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June 28, 2021

**Statement by Mr. Sylla and Mrs. Bah on Dominican Republic
(Preliminary)
Executive Board Meeting
June 30, 2021**

We thank staff for their informative and comprehensive report and Mr. Bevilaqua and Mr. Fuentes for their helpful Buff statement.

We commend the authorities for the solid macroeconomic performance of the economy over the years which allowed to reinforce resilience as well as the response to the Covid-19 shock. The reduction of the poverty rate by half between 2010 and 2018 using targeted policy action is remarkable, even though gender inequality remains an issue. With slow recovery of tourism as well as high unemployment rate in the services and among women, output might be challenged until 2024, while remittances and government spending might boost consumption. We also take note that US demand and strong foreign direct investment represent a significant support to agriculture, construction and manufacturing which had outperformed pre-Covid levels by December 2020. While the outlook is positive, downside risks to the outlook could stem notably from cyber-attacks on critical infrastructural and financial system, tightening of global financial conditions and a prolonged pandemic. Looking ahead, we encourage the authorities to continue to gradually phase out Covid-19 measures, support the most vulnerable and move with their structural reform agenda without losing sight of the debt level.

We overall agree with the staff assessment and recommendations and would like to emphasize a few points.

Strengthening fiscal sustainability and public financial management is essential to support the recovery and achieve medium-term debt objectives. We welcome the authorities' efforts to improve procurement and accountability amid reported emergency procurement procedures introduced in the context the COVID 19 crisis. The creation of a Fraud Unit at the Comptroller General would help monitor governance and transparency issues. We take note that impressive improvements on public financial management and government finance statistics publishing have been made, notably with the Fund's technical assistance that resulted in the publishing of budgetary and general government data fully

aligned with international standards. *In that respect, we would welcome staff's comments on how specifically technical assistance has allowed improvements on public financial management.*

On monetary policy, we welcome the accommodative policy measures taken to support growth in the context of the COVID 19 shock, as conveyed by Mr. Bevilaqua and Mr. Fuentes in their Buff statement. However, while we take note that the authorities expect inflation to return to the target range by end 2021, emphasizing that the supply shocks, namely on food and oil prices, represent a short-term risk, we remain concerned about the inflation trajectory that deserves closer scrutiny. *In this context, we would be interested in staff's assessment of possible risks to a downward trajectory of inflation.* Concerning foreign exchange reserves, while recovery of tourism is slow, the external position should be supported by export performance, sound foreign direct investment and remittances. Steadfastly implementing the remaining Safeguard Assessment recommendations, including advancing the recapitalization of the central bank is critical. Regarding the financial sector, we commend the authorities for maintaining good access to markets, with continued issuance of bonds throughout 2020. The sector remained resilient, supported by regulatory flexibility that provided provisioning relief and allowed credit flows to be maintained. We concur with staff that adopting a careful exit strategy from prudential flexibility would be key to secure financial stability. Moreover, to enhance efforts towards a more effective AML/CFT framework and secure significant progress on technical compliance, the authorities should improve the functionality of the Financial Intelligence Unit and provide more training to “obligated reporters”.

Addressing the structural bottlenecks that obstruct productivity would be key. In that respect, aligning education curricula with market needs, reducing electricity service disruptions as well as transport and logistics costs would help improve competitiveness. In this regard, the steps forward taken to move away from oil-based electricity generation will stabilize energy provision and reduce the heavy burden of the sector on public finances. We also broadly agree with the staff that there should be careful sequencing of reforms, improving governance and strengthening the fiscal framework first, before tackling longer-term reforms to increase fiscal space. Finally, we urge authorities to pursue efforts towards more social inclusion and poverty reduction, which improves program ownership among the stakeholders.

With these remarks, we wish the authorities success in their endeavors.