COMMONWEALTH OF DOMINICA

Medium-Term Macro-Economic and Fiscal Outlook Statement

Government of the Commonwealth of Dominica 2017/2018

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Medium Term Macro-economic and Fiscal Outlook

Global Economic Outlook

According to the World Economic Outlook (WEO), global economic activity is estimated to have expanded by 3.1 percent in 2016 with projections of 3.4 percent for 2017. The current global economic conditions are within the context of geo-political uncertainties in the United Kingdom and the United States of America; two (2) major economies and traditional tourism markets.

The vote by the UK electorates to leave the European Union affects the psychology of the entire world but more specifically the entire European Community with implications for investments, trade and consumption. According to the IMF, Britain's exit from the European Union is an unfolding event and long-term institutional and trade arrangements between the United Kingdom and the European Union will affect expectations over a protracted period of time.

Secondly, the election of President Donald Trump in the United States of America in November 2016 and the policies of his administration could disrupt key elements of globalization to include regional trade agreements and the outsourcing of major operations by American firms to save cost resulting in job losses. This has created panic in some quarters of the global economy and ambivalence in others.

Growing worries concerning the negative consequences of foreign competition on jobs and wages in these two (2) major suppliers of trade, tourist, pensions and remittances will have implications for economic growth especially in the Caribbean. Overall growth for Organization of Economic Co-operation and Development (OECD) countries will remain low at 2.0 percent in 2017 compared to 1.7 percent in 2016. Only a modest improvement is projected for 2018. Growth in the United States of America is expected to be around 2.3 percent in 2017 from 1.5 percent in 2016. The United Kingdom is expected to register a decline in growth performance from 2.0 percent in 2016 to 1.2 percent in 2017.

Regional Development Outlook

The geopolitical uncertainties and varied economic activity in the major traditional economies of the world, weigh heavily on growth prospects for the Caribbean region. Growth for the region is estimated at around 2.6 percent in 2016 with projections for 2017 suggesting a further 3.0 percent expansion. While low commodity prices provide strong support for tourism based economies with opportunities for expansion, the growth prospect for commodity based economies is uncertain.

For the countries of the Eastern Caribbean Currency Union (ECCU) especially tourism dependent economies, there are concerns as to whether the pickup in tourism arrivals over the past two (2) years would continue. However, despite global uncertainties and economic conditions, the availability of financing in developed countries due to low interest rates could continue to support the expansion of tourism arrivals in the ECCU region. The ECCU economies are expected to expand by 2.6 percent in 2016 due to combined improved performance in agriculture, construction and other services. Additionally, construction, tourism, manufacturing, wholesale and retail will continue to drive ECCU economic growth. Table 1. Below shows growth rates for the ECCU countries from 2014 to 2018.

Table 1. ECCU GDP growth rates

	2014	2015	2016	2017	2018
Anguilla	5.62	2.81	4.30	3.51	3.78
Antigua and Barbuda	4.73	3.81	4.12	3.11	3.19
Dominica	3.71	(2.49)	1.67	3.21	3.19
Grenada	6.48	5.16	3.03	2.79	2.63
Montserrat	0.32	0.30	3.56	1.78	2.08
St Kitts and Nevis	5.12	4.88	3.02	3.78	3.85
Saint Lucia	(0.65)	1.30	0.44	2.74	3.21
St Vincent and the Grenadines	0.19	0.64	2.46	2.35	2.02
Eastern Caribbean Currency Union (ECCU)	**3.18**	**2.59**	**2.62**	**3.00**	**3.08**

Domestic Macroeconomic and Fiscal position

Dominica's sustainable growth prospects continue to be hampered by recurring climate change events. In 2015 Tropical Storm Erika caused an economic contraction of 3.9 percent after two (2) years of average growth of 2.6 percent. Economic expansion in recent times (2014-2015) has been driven largely by the service sector with Government investments being the pivotal driver.

Growth for 2016 is estimated at 1.7 percent largely driven by increased activity in financial intermediation, agriculture, and construction. While agriculture gained some momentum, growth in that sector continues to be hampered by the slow recovery of the banana industry and unstable weather pattern. The construction sector continues to experience growth through public as well as private investments. The economic indicators submitted by the Central Statistical Office show an increase in construction starts and values of 62.0 percent and 53.0 percent respectively. Tourism continues to show mixed results with declines in some components. Consequently visitor expenditure from January to September 2016 declined by approximately 15 percent. A slight improvement is linked to the convening of the World Music Creole Festival and the opening of the cruise tourism season in October.

Projections for 2017 suggest a further expansion of 3.2 percent driven by increased activity in construction, mining and quarrying, and whole sale and retail trade. The construction sector is expected to expand by 6 percent with mining and quarrying expanding by 10 percent. Economic activity is expected to stabilize at about 3.2 percent per year over the medium-term according to ECCB. This growth is expected to be supported by expansion in activity within agriculture, construction, mining and quarrying, and wholesale and retail. The Government of the Commonwealth of Dominica (GOCD) has used the Citizenship by Investment (CBI) programme to mobilize capital as well as investments in the economy. This effort will help anchor the economy as investments are carefully targeted in key sectors with sustainability consideration as a key strategy. Current investments in tourism, agriculture, manufacturing, human resource development all point to a preoccupation for sustainability.

The Fiscal Position

The operations of the Central Government have resulted in an improvement in the fiscal balances, moving from a primary deficit of -3.5 percent of GDP in 2014/15 to a surplus of 0.5 in 2015/16. This was as a result of strong performance in both tax and non-tax revenues; sufficient enough to more than offset notable increases in recurrent expenditure.

Projections for the outturn of the current fiscal year 2016/17 suggest a deterioration in the fiscal position. Increases in both tax and non-tax revenues were overwhelmed by an expansion in total expenditure.

Increases in all components of recurrent expenditure are being projected for fiscal year 2016/17 with the largest increase in that of goods and services followed by expenditure on transfers and subsidies. Expenditure on the public sector investment program (PSIP) is expected to be in line with the original budget estimate.

As a result, both the overall and the primary balance will be in deficit at the end the current fiscal year. The table below summarizes the fiscal position for 2014/15 to 2016/17.

Table 2. Summary of fiscal outturn for 2014/15 to 2016/17

	2014-15	**2015-16**	**2016-2017**
	Actual	**Actual**	**Estimate**
TOTAL REVENUE AND GRANTS	396.2	467.8	522.0
TOTAL REVENUE	360.4	436.8	468.0
Current Revenue	360.2	436.7	467.9
Tax Revenue	*317.0*	*342.0*	349.4
Taxes on Income, Profits	*60.0*	*71.3*	64.1
Taxes on Property	*7.7*	*6.8*	7.4
Taxes on Domestic Goods & Services	*184.7*	*194.1*	204.0
Taxes on International Trade & Transactions	*64.6*	*69.7*	73.9
Non Tax Revenue	*43.3*	*94.8*	118.5
Capital Revenue (Sale of Assets)	0.2	0.1	0.04
Grants	35.8	30.9	54.0
TOTAL EXPENDITURE	468.2	488.5	576.7
Current Expenditure	357.1	375.6	397.1
Personal Emoluments	*159.5*	*152.9*	156.9
Goods & Services	*100.2*	*106.0*	117.1
Interest Payments	*22.8*	*28.4*	28.4
Transfers & Subsidies	*74.6*	*88.3*	94.7
Capital Expenditure and Net Lending	111.1	112.9	179.7
Capital Expenditure	111.5	113.1	180.0
Net Lending	-0.4	-0.3	-0.3
CURRENT ACCOUNT BALANCE	**3.2**	61.1	70.9
(Percent of GDP)	0.2	4.3	4.9
WAGE BILL	150.6	143.7	147.8
(Percent of GDP)	10.7	10.2	10.2
OVERALL BALANCE	-72.0	-20.7	-54.8
(Percent of GDP)	-5.1	-1.5	-3.8
PRIMARY BALANCE	-49.2	7.7	-26.4
(Percent of GDP)	-3.5	0.5	-1.8
Nominal GDP at market prices (ECCB)	**1411.3**	**1408.63**	**1,449.5**

Three year Fiscal Framework

Projections for fiscal year 2017/18 suggest a further deterioration of the fiscal position to accommodate an expansion in the capital program geared at moving the post Erika rehabilitation process forward. The capital program for this year is estimated at $200.0 million or 13.3 percent of GDP and dominated to a large extent by projects to be implemented by the Ministry of Public Works. Recurrent expenditure is expected to increase slightly over that of 2016/17. Projections also suggest that both tax and non tax revenue will remain strong but the anticipated increases will not be sufficient to offset the increase in total expenditure. The result is a deficit in both the overall and primary balance.

Projections beyond 2017/18 suggest an improvement in the fiscal position although the balances remain in deficit. The primary balance is expected to move from -3.1 percent of GDP in 2017/18 to -0.1 percent in 2019/20. The overall balance will improve from -4.4 percent of GDP in 2017/18 to -1.9 percent in 2019/20. The table below shows the fiscal framework for fiscal years 2017/18 to 2019/20.

Table 3. Fiscal framework for 2017/18 to 2019/20

	2016-2017	**2017-2018**	**2018-2019**	**2019-2020**
	Estimate	**Projection**	**projection**	**Projection**
TOTAL REVENUE AND GRANTS	522.0	525.8	540.5	547.8
TOTAL REVENUE	468.0	485.8	500.5	515.8
Current Revenue	467.9	480.7	495.5	510.8
Tax Revenue	349.4	361.5	375.5	390.0
Non Tax Revenue	118.5	119.2	120.0	120.7
Capital Revenue (Sale of Assets)	0.04	5.05	5.05	5.05
Grants	54.0	40.0	40.0	32.0
TOTAL EXPENDITURE	576.7	600.1	609.3	577.8
Current Expenditure	397.1	400.4	409.7	418.1
Capital Expenditure and Net Lending	179.7	199.7	199.7	159.7
Capital Expenditure	180.0	200.0	200.0	160.0
Net Lending	-0.3	-0.3	-0.3	-0.3
CURRENT ACCOUNT BALANCE	70.9	80.3	85.8	92.6
(Percent of GDP)	4.9	5.3	5.5	5.7
WAGE BILL	147.8	150.7	153.8	156.8
(Percent of GDP)	10.2	10.0	9.8	9.7
OVERALL BALANCE	-54.8	-74.3	-68.8	-30.0
(Percent of GDP)	-3.8	-4.9	-4.4	-1.9
PRIMARY BALANCE	-26.4	-46.0	-40.4	-1.6
(Percent of GDP)	-1.8	-3.1	-2.6	-0.1
Nominal GDP at market prices (ECCB)	**1,449.5**	**1,504.7**	**1,562.0**	**1,621.5**

Revenue forecasts 2017/18 to 2019/20

Revenue forecasts are based on the following approaches with the use of informed judgment where necessary:

- The use of seasonality ratios
- Trend analysis
- GDP-based approach

Assumptions underlying revenue forecasts

The revenue outlook is based on: (excluding CBI revenues)

1. Global and regional economic growth will proceed slowly and will affect the domestic economy to a lesser extent given that the Dominican economy is not fully integrated into the global economy. Revenue growth will generally follow GDP projections.
2. Estimates for 2016/17 are based on monthly receipts outturn data augmented by the use of seasonality ratios
3. Non tax revenue estimates are mainly based on trends and augmented where additional information is available as is the case of the CBI revenue

Assumptions underlying expenditure forecasts

CBI inflows are estimated at around the current levels ($200.0 million) for the first two fiscal years of the three year framework and then cautiously reduced to $150.0 million for the third year. This was done to reflect the recognition of the potential competition from other recently launched CBI programmes.

Although the CBI revenue flows are noteworthy at this time, it would be prudent to continue to exercise expenditure restraint there by creating fiscal space to allow for the channeling of some of the CBI funds into the soon to be established resilience fund. Therefore the framework projects a minimal one percent increase in goods and services over the period.

The framework does not factor in any changes to wages and salaries as the negotiations are ongoing. However the framework recognizes the need to allow for increases related to increments and wage drift. A one percent increase is factored in for each year over the period.

Public Debt

Debt of the public sector[1] stood at $1.091 billion or 77.5 percent of GDP as at end of financial year 2015/2016. The total disbursed outstanding debt grew by less than 1.0 percent over fiscal year 2014/15, which was $1.086 billion. Central government total disbursed outstanding debt increased by $4.8 million to $920 million at the end of June 2016. Domestic debt totaled $276.2 million a 1.1 percent increase over the last period, while external stood at $643.7 million, an increase of 0.3 percent. Total Government guaranteed disbursed outstanding debt increased by about 0.6 percent over fiscal year 2014/15; with an

[1] *Includes both central government and central government guaranteed debt*

increase of $7.5 million in domestic debt and a decrease of $6.8 million in external- debt. Most of the debt is held by external creditors with 70 percent and 30.0 percent is held by domestic creditors.

The GOCD's high-level debt management objective is "to ensure that the GOCD's financing needs and obligations are met on a timely basis. To do so in a way that minimizes cost over the medium to long term, while taking account of risks, and subject to that, to develop over time a range of financing options." Guided by the foregoing Debt Management Strategy the strategy seeks to ensure that the GOCD's debt management policies over the medium to long term support fiscal and monetary policy and help build a robust and resilient economy, able to withstand economic shocks.

Inflation, as measured by the change in the consumer price index, is expected to be stable with small increases in the food index. In the medium term prices are expected to remain stable with minor increases in food and fuel. The cost of fuel is beginning to trend upwards.

Employment creation is a major objective of the macro-economic and fiscal agenda. According to the Central Statistics Office the unemployment rate is trending downwards and is expected to drop to approximately 11 percent in the medium term owing to targeted and ongoing investment programmes and projects both by the public and private sectors.

Growth Prospects

Dominica's sustainable growth prospects continue to be hampered by recurring climate change events. In 2015 Tropical Storm Erika caused economic contraction of 3.9 percent after two (2) years of average growth of 2.6 percent. However, growth is expected to stabilize at about 3.2 percent per year over the medium-term. This growth is expected to be supported by expansion in activity within agriculture, construction, mining and quarrying, and wholesale and retail. Potent CBI flows are very timely and have allowed for the funding of much needed infrastructure rehabilitation. Government's contribution to the capital programme is expected to come largely from the CBI revenues.

This is expected to spill over into the following fiscal year as many of the projects would have a lifespan which exceeds one year. It is expected that construction will be the main stimulus in the medium term with implementation of two major projects. The ongoing kempinski hotel project in the north of the island is expected to contribute significantly to economic activity during its construction stage as well as during operations. A new National Hospital is also being built with assistance from the People's Republic of China. The continued investments in geothermal energy will also contribute to economic activity.

In the medium-term therefore, growth of between 3-5 percent can be achieved if current efforts at economic consolidation, diversification and transformation continues. In the medium-term, to achieve such growth and development, the following strategies, targets, and principles must be adhered to;

1. Fiscal Stability
    - Realistic budget preparation according to the implementation capacity
    - Strict monitoring and accounting
    - Realistic project development and monitoring

- Effective implementation and reporting

2. Revenue Optimization
    - Simplify systems of collection
    - Exploration of new sources of revenue and complete fiscal reform
    - Progressive tax and other revenue streams

3. Expenditure Management/Control
    - Efficient and effective targeting in all investment projects
    - Strict monitoring and reporting
    - Stricter following up on the budget execution procedure
    - Execute only the expenditure included in the budget
    - Define when a commitment becomes and arrears

4. Raising Concessionary Funding
    - Grant seeking
    - Low interest loans plus other favourable terms and conditions

5. Allocative Efficiency
    - Careful division between public optimization and private expectation
    - Targeting objectives of growth, employment and poverty reduction as contained in the Growth and Social Protection Strategy (GSPS).

6. Implementation Efficiency
    - Clearly defining problem/issue to be targeted during public project evaluation
    - Learning from past experiences
    - Selecting the most optimum solution among many looking at the social internal rate of return of each project: social project evaluation
    - Open and transparent procurement of goods and services
    - Adhering to implementation schedule looking at timely disbursements
    - Strict monitoring and reporting.

7. Productive Sector Targeting
    - Keeping in focus key objectives of economic growth; employment, poverty reduction and the general improvement in the quality of life.
    - Seeking to create an enterprise culture
    - Seeking to build innovation and entrepreneurship
    - Seeking to build a more efficient, innovative, productive and competitive private sector
    - Seeking to develop a market that effectively engage in more efficient allocation of resources

8. Greater Accountability

- Better monitoring and reporting in the overall budget of the government
- Paying close attention to the financial sector for protection of the nation's financial resources.

9. Labour Productivity
   - Eliminating disincentives to work.
   - Carefully targeting human resource development in line with national development needs
   - Continue to improving the quality and affordability of education and training
   - Undertaking institutional development for more efficient and effective service delivery
   - Establishing a labour market information system
   - Conducting labour market surveys
   - Technological improvement and innovation

Macro Fiscal Targets in the Medium-Term to Long-Term

Economic Growth	3-5%
Primary Balance	2% (minimum)
Debt to GDP ratio (debt sustainability)	60% by 2030
Employment	95% (5% unemployed)
Poverty	< 15%
Inequality	< 0.25%
Population Growth	>2% annually
Debt Service ratio	15% of revenue

Strategic Targeted Sectors and Actions

1. Agricultural Development
   - Stabilization and growth of the banana industry towards competitiveness export marketing

   Agricultural Diversification

   - Targeting niche market high value crops (citrus, coffee, root crops, herbs and spices, exotics etc.)

Livestock

- Expansion of pork, poultry and small ruminants
- Competitive operations of abattoir
- Establishment of large farms where possible

Agricultural Modernization

- Support to horticulture programme
- Optimization of land use targeting fertile, flat, accessible land and matching as far as possible crop to soil type.
- Introduction of adaptable /labour saving technology to improve productivity
- Training of farmers
- Education of consumers on preparation and benefits of local foods

Cocoa Rehabilitation

- Develop a comprehensive rehabilitation programme
- Work closely with large producers
- Upgrade the cocoa stick industry
- Provide support to instant cocoa and chocolate producers
- Brand Dominica's cocoa in line with the Nature Island concept and Caribbean Fine Cocoa
- Develop fully the Cocoa Industry

Coffee Rehabilitation

- Develop a full coffee rehabilitation programme
- Organize farmers
- Bring the coffee plant to full competitive operation
- Advance the Dominica Coffee brand

Coconut Rehabilitation

- Develop a full coconut rehabilitation programme
- Select cultivars that best suits local conditions and national policy objectives
- Advance current initiatives in value added.
- Develop fully the Dominica Virgin Coconut Oil industry with export market orientation
- Explore vigorously the bottled coconut water industry
- Develop the industry into a competitive brand
- Provide support along commodity chains for commodity with competitive export potential;
  - Growing
  - Harvesting
  - Handling
  - Packaging
  - Transportation
  - Marketing
  - Processing/Food preparation

2. Tourism Development
   - Implement the tourism master plan

- Increase cruise visitors
- Increase stay over visitors
- Undertake product improvement and development/enhancement
- Enhance product marketing
- Undertake further branding
- Increased/improved accommodation
- Help create higher end restaurant
- Undertake public education
- Improve critical services

3. Manufacturing Development
    - Undertake situation analysis
    - Develop policy, strategy and action plan
    - Target competitive industry
    - Develop the nature island brand

4. Construction Development
    - Carefully targeting projects
    - Achieving implementation efficiency
    - Strict monitoring and reporting
    - Advance the private sector portfolio
    - Continuing to create conditions to attract a higher level of Foreign Direct Investments (FDIs)
    - Provide incentives to optimize sector outcome and achieve national objectives
    - Continued investments in critical strategic physical infrastructure.
    - Maintaining the strategic infrastructure of the Citizenship by Investment (CBI) Programme.

5. Renewable Energy Development
    - Successfully implement the geothermal projects both domestic and export
    - Explore possibilities for other forms of renewable energy.

6. Social Development

    - Health
        - Better management of health sector
        - Continued improvements of health facilities
        - Human resource development
        - Public Education on preventative and curative health

    - Education

        - Continued improvements in the quality of education

- Meeting critical national development needs through targeting
- Exploring efficiency options through school consolidation and other means
- Continued improvement in delivery systems
- Continued improvement in physical plant.

Social Protection and Poverty Reduction

- Better targeting of benefits and beneficiaries
- Programme consolidation and collaboration
- Introduce a graduated programme alone a continuum
- Better monitoring and reporting
- More frequent and systematic evaluation
- Continued promotion of Non-Government Organizations (NGOs)/private sector social responsibility
- Creation of a modern legal framework to guide programmes.

Housing

- Continue housing revolution and improvement programmes
- Emphasize private individual responsibility
- Continued emphasis on resettlement of displaced persons.

Sustainable Development Goals (SDGs)

- Fully integrate the SDG's into national development framework
- Institute systems of monitoring and reporting

High sustained economic growth in Dominica is achievable. Sustainable economic and social development is evolving. Some very worthwhile initiatives have been taken that lays the platform for the advancement of the Dominican society. Government initiatives in renewable energy more specifically geothermal power generation is seen as a major game changer. Ongoing and proposed investments in hotel plant construction and upgrading will enhance the tourism product and will boost activities on the demand side. Investments in physical infrastructure aimed at creating a more enabling environment for doing business and sustainable living will result in significant gain in the medium term. However, those platforms continue to be eroded by the devastating effects of climate change and weather visibility. Air access improvements remain a critical need. The biggest climate change project for Dominica has to be the relocation of the Douglas-Charles Airport because of the frequent threat posed to that important facility by weather events. Government invested significant amounts on modernization of the facility and now has to frequently fund restoration and rehabilitation activities because of these events.

The economic cost of these events goes way beyond restoration and rehabilitation but can be accounted for in loss of business and disrupted livelihoods.

Annex 1

Twenty (20) Guiding Principles for Budget Preparation

1. Committing to sustainable economic growth, development and resilience building.
2. Committing to a surplus budget and prudent fiscal policies
3. Committing to a primary balance
4. Committing to revenue optimization and transparency
5. Committing to strong expenditure management and accountability
6. Committing to allocative efficiency in resource utilization
7. Committing to counter cyclical fiscal policies
8. Committing to the advancement of the productive sectors
9. Committing to decent employment, social protection and a better understanding of the labour market through a well-established labour market system
10. Committing to the provision of basic needs, social development, social protection and a people centered approach to development
11. Committing to a pivotal role for the private sector and the market in national development
12. Committing to a facilitatory and progressive state
13. Committing to debt sustainability
14. Committing to productivity improvement and equity
15. Committing to sustainable development
16. Committing to an economy that generates investments, savings and innovation

17. Committing to advancing national competitiveness

18. Committing to emphasize individual responsibility

19. Committing to contribute to a society that values individual sustenance, self-esteem and freedom from servitude

20. Committing to build a more prosperous Dominica to the benefit of all.