

2020

Debt Portfolio Review

Dominica Ministry of Finance

10/2021

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Acronyms and Abbreviations

AFD	Agence Française de Development
ATM	Average Time to Maturity
ATR	Average time to Re-fixing
BBD	Barbados Dollar
CBI	Citizenship By investments
CDB	Caribbean Development Bank
ComSec	Commonwealth Secretariat
DAID Bank	Dominica Agricultural and Industrial Bank
DASPA	Dominica Air and Sea Port Authority
DMU	Debt Management Unit
DOWASCO	Dominica Water and Sewerage Company
DSA	Debt Sustainability Analysis
DSS	Dominica Social Security
DSSI	Debt Service Suspension Initiative
EC	Eastern Caribbean
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
EIB	European Investment Bank
GDP	Gross Domestic Product
GHLB	Government Housing Loans Board
GoD	Government of Dominica
IMF	International Monetary Fund
IRP	Investor Relations Programme
MoF	Ministry of Finance
PRC	People's republic of china
PSIP	Public Sector Investor Programme
PV	Present Value
RBTT	Royal Merchant Bank
RGSM	Regional Government Securities Market
SDR	Special Drawing Rights
T-Bills	Treasury Bills

Introduction

The 2020 Debt Portfolio Review is divided into seven sections as outlined below:

- | | |
|-------------------|---------------------------------------------------------------------------------------------------------|
| SECTION 1: | The Executive Summary |
| SECTION 2: | The current arrangements for public debt management in Dominica, and the debt management objectives |
| SECTION 3: | An overview of the economy over the years and the economic outlook |
| SECTION 4: | The structure of the public debt; new debt contracted/borrowings and debt service payments, debt relief |
| SECTION 5: | Government Securities in the Regional Government Securities Market (RGSM) |
| SECTION 6: | Risk analysis of the debt portfolio, debt sustainability and debt outlook |
| SECTION 7: | Conclusion |

Section 1.0

Executive Summary

The Debt Portfolio Review is an annual report prepared by the Debt Management Unit that aims to provide all stakeholders with an analysis of the total debt situation of the Commonwealth of Dominica, including the risks embedded therein. (See Appendix 1)

This document comprehensively covers central government's debt and debt guaranteed by the government for a five (5) calendar year period 2016-2020, with greater emphasis on the debt management operations during 2020. It highlights any critical observations during the period. The document also gives a brief overview of the performance of the economy, and touches on sustainability, evolution and composition of the debt.

Dominica experienced a major hurricane (Maria) in 2017 while recovering from 2015's tropical storm Erika and in 2020 had to deal with the onslaught of the Covid-19 pandemic. These events have had an adverse effect on the economic and social sectors of the country. In an effort to combat the impact of these events, Government had to resort to contracting debt to finance recovery.

In April of 2020, the G-20 Finance Ministers and Central Bank Governors met and agreed on a Debt Service Suspension Initiative (DSSI) supported by the WB and IMF. Through this initiative, the government of Dominica received moratorium on debt service payments due to some creditors. This has enabled government to cushion the impact of the COVID-19 pandemic on the economy.

Economic activities declined by 11.0 percent in 2020 compared to an increase of 7.6 percent which was recorded in 2019. The overall deficit stood at 14.8 percent of GDP at the end of 2020, compared to 16.5 percent at the end of 2019. In

2020 tax revenue decreased by 26.32 percent over 2019; while non-tax revenue increased by 5.79 percent compared to 2019. Expenditure registered a 16.7 percent decline in 2020 over 2019 despite the major expenses brought on by the pandemic. There was a further decline in capital expenditure by 43.9 percent in 2020 due to the reduction in the implementation rate of ongoing projects brought on mainly by the covid-19 pandemic.

At the end of December 2020, total debt outstanding¹ amounted to EC\$1,436.4 million or 104.0 percent of GDP compared to EC\$1,226.4 or 77.1 percent reported at the end of December 2019. This represents a 17.1 percent increase in nominal terms. Over the five year period, the debt to GDP rose from 68.0 percent in 2016 to 104.0 percent in 2020 with the mean being 80.3 percent.

In 2020 Central Government held EC\$1,276.4 million or 88.9 percent of the total debt, while the remaining EC\$160.0 million or 11.1 percent represented debt guaranteed for state-owned enterprises. Total external public debt accounted for 56.1 percent of the total debt and 43.9 percent was held by domestic creditors.

Interest rate risk remained low with the proportion of the debt portfolio with fixed interest rates made up 89.0 percent of total outstanding debt. Currency risk remained low given a majority of the debt is denominated in either local currency or United States Dollar (USD). In 2020, 48.1 percent of the total debt portfolio was denominated in foreign currency and 51.9 percent in domestic currency. The major currencies which made up the foreign currency denominated debt are USD, EURO, KWD, CNY and SDR. The fluctuating currencies have proven to be relatively stable while the EC dollar is pegged to the USD. Refinancing risks were

¹ Total debt outstanding: debt of the central government plus debts of other public sector entities that are guaranteed by the central government and the disbursed outstanding debt (DoD) does not include any arrears nor floating debt.

also low measured by the Average Time to Maturity (ATM) of the total debt was about 8.08 years.

The government, over the years has remained committed to the Regional Government Securities Market (RGSM) and continues to use this platform as one of the means of meeting its financing needs. In 2020 the government floated an EC\$20 million Treasury Bill on the RGSM and reissued a maturing bond where EC\$24.86 million was raised.

Section 2.0

2.1 Debt Management Function

The Ministry of Finance (MoF) is responsible for formulating and implementing fiscal policies and managing the financial resources of the State. Among the main responsibilities of the MOF is debt management.

The Debt Management Unit (DMU) is the primary agent for debt related matters. These functions are closely coordinated with the MoF Policy Unit; the Accountant General's Office; and the Attorney General's Chamber which ensures that contracting of debt remains in compliance with the law. The DMU participates in the debt negotiation— manages, records, reports on public sector debt; and optimises the status of the debt portfolio to achieve the best mix. The Eastern Caribbean Central Bank (ECCB) acts as the paying agent for Government when servicing external debt. Additionally, the Bank provides technical advice and support to the DMU.

2.2 Objectives for Debt Management

The Government has set for itself a high-level debt management objective:

“To ensure that Government’s financing needs and obligations are met on a timely basis, in a way that minimises cost over the medium to long term with a prudent level of risk.”

The underlying objective is to ensure that there is adequate coordination between Government’s debt management policies and its macrofiscal policies, to help build/maintain an economy that is robust and resilient to future adverse economic shocks.

As part of its debt strategy, Government has set the following quantitative targets for total public sector debt; these targets are reviewed periodically:

- a. Maintain an ATM of 9 years and above;
- b. Variable interest rate debt to be ≤ 15 percent of the total debt stock;
- c. Non-USD debt exposure (excluding SDR) at ≤ 20 percent of the total debt stock; and
- d. Maintain government guaranteed debt at ≤ 17 percent of the total debt stock;

Section 3.0

3.1 Overview of the Economy

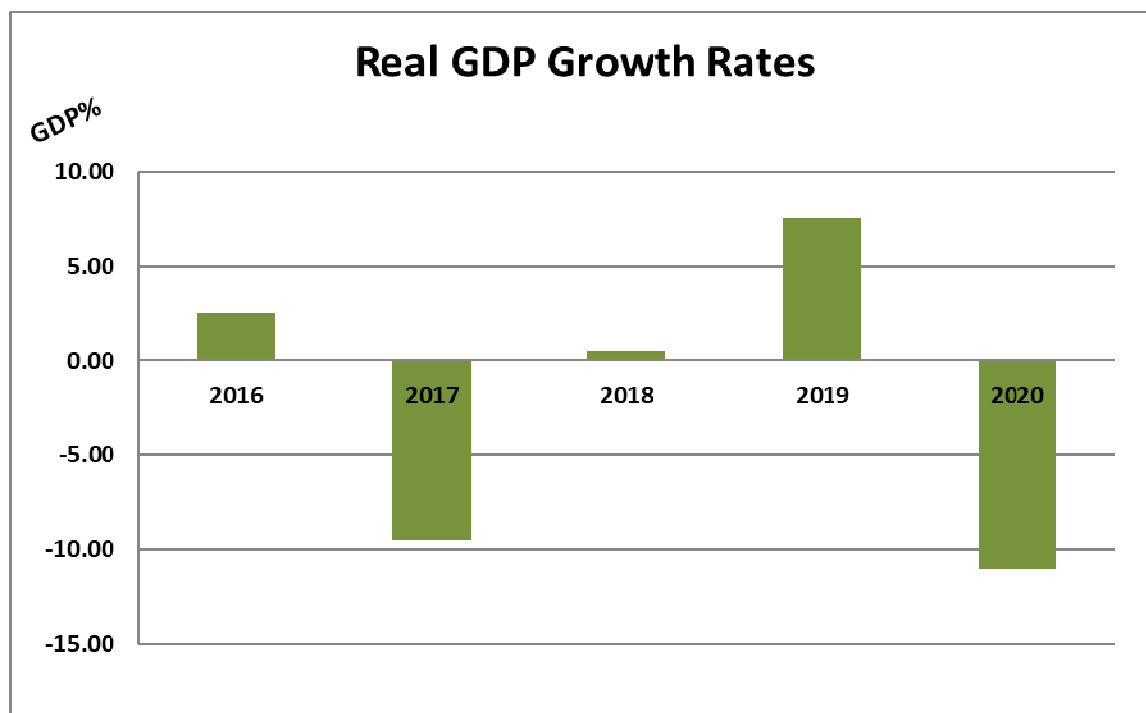
Economic Developments

The level of economic activity and the growth of real GDP for the period 2016 to 2020 is illustrated in Figure 1 below. The country’s recovery was notable between 2018 and 2019 with growth stimulated by robust investment in the construction sector in response to massive devastation brought on by the passage of Hurricane Maria. Recent estimates, however, suggest that economic activity

declined by 11.0 percent in 2020, reflecting the impact of the pandemic. Prevailing circumstances during 2020 caused a slowdown in economic activity as measures were taken to curtail the pandemic.

The hard hit sectors such as construction and tourism saw double digits' declines with tourism receiving the brunt of the impact. Globally, the situation was similar with our main trading partners and tourism source countries also being affected. The estimated time for recovery will be partly dependent on the pace of recovery of major trading partners. Real Sector output continues to be hindered by the ongoing pandemic which may intensify at times, thereby necessitating reinstatement of some measures.

Figure 1: The level of economic activity and the growth path for real GDP for the period 2016 to 2020



Source: MoF

Fiscal Position

Table 1 compares the fiscal outturns for the years 2019 and 2020. Central Government fiscal operations have resulted in an overall deficit of EC\$193.1 million or 14.0 percent of GDP in 2020. This compares to an overall deficit of EC\$258.2 million or 16.5 percent of GDP recorded for 2019. The primary balance which is the main fiscal indicator, is also in deficit at EC\$158.4 million or 11.5 percent of GDP. The target primary balance is 2.4 percent of GDP.

Total revenue recorded a significant decrease of 15.5 percent in 2020 compared to 2019; reflective of weak tax revenues in spite of a slight increase in non-tax revenue. Reductions were recorded in all of the major tax categories in keeping with the down turn in economic activity during 2020. A 16.7 percent decline in recurrent expenditure for 2020 relative to 2019 represents efforts aimed at creating fiscal space, given the high demands of COVID-19 spending. Capital expenditure decline sharply in 2020 compared to 2019 occasioned by the restrictive measures put in place to prevent the spread of the virus.

Table 1: Fiscal outturn for 2019 and 2020 in EC\$ millions

	Actual 2019	Actual 2020
Total Revenue + Grants	667.44	577.93
Total Revenue	650.35	549.55
Recurrent Revenue	649.25	547.59
Tax Revenue	433.73	319.59
Non Tax Revenue	215.52	227.99
Capital Revenue	1.10	1.96
Grants	17.09	28.38
Total Expenditure	925.63	771.05
Recurrent Expenditure	622.84	601.82
Interest Payment	34.97	34.73
Capital Expenditure + Net Lending	302.79	169.23
Current Account Balance	26.41	-54.24
Overall Balance	-258.19	-193.12
Primary Balance	-223.22	-158.40

Source: MOF

3.2 Macroeconomic Outlook

Preliminary estimates suggest that economic activity will expand by 3.4 percent in 2021 as circumstances improve driven by robust economic stimulus engineered through the public sector investment program. Most of the restrictions have been lifted whilst other have been revised to allow for the reopening of the country and the economy by extension. A degree of normalcy now prevails alongside continued vigilance and adherence to safety protocols which has proved effective to date.

The budget for fiscal year 2021/22 is aimed at providing an immediate stimulus to the economy with a healthy dose of projects and programmes. The capital budget for this year amounts to EC\$438.9 million and contains major infrastructural works which, on implementation, is expected to bring significant benefits. The international airport commences in this fiscal year, the largest project in the country's history. Expenditure on this project tops one billion dollars spread over the next five years. The impact of this project will further fuel economic activity.

After years of negotiations, the country is set to welcome its first direct flight from the US mainland scheduled for December 8th 2021. This is very promising and a much needed boost for stay over arrivals; the lifeblood of the tourism sector. The impact of this accomplishment will ripple through the economy as the other support sector benefits. Investment in the hotel sector remains strong with several ongoing CBI projects. This will significantly increase the number of export ready rooms and improve the islands competitiveness.

Government continues to invest significantly in housing. This is evident by the many housing projects on-going island wide. Housing is also featured heavily in the new budget with investments in the sector amounting to EC\$57.1 million.

On the fiscal front, revenue projections suggested significant yields from tax and non- tax revenue particularly from the CBI Program which is expected to improve the fiscal balance. However, the current fiscal framework suggests the primary and overall balances will remain in deficit over the period. Economic activity is expected to result in growth in tax revenues annually.

Recurrent expenditures are expected to experience an overall decline over the medium term. Capital expenditure is projected to remain elevated as the Government seeks to maintain the economic stimulus.

Fiscal operations over the medium term are projected to yield overall deficits which is expected to reduce each year, as expenditure slowly declines and revenue improves. These deficits may however, have to be financed with new borrowing with the resultant impact on debt. Government's inability to generate this much needed revenue would resort to seeking external funding and increasing its debt stock in order to meet capital and current expenditure.

Further downside risks are associated with the uncertainty surrounding the duration of the on-going pandemic and the possibility of new and more dangerous variants. This would delay the country's economic recovery.

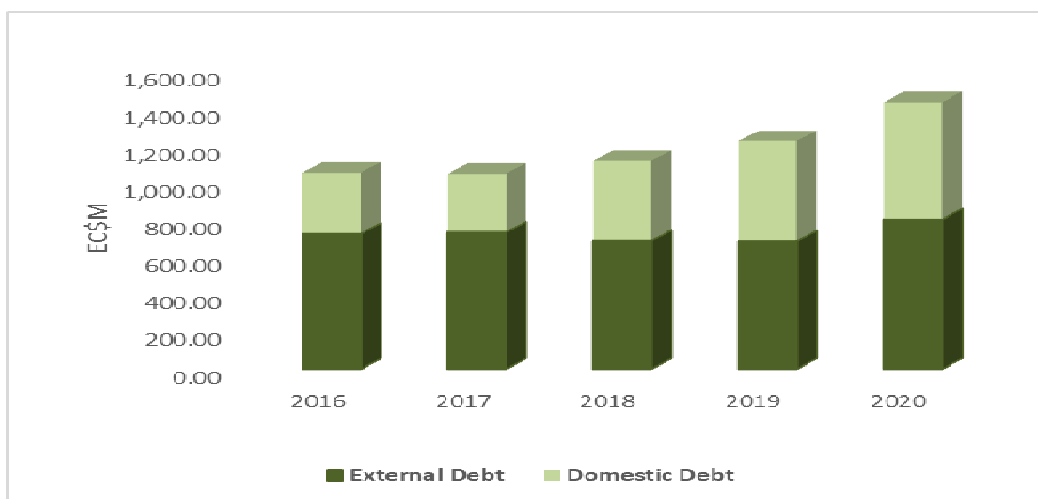
Section 4.0

Public Debt Structure

4.1 Total Public Debt

Figure 2 shows the movement of the total public sector outstanding debt by residency. From 2018 the total debt has been on an upward trajectory.

Figure 2: Composition of Total Debt by Residency



Source: The Debt Management Unit

Over the period 2016-2020, total public debt averaged EC\$1,178.0 million, with total external public debt averaging about EC\$730.0 million and domestic about EC\$448.4 million. The total public debt decreased marginally by 1.0 percent in 2017 over 2016, and increased steadily thereafter, with an average increase of 11.0 percent over the period. This increase was primarily due to disbursements on committed debt for project implementation, as well as new debt contracted to respond to the immediate effects of the pandemic.

This increase is most evident in the domestic debt, as it moved from EC\$314.9 million in 2017 to above \$630.8 million in 2020. The increases were mainly for rebuilding purposes after Hurricane Maria in 2017.

As illustrated in Table 2, at the end of 2020 the total public sector debt stood at \$1,436.4 million which comprised external debt of \$805.5 million, and domestic debt of \$630.8 million. Central government debt was \$1,276.4 million or 88.9 percent of the total debt, while government guaranteed debt was EC\$160.0 or 11.1 percent of total debt.

Central government debt to GDP has averaged about 68.9 percent over the period, whereas government guaranteed debt averaged 11.4 percent. At the end of 2020, central government and government guaranteed debt to GDP stood at 92.4 and 11.6 percent respectively.

For the five-year period, the share of central government debt averaged 85.6 percent, while the share of guaranteed debt averaged 14.4 of the total debt. This ratio continues to remain within the 17 percent target for guaranteed debt, as outlined in Government's Medium Term Debt Management Strategy (MTDS).

The total government guaranteed debt has been fairly stable averaging about \$167.2 million over the period with the domestic portion fluctuated between \$66.0 and \$69.0 million.

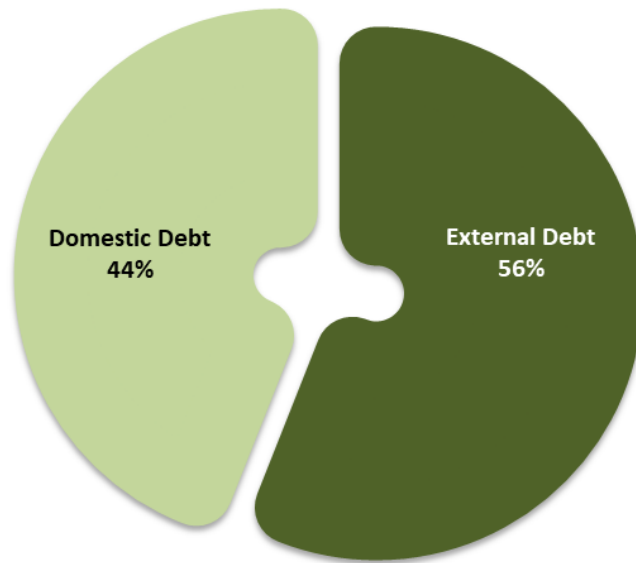
Table 2: Total Public Sector Debt 2016-2020

	2016	2017	2018	2019	2020
TOTAL PUBLIC DEBT	1057.2	1051.5	1121.0	1226.4	1436.4
GDP at market prices	1553.8	1414.0	1440.0	1590.0	1381.0
% Total Debt/GDP	68.0	74.4	77.8	77.1	104.0
A. Central Government					
% GDP	56.8	62.1	66.6	66.6	92.4
Outstanding Debt	882.6	878.5	959.1	1059.7	1276.4
- Domestic	261.7	245.9	363.3	468.3	561.6
- Treasury Bills/Notes	50.5	44.8	39.4	37.8	34.5
- Bonds	140.2	140.7	209.9	213.8	254.5
- Overdraft	34.1	23.6	69.6	151.5	83.6
- Loans	36.9	36.9	44.3	65.3	189.0
- External	621.0	632.6	595.8	591.5	714.8
- Treasury Bills/Notes	10.7	16.2	21.8	24.4	26.7
- Bonds	101.8	95.5	90.3	113.2	101.6
- Loans	508.4	520.8	483.8	453.8	586.5
- Bilateral	191.1	184.5	157.9	137.0	131.5
- Paris Club	75.3	72.1	60.6	50.3	49.7
- Non-Paris Club	115.7	112.4	97.3	86.6	81.7
- Multilateral	310.6	329.5	319.1	310.1	448.3
- Other	6.8	6.8	6.8	6.8	6.8
% of Central Government Debt	83.5	83.5	85.6	86.4	88.9
B. Gov Guaranteed Debt					
% of GDP	11.2	12.2	11.2	10.5	11.6
Outstanding Debt	174.5	173.1	161.9	166.7	160.0
- Domestic (Loans)	66.4	68.9	67.0	69.9	69.2
- External (Loans)	108.2	104.1	94.9	96.8	90.8
- Bilateral	12.7	11.0	10.9	10.9	10.8
- Multilateral	95.5	93.2	84.0	85.9	79.9
% of Guaranteed Debt	16.5	16.5	14.4	13.6	11.1
TOTAL (Domestic)	328.0	314.9	430.3	538.2	630.8
TOTAL (External)	729.1	736.7	690.7	688.2	805.5

Source: The Debt Management Unit

In figure 3 the total public debt is broken down by residency. At the end of December 2020 external creditors held 56.0 percent of the total debt and domestic creditors 44.0 percent.

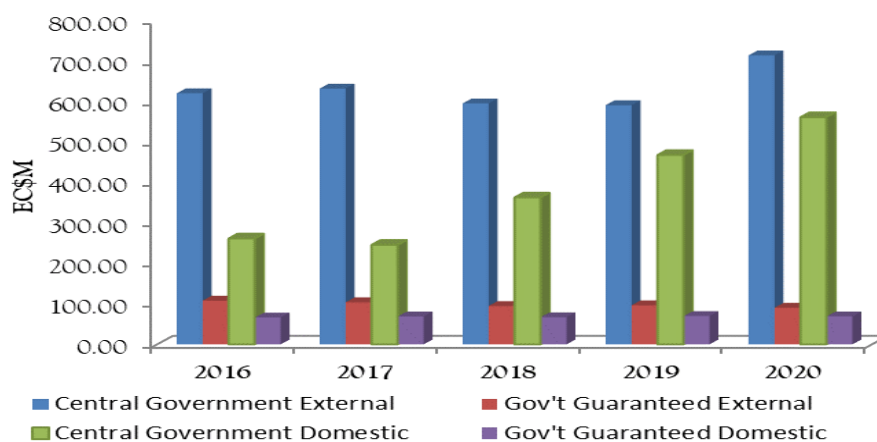
Figure 3: Total Public Debt by Residency as at December 2020



Source: The Debt Management Unit

As exhibited in figure 4, over the five-year period, the largest portion of both the external and domestic debt is held by central government. The external debt of both central government and statutory bodies maintained a relatively consistent trend; notwithstanding, at the end of 2020 central government external debt increased to above \$700.0 million.

Figure 4: Central Government and Guaranteed Debt by Borrower



Source: The Debt Management Unit

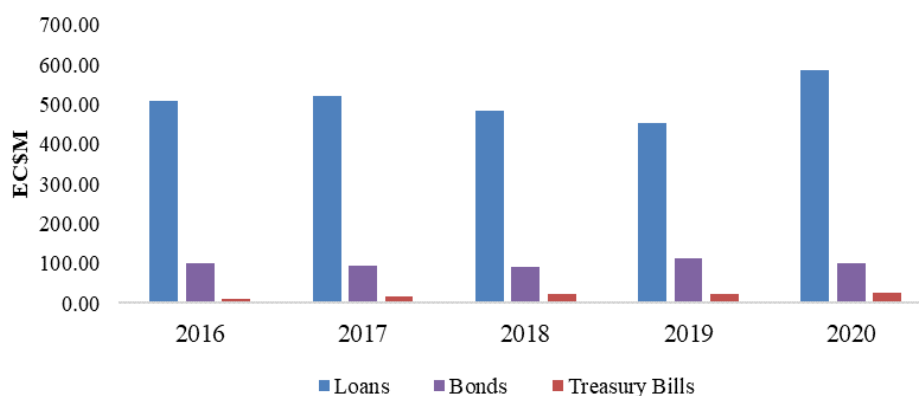
On the domestic side, the government guaranteed debt remained below \$70.0 million, whereas central government debt showed steady increases throughout the period.

4.2 Debt by Instrument

Total debt comprises loans, treasury bills, bonds and bank overdrafts; this combination is reflected in central government debt; while guaranteed debt is made up of only loan instruments.

Figure 5 presents the debt by instruments of the central government external debt portfolio. Over the five-year period the proportion of the debt instruments has been fairly the same with loans accounting for the largest share followed by bonds, and treasury bills. However, the portion of loans trended downwards from 2017 to 2019 but spiralled in 2020 to meet government's financing gap caused by the pandemic. The bonds followed similar trend except that it increased in the years 2019 and declined slightly in 2020. Conversely the treasury bills trended upward from 2016 and this can be attributed to increase in foreign investors of the EC\$ 20.0 million treasury bills floated on the RGSM.

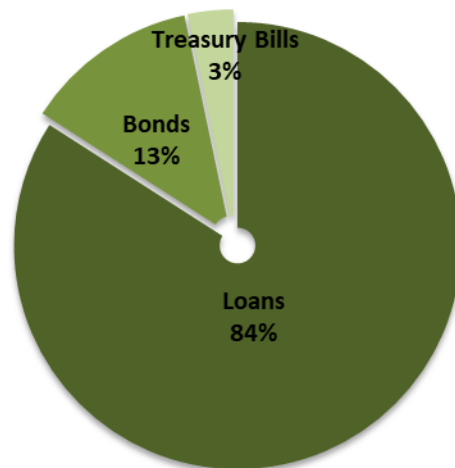
Figure 5: Central government external debt by instrument



Source: The Debt Management Unit

External debt is largely made up of loan instruments, as illustrated in Figure 6. Loans accounts for 84.0 percent of the total external debt followed by bonds with 13.0 percent and Treasury bills 3.0 percent.

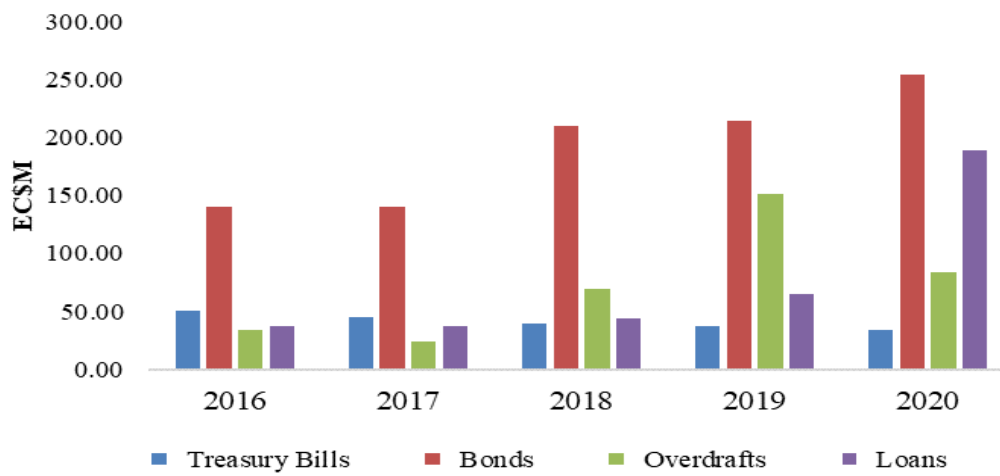
Figure 6: Total external debt by instrument as at December 2020



Source: The Debt Management Unit

Over the years, the central government has continued to borrow domestically, using the same type of instruments (see figure 7), namely bonds, treasury bills, bank overdrafts and loans. From 2016, government borrowing in the form of bonds increased rapidly, while treasury bills have declined steadily. The loan portion remained relatively the same over 2016 and 2017 but took an upward movement in 2018 and continued into 2020, with a drastic increase of almost three times more than that of 2019. This was the result of the conversion of part of the overdraft facility to a longer termed instrument. Additionally, this accounted for the substantial reduction in the bank overdrafts of 44.8 percent in 2020 over 2019.

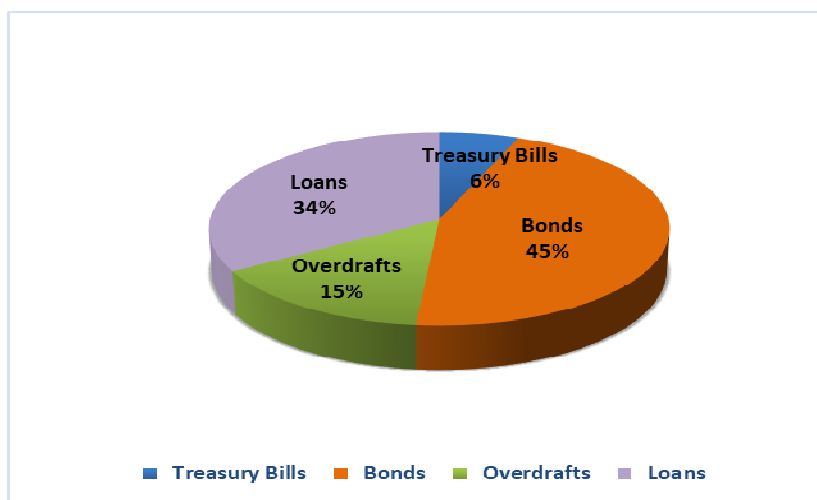
Figure 7: Central Government Domestic Debt by Instrument



Source: The Debt Management Unit

Figure 8 reflects the domestic debt instruments of central government as at December 2020. Contrary to the composition of the external debt portfolio, bonds represent the largest portion of the domestic debt portfolio with 45.0 percent, followed by loans with 34.0 percent, and overdrafts and treasury bills with 15.0 percent and 6.0 percent respectively.

Figure 8: Central government domestic debt by instrument as at December 2020



Source: The Debt Management Unit

Debt by creditor category

The total debt by creditor category is displayed in table 3. Over the period both government and the statutory bodies have maintained a creditor base of predominantly traditional creditors.

External

Throughout the period, multilateral creditors accounted for the largest share of the debt portfolio, accounting for 56.1 percent of the external debt by the end of 2020. Central government and government guaranteed debt represented 49.8 percent and 6.3 percent respectively. The Caribbean Development Bank (CDB) with 34.2 percent (25.9 percent for central government and 8.3 percent for guaranteed debt) is the main multilateral creditor for both the central government and the statutory bodies. The International Development Association (IDA) with 33.5 percent of the debt is the second largest multilateral creditor. Bilateral creditors held 20.0 percent of the total debt, of which Non-Paris Club members accounted for 13.8 percent, while 6.2 percent of the debt was held by Paris Club members. The main Non-Paris Club and Paris Club members are the People's Republic of China (PRC) and Agence Francaise de Développement (AFD), holding 9.6 and 6.2 percent respectively. Additionally, of the bilateral component central government held 18.6 percent while guarantees represented 1.4 percent. The debt held by the central bank represents 3.6 percent of the total external component. The category of other external creditors which include inter alia insurance companies and private individuals held 7.2 percent, while commercial creditors accounted for 3.7 percent of the debt.

Table 3: Total debt by Creditor category in millions of ECD

	2016	2017	2018	2019	2020
EXTERNAL	729.14	736.68	690.69	688.23	805.53
Central Government	620.97	632.56	595.81	591.45	714.78
Multilateral	310.59	329.55	319.15	310.10	448.27
CDB	175.22	171.70	163.97	157.74	208.48
CDF	1.49	2.22	2.80	2.33	2.61
IDA	68.35	92.05	95.42	100.57	150.25
IMF	36.91	35.79	30.95	26.79	66.40
IFAD	1.45	1.42	1.28	1.17	1.11
Societe General	27.17	26.36	24.74	21.50	19.43
Commercial Banks	38.30	36.69	34.87	34.04	29.46
Central Bank	0.00	0.00	0.00	30.00	29.10
Other	62.07	62.93	65.03	61.45	58.00
Bilateral: of which	210.01	203.38	176.76	155.86	149.95
Paris Club (AFD)	75.35	72.07	60.59	50.31	49.74
Non-Paris Club	134.66	131.31	116.17	105.55	100.21
EXIM Bank	7.73	6.06	4.58	3.10	1.62
KWD	6.19	5.43	4.56	3.73	2.89
PRC	101.84	100.91	88.12	79.81	77.23
Gov't of Belize	2.70	2.70	2.70	2.70	2.48
Gov't of Grenada	2.70	2.70	2.70	2.70	2.48
Gov't of Barbados	13.50	13.50	13.50	13.50	13.50
Government Guaranteed Debt	108.17	104.12	94.88	96.77	90.75
Multilateral	95.46	93.15	83.96	85.90	79.91
CDB	64.23	66.23	62.18	68.88	66.52
EIB	21.52	18.20	14.08	10.35	7.80
CDF	9.71	8.72	7.71	6.66	5.58
Bilateral: of which	12.71	10.97	10.92	10.88	10.85
Paris Club	0.14	0.12	0.07	0.03	0.00
Non-Paris Club	12.57	10.85	10.85	10.85	10.85
DOMESTIC	328.03	314.86	430.35	538.16	630.84
Central Government	261.67	245.92	363.30	468.27	561.64
Central Bank	0.14	0.14	0.14	0.14	0.14
Other Financial Institutions	6.18	0.61	0.60	5.58	4.58
Dominica Social Security	123.22	125.97	133.38	156.92	149.27
Private	11.90	0.25	0.25	0.25	47.58
Other	0.94	11.95	11.92	11.45	10.24
Commercial Banks	119.29	107.01	217.01	293.93	349.83
of which:					
NBD	103.41	96.73	212.14	292.71	349.83
RBC	1.16	0.98	0.98	0.98	0.00
Other	14.73	9.29	3.89	0.24	0.00
Government Guaranteed Debt	66.36	68.94	67.05	69.89	69.20
Dominica Social Security	20.95	24.39	23.53	27.55	27.68
Commercial Banks	45.41	45.41	44.56	43.52	42.34
of which:					
NBD	45.41	45.41	44.56	43.52	42.34

Source: The Debt Management Unit

Domestic

For most of the five-year period, domestic borrowings were mainly from the commercial banks, and Government related institutions, mostly the Dominica Social Security. At the end of 2020, debt to commercial banks accounted for 62.2 percent of the domestic debt, of which, central government was 55.5 percent and 6.7 percent for statutory bodies. The Dominica Social Security (DSS) held the second largest share of 28.1 percent; with central government indebtedness at 23.7 percent and the statutory bodies at 4.4 percent. The amount owed to DSS represented 47.2 percent of the DSS Investment Portfolio which is 2.2 percent higher than the upper band limit of 45 percent set for Government in the DSS Investment Policy. However, net of the guaranteed debt, the debt to DSS stood at 39.0 percent. It is expected that Government will fall within the required limits by 2022 based on the schedule repayment of existing debt relative to DSS portfolio.

4.3 Debt by Economic Sector

Table 4 displays a breakdown of the economic sectors which were financed by the proceeds of the debts. At the end of 2020, 54.9 percent of the debt was used for budget support, 11.1 percent for roads and bridges, and 4.4 percent for agriculture. The multi-sector component, which is made up of a combination of sectors, accounted for 8.0 percent. Other which is made of private sectors with no defined classification accounts for 9.0 percent. The budget support sector is used for meeting government's expenditure not tied to a specific project. This sector would include areas such as re-issuance of securities and IMF facilities.

Table 4: Debt by economic sector

Economic Sector	2020	
	EC\$M	%
Agriculture	62.8	4.4
Budget Support	788.2	54.9
Defense	5.8	0.4
Education	17.2	1.2
Energy (Electricity)	4.6	0.3
Environment	5.3	0.4
Finance, Insurance, Etc.	10.8	0.8
Housing & Urban Develop.	59.7	4.2
Industrial Development	8.1	0.6
Multisector	114.7	8.0
Navigation	3.9	0.3
Other	129.1	9.0
Roads and Bridges	159.5	11.1
Rural Development	13.1	0.9
Telecommunications	2.3	0.2
Tourism and Hotel industry	16.6	1.2
Water Supply	34.7	2.4
Total Public Debt	1,436.4	100.0

Source: The Debt Management Unit

4.4 New Borrowings and Debt Service Payments

4.4.1 New Debt

During the five-year review period, the government contracted new debt, in the form of loans, and issuance of securities. Funds were mainly sourced from the World Bank, the international Monetary Fund (IMF), the Eastern Caribbean Central Bank, National Commercial Bank of Dominica, Dominica Social Security and investors on the RGSM as well as private placements. In 2020 Government's new debt commitments amounted to approximately EC\$470.4 million which is over three times that of 2019; while there were no new commitments guaranteed on behalf of statutory corporations. This large disparity in the amount of new commitments was mainly due to new projects, as well as additional financing for existing projects such as the Agricultural Livelihoods and

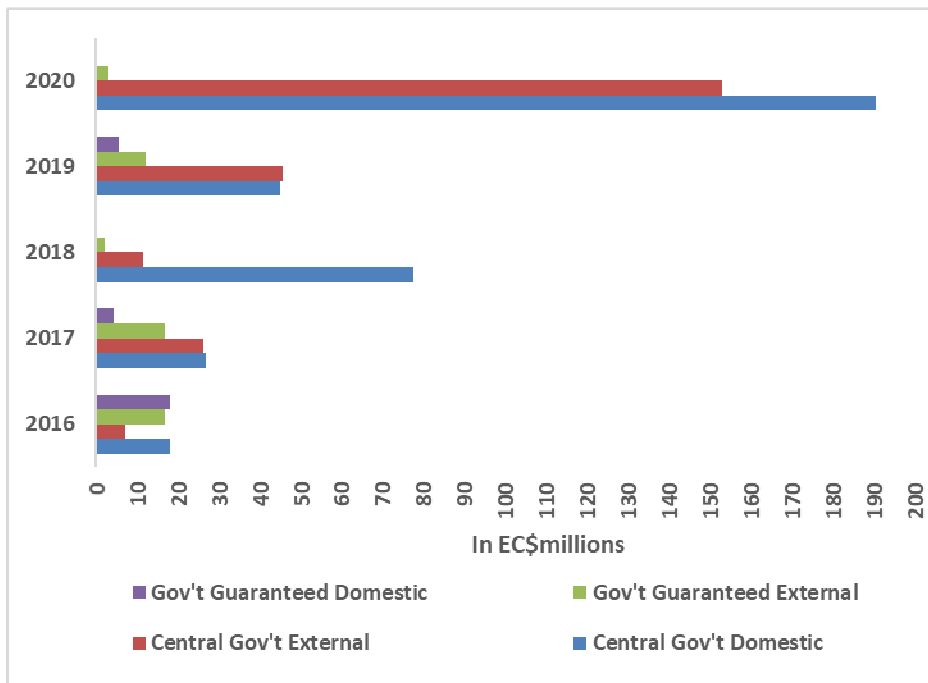
Resilience project, Disaster Vulnerability. The immediate response to the covid-19 pandemic accounted for 14.9 percent of the new commitments in 2020.

4.4.2 Disbursements

The disbursement trend over the five-year period is illustrated in figure 9. Over the review period, the largest portion of disbursements was recorded in 2020 followed by 2018. In 2020 total disbursements was about \$346.6 million which include disbursements to central government of \$343.3 million and government guaranteed debt \$3.32 million. This is an increase by \$243.9 million over the year 2019. The unprecedented increase in disbursements in 2020 were mostly due to immediate drawdowns on emergency financing to deal with the pandemic, on commitments for projects, the issuance of government's securities on the Regional Securities Market and private placement of securities.

In the years 2016 and 2017 there was minimal disbursement on external loans due to a slower rate of project implementation as a result of changes in project scope influenced by issues arising from natural disasters and Government plan to "build back better" in the aftermath of tropical storm Erika and hurricane Maria.

Figure 9: Disbursements of public debt in EC Millions



Source: The Debt Management Unit

4.4.3 Debt Service Payments - central government

Table 5 displays the central government external and domestic debt service repayments on an annual basis over the review period. There was an increase in total debt service repayment in 2017 over 2016, a decrease in 2018 followed by an increase 2019 with a further increase in 2020. During those peak years, substantial amounts in principal were paid to both external and domestic creditors.

There was an overall increase of \$8.13 million in external debt service repayment. Annual debt service repayments to external creditors averaged \$45.5 million for principal and \$13.6 million for interest. Interest repayment has fluctuated between \$12.4 million and \$15.1 million, whereas principal has been wavering between \$38.8 million and \$50.3 million. In 2017 external debt service increased by 11.3 percent or \$6.0 million over 2016; there was a decrease in 2018 of \$1.85 million or 3.2 percent over the previous year. External debt service

trended upward in 2019, increasing by 9.4 percent or \$5.4 million over 2018 with a further increase in 2020 by \$12.2 million or 15.2 percent. These increases in the principal repayment were largely due to the expiration of grace periods on a few loans and the maturity of three five-year bonds on the RGSM, in 2017, 2019 and 2020.

As it relates to the domestic debt service repayment, the overall increase was \$29.4 million over the five-year period. The average annual repayment to domestic creditors was \$13.59 million for principal and \$16.06 million for interest. There were considerable increases in principal repayment in 2017, 2019 and 2020, whilst the most notable increases in interest repayment were in 2019 and 2020. Principal repayments increased above 402 percent in 2017 over 2016, and above 1000 percent in 2019 over 2018 with a further increase by 74.3 percent in 2020. Interest repayment showed a relatively smooth trend from 2016 to 2018 and increased in 2019 and 2020. As in the case of the external debt, the increases in debt service repayment were as a result of the maturity of three 5-year bonds on the RGSM in 2017, 2019 and 2020 respectively. However, the increases in the interest repayments in 2019 and 2020 were highly influenced by the increased utilisation of the bank overdraft facility. On the other hand, the low principal repayment recorded in 2018 was due to an acceleration of principal repayment in 2016 and moratorium on principal granted on a loan in 2017. In addressing this high cost of borrowing, the bank overdraft was converted to a long-term loan in 2020. Thus, there is expected to be significant reduction in future interest repayment.

Table 5: Central Government Debt Service 2016-2020

Debt Service Payments (EC\$M)	2016	2017	2018	2019	2020
Total Debt Service	71.45	94.77	72.17	96.78	108.94
External Debt Service	53.58	59.62	57.77	63.18	61.71
Principal Repayments	38.89	44.52	44.23	50.29	49.34
Interest Payments	14.69	15.10	13.54	12.89	12.38
Domestic Debt Service	17.87	35.14	14.40	33.60	47.23
Principal Repayments	4.42	22.21	0.87	14.74	25.69
Interest Payments	13.44	12.93	13.53	18.86	21.54

Source: The Debt Management Unit

4.4.4 Debt Service Suspension/Debt Relief

COVID-19 has dealt a major blow to small economies like Dominica. Since the start of the pandemic, government has been faced with increases in expenditure while revenues have declined. In April of 2020, the G-20 Finance Ministers and Central Bank Governors met and agreed on a Debt Service Suspension Initiative (DSSI) supported by the WB and IMF. Through this initiative moratorium was granted on debt service to allow countries the fiscal space to address Covid-19 related expenditure. In 2020 Dominica benefited close to EC \$6.3 million in debt service suspension from Agence Francaise de Developpement and Socete' Generale. In addition, Government secured a concessional loan from CDB, at the cost of 1.0 percent to service its higher cost debt to this creditor.

Section 5.0

Government Securities on the RGSM

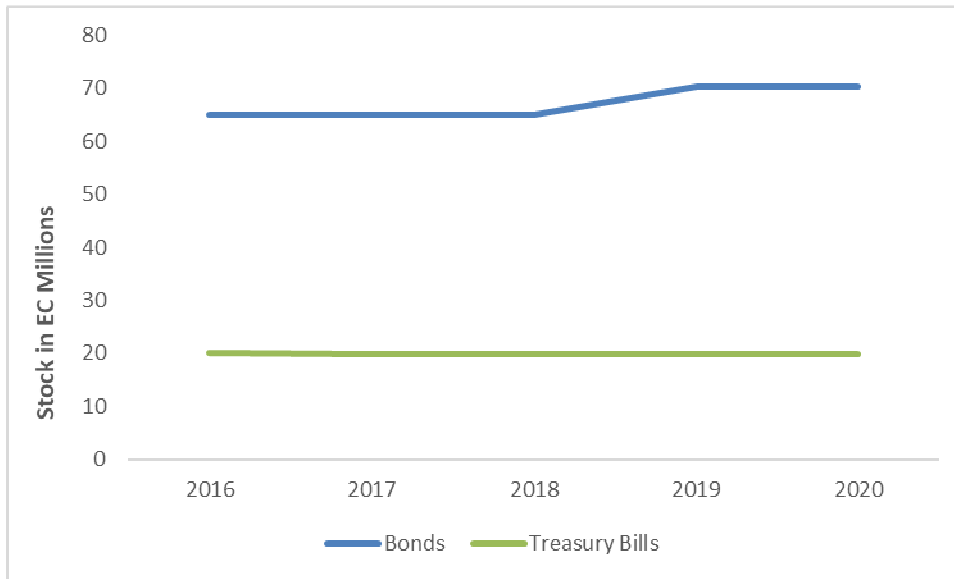
The RGSM was established in November 2002 and operates on a fully electronic platform². The instruments on the RGSM take the form of Treasury-bills and bonds and have varying maturities. These securities are backed by the full faith of the governments of the issuing member states.

The government of Dominica entered the market in February of 2012 by floating its first 91-day treasury bill in the sum of EC\$15 million. Upon maturity, this amount was re-issued with an additional amount of EC\$5.0 million for a \$20 million 91-day T-Bill. The government subsequently issued three five-year bonds totalling EC\$65.1 million which have since matured and reissued. Presently, two of the bonds have a tenor of seven years and one has a tenor of five years.

Figure 10 shows the activities on the RGSM over the five-year period. The amount of treasury bills has been stable given that the same amount is re-issued on a quarterly basis. From 2016 to 2018 the stock of bonds on the RGSM maintained a constant amount of below \$70.0 million. However, after 2018 the stock of bonds took an upward trend reaching slightly above \$70.0 million.

² <http://www.eccb-centralbank.org/money/rgsm.asp>

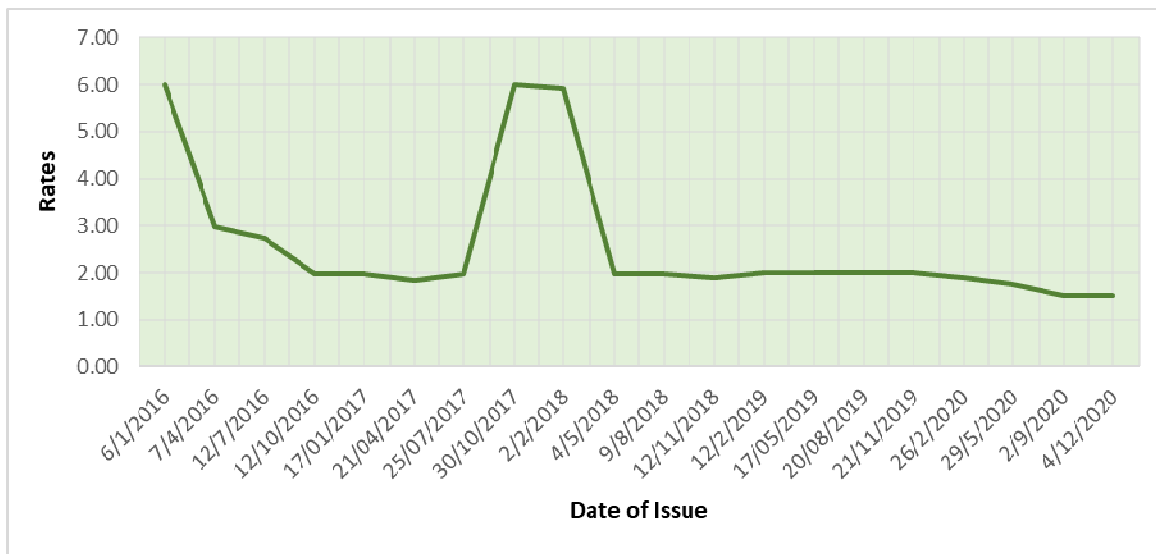
Figure 10: Securities issued on the RGSM 2016-2020



Source: The Debt Management Unit

Figure 11 shows the number of issues and volatility in price of the T-bills between January 2016 and December 2020. In January 2016, T-bills closed at the reserved price of 6.0 percent and in April of the same year the price reduced to about 3.0 percent. The price reduced further for the two subsequent issues, to below 2.0 percent until July 2017. In October 2017 and February 2018 the issue price reverted to 6 percent and took a downward trend from May 2018, where it remained stable averaging about 1.86 percent until the end of 2020. The peak in the price was influenced by the passage of the two major weather systems, tropical storm Erika in 2015 and Hurricane Maria in September 2017. Disasters create a level of uncertainty which transcends into risks for investors. Therefore, investors expect a higher rate of return to compensate for that risk.

Figure 11: Treasury bills issued on the RGSM 2016-2020



Source: The Debt Management Unit

Based on results of the auctions, it can be said that there continues to be a greater demand for treasury bills. There was an oversubscription for all the auctions in 2020. The bid to cover ratio for the quarterly auctions were 2.12, 1.42, 2.38, and 1.67. While the bid to cover ratio for a \$25.0 million bond auctioned during the same year, was just 0.99.

Section 6.0

Risk analysis of the public and publicly guaranteed debt

Risk refers to the potential for the cost of debt to deviate from its expected outcome. This stems from unexpected variations of different economic variables such as interest rate and exchange rate. Market risk, operational risk and liquidity risk are the types of risks associated with public debt portfolio (see box 1). In this regard it is important to assess the risks associated with the debt portfolio because such information enables decision makers to design forward looking strategies on the optimal debt structure in terms of maturity, interest rate and exchange rate. In this section, the level of exposure of the debt portfolio risk is

captured using the following risk indicators: refinancing risk, market risk and foreign exchange risk.

6.1 Refinancing Risks

6.1.1 Maturity Profile

Table 6 shows the maturity profile of the central government outstanding debt as at December 2020. The largest portion of EC\$395.0 million or 30.9 percent is due to mature between 1 and 5 years. The second largest portion of EC\$312.8 million or 24.5 percent matures between 5 and 10 years. The amount of EC\$207.0 million or 16.2 percent of the total matures in less than 1 year and 15.6 percent matures between 10 and 15 years. The remaining 12.7 percent will mature between 15 and 20 years. A quantum of EC\$ 707.8 million or 55.4 percent of the central government's total debt will mature between 1 and 10 years, therefore there will be continuous monitoring to avoid any threat of any liquidity risk.

Table 6: Maturity profile of Central Government

RANGE	NOMINAL VALUE	PERCENTAGE
Less than 1 year	207.23	16.2
1>5	394.98	30.9
5>10	312.78	24.5
10>15	199.72	15.6
15>20	161.71	12.7
TOTAL	1276.42	100

Source: The Debt Management Unit

Figure 12 displays the maturity profile for the outstanding debt stock of central government and debt guaranteed by government, taking into account both external and domestic components. It shows that a significant amount (\$207.0 million) will mature in 2021 as opposed to the latter years.

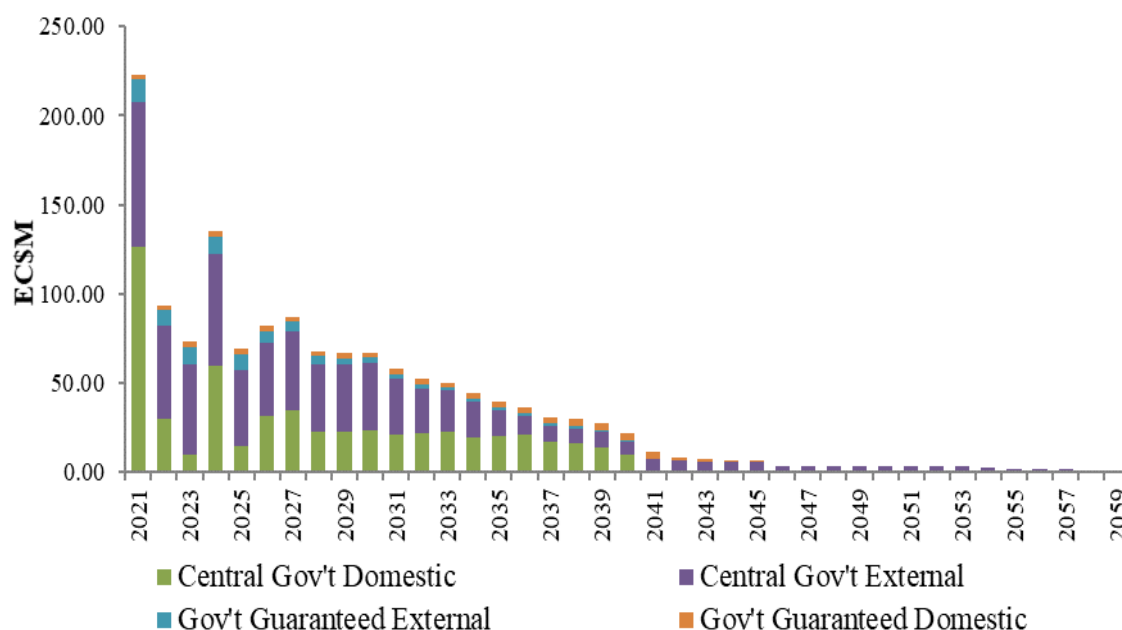
In 2021 about \$127.0 million of the domestic debt falls due representing mainly short term instruments, the redemption of treasury bills and outstanding overdrafts. Owing to the reduction of the bank overdraft facility, there is a reduction in the amount of short-term debt maturing in 2021. About 89.4 percent of the Over-the-Counter treasury bills are held by Dominica Social Security and the National Bank of Dominica. These entities continue to show keen interest in investing in the government's securities. The treasury bills issued on the RGSM will be rolled over every quarter; since the past trends prove that there is appetite for this instrument. The amount to be repaid in 2022 falls to about \$30.0 million and will decrease further in 2023 to \$13.0 million but will subsequently increase to over \$60.0 million in 2024 due to the maturity of a large over the counter bond. There will be a reduction to \$14.5 million in 2025. However, in the years 2026 and 2027 the debt maturing will increase to \$31.9 and 34.8 million. These notable increases are due to the redemption of a 5-year and two 7-year bonds issued on the RGSM. The maturity profile of the debt remains stable from 2028 to 2030 remaining in the region of \$23.0 million and will further reduce thereafter.

The central government's external debt comprises of more concessional loans from multilateral and bilateral creditors with longer maturity. The quantum of debt maturing in 2021 is not as significant as the domestic, approximating \$80.5 million. As in the case of the domestic debt, this spike is due to the redemption of treasury bills in addition to fixed loans. From 2022 to 2023 an average amount of \$51.0 million of the external debt will mature. However, the repayment amount in 2024 increases to \$62.6 million due to of the redemption of a \$13.5 million bond. From 2025 to 2027 the amount expected to mature falls in the region of

about \$ 42.0 million and from 2028 the amount of external debt maturing begins to reduce, creating a much smoother redemption profile.

The maturity profile of the guaranteed debt is relatively smooth as the debt maturing is on a downward trajectory throughout the years. In light of the disaster faced by tropical storm Erika and hurricane Maria and most recently the impact of the pandemic; the statutory corporations are faced with much challenges and have not contracted new debt requiring a government guarantee.

Figure 12: Maturity Profile of Total Outstanding Debt



Source: The Debt Management Unit

6.1.2 Average Time to Maturity

Average time to maturity (ATM) is the measure of the weighted average time that the principal payments in a debt portfolio mature. A long ATM indicates that the predominance of concessional loans is relatively higher and would lead to lower refinancing risk, but short ATMs would imply the opposite. The ATM is illustrated in table 7, it takes into consideration all debt instruments: bonds, loans, T-bills and bank overdrafts, for the total debt. The ATM for total debt outstanding as at

December 2020 is 8.08 years; external debt and domestic debt with ATM of 8.34 years and 7.75 years respectively.

The ATM for central government total outstanding debt is 8.04 years, external with 8.67 years and domestic 7.23 years. The external debt usually has a longer ATM than the domestic debt since the external debt portfolio carries more concessional terms, e.g., longer maturity and lower interest rates. The domestic debt portfolio comprises of debt with mainly short to medium term maturity. The ATM of the outstanding debt indicates a breach of the 9.0-year target set in our debt strategy; and a susceptibility to refinancing risk.

On the guaranteed side, the ATM is 8.48 years, 12.0 years for domestic debt and 5.79 years for external. This is because the external guaranteed debt existing in the portfolio is less concessional than that of the domestic debt. Additionally, the domestic guaranteed debt is made up of only loan instruments with long maturity periods.

Table 7: Risk Profile as at December 2020

Risk Profile 2020	Total Debt	Central Government	Guaranteed Debt
Refinancing Risk			
Average Time to Maturity (years)	8.08	8.04	8.48
External ATM	8.34	8.67	5.79
Domestic ATM	7.75	7.23	12.00
Market Risk			
Average Time to refixing (years)	7.48	7.53	7.15
External ATR	7.27	7.76	3.45
Domestic ATR	7.75	7.23	12.00

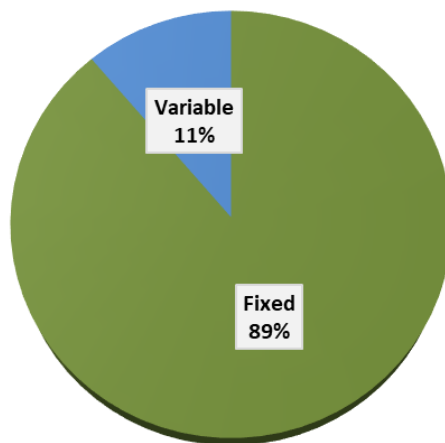
Source: The Debt Management Unit

6.2 Market Risks

6.2.1 Interest rate Composition

Figure 13 presents the public debt outstanding at the end of 2020 by interest composition. At the end of the period, 89.0 percent of the total public debt had a fixed rate of interest while 11.0 percent had a variable rate of interest. As part of the variable interest rate loans, there are loans owed to the IMF which are presently at zero percent interest; however, this is subject to change as the IMF periodically reviews its rates. This indicator is well within the target of 15.0 percent set in the debt management strategy and is expected to be maintained going forward.

Figure 13: Public debt by interest rate composition

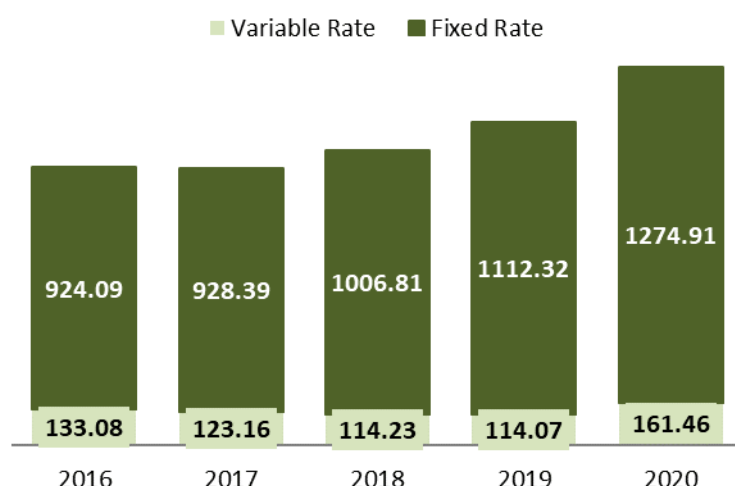


Source: The Debt Management Unit

Figure 14 shows the nominal value of the debt by interest rate composition. On average \$1049.3 million of the debt portfolio carries a fixed rate of interest. Throughout the first four years of the period in review, the share of fixed rate debt has been increasing, moving from 87.4 percent in 2016 to 90.7 percent in 2019. However, there was a reduction in the share of fixed rate by almost 2.0 percent,

in 2020 and this is attributed to the contraction of a new loan with a variable rate component. Conversely, the variable rate debt has been falling, going from 13.6 percent in 2016 to 9.3 percent in 2019 with a slight increase in 2020 to 11.2 percent. Of the variable rate portion, CDBOR accounted for 42.2 percent followed by the IMF rate of 41.1 percent with EURIBOR being 12.2 percent and other at 4.5 percent.

Figure 14: Public debt by interest rate composition from 2016-2020



Source: The Debt Management Unit

6.2.2 Interest Rate Risk

Average Time to Re-fixing (ATR) is a measure of weighted average time until all the principal amount outstanding on the debt is subjected to a new interest rate. A high ATR indicates that a relatively large proportion of debt will not be subject to interest rate change in a short period of time and suggests a low interest rate risk to the portfolio. It can be seen in **table 7** above, the ATR at the end of 2020 for the total debt stock is 7.48 years while central government is 7.53 years and guaranteed debt is 7.15 years. The ATR for central government external debt is 7.76 years while the domestic is 7.23. The two components are relatively close owing to the high portion of short-term debt (overdraft) in the

domestic debt portfolio which was converted to the long term instrument. The opposite is reflected in the guaranteed debt. The domestic component which has only fixed rates, possessed a high ATR of 12 years while the external portion which contains about 25.0 percent of variable rates, stood at 3.5 years.

6.2.3 Foreign Currency Risk

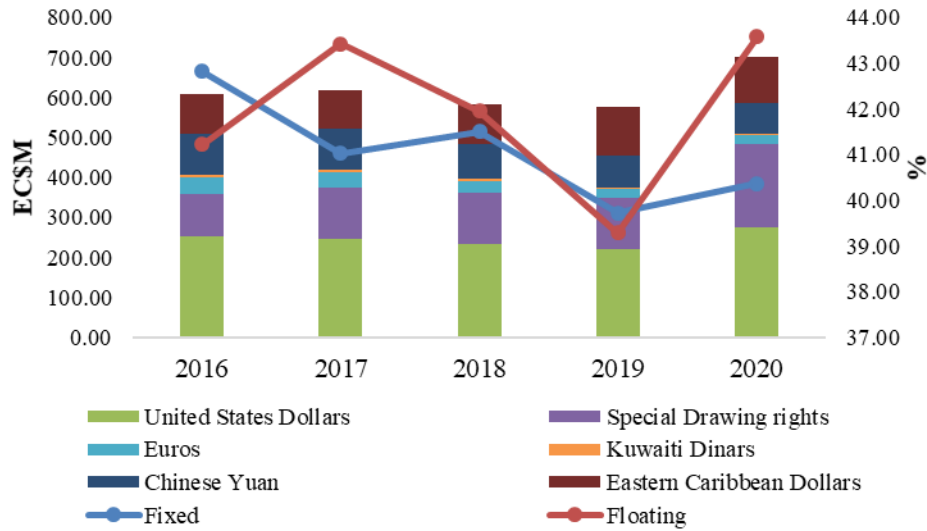
Currency Composition

The total external debt is denominated in four main currencies namely United States Dollars, Special Drawings³ Rights, Chinese Yuan and Eastern Caribbean Dollars with minimal amounts denominated in Euros and KWDs. Figure 15 shows the distribution of the central government debt in nominal amounts and illustrates the dominance and volatility of the different currencies in the debt portfolio. Over the five-year period under review the currency composition of the external debt has been relatively the same with US dollars being the dominant currency; except in 2020 where the XDR denominated debt increased. The increase in the XDR denominated debt was based on a trade-off between cost and risk. The percentage share of the debt that was subjected to floating exchange rate hovered about 41.8 percent and increased to almost 44.0 percent in 2020 due to the increase in SDRs denominated debt.

Notwithstanding that 44.0 percent of the debt carry variable exchange rate, because of the large amount of the XDR denominated debt, this risk is considered tolerable because a larger portion of this currency consists of USD. Additionally, the external debt of the statutory bodies is largely denominated in US dollars.

³ “The currency value of the SDR is determined by summing the values in U.S. dollars, based on market exchange rates, of a basket of major currencies (the U.S. dollar, Euro, Japanese yen, pound sterling and the Chinese renminbi). The SDR currency value is calculated daily (except on IMF holidays or whenever the IMF is closed for business), and the valuation basket is reviewed and adjusted every five years.” https://www.imf.org/external/np/fin/data/rms_sdrv.aspx

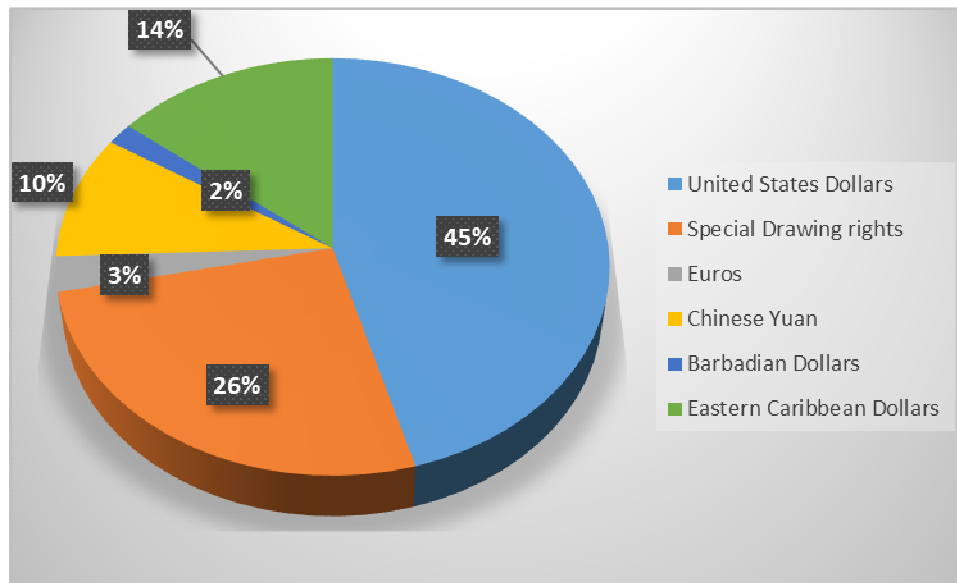
Figure 15: Central government External debt by currency composition



Source: The Debt Management Unit

The component of the external debt portfolio exposed to foreign currency risk comes from the fluctuation in exchange rates for currencies such as Chinese Yuan, Kuwaiti Dinar, Euro and SDRs. The domestic debt is denominated in only local currency, the EC dollar. Figure 16 shows that as at December 2020, about 86.0 percent of the external debt is denominated in foreign currency. While 14.0 percent of the external debt is denominated in EC dollars. However, 45 percent, the largest portion of the foreign currency denominated debt is in US dollars.

Figure 16: Currency composition of Public External Debt



Source: The Debt Management Unit

Over the 5 year period, the EC dollar has not depreciated considerably against the other foreign currencies.

6.3 Debt Sustainability and Portfolio Risk Indicators

Table 8 highlights some key ratios which could be used to assess the sustainability of GOCD's debt. Over the period 2016 to 2019, total debt to GDP averaged 73.4 percent with the lowest debt to GDP of 68.0 percent was recorded in 2016. The Debt to GDP spiked in 2020 to 104.0 percent, increasing by 34.9 percentage points over 2019 reflecting the impact of the covid-19 pandemic.

Debt service to export followed an upward trajectory from 2016 peaking in 2018 when the highest ratio of 344.2 percent was recorded. The increase in debt service during that period averaged 4.1 percent while the exports decreased by an average 36.7 percent. From 2019 the ratio trended downward by 22.6 percent and a further 28.9 percent in 2020. The gains from exports outpaced the debt service obligation which increased by an average 3.1 percent over the two years, while the increase in exports averaged 39.3 percent.

The debt service to revenue ratio moves in tandem with the level of revenue received and the debt service obligation. During the period 2016 to 2018, revenue moved upward increasing by an average 35.0 percent while the debt service fluctuated resulting in an average increase of 4.4 percent. In the last two years 2019 to 2020, there was an opposite movement in the revenue which decreased by an average 12.7 percent and the debt service increased by an average 23.3 percent. The downward movement of the ratios from 2016 to 2018 averaging 14.4 followed by the upward movement from 2019 to 2020 that averaged 17.6 percent is a reflection of the movement of the revenue vis-à-vis the debt service obligation described above.

The total external debt portfolio is predominantly denominated in foreign currencies with the proportion hovering between 82.0 and 86.0 percent. The proportion denominated in local currency hovers between 18 and 14 percent which represents that of central government and is attributable to securities. It should be noted that despite the large portion of foreign currency debt, the exposure to currency risk is tolerable because of the prevalence of USD and also a portion of BBD which are fixed rates while the movement of the SDR and other currency have been stable over the years. The total debt portfolio, if examined, would show a narrower disparity due to the increase in domestic debt over the period.

Interest rate risk remained low with the average fixed rate debt for the five-year period being 89.0 percent while the remaining 11.0 percent represents variable or floating rates debt. Throughout the period, the share of fixed rate debt to floating rate debt remained in line with the MTDS benchmarks with set targets of 85.0 percent to 15.0 percent.

The share of short-term debt remained relatively low over the review period averaging about 11.0 percent. The year 2019 recorded the highest share of short-term debt of 17.4 percent. This was as a result of Government's reliance on bank overdrafts to meet some current expenditure. Nonetheless, in 2020

Government took a decision to limit the risk exposure by reducing the level of short term and thereby increased the level of long-term debt in the portfolio

Table 8: Public and Publicly Guaranteed Debt Ratios

	2016	2017	2018	2019	2020
Total Debt to GDP	68.0	74.4	77.8	77.1	104.0
External Debt to GDP	46.9	52.1	48.0	43.3	58.3
Domestic Debt to GDP	21.1	22.3	29.9	33.8	45.7
Central Government External Debt Service to Exports	127.7	237.1	344.2	266.4	189.4
Central Government Debt Service to Revenue	17.7	15.3	10.0	15.3	19.9
Foreign to Domestic Currency	86.4/13.6	86.7/13.3	85.7/14.3	82/18	85.8/14.2
Fixed to Floating Rate debt	87.4/12.6	88.3/11.7	89.8/10.2	90.7/9.3	88.8/11.2
Long-term/short-term debt	92.0/8.0	92.0/8.0	88.3/11.7	82.6/17.4	89.8/10.1

Source: The Debt Management Unit

6.3.1 Public debt Management Outlook

The debt outlook for Dominica like many other countries of the ECCU, is of great concern to the government considering the uncertainty of the global pandemic which poses a threat to small economies. The debt position could deteriorate further relative to the performance of the economy in light of COVID -19.

The government will continue to benefit from the debt suspension initiative which is being extended to the end of 2021 and will seize any debt relief opportunity that may be subsequently available. Additionally, the London Interbank Offered Rate (LIBOR) is expected to be phased out by the end of 2021 and this imminent change will impact the debt of those using such rate. Fortunately, the debt portfolio of government of Dominica does not consist of any LIBOR and will not

be affected. The variable rate component has been minimal over the year and moving forward will be maintained to minimise market risk.

Having realized the impact on the progress towards achieving the 2030 debt to GDP target of 60.0 percent, the ECCU monetary council accepted a recommendation from the central bank governor to postpone the date for achieving their targeted “fiscal anchor”. Effective February 12, 2020, ECCB members including the GOCD, will now aim to reduce their total debt to 60% of collective GDP by 2035 rather than by 2030.

The Commonwealth Secretariat Debt Recording System (CS-DRMS) has been used over the years for maintaining the debt data base. The evolution of technology has led to the development a new web-based system, Meridian⁴ by ComSec and is being introduced to the respective users of CS-DRMS. This current recording system will be phased out and be replaced by Meridian. The government of Dominica is expected to be fully on stream by about mid 2022.

The MTDS is due for updating and will be done subsequent to this review. Therefore, the breaches identified will be examined and recommendations for addressing them, will be made accordingly.

Section 7.0

Conclusion

Overall, Dominica’s debt can be considered manageable. The servicing of debt remains a high priority for the government and as such, outstanding debt obligations are met in a timely manner even during times of crisis. The debt position at the end of the period shows the portion of guaranteed debt at 11.1 percent which is below the 17.0 percent target. The variable interest rate debt is also below the 15 percent target at 11.0 percent; included in this percentage is

⁴ <https://thecommonwealth.org/about-meridian>

the debt owed to IMF which is currently at interest free and has been at that rate for the five-year period. The maturity profile shows peaks for the years 2021 to 2024, and 2027 resulting mainly from redemption of securities, and the utilisation of the bank overdrafts facility in 2021. To smoothen the repayment profile and lengthen the ATM; government intends to re-issue the maturing securities. Presently, there is a greater appetite for short term securities, therefore, the challenge is the investors' interest in securities 10 years and above.

The percentage of the non-US dollar denominated debt (excluding XDR but includes BBD) is 15.0 percent which is within the established target. Nonetheless, these currencies have not increased significantly during year; the BB dollars on the other hand is fixed.

Over the years, Government has sought to decrease its short-term debt by converting part of the overdraft facility to longer term instruments. This initiative has resulted in the improvement of the ATM and ATR on the domestic side. While this initiative appears to be a plausible solution, the continued reliance on bank overdraft will prove this effort ineffective.

The debt portfolio does not reveal any major market or refinancing risks. However, in the advent of crises such as the Covid-19 pandemic, the DMU will continue to closely monitor the debt management activities and continue to actively participate in the borrowing process to meet government financing needs and obligations on a timely basis with limited exposure to risks. Additionally, the DMU will engage in a Medium-Term Debt Strategy exercise, to explore ways where cost and risks embedded in the debt portfolio can be reduced and new financing options may be considered.

The staff of the Debt Unit participated in several training activities over years, aimed at increasing staff capacity and skills. A number of training activities were undertaken as part of the Canada Eastern Caribbean Debt Management

Advisory Service project. These training were intended to encourage international practices in debt management. Additionally, the staff have also benefited from training facilitated by the World Bank and the IMF. This covers areas such as: Investor Relations Program, Public Sector Debt Statistics, Debt Performance Management Assessment, and Debt Sustainability Assessment. In light of the pandemic, the plans and programs intended for further training and development were hampered.

Nonetheless, debt management continues to be central to Government's operations and efforts are being made to mitigate the exposure of the debt portfolio to risks. The improvement in debt management is a continued activity in collaboration with various regional partners including the Eastern Caribbean Central Bank and CARTAC; and international agencies such as World Bank, the IMF, and the Commonwealth Secretariat.

It is the Government's expectation that this report will enhance transparency and accountability of public debt management in Dominica and will be used by policymakers as part of the mechanism for decision making.

Appendix 1: Risk Indicators

Indicators	Targets	Position at December 2020	Breach Yes/No
Average Time to Maturity	9.0 Year	8.08 Years	Yes
Variable Interest Rate Debt	15.0 Percent	11.0 Percent	No
Non-USD Exposure excl. SDR	≤20.0 Percent	15.0 Percent	No
Guaranteed Debt	17.0 Percent	11.1 Percent	No

Box 2: Risks in Public Debt Management

Type of Risk	Description
Market Risk	<ul style="list-style-type: none">➤ Refers to the risks associated with changes in market prices, such as interest rates, exchange rates, commodity prices, on the cost of the government's debt servicing.➤ Changes in interest rates affect debt servicing costs when the rates on floating rate debt are reset and when fixed rate debt is refinanced.➤ Hence, short-duration debt (short-term or floating rate) is usually considered to be more risky than long-term, fixed rate debt.➤ Debt denominated in or indexed to foreign currencies also adds volatility to debt servicing costs as measured in domestic currency owing to exchange rate movements.
Rollover Risk	<ul style="list-style-type: none">➤ The risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all. This can lead to higher debt servicing costs and a debt crisis. Managing this risk is particularly important for emerging market countries.
Liquidity Risk	<ul style="list-style-type: none">➤ The main form of liquidity risk for a borrower refers to a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or a possible difficulty in raising cash through borrowing in a short period of time. From an investor perspective, this refers to the cost or penalty investors face in trying to exit a position when the number of transactors has markedly decreased or because of the lack of depth of a particular market.
Credit Risk	<ul style="list-style-type: none">➤ The risk of non-performance by borrowers on loans or other financial assets or by counterparty on financial contracts. This is particularly relevant where the government is on-lending (or lending) and guaranteeing debt to other parts of government.
Settlement Risk	<ul style="list-style-type: none">➤ Refers to the potential loss that the government, as counterparty, could suffer as a result of failure to settle, for whatever reason other than default, by counterparty.
Operational Risk	<ul style="list-style-type: none">➤ This includes a range of different types of risks, including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in processes, internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect business activity.

Box 2: Legal and Institutional Framework

The applicable laws which govern borrowing and guaranteeing debt include the Loans Act Chapter 64:05 of the 1990 Revised Laws of the Commonwealth of Dominica amended by the Loans (Amendment) Act (No. 4 of 1996) and the Finance (Administration) Act 4 of 1994; give the Minister for Finance the authority to contract debt on behalf of the State and to provide guarantees to qualifying institutions. The Treasury Bill Act No.5 of 2010 authorises the Minister for Finance to incur debt through the issuance of Treasury Bills; while in accordance with the Bonds and Securities Act Chapter 64:04 provides the authority to borrow through the issuance of bonds.

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Glossary

Concessionary

A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

Debt Service

The amount of funds necessary for or used in the payment of interest, or amortisation charges of a debt.

Debt Sustainability

Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

Debt Sustainability Analysis

This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilise at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as for fiscal policy, tend to dominate the medium-term outlook.

Disbursement

The transfer of financial resources, or of goods, or services by the lender to the borrower.

Disbursed Outstanding Debt (DOD)

Any disbursed portion on a debt commitment that is unpaid.

Public Sector Debt

Means debt of the central government plus debts of other public sector entities that are guaranteed by the central government. Debt reported includes loans, bonds treasury bills and overdraft.

Net Disbursement

The net disbursement shows the actual change in the debt stock; it is difference between the disbursement and the principal repaid during the period.