August 2006
IMF Country Report No. 06/291

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

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

- the staff report for the Sixth Review Under the Three-year Arrangement Under the Poverty Reduction and Growth Facility and Financing Assurances Review, prepared by a staff team of the IMF, following discussions that ended on June 2, 2006, with the officials of Dominica on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 12, 2006. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Press Release summarizing the views of the Executive Board as expressed during its July 26, 2006 discussion of the staff report that completed the review.

The documents listed below have been separately released.

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Dominica*
Memorandum of Economic and Financial Policies by the authorities of Dominica*
Poverty Reduction Strategy Paper
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

DOMINICA

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

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

Approved by José Fajgenbaum and Matthew Fisher

July 12, 2006

- **Fund Relations.** A three-year Poverty Reduction and Growth Facility (PRGF) arrangement for SDR 7.7 million (94 percent of quota) was approved by the Executive Board on December 29, 2003. The most recent program review was completed on October 14, 2005. To date, SDR 5.37 million has been disbursed under the arrangement. On completion of this (the sixth) review, a disbursement of SDR 1.16 million will become available. The last Article IV consultation was concluded in October 2005; the Staff Report and the Public Information Notice (PIN) summarizing the Executive Directors' views and policy recommendations are available on the IMF's public website.
- **Performance Under the Program.** All end-December 2005 and end-March 2006 quantitative targets under the program were met. Public finances have continued to improve and the authorities have maintained their efforts to complete the restructuring of their debt. Economic activity has recovered following the sharp decline in 2001 and 2002, and some progress has been achieved in implementing structural reforms aimed at establishing the basis for sustainable growth and poverty reduction.
- **Review.** In the attached letter of intent and memorandum of economic policies the authorities request the completion of the sixth review, and elaborate on their policies for the remainder of the program. They also propose structural benchmarks for the seventh review and the indicative targets for the remainder of the program. The sixth review was delayed as understandings were sought on the recent amendments to the value-added tax (VAT) legislation and on policies to protect the VAT regime.
- **Missions.** Two missions visited Roseau: The first during March 7−17, 2006, comprising Messrs. Njoroge (Head), Roache (all WHD), Rodriguez (PDR) and Ms. Morsy (FAD). ECCB staff participated in the discussions, and Ms. Alvarez (OED) joined the mission for the final discussions. The second during May 29–June 2, 2006, comprising Messrs. Njoroge (Head), Dehesa, Roache (all WHD), Rodriguez (PDR) and Ms. Morsy (FAD).

Contents **Page**

EXECUTIVE SUMMARY

Dominica's commendable progress under the PRGF program has been sustained in 2005 and thus far in 2006. The objective of macroeconomic stability through fiscal adjustment and a collaborative debt restructuring has been largely met; this now allows a shift in focus towards implementing robust structural reforms that will establish the basis for sustainable growth and poverty reduction. The recent Poverty Reduction Strategy paper presents an appropriate approach to this end.

Macroeconomic performance in 2005 and through April 2006 has remained robust. Economic activity continued to expand, driven by private sector domestic demand. A strong fiscal performance has so far been sustained in FY 2005/06; revenues were higher than expected, noninterest current expenditures were kept within the program, and capital expenditures were lower than programmed.

Performance under the program has been strong, though some structural reforms were delayed. All end-September 2005, end-December 2005 and end-March 2006 quantitative targets under the program were met; budgetary policies were implemented resolutely and fiscal performance was better than envisaged. The value-added tax (VAT) was implemented on March 1, 2006 (a structural performance criterion), although it was weakened subsequently through favorable treatment of the dive, construction and agricultural sectors. Further progress has been achieved in structural reforms, even though delays were observed in meeting some structural benchmarks. Notwithstanding the difficulties with the remaining nonparticipating creditors, the authorities have also maintained their efforts to complete the restructuring of their debt. Staff recommends the completion of the financing assurance review.

A strong fiscal outturn is expected for FY 2005/06, and staff welcomes the authorities' commitment to implement sound policies in FY 2006/07. The FY 2006/07 budget is consistent with medium-term fiscal and debt sustainability, is based on a primary surplus target of 3 percent of GDP and envisages the continued implementation of fiscal reforms. The budget carries forward the current fiscal reforms, including those aimed at reducing the government's wage bill, and strengthening budget execution and financial management. Measures to protect the VAT and excise tax regime are welcomed.

An intensified effort is recommended in implementing structural reforms, including the delayed measures. The role of these structural reforms in enhancing the economy's growth potential and alleviating existing vulnerabilities underscores the need for their timely implementation, as envisaged in the revised timetable. Particularly important are the measures to eliminate the unfunded liability of the Dominica Social Security (DSS), resolving the fragility of the AID Bank, and the delayed amendments to the Electricity Supply Act and related legislation. Staff welcomes the authorities' commitment to address these serious concerns.

I. Background

1. **Dominica's two-stage strategy for re-establishing the basis for sustainable growth, after the economic crisis a few years ago, has met with a measure of success.** The first stage focused on achieving macroeconomic stability through a large fiscal adjustment and a collaborative debt restructuring. In the event, public finances improved significantly, reflecting the strong fiscal consolidation effort; the authorities' debt restructuring process addressed effectively the previously unsustainable debt; and economic activity recovered markedly in 2004 and 2005, following the sharp contraction in 2001 and 2002. The second stage is now underway, aimed at consolidating macroeconomic stability and implementing structural reforms to establish the basis for sustainable growth and poverty reduction. The PRGF program has remained on track since its approval in December 2003, owing to the authorities' commitment to, and resolute implementation of, the program.

2. **Macroeconomic performance in 2005 remained strong, despite some areas of modest weakness.** Economic activity continued to expand, with real GDP growing at about 3½ percent to yield the second straight year of above-trend growth (Table 1). Indicators of domestic demand were particularly strong—consumer imports, tax revenues, and credit all grew considerably—but momentum in agriculture and tourism sectors has stalled (Box 1). In particular:

- ***All sectors, except for agriculture and tourism, registered robust growth.*** Financial services, retail trade and electricity production grew strongly, and the value of manufactured exports expanded by about 2 percent. Banana production contracted by about 7 percent, although nonbanana agricultural output offset in part this fall. Tourist arrivals weakened, owing to a decline in cruiseship visitors from the high levels in 2004, reduced enrollment at the offshore medical school, and unchanged number of stayover visitors.

- ***Inflation remained subdued, despite the sharp increases in energy prices***. Consumer prices rose 2.7 percent in 2005, owing in part to substantial increases in the prices of fuel and electricity as higher oil import prices were passed on to consumers. Food prices also rose sharply, by 3.7 percent at end-2005, reflecting in part higher prices of agricultural inputs and transportation costs.

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

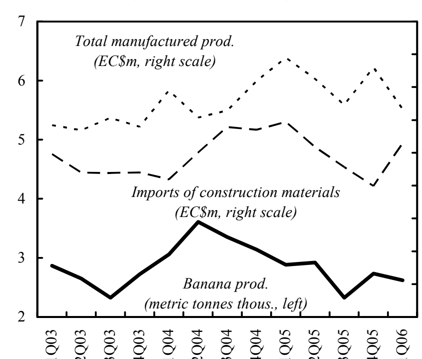
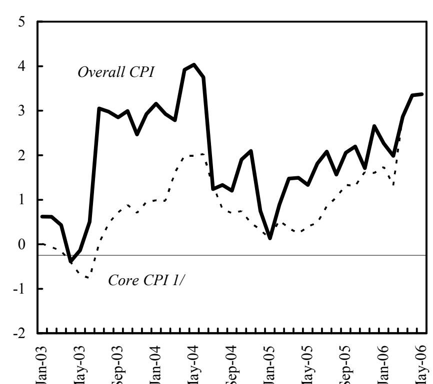


Figure 2. Dominica: CPI Inflation
(Annual percentage change, Jan-03 - May-06)



1/ Core CPI available up to April-06.

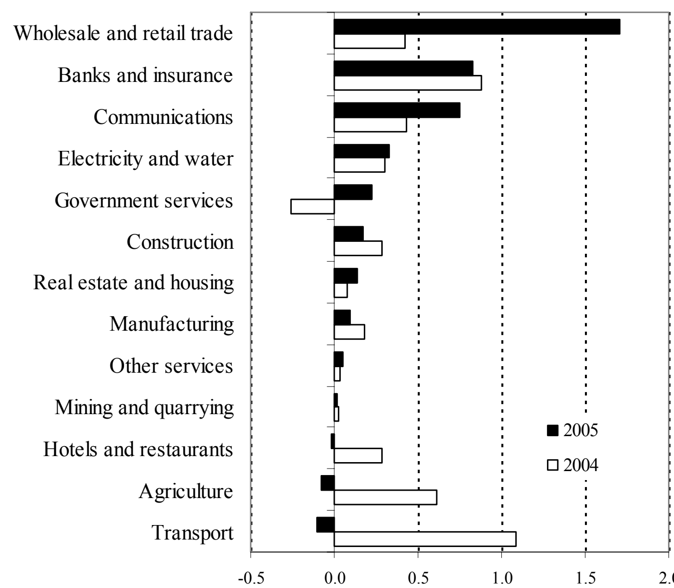
Box 1. Evolving Growth Drivers: From the External Sector to Consumption

Dominica's economic recovery continued during 2005 but there has been an important change in the drivers of growth. This is exemplified by the changes in the sectoral contribution to GDP and, partly, by the wider external current account deficit. The external sector was the main driver in the early stages of the recovery. Tourism and bananas registered strong growth in 2004, but activity in both sectors eased significantly in 2005. However, the effects of this easing on GDP were more than offset by acceleration in sectors sensitive to domestic consumption growth. The current account deficit widened further, from 17 percent to 23 percent of GDP, owing in part to the stagnating goods and services exports and a strong rise in consumer imports. Higher fuel import values and some one-off big-ticket import items also served to widen the deficit.

A number of indicators point to stronger consumption. Consumer imports and sales tax receipts on these imports were around 12–15 percent higher in 2005. Sales tax receipts on domestic goods rose by 6 percent.

This consumption was financed from two main sources. *First*, consumer credit; loans extended to finance home purchases, durable consumer goods, and other revolving credit rose by 24 percent during 2005. This is also reflected in the external sector, with the wider current account deficit being financed primarily by private sector borrowing—which contrasts with the 2000–02 period when this was almost entirely financed by public sector borrowing. Commercial bank financing is being supported by rising private sector deposits and a drawdown of foreign assets. ***Second***, from higher wages, reflecting the lagged effect of the economic recovery and confirmed by the more than 10 percent increase in personal income tax receipts.

Dominica: Contribution to GDP Growth
(Percentage points)



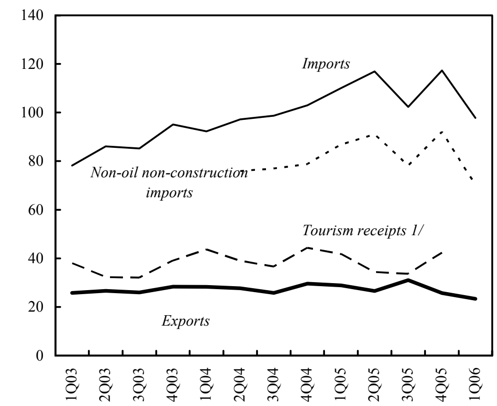
Source: Dominica CSO; staff estimates.

The growth outlook for 2006 and beyond depends largely on two factors. *First*, the extent to which consumption can keep growing at its current pace. Recent trends may reflect some adjustment to the decline in 2001–03. Once this pent-up demand is satisfied and consumers approach credit constraints, and in the absence of more robust employment growth, a slowdown in consumption growth appears likely. ***Second***, the extent to which external drivers, particularly agriculture and tourism, can rebound. Agricultural output is mainly supply-determined. While the problems that afflicted banana output in 2005 should have few lagged effects this year, the erosion of EU trade preferences suggests that growth in banana exports may be modest and short lived. Tourism should continue to be supported by growth in the advanced economies, the real exchange rate depreciation of recent years, and the enhancement of Dominica's tourism product.

- ***The external current account deficit has widened.*** The high fuel prices, the robust growth of nonfuel imports on account of the economic recovery and some one-off imports on the one hand, and weaker tourism earnings on the other weakened the current account markedly. However, financial and capital inflows increased considerably—notably commercial banks flows—leading to a modest overall balance surplus (Table 5).

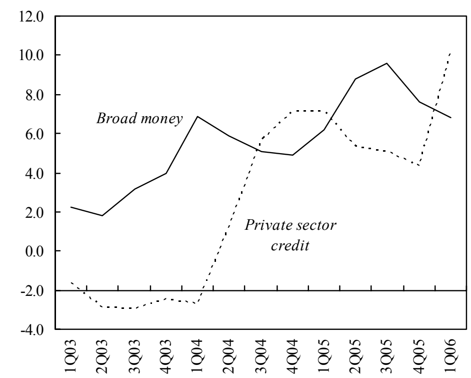
- ***Financial intermediation has strengthened***. Credit to the private sector increased by 6 percent, while private sector deposits and currency in circulation grew even faster. Banking sector soundness, particularly asset quality, has remained broadly unchanged.

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



1/ Tourism receipts data available up to Q4 2005

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



3. **Early indicators suggest a mixed performance in the first four months of 2006.** Compared to the same period in 2005, tourist arrivals have increased and imports are moderating; banana production remains weak; and construction activity has picked up. Production and exports of manufactured goods has risen recently, following the declines in January and February caused by low production orders at an export plant. An uptick in inflation was recorded in April, attributed to transitional factors of the recently introduced value-added tax (VAT). Private sector credit has continued to grow briskly, but the increase since December 2005 has mainly been due to loans for personal property and the utilities sector, even as other consumer loans have remained flat.[1]

4. **A strong fiscal performance has so far been sustained in FY 2005/06 (Table 4).** Revenue collection in the ten months to April 2006 has been stronger than expected due in part to transitory factors such as security bond forfeitures by migrants and exceptional payments of withholding tax, and in part to the buoyant economy which bolstered income taxes and property taxes. Noninterest current expenditures were kept within the program despite an acceleration of gratuities to retirees and higher than projected payments for utilities. An unexpected increase in retirements and resignations from the civil service, allowed the central government's wage bill to remain in line with projections. Capital

[1] The Eastern Caribbean Central Bank (ECCB) is responsible for bank supervision in the Eastern Caribbean Currency Union area, and monitors regularly the developments in individual banks.

spending has been lower than expected, owing to delays in donors' disbursements of committed funds.

5. **All quantitative program targets for the last three quarters were met, as budgetary policies were implemented resolutely and fiscal performance was better than envisaged.** All end-December 2005 performance criteria (PCs) were met, and all indicative targets for end-September and end-December were met with comfortable margins (Table 2). Indicative targets for end-March 2006 were also met. As envisioned in the program, revenues from the security bond forfeitures—equivalent to ¼ percent of GDP—have allowed further debt reduction.[2] The recent updating of the debt monitoring software has improved information on maturities and interest payments, thereby strengthening the authorities' ability to monitor the timeliness of payments.

6. **The VAT was implemented on March 1, 2006 (a March 2006 structural performance criterion).** The authorities worked steadfastly in the preimplementation phase, with technical support from CARTAC, and the FAD and LEG departments, and the implemented VAT regime was generally nondistortionary as exemptions and zero-rating were kept to a minimum (Box 2). A standard rate of 15 percent applies except for hotel and related accommodation which are charged a reduced rate of 10 percent. The VAT replaced four older taxes, captured some previously untaxed services, and a new excise tax was also introduced. However, some amendments to the approved legislation were introduced in May 2006, altering in some respects the original VAT and excise tax regime (see paragraph 14 below). A comprehensive review of the experience in the first 12 months of the VAT regime is planned.

7. **Mixed progress has been made in meeting structural benchmarks (Table 3)**. In line with the program, reviews have been completed on the streamlining of those government units that earlier work suggested to be in greatest need. About 137 government employees were laid off in 2006, as a first step in the action plan to reduce the wage bill, and work is proceeding on the streamlining of government units to further reduce the wage bill over the next three years. Similarly, an onsite inspection of the AID Bank was conducted in February 2006, clearing the way for the recently initiated strategic review. However, resource constraints have thwarted the timely completion of the legislation granting supervisory powers to the Financial Services Unit (FSU). A review of the Dominica Export Import Agency (DEXIA) was conducted, but the authorities are dissatisfied since it did not yield operationally useful recommendations, and a strategic review of the National Development Corporation (NDC) has not been conducted, owing to delays in identifying appropriate external technical assistance. Moreover, amendments to the Electricity Supply Act have not yet been presented to Parliament for approval, as they were subject to another round of consultations with stakeholders; this measure has met with frequent delays since the start of the PRGF arrangement.

---

[2] A program adjustor applies for security bond forfeitures.

Box 2. Introduction of the Value-Added Tax

The VAT was introduced on March 1, 2006, following a long period of preparation. While the government had in the past indicated its interest, preparations for introducing a VAT started in earnest following the announcement in the Budget Speech of June 2003. Implementation of the VAT was seen as the crucial first step in the modernization of the tax system. A new excise tax legislation was also introduced.

A specialized committee was responsible for coordinating the VAT introduction. Key challenges included a shortage of legal draftsmen and adequate staff, a lack of financial resources, and delays in finalizing the requisite computer software. A key concern was the social impact of the VAT, which was ameliorated by the exemption from VAT of some basic foods and services. The committee worked closely with the business community, and undertook extensive country-wide public awareness campaigns. High-level political support was also instrumental in the smooth introduction of the VAT.

The VAT and excise tax legislation and regulations were drafted with extensive technical assistance from CARTAC and the FAD and LEG departments. Four taxes were eliminated with the introduction of the VAT: consumption tax, sales tax, hotel occupancy tax, and entertainment tax.

The regime that was introduced on March 1, can be characterized as follows:

- **Coverage.** The VAT covers goods and some services—services were previously outside the tax net. Exempt services include: financial, insurance, international transport, medical, veterinary, education, and sales of real estate property.

- **Registration threshold.** Businesses with annual sales of EC$60,000 are required to register, and businesses below that threshold are allowed to register voluntarily. Four hundred businesses had registered by March 1. The number of businesses that would meet the threshold had been overestimated at 600.

- **Rates**. The standard rate for the VAT is 15 percent, and a reduced rate of 10 percent applies for hotel and similar accommodation.

- **VAT exemptions.** In addition to the services that are not captured by the VAT, bread, water, unprocessed agricultural products, gifts to approved charities, and imports by returning residents are the main exemptions.

- **Zero-rating**: This applies to exports, a few basic food items (flour, milk, rice and sugar), a limited set of agricultural and fishing inputs, the first 50 kwh of electricity, and fuel.

- **Filing period.** Tax returns are required to be filed within 20 days of the end of each month, whether or not tax is payable for that period. Penalties apply for late filing and other offences. A zero-stock zero-credit rule was applied on March 1, 2006.

- **Treatment of inputs.** Registered businesses are able to claim full credit for taxes paid on their purchases of capital goods and other business expenses.

- **Excise tax.** This is levied on motor vehicles, alcoholic beverages, and petroleum and tobacco products.

The direct impact on the consumer price index (CPI) is likely to be minimal. The retail price for those goods that were fully taxed (20 percent consumption tax and 7.5 percent sales tax) would decline by about 11 percent; the retail prices of some key food items would fall, since they previously attracted sales tax but are now zero rated. Additionally, excise taxes on fuel were set to keep the retail prices constant. Against this deflationary impact is the price increases for the previously untaxed services that are now taxed under the VAT regime.
A comprehensive review of the VAT regime to distill the experience from the first 12 months is planned.

8. **Further progress has been achieved in other structural reforms.** For instance, a draft action plan for reforming the Dominica Social Security (DSS) is under discussion; a public finance management has been strengthened, including by improving expenditure commitment procedures and adjusting the opening balances of the general ledger; and the audited accounts of various public institutions have been submitted to Parliament.

9. **Efforts to bring closure to the ongoing debt restructuring have been stymied by a lack of progress with the three large nonparticipating creditors.** New instruments have now been issued to all participating creditors, and legislative amendments have been passed to allow the new bonds to be traded on the Eastern Caribbean Securities Exchange (ECSE). About 72 percent of eligible debt has been restructured, and the authorities have continued to pursue collaborative settlements with the remaining creditors, and made deposits into an escrow account based on the restructured terms. The authorities have again approached the Kuwait Fund for Arab Economic Development seeking the restructuring of their debt, and despite some recent interest, holders of the Royal Bank of Trinidad and Tobago (RBTT) bond have not yet agreed to restructure their claims. More problematic, however, is the suit by a bank from Taiwan Province of China; court proceedings in New York began on February 9, but the authorities have reported a recent breakthrough favoring a court-mediated settlement. The claims of these three creditors amount to 20 percent of eligible debt.

II. Macroeconomic Outlook and Policy Discussions

10. **The program's objectives in the period ahead remain valid, and are reflected in the authorities' Growth and Social Protection Strategy (GSPS).**[3] Key objectives include broadening the sources of growth to increase its sustainability, creating the conditions for private sector-led growth, and safeguarding the gains from adjustment. To this end, the program envisages structural reforms that would *inter alia* remove policy-induced bottlenecks, improve the private sector investment climate, and prioritize public sector investments.

11. **The authorities' strong commitment to the program provides favorable prospects for macroeconomic developments, but there are some downside risks.** The program's growth and inflation projections for 2006 and the medium term—3 percent real GDP growth and 1½ percent annual inflation—appear achievable and appropriate. The government's plans, detailed in the Supplementary Memorandum of Economic Policies (MEP) (Attachment II) and the GSPS, will go a long way towards attaining these objectives and making the economy more resilient to shocks. Even with the continued resolute implementation of policies, downside risks include further increases in oil prices, a slowdown in global growth, and natural disasters.

[3] The "*Growth and Social Protection Strategy"* is the authorities' PRSP, and has been circulated, together with the "*Joint Staff Advisory Note*"(see www.imf.org).

A. Fiscal Policies

12. **The primary surplus target for FY 2005/06 is likely to be exceeded significantly.** The robust economic momentum is expected to continue to boost transaction and income taxes, which would more than offset the shortfalls now expected in some revenue components—notably ECCB profits and fees from the offshore financial sector. Collection on VAT is expected to match the losses from the taxes that were eliminated. Consequently total revenues for FY 2005/06 are expected to be almost 2 percent of GDP higher than originally projected. The higher revenues would more than offset higher spending on utilities and the portion of retirement gratuities that are not financed by the expected EU grants. While capital spending has accelerated in the second half of FY 2005/06 owing to a faster pace of work in certain key projects—the cricket stadium and the works at the airport— the total for FY 2005/06 will likely be lower than planned. On this basis, a stronger outturn is projected for FY 2005/06, with the primary surplus exceeding the program target of 3 percent of GDP by about 1½ percentage points (Table 4). The mission commended the authorities' execution of the budget, and welcomed recent improvements in the reporting of capital expenditures, though further work is needed. The authorities expressed concern about the slow implementation of the public sector investment program (PSIP) caused by delays in donor disbursements, and the attendant delay in transforming the economy.

13. **Agreement was reached on the broad parameters for the FY 2006/07 budget.** The budget was framed in line with medium-term fiscal and debt sustainability, assured in part by targeting a primary surplus of 3 percent of GDP (MEP ¶15).[4] The authorities intend to continue the ongoing fiscal reforms, such as reducing the wage bill, multiyear budgeting, and financial management, and strengthen the efforts to improve the structure of the budget (MEP ¶16). The mission concurred with the authorities on the uncertainties relating to the VAT collection, and on keeping the PSIP in line with the existing implementation capacity and the prioritization in the GSPS. Budget-support grants in excess of programmed amounts would be used to reduce further debt and build up bank balances.

14. **The original VAT and excise tax regime was appropriate, but some of the subsequent amendments altering the regime weakened it.** While it was necessary to correct some inaccuracies in the original legislation, additional amendments included: (i) granting VAT exemption on construction services for homes; (ii) applying the reduced rate for hotels to the dive sector; (iii) giving VAT exemption for capital goods imported by new entrants under the Hotel Aid Act or the Fiscal Incentives Act; (iv) transfer of agricultural inputs from being zero rated to exempt, and expanding the list; and (v) introducing excise tax exemptions on trucks imported by farmers, and motor vehicles, tobacco and alcohol imported by diplomats. The objective of these amendments was to bolster growth by providing

---

[4] This abstracts from the financial condition of the DSS, since the authorities prefer reforming the DSS to targeting a higher surplus. A detailed debt sustainability analysis (DSA) examining these issues was included in IMF Country Report No. 05/384, Fifth PRGF Review (September 2005).

temporary support to the nascent dive sector and the agricultural sector, provide some relief on the construction of homes, and reduce the reporting requirements for some new investors. However, the mission underscored that these amendments weakened the VAT regime and increased the administrative burden: the tax base would be eroded, incentives in the tax regime would be distorted, administration and compliance would be complicated, and likely pressures for further changes would result.

15. **The mission agreed with the authorities on measures to protect the regime (MEP ¶12 and ¶13).** While expressing understanding about the authorities' urgency of accelerating growth, the mission suggested alternative approaches that would be temporary and less distortionary than weakening the VAT regime. Keeping the coverage as wide as possible will facilitate VAT administration and allow greater scope down the road for implementing other aspects of revenue reform. The authorities insisted on the need to support agriculture and the emerging dive sector through the VAT regime, but stressed the commitment (i) to review the amendments in the context of the planned comprehensive review of the VAT; (ii) not to introduce additional amendments that would weaken the regime at least until the review has been completed; and (iii) to provide needed resources to strengthen VAT administration (MEP ¶13).

16. **Looking ahead, a shift in emphasis towards administering the VAT is welcome.** The mission agreed with the authorities that emphasis should now be placed on establishing a VAT administration regime that sustains a high level of voluntary compliance. In addition to having arrangements to assist taxpayers comply with the VAT, a good audit program and swift mechanisms to detect stopfilers are indispensable. The staff also underscored the need to establish the necessary infrastructure to support audit and risk management at the VAT office, and to ensure that VAT refunds are made on a timely basis.

17. **Further progress is expected in key public sector reforms, including**:

- **Streamlining public sector employment**. The mission welcomed recent progress in implementing measures to reduce the wage bill, including reviews of the streamlining of government units. However, delays in implementing already identified measures—for example, merger of the port authorities—were noted and an acceleration in these areas was advised. The mission welcomed the authorities' commitment to reduce further the government's wage bill to 12¼ percent of GDP by FY 2008/09. To this end, an action plan was announced with the recent budget, covering additional areas to underpin the needed decline in the wage bill in FY 2006/07, and including measures identified in the recent reviews of the streamlining of government units (MEP ¶14). However, the authorities expressed their strong disappointment from the protracted delays in disbursing EU grant funds intended to cover the severance payments.

- **Strengthening public expenditure management.** The implementation of a medium-term budgeting framework, with technical assistance from CARTAC/FAD, would further improve expenditure management. Given capacity constraints in line ministries, this is now expected to be implemented in two steps (MEP ¶14). Accordingly, in the context of the FY 2006/07 budget, the Ministry of Finance prepared for all ministries the outer two years of their three-year budgets; and all ministries will prepare their three-year budgets starting in FY 2007/08. Additionally, while progress has been made in preparing the amendments to the Finance Administration Act and related legislation—as described in paragraph 17 of the MEP of September 8, 2005—resource constraints have delayed completion of this work by five months to end-October 2006 (MEP ¶14).

B. Debt Restructuring

18. **Continued good-faith efforts towards collaborative settlements and to bring closure to the debt restructuring are welcome.** The limited progress with the holders of the RBTT bond and the ongoing lawsuit by a bank from Taiwan Province of China, and the lack of progress with Kuwait remains a concern.[5] Notwithstanding these difficulties, the mission welcomed the improved tenor of the recent discussions with these creditors, and the authorities' intention to maintain good-faith efforts in pursuit of agreements that maintain inter-creditor equity. These efforts include maintaining contact with all nonparticipants on a regular basis and continuing to make payments for them into the escrow account according to the restructured terms. Preparations to list on the Eastern Caribbean Securities Exchange (ECSE) the bonds issued to participating creditors are at an advanced stage.

C. Structural Reforms and Other Issues

19. **Progress has been made in implementing structural reforms, although some structural measures were not completed as envisaged.** To enhance the economy's growth potential and alleviate existing vulnerabilities, there was agreement on the need to maintain a steady pace in structural reforms, including the delayed measures, as envisaged in the agreed revised timetable. Most notable, are the delayed amendments to the Electricity Supply Act and related legislation, now expected to be submitted to Parliament for discussion in its next sitting in August 2006 (MEP ¶6).

20. **Other key reforms include:**

- **Dominica Social Security (DSS).** The mission welcomed the authorities' commitment to eliminate the unfunded liability of the DSS and the action plan being prepared to address it (MEP ¶19).[6] The latter is indispensable to ensure the

[5] The authorities expressed concern about the possibly large financial burden from an adverse judgment in the lawsuit, in addition to the expected legal fees.

[6] The draft action plan proposes a reform package that relies mainly on increasing contributions rates, increasing the retirement age, and adjusting benefits. It is proposed that these measures be implemented gradually, with periodic reviews and adjustments as needed.

sustainability of public finances. The mission agreed with the authorities on the benefits of a wider consultation on the action plan with stakeholders, even if this will delay its final approval. The Cabinet is expected to approve the action plan by end-July 2006 (MEP ¶19).

- **AID Bank.** The recent onsite inspection confirmed the fragility of the AID Bank, which remains a serious concern. The findings of the inspection included a high ratio of nonperforming loans, poor corporate governance, ineffective audit practices, and weak loan underwriting standards. An MFD technical assistance mission visited Roseau in late June to help the authorities prepare a strategy to address these difficulties on the basis of accepted best practices. Reflecting serious concerns about the bank, the authorities ordered it to cease accepting deposits from the public immediately (MEP ¶18).

- **Regulatory regime for nonbank financial institutions**. The mission commended the work to strengthen supervision and the regulatory framework for the financial sector. The new Financial Services Unit (FSU) Act—expected to be submitted to Parliament by end-September 2006—will be an important step in improving the regulatory regime for nonbank financial institutions. The planned revision of the existing legislation that governs credit unions and the subsequent introduction of a new Credit Union Act would improve the regulatory framework for that industry. A draft model law for the insurance sector in the Eastern Caribbean Currency Union is currently under discussion within the region.

- **DEXIA and NDC.** The mission discussed with the authorities their plans to complete the delayed strategic reviews of DEXIA and NDC.[7] The reviews are aimed at streamlining the functions of these institutions, enhancing their efficiency and accountability, and realigning their operations towards the requirements of private sector-led growth and an improved investment climate (MEP ¶21). Particularly welcome is the World Bank's technical assistance expected in September 2006 to conduct a review of NDC and advice on establishing a one-stop shop for investment approval process. The mission underscored the importance of expediting the completion of these reviews, and reiterated the need to report regularly to Parliament the audited accounts of these and other public institutions.

21. **The review of tax concessions (end-December 2005 benchmark) was not conducted, but the new VAT regime offers a singular opportunity to eliminate numerous tax concessions.** The review, intended to provide the basis for weeding out

[7] Both DEXIA and NDC are intended to support the private sector. DEXIA facilitates the marketing of local agricultural produce, and has a monopoly for the importation of rice and bulk sugar. NDC supports the development of the tourism sector principally through marketing, and assists in attracting foreign investments and facilitating requests for tax concessions.

unnecessary concessions, was stymied by both measurement problems and the limited capacity in the government for such a task. However, the greater reliance on the VAT which does not allow concessions and the diminished role of the taxes for which concessions were traditionally granted—for example, consumption taxes, import duties, etc.—effectively switches the government's policies for attracting investments from relying on tax concessions to establishing an enabling environment. Moreover, the authorities are committed to introducing tax reforms that lower the marginal tax rate and do not allow concessions. In the meantime, the mission urged the authorities to resist requests for tax exemptions and concessions, and to continue publishing information on the concessions granted each month.

22. **The PetroCaribe agreement offers potential savings, but some operational details need to be confirmed.** There are two potential sources of savings; first, the concessional financing for a fraction of the value of oil imports, which would yield benefits only gradually as more expensive debt is replaced; and second, the landed price of oil imports may be lower than from other sources.[8] However, these potential savings are highly uncertain, and should be weighed against the costs and risks. These include the operational cost of the arrangement which would entail significant public sector involvement, insurance coverage for the storage facilities and other assets, the risk of supply disruptions from the single supplier, the risk of asset impairment due to, for example, a natural disaster, and from the squeezing out of private sector operators in a key economic sector. The mission underscored that changes in world oil prices continue to be passed on to the consumer, and that the relevant transactions be recorded correctly, including all external obligations under the long-term financing arrangement be recorded as central government debt.

III. Program Modalities

23. **The attached letter of intent (LOI) and supplementary memorandum of economic policies (MEP) confirm the implementation thus far and reinforce the authorities' commitment to the program**. Other specific matters are:

- ***Financing assurances review***. The authorities have continued to make good-faith efforts in seeking agreements with the remaining nonparticipating creditors, by keeping contact with them on a regular basis, and by making payments into the escrow account according to the restructured terms. On this basis and given that the authorities remain committed to these policies, the staff recommends completing the financing assurances review.

[8] The largest gains from PetroCaribe arise from the concessional financing of a fraction of the value of oil imports, which depends on the prevailing world oil price. For instance, with world oil prices above US$50 per barrel, financing would cover 60 percent of the value of oil imports, with repayment over 25 years and an interest rate of 1 percent. Any operational savings will largely depend upon the reference price of oil and the costs of insurance and freight that are added on the base price. The reference price has yet to be defined.

- ***Revising the calculation of debt service payments***. Now that the new instruments have been issued to all participants in the debt restructuring, revised debt service projections for FY 2006/07 show payments on a due basis according to the new terms for the restructured debt, and according to the original terms for the nonrestructured debt.

- ***Conditionality for the remainder of the program***. Quantitative performance criteria and indicative targets for end-June 2006 remain. The indicative targets for end-September 2006 and structural benchmarks for the seventh review are proposed (MEP Tables 1 and 2).

IV. Staff Appraisal

24. **Dominica's commendable progress under the PRGF program has been sustained in 2005 and thus far in 2006, supporting the two-stage strategy for re-establishing the basis for sustainable growth**. Macroeconomic performance remained strong, and the objective of macroeconomic stability through fiscal adjustment and a collaborative debt restructuring has been largely met. Improvements in public finances resulting from the strong fiscal consolidation effort have been sustained; economic activity has continued to recover; and the authorities have continued their efforts to complete the debt restructuring process that addresses their previously unsustainable debt. These results have ushered in the second stage, centered on implementing robust structural reforms that will establish the basis for sustainable growth and poverty reduction.

25. **The recently completed GSPS presents an appropriate approach to establishing a firm basis for sustainable growth and poverty reduction, which is supported by the program**. The objectives of the GSPS include broadening the sources of growth to increase its sustainability, safeguarding the gains from adjustment, and bolstering the prospects for private sector-led growth. To this end, the GSPS envisages the implementation of policies that would, inter alia, remove policy-induced bottlenecks, improve the private sector investment climate, prioritize public sector investments. In the staff's view, resolute implementation of the program would ensure favorable macroeconomic outcomes in the period ahead and address some of the downside risks. The program's macroeconomic targets appear achievable.

26. **Staff welcomes the strong fiscal performance and the authorities' commitment to implementing sound fiscal policies.** The primary fiscal surplus target for FY 2005/06 will likely be exceeded significantly, given the strong revenue performance and continued efforts to keep expenditures in check. The FY 2006/07 budget is consistent with medium-term fiscal and debt sustainability, as it is based on a primary surplus target of 3 percent of GDP. Revenues are estimated conservatively and the PSIP is kept in line with existing implementation capacity and the prioritization in the GSPS. In the latter regard, it would be important to improve further the reporting on PSIP projects, particularly grant-financed projects.

27. **The FY 2006/07 budget envisages the continued implementation of fiscal reforms**. The budget carries forward the current fiscal reforms, including those aimed at reducing the government's wage bill, and strengthening budget execution and financial management. While staff welcomes the authorities' commitment to reducing the wage bill, it underscores the need to accelerate implementation of the already identified measures.

28. **The recent implementation of the VAT and excise tax legislation is welcome, but the recent amendments to the legislation are regrettable.** The original VAT and excise tax regime was well conceived and appropriate—largely nondistortionary with a minimum of exemptions and zero rated supplies. However, the weakening of the VAT regime and the increased administrative burden from the subsequent amendments are of serious concern, even as staff recognizes the authorities' objective of quickening growth. Staff welcomes the measures to protect the VAT regime following these amendments, and the planned comprehensive review. This would ensure that the VAT remains nondistortionary, the administrative burden is minimized, the coverage is kept wide, and thus allow greater scope for other aspects of revenue reform, such as improving the income tax regime. The authorities are correctly placing emphasis now on establishing an administration regime that sustains a high level of compliance. This would include establishing arrangements to help taxpayers comply with the VAT, a good audit system, and making refunds on a timely basis. An appropriate infrastructure to support audit and risk management at the VAT office is indispensable.

29. **While progress has been made in implementing structural reforms, staff urges the authorities to accelerate the pace of these reforms.** Delays such as in amending the Electricity Supply Act and related legislation are regrettable and the authorities are urged to adhere to the revised timetable for the delayed measures. The role of these structural reforms in enhancing the economy's growth potential and alleviating existing vulnerabilities underscores the need for their timely implementation. Particularly important are the measures to eliminate the unfunded liability of the DSS and to resolve the fragility of the AID Bank. Staff welcomes the authorities' commitment to address these serious concerns.

30. **The debt restructuring process appears to have stalled, notwithstanding the authorities' good-faith efforts towards collaborative settlements with the remaining creditors.** Of particular concern is the ongoing lawsuit by a bank from Taiwan Province of China, and the limited progress with the holders of the RBTT bond and with Kuwait. Staff welcomes the authorities' intention to maintain their good-faith efforts in pursuit of agreements that maintain inter-creditor equity, including making payments into the escrow account and regular attempts to contact all nonparticipants. Plans to list the new bonds on the ECSE are also welcome.

31. **Staff recommends the completion of the financing assurances review and supports the conclusion of the Sixth Review Under the PRGF Arrangement.** The authorities' actions and intentions with regard to the payment arrears owed to private creditors confirm that the basis for completing the financing assurances review remains valid. All quantitative performance criteria for December 31, 2005 and the structural performance

criterion were met. Progress has been made on the benchmarks for the sixth review, and policy implementation has remained strong. While significant risks still remain, particularly because the debt restructuring has not been concluded, the authorities' commitment to implement the policies under the program will help balance these risks and provide adequate performance.

Table 1. Dominica: Selected Economic and Social Indicators

	2004	2005 Prog. 1/	2005 Est.	2006 Prog. 1/	2006 Rev. Proj.	2007 Proj.
(Annual percent change, unless otherwise specified)						
Output and prices						
Real GDP (factor cost)	3.0	3.1	3.4	3.0	3.0	3.0
GDP deflator (factor cost)	2.1	1.5	1.9	1.5	1.5	1.5
Nominal GDP (factor cost)	5.2	4.5	5.3	4.5	4.5	4.5
Nominal GDP (market prices)	5.4	4.3	5.0	4.4	4.4	4.4
Consumer prices (end of period)	0.8	1.5	2.7	1.5	1.5	1.5
Money and credit						
Net foreign assets of the banking system 2/	8.1	4.1	-8.0	5.5	3.8	2.6
Net domestic assets of the banking system 2/	-2.1	1.4	14.7	1.1	0.9	2.1
Of which						
Net credit to the nonfinancial public sector 2/	-5.1	0.1	0.6	-1.6	-2.0	-0.8
Credit to the private sector 2/	5.4	3.8	4.6	4.4	4.1	4.1
Liabilities to the private sector (M2)	5.9	5.5	6.7	6.6	4.6	4.6
Balance of payments						
Merchandise exports, f.o.b.	4.4	3.9	1.0	5.0	3.0	4.5
Merchandise imports, f.o.b.	14.3	7.8	13.8	4.0	-0.6	4.6
Real effective exchange rate						
(end of period, depreciation -) 3/	-3.4	…	-3.5	…	0.6	…
(In millions of U.S. dollars)						
Merchandise exports, f.o.b.	42.8	44.5	43.2	46.7	44.5	46.5
Merchandise imports, f.o.b.	127.8	137.8	145.4	143.2	144.5	151.2
Current account balance	-46.7	-54.3	-70.2	-51.8	-60.7	-63.0
Capital account balance 4/	21.2	45.4	62.1	43.6	56.2	64.3
Overall balance	-25.7	-8.8	-8.0	-8.2	-4.4	1.3
(In percent of GDP, unless otherwise specified)						
Central government 5/						
Savings (incl. grants)	7.6	7.4	7.7	8.2	9.8	9.7
Of which						
Primary (before grants)	7.8	5.0	6.1	5.0	4.5	4.4
Grants	5.9	8.1	7.2	8.1	8.6	8.3
Capital expenditure and net lending	8.8	10.1	8.3	10.1	10.1	9.8
Primary balance (incl. grants)	3.5	3.0	5.0	3.0	3.0	3.0
Overall balance	-0.9	-2.5	-0.4	-1.7	-0.1	0.1
Nonfinancial public sector debt (gross) 6/						
Total	116.0	109.1	108.2	103.9	103.3	98.5
External	80.6	81.1	74.6	77.6	70.8	66.5
Domestic	35.4	28.0	33.6	26.3	32.4	32.0
External sector						
Current account balance	-17.2	-19.2	-24.6	-17.6	-20.4	-20.3
External public debt service 7/	20.7	13.2	17.4	13.1	13.8	10.4
Amortization	14.0	8.2	9.1	7.3	8.9	5.6
Interest	6.7	5.0	8.4	5.8	4.9	4.8
Memorandum items:						
Nominal GDP at market prices (EC$ millions)						
Calendar year	733.7	763.5	770.2	796.9	803.9	839.2
Net international reserves						
(U.S. dollars millions; end-of-period) 8/	33.6	34.0	37.6	41.0	42.5	47.0

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

1/ IMF Country Report No. 05/384, Fifth PRGF Review (September 2005).
2/ Change relative to the stock of M2 at the beginning of the period. From 2003, transactions with the IMF are included as transactions of the monetary authorities.
3/ Figure for 2006 is the annual percentage change to March 2006.
4/ Including errors and omissions.
5/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning on July 1 of that year.
6/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic
7/ On a due basis. In percent of exports of goods and nonfactor services.
8/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.

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

	Program PC	Adjusted PC	Actual	Margin (+)/ Excess (-)	Program IT	Adjusted IT	Actual	Margin (+)/ Excess (-)	Program PC	Adjusted PC	Actual	Margin (+)/ Excess (-)	Program IT	Adjusted IT	Prov. Actual	Margin (+)/ Excess (-)
,	June 30, 2005 1/				Sept. 30, 2005 2/				Dec. 31, 2005 2/				Mar. 31, 2006 2/			
I. Performance Criteria																
(In millions of Eastern Caribbean dollars)																
Central government primary balance	14.7	8.8	26.7	17.9	2.9	3.9	12.3	8.5	7.6	8.7	22.7	14.0	16.2	17.6	45.4	27.8
Central government wage bill	102.7	102.7	102.0	0.7	27.6	27.6	25.6	2.0	55.7	55.7	52.7	3.0	81.4	81.4	78.8	2.6
Banking system net credit to central government	0.0	4.7	-12.2	17.0	3.0	2.0	-6.5	8.5	-0.1	-1.3	-2.6	1.3	-6.4	-3.7	-14.0	10.3
Net changes in central government arrears to private domestic parties	15.0	15.0	1.2	13.8	4.0	4.0	-1.4	5.4	8.0	8.0	-3.1	11.1	8.0	8.0	-2.8	10.8
(In millions of U.S. dollars)																
Disbursement of central government or central government guaranteed external nonconcessional debt with maturity of at least one year	10.0	10.0	5.3	4.7	1.9	1.9	0.9	1.0	4.4	4.4	1.7	2.7	6.9	6.9	2.4	4.5
Net changes in the outstanding stock of contracted or guaranteed short-term external debt of the central government (with maturity of less than one year) 3/	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...
Central government and central government guaranteed external payments arrears 3/ 4/	0.0	0.0	Not met	...	0.0	0.0	Met	...	0.0	0.0	Met	...	0.0	0.0	Met	...
II. Indicative Targets																
(In millions of Eastern Caribbean dollars)																
Central government overall balance	-31.6	-37.5	-17.2	20.3	-10.5	-9.5	-1.0	8.5	-14.0	-12.9	1.1	14.0	-18.7	-17.3	10.6	27.8
Central government revenues	210.6	210.6	245.1	34.6	52.9	52.9	63.7	10.8	111.1	111.1	127.1	16.0	171.9	171.9	190.9	19.0
Central government primary savings	36.3	36.3	58.7	22.4	5.5	6.5	18.3	11.9	14.0	15.1	34.9	19.9	27.3	28.7	49.2	20.4

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

1/ Cumulative amounts from June 30, 2004. All variables and adjustors that apply are defined in the Technical Memorandum of Understanding. Historical data have been revised to reflect recently recognized pending bills.
2/ Cumulative amounts from June 30, 2005. All variables and adjustors that apply are defined in the Technical Memorandum of Understanding. Historical data have been revised to reflect recently recognized pending bills.
3/ These performance criteria are monitored on a continuous basis.
4/ External arrears that were known at the time of the Executive Board discussions on August 4, 2004 and on March 7, 2005, were waived.

Table 3. Dominica: Structural Benchmarks and Other Structural Reforms

	IMF Country Report No. 05/384			
	Category	Location	Target Date	Status
Fiscal reforms				
VAT implementation	Performance Criterion	MEP Table 2	March 1, 2006	Completed
Cabinet approval of amendments to the Finance Administration Act	...	MEP ¶ 16	End-November 2005	Completed
Parliamentary approval of amendments to the Finance Administration Act	Benchmark, 7th review	MEP Table 2	End-May 2006	Work ongoing
Line ministries to submit rolling three-year expenditure plans	Benchmark, 7th review	MEP Table 2	End-May 2006	Work ongoing
Publish information of all concessions granted in 2004/05, and then monthly after the end of each month	...	MEP ¶ 6	August 2005	Completed
Adjust the opening balances of the general ledger	...	MEP ¶ 6	End-December 2005	Completed
Complete review on streamlining the structure and functions of government units	Benchmark, 6th review	MEP Table 2	End-February 2006	Completed
Complete comprehensive review of statutory exemptions, and repeal all concession found to be unnecessary	...	MEP ¶ 20	End-December 2005	Pending
Approval of FY 2006/07 budget consistent with the program and a 3 percent primary surplus	...	...	...	New
Approval of implementation plan to further rationalize the wage bill in FY 2006/07	...	...	...	New
Present the FY 2006/07 budget within a three-year budgeting framework	...	...	...	New
Complete review on streamlining the police, fire and prisons departments	...	...	...	New
Financial sector reforms				
Take necessary steps to to conduct an on-site inspection of the AID Bank	...	MEP ¶ 10	End-October 2005	Completed
Conduct an onsite inspection of the AID Bank	...	MEP ¶ 10	End-March 2006	Completed
Adoption of measures to bring the Roseau Credit Union in full regulatory compliance	...	MEP ¶ 10	End-December 2005	Completed
Establish legislative basis for the FSU to supervise insurance companies, and regulate all NBFIs and AID Bank	Benchmark, 6th review	MEP Table 2	End-December 2005	Work ongoing
Prepare strategy for dealing with the AID Bank	...	...	...	New
AID Bank ceasing accepting deposits	...	...	...	New
Other reforms				
Prepare action plan to reform DSS	...	MEP ¶ 15	End-December 2005	Completed
Cabinet approval of action plan to eliminate the unfunded liabilities of DSS	Benchmark, 7th review	MEP Table 2	End-March 2006	Work ongoing
Parliamentary approval of amendments to the Electricity Supply Act and related legislation	Benchmark, 6th review	MEP Table 2	End-December 2005	Pending
Complete strategic reviews and establish action plans for the operations of AID Bank, DEXIA and NDC	Benchmark, 6th review	MEP Table 2	End-December 2005	Work ongoing
Establish a one-stop shop for the approval of new businesses	...	MEP ¶ 10	End-March 2006	Pending
Submit to parliament the 2004 audited financial accounts of the AID Bank, DOWASCO and DEXIA	...	MEP ¶ 6	December 2005	Completed
Audit the financial accounts of the NDC by end-December 2005 and then submit them to parliament	...	MEP ¶ 6	Early 2006	Pending
Finalize the GSPSP	...	Attachment IV	End-December 2005	Completed

Sources: Dominican authorities; and IMF Country Report No. 05/384, Fifth PRGF Review (September 2005).

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

	2001/02	2002/03	2003/04	2004/05 Prog. 2/	2004/05 Actual	2005/06 Prog. 2/	2005/06 Rev. Prog.	2006/07
(In millions of Eastern Caribbean dollars)								
Total revenue and grants	**209.7**	**224.1**	**285.9**	**291.3**	**292.0**	**294.2**	**305.1**	**311.4**
Current revenue	197.1	191.9	221.8	229.2	245.7	229.3	246.7	239.4
Tax revenue	160.2	167.9	193.6	203.6	213.3	210.9	225.4	221.7
Taxes on income	40.1	45.0	43.7	35.5	40.8	39.3	51.6	48.1
Taxes on property	2.2	2.5	2.6	5.8	6.6	2.8	7.0	5.4
Taxes on goods and services	30.2	33.0	49.1	55.0	56.2	75.0	71.7	112.3
Taxes on international transactions	87.6	87.5	98.3	107.3	109.7	93.8	95.0	56.0
Nontax revenue	36.8	23.9	28.1	25.6	32.4	18.4	21.4	17.7
Capital revenue	0.9	1.3	1.0	2.5	2.0	1.5	1.5	1.5
Grants	11.8	30.9	63.2	59.6	44.3	63.4	56.9	70.5
Total expenditure	**269.3**	**261.3**	**295.2**	**317.5**	**298.7**	**313.5**	**308.3**	**312.4**
Current expenditure	229.7	226.6	223.1	226.6	232.9	234.8	243.3	229.3
Wages and salaries 3/	116.5	116.1	104.2	102.7	102.0	106.5	106.5	107.1
Interest	36.9	37.6	41.7	43.8	43.9	43.0	43.0	25.6
Domestic	19.3	17.8	18.8	20.4	20.4	20.2	20.2	8.9
External	17.5	19.8	22.9	23.4	23.5	22.8	22.8	16.6
Others	76.3	72.8	77.2	80.1	87.0	85.3	93.8	96.6
Goods and services	38.7	33.7	38.1	39.2	39.0	41.4	47.0	49.1
Transfers and subsidies	37.6	39.1	39.1	40.9	48.0	43.9	46.8	47.5
Capital expenditure and net lending	39.6	34.7	72.1	90.9	65.8	78.7	65.1	83.1
Overall balance	**-59.5**	**-37.2**	**-9.3**	**-26.3**	**-6.6**	**-19.3**	**-3.2**	**-1.0**
Statistical discrepancy 5/	8.2	-11.5	6.6	-2.7	-10.6	0.0	-0.5	0.0
Financing	**51.3**	**48.7**	**2.7**	**29.0**	**17.2**	**19.3**	**3.7**	**1.0**
Net foreign financing	25.6	44.9	47.3	16.9	25.8	22.3	19.1	9.4
Disbursements	31.9	47.7	78.4	20.9	26.8	11.8	11.1	12.5
Amortization	6.3	6.5	37.2	43.2	43.2	20.4	20.4	28.0
Other including rescheduling	0.0	3.8	6.1	39.2	42.3	30.8	28.4	25.0
Net domestic financing	25.7	3.8	-44.5	12.1	-8.6	-3.0	-15.4	-8.4
Bank	16.3	-6.9	-41.4	-0.2	-12.2	-13.6	-16.3	-8.4
Nonbank	9.5	10.7	-7.7	1.6	-6.6	0.0	-4.0	0.0
Other including rescheduling 4/	0.0	0.0	4.6	10.7	10.2	10.6	5.0	0.0
(In percent of GDP)								
Total revenue and grants	**30.2**	**32.7**	**40.0**	**39.4**	**38.8**	**37.7**	**38.8**	**37.9**
Current revenue	28.4	28.0	31.0	31.0	32.7	29.4	31.3	29.1
Tax revenue	23.1	24.5	27.1	27.5	28.4	27.0	28.6	27.0
Taxes on income	5.8	6.6	6.1	4.8	5.4	5.0	6.6	5.9
Taxes on property	0.3	0.4	0.4	0.8	0.9	0.4	0.9	0.7
Taxes on goods and services	4.4	4.8	6.9	7.4	7.5	9.6	9.1	13.7
Taxes on international transactions	12.6	12.8	13.7	14.5	14.6	12.0	12.1	6.8
Nontax revenue	5.3	3.5	3.9	3.5	4.3	2.4	2.7	2.2
Capital revenue	0.1	0.2	0.1	0.3	0.3	0.2	0.2	0.2
Grants	1.7	4.5	8.8	8.1	5.9	8.1	7.2	8.6
Total expenditure	**38.8**	**38.2**	**41.3**	**42.9**	**39.7**	**40.2**	**39.2**	**38.0**
Current expenditure	33.1	33.1	31.2	30.6	31.0	30.1	30.9	27.9
Wages and salaries 3/	16.8	17.0	14.6	13.9	13.6	13.7	13.5	13.0
Interest	5.3	5.5	5.8	5.9	5.8	5.5	5.5	3.1
Domestic	2.8	2.6	2.6	2.8	2.7	2.6	2.6	1.1
External	2.5	2.9	3.2	3.2	3.1	2.9	2.9	2.0
Others	11.0	10.6	10.8	10.8	11.6	10.9	11.9	11.8
Goods and services	5.6	4.9	5.3	5.3	5.2	5.3	6.0	6.0
Transfers and subsidies	5.4	5.7	5.5	5.5	6.4	5.6	5.9	5.8
Capital expenditure and net lending	5.7	5.1	10.1	12.3	8.8	10.1	8.3	10.1
Overall balance	**-8.6**	**-5.4**	**-1.3**	**-3.5**	**-0.9**	**-2.5**	**-0.4**	**-0.1**
Statistical discrepancy 5/	1.2	-1.7	0.9	-0.4	-1.4	0.0	-0.1	0.0
Financing	**7.4**	**7.1**	**0.4**	**3.9**	**2.3**	**2.5**	**0.5**	**0.1**
Net foreign financing	3.7	6.6	6.6	2.3	3.4	2.9	2.4	1.1
Disbursements	4.6	7.0	11.0	2.8	3.6	1.5	1.4	1.5
Amortization	0.9	1.0	5.2	5.8	5.8	2.6	2.6	3.4
Other including rescheduling	0.0	0.6	0.9	5.3	5.6	3.9	3.6	3.0
Net domestic financing	3.7	0.6	-6.2	1.6	-1.1	-0.4	-2.0	-1.0
Bank	2.3	-1.0	-5.8	0.0	-1.6	-1.7	-2.1	-1.0
Nonbank	1.4	1.6	-1.1	0.2	-0.9	0.0	-0.5	0.0
Other including rescheduling 4/	0.0	0.0	0.6	1.4	1.4	1.4	0.6	0.0
Memorandum items:								
Capital expenditure less total grants								
In EC$ million	30.2	4.0	11.8	34.7	25.1	17.9	10.7	14.6
In percent of GDP	4.3	0.6	1.7	4.7	3.3	2.3	1.4	1.8
Savings (incl. grants)	-3.0	-0.6	8.6	8.4	7.6	7.4	7.7	9.8
Primary savings (before grants)	0.7	0.6	5.8	6.6	7.8	5.0	6.1	4.5
Primary balance (incl. grants) 6/	-2.1	-1.6	5.4	2.0	3.5	3.0	5.0	3.0
Nominal GDP at market prices (EC$ millions)	695.2	689.8	714.9	740.0	751.9	780.2	787.1	821.5

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

1/ Fiscal years beginning July 1. On a commitment basis, unless otherwise indicated.
2/ IMF Country Report 05/384, Fifth PRGF Review (September 2005).
3/ 2005/06 includes a reclassification of EC$2.3 million (0.3 percent of GDP) to other expenditure, reflecting a transfer of teachers from the government payroll to that of the State College.
4/ Debt service projected for 2006/07 is on a post-restructured due basis.
5/ Difference between identified financing below-the-line and overall balance above-the-line.
6/ Computed using overall deficit measured from below-the-line.

Table 5. Dominica: Balance of Payments

	2002	2003	2004	2005 Prog. 1/	2005 Prel.	2006 Prog. 1/	2006 Rev. Proj.	Proj. 2007	Proj. 2008	Proj. 2009	Proj. 2010
	(In millions of U.S. dollars)										
Current account balance	**-34.7**	**-33.6**	**-46.7**	**-54.3**	**-70.2**	**-51.8**	**-60.7**	**-63.0**	**-63.7**	**-63.5**	**-63.1**
Trade balance	-58.7	-70.8	-84.6	-93.3	-102.2	-96.5	-100.0	-104.7	-107.7	-110.9	-114.3
Exports (f.o.b.) 2/	43.6	41.0	42.8	44.5	43.2	46.7	44.5	46.5	48.6	50.8	53.1
Of which											
Bananas	8.1	5.9	7.2	7.2	6.3	7.5	6.3	6.3	6.3	6.3	6.3
Imports (f.o.b.)	102.4	111.8	127.8	137.8	145.4	143.2	144.5	151.2	156.3	161.7	167.3
Of which : Mineral fuels 3/	9.6	12.1	14.1	18.9	19.3	20.4	24.8	26.8	27.1	27.5	28.0
Services balance	26.0	32.8	40.0	45.1	35.3	47.3	40.0	42.1	44.9	47.9	51.0
Exports of services	79.7	77.3	86.3	95.5	84.3	99.6	88.7	93.0	97.6	102.4	107.4
Travel	45.7	52.3	60.1	65.6	55.8	68.5	59.0	62.0	65.2	68.6	72.1
Other	34.0	25.0	26.2	29.8	28.4	31.1	29.7	31.0	32.3	33.8	35.2
Imports of services	53.7	44.6	46.3	50.3	49.0	52.3	48.7	50.9	52.6	54.4	56.4
Net income	-18.4	-12.1	-21.8	-22.0	-27.4	-20.2	-18.5	-19.1	-20.4	-20.8	-21.0
Interest payments (public sector) 4/	-8.8	-8.0	-8.6	-7.0	-10.7	-8.4	-6.6	-6.6	-7.5	-7.3	-6.9
Other income	-9.6	-4.1	-13.2	-11.3	-16.7	-11.8	-11.9	-12.4	-13.0	-13.5	-14.1
Net current transfers	16.4	16.6	19.8	15.9	24.1	17.6	17.9	18.6	19.5	20.3	21.2
Private	12.6	12.4	18.4	17.0	20.0	17.7	17.9	18.6	19.5	20.3	21.2
Public	3.8	4.2	1.4	-1.1	4.2	-0.1	0.0	0.0	0.0	0.0	0.0
Capital and financial account	**32.1**	**22.4**	**23.0**	**45.4**	**75.1**	**43.6**	**56.2**	**64.3**	**63.8**	**61.7**	**67.4**
Capital account	20.5	18.8	26.8	19.2	20.8	26.7	24.8	27.8	29.8	31.6	32.9
Public capital transfers	17.7	15.9	23.8	16.3	18.0	23.7	21.8	24.7	26.6	28.2	29.4
Private capital transfers	2.8	2.9	3.0	2.8	2.9	3.0	3.0	3.1	3.2	3.4	3.5
Financial account	11.6	3.7	-3.8	26.3	54.3	16.9	31.4	36.4	34.0	30.1	34.5
Public sector	25.8	8.9	0.2	-1.3	-3.8	-6.2	-7.3	-3.1	-5.3	-7.3	-6.0
Budgetary flows (net)	25.0	8.9	0.2	-1.3	-3.8	-6.2	-7.3	-3.1	-5.3	-7.3	-6.0
Disbursements	30.7	24.0	18.3	10.2	7.8	4.4	4.5	4.7	4.9	5.1	5.4
Repayments 4/	5.7	15.1	18.1	11.5	11.5	10.7	11.9	7.9	10.2	12.5	11.4
Nonbudgetary flows (net)	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Private sector	-14.1	-5.2	-4.0	27.6	58.0	23.1	38.8	39.5	39.3	37.4	40.5
Direct investment	11.4	19.8	18.1	21.1	20.0	21.7	20.8	20.2	21.1	22.0	23.0
Commercial banks	-24.1	-33.9	-26.9	-3.6	21.4	-10.5	-3.8	-1.7	-3.1	-1.5	0.0
Other private flows	-1.5	8.8	4.8	10.0	16.7	11.9	21.7	21.0	21.3	16.9	17.5
Errors and omissions	**14.7**	**12.5**	**-1.8**	**0.0**	**-12.9**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**12.1**	**1.4**	**-25.7**	**-8.8**	**-8.0**	**-8.2**	**-4.4**	**1.3**	**0.1**	**-1.8**	**4.3**
Overall financing	**-12.1**	**-1.4**	**25.7**	**8.8**	**8.0**	**8.2**	**4.4**	**-1.3**	**-0.1**	**1.8**	**-4.3**
Net international reserves	-12.1	-1.4	10.3	-5.3	-4.0	-2.1	-4.9	-4.6	-3.2	-3.5	-4.0
Gross reserves (increase = -)	-15.1	-6.2	9.4	-8.5	-7.2	-3.9	-6.6	-2.7	-2.7	-2.8	-2.9
IMF reserve liabilities (purchase = +)	3.0	4.8	0.9	3.2	3.2	1.8	1.8	-1.8	-0.6	-0.7	-1.1
Exceptional financing	0.0	0.0	15.4	14.1	12.0	10.4	9.3	3.3	3.2	5.3	-0.4
	(In percent of GDP)										
Capital account balance 3/											
Current account balance	-13.7	-13.0	-17.2	-19.2	-24.6	-17.6	-20.4	-20.3	-19.6	-18.8	-17.8
Current account balance including net capital transfers	-5.6	-5.7	-7.3	-12.4	-17.3	-8.5	-12.1	-11.3	-10.5	-9.4	-8.5
External public debt service (as a percent of exports of goods)											
Central government 5/ 6/	11.8	19.5	20.7	13.2	17.4	13.1	13.8	10.4	12.1	12.9	11.4
Amortization	4.6	12.8	14.0	8.2	9.1	7.3	8.9	5.6	7.0	8.1	7.1
Interest	7.1	6.8	6.7	5.0	8.4	5.8	4.9	4.8	5.1	4.8	4.3

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

1/ IMF Country Report No. 05/384, Fifth PRGF Review (October 2005).
2/ Includes stores and bunkers.
3/ Projections based on WEO's baseline oil prices projections of May 2006.
4/ Up to 2005 data is on prerestructuring terms. After that, data in on postrestructuring terms for creditors participating in the debt restructuring and on prerestructuring terms for creditors not participating.
5/ These data are presented on a fiscal year (July–June) basis. Figures shown for a given calendar year relate to the fiscal year beginning July 1.
6/ For 2005, it includes the reallocation of part of an external bond (around 4 percent of GDP) from external to domestic.

Table 6. Dominica: Summary Accounts of the Banking System

	2002	2003	2004	2005 Prog. 1/	2005 Prel.	2006 Prog. 1/	2006 Rev. Proj.
	(In millions of Eastern Caribbean dollars, end of period)						
	I. Consolidated Banking System and Monetary Authorities						
Net foreign assets	**193.8**	**289.0**	**333.7**	**357.7**	**286.8**	**391.6**	**310.4**
Net domestic assets	**355.4**	**265.5**	**253.6**	**261.7**	**340.2**	**268.8**	**345.6**
Net credit to the nonfinancial public sector	74.8	51.1	23.0	23.6	26.5	13.6	14.0
Of which							
Central government	64.2	55.9	45.6	46.6	67.3	37.4	52.6
Net credit to nonbank financial institutions	-46.6	-81.8	-75.9	-78.8	-59.9	-82.6	-62.5
Credit to the private sector	433.2	420.6	450.7	472.9	477.8	500.2	503.5
Other items (net) 2/	-106.1	-124.5	-144.2	-155.9	-104.2	-162.5	-109.4
Broad money 3/	**549.2**	**554.5**	**587.4**	**619.5**	**627.0**	**660.4**	**655.9**
	II. Operations of the Monetary Authorities						
Imputed net international reserves	**117.8**	**118.7**	**90.8**	**91.8**	**101.5**	**110.8**	**114.7**
Net domestic assets	**12.1**	**7.0**	**26.0**	**27.9**	**20.8**	**20.5**	**15.7**
Monetary base	**129.9**	**125.7**	**116.8**	**119.7**	**122.3**	**131.3**	**130.4**
Currency in circulation	35.5	34.2	37.6	38.9	39.0	40.7	41.1
Commercial bank reserves	94.4	91.5	79.2	80.8	83.4	90.6	89.3
	III. Commercial Banks						
Net foreign assets	**79.0**	**170.4**	**242.9**	**265.9**	**185.3**	**280.8**	**195.6**
Net claims on ECCB	**98.2**	**85.6**	**73.8**	**78.8**	**77.7**	**84.4**	**83.3**
Net domestic assets	**336.6**	**264.3**	**233.1**	**235.8**	**325.1**	**254.5**	**336.0**
Net credit to the nonfinancial public sector	53.4	26.3	-10.8	-16.0	-12.8	-29.0	-21.1
Net credit to nonbank financial institutions	-46.6	-81.8	-75.9	-78.8	-59.9	-82.6	-62.5
Credit to the private sector	433.2	420.6	450.7	472.9	477.8	500.2	503.5
Other (net)	-103.5	-100.7	-130.9	-142.2	-80.0	-134.1	-83.9
Private sector deposits 3/	**513.7**	**520.3**	**549.8**	**580.6**	**588.0**	**619.7**	**614.9**
	IV. Consolidated Banking System						
	(Annual percentage change)						
Credit to the private sector	-1.4	-2.9	7.1	4.9	6.0	5.8	5.4
Private sector deposits	7.6	1.3	5.7	5.6	12.7	6.7	4.6
Broad money	8.5	1.0	5.9	5.5	6.7	6.6	4.6
	(Contributions to liquidity growth) 4/						
Net foreign assets	**19.3**	**17.3**	**8.1**	**4.1**	**-8.0**	**5.5**	**3.8**
Net domestic assets	**-10.8**	**-16.4**	**-2.1**	**1.4**	**14.7**	**1.1**	**0.9**
Net credit to the nonfinancial public sector	-5.4	-4.3	-5.1	0.1	0.6	-1.6	-2.0
Credit to the private sector	-1.3	-2.3	5.4	3.8	4.6	4.4	4.1
Memorandum items:							
Interest rates 5/							
Deposits (3-month time—maximum rate)	6.0	6.0	3.0	…	3.0	…	…
Lending: Minimum rate	8.5	8.0	7.5	…	7.5	…	…
Maximum rate	20.8	18.2	18.2	…	18.2	…	…

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

1/ Program figures are as shown in IMF Country Report No. 05/384, Fifth PRGF Review (September 2005). From 2002, transactions with the IMF are inclu transactions with the monetary authorities.
2/ Includes interbank float.
3/ Including foreign currency deposits.
4/ Percent change relative to broad money at the beginning of the period.
5/ Commercial banks; end-of-period rates, percent per annum.

Table 7. Dominica: Medium-Term Macroeconomic Framework

	2001	2002	2003	Est. 2004	Prog. 1/ 2005	Prel. 2005	Prog. 1/ 2006	Rev. Proj. 2006	Proj. 2007	Proj. 2008	Proj. 2009	Proj. 2010
	(Annual percent change)											
National income and prices												
GDP at constant (1990) prices	-4.2	-5.1	0.1	3.0	3.1	3.4	3.0	3.0	3.0	3.0	3.0	3.0
Implicit GDP deflator (factor cost)	1.2	-0.2	0.9	2.1	1.5	1.9	1.5	1.5	1.5	1.5	1.5	1.5
	(In percent of GDP, unless otherwise specified)											
Savings and investment												
Gross domestic investment	**25.4**	**20.8**	**25.5**	**28.8**	**25.0**	**24.2**	**26.7**	**25.7**	**27.4**	**27.3**	**27.3**	**27.3**
Public	15.0	7.5	9.4	11.9	10.0	9.2	10.7	9.7	10.4	10.3	10.3	10.3
Of which												
Central government	10.7	5.6	7.8	9.9	9.7	8.9	10.4	9.5	10.2	10.0	10.0	10.0
Of which												
Other public sector	4.3	1.9	1.6	2.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Private	10.3	13.4	16.1	16.9	15.0	15.0	16.0	16.0	17.0	17.0	17.0	17.0
Gross national saving 2/	**13.6**	**15.2**	**19.7**	**21.5**	**12.6**	**6.9**	**18.2**	**13.7**	**16.1**	**16.8**	**17.8**	**18.7**
Public	3.6	0.0	5.9	10.7	8.5	8.5	8.6	9.5	10.4	10.5	10.7	10.8
Of which												
Central government	1.0	-1.4	4.4	8.8	8.2	8.3	8.3	9.2	10.2	10.2	10.4	10.6
Of which												
Other public sector	2.6	1.4	1.5	2.0	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Private	10.0	15.2	13.8	10.8	4.1	-1.7	9.6	4.2	5.7	6.3	7.2	7.9
Savings-investment balance	**-11.8**	**-5.6**	**-5.7**	**-7.3**	**-12.4**	**-17.3**	**-8.5**	**-12.1**	**-11.3**	**-10.5**	**-9.4**	**-8.5**
Public savings investment	-11.5	-7.5	-3.4	-1.2	-1.5	-0.6	-2.1	-0.3	0.0	0.2	0.4	0.6
Private savings investment	-0.3	1.8	-2.3	-6.1	-10.9	-16.7	-6.4	-11.8	-11.3	-10.7	-9.8	-9.1
Central government finances 3/												
Current revenue	28.3	27.8	31.0	32.7	29.4	31.3	29.2	29.1	29.0	29.0	29.0	29.0
Capital revenue	0.1	0.2	0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Current expenditure	33.0	32.8	31.2	31.0	30.1	30.9	29.2	27.9	27.6	27.4	27.2	27.1
Overall balance (incl. grants)	-8.6	-5.4	-1.3	-0.9	-2.5	-0.4	-1.7	-0.1	0.1	0.3	0.5	0.6
Grants	1.7	4.5	8.8	5.9	8.1	7.2	8.1	8.6	8.3	8.3	8.3	8.3
Capital spending	6.0	5.1	10.5	9.2	10.4	8.6	10.4	10.4	10.0	10.0	10.0	10.0
Primary balance	-2.1	-1.6	5.4	3.5	3.0	5.0	3.0	3.0	3.0	3.0	3.0	3.0
Memorandum items:												
Nonfinancial public sector debt 4/	93.7	126.7	130.8	116.0	109.1	108.2	103.9	103.3	98.5	94.2	90.0	85.9
External	67.5	79.6	84.6	80.6	81.1	74.6	77.6	70.8	66.5	62.4	58.4	53.4
Domestic	26.2	47.1	46.2	35.4	28.0	33.6	26.3	32.4	32.0	31.7	31.6	32.5

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

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

Table 8. Dominica: Public Sector Debt Sustainability Framework, Baseline Scenario, 2000–26

(In percent of GDP, unless otherwise indicated)

	Actual								Estimate	Projections								
	2000	2001	2002	2003	2004	2005	Historical Average 5/	Standard Deviation 5/	2006	2007	2008	2009	2010	2011	2006-11 Average	2016	2026	2012-26 Average
Public sector debt 1/	86.2	93.0	126.7	130.8	116.0	108.2			103.3	98.5	94.2	90.0	85.9	82.0		64.7	33.7	
Of which : foreign-currency denominated 7/ 9/	56.4	67.0	79.6	84.6	80.6	74.6			70.8	66.5	62.4	58.4	53.4	48.9		33.9	21.7	
Change in public sector debt	9.0	6.8	33.7	4.1	-14.8	-7.8			-4.9	-4.8	-4.3	-4.2	-4.1	-3.9		-3.3	-2.9	
Identified debt-creating flows 8/	9.4	11.9	11.3	-2.0	-12.0	-9.6			-5.1	-4.9	-4.5	-4.3	-4.2	-4.0		-3.4	-3.0	
Primary deficit	5.3	2.9	1.2	-6.1	-4.4	-4.5	0.6	4.8	-3.3	-3.3	-3.3	-3.2	-3.2	-3.2	-3.3	-3.1	-3.1	-3.1
Revenue and grants	44.8	35.1	41.0	50.0	48.7	47.4			46.7	47.3	47.5	47.7	47.7	47.7		47.7	47.7	
Of which: grants	11.8	1.8	4.5	9.2	6.0	6.3			7.3	8.0	8.2	8.3	8.3	8.3		8.3	8.3	
Primary (noninterest) expenditure	50.1	38.0	42.2	43.9	44.4	43.0			43.3	44.0	44.2	44.4	44.5	44.5		44.6	44.6	
Automatic debt dynamics	4.1	9.0	10.1	4.1	-2.1	-2.6			-1.7	-1.6	-1.2	-1.1	-1.0	-0.8		-0.3	0.1	
Contribution from interest rate/growth differential	3.5	7.8	9.4	3.3	-2.1	-2.9			-2.1	-1.9	-1.5	-1.4	-1.3	-1.1		-0.5	0.0	
Of which: contribution from average real interest rate	3.8	4.0	4.4	3.5	1.8	0.9			1.1	1.1	1.4	1.3	1.3	1.4		1.5	1.1	
Of which: contribution from real GDP growth	-1.0	3.8	5.0	-0.1	-3.9	-3.8			-3.2	-3.0	-2.9	-2.7	-2.6	-2.5		-2.0	-1.1	
Contribution from real exchange rate depreciation	0.6	1.2	0.6	0.7	0.0	0.3			0.4	0.3	0.3	0.3	0.3	0.3		...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	-5.6	-2.5			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	-1.9			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	-0.9	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other) 6/	0.0	0.0	0.0	0.0	-4.6	-0.6			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-0.4	-5.1	22.4	6.1	-2.8	1.8			0.2	0.2	0.2	0.1	0.1	0.1		0.1	0.1	
NPV of public sector debt	29.8	26.0	47.1	46.2	88.0	84.0			81.5	78.8	76.2	73.6	71.0	68.3		55.0	27.1	
Of which : foreign-currency denominated	0.0	0.0	0.0	0.0	52.6	50.4			49.0	46.8	44.5	42.0	38.4	35.2		24.2	15.1	
Of which : external	...	...	...	...	52.6	50.4			49.0	46.8	44.5	42.0	38.4	35.2		24.2	15.0	
NPV of contingent liabilities (not included in public sector debt)	...	...	...	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	10.5	8.4	7.0	4.6	6.7	0.5			2.1	2.7	2.9	3.3	4.6	4.4		1.9	0.0	
NPV of public sector debt-to-revenue ratio (in percent) 3/	66.5	74.1	114.9	92.5	180.6	177.1			174.5	166.7	160.3	154.3	148.9	143.4		115.5	56.8	
Of which : external					108.0	106.3			105.0	99.0	93.6	88.1	80.7	73.8		50.9	31.6	
Debt service-to-revenue ratio (in percent) 3/ 4/	11.6	15.6	14.2	21.3	22.7	10.4			11.7	12.8	13.0	13.6	16.4	15.9		10.4	6.6	
Primary deficit that stabilizes the debt-to-GDP ratio				-10.2	10.5	3.4			1.6	1.4	1.0	1.0	0.9	0.7		0.2	-0.2	
Key macroeconomic and fiscal assumptions																		
Real GDP growth (in percent)	1.4	-4.2	-5.1	0.1	3.0	3.4	0.8	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Average nominal interest rate on forex debt (in percent)	4.8	5.1	5.0	4.0	3.9	2.0	3.6	1.1	2.1	2.2	2.7	2.6	2.6	2.6	2.5	2.7	3.2	2.9
Average real interest rate on domestic currency debt (in percent)	9.3	7.9	7.8	3.8	0.7	3.1	6.0	3.2	3.1	3.0	3.0	3.1	3.2	3.4	3.1	4.0	6.0	4.3
Real exchange rate depreciation (in percent, + indicates depreciation)	1.3	2.0	0.9	0.9	0.0	0.4	0.3	1.0	0.5	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.9	0.4	0.8	0.9	2.1	1.9	1.6	0.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Growth of real primary spending (deflated by GDP deflator, in percent)	8.3	-26.0	5.8	5.1	4.3	-0.2	2.2	11.4	3.7	4.4	3.5	3.3	2.9	2.9	3.4	2.9	2.8	2.9
Grant element of new external borrowing (in percent)	...	...	...	...	...	...			35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6	35.6	...

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

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

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

3/ Revenues including grants.

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

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

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

7/ Refers to external debt. Assumes that nonparticipating creditors receive the intermediate bond. Excludes external interest arrears. Arrears with participating creditors have been settled as part of the debt restructuring. Arrears with nonparticipating creditors are either in dispute or expected to be settled when an agreement is reached. Undisputed interest arrears are approximately 0.4 percent of GDP.

8/ Fiscal year aggregates presented on a fiscal year basis.

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

Table 9. Dominica: Financial and External Vulnerability Indicators

(In percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	Prel. 2005	Rev. Proj. 2006
Financial indicators						
Broad money (percent change, 12-month basis)	7.4	8.5	1.0	5.9	6.7	4.6
Private sector credit (percent change, 12-month basis)	-3.2	-1.4	-2.9	7.1	6.0	5.4
Unsatisfactory assets/total loans 1/	22.6	19.2	21.7	22.5	22.0	16.6
Provision for loan losses/total loans 1/	6.8	7.0	7.6	7.3	5.9	5.7
General and specific provisions for loan losses/unsatisfactory assets 1/	30.2	36.7	34.8	32.2	26.8	34.5
Specific provisions for loan losses/unsatisfactory assets 1/	26.2	32.6	30.1	...	...	...
Total capital/risk weighted assets (locally incorporated banks) 1/	35.4	34.1	28.5	23.0	24.9	23.7
Tier 1 capital/risk weighted assets (locally incorporated banks) 1/	34.1	32.9	28.1	23.0	25.8	21.8
Three-month treasury bill rate (end of period)	6.4	6.4	6.4	6.4	6.4	...
Three-month treasury bill rate (real) 2/	5.3	6.0	3.5	5.6	3.7	...
External indicators						
Exports of goods and services (percent change, 12-month basis in U.S. dollars)	-16.9	2.7	-4.0	9.1	-1.3	4.5
Imports of goods and services (percent change, 12-month basis in U.S. dollars)	-9.5	-5.8	0.2	11.3	11.7	-0.6
Current account balance	-18.7	-13.7	-13.0	-17.2	-24.6	-20.4
Capital and financial account balance 3/	15.6	12.7	8.7	8.5	26.3	18.9
Net official reserves (in millions of U.S. dollars, end of period) 4/	30.4	43.6	44.0	33.6	37.6	42.5
Net reserves to broad money (percent, end of period) 4/	16.2	21.4	21.4	15.5	16.2	17.5
Public sector external debt	67.5	79.6	84.6	80.6	74.6	70.8
External debt (end of period) to exports of goods and services (percent) 5/	147.1	163.4	184.2	169.5	166.9	158.4
External interest payments to exports of goods and services (percent) 5/	5.3	5.8	5.7	5.2	6.6	3.7
External amortization payments to exports of goods and services (percent) 5/	3.7	3.7	10.8	10.9	7.1	6.7
Exchange rate (per U.S. dollar, end of period)	2.7	2.7	2.7	2.7	2.7	...
REER appreciation (end of period; depreciation -) 6/	0.5	-0.6	-2.2	-3.4	-3.5	0.6

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

1/ Figures for 2006 for March.

2/ Treasury bill rate adjusted by end-of-period inflation.

3/ Includes errors and omissions.

4/ Imputed reserves at the ECCB until 2001. From 2002, transactions with the IMF are included as transactions of the monetary authorities.

5/ Refers to public sector debt.

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

	Disbursements (in millions)		As Percent	
	US$ 1/	SDR	of Quota	Conditions
2003	**3.419**	**2.358**	**28.8**	
December 29	3.419	2.358	28.8	Board approval of PRGF; and adoption of prior actions
2004	**0.893**	**0.616**	**7.5**	
March 31	0.447	0.308	3.8	First review under the PRGF; end-December 2003 performance criteria; and adoption of prior action
August 10	0.447	0.308	3.8	Second review under the PRGF; and end-March 2004 performance criteria
2005	**3.468**	**2.392**	**29.2**	
March 22	1.785	1.231	15.0	Third and fourth reviews under the PRGF; end-June 2004, end-September 2004, and end-December 2004 performance criteria
November 1	1.683	1.161	14.2	Fifth review under the PRGF; and end-June 2005 performance criteria
2006	**3.367**	**2.322**	**28.3**	
July 26	1.683	1.161	14.2	Sixth review under the PRGF; and end-December 2005 performance criteria.
October 31	1.683	1.161	14.2	Seventh review under the PRGF; and end-June 2006 performance criteria.
Total	**11.148**	**7.688**	**93.8**	
Memorandum item:				
Quota (in millions)	11.890	8.200	100.0	

Source: Fund staff estimates and projections .

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

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

				Projections				
	2003	2004	2005	2006	2007	2008	2009	2010
Obligations from existing drawings (In millions of SDRs)								
Repurchases:								
Expectation basis	0.00	0.00	0.26	0.85	1.61	0.00	0.50	0.72
Obligation basis	0.00	0.00	0.26	0.85	1.23	0.38	0.50	0.72
Charges/interest under expectations/obligations schedule for repurchases:								
Expectation basis	0.05	0.09	0.13	0.12	0.10	0.05	0.05	0.04
Obligation basis	0.05	0.09	0.13	0.12	0.10	0.06	0.05	0.04
Fund repurchases and charges (Obligation basis) 1/								
In millions of SDRs	0.05	0.09	0.40	0.98	1.35	0.46	0.57	0.78
On existing credits	0.05	0.09	0.39	0.97	1.33	0.44	0.55	0.76
Of which								
Repurchases on an obligation basis	0.00	0.00	0.26	0.85	1.23	0.38	0.50	0.72
In millions of U.S. dollars	0.07	0.13	0.59	1.43	1.96	0.67	0.83	1.13
In percent of exports of goods and services	0.06	0.10	0.46	1.07	1.41	0.46	0.54	0.70
In percent of debt service 2/	0.30	0.50	2.64	7.76	13.52	3.81	4.21	6.20
In percent of quota	0.61	1.09	4.82	11.99	16.43	5.63	6.95	9.46
In percent of net international reserves 3/	0.16	0.39	1.72	3.81	4.78	1.59	1.77	2.25
Fund credit outstanding 1/								
In millions of SDRs	5.3	5.9	8.1	9.6	8.3	7.9	7.4	6.7
In millions of U.S. dollars	7.5	8.8	12.0	13.9	12.1	11.6	10.8	9.8
In percent of exports of goods and services	6.3	6.8	9.4	10.4	8.7	7.9	7.1	6.1
In percent of debt service 2/	32.3	33.0	53.9	75.4	83.5	65.5	54.9	53.7
In percent of quota	65.0	72.5	98.5	116.5	101.5	96.8	90.7	81.9
In percent of net international reserves 3/	17.0	26.2	35.2	37.0	29.5	27.2	23.1	19.5
Memorandum items:								
Exports of goods and services (millions of U.S. dollars)	118.3	129.1	127.5	133.2	139.5	146.1	153.1	160.4
Debt service (millions of U.S. dollars) 2/	23.1	26.7	22.2	18.4	14.5	17.7	19.7	18.2
Net international reserves (millions of U.S. dollars) 3/	44.0	33.6	34.0	37.6	41.0	42.5	47.0	50.3

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

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

Dominica: Fund Relations

(As of May 31, 2006)

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

II. General Resources Account	**SDR Million**	**Percent of Quota**
Quota	8.20	100.00
Fund holdings of currency	10.65	129.90
Reserve position in Fund	0.01	0.11

III. SDR Department	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	0.59	100.00
Holdings	0.02	3.86

IV. Outstanding Purchases and Loans:	**SDR Million**	**Percent of Quota**
PRGF Arrangements	5.37	65.44
Stand-By Arrangements	2.46	30.00

V. Latest Financial Arrangements:

Type	**Approval Date**	**Expiration Date**	**Amount Approved**	**Amount Drawn**
			(SDR Million)	
PRGF	12/29/03	12/28/06	7.69	5.37
Stand-by	08/28/02	01/02/04	2.97	2.97
SAF	11/26/86	11/25/89	2.80	2.80
Stand-by	07/18/84	07/17/85	1.40	0.97
EFF	02/06/81	02/05/84	8.55	8.55

Projected Payments to the Fund on an Obligation Basis (SDR Million)[9]:

			Forthcoming		
	2006	**2007**	**2008**	**2009**	**2010**
Principal	0.85	1.23	0.38	0.50	0.72
Charges/Interest	0.09	0.11	0.06	0.04	0.04
Total	**0.94**	**1.34**	**0.44**	**0.55**	**0.76**

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

---

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

VII. **Safeguards Assessment**: Under the Fund's safeguards assessment policy, the Eastern Caribbean Central Bank (ECCB), of which Dominica is a participating government, is subject to a full safeguards assessment. The onsite safeguards assessment was completed on February 20, 2003, and concluded that the ECCB has in place appropriate mechanisms to manage resources, including Fund disbursements and that the vulnerabilities that remain do not present an undue risk. The safeguards assessment proposed specific measures to address these vulnerabilities, which have been substantially implemented by the ECCB.

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

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

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

Dominica: World Bank Relations[10]

(As of April 21, 2006)

The World Bank role in Dominica: The Bank will continue to collaborate with the Fund and other donors in supporting the authorities' efforts in stabilizing macroeconomic conditions and in the implementation of the Government's Growth and Social Protection Strategy. The Bank will lead the policy dialogue on key structural reforms, including public sector reform, regulatory framework for electricity, social protection, and on the environment for private sector development.

Bank-Fund collaboration in specific areas: The World Bank and the IMF will continue to collaborate on the financial sector, on the medium-term structural reform agenda and in providing technical assistance to Dominica on macroeconomic management issues jointly with the Caribbean Regional Technical Assistance Center (CARTAC).

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

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

(i) The *OECS Telecommunications and ICT Development Project:* The Telecommunications and ICT Development Project (approved in September 2005) aims at improving the access, quality, and use of telecommunications and ICT services to achieve socio-economic development in the Organization of Eastern Caribbean States (OECS). The project has the following four components: Component 1) will strengthen the national and regional

[10] Source: World Bank.

regulatory frameworks and promote additional competition in the telecommunications sector. Emphasis will be given to capacity building of Eastern Caribbean Telecommunications Authority (ECTEL) and the National Telecommunications Regulatory Commissions (NTRCs) by providing them with assistances to revise the regional and national sector legislation, and develop a modem interconnection regime; Component 2) will review current universal access policy, create related guidelines, and provide financial support to establish a Universal Service Fund (USF); Component 3) will improve growth and competitiveness in ICT-enabled services through utilization of broadband infrastructure; and Component 4) will ensure management and administration of the overall project. The project will finance related technical assistance by providing complementary resources. Dominica's share of the US$2.7 million loan is US$0.54 million of which only a small amount has been disbursed.

Negative pledge update: Dominica remains ineligible for new Bank lending operations in light of the apparent violation of its negative pledge clauses under the earlier IBRD loans. The government continues to make efforts to resolve this issue.

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

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

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

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

* Projections as of April 21, 2006.

Dominica: Relations with the Caribbean Development Bank (CDB)

(As of May 31, 2006)

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

Major projects

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

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

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

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

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

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

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

Dominica: Loan Disbursement

(In millions of U.S. dollars)

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

Dominica: Statistical Issues

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

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

Real sector

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

Government finance

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

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

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

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

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

Monetary statistics

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

Balance of payments

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

External debt

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

Dominica: Table of Common Indicators Required for Surveillance

(As of June 26, 2006)

	Date of latest observation	Date received [7]	Frequency of Data [7]	Frequency of Reporting [7]	Frequency of publication [7]
Exchange Rates[1]	Fixed Rate	NA	NA	NA	NA
International Reserve Assets and Reserve Liabilities of the Monetary Authorities [1, 2]	April 2006	06/16/06	M	M	Q
Reserve/Base Money	May 2006	06/21/06	M	M	Q
Broad Money	May 2006	06/21/06	M	M	Q
Central Bank Balance Sheet	April 2006	06/16/06	M	M	Q
Consolidated Balance Sheet of the Banking System	May 2006	06/21/06	M	M	Q
Interest Rates[3]	May 2006	06/21/06	Q	Q	Q
Consumer Price Index	May 2006	06/22/06	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[4] – General Government[5]	2004	06/10/05	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[4] – Central Government	May 2006	06/21/06	M	M	A
Stocks of Central Government and Central Government-Guaranteed Debt[6]	May 2006	06/21/06	M	M	A
External Current Account Balance	2004	03/15/05	A	A	A
Exports and Imports of Goods and Services	March 2006	05/27/06	M	Q	A
GDP/GNP	2005	06/02/06	A	A	A
Gross External Debt	May 2006	06/21/06	M	M	A

[1] Dominica is a member of the Eastern Caribbean Currency Union, in which the common currency of all member states (E.C. dollar) is pegged to the U.S. dollar at US$1=EC$2.70.
[2] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[3] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic nonbank financing.
[5] The general government consists of the central government and state and local governments.
[6] Currency and maturity composition are provided annually.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA); Not applicable (n.a.)

Roseau, Dominica
July 12, 2006

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

Dear Mr. de Rato:

1. It has been two and a half years since Dominica requested an arrangement under the Fund's Poverty Reduction and Growth Facility (PRGF). At that time, the government outlined in the letter of intent and memorandum of economic policies (MEP) of December 10, 2003, its policies to address the serious economic crisis that had emerged and to create the basis for sustainable growth. We have subsequently refined these policies in the context of the past programme reviews.

2. Performance under the programme remains satisfactory. All quantitative performance criteria for end-December 2005 were met with comfortable margins. The indicative targets for end-September 2005 and end-December 2005 were also met. The value added tax (VAT) was implemented on March 1, 2006 (a structural performance criterion), and an important step in our revenue reforms. On other structural reforms, an onsite inspection of the Agricultural and Industrial Development (AID) Bank was conducted; several government services were outsourced in January, March and June 2006 as we implemented our Action Plan to reduce the wage bill; a review of the streamlining of government units was also completed; and the preparation of an Action Plan to reform the Dominica Social Security (DSS) is well underway. However, preparation of the amendments to the Electricity Supply Act and related legislation was delayed and has only recently been finalized. Additionally, capacity and technical difficulties thwarted the planned review of statutory exemptions, and delayed the strategic reviews of key public sector institutions.

3. We have maintained our efforts to complete the restructuring of our debt. We will continue with our good-faith efforts to reach collaborative agreements with the remaining non-participating creditors.

4. Dominica remains committed to the arrangement under the PRGF and the attached supplement to our MEP presents our policies for the remainder of 2006. These policies are aimed primarily at implementing structural reforms that will establish the basis for sustainable growth and poverty reduction, as reflected in our recent *Growth and Social Protection Strategy* (GSPS). The proposed indicative targets and structural benchmarks for the remainder of the programme are indicated in Tables 1 and 2 of the MEP. On this basis,

we request the completion of the sixth review of the programme and the release of the associated disbursement under the arrangement. We expect that the seventh review will be completed by October 31, 2006.

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

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

Sincerely,

/s/

Honourable Roosevelt Skerrit
Prime Minister and Minister of Finance and Planning

Attachment

SUPPLEMENTARY MEMORANDUM OF ECONOMIC POLICIES OF THE GOVERNMENT OF DOMINICA

I. BACKGROUND

1. **Much of our strategy for re-establishing the basis for sustainable growth, after the economic crisis a few years ago, has been successfully implemented.** Due in part to the sustained and comprehensive economic reforms that the Government of the Commonwealth of Dominica has pursued in recent years, public finances have strengthened, the debt restructuring process is addressing the previously unsustainable debt, and economic activity recovered in 2004 and 2005, following the sharp contraction in 2001 and 2002.

2. **The objectives of the reforms are safeguarding the gains from adjustment and bolstering the prospects for sustainable private sector-led growth and poverty reduction.** The government's comprehensive plans for achieving these objectives are articulated in the Growth and Social Protection Strategy (GSPS). These plans envisage structural reforms, including enhancing the efficiency of the public service, removing structural and institutional bottlenecks, improving the private sector investment climate, and prioritizing public sector investments. The government remains fully committed to implementing all these reform measures.

II. PERFORMANCE UNDER THE PROGRAMME

3. **Macroeconomic performance remained strong in 2005 and to April 2006, despite some areas of weakness.** Economic activity expanded robustly in 2005, with real GDP growing at about 3½ percent to yield the second straight year of higher-than-average growth. Indicators of domestic demand were strong; consumer imports, tax revenues, and credit all grew robustly. Financial services, retail trade and electricity production grew strongly. But weakness in the export sectors emerged; both banana and nonbanana agricultural exports declined, tourist arrivals weakened, but the value of manufactured exports expanded. Inflation remained subdued, despite the sharp increases in energy prices. However, the external current account worsened due to the high fuel prices, the robust growth of nonfuel imports on account of the economic recovery, and some one-off imports, and weaker tourism earnings. Indicators through April 2006 show a strengthening of tourist arrivals and a moderation of imports. However, exports have remained weak.

4. **A strong fiscal performance has been sustained in FY 2005/06**. Revenue collection has been strong in part due to the vibrant economy and transitory factors (e.g., exceptional payments of withholding tax); noninterest components of current expenditures were kept at about target despite an acceleration of gratuities to retirees and higher than expected payments for utilities; and capital spending has been lower than projected, in part due to delays in disbursing donors' funds.

5. **All quantitative performance criteria (PCs) for the sixth review were met, and the structural performance criterion was observed**. Reflecting the strong fiscal

performance, the PC on the primary balance and the indicative targets on the budget were met with wide margins. The performance criterion on the wage bill was met, and our effort to reduce pending claims allowed us to observe, with a wide margin, the performance criterion on arrears to domestic parties. A value-added tax (VAT) was implemented on March 1, 2006 as targeted (a structural performance criterion), along with excise tax legislation. The indicative targets for end-March 2006 were also met.

6. **We have made progress on the structural benchmarks for the sixth review.** However, acute personnel constraints have hampered this work and delayed completion beyond the target dates:

- *Review to streamline the structure and functions of government units (end-February 2006)*: Resource constraints have forced us to examine only those ministries that earlier work had suggested to be in greatest need of streamlining. On this basis we have completed reviews of the ministries of Agriculture, Health, Education, and Community Development. Cabinet has examined these reviews, and approved the recommendations to streamline their structure and functions, and improve their efficiency. We are exploring ways to review, with external assistance, the police, fire and prisons departments.

- *Parliamentary approval of amendments to the Electricity Supply Act and related legislation (end-December 2005)*: Drafts of the new pieces of legislation are being discussed thoroughly with stakeholders. Following Cabinet's approval, the legislation will be submitted to Parliament for discussion at the first sitting subsequent to the FY 2006/07 presentation.

- *Approval of legislation providing the Financial Services Unit (FSU) with regulatory responsibility over all nonbank financial institutions (end-December 2005)*: Limited legal support impeded the drafting of the new FSU Act. We expect that this work would be completed shortly and the law presented to Parliament by end-August 2006.

- *Complete strategic review and establish action plans for the operations of AID Bank, DEXIA and NDC (end-December, 2005)*: The review of the AID Bank was initiated recently, having been delayed partly to allow the completion of an onsite inspection (see below). After initial delays in identifying external assistance to review the NDC, an affiliate of the USAID (Caribbean Open Trade Support (COTS)) has now started work on an action plan and the World Bank has agreed to provide additional assistance. A review of DEXIA has been completed but has not yielded operationally useful recommendations; further work is needed.

7. **We are also making progress in other structural reforms**. In particular:

- The revised Banking Act regulating commercial banks was approved by Parliament in December 2005.

- An onsite inspection of the AID Bank was completed in February 2006.

- A draft Action Plan for the elimination of the unfunded liabilities of the Dominica Social Security (DSS) was prepared and has been approved by Cabinet for wider consultation with stakeholders, ahead of its final approval (benchmark, end-March 2006).

- Following Cabinet's approval and public consultation on the proposal to amend the Finance Administration Act, amendments are being drafted but the pace of this work has suffered from the limited availability of legal expertise. In light of these delays, it is now unlikely that the amendments will be completed in time for Parliamentary approval and implementation in the FY 2006/07 budget.

- Information about concessions granted is being published each month in the Official Gazette. However, a review of statutory exemptions, expected by end-December 2005, has not been completed.

- Following a clean-up of the government accounts, the opening balances of the general ledger were adjusted. Considerable progress has also been made in addressing weaknesses in cash management and budgetary planning; this includes the finalization of a new chart of accounts according to international best practices, new expenditure commitment procedures, and improved expenditure classification.

- The audited financial accounts of the AID Bank (accounts for 2004 and 2005), DOWASCO (for 2004), DEXIA (for 2004), DSS (for 2004), and NDC (2000, 2001 and 2002) were submitted to Parliament. Audits of the accounts of the NDC for the subsequent years are underway, and will be submitted to Parliament when finalized.

III. Macroeconomic Policies and Outlook

8. **The government's policies over the medium term are articulated in the recently finalized Growth and Social Protection Strategy (GSPS) paper.** In particular, it reaffirms our commitment to reducing poverty, and presents our medium-term strategy for growth and poverty reduction for the five-year period 2005/06 to 2009/10; the close connection between poverty reduction and economic growth provides the basis for our strategy. The strategy seeks to advance the private sector as the engine of economic growth, with the government playing a facilitating role. It also aims to better target the existing social programmes so that the benefits from growth can reach the under-privileged in society. In the short term, a key challenge is making growth more broad-based for its sustainability to be assured. The government acknowledges the challenges that its citizens face; it underscores the pressing concern about raising economic growth and reiterates its commitment to implement macroeconomic policies that would facilitate a speedy achievement of these objectives.

A. Debt and Fiscal Policies

9. **We remain committed to engage in good faith negotiations with the remaining creditors that have not indicated their participation in our debt restructuring**. As an indication of our commitment, we continue to make payments into an escrow account on their behalf on the restructured terms, and make efforts to contact them on a regular basis. We recently passed legislation allowing the debentures that were issued to the creditors participating in the restructuring to be traded on the Eastern Caribbean Securities Exchange (ECSE), and plans are underway to have them listed by end-July 2006.

10. **The primary surplus target for FY 2005/06 of 3 percent of GDP appears achievable, which should allow further debt consolidation.** The higher revenues will accommodate the higher spending on utilities, retirement benefits, and allow further debt reduction. However, the low implementation rate of planned capital spending remains a key concern; we will examine how the key constraints could be relieved but without jeopardy to efficiency.

11. **We are fully committed to implementing an effective VAT**. This is the first step in our reform of the tax system, and following the implementation of the VAT and the excise tax legislation on March 1, we expect substantial benefits to accrue from the widened tax base and the greater economic efficiency of the tax. While the VAT was expected to be revenue-neutral (recouping the revenues from the taxes that have been repealed) we realize that actual collection in the early stages is uncertain and we have been carefully monitoring collections and other operational aspects. We also intend to undertake a comprehensive review of the experience under the VAT, including ascertaining the scope for other aspects of the revenue reforms, by September 2007.

12. **Some amendments to the initial VAT and excise tax legislation were introduced in early May 2006.** During the first days of the VAT regime some inaccuracies in the initial legislation became evident and it was necessary to amend the laws without delay; this was done on May 10, 2006. At that time, the government made additional amendments that altered the VAT and excise tax regime. These include: (i) granting VAT exemption on construction services for homes; (ii) applying the reduced rate for hotels to the dive sector; (iii) giving VAT exemption for capital goods imported by new entrants under the Hotel Aid Act or the Fiscal Incentives Act; (iv) transfer of agricultural inputs from being zero rated to exempt, and expanding the list; and (v) introducing excise tax exemptions on trucks imported by farmers, and motor vehicles, tobacco and alcohol imported by diplomats. The main objective was to provide temporary support to the nascent dive sector and the agricultural sector and thus help support growth. However, given the experiences in other countries and cognizant of the budgetary implications, the distortionary effects across sectors, and the risk for weakening VAT administration, these amendments will be reviewed in the context of the comprehensive review of the VAT.

13. **We intend to protect the VAT from any further weakening.** In particular, (i) we shall not introduce any additional amendments that will increase the scope for the reduced

rate, zero rating or exemptions in the VAT and excise tax regime, at least until the conclusion of the comprehensive review of the VAT; (ii) we will provide the needed resources to strengthen VAT administration, including by implementing good audit and risk management programs and mechanisms to detect stopfilers; and (iii) as noted above, we will examine the recent VAT amendments in the context of the envisaged comprehensive review. We have also taken necessary steps to ensure that VAT refunds are made on a timely basis.

14. **The ongoing public sector reforms are essential for the strengthening of the budget and national economic management.** These reforms include:

- **Streamlining of public sector employment**. We continue to implement the Action Plan that we announced with the FY 2005/06 budget, aimed at reducing the government's wage bill. The first phase comprised the outsourcing of security and janitorial services—137 persons have so far been affected by this programme—and positive results regarding the process and outcomes have been very encouraging. Plans to merge the air and sea port authorities were delayed due to unexpected difficulties, but this is expected to be effected by October 2006. The protracted delay in disbursing the European Union grant funds that were expected to cover the severance payments for this exercise has also created unnecessary uncertainties. We expect to accelerate in FY 2006/07 the implementation of the already identified measures, including those identified in the recent reviews of the streamlining of government units. Additionally, we will conduct a review, with external assistance, on the streamlining of the Police, Fire and Prisons departments. This review will be initiated by end-September 2006. We reiterate our commitment to reduce the wage bill from 13¾ percent in 2004/05 to 12¼ percent of GDP by 2008/09 and underscore that this process should move in tandem with a reorganization of government units with a view to greater efficiency and cost-effectiveness.

- **Strengthening public expenditure management.** Following initial delays, we have concluded with technical assistance from CARTAC/FAD our plans to implement a medium-term budgeting framework. However, given the current insufficient capacity to support this work in the line ministries, we will proceed in two steps: for the FY 2006/07 budget the Ministry of Finance has prepared the budgets for the two outer years based on ministries' submissions for FY 2006/07; and line ministries will be expected to make complete submissions of their three-year budget from FY 2007/08. Further progress in cash management is expected from July 1, 2006, with the introduction of new commitment procedures that include the electronic recording of expenditure commitments, the improved chart of accounts, and improved classification of capital expenditure. These changes will facilitate further automation of cash management. However, given the amount of work that remains to implement the proposed amendments to the Finance Administration Act and the related legislation, and in light of our resource constraints, we consider it prudent to delay the implementation of these amendments to FY 2007/08. The government remains fully committed to strengthening of budgetary planning with these amendments to the Act, which will be finalized and approved as foreseen by end-October 2006.

15. **The FY 2006/07 budget will advance the ongoing strengthening of fiscal operations, and include a primary surplus target of 3 percent of GDP.** We will approve a government budget for FY 2006/07 that is consistent with the programme (structural benchmark, end-July 2006), so as to further improve the structure of the budget and allow further debt reduction to sustainable levels over the medium term. Revenues will be estimated cautiously, measures to offset the revenue shortfall from the recent amendments to the VAT legislation will be included, and the public sector investment programme (PSIP) will be kept in line with our implementation capacity and the prioritization in the GSPS. We will use budget-support grants in excess of programmed amounts to further reduce our debt and build up bank balances.

16. **We will advance fiscal reforms in FY 2006/07 in several respects.** These include:

- Approving an implementation plan to further rationalize the wage bill in FY 2006/07, reducing it to a maximum of 13.1 percent of GDP, by end-June 2006.
- Presenting the FY 2006/07 budget within a three-year budgeting framework, prepared by the Ministry of Finance based on ministries' submissions for the FY 2006/07. This will be completed by end-July 2006.
- Initiate a reform of the customs department to improve the efficiency of the operations and reduce the processing time, including by improved information technology. This reform will benefit from the already completed diagnostic studies and is expected to be undertaken with the support of the World Bank and USAID/COTS.

B. Financial Sector Policies

17. **We are committed to strengthening supervision and the regulatory framework in the financial sector.** A key element in improving the regulatory regime for nonbank financial institutions is the Financial Services Unit (FSU) Act. Preparation of this legislation will be completed shortly and submitted to Parliament by end-September 2006. A draft model law for the insurance sector in the Eastern Caribbean Currency Union is currently under discussion within the region. We also plan to revise the credit union legislation, which will improve the regulatory framework for that industry.

18. **We are addressing the weaknesses identified by the onsite inspection of the AID Bank.** The inspection uncovered serious weaknesses, including a high ratio of nonperforming loans and weak management practices. We are expecting a technical assistance mission from the Fund at end-June 2006, which will prepare a strategy and recommendations based on accepted best practices to deal with the situation. In the meantime, the AID Bank has ceased accepting deposits from the public.

C. Other Structural Reforms and Other Issues

19. **We are committed to reforming the Dominica Social Security (DSS) scheme to strengthen its financial position.** The draft Action Plan approved by Cabinet for wider consultation proposes a package of measures based on the recommendations of the recent IMF/World Bank technical assistance and from the 2002 Actuarial Review. The draft Action Plan aims to eliminate all unfunded liabilities of the DSS. It proposes reform measures to be implemented gradually but steadily, distributing the burden of reform across generations and minimizing potential disruptions to the economy. Discussions with stakeholders of the reform measures are proceeding well, and we expect to finalize the Action Plan for Cabinet approval by end-July 2006. We will review regularly, consistent with the legal requirements, the strength of the DSS and the implementation of these measures, making any adjustments as needed. On this basis the risk to public finances and debt sustainability will be minimized.

20. **We are committed to reducing tax concessions and statutory exemptions.** However, a comprehensive review of statutory tax exemptions, expected by December 2005, has not been conducted. In light of the inherent difficulties of performing a robust cost-benefit analysis, we have decided to forego this review. Rather, we see greater scope for reducing the exemptions by introducing tax reforms that reduce the marginal tax burden and do not allow for exemptions. However, we would welcome a regional approach to dealing with tax exemptions and fiscal incentives. We will continue to publish each month in the Official Gazette, information on concessions granted.

21. **We intend to realign DEXIA, NDC, and AID Bank more towards the requirements of private sector-led growth.** We will finalize a strategic review of DEXIA, which would allow us to establish by end-September 2006, an action plan for its operations with a view to enhancing its efficiency, streamlining its functions and improving accountability. In an effort to accelerate the process and given the clarity of the available options for transforming the NDC, we have decided to forgo a strategic review of NDC and concentrate on the output of the ongoing work by USAID/COTS and the World Bank. An objective of this work is to recommend how to set up a one-stop shop that streamlines the process for establishing businesses, and it is expected to be completed by end-September 2006.

22. **Considering that the PetroCaribe agreement has potential for significant benefits, we are conferring with other parties to clarify the operational aspects of the agreement.** The agreement provides concessional financing for a fraction of the value of oil imports, which would yield benefits only gradually to the extent that more expensive debt is replaced, in addition to the direct benefits that would arise if the landed price of oil imports was lower. We will monitor these savings and ensure that they are used in a manner consistent with our overall debt strategy. We will continue our policy of allowing world oil prices to pass through to retail prices.

Table 1. Dominica: Quantitative Performance Criteria and Indicative Targets Under the PRGF, June 2006–September 2006 1/

	2006	
	June 30 Program 2/	Sept. 30 Program 3/
I. Performance Criteria (PC)		
(In millions of Eastern Caribbean dollars)		
Central government primary balance	23.7	8.6
Central government wage bill	106.5	27.8
Banking system net credit to central government	-13.6	3.0
Net changes in central government arrears to private domestic parties	8.0	4.0
(In millions of U.S. dollars)		
Disbursement of central government or central government guaranteed external nonconcessional debt with maturity of at least one year	9.0	2.0
Net changes in the outstanding stock of short-term external debt contracted or guaranteed by the central government (with maturity of less than one year) 4/	0.0	0.0
Nonaccumulation of central government and central government guaranteed external payments arrears 4/ 5/	0.0	0.0
II. Indicative Targets (IT)		
(In millions of Eastern Caribbean dollars)		
Central government overall balance	-19.3	-1.0
Central government revenues	230.8	54.9
Central government primary savings	38.9	5.7

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

1/ All variables and any adjustors that apply, are defined in the Technical Memorandum of Understanding.

2/ Cumulative amounts from June 30, 2005.

3/ Cumulative amounts from June 30, 2006. Targets for September 30, 2006 are all indicative targets.

4/ These performance criteria will be monitored on a continuous basis.

5/ External arrears that were known at the time of the Executive Board meeting of October 14, 2005 were waived.

TABLE 2. STRUCTURAL CONDITIONALITY

(Structural benchmarks, unless otherwise indicated)

Seventh Review

- Approval of the FY 2006/07 budget, containing a primary surplus of 3 percent of GDP consistent with the programme (end-July 2006).
- Approval of an implementation plan to further rationalize the wage bill in FY 2006/07 (end-June 2006).
- Cabinet approval of action plan to eliminate the unfunded liabilities of DSS (end-July 2006).
- Parliamentary approval of amendments to the Finance Administration Act as described in paragraph 17 of the MEP of September 8, 2005 (end-October, 2006).
- Parliamentary approval of the Financial Services Unit (FSU) Act, providing legislative basis to supervise nonbank financial institutions, including the AID Bank and credit unions (end-September 2006).
- Complete strategic review and establish action plans for the operations of DEXIA and NDC, with a view to enhancing their efficiency, streamlining their functions and improving accountability (end-September 2006).
- Prepare strategy for dealing with AID Bank (end-June 2006)
- Parliamentary approval of amendments to the Electricity Supply Act and related legislation (end-August 2006).
- Presenting the FY 2006/07 budget within a three-year budgeting framework (end-July 2006).

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. Dominica's performance under the Poverty Reduction and Growth Facility (PRGF), described in the letter of the Government of Dominica dated July 12, 2006, will be assessed by the IMF on the basis of the observance of quantitative performance criteria as well as compliance with structural performance criteria and benchmarks. This Technical Memorandum of Understanding (TMU) sets out and defines the indicative targets, and benchmarks specified in Tables 1 and 2 of the supplement memorandum of economic policies (SMEP), as well as the monitoring and reporting requirements.

2. The Dominican authorities are committed to transmit to the Fund staff the best data available. All revisions or expectations thereof shall be promptly reported to the Fund staff.

3. The variables mentioned herein for the purpose of monitoring the performance criteria, which are not explicitly defined, are consistent with the Government Financial Statistics (GFS). For variables omitted from the TMU which are relevant for the program targets, the authorities of Dominica shall consult with the Fund staff on their appropriate treatment, based on GFS principles and Fund program practices.

IV. FISCAL TARGETS

A. Indicative Target on the Overall Balance of the Central Government

4. The **central government overall balance** will be measured from the financing side as the sum of the net domestic borrowing plus net external borrowing.

5. **Net domestic financing** by the central government is the sum of: (i) net domestic bank financing as measured by the change in the domestic banking system credit to the central government net of deposits, as reported by the consolidated balance sheet of the monetary authorities[11] and commercial banks, including special tranches from the ECCB and excluding net changes in (a) "double signature accounts"[12] and (b) the deposits of the cash grants from the People's Republic of China; (ii) net nonbank financing as measured by the net changes in holdings of government securities by nonbanks, and net borrowing from nonbank institutions; (iii) the change in the stock of domestic arrears of the central government defined as net changes in unpaid checks issued, unprocessed claims, pending invoices, plus accrued interest payments, and other forms of expenditures recorded above the

[11] Consolidating the ECCB's balance sheet (excluding the government's IMF operating account) and the government's transactions with the IMF.

[12] The "double signature accounts" include the accounts 115002797, 115002976,115002220, 115001912, 115003051, 115001911, 115003025, 115001471, 115001523, 115003053, 115001710, and 100038724 held in the National Bank of Dominica (NBD), and any new account in which grant receipts are deposited and which requires a signature of an external party for the release of its funds. It is expected that the forthcoming grants from the European Union will be released through a "double signature account."

line but not paid; (iv) gross receipts from divestment; (v) financing from debt restructuring measured as domestic debt service payments (principal and interest) on a due basis less actual debt service payments; and (vi) any other exceptional financing.[13]

6. **Net external financing** of the central government is defined as the sum of (i) disbursements of project and nonproject loans, including securitization, but excluding the use of IMF resources; (ii) proceeds from bonds issued abroad; (iii) exceptional financing (rescheduled principal and interest), net changes in cash deposits held outside the domestic banking system, (iv) net changes in short-term external debt; (v) any change in arrears on external interest payments and other forms of external expenditures recorded above the line but not paid; (vi) financing from debt restructuring measured as external debt service payments (principal and interest) on a due basis less actual debt service payments; (vii) any other exceptional financing; and less (viii) payments of principal on current maturities for bonds and loans on a due basis but excluding the use of IMF resources, and including any prepayment of external debt.

7. The programmed amounts of debt service on a due basis are shown in Table 1 below:

Table 1. Domestic and External Debt Service Payments on a Due Basis

	External Interest Payments	External Amortization Payments	Domestic Interest Payments	Domestic Amortization Payments
	(In millions of Eastern Caribbean dollars)			
Cumulative flows (from June 30, 2005)				
End-September 2005	8.3	3.2	5.1	0.9
End-December 2005	11.5	13.2	10.1	1.7
End-March 2006	19.7	16.1	15.2	2.9
End-June 2006	22.8	20.4	20.2	3.5
Cumulative flows (from June 30, 2006)				
End-September 2006	6.4	8.4	3.2	0.5

[13] Treasury bills will be recorded at face value, except for those held by the banking system which will be recorded on a purchase price basis.

The program floors on the overall balance are reported in Table 2 below.

Table 2. Indicative Target on the Overall Balance of the Central Government

(In millions of Eastern Caribbean dollars)	
Cumulative balance (from June 30, 2005)	
End-September 2005 (actual)	-1.0
End-December 2005 (actual)	1.1
End-March 2006 (actual)	10.6
End-June 2006 (indicative target)	-19.3
Cumulative balance (from June 30, 2006)	
End-September 2006 (indicative target)	-1.0

8. The floor on the overall balance of the central government will be adjusted as follows:

(i) Upward[14] to the extent that **budgetary grants** exceed programmed amounts. Budgetary grants are defined as grant receipts that are not earmarked for capital outlays or loan repayment, and including the drawdown of deposits of the cash grants from China. For the purpose of this adjustor, the programmed budgetary grants for fiscal year 2005/06 amount to: EC$2.6 million by end-September 2005; EC$3.8 million by end-December 2005; EC$5.0 million by end-March 2006; and EC$6.2 million by end-June 2006.[15] The programmed budgetary grants for fiscal year 2006/07 amount to EC$2.7 million by end-September 2006.

(ii) Downward by the amount severance payments and the administrative expenditures linked to the debt restructuring operations exceed the grants targeted to these programs.

(iii) Upward by the amount received from Security Bond forfeitures.

B. Performance Criterion on the Central Government Primary Balance

9. **The central government primary balance** is defined as the central government overall balance (from the financing side as defined in paragraph 4) plus domestic and

[14] Upward adjustment means lower deficit.

[15] The program assumes that EC$4.8 million will be received from EU STABEX 1998/99/00 to cover severance payments and other already identified projects.

external interest payments on a due basis. Interest payments do not include either domestic or external interest payments made by the central government on behalf of other parties.

10. The program floors on the central government primary balance are reported in Table 3 below.

Table 3. Performance Criterion on the Central Government Primary Balance

	(In millions of Eastern Caribbean dollars)
Cumulative balance (from June 30, 2005)	
End-September 2005 (actual)	12.3
End-December 2005 (actual)	22.7
End-March 2006 (actual)	45.4
End-June 2006 (performance criterion)	23.7
Cumulative balance (from June 30, 2006)	
End-September 2006 (indicative target)	8.6

11. The same adjustors described in paragraph 8 apply to the primary balance.

Performance Criterion on the Central Government Wage Bill

12. The **central government wage bill** will be measured as the total expenditure of the central government on wages and salaries of central government employees net of wage refunds, including acting allowances, special duty allowances, responsibility allowances, subsistence allowances, the employer contribution to Dominica Social Security, but not including retirement benefits, severance payments or other related one-off payments (i.e., accumulated leave). As such, the ceiling does not include wage-related transfers to schools, the National Development Corporation, and local governments.

13. The program ceilings on the central government wage bill are shown in Table 4 below:

Table 4. Performance Criterion on the Central Government Wage Bill

	(In millions of Eastern Caribbean dollars)
Cumulative flows (from June 30, 2005)	
End-September 2005 (actual)	25.6
End-December 2005 (actual)	52.7
End-March 2006 (actual)	78.8
End-June 2006 (performance criterion)	106.5
Cumulative flows (from June 30, 2006)	
End-September 2006 (indicative target)	27.8

C. Performance Criterion on the Central Government Arrears Accumulation to Domestic Private Parties

14. **Net changes in central government arrears to domestic private parties** is defined as changes in the sum of all pending payments by government for goods and services already purchased from these parties, as well as pending unpaid checks for payments into the escrow account set up for debt restructuring. Private domestic parties exclude DOWASCO, Dominica Social Security, National Development Corporation, Dominica Broadcasting Corporation, DEXIA, and the Ports Authority. The measure used will be unpaid checks issued and pending invoices for which payment is overdue.

15. The program ceilings on the central government arrears accumulation to domestic private parties are reported in Table 5 below.

Table 5. Performance Criterion on the Central Government Arrears Accumulation to Domestic Private Parties

	(In millions of Eastern Caribbean dollars)
Cumulative flows (from June 30, 2005)	
End-September 2005 (actual)	-1.4
End-December 2005 (actual)	-3.1
End-March 2006 (actual)	-2.8
End-June 2006 (performance criterion)	8.0
Cumulative flows (from June 30, 2006)	
End-September 2006 (indicative target)	4.0

D. Indicative Targets on Revenues of the Central Government

16. **Central government revenues** are defined as the tax collections and nontax revenues reported in the treasury accounts (economic classification), excluding: (i) revenues from the economic citizenship program, (ii) foreign and domestic grant receipts, (iii) repayment of loans, (iv) wage refunds, and (v) privatization receipts, and includes income tax refunds. Capital revenues are excluded.

17. The program floors on the revenues of the central government are reported in Table 6 below.

Table 6. Indicative Targets on Revenues of the Central Government

	(In millions of Eastern Caribbean dollars)
Cumulative flows (from June 30, 2005)	
End-September 2005 (actual)	63.7
End-December 2005 (actual)	127.1
End-March 2006 (actual)	190.9
End-June 2006 (indicative target)	230.8
Cumulative flows (from June 30, 2006)	
End-September 2006 (indicative target)	54.9

E. Indicative Targets on the Primary Savings of the Central Government

18. **Central government primary savings** is measured on an accrual basis (including unpaid checks issued and unprocessed invoices) and is defined as the central government revenue before grants (i.e., excluding grants) minus current noninterest expenditure. The adjustors described in paragraph 8 apply to the central government primary savings.

19. The program ceilings on the central government primary savings are reported in Table 7 below.

Table 7. Indicative Targets on the Primary Savings of the Central Government

	(In millions of Eastern Caribbean dollars)
Cumulative flows (from June 30, 2005)	
End-September 2005 (actual)	18.3
End-December 2005 (actual)	34.9
End-March 2006 (actual)	49.2
End-June 2006 (indicative target)	38.9
Cumulative flows (from June 30, 2006)	
End-September 2006 (indicative target)	5.7

Monitoring discretionary tax exemptions

20. **Discretionary tax exemptions** are defined as tax exemptions granted under Sections 6(2) and 31 of the Consumption Order Act, Section 26 of the Sales Tax Act, Section 60 of the Customs (Control and Management) Act, Section 25(2) of the Income Tax Act, or remissions of tax under Section 109 of the Income Tax Act (except in cases where the Comptroller certifies that the tax to be remitted is uncollectible).

21. The number of discretionary tax exemptions will be monitored on a continuous basis.

V. Monetary Targets

A. Performance Criterion on the Net Credit of the Banking System to the Central Government

22. **Net credit of the banking system** is defined as in paragraph 5. The program ceilings on the net credit of the banking system to the central government are reported in Table 8 below.

Table 8. Performance Criterion on the Net Credit of the Banking System to the Central Government

	(In millions of Eastern Caribbean dollars)
Cumulative flows (from June 30, 2005)	
End-September 2005 (actual)	-6.5
End-December 2005 (actual)	-2.6
End-March 2006 (actual)	-14.0
End-June 2006 (performance criterion)	-13.6
Cumulative flows (from June 30, 2006)	
End-September 2006 (indicative target)	3.0

23. The ceiling on net credit of the banking system will be adjusted upward (downward) to the extent that actual interest payments are higher (lower) than the programmed amounts on a cash basis. The programmed amounts of interest payments on a cash basis are shown in Table 9 below.

Table 9. Interest Payments on a Cash Basis

	Total Interest Payments	Domestic Interest Payments	External Interest Payments
	(In millions of Eastern Caribbean dollars)		
Cumulative flows (from June 30, 2005)			
End-September 2005 (actual)	5.0	2.1	1.9
End-December 2005 (actual)	7.6	3.5	4.1
End-March 2006 (actual)	16.6	10.2	6.4
End-June 2006	17.8	9.1	8.7
Cumulative flows (from June 30, 2006)			
End-September 2006	5.6	3.2	2.5

VI. External Sector Targets

A. Performance Criterion on Disbursements of Nonconcessional External Central Government or Central Government Guaranteed Debt with Maturity of at Least One Year

24. Disbursements of nonconcessional external central government and central government guaranteed debt with maturity of at least one year will be monitored by the Accountant General's office on a monthly basis. Central government and central government guaranteed debt is defined to include debt contracted or guaranteed by the central government.

25. The program ceilings on disbursements of nonconcessional external central government or central government guaranteed debt with maturity of at least one year are reported in Table 10 below.

Table 10. Performance Criterion on Disbursements of Nonconcessional External Central Government or Central Government Guaranteed Debt with Maturity of at Least One Year

	(In millions of U.S. dollars)
Cumulative flows (from June 30, 2005)	
End-September 2005 (actual)	0.9
End-December 2005 (actual)	1.7
End-March 2006 (actual)	2.4
End-June 2006 (performance criterion)	9.0
Cumulative flows (from June 30, 2006)	
End-September 2005 (indicative target)	2.0

26. The term **"debt"** is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000):

"(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 21(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

27. **Nonconcessional debt** is defined as debt having a grant element (in net present value relative to face value) **of less than 35 percent**, based on the currency- and maturity-specific commercial reference rates (CIRR), published monthly by the OECD.[16] The limit excludes the disbursements of short-term import-related debts, the use of Fund resources, and refinancing operations.

B. Performance Criterion on the Net Changes in the Outstanding Stock of Short-Term External Debt with Original Maturity of Less than One Year Contracted or Guaranteed by the Central Government

28. The **stock of short-term external debt outstanding** is defined as debt with original maturity of less than one year contracted or guaranteed by the central government. The term debt is defined as set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), August 24, 2000) (see paragraph 27 above), but excludes normal import-related credits.

---

[16] For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates and for loans with shorter maturities, the 6-month average CIRRs, as of June 2006 published by the OECD will be used as the discount rates. To both the 10-year and 6-month averages, the following margins for differing repayment periods will be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more.

29. No short-term external debt with original maturity of less than one year, will be contracted or guaranteed by the central government. This ceiling will be monitored on a continuous basis.

C. Performance Criterion on Nonaccumulation of Central Government and Central Government Guaranteed External Payment Arrears

30. **Central government and central government guaranteed external payment arrears** are defined as overdue payments (principal or interest) on debt contracted or guaranteed by the central government. The definition of external payment arrears under the program **excludes**: (i) debt claims that were irrevocably tendered in the debt exchange closed on September 31, 2005 (the "Debt Exchange"), (ii) debt claims that were eligible to participate in the Debt Exchange but have not been tendered, and (iii) debts claims of official bilateral creditors which are under rescheduling or refinancing negotiation. It also does not include outstanding subscription payments to regional and international organizations, for which understandings will be reached to ease payment obligations consistent with the program.

31. No external payment arrears of the central government and central government guaranteed debt, will be allowed in the program. This ceiling will be monitored on a continuous basis.

VII. Structural Conditionality

(Structural benchmarks unless otherwise indicated)

Seventh Review

- Approval of the FY 2006/07 budget, containing a primary surplus of 3 percent of GDP consistent with the programme (end-July 2006).

- Approval of an implementation plan to further rationalize the wage bill in FY 2006/07 (end-June 2006).

- Cabinet approval of action plan to eliminate the unfunded liabilities of DSS (end-July 2006).

- Parliamentary approval of amendments to the Finance Administration Act as described in paragraph 17 of the MEP of September 8, 2005 (end-October, 2006).

- Parliamentary approval of the Financial Services Unit (FSU) Act, providing legislative basis to supervise nonbank financial institutions, including the AID Bank and credit unions (end-September 2006).

- Complete strategic review and establish action plans for the operations of DEXIA and NDC, with a view to enhancing their efficiency, streamlining their functions and improving accountability (end-September 2006).

- Prepare strategy for dealing with AID Bank (end-June 2006)

- Parliamentary approval of amendments to the Electricity Supply Act and related legislation (end-August 2006).

- Presenting the FY 2006/07 budget within a three-year budgeting framework (end-July 2006).

VIII. Periodic Reporting

32. **Regular reporting on a monthly basis** (and when possible weekly) will include the following:

- Data for monitoring the program's performance criteria and monthly indicative targets, including

  - Fiscal sector

    (i) Central government budgetary accounts.

    (ii) Dominica Social Security Balance Sheet, showing amounts receivable from central government for contributions and interest.

    (iii) Central government domestic debt data.

    (iv) Current grant inflows.

    (v) Stock of unpaid checks issued and stock of unprocessed claims due and invoices pending.

    (vi) Capital expenditure (project by project) and composition of financing, including revised projections for the remainder of the fiscal year.

    (vii) Balances in the debt servicing account linked to the Royal Merchant Bank Bond Issue.

    (viii) Total number of exemptions issued (by type of exemption).

    (ix) Severance payments and administrative expenditures linked to the debt restructuring operations, and details about how they were financed.

  - Financial sector

    (x) Monetary survey for Dominica as prepared by the Eastern Caribbean Central Bank, including balances in central government double signature accounts.

  - External and real sectors

    (xi) Imports and exports data by product.

(xii) Detailed (creditor by creditor) external debt report from the Debt Unit in the Ministry of Finance and Planning, showing fiscal year-to-date disbursements, amortization, interest payments, and outstanding stocks, for the central government, public enterprises and AID Bank.

(xiii) Total disbursements/grant receipts, monthly, disaggregated into: (a) budgetary support (by type—either loans or external "bonds" and/or other securities); (b) project loans; (c) budgetary grants; and (d) project grants.

(xiv) Stock of external payment arrears of the NFPS, including amortization and interest payment arrears, and supplier arrears for the central government, public enterprises, and AID Bank.

(xv) Copies of loan agreements for any new loans contracted, including financing involving the issue of government paper, and of any renegotiated agreements on existing loans.

(xvi) Consumer price index.

(xvii) Real sector indicators.

All information will be reported to Fund staff within three weeks of the end of each month.

33. Reporting **on an annual basis** will include the following:

- External and real sectors

(xviii) GDP and its components.

(xix) Balance of payments accounts.

34. Other reporting will include:

- Reports of legislative changes pertaining to economic matters.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/169
FOR IMMEDIATE RELEASE
July 31, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review of Dominica's PRGF Arrangement

The Executive Board of the International Monetary Fund (IMF) has completed the sixth review of Dominica's performance under its three-year Poverty Reduction and Growth Facility (PRGF) arrangement originally approved on December 29, 2003 (see Press Release No. 03/228) for an amount equivalent to SDR 7.68 million (about US$ 11.3 million). The Board also completed a financing assurances review, which is required in accordance with the IMF Guidelines on Conditionality to determine whether adequate safeguards remain in place for Dominica's further use of IMF resources and whether Dominica's adjustment efforts are undermined by developments in creditor-debtor relations.

Completion of the review enables the release of an amount equivalent to SDR 1.16 million (about US$ 1.7 million), which will bring total disbursements to SDR 6.5 million (about US$9.6 million).

Following the Executive Board's discussion of Dominica, on Wednesday, July 26, 2006, Mr. Agustín Carstens, Deputy Managing Director and Acting Chair, made the following statement:

"The Dominican authorities are to be commended for their efforts in achieving macroeconomic stability through sustained fiscal consolidation and a collaborative debt restructuring effort. Dominica's strong macroeconomic performance during 2005-06, which was supported by a solid fiscal policy performance, has set the stage for the moving forward with the implementation of robust structural reforms that will establish the foundations for sustained, strong growth and poverty reduction. The recently completed *Growth and Social Protection Strategy* (GSPS), which sets out the authorities' approach to poverty reduction, is a further welcome step in this direction.

"The strong stance of the recently approved budget for FY 2006/07, which incorporates a primary surplus target of 3 percent of GDP, has been set in line with the attainment of medium-term sustainability for public finances and debt. The budget also includes fiscal reforms aimed at reducing the government's wage bill and strengthening budget execution and financial management.

"The introduction of a value added tax (VAT) and an excise tax in March 2006 marked an important step for Dominica. Regrettably, subsequent amendments that provided incentives to selected sectors weakened a regime that was designed with few exemptions and a limited set of zero-rated supplies. In light of this, the authorities' commitment to ensure that the VAT regime remains nondistortionary is welcome. A planned comprehensive review of the VAT regime will contribute to setting the scope for future revenue reforms. The authorities' emphasis on establishing an administration regime that sustains a high level of compliance, supported by a good audit system, and timely refunds is commendable.

"While progress has been made in a number of structural areas, the pace of reform should be accelerated in line with the priorities set out in the GSPS, including amending the Electricity Supply Act and related legislation; eliminating the unfunded liability of the Dominica Social Security (DSS); and addressing the fragility of the AID Bank addressed. These structural reforms will play an important role in enhancing the economy's growth potential and alleviating existing vulnerabilities.

"The authorities' good-faith efforts to reach collaborative settlements with the remaining creditors in the debt restructuring process are commendable.

"Close interaction with donors in the period ahead will facilitate the provision of technical and financial assistance in important areas," Mr. Carstens said.