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Dominica: Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review—Staff Report; Press Release on the Executive Board Discussion

In the context of the seventh review under the three-year arrangement under the Poverty Reduction and Growth Facility and financing assurances review, the following documents have been released and are included in this package:

- the staff report for the Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on December 13, 2006, 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 November 28, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board as expressed during its December 13, 2006 discussion of the staff report that completed the review.

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

Letter of Intent sent to the IMF by the authorities of Dominica*
Supplementary Memorandum of Economic and Policies by the authorities of Dominica*

*Also included in Staff Report

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

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

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DOMINICA

Seventh Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review

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

Approved by José Fajgenbaum and Matthew Fisher

November 28, 2006

- **Fund Relations.** A three-year Poverty Reduction and Growth Facility (PRGF) arrangement for SDR 7.7 million (94 percent of quota) was approved by the Executive Board on December 29, 2003. The most recent program review was completed on July 26, 2006. To date, SDR 6.53 million has been disbursed under the arrangement. On completion of this (the seventh and last) review, a disbursement of SDR 1.16 million will become available. The last Article IV consultation was concluded in October 2005; the Staff Report and the Public Information Notice (PIN) summarizing the Executive Directors' views and policy recommendations are available on the IMF's public website.

- **Performance Under the Program.** All end-June and end-September 2006 quantitative targets under the program were met. Macroeconomic stability through considerable fiscal adjustment—including a reduction in the wage bill and the introduction of a value-added tax (VAT)—and a collaborative debt restructuring have helped set the basis for the revival of growth since 2004. Progress has also been achieved in implementing structural reforms. The political climate remains calm.

- **Review.** In the attached letter of intent and memorandum of economic policies the authorities request the completion of the seventh review, and elaborate on their policies for the period ahead.

- **Mission.** The mission visited Roseau during September 28−October 6, 2006. It comprised of Messrs. Njoroge (Head), Dehesa, Roache (all WHD) and Rodriguez (PDR). ECCB staff participated in the discussions, and Ms. Alvarez (OED) joined the mission for the final discussions.

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EXECUTIVE SUMMARY

Dominica's remarkable progress under the PRGF program has continued, and macroeconomic performance has strengthened further in 2006. Building on the recent successes, economic activity is expanding significantly in almost all sectors, with buoyant domestic demand and indications of a rebound in private sector confidence. Inflation remains subdued and the external current account deficit is narrowing.

Policy implementation under the program has remained strong. All end-June 2006 performance criteria were met, and all indicative targets for end-June and end-September were met with comfortable margins. Progress has been made on the structural benchmarks for the Seventh Review. Key measures include Parliament's approval of the amendments to the Electricity Supply Act and related legislation, and Cabinet's approval of an action plan to eliminate the unfunded liabilities of Dominica Social Security. Following a lengthy period of little change in the debt restructuring process, significant progress was recently achieved. The authorities intend to maintain their good-faith efforts towards collaborative agreements with the remaining nonparticipating creditors.

Fiscal performance in FY 2005/06 was commendably strong, and the FY 2006/07 budget reflects a continuation of strong fiscal policies. The target for the primary surplus in FY 2005/06 was exceeded by a wide margin, as a result of strong revenues and a firm control on expenditures. The FY 2006/07 budget is consistent with the medium-term sustainability of public finances and debt, appropriately targeting a primary surplus of 3 percent of GDP. Public sector reforms are progressing well—particularly the measures to reduce the wage bill, and implementation of the value-added tax—but the approval of the amendments to the Finance Administration Act is delayed.

Considerable progress has been achieved in implementing other structural reforms. Action Plans have been finalized for the restructuring of National Development Corporation, and the creation of a one-stop shop for business investors, and a reform of the customs department has been initiated. However, approval of the Financial Services Unit Act has been delayed. The steadfast implementation of structural reforms in the period ahead will provide the needed framework for strengthening economic performance.

The authorities recent medium-term Growth and Social Protection Strategy (GSPS) underscores the focus on reducing poverty in the period ahead. Poverty and unemployment are high in Dominica, and the GSPS highlights measures to improve economic growth and job creation. The effective implementation and monitoring of the GSPS will be essential, and close cooperation with donors to facilitate their timely support is also recommended.

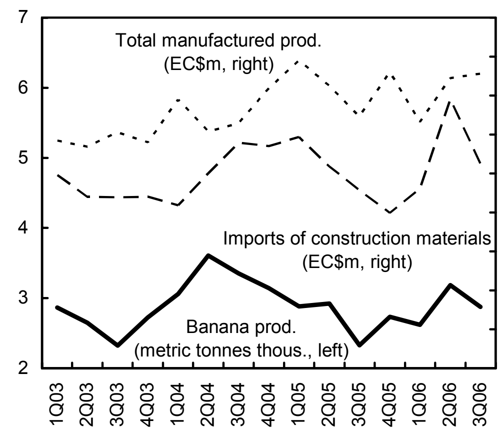
Based on Dominica's strong performance, staff recommends the completion of this review as well as the financing assurances review.

I. BACKGROUND

1. **Dominica's commendable progress under the PRGF program has continued.** The PRGF-supported program has remained on track since its approval in December 2003, owing to the authorities' resolute policy implementation. The objective of macroeconomic stability has been largely met, leading to a revival of growth in 2004, 2005, and thus far in 2006. Public finances have improved significantly, reflecting the strong fiscal consolidation effort, and the debt restructuring process—not yet concluded—is addressing the previously unsustainable debt. While significant progress has also been made in key reforms, the authorities' recent medium-term Growth and Social Protection Strategy (GSPS) underscores the need for further robust structural reforms.

2. **Macroeconomic performance has strengthened further in 2006.** Data to September confirm that economic activity is expanding significantly and that the expansion is broad-based, with real GDP expected to grow by 4 percent in 2006 (Table 1). Domestic demand has remained buoyant and there are strong indications of a rebound in private sector confidence. Favorable indicators are reported for most sectors, including the banana and other export sectors.

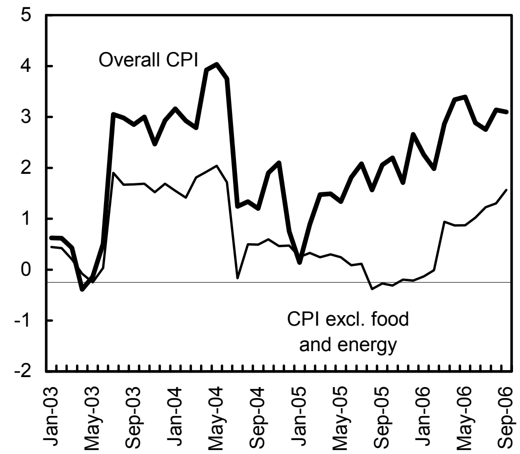
Figure 1. Dominica: Output Indicators (Q1 2003 - Q3 2006)



- ***All sectors are registering robust growth, except manufacturing exports.*** Activity in wholesale and retail trade, hotels and restaurants, real estate, the financial sector, and transportation is growing strongly. Construction is recovering briskly, pointing to a rebound of private sector confidence; and tourist arrivals have recovered, with both hotel visitors and student enrollment at the offshore schools increasing sharply. In the agricultural sector, banana production has expanded by 7 percent compared to a similar period in 2005, but indicators of nonbanana agriculture sector are mixed. However, some weakness has remained in manufacturing output, related to fluctuations in production orders at a large export plant.

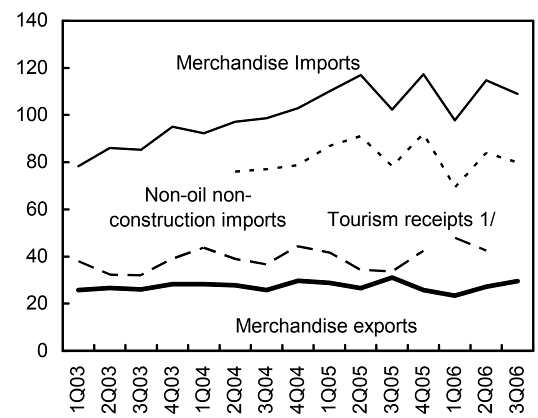
- ***Inflation remained subdued, despite the impact of the very high oil prices earlier in the year***. Consumer prices rose 3.1 percent in the year to September 2006, and excluding energy and food, annual inflation currently measures about 2 percent. While energy costs have had a relatively large impact on imported food prices, the introduction of the VAT (which reduced the tax on most foods) and a greater supply of local agricultural produce have helped limit this effect. Core inflation (excluding food and energy), is trending higher, partly due to recent increases in housing and medical costs. For 2006, inflation may be slightly higher than was envisaged in the program.

Figure 2. Dominica: CPI Inflation
(Annual percentage change, Jan-03 - Sep-06)



- ***The external current account deficit is narrowing.*** Tourism receipts to July are estimated to have increased by 20 percent compared to the same period in 2005, and offsetting a decline in merchandise exports. Additionally, merchandise imports have declined by 2 percent, reflecting some one-off imports in 2005 and despite the higher imports of fuels. Overall, a narrowing of the current account deficit will result, from 27 percent of GDP in 2005 to 21 percent.

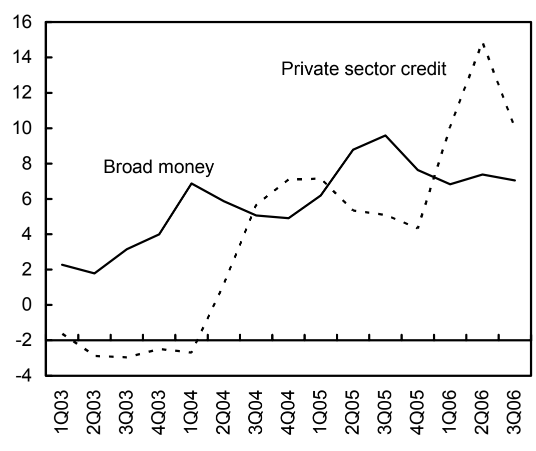
Figure 3. Dominica: External Indicators
(EC$ millions, Q1 2003 - Q3 2006)



1/ Tourism inidicators available up to 2Q06

- ***Financial intermediation continues to strengthen.*** Private sector credit grew by 10 percent in the year to September 2006, in line with the growth of private sector activity. Personal credit such as for consumer goods has stabilized, and most of the recent credit expansion is for construction and renovation of houses. Banks have also made other large changes to their balance sheets, including a sizeable reduction in their nonperforming loans which has led to improvements in the average interest earned.

Figure 4. Dominica: Monetary Indicators
(Annual percent change, Q1 2003 - Q3 2006)



3. **Policy implementation has remained strong, and all quantitative targets for June and September 2006 were met.** All end-June 2006 performance criteria (PCs) were met, and all indicative targets for end-June and end-September were met with comfortable margins (Table 2). Fiscal performance was commendable throughout FY 2005/06, with exceptionally strong revenue collection due in part to transitory factors—particularly on withholding taxes and property taxes—and the buoyant economy. Noninterest current expenditures were kept at about target despite higher outlays for utilities, and gratuities for retirees. Capital spending for the year was also in line with the target, despite slow project execution early in the year. As a result, the primary surplus reached 7.3 percent of GDP in FY 2005/06, compared with a program target of 3 percent.

4. **Considerable progress has been achieved in implementing structural reforms (Table 3).** The approved FY 2006/07 budget was presented within a three-year budgeting framework; it envisages a primary surplus target of 3 percent of GDP, consistent with the program, and includes the implementation plan to rationalize further the wage bill in FY 2006/07. An action plan to restructure the operations of National Development Corporation (NDC) has been finalized, and following an unsatisfactory strategic review by hired consultants, the authorities have requested technical assistance from USAID/Caribbean Open Trade Support (COTS) to prepare an action plan for the restructuring of Dominica Export Import Agency (DEXIA)—the end-September 2006 benchmark, comprising the completion of strategic reviews and action plans for both the NDC and DEXIA, was therefore partially met. Parliament passed the amendments to the Electricity Supply Act and the related legislation. Cabinet approved an action plan to eliminate the unfunded liabilities of the Dominica Social Security (DSS), and a strategy for reforming the AID Bank has been completed. Implementation of the VAT appears to be proceeding well.

5. **Structural reform has also advanced in other areas, notwithstanding some delays.** Public expenditure management has been strengthened further, including by introducing in July 2006 a new chart of accounts, improved expenditure classification and new expenditure commitment procedures; and a new investment promotion agency is being created as a one-stop shop for the approval of businesses. Parliamentary approval of the new Financial Services Unit (FSU) Act granting supervisory responsibility for all nonbank financial institutions (end-September 2006 benchmark) was delayed. However, drafting of the legislation has been completed, and along with associated amendments to existing legislation such as the Cooperative Societies Act, will be submitted to Parliament for discussion by end-December 2006. Following delays that arose from the need for extensive consultation, Parliament is expected to discuss in early 2007 the proposed amendments to the Finance Administration Act (end-October 2006 benchmark). Implementation of the recently announced action plan to reduce the wage bill is ongoing; several services have already been outsourced and preparations have been made for additional measures, though delays are reported in merging the air and sea ports authorities (legislation was passed in November; see below) and reorganizing the National Parks Service. Work to modernize the customs department has also started.

6. **Following a lengthy period of little change in the debt restructuring discussions, significant progress was recently achieved.** A restructuring agreement with the Export-Import Bank of Taiwan Province of China of its claims of US$11.8 million was concluded in October 2006, and ending the legal suit that had been initiated. Other smaller creditors have also recently joined in the debt restructuring, bringing the total debt that has been restructured to 78.5 percent of eligible debt. Discussions are ongoing with the remaining large nonparticipating creditors—holders of the Royal Bank of Trinidad and Tobago (RBTT) bond, the Kuwait Fund for Arab Economic Development (KFAED), and Cable and Wireless—who hold a combined 18.3 percent of eligible debt. Additionally, the bonds that were previously issued to participating creditors were listed on the Eastern Caribbean Securities Exchange (ECSE) in September 2006.

II. Macroeconomic Outlook and Policy Discussions

7. **The key policy objectives are to safeguard the gains from the successful stabilization and to bolster the prospects for sustainable private sector-led growth.** The authorities' approach in the Growth and Social Protection Strategy (GSPS) underscores their commitment to pursue sound macroeconomic policies and to remove the structural and institutional obstacles to investments and growth. This would be supported by the government playing a facilitating role including by improving the necessary infrastructure—rather than "picking winners" and awarding concessions.[1] In this regard, the authorities intend to implement structural reforms that improve the investment climate, including by: streamlining the investment approval process and reducing the cost of doing business; maintaining and extending the social and physical infrastructure; and establishing a smaller and more efficient public sector. Improving economic growth and job creation is a key pillar in the authorities' poverty reduction strategy, given the nature of poverty in Dominica. On this basis, the program's medium-term growth and inflation projections—at least 3 percent real GDP growth and 1½ percent annual inflation—appear appropriate and achievable. The government's policies for the period ahead are presented in the attached Letter of Intent (LOI) and Supplementary Memorandum of Economic Policies (MEP) (Attachments I and II), and are consistent with those described in the GSPS.

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[1] The "*Growth and Social Protection Strategy"* is the authorities' PRSP, which was circulated to the Executive Board as IMF Country Report No. 06/289 , with the "*Joint Staff Advisory Note*" IMF Country Report No. 06/290.

A. Fiscal Policies

8. **The strong fiscal performance in FY 2005/06 is commendable.** Revenues were particularly strong, and as the authorities saved the large unexpected increase in revenues rather than spending it on an *ad hoc* basis, the program's primary surplus target of 3 percent of GDP was exceeded by 4.3 percent (Box 1). The latter reflected in part, one-off factors—especially on withholding taxes and property taxes—higher collection on excises and VAT, and the buoyant economy. Current expenditures were marginally higher than programmed—reflecting higher outlays for utilities and retirement benefits—even as spending on wages and salaries was just below target. Despite an acceleration of the work in key capital projects in the latter part of FY 2005/06, capital spending for the year was about ½ percent of GDP lower than budgeted, but delays in disbursements by the European Union (EU) were partly offset by faster disbursements for projects financed by Venezuela and China. Grant receipts were also ½ percent of GDP lower than projected. Accordingly, a primary surplus of 7.3 percent of GDP was realized, which allowed the government to eliminate its bank overdrafts, reduce its domestic arrears, and build up some deposits.

9. **The mission welcomed the strong stance of the FY 2006/07 budget, and advised its resolute implementation and monitoring.** The budget is consistent with the medium-term sustainability of public finances and debt, and targets a primary surplus of 3 percent of GDP (MEP ¶5), but this may be exceeded (Table 4). Given the recent trends, cautiously estimating VAT collection at 9 percent of GDP and excluding the special factors that influenced collection in FY 2005/06, current revenues are now estimated at 30 percent of GDP—0.9 percent of GDP higher than previously projected, given the stronger baseline of revenues in FY 2005/06—while envisaged grants amount to 8½ percent of GDP (Table 4). Noninterest current expenditures are projected at 24½ percent of GDP, with expenditures on wages and salaries expected to decline further compared to FY 2005/06. Capital spending and net lending are targeted at 10.1 percent of GDP. Revenue overperformance could allow advancing the timetable of key capital projects and social programs as prioritized in the GSPS, and also allow further debt reduction. The authorities noted their intention to use budget-support grants in excess of programmed amounts to further reduce debt and build up bank balances (MEP ¶9). Nevertheless, a close monitoring of both revenues and expenditures—particularly the execution of the public sector investment program (PSIP)—is essential. Additionally, if the budget is well executed, a further strengthening of its structure will result.

10. **Public sector reforms have been advanced, and will be continued in the period ahead. These include:**

- **VAT and other revenue reforms**. The mission reviewed the implementation of the VAT, and assessed it to be broadly positive: the filing rate by taxpayers remains high,

Box 1. Fiscal Performance and Adjustment in FY 2005/06

The strong fiscal performance in FY 2005/06 is attributed to the revenue and expenditure measures that were implemented during the course of the program, as well as some favorable one-off factors.

Total revenues were particularly strong, having risen to 33.5 percent of GDP from an average of 28.4 percent of GDP in FY 2000/01—FY 2002/03. In turn, this is largely due to the improvement of taxes on goods and services by 6 percent of GDP, mainly reflecting the adopted measures: an increase in the sales tax from FY 2003/04; the reduction of discretionary tax exemptions; the introduction of the VAT and excise taxes on March 1, 2006; and improved tax administration. International trade taxes were broadly unchanged, though the comparison is distorted by the elimination of consumption taxes in March 2006 which also hides the impact of the increased custom service charge from FY2003/04. Similarly, property taxes were stronger by 0.6 percent of GDP, but mainly due to transitory factors (see below). The strengthening of these taxes more than offset a decline in nontax revenues of 1.4 percent of GDP. More broadly, better tax administration and collection of tax arrears has also helped raise all revenues.

Dominica: Adjustment in Central Government Accounts
(as a percentage of GDP)

	FY1999/00	FY2000/01 to FY2002/03	FY2005/06
Revenues and grants	**32.3**	**33.6**	**41.1**
Current revenue	**29.3**	**28.1**	**33.3**
Tax revenue	24.7	23.7	30.3
Taxes on income	7.6	6.6	6.7
Taxes on property	0.3	0.4	1.0
Taxes on goods and services	4.1	4.4	10.4
Taxes on international transactions	12.6	12.3	12.2
Nontax revenue	**4.6**	**4.4**	**3.0**
Capital revenue	**0.4**	**0.3**	**0.2**
Grants	**2.7**	**5.2**	**7.6**
Total expenditure	**40.5**	**41.9**	**39.9**
Current expenditure	**30.3**	**32.7**	**30.4**
Wages and salaries	15.6	16.6	13.3
Goods and services	5.9	5.2	5.8
Interest	3.9	5.3	5.4
Subsidies and transfers	4.9	5.6	5.8
Capital expenditure and net lending	**10.3**	**9.2**	**9.5**
Primary balance (from above the line)	**-4.3**	**-3.0**	**6.6**

Several one-off factors accounted for the robust revenues in FY 2005/06. These include: EC$2.3 million of security bond forfeitures (0.3 percent of GDP for which a program adjustor applies); EC$7 million of one-off payment of withholding tax; higher collection of property taxes and import duties by EC$4.1 million and EC$1.3 million respectively, due to unusually large transactions in FY 2005/06.

Noninterest current expenditures have been reduced to 25.0 percent of GDP from an average of 27.4 percent in FY 2000/01—FY 2002/03. This reflected a decline in wages and salaries, by 3.3 percent of GDP, resulting from the wage freeze earlier in the program, increased voluntary resignations, and the retrenchment exercise that accelerated in FY 2005/06. Spending on goods and services as well as gratuities and pensions has increased marginally. Improvements in spending approval procedures have also allowed a tighter control on expenditures.

Capital spending is largely unchanged, but grant financing of these expenditures has increased by 2.4 percent of GDP. Improvements have also been made in the selection procedure and prioritization of capital projects.

refunds are being made on a timely basis, and revenue collection appears favorable. The mission concurred with the authorities on the need for continuous monitoring of developments, and welcomed their commitment to protect the VAT from any weakening (MEP ¶10). Specific measures include: providing the resources needed to strengthen VAT administration; implementing good audit and risk management programs, and mechanisms to detect stopfilers; and making timely VAT refunds. A comprehensive review of the experience under the VAT is expected by September 2007. More generally, the mission welcomed the preliminary work to expand the revenue reforms, particularly improving the income tax, and supported the authorities' request for technical assistance from CARTAC and FAD.

- **Streamlining public sector employment.** Implementation of the action plan to reduce the wage bill in FY 2006/07 is proceeding. Several services were outsourced from October 1, 2006, and work is proceeding on other measures, such as the commercialization of various services, and Parliament has approved some of the laws that will allow these changes (MEP ¶10). However, following earlier delays in finalizing the legislation for the merger of the air and sea ports authorities—approved by Parliament in November 2006—the completion of the merger is expected in early 2007. Delays in securing the requisite assistance from the CDB to develop a new management structure for the National Parks Service will holdup its implementation. The mission urged the authorities to make every effort to obtain such assistance and thereby accelerate the reform. The staff welcomed the government's commitment to reduce the wage bill to 12¼ percent of GDP by 2008/09 (MEP ¶10), and noted the ongoing work on the reorganization of government units with a view to greater efficiency and cost-effectiveness.

- **Strengthening public expenditure management.** The mission welcomed the improvements that were introduced in July 2006 to enhance budget monitoring and cash management. These include an improved system to capture committed expenditures, and the use of a medium-term budgeting framework. However, amendments to the Finance Administration Act and the related legislation—as described in paragraph 17 of the MEP of September 8, 2005—have been delayed, as Parliamentary approval of these amendments (benchmark for end-September 2006) was held back by the consultation process. Approval of these amendments is now expected in early 2007 (MEP ¶10).

B. Debt Restructuring

11. **Recent progress in debt restructuring has validated the authorities' efforts towards collaborative settlements and bringing closure to the debt restructuring.** The restructuring agreement with the bank from Taiwan Province of China, in line with the authorities' debt exchange offer and terminating the related lawsuit, is particularly welcome.

The mission supported the authorities' intention to maintain good-faith efforts in pursuing agreements with the remaining nonparticipating creditors that maintain inter-creditor equity; efforts to contact them regularly would be continued, and payments made on their behalf into an escrow account according to the restructured terms. Agreements with the remaining three large nonparticipating creditors would increase participation in the debt exchange to 96.8 percent of eligible debt.

C. Structural Reforms and Other Issues

12. **Whilst the recent progress in structural measures has confirmed the authorities' commitment to structural reforms, their steadfast implementation in the period ahead will provide the needed framework for strengthening economic performance.** The mission welcomed the measures recently put in place, which aim at addressing key economic risks and accelerating the transformation process, and concurred with the authorities on the merits of maintaining a steady pace of structural reform. The recent amendment to the Electricity Supply Act and related legislation is particularly noteworthy (MEP ¶5), being a critical element in liberalizing the sector and exploiting Dominica's potential of geo-thermal energy. Other key reforms include:

- **Dominica Social Security (DSS).** Cabinet's recent approval of an action plan for strengthening DSS and eliminating its unfunded liability is an important milestone (MEP ¶12). The action plan follows a wide consultation, and proposes a combination of increased contributions, reduced benefits, higher retirement ages, and improved investment policies (Annex I). The plan describes the measures to be implemented over the next few years, and includes a commitment for periodic reviews and additional measures as needed to ensure the scheme remains fully funded. While welcoming the preparedness of DSS to implement the immediate measures, the mission underscored that the action plan's timely implementation is indispensable for the sustainability of DSS and public finances.

- **AID Bank.** Following initial delays, an action plan for dealing with the fragility of the AID Bank was recently completed (MEP ¶5). The action plan follows the recommendations of the recent MCM technical assistance mission and the findings from the February 2006 onsite inspection. The action plan acknowledges the need to continue policy lending, and the approach taken is of refocusing the AID Bank to its original mandate. The refocused institution would be organized according to the current best practices, directed towards operational efficiency and accountability—addressing the identified weaknesses, for instance, in the audit practices, corporate governance, and loan underwriting standards. An appropriate framework for its supervision by the FSU will also be established, and care would be taken to minimize the cost of the reform including that of dealing with nonperforming loans. The mission welcomed the completion of the action plan and stressed the need for its prompt and firm implementation.

- **Regulatory framework for nonbank financial institutions**. The mission reviewed the status of the work to strengthen the regulatory framework for the nonbank financial institutions. A crucial element is the new Financial Services Unit (FSU) Act, which is expected to be submitted to Parliament by end-December 2006, along with some amendments in related legislation such as the Cooperative Societies Act which regulates credit unions (MEP ¶11). The mission encouraged the authorities in this work, noting that improving the regulatory regime was essential in the strengthening of the nonbank financial sector. Once the legislative changes have been completed, the focus would shift to making the legislation operational, including by strengthening the FSU in the Ministry of Finance. More generally, the mission underscored the need for a close supervision of both bank and nonbank institutions, including by conducting regular onsite inspections.

- **Dominica Export Import Agency (DEXIA) and National Development Corporation (NDC).** The mission welcomed the authorities' plan to restructure DEXIA and the NDC, and establish a one-stop shop for investors (MEP ¶13). The restructuring of NDC is at an advanced stage, including the completion of the draft legislation to create a tourism authority and an investment promotion agency to interface with investors. Technical assistance from USAID/COTS and that expected from the World Bank augurs well with satisfying the requirements of private sector-led growth and an improved investment climate. Assistance from USAID/COTS is now expected for the preparation of an action plan for restructuring DEXIA—delays have arisen from an earlier unsatisfactory strategic review of DEXIA and difficulties in improving it. The action plan is expected to be finalized by early 2007, and the authorities' commitment to restructuring DEXIA is welcome (MEP ¶5).

- **Customs Reform.** The mission welcomed the initial work in reforming the customs department, which private sector entities have identified as a key bottleneck (MEP ¶14). The objectives include improving the efficiency of the customs department, modernizing its operations, and reducing the processing time. This will require an extensive revamping of the existing systems and procedures, bringing these in line with international best practices. Assistance is being provided by USAID/COTS with the support of the World Bank, UNDP and other donors; the mission advised close coordination between the donors on the various aspects of this reform.

13. **The operational details of the PetroCaribe agreement have yet to be finalized.** While the agreement offers potential for savings and the authorities are keen to provide consumers some relief from the high world petroleum prices, the expected savings remain

uncertain since the operational details have not been finalized.[2] Key parameters that need clarification include: the reference price, charges for insurance and freight, insurance coverage for the storage facilities and other assets, contingencies against supply disruptions, and the operational details of the financial transactions. The mission urged the authorities to clarify the pending details. Additionally, savings arising from the government's ability to borrow at below market rates under the agreement will accrue only gradually and compound over time. The mission underscored that these savings be used in a manner consistent with the overall debt strategy, and that world petroleum prices continue to be passed on to retail prices.

14. **The authorities reiterated their focus on reducing poverty, and the approach taken in the GSPS.** The GSPS emphasizes measures aimed at improving economic growth and job creation, since the most recent poverty assessment concluded that poverty in Dominica is largely employment-based rather than due to inadequate access to basic social services. Poverty remains high in Dominica, and the mission concurs on the appropriateness of the strategy in the GSPS and the priority areas around four pillars: promotion of economic growth and job creation; human capital development; improving the conditions of those in severe poverty; and addressing social problems that could potentially cause future poverty. The mission noted that effective implementation and monitoring of the GSPS will be an important challenge in the period ahead, and recommended close cooperation with donors to facilitate their timely support.

III. Staff Appraisal

15. **Dominica's commendable progress under the PRGF program has continued, and macroeconomic performance has strengthened further in 2006.** Macroeconomic stability has been largely regained: economic growth returned in 2004 and has continued to rise; public finances have improved significantly reflecting a strong fiscal consolidation effort; and the authorities' debt restructuring has been addressing the previously unsustainable debt. Progress has also been made in key reforms, but additional work is needed to firmly establish the basis for sustainable growth and poverty reduction as indicated in the authorities' GSPS. Staff commends the authorities for their resolute implementation of the program.

16. **Staff welcomes the continued strong fiscal performance, and the authorities' commitment to implement sound fiscal policies, as reflected in the FY 2006/07 budget.**

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[2] However, two shipments of asphalt have been received under the agreement, in June and September, for use in road construction. No debt or financing agreements for these shipments have yet been signed, but the value of each shipment based on world prices is about US$135,000. Additional shipments of asphalt are expected every three months. The construction of fuel storage tanks began in November 2006.

The authorities are to be commended for the impressive budgetary overperformance resulting from the decision to save the higher than projected revenue—due to one-off factors—while maintaining firm expenditure control. This provided room for a reduction in domestic arrears and an accumulation of bank balances. The FY 2006/07 budget is consistent with the medium-term sustainability of public finances and debt, appropriately targeting a primary surplus of 3 percent of GDP. Current revenues are expected to remain strong, despite the absence of the special factors that were operative in FY 2005/06. Capital spending will be relatively unchanged from FY 2005/06, and the PSIP is expected to be kept in line with the prioritization in the GSPS. The resolute implementation and monitoring of the FY 2006/07 budget needs to continue, to consolidate the gains achieved thus far.

17. **Key public sector reforms have advanced considerably, and will be continued in FY 2006/07.** Implementation of the VAT is proceeding well, but needs to be continuously monitored. Staff supports the authorities' commitment to protect the VAT from any weakening, to carry out a comprehensive review of the VAT by September 2007, and a measured widening of the revenue reforms. Public sector employment is also being streamlined by applying measures identified in the FY 2006/07 action plan. Staff endorses the implementation of these measures, and urges the authorities to accelerate the delayed measures lest the overall objective be jeopardized. Recent steps to strengthen public expenditure management are welcome, but the momentum in preparing the amendments to the Finance Administration Act needs to be regained so that Parliament approves them by early 2007.

18. **Staff commends the recent progress in implementing structural reforms.** The recent approval of the amendments to the Electricity Supply Act and the related legislation, Cabinet's approval of an action plan to reform and eliminate the unfunded liability of DSS, and the completion of an action plan to resolve the fragility of the AID Bank are particularly significant. Other important measures include the strengthening of the financial sector, the transformation of the NDC and early steps leading to the transformation of DEXIA, which should help foster private sector-led growth and improve the investment climate.

19. **The recent progress in debt restructuring is especially welcome.** The restructuring agreements that were reached recently, the termination of the lawsuit by a bank from Taiwan Province of China, and the listing of the new bonds on the ECSE are all commendable developments, although the limited progress made with the holders of the RBTT bond is a matter of concern. Staff endorses the authorities' intention to uphold their good-faith efforts towards collaborative agreements that maintain inter-creditor equity, including making payments into the escrow account and regular attempts to contact the remaining nonparticipating creditors.

20. **Poverty remains a serious concern, and staff welcomes the authorities' focus on reducing poverty and the approach in the GSPS.** Staff concurs on the appropriateness of the strategy and the priority areas described in the GSPS.

21. **Staff recommends completion of the financing assurances review and supports the conclusion of the Seventh Review Under the PRGF Arrangement.** The authorities' actions and intentions with regard to the payment arrears owed to private creditors confirm that the basis for completing the financing assurances review remains valid. All quantitative performance criteria for June 30, 2006 were met. Considerable progress has been made on the benchmarks for the seventh review, with most fully satisfied, and policy implementation has remained strong. The necessity of further structural reforms to create a stronger basis for growth and poverty reduction is also recognized. However, significant risks still remain, particularly because the debt restructuring has not been concluded, but the authorities' commitment to sound policies is expected to help mitigate these risks and provide adequate economic performance.

Annex I. The Reform of Dominica Social Security

Dominica Social Security (DSS) is a comprehensive national insurance scheme. Like its ECCU peers, DSS used to focus on old-age pensions but it now offers a wide range of benefits, including invalidity and survivor's pensions and benefits for sickness, maternity, and employment injury. Aside from the gradual expansion of scope, the basic structure remains that of a traditional defined benefit system, with old age pensions representing around 60 percent of expenditure. In the early years, regional schemes generated large surpluses, due to minimal expenditure. However, with expenditures rising these surpluses have been declining sharply recently.

Across the ECCU, social security schemes face a challenging financial outlook; for DSS the challenge is particularly acute. Contribution rates across the ECCU are low for a defined benefit scheme with replacement rates close to 60 percent; for example, the total contribution rate in Dominica is close to 10 percent, compared to the OECD average of around 25 percent. Expenditures are set to increase rapidly as a result of scheme maturation and aging. Based on current policies, projections suggest a rapid emergence of cashflow deficits and a sharp rundown of reserve assets, which currently measure over 40 percent of GDP. DSS is the first ECCU scheme for which expenditures are exceeding contribution income, while actuarial projections suggest that DSS will be the first scheme in the region to exhaust reserves by around 2023 under current policies.

DSS represents a very large contingent liability for the central government, the implicit guarantor of DSS. Estimating the present value of future cashflows and offsetting that against reserve assets, FAD projections suggest that this liability through 2075 could be around 155 percent of GDP, under current policies. Aside from offering comprehensive benefits to contributors, DSS investment funds a sizeable share of total investment and play a large role in the banking system. As a result, the projected stark reversal of financial fortune could have serious macroeconomic repercussions if not addressed quickly.

To this end Dominica's Cabinet recently approved an Action Plan of DSS reforms that aims to eliminate all unfunded liabilities of the social security scheme. It proposes the gradual but steady implementation of reform measures which distribute the burden of reform across generations and minimize potential disruptions to the economy. The specific, time-bound measures in the Action Plan should eliminate around 60 percent of the funding gap, with future measures, including a commitment to increase the contribution rate to 15 percent, aiming to close the gap. These reforms will be reviewed regularly, as part of the usual actuarial review process, to ensure that they remain sufficient to eliminate underfunding. The Plan also seeks to ensure that pensions remain relevant, particularly for those likely to be most vulnerable in old age.

This Action Plan benefited from FAD technical assistance and actuarial reviews completed by the ILO. Most importantly, it also benefited from an open and comprehensive consultation process with stakeholders. The DSS report on these consultations suggest that, due in part to an active effort on behalf of the DSS to engage with stakeholders, the challenges facing social security were well understood. As a result, there was widespread consensus on the need for reform.

Dominica Social Security: Selected Approved Reform Measures 1/

Reform Measure	Current policy	New Policy	Effective Date
Increase the contribution rate	Employee 3 percent, employer 6.75 percent, self-employed, 7.65 percent	Employee and self-employed to rise by 1 percent in 2007 and 2009; eventual target for total contributions is 15 percent.	January 2007 January 2009
Increase the contribution ceiling	EC$5,000 per month	EC$6,000 per month	January 2008
Reduce the pension accrual rate	Of average pensionable salary, 3 percent per year the first 10 years of contributions, then 2 percent for the next five years and then 1 percent per year up to a maximum of 70 percent.	Of average pensionable salary, 3 percent per year the first 10 years of contributions, then 1 percent up to a maximum of 60 percent.	January 2008
Change the benefit formula	Average of 3 highest earning years during last 10 years of contributions	Average of 10 highest earning years during last 15 years of contributions	January 2008
Increase the pension age 2/	60 years	Increase 1 year every 3 years to 65 years	Starting January 2009

Source: Dominican Authorities

1/ A number of other reforms are set to be implemented, including a more predictable method of adjusting pension benefits once they have been set; however, the measures highlighted here are those with the largest impact on the unfunded liabilities.
2/ Some of the savings from a higher retirement age will be offset by increased spending on civil service pensions unless the retirement age for government employees is eventually raised as well

Table 1. Dominica: Selected Economic and Social Indicators

	2002	2003	2004	2005 Prog. 1/	2005 Prel.	2006 Rev. Prog. 2/	2006 Rev. Proj.	2007 Proj.
(Annual percent change, unless otherwise specified)								
Output and prices								
Real GDP (factor cost)	-5.1	0.1	3.0	3.1	3.4	3.0	4.1	3.0
GDP deflator (factor cost)	-0.2	0.9	2.1	1.5	1.9	1.5	1.2	1.5
Nominal GDP (factor cost)	-5.3	1.0	5.2	4.5	5.3	4.5	5.4	4.5
Nominal GDP (market prices)	-3.9	1.9	5.4	4.3	5.0	4.4	5.1	4.4
Consumer prices (end of period)	0.4	2.9	0.8	1.5	2.7	1.5	2.0	1.5
Money and credit								
Net foreign assets of the banking system 3/	19.3	17.3	8.1	4.1	-8.0	-7.6	5.1	2.5
Net domestic assets of the banking system 3/	-10.8	-16.4	-2.1	1.4	14.7	13.5	2.9	2.1
Of which								
Net credit to the nonfinancial public sector 3/	-5.4	-4.3	-5.1	0.1	0.6	-1.5	-2.0	-0.8
Credit to the private sector 3/	-1.3	-2.3	5.4	3.8	4.6	4.9	6.1	4.1
Liabilities to the private sector (M2)	8.5	1.0	5.9	5.5	6.7	5.9	8.0	4.6
Balance of payments								
Merchandise exports, f.o.b.	-1.8	-6.0	4.4	3.9	1.0	0.1	-1.5	1.6
Merchandise imports, f.o.b.	-11.5	9.3	14.3	7.8	13.8	4.9	0.8	3.4
Real effective exchange rate								
(end of period, depreciation -) 4/	-3.2	-1.9	-6.0	…	1.9	…	-0.4	…
(In millions of U.S. dollars)								
Merchandise exports, f.o.b.	43.6	41.0	42.8	44.5	43.2	44.5	42.6	43.3
Merchandise imports, f.o.b.	102.4	111.8	127.8	137.8	145.4	144.5	146.6	151.6
Current account balance	-34.7	-33.6	-46.7	-54.3	-77.7	-60.7	-63.9	-65.3
Capital and financial account balance 5/	46.9	35.0	21.2	45.4	69.4	56.2	62.7	67.8
Overall balance	12.1	1.4	-25.7	-8.8	-8.3	-4.4	-1.2	2.6
(In percent of GDP, unless otherwise specified)								
Central government 6/								
Savings (incl. grants)	-0.5	8.6	7.6	7.4	10.6	10.5	11.5	10.3
Of which								
Primary savings (before grants)	0.6	5.8	7.8	5.0	8.5	4.5	5.5	4.5
Grants	4.5	8.8	5.9	8.1	7.6	8.6	8.5	8.3
Capital expenditure and net lending	5.0	10.1	8.8	10.1	9.5	10.1	10.1	9.8
Primary balance (incl. grants)	-1.6	5.4	3.5	3.0	7.3	3.0	4.0	3.0
Overall balance	-5.4	-1.3	-0.9	-2.5	1.2	0.6	1.6	0.7
Nonfinancial public sector debt (gross) 7/								
Total	126.7	130.8	116.0	109.1	108.2	103.3	101.4	96.7
External	79.6	84.6	80.6	81.1	74.6	70.8	70.8	66.1
Domestic	47.1	46.2	35.4	28.0	33.6	32.4	30.6	30.5
External sector								
Current account balance	-13.7	-13.0	-17.2	-19.2	-27.2	-20.4	-21.3	-20.9
External public debt service 8/	11.8	19.5	20.7	15.9	17.5	13.8	13.1	9.8
Amortization	4.6	12.8	14.0	8.2	9.1	8.9	8.4	5.3
Interest	7.1	6.8	6.7	7.6	8.4	4.9	4.7	4.6
Memorandum items:								
Nominal GDP at market prices (EC$ millions)								
Calendar year	683.5	696.1	733.7	763.2	770.2	803.9	809.5	844.9
Net international reserves								
(U.S. dollars millions; end-of-period) 9/	43.6	44.0	33.6	34.0	37.6	42.5	44.2	48.8

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

1/ IMF Country Report No. 05/384, Fifth PRGF Review (September 2005).
2/ IMF Country Report No. 06/291, Sixth PRGF Review (July 2006). The approved FY 2006/07 budget corresponds to this projection.
3/ Change relative to the stock of M2 at the beginning of the period.
4/ Figure for 2006 is the annual percentage change to August 2006.
5/ Including errors and omissions.
6/ 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.
7/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic
8/ In percent of exports of goods and nonfactor services. Up to 2005 data are on prerestructuring terms. After that, data are on postrestructuring terms for creditors participating in the debt restructuring and on prerestructuring terms for creditors not participating.
9/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.

Table 2. Dominica: Quantitative Performance Criteria (PC) and Indicative Targets (IT)

	Dec. 31, 2005 1/				Mar. 31, 2006 1/				June. 30, 2006 1/				September 30, 2006 2/			
	Program PC	Adjusted PC	Actual	Margin (+)/ Excess (-)	Program IT	Adjusted IT	Actual	Margin (+)/ Excess (-)	Program PC	Adjusted PC	Actual	Margin (+)/ Excess (-)	Program IT	Adjusted IT	Prov. Actual	Margin (+)/ Excess (-)
I. Performance Criteria																
(In millions of Eastern Caribbean dollars)																
Central government primary balance	7.6	9.0	20.9	11.9	16.2	17.9	42.0	24.2	23.7	25.1	57.7	32.6	8.6	8.6	13.6	5.0
Central government wage bill	55.7	55.7	52.7	3.0	81.4	81.4	78.8	2.6	106.5	106.5	105.3	1.2	27.8	27.8	26.3	1.5
Banking system net credit to central government	-0.1	-1.3	-2.3	1.0	-6.4	-2.4	-11.0	8.6	-13.6	-7.7	-16.6	8.8	3.0	1.5	0.7	0.8
Net changes in central government arrears to private domestic parties	8.0	8.0	-1.5	9.5	8.0	8.0	-1.1	9.1	8.0	8.0	-2.4	10.4	4.0	4.0	-4.4	8.4
(In millions of U.S. dollars)																
Disbursement of central government or central government guaranteed external nonconcessional debt with maturity of at least one year 4/	4.4	4.4	1.7	2.7	6.9	6.9	2.4	4.5	9.0	9.0	3.2	5.8	2.0	2.0	0.2	1.8
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/	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...
Central government and central government guaranteed external payments arrears 2/ 3/	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...
II. Indicative Targets																
(In millions of Eastern Caribbean dollars)																
Central government overall balance	-14.0	-12.6	-0.7	11.9	-18.7	-17.0	7.2	24.2	-19.3	-17.9	14.8	32.6	-1.0	-1.0	9.5	10.5
Central government revenues	111.1	111.1	127.1	16.0	171.9	171.9	191.0	19.1	230.8	230.8	262.6	31.8	54.9	54.9	63.8	8.9
Central government primary savings	14.0	15.4	34.9	19.5	27.3	29.0	49.2	20.2	38.9	40.3	67.5	27.1	5.7	5.7	13.8	8.1

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

1/ Cumulative amounts from June 30, 2005. All variables and adjustors that apply are defined in the Technical Memorandum of Understanding. Historical data have been revised to reflect recently recognized pending bills.
2/ Cumulative amounts from June 30, 2006. All variables and adjustors that apply are defined in the Technical Memorandum of Understanding.
3/ These performance criteria are monitored on a continuous basis.
4/ Includes US$0.135 million attributed to asphalt imports in each of the quarters ending June and September 2006 related to the PetroCaribe agreement.

Table 3. Dominica: Structural Benchmarks and Other Structural Reforms

	IMF Country Report No. 06/291			
	Category	Location	Target Date	Status
Fiscal reforms				
VAT implementation	...	...	March 1, 2006	Completed
Cabinet approval of amendments to the Finance Administration Act	...	...	End-November 2005	Completed
Parliamentary approval of amendments to the Finance Administration Act	Benchmark, 7th review	MEP Table 2	End-October 2006	Work ongoing
Line ministries to submit rolling three-year expenditure plans	...	...	...	Modified
Publish information of all concessions granted in 2004/05, and then monthly after the end of each month	...	...	August 2005	Completed
Adjust the opening balances of the general ledger	...	...	End-December 2005	Completed
Complete review on streamlining the structure and functions of government units	...	...	End-February 2006	Completed
Complete comprehensive review of statutory exemptions, and repeal all concession found to be unnecessary	...	...	...	Modified
Approval of FY 2006/07 budget consistent with the program and a 3 percent primary surplus	Benchmark, 7th review	MEP Table 2	End-July 2006	Completed
Approval of implementation plan to further rationalize the wage bill in FY 2006/07	Benchmark, 7th review	MEP Table 2	End-June 2006	Completed
Present the FY 2006/07 budget within a three-year budgeting framework	Benchmark, 7th review	MEP Table 2	End-July 2006	Completed
Initiate review on streamlining the police, fire and prisons departments	...	MEP ¶ 17	End-September 2006	Work ongoing
Financial sector reforms				
Take necessary steps to to conduct an on-site inspection of the AID Bank	...	...	End-October 2005	Completed
Conduct an onsite inspection of the AID Bank	...	...	End-March 2006	Completed
Adoption of measures to bring the Roseau Credit Union in full regulatory compliance	...	...	End-December 2005	Completed
Parliamentary approval of legislation for the FSU to supervise insurance companies, and regulate all NBFIs and AID Bank	Benchmark, 7th review	MEP Table 2	End-September 2006	Work ongoing
Prepare strategy for dealing with the AID Bank	Benchmark, 7th review	MEP Table 2	End-June 2006	Completed
AID Bank ceasing accepting deposits	...	MEP ¶ 18	...	Completed
Other reforms				
Prepare action plan to reform DSS	...	...	End-December 2005	Completed
Cabinet approval of action plan to eliminate the unfunded liabilities of DSS	Benchmark, 7th review	MEP Table 2	End-July 2006	Completed
Parliamentary approval of amendments to the Electricity Supply Act and related legislation	Benchmark, 7th review	MEP Table 2	End-August 2006	Completed
Complete strategic reviews and establish action plans for the operations of NDC and DEXIA:	Benchmark, 7th review	MEP Table 2	End-September 2006	
- NDC				Completed
- DEXIA				Work ongoing
Establish recommendations for a one-stop shop for the approval of new businesses	...	MEP ¶ 21	End-September 2006	Completed
Submit to parliament the 2004 audited financial accounts of the AID Bank, DOWASCO and DEXIA	...	...	December 2005	Completed
Audit the financial accounts of the NDC for 2003 and 2004 and then submit them to parliament	...	MEP ¶ 7	...	Completed
Finalize the GSPS	...	...	End-December 2005	Completed

Sources: Dominican authorities; and IMF Country Report No. 06/291, Sixth PRGF Review (July 2006).

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

	2001/02	2002/03	2003/04	2004/05 Prog. 2/	2004/05 Actual	2005/06 Prog. 2/	2005/06 Actual	2006/07 Rev. Prog. 3/	2006/07 Proj.
				(In millions of Eastern Caribbean dollars)					
Total revenue and grants	**209.7**	**224.1**	**285.9**	**291.3**	**292.0**	**294.2**	**325.0**	**311.4**	**320.1**
Current revenue	197.1	191.9	221.8	229.2	245.7	229.3	263.2	239.4	248.1
Tax revenue	160.2	167.9	193.6	203.6	213.3	210.9	239.5	221.7	227.9
Taxes on income	40.1	45.0	43.7	35.5	40.8	39.3	52.7	48.1	49.3
Taxes on property	2.2	2.5	2.6	5.8	6.6	2.8	7.9	5.4	7.3
Taxes on goods and services	30.2	33.0	49.1	55.0	56.2	75.0	82.1	112.3	113.4
Taxes on international transactions	87.6	87.5	98.3	107.3	109.7	93.8	96.7	56.0	57.9
Nontax revenue	36.8	23.9	28.1	25.6	32.4	18.4	23.7	17.7	20.2
Capital revenue	0.9	1.3	1.0	2.5	2.0	1.5	1.5	1.5	1.5
Grants	11.8	30.9	63.2	59.6	44.3	63.4	60.3	70.5	70.5
Total expenditure	**269.3**	**261.3**	**295.2**	**317.5**	**298.7**	**313.5**	**315.3**	**306.7**	**306.8**
Current expenditure	229.7	226.6	223.1	226.6	232.9	234.8	240.2	223.5	223.7
Wages and salaries 4/	116.5	116.1	104.2	102.7	102.0	106.5	105.3	107.1	107.1
Interest	36.9	37.6	41.7	43.8	43.9	43.0	43.0	19.9	19.8
Domestic	19.3	17.8	18.8	20.4	20.4	20.2	20.2	8.9	7.7
External	17.5	19.8	22.9	23.4	23.5	22.8	22.8	10.9	12.1
Others	76.3	72.8	77.2	80.1	87.0	85.3	91.9	96.5	96.8
Goods and services	38.7	33.7	38.1	39.2	39.0	41.4	45.7	49.1	49.3
Transfers and subsidies	37.6	39.1	39.1	40.9	48.0	43.9	46.2	47.5	47.5
Capital expenditure and net lending	39.6	34.7	72.1	90.9	65.8	78.7	75.2	83.1	83.1
Overall balance	**-59.5**	**-37.2**	**-9.3**	**-26.3**	**-6.6**	**-19.3**	**9.6**	**4.7**	**13.3**
Statistical discrepancy 5/	8.2	-11.5	6.6	-2.7	-10.6	0.0	5.1	0.0	0.0
Financing	**51.3**	**48.7**	**2.7**	**29.0**	**17.2**	**19.3**	**-14.8**	**-4.7**	**-13.3**
Net foreign financing	25.6	44.9	47.3	16.9	25.8	22.3	9.1	3.7	0.0
Disbursements	31.9	47.7	78.4	20.9	26.8	11.8	7.5	12.5	12.5
Amortization	6.3	6.5	37.2	43.2	43.2	20.4	20.4	8.8	12.5
Other including rescheduling	0.0	3.8	6.1	39.2	42.3	30.8	22.0	0.0	0.0
Net domestic financing	25.7	3.8	-44.5	12.1	-8.6	-3.0	-23.9	-8.4	-13.2
Bank	16.3	-6.9	-41.4	-0.2	-12.2	-13.6	-16.6	-8.4	-13.2
Nonbank	9.5	10.7	-7.7	1.6	-6.6	0.0	-6.6	0.0	0.0
Other including rescheduling 6/	0.0	0.0	4.6	10.7	10.2	10.6	-0.7	0.0	0.0
Total revenue and grants	**30.1**	**32.5**	**40.0**	**39.4**	**38.8**	**37.7**	**41.1**	**37.9**	**38.7**
Current revenue	28.3	27.8	31.0	31.0	32.7	29.4	33.3	29.1	30.0
Tax revenue	23.0	24.3	27.1	27.5	28.4	27.0	30.3	27.0	27.6
Taxes on income	5.8	6.5	6.1	4.8	5.4	5.0	6.7	5.9	6.0
Taxes on property	0.3	0.4	0.4	0.8	0.9	0.4	1.0	0.7	0.9
Taxes on goods and services	4.3	4.8	6.9	7.4	7.5	9.6	10.4	13.7	13.7
Taxes on international transactions	12.6	12.7	13.7	14.5	14.6	12.0	12.2	6.8	7.0
Nontax revenue	5.3	3.5	3.9	3.5	4.3	2.4	3.0	2.2	2.4
Capital revenue	0.1	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.2
Grants	1.7	4.5	8.8	8.1	5.9	8.1	7.6	8.6	8.5
Total expenditure	**38.6**	**37.9**	**41.3**	**42.9**	**39.7**	**40.2**	**39.9**	**37.3**	**37.1**
Current expenditure	32.9	32.8	31.2	30.6	31.0	30.1	30.4	27.2	27.0
Wages and salaries 4/	16.7	16.8	14.6	13.9	13.6	13.7	13.3	13.0	12.9
Interest	5.3	5.5	5.8	5.9	5.8	5.5	5.4	2.4	2.4
Domestic	2.8	2.6	2.6	2.8	2.7	2.6	2.6	1.1	0.9
External	2.5	2.9	3.2	3.2	3.1	2.9	2.9	1.3	1.5
Others	10.9	10.6	10.8	10.8	11.6	10.9	11.6	11.8	11.7
Goods and services	5.6	4.9	5.3	5.3	5.2	5.3	5.8	6.0	6.0
Transfers and subsidies	5.4	5.7	5.5	5.5	6.4	5.6	5.8	5.8	5.7
Capital expenditure and net lending	5.7	5.0	10.1	12.3	8.8	10.1	9.5	10.1	10.1
Overall balance	**-8.5**	**-5.4**	**-1.3**	**-3.5**	**-0.9**	**-2.5**	**1.2**	**0.6**	**1.6**
Statistical discrepancy 5/	1.2	-1.7	0.9	-0.4	-1.4	0.0	0.6	0.0	0.0
Financing	**7.4**	**7.1**	**0.4**	**3.9**	**2.3**	**2.5**	**-1.9**	**-0.6**	**-1.6**
Net foreign financing	3.7	6.5	6.6	2.3	3.4	2.9	1.2	0.5	0.0
Disbursements	4.6	6.9	11.0	2.8	3.6	1.5	1.0	1.5	1.5
Amortization	0.9	0.9	5.2	5.8	5.8	2.6	2.6	1.1	1.5
Other including rescheduling	0.0	0.6	0.9	5.3	5.6	3.9	2.8	0.0	0.0
Net domestic financing	3.7	0.5	-6.2	1.6	-1.1	-0.4	-3.0	-1.0	-1.6
Bank	2.3	-1.0	-5.8	0.0	-1.6	-1.7	-2.1	-1.0	-1.6
Nonbank	1.4	1.6	-1.1	0.2	-0.9	0.0	-0.8	0.0	0.0
Other including rescheduling 6/	0.0	0.0	0.6	1.4	1.4	1.4	-0.1	0.0	0.0
Memorandum items:									
Capital expenditure less total grants									
In EC$ million	30.2	4.0	11.8	34.7	25.1	17.9	17.9	14.6	14.6
In percent of GDP	4.3	0.6	1.7	4.7	3.3	2.3	2.3	1.8	1.8
Savings (incl. grants)	-3.0	-0.5	8.6	8.4	7.6	7.4	10.6	10.5	11.5
Primary savings (before grants)	0.7	0.6	5.8	6.6	7.8	5.0	8.5	4.5	5.5
Primary balance (incl. grants) 7/	-2.1	-1.6	5.4	2.0	3.5	3.0	7.3	3.0	4.0
Nominal GDP at market prices (EC$ millions)	697.5	689.8	714.9	740.0	751.9	780.2	789.8	821.5	827.2

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

1/ Fiscal years beginning July 1. On a commitment basis, unless otherwise indicated.

2/ IMF Country Report No. 05/384, Fifth PRGF Review (September 2005).

3/ IMF Country Report 06/291, Sixth PRGF Review (July 2006). The approved FY 2006/07 budget corresponds to this projection.

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

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

6/ Debt service projected for 2006/07 is on a post-restructuring due basis.

7/ Computed using overall deficit measured from below-the-line.

Table 5. Dominica: Balance of Payments

	2002	2003	2004	Prog. 1/ 2005	Prel. 2005	Rev. Prog. 2/ 2006	Rev. Proj. 2006	Proj. 2007	Proj. 2008	Proj. 2009	Proj. 2010
	(In millions of U.S. dollars)										
Current account balance	**-34.7**	**-33.6**	**-46.7**	**-54.3**	**-77.7**	**-60.7**	**-63.9**	**-65.3**	**-67.3**	**-66.8**	**-65.9**
Trade balance	-58.7	-70.8	-84.6	-93.3	-102.2	-100.0	-104.0	-108.4	-112.5	-115.6	-118.7
Exports (f.o.b.) 3/	43.6	41.0	42.8	44.5	43.2	44.5	42.6	43.3	45.2	47.3	49.4
Of which											
Bananas	8.1	5.9	7.2	7.2	6.3	6.3	7.5	6.3	6.3	6.3	6.3
Imports (f.o.b.)	102.4	111.8	127.8	137.8	145.4	144.5	146.6	151.6	157.7	162.8	168.2
Of which											
Mineral fuels 4/	9.6	12.1	14.1	18.9	19.3	24.8	24.2	24.5	25.7	25.7	25.7
Services balance	26.0	32.8	40.0	45.1	31.4	40.0	43.7	46.6	49.3	52.6	56.1
Exports of services	79.7	77.3	86.3	95.5	83.4	88.7	96.2	100.9	105.8	110.9	116.3
Travel	45.7	52.3	60.1	65.6	55.6	59.0	66.9	70.3	73.9	77.7	81.6
Other	34.0	25.0	26.2	29.8	27.8	29.7	29.2	30.5	31.9	33.3	34.7
Imports of services	53.7	44.6	46.3	50.3	52.1	48.7	52.5	54.3	56.4	58.3	60.2
Net income	-18.4	-12.1	-21.8	-22.0	-31.1	-18.5	-21.5	-22.3	-23.8	-24.3	-24.7
Interest payments (public sector) 5/	-8.8	-8.0	-8.6	-10.7	-10.7	-6.6	-6.5	-6.6	-7.4	-7.3	-6.9
Other income	-9.6	-4.1	-13.2	-11.3	-20.4	-11.9	-15.0	-15.6	-16.3	-17.0	-17.8
Net current transfers	16.4	16.6	19.8	15.9	24.3	17.9	18.0	18.8	19.6	20.5	21.4
Private	12.6	12.4	18.4	17.0	19.5	17.9	18.0	18.8	19.6	20.5	21.4
Public	3.8	4.2	1.4	-1.1	4.7	0.0	0.0	0.0	0.0	0.0	0.0
Capital and financial account	**32.1**	**22.4**	**23.0**	**45.4**	**71.0**	**56.2**	**62.7**	**67.8**	**68.6**	**66.2**	**70.4**
Capital account	20.5	18.8	26.8	19.2	20.9	24.8	25.5	28.0	29.9	31.7	33.1
Public capital transfers	17.7	15.9	23.8	16.3	17.8	21.8	22.5	24.8	26.6	28.3	29.6
Private capital transfers	2.8	2.9	3.0	2.8	3.1	3.0	3.0	3.1	3.3	3.4	3.6
Financial account	11.6	3.7	-3.8	26.3	50.2	31.4	37.2	39.9	38.7	34.5	37.3
Public sector	25.8	8.9	0.2	-1.3	-3.8	-7.3	-7.1	-2.8	-5.0	-7.1	-5.9
Budgetary flows (net)	25.0	8.9	0.2	-1.3	-3.8	-7.3	-7.1	-2.8	-5.0	-7.1	-5.9
Disbursements	30.7	24.0	18.3	10.2	7.8	4.5	4.5	4.7	4.9	5.2	5.4
Repayments 5/	5.7	15.1	18.1	11.5	11.5	11.9	11.7	7.6	9.9	12.3	11.3
Nonbudgetary flows (net)	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	-14.1	-5.2	-4.0	27.6	53.9	38.8	44.3	42.7	43.7	41.7	43.2
Direct investment	11.4	19.8	18.1	21.1	18.0	20.8	24.0	25.0	26.1	27.3	28.5
Commercial banks	-24.1	-33.9	-26.9	-3.6	21.4	-3.8	-5.4	-1.7	-3.2	-1.5	0.0
Other private flows	-1.5	8.8	4.8	10.0	14.5	21.7	25.7	19.4	20.7	15.9	14.7
Errors and omissions	**14.7**	**12.5**	**-1.8**	**0.0**	**-1.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**12.1**	**1.4**	**-25.7**	**-8.8**	**-8.3**	**-4.4**	**-1.2**	**2.6**	**1.3**	**-0.5**	**4.5**
Overall financing	**-12.1**	**-1.4**	**25.7**	**8.8**	**8.3**	**4.4**	**1.2**	**-2.6**	**-1.3**	**0.5**	**-4.5**
Net international reserves	-12.1	-1.4	10.3	-5.3	-4.0	-4.9	-6.6	-4.6	-3.3	-3.6	-4.0
Gross reserves (increase = -)	-15.1	-6.2	9.4	-8.5	-7.2	-6.6	-8.3	-2.8	-2.7	-2.9	-3.0
IMF reserve liabilities (purchase = +)	3.0	4.8	0.9	3.2	3.2	1.8	1.8	-1.8	-0.6	-0.7	-1.1
Exceptional financing	0.0	0.0	15.4	14.1	12.3	9.3	7.7	2.1	2.0	4.1	-0.4
	(In percent of GDP)										
Capital account balance											
Current account balance	-13.7	-13.0	-17.2	-19.2	-27.2	-20.4	-21.3	-20.9	-20.6	-19.6	-18.5
Current account balance including net capital transfers	-5.6	-5.7	-7.3	-12.4	-19.9	-12.1	-12.8	-11.9	-11.5	-10.3	-9.2
External public debt service (as a percent of exports of goods and nonfactor services)											
Public sector 6/	11.8	19.5	20.7	15.9	17.5	13.8	13.1	9.8	11.5	12.4	11.0
Amortization	4.6	12.8	14.0	8.2	9.1	8.9	8.4	5.3	6.6	7.8	6.8
Interest	7.1	6.8	6.7	7.6	8.4	4.9	4.7	4.6	4.9	4.6	4.1

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

1/ IMF Country Report No. 05/384, Fifth PRGF Review (October 2005).
2/ IMF Country Report No. 06/291, Sixth PRGF Review (July 2006). The approved FY 2006/07 budget corresponds to this projection.
3/ Includes stores and bunkers.
4/ Projections based on WEO's baseline oil prices projections of September 2006.
5/ Up to 2005 data are on prerestructuring terms. After that, data are on postrestructuring terms for creditors participating in the debt restructuring and on prerestructuring terms for creditors not participating.
6/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

Table 6. Dominica: Summary Accounts of the Banking System

	2002	2003	2004	2005 Prog. 1/	2005 Prel.	2006 Rev. Prog. 2/	2006 Rev. Proj.
	(In millions of Eastern Caribbean dollars, end of period)						
	I. Consolidated Banking System and Monetary Authorities						
Net foreign assets	**193.8**	**289.0**	**333.7**	**357.7**	**286.8**	**310.4**	**319.0**
Net domestic assets	**355.4**	**265.5**	**253.6**	**261.7**	**340.2**	**345.6**	**358.1**
Net credit to the nonfinancial public sector	74.8	51.1	23.0	23.6	26.5	14.0	14.0
Of which							
Central government	64.2	55.9	45.6	46.6	67.3	52.6	52.6
Net credit to nonbank financial institutions	-46.6	-81.8	-75.9	-78.8	-59.9	-62.5	-62.5
Credit to the private sector	433.2	420.6	450.7	472.9	477.8	503.5	516.1
Other items (net) 3/	-106.1	-124.5	-144.2	-155.9	-104.2	-109.4	-109.4
Broad money 4/	**549.2**	**554.5**	**587.4**	**619.5**	**627.0**	**655.9**	**677.1**
	II. Operations of the Monetary Authorities						
Imputed net international reserves	**117.8**	**118.7**	**90.8**	**91.8**	**101.5**	**114.7**	**119.3**
Net domestic assets	**12.1**	**7.0**	**26.0**	**27.9**	**20.8**	**15.7**	**15.4**
Monetary base	**129.9**	**125.7**	**116.8**	**119.7**	**122.3**	**130.4**	**134.6**
Currency in circulation	35.5	34.2	37.6	38.9	39.0	41.1	42.4
Commercial bank reserves	94.4	91.5	79.2	80.8	83.4	89.3	92.2
	III. Commercial Banks						
Net foreign assets	**79.0**	**170.4**	**242.9**	**265.9**	**185.3**	**195.6**	**199.8**
Net claims on ECCB	**98.2**	**85.6**	**73.8**	**78.8**	**77.7**	**83.3**	**85.9**
Net domestic assets	**336.6**	**264.3**	**233.1**	**235.8**	**325.1**	**336.0**	**349.0**
Net credit to the nonfinancial public sector	53.4	26.3	-10.8	-16.0	-12.8	-21.1	-20.8
Net credit to nonbank financial institutions	-46.6	-81.8	-75.9	-78.8	-59.9	-62.5	-62.5
Credit to the private sector	433.2	420.6	450.7	472.9	477.8	503.5	516.1
Other (net)	-103.5	-100.7	-130.9	-142.2	-80.0	-83.9	-83.7
Private sector deposits 4/	**513.7**	**520.3**	**549.8**	**580.6**	**588.0**	**614.9**	**634.7**
	IV. Consolidated Banking System						
	(Annual percentage change)						
Credit to the private sector	-1.4	-2.9	7.1	4.9	6.0	6.5	8.0
Private sector deposits	7.6	1.3	5.7	5.6	11.8	5.9	7.9
Broad money	8.5	1.0	5.9	5.5	6.7	5.9	8.0
	(Contributions to liquidity growth) 5/						
Net foreign assets	**19.3**	**17.3**	**8.1**	**4.1**	**-8.0**	**-7.6**	**5.1**
Net domestic assets	**-10.8**	**-16.4**	**-2.1**	**1.4**	**14.7**	**13.5**	**2.9**
Net credit to the nonfinancial public sector	-5.4	-4.3	-5.1	0.1	0.6	-1.5	-2.0
Credit to the private sector	-1.3	-2.3	5.4	3.8	4.6	4.9	6.1
Memorandum items:							
Interest rates 6/							
Deposits (three-month time—maximum rate)	6.0	6.0	3.0	…	3.0	…	…
Lending: Minimum rate	8.5	8.0	7.5	…	7.5	…	…
Maximum rate	20.8	18.2	18.2	…	18.2	…	…

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

1/ Program figures are as shown in IMF Country Report No. 05/384, Fifth PRGF Review (September 2005). From 2002, transactions with the IMF a transactions with the monetary authorities.

2/ IMF Country Report No. 06/291, Sixth PRGF Review (July 2006). The approved FY 2006/07 budget corresponds to this projection.

3/ Includes interbank float.

4/ Including foreign currency deposits.

5/ Percent change relative to broad money at the beginning of the period.

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

Table 7. Dominica: Medium-Term Macroeconomic Framework

	2001	2002	2003	Est. 2004	2005 Prog. 1/	2005 Prel.	2006 Rev. Prog. 2/	2006 Rev. Proj.	Proj. 2007	Proj. 2008	Proj. 2009	Proj. 2010
	(Annual percent change)											
National income and prices												
GDP at constant (1990) prices	-4.2	-5.1	0.1	3.0	3.1	3.4	3.0	4.1	3.0	3.0	3.0	3.0
Implicit GDP deflator (factor cost)	1.2	-0.2	0.9	2.1	1.5	1.9	1.5	1.2	1.5	1.5	1.5	1.5
	(In percent of GDP, unless otherwise specified)											
Savings and investment												
Gross domestic investment	**25.4**	**20.8**	**25.5**	**28.8**	**25.0**	**24.8**	**26.6**	**26.3**	**27.4**	**27.3**	**27.3**	**27.3**
Public	15.0	7.5	9.4	11.9	10.0	9.8	10.6	10.3	10.4	10.3	10.3	10.3
Of which												
Central government	10.7	5.5	7.8	9.9	9.7	9.6	10.4	10.1	10.1	10.0	10.0	10.0
Of which												
Other public sector	4.3	1.9	1.6	2.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Private	10.3	13.4	16.1	16.9	15.0	15.0	16.0	16.0	17.0	17.0	17.0	17.0
Gross national saving 3/	**13.6**	**15.2**	**19.7**	**21.5**	**12.6**	**4.9**	**14.6**	**13.6**	**15.5**	**15.8**	**17.0**	**18.0**
Public	3.6	0.0	5.9	10.7	8.5	10.0	9.7	11.8	11.6	11.0	11.1	11.3
Of which												
Central government	1.0	-1.4	4.4	8.8	8.2	9.7	9.4	11.5	11.3	10.8	10.9	11.0
Of which												
Other public sector	2.6	1.4	1.5	2.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Private	10.0	15.2	13.8	10.8	4.1	-5.1	4.9	1.8	3.9	4.8	5.8	6.8
Savings-investment balance	**-11.8**	**-5.6**	**-5.7**	**-7.3**	**-12.4**	**-19.9**	**-12.1**	**-12.8**	**-11.9**	**-11.5**	**-10.3**	**-9.2**
Public savings investment	-11.4	-7.4	-3.4	-1.2	-1.5	0.2	-1.0	1.4	1.2	0.8	0.9	1.0
Private savings investment	-0.3	1.8	-2.3	-6.1	-10.9	-20.1	-11.1	-14.2	-13.1	-12.2	-11.2	-10.2
Central government finances 4/												
Current revenue	28.3	27.8	31.0	32.7	29.4	33.3	29.1	30.0	29.0	28.9	28.9	28.9
Capital revenue	0.1	0.2	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Current expenditure	32.9	32.8	31.2	31.0	30.1	30.4	27.2	27.0	27.0	26.8	26.7	26.5
Overall balance (incl. grants)	-8.5	-5.4	-1.3	-0.9	-2.5	1.2	0.6	1.6	0.7	0.8	0.9	1.1
Grants	1.7	4.5	8.8	5.9	8.1	7.6	8.6	8.5	8.3	8.3	8.3	8.3
Capital spending	6.0	5.1	10.5	9.2	10.4	9.9	10.4	10.3	10.0	10.0	10.0	10.0
Primary balance	-2.1	-1.6	5.4	3.5	3.0	7.3	3.0	4.0	3.0	3.0	3.0	3.0
Memorandum items:												
Nonfinancial public sector debt 5/	93.7	126.7	130.8	116.0	109.1	108.2	103.3	101.4	96.7	92.3	88.1	84.0
External	67.5	79.6	84.6	80.6	81.1	74.6	70.8	70.8	66.1	61.8	57.6	52.6
Domestic	26.2	47.1	46.2	35.4	28.0	33.6	32.4	30.6	30.5	30.5	30.6	31.5

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

1/ IMF Country Report No. 05/384, Fifth PRGF Review (September 2005).
2/ IMF Country Report No. 06/291, Sixth PRGF Review (July 2006). The approved FY 2006/07 budget corresponds to this projection.
3/ Calculated using the external current account including net external capital transfers.
4/ Calculated on a fiscal year basis, with the figure shown relating to the fiscal year beginning in July.
5/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

Table 8. Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003–26

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2003	2004	2005	Historical Average 1/	Standard Deviation 1/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
Public sector debt 2/	130.8	116.0	108.2			101.4	96.7	92.3	88.1	84.0	80.1		62.7	31.7	
o/w foreign-currency denominated 3/ 4/	84.6	80.6	74.6			70.8	66.1	61.8	57.6	52.6	48.1		33.4	21.9	
Change in public sector debt	4.1	-14.8	-7.8			-6.8	-4.8	-4.3	-4.2	-4.1	-3.9		-3.3	-2.9	
Identified debt-creating flows 5/	-2.0	-12.0	-9.6			-7.3	-4.9	-4.5	-4.4	-4.2	-4.0		-3.4	-2.9	
Primary deficit	-6.1	-4.4	-4.5	0.6	4.8	-5.3	-3.3	-3.3	-3.2	-3.2	-3.2	-3.6	-3.1	-3.1	-3.1
Revenue and grants	50.0	48.7	47.4			46.7	47.1	47.3	47.4	47.4	47.4		47.4	47.4	
of which: grants	9.2	6.0	6.2			7.5	7.9	8.1	8.3	8.3	8.3		8.3	8.3	
Primary (noninterest) expenditure	43.9	44.4	42.9			41.3	43.7	44.0	44.2	44.3	44.3		44.4	44.4	
Automatic debt dynamics	4.1	-2.1	-2.6			-2.8	-1.6	-1.2	-1.1	-1.0	-0.9		-0.3	0.2	
Contribution from interest rate/growth differential	3.3	-2.1	-2.9			-3.1	-1.9	-1.5	-1.4	-1.3	-1.1		-0.5	0.1	
of which: contribution from average real interest rate	3.5	1.8	0.9			1.2	1.0	1.3	1.3	1.3	1.3		1.4	1.1	
of which: contribution from real GDP growth	-0.1	-3.9	-3.8			-4.3	-3.0	-2.8	-2.7	-2.6	-2.4		-1.9	-1.0	
Contribution from real exchange rate depreciation	0.7	0.0	0.3			0.4	0.3	0.3	0.3	0.3	0.3		...	...	
Other identified debt-creating flows	0.0	-5.6	-2.5			0.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-1.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	-0.9	0.0			0.8	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other) 6/	0.0	-4.6	-0.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.1	-2.8	1.8			0.6	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
NPV of public sector debt	46.2	88.0	84.9			79.8	77.2	74.6	71.9	69.3	66.6		53.1	25.0	
o/w foreign-currency denominated	0.0	52.6	51.3			49.1	46.7	44.1	41.4	37.8	34.6		23.8	15.2	
o/w external	...	52.6	51.3			49.1	46.7	44.1	41.4	37.8	34.6		23.8	15.2	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 7/	4.6	6.7	0.5			0.5	2.9	3.1	3.4	4.5	4.3		1.7	0.0	
NPV of public sector debt-to-revenue ratio (in percent) 8/	92.5	180.6	179.2			171.0	163.9	157.7	151.6	146.0	140.4		112.0	52.7	
o/w external		108.0	108.2			105.3	99.1	93.2	87.2	79.7	72.8		50.1	32.0	
Debt service-to-revenue ratio (in percent) 8/ 9/	21.3	22.7	10.5			12.6	13.3	13.5	14.1	16.2	15.7		10.1	6.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-10.2	10.5	3.4			1.4	1.4	1.0	1.0	0.9	0.7		0.2	-0.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	0.1	3.0	3.4	0.8	3.0	4.1	3.0	3.0	3.0	3.0	3.0	3.2	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	4.0	3.9	2.0	3.6	1.1	2.2	2.2	2.6	2.6	2.6	2.6	2.5	2.7	3.2	2.9
Average real interest rate on domestic currency debt (in percent)	3.8	0.7	3.1	6.0	3.2	3.1	3.1	3.1	3.1	3.2	3.4	3.1	3.9	6.8	4.4
Real exchange rate depreciation (in percent, + indicates depreciation)	0.9	0.0	0.4	0.3	1.0	0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	2.1	1.9	1.6	0.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Growth of real primary spending (deflated by GDP deflator, in percent)	5.1	4.3	-0.4	2.2	11.4	-0.3	8.9	3.5	3.3	2.9	2.9	3.5	2.9	2.8	2.9
Grant element of new external borrowing (in percent)	...	...	...			35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6	...

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

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

2/ Nonfinancial Public Sector (includes debt with Dominica's Social Security System)

3/ Refers to external debt. Assumes that nonpartcipating creditors receive the intermediate bond. Excludes external interest arrears.

Arrears with participating creditors have been settled as part of the debt restructuring. Arrears with nonparticipating creditors are either in dispute or expected to be settled when an agreement is reached. Undisputed interest arrears as at end-2004 are approximately 0.4 percent of GDP

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

5/ Fiscal year aggregates presented on a fiscal year basis

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

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

8/ Revenues including grants.

9/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

Table 9. Dominica: Financial and External Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	Prel. 2005	Rev. Proj. 2006
Financial indicators						
Broad money (percent change, 12-month basis)	7.4	8.5	1.0	5.9	6.7	8.0
Private sector credit (percent change, 12-month basis)	-3.2	-1.4	-2.9	7.1	6.0	8.0
Unsatisfactory assets/total loans 1/	22.6	19.2	21.7	22.5	22.0	9.3
Provision for loan losses/total loans 1/	6.8	7.0	7.6	7.3	5.9	2.3
General and specific provisions for loan losses/unsatisfactory assets 1/	30.2	36.7	34.8	32.2	26.8	24.1
Specific provisions for loan losses/unsatisfactory assets 1/	26.2	32.6	30.1	...	...	...
Total capital/risk weighted assets (locally incorporated banks) 1/	35.4	34.1	28.5	23.0	26.2	21.4
Tier 1 capital/risk weighted assets (locally incorporated banks) 1/	34.1	32.9	28.1	23.0	25.8	20.1
Three-month treasury bill rate (end of period)	6.4	6.4	6.4	6.4	6.4	...
Three-month treasury bill rate (real) 2/	5.3	6.0	3.5	5.6	3.7	...
External indicators						
Exports of goods and nonfactor services (percent change, 12-month basis in U.S. dollars)	-16.9	2.7	-4.0	9.1	-1.9	9.6
Imports of goods and nonfactor services (percent change, 12-month basis in U.S. dollars)	-9.5	-5.8	0.2	11.3	13.4	0.8
Current account balance	-18.7	-13.7	-13.0	-17.2	-27.2	-21.3
Capital and financial account balance 3/	19.2	18.5	13.6	7.8	24.3	20.9
Net official reserves (in millions of U.S. dollars, end of period) 4/	30.4	43.6	44.0	33.6	37.6	44.2
Net reserves to broad money (percent, end of period) 4/	16.2	21.4	21.4	15.5	16.2	17.6
Public sector external debt	67.5	79.6	84.6	80.6	74.6	70.8
External debt (end of period) to exports of goods and nonfactor services (percent) 5/	147.1	163.4	184.2	169.5	168.0	152.9
External interest payments to exports of goods and nonfactor services (percent) 5/	6.4	7.1	6.8	6.7	8.4	4.7
External amortization payments to exports of goods and nonfactor services (percent) 5/	4.5	4.6	12.8	14.0	9.1	8.4
Exchange rate (per U.S. dollar, end of period)	2.7	2.7	2.7	2.7	2.7	...
REER appreciation (end of period; depreciation -) 6/	0.8	-3.2	-1.9	-6.0	1.9	-0.4

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

1/ Figures for September 2006.
2/ Treasury bill rate adjusted by end-of-period inflation.
3/ Includes errors and omissions.
4/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.
5/ Refers to public sector debt.
6/ Figure for 2006 is the annual percentage change to August 2006.

Table 10. Dominica: Schedule of Disbursements Under the PRGF Arrangement

	Disbursements (in millions)		As Percent	
	US$ 1/	SDR	of Quota	Conditions
2003	**3.419**	**2.358**	**28.8**	
December 29	3.419	2.358	28.8	Board approval of PRGF; and adoption of prior actions
2004	**0.893**	**0.616**	**7.5**	
March 31	0.447	0.308	3.8	First review under the PRGF; end-December 2003 performance criteria; and adoption of prior action
August 10	0.447	0.308	3.8	Second review under the PRGF; and end-March 2004 performance criteria
2005	**3.468**	**2.392**	**29.2**	
March 22	1.785	1.231	15.0	Third and fourth reviews under the PRGF; end-June 2004, end-September 2004, and end-December 2004 performance criteria
November 1	1.683	1.161	14.2	Fifth review under the PRGF; and end-June 2005 performance criteria
2006	**3.367**	**2.322**	**28.3**	
August 4	1.683	1.161	14.2	Sixth review under the PRGF; and end-December 2005 performance criteria.
December 13	1.683	1.161	14.2	Seventh review under the PRGF; and end-June 2006 performance criteria.
Total	**11.148**	**7.688**	**93.8**	
Memorandum item:				
Quota (in millions)	11.890	8.200	100.0	

Source: Fund staff estimates and projections .

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

Table 11. Dominica: Indicators of Capacity to Repay the Fund, 2003–10

				Projections				
	2003	2004	2005	2006	2007	2008	2009	2010
Obligations from existing drawings								
(In millions of SDRs)								
Repurchases:								
Expectation basis	0.00	0.00	0.26	0.29	1.61	0.00	0.50	0.72
Obligation basis	0.00	0.00	0.26	0.29	1.23	0.38	0.50	0.72
Charges/interest under expectations/obligations schedule for repurchases:								
Expectation basis	0.05	0.09	0.13	0.05	0.11	0.06	0.05	0.05
Obligation basis	0.05	0.09	0.13	0.05	0.12	0.07	0.05	0.05
Fund repurchases and charges (Obligation basis) 1/								
In millions of SDRs	0.05	0.09	0.40	0.35	1.37	0.47	0.57	0.79
On existing credits	0.05	0.09	0.39	0.34	1.35	0.45	0.55	0.77
Of which								
Repurchases on an obligation basis	0.00	0.00	0.26	0.29	1.23	0.38	0.50	0.72
In millions of U.S. dollars	0.07	0.13	0.59	0.51	1.99	0.68	0.83	1.15
In percent of exports of goods and services	0.06	0.10	0.46	0.37	1.38	0.45	0.53	0.69
In percent of debt service 2/	0.30	0.49	2.57	2.75	12.32	3.78	4.08	5.94
In percent of quota	0.61	1.09	4.82	4.31	16.68	5.70	6.95	9.58
In percent of net international reserves 3/	0.16	0.39	1.56	1.16	4.08	1.31	1.50	1.95
Fund credit outstanding 1/								
In millions of SDRs	5.3	5.9	8.1	10.1	8.9	8.5	8.0	7.3
In millions of U.S. dollars	7.5	8.8	12.0	14.7	12.9	12.4	11.7	10.6
In percent of exports of goods and services	6.3	6.8	9.4	10.6	9.0	8.2	7.4	6.4
In percent of debt service 2/	32.2	32.8	52.5	78.7	80.0	68.8	57.3	55.0
In percent of quota	65.0	72.5	98.5	123.3	108.3	103.7	97.6	88.8
In percent of net international reserves 3/	17.0	26.2	31.8	33.3	26.5	23.8	21.1	18.1
Memorandum items:								
Exports of goods and services (millions of U.S. dollars)	118.3	129.1	126.6	138.8	144.1	151.0	158.2	165.7
Debt service (millions of U.S. dollars) 2/	23.2	26.8	22.8	18.7	16.2	18.0	20.4	19.3
Net international reserves (millions of U.S. dollars) 3/	44.0	33.6	37.6	44.2	48.8	52.1	55.4	58.7

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

1/ Including assumed future disbursements under the PRGF, and assuming all repurchases on an obligation basis.
2/ Including IMF repurchases in total debt service.
3/ Net international reserves of the monetary authorities; net imputed reserves of the ECCB and transactions with the Fund.

Appendix I. Dominica: Fund Relations

(As of October 31, 2006)

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

II.	**General Resources Account**	**SDR Million**	**Percent of Quota**
	Quota	8.20	100.00
	Fund holdings of currency	10.10	123.18
	Reserve position in Fund	0.01	0.11
III.	**SDR Department**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	0.59	100.00
	Holdings	0.05	7.64
IV.	**Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
	PRGF Arrangements	6.53	79.60
	Stand-By Arrangements	1.91	23.28

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved**	**Amount Drawn**
			(SDR Million)	
PRGF	12/29/03	12/28/06	7.69	6.53
Stand-by	08/28/02	01/02/04	2.97	2.97
SAF	11/26/86	11/25/89	2.80	2.80
Stand-by	07/18/84	07/17/85	1.40	0.97
EFF	02/06/81	02/05/84	8.55	8.55

Projected Payments to the Fund on an Obligation Basis (SDR Million)[3]:

			Forthcoming		
	2006	**2007**	**2008**	**2009**	**2010**
Principal	0.29	1.23	0.38	0.50	0.72
Charges/Interest	0.05	0.12	0.07	0.05	0.05
Total	**0.34**	**1.35**	**0.45**	**0.56**	**0.77**

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

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

VII. **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. The onsite 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, which have been substantially implemented by the ECCB.

VIII. **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on October 25, 2005; the relevant documents are IMF Country Report No. 05/384 and IMF Country Report No. 05/383. Dominica is on a 24-month cycle.

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

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

Appendix II. Dominica: World Bank Relations[4]

(As of October 31, 2006)

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 the implementation of the Government's Growth and Social Protection Strategy. The Bank will lead the policy dialogue on key structural reforms, including public sector reform, regulatory framework for electricity, social protection, 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 the financial sector, on the medium-term structural reform agenda and in providing technical assistance to Dominica on macroeconomic management issues jointly with the Caribbean Regional Technical Assistance Center (CARTAC).

Bank Group Strategy: The World Bank's Management presented to its Board the Eastern Caribbean Sub-Region Country Assistance Strategy (CAS), on September 13, 2005. The World Bank Group's strategy for the four years covered by this CAS (FY2006–09) supports the sub-region's development agenda through two main pillars: (1) stimulating growth and improving competitiveness; and (2) reducing vulnerability, by promoting greater social inclusion and strengthening disaster risk management. Recognizing the OECS countries' weakened creditworthiness due to high debt ratios, Bank activities will focus on leveraging available donor grant financing. Following the recommendations of the recently completed growth and competitiveness study for the OECS, IBRD and IDA support would focus on providing technical and financial assistance for interventions to support the two main pillars. An indicative Base Case lending scenario consists of about US$51.3 million in IDA resources for the four OECS blend countries (Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines). This envelope includes the estimated IDA country allocations for each of the four countries during FY2006–09, and an IDA Regional allocation of US$15.2 million for two regional projects: US$12 million for Catastrophe Risk Insurance and US$3.2 million for Infrastructure and Utilities Reform. Planned lending to Dominica amounts to US$10.2 million under the Base Case lending scenario.

Ongoing projects: There is currently only one ongoing World Bank project in Dominica (as well as other OECS borrowing countries).

(i) The *OECS Telecommunications and ICT Development Project:* The Telecommunications and ICT Development Project (approved in September 2005) aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the Organization of Eastern Caribbean States (OECS). The project has the

[4] Source: World Bank.

following four components: Component (1) will strengthen the national and regional regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistances to revise the regional and national sector legislation, and develop a modem interconnection regime; Component (2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF); Component (3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure; and Component (4) will ensure management and administration of the overall project. The project will finance related technical assistance by providing complementary resources. Dominica's share of the US$2.7 million loan is US$0.54 million of which only a small amount has been disbursed. **Negative pledge update:** Dominica remains ineligible for new Bank lending operations in light of the apparent violation of its negative pledge clauses under the earlier IBRD loans. The government continues to make efforts to resolve this issue.

Economic and Sector Work: The Bank has completed a series of analytical work relating to: public sector capacity in the OECS including the Institutional and Organizational Capacity Review, the OECS Procurement Assessment Review, the OECS Financial Accountability Assessment and an Infrastructure Services Studies. In conjunction with the IMF, a Financial Sector Assessment Program (FSAP) was completed in early 2004. The Bank also recently completed an OECS study on Growth and Competitiveness. Work is ongoing on a review of large-scale energy options for the OECS, under the Energy Sector Management Assistance Program. For Dominica specifically, the Bank recently completed an Analysis of Fiscal Issues, which examines the management and allocation of public expenditure.

Dominica will also benefit from ongoing and planned analytical and advisory activities to support the new CAS' two main pillars including the following activities: Caribbean Air Transport Rationalization report, a Caribbean Skills and Curriculum Study, Caribbean Financial Sector and Regulation report, Caribbean Social Protection Strategy Review, a regional study on Crime, Violence and Exclusion.

Financial Relations: Gross Disbursements and Debt Service During Fiscal Year
(In millions of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005	2006*
Total disbursements	1.4	2.1	0.5	1.7	2.7	4.3	1.7	0.0
Repayments	0.1	0.1	0.1	0.1	0.3	0.6	0.7	0.80
Net disbursements	1.3	1.9	0.4	1.6	2.3	3.7	1	-0.80
Cancelled	0	0	0	1	2.3	0	0	0
Interest and fees	0.1	0.2	0.3	0.3	0.3	0.4	0.4	0.38

* Projections as of April 21, 2006.

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

(As of October 31, 2006)

As at end-May 2006, CDB had approved loans totalling US$148.9 million of which US$11.5 million are undisbursed. CDB operations centered on implementing critical infrastructure projects in the road subsector, as well as projects designed to boost tourism activity and build IT related capacity in the public sector. During 2005 the CDB approved technical assistance in two areas: Assessing the social impact of introducing the value-added tax (VAT), and in support of local government reform.

Major projects

1. ***Seventh Consolidated Line of Credit***—to assist DAIDB in continuing to finance its lending programme in the following areas: Agricultural and Industrial Credit, Housing and Student Loans. US$7.0 million is approved and US$1.5 million is undisbursed.

2. ***Upgrading of Ecotourism Sites***—the construction of access roads and reception centres, related infrastructure as well as site trails at five major tourism sites across the island. US$3.1 million is approved and US$0.6 million is undisbursed.

3. ***Student Loan Scheme (Seventh Loan)***—to provide DAIDB with resources to continue financing its student loan programme. US$7.0 million is approved and US$3.0 million is undisbursed.

4. ***Shelter Development Project***—to establish a framework for developing the shelter sector on a sustainable basis with particular reference to low-income households. US$2.3 million is approved and US$1.6 million is undisbursed.

5. ***Roseau Water and Sewerage Project***—to provide for the rehabilitation and extension of the existing Roseau sewerage system, the provision of pre-treatment facilities, a marine outfall, the replacement of the central Roseau portable water distribution system and a partial upgrade of the water supply system. US$10.0 million was approved and disbursed.

6. ***OECS Solid Waste Management Project***—the upgrading of dump sites into sanitary landfills; procurement of equipment for the collection and transportation of waste; management of special wastes; improvement of storage facilities for domestically generated waste and promotion of waste recovery and recycling activities. US$1.4 million is approved and US$1.1 million is undisbursed.

7. ***Caribbean Court of Justice***—to provide for the establishment and operation of a final Court of Appeal to replace the Judicial Committee of the Privy Council and to act as a final arbiter in disputes arising between CARICOM member states or between a CARICOM national and another country. US$2.2 million was approved and disbursed.

Dominica: Loan Disbursement

(In millions of U.S. dollars)

	2001	2002	2003	2004	2005
Net disbursement	10.50	3.66	8.46	10.39	3.99
Disbursement	13.20	6.25	11.26	20.61	6.34
Amortization	2.70	2.59	2.80	10.22	2.35
Interest and charges	1.76	1.90	2.03	2.25	2.44
Net resource flow	8.74	1.76	6.43	8.14	1.55

Appendix IV. Dominica: Statistical Issues

Dominica's statistical database is inadequate for effective Fund surveillance. There are weaknesses in coverage, accuracy, frequency, and timeliness that continue to hamper effective economic analysis and policy formulation. The weakest areas are the fiscal accounts, public debt, and the balance of payments.

Recognizing the deficiencies in their statistical database, the authorities began participation in the General Data Dissemination System (GDDS) in September 2000. Metadata and plans for improving the statistical system are posted on the IMF's Dissemination Standards Bulletin Board (http://dsbb.imf.org).

Real Sector

Annual nominal GDP data are compiled from a production and expenditure approach, and estimates at 1990 constant prices, by economic activity, from a production approach. GDP estimates are available three-four months from the end of the year. There is a program to improve national accounts data primarily through the development of the supply and use table (SUT). A CPI is compiled on a timely basis. However, the weights are based on the 1997/1998 Household Expenditure Survey. There is a program to develop export and import price indices (XMPIs), but a severe shortage of staff working on price statistics limits developments in CPI methodology and the likelihood that of an XMPI will be developed in the near future. Data on employment are very limited and there are no official data on producer prices or wages in the private sector. Results of the 2001 population census have not yet been published.

Government Finance

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

However, several ongoing initiatives to strengthen expenditure management, should help minimize the extent of this problem. In particular, there is an ongoing effort to automate the expenditure execution process. A new automation technology was installed in all line ministries in 2005, through which all local purchase orders (LPOs) are generated electronically and tracked. Commitments are charged against a specific budget allocation once the LPOs are generated. All ministries and suppliers of goods and services are compelled to use the new system.

Only limited financing data are available. Although progress has been made in improving the measurement of the government's debt, there are concerns that there is still some under-recording of government commitments

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

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

Monetary Statistics

Monetary statistics are compiled by the ECCB on a monthly basis but reported to the Fund regularly, although the coverage needs improvements. For instance, the monetary statistics do not include the data for financial corporations other than the ECCB and commercial banks. The ECCB is aware of the need to improve coverage of the monetary statistics and is taking steps to collect data on credit unions. There has been significant progress in developing the standard report forms for the monetary statistics. As of February 2006, the ECCB has submitted the country specific standardized report form for other depository corporations, or 2SR.

Balance of Payments

Balance of payments data are compiled by the ECCB on an annual basis but are not reported in the format recommended in the fifth edition of the IMF's Balance of Payments Manual. Data reported to STA are not timely, and suffer from relatively numerous and volatile errors and omissions.

External Debt

The Ministry of Finance maintains a database on public and publicly-guaranteed external loans that provides detailed and reasonably current information on disbursements, debt service, and debt stocks. The Treasury maintains the data on bonds placed abroad. However, data from the two databases are not consolidated, so that total debt stock cannot be easily measured. The two government agencies should carry out this consolidation to provide a more comprehensive picture of public sector external debt. Monthly information on payments by creditor (actual and scheduled) is not readily available, which complicates the compilation of up-to-date information on arrears.

Dominica: Table of Common Indicators Required for Surveillance

(As of November 6, 2006)

	Date of latest observation	Date received [7]	Frequency of Data [7]	Frequency of Reporting [7]	Frequency of publication [7]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1, 2]	Sep 2006	11/02/06	M	M	Q
Reserve/Base Money	Sep 2006	11/02/06	M	M	Q
Broad Money	Sep 2006	11/02/06	M	M	Q
Central Bank Balance Sheet	Sep 2006	11/02/06	M	M	Q
Consolidated Balance Sheet of the Banking System	Sep 2006	11/02/06	M	M	Q
Interest Rates[3]	Sep 2006	11/02/06	Q	Q	Q
Consumer Price Index	Sep 2006	11/09/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2005	06/02/06	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	Sep 2006	11/02/06	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	Sep 2006	10/23/06	M	M	A
External Current Account Balance	2005	06/02/06	A	A	A
Exports and Imports of Goods and Services	Sep 2006	11/02/06	M	Q	A
GDP/GNP	2005	06/02/06	A	A	A
Gross External Debt	Sep 2006	10/23/06	M	M	A

[1] Dominica is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1=EC$2.70.

[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[4] Foreign, domestic bank, and domestic nonbank financing.

[5] The general government consists of the central government and state and local governments.

[6] Currency and maturity composition are provided annually.

[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA); Not applicable (n.a.)

ATTACHMENT I. LETTER OF INTENT

Roseau, Dominica
November 27, 2006

Mr. Rodrigo de Rato,
Managing Director,
International Monetary Fund
700 19th Street, NW,
Washington, DC 20431
USA

Dear Mr. de Rato:

1. Since the Sixth Review Under the Fund's Poverty Reduction and Growth Facility (PRGF), the Government of the Commonwealth of Dominica has continued to make progress in implementing economic reform. At the time of Dominica's request of an arrangement under the PRGF, the government outlined its policies in the letter of intent and memorandum of economic policies (MEP) of December 10, 2003. These policies were aimed at addressing the serious economic crisis that had emerged and creating the basis for sustainable growth. We have subsequently refined these policies in the context of the past programme reviews.

2. Performance under the programme remains satisfactory. All quantitative performance criteria for end-June 2006 were met with comfortable margins. The indicative targets for end-September 2006 were also met. We have also made progress in structural reforms including on the structural benchmarks for the seventh review; Parliament recently approved the amendments to the Electricity Supply Act and related legislation; Cabinet approved an action plan to eliminate the unfunded liabilities of DSS; a strategy for dealing with the AID Bank has been completed; and an action plan to restructure the operations of the National Development Corporation (NDC) has been finalised. The approved FY 2006/07 budget was presented within a three-year budgeting framework and contained a primary surplus of 3 percent of GDP consistent with the programme. We are also implementing the approved action plan to further rationalise the wage bill in FY 2006/07. However, approval of the Financial Services Unit (FSU) Act was delayed but the legislation will be submitted to Parliament shortly. Finalisation of the amendments to the Finance Administration Act was also delayed and Parliament's approval is expected for early 2007.

3. We have made significant progress in restructuring of our debt. We will continue with our good-faith efforts to reach collaborative agreements with the remaining nonparticipating creditors, and complete the debt restructuring.

4. Dominica remains committed to the arrangement under the PRGF and the attached supplement to our MEP lays out our policies for the remainder of 2006. These policies are aimed at consolidating the realised gains and implementing structural reforms to bolster the prospects for sustainable private sector-led growth and poverty reduction. On this basis, we request the completion of the seventh review of the programme and the release of the associated disbursement under the arrangement.

5. The Government of Dominica will provide the Fund with such information as the Fund may request in connection with progress in implementing the economic and financial policies, and achieving the objectives of the programme. The government believes that the policies set out in the attached MEP are adequate to achieve the objectives of the programme, but it will take further measures that may become necessary for this purpose. We will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEP, in accordance with the Fund's policies on such consultation.

6. We authorise the Fund to publish this letter and the attached supplement to our MEP to facilitate a wider access to our policies and signal the seriousness of our commitment to the programme to civil society and the international community.

Sincerely,

/s/

Honourable Roosevelt Skerrit
Prime Minister and Minister of Finance and Planning

Attachment

ATTACHMENT II. SUPPLEMENTARY MEMORANDUM OF ECONOMIC POLICIES OF THE GOVERNMENT OF DOMINICA

I. BACKGROUND

1. **Our economic stabilisation strategy has been largely successful, and has begun to yield returns in terms of sustainable growth.** The Government of the Commonwealth of Dominica has implemented reforms over the recent years that have strengthened public finances, addressed the previously unsustainable debt including by its restructuring, and led to a rebound in economic activity following the sharp contraction in 2001 and 2002. Efforts will now focus on consolidating the realised gains and bolstering the prospects for sustainable private sector-led growth and poverty reduction. The government's plans to achieve these objectives are articulated in the recent Growth and Social Protection Strategy (GSPS).

II. PERFORMANCE UNDER THE PROGRAMME

2. **Macroeconomic performance has strengthened further in 2006, with a few areas of weakness.** Data for the first eight months confirm that economic activity has increased and broadened, suggesting an acceleration of growth to around 4 percent in 2006 from 3½ percent in 2005. Indicators of domestic demand remained buoyant; tax revenues point to higher incomes, while credit is growing robustly. Construction has picked up strongly, pointing to a rebound of private sector confidence. Indicators of activity in the financial sector, hotels and restaurants, real estate, and transportation suggest that the recovery is broadening. After contracting in 2005, banana production has rebounded in part due to favorable weather conditions and higher prices. However, nonbanana agricultural exports declined, and manufacturing output has remained weak. Arrival of stayover visitors to July strengthened by about 4 percent over the comparable period in 2005, and tourist receipts are substantially larger as higher expenditure hotel visitors and student enrollment at the offshore schools both rose substantially. Despite the higher value of mineral fuel imports due to the elevated world prices, merchandise imports declined by 2 percent as businesses reacted cautiously ahead of the valued added tax (VAT) regime and delayed resupplying their stocks, and because of some one-off imports in 2005 Accordingly, the external current account is projected to improve. Inflation has remained subdued.

3. **Fiscal performance remained strong throughout FY 2005/06.** Revenue performance was exceptionally strong, due in part to the buoyant economy and some one-off factors—particularly on withholding taxes and property taxes. Noninterest current expenditures were kept at about target, despite higher outlays for utilities and gratuities for retirees; and capital spending was in line with the projection.

4. **All quantitative performance criteria (PCs) for the seventh review were met**. Reflecting the strong fiscal performance, the PC on the primary balance and the indicative

targets on the budget were met with wide margins. The performance criterion on the wage bill was met, and our effort to reduce pending claims allowed us to observe, with a wide margin, the performance criterion on arrears to domestic parties. Preliminary data suggest that the indicative targets for end-September 2006 were also met.

5. **We have made progress on the structural benchmarks for the seventh review.** The FY 2006/07 budget has been approved, consistent with the programme and with a 3 percent primary surplus; the FY 2006/07 budget was presented within a three-year budgeting framework; Cabinet approved an implementation plan to further rationalise the wage bill in FY 2006/07; Cabinet approved an action plan to eliminate the unfunded liabilities of the Dominica Social Security (DSS); Parliament recently approved the amendments to the Electricity Supply Act and related legislation; and a strategy for dealing with the AID Bank was recently approved. Additionally, an action plan to restructure the operations of the National Development Corporation (NDC) has been finalised, but some delay has been encountered in preparing a similar action plan for Dominica Export Import Agency (DEXIA)—the completion of strategic reviews and action plans for the operations of DEXIA and NDC with a view to enhance their efficiency, streamline their functions and improve accountability, was an end-September 2006 benchmark. However, some delays have been experienced in a few areas:

- *Parliamentary approval of the Financial Services Unit (FSU) Act granting supervisory responsibility for all nonbank financial institutions (end-September 2006)*: The finalised draft of the new FSU Act has been ready for some time, but there were delays in completing the related amendments to existing legislation and in consulting with stakeholders. This work has now been concluded and all the legislation will be submitted to Parliament for discussion by end-December 2006.

- *Parliamentary approval of amendments to the Finance Administration Act (end-October 2006)*: Personnel constraints and the need to clarify concerns raised during the extensive consultation delayed the finalisation of this legislation. The finalised amendments will be submitted for approval by Parliament, expected in early 2007.

- *Complete strategic review and establish action plan for the operations of DEXIA (end-September 2006):* Difficulties with an earlier strategic review held back the preparation of the action plan. Assistance in preparing the action plan has been sought from USAID/Caribbean Open Trade Support (COTS), and the action plan is expected to be completed in early 2007.

6. **We have made progress in other structural reforms**. In particular:

- The modalities of a one-stop shop for the approval of new businesses have been determined; this will be established as an investment promotion agency in the context of the ongoing restructuring of NDC.

- The government's cash management and budgetary planning are being strengthened, including by the introduction in July 2006 of a new chart of accounts according to international best practices, new expenditure commitment procedures, and improved expenditure classification.

- Information about concessions granted continue to be published on a regular basis in the Official Gazette.

- The audited financial accounts of the NDC for 2003, 2004 and 2005, and DEXIA for 2005, have been submitted to Parliament. Financial accounts for the subsequent years are now in preparation.

III. Macroeconomic Policies and Outlook

7. **Dominica's economic outlook has brightened, providing scope for a quicker reduction of the remaining vulnerabilities and the bolstering of the prospects for sustainable growth and poverty reduction.** Economic growth in 2006 appears to be broad-based and is now expected to surpass the 3 percent target in the GSPS; world petroleum prices have fallen; and private sector confidence appears to be strengthening. The favorable outlook should facilitate the implementation of our medium-term strategy for growth and poverty reduction, as presented in the GSPS. The government underscores its commitment to implement the macroeconomic policies and structural reforms that are envisaged over the medium term.

A. Debt and Fiscal Policies

8. **We are firmly committed to engaging in good-faith negotiations with the creditors that have not confirmed their participation in our debt restructuring**. We remain confident that we will reach collaborative agreements with the remaining nonparticipating creditors. As an indication of our commitment, we continue to make efforts to contact them on a regular basis, and also make payments into an escrow account on their behalf on the restructured terms. Our commitment to this strategy has yielded some recent progress; agreements were reached with a few of the smaller creditors. We also recently listed on the Eastern Caribbean Securities Exchange (ECSE) the debentures that were issued to participating creditors, allowing them to be traded on this exchange.

9. **The strong implementation of the FY 2006/07 budget and subsequent budgets is a crucial part of our policies in the period ahead.** This would allow a further strengthening of the structure of the budget and attainment of the primary surplus target of 3 percent of GDP. To this end, revenues and expenditures will be monitored closely; a particular focus will be the execution of the public sector investment programme (PSIP) to ensure a more even spending during the year and the minimisation of implementation constraints. If revenues are stronger than projected, this could allow a partial accommodation of shortfalls in grant receipts, and allow further debt reduction to more sustainable levels over the medium term. We will use budget-support grants in excess of programmed amounts to further reduce our debt and build up bank balances. Looking ahead, we are committed to a primary surplus target of 3 percent of GDP in the future fiscal budgets, so as to reduce public sector debt to more sustainable levels.

10. **We are committed to advancing fiscal reforms, which are essential in strengthening the budget over the medium term.** These reforms include:

- **Implementing an effective VAT and advancing revenue reforms.** We continue to carefully monitor the implementation of the VAT and are cautiously optimistic based on the very early experience to date. We reiterate our commitment to protect the VAT from any weakening, including by: providing the resources needed to strengthen VAT administration; implementing good audit and risk management programmes and mechanisms to detect stopfilers; and making timely VAT refunds. We intend to conduct a comprehensive review of the experience under the VAT, by September 2007, including ascertaining the scope for other revenue reforms. In the interim, background work has been initiated to guide the forthcoming revenue reforms, such as on income tax. We have requested technical assistance from FAD and CARTAC to support this work.

- **Streamlining of public sector employment**. We are implementing the approved action plan to reduce the wage bill in FY 2006/07. Accordingly, several services were outsourced from October 1, 2006—affecting a total of 104 workers. However, delays were encountered in finalising the legislation for the merger of the air and sea ports authorities; this legislation was recently approved by Parliament, allowing the merger to take place in early 2007. Legislative changes to allow the commercialisation of the Public Works Garage and the Electrical Division were also approved recently, clearing the way for their implementation from January 1, 2007. A draft of the legislation to allow the commercialisation of the Government Printery has been prepared, and is expected to be brought to a subsequent sitting of Parliament. However, delays in securing the needed assistance from the CDB to develop a new management structure for the National Parks Services will postpone its implementation. Work is continuing on the reorganisation of government units with a view to greater efficiency and cost-effectiveness, but the government has not yet been successful in securing external assistance for the streamlining of the Police, Fire and Prisons departments. We remain committed to reducing the wage bill to 12¼ percent of GDP by 2008/09.

- **Strengthening public expenditure management.** We expect that the finalised amendments to the Finance Administration Act and the related legislation will be considered by Parliament in early 2007. Line ministries will be asked to make complete submissions of their three-year budget from FY 2007/08, to fully implement a medium-term budgeting framework. Finally, as experience is gathered with the changes in expenditure control that were introduced in July 2006, it is expected that additional improvements will be introduced to strengthen the budget monitoring and cash management.

B. Financial Sector Policies

11. **We expect to strengthen significantly the supervision and regulatory framework of the financial sector.** The new FSU Act is expected to be discussed by Parliament by end-December 2006, and when implemented should improve the regulatory regime for nonbank financial institutions that include the AID Bank and credit unions. Extensive amendments to the Cooperative Societies Act will also be approved, intended to address the most serious weaknesses in the existing legislation. Additional measures include:

- **Reforming AID Bank.** We will seek to implement the recently approved action plan, which will address the serious weaknesses that have already been identified.

- **Encourage onsite inspections of the commercial banks.** The recent reduction in the sector's nonperforming loans is welcome. However, in light of the recent rapid increase in lending, and some sizeable changes in the banks' balance sheets, a close monitoring of developments is needed including through onsite inspections of the four commercial banks.

C. Other Structural Reforms and Other Issues

12. **We are committed to reforming the Dominica Social Security (DSS) scheme to strengthen its financial position.** The approved action plan has been widely discussed with all stakeholders and aims at eliminating the unfunded liabilities of the DSS, while ensuring that pensions remain relevant. The action plan presents a combination of policies, with specific measures over the next 15 years detailed in the plan, the earliest of which will be implemented on January 1, 2007. Regular actuarial reviews of the implementation of the action plan will help ensure that this reform remains on track, recommending additional measures as needed. On this basis the sustainability of DSS will be assured, and the risk to public finances and debt sustainability minimised.

13. **We intend to restructure DEXIA and the NDC, and establish a one-stop shop for investors.** USAID/COTS, with additional assistance from the World Bank, is already working on the restructuring of NDC into a tourism authority and an investment promotion agency. The mission of the investment promotion agency will include providing the one-stop shop services to investors. Parliamentary approval of the new legislation is expected by end-December 2006. We also intend to finalise the action plan for restructuring DEXIA by early 2007, with a view to enhancing its efficiency, streamlining its functions and improving accountability.

14. **A reform of the customs department is underway, aimed at improving efficiency, modernising the operations, and reducing the processing time.** USAID/COTS is providing the needed assistance with the support of the World Bank, UNDP and other donors. In light of the breadth of this reform, it will require careful monitoring and coordination of its elements.

15. **Other areas include**:

- **Reducing tax concessions.** We remain committed to reducing tax concessions and statutory exemptions. This could be achieved through tax reforms that reduce the marginal tax burden and do not allow for exemptions, and through a regional approach to dealing with tax exemptions and fiscal incentives. In the meantime, we will continue to publish each month in the Official Gazette, information on concessions granted.

- **PetroCaribe agreement.** The operational details of the agreement are being finalized, with a view to maximise the potential benefits and minimise any possible risks. The relevant transactions would be recorded aptly; in particular all external obligations under the long-term financing arrangement, would be recorded as central government debt.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/275
FOR IMMEDIATE RELEASE
December 14, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Seventh Review of Dominica's PRGF Arrangement, Approves US$1.8 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) has completed the seventh and last review of Dominica's performance under its three-year Poverty Reduction and Growth Facility (PRGF) arrangement. As a result of the Executive Board's completion of the review, Dominica can draw an amount equivalent to SDR 1.2 million (about US$1.8 million) under the PRGF arrangement, which will bring total disbursements to SDR 7.7 million (about US$11.6 million). The Executive Board approved Dominica's three-year PRGF arrangement on December 29, 2003 (see Press Release No. 03/228).

Following the Executive Board's discussion of Dominica, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"The Dominican authorities have continued to implement their economic program successfully, and macroeconomic performance has strengthened further. Economic activity is expanding strongly in almost all sectors, with buoyant domestic demand and indications of a rebound in private sector confidence. Progress has also been made with structural reforms.

"The strong fiscal performance in FY2005/06 and the stance of the FY 2006/07 budget reflect the authorities' commendable commitment to implement prudent fiscal policies. The primary surplus envisaged in the FY 2006/07 budget will allow further progress toward the medium-term sustainability of public finances and debt. Measures to streamline public sector employment and strengthen public financial management are being implemented. The authorities are committed to expanding revenue reforms. The value-added tax (VAT) regime is operating well; and the authorities are committed to continued monitoring going forward to avoid its weakening.

"Key reforms in the economic program are the recent amendments to the Electricity Supply Act and related legislation, and the approval of measures to eliminate the unfunded liability of the Dominica Social Security (DSS) and to strengthen the AID Bank. The authorities recognize that these reforms need to be supplemented by other structural measures, including amendments to the Finance Administration Act, approval of the Financial Services Unit Act, and reform of the Dominica Export Import Agency (DEXIA). Accelerating the implementation of these structural reforms will help bolster private sector-led growth.

“Significant progress has been made recently in debt restructuring, and the authorities are making good-faith efforts to reach collaborative restructuring agreements with their remaining creditors.

“The approach taken in the authorities’ *Growth and Social Protection Strategy* (GSPS) to reduce poverty and unemployment appears appropriate. Continued collaboration between donors and the authorities should facilitate timely donor support,” Mr. Portugal said.