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Dominica: Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Dominica.

In the context of the request for disbursement under the rapid-access component of the Exogenous Shocks Facility, the following documents have been released and are included in this package:

- The staff report for Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility, prepared by a staff team of the IMF, following discussions that ended on May 22, 2009, 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 June 29, 2009. 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 Press Release summarizing the views of the Executive Board as expressed during its July 10, 2009 discussion of the staff report that completed the request.

- A statement by the Executive Director for Dominica.

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

Request for Disbursement Under the Rapid-Access Component of the Exogenous Shocks Facility

Prepared by the Western Hemisphere Department
(In consultation with other Departments)

Approved by Antônio Furtado (WHD) and Aasim Husain (SPR)

June 26, 2009

Background. Following a marked improvement in its economy under the PRGF-supported program that ended in 2006, Dominica was struck by two hurricanes in 2007 and 2008 resulting in cumulative damage of nearly 35 percent of GDP. Over the past year, the Dominican economy has been further and severely impacted by the global downturn, which has significantly reduced tourism earnings, FDI inflows and remittances, leading to slower growth and a weaker external current account.

Discussions. The authorities have made a request for a disbursement under the Rapid-Access Component of the Fund's Exogenous Shocks Facility (see Attachment). Related discussions were held in Roseau during May 18–22, 2009. The staff team comprised Messrs. Samuel (Head), Monroe, and Lemus, and Ms. Wong (all WHD). The team met with Prime Minister Skerrit, the Cabinet, and senior government officials, as well as representatives of the private sector. Senior staff of the ECCB and a representative of the European Union attended key meetings.

Fund Relations. Dominica has accepted the obligations of Article VIII, Sections 2, 3 and 4, and maintains an exchange rate system free of restrictions on the making of payments and transfers for current international transactions. The Executive Board approved a request for ENDA on February 4, 2008 of an amount equivalent to SDR 2.05 million (25 percent of quota). The last Article IV consultation was concluded on July 30, 2008. The staff report and summing up of the Executive Directors' discussions and policy recommendations are available at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=22370.0

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EXECUTIVE SUMMARY

The Dominican economy, in the wake of major damage from natural disasters over the last two years, has been further and severely impacted by the global downturn and spillover of the turmoil in international financial markets. Slower growth in the U.S. and Europe has resulted in lower tourism arrivals, FDI inflows and remittances, while the failure of CL Financial Group in Trinidad and Tobago has increased requests for withdrawals of the deposit-like liabilities of the group's insurance subsidiaries in Dominica.

The government has requested a disbursement under the Rapid-Access Component of the Fund's Exogenous Shocks Facility in an amount equivalent to SDR 3.28 million (40 percent of quota) to help deal with the adverse effects on the balance of payments.

Key policy issues. While macroeconomic policy has been prudent and well-oriented, it is important to maintain the reform momentum. In this context, the key policy challenges facing the authorities are to stem the decline in economic activity resulting from the global downturn; to maintain a sustainable fiscal stance given the high public debt; and to improve competitiveness and reduce vulnerabilities to exogenous shocks.

- **Fiscal policy is appropriately consistent with reducing the high public debt.** The authorities plan to reduce capital spending back to historical levels to return to their primary surplus target of 3 percent of GDP. This would follow a temporary easing of the fiscal stance in FY 2008/09 and FY 2009/10, which was needed to rehabilitate infrastructure, protect the poor from the effects of the 2008 spike in food and fuel price increases, and mitigate the impact of the downturn in global economic activity.

- **Expenditure has been reallocated to strengthening sea defenses and enhancing infrastructure to facilitate the development of the tourism industry, key to resuscitating growth.** Tourism-related infrastructure, including enhanced air access to the country and roads to tourist attractions, are financed largely with external concessional resources, which helps to ensure sustainability of public debt.

- **Resolving the difficulties in the insurance sector will require a regional approach.** In the same vein, the authorities should coordinate with other member countries of the ECCB on legislation needed to strengthen regulation and supervision of the nonbank financial sector.

- **Structural reforms are key to improving competitiveness and reducing vulnerabilities**. The authorities have rightly placed high priority in improving the business climate and reducing the cost of doing business.

I. BACKGROUND AND RECENT DEVELOPMENTS

1. **Dominica was struck by two hurricanes in 2007 and 2008 causing cumulative damage estimated at close to 35 percent of GDP.** The agricultural sector, one of the major sources of foreign exchange earnings, took the brunt of the damage in 2007 from Hurricane Dean, while tourism, fishing and coastal infrastructure were affected by Hurricane Omar in 2008. Economic growth slowed to around 1¾ percent in 2007 before recovering to about 3 percent in 2008 (Figure 1 and Table 1). Inflation, mainly reflecting pass-through of energy and food price increases, peaked at 7½ percent in September 2008, but has since receded to around 2 percent by end-2008 (inflation for the year averaged around 6 percent).[1] The donor community responded by providing disaster relief grants to help address immediate humanitarian needs, and—with concessional financing from the Caribbean Development Bank—repair and reconstruction of essential infrastructure is well underway.

2. **The thrust of the authorities' policies in recent years has been consistent with Fund advice**. In particular, the authorities' fiscal stance has helped improve debt sustainability, thereby creating fiscal room to deal with economic losses from natural disasters and scope for countercyclical policies. However, recent developments have highlighted weaknesses in the regulatory framework for nonbanks, underscoring the need to step up efforts to reduce vulnerabilities in the financial system.

3. **According to staff estimates, the primary fiscal surplus declined from 4½ percent of GDP in FY 2007/08 to 1 percent of GDP in FY 2008/09 (Figure 2 and Table 2).**[2] While total revenue has been broadly in line with the budget, total expenditure is estimated to have been higher than originally budgeted due to additional spending on the rehabilitation of infrastructure (roads, bridges and sea defenses) after Hurricane Omar, and to help support economic activity in the context of the global downturn. There has also been a scaling up of social assistance to protect the poor from the effects of the 2008 spike in food and fuel prices, as well as from those of the recent economic slowdown. Public sector wage growth, however, has been contained through very stringent wage agreements (on a one percentage point increase annually for 2009 and 2010).

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[1] Flexible fuel pricing, adopted since 2003, accounts for the larger fall in fuel price inflation in Dominica in late 2008 as compared with other ECCU countries. While other ECCU countries have adopted flexible pricing regimes since 2006, Antigua and Barbuda and St. Lucia, the two largest economies in the currency union, are yet to do so.

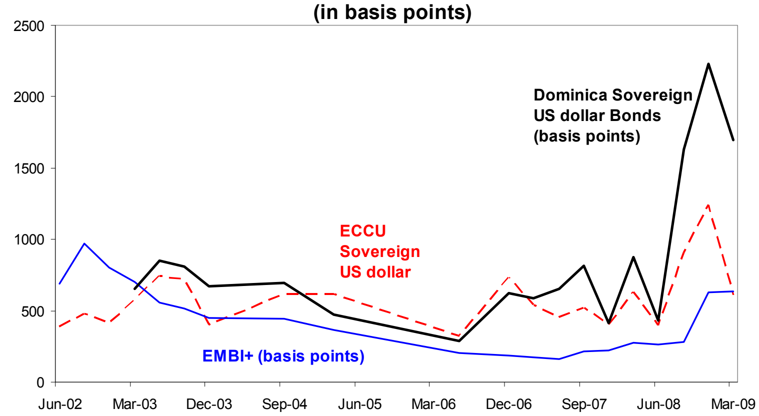
[2] The primary surplus implied by the FY2008/09 budget was already ½ of one percent of GDP below the authorities medium-term target, reflecting efforts to offset the effects of the food and fuel shocks on the most vulnerable groups.

4. **In the pre-disaster years, substantial primary fiscal surpluses of around 5 percent of GDP had placed the public debt/GDP ratio on a firmly declining path.** The public debt/GDP ratio declined from 128 percent in 2003 to 87 percent of GDP in 2008. The authorities have continued to make good-faith efforts to negotiate agreements with hold-out creditors and payments continue to be made into the escrow account to service these debts on the terms of the 2005 debt restructuring agreement.

5. **The current account deficit widened to about 32 percent of GDP in 2008** (Figure 3 and Table 3). This reflected higher reconstruction-related imports and lower exports following the hurricanes—the latter, partly on account of the full-year impact of the closure of a toothpaste factory. The large current account deficit was mostly financed by external grants and FDI.[3]

6. **A pick up in private sector credit in 2008, accompanied by lower deposit growth, led to a drawdown of claims on the ECCB.** Private sector credit increased by 8½ percent while broad money grew by 5 percent (Figure 4 and Table 4). The additional lending was partly financed by reducing deposits at the ECCB, resulting in a decline in Dominica's imputed reserves by US$ 5½ million to US$ 44.8 million.[4] Domestic interest rates were largely unchanged but Dominica's sovereign spreads spiked to 2200 basis points at end 2008 before declining to 1700 basis points by end-March 2009.[5]

Dominica: Sovereign Bond Spreads in Trinidad and Tobago 1/
(in basis points)



Sources: Bloomberg; Caribbean Money Market Brokers; and Fund staff calculations.
1/ Spreads are computed relative to U.S. bonds of comparable maturities

7. **Financial sector indicators suggest that the banking system is well poised to weather the turmoil in international financial markets**. The sector remains profitable and well-

[3] Indeed, the current account deficit after grants is just over one-half its level before grants.

[4] Prior to this, banks were using excess liquidity built up earlier to finance the modest increase in credit growth that started in 2007.

[5] The impact of the increase in sovereign spreads on fiscal sustainability is small because gross financing needs are low and are likely to be satisfied without significant recourse to international market financing (see Box).

capitalized—although the ratio of capital to risk weighted assets has been declining, it is still about 15 percent, compared with the ECCU minimum requirement of 8 percent (Table 5).[6]

8. **However, the collapse of the CL Financial Group has exposed deficiencies in the regulation of the nonbank financial sector, which remains weak despite recent efforts to improve oversight.** In particular, credit unions and insurance companies compete with commercial banks for deposits and loans, but are not subject to similar supervisory standards. Insurance companies had been allowed to offer deposit-type products that yielded annual interest rates far in excess of those offered by commercial banks. The higher interest rates reflected the much riskier investment activities in which the head offices of the companies were engaged. Following the collapse of the CL Financial Group, the insurance subsidiaries have had difficulty in servicing their maturing liabilities.

Banking System Indicators

(In percent, unless otherwise specified)

	2004	2005	2006	2007	2008
Number of banks	4	4	4	4	4
Of which: Public banks	1	1	1	1	1
Capital to risk-weighted assets	23.5	26.2	20.8	16.9	15.0
Unsatisfactory assets to total loans	22.5	22.0	9.3	8.1	7.1
Provisions to NPLs 1/	7.3	5.9	2.4	2.4	1.5
Interest income to earning assets	6.5	7.1	7.6	8.1	8.0
Return on assets	1.2	1.2	1.5	1.5	0.7
Liquid assets to deposits	55.9	49.9	56.3	59.8	50.8

1/ Provisioning for loan losses to total loans.

9. **The authorities have requested a disbursement in an amount equivalent to 40 percent of quota (SDR 3.28 million) under the Rapid-Access Component of Fund's Exogenous Shocks facility (RAC-ESF) in the letter of intent dated June 26, 2009 (attached)**. In the letter, the Prime Minister informs the Fund of the impact of the global downturn on the fiscal position and the balance of payments—and sets out the authorities' policy response to these shocks for the period ahead. Fund's financing would help reduce the decline in Dominica's international reserves at a time of great uncertainty in the financial system, thereby helping to maintain confidence in the country's external position.

[6] In 2006 a large indigenous bank wrote off a significant amount of nonperforming loans as it moved to adopt the IFRS standard. This resulted in a large reduction in both capital and nonperforming loans.

II. Economic Outlook and Policy Framework

10. **The current global downturn has underscored Dominica's high vulnerability to external shocks.** Real GDP growth is projected to slow down to 1 percent in 2009 reflecting mainly large declines in stay-over tourism and remittances, as well as lower FDI inflows. Growth in 2010 is projected to recover to about 2 percent on the back of the expected recovery in the global economy towards the end of 2009. Risks to this outlook are on the downside as a delayed recovery in the global economy could prolong this period of weak tourist receipts and FDI inflows. Inflation is expected to remain stable below 2 percent but risks remain high from the volatility of commodity prices.

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

	2007	Est. 2008	Proj. 2009	Proj. 2010
Real GDP growth (percent)	1.8	3.2	1.1	2.0
Inflation (percent, end period)	6.0	1.9	1.8	1.5
Total revenue and grants	44.7	43.6	41.0	40.7
Revenue	33.4	31.5	32.0	31.7
Grants	11.3	12.1	9.0	9.0
Total expenditure	42.5	44.4	42.3	40.4
Capital expenditure	14.2	15.6	12.7	10.8
Overall balance	2.2	-0.8	-1.4	0.3
Primary balance	4.6	1.0	1.4	3.0
Public sector debt	90.9	86.9	84.5	81.4
of which: external debt	63.6	57.6	56.0	54.8
Imputed net international reserves (millions of U.S. dollars)	50.4	44.8	41.5	41.9

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

1/ Fiscal figures are presented on a fiscal year (July-June) basis; fiscal figures shown for a given calendar year correspond to the fiscal year beginning on July 1 of that year.

11. **The balance of payments will undergo a broad-based weakening in 2009.** Stayover arrivals are projected to decline by about 15 percent, but discounting of hotel room rates and lower spending by tourists would result in a much larger decline in tourism receipts.[7] Similarly, remittances are projected to decline and activity in tourism-related FDI projects to slow significantly. A decline in FDI-related and fuel imports (the latter due to lower oil prices) is expected to partially offset the decline in tourism receipts and

[7] Tourist arrivals have declined by around 14 percent during the first four months reflecting the slowdown in the U.S. and Europe, Dominica's major tourism markets, as well as a reduction in airlift.

remittances. However, post-hurricane reconstruction imports would keep the current account deficit largely unchanged at the 2008 level, while financing from FDI inflows is expected to decline by a half. The overall deficit on the balance of payments is projected to rise to US$10.7 million in 2009, with an external financing gap of about US$8 million (about 2 percent of GDP) after taking into account exceptional financing. Accordingly, the net foreign assets of the banking system are projected to decline by around EC$39 million (US$14.4 million).

Dominica: Estimated Net Impact of Tourism and FDI Shocks

	Est. 2008	Proj. 2009	Difference
	(In Millions of U.S. dollars)		
Current account balance	**-117.7**	**-121.7**	**-4.1**
Of which			
(A) Exports	35.7	34.2	-1.5
(B) Imports	-188.6	-177.1	11.5
Of which			
(C) FDI related (fuel and non-fuel)	-35.9	-18.0	17.9
(D) Fuel and food price effects	-80.9	-62.6	18.4
(E) Travel (net)	64.3	46.6	-17.7
(F) Private transfers	29.2	23.9	-5.2
Capital and financial account	**110.9**	**111.0**	**…**
of which			
(G) Foreign direct investment	59.9	30.0	-29.8
Overall balance	**-6.7**	**-10.7**	**…**
Financing	**6.7**	**10.7**	**…**
Change in imputed reserves	5.6	3.2	…
Exceptional financing	1.1	2.4	…
Request for ESF	…	5.1	…
(H) Gross impact (E+F+G)	…	…	-52.8
(I) Net impact (H+C+D)	…	…	-16.5
Memorandum items			
Request for ESF (In percent of GDP)	…	1.4	…
Nominal GDP (in U.S. dollars)	364.4	375.6	…
Imputed reserves 1/	44.8	41.5	…
Imputed reserves (in months of imports of goods)	2.8	2.8	…

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

1/ Includes ESF financing in 2009 assuming that disbursement would be 40 percent of quota.

12. **The global crisis has not had a direct impact so far on the banking sector, but weakly regulated nonbank financial institutions pose a significant risk**. Bank soundness indicators point to a tightening in liquidity towards the end of 2008. The intervention of the CL Financial Group has exposed weaknesses in the regulation of nonbanks, particularly insurance companies. The total exposure of Dominican residents to these deposit-like liabilities of insurance companies in the CL Financial group amounts to about EC$80 million (8 percent of GDP). Requests for withdrawals have so far been deferred and, indeed, the authorities expect the fiscal implications from the group's collapse to be much lower than the total exposure of domestic residents, even under pessimistic assumptions regarding asset values. The difficulties have, so far, been contained in the insurance sector, as the authorities' communication strategy appears to have assured the affected policy/annuity holders, and depositors in general, that a viable regional solution is being actively pursued. Meanwhile, credit unions, which hold deposits equivalent to about 40 percent of bank deposits, are also lightly regulated.

13. **The authorities are implementing several measures to address the exogenous shock.** The authorities have provided financial assistance to hotels affected by Hurricane Omar, and are exploring alternatives, including through ferry services, to compensate for the loss of airlift. They have also accelerated the implementation of capital projects to ameliorate the unemployment impact, and social spending is targeted to protect the most vulnerable groups. The authorities have, however eschewed the broad incentives packages for tourism offered by other regional governments. The government's economic recovery strategy, which aims to foster private sector growth by improving the business climate and enhancing critical infrastructure, will aid recovery when external conditions turn around.

A. Fiscal Policy

14. **Following the sharp decline in FY 2008/09, the primary fiscal surplus is expected to increase modestly to 1.4 percent of GDP in FY 2009/10.** Total expenditure is projected to be lower as reconstruction-related capital outlays would taper off. The wage bill, which has been on a downward trend since 2002, will be contained at 12 percent of GDP. Total revenue is projected to increase by about 0.5 percent of GDP reflecting higher yields on VAT and excise taxes. While the revenue losses from the income tax reform initiated in January 2008 have thus far been lower than expected originally (about 1 percent of GDP in FY 2007/08 and rising to about 1½ percent per year over the medium term), the authorities have budgeted revenue from this tax conservatively out of caution over potential additional losses. To ensure robustness of the revenue projections, they would also strongly resist any pressures for modifications to the VAT. The authorities concurred with staff on the need to develop fiscal contingency measures to protect the fiscal target should the global recession prove to be more severe or protracted than currently expected. Capital expenditure to rehabilitate and enhance infrastructure is expected to be financed mainly by external grants.

15. **The authorities are committed to a substantial strengthening of the primary fiscal surplus over the medium term (Table 6).** The capital expenditure planned for FY 2009/10 is still at historically high levels, providing scope for some reduction in the post-rehabilitation period, partly through further prioritization of projects in light of possible capacity and financing constraints. The authorities indicated that they would seek to achieve primary surpluses of at least 3 percent of GDP beginning in FY 2010/11. This would contribute not only to a declining trend in the public debt-to-GDP ratio, but also to a narrowing of the external current account deficit to levels compatible with the availability of grant financing and projected FDI inflows. The government will continue to move towards a medium-term expenditure framework (MTEF) to improve predictability of capital expenditure and its consistency with the medium-term fiscal objectives.

16. **Following the debt restructuring in 2004–05, Dominica has achieved further gains in debt sustainability (Box 1)**. The public debt-to-GDP ratio declined from 128 percent in 2003 to about 87 percent in 2008, or by an average of 8 percentage points annually. Assuming in the period beyond FY 2009/10 an annual GDP growth of 3 percent and a primary surplus of 3 percent of GDP, Dominica would reach the ECCB target of 60 percent for the debt-to-GDP ratio around 2016—four years ahead of the established objective (Figures 5a and 5b, and Tables 7a–7d).

17. **The government will continue its efforts to complete the debt-restructuring initiated in 2004.** In particular, the authorities indicated that they will stay current in all debt-service payments to creditors and will continue to make good-faith efforts toward completing the collaborative debt restructuring agreements with holdouts as proposed by the government in 2004. The government will continue to make debt service payments into an escrow account at the ECCB on the terms of the restructured debt, in the event that holdouts agree to these terms.

Box Dominica—Debt Sustainability Analysis (DSA) Update[1]

Following the cooperative debt restructuring in 2004–05, Dominica has further improved its debt sustainability through prudent fiscal policy despite severe exogenous shocks. Nevertheless, significant debt-related vulnerabilities remain, including lower growth arising from a possible prolonged weakness in the global economy, the dependence on aid flows to finance capital expenditure, vulnerability to natural disasters, and the macro-financial risks stemming from difficulties in the insurance sector.

Dominica's DSA is built on a baseline scenario comprising: (i) real GDP growth rising to 3 percent annually over the medium term in the context of structural reforms to enhance the climate for private sector investment and reducing vulnerabilities; and (ii) the primary fiscal surplus recovering to 3 percent of GDP from FY 2010/11. The envisaged paths for real GDP growth and the primary surplus are subject to downside risks such as those arising from volatility of grant inflows. The projected grant financing at around 8½ percent of GDP over the medium term implies a decline from the recent surge to an average of 12 percent in 2007–08 but is still higher than the historical average of close to 5 percent for 1990–2006.[2] In the event that grant inflows are lower than the baseline projection, capital expenditure would need to be scaled back further to achieve a primary surplus of at least 3 percent of GDP—the level required to maintain the debt/GDP ratio on a sustainable downward trajectory. Multilateral borrowing is assumed to be contracted on terms reflecting Caribbean Development Bank lending policies for countries like Dominica. The associated external current account deficit would narrow gradually but remain elevated. While exports of goods as a percentage of GDP would remain flat, tourism receipts would rise in the context of a modest increase in tourism-related FDI inflows.

The updated DSA analysis confirms a progressive improvement in debt sustainability. Dominica is classified as a strong performer for its present policy and institutional framework based on an average CPIA rating of 3.82 for 2005–07. The external debt indicators under the baseline scenario do not indicate a breach of the respective thresholds. However, the most extreme shock scenario combining lower GDP growth, weaker exports, a lower GDP deflator, and a fall in non-debt-creating flows would push the NPV of debt-to-GDP to above the 50 percent threshold over 2011–13. While the most extreme export shock scenario—of export growth at one standard deviation below the historical average in 2009–2010—would push the NPV of debt-to-exports ratio to slightly above the 200 percent threshold in one year, this appears to be a rather stringent test as the baseline scenario already incorporated a significant reduction in exports in the near-term.

Nevertheless, significant vulnerabilities remain given the still high public debt ratio. The island state is highly susceptible to external shocks and natural disasters. Hurricanes in the last two consecutive years, coupled with the commodity price shocks and global downturn, have slowed growth and worsened the fiscal position. Moreover, although spreads are expected to come down as global market conditions normalize, a sustained widening of sovereign spreads, as occurred recently, would raise interest payments by about 0.5 percent of GDP, and would require higher primary surpluses to restore medium-term debt sustainability if borrowing needs were to increase. Possible contingent liabilities from the resolution the CL Financial insurance subsidiaries could also raise the required primary surplus. On the positive side, Dominica's gross financing needs are decreasing due to saving achieved under its prudent fiscal policy, the lengthening of maturities from the debt restructuring, and large reliance on concessional borrowing from multilateral institutions, which currently accounted for 65 percent of total external debt outstanding.

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[1] These results are broadly in line with the previous DSA prepared under the 2008 Article IV Consultation. See details of the key assumptions and main results in IMF Country Report No. 08/310. The residuals in the external DSA reflect the large external grants (averaging 8½ percent of GDP) received by Dominica and the lack of information on private sector debt.

[2] The government has taken steps in recent years to diversify its trade and economic cooperation linkages, especially with China and Venezuela, which has resulted in increased aid flows (see Box 5, IMF Country Report No. 08/310).

B. Structural Policies

18. **The government will continue to press ahead with its structural reform agenda aimed at promoting private-sector-led growth and lowering poverty.** The Growth and Social Protection Strategy, developed alongside the PRGF-supported program ended in 2006, is being amplified to include steps aimed at reducing the cost of doing business and improving the efficiency of the energy sector. While past structural reforms have helped improve the business climate, private investment remains limited due to infrastructure constraints, as well as inefficient contract enforcement and land registration processes. With the assistance of the European Union (EU), the government is developing a program to address these constraints.

19. **Strengthening financial sector regulation has taken on a heightened priority.** The authorities are working with the ECCB to strengthen supervision of the banking system and to improve the regulatory framework for nonbanks. The act establishing a single regulatory unit (SRU) has been passed by the parliament and efforts are underway to strengthen the Financial Services Unit (FSU, the agency responsible for implementing that law). This will help close the legal loopholes which permitted excessive risk-taking by insurance companies who take deposits while avoiding the stricter requirements placed on banks. The staff encouraged the authorities to press ahead with the enactment of the remaining legislation to complement the FSU Act (including new laws for the insurance and credit union sectors), slated to be presented to parliament before end-2009.

20. **Resolution of the CL Financial insurance subsidiaries is an urgent near-term challenge.** Failure to engineer a soft landing for these companies could increase the fiscal cost of their resolution and could spillover to the banking system. The staff concurred with the regional approach being pursued by the authorities for resolving the problems in the insurance sector (given that they transcend the sector's operations in Dominica), and on the importance of minimizing the fiscal cost by securing significant private sector participation.

III. Access and Risks

21. **The authorities have requested Fund financing for an amount equivalent to SDR 3.28 million (40 percent of quota) under the RAC-ESF.** This borrowing—which represents approximately 1¼ percent of GDP and about 1 week of imports of goods and services—would help meet the immediate foreign exchange needs stemming from the significant drop in tourism receipts, remittances, and FDI inflows, thereby reducing the extent of the decline in Dominica's external reserves. The level of access would cover about 30 percent of the estimated net impact on the balance of payments that is attributable to the

exogenous shocks (US$16.5 million). The requested Fund financing would also prevent Dominica's imputed reserves from falling further below 3 months of imports of goods.[8]

22. **Dominica will continue to seek assistance from international development partners to help mitigate the shock, expecting that Fund financing would help to catalyze support from the international donor community**. Accordingly, the authorities will participate in a planned regional effort to approach the European Union to speed up the disbursement of programmed financing.

23. **It is expected that Dominica will be able to discharge its obligations with the Fund in a timely manner, and its capacity to repay the Fund seems adequate (Table 8).** Fund credit outstanding is high relative to quota, and would reach about 153 percent including the prospective ESF, and there is a bunching of repayments to the Fund in 2011-13.[9] However, the envisaged fiscal path and a recovery in growth would improve debt servicing capacity. The downside risks to this outlook stem from the possibility that the global economic downturn prove to be deeper and/or more protracted. In that event, tourism receipts, remittances, external grants, and foreign direct investment could all be significantly lower than assumed in the projections.

24. **Important debt-related vulnerabilities remain as the public debt is still high, although its present value has been reduced by the extension of the maturity and lower interest rates from the debt restructuring**.[10] In particular, Dominica could face possibly significant fiscal liabilities associated with the regional effort to resolve the situation of CL Financial. More generally, it is exposed to external shocks and weather-related vulnerabilities. However, participation in the Caribbean Catastrophe Risk Insurance Facility (CCRIF) has helped to provide insurance coverage to reduce the fiscal costs associated with natural disasters.

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[8] The reserve-pooling arrangement in the Eastern Caribbean Currency Union (ECCU) implies balance of payments for the region as a whole. Thus if individual countries are hit by idiosyncratic shocks the reserve pool should provide adequate cover. However, in the current situation, all the member countries are affected simultaneously by similarly large negative shocks that could deplete the reserve pool.

[9] The annual principal repayment/repurchase increase from slightly less than US$1 million in 2010 to an average of US$2 million annually in 2011–13 with the repayment of the PRGF loan, and repurchases of the ENDA falling due from 2011.

[10] The cooperative debt restructuring which took place in 2004–05 achieved an average of 50 percent reduction in the net present value of the restructured debt by lowering interest rates and extending the maturity (IMF Country Report No. 04/286).

IV. Staff Appraisal

25. **The sound macroeconomic and structural policies pursued by Dominica in recent years past have improved the resilience of the economy and the authorities should be commended for continuing with their efforts to reduce the economy's vulnerabilities.** The strong fiscal position and reduction in the public debt ratios achieved in the pre-crisis period has permitted limited fiscal stimulus in support of positive real GDP growth in 2009. The authorities' economic recovery plans appropriately build on the 2008 Growth and Social Protection Strategy, focusing on improving the investment climate and enhancing infrastructure. With limited policy levers, reducing the cost of doing business and easing infrastructure bottlenecks are key to enhancing private sector growth.

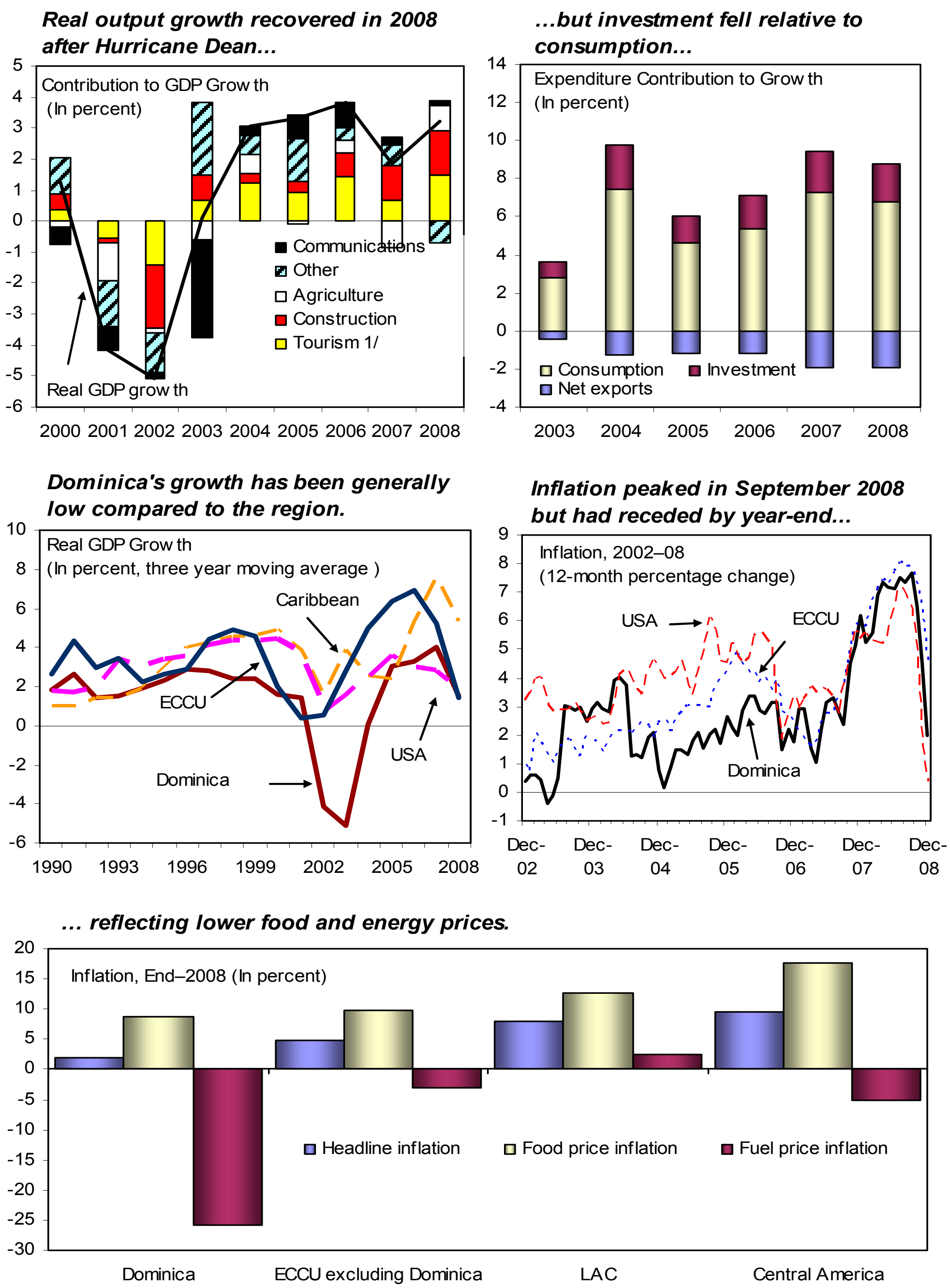
26. **The authorities' commitment to maintaining a primary surplus target of at least 3 percent of GDP over the medium term is welcome in the wake of the fiscal easing of the last two years.** The temporary major increase in reconstruction and rehabilitation expenditure in the recent past was warranted in light of the exceptional circumstances—natural disasters combined with a global downturn. Over the medium-term, however, the authorities are wise in planning to bring expenditure back to more sustainable levels by further prioritizing capital projects, while planning contingency measures in the event of a more severe or prolonged global downturn than currently projected. The resulting recovery in the primary fiscal surplus, together with an improved growth performance in the context of structural reforms, will permit steadily reducing the public debt ratio over time and narrowing the external current account deficit to a level consistent with the availability of external financing. The authorities' strong track record of prudent fiscal management, including the maintenance of large primary fiscal surpluses in past years, bodes well for the achievement of their medium-term objectives.

27. **Financial sector-related vulnerabilities remain, which the authorities are moving to address**. The authorities are making efforts to strengthen the regulatory framework for the nonbank financial sector, by creating a single regulatory unit for these institutions, so as to avoid a repeat of the regulatory arbitrage that created the problems in the insurance sector. In this connection, the recent collapse of the CL Financial Group represents important source of macroeconomic and fiscal risks. The magnitude and consequences for Dominica are still not fully known but the authorities are appropriately working with regional counterparts to find a solution that minimizes fiscal costs and involves private sector participation.

28. **The staff supports the authorities' request for Fund financing under the RAC-ESF in the amount of SDR 3.28 million (40 percent of quota).** This support is based on the large balance of payments impact of the shock, the authorities' past track record in meeting policy commitments under the recently expired PRGF arrangement, and the soundness of their policies. The still high public debt and susceptibility to external shocks pose some risks

to the Fund's resources, which underscores the need for the authorities to continue their efforts to reduce debt-related vulnerabilities. Nonetheless, these risks are mitigated considerably by the authorities' resolve to maintain prudent fiscal policies and foster private sector-led growth, their commitment to continued close cooperation with the Fund, and the expectation of continued support from the international community.

Figure 1. Dominica: Selected Indicators

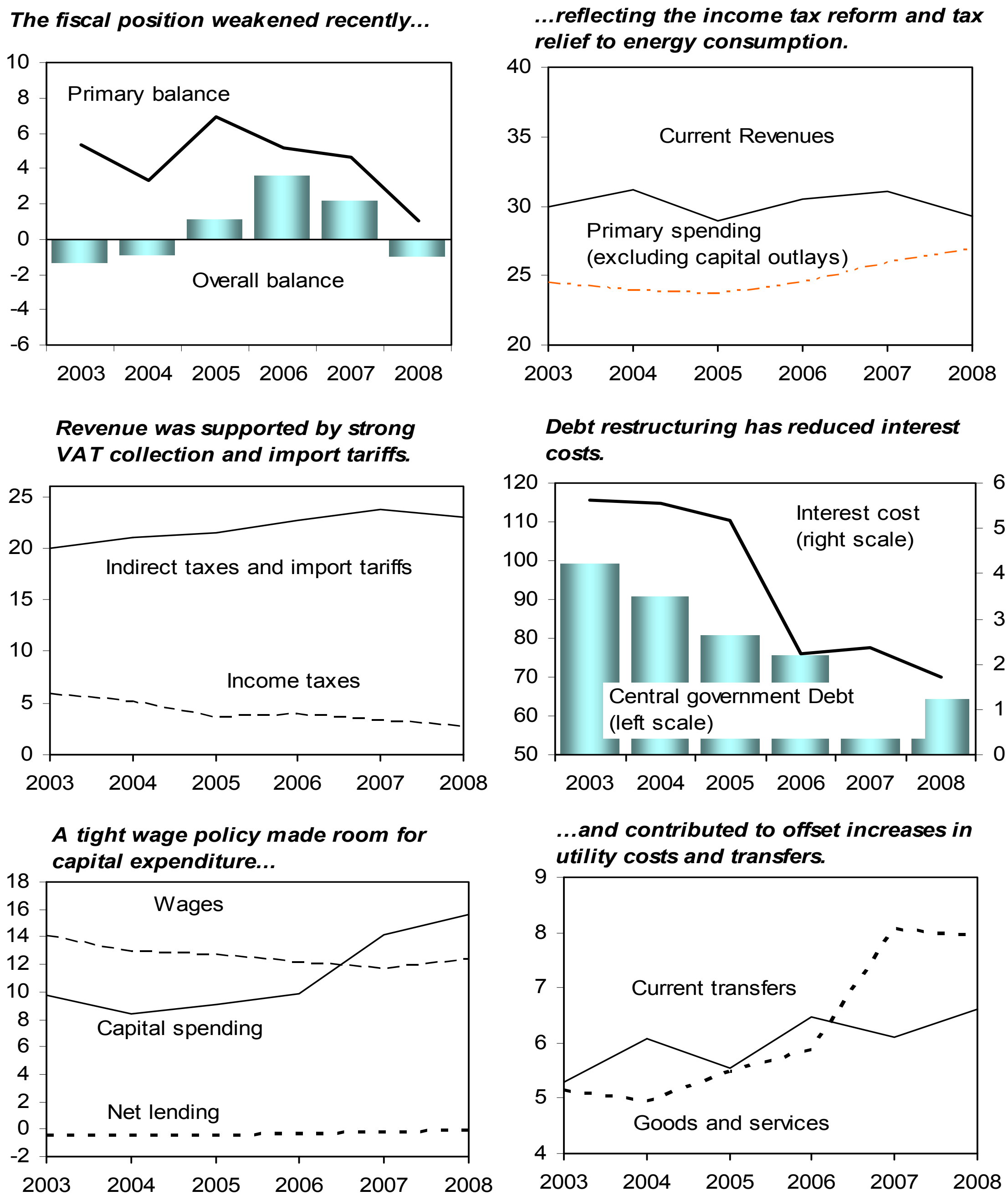


Sources: Dominica authorities; ECCB; WHD Staff Forecast Database; IMF, Information Notice System; and Fund staff estimates.

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

2/ Aggregates are PPP weighted averages.

Figure 2. Dominica: Fiscal Developments, 2003-08 1/
(In percent of GDP, central government)

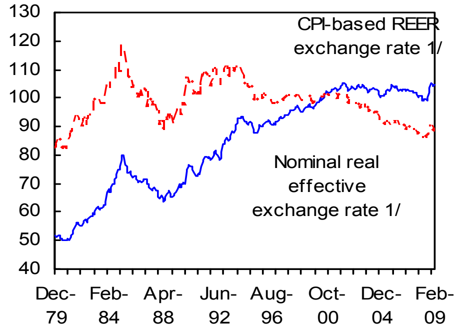


Sources: ECCB; and Fund staff estimates.

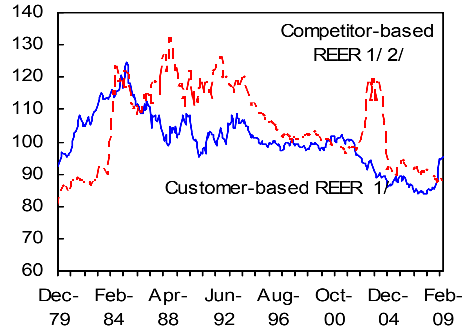
1/ Figures shown for a given calendar year relate to the fiscal year (July-June) begining on July 1 of that year.

Figure 3. Dominica: External Competiveness Indicators

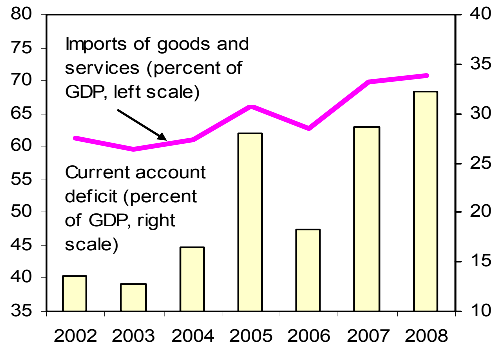
The CPI-based REER has depreciated owing to weaknesses in the U.S. dollar.



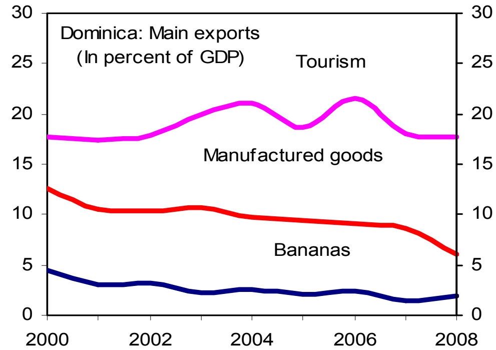
Competitor- and customer-based REERs have also improved.



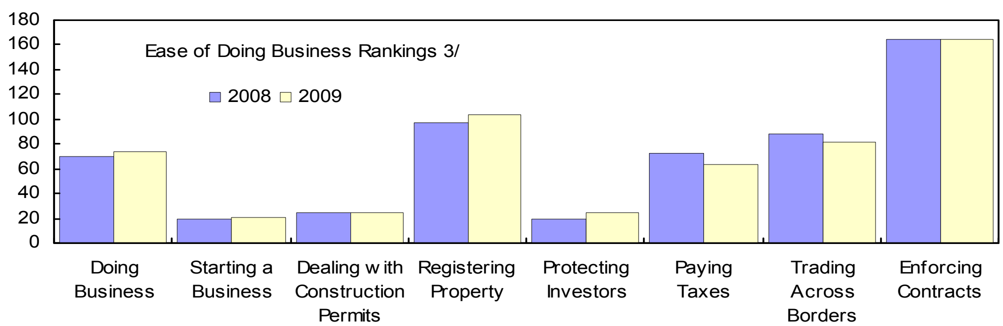
The current accout deficit remains elevated as imports continue to rise.



Tourism and exports declined due to the effects of recent hurricanes.



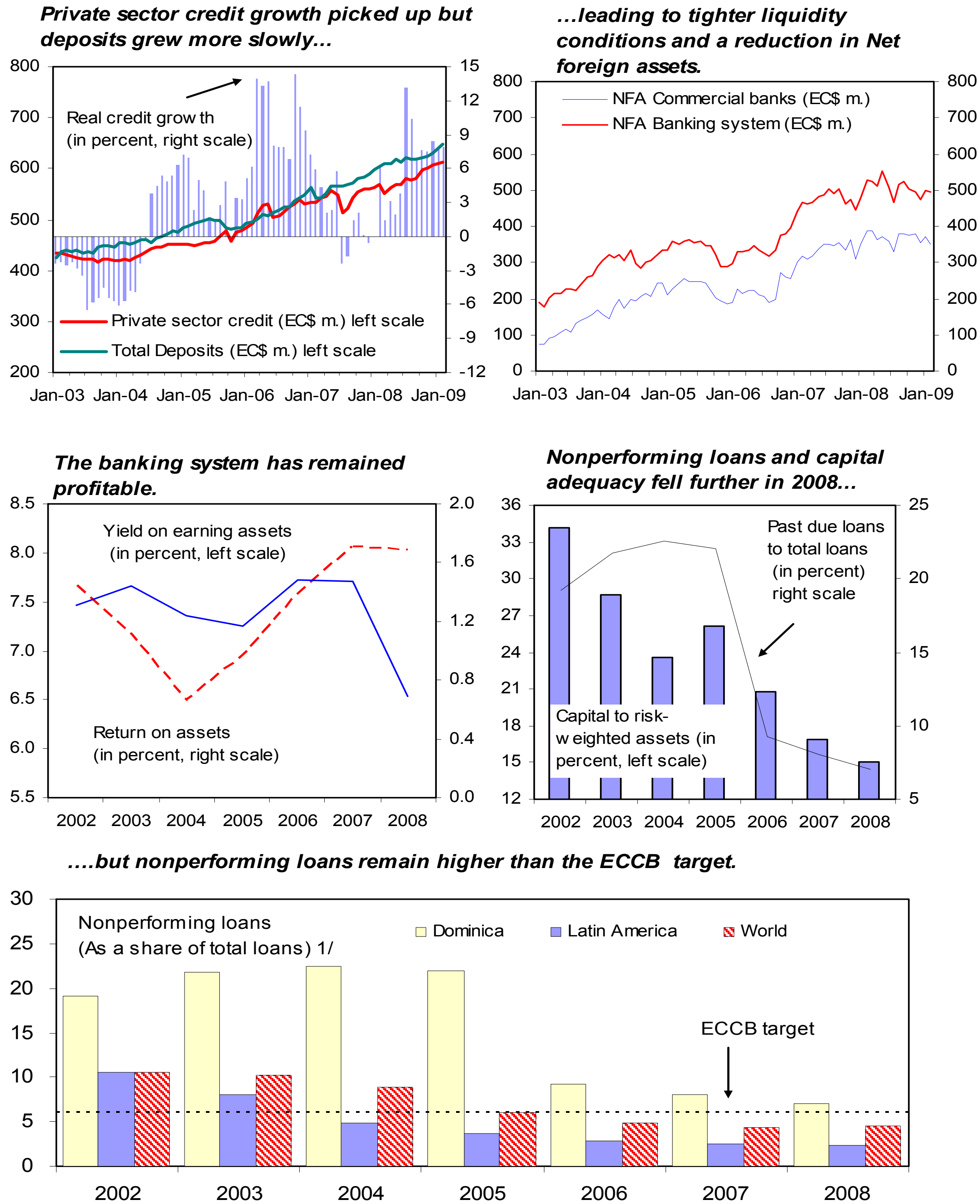
Dominica slipped 4 places in the ranking on the 2008 Doing Business Index, with enforcement of contracts still requiring attention.



Sources: Dominica authorities; and IMF Information Notice System.

1/ An increase (decrease) indicates an appreciation (depreciation). Index 2000=100.
2/ The sharp movements in the competitor-based real exchange rate in 2002–04 were largely driven by the Dominican Republic's peso.
3/ Rankings have been recalculated to reflect changes to the methodology and the addition of three new countries.

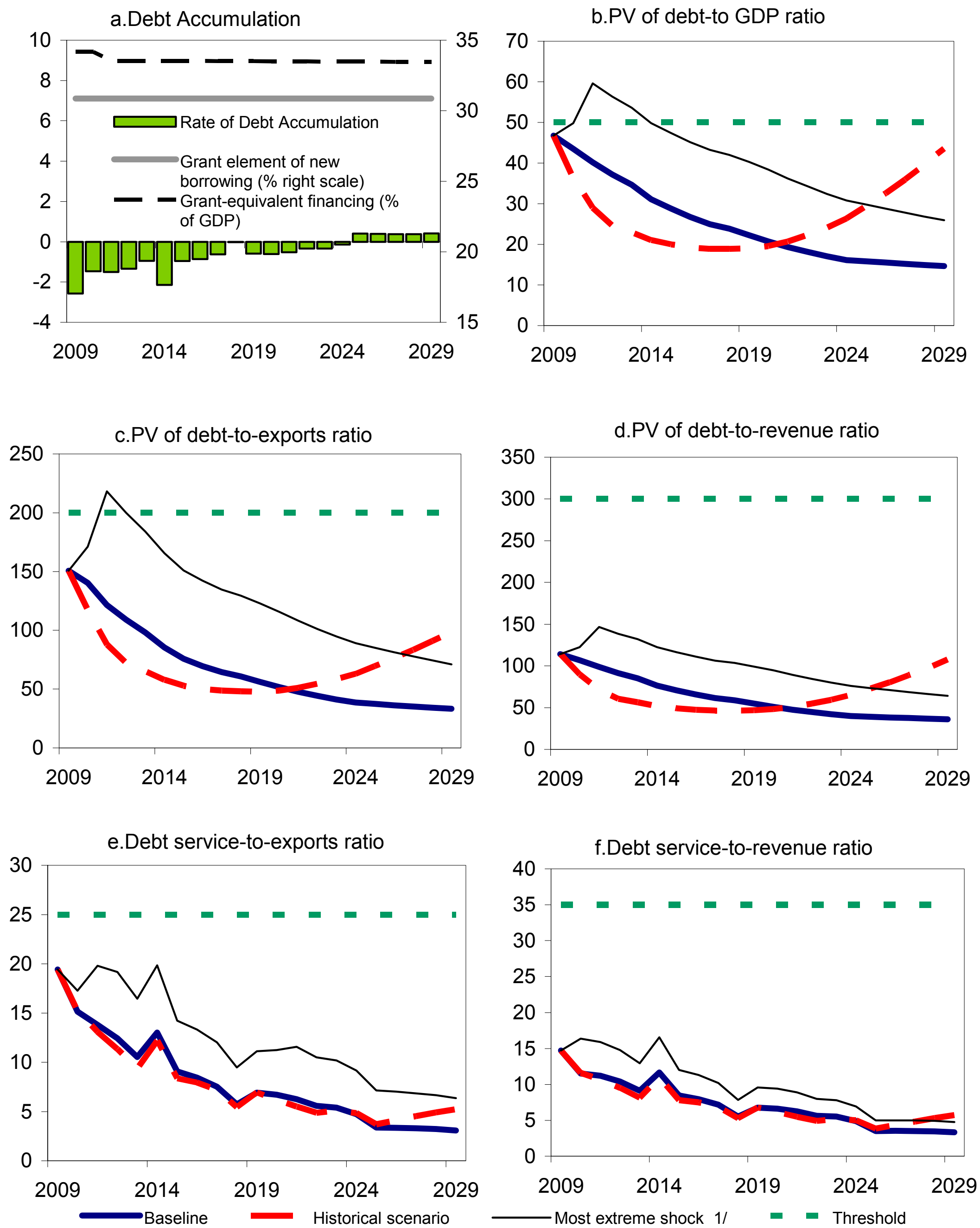
Figure 4. Dominica: Financial Sector Developments



Sources: ECCB; Global Financial Stability Report and Fund staff calculations.

1/ Numbers for 2008 are preliminary.

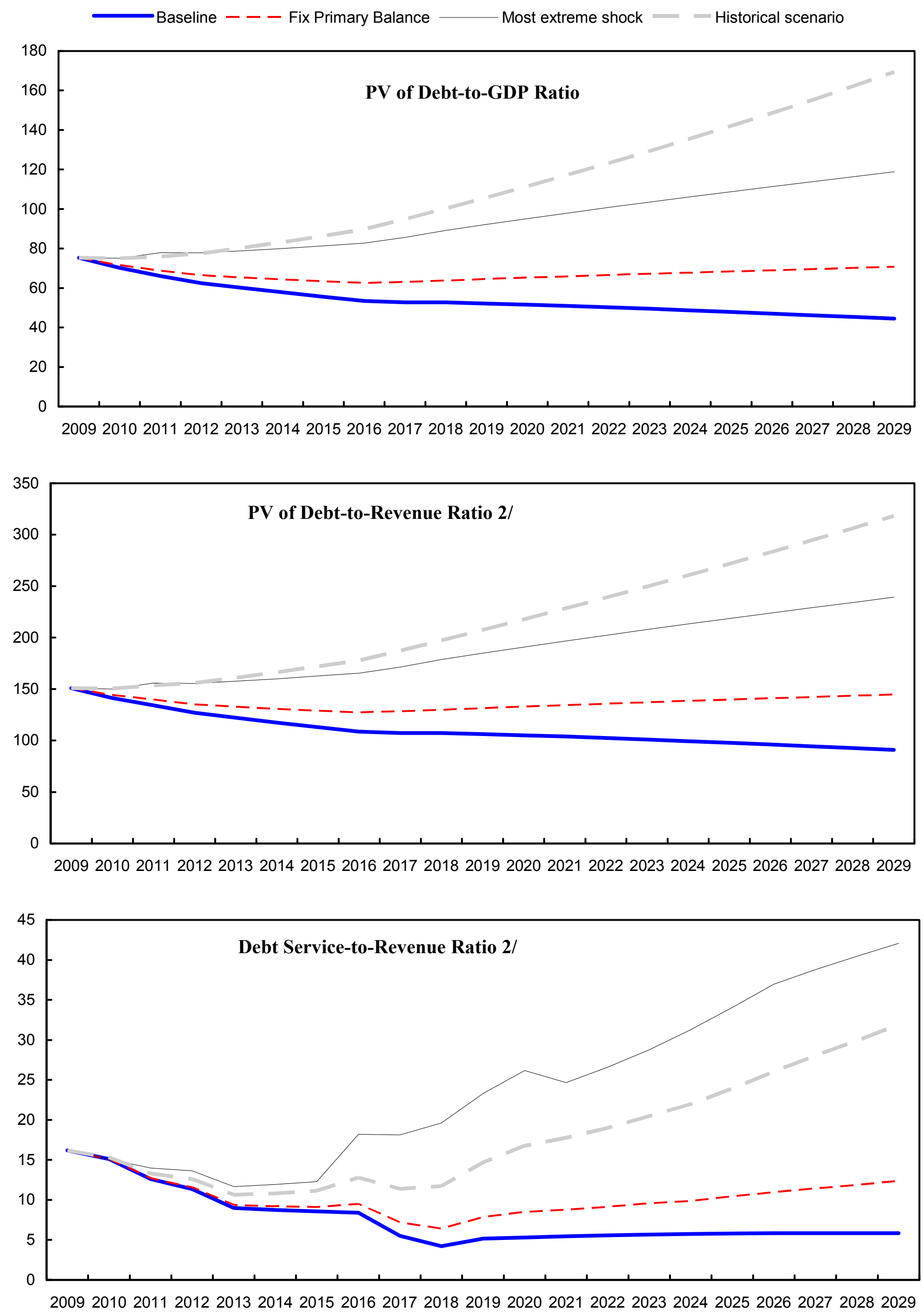
Figure 5a. Dominica: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2009-29 1/



Sources: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a combination shock; in c. to a combination shock; in d. to a combination shock; in e. to a export shock and in f. to a one-time depreciation shock.

Figure 5b. Dominica: Indicators of Public Debt Under Alternative Scenarios, 2009-29 1/



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

1/ The most extreme stress test is the test that yields the highet ratio in 2019.
2/ Revenues are defined inclusive of grants.

Table 1. Dominica: Selected Economic and Social Indicators, 2004-10

I. Social and Demographic Indicators

Area (sq. km.)	754.0	Adult literacy rate (percent, 2004)	88
Population (2005)		Health	
Total	72,000	Access to safe water, (% pop., 2004)	97
Annual rate of growth (percent)	0.5		
Density (per sq. km.)	95.5		
		Gross Domestic Product (2008)	
Population characteristics		(millions of E.C. dollars)	984
Life expectancy at birth (years, 2006)	74.1	(millions of U.S. dollars)	364
Infant mortality (per thousand live births, 2006)	13.0	(US dollars per capita)	4,986

II. Economic Indicators

					Est.	Proj.	
	2004	2005	2006	2007	2008	2009	2010
	(Annual percentage change, unless otherwise specified)						
Output and prices							
Real GDP (factor cost)	3.0	3.3	3.8	1.8	3.2	1.1	2.0
GDP deflator (factor cost)	2.1	1.5	0.8	2.8	2.6	2.0	1.6
Consumer prices (end of period)	0.8	2.7	1.8	6.0	1.9	1.8	1.5
Money and credit 1/							
Net foreign assets of the banking system	8.1	-8.0	17.2	7.2	4.3	-5.0	-2.9
Net domestic assets of the banking system	-2.1	14.7	-7.6	1.9	1.0	4.5	4.2
Of which							
Net credit to the nonfinancial public sector	-5.1	-1.2	-9.9	-7.0	-0.9	-0.4	-0.4
Credit to the private sector	5.4	4.6	8.5	4.0	6.2	3.9	4.6
Liabilities to the private sector (M2)	5.9	6.7	9.6	9.0	5.3	-0.5	1.2
Balance of payments							
Merchandise exports, f.o.b.	4.5	0.4	-1.1	-6.8	-10.1	-4.2	2.5
Merchandise imports, f.o.b.	14.2	14.2	0.6	17.3	9.5	-6.1	-1.8
Real effective exchange rate							
(end of period, depreciation -)	-3.2	-3.5	-0.6	-2.0	-1.6	…	…
	(In millions of U.S. dollars)						
Merchandise exports, f.o.b.	42.8	43.0	42.5	39.7	35.7	34.2	35.0
Merchandise imports, f.o.b.	127.8	145.9	146.8	172.2	188.6	177.1	173.9
Current account balance	-46.9	-83.8	-58.0	-97.9	-117.7	-121.7	-111.4
Capital and financial account balance 2/	31.5	85.2	61.0	104.3	110.9	111.0	110.5
Overall balance	-25.7	-8.3	16.2	1.3	-6.7	-10.7	-0.8
	(In percent of GDP, unless otherwise specified)						
Central government 3/							
Savings (incl. grants)	7.1	9.7	12.9	15.8	14.6	10.7	10.8
Of which							
Primary savings (before grants)	7.8	8.1	8.2	7.5	5.0	4.3	4.4
Grants 4/	5.8	7.5	7.8	11.7	12.3	9.1	9.2
Capital expenditure and net lending	8.5	9.3	10.2	14.7	15.9	12.9	11.1
Primary balance 4/	4.7	6.3	5.8	4.6	1.0	1.4	3.0
Overall balance 4/	-0.8	1.2	3.6	2.2	-0.8	-1.4	0.3
Nonfinancial public sector debt (gross) 5/							
Total	107.8	100.6	96.0	90.9	86.9	84.5	81.4
External	74.9	69.0	67.5	63.6	57.6	56.0	54.8
Domestic	32.9	31.6	28.5	27.3	29.4	28.5	26.7
External sector							
Current account balance	-16.5	-28.0	-18.3	-28.7	-32.3	-32.4	-28.6
	(In percent of exports of goods and nonfactor services)						
External public debt service 5/	20.7	12.6	9.7	10.6	10.8	15.7	17.1
Amortization	14.0	9.1	5.6	6.7	7.1	10.5	11.4
Interest	6.7	3.5	4.2	3.9	3.7	5.2	5.8
Memorandum items:							
Nominal GDP at market prices (EC$ millions)							
Calendar year	770.1	808.0	856.5	920.8	983.8	1,014.2	1,051.1
Net imputed international reserves							
(U.S. dollars millions; end-of-period) 6/	33.6	37.6	51.0	50.4	44.8	41.5	41.9

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

1/ Change relative to the stock of M2 at the beginning of the period.
2/ Including errors and omissions.
3/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.
4/ Does not include grants that were received but not spent, in line with IMF. Country Report No. 05/384.
5/ Data after 2005 are in post-restructuring terms.
6/ From 2002, transactions with the IMF are included as transactions of the monetary authorities.

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

	2004/05	2005/06	2006/07	Est. 2007/08	Proj. 2008/09	Proj. 2009/10	Proj. 2010/11
	(In millions of Eastern Caribbean dollars)						
Total revenue and grants	**292.0**	**325.0**	**357.4**	**425.8**	**435.5**	**423.0**	**437.6**
Current revenue	245.7	263.2	289.8	317.2	314.4	325.9	340.4
Tax revenue	213.3	239.5	262.4	289.3	288.1	300.7	314.2
Nontax revenue	32.4	23.7	27.4	27.9	26.3	25.2	26.3
Capital revenue	2.0	1.5	0.9	0.8	0.3	4.6	0.8
Grants 2/	44.3	60.3	66.7	107.8	120.9	92.5	96.3
Total expenditure	**298.7**	**315.3**	**325.3**	**404.5**	**443.1**	**437.0**	**434.2**
Current expenditure	232.9	240.2	237.6	269.1	287.1	305.9	317.7
Wages and salaries 3/	102.0	105.3	107.8	111.3	123.2	125.4	130.6
Interest	43.9	43.0	19.9	22.7	17.1	28.8	29.3
Domestic	20.4	20.2	7.1	11.7	6.4	13.4	13.2
External	23.5	22.8	12.7	11.0	10.7	15.4	16.1
Others	87.0	91.9	110.0	135.1	146.8	151.6	157.8
Goods and services	39.0	45.7	52.3	76.8	79.3	86.8	90.4
Transfers and subsidies	48.0	46.2	57.6	58.3	67.5	64.8	67.5
Capital expenditure and net lending	65.8	75.2	87.7	135.3	156.0	131.1	116.5
Fixed investment	69.4	78.2	90.4	136.7	157.0	132.1	116.5
Net equity, net lending, and transfers	-3.6	-3.0	-2.7	-1.4	-1.0	-1.0	0.0
Overall balance	**-6.6**	**9.6**	**32.1**	**21.3**	**-7.6**	**-14.0**	**3.4**
Primary balance	**37.2**	**52.6**	**52.0**	**44.0**	**9.5**	**14.9**	**32.6**
Statistical discrepancy 4/	-10.9	4.9	-5.4	13.6	0.0	0.0	0.0
Financing	**17.5**	**-14.6**	**-26.6**	**-34.9**	**7.6**	**14.0**	**-3.4**
Net foreign financing	26.2	9.1	-10.8	-11.2	-20.7	18.3	9.7
Disbursements	26.8	7.5	2.9	3.9	3.8	61.0	42.9
Amortization	43.2	20.4	13.1	14.8	24.4	42.7	33.1
Other including rescheduling	42.6	22.0	-0.6	-0.4	0.0	0.0	0.0
Net domestic financing	-8.6	-23.7	-15.8	-32.3	28.2	-4.3	-13.1
Bank 2/	-12.2	-16.4	-7.7	-16.9	8.2	-4.3	-13.1
Nonbank	-6.6	-6.6	-5.7	-14.1	20.0	0.0	0.0
Other including rescheduling	10.2	-0.7	-2.4	-1.3	0.0	0.0	0.0
Emergency support				**8.6**			
	(In percent of GDP)						
Total revenue and grants	**37.0**	**39.0**	**40.2**	**44.7**	**43.6**	**41.0**	**40.7**
Current revenue	31.1	31.6	32.6	33.3	31.5	31.6	31.7
Tax revenue	27.0	28.8	29.5	30.4	28.8	29.1	29.2
Nontax revenue	4.1	2.8	3.1	2.9	2.6	2.4	2.4
Capital revenue	0.3	0.2	0.1	0.1	0.0	0.4	0.1
Grants 2/	5.6	7.2	7.5	11.3	12.1	9.0	9.0
Total expenditure	**37.9**	**37.9**	**36.6**	**42.5**	**44.4**	**42.3**	**40.4**
Current expenditure	29.5	28.9	26.7	28.3	28.7	29.6	29.6
Wages and salaries 3/	12.9	12.7	12.1	11.7	12.3	12.1	12.1
Interest	5.6	5.2	2.2	2.4	1.7	2.8	2.7
Domestic	2.6	2.4	0.8	1.2	0.6	1.3	1.2
External	3.0	2.7	1.4	1.2	1.1	1.5	1.5
Others	11.0	11.0	12.4	14.2	14.7	14.7	14.7
Goods and services	4.9	5.5	5.9	8.1	7.9	8.4	8.4
Transfers and subsidies	6.1	5.6	6.5	6.1	6.8	6.3	6.3
Capital expenditure and net lending	8.3	9.0	9.9	14.2	15.6	12.7	10.8
Overall balance	**-0.8**	**1.2**	**3.6**	**2.2**	**-0.8**	**-1.4**	**0.3**
Primary balance	**4.7**	**6.3**	**5.8**	**4.6**	**1.0**	**1.4**	**3.0**
Statistical discrepancy 4/	-1.4	0.6	-0.6	1.4	0.0	0.0	0.0
Financing	**2.2**	**-1.8**	**-3.0**	**-3.7**	**0.8**	**1.4**	**-0.3**
Net foreign financing	3.3	1.1	-1.2	-1.2	-2.1	1.8	0.9
Disbursements	3.4	0.9	0.3	0.4	0.4	5.9	4.0
Amortization	5.5	2.4	1.5	1.6	2.4	4.1	3.1
Other including rescheduling	5.4	2.6	-0.1	0.0	0.0	0.0	0.0
Net domestic financing	-1.1	-2.8	-1.8	-3.4	2.8	-0.4	-1.2
Bank	-1.6	-2.0	-0.9	-1.8	0.8	-0.4	-1.2
Nonbank	-0.8	-0.8	-0.6	-1.5	2.0	0.0	0.0
Other including rescheduling	1.3	-0.1	-0.3	-0.1	0.0	0.0	0.0
Emergency support				**0.9**			
Memorandum items:							
Capital expenditure less total grants	2.7	1.8	2.4	2.9	3.5	3.7	1.9
Overall balance (excluding grants)	-6.5	-6.1	-3.9	-9.1	-12.9	-10.3	-8.6
Primary balance 5/	**3.3**	**6.9**	**5.2**	**…**	**…**	**1.4**	**3.0**
Nominal GDP at market prices (EC$ millions)	789	832	889	952	999	1,033	1,075
Central government debt (in percent of GDP)	90.9	80.9	78.1	74.0	71.3	70.4	67.3
External	60.5	53.6	54.0	51.4	46.9	47.1	46.2
Domestic	30.4	27.3	24.1	22.7	24.4	23.2	21.1

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

1/ Fiscal years beginning July 1.
2/ Does not include grants that were received but not spent, in line with IMF Country Report No. 05/384.
3/ 2005/06 includes a reclassification of EC$2.3 million (0.3 percent of GDP) to other expenditure, reflecting a transfer of teachers from the government payroll to that of the State College.
4/ Difference between identified financing below-the-line and overall balance above-the-line.
5/ Computed using overall deficit measured from below-the-line. Reported grants exclude resources received but not spent.

Table 3. Dominica: Balance of Payments

	2004	2005	2006	2007	Est. 2008	Proj. 2009	2010	2011	2012	2013	2014
	(In millions of U.S. dollars)										
Current account balance	**-46.9**	**-83.8**	**-58.0**	**-97.9**	**-117.7**	**-121.7**	**-111.4**	**-107.3**	**-107.8**	**-104.4**	**-103.8**
Trade balance	-84.9	-102.9	-104.3	-132.6	-153.0	-142.9	-138.9	-147.1	-154.5	-161.8	-169.7
Exports (f.o.b.) 1/	42.8	43.0	42.5	39.7	35.7	34.2	35.0	36.2	37.6	39.1	40.4
Of which											
Bananas	7.2	6.4	7.5	5.1	6.8	7.7	7.2	6.7	6.3	6.0	5.7
Imports (f.o.b.)	127.8	145.9	146.8	172.2	188.6	177.1	173.9	183.3	192.1	200.9	210.1
Of which											
Mineral fuels 2/	14.1	19.3	22.7	25.6	36.0	26.4	32.5	35.4	37.4	39.2	41.0
Services balance	40.0	31.5	45.5	30.1	31.7	19.4	24.5	34.0	40.2	47.4	55.6
Exports of services	86.3	83.5	97.9	95.6	101.0	84.5	88.4	101.4	110.8	121.2	132.8
Tourism receipts	60.1	55.7	68.4	61.2	64.3	46.6	49.2	60.3	67.9	76.4	85.9
Other	26.2	27.8	29.5	34.4	36.7	37.9	39.2	41.0	42.9	44.8	46.9
Imports of services	46.3	52.1	52.4	65.5	69.3	65.0	63.9	67.3	70.6	73.8	77.2
Net income	-21.8	-33.9	-22.4	-16.1	-25.6	-25.9	-26.1	-26.8	-27.5	-25.6	-26.5
Interest payments (public sector) 3/	-8.6	-10.7	-6.5	-6.5	-7.4	-7.1	-6.7	-6.4	-6.2	-3.3	-3.2
Net current transfers	19.8	21.5	23.2	20.6	29.2	27.7	29.2	32.6	34.0	35.6	36.8
Private	18.4	19.5	22.2	21.0	29.2	23.9	29.2	32.6	34.0	35.6	36.8
Public	1.4	1.9	1.0	-0.3	0.0	3.8	0.0	0.0	0.0	0.0	0.0
Capital and financial account	**31.5**	**85.2**	**61.0**	**104.3**	**110.9**	**111.0**	**110.5**	**108.3**	**111.6**	**111.5**	**106.6**
Capital account	26.8	20.9	42.8	58.0	54.8	53.9	42.8	43.3	42.4	44.0	46.0
Public capital transfers	23.8	17.8	39.7	54.7	51.2	50.1	38.9	39.2	38.2	39.6	41.4
Private capital transfers	3.0	3.1	3.2	3.2	3.6	3.8	3.9	4.1	4.3	4.4	4.7
Financial account	4.7	64.3	18.1	46.3	56.1	57.1	67.7	65.0	69.2	67.5	60.6
Public sector	-0.7	-3.8	-4.1	-5.0	-5.3	0.1	5.5	0.2	-3.9	-6.3	-11.1
Budgetary flows (net)	-0.7	-3.8	-2.1	-6.8	-6.7	-0.4	5.2	0.2	-3.9	-6.3	-11.1
Disbursements	17.4	7.8	1.5	2.4	3.1	12.0	19.2	13.9	11.4	8.8	7.0
Repayments 3/	18.1	11.5	3.6	9.1	9.7	12.4	14.1	13.7	15.3	15.1	18.1
Nonbudgetary flows (net)	0.0	0.0	-2.0	1.8	1.4	0.6	0.3	0.0	0.0	0.0	0.0
Private sector	5.4	68.1	22.2	51.3	61.4	57.0	62.3	64.8	73.1	73.8	71.7
Direct investment	27.5	32.2	28.9	60.7	59.9	30.0	37.0	46.8	57.4	62.3	65.2
Commercial banks	-26.9	21.4	-26.6	-18.8	-17.6	11.4	8.9	-2.2	-2.2	-2.4	-4.2
Other private flows	4.8	14.5	19.9	9.5	19.1	15.6	16.4	20.1	17.9	13.8	10.6
Errors and omissions	**-10.3**	**-9.7**	**13.2**	**-5.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**-25.7**	**-8.3**	**16.2**	**1.3**	**-6.7**	**-10.7**	**-0.8**	**1.0**	**3.9**	**7.1**	**2.8**
Overall financing	**25.7**	**8.3**	**-16.2**	**-1.3**	**6.7**	**10.7**	**0.8**	**-1.0**	**-3.9**	**-7.1**	**-2.8**
Net international reserves	10.3	-4.0	-14.3	0.6	5.6	3.2	-0.4	-1.4	-1.5	-1.6	-1.6
Gross reserves (increase = -)	9.4	-7.2	-16.1	3.1	2.4	4.0	0.7	1.6	2.5	1.2	-0.8
IMF reserve liabilities (purchase = +)	0.9	3.2	1.8	-2.5	3.2	-0.8	-1.1	-3.0	-4.0	-2.7	-0.8
Exceptional financing 4/	15.4	12.3	-1.9	-1.9	1.1	2.4	1.2	0.4	-2.4	-5.6	-1.2
ESF Request						**5.1**					
	(In percent of GDP)										
Current account balance	-16.5	-28.0	-18.3	-28.7	-32.3	-32.4	-28.6	-26.4	-25.3	-23.5	-22.3
Current account balance including net capital transfers	-7.1	-21.0	-4.8	-11.7	-17.2	-18.1	-17.6	-15.7	-15.4	-13.6	-12.4
Tourism receipts	21.1	18.6	21.6	18.0	17.6	12.4	12.6	14.8	16.0	17.2	18.5
Capital and financial account	11.1	28.5	19.2	30.6	30.4	29.6	28.4	26.6	26.2	25.1	22.9
Direct investment	9.6	10.8	9.1	17.8	16.4	8.0	9.5	11.5	13.5	14.0	14.0
External public debt	74.9	69.0	67.5	63.6	57.6	56.0	54.8	51.7	48.5	44.7	39.8
	(In percent of exports of goods and nonfactor services)										
External public debt service	20.7	12.6	9.7	10.6	10.8	15.7	17.1	14.5	13.8	12.5	13.2
Amortization	14.0	9.1	5.6	6.7	7.1	10.5	11.4	9.9	10.3	9.4	10.4
Interest	6.7	3.5	4.2	3.9	3.7	5.2	5.8	4.5	3.5	3.1	2.7

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

1/ Includes stores and bunkers.
2/ Projections based on WEO's baseline oil prices projections of February 2009.
3/ Data after 2005 are in post-restructuring terms.
4/ Refers to financing associated with Dominica's debt restructuring.

Table 4. Dominica: Summary Accounts of the Banking System

	2004	2005	2006	2007	2008	Proj. 2009	Proj. 2010
(In millions of Eastern Caribbean dollars, end of period)							
I. Consolidated Banking System							
Net foreign assets	**333.7**	**286.8**	**394.8**	**444.0**	**476.2**	**436.8**	**413.9**
Net domestic assets	**253.6**	**340.2**	**292.3**	**305.1**	**312.6**	**348.3**	**381.0**
Net credit to the nonfinancial public sector	23.0	15.8	-46.0	-94.2	-101.0	-104.1	-107.3
Of which							
Central government	45.6	67.3	12.0	-20.9	-17.1	-17.7	-17.7
Net credit to nonbank financial institutions	-75.9	-59.9	-68.6	-82.0	-84.6	-84.6	-84.6
Credit to the private sector	450.7	477.8	531.2	558.9	605.6	636.4	672.3
Other items (net) 1/	-137.3	-95.1	-124.8	-78.7	-108.5	-100.5	-100.5
Broad money 2/	**587.4**	**627.0**	**687.2**	**749.1**	**788.8**	**785.1**	**794.9**
II. Monetary Authorities							
Imputed net international reserves	**90.8**	**101.5**	**137.8**	**136.0**	**120.8**	**112.2**	**113.2**
Net domestic assets	**26.0**	**20.8**	**9.1**	**20.0**	**11.9**	**18.1**	**15.3**
Monetary base	**116.8**	**122.3**	**146.9**	**156.1**	**132.8**	**130.3**	**128.5**
Currency in circulation	37.6	39.0	45.4	49.0	43.9	45.3	46.9
Commercial bank reserves	79.2	83.4	101.4	107.0	88.9	85.0	81.5
III. Commercial Banks							
Net foreign assets	**242.9**	**185.3**	**257.1**	**307.9**	**355.4**	**324.7**	**300.7**
Net claims on ECCB	**73.8**	**78.4**	**99.6**	**148.7**	**90.8**	**85.0**	**81.5**
Net domestic assets	**233.1**	**324.4**	**285.1**	**243.4**	**298.7**	**330.1**	**365.8**
Net credit to the nonfinancial public sector	-10.8	-23.5	-81.2	-119.8	-125.5	-134.8	-135.1
Net credit to nonbank financial institutions	-75.9	-59.9	-68.6	-82.0	-84.6	-84.6	-84.6
Credit to the private sector	450.7	477.8	531.2	558.9	605.6	636.4	672.3
Other (net)	-130.9	-70.1	-96.3	-113.7	-96.9	-86.9	-86.9
Private sector deposits 2/	**549.8**	**588.0**	**641.7**	**700.0**	**744.9**	**739.9**	**748.0**
IV. Consolidated Banking System							
(Annual percentage change)							
Credit to the private sector	7.1	6.0	11.2	5.2	8.4	5.1	5.6
Private sector deposits	5.7	7.0	9.1	9.1	6.4	-0.7	1.1
Broad money	5.9	6.7	9.6	9.0	5.3	-0.5	1.2
(Contributions to liquidity growth) 3/							
Net foreign assets	**8.1**	**-8.0**	**17.2**	**7.2**	**4.3**	**-5.0**	**-2.9**
Net domestic assets	-2.1	14.7	-7.6	1.9	1.0	4.5	4.2
Net credit to the nonfinancial public sector	-5.1	-1.2	-9.9	-7.0	-0.9	-0.4	-0.4
Net credit to nonbank financial institutions	1.1	2.7	-1.4	-1.9	-0.4	0.0	0.0
Credit to the private sector	5.4	4.6	8.5	4.0	6.2	3.9	4.6
Other items (net)	-2.5	7.2	-4.7	6.7	-4.0	1.0	0.0
Memorandum items:							
Interest rates 4/							
Time deposit rate	4.6	4.7	5.1	5.1	4.9	…	…
Weighted average lending rate	9.8	9.9	9.2	9.2	8.9	…	…

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

1/ Includes interbank float.
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 for local currency, percent per annum.

Table 5. Dominica: Financial and External Vulnerability Indicators
(In percent of GDP, unless otherwise indicated)

	2004	2005	2006	2007	Est. 2008
Financial indicators					
Broad money (percent change, 12-month basis)	5.9	6.7	9.6	9.0	5.3
Private sector credit (percent change, 12-month basis)	7.1	6.0	11.2	5.2	8.4
Unsatisfactory assets/total loans	22.5	22.0	9.3	8.1	7.1
Provision for loan losses/total loans	7.3	5.9	2.4	2.4	1.5
Total capital/risk weighted assets (locally incorporated banks)	23.5	26.2	20.8	16.9	15.0
Tier 1 capital/risk weighted assets (locally incorporated banks)	23.0	25.8	19.1	16.0	16.5
Net Profit before taxes/average assets	1.2	0.3	1.5	0.4	0.1
Three-month treasury bill rate (end of period)	6.4	6.4	6.4	6.4	6.4
Three-month treasury bill rate (real) 1/	5.6	3.7	4.6	0.4	4.5
External indicators					
Exports of goods and nonfactor services (percent change, 12-month basis in U.S. dollars)	9.2	-2.0	10.9	-3.7	1.0
Imports of goods and nonfactor services (percent change, 12-month basis in U.S. dollars)	11.3	13.7	0.6	19.4	8.5
Current account balance	-16.5	-28.0	-18.3	-28.7	-32.3
Capital and financial account balance 2/	7.4	25.2	23.4	29.1	30.4
Reserves (in millions of U.S. dollars, end of period) 3/	33.6	37.6	51.0	50.4	44.8
Reserves to broad money (percent, end of period) 3/	15.5	16.2	20.1	18.2	15.3
Reserves to imports of goods and services (percent, end of period)	19.3	19.0	25.6	21.2	17.4
Net official reserves to short-term external debt (percent, end of period) 4/	291.4	1049.1	559.5	517.1	359.9
Public sector external debt 5/	74.9	69.0	67.5	63.6	57.6
External debt (end of period) to exports of goods and nonfactor services (percent) 5/	169.5	168.0	158.1	165.8	155.9
External interest payments to exports of goods and nonfactor services (percent) 5/	6.7	3.5	4.2	3.9	3.7
External amortization payments to exports of goods and nonfactor services (percent) 5/	14.0	9.1	5.6	6.7	7.1
Exchange rate (per U.S. dollar, end of period)	2.7	2.7	2.7	2.7	2.7
REER (end of period; depreciation -)	-3.2	-3.5	-0.6	-2.0	-1.6

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

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

Table 6. Dominica: Medium-Term Macroeconomic Framework

					Est.	Proj.					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
					(Annual percent change)						
National income and prices											
GDP at constant (1990) prices	3.0	3.3	3.8	1.8	3.2	1.1	2.0	3.0	3.0	3.0	3.0
CPI (end of period)	0.8	2.7	1.8	6.0	1.9	1.8	1.5	1.5	1.5	1.5	1.5
				(In percent of GDP, unless otherwise specified)							
Savings and investment											
Gross domestic investment	**27.3**	**28.7**	**28.9**	**31.1**	**30.9**	**23.0**	**25.0**	**28.8**	**28.8**	**28.8**	**28.8**
Public	11.4	10.9	11.0	13.4	16.0	15.3	12.9	11.7	11.4	11.3	11.3
Central government	9.4	9.1	9.8	12.3	14.9	14.3	11.8	10.6	10.3	10.3	10.3
Other public sector	2.1	1.7	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Private	15.8	17.9	17.9	17.8	15.0	7.7	12.1	17.2	17.4	17.5	17.5
Gross national savings 1/	**20.2**	**7.7**	**24.1**	**19.4**	**13.7**	**4.9**	**7.4**	**13.1**	**13.5**	**15.3**	**16.4**
Public	3.1	4.3	6.2	6.9	4.8	3.1	2.9	3.2	3.5	3.5	3.6
Central government	7.7	8.7	11.8	14.9	15.4	12.8	11.0	11.2	11.2	11.2	11.3
Other public sector	-4.6	-4.4	-5.6	-8.0	-10.6	-9.7	-8.2	-7.9	-7.7	-7.7	-7.7
Private	17.1	3.4	17.9	12.5	8.9	1.8	4.5	9.9	10.0	11.7	12.8
Savings-investment balance	**-7.1**	**-21.0**	**-4.8**	**-11.7**	**-17.2**	**-18.1**	**-17.6**	**-15.7**	**-15.4**	**-13.6**	**-12.4**
Public	-8.3	-6.6	-4.8	-6.5	-11.1	-12.1	-10.0	-8.4	-7.9	-7.8	-7.7
Private	1.3	-14.5	0.0	-5.2	-6.1	-5.9	-7.6	-7.3	-7.5	-5.8	-4.7
Central government finances 2/											
Current revenue	31.9	32.6	33.8	34.4	32.0	32.1	32.4	32.4	32.4	32.4	32.4
Capital revenue	0.3	0.2	0.1	0.1	0.0	0.5	0.1	0.1	0.1	0.1	0.1
Current expenditure	30.2	29.7	27.7	29.2	29.2	30.2	30.2	29.6	29.7	29.6	29.5
Overall balance (incl. grants) 3/	-0.8	1.2	3.6	2.2	-0.8	-1.4	0.3	0.9	0.9	1.0	1.1
Grants	5.8	7.5	7.8	11.7	12.3	9.1	9.2	8.7	8.7	8.7	8.7
Capital spending	9.0	9.7	10.6	14.8	16.0	13.0	11.1	10.6	10.5	10.5	10.5
Primary balance	4.7	6.3	5.8	4.6	1.0	1.4	3.0	3.0	3.0	3.0	3.0
Memorandum items:											
Nonfinancial public sector debt	107.8	100.6	96.0	90.9	86.9	84.5	81.4	77.6	73.9	70.1	66.5
External	74.9	69.0	67.5	63.6	57.6	56.0	54.8	51.7	48.5	44.7	39.8
Domestic	32.9	31.6	28.5	27.3	29.4	28.5	26.7	25.8	25.3	25.4	26.7

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

1/ Calculated using the external current account including net external capital transfers.
2/ Calculated on a fiscal year basis, with the figure shown relating to the fiscal year beginning in July.
3/ Does not include grants that were received but not spent, in line with IMF Country Report No. 05/384.

Table 7a.Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 2/	Standard Deviation 2/	Estimate	Projections								
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 3/	96.0	90.9	86.9			84.5	81.4	77.6	73.9	70.1	66.5		53.8	38.7	
o/w foreign-currency denominated	67.5	63.6	57.6			56.0	54.8	51.7	48.5	44.7	39.8		23.9	8.9	
Change in public sector debt	-4.6	-5.1	-4.0			-2.5	-3.0	-3.8	-3.7	-3.7	-3.7		-1.9	-1.2	
Identified debt-creating flows	3.0	7.6	11.1			11.5	4.5	3.2	3.8	4.5	3.7		4.1	4.4	
Primary deficit	-6.1	-4.9	-1.2	0.7	6.0	-1.7	-3.2	-3.1	-3.0	-3.0	-3.0	-2.8	-3.1	-3.3	-3.1
Revenue and grants	49.1	53.6	52.5			49.9	49.6	49.2	49.2	49.2	49.2		49.1	48.9	
of which: grants	7.5	11.3	12.1			9.0	9.0	8.5	8.5	8.5	8.5		8.5	8.5	
Primary (noninterest) expenditure	43.0	48.8	51.4			48.2	46.5	46.1	46.2	46.2	46.2		46.0	45.6	
Automatic debt dynamics	-3.5	-3.6	-1.3			0.7	0.0	-0.8	-0.8	-0.8	-0.7		-0.1	0.5	
Contribution from interest rate/growth differential	-3.1	-2.4	-1.0			1.2	0.7	-0.3	-0.8	-1.0	-0.9		-0.3	0.4	
of which: contribution from average real interest rate	-0.4	-0.1	0.9			2.5	2.7	2.0	1.5	1.2	1.2		1.3	1.6	
of which: contribution from real GDP growth	-2.7	-2.4	-1.9			-1.3	-2.1	-2.4	-2.3	-2.2	-2.0		-1.6	-1.2	
Contribution from real exchange rate depreciation	-0.4	-1.2	-0.3			-0.5	-0.6	-0.5	0.0	0.2	0.2		...	...	
Other identified debt-creating flows	12.6	16.1	13.5			12.5	7.6	7.2	7.6	8.3	7.3		7.3	7.3	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.6	0.6	-0.3			-0.6	-0.3	-0.1	0.5	1.2	0.3		0.0	0.0	
Other (specify, e.g. bank recapitalization)	12.1	15.5	13.8			13.1	7.9	7.3	7.1	7.1	7.1		7.3	7.3	
Residual, including asset changes	-7.5	-12.7	-15.0			-14.0	-7.5	-7.1	-7.5	-8.3	-7.3		-6.0	-5.7	
Other Sustainability Indicators															
PV of public sector debt	87.2	82.1	80.3			75.3	70.2	66.0	62.5	60.1	57.8		52.2	44.5	
o/w foreign-currency denominated	58.7	54.7	50.9			46.8	43.5	40.2	37.1	34.6	31.1		22.3	14.7	
o/w external	58.7	54.7	50.9			46.8	43.5	40.2	37.1	34.6	31.1		22.3	14.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 4/	0.6	0.7	1.4			6.4	4.3	3.1	2.6	1.4	1.3		-0.5	-0.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	177.4	153.0	152.8			150.8	141.4	134.2	127.0	122.1	117.5		106.3	91.0	
PV of public sector debt-to-revenue ratio (in percent)	209.4	193.9	198.6			183.8	172.5	162.3	153.6	147.7	142.0		128.5	110.0	
o/w external 5/	140.9	129.3	125.9			114.2	107.0	98.8	91.3	85.1	76.4		54.9	36.3	
Debt service-to-revenue and grants ratio (in percent) 6/	13.7	10.5	4.9			16.2	15.1	12.6	11.3	9.0	8.7		5.2	5.8	
Debt service-to-revenue ratio (in percent) 6/	16.2	13.3	6.3			19.7	18.4	15.2	13.7	10.9	10.6		6.3	7.1	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.6	0.2	2.8			0.8	-0.1	0.7	0.7	0.7	0.7		-1.2	-2.1	
Average nominal interest rate on forex debt (in percent)	2.7	2.1	2.4	3.5	1.2	3.4	3.3	2.3	2.3	2.2	2.2	2.6	2.5	5.4	3.3
Average real interest rate on domestic debt (in percent)	-0.2	1.1	3.0	1.3	1.6	3.9	4.2	4.2	4.3	4.3	4.3	4.2	4.3	4.4	4.3
Real exchange rate depreciation (in percent, + indicates depreciat	-0.6	-1.8	-0.5	-0.4	1.1	-0.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.9	4.5	2.7	2.6	1.3	1.8	1.6	1.5	1.5	1.5	1.5	1.6	1.5	1.5	1.5
Growth of real primary spending (deflated by GDP deflator, in perc	0.0	0.2	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	30.9	30.9	30.9	30.9	30.9	30.9	30.9	30.9	30.9	...

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

1/ Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.
2/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
3/ Nonfinancial public sector.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
5/ Revenues excluding grants.
6/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 7b.Dominica: Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	75	70	66	62	60	58	52	44
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	75	75	76	78	80	83	106	169
A2. Primary balance is unchanged from 2009	75	72	69	67	65	64	65	71
A3. Permanently lower GDP growth 1/	75	71	67	65	64	63	68	100
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	75	75	78	78	79	80	92	119
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	75	79	85	81	79	76	70	62
B3. Combination of B1-B2 using one half standard deviation shocks	75	79	84	83	83	83	89	105
B4. One-time 30 percent real depreciation in 2010	75	90	85	81	78	76	72	67
B5. 10 percent of GDP increase in other debt-creating flows in 2010	75	79	75	71	70	68	69	87
PV of Debt-to-Revenue Ratio 2/								
Baseline	151	141	134	127	122	117	106	91
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	151	151	154	156	161	166	207	318
A2. Primary balance is unchanged from 2009	151	144	140	135	133	131	132	145
A3. Permanently lower GDP growth 1/	151	143	137	132	129	127	137	200
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	151	150	156	155	158	160	185	239
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	151	160	172	165	160	155	143	126
B3. Combination of B1-B2 using one half standard deviation shocks	151	158	168	166	166	166	180	212
B4. One-time 30 percent real depreciation in 2010	151	181	172	164	159	155	147	138
B5. 10 percent of GDP increase in other debt-creating flows in 2010	151	159	152	145	141	138	141	179
Debt Service-to-Revenue Ratio 2/								
Baseline	16	15	13	11	9	9	5	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	16	15	13	13	11	11	15	32
A2. Primary balance is unchanged from 2009	16	15	13	12	9	9	8	12
A3. Permanently lower GDP growth 1/	16	15	13	12	9	9	7	17
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	16	16	14	13	11	11	12	24
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	16	15	13	13	11	10	13	11
B3. Combination of B1-B2 using one half standard deviation shocks	16	15	14	13	11	11	14	21
B4. One-time 30 percent real depreciation in 2010	16	17	17	15	13	13	11	13
B5. 10 percent of GDP increase in other debt-creating flows in 2010	16	15	14	14	12	12	23	42

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.
2/ Revenues are defined inclusive of grants.

Table 7c.: Dominica: External Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise

	Actual			Historical	Standard	Projections									
	2006	2007	2008	Average 1/	Deviation 1/	2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 2/	**67.5**	**63.6**	**57.6**			**56.0**	**54.8**	**51.7**	**48.5**	**44.7**	**39.8**		**23.9**	**8.9**	
o/w public and publicly guaranteed (PPG)	67.5	63.6	57.6			56.0	54.8	51.7	48.5	44.7	39.8		23.9	8.9	
Change in external debt	-1.5	-3.9	-6.0			-1.6	-1.2	-3.0	-3.2	-3.8	-4.9		-3.0	-0.6	
Identified net debt-creating flows	4.5	6.1	12.6			23.1	17.3	13.0	9.6	6.9	5.8		6.1	3.8	
Non-interest current account deficit	**15.8**	**26.4**	**30.4**	**18.2**	**7.6**	**29.9**	**26.2**	**24.5**	**23.7**	**21.9**	**20.9**		**21.0**	**18.8**	20.4
Deficit in balance of goods and services	17.9	29.1	32.8			32.3	28.7	27.2	26.3	25.2	24.0		22.3	17.6	
Export	42.7	38.4	36.9			31.0	31.0	33.1	34.1	35.2	36.4		39.6	44.1	
Import	60.5	67.4	69.7			63.3	59.7	60.2	60.4	60.4	60.4		61.9	61.7	
Net current transfers (negative = inflow)	-7.0	-5.8	-7.9	-6.5	0.8	-7.2	-7.3	-7.8	-7.8	-7.8	-7.7		-6.2	-4.0	-5.5
o/w official	-0.3	0.1	0.0			-1.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other current account flows (negative = net inflow)	5.0	3.2	5.5			4.9	4.8	5.2	5.2	4.6	4.6		5.0	5.1	
Net FDI (negative = inflow)	**-8.8**	**-17.2**	**-16.2**	**-9.7**	**4.8**	**-7.9**	**-9.3**	**-11.2**	**-13.7**	**-14.7**	**-14.7**		**-14.9**	**-15.2**	-14.9
Endogenous debt dynamics 3/	**-2.6**	**-3.2**	**-1.5**			**1.0**	**0.4**	**-0.3**	**-0.4**	**-0.4**	**-0.3**		**-0.1**	**0.2**	
Contribution from nominal interest rate	1.8	1.3	1.4			1.9	1.8	1.2	1.1	1.0	0.9		0.7	0.5	
Contribution from real GDP growth	-1.8	-1.6	-1.3			-0.9	-1.3	-1.6	-1.5	-1.4	-1.3		-0.8	-0.3	
Contribution from price and exchange rate changes	-2.6	-2.9	-1.7			…	…	…	…	…	…		…	…	
Residual (3-4) 4/	**-6.0**	**-9.9**	**-18.7**			**-24.7**	**-18.5**	**-16.0**	**-12.8**	**-10.7**	**-10.8**		**-9.0**	**-4.4**	
o/w exceptional financing	0.6	0.6	-0.3			-0.6	-0.3	-0.1	0.5	1.2	0.3		0.7	-0.1	
PV of external debt	...	...	50.9			46.8	43.5	40.2	37.1	34.6	31.1		22.3	14.7	
In percent of exports	...	...	137.8			150.7	140.3	121.5	108.9	98.3	85.4		56.2	33.2	
PV of PPG external debt	**...**	**...**	**50.9**			**46.8**	**43.5**	**40.2**	**37.1**	**34.6**	**31.1**		**22.3**	**14.7**	
In percent of exports	**...**	**...**	**137.8**			**150.7**	**140.3**	**121.5**	**108.9**	**98.3**	**85.4**		**56.2**	**33.2**	
In percent of government	**...**	**...**	**125.9**			**114.2**	**107.0**	**98.8**	**91.3**	**85.1**	**76.4**		**54.9**	**36.3**	
Debt service-to-exports ratio (in percent)	**9.7**	**11.2**	**10.5**			**19.4**	**15.1**	**13.8**	**12.4**	**10.5**	**13.0**		**6.9**	**3.1**	
PPG debt service-to-exports ratio (in percent)	**9.7**	**11.2**	**10.5**			**19.4**	**15.1**	**13.8**	**12.4**	**10.5**	**13.0**		**6.9**	**3.1**	
PPG debt service-to-revenue ratio (in percent)	**10.0**	**10.1**	**9.6**			**14.7**	**11.5**	**11.2**	**10.4**	**9.1**	**11.7**		**6.8**	**3.3**	
Total gross financing need (Millions of U.S. dollars)	36.9	47.7	66.8			107.5	86.1	74.3	61.8	49.9	52.0		53.0	45.8	
Non-interest current account deficit that stabilizes debt ratio	17.4	30.3	36.4			31.6	27.4	27.6	26.9	25.7	25.8		24.0	19.4	
Key macroeconomic assumptions															
Real GDP growth (in percent)	2.8	2.5	2.1	0.9	2.8	1.6	2.5	3.0	3.0	3.0	3.0	2.7	3.0	3.0	3.0
GDP deflator in US dollar terms (change in percent)	3.9	4.5	2.7	2.6	1.3	1.8	1.6	1.5	1.5	1.5	1.5	1.6	1.5	1.5	1.5
Effective interest rate (percent) 6/	2.7	2.1	2.4	3.5	1.2	3.4	3.3	2.3	2.3	2.2	2.2	2.6	2.5	5.4	3.3
Growth of exports of G&S (US dollar terms, in percent)	10.9	-3.7	1.0	-0.7	8.2	-13.2	4.0	11.5	7.9	8.1	8.0	4.4	5.7	5.7	5.9
Growth of imports of G&S (US dollar terms, in percent)	0.6	19.4	8.5	4.5	8.9	-6.1	-1.8	5.4	4.8	4.6	4.5	1.9	4.5	4.6	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	30.9	30.9	30.9	30.9	30.9	30.9	30.9	30.9	30.9	30.9
Government revenues (excluding grants, in percent of GDP)	41.6	42.3	40.4			40.9	40.7	40.7	40.7	40.7	40.7		40.6	40.4	40.5
Aid flows (in Millions of US dollars) 6/	24.7	39.9	44.8			34.3	35.7	35.4	37.0	38.7	40.5		50.4	78.3	
o/w Grants	24.7	39.9	44.8			34.3	35.7	35.4	37.0	38.7	40.5		50.4	78.3	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 7/	...	...	...			9.4	9.4	9.0	9.0	9.0	9.0		9.0	8.9	8.9
Grant-equivalent financing (in percent of external financing) 7/	...	...	...			90.1	90.1	89.6	89.6	89.6	89.6		89.6	89.6	89.6
Memorandum items:															
Nominal GDP (Millions of US dollars)	329.1	352.7	370.0			382.5	398.1	416.2	435.1	454.9	475.6		594.0	926.4	
Nominal dollar GDP growth	6.8	7.2	4.9			3.4	4.1	4.5	4.5	4.5	4.5	4.3	4.5	4.5	4.5
PV of PPG external debt (in Millions of US dollars)			188.3			178.8	173.2	167.2	161.7	157.6	147.8		132.3	135.8	
(PVt-PVt-1)/GDPt-1 (in percent)						-2.6	-1.5	-1.5	-1.3	-0.9	-2.1	-1.7	-0.6	0.4	-0.2

Source: Staff

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1/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
2/ Only Includes public sector external debt.
3/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
4/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
5/ Assumes that PV of private sector debt is equivalent to its face value.
6/ Current-year interest payments divided by previous period debt stock.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 7d.Dominica: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	47	44	40	37	35	31	**22**	15
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	47	36	29	25	23	21	**19**	44
A2. New public sector loans on less favorable terms in 2009-2029 2	47	44	41	38	36	33	**26**	22
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	47	45	44	41	38	34	**24**	16
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	47	47	51	48	45	42	**33**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	47	44	40	37	35	31	**22**	15
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	47	48	52	49	46	43	**34**	22
B5. Combination of B1-B4 using one-half standard deviation shocks	47	50	60	56	54	50	**40**	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	47	62	57	53	49	44	**32**	21
PV of debt-to-exports ratio								
Baseline	151	140	122	109	98	85	**56**	33
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	151	117	88	72	65	58	**48**	99
A2. New public sector loans on less favorable terms in 2009-2029 2	151	142	124	112	103	91	**66**	50
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	151	140	122	109	98	85	**56**	33
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	151	172	216	197	180	161	**116**	67
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	151	140	122	109	98	85	**56**	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	151	156	157	143	131	117	**85**	49
B5. Combination of B1-B4 using one-half standard deviation shocks	151	171	218	200	184	166	**123**	71
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	151	140	122	109	98	85	**56**	33
PV of debt-to-revenue ratio								
Baseline	114	107	99	91	85	76	**55**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	114	89	71	60	56	52	**47**	108
A2. New public sector loans on less favorable terms in 2009-2029 2	114	108	101	94	89	81	**64**	55
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	114	112	108	100	93	84	**60**	40
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	114	115	125	118	112	103	**81**	53
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	114	107	99	92	86	77	**55**	36
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	114	119	128	120	114	105	**83**	54
B5. Combination of B1-B4 using one-half standard deviation shocks	114	123	147	139	132	123	**99**	64
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	114	152	140	130	121	108	**78**	51
Debt service-to-exports ratio								
Baseline	19	15	14	12	11	13	**7**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	19	15	13	11	9	12	**7**	5
A2. New public sector loans on less favorable terms in 2009-2029 2	19	15	14	12	11	13	**7**	4
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	19	15	14	12	11	13	**7**	3
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	19	17	20	19	16	20	**11**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	19	15	14	12	11	13	**7**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	19	15	14	14	12	14	**8**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	19	17	18	18	16	19	**11**	7
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	19	15	14	12	11	13	**7**	3
Debt service-to-revenue ratio								
Baseline	15	12	11	10	9	12	**7**	3
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	15	12	11	10	8	11	**7**	6
A2. New public sector loans on less favorable terms in 2009-2029 2	15	12	11	10	9	12	**7**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	15	12	12	11	10	13	**7**	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	15	12	12	12	10	13	**8**	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	15	12	11	10	9	12	**7**	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	15	12	12	12	10	13	**8**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	15	12	12	13	11	14	**9**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	15	16	16	15	13	17	**10**	5

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in th
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level afte
(implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

Table 8. Dominica: Indicators of Capacity to Repay the Fund, 2008–14 1/

		Projections					
	2008	2009	2010	2011	2012	2013	2014
Fund obligations based on existing credit							
(in millions of SDRs)	0.1	0.6	0.8	1.9	2.6	1.8	1.1
Principal	0.0	0.5	0.7	1.8	2.6	1.8	1.0
Charges and interest	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Fund obligations based on existing and prospective credit							
(in millions of SDRs)	0.1	0.6	0.8	1.9	2.6	1.8	1.1
Principal	-	0.5	0.7	1.8	2.6	1.8	1.0
Charges and interest	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Total obligations based on existing and prospective credit							
In millions of U.S. dollars 2/	0.2	0.9	1.2	3.0	4.1	2.9	1.7
In percent of exports of goods and services	0.1	0.8	1.0	2.2	2.8	1.8	1.0
In percent of debt service 3/	1.0	4.9	5.9	15.0	20.0	14.2	7.3
In percent of GDP	0.0	0.2	0.3	0.7	1.0	0.6	0.4
In percent of quota	1.2	7.1	9.8	23.4	32.0	22.3	13.0
In percent of net international reserves	0.3	1.8	2.4	5.0	6.1	3.8	2.0
Outstanding Fund credit 3/							
In millions of U.S. dollars 2/	15.2	19.5	18.4	15.5	11.5	8.7	7.1
In percent of exports of goods and services	11.1	16.4	14.9	11.3	7.8	5.4	4.1
In percent of debt service 3/	102.9	104.7	86.9	78.0	56.3	43.4	31.1
In number of months of imports of goods	1.0	1.3	1.3	1.0	0.7	0.5	0.4
In percent of GDP	4.2	5.2	4.7	3.8	2.7	2.0	1.5
In percent of quota	118.8	152.7	143.9	121.5	90.1	68.3	55.6
In percent of net international reserves	33.9	46.9	43.8	35.8	25.7	18.8	14.8
Net use of Fund credit (millions of SDRs)	2.1	2.8	-0.7	-1.8	-2.6	-1.8	-1.0
Disbursements	2.1	3.3	-	-	-	-	-
Repayments and Repurchases	-	0.5	0.7	1.8	2.6	1.8	1.0
Memorandum items:							
Nominal GDP (in millions of U.S. dollars)	364.4	375.6	389.3	407.0	425.5	444.8	465.0
Exports of goods and services (in millions of U.S. dollars)	136.7	118.6	123.4	137.6	148.4	160.3	173.2
External debt service (in millions of U.S. dollars) 3/	14.7	18.6	21.2	19.9	20.4	20.1	22.8
Imports of goods (in millions of U.S. dollars)	188.6	177.1	173.9	183.3	192.1	200.9	210.1
Net imputed international reserves (in millions of U.S. dollars)	44.8	41.5	41.9	43.3	44.8	46.4	48.0

Sources: IMF staff estimates and projections.

1/ Assumes RAC-ESF access in an amount of SDR 3.28 million (40 percent of quota).
2/ US$1 = 0.642008 SDR (as of June 1, 2009)
3/ Including prospective repurchases/repayments.

Attachment: Letter of Intent

June 26, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. Strauss-Kahn,

Dominica has been adversely affected by the global downturn and turmoil in international financial markets, compounding the economic difficulties that resulted from two hurricane strikes in the last two years. Preliminary data suggest that there has been a steep decline in tourism receipts during the first four months of 2009 and tourist arrivals are projected to decline by 15 percent in 2009 compared with the same period last year. In addition, discounting of hotel room rates and lower spending by visitors would raise the loss in tourism receipts to about US$18 million (3.6 percent of GDP). Family remittances have also declined sharply with the downturn in the United States and neighboring Caribbean countries where Dominicans have migrated, and major private sector projects have been put on hold, reducing FDI inflows by about one half. As a result, real output growth is projected at about 1 percent this year despite ongoing post-hurricane reconstruction. The external current account deficit will likely remain very high despite the fall in international fuel prices, as tourism receipts fall and reconstruction imports continue to increase.

Immediate relief has already been provided to those affected by the most recent natural disasters, and repairs to damaged infrastructure are progressing smoothly. Dominica has received concessional resources from the Caribbean Development Bank to repair and strengthen sea defenses, while China and Venezuela have also provided financial assistance to help rehabilitate damaged infrastructure. However, this financial assistance is not sufficient to offset the negative effects of the decline in tourism receipts and FDI on Dominica's external accounts. Accordingly, the Government of Dominica requests a purchase equivalent to SDR 3.28 million (40 percent of quota) under the rapid-access component of the Fund's Exogenous Shocks Facility. The purchase would help meet the immediate foreign exchange needs stemming from the decline of export receipts and weaker capital account flows, thereby easing pressure on our external reserves.

The Government is dealing with the effects of the crisis on several fronts. We have offered financial assistance to hotels affected by hurricane Omar and import duty concessions on capital items used in the rehabilitation of these properties , and are exploring alternatives to compensate for the loss of airlift, including through ferry services. We have also accelerated the implementation of capital projects to ameliorate the unemployment impact, and have increased social spending to protect the most vulnerable groups. To facilitate this, the Government has reallocated expenditure to supplement the outlays financed by external concessional resources. Our economic recovery strategy, aimed at fostering private sector growth by improving the business climate and enhancing critical infrastructure, will facilitate an improvement in social and economic performance when external conditions turn around.

The temporary expenditure increases needed to ease the economic effects of natural disasters and, more recently, of the global slowdown have caused a deterioration in Dominica's fiscal position. The primary fiscal surplus is estimated to have declined to 1 percent of GDP in the 2008/09 fiscal year, although it is likely to recover modestly to 1½ percent of GDP in FY 2009/10. We will continue to target, in subsequent years, annual primary surpluses of at least 3 percent of GDP, with a view, within a period of time, to reducing the public debt -to-GDP ratio to 60 percent in line with regionally and internationally accepted prudential limits. The Government will stay current in all debt-service payments to creditors and continue to make good-faith efforts to conclude debt restructuring arrangements with the few remaining hold-out creditors.

The revised Growth and Social Protection Strategy (GSPS) remains at the heart of Government's medium-term economic policies, aimed at pursuing structural reforms to foster economic growth and reduce poverty, while reducing public debt. The policies focus on maintaining prudent fiscal policy to keep the public debt ratios on a downward trajectory, strengthening oversight of the financial sector, and undertaking structural reforms to help reactivate the economy, and better targeting of social assistance. The Government remains committed to fiscal structural reforms, including strengthening tax administration and maintaining the integrity of the value added tax, while implementing the third phase of ongoing income tax reform. Implementation of the Financial Services Unit (FSU) Act will provide a uniform supervisory framework for nonbank financial institutions that would help reduce risks in the financial system. Several projects in the GSPS will help to improve the competitiveness of Dominica as a premier tourist destination, including enhancing air and sea access and improving access to tourism sites. Meanwhile, with the assistance of the European Union (EU), the government is developing a programme to improve the competitiveness of the economy by addressing constraints identified in the World Bank Doing Business Report. Social safety nets will be strengthened including through the World Bank-financed enhanced registry of beneficiaries.

We are confident that the international financial community will support our efforts to restore economic growth and reduce poverty. We look forward to an early approval by the Fund of funding from the exogenous shocks facility, and to accelerated and increased financial and technical assistance from other donors, in particular the EU, the Caribbean Development Bank, the World Bank, and governments.

The Government will continue to cooperate with the Fund in an effort to strengthen Dominica's balance of payments and maintain economic stability. The Government does not intend to impose new or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new or intensify existing trade restrictions for balance of payments purposes, or enter into bilateral payments agreements which are inconsistent with Article VIII of the Fund's Articles of Agreement.

Sincerely yours,

/s/

HON. ROOSEVELT SKERRIT
PRIME MINISTER AND MINISTER
FOR FINANCE AND SOCIAL SECURITY

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FOR IMMEDIATE RELEASE
July 13, 2009

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$5.1 Million Disbursement for Dominica Under the Exogenous Shocks Facility

The Executive Board of the International Monetary Fund today approved a disbursement in an amount equivalent to SDR 3.28 million (about US$5.1 million) to Dominica under the rapid-access component of the Exogenous Shocks Facility (ESF).

Following extensive damage to crops and infrastructure from two hurricane strikes in 2007-08, Dominica's economy has been further affected by the global downturn. Over the past year, tourism earnings, FDI inflows and remittances have fallen sharply, leading to slower growth and a weaker external current account. IMF financing would help limit the decline in Dominica's external reserves, including by catalyzing support from the international donor community.

Following the Executive Board discussion, Mr. Murilo Portugal Deputy Managing Director and Acting Chair, issued the following statement:

"Following the damage to crops and infrastructure from two hurricanes in 2007–08, the Dominican economy has been further affected by the global downturn. Tourism earnings, FDI inflows, and remittances have been reduced significantly, leading to slower growth and a weaker external current account.

"The authorities are dealing with the effects of the exogenous shocks on several fronts. These include post-hurricane rehabilitation, accelerated implementation of capital projects to contain unemployment, and increased social spending to protect the most vulnerable groups. A temporary increase in public expenditure was needed to ease the economic effects of natural disasters and, more recently, of the global slowdown.

"The authorities are responding appropriately to this deterioration in the fiscal position. They plan a modest recovery in FY 2009/10, and have reiterated their commitment to target, in subsequent years, annual primary surpluses of at least 3 percent of GDP so as to place the still-high public debt on a robustly downward trajectory. This can be achieved by further prioritizing capital projects and financing these projects largely with external concessional resources. The government intends to continue to move towards adopting a medium term expenditure framework to improve the predictability of capital expenditure and its consistency with the medium-term fiscal objectives. Efforts to reduce debt-related vulnerabilities and weaknesses in the nonbank financial sector are also planned to continue.

"In the near term, Fund financing will help reduce the decline in external reserves and catalyze support from the international donor community to help mitigate the exogenous shocks. Over the medium term, the government's economic recovery strategy will improve the business climate and critical infrastructure, so as to place the economy on a path of higher growth and poverty reduction," Mr. Portugal said.

Statement by Michael Horgan, Executive Director for Dominica, and Glenn Purves, Senior Advisor

July 10, 2009

My Dominican authorities express their appreciation to management and the staff for their ongoing constructive engagements and support during these turbulent times.

The Challenges Facing Dominica

As with many other Eastern Caribbean Islands, Dominica has faced tremendous challenges over the past period that has impacted all sectors of its economy. The damage caused by Hurricane Dean in 2007 to Dominica's agricultural sector was consequential, while tourism, fishing, and important coastal infrastructure was greatly impacted by Hurricane Omar in 2008. Overlaying and compounding these challenges has been the global economic downturn with adverse effects on Dominica's tourism receipts, remittances and FDI inflows.

The overall damage of Hurricane Dean alone was estimated by ECLAC/UNDP at nearly 20 percent of GDP, and in February 2008 the Board graciously approved the Dominican authorities' request for a purchase equivalent to SDR 2.05 million (25 percent of quota) under the Fund's policy of Emergency Assistance for Natural Disasters (ENDA). At that time, several members of the donor community also responded immediately to help meet these priorities. The authorities have asked that I convey their sincere gratitude to the Fund and the donor community for assisting in that recovery.

Nevertheless, it is now expected that Hurricane Omar has raised the combined cost of the natural disasters to roughly 35 percent of GDP, nearly US$130 million.

The Authorities' Response and Request

The authorities continue to reallocate expenditures and have aggressively implemented a two-pronged strategy for dealing with the crisis. First, with the assistance of donors, they are repairing critical infrastructure (roads, bridges, and seawalls) and providing assistance to those who suffered abrupt losses in earnings. Secondly, they have revised and updated the country's medium-term Growth and Social Protection Strategy (GSPS) which have served as an important basis for engaging multilateral agencies and the donor community. A legacy from Dominica's successful PRGF-supported program which ended in 2006, the focus of the GSPS is to maintain prudent fiscal policy to keep public debt ratios on a downward trajectory, strengthen oversight of the financial sector, undertake important structural reforms, and target social assistance more effectively.

Notwithstanding these efforts that are given fuller attention below, the authorities are acutely aware of the near-term foreign exchange needs stemming from the decline of export receipts and weaker capital account flows that are negatively impacting Dominica's external account (notably as tourism receipts have fallen as reconstruction imports have risen). The overall deficit in the balance of payments, therefore, is projected to rise to US$10.7 million in 2009, with an external financing gap of about US$ 8million. Given their past positive experiences with the Fund and the importance of easing pressure on the external position of the country, the Government of Dominica is requesting a purchase equivalent to SDR 3.28 million (40 percent of quota) under the rapid-access component of the Fund's Exogenous Shock Facility.

Economic Outlook

Despite damage to agriculture caused by Hurricane Dean, particularly to bananas, Dominica still managed to exceed expectations and posted GDP growth of 3 percent in 2008. However, the combination of damage from both hurricanes and the global economic downturn is expected to pull GDP growth down again, and preliminary estimates suggest that GDP growth will come in at around 1 percent in 2009.

Looking forward, the authorities expect the economy to rebound in 2010 and to achieve roughly 2 percent growth. Nevertheless, as with many islands in the region, the risks remain on the downside as this forecast is predicated on achieving global economic recovery at the end of 2009 and strengthening tourism receipts and FDI flows.

Inflation is expected to remain modest at 2 percent, but as the staff report notes, could be subject to volatility depending on the direction of commodity prices.

Fiscal Position

The authorities recognize the importance of taking immediate action to offset the adverse effects of the crisis, and have responded by offering assistance to hotels, and have focused on critical capital projects that are intended to have a lasting economic impact while reinforcing the Island's defences against natural disasters. While these measures have required necessary additional expenditure outlays, and in spite of the challenges facing Dominica's fiscal framework, the authorities still intend to post a primary fiscal surplus of 1.5 percent in 2009/10 (compared to an estimated primary fiscal surplus of 1 percent in 2008/09). The ability to post this surplus was also, in part, attributed to higher-than-expected revenues from VAT and import duties as imports for hurricane rehabilitation surged. The authorities have since offered import duty concessions on capital items used in rehabilitating the properties, but as the staff report rightly notes, have eschewed the broad incentives packages for tourism in favour of holding course with the government's economic recovery strategy, focusing on improving the business climate and enhancing critical infrastructure.

Moving forward, the authorities remain committed to the fiscal target of a primary surplus of 3 percent of GDP, and underpinning this target is the objective of bringing the public debt-to-GDP ratio to 60 percent, in line with regional initiatives to reach that level by 2020. The guiding principle for the authorities is that a low debt ratio provides for further fiscal flexibility needed to cope with exogenous shocks. Their track record over the past five years of reducing the debt-to-GDP ratio from 128 percent in 2003 to about 87 percent in 2008 is a testament to their commitment to reach 60 percent, four years ahead of schedule (in 2016). In achieving this, they will seek to bring capital expenditures back to historical levels as rehabilitation work tapers off, improve the targeting of social assistance to the most vulnerable, and contain the wage bill at 12 percent of GDP. Tourism-related infrastructure, including enhanced air access to the country and roads to tourist attractions, will continue to be largely financed through concessional resources, to ensure sustainability of public debt. The authorities are also committed to remaining current on all debt service payments. They also intend to continue with their good faith efforts toward collaborative debt restructuring agreements with the few remaining holdout creditors.

Structural Reforms

Implementation of structural reforms has continued after the expiration of the PRGF arrangement, as the authorities attach great importance to achieving faster economic growth and lower poverty levels. A central pillar of the GSPS is to enhance competitiveness by expanding the role of the private sector in raising and sustaining growth. The authorities' approach is to address constraints identified in the World Bank index of doing business (continue to see improvements in their ranking) by reducing the costs of doing business, addressing infrastructure constraints, and improving contract enforcement and land registration. The authorities are utilizing EU funding to develop a program to address these constraints. In addition, to assist with cost planning, the authorities will continue to move towards a medium-term expenditure framework to enhance their ability to forecast capital expenditures to maintain consistency with their medium-term fiscal objectives.

On the financial services side, Dominica's banking sector has seen a sharp drop in non-performing loans along with a decline in their capital to risk-weighted assets from 23.5 percent in 2004 to roughly 15 percent in 2008. However, the capital adequacy ratio remains roughly double the ECCU minimum requirement of 8 percent. The authorities continue to monitor developments in the non-bank financial sector, and along with other islands, are working with the ECCB to improve the regulatory regime for non-banks. At the heart of these efforts is the need to strengthen the Financial Services Unit (FSU), the agency that is responsible for enforcing the new legislation (the FSU Act) which is intended to limit excessive risk taking by insurance companies. The authorities are also monitoring developments with CL Financial Insurance subsidiaries and are pursuing a regional approach to resolve this matter.

Conclusion

The financing that the Fund could provide would make a valued contribution to Dominica's rehabilitation effort alongside additional funds from other sources. Under these circumstances, the authorities would greatly appreciate a favourable response by the Board to their request for emergency assistance in the amount of 40 percent of quota under the rapid-access component of the Fund's Exogenous Shock Facility.