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June 28, 2021

Statement by Mr. Buissé, Mr. Rozan, and Ms. Albert on Dominican Republic (Preliminary)
Executive Board Meeting
June 30, 2021

We thank staff for their clear report and Mr. Bevilaqua and Mr. Fuentes for their informative Buff statement. We share the thrust of the staff's appraisal and wish to add the following comments:

The crisis has hit the Dominican Republic after years of rapid economic and social progress, and the policy response is helping bring about a rapid rebound. Remittances have played a stabilizing role this year, and the outlook is favorable, thanks to the success of the authorities' vaccination campaign, and the dynamic recovery in the tourism sector and beyond. We therefore strongly welcome the rapid rebound in 2021, in line with its pre-pandemic dynamic path. *Could staff explain the reasons for the divergence between staff's forecast (5.5 percent) and the authorities' projections (between 7 and 8 percent according to the Buff)?*

While protecting the most vulnerable remains the top priority, better targeting of public support, and stronger domestic revenue mobilization would be helpful to gradually reduce the public debt. The authorities' swift action has helped the most vulnerable face the pandemic and going forward we encourage a better targeting of the support measures. It will contribute, with strict controls of non-priority spending, to place public debt on a downward trajectory, as we note from the DSA that risks have increased due to higher debt level, and remains vulnerable if the recovery is delayed. We do welcome in this context the fact that the country has been able to maintain a strong access to the markets and was able to issue 2.5 bns USD at historically low yield last January. To further anchor this credibility, we encourage the introduction of a fiscal responsibility legislation with a credible medium-term framework. We welcome the steps taken by the authorities to make progress in terms of fiscal governance and transparency and continue to encourage further efforts. We insist on the importance of improving domestic revenue mobilization, as the tax revenues remains low. The revision of the tax exemptions as well as the reduction of the transfers to the electrical sector, and addressing the poorly targeted subsidies should also represent sizable benefits. We thank staff for their useful estimates of the benefits of some of these fiscal reforms, with debt returning to its pre-pandemic level in 2026.

We welcome the active role monetary policy has played to support the liquidity. We note the resurgence of inflation in May and note that staff is confident regarding the convergence to the target range. We welcome the use of the exchange rate as a shock absorber and agree targeted foreign exchange intervention can be useful to avoid excessive volatility. We welcome the key role played by the electronic exchange rate trading platform to increase transparency. The increase in international reserves is quite positive, as they surpassed all individual benchmarks, though they stood at 81 percent of the ARA metric due to the crawl-like regime classification (119 percent if the regime was flexible). *Does staff see a need to increase the international reserves?* We also see the benefits of a recapitalization of the Central bank. We welcome their intention to better align financial regulation and supervision with more advanced Basel and international accounting standards and we encourage TA in this area. We also strongly encourage the authorities to pursue their efforts to fully and effectively implement the AML/CFT framework, and thank staff for the details provided on this issue in the report.

Structural reforms in the electricity, social and climate areas are paramount to build a strong, inclusive and sustainable growth. First, we welcome the finalization of the electricity pact in February, and the diversification of the power generation mix away from oil, and we continue to encourage the implementation of the electricity sector reform. Second, we agree with the authorities regarding the relevance of a social pact, with strong labor and social reforms. We welcome the significant poverty progress over the last decade, though there is room for progress, including to deal with gender inequality which remains particularly high compared to peers. Instituting unemployment support and strengthening the pension system would be useful automatic stabilizers, as mentioned in Annex IV. Finally, we see resilience against natural disasters as an important part of the growth strategy, and we strongly welcome the greenhouse reduction plan as well as the emission of the 100 M USD "green bond" last month.