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Dominica: First Review Under the Stand-By Arrangement and Requests for Extension of the Arrangement and for Waiver of Performance Criteria—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Dominica

In the context of the first review under the Stand-By Arrangement and requests for extension of the arrangement and for waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the first review under the Stand-By Arrangement and requests for extension of the arrangement and for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **June 12, 2003,** with the officials of Dominica on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 11, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **July 25, 2003** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its July 25, 2003 discussion** of the staff report that completed the requests and review.

- 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.

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

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INTERNATIONAL MONETARY FUND

DOMINICA

First Review Under the Stand-By Arrangement and Requests for Extension of the Arrangement and for Waiver of Performance Criteria

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

Approved by Ranjit Teja and Matthew Fisher

July 11, 2003

- **Stand-By Arrangement.** A 12-month arrangement for SDR 3.3 million (40 percent of quota) was approved by the Executive Board on August 28, 2002. The first credit tranche amounting to SDR 2.1 million (25 percent of quota) was made available upon approval. The program subsequently went off-track, and no further purchases have been made.

- **Recent Developments.** Economic activity continues to decline. Most performance criteria for end-December 2002 and indicative targets for end-March 2003 were not observed and the public sector continued to accumulate arrears. Most structural benchmarks were also not observed, and the program has been seriously off track since late 2002. Given the risks of an emerging budgetary financing crisis, the authorities have strengthened their policy framework and the budget for the FY 2003/04 includes measures equivalent to 2½ percent of GDP. The required budgetary support of US$22½ million has been secured from donors and multilateral institutions to close the financing gap.

- **Revised Letter of Intent.** Given the deteriorating situation, the authorities have committed to a strengthened policy framework to be implemented in two stages. In the first phase, to be implemented under the SBA that is proposed to be extended by six months, the emerging budgetary financing crisis is dealt with through a mix of policy adjustment measures and donor financing. In the second phase, expected to begin in early 2004, a more comprehensive reform program to foster growth and ensure debt sustainability is being developed in the context of a successor PRGF arrangement.

- **Discussions**. These took place in Roseau and Washington during March 14–25, May 12–13, May 19-30, and June 9–12, 2003. The staff met with Prime Minister Charles, Deputy Prime Minister Savarin, Director General Lestrade, ECCB Governor Venner and other senior officials and private sector representatives, including the main unions. The staff team comprised, at different times, A. Santos (Head), A. Salehizadeh, R. Randall, S. Eble (all WHD), M. Shannon (PDR), and R. Fonseca (WHD-Assistant). J. Guzman (WHD) led the mission in March. I. Bennett (Executive Director) and C. Faircloth (OED) attended the policy meetings in the March and May missions. World Bank and Caribbean Development Bank staff participated in the discussions.

- **Publication**. The authorities will allow publication of the staff report.

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I. RECENT DEVELOPMENTS

1. **A 12-month Stand-By Arrangement was approved last August to help Dominica deal with external shocks, rising public debt, and a prolonged economic downturn.** Dominica's growth, which averaged 2½ percent over the 1990's, has turned negative in recent years reflecting shocks to its key exports (tourism and bananas), contributing to a deterioration in its fiscal position. A stabilization program in the context of the FY 2002/03 budget was adopted with the aim of restoring order to the public finances, regaining sustainable growth, and reducing poverty. The program was supported by the international community, including through a one-year IMF stand by arrangement.

2. **However, macroeconomic outcomes have been considerably weaker than anticipated.** GDP fell by 4¾ percent in 2002 against a program projection of a ½ percent decline, reflecting lower exports and tourism receipts, as well as an unforeseen sharp decline in private and public investment. Lower exports were mainly due to a decline in nonbanana exports (which mostly consist of tourism-related products). The shortfall in public sector investment owed largely to institutional bottlenecks resulting in slow implementation of the public sector investment program. An output gap of over 10 percent has pushed inflation down to just ½ percent.

Dominica: Key Macroeconomic Indicators, 2001-02

	2001	2002 Prog.	2002 Est.
	(In percent)		
GDP growth	-4.2	-0.5	-4.7
Inflation	1.9	2.0	0.5
Current account / GDP	-18.1	-12.6	-15.0
Travel receipts (mn US$)	46.3	48.2	44.2
	(In percent of GDP, fiscal year)		
Primary savings (excl. grants)	0.7	2.6	-1.6
Primary balance (excl. grants)	-3.1	0.0	-1.4
Overall fiscal balance	-8.2	-5.8	-7.1
Public debt	104.6	103.4	110.6

Sources: Dominican authorities; and Fund staff estimates.

3. **Fiscal consolidation efforts were only partly successful due to weaker than expected economic conditions and policy slippages.** Despite higher grants and lower capital spending the overall fiscal deficit in 2002/03 is likely to exceed the target by some 1½ percent of GDP. A more telling measure of underlying fiscal performance is the primary savings before grants, which excludes capital spending that is subject to high volatility. This fiscal measure shows a much larger deviation of over 4 percent of GDP with respect to the targeted level. As noted at the bottom of the adjacent table, the deviation is explained by both cyclical factors and the failure to implement planned

Dominica: Fiscal Developments, 2001-03
(In percent of GDP)

	2001/02	2002/03 Prog.	2002/03 Est.	2002/03 Difference
Revenues (excluding grants)	27.7	28.9	28.2	-0.6
- Non-interest current spending	26.9	26.3	29.8	3.5
= Primary savings	**0.7**	**2.6**	**-1.6**	**-4.2**
+ Grants	1.7	3.3	4.7	1.4
- Interest payments	5.2	5.8	5.7	-0.1
- Capital spending	5.5	5.9	4.6	-1.3
= Overall balance	**-8.2**	**-5.8**	**-7.1**	**-1.3**
Memorandum items:				
Primary savings	...	2.6	-1.6	-4.2
Measures	...	3.5	2.3	-1.2
Cyclical factors	...	-0.9	-3.9	-3.0

Sources: Ministry of Finance; and Fund staff estimates.

measures to hold down the wage bill. As a result arrears have accumulated rapidly.[1]

4. **Reflecting these pressures, the stand-by arrangement has been off track since late 2002.** Most performance criteria for end-December 2002 and indicative targets for end-March 2003 were missed, as were most structural benchmarks through end-June 2003, especially in the fiscal area (Tables 1–2). The weak performance on the structural side reflects a combination of implementation capacity constraints, as well as problems in securing the necessary political backing to undertake the scheduled reforms.

II. Revised Program

5. **The authorities are responding to these developments with a strengthened program and a two-stage strategy for stabilization and structural reform.** Dominica confronts a difficult situation with public debt well above 100 percent of GDP, low growth prospects, and severe fiscal imbalances. Moreover, the country's policy choices are constrained by its membership of the ECCU, which has maintained a fixed peg to the U.S. dollar since 1976. The two-stage strategy aims to address these complex issues in a systematic manner and thus reduce the risk of a spillover to other ECCU countries (Box 1):

- *The first stage* consists of a strengthened short-term program for 2003 to improve the prospects for an orderly adjustment, including additional financing on appropriate terms to close the financing gap. During this period, the authorities will work to elaborate a comprehensive medium-term economic program.

- *The second stage* would consist of measures to reestablish a basis for growth and implementation of a debt strategy to ensure medium-term debt sustainability. It is hoped that this second stage could be supported by a PRGF arrangement. In this context, progress continues to be made with the preparation of the interim poverty reduction strategy paper (I-PRSP), which is expected to be finalized by the end of 2003.

[1] It is estimated that private sector arrears amounted to about US$10 million (4 percent of GDP) at end-March 2003, of which over four-fifths are due to domestic suppliers and the rest to foreign creditors.

A. Macroeconomic Framework

6. **There was broad agreement on the need to build into the program a very cautious outlook for 2003, given that the indicators point toward a continuing decline in economic activity.** In the key banana sector, in particular, output fell by half in the first quarter of 2003 owing to delays in the distribution of agricultural inputs by the newly privatized banana marketing company. Other sectors could improve, including tourism (with a rebound in cruise ship arrivals) and telecommunications (mostly because of the increasing use of cellular phones). However, consumer demand is likely to remain weak in 2003, given prospective wage cuts and higher taxation; the uncertainties associated with high public debt are also likely to inhibit private investment. Despite some rebound in public investment, the economy is expected to contract further by 1–3 percent in 2003. With a widening output gap, inflation is projected to remain low.

Dominica: Macroeconomic Framework, 2002-2003

	Est 2002	2003 Orig. Prog.	2003 Rev. Prog.
(In percent)			
GDP growth	-4.7	1.5	-1 to -3
Inflation	0.5	2.0	0.5
Current account / GDP	-15.0	-13.1	-15.1
(In percent of GDP, fiscal year)			
Primary savings (excl. grants)	-1.6	4.8	0.5
Primary balance (excl. grants)	-1.4	1.3	-1.9
Overall fiscal balance	-7.1	-4.0	-7.7
Public debt	110.6	103.4	116.6

Sources: Dominican authorities; and Fund staff estimates.

B. Fiscal Policy

7. **Discussions focused on the appropriate mix between adjustment and financing.** The original fiscal targets are no longer attainable, given the much weaker economic conditions and policy slippages. At the same time, there was broad agreement between the staff and the authorities that, given the debt situation and limited financing, a pro-cyclical fiscal stance was unavoidable. That said, the authorities were anxious to minimize the social disorder that it might entail. With political tensions rising in the current economic environment, the government—with its small majority in parliament—stressed the importance of designing the program with due care for social concerns. Their proposed fiscal package aims to strike a balance between these risks—a task facilitated by additional donor support (see below)—while strengthening confidence.

8. **The cornerstone of the program is a fiscal package of adjustment measures equivalent to 2½ percent of GDP**. The fiscal package is well balanced between revenue (1½ percent of GDP) and expenditure (1 percent of GDP) measures. The package also recognizes that a large fiscal adjustment could have an adverse impact on the most vulnerable groups in society and that adequate donor financing with an enhanced social safety net is required (Box 2).

9. **Revenue measures are aimed at widening the tax base and improving the efficiency of the system**. The revenue measures draw on IMF/CARTAC recommendations. About two-thirds of the revenue measures are aimed at broadening the tax base, while the remainder relate to changes in the tax system. Higher rates for the sales tax and customs service fee were introduced to increase collections. At the same time, the rate on the consumption tax (which is paid in advance) was reduced to enhance the liquidity position of enterprises that have been under considerable economic strain. The reduction of the consumption tax will pave the way for the introduction of a VAT at a later stage. The stabilization levy, a labor tax paid by the majority of employees, was also lowered. These measures are expected to increase support for the program among entrepreneurs and workers (SMEP ¶8).

Dominica: Fiscal Adjustment Package for 2003/04

	In percent of GDP
Total	**2.5**
Revenue measures	**1.5**
1. Increase in sales tax from 5 to 7.5 percent	1.3
2. Elimination of duty free concessions to electricity company	0.5
3. Increase in customs service charge from 2 to 3 percent	0.4
4. Elimination of exemptions in corporate tax 1/	0.3
5. Reduction in ad hoc concessions	0.2
6. Introduction of a sales tax on travel ticket of 7.5 percent	0.2
7. Reduction in consumption tax from 25 to 20 percent	-1.0
8. Reduction in stabilization levy from 4 to 3 percent	-0.4
9. Adjust fuel prices consistent with revenue target	0.0
Expenditure measures	**1.0**
Wage related	**0.7**
10. Reduction in salaries by 5 percent 2/	0.6
11. Cut in allowances 3/	0.1
Employment related	**0.3**
12. Reduction in worktime of casual workers	0.2
13. Retrenchment of temporary staff 4/	0.1
14. Staff attrition	0.0
15. Reduction in overtime	0.0

Sources: Ministry of Finance; and Fund staff estimates.

1/ Refers to the exemption on banks' interest receipts on mortgage loans.
2/ Includes wage cuts in all entities covered by the Ministry of Finance.
3/ Includes a 10 percent cut in non-salaried allowance and a 50 percent cut in entertainment allowance.
4/ Includes temporary teachers and clerical staff.

10. **Expenditure measures concentrate on reducing the wage bill.** The authorities have decided to cut public wages by 5 percent and to reduce overtime and the number of temporary workers to provide immediate budgetary savings. There are several reasons for the focus on the wage bill. First, the wage bill at 17½ percent of GDP is one of the largest in the region. Second, there were serious overruns on employment in 2002. Third, spending on transfers and goods and services have already been reduced to a minimum. Fourth, lower wages should improve competitiveness and ease the current account imbalance. The authorities concluded that the most effective way to reduce the wage bill in the short term is through wage cuts, as most forms of employment reduction would need to be structured and financed as part of a more comprehensive civil service reform program, which will be designed in the coming months (SMEP ¶9).

11. **Despite significant fiscal adjustment measures, the overall fiscal deficit will increase by ½ of a percent of GDP to about 7½ percent of GDP in 2003/04.** This reflects the following factors:

- *First*, capital spending is projected to increase by about 2½ percent of GDP in 2003/04. The PSIP has been reviewed by the World Bank and consists of growth-enhancing projects such as infrastructure, fisheries development, banana restructuring and tourism development. These are financed by a combination of: grants (about one-half of the total); external loans on favorable terms (about one-third of the total); and domestic contributions (SMEP ¶11). The authorities view effective implementation of the PSIP as a key instrument to limit the otherwise negative impulse of fiscal policy. The authorities are working to ensure financing on more favorable terms, so as not to exacerbate the country's already high debt burden.

Dominica: Fiscal Outlook, 2002-04
(In percent of GDP)

		2003/04		
	2002/03	Passive Proj.	Rev. Prog.	Difference
Revenues (excluding grants)	28.2	26.8	29.1	2.3
- Non-interest current spending	29.8	29.8	28.6	-1.2
= Primary savings	**-1.6**	**-3.0**	**0.5**	**3.5**
+ Grants	4.7	1.8	4.6	2.8
- Interest payments	5.7	5.8	5.7	-0.1
- Capital spending	4.6	4.6	7.0	2.4
= Overall balance	**-7.1**	**-11.6**	**-7.7**	**4.0**

Sources: Ministry of Finance; and Fund staff estimates.

- *Second,* the revenue projection is based on a macroeconomic framework that contemplates a further contraction in output, which entails a revenue loss of about 1 percent of GDP in 2003/04.

- *Third,* the programmed fiscal deficit does not include budgetary support grants that may materialize this year. The staff estimates that there could be at least 1¼ percent of GDP in such grants (mainly from the EU), which would reduce the ex-post fiscal deficit to below 6 percent of GDP in 2003/04.

12. **More importantly, primary savings before grants, which is a better indicator of fiscal effort, improves by about 2 percent of GDP in 2003/04.** The improvement reflects the tax measures and the actions taken to reduce the wage bill. Moreover, primary savings improve by 3½ percent of GDP with respect to a passive scenario of no measures and reduced donor support.

13. **The authorities are addressing one of the main reasons for deviations under the program—the lack of expenditure control.** The 2002/03 budget was executed without effective consideration for shortfalls in revenue performance, leading to a rapid accumulation of arrears. The revised program is designed on the premise that all payments during the program period (July–December 2003) will be made on a timely basis and that there is no accumulation of arrears.[2] To safeguard this principle, new cash management procedures are being implemented, with cash flow projections based on monthly inputs from the revenue collecting departments and ministerial expenditure ceilings set on a monthly basis (SMEP ¶10).

[2] Existing arrears are assumed to be gradually cleared through reschedulings or bond issuances and only in very limited cases through direct cash payments.

14. **Despite the adoption of an ambitious fiscal package, a large financing gap remains.** For the whole fiscal year 2003/04, the public sector borrowing requirement consists of three elements: (i) the fiscal deficit of about 7½ percent of GDP; (ii) negative identified external financing of about 3½ percent of GDP (as amortizations are higher than disbursements); and (iii) negative domestic financing of about 1 percent of GDP (as bank overdrafts and arrears to the social security system are reduced). Altogether, the financing gap for the FY 2003/04 amounts to about US$30 million or close to 12 percent of GDP. The financing gap during the program period (July–December 2003) is somewhat smaller at US$22½ million, and is already covered (Table 5).[3] Thus, financing of US$7½ million for the remainder of the fiscal year (January–June 2004) will need to be addressed in the context of a successor arrangement.

C. Financial Sector Issues

15. **Difficulties in financing the budget could have an immediate impact on the banking system.** Banks are highly vulnerable to shocks generated by the public sector. In particular, the banking system's liquidity is dependent upon the timely payment or transfer of: (i) debt service obligations by the government; (ii) civil servants' salary deductions to effect loan repayments; (iii) government wages; and (iv) invoices to suppliers. The mission's discussions with bank representatives revealed that loans to civil servants constitute a sizeable share of bank portfolios—ranging from 15 to 60 percent—and that bank operations have been affected by some payment delays by the government.

16. **The National Commercial Bank's exposure to the government is quite high.**[4] The NCB is a publicly-controlled bank and the largest bank in the country with deposits of about 40 percent of the total. To the extent that the government is in financial difficulties, and public sector debt dynamics are problematic (see section below), portfolio quality has deteriorated in the country's largest bank. To reduce the scope for further lending to the budget, a structural benchmark has been added to reduce by end-December 2003 the government's share of the NCB capital to below 50 percent and reduce the number of directors on the NCB Board appointed by the Government accordingly (SMEP ¶21).

17. **To strengthen the existing banking legislation, the ECCB has drafted amendments to the Banking Act that are expected to be implemented by end-2003.** The proposed amendments are wide-ranging and aim at: strengthening procedures and raising penalties; revisiting standards for directors and other senior bank officers; and introducing the principle of consolidated supervision. The amendments will be submitted to Parliament

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[3] The financing gap is proportionally higher in the first half of the fiscal year because of collection lags in most revenue measures.

[4] NCB's total exposure to the central government (including the overdraft and government securities) exceeds 200 percent of the bank's net worth.

later in the year. In addition, new prudential guidelines consistent with international best practices are being drafted with Fund technical assistance. These reforms are expected to take effect in September 2003 (SMEP ¶20).

18. **The regional FSAP will assess the strengths and vulnerabilities of the financial system.** An FSAP is scheduled for the latter half of 2003 to follow up on the work of the pre-FSAP missions. This exercise will assess banks' balance sheets, conduct stress tests of individual banks' vulnerabilities to various shocks, and test the potential impact on the regional banking system of liquidity/solvency problems in individual banks.

D. External Position and Financing

19. **The external current account deficit is projected to remain at about 15 percent of GDP in 2003.** However, there is scope for some improvement in the external current account during the program. To the extent that part of the external financing gap is financed by grants, the ex-post current account deficit (after grants) will be lower, perhaps 13½ percent of GDP in 2003. Exports contract further by just under 1 percent, driven by a continued decline in merchandise and agricultural exports that will be offset in part by a projected rebound in tourism receipts. Imports will also contract further by about 2 percent, reflecting the weakness in domestic demand (Table 7). Overall, the current account deficit remains high and points to the need to improve competitiveness (Box 3).

20. **The current account deficit in 2003 should be covered by autonomous and concerted lending flows.** The staff estimates that about one-third of the current account imbalance will be financed by autonomous capital flows and reserves, and about two-thirds by exceptional financing. The program assumes no private sector financing gap, so that the external financing gap equals the fiscal financing gap for 2003. This financing gap of some $22½ million is to be covered by the donor community (Table 5). Donors met in Barbados in mid-June and provided explicit assurances that the financing gap will be covered by a combination of loans, grants, roll-overs and reschedulings (SMEP ¶14)

Dominica: Financing Gap for 2003
(In millions of U.S. dollars)

Source	Amount
Financing Gap	**22.3**
Bilateral	13.5
Barbados (roll-over)	4.7
Trinidad and Tobago (roll-over)	4.0
EU (grant)	3.3
Bahamas (new bond)	1.5
Multilateral	8.3
World Bank (loan, SAL)	3.0
CDB (loan)	3.0
IMF (loan, SBA)	1.3
ECCB (loan)	1.0
Private (rescheduling)	0.7
Residual gap (excess money) 1/	-0.1

Sources: Donors; Dominican authorities; and Fund Staff estimates.

1/ In the case of excess financing, the additional monies are saved in public accounts.

E. Structural Reform Issues

21. **The authorities are seeking to refocus the structural reform agenda of the program to better address weaknesses in the current macroeconomic environment.** The SBA approved in August 2002 envisaged 13 benchmarks covering tax policy and administration, public expenditure, civil service reform, privatization, the financial system, and price controls (Table 2). Three of these benchmarks have been observed. The authorities are proposing to refocus and streamline the structural reform agenda, focusing on five structural benchmarks for the remainder of 2003.

22. **The new benchmarks have been selected for their macroeconomic relevance and their importance in guiding the reform agenda for the second stage of this program.** Accordingly, the authorities have established benchmarks related to: (i) presentation of a debt strategy (by end-September 2003; see ¶26 below); (ii) implementation of an automatic fuel price adjustment mechanism (by end-September 2003); (iii) development of a public sector reform strategy (by end-October 2003); (iv) completion of a diagnostic review of the financial sector (by end-November 2003); and (v) divestiture of government shares in the NCB to below 50 percent, and reducing the number of directors appointed by the government accordingly (by end-December 2003) (SMEP ¶21).

23. **The authorities will also continue to strengthen the public sector investment program (PSIP) and the social safety net.** The authorities are committed to improving the quality and focus of public investment expenditure, and to ensuring that only projects aimed at enhancing growth and reducing poverty, and supported by concessional external financing, are included in the PSIP. The authorities are also mindful of the need to maintain social spending during the adjustment period so as to safeguard long-term investment in human capital and protect the most vulnerable in the society. As such, social expenditures remain a priority, and the government is exploring ways to improve the efficiency and targeting of its social programs.

24. **The medium-term structural reform agenda will be spelled out in the context of the second stage of the strategy**. It is expected that, during the second stage, the reform agenda would broaden to other areas to strengthen growth prospects in the economy over the medium term, including public sector reform, trade issues, tax reform, restructuring the banana sector, and measures to strengthen the financial system.

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

25. **Dominica's debt dynamics present an important challenge that will require continued fiscal efforts and exceptional financial support (Box 4).** Even under ambitious assumptions (more precisely, an adjustment scenario but no debt restructuring), the debt to GDP ratio is projected to increase from 111 percent in 2002/03 to over 120 percent by 2005/06 before beginning to decline. Under these assumptions, public sector debt service is estimated to be large at $20 million per annum in the next few years or about 8 percent of

GDP, implying a fiscal gap of about $13 million per annum or 5 percent of GDP. The standard debt sustainability analysis (DSA) also reveals Dominica's vulnerability to a variety of shocks (Tables 11–12).

26. **The authorities are working on a strategy to ensure medium-term debt sustainability**. The commitment to provide the staff such a strategy by end-September 2003 is an important benchmark under the program and will be critical for the completion of the second review. Restoring medium-term debt sustainability will require a combination of sustained fiscal adjustment, growth-enhancing structural reform, privatization, donor financing on highly favorable terms, and the implementation of a comprehensive debt strategy. A sensitivity analysis suggests that a 10 percent reduction in the baseline debt path over the next 10 years would require higher real GDP growth of about 1¼ percentage points or a further adjustment in the primary balance, either through 1¼ percent of GDP in additional measures or an equivalent increase in grants.

27. **There are significant risks to the Fund from this operation.** With high levels of debt, severe cash constraints, and concerns about the medium-term debt dynamics, the Fund is working closely with the authorities to support orderly resolution of the situation and prevent potential regional spillovers. Although the amount of financing at issue is relatively small, the program does carry unusually high risks (Table 14). Safeguards in the form of prior actions have been adopted, but a more severe economic contraction could lead to lower tax collections and delays in donor support, prompting renewed budgetary financing problems. A crisis of confidence could also create problems for the financial system with regional implications. Finally, there remain uncertainties over the authorities' ability to implement the second stage of structural reforms, which are critical to the success of the strategy.

28. **The safeguards assessment concluded that the ECCB has in place appropriate mechanisms to manage resources, including Fund disbursements.** The assessment determined risk ratings of low or medium-low in all categories, and concluded that vulnerabilities do not present an undue risk. To address these vulnerabilities, the staff recommended that the ECCB: (i) ensure that the performance and selection of external auditors are periodically reviewed, (ii) institutionalize in the ECCB legal framework the use of international accounting standards and the non-distribution of unrealized gains, and (iii) publish an unabridged version of the financial statements.

IV. Program Monitoring

29. **The authorities propose an extension and rephasing of the arrangement.** The current arrangement expires in August 2003, and more time is needed to articulate the structural program under a successor PRGF, and to build a track record of satisfactory policy implementation under the current SBA. This also gives time to the staff and the authorities to refine the second stage of the strategy. Against this background, the authorities request an extension of the SBA for six months through end-February 2004, with the remaining access rephased in four equal purchases of SDR 0.3075 million (3.8 percent of quota) (Table 13).

30. **Two additional reviews are envisaged under the SBA.** Given the severity of the economic situation, the potential for an economic crisis, and the need to have financing assurances, including in the context of the lending into arrears policy, the authorities propose to monitor the program closely through two additional reviews, which will be based on performance through end-September and end-December of this year. The second review will look closely at the development of a debt strategy, which has been set as a structural benchmark for end-September. Quantitative performance criteria have been established for end-July, end-September and end-December 2003.

31. **The authorities request waivers for non-observance of seven quantitative performance criteria and one structural performance criterion.** The quantitative performance criteria missed through end-December 2002 for which waivers are requested include: (i) central government overall balance; (ii) central government wage bill; (iii) banking system net credit to the central government; (iv) banking system net credit to nonfinancial public sector; (v) central government arrears to Social Security and DOWASCO; (vi) external payments arrears of the NFPS; and (vii) disbursement of nonconcessional external debt to the NFPS with maturity of at least one year. The structural performance criterion missed refers to the implementation of tax reform measures in line with recommendations of the FAD technical assistance mission on taxation.

32. **Conditionality under the program consists of the following commitments:**

- *Prior actions.* There are two: (i) approval of a 2003/04 budget consistent with the program, and enactment of associated fiscal measures; and (ii) fully functioning fiscal cash management procedures.

- *Quantitative performance criteria.* Seven variables will be subject to performance criteria at the test dates (end-July, end-September and end-December 2003) as set out in Table 1 of the Letter of Intent (Attachment I). In order to simplify monitoring, the number of domestic arrears-related performance criteria is reduced from two to one. Given deficiencies in the fiscal accounts, the measurement of the fiscal balance will be made from the financing side (i.e. below-the-line).

- *Indicative targets.* Two variables (revenues and primary surplus of the central government) will be treated as indicative at the time of assessing performance criteria as set out in Table 1 of the Letter of Intent (Attachment I). Also, all quantitative targets (including performance criteria) are indicative in the interim dates of end-August, end-October and end-November 2003.

- *Structural benchmarks.* The new structural agenda has been refocused, and the authorities established five structural benchmarks as described above (¶22).

V. STAFF APPRAISAL

33. **Dominica is at a historical juncture and urgently needs the support of the international community to reestablish a sustainable trajectory**. A small Caribbean island with a history of modest growth and limited natural resources, Dominica has been confronted with multiple shocks for which it was ill prepared, including: (i) falling banana prices and reduced access to European markets in 2001; (ii) the negative impact on tourism after September 11, 2001; and (iii) stricter regulations on off-shore banking, which led to the closure of several financial institutions. Instead of promptly adjusting, the shocks were financed, leading to a doubling of the public debt in recent years. The authorities began to address the problem in the summer of 2002. However, the Fund-supported program approved last August went off-track, reflecting the more difficult macroeconomic environment, poor policy implementation and a difficult political and social situation.

34. **A two-stage strategy is proposed to resolve the problems facing Dominica.** The country suffers from severe macroeconomic imbalances that are difficult to tackle at once and warrants a two-phased approach. The first phase deals with stabilization that forestalls a budgetary financing crisis by ensuring an appropriate mix of adjustment and financing. It also provides breathing space for the design of a more comprehensive medium-term solution to the problem in the second stage. Beyond structural reforms for growth, this second phase will also need to deal with the heavy burden of public debt.

35. **The revised program builds in new safeguards to protect program performance**. All fiscal measures in this program take the form of prior actions and are enforced through the budget law, minimizing the possibility of problems with policy implementation. At the same time, a more realistic macroeconomic framework has been adopted, acknowledging the possibility of further economic contraction. However, the economy could contract even more than projected, and it is important that donor support be made available on a timely basis. The authorities have identified contingency measures of about ½ percent of GDP that could be activated in the event they are needed.

36. **An enhanced social safety net is critical, given the decline in income and employment, and rising social tensions**. With an unemployment rate of about 25 percent, the most vulnerable segments of the population are exposed to undue hardship under these conditions, especially as the strategy calls for further fiscal adjustment. It is imperative that the authorities maintain a working social safety net, with the help of the World Bank and other donors, to reduce the social cost of adjustment and make this strategy viable.

37. **This program carries unusual, but justifiable, risks for the Fund**. While the amounts involved are relatively small, the risks are large. Risks to the program include: potential shortfalls in financing; social tensions and implementation capacity concerns; the possibility of a sharper economic contraction leading to lower tax collections; and an unexpected loss of confidence that prompts capital flight. It should be stressed that, in order for the two-stage strategy to work, it is imperative that the authorities adhere to this program and adopt the second stage of the strategy. Fund support for this strategy is justified by the

opportunity to avert a fiscal financing crisis that could have severe spillover effects on the rest of the ECCU.

38. **In light of the proposed strengthened program and decisive ownership, the staff recommends completion of the first review and extension of the arrangement**. While there were significant deviations from the August 2002 program, the authorities have adopted politically courageous measures in the context of the budget for FY 2003/04 to redress these problems under difficult conditions. The authorities have actively and successfully engaged the donor community to support their efforts and have significantly strengthened the level of ownership of the program, which the staff welcomes. On this basis, and given the support of donors and multilateral institutions, the staff supports waiver requests for a number of performance criteria; supports completion of the first review under the Stand-By Arrangement; and supports the request for extension and rephasing of the arrangement as well as the refocusing of the structural reform agenda.

Box 1. Dominica: Risks and Regional Spillovers

Dominican Risks	Regional Spillovers	
	ECCU	Outside ECCU
Disorderly resolution to debt situation	**High:** Higher borrowing cost and/or potential drying up of external financing for Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Losses incurred by pension funds, insurance companies, and other regional investors.	**Low:** Losses incurred by holders of Dominican and other ECCU assets; pension funds in Trinidad and Tobago, and Barbados, and the Government of Barbados.
Collapse of a local bank	**Moderate:** Pressure on local banks and shifting of deposits to foreign banks, especially in St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.	**Low:** Banks with interests in the ECCU will see an increase in deposits in their branches; CIBC of Barbados, Canadian banks, and Trinidadian banks with interests in Grenada.
Banking crisis and a run on banks	**High:** Pressure on the weakest banks as liquidity dries up, with run on bank.	**Low:** Banks with branches in the ECCU may have to extend credit to their ECCU subsidiaries; CIBC (Barbados), Canadian banks, and Trinidadian banks with interests in Grenada.
Conversion of deposits from EC$ to US$	**High:** Similar pressures will arise in the rest of the ECCU.	**Low**
Capital flight	**High:** Similar pressures will arise in the rest of the ECCU. Whereas the ECCB's coverage ratio is high (97 percent) its gross external reserves are 19 percent of broad money.	**Low**
Shrinkage of imports	**Low:** The ECCU accounts for less than 5 percent of Dominican imports.	**Low**

Box 2. Dominica: Social Safety Net

Socio-economic context. While Dominica has good social indicators—basic education and health outcomes are significantly higher than the upper-middle income country average—poverty and unemployment levels are high. Analysis of the 2002 Survey of Living Conditions indicates that, based on a locally defined poverty line, 39 percent of the population is poor and 15 percent are indigent. The unemployment rate in 2002 was 25 percent island-wide, and at 40 percent among the poor.

Dominican households adopt a number of strategies to manage socioeconomic risks and shocks, including migration and remittances from family members abroad. But because households are only partially able to insure themselves, social protection programs play a key role in mitigating the costs of adjustment.

Dominica's social protection programs. Dominica spends about 5 percent of GDP on social protection programs—both social insurance and social assistance—placing its spending roughly on par with the Latin America and Caribbean average. Its central social insurance program is Dominica Social Security, which provides long- and short-term benefits, including pension, disability, survivors, health, sickness, maternity, and employment injury benefits. The system does not cover unemployment insurance, but there is a legal requirement for redundancy payments to laid-off workers of up to one year salary. Benefits are targeted at contributors only.

Dominica also has a range of social assistance—or safety net—programs, including: (i) Public Assistance for the poorest families; (ii) School Feeding Program and Education Trust Fund for low-income students; (iii) a labor-intensive Road Maintenance program to create short-term employment for unemployed workers; (iv) skills training and adult education programs; and (vi) donor funded labor-intensive community-based infrastructure development activities, including the Basic Needs Trust Fund, financed by the Caribbean Development Bank, and a Social Protection Program and (forthcoming) Social Investment Fund supported by the European Commission.

Challenges. While Dominica has most of the building blocks for an effective social protection system, a recent World Bank review identifies specific areas for improvement, including: (i) rationalizing existing programs to eliminate duplication of efforts; (ii) improving targeting of programs; and (iii) strengthening ministries and agencies implementation, monitoring, and evaluation capacity.

Sources: Dominica: Social Protection Review, World Bank (2003); OECS Fiscal Issues, World Bank (forthcoming 2003)

Box 3: Dominica: External Position

Large and prolonged external imbalances, together with the sharp output decline since 2000, highlight the vulnerabilities in Dominica's external position and the need to improve competitiveness and lay the basis for a recovery in growth.

Dominica: Selected Indicators % of GDP		
	1998	2002
Savings	**17.9**	**-4.2**
Public	2.3	-3.0
Private	15.6	-1.2
Investment	**26.9**	**10.7**
Public	7.4	6.7
Private	19.5	4.0
Current Account	**-9.0**	-15.0

Insufficient Savings Despite Low Investment

Dominica's current account deficit remains high. Although it has declined from almost 20 percent of GDP in 2000 to approximately 15 percent in 2002, the dynamics of Dominica's external position are of concern.

Recent improvements in the current account have depended on a sharp contraction in imports associated with weakening domestic demand and investment; exports have also declined sharply. Dominica's extremely low savings and declining investment levels raise further questions regarding the sustainability of the current account position.

Export Shocks and Market Penetration

Dominica is facing a critical challenge in terms of the competitiveness of its export base. The sharp decline in exports in recent years reflects in part the global slowdown, the decline in tourism following September 11, and changes in the banana sector. More fundamentally, structural changes, including the loss of preferential access to the European Union for banana exports and the growing competition in the tourism sector, will continue to pressure Dominica's external position.

Banana Exports and Tourist Arrivals			
	1998	2002	Percent Change
Banana Volume (tonnes)	30.7	18.4	-40
Tourist Arrivals (thousands)	309	206	-33

Relative Costs

At the same time, Dominica faces the challenges to competitiveness created by limitations in infrastructure, high input costs, high regulatory burdens, and low investment. While average labor costs are relatively low for the region, public employment is high, as are input costs. The authorities are working, with World Bank, CDB and OECS support, on a range of initiatives to support stronger factor productivity through increased efficiency in public investment and a strengthening of the environment for private sector investment. The World Bank CAS also focuses on public expenditure and public sector reform.

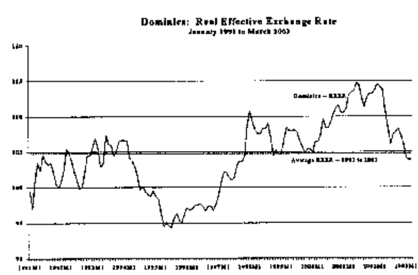
Comparative Wage and Utility Costs				
	Average Weekly Wage (US$, 1999)	Public Sector Wage Bill/GDP	Electricity US$/Kilowatt (1999)	Water US$./1000 gls (1999)
Dominica	134	17.5%	.25	5
ECCU Range	134-252	11-17.5%	.15-.25	3-19
Regional Comparators	152 (Jamaica) 31 (DR)		0.03 (Trinidad) .20 (Barbados)	1.38 (Bahamas) 4 (DR)

The high and rising debt burden leaves little scope for flexibility on fiscal policy, despite the pro-cyclical effects of adjustment. In this context, the high fiscal deficit and associated high public sector labor costs represent an important vulnerability to the external position, and strong fiscal adjustment is essential.

Real Exchange Rate Developments

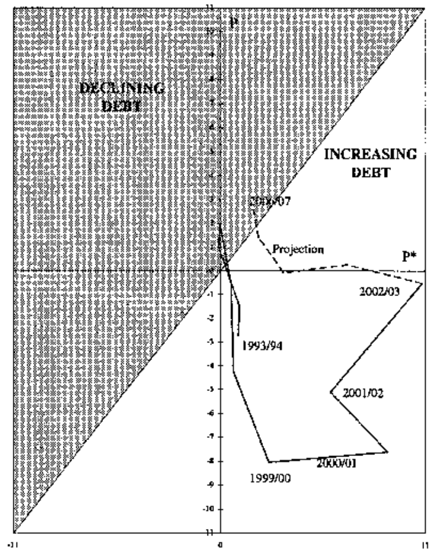
Dominica's REER appreciated strongly during the late 1990s and through 2001, before depreciating in 2002 (in line with the US dollar against other major currencies). By early 2003, the real effective exchange rate was in line with its average over the last 10 years.

Dominica's participation in the ECCU has supported price stability and regional integration. The absence of monetary flexibility does require strict fiscal discipline and factor price flexibility to support competitiveness and external balance.



Box 4. Dominica: Debt Sustainability

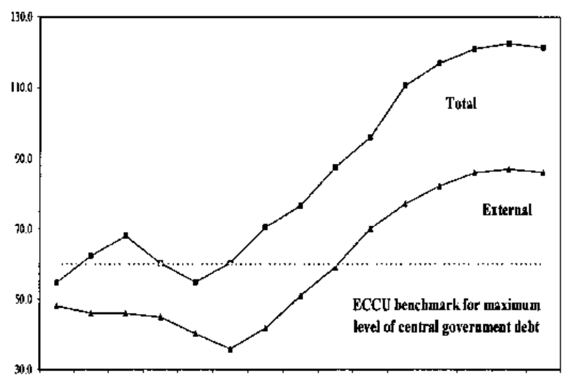
Dominica: Debt Sustainability 1994-2007
Actual (P) vs. Sustainable (P*) Primary Balance
(In percent of GDP)



Macroeconomic conditions have contributed to pressures on Dominica's debt dynamics. Over the past 10 years, Dominica has faced a combination of low growth relative to the real interest rate and an insufficient primary balance relative to its level of debt; these disparities have led to a rapid accumulation of debt. The chart to the right shows the relationship between the actual primary balance (vertical axis) and the primary balance which would be consistent with a stabilization in debt levels given Dominica's macroeconomic conditions (horizontal axis). Sustained balances above the 45 degree line are consistent with stabilization of debt levels and those below are not (no debt restructuring assumed).

The majority of observations for Dominica in the last decade fall in the south-east quadrant, namely the economy was running primary deficits when macroeconomic conditions required primary surplus to prevent an increase in debt. The projection for 2003/04 pulls toward the direction of stabilization of debt levels (north-west) but is not yet above the 45 degree line.

Dominica: Public Sector Debt
(percent of GDP)



Consequently Dominica faces difficult debt dynamics. The level of public sector debt is large and imposes a heavy burden on the economy. Public debt doubled in the past 6 years and stood at over 100 percent of GDP at end 2002, of which three-fourths was held externally. Most of the external debt is medium- to long-term, and two-thirds of external debt is owed to official creditors. The standard debt sustainability analysis reveals Dominica's vulnerability to a variety of shocks, for instance, negative shocks to taxation or the real interest rate would lead to increasing debt ratios (Tables 11–12).

Dominica: Public Sector Debt Service Payments

	2003	2004	2005	2006
(In millions of U.S. dollars)				
Total Debt Service	24.3	17.8	17.2	18.1
Interest	10.0	9.1	8.7	8.6
Principle	14.3	8.7	8.5	9.5
(In percent of GDP)				
Total Debt Service	10.0	7.2	6.7	6.8
Interest	4.1	3.6	3.4	3.2
Principle	5.9	3.5	3.3	3.6

There is a demanding debt service schedule ahead that exposes the country to a high rollover risk. The public sector debt servicing requirements are heavy at about US$20 million, which represent about one-fourth of current revenues or 8 percent of GDP. Early adjustment and appropriate financing for the remainder of 2003 are a critical first step to stabilizing Dominica's position and to preventing adverse spill over effects in the region.

Table 1. Dominica: Quantitative Performance Criteria (PC), and Indicative Targets (IT), FY 2002/03

	2002						2003			
	Sept. 30			Dec. 31			Mar. 31			Jun. 30
	Prog. (PC)	Adj. Prog. (PC)	Actual	Prog. (PC)	Adj. Prog. (PC)	Prel.	Prog. (IT)	Adj. Prog. (IT)	Prel.	Prog. (IT)
(Cumulative amounts from June 30, 2002; in millions of Eastern Caribbean dollars)										
Central government overall balance 1/ 2/	-11.1	-9.8	-4.4	-11.7	-9.3	-14.9	-24.8	-20.1	-35.9	-42.4
Central government wage bill	27.6	27.6	29.0	55.5	55.5	59.4	83.3	83.3	87.3	111.1
Banking system net credit to central government 2/ 3/	-1.8	-1.0	-5.0	-3.8	-30.7	-16.4	-5.5	-17.7	-13.8	-7.3
Banking system net credit to nonfinancial public sector 2/ 3/	-1.8	-3.0	8.2	-3.8	-34.2	-3.8	-5.5	-23.8	-6.4	-7.3
(Maximum outstanding amounts at end of period; in millions of Eastern Caribbean dollars)										
Central government arrears to Dominica Social Security and DOWASCO 4	56.4	58.0	58.0	0.0	0.0	47.8	0.0	0.0	47.6	0.0
Central government arrears to other parties 4/	26.4	23.5	23.5	26.4	23.5	16.8	21.5	18.7	20.1	0.0
(Cumulative change from June 30, 2002, in millions of U.S. dollars)										
Disbursement of nonconcessional external debt to the nonfinancial public sector (NFPS) with maturity of at least one year 1/ 5	5.7	5.2	5.7	7.0	6.1	17.4	14.0	12.3	19.8	27.5
Contracting or guaranteeing of short-term external debt of the NFPS (with maturity of less than one year) 5/ 6/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External payments arrears of the NFPS 4/ 6/ 7/	0.0	0.0	0.0	0.0	0.0	2.4	0.0	0.0	1.6	0.0

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

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

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

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

4/ The maximum amount of arrears outstanding by end-September 2002, by end-December 2002, by end-March 2003, and by end June 2003, will be adjusted downward by the amount that the stock nonproject financing of arrears outstanding as of September 30, 2002 falls short of programmed amounts. The maximum amount of arrears outstanding by end-September 2002, will be adjusted upward by the amount that the stock of arrears outstanding as of September 30, 2002 exceeds programmed amounts.
Banking system net credit to the central government and NFPS by end-December, by end-March and by-end June will be adjusted upward (downwards) by the amount arrears outstanding by end-September exceeds (falls short of) programmed amount.

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

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

7/ Excluding subscription arrears to regional and international organizations.

Table 2. Dominica: Structural Performance Criteria and Structural Benchmarks for the First Review

Structural Reform Measure under Original Program	Lead Institution	Completion Date	Original Category	Progress (as of June 30, 2003)	Category under Revised Program
Fiscal					
Conduct comprehensive review of tax system and its administration	IMF	December 31, 2002	Benchmark	Done	N/A
Implement key tax reform measures in line with recommendations of comprehensive review	IMF	June 30, 2003	Performance criterion	Not completed	Prior Action
Conduct public expenditure review	WB	March 31, 2003	Benchmark	Not completed	Dropped
Conduct review of public sector investment program	WB/CDB	December 31, 2002	Benchmark	Not completed	Dropped
Civil service reform					
Prepare a study of a comprehensive civil service reform program	WB	March 31, 2003	Benchmark	Not completed	Benchmark
Issue government decree to initiate the implementation of the reform process	WB	June 30, 2003	Benchmark	Not completed	To be included in subsequent program
Privatization					
Dominica Banana Marketing Corporation	EU	September 30, 2002	Benchmark	Done	
Create special fund for privatization proceeds	...	March 31, 2003	Benchmark	Not completed	Dropped
Financial system oversight					
Conduct comprehensive review of the financial sector	IMF	December 31, 2002	Benchmark	Not completed	Benchmark
Place nonbank financial institutions under ministry of finance supervision (with support from the ECCB)	ECCB	June 30, 2003	Benchmark	Not completed	Dropped
Banana sector restructuring					
Various projects: infrastructure and efficiency enhancement	EU	Ongoing			Dropped
Other					
Study about the feasibility of abolishing DEXIA's monopoly on the importation of sugar and bulk rice	...	December 31, 2002	Benchmark	Not completed	Dropped
Study examining the scope for transforming the NDC into a self-financing agency	...	December 31, 2002	Benchmark	Not completed	Dropped
Eliminate remaining price controls (except on fuels and cement)	...	December 31, 2002	Benchmark	Done (with delay)	
Eliminate price controls on fuels 1/	...	June 30, 2003	Benchmark	Not completed	Benchmark
Eliminate price controls on cement 1/	...	June 30, 2003	Benchmark	Not completed	Dropped

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

1/ These benchmarks were combined into one benchmark in the origianl program.

Table 3. Dominica: Selected Economic and Financial Indicators

	1999	2000	2001	2002		2003	
				Prog. 1/	Prel.	Prog. 1/	Rev. Prog.
(Annual percent change, unless otherwise specified)							
Output and prices							
Real GDP (factor cost)	1.6	1.4	-4.2	-0.5	-4.7	1.5	-1 to -3
GDP deflator (factor cost)	2.5	0.6	1.2	2.0	-0.4	2.0	0.5
Nominal GDP (at factor cost)	4.2	2.0	-3.0	...	-5.1	...	-1.5
Nominal GDP at market prices	3.2	1.3	-2.7	1.5	-6.2	3.6	-1.5
Consumer prices (end of period)	0.0	1.1	1.9	2.0	0.5	2.0	0.5
Money and credit							
Net foreign assets of the banking system 2/	8.1	-12.8	6.6	6.9	20.9	3.8	1.9
Net domestic assets of the banking system 2/	2.3	13.4	0.9	-0.8	-12.3	-1.1	1.1
Of which							
Net credit to the nonfinancial public sector 2/	2.8	5.7	5.6	0.3	-8.0	-1.9	-0.1
Credit to the private sector 2/	2.3	7.3	-3.1	-0.1	-1.3	0.9	1.1
Liabilities to the private sector (M2)	10.4	0.6	7.4	6.1	8.5	2.6	3.0
Balance of payments							
Merchandise exports, f.o.b.	-11.4	-2.3	-18.9	4.7	-3.7	6.5	-7.4
Merchandise imports, f.o.b.	4.5	7.3	-11.6	-13.0	-12.1	5.2	-3.1
Terms of trade	-6.2	-5.3	1.5	...	0.1	...	...
Real effective exchange rate (end-of-period; depreciation -)	0.8	4.8	3.7	...	-6.0	...	...
(In millions of U.S. dollars)							
Merchandise exports, f.o.b.	56.0	54.7	44.4	47.6	42.8	50.7	39.6
Merchandise imports, f.o.b.	121.6	130.4	115.3	100.1	101.4	105.3	98.2
Current account balance 3/	-34.6	-52.5	-47.6	-33.7	-37.0	-36.1	-33.5
Capital account balance 4/	38.1	50.3	49.5	13.5	48.5	19.6	17.5
Overall balance	3.5	-2.2	1.9	-20.2	11.4	-16.5	-19.3
(In percent of GDP, unless otherwise specified)							
Savings and investment							
Gross domestic investment	25.2	24.8	21.2	13.7	10.7	16.0	11.8
Public	10.4	16.7	15.3	8.0	6.7	7.5	6.8
Private	14.8	8.1	5.9	5.7	4.0	8.5	5.0
Gross national saving	12.2	5.5	3.1	1.1	-4.2	2.9	-2.0
Public 3/	1.5	-0.6	-2.5	-2.1	-3.0	0.5	-4.0
Private	10.7	6.1	5.6	3.2	-1.2	2.4	2.0
Nonfinancial public sector 5/							
Current balance	0.3	-1.6	-3.4	-0.8	...	...	...
Overall balance (after grants)	-11.9	-12.6	-10.1	-4.1	...	...	...
Central government 5/							
Savings	-0.7	-3.7	-4.6	-3.2	-7.3	-0.5	-5.3
Of which							
Primary	3.2	1.3	0.7	2.6	-1.6	4.8	0.5
Grants	2.7	9.4	1.8	3.3	4.7	3.3	4.6
Capital expenditure and net lending	13.4	16.6	5.7	5.9	4.5	6.8	7.0
Primary balance (excluding grants)	-10.2	-15.3	-5.0	-3.3	-6.1	-2.0	-6.5
Overall balance (after grants)	-11.3	-10.9	-8.5	-5.8	-7.1	-4.0	-7.7
Nonfinancial public sector debt (gross)	**74.9**	**81.0**	**91.5**	**101.2**	**106.0**	**103.4**	**113.6**
External 6/	48.4	53.7	64.6	74.3	77.4	79.5	80.4
Domestic	26.5	27.3	26.9	26.9	28.6	23.9	33.2
External sector							
Current account balance 3/	-12.9	-19.4	-18.1	-12.6	-15.0	-13.1	-13.7
External public debt service 7/	5.0	7.4	10.8	11.3	12.3	12.2	20.9
Amortization	3.3	3.1	4.5	4.9	4.9	5.4	12.3
Interest	1.7	4.3	6.4	6.4	7.5	6.8	8.6
Memorandum items:							
Nominal GDP at market prices (EC$ millions)							
Calendar year	722.6	732.2	712.6	721.0	668.5	746.7	658.4
Net international reserves							
(US$ millions; end-of-period) 8/	31.5	29.0	30.4	32.2	45.5	33.2	48.5

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

1/ EBS/02/152.
2/ Change relative to the stock of M2 at the beginning of the period.
3/ Includes public current transfers for 2002 of 1.8 percent of GDP and a projected 1.3 percent of GDP for 2003.
4/ Including errors and omissions.
5/ Fiscal years beginning July 1.
6/ Including external financing gap.
7/ In percent of exports of goods and nonfactor services.
8/ Imputed reserves at the ECCB.

Table 4. Dominica: Summary Accounts of the Central Government 1/

(In millions of Eastern Caribbean dollars)

	1999/00	2000/01	2001/02	2002/03		2003/04	
				Prog. 2/	Rev. Proj.	Prog. 2/	Rev. Prog.
Total revenue and grants	**233.7**	**271.5**	**210.5**	**236.0**	**218.6**	**254.7**	**223.6**
Current revenue	211.4	200.5	197.1	210.5	185.7	228.0	191.6
Capital revenue	2.6	3.0	0.9	1.3	1.5	1.3	1.5
Grants	19.7	68.0	12.5	24.2	31.4	25.4	30.4
Total expenditure 3/	**316.1**	**350.3**	**269.3**	**278.4**	**265.8**	**285.1**	**274.5**
Current expenditure	218.9	230.1	229.7	235.2	235.7	233.0	228.1
Wages and salaries	112.6	116.2	116.5	111.1	115.7	111.0	108.6
Interest	28.0	36.0	36.9	42.4	37.8	40.7	38.2
Domestic	14.5	20.2	19.3	21.3	17.8	19.2	17.0
External	13.6	15.7	17.5	21.1	20.1	21.5	21.2
Others	78.2	77.9	76.3	81.8	82.1	81.3	81.3
Capital expenditure and net lending	97.3	120.2	39.6	43.2	30.2	52.1	46.4
Overall balance	**-82.4**	**-78.8**	**-58.8**	**-42.4**	**-47.2**	**-30.5**	**-51.0**
Statistical discrepancy 4/	-7.8	18.7	-7.4	0.0	3.3	0.0	0.0
Financing	**90.2**	**60.1**	**51.3**	**-9.9**	**50.5**	**-5.5**	**-26.6**
Net foreign financing	88.0	42.7	25.6	15.0	39.3	1.7	-22.7
Disbursment	...	...	31.9	27.3	48.9	16.4	14.3
Amortization	...	...	6.3	12.3	9.5	14.6	37.1
Net domestic financing	2.2	17.4	25.7	-24.9	11.2	-7.2	-3.8
Bank	-3.0	11.2	16.3	-7.3	-7.8	-7.6	-3.0
Nonbank	5.2	6.2	9.5	-17.5	19.0	0.4	-0.8
Gap 5/	**0.0**	**0.0**	**0.0**	**52.3**	**0.0**	**35.9**	**77.5**
		(In percent of GDP)					
Total revenue and grants	**32.1**	**37.6**	**30.5**	**32.2**	**33.0**	**33.4**	**33.6**
Current revenue	29.1	27.8	28.5	28.7	28.0	29.9	28.8
Capital revenue	0.4	0.4	0.1	0.2	0.2	0.2	0.2
Grants	2.7	9.4	1.8	3.3	4.7	3.3	4.6
Total expenditure 3/	**43.5**	**48.5**	**39.0**	**37.9**	**40.1**	**37.3**	**41.3**
Current expenditure	30.1	31.9	33.3	32.1	35.5	30.5	34.3
Wages and salaries	15.5	16.1	16.9	15.1	17.4	14.5	16.3
Interest	3.9	5.0	5.3	5.8	5.7	5.3	5.7
Domestic	2.0	2.8	2.8	2.9	2.7	2.5	2.6
External	1.9	2.2	2.5	2.9	3.0	2.8	3.2
Others	10.8	10.8	11.0	11.1	12.4	10.6	12.2
Capital expenditure and net lending	13.4	16.6	5.7	5.9	4.5	6.8	7.0
Overall balance	**-11.3**	**-10.9**	**-8.5**	**-5.8**	**-7.1**	**-4.0**	**-7.7**
Statistical discrepancy 4/	-1.1	2.6	-1.1	0.0	0.5	0.0	0.0
Financing	**12.4**	**8.3**	**7.4**	**-1.3**	**7.6**	**-0.7**	**-4.0**
Net foreign financing	12.1	5.9	3.7	2.0	5.9	0.2	-3.4
Disbursements	...	...	4.6	3.7	7.4	2.1	2.2
Amortization	...	...	0.9	1.7	1.4	1.9	5.6
Net domestic financing	0.3	2.4	3.7	-3.4	1.7	-0.9	-0.6
Bank	-0.4	1.5	2.4	-1.0	-1.2	-1.0	-0.5
Nonbank	0.7	0.9	1.4	-2.4	2.9	0.1	-0.1
Gap 5/	**0.0**	**0.0**	**0.0**	**7.1**	**0.0**	**4.7**	**11.7**
Memorandum items:							
Savings (incl. grants)	1.7	5.3	-2.9	-0.1	-2.8	2.7	-0.9
Primary savings (before grants)	3.2	1.3	0.7	2.6	-1.6	4.8	0.5
Primary balance (incl. grants)	-7.5	-5.9	-3.2	0.0	-1.4	1.3	-1.9
Total debt service to government revenue	...	18.0	23.1	24.6	23.6	22.7	36.2
Nominal GDP at market prices (EC$ millions)	727.4	722.4	690.6	733.8	663.5	763.6	665.0

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

1/ Fiscal years beginning July 1.

2/ EBS/02/152.

3/ On a due basis.

4/ Difference between identified financing and overall balance. A positive number indicates an underfinancing of the fiscal deficit when measured from below the line.

5/ Stock of payment arrears to private suppliers and creditors at end-March of EC$20 million outstanding. Any clerance of arrears not included in the financing gap.

Table 5. Dominica: Financing Gap for 2003

	In millions of US$	In millions of EC$	In percent of GDP
Overall fiscal balance	**-22.5**	**-60.7**	**-9.1**
Identified financing	**0.2**	**0.6**	**0.1**
Domestic financing	**9.3**	**25.1**	**3.8**
Bank financing	1.0	2.6	0.4
Nonbank financing 1/	2.4	6.5	1.0
Arrears 2/	5.9	16.0	2.4
External financing	**-9.1**	**-24.6**	**-3.7**
Disbursements	4.7	12.6	1.9
Program	1.0	2.7	0.4
Project	3.7	10.0	1.5
Amortization due	-13.9	-37.5	-5.6
Arrears 3/	-0.3	-0.7	-0.1
Others	0.4	1.0	0.1
Financing gap 4/	**22.3**	**60.3**	**9.1**
World Bank	3.0	8.1	1.2
EU (STABEX grants)	3.3	8.9	1.3
IMF	1.3	3.4	0.5
ECCB	1.0	2.7	0.4
CDB	3.0	8.1	1.2
Bilateral creditors 5/	8.7	23.5	3.5
Bahamas	1.5	4.1	0.6
Private 6/	0.7	1.9	0.3
Residual gap (excess support)	**-0.1**	**-0.4**	**-0.1**

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

1/ Includes rollover of domestic amortization payments, and bond issue to DSS to absorb its surpluses.
2/ Domestic arrears are assumed to be cleared mainly by bond issues.
3/ External arrears are expected to be cleared mainly by bond issues; however, US$0.3 million is expected to be paid in cash.
4/ The financing gap is an ex-ante concept and covers only program period July-December 2003.
5/ Rollover of Dominica treasury bills held by Barbados and Trinidad.
6/ Rescheduling of debt service payments to Societe Generale.

Table 6. Dominica: Summary Accounts of the Banking System

	1999	2000	2001	2002		2003	
				Prog. 1/	Prel.	Prog. 1/	Rev. Prog.
(In millions of Eastern Caribbean dollars, end of period)							
I. Consolidated Banking System 2/							
Net foreign assets	**125.2**	**65.2**	**96.1**	**133.4**	**201.7**	**153.7**	**212.3**
Net domestic assets	**343.1**	**405.8**	**409.8**	**403.6**	**347.5**	**397.5**	**353.4**
Net credit to the nonfinancial public sector	49.1	75.8	102.3	101.5	61.8	91.6	61.2
Of which							
Central government 3/	59.7	70.3	92.3	96.7	51.2	89.2	53.6
Net credit to nonbank financial institutions	-43.9	-35.8	-37.7	-42.8	-46.6	-44.0	-48.0
Credit to the private sector	419.8	454.1	439.6	439.3	433.2	444.4	439.5
Other items (net) 4/	-82.0	-88.3	-94.4	-94.4	-101.0	-94.4	-99.3
Broad money 5/	**468.3**	**471.0**	**506.0**	**537.1**	**549.2**	**551.2**	**565.7**
II. Operations of the Eastern Caribbean Central Bank							
Imputed net international reserves	**85.0**	**78.2**	**82.1**	**87.0**	**122.8**	**89.7**	**131.0**
Net domestic assets	**10.6**	**10.9**	**10.2**	**12.0**	**8.4**	**12.0**	**9.1**
Monetary base	**95.6**	**89.1**	**92.3**	**99.0**	**131.2**	**101.8**	**140.1**
Currency in circulation	34.1	35.4	34.6	32.9	35.5	34.0	36.6
Commercial bank reserves	61.5	53.6	57.7	66.1	95.7	67.8	103.5
III. Commercial Banks							
Net foreign assets	**40.2**	**-12.9**	**14.0**	**46.4**	**79.0**	**64.0**	**81.3**
Net claims on ECCB	**68.1**	**51.2**	**58.5**	**66.9**	**98.2**	**68.6**	**101.1**
Net domestic assets	**325.9**	**397.3**	**398.9**	**390.8**	**336.6**	**384.6**	**346.7**
Net credit to the nonfinancial public sector	38.5	65.0	92.1	89.5	53.4	79.5	51.9
Net credit to nonbank financial institutions	-43.9	-35.8	-37.7	-42.8	-46.6	-44.0	-48.0
Credit to the private sector	419.8	454.1	439.6	439.3	433.2	444.4	439.7
Other (net)	-88.5	-86.0	-95.2	-95.2	-103.5	-95.3	-95.6
Private sector deposits 5/	**434.2**	**435.6**	**477.4**	**504.1**	**513.7**	**517.2**	**529.1**
IV. Consolidated Banking System							
(Annual percentage change)							
Credit to the private sector	2.4	8.2	-3.2	-0.1	-1.4	1.2	1.4
Private sector deposits	9.9	0.3	9.6	5.6	7.6	2.6	3.0
Broad money 5/	10.4	0.6	7.4	6.1	8.5	2.6	3.0
(Contributions to liquidity growth) 6/							
Net foreign assets	**8.1**	**-12.8**	**6.6**	**6.9**	**20.9**	**3.8**	**1.9**
Net domestic assets	**2.3**	**13.4**	**0.9**	**-0.8**	**-12.3**	**-1.1**	**1.1**
Net credit to the nonfinancial public sector	2.8	5.7	5.6	0.3	-8.0	-1.9	-0.1
Credit to the private sector	2.3	7.3	-3.1	-0.1	-1.3	0.9	1.1
Memorandum items:							
Interest rates 7/							
Deposits (3-month time—maximum rate)	5.0	6.0	6.0	...	6.0	...	...
Lending: Minimum rate	9.5	9.5	9.5	...	8.5	...	...
Maximum rate	19.5	20.8	20.8	...	20.8	...	...

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

1/ EBS/02/152.

2/ The projection for 2003 reflects actual data through April 2003.

3/ Program numbers include debt assumed from DBMC in Q1 of FY 2002/03.

4/ Includes interbank float.

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

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

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

Table 7. Dominica: Balance of Payments

	1999	2000	2001	2002		2003	
				Prog. 1/	Prel.	Prog. 1/	Rev. Prog.
	(In millions of U.S. dollars)						
Current account balance	**-34.6**	**-52.5**	**-47.6**	**-33.7**	**-37.0**	**-36.1**	**-36.8**
Trade balance	-65.6	-75.6	-70.9	-52.5	-58.6	-54.6	-58.6
Exports (f.o.b.) 2/	56.0	54.7	44.4	47.6	42.8	50.7	39.6
Imports (f.o.b.)	121.6	130.4	115.3	100.1	101.4	105.3	98.2
Services balance	41.8	37.1	25.0	35.9	25.2	36.9	27.7
Exports of services	100.8	89.7	76.7	89.6	74.7	92.5	76.9
Travel	50.7	48.2	46.3	48.2	44.2	49.7	45.5
Other	50.0	41.6	30.4	41.4	30.5	42.9	31.4
Imports of services	59.0	52.7	51.7	53.7	49.4	55.7	49.3
Net income	-24.3	-32.0	-19.2	-29.9	-20.1	-31.5	-18.7
Interest payments (public sector)	-2.6	-6.2	-7.7	-8.8	-8.8	-9.7	-10.0
Other income	-21.7	-25.8	-11.5	-21.1	-11.3	-21.8	-8.7
Net current transfers	13.6	18.1	17.5	12.8	16.4	13.1	12.9
Private	10.3	10.6	11.5	11.4	12.0	11.6	12.9
Public	3.2	7.4	5.9	1.5	4.4	1.5	0.0
Capital and financial account	**45.7**	**53.2**	**41.2**	**13.5**	**27.3**	**19.6**	**17.5**
Capital account	11.8	10.9	18.0	12.2	13.3	9.8	10.8
Public capital transfers	9.4	9.6	15.3	9.3	10.5	6.9	8.0
Private capital transfers	2.5	2.7	2.7	2.8	2.7	2.9	2.8
Financial account	33.9	42.3	23.2	1.3	14.1	9.8	6.7
Public sector	35.0	21.2	23.0	5.8	25.2	2.7	-8.6
Budgetary flows (net)	42.0	23.9	24.6	6.9	24.4	3.8	-8.6
Disbursements	47.3	28.4	30.0	13.6	30.1	11.6	5.7
Repayments	5.2	4.5	5.4	6.7	5.7	7.8	14.3
Nonbudgetary flows (net)	-7.1	-2.7	-1.6	-1.1	0.8	-1.1	0.0
Private sector	-1.0	21.1	0.2	-4.5	-11.1	7.1	15.4
Direct investment	18.0	10.8	11.9	7.1	13.2	10.6	13.2
Commercial banks	-8.8	19.7	-10.0	-12.0	-24.0	-6.5	-0.9
Other private flow	-3.0	-7.8	-1.7	0.4	-0.3	3.0	3.0
Errors and omissions	**-7.6**	**-2.9**	**8.3**	**0.0**	**21.2**	**0.0**	**0.0**
Overall balance	**3.5**	**-2.2**	**1.9**	**-20.2**	**11.4**	**-16.5**	**-19.3**
Overall financing	**-3.5**	**2.2**	**-1.9**	**20.2**	**-11.4**	**16.5**	**19.3**
Net international reserves	-3.9	2.2	-1.9	-1.0	-11.4	-1.0	-3.0
Gross reserves	-3.9	2.2	-1.9	-4.0	-14.3	-2.2	-3.0
Reserve liabilities (IMF)	0.0	0.0	0.0	3.0	2.8	1.2	0.0
Exceptional financing	0.4	0.0	0.0	21.2	0.0	17.5	22.3
Arrears	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	21.2	0.0	17.5	22.3
	(In percent of GDP)						
Memorandum items:							
Current account balance 3/	-12.9	-19.4	-18.1	-12.6	-15.0	-13.1	-15.1
External public debt 4/	48.4	53.7	64.6	74.3	77.4	79.5	80.4

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

1/ EBS/02/152.

2/ Includes stores and bunkers.

3/ Presentation does not include public current transfers in 2003, estimated at 1.3 percent of GDP; including these sums, the current account would be 13.7 percent of GDP.

4/ Includes external financing gap.

Table 8. Dominica: Financial and External Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002		2003	
				Prog. 1/	Est.	Prog. 1/	Rev.Prog.
Financial indicators							
Broad money (percent change, 12-month basis)	10.4	0.6	7.4	6.1	8.5	2.6	3.0
Private sector credit (percent change, 12-month basis)	2.4	8.2	-3.2	-0.1	-1.4	1.2	1.4
Nonperforming loans (3 months and over)/total loans (percent)	18.7	18.3	21.4	...	19.2	...	...
Provisioning/nonperforming loans (percent)	35.7	38.0	31.9	...	36.7	...	...
Capital/risk weighted assets (percent)	8.2	8.8	9.8	...	8.5	...	...
Three-month treasury bill rate (end of period)	6.4	6.4	6.4	...	6.5	...	...
Three-month treasury bill rate (real) 2/	6.4	5.3	4.5	...	6.0	...	...
External indicators							
Exports of goods and services (percent change, 12-month basis in US$)	3.4	-7.9	-16.2	1.9	-3.0	4.4	-0.8
Imports of goods and services (percent change, 12-month basis in US$)	4.9	1.4	-8.8	-7.9	-9.7	6.7	-2.2
Current account balance 3/	-12.9	-19.4	-18.1	-12.6	-15.0	-13.1	-13.7
Capital and financial account balance 4/	14.2	18.6	18.8	5.0	19.6	7.1	7.2
Net official reserves (in US$ millions, end of period) 5/	31.5	29.0	30.4	32.2	45.5	33.2	48.5
Net reserves to broad money (percent, end of period) 5/	18.2	16.6	16.2	16.2	22.4	16.3	23.2
Public sector external debt	48.4	53.7	64.6	74.3	77.4	79.5	80.4
External debt (end of period) to exports of goods and services (percent) 6/	82.7	100.8	140.8	144.6	163.2	153.4	187.5
External interest payments to exports of goods and services (percent) 6/	-1.7	-4.3	-6.4	-6.4	-7.5	-6.8	-8.6
External amortization payments to exports of goods and services (percent) 6/	-3.3	-3.1	-4.5	-4.9	-4.9	-5.4	-12.3
Exchange rate (per US$, end of period)	2.7	2.7	2.7	2.7	2.7	2.7	2.7
REER appreciation (end of period; depreciation -)	0.8	4.8	3.7	...	-6.0	...	...

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

1/ EBS/02/152.
2/ Data for 2002 relate to end-September.
2/ Treasury bill rate adjusted by end-of-period inflation.
3/ Includes public current transfers for 2002 and projected public current transfers for 2003.
4/ Includes errors and omissions.
5/ Imputed reserves at the ECCB.
6/ Refers to public sector debt.

Table 9. Dominica: Medium-Term Projections

		Est.	Projections 1/			
	2001	2002	2003	2004	2005	2006
	(Annual percentage change)					
National income and prices						
GDP at constant (1990) prices	-4.2	-4.7	-1 to -3	0.5	2.0	2.0
Implicit GDP deflator (factor cost)	1.2	-0.4	0.5	1.5	1.5	1.5
	(In percent of GDP, unless otherwise stated)					
Saving and investment						
Gross domestic investment	21.2	10.7	11.8	14.1	15.2	16.2
Public	15.3	6.7	6.8	8.1	8.2	8.2
Private	5.9	4.0	5.0	6.0	7.0	8.0
Gross national saving	3.1	-4.2	-2.0	1.9	4.2	5.9
Public 2/	-2.5	-3.0	-4.0	-2.6	-1.0	0.7
Private	5.6	-1.2	2.0	4.4	5.2	5.2
Central government finances 3/						
Central government saving	-4.6	-7.3	-5.3	-4.1	-2.4	-0.7
Current revenue	28.6	28.2	29.0	29.4	29.4	29.8
Current expenditure	33.3	35.5	34.3	33.4	31.8	30.5
Overall balance (after grants)	-8.5	-7.1	-7.7	-7.5	-5.8	-4.1
Grants	1.8	4.7	4.6	3.6	3.6	3.6
Capital spending 4/	5.7	4.5	7.0	7.2	7.2	7.3
Primary balance	-3.2	-1.4	-1.9	-1.9	-0.4	1.1
Balance of payments						
External current account 2/	-18.1	-15.0	-13.7	-12.2	-11.1	-10.3
Of which						
Exports of goods and services	45.9	47.4	47.8	48.2	48.1	48.0
Imports of goods and services	63.3	60.9	60.5	59.6	58.6	58.0
Capital and financial account 5/	18.8	19.6	7.2	7.1	6.4	7.4
Overall balance	0.7	4.6	-6.5	-5.2	-4.7	-2.9
Identified financing	-0.7	-4.6	-1.2	-0.4	-0.4	-0.4
Financing gap 6/ 7/	0.0	0.0	7.8	5.6	5.0	3.3
Public sector debt and debt service						
Public sector debt	91.5	106.0	113.6	118.7	121.4	121.6
External	64.6	77.4	80.4	87.8	88.1	89.7
Domestic	26.9	28.6	33.2	30.9	33.4	31.9
External debt/exports 8/	140.8	163.2	168.4	182.2	183.2	187.0
External debt service/exports 8/	10.8	12.3	20.9	14.9	13.9	14.2

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

1/ Projections assume an adjustment scenario.

2/ Includes 1.8 percent of GDP in public current transfers for 2002, as well as 1.3 percent in projected public current transfers for 2003 and 1 percent for 2004-06.

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/ Includes capital transfer to the Banana Trust Fund of 1 percent of GDP from 2003 onwards.

5/ Including errors and omissions.

6/ Excludes projected public current transfers for 2003-06. Gaps are expected to be filled by a combination of sustained fiscal adjustment, stuctural reform, privatization, exceptional donor financing and implementation of a comprehensive debt strategy.

7/ Excludes US$10.2 million in debt assumed to be rolled-over.

8/ Exports of goods and services.

Table 10. Dominica: Nonfinancial Public Sector Debt Structure at End-December 2002

	Debt stocks			Interest payments	Implicit interest
	In millions of EC$	In millions of US$	In percent of GDP	(In millions of EC$)	rate (In percent)
Nonfinancial public sector domestic debt	191.2	70.8	28.6	...	...
Central government domestic debt	287.2	106.4	43.0	18.5	6.4
Of which					
ECCB	25.0	9.3	3.7	1.4	5.5
Private domestic banks	61.9	22.9	9.3	9.5	15.4
NCB	34.0	34.0	5.1	...	...
Arrears	61.8	22.9	9.2	...	...
Nonfinancial public sector external debt	517.3	191.6	77.4	29.7	5.7
Multilateral	219.9	81.4	32.9	7.8	3.5
CDB	171.2	63.4	25.6	6.5	3.8
Official bilateral	104.4	38.7	15.6	6.5	6.2
Commercial	179.2	66.4	26.8	15.4	8.6
Citicorp	45.5	16.9	6.8	4.1	9.0
Royal Merchant Bank	79.9	29.6	11.9	7.3	9.1
Societe General	29.7	11.0	4.4	2.0	6.6
Intercommercial Bank	6.8	2.5	1.0	0.7	10.6
Others	17.3	6.4	2.6	1.4	7.9
Debentures	16.1	6.0	2.4	1.3	8.0
Treasury bills	1.2	0.4	0.2	0.1	6.2
External Arrears	13.8	5.1	2.1	...	...
Total	708.5	262.4	106.0	...	...

Sources: Dominican authorities; and Fund staff estimates.

Table 11. Dominica: Public Sector Debt Sustainability Framework, FY 19997/98-2006/07

(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections			
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
I. Baseline Medium-Term Projections										
1 **Public sector debt 1/**	**60.4**	**70.5**	**76.6**	**87.5**	**96.0**	**110.6**	**116.6**	**120.7**	**122.2**	**121.1**
2 Change in public sector debt	5.5	10.1	6.1	10.9	8.5	14.6	6.0	4.1	1.4	-1.1
3 Identified debt-creating flows (4+7+12)	0.7	4.1	10.5	13.7	13.8	10.9	6.1	4.2	1.5	-1.0
4 Primary deficit	0.5	4.2	8.0	7.6	5.1	0.5	-0.3	0.1	-1.4	-2.7
5 Revenue and grants	36.4	38.8	37.1	45.0	35.5	40.5	42.4	41.6	41.5	41.6
6 Primary (noninterest) expenditure	37.0	43.1	45.1	52.6	40.6	41.0	42.2	41.6	40.1	38.9
7 Automatic debt dynamics 2/	0.1	-0.1	2.5	6.1	8.7	10.3	6.4	4.1	2.9	1.7
8 Contribution from interest rate/growth differential 3/	0.1	-0.1	2.5	6.1	8.7	10.3	6.4	4.1	2.9	1.7
Of which										
9 Contribution from real interest rate	1.4	1.2	3.3	2.6	7.8	7.0	5.5	5.6	5.2	4.1
10 Contribution from real GDP growth	-1.2	-1.3	-0.8	3.5	0.9	3.4	0.9	-1.4	-2.4	-2.4
11 Contribution from exchange rate depreciation 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12 Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 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
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including asset changes (2-3)	4.8	6.0	-4.4	-2.7	-5.3	3.7	-0.1	-0.1	-0.1	-0.1
Public sector debt in percent of revenues 1/	165.7	181.4	206.7	194.3	270.5	273.1	274.8	290.4	294.7	291.0
Gross financing 5/	**3.2**	**7.9**	**13.1**	**13.6**	**11.6**	**8.7**	**12.8**	**9.8**	**8.4**	**6.7**
In millions of U.S. dollars	8.0	20.8	35.1	36.1	29.6	21.4	31.4	24.6	21.8	18.0
Key macroeconomic and fiscal assumptions										
Real GDP growth (in percent)	2.4	2.2	1.2	-4.5	-1.0	-3.4	-0.8	1.3	2.0	2.0
Average nominal interest rate on public debt (in percent) 6/	5.0	4.3	5.6	6.5	5.9	6.6	6.0	5.6	5.2	5.0
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.7	2.0	4.8	3.2	8.6	7.0	5.0	4.9	4.5	3.5
Nominal appreciation (increase in U.S. dollar value of local currency, in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.3	2.2	0.8	3.3	-2.7	-0.4	1.0	0.7	0.7	1.5
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.4	19.1	5.9	11.5	-23.7	-2.4	2.0	0.0	-1.8	-1.1
II. Stress Tests										
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003-2007						110.6	115.0	119.5	124.1	128.7
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004						110.6	119.5	126.9	128.5	127.5
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004						110.6	119.7	129.9	131.4	130.2
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004						110.6	126.6	140.8	142.7	141.9
5. Combination of 2-4 using one standard deviation shocks						110.6	123.7	137.7	138.4	136.4
6. One time 30 percent real depreciation in 2003 7/						110.6	149.1	154.4	156.6	156.0
7. 10 percent of GDP increase in other debt-creating flows in 2003						110.6	126.6	131.1	132.8	131.8
8. Impact on debt-to-GDP ratio if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04						110.6	128.9	144.9	146.9	146.2
8a. Impact on debt-to-revenue ratio if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04						273.1	428.0	481.0	354.4	351.3

Historical statistics for key variables (past 10 years)	**Historical Average**	**Standard Deviation**	**Average 2002/03-2006/07**
Primary deficit	2.6	3.6	-0.7
Real GDP growth (in percent)	1.1	2.2	0.2
Nominal interest rate (in percent) 6/	5.0	1.0	5.7
Real interest rate (in percent)	2.9	2.4	5.0
Inflation rate (GDP deflator, in percent)	2.1	1.9	0.7
Revenue to GDP ratio	37.6	3.7	41.5

Sources: Dominican Authorities; and Fund staff estimates and projections

1/ Nonfinancial public sector debt on a gross basis.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation.
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.
4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 12. Dominica: External Debt Sustainability Framework, 1997–2007

(In percent of GDP, unless otherwise indicated)

	Actual					Est.	Projections				
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. Baseline Medium-Term Projections											
1 **External debt**	**36.7**	**35.1**	**48.4**	**53.7**	**64.6**	**77.4**	**80.4**	**87.8**	**88.1**	**89.7**	**86.3**
2 Change in external debt	-7.1	-1.6	13.4	5.3	10.9	12.8	3.0	7.4	0.3	1.6	-3.4
3 Identified external debt-creating flows (4+8+11)	10.0	4.6	4.8	14.8	15.5	12.2	10.9	6.4	4.0	3.4	2.9
4 Current account deficit, excluding interest payments	18.9	8.1	11.9	17.1	15.1	11.4	11.0	9.6	8.7	8.2	7.6
5 Deficit in balance of goods and services	17.3	7.9	8.9	14.2	17.4	13.5	12.7	11.4	10.6	10.1	9.6
6 Exports	50.2	58.5	58.6	53.3	45.9	47.4	47.8	48.2	48.1	48.0	47.9
7 Imports	67.5	66.4	67.5	67.5	63.3	60.9	60.5	59.6	58.6	58.0	57.5
8 Net nondebt creating capital inflows (negative)	-8.7	-2.5	-6.7	-4.0	-4.5	-5.3	-5.4	-5.3	-5.1	-5.0	-4.8
9 Net foreign direct investment, equity	8.7	2.5	6.7	4.0	4.5	5.3	5.4	5.3	5.1	5.0	4.8
10 Net portfolio investment,equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11 Automatic debt dynamics 1/	-0.2	-1.0	-0.4	1.7	4.8	6.2	5.3	2.1	0.4	0.2	0.0
12 Contribution from nominal interest rate	1.1	1.0	1.0	2.3	2.9	3.5	4.1	3.6	3.4	3.2	3.1
13 Contribution from real GDP growth	-0.8	-1.0	-0.5	-0.3	2.5	2.4	1.6	-0.4	-1.7	-1.7	-1.7
14 Contribution from price and exchange rate changes 2/	-0.5	-0.9	-0.9	-0.3	-0.6	0.3	-0.4	-1.2	-1.3	-1.3	-1.3
15 Residual, incl. change in gross foreign assets (2–3)	-17.1	-6.2	8.6	-9.5	-4.6	0.5	-7.8	1.0	-3.7	-1.8	-6.3
External debt-to-exports ratio (in percent)	73.0	60.0	82.7	100.8	140.8	163.2	168.4	182.2	183.2	187.0	180.2
Gross external financing need (in billions of U.S. dollars) 3/	**0.1**	**0.0**	**0.0**	**0.1**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
In percent of GDP	23.4	11.2	14.9	21.0	20.1	17.3	18.3	19.0	15.5	14.5	14.2
Key macroeconomic and external assumptions											
Nominal GDP (U.S. dollars)	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.3	0.3	0.3
Real GDP growth (in percent)	2.0	2.8	1.6	0.7	-4.6	-3.6	-2.0	0.5	2.0	2.0	2.0
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP deflator (change in domestic currency)	1.2	2.7	2.5	0.6	1.2	-0.4	0.5	1.5	1.5	1.5	1.5
GDP deflator in U.S. dollars (change in percent)	1.2	2.7	2.5	0.6	1.2	-0.4	0.5	1.5	1.5	1.5	1.5
Nominal external interest rate (in percent)	2.6	2.7	2.9	4.8	5.3	5.1	5.2	4.6	4.0	3.8	3.6
Growth of exports (U.S. dollar terms, in percent)	8.6	24.4	3.4	-7.9	-16.2	-3.0	-0.8	2.9	3.3	3.3	3.3
Growth of imports (U.S. dollar terms, in percent)	2.6	5.1	4.9	1.4	-8.8	-9.7	-2.2	0.5	1.8	2.5	2.5
II. Stress Tests for External Debt Ratio											
1. Real GDP growth, nominal interest rate, dollar deflator, noninterest current account, and nondebt inflows are at historical average in 2003-2007						77.4	76.6	84.7	88.1	93.3	93.9
2. Nominal interest rate is at historical average plus two standard deviations in 2003 and 2004						77.4	80.5	88.3	88.6	90.3	86.8
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004						77.4	81.3	91.7	92.0	93.6	90.2
4. Change in U.S. dollar GDP deflator is at historical average minus two standard deviations in 2003 and 200						77.4	81.1	90.0	90.3	91.9	88.5
5. Non-interest current account is at historical average minus two standard deviations in 2003 and 2004						77.4	98.3	125.3	125.7	127.5	124.1
6. Combination of 2–5 using one standard deviation shocks						77.4	89.7	111.5	111.9	113.6	110.2
7. One time 30 percent nominal depreciation in 2003						77.4	112.0	120.2	120.6	122.4	118.9

Historical statistics for key variables (past 10 years)	**Historical Average**	**Standard Deviation**	**Average 2002-07**
Current account deficit, excluding interest payments	16.4	6.2	9.4
Net nondebt creating capital inflows	8.7	6.2	5.2
Nominal external interest rate (in percent)	3.1	1.1	4.4
Real GDP growth (in percent)	1.4	2.2	0.1
GDP deflator in U.S. dollars (change in percent)	2.6	1.4	1.0

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

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in U.S. dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

Table 13. Dominica: Schedule of Purchases Under the Stand-By Arrangement

Date	Purchases (in millions)		As Percent	Conditions
	US$ 1/	SDR	of Quota	
2002	**2.819**	**2.050**	**25.0**	
August 28	2.819	2.050	25.0	Board approval of SBA (first credit tranche)
2003	**1.268**	**0.923**	**11.3**	
July 21	0.423	0.308	3.8	First review; adoption of prior actions
September 15	0.423	0.308	3.8	End-July 2003 performance criteria
November 15	0.423	0.308	3.8	Second review; and end-September 2003 performance criteria
2004	**0.423**	**0.308**	**3.8**	
February 15	0.423	0.308	3.8	Third review; and end-December 2003 performance criteria
Total	**4.51**	**3.28**	**40.0**	
Memorandum item:				
Quota (in millions)	11.23	8.20	100.0	

Source: Fund staff estimates.

1/ For illustrative purposes only, SDR amounts have been coverted into U.S. dollars at an US$/SDR exchange rate of 1.37.

Table 14. Dominica: Indicators of Capacity to Repay the Fund, 2002-06

	Prel.	Projections 1/			
	2002	2003	2004	2005	2006
Fund repurchases and charges 2/					
In millions of SDRs	0.0	0.1	0.1	0.4	1.2
In millions of U.S. dollars	0.0	0.1	0.1	0.5	1.6
In percent of exports of goods and services	0.0	0.1	0.1	0.4	1.3
In percent of debt service	0.0	0.6	0.8	3.1	8.9
In percent of quota	0.0	1.2	1.2	4.9	14.6
In percent of imputed net official reserves	0.0	0.3	0.3	1.1	3.1
Fund credit outstanding 2/					
In millions of SDRs	2.1	3.0	3.3	3.0	1.9
In millions of U.S. dollars	2.7	4.1	4.5	4.0	2.5
In percent of exports of goods and services	2.3	3.5	3.7	3.2	2.0
In percent of debt service	18.3	16.7	25.0	23.3	13.9
In percent of quota	25.0	36.3	40.0	36.3	22.9
In percent of imputed net official reserves	5.8	8.4	9.0	7.9	4.9
Memorandum items:					
Exports of goods and services (millions of U.S. dollars)	117.4	116.5	119.8	123.8	127.9
Debt service (millions of U.S. dollars) 2/	14.5	24.3	17.8	17.2	18.1
Quota (millions of SDRs)	8.2	8.2	8.2	8.2	8.2
Quota (millions of U.S. dollars)	10.6	11.2	11.1	11.0	11.0
Imputed net official reserves (millions of U.S. dollars)	45.5	48.5	49.5	50.5	51.5
GDP (millions of U.S. dollars)	247.6	243.9	248.7	257.5	266.6
U.S. dollars per SDR 3/	0.772	0.732	0.736	0.746	0.746

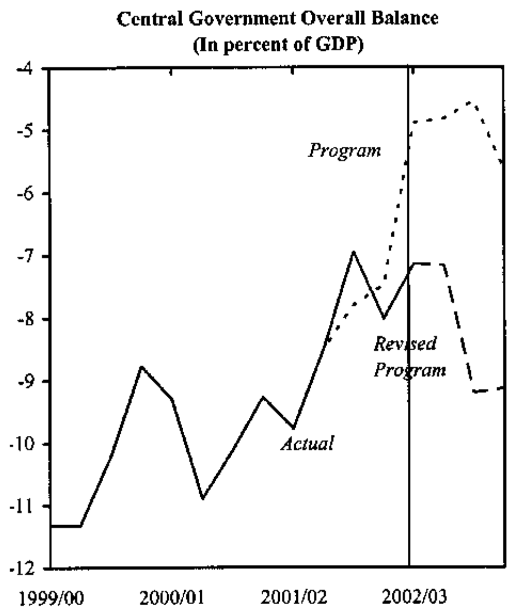
Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

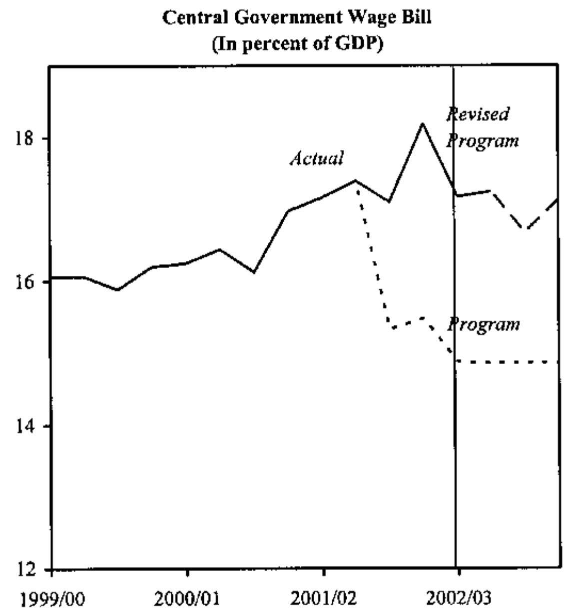
1/ As of May, 2003.

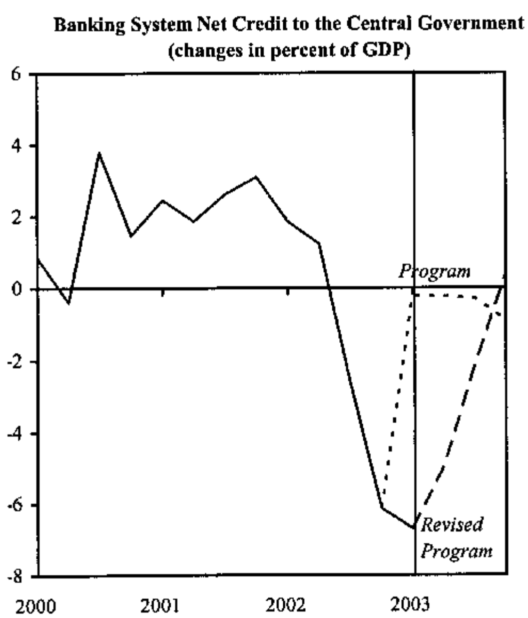
2/ Including hypothetical purchases under Stand-By Arrangement, not shown in the balance of payments projections.

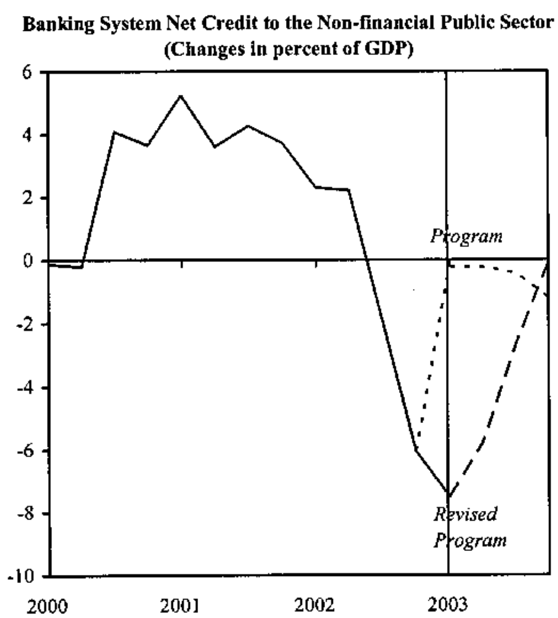
3/ For the projection period: WEO assumptions of April 2003.

Figure 1. Dominica: Performance Under the Program



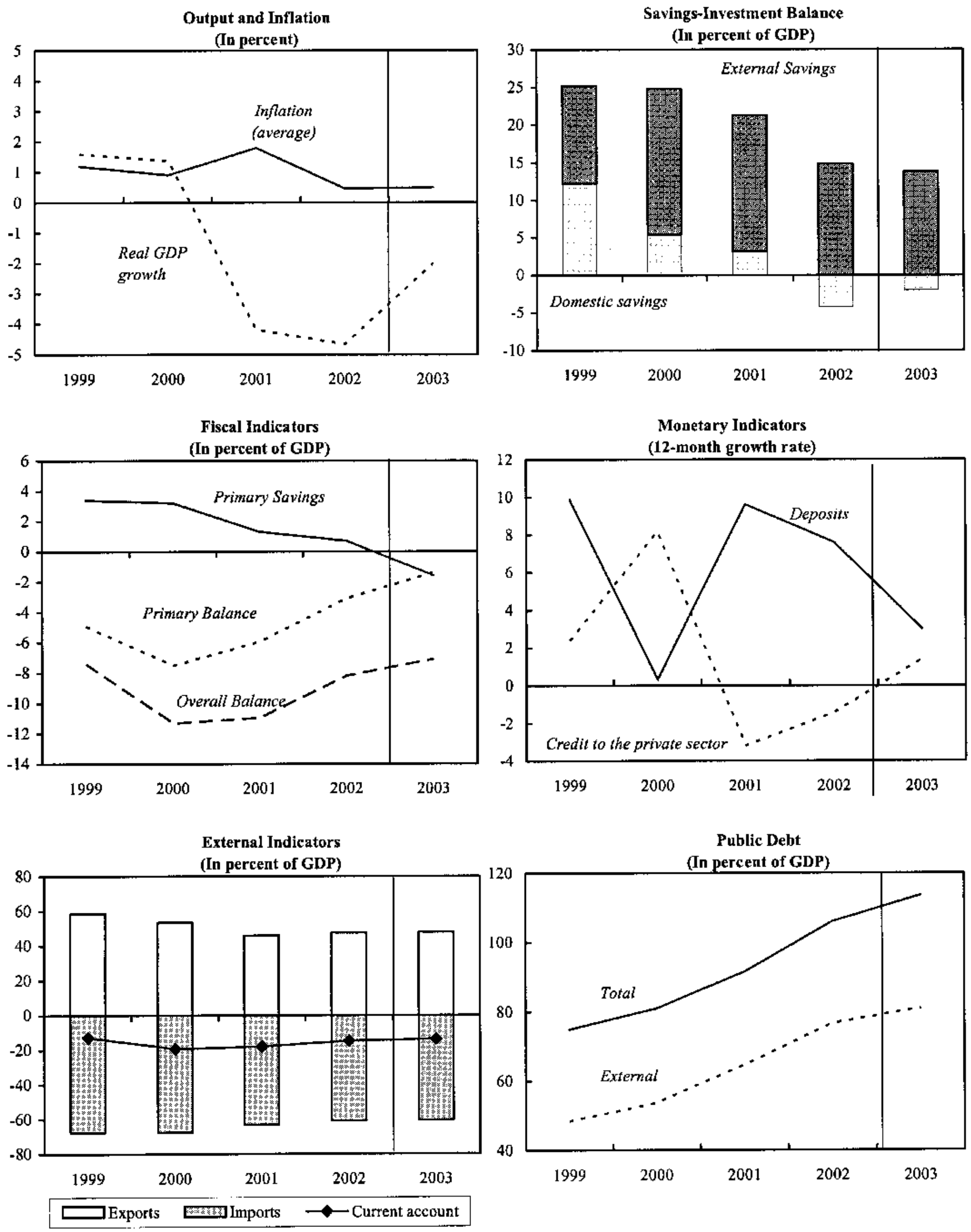






Sources: Dominican authorities; Eastern Caribbean Central Bank (ECCB); and Fund staff estimates and projections.

Figure 2. Dominica: Macroeconomic Performance



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

Dominica: Fund Relations

(As of May 31, 2003)

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

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

	SDR Million	Allocation
III. SDR Department		
Net cumulative allocation	0.59	100.00
Holdings	0.003	0.45

	SDR Million	% Quota
IV. Outstanding Purchases and Loans:		
Stand-by arrangements	2.05	25.00

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	08/28/02	08/27/03	3.28	2.05
SAF	11/26/86	11/25/89	2.80	2.80
Stand-by	07/18/84	07/17/85	1.40	0.97
EFF	02/06/81	02/05/84	8.55	8.55

VI. Projected Obligations to the Fund:

	Forthcoming				
	2003	2004	2005	2006	2007
Principal			0.26	1.02	0.77
Charges/Interest	*	0.06	0.06	*	*

* Less than SDR 50,000

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

VIII. Safeguards Assessment: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which Dominica is a participating government, is subject to a full safeguards assessment with respect to the Stand-By Arrangement approved on August 28, 2002 and scheduled to expire on August 27, 2003.

The on-site safeguards assessment was completed on February 20, 2003 and concluded that the ECCB has in place appropriate mechanisms to manage resources, including Fund disbursements and that the vulnerabilities that remain do not present an undue risk. The safeguards assessment proposed specific measures to address these vulnerabilities and implementation by the ECCB is currently in progress.

IX. Article IV consultation: The last Article IV consultation was concluded by the Executive Board on August 28, 2002 (EBM/02/89); the relevant documents are EBS/02/152 and SM/02/261. Dominica is on the standard 24-month cycle.

X. Technical assistance: FAD missions visited Roseau to provide technical assistance on tax policy and administration, with special emphasis on VAT implementation (2002 and 1999), on urban property taxation (1997), and on tax policy and administration, and expenditure control (1995).

Dominica: Relations with the Caribbean Development Bank (CDB)

(As of May 31, 2003)

- **The CDB has approved loans and grants totaling about US$144 million for Dominica** (representing approximately 6½ percent of total CDB's approvals for member countries). Of this amount, about 93 percent (US$133½ million) consisted of loans and the reminder (around 7 percent or US$10½ million) of grants.

- **Sectoral distribution of loans:** More than half of total loan approvals has been lent for economic and social infrastructure projects, about one third for projects in the productive sectors, and the remainder for multisector projects. Infrastructure projects have included power and energy, transportation and communications, housing, education, sea defenses, and water. More than half of the loans for productive sectors have gone to the agriculture sector, reflective of the dominance of this sector in the economy, and the remainder has been allocated to manufacturing and tourism. A significant portion of loans to the productive sectors has been was channeled to private sector through the Dominica Agricultural and Industrial Bank (DAIDB).

- **Grants:** Loans to the social sectors were supplemented by grant resources, with more than three fourths of grants provided under the Basic Needs Trust Fund (BNTF) for poverty reduction. The remaining grants were used to provide technical assistance.

- **Ongoing projects financed by CDB:** The Fourth Consolidated Line of Credit, Roseau Water and Sewerage Project, Seventh Consolidated Line of Credit, OECS Solid Waste Project, an Eco-tourism project, and the Seventh Consolidated Line of Credit to DAIDB for on-lending to the productive sectors and to students.

DOMINICA

Financial Relations with the Caribbean Development Bank
(For the Years Ended December 31, 1996–2002)

(In millions of U.S. Dollars)

ITEM	1996	1997	1998	1999	2000	2001	2002
Cumulative Total Credit Approved	85.37	91.04	96.21	96.21	113.2	118.63	128.01
Cumulative Disbursements	61.10	62.78	67.28	72.79	82.73	94.56	101.54
Disbursements	1.21	2.61	3.79	5.51	9.94	11.83	6.98
Outstanding Debt	41.22	40.82	41.78	44.69	51.41	60.39	65.02
Amortization	2.40	2.43	2.54	2.73	2.73	2.70	2.59
Interest	1.30	1.24	1.10	1.14	1.35	1.61	1.58

Dominica: World Bank Relations[5]

(As of May 31, 2003)

- **The World Bank role in Dominica:** The Bank will continue to collaborate with the Fund and other donors in supporting the authorities efforts in stabilizing macroeconomic conditions and in restarting economic growth and reducing poverty. In this connection, the Bank will lead the policy dialogue on key structural reforms, including public expenditure, public sector reform, in the social sectors, and on the environment for private sector development.

- **Bank-Fund collaboration in specific areas:** The World Bank and the IMF will continue to collaborate on financial sector and off-shore management, and in providing a wide range of technical assistance to Dominica on macroeconomic management issues through joint support to the Caribbean Regional Technical Assistance Center (CARTAC).

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

- **Ongoing projects:** There are currently two ongoing World Bank projects in Dominica (as well as other OECS borrowing countries) with total commitments of approximately US$4.4 million for Dominica.

(i) The *OECS Telecommunications Reform Program*, approved in FY 1998 seeks to introduce pro-competition reforms in the telecommunications sectors and increase the supply of informatics-related skills in the OECS borrowing countries. The project has helped these countries establish a regional regulatory authority, negotiate with the sub-regional telecommunications monopoly, and lower telephone rates. Dominica's share of the US$6.0 million loan is US$1.2 million.

[5] Source: World Bank.

(ii) The *OECS Emergency Recovery Project*: This project was approved in FY 2002 to help mitigate the impact of the September 11 attack on the tourism sector. The project supports improvements to airport and seaport security arrangements. The World Bank's assistance for this sub-regional program is US$21 million, including US$3.2 million for Dominica.

- **Analytical and Advisory Services:** The Bank has been engaged in three categories of analytical work of direct relevance to Dominica.

(i) The first body of work builds on Bank-wide program on small states and focuses on the issue of vulnerability in the Caribbean. Recent work includes a study of macroeconomic volatility and income security in the Caribbean, research on catastrophic insurance for the OECS and Barbados, reviews of natural hazard risk mitigation strategies in the Caribbean and institutional arrangements for environmental management in the OECS, and technical assistance to help strengthen the measurement of poverty and social welfare in the OECS. Several of these reports were discussed at the Caribbean Group for Cooperation in Economic Development (CGCED) at its biennial meeting in June 2002.

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

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

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

Operations	**Commitments**	**Disbursed**	**Undisbursed**
Emergency Recovery Project	3.2	1.5	1.7
OECS Telecommunication Reform	1.2	0.4	0.8

Gross Disbursements and Debt Service During Fiscal Year

	1996	1997	1998	1999	2000	2001	2002	2003*
Total disbursements	0.1	0.5	1.9	1.4	2.1	0.4	1.7	2.6
Repayments	0.1	0.2	0.1	0.1	0.1	0.0	0.1	0.3
Net disbursements	0.0	0.3	1.8	1.3	1.9	0.4	1.6	2.3
Cancelled	0.0	0.0	0.0	0.0	0.0	0.0	1.8	0.0
Interest and fees	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3

*As of April 30, 2003.

Roseau, Dominica
June 21, 2003

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

Dear Mr. Köhler:

1. This letter and the attached memorandum supplement our letter dated August 13, 2002, and describe performance under the Government of Dominica's economic program for FY 2002/03 (beginning July 1), which is being supported by an IMF stand-by arrangement (SBA). The attached memorandum also articulates the economic policies that the Government intends to implement during the remainder of calendar year 2003. Through these, the Government aims at restoring order to the public finances, maintaining low inflation and reducing external vulnerability, while laying the basis for the sustainable growth of output and employment and for poverty reduction over the medium term.

2. To support its effort in this regard, the Government of Dominica seeks IMF support for the period July 2003-February 2004 and hereby requests: (i) completion of the first review under the current SBA; (ii) waivers for the non-observance of certain performance criteria for end-December 2002 and a structural performance criterion for end-June 2003;[6] (iii) a six-month extension of the SBA through February 27, 2004; (iv) the rephasing of the remaining amounts available under the SBA in four equal purchases in an amount of SDR 0.3075 million each linked to the current review and the test dates at end-July, end-September, end-December 2003 as well as the second review in mid-November 2003 and third review in mid-February 2004, we intend to make the purchase after completion of this review. We also request that quantitative performance criteria under the arrangement be set for end-July, end-September, and end- December 2003, as described in the attached

[6] The quantitative performance criteria missed through end-December 2002 include: (i) central government overall balance; (ii) central government wage bill; (iii) banking system net credit to the central government; (iv) banking system net credit to the nonfinancial public sector; (v) central government arrears to Social Security and DOWASCO; (vi) disbursement of nonconcessional external debt to the NFPS with maturity of at least one year; and (vii) external payments arrears of the NFPS. The structural performance criterion missed was implementation of tax measures in line with recommendations of the FAD/CARTAC comprehensive review of the tax system. These measures will be implemented in the budget for FY 2003/04.

memorandum.[7] Before the above requests are considered by the IMF Board, we will: (a) have the budget for FY 2003/04 approved consistent with the program, including enactment of all fiscal measures included in the fiscal package described in the attached memorandum (¶8-9); and (b) have a new cash management system for the Treasury fully in place.

3. As in the past, the Government will maintain a continuous dialogue with the Fund and stand ready to adopt measures that may be appropriate to achieve the objectives of the program, especially if donor support is lower than projected. We will also provide the Fund's staff with all the relevant information required to complete program reviews and measure performance criteria. Reviews under the remaining period of the arrangement will be completed by November 15, 2003 and February 15, 2004. These reviews will be associated with financing assurances and will assess overall performance under the program, as well as observance of the performance criteria for end-September and end-December 2003, respectively.

Sincerely yours,

/s/	/s/
Pierre Charles Prime Minister and Minister of Finance and Planning	Swinburne Lestrade Director General of Finance and Planning

Attachment

[7] We propose to reduce the number of domestic arrears-related performance criteria from two to one; we refocused certain fiscal quantitative performance criteria to cover the Central Government rather than the NFPS, and to measure the fiscal balance from below the line.

SUPPLEMENT TO THE MEMORANDUM OF ECONOMIC POLICIES OF THE GOVERNMENT OF DOMINICA

I. BACKGROUND

1. **The Government embarked on an ambitious program last year**. Faced with the weak performance of the economy and the continued sharp deterioration of the public finances, we adopted a stabilization program for FY 2002/03 with international financial support, including through a one-year IMF stand-by arrangement (SBA). Our economic program aimed at laying the basis for renewed and sustainable growth and poverty reduction over the medium term through the implementation of sound macroeconomic policies and structural reforms geared to bolstering the economy's productive potential.

2. **Despite these efforts, the FY 2002/03 program fell short of its objectives.** Mostly reflecting the larger than anticipated economic contraction and external shocks, tax collections fell short of programmed levels. At the same time, the government wage bill was higher than envisaged under the SBA. Consequently, and notwithstanding substantially larger than anticipated grants and lower capital spending, the government deficit is estimated to have amounted to almost 7 percent of GDP, compared with 5¾ percent of GDP targeted in the program and 10½ percent in the preceding year. Most performance criteria for end-December 2002 under the SBA were not observed.

3. **In the face of a renewed government financing crisis and the prospects for further sharp declines in output and employment, a two-stage strategy for stabilization and structural reform is being adopted**. The strategy involves, in the first stage, a short-term program for the remainder of 2003 with strengthened macroeconomic policies and a refocused structural agenda aimed at improving the prospects for orderly adjustment with support from the official international community. This would give time for the Government to elaborate a comprehensive medium-term program over the next few months. In this context, we are firmly committed to implement policies to re-establish growth on a sustainable basis and reduce economic vulnerabilities, including actions to ensure public sector debt sustainability over the medium-term. It is expected that the implementation of this program beginning in early 2004—the second stage of the Government's strategy—will be supported by further international assistance, including a successor three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF.

II. MACROECONOMIC PROGRAM FOR THE SECOND HALF OF 2003

4. **The program assumes that the economy will bottom out in 2003 and inflation will remain low in the near term**. For the entire fiscal year 2003/04, output is projected to decline by about 1 percent, as continuing difficulties in banana production and wholesale and retail trade would be partly offset by higher public investment under the program (see below). At the same time, inflation is projected at ½ percent in 2003, reflecting low imported inflation under the ECCU peg and weak aggregate domestic demand.

5. **The key objectives of the program are to ensure a process of orderly adjustment under the first stage of the strategy and to set the basis for an ambitious medium-term program under the second stage**. The main elements of the program are: (i) a bold fiscal consolidation effort based on adjustment measures yielding 2½ percent of GDP; (ii) adequate financing assurances to meet the financing needs for the remainder of 2003; and (iii) definition and early implementation of structural reform measures to support sustainable growth and set the debt to GDP ratio on a clear downward trajectory. The Government of Dominica believes that the policies described in this memorandum will achieve the objectives of the program. Performance criteria related to these policies are specified in Table 1 and defined in the attached technical memorandum of understanding.

A. Fiscal Policy

6. **The Government is committed to containing the overall deficit at about 7½ percent of GDP in FY 2003/04.** To achieve this target, up-front permanent measures yielding 2½ percent of GDP have been included in the budget to be submitted to parliament on June 23. This reflects an extraordinary effort in the current depressed economic environment. Nevertheless, such an ambitious fiscal adjustment program is necessary to address severe financing constraints and will still require significant financial assistance from the international community.

7. **The fiscal package seeks to address weaknesses in the tax system and its administration.** Our key objectives are to broaden the tax base, reduce reliance on cascading taxation and, over the medium-term, move to a VAT system. Drawing on the IMF/CARTAC recommendations, the revenue measures under the June 2003 budget, which include a combination of tax increases and tax reductions, are a first step in that direction.

8. **Revenue measures yielding EC$10 million (1½ percent of GDP) will be implemented under the program**. The following tax measures will become effective when the FY 2003/04 budget is adopted, which we expect it to be in the first half of July.

Revenue enhancing measures are:

- *Sales tax.* The rate is increased from 5 to 7.5 percent, which would yield revenues of about EC$8.5 million (1.3 percent of GDP).

- *Import duties on the electricity company.* Duty free concessions to DOMLEC are eliminated, which would yield about EC$3.4 million (0.5 percent of GDP).

- *Customs service charge.* The rate is increased from 2 to 3 percent, which would generate revenues of EC$2.7 million (0.4 percent of GDP).

- *Corporate tax on banks.* Exemption of banks' interest receipts (related to mortgages) from the corporate tax is eliminated, which would amount to EC$2 million (0.3 percent of GDP).

- *Tax concessions*. Concessions are reduced by a further EC$1.5 million (0.2 percent of GDP) by drastically reducing those concessions for which there is no clear economic rationale or legal basis. Considerable progress has been made in reducing concessions over the last 12 months, and the Government is committed to continuing to apply strict standards in using its discretionary power in this area. To this effect, the Government will reiterate in the budget speech its intention to control strictly the granting of new tax concessions. Moreover, the Government intends to conduct a review of the use and effectiveness of all existing concessions and to set appropriate monitoring and management procedures by end-September 2003.

- *Tax on travel tickets*. This tax is introduced at a rate of 7.5 percent, consistent with the sales tax rate. This tax will yield EC$1.2 million (0.2 percent of GDP).

Revenue reducing measures are:

- *Consumption tax*. The tax rate is reduced from 25 to 20 percent, costing EC$6.7 million (1 percent of GDP).This measure aims to ease the financing constraints of local firms, while paving the way for the introduction of a VAT at a later stage.

- *Stabilization levy*. The tax rate is reduced from 4 to 3 percent, costing EC$2.7 million (0.4 percent of GDP). This will improve domestic support to the program.

Other tax measures are:

- *Fuel tax*. We will replace the current system of price controls with an automatic mechanism to adjust domestic fuel prices to pass through cost changes related to world fuel prices (by end-September). The price will be consistent with a fuel tax of about EC$2.9 per gallon with the objective of yielding at least 3 percent of GDP.

9. **Expenditure cuts amounting to about EC$7 million (1 percent of GDP) will be implemented in the context of the budget**. The expenditure reducing measures are essential to a balanced fiscal adjustment and have been designed to prevent further increases in unemployment and to help improve external competitiveness as well as the economy's growth prospects. At the same time, the Government will continue to protect priority spending related to social sectors and essential government service delivery.

Wage related measures are:

- *Wage cuts*. Salaries of established workers at the central government level will be reduced by 5 percent effective with the new budget. This would generate savings of EC$3.9 million (0.6 percent of GDP).

- *Wage-related transfers to local institutions*. All wage related transfers to local institutions will be subject to a 5 percent cut. This measure will generate savings of EC$0.2 million (almost 0.1 percent of GDP).

- *Cuts in allowances.* The entertainment allowance will be reduced by 50 percent, and all other allowances will be cut by 10 percent, generating savings of EC$0.5 million (0.1 percent of GDP).

Employment related measures are:

- *Reduction in work time.* Savings from cuts in the work time of casual workers and overtime will amount to EC$1.2 million (0.2 percent of GDP).

- *Retrenchment.* Some temporary worker positions will be gradually closed and not renewed. This will yield savings of EC$0.7 million (0.1 percent of GDP).

- *Attrition.* A freeze on hiring of permanent and temporary employees (except when absolutely unavoidable because of the importance of the position) will be put in place, with a view to generating savings of EC$0.3 million (almost 0.1 percent of GDP).

10. **In order to improve public expenditure management, the Government will implement effective cash flow management procedures.** These procedures will provide the Ministry of Finance and Planning (MoFP) a tool to anticipate, control and manage expenditure, while allocating resources appropriately. The procedures entail issuing monthly cash flow projections, six months ahead and revised monthly, based on inputs from the revenue collecting departments and the line ministries. The MoFP will communicate to the ministries spending limits consistent with the resources available and consistent with the program targets. In this context, the Government will require prior approval by the MoFP of all purchases (local and foreign) of goods and services by the line ministries exceeding EC$1,000. The MoFP will reduce or delay monthly allocations for ministries that fail to provide complete information on time.

11. **The program envisages implementation of an ambitious donor-financed investment program, to minimize the contractionary impulse and establish a durable foundation for long-term growth.** To stimulate the economy, the Government will increase growth-enhancing capital spending. To that end, a medium-term public sector investment program (PSIP) has been prepared with technical support from the World Bank and Barbados to prioritize and increase its effectiveness. The PSIP envisages capital spending rising from 4½ percent of GDP in FY2002/03 to about 7 percent in FY 2003/04. It includes projects funded by international development banks and donors. The main projects include economic infrastructure, fisheries development, banana restructuring, tourism promotion and education. The Government will ensure that only projects for which external financing on appropriate terms (grants and/or concessional financing where possible) has been secured will be implemented.

12. **To mitigate possible adverse social effects associated with such a large adjustment, the Government has strengthened its social safety net.** Within the envelope of the enlarged PSIP, the Government intends to intensify implementation of several projects aimed at alleviating the burden of adjustment among the most vulnerable groups in the

population. There are currently several programs that comprise our social safety net, including public assistance transfers, the pension scheme, short-term employment, school feeding, and youth skills training. A social investment fund (DSIF) within the budget will be launched in the first quarter of FY2003/04 with financial assistance from the EU aimed at mitigating the social costs of adjustment. The Government will work closely with the EU and the World Bank's staff to ensure that the social safety net is effective in reaching its objectives.

B. Financing Issues

13. **Notwithstanding our strong adjustment efforts, the large financing needs of the budget generate a sizable gap.** We estimate that the fiscal deficit for the calendar year of 2003 will amount to US$22½ million, for which we have had to rely on domestic financing, including accumulation of arrears, bank financing and non-bank financing (rollover of domestic amortizations and a bond to DSS) to cover US$9¼ million to date. Our external obligations, net of expected disbursements for projects and already disbursed loans, equals US$9¼ million, which is roughly equivalent to the domestic financing.

14. **The resulting financing requirement of US$22½ million will be covered through resources from the donor community on appropriate terms**, including grants and concessional borrowing where possible. This financing will include an already agreed roll-over of bonds to the Governments of Trinidad and Tobago and Barbados of US$8½ million; grants from the EU of US$3.3 million; disbursements under the World Bank's SAL/SAC of US$3 million, expected to be considered in October; disbursements from CDB of US$3 million under a special budgetary support loan under consideration; purchases under the IMF's SBA for US$1½ million; support from the ECCB of US $1 million; placement of a short-term bond with the Government of Bahamas for US$1½ million and a rescheduling with a private bank for about US$1 million. The Government will finalize and provide adequate financing assurances prior to IMF Board discussion of the program.

15. **We are fully committed to this program and will take additional measures in the event of permanent financing shortfalls.** Temporary shortfalls in external financing will be bridged through a combination of use of government deposits in the banking system and delays in the expenditure program. In case of more long-lasting financing shortfalls or in the event of renewed budgetary pressures, the Government is prepared to undertake further adjustment measures to ensure the program remains financed.

16. **A key goal is to ensure sustainability in the public finances over the medium-term.** In line with this goal, the Government is committed to provide to the Fund staff, by end-September, a debt strategy that ensures sustainability over the medium-term on the basis of conservative assumptions. This will represent an important structural benchmark and will be monitored in the context of the second review.

17. **The Government will prevent further accumulation of arrears.** In the context of a difficult fiscal situation in the past, substantial arrears have accumulated to both domestic and external creditors and suppliers. The program envisages that the Government will be current on its payment obligations during the remainder of the year and is fully committed to engage all creditors and suppliers in good faith efforts to clear outstanding arrears. The clearing process will be financed mainly by issuing long-term, interest-bearing debt, with interest capitalization if possible. The Government will also ensure that public enterprises remain current in their payment obligations and make good faith efforts to resolve outstanding arrears. Progress in these efforts will be assessed in the context of program reviews.

C. Monetary and Banking Sector Policies

18. **The Government recognizes that the ability of the ECCB to extend credit or to function as a lender of last resort is limited.** In this context, Dominica will not request additional lines of credits from the ECCB beyond US$1 million.

19. **The program allows for some expansion of credit to the private sector to finance increased private investment.** To this end, the Government will continue to limit bank financing for the budget. However, there will be room for bridging short-term delays in external financing. The Government also will continue to transfer promptly the resources from its employees to the banks (like mortgage payments) to ensure that banks remain liquid and well capitalized. The Government will likewise stay current in its payment obligations to private parties and public entities to allow them to meet their debt servicing obligations vis-à-vis the banks.

20. **We will continue our close partnership with the ECCB with the aim of ensuring the stability of our banking system.** The Government will collaborate with the ECCB to help ensure that domestic banks are adequately provisioned. To this end, we intend to submit to Parliament in the fourth quarter of the year the amendments to the Banking Act that will strengthen the ECCB's prudential regulations and supervisory powers. We will also collaborate in the FSAP exercise with a view to strengthening our financial system.

III. Structural Reforms for the Second Half of 2003

21. **The program will refocus its structural reform agenda to better address weaknesses in the current macroeconomic environment.** The SBA approved in August 2002 envisaged 13 benchmarks covering civil service reform, privatization, the financial system and public administration. Three benchmarks have been observed. To refocus and streamline the structural reform agenda, we propose that in the remainder of 2003, the reformulated program include 5 benchmarks as follows: (i) providing to Fund staff a debt strategy to ensure sustainability over the medium-term (by end-September); (ii) substituting price controls on fuels by an automatic price adjustment mechanism (by end-September); (iii) designing a detailed public sector reform strategy covering the rationalization of public service delivery with the objective of reducing significantly the public sector wage bill over the medium term and improving the overall efficiency of the system (by end-October);

(iv) conducting a diagnostic report of the financial sector with a view to assessing the financial health of the system (by end-November); and (v) divesting government shares in the NCB to below 50 percent and reducing the number of directors on the NCB Board appointed by the Government accordingly (by end-December). This agenda will be implemented with the support of the IMF, World Bank, and other organizations, as indicated in Table 2.

22. **The Government will continue to strengthen the PSIP with World Bank support.** This exercise will improve the quality and focus of our public investment expenditure in the medium term, and will ensure that only projects aimed at enhancing growth and reducing poverty and supported by external financing on appropriate terms, are included in the rolling 3-year PSIP. Also, the Government will undertake institutional changes to increase the implementation capacity of the capital budget.

IV. MEDIUM-TERM ISSUES

23. **In the coming months, the Government intends to intensify discussions on the implementation of the second stage of our strategy**. These discussions will involve the IMF and other international financing institutions, as well as representatives of economic agents and civil society in Dominica, with a view to formulating an Interim Poverty Reduction Strategy Paper by end-December 2003.

24. **The Government recognizes the need for continuous adjustment efforts over the medium-term**. To that end, as it becomes necessary, the Government will embrace further fiscal and structural adjustment measures over the medium-term with a view to placing the public finances on a sound footing and to redress impediments to economic growth. We expect to continue to obtain technical assistance from the international community. In particular, the Government will seek to remove institutional bottlenecks and improve execution and monitoring capacity in the context of the program.

Table 1. Dominica: Quantitative Performance Criteria (PC) and Indicative Targets (IT) Under the Stand-By Arrangement for 2003

(Cumulative amounts from March 31, 2003)

	2003					
	Jul. 31 PC	Aug. 31 IT	Sep. 31 PC	Oct. 31 IT	Nov. 30 IT	Dec. 31 PC
I. Performance Criteria						
(In millions of Eastern Caribbean dollars)						
Central government overall balance 1/	-31.0	-34.7	-37.4	-41.2	-44.7	-46.9
Central government wage bill	37.5	46.7	55.8	65.2	74.6	84.0
Banking system net credit to central government 2/	8.0	7.0	6.0	5.0	4.0	3.0
Net changes in central government arrears to private domestic parties 3/	15.0	15.0	15.0	15.0	15.0	15.0
(In millions of U.S. dollars)						
Disbursement of central government or central government guaranteed external non-concessional debt with maturity of at least one year 1/ 4/	19.7	21.0	21.5	22.4	22.9	23.9
Net changes in the outstanding stock of contracted or guaranteed short-term external debt of the central government (with maturity of less than one year) 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0
Net changes in external payments arrears of the central government 3/	0.0	0.0	0.0	0.0	0.0	0.0
II. Indicative Targets						
(In millions of Eastern Caribbean dollars)						
Central government revenues	58.9	73.7	89.3	105.8	121.5	140.5
Central government primary savings	-11.8	-12.3	-11.9	-11.6	-12.2	-9.5

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

1/ Limits will be adjusted downward (upwards) to the extent that project financing falls short of (exceeds) programmed amounts. Upward adjustments will not exceed US$1.9 million by end-July 2003, US$2.6 million by end-September 2003, and US$3.9 million by end-December 2003. The limits will be adjusted downward to the extent that budgetary grants exceed programmed amounts.

2/ Limits on banking system net credit to the central government will be adjusted upward to the extent that there are shortfalls in external nonproject financing that are outside the control of the authorities. These upward adjustments will not exceed US$2.6 million by end-July 2003, US$4.0 million by end-September 2003, and US$4.0 million by end-December 2003. Limits on banking system net credit to the central government will be adjusted downward to the extent that external nonproject financing exceeds programmed amounts.

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

4/ For the definition of external debt, see paragraph 16 of the Technical Memorandum of Understanding.

Table 2. Dominica: Structural Reform Agenda through December 2003 1/

	Lead Institution	SMEP Para 2/	Completion Date	Category
Fiscal				
Approval of budget for FY03/04 consistent with the program, including the fiscal package for 2.5 percent of GDP	IMF	8-9	...	Prior Action
Implement effective fiscal cash management procedures	IMF/CARTAC	10	...	Prior Action
Debt sustainability				
Provision to Fund staff of a debt strategy that ensures public sector debt sustainability over the medium-term based upon conservative assumptions	IMF	16	September 30, 2003	Benchmark
Energy Prices				
Substitute price controls on fuel with an automatic adjustment mechanism	WB	21	September 30, 2003	Benchmark
Civil service reform				
Design a detailed public sector reform strategy covering public sector employment	WB	21	October 31, 2003	Benchmark
Financial system oversight				
Conduct a diagnostic study of the financial sector with a view to assessing the financial health of the system	IMF/WB	21	November 30, 2003	Benchmark
Privatization				
Divesture of government shares in NCB to below 50 percent (and which will reduce the number of Board directors appointed by the government accordingly)	IMF	21	December 31, 2003	Benchmark

Sources: Dominican authorities and Fund staff.

1/ The program continues to be subject to the continuous performance criteria as set forth in section 3(e) of the Stand-By Arrangement (EBS/02/152, Supplement 1, 8/29/02).

2/ Numbers refer to the Supplement Memorandum of Economic Policies.

DOMINICA—TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Dominica's performance under the Stand-By-supported program, described in the letter of the government of Dominica dated June 21, 2003, will be assessed by the IMF on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) sets out and defines the performance criteria (and adjustors), indicative targets, and benchmarks specified in Tables 1 and 2 of the Supplement to Memorandum of Economic Policies, as well as the monitoring and reporting requirements.

2. The authorities of Dominica are committed to transmit to the Fund staff the best data available. All revisions or expectations thereof shall be promptly reported to the Fund staff.

3. The variables mentioned herein for the purpose of monitoring the performance criteria, which are not explicitly defined, are consistent with the Government Financial Statistics (GFS). For variables omitted from the TMU which are relevant for the program targets, the authorities of Dominica shall consult with the staff on their appropriate treatment, based on GFS principles and Fund program practices.

I. FISCAL TARGETS

1. Performance Criterion on the Overall Balance of the Central Government

Cumulative Balance (from March 31, 2003)	Floor (In millions of Eastern Caribbean dollars)
End-July 2003 (performance criterion)	-31.0
End-August 2003 (indicative target)	-34.7
End-September 2003 (performance criterion)	-37.4
End-October 2003 (indicative target)	-41.2
End-November 2003 (indicative target)	-44.7
End-December 2003 (performance criterion)	-46.9

39. 4. **The central government overall balance** will be measured from the financing side as the sum of the net domestic borrowing plus net external borrowing. The floor on the overall balance is cumulative from March 31, 2003.

5. **Net domestic borrowing** by the central government is the sum of: (i) net domestic bank financing as reported by the consolidated balance sheet of the banking system adjusted for double signature accounts,[8] (ii) net nonbank financing measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions (including special tranches from the ECCB); (iii) the change in the stock of domestic arrears of the central government defined as net changes in unpaid cheques issued, unprocessed claims, invoices pending, plus accrued interest payments, and other forms of expenditures recorded above the line but not paid; and (iv) gross receipts from divestment.

6. **Net external financing** of the central government is defined as the sum of (i) disbursements of project and nonproject loans, including securitization; (ii) proceeds from bond issues abroad; (iii) exceptional financing (rescheduled principle plus interest), net

[8] Net domestic bank financing is defined as the changes in the net credit extended by the domestic financial system to the central government, excluding net changes in "double signature accounts" in which grant receipts are deposited. The double signature accounts include the accounts 2797, 2976, 2220, 1912, 3015, 3025, 1911, 1471, 1523, 3053, 1710, and 1970 held in the National Commercial Bank (NCB), and any new account in which grant receipts are deposited and which requires a signature of an external party for the release of its funds. Treasury bills will be recorded at face value, except for those held by the banking system which will be recorded on a purchase price basis.

changes in cash deposits held outside the domestic banking system, (iv) net changes in short-term external debt; (v) any change in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid; minus (vi) payments of principal on current maturities for bonds and loans on a due basis and any prepayment of external debt.

The following adjusters will apply:

7. The floor on the **overall balance of the central government** will be adjusted upward[9] (downward) to the extent that project loans fall short of (exceed) programmed amounts. **Project loans** are defined as the receipt of loan proceeds to finance the central government's portion of the Public Sector Investment Program. The cumulative programmed amounts are as follows: US$0.6 million by end-July 2003; US$1.9 million by end-September 2003; and US$3.2 million by end-December 2003. Upward adjustments will not exceed US$1.9 million by end-July 2003, US$2.6 million by end-September 2003, and US$3.9 million by end-December 2003.

8. The floor on the **overall balance of the central government** will be adjusted upward[2] to the extent that budgetary grants exceed programmed amounts. **Budgetary grants** are defined as grant receipts that are not earmarked for capital outlays. The cumulative programmed amounts are as follows: US$0 million by end-July 2003; US$0 million by end-September 2003; and US$0 million by end-December 2003.

2. Performance Criterion on the Central Government Wage Bill

Cumulative Flows (from March 31, 2003)	Ceiling (In millions of Eastern Caribbean dollars)
End-July 2003 (performance criterion)	37.5
End-August 2003 (indicative target)	46.7
End-September 2003 (performance criterion)	55.8
End-October 2003 (indicative target)	65.2
End-November 2003 (indicative target)	74.6
End-December 2003 (performance criterion)	84.0

9. The **central government wage bill** will be measured as the total expenditure of the central government on wages and salaries of central government employees net of wage refunds, including acting allowances, special duty allowances, responsibility allowances, subsistence allowances, and the employer contribution to Dominica Social Security, but not including retirement benefits. As such, the ceiling does not include wage-related transfers to

[9] Upward adjustment means lower deficit.

schools, the National Development Corporation, and local governments. The ceiling on the central government wage bill is cumulative from March 31, 2003.

3. Performance Criterion on the Central Government Arrears Accumulation to Domestic Private Parties

Cumulative Change in Stock (from March 31, 2003)	Ceiling (In millions of Eastern Caribbean dollars)
End-July 2003 (performance criterion)	15.0
End-August 2003 (indicative target)	15.0
End-September 2003 (performance criterion)	15.0
End-October 2003 (indicative target)	15.0
End-November 2003 (indicative target)	15.0
End-December 2003 (performance criterion)	15.0

10. **Net changes in central government arrears to domestic private parties** is defined as the sum of all pending payments by government for goods and services already purchased from these parties, as well as pending interest and amortization obligations on domestic debt held by them. Private domestic parties exclude DOWASCO, Dominica Social Security, National Development Corporation, Dominica Broadcasting Corporation, DEXIA, and the Port Authority. The measure used will be unpaid cheques issued and pending invoices for which payment is overdue. The ceiling on net changes of central government payment arrears is cumulative from March 31, 2003. This ceiling will be monitored on a continuous basis. The ceiling must not be exceeded at any time during the arrangement.

4. Indicative Targets on Revenues of the Central Government

Cumulative Revenues (from March 31, 2003)	Floor (In millions of Eastern Caribbean dollars)
End-July 2003 (indicative target)	58.9
End-August 2003 (indicative target)	73.7
End-September 2003 (indicative target)	89.3
End-October 2003 (indicative target)	105.8
End-November 2003 (indicative target)	121.5
End-December 2003 (indicative target)	140.5

11. **Central government revenue** is defined as tax collections and nontax revenues reported in the treasury accounts (economic classification), excluding (i) revenues from the

economic citizenship program, (ii) foreign and domestic grant receipts, (iii) loan repayments, (iv) wage refunds, and (v) privatization receipts, and includes income tax refunds. The floor on central government revenue is cumulative from March 31, 2003.

5. Indicative Targets on the Primary Savings of the Central Government

Cumulative Balance (from March 31, 2003)	Floor (In millions of E.C. dollars)
End-July 2003 (indicative target)	-11.8
End-August 2003 (indicative target)	-12.3
End-September 2003 (indicative target)	-11.9
End-October 2003 (indicative target)	-11.6
End-November 2003 (indicative target)	-12.2
End-December 2003 (indicative target)	-9.5

12. **Central government primary savings** is measured on an accrued basis (includes unpaid cheques issued and unprocessed invoices) and is defined as the central government revenue as defined before (i.e., excluding grants) minus current non-interest expenditure. The floor on government primary balance is cumulative from March 31, 2003.

II. Monetary Targets

1. Performance Criterion on the Net Credit of the Banking System to the Central Government

Cumulative Floor (from March 31, 2003)	Ceiling (In millions of Eastern Caribbean dollars)
End-July 2003 (performance criterion)	8.0
End-August 2003 (indicative target)	7.0
End-September 2003 (performance criterion)	6.0
End-October 2003 (indicative target)	5.0
End-November 2003 (indicative target)	4.0
End-December 2003 (performance criterion)	3.0

13. **Net credit of the banking system** is defined as in paragraph 5. The **banking system** is defined as the consolidation of the Eastern Caribbean Central Bank operations in Dominica (including credit extended under the Fiscal Tranche window), with the accounts of all banks licensed by the ECCB to do business in Dominica as commercial banks.

The following adjusters will apply:

14. The limits on **banking system net credit to the central government** will be adjusted downward to the extent that net external non-project financing exceeds US$0.37 million by end-July 2003; US$1.7 million by end-September 2003; and US$3.03 million by end-December 2003. The same limits will be adjusted upward to the extent that there are temporary shortfalls in external nonproject financing that are outside the control of the authorities. The upward adjustments will not exceed a cumulative US$2.6 million by end-July 2003; US$4.0 million by end-September 2003; and US$4.0 million by end-December 2003.

III. External Sector Targets

1. Performance Criterion on Disbursements of Nonconcessional External Central Government or Central Government Guaranteed Debt with Maturity of at Least One Year

Cumulative Flows (from March 31, 2003)	Ceiling (In millions of U.S. dollars)
End-July 2003 (performance criterion)	19.7
End-August 2003 (indicative target)	21.0
End-September 2003 (performance criterion)	21.5
End-October 2003 (indicative target)	22.4
End-November 2003 (indicative target)	22.9
End-December 2003 (performance criterion)	23.9

15. **Disbursements of nonconcessional external central government and central government guaranteed debt with maturity of at least one year** will be monitored by the Accountant General's Office on a monthly basis. **Central government and central government guaranteed external debt** is defined to include debt contracted or guaranteed by the central government.

16. The term **debt** is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000):

"(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

> (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

17. **Nonconcessional** is defined as debt having a grant element (in net present value relative to face value) **of less than 35 percent**, based on the currency- and maturity-specific Commercial Reference Rates (CIRR), published monthly by the OECD.[10] The limit excludes the disbursements of short-term import related debts, the use of Fund resources, refinancing operations, and disbursements of external loans for clearance of payment arrears to DOWASCO.

The following adjusters will apply:

18. The limits on the **disbursement of noncessional external loans** will be adjusted downward (upward) to the extent that external project loans fall short of (exceed) programmed amounts. **External project loans** are defined as the receipt of loan proceeds to finance the central government's portion of the PSIP. The cumulative programmed amounts are as follows: US$0.6 million by end-July 2003; US$1.9 million by end-September 2003; and US$3.2 million by end-December 2003. Upward adjustments will not exceed US$1.9 million by end-July 2003, US$2.6 million by end-September 2003, and US$3.9 million by end-December 2003.

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[10] For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates and for loans with shorter maturities, the 6-month average CIRRs, as of May 31, 2003 published by the OECD will be used as the discount rates. To both the 10-year and 6-month averages, the following margins for differing repayment periods will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

19. The limits on the **disbursement of noncessional external loans** will be adjusted downward to the extent that budgetary grants exceed programmed amounts. **Budgetary grants** are defined as grant receipts that are not earmarked to finance capital outlays. The cumulative programmed amounts are as follows: US$0 million by end-July 2003; US$0 million by end-September 2003; and US$0 million by end-December 2003.

2. Performance Criterion on the Net Changes in the Outstanding Stock of Short-Term External Debt with Original Maturity of Less than One Year Contracted or Guaranteed by the Central Government

Cumulative Flows (from March 31, 2003)	Ceiling (In millions of U.S. dollars)
End-July 2003 (performance criterion)	0.0
End-August 2003 (indicative target)	0.0
End-September 2003 (performance criterion)	0.0
End-October 2003 (indicative target)	0.0
End-November 2003 (indicative target)	0.0
End-December 2003 (performance criterion)	0.0

20. **Stock of short-term external debt outstanding** is defined as debt with original maturity of less than one year contracted or guaranteed by the central government. The term debt is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000) (see paragraph 16), but excludes normal import-related credits. The ceiling on net changes in the stock is cumulative from March 31, 2003. This ceiling will be monitored on a continuous basis. The ceiling must not be exceeded at any time during the arrangement.

3. Performance Criterion on Nonaccumulation of Central Government and Central Government Guaranteed External Payment Arrears

21. **Central government and central government guaranteed external payment arrears** are defined as overdue payments on all debt contracted or guaranteed by the central government. The definition of arrears does not include outstanding subscription payments to regional and international organizations for which understandings will be reached to ease payment obligations consistent with the program. The ceiling on the nonaccumulation of central government and central government guaranteed external payment arrears is cumulative from March 31, 2003. This ceiling will be monitored on a continuous basis. The ceiling must not be exceeded at any time during the arrangement.

IV. Selected Prior Actions and Structural Benchmarks

22. **Approval of budget consistent with the program** (prior action) means that all revenue and all recurrent expenditure categories included in the budget have to be consistent with the program targets. Capital expenditure presented in the budget can exceed the program limit of EC$49 million up to EC$66.5 million, as long as the local counterpart financing does not exceed EC$5.0 million and loan financing does not exceed EC$28.0 million.

23. **Divesture of government shares** in the NCB below 50 percent (structural benchmark) means reducing its shareholdings via direct sale of some shares to existing stockholders or to NCB itself to meet this limit. Also, NCB bylaws will have to be amended, consistent with government naming only three of seven directors (or any number of less than 50 percent).

V. Periodic Reporting

1. Regular **reporting on a monthly basis** (and when possible weekly) will include the following:

Data for monitoring the program's performance criteria and monthly indicative targets, including

- Fiscal sector

  (i) Central government budgetary accounts.

  (ii) Dominica Social Security Balance Sheet, showing amounts receivable from central government for contributions and interest.

  (iii) Central government domestic debt data.

  (iv) Current grant inflows.

  (v) Stock of unpaid cheques issued and stock of unprocessed claims due and invoices pending.

  (vi) Capital expenditure (project by project) and composition of financing, including revised projections for the remainder of the fiscal year.

  (vii) Balances in the debt servicing account linked to the Royal Merchant Bank Bond Issue.

- Financial sector

  (i) Monetary survey for Dominica as prepared by the Eastern Caribbean Central Bank, including balances in central government double signature accounts

- External and real sectors

  (i) Imports and exports data by product.

  (ii) Detailed (creditor by creditor) external debt report from the Debt Unit in the Ministry of Finance and Planning, showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, for the central government, public enterprises and AID-Bank.

(iii) Stock of external payment arrears of the NFPS, including amortization and interest payment arrears, and supplier arrears for the central government, public enterprises, and AID-Bank.

(iv) Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

(v) Consumer price index.

(vi) Real sector indicators

All information will be reported to Fund staff within three weeks of the end of each month.

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

- External and real sectors

  (i) GDP and its components.

  (ii) Balance of payments accounts.

3. Other reporting will include:

- Reports of legislative changes pertaining to economic matters.

Statement by the IMF Staff Representative
July 25, 2003

This statement provides additional information on developments since the issuance of the staff report for the first review under the stand-by arrangement for Dominica and on the status of the prior actions. This information does not change the staff appraisal.

1. Recent Economic and Political Developments

Recent data on economic activity have been broadly in line with the program. While there have been some initial signs of recovery, staff continue to expect an economic contraction in 2003. Inflation remains subdued, while interest rates are broadly unchanged. Tax collections in June were better than expected.

The social and political situation remains stable. There were concerns about the population's reaction to the fiscal measures, especially the wage cut, and its political implications. However, the authorities showed a high level of ownership and diffused potential problems by actively explaining to the population the realities of the economic situation and the rationale for adopting these measures. There has not been any significant social or prior unrest reported in the country.

2. Prior Actions

In the staff's assessment, the prior actions have been met. There were two prior actions for this review, one requiring approval of the budget and enactment of the fiscal measures and the other to establish an effective cash management system

- **The budget for FY 2003/04 was approved on July 7, 2003, consistent with the program.** All revenue measures are effective immediately with approval of the budget. The bulk of the revenue measures do not need a formal enactment as tax rates can be modified in statutory orders issued by the Prime Minister. However, for some of the smaller revenue measures approval of the budget only provides for a four month period of effectiveness. Therefore, the authorities sent legislation to Parliament on July 23 to enact permanently these revenue measures. On the expenditure side, Parliament approved on July 23 the "Public Sector Salaries and Allowances Reduction Bill", fully establishing the legal status of the 5 percent wage cut.

- **The cash management system is in place.** The authorities issued an Administrative Order on July 21 establishing procedures under the system and penalties for ministries that do not follow these procedures. Nonetheless, the system is new and "teething" problems can be expected. The staff will continue to work closely with the authorities, discussing further refinements to the system as experience is gained.

Press Release No. 03/125
FOR IMMEDIATE RELEASE
July 28, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review of Dominica's Stand-By Credit, Approves US$428,000 Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the first review of Dominica's performance under a one-year SDR 3.28 million (about US$4.6 million) Stand-By Arrangement, which was approved on August 28, 2002 (see Press Release No. 02/37). This decision entitles Dominica to the release of a further SDR 307,500 (about US$428,000), which would bring total disbursements under the program to SDR 2.36 million (about US$3.3 million).

The Executive Board also approved the extension of the arrangement until end-February 2004, as well as Dominica's request for waivers on the nonobservance of seven quantitative performance criterion and one structural performance criterion.

After the Executive Board's discussion on July 25, 2003, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, said:

"Dominica has been facing a difficult economic situation, with activity falling much more than anticipated, and performance under the program has gone off track. However, in recent months, the authorities have strengthened their economic policy stance, and adopted a two-stage approach toward stabilization and structural reform.

"The first stage consists of a strengthened program for 2003 to improve the prospects for orderly adjustment, supported by additional financing from multilateral institutions and the donor community. The cornerstone of the 2003 program is a package of fiscal adjustment measures focused on broadening the tax base and improving tax administration, and downsizing the public sector wage bill. The extended Stand-By Arrangement supports the authorities' efforts in this first stage. Multilateral institutions and donors have already made firm commitments to close the remaining 2003 financing gap.

"The second stage of the approach consists of measures to help reestablish the basis for sustained growth, including a medium-term program with a strong structural component, and implementation of a debt strategy to ensure medium-term sustainability. Strong political ownership of the program by society in general, as well as by the institutions of government, will be needed, commensurate with the scale of the economic problems Dominica faces.

"The structural reform agenda focuses on: development of a debt strategy; implementation of an automatic fuel price adjustment mechanism; development of a public sector reform strategy; completion of a diagnostic review of the financial sector; and divesture of government shares in the National Commercial Bank.

"In concluding the first review under the Stand-By Arrangement, the Fund commends the authorities for their determined efforts to press ahead with their stabilization and reform program. On this basis, the Fund has extended the arrangement for six months, and granted the waivers of performance criteria," Mr. Sugisaki stated.

Statement by Ian E. Bennett, Executive Director for Dominica
July 23, 2003

My Dominican authorities wish to express their sincere appreciation to the staff and management for their valuable policy advice and continued support during this period of difficult economic adjustment. Dominica's economy contracted sharply in the past two years reflecting negative shocks to key export sectors (tourism and bananas). These developments, and preceding years of declining growth, have contributed to a marked deterioration in the fiscal balance and swelling debt burden, culminating in a deepening liquidity crisis. The government is resolved to reverse these destabilizing trends and is committed to the process of economic stabilization supported by the IMF stand-by arrangement (SBA).

Overview and Recent Developments

The one-year SBA arrangement sought to contain the accumulation of public sector arrears which threatened severe domestic dislocation and possible regional spillovers. The objective was to provide much-needed breathing space for the authorities to articulate a structural reform agenda to put Dominica's finances on a sustainable track and lay a durable foundation for growth and poverty reduction. Unfortunately, these efforts were undermined by last year's unanticipated large contraction in economic activity, and capacity constraints that complicated public expenditure management and PSIP implementation. These factors more than offset the ambitious 3⅓ percent of GDP stabilization package undertaken in the 2002/03 budget.

The government continues to regard the SBA as an essential first step to restoring public finances and reducing external vulnerabilities in an orderly manner. To that end, the program has been modified to account for the weak economic outturn in 2002 while maintaining strong safeguards. Prior actions include: *i)* upfront fiscal consolidation, and *ii)* a functional cash management framework within the Ministry of Finance and Planning.

Both these prior actions have now been met. Moreover, international donors and regional partners, with whom the authorities have consulted on the revised program framework, have committed additional resources sufficient to close the financing gap through to the end of the year. In light of this support, and the government's demonstrated ownership of the stabilization agenda, I am hopeful the Board will look favourably on the proposed completion of the First Review and 6-month extension of the SBA.

Fiscal Policy

Bringing immediate order to public finances remains the centerpiece of the program framework. The budget for FY 2003/04, which was approved by Parliament on July 8, will contain the overall deficit for the fiscal year at about 7½ percent of GDP with a 2½ percent of GDP adjustment package containing revenue and expenditure actions. This constitutes an extraordinary effort in the current depressed economic climate. Perhaps more important than the size of adjustment, however, is that the approved set of fiscal measures begins to transform the underlying structure of public finances thus offering permanent gains.

On the revenue side, the authorities have adopted a mix of measures consistent with IMF/CARTAC recommendations to broaden the tax base and improve the efficiency of the tax system. Revenue-enhancing measures include: increasing and broadening the sales tax, removing duty and other *ad hoc* tax concessions, and a rise in the custom service charge. These measures will be partially offset by a modest decrease in the consumption tax, which is intended to lay the ground-work for introducing a VAT in the future and resuscitate private sector led growth in the immediate term. The 2003/04 budget also includes a small reduction in the controversial wage levy from 4 to 3 percent (important as part of the authorities' consensus-building efforts since the levy was originally proposed as a temporary measure).

On the expenditure side, measures focus exclusively on trimming back the public wage bill, which is large by regional standards and frustrates competitiveness. Immediate budgetary savings of about 1 percent of GDP will be achieved through: a 5 percent across-the-board cut in nominal public salaries and wage related transfers; a reduction in overtime; and, preliminary measures to scale-back the size of the public service, such as hiring freezes and the phasing out of non-essential workers.

The government is fully committed to taking additional fiscal measures if needed, particularly in the event of permanent financing shortfalls. The overall approach to fiscal consolidation, however, will continue to emphasize pragmatic considerations. My Dominican authorities are especially mindful of the need to strike a delicate adjustment balance that advances fiscal consolidation, but avoids measures that seriously compromise the prospects for renewed economic activity or create a widespread backlash against the reform agenda.

Accordingly, the budget gives high priority to growth-enhancing capital spending and mitigating the adverse social impact of austerity measures on the most vulnerable in society. On the former, consistent implementation of the PSIP is expected to boost capital spending from 4½ to 7 percent. Only grant-based projects and those financed on concessional terms will be pursued. Enhancing the effectiveness of the social safety net will be undertaken within the envelope of the enlarged PSIP and through an EU-financed social investment fund. Finally, the authorities are committed to "lead by example" on the most divisive elements of the reform agenda. In that context, Ministers of Government have accepted a 7 percent cut in nominal salaries.

Monetary Policy and Banking Sector Policies

The Eastern Caribbean Central Bank (ECCB) will continue to direct monetary policy consistent with Dominica's membership in the Eastern Caribbean Currency Union. The government, moreover, intends to deepen its relationship with the ECCB in maintaining the health and stability of the banking system, which is an overriding priority. In particular, the authorities intend to amend the Banking Act to strengthen the ECCB's prudential and supervisory powers, thus helping to reinforce the close economic and financial links within the OECS region. Dominica also looks forward to participating in the regional FSAP exercise scheduled to begin in the fall.

To ensure that Dominican banks remain liquid and well capitalized, the government will stay current in its payment obligations to private parties and public entities. Furthermore, the authorities will continue to limit bank financing of the budget to promote financial sector intermediation and private-sector led investment (although there is some room within the program framework for temporary bridging operations resulting from short-term delays in external financing). Finally, in terms of outstanding arrears, the government is fully committed to engage suppliers, public enterprises, and other creditors in good faith to resolve this issue. Progress in this area will be assessed in the context of program reviews.

Structural Reform Agenda

Over the medium term, economic growth and stability objectives will require strong structural adjustment measures. While modest progress has been made in this context, the authorities attach considerable importance to intensifying efforts on the basis of a well-prioritized and focused agenda. The program incorporates a set of streamlined benchmarks designed to sustain momentum in priority areas, notably: civil service reform, privatizations, strengthening public administration and execution, safeguarding financial sector stability, and maintaining sustainable debt dynamics.

The technical assistance (TA) that Dominica has received from the international community in support of their structural adjustment effort has proven invaluable. Assistance from the World Bank and the government of Barbados on the PSIP was particularly beneficial in strengthening its focus on quality diversification and productivity-enhancing projects, and addressing institutional bottlenecks that have delayed implementation. My authorities would also like to acknowledge the assistance being provided by CARTAC and DFID to help ensure the smooth implementation of new cash management procedures.

Conclusion

The authorities are resolved to follow through on the process of fiscal and structural adjustment being supported by the IMF program. Over the coming months, the government will work diligently with representatives from the various international financial institutions, civil society, and domestic economic agents, to formulate a comprehensive medium-term reform strategy and interim PRSP that might be supported under a follow-on PRGF arrangement. As a part of this exercise, and in keeping with the forthright manner in which the authorities have presented Dominica's economic plight to its population, the authorities have agreed to publish the staff report and all supporting documents.