

SUR/08/81

July 30, 2008

**The Acting Chair's Summing Up  
Dominica—2008 Article IV Consultation  
Executive Board Meeting 08/71  
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Executive Directors agreed with the thrust of the staff appraisal. They noted the strong recovery of the economy from the damage caused by Hurricane Dean, despite the weakening external environment and the negative effects of rising international commodity prices, given Dominica's high dependence on imported food and fuel.

Directors commended the authorities for their commitment to implement sound economic policies while addressing the challenges arising from the oil and food price surge, and for their medium-term agenda focused on reducing vulnerabilities, including the reduction of public debt ratios. They welcomed efforts to improve existing mechanisms to better target assistance to the poor and to maintain the flexible fuel pricing regime to help ease the adjustment of the economy to higher international commodity prices.

Directors welcomed the government's commitment to a medium-term primary surplus target of 3 percent of GDP, consistent with the authorities' strategy of gradually reducing the public debt/GDP ratio. In the event of a deeper-than-expected global slowdown, the authorities could consider contingent measures, such as a more extended phasing-in of the planned income tax reform while maintaining the integrity of the VAT. This would facilitate a return to the medium-term primary surplus target, following a temporary easing of the fiscal stance to accommodate the current commodity price shocks. They also recommended modification of the tax incentive regime and broadening the income tax base to strengthen the tax system.

Directors supported saving the bulk of the concessional financing for fuel consumption under the PetroCaribe initiative. They welcomed the setting up of an investment fund and restricting the spending on social projects from this source to the net return derived from the investment fund. Given the volatility associated with recent scaled-up aid flows, Directors called on the donors to make their disbursements more predictable, and encouraged the authorities to develop a framework to smooth the associated spending. Directors supported the authorities' intention to improve budget management.

Directors supported the authorities' strengthening of the regulation and supervision of nonbank financial institutions, and welcomed the recent introduction of the Financial Services Act in the parliament. Directors encouraged the authorities to quickly build capacity

in the Financial Services Unit to regulate effectively nonbanks, particularly credit unions and insurance companies.

Directors agreed that the overall level of external competitiveness is adequate. They considered that the real exchange rate is broadly in equilibrium, in part reflecting the EC dollar depreciation against the currencies of trading partners. Nevertheless, Directors noted that the high external current account deficit poses risks that need to be carefully monitored and accompanied by efforts in the fiscal area.

Directors concurred with the authorities' focus on implementation of the structural reforms envisaged in Dominica's Growth and Social Protection Strategy. They also agreed with the high priority given to efforts to reduce the cost of doing business, including improving the efficiency of the energy sector.

It is expected that the next Article IV consultation with Dominica will be held on the standard 12-month cycle.