2.51**	**2.51**

[2/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

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. Monetary policy and the exchange system is managed by a common central bank, the Eastern Caribbean Central Bank (ECCB), which operates like a quasi-currency board, maintaining foreign exchange backing of its currency and demand liabilities of close to 100 percent. 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(a), 3, and 4 of the IMF's Articles of Agreement. On January 1, 2024, Dominica introduced a 2 percent stamp tax on all outbound money transfers sent through money transfer companies (MTCs) under the Act to Amend the Stamp Tax. Said tax gives rise to an exchange restriction, since it applies to all outbound money transfers sent via MTCs, including payments of international current transactions, as defined under the Fund's Articles of Agreement. Dominica maintains a system free of 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 of the ECCB, finalized in August 2021, found strong external audit and financial reporting practices that continue to be aligned with international standards. All but one safeguards recommendation have been implemented, including on further improvements in the capacity of the internal audit function and risk management. The outstanding recommendation on legal reforms to align the Agreement Act with leading practices is a work in progress.

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on June 5, 2023. Dominica is on a 12-month cycle.

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

PFM Missions

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

- March 2014: Assist authorities to build capacity for new Procurement staff.
- April 2014: Assist Dominica procurement in continuing to navigate and implement action plan.
- May 2014: Finalize implementation of updated automated bank reconciliation software.
- July–August 2014: Assist in closure of 2013/14 financial year and carry forward un-reconciled bank reconciliation discrepancies.
- September 2014: Assist with planning of 2015/16 budget and develop draft budget call circulars.
- October 2014: Examine and provide recommendations to strengthen oversight and monitoring of State-Owned Enterprises.
- February 2015: Undertake a gap analysis of the Internal Audit systems.
- March 2015: Deliver presentations and hold discussions on redraft of PFM Legislation.
- March 2015: Provide TA to Budget Department with the revised budget process and develop Cabinet Decision Table.
- March 2015: Develop Concept Note for undertaking a PEFAQ in October 2015.
- August 2016: Building a PFM Action Plan following the recent PEFA.
- November 2016: PFM Legislation/Regulations Revisions.
- March 2017: Treasury Assessment.
- September 2018: Development of Stronger PFM Laws and Institutions.
- August 2021: Strengthening Internal Audit FY22 (virtual).
- September 2021: Post-Hurricane Maria PFM Review Follow Up FY22 (virtual)
- November 2021: Developing Performance Targets and KPI (virtual).
- April 2022: Developing Performance Targets and KPI (virtual).
- August 2023: Review of Treasury Function.
- October 2023: Internal Audit Support.
- March 2024: Chart of Accounts.

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.
- 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 on IRD reorganization.
- September 2013: To introduce new LTX Advisor to Senior IRD officials; liaise with STX on IRD reorganization.
- October 2013: Liaise with STX on PAYE Administration support.
- October 2013: Deliver PAYE audit training; assist with development of Audit program and procedures circulars.
- November 2013 (Virtual): 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.
- January 2020: Strengthening Post Clearance Audit in Customs.
- March 2020: COVID-19 Tax Policy Mission on Income Taxation and International Tax (virtual).
- October 2020: TADAT assessment (virtual mission).
- November 2020: Strengthening Risk Management and Audit Capacity in Customs.
- February 2021: Strengthening Risk Management and Audit Capacity in Customs.
- May 2021: Post-TADAT Implementation Plan.
- September 2021: Improving Property Tax Collections.
- October 2021: Developing Performance Targets and KPI in Customs.
- October 2021: Strengthening Treasury Operations FY22 (virtual mission).
- October 2021: Strengthening Core Business Functions- Arrears Management.
- April 2022: Strengthening Performance Management in Customs.
- 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).
- May 2023: Strengthening Reform Management and Implementation Capacity.
- October 2023: Developing a Compliance Improvement Program and Risk Based Audit Case Selection System.
- March 2024: Implementation of the Tax Revenue and Customs Knowledge Exchange and Research (TRACKER) tool to support exchange of date between tax and customs (hybrid).
- March 2024: Assist the IRD improving their VAT gap estimates (virtual).

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.
- July 2023: BOP – Enhance Data Sources.
- August 2023: GDP – Improving GDP.
- October 2023: Improving the Consumer Price Index.

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 8, 2024)

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

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

INTERNATIONAL MONETARY FUND

DOMINICA

May 13, 2024

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Ceyda Oner and Fabian Bornhorst (IMF) and Manuela Francisco and Oscar Calvo-Gonzalez (IDA)

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

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

Dominica's debt is sustainable, but the country remains at high risk of debt distress with elevated levels of public and external debt. The COVID-19 pandemic compounded preexisting debt sustainability challenges, as the economy was still recovering from back-to-back natural disasters (ND) in 2015 and 2017. Public debt peaked at 112.5 percent of GDP in 2020, declining to 103.3 percent of GDP in FY2022/23. While the baseline assumes public debt to continue to fall 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 and savings under dedicated risk management funds—Vulnerability Risk and Resilience Fund (VRF) and Debt Repayment Fund (DRF)—is needed to put public and external debt on a firm sustainable path, reducing vulnerabilities. This should be combined by reforms to expand tourism capacity and reduce energy imports, including by ensuring proper earmarking of Citizenship-by-investment (CBI) inflows. Main downside risks to the debt sustainability outlook include slower global growth and associated spillovers to tourism, further natural disaster (ND) shocks, 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 3.01 which implies a medium debt carrying capacity. The CI is calculated based on data from the October 2023 WEO and the 2022 CPIA data.

PUBLIC DEBT COVERAGE

1. Public sector debt includes central government direct and guaranteed debt of both external and domestic debt. Central government direct debt accounts for about 84 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 defining external debt on the residency or currency basis. SOE's non-guaranteed debts, which are mostly domestic and mainly from the NBD, Agricultural and Industrial Development (AID) Bank of Dominica, and DSS, are not included in the public debt stock but they are expected to be small relative to their guaranteed part.[4] Other SOEs are not permitted to borrow externally without government guarantees. It is still expected that all SOE debts (both guaranteed and non-guaranteed) 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 implemented 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 in line with the incentives provided by IDA's Sustainable Development Finance Policy (SDFP) and Development Policy Financing (DPF).

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 the authorities contend to have been granted debt relief by Venezuela, including the cancellation of debt service payments from 2018 (a pattern that may continue in the coming years). Outstanding debt to Petrocaribe is estimated at 8.1 percent of the total debt stock as of 2022.

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

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

Text Table 1. Coverage of Public Sector Debt

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

Text Table 2. Contingency Liability Calibration Table

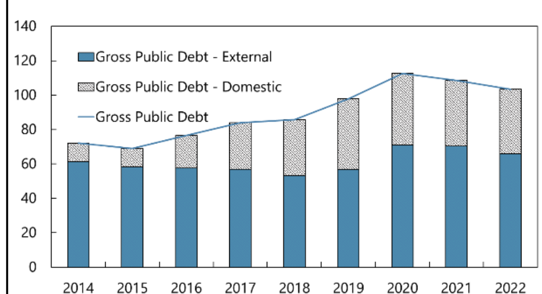
1	The country's coverage of public debt	The central government, government-guaranteed debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed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

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

BACKGROUND ON DEBT

3. Public debt has been on a declining trend after peaking during the COVID-19 pandemic and following successive ND shocks. Tropical storm Erika in 2015, hurricane Maria in 2017, and the onset of the pandemic resulted in declines in public revenue while imposing sizeable 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 70 percent of GDP in 2014–15 to 112.5 percent of GDP by 2020. The post-pandemic economic recovery alongside generally prudent fiscal management have underpinned a steady decline in public debt (103.3 percent of GDP by FY2022/23).

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

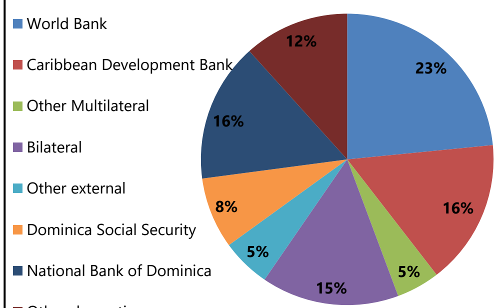


Sources: Dominica's authorities and IMF Staff calculations.

4. Gross external debt has been declining after its peak during the pandemic. Total external debt is high at 65.8 percent of GDP in FY2022/23. An increased reliance on concessional financing related to pandemic spending translated into a steep increase in the PPG external debt to 70.9 percent of GDP in 2020 that underpinned a peak in total external debt at 106.2 percent of GDP. Public external debt declined by almost 5 percent of GDP by FY2022/23. While the import bill remains elevated above long-term norms as key public infrastructure projects (e.g., international airport and geothermal plant) unfold, it does not entail higher indebtedness due to an increasing share of CBI, which was already earmarked to these projects. In fact, private external debt has declined moderately by around 6 percent of GDP to 29.2 percent of GDP in FY2022/23 compared to FY2020/21, supporting a decline in total external debt.

5. **Dominica has no access to private international financial markets and borrows mainly from official creditors.** Two thirds of Dominica's public debt is external, but more than 90 percent of it is owed to official bilateral and multilateral creditors. The World Bank is Dominica's largest creditor, holding 36 percent of the total external public debt stock (almost one-quarter of the total public debt). 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 and insurance companies and pension funds.

Text Figure 2. Composition of Public Debt
(Percent of Total, 2022)



Sources: Dominica's authorities and IMF staff calculations.

6. **Domestic financing comes primarily through direct credit from the NBD and local debt holders, mainly the DSS**. Reliance on domestic debt has begun to decline in the last three years after a larger amount of direct borrowing from the NBD FY2017/18, which coincided with hurricane Maria, and increased use of their overdraft facility, most notably in FY2018/19 when reconstruction costs were high and the level of grant financing low. As of June 2023, domestic debt accounted for 36 percent of total public sector debt.

BACKGROUND ON MACRO FORECASTS

7. **The economy is projected to continue expanding with growth converging to 2 percent in the long term as the impulse from key infrastructure investments recedes.** Annual real growth is projected to average 4.4 during 2024-25, supported by investments in key large infrastructure projects mainly financed by CBI—including the geothermal plant, a new international airport, and a variety of climate-resilient infrastructure and hotel projects—which are expected to also boost tourism's growth contribution and lead to a further improvement in the current account balance. Over the medium to long term, growth is projected to gradually slow, supported by the continued fiscal consolidation, and converge to around 2 percent (consistent with trading partner demand growth).

8. **Relative to the baseline scenario in the 2023 Article IV, while the growth profile is generally unchanged, the fiscal and external adjustment is assumed to be more gradual.** The economy is expected to expand slightly more strongly during 2025-27 reflecting newly announced climate resilient infrastructure projects and revised completion timetables for key projects, including new climate resilient infrastructure initiatives. Meanwhile, inflation has come down more quickly

than previously anticipated but is still expected to converge to 2 percent by 2025. While the fiscal outturn in 2023 is estimated to be better by one-third percent of GDP based on the latest year-to-date information, the consolidation pace will be less ambitious than anticipated reflecting the limited scope of identified reforms. Similarly, the current account deficit is projected to narrow more gradually due to the weaker growth in goods exports and higher imports.

Text Table 3. IMF Staff Projections 2024 vs. 2023

	2024 Article IV						2023 Article IV					
	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026	2027
Real GDP	5.6	4.7	4.6	4.3	3.3	2.9	5.7	4.7	4.6	4.2	2.9	2.7
Inflation (eop)	8.7	2.3	2.2	2.0	2.0	2.0	7.3	5.0	2.2	2.0	2.0	2.0
Overall fiscal balance	-7.2	-3.8	-3.4	-2.9	-2.7	-2.2	-4.0	-4.2	-3.2	-2.9	-2.4	-1.9
CBI revenue	36.6	18.0	15.4	14.5	14.5	14.5	18.0	17.0	15.0	14.0	14.0	14.0
Public capital expenditu	35.7	13.8	12.0	11.4	11.0	10.8	12.8	13.6	11.8	11.3	10.9	10.4
Current account balanc	-26.7	-33.7	-21.7	-19.8	-17.7	-15.8	-26	-25.2	-18	-15.9	-14.3	-12.8

Source: Dominican authorities, Eastern Caribbean Central Bank (ECCB), and IMF staff estimates.

9. This Debt Sustainability Analysis (DSA) builds from the baseline scenario of the June 2024 Staff Report. Specific assumptions include:

- **Real GDP.** Real GDP grew at 5.6 percent in 2022 and is estimated to have expanded by a further 4.7 percent in 2023 returning output to pre-pandemic output. The recovery has been underpinned by wholesale/retail trade, public investments in climate-resilient infrastructure, and a rebound in tourism that has been partially hindered by reduced airlift for stayover arrivals. The growth outlook is predicated on a further strengthening of the tourism sector and continued implementation of Dominica's large public investment program. The largest projects include the geothermal energy plant (expected to be completed in the next 2 to 3 years), a new airport (in the next 3 to 4 years), and resilient infrastructure works and hotel projects (to expand the room stock) with positive spillover effects on overall economic activity and competitiveness. Output growth is expected to taper to 2.4 percent by 2029 and converge to 2.0 in the longer term.

- **Inflation.** Inflation is expected to fall from its 2022 peak of 8.7 percent y-o-y to 2.3 percent y-o-y in 2023, primarily due to softening world energy prices. Inflation is expected to converge to 2 percent in the medium-term, in line with international inflation, and consistent with the fixed exchange rate under the currency board arrangement of the Eastern Caribbean Central Bank, the regional monetary authority.

- **Fiscal position.** The primary balance improved moderately by 1.3 percentage points (ppts) to a deficit 4.3 percent of GDP in FY2022/23, reflecting higher CBI revenues (up 7pp of GDP) that were mostly offset by higher capital spending. Consolidation fell short of expectations by 3.8 percent of GDP in FY2022/23 compared to the 2023 Article IV report. On the revenue side, besides the low yields from proposed measures, the implementation of a presumptive personal-income tax (PIT) has been further postponed. Costly vehicle import-duty exemptions were only partially removed and overdue tariff adjustments for water and sewerage services remain pending. On the expenditure side, the ongoing reform of public wages provides very limited medium-term savings to recurrent spending. A significant share of Dominica's ambitious capital expenditure plan (PSIP) represents spending on fragmented and poorly targeted programs that have broadened beyond original mandates.

- **CBI Revenue.** CBI revenue is projected to remain buoyant in the medium term, although declining substantially from an average of 32 percent of GDP during 2020-2022 to 14.6 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 NDs and the pandemic shock. While CBI reached 36.6 percent of GDP in FY2022/23—more than 7 percent of GDP higher than in the previous year—the FY2023/24 projection conservatively assumes a decline in CBI revenue to 18 percent of GDP.[6] CBI is expected to remain essentially earmarked to public investment, debt amortization, and the accumulation of savings.[7] .

- **Grants.** Grants are projected at 1.5 percent of GDP, in line with the historical average except for during the COVID-19 shock and natural disaster years.

- **Balance of Payments.** The current account deficit improved in 2022 to 26.7 percent of GDP, bolstered by the tourism recovery and improving terms of trade. The CA deficit has widened to 33.7 percent in 2023, as improvement in the tourism receipts fail to offset an increase in imports from the construction of large projects. In the medium term, the CA deficit is projected to converge to its estimated norm (2026-27) underpinned by the recovery of service exports in the tourism sector beyond pre-Maria levels as hotel and airlift capacity expands.

- **Financing conditions.** Dominica is expected to obtain financing from multilateral lenders and domestic borrowing (mostly to rollover existing debt). Dominica recently negotiated a US$41 million loan from the Saudi Development Fund (SDF) on concessional terms (1.5 percent interest rate, with 28 years maturity/8 years grace) to fund a priority climate-resilient infrastructure project. The DSA and the baseline framework assume a full disbursement of this loan in the next fiscal year (FY2024/25). Multilateral financing is expected to contribute the bulk of external financing in the medium term with ongoing projects to build resilience to ND and to improve fiscal institutions.[8] Official external financing is projected at 7 percent of GDP in the medium term (2024–25) and 3 percent of GDP in the longer term, and it will cover the planned public investment along with the CBI revenue. Domestic debt is issued in relatively favorable

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[6] The baseline scenario assumes a further tapering and stabilization of CBI revenues over the long-term at 14.6 percent of GDP.

[7] The government is recurrently saving a small part of CBI to its VRF but not at the frequency nor magnitude of 1½ percent of GDP/annually that was envisioned under Dominica's 2021 Disaster Resilience Strategy (DRS). A Debt Repayment Fund (DRF) is also under implementation with a target of 1.3 percent of GDP.

[8] World Bank financing in the projection period is assumed to have grace period of 10 years and maturity of 40 years, at 1.3 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.

terms.[9]. 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.[10] The DSA, and baseline macroframework, assumes that the authorities opt not to draw on their SDR allocation.

Text Table 4. Dominica: Government Financing Needs and Sources

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

	2023	2024	2025	2026	2027	2028
Gross Financing needs	**69**	**69**	**70**	**74**	**71**	**72**
Overall deficit	27	26	23	23	20	18
Primary deficit	**7**	**6**	**5**	**5**	**3**	**2**
Interest	**29**	**30**	**28**	**29**	**28**	**28**
External debt	6	6	6	5	6	7
Domestic debt	23	24	22	24	22	21
Principal repayments	**33**	**34**	**36**	**40**	**41**	**41**
External	21	19	16	11	11	11
External, new debt	0	0	0	-3	-2	-1
o.w. contracted obligations in pipeline	21	19	16	15	13	12
Domestic	12	15	20	28	29	30
Other debt creating flows (use of deposits) 1/	**-15**	**-11**	**-4**	**-2**	**-1**	**0**
Deposit stock:	**22**	**11**	**7**	**6**	**5**	**5**
Gross financing sources	**54**	**108**	**66**	**72**	**71**	**72**
External financing	**31**	**86**	**21**	**57**	**47**	**47**
Multilateral	31	45	44	42	42	44
WB	20	33	31	28	28	29
CDB	12	12	13	14	15	15
IMF	0	0	0	0	0	0
other	0	0	0	0	0	0
Bilateral	0	41	0	10	5	5
Commercial & other	0	0	-23	5	0	-2
Domestic financing	23	22	45	15	24	24

Source: IMF staff estimates.

1/ Use of government deposits from excess CBI

10. Debt dynamics have been driven by unexpected shocks (Figure 3). Back-to-back natural disasters and the pandemic resulted in a combined shock of higher-than-expected primary deficits and a sharp contraction in GDP, which translated into an increase in the debt/GDP ratio.[11] Moreover, the newly agreed loan from SDF leads to a further increase in the debt-to-GDP ratio starting from

[9] Domestic borrowing is assumed to accrue from the NBD (a majority-owned public bank). 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 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.

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

[11] The impact of low growth rates due to NDs and pandemic have been reversed by the recent recovery after the pandemic and actually has led to a no change and even lower debt-to-GDP ratio for external debt and total public debt, respectively, ceteris paribus.

2024 but justified by potential long-term economic dividends. 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 (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

Text Table 5. Calculation of CI Index

Country	Dominica
Country Code	**321**

Debt Carrying Capacity	**Medium**

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium	Medium	Medium
	3.01	2.99	3.04

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

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

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.[12] 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 tests. 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 2024. 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.[13]

EXTERNAL DSA

14. Dominica's external position is highly vulnerable. While the PV of external public debt-to-GDP is very close to the threshold established for countries with "medium" debt carrying capacity by 2024 (Figure 1), 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. Similarly, while the PV of external public debt to exports falls below the threshold throughout the projection, it goes well above the threshold in the case of a the most extreme export shock (Figure 2)[14]. While the PV of external public debt-to-GDP converges to the threshold in the medium-term and PV of debt-to-exports ratios remain below the threshold. 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. The historical scenario for the debt to exports ratios stays below the threshold until 2029 and exceeds the threshold thereafter.

15. Strong policy implementation will secure that debt service metrics are put on a downward trend and remain below the threshold for most of the projection period. Debt service to exports ratio remains below threshold from 2025 in all scenarios barring the most extreme shock, while debt service to revenue remains below the threshold for all shocks (Figures 1 and 2).

[12] The CI indicator is calculated based on data from the October 2023 WEO and the 2022 CPIA data.

[13] 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.

[14] 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.

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 2021 but decline consistently throughout the projection period. The residual is mostly explained by the use of government deposits derived from CBI revenues, 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. The baseline fiscal consolidation plan, combined with continued CBI inflows to finance public investment projects and boost external resilience and 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 and are sensitive to stress scenarios. Relative to the historical scenario, debt declines more rapidly owing to stronger growth rebound after the pandemic, driven by sustained high public investment and anticipated competitiveness and productivity gains (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, and the PV of total public-sector debt-to-GDP ratio remains close 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 VRF and DRF for self-insurance against ND and accelerated debt repayments respectively, will further cushion the financial impact of catastrophic climate events and resilience to shocks generally. Staff's recommendation to reprioritize CBI revenues towards enhancing VRF contributions and paying down debt via the DRF would further enhance debt sustainability by reducing borrowing needs following extreme climate shocks and lowering the outstanding debt stock.

21. Non-resident deposits of Dominican expats reduce rollover risk of external debt while enhancing imputed international reserves. Around 12 percent of the stock of public external debt 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, implementation of the fiscal rule, and a sustained commitment to secure 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 and accelerated debt repayments via the DRF will help protect debt service capacity and resilience to NDs and other shocks, thereby reducing the 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: (i) reducing spending in reconstruction and rehabilitation after NDs; (ii) containing output and employment losses with resilient structures; and (iii) increasing output in the long term by stimulating investment and employment (including by reducing out-migration) in the context of a more resilient and productive economy. Adherence to staff recommendations for enhancing annual contributions to the VRF as envisioned under the DRS 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 travel restrictions are imposed by other nations, reducing the value of holding a Dominican passport, which is the main incentive to acquire Dominica citizenship. CBI also has upside risk. This upside risk has materialized during 2020-22 with the receipt of unprecedented inflows of CBI revenues. The slower than expected recovery of stay-over tourism may weigh 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 the growth recovery are determined primarily by high public investment (where the airport project seeks to remove structural bottlenecks to airlift capacity). Another downside risk is NDs, which may severely damage infrastructure, compromise growth and may lead to a large increase in debt. 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.

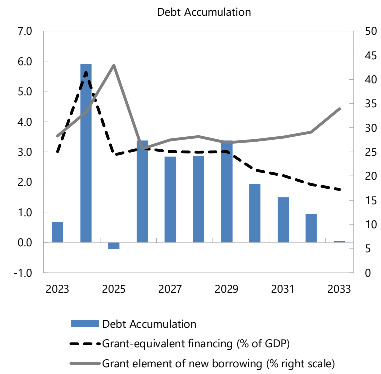
24. Increased reliance on domestic borrowing heightened risks to public debt, which could become unsustainable should risk scenarios materialize. Higher than projected reliance on domestic debt during 2018–21 has resulted in larger debt service burdens arising from domestic borrowing which underscore 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 DSS. The stress tests highlight the exposure to a catastrophic climate event as main risk, a shock that could increase debt into unsustainability, reinforcing the importance of the authorities' commitment to the fiscal consolidation plan, implementation of the fiscal rule and DRS, as well the continued commitment to seeking multilateral and bilateral financial support on concessional terms.

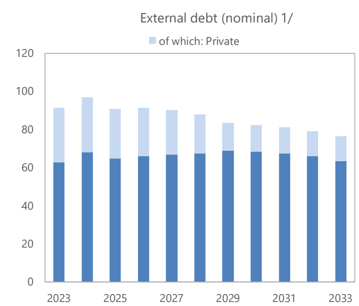
Table 1. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated) 1/

	Actual			Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	**106.2**	**86.5**	**96.0**	**91.3**	**96.7**	**90.7**	**91.2**	**90.2**	**87.6**	**76.3**	**77.4**	**91.6**	**86.3**
of which: public and publicly guaranteed (PPG)	**70.9**	**70.2**	**65.8**	**62.7**	**67.9**	**64.8**	**66.0**	**66.6**	**67.4**	**63.3**	**60.8**	**61.4**	**66.3**
Change in external debt	12.8	-19.7	9.5	-4.7	5.5	-6.0	0.5	-1.0	-2.5	-2.8	12.4		
Identified net debt-creating flows	**36.2**	**17.5**	**15.7**	**25.2**	**12.6**	**11.4**	**10.1**	**8.5**	**6.3**	**5.1**	**-7.7**	**14.3**	**9.1**
Non-interest current account deficit	**34.2**	**30.0**	**24.1**	**30.9**	**19.4**	**17.6**	**15.7**	**13.9**	**11.5**	**9.3**	**-2.1**	**20.6**	**14.3**
Deficit in balance of goods and services	38.4	33.7	28.0	33.5	23.2	21.6	19.5	17.7	15.5	14.0	17.9	**25.8**	**18.4**
Exports	18.6	20.2	27.5	27.1	32.9	35.4	35.8	36.5	37.9	35.4	54.0		
Imports	57.1	54.0	55.5	60.6	56.1	56.9	55.3	54.2	53.4	49.4	72.0		
Net current transfers (negative = inflow)	-1.2	-2.2	-2.0	-0.8	-2.2	-2.3	-2.3	-2.3	-2.3	-2.4	-4.0	**-4.9**	**-2.2**
of which: official	0.1	0.0	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1		
Other current account flows (negative = net inflow)	-3.1	-1.5	-1.8	-1.9	-1.6	-1.6	-1.5	-1.5	-1.7	-2.3	-16.0	**-0.2**	**-1.9**
Net FDI (negative = inflow)	**-4.4**	**-4.5**	**-2.9**	**-3.1**	**-4.7**	**-4.5**	**-4.4**	**-4.4**	**-4.4**	**-4.4**	**-6.1**	**-5.9**	**-4.3**
Endogenous debt dynamics 2/	**6.4**	**-8.0**	**-5.6**	**-2.5**	**-2.2**	**-1.8**	**-1.1**	**-1.0**	**-0.7**	**0.2**	**0.5**		
Contribution from nominal interest rate	1.4	1.4	1.5	1.6	1.5	1.6	1.6	1.6	1.6	2.0	2.1		
Contribution from real GDP growth	5.8	-6.0	-4.1	-4.1	-3.8	-3.4	-2.7	-2.5	-2.3	-1.8	-1.6		
Contribution from price and exchange rate changes	-0.9	-3.4	-2.9	...	...	...	...	...	...	...	...		
Residual 3/	**-23.4**	**-37.2**	**-6.2**	**-30.0**	**-7.1**	**-17.4**	**-9.7**	**-9.5**	**-8.9**	**-7.9**	**20.1**	**-12.3**	**-10.9**
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	**...**	**...**	**34.8**	**32.9**	**36.3**	**34.1**	**35.6**	**36.6**	**37.7**	**36.9**	**30.7**		
PV of PPG external debt-to-exports ratio	**...**	**...**	**126.7**	**121.5**	**110.4**	**96.4**	**99.5**	**100.5**	**99.4**	**104.2**	**56.9**		
PPG debt service-to-exports ratio	**21.8**	**21.5**	**17.7**	**17.5**	**13.0**	**10.6**	**8.5**	**7.9**	**7.2**	**6.7**	**7.2**		
PPG debt service-to-revenue ratio	**7.1**	**8.2**	**8.0**	**11.2**	**10.8**	**9.6**	**7.9**	**7.5**	**7.1**	**6.3**	**10.7**		
Gross external financing need (Million of U.S. dollars)	182.1	176.4	167.9	224.6	142.1	133.7	119.0	107.9	89.9	83.3	-37.1		
Key macroeconomic assumptions 4/													
Real GDP growth (in percent)	-5.9	6.2	5.2	4.7	4.4	3.8	3.1	2.9	2.7	2.3	2.0	**0.3**	**3.1**
GDP deflator in US dollar terms (change in percent)	0.9	3.3	3.5	3.1	2.4	2.0	2.0	2.0	2.0	2.0	-19.4	**2.3**	**2.1**
Effective interest rate (percent) 5/	1.5	1.5	1.9	1.8	1.8	1.8	1.8	1.8	1.9	2.7	2.7	**1.8**	**2.1**
Growth of exports of G&S (US dollar terms, in percent)	-51.3	19.4	47.9	6.3	29.8	13.8	6.4	6.9	9.0	3.0	3.0	**6.3**	**7.9**
Growth of imports of G&S (US dollar terms, in percent)	-30.4	3.8	11.9	18.0	-1.1	7.4	2.2	2.9	3.2	4.0	1.8	**5.1**	**4.3**
Grant element of new public sector borrowing (in percent)	...	...	...	28.2	33.2	42.9	25.6	27.4	28.1	33.9	39.0	**...**	**30.1**
Government revenues (excluding grants, in percent of GDP)	56.8	53.2	61.0	42.2	39.8	38.9	38.6	38.6	38.5	37.8	36.1	**45.2**	**38.8**
Aid flows (in Million of US dollars) 6/	13.0	32.1	9.6	10.4	52.1	11.8	12.4	13.0	13.6	16.1	14.2		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	3.0	5.6	2.9	3.1	3.0	3.0	1.7	1.7	**...**	**2.9**
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	44.4	40.5	61.4	40.2	43.5	44.5	75.1	82.2	**...**	**50.6**
Nominal GDP (Million of US dollars)	530	581	633	683	730	773	813	854	894	1,111	981		
Nominal dollar GDP growth	-5.0	9.7	8.9	7.9	7.0	5.9	5.2	5.0	4.7	4.4	-17.8	**2.7**	**5.3**
Memorandum items:													
PV of external debt 8/	...	...	65.0	61.5	65.2	60.0	60.8	60.1	58.0	49.9	47.3		
In percent of exports	...	...	236.4	226.9	198.2	169.7	169.8	165.0	152.8	140.9	87.5		
Total external debt service-to-exports ratio	24.6	23.9	19.3	19.0	14.2	11.6	9.5	8.8	8.0	7.4	8.3		
PV of PPG external debt (in Million of US dollars)			220.5	224.8	265.1	263.4	289.6	312.6	337.1	410.1	301.4		
(PVt-PVt-1)/GDPt-1 (in percent)				0.7	5.9	-0.2	3.4	2.8	2.9	0.1	-1.5		
Non-interest current account deficit that stabilizes debt ratio 9/	21.3	49.7	14.6	35.6	14.0	23.7	15.2	14.9	14.0	12.1	-14.5		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

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

Table 2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–33

(In percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio											
Baseline	33	36	34	36	37	38	39	39	39	38	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	33	37	38	**42**	**48**	**56**	**64**	**72**	**80**	**87**	**94**
A2. Catastrophic Climate Event	33	**47**	**47**	**52**	**56**	**60**	**64**	**69**	**74**	**78**	**81**
B. Bound Tests											
B1. Real GDP growth	33	**41**	**44**	**46**	**47**	**49**	**51**	**51**	**51**	**50**	**48**
B2. Primary balance	33	**44**	**50**	**52**	**53**	**54**	**56**	**56**	**56**	**55**	**54**
B3. Exports	33	**49**	**66**	**67**	**68**	**69**	**71**	**71**	**70**	**69**	**67**
B4. Other flows 3/	33	**41**	**44**	**45**	**46**	**47**	**49**	**49**	**49**	**48**	**46**
B5. Depreciation	33	**46**	37	39	**40**	**42**	**44**	**44**	**44**	**43**	**41**
B6. Combination of B1-B5	33	**53**	**54**	**55**	**57**	**58**	**60**	**60**	**60**	**59**	**57**
C. Tailored Tests											
C1. Combined contingent liabilities	33	**43**	**40**	**42**	**43**	**44**	**46**	**46**	**45**	**45**	**43**
C2. Natural disaster	33	**44**	**42**	**44**	**46**	**47**	**49**	**50**	**50**	**50**	**48**
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	121	110	96	100	100	99	105	107	108	107	104
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	121	114	106	118	132	147	172	**195**	**220**	**243**	**265**
A2. Catastrophic Climate Event	121	159	127	142	151	155	171	**188**	**204**	**218**	**229**
B. Bound Tests											
B1. Real GDP growth	121	110	96	100	100	99	105	107	108	107	104
B2. Primary balance	121	135	142	144	145	142	149	151	153	153	151
B3. Exports	121	**249**	**463**	**467**	**464**	**452**	**469**	**476**	**480**	**480**	**473**
B4. Other flows 3/	121	126	124	127	127	125	131	133	134	133	131
B5. Depreciation	121	110	83	87	88	87	93	95	96	95	92
B6. Combination of B1-B5	121	**203**	120	**225**	**225**	**221**	**232**	**236**	**238**	**237**	**232**
C. Tailored Tests											
C1. Combined contingent liabilities	121	129	114	117	117	116	122	124	125	125	122
C2. Natural disaster	121	136	121	125	127	126	133	137	139	140	138
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	17	13	11	9	8	7	7	7	7	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	**14**	**11**	9	9	9	9	10	11	11	12
A2. Catastrophic Climate Event	17	**16**	**11**	9	9	8	8	10	11	11	13
B. Bound Tests											
B1. Real GDP growth	17	**13**	**11**	9	8	7	7	7	7	6	7
B2. Primary balance	17	**13**	**11**	10	9	8	8	8	8	7	8
B3. Exports	17	**23**	**32**	**30**	**29**	**26**	**26**	**25**	**25**	**22**	**25**
B4. Other flows 3/	17	**13**	**11**	10	9	8	8	8	8	7	8
B5. Depreciation	17	**13**	**11**	8	7	7	7	7	6	5	6
B6. Combination of B1-B5	17	**19**	**21**	**17**	**16**	**15**	**14**	**14**	**14**	**12**	**14**
C. Tailored Tests											
C1. Combined contingent liabilities	17	**13**	**11**	9	8	8	8	7	7	6	7
C2. Natural disaster	17	**13**	**12**	9	9	8	8	8	8	7	8
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	11	11	10	8	7	7	7	7	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	11	10	9	9	9	9	10	10	10	12
A2. Catastrophic Climate Event	11	12	11	9	9	8	8	9	10	10	12
B. Bound Tests	11	12	11	9	9	8	8	9	10	10	12
B1. Real GDP growth	11	12	12	10	10	9	9	9	8	7	8
B2. Primary balance	11	11	10	9	9	8	8	8	8	7	7
B3. Exports	11	11	12	11	11	10	10	10	10	9	9
B4. Other flows 3/	11	11	10	9	8	8	8	8	7	6	7
B5. Depreciation	11	14	12	9	9	8	8	8	8	6	7
B6. Combination of B1-B5	11	12	13	11	10	10	10	9	9	8	9
C. Tailored Tests											
C1. Combined contingent liabilities	11	11	10	8	8	8	7	7	7	6	7
C2. Natural disaster	11	11	10	8	8	8	8	7	7	6	7
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)	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8

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

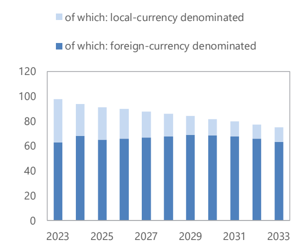
Table 3. Dominica: Public Sector Debt Sustainability Framework, 2020–43

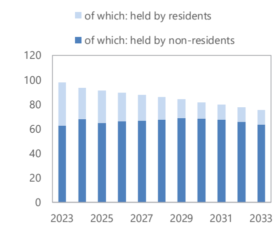
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	**112.5**	**108.5**	**103.3**	**97.7**	**93.6**	**91.1**	**89.6**	**87.8**	**86.0**	**75.2**	**85.2**	**87.2**	**85.8**
of which: external debt	**70.9**	**70.2**	**65.8**	**62.7**	**67.9**	**64.8**	**66.0**	**66.6**	**67.4**	**63.3**	**60.8**	**61.4**	**66.3**
Change in public sector debt	14.8	-4.0	-5.2	-5.6	-4.1	-2.5	-1.5	-1.9	-1.7	-2.2	12.1		
Identified debt-creating flows 2/	**11.8**	**-3.1**	**-3.3**	**-3.5**	**-2.6**	**-2.2**	**-1.5**	**-1.8**	**-1.8**	**-2.2**	**12.1**	**0.9**	**-2.2**
Primary deficit	**5.4**	**5.6**	**4.3**	**-0.4**	**-0.7**	**-0.8**	**-0.9**	**-1.1**	**-1.2**	**-2.2**	**-1.9**	**1.8**	**-1.4**
Revenue and grants	59.2	58.8	62.6	43.7	41.3	40.4	40.1	40.2	40.0	39.3	37.5	**47.7**	**40.3**
of which: grants	2.4	5.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4		
Primary (noninterest) expenditure	64.6	64.4	66.9	43.2	40.6	39.6	39.2	39.0	38.8	37.0	35.6	**49.5**	**38.9**
Automatic debt dynamics	**6.4**	**-8.7**	**-7.6**	**-3.0**	**-1.9**	**-1.4**	**-0.6**	**-0.7**	**-0.5**	**0.0**	**14.0**		
Contribution from interest rate/growth differential	6.2	-9.5	-9.8	-3.3	-1.7	-1.2	-0.5	-0.7	-0.5	0.0	0.5		
of which: contribution from average real interest rate	0.1	-2.9	-4.4	1.3	2.5	2.2	2.2	1.9	1.8	1.8	2.0		
of which: contribution from real GDP growth	6.1	-6.6	-5.3	-4.6	-4.1	-3.4	-2.7	-2.5	-2.3	-1.8	-1.4		
Contribution from real exchange rate depreciation	0.2	0.8	2.2	...	...	...	...	...	...	...	...		
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/	**2.9**	**-0.9**	**-1.9**	**-1.8**	**-1.7**	**-0.5**	**-0.1**	**-0.1**	**0.0**	**0.0**	**13.5**	**4.1**	**-0.3**
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	**...**	**...**	**72.2**	**67.9**	**62.0**	**60.4**	**59.2**	**57.7**	**56.4**	48.8	55.1		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**115.5**	**155.4**	**150.1**	**149.4**	**147.4**	**143.8**	**140.8**	**124.2**	**146.7**		
Debt service-to-revenue and grants ratio 5/	**10.2**	**-7.3**	**12.3**	**21.6**	**22.1**	**16.6**	**16.5**	**14.7**	**13.5**	**9.3**	**26.1**		
Gross financing need 6/	11.4	1.3	12.0	9.0	8.4	5.9	5.7	4.8	`	1.4	7.9		
Key macroeconomic and fiscal assumptions 7/													
Real GDP growth (in percent)	-5.9	6.2	5.2	4.7	4.4	3.8	3.1	2.9	2.7	2.3	2.0	**0.3**	**3.1**
Average nominal interest rate on external debt (in percent)	1.5	1.5	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.8	2.4	**1.8**	**2.2**
Average real interest rate on domestic debt (in percent)	-0.1	-2.4	-2.8	6.4	7.6	8.2	8.6	8.0	8.3	11.1	8.2	**-1.0**	**8.8**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.4	1.3	3.4	...	...	...	...	...	...	...	...	**0.1**	**...**
Inflation rate (GDP deflator, in percent)	0.9	3.3	3.5	3.1	2.4	2.0	2.0	2.0	2.0	2.0	2.3	**2.3**	**2.1**
Growth of real primary spending (deflated by GDP deflator, in percent)	32.7	5.8	9.3	-32.3	-2.0	1.3	2.0	2.5	2.0	2.2	1.7	**9.2**	**-1.7**
Primary deficit that stabilizes the debt-to-GDP ratio 8/	-9.4	9.6	9.5	5.1	3.3	1.7	0.6	0.7	0.5	0.0	-14.0	**3.2**	**1.2**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

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

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

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

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

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

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

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

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

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

Table 4. Dominica: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33

(In percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	68	62	60	59	58	56	55	53	51	50	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	68	67	69	72	74	76	78	81	84	87	90
A2. Catastrophic Climate Event	68	78	80	81	81	78	73	71	69	68	66
B. Bound Tests											
B1. Real GDP growth	68	75	92	100	107	114	120	126	133	140	147
B2. Primary balance	68	71	79	77	76	74	73	71	69	68	66
B3. Exports	68	72	86	84	83	81	79	77	76	74	73
B4. Other flows 3/	68	67	70	69	67	66	64	62	61	59	58
B5. Depreciation	68	66	61	57	53	49	45	41	38	34	31
B6. Combination of B1-B5	68	70	72	67	66	65	63	61	60	58	57
C. Tailored Tests											
C1. Combined contingent liabilities	68	69	67	66	65	63	61	60	58	57	55
C2. Natural disaster	68	71	70	69	68	67	66	64	63	62	61
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	155	150	149	147	144	141	137	134	131	127	124
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	155	161	170	178	183	189	196	204	211	219	228
A2. Catastrophic Climate Event	155	240	226	217	211	200	182	179	176	172	169
B. Bound Tests											
B1. Real GDP growth	155	182	226	245	262	281	298	317	335	352	370
B2. Primary balance	155	172	195	193	189	186	182	179	176	172	169
B3. Exports	155	174	213	210	206	203	199	196	193	189	186
B4. Other flows 3/	155	162	174	172	168	165	161	158	155	151	148
B5. Depreciation	155	160	152	143	133	124	114	105	96	88	79
B6. Combination of B1-B5	155	170	178	167	164	161	158	155	152	148	145
C. Tailored Tests											
C1. Combined contingent liabilities	155	167	167	165	161	158	154	151	148	144	141
C2. Natural disaster	155	173	173	172	169	167	165	163	161	158	156
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	22	22	17	16	15	13	12	12	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	22	23	18	18	17	16	15	15	13	12	14
A2. Catastrophic Climate Event	22	31	21	20	17	15	13	13	11	10	11
B. Bound Tests											
B1. Real GDP growth	22	25	22	22	21	20	19	20	18	17	19
B2. Primary balance	22	22	18	18	16	15	13	14	12	10	11
B3. Exports	22	22	17	19	17	16	14	14	12	11	11
B4. Other flows 3/	22	22	17	17	16	14	13	13	11	10	10
B5. Depreciation	22	22	19	18	16	14	13	12	10	9	9
B6. Combination of B1-B5	22	22	18	18	16	15	13	13	11	10	11
C. Tailored Tests											
C1. Combined contingent liabilities	22	22	17	17	15	14	12	12	11	9	10
C2. Natural disaster	22	22	18	18	16	15	13	13	11	10	10
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	9.4	9.1	6.7	6.6	5.9	5.4	4.6	4.7	3.9	3.4	3.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	10	7	7	7	6	6	6	5	5	5
A2. Catastrophic Climate Event	9	10	8	7	7	6	5	5	4	4	4
B. Bound Tests											
B1. Real GDP growth	9	10	9	9	8	8	8	8	7	7	7
B2. Primary balance	9	9	7	7	7	6	5	5	5	4	4
B3. Exports	9	9	7	8	7	6	6	6	5	4	4
B4. Other flows 3/	9	9	7	7	6	6	5	5	4	4	4
B5. Depreciation	9	9	8	7	6	6	5	5	4	3	4
B6. Combination of B1-B5	9	9	7	7	6	6	5	5	4	4	4
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	7	7	6	6	5	5	4	4	4
C2. Natural disaster	9	9	7	7	6	6	5	5	4	4	4
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, 2023–33

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	2.7%	2.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	9	9

* 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.

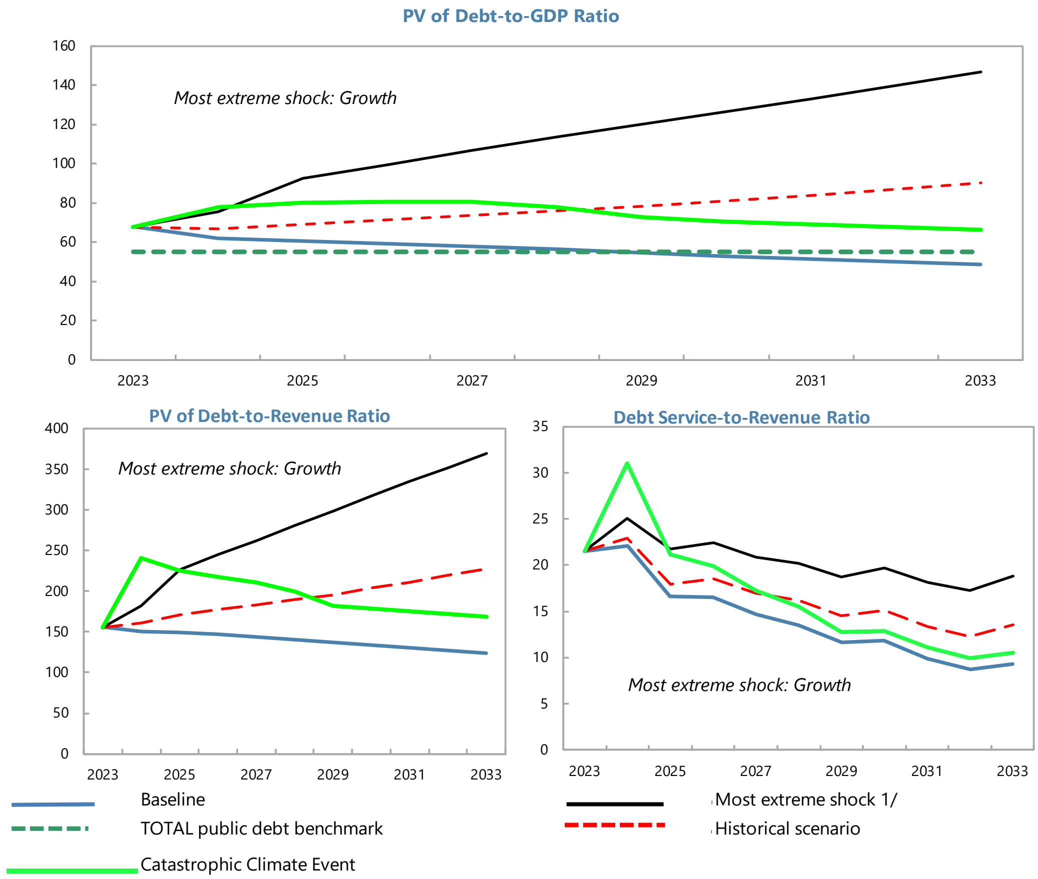
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. 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, 2023–33



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	68%	90%
Domestic medium and long-term	32%	10%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.7%	2.5%
Avg. maturity (incl. grace period)	35	15
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	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%

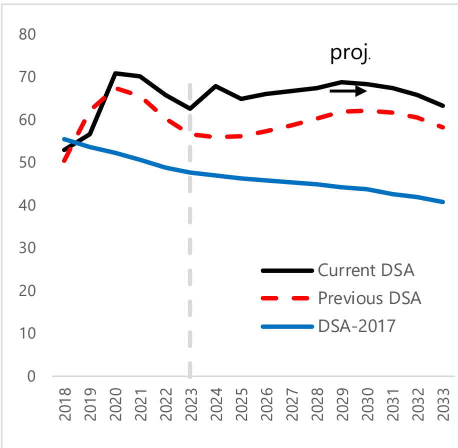
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

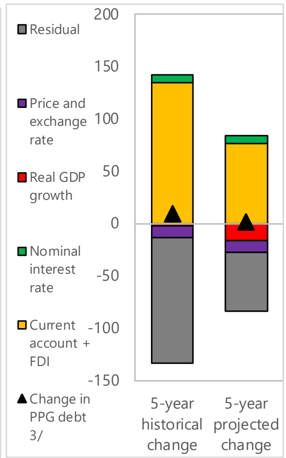
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock 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

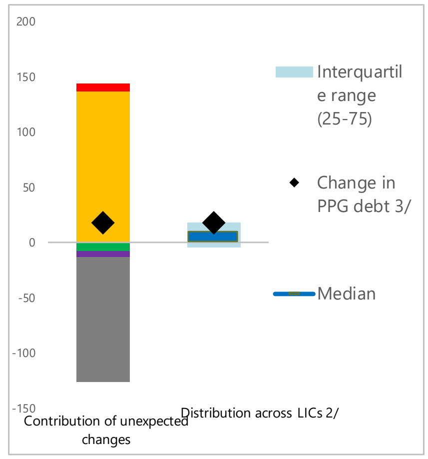
Gross Nominal PPG External Debt
(In Percent of GDP; DSA Vintages)



Debt-Creating Flows
(Percent of GDP)

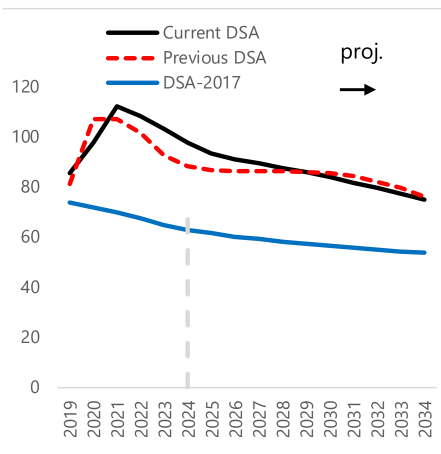


Unexpected Changes in Debt 1/
(Past 5 years, Percent of GDP)

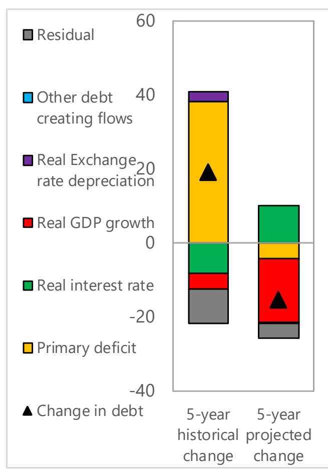


Public debt

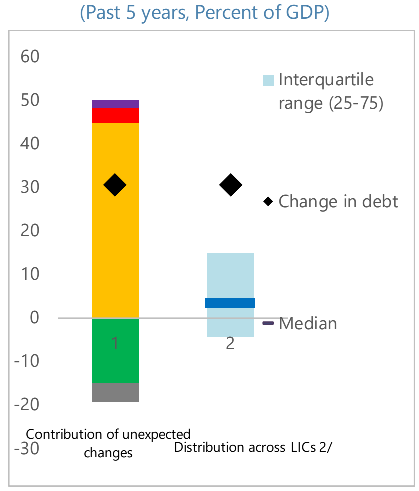
Gross Nominal Public Debt
(In Percent of GDP; DSA Vintages)



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.

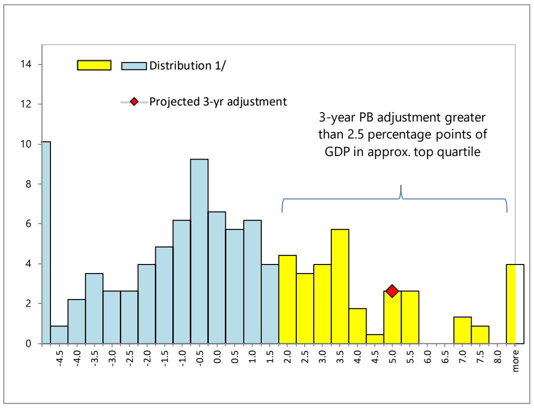
1/ Difference between anticipated and actual contributions on debt ratios.

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.

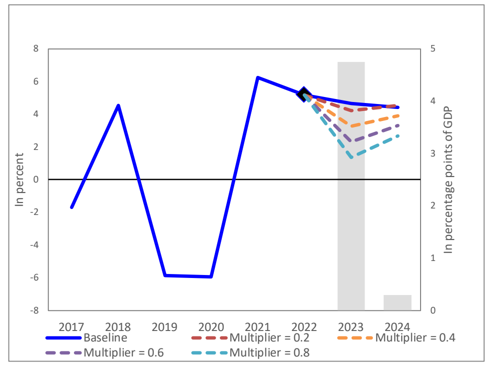
Figure 4. Dominica: Realism Tools

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



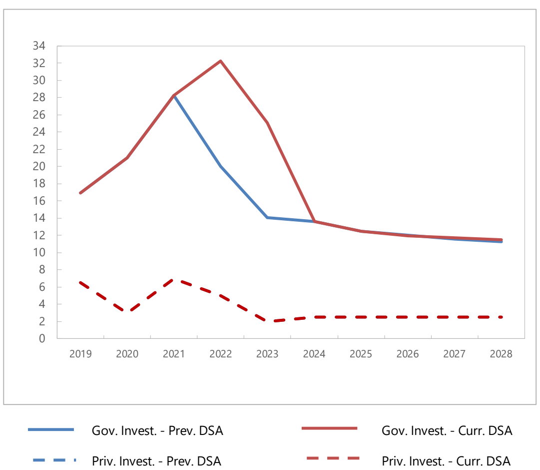
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

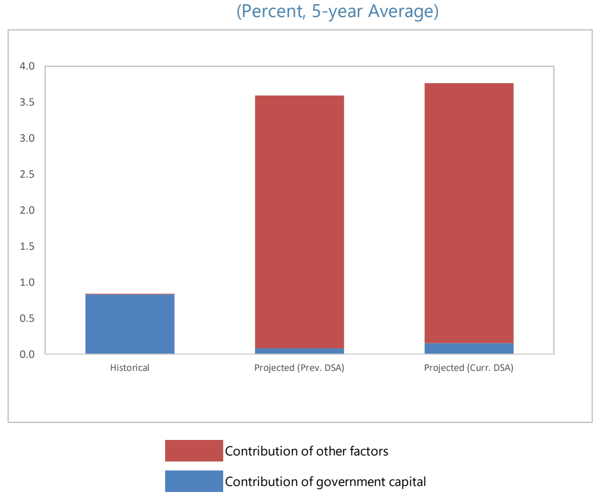


1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

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.

Statement by Mr. Philip Jennings, Ms. Gina Fitzgerald, and Ms. Sylvia Gumbs on Dominica
May 31, 2024

On behalf of our Dominican authorities, we thank Mr. Christopher Faircloth and his team for the constructive engagement during the Article IV consultations. **Our authorities value staff's advice and broadly concur with the thrust of the appraisal and policy recommendations**.

Dominica is a small open economy that is particularly vulnerable to climate change, natural disasters, and other exogenous shocks. Destruction of key infrastructure in recent years by extreme weather events has had severe economic and social impacts. These impacts were exacerbated by the effects of the pandemic and more recently, Russia's war in Ukraine and the Israel/Gaza conflict. Dominica is committed to take action to heighten the country's resilience to external shocks, ensure economic stability and become the world's first climate resilient nation. Our authorities' macroeconomic policies target sustainable economic growth by maintaining financial stability while strengthening social safety nets.

Recent Economic Developments, Outlook, and Risks

Dominica's economy made a robust recovery from multiple external shocks, including natural disasters and the pandemic. At an estimated 4.7 percent in 2023, growth rebounded to pre-pandemic levels following a real GDP increase of 5.6 percent in 2022. The economic rebound was mainly driven by wholesale/retail trade, large-scale public investment projects, and recovery in the tourism and agriculture sectors. The economy is expected to further expand by 4.6 percent in 2024 then converge to 2 percent in the long-term as the impact of significant infrastructure investments wanes. It is anticipated that the projected growth path will be buoyed by investments in agriculture and construction of major infrastructure projects such as a geothermal production plant, an international airport, and other climate-resilient projects including hotels and schools. High imports associated with the construction of sizeable infrastructure projects contributed to a widening of the current account deficit to 33.7 percent of GDP in 2023. The current account deficit is, however, expected to steadily narrow in subsequent years, reaching 15.8 percent of GDP by 2027 supported by continued growth in the tourism sector.

Inflation in Dominica is driven by fluctuations in world commodity prices. Inflation fell from a high of 9.75 percent during 2022 to 2.25 percent in 2023 and is expected to converge to 2 percent in the medium-term. While fuel and core price inflation declined significantly due to reduced energy costs and stabilization in the prices of essential goods, food inflation remained elevated.

The ongoing economic recovery and sustained fiscal consolidation will set public debt on a downward trajectory but the outlook is subject to risks. Aided by initiatives to mobilize revenue and flows from the Citizenship by Investment (CBI) program, public sector debt is expected to fall from 103.3 percent of GDP in 2022 to 89.6 percent by 2028. As a small island developing state, Dominica's economy is highly susceptible to global economic instability drivers and climate change shocks. The uncertainty of CBI flows, a vital source of revenue for the country, also presents a significant downside risk to economic stability. Our authorities acknowledge the downside risks and are prepared to continue to implement measures to mitigate them. On the upside, economic dividends from the completion of development projects such as the geothermal plant, a new international airport, hotels, a marina, and initiatives to support the agriculture sector are likely to stimulate growth beyond the projected 2 percent and boost economic development and diversification.

Safeguarding Fiscal Sustainability and Rebuilding Buffers

Our authorities agreed on the need for further fiscal consolidation to rebuild buffers, safeguard fiscal sustainability and ensure compliance with legislated fiscal responsibility rules. They acknowledge the importance of rebuilding fiscal buffers to manage potential shocks, including from reduced CBI revenue streams, and appreciate the package of consolidation measures as put forward for their consideration, including broadening the revenue base, optimizing spending and prioritizing investments with economic returns. Our authorities intend to further enhance the medium-term fiscal framework by implementing measures to mobilize additional revenue and streamline expenditure. Now that the economy has recovered and fuel prices have stabilized, our authorities are open to easing fiscal relief measures that were introduced during the pandemic. They will consider the reintroduction of the VAT on the fuel surcharge and align the excise tax for diesel with that for gasoline. Our authorities note the recent exchange restriction assessment under Article VIII of the Fund's Agreement and the recommendation for the new stamp duty on outgoing money transfers to be repealed. They are desirous of remaining compliant with their obligations under the Fund's Agreement and will thoroughly deliberate on the issue now that they have been made aware of the restriction.

Measures to further tighten the fiscal stance by reducing spending are underway. Our authorities have initiated the process of rationalizing transfers to SOEs and instituting cost recovery policies for services provided by public sector entities, including the hospital and water company. They have announced a new water guarantee charge that will take effect from June 1, 2024 as a measure to raise revenue to adequately maintain the operations of the water company. They are committed to continue streamlining expenditure for goods and services and strengthen social protection programs. They agree that social spending could be better targeted and see merit in having a centralized database management system to enhance the efficiency of social safety net program reforms. Our authorities acknowledge that the mandate of the National Employment Program (NEP), originally designed as a skills training program, has evolved and view the program as an important national tool to combat poverty and crime and enhance social cohesion. They have committed to strengthening the management of the program and expect that the recently commissioned audit of the program will guide the way forward. On the pension system, our authorities remain committed to addressing the sustainability challenges and are in the process of reviewing various options, including a possible alignment of the retirement age to ensure long-term viability.

Strengthening Financial System Balance Sheets and Intermediation

Strengthening the financial sector remains a priority. Our authorities see value in taking action to minimize balance sheet risks and enhance oversight of the financial sector, with a particular focus on non-bank financial institutions (NBFIs), especially credit unions. They see the need to strengthen risk-based supervision of NBFIs and ensure capital adequacy of credit unions. Our authorities emphasize that the Financial Services Unit (FSU) operates as an autonomous unit in practice and as such do not see the need to grant the FSU statutory independence. They see merit in the establishment of common minimum regulatory standards for NBFIs and would welcome the launch of the Eastern Caribbean Currency Union Regional Standards Setting Body.

The need to address structural barriers to financial intermediation are acknowledged. While private sector credit growth continues to be driven by credit unions, our authorities stress that banks' exposure to the public sector stems from legacy loans and has been declining. They emphasize that the issue is not one of insufficient liquidity in the banking system but one where the private sector, especially MSMEs, requires guidance to overcome structural constraints. Our authorities support initiatives such as the regional credit bureau and the Eastern Caribbean Partial Credit Guarantee Corporation that should help MSMEs access finance and overcome impediments to obtaining necessary funding.

Our authorities are committed to improve AML/CFT and CBI program frameworks to limit risks to the financial system. Dominica has made substantial progress in strengthening its AML/CFT framework by implementing legislative and regulatory changes, building staff capacity and improving domestic cooperation. Our authorities proactively enacted Virtual Assets legislation despite the fact that, at this point, no digital assets businesses are allowed to operate in the country. They have established a working group and continue to implement the recommendations from the recently concluded CFATF Mutual Evaluation. The CBI program is an integral component of Dominica's development plans and climate resilience strategy. To address international concerns about the program, our authorities implemented new CBI regulations and signed a Memorandum of Agreement with three other countries in the region that have CBI programs. The undertakings in the agreement are geared towards strengthening the program and preserving its integrity.

Structural Reforms to Boost Sustainable, Inclusive, and Resilient Growth

Efforts to advance Dominica's resilience to climate change are ongoing. Given the frequency and intensity of natural disasters, our authorities formulated and are implementing a Climate Resilience and Recovery Plan (CRRP) which features the development of climate resilient infrastructure including roads, bridges, water systems, houses, schools, emergency shelters and medical facilities. The CRRP is supported by a financial resilience program which entails the build out of a Vulnerability Risk and Resilience Fund (VRRF) and participating in insurance packages offered by international and regional partners. The VRRF will serve as a form of self-insurance to financially support recovery efforts following a natural disaster.

Significant progress is being made with transitioning to renewable energy. The construction of a geothermal energy production plant is expected to be completed within the coming year and become operational by early 2026. At that time, with the initial transmission capacity, the plant will supply approximately half of the country with renewable energy which will complement the existing hydropower system. Financing is required to build additional transmission lines to supply the entire country with electricity from the plant. The transition to renewable energy will positively impact economic development, reducing dependence on fuel imports and enhancing external balances.

The pursuit of policies to improve the business environment remains a priority. Our authorities have demonstrated their commitment in this regard by establishing sixteen innovation hubs around the country to enhance government services delivery and provide training in digital technology. They are also devising policies to encourage the growth and integration of key sectors, particularly tourism and agriculture, by implementing agricultural programs aimed at strengthening climate resilient practices and promoting youth participation. Our authorities are cognizant of the labor market challenges, especially skilled workers emigration and mismatches in skills and competencies, and will prioritize educational reform to address these issues.

Institutional Strengthening

Our authorities welcome capacity support to strengthen institutional frameworks. They value ongoing technical assistance from CARTAC to help the Central Statistical Office (CSO) enhance real sector data adequacy and will advance efforts aimed at closing data gaps to better inform policy advice. They also intend to seek capacity development support to strengthen PFM practices and enhance the FSU's capacity.

Concluding Remarks

Our Dominican authorities are committed to implementing sound policies that foster sustainable, inclusive economic growth. They deeply value the engagement with the Fund and express gratitude for the Fund's past and ongoing support during challenging times, including assistance with developing a Disaster Resilience Strategy, which has proved immensely beneficial given capacity constraints.