

Interview with Caribbean Media Corporation (CMC) in Dominica Questions and Answers

1. This is your first visit to Dominica. What are your impressions of the country. Can you give us an overview of the status of the economy?

- This is my first visit to Dominica. I am astounded by the natural beauty of the island and impressed with the speed of recovery after Hurricane Maria, having seen the images in the aftermath of the storm. The economy is recovering faster than we expected.

We are happy to see normalization of daily activities, with significant government investments. Based on my discussions, I am also confident that large private investment, which is important for future development in the tourism and energy sectors, including geothermal electricity, are on track for completion in the near term. This clearly demonstrates the resilience and determination of the Dominican people. But the road ahead will remain challenging given the enormity of the task ahead.

2. Dominica is still recovering from the ravages of Hurricane Maria and a number of international financial institutions like the IMF are lending assistance in its rebuilding.

Are you satisfied with the role of the IMF in that regard?

- Soon after hurricane Maria hit Dominica, IMF Managing Director Lagarde met with Prime Minister Skerrit and offered our support. As the government has not relied much on external financial assistance for reconstruction given significant Citizenship by Investment (CBI) revenues, the IMF's assistance has focused on policy advice and technical support.
- We contributed to the post-hurricane damage assessment in collaboration with the World Bank, and offered advice on macroeconomic policies related to recovery from the hurricane. IMF research also helped guide economic policies, including a cost-benefit analysis of investment in resilient infrastructure and insurance, to which the government of Dominica is fully committed.

What are your impressions of the recovery efforts just over a year since the passage of Hurricane Maria and the recently established the climate resiliency executing agency of Dominica (CREAD) to help addressing its short comings in the rebuilding process? What are your recommendations to avoid a similar scenario in the future? How can the IMF help?

- Key economic sectors are on a solid road to recovery, exceeding our expectations. Retail and construction activities show strong performance given reconstruction and restocking across the island.
- Most sectors are recovering including: Agriculture, which is key given the social importance of the sector; water and electricity services are restored in the majority of the island; tourism is gradually picking up and due to construction activities, investment in retail, transport and service sectors, employment rates are also picking up. Dominica's financial sector has remained stable despite the large shock.
- Similarly, I am encouraged by the steps that have been taken to improve Dominica's ability to cope with natural disasters, namely the preparation of an integrated national climate resilience strategy and the establishment of the *Climate Resilience Execution Agency*, with financial support of the international community. The IMF has placed resilience to natural disasters at the center of our work on Dominica. In addition to policy advice, technical support and analytical work to evaluate economic policies, the IMF can help operationalize Dominica's national climate resilient strategy, including catalyzing support from the donor community.

3. ***Recently, Prime Minister Roosevelt Skerit was critical of the measures being implemented by the international community resulting in shifting the goalposts as it relates to the development of the international financial sector. Is he right in his criticism of organizations such as the Organization for Economic Cooperation and Development (OECD) and the IMF?***

- Prime Minister Skerit, as well as other regional leaders, have expressed concern about black listing by the European Union and the OECD on matters of international taxation. The government of Dominica has been highly cooperative and has addressed most of the concerns.

The Prime Minister did not criticize the IMF on this issue. While the IMF is not involved in those decisions, we stand ready to support the government with technical assistance. The IMF is also willing to intercede with European institutions to ensure there is sufficient communication of the expectation with time for action and technical support, and to advocate for blacklisting as a last resource only in case of no cooperation. We played a similar advice and convening role recently with issues related to correspondent banking in the Caribbean.

4. ***The IMF in 2018 issued a call for investment in resilient infrastructure, despite its higher cost, and the IMF also encouraged the authorities to create a savings fund for natural disasters. How will this benefit Dominica? And is it something that is already being implemented.***

- Our analysis shows that investment in resilience to natural disasters can bring significant benefits to Dominica. First, economic output declines from destruction of productive infrastructure is lower with resilient investments, and post-disaster recovery is faster. But that is not where the story ends. The benefits of resilient investment also include a multiplicative effect from higher private investment, employment, and wages by protecting returns to private investment and labor. The returns to resilient investment more-than-compensates its additional cost.
- The government is currently pursuing resilient investments, as detailed in the Public Sector Investment Plan. This is in line with the government's core objective of making Dominica the first disaster resilient state. The IMF is fully supportive of this vision, advocating a shift in paradigm from a focus to ex-ante resilience from ex-post recovery.

5. As addressed the World Economic Outlook news conference, the IMF managing director, Christine Lagarde said and I quote "The international community must come together to build a brighter future for all citizens. I have called this a "new multilateralism." And as our new outlook shows, the need for this kind of cooperation is more urgent than ever. "Unquote. Could you put that statement in a Caribbean context and more specifically Dominica?

A new multilateralism is important for the Caribbean. The challenge of climate change and its effects on Caribbean countries calls for international cooperation. It is small states, such as Dominica, that are suffering disproportionately the consequences of climate change, even though they contribute little to the problem. This is a global problem that requires a global solution.

6. What's your position on Citizenship by Investment Programs (CBI) that allows Caribbean countries, such as Dominica, to be able to attract foreign investments? Do you support the contention that the CBI's allows for tax loopholes even when countries such as the United States, Britain and Canada allow for some level of citizenship through significant investments?

- CBI programs have been an important source of foreign investment and fiscal revenues. There are now several projects in Dominica in the tourism sector, some at an advanced stage, that will generate income and jobs in the economy because of CBI.
- However, some countries are concerned about erosion of their tax revenue base through evasion, and also about the misutilization of citizenship programs. The concern is not about legitimate citizenship by investment programs that are fully transparent and designed to minimize these risks. The government of Dominica has been cooperative,

responding in a timely fashion to recommendations that help address possible loopholes in international taxation.

7. *The 2018 Article IV Consultation Report pointed to the fact that Hurricane Maria exacerbated weaknesses in the financial sector, particularly of non-bank institutions, which face undercapitalization, low profitability and high nonperforming loans. Have you seen any steps taken to address these short comings, and if not what recommendations would you have?*

- This is a very important question and an issue that is central to our work. Recent natural disasters weakened the financial system, as expected after such extreme circumstances. However, the system has remained stable, and financial institutions have acted to address loan regularization and capitalization. The Eastern Caribbean Asset Management Corp., which became operational in 2018, is an important instrument to strengthen banks' balance sheets. The credit unions sector is working on regional harmonization of regulation and supervision in line with international standards, which is important to strengthen the resilience of the sector and to protect its key role in terms of financial inclusion.

8. *The report also pointed out that credit to the private sector has been flat and inflation remains subdued.*

What sort of impact is this having on Dominica's economic recovery?

- Price stability is key for investment and employment, mainly in terms of providing a predictable planning horizon. This speaks to the credibility of a strong institution such as the ECCB. However, the long-standing stagnation in credit to the private sector means the banking sector has been unable to support the economic recovery. This is a reason why addressing ***financial weaknesses is important.***

Output is expected to decline by 14 percent and it is expected to take another 5 years to bounce back to pre-Hurricane levels. What sort of measures would the IMF recommend to prevent a financial crisis in Dominica?

- Owing to banking sector weaknesses, a major challenge is for the financial sector to provide sufficient support to the recovery. So we are placing emphasis on improving banks' balance sheets. We welcome efforts made by banks to regularize their loan portfolios, and to seek capital injections and to consolidate with leadership from the ECCB.

What is the worst-case scenario, could we see a repeat of the various fiscal measures taken in the early 2000's?

- Fiscal resources from the CBI program have been the main source of the recovery observed so far, allowing execution of significant public investment. The amount of investment and the speed of recovery has exceeded our expectations. We are of the view that a recalibration of fiscal policies will be needed once output recovers to ensure fiscal sustainability. The bulk of the fiscal recalibration will come from normalization of government activities as the high post-hurricane challenges are addressed and spending demands normalize. It is important that the society at large is supportive of the government's commitment to fiscal sustainability, including with measured calls for public wage increases. Long-term sustainability of public finances should be mindful of the unpredictable nature of CBI revenues which, we believe, should be used for resilient investment and saving for future natural disasters.

9. *From all reports, the government has been able to keep up to date with all of its financial commitments post hurricane Maria, public officers have been paid on time and the various government social support programs have not been impacted. What does this say about the fiscal management of the government?*

- We commend Dominica for such achievement as it reflects an enormous effort by responsible government officials and their concern for the hard-working public servants of Dominica. The government of Dominica has proven its commitment to meet its financial obligations, including under the most extreme circumstances.

10. *The IMF has recommended the identification and removal of costs and barriers that affect investment and profitability in order to generate growth especially within the private sector. Given the size of Dominica's public service, can you stress the importance of ensuring a vibrant private sector to ensure growth.*

- The contribution of the private sector is key for the development of Dominica in the long term. The authorities agree. But this means that the public sector must continue playing an important role in creating a favorable business environment.
- This includes improving efficiency and reducing costs of dealing with government, such as to pay taxes. It also includes investments in health and education to enhance labor productivity and to close the skill-mismatch gaps of the labor force. Labor market regulations could also be modernized to facilitate labor mobility across sectors, especially given the seasonal nature of demand in key sectors such as tourism and agriculture. We should not forget that modernization of foreclosure and insolvency laws could pave the road for the financial sector to contribute to growth with more dynamic and productive lending.

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