INTERNATIONAL MONETARY FUND

IMF Country Report No. 17/391

DOMINICA

December 2017

2017 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

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 2017 Article IV consultation with Dominica, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on March 21, 2017, 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 April 27, 2017.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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

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December 20, 2017

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IMF Executive Board Concludes 2017 Article IV Consultation with Dominica

On May 12, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Dominica, and considered and endorsed the staff appraisal without a meeting[2].

The recovery from Tropical Storm Erika (August 2015) has been slower than anticipated, with output growth of 1 percent in 2016, dragged down by a storm-related decline in manufacturing. Moreover, capacity constraints and unfavorable weather slowed public investment more than anticipated. Despite ample liquidity, bank credit to the private sector remains weak, although this is in part relieved by growing lending by credit unions.

Growth is projected to accelerate to above 3 percent in 2017-18 on the back of a pickup in public investment and several large-scale private projects with citizenship-by-investment (CBI) and grant financing, and to stabilize at a potential rate of 1.5 percent over the medium term. The external current account deficit is projected to widen due to the increase in imports of goods and services with the increase in investment, and then to gradually improve as agriculture, tourism and manufacturing recover, and geothermal electricity generation reduces oil imports.

Despite high CBI revenues, the fiscal outlook has deteriorated largely due to lower projected grant revenues, a downward revision in the projected yields of the fiscal consolidation measures, an increase in social transfers and the reduction of the corporate income tax rate in January 2016. As a result, reaching the regional debt target of 60 percent of GDP by 2030

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

without increasing the fiscal consolidation effort above the commitments in the RCF disbursement would require the use of government deposits for debt reduction.

Executive Board Assessment[3]

Economic activity in 2016 was weak, but is expected to pick up this year on the back of public investment and several large-scale private projects now in execution. The recovery from tropical storm Erika has been slower than anticipated, mainly because grants have been much lower than expected and capacity constraints have slowed down the execution of public infrastructure reconstruction efforts. However, most sectors are now on a recovery path, including tourism, agriculture, and construction. Public investment has picked up, with large CBI revenues offsetting the shortfall in grants; and large-scale investment projects in execution are boosting demand in the near term. As a result, growth is projected above 3 percent in 2017 and 2018. However, the outlook remains subject to significant risks, mainly from recurrent natural disasters, delays in reconstruction and public investment affected by capacity constraints and uncertain sources of grant and CBI financing, and natural disasters. Weaknesses in the financial sector will continue to pose risks to financial stability and weigh on credit and growth.

The priorities facing the authorities are to maintain momentum with the reconstruction program while ensuring that the public finances are put on a sustainable footing. The government should continue to focus on implementing the fiscal consolidation plan committed to at the time of the RCF disbursement aimed at reducing debt to 60 percent of GDP by 2030. This adjustment of over 6 percent of GDP includes public wage restraint, reduction of tax incentives, and the gradual unwinding of storm-related spending on reconstruction, goods and services, and social assistance. The increase in CBI revenues, which eases financing pressures in the near-term, should not detract from the resolute implementation of the consolidation plan, which should target reductions in the underlying primary balance (i.e., excluding CBI revenues, grants, and storm-related spending).

Low donor grants and unpredictable CBI revenues require prudence in fiscal management to ensure sufficient financing for reconstruction with fiscal sustainability. It is thus important to avoid the allocation of CBI flows to recurrent spending, which would be relatively difficult to reverse. Rather, the scope to the VF for natural disasters should be broadened to include also a saving sub-fund of CBI resources earmarked for debt reduction and public investment. Given the several sources of uncertainty, including the sustainability of CBI flows, the government should consider contingent fiscal measures to create fiscal space for reconstruction and further strengthen the fiscal sustainability outlook.

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[3] 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.

Improving fiscal institutions, in line with recent Fund TA advice, should also be a priority. The budget process should be strengthened to make it the key instrument for medium-term fiscal planning, and the introduction of fiscal rules within a formal fiscal responsibility legal framework could provide a commitment mechanism to support the fiscal consolidation effort. A formal framework to set a limit on tax incentives, and to limit the scope of discretional tax concessions would also be beneficial and could provide additional savings. Given that these reforms are complex, early preparation is crucial for a timely implementation.

Strengthening financial sector institutions is critical to enhance financial stability and facilitating a return to lending by the banks. Further action is needed to clean up bank balance sheets by reducing still-high NPLs and increasing bank capital. Toward this end, the ECAMC should be made operational as soon as possible to facilitate removal of NPLs from bank balance sheets. The government should also seek to eliminate the ECCB's MSR, which reduces banks' profitability and delays progress on NPL reduction. Vulnerabilities in the credit union sector, which is systemically important, and suffers from high NPLs and low capitalization, should also be addressed. In particular, the authorities need to move quickly to strengthen supervision and regulatory powers of the FSU and to move ahead with the regional credit union legislation that has been pending for some time. Credit by public financial institutions should be better targeted to address missing or incomplete credit markets, in line with national development objectives. The initiative to establish a credit bureau is welcome, which should facilitate access to credit. Furthermore, a review of the legislation aimed at strengthening the enforcement of loan contracts could counterbalance the increase in banks' risk aversion in recent years.

Lowering the risk of withdrawal of CBRs is critical to support investment and sustain growth**.** Notwithstanding the significant progress made to strengthen AML/CFT legislation closer to international standards in recent years, there is still a need to improve enforcement. The authorities should also encourage respondent and correspondent banks to improve communication and information sharing; remove obstacles for bank consolidation; and encourage banks to explore options for the bundling of financial services.

Beyond the reconstruction efforts, there is a need to improve resilience to future disasters and address constraints that result in low potential growth. Toward this end, the government's effort to increase the resilience of public infrastructure is commendable and should be sustained; this will also improve the business environment. Moving ahead with plans to develop geothermal energy capacity will lower electricity costs that are among the highest in the world, thereby improving competitiveness. To increase labor productivity and employment, labor market legislation should be updated to remove rigidities in working hours and align severance payments with the needs of a more dynamic labor market.

Incentivizing educational attainment, including in skills for which there is excess demand, would also facilitate labor adaptation across sectors and increase employment. Public wage negotiations should also be mindful of their impact on private sector wages, which affect production costs, investment, employment, and external competitiveness.

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

Dominica: Selected Economic and Financial Indicators, 2013-19

				Est.	Projected		
	2013	2014	2015	2016	2017	2018	2019
Output and Prices	*(annual percent change, unless otherwise specified)*						
Real GDP 1/	0.8	4.2	-1.8	1.0	3.6	3.3	2.2
Nominal GDP 1/	4.6	3.9	-2.1	1.0	4.2	4.7	3.8
Consumer prices, end of period	-0.4	0.5	-0.5	-0.2	1.4	1.4	1.8
Central Government Balances 2/	*(in percent of GDP, unless otherwise specified)*						
Revenue	30.0	27.6	33.9	37.5	36.9	34.0	33.0
Expenditure	32.8	32.2	34.8	38.8	36.6	33.9	32.9
Primary balance	-0.8	-3.1	1.1	0.8	2.3	2.0	2.1
Excluding CBI Program	-4.4	-4.7	-4.1	-8.6	-6.6	-3.6	-2.2
Central government debt (incl. guaranteed) 3/	80.1	82.2	82.9	82.7	80.1	77.8	75.7
External	61.6	62.0	62.4	63.6	61.6	58.8	56.8
Domestic	18.5	20.1	20.5	19.0	18.5	19.0	18.9
Balance of Payments							
Current account balance	-9.7	-9.5	-8.0	-11.8	-12.1	-16.6	-16.0
Exports of goods and services	38.1	41.1	40.5	42.4	45.7	43.9	41.9
Imports of goods and services	47.9	51.8	49.5	54.3	58.1	60.6	58.1
External debt (gross) 4/	83.3	90.1	98.0	104.1	101.1	99.5	97.5
Net imputed international reserves							
Millions of U.S. dollar	85.4	99.9	125.4	220.9	223.3	225.7	227.8
Months of imports of goods and services	4.2	4.4	5.9	9.3	8.5	7.8	8.0
Savings-Investment Balance							
Savings	3.9	5.3	8.8	6.9	8.5	4.3	3.2
Investment	13.6	14.8	16.8	18.6	20.6	20.8	19.2

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

1/ At market prices.

2/ Data for fiscal years running from July to June of the next year. Fiscal data for FY2016/17 (calendar year 2016) are staff projections.

3/ Does not include grants received but not spent.

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

INTERNATIONAL MONETARY FUND

DOMINICA

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION

April 27, 2017

KEY ISSUES

Context. The recovery from tropical storm Erika (August 2015) has been slower than anticipated. Capacity constraints slowed public investment while private investment was subdued. The authorities made progress on fiscal consolidation measures committed to at the time of the RCF disbursement (October 2015; SDR 6.15 million), but revenue yields are somewhat below expectations.

Outlook and Risks. Growth is projected to accelerate to above 3 percent in 2017-18 with a pickup in public investment and several large-scale projects, and to stabilize at a potential rate of 1.5 percent over the medium term. On the fiscal front, a large increase of citizenship-by-investment (CBI) revenues has provided relief in the near term as the authorities continue to work on the remaining fiscal reforms committed to in the RCF disbursement. Main risks stem from recurrent natural disasters; policy slippages; the increasing reliance on CBI revenues; resistance to the remaining fiscal consolidation; and weaknesses in the financial sector affected by high non-performing loans and insufficient regulation and supervision of credit unions.

Main Policy Recommendations. (1) Maintain momentum on fiscal consolidation to reach over 6 percent of GDP in cumulative savings by FY2020/21 to reduce debt to below 60 percent of GDP by 2030. This requires the use of CBI deposits to cover gross financing needs. Pursue structural fiscal reform for the sustainability of fiscal savings. (2) Reduce non-performing loans and strengthen financial stability with strict enforcement of banks' regulation and accelerated regulatory reform of credit unions. (3) Better target lending of the public development agency.

Authorities Views. The authorities reiterated their commitment to the fiscal consolidation targets in the RCF disbursement. They expressed broad agreement with the fiscal recommendations, including to improve the CBI program transparency and the reconsideration of fiscal rules. They also supported the need to enforce stronger regulation of banks and credit unions within the regional strategy, but stated that lending by the public development agency addressed credit constraints.

Approved By
Trevor Alleyne (WHD) and Bob Traa (SPR)

Discussions were held in Roseau over March 7-20, 2017. The team comprised Alejandro Guerson (head), Alla Myrvoda, Balazs Csonto (all WHD) and Marina Mendes Tavares (SPR). The mission was assisted from headquarters by Hanlei Yun, Lulu Shui, Sheng Tibung and Sarah Scherr. The mission met with Prime Minister Roosevelt Skerrit; senior government officials; labor unions; and private sector representatives.

CONTENTS

ANNEXES

BACKGROUND

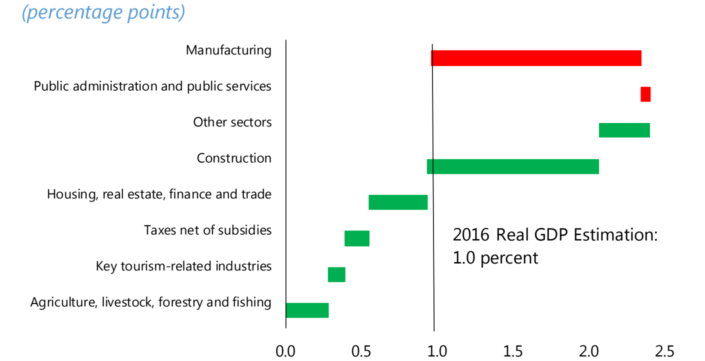
1. In August 2015, tropical storm Erika caused damages and losses estimated at 96 percent of GDP. Dominica received SDR6.15 million (75 percent of quota at the time of the request) under the Fund's Rapid Credit Facility (RCF) disbursement in October 2015. In that context, the government committed to fiscal consolidation of over 6 percent of GDP through FY2020/21, and to cut public debt to the regional target of 60 percent of GDP by 2030.

2. Since the storm, government efforts have focused on infrastructure rehabilitation and social relief, while addressing fiscal sustainability. Significant effort and resources were allocated to the reconstruction of public infrastructure and support to the affected population. The first generation of fiscal measures committed to at the time of the RCF disbursement, and some additional measures have been implemented, but yields are somewhat below targets.

RECENT DEVELOPMENTS

3. Output growth in 2016 was just 1 percent, dragged down by a storm-related decline in manufacturing. Capacity constraints and unfavorable weather slowed public investment more than anticipated. Tourism is recovering towards pre-storm levels, with the restoration of air access and the resumption of the Creole Festival. In addition to the closure of the main industrial plant prompted by the storm, the remaining manufacturing activities are still significantly below pre-storm levels. Agriculture showed signs of improvement, supported by government support programs. Private construction showed some recovery, including a publicly-financed program to refurbish the local hotel industry. Private investment is improving with financing from the citizenship-by-investment (CBI) program, including a large hotel construction project (20 percent of GDP) currently in execution. Inflation is slightly negative year-on-year as a result of falling fuel prices.

Contributions to Percent Change in 2016 Real GDP
(percentage points)



Sources: Fund staff estimates

4. Fiscal performance has been weaker than expected. Fiscal performance for the full FY2015/16 (ending June) returned a deficit of 0.9 percent of GDP, a deterioration of 1.8 percent of GDP compared to the 2016 Article IV projection. The main reason for the slippage was the boost in capital spending and lower-than-expected donor grants. Expenditures on goods and services and public transfers increased to provide relief after the storm. These factors were partially compensated by CBI program revenues of over 5 percent of GDP. Tax revenues performed in line with expectations, increasing relative to FY2014/15 after the hike in specific tax rates and import duties committed to in the RCF disbursement, and also as a result of additional auditing capacity that led to the collection of tax arrears. In the first semester of FY2016/17 there was a significant deterioration in fiscal performance compared to FY2015/16 despite record-high CBI program revenues, explained by lower grant flows and the anticipated pick up in public investment for reconstruction.

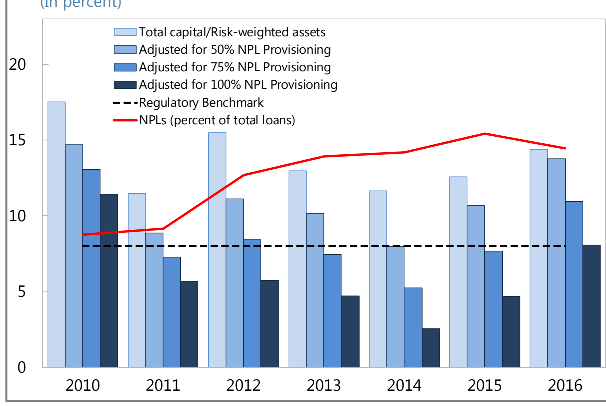
Dominica: Fiscal Developments
(In percent of GDP[1])

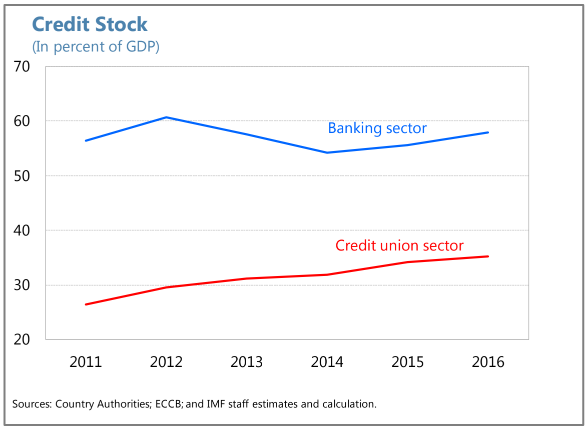
	FY2015/16	FY2016/17 Proj.	2015H1	2016H1
Revenue and grants	33.9	37.5	17.7	17.8
Tax Revenue	24.4	25.5	11.9	12.1
Taxes on income	5.1	4.9	2.3	2.0
Taxes on goods and services	13.8	14.8	6.8	7.0
Taxes on property	0.5	0.5	0.2	0.2
Taxes on intern. transactions	5.0	5.4	2.5	2.8
Non-tax revenue	7.3	11.1	4.5	5.5
of which: CBI[2]	5.2	9.4	4.1	*4.9**
Grants	2.2	1.0	1.2	0.3
Total Exenditure	34.8	38.8	14.8	19.1
Current	26.8	26.2	12.9	13.7
of which: Wages and salaries	10.9	10.6	5.5	5.5
Goods and services	7.6	7.6	3.4	4.0
Interest	2.0	2.0	1.0	0.8
Transfers and subsidies	6.3	6.0	3.0	3.3
Capital Expenditure	8.0	12.6	1.9	5.5
Overall balance[3]	-0.9	-1.2	2.9	-1.3
Overall balance excl. CBI	-6.1	-10.7	-1.2	-6.2

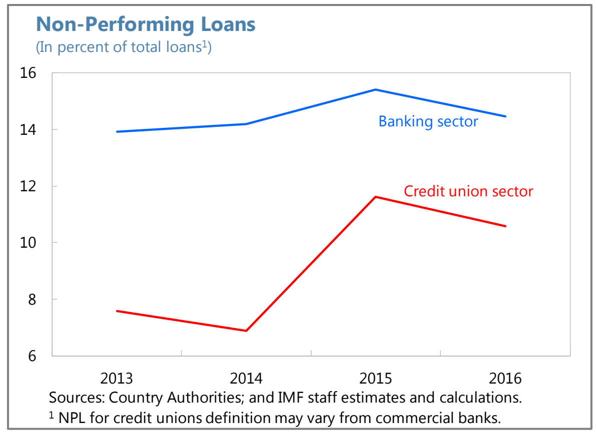
Source: Country Authorities; and IMF estimates and calculations.
[1] Fiscal year July-June. H1 covers July-Dec.
[2] Staff estimate for 2016H1 based on actual CBI collections. CBI revenues have not yet been recorded in the budget.
[3] Projections exclude the cost of natural disasters of 1.5 percent of GDP.

5. Despite ample liquidity, bank credit to the private sector remains weak, while the credit union sector is increasing its share of financial intermediation. Non-performing loans (NPLs) in the banking sector remained high at 14.5 percent of total loans (down from 15.4 percent in 2015). This slowed bank credit to the private sector, which grew by 2.9 percent due to a large government housing program through the National Bank of Dominica (NBD). Lending by the credit union sector, on the other hand, grew by 6 percent. Although their lending relieves some financing constraints, the risk to financial stability has risen given the increase in NPLs since 2014, and relatively weaker regulation and supervision compared to banks.

Indigenous Banks' Capital Adequacy and NPLs
(In percent)





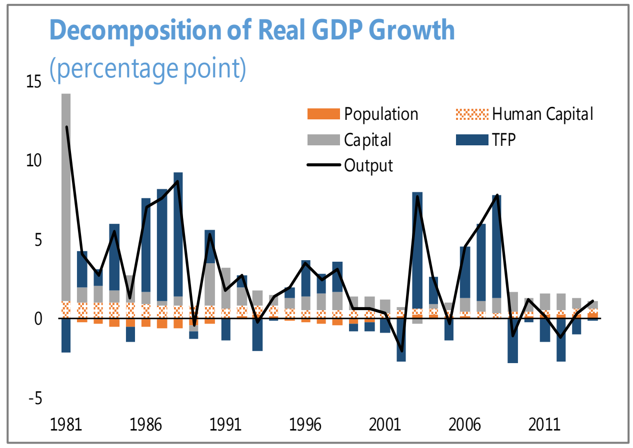


6. The global tightening of the requirements for correspondent banking relationships (CBRs) confronts Dominica with important challenges. Financial institutions have thus far maintained their CBRs. However, transaction and administrative costs have increased significantly, which is becoming particularly onerous for non-banks. The higher costs relate to stricter AML/CFT requirements, an increase in CBR fees, and the need to allocate more resources for compliance with the correspondents' requirements.

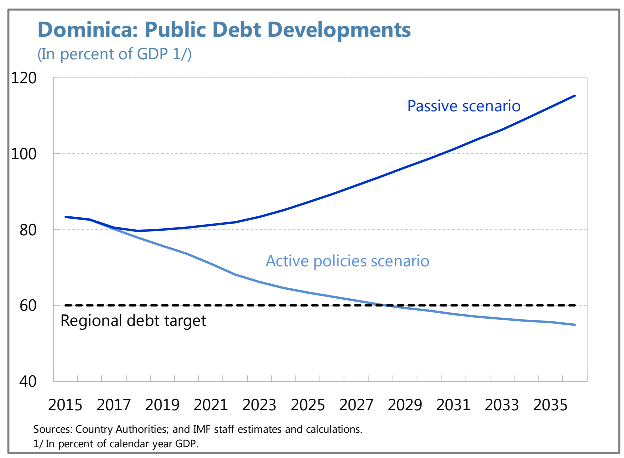
7. The external current account deficit is estimated to have worsened in 2016 to a deficit of 11.8 per cent of GDP, but external buffers are strong. Imports show an increase, partly as a result of reconstruction needs. Exports of goods, on the other hand, have declined, affected by storm-related disruptions in manufacturing and agriculture. These developments, however, were largely offset by CBI revenues, which increased from 3.4 percent of GDP in 2015 to estimated 7.4 percent in 2016. The external position is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policies (Annex II). The analysis suggests an overvaluation of the REER of over 20 percent on average – with a wide range of 5 to 50 percent, depending on the method used, although the REER is close to the 10-year average and the external current account deficit has narrowed in recent years. Imputed reserves are assessed to be adequate and sufficient to absorb most shocks. Ample banks liquidity and government deposits, and large imputed international reserves at the ECCB imply significant external buffers.

OUTLOOK AND RISKS

8. In the staff's active scenario, growth is projected to accelerate in the near term on the back of a pickup in public investment and several large-scale projects. This increase in public investment execution was already evident in the second half of 2016 (paragraph 4) The transitory increase in public investment for reconstruction, and the continued recovery in tourism and agriculture, underpin a growth projection of 3.6 percent in 2017 and 3.3 percent in 2018. This growth acceleration is also underpinned by several large-scale projects in execution (close to 40 percent of GDP[1]), which are expected to boost domestic demand and increase employment in the near term, and to lift potential output in the long-term. Over the medium-term, growth is projected to decelerate towards a potential rate of 1.5 percent, which was estimated based on historical trends in labor force, and human and physical capital accumulation (text chart, see Selected Issues Paper, SIP).



9. The active scenario assumes the full implementation of a fiscal consolidation plan of 6.5 percent of GDP by FY2021/22, in line with the commitment in the RCF disbursement. In this scenario, debt falls to 60 percent of GDP debt target by 2030 as the large stock of government deposits (26 percent of GDP) are used to cover a share of gross financing needs, thereby reducing the need to issue new debt. (If the remaining fiscal adjustment measures committed to in the RCF are not adopted, and assuming spending plans are not financially constrained, public debt would follow an increasing trajectory (passive scenario).



10. The external current account deficit is projected to widen owing higher imports associated with reconstruction investments and the large private investment projects. In the medium term, it is projected to improve to near 10 percent of GDP, supported by the recovery in agriculture, tourism, and manufacturing, and the continued progress on fiscal consolidation. Deficits

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[1] These include the Range Hotel project; the geothermal power plant; a new hospital; and the expansion of the All Saints University.

are projected to be financed primarily with foreign direct investment (FDI), and official concessional loans.

Table 1. Dominica: Fiscal Measures and Expected Yields, FY2015/16–FY2021/22

(In percent of GDP, cumulative)

Fiscal Measures	FY2015/16 (Est.)	FY2016/17	FY2017/18	FY2018/19	FY2019/20	FY2020/21	FY2021/22	Status
Revenue	**0.4**	**0.7**	**0.9**	**1.2**	**1.5**	**1.6**	**1.6**	
RCF Measures	**0.3**	**0.7**	**0.9**	**1.2**	**1.5**	**1.6**	**1.6**	
Increase in specific excises on alcohol, and tobacco by 10%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Done
Introduction of a highway maintenance levy	0.1	0.1	0.1	0.1	0.1	0.1	0.1	Done
Reinstatment of the import duty on meat imports at the 2008 level	0.1	0.1	0.1	0.1	0.1	0.1	0.1	Done
Increase in tax base due to better auditing and enforcement to collect tax arrears	0.1	0.42	0.5	0.5	0.5	0.5	0.5	Ongoing
Departure tax	0.0	0.13	0.13	0.13	0.13	0.13	0.13	Ongoing
Reduction in discretionary concessions by rationalizing tax incentives 1/	0.0	0.0	0.0	0.2	0.5	0.6	0.6	Pending 5/
Property tax reform 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Pending 5/
Solid Waste charge	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Pending 5/
Temporary reconstruction tax 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Pending 5/
Increase in fuel-related taxes and import charges 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Pending 5/
Review of health care fees to improve cost-recovery 2/	0.0	0.0	0.1	0.1	0.1	0.1	0.1	Pending 5/
Introduction of villa construction fee 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Done
Introduction of a new airport security levy	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Not done
Introduction of a presumptive tax	0.0	0.0	0.0	0.1	0.1	0.1	0.1	Pending 5/
Non-RCF Measures	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	
Increase the excise tax on sugar confectionary, soft drinks and chocolates	0.1	0.1	0.1	0.1	0.1	0.1	0.1	Done
Introduction of new investment option in the CBI 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Done
Reduction in CIT tax rate	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	Done
Increase in Customs Service Charge	0.0	0.2	0.2	0.2	0.2	0.2	0.2	Done
Expenditure	**0.0**	**-0.1**	**1.2**	**2.4**	**3.3**	**4.2**	**5.0**	
RCF Measures	**0.0**	**0.10**	**1.1**	**2.1**	**3.0**	**3.9**	**4.7**	
Wage restraint FY2016/17	0.0	0.1	0.4	0.6	0.8	1.0	1.1	Ongoing
Unwinding of reconstruction projects and investment re-prioritization	0.0	0.0	0.5	1.0	1.4	1.9	2.3	Pending
Unwinding of Erika storm-related social transfers	0.0	0.0	0.3	0.5	0.8	1.0	1.3	Pending
Non-RCF Measures	**0.0**	**-0.2**	**0.1**	**0.3**	**0.3**	**0.3**	**0.3**	
Unwinding of Erika storm-related purchases of goods and services	0.0	0.0	0.2	0.4	0.4	0.4	0.4	Pending
Increase in non-contributory pension assistance	0.00	-0.15	-0.15	-0.15	-0.15	-0.15	-0.15	Done
Increase in retirement age	0.00	0.01	0.02	0.03	0.04	0.05	0.05	Ongoing
Increase in employer retirement contributions	0.00	-0.02	-0.02	-0.02	-0.02	-0.02	-0.02	Done
Total Yield	**0.4**	**0.7**	**2.1**	**3.5**	**4.8**	**5.7**	**6.5**	
Total Yield under RCF commitment	**0.5**	**1.1**	**2.2**	**3.5**	**4.9**	**6.2**	**...**	

1/ Formally requested TA from IMF (FAD).
2/ This reform is at an advanced stage, with technical support from PAHO.
3/ This measure is different from proposed contingency measure to introduce residential levy on villa owners.
4/ The active scenario conservatively assumes no revenues since the net effect from the CBI policy changes on revenues is not clear.
5/ Refers to measures for consideration after technical assistance.

11. The outlook is subject to important downside risks to growth and external sustainability, although there are also upside risks. The capacity constraints affecting public investment may be deeper than anticipated, reducing growth in the near term. Natural disasters are a recurrent threat. Political resistance could delay the implementation of more complex fiscal reforms. Growth could be lower than projected in the active scenario if the large-scale projects are not completed. On the other hand, the positive effect on growth from these projects could be larger than currently projected, given the somewhat concervative estimate of their impact in the active scenario. The overall fiscal outlook could turn out better if CBI program revenues, estimated at 9.4 percent of GDP in FY2016/17, remain buoyant instead of falling back to near-RCF disbursement levels of 3 percent of GDP as currently projected.

12. The risks to financial stability are significant. High NPLs could persist without decisive corrective pressure from the regulatory authorities, especially in the credit union sector. With the growth of the credit union sector[2], the risk to financial stability has risen given the weaker regualtion and supervision compared to banks. The risk of loss of CBRs could affect the ability to make international payments and transfers.

[2] Total assets of the credit union sector are near 50 percent of GDP.

Box 1. Risk Assessment Matrix[1]

Source of risk and direction if materialized	Likelihood	Impact	Policy response
Poor fiscal policy implementation (↓) Remaining fiscal adjustment may be delayed either due to weak capacity or political resistance.	High	High	Implement credible multi-year fiscal adjustment strategy in line with the active policies scenario.
Natural disasters (↓) Extreme events could disrupt external and fiscal sustainability.	High	High	Build buffers and optimize insurance policies, with the assistance of the World Bank.
Petrocaribe financing (↓) Support from Venezuela could come to a halt**.**	High	Medium	Identify alternative sources of financing while maintaining fiscal consolidation momentum.
Reduced financial services by correspondent banks (↓) Significant curtailment of cross-border financial services in emerging and developing economies.	High	Medium	Strengthen the AML/CFT framework in line with international standard and ensure effective implementation; effectively communicate efforts undertaken by banks and authorities to address the perceived risks.
Policy uncertainty and divergence (↑/↓) Two-sided risks to U.S. growth with difficult-to-predict policies and global spillovers. In Europe, uncertainty associated with negotiating post-Brexit arrangements and with upcoming major elections. Policy divergence could lead to rising global imbalances and exacerbate exchange rate and capital flow volatility.	High	Medium	Follow through with fiscal adjustment measures to reduce macroeconomic vulnerability. Use CBI revenues to reduce debt and build buffers.
Significant further strengthening of the US dollar and/or higher rates (↓) As investors reassess policy fundamentals, as term premia decompress, or if there is a more rapid Fed normalization, leveraged firms, lower-rated sovereigns and those with un-hedged dollar exposures could come under stress. Could also result in capital account pressures for some economies.	High	Medium	Implement structural reforms to boost competitiveness.
Financial sector instability (↓) Persistently high NPLs and low earnings may further weaken the capital base and jeopardize stability.	Medium	High	Promptly implement remaining elements of regional strategy to strengthen indigenous banks in the ECCU. Strengthen regulation and supervision of credit unions.

Box 1. Risk Assessment Matrix (concluded)

Citizenship program demand (↑/↓) If citizenship revenues remain high, and the program is managed prudently, it could reduce fiscal risks and debt overhang. A sudden stop could create a financing gap.	Medium	Medium to High	Create a government fund to direct receipts towards debt reduction, infrastructure investment, and reconstruction after natural disasters. Reduce sudden stop risks by maintaining strict governance standards and further protecting integrity through strengthened due diligence process.
Large-scale investment projects (↑/↓) Large construction projects in the tourism sector, the geothermal power plant, a new hospital and the expansion of the School of Medicine are subject to delays and may not materialize if subject to financing constraints.	Low	Medium to High	Continue improving the business environment.
Lower energy prices (↑) Production cuts by OPEC and other major producers may not materialize as agreed while other sources of supply could increase production.	Low	Medium	

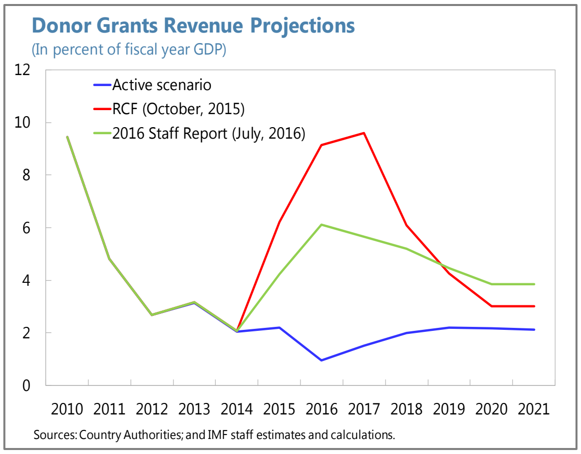
[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the active policies path. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the active policies scenario ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

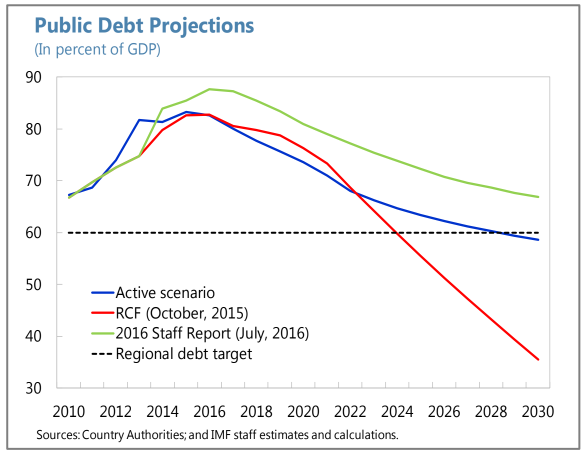
POLICY DISCUSSIONS

Discussions focused on policies to address the key risks to the outlook. In the fiscal area, how to reinforce the fiscal consolidation effort. In the financial sector, how to strengthen the balance sheets of financial institutions and reduce risk of loss of CBRs. Discussions also focused on policies to improve competitiveness and increase long-term growth.

A. Fiscal Policy

13. Despite high projected CBI program revenues in the near-term, the fiscal outlook has deteriorated. The measures in the RCF are no longer sufficient to reach the regional debt target of 60 percent of GDP by 2030. This is in part related to Petrocaribe obligations (8 percent of GDP), which were not included in the stock of public debt in the RCF disbursement projection;[3] the inclusion of annual estimated cost of natural disasters (1.5 percent of GDP per year);[4] lower projected grant revenues; a downward revision in the projected yields of the fiscal consolidation measures (from 6.2 percent of GDP to 5.7 percent, Table 1); and the reduction of the CIT rate from 28 to 25 percent in January 2016. In addition, the budget had to meet the challenge of funding a socially important increase in minimum pensions and non-contributory pensions for the elderly that strained available resources. On the positive side, the fiscal outlook has benefited from an increase in the customs service charge, and the ongoing gradual parametric reform of the pension system.





14. The weaker fiscal outlook underscores the importance of a timely implementation of the remaining fiscal measures in the RCF disbursement to secure debt sustainability It is therefore critical to continue working towards the implementation of the remaining fiscal measures, including the unwinding of storm-related expenditure and public wage restraint. The additional resources to improve tax administration should be maintained to make the gains in compliance durable. The measures should be staggered into a medium-term horizon to smooth their impact on domestic demand. The progress in terms of fiscal consolidation should focus on the underlying primary balance excluding unpredictable and transitory factors (CBI program revenues, grants, and storm-related expenditures). In this way, positive surprises to these factors would not derail the effort towards the consolidation target.

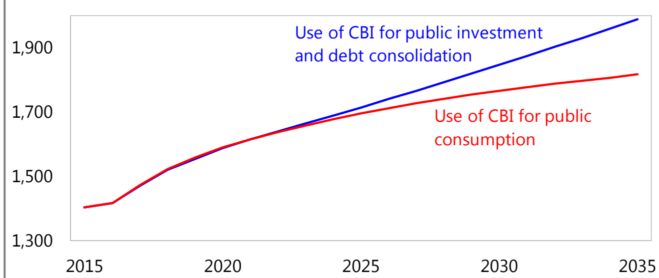
[3] The stock of Petrocaribe debt is a staff estimate.

[4] Introducing the cost ensures that the debt projection is resilient to recurrent natural disasters. The estimate of 1.5 percent of GDP per year is based on the estimated cost and damages of observed natural disasters in the past, and is also consistent with staff estimates on the annual saving needs to self-insure for natural disasters based on the distribution of their size and frequency (see SIP in the 2016 Article IV Consultation).

15. CBI program deposits should be used to pay down public debt and to reduce issuance. This is necessary to reach the regional debt target of 60 percent of GDP by 2030 without increasing the fiscal consolidation effort above RCF disbursement targets. It would also help reduce the scope for pressures to increase recurrent spending. To support this, the saving fund for reconstruction and resilience to natural disasters ("Vulnerability Fund", VF) should be formally established as soon as feasible, in line with the recent Fund TA recommendations (see structural fiscal reforms below). The VF should be funded with a share of government deposits (26 percent of GDP), and then with annual budgetary contributions of 1.5 percent of GDP.[5] In addition, given the significant increase in CBI program flows, the scope of the saving fund should be expanded to include a specific additional sub-fund for debt reduction and the financing of the reconstruction investment with less recourse to debt issuance. Since large deposits are now available, the need for new debt issuance is lower, and therefore the public debt ratio can be reduced at an accelerated pace. Simulation exercises assuming a sudden stop in CBI revenues in FY2018/19 indicate that different allocations of these resources would improve output and welfare if used for investment and debt reduction instead of public consumption (text chart, see SIP).[6]

Simulation Analysis: Impact on Output of Alternative Uses of CBI Revenues

(In millions EC$[1]; with assumption of sudden stop in CBI in FY2018/19)



Source: Country Authorities; and IMF staff estimates and calculations.

[1] Fiscal year. In constant prices FY2015. Simulations assume that CBI revenue is 10 percent of GDP annually until FY2018/19, followed by the sudden stop to 3 percent of GDP. Impact on output of the use of CBI on investment/debt-reduction vs. public consumption is based on fiscal multipliers.

16. The authorities should also work to further strengthen the CBI program's integrity to minimize the sustainability risks of this important revenue source. The transparency of the CBI program should be increased with (at least) semi-annual public disclosures of flows and balances; and due-diligence reports. The government's ongoing plans to improve due diligence, including support from international experts and a communication plan, and to adopt a fully transparent accounting of all CBI-related inflows and expenses in the central government budget, are positive steps which should be adopted immediately.

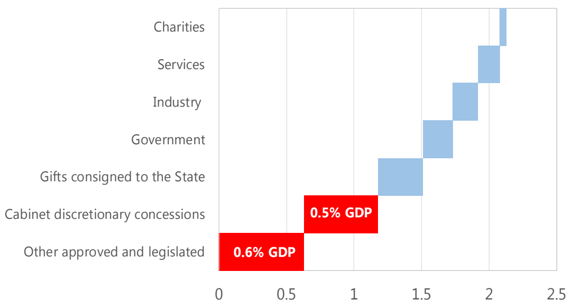
17. The authorities should explore contingent fiscal consolidation measures given the significant risks to the outlook. These measures would strengthen fiscal sustainability in the event of any unforeseen shocks or lower-than expected yields of currently programmed measures:

[5] This annual saving amount is in line with Fund TA recommendation for the sustainability of the VF.

[6] Should CBI program revenues turn out significantly higher than the needs for reconstruction and debt reduction in the long-term, the saving fund's provisions could also contemplate the allocation to public investment and for savings, including for intergenerational equity. These allocations should be eligible only after the debt target has been reached with a specified cushion.

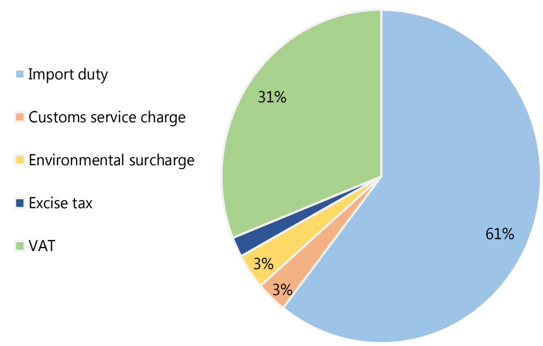
- Develop a formal tax incentives policy for private investment with clear bounds. The amount of revenue foregone in tax expenditures suggests that there is room to potentially target a more ambitious amount of fiscal savings than in the RCF disbursement (text charts). The policy should be consistent with the national development strategy and, ideally, should be developed in coordination with other countries in the region.

Foregone Revenue: by Type of Economic Activity
(In percent of GDP, FY2014/15 and FY2015/16 average)



Source: Country Authorities; and IMF staff estimates and calculations.
[1] Industry includes agriculture, fisheries, hotels, and industry. Charities includes charitable organizations, churches, and diplomats. Services include education, health, electricity, police, and traveling officers' vehicle concessions. Other approved includes other approved purposes, other legislation, and movement of persons.

Foregone Revenue: By Type of Tax
(In percent of total, FY2014/15 and FY2015/16 average)

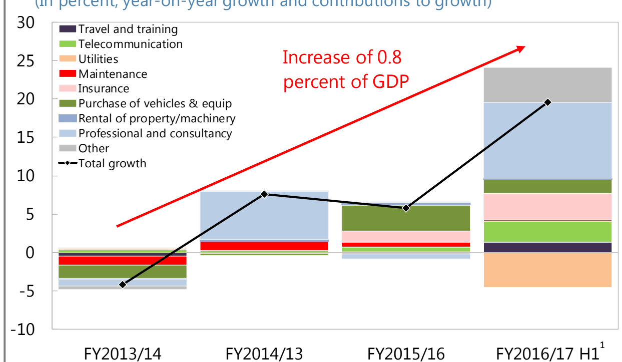


Sources: Country Authorities; and IMF staff estimates and calculations.

- Reconsider a revenue enhancing tax reform including some of the measures discussed in the RCF disbursement. A tax policy Fund TA mission will explore revenue-positive options, including the reduction of discretionary tax concessions; cost recovery fees for health services;[7] property tax; solid waste charge; review of fuel taxation; and a residential levy on villa owners. These measures have been discussed by the government and other stakeholders, but some have been subject to social resistance. This reform should remain mindful of its impact on private investment (see SIP). An early preparation is critical for a timely implementation.

- Improve spending efficiency through better targeting and means-testing of social programs; on public wage setting, remove or cap the triennial back-pay compensation; and begin to work on a civil service reform to improve public sector efficiency. Given the increase in expenditure in goods and services since FY2013/14 of about 1 percent of GDP, additional savings could be explored (text chart).

Expenditure on Goods and Services
(In percent, year-on-year growth and contributions to growth)



Sources: Country Authorities; and IMF staff estimates and calculations.
[1] July-Dec 2016 contribuition to growth over the same period in 2015.

[7] This reform is at an advanced stage, with technical support from PAHO.

18. Accelerating the process of institutional fiscal reform is critical for the durability of the fiscal consolidation gains:

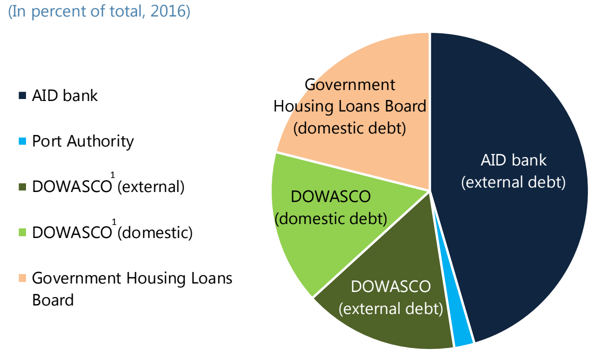
- *Budget process.* A timely reform of the budget process is key as it is not operating as the main instrument for medium-term fiscal management. Although a formal legal process for budget approval and execution exists, budgets typically include overly-optimistic revenue projections and high expenditure appropriations, which, in the case of public investments, are typically unrealistic given execution capacity constraints.

- *Fiscal rules, including a debt target and an expenditure ceiling.* Fiscal responsibility legislation including fiscal rules should be reconsidered (the authorities had rejected this recommendation in the 2016 Article IV consultation). This would strengthen the credibility of medium-term fiscal plans, including by introducing legal constraints that can limit the scope of spending pressures. Given Dominica's substantial risks, including natural disasters, the rule could be tailored to include escape clauses with verifiable triggers for the accommodation of specific shocks. In addition, given the significant fiscal challenges affecting other ECCU countries, this reform is important also at a regional level if adopted by all members of the currency union –critical for the monetary union's credibility and long-term sustainability.

- *Monitoring of SOEs.* Create a framework for the oversight and monitoring of SOEs' fiscal risk. State owned enterprises (SOEs) continue to face sustainability challenges. This sector is in general operationally balanced, but in some cases revenues are insufficient to cover capital replacement. Their debt is significant, contributing 12 percent of GDP to the stock of public sector debt (text chart), largely concentrated in financial public entities. SOEs should comply with the mandate to submit audited annual financial statements and prepare an annual risk statement.

Guaranteed Debt: by SOE

(In percent of total, 2016)



Sources: Country Authorities; and IMF staff estimates and calculations.
[1] DOWASCO - Dominica Water and Sewage Company.

Authorities' views

19. The authorities were in broad agreement with the policy recommendations, but expressed different views on some specific issues. They confirmed their commitment to the fiscal consolidation plan and the targets in the RCF disbursement, and welcomed Fund TA support. They are working to establish the VF for natural disasters, but explained that the immediate priority is to pursue reconstruction and public investment. They stand ready to consider government revenue options from the planned TA on tax policy, and are committed to unwind the storm-related spending as social and reconstruction needs recede. However, they explained that some of the tax revenue measures considered as contingent can be resisted for social reasons, and some could also worsen incentives for investment, especially in relation with tax concessions. The authorities also questioned the inclusion of Petrocaribe obligations in the stock of public debt, explaining that only the portion that has thus far been converted to grant was utilized.

20. The government also agreed on the importance of improving the transparency of the CBI program to make it durable and maximize the potential benefits. They highlighted that the FY2016/17 budget speech included details on receipts and spending of the CBI program, and explained that they have doubled staff and hired a foreign firm to support due diligence activities, and are considering Fund TA recommendations for a fully transparent recording of the program's revenues and expenditures, starting in the FY2017/18 budget.

21. The authorities expressed willingness to reconsider fiscal rules. Although they reiterated the importance of retaining fiscal policy discretion given significant volatility and potentially large shocks, they stand ready to consider fiscal rules at the regional level with appropriate escape clauses. The authorities also agreed with the importance of strengthening budget process.

B. Financial Sector

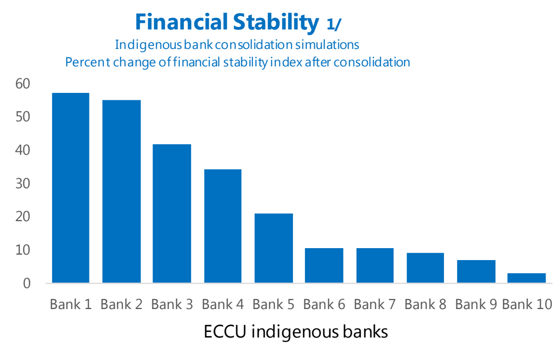
22. The financial sector is not functioning as an engine for investment and growth. From a credit supply perspective, weak balance sheets, low capitalization, low profitability, and high NPLs are the norm across the financial sector. For banks, the need to raise provisioning constrains profit capitalization for a virtuous credit-growth cycle. In addition, the significant government involvement in financial intermediation activities through the Agricultural and Industrial Development (AID) Bank reduces the scope for an efficient financial intermediation process. These problems are compounded by the Minimum Saving Rate (MSR) set by the ECCB, which increases deposit and lending rates. From a credit demand perspective, on the other hand, insufficient bankable projects in a low-growth environment, and low capacity of borrowers to comply with banks' loan application requirements further affect access to finance. This environment favors the growth of the credit union sector, which, as explained above, benefits from the significantly weaker regulation requirements and enforcement.

23. Credit is further affected by structural factors. The information about borrowers' quality is insufficient, and the legal processes for loan contract enforcement and the collection of collateral is costly and protracted. The regional plan to establish a credit bureau should be supported and advanced. A review of the legislation affecting loan contracts' enforcement could counterbalance the increase in banks' risk aversion in recent years.

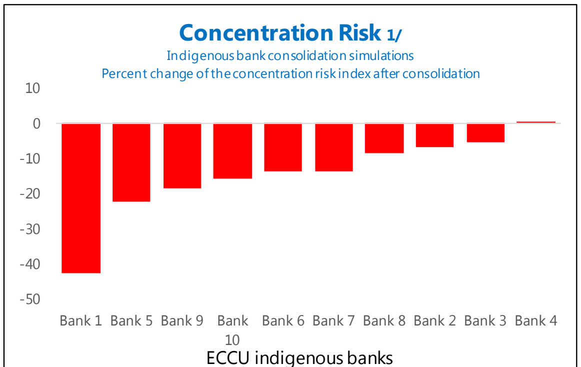
24. More decisive action is needed to improve the soundness of financial institutions and to reduce NPLs. The extraordinary powers granted to the Eastern Caribbean Asset Management Corporation (ECAMC) by the recently-passed ECAMC Act should be used to accelerate the resolution of NPLs. To facilitate further NPL reduction, the government should also use its representation power at the Monetary Council (MC) to eliminate the MSR to strengthen banks' profitability and speed up the clean-up of their balance sheets. This would also contribute to reduce lending rates.

25. Recent increases in bank capitalization are an important step, but additional buffers are needed to further strengthen financial stability. To prevent any further increase in NPLs, the recommendations from the Asset Quality Reviews (AQRs) by the ECCB should be fully implemented. There is no concrete AQR implementation timeline at the moment because valuations of the AQR have been contested.[8] Options should continue to be explored to further strengthen capital buffers, including through the issuance of additional shares, or by removing any existing obstacles for bank consolidation. Staff simulation analysis indicates that merging of the indigenous bank with other regional banks could reduce the portfolio concentration risk, and increase and stabilize profits (text charts). Bank consolidation would also contribute to reducing the risk of loss of CBRs, as this problem was related to the relatively small volume of business in the region.

Bank Consolidation Simulations



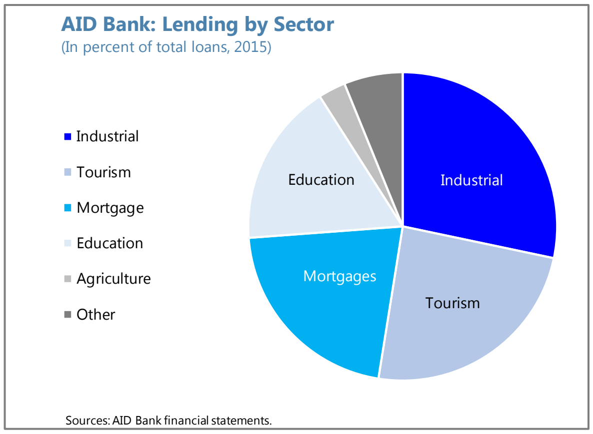
1/ The financial stability index measures level and return on banks' equity (higher index value) and its volatility (lower index value).
Source: Di Vittorio et. al. , forthcoming. Based on data from the ECCB.

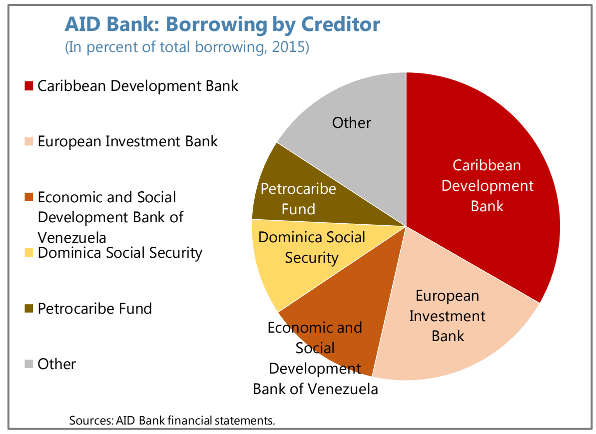


1/ The concentration risk index measures the extent of portfolio diversification accross countries and economic sectors.
Source: Di Vittorio et. al., forthcoming. Based on data from the ECCB.

26. Better targeting of the lending activities of the national development agency, the AID Bank, could support growth more effectively. The AID Bank largely lends to sectors that are also serviced by commercial banks, including to tourism and housing (text charts). This public institution is not bound by profit maximizing objectives and, as a result, its interest rates do not need to fully reflect risks or capacity to repay. These preferential terms distort credit markets. Also, only a few of its lending programs target low income creditors or priority sectors specifically, with a significant portion of credit consisting of student and consumer loans to middle-income households. This reduces the amount of resources for clients with no access to credit, and crowds out competitive lending. The AID Bank should thus narrow its lending portfolio to sectors affected by missing or incomplete credit markets, in consonance with national development strategies. It should also reduce NPLs, currently 24.3 percent of total loans, with a thorough review of delinquent loans and expeditious write-offs of long-standing NPLs.

[8] The ECCB has prepared a draft asset value appraisal legislation that is currently being discussed with industry participants. They are targeting 2018Q1 for its approval.





27. The regulation and supervision of credit unions should be revamped in coordination with the regional initiative. The region has been undertaking a process of consultation with the institutions and regulatory authorities for several years to develop a stronger regional regulatory framework for the credit union sector. However, disagreements at the local and regional levels continue to delay progress. Given the widespread capital shortfalls in the sector (most credit unions in Dominica are below the minimum capital requirement), stronger regulation and strict enforcement is needed to safeguard financial stability and to protect membership savings. Timely and automatic penalties for non-compliance are necessary, and the powers and technical capacities of the Financial Service Unit (FSU) need strengthening. The significant size of this sector and its interconnections with banks (credit unions own about one-third of the stock of banks' deposits) requires a framework to monitor and manage macro-financial spillovers, in coordination with the ECCB. [9]

28. Lowering the risk of withdrawal of CBRs also requires swift action. Significant progress has been made to strengthen AML/CFT legislation closer to international standards in recent years, but enforcement remains a challenge given capacity and resource constraints. To reduce this risk, the government should (i) continue strengthening AML/CFT legislation in line with the 2012 FATF standard, while taking steps to ensure effective implementation; and (ii) strengthen the international tax transparency framework in line with OECD standards. Also, improving the information sharing agreements between respondent and correspondent banks, considering options for mergers in line with the Monetary Council's objective to consolidate the indigenous banking system, and exploring options for the bundling of financial services (i.e. credit card clearing, remittances) would be beneficial.

29. Improving the off-shore banking sector regulatory framework is also important. To this end, the government should expedite the approval of the revisions to the Offshore Banking Act recommended by Caribbean Technical Assistance Center (CARTAC), which includes an increase in

[9] A CARTAC mission visited the FSU in January 2017 to provide technical assistance to develop a stress testing framework for credit unions.

capital requirements; a reform of the application process for new licenses; and the enactment of regulations. This would also contribute to moderating the risk of loss of CBRs.

Authorities' views

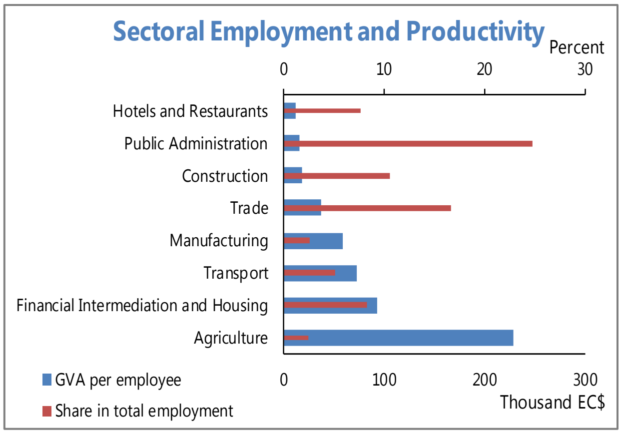
30. The authorities explained that they remain committed to strengthening the financial sector and will continue to explore options to increase capital buffers. They are supportive of bank consolidation, and will continue seeking additional capital for the indigenous bank. The authorities are re-assessing the offshore banking sector, which, they noted, presents Dominica with significant risks, including reputational, without commensurate benefits. They explained that the issuance of new off-shore bank licenses has been discontinued. With regards to the credit union sector, they agreed that they have increased in size, with operations that more closely resemble those of banks. They thus concurred on the need for stronger regulation to be applied and coordinated regionally. On the AID Bank, the government stated that most of their lending activities would not be addressed by competitive credit markets.

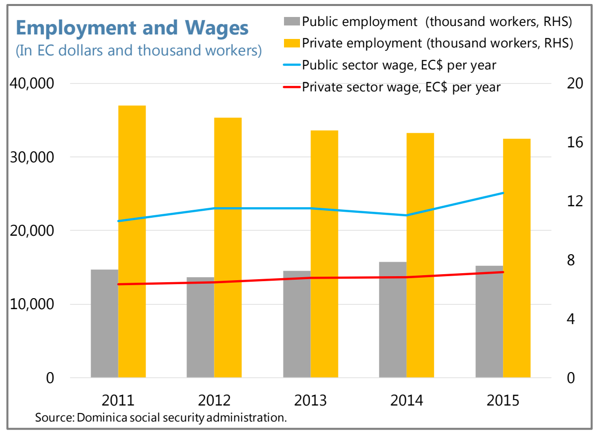
C. Growth and Competitiveness

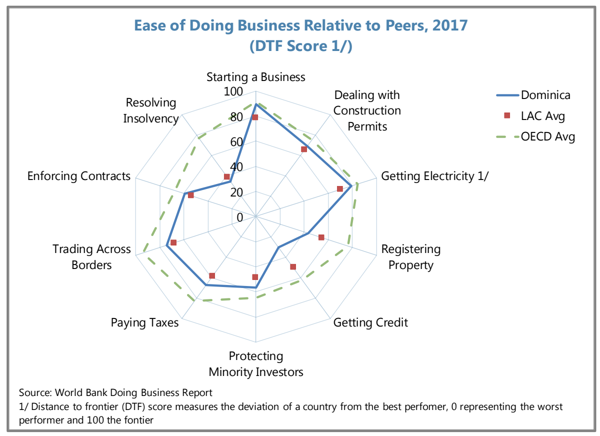
31. Improving the conditions for private investment, especially for export activities, is the key to accelerating growth. Dominica's low growth rate is largely attributable to the small contribution of labor because of high levels of outward migration, especially of skilled persons, and also declines in factor productivity in recent years (see SIP). Natural disasters have also affected the accumulation of capital. Given the lack of fiscal space, the role of the private sector is crucial. Increasing labor productivity, lowering costs, especially in energy, and addressing large infrastructure gaps will be key to improving the investment climate, increasing competitiveness, and boosting growth.

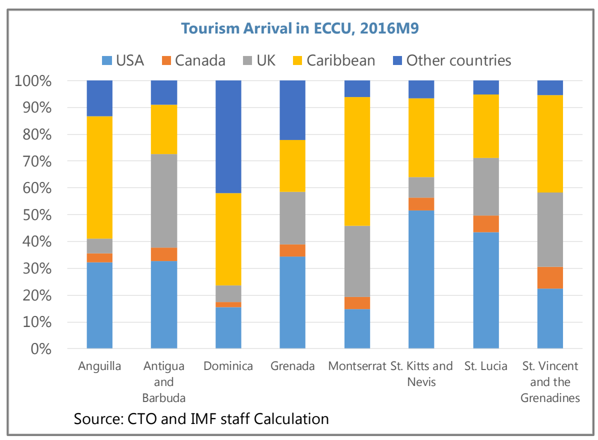
32. Removing costs and barriers affecting investment decisions and profitability are key to improve growth prospects:

- Enhance labor market legislation and better target education programs to improve labor productivity and mobility across sectors. Efforts should focus on increasing educational attainment. Existing analysis and also private sector employers point at educational gaps that undermine labor force adaptability, reducing labor mobility across sectors. Labor market legislation should be updated to remove rigidities in working hours, and also to review the severance payments for redundancy. The public sector compensation decisions should also take into account their impact on the labor market. Public wages are high relative to the productivity in the sector, and might impose high labor costs on other sectors in the economy, reducing investment and employment opportunities in the private sector (text charts).









- Reduce the cost of dealing with the government. This is especially the case in terms of resolving insolvency and registering property, paying taxes,[10] and obtaining construction permits.

- Ensure public infrastructure is resilient to natural disasters. The ongoing reconstruction projects after Tropical Storm Erika are addressing this risk. Construction and zoning regulations should be reviewed to ensure that the exposure and damage from natural disasters is minimized.

- Explore the potential for expansion and further diversification of tourism markets, especially from the U.S., where Dominica ranks well below Caribbean norms (text chart).

- Advance on the development of geothermal generation of electricity. This would significantly reduce the dependence on fossil fuels for electricity generation at a significantly lower cost, in addition to its environmental advantages. The government should ensure that the lower electricity generation costs translate to the lowest possible electricity prices, which now are among the highest in the world. This would significantly reduce production costs and improve competitiveness – several firms in the tourism and manufacturing sectors reported that the electricity bill is the largest share in total cost. The government is receiving technical and financial support from the World Bank.

[10] The government recently introduced improvements in informatization and on-line payment.

Authorities' views

33. The authorities concurred on the need to foster private investment, and highlighted the ongoing actions to improve the business environment. They explained that the cost of paying taxes has been reduced with the introduction of online payment system, and additional resources are being allocated to expand its use by taxpayers. They agreed on the importance of reducing electricity prices and explained that the ongoing plan for geothermal electricity generation is only the first phase of more ambitious long-term strategy, as the initial production will only be a small fraction of the existing potential, but still sufficient to satisfy most of the domestic demand. The financing has been secured with CBI resources, and concessional lending is being discussed. On labor market rigidities, the authorities stated that, before a meaningful reform is considered, support would need to be gathered from private sector and social organizations. On education and training to improve employment opportunities, they agreed on the need to better align existing incentives, including through financing, with the demands of the productive sectors and national development goals. They also emphasized the ongoing efforts to "build back better" as they invest in reconstruction after the storm, including roads, bridges, and retaining walls for river banks, with technical support from official creditors and other donor partners.

STAFF APPRAISAL

34. Economic activity in 2016 was weak, but is expected to pick up this year on the back of public investment and several large-scale private projects now in execution. The recovery from tropical storm Erika has been slower than anticipated, mainly because grants have been much lower than expected and capacity constraints have slowed down the execution of public infrastructure reconstruction efforts. However, most sectors are now on a recovery path, including tourism, agriculture, and construction. Public investment has picked up, with large CBI revenues offsetting the shortfall in grants; and large-scale investment projects in execution are boosting demand in the near term. As a result, growth is projected above 3 percent in 2017 and 2018. However, the outlook remains subject to significant risks, mainly from recurrent natural disasters, delays in reconstruction and public investment affected by capacity constraints and uncertain sources of grant and CBI financing, and natural disasters. Weaknesses in the financial sector will continue to pose risks to financial stability and weigh on credit and growth.

35. The priorities facing the authorities are to maintain momentum with the reconstruction program while ensuring that the public finances are put on a sustainable footing. The government should continue to focus on implementing the fiscal consolidation plan committed to at the time of the RCF disbursement aimed at reducing debt to 60 percent of GDP by 2030. This adjustment of over 6 percent of GDP includes public wage restraint, reduction of tax incentives, and the gradual unwinding of storm-related spending on reconstruction, goods and services, and social assistance. The increase in CBI revenues, which eases financing pressures in the near-term, should not detract from the resolute implementation of the consolidation plan, which should target reductions in the underlying primary balance (i.e., excluding CBI revenues, grants, and storm-related spending).

36. Low donor grants and unpredictable CBI revenues require prudence in fiscal management to ensure sufficient financing for reconstruction with fiscal sustainability. It is thus important to avoid the allocation of CBI flows to recurrent spending, which would be relatively difficult to reverse. Rather, the scope to the VF for natural disasters should be broadened to include also a saving sub-fund of CBI resources earmarked for debt reduction and public investment. Given the several sources of uncertainty, including the sustainability of CBI flows, the government should consider contingent fiscal measures to create fiscal space for reconstruction and further strengthen the fiscal sustainability outlook.

37. Improving fiscal institutions, in line with recent Fund TA advice, should also be a priority. The budget process should be strengthened to make it the key instrument for medium-term fiscal planning, and the introduction of fiscal rules within a formal fiscal responsibility legal framework could provide a commitment mechanism to support the fiscal consolidation effort. A formal framework to set a limit on tax incentives, and to limit the scope of discretional tax concessions would also be beneficial and could provide additional savings. Given that these reforms are complex, early preparation is crucial for a timely implementation.

38. Strengthening financial sector institutions is critical to enhance financial stability and facilitating a return to lending by the banks. Further action is needed to clean up bank balance sheets by reducing still-high NPLs and increasing bank capital. Toward this end, the ECAMC should be made operational as soon as possible to facilitate removal of NPLs from bank balance sheets. The government should also seek to eliminate the ECCB's MSR, which reduces banks' profitability and delays progress on NPL reduction. Vulnerabilities in the credit union sector, which is systemically important, and suffers from high NPLs and low capitalization, should also be addressed. In particular, the authorities need to move quickly to strengthen supervision and regulatory powers of the FSU and to move ahead with the regional credit union legislation that has been pending for some time. Credit by public financial institutions should be better targeted to address missing or incomplete credit markets, in line with national development objectives. The initiative to establish a credit bureau is welcome, which should facilitate access to credit. Furthermore, a review of the legislation aimed at strengthening the enforcement of loan contracts could counterbalance the increase in banks' risk aversion in recent years.

39. Lowering the risk of withdrawal of CBRs is critical to support investment and sustain growth. Notwithstanding the significant progress made to strengthen AML/CFT legislation closer to international standards in recent years, there is still a need to improve enforcement. The authorities should also encourage respondent and correspondent banks to improve communication and information sharing; remove obstacles for bank consolidation; and encourage banks to explore options for the bundling of financial services.

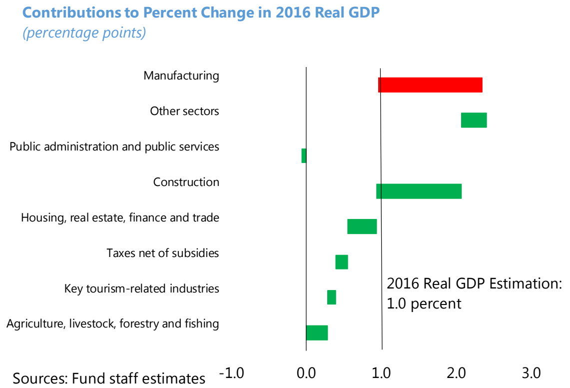
40. Beyond the reconstruction efforts, there is a need to improve resilience to future disasters and address constraints that result in low potential growth. Toward this end, the government's effort to increase the resilience of public infrastructure is commendable and should be sustained; this will also improve the business environment. Moving ahead with plans to develop geothermal energy capacity will lower electricity costs that are among the highest in the world, thereby improving competitiveness. To increase labor productivity and employment, labor market legislation should be updated to remove rigidities in working hours and align severance payments with the needs of a more dynamic labor market. Incentivizing educational attainment, including in skills for which there is excess demand, would also facilitate labor adaptation across sectors and increase employment. Public wage negotiations should also be mindful of their impact on private sector wages, which affect production costs, investment, employment, and external competitiveness.

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

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

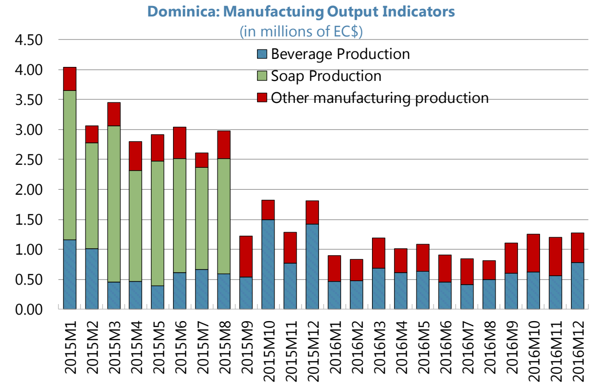
Figure 1. Dominica: Economic Performance

Growth was weak in 2016…



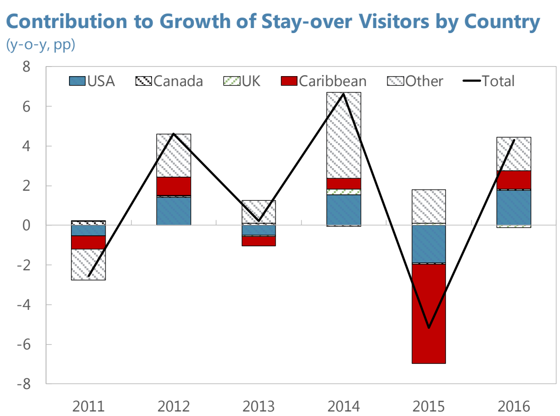
Sources: Fund staff estimates

…mainly due to manufacturing.

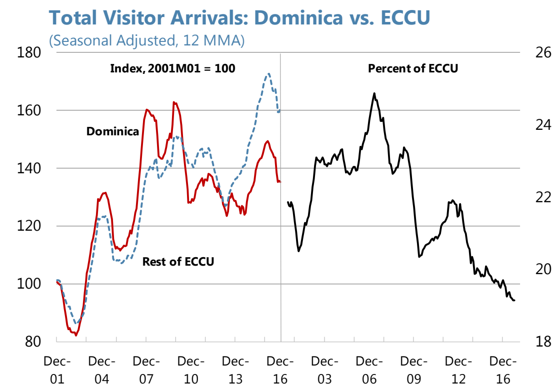


Sources: CSO and Fund staff estimation

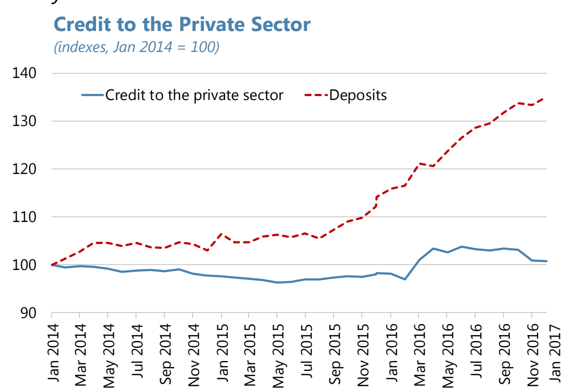
Following a decline, tourism recovered in 2016…



…thanks to the restoration of air access and the resumption of the Creole festival.

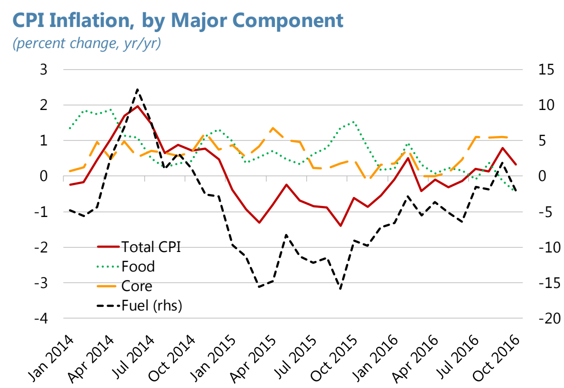


Banking sector private credit continues to be a drag on activity…



Sources: ECCB and Fund staff estimates.

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

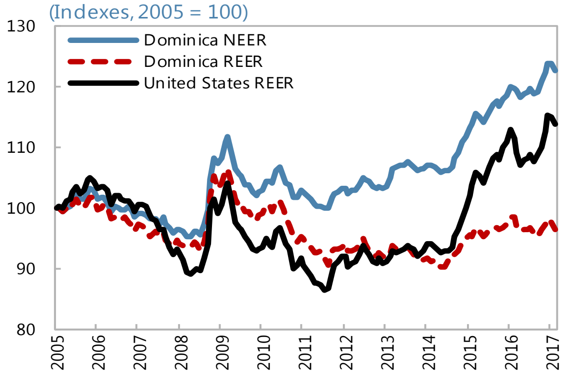


Sources: Central Statistics Office, Dominica; and Fund staff estimates.

Figure 2. Dominica: External Sector Developments

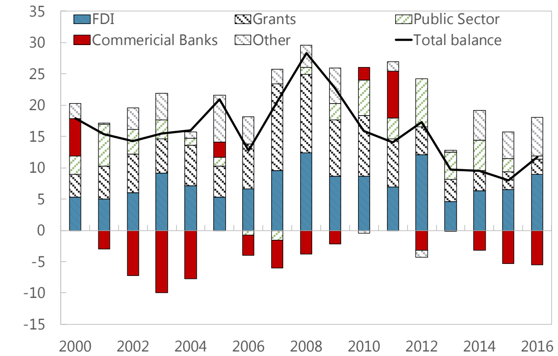
Competitiveness worsened on the back of US$ appreciation…

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



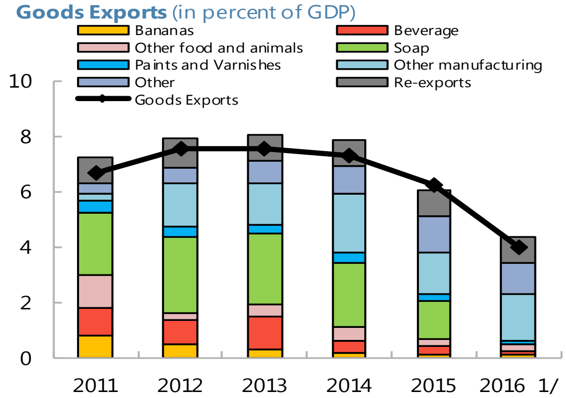
…and the external deficit increased.

Current Account Deficit and Financing
(percent of GDP)



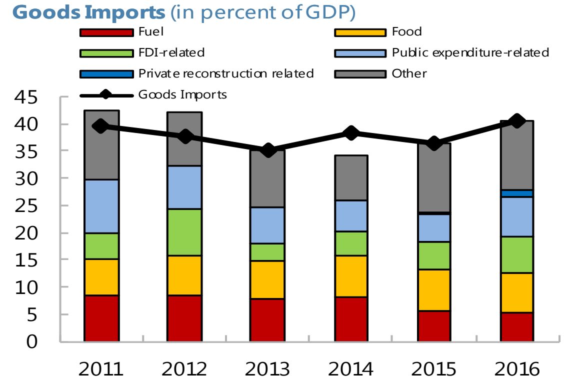
Exports declined significantly as a result of the storm…

Goods Exports (in percent of GDP)



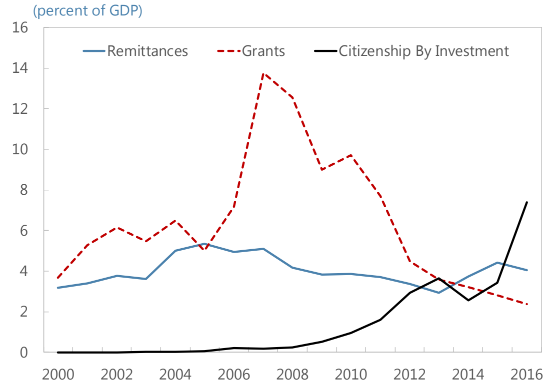
…while imports increased, in part due to storm-related reconstruction of infrastructure.

Goods Imports (in percent of GDP)



External grants performed below expectations.

Trade Deficit Financing
(percent of GDP)



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

External Debt (percent of GDP)

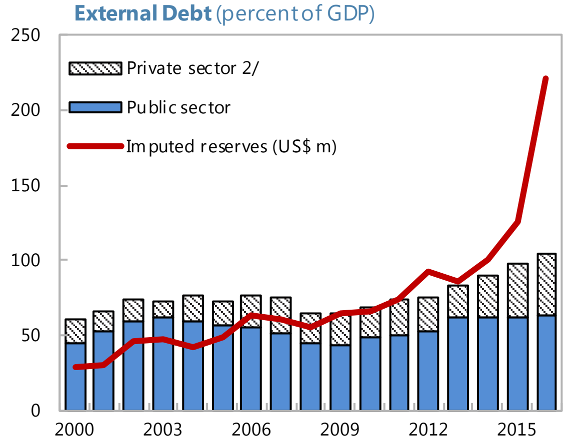
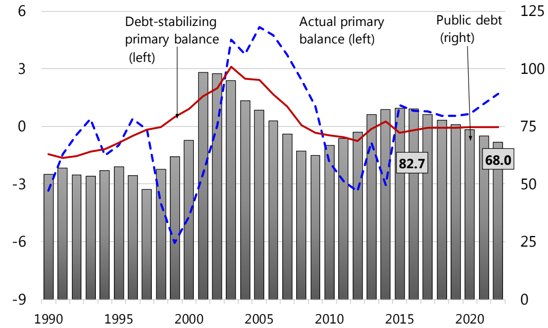


Figure 3. Dominica: Fiscal Developments

A process of fiscal consolidation is underway.

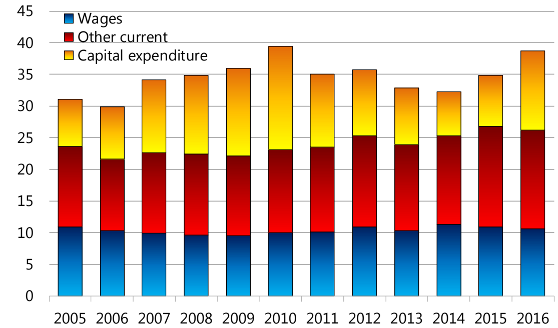
Public Debt and Fiscal Primary Balance
(In percent of GDP)



Source: Fund staff estimates.

The increase in expenditures for reconstruction is accelerating, largely funded by CBI inflows.

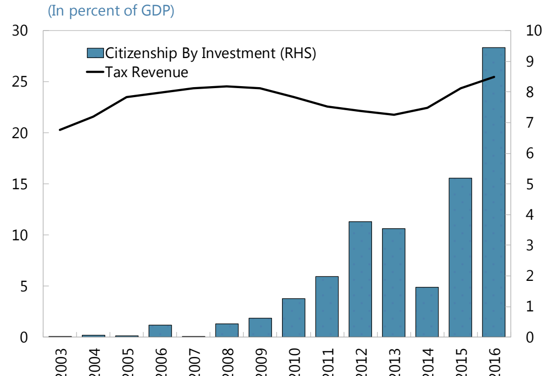
Government Expenditures
(percent of GDP, fiscal years)



Sources: Dominican authorities; and Fund staff estimates.

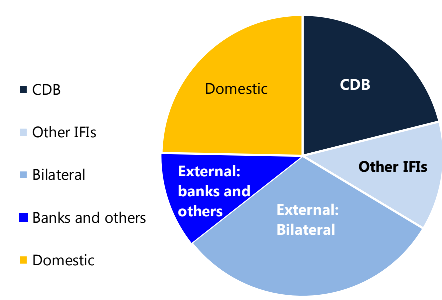
CBI revenues have increased significantly, providing relief to the financing needs.

Revenues
(In percent of GDP)



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

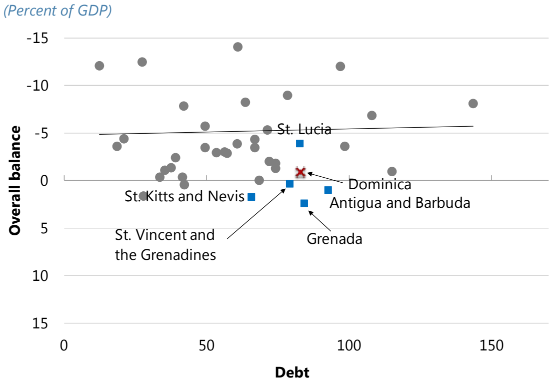
Public Sector Debt, 2015
(In percent of total)



Sources: Country Authorities; and IMF staff estimates and calculations.

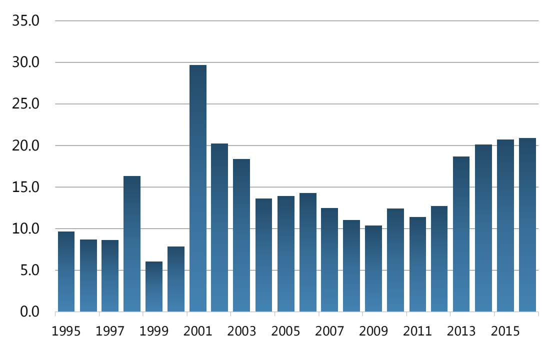
...putting pressure on debt sustainability in the near term...

Emerging Economies: General Government Balance and Debt, 2016
(Percent of GDP)



...including in the broader public sector.

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

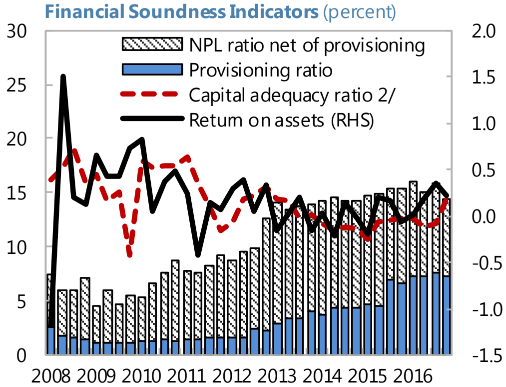


1/ Includes SOEs' debt and Petrocaribe debt.

Figure 4. Dominica: Monetary Developments

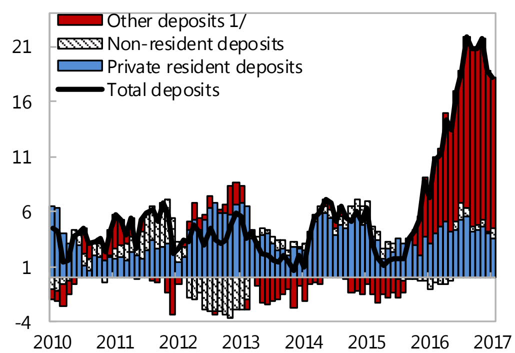
Deterioration in financial soundness indicators appears to have bottomed out.

Financial Soundness Indicators (percent)



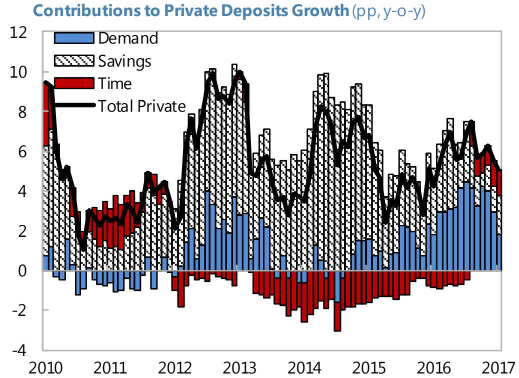
Banks' deposits increased in large part on account of government deposits...

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



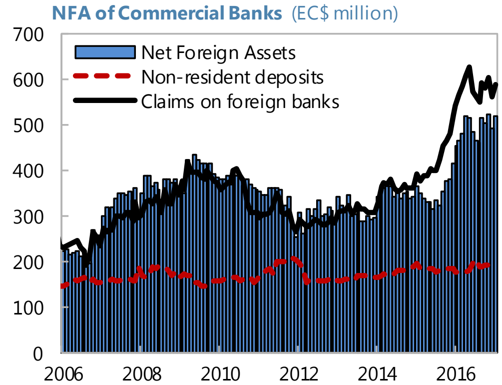
... and banks' liquidity is growing.

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



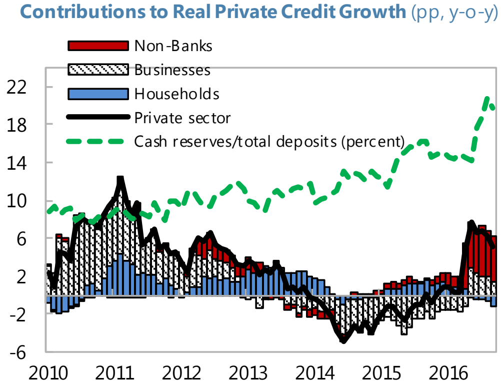
Banks are allocating more assets abroad...

NFA of Commercial Banks (EC$ million)



... and increasing their liquid holdings, while credit to the private sector is driven by credit unions.

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



Excess liquidity is driving down interest rates.

Nominal Interest Rates (in percent)

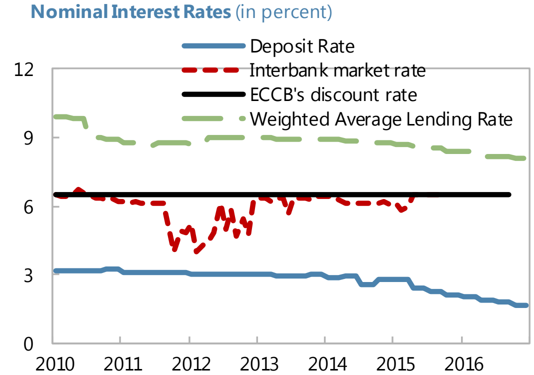
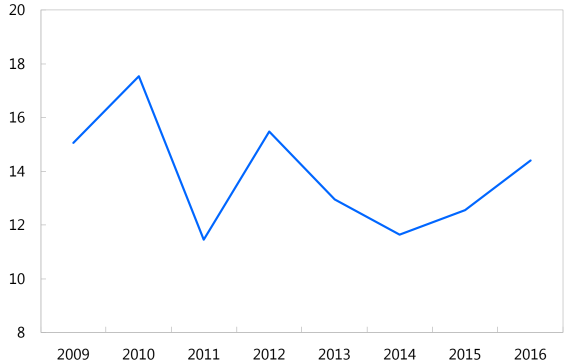


Figure 5. Dominica: Banking Sector Financial Soundness Indicators

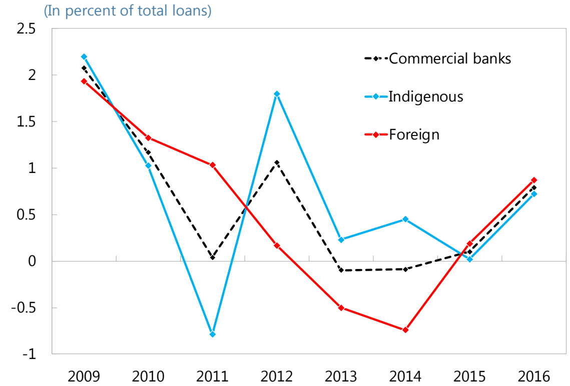
Capital adequacy is above the 8 percent regulatory minimum.

Indigenous Banks: CAR
(In percent)



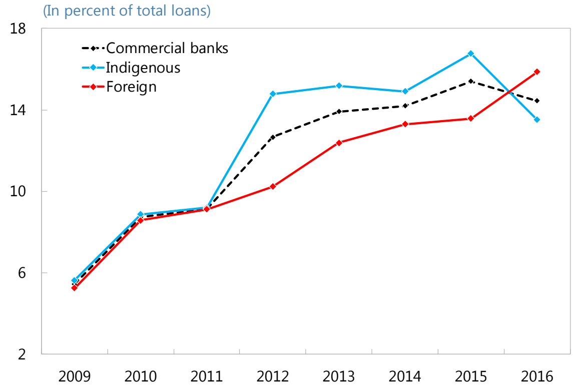
Profitability rose above zero for the first time since 2012…

Return on Average Assets
(In percent of total loans)



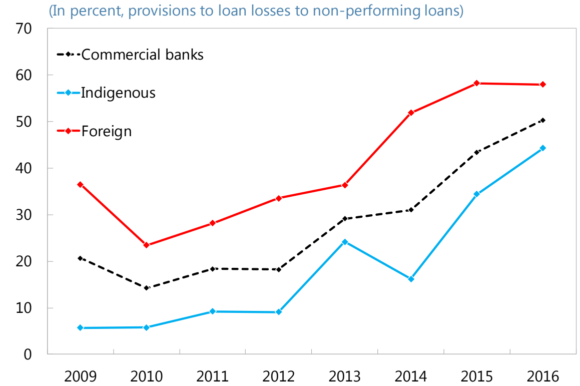
… as NPLs edged down…

NPLs
(In percent of total loans)



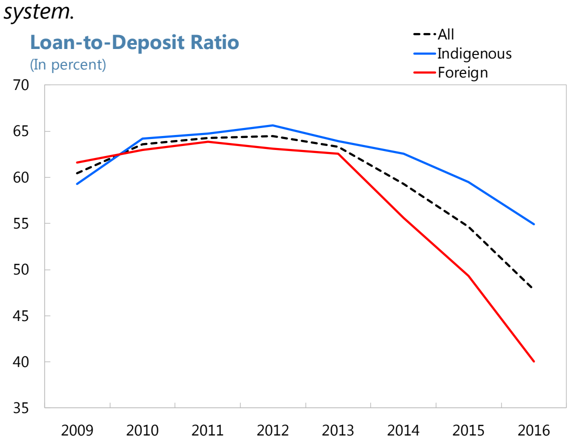
… and provisioning against NPLs increased.

Provisions to NPLs
(In percent, provisions to loan losses to non-performing loans)



Growing deposits and stagnant credit growth contribute to the declining loan-to-deposit ratios across the banking system.

Loan-to-Deposit Ratio
(In percent)



As a result, liquidity continues to accumulate.

Liquid Assets-to-Total Assets
(In percent, provisions to loan losses to non-performing loans)

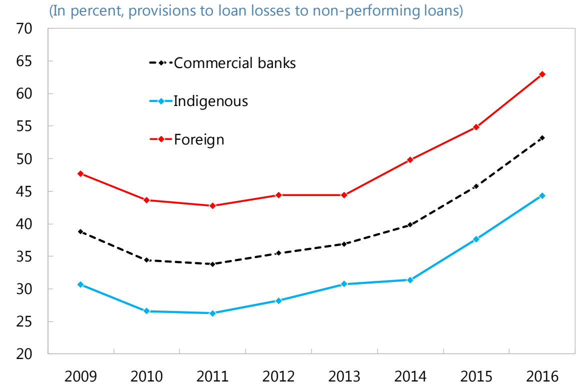


Table 2. Dominica: Selected Economic and Social Indicators, Active Scenario

I. Social and Demographic Indicators

Area (sq. km.)	754	Adult literacy rate (percent, 2004)	88
Population (2011)		Unemployment rate (2011)	11
Total	71,293		
Annual rate of growth (percent)	-0.1		
Density (per sq. km.)	94.6	Gross Domestic Product (2015)	
Population characteristics		Millions of E.C. dollars	1,396
Life expectancy at birth (years, 2006)	74.1	Millions of U.S. dollars	517
Infant mortality (per thousand live births, 2006)	13	U.S. dollars per capita	7,255

II. Economic Indicators

					Est.	Projected					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Output and prices	(annual percent change, unless otherwise specified)										
Real GDP 1/	-1.1	0.8	4.2	-1.8	1.0	3.6	3.3	2.2	2.1	1.7	1.5
Nominal GDP 1/	-3.0	4.6	3.9	-2.1	1.0	4.2	4.7	3.8	3.8	3.6	3.5
Consumer prices											
Period average	1.4	0.0	0.8	-0.8	0.0	0.6	1.4	1.6	1.8	1.9	2.0
End of period	1.3	-0.4	0.5	-0.5	-0.2	1.4	1.4	1.8	1.8	2.0	2.0
Central government balances 2/	(in percent of GDP, unless otherwise specified)										
Revenue	30.3	30.0	27.6	33.9	37.5	36.9	34.0	33.0	32.6	32.1	32.0
Taxes	22.2	21.8	22.5	24.4	25.5	24.7	24.7	24.8	25.0	25.0	25.0
Non-tax revenue	5.4	5.1	3.1	7.3	11.1	10.6	7.3	6.0	5.5	4.9	4.9
Grants 3/	2.7	3.1	2.0	2.2	1.0	1.5	2.0	2.2	2.2	2.1	2.1
Expenditure	35.6	32.8	32.2	34.8	38.8	36.6	33.9	32.9	32.3	31.3	30.6
Current primary expenditure	23.2	21.9	23.7	24.7	24.2	23.8	22.9	22.3	22.2	21.6	21.3
Interest payments	2.0	2.0	1.6	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.8
Capital expenditure	10.4	8.9	7.0	8.1	12.5	10.8	9.1	8.7	8.3	7.8	7.5
Primary balance	-3.4	-0.8	-3.1	1.1	0.8	2.3	2.0	2.1	2.1	2.7	3.2
Primary balance, excluding CBI	-7.2	-4.4	-4.7	-4.1	-8.6	-6.6	-3.6	-2.2	-1.6	-0.5	0.0
Overall balance	-5.4	-2.8	-4.7	-0.9	-1.2	0.3	0.1	0.1	0.3	0.8	1.4
Overall balance (incl. ND cost buffers)	-5.4	-2.8	-4.7	-0.9	-1.2	-1.2	-1.4	-1.4	-1.2	-0.7	-0.1
of which: annualized cost of natural disasters (ND	…	…	…	…	…	1.5	1.5	1.5	1.5	1.5	1.5
Central government debt (incl. guaranteed) 4/	72.4	80.1	82.2	82.9	82.7	80.1	77.8	75.7	73.5	70.9	68.0
External	52.5	61.6	62.0	62.4	63.6	61.6	58.8	56.8	55.3	53.6	51.6
Domestic	19.9	18.5	20.1	20.5	19.0	18.5	19.0	18.9	18.2	17.3	16.5
Money and credit (annual percent change)											
Broad money (M2)	9.7	2.2	7.8	4.0	6.0	5.0	4.7	4.0	3.9	3.8	3.5
Real credit to the private sector	3.0	-0.3	-2.7	0.9	3.1	2.6	2.3	2.2	2.1	1.7	1.5
Balance of payments											
Current account balance, *o/w:*	-17.3	-9.7	-9.5	-8.0	-11.8	-12.1	-16.6	-16.0	-13.2	-10.3	-9.7
Exports of goods and services	32.6	38.1	41.1	40.5	42.4	45.7	43.9	41.9	41.3	40.8	40.5
Imports of goods and services 5/	51.4	47.9	51.8	49.5	54.3	58.1	60.6	58.1	54.8	51.2	50.3
Capital and financial account balance	19.9	9.6	16.0	10.4	12.5	12.6	17.0	16.4	13.6	10.7	10.1
FDI	12.0	4.6	6.3	6.6	9.0	10.3	12.7	12.6	10.5	8.3	7.6
Capital grants	4.5	3.6	3.2	2.8	2.4	2.0	2.6	2.9	3.0	2.9	2.9
Other (incl. errors and omissions)	3.4	1.5	6.5	1.0	1.2	0.3	1.7	0.9	0.1	-0.5	-0.4
External debt (gross) 6/	74.9	83.3	90.1	98.0	104.1	101.1	99.5	97.5	95.3	92.3	89.3
Saving-Investment Balance	-17.3	-9.7	-9.5	-8.0	-11.8	-12.1	-16.6	-16.0	-13.2	-10.3	-9.7
Saving	-2.1	3.9	5.3	8.8	6.9	8.5	4.3	3.2	3.5	4.2	4.2
Investment	15.2	13.6	14.8	16.8	18.6	20.6	20.8	19.2	16.7	14.5	14.0
Public	12.6	11.0	9.0	8.8	11.6	12.9	11.1	10.1	9.7	9.3	8.8
Private	2.6	2.7	5.7	3.5	7.0	7.8	9.7	9.1	7.0	5.3	5.1
Memorandum items:											
Nominal GDP (EC$ millions)	1,312	1,373	1,426	1,396	1,410	1,469	1,539	1,597	1,659	1,719	1,780
Nominal GDP, fiscal year (EC$ millions)	1,342	1,399	1,411	1,403	1,440	1,504	1,568	1,628	1,689	1,750	1,808
Net imputed international reserves:											
End-year (millions of U.S. dollars)	91.8	85.4	99.9	125.4	220.9	223.3	225.7	227.8	230.0	232.2	234.3
Months of imports of goods and services	4.4	4.2	4.4	5.9	9.3	8.5	7.8	8.0	8.2	8.5	8.5

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.
1/ At market prices.
2/ Data for fiscal years running from July to June of the next year. Fiscal data for FY2016/17 (calendar year 2016) are staff projections.
3/ Does not include grants received but not spent.
4/ Includes estimated commitments under the Petrocaribe arrangement with Venezuela.
5/ Includes public capital expenditure induced imports from 2019 onwards, to account for possible mitigation of natural disasters.
6/ Comprises public sector external debt, foreign liabilities of commercial banks, and other private debt.

Table 3. Dominica: Balance of Payments, Active Scenario

					Est.	Projected					
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(millions of U.S. dollars)						
Current account balance	**-84.2**	**-49.4**	**-50.3**	**-41.2**	**-61.4**	**-66.0**	**-94.4**	**-94.6**	**-81.4**	**-65.5**	**-64.3**
Exports of goods and services 1/	158.4	193.5	217.1	209.4	221.7	248.7	249.9	248.1	254.0	259.8	267.1
Goods	36.7	38.4	38.5	32.3	21.0	22.1	23.1	24.1	25.1	26.0	26.9
Tourism	76.1	102.6	127.2	125.1	122.7	135.7	142.7	150.2	158.0	163.8	169.6
Other services	45.5	52.5	51.4	54.9	78.0	91.0	84.0	73.8	70.9	70.0	70.7
Imports of goods and services	249.9	243.7	273.5	256.1	283.6	316.2	345.4	343.8	336.4	326.0	331.8
Fuel	41.3	40.4	42.1	29.4	27.3	34.3	37.1	38.5	40.0	41.5	42.9
Food	35.3	34.2	41.5	38.9	37.4	37.8	39.2	40.7	42.3	43.8	45.4
Other goods 2/	106.7	104.1	119.0	120.0	147.3	166.9	186.5	180.6	169.5	155.9	156.3
Services	66.6	65.0	70.9	67.8	71.6	77.2	82.6	83.9	84.6	84.9	87.1
Net income, o/w:	-9.5	-19.5	-19.3	-23.0	-23.6	-23.6	-25.0	-26.1	-27.1	-28.5	-29.8
Interest payments (public sector)	-5.1	-6.9	-5.9	-6.7	-7.0	-5.9	-6.0	-6.0	-5.9	-6.0	-6.2
Net current transfers	16.8	20.3	25.3	28.5	24.1	25.1	26.1	27.1	28.2	29.2	30.2
Capital and financial account	**96.8**	**48.9**	**84.4**	**53.8**	**65.5**	**68.4**	**96.8**	**97.1**	**83.9**	**68.1**	**66.9**
Grants 3/	21.8	18.2	16.9	14.6	12.5	11.1	14.5	17.2	18.3	18.8	19.2
Public sector flows	37.5	22.1	25.8	10.8	2.4	5.7	3.6	2.4	4.9	4.9	2.1
PetroCaribe financing flows	6.1	5.6	4.2	2.2	0.7	2.4	2.6	2.6	2.6	2.5	2.5
Foreign direct investment	58.5	23.3	33.4	34.0	47.0	55.8	72.5	74.4	64.7	52.7	50.3
Commercial banks	-15.3	-0.1	-16.6	-27.7	-28.5	-4.2	-5.4	-5.5	-9.2	-9.6	-9.9
Other private flows 4/	-11.7	-4.2	20.7	20.1	31.4	-2.3	8.9	6.1	2.6	-1.4	2.7
Errors and omissions 5/	-5.8	-6.0	-16.2	-0.1	91.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	**6.8**	**-6.5**	**17.9**	**21.3**	**95.5**	**2.4**	**2.4**	**2.5**	**2.5**	**2.6**	**2.6**
Overall financing	**-6.8**	**6.5**	**-17.9**	**-21.3**	**-95.5**	**-2.4**	**-2.4**	**-2.5**	**-2.5**	**-2.6**	**-2.6**
Change in ECCB NFA, o/w:	-17.4	6.5	-14.6	-25.5	-95.5	-2.4	-2.4	-2.5	-2.5	-2.6	-2.6
IMF reserve liabilities	-0.8	-2.7	-1.6	6.5	-1.6	-1.2	-1.4	-1.4	-0.6	-2.2	-1.9
Change in foreign reserve asssets	10.6	0.0	-3.3	4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing from RCF	...	...	...	**8.7**	...	...	...	...	...	...	...
					(in percent of GDP)						
Current account balance	**-17.3**	**-9.7**	**-9.5**	**-8.0**	**-11.8**	**-12.1**	**-16.6**	**-16.0**	**-13.2**	**-10.3**	**-9.7**
Exports of goods and services 1/	32.6	38.1	41.1	40.5	42.4	45.7	43.9	41.9	41.3	40.8	40.5
Goods	7.6	7.5	7.3	6.2	4.0	4.1	4.1	4.1	4.1	4.1	4.1
Tourism	15.7	20.2	24.1	24.2	23.5	24.9	25.0	25.4	25.7	25.7	25.7
Other services	9.4	10.3	9.7	10.6	14.9	16.7	14.7	12.5	11.5	11.0	10.7
Imports of goods and services	51.4	47.9	51.8	49.5	54.3	58.1	60.6	58.1	54.8	51.2	50.3
Fuel	8.5	7.9	8.0	5.7	5.2	6.3	6.5	6.5	6.5	6.5	6.5
Food	7.3	6.7	7.9	7.5	7.2	6.9	6.9	6.9	6.9	6.9	6.9
Other goods 2/	22.0	20.5	22.5	23.2	28.2	30.7	32.7	30.5	27.6	24.5	23.7
Services	13.7	12.8	13.4	13.1	13.7	14.2	14.5	14.2	13.8	13.3	13.2
Net income, o/w:	-2.0	-3.8	-3.6	-4.4	-4.5	-4.3	-4.4	-4.4	-4.4	-4.5	-4.5
Interest payments (public sector)	-1.1	-1.4	-1.1	-1.3	-1.3	-1.1	-1.0	-1.0	-1.0	-0.9	-0.9
Net current transfers	3.5	4.0	4.8	5.5	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Capital and financial account	**19.9**	**9.6**	**16.0**	**10.4**	**12.5**	**12.6**	**17.0**	**16.4**	**13.6**	**10.7**	**10.1**
Grants 3/	4.5	3.6	3.2	2.8	2.4	2.0	2.6	2.9	3.0	2.9	2.9
Public sector flows	7.7	4.4	4.9	2.1	0.5	1.0	0.6	0.4	0.8	0.8	0.3
PetroCaribe financing flows	1.3	1.1	0.8	0.4	0.1	0.4	0.5	0.4	0.4	0.4	0.4
Foreign direct investment	12.0	4.6	6.3	6.6	9.0	10.3	12.7	12.6	10.5	8.3	7.6
Commercial banks	-3.2	0.0	-3.1	-5.3	-5.5	-0.8	-0.9	-0.9	-1.5	-1.5	-1.5
Other private flows 4/	-2.4	-0.8	3.9	3.9	6.0	-0.4	1.6	1.0	0.4	-0.2	0.4
Errors and omissions 5/	**-1.2**	**-1.2**	**-3.1**	**0.0**	**17.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**1.4**	**-1.3**	**3.4**	**4.1**	**18.3**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
External financing from RCF	...	...	...	**1.7**	...	...	...	...	...	...	...
Memorandum items:											
Trade balance (percent of GDP)	-30.2	-27.6	-31.1	-30.1	-36.6	-39.9	-42.1	-39.9	-36.9	-33.8	-33.0
Services balance (percent of GDP)	11.3	17.7	20.4	21.7	24.7	27.5	25.3	23.7	23.5	23.4	23.2
Net imputed international reserves:											
Millions of U.S. dollars	91.8	85.4	99.9	125.4	220.9	223.3	225.7	227.8	230.0	232.2	234.3
Months of imports of goods and services	4.4	4.2	4.4	5.9	9.3	8.5	7.8	8.0	8.2	8.5	8.5
Gross external debt 6/	74.9	83.3	90.1	98.0	104.1	101.1	99.5	97.5	95.3	92.3	89.3
Public sector	52.5	61.6	62.0	62.4	63.6	61.6	58.8	56.8	55.3	53.6	51.6
Private sector	22.5	21.7	28.0	35.6	40.4	39.6	40.7	40.6	40.0	38.7	37.7
GDP (in US$ millions)	485.9	508.4	528.2	517.2	522.3	544.1	569.9	591.6	614.4	636.8	659.2

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

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

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

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

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

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

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

Table 4. Dominica: Summary Accounts of the Banking System, Active Scenario

	2012	2013	2014	2015	Prelim. 2016	Projected 2017	2018	2019	2020	2021	2022
	(in millions of Eastern Caribbean dollars, end of period)										
Net foreign assets	545.0	527.9	611.9	755.5	1,090.3	1,108.3	1,129.4	1,135.1	1,141.0	1,146.8	1,152.5
Central Bank	248.0	230.5	269.8	338.7	596.4	603.0	609.5	615.2	621.0	626.9	632.6
Commercial Banks (net)	297.0	297.4	342.1	416.8	493.9	505.4	519.9	519.9	519.9	519.9	519.9
Assets	586.4	586.5	665.5	777.4	840.7	863.1	891.1	891.1	891.1	891.1	891.1
Liabilities	-289.3	-289.1	-323.4	-360.5	-346.8	-357.8	-371.2	-371.2	-371.2	-371.2	-371.2
Net domestic assets	586.8	628.4	634.8	541.1	284.2	335.1	382.4	436.6	492.5	548.2	602.3
Public sector credit, net	-133.2	4.7	27.4	-64.2	-311.0	-313.9	-317.4	-320.1	-322.9	-325.5	-328.1
(real terms)	-130.1	4.6	26.8	-63.1	-306.1	-304.7	-304.0	-301.2	-298.4	-294.9	-291.4
Central Government	-30.7	126.6	122.2	28.0	-214.6	-213.4	-212.2	-210.9	-209.5	-208.0	-206.4
From ECCB	-34.2	-8.8	-17.8	-23.5	-41.3	-41.3	-41.3	-41.3	-41.3	-41.3	-41.3
From commercial banks	3.4	135.5	140.0	51.6	-173.3	-172.1	-170.9	-169.6	-168.2	-166.7	-165.0
Other public sector	-102.4	-122.0	-94.8	-92.3	-96.4	-100.5	-105.2	-109.2	-113.4	-117.6	-121.7
Private sector credit	796.5	790.9	773.2	775.6	798.1	830.2	861.2	895.3	930.5	965.6	999.6
(real terms)	778.0	775.9	755.0	761.5	785.4	805.8	824.7	842.6	859.9	874.8	887.9
Other items (net)	-76.5	-167.2	-165.9	-170.3	-202.9	-181.2	-161.4	-138.6	-115.1	-91.8	-69.2
Money and quasi-money (M2)	1,131.8	1,156.3	1,246.7	1,296.6	1,374.5	1,443.5	1,511.8	1,571.7	1,633.5	1,695.0	1,754.8
Money	221.3	210.6	232.4	258.9	300.7	315.8	330.8	343.9	357.4	370.8	383.9
Currency outside banks	45.6	41.6	46.9	46.6	52.6	55.3	57.9	60.2	62.5	64.9	67.2
Demand deposits	175.7	169.0	185.6	212.3	248.1	260.5	272.9	283.7	294.8	306.0	316.8
Quasi-money, *of which:*	910.5	945.7	1,014.2	1,037.7	1,073.8	1,127.7	1,181.1	1,227.9	1,276.1	1,324.2	1,370.9
Time deposits	248.8	235.8	217.5	208.2	224.1	235.4	246.5	256.3	266.4	276.4	286.1
Savings deposits	628.2	686.4	760.4	802.3	818.0	859.1	899.8	935.4	972.2	1,008.8	1,044.4
Foreign currency deposits	33.5	23.5	36.4	27.2	31.6	33.2	34.8	36.2	37.6	39.0	40.4
	(12-month percentage change)										
Net foreign assets	19.3	-3.1	15.9	23.5	44.3	1.7	1.9	0.5	0.5	0.5	0.5
Net domestic assets, *of which:*	2.1	7.1	1.0	-14.8	-47.5	17.9	14.1	14.2	12.8	11.3	9.9
Public sector credit, net	37.9	-103.5	490.0	-334.0	384.3	0.9	1.1	0.8	0.9	0.8	0.8
(real terms)	36.2	-103.5	487.3	-335.2	385.4	-0.5	-0.2	-0.9	-0.9	-1.2	-1.2
Private sector credit	4.3	-0.7	-2.2	0.3	2.9	4.0	3.7	4.0	3.9	3.8	3.5
(real terms)	3.0	-0.3	-2.7	0.9	3.1	2.6	2.3	2.2	2.1	1.7	1.5
Broad money	9.7	2.2	7.8	4.0	6.0	5.0	4.7	4.0	3.9	3.8	3.5
NFA contribution	8.6	-1.5	7.3	11.5	25.8	1.3	1.5	0.4	0.4	0.4	0.3
NDA contribution	1.2	3.7	0.6	-7.5	-19.8	3.7	3.3	3.6	3.6	3.4	3.2
Money	18.2	-4.8	10.4	11.4	16.2	5.0	4.7	4.0	3.9	3.8	3.5
NFA contribution	25.1	-7.9	18.7	29.6	99.6	2.2	2.1	1.7	1.7	1.6	1.5
NDA contribution	-6.9	3.1	-8.3	-18.2	-83.4	2.8	2.7	2.2	2.2	2.1	2.0
Broad money (real terms)	8.4	2.6	7.3	4.6	6.2	3.6	3.3	2.2	2.1	1.7	1.5
	(in percent of GDP)										
Net foreign assets	41.5	38.5	42.9	54.1	77.3	75.4	73.4	71.1	68.8	66.7	64.7
Net domestic assets	44.7	45.8	44.5	38.7	20.2	22.8	24.9	27.3	29.7	31.9	33.8
Public sector credit, net	-10.2	0.3	1.9	-4.6	-22.1	-21.4	-20.6	-20.0	-19.5	-18.9	-18.4
Private sector credit	60.7	57.6	54.2	55.5	56.6	56.5	56.0	56.1	56.1	56.2	56.2
Broad Money	86.3	84.2	87.4	92.8	97.5	98.3	98.3	98.4	98.5	98.6	98.6
Money	16.9	15.3	16.3	18.5	21.3	21.5	21.5	21.5	21.5	21.6	21.6
Quasi-money	69.4	68.9	71.1	74.3	76.1	76.8	76.8	76.9	76.9	77.0	77.0
Interest rates (percent) 1/											
ECCB policy rate	6.5	6.5	6.5	6.5	6.5	...	...	...	...	...	...
U.S. policy rate	0.1	0.1	0.1	0.4	0.6	...	...	...	...	...	...
Interbank market rate	6.3	6.4	6.0	0.0	...	...	...	...	...	...	...
Time deposit rate	4.5	4.3	4.2	4.0	...	...	...	...	...	...	...
Demand deposit rate	0.7	0.4	0.4	0.2	...	...	...	...	...	...	...
Weighted average lending rate	3.3	3.3	3.0	2.2	...	...	...	...	...	...	...

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

1/ End-of-period rates.

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

(In millions of EC Dollars) 1/ 2/

	2012	2013	2014	2015	Projected 2016	2017	2018	2019	2020	2021	2022
	(in millions of Eastern Caribbean dollars)										
Revenue	**406.3**	**419.9**	**389.0**	**475.3**	**540.4**	**554.6**	**533.5**	**537.8**	**551.0**	**561.4**	**578.9**
Taxes	297.5	305.0	317.0	342.0	366.9	372.0	387.0	403.6	422.3	437.7	452.3
Taxes on income	57.3	58.9	60.0	71.3	70.3	67.8	68.4	68.0	70.6	73.1	75.6
Taxes on property	6.7	7.7	7.7	6.8	6.7	7.0	7.3	7.5	7.8	8.1	8.4
Taxes on goods and services	176.1	179.2	184.7	194.1	212.5	214.9	225.5	235.7	244.7	253.7	262.2
Taxes on international trade and transactions	57.3	59.3	64.6	69.7	77.5	82.3	85.8	92.4	99.2	102.8	106.2
Grants 3/	35.9	43.9	28.7	30.9	13.9	22.6	31.4	35.8	36.5	37.3	38.0
Other revenue	73.0	70.9	43.3	102.4	159.6	160.0	115.1	98.3	92.1	86.5	88.6
Property income	5.0	2.0	2.0	1.2	1.3	1.3	1.4	1.4	1.5	1.6	1.6
Sales, fees, and fines	10.9	13.2	11.9	10.8	11.1	11.6	12.1	12.6	13.1	13.5	14.0
Other nontax revenue	57.1	55.7	29.4	90.3	147.2	147.1	101.6	84.3	77.6	71.4	73.0
Of which: CBI	50.7	49.7	23.0	72.7	136.0	133.9	87.8	70.0	62.7	56.0	57.1
Expenditure	**478.2**	**459.6**	**454.9**	**488.3**	**558.0**	**550.5**	**532.0**	**535.4**	**546.2**	**547.4**	**553.5**
Expense	**338.2**	**334.6**	**356.7**	**375.3**	**377.4**	**388.0**	**389.4**	**393.9**	**406.1**	**411.1**	**418.0**
Compensation of employees	146.8	144.5	159.5	152.9	153.2	161.6	162.0	162.4	171.3	171.7	172.2
Purchase of goods and services	97.0	93.1	100.2	106.0	108.8	110.4	111.8	116.1	120.4	124.8	128.9
Interest	26.6	28.1	22.8	28.4	29.4	30.4	30.4	31.2	31.3	32.6	32.1
Grants and social benefits (transfers and subsidies)	68.8	68.9	74.6	88.3	86.1	85.7	85.2	84.2	83.1	82.0	84.8
Other expense	-1.0	0.0	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-1.0	0.0	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**140.0**	**125.0**	**98.2**	**113.0**	**180.6**	**162.5**	**142.5**	**141.5**	**140.0**	**136.3**	**135.4**
Grant-financed capital expenditure	35.9	43.9	28.7	30.9	13.9	22.6	31.4	35.8	36.5	37.3	38.0
Other capital expenditure	106.6	81.4	69.7	82.2	166.8	140.1	111.3	105.8	103.7	99.2	97.6
Capital revenue	-2.4	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Gross operating balance	**68.1**	**85.4**	**32.3**	**100.0**	**163.0**	**166.6**	**144.0**	**143.9**	**144.9**	**150.3**	**160.9**
Natural disaster (ND) annualised cost 4/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**22.6**	**23.5**	**24.4**	**25.3**	**26.2**	**27.1**
Net lending/borrowing (overall balance, excl ND cost)	**-71.9**	**-39.6**	**-66.0**	**-13.0**	**-17.6**	**4.1**	**1.5**	**2.4**	**4.8**	**14.0**	**25.5**
Net lending/borrowing (overall balance, incl ND cost)	**-71.9**	**-39.6**	**-66.0**	**-13.0**	**-17.6**	**-18.4**	**-22.0**	**-22.0**	**-20.5**	**-12.3**	**-1.7**
Net financial transactions	**-71.9**	**-39.6**	**-66.0**	**-13.0**	**-17.6**	**-18.4**	**-22.0**	**-22.0**	**-20.5**	**-12.3**	**-1.7**
Net acquisition of financial assets	**-67.5**	**16.7**	**-18.2**	**-196.2**	**-103.7**	**18.8**	**21.7**	**24.9**	**26.7**	**29.0**	**28.9**
Currency and deposits	-67.5	16.7	-18.2	-196.2	-103.7	18.8	21.7	24.9	26.7	29.0	28.9
Net incurrence of liabilities	**25.0**	**58.7**	**15.5**	**-2.9**	**17.6**	**-0.4**	**0.3**	**-2.8**	**-6.3**	**-16.7**	**-27.3**
Domestic	-15.9	5.5	23.1	-4.7	4.7	-0.1	0.1	-0.7	-1.7	-4.4	-7.2
Foreign	40.9	53.2	-7.6	1.7	13.0	-0.3	0.2	-2.1	-4.6	-12.3	-20.1
Other flows 5/	**114.4**	**-35.8**	**68.7**	**212.2**	**103.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Primary balance	-45.4	-11.5	-43.2	15.3	11.7	34.5	31.9	33.5	36.1	46.6	57.6
Underlying primary balance 6/	0	0	0	5	-13	-5	2	6	5	5	5
Primary balance (excl. CBI)	-96.0	-61.2	-66.2	-57.3	-124.3	-99.4	-55.9	-36.4	-26.6	-9.4	0.5
Primary balance (excl. CBI and ND cost)	-96.0	-61.2	-66.2	-57.3	-102.7	-76.8	-32.3	-12.0	-1.3	16.8	27.6
Overall balance (excl. CBI)	-122.6	-89.3	-89.0	-85.7	-153.6	-129.7	-86.3	-67.6	-57.9	-42.0	-31.6
Public sector debt 7/	971	1,122	1,160	1,163	1,190	1,204	1,220	1,232	1,242	1,241	1,230
Domestic	267	260	284	287	274	278	298	307	308	303	298
Central Governement	207	212	235	231	235	235	235	234	233	228	221
Rest of public sector	61	47	49	56	39	43	63	73	75	75	77
Foreign	704	862	875	876	916	926	922	925	934	938	932
Central Governement	595	648	641	642	655	655	655	653	649	636	616
Rest of public sector	109	214	235	234	261	271	266	272	286	302	316
Nominal GDP, fiscal year (EC$ millions)	1,342	1,399	1,411	1,403	1,440	1,504	1,568	1,628	1,689	1,750	1,808

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

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

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

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

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

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

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

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

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

(In percent of GDP) 1/ 2/

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					Projected						
					(in percent of GDP)						
Revenue	**30.3**	**30.0**	**27.6**	**33.9**	**37.5**	**36.9**	**34.0**	**33.0**	**32.6**	**32.1**	**32.0**
Taxes	22.2	21.8	22.5	24.4	25.5	24.7	24.7	24.8	25.0	25.0	25.0
Taxes on income	4.3	4.2	4.3	5.1	4.9	4.5	4.4	4.2	4.2	4.2	4.2
Taxes on property	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Taxes on goods and services	13.1	12.8	13.1	13.8	14.8	14.3	14.4	14.5	14.5	14.5	14.5
Taxes on international trade and transactions	4.3	4.2	4.6	5.0	5.4	5.5	5.5	5.7	5.9	5.9	5.9
Grants 3/	2.7	3.1	2.0	2.2	1.0	1.5	2.0	2.2	2.2	2.1	2.1
Other revenue	5.4	5.1	3.1	7.3	11.1	10.6	7.3	6.0	5.5	4.9	4.9
Property income	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sales, fees, and fines	0.8	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other nontax revenue	4.3	4.0	2.1	6.4	10.2	9.8	6.5	5.2	4.6	4.1	4.0
Of which: CBI	3.8	3.6	1.6	5.2	9.4	8.9	5.6	4.3	3.7	3.2	3.2
Expenditure	**35.6**	**32.8**	**32.2**	**34.8**	**38.8**	**36.6**	**33.9**	**32.9**	**32.3**	**31.3**	**30.6**
Expense	**25.2**	**23.9**	**25.3**	**26.7**	**26.2**	**25.8**	**24.8**	**24.2**	**24.0**	**23.5**	**23.1**
Compensation of employees	10.9	10.3	11.3	10.9	10.6	10.7	10.3	10.0	10.1	9.8	9.5
Purchase of goods and services	7.2	6.7	7.1	7.6	7.6	7.3	7.1	7.1	7.1	7.1	7.1
Interest	2.0	2.0	1.6	2.0	2.0	2.0	1.9	1.9	1.9	1.9	1.8
Grants and social benefits (transfers and subsidies)	5.1	4.9	5.3	6.3	6.0	5.7	5.4	5.2	4.9	4.7	4.7
Other expense	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net acquisition of nonfinancial assets	**10.4**	**8.9**	**7.0**	**8.1**	**12.5**	**10.8**	**9.1**	**8.7**	**8.3**	**7.8**	**7.5**
Grant-financed capital expenditure	2.7	3.1	2.0	2.2	1.0	1.5	2.0	2.2	2.2	2.1	2.1
Other capital expenditure	7.9	5.8	4.9	5.9	11.6	9.3	7.1	6.5	6.1	5.7	5.4
Capital revenue	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross operating balance	**5.1**	**6.1**	**2.3**	**7.1**	**11.3**	**11.1**	**9.2**	**8.8**	**8.6**	**8.6**	**8.9**
Natural disaster (ND) annualised cost 4/	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**	**1.5**
Net lending/borrowing (overall balance, excl ND cost)	**-5.4**	**-2.8**	**-4.7**	**-0.9**	**-1.2**	**0.3**	**0.1**	**0.1**	**0.3**	**0.8**	**1.4**
Net lending/borrowing (overall balance, incl ND cost)	**-5.4**	**-2.8**	**-4.7**	**-0.9**	**-1.2**	**-1.2**	**-1.4**	**-1.4**	**-1.2**	**-0.7**	**-0.1**
Net financial transactions	**-5.4**	**-2.8**	**-4.7**	**-0.9**	**-1.2**	**-1.2**	**-1.4**	**-1.4**	**-1.2**	**-0.7**	**-0.1**
Net acquisition of financial assets	**-5.0**	**1.2**	**-1.3**	**-14.0**	**-7.2**	**1.2**	**1.4**	**1.5**	**1.6**	**1.7**	**1.6**
Currency and deposits	-5.0	1.2	-1.3	-14.0	-7.2	1.2	1.4	1.5	1.6	1.7	1.6
Net incurrence of liabilities	**1.9**	**4.2**	**1.1**	**-0.2**	**1.2**	**0.0**	**0.0**	**-0.2**	**-0.4**	**-1.0**	**-1.5**
Domestic	-1.2	0.4	1.6	-0.3	0.3	0.0	0.0	0.0	-0.1	-0.3	-0.4
Foreign	3.0	3.8	-0.5	0.1	0.9	0.0	0.0	-0.1	-0.3	-0.7	-1.1
Other flows 5/	**8.5**	**-2.6**	**4.9**	**15.1**	**7.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:											
Primary balance	-3.4	-0.8	-3.1	1.1	0.8	2.3	2.0	2.1	2.1	2.7	3.2
Underlying primary balance 6/	0.0	0.0	0.0	0.4	-0.9	-0.3	0.2	0.4	0.3	0.3	0.3
Primary balance (excl. CBI)	-7.2	-4.4	-4.7	-4.1	-8.6	-6.6	-3.6	-2.2	-1.6	-0.5	0.0
Primary balance (excl. CBI and ND cost)	-7.2	-4.4	-4.7	-4.1	-7.1	-5.1	-2.1	-0.7	-0.1	1.0	1.5
Overall balance (excl. CBI)	-9.1	-6.4	-6.3	-6.1	-10.7	-8.6	-5.5	-4.2	-3.4	-2.4	-1.7
Public sector debt 7/	72.4	80.1	82.2	82.9	82.7	80.1	77.8	75.7	73.5	70.9	68.0
Domestic	19.9	18.5	20.1	20.5	19.0	18.5	19.0	18.9	18.2	17.3	16.5
Central Governement	15.4	15.2	16.7	16.4	16.3	15.6	15.0	14.4	13.8	13.1	12.2
Rest of public sector	4.5	3.4	3.5	4.0	2.7	2.9	4.0	4.5	4.4	4.3	4.2
Foreign	52.5	61.6	62.0	62.4	63.6	61.6	58.8	56.8	55.3	53.6	51.6
Central Governement	44.3	46.3	45.4	45.8	45.5	43.6	41.8	40.1	38.4	36.4	34.1
Rest of public sector	8.1	15.3	16.6	16.7	18.1	18.0	17.0	16.7	16.9	17.2	17.5
Nominal GDP, fiscal year (EC$ millions)	1,342	1,399	1,411	1,403	1,440	1,504	1,568	1,628	1,689	1,750	1,808

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

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

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

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

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

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

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

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

Table 6. Dominica: Central Government Financing Needs and Sources, Active Scenario[1/]

	2015	2016	2017	2018	2019	2020	2021	2022
			(in millions of Eastern Caribbean dollars)					
Gross financing needs	**291.7**	**212.8**	**160.6**	**150.1**	**199.4**	**188.9**	**190.1**	**199.8**
Overall deficit (incl. ND cost)	13.0	17.6	18.4	22.0	22.0	20.5	12.3	1.7
Overall deficit (excl. ND cost)	13.0	17.6	-4.1	-1.5	-2.4	-4.8	-14.0	-25.5
Savings in Vulnerability Fund (VF)	0.0	0.0	22.6	23.5	24.4	25.3	26.2	27.1
Debt repayments	82.5	91.5	142.2	128.1	177.3	168.4	177.8	198.1
External	55.3	56.8	80.6	87.4	119.5	105.4	110.9	127.4
Domestic	27.1	34.6	61.5	40.7	57.9	63.0	66.9	70.7
of which: short-term	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Accumulation of deposits	196.2	103.7	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing sources	**268.2**	**212.8**	**160.6**	**150.1**	**199.4**	**188.9**	**190.1**	**199.8**
Debt issuance	56.0	109.1	141.8	128.4	174.5	162.1	161.1	170.8
External	33.5	69.8	80.4	87.6	117.4	100.8	98.6	107.3
Domestic	22.5	39.3	61.5	40.8	57.1	61.3	62.5	63.5
of which: short-term	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Use of deposits	0.0	0.0	18.8	21.7	24.9	26.7	29.0	28.9
Other	212.2	103.7	...	...	...	...	...	...
Financing gap	**23.5**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which: Rapid Credit Facility	23.5	...	...	...	...	...	...	...
Memo: central government deposits	265	369	350	328	304	277	248	219
Memo: VF for natural disasters	0	0	23	46	71	96	122	149
				(in percent of GDP)				
Gross financing needs	**20.8**	**14.8**	**10.7**	**9.6**	**12.2**	**11.2**	**10.9**	**11.0**
Overall deficit (incl. ND cost)	0.9	1.2	1.2	1.4	1.4	1.2	0.7	0.1
Overall deficit (excl. ND cost)	0.9	1.2	-0.3	-0.1	-0.1	-0.3	-0.8	-1.4
Savings in Vulnerability Fund (VF)	0.0	0.0	1.5	1.5	1.5	1.5	1.5	1.5
Debt repayments	5.9	6.4	9.5	8.2	10.9	10.0	10.2	11.0
External	3.9	3.9	5.4	5.6	7.3	6.2	6.3	7.0
Domestic	1.9	2.4	4.1	2.6	3.6	3.7	3.8	3.9
of which: short-term	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1
Accumulation of deposits	14.0	7.2	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing sources	**19.1**	**14.8**	**10.7**	**9.6**	**12.2**	**11.2**	**10.9**	**11.0**
Debt issuance	4.0	7.6	9.4	8.2	10.7	9.6	9.2	9.4
External	2.4	4.8	5.3	5.6	7.2	6.0	5.6	5.9
Domestic	1.6	2.7	4.1	2.6	3.5	3.6	3.6	3.5
of which: short-term	1.4	1.4	1.3	1.3	1.2	1.2	1.1	1.1
Use of deposits	0.0	0.0	1.2	1.4	1.5	1.6	1.7	1.6
Other	15.1	7.2	...	...	...	...	...	...
Financing gap	**1.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
of which: Rapid Credit Facility	1.7	...	...	...	...	...	...	...
Memo: central government deposits	18.9	25.6	23.3	20.9	18.6	16.4	14.2	12.1
Memo: VF for natural disasters	0.0	0.0	1.5	2.9	4.3	5.7	7.0	8.3
Memo: nominal GDP, FY basis (EC$ millions)	1,403	1,440	1,504	1,568	1,628	1,689	1,750	1,808

Sources: Fund staff estimates and projections.
1/ Fiscal year (July-June) basis.

Annex I. Debt Sustainability Analysis[1]

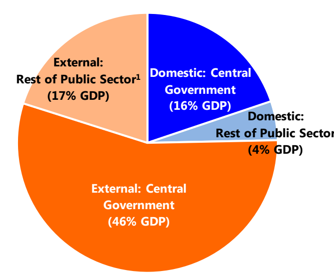
Risk of external debt distress:	*High*

Dominica continues to be assessed at high risk of debt distress. Setting public and external debt on a declining path requires reaching the fiscal consolidation target of over 6 percent of GDP by FY2020/21 committed by the authorities in the RCF disbursement. In addition, given lower projected grant flows, reaching the regional debt target of 60 percent of GDP by 2030 calls for the use of accumulated citizenship-by-investment (CBI) deposits for debt reduction. Main risks to the debt sustainability outlook include the failure to advance with the fiscal consolidation; a sudden stop in CBI revenues; and further weakening of the prospects for donor grants. Another large natural disaster would find the government with no buffers.

A. Background

1. Dominica's overall public debt has been increasing steadily since 2010. As of end-FY 2015/16, the stock of public sector debt (central government and rest of the public sector[2], henceforth public debt) is estimated to be around 83 percent of GDP. Over ¾ of this stock is external debt, owed largely to multilateral and bilateral creditors and the remaining is held domestically, mostly by commercial banks and other financial institutions. The debt of the rest of public sector (state owned enterprises and Petrocaribe debts) is about 20 percent of GDP.

Dominica: Public Sector Debt
(In percent of fiscal year GDP, FY2015/16)



Sources: Country Authorities; and IMF staff estimates and calculations.
[1] Includes staff estimates of PetroCaribe arrangement debt.

2. After being hit by the Tropical Storm Erika in August 2015, the Fund approved an RCF disbursement. The storm produced damages estimated at 96 percent of GDP, causing extensive impairment to public and private infrastructure. The RCF disbursement provided short-term financing relief, and a medium-term fiscal consolidation plan including measures targeting a cumulative adjustment of over 6 percent of GDP over a five-year period, as needed to reach the regional debt target of 60 percent of GDP by 2030. The government is pursuing a gradual fiscal consolidation over the medium-term, including comprehensive reforms to increase tax revenues and

[1] This DSA has been cleared by Mr. Bob Traa (IMF) and Ms. Paloma Anos-Casero (World Bank).

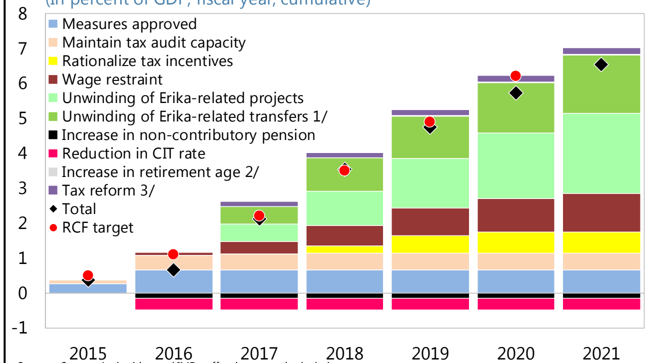
[2] Debt of the rest of the public sector also includes staff's estimate of Petrocaribe arrangement. The estimation is based on the Petrocaribe loan agreement. It should be noted, however, that Petrocaribe debt service payments have been cancelled or rescheduled in the last three years, a pattern that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

broaden the tax base, and contain current expenditures. The initial fiscal measures discussed in the RCF disbursement have been adopted, and key technical assistance to advance on the second-generation fiscal reforms has been delivered or is expected before the end of FY2016/17. The government has also passed additional measures to those discussed in the RCF disbursement to further strengthen the fiscal position. This debt sustainability outlook includes an annualized cost of rehabilitation and reconstruction after natural disasters of 1.5 percent of GDP per year, providing a degree of resilience to the fiscal consolidation strategy.

3. **If the fiscal consolidation plan is fully implemented, the debt outlook would improve significantly, setting public debt on a declining path.** The authorities have been taking measures that until now have been broadly in line with the targets, and are working to implement additional measures to reach the consolidation target. The debt sustainability analysis is based on an active policies scenario in which the government reaches the fiscal consolidation targets in the RCF disbursement.

Fiscal Measures

(In percent of GDP, fiscal year, cumulative)



Sources: Country Authorities; and IMF staff estimates and calculations.
1/ Includes Erika-related purchase of goods and services.
2/ Includes increase in employer contributions.
3/ Review of healthcare fees to improve cost recovery and introduction of a presumptive tax. FAD TA formally requested and PAHO technical support being provided.

4. **At the government's request, Paris Club creditors considered a debt relief program in 2016, but ultimately explained that no debt treatment would be granted without a Fund-supported program.** In light of the high debt burden, the large fiscal costs of the reconstruction of public infrastructure after the tropical storm, and its protracted effects on output, the authorities have formally requested debt relief from the Paris Club as part of their fiscal consolidation strategy. The authorities are also in conversations with the government of Venezuela which could reduce Petrocaribe obligations within the context of an early repayment at a discount.

B. Underlying Assumptions

5. **Macroeconomic assumptions underlying the DSA are summarized in Box 1.** The main differences relative to the DSA in the 2016 Staff Report, which contribute to higher PV of public sector external debt in 2016 are as follows:

- The potential growth rate has been revised down based on analytical inputs and recent trends in investment, employment, and productivity.
- The long-term fiscal outlook has also deteriorated mainly as a result of further downward revisions in the projection of grants.
- Observed CBI revenues have been higher than previously estimated, but these flows are unpredictable and subject to the risk of a sudden stop. The increased dependence on these inflows for government and external financing represents an increase in overall risk.

- Grants have been revised to less than half of the level in previous projections, based on recent observed performance and international trends. As noted in the 2016 Article IV Staff Report, external and public debt sustainability are highly sensitive to these flows.
- Some revisions and corrections to historical debt data and the corresponding future payment obligations which affect the PV calculations.

Box A1. Underlying Assumptions (2016-36)

The active scenario assumes fiscal consolidation of over 6 percent of GDP through 2016-22. During this period, public investment is projected to increase underpinned by the reconstruction of public infrastructure after Tropical Storm Erika. This results in an acceleration of growth in the near term, which gradually declines towards a potential growth rate of 1.5 percent. Some large scale investment projects under execution contribute to higher growth rates in the near term. During that period, the fiscal and external imbalances deteriorate before improving into the medium term on the back of fiscal consolidation and the unwinding of investment for reconstruction.

- **Real GDP.** Real GDP growth increases to over 3 percent in the near term and gradually declines towards the potential rate of 1.5 percent by 2022.
- **Inflation.** Inflation is projected to remain near 2 percent in line with international inflation, given the quasi-currency board arrangement of Eastern Caribbean dollar.
- **Balance of Payments.** Current account deficit remains high throughout the projection period financed mainly with FDI and official debt flows.

C. External DSA

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

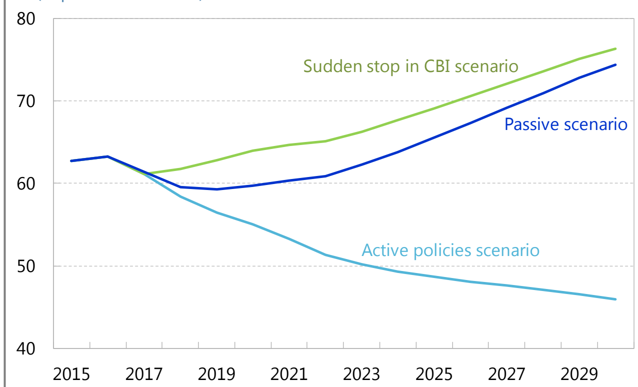
7. Moreover, under the historical and various alternative scenarios, external PPG debt dynamics become unsustainable for most debt indicators. Several risk thresholds are breached in the historical and shock scenarios. Under the historical scenario – which assumes non-interest current account balance, FDI, real GDP growth, and the GDP deflator remain at their 10-year historical average – the PV of debt-to-GDP threshold is breached for the entire period, and the PV of public external debt takes an increasing trajectory. The PV of debt-to-exports, debt service-to-exports, and debt service-to-revenue ratios also breach the thresholds under the historical scenario. In addition, under a combination shock[3], the PV of debt-to-GDP ratio returns to below threshold levels only at the end of the forecast horizon – by 2032, while the debt service-to-revenue ratio

[3] Combination of growth, exports, GDP deflator, and non-debt creating flows shocks using one-half standard deviation in 2017-2018.

threshold is breached briefly under a one-time depreciation shock. For most other indicators (PV of debt-to-exports, debt-to-revenue and most of the debt service ratios) the PV of external debt remains below thresholds under the temporary shock scenarios.

8. The results of the customized scenarios, designed to pinpoint sources of high risk, further justify the classification of "high risk of external debt distress". To highlight some of the main potential risks not captured in the standard stress tests, two additional customized scenarios are included in the analysis (text chart). First, assuming that the remaining fiscal consolidation is not passed because of capacity constraints or social resistance, public debt would take an increasing trajectory (passive scenario). Second, a scenario of sudden stop in the CBI revenues in FY2018/19 in the active policies scenario highlights the downside risk of the increasing reliance on unpredictable and volatile CBI revenues. The simulations indicate that materialization of these risks would result in a permanent breach of the PV of debt-to-GDP ratio threshold with an upward trajectory, rendering debt dynamics unsustainable as shown in Figure A1.

Dominica: External PPG Debt Developments
(In percent of GDP 1/)



Sources: Country Authorities; and IMF staff estimates and calculations.
1/ In percent of calendar year GDP.

9. Based on the threshold breaches in active, shock, and customized scenarios, Dominica's external PPG debt is rated as "high risk of debt distress". Given the challenges associated with fiscal consolidation in the wake of storm Erika, the customized scenarios, which also simulate an upward trending PV of debt-to-GDP, are attached significant weight in the risk assessment as they attempt to capture important vulnerabilities in the economy overlooked by the standardized tests. As the planned fiscal consolidation takes hold, further increasing confidence in the active policies scenario, an upgrade of the risk rating could be considered in a future assessment.

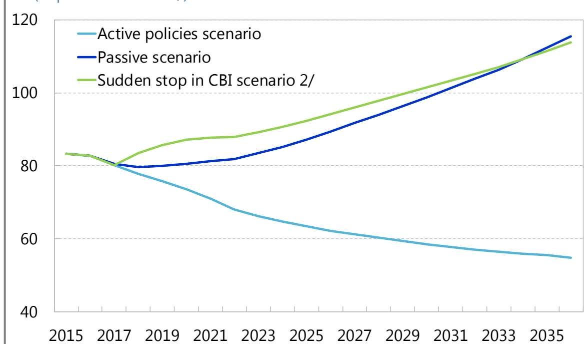
D. Public DSA

10. In an active policies scenario public debt is assessed to be sustainable. Under the active policies scenario – which assumes that the government completes its fiscal consolidation plan and meets the targets discussed in the RCF disbursement – the PV of public sector debt was estimated at 73 percent of GDP in 2016 and is expected to remain on a declining trajectory below the public debt threshold during the entire projection period. The PV of the debt-to-revenue ratio also declines, while debt service-to-revenue ratio increases over the forecast horizon (see Figure A2).

11. Simulations with alternative shock scenarios point to elevated but below the benchmark PPG debt levels. The most extreme shock (growth shock) in which real GDP is set to historical average minus one standard deviation in 2017-18, leads to an unsustainable and increasing PV of debt-to-GDP ratio. Alternative scenarios, which assume that primary balance-to-GDP ratio and real GDP growth are set to their historical averages (historical scenario), and primary balance-to-GDP ratio is set to its value in 2016 (fixed primary balance scenario), generate stable debt trajectories. This implies no margin for unexpected negative shocks under the assumptions in these scenarios.

12. Under the customized scenarios total PPG debt takes on an increasing trajectory. Under the two customized scenarios, which are included to highlight some of the main risks not captured in the standard stress tests, PV of debt-to-GDP, debt-to-revenue, and debt-service to revenue ratios continue to increase throughout the forecast period, breaching the public debt benchmark in 2018.

Dominica: Public Debt Developments
(In percent of GDP 1/)



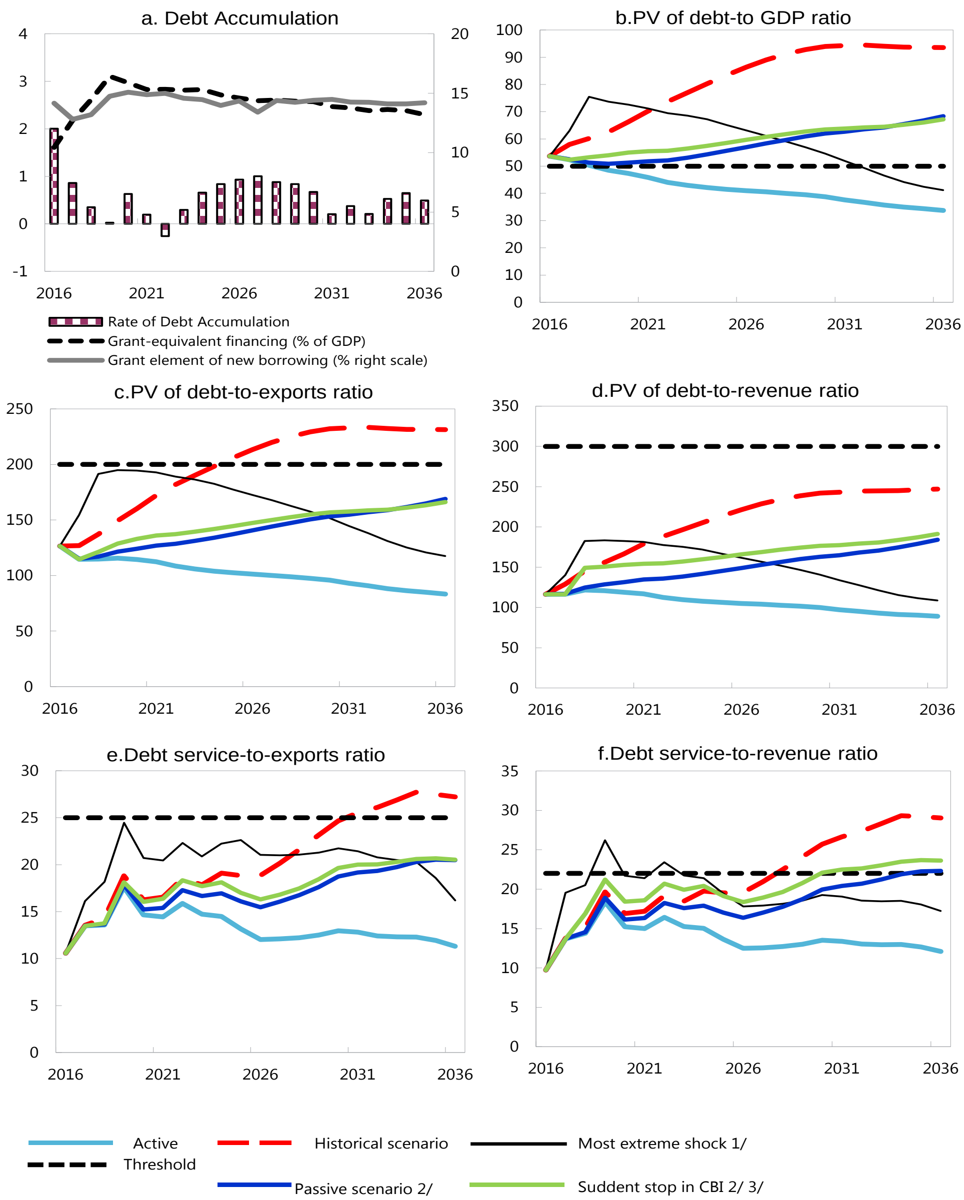
Sources: Country Authorities; and IMF staff estimates and calculations.
1/ In percent of calendar year GDP.
2/ Suddent stop in CBI scenario assumes a complete stop of CBI inflows starting in FY2018/19.

E. Conclusion

13. The large debt level and the significant risks to the debt sustainability outlook merit the classification of Dominica as "high risk of external debt distress". This assessment is based on debt dynamics presented in the active policies scenario and alternative scenarios, as well as the risks reflected in the customized scenarios and the significant risks explained above, which carry significant weight in this assessment.

14. The authorities agreed with Staff that Dominica remains at high risk of debt distress. They indicated that efforts to reduce debt levels must continue. They agreed that debt dynamics could become unsustainable if the fiscal consolidation package committed under the Rapid Credit Facility (RCF) was not implemented. In addition, they acknowledged the importance of grants and CBI flows to finance post-Erika capital program and for debt reduction, without which the debt thresholds would be breached. Therefore, the authorities reiterated their commitment to the fiscal consolidation targets in the RCF disbursement and agreed with Staff on the need to consider contingent fiscal measures. Finally, the authorities noted that only the portion of Petrocaribe funds, which has been approved as grants, has been utilized. Therefore, they questioned the inclusion of Petrocaribe obligations in the stock of public debt. However, Petrocaribe debt remains a gross liability of the government.

Figure A1. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2016-36 (Active Scenario) [1]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds combination shock; in c. to exports shock; in d. to a combination shock; in e. to a one time depreciation shock and i figure f. to a one-time depreciation shock. Shocks are applied to active scenario.
2/ Customized scenarios.
3/ Suddent stop in CBI scenario assumes a complete stop of CBI inflows starting in FY2018/19.

Table A1. Dominica: External Debt Sustainability Framework, Active Scenario, 2013-36 1/
(In percent of GDP) [1]

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**88.2**	**92.8**	**100.7**			**103.1**	**100.5**	**96.4**	**91.7**	**87.7**	**83.6**		**66.2**	**55.4**	
of which: public and publicly guaranteed (PPG)	62.8	61.4	62.7			63.2	61.1	58.4	56.5	55.0	53.3		48.1	41.3	
Change in external debt	11.9	4.6	7.9			2.4	-2.7	-4.0	-4.7	-4.0	-4.1		-2.0	-0.9	
Identified net debt-creating flows	1.7	-0.1	3.4			1.8	-1.7	0.6	1.4	0.9	0.5		2.0	1.8	
Non-interest current account deficit	**7.0**	**6.4**	**4.5**	**12.8**	**6.5**	**8.6**	**8.9**	**13.3**	**12.7**	**10.0**	**7.1**		**7.6**	**7.3**	7.6
Deficit in balance of goods and services	9.9	10.7	9.0			11.9	12.4	16.8	16.2	13.4	10.4		10.7	9.7	
Exports	38.1	41.1	40.5			42.4	45.7	43.9	41.9	41.3	40.8		40.5	40.5	
Imports	47.9	51.8	49.5			54.3	58.1	60.6	58.1	54.8	51.2		51.2	50.2	
Net current transfers (negative = inflow)	-4.0	-4.8	-5.5	-4.3	0.7	-4.6	-4.6	-4.6	-4.6	-4.6	-4.6		-4.6	-4.5	-4.6
of which: official	-1.1	-1.0	-1.1			-0.6	-0.6	-0.6	-0.6	-0.6	-0.6		-0.6	-0.5	
Other current account flows (negative = net inflow)	1.1	0.6	1.0			1.4	1.1	1.1	1.1	1.2	1.3		1.5	2.1	
Net FDI (negative = inflow)	**-4.6**	**-6.3**	**-6.6**	**-8.2**	**2.5**	**-9.0**	**-10.3**	**-12.7**	**-12.6**	**-10.5**	**-8.3**		**-7.6**	**-7.4**	-7.6
Endogenous debt dynamics 2/	**-0.6**	**-0.2**	**5.4**			**2.2**	**-0.3**	**0.1**	**1.3**	**1.4**	**1.7**		**2.0**	**1.8**	
Contribution from nominal interest rate	2.7	3.1	3.4			3.1	3.2	3.3	3.3	3.2	3.2		3.0	2.6	
Contribution from real GDP growth	-0.6	-3.6	1.7			-1.0	-3.6	-3.2	-2.0	-1.8	-1.5		-1.0	-0.8	
Contribution from price and exchange rate changes	-2.8	0.3	0.3			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**10.2**	**4.7**	**4.5**			**0.6**	**-1.0**	**-4.7**	**-6.1**	**-4.9**	**-4.7**		**-4.0**	**-2.7**	
of which: Capital transfers						2.4	2.0	2.6	2.9	3.0	2.9		2.8	2.4	
of which: Commercial Banks and other private flows						2.4	0.3	0.1	-1.3	-1.8	-2.5		-3.9	-3.8	
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	
PV of external debt 4/	...	...	90.2			93.6	91.7	88.3	83.8	80.0	76.1		59.1	47.8	
In percent of exports	...	...	222.8			220.5	200.5	201.4	199.7	193.4	186.5		145.9	118.2	
PV of PPG external debt	**...**	**...**	**52.2**			**53.7**	**52.4**	**50.3**	**48.5**	**47.3**	**45.8**		**41.0**	**33.7**	
In percent of exports	**...**	**...**	**129.0**			**126.5**	**114.5**	**114.8**	**115.6**	**114.4**	**112.3**		**101.2**	**83.3**	
In percent of government revenues	**...**	**...**	**128.7**			**116.4**	**116.4**	**121.6**	**120.7**	**119.0**	**116.8**		**105.1**	**89.0**	
Debt service-to-exports ratio (in percent)	**14.6**	**14.9**	**19.4**			**15.2**	**17.2**	**17.4**	**21.5**	**18.4**	**18.3**		**15.6**	**14.4**	
PPG debt service-to-exports ratio (in percent)	**9.6**	**10.8**	**14.7**			**10.6**	**13.5**	**13.6**	**17.6**	**14.7**	**14.4**		**12.0**	**11.3**	
PPG debt service-to-revenue ratio (in percent)	**10.1**	**13.1**	**14.6**			**9.7**	**13.7**	**14.4**	**18.4**	**15.2**	**15.0**		**12.5**	**12.1**	
Total gross financing need (Billions of U.S. dollars)	0.0	0.0	0.0			0.0	0.0	0.0	0.1	0.0	0.0		0.0	0.1	
Non-interest current account deficit that stabilizes debt ratio	-5.0	1.8	-3.3			6.2	11.6	17.3	17.4	14.1	11.2		9.6	8.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	0.8	4.2	-1.8	2.0	3.3	1.0	3.6	3.3	2.2	2.1	1.7	2.3	1.5	1.5	1.5
GDP deflator in US dollar terms (change in percent)	3.8	-0.3	-0.3	1.7	2.8	0.0	0.6	1.4	1.6	1.8	1.9	1.2	2.0	2.0	2.0
Effective interest rate (percent) 5/	3.8	3.6	3.6	4.2	0.7	3.1	3.3	3.4	3.6	3.6	3.8	3.5	4.6	4.9	4.7
Growth of exports of G&S (US dollar terms, in percent)	22.2	12.2	-3.6	5.5	11.6	5.9	12.2	0.5	-0.7	2.4	2.3	3.7	3.5	3.5	3.4
Growth of imports of G&S (US dollar terms, in percent)	-2.5	12.3	-6.4	3.2	10.6	10.8	11.5	9.3	-0.5	-2.1	-3.1	4.3	3.5	2.6	3.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	14.2	12.8	13.2	14.8	15.1	14.9	14.1	14.4	14.2	14.3
Government revenues (excluding grants, in percent of GDP)	36.4	34.0	40.6			46.1	45.0	41.4	40.2	39.8	39.2		39.0	37.9	38.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Grants	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.6	2.2	2.6	3.1	3.0	2.8		2.7	2.3	2.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			29.8	33.1	40.8	38.4	40.7	42.7		41.3	40.4	40.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	0.5	0.5	0.5			0.5	0.5	0.6	0.6	0.6	0.6		0.8	1.1	
Nominal dollar GDP growth	4.6	3.9	-2.1			1.0	4.2	4.7	3.8	3.8	3.6	3.5	3.5	3.5	3.5
PV of PPG external debt (in Billions of US dollars)			0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.4	
(PVt-PVt-1)/GDPt-1 (in percent)						2.0	0.9	0.4	0.0	0.6	0.2	0.7	0.9	0.5	0.6
Gross workers' remittances (Billions of US dollars)	...	...	...			...	...	...	...	...	...		...	...	
PV of PPG external debt (in percent of GDP + remittances)	...	...	52.2			53.7	52.4	50.3	48.5	47.3	45.8		41.0	33.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	129.0			126.5	114.5	114.8	115.6	114.4	112.3		101.2	83.3	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	14.7			10.6	13.5	13.6	17.6	14.7	14.4		12.0	11.3	

Sources: Country authorities; and staff estimates and projections.

1/ Includes public and private sector external debt.

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

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

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

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

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

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

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

Table A2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Active Scenario, 2016-36

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	54	52	50	49	47	46	**41**	34
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	54	58	60	63	66	70	**86**	94
A2. New public sector loans on less favorable terms in 2016-2036 2	54	53	52	52	52	51	**52**	57
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	54	55	55	53	52	50	**45**	37
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	54	59	66	64	63	62	**55**	37
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	54	53	52	51	49	48	**43**	35
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	54	57	63	61	60	58	**52**	37
B5. Combination of B1-B4 using one-half standard deviation shocks	54	63	75	74	73	71	**63**	41
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	54	75	72	69	67	65	**58**	48
PV of debt-to-exports ratio								
Baseline	126	115	115	116	114	112	**101**	83
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	126	127	137	149	160	172	**213**	231
A2. New public sector loans on less favorable terms in 2016-2036 2	126	117	119	123	125	125	**128**	142
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	126	115	115	116	114	112	**101**	83
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	126	154	191	195	194	193	**172**	118
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	126	115	115	116	114	112	**101**	83
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	126	126	143	145	145	143	**128**	90
B5. Combination of B1-B4 using one-half standard deviation shocks	126	150	181	185	184	183	**164**	107
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	126	115	115	116	114	112	**101**	83
PV of debt-to-revenue ratio								
Baseline	116	116	122	121	119	117	**105**	89
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	116	129	145	156	167	179	**221**	247
A2. New public sector loans on less favorable terms in 2016-2036 2	116	119	126	129	130	130	**133**	151
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	116	122	134	133	131	129	**116**	98
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	116	131	159	159	158	157	**140**	98
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	116	118	127	126	124	122	**109**	93
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	116	128	151	152	150	149	**133**	96
B5. Combination of B1-B4 using one-half standard deviation shocks	116	140	182	183	182	181	**162**	109
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	116	166	173	172	170	166	**150**	127

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

Table A2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, Active Scenario, 2016-36 (concluded)

Debt service-to-exports ratio								
Baseline	11	13	14	18	15	14	**12**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	11	14	14	19	16	17	**19**	27
A2. New public sector loans on less favorable terms in 2016-2036 2	11	13	13	16	13	13	**13**	16
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	11	13	14	18	15	14	**12**	11
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	11	16	18	24	21	20	**21**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	11	13	14	18	15	14	**12**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	11	13	14	19	16	16	**16**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	11	15	16	22	19	19	**20**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	11	13	14	18	15	14	**12**	11
Debt service-to-revenue ratio								
Baseline	10	14	14	18	15	15	**12**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	10	14	15	20	17	17	**20**	29
A2. New public sector loans on less favorable terms in 2016-2036 2	10	14	14	17	14	13	**14**	17
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	10	14	16	20	17	17	**14**	13
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	10	14	15	20	17	17	**17**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	10	14	15	19	16	16	**13**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	10	14	15	20	17	16	**16**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	10	14	16	22	19	18	**20**	15
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	10	20	21	26	22	21	**18**	17
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	10	10	10	10	10	10	**10**	10

Sources: Country authorities; and staff estimates and projections.

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

Table A3. Dominica: Public Sector Debt Sustainability Framework, Active Scenario, 2013-36
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	81.7	81.3	83.3			82.7	80.1	77.8	75.7	73.6	70.9		62.3	54.9	
of which: foreign-currency denominated	62.8	61.4	62.7			63.2	61.1	58.4	56.5	55.0	53.3		48.1	41.3	
Change in public sector debt	7.7	-0.4	2.0			-0.6	-2.6	-2.3	-2.1	-2.1	-2.6		-1.1	-0.8	
Identified debt-creating flows	-0.1	2.0	3.1			1.0	-1.5	-1.7	-0.9	-1.0	-1.3		-1.3	-0.8	
Primary deficit	1.2	2.8	-0.8	-0.3	3.9	-0.6	-1.0	-0.9	-1.1	-1.1	-1.6	-1.1	-1.7	-1.1	-1.5
Revenue and grants	39.6	36.0	42.8			47.1	46.5	43.4	42.4	42.0	41.4		41.0	39.6	
of which: grants	3.2	2.0	2.2			1.0	1.5	2.0	2.2	2.2	2.2		2.0	1.7	
Primary (noninterest) expenditure	40.8	38.8	42.0			46.5	45.5	42.5	41.4	40.9	39.8		39.3	38.6	
Automatic debt dynamics	-1.3	-0.8	4.0			1.6	-0.5	-0.8	0.1	0.1	0.3		0.4	0.4	
Contribution from interest rate/growth differential	-0.1	-2.1	3.1			0.8	-1.4	-1.3	-0.2	-0.1	0.2		0.4	0.4	
of which: contribution from average real interest rate	0.5	1.2	1.6			1.6	1.5	1.3	1.5	1.5	1.5		1.4	1.2	
of which: contribution from real GDP growth	-0.6	-3.3	1.5			-0.8	-2.9	-2.6	-1.6	-1.5	-1.3		-0.9	-0.8	
Contribution from real exchange rate depreciation	-1.1	1.3	0.9			0.8	0.9	0.5	0.3	0.1	0.0		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.1	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.1	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	7.7	-2.4	-1.2			-1.6	-1.1	-0.6	-1.2	-1.1	-1.3		0.2	0.0	
of which, use of deposits						0.0	-1.3	-1.4	-1.6	-1.6	-1.7		-0.1	0.0	
Other Sustainability Indicators															
PV of public sector debt	...	...	72.8			73.1	71.3	69.7	67.7	65.9	63.5		55.1	47.3	
of which: foreign-currency denominated	...	...	52.2			53.7	52.4	50.3	48.5	47.3	45.8		41.0	33.7	
of which: external	...	...	52.2			53.7	52.4	50.3	48.5	47.3	45.8		41.0	33.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.0	8.8	6.4			6.1	9.3	7.6	10.0	8.8	8.2		7.2	6.7	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	170.1			155.2	153.2	160.5	159.7	156.9	153.3		134.4	119.3	
PV of public sector debt-to-revenue ratio (in percent)	...	...	179.3			158.5	158.5	168.4	168.6	165.6	161.8		141.3	124.8	
of which: external 3/	...	...	128.7			116.4	116.4	121.6	120.7	119.0	116.8		105.1	89.0	
Debt service-to-revenue and grants ratio (in percent) 4/	14.7	16.5	16.8			14.4	22.1	19.6	26.0	23.6	23.7		21.9	19.6	
Debt service-to-revenue ratio (in percent) 4/	16.0	17.5	17.7			14.7	22.8	20.6	27.4	24.9	25.1		23.0	20.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-6.5	3.2	-2.8			0.0	1.6	1.4	1.0	1.0	1.0		-0.6	-0.3	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.8	4.2	-1.8	2.0	3.3	1.0	3.6	3.3	2.2	2.1	1.7	2.3	1.5	1.5	1.5
Average nominal interest rate on forex debt (in percent)	1.7	2.3	2.4	2.3	0.5	1.9	2.5	2.8	3.0	3.0	3.1	2.7	3.3	3.5	3.4
Average real interest rate on domestic debt (in percent)	2.0	4.9	3.9	2.7	2.8	6.1	6.2	5.4	5.1	4.9	4.8	5.4	4.9	4.5	4.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-2.1	2.1	1.4	0.2	2.9	1.3	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.8	-0.3	-0.3	1.7	2.8	0.0	0.6	1.4	1.6	1.8	1.9	1.2	2.0	2.0	2.0
Growth of real primary spending (deflated by GDP deflator, in percent)	-7.6	-0.7	6.2	-0.2	3.3	11.8	1.5	-3.5	-0.6	0.8	-0.9	1.5	1.5	0.8	1.3
Grant element of new external borrowing (in percent)	...	...	...	...	...	14.2	12.8	13.2	14.8	15.1	14.9	14.1	14.4	14.2	...

Sources: Country authorities; and staff estimates and projections.

1/ Public sector includes Central Government, State Owned Enterprises, and staff estimate of PetroCaribe arrangement.

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

3/ Revenues excluding grants.

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

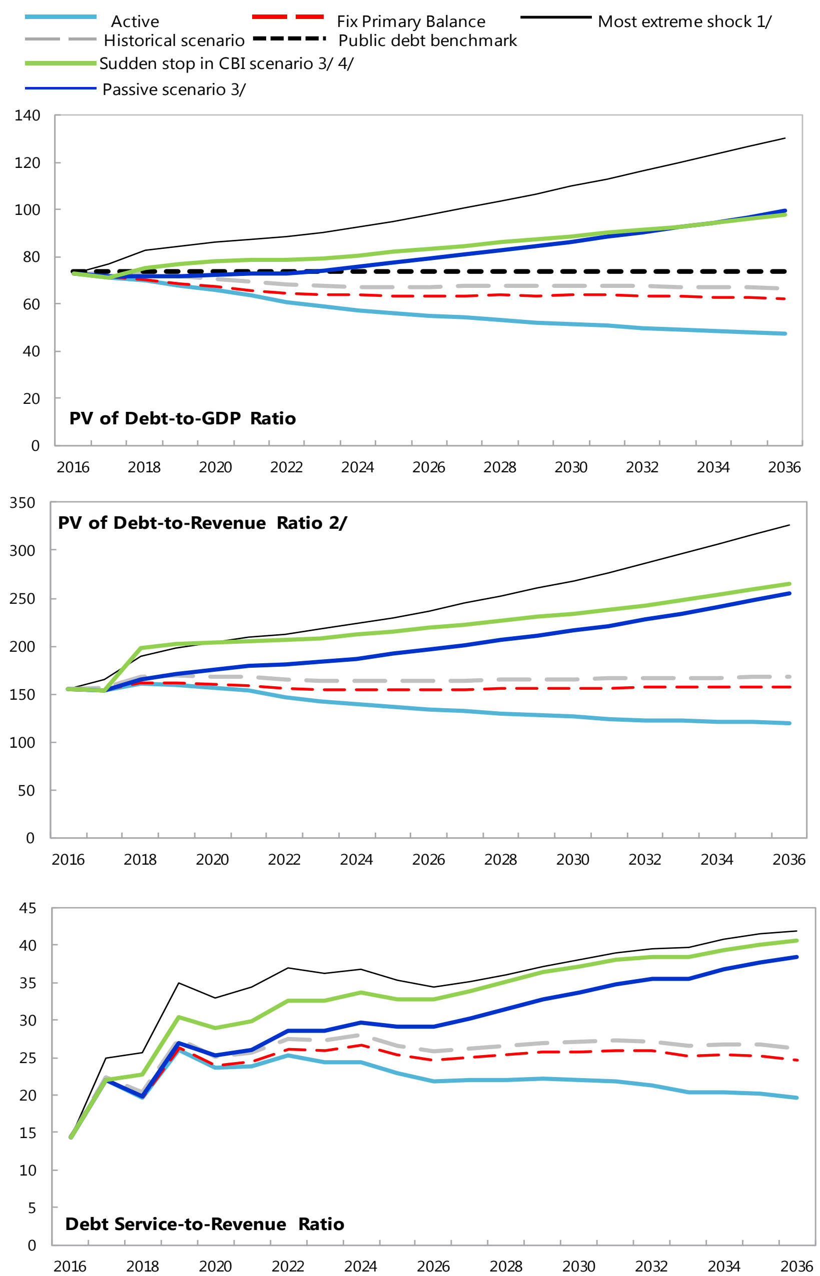
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A4. Dominica: Sensitivity Analysis for Key Indicators of Public Debt, Active Scenario, 2016-36
(In percent of GDP)

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	73	71	70	68	66	63	55	47
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	73	73	73	72	71	69	67	67
A2. Primary balance is unchanged from 2016	73	72	70	69	67	66	63	62
A3. Permanently lower GDP growth 1/	73	72	72	71	70	70	75	118
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	73	77	83	84	86	87	98	130
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	73	76	78	76	74	72	64	57
B3. Combination of B1-B2 using one half standard deviation shocks	73	76	79	80	80	80	84	102
B4. One-time 30 percent real depreciation in 2017	73	95	93	91	89	86	80	81
B5. 10 percent of GDP increase in other debt-creating flows in 2017	73	81	79	77	75	73	65	58
PV of Debt-to-Revenue Ratio 2/								
Baseline	155	153	160	160	157	153	134	119
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	155	157	168	169	168	167	164	168
A2. Primary balance is unchanged from 2016	155	154	162	162	160	159	155	157
A3. Permanently lower GDP growth 1/	155	155	165	167	168	168	182	296
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	155	165	190	198	204	210	237	327
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	155	163	180	180	177	174	157	144
B3. Combination of B1-B2 using one half standard deviation shocks	155	163	182	187	190	192	203	256
B4. One-time 30 percent real depreciation in 2017	155	203	213	213	211	208	195	204
B5. 10 percent of GDP increase in other debt-creating flows in 2017	155	173	182	182	179	176	159	146
Debt Service-to-Revenue Ratio 2/								
Baseline	14	22	20	26	24	24	22	20
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	22	20	28	25	26	26	26
A2. Primary balance is unchanged from 2016	14	22	20	26	24	24	25	25
A3. Permanently lower GDP growth 1/	14	22	20	27	25	26	28	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-2018	14	23	22	31	31	32	35	50
B2. Primary balance is at historical average minus one standard deviations in 2017-2018	14	22	20	31	29	27	24	24
B3. Combination of B1-B2 using one half standard deviation shocks	14	23	21	31	28	30	31	39
B4. One-time 30 percent real depreciation in 2017	14	25	26	35	33	34	34	42
B5. 10 percent of GDP increase in other debt-creating flows in 2017	14	22	21	36	25	29	24	24

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Figure A2. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2016-36 (Active Scenario) 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.
2/ Revenues are defined inclusive of grants.
3/ Customized scenarios.
4/ Suddent stop in CBI scenario assumes a complete stop of CBI inflows starting in FY2018/19.

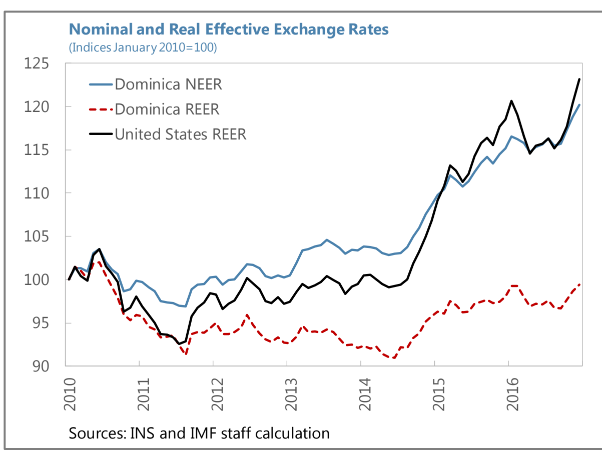
Annex II. External Sector Assessment

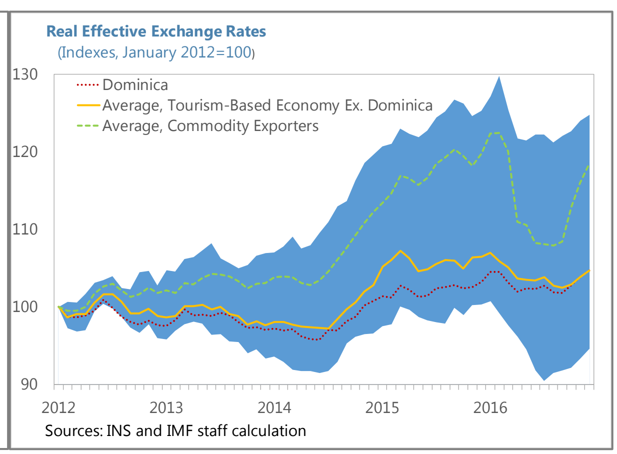
Dominica's external position in 2016 is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policy settings. Achieving a strong and sustainable external sector requires policies and structural reforms geared at increasing external competitiveness over the medium term. Reserves are assessed to be adequate, with sufficient shock-absorbing capacity.

1. **The current account deficit is expected to widen in the near term.** As the collapse of manufacturing exports, the reconstruction-driven increase in imports and the decline in transfers were only partially offset by a decline in oil imports, higher-than-expected tourism receipts and citizenship-by-investment (CBI) revenues, Dominica's current account deficit is estimated to have widened from 8.0 percent of GDP in 2015 to 11.8 percent of GDP in 2016. Given the projected further increase in imports for reconstruction activity and the moderation in CBI revenues, the current account deficit is expected to widen further over the next three years before normalizing at a lower level.

A. Nominal and Real Effective Exchange Rate Assessment

2. **Dominica's real effective exchange rate appreciated (REER) slightly, due to the strengthening of the US dollar.** Dominica's nominal effective exchange rate (NEER) appreciated by 3.6 percent on average in 2016 mainly because of the strengthening of the U.S. dollar to which the EC dollar, the regional currency, is pegged. In comparison, the CPI based REER appreciated by 0.9 percent during the same period. Measures of the REER in tourism-competitor Caribbean countries suggest a mild deterioration of about 2.5 percent in Dominica's competitiveness in 2016. Further appreciation could continue in the near future, should relatively stronger growth and higher interest rates in the United States and uncertainty around Brexit cause the U.S. dollar to strengthen. Moreover, inflation is expected to accelerate to around 2 percent in the medium term in Dominica, providing an additional boost to the appreciation of the real exchange rate.





B. External Stability Assessments

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

- Drawing on the EBA-Lite current account (CA) regression model (after accounting for Dominica-specific factors), staff assesses the cyclically-adjusted current account balance and cyclically-adjusted current account norm to be -12.2 percent of GDP and 0.7 percent of GDP, respectively in 2016. The latter is mostly driven by the significant increase in reserves in 2016 (see next section). The resulting current account gap is thus -12.9 percent of GDP. However, macroeconomic policies contributed +2.0 percent of GDP to the gap, mostly driven by fiscal policy (1.5 percent of GDP), private credit (0.3 percent of GDP) and reserve adequacy (0.2 percent of GDP). The remaining gap of -14.8 percent of GDP would need to be closed by structural policies aimed at improving competitiveness over the medium term.

- The external sustainability (ES) approach sets a medium-term current account norm at the level that would bring the net foreign assets-to-GDP ratio to zero in ten years. On this basis, the estimated norm is a deficit of 6.4 percent of GDP, compared to an underlying current account deficit of 10.3 percent of GDP.

- The EBA-Lite methodologies suggest a wide range of Real Effective Exchange Rate (REER) gap estimates. Each method indicates that the REER is overvalued. Specifically, according to the CA model, a REER adjustment of 50 percent would be necessary to close the current account gap of -14.8 percent of GDP. At the same time, the ES approach and the Index REER model found that the REER needs to be adjusted by 15 and 5 percent, respectively.

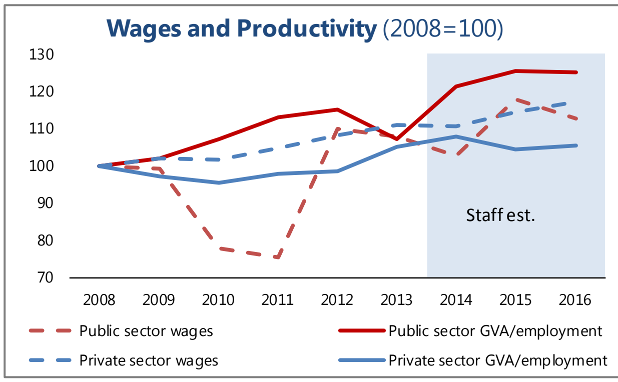
Current Account and Real Exchange Rate Assessments
(In percent of GDP)

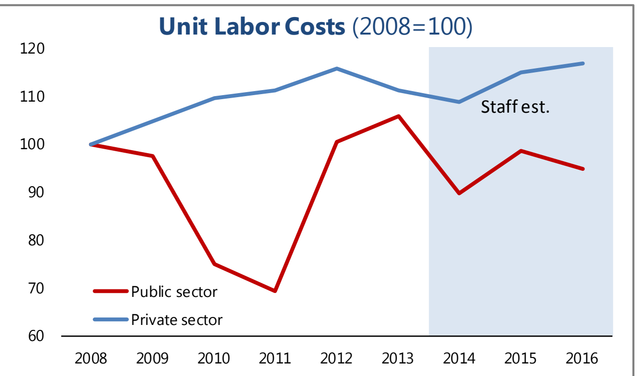
	CA Model	ES Approach	I-REER Model
CA Actual	-11.8	-11.8	
Cyclically Adjusted CA	-12.2	-10.3	
Cyclically Adjusted CA Norm	0.7	-6.4	
CA Gap	-12.9	-3.9	
Of which: Policy Gap			
Fiscal Policy	*1.5*		
Private Credit	*0.3*		
Change in Reserves	*0.2*		
Capital Controls	*0.0*		
Residual	-14.8		
Real Exchange Rate Gap[1]	50.0	15.0	5.0

Source: IMF staff estimates.

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

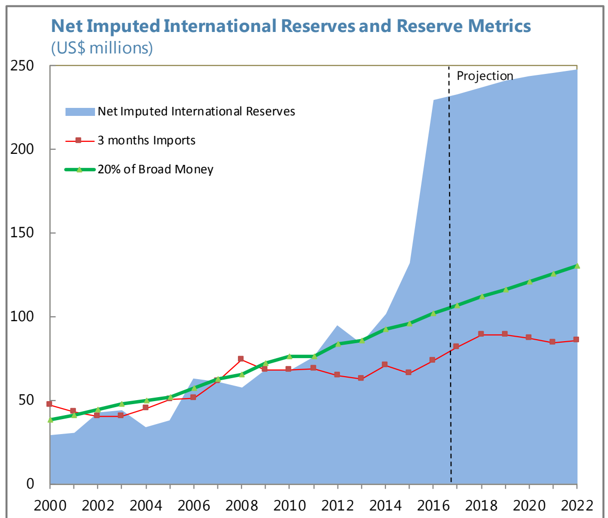
4. Recent developments in wages and productivity also indicate a weakening of Dominica's external competitiveness based on unit labor costs. Since 2008, a period characterized by low growth in Dominica in the context of the global financial crisis, private sector wages have increased by 18 percent in excess of average labor productivity, leading to an increase in unit labor costs (text charts). In the public sector, cumulative wage growth was broadly aligned with labor productivity changes. Public sector compensation, however, shows significant volatility due to triennial back-payments that are typically agreed with labor unions.





C. Reserve Adequacy

5. **Dominica's reserve position significantly improved in 2016.** Dominica is a member of the Eastern Caribbean Currency Union. Under the quasi-currency board arrangement, foreign assets and liabilities of the Eastern Caribbean Central Bank (ECCB) cannot be directly assigned to an individual country. The imputed reserves method is thus used as a proxy for net foreign assets held with the ECCB.[1] At an estimated level of US$229 million at end-2016, Dominica's imputed reserves covered 9.4 months of imports (forward cover) and 45 percent of broad money, exceeding the typical benchmarks of reserve adequacy such as 3 months of imports and 20 percent of broad money.[2,3] The significant increase in the level of



Sources: Eastern Caribbean Central Bank and IMF staff calculation.

[1] Imputed reserves of the individual ECCB member countries are calculated as the differences between the assets held by the member countries with the ECCB and the liabilities of the member countries to the ECCB.

[2] 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.

[3] 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.

reserves in 2016 is presumed to be driven by unrecorded CBI flows. In the active scenario, reserve levels are expected to remain adequate for cushioning external shocks and preventing disorderly market conditions.

D. Conclusion

6. **Dominica's external position is assessed to be weaker than the level consistent with medium-term fundamentals and desirable policy settings in 2016.** Notwithstanding the adequate foreign exchange reserves, staff estimates that the external position would weaken further over the medium term. Fiscal consolidation aiming for a small primary surplus while providing space for infrastructure spending to ease supply bottlenecks would improve the current account position and help stabilize reserves. Moreover, supportive structural reforms - improving labor productivity, reducing the electricity costs, increasing access to finance as well as reforms to promote the business environment - are also necessary to boost productivity, improve competitiveness and prospects for export diversification.

INTERNATIONAL MONETARY FUND

DOMINICA

April 27, 2017

STAFF REPORT FOR THE 2017 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | Western Hemisphere Department (In consultation with other departments)

CONTENTS

FUND RELATIONS

(As of March 31, 2017)

Membership Status Joined 12/12/78; Article VIII

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

SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	7.84	100.00
Holdings	0.91	11.59

Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
RCF Loans	8.20	71.30
ESF RAC Loan	1.64	14.26

Latest Financial Arrangements:

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

Projected Payments to the Fund (SDR Million):[1/]

			Forthcoming		
	2017	**2018**	**2019**	**2020**	**2021**
Principal	0.53	1.07	1.07	0.41	1.64
Charges/Interest	0.02	0.03	0.03	0.03	0.03
Total	**0.55**	**1.09**	**1.10**	**0.44**	**1.67**

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

Exchange Rate Arrangement: Dominica is a member of the Eastern Caribbean Currency Union, which has a common central bank, the Eastern Caribbean Central Bank, and currency, the Eastern Caribbean dollar. Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. Dominica has accepted the obligations of Article VIII, Sections 2, 3, and 4.

Dominica maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

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

Article IV Consultation: The last Article IV consultation was concluded by the Executive Board on July 13, 2016; the relevant document is IMF Country Report No. 16/244. 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

Revenue Administration Missions

- June 2013: Tax and Customs Administration
- June 2013: Tax and Customs Administration
- June 2013: To work on outline for Regional Audit Manual with STX Brian Dawe
- August 2013: Assist Dominica Inland Revenue and Customs Department with their Risk Management program (Support to SEMCAR)
- September 2013: Continue to assist with IRD reorganization and capacity building in audit
- September 2013: Introductory Meetings with Senior IRD Officials; liaise with STX Dawe on IRD reorganization
- September 2013: to introduce new LTX Advisor to Senior IRD officials; liaise with STX Dawe on IRD reorganization
- October 2013: Liaise with STX Macleod on PAYE Administration support
- October 2013: Deliver PAYE audit training; assist with development of Audit program and procedures circulars
- November 2013: Work at home: Development of Audit Manual
- November 2013: Co-facilitate regional seminar on Tax Arrears Collections and Enforcement
- November 2013: Co-facilitate the Regional Collections Enforcement Seminar for Supervisors
- November 2013: To continue to assist with IRD reorganization and capacity building in audit
- November 2013: To assist in the development and upgrade of collections enforcement procedures

- November 2013: Supporting the development of Valuation procedures and policy for the Customs Administration
- January 2014: Help design the IRD Corporate Strategic Plan
- March 2014: Post Clearance Audit Training and Support to the Customs Administration
- April 2014: Extension of Tax Administration Adviser
- April 2014: Project Management Support and Building Audit Capacity – IRD reorganization project
- September 2014: To conduct Tax review
- September/October 2014: Review of Dominica Income Tax
- January 2015: Building Capacity and Supporting the Establishment of the HQ Design Monitoring and Large and Medium Taxpayer Sections (LMTS)
- January 2015: DMS and Large and Medium Taxpayers compliance measurement
- March 2016: Small Business Reform – Revenue Modelling for VAT and Presumptive tax
- August 2016: To Provide Training and Guidance to Strengthen the Post-Clearance Audit Function in Customs
- September 2016: Meeting with the Comptroller of Customs to Discuss Technical Assistance Needs
- October 2016: Building Capacity in Data Analytics and Computer-Assisted Audit Techniques
- October 2016: Compliance management framework
- November 2016: Develop Taxpayer Service Strategy
- February 2017: Tax Administration-Assist IRD to finalize its taxpayer services strategy

Financial Sector Missions

- December 2013: Insurance Supervision and Credit Union Supervision
- January 2014: Follow-up mission—onsite review of offshore banks and continued training of Supervisors
- April 2014: Consolidated Supervision - Training
- November 2014: Risk Based Supervision and Consolidated Supervision
- April 2016: Risk Based Supervision
- August 2016: Supervisory Interventions Banks and Non-Banks
- November 2016: Risk-Based Supervision Training

- January 2017: Development of a Stress-Testing Framework and Methodology for Credit Union Sector

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

Macroeconomics and Programming Analysis

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

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

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

RELATIONS WITH THE WORLD BANK GROUP

(As of April 2017)

World Bank Group OECS Regional Partnership Strategy: On November 13, 2014, the Board of the Executive Directors of the World Bank Group (WBG) endorsed the Regional Partnership Strategy (RPS) for the Organisation of the Eastern Caribbean States (OECS). The RPS covers the period FY15-FY19. The high-level objective of the RPS is to contribute to lay the foundations for sustainable inclusive growth, in line with the OECS governments' priorities. In order to achieve this goal, the program is planned to be organized around three main areas of engagement. Under the first one, the WBG is supporting "competitiveness". Growth and job creation in the private sector is being supported both horizontally – by improving the business environment – and vertically – by focusing on specific sectors with a high potential to generate inclusive sustainable growth (particularly tourism, agribusiness and their respective linkages). The second area of engagement is "public sector modernization", with particular focus on public financial management (PFM) and institutional capacity, including for statistics and public private partnerships (PPPs), to better leverage private investment in infrastructure and service provision. The third area is "resilience", with the objective to address both social vulnerabilities (in education, health and social protection), and exposure to natural disasters.

Constrained in general by the small size of investments in the OECS, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are expected to contribute to the RPS objectives through selective investment support, depending on opportunities. The IFC is expected to focus on crisis response; job creation and inclusive growth; innovation, competitiveness, and integration; and climate change. MIGA, however, faces limited opportunities for engagement because of the small market size of the OECS countries.

The IBRD lending program for the six OECS countries is of around US$120 million, or up to a maximum of US$20 million for each OECS country for the period of the RPS (FY15-19), subject to country and program performance, IBRD's lending capacity, and exposure management parameters. In addition to the IBRD envelope, four OECS countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) can also count on an IDA national allocation. The IDA17 (FY15-17) allocation for the OECS was equal to SDR60.2 million, an increase of around 20 percent over the IDA16 OECS allocation (SDR50.3 million). However, the final IDA17 allocation used by all OECS countries was of SDR43.6 million. Dominica, in particular, did not avail of any IDA17 resources. The IDA18 (FY18-FY20) allocation for the OECS countries is expected to dramatically increase and be roughly of SDR 200 million.

A. Projects

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

The Bank has, in its pipeline, a couple of projects for Dominica, which are expected to be approved in the WBG's FY18. The first of these projects is a regional project, where Dominica is a participating country with a total IDA allocation of about US$2 million. This project's name is OECS Small and Medium Enterprises (SME) Partial Credit Guarantee (PCG) Project. The Project Development Objective (PDO) is to facilitate additional financial intermediation for SMEs and strengthen the enabling environment for SME lending, by setting up a regional partial guarantee fund. The second project is a country-specific project for which Dominica is expected to use both IDA funding (US$ 9.5 million) and a grant from the Clean Technology Fund (US$10 million) for a Geothermal Risk Mitigation Project. This Project's PDO is to help: a) diversify the domestic power generation mix in Dominica by integrating clean, renewable geothermal energy; and b) assess the viability of exporting geothermal-based electricity to other regional islands.

B. Non-Lending Activities

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

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

The Caribbean Growth Forum (CGF)

The Caribbean Growth Forum (CGF) is a multi-stakeholder platform designed to identify, prioritize and implement a set of activities to improve the growth enabling environment in the Caribbean, while promoting participatory public policy making. It has so far engaged more than 2,500 representatives from business associations, civil society organizations, Government, private sector, media, indigenous groups, and international development agencies on themes such as Logistics and Connectivity; Investment Climate; and, Skills and Productivity. Positive outcomes are tangible: twelve countries formally joined the process by establishing their national CGF chapter and have completed the first phase of national dialogue. This effort has led to the prioritization of concrete and actionable activities and draft action plans are now available, with details on each activity' implementation plan (e.g., accountabilities, milestones, timeline, funding). Each government involved in the CGF also committed to follow-up on implementation of the reform agenda, to report back periodically on progress (every 4-5 months) and to enable independent monitoring of the reforms by private sector and civil society representatives.

Financial Relations

(In millions of U.S. Dollars)

Operation	**Original Principal**	**Available**[1]	**Disbursed**[1]
Dominica Disaster Vulnerability Reduction Project	38	1.58	0.73
Total	**38**	**36.7**	**0.76**

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

Disbursements and Debt Service (Fiscal Year)

(In millions of U.S. Dollars)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total disbursements	1.6	0.0	1.3	1.3	0.6	1.6	0.7	0.6	0.9	0.6	0.7	0.0	0.2
Repayments	0.7	0.8	1.0	1.3	1.2	0.9	0.9	0.9	0.7	0.7	0.5	0.8	0.3
Net disbursements	0.9	-0.8	0.2	0.2	-0.6	0.6	-0.2	-0.3	0.2	-0.1	0.1	-0.8	-0.1
Interest and fees	0.4	0.4	0.4	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1	0.2	0.1

RELATIONS WITH THE CARIBBEAN DEVELOPMENT BANK (CDB)

(As of March 31, 2017)

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

Total loans and grants approved over the period 1970–2015 amounted to USD272 million, making Dominica the sixth largest beneficiary among the Bank's 19 borrowing members. At March 2017, CDB's loan exposure to Dominica was approximately USD87.4 million, which represented 5.6 percent of CDB's total disbursed debt outstanding.

Resource flows from CDB to Dominica have fluctuated in the past ten years. Net resource flows were negative from 2006 through 2009, reflecting some caution on the part of the Dominica government to after a debt restructuring in 2004, particularly since efforts to maintain prudent fiscal policies and enhance debt sustainability had been facilitated by strong inflows of grant resources. Net resource flows were positive between 2010 and 2012, with disbursements reflecting the implementation of key interventions programmed in CDB's Country Strategy Paper (CSP) for Dominica for the period 2010 to 2012[1]. These included: a line of credit for productive sector development and an education enhancement project. Since 2013 resource flows have been negative, as projects neared completion. Other factors contributing to the negative outflow are also likely to have been the authorities' concern about ensuring fiscal sustainability given the protracted effects of the financial crisis. With new post-Tropical Storm Erika loans agreed in 2015, the resource flow is likely to turn positive again from 2016.

Dominica: Loan Disbursement, Service and Resource Flow
(In millions of U.S. dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net disbursement	-0.5	-1.1	-1.5	0.3	3.0	6.3	4.6	1.3	-1.0	-3.0	-4.7
Disbursement	2.2	2.4	3.1	4.2	7.1	10.6	8.3	5.0	3.1	3.3	2.0
Amortization	2.8	3.4	4.7	3.9	4.1	4.3	3.7	3.6	4.1	6.2	6.7
Interest and charges	2.5	2.5	2.4	2.3	2.2	2.3	2.4	2.5	2.6	2.5	2.3
Net resource flow	-3.0	-3.6	-4.0	-1.9	0.8	4.1	2.2	-1.2	-3.6	-5.4	-6.9

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

STATISTICAL ISSUES

(As of March 31, 2017)

Data provision has shortcomings due to capacity constraints in the statistical agency, including weaknesses in coverage, accuracy, frequency, and timeliness of data. Although it is broadly adequate for surveillance, these limitations constrain economic analysis and policy formulation. Particularly, staff's analysis would benefit from more timely and improved data pertaining to the fiscal accounts, labor, agriculture, and the balance of payments. Efforts to prepare national accounts at a quarterly frequency would also be welcome. The authorities could pursue such improvements in a more cost-effective manner by exploring proposals to centralize statistics collection at the regional level. Dominica participates in the General Data Dissemination System. However, the metadata were last updated in January 2006 for the national accounts and external sector statistics and December 2002 for the government finance statistics.

Real Sector

Nominal GDP data are compiled using the production and expenditure approaches on an annual basis. Real GDP data are compiled only using the production approach. Since 2011, real GDP estimates are compiled with 2006 as the new base year. GDP estimates are available about four months after the end of the year and are usually finalized with a two-year lag. CPI data are compiled on a monthly basis. The weights are based on the 2008/09 Household Income and Expenditure Survey (HIES) with a base period of June 2010. There is a program to develop export and import price indexes (XMPIs), but a shortage of staff working on price statistics limits developments in CPI methodology and the likelihood that XMPIs will be developed in the near future. Data on employment are sparse and there are no official data on producer prices. A census was conducted in 2011.

Government Finance

Statistical capacity problems affect the timely production of quality government finance statistics. Monthly data can be obtained, but they show some important shortcomings. In particular, fiscal data should be reconciled between the Inland Revenue Department, Customs, and the Treasury on a monthly basis. Efforts should also be directed towards reducing omissions and misclassifications in the data, which would help reduce the need for frequent revisions. Capital expenditure data would benefit from efforts to improve reporting and budgeting data for the public sector investment program (e.g., project implementation rates, current expended resources, projected resource usage, estimated completion dates, etc.), which are fragmented and subject to continuous revisions. Attention should also be directed towards improving statistics on the financial position of public institutions outside the central government. An automation technology, mandatory for all ministries and suppliers of goods and services was installed in all line ministries in 2005 and is the basis for the reporting.

Although progress has been made in improving the measurement of government debt, data show shortcomings and are not tracked continuously. Very limited financing data are available. The authorities do not provide consolidated nonfinancial public sector data. Data for the rest of the public sector—Dominica Social Security and the public enterprises—are obtained directly from each entity with frequent delays and omissions. No government finance data are reported to STA for publication in the *International Financial Statistics (IFS)* or the *Government Finance Statistics (GFS) Yearbook*.

Monetary Statistics

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

External Sector and the Balance of Payments

Balance of payments data are compiled by the ECCB on an annual basis and published in the IFS through 2012. The Balance of Payments data are not produced according to the sixth edition of the *Balance of Payments Manual*. External sector statistics would benefit efforts to more accurately measure merchandise exports and resume publishing these series on a monthly basis. Improved statistics on remittances would also be welcome. Efforts could also be directed towards the compilation of the balance of payments on a quarterly basis and the compilation of the international investment position on an annual basis. To this end, an external statistics expert has been appointed by CARTAC to provide assistance to Dominica and the other ECCU members. The authorities have received technical assistance from the Fund and in the process of preparing revamped external sector statistics under the BPM6 methodology on Balance of Payments and International Investment Position (IIP).

External Debt

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

Dominica: Table of Common Indicators Required for Surveillance
(As of March 28, 2017)

	Date of Latest Observation	Date Received[8]	Frequency of Data[8]	Frequency of Reporting[8]	Frequency of Publication[8]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve liabilities of the Monetary Authorities [1,2]	1/31/2017	3/21/2017	M	M	M
Reserve/Base Money	1/31/2017	3/21/2017	M	M	M
Broad Money	1/31/2017	3/21/2017	M	M	M
Central Bank Balance Sheet	1/31/2017	3/21/2017	M	M	M
Consolidated Balance Sheet of the Banking System	1/31/2017	3/21/2017	M	M	M
Interest Rates[3]	12/31/2016	3/21/2017	M	M	M
Consumer Price Index	10/30/2016	3/21/2017	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing[4] – General Government[5]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance, and Composition of Financing[4] – Central Government	01/31/2017	3/16/2017	M	M	Q
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2015/2016	3/08/2017	A	A	A
External Current Account Balance	2015	2/20/2016	A	A	A
Exports and Imports of Goods and Services	2015	2/20/2016	M	A	A
GDP/GNP	2015	1/23/2017	A	A	A
Gross External Debt	2015	2/20/2016	M	M	A
International Investment Position[7]	NA	NA	NA	NA	NA

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

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

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

[4] Foreign, domestic bank, and domestic nonbank financing.

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

[6] Currency and maturity composition are provided annually.

[7] Data is not available from the authorities.

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