

IMF Executive Board Concludes the 2016 Article IV Consultation with Dominica

July 20, 2016

On [July 13, 2016](#), the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation ¹ with Dominica.

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

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

The fiscal outturn for FY 2015/16 is strong, estimated at a surplus of 0.8 percent of GDP. However, the underlying fiscal performance is somewhat weaker than the outturn suggests, as it was underpinned by the collection of tax arrears (in part transitory), higher ECP revenues (subject to uncertainty), and low capital expenditure. Going forward, fiscal policy should be calibrated to allow space for reconstruction expenditure within fiscally sustainable bounds, consistent with the regional debt target commitment.

Executive Board Assessment ²

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

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

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

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

Directors agreed that enhancing growth prospects requires higher private sector participation and improving the business environment. To this end, they encouraged the authorities to continue pursuing structural reforms that facilitate an efficient operation of

markets. In particular, they emphasized the importance of reforms to boost external competitiveness, including in the areas of labor markets, export diversification, access to finance, and energy costs. The ongoing plans to enhance the preparedness for and resilience to natural disasters should continue, as these shocks could be large and recurrent. In this regard, Directors encouraged the authorities to consider establishing a saving fund, using some of the ECP revenues.

Dominica: Selected Economic and Financial Indicators, 2012-18

	2012	2013	2014	2015	2016	2017	2018
							Projected
Output and Prices	<i>(annual percent change, unless otherwise specified)</i>						
Real GDP 1/	-1.3	0.6	3.9	-3.9	1.3	2.8	2.7
Nominal GDP 1/	-3.3	4.4	3.5	-4.7	1.1	4.4	4.5
Consumer prices, end of period	1.3	-0.4	0.5	-0.1	-0.1	1.8	1.8
Real effective exchange rate (period average, depreciation -)	0.2	-0.6	-0.7
Central Government Balances 2/	<i>(in percent of GDP, unless otherwise specified)</i>						
Revenue	30.3	30.0	28.1	36.1	35.8	34.6	33.8
Expenditure	35.7	33.0	32.5	35.1	38.2	35.7	33.6
Primary balance	-3.4	-1.0	-2.9	3.3	-0.1	1.3	2.6

Excl. Economic Citizenship Program	-7.2	-4.6	-4.6	-1.6	-3.7	-2.2	-0.7
Overall balance (incl. ND cost buffers)	-5.4	-3.0	-4.4	0.9	-3.9	-2.6	-1.3
Excl. Economic Citizenship Program	-9.2	-6.6	-6.1	-4.0	-6.0	-4.6	-3.1
Central government debt (incl. guaranteed) 3/	72.6	74.7	83.9	85.5	87.7	87.3	85.4
External	52.6	52.6	53.4	56.6	56.4	55.8	53.2
Domestic	20.0	22.1	30.5	28.9	31.2	31.5	32.2

Balance of Payments

Current account balance	-17.4	-9.8	-11.2	-9.4	-12.6	-13.7	-14.1
Exports of goods and services 4/	32.6	38.2	41.4	41.9	41.0	40.1	39.8
Imports of goods and services 5/	51.5	48.1	53.8	52.4	53.6	53.7	53.8
External debt (gross) 6/	75.1	74.4	81.6	93.5	91.6	89.8	88.1

Net imputed international reserves:

Millions of U.S. dollar	91.8	85.4	99.9	125.4	116.6	118.5	120.4
Months of imports of goods and services	4.4	4.2	4.3	5.7	5.2	5.0	4.9

Savings-Investment Balance	-17.4	-9.8	-11.2	-9.4	-12.6	-13.7	-14.1
Savings	-2.1	3.9	3.7	3.1	4.5	3.1	0.7
Investment	15.2	13.7	14.9	12.5	17.1	16.8	14.8

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

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

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

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

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

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

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

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

2 At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the

country's authorities. An explanation of any qualifiers used in summing up can be found here:<http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

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