

Dominica: 2002 Article IV Consultation and Request for Stand-By Arrangement—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Dominica

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 Article IV consultation with Dominica and staff report for the 2002 Article IV consultation and request for Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation and request for Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on **May 24, 2002**, 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 August 14, 2002.** 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 August 28, 2002, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for Dominica.

The document(s) listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Dominica*
Technical Memorandum of Understanding*
Statistical Appendix

*May also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

DOMINICA

**Staff Report for the 2002 Article IV Consultation and
Request for Stand-By Arrangement**

Prepared by the Western Hemisphere Department

(In consultation with other Departments)

Approved by Miguel E. Bonangelino and Liam P. Ebrill

August 14, 2002

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EXECUTIVE SUMMARY

Over the past several years, output and employment growth have been on the decline in Dominica reflecting the ongoing retrenchment of the key banana industry (due to weak export prices and the beginning of the phasing out of preferential access to the European Union market), and the weak growth of nonbanana agriculture and stayover tourism. After growing on average by about 2½ percent during 1996–99, real GDP stagnated in 2000 and is estimated to have contracted by over 4½ percent in 2001, as banana production fell by 35 percent owing also to adverse weather conditions, and as other key sectors of the economy declined reflecting the economic slowdown abroad and the increasingly difficult fiscal situation at home.

The public finances have deteriorated in recent years as capital expenditure increased sharply, while saving has been declining. The deficit of the consolidated public sector almost quadrupled over the period 1997/98–2000/01 (fiscal years ending June 30) to about 12½ percent of GDP and public savings fell by 3½ percent of GDP, mainly reflecting the deterioration in the central government finances. The public sector's overall deficit is estimated to have declined from 12½ percent of GDP in 2000/01 to about 10 percent of GDP in 2001/02, as capital expenditure declined sharply mainly on account of the completion of major investment projects. **The overall deficit of the central government** is estimated to have declined slightly to about 10½ percent of GDP in 2001/02. The deficit continued to be financed by external borrowing, recourse to the banking system, and arrears accumulation to the social security system and public and private enterprises. The central government dissaving is estimated to have reached 6¾ percent of GDP in 2001/02, as current revenues declined sharply to a large extent as a result of the economic contraction.

The authorities' program for 2002/03, for which support through a one-year Stand-By Arrangement is being requested, is aimed at: (i) restoring order to the public finances and relaxing the cash constraint to protect essential public expenditure and reduce public debt to the banking system; and (ii) putting the economy on a path consistent with public debt sustainability, a recovery of private investment, and sustainable output and employment growth. The program is based on real GDP growth of 1½ percent in 2003, which is predicated on a recovery in agriculture, mainly banana production (reflecting a rebound from the drought-stricken levels of 2001). Inflation would remain stable at 2 percent, and the external current account deficit is projected to narrow.

To help achieve the program objectives, the central government's overall deficit is targeted to decline by about 4¾ percent of GDP to about 5¾ percent of GDP in 2002/03, mainly through revenue measures. At the same time, the fiscal program provides room for the clearance of domestic payment arrears and for crowding in private credit. With support from the EU, the World Bank, and the CDB, the program also envisages progress toward the implementation of critical structural reforms in the agricultural sector, as well as in the areas of tax policy and administration, public expenditure, and civil service.

I. INTRODUCTION

1. Discussions for the 2002 Article IV consultation and on an economic program that could be supported by a Fund arrangement were conducted in Roseau during two missions in March and May 2002.¹ In a letter to the Managing Director dated August 13, 2002, (Attachment I) the authorities describe the policies they intend to follow during FY 2002/03 (year ending June 30) and request a one-year Stand-By Arrangement (SBA) in an amount equivalent to SDR 3.28 million (40 percent of quota). On the safeguard assessment of Dominica's central bank (the Eastern Caribbean Central Bank—ECCB), an initial analysis of the detailed documentation that has been received does not appear to show widespread vulnerabilities that could compromise the safeguarding of Fund's resources. The safeguard assessment should be completed by December 2002.

2. Dominica is eligible to use the Poverty Reduction and Growth Facility (PRGF) and the authorities have expressed an interest in that facility. However, in view of the severity of the economic and financial situation and the time needed to prepare an Interim Poverty Reduction Strategy Paper (I-PRSP), they have decided to request a one-year SBA at present. They expect to complete work over the next few months on an I-PRSP and a medium-term program that could be supported by a three-year PRGF arrangement starting in mid-2003.

3. Dominica is on the standard 12-month consultation cycle. In concluding the 2001 Article IV consultation on June 15, 2001, Executive Directors expressed particular concern about the continued weakness of the public finances, which had given rise to heavy government borrowing and a buildup of domestic arrears, especially to the social security system. They emphasized the need for strong fiscal consolidation and generating public savings, for supporting the investment needed to improve growth prospects. Directors felt that immediate steps needed to be taken to increase tax revenue and tighten expenditure, particularly by phasing out the extensive array of tax concessions, strengthening tax administration, restraining public sector wage increases, and rationalizing public investment. Directors welcomed the authorities' intention to take further steps to strengthen the regulatory and supervisory framework of the offshore financial sector.

¹ The Dominican representatives included the prime minister (who is also the minister of finance), other senior government officials, and representatives of labor unions and the private sector. The staff teams comprised Mr. Salehizadeh (Head), Ms. Eble, Messrs. Guimaraes, Pearson and Visconti (all WHD), Mr. Hatch (TRE), and Ms. Kapijimpanga (Assistant-WHD). The staff teams were assisted by Mr. Vital and Ms. K. Williams (Eastern Caribbean Central Bank (ECCB)), Messrs. Durant and Dalrymple (Caribbean Development Bank (CDB)), and Ms. Lampart-Nuamah (World Bank). Mr. Guzmán (WHD), Mr. O'Murchu, the Alternate Executive Director for Dominica, and Mr. Faircloth (OED) participated in the final rounds of discussions.

4. Dominica has a parliamentary form of government. The ruling coalition (comprising the Dominica Labor Party and the Dominica Freedom Party), which has a three-seat majority over the opposition United Workers Party in the 21-member House, was elected in January 2000. The next election is due by January 2005.

5. Dominica is one of eight eastern Caribbean islands with a common central bank, the ECCB,² and a common currency, the Eastern Caribbean dollar, which has been pegged to the U.S. dollar since 1976. Dominica has accepted the obligations of Article VIII, Sections 2, 3, and 4, and maintains an exchange system free of restrictions on payments and transfers for current international transactions. Relations with the Fund, the World Bank, and the Caribbean Development Bank (CDB) are summarized in Appendices I through III.

6. Dominica provides the core minimum data to the Fund. However, deficiencies in the quality, timeliness, and coverage of the data hamper adequate monitoring of economic developments. The public sector, external, and national accounts are not regularly available, and the reporting frequency for key data is irregular (Appendix IV).

II. BACKGROUND AND RECENT DEVELOPMENTS

7. **Over the past several years, output and employment growth have been on the decline** reflecting the ongoing retrenchment of the key banana industry (due to weak export prices and the beginning of the phase out of preferential access to the European Union market), and the weak growth of nonbanana agriculture and stayover tourism. After growing on average by about 2½ percent during 1996–99, real GDP stagnated in 2000 and is estimated to have contracted by over 4½ percent in 2001, as banana production fell by 35 percent owing also to adverse weather conditions, and as other key sectors of the economy declined reflecting the slowdown abroad, the events of September 11, and an increasingly difficult fiscal situation (Table 1 and Figure 1). The downturn in the economy appears to have further increased unemployment³ and poverty, particularly in the rural areas affected by the continued displacement of banana farmers.⁴

² ECCB member countries and territories consist of six independent countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) and two dependent territories of the United Kingdom (Anguilla, and Montserrat).

³ The latest labor force survey in 1999 pointed to an unemployment rate of 16 percent. Government sources and private sector observers, however, place the current unemployment rate at more than 20 percent.

⁴ The number of active banana farmers has declined from over 5,000 in the early 1990s to less than one-quarter of that at end-2001.

8. **Dominica's economic performance in recent years has been also weak in the context of the ECCB region.** While the average growth rate of real GDP in ECCB member countries amounted to more than 2 percent during the period 1998–2001, Dominica's growth rate was flat. The decline in banana production was a major factor in this performance, although other factors such as the relative share of tourism and the banana sector in the economy, were also important.⁵

9. **Inflation in the ECCB member countries tends to be in line with that in the United States** and other major trading-partner countries, mainly reflecting the openness of the economies and the regional currency peg. However, fixed domestic fuel prices have prevented consumer prices to fully reflect imported inflation. As measured by the 12-month change in the CPI, inflation in Dominica remained just under 2 percent in 2001.

10. **The public finances have deteriorated in recent years** as capital expenditure has increased sharply, while saving has been declining. The deficit of the consolidated public sector almost quadrupled over the period 1997/98–2000/01 (years ending June 30) to about 12½ percent of GDP and public savings fell by 3½ percent of GDP, mainly reflecting the deterioration in central government finances (Tables 2 and 3). The public sector's overall deficit is estimated to have declined from 12½ percent of GDP in 2000/01 to about 10 percent of GDP in 2001/02, mainly reflecting sharply lower capital expenditure.

11. **The overall deficit of the central government** (after grants) is estimated to have declined slightly to about 10½ percent of GDP in 2001/02. The deficit continued to be financed by external borrowing, recourse to the banking system, and arrears accumulation, especially to the social security system and public and private enterprises. Central government dissaving is estimated to have reached 6¾ percent of GDP in 2001/02, as current revenues declined sharply largely reflecting the economic contraction. While current expenditure remained unchanged in relation to GDP, capital expenditure is estimated to have declined to 6 percent of GDP from 16¾ percent of GDP in 2000/01, reflecting the completion of major investment projects in the areas of infrastructure and education, as well as emerging financing constraints.

12. During 2001, **broad money increased by about 7½ percent**, fueled by net credit to the nonfinancial public sector, as well as a steady inflow of remittances and private transfers from abroad (Table 4). In contrast, banking system credit to the private sector declined by over 3 percent, in line with the downturn in economic activity. As a result, commercial banks built up their net foreign asset positions. The share of nonperforming loans in the total loan portfolio of banks rose from about 18½ percent at end-2000 to nearly 21½ percent

⁵ Banana production fell in all three major banana producing countries of the ECCB (Dominica, St. Lucia, and St. Vincent and the Grenadines), albeit at different rates. Of these, St. Vincent and the Grenadines had the lowest decline in banana production and the highest average growth rate of real GDP.

at end-2001, reflecting rising loan delinquency rates in the agriculture and tourism sectors (Table 5). Meanwhile, provisioning for loan losses fell from 38 percent of nonperforming loans at end-2000 to 32 percent at end-2001.

13. **The external current account deficit**, which averaged about 11½ percent of GDP in 1998–99, widened to about 18½ percent of GDP in 2000, on account of a sharp decline in banana exports, stagnant receipts on services (including tourism), and higher interest payments, following the substantial buildup of public sector external debt of previous years (Tables 6 and 7). The external current account deficit narrowed to about 16½ percent of GDP in 2001, due to lower imports. The capital account remained in surplus, leading to a small increase in imputed reserves (compared with a decline in 2000).

14. **The external value of the Eastern Caribbean dollar**, as measured for Dominica, appreciated by 4¾ percent in real effective terms during 2001, reflecting mainly the appreciation of the U.S. dollar vis-à-vis other major currencies (Figure 2). Between 1995 and 2001, the real effective exchange rate has appreciated by about 20 percent. Reflecting government borrowing in recent years, the stock of **public and publicly guaranteed external debt** increased from about 35 percent of GDP at end-1998 to about 65 percent of GDP at end-2001, while external debt service payments rose to about 9 percent of exports of goods and services. Since 1999, the government has remained current in meeting its external debt obligations.

15. **Little progress was made on structural reforms** in 2001, other than the implementation of the much-delayed reduction in the maximum rate of the common external tariff (CET) under the CARICOM agreement of 1992.⁶

III. POLICY DISCUSSIONS AND THE PROPOSED 2002/03 PROGRAM

16. Policy discussions took place in a medium-term framework and against the backdrop of recessionary conditions and the growing problem of the government's cash shortage, which is impairing its ability to effect essential expenditures. In this context, discussions centered on the authorities' stabilization program (hereinafter SP)⁷ and on policies to: (i) restore order to the public finances and relax the cash constraint to protect

⁶ Dominica lowered its maximum CET rate to 25 percent in January 1999, two years behind the scheduled implementation date for Phase III of the CARICOM agreement. The authorities implemented the final reduction (to 20 percent) under Phase IV (scheduled for January 1998) in July 2001 in the context of the 2001/02 budget.

⁷ Developed with assistance from the ECCB and CDB.

essential public expenditure and reduce systemic risks to the domestic banking system; and (ii) put the economy on a path consistent with public debt sustainability, a recovery of private investment, and sustainable output and employment growth.

17. The program for 2002/03, for which Fund support through a one-year SBA is being requested, is based on **real GDP** growth of 1½ percent in 2003, which is predicated on a recovery in agriculture, mainly banana production (reflecting a rebound from the drought-stricken levels of 2001). **Inflation** would remain stable at 2 percent, and the external current account deficit would narrow to about 13 percent of GDP.

18. To help achieve the program objectives, **the central government's overall deficit is targeted to decline by about 4¾ percentage points of GDP to about 5¾ percent of GDP in 2002/03 (about 9 percent of GDP before grants)**, while protecting public spending in essential economic and social services and infrastructure. The program envisages an increase in grants largely from the European Union in support of the authorities' adjustment and reform efforts under a Fund-supported program. In this context, the fiscal program provides room for the clearance of domestic payment arrears and for crowding in credit to the private sector. With support from the EU, the World Bank, the CDB, and other donors, the program also envisages progress toward the implementation of critical structural reforms in the agricultural sector, as well as in the areas of tax policy and administration, public expenditure, and civil service. The program is consistent with advice that has been given by staff to the authorities in the context of regional surveillance⁸ in the areas of fiscal policy, financial sector supervision and regulation, public sector financial management, and harmonization of investment incentives. Despite the strong policy effort that is envisaged, the risks to the program remain substantial (see section E).

A. Fiscal Policy

19. To help ensure that the program objectives can be attained, **in the context of the recently enacted government budget the authorities have adopted a substantial package of measures designed to bolster government revenue and savings.**⁹ In light of Dominica's high and rising ratio of the wage bill to GDP,¹⁰ the staff and the authorities

⁸ Eastern Caribbean Currency Union—Recent Developments and Main Regional Policy Issues (SM/01/62). It is expected that the next regional surveillance mission will take place in September 2002.

⁹ The approval of the 2002/03 budget (containing the agreed measures) by parliament (implemented on July 2, 2002), constitutes a prior action for the Executive Board's consideration of the authorities' request for the SBA.

¹⁰ The wage bill/GDP ratio is about 2–3 percentage points higher than the average in the ECCB member countries.

would have preferred that the fiscal adjustment focus more on expenditure reduction (particularly through a lowering of nominal wages of central government employees), but this option was not acceptable to the labor unions, the business community and civil society, and would have carried the risk of a possibly severe disruption of social peace.

Nevertheless, the authorities are determined to curtail spending in the medium term in the context of structural fiscal reforms. In addition, and to help implement the fiscal program, the authorities are strengthening the budget's execution and monitoring system, and the government's cash management and financial planning process, with technical assistance from the Caribbean Regional Technical Assistance Center (CARTAC).

20. **The 2002/03 fiscal program would improve the savings position of the central government by about 3½ percentage points of GDP, mainly through revenue measures** (Box 1). These measures include the introduction of a stabilization levy of 4 percent on public and private sectors' payroll income (excluding pensions);¹¹ the imposition of the sales tax (5 percent) on telecommunications services; an increase in fuel prices at the pump (including through an increase in the sales tax rate on fuel from 3 to 5 percent),¹² in license fees, and in the environmental surcharge; and a reduction in discretionary exemptions on imports. These measures are expected to increase current revenue by about 3½ percentage points of GDP.

21. On a cash basis, **current expenditure** in 2002/03 would increase slightly in relation to GDP, as a 1 percent reduction in the central government **wage bill** would be offset by a similar increase in **spending on goods and services** (consistent with the government's intention to remain current on obligations to suppliers). To achieve the limit on the wage bill (15.1 percent of GDP), the authorities intend to eliminate overtime payments; reduce the number of temporary workers at entry level by 15 percent; impose a freeze on hiring (except for teachers and health workers); and grant no across-the-board wage increases. **Interest payments** would increase by ⅔ percentage point of GDP, due to higher borrowing and the assumption by the government of the debt obligations of the Dominica Banana Marketing Corporation (DBMC) in preparation for its privatization (see below).

¹¹ In lieu of a 10 percent reduction in salaries of the public sector employees (proposed in the SP), which the authorities desisted after consultations with social partners revealed stern opposition to this measure. The expected yield of the stabilization levy in FY 2002/03 is equivalent to the saving that would have been generated from the reduction in salaries.

¹² The authorities were not ready to commit to switching to an automatic mechanism for passing through changes in the international fuel prices to domestic prices. However, they have committed to adjust fuel prices at the pump on a quarterly basis, so as to ensure that the government revenue from the consumption tax on the imports of petroleum products remains at the programmed level. (The consumption tax on imports of petroleum products—the “fuel tax”—is the residual between the domestic retail price and the cost of imported fuel, including the profit margins for distributors and retailers).

22. **Capital expenditure** would remain unchanged at 6 percent of GDP, as implementation would focus on those projects largely financed by concessional external resources (the authorities are seeking financing from the CDB to cover some of the required counterpart funding). The level of capital spending and the overall deficit could increase (up to a maximum of 2 percent of GDP) if additional project loans become available.

23. **The 2002/03 deficit would be financed partly by external project loans** (equivalent on a net basis to 1¼ percent of GDP). The exposure of the state-owned National Commercial Bank (NCB) to the central government would be reduced by 1 percentage point of GDP to reduce excess lending of the NCB to a single borrower. Government domestic arrears to the social security system, the water and sewer company (a public enterprise), as well as electricity and telephone companies and other domestic suppliers of goods and services to the government would be cleared (11½ percent of GDP), partly by issuing interest-bearing bonds. The program with the Fund is expected to catalyze financing from other official donors (mainly CDB, EU, and the World Bank) to close the residual financing gap equivalent to 7 percent of GDP (Table 8).¹³

B. Monetary and Financial Sector Policy

24. Under the fixed exchange rate system, the ECCB conducts its credit operations with the objective of maintaining strong foreign exchange cover for currency issue (currently close to 100 percent), leaving little scope for monetary policy at the national level. The ECCB maintains a uniform reserve requirement of 6 percent on all bank deposits. Interest rates are freely determined, except for a statutory 4 percent floor on passbook savings maintained since 1984 aimed at benefiting small savers. The authorities support the continuation of these regional arrangements, the participation in which has served Dominica well.

¹³ Part of the financing gap in calendar year 2002 (as presented in Table 10) includes domestic payment arrears accumulated before the program period (i.e. through end-June 2002). As mentioned in paragraph 18, all domestic payment arrears would be cleared in the program period.

25. The ECCB is the regulatory and supervisory authority of banks in the region, and in its judgment, the banking system in Dominica¹⁴ remains basically sound.¹⁵ However, there is a very strong risk that the rising level of nonperforming loans, resulting from the serious economic decline of recent years and the deterioration of public finances, would create difficulties in the banking system. In this context, the government will refrain from further borrowing from the NCB, and will reduce gradually its indebtedness to this bank.¹⁶ The regularization of government payments under the program would help reduce commercial banks' nonperforming loans. In addition, to address the issue of nonperforming loans in Dominica and elsewhere in the region, the ECCB has proposed amendments to its charter and the Uniform Banking Act to strengthen ECCB's supervisory and enforcement powers, including to enhance prudential standards, to help deal with nonperforming loans and to intervene troubled banks. It is expected that the proposed amendments will be passed in early 2003.

26. Dominica's nonbank financial institutions (NBFIs) have grown rapidly in recent years.¹⁷ The sector is supervised by the government, with exception of the only finance company, which is supervised (and regulated) by the ECCB. While institutions are required to submit their financial statements on a regular basis, those supervised by the government are not subject to on-site inspection. **The staff stressed the importance of strengthening supervision of NBFIs, preferably under the purview of the ECCB.** The ECCB currently has

¹⁴ Dominica's banking system comprises five commercial banks (the NCB and four other banks which are branches of Canadian and European banks), and a state-owned development bank.

¹⁵ The ECCB is constrained by law from disclosing individual bank soundness indicators, and this restriction prevents a proper assessment of compliance with the Basle Core Principles. The ECCB Monetary Council (composed of the finance ministers of the member countries) has agreed to seek amendments to banking legislation that would, inter alia, permit such disclosure.

¹⁶ NCB, which is the largest commercial bank in Dominica with about 40 percent of the banking system deposits, has extended large amounts of credit to the government. The NCB's total exposure to the central government (including overdraft and debentures) is about 100 percent of its total capital and reserves, and, under the program, it would fall by about a quarter by June 2003. At present, the NCB is not facing deposit withdrawals and its liquidity appears to be satisfactory.

¹⁷ Nonbank financial institutions comprise one finance company, 20 insurance companies, and 18 credit unions, with the latter holding 15 percent of deposits of the financial system. Insurance companies are under the supervision of the ministry of finance, credit unions are under the ministry of cooperatives, and the finance company under the ECCB.

a number of initiatives on a regional basis aimed at ensuring that the NBFIs meet capital adequacy standards and are subject to on-site inspection, and at strengthening their regulation and supervision according to international best practices.

27. The authorities reiterated their intention to strengthen the regulatory and supervisory framework of the **offshore financial sector**.¹⁸ They are hopeful that recent advances in these areas (including amendments to offshore legislation and the establishment of a Financial Intelligence Unit to address money laundering issues) will be viewed favorably by the review team of the OECD's Financial Action Task Force (FATF) that recently visited Dominica, and that Dominica will be removed from the FATF's list of noncooperative countries and territories at the next meeting of the FATF in late 2002. They intend to continue to strengthen their legal, regulatory, and supervisory capacities with assistance from the CARTAC.

C. External Sector Policy

28. The external current account deficit is projected to narrow to 13¼ percent of GDP in 2003. The deficit is expected to be fully covered with grants, multilateral financing, and continued foreign direct investment.¹⁸ Merchandise exports are expected to show an increase, reflecting largely the recovery in the agricultural production, while tourist earnings are projected to remain at about the same level as in recent years. Imports are projected to be lower reflecting the fiscal adjustment and slow output growth. Dominica's public external debt is projected to increase to 81¼ percent of GDP by end-2003, and the debt service as a ratio of exports of goods and services to increase to 12½ percent.

¹⁸ The offshore sector, which was established following the enactment of enabling legislation in 1996–97, is under the supervision and regulation of the ministry of finance and the ECCB. It comprises 4 banks (of which one is in receivership), about 1,000 active business companies, four internet gaming companies, one insurance company, and two management companies, and employs about 100 persons. The offshore sector also includes an “economic citizenship program”, whereby Dominican citizenship is offered to investors. Government revenue from the sector amounted to EC\$ 3.4 million in 2001, about one third of the average during 1997–99, as the economic citizenship program was temporarily suspended following reported abuses.

¹⁹ As in other ECCB countries, the size of the external current account deficit moves closely with the level of capital inflows. The import requirements of investment expenditure are very high because of the narrowness of the economic base, while the (imputed) official reserves have traditionally been maintained stable in relation to monetary aggregates.

29. The authorities are aware that prospects for achieving an improved balance of payments position and sustaining output growth in the medium term will depend largely on strengthening competitiveness in the export and tourism sectors. In the context of the fixed exchange rate, the authorities have indicated their commitment to fiscal discipline, wage moderation, and structural policies aimed at increasing factor productivity. These include the ongoing restructuring in the banana sector, reduction of telecommunication costs,²⁰ continued tax and trade reforms, and improvements in the efficiency of public investment (discussed below). In the trade policy area, following the lowering of the maximum tariff rate to 20 percent in July 2001, the average tariff rate has not declined significantly (as some import tariffs remain at rates above the maximum),¹⁹ and the Fund's index of trade restrictiveness remains at 5 (moderately restrictive). The staff urged the authorities to advance further with trade liberalization by narrowing the dispersion of tariff rates, continuing the process of phasing out import licensing, and reducing the existing customs service charge to the approximate cost of processing import transactions, in line with WTO guidelines.

D. Structural Reforms

30. The authorities are seeking to undertake a **comprehensive review of the tax system and its administration** with IMF technical assistance by end-2002, and will **include tax reform measures** emanating from this review by end-June 2003 in the 2003/04 budget (Table 9). The aim of the tax reform would be to broaden the tax base, increase the efficiency of tax administration, and strengthen the legal framework for enhancing tax compliance. The review of the tax system will examine in particular: (i) the feasibility of introducing a value-added tax; (ii) the introduction of a minimum corporate income tax; (iii) the streamlining of tax incentives; and (iv) the reform of the property tax (by replacing the existing regime with a market value-based system).

31. The authorities intend to conduct a **public expenditure review** with World Bank assistance by end-March 2003, with the aim of rationalizing and increasing the efficiency of public spending. They also intend to conduct a **review of the public sector investment program (PSIP)**, by end-December 2002, to reform the process for formulating the PSIP and approving its projects. The new process would improve the quality and focus of public investment expenditure starting in FY 2003/04, to ensure that only projects aimed at enhancing growth and reducing poverty, and supported by concessional external financing, are included in the PSIP, taking into account the implementation capacity.

²⁰ The ongoing sub-regional telecommunication reform program is aimed at creating a more competitive environment in the ECCB member countries.

¹⁹ The maximum tariff rate does not apply to agricultural products and arms/ammunition, which continue to be subject to maximum rates of 40 percent and 70 percent, respectively.

32. The authorities shared the staff's concern about the size of the public sector wage bill, and recognized the need to reduce it over the medium term. In this connection, they are planning to initiate a **comprehensive civil service reform program**, with World Bank assistance, the design of which should be completed by end-March 2003. The aim of this reform program will be to reduce the public sector wage bill and increase the efficiency and effectiveness of the delivery of public services. The reform would cover the efficient reallocation of workers within the institutions; retrenchment to reduce the size of the public sector (including the definition of separation packages); wage differentiation to upgrade human capital; and replacement of increments linked to seniority by performance-based increases. The authorities expect to begin implementing the reform program by end-June 2003.

33. To strengthen the oversight of the financial system, **the authorities will place all nonbank financial institutions under the supervision of the ministry of finance (with support from the ECCB)** by end-June 2003. They also intend to participate in the Financial Sector Assessment Program (FSAP) to be undertaken in the second half of 2003 for several ECCB member countries. This will be preceded by a comprehensive review of the offshore financial sector, with CARTAC assistance, by end-2002.

34. The ongoing restructuring of the banana sector will be accelerated in 2002/03, as the authorities continue to strive for a more efficient industry. They believe that, with proper investment in the sector, annual banana production could be doubled by 2005. But they also acknowledged that further absorption of excess labor into other agricultural activities will be necessary over the next several years. In this connection, resources provided under the EU's Special Framework of Assistance (SFA) will target efficient farms for investment in irrigation and drainage and other infrastructure works. Concurrently, parallel programs will be in place to shift displaced farmers into nontraditional areas of agriculture and to minimize the social fallout from the restructuring of the industry.

35. The authorities have taken steps to privatize the DBMC and liquidate its liabilities. The government will absorb the DBMC's debt. The privatization process is slated to be completed by end-September 2002. By end-March 2003, the authorities intend to establish a special fund to hold the proceeds of privatization and divestment; only the yield from the fund's investments would be available for budgetary support.

36. The authorities intend to study the feasibility of abolishing the monopoly of the Dominica Export Import Agency (DEXIA) on the importation of sugar and bulk rice, and the agency's capability for becoming self-financing in the absence of this monopoly, by end-2002. They also intend to examine the scope for transforming the National Development Corporation (NDC) into a self-financing agency by end-2002. Moreover, by end-2002, the authorities plan to remove all remaining price controls, except those on fuels and cement which will be removed by end-June 2003. The authorities also will study the feasibility of the privatization of the two state-owned banks and the divestiture of government shares in the telephone company.

37. The authorities are particularly mindful of the need to maintain social spending during the adjustment period to safeguard long-term investment in human capital and protect the most vulnerable in the society. As such, social expenditures remain a priority within the reduced capital budget and the government is exploring ways to improve the efficiency and targeting of such programs. With assistance from the EU, the CDB, and the World Bank, the government is implementing a number of **programs to reduce poverty, improve education and health services, and protect the environment** (see Appendices II and III). To further increase the efficiency of the social programs, the CDB and the United Kingdom Department for International Development (DFID) are supporting an ongoing Poverty Assessment, and the World Bank public expenditure review will include an evaluation of the efficiency and effectiveness of spending on health, education and the social safety net.

E. Risks to the Program

38. Despite the substantial upfront fiscal adjustment that the authorities already have put in place in the context of the recently enacted central government budget, the risks to the program are large. These risks stem from the fact that: (i) adverse external and domestic shocks (e.g., lower banana export prices, disruptions in domestic payments,, etc.) could lead to lower economic growth, smaller tax collections and a higher fiscal deficit than targeted; (ii) external official financial support for the program could fall short of the envisaged amounts; (iii) political support for the program may weaken; (iv) a deterioration in the health of the financial institutions as a result of a continuing increase in nonperforming loans could create systemic problems; and (v) capacity constraints may lead to slippages in the timing of program implementation, particularly in the structural area.

39. In view of the above risks, the authorities and the staff will be monitoring performance under the program closely in order to be able to put in place promptly any additional measures (particularly in the fiscal and financial areas) that may be needed to keep it on track. At the same time, the staff will work closely with the World Bank, the European Union, and the Caribbean Development Bank to assist the authorities in implementing the structural reforms that are critical for fiscal and external viability, and in securing the envisaged external financing.

F. Medium-Term Outlook and Capacity to Repay the Fund

40. The staff discussed a medium-term scenario with the authorities which points to an improving outlook for the economy, with higher output growth, low inflation, and a declining external debt burden (Table 10). This scenario is conditional on sound macroeconomic policies, including a sustained increase in central government savings, and the implementation of structural reforms that would provide the necessary incentives for the envisaged increase in investment.

41. The medium-term scenario is consistent with external and fiscal sustainability (Tables 11 and 12). Fiscal sustainability in the program is mainly attributed to: (i) an adjustment of the primary overall balance of the public sector, as the ratio of revenues to GDP is envisaged to gradually increase (owing to reform of tax system) while the ratio of expenditures to GDP would decline slightly; (ii) a declining average interest rate as commercial borrowing is replaced by borrowing at concessional terms over time; and (iii) a gradual recovery in economic growth to 3 percent by 2005. External sustainability in turn, is driven by the program's fiscal adjustment. The build-up of external public debt during the period 1999–2001 largely reflected mounting fiscal imbalances, and only marginally the impact of external shocks. In Dominica, as in other small countries in the region, high external current account deficits are a direct result of a narrow economic base and are typically induced by the high import content of investment spending, most of which is externally financed.

42. Despite the substantial adjustment effort supported by the program, the staff projections indicate continued fiscal and external vulnerability over the medium term arising from the remaining—albeit declining—fiscal deficits and substantial financing gaps (Table 10). For this reason, strong fiscal consolidation and structural reforms will have to continue into the medium term, possibly in the context of a PRGF arrangement. Under a continued adjustment scenario, projections indicate that the external current account deficit would stabilize at around 12–13 percent of GDP through the end of the projection period (2006). Also, external debt indicators would stabilize in 2003 and improve toward the end of the period, with total external debt falling to 78 percent of GDP in 2006, and external debt service remaining at around 12 percent of exports of goods and services.

43. The sensitivity of the medium-term projections to weaker prospects in the banana and tourist sectors was tested. If both banana export prices and volumes are 10 percent lower than projected in nominal U.S. dollar terms over 2002–06, real GDP growth would be about $\frac{1}{3}$ percentage points less relative to the baseline scenario. However, the external current account deficit would remain at about the same level as in the baseline scenario, as a decline in export receipts would be offset by a reduction in imports. If tourism volumes are 5 percentage points lower than in the baseline scenario, output growth would be about $\frac{1}{2}$ percentage points lower and the external current account deficit would remain the same, relative to the baseline scenario.

44. Dominica should be able to service its obligations to the Fund, provided it pursues sound macroeconomic policies and implements the structural reform agenda outlined in the program (Tables 13 and 14). If Dominica purchases all available resources under the proposed arrangement, its obligations to the Fund would peak in 2006 at SDR 1.5 million (equivalent to 0.7 percent of 2001 GDP; 1.2 percent of exports of goods and services; and 5.4 percent of imputed net official reserves). Dominica has a good track record in servicing its obligations to the Fund arising from past arrangements.

G. Proposed Access and Program Monitoring

45. Access under the requested one-year SBA (equivalent to SDR 3.28 million or 40 percent of quota) is consistent with the identified financing needs, other sources of financing, and the catalytic effect of a Fund-supported program on access to these resources. The purchases would be phased as follows: SDR 2.05 million (25 percent of quota—Dominica's first credit tranche) upon approval of the arrangement, and the remainder in four equal purchases based on the observance of quarterly performance criteria and a mid-year review (see below).

46. The **quantitative performance criteria** for the first two quarters of the program (ending September 30, 2002 and December 31, 2002, respectively), are presented in Table 1 of the letter of intent (Attachment I), with indicative targets set for the remaining two quarters. These performance criteria and targets comprise ceilings on (i) the central government overall balance; (ii) central government wage bill; (iii) banking system net credit to the central government; (iv) banking system net credit to the nonfinancial public sector; (v) central government arrears to the social security system and the water and sewer company; (vi) central government arrears to other parties; (vii) contracting or guaranteeing of short-term external debt; (viii) contracting or guaranteeing of medium- and long-term nonconcessional external debt; and (ix) public sector external payments arrears. Limits on the central government overall balance will be adjusted downward to the extent that there is a shortfall in programmed project financing. The same limits will be adjusted upward (up to a cumulative limit equivalent to 2 percent of GDP) to the extent that there is an excess in programmed project financing. The limits on banking system net credit to the central government and the nonfinancial public sector will be adjusted downward to the extent that net external nonproject financing exceeds projections. The same limits will be adjusted upward (up to a cumulative limit equivalent to 2 percent of GDP) to the extent that there is a shortfall in net external nonproject financing outside the control of the authorities. The program will have one review that is expected to be completed by February 15, 2003, at which time the performance criteria for the remainder of the program will be established. The proposed schedule of purchases under the SBA is presented in Table 15.

47. **Structural conditionality** for 2002/03 would take the form of one structural performance criterion and several structural benchmarks (Box 2 and Table 2 of the letter of intent). Implementation of tax reform measures (in line with recommendations of the review of tax system and its administration) by end-June 2003 is a structural performance criterion, and structural benchmarks are set in the areas of public expenditure, civil service reform, financial system oversight, and privatization.

IV. STAFF APPRAISAL

48. Dominica's recent economic performance has been disappointing. The economy has undergone several years of sluggish growth, resulting from the retrenchment of the key banana industry and lackluster performance of other sectors. The public finances have weakened, with central government dissaving and the overall deficit increasing to

unsustainable levels over the last three fiscal years. The deficit has been financed by recourse to the banking system and external commercial borrowing, as well as an accumulation of domestic arrears to the social security system and public and private enterprises.

49. Recognizing the risks posed to economic growth and stability by the continuing weakness of the public finances, and the need for a strong fiscal consolidation as the necessary context for improving growth prospects over the next several years, the authorities have prepared a stabilization program, including macroeconomic and structural measures, for which they are seeking support through a one-year SBA, which they hope will be followed by an arrangement under the PRGF in mid-2003.

50. The authorities' fiscal program, which aims at reducing public sector dissaving and the overall deficit mainly through revenue measures, is crucial for achieving the government's goal of macroeconomic stability. The program for 2002/03 keeps current expenditure virtually constant as a share of GDP while increasing current revenue by about 3½ percent of GDP. In light of the high and rising ratio of the wage bill to GDP, the staff and the authorities would have preferred that the fiscal adjustment focus more on expenditure reduction, but this option was not feasible in the current circumstances. Nevertheless, the authorities are determined to curtail spending in the medium term in the context of structural fiscal reforms. While the revenue raising measures were approved as part of this fiscal year's budget, the authorities are likely to face pressures to reverse some of these measures. These pressures must be resisted in order to meet the program's fiscal objective. In addition, the authorities should proceed forcefully with their plans to strengthening tax administration, phasing out the extensive array of tax concessions, reducing the high level of tax arrears, and simplifying indirect taxation, while moving toward the adoption of a value-added tax, possibly in the context of a region-wide project.

51. Containing government expenditure over the medium term will present a major challenge for the authorities. In this connection, reducing the wage bill is of crucial importance. This should be achieved through a wage policy based on merit and productivity gains, as well as by reducing public employment through attrition and moving forward with civil service reform, while providing incentives to recruit and retain qualified staff. In addition, capital expenditure should only include projects that can be financed on concessional terms and are aimed at redressing the main impediments to growth.

52. In order to ensure the soundness of the banking system and reduce the systemic risk stemming from the heavy exposure of the state-owned commercial bank to the public sector and to the distressed banana industry, the authorities should proceed quickly with their plans to lower the government's indebtedness to the bank. Also, in order to strengthen the supervision of nonbank financial institutions, the authorities should seek to transfer the supervisory responsibilities for these institutions to the ECCB.

53. The authorities have expressed their intention to further strengthen the regulatory and supervisory framework of the offshore financial sector. Dominica was the first ECCB member country to hand over the supervision of offshore banks to the ECCB, and recent amendments to offshore legislation as well as the establishment of a Financial Intelligence Unit to address money laundering issues are expected to ensure that the regulation and supervision of the sector will be consistent with international best practices. The authorities are encouraged to proceed with their plans to undertake a comprehensive review of the offshore sector, with CARTAC assistance, and to participate in the FSAP of the ECCB member countries in 2003.

54. Timely completion of ongoing structural reforms will be important in the period ahead to strengthen the basis for higher growth. The orderly restructuring of the banana sector toward a streamlined and more efficient industry needs to be completed soon. This requires the support of public investment in irrigation and other infrastructure to help increase productivity, while improving the provision of social services to facilitate the absorption of released labor in other activities. In the trade policy area, trade reform should be further advanced by completing the process of phasing out remaining import licenses and moving toward establishing a low and uniform tariff rate. The authorities also should consider the privatization of the two state-owned banks.

55. Dominica has made some progress in the provision of core statistics to the Fund. However, data deficiencies continue to hamper surveillance, and additional efforts are needed to improve data, in particular on national accounts and government finances. Dominica participates in the General Data Dissemination System (GDDS) and has developed plans for improving the quality and availability of key macroeconomic statistics. The staff encourages the authorities to provide adequate resources to the Central Statistical Office in order to establish a solid foundation for effectively absorbing technical assistance in statistics, which may be available from the bilateral and multilateral sources, including through the CARTAC.

56. In summary, the staff is of the view that the authorities' economic program is consistent with the objective of laying a basis for sustained growth of output and employment over the medium term. Furthermore, a successful implementation of the program would serve as a basis for seeking further support in 2003 under a three-year PRGF arrangement.

57. It is recommended that the next **Article IV consultation** with Dominica be held on the 24-month cycle, subject to the provisions of the decision on consultation cycles approved on July 15, 2002.

Box 1. Dominica: Main Fiscal Measures, 2002/03

- Introduction of a stabilization levy of 4 percent on payroll income (PAYE), excluding pension payments, (yielding about 1.5 percent of GDP);
- Imposition of the 5 percent sales tax on telecommunication services (yielding 0.7 percent of GDP);
- An increase in the price of fuels at the pump, consistent with raising government revenue by 0.6 percent of GDP (based on the current international oil price);
- A reduction in exemptions of import duties and consumption taxes to yield 0.8 percent of GDP on an annual basis;
- A wage bill not to exceed 15.1 percent of GDP (16.2 percent of GDP in FY 2001/02).

Box 2. Dominica: Structural Conditionality

1. Coverage of Structural Conditionality in the Current Program

Only those structural reforms deemed critical to the success of the program will be subject to program conditionality or benchmarks. Structural performance criteria and benchmarks for the program year are set out in Table 2 of the Letter of Intent. Implementation of tax reform measures in line with FAD/CARTAC technical assistance recommendations is a **structural performance criterion**. **Structural benchmarks** cover: (i) review of the tax system and its administration; (ii) public expenditure review; (iii) PSIP review; (iv) study of civil service reform and initiation of the reform process; (v) establishment of a fund for privatization receipts; (vi) privatization of Dominica Banana Marketing Corporation (DBMC), (vii) review of the financial sector; (viii) placement of nonbank financial institutions under ministry of finance supervision (with support from the ECCB); (ix) studying the feasibility of abolishing the Dominica Export and Import Agency (DEXIA)'s import monopoly; (x) examining the scope for transforming the National Development Corporation (NDC) into a self-financed agency; and (xi) elimination of remaining price controls.

Tax reform is critical for generating primary savings over the medium-term to finance the authorities' capital investment program, and to reduce the inequity and economic inefficiency embedded in the current system, including the reduction of discretionary tax concessions (equivalent to 13.4 percent of revenues, or 3.4 percent of GDP in FY 2001/02). **Review of the PSIP** is essential given the low productivity of past investments and the lack of strategic focus of the PSIP towards growth enhancing and poverty reducing projects. **Civil service reform** is vital given the large public sector wage bill (16.2 percent of GDP in FY 2001/02 compared to an ECCB wide average of 13.0 percent of GDP). **DBMC** absorbed large fiscal transfers in 2001 (1 percent of GDP), and has significantly contributed to the accumulation of public debt over the last years (5 percent of GDP). Abolishing DEXIA's import monopoly, elimination of remaining price controls, and privatization of DEXIA and NDC, are important elements to enhance efficiency and increase private sector participation in the economy. Placement of **nonbank financial institutions** (holding 15 percent of total domestic deposits) under ministry of finance supervision is considered as necessary for ensuring the stability of the domestic financial system.

2. Structural Areas Covered by World Bank Lending and Conditionality

The World Bank is preparing a fast-disbursing operation for Dominica in FY 2002/03, which will be linked to raising the efficiency of public service delivery through a program of civil service reform; increasing the productivity of public investments through reform of the PSIP planning process; strengthening social protection and safety net mechanism to better reach the poor during the current stabilization and adjustment period; improving the policy framework for human capital investments, in particular, education; and measures to enhance the climate for private investment. The World Bank also provides technical and financial support to Dominica in the areas of disaster management and mitigation, and through its sub-regional programs in HIV/AIDS, telecommunications reform and the financial sector.

3. Other Relevant Structural Conditions not Included in Current Program

Measures to downsize the public sector are only included in the current program to the extent that following a comprehensive review of civil service, the reform process will be initiated at the end of the program. Thus, the implementation of recommendations of the study would be subject to conditionality in a successor program.

Table 1. Dominica: Selected Economic and Financial Indicators

	1998	1999	2000	Prel. 2001	Projections 1/	
					2002	2003
(Annual percent change, unless otherwise specified)						
Output and prices						
Real GDP	2.8	1.6	0.7	-4.6	-0.5	1.5
<i>Of which</i>						
Bananas	-17.6	-4.3	-2.7	-35.4	8.0	5.0
GDP deflator (factor cost)	2.6	2.5	0.6	1.9	2.0	2.0
Nominal GDP at market prices	5.8	3.2	0.7	-2.4	1.5	3.6
Consumer prices (end of period)	1.5	0.0	1.1	1.9	2.0	2.0
Money and credit						
Net foreign assets of the banking system 2/	6.9	8.1	-12.6	6.8	6.9	3.8
Net domestic assets of the banking system 2/	4.4	2.3	13.2	0.6	-0.8	-1.1
<i>Of which:</i>						
Net credit to the nonfinancial public sector 2/	-2.7	2.7	5.5	5.4	0.3	-1.9
Credit to the private sector 2/	6.2	2.3	7.3	-3.1	-0.1	0.9
Liabilities to the private sector (M2)	11.4	10.4	0.6	7.4	6.1	2.6
Balance of payments						
Merchandise exports, f.o.b.	18.2	-11.4	-0.7	-18.3	4.7	6.6
Merchandise imports, f.o.b.	-1.7	6.0	5.5	-11.6	-13.0	5.3
Terms of trade	1.4	-6.2	-5.3	1.5	...	...
Real effective exchange rate (end of period; depreciation -)	-3.8	0.8	4.9	4.8	...	...
(In millions of U.S. dollars)						
Merchandise exports, f.o.b.	63.2	56.0	55.6	45.4	47.6	50.7
Merchandise imports, f.o.b.	116.4	123.3	130.1	115.0	100.1	105.3
Current account balance	-21.5	-39.2	-49.4	-43.1	-33.6	-36.1
Capital account balance 3/	24.1	50.3	49.5	46.0	14.6	20.7
Overall balance	2.6	11.1	0.1	2.9	-19.0	-15.4
(In percent of GDP, unless otherwise specified)						
Savings and investment						
Gross domestic investment	26.9	25.2	24.8	21.2	13.7	16.0
Public	7.4	10.4	16.7	15.3	8.0	7.5
Private	19.5	14.8	8.1	5.9	5.7	8.5
Gross national saving	18.6	10.5	6.5	4.8	1.1	2.9
Public	2.3	1.5	-0.6	-2.5	-2.1	0.5
Private	16.3	9.0	7.1	7.3	3.2	2.5
Nonfinancial public sector 4/						
Current balance	1.9	2.8	0.3	-1.6	-3.4	-0.8
Overall balance (after grants)	-3.2	-6.7	-11.9	-12.6	-10.1	-4.1
Central government 4/						
Current balance	0.2	0.9	-1.0	-4.1	-6.7	-3.4
Overall balance (after grants)	-3.7	-7.4	-11.4	-11.0	-10.6	-5.8
External sector						
Current account balance	-8.3	-14.6	-18.3	-16.4	-12.6	-13.1
Gross public sector debt	60.8	74.8	80.5	92.1	101.2	103.4
External 5/	35.1	48.4	54.0	64.8	74.3	79.5
Domestic	25.7	26.3	26.5	27.3	26.9	23.9
External public debt service 6/	5.0	5.4	7.3	9.1	11.3	12.2
Amortization	3.5	3.2	3.0	3.5	4.9	5.4
Interest	1.6	2.2	4.2	5.6	6.4	6.8
Memorandum items:						
Nominal GDP at market prices (ECS millions)						
Calendar year	699.9	722.6	728.0	710.4	721.0	746.7
Net international reserves (US\$ millions; end of period) 7/	27.7	31.6	29.4	31.2	32.2	33.2

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

1/ Projections assume the adoption of proposed program measures.

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

3/ Including errors and omissions.

4/ Fiscal years ending June 30.

5/ Including external financing gap.

6/ In percent of exports of goods and services.

7/ Imputed reserves at the ECCB.

Table 2a. Dominica: Summary Accounts of the Nonfinancial Public Sector 1/

(In millions of EC dollars)

	1997/98	1998/99	1999/00	2000/01	Prel. 2001/02	Prog. 2002/03
I. Consolidated Nonfinancial Public Sector						
Total revenue and grants	248.1	276.3	268.7	322.2	244.7	285.3
Current revenue	222.9	240.8	246.4	235.5	228.6	258.5
<i>Of which:</i> operating balance of nonfinancial public enterprises	1.6	1.4	-2.2	-4.0	9.0	8.1
Capital revenue	9.9	5.4	2.6	3.0	1.3	1.3
Grants	15.2	30.1	19.8	83.7	14.9	25.5
Total expenditure 2/	269.5	323.9	355.1	412.7	316.8	315.1
Current	210.3	221.2	243.9	247.0	252.8	264.8
<i>Of which:</i> wages and salaries	105.9	111.3	118.5	121.9	121.4	115.6
Capital expenditure and net lending	59.2	102.7	111.2	165.7	64.0	50.3
<i>Of which:</i> fixed capital formation	40.2	63.3	85.9	155.5	63.9	51.7
Current account balance	12.6	19.6	2.4	-11.5	-24.2	-6.2
Overall balance	-21.5	-47.7	-86.4	-90.5	-72.0	-29.7
Statistical discrepancy 3/	-7.7	14.7	-7.8	18.7	24.6	0.0
Financing (net)	29.2	33.0	94.1	71.7	47.4	-22.6
Gap	...	...	...	...	...	52.3
II. Central Government						
Total revenue and grants	214.1	239.0	233.7	271.5	194.9	236.0
Current revenue	189.1	204.7	211.4	200.5	180.0	210.5
Tax	160.0	173.6	178.4	169.6	154.4	183.7
Nontax	29.1	31.0	33.0	31.0	25.6	26.8
Capital revenue	9.9	5.4	2.6	3.0	1.3	1.3
Grants	15.1	28.9	19.7	68.0	13.6	24.2
Total expenditure 2/	239.2	291.8	316.1	350.3	270.8	278.4
Current	187.6	198.0	218.9	230.1	227.9	235.2
Wages and salaries	99.9	105.3	112.6	116.2	116.0	111.1
Goods and services	38.6	40.3	42.5	37.5	37.6	45.6
Interest	17.8	17.6	28.0	36.0	36.9	42.4
Transfers	31.2	34.8	35.7	40.4	37.6	36.1
Capital expenditure and net lending	51.6	93.7	97.3	120.2	42.9	43.2
<i>Of which:</i> fixed capital formation	31.9	58.4	76.5	110.9	42.8	44.6
Current account balance	1.5	6.6	-7.4	-29.6	-47.9	-24.7
Overall balance	-25.1	-52.8	-82.4	-78.8	-76.0	-42.4
Statistical discrepancy 3/	-7.7	14.7	-7.8	18.7	24.6	0.0
Financing (net)	32.8	38.1	90.2	60.1	51.3	-9.9
External	4.6	17.1	88.0	42.7	25.6	15.0
Domestic	22.6	21.0	2.2	17.4	25.7	-24.9
Privatization	5.6	0.0	0.0	0.0	0.0	0.0
Gap	...	...	...	...	...	52.3
III. Rest of the Nonfinancial Public Sector						
Revenue, transfers and grants	50.1	58.1	45.0	68.9	61.8	56.4
Revenue	37.0	39.3	38.0	44.2	51.7	51.6
Transfers from central government	12.9	17.6	6.9	8.9	8.7	3.5
Grants	0.1	1.2	0.1	15.8	1.3	1.3
Expenditure 2/	46.4	53.0	48.9	80.6	57.8	43.7
Current	31.4	33.4	35.0	35.0	36.7	36.6
Capital	15.0	19.6	13.9	45.6	21.1	7.1
Current account balance	5.6	5.9	3.0	9.2	15.0	15.0
Overall balance	3.6	5.1	-4.0	-11.7	3.9	12.7
Financing (net)	-3.6	-5.1	4.0	11.7	-3.9	-12.7
Memorandum item:						
Nominal GDP at market prices (EC\$ millions)	680.8	711.2	720.3	719.2	715.7	733.8

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

1/ Fiscal years ending June 30.

2/ On a cash basis.

3/ Difference between identified financing and overall balance.

Table 2b. Dominica: Summary Accounts of the Nonfinancial Public Sector 1/

(In percent of GDP)

	1997/98	1998/99	1999/00	2000/01	Prel. 2001/02	Prog. 2002/03
I. Consolidated Nonfinancial Public Sector						
Total revenue and grants	36.4	38.8	37.1	44.8	34.2	38.9
Current revenue	32.7	33.9	34.0	32.7	31.9	35.2
<i>Of which: operating balance of nonfinancial public enterprises</i>	0.2	0.2	-0.3	-0.6	1.3	1.1
Capital revenue	1.5	0.8	0.4	0.4	0.2	0.2
Grants	2.2	4.2	2.7	11.6	2.1	3.5
Total expenditure 2/	39.6	45.5	49.0	57.4	44.3	42.9
Current	30.9	31.1	33.6	34.3	35.3	36.1
<i>Of which: wages and salaries</i>	15.6	15.6	16.3	17.0	17.0	15.8
Capital expenditure and net lending	8.7	14.4	15.3	23.0	8.9	6.9
<i>Of which: fixed capital formation</i>	5.9	8.9	11.8	21.6	8.9	7.0
Current account balance	1.9	2.8	0.3	-1.6	-3.4	-0.8
Overall balance	-3.2	-6.7	-11.9	-12.6	-10.1	-4.1
Statistical discrepancy 3/	-1.1	2.1	-1.1	2.6	3.4	0.0
Financing (net)	4.3	4.6	13.0	10.0	6.6	-3.1
Gap	...	...	...	...	...	7.1
II. Central Government						
Total revenue and grants	31.4	33.6	32.2	37.8	27.2	32.2
Current revenue	27.8	28.8	29.2	27.9	25.2	28.7
Tax	23.5	24.4	24.6	23.6	21.6	25.0
Nontax	4.3	4.4	4.6	4.3	3.6	3.7
Capital revenue	1.5	0.8	0.4	0.4	0.2	0.2
Grants	2.2	4.1	2.7	9.4	1.9	3.3
Total expenditure 2/	35.1	41.0	43.6	48.7	37.8	37.9
Current	27.6	27.8	30.2	32.0	31.8	32.1
Wages and salaries	14.7	14.8	15.5	16.2	16.2	15.1
Goods and services	5.7	5.7	5.9	5.2	5.2	6.2
Interest	2.6	2.5	3.9	5.0	5.2	5.8
Transfers	4.6	4.9	4.9	5.6	5.2	4.9
Capital expenditure and net lending	7.6	13.2	13.4	16.7	6.0	5.9
<i>Of which: fixed capital formation</i>	4.7	8.2	10.5	15.4	6.0	6.1
Current account balance	0.2	0.9	-1.0	-4.1	-6.7	-3.4
Overall balance	-3.7	-7.4	-11.4	-11.0	-10.6	-5.8
Statistical discrepancy 3/	-1.1	2.1	-1.1	2.6	3.4	0.0
Financing (net)	4.8	5.4	12.4	8.4	7.2	-1.3
External	0.7	2.4	12.1	5.9	3.6	2.0
Domestic	3.3	3.0	0.3	2.4	3.6	-3.4
Privatization	0.8	0.0	0.0	0.0	0.0	0.0
Gap	...	...	...	...	...	7.1
III. Rest of the Nonfinancial Public Sector						
Revenue, transfers and grants	7.4	8.2	6.2	9.6	8.6	7.7
Revenue	5.4	5.5	5.2	6.2	7.2	7.0
Transfers from central government	1.9	2.5	0.9	1.2	1.2	0.5
Grants	0.0	0.2	0.0	2.2	0.2	0.2
Expenditure 2/	6.8	7.4	6.7	11.2	8.1	6.0
Current	4.6	4.7	4.8	4.9	5.1	5.0
Capital	2.2	2.8	1.9	6.3	2.9	1.0
Current account balance	0.8	0.8	0.4	1.3	2.1	2.1
Overall balance	0.5	0.7	-0.5	-1.6	0.5	1.7
Financing (net)	-0.5	-0.7	0.5	1.6	-0.5	-1.7
Memorandum item:						
Nominal GDP at market prices (EC\$ millions)	680.8	711.2	725.3	719.2	715.7	733.8

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

1/ Fiscal years ending June 30.

2/ On a cash basis.

3/ Difference between identified financing and overall balance.

Table 3a. Dominica: Summary Accounts of the Central Government 1/

(In millions of EC dollars)

	1997/98	1998/99	1999/00	2000/01	Prel. 2001/02	Prog. 2002/03
Total revenue and grants	214.1	239.0	233.7	271.5	194.9	236.0
Current revenue	189.1	204.7	211.4	200.5	180.0	210.5
Tax revenue	160.0	173.6	178.4	169.6	154.4	183.7
Taxes on income 2/	43.3	48.7	55.0	54.6	38.8	52.3
Taxes on property	2.0	2.3	2.5	2.6	2.1	2.1
Taxes on goods and services	25.4	27.1	29.7	28.6	29.6	36.0
Taxes on international transactions	89.2	95.5	91.3	83.8	83.9	93.2
Nontax revenue	29.1	31.0	33.0	31.0	25.6	26.8
Capital revenue	9.9	5.4	2.6	3.0	1.3	1.3
Grants	15.1	28.9	19.7	68.0	13.6	24.2
Total expenditure 3/	239.2	291.8	316.1	350.3	270.8	278.4
Current expenditure	187.6	198.0	218.9	230.1	227.9	235.2
Wages and salaries	99.9	105.3	112.6	116.2	116.0	111.1
Goods and services	38.6	40.3	42.5	37.5	37.6	45.6
Interest	17.8	17.6	28.0	36.0	36.9	42.4
Domestic	16.6	12.3	14.5	20.2	19.3	21.3
External	1.2	5.3	13.6	15.7	17.5	21.1
Retirement benefits	10.4	14.1	13.1	13.4	16.0	16.4
Other transfers	20.8	20.7	22.6	27.0	21.5	19.8
Capital expenditure and net lending	51.6	93.7	97.3	120.2	42.9	43.2
Fixed investment	31.9	58.4	76.5	110.9	42.8	44.6
Net equity, net lending, and transfers	19.7	35.4	20.8	9.3	0.1	-1.4
Current account balance	1.5	6.6	-7.4	-29.6	-47.9	-24.7
Overall balance (before grants)	-40.2	-81.7	-102.1	-146.8	-89.6	-66.7
Overall balance	-25.1	-52.8	-82.4	-78.8	-76.0	-42.4
Statistical discrepancy 4/	-7.7	14.7	-7.8	18.7	24.6	0.0
Financing	32.8	38.1	90.2	60.1	51.3	-9.9
Net foreign financing	4.6	17.1	88.0	42.7	25.6	15.0
Net domestic financing	22.6	21.0	2.2	17.4	25.7	-24.9
Bank	4.8	-0.3	-3.0	11.2	16.3	-7.3
Nonfinancial public sector 5/	17.7	7.6	9.0	9.3	13.2	67.4
Other	0.1	13.7	-3.9	-3.1	-3.7	-2.2
Clearance of arrears	...	...	...	...	...	-82.8
Privatization	5.6	0.0	0.0	0.0	0.0	0.0
Gap	...	...	...	...	...	52.3
Memorandum item:						
Nominal GDP at market prices (EC\$ million)	680.8	711.2	725.3	719.2	715.7	733.8

Sources: ministry of finance; and Fund staff estimates and projections.

1/ Fiscal years ending June 30.

2/ Includes collection of revenue arrears of EC\$2.4 million in FY 2002/03.

3/ On a cash basis.

4/ Difference between identified financing and overall balance.

5/ The figure for 2002/03 includes the issuance of bonds (equivalent to EC\$56.4 million) to the social security system and the water and sewer company for clearance of government arrears to these entities.

Table 3b. Dominica: Summary Accounts of the Central Government 1/

(In percent of GDP)

	1997/98	1998/99	1999/00	2000/01	Prel. 2001/02	Prog. 2002/03
Total revenue and grants	31.4	33.6	32.2	37.8	27.2	32.2
Current revenue	27.8	28.8	29.2	27.9	25.2	28.7
Tax revenue	23.5	24.4	24.6	23.6	21.6	25.0
Taxes on income 2/	6.4	6.9	7.6	7.6	5.4	7.1
Taxes on property	0.3	0.3	0.3	0.4	0.3	0.3
Taxes on goods and services	3.7	3.8	4.1	4.0	4.1	4.9
Taxes on international transactions	13.1	13.4	12.6	11.7	11.7	12.7
Nontax revenue	4.3	4.4	4.6	4.3	3.6	3.7
Capital revenue	1.5	0.8	0.4	0.4	0.2	0.2
Grants	2.2	4.1	2.7	9.4	1.9	3.3
Total expenditure 3/	35.1	41.0	43.6	48.7	37.8	37.9
Current expenditure	27.6	27.8	30.2	32.0	31.8	32.1
Wages and salaries	14.7	14.8	15.5	16.2	16.2	15.1
Goods and services	5.7	5.7	5.9	5.2	5.2	6.2
Interest	2.6	2.5	3.9	5.0	5.2	5.8
Domestic	2.4	1.7	2.0	2.8	2.7	2.9
External	0.2	0.7	1.9	2.2	2.4	2.9
Retirement benefits	1.5	2.0	1.8	1.9	2.2	2.2
Other transfers	3.1	2.9	3.1	3.8	3.0	2.7
Capital expenditure and net lending	7.6	13.2	13.4	16.7	6.0	5.9
Fixed investment	4.7	8.2	10.5	15.4	6.0	6.1
Net equity, net lending, and transfers	2.9	5.0	2.9	1.3	0.0	-0.2
Current account balance	0.2	0.9	-1.0	-4.1	-6.7	-3.4
Overall balance (before grants)	-5.9	-11.5	-14.1	-20.4	-12.5	-9.1
Overall balance	-3.7	-7.4	-11.4	-11.0	-10.6	-5.8
Statistical discrepancy 4/	-1.1	2.1	-1.9	2.6	2.9	...
Financing	4.8	5.4	13.3	8.4	7.2	-1.3
Net foreign financing	0.7	2.4	12.1	5.9	3.6	2.0
Net domestic financing	3.3	3.0	1.2	2.5	3.6	-3.4
Bank	0.7	0.0	-0.4	1.6	2.3	-1.0
Nonfinancial public sector 5/	2.6	1.1	3.0	1.3	1.8	9.2
Other	0.0	1.9	-1.4	-0.4	-0.5	-0.3
Clearance of arrears	...	...	...	...	...	-11.3
Privatization	0.8	0.0	0.0	0.0	0.0	0.0
Gap	...	...	...	...	...	7.1
Memorandum item:						
Nominal GDP at market prices (EC\$ millions)	680.8	711.2	725.3	719.2	715.7	733.8

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

1/ Fiscal years ending June 30.

2/ Includes collection of revenue arrears of 0.47 percent of GDP in FY 2002/03.

3/ On a cash basis.

4/ Difference between identified financing and overall balance.

5/ The figure for 2002/03 includes the issuance of bonds (equivalent to 7.7 percent of GDP) to the Social Security System and the Water and Sewer Company for clearance of government arrears to these entities.

Table 4. Dominica: Summary Accounts of the Banking System

	December 31						June 30		
	1998	1999	2000	2001	2002	2003	2001	Est. 2002	Prog. 2003
	(In millions of Eastern Caribbean dollars, end of period)								
I. Consolidated Banking System									
Net foreign assets	91.1	125.4	66.3	98.3	133.4	153.7	99.6	128.3	148.8
Net domestic assets	333.2	342.9	404.7	407.7	403.6	397.5	385.9	406.3	398.7
Net credit to the nonfinancial public sector	37.3	48.9	74.8	100.2	101.5	91.6	78.8	105.2	97.9
<i>Of which: central government 1/</i>	51.5	59.5	69.3	90.1	96.7	89.2	67.8	92.5	93.0
Net credit to nonbank financial institutions	-43.4	-43.9	-35.8	-37.7	-42.8	-44.0	-38.7	-42.6	-43.7
Credit to the private sector	410.0	419.8	454.1	439.6	439.3	444.4	440.2	438.1	438.9
Other items (net)	-70.6	-82.0	-88.3	-94.4	-94.4	-94.4	-94.4	-94.4	-94.4
Broad money 2/	424.3	468.3	471.0	506.0	537.1	551.2	485.4	534.6	547.5
II. Operations of the Eastern Caribbean Central Bank									
Imputed net international reserves	74.7	85.2	79.3	84.3	87.0	89.7	78.5	85.6	88.6
Net domestic assets	10.5	10.4	9.8	8.0	12.0	12.0	8.0	12.0	12.0
Monetary base	85.2	95.6	89.1	92.3	99.0	101.8	86.4	97.6	100.6
Currency in circulation	29.1	34.1	35.4	34.6	32.9	34.0	31.2	34.4	34.1
Commercial bank reserves	56.0	61.5	53.6	57.7	66.1	67.8	55.2	63.3	66.5
III. Commercial Banks									
Net foreign assets	16.5	40.2	-12.9	14.0	46.4	64.0	21.1	42.7	60.2
Net claims on ECCB	53.4	68.1	51.2	58.5	66.9	68.6	59.7	64.1	67.3
Net domestic assets	325.4	325.9	397.3	405.0	390.8	384.6	373.4	393.4	385.9
Net credit to the nonfinancial public sector	26.8	38.5	65.0	92.1	89.5	79.5	70.8	93.2	85.8
Net credit to nonbank financial institutions	-43.4	-43.9	-35.8	-37.7	-42.8	-44.0	-38.7	-42.6	-43.7
Credit to the private sector	410.0	419.8	454.1	439.6	439.3	444.4	440.2	438.1	438.9
Other (net)	-68.0	-88.5	-86.0	-89.1	-95.2	-95.3	-98.9	-95.2	-95.2
Private sector deposits 2/	395.2	434.2	435.6	477.4	504.1	517.2	454.2	500.2	513.4
IV. Consolidated Banking System									
(Annual percentage change)									
Credit to the private sector	6.1	2.4	8.2	-3.2	-0.1	1.2	-0.6	-0.5	0.2
Broad money 2/	11.4	10.4	0.6	7.4	6.1	2.6	6.8	10.1	2.4
(Contributions to liquidity growth) 3/									
Net foreign assets	6.9	8.1	-12.6	6.8	6.9	3.8	5.4	5.9	3.8
Net domestic assets	4.4	2.3	13.2	0.6	-0.8	-1.1	1.4	4.2	-1.4
Net credit to the nonfinancial public sector	-2.7	2.7	5.5	5.4	0.3	-1.9	5.2	5.4	-1.4
Credit to the private sector	6.2	2.3	7.3	-3.1	-0.1	0.9	-0.6	-0.4	0.1
Memorandum items:									
Interest rates 4/									
Deposits (3-month time-maximum rate)	4.0	5.0	6.0	6.0	...	...	6.0	...	...
Lending: Minimum rate	9.5	9.5	9.5	9.5	...	...	9.5	...	...
Maximum rate	19.5	19.5	20.8	20.8	...	...	20.8	...	...

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

1/Includes debt assumed from DBMC in Q1 of FY02/03.

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

3/ Change relative to broad money at the beginning of the period.

4/ Commercial banks; end-of-period rates, percent per annum.

Table 5. Dominica: Financial and External Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

	1998	1999	2000	Prel. 2001	Projections 1/ 2002 2003	
Financial indicators						
Broad money (percent change, 12-month basis)	11.4	10.4	0.6	7.4	6.1	2.6
Private sector credit (percent change, 12-month basis)	6.1	2.4	8.2	-3.2	-0.1	1.2
Nonperforming loans (3 months and over)/total loans (percent)	15.4	18.7	18.3	21.4	...	...
Provisioning/nonperforming loans (percent)	39.7	35.7	38.0	31.9	...	...
Capital/risk weighted assets (percent)	7.2	8.2	8.8	9.8	...	...
Three-month treasury bill rate (end of period)	6.4	6.4	6.4	6.4	...	...
Three-month treasury bill rate (real) 2/	4.9	6.4	5.3	4.5	...	...
External indicators						
Exports of goods and services (percent change, 12-month basis in US\$)	10.5	2.2	-4.9	-8.5	1.9	4.4
Imports of goods and services (percent change, 12-month basis in US\$)	-0.3	7.2	0.1	-8.1	-8.4	4.7
Current account balance	-8.3	-14.6	-18.3	-16.4	-12.6	-13.1
Capital and financial account balance 3/	9.3	18.8	18.4	17.5	5.5	7.5
Net official reserves (in US\$ millions, end of period) 4/	27.7	31.6	29.4	31.2	32.2	33.2
Net reserves to broad money (percent, end of period) 4/	17.6	18.2	16.8	16.7	16.6	16.5
Public sector external debt (end of period)	35.1	48.4	54.0	64.8	74.3	79.5
External debt (end of period) to exports of goods and services (percent) 5/	60.0	83.7	98.9	126.5	144.6	153.4
External interest payments to exports of goods and services (percent) 5/	1.6	2.2	4.2	5.6	6.4	6.8
External amortization payments to exports of goods and services (percent) 5/	3.5	3.2	3.0	3.5	4.9	5.4
Exchange rate (per US\$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7
REER appreciation (end of period; depreciation -)	-3.8	0.8	4.9	4.8	...	...

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

1/ Projections assume the adoption of proposed program measures.

2/ Treasury bill rate adjusted by end of period inflation.

3/ Includes errors and omissions.

4/ Imputed reserves at the ECCB.

5/ Refers to public sector debt.

Table 6. Dominica: Balance of Payments

	1998	1999	2000	Prel. 2001	Projections 1/ 2002 2003	
(In millions of U.S. dollars)						
Current account balance	-21.5	-39.2	-49.4	-43.1	-33.6	-36.1
Trade balance	-53.2	-67.4	-74.5	-69.6	-52.5	-54.6
Merchandise exports (f.o.b.) 2/	63.2	56.0	55.6	45.4	47.6	50.7
Merchandise imports (f.o.b.)	116.4	123.3	130.1	115.0	100.1	105.3
Services balance	34.4	39.7	39.0	36.3	35.9	36.9
Exports of services	88.4	98.9	91.6	89.2	89.7	92.5
Travel	46.5	48.9	50.1	48.1	48.2	49.7
Transport and communications	23.9	32.8	25.9	26.4	26.3	27.1
Other	18.0	17.2	15.7	14.7	15.2	15.8
Imports of services	54.0	59.3	52.6	53.0	53.7	55.7
Net income	-15.4	-25.1	-32.0	-28.4	-29.9	-31.5
<i>Of which:</i> Interest payments (public sector)	2.4	3.3	6.2	7.5	8.8	9.7
Net current transfers	12.7	13.6	18.1	18.5	12.8	13.1
Private sector	9.5	10.3	10.6	11.1	11.4	11.6
Public sector	3.3	3.2	7.4	7.4	1.5	1.5
Capital and financial account	11.8	49.0	54.6	43.7	14.6	20.7
Capital account	14.7	11.8	8.2	13.3	12.2	9.8
<i>Of which:</i> public capital transfers	12.3	9.4	6.9	10.5	9.3	6.9
Private capital transfers	2.4	2.5	2.7	2.8	2.8	2.9
Financial account	-3.0	37.3	46.4	30.4	2.4	11.0
Public sector	1.4	30.7	23.5	26.2	6.9	3.8
Official borrowing (net)	1.8	2.3	9.8	25.3	6.9	3.8
Disbursements	7.1	7.3	14.3	30.0	13.6	11.6
Repayments	5.2	5.0	4.5	4.7	6.7	7.8
Other	-0.4	28.3	13.6	0.9	0.0	0.0
<i>Of which:</i> portfolio investment	1.3	28.7	13.6	0.9	0.0	0.0
Private sector	-4.4	6.6	22.9	4.2	-4.5	7.1
Direct investment	6.5	18.0	10.8	14.2	7.1	10.6
Other investment	-10.9	-11.3	12.1	-10.0	-11.6	-3.5
<i>Of which:</i> commercial banks	-6.0	-8.8	19.7	-10.0	-12.0	-6.5
Errors and omissions	12.3	1.3	-5.1	2.4	0.0	0.0
Overall balance	2.6	11.1	0.1	2.9	-19.0	-15.4
Financing	-2.6	-11.1	-0.1	-2.9	-2.1	-2.1
Change in reserve position with the IMF	0.0	0.0	0.0	0.0	0.0	0.0
Change in public sector arrears	1.6	0.6	0.0	0.1	0.0	0.0
Change in government foreign assets (increase -)	-0.4	-7.8	-2.3	-1.1	-1.1	-1.1
Change in imputed reserves (increase -)	-3.8	-3.9	2.2	-1.9	-1.0	-1.0
Financing gap	...	...	...	...	21.2	17.5
<i>Of which:</i> IMF	...	...	...	...	3.0	1.2
(In percent of GDP)						
Memorandum items:						
Current account balance	-8.3	-14.6	-18.3	-16.4	-12.6	-13.1
External public debt 3/	35.1	48.4	54.0	64.8	74.3	79.5

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

1/ Projections assume the adoption of proposed program measures.

2/ Includes stores and bunkers.

3/ Includes external financing gap.

Table 7. Dominica: Public and Publicly Guaranteed External Debt

	1997/98	1998/99	1999/00	2000/01	Est. 2001/02	Projections 1/ 2002/03 2003/04	
(In millions of U.S. dollars)							
Debt outstanding at end of year	88.2	88.2	138.9	158.7	174.7	186.9	192.3
Drawings	7.8	6.1	56.5	26.6	22.2	19.2	13.6
Scheduled debt service	9.2	7.7	9.7	11.6	14.4	15.8	17.5
Principal	6.8	5.2	4.7	4.5	6.0	7.0	8.2
Interest	2.4	2.5	5.0	7.1	8.4	8.8	9.3
Debt service paid	9.1	8.2	9.6	11.8	14.4	15.8	17.5
Principal 2/	6.8	5.6	4.7	4.5	6.0	7.0	8.2
Interest	2.3	2.6	5.0	7.2	8.4	8.8	9.3
Debt forgiveness	10.9	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	0.1	-0.5	0.1	-0.2	0.0	0.0	0.0
Valuation adjustment	-1.8	-0.5	-1.1	-2.2	-0.3	0.0	0.0
Stock of arrears (end of year)	0.6	0.1	0.2	0.0	0.0	0.0	0.0
Principal	0.4	0.1	0.1	0.0	0.0	0.0	0.0
Interest	0.2	0.1	0.1	0.0	0.0	0.0	0.0
(In percent; unless otherwise indicated)							
Memorandum items:							
Debt outstanding/GDP	35.0	33.5	51.7	59.6	65.9	68.8	68.0
Stock of arrears/GDP	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Scheduled debt service/exports of goods and services	6.4	5.0	6.4	8.2	10.6	11.3	11.9
Average interest rate (percent per annum) 3/	2.4	3.0	4.4	4.8	5.0	4.9	4.9
GDP at market prices (millions of US\$)	252.1	263.4	268.6	266.4	265.1	271.8	282.8

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

1/ Projections based on contracted debt.

2/ Excludes debt forgiveness.

3/ Average interest rate based on actual interest paid relative to debt stock.

Table 8. Dominica: External Financing Requirements and Sources

(In millions of U.S. dollars)

	Prel. 2001	Program	
		2002	2003
Financing requirements	58.2	44.0	47.5
External current account deficit (excluding official transfers)	50.6	35.1	37.6
Official repayments 1/ <i>Of which</i>	5.8	7.9	8.9
IMF	0.0	0.0	0.0
Gross imputed international reserves (increase=+)	1.9	1.0	1.0
Financing sources	58.2	44.0	47.5
Official transfers	17.9	10.8	8.4
Official disbursements	30.9	13.6	11.6
Private sector (net) 2/	9.4	-1.6	10.0
Financing gap	0.0	21.2	17.5
<i>Of which</i>			
IMF purchases	0.0	3.0	1.2
Other multilateral and bilateral disbursements	0.0	18.1	16.3
Memorandum items:			
Financing gap (US\$ million; fiscal year basis) 3/	...	...	19.3
Financing gap (percent of GDP; fiscal year basis) 3/	...	...	7.1

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

1/ Includes government sinking fund deposits abroad.

2/ Includes changes in commercial banks NFA, short-term flows and trade credits, net foreign direct investment, and errors and omissions of the balance of payment.

3/ Fiscal year ending June 30.

Table 9. Dominica: Structural Reform Agenda for FY 2002/03

Structural Reform Measure	Lead Institution 1/	Completion Date	Category
Tax policy and administration			
Conduct comprehensive review of tax system and its administration	IMF	December 31, 2002	Benchmark
Implement tax reform measures in line with recommendations of comprehensive review	IMF	June 30, 2003	Performance criterion
Public expenditure			
Conduct public expenditure review	WB	March 31, 2003	Benchmark
Conduct review of public sector investment program	WB/CDB	December 31, 2002	Benchmark
Civil service reform			
Prepare comprehensive civil service reform program	WB	March 31, 2003	Benchmark
Initiate the reform process	WB	June 30, 2003	Benchmark
Privatization			
Dominica Banana Marketing Corporation	EU	September 30, 2002	Benchmark
Create special fund for privatization proceeds	...	March 31, 2003	Benchmark
Financial system oversight			
Conduct comprehensive review of the financial sector	IMF	December 31, 2002	Benchmark
Place nonbank financial institutions under ministry of finance supervision (with support from the ECCB)	ECCB	June 30, 2003	Benchmark
Banana sector restructuring			
Various projects: infrastructure and efficiency enhancement	EU	Ongoing	
Other			
Study the feasibility of abolishing DEXIA's monopoly on the importation of sugar and bulk rice	...	December 31, 2002	Benchmark
Examine the scope for transforming the NDC into a self-financing agency	...	December 31, 2002	Benchmark
Eliminate remaining price controls (except on fuels and cement)	...	December 31, 2002	Benchmark
Eliminate price controls on fuels and cement	...	June 30, 2003	Benchmark

Sources: Dominican authorities; and Fund staff.

1/ IMF=International Monetary Fund (includes CARTAC); WB=World Bank; CDB=Caribbean Development Bank; EU=European Union; ECCB=Eastern Caribbean Central Bank.

Table 10. Dominica: Medium-Term Projections 1/

	2000	Prel. 2001	Projections				
			2002	2003	2004	2005	2006
(Annual percentage change)							
National income and prices							
GDP at constant (1990) prices	0.7	-4.6	-0.5	1.5	2.5	3.0	3.0
Implicit GDP deflator (factor cost)	0.6	1.9	2.0	2.0	2.0	2.0	2.0
(In percent of GDP, unless otherwise stated)							
Saving and investment							
Gross domestic investment	24.8	21.2	13.7	16.0	18.4	19.9	20.8
Public	16.7	15.3	8.0	7.5	8.4	9.3	9.8
Private	8.1	5.9	5.7	8.5	10.0	10.6	11.0
Gross national saving	6.5	4.8	1.1	2.9	5.3	7.0	8.2
Public	-0.6	-2.5	-2.1	0.5	2.8	4.4	5.0
Private	7.1	7.3	3.2	2.5	2.6	2.9	3.2
Public sector finances 2/							
Overall balance (before grants)	-14.6	-24.2	-12.1	-7.5	-5.8	-4.7	-4.5
Grants	2.7	11.6	2.1	3.5	3.5	4.0	4.4
Central government saving	-1.0	-4.1	-6.7	-3.4	-0.7	1.3	2.6
Current revenue	29.2	27.9	25.2	28.7	29.9	30.6	30.5
Current expenditure	30.2	32.0	31.8	32.1	30.5	29.2	27.9
Balance of payments							
External current account	-18.3	-16.4	-12.6	-13.1	-13.0	-12.9	-12.6
<i>Of which</i>							
Exports of goods and services	54.6	51.2	51.4	51.8	52.1	52.2	52.1
Imports of goods and services	67.8	63.8	57.6	58.2	58.4	58.3	58.0
Capital and financial account 3/	18.4	17.5	5.5	7.5	10.7	10.9	12.1
Overall balance	0.0	1.1	-7.1	-5.6	-2.4	-2.1	-0.5
Identified financing	0.0	-1.1	-0.8	-0.8	-0.7	-0.7	-0.7
Financing gap	...	...	7.9	6.3	3.1	2.7	1.1
Public sector debt and debt service							
Public sector debt	26.5	92.1	101.2	103.4	99.9	98.9	93.9
External		64.8	74.3	79.5	78.0	79.1	76.0
Domestic	26.5	27.3	26.9	23.9	21.9	19.8	17.9
External debt/exports 4/	98.9	126.5	144.6	153.4	149.7	151.5	146.0
External debt service/exports 4/	7.3	9.1	11.3	12.2	12.5	12.3	11.8

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

1/ Projections assume the adoption of proposed program measures.

2/ These data are presented on a fiscal year (July-June) basis. Figures shown for a given calendar year relate to the fiscal year ending on June 30 of that year.

3/ Including errors and omissions.

4/ Exports of goods and services.

Table 11. Dominica: External Sustainability Framework
(In percent, unless indicated otherwise)

	1996	1997	1998	1999	2000	Prel. 2001	Projections				
							2002	2003	2004	2005	2006
I. Baseline Medium-Term Projections											
External debt/exports of goods and services	84.2	64.9	60.0	83.7	98.9	126.5	144.6	153.4	149.7	151.5	146.0
External public debt/GDP	43.4	36.3	35.1	48.4	54.0	64.8	74.3	79.5	78.0	79.1	76.0
Change in external debt/GDP	-3.7	-7.1	-1.3	13.4	5.6	10.8	9.5	5.2	-1.4	1.1	-3.1
Net debt-creating external flows/GDP	2.3	-3.8	-1.8	-9.1	-6.9	4.6	4.5	-0.5	-6.9	-4.2	-7.9
Current account deficit, excluding public interest payments/GDP	19.6	15.4	7.4	13.4	16.0	13.5	9.3	9.5	9.5	9.5	9.4
Deficit in balance of goods and services/GDP	17.0	13.8	7.2	10.4	13.2	12.6	6.2	6.4	6.3	6.1	5.9
Exports of goods and services/GDP	51.6	56.0	58.5	57.9	54.6	51.2	51.4	51.8	52.1	52.2	52.1
Imports of goods and services/GDP	68.6	69.7	65.7	68.2	67.8	63.8	57.6	58.2	58.4	58.3	58.0
Minus non-debt creating inflows/GDP	-16.1	-18.7	-8.7	-22.6	-23.7	-13.8	-7.7	-10.9	-16.4	-13.3	-16.9
Net foreign direct investment, equity/GDP	7.5	8.6	2.5	6.7	4.0	5.4	2.7	3.8	4.0	4.2	4.4
Net portfolio investment, equity/GDP	-4.7	-3.3	-4.4	6.3	9.4	-3.7	-4.3	-1.3	3.2	0.1	2.9
Net unrequited transfers/GDP	13.3	13.4	10.6	9.5	10.3	12.1	9.4	8.3	9.1	9.0	9.6
($r-g-(\rho+g\rho)/(1+g+\rho+g\rho)$)debt/GDP (β/α)	-1.2	-0.4	-0.4	0.1	0.8	4.9	2.9	0.8	0.0	-0.3	-0.4
$\alpha = 1+g+\rho+g\rho$	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1
$\beta = (r-g-(\rho+g\rho))\text{debt}/\text{GDP}$	-1.2	-0.4	-0.5	0.1	0.8	4.8	2.9	0.8	0.0	-0.4	-0.4
$r * \text{debt}/\text{GDP } 1/$	1.0	1.0	0.9	1.5	2.4	3.1	3.6	3.9	3.7	3.9	3.7
minus $g * \text{debt}/\text{GDP } 2/$	-1.3	-0.7	-1.0	-0.8	-0.4	3.0	0.4	-1.2	-1.9	-2.3	-2.3
minus $(\rho+g\rho) * \text{debt}/\text{GDP } 3/$	-0.9	-0.7	-0.4	-0.7	-1.2	-1.3	-1.1	-1.8	-1.8	-1.9	-1.8
Residual, including change in gross foreign assets/GDP	-6.0	-3.3	0.6	22.5	12.5	6.1	5.1	5.7	5.5	5.2	4.9
Memorandum items: (Key macro and external assumptions)											
Nominal GDP (local currency, mn)	637.9	661.6	699.9	722.6	728.0	710.4	721.0	746.7	780.4	819.7	860.9
Nominal GDP (U.S. dollars, mn)	236.3	245.0	259.2	267.6	269.6	263.1	267.0	276.5	289.0	303.6	318.8
Real GDP growth (in percent per year)	3.1	2.0	2.8	1.6	0.7	-4.6	-0.5	1.5	2.5	3.0	3.0
Consumer price index (change, in percent per year)	2.0	2.2	1.5	0.0	1.1	1.9	2.0	2.0	2.0	2.0	2.0
Exchange rate (local currency per U.S. dollar, end period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Real Exchange Rate (change, in percent per year)	-2.4	0.3	-1.5	-1.6	0.6	-0.5	-0.7	-0.4	-0.3	-0.2	-0.1
Nominal GDP deflator (in U.S. dollars, change in percent per year)	4.1	1.2	2.6	2.5	0.6	1.9	2.0	2.0	2.0	2.0	2.0
Average external interest rate (percent per year)	2.3	2.7	2.7	3.2	4.5	4.8	4.9	4.9	4.8	4.9	4.8
Growth of exports of Goods and Services (U.S. dollar terms, in percent per year)	13.4	12.6	10.5	2.2	-4.9	-8.5	1.9	4.4	5.2	5.2	4.8
Growth of imports of Goods and Services (U.S. dollar terms, in percent per year)	13.5	5.4	-0.3	7.2	0.1	-8.1	-8.4	4.7	4.9	4.9	4.4

Table 11. Dominica: External Sustainability Framework
(In percent, unless indicated otherwise)

	1996	1997	1998	1999	2000	Prel. 2001	Projections				
							2002	2003	2004	2005	2006
II. Sensitivity Analysis for External Debt-to-GDP Ratio											
1. If interest rate, real GDP growth rate, US\$ GDP deflator growth, noninterest current account and nondebt flows (in percent of GDP) are at average of past 10 years						57.7	59.9	62.7	64.5	66.5	69.0
2. If interest rate in 2001 and 2002 is average plus two standard deviations, others at baseline						64.3	73.8	78.9	77.5	78.6	75.5
3. If real GDP growth rate in 2001 and 2002 is average minus two standard deviations, others at baseline						61.1	72.7	77.8	76.4	77.5	74.4
4. If US\$ GDP deflator growth in 2001 is average minus two standard deviations, others at baseline						65.7	75.2	80.4	78.9	80.0	76.9
5. If non-interest current account (in percent of GDP) in 2001 and 2002 is average minus two standard deviations, others at baseline						85.1	114.8	120.0	118.6	119.6	116.5
6. Combination of 2-5 using one standard deviation shocks						76.5	99.1	104.3	102.8	103.9	100.8

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

1/ r represents nominal interest rate.

2/ g represents real GDP growth rate.

3/ p represents growth rate of U.S. dollar value of GDP deflator.

Note: The program baseline scenario is consistent with a sustainable external debt dynamics. The debt-to-GDP ratio is expected to increase in 2002 and 2003 on account of the high financing requirement of the public sector, which is envisaged to be covered by external multilateral disbursements. The debt ratio would stabilize in 2003-05 and start declining in 2006. External debt sensitivity tests show that this scenario is consistent not only with historical trends but with interest rate and external inflation shocks as well. The comparative analysis is favorable both for the end of the program (2003) as well as for the medium term (2006). The use of ten-year averages for the key parameters increases the debt ratio by about 5 percent of GDP in the period 2001-2003, while the scenario expects a build-up of about 15 percent of GDP. For 2001-2006, both past values and the scenario would indicate a 11 percent of GDP debt increase. As far as interest rate and external inflation shocks are concerned, the test produces about the same debt increase as the scenario, in both periods.

The results are less favorable, however, when shocks to real income and noninterest current account balance are tested. In the first case (real GDP shock) the sensitivity test indicates that by end-2003 the debt ratio would have grown by about 17 percent of GDP (relative to 2001) and by end-2006 the increase would be about 13 percent of GDP. In the case of shocks to the noninterest current account balance (or its combination with interest rate shocks), which would cause deficits to be much higher than envisaged, the test suggests that debt ratios would be about two times higher than in the scenario. Nevertheless, the likelihood of the latter case is considered low in light of the observed link between current account deficits and nondebt creating flows, typically for high-import-content investment outlays, most of which is externally financed.

Table 12. Dominica: Public Sector Debt Sustainability Framework
(In percent, unless indicated otherwise)

	1997/98	1998/99	1999/00	2000/01	2001/02	Projections			
						2002/03	2003/04	2004/05	2005/06
I. Baseline Medium-Term Projections									
Public debt to Revenue	169.6	203.0	204.7	260.2	304.7	295.5	284.6	272.7	265.0
Public debt to GDP	58.0	70.3	70.3	86.3	97.8	104.6	103.9	101.5	98.4
Change in debt to GDP	0.0	12.3	0.0	16.0	11.6	6.8	-0.7	-2.4	-3.1
Net debt-creating flows to GDP	1.0	-4.3	9.9	13.1	10.7	1.7	-1.8	-4.0	-5.1
Overall primary balance (before grants) to GDP	-2.4	-8.1	-10.4	-18.8	-6.6	-1.5	-0.2	0.6	0.4
Revenues to GDP	34.2	34.6	34.3	33.2	32.1	35.4	36.5	37.2	37.1
Expenditures to GDP	39.6	45.5	49.0	57.4	44.3	42.9	42.3	41.9	41.6
Minus net nondebt creating inflows to GDP	3.1	4.2	2.7	11.6	2.1	3.5	3.5	4.0	4.4
Unrequited grants to GDP	2.2	4.2	2.7	11.6	2.1	3.5	3.5	4.0	4.4
Privatization receipts to GDP	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
a/b	0.3	-0.4	2.3	6.0	6.2	3.7	1.5	0.5	-0.2
b= $1+g+\pi+g*\pi$ (Adjustment factor)	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1
a= $(r-g-(\pi+g*\pi))$ *debt to GDP	0.3	-0.5	2.3	5.9	6.2	3.8	1.6	0.5	-0.2
r times debt to GDP	3.0	2.3	4.2	5.4	5.6	6.2	5.8	5.5	4.9
minus g times debt to GDP	1.4	1.3	0.8	-1.4	-2.2	0.5	2.1	2.8	3.0
minus π times debt to GDP	1.3	1.5	1.1	0.9	1.6	2.0	2.1	2.1	2.1
Residual, including change of assets	-1.0	16.6	-9.9	2.9	0.8	5.1	1.0	1.7	1.9
Memorandum items: (Key macro and external assumptions)									
Nominal GDP (EC\$ millions)	680.8	711.3	725.3	719.2	715.7	733.7	763.3	799.8	839.9
Real GDP growth g	2.4	2.2	1.2	-2.0	-2.6	0.5	2.0	2.7	3.0
CPI (end of period)	1.7	1.1	1.0	1.4	2.0	2.0	2.0	2.0	2.0
Exchange Rate (EC\$/US\$)	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Nominal GDP deflator π (change in percent)	2.2	2.6	1.6	1.3	1.9	2.0	2.0	2.0	2.0
Average interest rate on government debt r	5.2	4.0	6.0	7.7	6.4	6.3	5.5	5.3	4.8
Growth of revenues (deflated by GDP deflator)	3.8	5.3	2.1	-3.9	-4.3	13.0	7.2	6.8	4.7
Growth of expenditures (deflated by GDP deflator)	3.3	19.7	10.7	16.6	-23.8	-0.6	2.5	3.7	4.3

Table 12. Dominica: Public Sector Debt Sustainability Framework

(In percent, unless indicated otherwise)

	1997/98	1998/99	1999/00	2000/01	2001/02	Projections			
						2002/03	2003/04	2004/05	2005/06
II. Sensitivity Analysis 1/									
1. If interest rates, real GDP growth rate, primary balance and nondebt flows (in percent of GDP) are at average of past 10 years	...	...	...	...	...	107.4	111.9	116.3	120.4
2. If interest rate in 2002/03 and 2004/05 is plus two standard deviations	...	...	...	...	...	104.6	103.9	101.5	98.3
3. If real GDP growth rate in 2003/04 and 2004/05 is average minus two standard deviations	...	...	...	...	...	104.9	106.3	104.1	101.1
4. If GDP deflator growth in 2002/03 is average minus two standard deviations	...	...	...	...	...	105.1	104.3	102.0	98.9
5. If primary balance (in percent of GDP) in 2002/03 and 2003/04 is average minus two standard deviations	...	...	...	...	...	112.0	119.5	117.2	114.1
6. Combination of 2-5 shocks using one standard deviation	...	...	...	...	...	111.0	120.0	117.8	114.7
7. If debt ratio in 2002/03 rises by an additional 10 percent of GDP	...	...	...	...	...	114.6	114.0	111.7	108.5
Memorandum items:									
Primary balance (percent of GDP, average of past years)	-4.3	-4.9	-5.7	-7.4	-7.3	-5.1	-4.7	-3.9	-3.4
Primary balance (standard deviation)	2.1	1.9	1.9	2.0	2.0	1.1	1.0	1.2	1.3
Net nondebt creating inflows (percent of GDP, average of 10 years)	5.0	4.9	4.6	5.5	5.1	4.9	5.1	4.9	4.7
Interest rate (percent of GDP, average of past 10 years)	4.3	4.3	4.5	4.9	5.0	5.7	5.7	5.7	5.7
Interest rate (standard deviation of past 10 years)	1.6	1.6	1.5	1.5	1.5	0.9	0.7	0.7	0.6
Real GDP growth (percent of GDP, average of past 10 years)	2.2	2.2	2.1	1.6	1.2	1.0	1.0	1.1	1.2
Real GDP growth (standard deviation of past 10 years)	0.1	0.1	0.1	0.2	0.3	0.4	0.5	0.5	0.5
GDP deflator growth (percent of GDP, average of past 10 years)	3.1	3.1	2.9	2.7	2.6	2.5	2.2	2.1	2.1
GDP deflator growth (standard deviation of past 10 years)	0.3	0.3	0.3	0.4	0.4	0.5	0.4	0.4	0.4

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

1/ Other variables are at baseline.

Note: The baseline medium term projection is consistent with sustainable public debt dynamics. Public debt to GDP is projected to temporarily increase from 98 percent in FY01/02 to 104 percent in FY02/03 (mainly owing to large scale clearance of arrears and low real growth), and then to decline gradually back to 98 percent by FY05/06. Also, the public debt to revenue ratio would decline from 304.7 percent in FY01/02 to 265 percent in FY05/06. These satisfactory debt dynamics can be mainly attributed to (i) an adjustment of the primary overall balance of the public sector, as the ratio of revenues to GDP is envisaged to gradually increase (owing to reform of tax system) while the ratio of expenditures to GDP would slightly decline; (ii) a declining average interest rate as commercial borrowing is replaced by borrowing at concessional terms over time; and (iii) an increase in the real growth rate from 0.5 percent in FY02/03 to 3.0 percent in FY05/06. Sensitivity tests around the baseline medium-term projection indicate that the difference in the medium term debt to GDP ratio between the high debt scenario (scenario 1) and the low debt scenario (baseline) is 22 percent of GDP in FY05/06. The debt to GDP ratio is mainly sensitive to shocks to the primary overall balance (scenarios 5 and 7), whereas the effect of shocks to the interest rate (scenario 3), and GDP deflator (scenario 4) is small. Overall, the results emphasize the importance of strong fiscal adjustment. Note all scenarios (except for scenario 1) are consistent with sustainable debt dynamics.

Table 13. Dominica: Projected Payments to the IMF as of July 29, 2002 1/ 2/
(In millions of SDRs)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Beyond	Total
Projected Payments Under Existing Drawings												
Total obligations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest/charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Projected Payments Resulting from Prospective Drawings and Associated Repayments												
Total obligations	0.0	0.1	0.1	0.4	1.5	1.4	0.2	0.0	0.0	0.0	0.0	3.7
Principal	0.0	0.0	0.0	0.3	1.4	1.4	0.2	0.0	0.0	0.0	0.0	3.3
GRA repurchases	0.0	0.0	0.0	0.3	1.4	1.4	0.2	0.0	0.0	0.0	0.0	3.3
Interest/charges	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Periodic charges	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Total Projected Payments Based on Existing and Prospective Drawings												
Total obligations	0.0	0.1	0.1	0.4	1.5	1.4	0.2	0.0	0.0	0.0	0.0	3.9
Principal	0.0	0.0	0.0	0.3	1.4	1.4	0.2	0.0	0.0	0.0	0.0	3.3
GRA repurchases	0.0	0.0	0.0	0.3	1.4	1.4	0.2	0.0	0.0	0.0	0.0	3.3
Interest/charges	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.6
Periodic charges	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.4
SDR net charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1

Source: International Monetary Fund.

1/ The GRA basic rate of charge 2.97 percent is computed by applying a factor of 1.2800 to the SDR interest rate 2.32 percent. It is then increased by 0.02 percent for burden sharing and furthermore by 0.09 percent for the SCA for a total rate of 3.08 percent.

2/ Projected payments during calendar year ending December 31.

Table 14. Dominica: Indicators of Capacity to Repay the Fund, 2002-2006

	Prel.	Projections 1/				
	2001	2002	2003	2004	2005	2006
Fund repurchases and charges 2/						
In millions of SDRs	0.0	0.0	0.1	0.1	0.4	1.5
In millions of U.S. dollars	0.0	0.0	0.1	0.1	0.5	2.0
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.3	1.2
In percent of debt service	0.0	0.0	0.7	0.7	2.6	9.0
In percent of quota	0.0	0.0	1.2	1.2	4.9	18.3
In percent of imputed net official reserves	0.0	0.0	0.4	0.4	1.5	5.4
Fund credit outstanding 2/						
In millions of SDRs	0.0	2.4	3.3	3.3	3.0	1.6
In millions of U.S. dollars	0.0	3.0	4.2	4.3	3.9	2.1
In percent of exports of goods and services	0.0	2.2	3.0	2.8	2.5	1.3
In percent of debt service	0.0	19.4	24.1	22.4	19.6	9.7
In percent of quota	0.0	28.8	40.0	40.0	36.8	19.6
In percent of imputed net official reserves	0.0	9.4	12.8	12.4	11.2	5.8
Memorandum items:						
Exports of goods and services (millions of U.S. dollars)	134.7	137.2	143.3	150.7	158.4	166.1
Debt service (millions of U.S. dollars) 2/	12.3	15.6	17.6	19.0	20.0	21.6
Quota (millions of SDRs)	8.2	8.2	8.2	8.2	8.2	8.2
Quota (millions of U.S. dollars)	10.4	10.5	10.6	10.6	10.7	10.7
Imputed net official reserves (millions of U.S. dollars) 2/	31.2	32.2	33.2	34.2	35.2	36.2
GDP (millions of U.S. dollars)	263.1	267.0	276.5	289.0	303.6	318.8
U.S. dollars per SDR 3/	1.273	1.276	1.295	1.298	1.301	1.302

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

1/ As of July 29, 2002.

2/ Including hypothetical purchases under proposed Stand-By Arrangement, not shown in the balance of payments projections

3/ For the projection period: WEO assumptions of June 2002.

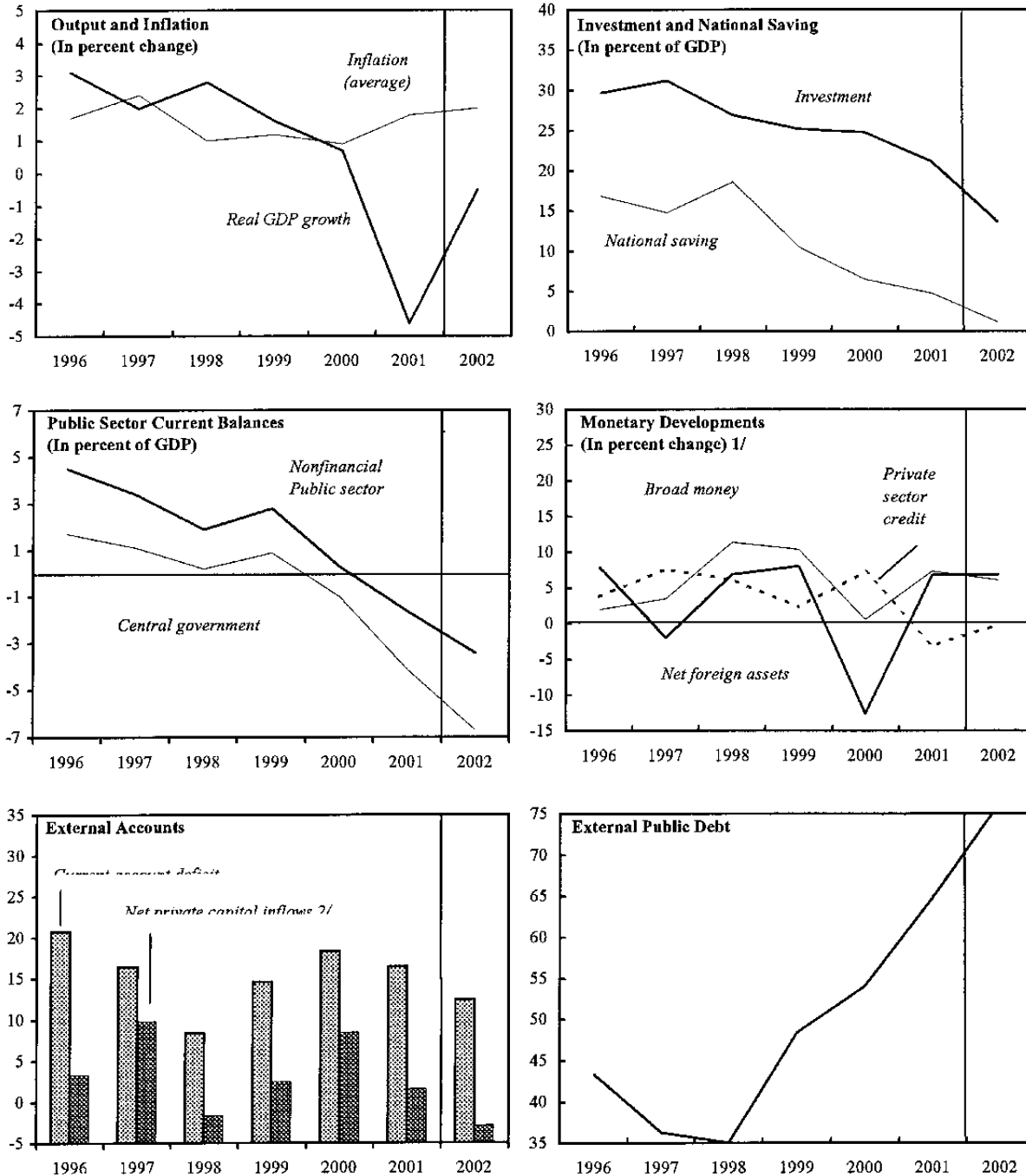
Table 15. Dominica: Proposed Schedule of Purchases
Under the Stand-By Arrangement, 2002-2003 1/

Amount of Purchase	Availability Date	Conditions
SDR 2.05 million	August 28, 2002 (Board date)	Board approval of Stand-By Arrangement
SDR 307.5 thousand	November 15, 2002	Observance of end-September 2002 performance criteria
SDR 307.5 thousand	February 15, 2003	Observance of end-December 2002 performance criteria and completion of mid-term review
SDR 307.5 thousand	May 15, 2003	Observance of end-March 2003 performance criteria
SDR 307.5 thousand	August 15, 2003	Observance of end-June 2003 performance criteria

Source: International Monetary Fund.

1/ Total access under the Stand-By Arrangement is SDR 3.28 million (40 percent of quota).

Figure 1. Dominica: Selected Economic Indicators

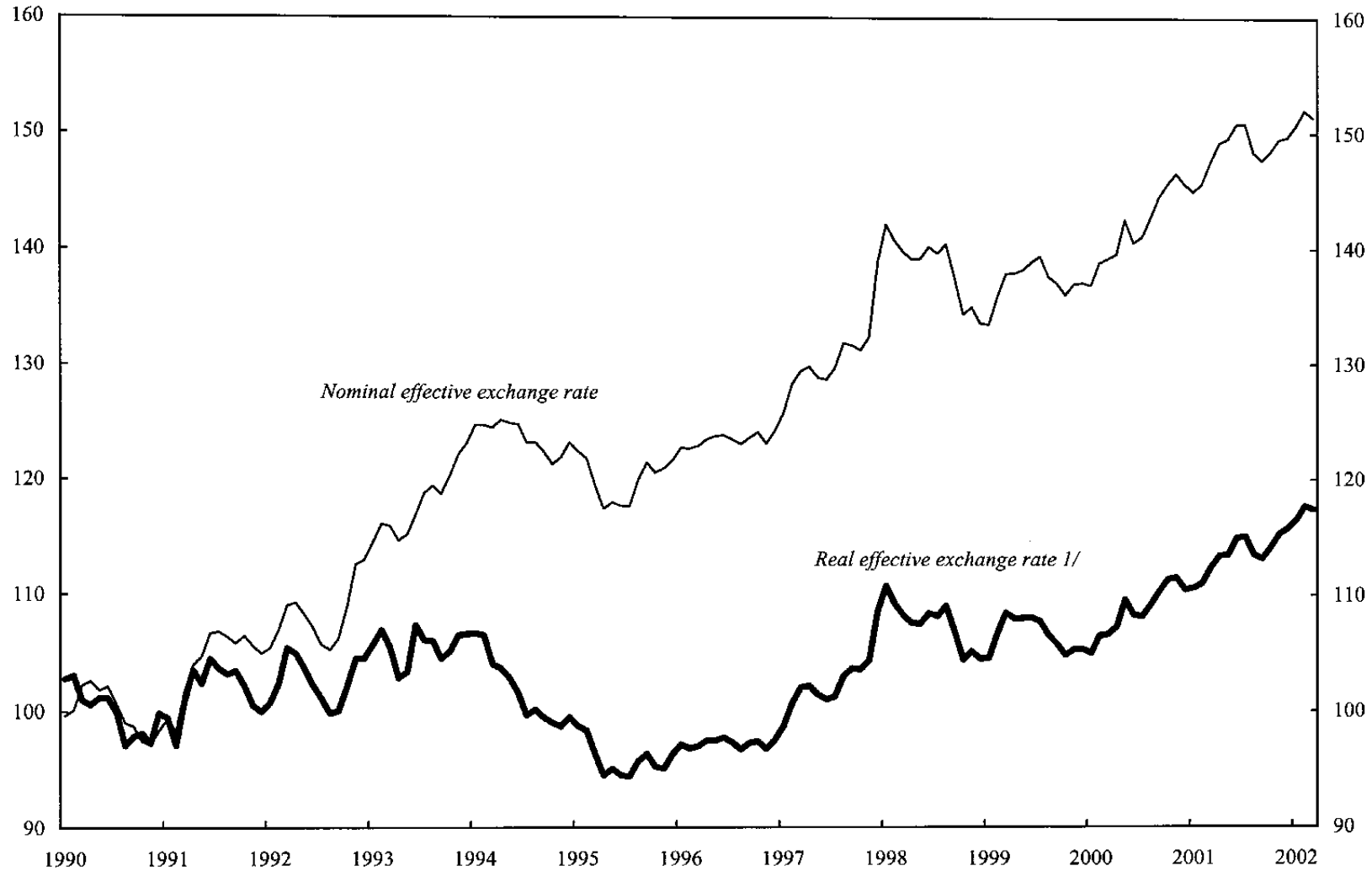


Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

1/ Change relative to broad money at the beginning of the period.

2/ Excludes transfers.

Figure 2. Dominica: Exchange Rate Developments
(Index 1990=100)



Sources: IMF Information Notice System; and Fund staff estimates.

1/ The real effective exchange rate is estimated as a trade-weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices. An increase means an appreciation.

Dominica: Fund Relations

(As of June 30, 2002)

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

II. General Resources Account	SDR Million	Percent of Quota
Quota	8.20	100.00
Fund holdings of currency	8.19	99.90
Reserve position in Fund	0.01	0.11

III. SDR Department	SDR Million	Allocation
Net cumulative allocation	0.59	100.00
Holdings	0.00	0.47

IV. Outstanding Purchases and Loans: None.

V. Latest Financial Arrangements:

	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn
Type				
<u>SAE</u>	<u>11/26/86</u>	<u>11/25/89</u>	2.80	2.80
Stand-by	07/18/84	07/17/85	1.40	0.97
EFF	02/06/81	02/05/84	8.55	8.55

VI. Projected Obligations to the Fund: None.

VII. Exchange rate arrangement: Dominica is a member of the Eastern Caribbean Currency Union, which has a common central bank (the Eastern Caribbean Central Bank) and currency (the Eastern Caribbean dollar). Since July 1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC\$2.70 per U.S. dollar.

VIII. Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank, of which Dominica is a member, is subject to a full safeguards assessment. Required documentation was requested from the authorities on April 25, 2002.

IX. Article IV consultation: The last Article IV consultation was concluded by the Executive Board on June 15, 2001 (EBM/01/61); the relevant documents are SM/01/150 and SM/01/158. Dominica is on the standard 12-month cycle.

X. Technical assistance: FAD missions visited Roseau to provide technical assistance on tax policy and administration, with special emphasis on VAT implementation (1999), on urban property taxation (1997), and on tax policy and administration, and expenditure control (1995).

Dominica: World Bank Relations¹

(As of August 6, 2002)

Partnership in Dominica

The authorities in Dominica are primarily concerned with stabilizing macroeconomic conditions and in restarting economic growth. In the short to medium term, increasing the efficiency of public spending, the effectiveness of public service delivery and productivity of public investment will be key measures. Simultaneously, the government is undertaking a number of participatory activities aimed at providing a longer-term strategic vision for growth and poverty reduction in Dominica. The Bank and the Fund will continue to collaborate with other donors in supporting this effort.

In particular, the IMF will continue to take the lead in assisting Dominica to re-establish macroeconomic stability, and fiscal sustainability through the design of a quantitative program and identification of key reforms. The Bank will lead the policy dialogue on key structural reforms, including public expenditure, civil service and public sector reform, in the social sectors, and on the environment for private sector development. The Bank will also continue its role in aid coordination for the OECS.

Bank Group Strategy

The World Bank's management presented to its Board an Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on June 28, 2001. The CAS which covers FY 2002–06, proposes new commitments of around US\$110 million for the five borrowing member states of the OECS, including Dominica. The main goals of the strategy are to reduce income insecurity and vulnerability at the national and household levels, and build human and institutional capacity to meet the challenging economic and social environment facing these small states. Most new projects are being provided under a sub-regional umbrella mechanism, using horizontal Adaptable Program Loans (APLs), and in close collaboration with sub-regional organizations and external partners.

Projects. Under the new CAS, the Bank has continued to commit increased resources to the OECS, mainly through sub-regional programs mentioned above. There are currently three ongoing World Bank projects in Dominica with commitments of approximately US\$7.6 million.

The *OECS Telecommunications Reform Program*, approved in FY98 seeks to introduce pro-competition reforms in the telecommunications sectors and increase the supply of informatics-related skills in five OECS borrowing countries: Dominica, Grenada, St. Kitts

¹ Source: World Bank.

and Nevis, St. Lucia, and St. Vincent and the Grenadines. The project has helped the OECS countries establish a regional regulatory authority, negotiate with the sub-regional telecommunications monopoly and lower telephone rates. Dominica's share of the US\$6.0 million loan is US\$1.2 million.

The *OECS Disaster Management Project*, approved in FY 1999, is part of a regional program for five OECS borrowing countries to rehabilitate key economic and social infrastructure, to minimize damage from future disasters and to speed recovery following such events. The project also aims to strengthen the institutional capacity to prepare for and respond to disaster emergencies. The total program size is US\$33.7 million, of which Dominica's project is US\$3.2 million.

The *OECS Emergency Recovery Project* was approved on March 7, 2002 to help mitigate the impact of the September 11 attack on the tourism sector. The project will support improvements to airport and seaport security arrangements. The World Bank's assistance for this sub-regional program is US\$21 million, including US\$3.2 million for Dominica.

Analytical and Advisory Services. The Bank is engaged in three categories of analytical work of direct relevance to Dominica. The first body of work builds on Bank-wide program on small states and focuses on the issue of vulnerability in the Caribbean. The work underway includes a study of macroeconomic volatility and income security in the Caribbean, research and a proposed project on catastrophic insurance for the OECS and Barbados, reviews of natural hazard risk mitigation strategies in the Caribbean and institutional arrangements for environmental management in the OECS, and technical assistance to help strengthen the measurement of poverty and social welfare in the OECS. Several of these reports were recently discussed in draft form at the Caribbean Group for Cooperation in Economic Development at its biennial meeting in June 2002.

The second body of work addresses long-term development in the OECS and institutional capacity, and includes an Institutional and Organizational Review of the OECS, an OECS Procurement Assessment Review, an OECS Financial Accountability Assessment (all being finalized) and a report on Fiscal Issues in the OECS to include reviews of public expenditure for each of the six member states, which is currently underway. The Dominica section of this Fiscal Issues report is scheduled to be completed in FY 2003.

Finally, the Bank will continue to work together with the IMF and the ECCB to fully review the financial sector, including off-shore operations, including a planned Financial Sector Assessment Program report in 2003.

Financial Relations
(In millions of U.S. dollars)

Operations	Commitments	Disbursed	Undisbursed
Emergency Recovery Project	3.2	0.0	3.2
Disaster Management	3.2	1.6	1.6
OECS Telecommunication Reform	1.2	0.3	0.9

Gross Disbursements and Debt Service During Fiscal Year

	1995	1996	1997	1998	1999	2000	2001	2002
Total disbursements	0.2	0.1	0.5	1.9	1.4	2.1	0.4	1.7
Repayments	0.1	0.1	0.2	0.1	0.1	0.1	0.0	0.1
Net disbursements	0.2	0.0	0.3	1.8	1.3	1.9	0.4	1.6
Cancelled	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and fees	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3

Bank-Fund Collaboration in Specific Areas

The World Bank and the IMF will continue to collaborate on financial sector and off-shore management, and in providing a wide range of technical assistance to Dominica on macroeconomic management issues through joint support to the Caribbean Technical Assistance Center.

Dominica: Relations with the Caribbean Development Bank (CDB)

(As of June 30, 2002)

The CDB has approved loans and grants totaling US\$138.4 million for Dominica. This represents approximately 7.1 percent of total CDB's approvals for member countries. Of this amount 91.6 percent consisted of loans and 8.4 percent of grants.

Of total loan approvals amounting to US\$138.4 million, US\$71.2 million was lent for economic and social infrastructure projects, US\$39.3 million for productive sector projects, and US\$27.9 million for multi-sector projects. Power and energy projects received US\$6.2 million (4.4 percent), transportation and communications US\$10.8 (7.8 percent), housing US\$13.6 million, education US\$17.5 million (12.6 percent), sea defenses US\$7.5 million (5.4 percent) and water US\$9.0 million (6.5 percent). Of those loans for productive sector projects, US\$23.9 million (17.2 percent) was channeled towards the agriculture sector, reflective of the dominance of this sector in the economy. The remainder was allocated to manufacturing (US\$12.1 million) and tourism (US\$3.3 million). A significant portion of loans to the production sector was channeled to private sector through the Dominica Agricultural and Industrial Bank (DAIDB).

In support of the GOCD's social enhancement initiatives, loans to the social sector were supplemented by grant resources. Of the US\$12.8 million in grants to Dominica during 1970–June 2002 about 78 percent was provided under the Basic Needs Trust Fund (BNTF) for poverty reduction. The remaining grants were used to provide technical assistance.

Ongoing projects financed by CDB include the Fourth Consolidated Line of Credit (US\$175,000), Roseau Water and Sewerage Project (US\$1.8 million), Seventh Consolidated Line of Credit (US\$4.3 million), OECS Solid Waste Project (US\$2.3million) and the Seventh Consolidated Line of Credit (Student Loans) of US\$7 million to DAIDB for on lending to the productive sector and to students.

CDB Lending to Dominica

(As of June 30, 2002)

By Sector	US\$ million	In percent
Agriculture, forestry and fishing	23.9	17.2
Manufacturing	12.1	8.8
Tourism	3.3	2.4
Power and Energy	6.2	4.4
Water	9.0	6.5
Transportation	10.8	7.8
Sea defense	7.5	5.4
Housing	13.6	9.8
Health	6.7	4.8
Education	17.5	12.6
Multi-sector	27.9	20.2
Total	138.4	100.0

Dominica: Statistical Issues

Dominica's statistical database is inadequate for meeting the authorities needs and for Fund surveillance. There are weakness in coverage, frequency, quality, and timeliness that continue to frustrate effective economic analysis and policy formulation. The weakest areas are the fiscal accounts, public debt, and the balance of payments. Only the balance sheet of the consolidated commercial banks, the balance sheet of the central bank, interest rates data, and the consumer price index are provided on a regular basis. Data on other key indicators usually are provided only during missions or upon special request.

The authorities are aware of the deficiencies in their statistical database and have chosen to participate in the General Data Dissemination System (GDDS). Metadata and plans for improving Dominica's statistical system are posted on the Internet on the IMF's Dissemination Standards Bulletin Board (<http://dsbb.imf.org>).

Real sector

CPI data are provided on a timely basis. Estimated data on nominal GDP (by activity) are available within a few months of the end of the year. Data on employment are very limited and there are no official data on producer prices or wages in the private sector.

Government finance

Data on central government operations are incomplete: some investment project spending is undertaken outside the consolidated fund, and also outside the consolidated fund are some loan and grant receipts as well as related on-lending and transfers to public enterprises. Only limited data on financing are available. Data for the rest of the public sector—Dominica Social Security and the public enterprises—are obtained directly from each entity during Fund missions. No government finance data are reported to STA for publication in the *Internal Financial Statistics (IFS)* or the *Government Finance Statistics (GFS) Yearbook*.

Monetary statistics

Monetary statistics are compiled by the ECCB on a monthly basis and reported to the Fund regularly. The monetary survey does not include the accounts of credit unions that accept demand deposits. The ECCB is aware of the need to improve coverage of the monetary statistics and is taking steps to collect data on credit unions. Data on the activities of offshore banks are not reported to the Fund.

Balance of payments

Balance of payments data are compiled by the ECCB on an annual basis and are not reported in the format recommended in the fifth edition of the IMF's *Balance of Payments Manual*. The timeliness of the data has improved recently and data for 2000 are now published in the IFS.

External debt

The ministry of finance maintains a database on public and publicly guaranteed external loans that provides detailed and reasonably current information on disbursements, debt service, and debt stocks. However, the database is incomplete in that it does not contain information on bonds placed abroad. Although external bonds data are maintained by the treasury, the ministry of finance does not consolidate this information with the data on external loans to produce a more comprehensive database on external debt.

Dominica: Core Statistical Indicators
(As of July 17, 2002)

	Exchange Rates	International Reserves	Reserve/ Basic Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	Fixed rate since 1976	5/2002	5/2002	5/2002	5/2002	3/2002	12/2001	12/2001	6/2002	2001	6/2002
Date received		7/12/2002	7/12/2002	7/12/2002	7/12/2002	5/15/2002	5/15/2002	5/15/2002	7/16/2002	5/15/2002	7/16/2002
Frequency of data series		Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annual	Monthly
Frequency of reporting to IMF		Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	On request	Annual	Monthly	Annual	On request
Source of update		ECCB	ECCB	ECCB	ECCB	Central Statistical Office, Ministry of Finance	ECCB	ECCB	Ministry of Finance	ECCB and Central Statistical Office, Ministry of Finance	Debt Unit Ministry of Finance
Mode of reporting		E-Mail	E-Mail	E-Mail	E-Mail	Fax	Fax	Mission/ E-Mail	Mission/ Mail	Mission/ E-Mail	Mission/ Fax
Confidentiality		Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Restricted	Unrestricted	Restricted
Published data		Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No

Roseau, Dominica
August 13, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. This letter describes the economic policies that the Government of Dominica intends to follow during FY 2002/03 (July 1, 2002 to June 30, 2003). Through prudent macroeconomic policies and a step-up in structural reforms, the Government aims at restoring order to the public finances, maintaining low inflation and reducing external vulnerability, while laying the basis for a sustained recovery in economic activity and employment and a reduction in poverty over the medium term. To further these objectives and in the context of the successful implementation of this economic program, the Government will work to develop over the next few months a medium-term program that could be supported by a three-year Poverty Reduction and Growth Facility arrangement from the IMF.

2. The Government of Dominica seeks support from the IMF for its economic program for FY 2002/03 and hereby requests a Stand-By Arrangement for the period August 28, 2002 through August 27, 2003 in a total amount of SDR 3.28 million (40 percent of quota). This support, together with financial and technical assistance from other international financial institutions and donor agencies, would assist the Government to finance its adjustment efforts and begin important structural reforms.

Background

3. The economy of Dominica is predominantly agricultural, although some degree of diversification has taken place in recent years toward tourism. The performance of the main agricultural activity, banana production and exports, has steadily deteriorated since the early 1990s owing to natural disasters, notably hurricanes, and, in more recent years, the changes in the marketing arrangements for bananas in the European Union in preparation for the phasing out of the preferential trading regime. The decline in the banana industry has adversely affected developments in other sectors. Also, external shocks associated with the slowdown in global economy activity in 2001 and the events of September 11 exacerbated the already weak economic situation, with tourism being particularly hard hit. Moreover, the productivity of public investment has generally been low. As a result of these developments, output and employment performance has deteriorated over the past several years—real GDP

is estimated to have contracted by close to 1 percent on average during 1999–2001, and is projected to register a further decline in 2002.

4. The public finances have deteriorated sharply in recent years as Government saving and foreign grants have declined, while capital expenditure has increased. In FY 2001/02 (year ending June 30), Central Government dissaving is estimated to have increased to 6¾ percent of GDP from 4 percent in the previous year. As a result, and despite a substantial decline in capital spending, the overall deficit of the Central Government is estimated to have amounted to about 10½ percent of GDP, largely financed by an accumulation of domestic arrears. The deterioration in public saving reflects both stagnating revenue and increasing expenditure. Revenue has not increased owing to the lack of buoyancy of the tax system, resulting from substantial tax exemptions—including discretionary exemptions—and low tax receipts on petroleum products at times when international fuel prices were high (due to our practice of holding the domestic fuel prices constant by adjusting the tax rate). Current spending has increased, reflecting a rising wage bill and increasing debt service obligations.

5. The Government is conscious of the fact that, if the strains that have been building up in the public finances and the economy are left unchecked, there would likely be serious adverse economic consequences with accompanying widespread social dislocation, particularly rising levels of unemployment and poverty. The Government is resolved to preempt such developments by tackling the root causes of current economic difficulties, and by doing so in a way which protects critical investment in economic and social infrastructure and creates a solid foundation for economic and social progress into the future.

Macroeconomic program

6. The Government's strategy for FY 2002/03 is to lay the basis for renewed and sustainable growth over the medium term through the implementation of sound macroeconomic policies, and by putting in place structural reforms aimed at bolstering the economy's productive potential and competitiveness.

7. The fiscal program envisages an increase in tax revenue from 21½ percent of GDP in FY 2001/02 to 25 percent of GDP in FY 2002/03. This increase will result from revenue measures announced in the FY 2002/03 budget, including: (i) a stabilization levy of 4 percent on all payroll income; (ii) broadening the base for transactions-based taxes; (iii) curtailment of tax concessions and streamlining fiscal incentives; (iv) imposing the increased rate of sales tax on petroleum products and increasing the price of fuels at the pump consistent with generating annual revenues of 3 percent of GDP¹; and (v) collection of tax arrears. Enactment of a budget, which includes these revenue measures and is consistent with the

¹ Fuel prices at the pump will be reviewed (and adjusted, if needed) on a quarterly basis to ensure that Government revenue from the sales tax and consumption tax on petroleum products falls within a range of 3–4 percent of GDP.

Government's fiscal program, is a prior action for IMF Board consideration of our request for the Stand-By Arrangement.

8. During the program period, consistent with the projection for revenue and the fiscal deficit targets, Central Government expenditure as a ratio of GDP is targeted to remain at the same level as in the previous year, as a decline of 1 percent of GDP in the wage bill (reflecting a freeze on wages and salaries, a reduction in payments for overtime and in the number of contractual workers, and normal retirements) will be offset by an increase in spending on goods and services (reflecting the Government's intention to remain current in meeting its obligations to domestic suppliers). Hiring would only be allowed in the education and health sectors, and in areas critical to the management of the stabilization program, such as tax and customs administration.

9. The Government will clear its arrears to the Dominica Social Security and to the Dominica Water and Sewerage Company by end-December 2002, to Dominica Electricity Services and Cable and Wireless by end-March 2003, and to other domestic parties by end-June 2003 (performance criteria), largely by issuing long-term, interest-bearing debt, and where possible, with interest capitalization through at least FY 2004/05. Moreover, beginning October 2002, the Government will stay current in meeting its domestic obligations.

10. To reduce pressures on commercial banks' liquidity and make room for increased credit expansion for private sector investment, the fiscal program also includes a lowering of the Government's indebtedness to the banking system by 1 percent of GDP in FY 2002/03.

11. In line with available financing, the public sector investment program will be limited to fixed investment of 6 percent of GDP in FY 2002/03. Within this expenditure limit, capital spending will be restricted to projects largely financed by external grants or loans on concessional terms. Parliamentary approval will be sought for the funding of additional projects for which financing is available and where their implementation does not threaten the attainment of fiscal objectives.

12. As Dominica is a member of a currency union with a common central bank—the Eastern Caribbean Central Bank (ECCB)—there is little or no scope for independent monetary and exchange rate policies. In this context, the fiscal program is expected to create space for adequate credit expansion to finance productivity-enhancing private investment. At the same time, competitiveness will be strengthened through implementation of the structural reforms specified below.

13. With the help of the foregoing measures, real GDP is projected to grow by 1½ percent in 2003, while the 12-month rate of inflation is envisaged at 2 percent. The external current account deficit in 2003 is projected at around 13¼ percent of GDP, up from about 12½ percent of GDP projected for 2002.

14. The overall deficit of the Central Government is targeted to fall by about 4¾ percent of GDP in 2002/03, to around 5¾ percent of GDP. This level would be consistent with the projected availability of multilateral and bilateral funding and the repayment of Government

domestic debt. The fiscal targets of the program will be monitored on a quarterly basis through ceilings on the Central Government overall balance and other variables, as set out in Table 1. The Government will stand ready to take additional measures that may be needed to ensure that the fiscal deficit targets are observed.

Structural reforms

15. The structural reform agenda for 2002/03 includes a comprehensive reform of the tax system, a public expenditure review, the initiation of civil service reform, banana sector restructuring, privatization, and the strengthening of financial system supervision, with the support of the World Bank, ECCB, CDB, EU, and CARTAC, as indicated in Table 2.

16. With the help of the CARTAC, we intend to conduct a comprehensive review of the tax system and its administration by end-December 2002 (a program benchmark), and to implement the recommendations of the review by end-June 2003 (a performance criterion). Our aim will be to improve the revenue system by broadening the tax base, increasing the efficiency of tax administration, and strengthening the legal framework for enhancing tax compliance. We expect that the review will examine in particular: (i) the feasibility of introducing a value-added tax; (ii) further rationalization of the corporate income tax; (iii) the streamlining of tax incentives; (iv) replacement of the current mechanism for determining domestic fuel prices with one that would permit these prices to reflect import costs; and (v) the reform of the property tax.

17. With the support of the World Bank, we intend to conduct a public expenditure review by end-March 2003 (a program benchmark), with the aim of rationalizing and increasing the efficiency of public spending. We also intend to conduct a review of the public sector investment program (PSIP) by end-December 2002 (also a program benchmark), to improve the quality and focus of public investment expenditure in the medium term, and to ensure that only projects aimed at redressing the main impediments to growth, and supported by external financing on concessional terms, are included in the PSIP.

18. Also with the help of the World Bank, we intend to conduct a review of the civil service by end-March 2003 (a program benchmark), with the aim of designing a reform program to rationalize it and improve its efficiency in the provision of Government services. We will use the recommendations of the study to initiate the reform process by end-June 2003 (also a program benchmark).

19. As a step toward improving economic efficiency and increasing private sector participation in the economy, we intend to initiate a privatization program. The first privatization will be the Dominica Banana Marketing Corporation, which we propose to accomplish by end-September 2002 (a program benchmark). We will also study the feasibility of privatization of the two state-owned banks and the divestiture of the Government's shares in Cable and Wireless: we aim to discuss with the IMF concrete proposals regarding these privatizations and divestment at the time of the mid-term review of the program. To manage any proceeds from privatization, we will establish a special

privatization fund by end-March 2003 (a program benchmark) that will hold the proceeds of all privatizations. Only the yield from this fund's investments would be used for budgetary support.

20. To strengthen financial system oversight, we will seek to place all nonbank financial institutions under the supervision of the Ministry of Finance and Planning (with support from the ECCB) by end-June 2003 (a program benchmark), as these institutions should be subject to periodic on-site inspections and surveillance, and should be regulated to meet capital adequacy ratios consistent with international standards. Dominica, along with other member countries of the ECCB, is committed to carrying out a financial sector assessment program under the auspices of the IMF, to commence in the latter half of 2003. As a first step, Government will request CARTAC assistance to undertake a comprehensive review of the sector by end-December 2002 (a program benchmark) with the aim of strengthening the legal and regulatory framework, establishing supervisory procedures, and training staff to carry out effective supervision of financial institutions.

21. With the support of the European Union, the Government intends to expedite the ongoing restructuring of the banana sector to help it become viable in an increasingly competitive international market. The restructuring program includes targeting efficient farms for EU-funded investment in irrigation and drainage and other infrastructure works to raise efficiency, quality, and labor productivity. A critical element of the program will be the implementation of parallel foreign-funded programs to help displaced farmers move into nontraditional agriculture and so minimize the adverse social impact from the restructuring of the industry.

22. As part of our drive to enhance economic efficiency, we will eliminate all remaining price controls (except on fuels and cement) by end-December 2002 (a program benchmark). Price controls on fuels and cement will be eliminated by end-June, 2003 (also a program benchmark). The Government will study, by end-December 2002, the feasibility of abolishing the Dominica Export Import Agency's (DEXIA's) monopoly on the importation of sugar and bulk rice, and the Agency's ability to continue to be self-financing in the absence of this monopoly. The Government will also examine by end-December 2002 the scope for transforming the National Development Corporation (NDC) into a self-financing agency so that budgetary transfers to it will be minimized. The completion dates for both studies are program benchmarks. At the time of the mid-term review of the program, we aim to discuss with the IMF strategies for restructuring DEXIA and the NDC.

23. The Government of Dominica believes that the policies described in this letter will achieve the objectives of the program. For the period of the arrangement, we will maintain the customary policy dialogue with the IMF, and will take appropriate action to promote the achievement of the Government's economic policy objectives in light of evolving circumstances. The mid-year review with the IMF, to be completed by end February 2003, will cover the implementation of the economic program described in this letter, including in particular an assessment of progress in: (i) formulation of a comprehensive tax reform package in line with the recommendations of the review of the tax system;

(ii) implementation of the privatization program, including the creation of the privatization fund; (iii) placement of nonbank financial institutions under the supervision of the Ministry of Finance and Planning; (iv) restructuring of the banana sector; and (v) design of a civil service reform program.

24. As indicated in paragraph 1 above, the Government believes that its program constitutes a sound basis for a three-year Poverty Reduction and Growth Facility arrangement. Consequently, in parallel with the implementation of the program, the Government intends to initiate discussions with the IMF and other institutions, and with representatives of economic agents and civil society in Dominica, with a view to formulating an Interim Poverty Reduction Strategy Paper by end-March 2003.

Sincerely yours,

_____/s/_____
Pierre Charles
Prime Minister and Minister of Finance
and Planning

_____/s/_____
Swinburne Lestrade
Director General of Finance and Planning

Table 1. Dominica: Quantitative Performance Criteria, FY 2002/03

	2002		2003 (Indicative)	
	Sept. 30	Dec. 31	Mar. 31	Jun. 30
(Cumulative amounts from June 30, 2002; in millions of EC dollars)				
Central government overall balance 1/ 2/	-11.1	-11.7	-24.8	-42.4
Central government wage bill	27.6	55.5	83.3	111.1
Banking system net credit to central government 2/ 3/ 4/	-1.8	-3.8	-5.5	-7.3
Banking system net credit to nonfinancial public sector 2/ 3/ 4/	-1.8	-3.8	-5.5	-7.3
(Maximum outstanding amounts at end of period; in millions of EC dollars)				
Central government arrears to Dominica Social Security and DOWASCO 4/	56.4	0.0	0.0	0.0
Central government arrears to other parties 4/	26.4	26.4	21.5	0.0
(Cumulative change from June 30, 2002, in millions of U.S. dollars)				
Disbursement of nonconcessional external debt to the NFPS with maturity of at least one year 1/ 5/	5.7	7.0	14.0	27.5
Contracting or guaranteeing of short-term external debt of the NFPS (with maturity of less than one year) 5/ 6/	0	0	0	0
External payments arrears of the NFPS 4/ 6/ 7/	0	0	0	0

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

1/ Limits will be adjusted downward to the extent that project financing falls short of programmed amounts. The same limits will be adjusted upward to the extent that project financing exceeds programmed amounts. These upward adjustments will not exceed US\$1.3 million by end-September 2002, US\$ 2.6 million by end-December 2002, US\$ 3.9 million by end-March 2003, and US\$ 5.2 million by end-June 2003.

2/ Limits will be adjusted upward by a maximum amount of EC\$10 million to accommodate redundancy payments associated with civil service reform.

3/ Limits on banking system net credit to the central government and to the nonfinancial public sector will be adjusted upward to the extent that there are shortfalls in net external nonproject financing that are outside the control of the authorities. These upward adjustments will not exceed US\$1.3 million by end-September 2002, US\$2.6 million by end-December 2002, US\$3.9 million by end-March 2003, and US\$5.2 million by end-June 2003. Limits on banking system net credit to the central government and to the nonfinancial public sector will be adjusted downward to the extent that net external nonproject financing exceeds programmed amounts.

4/ The maximum amount of arrears outstanding by end-September 2002, by end-December 2002, by end-March 2003, and by end June 2003, will be adjusted downward by the amount that the stock of arrears outstanding as of 30 September 2002 falls short of programmed amounts. The maximum amount of arrears outstanding by end-September 2002, will be adjusted upward by the amount that the stock of arrears outstanding as of 30 September 2002 exceeds programmed amounts.

5/ For the definition of external debt, see paragraph 8 of the Technical Memorandum of Understanding.

6/ These performance criteria will be monitored on a continuous basis.

7/ Excluding subscription arrears to regional and international organizations.

Table 2. Dominica: Prior Action and Structural Performance Criteria and Benchmarks for FY 2002/03

Structural Reform Measure	Lead Institution 1/	Completion Date	Category
Tax policy and administration			
Implement fiscal measures in the FY 2002/03 budget, including a stabilization levy, sales tax on telecommunications services, increase in fuel prices, and a limit on the wage bill		Completed	Prior Action
Conduct comprehensive review of tax system and its administration	IMF	December 31, 2002	Benchmark
Implement tax reform measures in line with recommendations of comprehensive review	IMF	June 30, 2003	Performance criterion
Public expenditure			
Conduct public expenditure review	WB	March 31, 2003	Benchmark
Conduct review of public sector investment program	WB/CDB	December 31, 2002	Benchmark
Civil service reform			
Prepare comprehensive civil service reform program	WB	March 31, 2003	Benchmark
Initiate the reform process	WB	June 30, 2003	Benchmark
Privatization			
Dominica Banana Marketing Corporation	EU	September 30, 2002	Benchmark
Create special fund for privatization proceeds	...	March 31, 2003	Benchmark
Financial system oversight			
Conduct comprehensive review of the financial sector	IMF	December 31, 2002	Benchmark
Place nonbank financial institutions under Ministry of Finance supervision (with support from the ECCB)	ECCB	June 30, 2003	Benchmark
Banana sector restructuring			
Various projects: infrastructure and efficiency enhancement	EU	Ongoing	
Other			
Study the feasibility of abolishing DEXIA's monopoly on the importation of sugar and bulk rice	...	December 31, 2002	Benchmark
Examine the scope for transforming the NDC into a self-financing agency	...	December 31, 2002	Benchmark
Eliminate remaining price controls (except on fuels and cement)	...	December 31, 2002	Benchmark
Eliminate price controls on fuels and cement	...	June 30, 2003	Benchmark

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

1/ IMF=International Monetary Fund (includes CARTAC); WB=World Bank; CDB=Caribbean Development Bank; EU=European Union; ECCB=Eastern Caribbean Central Bank.

Dominica: Technical Memorandum of Understanding

Dominica's performance under the Stand-By Arrangement supported program, described in the letter of the Government of Dominica dated August 13, 2002, will be assessed by the IMF on the basis of the observance of quarterly quantitative performance criteria as well as on compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) sets out and defines the performance criteria (and adjustors) and benchmarks, as well as the monitoring and reporting requirements. It also sets out and defines the prior actions.

I. DEFINITIONS OF CONCEPTS

1. The **central government overall balance** will be measured as (a) total revenue and grants of the central government, less (b) total expenditure of the central government, as reported by the Budget Division of the Ministry of Finance and Planning, supplemented with data on capital grants and fixed investment expenditure from the PSIP Unit in Planning.
2. The **central government wage bill** will be measured as the total expenditure of the central government on wages and salaries, including acting allowances, special duty allowances, responsibility allowances, subsistence allowances, and the employer contribution to Dominica Social Security, but not including retirement benefits.
3. The **banking system** is defined as the consolidation of the Eastern Caribbean Central Bank operations in Dominica, with the accounts of all banks licensed by the ECCB to do business in Dominica as commercial banks.
4. The **nonfinancial public sector** (NFPS) comprises the central government, Dominica Social Security, the National Development Corporation, local governments, the Dominica Banana Marketing Corporation, the Dominica Water and Sewerage Corporation, the Dominica Export and Import Agency, the Dominica Port Authority, and the Dominica Broadcasting Corporation.
5. **Banking system net credit to central government and banking system net credit to the nonfinancial public sector** will be defined as in the monetary survey compiled by the Eastern Caribbean Central Bank. The cumulative amounts that represent performance ceilings are defined as the change in stocks from June 30, 2002 up to the test date.
6. **Central government arrears to Dominica Social Security** are defined as the total stock of arrears of contributions and interest, as reported by Dominica Social Security and verified by the Accountant General's office
7. **Central government arrears to other parties** are defined as the sum of all amounts pending payment by government for goods and services already purchased from these

parties, as well as pending interest obligations. The measure used will be the total reported by the Accountant General as amounts overdue by more than thirty days.

8. **Public and publicly guaranteed external debt** is defined to include debt contracted or guaranteed by the public sector as defined in paragraph 4. The performance criterion on contracting external debt applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Executive Board Decision approved on August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. **The definition of debt** set forth in point No. 9 of the Guidelines reads as follows: "(a) For the purpose of this Guideline, the term "**debt**" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, **the primary ones** being as follows: (i) **loans**, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) **suppliers' credits**, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) **leases**, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. (b) Under the definition of debt set out in point No. 9(a) above, **arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt**. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

9. **Contracting or guaranteeing of nonconcessional external public debt with maturity of at least one year** will be monitored by the Accountant General's office on a monthly basis. For purposes of this ceiling, **nonconcessional** is defined as debt having a **grant element** (in net present value relative to face value) of **less than 35 percent**, based on the currency- and maturity-specific Commercial Reference Rates (CIRR), published monthly by the OECD. The limit excludes the use of Fund resources, and refinancing operations. This ceiling will be monitored on a continuous basis. The ceiling must not be exceeded at any time during the arrangement.

10. **Contracting or guaranteeing of short-term external public debt with maturity of less than one year** will be monitored by the Accountant General's office. This debt is defined as any external debt with original maturity of less than one year, excluding short-term import related debts.

11. **External payments arrears of the public sector** will be monitored by the Accountant General's office, together with the Debt Unit in the Ministry of Finance and Planning. Arrears are defined in relation to Dominica's external public and publicly guaranteed debt as all amounts of principal and interest that are due but not yet paid. As such, the arrears do not include subscriptions arrears to regional and international organizations.

II. ADJUSTORS TO QUANTITATIVE PERFORMANCE CRITERIA

12. The limits on the **central government overall balance** will be adjusted downward (lower deficit) to the extent that there are shortfalls in programmed project financing. The same limits will be adjusted upward (larger deficit) to the extent that project financing exceeds programmed amounts. These upward adjustments will not exceed a cumulative US\$1.3 million by end-September 2002; US\$2.6 million by end-December 2002; US\$3.9 million by end-March 2003; and US\$5.2 million by end-June 2003. **Programmed project financing** is defined as the receipt of grants and loan proceeds to finance the central government's portion of the PSIP. The cumulative programmed amounts are as follows: US\$3.5 million by end-September 2002; US\$7.0 million by end-December 2002; US\$9.7 million by end-March 2003; and US\$12.9 million by end-June 2003.

13. The limits on the **central government overall balance** will be adjusted upward (larger deficit) by a cumulative amount of up to EC\$10 million to accommodate redundancy payments associated with civil service reform.

14. The limits on **banking system net credit to the central government**, and **banking system net credit to the nonfinancial public sector** will be adjusted upward to the extent that there are shortfalls in net external nonproject financing that are outside the control of the authorities. The upward adjustments will not exceed a cumulative US\$1.3 million by end-September 2002; US\$2.6 million by end-December 2002; US\$3.9 million by end-March 2003; and US\$5.2 million by end-June 2003. The same limits will be adjusted downward to the extent that net external nonproject financing exceeds programmed amounts.

15. The maximum amount of **arrears outstanding** by end-September 2002, by end-December 2002, by end-March 2003; and by end-June 2003, will be adjusted downward by the amount that the stock of arrears outstanding as of 30 September 2002 falls short of programmed amounts. The maximum amount of arrears outstanding by end-September 2002, will be adjusted upward by the amount that the stock of arrears outstanding as of 30 September 2002 exceeds programmed amounts.

16. The limits on **disbursement of nonconcessional external debt** to the NFPS with maturity of at least one year will be adjusted downward to the extent that there are shortfalls in programmed project financing. The same limits will be adjusted upward to the extent that project financing exceeds programmed amounts. These upward adjustments will not exceed a cumulative US\$1.3 million by end-September 2002; US\$2.6 million by end-December 2002; US\$3.9 million by end-March 2003; and US\$5.2 million by end-June 2003.

III. PERIODIC REPORTING

17. Regular **reporting on a monthly basis** will include the following:

- Data for monitoring the program's quarterly performance criteria.
- Fiscal sector
 - (i) Central government budgetary accounts.
 - (ii) Capital expenditure and source of financing.
 - (iii) Dominica Social Security Balance Sheet, showing amounts receivable from central government for contributions and interest.
 - (iv) Stock of all other arrears outstanding.
 - (v) Central government domestic debt data.
- Financial sector
 - (i) Monetary survey for Dominica as prepared by the Eastern Caribbean Central Bank.
- External and real sectors
 - (i) Imports and exports data by product.
 - (ii) Detailed (loan-by-loan) external debt report from the Debt Unit in the Ministry of Finance and Planning, and showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, classified by borrower.
 - (iii) Copies of all loan agreements for any new loans contracted, including financing involving the issue of government paper.
 - (iv) Consumer price index.

18. Reporting **on an annual basis** will include the following:

- External and real sectors
 - (i) GDP and its components.
 - (ii) Balance of payments accounts.

19. Other reporting will include:

- Reports of legislative changes pertaining to economic matters.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 02/116
October 9, 2002
Corrected: 10/15/02

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with Dominica

On August 28, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Dominica and approved a one-year Stand-By Arrangement in the amount of SDR 3.28 million (see [Press Release No. 02/37](#), August 28, 2002).¹

Background

Over the past several years, output and employment growth have been on the decline reflecting the ongoing retrenchment of the key banana industry (due to weak export prices and the beginning of the phase out of preferential access to the European Union market), and the weak growth of non-banana agriculture and tourism. After growing on average by about 2½ percent during 1996–99, real GDP stagnated in 2000 and is estimated to have contracted by 4½ percent in 2001, as banana production fell (owing also to adverse weather conditions) and tourism was hit by the global slowdown and the events of September 11. The 12-month increase in consumer prices was just under 2 percent in 2001. Unemployment remains high.

The public finances have deteriorated in recent years as capital expenditure has increased sharply, while saving has been declining. The deficit of the consolidated public sector almost quadrupled over the period 1997/98–2000/01 (years ending June 30) to about 12½ percent of GDP and public savings fell by 3½ percent of GDP, mainly reflecting the deterioration in central government finances. However, the overall deficit of the central government is

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

estimated to have declined slightly to about 10½ percent of GDP in 2001/02. The deficit continued to be financed by external borrowing, recourse to the banking system, and arrears accumulation, especially to social security and public and private enterprises. Central government dissaving is estimated to have reached 6¾ percent of GDP in 2001/02, as current revenues declined sharply owing to economic contraction. Capital expenditure is estimated to have declined to 6 percent of GDP from 16½ percent of GDP in 2000/01, owing to the completion of major investment projects in the areas of infrastructure and education, as well as emerging financing constraints.

During 2001, broad money increased by about 7½ percent, fueled by net credit to the nonfinancial public sector, as well as a steady inflow of remittances and private transfers from abroad. In contrast, banking system credit to the private sector declined by over 3 percent, in line with the downturn in economic activity. As a result, commercial banks built up their net foreign asset positions.

The external current account deficit, which averaged about 11½ percent of GDP in 1998–99, widened to about 18⅓ percent of GDP in 2000, on account of a sharp decline in banana exports, stagnant receipts on services (including tourism), and higher interest payments, following the substantial build-up of public sector external debt in recent years. The current account deficit narrowed to about 16½ percent of GDP in 2001, due to the economic contraction and lower imports. The capital account remained in surplus, leading to a small increase in imputed reserves (compared to a decline in 2000).

Little progress was made on structural reforms in 2001, other than the implementation of the much-delayed reduction in the common external tariff under the CARICOM agreement of 1992.

Executive Board Assessment

Directors regretted Dominica's sluggish recent economic performance, a result of the retrenchment of the banana industry and slowdown in tourism receipts. Further diversification and enhancements to competitiveness will be needed to improve long-term growth prospects and reduce external vulnerability. This calls for perseverance with structural reforms to improve economic efficiency, and raise national savings and investment.

Directors expressed particular concern that the overall deficit of the consolidated nonfinancial public sector—after nearly doubling in 1999/2000—remained at an unsustainable level in 2001/02. The public sector's serious cash shortage is the main impediment to output and employment growth, and poses a threat to economic stability. In this context, Directors welcomed the authorities' program for 2002/03, which aims to put the public finances on a path consistent with public debt sustainability and lay the foundation for sustained economic growth.

Directors commended the authorities for the strong measures already taken in the context of the 2002/03 budget. While noting that the decision to focus in the budget on revenue-raising

measures had been taken with the objective of securing public support for the program and strengthening social and labor harmony, they would have preferred more emphasis to be placed on expenditure containment, which they saw as a surer path to regaining growth momentum. It was broadly agreed that government spending should be reduced in the medium term, including through structural reforms in the civil service, government financial management, and public investment. A comprehensive reform of the tax system and tax administration will also be important.

Directors agreed that a tight public expenditure policy will be crucial to support fiscal consolidation. They emphasized the need to implement the prudent government wage policy envisaged in the program and, in the medium term, to put in place a wage policy based on performance and productivity gains. Directors welcomed the authorities' intention to implement a comprehensive civil service reform. Reducing public employment through attrition would help increase efficiency in the provision of public services.

Directors advised the authorities to implement only those public investment projects that are aimed at redressing the main impediments to growth, and that can be financed largely with external resources on concessional terms. They welcomed the authorities' ongoing review of the public investment program and their planned review of public expenditure.

Directors were encouraged that the banking system is considered by the Eastern Caribbean Central Bank (ECCB) to be generally sound. However, they noted the risks to the large state-owned commercial bank stemming from its heavy exposure to the financially weak public sector and the distressed banana industry. The authorities' commitment to reduce the level of government indebtedness to this bank was therefore welcomed, as was the commitment to eliminate government domestic arrears.

Directors welcomed the Dominican authorities' intention to support fully the ECCB's efforts to strengthen financial sector regulation and supervision in the region, and their plans to strengthen the oversight of the financial system, with support from the ECCB, and to review the offshore financial sector. They commended the authorities' intention to participate in the Financial Sector Assessment Program of ECCB member countries in 2003. Directors noted the steps the authorities had taken on anti-money laundering, and encouraged them to address the few outstanding issues on an urgent basis.

Directors concurred with the authorities' decision to accelerate the ongoing restructuring of the banana sector. They also welcomed the progress made toward privatization of public enterprises, and noted that consideration might be given to using the proceeds from privatization to reduce Dominica's public debt. They urged the completion of the process of phasing out import licenses and moving toward establishing low and uniform tariff rates.

Directors noted that improvements in Dominica's statistical database are needed for effective economic analysis and surveillance, and encouraged the authorities to accelerate the planned

enhancements of economic statistics in the context of the Fund's General Data Dissemination System.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Dominica is also available.

Dominica: Selected Economic Indicators

	1998	1999	2000	Prel. 2001
Output and prices (change in percent)				
Real GDP at factor cost	2.8	1.6	0.7	-4.6
Consumer prices (end of period)	1.5	0.0	1.1	1.9
Bananas (production for export)	-17.6	-4.3	-2.7	-35.4
Saving and investment (percent of GDP)				
Gross national saving	18.6	10.5	6.5	4.8
Gross domestic investment	26.9	25.2	24.8	21.2
Public finances (in percent of GDP) 1/				
Nonfinancial public sector saving	2.8	0.3	-1.6	-3.4
Nonfinancial public sector capital expenditure	14.4	15.3	23.0	8.9
Nonfinancial public sector overall balance (after grants)	-6.7	-11.9	-12.6	-10.1
Money and credit (end of year, percent change) 2/				
Money and quasi-money	11.4	10.4	0.6	7.4
Credit to private sector	6.2	2.3	7.3	-3.1
Interest rates (percent)				
Maximum deposits rate (on 3-month time deposits)	4.0	5.0	6.0	6.0
Maximum lending rate	19.5	19.5	20.8	20.8
Minimum lending rate	9.5	9.5	9.5	9.5
Balance of payments and public external debt (percent of GDP)				
Current account balance	-8.3	-14.6	-18.3	-16.4
External debt 3/	35.1	48.4	54.0	64.8
Debt-service ratio 4/	5.0	5.4	7.3	9.1
Exchange rate (change in percent)				
Real effective exchange rate (end of period, depreciation -)	-3.8	0.8	4.9	4.8
Terms of trade	1.4	-6.2	-5.3	1.5

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

1/ Data are for fiscal years beginning July 1.

2/ Changes in relation to liabilities to private sector at beginning of period.

3/ Total public and publicly guaranteed debt.

4/ In percent of exports of goods and services.



Press Release No. 02/37
FOR IMMEDIATE RELEASE
August 28, 2002

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US\$4.3 Million Stand-By Credit for Dominica

The Executive Board of the International Monetary Fund (IMF) today approved a one-year SDR 3.28 million (about US\$4.3 million) stand-by credit for Dominica in support of its economic program for 2002/03. As a result of the Board's decision, Dominica will be able to draw SDR 2.05 million (about US\$2.7 million) immediately.

After the Executive Board's discussion, Eduardo Aninat, Deputy Managing Director and Acting Chairman, said:

“The Dominican authorities’ decision to address squarely the economic situation faced by their country is commendable. Successful implementation of the authorities’ program for 2002-03 should lay the basis for sustained higher growth of output and employment and poverty reduction. It will also strengthen public confidence and help to catalyze financing for the public sector, including adjustment lending by multilateral institutions.

“The program aims to restore macroeconomic stability through improvement in the financial position of the public sector and the introduction of key structural reforms. The program targets a narrowing of the fiscal deficit by nearly half to 5¾ percent of GDP, through a combination of revenue-raising measures and improved expenditure control. The recent introduction of a stabilization levy, broadening of the sales tax base, and the reduction in exemptions from import duties and the consumption tax will raise revenues, while containment of the central government wage bill and strict monitoring of investment outlays will lower expenditures. This will be supported by the strengthening, with technical assistance, of the budget execution and monitoring system and the government’s cash management and financial planning systems.

“Systemic risk to the financial sector is within manageable limits. The banking system’s holdings of government debt will be reduced, and oversight of the financial system will be strengthened through a further consolidation of supervision.

“Important structural reforms are planned in the areas of tax policy and administration, public expenditure management, civil service reform, agricultural diversification, and privatization, with support from the Caribbean Regional Technical Assistance Center, the World Bank, Caribbean Development Bank, and European Union. Continued progress with structural reforms

will help to raise private investment and growth and alleviate poverty over the medium term,” Mr. Aninat said.

Program Summary

Over the past years, output and employment growth in Dominica have been on the decline reflecting the ongoing retrenchment of the banana industry (due to weak export prices and the beginning of the phase out of preferential access to the European Union market), as well as the weak growth of non-banana agriculture and stay-over tourism. After growing on average by about 2½ percent during 1996-99, real GDP stagnated in 2000 and is estimated to have contracted by over 4½ percent in 2001, as banana production fell by 35 percent (owing also to adverse weather conditions), and tourism was hit by the global slowdown and the events of September 11. The downturn in the economy appears to have further increased unemployment and poverty, particularly in the rural areas affected by the displacement of banana farmers. The public finances have deteriorated in recent years as capital expenditure increased sharply, while saving has been declining. However, the public sector’s overall deficit is estimated to have declined from 12½ percent of GDP in 2000/01 to about 10 percent in 2001/02, as capital expenditure declined slightly mainly on account of the completion of major investment projects. The overall deficit of the central government is estimated to have declined to about 10½ percent in 2001/02.

The authorities’ program for 2002/03 is aimed at restoring order to the public finances and putting the economy on a path consistent with public debt sustainability, a recovery of private investment, and sustainable output and employment growth. The program is based on real GDP growth of 1½ percent in 2003, which is predicated on a recovery in agriculture, mainly banana production (reflecting a rebound from the drought-stricken levels of 2001). Inflation would remain stable at 2 percent. To help achieve the program objectives, the central government’s overall deficit is targeted to decline by about 4¾ percent of GDP to about 5¾ percent in 2002/03, while protecting public spending in essential economic and social services and infrastructure.

The 2002/03 **fiscal program** is aimed at improving the savings position of the central government by about 3 percent of GDP, mainly through revenue measures. Current expenditure is expected to increase slightly in relation to GDP, as a 1 percent reduction in the central government wage bill would be offset by a similar increase in spending on goods and services. Capital expenditure would remain unchanged at 6 percent of GDP.

The authorities are firmly committed to the current fixed exchange rate arrangement with the Eastern Caribbean Central Bank (ECCB), which has conducted its credit operations with the objective of maintaining strong foreign exchange cover for currency issue, leaving little scope for **monetary policy** at the national level.

The **external sector** policy intends to narrow the current account deficit to 13¼ percent of GDP in 2003. Merchandise exports are expected to show an increase, reflecting largely the recovery in agricultural production, while imports are projected to be lower due in part to the slow output

growth. The deficit is expected to be fully covered by grants, multilateral financing, and continued foreign direct investment.

As part of the **structural reform** agenda, the authorities are seeking to undertake a comprehensive review of the tax system and its administration with IMF technical assistance by end-2002, and will include tax reform measures emanating from this review by end-June 2003 and in the 2003/04 budget. The authorities also intend to conduct a public expenditure review with World Bank assistance by end-March 2003, with the aim of rationalizing and increasing the efficiency of public spending. They also propose to privatize the Dominican Banana Marketing Corporation and study the restructuring/privatization of other parastatal bodies.

Dominica: Selected Economic Indicators

	1998	1999	2000	Prel. 2001
Output and prices (change in percent)				
Real GDP at factor cost	2.8	1.6	0.7	-4.6
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Gross domestic investment	26.9	25.2	24.8	21.2
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Nonfinancial public sector saving	2.8	0.3	-1.6	-3.4
Nonfinancial public sector capital expenditure	14.4	15.3	23.0	8.9
Nonfinancial public sector overall balance (after grants)	-6.7	-11.9	-12.6	-10.1
Money and credit (end of year, percent change) 2/				
Money and quasi-money	11.4	10.4	0.6	7.4
Credit to private sector	6.2	2.3	7.3	-3.1
Interest rates (percent)				
Maximum deposits rate (on 3-month time deposits)	4.0	5.0	6.0	6.0
Maximum lending rate	19.5	19.5	20.8	20.8
Minimum lending rate	9.5	9.5	9.5	9.5
Balance of payments and public external debt (percent of GDP)				
Current account balance	-8.3	-14.6	-18.3	-16.4
External debt 3/	35.1	48.4	54.0	64.8
Debt-service ratio 4/	5.0	5.4	7.3	9.1
Exchange rate (change in percent)				
Real effective exchange rate (end of period, depreciation -)	-3.8	0.8	4.9	4.8
Terms of trade	1.4	-6.2	-5.3	1.5

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

1/ Data are for fiscal years beginning July 1.

2/ Changes in relation to liabilities to private sector at beginning of period.

3/ Total public and publicly guaranteed debt.

4/ In percent of exports of goods and services.

**Statement by Nioclás O'Murchú, Alternate Executive Director for Dominica
August 28, 2002**

I would like to convey the appreciation of my authorities to Mr. Salehizadeh and his colleagues for their balanced report on the economy of Dominica and for their assistance in addressing its present difficulties. My authorities would also emphasize the importance they attach to the annual Article IV reviews, which are of inestimable value to small countries with limited independent analytical capacity.

Background: Following three years of modest, though flagging, growth, the economy of Dominica contracted by over 4 percent in 2001. This was largely the result of a sharp fall in banana production, due mainly to drought, and the combined effect on tourism of the global slowdown and the events of September 11. These developments contributed to a marked deterioration in the public finances, with the current budget moving from a small surplus in FY1998/99 to a deficit of almost 7 percent of GDP in FY2001/02. Moreover, in each of the last three calendar years, the current external deficit was in excess of 14 percent of GDP. Recognizing that these internal and external imbalances are unsustainable, the government resolved to take remedial action which, at the same time, would create a solid foundation for future economic and social progress. To this end, it has drawn up a stabilization program aimed at fiscal consolidation and structural reform, which will be supported by the proposed Stand-By Arrangement with the Fund.

Fiscal Program FY 2002/03: The government's immediate aim is to restore order to the public finances. For the reasons set out in the staff report, the government's fiscal program for FY 2002/03 is, of necessity, concentrated on revenue enhancement, mainly through a stabilization levy of 4 percent on all payroll income, curtailment of tax concessions, and increasing the tax on petroleum products. On the current expenditure side, the government has introduced a freeze on wages and salaries, and on public sector recruitment, except for teachers and health workers. However, the savings from these measures will be offset by an increase in actual outgoings on goods and services, reflecting the government's intention to remain current in meeting its obligations to domestic suppliers from October, 2002. As regards capital expenditure, the public sector investment program will be limited to fixed investment of 6 percent of GDP in FY 2002/03. Within this expenditure limit, capital spending will be restricted to projects largely financed by grants or concessional loans. As a result of these measures, the overall deficit of central government is targeted to fall from 10½ percent of GDP in FY 2001/02, to about 5¾ percent of GDP in FY 2002/03.

Structural Reforms: Over the medium term, fiscal consolidation will be underpinned by strong structural adjustment measures. The structural reform agenda includes the elimination of remaining price controls; a comprehensive reform of the tax system to broaden the tax base and improve revenue collection; a public expenditure review and civil service reform to rationalize and increase the efficiency of public spending and service delivery; banana sector restructuring to enhance productivity and provide alternative activity; privatization to improve overall economic efficiency; and the strengthening of the financial system.

The first privatization will be the Dominica Banana Marketing Corporation, to be accomplished by end-September, 2002. To manage any proceeds from privatization, the government will establish a special privatization fund that will hold the proceeds of all privatizations. Only the yield from this fund's investments will be used for budgetary support. The government also proposes to examine (i) the feasibility of abolishing the Dominica Export Import Agency's monopoly on the importation of sugar and bulk rice, and (ii) the scope for turning the National Development Corporation into a self-financing agency.

The government is very much alive to the risks to which the program is subject but is firmly resolved to ensure that it is fully implemented. In particular, the government is ready to take any additional action that may be needed to ensure that the fiscal targets are met.

Financial Sector Issues: The government is conscious of the risks which the exposure of the Dominica National Bank to the public sector entails. Consequently, it is determined to move quickly to reduce its indebtedness to the bank. Beyond that, the government proposes proactively to examine the question of the privatization of this and the other state bank. Moreover, as noted in the staff report, the government intends to strengthen the regulatory and supervisory framework of the offshore financial sector and to place under the supervision of the Ministry of Finance domestic non-bank financial institutions not supervised by the ECCB.

The authorities appreciate the acknowledgment in the staff report of the major steps they have taken since June 2000, when the Financial Action Task Force (FATF) listed Dominica as non-cooperative, to bring their legislation, procedures and implementation capacity into compliance with the anti-money laundering initiatives of the international community. In this, the strengthened legislative provisions and the establishment of a Financial Intelligence Unit and a Money Laundering Supervisory Authority are of particular note. Only two issues, both relating to mutual assistance, are outstanding and the necessary measures to deal with them will be implemented shortly.

Conclusion: My Dominican authorities are firmly committed to their stabilization program which, they are confident, will achieve the objective of creating a sound base for renewed growth in output and employment. They welcome the recognition in the staff report that the successful implementation of this program would serve as a basis for a three-year arrangement under the Poverty Reduction and Growth Facility. Consequently, they intend soon to start discussions with the Fund and other institutions, and with representatives of economic sectors and civil society in Dominica, with a view to formulating an Interim Poverty Reduction Strategy Paper by end-March, 2003.