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**Dominica: 2008 Article IV Consultation—Staff Report; Staff Supplement; Staff Statement, and Public Information Notice on the Executive Board Discussion.**

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2008 Article IV consultation with Dominica, the following documents have been released and are included in this package:

- The staff report for the 2008 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on May 28, 2008, with the officials of Dominica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 11, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement on the joint IMF/World bank debt sustainability analysis.
- A staff statement of July 30, 2008 updating information on recent developments.
- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its July 30, 2008 discussion of the staff report that concluded the Article IV consultation.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

DOMINICA

# Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Dominica

Approved by Guy Meredith and Anthony Boote

July 11, 2008


## EXECUTIVE SUMMARY

**Background.** The Dominican economy improved markedly under the PRGF-supported program that ended in 2006. Dominica was struck by Hurricane Dean in August 2007 resulting in damage of nearly 20 percent of GDP, reduced economic activity, higher inflation, and a weaker external current account. The Executive Board approved a request for ENDA on February 4, 2008 for 25 percent of quota.

**External competitiveness.** The real effective exchange rate is broadly in line with macroeconomic fundamentals The recent rise in the external current account deficit mainly reflects the effects of the hurricane and higher commodity prices, and is almost fully financed by nondebt-creating flows.

**Key policy issues.** The key policy challenges facing the authorities are to restore growth in a less favorable global environment, possibly including lower tourist arrivals; consolidate fiscal stability given the high public debt and reduce vulnerabilities. While macroeconomic policy has been well oriented, it is important to maintain the reform momentum.

- **Fiscal policy is appropriately focused on reducing high public debt.** The authorities may need to consider delaying implementation of planned income tax reform while maintaining the integrity of the VAT, to return to the primary surplus target following a temporary easing of the fiscal stance in FY 2008/09 to accommodate the current commodity price shocks.

- **Further diversification of the economy, including the development of the tourist industry, would be key to enhancing growth prospects.** Plans for developing the tourist sector, including improving air access and roads to tourist attractions, are well advanced and should be financed with a view maintaining the sustainability of public debt.

- **Structural reforms are key to improving competitiveness and reducing vulnerabilities**. The authorities rightly emphasize improving the business climate, strengthening regulation and supervision of the financial sector, and improving disaster preparedness.

**Fund Relations.** Dominica has accepted the obligations of Article VIII, Sections 2, 3 and 4 and maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions. The last Article IV consultation was concluded on July 2, 2007. The staff report and summing up of the Executive Directors' discussions and policy recommendations are available at: **http://www.imf.org/external/pubs/cat/longres.cfm?sk=21345.0**.

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## I. Introduction[1]

1. **Dominica is extremely vulnerable to exogenous shocks, and recent economic policy has been aimed at creating buffers against such events.** The economy is susceptible to a variety of natural disasters, and is ranked 12th on the list of 111 countries on the Commonwealth Secretariat/World Bank's composite vulnerability index. The economy is also sensitive to external economic developments such as the global slowdown after September 11, 2001. The crisis in 2002 was also precipitated, however, by lax fiscal policy, as inefficiencies in the tax system magnified the revenue impact of weaker activity. In contrast, the current slowdown finds the economy with slightly more fiscal room to maneuver due to a lower debt burden and greater flexibility from structural reforms.

2. **The authorities implemented bold measures under the PRGF-supported program that ended in 2006, but additional steps are necessary to increase the country's resilience**. Measures taken under the program helped stabilize the fiscal position and thereby placed debt ratios firmly on a declining path. Reform of indirect taxes has improved revenue performance. Since the expiration of the PRGF arrangement, the thrust of the authorities' policies has been consistent with Fund advice. Further efforts are needed, however, to achieve a more comfortable debt level, and thus create room to deal with natural disasters and eventually provide scope for countercyclical policies. It is also important to continue reducing vulnerabilities in the financial system to increase resilience to external shocks, and to continue working with other stakeholders to improve the catastrophic risk insurance facility.

## II. Background

3. **Dominica was struck by Hurricane Dean in August 2007, causing damage estimated at almost 20 percent of GDP (Box 1).** The agricultural sector, one of the major sources of foreign exchange earnings, took the brunt of the damage. Economic growth is estimated to have slowed to around 1½ percent in 2007 from a pre-hurricane forecast of 3 percent, while the loss in export earnings in 2007 is estimated at 2½ percent of GDP (Figure 1 and Table 1). Inflation reached 5½ percent in December 2007, reflecting significant increases in food prices and the pass-through of higher petroleum prices. The donor community has responded by providing disaster relief grants to help

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[1] The Article IV discussions were held in Roseau during May 19–28, 2008. The staff team comprised Messrs. Samuel (Head), Dehesa (both WHD) and Ms. Yang (FIN). The mission was joined by staff of the ECCB and Caribbean Development Bank. Y. Alvarez (OED) participated in the final meeting. The team met with Prime Minister Skerrit, the Cabinet, and senior government officials, as well as representatives of the private sector and labor unions.

address immediate humanitarian needs, and to undertake repair and reconstruction of essential infrastructure. However, given the severity of structural damage, the reconstruction process will require considerable resources, and is likely to be limited by implementation capacity.

4. **Fiscal performance remained strong in FY 2007/08 despite hurricane-related increases in expenditure**. Robust revenue performance in VAT and import duties, due in part to the surge in imports related to reconstruction, helped partially compensate for revenue forgone from the introduction of the income tax reform in January 2008 and the reduction in the excise tax on fuel used for electricity generation (Figure 2 and Table 2). Higher revenue has offset the increase in expenditure after Hurricane Dean. Outlays on goods and services related to rehabilitation increased following Hurricane Dean while grants financed the enlarged capital investment, enabling the achievement of a primary fiscal surplus of 3 percent of GDP. The first phase of a multiyear personal income tax reform was implemented in January 2008, which is projected to result in revenue losses of about ½ percent of GDP in 2007/08, and 1½ percent of GDP annually over the medium term (Box 2).

5. **The achievement of satisfactory primary surpluses in recent years has kept the public debt on a firmly downward path following the 2005 debt restructuring.** The public debt/GDP ratio declined to below 95 percent of GDP in 2007. The authorities have continued to make good-faith efforts to negotiate agreements with hold-out creditors. An agreement that preserves equality of treatment for all debtors is being finalized with one of the remaining creditors, and payments continue to be made into the escrow account established under the debt restructuring agreement.

6. **The current account deficit is estimated to have widened by almost 6 percent of GDP in 2007 to 23½ percent of GDP**. As a result of the hurricane, exports are estimated to have declined by 1 percent of GDP, while imports have risen by 2½ percent of GDP, reflecting reconstruction activities (Figure 3 and Table 3). The deterioration in the current account was exacerbated by lower tourist receipts, as well as the rising petroleum and imported food bill.

7. **Private sector credit growth slowed in 2007 following a rapid expansion in 2006.** As a disaster-related surge in remittances led to a lower demand for credit, and external grants increased the liquidity of the banking system, banks placed more assets abroad. Net foreign assets of the banking system increased by EC$50 million to over EC$300 million during 2007 (Figure 4 and Table 4). The banking system appears profitable and well-capitalized—although the ratio of capital to risk weighted assets has been declining, it is still over 16 percent compared with the ECCU minimum requirement of 8 percent (Table 5). The regulation of the nonbank financial sector is uneven despite recent efforts to improve oversight. In particular, credit unions and insurance companies

compete with commercial banks for deposits and loans, but are not subject to similar supervisory standards.

Banking System Indicators
(In percent unless otherwise stated)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Number of banks | 4 | 4 | 4 | 4 | 4 |
| *Of which:* Public banks | 1 | 1 | 1 | 1 | 1 |
| Capital to risk-weighted assets | 28.7 | 23.5 | 26.2 | 20.8 | 16.4 |
| Unsatisfactory loans to total loans | 21.7 | 22.5 | 22.0 | 9.3 | 8.4 |
| Provisions to NPLs 1/ | 7.6 | 7.3 | 5.9 | 2.4 | 2.2 |
| Interest income to earning assets | 7.2 | 6.5 | 7.1 | 7.6 | 7.8 |
| Return on assets | 1.4 | 1.2 | 1.2 | 1.5 | 1.5 |
| Liquid asset to deposits | 63.4 | 57.5 | 58.1 | 57.5 | 54.6 |

1/ Provisioning for loan losses to total loans.

8. **The Growth and Social Protection Strategy (GSPS), developed alongside the PRGF-supported program, is being revised to amplify the structural reform agenda**. The emphasis is on reducing the cost of doing business, including improving the efficiency of the energy sector. Recent structural reforms have helped improve the business climate, resulting in steady improvement in the World Bank Index of Doing Business. Nevertheless, private investment is limited by infrastructure constraints, combined with inefficient contract enforcement and land registration processes. Delivery of fuel under the PetroCaribe agreement began in February with the opening of the Venezuelan-constructed oil terminal, and steps are being taken to explore Dominica's geothermal potential.

## III. Policy Discussions

9. **Dominica is grappling with the challenges facing the entire ECCU—slower growth and a spike in inflation triggered by external shocks and a weakened global environment.** Accordingly, policy discussions focused on the growth outlook, fiscal policy, and structural reforms to improve competitiveness and reduce vulnerabilities. In particular, the discussions dealt with: (i) risks to the growth outlook posed by the weakening global economy and rising commodity prices; (ii) maintaining fiscal stability; and (iii) continuing the reform momentum to enhance private sector growth and further reduce financial sector and weather-related vulnerabilities. There was broad agreement on the staff's recommendations and the policy implications.

### A. Outlook and Risks

10. **The economy is expected to rebound in 2008, but is unlikely to regain pre-hurricane growth for some time.** The spillover effects of the slowdown in the U.S. economy are expected to be partly offset by domestic factors.[2] Growth is projected at 2½ percent in 2008, supported by reconstruction efforts and recovery in agriculture. Inflation is expected to reach 6½ percent at end-2008, and then to moderate gradually in line with WEO projections of international food and petroleum prices. The external current account deficit is projected to rise another 5 percent of GDP in 2008, as exports are projected to fall by 2 percent of GDP, reflecting the full-year impact of the hurricane and the loss of export income due to the closure of a toothpaste factory in the last quarter in 2007. Meanwhile, imports would continue to rise due to reconstruction efforts (Table 6). The large current account deficit would be financed mainly by FDI and public sector grants. Domestic consumption and investment would be supported by remittance flows and abundant liquidity in the banking system.

Key Macroeconomic Indicators under Baseline Scenario
(In percent of GDP, unless otherwise noted)

| | | Projections | | | | | |
|---|---|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| Real GDP growth (percent) | 1.5 | 2.6 | 2.8 | 3.0 | 3.0 | 3.0 | 3.0 |
| Inflation (percent, end period) | 5.7 | 6.7 | 2.8 | 1.5 | 1.5 | 1.5 | 1.5 |
| Central government overall balance | 1.1 | 0.6 | 1.0 | 1.3 | 1.5 | 1.7 | 1.8 |
| Central government primary balance | 3.0 | 2.4 | 3.0 | 3.0 | 3.0 | 3.1 | 3.0 |
| Public sector debt | 94.3 | 84.8 | 78.3 | 72.9 | 67.6 | 62.5 | 57.5 |
| External current account balance | -23.6 | -28.4 | -25.5 | -23.6 | -22.0 | -20.4 | -18.8 |
| Public setor external debt | 65.0 | 57.8 | 52.4 | 47.7 | 42.6 | 38.0 | 33.9 |

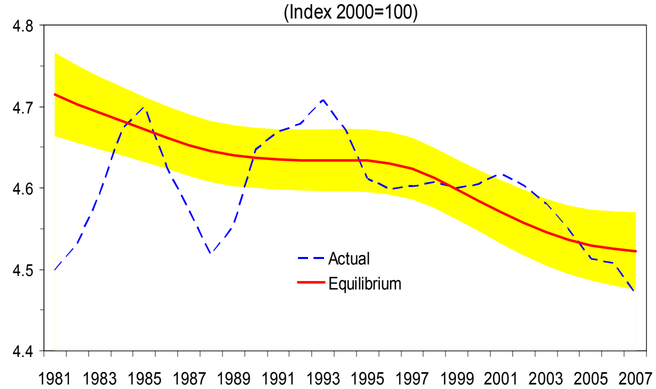
11. **Over the medium term, growth prospects are largely dependent on global economic developments, with support being provided by a scale-up in domestic expenditure.** The baseline medium-term scenario envisages that growth would be sustained at around 3 percent from 2010 on, in line with pre-hurricane trends. Growth would be supported by continuing policy reform to reduce the cost of doing business, further diversification of the economy into tourism, and maintenance of strong foreign

[2] Staff estimates that the elasticity of growth in Dominica to cyclical economic activity in the U.S. is slightly greater than one.

direct investment to increase capacity in that sector.[3] Under the baseline scenario, and assuming maintenance of the authorities' fiscal targets, public debt will decline to the ECCB benchmark of 60 percent of GDP by 2014, well ahead of the 2020 target date.

12. **The real exchange rate does not appear to be out of line with macroeconomic fundamentals.**[4] The real exchange rate has declined in recent years, reflecting continuing weakness in the U.S. dollar, and remains below the estimated equilibrium level.[5] Although external debt ratios remain high, current economic policies are aimed at debt sustainability, and the projected public debt profile is consistent with regional currency stability.

Dominica: Actual and Equilibrium Real Exchange Rate, 1981–2007 1/
(Index 2000=100)




Sources: IMF, Information Notice System; and Pineda and Cashin, "Is the Eastern Caribbean Dollar Overvalued?", forthcoming IMF Working Paper.
1/ The shaded band around the equilibrium exchange rate represents ±1 standard error of the prediction.

13. **The recent increase in the external current account deficit mainly reflects the effects of the hurricane and the rise in food and energy prices.** Over the medium term, with firm implementation of the authorities' policies, the external current account deficit would moderate to about 19 percent of GDP despite the waning banana sector, as reconstruction efforts wind down and efforts to diversify into tourism take hold.[6] Repatriation of profits from FDI would be contingent on the performance of the tourist sector, and is likely to be moderated by the nature of new tourism investments, which are

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[3] Stayover tourist arrivals would likely grow more slowly if airlines continue to cut capacity and raise airfares to compensate for higher fuel prices.

[4] The consultation was complemented by the Executive Board discussion of the Staff Report for the 2007 Eastern Caribbean Currency Union Discussion on Common Policies of Member Countries, the report for which covers common regional issues related to monetary and exchange rate issues and banking system supervision (see IMF Country Report No. 08/94).

[5] A time series model linking the REER to measures of the ECCU region's fundamentals (productivity differentials, terms of trade, government consumption, and net foreign assets) indicates that there is little evidence of overvaluation of the EC dollar. See Pineda and Cashin (2008), "Assessing Exchange Rate Competitiveness in the Eastern Caribbean Currency Union," in ECCU: Selected Issues, IMF Country Report No. 08/96.

[6] Dominica's tourism is in its early stages of development, and tourism life-cycle analysis would suggest a sharp increase as the industry reaches a critical mass.

focused on individually-owned villas. Nevertheless, the current account will remain elevated, reflecting projected FDI and grant-financed imports. This level appears to be consistent with the long-run equilibrium external current account deficit of 20 percent of GDP, after factoring in the role of FDI and grants—both nondebt-creating flows (Box 3). The authorities' fiscal targets and the projected path for external debt appear consistent with maintaining the stability of the currency union. The government's sustained efforts to lower the cost of doing business and enhance infrastructure (that facilitates air and sea access as well as access to tourism sites) would improve competitiveness and boost export growth with higher value added.[7] Nevertheless, the high external current account deficit poses risks that need to be carefully monitored, and accompanied by efforts at continued fiscal consolidation.

14. **Key downside risks to this scenario are related to further weakness in the global economic outlook; underlying fragilities in Dominica's fiscal situation; and the economy's susceptibility to natural disasters.** They underscore the need to avoid slippage in fiscal targets.

- **Higher oil prices and a worsening outlook for the U.S. economy,** whose performance strongly affects tourism and remittances, remain significant external risks, and could widen further the external current account deficit in the near term.

- **Dominica's public capital expenditure is largely grant financed, for which there is significant uncertainty**. A decline in external aid could lead to additional borrowing, which even at concessional rates would slow the decline in public debt.

### B. Fiscal Policy

15. **Staff supported the authorities' policy to reduce public debt gradually by maintaining a primary fiscal surplus.** The authorities stressed their commitment made at the time of the ENDA request to achieve a primary surplus of 3 percent of GDP in 2007/08 and over the medium term, while indicating their intention to proceed with the planned income tax reform. The fiscal performance in FY 2007/08 is on course to achieve this target, even with the implementation of the first phase of the income tax reform in January 2008, due to strong revenue performance. However, the budget for FY 2008/09 envisages a temporary decline in the primary surplus to about 2½ percent of GDP, reflecting the authorities' response to hardships caused by rising fuel and food prices, implementation of the second phase of the income tax reform and less robust revenue performance as post-hurricane reconstruction projects wind down. Expenditure is

[7] Expansion of hotel capacity would also shift the composition of tourist arrivals toward stayovers, which contribute more to tourism receipts.

projected to fall by 3½ percent of GDP, mainly reflecting a decline in capital expenditure. Official external grants are projected to decline by 2 percent of GDP in FY 2008/09.

16. **The authorities remain committed to carrying through the planned income tax reform given strong revenue growth from indirect tax reform.** They plan to implement the second phase of the reform in January 2009. This, together with other pressing needs, could generate fiscal pressures under the baseline scenario, particularly if there is a sharper-than-expected slowdown in the U.S. In that event, staff stressed the need for contingency measures, including flexible implementation of the reform to protect the fiscal targets.[8] To further strengthen the revenue position, the mission recommended that the authorities also consider making accelerated depreciation the preferred method of granting tax incentives, and broadening the income tax base by phasing out mortgage deductions and taxing interest on bank deposits (as recommended by FAD). The authorities viewed the income tax reform as part of the strategy to mitigate the effects of food price shocks, while defending the mortgage allowance as part of the government's policy to provide affordable housing.

17. **Control of wage growth has contributed to the decline of current expenditure in relation to GDP**. The government's wage bill has declined by 5 percentage points of GDP to less than 12 percent of GDP since 2002. Multiyear wage negotiations have been concluded with two of the three public sector labor unions, resulting in modest wage increases, while pending issues with the third union focus on nonsalary items. However, given higher food prices, the unions have signaled that they expect an improved offer in negotiations for 2009/10. The mission and the authorities agreed on the importance of limiting wage increases to affordable levels, not only to protect the fiscal targets, but also to prevent second-round increases in inflation, especially when neither monetary nor exchange rate policy can be used for this purpose. The authorities also remain committed to managing public sector employment to maintain the wage bill close to the indicative medium-term target of (12¼) percent of GDP established in the authorities' program under the PRGF arrangement.[9]

18. **Higher food prices pose challenges for the authorities given the high levels of poverty (Box 4)**. The authorities have lowered the excise tax on fuel for electricity

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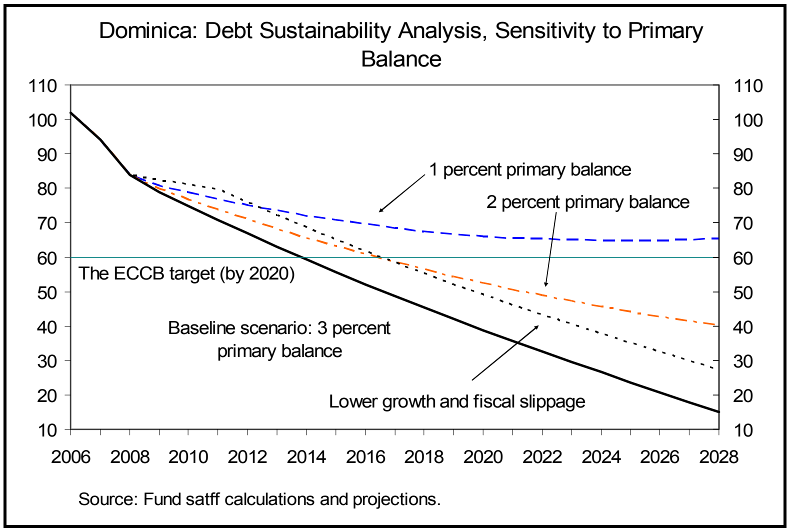
[8] The preliminary outturn of the indirect tax reform introduced in March 2006 has surpassed the original estimates by an amount sufficient to cover the revenue forgone by the income tax reform (see also IMF Country Report No. 07/322). Medium-term fiscal projections already incorporate the projected revenue losses from the income tax reform.

[9] Supplementary Memorandum of Economic Policies of the Government of Dominica, IMF Country Report No. 07/1.

generation (revenue loss of 0.5 percent of GDP), and the state-owned export and import marketing company has absorbed some price increases for basic food stuffs by reducing its other activities. They have also reduced the common external tariff (CET) on a limited number of essential food items as part of the CARICOM initiative to address the international food price shock (0.2 percent of GDP), and eliminated the customs service charge on selected petroleum products. The range of food items on which the CET was lowered is small because the benefit is difficult to target and the price reduction might not reach the intended population because of the country's monopolistic distribution system. The potential long-term revenue loss of these reductions in tax rates is a concern, given that they may prove difficult to reverse. The mission recommended strengthening existing mechanisms to deliver targeted transfers to the poor. The authorities noted that a modest increase in such assistance was already incorporated in the FY 2007/08 budget (0.1 percent of GDP), and agreed to try to speed up World Bank-assisted efforts to improve mechanisms to better target assistance to the poor.

19. **The mission recommended moving gradually to a medium-term expenditure framework (MTEF) to help manage the effects of recent aid inflows.** In recent years, the government has taken steps to diversify its trade and economic cooperation linkages, especially with China and Venezuela, which has resulted in increased (but uncertain) aid flows (Box 5). This includes assistance under the PetroCaribe and Bolivarian Alternative for the America's (ALBA) agreement with Venezuela. An MTEF would give greater predictability to government expenditure, reduce economic volatility, and help prevent an appreciation in the REER associated with aid-financed spending beyond the economy's absorptive capacity. The mission also recommended improving the framework for executing and monitoring grant-financed projects. This would be aided by early approval of the pending Finance Administration Act, which would enhance recording and accountability in government finances. Regarding financing under the PetroCaribe and ALBA agreements, staff and the authorities agreed that such financing should be consistent with the overall public expenditure and debt strategy, and preserve the pass-through of changes in international oil prices. The authorities indicated that they propose to save the bulk of the concessional financing for fuel consumption under the PetroCaribe initiative. [10] They plan to set up an investment fund, possibly at the ECCB, and restrict their spending on social projects from this source to the net return derived from the investment fund. Arrangements are also being made to incorporate the government-owned petroleum trading company and ensure that its activities are clearly reflected in the government accounts.

[10] Under the PetroCaribe Agreement, the state-owned petroleum trading company is required to pay between 40–50 percent of the value oil imports (depending on the oil price) within 90 days and the rest is payable over 25 years at very concessional interest rates.




20. **Achieving the primary surplus target is key to debt sustainability**. To consolidate the declining path for public debt attained since the debt restructuring, it is essential to maintain the primary surplus target. The debt sustainability analyses indicate that the public debt path is sensitive to changes in the growth rate, the primary surplus, aid flows and interest rates. Under the baseline scenario with annual growth assumed at 3 percent over the medium term and achievement of the authorities' fiscal target, debt would reach the ECCB target of 60 percent of GDP by 2014. A scenario in which growth is halved in 2009–11 and the primary surplus slips to 1½ percent of GDP would delay achievement of the ECCB target by two years.

### C. Enhancing Competitiveness and Reducing Vulnerabilities

21. **The authorities explained that their agenda for structural reforms focuses on enhancing private sector growth and reducing vulnerabilities.** After addressing the immediate priorities following Hurricane Dean, the government has refocused its attention on the reform agenda, and has revised and updated its Growth and Social Protection Strategy (GSPS). The main priorities for reform will remain: (i) maintaining prudent fiscal policies; (ii) enhancing the investment climate for private sector development; and (iii) strengthening oversight of, and resilience in, the financial sector. Efforts are also being made to reduce Dominica's vulnerability to exogenous shocks.

22. **Regarding enhancing competitiveness, the authorities emphasized that improving the investment climate would be key to expanding the role of the private sector in raising and sustaining economic growth.** The authorities and staff concurred that reducing the cost of doing business and increasing productivity are essential in overcoming constraints to production.

- **Improving energy policies**. The authorities are moving ahead on several fronts to reduce the cost of energy. They have signed the PetroCaribe Agreement with Venezuela, which would help reduce the cost of fuel for electricity generation.[11] They have also signed a European Union funded multipartite agreement (€ 1½ million) to help develop Dominica's geothermal energy resources to serve domestic demand as well as the neighboring French territories of Guadeloupe and Martinique. This project could significantly reduce dependence on imported oil, lower the cost of energy (a major expense for hotels), and increase exports.

- **Streamlining business processes.** The authorities have progressively streamlined business procedures, including establishing (with the aid of the World Bank) specialized one-stop agencies for investment and tourism promotion. They have also requested technical assistance from LEG in drafting legislative changes to facilitate foreclosures. These efforts have resulted in steady improvements in Dominica's ranking on the World Bank's index of doing business.

23. **The authorities concurred with staff on the necessity to increase financial sector resilience, and are pressing to pass associated legislation before end-2008**. The government and the ECCB have progressively strengthened the regulatory framework of the banking sector. While some efforts have been made to strengthen oversight of the nonbank financial sector, these institutions remain largely unregulated. They indicated that they were moving to strengthen supervisory capabilities for nonbanks, but were constrained by the shortage of human capital. The staff urged the authorities to press ahead with the enactment and implementation of pending Financial Services Unit (FSU) Act and other enabling legislation to create a unified regulatory framework for nonbanks, and stressed the importance of strengthening the FSU in the Ministry of Finance by providing adequate resources to staff the institution effectively. Stepped-up oversight of the credit union sector, which has total assets equivalent to 45 percent of GDP and amount to about a third of bank deposits, is a high priority; and further efforts are needed to strengthen the balance sheet of the AID bank and clarify responsibility for its supervision.

24. **Natural disaster mitigation measures are being strengthened.** The lessons from Hurricane Dean and the earthquake in November have provided an opportunity for the authorities to reassess their disaster preparedness plans. The government is reinforcing sea and river defenses to reduce risks of flooding and improving coordination among disaster relief agencies. The recent reduction in Dominica's premium for disaster insurance charged by the Caribbean Catastrophe Risk Insurance Facility (CCRIF) is

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[11] Although the trading company purchases oil at market prices from Venezuela, the scale of its operations allows it to reduce some elements of the price build-up mechanism like 'small cargo charge' and wholesale margin on its sales of fuel for electricity generation.

welcome; however, given the peculiar circumstances of the member countries, the efficacy of the parameters of the insurance scheme still remains to be assessed.[12]

## IV. Staff Appraisal

25. **Dominica is recovering rapidly from the effects of Hurricane Dean.** With assistance from the international community, the authorities moved quickly to address the immediate post-hurricane priorities, and are now returning their focus on medium-term challenges. These include restoring growth to pre-hurricane levels even as the global economy weakens, maintaining fiscal stability to help lower high public debt, and sustaining the momentum of structural reform to enhance competitiveness and reduce vulnerabilities.

26. **The economic flexibility accorded by recent reforms has facilitated the rebound in economic activity in 2008, but rising commodity prices have created challenges for economic policy.** The economy's prospects are conditioned on developments in the global economy given the close growth relationship with the U.S., as well as the continued implementation of the GSPS agenda. Further diversification of the economy into tourism and structural reforms are needed, particularly measures to reduce the cost of doing business, to achieve above-trend output growth. However, higher fuel prices could dampen prospects for growth in the tourism sector as airlines reduce flights and raise airfares to the region. The significant rise in food and fuel prices has also created hardship among the most vulnerable groups in the society. The implementation of temporary, targeted food and energy subsidies for the poor, while maintaining the flexible fuel pricing regime would help ease the adjustment of the most vulnerable segments of the population and, more generally, the economy to higher international commodity prices.

27. **Fiscal policy is rightly oriented toward reducing the still-high public debt ratios, and enhancing infrastructure to boost private sector growth.** The staff supports the authorities' intention to continue targeting primary fiscal surpluses of 3 percent of GDP over the medium term, with a temporary reduction in FY 2008/09. Determined implementation of such a fiscal policy would help achieve the ECCB's target for public debt ratios well ahead of the 2020 target. To secure the fiscal target in the event of a sharper-than expected or more-prolonged global slowdown, the authorities may need to consider a more extended phasing-in of the planned income tax reform. To enhance the

[12] In January, the CCRIF announced a 10 percent reduction in premiums for member states, and the minimum attachment point available for hurricane policies was decreased from coverage of 1 in 20 year events to 1 in 15 year events. However, during last year, several countries suffered significant damage due to hurricanes, but wind speeds were insufficient to trigger payouts under the scheme.

tax system further, it would be important to shift to accelerated depreciation as the preferred mode for granting tax incentives, and broaden the base of the personal income tax.

28. **Dominica's real exchange rate appears to be consistent with macroeconomic fundamentals.** The recent hurricane-related run up in the external current account deficit is expected to be reversed over the medium term, but it will nevertheless remain elevated. Existing economic policies yield a projected external debt profile that appears to be consistent with the common currency arrangement.

29. **Passage of the Financial Services Act would provide a promising basis for strengthening the regulation and supervision of nonbank financial institutions.** To complement the law, it would be critical that the authorities move quickly to build capacity in the Financial Services Unit so that it can effectively regulate and supervise nonbanks, particularly credit unions and insurance companies.

30. **Implementing the structural reform agenda is key to enhancing the competitiveness of the economy**. The authorities are cognizant to the challenge of competitiveness, and have been focusing on reducing the cost of doing business and easing infrastructure constraints, with some success. Looking ahead, the envisaged fiscal consolidation and productivity-enhancing reforms would be essential to improving competitiveness and ensuring the stability of the currency union arrangement.

31. **It is proposed that the next Article IV consultation be held on the standard 12-month cycle.**

**Box 1. Dominica: Emergency Natural Disaster Assistance**

**Dominica was struck by Hurricane Dean in August 2007, which caused damage estimated at nearly 20 percent of GDP and loss of life.** The agriculture sector was most severely affected, and damage to the housing stock and infrastructure was also considerable. The international donor community provided assistance to help in disaster relief and rehabilitation of essential infrastructure. The Executive Board approved a request for Emergency Natural Disaster Assistance (ENDA) in the amount of SDR 2.05 million on February 4, 2008.

**In the letter of intent, the government committed to maintaining a primary surplus of 3 percent of GDP despite the effects of the hurricane.** They proposed to limit additional spending to 2½ percent of GDP after reallocation of expenditure already in the FY 2007/08 budget. The implementation of the planned income tax reform was expected to proceed, but the schedule could be varied to protect the primary surplus target and pressures to reduce VAT rates arising from inflation concerns would be resisted. Structural reforms aimed at fostering private sector growth and poverty reduction would proceed as planned.

Dominica: Key Fiscal Indicators, FY 2007/08

In percent of GDP

| | FY 2007/08 Budget 1/ | ENDA | FY 2007/08 Projections 2/ |
|---|---|---|---|
| **Revenue and grants** | **41.7** | **44.0** | **44.0** |
| Revenue | 32.5 | 32.5 | 33.9 |
| Grants | 9.2 | 11.5 | 10.1 |
| **Total expenditure** | **40.9** | **43.2** | **42.9** |
| Capital expenditure | 10.8 | 13.1 | 12.6 |
| **Overall balance** | **0.8** | **0.8** | **1.2** |
| **Primary balance** | **3.0** | **3.0** | **3.2** |

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Adjusted for FY 2006/07 outturn and implementation capacity.

2/ Deflated by GDP projected at the time of the ENDA request.

**Fiscal performance has been in line with expectations at the time of the ENDA request.** The surplus projected for the end of the fiscal year is expected to be about 3 percent of GDP as increased revenue from VAT and import duties have offset the revenue forgone by lowering the excise duty on fuel for electricity generation. Expenditure increases have been limited to about 2 percent of GDP. The first phase of the income tax reform was implemented on schedule in January 2008, while VAT rates were kept unchanged.

**Looking ahead, the authorities have revised the GSPS to update their reform agenda and have sought the support of the international donor community for their policies**. They have retained the medium-term fiscal targets but would need to keep open the option to vary the pace of implementation of the income tax reform to protect these targets.

**Box 2. Dominica: Income Tax Reform**

**The authorities announced in the Budget address for FY 2007/08 a far-reaching income tax reform to reward effort, increase competitiveness, and reduce the tax burden.** The income tax reform builds upon the rise in revenue that resulted from the introduction of the VAT and excise duty regime in March 2006.The three main features of the income tax reform are: an increase in the personal allowance; a reclassification of tax brackets, and a reduction in tax rates in each of the three income brackets.

**The average tax rate paid by a representative taxpayer will decline substantially with the reform, providing proportionally the greatest benefit to lower income taxpayers.** Taking as representative taxpayer a central government employee, his/her average tax rate will be cut by nearly one-half from 9.8 percent in the old tax schedule to 6.9 percent in FY 2007/08 to 4.8 percent over the medium term.

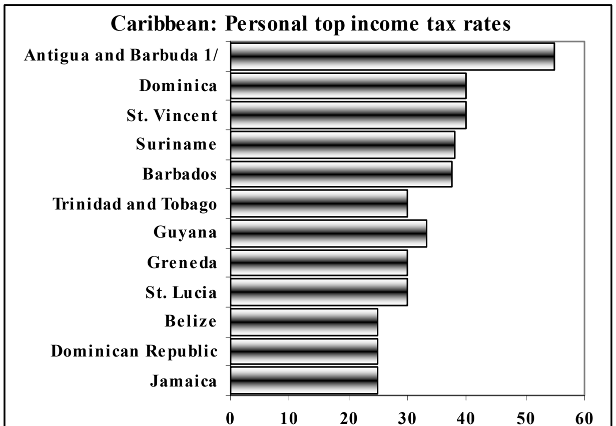
**Dominica: Income Tax Reform**

(In Eastern Caribbean dollars and percentages)

| Old Regime | | FY 2007/08 | | Medium-Term |
|---|---|---|---|---|
| Taxable Income | Tax Rate | Taxable Income | Tax Rate | Tax Rate |
| 1-15000 | 20 | 1-20000 | 18 | 15 |
| 15001-48000 | 30 | 20001-50000 | 28 | 25 |
| Over 48000 | 40 | Over 50001 | 38 | 35 |

Source: Ministry of Finance.

**How will Dominica's income tax regime compare to that in other countries in the region after the reform?** On completion, at 35 percent the maximum personal income tax rate will be equal to that in Trinidad and Tobago, but still above most of the rates in other Caribbean countries. The ratio of the exempted threshold to GDP per capita will, however, rise to 1.7—above most countries in the region.



1/ Antigua and Barbuda data include the nontaxable income threshold.

**Income tax cuts need to be undertaken gradually and consistent with the primary surplus of 3 percent of GDP that guides the authorities' growth and debt sustainability strategy.** The income tax reform is being introduced in stages starting in January 2008. The pace of implementation of the tax reform remains flexible to protect the primary surplus target of 3 percent of GDP. The annualized tax revenue foregone due to the income tax reform amounts to about 0.9 percent of GDP for FY 2007/08 rising to the 1.4–1.7 percent range over the medium term. The bulk of the fiscal cost comes from increasing the exempted threshold.

## Box 3. Dominica: Assessment of External Stability

**Estimates of Dominica's external current account norms were obtained using two methods.** The 2007 underlying current account deficit, which excludes temporary effects on loss of exports and increased imports due to Hurricane Dean is estimated at around 21 percent of GDP**.** The equilibrium current account deficit (the current account 'norm') is also estimated at around 20 percent of GDP, for sample sets consisting of tourism-based economies. Accordingly, the projected medium-term current account balance for Dominica is close to the estimated level of the equilibrium current account when using coefficients regressed on either (i) a CARICOM-only sample or (ii) an extended sample of tourism-dependent countries (see Selected Issues, IMF Country Report No. 08/96). These two approaches indicate that there is no evidence of misalignment of the real exchange rate.

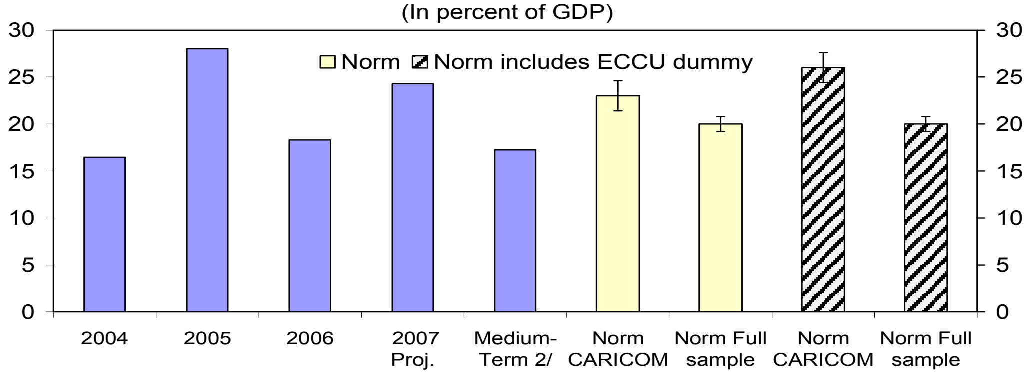
**Dominica: The Underlying Current Account Balance**
(As percent of GDP)

| | 2007 | 2013 |
|---|---|---|
| **Observed Current Account (a)** | **-23.6** | **-18.8** |
| **Temporary Effects (b)** | | |
| Increased imports related to hurricane reconstruction | 1.9 | - |
| Loss of banana exports due to Hurricane Dean | 0.2 | - |
| Loss of non-banana exports due to Hurricane Dean | 0.5 | - |
| **Underlying Current Account (a-b)** | **-21.0** | **-18.8** |
| FDI | 8.0 | 8.0 |
| Grants 1/ | 8.4 | 7.8 |
| Import content of FDI and Grants 2/ | 14.7 | 14.2 |
| **Current Account Excluding Import content of FDI and Grants** | **-6.2** | **-4.6** |
| **Memo** | | |
| Fuel imports | 7.6 | 10.9 |

1/ Grants actually used during the year.
2/ Assumes that 90% of FDI and used grants are spent on imports.

Staff estimates show that a large equilibrium current account deficit is a phenomenon observed in all ECCU countries. The deficit in Dominica is mostly driven by imports, which represent nearly 50 percent of GDP, a large portion of which is related to the FDI and grant-financed projects. Assuming an import content of 90 percent, the table shows that FDI and grants together explain a significant part of current account deficit. Excluding the FDI- and grant-related imports, the current account deficit declines to 6 percent of GDP in 2007 and to 4½ percent of GDP over the medium term.

Dominica: Current Account Deficit, Actual and Estimated Norms 1/
(In percent of GDP)




Sources: Fund staff estimates and projections.
1/ In computing the norms, medium-term values of the fiscal balance, oil-balance, output growth, and relative income are drawn from staff projections. Band is ±1 standard error of the prediction. CARICOM sample includes ECCU countries and The Bahamas, Barbados, Belize, and Jamaica. Full sample includes 21 tourism-dependent economies.
2/ Based on Fund staff estimates. Medium-term ends 2013.

**Box 4. Dominica: Inflation Developments and Policy Response**

**Inflation in Dominica, as in other ECCU, Latin America and other Caribbean countries, accelerated significantly in 2007**. Twelve-month inflation reached 5½ percent at end 2007 from 1.6 percent a year earlier; food inflation rose to 8.4 percent and fuel to 24.1 percent. The joint contribution of food and fuel price increases amounted to about three quarters of the overall end-year inflation in 2007. In March 2008, inflation accelerated further to 7.7 percent driven by the recent run-up in commodity prices.

**In Dominica, as in other ECCU countries, "food and beverages" carries the largest weight in the CPI basket (33 percent), while fuel accounts for 6 percent.** Rising food prices pose an acute challenge to Dominica due to the high incidence of poverty. Almost 40 percent of the population falls in the category of poor or very poor and half of the total expenditure in the lowest two quintiles of the population is devoted to food. However ECCU countries differ in their energy regulatory and tax regime. Dominica moved to flexible fuel pricing in 2003 while prices remain administered in the rest of the ECCU except for Grenada and St. Kitts and Nevis, which both adopted flexible pricing regimes in late 2006.

**The price pressures have been mostly driven by developments in the external environment, including the depreciation of the EC dollar against other currencies**. Domestic demand appears to have a lesser role as the economy grew below trend in 2007 due to the adverse impact of Hurricane Dean. However supply disruptions in the aftermath of the hurricane contributed to temporarily higher prices.

**The appropriate policy response depends on whether price increases are deemed permanent or transitory, and on the policy instruments available to the authorities.** The narrow policy options under the ECCU quasi-currency board regime place a greater burden on fiscal policy. The Dominican authorities have reduced the import tariff on a limited number of food items under the CARICOM initiative to mitigate food-price inflation, because such relief is difficult to target. A monopolistic food distribution chain may also not pass on the benefit to consumers, and tariffs may not be easily restored after the emergency. The government also provided relief to the rising cost of living by cutting in half the excise on fuel used in electricity (at a fiscal cost of about ½ of 1 percent of GDP and exempted pensioners from the income tax at a modest fiscal cost.

**The mission proposed to address the challenges arising from food inflation by strengthening existing social protection programs, in the context of the work with the World Bank aimed at improving the efficiency of social safety nets**. The central government current spending on social protection programs amounted to about 2½ percent of GDP in FY 2006/07 of which broadly ½ of 1 percent of GDP was devoted to addressing basic needs.

## Box 5. Dominica: Sources of Grants

**Over the past three fiscal years, grant inflows to Dominica have more than doubled from pre-crisis levels.** Dominica now receives about 9½ percent of GDP in grants compared to an average of about 4 percent of GDP during the 1990s. A significant proportion of the grants has been saved in commercial banks, reflecting limited implementation capacity and the authorities' commitment to sound spending policies. Prudent fiscal policy and careful management of the increase in grants, helped to keep inflation low, prior to the recent increases in food and fuel prices.

**Dominica: Sources of grants**
(In percent of GDP)

| Fiscal Year | 2005/06 | 2006/07 | Est. 2007/08 | Proj. 2008/09 |
|---|---|---|---|---|
| Trinidad and Tobago | | 2.8 | 2.2 | |
| Venezuela | 0.1 | 3.9 | 2.9 | 0.8 |
| China | 3.8 | 1.4 | 0.4 | 0.4 |
| European Union | 1.6 | 1.5 | 0.6 | 2.3 |
| Others | 2.0 | 1.5 | 3.9 | 4.5 |
| Total | 7.5 | 11.1 | 10.1 | 8.0 |
| Memo: | | | | |
| Grant financed capital expenditure 1/ | 7.2 | 7.6 | 10.5 | 8.5 |
| Average grants 1990-1999 | 4.0 | | | |

Sources: Ministry of Finance; and Fund staff estimates and projections.
1/ Fiscal accounts report grants spent in line with IMF Country Report No. 05/384.

**The surge in grants comes largely from new donors including China, Venezuela, and Trinidad and Tobago**. These grants are part of economic and cultural cooperation agreements and financial assistance following Hurricane Dean. Grants from China have been used to finance sports facilities, road improvement, river control, and schools, while those from Venezuela have been used to develop the airport, sea defenses and government buildings infrastructure, low-income housing, and disaster relief. Resources from Trinidad and Tobago mainly contributed to the rehabilitation of infrastructure after Hurricane Dean.

**A medium-term expenditure framework (MTEF) can help better manage these increasing aid inflows**. Most of the government capital expenditure is financed by grants which had a standard deviation of 2.2 percent of GDP over the 1990–2006 period, due in part to one-off aid disbursements. Such volatility poses challenges for Dominica's fiscal and liquidity management. Under such circumstances, an MTEF would help assure greater predictability of government expenditure, contribute to internalizing the recurrent cost implications of grant-financed capital investment, and help reduce pressures for real effective exchange rate appreciation.

**Dominica: Grants and capital expenditure**
**(In percent of GDP)**

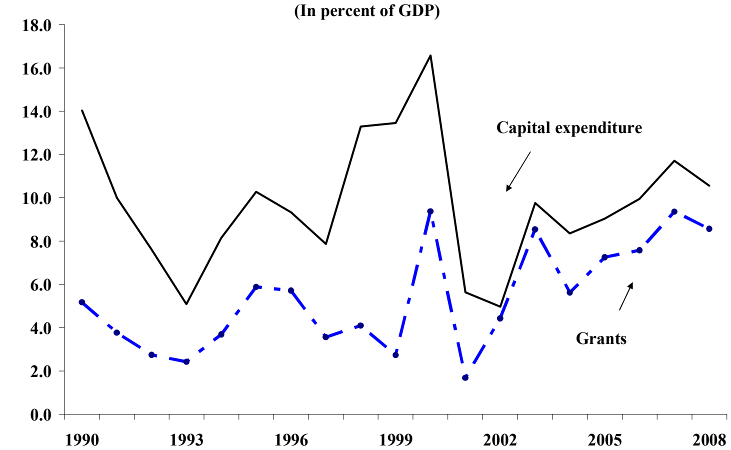
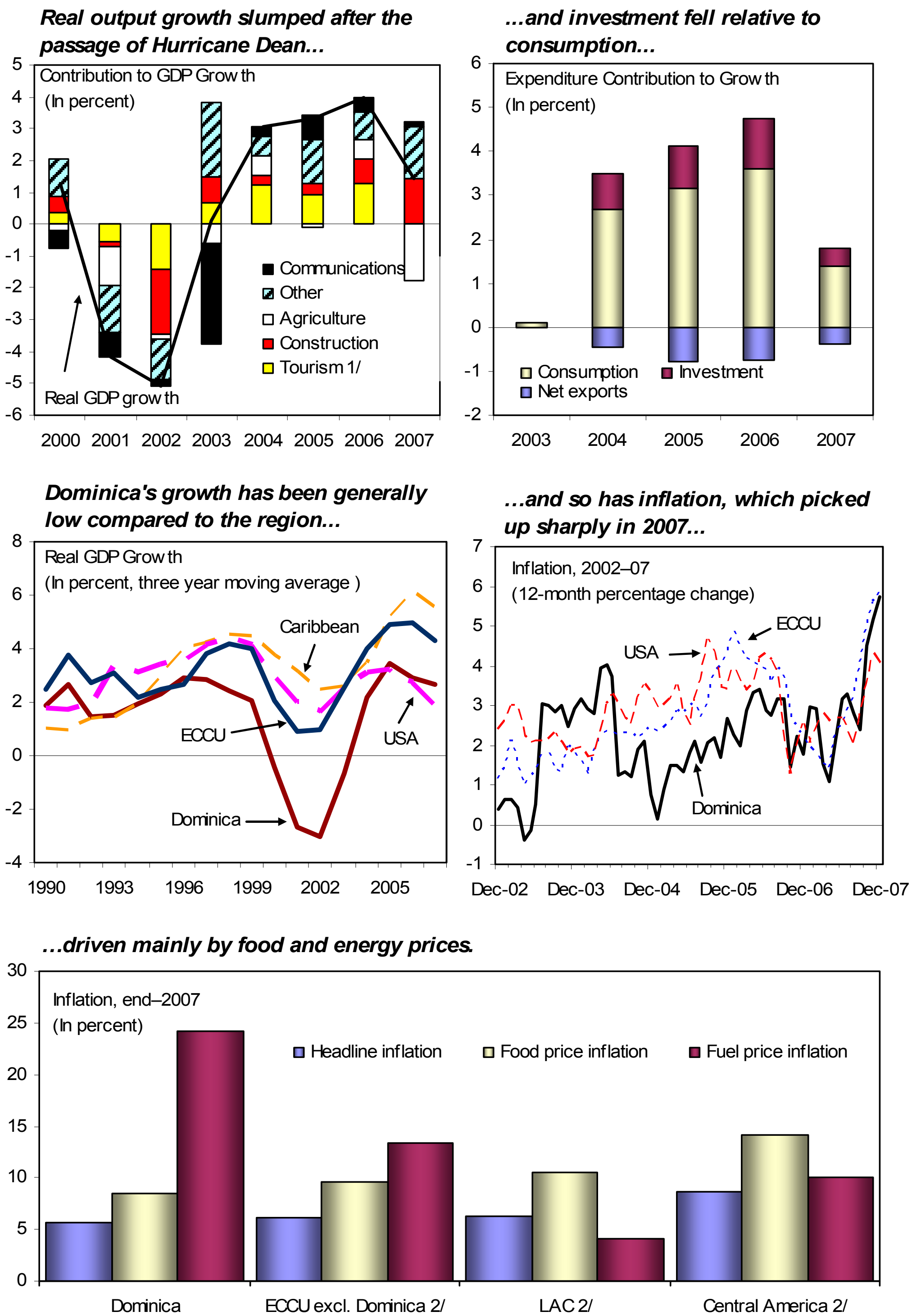


Figure 1. Dominica: Selected Indicators

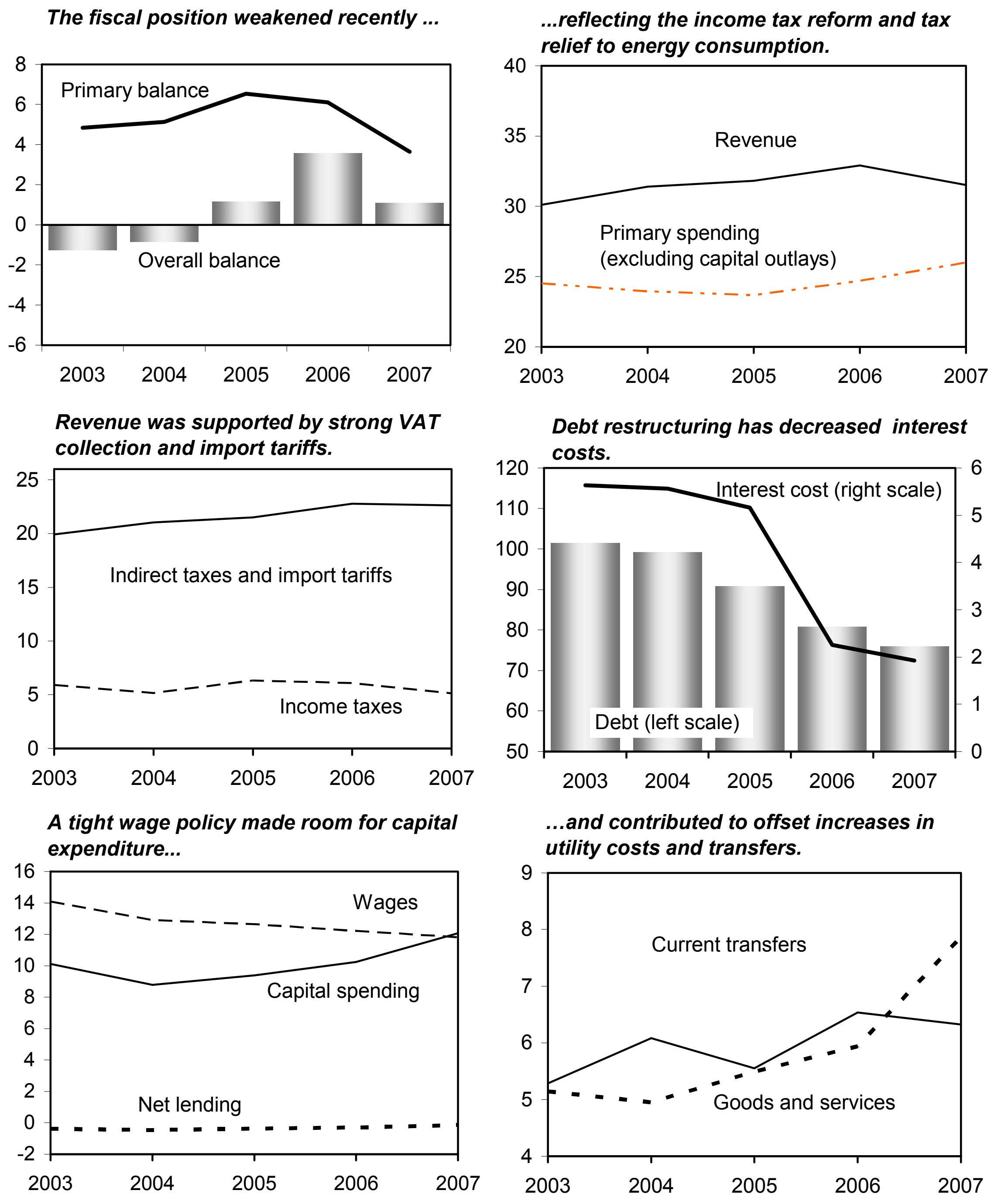



Sources: Dominica authorities; ECCB; WHD Staff Forecast Database; IMF, Information Notice System; and Fund staff estimates.

1/ Includes wholesale and retail trade, hotel and restaurant, air transport, and half of local transport.

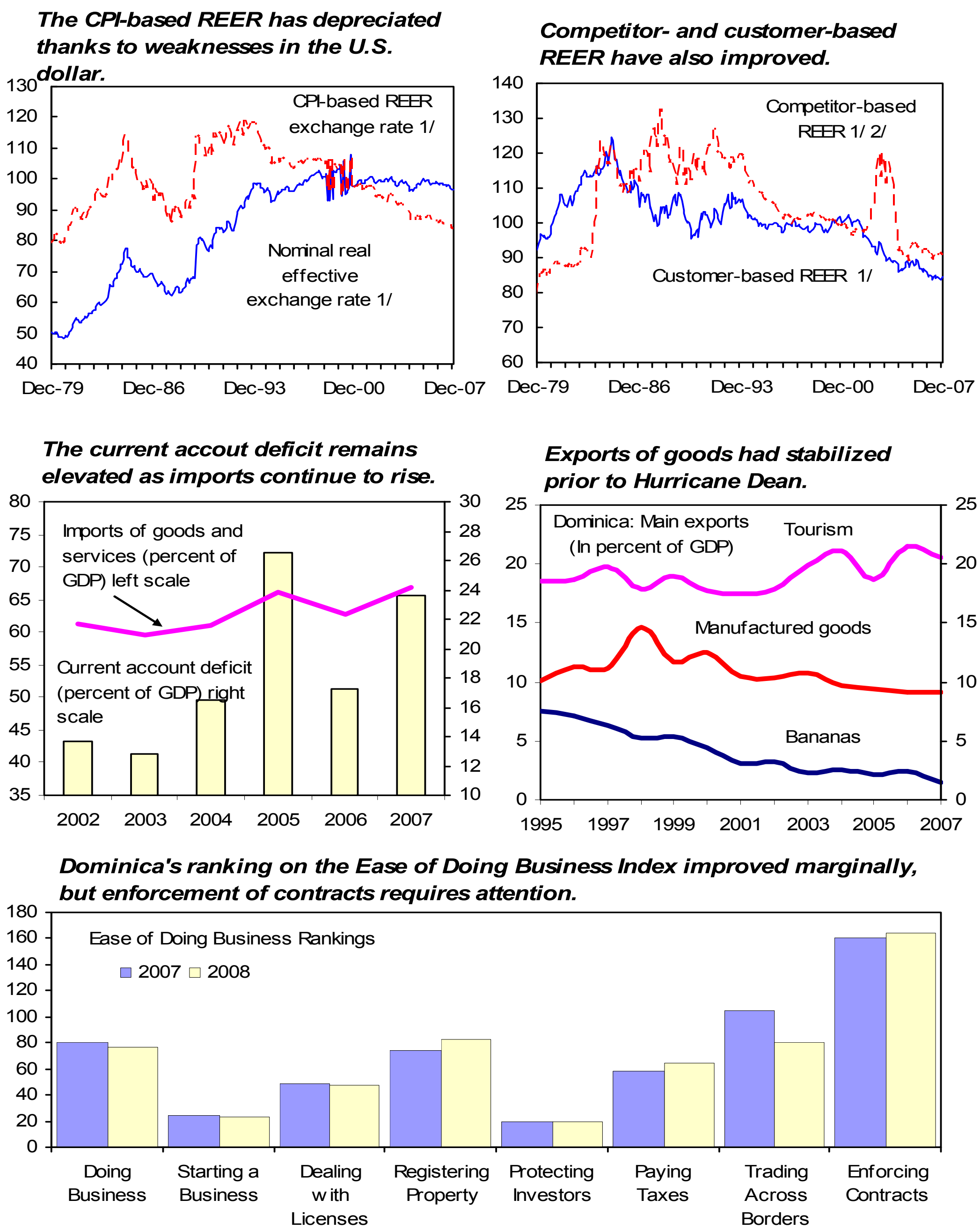
2/ Aggregates are PPP weighted averages.

Figure 2. Dominica: Fiscal Developments, 2003–07 1/
(In percent of GDP, central government)



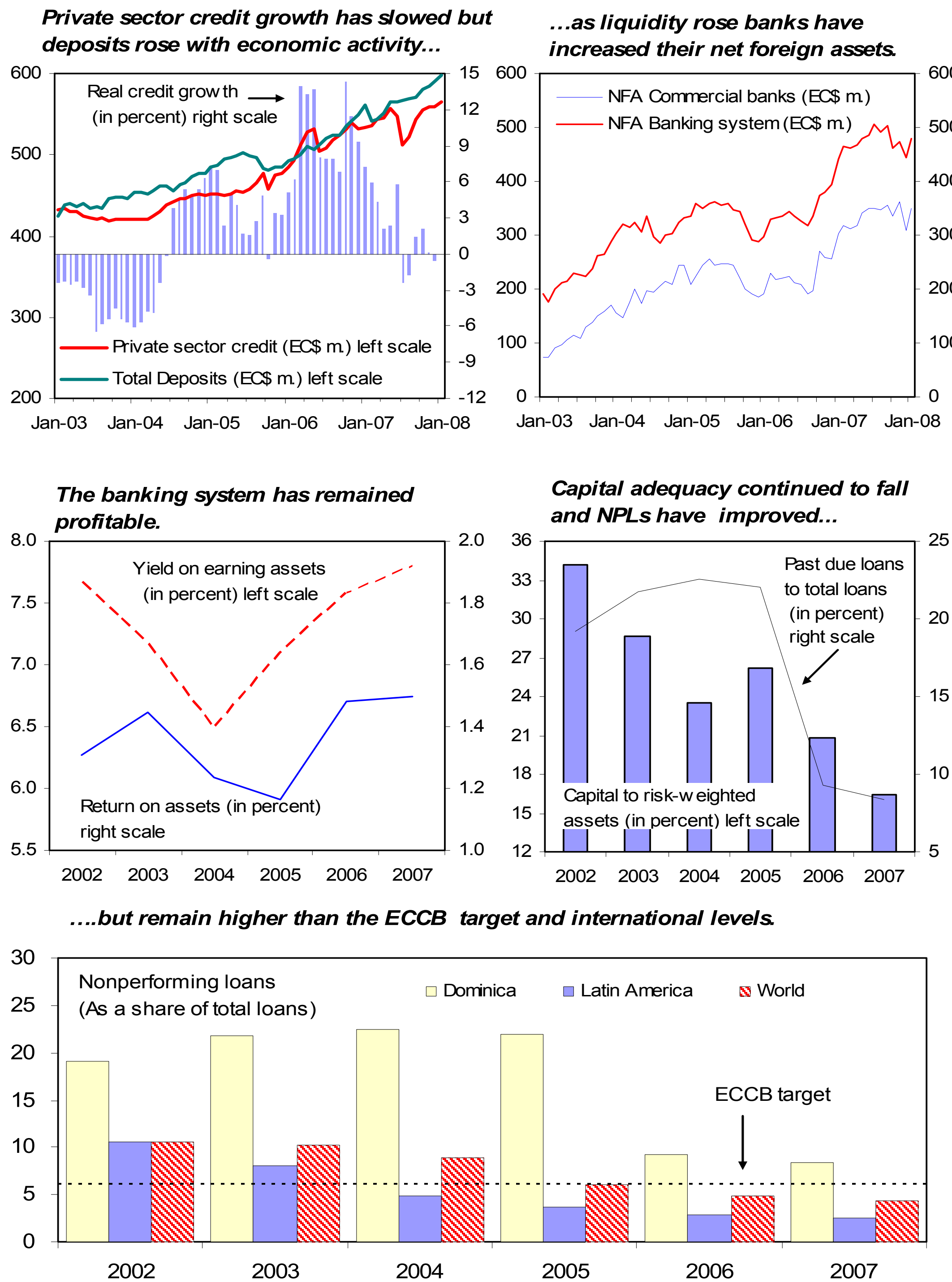

Sources: ECCB; and Fund staff estimates.
1/ Figures shown for a given calendar year relate to the fiscal year (July–June) beginning on July 1 of that year.

Figure 3. Dominica: External Competiveness Indicators




Sources: Dominica authorities; and IMF Information Notice System.
1/ An increase (decrease) indicates an appreciation (depreciation). Index 2000=100.
2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.

Figure 4. Dominica: Financial Sector Developments




Sources: ECCB; and Fund staff calculations.

Table 1. Dominica: Selected Economic and Social Indicators

| | | | | | Prog. 1/ | Prel. | Est. | Proj. | |
|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | | 2007 | 2008 | 2009 |
| | (Annual percentage change, unless otherwise specified) | | | | | | | | |
| **Output and prices** | | | | | | | | | |
| Real GDP (factor cost) | -5.1 | 0.1 | 3.0 | 3.3 | 4.1 | 4.0 | 1.5 | 2.6 | 2.8 |
| GDP deflator (factor cost) | -0.2 | 0.9 | 2.1 | 1.5 | 1.2 | 0.6 | 2.9 | 6.3 | 2.8 |
| Consumer prices (end of period) | 0.4 | 2.9 | 0.8 | 2.7 | 2.0 | 1.6 | 5.7 | 6.7 | 3.5 |
| **Money and credit 2/** | | | | | | | | | |
| Net foreign assets of the banking system | 19.3 | 17.3 | 8.1 | -8.0 | 5.1 | 17.6 | 7.2 | -3.7 | -1.8 |
| Net domestic assets of the banking system | -10.8 | -16.4 | -2.1 | 14.7 | 2.9 | -8.0 | 1.9 | 8.4 | 6.8 |
| *Of which* | | | | | | | | | |
| Net credit to the nonfinancial public sector | -5.4 | -4.3 | -5.1 | -1.2 | -2.0 | -10.8 | -7.0 | -0.3 | -0.3 |
| Credit to the private sector | -1.3 | -2.3 | 5.4 | 4.6 | 6.1 | 8.5 | 4.0 | 5.7 | 5.7 |
| Liabilities to the private sector (M2) | 8.5 | 1.0 | 5.9 | 6.7 | 8.0 | 9.6 | 9.0 | 4.7 | 5.1 |
| **Balance of payments** | | | | | | | | | |
| Merchandise exports, f.o.b. | -1.8 | -6.0 | 4.5 | 0.4 | -1.0 | -1.1 | -4.5 | -12.1 | 13.1 |
| Merchandise imports, f.o.b. | -11.5 | 9.3 | 14.2 | 14.2 | 0.5 | 0.6 | 11.6 | 13.4 | 3.1 |
| Real effective exchange rate | | | | | | | | | |
| (end of period, depreciation -) | -3.3 | -1.8 | -6.0 | 2.0 | … | -3.4 | -1.6 | … | |
| | (In millions of U.S. dollars) | | | | | | | | |
| Merchandise exports, f.o.b. | 43.6 | 41.0 | 42.8 | 43.0 | 42.6 | 42.5 | 40.6 | 35.7 | 40.4 |
| Merchandise imports, f.o.b. | 102.4 | 111.8 | 127.8 | 145.9 | 146.6 | 146.8 | 163.9 | 185.9 | 191.7 |
| Current account balance | -34.7 | -33.6 | -46.9 | -83.8 | -63.9 | -58.0 | -79.2 | -103.4 | -97.9 |
| Capital and financial account balance 3/ | 46.9 | 35.0 | 21.2 | 75.5 | 62.7 | 64.6 | 80.5 | 104.4 | 96.6 |
| Overall balance | 12.1 | 1.4 | -25.7 | -8.3 | -1.2 | 6.6 | 1.3 | 1.0 | -1.3 |
| | (In percent of GDP, unless otherwise specified) | | | | | | | | |
| **Central government 4/** | | | | | | | | | |
| Savings (including grants) | -0.5 | 8.4 | 7.6 | 10.0 | 11.5 | 13.5 | 14.0 | 11.1 | 10.9 |
| *Of which* | | | | | | | | | |
| Primary savings (before grants) | 0.6 | 5.6 | 7.8 | 8.1 | 5.5 | 8.3 | 5.5 | 4.4 | 4.7 |
| Grants 5/ | 4.4 | 8.5 | 5.9 | 7.2 | 8.5 | 7.6 | 10.5 | 8.5 | 8.3 |
| Capital expenditure and net lending | 5.0 | 9.7 | 8.8 | 9.0 | 10.1 | 10.0 | 13.0 | 10.5 | 10.0 |
| Primary balance 5/ | -1.6 | 5.3 | 3.5 | 6.9 | 4.0 | 6.3 | 3.0 | 2.4 | 3.0 |
| Overall balance 5/ | -5.3 | -1.3 | -0.9 | 1.2 | 1.6 | 3.7 | 1.1 | 0.6 | 1.0 |
| **Nonfinancial public sector debt (gross) 6/** | | | | | | | | | |
| Total | 125.8 | 128.3 | 110.5 | 103.6 | 101.4 | 102.0 | 94.3 | 86.3 | 81.2 |
| External | 79.1 | 82.9 | 76.8 | 71.1 | 70.8 | 70.0 | 65.0 | 59.3 | 55.3 |
| Domestic | 46.8 | 45.4 | 33.7 | 32.5 | 30.6 | 32.0 | 29.4 | 27.0 | 25.9 |
| **External sector** | | | | | | | | | |
| Current account balance | -13.6 | -12.8 | -16.5 | -28.0 | -21.3 | -18.3 | -23.6 | -28.4 | -25.5 |
| External public debt service 7/ | 11.8 | 19.5 | 20.7 | 17.5 | 13.1 | 13.0 | 7.2 | 11.5 | 11.3 |
| Amortization | 4.6 | 12.8 | 14.0 | 9.1 | 8.4 | 8.3 | 3.9 | 7.7 | 7.7 |
| Interest | 7.1 | 6.8 | 6.7 | 8.4 | 4.7 | 4.7 | 3.3 | 3.7 | 3.6 |
| **Memorandum items:** | | | | | | | | | |
| Nominal GDP at market prices (EC$ millions) | | | | | | | | | |
| Calendar year | 688.1 | 709.7 | 770.1 | 808.0 | 809.5 | 856.5 | 906.4 | 982.6 | 1,038.9 |
| Net international reserves | | | | | | | | | |
| (US$ millions; end-of-period) 8/ | 43.6 | 44.0 | 33.6 | 37.6 | 44.2 | 51.0 | 50.4 | 52.5 | 53.6 |

Sources: Dominica authorities; ECCB; and Fund staff estimates and projections.

1/ IMF Country Report No. 07/1, Seventh PRGF Review (November 2006).

2/ Percentage changes relative to the stock of M2 at the beginning of the period.

3/ Including errors and omissions.

4/ Figures shown for a given calendar year relate to the fiscal year (July–June) beginning on July 1 of that year.

5/ Does not include grants that were received but not spent, in line with IMF Country Report No. 05/384.

6/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

7/ In percent of exports of goods and nonfactor services. Data are on prerestructuring terms up to 2005, and on postrestructuring terms for creditors participating in the debt restructuring and on prerestructuring terms for nonparticipating creditors .

8/ Transactions with the IMF are included as transactions of the monetary authorities.

Table 2. Dominica: Summary Accounts of the Central Government 1/

| | 2002/03 | 2003/04 | 2004/05 | 2005/06 | Prog. 2/ 2006/07 | Prel. 2006/07 | Projections 2007/08 | Projections 2008/09 | Projections 2009/10 |
|---|---|---|---|---|---|---|---|---|---|
| | (In millions of Eastern Caribbean dollars) | | | | | | | | |
| **Total revenue and grants** | **224.1** | **285.9** | **292.0** | **325.0** | **320.1** | **357.5** | **397.2** | **387.2** | **402.4** |
| Current revenue | 191.9 | 221.8 | 245.7 | 263.2 | 248.1 | 289.8 | 297.5 | 300.0 | 313.3 |
| Tax revenue | 167.9 | 193.6 | 213.3 | 239.5 | 227.9 | 262.4 | 273.8 | 274.7 | 286.6 |
| Nontax revenue | 23.9 | 28.1 | 32.4 | 23.7 | 20.2 | 27.4 | 23.7 | 25.4 | 26.7 |
| Capital revenue | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.0 | 0.9 | 1.0 | 1.0 |
| Grants 3/ | 30.9 | 63.2 | 44.3 | 60.3 | 70.5 | 66.7 | 98.8 | 86.2 | 88.1 |
| **Total expenditure** | **261.3** | **295.2** | **298.7** | **315.3** | **306.8** | **325.3** | **386.6** | **380.6** | **391.5** |
| Current expenditure | 226.6 | 223.1 | 232.9 | 240.2 | 223.7 | 237.6 | 264.1 | 274.3 | 285.4 |
| Wages and salaries 4/ | 116.1 | 104.2 | 102.0 | 105.3 | 107.1 | 107.8 | 111.7 | 118.4 | 124.5 |
| Interest | 37.6 | 41.7 | 43.9 | 43.0 | 19.8 | 19.9 | 18.0 | 18.0 | 20.8 |
| Domestic | 17.8 | 18.8 | 20.4 | 20.2 | 7.7 | 7.1 | 8.7 | 8.3 | 10.0 |
| External | 19.8 | 22.9 | 23.5 | 22.8 | 12.1 | 12.7 | 9.3 | 9.7 | 10.8 |
| Others | 72.8 | 77.2 | 87.0 | 91.9 | 96.8 | 110.0 | 134.4 | 137.8 | 140.2 |
| Goods and services | 33.7 | 38.1 | 39.0 | 45.7 | 49.3 | 52.3 | 75.3 | 76.9 | 77.3 |
| Transfers and subsidies | 39.1 | 39.1 | 48.0 | 46.2 | 47.5 | 57.6 | 59.2 | 60.9 | 62.8 |
| Capital expenditure and net lending | 34.7 | 72.1 | 65.8 | 75.2 | 83.1 | 87.7 | 122.6 | 106.4 | 106.1 |
| Fixed investment | 35.0 | 75.0 | 69.4 | 78.2 | 85.1 | 90.4 | 123.9 | 107.8 | 107.5 |
| Net equity, net lending, and transfers | -0.3 | -2.8 | -3.6 | -3.0 | -2.0 | -2.7 | -1.3 | -1.4 | -1.4 |
| **Overall balance** | **-37.2** | **-9.3** | **-6.6** | **9.6** | **13.3** | **32.2** | **10.5** | **6.6** | **10.8** |
| Statistical discrepancy 5/ | -11.5 | 6.6 | -10.6 | 4.9 | 0.0 | 3.7 | 0.0 | 0.0 | 0.0 |
| **Financing** | **48.7** | **2.7** | **17.2** | **-14.6** | **-13.3** | **-35.9** | **-10.5** | **-6.6** | **-10.8** |
| Net foreign financing | 44.9 | 47.3 | 25.8 | 9.1 | 0.0 | -10.8 | -11.3 | -9.4 | -11.2 |
| Disbursements | 47.7 | 78.4 | 26.8 | 7.5 | 12.5 | 2.9 | 4.7 | 21.8 | 18.2 |
| Amortization | 6.5 | 37.2 | 43.2 | 20.4 | 12.5 | 13.1 | 15.9 | 31.2 | 29.3 |
| Other including rescheduling | 3.8 | 6.1 | 42.3 | 22.0 | 0.0 | -0.6 | 0.0 | 0.0 | 0.0 |
| Net domestic financing | 3.8 | -44.5 | -8.6 | -23.7 | -13.2 | -25.0 | -7.9 | 2.8 | 0.3 |
| Bank | -6.9 | -41.4 | -12.2 | -16.4 | -13.2 | -16.9 | -7.9 | 2.8 | 0.3 |
| Nonbank | 10.7 | -7.7 | -6.6 | -6.6 | 0.0 | -5.7 | 0.0 | 0.0 | 0.0 |
| Other including rescheduling | 0.0 | 4.6 | 10.2 | -0.7 | 0.0 | -2.4 | 0.0 | 0.0 | 0.0 |
| **Emergency support** | | | | | | | 8.6 | | |
| | (In percent of GDP) | | | | | | | | |
| **Total revenue and grants** | **32.1** | **38.6** | **38.8** | **39.0** | **38.7** | **40.6** | **42.0** | **38.3** | **37.9** |
| Current revenue | 27.5 | 30.0 | 32.7 | 31.6 | 30.0 | 32.9 | 31.5 | 29.7 | 29.5 |
| Tax revenue | 24.0 | 26.2 | 28.4 | 28.8 | 27.6 | 29.8 | 29.0 | 27.2 | 27.0 |
| Nontax revenue | 3.4 | 3.8 | 4.3 | 2.8 | 2.4 | 3.1 | 2.5 | 2.5 | 2.5 |
| Capital revenue | 0.2 | 0.1 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Grants 3/ | 4.4 | 8.5 | 5.9 | 7.2 | 8.5 | 7.6 | 10.5 | 8.5 | 8.3 |
| **Total expenditure** | **37.4** | **39.9** | **39.7** | **37.9** | **37.1** | **36.9** | **40.9** | **37.7** | **36.9** |
| Current expenditure | 32.4 | 30.2 | 31.0 | 28.9 | 27.0 | 27.0 | 28.0 | 27.1 | 26.9 |
| Wages and salaries 4/ | 16.6 | 14.1 | 13.6 | 12.7 | 12.9 | 12.2 | 11.8 | 11.7 | 11.7 |
| Interest | 5.4 | 5.6 | 5.8 | 5.2 | 2.4 | 2.3 | 1.9 | 1.8 | 2.0 |
| Domestic | 2.5 | 2.5 | 2.7 | 2.4 | 0.9 | 0.8 | 0.9 | 0.8 | 0.9 |
| External | 2.8 | 3.1 | 3.1 | 2.7 | 1.5 | 1.4 | 1.0 | 1.0 | 1.0 |
| Others | 10.4 | 10.4 | 11.6 | 11.0 | 11.7 | 12.5 | 14.2 | 13.6 | 13.2 |
| Goods and services | 4.8 | 5.1 | 5.2 | 5.5 | 6.0 | 5.9 | 8.0 | 7.6 | 7.3 |
| Transfers and subsidies | 5.6 | 5.3 | 6.4 | 5.6 | 5.7 | 6.5 | 6.3 | 6.0 | 5.9 |
| Capital expenditure and net lending | 5.0 | 9.7 | 8.8 | 9.0 | 10.1 | 10.0 | 13.0 | 10.5 | 10.0 |
| **Overall balance** | **-5.3** | **-1.3** | **-0.9** | **1.2** | **1.6** | **3.7** | **1.1** | **0.6** | **1.0** |
| Statistical discrepancy 5/ | -1.6 | 0.9 | -1.4 | 0.6 | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 |
| **Financing** | **7.0** | **0.4** | **2.3** | **-1.8** | **-1.6** | **-4.1** | **-1.1** | **-0.6** | **-1.0** |
| Net foreign financing | 6.4 | 6.4 | 3.4 | 1.1 | 0.0 | -1.2 | -1.2 | -0.9 | -1.1 |
| Disbursements | 6.8 | 10.6 | 3.6 | 0.9 | 1.5 | 0.3 | 0.5 | 2.2 | 1.7 |
| Amortization | 0.9 | 5.0 | 5.8 | 2.4 | 1.5 | 1.5 | 1.7 | 3.1 | 2.8 |
| Other including rescheduling | 0.5 | 0.8 | 5.6 | 2.6 | 0.0 | -0.1 | 0.0 | 0.0 | 0.0 |
| Net domestic financing | 0.5 | -6.0 | -1.1 | -2.8 | -1.6 | -2.8 | -0.8 | 0.3 | 0.0 |
| Bank | -1.0 | -5.6 | -1.6 | -2.0 | -1.6 | -1.9 | -0.8 | 0.3 | 0.0 |
| Nonbank | 1.5 | -1.0 | -0.9 | -0.8 | 0.0 | -0.6 | 0.0 | 0.0 | 0.0 |
| Other including rescheduling | 0.0 | 0.6 | 1.4 | -0.1 | 0.0 | -0.3 | 0.0 | 0.0 | 0.0 |
| **Emergency support** | | | | | | | 0.9 | | |
| **Memorandum items:** | | | | | | | | | |
| Capital expenditure less total grants | 0.6 | 1.6 | 3.3 | 2.2 | 1.8 | 2.7 | 2.7 | 2.1 | 1.8 |
| **Primary balance** | **-1.6** | **5.3** | **3.5** | **6.9** | **4.0** | **6.3** | **3.0** | **2.4** | **3.0** |
| Overall balance (excluding grants) | -9.7 | -9.8 | -6.8 | -6.1 | -6.9 | -3.9 | -9.3 | -7.9 | -7.3 |
| Nominal GDP at market prices (EC$ million) | 698.9 | 739.9 | 789.0 | 832.2 | 827.2 | 881.5 | 944.5 | 1,010.8 | 1,062.5 |

Sources: Ministry of Finance; and Fund staff estimates and projections.

1/ Fiscal years beginning July 1.

2/ IM F Country Report No. 07/1, Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review (November 2006).

3/ Does not include grants that were received but not spent, in line with IMF Country Report No. 05/384.

4/ 2005/06 includes a reclassification of EC$2.3 million (0.3 percent of GDP) to other expenditure, reflecting a transfer of teachers from the government payroll to that of the State College.

5/ Difference between identified financing and overall above-the-line balance .

## Table 3. Dominica: Balance of Payments

(In percent of GDP)

| | | | | | Prog. 1/ | Est. | Est. | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | 2006 | | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| **Current account balance** | **-34.7** | **-33.6** | **-46.9** | **-83.8** | **-63.9** | **-58.0** | **-79.2** | **-103.4** | **-97.9** | **-95.0** | **-92.4** | **-89.7** | **-86.6** |
| Trade balance | -58.7 | -70.8 | -84.9 | -102.9 | -104.0 | -104.3 | -123.3 | -150.2 | -151.3 | -154.5 | -158.2 | -162.2 | -166.1 |
| Exports (f.o.b.) | 43.6 | 41.0 | 42.8 | 43.0 | 42.6 | 42.5 | 40.6 | 35.7 | 40.4 | 41.9 | 43.5 | 45.3 | 47.1 |
| *Of which* | | | | | | | | | | | | | |
| Bananas | 8.1 | 5.9 | 7.2 | 6.4 | 7.5 | 7.5 | 5.1 | 5.5 | 8.0 | 7.6 | 7.3 | 6.9 | 6.6 |
| Imports (f.o.b.) | 102.4 | 111.8 | 127.8 | 145.9 | 146.6 | 146.8 | 163.9 | 185.9 | 191.7 | 196.4 | 201.7 | 207.4 | 213.2 |
| *Of which* | | | | | | | | | | | | | |
| Mineral fuels 2/ | 9.6 | 12.1 | 14.1 | 19.3 | 24.2 | 22.7 | 25.5 | 41.2 | 44.0 | 44.4 | 45.3 | 46.6 | 47.9 |
| Services balance | 26.0 | 32.8 | 40.0 | 31.5 | 43.7 | 45.5 | 39.3 | 41.2 | 47.5 | 52.6 | 58.0 | 63.6 | 69.6 |
| Exports of services | 79.7 | 77.3 | 86.3 | 83.5 | 96.2 | 97.9 | 100.1 | 107.5 | 115.8 | 122.7 | 130.0 | 137.6 | 145.7 |
| Travel | 45.7 | 52.3 | 60.1 | 55.7 | 66.9 | 68.4 | 68.8 | 73.7 | 80.1 | 85.3 | 90.9 | 96.7 | 103.0 |
| Other | 34.0 | 25.0 | 26.2 | 27.8 | 29.2 | 29.5 | 31.2 | 33.8 | 35.8 | 37.4 | 39.1 | 40.9 | 42.7 |
| Imports of services | 53.7 | 44.6 | 46.3 | 52.1 | 52.5 | 52.4 | 60.7 | 66.3 | 68.4 | 70.1 | 72.0 | 74.0 | 76.1 |
| Net income | -18.4 | -12.1 | -21.8 | -33.9 | -21.5 | -22.4 | -21.5 | -23.5 | -24.9 | -25.3 | -25.8 | -26.3 | -26.9 |
| Interest payments (public sector) 3/ | -8.8 | -8.0 | -8.6 | -10.7 | -6.5 | -6.5 | -4.7 | -5.3 | -5.7 | -5.2 | -4.8 | -4.3 | -3.9 |
| Net current transfers | 16.4 | 16.6 | 19.8 | 21.5 | 18.0 | 23.2 | 26.2 | 29.1 | 30.8 | 32.2 | 33.6 | 35.2 | 36.8 |
| Private | 12.6 | 12.4 | 18.4 | 19.5 | 18.0 | 22.2 | 26.2 | 29.1 | 30.8 | 32.2 | 33.6 | 35.2 | 36.8 |
| Public | 3.8 | 4.2 | 1.4 | 1.9 | 0.0 | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Capital and financial account** | **32.1** | **22.4** | **22.1** | **71.0** | **62.7** | **52.6** | **76.9** | **104.4** | **96.6** | **101.2** | **98.1** | **94.9** | **91.1** |
| Capital account | 20.5 | 18.8 | 26.8 | 20.9 | 25.5 | 43.0 | 46.5 | 34.5 | 33.6 | 35.5 | 34.5 | 35.2 | 36.8 |
| Public capital transfers | 17.7 | 15.9 | 23.8 | 17.8 | 22.5 | 39.8 | 43.1 | 30.8 | 29.8 | 31.5 | 30.3 | 30.8 | 32.2 |
| Private capital transfers | 2.8 | 2.9 | 3.0 | 3.1 | 3.0 | 3.2 | 3.4 | 3.6 | 3.8 | 4.0 | 4.2 | 4.4 | 4.6 |
| Financial account | 11.6 | 3.7 | -4.7 | 50.2 | 37.2 | 9.6 | 30.5 | 70.0 | 63.0 | 65.6 | 63.5 | 59.7 | 54.3 |
| Public sector | 25.8 | 8.9 | -0.7 | -3.8 | -7.1 | -9.0 | -4.3 | -4.6 | -7.6 | -9.1 | -10.6 | -9.8 | -9.9 |
| Budgetary flows (net) | 25.0 | 8.9 | -0.7 | -3.8 | -7.1 | -9.0 | -2.4 | -3.4 | -3.6 | -4.7 | -6.6 | -6.1 | -6.5 |
| Disbursements | 30.7 | 24.0 | 17.4 | 7.8 | 4.5 | 2.6 | 3.0 | 7.7 | 8.5 | 5.0 | 2.6 | 2.6 | 2.6 |
| Repayments 3/ | 5.7 | 15.1 | 18.1 | 11.5 | 11.7 | 11.7 | 5.4 | 11.1 | 12.0 | 9.7 | 9.2 | 8.6 | 9.1 |
| Nonbudgetary flows (net) | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -1.9 | -1.2 | -4.1 | -4.3 | -4.0 | -3.7 | -3.3 |
| Private sector | -14.1 | -5.2 | -4.0 | 53.9 | 44.3 | 18.7 | 34.8 | 74.5 | 70.6 | 74.7 | 74.1 | 69.6 | 64.2 |
| Direct investment | 11.4 | 19.8 | 18.1 | 18.0 | 24.0 | 25.4 | 26.9 | 29.1 | 30.8 | 32.2 | 33.6 | 35.2 | 36.8 |
| Commercial banks | -24.1 | -33.9 | -26.9 | 21.4 | -5.4 | -26.6 | -18.8 | 12.4 | 6.2 | 4.5 | 5.6 | 5.2 | 3.8 |
| Other private flows | -1.5 | 8.8 | 4.8 | 14.5 | 25.7 | 19.9 | 26.8 | 33.0 | 33.6 | 38.1 | 34.9 | 29.2 | 23.6 |
| **Errors and omissions** | **14.7** | **12.5** | **-0.9** | **4.5** | **0.0** | **12.0** | **3.6** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Overall balance** | **12.1** | **1.4** | **-25.7** | **-8.3** | **-1.2** | **6.6** | **1.3** | **1.0** | **-1.3** | **6.2** | **5.7** | **5.3** | **4.5** |
| **Overall financing** | **-12.1** | **-1.4** | **25.7** | **8.3** | **1.2** | **-6.6** | **-1.3** | **-1.0** | **1.3** | **-6.2** | **-5.7** | **-5.3** | **-4.5** |
| Net international reserves | -12.1 | -1.4 | 10.3 | -4.0 | -6.6 | -14.3 | 0.6 | -2.1 | -1.1 | -2.7 | -2.8 | -2.9 | -3.1 |
| Gross reserves (increase = -) | -15.1 | -6.2 | 9.4 | -7.2 | -8.3 | -16.1 | 3.1 | -5.4 | -0.3 | -1.6 | 0.2 | 1.0 | -0.3 |
| IMF reserve liabilities (purchase = +) | 3.0 | 4.8 | 0.9 | 3.2 | 1.8 | 1.8 | -2.5 | 3.2 | -0.8 | -1.1 | -3.0 | -4.0 | -2.7 |
| Exceptional financing 4/ | 0.0 | 0.0 | 15.4 | 12.3 | 7.7 | 7.7 | -1.9 | 1.1 | 2.4 | -3.5 | -2.9 | -2.3 | -1.4 |
| **Memorandum items:** | | | | | | | | | | | | | |
| Current account balance | -13.6 | -12.8 | -16.5 | -28.0 | -21.3 | -18.3 | -23.6 | -28.4 | -25.5 | -23.6 | -22.0 | -20.4 | -18.8 |
| Current account balance including net capital transfers | -5.6 | -5.6 | -7.1 | -21.0 | -12.8 | -4.7 | -9.8 | -18.9 | -16.7 | -14.8 | -13.7 | -12.4 | -10.8 |
| External public debt service (as a percent of exports of goods and nonfactor services) | | | | | | | | | | | | | |
| External public debt service ratio 5/ | 11.8 | 19.5 | 20.7 | 17.5 | 13.1 | 13.0 | 7.2 | 11.5 | 11.3 | 9.1 | 8.0 | 7.1 | 6.7 |
| Amortization | 4.6 | 12.8 | 14.0 | 9.1 | 8.4 | 8.3 | 3.9 | 7.7 | 7.7 | 5.9 | 5.3 | 4.7 | 4.7 |
| Interest | 7.1 | 6.8 | 6.7 | 8.4 | 4.7 | 4.7 | 3.3 | 3.7 | 3.6 | 3.2 | 2.7 | 2.4 | 2.0 |
| External public debt | 79.1 | 82.9 | 76.8 | 71.1 | 70.8 | 70.0 | 65.0 | 59.3 | 55.3 | 52.0 | 48.2 | 44.8 | 42.0 |

Sources: Dominica authorities; ECCB; and Fund staff estimates and projections.

1/ IMF Country Report No. 07/1, Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review (November 2006).

2/ Projections based on WEO's baseline oil prices projections of February 2007.

3/ Data are on prerestructuring terms up to 2005, and on postrestructuring terms for creditors participating in the debt restructuring and on prerestructuring terms for nonparticipating creditors.

4/ Refers to financing associated with Dominica's debt restructuring.

5/ As a percent of exports of goods and services. For 2005 it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

Table 4. Dominica: Summary Accounts of the Banking System

| | 2002 | 2003 | 2004 | 2005 | Prog. 1/ 2006 | Est. 2006 | Est. 2007 | Proj. 2008 | Proj. 2009 |
|---|---|---|---|---|---|---|---|---|---|
| (In millions of Eastern Caribbean dollars, end of period) | | | | | | | | | |
| I. Consolidated Banking System and Monetary Authorities | | | | | | | | | |
| **Net foreign assets** | **193.8** | **289.0** | **333.7** | **286.8** | **319.0** | **394.8** | **444.0** | **416.3** | **402.4** |
| **Net domestic assets** | **355.4** | **265.5** | **253.6** | **340.2** | **358.1** | **292.3** | **305.1** | **368.2** | **421.8** |
| Net credit to the nonfinancial public sector | 74.8 | 51.1 | 23.0 | 15.8 | 14.0 | -46.0 | -94.2 | -96.2 | -98.8 |
| *Of which* | | | | | | | | | |
| Central government | 64.2 | 55.9 | 45.6 | 67.3 | 52.6 | 12.0 | -20.9 | -19.1 | -17.7 |
| Net credit to nonbank financial institutions | -46.6 | -81.8 | -75.9 | -59.9 | -62.5 | -68.6 | -82.0 | -82.4 | -82.4 |
| Credit to the private sector | 433.2 | 420.6 | 450.7 | 477.8 | 516.1 | 531.2 | 558.9 | 601.6 | 646.6 |
| Other items (net) 2/ | -106.1 | -124.5 | -144.2 | -93.6 | -109.4 | -124.3 | -77.6 | -54.8 | -43.6 |
| **Broad money 3/** | **549.2** | **554.5** | **587.4** | **627.0** | **677.1** | **687.2** | **749.1** | **784.5** | **824.3** |
| II. Operations of the Monetary Authorities | | | | | | | | | |
| **Imputed net international reserves** | **117.8** | **118.7** | **90.8** | **101.5** | **119.3** | **137.8** | **136.0** | **141.8** | **144.7** |
| **Net domestic assets** | **12.1** | **7.0** | **26.0** | **20.8** | **15.4** | **-24.9** | **-17.7** | **-7.4** | **-11.9** |
| **Monetary base** | **129.9** | **125.7** | **116.8** | **122.3** | **134.6** | **112.9** | **118.3** | **134.4** | **132.8** |
| Currency in circulation | 35.5 | 34.2 | 37.6 | 39.0 | 42.4 | 45.4 | 49.0 | 51.3 | 54.0 |
| Commercial bank reserves | 94.4 | 91.5 | 79.2 | 83.4 | 92.2 | 67.5 | 69.3 | 83.1 | 78.8 |
| III. Commercial Banks | | | | | | | | | |
| **Net foreign assets** | **79.0** | **170.4** | **242.9** | **185.3** | **199.8** | **257.1** | **307.9** | **274.5** | **257.7** |
| **Net claims on ECCB** | **98.2** | **85.6** | **73.8** | **77.7** | **85.9** | **99.6** | **148.7** | **178.4** | **169.3** |
| **Net domestic assets** | **336.6** | **264.3** | **233.1** | **325.1** | **349.0** | **285.1** | **243.4** | **280.3** | **343.3** |
| Net credit to the nonfinancial public sector | 53.4 | 26.3 | -10.8 | -23.5 | -20.8 | -81.2 | -119.8 | -134.5 | -134.8 |
| Net credit to nonbank financial institutions | -46.6 | -81.8 | -75.9 | -59.9 | -62.5 | -68.6 | -82.0 | -82.4 | -82.4 |
| Credit to the private sector | 433.2 | 420.6 | 450.7 | 477.8 | 516.1 | 531.2 | 558.9 | 601.6 | 646.6 |
| Other (net) | -103.5 | -100.7 | -130.9 | -69.4 | -83.7 | -96.3 | -113.7 | -104.5 | -86.1 |
| **Private sector deposits 3/** | **513.7** | **520.3** | **549.8** | **588.0** | **634.7** | **641.7** | **700.0** | **733.1** | **770.3** |
| IV. Consolidated Banking System | | | | | | | | | |
| (Annual percentage change) | | | | | | | | | |
| Credit to the private sector | -1.4 | -2.9 | 7.1 | 6.0 | 8.0 | 11.2 | 5.2 | 7.7 | 7.5 |
| Private sector deposits | 7.6 | 1.3 | 5.7 | 7.0 | 7.9 | 9.1 | 9.1 | 4.7 | 5.1 |
| Broad money | 8.5 | 1.0 | 5.9 | 6.7 | 8.0 | 9.6 | 9.0 | 4.7 | 5.1 |
| (Contributions to liquidity growth) 4/ | | | | | | | | | |
| **Net foreign assets** | **19.3** | **17.3** | **8.1** | **-8.0** | **5.1** | **17.6** | **7.2** | **-3.7** | **-1.8** |
| **Net domestic assets** | **-10.8** | **-16.4** | **-2.1** | **14.7** | **2.9** | **-8.0** | **1.9** | **8.4** | **6.8** |
| Net credit to the nonfinancial public sector | -5.4 | -4.3 | -5.1 | -1.2 | -2.0 | -10.8 | -7.0 | -0.3 | -0.3 |
| Net credit to nonbank financial institutions | -1.8 | -6.4 | 1.1 | 3.0 | -0.4 | -0.9 | 0.0 | 0.0 | 0.0 |
| Credit to the private sector | -1.3 | -2.3 | 5.4 | 4.6 | 6.1 | 8.5 | 4.0 | 5.7 | 5.7 |
| Other items (net) | | | | | | | | | |
| **Memorandum items:** | | | | | | | | | |
| Interest rates 5/ | | | | | | | | | |
| Time deposit rate | 5.6 | 6.0 | 4.7 | 4.8 | 5.1 | 5.1 | … | … | … |
| Weighted average lending rate | ... | 11.9 | 9.8 | 10.0 | 9.2 | 9.2 | … | … | … |

Sources: ECCB; and Fund staff estimates and projections.

1/Program figures as shown in the Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review (November 2006). Transactions with the IMF are included as transacations with the monetary authorities.

2/ Includes interbank float.

3/ Including deposits denominated in U.S. dollars.

4/ Percentage changes relative to broad money at the beginning of the period.

5/ Commercial banks; end-of-period rates for local currency, percent per annum.

Table 5. Dominica: Financial and External Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | Prel. 2007 |
|---|---|---|---|---|---|---|---|
| **Financial indicators** | | | | | | | |
| Broad money (percent change, 12-month basis) | 7.4 | 8.5 | 1.0 | 5.9 | 6.7 | 9.6 | 9.0 |
| Private sector credit (percent change, 12-month basis) | -3.2 | -1.4 | -2.9 | 7.1 | 6.0 | 11.2 | 5.2 |
| Unsatisfactory assets/total loans | 22.6 | 19.2 | 21.7 | 22.5 | 22.0 | 9.3 | 8.4 |
| Provision for loan losses/total loans | 6.8 | 7.0 | 7.6 | 7.3 | 5.9 | 2.4 | 2.2 |
| Total capital/risk weighted assets (locally incorporated banks) | 35.4 | 34.1 | 28.7 | 23.5 | 26.2 | 20.8 | 16.4 |
| Tier 1 capital/risk weighted assets (locally incorporated banks) | 34.1 | 32.9 | 28.1 | 23.0 | 25.8 | 19.1 | 16.4 |
| Net profit before taxes/average assets | 3.0 | 1.3 | 1.4 | 1.2 | 1.2 | 1.5 | 1.5 |
| Three-month treasury bill rate (end of period) | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 |
| Three-month treasury bill rate (real) 1/ | 5.3 | 6.0 | 3.5 | 5.6 | 3.7 | 4.8 | 0.7 |
| **External indicators** | | | | | | | |
| Exports of goods and nonfactor services (percent change, 12-month basis in U.S. dollars) | -16.9 | 2.7 | -4.0 | 9.2 | -2.0 | 10.9 | 0.2 |
| Imports of goods and nonfactor services (percent change, 12-month basis in U.S. dollars) | -9.5 | -5.8 | 0.2 | 11.3 | 13.7 | 0.6 | 12.8 |
| Current account balance | -18.7 | -13.6 | -12.8 | -16.5 | -28.0 | -18.3 | -23.6 |
| Capital and financial account balance 2/ | 19.2 | 18.4 | 13.3 | 7.4 | 25.2 | 20.4 | 24.0 |
| Net official reserves (in millions of U.S. dollars, end of period) 3/ | 30.4 | 43.6 | 44.0 | 33.6 | 37.6 | 51.0 | 50.4 |
| Net official reserves to broad money (percent, end of period) 3/ | 16.2 | 21.4 | 21.4 | 15.5 | 16.2 | 20.1 | 18.2 |
| Net official reserves to imports of goods and services (percent, end of period) | 18.3 | 28.0 | 28.1 | 19.3 | 19.0 | 25.6 | 22.4 |
| Net official reserves to short-term external debt (percent, end of period) 4/ | 533.5 | 288.9 | 242.8 | 291.4 | 322.6 | 940.0 | 454.2 |
| Public sector external debt 5/ | 67.5 | 79.1 | 82.9 | 76.8 | 71.1 | 70.0 | 65.0 |
| External debt (end of period) to exports of goods and nonfactor services (percent) 5/ | 147.1 | 163.4 | 184.2 | 169.5 | 168.0 | 158.1 | 155.0 |
| External interest payments to exports of goods and nonfactor services (percent) 5/ | 6.4 | 7.1 | 6.8 | 6.7 | 8.4 | 4.7 | 3.3 |
| External amortization payments to exports of goods and nonfactor services (percent) 5/ | 4.5 | 4.6 | 12.8 | 14.0 | 9.1 | 8.3 | 3.9 |
| Exchange rate (per U.S. dollar, end of period) | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| REER appreciation (end of period; depreciation -) | 0.8 | -3.3 | -1.8 | -6.0 | 2.0 | -3.4 | ... |

Sources: ECCB; and Fund staff estimates and projections.

1/ Treasury bill rate adjusted by end-of-period inflation.
2/ Includes errors and omissions.
3/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.
4/ Debt at remaining maturity (measured as public sector external amortization due the next year).
5/ Refers to public sector debt.

Table 6. Dominica: Medium-Term Macroeconomic Framework

| | 2002 | 2003 | 2004 | 2005 | Prog. 1/ 2006 | Actual 2006 | Est. 2007 | Projections 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | (Annual percent change) | | | | | | | | | |
| **National income and prices** | | | | | | | | | | | | | |
| GDP at constant (1990) prices | -5.1 | 0.1 | 3.0 | 3.3 | 4.1 | 4.0 | 1.5 | 2.6 | 2.8 | 3.0 | 3.0 | 3.0 | 3.0 |
| Implicit GDP deflator (factor cost) | 0.4 | 2.9 | 0.8 | 2.7 | 1.2 | 1.6 | 5.7 | 6.7 | 2.8 | 1.5 | 1.5 | 1.5 | 1.5 |
| | | | | (In percent of GDP, unless otherwise specified) | | | | | | | | | |
| **Savings and investment** | | | | | | | | | | | | | |
| **Gross domestic investment** | **20.5** | **24.9** | **27.2** | **28.6** | **26.6** | **28.7** | **26.1** | **29.4** | **27.5** | **27.5** | **27.5** | **27.5** | **27.5** |
| Public | 7.4 | 9.1 | 11.5 | 10.8 | 10.6 | 11.0 | 12.7 | 12.9 | 11.4 | 10.8 | 10.4 | 10.3 | 10.3 |
| *Of which* | | | | | | | | | | | | | |
| Central government | 5.5 | 7.6 | 9.5 | 9.1 | 10.4 | 9.8 | 11.7 | 11.9 | 10.4 | 9.8 | 9.4 | 9.3 | 9.3 |
| *Of which* | | | | | | | | | | | | | |
| Other public sector | 1.9 | 1.6 | 2.1 | 1.7 | 0.3 | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Private | 13.1 | 15.7 | 15.6 | 17.7 | 16.0 | 17.7 | 13.4 | 16.5 | 16.1 | 16.7 | 17.1 | 17.2 | 17.2 |
| **Gross national saving 2/** | **15.0** | **19.3** | **20.1** | **7.5** | **13.8** | **24.0** | **16.3** | **10.5** | **10.8** | **12.7** | **13.8** | **15.1** | **16.7** |
| Public | 0.1 | 5.9 | 10.5 | 11.0 | 10.2 | 13.4 | 14.7 | 13.5 | 12.0 | 11.8 | 11.6 | 11.8 | 11.9 |
| *Of which* | | | | | | | | | | | | | |
| Central government | -1.4 | 4.3 | 8.4 | 9.3 | 9.9 | 12.2 | 13.7 | 12.5 | 11.0 | 10.8 | 10.6 | 10.8 | 10.9 |
| *Of which* | | | | | | | | | | | | | |
| Other public sector | 1.5 | 1.6 | 2.0 | 1.7 | 0.3 | 1.2 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Private | 14.9 | 13.4 | 9.7 | -3.5 | 3.6 | 10.6 | 1.6 | -3.1 | -1.2 | 0.9 | 2.1 | 3.3 | 4.7 |
| **Savings-investment balance** | **-5.6** | **-5.6** | **-7.1** | **-21.0** | **-12.8** | **-4.7** | **-9.8** | **-18.9** | **-16.7** | **-14.8** | **-13.7** | **-12.4** | **-10.8** |
| Public savings investment | -7.3 | -3.3 | -1.1 | 0.2 | -0.4 | 2.4 | 2.1 | 0.6 | 0.6 | 1.0 | 1.3 | 1.5 | 1.7 |
| Private savings investment | 1.7 | -2.3 | -6.0 | -21.2 | -12.4 | -7.2 | -11.8 | -19.6 | -17.3 | -15.8 | -15.0 | -13.9 | -12.5 |
| **Central government finances 3/** | | | | | | | | | | | | | |
| Current revenue | 27.5 | 30.0 | 31.1 | 31.6 | 30.0 | 32.9 | 31.5 | 29.7 | 29.5 | 29.5 | 29.5 | 29.5 | 29.5 |
| Capital revenue | 0.2 | 0.1 | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Current expenditure | 32.4 | 30.2 | 29.5 | 28.9 | 27.0 | 27.0 | 28.0 | 27.1 | 26.9 | 26.3 | 25.9 | 25.7 | 25.6 |
| Overall balance (including grants) 4/ | -5.3 | -1.3 | -0.8 | 1.2 | 1.6 | 3.7 | 1.1 | 0.6 | 1.0 | 1.3 | 1.5 | 1.7 | 1.8 |
| Grants | 4.4 | 8.5 | 5.6 | 7.2 | 8.5 | 7.6 | 10.5 | 8.5 | 8.3 | 7.5 | 7.1 | 7.1 | 7.1 |
| Capital spending | 5.0 | 10.1 | 8.8 | 9.4 | 10.3 | 10.3 | 13.1 | 10.7 | 10.1 | 9.4 | 9.3 | 9.2 | 9.3 |
| Primary balance | -1.6 | 5.3 | 3.4 | 6.9 | 4.0 | 6.3 | 3.0 | 2.4 | 3.0 | 3.0 | 3.0 | 3.1 | 3.0 |
| **Memorandum items:** | | | | | | | | | | | | | |
| Nonfinancial public sector debt 5/ | 125.8 | 128.3 | 110.5 | 103.6 | 101.4 | 102.0 | 94.3 | 86.3 | 81.2 | 77.2 | 73.3 | 69.4 | 65.6 |
| External | 79.1 | 82.9 | 76.8 | 71.1 | 70.8 | 70.0 | 65.0 | 59.3 | 55.3 | 52.0 | 48.2 | 44.8 | 42.0 |
| Domestic | 46.8 | 45.4 | 33.7 | 32.5 | 30.6 | 32.0 | 29.4 | 27.0 | 25.9 | 25.2 | 25.0 | 24.5 | 23.6 |

Sources: Dominica authorities; ECCB; and Fund staff estimates and projections.

1/ Program figures as shown in the Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review (November 2006).

2/ Calculated using the external current account including net external capital transfers.

3/ Calculated on a fiscal year basis, with the figure shown relating to the fiscal year beginning in July.

4/ Does not include grants that were received but not spent, in line with IMF Country Report No. 05/384.

5/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

INTERNATIONAL MONETARY FUND

DOMINICA

**Staff Report for the 2008 Article IV Consultation—Informational Annex**

Prepared by the Western Hemisphere Department

July 11, 2008

Contents Page

## Appendix I. Dominica: Fund Relations

(As of May 31, 2008)

**I. Membership Status** Joined 12/12/78; Article VIII

| **II. General Resources Account** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Quota | 8.20 | 100.00 |
| Fund holdings of currency | 10.24 | 124.90 |
| Reserve position in Fund | 0.01 | 0.11 |

| **III. SDR Department** | **SDR Million** | **Percent of Allocation** |
|---|---|---|
| Net cumulative allocation | 0.59 | 100.00 |
| Holdings | 0.03 | 5.30 |

| **IV. Outstanding Purchases and Loans:** | **SDR Million** | **Percent of Quota** |
|---|---|---|
| Emergency Assistance | 2.05 | 25.00 |
| PRGF Arrangements | 7.69 | 93.76 |

**V. Latest Financial Arrangements:**

| **Type** | **Approval Date** | **Expiration Date** | **Amount Approved** | **Amount Drawn** |
|---|---|---|---|---|
| | | | **(SDR Million)** | |
| PRGF | 12/29/03 | 12/28/06 | 7.69 | 7.69 |
| Stand-by | 08/28/02 | 01/02/04 | 2.97 | 2.97 |
| SAF | 11/26/86 | 11/25/89 | 2.80 | 2.80 |
| Stand-by | 07/18/84 | 07/17/85 | 1.40 | 0.97 |
| EFF | 02/06/81 | 02/05/84 | 8.55 | 8.55 |

**Projected Payments to the Fund on an Obligation Basis (SDR Million)[1]:**

| | | | **Forthcoming** | | |
|---|---|---|---|---|---|
| | **2008** | **2009** | **2010** | **2011** | **2012** |
| Principal | | 0.50 | 0.72 | 1.84 | 2.56 |
| Charges/Interest | 0.11 | 013 | 0.13 | 0.12 | 0.07 |
| **Total** | **0.11** | **0.64** | **0.85** | **1.96** | **2.64** |

[1] Based on existing use of resources and present holdings of SDRs.

**VI.** **Exchange rate arrangement:** Dominica is a member of the Eastern Caribbean Currency Union, which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.70 per U.S. dollar. Dominica has accepted the obligations of Article VIII, Sections 2, 3 and 4 and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

**Safeguards Assessment**: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which Dominica is a member, is subject to a full safeguards assessment under a four year cycle. The most recent assessment was completed in July 2007, and concluded that the ECCB continues to have appropriate control mechanisms in place, which have strengthened since the first safeguards assessment completed in 2003. ECCB management places emphasis on good governance and sound controls, and has enhanced the bank's transparency and accountability since the last assessment, including the publications of financial statements that comply with International Financial Reporting Standards. The assessment made some recommendations to sustain the ECCB's safeguards framework going forward.

**VII.** **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on July 16, 2007; the relevant documents are IMF Country Report No. 07/322 and IMF Country Report No. 05/324. Dominica is on a 12-month cycle.

**IX.** **Technical assistance:** In January 2007 an **FAD** and **Caribbean Regional Technical Assistance Center (CARTAC)** mission provided technical assistance on revenue administration and tax policy. In 2006, an **MCM mission** provided technical assistance in drafting an action plan for AID Bank. In 2005, an **MCM mission** provided technical assistance in strengthening the supervisory framework for AML/CFT in the nonbank sector. **FAD missions** have provided technical assistance on tax policy and administration, and social security reform. The most recent missions include: pension reform options (2005); TA on fiscal responsibility laws (2004); VAT implementation (1999); urban property taxation (1997); and tax policy and administration, and expenditure control (1995). Technical assistance from MFD and FAD has complemented the assistance that has been provided by the **CARTAC** in Barbados. **LEG** has been providing assistance with the drafting and interpretation of the VAT legislation.

**X.** **FSAP:** A joint IMF/World Bank team performed an assessment of the financial sector of the member states of the ECCB, in two missions—September 1–19 and October 20–31, 2003. The principal objective of the missions was to assist the authorities in assessing the development needs and opportunities for the financial sector and identifying potential vulnerabilities of financial institutions and markets to macroeconomic shocks, as well as the risks to macroeconomic stability from weaknesses and shortcomings in the financial sector. A detailed assessment of the AML/CFT regimes of Dominica was conducted in September 2003 by the Caribbean Financial Action Task Force (CFATF). The Financial System Stability Assessment (FSSA) was discussed by the Executive Board on May 5, 2004, and subsequently published on the IMF's external website, including the Report on the Observance of Standards and Codes (ROSC) on Banking Supervision.

## Appendix II. Dominica: Relations with the World Bank Group

(As of April 30, 2008)

In September 2005, the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS) for FY06-09 was presented to the Board of the World Bank. The strategy supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consisted of about US$51.3 million in IDA resources for the four OECS IDA eligible countries. An OECS CAS Progress Report was presented to the Board in June 2008.

### A. Projects

There are currently four active World Bank projects in Dominica for a net commitment of approximately US$8.89 million:

**The OECS E-Government for Regional Integration Program** was approved by the Board on May 27, 2008. This project consists of a US$2.4 million loan to Dominica and is designed to promote the efficiency, quality, and transparency of public services through the delivery of regionally integrated e-government applications that take advantage of economies of scale. The program is structured in phases. Phase 1 focuses on cross-sectoral e-government issues, as well as on specific applications in the public finance area (including Public Financial Management or PFM, tax, customs and procurement), and also includes an e-government in health pilot project (possibly together with preparatory and complementary activities in other social and productive sectors). Subsequent phases of the program are expected to deepen the assistance provided under Phase 1, while expanding the program to cover other sectors, in particular, health, education, agriculture, tourism, postal, among others that may emerge during the early stages of implementation of Phase 1.

**The Growth and Social Protection Technical Assistance Project** was approved in February 2007 for US$1.45 million. The objectives of the project are to enhance the capacity of the public sector to implement focused reforms geared at improving the public sector delivery of services as well as creating the institutional and policy framework to facilitate private sector-led growth. The project has the following five components: Component (1) will focus on making the public sector more efficient and effective through support to implement the government's public sector modernization strategy; Component (2) will target improvement of the investment climate through the strengthening of the institutional and regulatory framework for attracting investment into Dominica; Component (3) will focus on reforming the regulatory framework for the energy sector and support the creation of a framework for the development of alternative sources of energy; Component (4) addresses the improvement of the existing social safety net programs; Component (5) deals with the management of the overall project. The total project cost is US$2.6 million, of which the World Bank is providing US$1.45 million and the EU is providing US$0.58 million of grant financing.

**The Caribbean Catastrophe Risk Insurance Project** was approved in January 2007. This is the world's first ever multi-country catastrophe insurance pool. The bank has approved a US$4.5 million IDA credit for Dominica to finance their contribution to the fund over three years. The Facility will enable governments to purchase catastrophe insurance coverage against adverse natural events, such as a major earthquake or hurricane. The CCRIF allows participating countries to pool their country-specific risks into one, better-diversified portfolio, resulting in a substantial reduction in the premium cost of 45–50 percent.

The **OECS Telecommunications and ICT Development Project** was approved in September, 2005 for US$541.6 thousand and aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the OECS. The project has the following four components: Component (1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistances to revise the regional and national sector legislation, and develop a modem interconnection regime; Component (2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF); Component (3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure; and Component (4) will ensure management and administration of the overall project.

## B. Economic and Sector Work

The Bank has completed a series of analytical work relating to public sector capacity in the OECS including a number of Public Expenditure Reviews, an Institutional and Organizational Capacity Review and, in late 2007, a Country Fiduciary Assessment. The Bank also prepared an OECS study on Growth and Competitiveness (2005), a Caribbean Air Transport Report (2006), and a regional study on Crime, Violence, and Development: Trends, Costs, and Policy Options in the Caribbean (2007). Dominica was also included in the OECS Doing Business Report in 2007, the first multi-country special report to be undertaken by the Foreign Investment Advisory Service (FIAS). Follow-on detailed diagnostic work for St. Lucia is expected in FY09. In addition, an OECS Private Sector Financing Study was completed in early 2008.

Dominica will also benefit from ongoing and planned analytical and advisory activities including the following: A Caribbean Skills and Curriculum Study, a Caribbean Financial Sector and Regulation report, a Caribbean Social Protection Strategy Review, a Trade Integration in the

Caribbean: Policy Options for Sustained Growth, Job Creation, and Poverty Reduction report, a CARICOM study on Managing Nurse Migration, and an OECS Tourism Backward Linkages Study. A Regional Energy Security report is also planned for FY09.

## C. Financial Relations:

(In millions of U.S. dollars)

| Operation | Original Principal | Available[1] | Disbursed[1] |
|---|---|---|---|
| The OECS E-Government for Regional Integration Program | 2.40 | 2.40 | 0.00 |
| The Caribbean Catastrophe Risk Insurance | 4.50 | 2.50 | 2.44 |
| Growth and Social Protection Technical Assistance Credit | 1.45 | 1.50 | 0.15 |
| OECS Telecommunications and ICT Development Project | 0.54 | 0.44 | 0.22 |
| **Total** | **8.89** | **6.84** | **2.81** |

1/ Amounts may not add up to Original Principal due to changes in the SDR/US exchange rate since signing.

### Disbursements and Debt Service (Fiscal Year)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008* |
|---|---|---|---|---|---|---|---|---|
| Total disbursements | 0.5 | 1.5 | 2.8 | 3.9 | 1.6 | 0.0 | 1.3 | 1.3 |
| Repayments | 0.1 | 0.1 | 0.3 | 0.6 | 0.7 | 0.8 | 1.0 | 1.2 |
| Net disbursements | 0.4 | 1.4 | 2.5 | 3.4 | 0.9 | -0.8 | 0.2 | 0.1 |
| Cancelled | 0.0 | 1.0 | 2.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest and fees | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |

*Data as of April 30, 2008

## Appendix III. Dominica: Relations with the Caribbean Development Bank (CDB)

(As of March 31, 2008)

As at end-March 2008, CDB had approved loans totalling US$151.3 million of which US$9.4 million are undisbursed. Total debt outstanding amounted to US$83.5 million. The portfolio for Dominica has aged somewhat with the rate of approval of new loans also slowing within the recent past. Among other things, this reflects the strong surge in grants inflows particularly from bilateral sources. Nonetheless, CDB's interventions continue to centre on building critical road infrastructure as well as enhancing human resources development in an effort to strengthen the country's growth resilience and reduce poverty. Furthermore, the Bank is supporting the country in seeking to reduce poverty amongst the indigenous people through the approval of a Carib Territory Capacity Building project.

Major projects under implementation include:

1. Upgrading of Ecotourism Sites—the construction of access roads and reception centres, related infrastructure as well as site trails at five major tourism sites across the island. US$3.1 million is approved and US$0.12 million is undisbursed.

2. Student Loan Scheme (Seventh Loan)—to provide DAIDB with resources to continue financing its student loan programme. US$7.0 million is approved and US$0.43 million is undisbursed.

3. Shelter Development Project—to establish a framework for developing the shelter sector on a sustainable basis with particular reference to low-income households. US$2.3 million is approved and US$0.89 million is undisbursed.

4. Carib Territory Capacity Building Project- to strengthen road infrastructure in the Carib Reserve and to improve housing conditions. US$2.49 million is approved without any disbursement to date.

5. Road improvement Project - to improve safety, decrease vehicular operating costs and improve access to tourism sites. US$5.5 million initially approved in 2005 with an additional loan of 3.1 million approved in 2008.

**Dominica: Loan Disbursement**

(In millions of U.S. dollars)

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Net disbursement | 3.66 | 8.46 | 10.39 | 3.99 | 0.91 | -1.07 |
| Disbursement | 6.25 | 11.26 | 20.61 | 6.34 | 2.14 | 2.36 |
| Amortization | 2.59 | 2.80 | 10.22 | 2.35 | 1.23 | 3.43 |
| Interest and charges | 1.90 | 2.03 | 2.25 | 2.44 | 1.54 | 2.95 |
| Net resource flow | 1.76 | 6.43 | 8.14 | 1.55 | -0.63 | -4.02 |

## Appendix IV. Dominica: Statistical Issues

Data provision has some shortcomings, but is broadly adequate for surveillance. There are weaknesses in coverage, accuracy, frequency, and timeliness that continue to hamper effective economic analysis and policy formulation. Priority should be given to compilation and dissemination of national accounts, in particular tourism, agriculture and labor statistics. Despite progress, significant weaknesses remain in the compilation of fiscal accounts, and the balance of payments. Dominica participates in the General Data Dissemination System. However, the metadata for external sector and government finance statistics have not been updated since December 2002.

### Real sector

Annual nominal GDP data are compiled using the production and the expenditure approaches. Estimates by economic activity are compiled using production approach at 1990 prices. GDP estimates are available about four months after the end of the year. The data are revised frequently and are usually finalized with a two-year lag following completion of the National Accounts Survey. There is a program to improve national accounts data primarily through the development of the supply and use table. In late 2007 the authorities undertook a comprehensive assessment of the GDP methodology and data, with the assistance of the Eastern Caribbean Central Bank (ECCB). Revised national accounts data are not yet available to the public. A prerequisite for ensuring the robustness of the new national accounts data would be the revision and/or update of the base year, which is currently 1990. CPI data are compiled with a two-month lag, with weights based on the 1997/1998 Household Expenditure Survey. There is a program to develop export and import price indices (XMPIs), but a shortage of staff working on price statistics limits developments in CPI methodology and the likelihood that XMPIs will be developed in the near future. The IMF, through the operation of the Caribbean Regional Technical Assistance Center is currently providing technical advice on XMPI methodology to Dominica and other countries in the region. Data on employment are limited and there are no official data on producer prices or wages in the private sector. Results of the 2001 population census have not yet been published.

### Government finance statistics

Statistical capacity problems affect the timely production of quality government finance statistics. In particular, the data are subject to frequent revisions stemming in part from omissions and misclassifications. Data on central government operations are incomplete and must be supplemented with additional information from external sources. For instance, some operations are undertaken outside the consolidated fund. These include certain investment spending, loan and grant receipts, and on-lending and transfers to public enterprises. As a result, capital expenditure data, recorded by the Treasury, must be supplemented with additional donor financing information, particularly because the public sector investment program (PSIP) data are not timely. Delays in the reporting of the PSIP data reportedly stem from reporting delays from the line ministries.

Several ongoing initiatives to strengthen expenditure management, should help minimize the extent of this problem. There is an ongoing effort to automate the expenditure execution process. A new automation technology installed in all line ministries in 2005 should allow all local purchase orders (LPOs) to be electronically generated and tracked. Commitments are charged against a specific budget allocation once the LPOs are generated. All ministries and suppliers of goods and services are compelled to use the new system. Only limited financing data are available. Although progress has been made in improving the measurement of the government's debt, there are concerns that there is still some under-recording of government commitments.

The authorities do not provide consolidated nonfinancial public sector data. Data for the rest of the public sector—Dominica Social Security and the public enterprises—must be obtained directly from each entity during Fund Article IV consultation missions.

No government finance data are reported to STA for publication in the *International Financial Statistics* (*IFS)* or the *Government Finance Statistics* (*GFS) Yearbook*.

**Monetary and financial statistics**

Monetary statistics are compiled and reported to the Fund by the ECCB on a monthly basis based on a standardized report form since July 2006. In April 2007 a data ROSC mission assessed the monetary statistics with reference to the GDDS, and the Data Quality Assessment Framework (DQAF, July 2003). It indicated that the institutional coverage of the other depository corporations is incomplete, as data for mortgage companies, finance companies, building societies, and credit unions—all of which accept deposits—are excluded. Also, accrued interest is not incorporated in the value of the interest-bearing assets and liabilities, and valuation adjustments are included in other liabilities. In addition, source data for the commercial banks do not provide the disaggregation recommended in the Monetary and Financial Statistics Manual. Close coordination between the ECCB and the single regulatory unit (which supervises financial corporations other than those licensed under the Banking Act) is crucial.

**Balance of payments statistics**

Balance of payments data are compiled by the ECCB on an annual basis but do not contain sufficient detail to enable publication of the full classification used in the fifth edition of the *Balance of Payments Manual.* Data reported to STA are improving in timeliness, but still suffer from relatively numerous and large errors and omissions. Enhanced data resources and better compilation procedures are needed to improve the accuracy and timeliness of balance of payments statistics. The authorities should make efforts to compile quarterly balance of payments statistics and the annual international investment position statement.

**External debt**

The Ministry of Finance maintains a database on public and publicly-guaranteed external loans that provides detailed and reasonably current information on disbursements, debt service, and debt stocks. The Treasury maintains the data on bonds placed abroad. Data from the two databases are not consolidated, requiring further adjustments to measure the total debt stock. In addition, information on payments by creditor (actual and scheduled) should be available to the compilation agencies at least on a monthly basis, in order to allow production of timely debt stock data.

## Dominica: Table of Common Indicators Required for Surveillance
(As of June 24, 2008)

| | Date of latest observation | Date received [8] | Frequency of Data [8] | Frequency of Reporting [8] | Frequency of Publication [8] | Memo Items: Data Quality – Methodological soundness [9] | Memo Items: Data Quality – Accuracy and reliability [10] |
|---|---|---|---|---|---|---|---|
| Exchange Rates[1] | Fixed Rate | NA | NA | NA | NA | | |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1, 2] | April 2008 | 6/17/08 | M | M | Q | | |
| Reserve/Base Money | April 2008 | 6/17/08 | M | M | Q | LO, LO, LO, LO | LO, O, O, O, O |
| Broad Money | April 2008 | 6/17/08 | M | M | Q | | |
| Central Bank Balance Sheet | April 2008 | 6/17/08 | M | M | Q | | |
| Consolidated Balance Sheet of the Banking System | April 2008 | 6/17/08 | M | M | Q | | |
| Interest Rates[3] | April 2008 | 6/17/08 | Q | Q | Q | | |
| Consumer Price Index | April 2008 | 5/22/08 | M | M | M | | |
| Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5] | 2007 | 5/22/08 | A | A | A | | |
| Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government | April 2008 | 5/22/08 | M | M | A | | |
| Stocks of Central Government and Central Government-Guaranteed Debt[6] | April 200 | 5/22/08 | M | M | A | | |
| External Current Account Balance | 2007 | 2/19/08 | A | A | A | | |
| Exports and Imports of Goods and Services | March 2008 | 5/22/08 | M | Q | A | | |
| GDP/GNP | 2007 | 5/22/08 | A | A | A | | |
| Gross External Debt | March 2008 | 5/22/08 | M | M | A | | |
| International Investment Position[8] | | | | | | | |

[1] Dominica is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1=EC$2.70.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government and state and local governments.
[6] Currency and maturity composition are provided annually.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA); Not applicable (n.a.).
[8] Includes external gross financial asset and liability positions vis-a-vis nonresidents.
[9] Reflects the assessment provided in the data ROSC published on August 21, 2007 and based on the findings of the mission that took place during April 10-18, 2007 for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[10] Same as footnote 9, except referring to international standards concerning (respectively) source data, assessment of source data, statistical techniques, assessment and validation of intermediate data and statistical outputs and revision studies.

INTERNATIONAL MONETARY FUND

DOMINICA

**Debt Sustainability Analysis**

Prepared by the Staff of the International Monetary Fund

In consultation with World Bank Staff

July 11, 2008

*The analysis shows that despite the adverse impact of Hurricane Dean in August 2007, Dominica has steadily improved its debt sustainability outlook due to the authorities' firm commitment to sound fiscal policies. Nevertheless, the outlook still presents large risks related to a possible further weakening of global economic outlook, the dependence on aid flows to finance capital expenditure, and vulnerability to natural disasters.*

## I. Underlying DSA Assumptions

1. Staff has prepared a baseline scenario whose main parameters are consistent with the authorities' updated Growth and Social Protection Strategy (GSPS). The main assumptions for the baseline scenario are outlined in Box 1.

2. Dominica has a CPIA rating of 3.85 in 2007 and is, therefore, classified as a strong performer. The corresponding indicative policy thresholds for Dominica are shown below.

| Debt Burden Thresholds for Dominica (Applying to external public debt) | | | | | |
|---|---|---|---|---|---|
| | NPV of debt in percent of | | | Debt Service in percent of | |
| | Exports | GDP | Revenue | Exports | Revenue |
| Strong Policy | 200 | 50 | 300 | 25 | 35 |

**Box 1. Baseline Macroeconomic Assumptions (2008–2028)**

- Real growth is projected at 3 percent of GDP over the projection period after a two-year period of slightly lower growth related to the current global slowdown.[1] Growth would be supported by continuing policy reform to reduce the cost of doing business and strong FDI flows to expand capacity in the tourism sector. Inflation is projected to remain low (1.5 percent per year) after the international food and fuel price shocks are assimilated.

- Primary balance of the central government remains at 3 percent of GDP from 2009 in line with the GSPS and previous DSA. Public enterprises run an overall deficit of 0.5 percent of GDP, following the average observed during the 1999–2006 period.

- External grants decline to 7 percent of GDP after the aid surge observed in the last two fiscal years (FY 2006/07–07/08). Projected aid is larger than the historical level but still consistent with the authorities' initiatives to improve aid management and recent economic cooperation agreements. To assess the impact of uncertain grants, we undertake a stress test below.

- Annual disbursements of external concessional debt are assumed to be 1.5 percent of GDP through 2013 in line with previous DSAs, and decline afterwards to 0.5 percent of GDP as financing needs diminish[2]. The financing terms are similar to those of existing external debt. New domestic debt is projected to be available at an interest rate of 7 percent (as in previous DSA).
- PetroCaribe financing is excluded from the DSA because no information is yet available to asses the scope of this initiative in Dominica. However, the omission of PetroCaribe operations will not significantly distort the debt outlook given the authorities' commitment to save the bulk of the concessional financing for fuel consumption.

- The current account deficit is assumed to remain high during 2008–13, then gradually fall to a level almost fully financed by aid flows and FDI. While exports of goods are projected to grow in line with GDP, tourism receipts are projected to grow vigorously as the transition from bananas to tourism progresses given that Dominica's tourism is still at its early development stage and it plans to attract more high-end stay-over tourists.

- FDI is assumed to remain at its 2006–07 level of 8 percent of GDP.

[1] A revision in the national accounts statistics for the 2000–2006 period led to a higher nominal GDP by about 3 percent compared with nominal GDP estimates reported in the 2007 Article IV consultation.

[2] Previous DSA assumed annual disbursements of external concessional debt to be 1.5 percent of GDP over the whole projection period. Due to Dominica's improved debt sustainability over the past two years, such an assumption is no longer valid because it over-addresses Dominica's long-term financing needs.

## II. Evaluation of Public Sector Debt Sustainability

### Dominica's public debt at end-2007

3. As of end-2007, Dominica's public sector debt stood at 94 percent of GDP, of which 65 percent represented external debt and the remaining 35 percent was domestic debt. Regarding the external debt, the largest share is owed to multilateral creditors (about 70 percent of GDP, with the Caribbean Development Bank holding more than half of that), followed by the debt with bilateral and commercial creditors (about 14½ and 12 percent of GDP, respectively). Regarding the domestic debt, the largest creditor is Dominica's own Social Security System (about 11½ percent of GDP). In NPV terms, public sector debt stood at around 88.5 percent of GDP, due to the concessionality of most of the external debt (whose NPV was around 64 percent of GDP).[3]

### The baseline scenario

4. Under the baseline scenario (Table 1a), the indicators show progressive improvement in terms of debt sustainability. However, the debt service to revenue (and grant) ratio increases in 2008 and 2009 and remains high until 2015, which calls for maintaining fiscal discipline in order to avoid liquidity constraints. Under this scenario, Dominica would reach a public debt to GDP ratio of 60 percent —the ECCB benchmark—by 2014.

### Alternative scenarios and stress tests

*Changes in growth and primary balance*

5. The key drivers of Dominica's debt path are economic growth and the primary surplus target. Both are subject to large exogenous shocks, such as volatility of grants (see below) and foreign growth, in particular U.S. growth. Staff estimate that the elasticity of growth in Dominica to economic cycles in the U.S. is slightly greater than one.

6. The sensitivity analysis highlights two important features (Table 1b). First, the public debt starts rising again if Dominica's primary balance and economic growth return to their

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[3] The figures could change somewhat depending on the final agreement with hold-out creditors (since different options have different hair-cuts). These final agreements, however, should not have a material impact on the debt sustainability paths given that all the options available for restructuring have the same NPV. The simulations in this appendix assume that hold-out creditors take the intermediate bond, which carries a hair-cut of 20 percent. The discount rate for the NPV calculations is 5 percent.

average of the last ten years (a primary balance of 0.4 percent and annual growth of 1 percent), as pointed in scenario A1. Second, the public debt stays on a declining path if Dominica can maintain the fiscal effort projected for 2008 (a primary balance of 2.4 percent, slightly below target of 3 percent of GDP), as pointed in scenario A2.

7. The alternative scenario A3 shows the role of sustained growth. If growth declines to 2.3 percent per year, debt initially declines but later reverts to an increasing path. This is because fiscal expenditure is the driver of the debt trajectory. As output growth slows, primary expenditure is projected to rise relative to the baseline scenario while tax revenues are assumed to remain roughly constant, leading to a deterioration of the primary balance. Figure 2 illustrates the role of economic growth and the primary balance in the debt path. As shown in the second panel, the debt-to-GDP ratio declines even with slower economic growth if supported by a steady fiscal policy committed to the 3 percent primary surplus target.

*Decline in aid flows*

8. External grants to the central government reached an average 8.1 percent of GDP during the past three fiscal years, about 4 percentage points higher than the average received during the 1990s. Figure 2 (lower panel) shows the implications of a 3 percent of GDP reduction in aid flows from 2009. The exercise examines two alternative scenarios: (i) the partial adjustment scenario, which assumes that government cuts public investment spending by 1½ percent of GDP in response to the declining aid flows and finances the rest of the aid decline with larger borrowing (the resulted increase in borrowing is assumed to raise domestic interest rates by one percentage point). As a consequence, primary surplus declines to 1½ percent of GDP per year. (ii) The no adjustment scenario assumes no cut in public investment. The aid decline is financed entirely via higher borrowing, which increases domestic interest rates by two percentage points. In both scenarios, the new borrowing is assumed to be funded in the domestic market.

9. As the figure illustrates, in the no adjustment scenario where the aid decline is addressed solely by larger borrowing, public debt quickly starts rising again due to the compounded effects of increasing debt and higher refinancing interest rates. The debt ratio stabilizes at around 60 percent in the partial adjustment scenario.

*Other shocks*

10. Other shocks include possible natural disasters, shocks to interest rates, and the balance sheet effects of further depreciation of the U.S. dollar against other major international currencies.

- **Another hurricane** of similar magnitude as Hurricane Dean. The sensitivity exercise (not shown) indicated that after an initial increase, the debt ratio returns to a downward trajectory after growth is restored and reconstruction projects are completed[4].

- **Interest rate** shocks have little impact on Dominica's public debt because most of its debt, including domestic debt, is contracted at fixed interest rates.

- **A further depreciation of the U.S. dollar against other major currencies** would have a modest balance sheet effect given Dominica's debt currency composition. About 69 percent of the external debt is denominated in U.S. dollars, 21 percent in SDRs (where the weight of the U.S. dollar is about 44 percent), and 3.2 percent is denominated in Euro.

## III. Evaluation of External Debt Sustainability

11. The majority of Dominica's external debt is owed by the public sector, as most private sector borrowing takes place with domestic commercial banks. Therefore, the external DSA shares similar properties as the public sector DSA.

12. Since the debt restructuring, external debt continues to decline in the baseline scenario (Table 1c). Similar to the public sector DSA, the indicators of debt sustainability that do not decline continuously are those related to the share of external debt service as a percent of exports and public sector revenues. Both indicators increase until 2009, reflecting the initial consequence of the debt restructuring, before they start to decline. In addition, the adverse impact of Hurricane Dean on exports and the closure of a large foreign manufacturing toothpaste factory in late 2007 also help explain the temporary hike in the debt service as a share of exports. The large residuals observed over the medium term result from the fact that there is no independent estimate of private sector debt, and is excluded from the analysis.

13. Sensitivity tests (Table 1d) show an improved picture of Dominica's external debt sustainability. If key variables stay at their historical averages[5], external debt would remain on a declining path as higher grants and FDI would result in less external debt. Higher interest rates (Scenario A2) have little impact on the external debt paths as in the baseline scenario Dominica faces low financing needs (see previous section).

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[4] Dominica participates in the Caribbean Catastrophe Risk Insurance Facility (CCRIF), a regional insurance pool organized by the World Bank.

[5] The average is calculated based on past 10 years record (1998–2007).

## IV. Conclusions

14. Continuing the process of debt restructuring, Dominica has improved its debt sustainability on the basis of economic growth and the steadfast implementation of the strong fiscal policy outlined in the GSPS. Fiscal policy remained strong following Hurricane Dean as stated in the authorities' request for emergency assistance from the Fund. Public debt projections show a declining trend similar to that reported in previous DSAs. However, the current projection will achieve the ECCB target of 60 percent for the debt-to-GDP ratio in 2014, two years earlier than projected in the 2007 Article IV consultation DSA. In addition, Dominica managed to reduce debt-related vulnerabilities by joining the Caribbean Catastrophe Risk Insurance Facility and introducing a pension reform.

15. Important debt-related vulnerabilities still remain despite the significant progress achieved: (i) public debt is still high at 94 percent of GDP; (ii) there is a bunching of payments in 2008–11,[6] (iii) new grant flows are uncertain and volatile; and (iv) Dominica is exposed to external shocks and weather-related vulnerabilities.

16. The updated GSPS rightly maintains the primary surplus target of 3 percent of GDP to achieve a more comfortable debt ratio and thus create room to deal with natural disasters and eventually adopt some countercyclical policies.

[6] Debt with Government of Bahamas (US$4 million) and with Government of Trinidad and Tobago (US$10 million) are scheduled to be repaid in 2008 but are highly likely to be rolled over into 2009 in line with past practice.

**Table 1a.Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2005–28**

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | Historical Average 1/ | Standard Deviation 1/ | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Average 2008–13 | 2018 | 2028 | Average 2014–28 |
| **Public sector debt 2/** | **103.6** | **102.0** | **94.3** | | | **86.3** | **81.2** | **77.2** | **73.3** | **69.4** | **65.6** | | **48.1** | **18.3** | |
| *Of which*: Foreign-currency denominated 3/4/ | 71.1 | 70.0 | 65.0 | | | 59.3 | 55.3 | 52.0 | 48.2 | 44.8 | 42.0 | | 26.8 | 10.0 | |
| Change in public sector debt | -6.9 | -1.6 | -7.7 | | | -8.1 | -5.1 | -4.0 | -4.0 | -3.9 | -3.8 | | -3.3 | -2.8 | |
| Identified debt-creating flows 5/ | ... | -7.6 | -6.6 | | | -7.7 | -5.1 | -4.0 | -4.0 | -3.9 | -3.8 | | -3.3 | -2.8 | |
| Primary deficit | -4.2 | -6.9 | -5.0 | -0.4 | 5.5 | -2.7 | -3.2 | -3.2 | -3.2 | -3.1 | -3.1 | -3.1 | -3.0 | -3.1 | -3.1 |
| Revenue and grants | 46.9 | 48.6 | 49.7 | | | 48.0 | 46.5 | 45.8 | 45.2 | 45.0 | 45.0 | | 45.0 | 45.0 | |
| *Of which*: Grants | 6.5 | 7.4 | 8.6 | | | 8.9 | 8.4 | 7.9 | 7.3 | 7.1 | 7.1 | | 7.1 | 7.1 | |
| Primary (noninterest) expenditure | 42.7 | 41.7 | 44.7 | | | 45.3 | 43.3 | 42.6 | 42.0 | 41.8 | 41.9 | | 41.9 | 41.9 | |
| Automatic debt dynamics | -2.0 | -1.4 | -1.6 | | | -5.0 | -1.8 | -0.8 | -0.8 | -0.8 | -0.7 | | -0.3 | 0.3 | |
| Contribution from interest rate/growth differential | -4.1 | -3.1 | -1.5 | | | -2.4 | -1.2 | -1.0 | -1.1 | -1.0 | -0.9 | | -0.5 | 0.2 | |
| *Of which*: Contribution from average real interest rate | -0.6 | 0.8 | 0.0 | | | 0.0 | 1.1 | 1.4 | 1.2 | 1.1 | 1.1 | | 1.0 | 0.8 | |
| *Of which:* Contribution from real GDP growth | -3.6 | -4.0 | -1.5 | | | -2.4 | -2.4 | -2.4 | -2.2 | -2.1 | -2.0 | | -1.5 | -0.6 | |
| Contribution from real exchange rate depreciation | 2.1 | 1.7 | -0.1 | | | -2.6 | -0.6 | 0.2 | 0.3 | 0.2 | 0.2 | | ... | ... | |
| Other identified debt-creating flows | ... | 0.7 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Privatization receipts (negative) | -1.9 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Recognition of implicit or contingent liabilities | ... | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Debt relief (HIPC and other) 6/ | -0.5 | 0.7 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other (specify, e.g. bank recapitalization) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Residual, including asset changes | ... | 6.0 | -1.1 | | | -0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| **NPV of public sector debt** | **101.3** | **95.9** | **88.6** | | | **79.9** | **73.6** | **69.3** | **65.5** | **61.8** | **58.2** | | **43.4** | **17.2** | |
| *Of which*: Foreign-currency denominated | 68.8 | 63.9 | 59.2 | | | 52.9 | 47.7 | 44.0 | 40.5 | 37.3 | 34.6 | | 22.2 | 8.9 | |
| *Of which*: External | 68.8 | 63.9 | 59.2 | | | 52.9 | 47.7 | 44.0 | 40.5 | 37.3 | 34.6 | | 22.2 | 8.9 | |
| Gross financing need 6/ | 0.5 | -0.8 | 1.3 | | | 4.6 | 4.9 | 3.9 | 3.7 | 3.5 | 2.9 | | 0.6 | -0.6 | |
| NPV of public sector debt-to-revenue and grants ratio (in percent) | 216.1 | 197.2 | 178.3 | | | 166.5 | 158.2 | 151.3 | 145.1 | 137.5 | 129.4 | | 96.4 | 38.3 | |
| NPV of public sector debt-to-revenue ratio (in percent) | 250.7 | 232.7 | 215.4 | | | 204.4 | 193.2 | 182.9 | 173.0 | 163.3 | 153.6 | | 114.5 | 45.5 | |
| *Of which*: External 7/ | 170.3 | 155.1 | 144.0 | | | 135.3 | 125.3 | 116.3 | 107.0 | 98.5 | 91.3 | | 58.5 | 23.6 | |
| Debt service-to-revenue and grants ratio (in percent) 8/ | 10.1 | 12.6 | 12.6 | | | 15.1 | 17.5 | 15.5 | 15.3 | 14.8 | 13.3 | | 8.1 | 5.5 | |
| Debt service-to-revenue ratio (in percent) 8/ 9/ | 11.7 | 14.9 | 15.2 | | | 18.5 | 21.3 | 18.8 | 18.2 | 17.5 | 15.8 | | 9.7 | 6.5 | |
| Primary deficit that stabilizes the debt-to-GDP ratio | 2.7 | -5.3 | 2.7 | | | 5.4 | 1.8 | 0.8 | 0.8 | 0.8 | 0.7 | | 0.3 | -0.3 | |
| **Key macroeconomic and fiscal assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.3 | 4.0 | 1.5 | 1.0 | 3.2 | 2.6 | 2.8 | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 | 3.0 | 3.0 | 3.0 |
| Average nominal interest rate on forex debt (in percent) | 2.0 | 2.4 | 2.2 | 3.5 | 1.2 | 2.6 | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 2.6 | 2.5 | 5.5 | 3.4 |
| Average real interest rate on domestic currency debt (in percent) | 3.5 | 4.4 | 1.2 | 4.8 | 2.9 | -1.3 | 2.1 | 3.8 | 3.7 | 3.7 | 3.9 | 2.6 | 4.2 | 4.7 | 4.4 |
| Real exchange rate depreciation (in percent, + indicates depreciation) | 2.9 | 2.5 | -0.2 | 0.7 | 1.5 | -4.1 | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Inflation rate (GDP deflator, in percent) | 1.5 | 0.6 | 2.9 | 1.6 | 1.0 | 6.3 | 2.8 | 1.5 | 1.5 | 1.5 | 1.5 | 2.5 | 1.5 | 1.5 | 1.5 |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 4.3 | 3.0 | 10.3 | 4.0 | 11.8 | 3.3 | -1.8 | 1.3 | 1.6 | 2.6 | 3.1 | 1.7 | 3.0 | 3.0 | 3.0 |
| Grant element of new external borrowing (in percent) | ... | ... | 17.9 | | | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | ... |

Sources: Country authorities; and Fund staff estimates and projections.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Nonfinancial Public Sector (includes debt with Dominica's Social Security System). Projections are net of accumulation of assets.

3/ Refers to external debt. Assumes that nonpartcipating creditors receive the intermediate bond. Excludes external interest arrears. Arrears with participating creditors have been settled as part of the debt restructuring. Arrears with nonparticipating creditors are either in dispute or expected to be settled when an agreement is reached. Undisputed interest arrears are approximately 0.4 percent of GDP

4/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic

5/ Fiscal year aggregates are averaged to estimate calendar year figures.

6/ In 2004/05, it is assumed that all nonparticipating creditors received the intermediate bond, which carries a face value reduction of 20 percent.

7/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

8/ Revenues including grants.

**Table 1b. Dominica: Sensitivity Analysis for Key Indicators of Public Debt 2008–28**

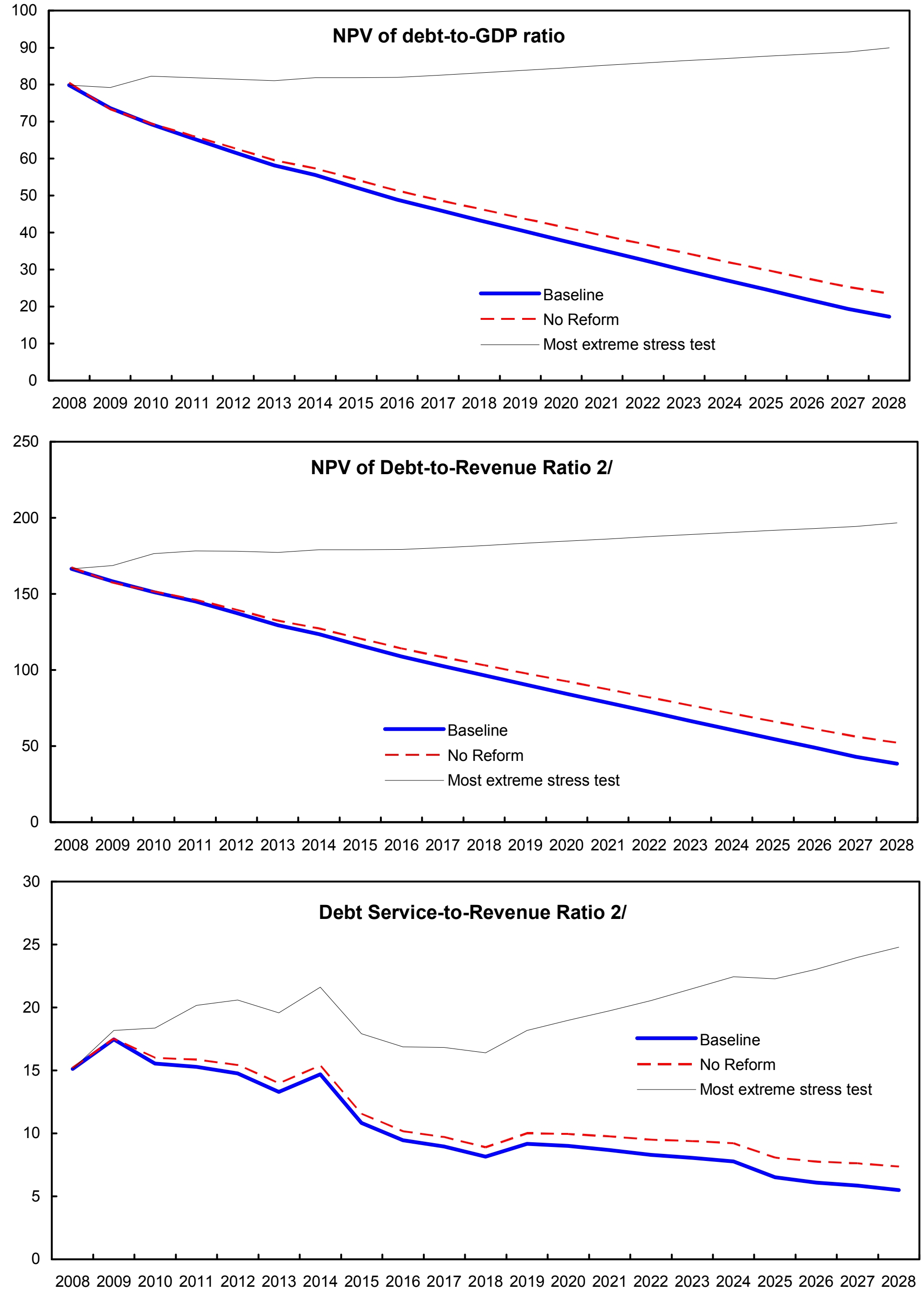
| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2012 | 2018 | 2028 |
| **NPV of Debt-to-GDP Ratio** | | | | | | | | |
| **Baseline** | 80 | 74 | 69 | 66 | 62 | 58 | 43 | 17 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 80 | 77 | 77 | 77 | 77 | 77 | 83 | 98 |
| A2. Primary balance is unchanged from 2008 | 80 | 73 | 69 | 66 | 63 | 60 | 46 | 23 |
| A3. Permanently lower GDP growth 1/ | 80 | 75 | 72 | 69 | 67 | 65 | 63 | 80 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2009–10 | 80 | 79 | 82 | 82 | 81 | 81 | 83 | 90 |
| B2. Primary balance is at historical average minus one standard deviations in 2009–10 | 80 | 81 | 85 | 81 | 77 | 74 | 61 | 36 |
| B3. Combination of B1–B2 using one half standard deviation shocks | 80 | 82 | 85 | 81 | 77 | 73 | 57 | 28 |
| B4. One-time 30 percent real depreciation in 2009 | 80 | 96 | 91 | 87 | 83 | 80 | 65 | 38 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2009 | 80 | 83 | 78 | 75 | 71 | 67 | 53 | 26 |
| **NPV of Debt-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 167 | 158 | 151 | 145 | 137 | 129 | 96 | 38 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 167 | 165 | 166 | 168 | 169 | 169 | 177 | 203 |
| A2. Primary balance is unchanged from 2008 | 167 | 157 | 152 | 146 | 140 | 132 | 103 | 52 |
| A3. Permanently lower GDP growth 1/ | 167 | 160 | 156 | 153 | 148 | 144 | 138 | 173 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2009–10 | 167 | 169 | 177 | 178 | 178 | 177 | 182 | 197 |
| B2. Primary balance is at historical average minus one standard deviations in 2009–10 | 167 | 175 | 185 | 179 | 172 | 165 | 134 | 79 |
| B3. Combination of B1–B2 using one half standard deviation shocks | 167 | 174 | 183 | 177 | 169 | 160 | 125 | 61 |
| B4. One-time 30 percent real depreciation in 2009 | 167 | 206 | 199 | 193 | 185 | 177 | 144 | 85 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2009 | 167 | 178 | 171 | 165 | 157 | 149 | 117 | 58 |
| **Debt Service-to-Revenue Ratio 2/** | | | | | | | | |
| **Baseline** | 15 | 17 | 16 | 15 | 15 | 13 | 8 | 5 |
| **A. Alternative scenarios** | | | | | | | | |
| A1. Real GDP growth and primary balance are at historical averages | 15 | 18 | 18 | 19 | 19 | 19 | 16 | 26 |
| A2. Primary balance is unchanged from 2008 | 15 | 18 | 16 | 16 | 15 | 14 | 9 | 7 |
| A3. Permanently lower GDP growth 1/ | 15 | 18 | 16 | 16 | 16 | 15 | 13 | 21 |
| **B. Bound tests** | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2009–10 | 15 | 18 | 18 | 20 | 21 | 20 | 16 | 25 |
| B2. Primary balance is at historical average minus one standard deviations in 2009–10 | 15 | 18 | 22 | 24 | 19 | 16 | 11 | 12 |
| B3. Combination of B1–B2 using one half standard deviation shocks | 15 | 18 | 21 | 22 | 19 | 16 | 10 | 9 |
| B4. One-time 30 percent real depreciation in 2009 | 15 | 18 | 18 | 17 | 17 | 15 | 10 | 9 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2009 | 15 | 18 | 23 | 18 | 17 | 15 | 9 | 9 |

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

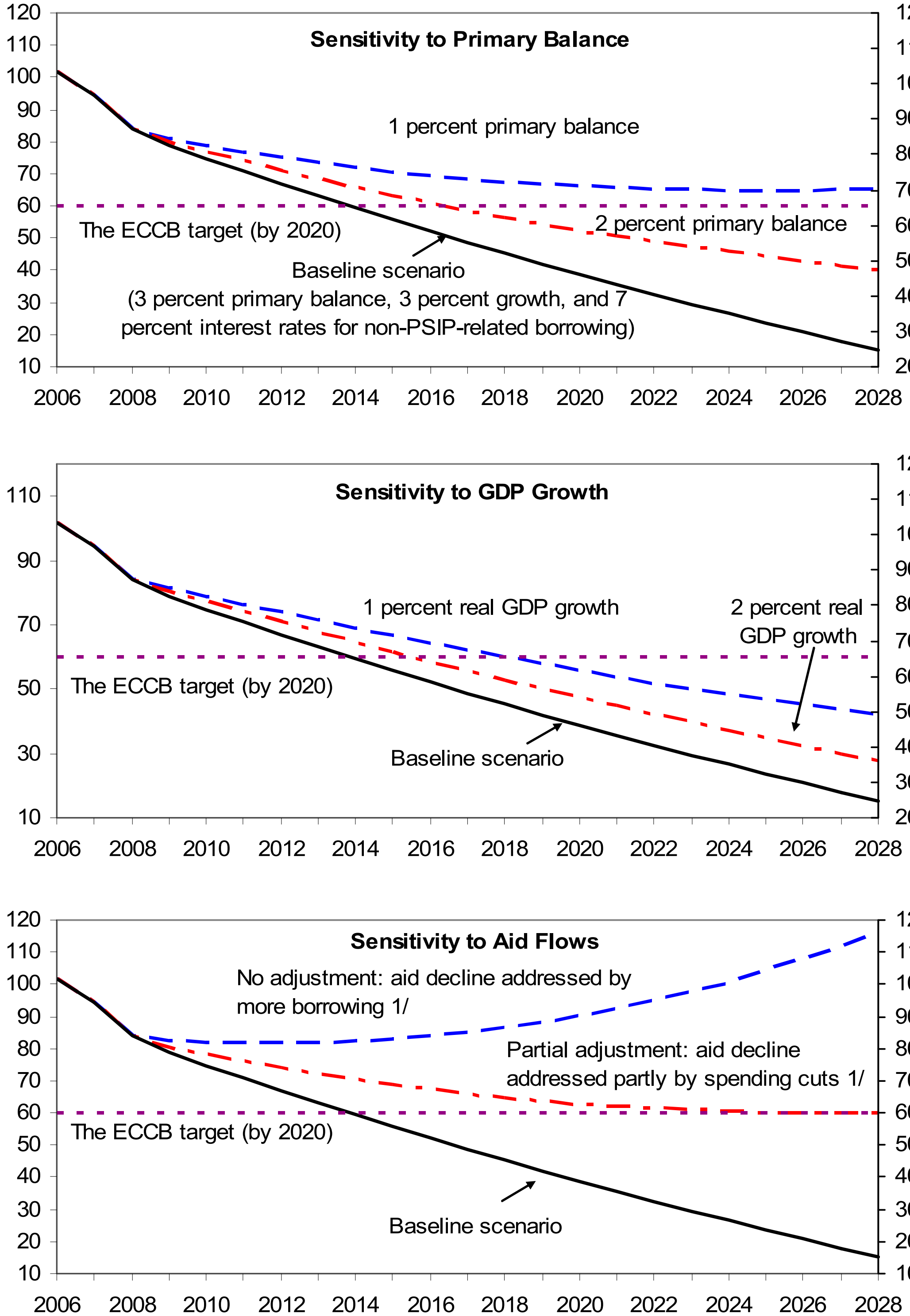
2/ Revenues are defined inclusive of grants.

**Figure 1. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2008-28**




Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2018.
2/ Revenue including grants.

Figure 2. Dominica: Debt Sustainability Analysis
(In percent of GDP)




Source: Fund staff calculations based on data from Dominica authorities.
1/ Assumes that grants decline to the pre-crisis historical average in 2010.

Table 1c. Dominica: External Debt Sustainability Framework, Baseline Scenario, 2005-28 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical | Standard | Projections | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | Average 1/ | Deviation 1/ | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2007-12 Average | 2018 | 2028 | 2013-28 Average |
| **External debt (nominal) 2/** | **71.1** | **70.0** | **65.0** | | | **59.3** | **55.3** | **52.0** | **48.2** | **44.8** | **42.0** | | **26.8** | **10.0** | |
| *Of which*: Public and publicly guaranteed (PPG) | 71.1 | 70.0 | 65.0 | | | 59.3 | 55.3 | 52.0 | 48.2 | 44.8 | 42.0 | | 26.8 | 10.0 | |
| Change in external debt | -5.7 | -1.1 | -5.0 | | | -5.7 | -3.9 | -3.4 | -3.8 | -3.4 | -2.9 | | -2.4 | -0.9 | |
| Identified net debt-creating flows | 12.4 | -6.7 | -1.1 | | | 10.4 | 8.1 | 6.2 | 5.3 | 4.0 | 2.6 | | 2.1 | 0.1 | |
| **Noninterest current account deficit** | **26.5** | **16.2** | **22.2** | **16.1** | **5.4** | **26.9** | **23.9** | **22.2** | **20.7** | **19.2** | **17.8** | | **17.2** | **14.8** | 16.5 |
| Deficit in balance of goods and services | 23.9 | 18.5 | 25.0 | | | 29.9 | 27.0 | 25.3 | 23.8 | 22.4 | 21.0 | | 18.9 | 14.5 | |
| Exports | 42.3 | 44.3 | 41.9 | | | 39.4 | 40.6 | 40.9 | 41.3 | 41.6 | 42.0 | | 44.0 | 48.3 | |
| Imports | 66.2 | 62.8 | 66.9 | | | 69.3 | 67.6 | 66.2 | 65.1 | 64.0 | 63.0 | | 62.9 | 62.8 | |
| Net current transfers (negative = inflow) | -7.2 | -7.3 | -7.8 | -6.5 | 0.9 | -8.0 | -8.0 | -8.0 | -8.0 | -8.0 | -8.0 | | -6.4 | -4.1 | -5.7 |
| *Of which*: Official | -0.6 | -0.3 | 0.0 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.0 | 0.0 | |
| Other current account flows (negative = net inflow) | 9.9 | 5.0 | 5.0 | | | 4.9 | 4.9 | 4.9 | 4.9 | 4.8 | 4.8 | | 4.7 | 4.5 | |
| **Net FDI plus capital grants (negative = inflow)** | **-12.0** | **-20.5** | **-20.8** | **-12.8** | **4.7** | **-16.5** | **-15.7** | **-15.8** | **-15.2** | **-15.0** | **-15.0** | | **-15.0** | **-15.0** | -15.0 |
| **Endogenous debt dynamics 3/** | **-2.1** | **-2.4** | **-2.4** | | | **0.0** | **0.0** | **-0.2** | **-0.2** | **-0.2** | **-0.2** | | **-0.1** | **0.3** | |
| Contribution from nominal interest rate | 1.5 | 1.6 | 1.4 | | | 1.5 | 1.6 | 1.4 | 1.3 | 1.2 | 1.0 | | 0.7 | 0.6 | |
| Contribution from real GDP growth | -2.4 | -2.7 | -1.0 | | | -1.6 | -1.6 | -1.6 | -1.5 | -1.4 | -1.3 | | -0.8 | -0.3 | |
| Contribution from price and exchange rate changes | -1.2 | -1.4 | -2.9 | | | … | … | … | … | … | … | | … | … | |
| **Residual (3-4) 4/ 5/** | **-18.1** | **5.7** | **-3.9** | | | **-16.1** | **-12.0** | **-9.6** | **-9.0** | **-7.4** | **-5.4** | | **-4.5** | **-1.0** | |
| o/w exceptional financing | -4.1 | 0.6 | 0.6 | | | -0.3 | -0.6 | 0.9 | 0.7 | 0.5 | 0.3 | | 0.3 | 0.0 | |
| NPV of external debt 6/ | ... | ... | 64.0 | | | 57.5 | 52.5 | 48.6 | 44.5 | 40.7 | 37.6 | | 24.1 | 8.9 | |
| In percent of exports | ... | ... | 152.8 | | | 146.0 | 129.3 | 118.8 | 107.9 | 97.7 | 89.5 | | 54.9 | 18.4 | |
| **NPV of PPG external debt** | **...** | **...** | **64.0** | | | **57.5** | **52.5** | **48.6** | **44.5** | **40.7** | **37.6** | | **24.1** | **8.9** | |
| **In percent of exports** | **...** | **...** | **152.8** | | | **146.0** | **129.3** | **118.8** | **107.9** | **97.7** | **89.5** | | **54.9** | **18.4** | |
| **In percent of government revenues** | **...** | **...** | **155.7** | | | **147.0** | **137.8** | **128.4** | **117.5** | **107.4** | **99.2** | | **63.8** | **23.5** | |
| **Debt service-to-exports ratio (in percent)** | **12.6** | **9.6** | **11.6** | | | **14.6** | **14.7** | **12.5** | **11.9** | **10.9** | **9.6** | | **5.4** | **3.2** | |
| **PPG debt service-to-exports ratio (in percent)** | **12.6** | **9.6** | **11.6** | | | **14.6** | **14.7** | **12.5** | **11.9** | **10.9** | **9.6** | | **5.4** | **3.2** | |
| **PPG debt service-to-revenue ratio (in percent)** | **13.2** | **10.3** | **11.9** | | | **14.7** | **15.7** | **13.5** | **12.9** | **12.0** | **10.6** | | **6.2** | **4.1** | |
| Total gross financing need (millions of U.S. dollars) | 59.5 | -0.1 | 20.8 | | | 58.7 | 54.3 | 46.2 | 43.6 | 38.6 | 31.3 | | 26.2 | 12.2 | |
| Noninterest current account deficit that stabilizes debt ratio | 32.2 | 17.3 | 27.2 | | | 32.6 | 27.8 | 25.6 | 24.4 | 22.6 | 20.7 | | 19.6 | 15.8 | |
| **Key macroeconomic assumptions** | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.3 | 4.0 | 1.5 | 1.0 | 3.2 | 2.6 | 2.8 | 3.0 | 3.0 | 3.0 | 3.0 | 2.9 | 3.0 | 3.0 | 3.0 |
| GDP deflator in U.S. dollar terms (change in percent) | 1.5 | 1.9 | 4.3 | 2.4 | 1.6 | 5.6 | 2.8 | 1.5 | 1.5 | 1.5 | 1.5 | 2.4 | 1.5 | 1.5 | 1.5 |
| Effective interest rate (percent) 7/ | 2.0 | 2.4 | 2.2 | 3.5 | 1.2 | 2.6 | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 2.6 | 2.5 | 5.5 | 3.4 |
| Growth of exports of goods and services (U.S. dollar terms, in percent) | -2.0 | 10.9 | 0.2 | 0.6 | 8.7 | 1.8 | 9.1 | 5.3 | 5.4 | 5.4 | 5.4 | 5.4 | 5.5 | 5.5 | 5.5 |
| Growth of imports of goods and services (U.S. dollar terms, in percent) | 13.7 | 0.6 | 12.8 | 3.1 | 7.9 | 12.3 | 3.1 | 2.5 | 2.7 | 2.8 | 2.8 | 4.4 | 4.5 | 4.5 | 4.5 |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 | 17.9 |
| Aid flows (in millions of U.S. dollars) 8/ | 63.4 | 108.4 | 117.8 | | | 87.9 | 86.6 | 85.6 | 83.2 | 85.2 | 90.1 | | 114.2 | 179.8 | |
| *Of which*: Grants | 17.8 | 39.7 | 43.1 | | | 30.8 | 29.8 | 31.5 | 30.3 | 30.8 | 32.2 | | 40.7 | 63.5 | |
| *Of which*: Concessional loans | 3.1 | 3.2 | 3.4 | | | 3.6 | 3.8 | 4.0 | 4.2 | 4.4 | 4.6 | | 5.7 | 8.9 | |
| Grant-equivalent financing (in percent of GDP) 9/ | ... | ... | ... | | | 8.7 | 8.0 | 8.1 | 7.5 | 7.3 | 7.3 | | 7.2 | 7.2 | 7.2 |
| Grant-equivalent financing (in percent of external financing) 9/ | ... | ... | ... | | | 87.6 | 87.3 | 87.3 | 86.4 | 86.0 | 86.0 | | 94.8 | 94.8 | 94.2 |
| **Memorandum items:** | | | | | | | | | | | | | | | |
| Nominal GDP (millions of U.S. dollars) | 299.3 | 317.2 | 335.7 | | | 363.9 | 384.8 | 402.2 | 420.5 | 439.6 | 459.5 | | 573.6 | 893.7 | |
| (NPVt-NPVt-1)/GDPt-1 (in percent) | | | | | | -1.7 | -2.0 | -1.7 | -2.1 | -2.0 | -1.4 | -1.8 | -0.9 | -0.4 | -1.0 |

Source: Staff simulations.

1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

2/ Only includes public sector external debt.

3/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

5/ In 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic. It also includes a negative FDI flow reflecting extraordinary dividends paid by a foreign company (5 percent og GDP), which were made out of an account in a foreign bank.

6/ Assumes that NPV of private sector debt is equivalent to its face value.

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

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

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

Table 1d. Dominica: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008–28
(In percent)

| | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | **2018** | 2028 |
| **NPV of debt-to-GDP ratio** | | | | | | | | |
| **Baseline** | 57 | 52 | 49 | 44 | 41 | 38 | **24** | 9 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2009–28 1/ | 57 | 49 | 42 | 36 | 31 | 28 | **15** | 18 |
| A2. New public sector loans on less favorable terms in 2009–28 2/ | 57 | 53 | 49 | 46 | 42 | 39 | **27** | 13 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2009–10 | 57 | 55 | 54 | 49 | 45 | 42 | **27** | 10 |
| B2. Export value growth at historical average minus one standard deviation in 2009–10 3/ | 57 | 58 | 63 | 59 | 55 | 52 | **38** | 17 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2009–10 | 57 | 54 | 50 | 46 | 42 | 39 | **25** | 9 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2009–10 4/ | 57 | 61 | 65 | 61 | 57 | 54 | **40** | 18 |
| B5. Combination of B1–B4 using one-half standard deviation shocks | 57 | 61 | 68 | 64 | 59 | 56 | **41** | 18 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/ | 57 | 74 | 69 | 63 | 57 | 53 | **34** | 13 |
| **NPV of debt-to-exports ratio** | | | | | | | | |
| **Baseline** | 146 | 129 | 119 | 108 | 98 | 90 | **55** | 18 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2009–28 1/ | 146 | 121 | 103 | 87 | 75 | 66 | **34** | 36 |
| A2. New public sector loans on less favorable terms in 2009–28 2/ | 146 | 130 | 120 | 110 | 101 | 94 | **61** | 27 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2009–10 | 146 | 129 | 119 | 108 | 98 | 90 | **55** | 18 |
| B2. Export value growth at historical average minus one standard deviation in 2009–10 3/ | 146 | 169 | 209 | 193 | 179 | 167 | **117** | 48 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2009–10 | 146 | 129 | 119 | 108 | 98 | 90 | **55** | 18 |
| B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/ | 146 | 150 | 159 | 148 | 137 | 129 | **91** | 38 |
| B5. Combination of B1–B4 using one-half standard deviation shocks | 146 | 163 | 191 | 176 | 163 | 153 | **107** | 43 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/ | 146 | 129 | 119 | 108 | 98 | 90 | **55** | 18 |
| **Debt service-to-exports ratio** | | | | | | | | |
| **Baseline** | 15 | 15 | 12 | 12 | 11 | 10 | **5** | 3 |
| **A. Alternative Scenarios** | | | | | | | | |
| A1. Key variables at their historical averages in 2009–28 1/ | 15 | 14 | 13 | 13 | 12 | 10 | **5** | 3 |
| A2. New public sector loans on less favorable terms in 2009–28 2/ | 15 | 14 | 13 | 13 | 13 | 11 | **6** | 3 |
| **B. Bound Tests** | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2009–10 | 15 | 14 | 13 | 13 | 13 | 11 | **6** | 3 |
| B2. Export value growth at historical average minus one standard deviation in 2009–10 3/ | 15 | 17 | 18 | 20 | 19 | 16 | **10** | 6 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2009–10 | 15 | 14 | 13 | 13 | 13 | 11 | **6** | 3 |
| B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/ | 15 | 14 | 14 | 15 | 14 | 12 | **8** | 5 |
| B5. Combination of B1–B4 using one-half standard deviation shocks | 15 | 16 | 17 | 18 | 17 | 15 | **9** | 5 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/ | 15 | 14 | 13 | 13 | 13 | 11 | **6** | 3 |

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), noninterest current account in percent of GDP, and nondebt creating flows.

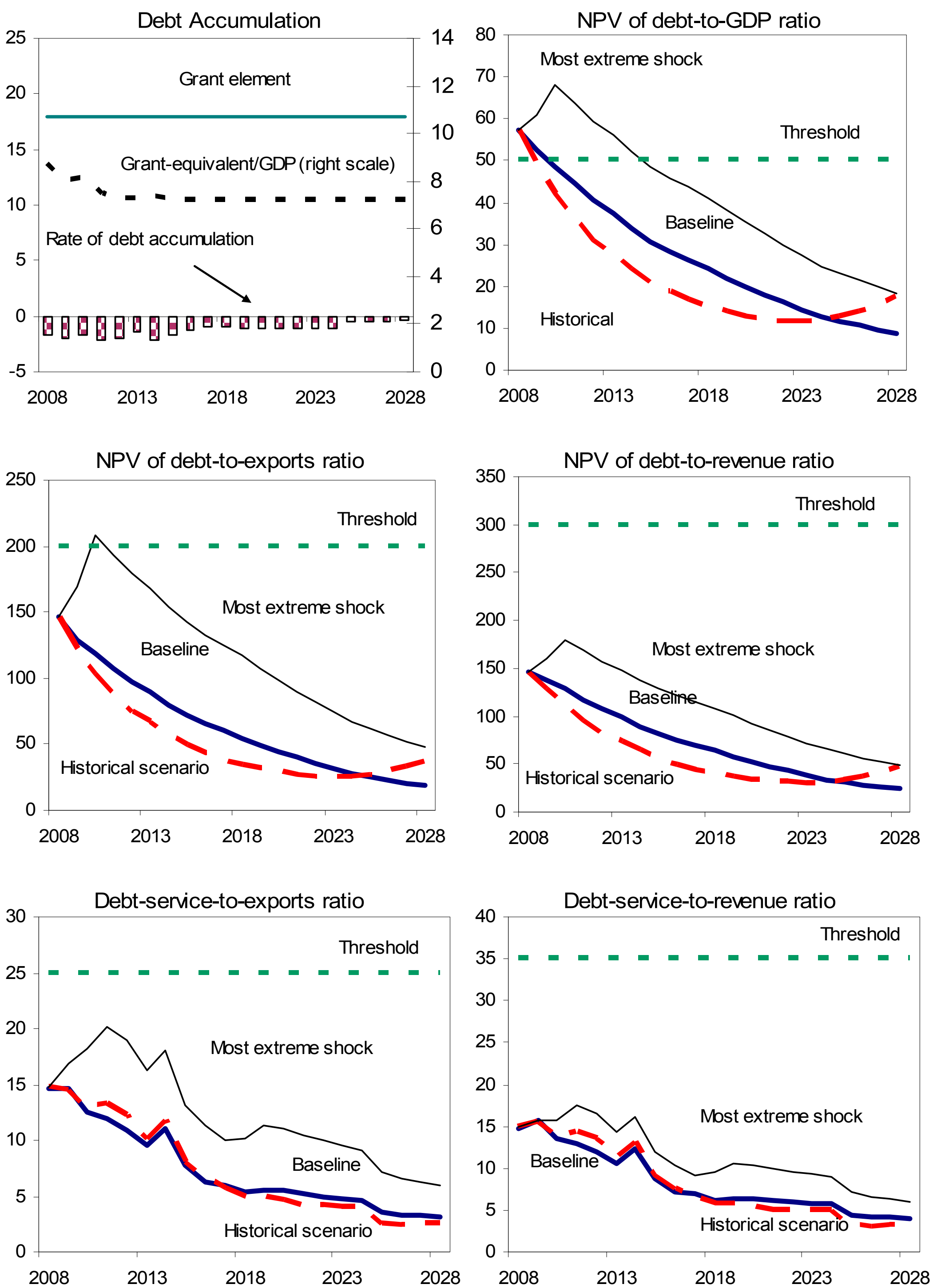
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implcitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

Figure 3. Dominica: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2008-28




Source: Staff projections and simulations.

**Statement by the IMF Staff Representative on Dominica**
**July 30, 2008**

*This statement provides information that has become available on the 2008/09 budget, which was presented to the parliament in Dominica on July 10, 2008, since the staff report was circulated. The new information does not alter the thrust of the staff appraisal.*

1. **The preliminary primary surplus for 2007/08 is now estimated at 1½ percent of GDP compared with the staff's projection of 3 percent**. The divergence is related to capital outlays in advance of forthcoming grant funding and expenditure on post-hurricane reconstruction projects, which have exceeded the initial cost estimates. The higher overall deficit was domestically financed mainly by reducing government deposits, and the delay in the receipt of external assistance is unlikely to affect the baseline projection for foreign grants.

2. **The 2008/09 budget proposes a primary surplus of the central government of 2 percent of GDP**, about ½ percent of GDP below the projection in the staff report. The medium-term primary surplus target of 3 percent of GDP, however, remains unchanged. As illustrated in the staff report, this deviation from the medium-term target does not alter the conclusions of the debt sustainability analysis although the public debt/GDP ratio would be about 1½ percent of GDP higher by 2013. Key components of the 2008/09 budget include:

- In addition to the measures to cushion the effects of the food and energy price shocks anticipated in the staff report, the excise tax on LPG will be removed (at a cost 0.1 percent of GDP); and a minimum pension of EC$200 per month will be guaranteed for government pensioners.
- An ambitious, largely grant-financed public sector investment program (about 14 percent of GDP), which could be a challenge to implementation capacity, is also incorporated in the budget.
- Implementation of the second phase of the income tax reform in January 2009. The exempted income threshold will be raised from EC$18,000 to EC$20,000 and the marginal rates will be reduced by 2 percentage points. The cost of this phase of the reform is estimated at about 0.4 percent of GDP in 2008/09 and 0.9 percent of GDP in 2009/10.

3. **The Financial Services Unit (FSU) Act was also introduced in the parliament along with the budget**. The act provides for a unified regulatory and supervisory framework for nonbank financial institutions.

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August 6, 2008

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# IMF Executive Board Concludes 2008 Article IV Consultation with Dominica

On July 30, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Dominica.[1]

**Background**

Dominica's economy has weathered well the effects of Hurricane Dean that struck the country in August last year, causing damage estimated at about 20 percent of GDP. Real output growth slowed to 1½ percent in 2007, after reaching a decade high 4 percent in 2006. The economy is expected to grow by 2½ percent in 2008 supported by the recovery in agriculture and reconstruction efforts. Inflation accelerated to 5½ percent in 2007, mainly reflecting international energy and food price increases, and is projected to rise to about 6½ percent in 2008.

Public finances remained strong during FY 2007/08 and a primary surplus of 1½ percent of GDP was achieved, despite the 50 percent reduction of the excise tax on fuel for electricity generation and the implementation of the first phase of the income tax reform. The creditable revenue performance was driven by VAT collection and import duties due to the surge in imports related to reconstruction. The scale up in capital expenditure to rehabilitate damaged infrastructure was largely financed by external grants, while the increase in primary current expenditure was

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

compensated by the increase in revenue. In parallel with the maintenance of a primary fiscal surplus, the public debt/GDP is estimated to have declined to 95 percent of GDP at the end of the fiscal year.

The real effective exchange rate continued to decline, partly reflecting weakness in the U.S. dollar, and remains broadly in line with macroeconomic fundamentals, despite a widening in the external current account deficit to 24 percent of GDP. The increase in the external current account deficit reflects a surge in imports related to post-hurricane reconstruction and a rising food and fuel import bill. Higher government grant inflows, foreign direct investment and private capital inflows facilitated the financing of the larger current account deficit.

The banking sector experienced robust growth in deposits while credit growth slowed following the rapid expansion in 2006, resulting in an accumulation of net foreign assets by commercial banks. The rapid growth in deposits, due in part to higher family remittances, has boosted liquidity levels, and the banking system's profitability and overall asset quality have been maintained. Meanwhile, efforts are being made to strengthen the regulatory and prudential framework for nonbank financial institutions which are unevenly regulated.

The authorities continue to focus on improving the business climate and reducing the cost of doing business to enhance competitiveness given the regional currency peg. The creation of one-stop agencies for tourism and investment promotion and simplification of business procedures have aided Dominica's steady advancement in world rankings in this area.

**Executive Board Assessment**

Directors noted the strong recovery of the economy from the damage caused by Hurricane Dean, despite the weakening external environment and the negative effects of rising international commodity prices, given Dominica's high dependence on imported food and fuel.

Directors commended the authorities for their commitment to implement sound economic policies while addressing the challenges arising from the oil and food price surge, and for their medium-term agenda focused on reducing vulnerabilities, including the reduction of public debt ratios. They welcomed efforts to improve existing mechanisms to better target assistance to the poor and to maintain the flexible fuel pricing regime to help ease the adjustment of the economy to higher international commodity prices.

Directors welcomed the government's commitment to a medium-term primary surplus target of 3 percent of GDP, consistent with the authorities' strategy of gradually reducing the public debt/GDP ratio. In the event of a deeper-than-expected global slowdown, the authorities could consider contingent measures, such as a more extended phasing-in of the planned income tax reform while maintaining the integrity of the VAT. This would facilitate a return to the medium-term primary surplus target, following a temporary easing of the fiscal stance to accommodate the current commodity price shocks. They also recommended modification of the tax incentive regime and broadening the income tax base to strengthen the tax system.

Directors supported saving the bulk of the concessional financing for fuel consumption under the PetroCaribe initiative. They welcomed the setting up of an investment fund and restricting the spending on social projects from this source to the net return derived from the investment fund. Given the volatility associated with recent scaled-up aid flows, Directors called on the donors to make their disbursements more predictable, and encouraged the authorities to develop a framework to smooth the associated spending. Directors supported the authorities' intention to improve budget management.

Directors supported the authorities' strengthening of the regulation and supervision of nonbank financial institutions, and welcomed the recent introduction of the Financial Services Act in the parliament. Directors encouraged the authorities to quickly build capacity in the Financial Services Unit to regulate effectively nonbanks, particularly credit unions and insurance companies.

Directors agreed that the overall level of external competitiveness is adequate. They considered that the real exchange rate is broadly in equilibrium, in part reflecting the EC dollar depreciation against the currencies of trading partners. Nevertheless, Directors noted that the high external current account deficit poses risks that need to be carefully monitored and accompanied by efforts in the fiscal area.

Directors concurred with the authorities' focus on implementation of the structural reforms envisaged in Dominica's Growth and Social Protection Strategy. They also agreed with the high priority given to efforts to reduce the cost of doing business, including improving the efficiency of the energy sector.

***Public Information Notices (PINs)*** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Dominica: Selected Economic and Social Indicators

| | 2004 | 2005 | 2006 Prog. 1/ | 2006 Prel. | 2007 Est. | 2008 Proj. |
|---|---|---|---|---|---|---|
| (Annual percentage change, unless otherwise specified) | | | | | | |
| **Output and prices** | | | | | | |
| Real GDP (factor cost) | 3.0 | 3.3 | 4.1 | 4.0 | 1.5 | 2.6 |
| GDP deflator (factor cost) | 2.1 | 1.5 | 1.2 | 0.6 | 2.9 | 6.3 |
| Consumer prices (end of period) | 0.8 | 2.7 | 2.0 | 1.6 | 5.7 | 6.7 |
| **Money and credit 2/** | | | | | | |
| Net foreign assets of the banking system | 8.1 | -8.0 | 5.1 | 17.6 | 7.2 | -3.7 |
| Net domestic assets of the banking system | -2.1 | 14.7 | 2.9 | -8.0 | 1.9 | 8.4 |
| *Of which* | | | | | | |
| Net credit to the nonfinancial public sector | -5.1 | -1.2 | -2.0 | -10.8 | -7.0 | -0.3 |
| Credit to the private sector | 5.4 | 4.6 | 6.1 | 8.5 | 4.0 | 5.7 |
| Liabilities to the private sector (M2) | 5.9 | 6.7 | 8.0 | 9.6 | 9.0 | 4.7 |
| **Balance of payments** | | | | | | |
| Merchandise exports, f.o.b. | 4.5 | 0.4 | -1.0 | -1.1 | -4.5 | -12.1 |
| Merchandise imports, f.o.b. | 14.2 | 14.2 | 0.5 | 0.6 | 11.6 | 13.4 |
| Real effective exchange rate | | | | | | |
| (end of period, depreciation -) | -6.0 | 2.0 | … | -3.4 | -1.6 | … |
| (In percent of GDP, unless otherwise specified) | | | | | | |
| **Central government 3/** | | | | | | |
| Savings (including grants) | 7.6 | 10.0 | 11.5 | 13.5 | 13.9 | 11.1 |
| *Of which* | | | | | | |
| Primary savings (before grants) | 7.8 | 8.1 | 5.5 | 8.3 | 5.4 | 4.4 |
| Grants 4/ | 5.9 | 7.2 | 8.5 | 7.6 | 10.8 | 8.5 |
| Capital expenditure and net lending | 8.8 | 9.0 | 10.1 | 10.0 | 14.8 | 10.5 |
| Primary balance 4/ | 3.5 | 6.9 | 4.0 | 6.3 | 1.5 | 2.4 |
| Overall balance 4/ | -0.9 | 1.2 | 1.6 | 3.7 | -0.9 | 0.6 |
| **Nonfinancial public sector debt (gross) 5/** | | | | | | |
| Total | 110.5 | 103.6 | 101.4 | 102.0 | 94.3 | 86.3 |
| External | 76.8 | 71.1 | 70.8 | 70.0 | 65.0 | 59.3 |
| Domestic | 33.7 | 32.5 | 30.6 | 32.0 | 29.4 | 27.0 |
| **External sector** | | | | | | |
| Current account balance | -16.5 | -28.0 | -21.3 | -18.3 | -23.6 | -28.4 |
| External public debt service 6/ | 20.7 | 17.5 | 13.1 | 13.0 | 7.2 | 11.5 |
| Amortization | 14.0 | 9.1 | 8.4 | 8.3 | 3.9 | 7.7 |
| Interest | 6.7 | 8.4 | 4.7 | 4.7 | 3.3 | 3.7 |
| **Memorandum items:** | | | | | | |
| Nominal GDP at market prices (EC$ millions) | | | | | | |
| Calendar year | 770.1 | 808.0 | 809.5 | 856.5 | 906.4 | 982.6 |
| Net international reserves | | | | | | |
| (US$ millions; end-of-period) | 33.6 | 37.6 | 44.2 | 51.0 | 50.4 | 52.5 |

Sources: Dominica authorities; Eastern Caribbean Central Bank ECCB; and IMF staff estimates and projections.

1/ IMF Country Report No. 07/1, Seventh PRGF Review (November 2006).

2/ Percentage changes relative to the stock of M2 at the beginning of the period.

3/ Figures shown for a given calendar year relate to the fiscal year (July–June) beginning on July 1 of that year.

4/ Does not include grants that were received but not spent, in line with IMF Country Report No. 05/384.

5/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

6/ In percent of exports of goods and nonfactor services. Up to 2005 data are on pre-restructuring terms. After that, data are on post-restructuring terms for creditors participating in the debt restructuring and on pre-restructuring terms for creditors not participating.