



DOMINICA

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STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS¹

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Prepared by the staffs of the International Monetary Fund
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Dominica Joint Bank-Fund Debt Sustainability Analysis²	
Risk of external debt distress	<i>High</i>
Overall risk of debt distress	<i>High</i>
Granularity in the risk rating	<i>Sustainable</i>
Application of judgement	<i>No</i>

Dominica's debt is sustainable, but the country remains at high risk of debt distress with elevated levels of public and external debt. The COVID-19 pandemic compounded preexisting debt sustainability challenges, as the economy was still recovering from back-to-back natural disasters (ND) in 2015 and 2017. Public debt peaked at 112.5 percent of GDP in 2020, declining to 103.3 percent of GDP in FY2022/23. While the baseline assumes public debt to continue to fall over the medium and long run, current policies are insufficient to meet the regional debt target (60 percent of GDP) by 2035, and the present value of the public debt ratio remains above the benchmark for a protracted period, signaling persistent risks. Implementation of fiscal consolidation consistent with national fiscal rule and savings under dedicated risk management funds—Vulnerability Risk and Resilience Fund (VRF) and Debt Repayment Fund (DRF)—is needed to put public and external debt on a firm sustainable path, reducing vulnerabilities. This should be combined by reforms to expand tourism capacity and reduce energy imports, including by ensuring proper earmarking of Citizenship-by-investment (CBI) inflows. Main downside risks to the debt sustainability outlook include slower global growth and associated spillovers to tourism, further natural disaster (ND) shocks, and weaker than projected revenues from the CBI program.

¹ The last published DSA for Dominica can be accessed [here](#). This DSA follows the [Guidance Note of the Joint Bank-Fund Debt Sustainability Framework for Low Income Countries](#), February 2018.

² Dominica's score in the Composite indicator (CI) is 3.01 which implies a medium debt carrying capacity. The CI is calculated based on data from the October 2023 WEO and the 2022 CPIA data.

PUBLIC DEBT COVERAGE

1. Public sector debt includes central government direct and guaranteed debt of both external and domestic debt. Central government direct debt accounts for about 84 percent of total public debt. Guaranteed debts are directed to State Owned Enterprises (SOEs), including borrowing under the Petrocaribe arrangement with Venezuela.³ Public and Publicly Guaranteed (PPG) external debt is mostly owed to multilateral creditors, while the National Bank of Dominica (NBD) and the Dominica Social Security (DSS) are the main domestic creditors. There is no borrowing by local/state governments and no borrowing by the central bank on behalf of the government. External debt is defined using a residency criterion, but there is no material difference between defining external debt on the residency or currency basis. SOE's non-guaranteed debts, which are mostly domestic and mainly from the NBD, Agricultural and Industrial Development (AID) Bank of Dominica, and DSS, are not included in the public debt stock but they are expected to be small relative to their guaranteed part.⁴ Other SOEs are not permitted to borrow externally without government guarantees. It is still expected that all SOE debts (both guaranteed and non-guaranteed) will be included in the public debt with progress on monitoring the SOEs under the Public Procurement and Disposal of Public Property Act.⁵ Recent measures implemented to improve coverage and timeliness of debt reporting include introducing an annual Debt Portfolio Review (DPR), including loan guarantees under the 2019 DPR, submitting the DPR to Parliament and publishing the DPR on the Ministry of Finance website in line with the incentives provided by IDA's Sustainable Development Finance Policy (SDFP) and Development Policy Financing (DPF).

2. The Contingent Liability stress test has been calibrated to reflect risks associated with debt not captured in the baseline. There are no Public-Private Partnerships in Dominica and therefore no related contingent liability has been included. The financial market contingent liability shock is calibrated at 7 percent of GDP (higher than the 5 percent of GDP default) to account for potentially higher fiscal costs of strengthening financial sector balance sheets in the event of a natural disaster given undercapitalization of non-bank financial institutions and high non-performing loans in Dominica.

³ Estimated borrowing under Petrocaribe is based on the terms under its original loan agreement. It should be noted, however, that the authorities contend to have been granted debt relief by Venezuela, including the cancellation of debt service payments from 2018 (a pattern that may continue in the coming years). Outstanding debt to Petrocaribe is estimated at 8.1 percent of the total debt stock as of 2022.

⁴ Non-guaranteed SOE debt is collateralized against assets of the SOE.

⁵ Debt service-to-revenue ratios may be biased favorably given incomplete coverage of SOE debt stock (i.e., non-guaranteed SOE debts) but complete coverage of SOE revenues in the fiscal accounts.

Text Table 1. Coverage of Public Sector Debt

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	
8	Non-guaranteed SOE debt	

Text Table 2. Contingency Liability Calibration Table

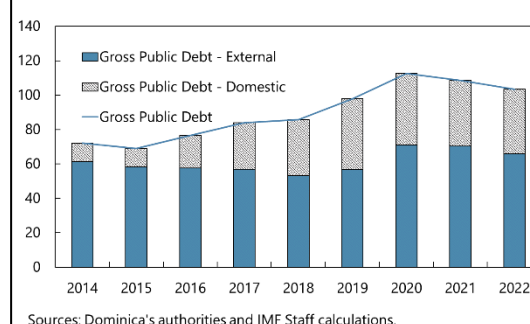
1 The country's coverage of public debt		The central government, government-guaranteed debt		
		Default	Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4	PPP	35 percent of PPP stock	0.0	
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	7.0	Hurricane's impact on financial institutions
Total (2+3+4+5) (in percent of GDP)			9.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

BACKGROUND ON DEBT

3. Public debt has been on a declining trend after peaking during the COVID-19 pandemic and following successive ND shocks. Tropical storm Erika in 2015, hurricane Maria in 2017, and the onset of the pandemic resulted in declines in public revenue while imposing sizeable expenditure needs on the budget. Though strong CBI revenues provided significant financing for the reconstruction efforts, large and persistent primary deficits led to an increase in the public debt level from an average of 70 percent of GDP in 2014–15 to 112.5 percent of GDP by 2020. The post-pandemic economic recovery alongside generally prudent fiscal management have underpinned a steady decline in public debt (103.3 percent of GDP by FY2022/23).

Text Figure 1. Gross Public Debt (Percent of GDP)

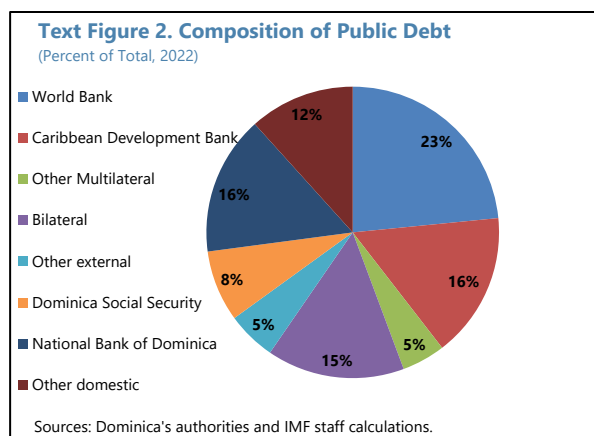


4. Gross external debt has been declining after its peak during the pandemic. Total external debt is high at 65.8 percent of GDP in FY2022/23. An increased reliance on concessional financing related to pandemic spending translated into a steep increase in the PPG external debt to 70.9 percent of GDP in 2020 that underpinned a peak in total external debt at 106.2 percent of GDP. Public external debt declined by almost 5 percent of GDP by FY2022/23. While the import bill remains elevated above long-term norms as key public infrastructure projects (e.g., international airport and geothermal plant) unfold, it does not entail higher indebtedness due to an increasing

share of CBI, which was already earmarked to these projects. In fact, private external debt has declined moderately by around 6 percent of GDP to 29.2 percent of GDP in FY2022/23 compared to FY2020/21, supporting a decline in total external debt.

5. Dominica has no access to private international financial markets and borrows mainly from official creditors.

Two thirds of Dominica's public debt is external, but more than 90 percent of it is owed to official bilateral and multilateral creditors. The World Bank is Dominica's largest creditor, holding 36 percent of the total external public debt stock (almost one-quarter of the total public debt). Venezuela's Petrocaribe is the largest bilateral creditor, followed by the Government of China and the French Development Agency. Additional external financing is obtained through bonds purchased by regional commercial banks and insurance companies and pension funds.



6. Domestic financing comes primarily through direct credit from the NBD and local debt holders, mainly the DSS. Reliance on domestic debt has begun to decline in the last three years after a larger amount of direct borrowing from the NBD FY2017/18, which coincided with hurricane Maria, and increased use of their overdraft facility, most notably in FY2018/19 when reconstruction costs were high and the level of grant financing low. As of June 2023, domestic debt accounted for 36 percent of total public sector debt.

BACKGROUND ON MACRO FORECASTS

7. The economy is projected to continue expanding with growth converging to 2 percent in the long term as the impulse from key infrastructure investments recedes. Annual real growth is projected to average 4.4 during 2024-25, supported by investments in key large infrastructure projects mainly financed by CBI—including the geothermal plant, a new international airport, and a variety of climate-resilient infrastructure and hotel projects—which are expected to also boost tourism's growth contribution and lead to a further improvement in the current account balance. Over the medium to long term, growth is projected to gradually slow, supported by the continued fiscal consolidation, and converge to around 2 percent (consistent with trading partner demand growth).

8. Relative to the baseline scenario in the 2023 Article IV, while the growth profile is generally unchanged, the fiscal and external adjustment is assumed to be more gradual. The economy is expected to expand slightly more strongly during 2025-27 reflecting newly announced climate resilient infrastructure projects and revised completion timetables for key projects, including new climate resilient infrastructure initiatives. Meanwhile, inflation has come down more quickly

than previously anticipated but is still expected to converge to 2 percent by 2025. While the fiscal outturn in 2023 is estimated to be better by one-third percent of GDP based on the latest year-to-date information, the consolidation pace will be less ambitious than anticipated reflecting the limited scope of identified reforms. Similarly, the current account deficit is projected to narrow more gradually due to the weaker growth in goods exports and higher imports.

Text Table 3. IMF Staff Projections 2024 vs. 2023

	2024 Article IV						2023 Article IV					
	2022	2023	2024	2025	2026	2027	2022	2023	2024	2025	2026	2027
Real GDP	5.6	4.7	4.6	4.3	3.3	2.9	5.7	4.7	4.6	4.2	2.9	2.7
Inflation (eop)	8.7	2.3	2.2	2.0	2.0	2.0	7.3	5.0	2.2	2.0	2.0	2.0
Overall fiscal balance	-7.2	-3.8	-3.4	-2.9	-2.7	-2.2	-4.0	-4.2	-3.2	-2.9	-2.4	-1.9
CBI revenue	36.6	18.0	15.4	14.5	14.5	14.5	18.0	17.0	15.0	14.0	14.0	14.0
Public capital expenditure	35.7	13.8	12.0	11.4	11.0	10.8	12.8	13.6	11.8	11.3	10.9	10.4
Current account balance	-26.7	-33.7	-21.7	-19.8	-17.7	-15.8	-26	-25.2	-18	-15.9	-14.3	-12.8

Source: Dominican authorities, Eastern Caribbean Central Bank (ECCB), and IMF staff estimates.

9. This Debt Sustainability Analysis (DSA) builds from the baseline scenario of the June 2024 Staff Report. Specific assumptions include:

- **Real GDP.** Real GDP grew at 5.6 percent in 2022 and is estimated to have expanded by a further 4.7 percent in 2023 returning output to pre-pandemic output. The recovery has been underpinned by wholesale/retail trade, public investments in climate-resilient infrastructure, and a rebound in tourism that has been partially hindered by reduced airlift for stayover arrivals. The growth outlook is predicated on a further strengthening of the tourism sector and continued implementation of Dominica's large public investment program. The largest projects include the geothermal energy plant (expected to be completed in the next 2 to 3 years), a new airport (in the next 3 to 4 years), and resilient infrastructure works and hotel projects (to expand the room stock) with positive spillover effects on overall economic activity and competitiveness. Output growth is expected to taper to 2.4 percent by 2029 and converge to 2.0 in the longer term.
- **Inflation.** Inflation is expected to fall from its 2022 peak of 8.7 percent y-o-y to 2.3 percent y-o-y in 2023, primarily due to softening world energy prices. Inflation is expected to converge to 2 percent in the medium-term, in line with international inflation, and consistent with the fixed exchange rate under the currency board arrangement of the Eastern Caribbean Central Bank, the regional monetary authority.
- **Fiscal position.** The primary balance improved moderately by 1.3 percentage points (ppts) to a deficit 4.3 percent of GDP in FY2022/23, reflecting higher CBI revenues (up 7pp of GDP) that were mostly offset by higher capital spending. Consolidation fell short of expectations by 3.8 percent of GDP in FY2022/23 compared to the 2023 Article IV report. On the revenue side, besides the low yields from proposed measures, the implementation of a presumptive personal-income tax (PIT) has been further postponed. Costly vehicle import-duty exemptions were only

partially removed and overdue tariff adjustments for water and sewerage services remain pending. On the expenditure side, the ongoing reform of public wages provides very limited medium-term savings to recurrent spending. A significant share of Dominica's ambitious capital expenditure plan (PSIP) represents spending on fragmented and poorly targeted programs that have broadened beyond original mandates.

- **CBI Revenue.** CBI revenue is projected to remain buoyant in the medium term, although declining substantially from an average of 32 percent of GDP during 2020-2022 to 14.6 percent of GDP by 2025. This assumption is supported by several years of sizeable inflows starting in 2014, which have remained resilient in the face of successive NDs and the pandemic shock. While CBI reached 36.6 percent of GDP in FY2022/23—more than 7 percent of GDP higher than in the previous year—the FY2023/24 projection conservatively assumes a decline in CBI revenue to 18 percent of GDP.⁶ CBI is expected to remain essentially earmarked to public investment, debt amortization, and the accumulation of savings.⁷
- **Grants.** Grants are projected at 1.5 percent of GDP, in line with the historical average except for during the COVID-19 shock and natural disaster years.
- **Balance of Payments.** The current account deficit improved in 2022 to 26.7 percent of GDP, bolstered by the tourism recovery and improving terms of trade. The CA deficit has widened to 33.7 percent in 2023, as improvement in the tourism receipts fail to offset an increase in imports from the construction of large projects. In the medium term, the CA deficit is projected to converge to its estimated norm (2026-27) underpinned by the recovery of service exports in the tourism sector beyond pre-Maria levels as hotel and airlift capacity expands.
- **Financing conditions.** Dominica is expected to obtain financing from multilateral lenders and domestic borrowing (mostly to rollover existing debt). Dominica recently negotiated a US\$41 million loan from the Saudi Development Fund (SDF) on concessional terms (1.5 percent interest rate, with 28 years maturity/8 years grace) to fund a priority climate-resilient infrastructure project. The DSA and the baseline framework assume a full disbursement of this loan in the next fiscal year (FY2024/25). Multilateral financing is expected to contribute the bulk of external financing in the medium term with ongoing projects to build resilience to ND and to improve fiscal institutions.⁸ Official external financing is projected at 7 percent of GDP in the medium term (2024–25) and 3 percent of GDP in the longer term, and it will cover the planned public investment along with the CBI revenue. Domestic debt is issued in relatively favorable

⁶ The baseline scenario assumes a further tapering and stabilization of CBI revenues over the long-term at 14.6 percent of GDP.

⁷ The government is recurrently saving a small part of CBI to its VRF but not at the frequency nor magnitude of 1½ percent of GDP/annually that was envisioned under Dominica's 2021 Disaster Resilience Strategy (DRS). A Debt Repayment Fund (DRF) is also under implementation with a target of 1.3 percent of GDP.

⁸ World Bank financing in the projection period is assumed to have grace period of 10 years and maturity of 40 years, at 1.3 percent interest, CDB financing is assumed at 10-year grace, 20-year maturity and 2.5 percent interest rate. Other multilateral borrowing is assumed at 5 years grace, 10-year maturity and 2 percent interest rate.

terms.⁹ The baseline assumes partial use of deposits (Table 4). The G20's Debt Service Suspension Initiative (DSSI) repayment schedule is reflected in the DSA assumptions.¹⁰ The DSA, and baseline macroframework, assumes that the authorities opt not to draw on their SDR allocation.

Text Table 4. Dominica: Government Financing Needs and Sources
(In US\$ million, fiscal years July-June)

	2023	2024	2025	2026	2027	2028
Gross Financing needs	69	69	70	74	71	72
Overall deficit	27	26	23	23	20	18
Primary deficit	7	6	5	5	3	2
Interest	29	30	28	29	28	28
External debt	6	6	6	5	6	7
Domestic debt	23	24	22	24	22	21
Principal repayments	33	34	36	40	41	41
External	21	19	16	11	11	11
External, new debt	0	0	0	-3	-2	-1
o.w. contracted obligations in pipeline	21	19	16	15	13	12
Domestic	12	15	20	28	29	30
Other debt creating flows (use of deposits) 1/	-15	-11	-4	-2	-1	0
Deposit stock:	22	11	7	6	5	5
Gross financing sources	54	108	66	72	71	72
External financing	31	86	21	57	47	47
Multilateral	31	45	44	42	42	44
WB	20	33	31	28	28	29
CDB	12	12	13	14	15	15
IMF	0	0	0	0	0	0
other	0	0	0	0	0	0
Bilateral	0	41	0	10	5	5
Commercial & other	0	0	-23	5	0	-2
Domestic financing	23	22	45	15	24	24

Source: IMF staff estimates.

1/ Use of government deposits from excess CBI

10. Debt dynamics have been driven by unexpected shocks (Figure 3). Back-to-back natural disasters and the pandemic resulted in a combined shock of higher-than-expected primary deficits and a sharp contraction in GDP, which translated into an increase in the debt/GDP ratio.¹¹ Moreover, the newly agreed loan from SDF leads to a further increase in the debt-to-GDP ratio starting from

⁹ Domestic borrowing is assumed to accrue from the NBD (a majority-owned public bank). This takes the form of an overdraft facility, which is converted into long term bonds. These bonds have generous terms, with long maturities and low interest rates. The DSA assumes 0 years grace, 5-year maturity and 7 percent interest on domestic borrowing in the medium term. In the long term, domestic borrowing is assumed to have 7-year maturity, to account for the authorities' medium term debt strategy to extend debt maturity to 9 years. DSA assumptions remain more conservative than authorities' strategy in the medium and long term.

¹⁰ Dominica benefited from the DSSI initiative until 2021, but payments have resumed since then and are reflected in the DSA projections.

¹¹ The impact of low growth rates due to NDs and pandemic have been reversed by the recent recovery after the pandemic and actually has led to a no change and even lower debt-to-GDP ratio for external debt and total public debt, respectively, ceteris paribus.

2024 but justified by potential long-term economic dividends. The projected recovery in GDP growth after the pandemic and the envisaged fiscal consolidation plan are the main determinants of the debt dynamics in the next five years.

11. Results from applying DSA Realism Tools are affected by substantial growth volatility related to the pandemic (Figure 4). Real GDP growth paths implied from some fiscal multipliers are similar to the baseline growth projections (see upper-right chart). Moreover, the extent of primary adjustment is overstated as the non-CBI primary balance remains a deficit. The projected relation between public investment and real GDP growth differs substantially from the historical relation due the impact of unexpected shocks from the pandemic and successive ND in 2015 and 2017 which delink growth from fiscal spending (see lower-right chart).

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

Text Table 5. Calculation of CI Index			
Country	Dominica		
Country Code	321		
Debt Carrying Capacity	Medium		
Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Medium	Medium 3.01	Medium 2.99	Medium 3.04
APPLICABLE		APPLICABLE	
EXTERNAL debt burden thresholds		TOTAL public debt benchmark	
PV of debt in % of		PV of total public debt in percent of GDP	
Exports	180	55	
GDP	40		
Debt service in % of			
Exports	15		
Revenue	18		

12. Indicative debt thresholds in this DSA are determined by the “Medium” rating of Dominica’s debt carrying capacity. The rating is based on the Composite Index (CI) score of the country, which assumes that the risk of debt distress is determined by the quality of institutions (measured by the World Bank Country Policy and Institutional Assessment (CPIA) score), and other

country-specific factors such as economic growth, reserves level, and remittances.¹² The calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection, and the corresponding CPIA. Import coverage of reserves continues to be a factor supporting this rating in Dominica. The rating remains unchanged from the previous DSA.

13. Both external and public debt analysis consider standard-DSA alternative scenarios to this baseline. The DSA includes six standardized and a contingent liability stress tests. The financial market contingency liability is included at 7 percent of GDP, above the default of 5 percent of GDP, to account for the risk from ND. This adjustment is made to account for potentially higher fiscal costs of strengthening financial sector balance sheets in the event of a natural disaster given undercapitalization of non-bank financial institutions and high non-performing loans in Dominica. A customized “Catastrophic Climate Event” scenario is added, which assumes the reoccurrence of a Category 5 hurricane in the second half of 2024. This scenario assumes declines in real GDP, exports, and revenues in line with those following hurricane Maria, as well as a considerable increase in expenditure in rehabilitation, albeit with a slower pace of recovery to account for more binding financing constraints.¹³

EXTERNAL DSA

14. Dominica’s external position is highly vulnerable. While the PV of external public debt-to-GDP is very close to the threshold established for countries with “medium” debt carrying capacity by 2024 (Figure 1), the threshold is breached by a large margin in the event of a catastrophic climate event or the most extreme shock scenario of a reduction in exports to one standard deviation below its historical average. Similarly, while the PV of external public debt to exports falls below the threshold throughout the projection, it goes well above the threshold in the case of a the most extreme export shock (Figure 2)¹⁴. While the PV of external public debt-to-GDP converges to the threshold in the medium-term and PV of debt-to-exports ratios remain below the threshold. The historical scenario has a similar trajectory in the debt to GDP ratio in initial years but leads to higher debt accumulation in the medium term. The historical scenario for the debt to exports ratios stays below the threshold until 2029 and exceeds the threshold thereafter.

15. Strong policy implementation will secure that debt service metrics are put on a downward trend and remain below the threshold for most of the projection period. Debt service to exports ratio remains below threshold from 2025 in all scenarios barring the most extreme shock, while debt service to revenue remains below the threshold for all shocks (Figures 1 and 2).

¹² The CI indicator is calculated based on data from the October 2023 WEO and the 2022 CPIA data.

¹³ Reconstruction after hurricane Maria included record-high public investment in resilient infrastructure which was possible with financing from large government deposits from the CBI program revenue accumulated before the hurricane.

¹⁴ Given that Dominica is in a currency union with other OECS countries, constraints around debt-to-exports ratios are much less important. In the case of a catastrophic climate event, given the geographical alignment of OECS members, it is unlikely that all, or even several, would be hit simultaneously.

16. Based on the threshold breaches under the baseline, the risk of external debt distress is assessed as high. The conclusion is based on baseline debt projections breaching their respective thresholds mainly as a result of high debt stock as a starting point. In addition, the alternative scenarios reinforce this conclusion, with historical and catastrophic climate shock scenarios resulting in breaching of thresholds for most debt indicators in the projection.

17. Residuals are high but on a declining trend. Residuals are high in the historical period and peak in 2021 but decline consistently throughout the projection period. The residual is mostly explained by the use of government deposits derived from CBI revenues, and they become smaller as the use of deposits becomes lower from 2023 onwards.

OVERALL RISK OF PUBLIC DEBT DISTRESS

18. Under the baseline scenario, public debt is assessed to be sustainable but remains at high risk of debt distress. The baseline fiscal consolidation plan, combined with continued CBI inflows to finance public investment projects and boost external resilience and growth, result in a declining trajectory of the public debt, but is insufficient to reach the regional debt target of 60 percent of GDP by 2035 (as was previously expected). Furthermore, as discussed below, key metrics of debt sustainability remain elevated over most of the horizon owing mainly to the higher initial debt ratio and are sensitive to stress scenarios. Relative to the historical scenario, debt declines more rapidly owing to stronger growth rebound after the pandemic, driven by sustained high public investment and anticipated competitiveness and productivity gains (see Figure 3).

19. PPG debt remains high and above the threshold under the baseline over the horizon. Under the baseline scenario assumptions, public debt remains on a declining trajectory, and the PV of total public-sector debt-to-GDP ratio remains close the corresponding benchmark throughout the projection period. All shocks result in large breaches of the benchmark. The debt service-to-revenue ratios increase in the near-term due to slow recovery in tax revenue following the pandemic but decline afterwards.

RISK RATING, VULNERABILITY AND RECOMMENDATIONS

20. The stress tests omit important mitigating factors that cannot be internalized within the standardized framework in this DSA:

- *Resilience to natural disasters.* Large investments in physical and social resiliency to ND, which underpin the large fiscal deficits of recent years, will reduce rehabilitation and reconstruction spending following ND and climate shocks in the long run by mitigating output and tax revenue declines after those events. This may reduce the fiscal deficit and debt financing parameters used in the stress test in the long term.

- *Fiscal buffers.* Large government deposits obtained from buoyant CBI revenue have been used to finance fiscal deficits since 2015. Without this buffer, the fiscal deficits in 2018–19 would have been significantly smaller due to constrained financing, which would result in lower debt in the standardized stress test for the historical and catastrophic climate event scenarios. The government's intention to improve fiscal buffers in the medium term by accumulating savings in the VRF and DRF for self-insurance against ND and accelerated debt repayments respectively, will further cushion the financial impact of catastrophic climate events and resilience to shocks generally. Staff's recommendation to reprioritize CBI revenues towards enhancing VRF contributions and paying down debt via the DRF would further enhance debt sustainability by reducing borrowing needs following extreme climate shocks and lowering the outstanding debt stock.

21. Non-resident deposits of Dominican expats reduce rollover risk of external debt while enhancing imputed international reserves. Around 12 percent of the stock of public external debt is composed of non-resident deposits held in the banking sector. These depositors are typically Dominica nationals that have migrated to developed nations but continue to have family and economic links with Dominica and therefore continue to maintain assets in the banking sector. This liability enhances overall stability of external debt given its low rollover risk. In addition, these deposit inflows generate an increase of imputed international reserves given the regional currency board arrangement.

22. With sustained progress on the fiscal consolidation plan, implementation of the fiscal rule, and a sustained commitment to secure concessional financing terms, Dominica's external and overall debt are sustainable but remain at high risk of distress. The authorities' fiscal consolidation plans combined with sustained CBI revenue are sufficient to bring public and external debt on a downward path, although some key indicators remain above the relevant thresholds for much of the horizon. The planned accumulation of a liquid fiscal reserve in the VRF and accelerated debt repayments via the DRF will help protect debt service capacity and resilience to NDs and other shocks, thereby reducing the risk of debt becoming unsustainable. Execution of the government development plan centered on building resilience to ND will further strengthen public and external debt sustainability by: (i) reducing spending in reconstruction and rehabilitation after NDs; (ii) containing output and employment losses with resilient structures; and (iii) increasing output in the long term by stimulating investment and employment (including by reducing out-migration) in the context of a more resilient and productive economy. Adherence to staff recommendations for enhancing annual contributions to the VRF as envisioned under the DRS and paying down debt with CBI revenues will further enhance debt sustainability.

23. The debt projections are underpinned by macro-framework assumptions which are subject to risk. CBI inflow projections are subject to downside risk if travel restrictions are imposed by other nations, reducing the value of holding a Dominican passport, which is the main incentive to acquire Dominica citizenship. CBI also has upside risk. This upside risk has materialized during 2020–22 with the receipt of unprecedented inflows of CBI revenues. The slower than expected recovery of stay-over tourism may weigh on GDP growth, which may also lead to a deterioration in debt

dynamics. However, relative to other countries in the region, Dominica's reliance on tourism is lower and the assumptions underpinning the growth recovery are determined primarily by high public investment (where the airport project seeks to remove structural bottlenecks to airlift capacity). Another downside risk is NDs, which may severely damage infrastructure, compromise growth and may lead to a large increase in debt. External grants have been projected conservatively and have upside risk. Market risks are contained as nearly 90 percent of the debt portfolio consists of fixed interest debt, and currency risks are limited by the currency board arrangement and external debt portfolio being dominated by USD and EC dollar debt.

24. Increased reliance on domestic borrowing heightened risks to public debt, which could become unsustainable should risk scenarios materialize. Higher than projected reliance on domestic debt during 2018–21 has resulted in larger debt service burdens arising from domestic borrowing which underscore a threat to financial stability due to the bank- and non-bank-sovereign nexus should unanticipated shocks threaten the government's ability to service its debts. Domestic debt service spikes in 2023 but moderates thereafter. The authorities should closely monitor the financial stability of local bond holders, particularly DSS. The stress tests highlight the exposure to a catastrophic climate event as main risk, a shock that could increase debt into unsustainability, reinforcing the importance of the authorities' commitment to the fiscal consolidation plan, implementation of the fiscal rule and DRS, as well the continued commitment to seeking multilateral and bilateral financial support on concessional terms.

Table 1. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2020–43

(In percent of GDP, unless otherwise indicated) 1/

	Actual			Projections								Average 8/ Historical Projections	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	106.2	86.5	96.0	91.3	96.7	90.7	91.2	90.2	87.6	76.3	77.4	91.6	86.3
of which: public and publicly guaranteed (PPG)	70.9	70.2	65.8	62.7	67.9	64.8	66.0	66.6	67.4	63.3	60.8	61.4	66.3
Change in external debt	12.8	-19.7	9.5	-4.7	5.5	-6.0	0.5	-1.0	-2.5	-2.8	12.4		
Identified net debt-creating flows	36.2	17.5	15.7	25.2	12.6	11.4	10.1	8.5	6.3	5.1	-7.7	14.3	9.1
Non-interest current account deficit	34.2	30.0	24.1	30.9	19.4	17.6	15.7	13.9	11.5	9.3	-2.1	20.6	14.3
Deficit in balance of goods and services	38.4	33.7	28.0	33.5	23.2	21.6	19.5	17.7	15.5	14.0	17.9	25.8	18.4
Exports	18.6	20.2	27.5	27.1	32.9	35.4	35.8	36.5	37.9	35.4	54.0		
Imports	57.1	54.0	55.5	60.6	56.1	56.9	55.3	54.2	53.4	49.4	72.0		
Net current transfers (negative = inflow)	-1.2	-2.2	-2.0	-0.8	-2.2	-2.3	-2.3	-2.3	-2.3	-2.4	-4.0	-4.9	-2.2
of which: official	0.1	0.0	-0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1		
Other current account flows (negative = net inflow)	-3.1	-1.5	-1.8	-1.9	-1.6	-1.6	-1.5	-1.5	-1.7	-2.3	-16.0	-0.2	-1.9
Net FDI (negative = inflow)	-4.4	-4.5	-2.9	-3.1	-4.7	-4.5	-4.4	-4.4	-4.4	-4.4	-6.1	-5.9	-4.3
Endogenous debt dynamics 2/	6.4	-8.0	-5.6	-2.5	-2.2	-1.8	-1.1	-1.0	-0.7	0.2	0.5		
Contribution from nominal interest rate	1.4	1.4	1.5	1.6	1.5	1.6	1.6	1.6	1.6	2.0	2.1		
Contribution from real GDP growth	5.8	-6.0	-4.1	-4.1	-3.8	-3.4	-2.7	-2.5	-2.3	-1.8	-1.6		
Contribution from price and exchange rate changes	-0.9	-3.4	-2.9	...	...	...	...	...	...	...	...
Residual 3/	-23.4	-37.2	-6.2	-30.0	-7.1	-17.4	-9.7	-9.5	-8.9	-7.9	20.1	-12.3	-10.9
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	34.8	32.9	36.3	34.1	35.6	36.6	37.7	36.9	30.7		
PV of PPG external debt-to-exports ratio	...	...	126.7	121.5	110.4	96.4	99.5	100.5	99.4	104.2	56.9		
PPG debt service-to-exports ratio	21.8	21.5	17.7	17.5	13.0	10.6	8.5	7.9	7.2	6.7	7.2		
PPG debt service-to-revenue ratio	7.1	8.2	8.0	11.2	10.8	9.6	7.9	7.5	7.1	6.3	10.7		
Gross external financing need (Million of U.S. dollars)	182.1	176.4	167.9	224.6	142.1	133.7	119.0	107.9	89.9	83.3	-37.1		
Key macroeconomic assumptions 4/													
Real GDP growth (in percent)	-5.9	6.2	5.2	4.7	4.4	3.8	3.1	2.9	2.7	2.3	2.0	0.3	3.1
GDP deflator in US dollar terms (change in percent)	0.9	3.3	3.5	3.1	2.4	2.0	2.0	2.0	2.0	2.0	-19.4	2.3	2.1
Effective interest rate (percent) 5/	1.5	1.5	1.9	1.8	1.8	1.8	1.8	1.8	1.9	2.7	2.7	1.8	2.1
Growth of exports of G&S (US dollar terms, in percent)	-51.3	19.4	47.9	6.3	29.8	13.8	6.4	6.9	9.0	3.0	3.0	6.3	7.9
Growth of imports of G&S (US dollar terms, in percent)	-30.4	3.8	11.9	18.0	-1.1	7.4	2.2	2.9	3.2	4.0	1.8	5.1	4.3
Grant element of new public sector borrowing (in percent)	...	...	...	28.2	33.2	42.9	25.6	27.4	28.1	33.9	39.0	...	30.1
Government revenues (excluding grants, in percent of GDP)	56.8	53.2	61.0	42.2	39.8	38.9	38.6	38.6	38.5	37.8	36.1	45.2	38.8
Aid flows (in Million of US dollars) 6/	13.0	32.1	9.6	10.4	52.1	11.8	12.4	13.0	13.6	16.1	14.2		
Grant-equivalent financing (in percent of GDP) 7/	...	...	...	3.0	5.6	2.9	3.1	3.0	3.0	1.7	1.7	...	2.9
Grant-equivalent financing (in percent of external financing) 7/	...	...	...	44.4	40.5	61.4	40.2	43.5	44.5	75.1	82.2	...	50.6
Nominal GDP (Million of US dollars)	530	581	633	683	730	773	813	854	894	1,111	981		
Nominal dollar GDP growth	-5.0	9.7	8.9	7.9	7.0	5.9	5.2	5.0	4.7	4.4	-17.8	2.7	5.3
Memorandum items:													
PV of external debt 8/	...	...	65.0	61.5	65.2	60.0	60.8	60.1	58.0	49.9	47.3		
In percent of exports	...	...	236.4	226.9	198.2	169.7	169.8	165.0	152.8	140.9	87.5		
Total external debt service-to-exports ratio	24.6	23.9	19.3	19.0	14.2	11.6	9.5	8.8	8.0	7.4	8.3		
PV of PPG external debt (in Million of US dollars)	...	...	220.5	224.8	265.1	263.4	289.6	312.6	337.1	410.1	301.4		
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	0.7	5.9	-0.2	3.4	2.8	2.9	0.1	-1.5		
Non-interest current account deficit that stabilizes debt ratio 9/	21.3	49.7	14.6	35.6	14.0	23.7	15.2	14.9	14.0	12.1	-14.5		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g) + E\alpha(1+r)] / (1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate; p = growth rate of GDP deflator in U.S. dollar terms; E = nominal appreciation of the local currency; and α = share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); other public sector flows; changes in gross foreign assets; valuation adjustments; and an external financing gap in 2020. For projections also includes contribution from price and exchange rate changes. In Dominica's case, the residual is mostly explained by the use of government deposits derived from CBI revenues and changes in privately held external debt.

4/ Macroeconomic variables are calculated on a fiscal year basis.

5/ Current-year interest payments divided by previous period debt stock.

6/ Defined as grants, concessional loans, and debt relief.

7/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

8/ Assumes that PV of private sector debt is equivalent to its face value.

9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

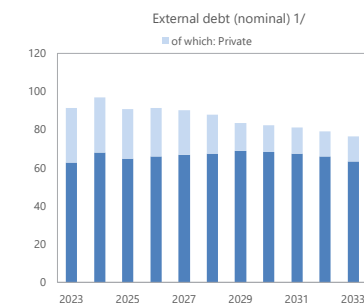
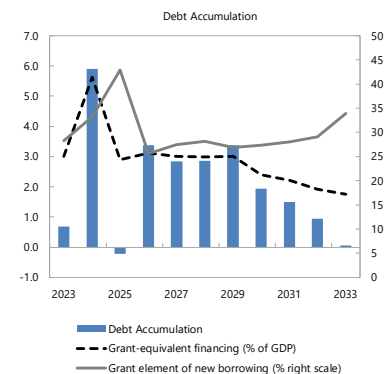


Table 2. Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–33
(In percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to-GDP ratio											
Baseline	33	36	34	36	37	38	39	39	39	38	37
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	33	37	38	42	48	56	64	72	80	87	94
A2. Catastrophic Climate Event	33	47	47	52	56	60	64	69	74	78	81
B. Bound Tests											
B1. Real GDP growth	33	41	44	46	47	49	51	51	51	50	48
B2. Primary balance	33	44	50	52	53	54	56	56	56	55	54
B3. Exports	33	49	66	67	68	69	71	71	70	69	67
B4. Other flows 3/	33	41	44	45	46	47	49	49	49	48	46
B5. Depreciation	33	46	37	39	40	42	44	44	44	43	41
B6. Combination of B1-B5	33	53	54	55	57	58	60	60	60	59	57
C. Tailored Tests											
C1. Combined contingent liabilities	33	43	40	42	43	44	46	46	45	45	43
C2. Natural disaster	33	44	42	44	46	47	49	50	50	50	48
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	40	40	40	40	40	40	40	40	40	40	40
PV of debt-to-exports ratio											
Baseline	121	110	96	100	100	99	105	107	108	107	104
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	121	114	106	118	132	147	172	195	220	243	265
A2. Catastrophic Climate Event	121	159	127	142	151	155	171	188	204	218	229
B. Bound Tests											
B1. Real GDP growth	121	110	96	100	100	99	105	107	108	107	104
B2. Primary balance	121	135	142	144	145	142	149	151	153	153	151
B3. Exports	121	249	463	467	464	452	469	476	480	480	473
B4. Other flows 3/	121	126	124	127	127	125	131	133	134	133	131
B5. Depreciation	121	110	83	87	88	87	93	95	96	95	92
B6. Combination of B1-B5	121	203	120	225	225	221	232	236	238	237	232
C. Tailored Tests											
C1. Combined contingent liabilities	121	129	114	117	117	116	122	124	125	125	122
C2. Natural disaster	121	136	121	125	127	126	133	137	139	140	138
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	180	180	180	180	180	180	180	180	180	180	180
Debt service-to-exports ratio											
Baseline	17	13	11	9	8	7	7	7	7	6	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	17	14	11	9	9	9	9	10	11	11	12
A2. Catastrophic Climate Event	17	16	11	9	9	8	8	10	11	11	13
B. Bound Tests											
B1. Real GDP growth	17	13	11	9	8	7	7	7	7	6	7
B2. Primary balance	17	13	11	10	9	8	8	8	8	7	8
B3. Exports	17	23	32	30	29	26	26	25	25	22	25
B4. Other flows 3/	17	13	11	10	9	8	8	8	8	7	8
B5. Depreciation	17	13	11	8	7	7	7	7	6	5	6
B6. Combination of B1-B5	17	19	21	17	16	15	14	14	14	12	14
C. Tailored Tests											
C1. Combined contingent liabilities	17	13	11	9	8	8	8	7	7	6	7
C2. Natural disaster	17	13	12	9	9	8	8	8	8	7	8
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	15	15	15	15	15	15	15	15	15	15	15
Debt service-to-revenue ratio											
Baseline	11	11	10	8	7	7	7	7	6	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	11	11	10	9	9	9	9	10	10	10	12
A2. Catastrophic Climate Event	11	12	11	9	9	8	8	9	10	10	12
B. Bound Tests											
B1. Real GDP growth	11	12	11	9	9	8	8	9	10	10	12
B2. Primary balance	11	12	12	10	10	9	9	9	8	7	8
B3. Exports	11	11	10	9	9	8	8	8	8	7	7
B4. Other flows 3/	11	11	12	11	11	10	10	10	10	9	9
B5. Depreciation	11	11	10	9	8	8	8	8	7	6	7
B6. Combination of B1-B5	11	14	12	9	9	8	8	8	8	6	7
C. Tailored Tests											
C1. Combined contingent liabilities	11	12	13	11	10	10	10	9	9	8	9
C2. Natural disaster	11	11	10	8	8	8	8	7	7	6	7
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	18	18	18	18	18	18	18	18	18	18	18
<i>Memorandum item:</i>											
Grant element assumed on residual financing (i.e., financing required above baseline)	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 3. Dominica: Public Sector Debt Sustainability Framework, 2020–43
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 9/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
Public sector debt 1/	112.5	108.5	103.3	97.7	93.6	91.1	89.6	87.8	86.0	75.2	85.2	87.2	85.8
of which: external debt	70.9	70.2	65.8	62.7	67.9	64.8	66.0	66.6	67.4	63.3	60.8	61.4	66.3
Change in public sector debt	14.8	-4.0	-5.2	-5.6	-4.1	-2.5	-1.5	-1.9	-1.7	-2.2	12.1	0.9	-2.2
Identified debt-creating flows 2/	11.8	-3.1	-3.3	-3.5	-2.6	-2.2	-1.5	-1.8	-1.8	-2.2	12.1	1.8	-1.4
Primary deficit	5.4	5.6	4.3	-0.4	-0.7	-0.8	-0.9	-1.1	-1.2	-2.2	-1.9	47.7	40.3
Revenue and grants	59.2	58.8	62.6	43.7	41.3	40.4	40.1	40.2	40.0	39.3	37.5	49.5	38.9
of which: grants	2.4	5.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.4	1.4		
Primary (noninterest) expenditure	64.6	64.4	66.9	43.2	40.6	39.6	39.2	39.0	38.8	37.0	35.6		
Automatic debt dynamics	6.4	-8.7	-7.6	-3.0	-1.9	-1.4	-0.6	-0.7	-0.5	0.0	14.0		
Contribution from interest rate/growth differential	6.2	-9.5	-9.8	-3.3	-1.7	-1.2	-0.5	-0.7	-0.5	0.0	0.5		
of which: contribution from average real interest rate	0.1	-2.9	-4.4	1.3	2.5	2.2	2.2	1.9	1.8	1.8	2.0		
of which: contribution from real GDP growth	6.1	-6.6	-5.3	-4.6	-4.1	-3.4	-2.7	-2.5	-2.3	-1.8	-1.4		
Contribution from real exchange rate depreciation	0.2	0.8	2.2	—	—	—	—	—	—	—	—		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 3/	2.9	-0.9	-1.9	-1.8	-1.7	-0.5	-0.1	-0.1	0.0	0.0	13.5	4.1	-0.3
Sustainability indicators													
PV of public debt-to-GDP ratio 4/	...	...	72.2	67.9	62.0	60.4	59.2	57.7	56.4	48.8	55.1		
PV of public debt-to-revenue and grants ratio	...	...	115.5	155.4	150.1	149.4	147.4	143.8	140.8	124.2	146.7		
Debt service-to-revenue and grants ratio 5/	10.2	-7.3	12.3	21.6	22.1	16.6	16.5	14.7	13.5	9.3	26.1		
Gross financing need 6/	11.4	1.3	12.0	9.0	8.4	5.9	5.7	4.8	—	1.4	7.9		
Key macroeconomic and fiscal assumptions 7/													
Real GDP growth (in percent)	-5.9	6.2	5.2	4.7	4.4	3.8	3.1	2.9	2.7	2.3	2.0	0.3	3.1
Average nominal interest rate on external debt (in percent)	1.5	1.5	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.8	2.4	1.8	2.2
Average real interest rate on domestic debt (in percent)	-0.1	-2.4	-2.8	6.4	7.6	8.2	8.6	8.0	8.3	11.1	8.2	-1.0	8.8
Real exchange rate depreciation (in percent, + indicates depreciation)	0.4	1.3	3.4	—	—	—	—	—	—	—	—	0.1	—
Inflation rate (GDP deflator, in percent)	0.9	3.3	3.5	3.1	2.4	2.0	2.0	2.0	2.0	2.0	2.3	2.3	2.1
Growth of real primary spending (deflated by GDP deflator, in percent)	32.7	5.8	9.3	-32.3	-2.0	1.3	2.0	2.5	2.0	2.2	1.7	9.2	-1.7
Primary deficit that stabilizes the debt-to-GDP ratio 8/	-9.4	9.6	9.5	5.1	3.3	1.7	0.6	0.7	0.5	0.0	-14.0	3.2	1.2
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Sources: Country authorities and staff estimates and projections.

1/ Coverage of debt: The central government, government-guaranteed debt. Definition of external debt is Residency-based.

2/ Primary deficit coverage (revenue and expenditures) includes central government and SOEs.

3/ Residuals are mainly related to fluctuations in public sector deposits in the banking system, which have been accumulated mainly from CBI revenues. These deposits stood at 11 percent of GDP at end-2020.

4/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

5/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

6/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

7/ Macroeconomic variables are calculated on a fiscal year basis.

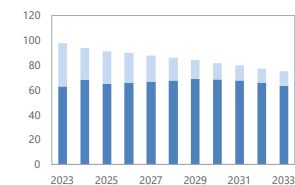
8/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

9/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	No

Public sector debt 1/

■ of which: local-currency denominated
■ of which: foreign-currency denominated



■ of which: held by residents
■ of which: held by non-residents

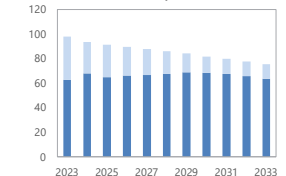


Table 4. Dominica: Sensitivity Analysis for Key Indicators of Public Debt, 2023–33
(In percent of GDP)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of Debt-to-GDP Ratio											
Baseline	68	62	60	59	58	56	55	53	51	50	49
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	68	67	69	72	74	76	78	81	84	87	90
A2. Catastrophic Climate Event	68	78	80	81	81	78	73	71	69	68	66
B. Bound Tests											
B1. Real GDP growth	68	75	92	100	107	114	120	126	133	140	147
B2. Primary balance	68	71	79	77	76	74	73	71	69	68	66
B3. Exports	68	72	86	84	83	81	79	77	76	74	73
B4. Other flows 3/	68	67	70	69	67	66	64	62	61	59	58
B5. Depreciation	68	66	61	57	53	49	45	41	38	34	31
B6. Combination of B1-B5	68	70	72	67	66	65	63	61	60	58	57
C. Tailored Tests											
C1. Combined contingent liabilities	68	69	67	66	65	63	61	60	58	57	55
C2. Natural disaster	68	71	70	69	68	67	66	64	63	62	61
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	155	150	149	147	144	141	137	134	131	127	124
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	155	161	170	178	183	189	196	204	211	219	228
A2. Catastrophic Climate Event	155	240	226	217	211	200	182	179	176	172	169
B. Bound Tests											
B1. Real GDP growth	155	182	226	245	262	281	298	317	335	352	370
B2. Primary balance	155	172	195	193	189	186	182	179	176	172	169
B3. Exports	155	174	213	210	206	203	199	196	193	189	186
B4. Other flows 3/	155	162	174	172	168	165	161	158	155	151	148
B5. Depreciation	155	160	152	143	133	124	114	105	96	88	79
B6. Combination of B1-B5	155	170	178	167	164	161	158	155	152	148	145
C. Tailored Tests											
C1. Combined contingent liabilities	155	167	167	165	161	158	154	151	148	144	141
C2. Natural disaster	155	173	173	172	169	167	165	163	161	158	156
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	22	22	17	16	15	13	12	12	10	9	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	22	23	18	18	17	16	15	15	13	12	14
A2. Catastrophic Climate Event	22	31	21	20	17	15	13	13	11	10	11
B. Bound Tests											
B1. Real GDP growth	22	25	22	22	21	20	19	20	18	17	19
B2. Primary balance	22	22	18	18	16	15	13	14	12	10	11
B3. Exports	22	22	17	19	17	16	14	14	12	11	11
B4. Other flows 3/	22	22	17	17	16	14	13	13	11	10	10
B5. Depreciation	22	22	19	18	16	14	13	12	10	9	9
B6. Combination of B1-B5	22	22	18	18	16	15	13	13	11	10	11
C. Tailored Tests											
C1. Combined contingent liabilities	22	22	17	17	15	14	12	12	11	9	10
C2. Natural disaster	22	22	18	18	16	15	13	13	11	10	10
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-GDP Ratio											
Baseline	9.4	9.1	6.7	6.6	5.9	5.4	4.6	4.7	3.9	3.4	3.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	9	10	7	7	7	6	6	6	5	5	5
A2. Catastrophic Climate Event	9	10	8	7	7	6	5	5	4	4	4
B. Bound Tests											
B1. Real GDP growth	9	10	9	9	8	8	8	8	7	7	7
B2. Primary balance	9	9	7	7	7	6	5	5	5	4	4
B3. Exports	9	9	7	8	7	6	6	6	5	4	4
B4. Other flows 3/	9	9	7	7	6	6	5	5	4	4	4
B5. Depreciation	9	9	8	7	6	6	5	5	4	3	4
B6. Combination of B1-B5	9	9	7	7	6	6	5	5	4	4	4
C. Tailored Tests											
C1. Combined contingent liabilities	9	9	7	7	6	6	5	5	4	4	4
C2. Natural disaster	9	9	7	7	6	6	5	5	4	4	4
C3. Commodity price	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

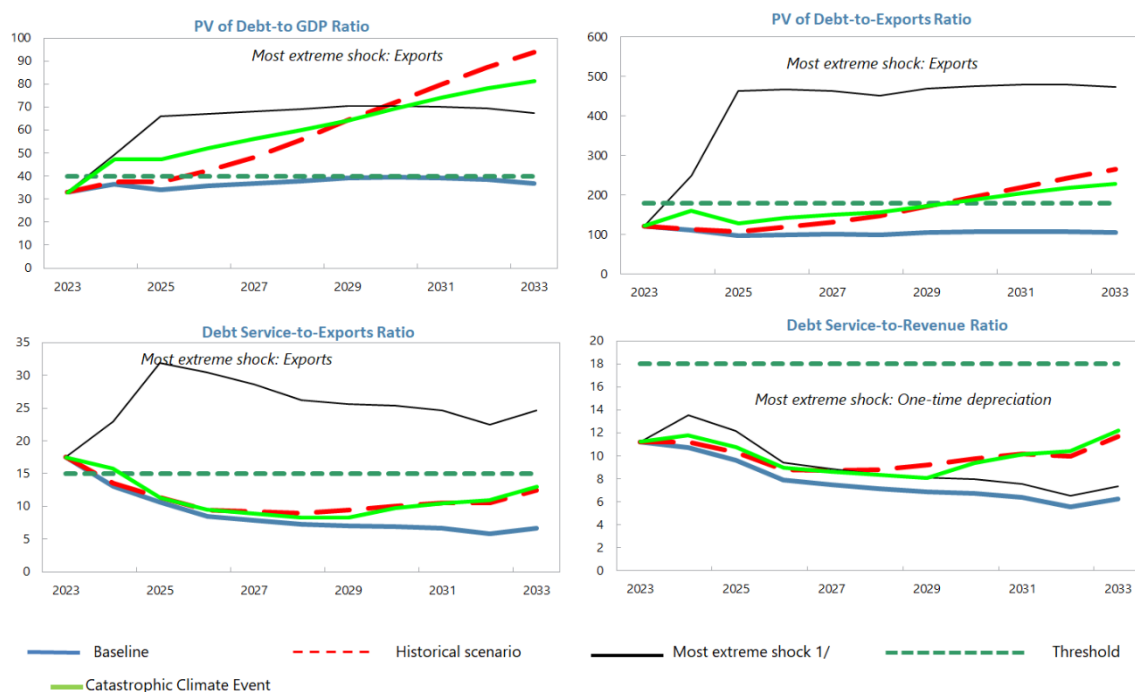
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 1. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2023–33



Customization of Default Settings		
	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster 2/	No	No
Commodity price 3/	n.a.	n.a.
Market financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	2.7%	2.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	9	9

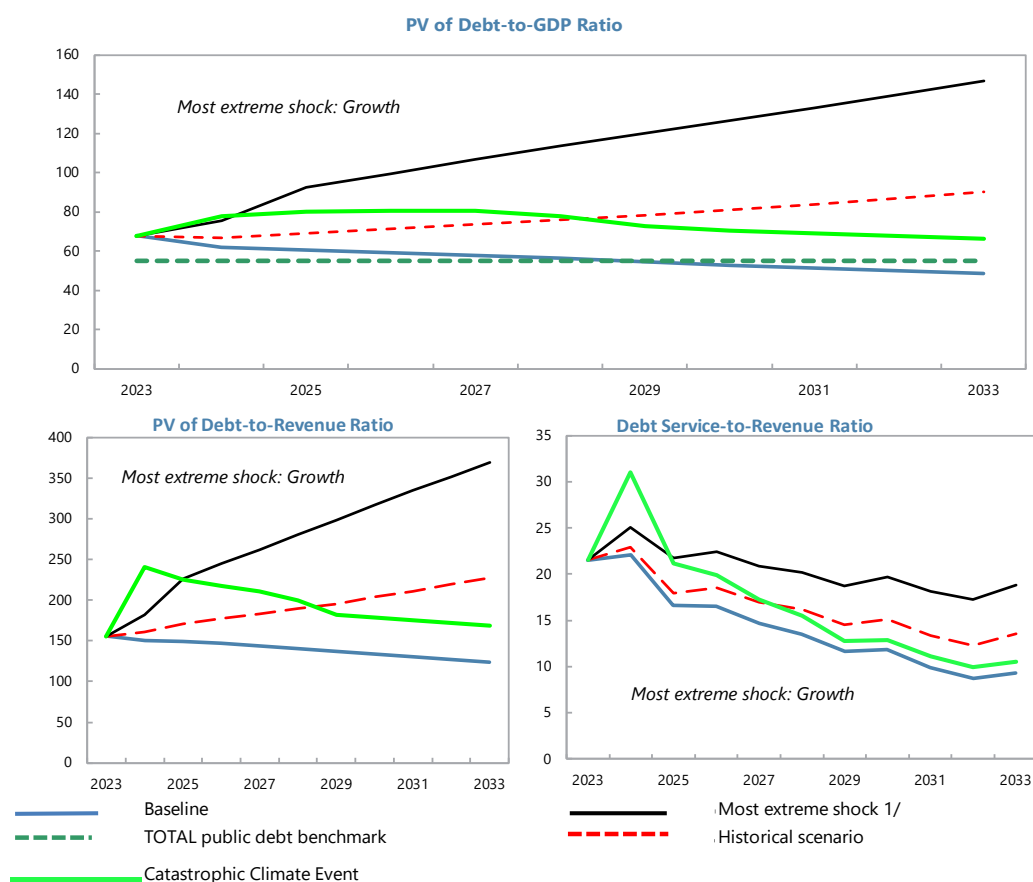
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ Natural disaster shock applies, but is generated as Customized Scenario (not as a Tailored Scenario) to more precisely mimic the impact of recent Hurricane Maria.

3/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

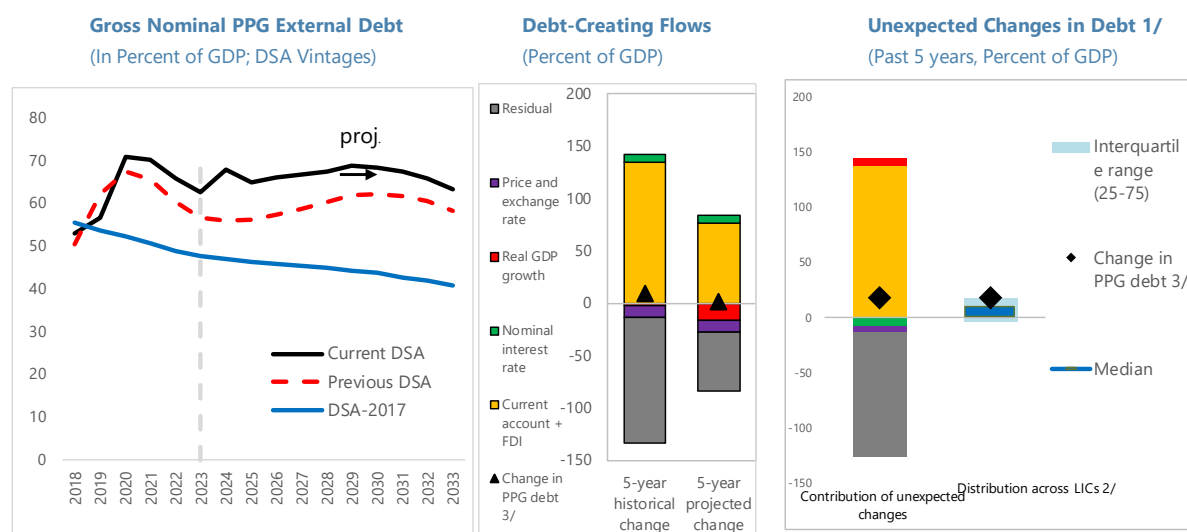
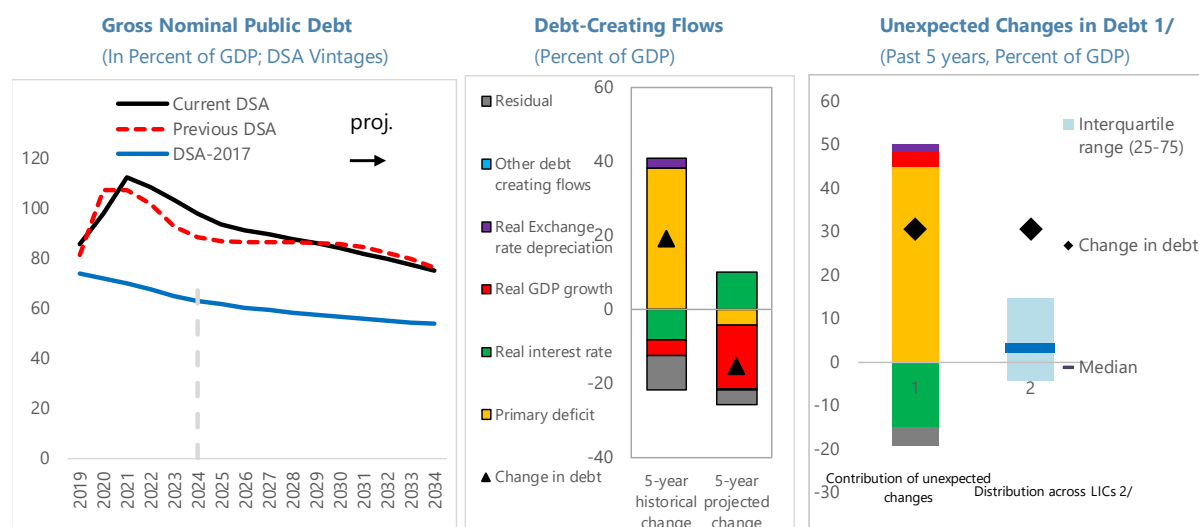
Figure 2. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2023–33

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	68%	90%
Domestic medium and long-term	32%	10%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	2.7%	2.5%
Avg. maturity (incl. grace period)	35	15
Avg. grace period	9	9
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.9%	0.5%
Avg. maturity (incl. grace period)	5	15
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.5%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

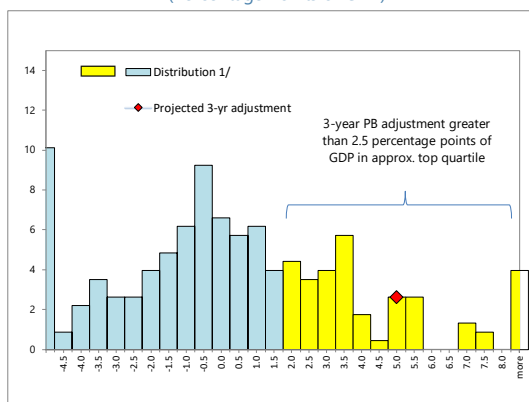
Figure 3. Dominica: Drivers of Debt Dynamics—Baseline Scenario**Public debt**

Sources: Country authorities; and staff estimates and projections.

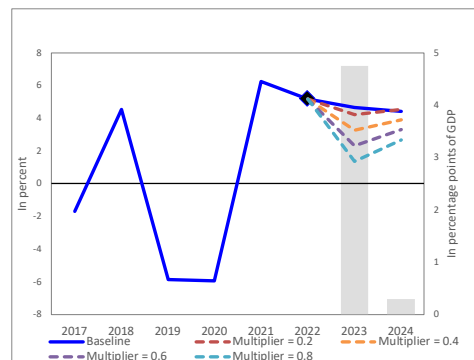
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

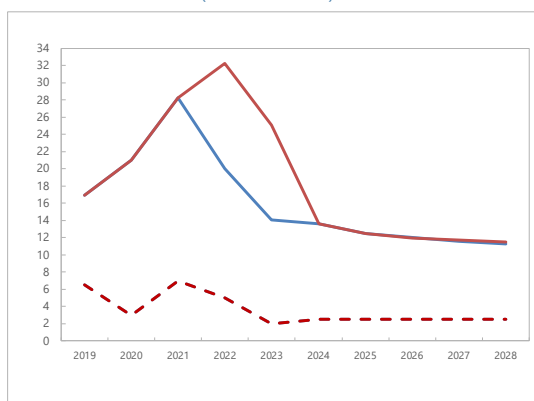
3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

Figure 4. Dominica: Realism Tools**3-Year Adjustment in Primary Balance**
(Percentage Points of GDP)

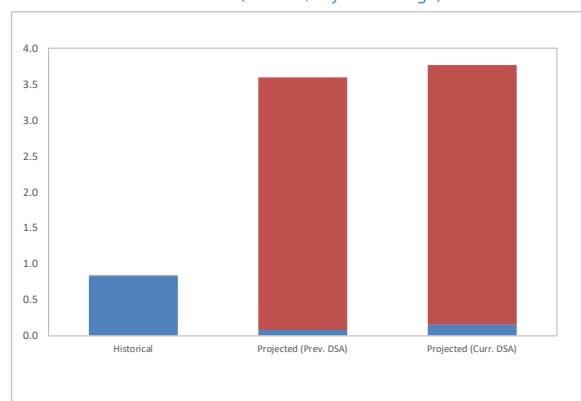
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/

1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(Percent of GDP)

— Gov. Invest. - Prev. DSA — Gov. Invest. - Curr. DSA
- - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Curr. DSA

Contribution to Real GDP Growth
(Percent, 5-year Average)

■ Contribution of other factors
■ Contribution of government capital

Sources: Country authorities; and staff estimates and projections.