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GRAY/22/324

January 31, 2022

**Statement by Ms. Marcussen and Mr. Kraavik on Dominica
(Preliminary)
Executive Board Meeting
February 2, 2022**

We thank staff for the reports and Mr. O'Brolchain and Ms. Edwards for their helpful Buff statement. The pandemic has caused economic hardship for small island nations that rely on tourism receipts. We acknowledge the authorities' priorities to preserve lives and livelihoods and address vaccine hesitancy. We broadly concur with staff's appraisal and would like to provide the following comments for emphasis.

While the focus remains on supporting the recovery in the near term, the progress made on some fiscal consolidation measures is positive. High public debt limits the room to maneuver, and buffers must be rebuilt to strengthen debt sustainability. We agree that the adoption of the binding fiscal rule increases the credibility of fiscal consolidation. This would be further supported by monitoring mechanisms and publication of fiscal data. *In this context, while there was no specific plan for an ex-post independent third-party audit on the use of RCF resources, could staff provide additional information on the appropriateness of pandemic-related spending and fiscal transparency measures?* Furthermore, we note that the current high level of Citizenship-by-Investment (CBI) receipts has been helpful in supporting public investment and, hence, containing the decline in output. At the same time, the uncertain nature of CBI revenue warrants its prudent use. We agree that an increasing share of CBI revenue should be allocated to public debt reduction and to the Vulnerability and Resiliency Fund to save for natural disasters. We also note the estimation that Dominica has a sizeable shadow economy compared to its peers, and addressing informality has significant potential to broaden the tax base.

Being among the countries most susceptible to natural disasters, the authorities must continue efforts to facilitate resilience building. The long-lasting damage of hurricane Maria is a bleak reminder of how devastating natural disasters can be, also from the perspective of long-term growth outlook. We welcome the authorities' vision to become climate resilient by 2030 underpinned by the Disaster Resilience Strategy (DRS). In light of the significant financing

needs for infrastructure investment, staff's analysis on the macroeconomic and distributional impact of instruments to mobilize fiscal revenue is timely. The analysis underscores the significance of concessional loans and grants. It also signals the importance of cutting unproductive government spending and the need to bear in mind tradeoffs between efficiency and inequality.

The undercapitalized credit unions sector remains an area for concern. We look forward to stronger surveillance of the sector as a result of the strengthened capacity of the Financial Services Unit (FSU). Bringing capitalization of credit unions above the regulatory minimum should be a priority. It is also essential to move forward with the regional harmonization strategy. NPLs are relatively high, even though the loan service moratoria and restructuring helped contain an increase in problem loans. We see merit in improving foreclosure legislation to facilitate NPL resolution.

The expected adoption of digital currency is expected to entail risks and uncertainties. We note that the ECCB safeguards assessment made recommendations to enhance controls and oversight, and that staff sees some potential for Dominica to reduce ML/TF vulnerability. *Could staff elaborate on the motivation and potential of adopting the digital currency, given the risks and uncertainties involved?*

Finally, we support further technical assistance to improve the quality of statistics, while it is also important to ensure adequate resourcing of the statistics office.