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June 20, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Dominica - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Dominica, which is proposed to be brought to the agenda for discussion on Monday, July 15, 1985.

Mr. Yadav (ext. 7685) 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 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Article IV Consultation with Dominica

Approved by E. Wiesner and S. Kanesa-Thasan

June 19, 1985

I. Introduction

The 1985 Article IV consultation discussions with Dominica were conducted in Roseau during the period April 9-26, 1985. The representatives of Dominica included the Prime Minister, who is also the Minister of Finance and External Affairs; the Minister of Trade, Industry, Tourism, and Regional Affairs; the Financial Secretary; and other senior public officials. The staff also met with some representatives of the private sector. Mr. Leonard, the Alternate Executive Director for Dominica, participated in the final round of discussions. The staff team consisted of Messrs. Yadav (Head), Furtado, Sundgren, and Terrier (all WHD), Mr. Pearson (BUR), and Miss Yee (Secretary-TRE). The mission was assisted by Mr. Gantt, the Regional Advisor. A staff member of the Inter-Agency Resident Mission joined the mission to work on the medium-term public investment program.

Dominica accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement in December 1979. The last Article IV consultation discussions with Dominica were concluded by the Executive Board on July 18, 1984 (EBS/84/134 and SM/84/143).

Following the expiration of the three-year extended arrangement with the Fund in February 1984, the Executive Board approved, on July 18, 1984, a one-year stand-by arrangement with Dominica in an amount equivalent to SDR 1.4 million (35 percent of quota); Dominica's obligations to repurchase from the Fund during the period of the arrangement amounted to the equivalent of SDR 1.7 million. The arrangement has involved only the use of ordinary resources. Dominica has made two out of four scheduled purchases under the arrangement. The first drawing of SDR 0.75 million (the balance in the first credit tranche) was available upon approval of the program but Dominica deferred the purchase until October 31, 1984; the second drawing of SDR 0.22 million, which was subject to performance criteria based on end-October data, was made on December 13, 1984.

In each of the five months through March 1985, the ceilings on the Government's use of nonconcessionary financing and the subceiling on borrowing from the Eastern Caribbean Central Bank (ECCB) were exceeded (Table 1). A staff team visited Roseau during January 7-18, 1985 to conduct the mid-term review of Dominica's performance under the stand-by arrangement, but agreement could not be reached with the authorities on the policy measures required to achieve the program objectives. As of end-May 1985, the Fund's holdings of Dominica currency subject to repurchase were SDR 10.04 million or 250.9 percent of quota (Dominica's relations with the Fund are summarized in Appendix I).

II. Recent Developments and Performance Under the Stand-By Arrangement

1. Objectives and design of the stand-by program

After the destructions caused by the 1979-80 hurricanes, Dominica initiated an economic program which was supported by a three-year extended arrangement with the Fund. Dominica's performance under the EFF arrangement was generally satisfactory (EBS/84/134). During the period of the EFF arrangement which ended February 1984, output recovered its pre-hurricane level and the rate of increase of consumer prices declined noticeably. The public finances strengthened markedly over the period, and the current account deficit of the balance of payments narrowed.

The stand-by program for FY 1984/85 (fiscal years begin July 1) aimed at further improving the government savings performance to support the country's investment effort while containing the growth of Dominica's public debt burden. The program included measures to strengthen revenue and to restrain current expenditure, and allowed for an increase in government capital spending, mainly on infrastructure, agricultural diversification, and the development of industrial sites. The overall fiscal deficit, while projected to rise, was to be financed mainly by project-related external concessionary loans, and the Government's use of nonconcessionary financing was to be virtually eliminated. The program emphasized a cautious incomes policy, which together with improvements in infrastructure and stable labor relations, was expected to provide further encouragement to private investment. The current account deficit of the balance of payments was expected to widen temporarily in 1984-85 under the impact of the investment program, but the overall balance was expected to move into surplus. The projected surplus was consistent with an accumulation of foreign assets during the program period, after allowing for the planned reduction in Dominica's debt to the Fund.

Table 1. Dominica: Observance of Quantitative Performance Criteria During July 1984-March 1985 1/

(In millions of Eastern Caribbean dollars)

	1984						1985			
	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	June
Cumulative use of nonconcessionary financing by Central Government 2/										
Ceiling	0.7	0.7	0.7	0.7	0.7	0.7	0.5	0.5	0.5	0.1
Actual	-1.2	-1.5	-1.7	-0.5	1.5	1.3	2.6	3.1	4.1	
Changes in central government borrowing from the ECCB										
Ceiling 3/	--	--	--	--	--	--	--	--	--	1.2
Actual 4/	-0.3	0.1	0.6	-1.4	1.7	2.0	2.1	1.4	0.8	

Source: Ministry of Finance.

1/ End of month data. The ceilings are specified for each calendar quarter, but when a purchase is requested under the stand-by arrangement, data for the latest month available are to be used in determining compliance with all performance criteria.

2/ Cumulative change from June 30, 1984 (EBS/84/134, Attachment I, paragraph 18).

3/ The stand-by program envisaged government net borrowing from ECCB only to the extent of additional allocations of borrowing rights (EBS/84/134, Attachment I, paragraph 18). When the program was being prepared, the ECCB was expected to increase Dominica's borrowing rights by EC$0.5 million in FY 1984/85. On April 1, 1985, borrowing rights were increased by EC$1.2 million, and therefore the country can borrow up to this amount from the ECCB without exceeding this subceiling. However, the additional allocation of borrowing rights does not affect the ceiling on total nonconcessionary financing.

4/ Although the borrowing rights were not increased until April 1985, the authorities have made use of temporary advances from the ECCB in the first three quarters of the program year.

2. Recent developments

Real GDP had recovered its pre-hurricane level by 1981 and expanded at an average annual rate of 2 1/2 percent in 1982-83 (Table 2). Notwithstanding the damage to agricultural production caused by windstorms in July 1984 and rainstorms in November, real GDP increased by about 4 1/2 percent last year, with all major sectors of the economy except manufacturing growing.

Table 2. Dominica: Principal Production and Price Indicators 1/

	1980	1981	1982	1983	1984	Projections 1985	Projections 1986
	(Annual percentage change)						
Nominal GDP at market prices	33.4	12.2	8.4	9.0	9.4	8.2	8.2
Real GDP at factor cost	16.5	6.3	2.2	2.5	4.3	4.0	4.0
GDP deflator at market prices	17.9	3.3	5.7	6.3	4.0	4.0	4.0
Consumer price index	30.5	13.3	4.4	4.1	2.2	3.0	4.0
	(In millions of Eastern Caribbean dollars)						
Memorandum item							
Nominal GDP at market prices	159.1	178.5	193.6	211.0	230.7	249.5	269.9

Sources: Ministry of Finance; and Fund staff estimates.

1/ In consultation with the Inter-Agency Resident Mission and the OECS, the World Bank is reviewing the basis of the estimates of GDP, which was revised by the Dominica officials.

With a marked slowdown in the rate of increase of import prices and an improvement in domestic food supplies, the rise in the consumer price index declined from a peak of more than 30 percent in 1980 to an average of 4 1/2 percent in 1982-83 and to 2 percent in 1984. The three-year agreement with civil servants effective January 1, 1982 provided for annual wage increases of 10 percent; these increases were substantially less than under the preceding wage agreement but turned out to be significantly higher than the rise in consumer prices in 1982-84. The rate of wage increase in the private sector came down sharply in 1982 but, influenced by the civil servants' wage agreement, has since remained in the neighborhood of 10 percent a year.

The overall deficit of the public sector, which is dominated by central government operations, fell from a recent peak of 11 percent of GDP in FY 1981/82 to 5 percent of GDP in FY 1983/84 but is estimated to widen to 7 1/2 percent of GDP in FY 1984/85 (Table 3). The current balance moved from a deficit of 12 percent of GDP in FY 1980/81 to small surpluses in FY 1983/84 and FY 1984/85, while capital expenditure was around 17 percent of GDP from FY 1980/81 to FY 1983/84 before rising to 22 percent of GDP in FY 1984/85. Since FY 1982/83, the overall deficit has been covered mainly by project-related external concessionary loans. Improvements in public sector operations made possible a reduction in the use of nonconcessionary financing in FY 1982/83 and the net repayment of debt on nonconcessionary terms in FY 1983/84; the repayment of these debts, which also reflects the deposit buildup by the Social Security Scheme at local financial institutions, is expected to be smaller in FY 1984/85 mainly because of the rise in the Central Government's use of nonconcessionary financing.

Table 3. Dominica: Consolidated Operations of the Public Sector 1/

(In percent of GDP)

	1980/81	1981/82	1982/83	1983/84	Est. 1984/85	Proj. 1985/86 2/
Current revenue	30.8	33.2	31.3	34.3	34.1	34.9
Current expenditure	42.6	36.9	33.1	33.0	32.1	31.4
Current balance	-11.8	-3.7	-1.8	1.3	2.0	3.5
Foreign grants	18.5	9.7	8.6	10.1	12.4	18.6
Capital expenditure	17.0	17.5	16.5	16.4	22.1	23.3
Overall balance	-9.2	-11.1	-8.8	-4.9	-7.7	-1.2
Concessionary foreign loans 3/	3.3	5.2	6.4	5.8	8.0	3.7
Nonconcessionary financing	5.9	6.0	2.4	-0.9	-0.3	-2.5

Sources: Ministry of Finance; various public enterprises; Social Security Scheme; and Fund staff estimates.

1/ Fiscal years begin July 1. The public sector comprises the Central Government, nonfinancial public enterprises, the Social Security Scheme, local governments, the Broadcasting Corporation, and the Tourist Board.
2/ Does not provide for any general increase in the civil servants wages and salaries.
3/ Includes earmarked bank deposit operations (see footnote 5 of Table 4).

In relation to GDP, the current account position of the Central Government moved from a deficit of 10 percent in FY 1980/81 to near balance in FY 1983/84, as current expenditure declined from 38 1/2 percent to 31 1/2 percent and current revenue increased from 28 1/2 percent to 31 1/2 percent (Table 4). The overall position improved much less, with the deficit narrowing only from 8 1/2 percent to 6 percent of GDP, as capital outlays increased by the equivalent of 1 percentage point of GDP and foreign grants fell by the equivalent of 7 percentage points of GDP. The overall deficit was financed mostly by nonconcessionary credits through FY 1982/83, but external loans on concessionary terms became important thereafter.

As noted earlier, the fiscal performance of the Central Government in the first nine months of FY 1984/85 fell short of the targets under the program. Revised official estimates for the current fiscal year envisage an overall deficit of EC$23.3 million, or 9 1/2 percent of GDP, compared with the program level of EC$14.7 million, or 6 percent of GDP (see Table 4). The estimated current account surplus of 0.2 percent of GDP would fall short of the target level by 1 percentage point of GDP, owing to both a revenue shortfall and an overrun in current expenditure; the latter would reflect nonbudgeted payments for pension benefits and interest charges which could not be fully offset by cutbacks in other budgeted expenditures. The estimated capital spending of EC$51.6 million (21 1/2 percent of GDP) exceeds the projected level because of the increase in the pace of project implementation and the additional expenditures associated with the November rainstorms (EC$4 million, of which EC$1 million is to be covered by local funds).

The overall central government deficit in FY 1984/85 is to be financed mainly by project-related external concessionary loans and a drawdown of earmarked bank deposits, but the use of nonconcessionary credits is also likely to be substantial--EC$4.5 million compared with the program ceiling of EC$0.1 million. Nonconcessionary financing would be in the form of loans from local commercial banks, the Social Security Scheme, and the ECCB, for a total of EC$7.5 million; at the same time, there would be a contribution to sinking funds held abroad and larger than programmed net repurchases from the Fund, as Dominica would not make the last two purchases totaling SDR 0.43 million under the stand-by arrangement. The estimated borrowing of EC$2 million from the ECCB would exceed the subceiling on this source of financing.

The finances of the public enterprises strengthened in the last four years. The enterprises have required virtually no transfers from the Central Government after FY 1980/81 because of better management, reductions in subsidies to farmers, and increases in water rates and seaport charges. Preliminary data for FY 1984/85 point to a continuing reduction in the current account deficit of the public enterprises, but a small rise in capital spending and a cutback in external aid is expected to result in some nonconcessionary borrowing.

Table 4. Dominica: Central Government Operations 1/

	1980/81	1981/82	1982/83	1983/84	1984/85 Stand-by Program	1984/85 Revised Est.	1985/86 Proj. 2/
(In millions of Eastern Caribbean dollars)							
Total revenue	75.3	69.0	72.6	90.4	105.5	102.4	129.2
Current revenue	47.8	56.7	57.7	69.7	76.2	74.7	82.8
Tax revenue	(42.8)	(49.0)	(49.4)	(60.2)	(66.3)	(65.0)	(70.9)
Nontax revenue 3/	(5.0)	(7.7)	(8.3)	(9.5)	(9.9)	(9.7)	(11.9)
Capital receipts	--	0.1	0.5	0.2	--	0.1	--
Foreign grants	27.5	12.2	14.4	20.5	29.3	27.6	46.4
Total expenditure	89.7	85.7	88.3	104.1	120.2	125.7	138.3
Current expenditure	65.1	62.7	62.6	69.5	73.2	74.1	79.1
Wages and salaries	(36.6)	(38.2)	(35.8)	(39.6)	(41.5)	(42.2)	(45.0)
Of which: backpay	/5.9/	/5.9/	/--/	/--/	/--/	/--/	/--/
Goods and services	(9.5)	(11.5)	(12.0)	(13.4)	(14.1)	(13.0)	(14.7)
Interest	(4.7)	(3.9)	(4.7)	(6.3)	(6.3)	(6.9)	(7.1)
Retirement benefits	(2.8)	(3.3)	(4.3)	(4.3)	(3.8)	(4.9)	(4.7)
Transfers	(11.4)	(5.7)	(5.8)	(5.9)	(7.5)	(7.1)	(7.6)
Emergency relief	(0.1)	(0.1)	(--)	(--)	(--)	(--)	(--)
Capital expenditure and net lending	24.6	23.0	25.7	34.6	47.0	51.6	59.2
Of which: locally financed 4/	(6.9)	(8.9)	(4.7)	(2.1)	(2.0)	(4.1)	(2.8)
Current account balance	-17.3	-6.0	-4.9	0.2	3.0	0.6	3.7
Overall balance	-14.4	-16.7	-15.7	-13.7	-14.7	-23.3	-9.1
Concessionary foreign borrowing (net)	2.3	3.8	12.0	10.5	10.3	15.6	8.5
Earmarked bank deposit operations 5/	--	--	-4.8	0.9	4.3	3.2	--
Nonconcessionary financing	12.1	12.9	8.5	2.3	0.1	4.5	0.6
IMF	10.3	8.7	7.6	0.7	-0.9	-2.1	-4.1
SDR allocation	0.7	--	--	--	--	--	--
Change in government foreign assets (increase -)	-2.0	0.3	-0.1	-0.6	-0.7	-0.7	-0.7
Other foreign	--	--	--	--	--	-0.2	--
ECCB	2.0	--	--	2.0	0.5 6/	2.0	0.9
Commercial banks	-0.7	4.2	1.8	--	-0.6	3.5	3.0
Social Security Scheme	1.7	--	--	1.5	2.1	2.0	1.5
Other domestic	--	--	--	--	-0.3	--	--
Residual	0.1	-0.3	-0.8	-1.3	--	--	--
(In percent of GDP)							
Total revenue	44.6	37.1	35.9	40.9	43.9	42.6	49.7
Current revenue	28.3	30.5	28.5	31.6	31.7	31.1	31.9
Foreign grants	16.3	6.6	7.1	9.3	12.2	11.5	17.9
Total expenditure	53.1	46.1	43.6	47.1	50.1	52.4	53.3
Current expenditure	38.6	33.7	30.9	31.4	30.5	30.9	30.5
Capital expenditure and net lending	14.6	12.4	12.7	15.7	19.6	21.5	22.8
Current account balance	-10.2	-3.2	-2.4	0.1	1.2	0.2	1.4
Overall balance	-8.5	-9.0	-7.8	-6.2	-6.1	-9.7	-3.5
Nonconcessionary financing	7.2	6.9	4.2	1.0	--	1.9	0.2

Sources: Ministry of Finance; and Fund staff estimates.

1/ Fiscal year beginning July 1.
2/ Initial projections made by the authorities, which do not provide for any general wage increase for civil servants.
3/ Includes transfer of profits from public enterprises of EC$350,000 in FY 1983/84, EC$350,000 in FY 1984/85, and EC$300,000 in FY 1985/86.
4/ Consists of net lending and that part of capital expenditure which is not covered by foreign grants and concessionary loans.
5/ Consists of external grants and concessionary loans that are temporarily kept as earmarked bank deposits before being spent on specific projects.
6/ See footnote 3 of Table 1.

The overall surplus of the Social Security Scheme continued to increase in 1984, reaching EC$5.1 million (2 percent of GDP). On January 1, 1985, the rate of employers' contribution applied to wages and salaries in the private sector was raised from 5 percent to 7 percent to cover the introduction of redundancy and employment injury benefits. The social security surpluses are invested mainly with the local commercial banks, but loans are also made to the Central Government and nonbank financial intermediaries.

The public sector reduced its indebtedness to local commercial banks in 1981-84 which, together with a substantial rise in liabilities to the private sector, enabled the banks to accommodate a relatively rapid growth in credit to the private sector while improving their net liquid asset position. Interest rates in Dominica are determined freely in the market, except that starting January 14, 1985, the Eastern Caribbean Central Bank has imposed a minimum interest rate of 4 percent on savings deposits at commercial banks in all member countries. Interest rates have risen only modestly since 1980; currently, they range from 4 percent to 7 percent on savings and time deposits and from 9 percent to 15 percent on bank loans.

The current account deficit of the balance of payments (after grants) narrowed from 25 1/2 percent of GDP in 1980 to an average of 7 percent of GDP in 1982-83, but is estimated to have risen to 9 percent of GDP in 1984 because of an increase in investment-related imports and a decline in exports (Table 5). The U.S. dollar value of Dominica's main export--bananas--changed little, owing largely to a reduction of 11 percent in the export unit value caused by a decline in the pound sterling (the currency of the principal market for Dominica's bananas) vis-a-vis the U.S. dollar. Exports of soap--the second largest export item--fell substantially mainly because of an increase in competition from domestic producers in Jamaica (the main market for Dominica's soap exports) as a result of the exchange rate adjustment made in that country. Grapefruit exports stagnated in the face of increased competition in the U.K. market from high-volume suppliers such as Israel and South Africa. Net receipts from services increased in 1984, reflecting a significant expansion in tourism and insurance receipts which was only partially offset by a rise in interest payments. Net inflow of transfers increased substantially mainly due to the rise in project-related grants. In 1981-83, the current account deficit was financed mainly by concessionary loans and drawings on the Fund. In 1984, concessionary loans and private sector capital inflows more than covered the current account deficit, and Dominica made net repayments to the Fund.

Table 5. Dominica: Summary Balance of Payments, Actual and Projected 1/

	1980	1981	1982	1983	Est. 1984	Projections 1985	1986	1987	1988	1989	1990
				(In millions of U.S. dollars)							
Current account balance	-14.9	-13.8	-6.8	-5.5	-7.7	-8.5	-7.8	-6.5	-4.8	-4.7	-5.1
Trade balance	-43.5	-30.6	-23.0	-19.6	-30.2	-35.9	-31.5	-25.1	-24.0	-24.2	-24.6
Exports, f.o.b.	(9.7)	(19.1)	(24.5)	(27.5)	(25.6)	(29.6)	(34.1)	(38.0)	(42.0)	(46.6)	(51.5)
Imports, c.i.f.	(-53.2)	(-49.7)	(-47.5)	(-47.1)	(-55.8)	(-65.5)	(-65.6)	(-63.1)	(-66.0)	(-70.8)	(-76.1)
Tourism (net)	1.7	1.3	2.3	2.9	3.6	4.3	4.6	4.8	5.2	5.6	6.0
Other services (net)	-0.2	-0.3	-0.5	-1.7	-2.5	-2.5	-2.6	-2.7	-2.6	-2.4	-2.4
Insurance receipts	2.7	0.4	--	--	0.5	0.3	--	--	--	--	--
Private transfers (net)	6.3	5.8	8.6	8.5	9.4	9.7	10.0	10.4	10.9	11.5	11.9
Official grants	18.1	9.6	5.8	4.4	11.5	15.6	11.7	6.1	5.7	4.8	4.0
Capital account	10.9	5.3	5.3	1.1	10.8	10.2	9.8	9.0	8.2	7.7	7.3
Central Government borrowing (net)	0.8	0.2	4.8	2.7	3.8	4.5	3.0	2.8	2.5	2.3	2.1
Rest of public sector borrowing (net)	0.7	2.5	3.6	2.6	1.0	2.6	3.8	3.8	2.7	2.4	2.2
Commercial banks	2.0	0.7	-1.6	-2.4	3.0	-1.2	-1.1	-1.4	-1.0	-1.0	-1.0
Direct investment	--	--	0.2	0.2	1.6	2.3	3.1	2.8	3.0	3.0	3.0
Short-term capital (including errors and omissions)	7.4	1.9	-1.7	-2.0	1.4	2.0	1.0	1.0	1.0	1.0	1.0
SDR allocation	0.3	0.3	--	--	--	--	--	--	--	--	--
Overall surplus or deficit (-)	-3.7	-8.2	-1.5	-4.4	3.1	1.7	2.0	2.5	3.4	3.0	2.2
Financing	3.7	8.2	1.5	4.4	-3.1	-1.7	-2.0	-2.5	-3.4	-3.0	-2.2
Change in official reserves 2/	4.2	3.4	-1.8	3.0	-3.0	--	-0.5	-0.8	-1.0	-1.0	-1.0
Change in foreign assets	-0.5	-1.0	0.2	-0.4	0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Net purchases from IMF	--	5.8	3.1	1.8	-0.3	-1.5	-1.3	-1.5	-2.2	-1.8	-1.0
				(In percent of GDP, unless otherwise specified)							
Trade balance	-73.8	-46.3	-32.1	-25.1	-35.3	-38.8	-31.5	23.2	-20.5	-19.1	-18.0
Current account balance	-25.3	-20.9	-7.1	-7.0	-9.0	-9.2	-7.8	-6.0	-4.1	-3.7	-3.7
Overall balance	-6.3	-12.4	-2.1	-5.6	3.6	1.8	2.0	2.3	2.9	2.4	1.6
Memorandum items											
Outstanding debt (including IMF)	30.0	36.9	48.3	51.9	50.5	52.6	54.0	54.5	53.0	50.8	48.6
Debt service in percent of exports of goods and services 3/	4.1	4.8	4.8	8.0	12.5	11.8	11.2	11.1	11.5	10.7	9.2

Source: Fund staff estimates.

1/ The staff estimates are based on partial information on certain external transactions compiled by Dominica officials. There are no complete official balance of payments estimates.

2/ Refers to change in Dominica's imputed share in the international reserves of the ECCB. These reserves are not freely available to Dominica.

3/ Includes debt service on new loans expected to be received in the projection period.

III. A Medium-Term Scenario (1985-90)

The mission discussed with the Dominica authorities a balance of payments scenario for 1985-90 (see Table 5), which is based on existing policies and on assumptions about certain key policies for the future. The policy objectives are to raise domestic savings (particularly public sector savings) to support the country's investment efforts, to keep external debt service within manageable bounds, and to build up a modest cushion of external reserves against external shocks. For the purpose of this scenario it is assumed that the current negotiations with the civil servants will result in annual wage increases of 4 percent (preliminary estimates of the FY 1985/86 budget, presented in Table 4, do not provide for any general increase in civil servants' wages), and that the size of the civil service will not expand during the period of the projection. The medium-term public investment program emphasizes improvements of infrastructure, diversification of agriculture, and development of industrial sites (see Section IV). In addition, the authorities expect to intensify their efforts to attract foreign private investment, to seek new export markets for Dominica's agricultural production, and to remove certain impediments to its manufacturing exports in the CARICOM region. It is also assumed that the terms of trade will remain broadly unchanged over the medium term, with both export and import prices rising by about 4 percent a year.

The above policy framework is consistent with an annual rate of growth of real GDP of 4 percent in the period 1985-90. During this period, agricultural output would increase by 6-7 percent a year, and manufacturing production would rise by some 1 to 2 percentage points faster. Consumer prices would increase by 4 percent a year during the period in question.

The current and overall operations of the Central Government are expected to improve gradually over the medium term; in the last three years of the projection period, the current surplus would have risen to about 1 1/2 percent of GDP, and the overall deficit narrowed to less than 1 percent of GDP. It is assumed that these deficits and repayments of public debt, including those owed to the Fund, would be financed mainly by project-related external concessionary loans and borrowing from domestic sources; it has to be recognized that central government borrowing from local commercial banks and the Social Security Scheme reduces room for the growth of bank credit to the private sector. The rest of the public sector, which is dominated by the operations of the Social Security Scheme, would continue to yield overall surpluses averaging close to 3 percent of GDP a year over the medium term; a part of these surpluses would be used to finance central government operations.

Despite the recent appreciation of Dominica's currency, the growth of exports is projected to pick up to 15 1/2 percent in 1985 from the depressed level of 1984, but would then moderate somewhat over the rest of the projection period. Only a slow recovery is projected for

Dominica's principal manufacturing export (soap), but the export of new manufactures is expected to rise fairly over the medium term as a number of new assembly-type plants came on stream in 1985 and several additional plants are expected to start operations in 1985-86. About one quarter of these new manufacturing units have supply contracts with their parent companies in the United States, and most of the remaining units expect to export within the protected market of the CARICOM region. Exports of agricultural products would increase substantially over the projection period, reflecting the rehabilitation and diversification efforts as well as the intensification of export promotion activities. Following an expected 17 1/2 percent increase in 1985, imports are likely to change little in 1986 and to decline in 1987 before resuming growth; the projected behavior of imports is dominated by the phasing of the public sector investment program.

Receipts from tourism, which increased at an average annual rate of about 13 percent in 1983-84, are projected to rise by 8 percent a year over the medium term. The volume of tourism is assumed to grow by 5 percent a year as a result of improvements in infrastructure and a modest expansion of existing hotel capacity. The net inflow of private transfers is assumed to increase modestly during the projection period. The inflow of foreign grants is projected to decline from a peak of US$15.6 million (about 17 percent of GDP) in 1985 to an annual average of US$5 million (about 4 percent of GDP) in the last three years of the projection period.

The external current account deficit is projected to decline gradually from 9 percent of GDP in 1984 to an annual average of around 4 percent in the last three years of the projection period. The deficit would be financed by public sector borrowing on concessionary terms and private sector investment from abroad. The overall balance, which includes changes in Dominica's imputed share in ECCB's international reserves, is projected to register average surpluses of US$2 million a year in 1985-87 and US$3 million a year in 1988-90; this would enable Dominica to make scheduled repurchases from the Fund and to contribute to the sinking funds held abroad.

Dominica's external public debt, which increased from 30 percent of GDP at the end of 1980 to an estimated 50 1/2 percent of GDP at the end of 1984, is projected to rise to about 54 1/2 percent of GDP in 1987, before declining to 48 1/2 percent of GDP in 1990 (see Table 5 and Table 6). The projected movements in the debt ratio partly reflect the assumed behavior of net inflow of project-related external concessionary loans and net repayments to the Fund. Public debt service payments increased from an average of 4 1/2 percent of receipts from exports of goods and services in 1980-82 to a peak of 12 1/2 percent in 1984; a significant part of the increase in 1983 and 1984 reflected servicing of debt to the Fund. As most foreign borrowing is expected to continue being on concessionary terms, the debt service ratio is expected to decline to about 9 percent in 1990.

Table 6. Dominica: Projection of Debt Service of Public and Publicly Guaranteed External Debt

	1982	1983	1984	Projection 1985	1986	1987	1988	1989	1990
(In millions of U.S. dollars)									
On debt outstanding as of December 31, 1984	1.4	2.6	4.1	4.3	4.2	4.5	5.0	4.4	3.4
Amortization	0.7	1.1	2.3	2.3	2.5	2.9	3.6	3.3	2.5
Interest	0.8	1.5	1.7	1.9	1.8	1.6	1.4	1.2	1.0
IMF	0.6	1.6	2.8	2.4	2.1	2.2	2.7	2.1	1.1
Amortization	--	0.7	1.8	1.5	1.3	1.5	2.2	1.8	1.0
Interest	0.6	0.8	1.0	0.9	0.8	0.7	0.5	0.3	0.2
Other	0.8	1.1	1.3	1.8	2.1	2.3	2.3	2.3	2.3
Amortization	0.7	0.4	0.5	0.9	1.1	1.3	1.4	1.5	1.5
Interest	0.2	0.7	0.8	1.0	1.0	0.9	0.9	0.8	0.8
On additional borrowing 1/	--	--	--	0.1	0.4	0.6	0.8	1.5	2.2
Amortization	--	--	--	--	--	--	--	0.5	1.0
Interest	--	--	--	0.1	0.4	0.6	0.8	1.0	1.2
On total debt	1.4	2.6	4.1	4.4	4.6	5.1	5.8	5.9	5.6
Amortization	0.7	1.1	2.3	2.3	2.5	2.9	3.6	3.8	3.5
Interest	0.8	1.5	1.7	2.1	2.1	2.2	2.2	2.2	2.1
(In percent of receipts from exports of goods and services)									
On debt outstanding as of December 31, 1984	4.8	8.0	12.5	11.5	10.3	9.8	9.9	7.9	5.6
Amortization	2.2	3.4	7.2	6.3	6.0	6.2	7.1	5.8	4.0
Interest	2.6	4.6	5.3	5.2	4.3	3.6	2.8	2.1	1.6
On total debt	4.8	8.0	12.5	11.8	11.2	11.1	11.5	10.7	9.2
Amortization	2.2	3.4	7.2	6.3	6.0	6.2	7.1	6.8	5.7
Interest	2.6	4.6	5.3	5.6	5.2	4.9	4.4	3.9	3.5
(In millions of U.S. dollars, unless otherwise specified)									
Total external debt	34.6	40.6	43.2	48.6	54.0	58.9	62.0	64.3	66.5
Of which: excluding IMF	24.4	29.1	32.7	39.7	46.3	52.8	57.9	62.1	65.2
Receipts from exports of goods and services	29.7	32.9	32.6	37.0	41.2	45.7	50.4	55.8	61.4
Total external debt/GDP 2/	48.3	51.9	50.5	52.6	54.0	54.5	53.0	50.8	48.6

Sources: Ministry of Finance; and Fund staff estimates.

1/ It is assumed that there will be additional borrowing of about US$8 million a year in 1985-87, declining gradually to about US$6 million in 1990.
2/ In percent.

IV. Report on Discussions

In the last Article IV consultation with Dominica, Executive Directors had emphasized the need to consolidate the recent economic gains and to pursue policies to achieve higher domestic savings, investment and exports. They encouraged the authorities to exercise restraint over public sector spending, particularly wages, and stressed the importance of expediting a review of the exchange rate of the Eastern Caribbean dollar by the members of the ECCB. The policy discussions with the authorities during the 1985 Article IV consultation focused on these areas.

1. The central government finances

The authorities recognized the importance of raising domestic savings, particularly public sector savings, to support the country's investment efforts and to facilitate management of their external debt. They pointed out the considerable improvements in the Government's current operations in the last five years. However, the Government had had to borrow on nonconcessionary terms in order to service its debts and to cover capital spending not financed by external grants and concessionary loans. Government saving would continue to grow, but the authorities expect that they will still require substantial external aid to cover capital expenditure and to repay certain external debts.

In consultation with the World Bank and other major donors, the authorities recently prepared a public sector investment program for the period FY 1984/85-FY 1986/87. Under this program capital expenditure (mostly by the Central Government) would rise from an estimated 25 percent of GDP in FY 1984/85 to 28 1/2 percent of GDP in FY 1985/86, but then decline to 15 percent of GDP in FY 1986/87. The World Bank has noted that in an effort to frame an investment program that is realistic the size of the new projects has been kept moderate. The program includes only projects which are currently in progress or for which preliminary cost estimates are available. An average of about 95 percent of capital outlays in FY 1984/85 and FY 1985/86 is expected to be financed by external grants and concessionary loans; this percentage would fall to some 80 percent in FY 1986/87, unless additional external aid were to be forthcoming. The World Bank is currently providing direct financial assistance for a road project and is in the process of reviewing a request for a hydroelectric project loan not yet included in the program. In addition, Dominica has been receiving loans on concessionary terms from the Caribbean Development Bank which obtains part of its funding from the International Development Association.

The main focus of the investment program continues to be improvements in infrastructure, diversification of agriculture, and development of industrial sites. While the program is broadly consistent with the country's objectives of accelerating economic growth, generating employment, and strengthening the balance of payments, the World Bank has emphasized that full implementation of the program would depend on the country's ability to mobilize the domestic resources that had been projected in that plan, and to build up project formulation and monitoring capabilities.

Over the past few years Government has broadened the revenue base, raised tax rates, and strengthened the revenue collection system. Dominica has one of the highest tax to GDP ratios in the region (27 percent of GDP in FY 1983/84), and the authorities believed that the tax burden should be brought down gradually to a level comparable with the neighboring countries. In addition, they felt that the tax structure would require further adjustments both to increase the tax elasticity and to strengthen incentives for production. They said that they were likely to receive external technical assistance in this area.

The authorities stated that expenditure restraint had been a key feature of their fiscal policy over the past five years, as reflected in the reduction of the ratio of current expenditure to GDP from 38 1/2 percent of GDP in FY 1980/81 to an estimated 31 percent of GDP in FY 1984/85. They planned to reduce this ratio further over the medium term, mainly through control over the growth of the wage bill. In the wage negotiations this year, the Government would seek to lower the rate of pay increases for the civil servants from the 10 percent annual increases granted under the preceding wage agreement (see discussions on incomes policy). In addition, the Inter-Agency Resident Mission (IARM) is assisting the authorities in examining how to streamline the civil service. In order to prevent unexpected increases in the wage bill and pension benefits, the Government has implemented additional controls over the hiring of temporary staff and modified the early retirement policy.

The authorities discussed with the mission a preliminary outline of the FY 1985/86 budget (see Table 4). The outline envisages a narrowing of the overall deficit to EC$9.1 million (3 1/2 percent of GDP compared with 9 1/2 percent of GDP in FY 1984/85), mainly because of an expected reduction in capital spending covered by project-related external loans and a rise in the current account surplus to EC$3.7 million (1 1/2 percent of GDP compared with 0.2 percent of GDP in FY 1984/85). Current revenue is projected to rise to 32 percent of GDP from an estimated 31 percent of GDP in the preceding year; among the factors that would bolster revenue are the full year impact of the computerization of vehicle licences in January 1985, a rise in CARICOM tariffs which is to be introduced soon, a widening of the base of consumption duties to include local manufacturers, and further improvements in the collection of revenue arrears.

The estimates point to an increase in current expenditure in FY 1985/86 of 6 1/2 percent, or a little less than the projected rate of growth of GDP. No provision is made for any general increase in the civil servants' wages and salaries that is being negotiated. However, the wage bill is expected to increase because of merit increases, a rise in social security contributions, and the full year impact of the recent filling of the posts that had become vacant earlier in FY 1984/85. Capital expenditure (including net lending) is forecast at about 23 percent of GDP in FY 1985/86, up from 21 1/2 percent of GDP in FY 1984/85; about 95 percent of this amount is expected to be covered by external grants and concessionary loans.

According to the preliminary estimates, the net use of nonconcessionary financing by the Central Government would decline to EC$0.6 million; the financing need would be larger, however, in the wake of the increase of wages that is being negotiated with the civil servants. The Government would borrow EC$3 million from local commercial banks, EC$1.5 million from the Social Security Scheme, and EC$0.9 million from the ECCB (which would thus exhaust Dominica's borrowing margin at the ECCB), while repaying the Fund and contributing to sinking funds held abroad. The mission cautioned the authorities that the estimated increase in domestic borrowings would curtail the room for expansion of credit to the private sector. The mission advised restraint on spending, and also suggested that additional measures were needed to ensure realization of the estimated revenue. The authorities indicated that they would endeavor to obtain additional external grants to cover the local counterpart of the capital expenditure plan, but if this aid did not materialize they would be prepared to make cutbacks in planned government spending.

2. Public enterprises

The authorities noted the improvements in the finances of the public enterprises in the last four years, and stated that they would continue the policy of not providing budgetary support to these enterprises. The Government is currently reviewing, with external assistance, the marketing arrangements for Dominica's agricultural exports. The management of the External Trade Bureau, which is expected to expand its operations to cover the activities of the Agricultural Marketing Board, is to be strengthened with technical and financial assistance from abroad. The banana industry has benefited recently from the increased use of field packing and pesticides, and beginning later this year the use of fertilizers will be increased with external aid. These improvements are expected to raise substantially the productivity of the banana sector, which would help alleviate the adverse effects stemming from the depressed level of banana prices. However, the finances of the Dominica Banana Marketing Corporation are expected to remain weak in 1985. The Central Water Authority is expected to experience financial difficulties again in 1985 as the contract for export of bulk water to Aruba has not been renewed. The Government intends to seek external assistance and to adjust water charges to improve the finances of the Central Water Authority.

3. Incomes policy

The authorities restated the view that the next wage agreement with the civil servants, which is expected to become effective from July 1, 1985, should take into account the recent gains in real wages and should be consistent with the strengthening of the public finances and the country's international competitive position. The authorities agreed with the mission's observation that the loss of income and the additional burden on the government budget resulting from the November rainstorms had reduced the room for wage increases for civil servants, and said that they would attempt to restrain wages as much as possible without impairing the efficiency of the public administration. In this context, they reaffirmed their intention to seek a wage settlement along the lines described in paragraph 9 of the Prime Minister's letter of June 19, 1984 (EBS/84/134). However, it may be noted that annual increases of 4 percent in civil servants' pay rates assumed for the medium-term scenario discussed with the authorities, while remaining within the limits set in paragraph 9, would weaken the efforts aimed at improving the fiscal current position to support public investment and to meet public debt obligations; in relation to GDP, such an increase would raise current expenditure and would limit the improvement in the fiscal current position in FY 1985/86. As to wage settlements in the rest of the public sector, the Government has tightened enforcement of its directive that they be approved by the Cabinet.

4. Monetary and exchange rate policies

The authorities believed that it was necessary to provide adequate credit to the private sector, and therefore they would continue to pursue a policy of reducing public sector indebtedness to the commercial banks; however, they noted that the pace of reduction in this indebtedness would be slower than in recent years mainly because of the financing needs of the Central Government. The mission cautioned the authorities that in order to maintain the average annual expansion of the past three years in commercial bank credit to the private sector without compromising the banks' liquidity position, measures would have to be taken to keep the government financing needs substantially below the levels indicated in the medium-term scenario discussed above.

The Eastern Caribbean Central Bank (ECCB), which replaced the East Caribbean Currency Authority on October 1, 1983, serves as the Central Bank for Dominica and six other islands in the region. In March 1984, the ECCB imposed a common 6 percent reserve requirement on the deposit liabilities of commercial banks, which replaced the 7 1/2 percent special deposit requirement that had been applied by the Government of Dominica. The recent imposition of a minimum interest rate on savings deposits, referred to earlier, is regarded as a first step toward the harmonization of regional interest rates with a view to minimizing disruptive capital flows among member countries. Taxes on deposits and on interest paid by commercial banks also are being harmonized; in this respect, Dominica intends to remove the 1 percent tax on savings deposits from September 1985. Interest rates in Dominica are determined freely in the market.

The member countries of the ECCB share a common currency, the Eastern Caribbean dollar, which since July 1976 has been pegged to the U.S. dollar. The trade- and tourism-weighted index of the real external value of Dominica's currency increased by 34 percent over the four-year period through the first quarter of 1984 (Chart 1). Over the same period, increases in the real exchange rate indices of the currencies of other ECCB member countries were in the range of 13 1/2 percent to 35 percent (Table 7). The authorities are aware of the adverse effect on exports and tourism of the appreciation of Dominica's currency. They have recently sent their study of the exchange rate to the ECCB, and have urged the ECCB to expedite a joint review of the exchange rate for the whole area.

Table 7. Dominica: Comparative Indices of Effective Exchange Rates 1/

(1980=100; period averages)

	1981	1982	1983	1984	Jan.-March 1981	Jan.-March 1985
(Index of Real Effective Exchange Rate)						
Antigua and Barbuda	104.6	106.1	107.1	110.6	101.1	114.6
Dominica	108.2	111.9	118.9	128.7	103.1	138.3
Grenada	115.6	122.7	129.0	138.5	109.2	147.4
St. Kitts-Nevis	103.3	106.1	107.1	109.1	99.3	115.1
St. Lucia	109.8	112.6	114.3	117.7	104.9	123.2
St. Vincent and the Grenadines	110.1	113.7	117.9	119.8	104.3	125.2
(Index of Nominal Effective Exchange Rate)						
Antigua and Barbuda	103.9	108.6	112.1	117.5	100.2	124.5
Dominica	106.4	113.6	122.7	140.1	100.6	156.4
Grenada	108.0	115.0	121.3	130.2	102.3	141.3
St. Kitts-Nevis	104.4	109.2	113.7	119.9	100.1	127.5
St. Lucia	105.9	111.8	117.8	127.2	101.1	137.6
St. Vincent and the Grenadines	104.8	109.9	114.7	120.8	100.6	128.5

Sources: Ministry of Finance; and Fund staff estimates.

1/ Based on average trade and tourism weights of 1980-82.

5. The private sector

The Industrial Development Corporation (IDC) and the Agricultural Industrial and Development Bank (AID Bank), which were established in 1981, were successful in 1982-83 in encouraging foreign and domestic investments in new industries (garments, galvanized sheet, wood processing, and furniture). In 1984, additional private capital, mostly foreign, equivalent to 2 percent of GDP, was invested in several manufacturing units (garments, springwater bottling, gloves, aloe vera extract, spice processing, automobile parts, electronic components, domestic appliances, and components for prefabricated houses). A number of new enterprises are expected to commence operations in 1985-86, e.g., in the areas of food processing, fish farming, liquor and beer production, and garment and furniture manufacturing.

To help private investment, the AID Bank has been building factory shells in the last three years, and has negotiated a loan from the Caribbean Development Bank to expand capacity in this field. In addition, Korea has donated prefabricated frames for factory shells which can be set up upon demand, and a foreign private investor is expected to build factory space with U.S. AID funds channeled through the ECCB. The inadequacies of the road network and air-cargo facilities, which impeded the growth of private sector activities, are expected to be alleviated considerably after the completion of the airport expansion project by the end of 1985 and various road projects by the end of 1986. However, the authorities noted that some factories were operating at levels considerably below capacity because of weak demand in the CARICOM region owing to economic difficulties in those countries.

V. Staff Appraisal

Following the disruptions caused by the 1979-80 hurricanes, Dominica initiated an economic program which was supported by a three-year extended arrangement with the Fund through February 1984. Dominica's performance under the program was generally satisfactory. Real GDP recovered its pre-hurricane level, the rate of increase of consumer prices moderated, the public finances strengthened markedly and the current account of the balance of payments improved. The EFF arrangement was followed by a program for FY 1984/85 which was supported by a one-year stand-by arrangement with the Fund. The stand-by program aimed at raising government savings to bolster the country's investment efforts and to contain the growth of Dominica's public debt burden.

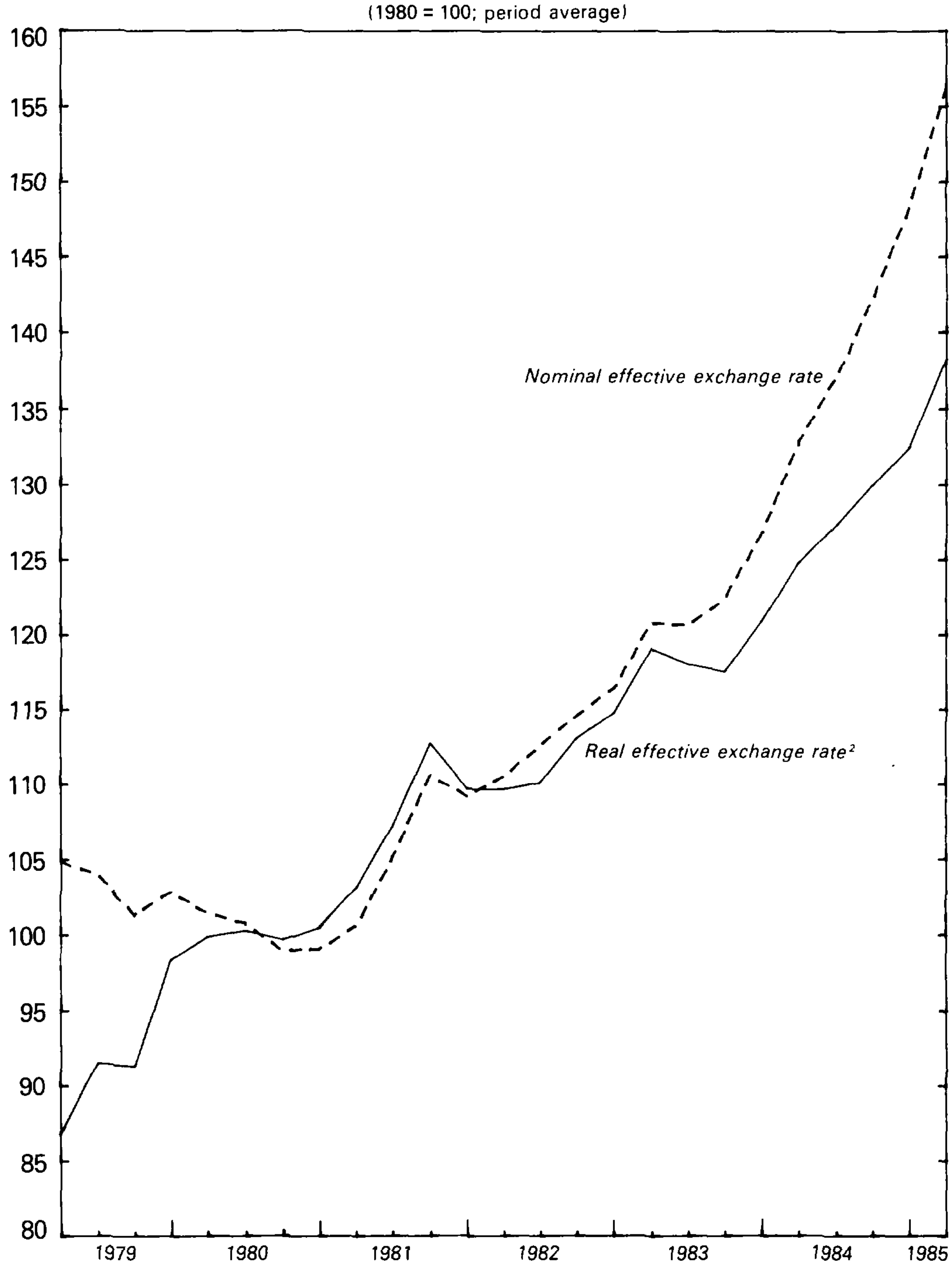
Preliminary data suggest that real GDP increased by about 4 1/2 percent in 1984. The rate of increase in consumer prices slowed to 2 percent but the rate of increase in wages, influenced by the three-year wage agreement with the civil servants, remained at around 10 percent. The current account deficit of the balance of payments widened to 9 percent of GDP in 1984 because of the increase in investment-related imports and a decline in exports; the deficit was covered mainly by

CHART 1

DOMINICA

EFFECTIVE EXCHANGE RATE INDICES[1], 1979: I-1985: I

(1980 = 100; period average)



Sources : Ministry of Finance, and Fund staff estimates.
[1]Average trade and tourism weights of 1980-82. Decline in index represents depreciation of Dominica dollar.
[2]Nominal effective exchange rate adjusted for relative consumer prices.

project-related external loans on concessionary terms, a reduction in local banks' net holding of foreign assets, and direct investment from abroad. In 1985, real GDP is projected to rise by 4 percent, and the rate of inflation is likely to remain low. The current account deficit of the balance of payments is not expected to be substantially different from that in the preceding year.

Dominica made two purchases under the stand-by arrangement, the second of which was based on performance through October 1984. However, since then fiscal performance has fallen short of the program targets, and for the program year as a whole substantial deviations are expected for the overall deficit, the current account surplus, and the use of nonconcessionary financing by the Central Government--the variable subject to limit under the program. Performance has been affected adversely by nonbudgeted payments for pension benefits and interest charges and by the additional capital spending necessitated by the November rainstorms. In addition, there was a shortfall in current revenue.

The authorities have not yet finalized the budget estimates for FY 1985/86, but a preliminary outline of these estimates suggests that the Central Government will again engage in heavy borrowing from domestic sources, notwithstanding a rise in the current surplus and a narrowing of the overall deficit. Current revenue is projected to rise by the equivalent of 1 percent of GDP. The current wage negotiation with the civil servants is of crucial importance in determining whether the growth of current expenditure can be contained. According to the World Bank the public investment program for the period from FY 1984/85 to FY 1986/87, which is to be financed mainly by project-related external grants and concessionary loans, is broadly appropriate but its full implementation is contingent upon a sizable increase in public sector savings. The staff would encourage the authorities to move quickly to review the expenditure budget with a view to reducing current expenditure and to taking the measures needed to ensure realization of the projected revenue. However, to assure a sustainable overall fiscal position the authorities should be prepared to stretch out capital spending if the improvement in current account turns out to be insufficient to support the projected capital outlays and to cover repayment of public debt. Such action would help to avoid squeezing bank credit to the private sector, as well as the problems that would be associated with a prolonged dependence by the Central Government on the Social Security Scheme's surpluses.

In the medium term, the country's economic growth will depend crucially on its success in increasing domestic savings, private investment, and exports. In this respect, the staff would note that the real appreciation of Dominica's currency over the past four years appears to have had an adverse effect on exports. Since Dominica's ability to act on the monetary and exchange rate areas is limited by the regional arrangements in which it participates, it is essential that it exercise effective control over domestic demand and that it seek to contain costs through restraint over wages. In this context, it is important that the authorities act to ensure that the wage settlement with the civil servants not only be consistent with the need to strengthen the public finances, but also convey the appropriate signal to the private sector. At the same time, it is important that the authorities continue their efforts to expedite a review of the exchange rate of the Eastern Caribbean dollar by the member countries of the ECCB.

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

Dominica - Fund Relations
(As of May 31, 1985)

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 14.03 million (350.79 percent of quota)

(c) Fund credit: SDR 10.04 million (250.93 percent of quota)

Of which:

	Millions of SDR	Percent of quota
Compensatory Financing Facility	0.73	18.28
Credit tranche	0.98	24.48
Extended Fund Facility	4.06	101.48
Supplementary Financing Facility	4.27	106.68

(d) Reserve tranche position: SDR 0.009 million

III. Current Stand-by Arrangement and Special Facilities

(a) Current stand-by arrangement
- Duration = from July 18, 1984 to July 17, 1985
- Amount = SDR 1.40 million (35 percent of quota), all from ordinary resources
- Utilization = SDR 0.97 million
- Undrawn balance = SDR 0.43 million

(b) Extended arrangement

- Duration: From February 6, 1981 to February 5, 1984

- Amount: SDR 8.55 million (213.8 percent of quota)

- Undrawn balance: None. The last purchase under the EFF was made on January 16, 1984

(c) Compensatory financing facility: approval was given on February 6, 1981 for additional purchase of SDR 1.95 million (67.2 percent of old quota), raising the total purchases under that facility to 100 percent of old quota (72.5 percent of new quota).

IV. SDR Department

(a) Net cumulative allocation: SDR 0.59 million.

(b) Holdings: SDR 0.001 million or 0.15 percent of net cumulative allocation.

(c) Current designation plan: None.

V. Administered Accounts: (none)

VI. Overdue Obligations to the Fund: (none)

(B) Nonfinancial Relations

VI. Exchange rate arrangement: Since mid-1976, the Eastern Caribbean dollar has been pegged to the U.S. dollar at the rate of EC$2.7 per U.S. dollar.

VII. Consultation with the Fund: The last Article IV consultation and extended arrangement review were concluded by the Executive Board on July 18, 1984. Dominica is on the standard 12-month consultation cycle. A staff mission visited Roseau in January 1985 to conduct the mid-term review under the stand-by arrangement.

VIII. Technical Assistance: Mr. Crawford Reid, a fiscal accounting expert, began a one-year assignment as accounting advisor in June 1981 and his appointment was later extended through June 1983. A FAD technical assistance mission visited Roseau in October 1982 to review the tax system and to identify additional sources of revenue. A tax consultant was assigned to Dominica for two weeks in April 1983 to help establish an appropriate tax structure. Mr. MacKellar, a member of the panel of fiscal experts, completed his assignment as fiscal advisor for a six-month period in June 1984.

IX. Mr. A. Gantt, Fund Regional Advisor, has been accredited to Dominica since January 1984.

Dominica--Basic Data

Area and population	
Area	300 sq. miles (790 sq. kilometers)
Population (1984 estimate)	82,500
Average annual rate of population increase (1970-84)	1.0 percent
GDP (1984)1/	SDR 83.4 million
GDP per capita (1984)1/	SDR 1,010
Origin of GDP (1984)	(percent)
Agriculture and mining	30.4
Manufacturing	7.3
Construction and utilities	10.6
Transport and communications	11.6
Government services	23.9
Other services	16.2
Ratios to GDP (1984)	
Exports of goods and nonfactor services	37.4
Imports of goods and nonfactor services	69.4
Central government current revenue (FY 1983/84)	31.6
Central government current expenditure (FY 1983/84)	31.5
External public and publicly guaranteed debt (end of year)2/	50.5
Gross domestic savings	6.6
Gross domestic investment	38.5
Money and quasi-money (end of year)	39.4

Annual changes in selected economic indicators	1981	1982	1983	Est. 1984
		(percent)		
Real GDP per capita	5.2	1.2	1.5	3.3
Real GDP (at factor cost)	6.3	2.2	2.5	4.3
GDP at current market prices	12.2	8.4	9.0	9.4
Domestic expenditure (at current prices)	-5.3	-3.4	3.8	17.9
Gross investment	(-28.5)	(-3.7)	(4.9)	(54.3)
Consumption	(4.3)	(-3.3)	(3.5)	(7.4)
GDP deflator (at market prices)	3.3	5.7	6.3	4.0
Consumer prices (annual averages)	13.3	4.4	4.1	2.2
Money and quasi-money	4.6	13.6	7.2	9.4
Money	(12.7)	(-4.2)	(8.8)	(7.2)
Quasi-money	(1.3)	(21.7)	(6.6)	(10.2)
Net domestic assets 3/	20.6	0.2	8.3	-4.3
Credit to public sector (net)3/	(-3.6)	(-3.6)	(-0.4)	(-12.7)4/
Credit to private sector 3/	(18.3)	(11.7)	(9.7)	(9.0)
Merchandise exports, f.o.b.	96.9	28.3	12.2	-6.9
Merchandise imports, c.i.f.	-6.6	-4.4	-0.8	18.5
Travel receipts (gross)	10.3	43.8	10.9	15.7

	1981/82	1982/83	Rev. 1983/84	Est. 1984/85
Central government current revenue 5/	18.6	1.8	20.8	7.2
Central government current expenditure 5/	-3.7	-0.2	11.0	6.6

Central government finances 5/	1981/82	1982/83	1983/84	Rev. Est. 1984/85
	(millions of Eastern Caribbean dollars)			
Domestic revenue	56.8	58.2	69.9	74.8
Total expenditure	85.7	88.3	104.1	125.7
Current account balance	-6.0	-4.9	0.2	0.6
Foreign grants	12.2	14.4	20.5	27.6
Overall balance	-16.7	-15.7	-13.7	-23.3
Foreign concessionary borrowing	3.8	12.0	10.5	15.6
Earmarked bank deposit operations	--	-4.8	0.9	3.2
Change in government's foreign assets	0.3	-0.1	-0.6	-0.7
IMF	8.7	7.6	0.7	-2.1
ECCB	--	--	2.0	2.0
Domestic financing (net) and residual	3.9	1.0	0.2	5.3

Balance of payments	1981	1982	1983	Est. 1984
	(millions of U.S. dollars)			
Merchandise exports (f.o.b.)	19.1	24.5	27.5	25.6
Merchandise imports (c.i.f.)	-49.7	-47.5	-47.1	-55.8
Travel (net)	1.3	2.3	2.9	3.6
Other services and private transfers (net)	5.9	8.1	6.8	7.4
Balance on current account 6/	-13.8	-6.8	-5.5	-7.7
Official borrowing (net)	2.7	8.4	5.3	4.8
Private capital (net)7/	2.7	-3.2	-4.2	6.3
SDR allocation	0.3	--	--	--
Overall balance	-8.2	-1.5	-4.4	3.1

1/ As part of a regional effort, sponsored by the Organization of East Caribbean States (OECS), to standardize and improve the national accounts, the Ministry of Finance in Dominica prepared a revised series of national accounts. The World Bank is reviewing the basis of the revised estimates in consultation with the Inter-Agency Resident Mission and the OECS.

2/ Including IMF debt.

3/ Changes in relation to commercial banks' liabilities to the private sector at the beginning of the year.

4/ In March 1984, about EC$7 million of commercial banks' claims on the Central Government related to the special reserve requirements was transferred to the ECCB.

5/ Data on the central government operations pertain to fiscal years beginning July 1.

6/ After foreign official grants.

7/ Includes errors and omissions.

Dominica: Selected Economic and Financial Indicators, 1980-85

	1980	1981	1982	1983	1984 Proj.	1984 Prel.	1985 Proj.
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	16.5	6.3	2.2	2.5	4.8	4.3	4.0
GDP (at market prices) deflator	17.9	3.3	5.7	6.3	5.0	4.0	4.0
Consumer prices	30.5	13.3	4.4	4.1	2.5	2.2	3.0
External sector (on the basis of U.S. dollars)							
Exports, f.o.b.	3.2	96.9	28.3	12.2	2.9	-6.9	15.6
Imports, c.i.f.	35.0	-6.6	-4.4	-0.8	13.2	18.5	17.4
Non-oil imports, c.i.f.	28.9	-6.8	-4.1	-0.3	13.2	15.7	17.2
Export volume	-18.1	104.7	15.1	7.2	-2.1	-4.8	13.4
Import volume	1.2	-7.7	-2.8	-0.4	11.5	23.3	17.2
Terms of trade (deterioration -)	-6.6	-3.2	7.6	9.9	3.4	1.8	1.9
Nominal effective exchange rate (depreciation -)	-2.4	6.4	6.8	8.0	...	14.2	...
Real effective exchange rate (depreciation -)	8.9	8.2	3.4	6.3	...	8.2	...
Money and credit							
Domestic credit (net) 1/	19.0	20.6	0.2	8.3	3.0	-4.3	10.5
Public sector 1/	(0.8)	(-3.6)	(-3.6)	(-0.4)	(2.6)	(-12.7)	(3.0)
Private sector 1/	(15.2)	(18.3)	(11.7)	(9.7)	(0.4)	(9.0)	(6.9)
Money and quasi-money (M-2)	-7.8	4.6	13.6	7.2	8.9	9.4	8.5
Velocity (GDP relative to M-2)	2.4	2.6	2.5	2.5	2.5	2.5	2.5
Interest rate on one-year time deposits	5.0	6.0	6.0	6.0	6.0	6.0	6.0
Interest rate on consumer loans	12.5	14.0	12.0	13.0	13.0	13.0	13.0
	(In percent of GDP, unless otherwise specified)						
Gross domestic investment	50.1	31.9	28.4	27.3	31.6	38.5	41.3
Gross domestic savings	-20.7	-12.2	-0.1	4.9	6.0	6.6	6.7
Current account deficit (BOP)	-25.3	-20.9	-7.1	-7.0	-4.7	-9.0	-9.2
External debt							
Inclusive of use of Fund credit	30.0	36.9	48.3	51.9	48.8	50.5	52.6
Debt service as a percent of exports and service receipts	4.1	4.8	4.8	8.0	12.7	12.5	11.8
Interest payments as a percent of exports and service receipts	2.6	2.0	2.6	4.6	5.1	5.3	5.6
	(In millions of SDRs, unless otherwise specified)						
Overall balance of payments	-2.8	-7.0	-1.4	-4.1	0.6	3.3	1.7
Gross official reserves (months of imports) 2/	1.5	1.0	1.3	0.7	--	1.2	1.3

	FY 1980/81 3/	FY 1981/82 3/	FY 1982/83 3/	FY 1983/84 3/	FY 1984/85 3/ Prog.	FY 1984/85 3/ Revised Est.
	(Annual percentage change)					
Government budget						
Domestic revenues	52.2	18.8	2.5	20.1	9.0	7.0
Expenditures and net lending	25.3	-4.5	3.0	17.9	15.5	20.7
	(In percent of fiscal year GDP)					
Central government savings	-10.2	-3.2	-2.4	0.1	1.2	0.2
Central government budget deficit (before grants)	-24.8	-15.5	-14.9	-15.5	-18.2	-21.2
Central government overall budget deficit	-8.5	-9.0	-7.8	-6.2	-6.1	-9.7
Concessionary loans 4/	1.3	2.1	3.6	5.2	6.1	7.8
Nonconcessionary financing	7.2	6.9	4.2	1.0	--	1.9
of which: commercial banks financing (excluding earmarked deposits)	(-0.4)	(2.3)	(0.9)	(--)	(-0.2)	(1.5)

1/ In relation to local commercial banks' liabilities to private sector at beginning of period.

2/ Refers to sinking funds held abroad and Dominica's imputed share in the international reserves of the ECCB. However, these resources are not freely available to Dominica.

3/ Fiscal year beginning July 1.

4/ Include earmarked bank deposit operations, which consist of external grants and concessionary loans temporarily kept as bank deposits before being spent on specific projects.

Dominica - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

Monthly data on external trade are compiled by the Statistical Office in the Ministry of Finance, but at present these are not reported to the Fund's Bureau of Statistics.

b. Government finance

The 1984 GFS Yearbook contains central government revenue and expenditure data for the years 1976-79 which were compiled during a GFS mission in 1980. The need to update these tables and to compile data for financing and outstanding debt were discussed during the mission, and it is likely that the authorities will be requesting further technical assistance in this area.

c. Monetary accounts

The Fund's Bureau of Statistics has requested information from the ECCB on the statutory reserve requirements of banks and on interest rates. There is also a need to revise the call report forms used by the ECCB to collect data from commercial banks; the forms have become obsolete during the past two years, as the functions and operations of the ECCB have evolved.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Dominica in the May 1985 issue of IFS. The data are mainly based on reports sent regularly to the Fund's Bureau of Statistics by the ECCB.

Status of IFS Data

		Latest Data in May 1985 IFS
Real Sector	- National Accounts	1982
	- Prices	December 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1979
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	November 1984
	- Deposit Money Banks	January 1985
	- Other Financial Institutions	n.a.
	- Interest Rates	November 1984
External Sector	- Merchandise Trade: Value	1982
	Prices	n.a.
	- Balance of Payments	1983
	- International Reserves	December 1984
	- Exchange Rates	March 1985