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Dominica: 2005 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criterion, Financing Assurances Review, and Extension of Repurchase Expectations—Staff Report; and Public Information Notice and Press Release 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 a combined discussion of the 2005Article IV consultation with Dominica and the fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for a waiver of nonobservance of a performance criterion, financing assurances review, and extension of repurchase expectations, the following documents have been released and are included in this package:

- the staff report for the 2005 Article IV consultation, fifth review under the three-year arrangement under the Poverty Reduction and Growth Facility and requests for waiver of nonobservance of performance criterion, financing assurances review, and extension of repurchase expectations prepared by a staff team of the IMF, following discussions that ended on August 25, 2005, 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 September 29, 2005. 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 Public Information Notice (PIN) and Press Release summarizing the views of the Executive Board as expressed during its October 14, 2005 discussion of the staff report that concluded the Article IV consultation, and the IMF arrangement, respectively.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Dominica*
Poverty Reduction Strategy Paper—Preparation Status Report
Statistical Appendix
Supplement Memorandum of Economic Policies by the authorities of Dominica*
Technical Memorandum of Understanding*
*May also be included in the Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

DOMINICA

Staff Report for the 2005 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Requests for Waiver of Nonobservance of Performance Criterion, Financing Assurances Review, and Extension of Repurchase Expectations

Prepared by Western Hemisphere Department
(In consultation with other departments)

Approved by José Fajgenbaum and Matthew Fisher

September 29, 2005

- **Recent developments:** The economy is recovering from the aftermath of an economic and financial crisis in 2001–02 when output contracted by some 10 percent. The roots of the crisis lay in an unsustainable build-up of public debt in the late 1990s. The build-up in domestic arrears that this prompted, coupled with the adverse effects of a severe drought on agriculture and a decline in the nascent tourism sector following the September 11 attacks, triggered a steep recession. The strong fiscal adjustment and collaborative debt restructuring that the authorities subsequently put in place have been accompanied by a rebound in output. The economy is set to register its second year of above average growth in 2005.

- **Arrangement.** A three-year Poverty Reduction and Growth Facility (PRGF) arrangement of SDR 7.7 million (94 percent of quota) was approved on December 29, 2003. The last program review was completed on March 7, 2005, and a total of SDR 4.2 million has so far been disbursed. Program implementation remains strong, with all but one quantitative performance criteria observed. Progress at structural reforms have been somewhat slower than envisaged, but remains satisfactory. In the attached supplementary memorandum of economic policies, the authorities outline their reform program for 2005/06 and request completion of the fifth review.

- **Exchange regime.** Dominica is a member of the Eastern Caribbean Currency Union (ECCU), which is administered by the Eastern Caribbean Central Bank (ECCB). The common currency, the Eastern Caribbean dollar, has been pegged to the U.S. dollar since July 1976 at US$1=EC$2.70. Dominica has accepted the obligations of Article VIII, Sections 2, 3 and 4, and maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

- **Fund Relations.** The last Article IV consultation was concluded in August 2002, and the Public Information Notice (PIN) summarizing the Executive Directors' views and policy recommendations is available on the IMF's public website at: http://www.imf.org/external/np/sec/pn/2002/pn02116.htm

- **Missions:** Two missions visited Roseau. The first during June 9–23, 2005, comprising Messrs. Panth (Head), Dyczewski, Njoroge, Rasmussen (all WHD), Selassie, Rodriguez (both PDR). Mr. Graham (World Bank) and representatives from the ECCB and the Caribbean Development Bank participated in the mission. Mr. Campbell (OED) and Ms. Sahay (WHD) joined the mission for the final discussions. A second mission visited Roseau during August 22–26, 2005 to conclude the discussions, comprising Messrs. Selassie (Head), Njoroge, Rasmussen (all WHD) and Rodriguez (PDR).

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EXECUTIVE SUMMARY

- **Dominica is recovering from the aftermath of an economic and financial crisis in 2001–02 when output contracted by 10 percent**. With a rebound in economic growth, strong fiscal consolidation, and a collaborative debt restructuring agreement, public finances are now on a firmer footing. Playing off the recovery, the incumbent administration won another five-year term in the May 2005 general elections.
- **The 2001–02 crisis originated in the expansionary fiscal policies of the preceding decade, when the authorities sought to prop-up activity by increasing public spending.** By 2001, this approach had reached its limits and the government faced a liquidity crisis. Coupled with the adverse effects of a severe drought and the September 2001 terrorist attacks, the result was a steep recession.
- **The authorities' reform strategy has since mid-2003 aimed at ensuring an orderly adjustment, followed by measures to reinvigorate growth.** With the debt-to-GDP ratio approaching 130 percent, the authorities concluded in December 2003 that the debt situation was unsustainable and launched a debt exchange offer. The Fund has supported the authorities' reforms since 2002 initially through a Stand-By Arrangement (SBA) and since end-2003 through a PRGF arrangement.
- **The strategy has been remarkably successful.** Economic growth has increased to over 3 percent a year. The central government primary balance has swung to a surplus of 4½ percent of GDP in 2004/05, with both higher revenues and lower spending contributing to the improvement. The debt restructuring process coupled with the fiscal consolidation effort allowed the debt stock to decline to 117 percent of GDP at end-2004.
- **Program implementation has been solid and staff recommends completion of the financing assurances review.** All end-June quantitative performance criteria were met, most with large margins, although the continuous performance criterion on external arrears was missed. All three structural benchmarks for the fifth review have been broadly completed, and legislation to introduce a VAT was recently passed by Parliament. Progress on structural reforms has generally been slower than hoped, reflecting limited implementation capacity and difficulties in building consensus.
- **More work is required to conclude the debt restructuring process**. Agreements have been reached with creditors holding about 70 percent of the debt eligible for restructuring. Discussions with nonparticipating creditors continue and the authorities are depositing interest payments into an escrow account under the restructured terms. The issuance of new bonds to all participating creditors has, however, yet to be completed.
- **The critical challenge now is sustaining the current growth momentum.** Ensuring progress in lowering poverty and unemployment will require decisive action. Challenges include the poor prospects for the banana sector, rising oil prices, a high vulnerability to natural disasters, the continued high debt level and the large unfunded liabilities in the social security system, and structural rigidities. Consistent with the increased focus on growth, the authorities' program for 2005/06 has a stronger emphasis on structural reforms, with the forthcoming Growth and Social Protection Strategy document representing an important step forward.

I. INTRODUCTION

1. **Dominica has come a long way from the low-point of the 2001–02 economic crisis when output contracted by 10 percent**. Economic growth has recovered more recently and is set to record the second straight year of above average growth in 2005. Reflecting strong fiscal consolidation and a collaborative debt restructuring agreement, public finances are now on a firmer footing. The structure and transparency of public finances is also improving.

2. **Playing off the recovery, the incumbent administration won another five-year term in the May 2005 general elections**. The Dominica Labor Party (DLP) was returned to Parliament with an increased majority. The opposition campaigned vocally against the Fund-supported program.

3. **The critical challenge for the authorities now is sustaining the current growth momentum.** While Dominica has been at the forefront in addressing the fiscal challenges that most of the countries in the region face,[1] it has yet to tackle the constraints on growth. Like other countries in the region, sustained private sector-led growth has proved elusive in Dominica, and prospects for maintaining growth at current levels remain uncertain. Structural rigidities abound in the economy and, without decisive action to address these bottlenecks, progress in lowering poverty and unemployment (Box 1) will be constrained.

Box 1. Social Indicators

In a regional perspective, Dominica has a per capita income at the lower end among the Eastern Caribbean Currency Union (ECCU) countries but relatively high social indicators. The economy is highly dependent on agriculture (banana) with manufacturing and tourism playing a lesser role.

Table 1. Social Indicators

	GDP per Capita (US$)	Human Development Index Ranking 1/	Life Expectancy at Birth	Voice and Accountability 2/	Poverty Rate
Caribbean	5,366	78	69	68	28
ECCU	5,633	73	72	74	27
Non-ECCU	5,189	81	68	65	29
Dominica	**3,554**	**95**	**73**	**81**	**33**

Source: World Bank.

1/ Out of 174 countries.
2/ Percentile ranking.

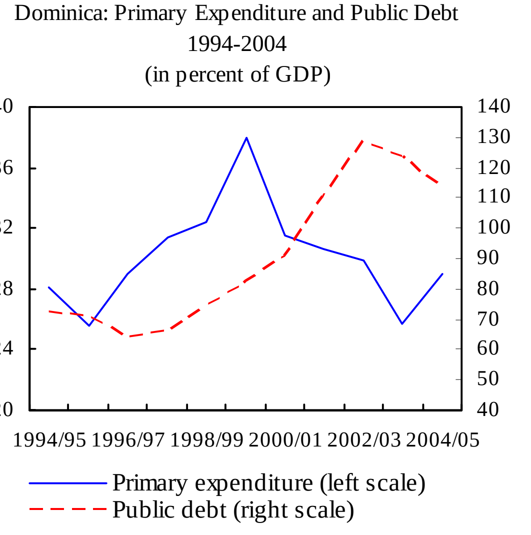
4. **The Fund has supported the authorities' reforms since 2002 initially through a Stand-By Arrangement (SBA) and since end-2003 through a PRGF arrangement**. Program implementation since the introduction of the PRGF has been solid. In the attached letter of intent and supplementary memorandum of economic policies (MEP), the authorities

[1] See *Eastern Caribbean Currency Union—Report for the 2005 Regional Discussions*, IMF Country Report No. 05/304.

outline their economic policies for the coming months and request a waiver for the nonobservance of a performance criterion for completion of the fifth review under the PRGF.

II. Background and Perspective

5. **The roots of the 2001–02 economic crisis lie in the expansionary fiscal policies of the preceding decade**. As output growth declined in the 1990s, the authorities sought to prop-up activity by increasing public spending. The primary balance of the central government turned strongly negative in the mid-1990s, and public debt quickly reached unsustainable levels (Figure 1). By 2001, this approach had reached its limits. With financing only available at precipitously high interest rates, the newly elected DLP government faced a major liquidity crisis. The build-up in domestic arrears that ensued, coupled with the adverse effects of a severe drought on agriculture and the September 2001 terrorist attacks on the nascent tourism sector, precipitated a steep recession.



6. **Dominica's recent growth performance has been much weaker than the other ECCU countries**. While output growth in Dominica kept pace with its brethren in the 1980s, the situation reverses for much of the 1990s. Dominica also experienced the sharpest recession following the September 11 attacks. What explains this difference?

- **The dominant role of agriculture**. Agriculture (banana production, in particular) plays a much larger role in Dominica than in the other ECCU countries, and the 1990s were a relatively difficult time for the sector. Reflecting the uncertainty regarding the future of the preferential trade arrangements for bananas, a trend decline in the banana export price, and the higher productivity of other producers, acreage, employment and investment in the sector has been declining since the early 1990s.

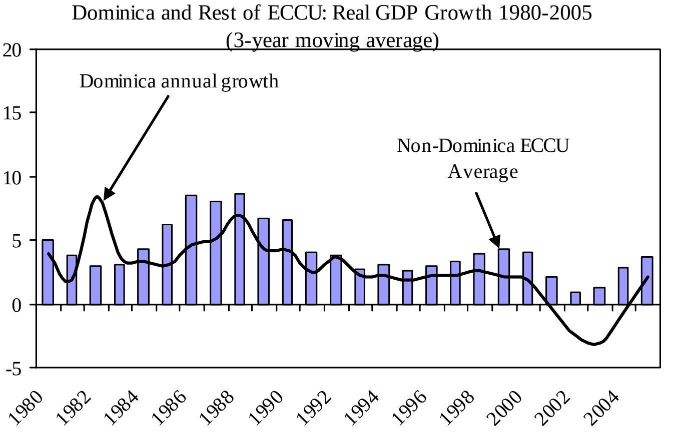
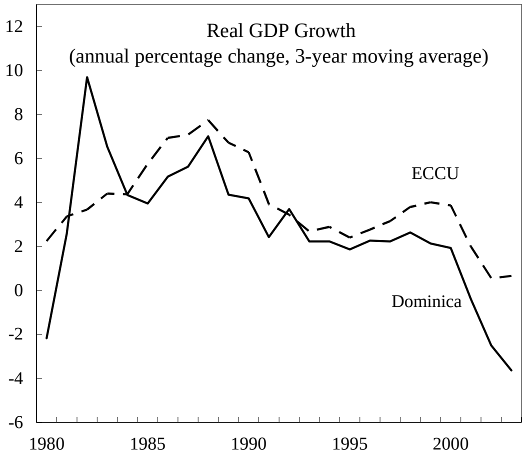


Figure 1. Dominica: Emergence of the Crisis

The growth slowdown was regional.

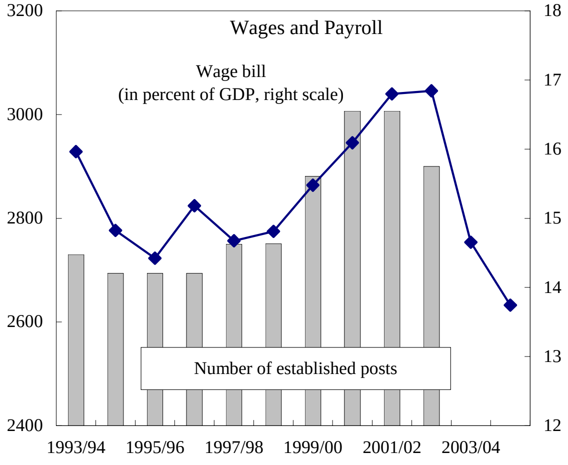


As growth slowed in the 1990s...

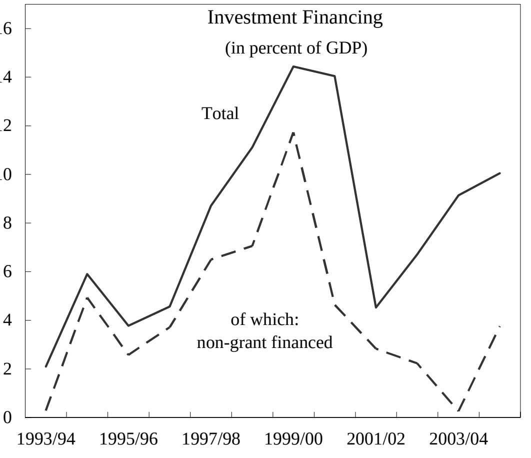
Sectoral contribution to real GDP growth

	1986-90	1991-95	1996-00	2001-02	2003-04
	(annual percentage change)				
Real GDP Growth	5.2	2.1	2.2	-4.4	1.7
Bananas	0.8	-0.6	-0.1	-0.6	-0.2
Government Services	0.4	0.1	0.5	0.8	-0.6
Manuf/Constr/Trade	1.8	1.0	0.6	-1.9	1.1
Other	2.2	1.6	1.2	-2.7	1.5

... the government payroll expanded dramatically in the second half of the 1990s...

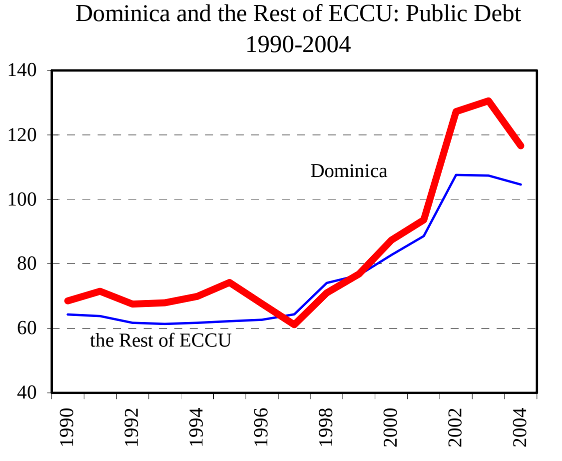


...as did government investment financed by borrowing.



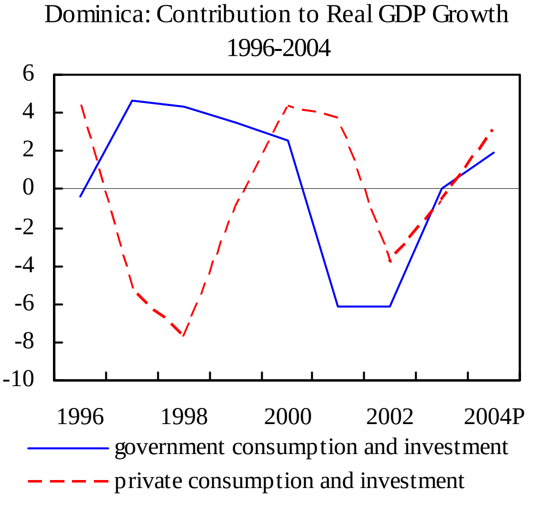
Sources: Dominican authorities; and Fund staff estimates.

- **Agricultural difficulties were compounded by the government's liquidity constraints in 2001–02**. While the other ECCU countries also attempted to counteract the 1990s growth slowdown through expansionary fiscal policies, only in Dominica did the liquidity constraint become binding. This seems to reflect concerns about the country's growth prospects. With few beaches at hand, the scope to diversify economic activity away from agriculture to traditional tourism activities as in the other neighboring islands was limited.



- **Migration**. With per capita income at the low-end in the region, emigration (and consequent loss of human capital) from Dominica has not just been to the OECD countries but also to the richer countries in the region.

7. **As government arrears mounted, macroeconomic policies could do little to counter the 2001–02 recession**. The downturn also weakened revenue collection, causing the primary balance to swing more sharply into deficit (8½ percent of GDP in 1999/00). After peaking at 38 percent of GDP in 1999/00, public spending was reduced sharply in face of financing constraints contributing to the drop in output. The arrears that the government accumulated to the domestic private sector also caused private demand to decline. Monetary policy, conducted at the regional level, remained largely passive.



8. **The stabilization program (supported by a SBA) introduced in the 2002/03 budget soon fizzled due to weaker than expected economic conditions and policy slippages**. Economic growth in 2002 was much weaker (-4½ percent) than envisaged under the SBA (-½ percent), reflecting lower exports and tourism receipts, as well as an unforeseen sharp decline in private and public investment (the latter due to slow implementation of the public sector investment program). Despite higher foreign grants and lower capital spending, the overall deficit target for 2002/03 was 1½ percent of GDP worse than budgeted because of cyclical factors and the failure to hold down the wage bill as envisaged. With little progress on the fiscal front, arrears to private creditors continued to accumulate.

9. **The more focused and comprehensive adjustment strategy adopted in mid-2003 enabled the economy to emerge from the crisis** (Box 2). This revised strategy—initially supported by the SBA and a PRGF since December 2003—focused first on prospects for an orderly adjustment, followed by measures to reinvigorate growth and a debt strategy to ensure medium-term fiscal sustainability. The strategy has been remarkably successful, allowing growth in 2004–05 to converge to the ECCU regional average:

- **Fiscal consolidation**. A central government primary balance of 3 percent of GDP was established as the objective for budgetary policies in due course. In the event, the primary balance has swung from an average deficit of 1½–2 percent of GDP in 2001–03 to a surplus of 4½ percent of GDP in 2004/05 (about 4 percent of GDP excluding one-off factors). Both higher revenues and lower spending contributed to the improvement. Revenue measures aimed at broadening the tax base and improving the efficiency of the tax system, and the economic recovery also helped to increase the revenue to GDP ratio. On the expenditure side, the government has shown remarkable restraint. The wage bill, which at 17 percent of GDP was one of the largest in the region, has been reduced by more than 3 percentage points. Nongrant funded investment spending has also been scaled back.

- **Debt restructuring**. With the debt-to-GDP ratio approaching 130 percent, the authorities concluded in December 2003 that the debt situation was unsustainable, an assessment supported by the staff. The debt exchange offer that the authorities eventually launched was aimed primarily (but not exclusively) at private sector creditors.[2] The restructuring process coupled with the fiscal consolidation effort has allowed the debt stock to decline to 117 percent of GDP at end-2004.

- **Structural fiscal reforms**. A broad range of structural reforms have been initiated, though only a few have come to fruition. Most notably, legislation to introduce a VAT was recently passed by Parliament. Progress on other fronts has, however, been slower than hoped. In the main, this reflects the very limited implementation capacity, including from the government's inability to build consensus in some areas.

[2] Claims issued prior to December 2003 were to be exchanged for three new local currency denominated bonds carrying a coupon rate of 3.5 percent. These bonds have 10, 20 and 30-year maturities, and entail principal reductions of 30, 20, and 0 percent, respectively.

Box 2. Past Staff Advice

The authorities feel that previous staff advice has been broadly useful …

They noted that despite limited appetite for Fund-supported programs in the region and harsh criticism at home, they had sought Fund advice and support for their economic program. Moreover, the policies that have been pursued have paid off as evidenced by the quick resumption of growth.

but with a couple of caveats:

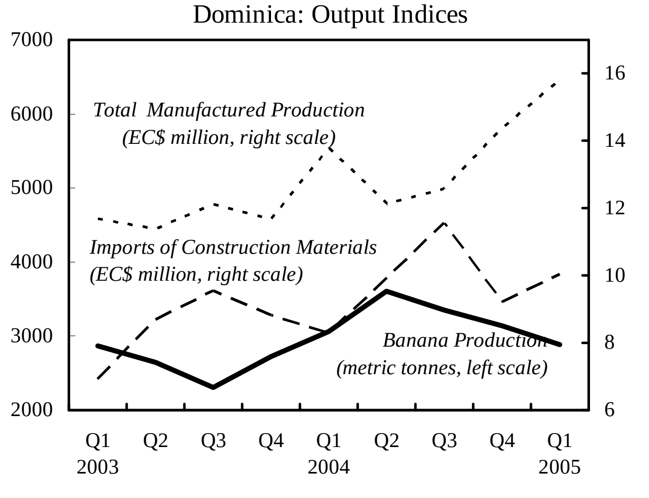
First, officials wondered if the Fund should not have been more candid about the large expensively financed spending increases in the late 1990s. For instance, they noted that staff statements had on one occasion referred to these spending plans as being "ambitious." This was used in public debates by the then administration, as a validation of its economic strategy.

Second, the authorities thought that the Fund had at times not been cognizant enough of Dominica's limited capacity to implement structural reforms.

III. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

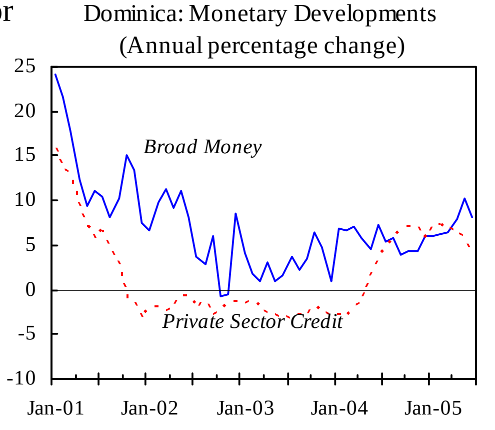
10. **Recent economic developments have been favorable**:

- **Economic growth has resumed and inflation remains subdued**. Real GDP increased in 2004 by an estimated 3.5 percent. The expansion was relatively broad based, with virtually all sectors showing a pick-up. The expansion has continued and staff and the authorities expect real GDP growth to reach 3 percent in 2005 (albeit subject to downside risks). Inflation declined in 2004 and has remained subdued through July 2005, despite the pass through of higher energy prices to consumers.

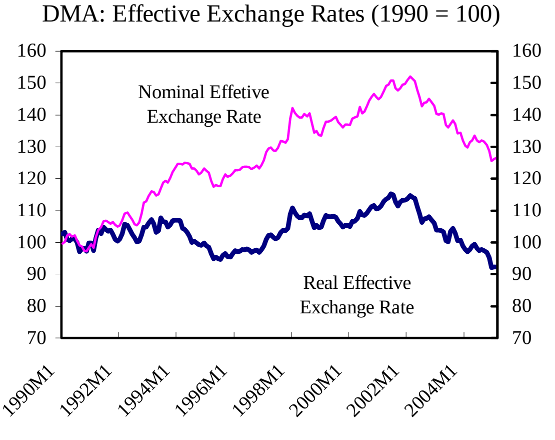


- **Mirroring the domestic recovery, import growth has picked up**. Increased tourism receipts however ameliorated the current account impact, with merchandise exports broadly unchanged.[3]

- **Financial intermediation has also rebounded** (Table 4). After a contraction that started in mid-2001, credit to the private sector turned positive from mid-2004. Notwithstanding the pick-up in credit growth, banking system liquidity remains high due, in part, to the strengthened fiscal accounts and also growing deposits. Banks have used this opportunity to increase their net foreign asset position in recent months. The debt restructuring (by design) had a very limited effect on banks' balance sheets. Moreover, indicators of banking system soundness suggest a modest reduction in nonperforming loans.



- **The East Caribbean dollar, which is pegged to the U.S. dollar, has depreciated markedly in real effective exchange rate (REER) terms since 2002**. Mirroring the U.S. dollar, the E.C. dollar depreciated in real effective terms by 7 percent in 2004 and by a further 3½ percent through mid-2005. The continuing rapid growth in tourism and related activities are suggestive of competitiveness being adequate.[4]



11. **Performance relative to the program targets has been solid**.

- **All end-June quantitative performance criteria were met, most with large margins** (Table 5). The continuous performance criterion on the nonaccumulation of external arrears was, however, missed due to a brief delay in servicing a government guaranteed loan.

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[3] The first round effect of higher oil prices on imports in 2005 is estimated to be about 2 percentage points of GDP, although this is set to be partially offset by endogenous changes, including lower oil demand.

[4] See P. Cashin, P. Njoroge, and P. Rodriguez (2004), *Competitiveness in the ECCU: Measures of the Real Exchange Rate*, ECCU Selected Issues, IMF Country Report No. 04/335.

- **Fiscal performance in FY 2004/05 was strong**. Revenue collection was almost 2 percentage points of GDP higher than previously projected, reflecting arrears collection and windfall gains.[5] Current expenditures exceeded the baseline program target, but this was mainly on account of an unbudgeted transfer of ¾ percent of GDP required for the establishment of the regional Caribbean Court of Justice (CCJ). At the same time, delays in project execution and donor disbursement saw significant shortfalls in capital spending. At 4½ percent of GDP (4 percent excluding the one-offs from migrants deposits and the CCJ payment), the primary surplus for the year was 2½ percentage points of GDP higher than programmed.

Dominica: Recent Fiscal Performance

	2003/04		2004/05	
	Prog.	Actual	Prog. 3/	Actual
	(in percent of period GDP)			
Primary balance 1/	**1.7**	**5.6**	**2.0**	**4.4**
Revenues (excl. grants)	**29.5**	**31.2**	**31.3**	**33.1**
Non-Interest Expenditures and Other	**-27.9**	**-25.6**	**-29.3**	**-28.8**
Non-interest current expenditures	-26.8	-25.4	-24.7	-25.3
Investment (net of grants) and other 2/	-1.1	-0.2	-4.6	-3.5
Memorandum item:				
Grants	7.4	8.8	8.1	5.9
Non grant-financed investment (ratio)	32	29	39	41

1/ Measured from below the line.
2/ Includes net lending and statistical discrepancy.
3/ IMF Country Report No. 05/117.

12. **There has been encouraging progress on structural reforms** (MEP ¶5).

- All three structural benchmarks for the fifth review have been broadly completed (Table 6), although the proposals to amend the Finance Administration Act were finalized without numerical targets.

- The government has decided to publish in the Official Gazette all Cabinet decisions granting new tax and duty concessions, identifying the beneficiary as well as its legal basis—a step that will enhance the transparency of public finances.

- With parliamentary approval of the VAT and excise tax legislations, substantial progress has been made towards the introduction of a VAT on March 1, 2006.

13. **More work is required to conclude the debt restructuring process**. As reported previously (IMF Country Report No. 05/117), agreements have been reached with creditors holding just above 70 percent of the debt eligible for restructuring. Discussions with three creditors that account for the bulk of the remaining unrestructured debt are continuing. However, staff understands that one of these creditors, the Exim Bank of Taiwan Province of China, recently filed suit in a New York District Court to recover its claim (about US$12 million). Given that the court case has just been initiated, its implications on Dominica's

[5] The fiscal accounts benefited from some 1 percent of GDP in migrants' deposits—proceeds required of regional migrants, and forfeited when they fail to return to their country of origin. The fees were introduced to stem the flow of migrants using Dominica as a transit point to neighboring French territories. The government has further tightened travel restrictions in recent months, and now requires most such travelers to obtain a visa to travel to Dominica.

ability to reach collaborative agreement with this creditor and on program implementation remain uncertain. Staff will review documents as they become available and will monitor developments closely. As a sign of good faith toward nonparticipating creditors, the authorities have continued to deposit into an escrow account interest accrued under the original terms until the date the exchange offer was closed, and under the restructured terms subsequently.

IV. Report on the Discussions

14. **The Article IV consultation and program discussions took place against the backdrop of a broadly favorable economic environment, but with concerns about its medium-term viability and the need to reduce poverty**. Notwithstanding the recent gains, the authorities acknowledged that much remains to be done to sustain the current growth momentum—which is essential for the government's central objectives: job creation and poverty alleviation. The government's strategy document to address these objectives—the Growth and Social Protection Strategy—is currently being finalized. The authorities reiterated their commitment to prudent fiscal policies, accelerating structural reforms and reducing vulnerability to shocks. Against this background, the policy and program discussions focused on:

- **Sustaining the current growth momentum**. The government recognized the large role that temporary factors (including favorable agriculture conditions in 2004) have played in the recent upturn. The discussions therefore focused on how best to remove policy-induced distortions that might impede private investment.

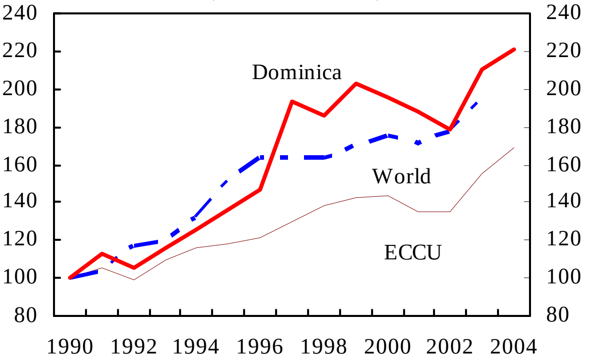
- **Putting public finances on a sustainable footing**. With the 2004/05 primary balance having reached the level targeted for gradually reversing the debt build-up of recent years, discussions focused on measures required to ensure the long-term viability of public finances. The scope and options for accelerating many of the structural fiscal reforms under the program was also considered.

- **Reducing vulnerability to shocks**. Discussions on Dominica's vulnerability to natural disasters were put sharply into focus by the earthquake that hit the north of the island last November, causing damage estimated at 7 percent of GDP. The risks that the limited oversight of the domestic financial sector poses were also considered.

A. Outlook

15. **Staff and the authorities worked together to update the medium term macroeconomic framework** (Table 7). There was broad agreement that annual GDP growth of some 3 percent should be feasible over the medium term (Box 3), and that annual inflation would remain subdued at below 2 percent. The external current account is expected to improve over the medium term. Strong growth in tourism receipts should continue in the near term—particularly in view of the recent expansion of hotel room capacity—and merchandise exports (of niche agricultural products) are expected to strengthen in the outer years. Import growth, after rising sharply this year, reflecting higher private and public investment, is expected to slow somewhat.

Dominica: Tourism Receipts
(Index 1990=100)



Source: World Tourism Organization and Caribbean Tourism Organization.

Box 3. Dominica: Growth Performance and Potential

Dominica's growth potential is better than recent experience would imply and macroeconomic policies remain key to achieving higher growth.

- Simple simulations show that, given its endowments, Dominica is **performing below its growth potential.** Barro (1991) uses variations in initial per capita income, human capital and government consumption to explain growth rates across a wide number of countries.[1/] Levine and Renelt (2002) use, in addition, investment and population increase as other growth determinants. These equations predict per capita income growth for Dominica in the range of 2¾−6 percent. Even at the conservative end, the realized rate, during 1990−2003, of about 1½ percent compares unfavorably.[2/]

- Reducing government size and increasing trade can significantly improve performance. A World Bank cross-Caribbean econometric study suggests that if policy trends in the 1990s had persisted, Dominica's annual growth would be even lower—with the increasing inward orientation of the economy and upward movement in government consumption more than offsetting the impact of increased education, financial deepening, and stronger public infrastructure.[3/] Critically, this same study finds that if instead, Dominica's government consumption burden decreased to the 75th percentile ranking in the Latin America and Caribbean region, annual real GDP growth could jump to 2.9 percent.

1/ R. J. Barro, (1991). *Economic Growth in a Cross-Section of Countries. Quarterly Journal of Economics, Vol. 106, pp. 407−443.*

2/ R. Levine, and D. Renelt (1992). *A Sensitivity Analysis of Cross-Country Growth Regressions, American Economic Review, Vol. 82, pp. 942−63.*

3/ World Bank. *A time to Choose: Caribbean Development in the 21st Century. 2005.*

16. **Considerable uncertainty attaches to this scenario**.

- On the positive side, Dominica's forested volcanic topography and underwater attractions render it well placed to exploit the fast growing global adventure and nature-based tourism. The considerable potential to export geothermal-based electricity to the neighboring French territories of Guadeloupe and Martinique, if realized, could boost output significantly.

- On the other hand, downside risks are nontrivial. Prospects for the banana sector remain grim, particularly in light of the EU's recently announced plans for reforming its import arrangements. Despite shrinking considerably in the past decade, the sector continues to employ a large number of farmers. However, some observers, particularly the representatives of the banana sector, believe that the sector can rebound. The recent rise in oil prices—which have been passed on in full to consumers, but at times with a short delay—and their potential to dampen private consumption also heighten downside risks, particularly in the near term. Dominica's high vulnerability to natural disasters and its high debt (notwithstanding the debt restructuring) are major risks.

B. Reinvigorating Growth and Reducing Poverty

17. **The authorities stressed their desire to see the private sector play a dominant role in the economy**. They acknowledged that, despite past high levels of public investment, growth prospects had failed to improve and unemployment and poverty remain high—at 25 percent of the labor force and 33 percent of the population, respectively, as of 2002. Staff concurred with this assessment, noting that investment in infrastructure in the past had been neither well-considered (often projects were left incomplete) nor affordable (financed nonconcessionally). The significant loss of human capital through migration had further undermined growth potential. Against this backdrop, staff and the authorities agreed on the need for policies to facilitate a shift away from the public sector driven growth and employment, in favor of the private sector. These include, removing policy-induced bottlenecks (see below) to allow emerging sectors to flourish, better prioritizing public sector investment, and improving the private sector investment climate.

18. **There was broad agreement that, at its current level, the real exchange rate would not hamper growth prospects**. The U.S. dollar's depreciation since 2002 has allowed CPI-based REER to revert to pre-1990s levels, giving competitiveness a positive fillip. The authorities were satisfied that any misalignment of the E.C. dollar had been eliminated by this depreciation. They considered that the recent focus on niche markets where the country had a comparative advantage, such as adventure tourism and high value added agricultural products, would be beneficial given that wages in Dominica were not particularly low. Tourism industry representatives noted an urgent need for better training and infrastructure development, but otherwise felt that the sector was reasonably competitive. Other business community representatives stressed the high cost of electricity and shipping, and a slow and unnecessarily bureaucratic investment approval process. The

authorities noted that both the high cost of electricity and the investment approval process are going to be addressed in the coming months.

19. **The mission stressed the need to address bottlenecks to investment—some of which are being tackled as part of the PRGF-supported program**.

- The privately-owned electricity company, DOMLEC, currently has monopoly rights for electricity generation, transmission and distribution. Staff therefore emphasized the need to revamp the legislative framework governing the electricity sector to allow new entrants, including to tap the country's considerable geothermal potential. The envisaged reforms, which the authorities would like to put in place by the end of this year (MEP ¶10), will establish a regulatory commission and institute a tariff structure more reflective of production costs.

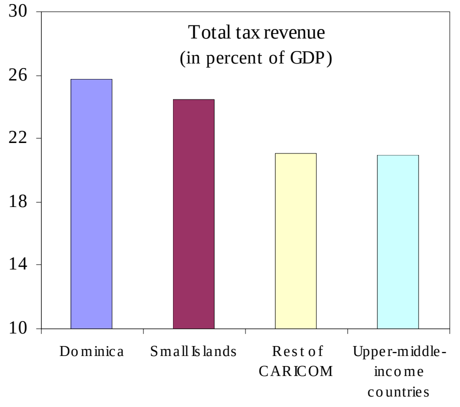
- The public sector agencies engaged in investment promotion—Dominica Export Import Agency (DEXIA), the National Development Cooperation (NDC) and AID Bank—also need to be reviewed. The mission questioned the need for three institutions, as well as their effectiveness in promoting investment and limited accountability. DEXIA's monopoly on rice and sugar importation is questionable given the desire for the private sector to play the dominant role in the economy. NDC's investment approval process is slow and uncertain, and the agency fails to operate as a "one-stop" investment promotion agency. The AID Bank's balance sheet needs closer scrutiny. The authorities are of the view that all three institutions had a role to play in the economy, but acknowledged that their operations may need streamlining. To that end, they agreed to undertake strategic reviews of all three institutions and establish implementation action plans by end-December 2005 (MEP ¶10).

- The mission also pointed to the absence of a national cadastral survey, and land registration is neither mandatory nor comprehensive, often making it difficult to establish ownership unambiguously and to use land as collateral for borrowing. The mission urged the authorities to accelerate the program to modernize land registration.

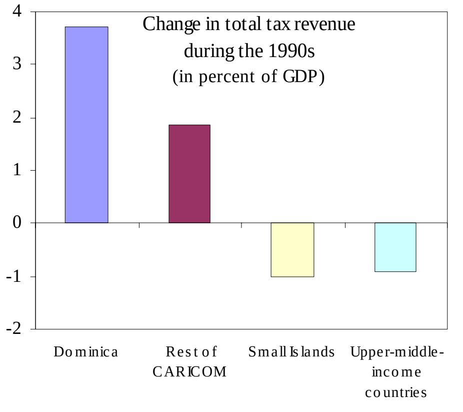
20. **There was extensive discussion on the merits of tax incentives to promote investment**. Staff argued that incentives are costly (forgone customs revenue in 2004/05 are estimated at about 4½ percentage points of GDP), administratively burdensome, and nontransparent (Figure 2). Moreover, policies that seek to identify and support winners are likely to create a cycle of dependency that sustains uncompetitive firms. The authorities argued that competition between regional economies generates considerable pressure for granting tax incentives for new investments. The government also thought the costs identified by staff were somewhat exaggerated given that the imports may have never have existed as a revenue source in the absence of the tax concessions. The mission nonetheless

Figure 2. Dominica: Tax Structure

Overall, taxes are high…

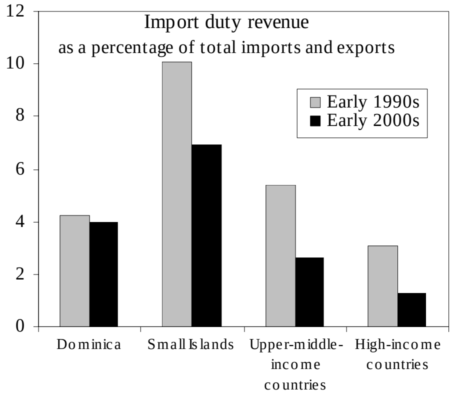


…and increasing.

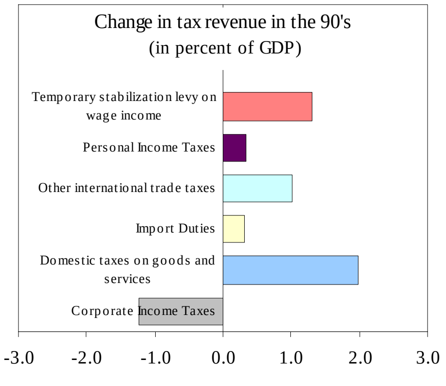


Receipts from trade taxes have increased…

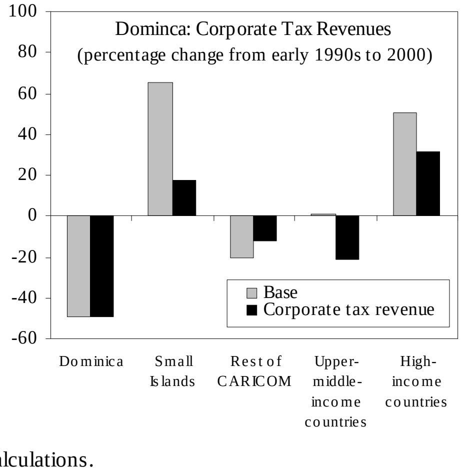
…even as others move away from them fast.



But corporate income taxes have fallen…



…because of a shrinking base.



Source: Keen and Simone (2004) and Fund Staff calculations.

noted that the concessions' benefits in terms of increased FDI appear to have been limited. Further, a recent World Bank survey of firms operating in the ECCU region suggests that investors attach a relatively low weight to fiscal incentives in determining investment location. Staff recommended adopting a regional cooperative approach in reducing statutory concessions. The authorities agreed to undertake a comprehensive review of statutory exemptions (MEP ¶20) and keep to a minimum recourse to discretionary tax exemptions—which has been increasing lately.

21. **The authorities intend to strengthen policies on education and migration**. The loss of a substantial number of nurses in recent years, to the U.S. and U.K., in particular, has strained local medical services delivery. The authorities saw scope for expanding the training of nurses in the near term, perhaps with private-sector interest, to a full-fledged export sector. Staff saw merit in this initiative, but noted the need to limit the budgetary implications by obtaining full cost recovery. The authorities were also keen to increase remittances and investment from Dominica's Diaspora to offset the 'brain drain.' They noted that initial steps had already been taken towards defining such a policy by commissioning a report by Dominicans in the Diaspora on how best the government can facilitate these activities.

C. Fiscal Policy and Debt Sustainability

Medium-term context

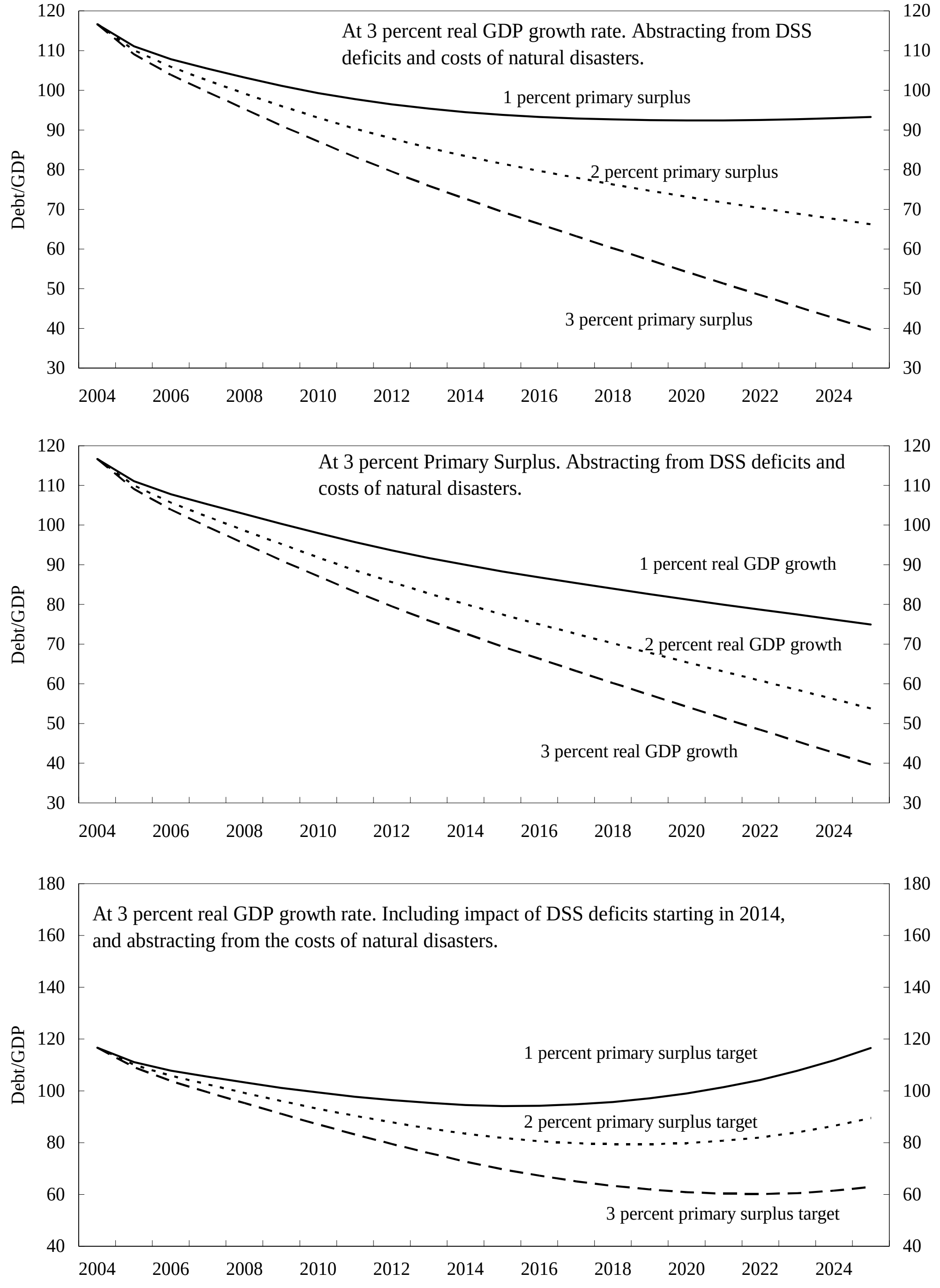
22. **Discussions on the FY 2005/06 budget were preceded by a comprehensive assessment of the medium-term fiscal outlook**.[6] The debt sustainability analysis discussed with the authorities affirms that the 3 percent of GDP central government primary surplus being targeted under the program would ensure a gradual decline in debt, provided growth remains at current levels and Dominica Social Security's (DSS) finances are improved.[7] Staff highlighted the sensitivity of the public debt path to both the assumed primary surplus and the economic growth rate.[8] Abstracting from DSS deficits, if a primary surplus of just 2 percent of GDP were to be targeted, the debt to GDP ratio would remain above 80 percent through 2015 (Figure 3). In the same vein, an average growth performance of 1–2 percent during the projection period would result in a similar very gradual decline in public debt (Figure 3). In both cases, the inclusion of DSS deficits projected under current policies would

[6] The medium-term primary balance objective under the program was initially based on growth remaining at the historical average of 2 percent per year, but it did not take into account the projected deficits of the social security system (see below).

[7] Under the baseline scenario, debt would decline to 60 percent in 2018. The fiscal benchmarks approved by the ECCB's Monetary Council call for this target to be achieved by 2007.

[8] The analysis assumes that nonparticipating creditors agree to participate in the debt restructuring process.

Figure 3. Dominica: Public Sector Debt Dynamics After Restructuring



Source: Country authorities and Fund staff estimates.

put the debt path back on an unsustainable trajectory (Figure 3). The authorities agreed that there were two options to avoid such an outcome: a primary balance target above 3 percent or adjusting the parameters of the social security system to eliminate DSS deficits. They saw merit in addressing these deficits through reforms (see below) rather than targeting a permanently higher primary surplus. The mission supported this approach.

FY 2005/06 budget

23. **Despite its mildly expansionary stance, the FY 2005/06 budget is consistent with further debt consolidation (MEP ¶11–13).** Based on relatively conservative revenue estimates, the authorities' budget targets a central government primary surplus of 3 percent of GDP to help reduce the debt burden.[9] The improved fiscal outlook and projected increase in grants has created room to increase capital expenditure to address, among others, the much needed road repairs required following last year's earthquake. Current expenditure will remain contained, with noninterest outlays held constant in real terms and the wage bill broadly unchanged as a ratio to GDP. By prioritizing capital projects within a tight overall expenditure envelope, the budget aims to support growth.

24. **The mission welcomed the budget, but noted that adhering to the wage bill target would require complementary reforms**. The authorities restored the 5 percent cut in public sector wages introduced in the 2003/04 budget. Staff supported this initiative, but regretted that delays in identifying and reducing excessive public sector employment as envisaged under the program will preclude a reduction in the wage bill to GDP ratio. The authorities stressed their commitment to a smaller, more efficient and better paid public service. Moreover, they intend to reduce the wage bill by 1–1½ percentage points of GDP over the medium term from its current level of 13¾ percent of GDP (MEP ¶16). This target will be realized principally through streamlining, commercializing or privatizing nonessential services.[10] To ensure adherence to the budgeted wage bill ceiling in 2005/06, the government has initiated steps to outsource janitorial and government building security services as well as streamlining the airports and ports authorities (MEP ¶16).

25. **Staff noted that effective implementation of the public sector investment program (PSIP) will be a major challenge given its size and capacity constraints**. The sectoral composition of the PSIP could be brought more in line with the government's growth strategy by focusing on investments in human and physical capital. Monitoring and planning of the PSIP could be strengthened by prioritizing projects in a comprehensive multi-year rolling framework, and sequencing in line with institutional capacity and the flow

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[9] Under the program, any additional revenue from migrants' deposits will not count towards the primary balance target, but go towards reducing debt.

[10] A preliminary review by the ministry of finance has shown scope for reducing the wage bill by as much as 1 percentage point of GDP.

of funds. The authorities noted that greater flexibility in the use of grant funds from donors would improve PSIP execution.

Dominica Social Security

26. **The authorities and staff agreed that a key priority will be addressing precarious DSS finances**. A recent FAD/World Bank technical assistance mission confirmed that, as the pension system matures and the ratio of contributors declines, DSS will start to run deficits (by about 2014) and eventually deplete its reserves (by about 2025). The system's unfunded liabilities are estimated at some 150 percent of 2004 GDP and represent a major threat to public finances. Adjustments that need to be considered to address this risk include: a gradual reduction in benefits; raising the statutory retirement age; increasing the contribution rate; and diversifying the investment portfolio. Staff stressed that the early initiation of reforms could help avoid abrupt and drastic changes later. The authorities acknowledged the need for reform, and have undertaken to review reform options in a timely way (MEP ¶15).

Other fiscal pressure points

27. **The institutional setting for fiscal policy needs further strengthening**. The priorities in the areas of budgetary planning and implementation include:

- **Fiscal Responsibility Law**. The authorities intend to institutionalize fiscal discipline over the medium term, and discussed with the mission their plans to amend the existing Finance Administration Act (FAA) (MEP ¶17). This would set legal guidelines with broad objectives for the primary balance and budgetary design procedures. Work is already at an advanced stage, but the authorities stressed the need for wider public consultation and awareness before these amendments can be finalized.

- **Strengthening public expenditure management**. Progress is being made, especially in reconciling bank accounts, and improving the coverage, reporting and monitoring of expenditures. All government bank accounts are now captured in the general ledger. However, further work is needed to establish a robust cash management system, effectively control commitments, and initiate a medium-term budgeting framework for ministries.[11]

- **Strengthening the legal and institutional framework for public debt guarantees.** Guarantees have been used to secure better borrowing terms by statutory bodies and

[11] Weaknesses in effectively monitoring the stock of domestic arrears was brought to light by a recent incident where the government only recently acknowledged a claim for about EC$2 million. The work done by a contractor had apparently not been up to standards, and the government had failed to record the liability on its books until the work was completed recently.

are often requested by lenders. However, current procedures for guaranteeing debt are unsystematic, delinked from the government's other economic objectives, and offer few safeguards on the financial soundness of the underlying borrowing. The ministry of finance, with staff assistance, is working to strengthen this framework. The framework will involve ascertaining the financial soundness of the borrower and the borrowing plan, consistency with medium-term debt sustainability, transparency and parliamentary oversight in granting the guarantee, and monitoring the financial condition of the borrower for the duration of the guarantee.

Debt restructuring

28. **Staff called for a redoubling of efforts to complete the debt restructuring process, which has taken an unusually long time**. More than a year after the exchange offer formally closed in June 2004, the issuance of new bonds to all participating creditors has yet to be completed. The legislative changes that would allow these bonds to be traded on the Eastern Caribbean Stock Exchange (ECSE) also has yet to be passed by Parliament. The authorities attributed the delay to technical problems, limited domestic expertise, and difficulties in soliciting responses from nonparticipating (and some participating creditors). They committed to: (i) complete the issuance of the new bonds to all participating creditors shortly; and (ii) present legislative amendments at the next parliamentary sitting (expected in November) to allow ECSE trading of the bonds (MEP ¶7). The authorities reiterated their commitment to good-faith efforts to reach a collaborative settlement with the remaining creditors, and emphasized that they are treating outstanding principal amounts as if they had been restructured and are continuing to make deposits into an escrow account as payments fall due. They also noted that in late August they finally received communication from one of the three remaining large nonparticipating creditors and are hopeful of making further progress in the coming weeks. Staff cautioned that while payments into the escrow account underscored the authorities' positive approach to creditors, it did not preclude the risk of legal action by creditors as long as arrears are being incurred.

D. Addressing Vulnerabilities

29. **Discussions on policies to reduce vulnerabilities focused on strengthening the financial system and mitigating the costs of natural disasters.**

30. **Notwithstanding some banking system improvements, staff emphasized the need to monitor closely the recovery in credit growth and the quality of new lending**. The banking system was largely unaffected by the debt restructuring process, and appears broadly sound (Table 8). At end-June 2005, the capital adequacy ratios of locally incorporated banks was some 19 percent of risk-weighted assets, and the banking system's liquidity and profitability has been on the increase. But there remain concerns about banks ability to assess credit risk effectively, as nonperforming loans, while declining, are some 21 percent of total loans. Much of the recent credit expansion has occurred in the "personal loans" and "trade" categories, and staff queried the extent to which the former had been for business purposes,

and whether this reflected regulatory asymmetries for business versus personal loans. The authorities noted that some personal loans may well be used for business purposes, but thought that this likely reflected banks requests for personal collateral. Staff stressed the need for closer scrutiny on the quality of new lending, and urged the authorities to pass without delay the revised Banking Act, which would put in place some of the recommendations of the 2004 ECCU regional FSAP.

31. **The mission also called for steps to address vulnerabilities in the nonbank financial sector, particularly the credit unions**. Poor reporting practices and weak regulatory oversight have allowed credit union balance sheets to weaken over time, and the authorities have only started to address this problem in recent months. An onsite inspection of the Roseau Cooperative Credit Union (RCCU)—the largest credit union—undertaken in May, raised concerns about the level of nonperforming assets, account handling practices and the quality of the audit process. The recently established Financial Services Unit (FSU) is working with the RCCU to address the identified shortcomings, and is shortly also expected to carry out targeted inspections of the remaining 15 credit unions (MEP ¶10). Additionally, legislation is required to provide legal authority for the FSU to directly supervise the nonbank financial sector, including credit unions, money transfer institutions, and the AID Bank.

32. **Dominica's high vulnerability to natural disasters and recent experiences in the region underscore the need for better disaster-preparedness.** The November 2004 earthquake and mudslides had a large economic cost—estimated at around 7 percent of GDP—including through the fiscal accounts. The impact of future natural disasters could be reduced through better construction standards for roads and buildings, and greater risk mitigation could also be encouraged. However, improved building codes have not yet been legislated and not all government buildings and structures are insured. Staff also noted that the government might want to consider targeting a stronger primary balance, with a view to putting aside funds to cover the cost of any future natural disasters. The authorities saw merit in this proposal, but felt that additional fiscal adjustment at this time would be problematic. Instead, they are looking to participate in initiatives for regional risk pooling of catastrophe insurance.

V. PROGRAM MODALITIES

33. **Consistent with the increased focus on reinvigorating growth, the authorities program for 2005/06 has a stronger emphasis on structural reforms**. Two measures envisaged as prior actions for the completion of the fifth review have already been implemented: parliamentary approval of VAT legislation and Cabinet approval of a plan to rationalize the wage bill and ensure its consistency with the budgetary envelope. Reflecting implementation delays, two other structural benchmarks initially envisaged for end-September are now only expected to be completed by end-December (MEP Table 2). In the attached LOI and MEP, the authorities also:

- establish quantitative performance criteria for the end-December 2005 and end-June 2006 test dates, and indicative targets for end-September 2005 and March 2006;
- outline their structural reform agenda for the remainder of 2005 and the first few months of 2006 (Table 9); and
- request a waiver for the nonobservance of the continuous performance criteria on external payments arrears.

34. **The authorities also request the extension of repurchase expectations arising in the period from December 22, 2005 to December 22, 2006** (LOI ¶4). The original Stand-By Arrangement projected a balance of payments (BOP) deficit of 2.1 percent of GDP and a current account deficit of 12.9 percent of GDP for 2005. Current projections show larger deficits of approximately 3.1 percent for the overall balance of the BOP and 19.2 percent (17 percent on a cash basis) for the current account. In light of this and the fragile nature of the external accounts, staff supports this request. The extension would move the repurchase expectations totaling SDR 1,268,444 to an obligation basis, with each amount falling due exactly one year after the expectation date (Table 10).

VI. OTHER ISSUES

35. **Dominica's statistical databases remains weak, and substantial improvements are needed to ensure effective surveillance**. Dominica participates in the General Data Dissemination System (GDDS) and their metadata highlights some of the weaknesses and proposals for improvements within that framework. The mission recommended that priority be given to improving the quality and timeliness of debt data and more frequent surveys of living conditions.

36. **The authorities expressed grave concern about the implications of the planned erosion of banana preferences, and the consequent adverse effects on the economy**. They reiterated their commitment to regional integration through the OECS and CARICOM, and their intent to continue using CARICOM's regional negotiating machinery to negotiate more successfully in international fora. Government officials also indicated a revision of the tariff regime is underway to ensure the country's compliance with CARICOM's harmonized tariff schedule. In addition, the revision will remove import licensing requirements still in place.

37. **There is a dearth of data on labor market indicators**. The last labor force survey was carried out in 1999 (although a new one is underway), and there is little information on incomes. The current labor code is largely outdated, with minimum wage levels well below prevailing levels. Other broader policy-induced distortions are harder to discern.

VII. PRSP STATUS REPORT

38. **Preparation of the *Growth and Social Protection Strategy* (GSPS) is nearing completion**. In the attached preparation status report, the authorities note that a draft of GSPS was circulated for comment at a donors' conference held in Roseau in June. A revised draft reflecting these comments is currently being prepared and, after a final round of public consultations, the document is expected to be presented to Cabinet for adoption later this year. Staff called on the authorities to finalize the GSPS as soon as possible, including to help guide new projects under the PSIP. The authorities were confident that the sectoral strategies currently being developed as well as the FY 2005/06 PSIP are consistent with the GSPS.

VIII. STAFF APPRAISAL

39. **Dominica has made commendable progress under the PRGF-supported program**. The remarkable turnaround in the economy's fortunes to a large extent reflects the strong policies pursued by the authorities. With the confidence these policies have engendered, economic growth has resumed, financial intermediation has recovered, and tax revenues have been buoyant. The latter allowed the program's medium-term primary surplus objective to be realized sooner than expected.

40. **Staff also welcomes the stronger foundation that is being laid for public finances**. The adoption of VAT and excise tax legislation in early September should allow the introduction of VAT in March 2006. This will serve to widen the tax base and improve its structure and efficiency. The government's recent decision to publish Cabinet decisions on tax concessions is also a very important step toward improving the transparency of public finances. Provided amendments to the FAA include firm guidelines on targeting a primary fiscal surplus consistent with reducing the public debt stock to a prudent level, the scope for repeating the mistakes that caused debt to explode in the 1990s will have been minimized.

41. **But much remains to be done to sustain the current growth momentum**. Public debt, while trending downward, remains very high. Further, a number of threats to public finance have yet to be addressed, including from the large projected deficit of the social security system. The manner in which these issues are addressed will have a bearing on the durability of the economic recovery and sustainability of public finances. Moreover, these issues have to be addressed against the ever present specter of exogenous shocks, including from natural disasters. Key aspects of the Article IV consultation accordingly focused on policies to remove the impediments to growth and address the remaining threats to public finances.

42. **Removing bottlenecks that are impeding higher private investment has to become a central plank of the government's growth agenda**. Mindful of the limited implementation capacity, staff believes that the following reforms should be given priority. First, the Electricity Supply Act should be amended at the earliest opportunity to allow new

entrants into the market. Second, the enabling environment for private sector investment needs to be enhanced, including by rationalizing the operations of the three investment promotion agencies with a view to creating a one-stop investment promotion center. Third, the government should at the earliest opportunity adopt a program to modernize and ensure comprehensive coverage of land registration. In the long haul, such reforms will do more to stimulate private sector led growth than seeking to attract investment through tax incentives. In this context, the recent rise in the number of discretionary tax incentives is very disappointing, and the use of such incentives should be sharply curtailed going forward.

43. **Fiscal policy needs to remain geared towards further debt reduction**. Staff welcomes the 2005/06 budget which targets a primary surplus that appropriately balances further debt reduction with the need to reinstate the 5 percent cut in public wages introduced in 2003/04. Looking ahead, it will be important for the government to continue targeting a primary surplus of at least 3 percent of GDP to ensure a reduction in the debt stock to more manageable levels. Aiming to reduce debt to 60 percent of GDP over the next decade would be highly desirable. The efficiency of government spending also needs to be improved by further streamlining of public sector employment and limiting the PSIP to well-targeted projects with high returns. Staff strongly welcomes the government's objective of a smaller, more efficient and better paid public service. But to be consistent with further medium-term reductions in the wage bill, the structure and functions of ministries and departments need to be rationalized aggressively.

44. **The threat of the large unfunded social security liabilities jeopardizing debt sustainability needs to be addressed decisively and promptly**. The time when DSS will start to incur deficits is not far off. The sooner reforms are put in place, the more gradual and less abrupt these reforms will be. Consequently, staff urges the authorities to expedite the review and implementation of the reform options for addressing the looming social security system deficits. Given the country's vulnerability to natural disasters, international diversification of DSS's portfolio should be initiated at the earliest opportunity.

45. **With the renewed political mandate, the government has an unparalleled window of opportunity to advance reforms**. Reforms of the last few years have addressed the adverse effects on output growth stemming from the government's large fiscal deficits and arrears. The government should move quickly to remove the remaining impediments to higher economic growth and reduce the threats to public finance. Vulnerabilities in the financial sector also need to be addressed quickly by strengthening regulatory oversight of nonbank institutions.

46. **The current monetary and exchange rate arrangement has served Dominica well**. Staff fully concurs with the authorities' assessment that the framework needs to remain the bulwark around which economic policies should be based. The regional currency board arrangement has provided the country with a remarkable period of exchange rate and price stability even in the presence of frequent and large adverse shocks. The depreciation of the

U.S. dollar in recent years has helped move the real exchange rate well within a manageable range.

47. **Dominica continues to make progress in the provision of core statistics to the Fund**. However, data deficiencies continue to hamper surveillance purposes. Staff encourages the authorities to improve data quality, in particular on national accounts and government finances.

48. **Staff recommends completion of the financing assurances review**. This is warranted in light of the authorities' good faith efforts in seeking collaborative settlements with the remaining private nonparticipating creditor and best efforts to reach agreement with the remaining bilateral creditors, willingness to continue depositing payments into an escrow account, as well as the strong reform agenda it is pursuing. While risks to Fund resources will remain until the debt restructuring process is completed and all external arrears are eliminated, the critical role of Fund support for the success of the authorities' program is further justification for the completion of the financing assurances review.

49. **Finally, staff supports**:

- **Granting the requested waiver** for the nonobservance of the continuous performance criterion on the nonaccumulation of external payments arrears in light of the minor and temporary nature of the deviation.

- **The authorities' request to extend the repurchase expectations**. Despite the recent improvement in economic conditions, Dominica's external position remains weak. Repayment on an expectation basis of the purchases made under the 2002 SBA would impose undue hardship and heighten risks to the current PRGF arrangement.

- **The conclusion of the fifth review** as program implementation has been solid. All-but-one performance criteria under the arrangement have been observed, most by large margins. While significant risks remain, the authorities' commitment to implementing the policies envisaged under the program and thus address these should help maintain a satisfactory performance.

50. It is recommended that the next Article IV consultation with Dominica be held under the 24-month cycle, in accordance with the provisions of Decision No. 12794-(02/76) of July 15, 2002.

Table 1. Dominica: Selected Economic and Social Indicators, 2001–2006

	2001	2002	2003	2004	Prog. 1/ 2005	Proj. 2005	Prog. 2006
	(Annual percent change, unless otherwise specified)						
Output and prices							
Real GDP (factor cost)	-4.2	-4.7	0.0	3.5	2.5	3.1	3.0
GDP deflator (factor cost)	1.2	-0.4	1.7	1.2	1.5	1.5	1.5
Nominal GDP (at factor cost)	-3.0	-5.1	1.7	4.7	4.1	4.5	4.5
Nominal GDP at market prices	-2.7	-3.7	2.4	5.0	3.9	4.3	4.4
Consumer prices (end of period)	1.1	0.4	2.9	0.8	1.5	1.5	1.5
Money and credit							
Net foreign assets of the banking system 2/	6.6	19.3	17.3	8.1	4.1	4.1	5.5
Net domestic assets of the banking system 2/	0.9	-10.8	-16.4	-2.1	1.4	1.9	0.6
Of which							
Net credit to the nonfinancial public sector 2/	5.6	-5.4	-4.3	-5.1	0.1	0.2	-1.7
Credit to the private sector 2/	-3.1	-1.3	-2.3	4.3	4.8	5.1	4.1
Liabilities to the private sector (M2)	7.4	8.5	1.0	5.9	5.5	6.0	6.1
Balance of payments							
Merchandise exports, f.o.b.	-18.9	-1.8	-6.0	3.0	6.9	5.2	5.0
Merchandise imports, f.o.b.	-11.3	-11.5	9.3	13.5	3.7	8.6	4.0
Real effective exchange rate							
(end-of-period; depreciation -) 3/	3.7	-6.3	-6.7	-7.0	…	-3.5	…
	(In millions of U.S. dollars)						
Merchandise exports, f.o.b.	44.4	43.6	41.0	42.2	45.2	44.5	46.7
Merchandise imports, f.o.b.	115.7	102.4	111.8	126.9	131.6	137.8	143.2
Current account balance	-48.9	-34.7	-33.6	-46.7	-42.4	-54.3	-51.8
Capital account balance 4/	50.3	46.9	35.0	20.9	32.7	45.4	43.6
Overall balance	1.5	12.1	1.4	-25.7	-9.7	-8.8	-8.2
	(In percent of GDP, unless otherwise specified)						
Central government 5/							
Savings	-3.0	-0.6	8.7	7.6	8.1	7.4	8.2
Of which							
Primary	2.4	5.1	14.6	13.8	14.0	13.1	13.1
Grants	1.7	4.5	8.8	5.9	6.2	8.1	8.1
Capital expenditure and net lending	5.7	5.1	10.1	8.5	11.0	10.1	10.1
Primary balance	-2.1	-1.6	5.6	4.4	3.0	3.0	3.0
Overall balance	-8.6	-5.4	-1.3	-0.6	-2.5	-2.5	-1.7
Nonfinancial public sector debt (gross)							
Total	93.7	127.2	130.6	116.7	...	109.1	103.9
External	67.5	79.9	84.4	81.2	...	81.1	77.6
Domestic	26.2	47.3	46.2	35.5	...	28.0	26.3
External sector							
Current account balance	-18.7	-13.8	-13.0	-17.2	-15.2	-19.2	-17.6
External public debt service 6/	10.9	11.8	19.5	20.8	11.2	15.9	13.1
Amortization	4.5	4.6	12.8	14.1	5.3	8.2	7.3
Interest	6.4	7.1	6.8	6.7	5.9	7.6	5.8
Memorandum items:							
Nominal GDP at market prices (EC$ millions)							
Calendar year	706.8	680.5	697.1	731.7	754.2	763.5	796.9
Net international reserves							
(U.S. dollars millions; end-of-period) 7/	30.4	43.6	44.0	33.6	34.0	38.9	41.0

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ IMF Country Report No. 05/117.

2/ Change relative to the stock of M2 at the beginning of the period. From 2003, transactions with the IMF are included as transactions of the monetary authorities.

3/ Figure for 2005 is for the 12-month period to June 2005.

4/ Including errors and omissions.

5/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.

6/ On a due basis (i.e., before restructuring). In percent of exports of goods and nonfactor services.

7/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.

Table 2. Dominica: Summary Accounts of the Central Government, 2000/01–2005/06 1/

	2000/01	2001/02	2002/03	2003/04	Prog. 2/ 2004/05 3/	Prov. 2004/05 3/	Prog. 2/ 2005/06	Rev. Prog. 2005/06
	(In millions of Eastern Caribbean dollars)							
Total revenue and grants	**271.5**	**209.7**	**224.1**	**285.9**	**291.3**	**292.0**	**287.0**	**294.2**
Current revenue	200.5	197.1	191.9	221.8	229.2	245.7	237.2	229.3
Capital revenue	3.0	0.9	1.3	1.0	2.5	2.0	2.6	1.5
Grants	68.0	11.8	30.9	63.2	59.6	44.3	47.3	63.4
Total expenditure	**350.3**	**269.3**	**261.3**	**295.2**	**317.5**	**296.3**	**306.4**	**313.5**
Current expenditure	230.1	229.7	226.6	223.1	226.7	232.9	222.2	234.8
Wages and salaries 4/	116.2	116.5	116.1	104.2	102.7	102.0	99.7	106.5
Interest	36.0	36.9	37.6	41.7	43.8	43.9	42.4	43.0
Others	77.9	76.3	72.8	77.2	80.1	87.0	80.1	85.3
Capital expenditure and net lending	120.2	39.6	34.7	72.1	90.9	63.5	84.2	78.7
Overall balance	**-78.8**	**-59.5**	**-37.2**	**-9.3**	**-26.3**	**-4.3**	**-19.3**	**-19.3**
Statistical discrepancy 5/	18.7	8.2	-11.5	7.7	-2.7	-7.0	0.0	0.0
Financing	**60.1**	**51.3**	**48.7**	**1.6**	**29.0**	**11.3**	**19.3**	**19.3**
Net foreign financing	42.7	25.6	44.9	47.3	16.9	19.6	12.5	22.3
Disbursements	...	31.9	47.7	78.4	20.9	24.5	11.5	11.8
Amortization	...	6.3	6.5	37.2	43.2	43.2	20.2	20.4
Other including rescheduling	...	0.0	3.8	6.1	39.2	38.3	21.2	30.8
Net domestic financing	17.4	25.7	3.8	-45.7	12.1	-8.3	6.8	-3.0
Bank	11.2	16.3	-6.9	-41.4	-0.2	-15.3	-2.9	-13.6
Nonbank	6.2	9.5	10.7	-8.8	1.6	-3.2	0.0	0.0
Other including rescheduling	0.0	0.0	0.0	4.6	10.7	10.2	9.7	10.6
	(In percent of GDP)							
Total revenue and grants	**37.6**	**30.2**	**32.7**	**40.0**	**39.4**	**39.1**	**37.4**	**37.7**
Current revenue	27.8	28.4	28.0	31.0	31.0	32.9	30.9	29.4
Capital revenue	0.4	0.1	0.2	0.1	0.3	0.3	0.3	0.2
Grants	9.4	1.7	4.5	8.8	8.1	5.9	6.2	8.1
Total expenditure	**48.5**	**38.8**	**38.2**	**41.3**	**42.9**	**39.6**	**39.9**	**40.2**
Current expenditure	31.9	33.1	33.1	31.2	30.6	31.1	28.9	30.1
Wages and salaries 4/	16.1	16.8	17.0	14.6	13.9	13.6	13.0	13.7
Interest	5.0	5.3	5.5	5.8	5.9	5.9	5.5	5.5
Others	10.8	11.0	10.6	10.8	10.8	11.6	10.4	10.9
Capital expenditure and net lending	16.6	5.7	5.1	10.1	12.3	8.5	11.0	10.1
Overall balance	**-10.9**	**-8.6**	**-5.4**	**-1.3**	**-3.5**	**-0.6**	**-2.5**	**-2.5**
Statistical discrepancy 5/	2.6	1.2	-1.7	1.1	-0.4	-0.9	0.0	0.0
Financing	**8.3**	**7.4**	**7.1**	**0.2**	**3.9**	**1.5**	**2.5**	**2.5**
Net foreign financing	5.9	3.7	6.6	6.6	2.3	2.6	1.6	2.9
Disbursements	...	4.6	7.0	11.0	2.8	3.3	1.5	1.5
Amortization	...	0.9	1.0	5.2	5.8	5.8	2.6	2.6
Other including rescheduling	...	0.0	0.6	0.9	5.3	5.1	2.8	3.9
Net domestic financing	2.4	3.7	0.6	-6.4	1.6	-1.1	0.9	-0.4
Bank	1.5	2.3	-1.0	-5.8	0.0	-2.0	-0.4	-1.7
Nonbank	0.9	1.4	1.6	-1.2	0.2	-0.4	0.0	0.0
Other including rescheduling	0.0	0.0	0.0	0.6	1.4	1.4	1.3	1.4
Memorandum items:								
Capital expenditure less total grants								
In EC$ million	42.9	30.2	4.0	11.8	34.7	22.8	39.5	17.9
In percent of GDP	5.9	4.3	0.6	1.7	4.7	3.0	5.1	2.3
Savings (incl. grants)	5.3	-3.0	-0.6	8.7	8.4	7.6	8.1	7.4
Primary savings (before grants)	1.3	0.7	0.6	5.8	6.6	7.9	7.8	5.0
Primary balance (incl. grants) 6/	-3.3	-2.1	-1.6	5.6	2.0	4.4	3.0	3.0
Nominal GDP at market prices (EC$ millions)	722.4	693.7	684.8	714.4	740.0	747.6	767.5	780.2

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

1/ Fiscal years beginning July 1.
2/ IMF Country Report No. 05/117.
3/ On a commitment basis.
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 below-the-line and overall balance above-the-line. Projected discrepancy for FY 2004/2005 equals realized discrepancy through end-May 2005.
6/ Computed using overall deficit measured from below-the-line.

Table 3. Dominica: Balance of Payments 2002–2010

	2002	2003	Prel. 2004	Prog. 1/ 2005	Proj. 2005	Prog. 2006	Proj. 2007	Proj. 2008	Proj. 2009	Proj. 2010
(In millions of U.S. dollars)										
Current account balance	**-34.7**	**-33.6**	**-46.7**	**-42.4**	**-54.3**	**-51.8**	**-50.5**	**-48.9**	**-47.6**	**-45.9**
Trade balance	-58.7	-70.8	-84.6	-86.4	-93.3	-96.5	-98.4	-100.2	-102.4	-104.6
Exports (f.o.b.) 2/	43.6	41.0	42.2	45.2	44.5	46.7	49.1	51.5	54.1	56.8
Of which										
Bananas	8.1	5.9	7.2	...	7.2	7.5	7.8	8.2	8.5	8.9
Imports (f.o.b.)	102.4	111.8	126.9	131.6	137.8	143.2	147.5	151.8	156.5	161.4
Services balance	26.0	32.8	40.0	47.8	45.1	47.3	50.1	53.1	56.2	59.3
Exports of services	79.7	77.3	86.3	107.2	95.5	99.6	104.0	108.5	113.3	118.3
Travel	45.7	52.3	60.1	68.7	65.6	68.5	71.5	74.6	77.9	81.3
Other	34.0	25.0	26.2	38.5	29.8	31.1	32.5	33.9	35.4	37.0
Imports of services	53.7	44.6	46.3	59.4	50.3	52.3	53.9	55.4	57.1	59.0
Net income	-18.4	-12.1	-21.8	-20.9	-22.0	-20.2	-20.6	-20.9	-21.4	-21.5
Interest payments (public sector)	-8.8	-8.0	-8.6	-9.0	-10.7	-8.4	-8.3	-8.1	-8.0	-7.5
Other income	-9.6	-4.1	-13.2	-11.9	-11.3	-11.8	-12.3	-12.9	-13.4	-14.0
Net current transfers	16.4	16.6	19.8	17.1	15.9	17.6	18.4	19.2	20.0	20.9
Private	12.6	12.4	18.4	16.9	17.0	17.7	18.5	19.3	20.1	21.0
Public	3.8	4.2	1.4	0.2	-1.1	-0.1	-0.1	-0.1	-0.1	-0.1
Capital and financial account	**32.1**	**22.4**	**23.0**	**32.7**	**45.4**	**43.6**	**50.4**	**47.5**	**43.8**	**52.1**
Capital account	20.5	18.8	26.8	22.6	19.2	26.7	28.1	29.3	30.6	32.0
Public capital transfers	17.7	15.9	23.8	19.6	16.3	23.7	25.0	26.1	27.3	28.4
Private capital transfers	2.8	2.9	3.0	3.0	2.8	3.0	3.1	3.2	3.4	3.5
Financial account	11.6	3.7	-3.8	10.1	26.3	16.9	22.3	18.2	13.2	20.1
Public sector	25.8	8.9	0.2	-0.3	-1.3	-6.2	-6.7	-6.9	-9.4	-4.8
Budgetary flows (net)	25.0	8.9	0.2	-0.3	-1.3	-6.2	-6.7	-6.9	-9.4	-4.8
Disbursements	30.7	24.0	18.3	7.8	10.2	4.4	4.6	4.8	5.0	5.3
Repayments	5.7	15.1	18.1	8.0	11.5	10.7	11.4	11.7	14.5	10.0
Nonbudgetary flows (net)	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	-14.1	-5.2	-4.0	10.3	27.6	23.1	29.1	25.1	22.6	24.9
Direct investment	11.4	19.8	18.1	21.1	21.1	21.7	22.4	23.0	23.7	24.4
Commercial banks	-24.1	-33.9	-26.9	-9.0	-3.6	-10.5	-6.3	-7.9	-5.0	-2.5
Other private flows	-1.5	8.8	4.8	-1.8	10.0	11.9	13.0	10.0	3.9	3.0
Errors and omissions	**14.7**	**12.5**	**-2.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**12.1**	**1.4**	**-25.7**	**-9.7**	**-8.8**	**-8.2**	**-0.1**	**-1.3**	**-3.8**	**6.2**
Overall financing	**-12.1**	**-1.4**	**25.7**	**9.7**	**8.8**	**8.2**	**0.1**	**1.3**	**3.8**	**-6.2**
Net international reserves	-12.1	-1.4	10.3	-0.4	-5.3	-2.1	-4.9	-3.2	-3.5	-3.9
Gross reserves (increase = -)	-15.1	-6.2	9.4	-3.5	-8.5	-3.9	-3.1	-2.6	-2.7	-2.9
IMF reserve liabilities (purchase = +)	3.0	4.8	0.9	3.1	3.2	1.8	-1.8	-0.6	-0.7	-1.1
Exceptional financing	0.0	0.0	15.4	10.1	14.1	10.4	5.0	4.5	7.2	-2.3
(In percent of GDP)										
Memorandum items:										
Current account balance	-13.8	-13.0	-17.2	-15.2	-19.2	-17.6	-16.4	-15.2	-14.2	-13.1
Current account balance including net capital transfers	-5.6	-5.7	-7.3	-7.1	-12.4	-8.5	-7.3	-6.1	-5.0	-4.0
External public debt service (as a percent of exports of goods and nonfactor services)	11.8	19.5	20.8	11.2	15.9	13.1	12.8	12.4	13.4	10.0
Amortization	4.6	12.8	14.1	5.3	8.2	7.3	7.4	7.3	8.6	5.7
Interest	7.1	6.8	6.7	5.9	7.6	5.8	5.4	5.0	4.8	4.3

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ IMF Country Report No. 05/117.
2/ Includes stores and bunkers.

Table 4. Dominica: Summary Accounts of the Banking System, 2002–2006

	2002	2003	2004	Prog. 1/ 2005	Proj. 2005	Proj. 2006
I. Consolidated Banking System and Monetary Authorities						
(In millions of Eastern Caribbean dollars, end of period)						
Net foreign assets	**193.8**	**289.0**	**333.7**	**357.7**	**357.5**	**391.6**
Net domestic assets	**355.4**	**265.5**	**253.6**	**261.7**	**264.8**	**268.8**
Net credit to the nonfinancial public sector	74.8	51.1	23.0	23.6	24.1	13.6
Of which						
Central government	64.2	55.9	45.6	46.6	50.7	37.4
Net credit to nonbank financial institutions	-46.6	-81.8	-75.9	-78.8	-79.1	-82.6
Credit to the private sector	433.2	420.6	444.7	472.9	474.7	500.2
Other items (net) 2/	-106.1	-124.5	-138.2	-155.9	-154.8	-162.5
Broad money 3/	**549.2**	**554.5**	**587.4**	**619.5**	**622.4**	**660.4**
II. Operations of the Monetary Authorities						
Imputed net international reserves	**117.8**	**118.7**	**90.8**	**91.8**	**105.0**	**110.8**
Net domestic assets	**12.1**	**7.0**	**26.0**	**27.9**	**18.7**	**20.5**
Monetary base	**129.9**	**125.7**	**116.8**	**119.7**	**123.7**	**131.3**
Currency in circulation	35.5	34.2	37.6	38.9	39.0	40.7
Commercial bank reserves	94.4	91.5	79.2	80.8	84.7	90.6
III. Commercial Banks						
Net foreign assets	**79.0**	**170.4**	**242.9**	**265.9**	**252.5**	**280.8**
Net claims on ECCB	**98.2**	**85.6**	**73.8**	**78.8**	**78.9**	**84.4**
Net domestic assets	**336.6**	**264.3**	**233.1**	**235.8**	**251.9**	**254.5**
Net credit to the nonfinancial public sector	53.4	26.3	-10.8	-16.0	-15.9	-29.0
Net credit to nonbank financial institutions	-46.6	-81.8	-75.9	-78.8	-79.1	-82.6
Credit to the private sector	433.2	420.6	444.7	472.9	474.7	500.2
Other (net)	-103.5	-100.7	-125.0	-142.2	-127.7	-134.1
Private sector deposits 3/	**513.7**	**520.3**	**549.8**	**580.6**	**583.4**	**619.7**
IV. Consolidated Banking System						
(Annual percentage change)						
Credit to the private sector	-1.4	-2.9	5.7	6.3	6.7	5.4
Private sector deposits	7.6	1.3	5.7	6.1	12.7	6.2
Broad money	8.5	1.0	5.9	5.5	6.0	6.1
(Contributions to liquidity growth) 4/						
Net foreign assets	**19.3**	**17.3**	**8.1**	**4.1**	**4.1**	**5.5**
Net domestic assets	**-10.8**	**-16.4**	**-2.1**	**1.4**	**1.9**	**0.6**
Net credit to the nonfinancial public sector	-5.4	-4.3	-5.1	0.1	0.2	-1.7
Credit to the private sector	-1.3	-2.3	4.3	4.8	5.1	4.1
Memorandum items:						
Interest rates 5/						
Deposits (three-month time—maximum rate)	6.0	6.0	3.0	…	…	…
Lending: Minimum rate	8.5	8.0	7.5	…	…	…
Maximum rate	20.8	18.2	18.2	…	…	…

Sources: Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ Program figures are as shown in IMF Country Report No. 05/117. From 2002, transactions with the IMF are included as transactions with the monetary authorities.
2/ Includes interbank float.
3/ Including foreign currency deposits.
4/ Change relative to broad money at the beginning of the period.
5/ Commercial banks; end-of-period rates, percent per annum.

Table 5. Dominica: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

	Sept. 30, 2004 1/				Dec. 31, 2004 1/				Mar. 31, 2005 1/				June. 30, 2005 1/			
	Program PC	Adjusted PC	Actual	Margin (+)/ Excess (-)	Program PC	Adjusted PC	Actual	Margin (+)/ Excess (-)	Program IT	Adjusted IT	Actual	Margin (+)/ Excess (-)	Program PC	Adjusted PC	Prov. Actual	Margin (+ Excess (-)
I. Performance Criteria																
(In millions of Eastern Caribbean dollars)																
Central government primary balance	-3.0	-3.0	0.2	3.2	3.0	3.0	14.7	11.7	11.0	11.0	23.8	12.8	14.4	8.5	32.6	24.1
Central government wage bill	27.0	27.0	25.3	1.7	54.0	54.0	51.5	2.5	78.5	78.5	77.4	1.1	104.2	104.2	102.0	2.2
Banking system net credit to central government	3.0	6.7	4.0	2.6	3.0	6.0	-2.0	8.0	0.0	3.7	-6.7	10.5	0.0	4.7	-15.3	20.0
Net changes in central government arrears to private domestic parties	15.0	15.0	3.2	11.8	15.0	15.0	4.1	10.9	15.0	15.0	4.5	10.5	15.0	15.0	3.8	11.2
(In millions of U.S. dollars)																
Disbursement of central government or central government guaranteed external nonconcessional debt with maturity of at least one year	4.0	4.0	2.9	1.1	6.0	6.0	3.4	2.6	8.0	8.0	4.4	3.6	10.0	10.0	5.3	4.7
Net changes in the outstanding stock of contracted or guaranteed short-term external debt of the central government (with maturity of less than one year) 2/	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...
Central government and central government guaranteed external payments arrears 2/ 3/	0.0	0.0	Not met	...	0.0	0.0	Not met	...	0.0	0.0	Met	...	0.0	0.0	Not met	...
II. Indicative Targets																
(In millions of Eastern Caribbean dollars)																
Central government overall balance	-16.7	-16.7	-13.3	3.4	-19.6	-19.6	-7.4	12.1	-25.6	-25.6	-11.9	13.7	-32.0	-37.9	-11.3	26.6
Central government revenues	48.7	48.7	55.4	6.7	103.6	103.6	116.5	12.9	160.3	160.3	175.4	15.1	210.6	210.6	245.1	34.6
Central government primary savings	4.1	4.1	12.3	8.2	15.2	15.2	27.3	12.1	29.6	29.6	42.2	12.6	35.4	35.4	58.7	23.3

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ Cumulative amounts from June 30, 2004. All variables and adjustors that apply are defined in the Technical Memorandum of Understanding.
2/ These performance criteria will be monitored on a continuous basis.
3/ External arrears that were known at the time of the Executive Board discussions on August 4, 2004 and on March 7, 2005, were waived.

Table 6. Dominica: Structural Benchmarks and Status of Structural Reforms

	Category	Target Date or Completion Date	Status
Finalize proposals for amending the Finance Administration Act, to implement a Fiscal Responsibility Law.	Benchmark	July 2005	Completed
Approval of the 2005/06 budget, with a primary balance target consistent with the PRGF program.	Benchmark	August 2005	Completed
Financial sector reforms			
On-site inspection of Roseau Credit Union and follow-up on findings/remedial measures.	Benchmark	June 2005	Completed
Establish legislative basis for the FSU to supervise insurance companies, and regulate all NBFIs and AID Bank.	Benchmark	End-September 2005	Ongoing
Other reforms			
Cabinet approval of action plans for DEXIA and NDC, addressing their reorganization and cost effectiveness.	Benchmark	End-September 2005	Pending

Sources: Dominican authorities; and IMF Country Report No. 05/117.

Table 7. Dominica: Medium-Term Macroeconomic Framework, 2000–2010

	2000	2001	2002	2003	Est. 2004	2005 Prog. 1/	2005 Proj.	Proj. 2006	Proj. 2007	Proj. 2008	Proj. 2009	Proj. 2010
(Annual percent change)												
National income and prices												
GDP at constant (1990) prices	1.4	-4.2	-4.7	0.0	3.5	2.5	3.1	3.0	3.0	3.0	3.0	3.0
Implicit GDP deflator (factor cost)	0.6	1.2	-0.4	1.7	1.2	1.5	1.5	1.5	1.5	1.5	1.5	1.5
(In percent of GDP, unless otherwise specified)												
Savings and investment												
Gross domestic investment	**27.7**	**25.4**	**20.9**	**25.4**	**28.9**	**22.1**	**24.9**	**26.7**	**27.7**	**27.7**	**27.7**	**27.7**
Public	18.6	15.0	7.5	9.4	11.8	13.1	9.9	10.7	10.7	10.7	10.7	10.7
Of which												
Central government	15.3	10.7	5.6	7.8	9.7	12.1	9.7	10.4	10.4	10.4	10.4	10.4
Rest of public sector	3.2	4.3	1.9	1.6	2.0	1.0	0.3	0.3	0.3	0.3	0.3	0.3
Private	9.1	10.3	13.4	16.0	17.1	9.0	15.0	16.0	17.0	17.0	17.0	17.0
Gross national saving 2/	**12.0**	**13.6**	**15.3**	**19.7**	**21.6**	**15.0**	**12.5**	**18.2**	**20.4**	**21.6**	**22.6**	**23.7**
Public	3.7	3.6	0.0	5.9	10.8	10.0	8.4	8.6	9.0	9.2	9.5	9.6
Of which												
Central government	1.8	1.0	-1.4	4.4	8.8	9.0	8.2	8.3	8.8	9.0	9.2	9.4
Rest of public sector	1.9	2.6	1.4	1.5	2.0	1.0	0.3	0.3	0.3	0.3	0.3	0.3
Private	8.3	10.0	15.3	13.8	10.8	5.0	4.1	9.6	11.4	12.3	13.2	14.1
Savings investment balance	**-15.7**	**-11.8**	**-5.6**	**-5.7**	**-7.3**	**-7.1**	**-12.4**	**-8.5**	**-7.3**	**-6.1**	**-5.0**	**-4.0**
Public savings investment	-14.8	-11.5	-7.5	-3.5	-1.0	-3.0	-1.5	-2.1	-1.6	-1.4	-1.2	-1.0
Private savings investment	-0.9	-0.3	1.8	-2.3	-6.3	-4.0	-10.9	-6.4	-5.6	-4.7	-3.8	-2.9
Memorandum items:												
Nonfinancial public sector debt	86.2	93.7	127.2	130.6	116.7	...	109.1	103.9	99.5	95.3	91.1	87.1
External	56.4	67.5	79.9	84.4	81.2	...	81.1	77.6	72.9	68.5	64.2	58.7
Domestic	29.8	26.2	47.3	46.2	35.5	...	28.0	26.3	26.6	26.7	26.9	28.4

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ IMF Country Report No. 05/117.
2/ Calculated using the external current account including net external capital transfers.

Table 8. Dominica: Financial and External Vulnerability Indicators, 2000–2005

(In percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003	2004	Proj. 2005
Financial indicators						
Broad money (percent change, 12-month basis)	0.6	7.4	8.5	1.0	5.9	6.0
Private sector credit (percent change, 12-month basis)	8.2	-3.2	-1.4	-2.9	5.7	6.7
Unsatisfactory assets/total loans 1/	17.4	22.6	19.2	21.7	22.5	20.5
Provision for loan losses/total loans 1/	7.0	6.8	7.0	7.6	7.3	6.0
General and specific provisions for loan losses/unsatisfactory assets 1/	40.0	30.2	36.7	34.8	32.2	29.1
Specific provisions for loan losses/unsatisfactory assets 1/	33.3	26.2	32.6	30.1	...	...
Total capital/risk weighted assets (locally incorporated banks) 1/	30.8	35.4	34.1	28.5	23.0	18.7
Tier 1 capital/risk weighted assets (locally incorporated banks) 2/	27.4	34.1	32.9	28.1	23.0	18.7
Three-month treasury bill rate (end of period)	6.4	6.4	6.4	6.4	6.4	...
Three-month treasury bill rate (real) 2/	5.3	5.3	6.0	3.5	4.9	...
External indicators						
Exports of goods and services (percent change, 12-month basis in U.S. dollars)	-7.9	-16.9	2.7	-4.0	8.7	8.8
Imports of goods and services (percent change, 12-month basis in U.S. dollars)	1.4	-9.5	-5.8	0.2	10.8	8.6
Current account balance	-19.7	-18.7	-13.8	-13.0	-17.2	-19.2
Capital and financial account balance 3/	18.8	19.2	18.6	13.5	7.7	16.1
Net official reserves (in millions of U.S. dollars, end of period) 4/	29.0	30.4	43.6	44.0	33.6	38.9
Net reserves to broad money (percent, end of period) 3/	16.6	16.2	21.4	21.4	15.5	16.9
Public sector external debt	56.4	67.5	79.9	84.4	81.2	81.1
External debt (end of period) to exports of goods and services (percent) 5/	105.1	147.1	163.4	184.2	171.1	163.9
External interest payments to exports of goods and services (percent) 5/	4.3	6.4	7.1	6.8	6.7	7.6
External amortization payments to exports of goods and services (percent) 5/	3.1	4.5	4.6	12.8	14.1	8.2
Exchange rate (per U.S. dollar, end of period)	2.7	2.7	2.7	2.7	2.7	2.7
REER appreciation (end of period; depreciation -)	4.8	3.7	-6.3	-6.7	-7.0	-3.5

Sources: Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ Figure for 2005 is the provisional data for June 2005.
2/ Treasury bill rate adjusted by end-of-period inflation.
3/ Includes errors and omissions.
4/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.
5/ Refers to public sector debt.

Table 9. Dominica: Schedule of Disbursements Under the PRGF Arrangement

	Disbursements (in millions)		As Percent	
	US$ 1/	SDR	of Quota	Conditions
2003	**3.419**	**2.358**	**28.8**	
December 29	3.419	2.358	28.8	Board approval of PRGF; and adoption of prior actions
2004	**0.893**	**0.616**	**7.5**	
March 31	0.447	0.308	3.8	First review under the PRGF; end-December 2003 performance criteria; and adoption of prior action.
August 10	0.447	0.308	3.8	Second review under the PRGF; and end-March 2004 performance criteria
2005	**3.468**	**2.392**	**29.2**	
March 22	1.785	1.231	15.0	Third and fourth reviews under the PRGF; end-June 2004, end-September 2004, and end-December 2004 performance criteria.
October 14	1.683	1.161	14.2	Fifth review under the PRGF; and end-June 2005 performance criteria.
2006	**3.367**	**2.322**	**28.3**	
March 15	1.683	1.161	14.2	Sixth review under the PRGF; and end-December 2005 performance criteria.
August 15	1.683	1.161	14.2	Seventh review under the PRGF; and end-June 2006 performance criteria.
Total	**11.148**	**7.688**	**93.8**	
Memorandum item:				
Quota (in millions)	11.890	8.200	100.0	

Source: Fund staff estimates and projections.

1/ For illustrative purposes only, SDR amounts have been converted into U.S. dollars at an US$/SDR exchange rate of 1.45.

Table 10. Dominica: Indicators of Capacity to Repay the Fund, 2003–2010

			Projections					
	2003	2004	2005	2006	2007	2008	2009	2010
(In millions of SDRs, unless otherwise specified)								
Obligations from existing drawings								
Repurchases:								
Expectation basis	0.00	0.00	0.29	2.29	0.38	0.00	0.50	0.50
Obligation basis	0.00	0.00	0.26	1.10	1.23	0.38	0.50	0.72
Charges/interest under expectations/obligations schedule for repurchases:								
Expectation basis	0.05	0.09	0.13	0.10	0.04	0.04	0.03	0.03
Obligation basis	0.05	0.09	0.13	0.13	0.08	0.05	0.04	0.03
Fund repurchases and charges (obligation basis) 1/								
In millions of SDRs	0.05	0.09	0.40	1.24	1.33	0.45	0.55	0.77
On existing credits	0.05	0.09	0.39	1.23	1.31	0.43	0.54	0.75
Of which								
Repurchases on an obligation basis	0.00	0.00	0.26	1.10	1.23	0.38	0.50	0.72
In millions of U.S. dollars	0.07	0.13	0.59	1.81	1.94	0.65	0.81	1.12
In percent of exports of goods and services	0.06	0.10	0.41	1.23	1.26	0.41	0.48	0.67
In percent of debt service 2/	0.30	0.50	2.59	8.74	9.04	3.20	3.49	6.02
In percent of quota	0.61	1.09	4.82	15.16	16.20	5.45	6.77	9.36
In percent of net international reserves 3/	0.16	0.39	1.72	4.80	4.70	1.50	1.76	2.44
Fund credit outstanding 1/								
In millions of SDRs	5.3	5.9	8.1	9.3	8.1	7.7	7.2	6.5
In millions of U.S. dollars	7.5	8.8	12.0	13.5	11.8	11.2	10.5	9.4
In percent of exports of goods and services	6.3	6.8	8.4	9.2	7.7	7.0	6.2	5.6
In percent of debt service 2/	32.3	33.0	53.0	65.4	54.9	55.1	45.2	50.7
In percent of quota	65.0	72.5	98.5	113.4	98.4	93.7	87.6	78.8
In percent of net international reserves 3/	17.0	26.2	35.1	35.9	28.6	25.7	22.8	20.5
Memorandum items:								
Exports of goods and services (millions of U.S. dollars)	118.3	128.6	143.0	146.9	153.6	160.6	167.8	167.8
Debt service (millions of U.S. dollars) 2/	23.1	26.7	22.6	20.7	21.4	20.4	23.2	18.6

Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ Including assumed future disbursements under the PRGF, and assuming all repurchases on an obligation basis.

2/ Including IMF repurchases in total debt service.

3/ Net international reserves of the monetary authorities; net imputed reserves of the ECCB and transactions with the Fund.

Table 11. Dominica: Millennium Development Goals 1/ 2/

	1990	1994	1997	2000	2003
Goal 1: Eradicate extreme poverty and hunger					
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...
Population below $1 a day (percent)	...	...	...	...	...
Population below minimum level of dietary energy consumption (percent)	...	...	...	...	...
Poverty gap ratio at $1 a day (incidence x depth of poverty)	...	...	...	...	...
Poverty headcount, national (percent of population)	...	...	...	...	...
Prevalence of underweight in children (under five years of age)	...	...	...	...	...
Goal 2: Achieve universal primary education					
Net primary enrollment ratio (percent of relevant age group)	...	...	*82.9*	79.3	*81.3*
Primary completion rate, total (percent of relevant age group)	...	...	*93*	98	*91*
Percentage of cohort reaching grade 5 (percent)	75.4	...	...	85.4	...
Youth literacy rate (percent ages 15−24)	...	...	...	...	...
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliament (percent)	10.0	...	9.0	9.0	19.0
Ratio of girls to boys in primary and secondary education (percent)	...	...	*103.2*	102.5	*100.3*
Ratio of young literate females to males (percent ages 15−24)	...	...	...	...	...
Share of women employed in the nonagricultural sector (percent)	...	...	...	...	...
Goal 4: Reduce child mortality					
Immunization, measles (percent of children ages 12−23 months)	88	99	99	99	99
Infant mortality rate (per 1,000 live births)	19	*17*	...	14	12
Under 5 mortality rate (per 1,000)	23	20	...	16	14
Goal 5: Improve maternal health					
Births attended by skilled health staff (percent of total)	...	...	...	*99.9*	...
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	...	...
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Contraceptive prevalence rate (percent of women ages 15−49)	...	...	*50*	...	...
Incidence of tuberculosis (per 100,000 people)	19.3	18.1	17.3	16.5	15.7
Number of children orphaned by HIV/AIDS	...	...	...	...	...
Prevalence of HIV, total (percent of population aged 15−49)	...	...	...	...	...
Tuberculosis cases detected under DOTS (percent)	...	...	84.2	...	*35.5*
Goal 7: Ensure environmental sustainability					
Access to an improved water source (percent of population)	...	...	...	...	97.0
Access to improved sanitation (percent of population)	...	...	...	...	83.0
Access to secure tenure (percent of population)	...	...	...	...	...
CO2 emissions (metric tons per capita)	0.8	1.0	1.1	1.4	...
Forest area (percent of total land area)	66.7	...	...	61.3	...
GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	...	...	...	...	...
Nationally protected areas (percent of total land area)	...	...	...	...	...
Goal 8: Develop a global partnership for development					
Aid per capita (current US$)	272.8	237.2	202.2	213.5	153.5
Debt service (percent of exports)	6.0	7.0	7.0	7.0	13.0
Fixed line and mobile phone subscribers (per 1,000 people)	163.8	228.0	263.4	309.8	423.9
Internet users (per 1,000 people)	...	*5.1*	*26.4*	77.8	*160.3*
Personal computers (per 1,000 people)	...	...	..	71.3	*89.7*
Unemployment, youth female (percent of female labor force ages 15−24)	...	...	46.3	...	...
Unemployment, youth male (percent of male labor force ages 15−24)	...	...	36.4	...	...
Unemployment, youth total (percent of total labor force ages 15−24)	...	...	40.6	...	...

Source: World Development Indicators database, April 2005.

1/ The goals, targets, and relevant indicators to assess progress over the period from 1990 to 2015 when targets are expected to be met, are explained in **http://millenniumindicators.un.org/unsd/mi/mi_goals.asp** and **http://ddp-ext.worldbank.org/ext/MDG/home.do**
2/ Figures in italics refer to periods other than those specified.