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To: Members of the Executive Board
From: The Secretary
Subject: Dominica - Staff Report for the 1989 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Dominica, which will be brought to the agenda for discussion on a date to be announced.

Mr. Kavar (ext. 7685) or Mr. Lewis (ext. 7687) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

DOMINICA

Staff Report for the 1989 Article IV Consultation

Prepared by the Staff Representatives for the
1989 Article IV Consultation with Dominica

Approved by S. T. Beza and S. Kanesa-Thasan

November 20, 1989

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I. Introduction

Article IV consultation discussions with Dominica ^{1/} were held in the period July 26-August 9, 1989, with a second round of discussions taking place October 11-17, 1989 to reassess the near-term prospects in light of the damage caused by Hurricane Hugo in mid-September. The staff also reviewed the performance during the third annual arrangement under the Structural Adjustment Facility (SAF) which expires November 25, 1989. The representatives of Dominica included Prime Minister M. Eugenia Charles (who is also Minister of Finance), Minister of Agriculture Charles Maynard, the Financial Secretary, and other senior officials. The staff team in the first visit comprised Messrs. Kavar (Head), Lewis, Thornton, and Zeas, and Mrs. Koo (secretary), all of WHD, and in the follow-up visit Messrs. Kavar (Head), Lewis, and McClellan (ADM).

The last Article IV consultation with Dominica was completed by the Executive Board on September 14, 1988 (EBM/88/197; EBS/88/163 and SM/88/179). On that day, the Executive Board also noted the revised PFP (EBD/88/223) and approved the third annual arrangement under the SAF. A disbursement of SDR 0.54 million (13 1/2 percent of quota) in support of that arrangement was made on September 19, 1988 and a further disbursement of SDR 0.26 million (6 1/2 percent of quota) was made on April 30, 1989 following the decision by the Executive Board (Decision No. 9117-(89/40) SAF) to increase access under the SAF to 70 percent of quota.

II. Recent Economic Developments

1. Background

Dominica's economic performance in the early 1980s following the ravages of Hurricane David in 1979 was characterized by slow growth of production, structurally weak public finances and balance of payments, and heavy dependence on external assistance.

The key economic objectives of the program supported by the SAF arrangement were to enhance productivity in the traditional sectors and to diversify the production base in order to achieve a sustainably higher rate of economic growth and reduce unemployment. With faster growth of output and a more diversified economy, the external current account was expected to improve. Since the scope for using exchange rate and monetary policies was constrained by Dominica's membership in the Eastern Caribbean Central Bank (ECCB), it was intended that fiscal policy play the central role in seeking to achieve the program's broad

^{1/} Dominica accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement in December 1979 and does not impose restrictions on payments and transfers for current international transactions. Dominica's relations with the Fund are summarized in Appendix A.

aims. The objectives of fiscal policy were to raise substantially public sector savings and investment and to reduce the stock of government debt held by the domestic banking system so as to make room for private spending. Restraint on government expenditure, particularly the wage bill, was expected to contribute to the growth of public sector savings and to the preservation of external competitiveness.

The principal features of performance under the first two annual arrangements of the SAF were described in previous documents. ^{1/} In each of the years 1986-88, ^{2/} the objectives for growth of real GDP, central government savings, and the external current account were achieved with ease (Tables 1 and 2). The growth of output and the external current account improvement were based on a more than doubling of banana production during the three-year period, largely in response to increases in export unit values caused by the appreciation of the pound sterling relative to the Eastern Caribbean dollar. ^{3/} The average increase in the production of other crops was less than 5 percent a year and there was little investment in new manufacturing concerns, so that little progress was made in broadening the economic base. On the fiscal side, the favorable outcome for the current account and the overall balance was helped by the delay in completing the Organization and Management (O & M) exercise for restructuring employment and compensation in the public sector and by shortfalls in capital expenditures; moreover, the tax base became narrower and receipts more vulnerable to changes in private sector imports.

2. Performance under the third annual SAF arrangement

The objectives of the economic program supported by the third annual arrangement were in line with those of the preceding programs: to maintain the annual growth of real GDP at 4 percent, increase central government savings, reduce the external current account deficit, contain the external public debt burden, and build a cushion of reserves. The principal policy instruments were: further reform of the tax system to enhance incentives for production and savings, focusing public investment on improving the economic infrastructure, restraining the growth of the wage bill and reducing the stock of government nonconcessionary debt.

In terms of policy implementation, only the benchmarks relating to (i) enactment of the wage bargaining legislation and (ii) completion of the O & M exercise failed to be observed (Table 3), primarily because

1/ Performance under the first annual SAF arrangement was reviewed in EBS/87/192 (September 4, 1987), and that under the second annual SAF arrangement in EBS/88/163 (August 9, 1988).

2/ The objectives for the central government finances were set for the fiscal years 1986/87 (July 1986-June 1987) and 1987/88. All other objectives were set for the respective calendar years.

3/ Most of Dominica's bananas are exported to the United Kingdom under preferential arrangements.

Table 1. Dominica: Selected Economic and Financial Indicators, 1984-91

	1984	1985	1986		1987		1988		1989		Projections	
			Prog. 1/	Actual	Prog. 1/	Actual	Rev. Prog. 2/	Prel.	Rev. Prog. 3/	Rev. Proj.	1990	1991
(Percentage changes, unless otherwise specified)												
National income and prices												
GDP at constant prices	5.4	1.7	4.0	6.8	3.5	6.8	4.0	5.6	4.0	-1.9	-0.8	10.4
Agriculture	(5.5)	(-2.5)	(9.1)	(19.0)	(5.5)	(5.0)	(5.6)	(6.1)	(4.8)	(-15.5)	(-12.8)	(27.7)
Manufacturing	(-10.0)	(13.1)	(3.8)	(4.3)	(4.0)	(5.9)	(4.0)	(4.5)	(5.5)	(3.8)	(2.2)	(8.0)
Hotels and restaurants	(2.7)	(-3.5)	(3.7)	(12.8)	(2.6)	(9.8)	(5.0)	(17.8)	(6.0)	(8.0)	(8.0)	(9.0)
Government services	(2.0)	(2.5)	(...)	(1.0)	(...)	(2.5)	(...)	(3.0)	(...)	(1.0)	(2.0)	(2.0)
Other	(10.8)	(2.4)	(...)	(2.1)	(...)	(10.5)	(...)	(6.4)	(...)	(5.4)	(4.4)	(6.0)
GDP deflator	6.5	8.3	3.0	6.2	3.0	4.2	3.5	3.9	3.5	3.1	2.5	4.8
Consumer prices	2.2	2.1	2.5	3.0	3.0	4.8	3.5	2.0	3.5	6.5	4.5	4.0
External sector (in terms of U.S. dollars)												
Exports, f.o.b.	-6.8	10.9	18.1	52.7	14.1	10.5	9.0	15.7	11.2	-23.3	-14.0	43.2
Imports, c.i.f.	18.5	2.5	14.2	-2.6	3.1	19.2	14.2	31.9	12.4	15.9	-3.7	5.5
Export volume 4/	-2.3	-3.6	16.7	30.9	11.1	8.4	7.4	19.7	9.2	-15.7	-13.2	43.1
Import volume	27.7	3.4	11.2	-3.8	0.1	10.6	9.8	23.4	8.1	16.1	-3.2	2.9
Terms of trade (deterioration -) 4/	2.7	10.2	3.8	11.8	—	-0.9	-1.9	-5.4	-1.9	-9.2	-0.8	-1.6
Nominal effective exchange rate (depreciation -)	14.2	6.3	...	-5.7	...	-4.8	...	-3.5	...	3.9 5/	...	...
Real effective exchange rate (depreciation -)	8.2	1.1	...	-7.0	...	-4.4	...	-6.2	...	4.1 5/	...	...
Money and credit 6/												
Domestic assets (net) 7/	-4.3	7.2	7.2	-9.5	4.1	-26.5	-0.1	7.3	-5.7	19.5	-0.9	11.5
Public sector credit	(-12.7)	(-3.7)	(-8.8)	(-3.5)	(-7.3)	(-25.0)	(-12.9)	(-10.3)	(-22.2)	(-9.0)	(-9.5)	(-7.6)
Private sector credit	(9.0)	(9.1)	(16.0)	(2.5)	(11.4)	(2.1)	(13.9)	(29.1)	(17.4)	(27.8)	(8.9)	(21.7)
Monetary liabilities	11.6	5.9	7.1	17.6	6.6	13.0	7.6	15.1	7.6	7.8	-6.7	12.0
Velocity of monetary liabilities	0.8	3.9	—	-2.4	—	-1.2	—	-3.7	—	-3.4	9.0	0.7
Interest rate on one-year time deposits 8/	5 3/4	5 3/4	6.0	5.0	6.0	4 3/4	4 3/4	4 3/4	4 3/4	...	...	...
Interest rate on consumer loans 8/	11 1/2	12.0	15.0	13.0	15.0	13.0	12.0	13.5	12.0	...	...	...
(In percent of GDP, unless otherwise specified)												
External sector												
Current account balance	-20.5	-20.8	-22.4	-4.0	-18.2	-6.2	-17.6	-12.9	-9.8	-27.5	-28.4	-17.2
External debt inclusive of use of Fund credit	47.5	48.2	52.2	47.6	56.0	51.2	56.7	45.7	51.3	48.3	54.7	53.8
External debt service as a percent of receipts from exports of goods and services and net private transfers	9.8	9.3	9.2	7.6	9.5	9.3	10.2	8.0	7.7	8.8	8.5	6.4
Overall balance of payments (in millions of SDRs)	6.0	-0.7	1.1	5.6	2.4	6.8	3.5	0.1	3.2	2.7	2.3	1.7
Gross official reserves (months of imports) 9/	1.6	1.0	1.3	2.2	1.6	3.3	2.6	2.2	3.0	2.1	2.3	2.3
Memorandum item												
Nominal GDP at market prices (in millions of Eastern Caribbean dollars)	243	267	275	306	294	342	345	379	394	395	402	454

Sources: Ministry of Finance; Eastern Caribbean Central Bank; and Fund staff estimates.

1/ Program targets under first SAF arrangement.

2/ Program targets under second SAF arrangement.

3/ Program targets under third SAF arrangement.

4/ Excludes re-exports.

5/ Actual change, year-on-year, for the period January-August 1989.

6/ Domestic commercial banks' operations.

7/ Changes in percent of commercial banks' liabilities to private sector at the beginning of the period.

8/ Mid-point of range, in percent per annum.

9/ Government liquid foreign assets plus Dominica's imputed share in the international reserves of the EOCB.

Table 2. Dominica: Fiscal Operations of the Central Government 1/

	1985/86	1986/87		1987/88		1988/89		Projections		
		Prog. 2/	Actual	Prog. 2/	Actual	Prog. 2/	Prel.	1989/90	1990/91	1991/92
Total revenue and grants	121.5	114.6	112.4	127.4	138.9	138.7	151.2	163.8	151.4	145.6
Current revenue	84.7	90.4	92.9	94.1	106.3	108.4	120.5	118.8	112.6	126.3
Tax revenue	(76.3)	(81.1)	(84.8)	(85.5)	(95.2)	(97.7)	(109.4)	(108.1)	(101.8)	(114.3)
Nontax revenue	(8.4)	(9.3)	(8.1)	(8.6)	(11.1)	(10.7)	(11.1)	(10.6)	(10.8)	(11.9)
Capital receipts	0.1	—	2.0	1.2	4.9	2.5	6.4	5.7	5.0	5.0
Foreign grants	36.7	24.2	17.5	32.1	27.7	27.8	24.3	39.3	33.9	14.3
Of which: budget support grants	(4.1)	(6.8)	(—)	(9.5)	(4.1)	(4.1)	(—)	(8.2)	(1.5)	(—)
Total expenditure	127.5	125.5	116.2	141.0	136.9	151.8	154.2	174.9	189.1	170.7
Current expenditure	81.6	85.9	85.0	90.7	93.3	95.0	98.7	106.5	113.0	119.8
Wages and salaries	(47.1)	(49.4)	(49.1)	(52.8)	(52.7)	(54.3)	(56.5)	(61.0)	(65.3)	(69.9)
Goods and services	(14.0)	(16.2)	(16.2)	(16.5)	(18.6)	(18.3)	(19.8)	(21.0)	(22.2)	(23.6)
Interest	(7.6)	(6.9)	(6.8)	(7.2)	(6.7)	(7.0)	(7.4)	(7.6)	(8.1)	(8.5)
Retirement benefits	(5.0)	(5.0)	(5.5)	(5.5)	(5.8)	(6.2)	(6.3)	(6.8)	(7.3)	(7.8)
Transfers	(7.9)	(8.4)	(7.4)	(8.7)	(9.5)	(9.2)	(8.7)	(10.1)	(10.1)	(10.1)
Capital expenditure	45.9	39.6	31.2	50.3 3/	43.6	56.8 3/	55.5	68.4	76.1	50.9
Current account balance	3.1	4.5	7.9	3.4	13.0	13.4	21.8	12.3	-0.4	6.4
Overall balance before grants	-42.7	-35.1	-21.3	-45.7	-25.7	-40.9	-27.3	-50.5	-71.5	-39.5
Overall balance after grants	-6.0	-10.9	-3.8	-13.6	2.0	-13.1	-3.0	-11.1	-37.7	-25.2
Concessional foreign borrowing (net)	7.1	7.7	9.8	20.2	17.0	25.6	18.1	25.8	36.7	23.6
Of which: Structural Adjustment Facility	(—)	(2.4)	(2.6)	(4.1)	(4.5)	(2.0)	(2.9)	(—)	(—)	(-0.3)
Nonconcessional financing	-1.1	3.2	-6.0	-6.6	-19.0	-12.5	-15.1	-14.6	1.0	1.6
Reserve-type transactions	-1.9	1.9	-8.3	-3.5	-7.7	-5.5	-9.5	-5.8	-3.8	-2.6
IMF (net purchases)	(-4.5)	(-4.2)	(-4.7)	(-7.2)	(-7.4)	(-7.4)	(-7.7)	(-5.0)	(-3.0)	(-1.8)
Change in government foreign assets (increase -)	(-2.2)	(-0.7)	(-0.9)	(-3.0)	(-0.7)	(-1.1)	(-0.8)	(-0.8)	(-0.8)	(-0.8)
ECCB	(4.8)	(-1.3)	(-2.7)	(-2.3)	(0.4)	(—)	(-0.6)	(—)	(—)	(—)
Other foreign	(—)	(8.1)	(—)	(9.0)	(—)	(3.0)	(-0.4)	(—)	(—)	(—)
Domestic commercial banks	-1.0	1.3	-1.4	-3.1	-19.2	-7.0	-8.9	-8.8	4.8	4.1
Statutory bodies	4.7	—	4.0	—	10.5	—	5.5	—	—	—
Other domestic	0.1	—	1.1	—	0.1	—	0.2	—	—	—
Residual	-3.0	—	-1.4	—	-2.7	—	-2.4	—	—	—
Memorandum item										
Fiscal year GDP	286.7	284.4	324.3	333.5	360.8	380.4	387.3	398.6	427.8	474.7
(In percent of GDP)										
Total revenue and grants	42.4	40.3	34.7	38.2	38.5	36.5	39.1	41.1	35.4	30.7
Current revenue	29.5	31.8	28.6	28.2	29.5	28.5	31.1	29.8	26.3	26.6
Capital receipts	—	—	0.6	0.4	1.4	0.7	1.7	1.4	1.2	1.1
Foreign grants	12.8	8.5	5.4	9.6	7.7	7.3	6.3	9.9	7.9	3.0
Of which: budget support grants	(1.4)	(2.4)	(—)	(2.9)	(1.1)	(1.1)	(—)	(2.1)	(0.3)	(—)
Total expenditure	44.5	44.1	35.8	42.3	37.9	39.9	39.8	43.9	44.2	36.0
Current expenditure	28.5	30.2	26.2	27.2	25.9	25.0	25.5	26.7	26.4	25.2
Of which: wages	16.4	17.4	15.1	15.8	14.6	14.3	14.6	15.3	15.3	14.7
Capital expenditure	16.0	13.9	9.6	15.1	12.1	14.9	14.3	17.2	17.8	10.7
Current account balance	1.1	1.6	2.4	1.0	3.6	3.5	5.6	3.1	-0.1	1.3
Overall balance before grants	-14.9	-12.3	-6.6	-13.7	-7.1	-10.8	-7.0	-12.7	-16.7	-8.3
Overall balance after grants	-2.1	-3.8	-1.2	-4.1	0.6	-3.4	-0.8	-2.8	-8.8	-5.3
Concessional foreign borrowing (net)	2.5	2.7	3.0	6.1	4.7	6.7	4.7	6.5	8.6	5.0
Nonconcessional financing	-0.4	1.1	-1.9	-2.0	-5.3	-3.3	-3.9	-3.7	0.2	0.3

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal years beginning July 1.

2/ Structural Adjustment Facility program beginning July 1.

3/ Includes the on-lending of external concessional loans to the Dominica Electricity Services Ltd. for a hydropower project. This project was previously included in the public sector investment program, but it had been assumed that it would be covered by direct external financing to the company.

of the Government's preference to proceed cautiously before implementing such far-reaching changes in employment and wage bargaining practices. In view of the delay, the Government decided to reinstate the automatic wage increments that had been abolished in July 1986 and to award these retroactively; and in consequence, the Central Government's outlays for wages in FY 1988/89 exceeded the program's targets.

In terms of economic performance, the Central Government's current account surplus in FY 1988/89 rose to the equivalent of 5.6 percent of GDP, compared with the budgeted 3.5 percent of GDP, mainly in reflection of the favorable effect on tax revenues of the sharp increase in imports during 1988 and the first half of 1989. The overall deficit was below its budgeted level and although net external financing was less than expected, the Central Government was able to reduce its nonconcessional borrowing at a faster pace than envisaged (see Table 2).

Apart from a further decline in the rate of unemployment and a boom in residential construction financed by accumulated savings and an expansion of bank credit, performance in several other areas is expected to be less favorable. ^{1/} The prospects for bananas, the main agricultural crop and export earner, which had been affected adversely by excessive rainfall in late 1988 and by falling export prices, suffered a further setback as a result of damage by Hurricane Hugo in mid-September 1989. It is estimated that about 70 percent of all banana plants were either broken or uprooted and, as a result, the 1989 output projection has been revised from 65,000 tons to 50,000 tons, compared with the 1988 output of 73,000 tons. Production of other agricultural crops is expected to decline by about 10 percent in 1989 and 1990 because of damage in the form of fallen fruit, flooding, and broken trees. This, coupled with reduced activity in manufacturing and transport which are closely linked with agriculture, is expected to result in a decline of real GDP of 2 percent in 1989, compared with a projected 4 percent growth and a 5.6 percent increase in 1988. Consumer prices are expected to increase on average by about 6.5 percent in 1989, compared with a projection of 3.5 percent, and a 1988 increase of 2.0 percent, mainly reflecting sharp increases in food prices caused by reduced supplies.

Commercial bank lending to the private sector, which grew sharply in 1988 in response to strong demand for import finance and for housing credit, maintained its rapid growth in the first half of 1989 and is expected to increase by about 30 percent in the year, compared with the 19 percent increase projected under the SAF program. Demand for import and house building credit is expected to slacken in the final quarter of

^{1/} Since the objectives for the Central Government's finances were set in terms of the fiscal year July 1988-June 1989, the data on performance are already available. For the other sectors of the economy, the objectives were set for the calendar year 1989 and the evaluation of performance is thus based on estimates.

Table 3. Dominica: Benchmarks for the Third Annual Program
Under the Structural Adjustment Facility
July 1, 1988 - June 30, 1989

A. <u>Quantitative benchmarks</u>	<u>Timeframe</u>	<u>Status of Observance as of June 30, 1989</u>
1. Government would endeavor to reduce its nonconcessional debt by EC\$5 million between July 1, 1988 and December 31, 1988; and by EC\$12.5 million between July 1, 1988 and June 30, 1989. If any project in the agreed PSIP is not undertaken, Government will not engage in nonconcessional borrowing related to that project and, accordingly, the reduction in government nonconcessional debt will be accelerated automatically, unless further understandings are reached between Government and the Fund staff.	FY 1988/89	Observed
2. If a temporary need for financing were to arise from unforeseen developments such as delays in aid disbursements, Government may borrow up to an additional EC\$2 million on a net basis from domestic sources, commensurately lowering the target for the reduction in government nonconcessional debt.	FY 1988/89	Observed
3. Government will not guarantee foreign loans on nonconcessional terms.	FY 1988/89	Observed
4. Government will not borrow from external sources on nonconcessional terms, except as provided in paragraph 30 of the Policy Framework Paper.	FY 1988/89	Observed
5. Government will not accumulate domestic or external payments arrears.	FY 1988/89	Observed
B. <u>Other benchmarks</u>		
1. Enactment of legislation to improve wage bargaining procedure and to establish uniform wage policy in the public sector.	September 1988	Not Observed <u>1/</u>
2. Extension of the Social Security Scheme's coverage to the self-employed.	December 1988	Observed
3. Completion of the reorganization and improvements of the management and infrastructure of the National Water Service, and review of water charges.	FY 1988/89	Observed
4. Adjustment of port charges.	December 1988	Observed
5. Completion of the Organization and Management exercise on the objectives and manpower requirements of the civil service.	FY 1988/89	Not observed

Source: Information provided by the Dominica authorities.

1/ Draft legislation approved by Cabinet but yet to be presented to Parliament.

1989 in line with the weakening of the economy, but this is expected to be offset by bank rescheduling of farmers' repayment obligations in the aftermath of Hurricane Hugo.

The external current account deficit is likely to increase from the equivalent of 13 percent of GDP in 1988 to 28 percent of GDP in 1989, which would exceed by a large margin the program expectation (Table 4). Banana exports are projected to fall far short of expectation as a result of both the damage caused by the hurricane and the decline of export prices brought about by the saturation of the British market (see p.10). Meanwhile, imports are projected to increase sharply, exceeding the program projection, mainly because private sector imports appear to be responding with a lag to the sustained rise of incomes. However, external grants and other capital inflows are expected to be substantial, in part reflecting additional assistance following the hurricane, and could result in a small overall balance of payments surplus.

After declining marginally in 1988 owing in part to substantial net repayments to the Fund, Dominica's external public debt is expected to increase by 10 percent in 1989 and to amount to nearly 49 percent of GDP (Table 5). However, with continued retirement of nonconcessional debt and the avoidance of new borrowing on nonconcessional terms, the proportion of concessional public external debt at the end of 1989 is projected to rise to about 95 percent of the total. The ratio of external debt service to earnings from exports of goods and services and net private transfers has been on a downward trend and is projected at about 9 percent at end-1989.

Dominica and seven other member countries of the ECCB share a common currency, the Eastern Caribbean dollar, which is pegged to the U.S. dollar. The index of the real effective exchange rate for Dominica declined from early 1985 through mid-1988 along with the depreciation of the U.S. dollar before rising by 1 percent over the year ended August 1989 (Chart 1).

III. Report on the Consultation Discussions

In concluding the 1988 Article IV consultation with Dominica, Executive Directors observed that the significant economic gains of recent years had been helped by exogenous factors and that Dominica's production and export base remained vulnerable. They expressed support for the authorities' efforts to expand and diversify production by creating conditions conducive to the expansion of private sector investment. Directors also observed that substantial external assistance would continue to be required and encouraged the authorities to increase public sector savings, in part by maintaining strict control over expenditures. Against this background, the 1989 consultation discussions focused on an assessment of the progress made in meeting the medium-term

Table 4. Dominica: Summary Balance of Payments

	1984	1985	1986		1987		1988		1989		Projections		
			Prog. 1/	Actual	Prog. 1/	Actual	Rev. Prog. 2/	Prel.	Rev. Prog. 3/	Proj.	1990	1991	1992
(In millions of U.S. dollars)													
Current account balance	-18.4	-20.6	-22.9	-4.5	-19.8	-7.8	-22.5	-18.2	-14.3	-40.3	-42.4	-28.8	-21.7
Trade balance	-30.2	-28.8	-31.8	-12.3	-29.0	-18.4	-32.3	-32.0	-22.8	-58.8	-61.0	-50.5	-46.9
Exports, f.o.b.	25.6	28.4	33.5	43.4	38.3	48.0	45.8	55.6	59.6	42.6	36.7	52.5	56.2
Imports, c.i.f. (-)	-55.8	-57.2	-65.3	-55.7	-67.3	-66.4	-78.1	-87.5	-82.4	-101.4	-97.7	-103.1	-103.1
Travel (net)	8.5	7.3	8.0	7.5	8.4	8.5	8.9	9.1	9.8	9.8	10.5	11.7	13.0
Interest payments (net)	-1.9	-1.9	-2.0	-1.9	-2.1	-1.8	-2.1	-1.7	-2.0	-1.8	-1.9	-2.2	-2.4
Other services (net)	-1.1	-3.7	-3.9	-4.5	-3.9	-3.7	-4.4	-2.0	-6.0	1.2	-1.0	-0.5	—
Private transfers (net)	6.3	6.5	6.8	6.7	6.9	7.6	7.4	8.4	6.7	9.3	11.1	12.8	14.7
Capital account	24.6	19.9	24.2	11.1	22.6	16.6	26.9	18.3	18.6	43.7	45.3	31.0	24.2
Official grants	11.3	14.3	16.1	10.8	11.4	9.4	13.2	8.9	12.8	11.8	16.2	9.1	5.6
Public sector borrowing (net)	4.8	4.5	5.4	4.2	8.8	5.3	12.0	3.5	7.8	8.9	12.0	9.9	6.6
Commercial banks	3.0	-0.8	0.2	-2.9	-0.7	-12.7	-1.6	-9.9	-5.5	7.0	3.0	—	—
Other private capital (including errors and omissions)	5.5	2.0	2.5	-1.0	3.1	14.6	3.3	15.8	3.5	16.0	14.0	12.0	12.0
Overall balance (deficit -)	6.2	-0.7	1.3	6.6	2.8	8.8	4.4	0.1	4.3	3.5	2.9	2.2	2.5
Financing	-6.2	0.7	-1.3	-6.6	-2.8	-8.8	-4.4	-0.1	-4.3	-3.5	-2.9	-2.2	-2.5
Imputed reserves (increase -) 4/	-6.1	2.7	-0.5	-4.2	-1.4	-8.1	-2.0	2.0	-1.5	-1.9	-1.0	-1.0	-1.0
Foreign assets (increase -)	0.2	-0.5	-0.2	-1.8	-0.2	-0.3	-0.3	-0.1	-0.5	0.4	-0.6	-0.3	-0.3
Net credit from IMF	-0.3	-1.5	-0.6	-0.6	-1.2	-0.4	-2.1	-2.1	-2.3	-2.0	-1.3	-0.9	-1.2
(In percent of GDP)													
Current account balance (before grants)	-20.5	-20.8	-22.4	-4.0	-18.2	-6.2	-17.6	-12.9	-9.8	-27.5	-28.4	-17.2	-11.8
Trade balance	-33.6	-29.1	-31.1	-10.8	-26.7	-14.5	-25.3	-22.8	-15.6	-40.2	-41.0	-30.1	-25.5
Exports	28.5	28.8	32.9	38.3	35.2	37.9	35.8	39.5	40.8	29.1	24.6	31.3	30.6
Imports	-62.1	-57.8	-64.0	-49.1	-61.9	-52.4	-61.1	-62.3	-56.4	-69.3	-65.6	-61.3	-56.2
Travel (net)	9.5	7.4	7.8	6.6	7.7	6.7	7.0	6.5	6.7	6.7	7.0	7.0	7.1
Official grants	12.6	14.4	15.8	9.5	10.5	7.4	10.3	6.3	8.8	8.1	10.9	5.4	3.0
Current account balance (after grants)	-7.9	-6.4	-6.6	5.5	-7.7	1.2	-7.3	-6.6	-1.0	-19.4	-17.6	-11.8	-8.8
Overall balance	6.9	-0.7	1.3	5.8	2.6	6.9	3.4	0.1	3.0	2.4	1.9	1.3	1.4

Sources: Statistical Division, Ministry of Finance; and Fund staff estimates.

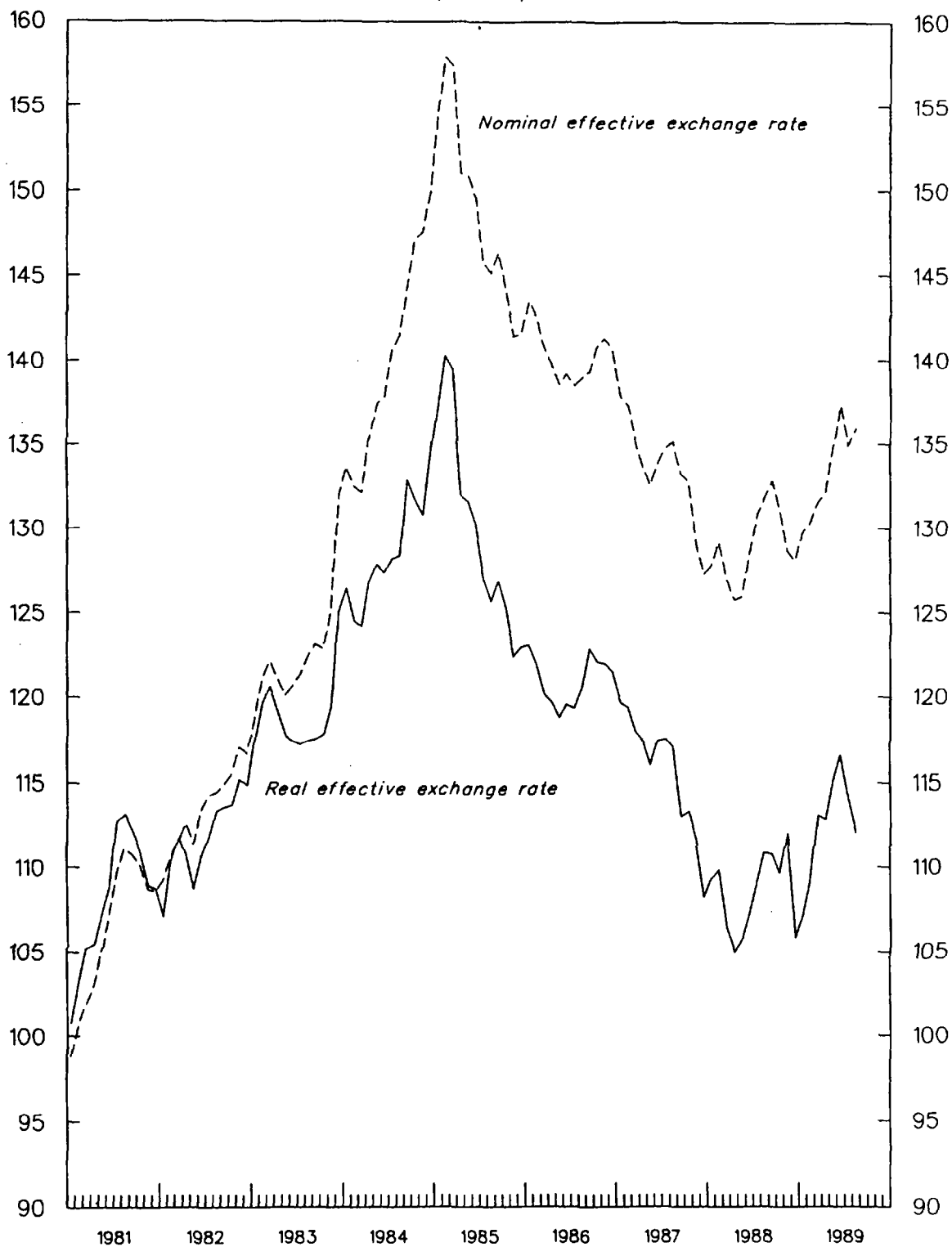
1/ Program targets under first SAF arrangement.

2/ Program targets under second SAF arrangement.

3/ Program targets under third SAF arrangement.

4/ Change in Dominica's imputed share in the international reserves of the Eastern Caribbean Central Bank.

CHART 1
DOMINICA
EFFECTIVE EXCHANGE RATE INDICES¹
(1980=100)



Source: IMF, Information Notice System.

¹Decline in index represents depreciation of Dominica's currency.

Table 5. Dominica: External Public Debt and Debt Service

	1984	1985	1986	1987	Prel. 1988	1989	Projections		
							1990	1991	1992
(In millions of U.S. dollars)									
<u>Total external debt at end of period</u>	<u>42.7</u>	<u>47.7</u>	<u>54.0</u>	<u>64.9</u>	<u>64.2</u>	<u>70.7</u>	<u>81.4</u>	<u>90.5</u>	<u>96.4</u>
IMF credit at end of period	10.5	10.1	10.5	11.7	8.8	6.5	5.2	4.3	3.6
Other debt (beginning of period)	28.3	32.2	37.6	43.5	53.2	55.3	64.2	76.2	86.1
Drawings	5.4	5.2	5.4	7.7	5.2	10.7	14.1	12.0	8.7
Amortization (-)	-0.6	-0.7	-1.2	-2.3	-1.7	-1.8	-2.0	-2.1	-2.1
Valuation adjustment	-0.9	1.0	1.6	4.3	-1.3	-0.1	--	--	--
Other debt (end of period)	32.2	37.6	43.5	53.2	55.3	64.2	76.2	86.1	92.8
<u>Debt service on total debt</u>	<u>4.3</u>	<u>4.2</u>	<u>4.6</u>	<u>6.2</u>	<u>6.2</u>	<u>6.0</u>	<u>5.3</u>	<u>5.2</u>	<u>5.3</u>
Amortization	2.4	2.2	2.7	4.4	4.5	4.2	3.3	3.0	2.8
Interest	1.9	1.9	1.9	1.8	1.7	1.8	1.9	2.2	2.4
Debt service on debt to IMF	2.8	2.5	2.4	2.7	3.2	2.8	1.6	1.1	0.8
Repurchases	1.8	1.5	1.6	2.1	2.8	2.4	1.3	0.9	0.7
Charges	1.0	0.9	0.9	0.7	0.4	0.4	0.3	0.2	0.1
Debt service on other debt	1.5	1.7	2.2	3.5	3.0	3.2	3.6	4.1	4.4
Amortization	0.6	0.7	1.2	2.3	1.7	1.8	2.0	2.1	2.1
Interest	0.9	1.0	1.0	1.2	1.2	1.4	1.6	2.0	2.3
(In percent of exports of goods and services and net private transfers)									
<u>Total external debt outstanding</u>	<u>97.7</u>	<u>105.8</u>	<u>88.7</u>	<u>96.3</u>	<u>82.8</u>	<u>103.8</u>	<u>130.7</u>	<u>111.3</u>	<u>108.9</u>
<u>Debt service on total debt</u>	<u>9.8</u>	<u>9.3</u>	<u>7.6</u>	<u>9.3</u>	<u>8.0</u>	<u>8.8</u>	<u>8.5</u>	<u>6.4</u>	<u>5.9</u>
Amortization	5.5	5.0	4.5	6.5	5.9	6.1	5.4	3.6	3.2
Interest	4.4	4.3	3.1	2.7	2.2	2.6	3.1	2.8	2.8
<u>Debt service on total debt, excluding IMF</u>	<u>3.5</u>	<u>3.8</u>	<u>3.6</u>	<u>5.2</u>	<u>3.9</u>	<u>4.7</u>	<u>5.9</u>	<u>5.1</u>	<u>5.0</u>
Amortization	1.3	1.6	1.9	3.5	2.3	2.7	3.3	2.6	2.4
Interest	2.2	2.2	1.7	1.7	1.6	2.0	2.6	2.5	2.6
(In percent of GDP)									
Total external debt outstanding	47.5	48.2	47.6	51.2	45.7	48.3	54.7	53.8	52.5
(In percent of total external debt outstanding)									
Concessional debt	69.2	73.3	77.8	83.3	89.5	94.5	97.1	98.5	99.2

Sources: Ministry of Finance; and Fund staff estimates.

objectives of the SAF and on policies to accelerate the diversification of the economy while maintaining a supportive fiscal posture, and on the recovery of the economy from the setback of Hurricane Hugo.

1. Progress with structural transformation

The authorities, after noting that their policies since the mid-1980s had aimed at improving the production and investment environment, expressed disappointment with the pace at which new private sector projects were launched and with the reluctance of domestic commercial banks to extend medium-term financing. They reaffirmed that Dominica's development strategy continues to be based on the provision of a framework favorable to private entrepreneurship, and indicated that the public sector would continue to focus on improving the country's infrastructure and pursuing appropriate macroeconomic policies. However, in view of the slow response of the private sector, the Government intended to involve itself more directly in promoting diversification. It was envisaged that public sector participation would be limited to the larger-size projects, such as the bulk water export project and tourist hotel development, and with the intention of eventually privatizing the project as had been done with the electricity company and was being done with the water company.

Banana production is expected to decline further in 1990 owing to the damage caused by Hurricane Hugo, but the authorities expected that output would gradually rise to a more normal level of about 5,000 long tons a month by the end of 1990. With higher production and exports of bananas in 1991, the economy would recover from its recent setback (see Table 1 and Table 6), but maintaining the rate of growth is critically linked to the country being spared natural disasters and to the degree of its exports' access to external markets. Diversification of the production and export base is recognized by the authorities as the key challenge over the medium term. This has become more pressing in light of (1) the higher banana production in all the Windward Islands and the ensuing fall in average export prices as supplies exceed the absorptive capacity of the U.K. market and have to be sold in other markets at lower prices, and (2) the uncertain prospects for continuation of preferential access to the U.K. market following the planned move in 1992 to a single European market. Progress with diversification has been hampered since 1985 by the rising returns from bananas which induced the diversion of land and labor to banana production. However, the situation is expected to be reversed following the recent decision by the Dominica Banana Marketing Corporation (DBMC) to lower the average domestic procurement price by about 26 percent. 1/

1/ Export prices have been on a downward trend since the beginning of 1989. Since September 1989, the DBMC has lowered the average domestic procurement prices twice, in equal steps, from EC\$0.385 to EC\$0.285 per pound.

Table 6. Dominica: Indicators of Medium-Term Economic Performance

	Average 1983-85	Average 1986-88		Projected	
		SAF Targets	Actual	1989	Average 1990-91
<u>(Percentage change)</u>					
Real GDP	3.1	3.8	6.4	-1.9	4.7
Consumer prices	2.8	3.0	3.3	6.5	4.3
Export volume	2.9	11.7	19.3	-15.7	11.5
Import volume	5.7	6.9	9.5	16.1	-0.2
Private sector credit	9.7	14.4	13.0	30.0	12.3
<u>(In percent of GDP)</u>					
Central Government <u>1/</u>					
Current expenditure	(29.2)	(27.5)	(25.9)	(26.7)	(25.8)
Of which: Wages and salaries	(16.8)	(15.7)	(14.8)	(15.3)	(15.0)
Current account balance	(0.4)	(2.0)	(3.9)	(3.1)	(0.6)
Nonconcessional financing	(1.0)	(-1.4)	(-3.7)	(-3.6)	(0.3)
Public sector investment <u>1/</u>	17.8	15.5	13.1	17.4	14.6
External current account balance	-18.1	-19.4	-7.7	-27.5	-22.8
External grants and loans	18.4	21.1	12.6	15.4	16.4
External debt	48.5	55.0	48.2	48.3	54.3
<u>(In millions of Eastern Caribbean dollars)</u>					
Memorandum items					
Banana output (1,000 long tons) <u>2/</u>	31.4	...	62.5	50.0	46.5
Banana procurement prices (E.C.cents/lb.)	23.0	...	34.7	35.6	28.5

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

1/ Based on fiscal year beginning July 1.

2/ Deliveries to the Dominica Banana Marketing Corporation.

The mission suggested that the diversification effort could be furthered by modifying the public sector investment program (PSIP) for the current three-year cycle, 1989/90-1991/92, to emphasize investment in the infrastructure of the directly productive sectors such as agriculture, industry, and tourism and postpone investment in housing. The authorities agreed with the need to expand investment in these sectors but noted that the direction of investment was governed in part by the willingness of donors to fund new projects. They identified three other priority areas for public investment: the bulk water export project, for which financing has now been secured; low-cost housing for which financing has been obtained and which is viewed as contributing to increased productivity of labor and to stability in industrial relations by increasing the workers' stake in receiving a regular income flow; and an airport capable of receiving jet airplanes, for which financing on a grant basis is still being sought.

2. The public finances

a. The Public Sector Investment Program

The authorities had finalized the PSIP for FY 1989/90 prior to Hurricane Hugo but were still in the process of project preparation and arranging financing for the following two fiscal years. The major projects over the three years include hydropower expansion, farm access roads, and public housing. Additionally, the authorities now expect to incur capital expenditures of EC\$15 million (equivalent to 6 percent of the PSIP) over the three fiscal years 1989/90-1991/92 for repairing the damage to roads, bridges, and sea walls caused by Hurricane Hugo. While the prospects for external financing--including additional assistance following the hurricane--are promising, the mission questioned the size of the PSIP in the first year and the appropriateness of its composition (as noted in the previous section). The PSIP for the first year represents a significant increase over recent levels and, in view of the shortages of skilled labor and administrative constraints, this may give rise to difficulties of implementation. The staff of the World Bank has not yet had the opportunity to review the PSIP.

b. The Central Government

The budget for FY 1989/90 incorporates actions that would reduce further a number of direct taxes ^{1/} as well as lowering taxes on expenditures at hotels. Additionally, to implement the Caribbean Community (CARICOM) arrangements regarding intra-CARICOM trade, the consumption tax was reduced on various food and medical items. The revenue-reducing effect of these measures is estimated at about 1.6 percent of GDP in

^{1/} These include reducing the corporate income tax rate; raising the income tax exemption level; widening the range and lowering the average tax rate of each of the three individual income tax bands; exempting interest earnings on bank deposits as well as corporate dividends distributed in the form of shares from the income tax.

FY 1989/90 and on that basis current revenues would decline to about 30 percent of GDP in the current fiscal year. The ratio of current revenues to GDP is projected to decline further in the following two years as a consequence of the expected slowing in the growth of imports.

Current expenditures in FY 1989/90 are projected to increase to about 27 percent of GDP primarily as a result of an 8 percent growth of wage outlays. The growth of wage and salary outlays in the following years will depend on the adjustments to the salary scale resulting from the ongoing O & M exercise, and on changes in public sector employment levels. Assuming the continuation of recent trends, current expenditures would be expected to increase by about 7 percent in both FY 1990/91 and FY 1991/92 and, thus, to decline as a proportion of GDP over the period.

On this basis, the current account would shift from a surplus of about 3 percent of GDP in FY 1989/90 to a small deficit in the following year before recovering to a surplus of about 1 percent of GDP in FY 1991/92. At the same time, capital expenditures are expected to rise through FY 1990/91 before declining in FY 1991/92 with the completion of investment in the expansion of electricity generation capacity. ^{1/} The overall deficit (before grants) is thus projected to increase from less than 7 percent of GDP in FY 1988/89 to 13 percent in FY 1989/90 and to 17 percent in the following fiscal year before falling to about 8 percent of GDP in FY 1991/92. In both FY 1990/91 and FY 1991/92 the projected overall deficit could exceed the availability of external assistance (including additional commitments made following Hurricane Hugo) and require recourse to domestic bank financing.

With these prospects, and given the need to repair the damage from the hurricane, to increase investment in order to assist the process of diversification, and to restrain growth of domestic demand in the post-hurricane period, actions to increase government savings appear to be called for. In line with the authorities' emphasis on encouraging saving and investment, the mission suggested mobilization of revenues through increasing taxes on consumption--primarily taxes on retail sales and on the output of public utilities. However, the authorities indicated that they were not inclined to implement revenue measures at present. They pointed out that an important exogenous contributing factor to the expected decline of revenues in FY 1990/91 was the delay in implementing CARICOM's common import tariff. These duties are expected to be higher, on average, than the present duties and it is estimated that revenues could be raised by EC\$10 million on an annual basis, or by more than 2 percent of projected GDP, after the common

^{1/} The estimates of capital expenditure shown in Table 2 are lower than the estimates contained in the PSIP by a factor which takes account of underimplementation caused by administrative bottlenecks and the tightness of the domestic labor market.

tariff structure is adopted, possibly in early 1991. ^{1/} The authorities indicated that they would seek to contain the growth of current expenditures, in particular through a phased implementation of the wage increases necessitated by the O & M exercise for adjusting employment and compensation in the public sector.

c. The rest of the public sector

The financial position of the rest of the government sector ^{2/} was judged to be appropriate following recent actions to enhance revenues and contain costs. The position of the Social Security Scheme has been strengthened following the expansion of the Scheme's coverage in FY 1988/89 to include the self-employed and by allowing it to lend for housing finance (at higher rates). The Scheme plans to continue diversifying its investments in order to raise yields and expects as a result to stabilize its current account surpluses at about 2 1/2 percent of GDP.

The finances of the public enterprises, which are dominated by the DBMC and the Port Authority, are expected to strengthen with the recent reduction of banana procurement prices. The mission estimated that the combined current account surpluses of the nonfinancial public enterprises could stabilize at about 1/2 of 1 percent of GDP by FY 1991/92, on the assumption that banana procurement prices would be periodically adjusted to ensure that the DBMC would not incur losses, and that port charges would be raised in line with cost increases.

3. Monetary policy and prospects

Dominica's commercial banks have continued to follow a cautious lending policy even as their liquidity position strengthened. Although banks are free to adjust deposit and lending rates, the average lending rate has not declined as would have been expected with the increase in the banks' resource base since 1985, and actually increased slightly in 1988 causing the differential between deposit and loan rates to widen. The considerable increase in lending for construction and housing finance in 1988 and 1989 appears to have occurred mainly in response to the Government's decision to allow the Social Security Scheme to hold a greater proportion of its funds in the form of long-term deposits. Domestic manufacturers continue to have difficulty securing medium-term financing from the banking system and have to rely on internally generated funds to meet their requirements.

The mission was informed by local bankers that, in view of the strong demand for credit by the private sector to finance imports and

^{1/} In view of the uncertainty regarding the timing and the nature of the tariff adjustment, the revenue projections for FY 1990/91 and FY 1991/92 do not include an estimate for their possible contribution.

^{2/} Comprising local governments, the Social Security Scheme, and the National Development Corporation.

construction and farmers' needs to stretch debt repayment and servicing periods, as well as a drawdown of financial savings by farmers in the aftermath of the hurricane, some reduction of the banks' external assets could be expected in 1989 and 1990.

4. External sector policies

Dominica's export base remains narrow with bananas and soap together accounting for about 85 percent of exports of domestic products in 1988 and 1989; moreover, these two commodities were shipped almost entirely to markets where Dominica enjoys preferential access (the United Kingdom for bananas and CARICOM countries for soap).

To strengthen the current account position, the authorities are focusing on broadening the export base, encouraging tourism, and attracting expatriate remittances. Diversification and expansion of the export base is being addressed through improvement of infrastructure and the internal business environment, and by contacting foreign investors to set up manufacturing operations. The authorities pointed out in this regard that the two largest manufacturing concerns (producing soap and gloves) had increased output in 1988 and were planning to expand capacity and employment in 1989. They also explained that in view of the increased harmonization of fiscal incentives within CARICOM, it was no longer feasible to lure foreign investors by offering more advantageous concessions.

Diversification of agricultural production is likely to receive a boost from the recent reduction in procurement prices, as marginal producers decide not to rehabilitate their banana fields following Hurricane Hugo but to switch to other crops. A number of agricultural products have been identified as having good export potential, including plantains, pineapples, passion fruit, peppers, grapefruit, coffee, and cut flowers. To increase returns and induce farmers to undertake the requisite investment, the Government was negotiating medium-term contracts that would ensure some stability of shipments.

To encourage tourism, the authorities have offered fiscal incentives for enlarging accommodation capacity, increased advertising about Dominica's deep-sea diving and hiking attractions, worked with tour operators serving neighboring islands to develop package tours which include stops in Dominica, and are planning a berthing facility for cruiseships.

To increase contacts with expatriate Dominicans and attract additional remittances and private investment, the authorities organized a reunion in the fall of 1988, on the occasion of the tenth anniversary of Dominica's independence. The event was well attended and was followed by a noticeable increase in land purchases by expatriates contemplating building retirement homes. The authorities intend to maintain contacts with the communities of Dominicans abroad through more frequent visits by officials.

IV. The Medium-term Balance of Payments Prospects

In view of the uncertainties regarding the extent of preferential access of Caribbean bananas to the single European market after 1992 and the absence of a public investment program beyond 1992, the medium-term projections have been carried through that year only. The principal assumptions underlying the projections were: (i) the export price for bananas would stabilize at its 1989 average level in terms of E.C. dollars and recovery from the hurricane-caused damage would occur gradually with average monthly output stabilizing at 5,000 tons by the end of 1990; (ii) a shift in land and labor resources away from bananas coupled with higher foreign investment would accelerate the growth of production and exports of goods and services other than bananas; (iii) implementation of the PSIP would fall short of the authorities' objectives but the carryover of projects and development of new ones would result in a smoother pattern of public investment than envisaged in the PSIP; (iv) earnings from tourism would increase at about their historical trend rate; (v) private transfers would increase at a higher rate than in the recent past, and (vi) imports would be essentially flat over the 1989-92 period as a result of slower overall growth of the economy.

With these assumptions, the deficit in the external current account (before grants) after rising to the equivalent of 28 percent of GDP in 1989, would stabilize at that level in 1990 as earnings from banana exports fall sharply while the level of imports is sustained by the higher level of the PSIP (see Table 4). The deficit would decline to about 12 percent of GDP in 1992 as exports rise with the recovery of bananas and the increase in other categories of exports while imports stagnate, reflecting the offsetting effects of the higher economic growth projected for that year and lower public sector investment. Receipts of external grants and concessional loans, as well as a rising level of direct private investment, would be more than sufficient to cover the current account deficit throughout the period. Accordingly, a further increase in the value of Dominica's imputed share in the international reserves of the ECCB and a reduction in outstanding nonconcessional external public debt are expected.

The ratio of external public debt to GDP is expected to rise in 1990 owing to higher borrowing for capital expenditures but would be unchanged in 1991 as public investment is scaled back. The nonconcessional component of the debt is projected to decline progressively to less than 1 percent of the total amount outstanding, mainly because of scheduled net repurchases to the Fund. With the increase in the concessional component of the debt and a small growth of current account receipts, the debt service ratio would decline from about 9 percent of exports and net private transfers in 1989 to about 6 percent in 1992.

V. Staff Appraisal

The main objective of the economic program supported by the SAF was to raise the rate of growth of real GDP on a sustainable basis and reduce unemployment. To this end, the authorities lowered the burden of direct taxation, restrained the growth of wages in the public sector while maintaining a harmonious labor environment, improved economic infrastructure, and reduced the stock of public sector debt with the domestic banking system.

Notwithstanding the achievement of most of the objectives of the annual SAF programs pertaining to real GDP, central government savings and the external current account, and the reduction of unemployment, the production and export base remains narrow. Much of the growth of output and exports during 1986-88 originated in increased production of bananas in response to rising export prices.

During 1989, the economy which already was being affected by the decline in banana prices and production since the start of the year, suffered a further setback with the damage caused by Hurricane Hugo to agriculture and infrastructure. Some of the losses are expected to be covered by insurance payments and by additional external aid on concessional terms. However, the central role of bananas in the Dominica economy--directly and through its linkages with other sectors--mean that important adverse effects on economic growth, the public finances and the balance of payments through 1990 cannot be avoided.

These recent developments, together with the uncertain outlook for banana exports after the move to a single European market in 1992, underscore the need for efforts to increase capital formation with a view to diversifying the production base. Possible policy actions to achieve these objectives include (i) modification of the public sector investment program to increase investment in infrastructure with a view to increasing returns to nonbanana areas of activity and also to ensure a more regular flow of new projects and disbursements; (ii) restraint of public expenditures and mobilization of revenues in order to finance the required increase in public investment while avoiding recourse to the domestic banking system; and (iii) increasing the availability to private investors of long-term funds from such existing sources as the Social Security Scheme and insurance companies. In seeking a strengthening of public sector savings, revenue could be raised through the taxation of consumption of goods and services (including the output of public utilities) while the growth of the public sector wage bill is restrained.

The staff is of the view that the authorities' strategy of providing incentives to stimulate private sector initiative remains sound. The Government also intends to involve itself in setting up specific large projects. This approach could be justified provided the rates of return are adequate and the investment is undertaken with the intention of privatizing after a reasonably short period.

The current level of the exchange rate appears to be appropriate. Containment of labor costs as well as improvements in labor productivity and expanded access to the neighboring markets under the CARICOM protective umbrella have helped to maintain the competitiveness of exports of manufactured goods; indirect evidence for this is provided by the growth of such exports and by the expansion plans of manufacturers.

Dominica is expected to continue to receive significant amounts of external assistance on highly concessional terms, and the authorities indicated that they were not contemplating further use of Fund resources at the expiration of the SAF.

The authorities indicated a preference for remaining on the annual consultation cycle, emphasizing that they valued the consultation discussions and the staff reports both for their own policy analysis and for discussions with aid donors. Thus it is recommended that the next Article IV consultation with Dominica take place within 12 months of the completion of the 1989 consultation.

Dominica--Fund Relations
(As of October 31, 1989)

I. Membership Status

- (a) Date of membership: December 12, 1978
(b) Status: Article VIII

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 4.0 million
(b) Total Fund holdings: SDR 6.50 million (162.54 percent of quota)
(c) Fund credit: SDR 2.51 million (62.74 percent of quota)

Of which:

	Millions of SDR	Percent of quota
Credit tranche	0.03	0.69
Extended Fund Facility	1.99	49.64
Supplementary Financing Facility	0.50	12.41

- (d) Reserve tranche position: SDR 0.01 million

III. Financial Arrangements and Special Facilities

(a) Stand-by arrangement

- Duration = July 18, 1984 to July 17, 1985
- Amount = SDR 1.40 million (35 percent of quota)
- Utilization = SDR 0.97 million
- Undrawn balance = SDR 0.43 million

(b) Extended arrangement

- Duration: February 6, 1981 to February 5, 1984
- Amount: SDR 8.55 million (213.8 percent of quota)
- Undrawn balance: None.

- (c) Compensatory financing facility: Approval was given on February 6, 1981 for additional purchase of SDR 1.95 million (67 percent of the effective quota at time of approval).

(d) Structural adjustment facility arrangement:

-Duration = November 26, 1986 to
November 25, 1989
-Amount = SDR 2.80 million 70.0 percent
of quota)
-Undrawn balance = None.

IV. SDR Department

(a) Net cumulative allocation: SDR 0.59 million

(b) Holdings: SDR 0.35 million or 58.45 percent of net
cumulative allocation.

(c) Current designation plan: None.

V. Administered Accounts: Dominica has received SDR 0.61 million in
subsidy payments under the Supplementary Financing Facility.

VI. Financial Obligations due to the Fund (in millions of SDRs)

	Overdue Obligations	Scheduled Payments				
		Nov.-Dec. 1989	1990	1991	1992	1993
<u>Principal</u>	--	0.31	1.00	0.67	0.54	0.54
<u>Repurchases</u>	--	0.31	1.00	0.67	0.38	0.14
<u>SAF repayments</u>	--	--	--	--	0.16	0.40
<u>Charges and interest</u>	--	0.07	0.25	0.15	0.10	0.10
<u>Total</u>	--	0.38	1.25	0.82	0.64	0.64

B. Nonfinancial Relations

VII. Exchange rate arrangement: Since July 1976, the Eastern Caribbean
dollar (EC\$) has been pegged to the U.S. dollar at the rate of
EC\$2.70 per U.S. dollar.

VIII. Consultation with the Fund: The last Article IV consultation was
concluded by the Executive Board on September 14, 1988
(EBM/88/147; EBS/88/163 and SM/88/179). On that day, the Board
also approved the third annual SAF arrangement. Dominica is on
the standard 12-month consultation cycle.

IX. Technical Assistance: Mr. Latham visited Roseau in July 1987, to
discuss certain aspects of the tax reform that was introduced in
the FY 1987/88 budget. Messrs. Muten and Dubroof (member of the
Panel of fiscal experts) visited Roseau in November 1987 to
provide assistance in the area of taxation.

Dominica--Basic Data

<u>Area</u>	750 sq. kilometers
Arable land	213 sq. kilometers
<u>Population and related vital statistics (1988)</u>	
Population (thousand)	81.3
Average annual rate of growth of population in 1981-88 (percent)	1.2
Density	
Total (per sq. kilometer)	108.4
Arable land (per sq. kilometer)	381.8
Life expectancy at birth in 1985 (years)	75
Infant mortality rate in 1986 (per thousand)	11
<u>Nutrition (1981)</u>	
Caloric intake as percent of requirement	87.0
Per capita protein intake (grams per day)	63
<u>Health (1981)</u>	
Population per physician	4,560
Population per hospital bed	230
<u>Distribution of land ownership</u>	
Percent owned by top 10 percent of owners	...
Percent owned by smallest 10 percent of owners	...
<u>Access to electricity</u>	
Percent of population	...
<u>Education (1981)</u>	
Adult literacy rate (percent)	94.4
Primary school enrollment (percent)	...
<u>GDP (1988)</u>	SDR 104.6 million
GDP per capita (1988)	SDR 1,286
<u>Origin of GDP (1988)</u>	(In percent)
Agriculture and mining	30.9
Manufacturing	6.4
Construction and utilities	8.0
Transport and communications	14.7
Government services	19.3
Other	20.7
<u>Ratios to GDP (1988)</u>	
Exports of goods and services	47.2
Imports of goods and services	64.2
Central government current revenue (FY 1988/89)	31.1
Central government current expenditure (FY 1988/89)	25.5
External public and publicly guaranteed debt, inclusive of use of Fund credit (end of year)	45.7

<u>Annual changes in selected economic indicators</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Prel. 1988</u>
		<u>(In percent)</u>		
Real GDP per capita	0.2	5.6	7.1	5.3
Real GDP (at factor cost)	1.7	6.8	6.8	5.6
GDP at current market prices	10.1	14.8	11.7	10.9
GDP deflator	8.3	6.2	4.2	3.9
Consumer prices (annual averages)	2.1	3.0	4.8	2.0
Money and quasi-money <u>1/</u>	5.9	17.6	13.0	15.1
Money	(1.6)	(40.2)	(1.9)	(2.2)
Quasi-money	(7.1)	(11.7)	(16.7)	(18.9)
Net domestic assets <u>2/</u>	7.2	-9.5	-26.5	7.3
Credit to public sector (net) <u>2/</u>	(-3.7)	(-3.5)	(-25.0)	(-10.3)
Credit to private sector <u>2/</u>	(9.1)	(2.5)	(2.1)	(29.1)
Merchandise exports, f.o.b.	10.9	52.7	10.5	15.7
Merchandise imports, c.i.f.	2.5	-2.6	19.2	31.9
Travel receipts (gross)	-9.1	5.7	10.7	7.1
Central government current revenue <u>3/</u>	13.5	9.7	14.4	11.2
Central government current expenditure <u>3/</u>	9.5	4.2	9.7	3.9
<u>Central government finances <u>3/</u></u>	<u>1985/86</u>	<u>1986/87</u>	<u>1987/1988</u>	<u>1988/89</u>
	<u>(In millions of Eastern Caribbean dollars)</u>			
Domestic revenue	84.8	94.9	111.2	126.9
Total expenditure	127.5	116.2	136.9	154.2
Current account balance	3.1	7.9	13.0	21.8
Foreign grants	36.7	17.5	27.7	24.3
Overall balance	-6.0	-3.8	2.0	-3.0
Foreign concessional borrowing	7.1	9.8	17.0	18.1
Of which: Structural Adjustment Facility	(--)	(2.6)	(4.5)	(2.9)
Change in Government's foreign assets	-2.2	-0.9	-0.7	-0.8
IMF (net purchases)	-4.5	-4.7	-7.4	-7.7
Domestic financing (net) and residual	6.5	-0.4	-10.9	-6.6
Of which: ECCB	(4.8)	(-2.7)	(0.4)	(-0.6)
	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>Prel. 1988</u>
<u>Balance of payments</u>	<u>(In millions of U.S. dollars)</u>			
Merchandise exports (f.o.b.)	28.4	43.4	48.0	55.6
Merchandise imports (c.i.f.)	-57.2	-55.7	-66.4	-87.5
Travel (net)	7.3	7.5	8.5	9.1
Other services and private transfers (net)	0.9	0.3	2.1	4.7
Balance on current account <u>4/</u>	-20.6	-4.5	-7.8	-18.2
Official transfers	14.3	10.8	9.4	8.9
Official borrowing (net)	4.5	4.2	5.3	3.5
Private capital (net) <u>5/</u>	1.2	-3.9	1.9	5.9
Overall balance	-0.7	6.6	8.8	0.1

1/ Refers to commercial banks' liabilities to the private sector.

2/ Refers to domestic commercial banks' operations. Changes are in relation to liabilities to the private sector at the beginning of the year.

3/ Refers to fiscal years beginning July 1.

4/ Before foreign official transfers.

5/ Includes errors and omissions.

Dominica--Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

Reported statistics are uncurrent and limited in coverage. No report forms are received at present but CPI data are cabled by the Eastern Caribbean Central Bank (ECCB) from its head office in St. Kitts.

b. Government finance

The 1988 GFS Yearbook contains data on the operations of the consolidated central government only through fiscal year 1979. As a result, no data are published in IFS for which the cut-off date is 1982.

c. Monetary accounts

Based on the recommendations of the November 1987 technical assistance mission to the ECCB, the reporting system of the banks of ECCB member countries has been revised. This revision will permit a complete sectorization of deposits and the improved specification of sectoral credit, particularly for the public sector.

d. Balance of payments

Balance of payments data are not compiled by the authorities. The data for recent periods in IFS and the Balance of Payments Statistics Yearbook are derived mainly from staff reports.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the November 1989 issue of IFS. The data are based on reports sent to the Fund by the ECCB which have been provided on a timely basis during the past year.

Status of IFS Data

Latest Data in
November 1989 IFS

Real Sector	- National Accounts:	
	current prices	1986
	constant prices	1982
	- Prices: CPI	May 1989
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	March 1989
	- Deposit Money Banks	May 1989
	- Other Banking Institutions	n.a.
Interest Rates	- Treasury Bill Rate	May 1989
	- Bank Lending/Deposit Rates	May 1989
	- Bond Yields	n.a.
External Sector	- Merchandise Trade:	
	values - exports	1985
	- imports	1986
	- DOTS	1984
	prices	n.a.
	- Balance of Payments	1988
	- International Reserves	June 1989
	- Exchange Rates	September 1989

Dominica: Financial Relations of the World Bank Group with Dominica
As at June 30, 1989

(In millions of U.S. dollars)

	Outstanding as of June 30, 1988			
	Disbursed	Undisbursed	Total	Repayments
Total IDA	7.1	3.6	10.7	--
Road rehabilitation and maintenance project	4.4	--	4.4	--
Power project	0.7	2.4	3.1	--
Structural Adjustment Credit	2.0	1.2	3.2	--

	Net Disbursements During Fiscal Year 1/										
	Actual						Projections				
	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Net disbursement IDA 2/	1.8	1.5	0.3	--	1.4	1.4	1.7	0.7	0.5	0.3	0.1
Road rehabilitation and maintenance project	1.8	1.5	0.3	--	--	--	--	--	--	--	--
Hydropower	--	--	--	--	0.4	0.4	0.7	0.7	0.5	0.3	0.1
Structural Adjustment Credit	--	--	--	--	1.0	1.0	1.0	--	--	--	--
<u>Memorandum item</u>											
Interest and commitment fees	--	--	--	--	0.1	0.1	0.1	0.1	0.1	0.1	0.1

Source: World Bank.

1/ World Bank fiscal year beginning July 1.

2/ No repayments were made, or expected, in the period covered in this table.

