

**EXECUTIVE
BOARD
MEETING**

SM/22/7
Correction 1

February 1, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Dominica—Staff Report for the 2021 Article IV Consultation**

Board Action: The attached correction to SM/22/7 (1/20/22) has been provided by the staff:

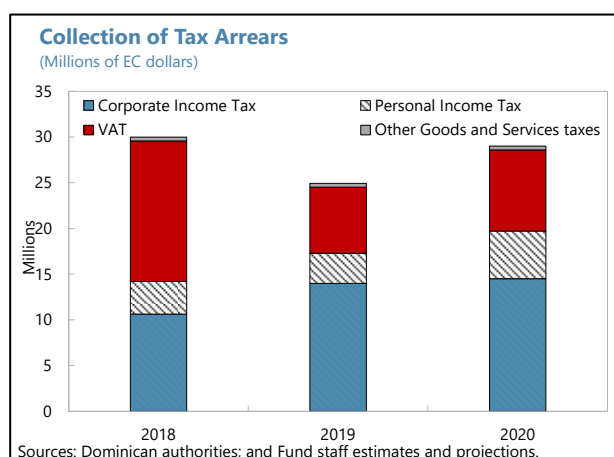
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Questions: Mr. Guerson, WHD (ext. 39505)
Ms. Perez Marulanda, WHD (ext. 36873)

increase with the public investment push, causing further widening of the current account deficit.² External financing needs are projected to be covered by official lending, CBI revenue, and foreign direct investment—no significant decline on imputed net international reserves is expected given the regional currency board arrangement, maintaining high reserve coverage. The real effective exchange rate (REER) depreciated in 2020 and 2021 driven by an increase in foreign inflation in fuel and food items which only moderately affected domestic consumer prices under low domestic demand. Based on 2021 staff estimates, the external position is assessed moderately weaker than the level consistent with medium-term fundamentals and desirable policies, and the REER was estimated to be overvalued by 4.1 percent.³

7. Despite the challenges posed by the pandemic, the government has made progress on the fiscal consolidation measures it has committed to in the RCF disbursement, with some adjustments going forward.

Progress includes establishing limits on discretionary tax exemptions on imports; advancing preparations to simplify the ~~of an~~ income tax ~~reform~~ by including a presumptive tax (which the government intends to pass in FY2022); enacting a property tax reform to incentivize the use of idle property in prime urban areas; and strengthening the collection of tax arrears with improved auditing capacity and collection effort. These savings, however, have been offset by transitory tax exemptions to support the recovery.⁴ The government is also set to prepare some of the remaining reforms. These include an updated analysis of pension system sustainability, which is planned by early 2022 (delayed due to covid mobility restrictions) and would trigger parametric adjustments if needed for sustainability.⁵ It also includes a civil service reform (under preparation with support of CARICAD) to increase the public workforce efficiency and to better retain qualified professionals. However, other remaining measures are being reconsidered. The introduction of a solid waste charge is unlikely to be pursued in light of the low potential revenue and the additional tax administration burden, while a reduction of the preferential rate on diesel would be considered later once the economy has recovered. Based on these revisions



² This assessment is based on 2021 staff estimates and will be updated once official data are released. Because of the preliminary nature of this assessment, it is subject to uncertainty arising from previous major external shocks and subsequent data updates.

³ See External Sustainability Assessment annex.

⁴ The government has received Fund technical assistance to prepare this reform. Includes exemptions of VAT on hatching eggs, residential income tax in 2021, tax deductions for interest on student loans, and home insurance and health insurance premiums that will take effect in 2022.

⁵ The Dominica Social Security (DSS) is currently implementing a phased increase in pension contributions of 0.25 percent per year and an increase in the retirement age from 60 to 65 years by 6 months per year until 2035.