FOR AGENDA

SM/99/297

CONTAINS CONFIDENTIAL INFORMATION

December 15, 1999

To: Members of the Executive Board

From: The Secretary

Subject: **Dominica—Staff Report for the 1999 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 1999 Article IV consultation with Dominica, which is tentatively scheduled for discussion on Monday, January 10, 1999.

Mr. Rosales (ext. 37164) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Pursuant to the authorities' decision to participate in the pilot project for the voluntary release of Article IV consultation staff reports and in accordance with Executive Board Decision No. 11973 (99/58), adopted June 3, 1999, the attached report shall be published after the Executive Board completes its discussion of the report.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, December 23, 1999; and to the European Commission, following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

DOMINICA

Staff Report for the 1999 Article IV Consultation

Prepared by the Staff Representatives for the
1999 Consultation with Dominica

Approved by Claudio M. Loser and Carlos Muñiz

December 14, 1999

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Background

- The structure of the economy has continued to move away from agriculture as the sharp contraction of the key banana sector has persisted, with real GDP growth averaging about 2½ percent in the 1990s. However, the growth of output was insufficient to reduce unemployment, which is believed to remain high. The resilience of economic activity in part reflects an expansion of utility services and the small manufacturing base, with the contribution of agriculture to GDP declining from 30 percent in the mid-1980s to 20 percent in 1998. Meanwhile, further tourism development faces the challenges of regional competition and inadequate infrastructure.

- Despite a severe contraction in agriculture and construction, real GDP grew by 3½ percent in 1998, largely as a result of a recovery in manufacturing production along with the continued expansion of services, including those associated with tourism. Inflation remains low.

- The fiscal deficit remained broadly unchanged at 2½ percent of GDP in 1998/99, but is projected to widen substantially in 1999/2000 because of the planned implementation of a large public sector investment program. To facilitate tourism growth and improve sports and recreation facilities in the country, the authorities plan to start construction of an airport and a stadium during the current fiscal year.

Policy discussions

- Even with the external assistance already pledged, building the airport and the stadium will require heavy borrowing in the near term, which would substantially increase debt service obligations in the period ahead, particularly if obtained on commercial terms. The authorities have already arranged the placement of US$70 million in bonds with two foreign banks, about half of which was disbursed in early September 1999.

- The mission advised the authorities to downsize their investment program and seek funding on better terms. It recommended foregoing the stadium and seeking the assistance of multilateral banks to find a more economical solution to the need to improve air access to the country. The authorities acknowledged that their plans are very ambitious, carry risks, and have potentially serious implications for the public finances, but they are determined to press ahead with a strategy of giving a big push to tourism in the face of the continuing decline of, and bleak outlook for, the banana sector. They hope the economy would eventually grow out of the increased debt burden.

- The authorities were noncommittal about the mission's recommendation to sell the controlling stake in the National Commercial Bank and remaining shares in the telephone company to help fund the investment program, but indicated that they would seek private sector participation in the airport project. They agreed on the need to maintain vigilance over the financial sector, including offshore activities.

I. Introduction

1. The 1999 Article IV consultation discussions with Dominica were held in Roseau during September 9–23, and at headquarters on September 26. The minister of finance and other senior government officials participated in the discussions. The mission comprised Messrs. Rosales (Head), Loevinger, Mathai, Pearson, and Go (Assistant) (all WHD). Ms. Williams from the Eastern Caribbean Central Bank (ECCB) and Ms. Dawson from the Caribbean Development Bank (CDB) accompanied the mission. Messrs. van Beek and Yadav (both WHD), Mr. Bernes, Executive Director for Dominica, Ms. Turner-Huggins, Advisor to the Executive Director for Dominica, and Mr. Samuel, Senior Director of the ECCB, participated in the final meeting. Dominica is a member of the Eastern Caribbean Currency Union (ECCU), which has a common central bank (ECCB) and currency (Eastern Caribbean dollar).

2. Dominica accepted the obligations of Article VIII, Sections 2, 3, and 4 in December 1978, and it maintains no restrictions on payments and transfers for current international transactions. There was no credit outstanding to the Fund at end–November 1999 (relations with the Fund are presented in Appendix I). Dominica has not accepted the Fourth Amendment to the Articles of Agreement but has consented to the increase in its quota under the Eleventh General Review of Quotas.

3. Dominica is on the standard 12-month consultation cycle. At the conclusion of the last Article IV consultation on August 25, 1998 (SM/98/201), Directors emphasized the need to diversify the economy, improve infrastructure, raise public saving, strengthen the external position, and move forward with structural reforms, particularly in the areas of price decontrol, privatization, civil service reform, and trade liberalization.

4. Dominica provides the core minimum data to the Fund. However, shortcomings in the quality, timeliness, and coverage of the data hamper adequate monitoring of economic developments. For instance, data on imports for 1998 are only available through May of that year, with this deficiency mirrored in a lack of official estimates of aggregate demand. Also, the government lacks the capacity to produce quarterly estimates for GDP, the public finances, and the external accounts, and to compile the components of aggregate demand in real terms (Appendix II).

II. Background and Recent Developments

5. **The structure of the economy has continued to move away from agriculture as the contraction of the key banana sector has persisted (Table 1), with real GDP growth averaging about 2½ percent in the 1990s.** The growth of output, however, was insufficient

to reduce unemployment, which is believed to remain high.[1] The resilience of economic activity in part reflects an expansion of utility services and the small manufacturing base, with the contribution of agriculture to GDP declining from 30 percent in the mid-1980s to 20 percent in 1998. As in other countries in the region, the factors behind the contraction of the banana sector include fruit quality problems, plant disease, export price declines, and strong export dependence on uncertain preferential access to the European Union (EU) market.[2] At the same time, further tourism development faces the challenges of regional competition[3] and inadequate infrastructure.

6. **Economic activity strengthened in 1998, while inflation remained low (Figure 1).** Despite a severe contraction in agriculture and construction, real GDP grew by 3½ percent, largely as a result of a recovery in manufacturing production along with the continued expansion of services. The 12-month increase in consumer prices was 0.6 percent in September 1999, reflecting subdued import prices and the restrained credit policy of the ECCB, which has maintained the peg of the Eastern Caribbean dollar at EC$2.70 per U.S. dollar since July 1976.

7. **The public sector deficit remained broadly unchanged at 2½ percent of GDP in 1998/99 (fiscal year starts July 1), but public saving declined (Table 2).** The central government deficit fell in relation to GDP due mainly to higher grant receipts, with government saving virtually unchanged. The surplus of the rest of the public sector declined, in part because arrears by the central government and private employers adversely affected the revenue of the social security agency (DSS). The stock of government arrears to the DSS rose slightly from end-June 1998 to end-June 1999, to about 3.2 percent of GDP. In August 1999, however, the government settled part of these arrears, with the stock declining to 2½ percent of GDP. The overall deficit of the Dominica Banana Marketing Corporation (DBMC) rose slightly as higher export prices did not make up for a decline in export volume, associated in part with the continuing exit of farmers from the sector (Table 1).

8. **The gross debt of the nonfinancial public sector rose slightly, to 59 percent of GDP at end-June 1999, with central government gross debt rising to just over**

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[1] The last labor force survey pointed to an unemployment rate of about 23 percent in December 1997. The authorities, however, harbor doubts about the reliability of this estimate, in light of reported labor scarcities in the farming sector.

[2] A description of developments in the banana sector since the early 1990s may be found in **The Eastern Caribbean Currency Union-Recent Developments and Policy Issues (SM/99/69)**; the case of St. Vincent and the Grenadines is discussed in SM/99/265.

[3] Appendix III shows tourist arrival trends and the evolution of Dominica's market share in the region.

51 percent of GDP. The stock of external arrears[4] was virtually eliminated (Table 3), and external debt-service obligations declined to 5 percent of exports of goods and nonfactor services, the lowest level in recent years. The ratio of central government external debt service to central government revenue (excluding grants) is estimated to have declined to 5 percent at end-June 1999.

9. **The external current account deficit is estimated to have narrowed to 7 percent of GDP in 1998 (Table 4).** Although banana exports and tourism earnings fell, there was a strong recovery in soap exports and exports by a new toothpaste plant. Visitor arrivals grew by 4 percent in 1998, but the share of arrivals staying in hotels declined. Net current and capital transfers from emigrants, workers abroad and foreign donors remained substantial in 1998 (9.3 percent of GDP), helping to cover the large trade deficit, with capital transfers to the government amounting to almost half the total. Net capital inflows have been sufficient in recent years to cover the current account deficits and permit surpluses in the overall balance of payments (as reflected in the changes in Dominica's imputed international reserves in the ECCB).

10. **Broad money has continued to grow at a slightly higher rate than nominal GDP (Table 5).** At the same time, commercial banks expanded credit to the private sector at a fast pace during 1998 and 1999, while maintaining a net external creditor position. Interest rates have declined somewhat since end-1997, with lending rates averaging around 11.3 percent per annum and deposit rates 4.1 percent per annum. Wide interest rate spreads have persisted, probably because of diseconomies of scale[5] and the relatively high proportion of nonperforming loans. The ratio of nonperforming to total bank loans fell from 16 percent at end-June 1998 to 15 percent at end-June 1999. Meanwhile, the ratio of provisions to nonperforming loans increased from 27 percent to 40 percent.

11. **Some progress has recently been made in trade liberalization.** Maximum tariff rates were reduced from 30 percent to 25 percent in January 1999, in line with Phase III of the scheduled reductions in the CARICOM common external tariff (CET).[6] At that time, most

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[4]The arrears have reflected past cash-flow difficulties of the central government, and are owed on contributions to international and regional institutions (0.8 percent of GDP) and to a lesser extent (0.1 percent of GDP) on debt service to these institutions and to bilateral creditors. Since these arrears are owed entirely by the government, they do not evidence the existence of any exchange restrictions subject to the Fund's approval under Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement.

[5] See Ruby Randall, **Interest Rate Spreads in the Eastern Caribbean**, IMF Working Paper (WP/98/59, April 1998).

[6]Under Phase III of the CARICOM trade liberalization plan, several countries in the region had lowered the maximum CET to 25 percent in 1997. Phase IV calls for a further reduction

(continued...)

remaining quantitative restrictions (on paints, plastic shoes, and fruits and vegetables) were replaced with tariffs that are to be reduced gradually over the medium term. Dominica is a member of the World Trade Organization (WTO) and maintains a liberal trade regime, with import-licensing limited to a small number of items mainly for health and security reasons.

III. Policy Discussions

A. Overview

12. While inflation remains low and growth has picked up, unemployment continues to be high and Dominica faces a difficult medium-term outlook. Notwithstanding regional efforts to help resolve the banana trade dispute, preferential access to the EU market for banana exports remains uncertain, as the WTO maintains that the European Union's modified system of trade preferences for ACP bananas contravenes world trade rules.[7] To facilitate tourism growth and improve sports and recreation facilities in the country, the authorities are determined to start construction of an airport and a stadium during the current fiscal year.

13. The mission underlined the medium-term risk that—despite a likely acceleration of economic growth—the relatively high cost of the investment program would weaken the public finances and make the management of public debt difficult. It advised the authorities to downsize their investment program with assistance from multilateral banks, and to raise public saving and sell public assets to help fund it. The authorities acknowledged the need to secure multilateral assistance and raise public saving, noting that the latter is particularly challenging because of the relatively high tax burden and wage bill, which were about 24 percent of GDP and 15 percent of GDP in 1998/99 (Figure 2).

B. Fiscal Policy

14. **Discussions centered on the economic and financial implications of the large-scale investments planned for the period through 2003.** These include the building of an international airport and a stadium at a combined cost of US$131 million (nearly 50 percent of estimated GDP for 1999). Taiwan Province of China has made a commitment to provide US$10 million in grants and another US$10 million in concessional loans (at an interest rate of 3.5 percent) to help finance the cost of the airport (US$111 million). In addition, the authorities hope to obtain US$14 million in grants from the EU for this purpose. Also, they

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to 20 percent. See SM/99/69 (Table 27) for an overview of the implementation of the CET by the CARICOM member countries through early 1999.

[7] Dominica is actively participating in negotiations involving Ecuador, the United States, and the EU.

have decided to earmark another US$20 million grant from Taiwan Province of China[8] exclusively to cover the entire cost of the stadium.

15. **Even with the substantial grants just mentioned, the airport and the stadium projects will require borrowing of nearly US$100 million in the near term, which would substantially increase debt service obligations in the period ahead, particularly if obtained on commercial terms.** The authorities have already arranged the placement of US$70 million in bonds with two foreign banks, about half of which was disbursed in early September 1999.[9] On the basis of partial information provided by the authorities, the mission prepared medium-term scenarios with (modified baseline) and without (baseline) these projects, to estimate the differential effects on the public finances over the ten-year period through FY 2008/09 (Table 6 and Figure 3). Under the modified baseline scenario, real GDP would grow at an average annual rate of 4½ percent, or some 1 percent faster than in the baseline. Preliminary estimates suggest that following the completion of the projects, the gross public debt would be higher than in the baseline by nearly 30 percentage points of GDP and the annual public interest obligations by 2.7 percentage points of GDP; public saving would turn negative.

16. **The mission recommended that the public sector investment program be scaled down in order to avoid a large and abrupt rise in public debt.** To this end, it advised the authorities to forego the stadium project, redirect the US$20 million grant earmarked for this purpose to help fund the construction of a smaller airport, and adopt measures to increase public saving. Also, the mission encouraged the authorities to press ahead with privatization and engage the multilateral development banks in order to seek funding on better terms and secure specialized technical support. Both the World Bank and the CDB have expressed reservations about the airport project, but remain open to further discussions with the authorities (the World Bank is planning to send a mission to Dominica in December 1999).

17. **The authorities acknowledge that their plans are very ambitious, carry risks, and have potentially serious implications for the public finances, but they are determined to press ahead with a strategy of giving a big push to tourism in the face of the continuing decline of, and bleak outlook for, the banana sector.** They hope the economy would eventually grow out of the increased debt burden. In their view, a new airport will permit

[8] To be disbursed over ten years, in annual tranches of US$2 million.

[9] The bonds are being purchased by the Royal Merchant Bank and Citibank Trinidad, both domiciled in Trinidad and Tobago. The bonds carry an interest rate of 9 percent, with maturities of 15 and 25 years. These banks, in turn, have issued mirror bonds to be sold in Dominica and elsewhere. The DSS and the state-owned National Commercial Bank (NCB) have bought mirror bonds for US$5.4 million and US$2.8 million. At the same time, the government used part of the funds obtained from the banks to reduce its arrears with the DSS.

diversification of tourism by adding casinos and resorts to the present ecotourism sites, and they do not see the lack of suitable beaches as an insurmountable obstacle to resort operations. The airport feasibility study (Box 1) and other project details will be posted on the Internet to ensure wide dissemination and transparency.

18. **The execution of the large investment program envisaged by the authorities would likely magnify the problem of low public saving and could imperil the ability of the government to meet its financial obligations.** The mission underlined the new urgency of fiscal action to prevent such severe deterioration of the public finances. An adjustment program should focus on restraining current expenditure, in particular the wage bill, outlays on goods and services, and transfers. Thus, there would be a need to freeze the size of the civil service and maintain a policy of wage moderation. To address staffing constraints in key government areas, the mission suggested identifying staffing redundancies and redeploying staff to higher priority functions (including tax administration). Also, it stressed that the government should regularize its financial relations with the DSS, and clear remaining arrears.[10] At the same time, the mission urged early action to reform indirect and property taxation, in line with FAD recommendations (Box 2),[11] as well as to strengthen tax administration by allocating sufficient resources to the revenue department and providing it with support in the strict enforcement of the tax code and the timely application of penalties.

19. **The authorities recognize that raising public saving should be a priority, including because of the conditionality set for continued EU assistance (Box 3), but see no scope for strong action before next year's elections.**[12] In the meantime, they hope to secure increased external assistance and find ways to bring private participation into the operation and funding of the airport. They believe that the low level of government saving is a structural problem related to the narrow revenue base and high unit costs of administration in the small countries of the region. Nevertheless, they are looking forward to eventually establishing a timetable for the introduction of a VAT following ongoing consultations with various social sectors. They agree that replacing a number of indirect taxes with a VAT and streamlining exemptions would help broaden the tax base and improve efficiency and buoyancy. They also recognize the need to strengthen tax administration.

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[10] External payment arrears amounted to US$2.3 million at end-June 1999, including US$2.1 million of arrears in contributions to international and regional institutions.

[11] At the request of the authorities, a mission from FAD provided assistance in March 1999 on the design of a tax reform aimed at replacing a number of indirect taxes with a VAT. Two previous FAD missions (1995 and 1997) had advised on tax reform and budgetary practices.

[12] General elections are to take place no later than end-November 2000.

Box 1. Dominica: Feasibility Study for a New Airport

Dominica currently has two airports—Canefield, a small facility close to the capital, and Melville Hall, a slightly larger facility located an hour's drive away. Neither airport has the capacity to operate at night or accommodate jet landings. The authorities believe this limits the growth potential of the tourism industry,[1] which they view as the main pillar of economic diversification. They believe tourists and charter operators will continue to choose other destinations over Dominica because of the lack of jet service, direct service from Europe and the United States, and night landing capacity, which compels tourists from Europe and the Western United States to spend one to two days in transit. A feasibility study commissioned to private consultants developed three scenarios, based on assumptions about the growth of hotel rooms and tourist arrivals. The study concluded that Melville Hall will reach full capacity during 2004-06. It argued that airlines will only be willing to increase service if they can use jets, and called for an airport capable of handling 300-seat jets and a terminal capable of handing 300 passengers per hour.

Summary of Scenarios	Low	Middle	High
Average annual growth rate of hotel rooms (1998-2010)	10.8	12.4	16.3
Average annual growth rate of stayover visitors (1998-2010)	9.4	10.8	13.7
Number of hotel rooms in Dominica in 2010 (764 in 1997)	2884	3500	5500
By 2010, accommodation capacity in Dominica would be similar to 1997 capacity of ...	Antigua and Barbuda, Trinidad and Tobago	St. Lucia, Belize	St. Martin, Barbados
Number of visitors in 2010 (68,000 in 1997)	220,000	260,000	363,000
By 2010, number of aircraft landings would be similar to 1997 landings of ...	Trinidad and Tobago	St. Lucia	Barbados

As recognized in the feasibility study, its tourism projections are highly optimistic. Even under the most pessimistic of the scenarios, the growth in hotel rooms and tourist arrivals in 1998-2010 would be unprecedented in the region. Given that growth in tourist arrivals 1998-99 was much less than had been projected, there is a chance that capacity at Melville Hall will be sufficient through 2010.

The authorities are of the view that lower cost alternatives (lighting the existing runway and/or building a more modest runway) would not yield significant savings. While there is widespread agreement about the need to install night landing capacity, there appears to be little support in the business community for building a costly new airport with jet landing capabilities. Lower cost and smaller scale airport improvements may be better alternatives particularly as airlines are emphasizing hub and spoke operations and neighboring islands with large airports could serve as transit points for Dominica-bound tourists. There is some evidence that requiring passengers to change planes, may not have limited the growth of air travel in the United States and Europe. Also, the British Virgin Islands receives roughly 250,000 stayover arrivals per year with only turboprop service, which suggests that the lack of jet service might not be a major constraint to tourism in Dominica.

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[1] Building casinos and all-inclusive resorts, and attracting charters are part of the authorities' strategy to broaden the base of the tourism sector.

Box 2. Dominica: Tax Reform [1]

Dominica's system of indirect taxation is complicated and distortionary. Most indirect tax revenue stems from a 25 percent consumption tax (which is largely collected at the import stage), a 3 percent retail sales tax, and a 5 percent hotel occupancy tax. In addition, there are import duties, customs charges, customs surcharges, stamp duties, and other levies, many apparently generating too little revenue to merit their administrative costs. Exporters receive no credit for taxes paid; tax cascading is common; and the fast-growing service sector is almost completely uncovered, adversely affecting revenue buoyancy. This is a matter of concern given Dominica's commitment to reduce external tariffs within CARICOM, which will likely lead to a decline in import duty collections. In response to these problems, the authorities have granted a plethora of ad-hoc tax concessions (exemptions and zero-rating), which further distort relative prices and harm the revenue base.

Recognizing these difficulties, the Minister of Finance, in his July 1998 budget address, raised the possibility of replacing a number of indirect taxes with a value-added tax (VAT). Technical assistance from the Fund was requested to this end, and in May 1999 a Fiscal Affairs mission recommended replacing the consumption, sales, hotel, and other minor taxes with a credit-method value-added tax, applicable at a single rate, that would include most services and be subject to very few exemptions. With such a broad base, distortionary effects would be minimized; buoyancy would be increased, and credits for taxes paid on inputs would redress tax cascading. The mission recommended zero-rating for exports, and supplementing the VAT with excise taxes on fuels and a few other goods. The mission estimated that a VAT rate of 18 percent would be consistent with revenue neutrality. It was felt that an 18-month period would be necessary to draft the legislation, conduct public information campaigns, and hire and train new auditors. The Inland Revenue Service (IRS) would likely need 20-25 additional employees to handle the demands of the VAT.

The FAD mission recommended that equity concerns be addressed with the following combination of policies: (1) an exemption for completely unprocessed agricultural foods; (2) direct cash transfers to the poor; (3) an exemption for healthcare and education; and (4) an exemption for small businesses (with annual turnover of less than EC$60,000), as these firms are more likely to be patronized by poorer customers (and because such small firms would likely be ill-equipped to handle the paperwork requirements of a VAT).

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[1]Based on "**Dominica: Introducing a Value-Added Tax**," Fiscal Affairs Department, IMF, May 1999.

Box 3. Dominica: Stabex Grants and Conditionality

Since the early 1990s, the European Union (EU) has supported the banana industry in Dominica—as well as in the other Windward Islands and in other ACP nations—not only through preferential access to the EU market, but also with direct cash payments under the system of stabilization of export earnings from agricultural commodities (Stabex). The cumulative allocation of these Stabex transfers to Dominica for the five year period 1993-97 has amounted to ECU 37.2 million.

Stabex grants are intended, most narrowly, simply to compensate for losses in export earnings due to adverse climatic and market conditions. More broadly, they are also meant to help improve the local industry's competitiveness by funding investments in irrigation systems and other modernization measures.

The recent World Trade Organization (WTO) ruling against the EU regime calls into question the future of the banana industry in Dominica and other high-cost countries. While in 1988 there were 7,000 banana farmers in Dominica, one decade later, the number had dropped to less than 3,000, and it seems likely that this trend will continue. In recognition of this reality, the share of Stabex funds channeled into the banana sector has, over the past few years, steadily declined. Instead, funds are now allocated to a variety of programs aimed at promoting agricultural and economic diversification, easing farmers' transition out of the banana industry, and redressing the poverty and social displacement that could result from such major structural change. Stabex programs include farmer retraining, road rehabilitation, tourism development, and general education and health.[1]

The Stabex allocations for the years 1996 and 1997 (which are scheduled to be disbursed in three annual tranches over the period 1999-2001) are governed by a Framework of Mutual Obligations (FMO). This document specifies the total amount of money which the EU is committing as well as the manner in which funds are to be disbursed, the types of ventures that will be supported, and the corresponding obligations of the Government of the Commonwealth of Dominica. As described by the FMO, Stabex funds can go either to the general funding of the Public Sector Investment Program (PSIP) or to fund specific projects. The following chart provides a breakdown of PSIP versus project funding, as well as the amounts (in Euros) allocated to different sectors:

	PSIP Support	Project Support	Total
Technical assistance	400,000		400,000
Diversification of the economy	3,800,000		3,800,000
Social and community development	2,850,000	750,000	3,600,000
Private sector development		250,000	250,000
Agricultural diversification	950,000		950,000
Monitoring, auditing and evaluation		374,346	374,346
Total	**8,000,000**	**1,374,346**	**9,374,346**

Disbursement of the project-related funds depends on favorable cost-benefit analyses of the projects in question. Also, the PSIP funds are conditional on maintaining certain economic policies (and on previously committed funds having been disbursed at least at a 70 percent rate). First is the requirement to preserve fiscal discipline: central government saving must be 1 percent of GDP in 1998/99, 1.6 percent of GDP in 1999/2000, and 1.8 percent of GDP in 2000/01; similarly, public sector saving is required to be 1.4 percent of GDP, 1.7 percent of GDP, and 2.1 percent of GDP in those years. This requirement is intended to ensure sufficient counterpart funds for Stabex-related projects, and to allow Dominica to comply with the second major requirement of the FMO: to keep current expenditures on health and education at least constant in real terms, and to maintain capital expenditures for these sectors at least at the levels programmed in the PSIP for 1998-2000. The third major requirement was met when Dominica implemented Phase III of CARICOM's Common External Tariff (CET) on January 1, 1999, with Phase IV to be carried out prior to the disbursement of the second tranche.

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[1]The EU is also currently considering a ten-year "special system of assistance" to complement the system of Stabex grants.

20. **On present trends and policies, the public sector deficit is projected to widen to 9 percent of GDP in 1999/2000.** This would be the result mainly of the large increase in public investment associated with the start of the airport and stadium projects as well as with upgrades in the water and sewerage infrastructure carried out by the water company (DOWASCO). While the overall deficit of the central government would reach about 10 percent of GDP, the combined overall position of the rest of the nonfinancial public sector would remain in surplus. However, the weakness in the finances of the DBMC would persist notwithstanding ongoing efforts to restructure the banana industry, improve farmer efficiency, and run the industry on a strictly commercial basis. Public saving is projected to decline further and government saving to turn negative.

C. Monetary and External Policies

21. **In the context of the currency union, the Dominica authorities exert little control over monetary and exchange rate policy.** The credit policy of the ECCB is aimed at providing strong foreign exchange backing for currency issued, thereby supporting the fixed exchange rate.[13] Economic growth and confidence in the currency have continued to contribute to the private sector's demand for credit and domestic financial assets in recent years. Since 1984, the ECCB has maintained a floor of 4 percent on interest rates on passbook savings deposits, which account for over half of bank deposits in Dominica. In the view of the authorities, the minimum deposit rate protects small depositors from oligopolistic bank practices.

22. **The authorities agree on the need to maintain vigilance over the financial sector.** The ECCB, which is responsible for banking supervision in the region, recently reinforced its bank inspection procedures and surveillance over nonperforming loans. ECCB representatives acknowledged that the share of nonperforming loans in the total loan portfolio remains high; however, they noted that provisioning appears adequate and that most commercial banks are branches of large, well-capitalized Canadian and British banks.[14]

23. **There is scope to strengthen surveillance over the operations of the large credit union sector and the growing number of offshore institutions.** The mission recommended that supervision of nonbank financial intermediaries be intensified by improving data reporting requirements and transferring supervisory responsibility over credit unions to the finance ministry. It supported efforts to establish stronger regulations for the credit union industry, including provisions to ensure adequate reserves (Box 4), noting that Dominica has approved the "Harmonized Cooperatives Societies Bill" which aims to harmonize the regulatory

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[13] The "strong dollar" policy of the ECCB is described in **The Eastern Caribbean Central Bank—Institutional Arrangements and Issues in a Currency Union,** SM/99/70.

[14] See SM/99/70 for a description of banking supervision in the ECCB member countries.

Box 4. Dominica: Regulation of Credit Unions

Credit unions account for around one-quarter of the financial sector's loans and deposits. The largest, Roseau Credit Union, holds about two-thirds of credit unions' loans and deposits. Because credit unions are not required to maintain unremunerated reserves, their deposit rates are generally higher, and lending rates lower, than those of commercial banks.

The Ministry of Community Development and Women's Affairs has supervisory responsibility over credit unions. It uses nonbinding guidelines developed by the Caribbean Confederation of Credit Unions to assess the financial condition of credit unions. In practice, however, credit unions set their own prudential norms on capital adequacy, provisioning, and lending to individuals.[1] The Dominica Cooperative Credit Union League provides examiners to members for internal audits. At the same time, credit unions transmit quarterly data to the ECCB on their balance sheet, operating income and expenditure, employment and nonperforming loans.

Liquidity requirements and practices appear weak. Currently, credit unions must set aside 20 percent of each year's net earnings as reserves. However, rather than holding reserves in low risk, liquid assets, many credit unions relend them. To improve reserve management, the Credit Union League established a common fund and suggested that credit unions place 25 percent of their reserves in it. However, in addition to holding Dominica government securities and bank deposits, the League lent to and placed deposits in member credit unions.

To strengthen the legal and regulatory framework, the authorities are developing new regulations based on the Organization of Eastern Caribbean States Model Cooperatives Act. Key provisions of the draft regulations include:

- Requiring that reserves equal at least 10 percent of liabilities be placed in a separate demand account in another financial institution;[2]
- Limiting loans to any individual to no more than 10 percent of capital;
- Requiring that provisions increase with the time loans remain non-performing, and that loans be written off when they have been non-performing for two years;
- Limiting the time interest may accrue before a loan is declared non-performing;
- Prohibiting credit unions from counting as income any interest which has accrued but has not been paid for certain periods;
- Requiring credit union employees and directors to recuse themselves from decisions on loans to firms with which they have a fiduciary relationship;
- Restricting loans to employees and directors, as well as to firms controlled by them;
- Granting the ministry authority to demand operational changes if necessary to protect depositors; and
- Requiring each credit union to hold liquid assets and establish lines of credit as necessary to maintain sufficient liquidity.

Apart from the early approval of the proposed regulations, it would be important to set minimum liquidity requirements, and penalties for non-compliance as recommended in the Confederation's guidelines.

Consolidated Prudential Ratios for Dominica Credit Unions	December				March
	1995	1996	1997	1998	1999
Capital/(Shares + deposits) 1/	-6.7	4.2	2.3	4.2	3.5
Nonperforming loans/Total loans	11.4	10.0	11.8	10.7	12.6
Reserves/Nonperforming loans	48.0	144.3	123.1	146.3	130.3
Reserves/Assets	4.4	10.8	10.3	11.4	12.0
Loan/(Shares + deposits)	55.6	49.7	47.5	49.1	49.1
Credit union loans/Total domestic loans	23.8	24.2	23.2	23.7	23.8
Credit union deposits/Total domestic deposits	22.8	26.7	27.8	27.1	26.5

Source: Eastern Caribbean Central Bank.

1/ Capital =(Assets - Nonperforming loans) - (Liabilities - Reserves).

[1] For example, the Roseau Credit Union limits loans to any individual to EC 240,000. At end-June 1999, the Roseau Credit Union had set aside provisions, which cover only about 7½ percent of its outstanding non-performing loans.

[2] Current holdings of short and medium-term government securities would still count as reserves.

framework faced by credit unions and other cooperatives in the OECS member countries. Calling attention to the granting of tax incentives to a mutual fund company in which the state-owned National Commercial Bank (NCB) and the DSS have a controlling stake, the mission stressed the need for uniform tax treatment of potential entrants to the mutual fund industry.

24. **The external current account deficit is estimated to increase to about 12 percent of GDP in 1999, reflecting strong growth in imports and stagnant banana exports.** Capital inflows to finance public sector operations, direct investment, and net borrowing by commercial banks would help maintain a surplus in the overall balance of payments. The stock of public and publicly guaranteed external debt, which is still mostly on concessional terms, would increase substantially as a result of the borrowing associated with the airport project, but the scheduled debt-service ratio would remain low.

25. **The authorities are satisfied that the present exchange rate arrangement has served the country well.** Measured for Dominica, the Eastern Caribbean dollar appreciated in real effective terms by 4 percent from end-1990 to end-September 1999 (Figure 4). As the Eastern Caribbean dollar is pegged to the U.S. dollar, movements in its real effective exchange rate are related largely to changes in the value of the U.S. dollar vis-à-vis other major currencies. From the viewpoint of tourism activity, Dominica's regional competitiveness appears to have been broadly adequate, as Dominica's share in Caribbean tourism arrivals has remained largely unchanged (Appendix III), with net travel receipts growing at an annual rate of about 6 percent in recent years (Table 4).

26. **Dominica, along with the other ECCB members, maintains exchange controls on capital and nontrade current transactions.** The indicative limit on foreign exchange purchases was increased in October 1997 to EC$250,000 per person per year, from EC$100,000. Purchases of amounts above this limit require approval from the ministry of finance, but all bona fide requests are routinely approved. ECCB representatives indicated that the gradual phasing out of the exchange controls is likely to continue in the period ahead.

D. Structural Policies

27. **The priorities in the structural area are to downsize the civil service, advance trade liberalization, abolish remaining price controls, and reduce state participation in economic activity.** The authorities do not envisage immediate progress in downsizing the civil service, but intend to further reduce the maximum tariff to the 20 percent target rate as soon as the CARICOM secretariat completes a study of the possible effects on industry and tax revenue. The authorities are trying to garner public support for the removal of the price controls still in effect, which are not being enforced (except for those on cement and fuels), and have created a commission of private sector representatives that is to advise on their eventual elimination.

28. **The mission argued for moving ahead with privatization and deregulation.** In particular, it advised selling the government's controlling stake in the NCB and the remaining stake in the telecommunications company, which would help fund the airport project. The authorities are noncommittal about the sale of these assets. However, they are considering the elimination of the monopoly held by the state-owned Dominica Export-Import Agency (DEXIA) on the importation and distribution of bulk rice and sugar. They intend to transfer the trading of commodities other than bulk sugar and rice from DEXIA to a new entity, which subsequently could be privatized.

29. **The mission stressed that success in diversification would depend on maintaining competitiveness and urged the authorities to exercise restraint on public sector wages in order to avoid sparking demands for higher wages in the private sector.** It also drew attention to the reportedly high labor cost of moving cargo through the port and the cross-subsidization of residential users of water and electricity by commercial users. In the regulatory area, regional efforts continue with the aim of modifying the terms under which the foreign-owned telephone company operates, with a view to reducing the period granted to the company to maintain monopoly over the telecommunications business.

E. Poverty Alleviation and Environmental Protection

30. **The authorities are persuaded that economic growth and education are essential for reducing poverty.** Their objective is to extend universal education to the secondary level, where the shortage of classrooms is a key constraint. A program to expand and improve school infrastructure is being supported by the World Bank and the British government. Dominica has a modest safety net program that provides targeted assistance, including monthly stipends to the very poor.

31. **Development of ecotourism requires efforts to conserve the environment.** To this end, the PSIP includes projects to improve the water and sewage infrastructure and to protect the coastal areas. Cost recovery through fees continues to be regarded as important, including for waste management and ecotourism site maintenance.

F. Other Issues

32. **There was broad agreement about the importance of addressing statistical deficiencies, Y2K compliance, and the publication of the staff report.** The mission encouraged the authorities to improve data compilation and dissemination, and to allocate sufficient resources to the statistical function. In particular, it highlighted the urgent need for quarterly public finance statistics (presently prepared on a fiscal year basis) and balance of payments data (presently prepared on a calendar year basis), to ensure consistency with the national accounts (presently prepared on a calendar year basis). As regards Y2K readiness, the government has asked utilities and key health, transportation, and financial sector firms for contingency plans. The authorities have agreed to participate in the pilot project for the

publication of the staff report, but reserve the right to withdraw their decision once they have read the document.

IV. THE MEDIUM TERM

33. **The authorities' medium-term objectives are** set out in the "Medium-Term Economic Strategy Paper" that was presented to the Consultative Group for Cooperation in Economic Development in June 1998. These are to maintain low inflation and return the economy to a higher growth path based on a more diversified productive base. That document identifies pursuit of sound public finances as a principal policy to achieve these objectives.

34. **The staff has developed three illustrative medium-term scenarios (Table 6 and Figure 3).** These represent the continuation of present trends and policies (baseline), the implementation of the authorities' ambitious investment program without the adoption of adjustment measures (modified baseline), and the implementation of a smaller investment program along with adjustment measures (alternative). A summary of the effects of the modified baseline scenario (relative to the baseline) was presented in paragraph 15. The modified baseline and the alternative scenarios assume that hotel construction by foreign investors will sustain growth following completion of the airport and stadium projects. As noted, the public finances deteriorate substantially in the modified baseline scenario, as debt and debt service obligations rise sharply and public saving turns negative over the second half of the 10-year period of analysis. The high public borrowing requirement proves burdensome to the domestic banking system, with its net foreign assets declining sharply and its capacity to lend to the private sector greatly reduced.

35. **A smaller scale investment program and fiscal adjustment would result in a more manageable macroeconomic situation over the medium-term.** In the alternative scenario, grants presently earmarked for the stadium are used to fund a somewhat smaller airport project (Table 7). Also, it is assumed that multilateral loans for about US$10 million permit an early amortization (2001/02) of some of the bonds already placed with Trinidad and Tobago banks. The proposed adjustment measures include freezing the size of the civil service, maintaining wage moderation, and restraining the growth of other noninterest current spending. The annual yield of these measures would be equivalent to 2 percent of GDP. It is further assumed that a revenue-neutral tax reform is introduced in 2002/03, with a VAT replacing a number of indirect taxes, maximum external tariff rates reduced, and exemptions on income, import, and other taxes streamlined. Also, privatization proceeds of about US$10 million are assumed to be derived from the sale of shares in the NCB and the telecommunications company in 2001/02.

36. **With the proposed adjustment measures, the public sector would be able to meet the debt service obligations incurred to build the smaller airport and reduce its debt in relation to GDP at a swift pace, aided by the strong growth in economic activity (Table 8).** The preservation of a manageable fiscal situation would help maintain private sector confidence and the capital inflows that finance the external current account deficit.

Following a rise during the airport construction period, this deficit would decline, to 9 percent of GDP in 2004, and would be financed largely by capital transfers and direct investment (Table 9). The external current account would remain sensitive to shocks affecting tourism and/or banana exports. For example, if beginning in 2000, banana export earnings were to decline to half the 1998 level; the external current account deficit would average about 14.5 percent of GDP over 2000-09.

V. Staff Appraisal

37. The authorities' main policy objective is to create the basis for the sustained growth of output and employment through economic diversification and financial stability. They agree that achievement of these objectives requires raising public saving to support improvements in infrastructure and promoting private activity through structural reforms. While they will consider raising public saving over the medium term, they are not prepared to make any immediate major policy change. They hope to secure increased external assistance, but are prepared to borrow from commercial lenders to fund their large investment plan, expecting that its implementation will spur economic growth and help maintain a manageable fiscal position.

38. In recent years, the structure of the economy has continued to shift away from banana production, with services gaining importance as a key source of growth. To remove impediments to faster tourism growth and diversification, the authorities plan to build a new airport and improve the island's road network. At the same time, they intend to upgrade the water infrastructure and build a new stadium. While the goals of the proposed public investment program merit support from the international community, serious questions arise about the scale, funding, and phasing of this program.

39. Even with the generous assistance already promised to Dominica by donors, the large scale of the financing required to implement these projects would result in a doubling of the external public debt. At the same time, the large portion of borrowing being contracted on commercial terms will contribute to a sharp increase in public debt service obligations. Implementation of the public investment program, as presently conceived, would greatly complicate fiscal management and, in the absence of strong adjustment measures, the government's ability to meet its commitments would be compromised.

40. Given the firm determination of the authorities to build a new airport, it would be essential to bring the public investment program to a realistic scale, by foregoing the construction of the stadium and reassessing the airport project. At the same time, it would be important to minimize borrowing on commercial terms by securing greater participation of multilateral lending institutions and donors. To this end, the authorities would need to work with such institutions to ensure that the design and implementation of the airport project meet high standards.

41. In addition to streamlining the public investment program, the early adoption of fiscal measures would be necessary to maintain soundness in the public finances. Even the construction of a downsized airport would likely result in a significant rise in public debt and debt service. In the absence of adjustment measures, government saving would decline further, thereby compromising the government's ability to address other investment needs following the completion of the airport.

42. Efforts to increase public saving should focus mainly on restraining government current spending. In particular, it will be essential to reduce the government wage bill in relation to GDP through wage moderation and a freeze on the size of the civil service. Also, it will be important to achieve economies in spending on goods and services, and to check the growth of transfers.

43. Improvements in tax administration and other steps to raise revenue are also in order. In particular, the staff welcomes the authorities' intention to replace a number of indirect taxes with a value added tax in order to improve the efficiency of the tax system. It would be important to intensify preparations for the early implementation of a tax reform that also would include a further reduction in import duties and a substantial streamlining of tax exemptions. Tax reform would need to be supported by the stricter enforcement of the tax code and the timely application of penalties.

44. A more determined pursuit of the structural reform agenda would help increase economic efficiency, support growth, and buttress the public finances. In particular, a firm timetable for privatizing the National Commercial Bank should be established, the state monopoly on the importation and distribution of selected commodities abolished, price controls eliminated, and further import tariff reductions expedited.

45. It will be important to maintain close surveillance over the financial system. Strict monitoring of bank portfolios and compliance with provisioning requirements must remain a priority, and uniformity of treatment across classes of institutions should be ensured. Accordingly, supervision of the nonbank financial institutions should be strengthened, particularly by tightening loan classification and other standards and transferring the mandate to supervise credit unions to the ministry of finance. In addition, close vigilance needs to be exercised over the offshore financial institutions. In the context of low inflation, the floor on the passbook saving rate may contribute to high real lending rates, and the authorities would be well advised to work with their ECCB partners toward its elimination.

46. The present exchange rate arrangement has served Dominica well. However, to safeguard international competitiveness, the authorities will need to intensify efforts to control costs, particularly wages.

47. Dominica's external position is vulnerable to shocks. In order to strengthen its production base, sizable external assistance for improving infrastructure will be needed over the medium term, which will depend on the pursuit of prudent economic policies, particularly

policies that increase public saving. The staff commends the authorities' preparation of a medium-term economic strategy paper setting forth their objectives and policies for the period ahead. This exercise ought to be updated yearly, specifying in detail an investment program that can be supported by the international community.

48. Dominica has made some progress in the provision of core statistics to the Fund, despite its limited resources. However, data deficiencies continue to hamper surveillance, and additional efforts are needed to improve data on national accounts, government finances and the labor markets. The staff encourages the authorities to provide adequate resources to the statistical units, and in particular, to strengthen the staffing of the Central Statistical Office. This would establish a solid foundation for effectively absorbing technical assistance in statistics.

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

Table 1. Dominica: Selected Economic and Financial Indicators

	1994	1995	1996	1997	Prel. 1998	Proj. 1999 1/
	(Annual percent change)					
Real GDP	2.1	1.6	3.1	2.0	3.5	3.5
GDP deflator	6.0	2.4	2.6	1.4	1.6	1.6
Consumer prices (end of period)	-0.2	1.4	2.0	2.2	1.5	1.6
Banana sector indicators						
Output (in constant EC dollars)	-24.7	-12.5	-3.9	-8.7	-11.8	-2.2
Number of growers	-16.2	-9.8	-12.0	-4.4	-18.6	...
Net foreign assets of the financial system 2/	-9.9	12.4	7.9	-2.0	7.0	0.0
Money (M2)	4.0	23.1	2.0	3.5	6.9	8.1
Net domestic assets of the financial system 2/	14.0	10.7	-5.9	5.5	-0.1	8.1
Of which:						
Credit to the public sector (net)	10.1	-0.8	-1.7	1.6	-2.5	1.7
Credit to the nonfinancial private sector	8.1	11.0	3.8	6.1	7.6	7.5
Merchandise exports, f.o.b.	-2.2	5.0	4.4	1.9	16.4	5.6
Merchandise imports, f.o.b.	4.1	7.7	-2.9	3.8	3.2	13.6
Terms of trade	4.3	0.1	-3.1	3.7	0.0	...
Real effective exchange rate 3/	-6.7	-3.2	0.9	6.6	-2.7	2.6
	(In millions of U.S. dollars)					
Balance of payments						
Merchandise exports, f.o.b.	47.9	50.3	52.5	53.5	62.3	65.8
Merchandise imports, f.o.b.	95.8	103.2	100.2	104.0	107.3	121.9
Current account	-33.3	-38.1	-30.1	-22.6	-18.2	-32.9
Capital account (including errors and omissions)	28.9	45.1	30.9	23.3	22.0	34.5
Overall balance	-4.4	7.0	0.8	0.7	3.8	2.2
	(In percent of GDP)					
Gross domestic investment	26.9	32.4	29.7	30.0	30.0	34.1
Gross national saving	11.4	15.3	16.9	20.7	23.0	22.1
Foreign saving 4/	15.5	17.0	12.8	9.3	7.0	12.0
	1994/95	1995/96	1996/97	1997/98	Prel. 1998/99	Proj. 1999/00 1/
Central government finances 5/						
Current account balance	0.0	1.6	0.6	1.1	0.8	-0.8
Overall balance	-5.7	-0.4	-0.8	-4.6	-3.8	-10.4
Consolidated public sector finances 5/						
Revenue and grants	38.6	41.0	44.3	37.3	37.6	38.7
Current revenue	31.2	31.6	34.2	34.7	33.9	33.9
Capital revenue	1.9	2.5	1.4	0.5	0.7	0.7
Grants	5.5	6.9	8.7	2.1	3.0	4.1
Expenditure	43.0	38.7	43.8	40.0	40.1	47.7
Current	30.6	27.5	32.1	30.7	30.9	31.6
Capital	12.4	11.2	11.7	9.3	9.2	16.1
Current account balance	0.6	4.1	2.1	4.0	3.0	2.3
Overall balance	-4.4	2.3	0.5	-2.7	-2.5	-9.0
Total financing	4.4	-2.3	-0.5	2.7	2.5	9.0
External	0.9	0.1	-0.2	0.6	0.4	8.8
Domestic	2.9	-2.4	-2.7	1.3	2.1	0.2
Privatization	0.6	0.0	2.4	0.8	0.0	0.0
Gross public sector debt (end of period) 5/	75.5	68.4	65.5	57.7	59.0	83.8
External	47.6	44.1	41.7	35.0	32.7	58.7
Domestic	27.9	24.3	23.8	22.7	26.3	25.1

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

1/ Based on the authorities' plans.

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

3/ The figure for 1999 corresponds to 12-month period ended June.

4/ External current account balance with the sign reversed.

5/ Fiscal year starts July 1.

Table 2. Dominica: Consolidated Accounts of the Public Sector

(In percent of GDP)

	1994/95	1995/96	1996/97	1997/98	Prel. 1998/99	Proj. 1999/00 1/
I. Consolidated Public Sector						
Total revenue and grants	**38.6**	**41.0**	**44.3**	**37.3**	**37.6**	**38.7**
Current revenue 2/	31.2	31.6	34.2	34.7	33.9	33.9
Of which: Operating balance of nonfinancial public enterprises	0.8	-0.3	0.0	0.4	0.5	0.4
Capital revenue	1.9	2.5	1.4	0.5	0.7	0.7
Grants	5.5	6.9	8.7	2.1	3.0	4.1
Total expenditure	**43.0**	**38.7**	**43.8**	**40.0**	**40.1**	**47.7**
Current	30.6	27.5	32.1	30.7	30.9	31.6
Of which: Wages and salaries	15.6	15.1	16.4	15.6	15.6	15.6
Capital 2/	12.4	11.2	11.7	9.3	9.2	16.1
Current account balance	**0.6**	**4.1**	**2.1**	**4.0**	**3.0**	**2.3**
Overall balance (before grants)	**-9.9**	**-4.6**	**-8.2**	**-4.8**	**-5.5**	**-13.1**
Overall balance	**-4.4**	**2.3**	**0.5**	**-2.7**	**-2.5**	**-9.0**
Financing (net)	**4.4**	**-2.3**	**-0.5**	**2.7**	**2.5**	**9.0**
External	0.9	0.1	-0.2	0.6	0.4	8.8
Domestic	2.9	-2.4	-2.7	1.3	2.1	0.2
Privatization	0.6	0.0	2.4	0.8	0.0	0.0
II. Central Government						
Total revenue and grants	**31.4**	**33.5**	**38.0**	**31.2**	**32.3**	**33.0**
Current revenue	25.5	26.7	29.1	28.7	28.6	28.3
Tax	22.0	23.3	23.5	23.4	23.8	23.5
Of which: Offshore sector 3/	0.0	0.0	0.0	0.1	0.3	...
Nontax	3.5	3.4	5.6	5.3	4.8	4.8
Of which: Economic citizenship program	0.0	0.0	1.2	0.9	0.7	...
Capital revenue	0.6	0.3	0.2	0.4	0.7	0.7
Grants	5.3	6.5	8.7	2.1	3.0	4.0
Total expenditure	**37.1**	**33.9**	**38.8**	**35.8**	**36.1**	**43.4**
Current	25.5	25.1	28.5	27.6	27.8	29.1
Wages and salaries	14.8	14.2	15.5	14.7	14.7	14.9
Goods and services	4.9	5.1	5.3	5.8	5.6	5.6
Interest	2.4	2.4	3.0	2.7	2.5	3.7
Transfers	3.4	3.4	4.7	4.4	5.0	4.9
Capital and net lending 2/	11.6	8.8	10.3	8.2	8.3	14.3
Current account balance	**0.0**	**1.6**	**0.6**	**1.1**	**0.8**	**-0.8**
Overall balance (before grants)	**-11.0**	**-6.9**	**-9.5**	**-6.7**	**-6.8**	**-14.4**
Overall balance	**-5.7**	**-0.4**	**-0.8**	**-4.6**	**-3.8**	**-10.4**
Financing (net)	**5.7**	**0.4**	**0.8**	**4.6**	**3.8**	**10.4**
External	0.9	-0.8	-0.6	0.5	0.7	8.0
Domestic	4.2	1.2	-1.0	3.3	3.1	2.4
Privatization	0.6	0.0	2.4	0.8	0.0	0.0
III. Rest of the Nonfinancial Public Sector						
Revenue, transfers and grants	**8.3**	**8.7**	**10.0**	**8.4**	**8.0**	**8.8**
Revenue	7.5	7.8	6.5	6.5	5.7	6.4
Current 2/	6.2	5.5	5.4	6.4	5.7	6.4
Capital	1.3	2.3	1.1	0.1	0.0	0.0
Transfers from central government	0.6	0.5	3.5	1.9	2.3	2.3
Grants	0.2	0.4	0.0	0.0	0.0	0.1
Expenditure	**4.9**	**6.6**	**8.2**	**6.8**	**7.0**	**7.2**
Current	4.1	4.2	4.4	4.6	4.5	4.6
Capital	0.8	2.4	3.8	2.2	2.5	2.6
Adjustment 2/	**-2.1**	**0.6**	**-0.4**	**0.3**	**0.3**	**0.0**
Current balance	**0.0**	**1.9**	**0.6**	**2.1**	**1.5**	**1.8**
Overall balance	**1.3**	**2.7**	**1.4**	**1.9**	**1.3**	**1.6**
Financing (net)	**-1.3**	**-2.7**	**-1.4**	**-1.9**	**-1.3**	**-1.6**
External	0.0	0.8	0.4	0.1	-0.3	0.8
Domestic	-1.3	-3.5	-1.8	-2.0	-1.0	-2.4

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

1/ Based on the authorities' plans.
2/ Includes adjustment to reconcile with financing data.
3/ Fees and licenses for offshore banks, gaming operations, and international business corporations.

Table 3. Dominica: Public and Publicly Guaranteed External Debt 1/

	1994/95	1995/96	1996/97	1997/98	Prel. 1998/99	Proj. 2/ 1999/00
	(In millions of U.S. dollars)					
External debt outstanding at end of year 3/	**104.7**	**101.5**	**99.8**	**88.1**	**87.4**	**166.0**
Drawings	8.5	5.1	7.5	7.8	5.3	85.1
Scheduled debt service	**8.1**	**8.3**	**8.7**	**9.2**	**7.6**	**10.8**
Principal	5.8	5.8	6.3	6.8	5.2	6.5
Interest	2.3	2.5	2.5	2.4	2.4	4.3
Debt service paid	**8.1**	**7.2**	**10.5**	**9.1**	**8.2**	**10.8**
Principal 4/	5.8	4.8	7.9	6.8	5.6	6.5
Interest	2.3	2.4	2.6	2.3	2.6	4.3
Debt forgiveness	0.0	1.8	0.0	10.9	0.0	0.0
Change in arrears	0.0	1.2	-1.9	0.1	-0.5	0.1
Valuation adjustment	5.3	-1.7	-1.3	-1.8	-0.4	0.0
Stock of arrears (end of year)	**1.2**	**2.4**	**0.5**	**0.6**	**0.1**	**0.2**
Principal	1.1	2.1	0.4	0.4	0.1	0.1
Interest	0.1	0.3	0.1	0.2	0.1	0.1
	(In percent; unless otherwise indicated)					
Memorandum items:						
External debt /GDP	47.6	44.1	41.7	35.0	32.7	58.7
Stock of arrears/GDP	0.5	1.0	0.2	0.2	0.0	0.1
Scheduled debt service/exports of goods and nonfactor services	7.5	7.1	6.6	6.4	5.0	6.7
Average interest rate (percent per annum)	1.7	2.0	2.3	1.6	2.9	4.4
GDP at market prices (millions of US $)	219.7	230.2	239.6	251.5	267.1	282.8

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

1/ Excludes arrears on contributions to regional organizations, which stood at US$2.1 million (0.8 percent of GDP) at end-June 1999.

2/ Projection based on the authorities' plans.

3/ The decline in 1997/98 was aided by the substantial debt forgiveness (US$10.9 million) granted in October 1997 by the British government to Dominica under the debt agreements reached at the Commonwealth conference (Mauritius mandate).

4/ Excludes debt forgiveness.

Table 4. Dominica: Summary Balance of Payments

	1994	1995	1996	1997	Prel. 1998	Proj. 1999 1/
(In millions of U.S. dollars)						
Current account balance	**-33.3**	**-38.1**	**-30.1**	**-22.6**	**-18.2**	**-32.9**
Trade balance	-47.9	-52.9	-47.7	-50.5	-45.0	-56.1
Merchandise exports (f.o.b.)	47.9	50.3	52.5	53.5	62.3	65.8
Bananas	20.5	16.7	16.5	15.4	13.7	13.4
Other	27.4	33.6	36.0	38.1	48.6	52.4
Merchandise imports (f.o.b.)	95.8	103.2	100.2	104.0	107.3	121.9
Net nonfactor services (NFS)	18.4	20.2	26.2	34.1	34.2	31.1
Exports of NFS	57.9	61.3	71.0	85.3	84.6	88.3
Travel	37.4	41.5	46.3	50.3	46.8	47.7
Other	20.5	19.8	24.7	35.0	37.7	40.7
Imports of NFS	39.5	41.1	44.8	51.2	50.4	57.2
Net factor income from abroad	-10.9	-13.3	-18.8	-16.7	-17.8	-18.9
Private sector	-10.0	-12.0	-17.1	-15.0	-16.3	-17.2
Public sector	-0.9	-1.4	-1.7	-1.6	-1.6	-1.7
Net current transfers	7.1	7.9	10.2	10.5	10.4	10.9
Private sector	6.8	9.2	10.4	9.4	9.6	10.1
Public sector	0.3	-1.3	-0.2	1.1	0.8	0.8
Capital and financial account	**28.9**	**45.1**	**30.9**	**23.3**	**22.0**	**35.1**
Public sector	5.8	24.7	19.7	16.9	12.1	22.7
Transfers	5.8	22.1	20.9	9.3	11.5	9.8
Privatization	0.0	1.3	0.0	8.0	0.0	0.0
Net borrowing	0.9	1.6	-1.5	-9.2	1.0	39.4
Disbursements	6.1	7.4	6.6	9.0	6.3	45.3
Amortization 1/	5.2	5.8	8.1	18.2	5.2	5.9
Repayments to IMF	-0.7	-0.7	-0.8	-0.6	0.0	0.0
Change in arrears	0.1	0.8	-0.1	-0.9	-0.4	0.0
Change in government assets abroad	-0.3	-0.5	-0.6	-0.6	0.0	-26.5
Rescheduling and debt forgiveness	0.0	0.0	1.8	10.9	0.0	0.0
Private sector	23.1	20.4	11.2	6.4	9.9	12.4
Transfers	2.8	-2.7	-1.4	2.3	2.4	2.6
Other	20.3	23.1	12.6	4.1	7.4	9.8
Direct investment	22.6	52.8	17.8	12.9	8.7	7.6
Commercial banks	6.0	-6.5	-9.8	3.4	-6.0	2.2
Other (including errors and omissions)	-8.2	-23.2	4.6	-12.2	4.8	0.0
Overall balance	**-4.4**	**7.0**	**0.8**	**0.7**	**3.8**	**2.2**
Change in (imputed) official reserves (increase -)	**4.4**	**-7.0**	**-0.8**	**-0.7**	**-3.8**	**-2.2**
Memorandum items:						
Net imputed international reserves (end of period)	15.4	22.4	23.2	23.9	27.7	29.9
External public debt outstanding (end of period)	98.6	103.0	102.5	88.9	90.0	126.7
(In percent of GDP)						
Current account balance	-15.5	-17.0	-12.7	-9.3	-7.0	-12.0
Trade balance	-22.2	-23.6	-20.2	-20.8	-17.3	-20.5
Merchandise exports (f.o.b.)	22.2	22.5	22.2	22.0	23.9	24.0
Merchandise imports (f.o.b.)	44.5	46.1	42.4	42.9	41.2	44.5
Public sector net borrowing	0.4	0.7	-0.6	-3.8	0.4	14.4
Private sector net financial inflows	9.4	10.3	5.3	1.7	2.9	3.6
Overall balance	-2.1	3.1	0.3	0.3	1.5	0.8
Current account balance incl. capital transfers	-11.5	-8.4	-4.5	-4.5	-1.6	-7.5
GDP at market prices (millions of US dollars)	215.4	224.0	236.4	242.7	260.4	273.8

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

1/ Based on the authorities' plans.

Table 5. Dominica : Summary Accounts of the Banking System

	Dec. 1994	Dec. 1995	Dec. 1996	Dec. 1997	June 1998	Dec. 1998	June 1999	Dec. 1999 1/
	(In millions of Eastern Caribbean dollars, end of period)							
	I. Consolidated Banking System							
Net foreign assets	**7.2**	**43.5**	**71.9**	**64.7**	**82.9**	**91.2**	**86.7**	**91.2**
Net domestic assets	**286.1**	**317.5**	**296.2**	**316.3**	**308.8**	**316.0**	**342.1**	**348.8**
Net credit to the nonfinancial public sector	50.4	47.9	41.7	47.5	47.5	37.9	57.8	44.8
Net credit to nonbank financial institutions	-30.4	-31.7	-54.0	-63.3	-67.8	-62.5	-59.4	-67.5
Credit to the nonfinancial private sector	312.5	344.6	358.5	381.0	394.0	410.0	415.6	440.4
Other items (net)	-46.4	-43.3	-50.1	-48.9	-64.9	-69.4	-71.9	-68.9
Broad money 2/	293.3	361.0	368.1	381.0	391.6	407.2	428.8	440.0
	II. Operations of the Eastern Caribbean Central Bank							
Imputed net international reserves	**41.7**	**60.5**	**62.6**	**64.5**	**63.6**	**74.7**	**76.3**	**80.7**
Net domestic assets	**19.4**	**14.3**	**12.3**	**11.9**	**13.1**	**11.1**	**11.0**	**11.1**
Monetary base	**61.1**	**74.8**	**74.9**	**76.4**	**76.7**	**85.8**	**87.3**	**91.8**
Currency in circulation	24.5	29.2	28.5	28.2	24.5	29.1	30.7	31.5
Commercial bank reserves	36.7	45.6	46.4	48.2	52.1	56.7	56.6	60.4
	III. Commercial Banks							
Net foreign assets	**-34.5**	**-17.0**	**9.3**	**0.2**	**19.3**	**16.5**	**10.4**	**10.5**
Net claims on ECCB	**31.5**	**45.9**	**46.5**	**44.9**	**50.3**	**53.4**	**58.7**	**60.4**
Net domestic assets	**271.8**	**303.0**	**283.7**	**307.6**	**297.5**	**308.2**	**328.9**	**337.6**
Net credit to the nonfinancial public sector	30.9	33.6	29.4	35.6	34.4	26.8	46.8	33.7
Net credit to nonbank financial institutions	-30.4	-31.7	-54.0	-63.3	-67.8	-62.5	-59.4	-67.5
Credit to the nonfinancial private sector	312.5	344.6	358.5	381.0	394.0	410.0	415.6	440.4
Other (net)	-41.2	-43.6	-50.2	-45.7	-63.1	-66.1	-74.1	-69.0
Private sector deposits 2/	**268.8**	**331.8**	**339.6**	**352.7**	**367.1**	**378.0**	**398.1**	**408.5**
	IV. Consolidated Banking System							
	(Annual percentage change)							
Credit to the nonfinancial private sector	7.9	10.3	4.0	6.3	6.5	7.6	5.5	7.4
Broad money 2/	4.0	23.1	2.0	3.5	4.0	6.9	9.5	8.1
	(Contributions to liquidity growth) 3/							
Net foreign assets	**-9.9**	**12.4**	**7.9**	**-2.0**	**-0.1**	**7.0**	**1.0**	**0.0**
Net domestic assets	14.0	10.7	-5.9	5.5	4.1	-0.1	8.5	8.1
Net credit to the nonfinancial public sector	10.1	-0.8	-1.7	1.6	2.5	-2.5	2.6	1.7
Credit to the nonfinancial private sector	8.1	11.0	3.8	6.1	6.4	7.6	5.5	7.5
Memorandum items:								
Velocity 4/	2.0	1.7	1.7	1.8	1.8	1.8	1.8	1.8
Interest rates 5/								
Deposits	4.2	4.4	4.7	4.9	4.2	4.0	4.0	...
Lending	12.2	12.0	11.8	12.0	11.4	11.2	11.4	...

Sources: Data provided by the Eastern Caribbean Central Bank; and Fund staff estimates.

1/ Based on authorities' plans.
2/ Including deposits denominated in U.S. dollars.
3/ Change relative to broad money at the beginning of the period.
4/ Nominal GDP at market prices divided by the average of the year-end stock of broad money for the current and previous year.
5/ Commercial banks; weighted averages of end-year rates per annum.

Table 6. Dominica: Medium-Term Scenarios

	Prel. 1998	1999-2004 Average Baseline	Modified Baseline	Alternative	2005-2009 Average Baseline	Modified Baseline	Alternative
(Annual percentage change; unless otherwise indicated)							
National income and prices							
GDP at constant 1990 market prices	4.8	3.5	4.6	4.3	3.5	4.5	4.8
Consumer prices (end period)	2.4	1.7	1.9	1.9	1.6	2.0	2.0
Monetary indicators							
Net foreign assets of the banking system (in percent of GDP)	11.1	11.8	10.7	11.8	11.2	7.2	11.1
Credit to private sector (in real terms)	6.0	4.1	3.0	5.4	4.4	0.4	5.7
(In percent of GDP)							
Saving-investment							
Gross national saving	23.0	22.3	18.3	21.1	21.3	16.6	21.9
Domestic saving	25.8	25.3	22.9	24.8	25.0	21.5	26.2
Private sector	22.4	22.4	22.4	22.4	22.4	22.4	22.4
Public sector	3.5	2.9	0.5	2.5	2.6	-0.8	3.8
Net factor income	-6.8	-6.9	-8.5	-7.7	-7.6	-8.6	-8.1
Net current transfers	4.0	4.0	3.9	4.0	3.9	3.8	3.8
Gross domestic investment	30.0	31.2	34.9	33.1	30.4	30.0	31.3
Private sector	22.2	21.9	21.3	21.3	21.3	21.9	22.2
Public sector	7.9	9.4	13.7	11.9	9.1	8.1	9.1
Balance of payments							
External current account	-7.0	-8.9	-16.6	-12.0	-9.0	-13.2	-9.4
Merchandise exports (f.o.b.)	23.9	24.6	24.5	24.5	26.3	26.0	26.0
Of which: Bananas	5.3	4.2	4.1	4.1	3.0	2.7	2.7
Merchandise imports (f.o.b.)	41.2	44.0	47.7	45.2	46.8	49.1	47.0
Services, income, and transfers account	10.3	10.5	6.7	8.8	11.5	9.9	11.6
Capital and financial account	8.5	9.4	17.3	12.6	9.5	13.9	10.0
Overall balance	1.5	0.6	0.7	0.7	0.5	0.6	0.6
	Prel. 1998/99	1999/00-2003/04 Average Baseline	Modified Baseline	Alternative	2004/05-2008/09 Average Baseline	Modified Baseline	Alternative
Public sector finances 1/							
Interest expenditure	2.5	3.1	5.1	3.8	3.4	6.1	3.8
Saving	3.0	2.9	0.4	2.4	2.6	-0.8	3.6
Capital expenditure	9.3	9.4	14.7	12.4	9.0	8.0	9.0
Overall balance	-2.5	-2.3	-8.6	-4.3	-2.3	-4.8	-1.3
Financing	2.5	2.3	8.6	4.3	2.3	4.8	1.3
Foreign	0.4	1.8	6.3	4.0	2.7	0.5	2.1
Domestic	2.1	0.4	2.3	-0.3	-0.4	4.3	-0.7
Privatization	0.0	0.0	0.0	0.6	0.0	0.0	0.0
Gross debt (end of period)							
Central government	51.3	54.8	81.5	62.8	60.7	89.2	60.8
Public sector	68.6	66.3	92.5	73.8	63.1	90.9	62.6

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

1/ Fiscal year starts on July 1.

Table 7: Dominica: Cost and Funding Scenarios for Key Government Projects

(In millions of U.S. dollars; unless otherwise indicated)

	Scenarios	
	Modified Baseline 1/	Alternative 2/
1. Cost	**130.9**	**90.9**
2. Funding	**130.9**	**90.9**
Privatization 3/	0.0	10.0
Grants 4/	32.0	32.0
Loans	98.9	48.9
Borrowing	98.9	57.4
Amortization 5/	0.0	8.4
3. Terms of borrowing		
Interest rate (percent) 6/	8.5	7.7
Maturity (years) 6/	14.0	14.8
Grace period (years) 6/	3.4	4.1
Net present value of debt service 7/	89.5	49.6

Sources: Ministry of Finance; and Fund staff estimates.

1/ Involves building both airport and stadium as currently envisioned by the authorities.
2/ Involves building a somewhat smaller airport only.
3/ Proceeds from assumed sale of government shares in National Commercial Bank and Dominica Electricity Services, Ltd.
4/ Grants that the authorities expect will be disbursed by Taiwan, Province of China and the European Union by the end of the projected construction period (June 2003).
5/ Early redemption of part of the bonds placed with Trinidad and Tobago banks. An assumed loan for US$10 million by multilateral banks would be used in part to fund this pre-payment.
6/ Average of loans, weighted by principal.
7/ Evaluated at discount rate of 8 percent.

Table 8. Dominica: Medium-Term Public and Publicly Guaranteed External Debt

	Prel.	Projections (alternative scenario)					
	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05
	(In millions of U.S. dollars)						
External debt outstanding at end of year	**87.4**	**126.4**	**138.4**	**142.9**	**152.6**	**162.1**	**172.7**
Drawings	5.3	45.6	18.6	19.0	17.8	17.2	18.9
Scheduled debt service	**7.6**	**10.9**	**12.3**	**20.6**	**14.4**	**13.9**	**14.4**
Principal	5.2	6.6	6.5	14.5	8.2	7.6	8.4
Interest	2.4	4.3	5.8	6.1	6.2	6.3	6.0
Actual debt service	**8.2**	**10.9**	**12.3**	**20.6**	**14.4**	**13.9**	**14.4**
Principal	5.6	6.6	6.5	14.5	8.2	7.6	8.4
Interest	2.6	4.3	5.8	6.1	6.2	6.3	6.0
Change in arrears	-0.5	0.1	0.0	0.0	0.0	0.0	0.0
Valuation adjustment	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears (end of year)	**0.1**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**	**0.2**
Principal	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest	0.1	0.1	0.1	0.1	0.1	0.1	0.1
	(In percent of GDP; unless otherwise indicated)						
Memorandum items:							
External debt outstanding/GDP	32.7	44.7	45.8	44.3	44.4	44.4	44.4
Scheduled debt service/exports of goods and nonfactor services 1/	5.0	6.8	7.1	11.0	7.1	6.3	6.1
Stock of arrears/GDP	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Average interest rate (percent per annum)	2.9	5.0	5.2	5.0	4.9	5.0	4.9
GDP at market prices (millions of US$)	267.1	282.8	302.2	322.9	343.3	365.1	389.1

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

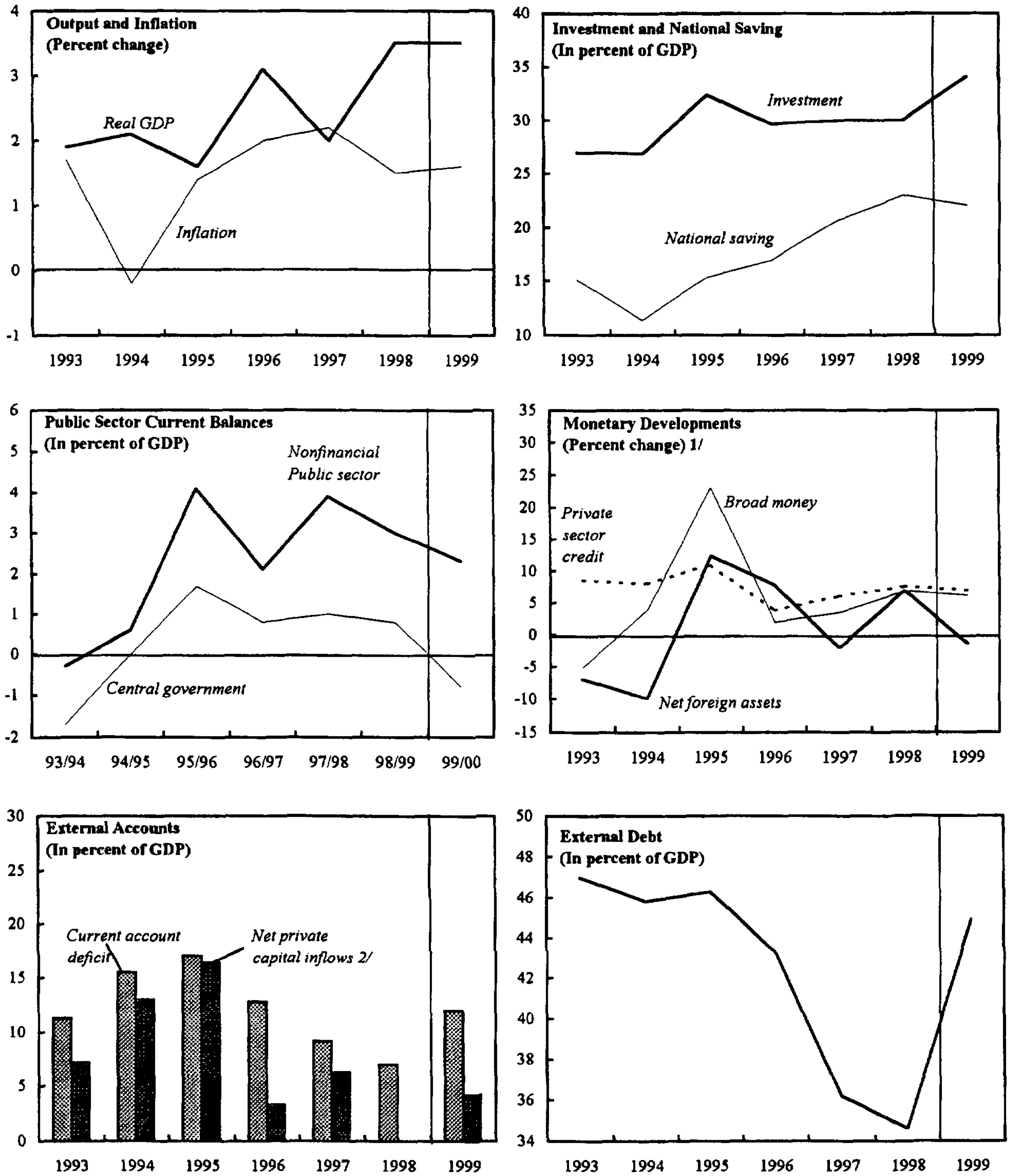
1/ Increase in 2001/02 reflects a prepayment of part of the Trinidad and Tobago airport bonds.

Table 9. Dominica: Medium-Term Balance of Payments

	Prel. 1998	Projections (alternative scenario) 1999	2000	2001	2002	2003	2004
	(In millions of U.S. dollars)						
Current account balance	**-18.2**	**-29.7**	**-43.1**	**-45.4**	**-41.9**	**-35.3**	**-33.8**
Trade balance	-45.0	-53.9	-65.3	-69.1	-69.7	-70.4	-73.1
Merchandise exports (f.o.b.)	62.3	65.8	70.5	76.0	81.7	87.5	94.3
Bananas	13.7	13.4	13.3	13.2	13.0	12.9	12.8
Other	48.6	52.4	57.2	62.8	68.6	74.6	81.5
Merchandise imports (f.o.b.)	107.3	119.7	135.8	145.1	151.3	157.9	167.4
Net nonfactor services (NFS)	34.2	32.1	32.7	35.9	40.9	49.2	54.7
Exports of NFS	84.6	88.3	96.5	104.1	111.9	123.4	133.3
Travel	46.8	47.7	52.1	55.3	58.6	65.4	70.0
Other	37.7	40.7	44.4	48.8	53.3	58.0	63.3
Imports of NFS	50.4	56.2	63.8	68.1	71.0	74.1	78.6
Net factor income from abroad	-17.8	-18.8	-22.3	-24.6	-26.2	-27.9	-30.1
Private sector	-16.3	-17.2	-18.4	-19.9	-21.3	-22.7	-24.3
Public sector	-1.6	-1.6	-3.8	-4.7	-4.9	-5.3	-5.8
Net current transfers	10.4	10.9	11.7	12.4	13.1	13.8	14.6
Private sector	9.6	10.1	10.9	11.8	12.7	13.6	14.7
Public sector	0.8	0.8	0.8	0.6	0.4	0.1	-0.1
Capital and financial account	**22.0**	**31.9**	**45.0**	**47.6**	**44.0**	**37.4**	**36.2**
Public sector	12.1	20.0	33.5	35.3	32.3	29.8	20.6
Transfers	11.5	9.8	12.6	17.3	21.3	21.6	12.4
Privatization	0.0	0.0	0.0	5.0	5.0	0.0	0.0
Net borrowing	1.0	19.6	24.7	7.4	5.9	8.3	8.2
Disbursements	6.3	25.5	31.2	17.9	17.3	16.2	16.2
Amortization	5.2	5.9	6.6	10.5	11.4	7.9	8.0
Change in arrears	-0.4	0.0	0.0	0.0	0.0	0.0	0.0
Change in government assets abroad	0.0	-9.4	-3.8	5.6	0.0	0.0	0.0
Private sector	9.9	11.9	11.5	12.2	11.7	7.5	15.6
Overall balance	**3.8**	**2.2**	**1.9**	**2.2**	**2.1**	**2.0**	**2.3**
Change in (imputed) official reserves (increase -)	**-3.8**	**-2.2**	**-1.9**	**-2.2**	**-2.1**	**-2.0**	**-2.3**
Memorandum items:							
Net imputed international reserves (end of period)	27.7	29.9	31.7	33.9	36.0	38.0	40.3
External public debt outstanding (end of period)	90.0	106.9	132.4	140.7	147.7	157.4	167.4
	(In percent of GDP)						
Current account balance	-7.0	-10.8	-14.8	-14.5	-12.6	-10.0	-9.0
Trade balance	-17.3	-19.7	-22.4	-22.1	-20.9	-19.9	-19.4
Merchandise exports (f.o.b.)	23.9	24.0	24.2	24.3	24.5	24.8	25.0
Merchandise imports (f.o.b.)	41.2	43.7	46.5	46.4	45.4	44.7	44.4
Public sector net borrowing	0.4	7.2	8.5	2.4	1.8	2.3	2.2
Private sector net financial flows	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Overall balance	1.5	0.8	0.6	0.7	0.6	0.6	0.6
Current account balance incl. capital transfers	-1.6	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
GDP at market prices (millions of US dollars)	260.4	273.8	291.8	312.6	333.2	353.4	376.7

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

Figure 1. Dominica: Selected Economic Indicators

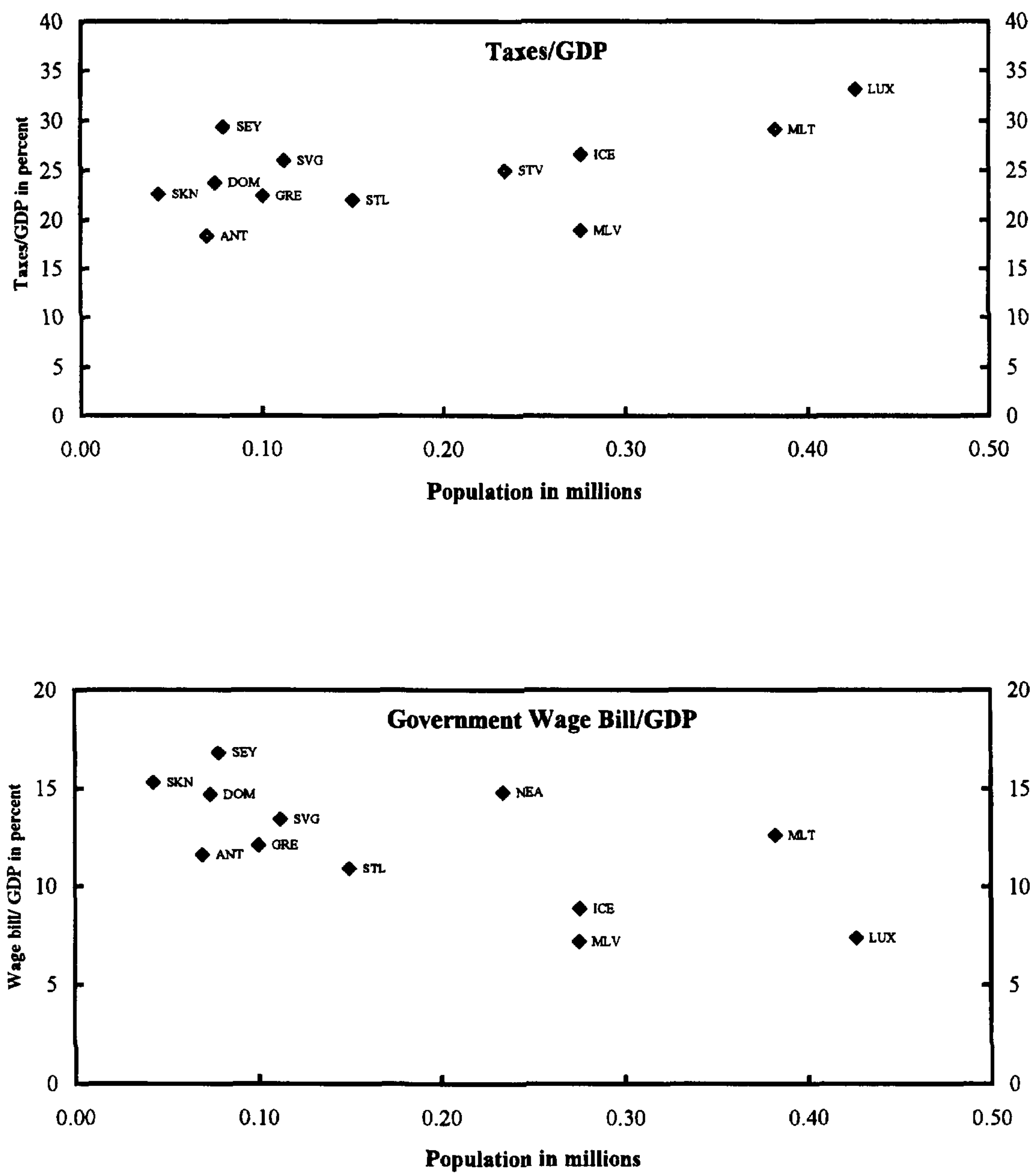


Sources: Data provided by the Dominica authorities; and Fund staff estimates and projections.

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

2/ Excludes transfers.

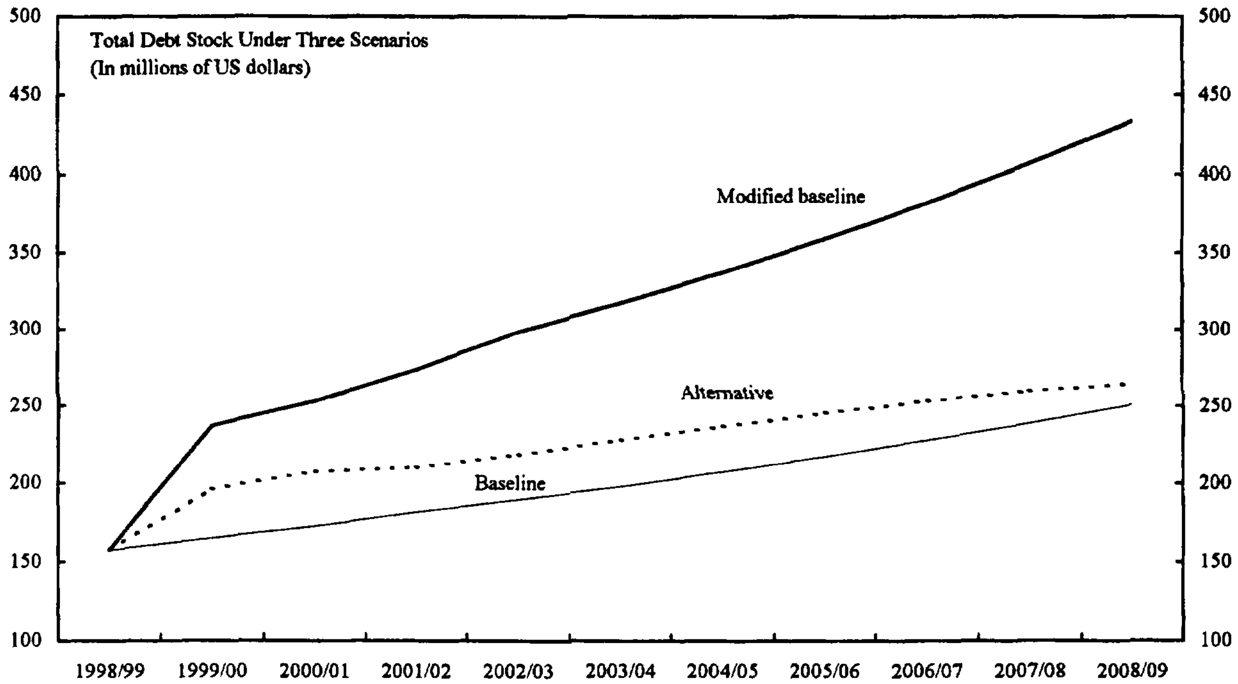
Figure 2. Selected Small Countries: Government Taxes and Wage Bill, and Population [1/]
(1997-1999)

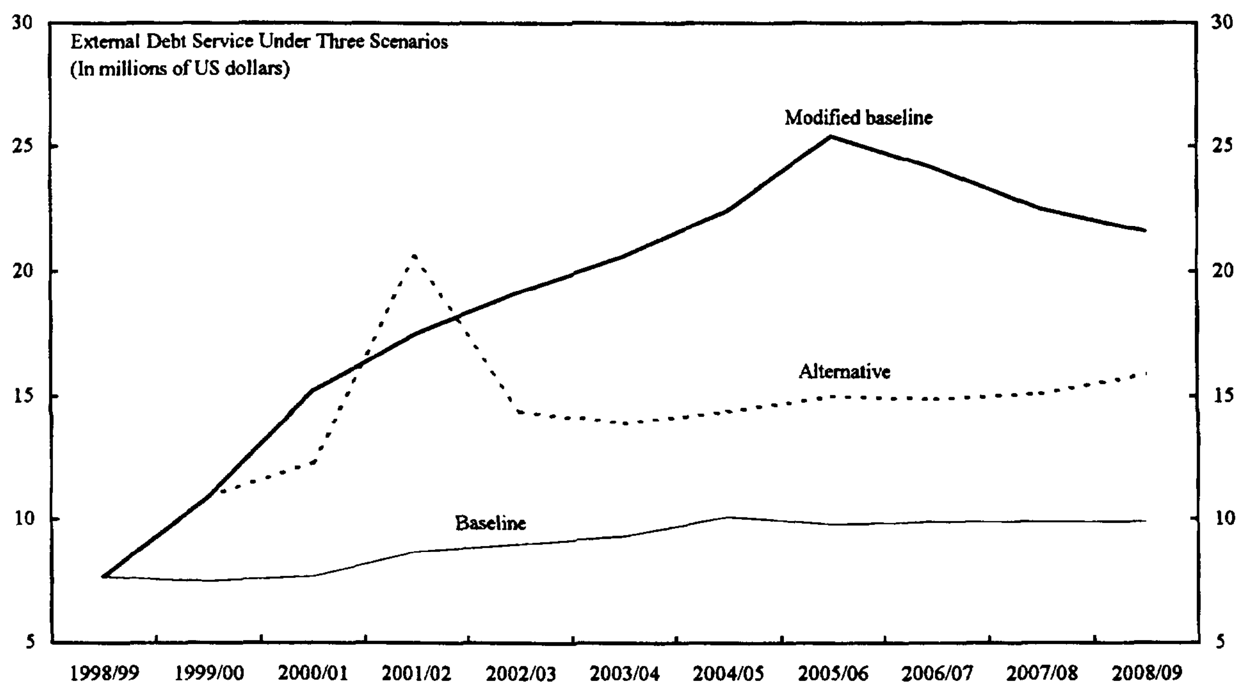


Source: World Bank; and IMF.

1/ ANT=Antigua and Barbuda, DOM=Dominica, GRE=Grenada, ICE=Iceland, LUX=Luxembourg, MLV=Maldives, MLT=Malta, NEA=the Netherlands Antilles, SEY=Seychelles, SKN=St. Kitts and Nevis, STL=Saint Lucia, and SVG=Saint Vincent & the Grenadines.

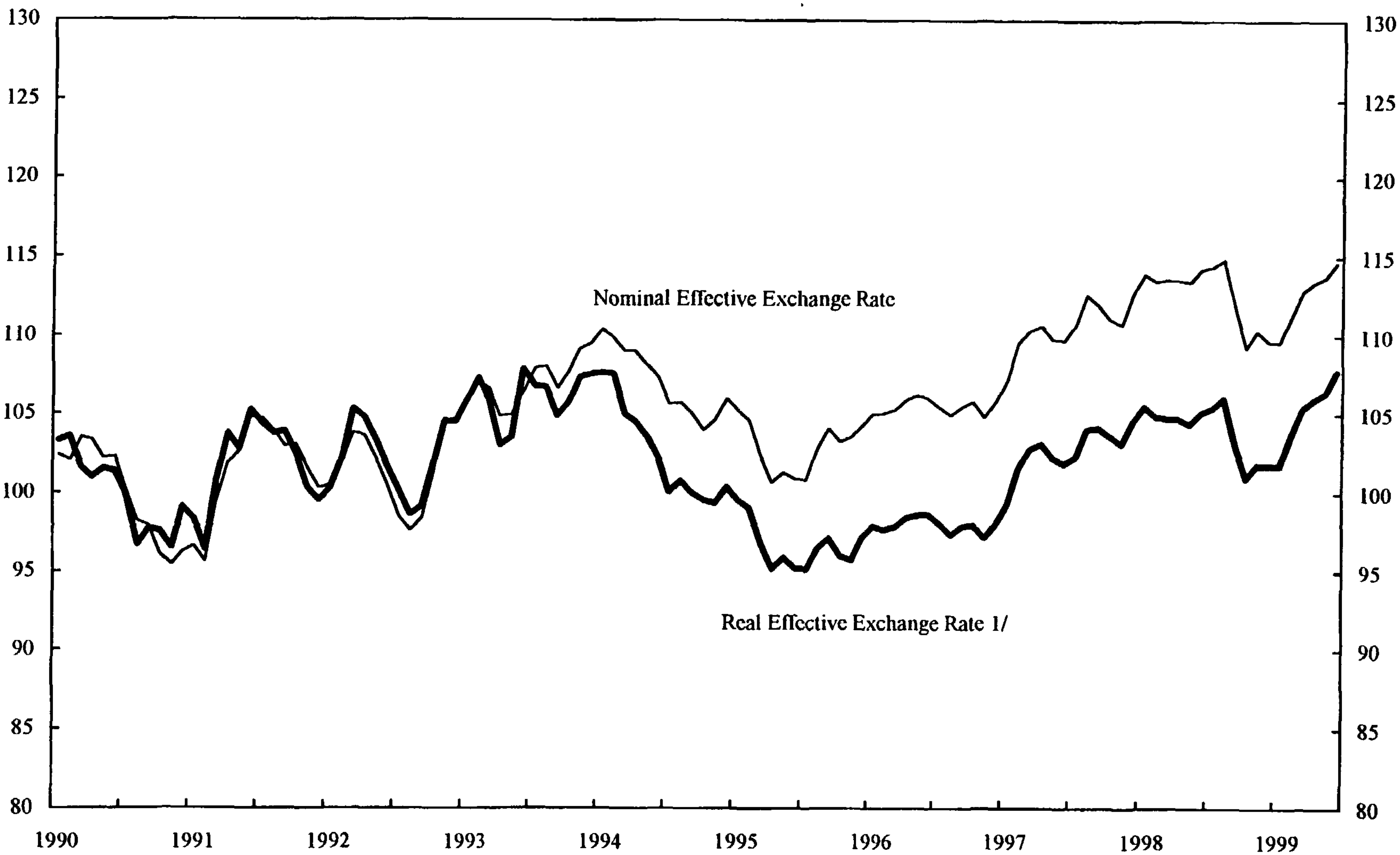
Figure 3. Dominica: Total Debt Stocks and External Debt Service





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

Figure 4. Dominica: Exchange Rate Developments
(Index 1990=100)



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

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

Dominica: Fund Relations
(As of November 30, 1999)

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

II.	**General Resources Account**	**SDR Million**	**Percent of Quota**
	Quota	8.20	100.0
	Fund holdings of currency	8.19	99.9
	Reserve position in Fund	0.01	0.1

III.	**SDR Department**	**SDR Million**	**Percent of Allocation**
	Net cumulative allocation	0.59	100.0
	Holdings	0.00	0.1

IV. **Outstanding Purchases and Loans:** None.

V. **Financial Arrangements:**

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

VI. **Projected Obligations to the Fund:** None.

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

VIII. **Article IV consultation**: The last Article IV consultation was concluded by the Executive Board on August 25, 1998 (EBM/98/88); the relevant documents are SM/98/201 and SM/98/204. Dominica is on the standard 12-month cycle.

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

Dominica: Statistical Issues

There are a number of issues to be addressed concerning the economic data of Dominica (see the attached survey of reporting of main statistical indicators). Only the balance sheet of the consolidated commercial banks, the balance sheet of the central bank, interest rates data, and the consumer price index are provided on a regular basis. Data on other key indicators, such as exports, imports, the external current account, public sector operations, and GDP usually are provided only during missions or upon special request. An important step to improve the statistical base would be to strengthen staffing of the Central Statistics Office (CSO). This would establish a more solid foundation for effectively absorbing technical assistance in statistics.

Real sector

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

Government finance

Dominica has fallen considerably behind in reporting government finance statistics for publication in the *Government Finance Statistics Yearbook (GFSY)*. Some data were submitted in 1993, but the data do not conform to *GFSY* methodology.

Data on central government expenditure are not always complete, as some capital transactions are not conducted through the consolidated fund. Adjustments must therefore be made to arrive at a more complete total for government expenditure.

Balance of payments

Balance of payments data are provided by the Eastern Caribbean Central Bank (ECCB). Difficulties with the estimation of tourism receipts and the measurement of trade data are being addressed by the ECCB, the Central Statistical Office (CSO), and the Customs Department. The problem with obtaining current data on trade flows (exports and imports) appears to derive from technical difficulties in transferring information between the Customs Department and the CSO; the difficulties are mostly computer related.

Dominica: Survey of Reporting of Main Statistical Indicators
(As of November15, 1999)

	Exchange Rates	International Reserves	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Debt
Date of latest observation	Fixed rate since 1976	8/99	8/99	8/99	8/99	7/99	QII/99[1]	1998	6/99	1998	7/99
Date received		11/1/99	11/1/99	11/1/99	11/1/99	9/10/99	9/10/99	9/10/99	7/26/99	9/10/99	9/10/99
Frequency of data series		Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annual	Monthly	Annual	Monthly
Frequency of reporting to IMF		Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	Monthly (lag of 1-2 months)	On request	Annual	Quarterly	Annual	On request
Source of update		ECCB	ECCB	ECCB	ECCB	Central Statistical Office, Ministry of Finance	ECCB	ECCB	Ministry Of Finance	Central Statistical Office, Ministry of Finance	Debt Unit Ministry of Finance
Mode of reporting		E - Mail	E - Mail	E - Mail	E - Mail	Fax	Mission/ Mail	Mission/ Mail	Mission/ Mail	Mission/ Mail	Mission/ Mail/ Fax
Confidentiality		Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Unrestricted	Restricted	Unrestricted	Restricted
Published data		Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No

[1] Import data for most of 1998 are, however, unavailable.

Dominica: Stayover Tourist Arrivals in the Caribbean 1/

(In thousands; unless otherwise specified)

	1992	1993	1994	1995	1996	1997	1998
Caribbean	**12,204.1**	**13,275.8**	**14,233.0**	**14,468.9**	**14,904.9**	**15,859.0**	**16,457.0**
Eastern Caribbean	**836.0**	**993.5**	**1,099.9**	**1,035.6**	**1,067.4**	**1,110.9**	**1,158.7**
Anguilla	30.4	37.7	43.7	38.5	37.5	43.2	43.9
Antigua and Barbuda	217.9	249.4	262.9	220.0	228.2	240.4	234.3
British Virgin Islands	116.9	200.2	238.7	219.5	243.7	244.3	279.1
Dominica	47.0	51.9	56.5	60.5	63.3	65.4	65.5
Grenada	87.6	93.9	109.0	108.0	108.2	110.7	115.8
Montserrat	17.3	21.0	21.3	17.7	8.7	5.1	7.5
St. Kitts and Nevis	88.3	88.6	94.2	78.9	84.2	88.3	93.2
St. Lucia	177.5	194.1	218.6	232.3	235.7	248.4	252.2
St. Vincent and the Grenadines	53.1	56.7	55.0	60.2	57.9	65.1	67.2
Other Caribbean	**11,368.1**	**12,282.3**	**13,133.1**	**13,433.3**	**13,837.5**	**14,748.1**	**15,298.3**
Of which:							
The Bahamas	1,398.9	1,488.7	1,516.0	1,598.1	1,633.1	1,617.6	1,540.0
Jamaica	1,057.2	1,105.4	1,098.3	1,147.0	1,162.4	1,192.2	1,225.3
Puerto Rico	2,753.9	2,923.2	3,112.7	3,053.9	3,127.7	3,378.5	3,461.3
Dominican Republic	1,523.8	1,636.4	1,766.9	1,775.9	1,925.6	2,211.4	2,309.1
Memorandum items:							
Share of Dominica in Caribbean (percent)	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Share of Dominica in Eastern Caribbean (percent)	5.6	5.2	5.1	5.8	5.9	5.9	5.7

Source: Caribbean Tourism Organization.

1/ Excludes Cancun and Cozumel.

Dominica: Cruiseship Passenger Arrivals in the Caribbean 1/

(In thousands; unless otherwise indicated)

	1992	1993	1994	1995	1996	1997	1998
Caribbean	**8,790.3**	**8,871.0**	**8,850.3**	**8,982.9**	**9,939.0**	**11,007.8**	**11,146.0**
Eastern Caribbean	**931.4**	**927.7**	**1,010.3**	**1,125.4**	**1,221.8**	**1,311.2**	**1,503.6**
Antigua and Barbuda	250.2	238.4	235.7	227.4	270.5	285.5	336.5
British Virgin Islands	87.6	85.8	82.4	122.1	159.6	104.9	105.1
Dominica	89.8	87.8	125.5	134.9	193.5	229.9	236.1
Grenada	195.9	200.1	200.8	249.9	267.0	246.6	265.9
Montserrat	5.6	8.8	11.0	9.0	...	...	...
St. Kitts and Nevis	74.0	83.1	112.9	120.9	85.8	102.7	154.1
St. Lucia	164.9	154.4	171.5	175.9	182.2	310.2	372.1
St. Vincent and the Grenadines	63.4	69.3	70.5	85.3	63.2	31.4	33.8
Other Caribbean	**7,858.9**	**7,943.3**	**7,840.0**	**7,857.5**	**8,717.2**	**9,696.6**	**9,642.4**
Of which:							
The Bahamas	2,139.4	2,047.0	1,805.6	1,543.5	1,687.1	1,751.1	1,729.9
Jamaica	649.5	629.6	595.0	605.2	658.2	711.7	673.7
Puerto Rico	1,019.2	968.1	976.9	1,001.1	1,025.1	1,227.4	1,243.4
Dominican Republic	50.0	27.8	50.1	30.5	110.9	270.8	393.6
Memorandum items:							
Share of Dominica in Caribbean (percent)	1.0	1.0	1.4	1.5	1.9	2.1	2.1
Share of Dominica in Eastern Caribbean (percent)	9.6	9.5	12.4	12.0	15.8	17.5	15.7

Source: Caribbean Tourism Organization.

1/ Excludes Cancun and Cozumel.

Dominica: Relations with the World Bank Group[1]
(As of September 30, 1999)

I. Projects

Dominica is a participant in the World Bank supported OECS Solid Waste Management Project which was approved in FY95.[2] The objective of this operation is to reduce public health risks and protect the environmental integrity of the Eastern Caribbean islands and their coastal and marine systems, by improving solid waste management facilities. The total financing for this project is US$6.1 million—US$1.2 million from the World Bank Group, US$0.8 million from the Global Environment Facility, US$1.2 million from the Caribbean Development Bank, and US$1.9 million from the EU. The government is contributing with US$1 million from its own funds.

In FY95 the World Bank approved US$6.07 million for a Basic Education Reform Project. The project is designed to improve the quality of basic education, expand access to secondary education, rehabilitate primary and secondary school facilities, and help curriculum development for primary and secondary schools.

In FY98 the World Bank approved US$6 million for an OECS Telecommunications Reform Project. Dominica's share of this project is US$1.2 million. The objective of the project is to introduce procompetition reforms in the telecommunications sector and increase the supply of informatics-related skills in the five OECS borrowing countries (Antigua and Barbuda does not participate in the project).

The OECS Emergency Recovery and Disaster Management Program, totaling US$19.5 million, was approved by the World Bank in FY 99; Dominica's share in the project is US$5.03 million. The project aims to support the physical and institutional efforts of the participating countries for disaster recovery and emergency preparedness and management. The project was declared effective on June 9, 1999.

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[1] Source: World Bank.

[2] World Bank fiscal year begins on July 1.

II. Financial Relations

(In millions of U.S. dollars)

Operations	Principal	Disbursed	Undisbursed
Basic Education Reform	6.07	3.76	2.31
OECS Solid Waste Management	1.20	0.10	1.10
OECS Telecommunications Reform	1.20	0.12	1.08
OECS Emergency Recovery	5.03	0.30	4.73

Gross disbursements and debt service during fiscal year

	Actual							Projections	
	1993	1994	1995	1996	1997	1998	1999	2000	2001
Disbursements	0.2	0.1	0.2	0.1	0.5	1.9	1.4	1.5	1.9
Repayments	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.5
Interest and fees	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2

III. Economic and Sector Work

The most recent Country Assistance Strategy dates from April 10, 1995. The World Bank is currently working on a new CAS which is expected to be presented to the Board in March 2000. The Medium-Term Economic Strategy Paper for the period 2000–02 will be prepared by the Government of Dominica in cooperation with the World Bank and the Caribbean Development Bank (CDB) and distributed at the June 2000 meeting of the Caribbean Group for Cooperation in Economic Development (CGCED).

Dominica: Financial Relations with the Caribbean Development Bank
(As of December 31, 1998)

(In millions of U.S. dollars) 1/

	1993	1994	1995	1996	1997	1998
Cumulative total credit approved	71.75	68.23	71.76	86.15	98.67	98.85
Cumulative disbursements	56.17	58.13	60.25	61.85	62.58	66.54
Disbursements 2/	1.44	1.97	2.11	1.15	2.61	3.76
Ordinary capital resources	0.36	0.84	0.43	0.44	0.43	1.69
Special development fund	1.08	1.13	1.49	0.71	2.18	2.07
Other special fund resources	0.00	0.00	0.19	0.00	0.00	0.00
Amortization 2/	1.87	2.19	2.12	2.06	2.43	2.66
Ordinary capital resources	0.04	0.05	0.07	0.09	0.20	0.34
Special development fund	1.30	1.60	1.52	1.48	1.73	1.89
Other special fund resources	0.53	0.54	0.53	0.49	0.50	0.43
Outstanding debt (end of period)	36.38	37.32	41.69	41.20	40.82	42.09
Interest and commitment fees 2/	1.38	1.34	1.33	1.11	1.24	1.24
Ordinary capital resources	0.29	0.29	0.33	0.27	0.34	0.38
Special development fund	0.85	0.85	0.77	0.66	0.73	0.71
Other special fund resources	0.24	0.20	0.23	0.18	0.17	0.15

Source: Caribbean Development Bank.

1/ Including valuation adjustments.

2/ Ordinary capital resources are hard loans, and special developments funds and other special fund resources are soft loans.