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June 28, 2021

**Statement by Mr. Sigurgeirsson and Mr. Slettvag on Dominican Republic
(Preliminary)
Executive Board Meeting
June 30, 2021**

We thank staff for the informative report and Mr. Bevilaqua and Mr. Fuentes for their helpful Buff statement. Despite its large reliance on tourism, the Dominican Republic has weathered the pandemic relatively well due to a dynamic economy and a decisive policy response, including a prompt vaccination campaign. The key challenges will now be to carefully manage the withdrawal of COVID emergency measures and lay the foundation for a sustainable recovery through policies to enhance the business climate, address structural bottlenecks, and improve governance and transparency. We broadly concur with staff's appraisal and offer the following comments for emphasis.

We broadly agree with staff's outlook but would pay more attention to upside risks. The Dominican Republic is experiencing a fast recovery in manufacturing and construction driven by policy support and strong external goods demand, and the activity in these sectors is already significantly higher than before the pandemic. Given the country's well-advanced vaccination campaign and that tourist arrivals are increasing faster than in peer countries, we could see a case where pent-up demand in tourism and services add to already increasing cost pressures. While we agree that the accommodative monetary policy stance is appropriate at this point, it will be critical to closely monitor the inflation trajectory going forward. *We would welcome further details from staff on the Central Bank's forward guidance, and how staff would adjust the policy mix in a scenario with sustained increase in inflation.*

Pandemic related fiscal support should be gradually withdrawn while prioritizing social and health spending. We welcome that the recovery in employment has allowed for the elimination of the FASE 1 employment support program, but note that emergency spending in 2021 will remain quite high – at 40 percent of the amount spent in 2020 – mainly driven by the new permanent *Supérate* program. We note staff's comment that *Supérate* will improve targeting of social transfers through a better beneficiary registry *but*

would appreciate more information on how the program can be tailored commensurate with the recovery going forward.

Further efforts to improve fiscal governance and transparency are needed to reduce corruption risk and increase effectiveness in spending. The authorities have taken important steps to enhance public finance management, including by requiring all public entities to report spending in SIGEF, and should now follow up with the publication of suppliers' beneficial ownership information. We welcome that audits of COVID-related expenditures are planned for the second half of 2021 and expect that an externally audited report will be made public in line with the commitments at the time of the RFI-approval last year. Moreover, we commend the authorities for undertaking a safeguard assessment of the BCRD in connection with the RFI and call on the authorities to move forward with the implementation of the recommendations, in close engagement with IMF staff.

Policies to address gender inequality should be a key post-pandemic priority. The Dominican Republic ranks among the highest in the region on the UNDP Gender Inequality Index, and policies to improve women's wellbeing and labor participation will be key to unlock the country's long-term growth potential. We note that while the legal framework has a series of laws and provisions to protect women from discrimination, the effectiveness of these provisions is variable, and we agree with staff that stricter enforcement of these laws, as well as increased access to health and childcare, and more flexible workplace regulation will be a good starting point.

The Dominican Republic is among the world's most vulnerable countries to extreme weather events, and **we commend the authorities for addressing climate risks with the ambitious Nationally Determined Contribution action plan.** The plan is ambitious, spanning a range of inter-related mitigation and adaptation policies, and we urge the authorities to follow-up with steadfast implementation of the priority action areas.

Finally, we encourage the authorities to consent to the publication of the report.